Planning for retirement in the 2050s

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WPI Economics

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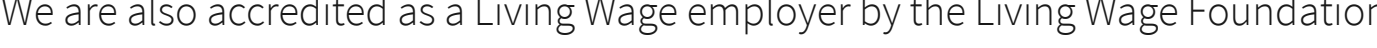
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About data in this report

This report presents a range of original analysis of the challenges facing people saving for their pension and retiring in the UK. This includes results from an online survey of 3,000 adults aged 18 to 75 across the UK, which was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023.

Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

For more information on the survey please contact Katie.Hawkins@Ipsos.com.

Throughout the report, all findings are from the UK version of these surveys, unless otherwise specified.

About Aviva

Aviva provides pensions, life insurance, general insurance, health insurance and asset managementto 18.7 million customers. We are the UK's leading insurer, serving one in every four households. Almost 14% of the UK population are saving or retiring with Aviva. We look after over 26,000 corporate clients, ranging from large multinationals to small start-ups, and over £4million workplace pension scheme members within our workplace business.

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Doug Brown, UK&I Life CEO, Aviva

The UK pensions landscape is going through a period of significant change. With the continued success of auto enrolment, by 2050 most people will have accrued a significant amount of money through their defined contribution (DC) pension, which they will need to actively manage throughout their working life and into retirement.

However, our research shows that most savers don't feel equipped to manage that wealth, and currently the support isn't in place across the whole system to help people navigate these complex choices.

Through this research, we've taken an in-depth look at the challenges and opportunities facing this new DC mass-market, from their attitudes towards saving and retirement, to the policies and support needed to help these savers maximise their pension pots, make the right decisions at retirement, and have financial security in later life.

Currently, there is no single vision for managing the challenges facing DC savers. We are therefore calling for the development of a blueprint for the support DC savers need throughout the savings and retirement journey.

This blueprint should set out a holistic view of the pensions system and a single strategy for how policy should fit together to maximise outcomes for this new mass-market, considering the needs of our savers at every stage of their working life and retirement journey.

In this report, we've set out some key actions which we think will play a significant part in helping to deliver this blueprint – from boosting engagement and empowering people to actively manage their savings through the Pensions Dashboard, to introducing measures to drive investment performance, and developing a new approach to whole-of-retirement planning and support.

Underpinning all of this is the need to transform professional support to meet the needs of the new mass-market, from considering the role of simplified and hybrid advice for DC pensions and transforming take-up of professional advice, to delivering more effective, personalised communications and guidance.

Key to the success of this approach will be consensus and collaboration.

At Aviva, we look forward to working in partnership with all policymakers, regulators, and consumer groups to deliver on this ambition.

Executive Summary

How we retire is changing. This report draws on new evidence and analysis to understand what this means for future retirees. The focus is on the first group of people to feel the effects of these changes in full – the retirees of the 2050s, but the implications are relevant for all future retirees.

At the heart of the challenge is the move from defined benefit (DB) to defined contribution (DC) pensions, the success of auto enrolment and the introduction of Pensions Freedoms. Together, these have created a new mass-market of DC savers who need to make time-sensitive and potentially life changing decisions both about how much and how to save and invest in their pension and then, how to translate this wealth into retirement income.

The key finding in this report is that this has happened without being accompanied by the necessary knowledge, understanding and tools that will be needed to navigate the market effectively. In this respect, the report makes the case that future retirees are currently underserved by the policy and regulatory landscape, and there is a need for a new blueprint of support for this mass-market of DC savers.

Transforming the advice market, providing better support through the working life and making better products available to manage retirement will be essential to ensuring that future retirees make the right accumulation and decumulation decisions, and can achieve the retirement incomes they desire when in combination with their state pension provision.

Box 1: Our future 'mass-market' of DC savers

The cohort we are focussing on for this research are those earning £25k-£45k a year who are likely to retire in the 2050s, and so will be aged between 32 and 40.

The vast majority of those in this group will have substantial DC savings, very likely to have been built up via auto enrolment.

Unless they are long-term public-sector workers, few of those in this group will have substantial DB entitlement.

Our mass-market of DC savers:

- are less likely to be homeowners than those of a similar age from different cohorts.[i]
- will likely have several DC pots from different jobs throughout their lives, many of which will be small in value.[ii]
- have lived through the rise of fintech and open banking, and are likely to be 'digitally enabled' consumers.[iii]
- have worries and concerns about how they will manage in retirement, and little knowledge of the retirement income options that Pension Freedoms have opened up to them.[iv]

New challenges facing 2050s retirees

The starting point is a set of twin challenges facing 2050s retirees. Most of this cohort will have accumulated significant DC savings during their working lives. However, for the most part, this will not be via the active choice of contributing to their pensions, nor will it be based on an informed assessment of the size of DC pension pot they will need to meet their retirement needs. Rather, these savings will have been accrued by default via auto enrolment.

This presents the first challenge facing these retirees: even with these significant DC savings, for many future retirees, a sizable gap will remain between how much people save and how much they will need to live comfortably in retirement.

The second challenge is that, even if the current default savings levels remain unchanged and we fail to reform pensions investment, many will retire with sizeable pension pots that they might not be equipped to effectively manage.

New modeling for this report demonstrates a "typical DC savings scenario", which shows that someone saving 8% on a median wage throughout their life is likely to have a pot of £225,000 when they retire in 2050.

While this may not to be enough to provide for a moderate retirement according to the Retirement Living Standards[v] – it is still a significant amount for any lay person to manage without help from professional advice.

Without this advice, retirees are left with incredibly complex decisions about how to translate significant wealth into a stream of income that will last throughout their retirement, without knowing how long it will need to last for.

The risks here are clear; poor choices, driven by a lack of knowledge and understanding could further deteriorate the incomes available to future retirees.

How prepared are 2050s retirees?

To understand the extent to which people are prepared for these challenges, this report draws on representative online polling (based on age, gender and region) for the population in the UK and United States, of those currently of working age and those who have already retired (up to the age of 75).[vi]

Our focus within this is on those currently on middle incomes (between £25k and £45k per year) who are set to retire in the 2050s.

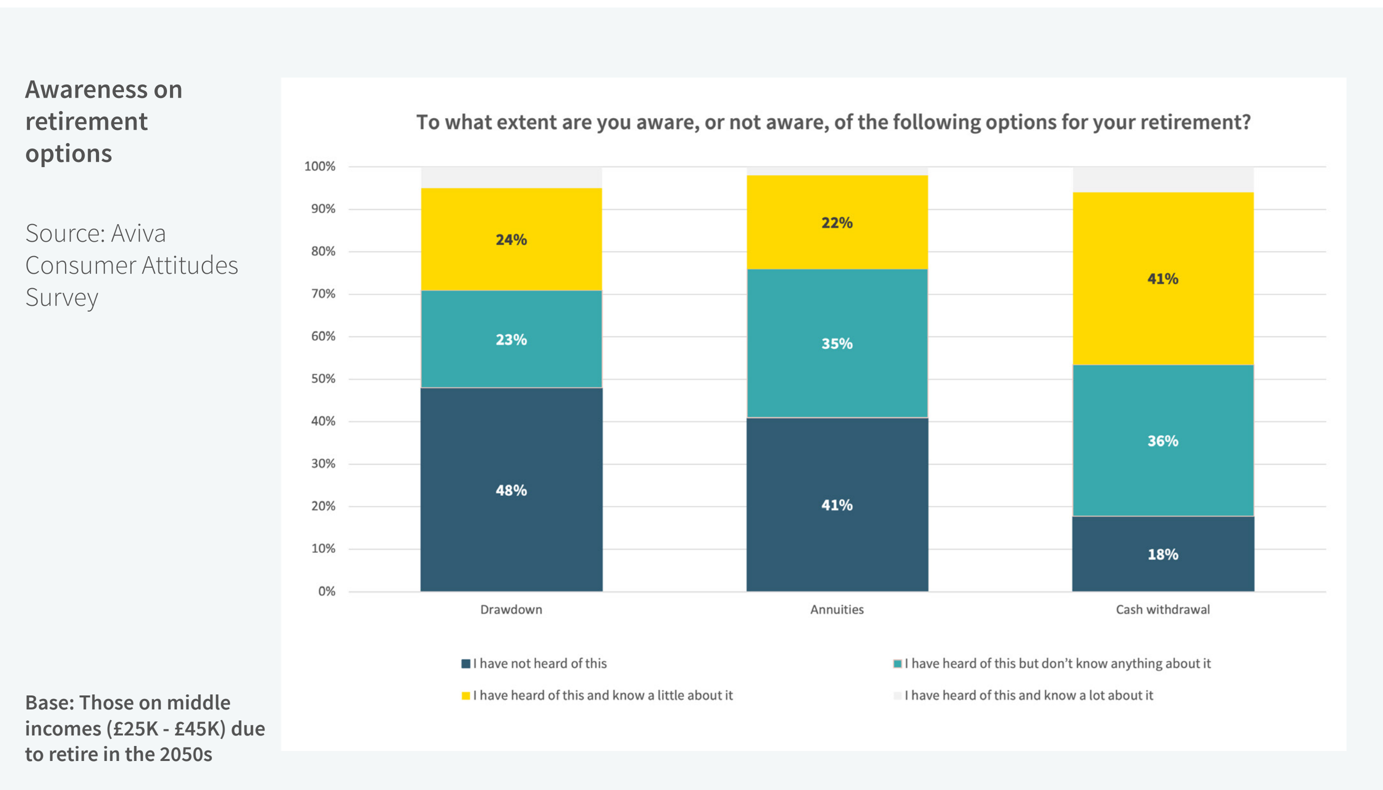
The results suggest that many people are ill-equipped to make pensions savings decisions on their own and lack the knowledge, information and support they need. A key example is that, when asked about the level of income they would need for a minimum standard of living in retirement, 6% of those on middle incomes who are set to retire in the 2050s thought that they would need less than £15,000 a year.

In contrast, nearly one in ten (8%) said that they would need more than £55,000 a year (with 4% saying that they would need more than £100,000 a year); which is more than their current income levels.

This lack of understanding extends through to a lack of knowledge of how much they need to save to get to their desired level of income and how that could actually happen.

The costs of poor understanding of savings needs and approaches can be significant.

> 64% of those on middle incomes who are due to retire in the 2050s say that they **do not understand how much they need to save** and invest before retirement to achieve their desired retirement income level.



Awareness on retirement options

Source: Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

The costs of poor understanding of savings needs and approaches

- If the saver in our "typical" DC savings scenario described above put aside an extra 2% of income a year in their DC pension, this could increase their total DC pot on retirement by £56,000 (25%).
- Working for another two years could increase the total DC pot on retirement by nearly £19,000 (9%).
- A 1% higher rate of return could deliver an additional £46,000.

Even more significant than these is the risk of scams which can potentially part people from most or all of their savings, and rely on a relatively low understanding of pension saving among the public.

The findings also show that many 2050s retirees know very little about the options open to them when they retire. As already highlighted, the introduction of pension freedoms has made these decisions significantly more complex, with greater flexibility on what to do.

As with the accumulation phase, ensuring that the right decisions are made will require retirees and those approaching retirement to understand the options available to them and make informed and effective choices.

However, many of these individuals are 'triple defaulters' – with default contribution rates, investment funds, and retirement ages – and so will not be engaged in pensions decision making. Indeed, our polling shows that more than half of all of those due to retire in the 2050s have either never heard of, or know nothing about, both drawdown and annuity options.

This lack of understanding feeds directly through into savings decisions; if you do not know how much income you will need in retirement and how you plan to realise that, it is impossible to understand the size of the pension pot you will need and how to save and invest to get there.

With this in mind, it is no surprise that **just 19% of people on middle incomes in the UK who are set to retire in the 2050s say they feel completely or somewhat prepared in terms of how they will fund their retirement.**

To understand more about the scale of this lack of understanding and the potential impacts on 2050s retirees, we developed a scenario to test through our polling. This presented respondents with the likely level of DC pot that a typical worker, on average salary, retiring in the 2050s might have accumulated (£225,000). [vii]

The results were striking.

- Just one in four (27%) of middle-income 2050s retirees said that the pot was not much higher than they expected.
- More than half (52%) of middle-income 2050s retirees agreed that they "wouldn't know where to start", when it came to planning for their retirement if it was them in the scenario.

The impact of this lack of understanding could be significant. When asked about what they would do with a pot of £225,000 on retirement, **nearly half of middle-income 2050s retirees say that they do not know what they would do.**

Nearly one in ten (9%) said that they would take the whole pension pot as cash, which would leave them with a very large tax bill and could be a highly inefficient from a perspective of investment returns. As a result, this could leave a substantial risk that they will run out of money in later life.

> A 2050s retiree choosing to withdraw the whole of a pension pot of £225,000, would face an additional **income tax bill** of £73,539.50 and lose more than the **equivalent of last 15 years'** contributions.

Given these findings, it is no surprise that more than half of all those on middle incomes who are set to retire in the 2050s would worry about making the right decisions on how to spend the pension pot.

Our polling also reveals that, compared to those who retired before Pensions Freedoms came in (i.e., more than 10 years ago), those who have retired recently are much more worried about making the wrong financial choices.

The desire and need for support

The findings above point to a significant driver of these problems being confusion and poor understanding both in the accumulation (savings) and decumulation (retirement) phases of the pensions landscape. This means that support, through effective advice and guidance, is crucial in meeting this challenge.

Thankfully, **most UK adults who have yet to retire recognise their existing lack of capability and want more help to make better decisions. Our polling finds that independent, unbiased advice is wanted by the majority of people in this group (72%).**

However, relatively few of those retiring in the 2050s have actually taken advice during their working lives. In fact, **just one in ten (10%)** of those on middle incomes retiring in the 2050s have taken advice.

This compares to nearly four in ten (37%) of the same group in the United States.

This lack of action is also regretted by those who have already retired; nearly six in ten (58%) of people who have retired in the UK in the last ten years say that they “wish they had known more when [they were] younger about [their] pension needs now”.

What can we do?

All of this shows that the seismic changes introduced into the pensions landscape have not been accompanied by the support and products that people need to make the most of the opportunities available to them.

This urgently needs to change to ensure that:

- People have the support they need throughout their lives to make the right decisions on pensions.
- This support meets the needs of a new mass-market of DC savers; **our modeling suggests that in the 2050s, 3.4 million people retiring in the UK will have accumulated DC pots worth over £225,000.** [vii]

The key to successfully addressing these issues will be a consensus – underpinned by the stark evidence and analysis from this research – **around a single new blueprint of the support needed by the mass-market of DC savers,** outside those of high net worth.

This blueprint should take a holistic view of the pensions system and how policy should fit together to **maximise outcomes for this new mass-market, considering the needs of our savers** at every stage of their working life and retirement journey.

