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Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

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Contents

Executive Summary

Defined contribution (DC) pensions are an important aspect of retirement security for an increasing number of people. The private pensions landscape in the UK is rapidly moving from defined benefit (DB) to DC schemes, meaning that current and future retirees are more likely to be dependent on DC savings than previous generations (Pensions Policy Institute (PPI) 2021a, p.1). For example, in 1967 there were 8 million active members of private sector DB pensions, but by 2020 this had declined to 1.1 million, with 89 per cent of private sector schemes closed to new members (PPI, 2021a. p. 7). At the same time, in 2020 there were approximately 13.2 million active members in DC schemes compared to around 6.7 million in DB schemes (including public sector DB schemes) (PPI, 2021a, p.7).

Unlike DB schemes, defined contribution pensions do not offer a secure, guaranteed income for life, and since the introduction of 'pension freedoms' in 2015, the vast majority of consumers are opting against these guarantees.[1] While some consumers have benefited from these changes, others are facing significant threats to their retirement security as they grapple with the complex and confusing 'choices' about *how* to use their DC pension savings to generate retirement income.

The existing system disadvantages people who are already vulnerable to poor pension outcomes. For example, this research has shown how it is much harder for people experiencing adverse life circumstances (such as health issues, caring for an elderly relative, the shock of redundancy etc.) to engage with their DC decumulation decision. Furthermore, those from more disadvantaged backgrounds are also less likely to have access to networks of friends and family (i.e. social capital) that can help them with their decision.

The support available for those without access to regulated financial advice (typically those with smaller pension pots and/or low to middle incomes) remains largely limited to written information and checklist-based guidance. This means many people do not have access to the kind of support they need and want – i.e. a personal recommendation on the best course of action.

In this report we shine a light on the challenges faced by DC consumers in this 'new retirement landscape', and make recommendations for how the system should change to produce better outcomes. This is based on the findings of a qualitative research project, designed in close consultation with stakeholders, involving 47 in-depth interviews and 2 follow-on focus groups. Our analysis goes beyond existing accounts which largely rely on the assumptions of mainstream or behavioural economics, to show how social context influences consumers' decision-making experiences.

[1] In their consultation response to the recent House of Commons Work and Pensions Committee inquiry into the 2015 pension freedoms, the Financial Conduct Authority (FCA) state that only 10 percent of pension pots accessed for the first time were used to purchase an annuity. This compares to 90 percent prior to the introduction of pension freedoms (Written evidence from the Financial Conduct Authority (APS0061), House of Commons Work and Pensions Committee https://committees.parliament.uk/writtenevidence/36281/pdf/)

Findings

1. Consumers feel confused and overwhelmed by the DC withdrawal decision. Our findings show that many people feel ill-prepared for making the 'right' decision about accessing their DC pension savings. They are often overwhelmed by its complexity and feel they need more help in the form of personalised advice.

We argue that people need an adequate 'feel for the game' of the pension system to better engage with, and feel more prepared for, making a sound decumulation decision. That is, they need enough experience to have developed in-depth, intuitive understandings of this type of decision, and to engage with the information provided to them. While those with financial advisers can access this by proxy, non-advised consumers (typically those with fewer resources), often feel lost and consequently make a rapid, sub-optimal decision or avoid it altogether. Existing support, geared largely around written information and checklist-based guidance, does not go far enough in bridging this gap in understanding.

2. Consumers (particularly non-advised consumers) do not know who to trust when they need support with their decision. When faced with a complex and important decision, it is normal for people to seek help from trusted social networks. This is particularly the case when individuals cannot rely on past interactions (i.e. good experiences of the financial services industry) or future expectations (i.e. reasonable expectations that people in this industry will value them) as the basis for trust.

Our research finds that people making a DC decumulation decision do indeed draw on their friends, family and colleagues for support: either for specific information about what to do, or to help identify a trustworthy financial adviser. However, using the concept of social capital, our analysis shows that many consumers simply do not have access to networks of friends and family who are 'in the know' about pensions and/or can recommend trustworthy advisers. These consumers are more likely to come from less affluent backgrounds, so the difficulties of a complex and confusing decision-making process are compounded by this lack of social capital, while the potential for harm arising from a sub-optimal decision is greater for these groups.

3. Consumers have to manage high levels of confusion and uncertainty about the future when making a decumulation decision. Consumers are aware they have to manage multiple risks when deciding what to do with their DC pension pot. This includes several highly unpredictable aspects of the future, such as their health and longevity, the need for care, and stock market performance. This 'individualisation' of risk creates a sense of insecurity and adds to the discomfort and difficulty of the decision-making process.

Our analysis places this experience in the broader social and political context of *financialisation* and *asset-based welfare (ABW)*. That is, individuals are increasingly expected to interact directly with the complexities of financial markets and the financial services industry (financialisation), while their security is more and more dependent on personal assets such as savings, investments and housing equity (ABW). We argue this system is inherently impractical and unsustainable when it comes to DC pensions, particularly in a UK context where asset ownership among some groups is in decline.

Recommendations

We make the following recommendations to address the issues identified by our research:

Recommendation 1 – Create more flexible, better value products

The inherent uncertainty and unpredictability of modern life means that even the most suitable, accessible, financial advice and planning can't fully take account of potential long-term changes that may affect people's future options, or the suitability of a decision made several years earlier. There has never been greater need for innovative and flexible approaches to retirement products that can adapt to the changing needs and circumstances of individuals who have to manage their income and assets over a longer period than previous generations.

- **The FCA should introduce a charge cap for investment pathways and drawdown arrangements**
  - The current approach of awareness raising of 'open market options' and drawdown price comparator tools places too much risk on individuals, contrasted with approaches to regulation that set criteria for pricing, or the terms and conditions of product agreements, such as in the case of high cost, short term, credit.
  - The FCA should therefore also consider a more interventionist approach in the DC pensions arena. This will offer much greater protection, avoid consumers paying unnecessarily high charges, and help rebalance some of the responsibility for achieving good consumer outcomes.
- **Providers of retirement income solutions must prioritise product innovation - this should include:**
  - Considering ways to increase appetite for guaranteed lifetime income products.
  - Introducing more flexible product terms and features such as hybrid products that provide drawdown options and guaranteed income, (i.e. more 'mix and match' options), and 'inheritance guarantees' on annuities.
  - Looking to the equity release industry for insights on how to meet the challenge of developing products that meet a wider range of consumer needs and circumstances.

Recommendation 2 - Improve access to regulated financial advice and expand the scope of money guidance

Access to affordable, *trustworthy* regulated financial advice should be expanded as an option for all DC pension consumers. Through the introduction of pension freedoms, Government has created a situation where individuals are taking on too much responsibility and risk for securing an adequate retirement income. Government therefore needs to redress this balance by taking responsibility for providing appropriate protection and support. This should include:

- **A price-capped, government-backed financial advice service to overcome one of the key barriers to wider uptake of regulated financial advice: cost**
- **Money and Pensions Service (MaPS/MoneyHelper) should do more to help people identify trusted advisers, as well as raise awareness of existing support** so that people have a better idea of where to start. Guidance (e.g. Pension Wise) and regulated advice firms need to work much more closely together, so that referrals can be made to advice firms, or a panel of trusted advisers, as part of a more seamless journey from guidance to regulated advice.
- **Government should invest in an awareness raising campaign to help people find good quality advice**
- **Expand the scope of money guidance (Pension Wise), ensuring face-to-face contact is available**
  - People want and need to be able to see the outcome of different decumulation options, based on their current pension pot, and be given very clear guidance about the pros and cons of each of these options. Non-advised consumers, in particular, would also like clearer guidance on withdrawal strategies based on real life scenarios and relatable examples.

Recommendation 3 – Expand and develop access to alternative forms of face-to-face decision-making support, such as workshops or workplace seminars

This research has highlighted the need for more varied and engaging formats of information and support, far beyond that which is currently provided. Despite the potential effectiveness of expanding access and developing existing online tools, there is also scope for new interventions which utilise individuals' preference for face-to-face support and the need to develop peer networks.

- **Employers should invest in DC workplace seminars similar to existing DB seminars to help their employees build cultural and social capital**
  - Many participants who had a combination of defined benefit and defined contribution pensions noted the usefulness of workplace seminars that had been provided for their DB scheme. These generally involved presentations from IFAs/advice firms, and the opportunity to ask questions and talk to others going through the same process.
- **Other agencies such as credit unions, local authorities and retail banks should consider the role they can play in offering these types of seminars to self-employed people**

Introduction

The Pension Schemes Act 2015, along with the Taxation of Pensions Act 2014, have given people more flexibility and choice over how they access their defined contribution (DC) pension savings. The reforms are part of a wider shift towards financialisation and asset-based welfare. This requires consumer citizens to make increasingly complex financial decisions in an unpredictable world, while also bearing the risks for the uncertain consequences of these decisions. Some DC consumers have benefited from these changes but others are facing significant threats to their retirement security. As more people with DC pensions reach retirement age, the potential for harm will increase if the consequences of these reforms are not properly understood and adequately addressed.

In this new retirement landscape, the balance of responsibility for securing a decent standard of living in retirement has shifted significantly from states and business to individuals, where people are required to be more financially capable in order to make 'economically-rational' decisions. Yet, the financial means and capability to manage these risks effectively are not evenly distributed, so that those with fewest resources are most likely to suffer when risks are individualized rather than pooled.

This report draws on new qualitative research with consumers of DC pensions to offer greater understanding of the decisions they make, how they make them, and the key risks and challenges they face. Complimented by stakeholder views, it also pays attention to the appropriateness of information and advice as a model for adequate consumer protection. This approach to protecting DC consumers is aligned with the Financial Conduct Authority's broader regulatory framework geared around information disclosure and advice. It assumes that, with the right information, knowledgeable consumers can take responsibility for their own financial well-being and exert the pressures on providers that drive a competitive and innovative market. However, the findings in this report reveal that money guidance (the primary consumer protection method put in place to accompany the 2015 reforms) does not go far enough in providing effective decision-making support. Furthermore, the unequal distribution of access to regulated financial advice only serves to reproduce and even strengthen existing inequalities.

Seven years on from the introduction of pension freedoms, our findings add to the limited body of existing evidence on DC decision-making and raise a number of salient questions about the policy changes needed to improve consumer outcomes. Unless we see a rebalancing of responsibility for later life financial security, and greater effort from industry and government to protect people from poor retirement outcomes, the reforms look set to offer greater risk and insecurity, casting a long shadow over freedom and choice.

Methodology

This report draws on in-depth qualitative research with defined contribution (DC) pension consumers and insights from industry stakeholders to shed light on the experiences, risks and challenges of pension decision-making in the new retirement landscape.

Research Questions

Our three key research questions were:

1. What decisions are people making in relation to their DC pension savings, and how are they making them?
2. How can people be supported to make optimal decisions? E.g. what kinds of information and advice do people need to make decisions that are suited to their immediate and long-term needs, objectives and circumstances? When do they need it, and in what way?
3. What other mechanisms and strategies would help to improve consumer outcomes?

Sampling and participant recruitment

Participants were recruited to the study with the help of a professional fieldwork and recruitment company[2]. We aimed to interview 50 participants and achieved a final sample of 47. We also conducted two follow-on focus groups with a sub-set of this sample (19 participants), as well as two stakeholder workshops, one before and one after the main fieldwork phase. We supported the recruitment process by supplying the company with a screener and recruitment questionnaire, developed in close consultation with pensions experts from a range of sectors during our first stakeholder workshop (see Table 1).

Table 1 Organisation/individual representation at stakeholder workshops

Pensions Policy Institute (PPI)	Financial Services Consumer Panel (FSCP)
Department of Work and Pensions (DWP)	University of Edinburgh
Money and Pensions Service (MaPS)	Independent Consultant - Former Age UK
Ignition House	Independent Consultant – Former MaPS
Just	Independent Consultant - Former Which?

We employed a maximum variation sample relating to key socio-demographic characteristics, as well as a number of inclusion and exclusion criteria. Quotas were set to ensure a good mix of respondents by location, gender, age (55-70), housing tenure and marital status. Minimum quotas were set for Black and Minority Ethnic participants.

