Average income

£20,600

<table>
<thead>
<tr>
<th>Expected</th>
<th>Reality</th>
<th>GAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>£4,900</td>
<td>£</td>
<td>£4,900</td>
</tr>
</tbody>
</table>

RETIREMENT INCOME UNCOVERED

FREEDOMS IN FOCUS
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<td>INTRODUCTION</td>
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<td>ADVISER ADVANTAGE</td>
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<tr>
<td>CONCLUSION</td>
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</tbody>
</table>
WHEN WE LAUNCHED THIS REPORT IN 2014, WE WERE ON THE PRECIPICE OF THE MOST DRAMATIC CHANGES TO PENSIONS SINCE 1921.

Announcing his remarkable pension freedom reforms, then-Chancellor George Osborne said: “People who have worked hard and saved hard all their lives, and done the right thing, should be trusted with their own finances. And that’s precisely what we will now do. Trust the people.”

In this fourth iteration of Retirement Income Uncovered we have found that UK adults aged 50-75 are continuing to feel their footing in this new world. They are using their pension freedoms practically, to pay off debts and move into part-time work, for example, topping-up income using flexi-access drawdown.

However, concerns are growing that the power granted by pension freedoms has left parts of the UK’s non-advised population at risk of making expensive mistakes. Indeed, our study has found that 45% of those aged 50-75 are worried that their pension pot won’t last their retirement.

In July this year the FCA raised concerns about consumers going into drawdown without advice, and suggested they may need additional protections.

Government and regulators must prioritise increasing financial confidence & capability around retirement planning and target a dramatic increase in the uptake of advice and guidance at the point of retirement.

Osborne had hoped that Pension Wise would bridge this knowledge gap. However, take-up has been limited. When freedoms first came into force, just 1% had spoken to Pension Wise and only 8% of respondents had spoken to a financial adviser. More people are seeking financial advice, but it is still a small part of the population (14%) and those using Pension Wise has only grown to 4%.

Our research also shows there is still a vast knowledge gap about the new world of pensions, with 20% of those aged between 50 and 75 saying they don’t understand freedoms. Worse still 27% of those that were aware of the reforms were unsure of the impact that it had on them.

Closing the knowledge gap by boosting the take up of advice should be the number one priority. Careful consideration needs to be given before introducing any huge changes to the system and the focus should remain on creating an effective single guidance body.

Until we can be sure consumers are getting the right advice to deal with today’s retirement, government must resist any further reforms. Pension freedom reforms have liberated savers but people nonetheless often distrust a retirement saving system that appears to be perennially in flux.

When freedoms were first introduced our Retirement Income Report showed that consumers were not convinced the pensions market was reliable. One in five expected the freedoms would be reversed and that feeling has not changed according to this year’s data.

Concerns Whitehall may tinker with the system help to cultivate a culture of fear that prompts many to withdraw their savings at the earliest opportunity and park them in cash.

Pension freedoms have given savers immense choice but failure to make well-informed decision creates a risk that they fail to realise the kind of secure and prosperous retirement they desire.

Government, regulators and the retirement industry have a responsibility to give consumers the products, support, guidance and advice to ensure that doesn’t happen.

STEVEN LEVIN
CEO Investment Platforms, Old Mutual Wealth
EXECUTIVE SUMMARY

SECTION 1 – EXPERIENCES OF RETIREMENT

45%
Those aged 50-75 that are worried their pension pot won’t last their retirement.

1 in 4
Over 25% of retirees were still in debt when they reached retirement.

£4.9k
The difference between current average retirement income and expected retirement income.

£2.7k
The self-employed expect to have less per annum in retirement than their employed peers.

SECTION 2 – HOW ARE RETIREES MEETING INCOME SHORTFALL?

37%
Close to 40% of upcoming retirees are still unsure when and how to access their pensions.

1/3
A third of non-retirees say that saving into a pension is not any more attractive than before pension freedoms.

32%
Of retirees who have accessed their tax-free lump sum, 32% said they would pay off some kind of debt or mortgage.

28%
Of non-retirees that plan to withdraw their tax-free cash, 28% plan to spend it.
SECTION 3 – ARE PEOPLE GETTING TO GRIPS WITH PENSION FREEDOMS?

1/3

CLOSE TO A THIRD OF PENSIONERS (30%) ARE EXPECTING TO WORK TO FUND RETIREMENT.

