PENSION INTENSIONS: POST REFORMS

The Post-Reform Intentions of UK pensioners

As we near the General Election on 7th May, a flurry of savings and pension policies have furnished the electoral rounds. Kick-starting what is set to be a momentous year for consumers in Britain, specifically those nearing and in retirement. From 6th April the requirement to purchase an annuity with a defined contribution (DC) pension was removed. For the first time in UK pension history, those with a Defined Contribution pension were able to benefit from a tax-free lump sum from the age of 55, together with the freedom to take as little or as much of the entire pension fund (subject to tax). With the changes, a wave of speculation around the retirement decisions of a now financially empowered generation has ensued. For some, the April freedoms mean access to the largest sum of money they will ever have access to in this lifetime; the outcome of which is starting to play out in early-stage movement across the pension landscape.

For many the April reforms have brought with them new and unexplored access to personal wealth, driven by a diverse population of pension holders, each unique in their financial profiles and subsequent intentions for retirement. In the wake of the changes, Avacade Future Solutions analyses these very intentions, understanding the motivations of post-reform Pension Britain.

Key Findings:

National Awareness

- Three-quarters (75%) of UK adults are aware of the new pension reforms (equivalent to almost 38 million people)
- More than 12 million people do not know of the changes
- 9% of those 55 and older are not aware of the reforms (1.6 million)
- 91% of those 55+ are aware of the reforms (16.4 million)
- 60% of 18-24 year olds are unaware of the reforms (2 million individuals)

Awareness vs. Action

- Of those who are aware of the pension reforms and have not yet retired, almost a fifth (18%) do not intend to take all or part of their pension as a lump sum (4.8 million)
- Just over a quarter (27%) of those aged 55+ who have heard of the reforms do not intend to take all or part of their pension as a lump sum (1.28 million)
- 18.9% of the entire 55-64 UK population will, in the next few years, withdraw and utilise all or some of their tax-free cash lump sum (1.3 million)

Taking Action: Intentions

Of those who are planning to take out a cash lump sum:

- 15% will transfer their money into a savings account (2.5 million individuals)
- 14% will invest into their own home (2.3 million)
- 13% will invest into other (non-property) products (2.2 million)
- 14% aim to improve their standard of living (2.4 million)
- 14% plan go on holiday with their retirement funds (2.3 million)
- 13% want to support their children (2.1 million)

For those who are soon to retire (55+) and are planning to take out a cash lump sum:

- 21% will transfer their money into a savings account (more than 500,000 individuals)
- 13% will invest (non-property opportunities) (350,000)
- 13% are looking to go on holiday or travel (350,000)
- 9% plan to invest into their own home (250,000)
- Only 8% plan to improve their standard of living (200,000)
- A staggering 37% are unsure how they will spend or invest their money (just under 1 million)

Not Taking Action: Reasons

Only 33% – equivalent to just 1.5 million people – of those not taking out a cash lump sum are happy with their current financial plans. Almost half (47%) of the reasons given for not taking action revolve around a lack of understanding and ability to benefit from the changes. This includes:

- 19% are fearful of running out of money during retirement (900,000 individuals)
- 14% do not believe they have enough money saved to be able to benefit (680,000)
- 13% are worried about making a mistake whilst self-managing their funds (600,000)

