# Financial capability and retirement

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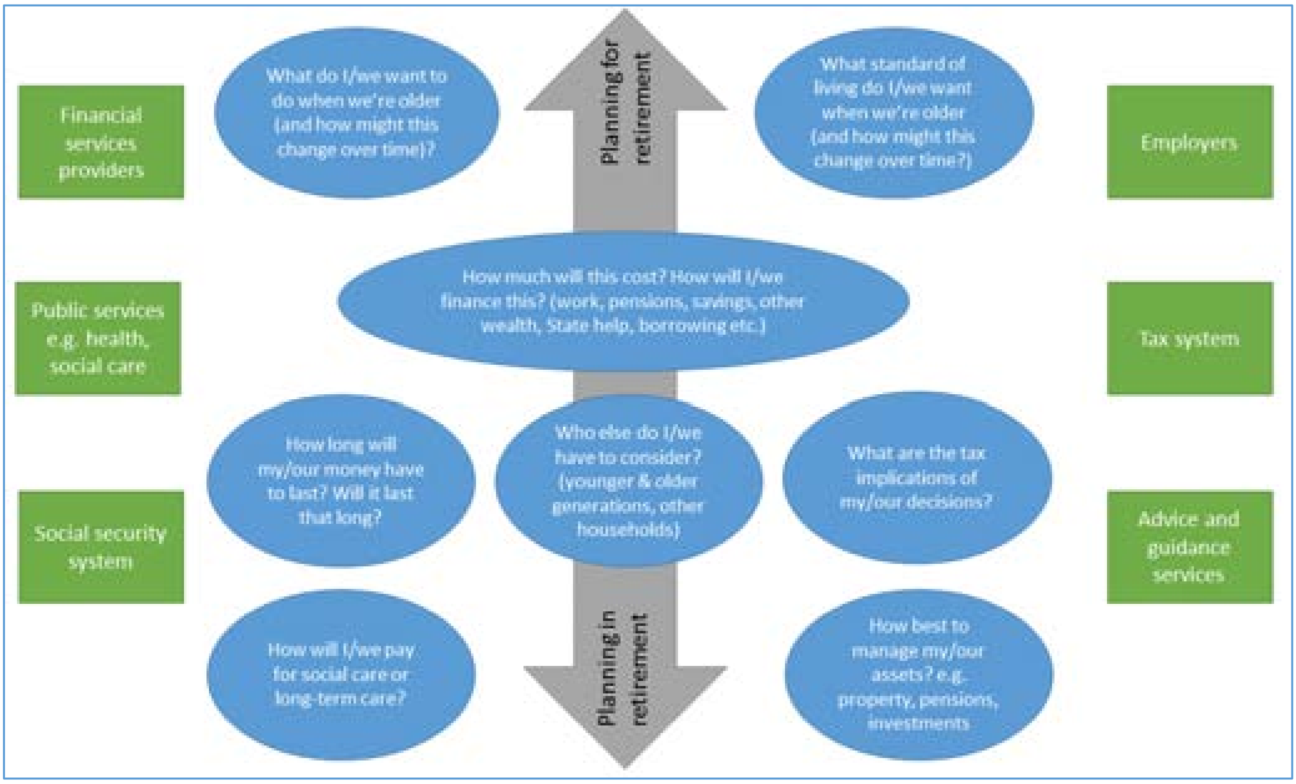
# Executive summary

In the face of demographic, social and economic changes, it is more important than ever to help people in the UK make financially capable decisions for retirement, at retirement, and into their later life. Retirement planning is a complex issue because it is multi-faceted; it spans different life-stages; it is shaped by public policy but also the financial services industry; and it often requires people to make long-term decisions under conditions of uncertainty.

Figure 1 sets out some of the questions that people are expected to consider when they plan for, and in, retirement (blue ovals) and the range of sectors and the organisations this might involve (green squares).

***Figure 1: Some of the factors involved in planning for, and in, retirement***




The Money Advice Service has previously published an evidence review, carried out by the International Longevity Centre UK (ILC-UK), which assessed interventions aimed at increasing the financial capability of older people in retirement. The ILC-UK review was commissioned to inform the work of the Financial Capability Strategy's Older People in Retirement Steering Group.

This review is intended to inform the work of the Financial Capability Strategy's Retirement Planning Steering Group. It differs in scope from the ILC-UK review in that it brings together existing sources of information about financial capability specifically in relation to retirement planning – focusing on planning for retirement among pre-retirees as well as evidence related to older people's planning in retirement. We describe some of the high-level findings on planning in retirement from the earlier ILC-UK review in Chapter 4.

This review had a wide remit and did not focus on any particular segment of the population; rather it looked across the population as a whole. We identified and reviewed approximately 60 pieces of evidence, which mainly originated in the UK. These included qualitative research studies; analysis of large-scale datasets; consumer surveys; and research undertaken to test interventions and prototypes. Most of the evidence we reviewed was produced in the last five years. Following the introduction of Pension Freedom and Choice in April 2015 (which gave people greater access to their pensions), a good deal of recent research centres on people aged 55+ with defined contribution (DC) pensions – but this group was not the sole or primary focus of this review. We also reviewed expert responses to HM Treasury's consultation on Public Financial Guidance Proposals, which provided some additional information not published elsewhere.

In summary, there is a good body of research insight that strongly indicates retirement planning requires quite different abilities from those needed to manage money well day to day (although the two are complementary); and that it stretches many people's ability to the limits. It shows that people can struggle to engage at all with aspects of retirement planning such as thinking about their pension or thinking about long-term care; and they either put off making decisions or make decisions that are not fully thought-through. This can store up problems for the future, for example if they exhaust their pension savings early on in their retirement. The implication is that more people might benefit from help to plan for, at and in retirement. In contrast, there is almost no evaluation evidence about what that help might look like (in the broadest sense) or how it might be achieved.

## The quality of the evidence base

Most of the evidence we identified in our review was research 'insight', in other words research that tells us something about financial capability as it relates to retirement planning. While this insight research may contain recommendations to improve financial capability as it relates to retirement planning, it does not involve the testing or evaluation of interventions. While subject coverage is patchy (see below), there is nonetheless good research insight available from a range of sources:

- Large-scale datasets that capture detailed information about individuals and households over time, so that longitudinal as well as cross-sectional analysis is possible. Key datasets are the Wealth and Assets Survey; the English Longitudinal Survey of Ageing; and Understanding Society / the British Household Panel Survey.
- Consumer surveys commissioned by firms, trade bodies, civil society organisations, academic institutions, etc. Data is increasingly captured through online surveys, with the risk that some groups (eg, the very old, or disabled people) may be under-represented (even if the surveys are nationally representative overall).
- Qualitative research (depth interviews, focus groups, deliberative research).
- Expert views, for example as expressed in responses to public consultations.
- Data provided by firms that is collected, analysed and published by the financial services regulator.

In contrast, we found very little evidence about 'what works' to help people plan for, and in, retirement. We only identified a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning. Most of these originated outside the UK, with most originating in the US. The two topics that seem to have received greatest attention are pension communication and information, and financial literacy.

## What does research insight tell us about financially capable behaviours and retirement planning?

In its general model of financial capability, the Money Advice Service defines financially capable behaviours as managing money well day to day; managing and preparing for life events; and dealing with financial difficulty (ie, problem debt).

### Managing money well day to day and retirement planning

The idea that people who manage money well day to day are better placed to plan for retirement seems to be supported by analysis of large-scale survey data. To a large extent, this is facilitated or limited by people's financial situation and the financial resources available to them.

In terms of planning in retirement, quantitative evidence similarly highlights the importance of financial resources, but also the impact of resource depletion over time. In other words, people generally have fewer resources the older they get, as those resources are used up. Both quantitative and qualitative evidence points to a good deal of controlled spending among older people, contrary to popular depictions of extravagant 'baby boomers'. Qualitative research highlights the positive benefits for older people in retirement of income maximisation through benefit take-up. Consumer survey data (collected as part of energy market studies) consistently shows lower energy-switching among older people.

Analysis of the Wealth and Assets Survey shows that consumer borrowing among people aged 50+ declines sharply with age; but among borrowers, credit use persists over time, which may have implications for their ability to manage financially in later life. The analysis also identifies a small group of vulnerable mortgage-holders aged 75+ who have interest-only mortgages with no repayment vehicle.

### Managing and preparing for life events and retirement planning

We looked for evidence that preparing for retirement results in better outcomes for individuals and households; and evidence about the impact of divorce, bereavement and redundancy on planning for, and in, retirement. The evidence base is thin for all these issues.

There is good quantitative data about the amounts and distribution of wealth (including pension wealth) across the population; and a good body of insight research (both qualitative and quantitative) that shows a general lack of preparedness until very close to retirement. There is not a great deal of evidence about what retirement planning involves, other than saving for retirement; and the greater number of at-retirement options open to DC pension savers since the implementation of Pension Freedom and Choice in April 2015 – see Box 1.1.

There is quantitative and qualitative evidence that people generally do not think about, or make plans to pay for, long-term care.

There are a small number of studies (quantitative and qualitative) that indicate people are generally not well prepared for life events such as bereavement, redundancy and separation or divorce. These highlight the negative impacts on people's income, savings and levels of debt. Analysis of the Wealth and Assets Survey provides evidence about the liabilities that people have in later life, and if these are felt to be burdensome.

### Dealing with financial difficulty and retirement planning

Data analysis shows a strong relationship between low levels of wealth (including pension wealth) in British households, financial liabilities (overdrawn current accounts, non-mortgage borrowing and arrears on household bills), and respondents reporting that their debts are a burden. We found hardly any evidence, however, about the links between dealing with financial difficulty (for example, problems keeping up with mortgages, consumer credit, or household bills) and retirement planning. There is evidence (from a consumer survey by Citizens Advice of 500 adults) that some DC savers who accessed their pension pots in the early stage of Pension Freedom and Choice did so to pay off debts or a mortgage.

## What does research insight tell us about financial enablers and inhibitors and retirement planning?

According to the Money Advice Service's general model of financial capability, shown in Appendix 2, financial enablers and inhibitors are Connection, Mindset and Ability. There is a good body of research insight that strongly indicates retirement planning requires quite different abilities from those needed to manage money well day to day; and that it stretches many people's ability to the limits. The evidence relates almost exclusively to the shortcomings in people's ability to plan for retirement. Little thought seems to have been given to what people *should* think and do when they are faced with the often complex financial decisions related to retirement planning; the specific financial capabilities they need for this; or whether it is even reasonable or possible for individuals and households to overcome these shortcomings without changes to advice, guidance and financial services.

### Connection

The evidence on 'Connection' centres mainly on at-retirement decisions, where there is a substantial body of qualitative and quantitative research. It shows that professional advisers are a key source of help, used by between three and four in ten of savers who are eligible to access their DC pension pots as a result of Pension Freedom and Choice. Across the board, savers with larger pots are more likely to use professional advice. Studies also show the reasons why people do not get advice, with cost an important factor, but not the only one. Others include lack of trust and lack of perceived need. Our review did not find any detailed profile of the people who do not take professional advice when making retirement-related decisions, for example to determine if they are experienced investment decision-makers.

There is evidence (mainly expert views expressed in consultation responses, but also some quantitative and qualitative research) about apparent 'advice gaps', which include:

- holistic guidance that looks at someone's personal finances in the round
- problem debt and pension assets
- people with small sums of money in pensions, savings and investments
- expatriates
- people with complex circumstances (eg, defined benefit and defined contribution pensions).

There is evidence about the problems people can face in terms of accessing financial services in later life (from a range of sources); but not if or how access problems directly relate to retirement planning.

### Mindset

There is a good body of evidence (quantitative and qualitative) that shows the main behavioural economics challenges when it comes to people's mindset about retirement planning. These include persistently high levels of passivity and inertia (offset in part by the automatic enrolment of eligible workers into workplace pension schemes, but seen in the high proportion of assets under management that rest in default investments); risk aversion in pensions and investing; and short time-horizons when it comes to planning.

Financial confidence has been shown to be a key component of a financially capable 'mindset'. Older people (defined as over State Retirement Age or retired) are found to be more confident compared to other age-groups. This review found some evidence about the impact of confidence on retirement planning: for example, annuity buyers who reported high confidence were unlikely to use a professional adviser (although the evidence does not assess whether these respondents were right to be confident in their own decision-making abilities); while DC savers with self-reported lower financial confidence were much more likely to find it challenging to make at-retirement decisions. There is evidence that a small but growing minority of people may be over-confident about using housing equity as their primary source of income in retirement.

### Ability

There is a robust body of evidence showing that retirement planning stretches people's ability to the limits, particularly concerning at-retirement decisions. This relates to four main areas:

- People are unable to picture what the future looks like in terms of likely income in retirement; the possibility of needing to pay for care; and life expectancy.
- They don't understand financial fundamentals such as tax; probability in relation to risk and return; and inflation risk. The evidence about risk aversion in pensions and investing suggests that, even if people had a better grasp of concepts such as probability and inflation risks, it may not make any difference to their behaviour.
- They struggle to understand pensions, investments and retirement income products, due in part to the perceived opacity of product information but also because they have little exposure to these products during their working lives. Fees and charges are not easy to understand, and this is something for the industry and regulators to tackle, not individuals.

## What does the evaluation evidence tell us about efforts to promote financially capable behaviours and improve financial capability in retirement planning?

In the evidence reviewed, the topics that received greatest attention in terms of evaluation were pension communication and information, and financial literacy. Evidence from experiments in the Netherlands suggests a number of ways of improving pension communication and information, although we do not know whether these have been tested with larger numbers of consumers:

- Simplified pension information seems to result in better knowledge of plan features. No matter which brochure participants read, the intention to take action was low and did not differ based on the brochure (standard or simplified).
- Visualisation of pension information was highly appreciated and perceived as useful by all participants, particularly those with low numeracy skills. Participants with low financial literacy and numeracy skills found visual information more understandable. However, visualization seemed to decrease their retirement planning intentions.
- Men seem to prefer high interactivity in pension planning tools, and higher interactivity levels increased their behavioural intentions. The opposite was true for women. This suggests tailoring pension communication to these preferences. Personalised information and features such as animation, sound and colours were also suggested as a way to engage people in pension communication.

Based on meta-analyses of non-UK studies, the evidence shows that financial literacy interventions (generally involving the provision of information through financial education) have little effect in terms of improving long-term savings and investments. While one meta-analysis identified that well-designed initiatives could – and did – stimulate long-term savings and investments among participants, there was also some evidence (from two studies in the meta-analysis) that provision of additional information could result in reduced engagement and saving. The same meta-analysis highlighted the challenge of linking the effect of interventions to outcomes in retirement, because studies do not follow-up respondents over the longer term.

## The major evidence gaps

Overall, the review found very little evidence about 'what works' to help people plan for, and in, retirement. We only identified a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning. The major gap in evidence therefore relates to interventions that might improve people's retirement planning.

There is generally good research insight into the shortfalls and problems with people's retirement planning, although there are some areas where knowledge gaps exist and further research may be useful. While the focus mainly seems to be on the individual, the research insight raises questions about the extent to which people can become financially capable enough to deal with such complex decisions and trade-offs themselves, particularly given the likely long-term impact of poor decisions made for, at, and in retirement. Under conditions of uncertainty, it seems likely that many people will continue to take risk-averse, present-biased decisions. For these reasons, there have been proposals for better default retirement income options, for example from the Strategic Society Centre.

These evidence gaps are summarised in Table 1 below.

***Table 1: Summary of evidence gaps***

| Area | Gap in research |
|---|---|
| **'What works' to improve retirement planning** | Poor evidence base, so significant scope for future studies, eg through the Money Advice Service's What Works Fund. |
| **Financially capable behaviours** | The links between managing money well day to day and people's ability to plan in retirement |
| | The impact of life events on retirement planning and retirement outcomes (especially in relation to separation and divorce). |
| | The impact of problem debt and other borrowing on planning for, at and in retirement. |
| | The sources of help that people use to plan for, and in, retirement |
| **Financial enablers and inhibitors** | The abilities that people might need in the years between enrolling into a pension and the time leading up to retirement. |
| | The abilities that people need to plan once they are in retirement, or how these abilities change as people get older. |
| | People's perceptions of their life expectancy and what these are based upon. |
| | Levels of tax literacy and how to improve them in the general population. |

# Introduction

The 'Financial Capability Strategy for the UK' (the Strategy), led by the Money Advice Service, seeks to improve the financial capability of all people in the UK to enable them to manage their money well and cope with significant life events and periods of financial difficulty.[1] The Strategy in relation to retirement planning applies to all UK adults. As such, it incorporates both pre-retirement and in-retirement planning.