£1.7k

RETIREES WHO CONTINUE TO WORK PART TIME IN RETIREMENT HAVE £1,700 PER ANNUM MORE THAN RETIREES WHO DON’T WORK FULL TIME.

<10%

JUST 8% OF CURRENT RETIREES ARE USING THEIR PROPERTY TO FUND THEIR RETIREMENT.

83%

OF 50-75 YEAR OLDS EXPECT TO LEAVE THEIR MAIN RESIDENCE AS INHERITANCE.

SECTION 4 – KNOWLEDGE GAP & FINANCIAL ADVICE

47%

CLOSE TO HALF OF 50-75 YEAR OLDS WERE EITHER UNAWARE OF PENSION FREEDOMS OR DIDN’T KNOW THE IMPACT OF THE REFORMS ON THEM. THIS DROPS TO JUST 33% FOR THOSE WHO HAVE USED A FINANCIAL ADVISER.

£7k

THOSE RETIREES WHO HAVE SEEN AN ADVISER, EVEN JUST ONCE, HAD, ON AVERAGE, £7,000 MORE PER YEAR IN RETIREMENT.
When George Osborne introduced pension freedoms he met a mixed reception. Part of the population felt he was bringing pensions into the modern world by giving the public power over their money. Others feared he the reforms threatened the people’s prosperity in retirement.

However, since this report’s initiation in 2014, it appears that retirees have started to enjoy a more prosperous retirement with an additional £1,684 in their pocket per year. While this is a positive development, the current generation of retirees are still struggling with substantial debt.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Predicted Life Expectancy</th>
<th>Current Average Annual Income</th>
<th>1 in 5 has a target income in retirement</th>
<th>Over a quarter have debt, with an average debt of £31,000</th>
<th>The most popular reason for retirement is because they wanted to enjoy a ‘second life’ in retirement</th>
<th>Current retirees are benefitting from final salary schemes, with 60% saying it’s their main source of retirement income.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>86.31 years</td>
<td>£18,953</td>
<td>82.8 years</td>
<td>£20,637</td>
<td>60%</td>
<td>1/3</td>
</tr>
</tbody>
</table>
Against the backdrop of a government inquiry into pension freedoms and growing concern about people’s ability to adapt to this new world, upcoming retirees (those age 50-75, but yet to retire), are in fact more optimistic about their financial future.

<table>
<thead>
<tr>
<th>2014</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>84.3 YEARS</strong></td>
<td><strong>80.42 YEARS</strong></td>
</tr>
<tr>
<td><strong>84.7 YEARS</strong></td>
<td><strong>81.52 YEARS</strong></td>
</tr>
</tbody>
</table>

**CURRENT PREDICTED ANNUAL INCOME**

- **£23,743**
- **£25,557**

**AGE UPCOMING RETIRES PLAN TO RETIRE**

- **63.6 YEARS**
- **64.4 YEARS**

Upcoming retirees are expecting an increasing amount of their retirement income to come from the state pension, in 2017 they expected 45% of their income from the state, compared with 39% in 2015.

However, they may be overly confident about how much income they will have per year in retirement when compared to the average retiree’s current income.

Compared to 2014, retirees expect to work for longer, but have more per year when they retire. Worryingly, they drastically underestimate the potential level of debt they may have in retirement. They are becoming increasingly reliant on the state at a time when the state is increasingly moving away from its previously mothering role of supporting the population in later life.

**THE LONGEVITY GAP**

Retirees in 2017 are more pessimistic about their life expectancy, only expecting to last until their early 80s, while just two years ago they were expecting they would survive until their late 80s.

Upcoming retirees are also underestimating how long they will live and this shift could mean they don’t save enough for their later life.

Almost three-quarters of upcoming retirees are uncomfortable taking financial risks.

1 in 5 has a target income in retirement.

OLD MUTUAL WEALTH
Today’s retirees and upcoming retirees are looking to fund their extended later life through a variety of income streams.

As we look at anticipated income streams of the next generation of retirees, it is worrying that they plan to derive just under half of their income from the state. The state pension, is expected to be increasingly less generous as the government looks to find ways to cut costs. Matched with this, more of the upcoming generation are expecting to rely on inheritance, with it making close to one-fifth of their income. However, it’s less than certain they will be getting the inheritance they expect as today’s retirees may be forced to use their assets to pay for their extended later life and potentially their social care.