[2] Acumen Fieldwork Ltd

Our sampling screener indicated that participants must have retired (either semi or fully) since 2015, be accessing their DC pension (beyond the tax-free lump sum) and be primarily reliant on their DC pension (or a mixture of state and DC pension) for their retirement income.[3] Further inclusion criteria included an annual household retirement income of no more than £30,000 if living with a partner/ spouse and no more than £20,000 if single (this was not including any part time employment income). We based this on the Pension and Lifetime Savings Association (PLSA) retirement living standards[5] which are used to indicate the income needed for a minimum, moderate and comfortable standard of living. They can briefly be summarised as 10k-20k-30k for individuals and 15k-30k-45k for couples. These are not without limitation, not least because of some of the assumptions upon which these standards are based (e.g. that people tend not to reach retirement with a mortgage, rent or social care costs), and we acknowledge this. However, as participant recruitment got under way, it became increasingly clear that we needed to loosen these criteria further in order to achieve a sufficient sample size. Difficulty recruiting people largely dependent on DC pensions for their retirement income is something experienced by research teams in previous studies (e.g. NatCen, 2020; Ignition House, 2017). As such, the annual household income of participants in our study ranges from less than £20,000 to no more than £45,000 for couples (see Table 2 for a summary of sample characteristics).

Table 2 Summary of study sample characteristics[5]

Sample characteristics	No.
Age	
55-59	12
60-64	14
65-70	21
Gender	
Female	27
Male	20
Household retirement income	
£20,000 or less	14
£20,000-£30,000	20
£30,000 - £45,000	13
Pension type	
DC	28
DC and state pension	14
DC and DB	5
Decumulation decision[6,7]	
Drawdown	15
Annuity	10
Full withdrawal	3
UFPLS	1
Yet to access	9
Other/ unsure	9
Advice	
Advised	17
Non-advised	30

3 Despite these stated criteria, a small number of participants in our final sample were yet to access their DC savings beyond the lump sum.
4 https://www.plsa.co.uk/press-centre/press-releases/article/PLSA-launches-Retirement-Living-Standards
5 Sample characteristics are based on self-reported information provided by participants.
6 Please note, where a participant had two or more DC pots they decided to withdraw we have given details of the decision relating to the biggest pot.
7 33 participants had also taken a lump sum from their pension pot.

We also sought to recruit participants who had received regulated financial advice in relation to their pension decision-making, as well as those who had not. The existing research on consumer experiences of pension freedoms, such as that conduced for the FCA Retirement Outcomes Review, has focused solely on 'non-advised' consumers, given the assumption that the choices these consumers make will be more detrimental to their income in retirement. However, we were keen to explore the role of financial advice in people's decision making, and the extent to which advised consumers felt that this process enabled them to understand and navigate the options effectively and make informed decisions.

We also aimed for a minimum number of participants who had received a guidance appointment through Pension Wise (but had not received regulated financial advice).

Interviews and focus groups

The consumer interviews, which took place in the summer of 2021, explored participants' personal circumstances, the DC pension decision and the decision-making process (including the role of guidance and advice); and wider views on pensions and retirement.

To avoid limiting the geographical spread of the sample, we conducted the individual interviews over the phone, and, due to the Covid 19 pandemic, we conducted our stakeholder workshops and the follow-on focus groups online. We intended for these to be face-to-face, but the online approach to focus groups enabled us to expand the composition and invite participants outside of the Midlands area. Interviews lasted 50 minutes on average, all were audio-recorded, and, with participants' consent, fully transcribed. Participants have been given pseudonyms and the quotations used do not contain identifying information

Participants were given £40 as a 'thank you' for taking part in interviews, and £50 for taking part in focus groups. We analysed the interview transcripts thematically using the 'Framework' analysis method (Spencer et al, 2003) to interrogate patterns within the data. This was done along key themes such as the DC decision and factors influencing this; the role of advice and the decision-making process; and attitudes to housing assets, care and retirement security. This involved a process of constructing overarching thematic charts, enabling us to unpack broad themes before developing smaller charts containing refined sub-themes. Each row in the matrix represented an interviewee while each column contained data from their transcript relating to the particular theme/sub-theme. Organising the data in this way enabled us to explore the range of responses and the differences and similarities across cases.

After conducting the in-depth interviews and carrying out some preliminary analysis, we conducted two focus groups with a sub-set of participants from the interview sample. We divided these into advised and non-advised groups. They lasted approximately two hours and were audio recorded. We explored participants' understanding and awareness of DC pensions and the benefits and limitations of information/advice; what information, advice or guidance they thought would make pension decision-making easier and what else they might find helpful. We also explored views on default investment pathways, as well as a number of other defaults and alternative interventions.

Ethics

The study received ethical approval from the University of Birmingham's Ethics Committee. All participants were provided with detailed information explaining the purpose of the research, what taking part would involve and how the data would be used. All participants completed a consent form and gave permission for the interviews and focus groups to be recorded.

The risks and challenges of DC pension decision-making – a social context perspective

A growing body of evidence points to the risks and challenges facing DC pension consumers. In its Retirement Outcomes Review, the Financial Conduct Authority (FCA, 2018) raised a number of issues regarding the potential harms of the reforms. This included concerns about the increasing number of people entering income drawdown arrangements without taking financial advice or shopping around. It also expressed worries about the number of consumers fully withdrawing their DC pension pots to move savings elsewhere, including low-interest bearing current and savings accounts. More recent FCA data for 2019/20 indicates that 50 per cent of pension plans were accessed without advice or guidance being taken by the plan holder. Furthermore, a recent Social Market Foundation report (Corfe et al, 2022) found that only 14 per cent of those accessing their DC pension pot for the first time had used Pension Wise. This study also found that while the service appeared to improve knowledge, its impact on behaviour was less clear, with over half of participants saying they had not taken any action after using the service.

Reports of fraud and scam activity targeting DC pension savers has also fuelled concerns about unintended consequences following the reforms (House of Commons Work and Pensions Committee, 2021), while other research has highlighted the difficulties consumers face navigating a highly complex system and making informed decisions (Natcen, 2020; Ignition House, 2017). Studies have also highlighted supply side issues which compound these challenges such as high fees (both of pension products and the cost/accessibility of financial advice) (Lindley, 2019; NatCen, 2020), the risk of market downturn, and low levels of market innovation and choice (Lindley, 2019).

In response to these risks, the FCA has taken steps to address the harms and help consumers make better choices before accessing their pension savings, as well as at the point of making a decision and throughout their retirement. These include[8]:

- **Better communications, support and guidance before consumers access their pensions. 'Wake-up' packs (officially termed 'open-market options statement') will now:**
  - incorporate a one-page 'headline' document, in clear and accessible language.
  - be sent earlier in the process, from age 50, and every five years thereafter until the pot is accessed.
  - include risk warnings, from age 50 onwards.
- **At the point of entering drawdown or buying an annuity**
  - Providers must now offer non-advised consumers ready-made drawdown investment solutions, within a simple choice architecture ('investment pathways'), which reflect standardised consumer objectives.
  - The FCA are also working closely with MoneyHelper (the consumer facing service of the Money and Pensions Service (MaPS)) to develop a drawdown comparator tool.

[8] For a more detailed list of current support available to DC consumers, see Appendix 1

- **Acknowledging that consumers still need information and support once they have entered drawdown, the FCA is consulting on:**
  - a proposal that providers should send information to their customers in drawdown annually, whether or not they are currently drawing an income from their pot.
  - a proposal on whether firms should remind their customers annually of their chosen investment pathway and their ability to switch.

While potentially beneficial, all of these 'remedies' continue to rely on the 'information and advice paradigm' – i.e. the assumption that, with the right information, knowledgeable consumers can make informed decisions that are best suited to their needs, circumstances and objectives. As outlined in the introduction, a key aim of our research was to explore the extent to which such consumer protection measures do in fact offer adequate decision-making support.

This report adds to existing knowledge by providing a deeper understanding of the subjective consumer experience, drawing particular attention to how aspects of the social context shape individual outcomes (Bruch and Feinberg, 2017, p. 207). To fully understand the nature and process of people's DC pension decisions, we look beyond both the traditional economic rational actor model and more recent behavioural economic approaches. With respect to the former, these perspectives assume people are rational and self-interested and that they calculate choice based on utility maximisation (Vallet and Pressman, 2020, p.144). Regarding the latter, whilst challenging this strong version of economic rationality, they nevertheless present a picture of individuals and their behaviour as divorced from their social and cultural contexts.

In contrast, our report takes several insights from the discipline of sociology to apply a *contextual* approach to understanding the issues facing DC consumers. In applying this approach, we are better able to acknowledge and understand the complexity of this process, without denying the importance of cognitive bias identified by psychology and behavioural economics. In short, it allows us to appreciate that the kinds of decisions people make, when they make them and how they make them are influenced by social, cultural, economic, and cognitive factors (Clark and Straus, 2007; Clark et al, 2012).

We begin by outlining the kinds of decumulation decisions people are making and how they are using their money. We then explore three major themes relating to the risks and challenges of DC pension decision-making. We discuss each of these in turn, offering in-depth explanations for *why* consumers find this decision-making so difficult:

- **People are confused and sometimes overwhelmed by the decision they have to make**. People's general confusion around their DC pension decumulation decision is already well documented. However, current policy remedies focus on either improving the information available to people, or changing the way information and choices are presented to overcome cognitive biases. In contrast, our research offers new insights to show how existing policy and research *underplays* the importance of experience with pensions. We draw on the insights of sociologist Pierre Bourdieu to argue that, to feel confident, individuals need to develop an intuitive *feel for the game*. This kind of knowledge can only be gained through several months or years of practical experience, and this requirement is not taken account of in current policy. Indeed, people without financial advisers are left particularly vulnerable by the current system.
- **People are not always sure how or where to find trusted information and advice to help them navigate the complexities of the DC decision-making process**. People will often draw on existing

trusting social relationships and networks (social capital) to help make complex decisions, or to identify trustworthy support. However, many people do not have access to these kinds of networks. Furthermore, access to such networks is highly unequally distributed, thereby strengthening and even reinforcing existing inequalities.

- **The future is inherently unpredictable and this creates a sense of insecurity for consumers who are required to make a decumulation decision.** This section focuses on the multiple risks people now have to manage regarding highly unpredictable aspects of the future, and how this impacts their experience of the decision-making process. These risks include: health and longevity risk, the need for care, stock market performance, and the needs of children and grandchildren. It pays particular attention to the unsustainability of a system which places significant responsibility (and associated risk) on individuals to make the right decisions and secure their own retirement security. It considers the suitability, and desirability, of a system characterised by a greater degree of shared responsibility.

We conclude the report with a set of policy recommendations for achieving better consumer outcomes.

What decumulation decisions are people making and how are they using their money?

Our research shows that the decisions people make when first accessing their DC pension savings are often reactive to current circumstances and influenced by multiple factors. They do not typically reflect 'rational', long-term calculations about the risks and rewards of different options, as is often assumed by a more traditional economic rational actor model of decision making. Instead, these decisions are influenced by factors such as a consumers' sense of trust, the needs of those close to them, and the 'common sense' but questionable assumptions they make about an unpredictable future.

Before exploring the decision-making *process*, we first outline the kinds of decumulation decisions participants were making and how they were using their money.

Main access decision

Participants who had already made their access decision were using their DC pension pot for a variety of purposes. This included:

- Using the money as their main source of retirement income, either through drawdown or annuity.
- Drawing down savings as and when needed.
- Using it to 'top up' their income prior to the state pension 'kicking in'. For instance, a small number of participants had opted for a fixed-term annuity to last until state pension age. Others were drawing down to achieve the same result.
- Accessing their tax-free lump sum but leaving the rest invested.

Lump sums

The issue of how people are using their tax-free lump-sum is particularly relevant to this report, given the concern many commentators have around how consumers are using their pension savings – i.e. not for income, but rather as a savings account for a variety of other purposes. The majority of participants in our sample (33) had already accessed their tax-free lump sum in some way, even if they had not made their main decumulation decision. The uses for this included one, or, more often than not, a combination of the following[9]:

- Putting some or all of the money into a savings account (13).
- Paying off some or all of their mortgage (8).
- Using it for a one-off expense or expenses, such as a holiday, car or home improvements (8).
- Gifting to children. This was generally to pay for one off expenses, such as to pay for a wedding or home improvements (4).
- Buying a second property (2).

[9] Thus, these figures do not add up to 33 due to multiple uses

- Purchasing premium bonds (2).
- Using it to pay off debts (1).
- Spending the money on parent(s) (1).
- Putting it into investments (1).
- Using the money to put into business (1).
- Supplementing work income (1).