As a starter for 10 on delivering such a blueprint, the report outlines 7 practical policy recommendations:

Summary: 7 key actions to support the DC mass-market

1. Transform professional support to make it work for this new mass-market for wealth management:
    - Set a policy ambition that the vast majority of DC savers (particularly those likely to have more than £200,000 to manage) will get professional advice.
    - Focus the current review of the advice framework on the measures needed to properly serve this new mass-market.
    - Remove regulatory barriers to allow providers and other regulated entities to deliver more effective support, such as personalised guidance.
2. Transform the take-up of professional support for DC savers:
    - Promote the delivery of advice and guidance through the workplace.
    - Create financial incentives – for example by re-vamping the pensions advice allowance.
3. Set a clear roadmap for expanding auto enrolment over the next decade:
    - Deliver the 2017 auto enrolment review recommendations.
    - Sustainably increase minimum contributions above 8%.
4. Introduce new measures to drive investment performance and better returns:
    - Policy measures to encourage pension schemes to diversify investment strategies and invest in higher return assets.
    - Drive a broader cultural shift across the industry to focus on maximising overall performance rather than the current focus on minimising costs.
5. Agree a comprehensive strategy to boost engagement with savers at all stages:
    - Coordinated industry wide awareness campaigns.
    - Scale-up Mid-Life MOTs.
    - Address regulatory barriers that reduce effectiveness of communications providers can send to members.
6. Deliver Pensions Dashboards as a tool that allows people to manage their savings and take actions, such as consolidation of small pots, to improve outcomes and efficient management of savings.
7. Develop a new approach to whole-of-retirement planning and support:
    - Develop guidelines and norms for the effective management of DC wealth throughout the whole-of-retirement.
    - Encourage providers to work with their customers to develop a whole-of-retirement plan.
    - Develop and pilot Later-Life MOTs to engage retirees at critical decision points.

1. Introduction

The pensions landscape in the UK has fundamentally changed. The decline of Defined Benefit (DB) pensions, the rapid rise of Defined Contribution (DC) saving driven by auto enrolment,[viii] and the pension freedom reforms have collectively transformed the long-term savings landscape.[ix] These changes will impact all future retirees. Providers, policymakers, and other institutions must respond.

To understand the challenges ahead, this report looks at those who are set to retire in the 2050s; the first group of individuals to have experienced these revolutions end-to-end. In particular, it focuses on those retiring in the 2050s who are currently on middle incomes.

Whilst the implications of the changing pensions landscape will be felt by all, this group will see the biggest shift in their pensions experience, with a significant increase in the wealth they have to manage, and less likelihood (than those who are high-net worth) in having experience in this sort of financial management.

The scale of this challenge could be significant. Modelling for this report suggests that **the typical middle-income earner, contributing 8% into a defined contribution pension throughout their working life, could retire with a pension pot of £225,000 in 2050** to provide them with an income supplemented by their state pension.

This seismic shift in the pensions landscape leaves our 2050s with two key challenges:

1. Ensuring that they have enough saved and invested to meet their income needs in retirement, given the increased emphasis (compared to DB) on individual choices over how much to save; and
2. Ensuring that they make well-informed decisions on retirement, so that their savings and investment are used in the optimal way, given the increased emphasis (compared to DB) on individual choices when people retire.

This report considers this double challenge. It draws on new quantitative evidence from the UK; polling with ~3,000 people in the UK including those of working age due to retire in the 2050s and those who have already gone through retirement since Pensions Freedoms have been introduced. It also provides a comparison with ~ 2,000 people polled in the United States.[x]

Polling has enabled us to unearth a whole range of new insights into their feelings and thoughts about their retirement, the wider factors influencing this, and what tools they need to help them navigate the new landscape.

Taking this into account, this report offers a series of recommendations for change to deliver a more prosperous retirement for our 2050 cohort and all those that follow.

Case study 1: Suzy

Suzy is a 33-year-old woman who works as a Hotel Manager in Sheffield. Her annual salary is £33,000 excluding performance bonus, which is in line with the median salary in the UK as per ONS data. She has been in the industry for a decade, having climbed her way up from entry level jobs. She has been in this position with the hotel for the past three years with a standard salary increase annually. Her annual pensions contribution has been 8% of earnings since she started working around 11 years ago.

Her current fund value is £27,500. However, taking her finances into account, including projected salary increases and total pension savings, she will have a pot £225,000 when she retires in 2050. She has never given retirement detailed thought, as having some pension gives her a sense of security, and she knows that she will be entitled to the State Pension too. However, she has begun to worry that she might not have enough in retirement, but doesn't know how or where to get the information she needs.

2. Three revolutions in pension savings

Before considering the requirements of the 2050 cohort, it is first important to recap the seismic changes that have occurred in the UK's pensions landscape which will shape their decisions and prospects.

Pensions are a major component of the UK's financial assets. Pension assets in the UK are equivalent to 120% of UK's GDP, [xi] a significantly higher figure than in many European countries, and the total value of pension wealth in the UK is greater than that of housing. [xii]

Occupational pensions play a major role in society as a provider of income for retirees, as well as an important economic role as a source of investment in a wide range of assets.

Pensions have evolved considerably in recent years - with the past decade witnessing three big changes:

1. The decline of DB pensions, driven by the rising costs to the employer;
2. The huge growth of DC pensions, driven by auto enrolment; and
3. The 2015 pension freedoms reforms, meaning retirees now face choices over how to translate pension assets into retirement incomes.

From Defined Benefit…

A Defined Benefit (DB) pension pays someone a guaranteed income from a contracted retirement date until their death.

The total entitlement from a DB pension is usually determined by length of service with a company, with the risk of funding the ultimate benefit resting on the employer. DB pensions are almost always more generous than DC from an employee perspective. They provide higher benefits and greater security in retirement at the cost of much higher contribution rates.

Membership in DB pension schemes has been steadily declining since the early 1970s;[xiii] however, the tipping point of their demise occurred more recently.

By the end of 2019, the UK passed the point at which Defined Contribution (DC) exceeded DB pensions in terms of: [xiv]

- **Total Membership** – there are 22.4 million members in DC schemes, in comparison to 18.3 million in DB.
- **Employee Contributions** – two thirds of total employee contributions to pensions are to DC schemes.

Only 10% of DB schemes outside of central Government departments remain open to new members, with many of these likely to be in local Government. Of the remaining schemes, 4% are winding up, and nearly half (48%) are closed to future accruals from existing members.[xv]

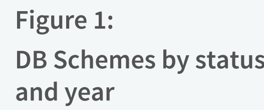
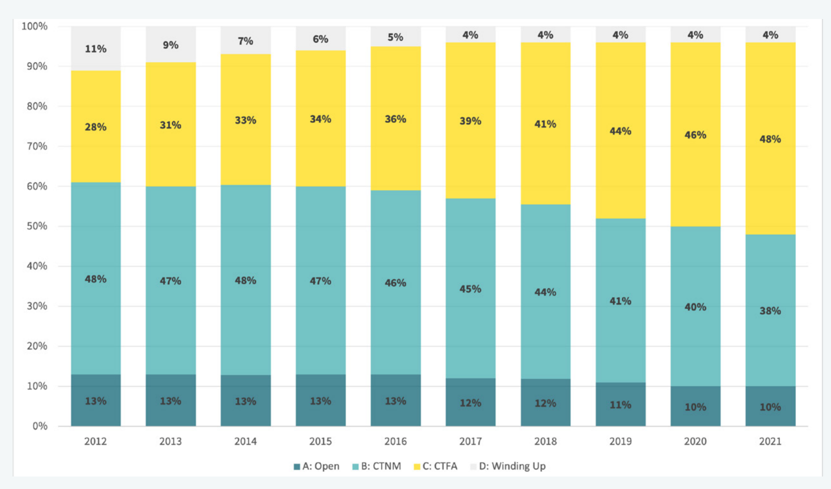


Figure 1:
DB Schemes by status and year

Source:
The Pensions Regulator [xvi]



However, funded DB schemes still hold a substantial amount of assets, totaling about £2tn. In addition, for current retirees DB schemes play a much bigger role, paying around three quarters of total benefits in 2019.[xvii]

…To Defined Contribution

A major contributor to the DC-tipping point has been auto enrolment (AE).

By defaulting most employees into a DC pension, it has played a significant role in transforming pensions savings in the UK following its introduction in 2012.

In the first 10 years of its implementation, AE has increased private-sector participation in every industry and occupation, resulting in more people having a pension than ever before.

In 2021, the workplace pension participation rate in the UK was at 79% (22.6 million employees).[xviii]

Levels of workplace pensions savings for previously underserved groups have also risen dramatically.

The proportion of women saving into workplace pensions increased by 50% from 2012 to 2021.

Furthermore, the 22-29 year old demographic doubled their participation in pensions saving during auto enrolment.[xx]

The total workplace contribution of all private sector employees increased to £62.3 billion in 2021 from £41.5 billion in 2012,[xxi] bringing total employee annual savings to £114.6 billion when including the public sector.[xxii]

A key differentiator between DC and DB is the expectations placed on employer and employee in each model.

DB is considered to be a feature of a more paternalistic employer/employee relationship – the risk of payment falls on the employer, while the management of the money during retirement is not done by the individual, but by the trustees.

The result to the member is a guaranteed income.

The only risk to the member is that the employer could go insolvent, which could cause their pension to go into the Pension Protection Fund, whereby they would risk losing a portion of their entitlement.

Conversely, in DC the funding and investment risks are almost entirely on the individual, who has the responsibility of converting the ultimate pot of money into a retirement income.

As we will set out, this shift has significant implications which are yet to be fully addressed by policy.

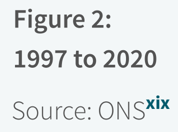
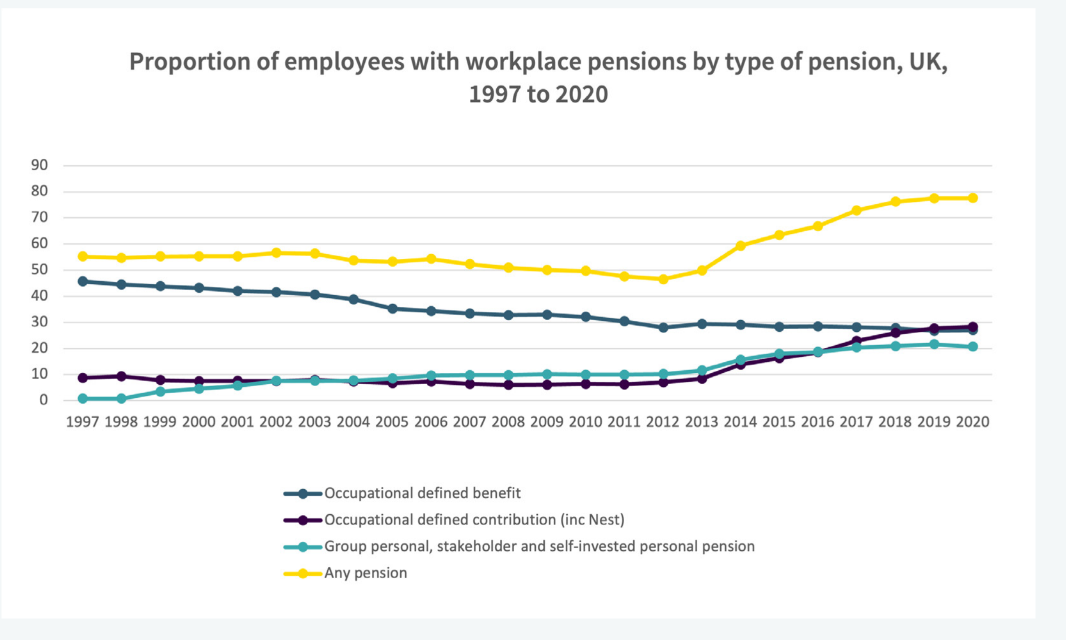


Figure 2:
1997 to 2020

Source: ONS[xix]



Pension Freedoms

The third and final shift relates to the decumulation element of the pensions journey.

Prior to 2015, an annuity was the only viable option for the overwhelming majority in retirement.

Once the Pensions Freedoms came into force in April 2015, most meaningful limits on the use of pension savings after the age of 55 were effectively eliminated.

This means that people could often take their pensions as cash, use a drawdown product to fund their retirement, purchase an annuity, or use a mixture of these options.

These reforms provided many people with unparalleled freedom on how they fund retirement, and proved popular in a low interest rate environment, when annuity rates were at historic lows.

However, the success of these reforms also relies on individuals understanding how they can convert their accumulated pension wealth into income in retirement in a way that they were never previously required to do.

Research suggests the impact of the reforms has been mixed.

In the five years to 2020, around £30 billion had been flexibly withdrawn.

Around 40% of flexible withdrawals amounted to an annual withdrawal rate of 8% or more, which is potentially unsustainable for many people in retirement. In addition, around £2 billion has been paid in unexpected tax bills.[xxiii]

Again, this report shows later that the implications of this and the risks it presents have not yet been fully addressed by policy.

What do the revolutions mean?

In 2050, the majority of retirees will have accumulated significant DC savings to fund their retirement.

For the most part, this will not have occurred as a result of proactive engagement with pensions, but rather through being defaulted into saving via auto enrolment.

Analysis for this report suggests that someone who earns a median salary throughout their lives and contributes 8% (through a combination of employer and employee contributions) into their DC pension could retire with a fund value of £225,000 in 2050.[xxiv]

According to the PLSA Retirement Living Standards, this is just over £20k less than is needed to achieve the 'moderate' standard of living in retirement.[xxv]

There are two significant challenges here:

1. Whilst going someway to ensuring that our 2050s retirees have a sizeable pension pot to turn into income in retirement, it is likely that for many, this will not be adequate to meet their retirement needs. This means that, to a much greater degree than with DB pensions, the move to DC pensions requires individuals to understand the level of pension wealth that they need to accumulate (the size of their "pot") and how they can actively save and invest to get there.
2. Having accumulated a potentially substantial sum largely via a default (and hopefully additional funds to meet their requirements), Pensions Freedoms then require people to engage with their pensions in much more active way as they approach and enter retirement. This creates a significant risk that individuals will not be sufficiently prepared or informed to make good decisions about the retirement choices that are right for them, or will be unable to manage those funds effectively during retirement. The costs of this could be significant.

With this in mind, it is no surprise that there is an increasing consensus that addressing these challenges requires an expansion of the types of help on offer to support pensions decision making – during both the accumulation and decumulation phases.

Policymakers, industry and other stakeholders have sought to address this through a range of initiatives including Pension Wise, Mid-Life MOTs, attempts to reform the advice market, as well as industry-led awareness campaigns. In addition, the state pension will form a substantial proportion of the retirement income of those on low to median incomes.

As we will go on to describe, if we are to secure the financial futures that our 2050s retirees, and those from following cohorts, wish to have, much more will need to be done.

3. Preparing for and retiring in the 2050s: how are we doing?

To understand the scale of the challenge ahead, this report draws on online polling of working-age adults and retired adults (up to the age of 75) in both the UK and United States. Our focus within this is on those in the UK currently on middle incomes, who are set to retire in the 2050s.[xxvi]

The experiences of 2050s retirees today

Before considering views, preparedness and choices over pensions, it is first important to understand the broader context within which our 2050s retirees are making decisions.

A cost of living crisis

Firstly, it is critical to address the acute challenges faced by this cohort due to the present economic circumstances, specifically the damage to real incomes caused by the various effects of the cost of living crisis.