A priority for the Strategy is to develop the evidence base on financial capability related to retirement planning. This evidence review brings together existing sources of information about financial capability and retirement planning, and establishes the key gaps in knowledge that could usefully be filled by new research or other means (such as secondary analysis of existing data). It is intended inform the work of the Retirement Planning Steering Group and the delivery of the UK Financial Capability Strategy.

## Context

While there are important variations (for example, by age, income, and education level), the UK is generally poorly prepared for retirement and this picture has changed little over the past decade.[2,3] Only half of the population are currently paying into a pension or a member of a previous pension scheme and an estimated 12 million people in the UK are not making adequate provision for their retirement.[4]

Ensuring that people in the UK make financially capable decisions for retirement, at retirement, and into their later life is a major challenge. It encompasses not only pensions, but also other forms of savings and assets, mortgages, and consumer credit commitments. As people live longer, retirement is likely to become a longer-term transition where the balance of work and leisure changes, rather than a total cessation of work at a fixed point in time.[5] Decisions about work and retirement not only have implications for the individual, but also their spouse or partner, their children and possibly other family members as well. As a result, retirement planning can be difficult and complex.

In addition, the policy landscape has seen multiple and radical proposals and changes that significantly impact on people's planning for later life. These include changes to the State Pension Age and to the State Pension itself; automatic enrolment into workplace pensions and the planned increase of automatic enrolment pension contributions; Pension Freedom and Choice (see Box 1.1); the proposed launch of a secondary annuities market; and ongoing debates around Pension ISAs, pension taxation, and the funding of social care.

**Box 1.1: Pension Freedom and Choice**

In April 2015, the tax rules were changed to give people greater access to their pensions. This means that people with defined contribution (DC) pensions no longer have to purchase an annuity. There are now six options available to them: leaving the pension pot untouched; purchasing an annuity; getting an adjustable income (Flexi Access Drawdown); taking cash in chunks (Uncrystallised Funds Pension Lump Sum); cashing in the whole pot in one go; and mixing any of the options.

Drawdown of pension income is taxed at marginal income tax rates rather than the previous rate of 55% for full withdrawals. The tax-free lump sum continues to be available. In order to support their decisions, individuals aged 50 or over who have a DC pension can access Pension Wise, a free and impartial guidance service.

Sources: pensionsadvisoryservice.org.uk/about-pensions/pension-reform/freedom-and-choice and moneyadviceservice.org.uk/en/articles/pension-wise

## Objectives of the evidence review

This wide-ranging review brings together evidence about financial capability as it relates to retirement planning across the UK population (spanning planning for retirement, at-retirement decisions and planning in retirement) in order to:

- identify evidence gaps
- provide an evidence base to inform the work of the UK Financial Capability Strategy and the Retirement Planning Steering Group, and
- inform decisions on generating a better evidence base where gaps exist.

The review incorporates three elements:

- an assessment of the quality of the evidence base
- findings from non-evaluation ('insight') research that tells us something about financial capability and retirement planning, and
- findings from evaluations of interventions that could improve financial capability in relation to retirement planning.

In setting the parameters for the evidence review, the Money Advice Service was interested to answer the following research questions:

- What does the evidence tells us about financially capable behaviours (managing money well day to day; managing and preparing for life events; dealing with financial difficulties) and retirement planning?
- What does the evidence tells us about financial enablers and inhibitors (connection, mindset and ability) and retirement planning?
- What does evidence tell us about interventions that might help people plan for, and into retirement?

## Our approach to the evidence review

The review focused mainly on evidence from the UK. We also include some international research where this added substantially to the evidence base. We used a rapid evidence assessment methodology to produce an expert-led synthesis of the evidence. This is a suitable approach because rapid evidence assessments are typically used to:

- gain an overview of the breadth and quality of evidence around a particular issue (in this case financial capability as it relates to retirement planning)
- support decision-making by providing evidence on key areas
- support the commissioning of further research by identifying evidence gaps.

Compared to a standard literature review, rapid evidence assessments use a more structured and rigorous search process; however, they are not as in-depth as a systematic review. While we were successful in identifying a good deal of evidence (see below), this was not an exhaustive search and we appreciate there may be some omissions. As part of the evidence assessment, we considered the methodological strengths and weaknesses of each piece of evidence, which we have taken into account in the analysis and reporting. For the most part, this report draws on evidence we assessed to be of high quality. For topics where the only evidence was assessed to be of low quality, we have reported the findings with appropriate caveats.

In assessing evaluation evidence, we used the same standards of evidence that applied to the Money Advice Service's Evidence Hub at the time the review was conducted (2016).[6] The highest standard of evidence required a causal link to be shown between an intervention and a change in a measured outcome through the use of control or comparison groups.

## Overview of the evidence that we reviewed

We identified and reviewed approximately 60 pieces of evidence, which mainly originated in the UK. These included qualitative research studies; analysis of large-scale datasets; consumer surveys; and research undertaken to test interventions and prototypes. Most of the evidence we reviewed was produced in the last five years. Following the introduction of Pension Freedom and Choice in April 2015 (which gave people greater access to their pensions), a good deal of recent research centres on people aged 55+ with defined contribution pensions – although this group was not the sole or primary focus of the review. In agreement with the Money Advice Service, we also reviewed expert responses to HM Treasury's consultation on Public Financial Guidance,[7] which provided some additional information not published elsewhere.

Most of the evidence we identified was research 'insight', in other words research that tells us something about financial capability as it relates to retirement planning. While this insight research may contain recommendations to improve financial capability as it relates to retirement planning, it does not involve the testing or evaluation of interventions. The research insight described in this report is drawn mainly from the UK. Overall, there is a considerable body of high-quality research that examines how people think about and plan for (and into) retirement, and the shortfalls in this thinking and planning, such as underestimating longevity. In contrast, we found very little evidence about 'what works' to help people plan for, and in, retirement. This comprised a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning, none of which originated in the UK.

The review had a wide remit and did not focus on any particular segment of the population. There may be different gaps in evidence for different cohorts of people and people in different circumstances; we have drawn out this information from the evidence where it was available.

## Other evidence reviews commissioned by the Money Advice Service that relate to financial capability and retirement planning

In addition to this evidence review, the Money Advice Service has published a number of other evidence reviews that it will use to take forward the UK Financial Capability Strategy. One directly relevant to financial capability and retirement was carried out by the International Longevity Centre UK (ILC-UK), and assessed the evidence on financial capability interventions and older people in retirement,[8] to inform the work of the Financial Capability Strategy's Older People in Retirement Steering Group.

This review was commissioned to inform the Financial Capability Strategy's Retirement Planning Steering Group and differs in scope from the ILC-UK review because it brings together existing sources of information about financial capability specifically in relation to retirement *planning*. It focuses on planning for retirement among pre-retirees as well as evidence related to older people's planning in retirement (which was covered to some degree in the ILC-UK report). We refer to the high-level findings of the ILC-UK report in Chapter 4. Other evidence reviews commissioned by the Money Advice Service cover non-pension saving and workplace interventions to promote saving.

## Report structure

Chapter 2 sets out the evidence we reviewed in relation to financially capable behaviours and retirement planning. According to the Money Advice Service's general model of financial capability, financially capable behaviours are managing money well day to day; managing and preparing for life events (with a specific focus here on bereavement, divorce and redundancy); and dealing with financial difficulty.

Chapter 3 sets out the evidence we reviewed in relation to financial enablers and inhibitors and retirement planning. According to the Money Advice Service's general model of financial capability, financial enablers and inhibitors are Connection, Mindset and Ability.

Chapter 4 draws some conclusions about the evidence base and the major evidence gaps that the Money Advice Service might look to fill.

# 2. Financially capable behaviours and retirement planning

This chapter sets out what the evidence says about financially capable behaviours (managing money well day to day; managing and preparing for life events; dealing with financial difficulty) and retirement planning.

There is good quantitative data about the amounts and distribution of wealth (including pension wealth) across the population, which gives some indication of the resources that people have available to plan for, and in, retirement. This evidence is not generally linked to specific financially capable behaviours, however. And while there is some evidence about financially capable behaviours, it generally does not look at these behaviours in relation to retirement planning and retirement outcomes. There is therefore significant potential to improve the evidence base, for example through longitudinal analysis of national datasets that can track the impact of life events on people's ability to plan for, and in, retirement; and examine what that means for retirement outcomes.

## Financially capable behaviour 1: Managing money well day to day[9] and retirement planning

In this review, we looked for evidence about the links between managing money well day to day and people's ability to plan for, and in, retirement. Intuitively, it makes sense that people who manage money well day to day are better placed to plan for retirement. This seems to be supported by analysis of large-scale survey data. The implications are that efforts to help people manage their money well should also create opportunities to help them plan for the future, including planning for retirement – but the evidence shows that these efforts will be facilitated or limited by people's financial situation.

We did not identify any evidence that looks at the specific links between managing money well day to day and people's ability to plan in retirement. This potentially important evidence gap could be addressed through analysis of large-scale survey data (such as the Wealth and Assets Survey or the English Longitudinal Study of Ageing) provided the desired outcomes were clearly defined (ie, what constitutes good planning in retirement?) and the data contained the variables of interest.

There is some evidence about factors related to money management that may impact on planning in retirement: the resources that people have, their patterns of spending and their interaction with the energy market. The implications are that a significant proportion of older people (particular those on lower incomes) might benefit from support in later life to make sure they can continue to meet essential needs and get the best deals from suppliers to help them do this.

The Wealth and Assets Survey provides good quantitative data about mortgage and non-mortgage borrowing, including its use in later life. In the evidence we reviewed, we did not find any information about the links between borrowing (or student debt) and planning for, and in, retirement.

### Managing money well day to day and planning for retirement

In terms of planning for retirement, the evidence consistently shows that the UK is better at managing its money than planning ahead for the future. Initial analysis of the 2015 UK Financial Capability Survey, for example, showed that UK adults achieved an overall score of 59% for managing money well day-today, but only 40% when it came to preparing for and managing life events.[10]

While not focused specifically on retirement planning, and using somewhat different measures of financial capability from those employed by the Money Advice Service, one study used analysis of national survey data (the Wealth and Assets Survey) to examine the correlations between the different dimensions of financial capability. The strongest correlation was between 'making ends meet'[11] and 'planning ahead',[12] which suggests these two dimensions are influenced by an underlying factor, likely to be the individual's financial resources.[13]

Various studies highlight the interaction between income, wealth, managing money and planning ahead (such as planning for retirement). Initial analysis of the 2015 UK Financial Capability Survey showed that adults with high incomes (over £50,000 per annum) scored 59% when it came to planning for and managing life events, a score than more than twice as high as adults with low incomes (less than £17,500 per annum), who scored 28%. The analysis also found an almost complete overlap between the types of people who scored lowest for managing money well day to day and those who scored lowest on preparing for and managing life events. In both cases, the lowest scorers were likely to live on relatively low incomes. They included: young people aged 18-24; unemployed people; people in receipt of Universal Credit or the benefits it replaces; and social housing tenants. In addition, people aged 75 and over scored less well on preparing for and managing life events.[14]

## Managing money well day to day and planning in retirement

Initial analysis of the 2015 UK Financial Capability Survey shows that people generally get better at managing money as they get older. We did not find any evidence that directly examined the links between managing money well and planning in retirement. There is however some evidence about factors related to money management that may impact on planning in retirement. Aside from personal debt (discussed below), these factors are the resources that people have, their patterns of spending, and their interaction with the energy market.

### Resources

While there are large variations by income, overall the evidence shows that current generations of older people have considerable resources to help them manage life events in retirement. Initial analysis of the 2015 UK Financial Capability Survey found that 57% of retired adults had savings equal to at least three months' income (compared to 28% of working-age adults). But it is also important to consider resource depletion over time. Analysis of the English Longitudinal Study of Ageing (ELSA) showed the average net wealth for older people aged 65–69 in England to be £174,393 compared to £34,681 for people aged 80+.[15] In other words, people in retirement generally have fewer resources the older they get, as those resources are used up. This has implications for retirement planning in the latter stages of life, when health and care needs are likely to be highest.

While somewhat dated, a longitudinal qualitative study carried out for the Joseph Rowntree Foundation provides useful insight into resource use in later life, focusing on older people aged 65–84 at the time of their first interview.[16] Interviewed two years apart, in 2005 and 2007 (before the financial crash and the recession that followed), the 78 households that took part in the study were asked about how they planned, used, and valued a range of resources – money, but also other resources like health, social contacts, housing and transport. It found that careful budgeting was common and essential among those managing in constrained circumstances (nearly half the participating households received means-tested benefits). The sorts of strategies used by respondents included shopping around for special offers; prioritising their spending; and putting money aside for bills. Small changes to behaviour (such as taking advantage of concessionary local bus travel rather than using the car) could combine to make an appreciable difference to older people's lives.

*"Small factors, that may not necessarily be significant to people with higher incomes, combined to make a noticeable difference where finances were finely balanced."*[17]

For those on low incomes, the research found a very positive impact of receiving the benefits they were entitled to, such as having some spare money for non-essentials, and being able to save small sums of money.

### Spending patterns

Analysis of the Living Costs and Food Survey[18] shows considerable diversity of spending behaviour among people aged 50+ that relates closely to older people's money management and their likely ability to plan in retirement. Overall, total equivalised household expenditure (which takes into account the number of people in a household) reduces markedly as people get older: from an average of £286 per week among households headed by someone in their early 50s, to £160 per week among those headed by someone aged 80+. The analysis identified two groups of older people on lower incomes that were notable because they comprised over half the population of people aged 50+ and highlighted that relatively low levels of spending are not atypical (in contrast to media portrayals of extravagant 'baby boomers'). 'Conservative Consumers' (who comprised 46% of all older consumers) spent far less on non-essentials than older households as a whole. Older households that were 'Burdened by Bills' (11% of older consumers) were distinct because they spend £4 in every £10 on housing, fuel and power - which was twice the average.

The onset of health issues is one reason why spending patterns change in later life. The Pensions Policy Institute carried out analysis that modelled the effect of income shocks in early retirement using four hypothetical individual pensioners. This found that the onset of a moderately severe disability or health issue was associated with a significant increase in spending needs, and hence in required income, when the condition began.[19]

### Interaction with the energy market

According to the Money Advice Service's general model of financial capability, one aspect of managing money well day to day is maximising income , for example, through checking supplier tariffs. In its recent study of the energy market, a consumer survey commissioned by the competition regulator found that, in general, customers aged 65 and over were among the groups less likely to have used price comparison websites to find out information last time they switched.[20] The implications of this are that older energy consumers may not be using online information to shop around for the best deal (although the regulator notes that the service provided by price comparison websites can often be accessed by telephone too). We return to the issue of online use and access in relation to retirement planning in Chapter 3. Another consumer survey, commissioned by Ofgem, showed that people aged 65 and over were over-represented among the 'unplugged' consumer segment who had never switched supplier or changed tariff, and had not conducted any comparison activity in the last year.[21]

## Borrowing

Analysis of the Wealth and Assets Survey 2008–2010[22] found that one in four people aged 50+ had non-mortgage borrowing, each owing an average of £4,500. Non-mortgage borrowing declined sharply with increasing age, even when income was taken into account. Longitudinal analysis of the survey showed that only 19% of older people moved into or out of non-mortgage borrowing, suggesting that credit use (and non-credit use) persists over time. Existing credit users were more likely to owe more after two years than non-credit users were to become borrowers. The analysis highlighted some of the main drivers of non-mortgage borrowing in later life:

- high fixed costs, such as rent or mortgage payments, or having dependent children in the household
- low household income and experiencing a drop in income
- struggling to make income last until the end of the week or month.