The majority of participants who took the tax-free lump sum did so up to the maximum amount. While some participants only took a lump sum up to the amount needed for a specific purpose, taking 25 per cent was very much the 'default' decision. This was often framed as making the most of an opportunity, particularly with respect to tax. For instance, when asked if she took the total tax-free amount, Gaby said:

> *Yes definitely, because you don't pay tax on it, you pay enough tax in every other way, don't you?*
>
> Gaby, 59, took lump sum but yet to access rest of pension savings, non-advised.

Similarly, when discussing the decision to take out the full tax-free lump-sum, Phoebe said:

> *I felt safe that the 25%, that was safe because I knew I didn't have to pay any tax on it. I whipped that out quickly.*
>
> Phoebe, 63, took lump sum but yet to access rest of pension savings, one-off advice appointment.

Taking the tax-free lump-sum and putting it in a bank account gave some participants a sense of control that they did not otherwise have with the money invested in pension funds. For example, when asked if she always knew she wanted to take as much as she could of the tax-free lump sum, Kayleigh said:

> *Yes, mainly because of my age. At 63, you know you've got to live a lot more years, haven't you?... So, I decided that I wanted control over my own money and I'm good with money... I have friends who wouldn't dare do that because they would fritter it away and they acknowledge that – but I knew I could be sensible with those amounts of money.*
>
> Kayleigh, 63, full withdrawal, one off advice appointment.

The issue of inheritance factored into this sense of security for some participants, with Leo stating:

> *I got the maximum amount of lump sum I could because... if I went [died] in the next 20 years I think I've roughly worked it out... then I would lose some of that money forever. Whereas taking the maximum amount out I know it's in my bank and my family, my son, grandchildren, whoever that might be, they can make use of it without having to go through hoops etc. and maybe lose some of it.*
>
> Leo, 61, lump sum and annuity, non-advised.

Others simply did not want to have the money 'locked away' due to personal circumstances. As Annette reflected when asked if she had a purpose for her tax-free lump sum:

> *No, I'm not really sure what I want to do with it or what to do with it. Again, a lot of my decisions are a little bit different because I'm reluctant to lock everything away for a long time because of not being well.*
>
> Annette, 59, took lump sum but yet to access rest of pension, non-advised.

The 'default' nature of the decision to take the tax-free lump-sum is even revealed through the accounts of those who ultimately decided against this course of action. For example, some participants framed the decision not to take the tax-free lump-sum in terms of 'thinking twice', with the implicit understanding that taking the money is the normal course of action. When asked if the availability of a 25% tax-free lump sum had influenced him, Hector said:

> *It did, and originally that was my intention [to take out 25%], but then with the two IFAs [Independent Financial Advisers] that I could engage with, they advised me this alternative way and I thought, 'Oh yeah. Why should I take it? I may as well keep as much as I can in there, invest it. I can just strip away each year'.*
>
> Hector, 55, drawdown without lump sum, two one-off advice appointments with different advisers.

These findings demonstrate how taking the tax-free lump sum has, to at least some extent, become common sense for many DC pension consumers, despite this being a potentially sub-optimal financial decision.

The decision-making process

Confused by the system and overwhelmed by information

The importance of experience: intuitions and 'feel for the game'

Much of the existing research on pension decision-making, and, indeed, the assumptions underpinning the pension freedoms policy, underplays the importance of experience with particular social contexts in allowing people to feel confident and competent in making decisions. This, in turn, leads to an overestimation of the extent to which individuals can process and engage with the information given to them to support their pension decisions.

A perspective that focuses on social context, however, allows us to appreciate how people's ability to make decisions is largely reliant on the relevant experience they have with the context they are required to work within. Confidence and competence in DC pension decision-making relies on people being 'tuned in' to the norms, conventions, and taken for granted assumptions of the pensions landscape and broader financial services sector. The thoughts and feelings people have about a specific situation, including making decisions about personal finance, are therefore often a result of a largely unconscious 'feel for the game' (Bourdieu, 1998; Aldridge, 1998, p.5). Developing such intuitions takes time, often years, and also requires practical lived experience.

These issues are particularly pronounced when it comes to the highly complex area of personal finance and pension decision making, as the following findings amply demonstrate.

Timing: a bolt from the blue

Many participants felt poorly prepared for making an informed decision, having given little consideration to it prior to accessing their DC savings. This 'unpreparedness' was summed up by Christian and Edith who said:

> *You'll probably get a lot of people saying this, pensions only become interesting to you the nearer you get towards cashing them in, don't they? And when I started with it, I probably didn't take too much notice of it. And then when I came to look at it eventually… I realised it was pretty hopeless, and there were probably things I could have done to have got it a bit better. But by that time, it was… pretty much too late… So, I've um'd and ah'd over it, so many times, and there've been so many times when I've thought about cashing it in and every time I've done that, it seems so complicated.*
>
> Christian, 63, yet to access, non-advised.

> *When I came to take mine, I didn't know a thing, and I mean that, about pensions at all. And quite*

> *honestly, I would've just taken the advice of this financial adviser. I can't remember what made me – I think somebody, it must've been somebody who mentioned something to me I would think, about annuities. Somebody must've mentioned to sort of make me think 'Oh, hang on a minute.' And that's why I started doing my research, and I'm glad I did.*
>
> Edith, 58, annuity, non-advised.

Participants' general lack of awareness of their DC pension prior to making the decision had two key consequences. The first was that they did not make more proactive *accumulation* decisions, and only became aware of it at a late stage when they could have limited impact on their overall savings. The second was that the lack of general awareness prior to having to make the decision made it harder to know what to do when the time came.

Furthermore, many participants had also decided to retire due to adverse circumstances, such as ill-health or redundancy. The point of retirement was therefore a particularly bad time to have to take in lots of new, complex, information. This is reflected in Annette's experience of becoming aware of the need to make a decision:

> *It sounds awful, but I just wasn't in the right… There was too much… Being made redundant, working from home with COVID, it was just too much going on really. As I said, I would have preferred to have a proper… I'd be quite happy to go at about 58 when I'm still working and go along and properly have it explained and work out the options on an estimated amount then so that I fully understood, by the time I had to make the decision, what I was doing.*
>
> Annette, 59, lump sum but yet to access rest of pension, non-advised.

Such experiences show how the information provided at the point of decision making often fails to compensate for a lack of preparation and experience. This, in turn, underlines the notion that confidence in decision-making relies on people being 'tuned in' to the rules and norms of a particular context.

Our findings suggest there may be value in testing interventions that provide opportunities for normalising pension planning, and encouraging pension conversations in the context of peer experience and a shared learning environment. One participant pointed to the potential value of workplace seminars in making people aware of pensions from an early stage, saying:

> *I was fortunate enough to work for a local authority that had yearly workplace seminars based around pensions and people were only supposed to attend one but I managed to sneak on three! But that style of learning and having experts in the room to speak to, picking up peer information. So maybe if the government could do some kind of roadshow that travels around to workplaces, and that way*

people who think they don't need it get swept into it as well.

Kayleigh, 63, full withdrawal, one-off advice appointment.

This extract demonstrates that potentially even limited access, as part of a group event, to an expert with a firm grasp of pension decision making could be extremely valuable in helping consumers feel more prepared for their DC decumulation decision.

Indeed, participants in receipt of regulated financial advice generally felt much more prepared for the decision. For instance, when asked how they came to their decision of drawing down, one participant stated:

I always knew I was going to do that; I mean I'm quite interested in pensions and financial things anyway. So, I've always known that that was what I was going to do. But I do have a financial adviser, so we have been talking about this for a number of years, prior to me actually taking the pension.

Jane, 55, drawdown, advised.

This shows the gap between advised and non-advised consumers when it comes to knowledge of the need to make the decision itself, with advised consumers able to draw on the experience and knowledge of their financial advisers. Policies that focus on changing the timing or content of the *written* information sent are therefore likely to have little impact. Indeed, individuals without support simply do not feel able to engage with the information due to its inherent complexity. Earlier engagement may only reasonably be achieved through giving access to a trusted person/group of people with the experience and 'feel for the game' of pensions at an earlier stage of their journey. This is a point we shall return to.

Feeling overwhelmed

Existing policy interventions tend to focus on improving the accessibility or timing of information to make this engagement easier. However, the findings of this research suggest a deeper problem: that people are so daunted by the prospect of making such an important and complicated decision without personalised support, they struggle to engage with information at all.

People's confusion related to understanding the options available and knowing how to apply these options to their specific situations. This could lead to people taking the 'easy options', depending how they define this. The most common easy options were to simply default into drawdown or defer the decision. This is demonstrated by Christian and Graham's experiences:

… you mentioned the way the legislation changed, all of this, you can take so much and there's some tax free and then there's a drawdown and there's annuity and all this sort of thing. And I almost get to the stage where I just think, I'm just so confused by all this, I just don't really know what to do, so I've sort of left it for now.

Christian, 63, yet to access, non-advised.

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

I feel that the more information you get, the more confusing it gets…With the [DC pension], as I say, it's just so complicated. And in fact, I feel like I get a bit like a rabbit in headlights, I just don't know what to do for the best. So, I've ended up not doing anything apart from leave it and hope that it gets better but, from what I saw of the figures, I don't think it has.

Graham, 67, drawdown, advised.

A large part of this confusion was rooted in the sense that the DC decision is very different to 'everyday' financial planning, such as budgeting, choosing energy supplier, managing mortgages and so forth. Many participants felt confident about the latter, but lost with regards to the former, and even those who saw themselves as competent with general finances struggled with the pension decision:

You know, I'm reasonably intelligent. I used to be a businessman… And as I say, I just found it a bit overwhelming, I really did. I found it a little bit over my head, how to invest this, that and the other.

Drew, 67, annuity, non-advised.

Similarly, for Cynthea, the pension language and decision-making were very difficult, despite having ample experience of managing finances in her professional life:

It might just be me rather than what was put in front of me, because as I say, with any of the financial stuff and that, I really struggle with it. And when I say that to you it seems daft for me to say that because I've managed budgets of millions and it seems a bit naff to say 'well you didn't understand that', but I think it's kind of the personal aspects are always something that I've struggled with.

Cynthea, 63, annuity, non-advised.

Indeed, Cynthea also described the need to try to 'tune in' to such decisions because they seem so different:

When you get sent written information that you can read through and it will give the projections and like 'this isn't guaranteed' and with all the caveats that are on it… from my pension people where I was working at the time and, don't get me wrong, it was all kind of laid out but it was all… there's a lot of jargon in these things but once you've got your head into it, it kind of can make sense but if you don't… if you are not tuned in to it, it just doesn't make sense.

Cynthea, 63, annuity, non-advised.

This idea of needing to 'tune in' is again highly compatible with the importance of experience and the need for an intuitive understanding of pensions in order to feel more confident in the decision-making process.

The need for decision-making support

In the follow-on focus group with non-advised consumers, many expressed the desire for information based on relatable examples and tangible scenario planning. Such presentation of information would help individuals understand the decision in their own terms, rather than that of the financial services industry. This is demonstrated by Lisa's experience:

> *What I could have done with is one of those flow charts you know so you put in how much money you've got and then it asks you other questions…and then it would give you something that narrows it down, because some options for me would have been totally wrong.*
>
> Lisa, 66, drawdown, non-advised.

Others felt a strong need to talk to an expert one-to-one, to help them understand where and how to invest their money to get the best returns, particularly given the importance of the decision. For example, when asked how important her DC pension was to overall retirement security, Phoebe said:

> *Very important because, if that's what I've got to live on, then yes it's going to be very important and I don't want to make any big mistakes. I mean certainly one thing for sure and I know that, I certainly wouldn't just withdraw the 75% that's left in there and just put it in my bank account. I wouldn't do that. Definitely not…. Because I would need advice on the best possible place to invest that kind of money.*
>
> Phoebe, 63, yet to access, one-off advice appointment.

Participants with access to such expertise, even those who simply had a 'one-off' appointment with a financial adviser, were far better placed to have access to scenario planning and therefore navigate the decision. Such participants did not necessarily show an enhanced understanding of the decision itself. Instead, it was because the financial adviser could give them a recommendation based on their needs and goals, or give them confidence by 'rubber stamping' a decision they had already come to. For example, when asked about the level of confidence they had in their decision, one participant stated:

> *I would say to a good level to be honest because they sent through the options as well… So they give you options, A, B, C, maybe even D… Four options and they broke it down with the amount of money that you get if you took this option, that option, or the other ones so, that was good. I think having it on paper, seeing it there, once again it was more realistic and reinforced the figures into your*

> *head…once you start scrutinising them more when they're on paper. So that was a clear sort of decision-making moment for me.*
>
> Ellie, 61, drawdown, one-off advice appointment.