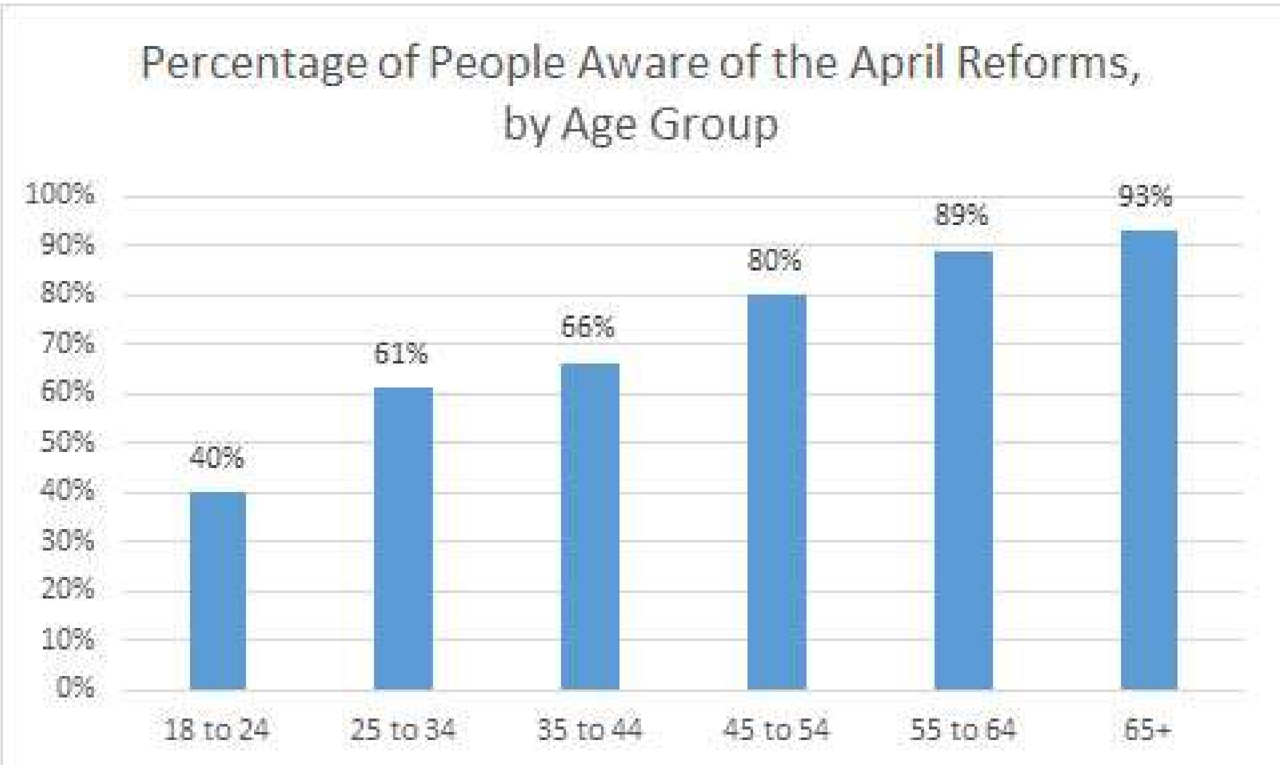
The pension reforms have placed unprecedented responsibility in the hands of consumer Britain. Whilst this offers a wealth of opportunity for the financially savvy to successfully invest and boost their retirement income, for others, the reforms have had less of a catalytic effect, with many unable to take advantage due to lack of finances and/or knowledge. The nationally representative survey found that of those who are yet to retire and aware of the pension reforms, almost one fifth (18%) – or approximately 4.8 million people – do not intend to change their plans in response. Moreover, one quarter (25%) are either unsure or have not thought about it yet – the equivalent of 6.4 million people across the UK. For those 55+ and soon to retire, 27% – approximately 1.3 million – are not changing their plans whilst 21% – almost 1 million people – are unsure or undecided.

Underpinning the rationale behind not responding to the reforms is an overriding sentiment of fear around making an irrecoverable mistake, leading to running out of income in one's retirement. Approximately 600,000 people list this as their main reason for not responding to the reforms, 100,000 of which are nearing retirement (55+).

Awareness of the Reforms

The Avacade Future Solutions' research found that across the UK, awareness of the reforms following implementation stands at 75% of the population. This figure is higher than previous estimates ranging from just over half (56%) to two thirds of the population.

Those who are 65+ and therefore most likely to have retired, showcase the highest level of awareness (93%). Promisingly, 89% of 55 to 64 year olds and 80% of 45 to 54 year olds have heard of the changes, highlighting the success in raising awareness amongst those soon to retire. Despite strong awareness across the United Kingdom, looking towards the forthcoming generations of Retirement Britain reflects a disconcerting outlook. The sample highlights a significant drop of awareness amongst younger generations, with only 56% of 18-34 year olds aware of the reforms. In a financial era where pre-emptive planning has never been more important, only 2 in 5 (40%) 18 – 24 year olds are aware of the changes, a figure that demands industry action to ensure tomorrow's retirees do not fall short of a financially secure retirement. This is particularly pertinent given the potential risks relating to future changes made to the state pension. With 26% of 18 – 34 year olds not saving and only 9% paying into their pension, younger generations may fall victim to both a minimal state and personal pension if informed action does not take place imminently.