The analysis did not specifically explore the impact of non-mortgage borrowing on retirement planning, but it seems reasonable to assume that borrowers in their 50s and early 60s have fewer resources to prepare for retirement because of their debt repayments. In retirement, while consumer credit potentially offers a useful means of income smoothing, repaying borrowing will affect the rate at which resources are depleted.

The same analysis identified a small group of householders aged 75+ who were potentially at risk of difficulties because of their mortgage borrowing. While only a small proportion (2%) of the oldest householders (aged 75 and over) still had mortgages on their main home, half owed more than £21,000 and a quarter owed the equivalent of 25% or more of the estimated value of their home. This seemed to reflect their lower-value properties but also a greater tendency for them to have non-repayment mortgages, including interest-only mortgages with no linked investment. The authors argue that these mortgaged households are more vulnerable to financial instability as they owe more relative to the value of their homes, which in turn raises questions about the viability of equity release. Older households that had interest-only mortgages without any linked investment could find themselves with a shortfall when their mortgage matures, if they have not made alternative plans – which may well impact on their ability to manage financially.

## Financially capable behaviour 2: Managing and preparing for life events[23] and retirement planning

In this review, we looked for evidence that preparing for retirement results in better outcomes for individuals and households; and evidence about the impact of divorce, bereavement and redundancy on planning for, and in, retirement. The evidence base is thin for these issues.

While there is good quantitative data about the amounts and distribution of wealth (including pension wealth) across the population, we identified surprisingly little evidence that retirement preparation results in better outcomes (other than poverty in old age being linked to lack of personal pension provision). There is a considerable body of insight research (both qualitative and quantitative) about the extent to which people plan for retirement (highlighting a general lack of preparedness until very close to retirement), but not a great deal of evidence about what that planning involves (other than saving). There is comparatively little evidence about the impact of life events on retirement planning (especially in relation to separation and divorce).

A good way to address these evidence gaps would be longitudinal analysis of survey data to look at the impact of retirement planning activities (which would need to be carefully specified) and life events on eventual outcomes in retirement. Possible sources of data include Understanding Society (provided it contained sufficiently detailed financial data), the English Longitudinal Survey of Ageing, and the Wealth and Assets Survey.

### Does preparing for retirement result in better outcomes?

Public policy in the UK and elsewhere is built on the premise that preparing for retirement (in particular through private pension saving) results in better outcomes for individuals but also for the economy and public finances. Analysis of DWP data shows that older people without any private pension provision are one of the groups most at risk of poverty, along with older people who do not own their home.[24] In the years since the Pension Commission,[25] preparing for retirement has focused heavily on getting more working-age people to save into a personal pension, to help ensure they enjoy better outcomes in later life, in the context of an ageing population and pressure on public finances. This resulted in the automatic enrolment of eligible individuals into workplace-based defined contribution pensions.

There is a considerable body of insight research (both qualitative and quantitative) that looks at how well (or not) people are prepared for retirement and how they feel about their preparedness. Overall, this indicates that people (and women in particular) generally feel poorly prepared and worried about their ability to manage financially in later life;[26] and that retirement planning for many people happens in the 12 or so months before they retire.

For example, an online consumer survey of 5,000 people aged 55–70 (carried out by YouGov in September 2014, after Pension Freedom and Choice had been announced but before it was launched) found that a significant number of pre-retirees had not made any plan about how their private pension provision, State Pension and any other sources of income would meet their spending needs over the course of their retirement. Overall, 39% respondents said they had made this type of plan; the number was not much different (just over 40%) for respondents who were less than a year away from retirement.[27] In another online consumer survey (of 1,000 adults who were retired or within five years of retiring), a third (34%) of pre-retirees said they were completely or very prepared for retirement – this figure was lower (27%) for those who were 3–5 years from retirement.[28] Qualitative research with DC savers in the run-up to the introduction of Pension Freedom and Choice similarly found that only those very near retirement (no more than 12 months away) had started to explore their retirement income options, but even then they generally had done very little and any plans they had were superficial. Only a small number of respondents had worked out in any detail what they needed to live on.[29]

Looking at preparedness in later life (as opposed to pre- or at-retirement), analysis of ELSA, showed that 20% of older people born between 1946 and 1964 (often called baby boomers) had low ‘readiness for ageing’, taking into account their pension wealth but also their income, other assets, health and disability.[30]

In terms of research that directly links outcomes to retirement planning, we identified one study that showed evidence of the positive impacts of planning on retirees' living standards. Carried out by a financial services firm, the study comprised 6,000 online interviews with UK adults aged 30+. Cross-tabular analysis showed that retirees who said they had started planning for retirement a long time before retiring were more likely to say they had enough money to enjoy a comfortable lifestyle than those who said they did not start planning until they were retiring (72% compared with 43% respectively).[31] Links with income or wealth were not explored in the analysis, however – for example, people who started planning earlier might have had higher incomes and/or more sources of income than those who did not plan.

At-retirement decisions

In the wake of Pension Freedom and Choice (see Box 1.1), from age 55 people now have more options about how they use their DC pension savings. There are concerns that, having prepared for retirement by saving in a DC pension, the decisions these savers are now free to make at retirement may adversely affect their outcomes in later life – for example, because they spend too much, too soon. In other words, preparing for retirement may not result in better outcomes if people make poor decisions at retirement.

Since the introduction of Pension Freedom and Choice, there is evidence of an apparent mismatch between what DC pension savers say they want in retirement (a secure income)[32] and the products they choose, with a marked shift away from annuities (which provide a guaranteed income for life but can be poor value) and towards income drawdown products (that don't offer a guaranteed income). In the period October–December 2015, of the 127,094 DC pension pots accessed for the first time, the pot was used in just 17% of cases to purchase an annuity (21,289 annuities in total).[33] The same firm data collected by the regulator shows that 63% of Guaranteed Annuity Rates (GARs, which can offer a higher level of income) were not taken up (which includes pension savers who were too young to exercise their GAR).[34] Chapter 3 looks in more detail at how well DC pension savers feel they are equipped to make these decisions.

Planning for long-term care

As the UK population lives longer, there are concerns about funding for care in later life and the extent to which people should pay for this themselves (over and above the tax they pay). Care costs depend on the severity of need, how care is provided, for how long, and eligibility for state help, which makes it very difficult to predict with any certainty whether any one person will need care and how this might deplete their resources.[35] This uncertainty might help explain the relatively low number of adults with a plan for long-term care. Initial analysis of the 2015 UK Financial Capability Survey, for example, found that 28% of adults aged 50+ had a plan for long-term care. In three deliberative events with older people (which produced qualitative evidence) run by Age UK as part of its Financial Services Commission, none of the participants had planned for the cost of care, although some had experience of selling property on behalf of parents to fund care costs.[36] In its Ageing Population programme of work, the FCA plans to explore whether older people and their families can access regulated advice for long-term care.[37]

We did not find any information in the evidence we reviewed about the links between being prepared to pay for long-term care and outcomes in later life.

## What is the impact of life events (bereavement, divorce, redundancy) on planning for, and in, retirement?

Compared to the insight research on people's attitudes and experiences of using pensions to plan for retirement, there is relatively little evidence about the impact of life events on planning for, and in, retirement. The evidence we identified comprised a small number of studies (both qualitative and quantitative). It presents a picture of unpreparedness that is similar to retirement planning more generally.

### Bereavement

Evidence from a programme of research on bereavement, commissioned by Dying Matters (a coalition of members in England and Wales) and a financial services firm, found high levels of unpreparedness generally among bereaved people. In an online survey of 500 people bereaved in the last five years, a majority of respondents (69%) said they felt either financially or practically unprepared for the death of their partner. From qualitative interviews with bereaved people, the study found it was common for discussions about the prospect of death to lead to little or no practical action. The report concludes that:

> *"The evidence from our research suggests that the more preparation made by couples (ie, making specific plans like writing a wills or buying life insurance), the softer the blow if the worst were to happen."* [38]

While not reported specifically in relation to planning for or in retirement, it seems likely that the financial impacts of bereavement described by the study may well affect the financial futures of the bereaved. The effects reported from the online survey (which were especially true for women when their partner had died) included:[39]

- Income: 58% of survey respondents said that their household income was lower after the death of their partner; and 50% said that their disposable income was lower. (Other analysis that modelled the effect of income shocks in early retirement using four hypothetical individual pensioners also found that the early death of a partner was associated with falling actual income against income requirements).[40]
- Debts: 15% said their debts had risen since the death of their partner (but 10% said they had fallen). In addition, 33% were left with debt of some kind after their partner died.
- Spending: 41% said they spend less on everyday items, 41% cut back on discretionary spending, 35% were spending less on household bills and utilities.
- Savings: 35% said their savings were lower after their partner died; and 29% had used their savings to manage.

The financial impacts of bereavement also varied by age:

- Those under the age of 50 were less likely to see their income fall, but more likely to take on extra debt.
- Those between 50 and 64 were most likely to see their disposable incomes fall.
- Those over 65 were most likely to see their overall income decline.

The research suggests that life insurance helps mitigate the adverse financial impact of bereavement. A quarter (25%) of survey respondents whose partner had life insurance saw their savings rise after bereavement, compared to 16% of those whose partner did not have life insurance. In addition, 17% of those whose partner did not have life insurance had higher debts post-bereavement, compared to 9% of those whose partner had life insurance.[41]

### Divorce and separation

In 2011, it was estimated that 42% of all marriages ended in divorce. Compared with 2003, divorce rates in England and Wales were higher in 2013 for men and women aged 50 and over (and also for men aged under 20, although based on small numbers). At all other ages divorce rates decreased.[42] In cases of divorce or dissolution of civil partnerships, the courts take pension assets into account when determining any settlement.[43]

We identified very little evidence about the effect of separation and divorce on planning for, or in, retirement. As part of its Financial Services Commission, Age UK held deliberative sessions (a form of qualitative research) with older people, where the impact of divorce and separation were strong themes.[44] Among the issues identified were:

- Having to make one family's savings provide for two or even more households meant that resources were stretched.
- Where one partner generally managed the household finances, on separation this could leave the other partner trying to manage financially on their own for the first time (the same is true in the case of bereavement).

*"I had savings [for retirement], but I got divorced and lost my job, and now I have to start again."*
*"In fact the pension has to go three ways, between him, me and his ex-wife."*[45]

### Redundancy

There is limited quantitative and qualitative evidence about the impact of redundancy on planning for, or in, retirement. Analysis of the Wealth and Assets Survey 2010–2012 (which focused on individuals above or just below retirement age) found that redundancy caused some 55–64 year olds with DC pension saving to take early retirement: 18% who took early retirement had been dismissed or made redundant involuntarily; while 17% opted for voluntary redundancy.[46]

Citizens Advice commissioned a consumer survey of 500 adults aged 55+ who had accessed their DC pots after April 2015 (when Pension Freedom and Choice was introduced). It found that 10% of respondents were motivated to access their DC pension in order to top up their income, for reasons which included being made redundant (other reasons included benefit changes or deciding to leave work voluntarily). These respondents were likely to take their pension savings as cash.[47]

Another study published by Citizens Advice in 2015 explored how people think about older age and pensions.[48] Drawing on qualitative research with 20 CAB clients and volunteers in their 50s and 60s, participants with low pension savings described how their financial ability to save had been limited by a range of factors, including redundancy. Based on the interviews, the report also suggests that important life events and key financial moments including redundancy (but also divorce, bereavement, buying a house, sudden ill-health and problem debt) can sometimes result in greater engagement with long-term planning and pension decisions. These types of events, the report argues, provide a strong immediate trigger for considering and re-considering decisions. We did not find any other evidence in our review to support or counter this suggestion.

## Financially capable behaviour 3: Dealing with financial difficulties[49] and retirement planning

In this review, we looked for evidence about whether dealing with financial difficulty (eg, problems keeping up with mortgages, consumer credit, or household bills) helps or hinders planning for retirement and in retirement. We found hardly any evidence about the direct impacts of problem debt on planning for or in retirement – an issue that has become more important now that people have greater access to their DC pension savings.

Analysis of the Wealth and Assets Survey 2012–2014 shows a strong correlation between low wealth (including pension wealth), financial liabilities,[50] and burdensome debt.[51] For individuals living in the bottom wealth decile (ie, with the lowest amount of wealth), 14% reported they were in financial debt and that they felt the debt 'a heavy burden', compared with just 1% of individuals living in households in the top wealth decile. While the published analysis does not discuss the effects on planning for, and in, retirement, it seems reasonable to assume that these 'low wealth, high debt' households will find it challenging to put any additional resources aside for later life, or to manage financially if they are already retired.

In a consumer survey of 500 adults aged 55+ who had accessed their DC pots after April 2015 (when Pension Freedom and Choice was introduced), 12% of respondents cited 'paying debt/mortgage' as a motivation for accessing their DC pension. These respondents were twice as likely to take cash from their pensions as to take drawdown.[52]

*"I got into unmanageable level of debt…I needed the cash as soon as possible"*[53]

While paying off debt can be sensible, nonetheless using pension cash to do it leaves the individual with depleted resources for retirement. Experts are also worried about people in problem debt and their access and use of DC pension savings. Among the concerns raised in response to the government's consultation on its Public Financial Guidance proposal were:[54]

- People facing crisis debt who have a pension asset cannot get suitable guidance (we discuss advice and guidance in detail in Chapter 3).[55]
- People who cash out some or all of their DC pension savings to pay off problem debt may be left with insufficient income in retirement; and face a large tax bill if they want to withdraw more than 25% of their pension pot.[56]
- A call for clarity about the effects of auto-enrolment and the auto-escalation of contributions into workplace pension schemes on the individual's available income to pay their creditors.[57]

Earlier analysis of the British Household Panel Survey, published in 2009, estimated that moving from full-time permanent employment into retirement increased financial problems by 31%, accounting for income changes; the report does not provide reasons for this increase in financial problems, however.[58]

# 3. Financial enablers & inhibitors and retirement planning

This chapter explores the evidence on retirement planning and the financial enablers and inhibitors in the Money Advice Service's general model of financial capability: Connection, Mindset and Ability. For context, we first consider the challenges that individuals face in planning for, and in, retirement.