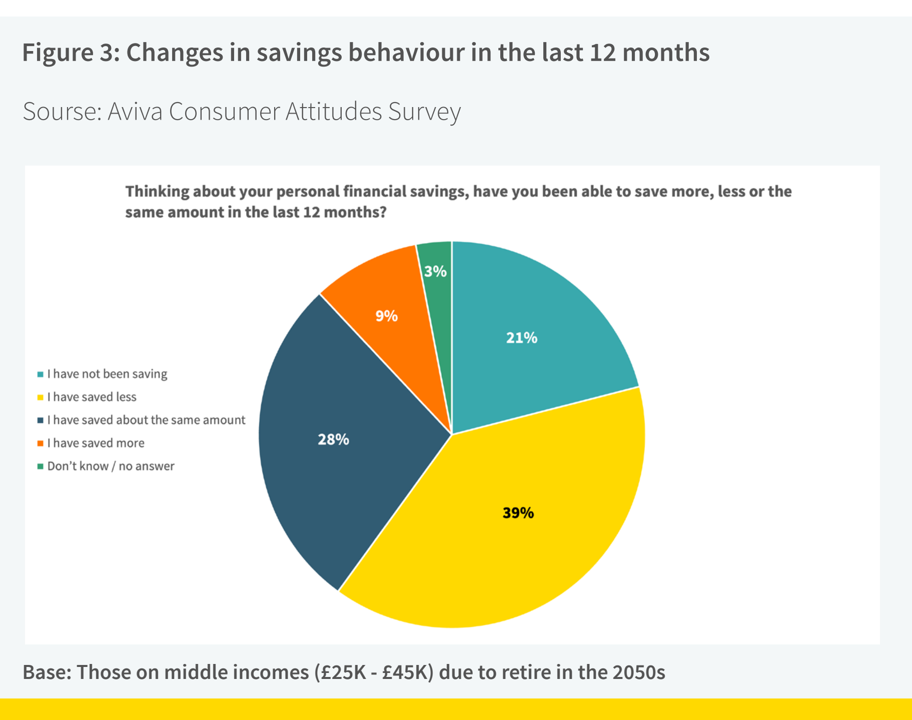


Figure 3: Changes in savings behaviour in the last 12 months

Sourse: Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

Our polling has found that nearly one in four (22%) of those on middle incomes set to retire in the 2050s are currently finding it quite or very difficult to manage financially.

More than half of those we polled (six in ten) who are due to retire in the 2050s and are on middle incomes say that they have not been saving or have reduced the amount that they have saved over the last 12 months.

This dip in saving may have long-term impacts. In particular, it may have a knock-on effect on medium to long term savings patterns if it causes individuals to change their behaviours.

Uncertainty about the future

This longer-term impact on savings behaviours will also be informed by expectations over the future of personal finances.

Here, the outlook is also poor, with four in ten (40%) of those on middle incomes who are set to retire in the 2050s expecting that the financial position of their own household will get worse over the next 12 months.

Increasing pressures when individuals reach retirement

There are also a range of demographic and macroeconomic circumstances which will place increasing pressures on future retirees.

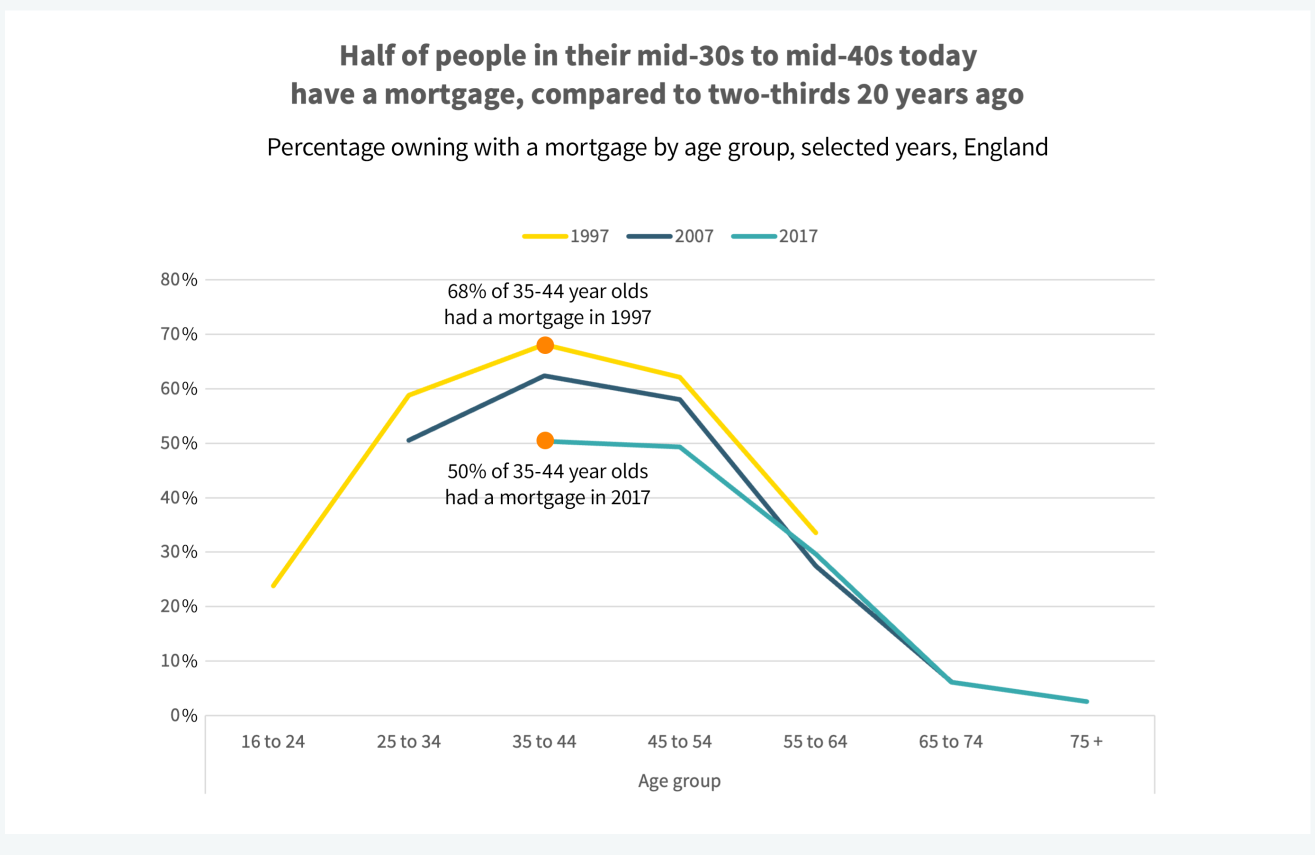
Chief amongst these is the fact that the housing situation facing future generations of retirees is likely to be different to that of current retirees.

This is driven by the fact that rates of home ownership at each point in life are much lower for younger generations than older ones, with the implication being that more retirees in future will still be paying rent or paying off a mortgage in retirement.

This will add significantly to their income needs in retirement and, in turn, require them to save more in their working lives.

Figure 4:
Percentage of homeowners with a mortgage by age group

Source: ONS [xxviii]



For retired renters or those with mortgages left to pay, achieving their desired standard of living in retirement will require a much bigger income than those set out the Retirement Living Standards. [xxvii]

Our polling found that one in four (24%) of those on middle incomes and in private rented accommodation who are set to retire in the 2050s say that they are likely to still be paying rent when they retire.[xxix]

ONS data suggested that today around 6% of people over the age of 65 rent privately.[xxx]

Of those on middle incomes, currently living in mortgaged accommodation who are retiring in the 2050s, one in ten (8%) said that they are likely to still be paying off their mortgage when they retire.

More generally, falling rates of home ownership in retirement could provide a significant hit to the pension incomes of future retirees who had expected to release housing equity as part of their retirement funding.

More than one in five (22%) of those in the UK on middle incomes who are set to retire in the 2050s are planning to release funds from their home in order to fund part of their retirement income.

This compares to less than one in ten (9%) of the equivalent group in the United States.

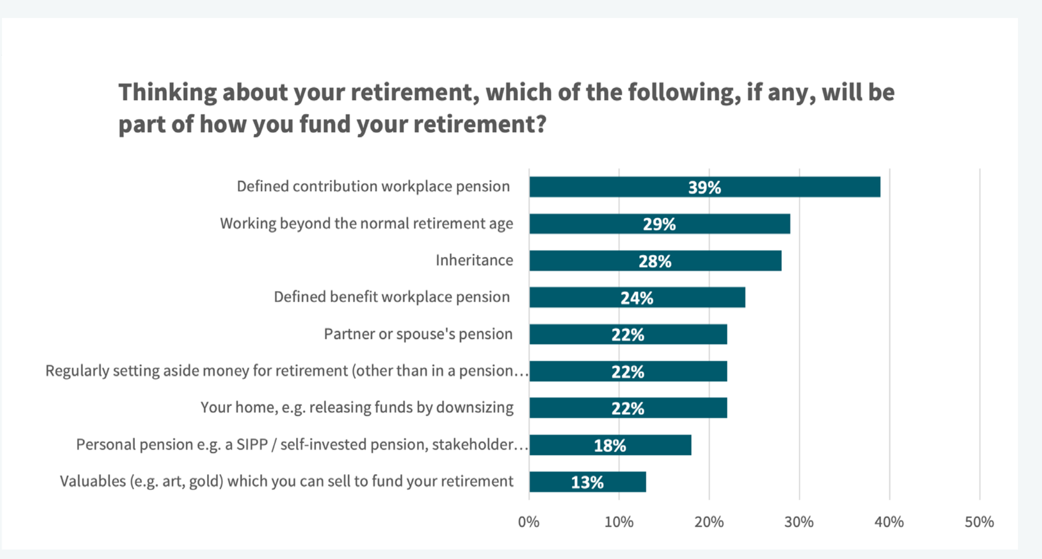
The fact that 2050 retirees, and those that follow, are much more likely to still have housing costs makes it all the more important to have a solid accumulation plan in place.

It will help mitigate some of the stress that comes with such major expenses and bring about stability in retirement.

Our 2050s retirees have begun saving

Figure 5:
Retirement funding options

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

Considering the importance of planning and actively engaging in accumulating pensions assets, it is encouraging that the vast majority of those who are part of the 2050s retirees are already saving into a pension (with 83% of this group having at least one workplace pension). There is also a wide spread of approaches, reflecting the range of options for funding available today (Figure 5).

The range of options available, and the fact that it is likely individuals will need to rely on a combination of these, mean that people will need a good understanding of the pensions landscape and how it applies to them.

Without it, making sensible decisions on accumulation will be impossible.

The challenge that this might present is again shown in Figure 5, which shows that, while 89% of this group report that they are employed, only 39% say that DC pensions will be a part of funding their retirement.

This might be a reflection of the fact that, while these savers do have a workplace pension, they are unaware of it due to being auto enrolled.

But they don't understand what they need or how to get there

Given their lack of understanding of even more straightforward concepts, like the presence of DC savings, it is no surprise that 2050s retirees currently have a significant lack of understanding across a wide range of issues related to their pensions and savings needs.

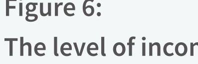
More than one in ten (11%) of those on middle incomes who are set to retire in the 2050s said that they did not know how much income a year they would need for a comfortable standard of living in retirement. For those that did have a view, the amounts suggested varied significantly, even amongst people of similar incomes.

The PLSA have defined three standards of living in retirement for individuals:

- **Minimum** - £12,800 a year, covers all your needs, with some left over for fun.
- **Moderate** - £23,300 a year, more financial security and flexibility.
- **Comfortable** - £37,300 a year, more financial freedom and some luxuries.

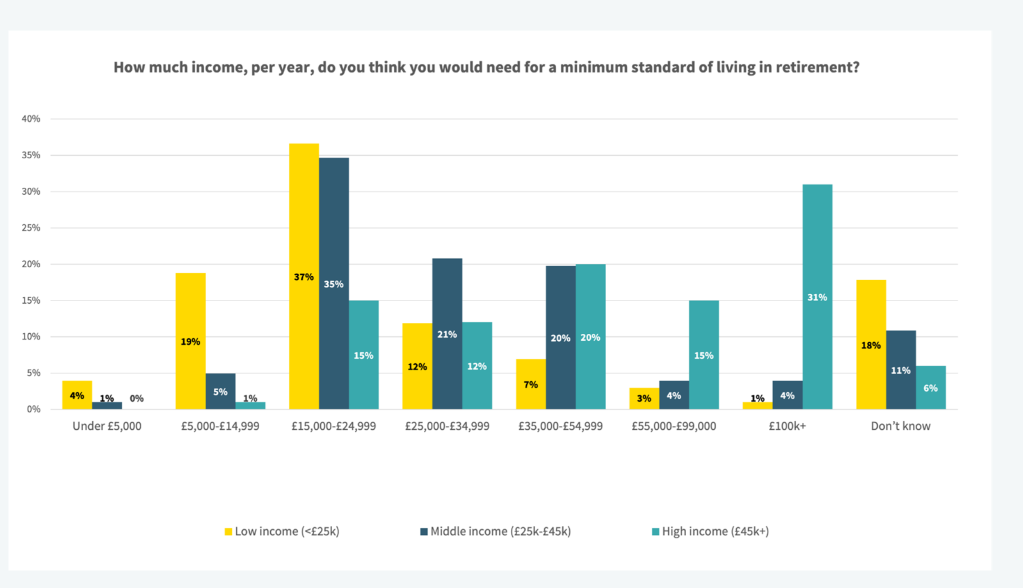
It is instructive to compare these to the thoughts and expectations of our 2050 retirees on what they will need.

Figure 6:



The level of income people think they need to achieve a minimum standard of living in retirement

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

For example, 6% of people on middle incomes (between £25k and £45k per year) who are set to retire in the 2050s thought that they would need less than £15,000 a year to achieve a minimum standard of living in retirement. In contrast, nearly one in ten (8%) said that they would need more than £55,000 a year (with 4% saying that they would need more than £100,000 a year), which is more than their current income levels.

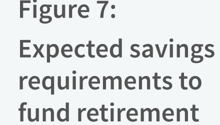
Regardless of the level of income people think that they will need, there is also poor understanding of how their needs can be met through retirement savings.

Overall, 64% of those on middle incomes who are due to retire in the 2050s say that they do not understand how much they need to save and invest before retirement to achieve their desired retirement income level.

The situation is even worse for those retiring in the 2050s who say they will rely on a DC pension.

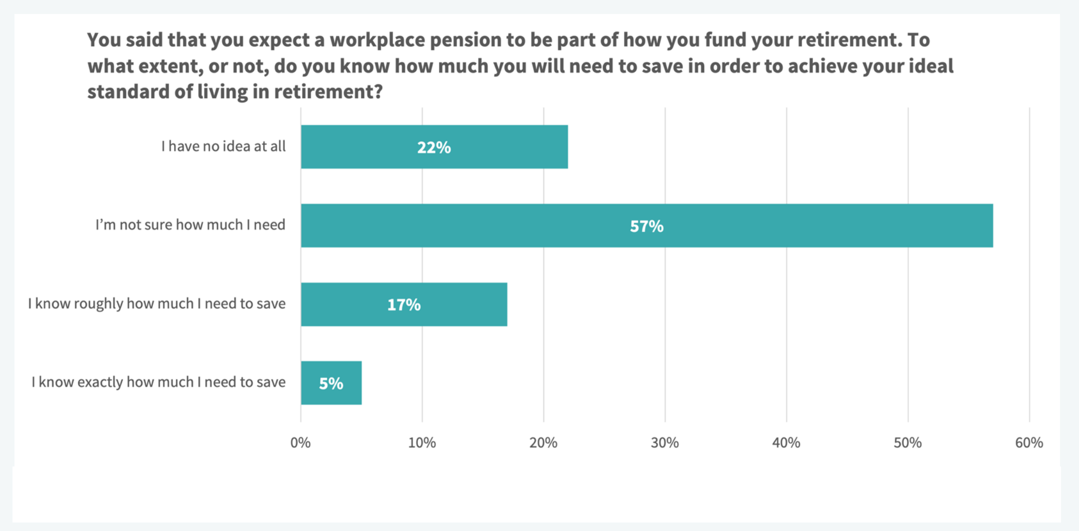
Amongst those of this group on middle incomes, nearly a quarter (22%) say that they have "no idea" how much they will need to save in order to achieve their ideal standard of living in retirement. A further 57% say that they are not sure how much they will need.