There is little regional variation in pension reform familiarity although citizens in Northern Ireland are significantly less aware. Only 58% of the adult population of Northern Ireland are knowledgeable of the reforms compared to more than 70% for the rest of the UK.

Financial Plans in Light of the Reforms

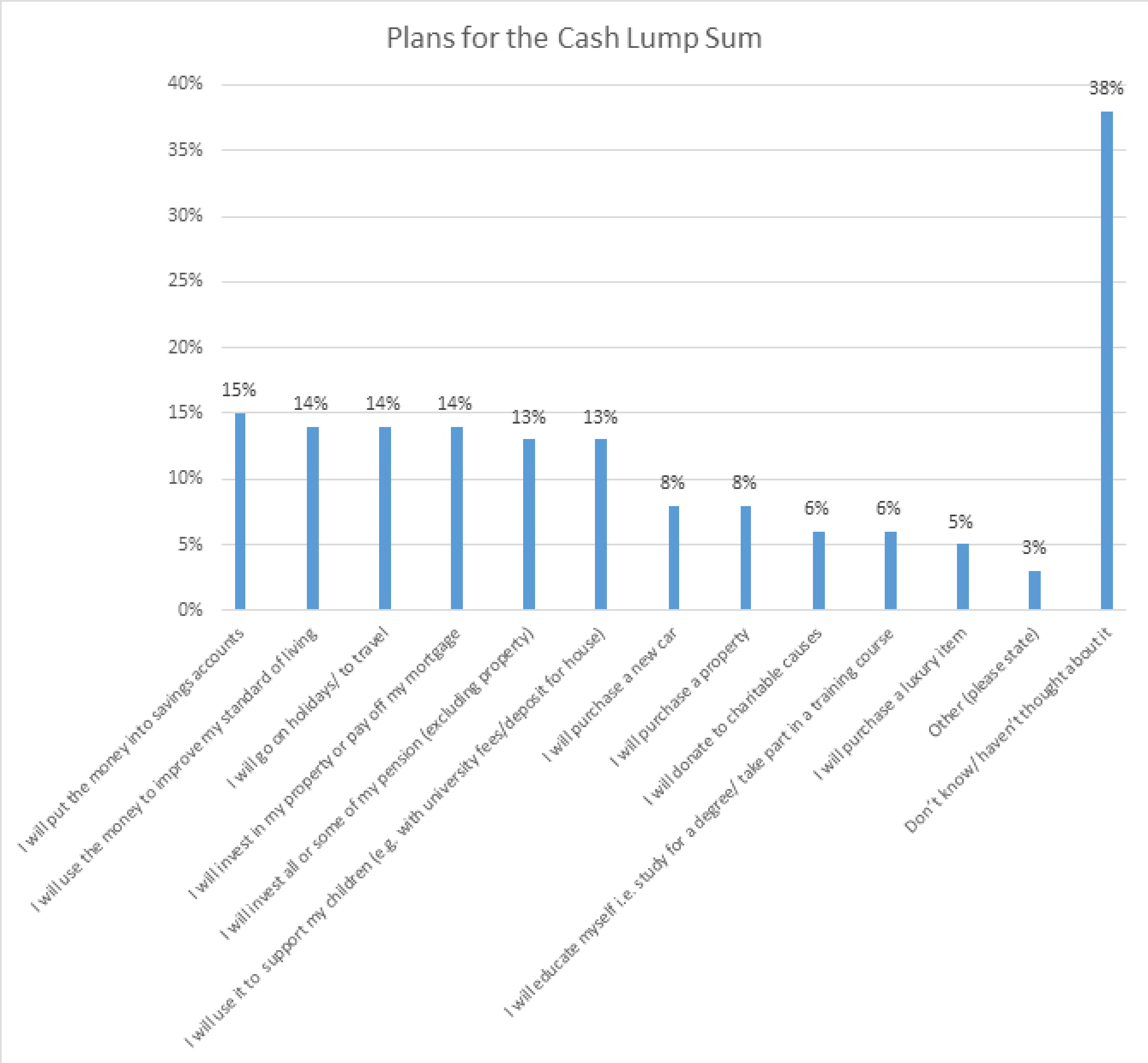
Of those who are aware of the pension reforms and are yet to retire, almost a fifth (18%) will not be taking all or part of their pension as a lump sum, with a quarter (25%) undecided. This leaves an overwhelming majority (57%) of the UK population planning to take advantage of the changes, altering their financial plan as a result. Overwhelmingly, almost 1.3 million over 55s who are yet to retire and are aware of the reforms, will not be taking all or part of their pension as a lump sum, whilst 21% of this group are still undecided (983,000).