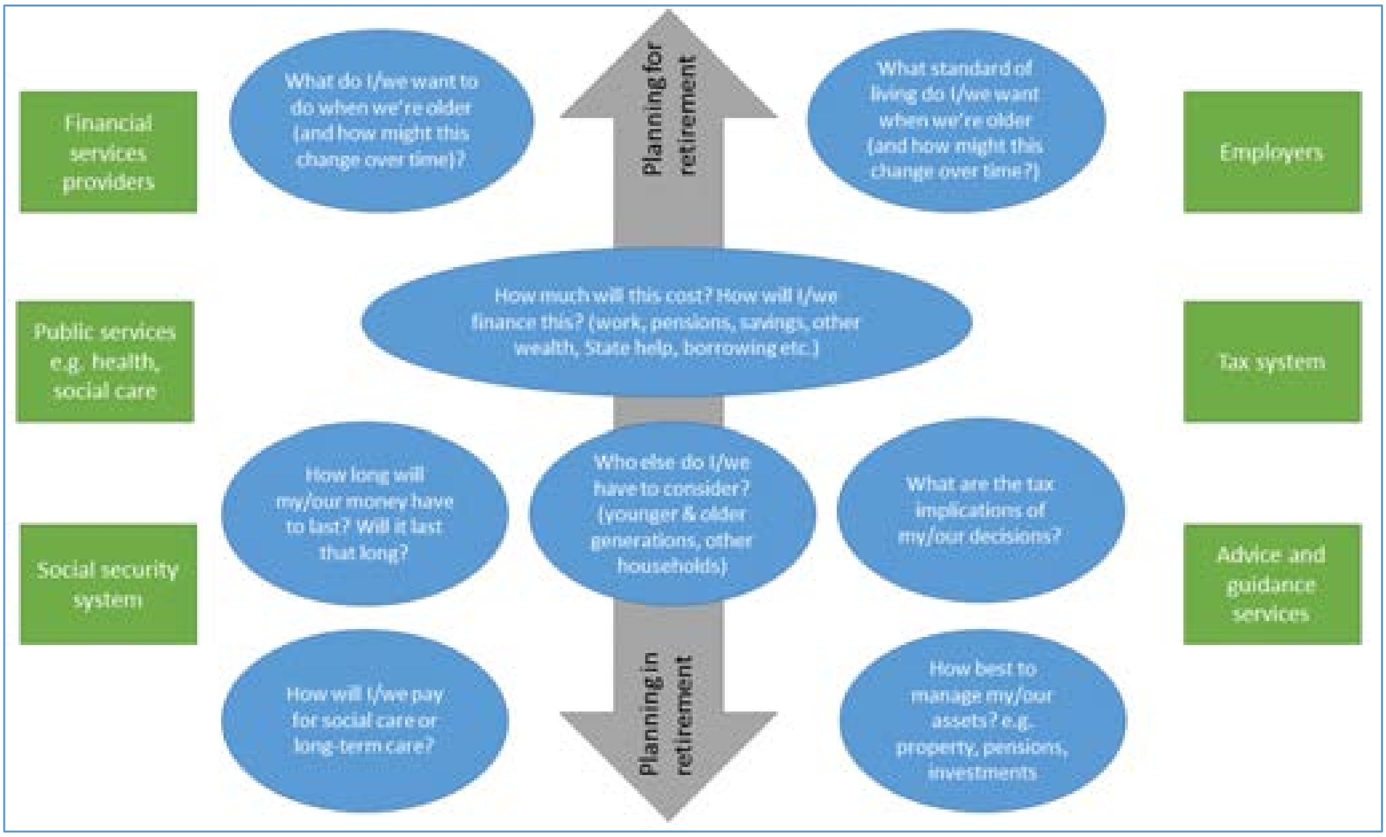
## The challenges of planning for, and in, retirement

As noted in the Introduction, helping people in the UK make financially capable decisions for retirement, at retirement, and into their later life is a major challenge. The reasons for this are inter-related; they often centre on complexity and uncertainty; and they span public policy, industry and individuals. As Age UK stated (even before Pension Freedom and Choice came into effect):

*"Individual providers, the regulators and the government all have important roles to play. Good financial capability will not be enough if the financial products and services available to you simply do not meet your needs. And the more complex the decisions that have to be made, the more older people will need advice – be that generic information and guidance or fully regulated advice."*[59]

Taken together, the research insight strongly indicates that retirement planning requires quite different abilities from those needed to manage money well day-to-day; and that it stretches many people's ability to the limits. Retirement planning encompasses not only pensions (of which people may have more than one, and more than one kind),[60] but also other forms of savings and assets, mortgages, and consumer credit. As people live longer, even the concept of retirement has changed, from being a fixed point in time where an individual stops working completely, to a longer-term transition where the balance of work and leisure changes.[61] Pension Freedom and Choice means that DC savers no longer have to buy an annuity (which provides guaranteed income for life), but it may instead require people to make more than one decision about their retirement income as they get older, for example income drawdown followed by partial annuitisation.[62] As we saw in Chapter 2, these decisions have implications not only for the individual, but also for their spouse or partner, their children and possibly other family members and other households as well. As a result, they can be difficult and complex decisions for even financially capable people to make. As context for this chapter, Figure 3.1 sets out some of the questions that people are expected to consider when they plan for, and in, retirement (blue ovals) and the range of sectors and the organisations this might involve (green squares). This is not intended to be a definitive or complete list, rather an illustration of what is expected of people in terms of retirement planning.

***Figure 3.1: Some of the factors involved in planning for, and in, retirement***




As we go on to discuss in this chapter, the evidence suggests that people commonly do not consider all the relevant factors in their retirement planning, or they consider them late in the day when their options may be limited (eg, to save more into a pension). As a result, for many people the reality is likely not to be a planned and thought-through retirement but rather a 'making-do' with what they have when they come to retire, adapting their lifestyle and ambitions to fit their resources.

# Financial enablers & inhibitors 1: Connection[63]

Improving access to, and consumer understanding of, guidance and regulated advice in relation to retirement planning is a priority area for action in the UK Financial Capability Strategy.[64] In this review, we looked for evidence about the help and support (e.g. advice, guidance, tools, products, channels) that people need to plan for, and in, retirement; and the extent to which these are available and used by the UK population.

The evidence we reviewed centred on at-retirement decisions, where there is a substantial body of qualitative and quantitative research. This comprises a growing number of studies on the retirement income decisions faced by DC pension savers brought about by Pension Freedom and Choice; and research with annuity purchasers carried out before Pension Freedom and Choice. We did not identify much evidence about other aspects of planning for, and in, retirement. There is some evidence (from experts) about gaps in provision, including the lack of specialist help for DC pension savers who have debt when they come to make decisions at retirement; expatriates who wish to access their DC pension savings; and the lack of access to professional financial advice for people with modest DC pension pots. There is good evidence (eg, from official statistics and other sources) about older people's lower levels of online engagement, which may impact on their planning in retirement.

Key knowledge gaps seem to be:

1. a lack of quantitative evidence about the sources of help that people use to plan for, and in, retirement (which would probably require new consumer surveys); and
2. a lack of evidence about the extent that financial engagement generally results in better outcomes for people in later life (over and above the effects of income and wealth). This would be challenging, because it is difficult to isolate specific factors that influence outcomes in retirement and it would require longitudinal research over 20 or more years (over which time the landscape would be highly likely to change).

There is some consumer survey evidence that supports the idea that people want help with retirement planning. In a survey conducted by Mintel, when asked what they might need professional advice for in the future, the most common answers were pensions and retirement planning (30%) and savings and investments (30%).[65] In a consumer survey of individuals aged 50+, over half (53%) of respondents said they would want support from an expert when considering withdrawing pensions, compared to 26% when it came to buying a house.[66] The following sections set out the evidence we reviewed in relation to:

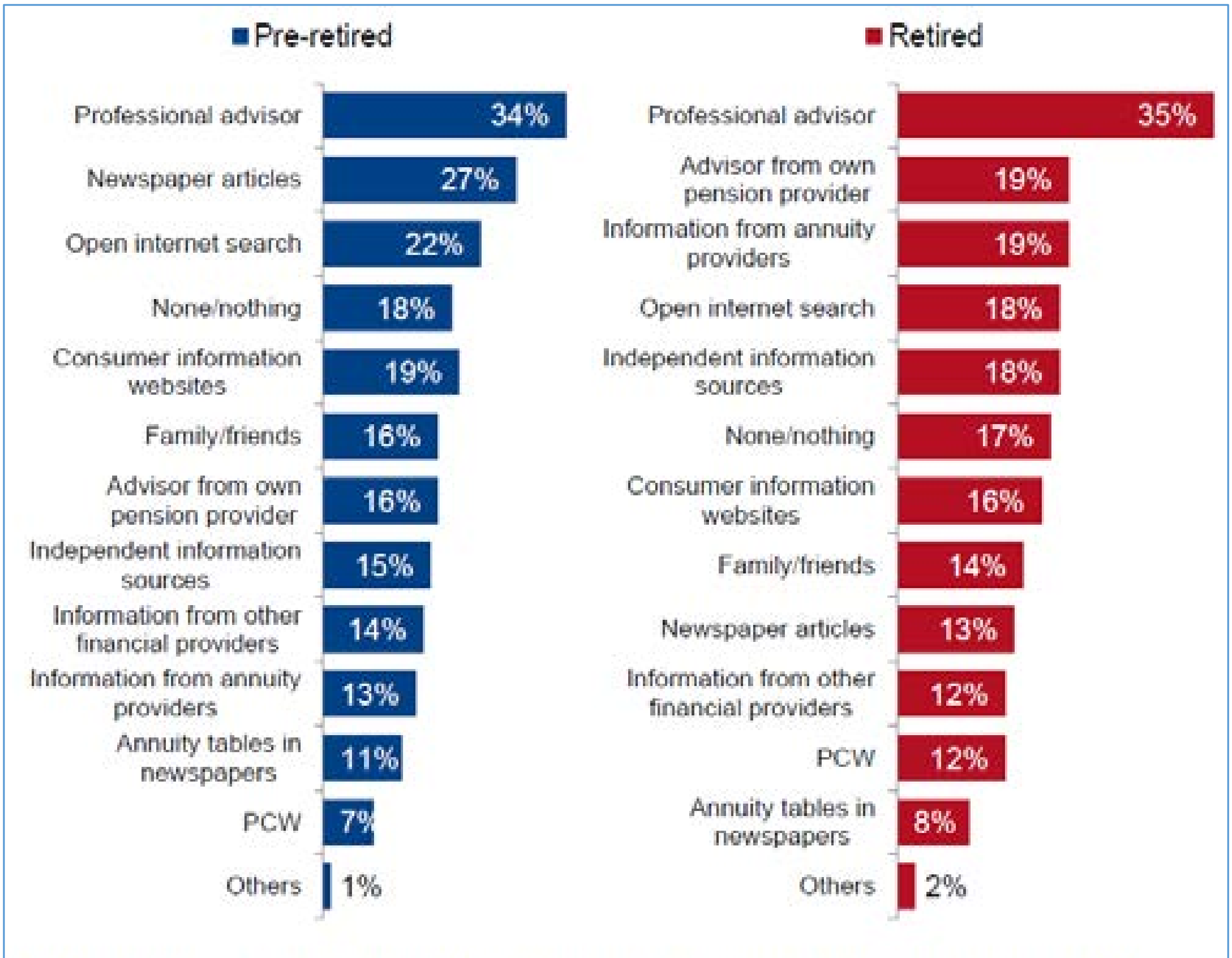
- people's engagement with sources of help, namely professional advice and guidance and information, including the reasons why people don't use them
- 'advice gaps', including the proportions and types of people whose engagement with retirement planning may be limited by the fact they are offline
- access to financial products and services in later life that may impact on people's planning in retirement.

## Professional advisers

As a result of Pension Freedom and Choice, there is a growing evidence base about the sources of help that pension savers use when deciding what to do with their DC pension fund. This derives from consumer surveys with individuals aged 55+ and data collected from firms by the regulator. The findings from the consumer surveys consistently show that professional advisers are a key source of help, used by between three and four in ten of DC savers who are eligible to access their pension.

For example, data collected from an online consumer survey in 2014 of pre-retiree and retired DC savers (pre-introduction of Pension Freedom and Choice) found that 34% of pre-retiree respondents had used a professional adviser, as had 35% of retired respondents.[67] As Figure 3.2 (reproduced from the report) shows, most DC pension savers (whether pre-retired or retired) had used some form of information, guidance or advice – fewer than two in ten had not used any type of help.

***Figure 3.2 Source of information, guidance or advice used by pre-retired or retired DC pension savers, reproduced from GfK, At Retirement Consumer Research - Exploring Changes in the Retirement Landscape. A report for Financial Conduct Authority (London: GfK, 2014, page 51).***



Q40. Which of the following, if any did you use/have you used so far for information, guidance or advice in your decision making about what to do with your pension fund? Base: All Retired (318), All Pre-retired (682)

A later 2015 survey of 55- to 70-year-olds who had accessed their DC pensions in the first six months of Pension Freedom and Choice similarly showed that 39% had used a professional adviser; the figure was 32% for DC savers who were still investigating their options.[68]

Consulting an adviser from their own pension provider was also common: reported by 16% of pre-retirees and 19% of retired respondents in the 2014 survey; but much higher (39%) in the 2015 survey once DC savers had greater access to their savings. In the 2015 survey, other common actions were looking online (22% of DC actioners); using Pension Wise (22%); and talking to family and friends (17%).

In terms of the choices that DC savers exercise under Pension Freedom and Choice, data collected from firms by the regulator shows great variation in the use of advisers by option and pot size. The highest levels of adviser use recorded by firms were for customers going into drawdown (68%) and the lowest (34%) for customers accessing an Uncrystallised

Fund Pension Lump Sum.[69] Across all products and withdrawals, DC savers with larger pots were more likely to use a regulated financial adviser.[70]

There is a reasonable body of evidence about why people do not use professional advice that comprises both quantitative and qualitative research. As with other topics, there is recent evidence related to DC savers making at-retirement decisions; and some evidence related to annuity purchasers which pre-dates Pension Freedom and Choice. Across the piece, the same sorts of issues arise. While the cost of advice is an important barrier to accessing professional advice, it is by no means the only barrier.[71] Other barriers include people not feeling they need advice; not trusting financial advice; and not wanting to feel stupid. These barriers are described below.

## The cost of financial advice

In qualitative research, DC savers eligible for Pension Freedom and Choice (both those who were considering their options and those who had made a decision) reported the cost of financial advice to be off-putting, particularly where they had small savings pots[72] (which is also supported by quantitative evidence).[73]

*"I had my call this morning with my new financial adviser. Whilst they were eager to come out and see me and conduct a review of my pensions, there was going to be a charge of £1,500 and the 1% annual fee. As I had originally already paid commission to the original sales person I do not feel I should have to pay twice for the advice. I will not be seeking help as the two pensions I am looking to take 25% from are only very small and I cannot justify the outlay. It is a shame that the cost of financial help is so prohibitive for people with small pension pots such as me [...]"*[74]

*(Male, 56, diary entry)*

Likewise, in quantitative and qualitative research with annuity purchasers, cost was identified as a barrier to accessing financial advice; coupled with the fact that respondents found it difficult to assess the benefits that buying advice would provide.[75]

It is not always clear from the evidence whether respondents had actually investigated the cost of financial advice, or whether they simply assumed it would be relatively high. Research in 2014 from Which? found that financial advisers were reluctant to reveal how much they would charge until they had met a client in person and 70% of the firms sampled did not list their prices online.[76]

### Do not need financial advice

Evidence from qualitative and quantitative research into at-retirement decisions made by DC savers post-Pension Freedom and Choice, and earlier research with annuity purchasers, found that some respondents did not get financial advice because they felt they could do better themselves; they knew enough already; they felt confident making their own decision; they preferred to make their own decision; or they simply did not need it, for example because they could find all the information they needed online for free.[77] The research studies do not profile the respondents who felt they did not need financial advice (eg, to see if they were people who made other investment decisions themselves). However, the study of annuity purchasers found a link between seeking professional advice and confidence: 81% of annuity purchasers in the study who had high financial confidence did not use professional advice compared to 60% with medium financial confidence and 55% of those with low financial confidence.[78] The evidence does not assess whether these respondents were right to be confident in their own decision-making abilities.

### Do not trust financial advice

Quantitative research with DC pension savers[79] and qualitative research with annuity purchasers[80] identified low trust in financial advice as a barrier to accessing advice. For example, in an online survey of DC pension savers conducted prior to the introduction of Pension Freedom and Choice, 44% of respondents agreed with the statement 'I do not trust the financial services sector to provide me with good advice'.[81]

### Do not want to feel stupid

In two qualitative studies (one with DC pension savers about their at-retirement decisions,[82] and one with annuity purchasers),[83] some respondents were put off financial advice because they were nervous of feeling stupid if they did not understand what the adviser told them.

Other evidence related to financial advice

One study (by Mintel, cited in the FCA's Financial Advice Market Review) takes a broader look at people's use of financial advice. Its consumer survey data found that:

- 44% of respondents found it too difficult to understand how firms could help them manage their money
- 34% didn't believe that professional advice was geared towards them
- 14% said they wouldn't know where to start looking for financial advice.[84]

In addition, the regulator's product sales data suggests that the proportion of retail investment products (which includes pensions, retirement income products, and investments) sold without advice has increased from around 40% in 2011/12 to around two-thirds in 2014/15.[85] This can be attributed to a large part to the growth of online investment services that give retail consumers direct access to financial products.

## Guidance and information

There are a range of sources of guidance and information that people can access free-of-charge to help them plan for, at, and in retirement.