The UK also continues to approach a tipping point where the population with savings in defined contribution pension schemes is becoming larger than the population with final salary or defined benefit pension schemes. There is a 20% gap between the current generation of retirees using DB pensions and the upcoming retirees who expect to use them and that gap is expected to rapidly close as DB schemes become less available. Meanwhile, the use of DC schemes is growing thanks to the government’s auto-enrolment initiative.

Which of the following sources are you planning to use to fund your retirement? Please select all that apply.

<table>
<thead>
<tr>
<th></th>
<th>UPCOMING RETIREE</th>
<th></th>
<th>RETIREE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% using this source</td>
<td>Avg % of income from this source</td>
<td>% using this source</td>
</tr>
<tr>
<td>State Pension</td>
<td>87% (90%)</td>
<td>45% (44%)</td>
<td>71% (72%)</td>
</tr>
<tr>
<td>ISAs</td>
<td>22% (28%)</td>
<td>13% (13%)</td>
<td>28% (27%)</td>
</tr>
<tr>
<td>Savings accounts</td>
<td>33% (34%)</td>
<td>16% (14%)</td>
<td>37% (37%)</td>
</tr>
<tr>
<td>Other investments (stocks and shares, bonds etc.)</td>
<td>16% (16%)</td>
<td>14% (14%)</td>
<td>22% (21%)</td>
</tr>
<tr>
<td>Part-time work</td>
<td>30% (30%)</td>
<td>27% (28%)</td>
<td>11% (12%)</td>
</tr>
<tr>
<td>Property – equity release from main home</td>
<td>4% (6%)</td>
<td>26% (21%)</td>
<td>1% (2%)</td>
</tr>
<tr>
<td>Property – downsize from main home</td>
<td>12% (12%)</td>
<td>31% (24%)</td>
<td>1% (2%)</td>
</tr>
<tr>
<td>Property – buy to let / rental income</td>
<td>8% (8%)</td>
<td>31% (32%)</td>
<td>7% (6%)</td>
</tr>
<tr>
<td>Inheritance</td>
<td>15% (16%)</td>
<td>19% (20%)</td>
<td>8% (8%)</td>
</tr>
<tr>
<td>Company pension (based on salary/ earning – also known as a defined benefit (DB) pension)</td>
<td>40% (34%)</td>
<td>44% (45%)</td>
<td>60% (50%)</td>
</tr>
<tr>
<td>Company pension (based on contributions made – also known as a defined contributions (DC) pension)</td>
<td>29% (32%)</td>
<td>27% (28%)</td>
<td>19% (24%)</td>
</tr>
</tbody>
</table>

2016 numbers in brackets
Compared to pre-freedoms, more upcoming retirees are expecting savings accounts and other investments to make up more of their retirement income. This could be a result of people planning to withdraw money from their pension and investing it in either a bank account or something else. Of those respondents who said they plan to withdraw money from their pension, 28% said they would put it in a bank account, the most popular option and 19% said they would invest it in something else.

FINANCIAL IMAGE ISSUES
The Financial Conduct Authority, recently completed its Retirement Outcomes Review which similarly found that, since pension freedoms, over half of customers are taking their retirement savings and investing in something else, like an ISA, cash, buy-to-let or fixed-term deposit. This can have disastrous long-term consequences.

Taking a lump sum in a single tax year is likely to result in paying more income tax than withdrawing money gradually. And savers are giving up potential future tax-free investment growth in a pension in exchange for comparatively low-growth assets like cash, or illiquid property.

The report confirms that pensions are suffering an image problem. But modern pension products offer competitive charges, a range of investment options, liquid investments that can be easily sold to produce income, and come with the protection of the Financial Services Compensation Scheme.

Trust in pensions is a major issue and makes a strong case for government to establish a cross-party independent commission to set pension policy. The report confirms that constantly changing of policies is hurting the savings culture and a consultative approach to policymaking could help make that culture more healthy and sustainable.

SECTION 1: EXPERIENCES OF RETIREMENT
FINDING OTHER WAYS TO SAVE

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings Accounts</th>
<th>Other Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>2015</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>2017</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

RELIANCE ON SAVINGS ACCOUNTS

Savings Accounts
Other Investments
Changing work practices mean one in ten of the UK’s five million self-employed now employ themselves beyond state pension age according to separate research from the Pensions Policy Institute on behalf of Old Mutual Wealth.