Another participant, when asked what advice he would give to someone else regarding the DC decumulation decision, said:

> *Get the help of an independent financial adviser and don't try to do it yourself because it's a bit of a minefield. For me, it's been quite plain sailing, but I think that's only because I employed the independent financial adviser.*
>
> Blake, 60, drawdown, advised.

The limits of written information

As already outlined, DC pension consumers receive ample information at several stages prior to decumulation. This includes wake-up packs, the opportunity for a Pension Wise appointment and key facts documents and risk warnings sent by their pension providers. Despite this, many participants felt overwhelmed by the information they received, making the decision seem even more challenging. Even those who saw themselves as generally knowledgeable about financial matters had little idea of 'where to start', as Gaby said:

> *I'm not very clued up. I don't know, financially I'm very clued up, but not when it comes to pensions, I'm actually useless to be honest. I haven't got a clue and I should know more but I think because of all the updates they send me I look at them and think, 'God, I don't understand a word of what they're saying', so I just sort of file them all away.*
>
> Gaby, 59, yet to access, non-advised.

Participants also often struggled to understand the terminology of the financial services industry and deal with the amount of written information they were sent. This made the decumulation decision more difficult and daunting:

> *For me it was all the terminology, even for this research I wasn't sure what a defined contribution pension was so I didn't know I was eligible because I didn't know what that meant. And annuities, is that the right word? I think every word I read on pensions I hadn't got a clue, and I've got a university education. I left all my financial stuff to my husband and of course when he went down sick I had to take on all sorts of stuff I had no idea about.*
>
> Lisa, 66, drawdown, non-advised.

The least helpful [thing] was the fact that I'd got about five or maybe six different companies sending me all this stuff about pensions and I just found it overwhelming, like I say. That was the least helpful. If I was only dealing with one company it might've been a bit easier. But you know, I had five pension pots I think.

Drew, 67, annuity, non-advised.

In such a situation, some non-advised participants suggested help from a knowledgeable third party would potentially be useful. For instance, Annette stated:

...it suddenly felt like information overload coming through and I just thought, 'Oh God. I just want someone to ring me up. I don't want them to send me all this'. If anything, I want them to just say to me, 'Have a budget ready. I'll ring you back. Give me your budget and we can take it from there'.

Annette, 59, lump sum but yet to access rest of pension, non-advised.

Again, this shows how individuals themselves often lacked the understanding needed to engage in such decisions and, in this circumstance, how they felt they would benefit from more personalised support.

The limits of Pension Wise

Pension Wise was set up to be 'a first port of call for consumers, offering free and impartial information and guidance to people with a defined contribution pension approaching retirement' (HM Treasury, 2015). Much recent focus from policy makers has been on increasing uptake of Pension Wise, particularly through *nudging* consumers to seek guidance from this source (DWP, 2020).

In line with the national picture discussed at the start of this report, the majority of participants had not used money guidance (Pension Wise) and many had not even heard of it.

Some, like Dave, didn't think it would be worthwhile since his pension pot was so small, but also because he felt he wouldn't be told anything that would make a difference to his decision-making:

With Pension Wise, I didn't speak to anyone personally like over the phone or email or anything but I was just reading their information. They were always sending things, they gave me opportunities to join a Webinar as they called it, but I never did... I was thinking well really you know it's so small [pension pot] it doesn't really matter and looking back now, I'm talking to you, I feel a bit as if perhaps I've missed a trick there, perhaps I should have done, but I didn't... but it always came back to the same things what they were telling you, you know, there's this, there's that, there's the annuity.

Dave, 67, drawdown, non-advised.

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

Even among those who had used the service, there was a strong feeling that it didn't provide *enough* support to help people understand the options and make an informed decision, particularly compared to advice. This is very clearly demonstrated by participants' experiences of using this guidance service:

They're a good service, but essentially... the more information I got the harder I found it to make the decision. And then I went back to them and they basically told me the same thing again, because understandably they can't give you advice, so all they can give you is the same generic information.

Christian, 63, yet to access, non-advised.

I started looking at the pension thing four months before I was 65 and I went to Pension Wise, had the phone call and everything, but they just wouldn't advise me. It just was like giving me information and I really wanted some advice. And in fact, I was even more confused afterwards than I was before I spoke to Pension Wise... It put me right off and I stopped looking at the pension - well it was July 2019 and I didn't look at it again until November 2019 - cause I just thought I can't, I really can't do it. So I just left it.

Lisa, 66, drawdown, non-advised.

The impersonalised, generic, nature of the service also limited its usefulness because it left some people feeling unable to disclose sensitive information. Ellie, one of the participants in our study, had a disability which made processing unfamiliar information particularly difficult. She said:

I didn't think it was best for me [money guidance] not in my circumstances...It didn't seem to take into account the situation that I was in at that time, but I probably didn't share the complete situation either. It was probably not sitting there with somebody that knows the full facts about you. And you know, feeling comfortable enough to be able to tell them over the phone.

Ellie, 61, drawdown, one-off advice appointment.

These findings underscore the importance of soft skills in money guidance and advice, and the need for systems and processes to be designed in a way that support and enable consumers to disclose their needs. Indeed, the FCA's (2020) report on the experiences of vulnerable consumers highlights the value of sympathy, indicating that where a firm's representative took the time to listen to the customer's issues and showed sympathy, they built a rapport. The customer was then more likely to share information, better enabling the firm to help them appropriately.

Some of the participants in our study, however, were positive about the service, and the fact that it was government-backed reassured people and instilled a sense of trust. As Phoebe stated in her interview:

> *I think Pension Wise was actually very good. I mean obviously it's a package and everybody else gets the same spiel, I'm sure. But you could ask questions which is good and the hour on the phone was also good. I wasn't hurried in any way and it was a lady and she said you know, 'If you don't understand something please stop and ask me', which I did a few times. And I felt pretty confident because it was a government thing. It wasn't like I just picked somebody at random from the Yellow Pages, so I did feel pretty confident.*
>
> Phoebe, 63, yet to access, one-off advice appointment.

Despite this, the overall message from the participants in our study was that Pension Wise does not go far enough in providing adequate decision-making support for non-advised consumers. We return to this important finding, and suggest ways of addressing the limitations of the current service, in the final section of the report.

Summary:
Inequalities in the system – when intuitions become capital

In summary, our findings emphasise the confusion, complexity and overwhelming nature of the decision-making process inherent in the DC pension system. This problem has four core dimensions:

- Consumers not being prepared for the need to make the decision itself, with non-advised consumers particularly disadvantaged in this regard.
- Consumers feeling overwhelmed at the point of decision making.
- Individuals feeling that they need tailored support with decision making
- The limits of existing support mechanisms, particularly those based on written information and money guidance (i.e. Pension Wise).

We have argued that existing interventions, largely directed at improving the content and timing of information, and increasing the uptake of Pension Wise, are insufficient for addressing the risks and challenges facing DC consumers, particularly non-advised consumers. This is primarily because people's ability to understand and engage with this information is based on their lack of a deep, intuitive, *feel for the game* of pension decision making, something that can only be built up over a long period of time. Attention should therefore be directed at giving people greater access to trusted individuals who do have this long-term expertise and experience, and the opportunity to become accustomed to the norms of pension planning much earlier on.

Our findings have also highlighted the distinct advantages enjoyed by those with access to regulated financial advice, compared with those who do not have access to such support. This can be understood as a form of cultural or informational capital (Aldridge, 1998) which exists

when someone's intuitions align with the rules and norms of a specific social context, giving them certain advantages that can be converted to financial gain. Aldridge (1998) argues that increased consumer choice in the field of personal finance typically requires consumers to possess high levels of informational capital. By the same token, lower levels of cultural capital among consumers make it hard for them to make an informed pension decision (Pegg, 2000, p.361). People with trusted financial advisers are able to access this informational capital by proxy, and then translate this to material gains through better decumulation decisions. A financial adviser with years of training and experience advising people on investments and savings will have an instinctive feel for what counts as a wise pension choice.

The fact that many consumers lack this informational capital, and are therefore less able to make optimal choices, is a salient issue for policy makers, particularly given the increasing numbers of people who will be dependent on DC pensions. There is an urgent need to address this problem by implementing effective consumer protection strategies, to ensure more people can achieve financial security in later life.

Trusted advice

The clear difference identified between the level of confidence displayed by advised and non-advised consumers provides a useful starting point for discussing the advice gap in general, and potential difficulties in closing this. While both advised and non-advised participants tended to lack an intuitive understanding of DC pension decision making, advised consumers were able to compensate by accessing proxy-cultural capital via a financial adviser. An obvious solution would therefore be to widen access to financial advice. However, there are several established barriers to closing this gap, including affordability and awareness (Citizen's Advice, 2015). Our research has shown that, while cost certainly discourages people from accessing financial advice, a potentially more complex issue is the difficulty individuals have in *knowing who to trust.*

The 'advice gap': Affordability

Many non-advised participants in both interviews and focus groups recognised that they might benefit from regulated advice but did not feel they could afford it. As one participant stated:

> *I've looked at some [financial advisers], and some of them are starting from £300 an hour. That's a lot of money! And if you also weigh that up with the fact that you're going to get a small pension... if you start balancing up £300 an hour compared with what you're going to get... it's ridiculous. There's a lot of inequality there. If you haven't got the money to pay a financial adviser to make sense of all this, what I call, madness, you are at a disadvantage.*
>
> Francesca, 55, yet to access, non-advised.

Furthermore, some reported being turned away by financial advisers because their pot was deemed too small, despite the decision being important to them because of the relatively small size of their overall retirement income. Some participants felt that access to such support was unevenly distributed, with those most in need of help getting the least support. This is perfectly summed up by Christian when he said:

> *People who have got the money to pay for the good financial advice..., who have got a little bit more background knowledge and so on... the people who benefit from this system are the people who already have the money. The people who are going to lose are probably the people who have less money, who have less access to the internet, and people who have less general education and that sort of thing... Probably the people who least need it are going to get the biggest benefit, and the people who most need it are going to get the least benefit.*
>
> Christian, 63, yet to access, non-advised.

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

This highlights the general inequity in the current system created by the cost of financial advice, which means those who need it most are least able to access it. However, as explored below, this is not the only barrier, with *trust* being a major theme emerging from our research. This issue can be further understood by drawing on sociological understandings of trust and social capital.

The advice gap: identification and trust

The gap between advised and non-advised consumers also extended to the ability of individuals to identify appropriate financial advisers they could trust. Many simply did not know where to turn, and were instinctively suspicious given the numerous 'horror stories' about people who had been led astray by irresponsible advisers.

People often rely on their sense of trust to navigate complex financial choices such as this (Giddens, 1991. Cited in Pegg, 2000, p. 357). Trust can be defined as 'the willingness of an entity (i.e., the trustor) to become vulnerable to another entity (i.e., the trustee)' (Schilke et al, 2021, p.240). There are three elements to a trusting relationship: a trustor (the person who takes the risk in becoming vulnerable); a trustee (the person, organisation or thing that one has trust in); and a trust object (an issue or situation with respect to which the trustor's trust for the trustee holds) (p. 247). In becoming vulnerable, 'the trustor presumes that the trustee will act in a way that is conducive to the trustor's welfare despite the trustee's actions being outside the trustor's control' (Schilke et al, 2021, pp. 240-1).

As has been established, the majority of participants did not feel they had the knowledge or experience to make this decision alone. Obtaining independent financial advice was therefore an appealing option to many, at least hypothetically. However, identifying and accessing such advice was difficult because participants tended to have an extremely low base-level of trust in financial advisers as a profession, and a lack of confidence in regulation:

> *One of the chaps I worked with at my last place, he was scammed out of his pension and it broke him. I looked into it quite deeply before I made a decision on who I was going to ask to help me.*
>
> Blake, 60, drawdown, advised.