Figure 7:



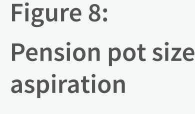
Expected savings requirements to fund retirement

Source: Aviva Consumer Attitudes Survey



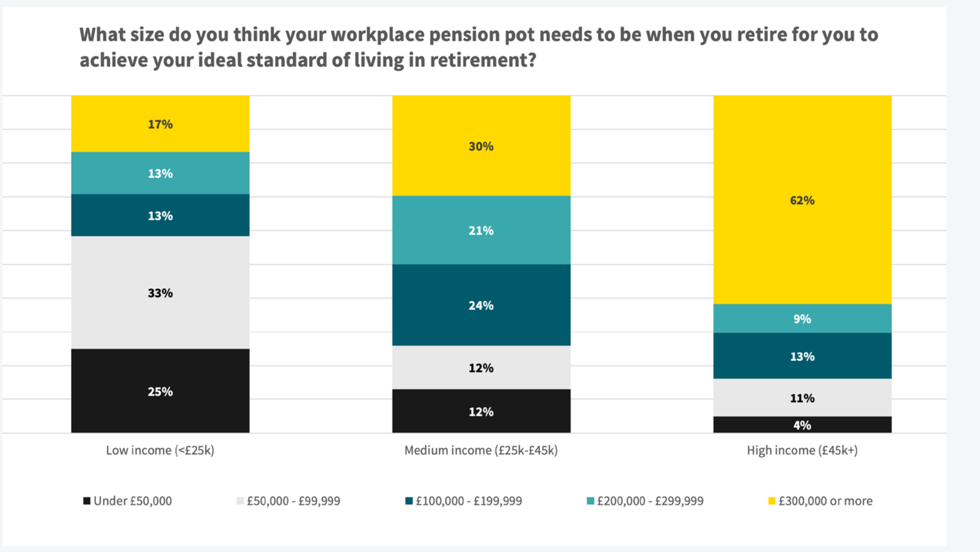
Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

Figure 8:



Pension pot size aspiration

Source: Aviva Consumer Attitudes Survey



Base: Those retiring in the 2050s, with a DC pension and who have view on needs

This lack of understanding feeds directly through into the very wide range of views on how big DC pension pots will need to be in order to meet people's desired level of retirement income.

For example, of those on middle incomes who are due to retire in the 2050s and have a view on how big their pot needs to be, 26% said that they thought their workplace pension would need to be less than £100,000; while 30% said that they thought it would need to be more than £300,000.

One in five (20%) thought that their workplace pension pots would need to have more than £500,000.

A lack of understanding is fueling worry amongst our 2050s retirees

Given the findings above, it is no surprise that those retiring in the 2050s feel that they are ill-informed and do not have enough information. More than half (54%) of those on middle incomes who are set to retire in the 2050s agree that they do not know enough to make good choices on retirement savings.

Less than one in five (18%) say that they have all the information they need to make well-informed decisions about how to fund their retirement. **As a result, just 19% of people on middle incomes in the UK who are set to retire in the 2050s say that they feel prepared in terms of how they will fund their retirement.**

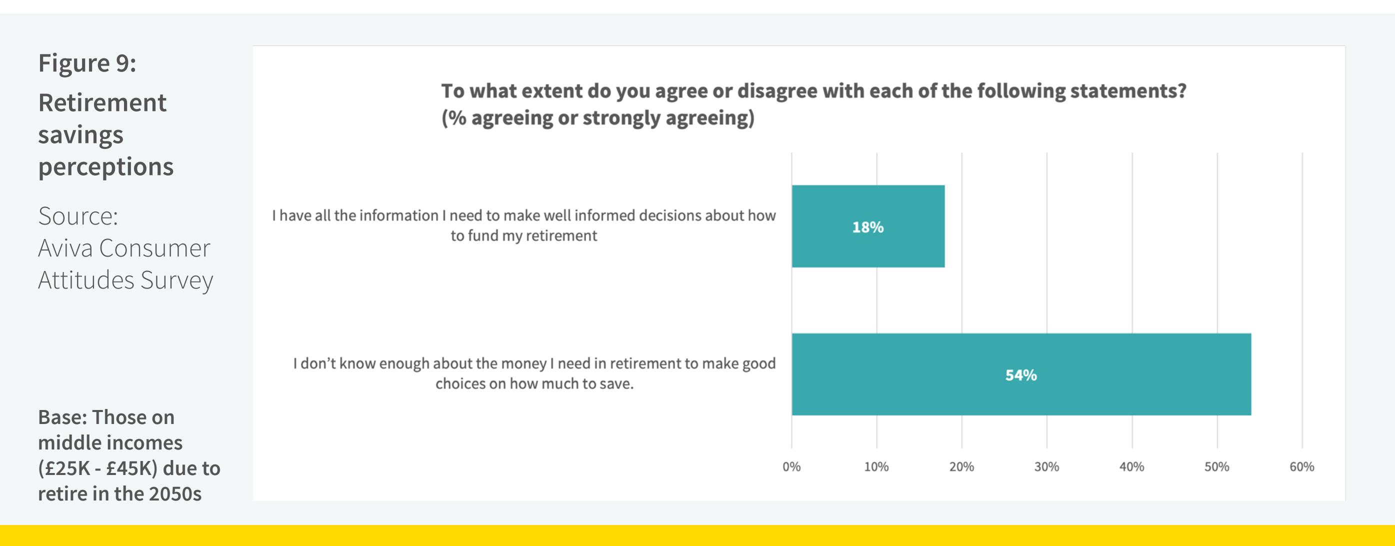


Figure 9:

Retirement savings perceptions

Source: Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

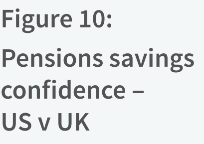
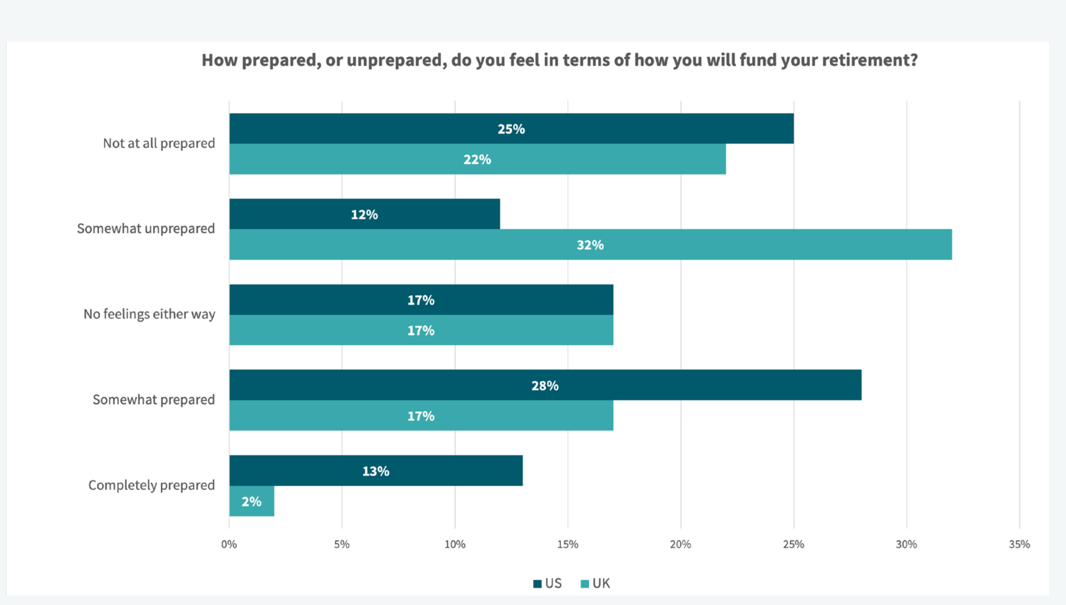


Figure 10:
Pensions savings confidence – US v UK

Source: Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s



In the US, confidence levels around funding retirement are far greater. 41% of middle-income people retiring in the 2050s say that they feel prepared in terms of how they will fund their retirement.

Interestingly, 13% of those on middle incomes and retiring in the 2050s in the US say they feel "completely prepared" – in the UK, this is just 2%.

This lack of preparedness is also fueling worry amongst middle-income 2050s retirees, with only 36% saying that they are taking the right steps to ensure that they have an adequate level of income during retirement, and two thirds (66%) say that they are worried that they are not saving enough to fund their retirement.

These results show the huge challenges facing those due to retire in the 2050s in terms of a lack of knowledge and understanding that will need to be overcome if they are to get on track to save for a comfortable retirement.

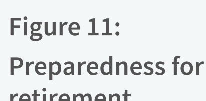
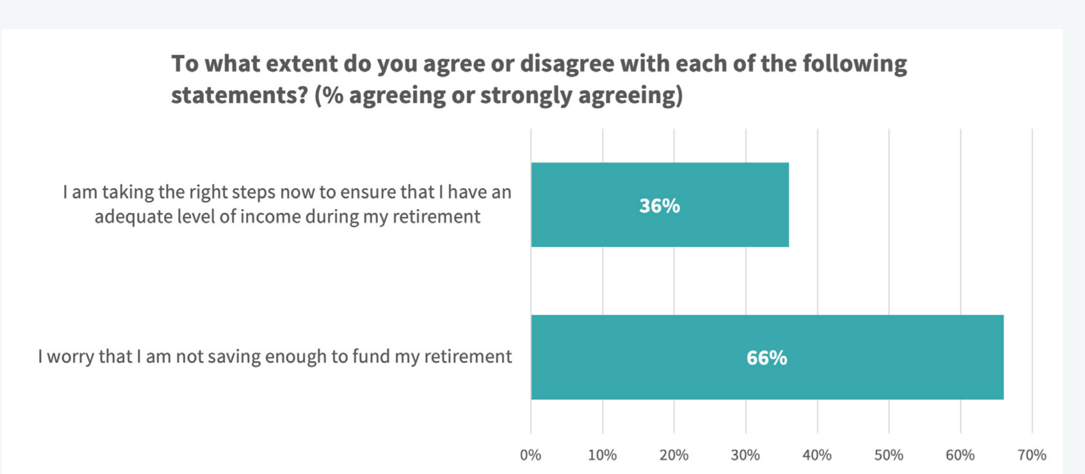


Figure 11:
Preparedness for retirement

Source:
Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s



Case study 2: Suzy

Suzy has earned around the median salary throughout her life in her job as a hotel manager. Throughout this, her total contributions to her pension have been around 8% of her salary. Taking all of this together, she will have a projected pot £225,000 when she retires in 2055.

While this will be a significant sum, and will provide some income in retirement, according to the PLSA's retirement living standards estimate it is £20k smaller than needed to provide an income that would give a moderate standard of living in retirement, once the State Pension is considered.[xxxi]

Higher levels of saving earlier in her life could have yielded significant dividends in retirement and provided her with much greater comfort in her retirement.

Decisions post-retirement are equally challenging

The findings above show the difficult decisions around pensions savings that are facing people throughout their employed lives.

Following this, there is another set of difficult decisions that need to be made on what to do to ensure that retirees are able to translate their accumulated pension wealth into an income stream that will allow them to achieve their retirement goals.

As already highlighted, the introduction of pension freedoms has made these decisions significantly more complex, with greater choice on what to do.

As with the accumulation phase, ensuring that the right decisions are made will require retirees and those approaching retirement to understand the options available to them and make informed and effective choices.

Equally importantly, it is clear that retirees' choices over how to access their pension wealth could have significant implications over the nature and level of savings they need to set aside during the accumulation phase.

If individuals do not know what they are saving for, they are less likely to be able to achieve these goals and are likely to save less.

This means that a good knowledge of retirement options is needed right the way through someone's working life.

However, our polling shows that this is not the case. At the most basic level, it shows **that more than seven in ten of all of those on middle incomes and due to retire in the 2050s have either never heard of, or know nothing about, both drawdown and annuity options.**

This means that people do not know what they could do to convert their pension pots into a retirement income, and have a lack of clarity over what they will need to save to accumulate the appropriate level of pension wealth.

To understand more about the scale of this lack of understanding and the potential impacts on 2050s retirees, we developed a scenario to test through our polling.

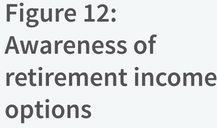
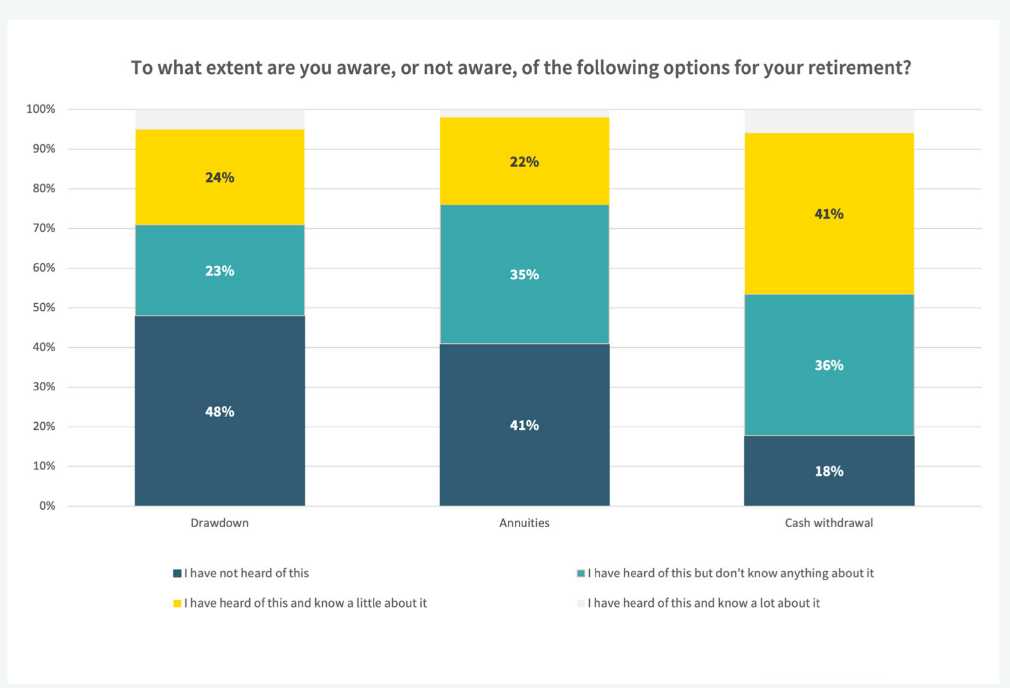
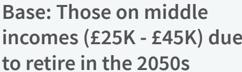


Figure 12: Awareness of retirement income options

Source: Aviva Consumer Attitudes Survey




Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

This presented respondents with the likely level of DC pot that a typical worker retiring in the 2050s might have accumulated (£225,000), if they've been employed and contributing into a pension for the whole of their working life and earn a median salary each year.