Pension Wise is a free-to-user guidance service[86] set up to support people aged 50+ who wish to access their DC pension savings under Pension Freedom and Choice. Guidance is available by telephone or face to face. Based on firms' data collected by the regulator, it is estimated that 20% of customers exercising Pension Freedom and Choice used Pension Wise; the other 80% did not.[87] Quantitative[88] and qualitative[89] research indicates that Pension Wise is generally valued by those who use it. Reasons for non-use among respondents in the same qualitative study included:

- Pension Wise advisers are not allowed to give personalised advice, and for some respondents this limited the value of the discussion.
- Put off by negative feedback on the quality of Pension Wise guidance specialists in the mainstream media.
- Felt that an hour's free consultation with an independent financial adviser was a better use of their time.
- Pension Wise guidance specialists would not be able to tell them any more than they had read on the website.[90]

Other impartial sources of guidance and information include the Which? website and consumer helpline;[91] the Money Advice Service's own website and money guidance services;[92] The Pensions Advisory Service (which also delivers the Pension Wise telephone guidance service;[93] and Citizens Advice (which also delivers the Pension Wise face-to-face guidance service).[94] We did not identify any published research about these services, but Box 3.1 provides usage information about some of them.

**Box 3.1: Impartial guidance services**

Citizens Advice helped 12,900 people with personal pension queries in 2015/16 (up 94% on the previous year), and 2,000 people with queries about savings and investments (up 14%). Four in ten (39%) of people with a pension query also had a Pension Wise session; and 37% were advised on benefits and tax credit issues.[95]

Most people who contact the Money Advice Service do so through its website, which offers a range of information, calculators and tools on personal finance issues. In 2015/16, there were 201,000 completions of the Money Advice Service pension calculator. In addition, the Money Advice Service's Retirement Adviser Directory provides Pension Wise customers with access to regulated financial advice. In 2015/16, more than 20,000 people used the tool to connect to an adviser.[96]

In 2015/16, the Pensions Advisory Service received 26,600 enquiries (up 108%) and answered 103,100 telephone calls (up 44%) and 24,500 webchats (up 76%). Retirement planning was the most popular topic in relation to written enquiries and webchat topics; and the second most popular in relation to phone calls (after Pension Freedom and Choice).[97]

Quantitative and qualitative research provides insight into other sources of information that DC pension savers use, which includes newspaper articles; consumer information websites; product information from other firms; price comparison websites; and annuity tables in newspapers.[98] While cited less often than professional advisers and firms, family, friends and acquaintances (for example, those who are perceived to know more about the topic) are another source of help that people turn to.[99]

## 'Advice gaps'

The evidence suggests a number of 'advice gaps' that prevent or restrict engagement with retirement planning among some groups of people. These are: guidance that looks at someone's personal finances in the round; guidance around problem debt and pension assets; people with small sums of money in pensions, savings and investments; guidance for expatriates; complex circumstances; and delivery channels.

### Guidance that looks at someone's personal finances in the round

In their responses to HM Treasury's consultation on its proposals for Public Financial Guidance (including pension guidance), experts (both industry and consumer) emphasised the need for guidance on retirement issues, not just pensions. Ideally, this guidance would look at someone's personal finances (and their circumstances) in the round, rather than separating them out into money guidance and pensions guidance. The Building Societies Association provided an example in its consultation response:

> *"A customer over the age of 55 with a defined contribution pension pot may approach a building society for a mortgage. This may be underwritten against their pension income if the mortgage term extends beyond their retirement age. Therefore, taking out that mortgage may limit the customer's options in future with regard to taking a lump sum or income drawdown from their pension pot."*[100]

Others were concerned that guidance to support retirement planning should also cover relevant topics such as equity release, long-term care, welfare benefits and debt.[101] Citizens Advice cited survey evidence to support its call for 'holistic' guidance: 69% of clients seen through the standard CAB service (ie, not Pension Wise) with personal pension issues had at least one other issue they wanted help with, including financial services and capability (39%) and benefits and tax credits (37% – see also Box 3.1).[102]

### Guidance around problem debt and pension assets

As noted in Chapter 2, experts are also worried about people in problem debt and their access and use of pension assets, in the light of Pension Freedom and Choice. Access to suitable guidance was among the concerns raised in response to the government's consultation on its Public Financial Guidance proposal.[103] Both consumer and industry experts highlighted the problem that, at present, people facing crisis debt who have a pension asset cannot get suitable guidance. This is because debt advisers do not have the requisite qualifications to provide advice or guidance on regulated products such as private pensions, investments, and retirement income products; and pensions guidance services generally do not have the necessary knowledge of debt management.[104] The Money Advice Trust (a national debt charity) has suggested a 'safe harbour' for debt advisers to give more focused advice to debt clients about their individual DC pension pots.[105]

In a separate report, Citizens Advice also described how, based on its experience, access to DC pension savings can impact people's access to personal insolvency and their debt repayment negotiations with creditors.[106]

### People with small sums of money in pensions, savings and investments

Micro-simulation modelling carried out by the Pensions Policy Institute in 2014 (prior to the introduction of Pension Freedom and Choice)[107] indicated that four in ten retirees will need significant support in the next 10–15 years because they are dependent to a significant degree on income from DC pensions to supplement their State Pension; they have little other savings or investments to fall back on in retirement; they have low levels of financial skills and engagement; and they are less likely to use a financial adviser or be actively targeted by a financial adviser due to their small pension pots.[108] This seems to be supported by findings from an online survey of people aged 55+ who had accessed their DC pension as a result of Pension Freedom and Choice. It showed that, while two-thirds of respondents got some help (formal or informal, with pensions guidance and financial advice the top two), 45% of respondents with household incomes below £20,000 per year got no support with their choices at all.[109]

Analysis of data provided by firms, conducted by the regulator[110] as part of the Financial Advice Market Review, showed that while advice firms do serve customers with smaller sums of money to save or invest, these tend to be among the minority of firms' customers:

- For retirement income advice post-Pension Freedom and Choice, 46% of firms' customers had pot sizes of less than £50,000, 26% had less than £30,000, and 8% had less than £10,000.
- For pension accumulation advice, 48% of firms' customers were advised on less than £30,000 of investable pension assets, and 30% of customers had less than £10,000.
- For advice on investments, 57% of firms' customers were advised on less than £30,000 of investable assets, and 19% of customers had less than £10,000.[111]

To increase access to professional advice, the final report of the Financial Advice Market Review[112] proposed that the regulator should set up a dedicated team (established as the Advice Unit in June 2016)[113] to help firms developing mass-market automated advice models to bring these to market more quickly. The evidence suggests, however, that people with small pension pots and little other provision, where debt may also be an issue, would probably benefit from 'holistic' guidance – which might include advice on welfare benefits among other things – as well as or instead of financial advice.[114]

### Guidance for expatriates

In response to the government's consultation on its Public Financial Guidance proposal, the Financial Services Consumer Panel noted that the Pensions Advisory Service and others have reported a large number of UK expatriates being unable to find regulated financial advisers willing to provide advice on transferring their UK pension. The Panel suggests this is because advisers' professional indemnity insurers are directing them not to take this type of business. It suggests that a number of advisers within the new pensions guidance service are trained to a sufficient standard to be able to provide guidance to UK citizens who now live overseas.[115]

**Complex circumstances**

There is some evidence that people with complex situations can find it difficult to access financial advice in relation to at-retirement decisions. According to the Financial Services Consumer Panel, these include people with guaranteed annuity rates and people who want to transfer a defined benefit pension to a defined contribution pension scheme, whom financial advisers may be reluctant to serve because it increases the cost of their professional indemnity insurance.[116]

**Delivery channels**

There is some evidence about people's preferences for receiving support with retirement planning, but it is fairly limited. Citizens Advice reports that, in its consumer research about preferences for pension support, 79% of respondents wanted pension support face to face; 42% by phone; and 42% from a website.[117]

More generally, a good deal of information and guidance that may help people plan for, and in, retirement is delivered online (including price comparison websites, pension calculators, consumer information websites, etc). While most individuals and households in the UK are online, there are important variations that are relevant in terms of people's ability to financially engage with retirement planning. For example, single-person households, particularly those aged 65 and over, are the least likely to have an internet connection, which may impact on their ability to plan their resources effectively in retirement or deal with things like retirement tax issues. On several different measures, internet access and use is significantly lower than average among adults with a disability, those in socio-economic groups C2DE and those on low incomes.[118]

### Access to financial services in later life

People's access to financial services can affect their ability to manage money well day to day and manage and prepare for life events both for and in their retirement. There are concerns that people in later life face problems accessing banking services to help them manage their money well (due to the growth in online banking and the closure of bank and building society branches);[119] have difficulties accessing mortgages because of age restrictions;[120] and may be unable to find affordable general insurance (such as travel insurance) because of their age.[121] There is no real evidence, however, about how access issues directly impact on people's retirement planning.

## Financial enablers & inhibitors 2: Mindset[122]

In this review, we looked for evidence about the financial and general attitudes that people need to plan for, and in, retirement and the extent to which these attitudes are present in the UK population. We found a good body of evidence (both quantitative and qualitative) that shows the main behavioural economics challenges when it comes to people's mindset about retirement planning. These challenges include: low levels of engagement; risk aversion in relation to saving and investing; and short time-horizons in planning for retirement and retirement income choices.

Analysis of the 2015 UK Financial Capability Survey to establish the 'building blocks' of financial capability indicates that the 'mindset' variables of financial confidence and financial engagement are highly correlated with financial wellbeing. It shows that older people (defined as over State Retirement Age or retired) are more confident compared to other age-groups. We saw earlier that annuity buyers who reported high confidence were unlikely to use a professional adviser (although the evidence does not assess whether these respondents were right to be confident in their own decision-making abilities); while we see below (under 'Ability') that DC savers with self-reported lower financial confidence were much more likely to find it challenging to make at-retirement decisions. There is evidence that a small but growing minority of people may be over-confident about using housing equity as their primary source of income in retirement.

## Engagement with planning for, and in, retirement

There is a general consensus (backed by a large body of qualitative and quantitative evidence) that people's behaviour when it comes to planning for retirement is characterised by a high degree of passivity and inertia.[123] In the UK, government policy is designed to capitalise on this inertia by making pension saving a default, through the automatic enrolment of eligible employees into workplace pension schemes, and the planned increase of their pension contributions.

Once in a pension scheme (whether DC or DB), UK members are unlikely to make any active investment choices or switch investments.[124] Figures published in 2014 showed that almost all the assets under management (more than 98 per cent) for the 1.8 million members in NEST – the workplace pension set up by the government – rested in the default option. Members may have chosen to remain in a default fund but, far more likely, they have little awareness or interest about how their pension savings are invested. Only 4 per cent of NEST members had registered online with the scheme to receive more information about their pension than the statutory minimum.

At decumulation, for DC savers the introduction of Pension Freedom and Choice has meant a move away from the default requirement to buy an annuity, and opened up a range of options to choose from, anytime from age 55 (as described in Box 1.1). The evidence shows that the at-retirement decision-making process can take much longer than people anticipate and may see them moving backward and forward between information gathering, investigation and decision-making (ie, it is not a smooth, linear process).[125] Based on qualitative research with DC savers working through at-retirement decisions, one report has suggested a checklist of ten common questions that people should ask themselves as they go through the process.[126]

### What explains low levels of engagement?

This low level of engagement is explained in part by the resources that people have, and whether they feel they can afford to save for retirement given their other priorities (as discussed in Chapter 2); people's relatively short time-horizons (see below); and in turn by the difficulty people have with things like understanding pensions and taxation and estimating their longevity (explored in the later section on 'Ability').

Qualitative evidence that we reviewed also shows that people find it hard to engage when there are so many 'unknowns', such as what care costs they might face and how long they might live. As we saw in Chapter 2, for people approaching retirement, low engagement means they take little or no action to plan for their retirement until close to the time they retire. For example, in qualitative research with older people aged 50+ (conducted for Age UK as part of its Financial Services Commission) respondents found the idea of planning for a very long retirement daunting; and were concerned that any savings they had would be taken away to pay for care costs. As a result, some opted for a 'live for today' approach, as they simply could not predict and plan for every eventuality.[127]

Similarly, qualitative research with working women aged 25–39 (comprising semi-structured interviews and focus groups) found some respondents fatalistic about their longer-term economic prospects, which impacted on their mindset when it came to retirement planning, as did respondents' strong negative feelings, such as feeling 'stressed' and 'shutting down' when it came to pensions. Lack of trust in their pension scheme also affected how they felt about the future.[128] Low trust and confidence in financial services among consumers, and long-term financial products in particular, is evidenced by other sources, such as the Which? Consumer Insight Survey.[129]

Anxiety about making the wrong decision can also result in people delaying action. In a 2014 online survey of pre-retirees and retired people who regarded their DC pension savings as their main pension, 20% of respondents said they had or would put off retirement planning because they were fearful of making the wrong decision.[130] This is supported by qualitative research with DC savers aged 55+, where concerns about making the wrong decision were articulated by many respondents.[131]

There was no information in the evidence we reviewed about the factors that impact on people's engagement with planning in retirement. It seems unlikely that the picture would be very different, given that low engagement seems fairly common regardless of age or life-stage.

## Attitude to risk

In his seminal work on people's perceptions of risk, the psychologist Paul Slovic found that humans are generally intolerant of risks with certain characteristics.[132] Applying his work to planning for and in retirement, we see that risks with these characteristics are seen in personal pensions and investments: the risks are perceived to be unknown (eg, in terms of investment returns), uncontrollable, and not easily reduced; the risks have catastrophic (financial) potential; and there seems to be an inequitable distribution of risks and benefits.[133]

Quantitative studies consistently show how this manifests itself in relation to pensions and retirement planning: people are generally risk-averse when it comes to making decisions about savings and investments. This is evidenced from large-scale national surveys of adults, and seems to hold true among people of different ages. In a population survey carried out by the Pensions Institute, for example, 52% of respondents said they would prefer to miss their savings goals than take investment risk, while only 12% would not.[134] An earlier survey conducted on behalf of DWP tells a similar story: 68% of respondents agreed 'It is better to play safe with your savings, even if investing in higher risk investments could make you more money', while 18% disagreed.[135]

Analysis of DC savers aged 55+ approaching and in retirement using the Wealth and Assets Survey 2010–2012 found attitude to risk to be consistent across older age-groups, with DC retirees particularly likely to agree that it is better to play it safe with savings and investments; as individuals age, this risk-averse attitude seems to harden. At the same time, most respondents agreed that a good return on investment is associated with risk, although older respondents and those on low incomes were less likely to agree.[136]

There is a well-established body of evidence (both quantitative and qualitative) that shows women tend to be more risk-averse than men in relation to saving and investing.[137] A recent online poll of 2,000 adults similarly found that fewer women than men have a stocks and shares ISA (10% of women respondents compared with 17% of men); also that fewer women than men felt confident about making investment decisions (38% of women respondents compared with 53% of men).[138] This difference in attitudes seems likely to have a bearing on the decisions that women make planning for, and in, retirement.

Aside from evidence that risk-averse attitudes seem to harden with age, there was no information in the evidence we reviewed about how people's attitude to risk influences their planning in retirement.

## Time horizons

As noted in a separate Savings Evidence Review commissioned by the Money Advice Service, there is evidence from a range of sources that having a future focus is positively associated with non-pension saving behaviour, including regular non-pension saving.[139] Based on the work of behavioural economics, however, there is general agreement that we have a tendency towards short-termism in retirement planning, with decisions heavily influenced by our behavioural biases.[140] These biases mean that (as we saw in Chapter 2) we tend to put off planning until very near to retirement; want to maximise income in the early years; underestimate our life expectancy (as we go on to discuss); and ignore the impact of running out of money in later life and the potential cost of social care in later years.

A large-scale qualitative study of DC savers, most of whom had relatively small pension pots (£30,000-£100,000) found that respondents' time-horizons for income drawdown (after they had taken a 25% tax-free lump-sum) was generally the next five to ten years; few had considered in any detail what they would live off after that time.[141] Earlier research with people aged 55+, and for whom DC pensions would be the main source of income, echoed these findings; and showed that, for this group at least, their focus was on maximising income in the short-term rather than long-term planning.[142]

While not focused specifically on savings behaviour or retirement planning, the Savings Evidence Review references evidence that people are prone to discount the future and limit their time perspective to the present or past when they are facing poverty, social exclusion or socio-economic insecurity. As a result, it may be unrealistic to expect people on very low incomes to be particularly future-focused, because of immediate concerns about their financial security.[143] This seems to accord with other evidence we have reported in this review, about the links between retirement planning, preparedness and financial resources.

