

Uncharted territory: spending assets in retirement

Research for AEGON UK

November 2009

Introduction

- **Qualitative research conducted by OPM on behalf of AEGON UK**
- **Research into ‘decumulation’ focused on how people:**
 - **Think about and plan for retirement**
 - **Plan to access accumulated assets**
 - **Feel about the options available to them**
 - **Can be better supported, informed and equipped to plan for retirement**

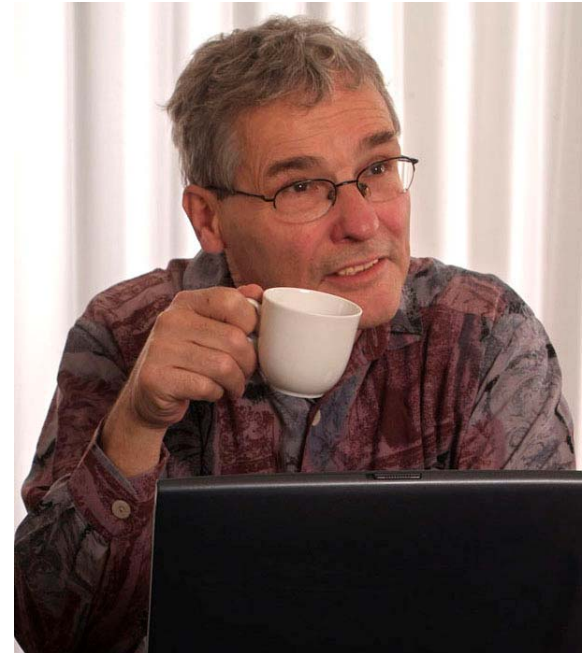


Photo by Wouter van Caspel

The challenges

1. **People believe that choices in the accumulation phase are the primary determinant of financial well-being in retirement**
2. **They lack awareness of choices about decumulation (such as income capital and insurance) which will maximise their well-being in retirement**
3. **The transition into retirement is framed inappropriately as a contrast to and reward for a working life (fulfilment)**
4. **There is too little tailoring of retirement to individual circumstances and find security/value in universal aspirations**
5. **People avoid engaging with issues such as longevity and risk. Exceptions are people with:**
 - **previous financial hardships**
 - **life planners**
 - **financially literate**

Retirement decisions: Capital

- **Decisions**
 - Take tax-free pension lump sum? (how much? invest or spend? how to invest?)
 - Release property equity? (when? how much?)
 - How to invest capital? (bank? building society? shares? other?)
- **More aware of ‘capital’ compared to ‘income’ decisions**
 - Particularly equity release – but viewed with suspicion and as last resort
 - Awareness of ability to downsize – not easy decision
- **Most opted lump sum**
 - Little discussion about alternatives, but some talk on decisions on whether to invest or spend lump sum and how
 - Concerned about impact of low interest rates at time of research

Retirement decisions: Income

- **When and how to take state and occupational pensions**
 - e.g. type of annuity; phased retirement option, etc
- **Participants appeared unaware of all options**
 - Decisions focused on annuities and when to draw pensions
 - Unaware of alternatives to annuities
 - Participants uncertain on implications of postponing state or occupational pension (in spite of DWP helpline advice)
- **Tended to choose annuities with higher monthly incomes**
 - Low awareness of index-linked annuities to help offset inflation
 - Those approaching retirement had paid little attention to upcoming decisions
 - Limited shopping around

Hyperbolic discounting?
Status quo bias?