Firstly, we asked about their views on the overall size of the pot.

When presented with the potential size of workplace DC pension pot that a median earner like them might accumulate over their lifetime, just 27% of middle-income 2050s retirees said that the size of pot was not more than they expected.

Faced with the size of DC pension pot they might have on retirement, more than half of all those on middle incomes who are set to retire in the 2050s:

- Would worry about making the right decisions on how to spend the pension pot.
- Wouldn't know where to start when it came to planning for their retirement.

This highlights several things. First, many individuals do not know how much they are likely to have in DC pots at retirement. Without this knowledge, even if they did have a good estimate of how much they needed to save, they would be unable to make the right choices.

Secondly, it shows that a lack of knowledge on both accumulation and decumulation can lead to worry amongst our retirees.

This concern was further extended when we asked middle-income 2050s retirees about what they would do with their pension pot. Nearly half of middle-income 2050s retirees say that they do not know what they would do with a DC pot around the size of Suzy's in our case study.

Nearly one in ten said that they would take the whole pension pot as cash, which could leave them with a very large tax bill, be highly inefficient from the perspective of investment returns, and result in a substantially increased risk that they could run out of money in later life.

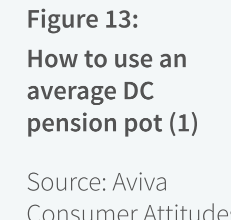
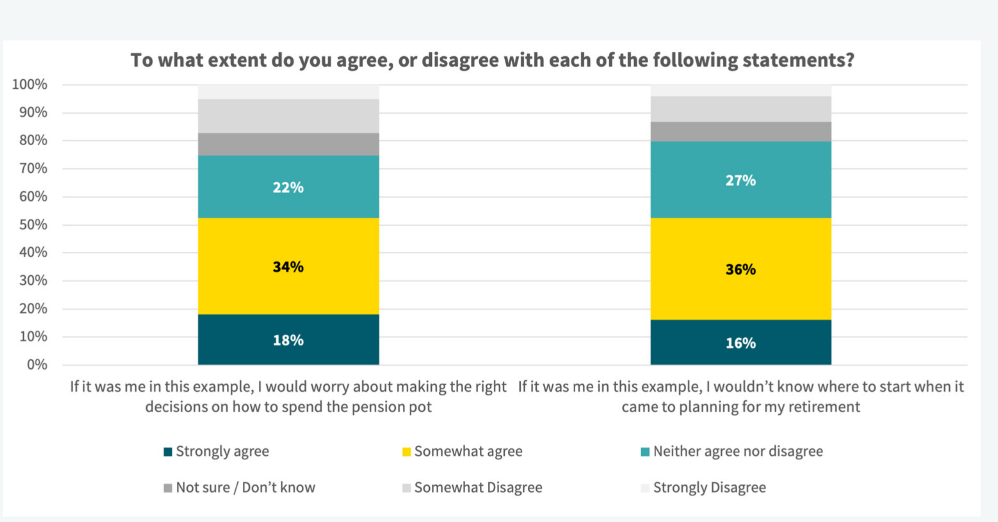


Figure 13: How to use an average DC pension pot (1)

Source: Aviva Consumer Attitudes Survey

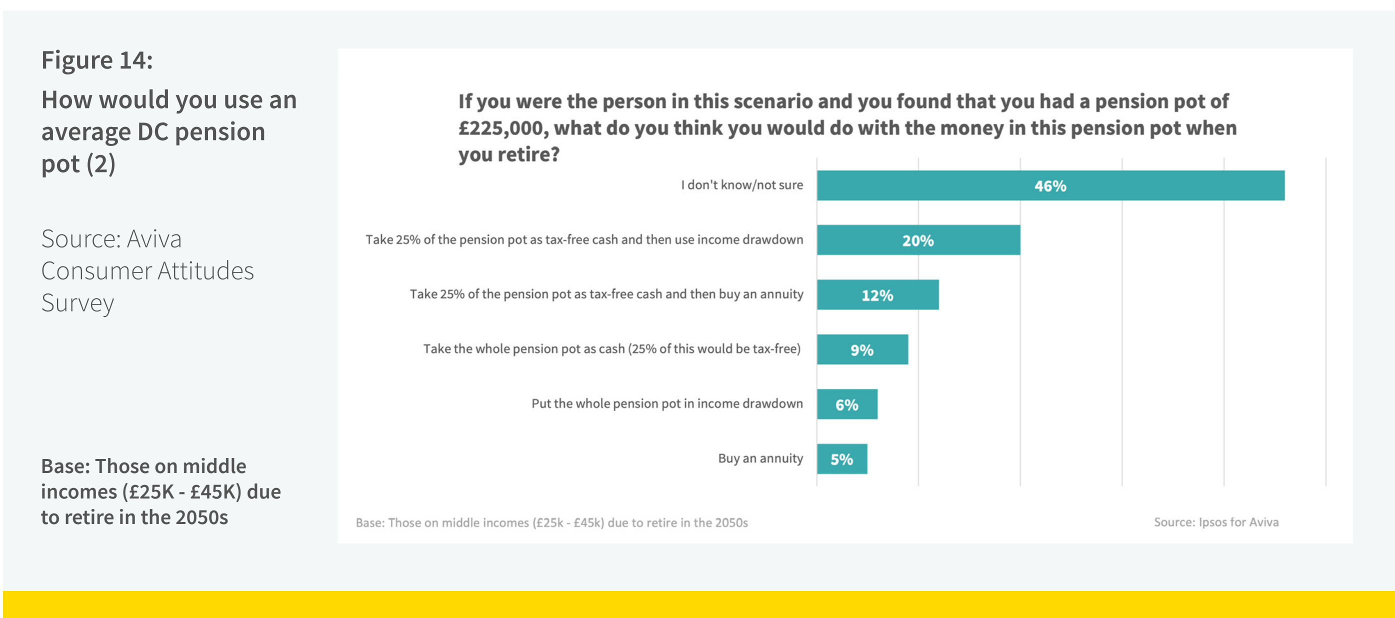


Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s

Figure 14:
How would you use an average DC pension pot (2)

Source: Aviva Consumer Attitudes Survey

Base: Those on middle incomes (£25K - £45K) due to retire in the 2050s



The impact of this increased level of flexibility on retirees is also demonstrated by our polling.

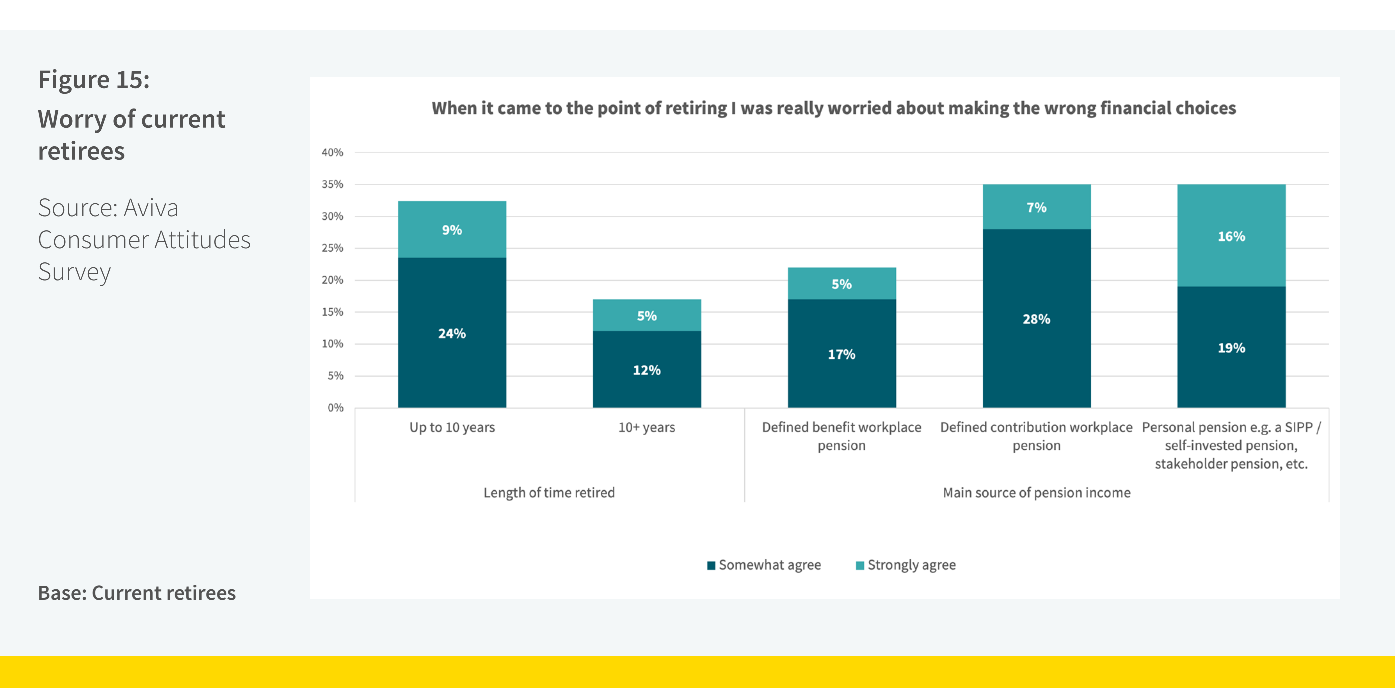
For example, our polling shows that, compared to those who retired more than 10 years ago, those who retired in the last 10 years (the majority of whom will have been able to take advantage of Pensions Freedoms) are around twice as likely to say that they are really worried about making the wrong financial choices at retirement.

Levels of worry are also heightened amongst those reliant on DC and personal pensions. The extent of this concern is only likely to increase as the size of DC pension pots and choices open to retirees continue to increase in the years to 2050.

Figure 15:
Worry of current retirees

Source: Aviva Consumer Attitudes Survey

Base: Current retirees



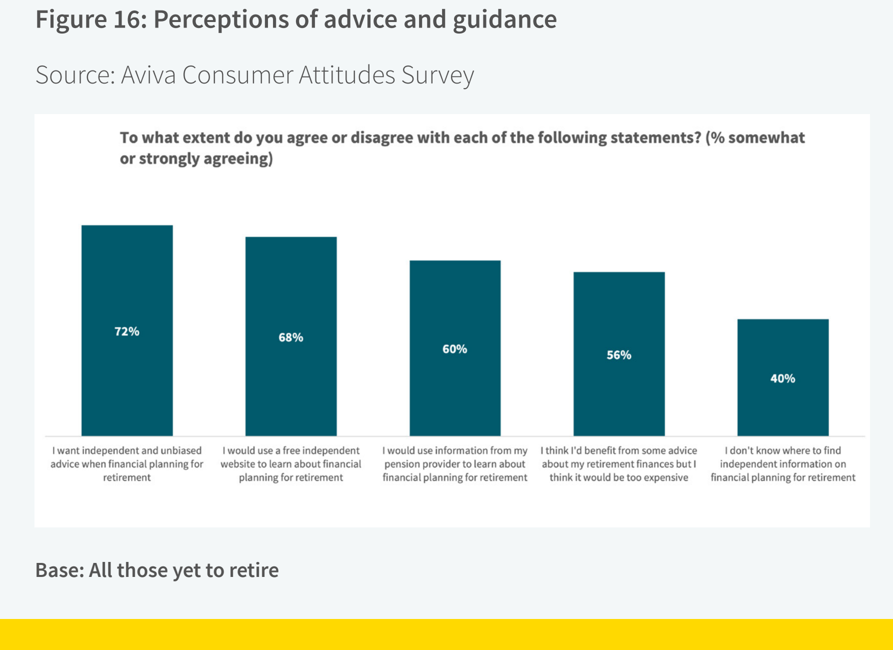
Importance of support

Across all of these issues, both in saving for retirement and in using pension savings in retirement, the evidence points to a significant awareness gap among working-age savers today.

This is already true of retirees who have retired in the age of Pensions Freedoms and will be more and more true as the full extent of the revolutions in our pensions landscape fully bed in. For our 2050s retirees, and all those that follow, this creates a huge challenge of ensuring that they save enough before retirement and then use their savings effectively to meet their retirement goals.

Figure 16: Perceptions of advice and guidance

Source: Aviva Consumer Attitudes Survey



Base: All those yet to retire

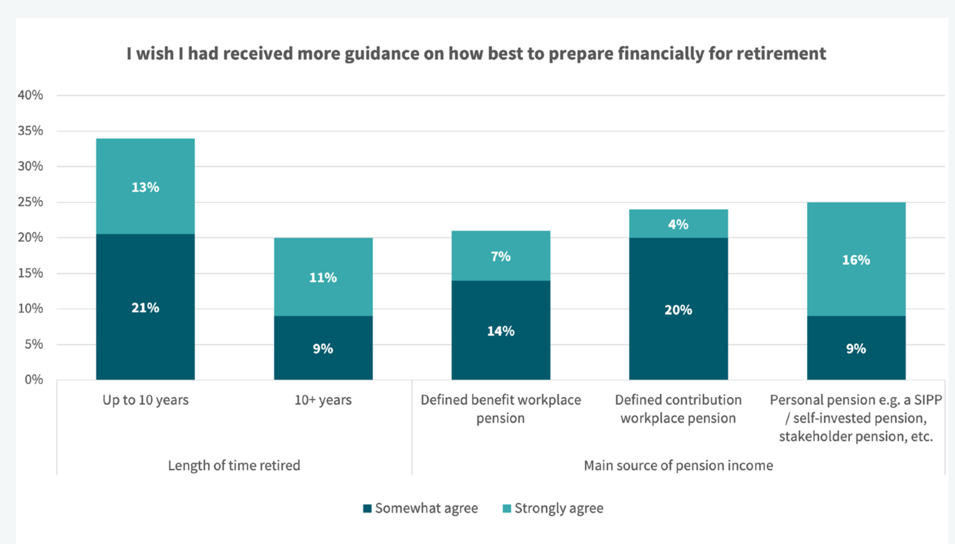
Support through effective advice and guidance are crucial in meeting this challenge. **This is reflected in our polling which finds that independent, unbiased advice is wanted by the majority of people (72%).** However, whilst many people may want advice, most do not obtain the necessary advice or guidance needed to make important financial decisions.

Our polling suggests that this mismatch between desire for advice and actually taking it could be driven by concerns about cost (56%), and lack of knowledge where to find information and advice (40%).

The increasing need for support is also clearly indicated amongst current retirees. More than one in three (34%) of those who have retired in the last 10 years say that they wish they had received more guidance on how to prepare financially for retirement. Amongst those retired for more than 10 years, this falls to one in five (20%).