## Financial confidence

Analysis of the 2015 UK Financial Capability Survey to establish the 'building blocks' of financial capability[144] indicates that the 'mindset' variables of financial confidence and financial engagement are highly correlated with financial wellbeing. Low financial confidence is a particular issue for young consumers, the unemployed and people from black and minority ethnic groups. In contrast, other analysis of the same survey shows that older people (defined as over State Retirement Age or retired) were more confident compared to other age groups: 74% of older people felt confident managing their money compared with 52% of the working population; and 65% of older people felt confident making decisions about financial products and services, compared with 41% of the working-age population.[145]

In the evidence, we reviewed for this study, we see some of the impacts of financial confidence on retirement planning. We saw earlier that annuity buyers who reported high confidence were unlikely to use a professional adviser (although the evidence does not assess whether these respondents were right to be confident in their own decision-making abilities); while we see below (under 'Ability') that DC savers with self-reported lower financial confidence were much more likely to find at-retirement decisions challenging.[146]

There are concerns that UK homeowners may be over-confident about using their housing wealth to fund their retirement, fueled by continued house price growth (which is however stronger in some regions like London and the South-East than others). A 2016 study, for example, found a growing minority of non-retired people planning to sell their primary residence to fund their retirement – 8% of survey respondents in 2015, up from 5% in 2013 – or around 3 million non-retired people.[147] For the UK as a whole, the study finds that even if someone traded down at retirement from an average detached house to an average semi-detached house, the equity released (combined with the state pension) would generate an income of barely half pre-retirement wages – which would signify a considerable drop in living standards.

## Financial enablers & inhibitors 3: Ability[148]

Retirement planning can require complex decisions that may be irreversible and have long-term consequences, made under conditions of uncertainty (eg, about life expectancy, the economy, government policy). For these reasons, the ability to plan for retirement seems quite different from, and far more challenging than, managing money well day to day (although some abilities may be common to both).

There is a robust body of evidence (both quantitative and qualitative) that shows retirement planning stretches many people's ability to the limits. This is particularly evident in research carried out in the early days of Pension Freedom and Choice, which explores how DC savers aged 55+ approach decisions as a result of the options they now enjoy. At the accumulation stage, low ability is offset to some extent by the fact that most people's pension savings are paid into a default pension fund, which they generally leave there. As we noted in Chapter 2, any retirement planning over and above paying into a pension generally only happens very close to retirement, and even then, can be fairly superficial.

The evidence we reviewed contained no information about the abilities that people might need in the years between enrolling into a pension and the time leading up to retirement. This may become clearer in future research on Pension Freedom and Choice, but it is also important to understand for people for whom DB pensions will be an important source of retirement income. Nor did we find any evidence about the abilities that people need to plan once they are in retirement, or how these abilities change as people get older. These are important gaps in knowledge that the Money Advice Service may want to fill, for example using longitudinal analysis of large-scale data and qualitative research to understand in detail the extent to which older people plan in retirement, the abilities this requires, and the challenges it poses. While there is some survey evidence about people's understanding and perception of their life expectancy, there may be merit in the Money Advice Service exploring options for further research on this topic. Tax literacy similarly is an area where further research seems warranted, for example consumer survey work to establish levels of basic tax knowledge and awareness in the general population.

The evidence we reviewed about people's ability to plan for, and at, retirement spans many topics and issues. We set out the evidence below under the themes of:

- Picturing the future
- Understanding the fundamentals
- Pensions, investments and retirement income products

- Jigsaw pieces and trade-offs.

The evidence we reviewed contained no information about the abilities that people might need in the years between enrolling into a pension and the time leading up to retirement (although some of the evidence reported in earlier sections about managing money well day to day and managing and preparing for life events is pertinent). Nor did we find any evidence about the abilities that people need to plan once they are in retirement, or how these abilities change as people get older.

In terms of people's cognitive ability to make plans in later life, an expert review of the evidence in 2014 concluded that normal brain-ageing results in an average decline in some cognitive functions (speed of thinking, working memory) across the population, whereas other functions (eg, verbal ability) are maintained. Mild cognitive impairment affects between 5% and 20% of the population aged 65 or over.[149] Other studies cited in a review commissioned for the Older People in Retirement Steering Group report similar age-related cognitive changes that can impair an older person's financial capability.[150] As part of its Ageing Population programme, the FCA plans work to understand what happens as the mind ages, and the implications for financial products and services, and their distribution.[151]

## Picturing the future

From the evidence we reviewed, the main challenges that people seem to face picturing the future relate to:

1. understanding likely income in retirement;
2. the possibility of needing to pay for care; and
3. life expectancy.

### Understanding likely income in retirement

Both qualitative and quantitative research from different sources shows that pension savers generally have little or no idea what their pension income will be in retirement or how much they need to save in order to get the income they would like; and it is very difficult for them to get a 'full picture' of their likely annual income in retirement from all their income sources.[152]

In DWP's 2012 Attitudes to Pensions survey, only 36% of private pension savers who were pre-retirement age said they had a good or reasonable idea what their income in retirement will be; 21 per cent admit to having a vague idea, while 41 per cent say they have no idea.[153] In an online survey of working-age DC members, commissioned by Barclays, two-thirds said they would like help to work out how much they should pay into their pension each month and three-quarters said they needed help to work out how much their annual income was likely to be when they retire, from all their income sources.[154]

One qualitative study with DC savers aged 55–70 found that respondents tended to over-estimate what they would need for their essential spending in retirement.[155] Based on this evidence, the authors argue for a more detailed assessment of people's needs and budget planning than is provided by the 'replacement rate' approach commonly used by policy-makers.[156]

### Paying for care

As we noted in Chapter 2, the evidence shows that relatively few people currently factor in care costs to their retirement planning, not least because of the difficulty anticipating care needs (perhaps linked to the fact that the debate about care costs and how they could and should be funded is a comparatively recent one). Qualitative research with people aged 55+, and for whom DC pensions would be their main retirement income source, found respondents reluctant to think about future care costs: they assumed they would fall back on their housing wealth or the state for help when the time came.[157]

### Life expectancy

In terms of life expectancy, in 2012–2014 a man in the UK aged 65 had on average a further 18.4 years of life remaining, and a woman had on average a further 20.9 years. The most common age at death was 86 for men, and 89 for women.[158] Between 2014 and 2039, the number of people aged 85 and over is expected to rise from 1.5 million to 3.6 million. There is some quantitative evidence that people find it difficult to gauge (or even think about) their own life expectancy, but further investigation seems merited. According to survey data reported by ILC-UK (which does not contain details of the survey methods), 67% of women in their early-50s believed they would live for less than 20 years after the age of 65.[159] A telephone survey conducted in 2014 of 1,000 adults aged 50–70 also indicated that people tended to be unrealistic about their likely life expectancy, with just over one in ten respondents believing their pension savings would have to last over 30 years.[160]

Qualitative research with 55- to 70-year-olds similarly found that respondents tended to underestimate their life expectancy relative to national projections, also underestimating therefore how long their pension savings (and any other wealth) might be expected to last.[161]

## Understanding the fundamentals

The evidence highlights three areas of concern when it comes to people's understanding of the fundamentals of savings, pensions and investments:

1. tax;
2. risk, return and probability; and
3. inflation risk

### Tax

In its review of pensioners' taxation, the Office of Tax Simplification highlighted a widespread lack of understanding and engagement with tax issues across the working population in PAYE, even before they retire.[162] Qualitative research with people aged 60–79 (including pensioners and pre-pensioners, and people on self-assessment as well as PAYE) conducted as part of the review found low understanding of concepts such as the use and meaning of tax codes and which parts of income are taxable. While most pensioners understood that they had a personal allowance and that income exceeding the allowance was taxed, many were not aware of the amount. More recent qualitative research with DC savers considering their options under Pension Freedom and Choice also found that respondents did not understand the tax rules concerning retirement income.[163] In an online survey of 5,000 UK adults aged 55–70, only 22% of respondents with a DC pension pot said they understood the term 'marginal tax rate'; and 43% said they had no understanding of the term at all.[164]

It seems very likely that low tax literacy is an issue in the general population, although we did not find any evidence in the literature we reviewed to support this. Tax literacy and how to improve it is therefore a knowledge gap that could be filled.

### Risk, return and probability

Large-scale general population survey data shows that, on the whole, people 'get' the risk-reward trade-off: 72% of respondents in DWP's 2012 Attitude to Pensions Survey said they were aware that the final value of personal pensions depends on stock-market performance, up from 61% in 2006.[165] Even so, as we saw earlier, there is strong evidence that UK adults are generally risk-averse when it comes to putting money into savings and investments, preferring cash savings to investments that put their capital at risk. Three different qualitative studies with DC savers aged 55+ making retirement income decisions under Pension Freedom and Choice similarly found respondents unwilling to take any capital risk, often preferring instead to consider cash ISAs as a 'safer' or 'better' long-term home for their pension savings.[166] Reasons for this included: respondents understood cash ISAs because they already had them; cash ISAs were considered 'safe' because the money is not invested in the stock market; and savers earn some interest (whereas investments risk losing money).[167]

This risk aversion may stem from a range of factors such as a desire for security or a lack of investment experience (as we explore below). Drawing on a number of qualitative and quantitative studies it had conducted with people eligible for automatic enrolment into a workplace pension, NEST identified a tendency for people to 'catastrophise', born partly from poor understanding of probability in relation to investment risk and partly from a natural emotional response to the idea of financial loss. In practice, this meant that people "see the chance that their money is at risk as the same as the chance of losing everything".[168]

### Inflation risk

The fact that people in the UK generally favour cash savings over investments, even for long-term savings, indicates a poor grasp of inflation risk – the risk that return on savings (after any tax has been paid) falls in real terms due to price inflation. This risk is particularly acute when interest rates are low (as they are currently) and in relation to longer-term savings. Qualitative evidence from research with people aged 55–70 shows that respondents did not consider inflation risk when making their at-retirement decisions.[169] Older qualitative research (with working-age people eligible for automatic enrolment into a workplace pension) similarly showed low understanding: inflation risk was often not something that respondents considered, despite their strong preference for low-risk, cash-based pension funds.[170]

## Pensions, investments and retirement income products

Going back at least a decade, a large and comprehensive body of research provides consistent evidence of people's poor understanding of pensions and investments.[171] There seems little indication of much improvement in people's understanding over that time. The most recent DWP Attitudes to Pensions Survey, in 2012, found that 63% of non-retired respondents felt that 'sometimes pensions seem so complicated that I cannot really understand the best thing to do'. This feeling was stronger for women (71%) than men (56%). While disagreement with the statement was higher among the highest-income households, even so 55% of those with household incomes over £44,000 agreed pensions were complicated.[172]

At least part of the reason for this poor understanding is likely to stem from the fact that (as discussed earlier) during pension accumulation people tend to stick with default pension funds and take relatively little interest in them. In parallel, UK adults have fairly limited experience of non-pension investments, sticking instead with cash savings accounts and ISAs. For example, the Wealth and Assets Survey 2010–2012 showed that 58% of British households have a savings account, but only 12% hold UK shares and 2% have overseas shares.[173]

It is perhaps not surprising, therefore, that when it comes to making at-retirement investment decisions, faced with a range of options DC pension savers can find it 'a minefield', 'bewildering', and 'impossible to understand'.[174] Qualitative research with people aged 55+ and whose DC pension was their main source of retirement income, found that respondents often had low understanding of their at-retirement options and did not feel confident to make investment decisions (and as we saw above might opt for cash savings instead).[175] Drawing on a survey of people aged 55–70 who had a DC pension that was not yet in payment, 53% of respondents with small pension pots (defined as £25,000 or less) believed income drawdown would offer a guaranteed income (which it does not) and 25% thought that drawdown carried no risks at all (which it does).[176]

There are differences by income and wealth, however. Quantitative and qualitative research with DC savers aged 55–70 in the early days of Pension Freedom and Choice found that 'early actioners' who had already made their at-retirement decisions were more affluent, had more pension wealth, often had experience of self-invested pensions or drawdown, and were more financially confident (on a self-reported measure) than those respondents who had yet to take any action. In comparison, respondents with self-reported lower financial confidence were much more likely to find at-retirement decisions more challenging.[177] Other qualitative research with DC savers found that, for those with multiple pension pots, there could be a learning curve as their different pots matured; respondents also reported learning from the experience of their spouse or partner as they faced at-retirement decisions.[178]

### Shopping around

Low engagement and low understanding may also help explain the fact that, prior to the introduction of Pension Freedom and Choice, annuity purchasers were found not to shop around but instead bought the annuity offered by their pension provider, which meant they missed out on better deals that could have a considerable impact on their income in later life.[179] Analysis of the English Longitudinal Study of Ageing showed that, other things being equal, financial literacy and numeracy (defined using a range of measures in the survey) were important factors in respondents' choices about whether to shop around for an annuity or purchase one from their original pension provider.[180] Later qualitative research with DC savers making at-retirement decisions under Pension Freedom and Choice also showed that respondents did not think about shopping around (possibly because they had so many other things to consider).[181]

### Product information

Disclosure (also called information remedies) has been a common tool used by regulators to require firms to provide consumers with information that will help them make effective choices, and so help drive competition in regulated markets. It is now acknowledged that too much disclosure can be counterproductive, as it risks consumer 'information overload'. Regulators have started to focus instead on 'smarter disclosure'.[182] The FCA, for example, has a programme of work around 'Smarter Consumer Communications'.[183]

Evidence that shows the difficulty people have understanding pensions (described above) highlights the language and jargon used by the industry as a big part of the problem. More recent qualitative research shows that DC savers making decisions at-retirement face the same challenges. The reasons why respondents found it difficult to make sense of at-retirement product information included:

- Various terms were used in different providers' information for the same or similar products and concepts.
- The terms used in product information didn't always accord with what people read in generic guidance.
- Product information was generic – but people want personalised information (and less of it).[184]

#### Investment fees and charges

The impact of fees and charges on investment returns can impact quite significantly on the actual returns that a personal investor makes. The evidence we reviewed did not provide information about people's understanding of the costs and charges they might have to pay for pensions and investments.[185] However, other research shows this to be an important topic that is difficult for individuals to get to grips with. The onus therefore seems to be on the industry to make fees and charges clearer and understandable, rather than expecting people to make sense of unclear and opaque charges.

## Jigsaw pieces and trade-offs

The evidence reported so far illustrates the complex decisions that people are expected to make in retirement planning (and now particularly at retirement). Considering different factors separately, however, risks overlooking the job that people are expected to do in terms of putting together many different pieces of the retirement jigsaw and the trade-offs that might involve. Drawing on the evidence already presented, we summarise below the types of trade-offs that people might be faced with. This is intended to be indicative rather than exhaustive.

- In the face of uncertainty, people may trade-off their future financial wellbeing in order to 'make the most of the good years',[186] in terms of planning for, at, and in retirement.
- Pre-retirement, people may face a trade-off between paying down a mortgage and putting money into a pension; in retirement, they may have to make trade-offs concerning if and how they use their housing equity to fund their later years.
- People are often not prepared to take investment risk as the trade-off for potentially higher returns over the longer term, preferring instead to stick with cash savings which may not produce adequate income over the longer term.
- People may not understand the interactions and trade-offs between providing for their own retirement (through pensions, savings and investments) and access to means-tested benefits and other financial help (such as help with health or care costs, which are in any case not particularly clear).

# 4. 'What works' in retirement planning?

Overall, in our review we found very little evidence about 'what works' to help people plan for, and in, retirement. We only identified a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning.

In the evidence we reviewed, two topics received the most attention. The first was pension communication and information, where we identified some evidence from a programme of pension research in the Netherlands that has looked, for example, at ways to improve people's understanding and assimilation of pension information. These studies are generally designed to provide an indication of causal attribution, for example using control or comparison groups. There is only limited information published about some of these studies (typically an online summary). More information may become available in the future, for example if the findings are reported in peer-reviewed academic journals (where, however, the lead-in time to publication can be lengthy). It should also be noted that the Netherlands operates a quite different pension system from the UK's, which is likely to limit the extent to which the findings can be directly applied to the UK environment.