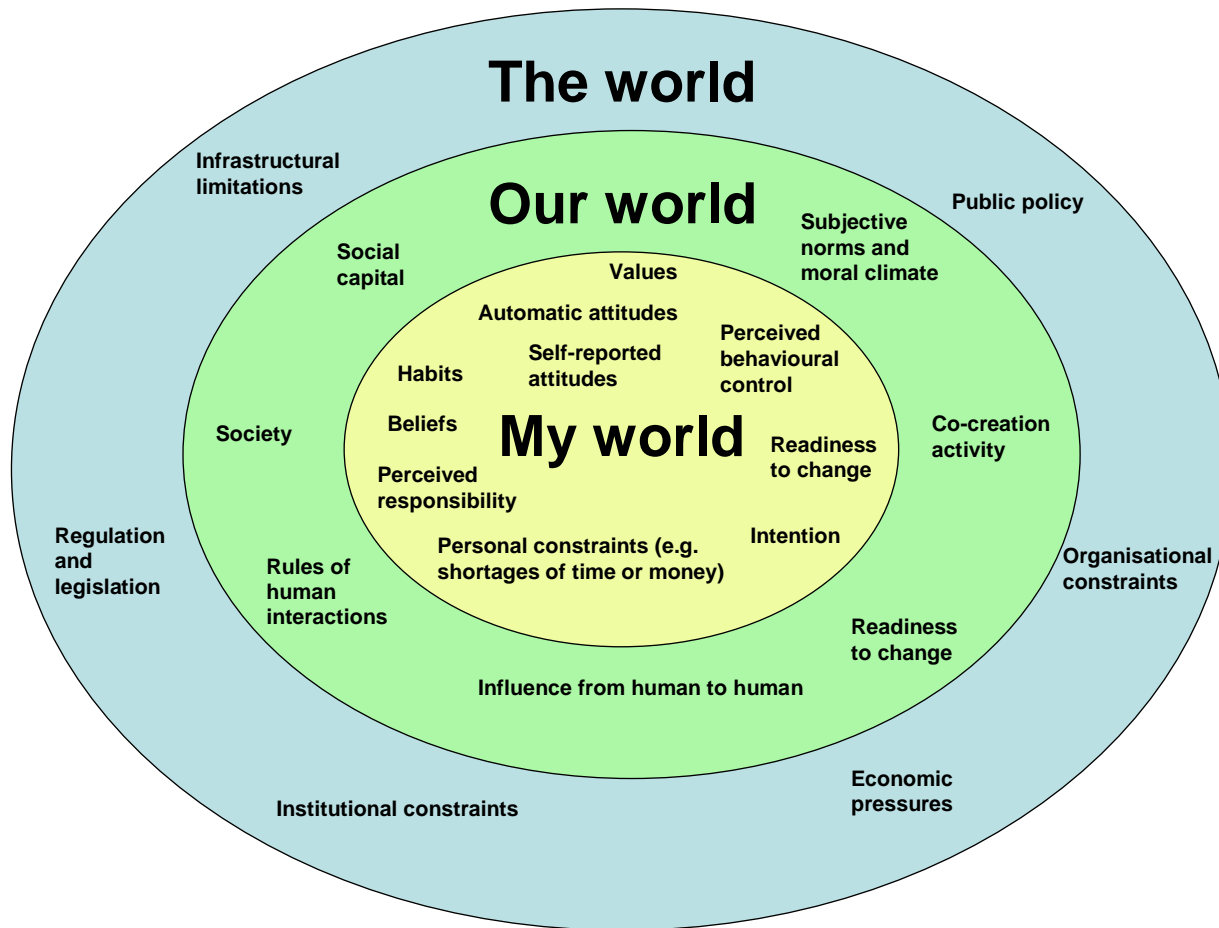
Participant workshops: Key findings

Retirement decisions: Managing risk

- **Decisions include whether to**
 - Purchase pre-paid long-term care insurance
 - Insure against future inflation
 - Plan to limit inheritance tax liability
 - Manage the risk that you outlive your pension income
- **Limited understanding in this area**
 - Limited awareness of long-term care insurance
 - Those who were aware of inflation risk had not taken action to mitigate it
 - Uncertainty what was legal to reduce inheritance tax
 - Planning to reduce risk more exceptional



Factors influencing decision making



My world

Individual attitudes, beliefs, perspectives and capacity



Photo by Andrea Gingerich

- **Participants' retirement visions often not clear**
 - Retirement 'crept up on them'
 - Fear as barrier to considering retirement income
 - Lack of appropriate frames of reference for envisioning retirement
- **Aspirations centre on freedom from constraints that characterise working lives**
- **Focus on immediate rewards of retirement, with some thought of lifestyle change over time**
- **Understanding of changing needs in retirement has limited influence on decisions**

Property is often viewed as insurance against all events in later life, and as a legacy for children. Evidence of 'double-counting'?

- **Short-term and long-term interests present conflict**
- **Feelings of personal responsibility and pride**
- **Property seen as a 'win win'- source of security and potential income in retirement**
- **Lack of understanding of annuities, stock market and impact on pensions income**
- **Perceived lack of control over factors influencing financial circumstances, e.g. ill-health**
- **Reluctant to admit the risk of declining future health and mobility**
 - **Limited evidence of people having made provision for long-term care**
 - **Even where they recognise the benefits of paying for good quality long-term care**

Our world

Shared social capital, social norms and the wider moral climate



Photo by Nancy Louie

Family and social networks

- **Participants do not generally view parents as retirement role models**
 - Expect more active and enjoyable retirements; won't 'make do and mend'
- **Participants look to peers, but disclose limited information**
- **Participants' children influence decisions on retirement income**
 - Downsizing not option if children living at home
 - Some used retirement funds to help children onto property ladder
- **Children a source of financial advice and support in retirement**