Figure 17: Guidance and current retirees

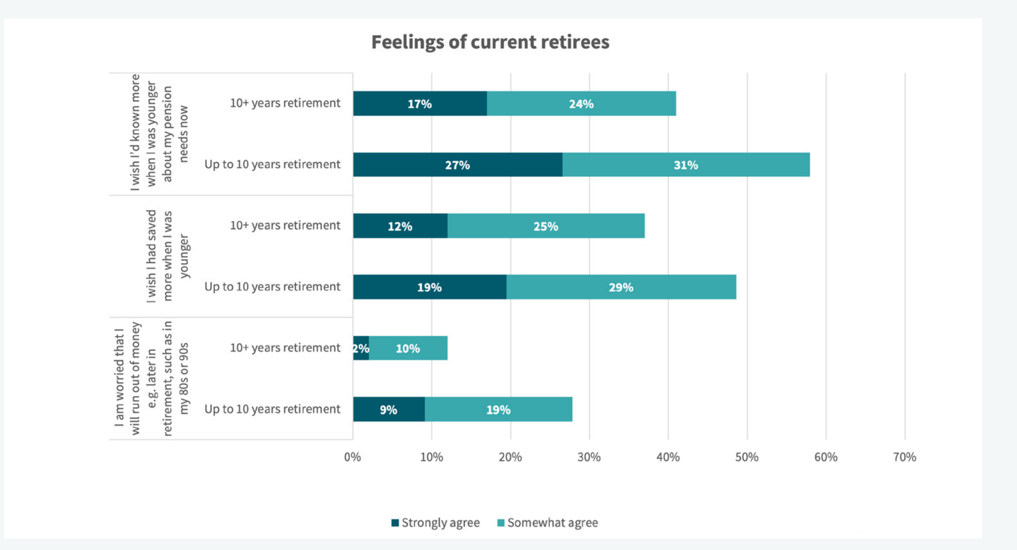
Source: Aviva Consumer Attitudes Survey



Base: Current retirees

Figure 18: Feelings of current retirees

Source: Aviva Consumer Attitudes Survey



Base: Current retirees

Furthermore, nearly six in ten (58%) of those in our survey who had retired in the last ten years say that they "wish they had known more when [they were] younger about [their] pension needs now", and nearly three in ten (28%) of those who retired in the last ten years are worried that their money will run out later in retirement.

Going back to our case study, we can see how these issues might present themselves for Suzy, our case study:

Case study 3: Suzy

Suzy reaches retirement with her savings pot of £225,000, and considers her next steps. She would like to celebrate her retirement with a holiday and building an extension to her home, and has heard she can take some of her pension as a lump sum tax free to fund this.

After this she has around £160k left. In combination with the full state pension, she thinks she can just about manage with this amount if she is careful about her future spending, and possibly takes in a lodger to top up her income. However, times will be tight and higher contributions in her earlier working life would have stood her in much greater stead in retirement, due to the compound interest she would have accrued over time.

She still has a significant pension pot, which she now needs to convert into an income to fund her retirement. There are a mix of options available to her, but she is unsure about whether to opt for an annuity, a drawdown product, or a mixture. While she has heard the names of these products, she feels that she doesn't understand them enough to make an informed decision on something that will affect the next twenty years of her life.

She feels she needs some help – but does she want to spend some of the savings she has left on an adviser? Is advice really for someone like her? She has asked her pension provider for help, but she doesn't feel like they can give her the answers she needs.

4. Policies for 2050s retirees

The UK pensions landscape is undergoing a period of significant change, driven by the three revolutions we have described in this report. The findings above show that our 2050 retirees, and all those that follow, face a markedly different set of choices and constraints to those retired today.

This is shaped by everything from the types and levels of saving they will have been able to build over the working lives, their housing situation, the decisions required of them at and during retirement, as well as the set of digital tools at their disposal.

As set out by the new data and analysis for this report, the overall problem we need to address is threefold:

- By 2050, most people will have accrued a significant amount of DC pension savings, which they will need to actively manage throughout their working life and into retirement. However, most people do not feel equipped to manage their wealth and navigate these choices.
- Even with this increased level of pension wealth, many savers will retire with lower levels of savings than they need to have the type of retirement they want.
- The state pension will provide a base level of income for median earners, but not everyone will retire on the full state pension, and the age from which the state pension is paid has increased and could increase further by the 2050s.

The findings above point to the fact that a significant driver of these problems is the fact that confusion around pensions, at accumulation and decumulation, is high.

Most people recognise they are not well equipped to make these decisions alone and want more help.

This informs our view that securing the right outcomes for 2050s retirees will rest on developing support that meets the needs of this new mass-market at key stages throughout their lives.

Support throughout someone's life

As we have already highlighted, it is impossible to understand how much and how to save and invest without a good understanding of both your retirement needs and how you plan to fund them.

This means that, throughout their life, individuals need to be engaged with the following questions:

- How much income do I need in retirement? The PLSA's Retirement Living Standards provide an answer to this question by measuring the costs of 3 different lifestyles in retirement using a 'basket of goods' approach. But people need to be able to access this information easily.
- How will I turn my pension wealth into income through retirement?
- What does that mean for how much pension wealth I need?

Support for a new mass-market

As well as engagement throughout someone's life, it is also clear that the new pensions landscape and associated challenges outlined above mean that this support needs to be delivered to and appropriate for a very large proportion of the UK population: a new mass-market.

The reasons are clear: during the 2050s, 3.4 million people are likely to be retiring with £225,000 or more in pension wealth, which they need to turn into retirement income.[xxxii]

With this number of people and scale of assets involved, the cost of getting decisions wrong is significant, both for individuals and families and also wider society.

This can mean people withdrawing too much money too soon, which may not be efficient from a tax or investment perspective and risks them running out of their money much too soon.

Worse still is the risk of scams, which thrive on the popular lack of understanding of pensions, that can part people from much or all of their savings.

Support for this new mass-market must guard against these things.

A new blueprint of support for the mass-market of DC savers

Effectively reforming our savings and retirement system to ensure that it delivers on these objectives will require concerted effort across multiple actors, including Government, regulators, industry, and civil society groups.

Currently, there is no single strategy that binds these players together, and no single vision for the challenges facing individuals or the support they need.

The complexity of pensions and the wide range of interventions needed makes this particularly problematic.

Key to success will be a consensus – underpinned by the stark evidence and analysis from this research – **around a single new blueprint of the support needed by the mass-market of DC savers.**

This blueprint should set out a holistic view of the pensions system and how policy should fit together to maximise outcomes for this new mass-market, considering the needs of our savers at every stage of their working life and retirement journey.

The blueprint should enable the various agencies – government, regulators, industry, consumer groups etc - to work together to identify and manage gaps in support.

The key policy gaps that need to be addressed are the need to:

- Transform professional advice to make it fit for purpose for this new mass-market.
- Maximise the size of pension pots by improving pension adequacy and engagement.
- Create an efficient pension system and make investments and savings work harder.
- Help people manage their needs and have security through retirement.

This blueprint should be developed through extensive wider engagement and consultation, with the aim of achieving the policy and political consensus required for reform to be successful over a longer time horizon.

We have set out recommendations which will play a significant part in helping to deliver this blueprint.

These are summarised in the box below:

Summary: 7 key actions to support the DC mass-market

1. Transform professional support to make it work for this new mass-market for wealth management:
   - Set a policy ambition that the vast majority of DC savers (particularly those likely to have more than £200,000 to manage) will get professional advice.
   - Focus the current review of the advice framework on the measures needed to properly serve this new mass-market.
   - Remove regulatory barriers to allow providers and other regulated entities to deliver more effective support, such as personalised guidance.

2. Transform the take-up of professional support for DC savers:
   - Promote the delivery of advice and guidance through the workplace.
   - Create financial incentives – for example by re-vamping the pensions advice allowance.

3. Set a clear roadmap for expanding auto enrolment over the next decade:
   - Deliver the 2017 auto enrolment review recommendations.
   - Sustainably increase minimum contributions above 8%.

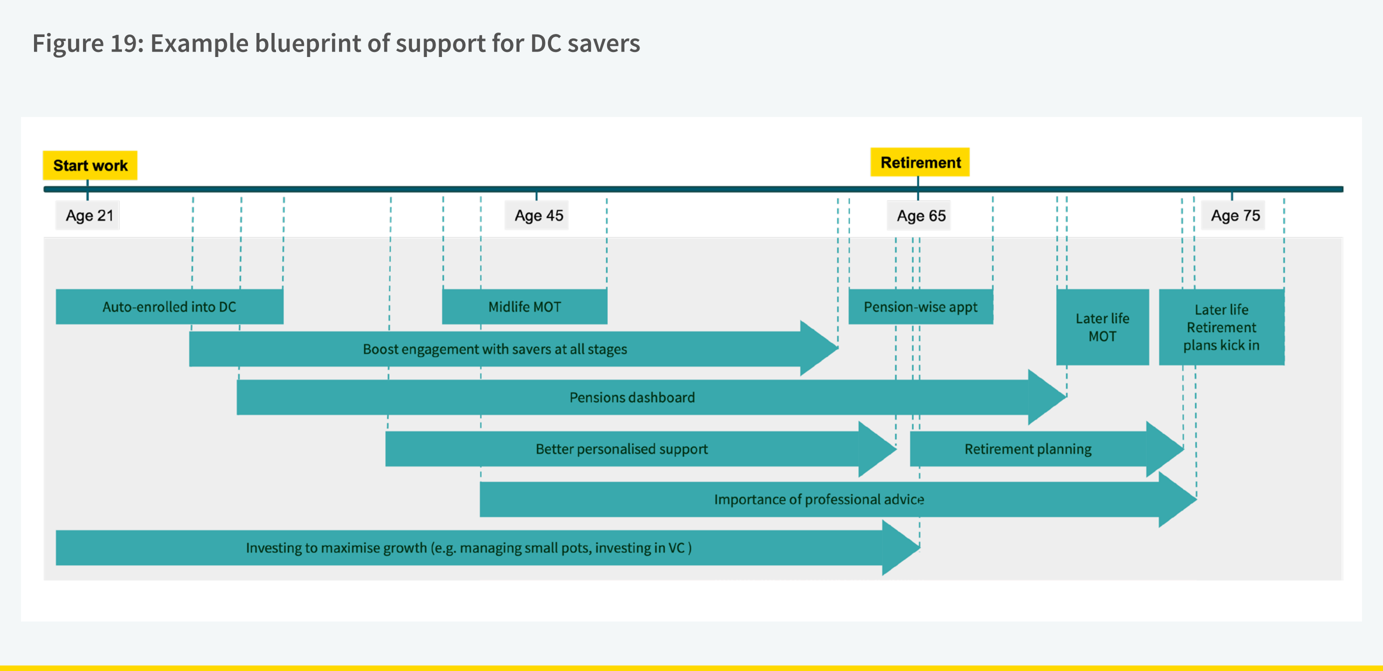
4. Introduce new measures to drive investment performance and better returns:
   - Policy measures to encourage pension schemes to diversify investment strategies and invest in higher return assets.
   - Drive a broader cultural shift across the industry to focus on maximising overall performance rather than the current focus on minimising costs.

5. Agree a comprehensive strategy to boost engagement with savers at all stages:
   - Coordinated industry wide awareness campaigns.
   - Scale-up Mid-Life MOTs.
   - Address regulatory barriers that reduce effectiveness of communications providers can send to customers.

6. Deliver Pensions Dashboards as a tool that allows people to actively manage their savings and take actions, such as consolidation of small pots, to improve outcomes and efficient management of savings.

7. Develop a new approach to whole-of-retirement planning and support:
   - Develop guidelines and norms for the effective management of DC wealth throughout the whole-of-retirement.
   - Encourage providers to work with their customers to develop a whole-of-retirement plan
   - Develop and pilot Later-Life MOTs to engage retirees at critical decision points.

Figure 19: Example blueprint of support for DC savers



Reflecting on our refreshed approach to savings and retirement, we can see above how each of these interventions influence different parts of the journey that DC savers will go through.

Each of our recommendations is described in detail below:

Transform professional support to make it fit for purpose for this new mass-market for wealth management

Our research has established that independent professional support is an important tool for supporting individuals to have a prosperous retirement, throughout their lives.
We have also identified that this is underutilised at present, particularly during people's working lives, where advice and guidance can be very useful in supporting both accumulation and decumulation decision making.

As shown below, the use of advice in the US by those on middle incomes during their working lives is much higher.

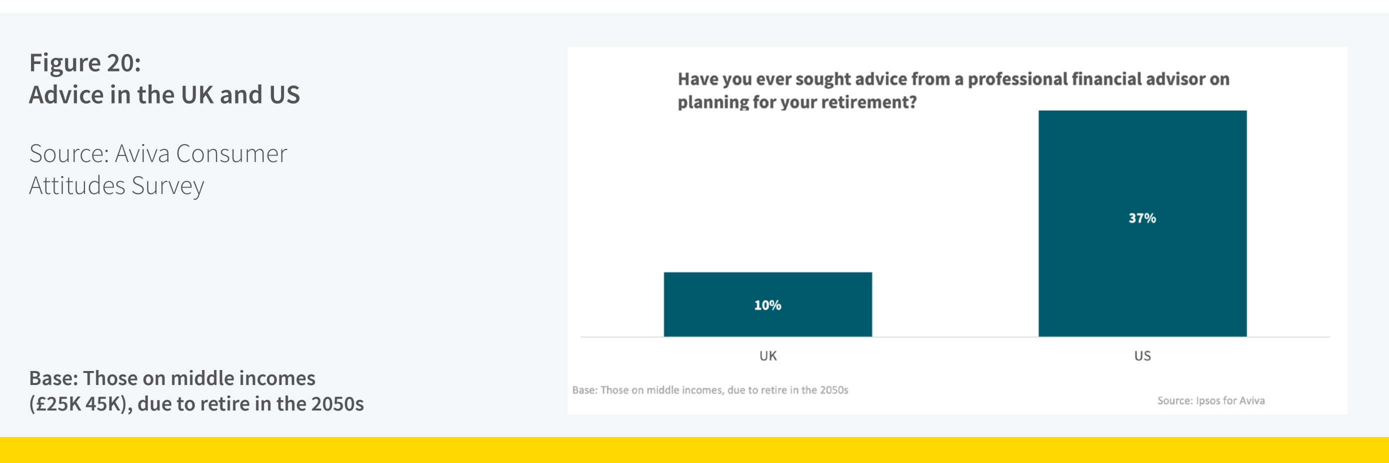
Only one in ten of survey participants in the UK have sought advice, whereas the comparable figure in the US is nearly four in ten.

While there are significant differences between the savings and retirement landscape in the US and the UK, we believe that concerted action across a range of areas could help to close this gap.

This report identified a number of policy interventions which could increase access to professional support during the accumulation stage.

Figure 20:
Advice in the UK and US

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K 45K), due to retire in the 2050s

Reform advice around the needs of DC savers

Professional advice needs to be designed to meet the needs of the new mass-market whose primary focus will be to manage increasing amounts of DC wealth. Our modelling for this report suggests that around 3.4 million people will retire in 2050 with DC savings pots over £225,000.[xxxiii]

The overwhelming majority of this cohort would benefit significantly from professional advice to manage their DC savings and, most importantly, to help convert this wealth into income during retirement.

Commercial and technological innovations, such as robo and hybrid advice, have the potential to play a significant role in closing this gap, as does simplified advice focussed specifically on pensions.

Regulatory clarity and certainty are required to ensure that providers and advisers can invest in and deliver solutions, such as these, which can support the new generation of mass-market DC pension savers.

To ensure DC savers have access to the support they need, we recommend setting a policy ambition that the vast majority of DC savers (particularly those likely to have more than £200,000 to in DC savings) will get professional advice.

Regulatory reform to deliver more effective support, such as personalised guidance

There is also a need for more effective, personalised communications and guidance. Using customers' own data, providers and others are well placed to provide simple, free or low-cost processes which would help consumers make more informed decisions

Personalised guidance can have an important role to play in the accumulation phase to get people engaged with their pension and thinking about how to manage their DC wealth. To deliver this type of support, we need regulatory clarity to allow providers to deliver more personalised guidance.