> *[When asked the most important considerations for them in choosing financial advice] There's trust isn't there? And whether you really think they're in it for you or whether you think they're in it for them. Now, I think there's been a lot of controls, there's been more controls over that industry in recent times. So you like to think that they would work in your best interest so, I think it would be firstly important to establish that you've got someone that's going to look after you rather than them. And that's pretty hard to be able to tell really, isn't it?*
>
> Christian, 63, yet to access, non-advised.

Such lack of trust was not limited to non-advised participants. Even those with financial advisers they *personally* trusted tended to have low levels of trust in financial advisers more generally. For example, when asked how he would identify an alternative financial adviser if he needed to, Graham stated:

> *Well, if it wasn't working well and I wasn't happy with the financial consultant, what they were saying, I guess I'd have to look elsewhere and then that becomes a question of where do you go? So I suspect we'll be talking to family and friends who've got pensions or pension advisers to see who they're with and what they think rather than just taking a pin and just going for the Yellow Pages, as it used to be, or on the internet, and just think, 'Eeenie, meenie, miney, mo. Right, I'll go with this company'... There's sadly a lot of people who go online and then find a company and it looks good, you get a nice, glossy brochure and then find that they're scammed and they lose all the money.*
>
> Graham, 67, drawdown, advised.

This can be framed as a low level of *categorical* trust in financial advisers. Categorical trust is 'trust as it pertains to various social categories' (Schilke et al, 2021, p. 247). Such categories could include organisations or types of organisation, professional groups, or types of personal relationship (e.g. trusting people classified as friends or family). It can be contrasted with both *generalised trust* - the general disposition of an individual to trust, regardless of the identity of the trustee or situation (Cook et al, 2005. Cited in Schilke et al, 2021) – and *particularised trust* - the trust formed in a particular situation or relationship, such as an ongoing working relationship (Cook, 2015; Kollock, 1994. Cited in Schilke et al, 2021).

This lack of categorical trust creates an issue for many DC consumers. On the one hand, people know they do not have the requisite knowledge to navigate the decision themselves, even with help from services such as Pension Wise, and so would benefit from advice. On the other, people are extremely wary of such advice and do not trust financial advisers in general. Many participants therefore knew they needed help with the decision, but lacked immediate access to a trusted source of information. They therefore had to use their own judgement to find a source of trusted support.

Finding trusted support

There are a number of ways an individual can navigate this kind of situation to try to identify a trustworthy person to work with. Judgements of trustworthiness can be based on:

- Past interactions – A trustor infers the trustworthiness of a trustee through their experience of dealing with them in the past (Schilke et al, 2021, p.244).
- Future interactions – Trust can be inferred from the extent to which the trustee believes the trustor will 'value the relationship and to want to maintain it' (p.245)
- Broader networks – Trustworthiness is 'inferred from the broader network in which the trustor and trustee are embedded.' Here the trustor will typically seek reputational information about the trustee from indirect connections. A trustor is more likely to rely on such information when they 'lack direct experience and are unclear about future interactions.' (p.245)

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

With respect to past interactions, a small minority of participants could turn to the support of a financial adviser they had ample past positive experiences with (particularised trust), as shown by the following quotes from participants when asked about identifying financial advice. Steve, who had previously worked in financial services said:

> *I did a lot of research on it and I know a lot of financial advisers so I spoke to quite a few people... I got my own independent advice through colleagues and working for company x, it was an [anonymised company] adviser that I spoke to, who actually transferred his pot out as well. So it gave me some comfort that he'd done that.*
>
> Steve, 58, drawdown following DB-DC transfer, advised.

Interestingly, despite ready access to financial advisers and having experience of dealing with financial markets, Steve ultimately used a restricted adviser to manage his DC savings, having transferred out of a DB scheme. Transferring to a DC pension scheme means giving up valuable guarantees, i.e. an income for life, as well as having to take responsibility for where the pension savings are invested or paying someone else to manage this. It is an inherently more uncertain, riskier, option, but as this research has shown, people's pension decisions are made in the context of multiple, sometimes conflicting, external influences, which may not always be deemed 'economically rational'. For Steve, the benefits of transferring his pension far outweighed the perceived risks, as he went on to explain:

> *I looked into transferring my pension out probably when the rules changed. It was a big decision, to be fair, because I moved out of a guaranteed income into a market fund, but I still think it was the right decision for my circumstances...The main driver was access to the pot to make us debt free, basically, for retirement. There are other benefits as well. I quite like the flexibility of the flexi-drawdown. If I had stayed in the bank scheme, I would have only been able to draw probably half as much income as I'm getting now and it would have been delayed until 60 because if I'd have drawn it beforehand, there was penalties. Then the other thing is... I don't mind if it goes down a little bit, but if it retains the overall value, then the pension pot will transfer to my wife and daughter, to their estate, in due course, whereas the bank pension scheme, I think on death the spouse only gets 50%. So there's that benefit as well.*
>
> Steve, 58, drawdown, following DB-DC transfer, advised.

Jane also had financial advisers in her social network, by virtue of her professional life as a solicitor:

> *...because of the work I did as a solicitor, I've known financial advisers all my working life. So, it's been very easy for me just to talk to one...they've always been very*

approachable to me because I've worked with them. So, it's very much been my decision from the very start.

Jane, 55, drawdown, advised.

Despite this, most non-advised participants had no such stock of past interactions they could rely on. For example, Edith described her general attitude to financial advisers based on past interactions in the following way:

To be honest I have spoken with quite a few financial advisers in the past, I've never really 100 percent trusted what they've told me, so I always do my own research anyway. Like I say, I didn't really know much about pensions.

Edith, 58, annuity, non-advised.

Many other participants simply had no experience of financial advisers, aside from the second-hand negative stories they had heard. For many, therefore, past interactions could not be used as a basis for trust.

With respect to future interactions, many participants had little confidence that a financial adviser would be incentivised to value their working relationship in the long term. Some felt that they were more preoccupied with their own financial interest than the wellbeing of their clients, while others, like Kayleigh, were told that their pension pot was too small:

As a result of the seminars that I've been on, I actually organised for someone [an Independent Financial Adviser] to have a one to one interview with me with a view to maybe managing my pension pot... And obviously they have to be very honest and upfront now, that is one good thing that's really changed in all the legislation because there was some real charlatans about... But he had to honestly tell me that my pot wasn't big enough for him to manage, either for me to warrant paying a fee for him to manage or for him to be able to make enough money out of managing my pot. So, someone like me, they can't really access that paid for advice because my pot isn't quite big enough and yet my pot's not that small, I've got a pot now of about £60,000 but in pension terms, that's small.

Kayleigh, 63, full withdrawal, one-off advice appointment.

Other participants were extremely worried that a financial adviser would act in their own short-term interest. This fear and suspicion often stemmed from stories they had heard about scams, either in the media, and/or first- or second-hand experience:

I just don't want to, whatever I decide to, I don't want anybody to try and hoodwink me into

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

anything. I don't want to end up like those people that lost all their money. You know, investment or something and didn't get a return, I need to be confident over the market. So, whatever I decide to do with that, has got to be practical and I've got to make sure I get some sort of return on it.

Astrid, 58, unsure what decumulation decision she made, non-advised.

I think I'd feel a bit more confident [identifying an IFA through friend and family recommendation]. I mean I've never really seen or spoken to a financial adviser. I know they're all in it for money, obviously [laughs]. But I think I'd rather go on recommendation than just pick somebody out the Yellow Pages.

Phoebe, 63, yet to access, one-off advice appointment.

I just feel as if the people who are giving you the advice, they've all got vested interests and it's really difficult, I kind of... going through my life there are key things and key people who I've grown to trust and once I trust somebody I probably would be one of these mugs who would give them my last savings, because I trust them.

Cynthea, 63, annuity, non-advised.

The lack of options most people had with being able to rely on past or future interactions meant that many turned to their broader networks to try to identify an adviser, or draw on the help of others who had made a DC decision to gain information about their own choices:

My friend said, 'Talk to my friend. He does pensions.' I dealt with him also because he was very down-to-earth and I knew [company x] had been around for a long time.

Felicity, 56, yet to access, non-advised.

I didn't want that [the annuity] at all because I can't remember the monthly sum but it was nothing, so I thought well forget that and then when I spoke to my brother in law, who is very well up on it and he's got a financial adviser, he said I think the best option for you would be flexible drawdown, which, to be fair, I'm quite happy with at the moment.

Dave, 67, drawdown, non-advised.

Similarly, when asked how they would identify an alternative financial adviser if they needed to, Edward and Mike said:

> *Well I think first of all I would approach other people that I do know and trust and just ask them who they actually use, could they recommend anybody, and would then secondly go online to look at different companies like some of the big ones, like [anonymised pension company], someone like that to see what their pension fund policies are like, you know, so I suppose I would shop around but be very cautious.*
>
> Edward, 67, drawdown, advised.

> *I have actually thought about that. Not just something like pensions but I apply this to a lot of things in life which for me is about recommendations. I would have spoken to other friends, colleagues and people who I can relate to that I felt would have, let's say, a similar level of thought process as myself on these subjects. I would ask them and say, 'Do you use an IFA?' 'Yeah, I do. He's brilliant.' I think it's the same with anything...I would have asked around and got a recommendation.*
>
> Mike, 62, drawdown, informal conversation with friend who is IFA.

These findings indicate the importance of information on pensions from informal social networks, and the centrality of personal recommendations in identifying an adviser. The above quote is particularly useful in showing how such personal recommendations can be more reassuring to individuals than formal regulation of the financial services industry.

Social capital and inequity of network resources

The problem with people relying on social networks to make an informed decision is that access to such networks is *unequally* distributed. This can best be understood with reference to the concept of *social capital*. The term social capital has several definitions, but can generally be considered to represent 'the ability of actors to secure benefits by virtue of membership in social networks or other social structures' (Portes, 1998, p.6). It can be equated with 'the resources embedded in social networks accessed and used by actors' (Lin, 2001, p.25).

Social capital can benefit individuals in several ways, the most relevant to our research being:

1. Through facilitating the flow of information - Individuals can gain useful information about choices and opportunities via their social networks, and these may not be available otherwise (Lin, 2001, p.20).
2. Through providing reassurance that an individual or organisation can give useful resources - Individuals can gain reassurance of credentials through their social networks (Lin, 2001, p.20).

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

Both of the above benefits clearly relate to the experience of DC pension consumers in identifying financial advisers, as explored throughout this section. However, the importance of the concept of social capital is in showing how access to such networks is unequal. People tend to form networks with people with similar socio-economic characteristics. This means people of a higher socio-economic standing will often be embedded in networks rich in information and influence, while those in relatively disadvantaged socio-economic positions will have networks that are poorer in resources (Lin, 2000, pp.786-7). While Lin discusses the importance of information-rich networks in general, the point clearly also relates to knowledge of financial institutions specifically. Those from less privileged backgrounds will have more difficulty identifying a suitable trusted source of information for pension decision making via this route. In relation to our study, many non-advised participants simply did not have the relevant social networks needed to gain this information. For instance, when talking about how they might identify a 'good' financial adviser, Felicity said:

> *That's difficult, isn't it? It's just like anything but I suppose I would probably try to find out whether they belonged to some sort of body. Are there any reviews from customers, like Trust Pilot or something? My thing is I don't know anyone, in my circles, who is using one but that's the kind of thing I do. I'd be going from zero to trying to find out but those are the sorts of things I would do. The other thing is that I'd talk to people. I think that's the other issue as well in this society. People don't really talk about money and my view is that people who talk about money, they are either amongst people who have money and they have the financial resources to access different specialists, like an accountant, or somebody who specialises in taxation, or a financial adviser. The people who have no money are in circles where we talk about the fact that we haven't got any money [laughter] and so we don't talk about planning. There are people like me who are in between; we haven't got loads of money but we make the best of what we have. It has to be that we are self-taught because we don't have the money to be able to get the fantastic advice and think about all the other things or read books.*
>
> Felicity, 56, yet to access, non-advised.

Equally, when asked if they had drawn information from friends and family, Edith stated:

> *No not really because at the time I was the only one I knew who was going through this process. Like I say, a friend sort of recommended this financial adviser but that was all really. Nobody I knew at the time knew much about pensions.*
>
> Edith, 58, annuity, non-advised.

And when asked how confident she would be in finding a financial adviser, Gaby reflected:

> *Probably not very, and again, I don't know anyone. I've got one friend, but I can't ask her at the moment, her brother's just passed away. But she told me that she'd actually got some advice on her pension and she took a massive lump sum and if you wait another few years she'd get a hell of a lot more on her monthly payment, so it wouldn't be worth taking a lump sum. I said, 'Oh my God, it's too much for me to take in there.' But now recently after listening to what she said…I do need to get some advice and I really don't know anybody who's well versed in pensions at all.*
>
> Gaby, 59, yet to access, non-advised.