THE NEED FOR A SIDECAR FOR THE SELF-EMPLOYED

The government is currently undertaking review of auto-enrolment. It needs to think about how it will adapt this successful policy to fit with current working practices. The self-employed have traditionally been left out of this policy. However, this population is set to outstrip the number of public sector workers by 2020, putting pressure on the government to tackle the growing savings gap.

A savings policy for the self-employed also needs to acknowledge that there are legitimate reasons why some self-employed people do not engage in pensions. So to increase that engagement more innovation is required. One of the biggest challenges facing the self-employed is the lack of certainty and security of income, which is particularly evident for those with lower and moderate incomes. There is evidence that they resist ‘locking away their savings’ and tend to favour certain investments like ISAs over others.

Research from the report shows the self-employed are much more likely than their employed peers to access their tax free cash to invest in something else. 40% of the self-employed plan to withdraw their tax free cash, compared to just 16% of employees. This reinforces the need for some kind of pension ‘sidecar’, a pool of money made accessible at any age in times of need.

That’s 347,000 men and 173,000 women (520,000 in total). The practice has increased in recent years, with the number of self-employed over state pension age increasing by over 20% since 2013, up from 432,000.

Over half of the retired self-employed wish they had invested more into their pension following the pension reforms.

The self-employed expect to work two years longer than their employed peers and expect to retire at 66.5 years old.

The self-employed expect to have less per annum in retirement than their employed peers. However, they are slightly more confident (4%) that they will reach their target income.

40% of the self-employed plan to withdraw their tax-free cash from their pension to invest in something else, this compares with just 16% of the employed.

The self-employed are more likely than their employed peers to take financial risks to achieve better outcomes. 32% (compared to 22% of the employed) are comfortable taking risks.

That’s 347,000 men and 173,000 women (520,000 in total). The practice has increased in recent years, with the number of self-employed over state pension age increasing by over 20% since 2013, up from 432,000.
The current set of retirees is not as well off as they are typically made out to be.

Close to one in three of current retirees held some form of debt at the point they decided to start their retirement, compared to just one in five of those not yet retired who expect to have debt when they retire.
The level of debt in retirement has been falling steadily since 2014, however retirees still hold substantial debt and, worryingly, upcoming retirees are increasingly underestimating how much they could have.

- Those who retired with debt had on average £31,011 and 50% had £40,000 or over. 20% were unsure or preferred not say the level of debt.
- The average debt at retirement for the already retired fell from £34,200 from the average reported in Old Mutual Wealth’s last retirement report, a further fall from the £34,600 reported in 2015.

### Average Debt at Retirement

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>£34,600</td>
</tr>
<tr>
<td>2016</td>
<td>£34,200</td>
</tr>
<tr>
<td>2017</td>
<td>£31,011</td>
</tr>
</tbody>
</table>

There was a dramatic 36% fall in the level of debt upcoming retirees expect to have from last year to this year. This means that now upcoming retirees underestimate how much debt they will have by over £12,000. And just 18% of them expect to have any debt.

### Expected Debt at Retirement

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>£33,600</td>
</tr>
<tr>
<td>2016</td>
<td>£34,100</td>
</tr>
<tr>
<td>2017</td>
<td>£22,016</td>
</tr>
</tbody>
</table>
Debt varies depending on what region the retirees are based in. Retirees in the Midlands have the most debt in retirement, £17.2k more than those in Scotland, who along with those in London, have the least debt in retirement.

**Key**
- Average debt in retirement for a retiree (£31.1k)
- Average expected debt in retirement (£34.1k)

*Wales and Northern Ireland were removed due to small sample sizes.*
While retirement income is increasing, people still do not have enough to cope with the unprecedented expense and length of later life. However, it’s not all doom and gloom as there are a number of ways to boost income that retirees are already using and upcoming retirees could look to use.

In recent years retirement has been viewed as a chance for people to do the things they didn’t have a chance to during their working life. For today’s retirees, most of them retired to enjoy a ‘second life’ in retirement (34%). This chimes with recent numbers from the University of Manchester and King’s College London which found that one in four retirees in the UK return to work or ‘unretire’.