We welcome the HM Treasury and FCA holistic review into advice and guidance and urge a specific focus on the measures needed to properly serve this new mass-market and creating the space for new advice solutions to support our 2050s retirees.

The starting point for the review should be to look to understand the support and safeguards that pension savers need, set out the type of advice market and guidance framework that could deliver this, and identify the reforms needed to make this a reality.

Introduce measures to increase the take-up of professional support for DC savers

We know that many people are not planning to use professional support to help them convert their DC wealth into an income, with a widespread view that this is too costly or not needed.

It is therefore important to identify practical routes to boost the take-up of professional support, including advice.

In addition, industry, regulators, and policymakers need to work together to identify practical ways to scale up the delivery of advice and guidance to reach this new mass-market.

We've included a few examples of key interventions here below.

Increasing delivery of advice through the workplace

One of the necessary steps identified by this report is for professional support to be taken up earlier in working life, rather than only at the point of retirement income decision making.

As a result, the workplace could be utilised to a greater extent as an avenue for advice and other types of support.

The Government should encourage employers to fund or incentivise support for their staff.

This could include extending the current ability to provide £500 tax-free advice per employee, either by increasing the maximum value of tax-free advice or by providing a matching incentive.

In addition, Government could work closely with employers to identify additional barriers to greater take up of this incentive.

Employers also have an important role in providing guidance and other tools in the workplace to support financial decision making.

In general, public trust in one's employer is higher in the UK than all other institutions measured for in the Edelman Trust Barometer, including the media, the local community, business in general, and local and national government.[xxxiv]

The Government should encourage employers to fund or incentivise support for their staff. This could include extending the current ability to provide **£500 tax-free advice** per employee.

More needs to be done to understand the potential drivers for increasing the number of employers who provide support to their staff on pensions.

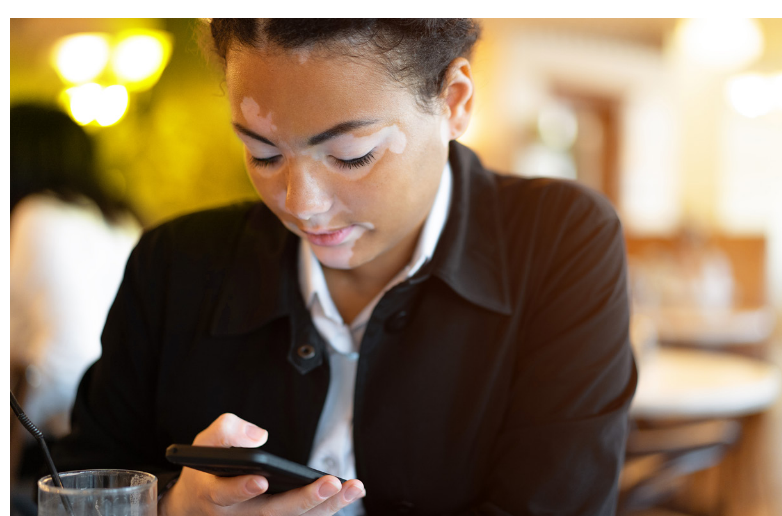
Increasing use of pensions advice allowance

The pensions advice allowance (PAA) is one key existing tool to support the take up of pensions advice. Savers can access up to £500 from their pension, at up to three points throughout their working lives, to pay for advice. This tool could and should be better utilised, and the Government should take steps to increase its usage.

One potential step could be for a matching incentive to make use of the allowance. For basic rate taxpayers, the Government could match £1 for £1 any expenditure from the PAA on advice, significantly bringing down the cost of advice for middle-income individuals.

In addition, increasing the PAA to £1,000 could help to fund meaningful advice for more people.

Again, this could be a key driver of advice take-up for people earlier in their working lives, as it would allow people to access advice today at little or no cost to themselves.



Agree a roadmap for auto enrolment expansion over the next decade

Ultimately, the meaningful choices available to people at retirement are maximised by having accrued the greatest savings possible by that point. Auto enrolment is a crucial tool to drive pensions savings and, as we have set out, has had huge success in boosting saving levels and participation across the working population.

However, 8% contributions may not be sufficient to provide a good replacement rate for most people, and from our polling we know that many people are under saving against their retirement targets. As a result, there is space for policy to drive greater levels of saving in order to fill this gap.

The Government has rightly committed to implementing the 2017 auto enrolment review proposals, namely the extension of auto enrolment to 18-year-olds and the abolition of the lower earnings limit, so that the 8% contribution is made from the first pound earned.

These collectively will substantially increase savings levels for our target group throughout their working lives.

In particular, this will be a boost to the pensions savings of women, who are likely to have lower earnings than men and so are more impacted by the lower earnings limit.

As a result, it is critical that these proposals are implemented by Government in full.

Furthermore, there is a need for a clear roadmap and timeline for the delivery of these reforms, as well as the next steps for sustainably increasing contributions from 8% to 12% by the mid-2030s, as advocated by industry bodies the Association of British Insurers [xxxv] (ABI) and the PLSA.[xxxvi]

This will allow pensions savers and providers to plan for the future accordingly.

Deliver measures to drive investment performance and better returns

As well as increasing contributions to pensions savings, it is also critical to ensure that these contributions are converted into the maximum amount of savings for individuals when they retire.

Here there is a role for policy in supporting the efficient management and investment of pensions savings throughout people's lives.

This includes making savings go further by boosting investment returns. This can be achieved by broadening the level of investment opportunities available to DC pension savings.

This has been evidenced in work by the British Business Bank, which highlighted the potential for Venture Capital investment by DC funds to increase the lifetime pension savings of a 22 year old by between 7% and 12%, if 5% of the fund were put into VC funds.[xxxvii]

There has been a welcome focus by Government in recent years on attracting more patient capital from pensions into these types of investments, including reforms to the default fund DC charge cap to exclude certain performance fees which make investment in a wider class of assets more economical.

Government needs to assess the level of take up of reforms such as these and evaluate their impact in driving change.

Ultimately, regulatory changes such as this are important, but only one part of the solution.

If we are to be successful in driving greater volumes of investment in patient capital, driving higher returns to savers and increasing investment in the UK economy, then there is a need for wider change in the approach across the industry.

This shift needs to be from a focus purely on cost, to performance and value, in order to unlock DC investment for a wider range of assets on a larger scale.

> This shift needs to be from a focus purely on cost, to performance and value, in order to **unlock DC investment** for a wider range of assets on a larger scale.

The Government's proposed Value for Money framework on metrics, standards, and disclosures for DC schemes is an important step in the right direction, as this could drive competition between providers through comparisons.

It's important that the framework drives the right industry behaviours, by ensuring Trustees and IGCs are incentivised to focus on outcomes rather than data input.

Driving further behaviour change across the industry means ensuring trustees and schemes understand the breadth of investment opportunities available to them, and how they can maximise returns for savers.

Policy should further support more ambitious investment strategies, including by sharing best practice examples and providing guidelines for trustees in diversifying their investment portfolios and accessing illiquid asset classes.

A comprehensive strategy to boost engagement with savers at all stages

One of the key objectives of policy should be to engage our 2050s cohort in their pensions savings as early as possible and throughout their working lives. Our polling demonstrates the clear opportunity to boost savings levels through increased awareness and understanding, **with nearly six in ten (57%) survey participants on middle incomes who are set to retire in the 2050s saying that a better understanding of how much money they'd need to save in order to live a comfortable life in retirement would encourage them to save move for retirement.**

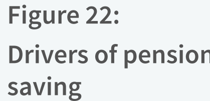
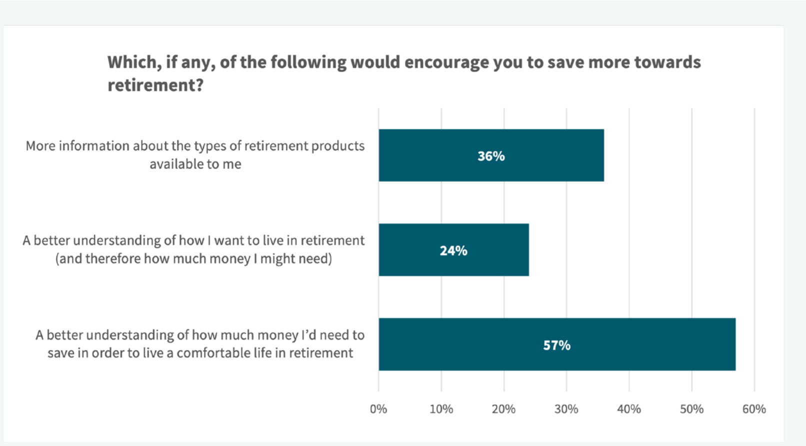


Figure 22: Drivers of pension saving

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K-45K), due to retire in the 2050s

Beginning engagement early is also really important. Accumulating pension savings is an ongoing process that, like all other investments, pays off after a certain period of time.

A little extra saving in the present compounds to large accruals in the future. For example if, in our DC savings scenario, the saver put aside an extra 2% of income a year in their DC pension, this would increase their total DC pot on retirement by £56,250 (an increase of 20%).

Auto enrolment is by far the most effective proven vehicle for boosting pensions savings at a population level. However, as we have set out, voluntary contributions can also play an important role.

Not many people take advantage of this. For example, other research suggests that only a quarter (25%) of young people knew they could save more into their pension than their default contribution rate, and that many employers are willing to match additional contributions, as allowed by company policy.

Getting people to think earlier on about their retirement savings can help to build their pensions decision-making capability throughout their working life and make them better prepared to adapt their retirement plans in their mid-life, as well as to sense-check their decisions at retirement. This may be challenging at present, as concerns about everyday outgoings are likely to be taking precedence in people's minds over long term savings, as a result of the cost-of-living crisis.

Coordinated industry engagement campaigns

Useful tools to boost engagement include industry led awareness campaigns such as the 'Pension attention' campaign which are targeted at younger savers. Campaigns such as this have had a demonstrable cut through with the wider population and provide common sense messaging on pensions engagement to a broad audience.

Research suggests that 19% of people recalled the campaign, and 91% of those who recalled the campaign said they took some form of action, with 44% speaking to friends and family about pensions, 42% looking for information about pensions, and 30% checking their pension information.[xxxviii]

It will be important to identify how such successful campaigns can be built on in future in order to, for example, encourage more people to utilise professional support services such as advice and guidance.

In addition, a comprehensive engagement campaign will be needed to promote the use of dashboards when they are delivered. Industry should work closely with Government and civil society groups to design future campaigns in this space.

Scale up Mid-Life MOTs

Mid-life MOTs are another important tool on several fronts, with the Government keen to use them to support older workers to remain in the labour market for longer if their health allows for it.

In addition, they can be an important trigger for increasing pension savings, whether or not individuals are particularly close to retirement.

Box 2: Mid-Life MOTs

The Mid-life MOT is a review for those in their 40s, 50s and 60s which supports them to better understand their finances, skills and health. This will help to prepare them for their retirement and build their financial resilience more broadly.

As we have set out, immediate pre-retirement support often comes too late to allow people to make a meaningful choice about how they live their retirement. Planning further ahead is critical to align accumulation and decumulation strategies, and our working lives with our retired lives. This is why the Cridland review of the state pension age in 2017 recommended the creation of a Mid-Life MOT.

Following a series of successful pilots, Mid-Life MOTs will be provided online, by employers like Aviva,
and at Job centres across the UK.

Source: Gov.uk and Centre for aging better[xxxix]

There is a need to significantly upscale levels of access to Mid-Life MOTs, and the Government has taken welcome steps towards this in the Spring 2023 budget.[xl]

We would like to see the Government go further to expand these to more people, working closely with industry. In addition, an expanded and clarified guidance definition, developed as a result of the FCA and HM Treasury advice/boundary review, could mean that these sessions are more effective at improving engagement with the retirement decision making process.

We also believe that this concept could go further still. As highlighted above, our polling showed that, among middle-income 2050s retirees, **nearly half (44%) say that they want guidance about saving for their retirement at the start of their working lives**.

Following this, there is significant desire for regular touchpoints throughout their lives to support them to accumulate and then use their pension in a way that makes sense for them.

This includes a strong preference (76% interested) for mid-life financial assessment during their working life at the age of 45.

To bring this together, the concept of regular pensions Check-Ins could be introduced to extend the Mid-Life MOT, providing guidance on an ongoing basis to support whole-of-retirement planning.

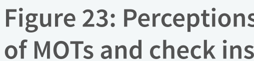
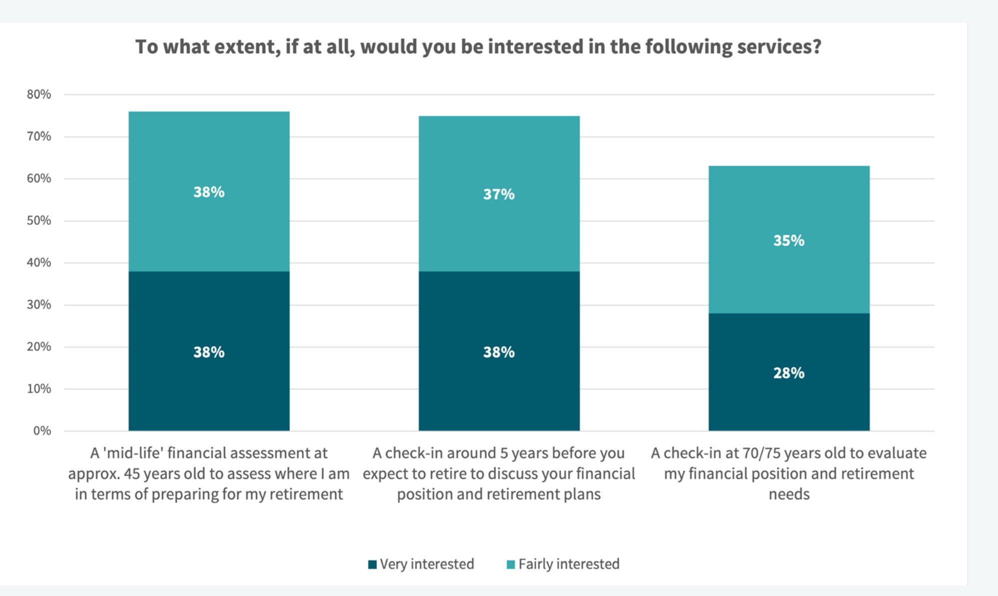


Figure 23: Perceptions of MOTs and check ins

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K-45K), due to retire in the 2050s

Encourage providers to communicate regularly with savers, and address regulatory barriers that reduce effectiveness of communications

Another important part of boosting engagement is encouraging providers to communicate regularly with savers, and addressing current regulatory barriers that reduce effectiveness of communication.

It's important that pension providers can contact their customers to make them more aware of actions they could take to improve their pension position, such as tracking down lost pensions and consolidating pensions, as well as relevant services and tools that could help enhance retirement outcomes.

Current regulations on marketing permissions limit providers' ability to communicate with savers. This is a particular issue for auto-enrolled savers who tend to need the most help in managing their pension effectively.

Due to the nature of the sales process, providers are currently unable to send communications via email to auto-enrolled customers about services and products that could make a difference to their savings pots, including simple guidance tools such as Mid-Life MOT apps.

Addressing these barriers through guidance and regulatory change would reduce unnecessary friction within the customer journey and enable providers to better communicate with savers about actions they could take to improve their pension and retirement outcomes.