“My parents’ attitude shaped the way I look at it... They couldn’t even throw a screw or a piece of wood away...” (Woman, 56, not retired)

The world

The global financial context, financial services industry, and availability of information and advice

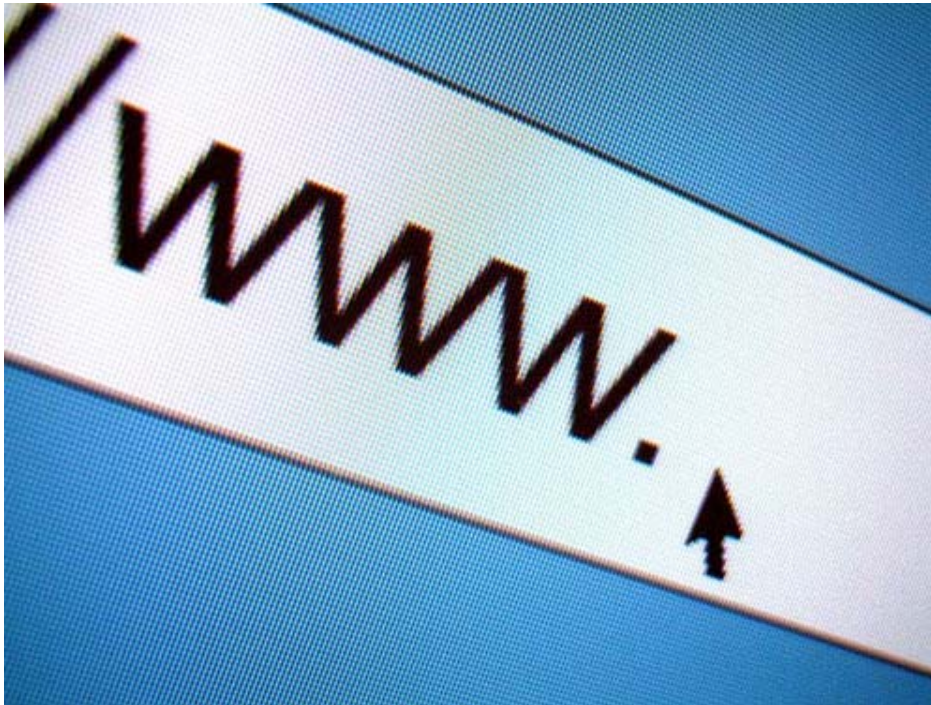


Photo by Nico Zorn

Performance of the financial and property markets

- **Financial climate had big impact on trust of financial institutions**
 - Influenced decisions on taking pensions
- **Fall in value of properties means no longer affordable to downsize or release equity**
 - Leading to change of plans for those nearing retirement (e.g. working longer)
 - Also higher anxiety and disappointment
- **Evidence of impact of downturn on value of participants' investments and incomes in retirement, e.g.**
 - Expenditure on hold (e.g. travel and property improvement)
 - Participants making different decisions about where to deposit their savings (including lump sum) – avoiding stocks and shares in favour of safer options (e.g. fixed interest back and building society bonds)

Sources and perceived value of information and advice

- **Participants used range of sources of advice**
- **Most used a reactive approach to seeking formal advice**
- **People report mixed experiences of professional advice**
 - **Positive stories characterised by desired results (e.g. early retirement) through following advice from a trusted individual**
 - **Negative experiences characterised by advice that proved to be poor**
 - **Advisors not listening to needs or acting in their own interest**
- **Those without experience of professional advice view it negatively and with distrust**
- **Informal sources (e.g. trusted newspapers, websites) seen as more reliable and independent**

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Policy implications (1)

- **Framing**
 - Policy makers should consider how people use frames
 - E.g. it may be beneficial to frame retirement as a time for being active, not only in new experiences, but in managing income and assets
- **Personal responsibility**
 - Need to foster a greater sense of responsibility in ‘my world’ domain, so people are motivated to find out how to meet retirement goals
- **Motivations for action**
 - Create a sense that decisions in retirement can make a difference to quality of life
 - People may be more pro-active in financial planning if aware of the downfall of not planning, and of psychological benefits of active planning
 - Government and industry may consider:
 - stimulating people’s thoughts about what retirement might be like – e.g. drama, seminars
 - Offering incentives or rewards for insuring against future eventualities

Policy implications (2)

- **Appropriate role models**
 - People lack accessible role models for decumulation decisions
 - Fear of insufficient income is a barrier to decision making
 - Those on reduced income feel they will continue to manage well (optimism bias?)
- **Awareness of different products**
 - Ground product promotion in how people make retirement decisions
 - industry may want to foster a greater sense of control in consumers by showing benefits of effective planning e.g. through use of scenarios

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