These struggles in obtaining relevant informational resources from social networks adds to the complex and challenging situation many individuals are faced with when required to make a withdrawal decision. Furthermore, as with lack of cultural capital, it is likely that inequalities in social capital will become more of an issue as increasing numbers of people become reliant on DC pensions in the future. Our findings underscore the importance of this issue in need of immediate policy remedy.

Summary

This section has focused on the issue of trust, and how consumers try to draw on trusted forms of information and advice to navigate the highly complex DC decumulation decision-making process. As we have seen, consumers are often overwhelmed by the decision they have to make, and existing forms of support offer limited help. In this situation, individuals will generally look for outside help. While it may be reasonable to assume people would turn to financial advisers, the lack of categorical trust in this group – often informed by horror stories about scams – make this an understandably undesirable option for those without an existing/long-standing relationship with a regulated financial adviser. People therefore turn to their social networks, both to obtain information directly from knowledgeable friends and family, or for signposting to trusted financial advice. However, such an informal system is problematic from a policy perspective, because it is inherently unequal, with many having little or no access to such networks.

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

Uncertainty about the future

The DC decision making process requires consumers to make informed calculations about their future income needs and pension performance. This is based on a variety of factors that are inherently unpredictable, including health, longevity, stock market performance and future care needs and responsibilities. This section will explore in more depth how participants make sense of this unpredictability, and how it impacts on their decision-making experience. It will also put this situation in the broader social and political context of financialisation and asset-based welfare, pointing to the inherent instability of the existing system, and the need for policy makers to attend to the potential insecurity this creates for consumers in retirement.

Life getting in the way

There was a general consensus that the existing system is inflexible to the needs and circumstances of real life, particularly in terms of people's ability to predict the future and engage in long-term planning. Individuals may make their decumulation decision at a time of great stress and uncertainty. This includes bereavement, disability, divorce and new caring responsibilities; life events which are particularly common at the pension decumulation stage of life. Many participants in our study were facing these challenges, alongside grappling with their pension decisions, making the process more difficult:

> *Even the best financial adviser can't account for life getting in the way, and I think that's what happens a lot of the time with pension planning. I'm very prudent with money, I did plan my finances and…had money in property, and then an unexpected divorce cropped up, an unexpected illness cropped up. And I think even with the best and most prudent planning, with pensions, life happens. And that makes it very, very difficult. Stuff that doesn't fit onto graphs and spreadsheets can throw it all into kilter.*
>
> Kayleigh, 63, full withdrawal, one off advice appointment.

For Scarlette, the choice to take all her late husband's inheritance rather than take more time to consider her options – including the option of placing this money into a pension fund - is something she regretted. Several years later, after the money had run out, she had to return to work:

> *Mine was a different situation because my husband had died. Nobody took the time to consider my feelings. It was all 'no you must do this, you have to do this' and my head was muddled. But maybe if I had actually had an appointment… why wasn't I asked? I took all the money out… but on the phone they gave up, they gave in to my demand to have the money. Whereas nobody took the time to say 'come in and we'll sit down with an adviser and talk to*

you'… why can't we just sit and have a one-to-one appointment?"

Scarlette, 65, drawdown, one-off advice appointment.

Others felt that atypical circumstances, even self-employment, left them at a disadvantage amidst a system dominated by products and services designed for the perfect, standardised consumer.

It seems to me that most of these products are designed for people who are in a standard situation, they're in a job, they've got employers, blah, blah, blah, and they're not designed for people who don't fit in those boxes. People who aren't in those boxes need something that makes it easier for them to save…Because actually, I had too many decisions I had to make on a day to day basis, so it was sort of peripheral. It was number 35 on my list of priorities, if that, whereas survival was number one. So, I think it's having products that meet more complex lifestyles. That would be really quite helpful.

Greg, 66, drawdown, non-advised.

These findings resonate with the FCA's work on consumer vulnerability (2015, p.63) which noted a general need to improve inflexible financial products. They reported that 'a frequent consumer complaint related to products taken out in good faith before the onset of vulnerability – which at a later date turned out to be unsuitable in some way for the situation they found themselves in.' These findings have implications for greater product flexibility, something we return to later on in this section, and again in our recommendations section.

Lifespan and health

The uncertainty people experienced had several dimensions. One prominent challenge was having to predict overall lifespan when calculating future income needs. For example, when asked whether she had any concerns about how she might manage financially in the future, Francesca said:

Yes, I do. That's why I said I'm going to have to take professional advice because obviously, I don't know how long I'm going to live. I've started making provisions for myself and paid for my funeral now because I don't want anybody to think, 'Oh god, she's died and there's no money there.' Do you know what I mean? [Laughter]…I need to stretch what I've got for as long as I can…I don't know how many people you've asked but the younger people might think, 'Oh yeah, I've got £60k in my pension pot,' but that £60k is going to be eroded every year with inflation. By the time you get to it, you might need £200k in your pension pot to survive. It seems a good figure now but what is the money actually worth?

Francesca, 55, yet to access, non-advised.

These issues are particularly acute for people with long-term health conditions. For instance, one participant living with cancer said:

…the difference for me is I've also got a lymphoma cancer, which is an incurable one…So I guess…what was confusing me at the time is I didn't have such a long-term focus and plan for what I was thinking of doing, like a normal person might, so that made a difference. I wasn't thinking, 'Oh, my God, so this has got to last me till I'm 90', because quite honestly, I don't see me being 90.

Annette, 59, lump sum but yet to access, non-advised.

As outlined earlier in the report, the FCA has taken steps to help non-advised consumers make better choices at the point of making a DC decumulation decision. When entering drawdown or buying an annuity, providers must now offer ready-made drawdown investment solutions which reflect standardised consumer objectives. We explored participants views on these 'investment pathways' during the follow-on focus groups, and many participants felt that the 5-year time-frames contained in these were unhelpful, especially for those with long-term health conditions.

Francesca, quoted above said: *I've got a* [long-term] *illness…5-year planning might have been alright when I was in my 20s and 30s, but not in my 60s*, while others felt that the investment pathway option was still too complicated, requiring individuals to know what future resources they needed in an unknowable context, and fearing the consequences of making the wrong, irreversible, decision:

I feel worse now, looking at those. These options 1-4, I went into mind blank, it doesn't really help – how do you know if you want to use your money for an annuity, how do you know if you want to take it all out in the next five years. You can give people lots of options but there's no telling you what the consequences of those things are.

Lisa, 66, drawdown, non-advised.

One of the things for me is when you are making a decision there is a sort of finality to it… if you live for a while you are sort of stuck with a decision you made that locks you into one route. That's a bit of a fear for me.… If you make plans for twenty years and then next year you suddenly find you've got some illness that is difficult for you then you've made the wrong decision, and it's hard to backtrack.

Christian, 63, yet to access, non-advised.

Edward, on the other hand, said he could see the benefits of the new default investment pathways if it was possible to switch between options, but this was linked to a firm appreciation for the uncertainty inherent in pension planning, and the need for product flexibility:

It's very valuable that you can swap and change and therefore tailoring down to individual needs, because you never know what's round the corner, so if you can have that flexibility to swap from say option 1 to option 3, fairly quickly, to suit your lifestyle at that particular time, that would be useful.

Edward, 67, drawdown, advised.

Inheritance and care

The issues caused by the unpredictability of lifespan were compounded by a common desire to pass on an inheritance to children, but also an awareness of the possible need to pay for care. Some were unsure about how much their children would be able to inherit, and took steps to try to maximise this (e.g. by passing on assets). For example, when asked about seeing property investment as a kind of pension Blake stated:

I think it depends if you want to leave anything to your next of kin. If you're a multimillionaire, obviously it's not an issue, is it, but for people like me, I would like to think that my house would pass to my boys without me having to have any money out of it for care. But if that's the case, it's got to be the case, I'm afraid, because government won't pay for it, but I would like to think that my assets will go to my children, but I haven't got a crystal ball, unfortunately.

Blake, 60, drawdown, advised.

Others, like Dave, were not concerned about passing on an inheritance, but nevertheless resented a policy that requires those with a certain level of income and assets to pay for the costs of their care. Their decision (he and his wife) to spend down all of their pension savings, and not worry too much about whether it would 'see them out', was partly driven by the desire to avoid this:

We're taking a thing from my wife's mom, she's in a care home now and she's paying – her house was sold – and now she's paying for the care that she's receiving and it's astronomical, and it's such a shame that it's all going on that. So me and my wife, we both think just spend the money. I don't know, is it reckless?... I don't know whether it's reckless or not, that's what we intend to do you know just make the most of it while we can and then bite the bullet when it comes.

Dave, 67, drawdown, non-advised.

Economic and political circumstances

Participants often also experienced existing political and economic circumstances – upon which a large part of their retirement income would rely - as inherently uncertain and unpredictable. For example, when asked about how the current economic climate had made things more or less difficult for people's decumulation decision, Cynthea said:

Well I think it's made things interminably difficult because the stock market is who knows where, the money available to the government is diminishing returns and they are going to have to make that up somewhere. And anybody who has got pensions or pays insurances or anything else, they seem to be the soft targets and older people particularly...and I just cannot see any way that there won't be a financial impact on those aspects of life.

Cynthea, 63, annuity, non-advised.

Such feelings of uncertainty may have been compounded by the recent COVID-19 pandemic, which has seen people's DC savings falling at an alarming rate. For instance, Clive, who withdrew the tax-free lump sum from his pension to pay off his mortgage, while leaving the remainder invested to access as and when needed, described how 'depressing' it was to see the value of his pension pot going down after the pandemic hit:

It was bad through lockdown, you know, I thought oh my god, gosh, gee whizz, you know that feeling and when you can see it like that it is a bit depressing...when you can see it going down day in, day out, over the months you know you sort of think god when is it going to end... I lost about £10k in about ten months.

Clive, 68, UFPLS, non-advised.

Because of the uncertainty, Clive had decided to cut back and live solely off his state pension and his wife's earnings, using his pension savings for large, one off expenses, as and when needed. Clive had not entered into a formal drawdown arrangement, so each time he withdrew an amount from his pension pot, it was subject to tax. Given his concerns about running out of money, he was being cautious about spending his pension savings. While much of the concern among consumer groups (and the FCA) has been related to people withdrawing their savings at an unsustainable rate, there is also the risk that non-advised consumers are not drawing enough to meet their needs. In both cases, our findings suggest there is a need to do more to help people develop more appropriate withdrawal strategies. When we explored these during the focus groups, non-advised participants felt strongly that such support needed to be based on information about people's lifestyles (e.g. day-to-day bills, holidays etc). They favoured an approach that could give consumers more information about the income requirements for different lifestyles, and more explicit guidance on how much they should and shouldn't withdraw, particularly in the interests of inadvertently paying too much tax.

One of the participants in the 'advised consumer' focus group said there should be a more targeted approach to those in danger of withdrawing their pension savings altogether or at an unsustainable rate, suggesting the need for greater awareness raising:

> *I think there should be more on the news, in the media, educating people about it because if you're not in a position to have a financial adviser you could easily fall into the trap of being gung ho with your money, and ending up being slapped with a 40 per cent tax bill.*
>
> Alfred, 64, drawdown, advised.

When discussing the potential benefits of other consumer protection strategies during the focus groups, including midlife MOTs, a sort of holistic review of finances in the context of wider life circumstances and future events[10], the issue of uncertainty and unpredictability in pension planning came up again. Greg, for example, suggested that because of this, the solution should lie in greater product flexibility rather than more or better information, advice and guidance:

> *I think a holistic review is a brilliant idea, but the difficulty isn't that, the difficulty is you've got a product that's not designed for the world in which we're living. It's designed for the 1970s, where there was certainty, you were in a job for twenty years, you had a regular income, your parents were fine and died off at the age of 80 or whatever, but now everyone is living longer and things are changing on a day to day basis – and it's changing in ways we can't even imagine, but the products we've got are fixed. So, you're expected to decide about something that will affect you in ten years, when tomorrow we're going to have a fuel crisis. Or a pandemic and the whole economy comes to a grinding halt and we're all furloughed, or you know, some debilitating disease and someone comes and takes your house off you. The products are just so inflexible. They're 19th century products for the 21st Century world.*
>
> Greg, 66, drawdown, non-advised.