Deliver Pensions Dashboards in a way that allows people to manage their savings and take actions

A key example of inefficient planning is the presence of multiple pensions pots.

The combination of auto enrolment with a mobile labour market means that individuals are likely to accumulate numerous pension pots throughout their life from a range of providers, some of which may be small in value.

From the perspective of management fees and investment returns, consolidating these into a single fund can deliver higher real returns to savers.

However, data from the ABI suggests deferred small pots are a rising issue[xli]. Furthermore, our polling found that, of people on middle incomes retiring in the 2050s, nearly one in three (31%) say that they already have two or more workplace pension pots.

Yet, of those with multiple pots, only just over one in three (36%) say that they have considered consolidating these into just one pension plan.

The evolution of Pensions Dashboards will be key to addressing the small pots issue, and member-initiated small pot consolidation via dashboards must be allowed and prioritised.

In addition, full delivery of Pensions Dashboards can help to support our cohort to plan savings levels, by viewing their combined pension pots and setting themselves targets for total pensions savings.

A holistic view of all pension pots (whether consolidated or not) makes all the various online tools such as pension forecasting tools more meaningful.

As a result, the Government 'reset' must get Dashboards back on track for delivery in the near future. It is also critical that Dashboards have transactional capability, and consumers have the information they need to make informed decisions.

For example, someone who can see the projected value of their pensions in their dashboard, while

this may be based on not completely perfect data, is likely to have enough information to make a decision on paying in more.

In addition, someone with a small pot should be able to consolidate these easily within the platform, as this is almost always the right thing to do.

Overall, customers should be able take positive actions about their retirement savings 'in the moment' while logged into the dashboard, rather than coming out of a journey.

As all dashboard providers need to be FCA regulated, consumers should have good protection from detriment. The FCA Consumer duty should mean that foreseeable harms are avoided, and people are provided with appropriate information.

A new approach to whole-of-retirement planning and support

Guidance and information, delivered through a range of routes, can also offer a vital and complementary role to support savers to make better decisions throughout their working life and at retirement.

In addition, they are key to equipping people with a greater level of understanding that will encourage them to reach out to access professional advice, which as we've set out should be the objective for most savers.

Establishing Pension Wise has been a key intervention to deliver better access to guidance in this space, and has been widely welcomed by industry.

FCA data suggests that Pension Wise is used by some savers at retirement, and previous polling suggests that people have found it useful.[xlii]

The Stronger Nudge rules mean that providers can book a Pensions Wise appointment for savers under certain circumstances, which should help to boost take up.[xliii] **In addition to Pension Wise, it is also important that the role of providers is unlocked as a route to supporting savers to take better decisions about their retirement. Policies to help deliver this are set out in the next sections.**

Encourage providers to work with their customers to develop a whole-of-retirement plan

Our polling showed that more than six in ten (62%) middle-income people retiring in the 2050s said that they would use information from their pension provider to learn about financial planning for retirement.

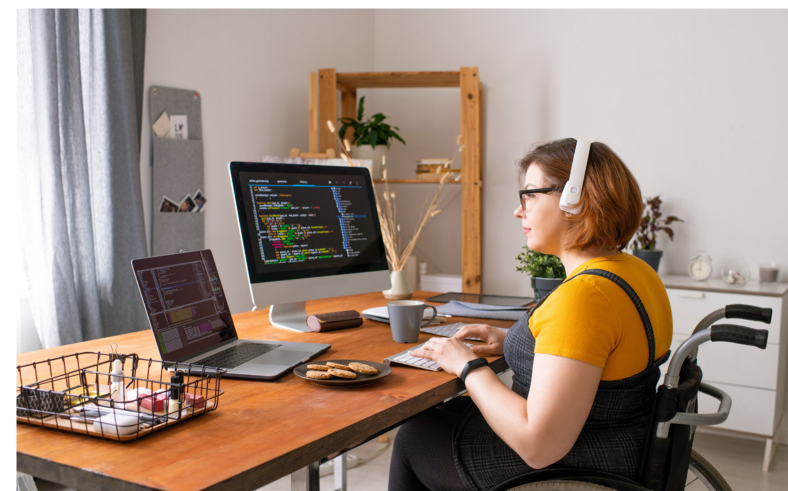
However, providers are currently underutilised as sources of guidance, with compliance risk around the advice/guidance boundary potentially preventing providers from developing their services in this space.

As set out above, regulatory clarity to allow for more personalised guidance, which stops short of offering a personal recommendation, could allow more providers to have common sense discussions with their customers in the run up to retirement and provide a 'sense check' on their retirement plans, based on their personal needs.

This could also include a 'Retirement MOT' looking at the breadth of options available to retirees in order to inform them about solutions that could support them throughout their retirement.

This holistic approach is particularly important given the range of ways people can potentially manage pension wealth to provide them with an income in retirement, as well as the various other sources of wealth and income they are relying on.

Once again, pensions dashboards are a key delivery mechanism here. Dashboards can provide data sources which equip providers with a greater understanding of their savers' whole financial picture, allowing better tailoring of personalised guidance throughout their working lives as well as nearer retirement, along with a clear digital route of engagement and communication.



Develop guidelines and norms for the effective management of DC wealth throughout the whole-of-retirement

Even with this increased support, it is still clear that the scale and complexity of decisions throughout retirement could be challenging, with high stakes associated with getting it wrong.

As we are living longer, it is becoming increasingly important that people have a strategy to ensure they can have a comfortable level of retirement throughout their whole later life, and also plan for times when the provision they need may change, for example due to care costs.

In a pension freedoms framework, this means people are likely to rely on a number of financial products to have a blended approach to funding their retirement. However, we have seen from our research that there is a lack of understanding of how some of these work. For example, the majority of people were unsure about using a later life annuity.

16% of survey participants on middle incomes and retiring in the 2050s already say that they would consider buying an annuity for later in retirement, with 70% saying that they were unsure, or did not know enough about annuities to make the decision. Just 14% said that they would not consider this.

This outlines the importance of greater help and steer from providers to support people to sustainably manage their wealth throughout retirement.

In order to help providers deliver greater levels of support to their customers, **Government should develop "Guidelines for Decumulation" outlining a default plan that generates a guaranteed stream of income and/or withdrawal plans - to act as a starting point for decision making for 2050 retirees.**

Legislation could allow providers to default customers into such a plan, subject to certain criteria, and reform of the advice boundary to allow for regulatory certainty.

These guidelines could include:

- **25% lump sum earlier in retirement.**
- **Drawdown for mid retirement.**
- **Later life (75/80+) annuities.**

These defaults could build on work done in the industry such as the PLSA's Guided Retirement Income Choices[xliv] and Aviva's 'Guided Retirement' solution.

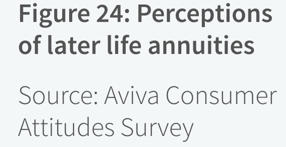
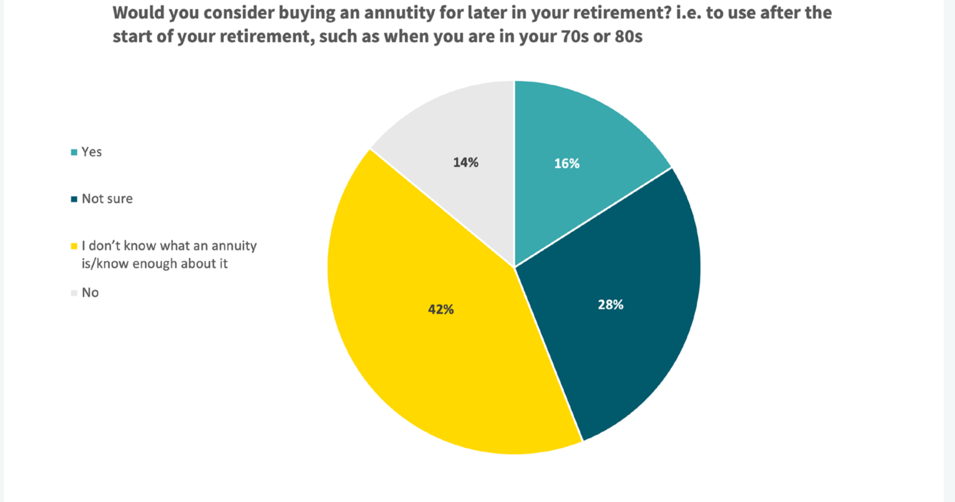


Figure 24: Perceptions of later life annuities

Source: Aviva Consumer Attitudes Survey



Base: Those on middle incomes (£25K-45K), due to retire in the 2050s

Develop and pilot Later-Life MOTs

It is not just in the run up to retirement that people need support. Our polling showed that uncertainty during retired lives, given the range of options available, is also a factor causing concern for many people.

Given the risks associated with making the wrong choices, this should not come as a surprise.

Given the retirees could be relying on a mix of products and options through their retirement, **a “later-life MOT” to check in part way through retirement could help people plan for their later years, where a shift in financial strategy might be needed.**

Nearly three in four (73%) of people on middle incomes retiring in the 2050s say that they would be interested in support (advice or guidance) to ensure that they did not run out of money during retirement.

More than four in ten (41%) of those who have retired in the last 10 years would also be interested in this support.

This could include support for decisions around, for instance, later-life annuitisation, or financial products to support the costs of social care.

Further work needs to be done to scope this in greater detail, including to identify the partners who could help Government to deliver Later Life MOTs.

Conclusion

This report brings together comprehensive quantitative evidence to paint a picture of the challenges faced by our 2050 retirees during accumulation and decumulation.

Ensuring our mass-market of DC savers live a prosperous retirement will require us to fundamentally change our approach to savings and retirement and improve the support they receive at different points in their lives.

As we have outlined, a new blueprint of support for the mass-market of DC savers is needed to build this pensions system, and the recommendations set out above are a starting point for the interventions required to deliver this.

Endnotes

[i] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime

[ii] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[ii] https://openbanking.foleon.com/live-publications/the-open-banking-impact-report-june-2022/executive-summary

[iv] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[v] https://www.retirementlivingstandards.org.uk/How-to-estimate-likely-RLS-20230110.pdf

[vi] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[vii] Aviva analysis of DWP data - DWP Analysis of Future Retirement Income:
https://clicktime.symantec.com/15siQpp7JEUrNW6MiDK2Q?h=1iDmTxDw_EuRSsy-it2Io4KoiMtQIMhbJfHef6_-G1w=&u=https://www.gov.uk/government/statistics/analysis-of-future-pension-incomes/analysis-of-future-pension-incomes

[viii] https://www.gov.uk/government/news/ten-years-of-automatic-enrolment-achieves-over-114bn-pension-savings

[ix] https://www.royallondon.com/articles-guides/pensions-and-retirement/guide-to-pensions-freedoms/#:~:text=Pension%20freedoms%20were%20introduced%20in,this%20will%20rise%20to%2057.

[x] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[xi] https://www.oecd.org/daf/fin/private-pensions/Pension-Markets-in-Focus-2022-FINAL.pdf

[xii] https://www.ft.com/content/b68e6341-ebdf-41a8-9c16-22c614389383

[xiii] https://www.pensionspolicyinstitute.org.uk/media/1355/201612-bn86-db-today-and-tomorrow.pdf

[xiv] https://www.pensionspolicyinstitute.org.uk/media/3828/20210609-ppi-adequate-retirement-income-report.pdf

[xv] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/db-pensions-landscape-2021

[xvi] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/db-pensions-landscape-2021

[xvii] https://www.pensionspolicyinstitute.org.uk/media/3828/20210609-ppi-adequate-retirement-income-report.pdf

[xviii] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021provisionaland2020finalresultssdsd

[xix] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2020provisionaland2019finalresults

[xx] https://www.gov.uk/government/news/ten-years-of-automatic-enrolment-achieves-over-114bn-pension-savings

[xxi] https://www.gov.uk/government/statistics/ten-years-of-automatic-enrolment-in-workplace-pensions/ten-years-of-automatic-enrolment-in -workplace-pensions-statistics-and-analysis

[xxii] https://www.gov.uk/government/news/ten-years-of-automatic-enrolment-achieves-over-114bn-pension-savings

[xxiii] https://www.abi.org.uk/products-and-issues/lts-public/retirement-and-later-life/future-proofing-the-pensions-freedoms/

[xxiv] WPI Economics extrapolation of internal Aviva analysis. Assumptions include:

- An individual has earned/ will earn a basic pay equal to median UK earnings for their age, adjusted for wage inflation of 2.5%
- The individual joins their company pension at age 22 and contributes without interruption to age 67
- Contributions are 8% of basic pay
- Investment returns are 2.5% above inflation
- Price inflation is 2.5%
- Projected fund is shown as today's value

[xxv] https://www.retirementlivingstandards.org.uk/How-to-estimate-likely-RLS-20230110.pdf (this assumes an annuity rate of 6.2%, which is based on today's interest rates environment)

[xxvi] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[xxvii] https://www.retirementlivingstandards.org.uk/

[xxviii] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime

[xxix] The Aviva Consumer Attitudes Survey is an online survey of 3000 adults aged 18 to 75 across the UK was conducted by Ipsos on behalf of Aviva. 2,000 adults aged 18 to 75 across the US were also surveyed to provide a comparison. Fieldwork was conducted in March 2023. Quotas were applied to ensure the sample was representative of each country on age, gender and region. Those set to retire in the 2050s are defined as aged between 32 and 40 years old, and 'middle income' is defined as those on a personal income of between £25,000 to £44,999 a year.

[xxx] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime

[xxxi] https://www.retirementlivingstandards.org.uk/How-to-estimate-likely-RLS-20230110.pdf

[xxxii] Aviva analysis of DWP data

[xxxiii] Aviva analysis of DWP data

[xxxiv] https://www.edelman.co.uk/sites/g/files/aatuss301/files/2023-03/UK%20Trust%202023%20Website.pdf

[xxxv] https://www.abi.org.uk/globalassets/files/publications/public/lts/2022/automatic-enrolment-what-will-the-next-decade-bring/

[xxxvi] https://www.plsa.co.uk/press-centre/news/article/plsa-welcomes-further-calls-for-automatic-enrolment-reform

[xxxvii] https://www.british-business-bank.co.uk/research/the-future-of-dc-pensions-enabling-access-to-venture-capital-and-growth-equity/

[xxxviii] https://mallowstreet.com/Article/b71857

[xxxix] https://www.gov.uk/government/news/mid-life-mot-expansion-to-help-tens-of-thousands-assess-work-wellbeing-and-finances and https://ageing-better.org.uk/resources/developing-mid-life-mot?gclid=Cj0KCQjwr82iBhCuARIsAO0EAZwI_ufgRq6_6H3bqLVHsdHrcciVxrFx8BUle3rGLsNtiTrnrhoNlBwaAnUXEALw_wcB

[xl] https://www.gov.uk/government/news/mid-life-mot-expansion-to-help-tens-of-thousands-assess-work-wellbeing-and-finances

[xli] https://www.abi.org.uk/globalassets/files/publications/public/lts/2022/small-pots-co-ordination-group-spring-2022-report.pdf

[xlii] https://www.smf.co.uk/wp-content/uploads/2022/02/A-Guiding-Hand-February-2022.pdf

[xliii] https://www.gov.uk/government/consultations/stronger-nudge-to-pensions-guidance/stronger-nudge-to-pensions-guidance

[xliv] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Building-on-the-Pension-Freedoms-Guided-Retirement-Income-Choices.pdf

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