The other topic that has received attention is financial literacy (ie, financial knowledge), where two robust meta-analyses of evaluation evidence have been carried out. All of the evidence included in the meta-analyses originated from outside the UK, however, with most originating in the US. It showed weak evidence of effectiveness for interventions that aim to improve people's retirement planning; however, based on the evidence one study sets out what effective financial education might look like.

Other than this, there are some other initiatives and ideas about supporting people's retirement planning, such as a 'pensions dashboard', retirement apps, and rules of thumb; but none of these seems to have yet been subject to evaluation (or at least the evaluation evidence does not seem to be publicly available). The gaps in knowledge are therefore large. Some may be filled by the Money Advice Service What Works Fund, and evaluation reports for the funded interventions will be published starting in 2018.

From this review, we summarise the evidence below in relation to:

- consumer engagement
- understanding likely income in retirement
- pension information and communication
- financial literacy.

Where available, further details about interventions and their evaluation are provided in the Appendix.

The Money Advice Service has commissioned other evidence reviews that are pertinent to retirement planning and financial capability, in particular a review of financial capability interventions targeted at older people carried out by ILC-UK.[187] This concluded that:

- Managing money: The review found some evidence that interventions improved levels of self-perceived confidence in managing money among older people, as well as generally high levels of satisfaction among service users. However, none of the evaluations that focused on older people's money management had a sufficient focus on impact.
- Planning ahead and life events: There was some evidence of effectiveness in terms of increasing the number of older people using support and advice services related to planning ahead and life events. However, there was a lack of robust evidence about whether behaviours of participants actually changed in practice. The review identified interventions that helped older people deal with specific life events such as bereavement and funeral planning, but none of these had been formally evaluated.

It also found little robust evaluation of initiatives to improve the digital inclusion of older people, which is relevant to retirement planning where (as we have noted earlier) so much information and help is now provided online.

# Consumer engagement

The evidence we reviewed contained three examples of ways to encourage consumer engagement with retirement planning, of which one (the pilot of a mid-life career review) has been evaluated. The other two both relate to visualising the future self as a means to engage people in retirement planning – one is an experiment carried out by academics in the Netherlands, which seems to be of high quality according to the Money Advice Service standards of evidence (based on the number of participants and the use of a control treatment); the other is a retirement app launched in the US, which does not appear to have been evaluated.

## Mid-Life Career Review

Between 2013 and 2015, the National Institute for Adult Continuing Education (NIACE) piloted and evaluated a mid-life career review (MLCR) that was delivered to employed and unemployed adults aged 45–65. As well as other topics, the MLCR covered retirement planning, for example understanding life expectancy, making decisions about retirement and planning, and reviewing long-term saving plans. According to the Money Advice Service Standards of Evidence, the evaluation should be considered lower quality. The outcomes in relation to retirement planning seem limited: the evaluation report notes that small numbers of survey respondents reported feeling more confident about their retirement decisions.[188] Further details are provided in the Appendix. In March 2017, the Cridland Independent Review of the State Pension Age recommended that people should be able to access a mid-life 'MOT' as a useful trigger point to encourage them to take stock and make realistic choices about work, health and retirement. The review recommended that this should be facilitated by employers and by the government, using online support and through the National Careers Service.[189]

## Visualizing the future self

Both these examples appear to be informed by age-progression experiments conducted in the US.[190] The first is an experiment conducted by academics in the Netherlands with employees of a large pension firm[191] as part of the NETSPAR Industry Series (see below for other studies).[192] It aimed to test if visualisations of future selves in pension communications had the potential to engage individuals in retirement planning. In summary, the experiment found:

- The tool seemed to stimulate respondents to choose more safely for retirement compared with a control group.
- Respondents shown the 'general hoped-for' visualisation (ie, a healthy elderly couple, together with relatives, in front of a large house) reported they were significantly more willing to consume less today to save more for retirement.

We found no indication whether this intervention has been used on a bigger scale with consumers. Further details about the study are provided in the Appendix.

A report published by Age UK describes a 'face' retirement app launched by a US investment firm to help people save for retirement.[193] It is targeted at people aged 18 to 34 and shows the user how they will look at various ages in the future, up to age 100. Alongside the photos are messages about the cost of living. The app does not seem to have been evaluated.

# Understanding likely income in retirement

The evidence we reviewed contained two examples of ways to help people get to grips with their likely income in retirement. One is the development in the UK of a 'pensions dashboard', the other is the use of 'rules of thumb' to estimate what income someone might need in retirement for basic needs, and to give people at and in retirement how much income to draw down. Neither of these has been evaluated.

## Pensions dashboard

First announced by the Government in its 2016 Budget, the Money Advice Service and industry has worked to develop a pensions dashboard, to bring together information about a person's pension savings into one place and so help give people a better picture about their likely income in retirement. It is believed that 'this will enable people to take control of their retirement savings and transform engagement with their pensions'.[194] Interviews with 24 working-age adults aged between 30 and 64 were conducted to get their views about the idea and to test a prototype pensions dashboard.[195] Respondents were overwhelmingly positive about the idea, particularly younger participants. They reported that the pensions dashboard might cause them to seek financial advice, increase their pension contributions and be more proactive in managing their pensions. Further details are provided in the Appendix. [196] HMT and The Association of British Insurers (ABI) started the Pension Dashboard prototype project in September 2016 to take forward the Government challenge for industry to have a pension dashboard delivered by 2019.

### Rules of Thumb

As noted in a separate Savings Evidence Review commissioned by the Money Advice Service, based on qualitative research with consumers and an expert roundtable, the Pensions Policy Institute identified two rules of thumb that could be helpful to UK individuals under Pension Freedom and Choice. These were:

- The '4% rule', where an individual could withdraw this amount of their DC pension savings in the first year and, in subsequent years, the same amount indexed by inflation. Using this rule should make the individual's pension fund last their lifetime.
- The 'secure a basic income to meet essential needs' rule helps address the risk that pension savers draw down their pension saving too quickly.[197]

These two rules of thumb do not appear to have been empirically tested with pension savers. Further work on the topic is planned by the Financial Advice Working Group, set up to take forward a number of recommendations from the Financial Advice Market Review.[198]

## Pension information and communication

The evidence we reviewed contained a number of examples of better ways to present information and communicate with people about pensions and related issues. Some of this comes from three experiments conducted in the Netherlands as part of the NETSPAR programme of pension research, mentioned above. The main findings of the NETSPAR studies include:

- In an experiment to test presenting pension information in a simplified way, participants who read the simple brochure scored higher in a test about the plan's features that participants reading the standard version. No matter which brochure participants read, the intention to take action was low and did not differ based on the brochure.[199]
- In two experiments to test the use of visualisation of pension information, visualization of information was highly appreciated and perceived as useful by all participants, particularly those with low numeracy skills. Participants with low financial literacy and numeracy skills found visual information more understandable. However, visualisation seemed to decrease their retirement planning intentions (possible reasons for this are not discussed).[200]
- An experiment with an online panel to explore reactions to interactive pension planners found that participants noticed higher levels of interactivity but did not use those extra options to their full extent (ie, they did not click on more options). Male participants seemed to prefer high interactivity and higher interactivity levels increased their behavioural intentions. The opposite was true for female participants – they preferred lower levels of interactivity and higher interactivity was counterproductive in terms of their behavioural intentions. This suggests tailoring pension communication to these preferences. Personalised information and features such as animation, sound and colours are also suggested as a way to engage people in pension communication.[201]

We found no indication whether any of these studies have been replicated on a bigger scale with consumers in the Netherlands. It should also be noted that the Netherlands operates a quite different pension system from the UK's, which is likely to limit the extent to which the findings are directly applicable in the UK.[202] Further details about the experiments are available in the Appendix.

There is also some information from the UK about good practice in the design of communications for older people. The redesign of one insurer's communications regarding its retirement process resulted in positive feedback from clients but was not independently evaluated.[203] Reported in an FCA Occasional Paper, following policyholder feedback on its retirement process, an insurer changed the letters and forms it issued to retiring policyholders.[204] This included:

- colour-coding the various retirement options so that policyholders could navigate the retirement forms much more easily
- reducing in length the covering letters to policyholders
- presenting the options available to the policyholder in the order most likely to interest them – for example, for retirement funds under £10,000, the cash option was the first option.

Since introducing the new forms, letters and processes, the insurer reported that retirement-related complaints had reduced by two-thirds. The insurer also redesigned its annual statements, so the policy value was the first thing policyholders saw when they opened the envelope. In focus groups, policyholders were found to value this new presentation.

To aid at-retirement decision-making for DC pension savers, the Association of British Insurers has co-ordinated a guide on 'Making Retirement Choices Clear', which is informed by research and user testing commissioned by the Money Advice Service and delivered by the research consultancy ComRes. The aim of the guide is to ensure that the new retirement choices open to DC savers since April 2015 are communicated in a clear language and in a consistent manner, avoiding technical terms where possible. The ambition is that the guide is used across the whole long-term savings sector. The process for supporting providers to implement the guide started in April 2017.[205]

## Financial literacy

Our evidence about the effectiveness of financial literacy interventions comes from two robust reviews of evaluation evidence.[206] One is a meta-analysis of 188 studies which looks at interventions to improve financial literacy that span consumer-credit use, insurance, banking etc, as well as saving.[207] The second (which draws heavily on, but also expands, the first) focused specifically on long-term savings and investing and only included evidence assessed to be high-quality. In both reviews, all the studies that were assessed originated outside the UK; the majority originated in the US, with the remainder coming mainly from Asia and South America.

The meta-analysis of 188 studies found weak evidence of effectiveness of interventions that focused on retirement saving.[208] The other review (perhaps not surprisingly given the overlap in coverage) also concluded that the evidence was at best mixed in terms of the impact of financial education interventions on long-term savings and investments. While the review identified that well-designed initiatives could – and did – stimulate long-term savings and investments among participants, there was also some evidence (from two studies) that provision of additional information could result in reduced engagement and saving. This review also found insufficient evidence that financial education significantly affected retirement savings, because studies do not follow up outcomes over the longer term.[209] Based on the evidence, the authors make suggestions about the characteristics of effective interventions to improve long-term saving and investing.[210]

# 5. Conclusions

This wide-ranging evidence review brings together existing sources of information about financial capability as it relates to retirement planning across the UK population, spanning planning for retirement, at-retirement decisions and planning in retirement. It is intended to inform the work of the Retirement Planning Steering Group and the delivery of the UK Financial Capability Strategy by setting out the state of current knowledge and the major gaps in that knowledge.

We identified and reviewed approximately 60 pieces of evidence, which mainly originated in the UK. These included qualitative research studies; analysis of large-scale datasets; consumer surveys; and research undertaken to test interventions and prototypes. Most of the evidence we reviewed was produced in the last five years. Following the introduction of Pension Freedom and Choice in April 2015 (which gave people greater access to their pensions), a good deal of recent research centres on people aged 55+ with defined contribution pensions. We also reviewed expert responses to HM Treasury's consultation on its Public Financial Guidance proposals, which provided some additional information not published elsewhere.

In short, there is a good body of research insight that strongly indicates retirement planning requires quite different abilities to managing money well day to day; and that it stretches many people's ability to the limits. It shows that people can struggle to engage at all with aspects of retirement planning such as thinking about their pension or thinking about long-term care; and they either put off making decisions or make decisions that are not fully thought-through. This can store up problems for the future, for example if they exhaust their pension savings early on in their retirement. The implication is that more people might benefit from help to plan for, at and in retirement. In contrast, there is almost no evaluation evidence about what that might look like or how it might be achieved.

## The quality of the evidence base

Most of the evidence we identified in our review was research 'insight', in other words research that tells us something about financial capability as it relates to retirement planning. While this insight research may contain recommendations to improve financial capability as it relates to retirement planning, it does not involve the testing or evaluation of interventions. While subject coverage is patchy (see below), nonetheless there is good research insight available from a range of sources:

- Large-scale datasets that capture detailed information about individuals and households over time, so that longitudinal as well as cross-sectional analysis is possible. Key datasets are the Wealth and Assets Survey; the English Longitudinal Survey of Ageing; and Understanding Society / the British Household Panel Survey.
- Consumer surveys commissioned by firms, trade bodies, civil society organisations, academic institutions, etc. Data is increasingly captured through online surveys, with the risk that some groups (eg, the very old, or disabled people) may be under-represented (even if the surveys are nationally representative overall).
- Qualitative research (eg, depth interviews, focus groups, deliberative research).
- Expert views, for example as expressed in responses to public consultations.
- Date provided by firms that is collected, analysed and published by the financial services regulator.

In contrast, we found very little evidence about 'what works' to help people plan for, and in, retirement. We only identified a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning. Most of these originated outside the UK, with most originating in the US.

## What does research insight tell us about financially capable behaviours and retirement planning?

In its general model of financial capability, the Money Advice Service defines financially capable behaviours as managing money well day to day; managing and preparing for life events; and dealing with financial difficulty (ie, problem debt).

## Managing money well day to day and retirement planning

The idea people who manage money well day to day are better placed to plan for retirement seems to be supported by analysis of large-scale survey data. To a large extent, this is facilitated or limited by people's financial situation and the financial resources available to them.

In terms of planning in retirement, quantitative evidence similarly highlights the importance of financial resources, but also the impact of resource depletion over time. In other words, people generally have fewer resources the older they get, as those resources are used up. Both quantitative and qualitative evidence points to a good deal of controlled spending among older people, contrary to popular depictions of extravagant 'baby boomers'. Qualitative research highlights the positive benefits for older people in retirement of income maximisation through benefit take-up. Consumer survey data (collected as part of energy market studies) consistently shows lower energy-switching among older people.

Analysis of the Wealth and Assets Survey shows that consumer borrowing among people aged 50+ declines sharply with age; but among borrowers, credit use persists over time, which may have implications for their ability to manage financially in later life. The analysis also identifies a small group of vulnerable mortgage-holders aged 75+ who have interest-only mortgages with no repayment vehicle.

## Managing and preparing for life events and retirement planning

We looked for evidence that preparing for retirement results in better outcomes for individuals and households; and evidence about the impact of divorce, bereavement and redundancy on planning for, and in, retirement. The evidence base is thin for all these issues.

There is good quantitative data about the amounts and distribution of wealth (including pension wealth) across the population; and a good body of insight research (both qualitative and quantitative) that shows a general lack of preparedness until very close to retirement. There is not a great deal of evidence about what retirement planning involves, other than saving for retirement; and the at-retirement decisions now faced by DC pension savers as a result of Pension Freedom and Choice. There is quantitative and qualitative evidence that people generally do not think about, or make plans to pay for, long-term care.

There are a small number of studies (quantitative and qualitative) that indicate people are generally not well prepared for life events such as bereavement, redundancy and separation or divorce. These highlight the negative impacts on people's income, savings and levels of debt. Analysis of the Wealth and Assets survey provides evidence about the liabilities that people have in later life, and whether or not these are felt to be burdensome.

## Dealing with financial difficulty and retirement planning

Although analysis of the Wealth and Assets Survey shows strong relationships between wealth and debt, we found hardly any evidence about the links between dealing with financial difficulty (eg, problems keeping up with mortgages, consumer credit, household bills) and planning for and in retirement. There is evidence (from one consumer survey of 500 adults) that some DC savers who accessed their pension pots in the early stage of Pension Freedom and Choice did so to pay off debts or a mortgage.

## What does research insight tell us about financial enablers and inhibitors and retirement planning?

The evidence on financial enablers and inhibitors relates almost exclusively to the shortcomings in people's ability to plan for retirement. Little thought seems to have been given to what people should think and do when they are faced with the often complex financial decisions related to retirement planning; the specific financial capabilities they need for this; or whether it is reasonable or possible to overcome these shortcomings at the level of the individual or household without changes to advice, guidance and financial services.

### Connection

The evidence on 'Connection' centres mainly on at-retirement decisions, where there is a substantial body of qualitative and quantitative research. It shows that professional advisers are a key source of help, used by between three and four in ten of savers who are eligible to access their DC pension pots as a result of Pension Freedom and Choice. Across the board, savers with larger pots are more likely to use professional advice. Studies also show the reasons why people do not get advice, where cost is an important factor, but not the only one. Others include lack of trust and lack of perceived need. We did not find much information about the profile of pension savers who make retirement-related decisions without professional advice, for example whether or not they have previously made their own investment decisions.