Newly introduced pension freedoms could be playing a big part in the increase in part time work. We now have the choice to move into part time work, for example, and top-up our income flexibly using our pensions. So flexibility in private pensions matches the flexibility the government hopes to see in work.

Those retirees who continue to work part time have a retirement income of £22,400 per annum, £1,700 more than retirees who don’t work.

11% of current retirees are working part time

30% of future pensioners are expecting to work to fund retirement.

You said that you use part time work to fund your retirement. Why did you choose to work part time in retirement?

In order to make ends meet / to address retirement income shortfall

Maintain lifestyle

To keep busy – too young to stop yet

Maintain social interaction

I want to try a new type of work

To set up my own business

To get involved in community/charity work

Other
They are more concerned about relationships and family members, whereas men are focused on products and price. This means that women are looking for a fundamentally different conversation about their finances.

Our retirement research shows that women are far more likely to retire for family reasons and that those who have cashed out their DC pension or were looking to, were far more likely to use the money to help their family members by either gifting it now or making it part of their will.

Why did you decide to retire when you did?

- I could afford to
- I wanted to enjoy my second life in retirement
- Voluntary redundancy opportunity
- I lost interest in my job
- I suffered from ill health
- Family reasons
- I no longer had dependants
- I reached the state retirement age
- I didn’t have a choice, I lost my job
- Other

A recent report from Kantar Research has highlighted women have a different focus when it comes to dealing with their finances.
SECTION 2: HOW ARE RETIREES MEETING INCOME SHORTFALL?

PROPERTY WEALTH

At the end of last year Philip Hammond said he was concerned about the savings ratio in the UK.

When asked to diagnose this particular problem he noted that housing wealth plays an “extraordinary role” that is “bizarre” and “distortive”. The Chancellor added that the UK will need to look at the role of housing wealth when it comes to saving.

With vast amounts of housing wealth, it’s not unreasonable to assume that current retirees and upcoming retirees expect to plug the gap of their extended retirement with their property wealth. However, just 1% of current retirees downsized their home to provide them with an income in retirement with a similar number accessing funds via equity release.

In comparison, 12% of those aged 50-75 who are not yet retired will look to downsize and 4% expect to use an equity release scheme.

Downsizing, however, has proved far more important for retirees over the past year, providing on average 30% of their retirement income, compared to 16% last year (other sources can also include pensions, savings and part time work).

As well as a larger number of people looking to release value from their homes, the proportion of retirement income that comes from these sources looks set to increase too.

Of those retirees who used equity release, it accounts for just 7% of their total income, but those approaching retirement plan to secure more than one-quarter (26%) of their total retirement income from it.

Separate research on the self-employed has revealed that they have been piling money into property as a way to save for retirement.

Property makes up over half of the self-employed wealth for those aged 50-75 years old. Their employed peers, meanwhile, have 37% of their wealth in property and 48% in pensions with the remainder in other financial or physical assets.

Over half (53%) of the self-employed believe property makes the most of their money, compared to just 18% that say the same about pensions.

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Separate research on the self-employed has revealed that they have been piling money into property as a way to save for retirement.
SECTION 2: HOW ARE RETIREES MEETING INCOME SHORTFALL?
RELEASING VALUE IN PROPERTY OR LEAVING IT BEHIND?

LONG TERM CARE

Those that are receiving inheritance or expecting to receive inheritance has dropped substantially from 29% to just 19.

This could be as more people must utilise their wealth, especially their housing wealth to pay for their later life, particularly their long term care.

In their Election Manifesto this year, the Conservatives proposed extending a system whereby older people could use an equity release scheme to fund their care. However, the so-called ‘dementia tax’ was swiftly withdrawn after heavy criticism.

It wouldn’t be unreasonable to see using your house as a way to pay for care in a forthcoming green paper – as long as it is a package of proposals which people have a chance to consult on. It particularly could help the upcoming generation of retirees who don’t have time to accumulate the wealth needed to pay for care.

Many of those aged 50-75 expect to leave behind inheritance, and most of them expect that to take the form of their home, at a value on average of, £107,200.

- 83% Main residence
- 12% Property portfolio/buy to let
- 13% Pension savings
- 54% Other savings/investments
- 27% Valuables or other assets
- 4% Don’t know

DO YOU EXPECT TO BE ABLE TO LEAVE AN INHERITANCE BEHIND AS A LEGACY FOR OTHERS?