This issue of inflexibility also helped to explain some people's negative attitudes towards annuities. But there was also a general lack of awareness, particularly among non-advised consumers, about the ability, or indeed flexibility, to 'mix and match' (i.e. mix drawdown with an annuity/ fixed term annuity/ deferred annuity etc.). That said, poor value for money was often the primary reason people opted against purchasing an annuity. And a number of participants simply weren't aware of their 'open market option', like Ellie:

> *I wasn't aware, I did do a lot of reading around it online…but I never read anything about that, that you could increase your annuity, and also that you could go from one – I'm going to say supplier – to another. I had no idea.*
>
> Ellie, 61, drawdown, one-off advice appointment.

[10] https://www.yourpension.gov.uk/mid-life-mot/

Pension Decision-Making in the New Retirement Landscape: Understanding and improving outcomes for consumers

While others, such as Christian and Alfred were aware, but didn't feel able to benefit given the lack of guidance, or because of what this meant for their relationship with their existing provider:

> *On that point about shopping around, they quoted what their figure was. And then they gave me a figure that said 'this is the highest figure you could've had', which was a bit more than the one that my company was providing. But I've got no idea who that was, and I have no idea how to find out who it was... and when I asked I was told I just had to look around, and I think they directed me to an annuity calculator online. But then you're into this territory of you don't know what you're clicking on and whether you can trust it or not. I get the sense with my company that they always try and put as many obstacles in the way… it's like it's my money, but they don't want to part with my money.*
>
> Christian, 63, yet to access, non-advised.

> *The one [annuity] I've got was with company x through work. I suppose on the one hand you think it's useful because they're being fairly open, but on the other side of it I suppose over the years if a company that you've had money going into them saying you might get a better quote going somewhere else, you might think 'well how important a customer am I to that finical institution?'*
>
> Alfred, 64, drawdown, advised.

These findings clearly call into question the suitability of a pension system that requires individuals to shop around for the best deals, and to anticipate their future needs at the time of making a DC decumulation decision. They also show that the assumption of a predictable and plannable future persists even in most recent policy interventions (default investment pathways). Ensuring good outcomes for consumers is therefore likely to require supply-side interventions which encourage (or even require) providers to develop more flexible, better value, pension products.

Specific issues for women in planning and predicting the future

A prominent theme from the empirical data was a number of issues specifically for women around retirement planning and predicting future caring responsibilities. Women have historically had a worse deal from workplace pensions than men. This is associated with women's diminished earning power relative to men's, in part, due to the career disruption caused by childcare responsibilities, leading to lower pension savings (The People's Pension, 2019, p.4; Portas, 2019). Women may therefore be more dependent on their partner's income when it comes to retirement, with divorce leaving them particularly vulnerable to low pension income. This point is reflected in the following extracts:

> *[When talking about inequity in divorce settlements] And I don't quite know how that can be made fairer because there are certain things that are hard to put a financial value on, but a lot of the responsibilities that females have in life, and that's caring, grandparent caring, caring for elderly parents, caring for your own children, don't have a financial value to them…It's not just women at the bottom of the pile financially, you could have two barristers in a relationship but generally the one without the caring responsibility will have risen higher and therefore have a better pension at retirement.*
>
> Kayleigh, 63, full withdrawal, one-off advice appointment.

> *In those days you couldn't get entered into a pension scheme, it was basically for men, it's how they'd get the men in, you know, offer them a pension, women didn't do it'.*
>
> Lisa, 66, drawdown, non-advised.

While many of the inequities faced by women are caused by circumstances associated with the *accumulation* of long-term savings, our research found that existing or anticipated future caring responsibilities could also get in the way of engaging with the decumulation decision. This was most pronounced in the account of one participant who was caring for her mother who had recently been diagnosed with dementia. During such an emotional and stressful time, including the difficulty of finding appropriate nursing care during a pandemic and finalising lasting power of attorney, Astrid felt she did not have the time or headspace to focus on her pension, despite receiving communications about this:

> *I should be thinking about doing something, [but] everything's just been thrown through the window. Put on hold…so that's my situation until I sort out my mum. Its how things are going to be. You know you get home maybe around 10 o'clock…and you just go to bed.*
>
> Astrid, 58, unsure what decumulation decision she made, non-advised.

Putting uncertainty into context: financialisation

Participants' uncertainty around the future impacted their DC pension decision-making in a variety of ways. To fully understand this sense of uncertainty, it is helpful to first take account of the shifting political, cultural, and regulatory context (briefly outlined in the Introduction) within which the DC decision-making process takes place. This is with respect to long-term trends of financialisation, asset-based welfare, and the increasing onus on the individual, rather than state or employer, to manage risks associated with aging and retirement.

Over the past 40 years successive UK governments have pursued policies that promote asset ownership and increased access to financial services among citizens. These developments all take place within a context of financialisation - a broad and multifaceted concept which refers to:

> the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies (Epstein, 2005, p.3).

The move towards individuals relying more on DC pensions as a means of providing an adequate retirement income is a key example of financialisation. Indeed, the increasing prevalence of DC pensions in which an individual's retirement income is directly affected by investment returns, reinforces connections between the financial sector and individuals (Berry, 2016).

Of particular relevance to this research is the *financialisation of everyday life*, where 'individuals are encouraged to internalize new norms of risk-taking and develop new subjectivities as investors or owners of financial assets' (van der Zwan, 2014, p.102).

A feature of financialisation is a sense of personal responsibility for one's own retirement security (Berry, 2016). This was clearly evident in participants' accounts, where the large majority said individuals were mainly responsible for their own retirement security. When asked who should be mainly responsible for ensuring a satisfactory retirement income, Clint stated:

> *You look after yourself, you're primarily responsible for most of the decisions in your life and your pension is a big part of it. So there's other people that need to be helping educate you and guide you, but essentially you make those decisions so you're primarily responsible.*
>
> Clint, 55, drawdown, non-advised.

And in her acknowledgement of the inadequacy of the state pension, Lena was quite certain that responsibility for bridging the gap lay with the individual:

> *We're one of the worst countries for a state pension, but what is the government going to do about it, nothing. So yeah you get that but it's not enough to keep you so you have got to think ahead, you've got to save, you've got to get a good pension, you've got to go with a good company. So I think it is really your responsibility to do a lot of homework.*
>
> Lena, 68, annuity, non-advised.

Many participants did not see increased responsibility as a negative, but instead saw it in terms of more freedom and flexibility, although several participants also showed an awareness of the risks associated with this:

> *I think it's a great idea because of people like myself, who are struggling with the physical aspect of the work. I think it's great. I think there will be lots of*

people who will, for example, go out and buy a Porsche or Ferrari and hang the consequences and that concerns me. Fortunately, I'm not that type of person, but I think for some people it could be the goose that laid the golden egg. I don't know if they can be trusted to use it sensibly.

Blake, 60, drawdown, advised.

Insecurity and asset-based welfare

Despite generally being in favour of the pension freedoms policy, the sense of risk reflected in the above extracts also draws attention to how feelings of individual freedom can be accompanied by a sense of insecurity. This is evident in the difficulties experienced by participants in assessing multiple uncertainties regarding their future when making their decumulation decision. These included: health, inheritance, the need to receive or provide care, and the material wellbeing of their children.

In the face of such insecurity, participants often described their various assets, particularly housing, as providing a sense of reassurance. This can be seen as part of a wider trend towards asset-based welfare – a linked but distinct concept to financialisation – as a means of individuals providing for their long-term security. Asset-based welfare (ABW) describes the way in which individual ownership of assets, such as pensions and savings, has become increasingly important for individual welfare (Prabhakar, 2019). While many derive a sense of subjective security from the ownership of assets, there are several issues associated with having a system where people are reliant on such assets, particularly as ownership of assets diminishes.

Many of the participants in our study referred to housing assets, or *home ownership*, as providing some security in the face of possible future income insecurity. When asked if they had any concerns about how they will manage financially in the future, references to using the value of the home were commonplace:

No, because there are options to me, I can downsize, you know I've got a valuable asset in owning my home. I know lots of, particularly females, as a result of divorce but I know this affects males as well, who don't own anything. And they have had very high earning careers and end up in their 60s and 70s not owning any assets. So, I have assets and I will at some point have an inheritance.

Kayleigh, 63, full withdrawal, one-off advice appointment.

I've got my house, so if all else fails… I've got some money tied up in my house. And that will keep me going for a while, probably as long as I need. I've got a state pension… There will be some other opportunities that pop along that, you know, give me a little bit extra…

Greg, 66, drawdown, non-advised.

Relying on housing as an ultimate failsafe against financial insecurity is problematic for a number of reasons. Firstly, while the UK has seen rising housing prices in recent years, it is far from certain that this will continue long-term, and housing markets may become more volatile going forward. Indeed,

as demonstrated by the 2007/08 financial crisis, house prices can decline very quickly, a fact many participants themselves were aware of. Furthermore, people may over-estimate their ability to downsize in the face of adverse circumstances, particularly given the stresses and costs involved with trading down. This means that, even if the value of their home is maintained, it may not be practical to release this if/when needed. From a policy perspective, the reliance on housing is also problematic because of declining rates of home ownership, so future generations of pensioners will be less able to rely on housing wealth as a source of retirement finance. Indeed, a recent PPI briefing paper focusing on issues of sustainability, adequacy and fairness in pensions systems points to this very issue, noting that changes brought about by the financial crisis:

> catalysed a significant redistribution of wealth towards owners of homes and other assets as values rose. As a result, rates of home ownership are declining in the UK, particularly among younger age groups, and more people are facing higher living costs by renting in later life (PPI, 2021b, p.5).

There were, however, other forms of asset ownership that gave participants a sense of security about the future, although these were less common. For example, some participants, particularly those with a financial adviser, derived confidence from the long-term performance of markets. They believed that, in the long run, market investments would pay off provided risk was managed accordingly. For example, when Edward was asked how confident he was that he would manage financially in the future, he stated:

I feel very confident about it. I think the markets will always be there, there will always be plusses and minuses but again I think if you've got conservative investments and you are not chasing the next pound, I think you can make them work very well for you.

Edward, 67, drawdown, advised.

Despite this, the reassurance provided by markets was much less than housing, and most participants with investments were well aware of the risks associated with stocks and shares:

So in the last four and a half years, I've had one negative year where I've made losses on paper, and I've had three and a half positive years. So I'm ahead in terms of investment. I've made back what I've taken out of my pension, if you see what I mean, but I'm trying to go down the path whereby what I take out grows again…So my pension is sustainable. I can keep doing this moving forward. So far, it's so good, but I'm fully aware that that can turn sour quite quickly and I'd have to be more frugal, if that happens.

Hector, 55, drawdown, two one-off advice appointments with different advisers.

While some participants did feel confident about market returns, many also appreciated the inherent riskiness involved in this type of income. Such riskiness again makes it difficult for consumers to make optimal decumulation decisions, and calls into question the overall security provided by a system relying so much on stock market returns.

Security from potential of work

Finally, some participants gained a sense of security from the belief that they could return to work or increase their hours of work if necessary. For example, in the context of questioning whether he was withdrawing his pension savings at an unsustainable rate, Steve talked about the option of going back out to work, if necessary:

> *I'm drawing at the moment about 8% or 9% of my pension pot, which with my background, I do have an understanding of pension values and things and I think you probably really ought to not be drawing more than 4% or 5%. Now, when my wife's 55, she used to work in the bank as well so she's got a pension pot, which she will then start drawing on and I'll reduce what [I] drawdown then. Also, at 67 I think I get the state pension, so I'll probably be able to reduce a bit more then. So, I have a bit of concern about the amount I'm drawing out, but it's not causing me grave concern at the moment. I need to think about going out and getting more work, but I just got too used to doing nothing, to be honest.*
>
> Steve, 58, drawdown following DB-DC transfer, advised.

Such assumptions regarding the ability to work in the case of financial hardship could be problematic due to health limitations as people age, but also because of the availability of jobs in the future, which is again largely uncertain. Furthermore, biases in hiring practices are likely to continue to discriminate against older people.

Summary

The future is inherently unpredictable, and DC pension consumers are put in an extremely difficult position by having to navigate these uncertainties and take on the majority of associated risks themselves. This includes uncertainties around health, longevity, market performance, the need for care, and potential future caring responsibilities. People are largely aware of these insecurities and try their best to navigate them, but such uncertainties add further pressure and difficulty to the DC decumulation decision making process.