There is evidence (mainly expert views expressed in consultation responses, but also some quantitative and qualitative research) about apparent 'advice gaps', which include:

- holistic guidance that looks at someone's personal finances in the round
- problem debt and pension assets
- people with small sums of money in pensions, savings and investments
- expatriates
- people with complex circumstances.

There is evidence about people's access to financial services in later life (from a range of sources), which highlights among other the things the risks of digital exclusion. There is no real evidence, however, about how access problems directly relate to retirement planning.

### Mindset

There is a good body of evidence (quantitative and qualitative) that shows the main challenges when it comes to people's mindset about retirement planning. These include persistently low levels of engagement (offset in part by the automatic enrolment of eligible workers into workplace pension schemes); risk aversion in pensions and investing; and short time-horizons when it comes to planning.

Analysis of the 2015 UK Adult Financial Capability Survey shows that older people (defined as over State Retirement Age or retired) are more confident compared to other age-groups. This review found some evidence about the impact of confidence on retirement planning: for example, annuity buyers who reported high confidence were unlikely to use a professional adviser (although the evidence does not assess whether these respondents were right to be confident in their own decision-making abilities); while DC savers with self-reported lower financial confidence were much more likely to find it challenging to make at-retirement decisions. There is evidence that a small but growing minority of people may be over-confident about using housing equity as their primary source of income in retirement.

### Ability

There is a robust body of evidence that shows retirement planning stretches people's ability to the limits, particularly concerning at-retirement decisions. This relates to four main areas:

- People are unable to picture what the future looks like in terms of likely income in retirement; the possibility of needing to pay for care; and life expectancy.
- They don't understand financial fundamentals such as tax; probability in relation to risk and return; and inflation risk.
- They struggle to understand pensions, investments and retirement income products, due in part to the perceived opacity of product information but also because they have little exposure to these products during their working lives. Fees and charges are not easy to understand, and this is something for the industry and regulators to tackle, not individuals.

## What does the evaluation evidence tell us about efforts to promote financially capable behaviours and improve financial capability in retirement planning?

In short, the evaluation evidence we reviewed tells us relatively little about ways to improve retirement planning. The two topics that seem to have received greatest attention are pension communication and information and financial literacy.

Experiments carried out in the Netherlands that would meet the Money Advice Service's higher standards of evidence (but for some of which we have limited information), suggest that:

- Simplified pension information seems to result in better knowledge of plan features. No matter which brochure participants read, the intention to take action was low and did not differ based on the brochure (standard or simplified).
- Visualisation of pension information was highly appreciated and perceived as useful by all participants, particularly those with low numeracy skills. Participants with low financial literacy and numeracy skills found visual information more understandable. However, visualisation seemed to decrease their retirement planning intentions.
- Men seem to prefer high interactivity in pension planning tools and higher interactivity levels increased their behavioural intentions. The opposite was true for women. This suggests tailoring pension communication to these preferences. Personalised information and features such as animation, sound and colours were also suggested as a way to engage people in pension communication.

It is not clear whether these ideas have subsequently been tested and evaluated on a larger scale. The Netherlands also operates a quite different pension system from the UK, which is likely to limit the applicability of the findings.

In terms of financial literacy (ie, financial knowledge), two robust meta-analyses of evaluation evidence showed weak evidence of effectiveness for interventions (mainly focused on information delivered through financial education) that aim to improve people's retirement planning.

## The major evidence gaps and how they might be filled

The major gap in evidence relates to interventions that might improve people's retirement planning. Overall in our review we found very little evidence about 'what works' to help people plan for, and in, retirement. We only identified a small number of studies that tested or evaluated interventions that directly relate to financial capability and retirement planning.

There is generally good research insight into the shortfalls and problems with people's retirement planning, although there are some areas where knowledge gaps exist and further research may be useful. While the focus mainly seems to be on the individual, the research insight raises questions about the extent to which people can become financially capable enough to deal with such complex decisions and trade-offs themselves, particularly given the likely long-term impact of poor decisions made for, at, and in retirement. Under conditions of uncertainty, it seems likely that many people will continue to take risk-averse, present-biased decisions. For these reasons, there have been proposals for better default retirement income options, for example from the Strategic Society Centre.[211]

The evidence gaps we identified in this review are summarised in Table 4.1 below.

***Table 2: Table 4.1: Summary of evidence gaps***

| Area | Gap in research |
|---|---|
| **'What works' to improve retirement planning** | Poor evidence base, so significant scope for future studies, eg through the Money Advice Service's What Works Fund. |
| **Financially capable behaviours** | The links between managing money well day to day and people's ability to plan in retirement |
| | The impact of life events on retirement planning and retirement outcomes (especially in relation to separation and divorce). |
| | The impact of problem debt and other borrowing on planning for, at and in retirement. |
| | The sources of help that people use to plan for, and in, retirement |
| **Financial enablers and inhibitors** | The abilities that people might need in the years between enrolling into a pension and the time leading up to retirement. |
| | The abilities that people need to plan once they are in retirement, or how these abilities change as people get older. |
| | People's perceptions of their life expectancy and what these are based upon. |
| | Levels of tax literacy and how to improve them in the general population. |

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[11] Making ends meet was defined as “A person's ability to live within their means. Someone who is highly capable on this dimension can make their money last until the end of the month, is keeping up with the payments on household bills and any credit commitments and has more money in savings than they owe in consumer credit.” (p2)

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# Appendix 1

| Title | Outcomes/results | Standard of Evidence/methods | Description of the intervention |
|---|---|---|---|
| **Mid-Life Career Review (NIACE, 2015)** | The MLCR covered a range of issues, it was not specifically focused on retirement planning. Small numbers of follow-up survey respondents reported feeling more confident about their retirement decisions. | Lower quality according to the Money Advice Service Standards of Evidence. Evaluation comprised a follow-up survey of clients (but no baseline survey) and no control or comparison group. There was also a low response from clients to the follow-up survey (the report contains no further detail). | England only. Designed to take a holistic view of the individual's whole life, including employment, learning needs and life circumstances. It also covered retirement planning, for example understanding life expectancy, making decisions about retirement and planning, and reviewing long-term saving plans.<br><br>Delivered by 17 partners, including Government's National Careers Service Prime Contractors, voluntary organisations, learning providers, Unionlearn, Workplace Learning Advocates and Community Learning Champions. |
| **Different people, different choices. The influence of visual stimuli in communication on pension choice.**<br><br>**(Elisabeth Brüggen, Ingrid Rohde and Mijke van den Broeke, 2013)** | Found (1) some indication that the activation of possible future selves affected respondents' risk and time preferences. (2) The tool seemed to stimulate respondents to choose more safely for retirement compared with a control group. (3) The 'general hoped-for' respondents (i.e. where the visualization showed a healthy elderly couple, together with relatives, in front of a large house) reported they were significantly | Higher quality according to the Money Advice Service Standards of Evidence.<br><br>Pre-tests had 25 and 119 respondents. 2,300 people invited to take part in the pilot; 309 responses obtained; 198 responses were complete and passed the 'control' questions (no details about these online). All pilot respondents were AEGON | Experiment to test if visualizations of future selves in pensions communications has the potential to 'activate possible future selves'. Two pre-tests of material and one pilot of visualizations of future selves. Developed six |

| | | | |
|---|---|---|---|
| | more willing to consumer less today to save more for retirement - so might be the best choice for pension communications. | employees. There was a control treatment | visualizations that had two dimensions: (1) the possible-self type (hoped-for vs feared and (2) possible-self dimension - general (along dimensions of material, connective and physical selves); material (focused on material assets only); and connective (focused on social and family relationships). |

| Title | Outcomes/results | Standard of Evidence/methods | Description of the intervention |
|---|---|---|---|
| **Pensions Dashboard (Open Identity Exchange, 2016)** | In development – anticipated to transform engagement with pensions | Not applicable | 'Alpha phase' of a project to deepen understanding of a pensions dashboard. Earlier work found that presenting people with information about all their DC pension pots in a dashboard could lead to behaviour change. |
| **Simplifying Pension Information (Kees van Haaster and Thomas Post, no date)** | Participants who read the simple brochure scored higher in a test about the plan's features than participants reading the standard version. No difference was found in the subjective evaluation of the quality of information between the two brochures. No matter which brochure participants read, the intention to take action was low and did not differ based on the brochure read. | No information to allow assessment – the online summary only describes the experiment. | Participants either read an existing brochure about the basic features of a Dutch pension plan or a simplified version of the same brochure (shorter sentences and language containing more commonly used words). Both brochures had exactly the same layout and contained the same information. After participants read the information, their knowledge and comprehension was tested (e.g. did they understand how the plan worked in terms of retirement age, investment strategy, choices available?). Participants were then asked to evaluate how much they liked the material they read (e.g., ease of reading, usefulness of information, trustworthiness). Finally, participants were asked how willing they were to take action (e.g., receive more information, search for more information, enrol in the plan). |

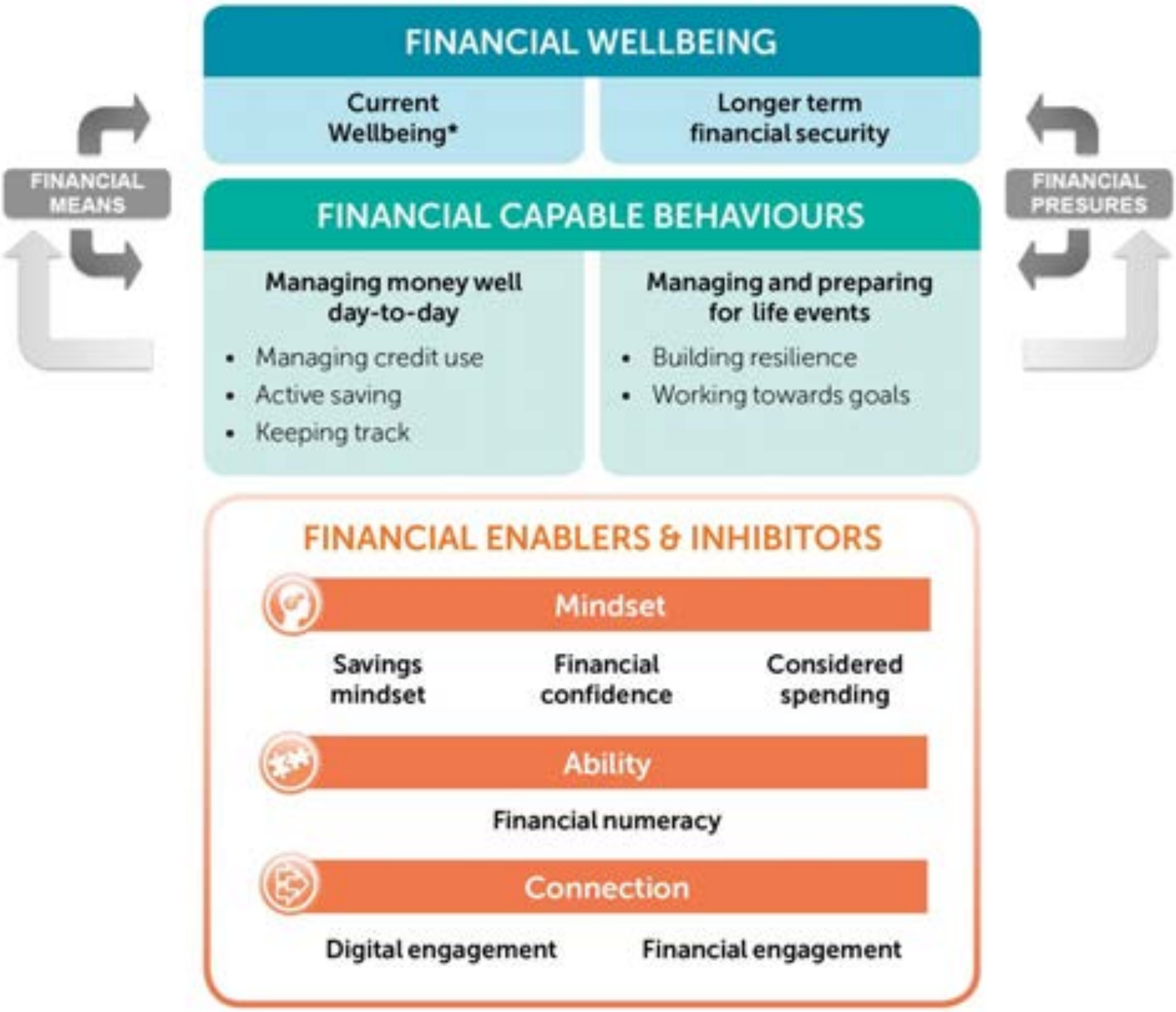
| Title | Outcomes/results | Standard of Evidence/methods | Description of the intervention |
|---|---|---|---|
| **Picture versus text: what works better in educating and activating pension plan participants? (Charlotte Behnke, Lisa Brüggen, Friederike Sandmann, no date)** | Report that visualization were highly appreciated and perceived as useful by all participants, particularly those with low numeracy skills. Participants with low financial literacy and numeracy skills found visual pension information more understandable. However, visualization decreased their retirement planning intentions. Static and dynamic visualizations did not differ in their influence on understanding, behavioural intentions, or any other communication goal. When participants were provided with information in a format that fitted their learning preference (visually vs. verbally oriented) attitudes as well as perceived and actual knowledge improved. Conclude from findings that pension plans should offer both verbal and visual communications material, to satisfy all participants and improve knowledge and attitudes. | Higher quality according to the Money Advice Service Standards of Evidence.<br><br>Study 1: 307 participants, representative of Dutch working population, were randomly exposed to one of four explanations of the effect of inflation and indexation on pension income: (1) a textual depiction, (2) a text plus static visual depiction, (3) text plus dynamic visual depiction, and (4) a control group (no information provided). Afterwards, respondents filled in a survey about their understanding of the presented information, willingness to take action, mood, perceived usefulness, and ease of use. Study 2: 700 participants from a large Dutch pension fund were randomly exposed to one of the same four explanations of how pensions are accumulated. Afterward, respondents again completed a survey. | Two experiments (one with a general population sample, one with a sample of pension savers from one large Dutch fund). Tested different forms of visualizations on the level of pension information understanding, willingness to take action, and on participants' moods, perceptions of usefulness, and ease of use |

| Title | Outcomes/results | Standard of Evidence/methods | Description of the intervention |
|---|---|---|---|
| **The Effectiveness of Interactivity in Pension Planners (Lisa Brüggen and Katharina Schmitz, no date)** | Participants notice higher levels of interactivity but do not use these extra options to their full extent. Participants in the highly interactive condition did not click on significantly more options than participants in the moderately interactive condition<br><br>Men and women responded differently to interactivity in a pension planner. Whereas male participants seemed to prefer high levels of interactivity (so that user experience values increased with higher levels of interactivity), the opposite was true for females. High interactivity levels were beneficial in increasing behavioural intentions for male participants, but for female participants high interactivity levels were counterproductive in relation to their behavioural intentions.<br><br>Involvement (i.e. behavioural intentions, number of clicked options; subjective knowledge, attitude) was found to comprise cognitive involvement and affective involvement. The three versions of the planner were not able to elicit either form of involvement. However if involvement was | Higher quality according to the Money Advice Service Standards of Evidence.<br><br>A non-probabilistic (i.e. not random selection) online panel in the Netherlands. The final data set had 285 respondents.<br><br>Control group (no information but presumably a standard planner) and two treatment groups (moderately interactive planner, highly interactive planner) | The project tested whether interactivity in a pension planner is an efficient solution for retirement planning by investigating the effect of three pension planners with varying interactivity levels on behavioural intentions, number of clicked options within the planner, subjective knowledge, attitude and user experience |

| | | | |
|---|---|---|---|
| | present, it was able to influence some of the outcome variables: cognitive involvement had a significant impact on behavioural intentions and affective involvement significantly impacted attitude and also behavioural intentions and subjective knowledge at a lower significance level. | | |

# Appendix 2

***Model of Financial capability***



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