- 17% Don’t know
- 59% Yes
- 24% No

HAVE YOU DISCUSSED YOUR PLANS FOR THE INHERITANCE YOU WILL LEAVE BEHIND WITH THOSE WHO STAND TO BENEFIT?

- 48% Yes
- 52% No

IN WHAT FORM DO YOU EXPECT TO LEAVE YOUR INHERITANCE BEHIND?
SECTION 3: ARE PEOPLE GETTING TO GRIPS WITH PENSION FREEDOMS?

INTRODUCTION

Earlier this year, the Financial Conduct Authority published the first study on the impact of pension reforms on the retirement income market.

The regulator revealed more than one million pension pots have been accessed by savers since the reforms were introduced in 2015, with more than half of the pension pots emptied entirely.

The study revealed a number of concerns that people do not understand freedoms and many were paying undue tax.

Our report echoes some of those conclusions and reveals that two years on from freedoms, 20% of respondents say they are not aware of the pension reforms that came into force in April 2015. Worse still 27% of those that were aware of the reforms were unsure of the impact that they had on them.

When pension freedoms were originally announced the government was conscious that people would need help and so simultaneously announced a free and impartial guidance service – Pension Wise – for anyone wanting to take advantage of the new pension freedoms.

But despite the significance of the changes, and the publicity surrounding Pension Wise, just 4% of our respondents said they had spoken to Pension Wise regarding the reforms.

BEFORE TODAY, WERE YOU AWARE OF THE PENSION REFORMS THAT HAVE COME INTO FORCE, AND HOW THEY IMPACT YOU?

80% SAID YES 20% SAID NO

YOU SAID THAT YOU WERE AWARE OF THE RECENT CHANGES TO PENSION POLICY. WHICH OF THE FOLLOWING, IF ANY, HAVE YOU DONE TO BETTER UNDERSTAND THE PENSION REFORMS?
SECTION 3: ARE PEOPLE GETTING TO GRIPS WITH PENSION FREEDOMS?

PENSIONS PERCEPTIONS

On top of this, close to two-thirds of non-retirees don’t think or are unsure if pensions have become more attractive post freedoms.

Recently the FCA has raised concerns over pension freedoms.

This mirrors the findings of the FCA’s Retirement Outcomes Review interim report which revealed over half (52%) of the fully withdrawn pots were not spent but were transferred into other savings or investments, which was partially due to a mistrust of pensions.

In light of the new changes to how people can access their pension savings, do you feel saving into a pension has become a more attractive proposition to save for your retirement than before the changes?

25%
35%
20%
30%
15%
10%
5%
0%

Yes – I will now start saving into a pension
Yes – I will now save more into my pension
Yes, but I can’t afford to increase my pension savings
Yes, but I have reached my annual allowance
No
Not sure

Recently the FCA’s Retirement Outcomes Review interim report which revealed over half (52%) of the fully withdrawn pots were not spent but were transferred into other savings or investments, which was partially due to a mistrust of pensions.

In its Retirement Outcomes Review it said that over half of customers are taking their retirement savings and investing in something else, like an ISA, cash, buy-to-let or fixed-term deposit.

Our research shows a similar trend, however there is still a large percentage of the population that are unsure of what they will do, given the shift in pension freedoms.

Now that the pension reforms have been introduced, how do you think you will access your pension income when you retire? Please select all that apply.

25% tax-free cash and leave the rest alone
Withdraw income, other than my tax-free cash lump sum, from my pension as and when I choose
Use drawdown to take a regular amount each month
Still get an annuity with some of my pension savings
I have less than £30,000 and will take all my money out using ‘trivial commutation’
I will still get an annuity with all of my pension savings
Withdraw all my pension fund in one lump sum
I am not sure what I will do
N/A – I will not use any of my pension
Not sure
SECTION 3: ARE PEOPLE GETTING TO GRIPS WITH PENSION FREEDOMS?
SPENDING AND SAVING

You said that you are planning to take some money out of your pension. What are you planning to do with this money?