Furthermore, on a policy level, the current situation regarding risk is also concerning because it could well become unsustainable, particularly in the face of a sustained market downturn. There are potential buffers that safeguard against both the sense of insecurity and the risk to retirement incomes – particularly in housing. However, such an implicit system of asset-based welfare might also become problematic in the future, particularly due to declining rates of home ownership, but also because of the ever-present risk of a housing market downturn.

It is therefore crucial that policy makers pay more attention to the overall sustainability of reliance on DC pensions, to avoid a future where more and more pensioners live on low incomes resulting from flaws in the existing system.

Policy recommendations and next steps

In this report we have outlined several fundamental problems with the current defined contribution pension system from the point of view of consumers. Many changes need to take place to address these issues and improve the support available for those making a withdrawal decision. These include:

- Creating more flexible, better value products
- Improving access to regulated financial advice and expanding the scope of money guidance
- Improving access to alternative forms of face-to-face support, such as workshops and workplace seminars

Recommendation 1 – Create more flexible, better value products

As our findings have shown, the inherent uncertainty and unpredictability of modern life means that even the most suitable, accessible, financial advice and planning can't fully take account of potential long-term changes that may affect people's future options, or the suitability of a decision made several years earlier. There has never been greater need for innovative and flexible approaches to retirement products that can adapt to the changing needs and circumstances of individuals who have to manage their income and assets over a longer period than previous generations.

- **The FCA should introduce a charge cap for investment pathways and drawdown arrangements.** This will offer much greater protection, avoid consumers paying unnecessarily high charges, and help rebalance some of the responsibility for achieving good consumer outcomes.
  - The steps taken by the FCA to address the harms and help consumers make better choices, as outlined earlier in this report, are currently geared around improving consumer communication and providing clearer information about risks and options.
  - It is simply not enough to raise awareness of 'open market options' or to point people in the direction of drawdown price comparator tools. These solutions place too much responsibility (and associated risk) on individuals for assimilating complex information and making decisions in a context that they are not well placed to negotiate.
  - This 'light touch' approach can be contrasted with approaches to regulation that set criteria for pricing, or the terms and conditions of product agreements, such as in the case of high cost, short term, credit.
  - The FCA should therefore also consider a more interventionist approach in the DC pensions arena.
- **Providers of retirement income solutions must prioritise product innovation.** As people's retirement income needs change in the context of existing and future socio-economic challenges, product development and flexibility are essential for meeting these needs more effectively.
  - Participants were often worried about being locked into a decumulation decision that later turned out to be unsuitable, with the onset of illness or other unpredictable changes in their needs and circumstances. Consumers want, and need, both security and flexibility.
  - Notwithstanding the current low interest rate environment, providers should also consider ways

to increase appetite for guaranteed lifetime income products. Participants in our study who opted against annuitisation did so because they perceived it to be poor value for money, too restrictive and, in some cases, unappealing because they could not pass on pension funds to their family.

- Product providers must show their willingness and capacity to adapt to changing consumer needs by introducing more flexible product terms and features. These could include hybrid products that provide drawdown options *and* guaranteed income, more 'mix and match' options, and 'inheritance guarantees' on annuities.
- One area of consumer financial services that has seen relatively significant product innovation in recent years is equity release and later life lending. Many products are now available with features such as downsizing protection, voluntary repayments without early repayment charges, inheritance guarantees (that provide borrowers with the reassurance that they can protect a proportion of their home's future value to pass on to loved ones) and interest servicing (that give consumers the option to make interest repayments initially with the option to revert to roll-up interest at any point if their circumstances change).
- The pension industry might usefully look to the equity release industry for insights on how to meet the challenge of developing products that meet a wider range of consumer needs and circumstances.

Recommendation 2 - Improve access to regulated financial advice and expand the scope of money guidance

It is impractical to expect defined contribution pension consumers to engage with the decision-making process *just* on the basis of existing support – namely money guidance, Wake-Up Packs/risk warnings, and Investment Pathways. The majority of people simply do not have the intuitive understanding of the pensions landscape necessary to *independently* make informed, confident, decumulation decisions.

- **Access to affordable, *trustworthy* regulated financial advice should be expanded as an option for all DC pension consumers**. Through the introduction of pension freedoms, Government has created a situation where individuals are taking on too much responsibility and risk for securing an adequate retirement income. Government therefore needs to redress this balance by taking responsibility for providing appropriate protection and support.
  - A price-capped, government-backed financial advice service is needed to overcome one of the key barriers to wider uptake of regulated financial advice: cost. Many participants in our study were unable or unwilling to meet the cost of financial advice, despite recognising they had a need for it. Current support for the costs, such as The Pensions Advice Allowance which allows people in DC pension schemes to withdraw up to £500 tax free from their pension pot to pay for retirement advice, isn't enough. Ability to afford the full cost of financial advice is only one part of the problem. Those with small pension pots struggle to find advisers willing to provide their services. A subsidised advice service would help to overcome these barriers but would, of course, require additional resource. There is, however, both an economic and moral case to be made here. If people do not get the right support now, there will be millions more people relying only on the state pension in the future.
  - Money and Pensions Service (MaPS/MoneyHelper) should do more to help people identify trusted advisers, as well as raise awareness of existing support so that people have a better idea of where to start. As our research has shown, many people do not have access to social networks which allow them to effectively identify trusted financial advisers. Guidance (e.g. Pension Wise) and regulated advice firms need to work much more closely together, so that referrals can be made to advice firms, or a panel of trusted advisers, as part of a more seamless journey from guidance to regulated advice.
  - Government should invest in an awareness raising campaign, so that more people know what help is already available for finding regulated advice. MoneyHelper offers a tool for finding regulated retirement advisers (with details such as minimum pot size, and whether they offer a free first meeting) – but this doesn't overcome the issue of knowing who to trust to provide good quality advice. The suggestion above would go some way to overcoming this barrier, but many of the people in our study did not seem to know that this tool existed. Alongside the development of a subsidised advice service, we also recommend the need for an awareness raising campaign, akin to the successful auto-enrolment/workplace pension campaign.

Expand the scope of money guidance

- As well as widening access to regulated financial advice, our research findings very clearly demonstrated the need for expanding the scope of money guidance (Pension Wise).
- What people want and need is to see the outcome of different decumulation options, based on their current pension pot, and to be given very clear guidance about the pros and cons of each of these options. They would also like clearer guidance on withdrawal strategies based on real life scenarios and relatable examples. This type of guidance would go far beyond that currently offered by Pension Wise, but it would stop short of offering personal recommendations and thus crossing the advice boundary.
- It is important to note that The Money and Pensions Service (MaPS) are currently planning a number of changes to the support available to defined contribution pension consumers. For instance, there are plans to better integrate digital forms of support into the guidance journey, including those that allow people to 'model' the outcomes of different withdrawal options prior to or during their guidance appointment. Such changes may go some way towards addressing the issues expressed by participants in this study, but this should not be done at the expense of 'offline' support.
- Adaptability and flexibility should be requirements of services as well as products. Our report identifies the importance of a 'soft skills' approach to advice and the ways in which consumers still value face to face contact with industry professionals who are sensitive to their needs and circumstances, ahead of making important financial decisions.

Recommendation 3 – Expand and develop access to alternative forms of face-to-face decision-making support, such as workshops or workplace seminars

This research has highlighted the need for more varied and engaging formats of information and support, far beyond that which is currently provided. Despite the potential effectiveness of expanding access and developing existing online tools, there is also scope for new interventions which utilise individuals' preference for face-to-face support and the need to develop peer networks.

- **Employers should invest in DC workplace seminars similar to existing DB seminars to help their employees build cultural and social capital**
  - Many participants who had a combination of defined benefit and defined contribution pensions

noted the usefulness of workplace seminars that had been provided for their DB scheme. These generally involved presentations from IFAs/advice firms, and the opportunity to ask questions and talk to others going through the same process.

- This could also provide another potential first step on the pathway to trusted regulated financial advice.
- Such sessions may be particularly valuable for targeting vulnerable groups with enhanced support.

- **Other agencies such as credit unions, local authorities and retail banks should consider the role they can play in offering these types of seminars to self-employed people**
  - Implementing the type of support outlined above would not be without challenge, not least because many DC pension consumers are self-employed and unable to receive workplace support. But this challenge could be seen as an opportunity for opening up an advice/guidance role for other agencies such as Citizens Advice, Credit Unions, Local Authorities and retail banks.

In summary, this report has highlighted some fundamental problems associated with DC pensions in offering adequate retirement security - concerns which have been documented elsewhere. The key issues with the existing system include, but are not limited to:

- The assumption that individuals will be able to engage directly with complex financial markets and products to achieve financial security. This research, alongside previous studies, has shown this expectation to be unrealistic.
- The expectation that individuals will be able to make their decision based on future circumstances that are effectively unknowable. This includes future health status, lifespan, care needs and market performance.
- The existing system disadvantages people who are already vulnerable to poor pension outcomes. For example, this research has shown how it is much harder for people experiencing adverse life circumstances (such as health issues, caring for an elderly relative, the shock of redundancy etc.) to engage with their DC decumulation decision. Furthermore, those from more disadvantaged backgrounds are also less likely to have access to networks of friends and family (i.e. social capital) that can help them with their decision.
- The existing system effectively places all the risk of market downturn onto individuals. This is particularly relevant to individuals in drawdown, but also relevant in general because of consumers' reliance on good market performance during accumulation.

There was a strong sense from the second stakeholder workshop that many of these problems are well-known to those within the field of pensions policy and regulation. However, so far, most attempts at reform have been relatively 'light touch', and have therefore failed to grapple with these more fundamental issues.

It is something of a paradox that auto-enrolment (introduced under the Pensions Act 2008) shifted the onus away from individuals and onto employers for retirement saving, underpinned by an assumption that individuals cannot be left to make suitably economically rational decisions. Yet, pension freedoms policy now places all the responsibility (and risk) for making optimal decumulation decisions on those who, in most cases, are least equipped to manage this effectively.

As individuals become increasingly dependent on DC pensions in the future, it is essential for policy makers to meaningfully engage with these risks, so that the pension system can be truly relied on to achieve its overarching objective of providing financial security in later life.

Appendix 1

Current decision-making support available to defined contribution pension consumers, as set out by the FCA

- **Wake-up packs**[11] - These are designed to give DC pension consumers 'timely, relevant and adequate information about their retirement options to enable them to make an informed decision' (FCA, 2019). They are sent out by pension providers when consumers reach 50, then at 5-year intervals until the pension is fully crystallised. The first wake-up pack includes a single page summary document of an individual's pension savings (including the current value and clear and information about Pension Wise) and a generic retirement risk warning. Subsequent wake-up packs also include a Money Advice Service Fact Sheet and specific risk warnings based on a consumer's individual risk factors.
- **Pension Wise** – Launched by the Government in 2015, this service is intended to act as a first port of call for those approaching retirement who need more information about accessing their DC pension. While Pension Wise is unable to offer financial advice, it can provide free and impartial information and guidance through face-to-face or phone appointments. From June 2022 pension providers will also be required to give their clients a 'stronger nudge' towards Pension Wise. This will include a referral to the service and an explanation of its purpose (FCA, 2021).
- **Investment Pathways** – In February 2021 the FCA introduced four 'investment pathways' that providers must offer non-advised customers if they opt to receive this support. Non-advised consumers who enter drawdown or transfer to a drawdown account are initially given three options: choosing investment pathways, choosing their own investments, and sticking with the investments they already have. Those who chose investment pathways are then offered four pathways based on what they plan to do with their savings in the next five years.
- **Annuity information prompt for consumers interested in purchasing an annuity** – Existing FCA rules require firms to let consumers know about the potential gains of shopping around before they purchase an annuity (FCA, 2017). Firms are also now required to ask consumers additional questions to help determine whether they are eligible for an enhanced annuity (FCA, 2019).
- **Key Feature Illustrations (KFI) for drawdown consumers** – Pension providers are required to send consumers a KFI when they move funds into drawdown, withdraw pension income for the first time (if this happens later), or withdraw a one-off (UFPLS) chunk from their pension pot. This must include key front-page summary information and information on the one-year single charge figure in cash terms.

[11] These are officially termed 'open-market options statement'

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