More than one third (34%) of those aged 55+ who have heard of the reforms and are yet to retire are planning to take out a cash lump sum; this equates to almost 1.7 million people.

Despite the reduced awareness of the changes amongst younger age groups, for those who do understand the freedoms, there is greater confidence towards cashing in their pension income. For those aged 18-24, 30% plan to take out a lump sum from their retirement funds, with only 4% having decided not to touch their tax-free cash. Worryingly, exactly half of this demographic are yet to start contributing towards their pension.

For those aged 25-34, 57% - equivalent to almost 6.3 million people – will look to take a cash lump-sum once they reach the age of retirement.

Plans for the Cash Lump Sum



Analysing those who are set to utilise a tax-free cash lump sum, the research highlights a population fragmented in its decision-making, taken by no overriding course of action. Instead, the wide-ranging choices made by the public showcases the various options that are now available to the UK pension planner. These choices fall into two encompassing categories – investment opportunities or to improve their standard of living.

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Of those who plan to take part, or their entire pension as a lump sum:

- 15% will transfer their money into a savings account (2.5 million individuals)
- 14% will invest into their own home (2.3 million)
- 13% of those planning to use their cash lump sum will invest into non-property products (2.2 million people)
- Only 8% will look to purchase a new property (1.4 million people)

Beyond investment purposes, another key reason for taking a cash lump sum is to spend on improving the current financial situation either for the individual or for their family.

- 14% aim to improve their standard of living (2.4 million people)
- 14% aim to go on holiday with their retirement funds (approximately 2.3 million)
- 13% want to support their children (2.1 million)
- 8% want a new car (1.4 million)
- 5% will look to purchase luxury items (850,000)
- 6% of the respondents will support charities with at least part of their money (1 million)

Leaving the Money Alone

Of those not taking out a cash lump sum, only one third (33%) are currently happy with their current pension plan, although this rises to 45% for the over 55s. Amongst all those who are unable to benefit, despite wanting to be able to take advantage of the freedoms:

- Almost one-fifth (19%) are fearful of running out of money during retirement (907,000 individuals)
- 14% do not believe they have enough money saved to be able to benefit (680,000)
- 13% are worried about making a mistake whilst self-managing their funds (605,000)
- 11% feel that they have not received the guidance and support that they require to make such decisions (529,000)

Almost one quarter of the nationally representative sample who do not wish to respond to the reforms cite the perception that their retirement is too far away to require any form of financial planning as the reason. This is supported by the Avacade UK Savers' Index that found 89% are, alarmingly, not prioritising their pension – with more than half of the population prioritising saving towards a holiday, or not at all.

The Future of UK Pensions

Whilst the majority of the population is aware of the changes, Avacade Future Solutions' nationally representative research has highlighted a population ill-equipped to understand and manage the reforms effectively. Given the Government's founding objective behind implementing the shift – to provide freedom and flexibility to those who have worked and saved their entire life – the early-stage findings reflect widespread reticence and lack of consumer knowledge. More than 12 million adults across the country have not heard of the changes, whilst for those planning to utilise the cash lump sum, the decisions taken have been widespread with no clear course of informed financial action. Early stage activity has indicated multiple pension paths, ranging from holidays and charitable donations, to property purchase and financial support for family members.

Alarmingly, of those who do not expect to take advantage of the reforms, 47% believe they are unable to benefit due to a lack of understanding, insufficient savings and/or a fear of how they may be affected. With an average deficit of 90% between what planners hope to receive in retirement and the pension they will obtain in reality, the flagging levels of awareness amongst Pension Britain – at a time of crucial decision making – calls for vital industry action from service