- Invest in something else: 19%
- Spend it: 28%
- Spend it on home improvements: 16%
- Spend it on a holiday: 23%
- Put it in a bank account: 28%
- Pass down to children/grandchildren when I die: 7%
- Help child/grandchild with house deposit: 12%
- Help child/grandchild with university fees: 4%
- Invest in buy to let: 3%
- Start a business: 1%
- Give it to charity / good causes: 3%
- Other: 15%

People expect to take, on average, £34,000 out of their pension and have a variety of plans for the money, but disconcertingly nearly 30% plan to put it in a bank account.
**SECTION 4: KNOWLEDGE GAP & FINANCIAL ADVICE**

**INTRODUCTION**

Advice does not just help people grasp the complexities of saving for retirement, it helps people achieve a more prosperous retirement.

- Those retirees who have seen an adviser, even just once, had £7,000 more per year.

- From those who had seen a financial adviser, as a one off or more regularly, 57% felt they had benefited from increased peace of mind. 32% felt protected against losses or bad decisions.

**LEVEL OF UNDERSTANDING**

<table>
<thead>
<tr>
<th>PENSIONS</th>
<th>LOW</th>
<th>HIGH</th>
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</thead>
<tbody>
<tr>
<td>16%</td>
<td>54%</td>
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<table>
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<tr>
<th>ANNUITIES</th>
<th>LOW</th>
<th>HIGH</th>
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<tbody>
<tr>
<td>42%</td>
<td>32%</td>
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<table>
<thead>
<tr>
<th>INCOME DRAWDOWN</th>
<th>LOW</th>
<th>HIGH</th>
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<tr>
<td>53%</td>
<td>25%</td>
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With all the complexity around pensions and the constant tinkering by government, it’s not surprising that people still struggle with how they work and the benefits they provide.

21%, or 1 in 5 people, do not know that pensions receive tax relief. 68% did not know about or incorrectly understood higher rate tax relief on pensions.

However, out of pensions, income drawdown and annuities, pensions are the most understood financial term.
Which of the following, if any, do you feel you benefited from after receiving professional financial advice?

- After the fees, I am better off financially (50%)
- It gave me peace of mind (60%)
- I am more likely to achieve my financial goals (40%)
- It ensures my finances / estate is efficient for tax purposes (30%)
- It will protect me against losses and making poor decisions (20%)
- Other (10%)

For what purposes did you use a professional financial adviser?

- On a regular basis to plan your financial future (60%)
- As a one-off to plan for your retirement (40%)
- Other (0%)

Many people who don’t use a financial adviser say they would if they had more money.

- 39% If I had more money
- 18% If they were cheaper
- 13% If I received a personal recommendation
- 11% Other
- 34% Don’t know
“EDUCATION IS THE KEY TO UNLOCK THE GOLDEN DOOR OF FREEDOM”

This quote from George Washington Carver rings true in the retirement market. Without information and support with which to make educated choices, consumers will not be equipped to make the most of pension freedoms.

Our research shows that those who have visited a financial adviser, even just once, have a significantly better understanding of financial terminology and are better equipped to make sense of and navigate the retirement system. This understanding and the advice provided help them make better financial decisions and, in the end, enjoy a more prosperous retirement.

Since 2014 we’ve tracked the path consumers are taking into retirement and have found many are adjusting their view of later life and how to fund it.

Yet it is clear many are still getting to grips with the “new normal” created by pension freedoms and many still need help and advice. This report reminds us that there continues to be a lack of understanding among consumers about the retirement system and how it operates.

As many people as possible should be able to enjoy the benefits of professional financial planning and increasing the uptake of advice must be a government priority. In his review of the state pension earlier this year, John Cridland proposed the creation of a mid-life MOT, prompting people to review their pension provision in the decades before retirement could be an effective mechanism for shepherding people toward the expert help they need.

Consumers have faced a whirlwind of change when it comes to pension legislation. With Pension Freedoms still in their infancy, any additional reforms need to be ruled-out in the near to medium term, allowing the market and the public to fully come to terms with today’s retirement choices.

The recent Autumn Budget has granted some much needed breathing-room from legislative change. This will allow advisers, consumers and providers to focus their attentions on ensuring the right retirement choices are taken. The government should make promises to keep things blissfully stagnant so they can continue without the distraction of the threat of future change.

IAN BROWNE
Pensions Expert, Old Mutual Wealth
The values of investments and the income from them, as used in income drawdown, may go down as well as up, and you may not get back what you put in.

www.oldmutualwealth.co.uk

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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