Partnering with

Retirement reality

Managing money in mid-retirement

May 2025

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Foreword

Most people will have a good idea of what they want their retirement to look like. What's far less obvious is how they can manage the big financial decisions needed at each stage of the journey to fund their later life.

Aviva is committed to helping everyone get ready for a future that works for them. A big part of that involves understanding the different challenges people face, then working on ways to offer the right solutions for their financial puzzles. This report is another piece of the picture, filling gaps in our understanding about the realities faced by people in mid-retirement.

It highlights how important it is for this group, the first generation getting to grips with the added choices and trade-offs that come with pensions freedoms, to stay engaged with their finances. It is clear from the research that retirees lack the confidence to spend their pension money, risk needing to make decisions about their pension money in their 90s and beyond, and don't have the knowledge and support to make the most of their pension pots.

That is why frameworks that provide retirees the confidence to use their money flexibly at the start of their retirement and fix it when they no longer want to make big financial decisions will help them have the retirement they want and deserve.

These types of Flex First, Fix Later decumulation strategies were well received by the participants of this research. That suggests they are a fruitful avenue to develop, to make sure future retirees can have confidence that their Defined Contribution (DC) pensions will offer them an income that lasts for life. Importantly, however, the report also points to the critical need for ongoing support and guidance, especially in tackling the tricky decisions around later-life annuitisation.

We also see how this opportunity for guidance can be extended to provide more comprehensive support, beyond purely financial questions. We at Aviva are developing our own Flex First, Fix Later solution called Aviva Guided Retirement; a strategy this research suggests could benefit mid-retirees. It shows that having a later life decision can act as a springboard for mid-retirees prompting them to think more comprehensively about their future and make informed choices that enhance their overall wellbeing.

We would like to thank Ignition House and the Pensions Policy Institute for their invaluable work on the research and report, which we hope will serve as a valuable resource for policymakers, industry leaders and retirees alike.

We are also grateful to Age UK for their collaboration and insight. We are keen now to build on the experience, working with them further to explore the feasibility of testing a mid-retirement MOT to provide more practical help for mid-retirees. Together, we can contribute to a future where everyone enjoys financial security as part of the fulfilling retirement they are hoping for.

Doug Brown
Insurance, Wealth and Retirement, CEO, Aviva

Foreword

Thanks to advances in medical science, the NHS and public health, many more of us can expect to have a long retirement-running in decades. Increasingly, people are benefitting from a third chapter of active retirement, before moving into a fourth chapter in their 80s, 90s and 100s.

Our work at Age UK has highlighted the importance of paying as much attention to our financial wellbeing as we enter later life as our physical and mental wellbeing. 10 years ago, the announcement of the pension freedoms changed the financial landscape for retirees forever. While the reforms opened up new possibilities for people to manage their money in a way that matches their personal needs, they also exposed people to a number of risks.

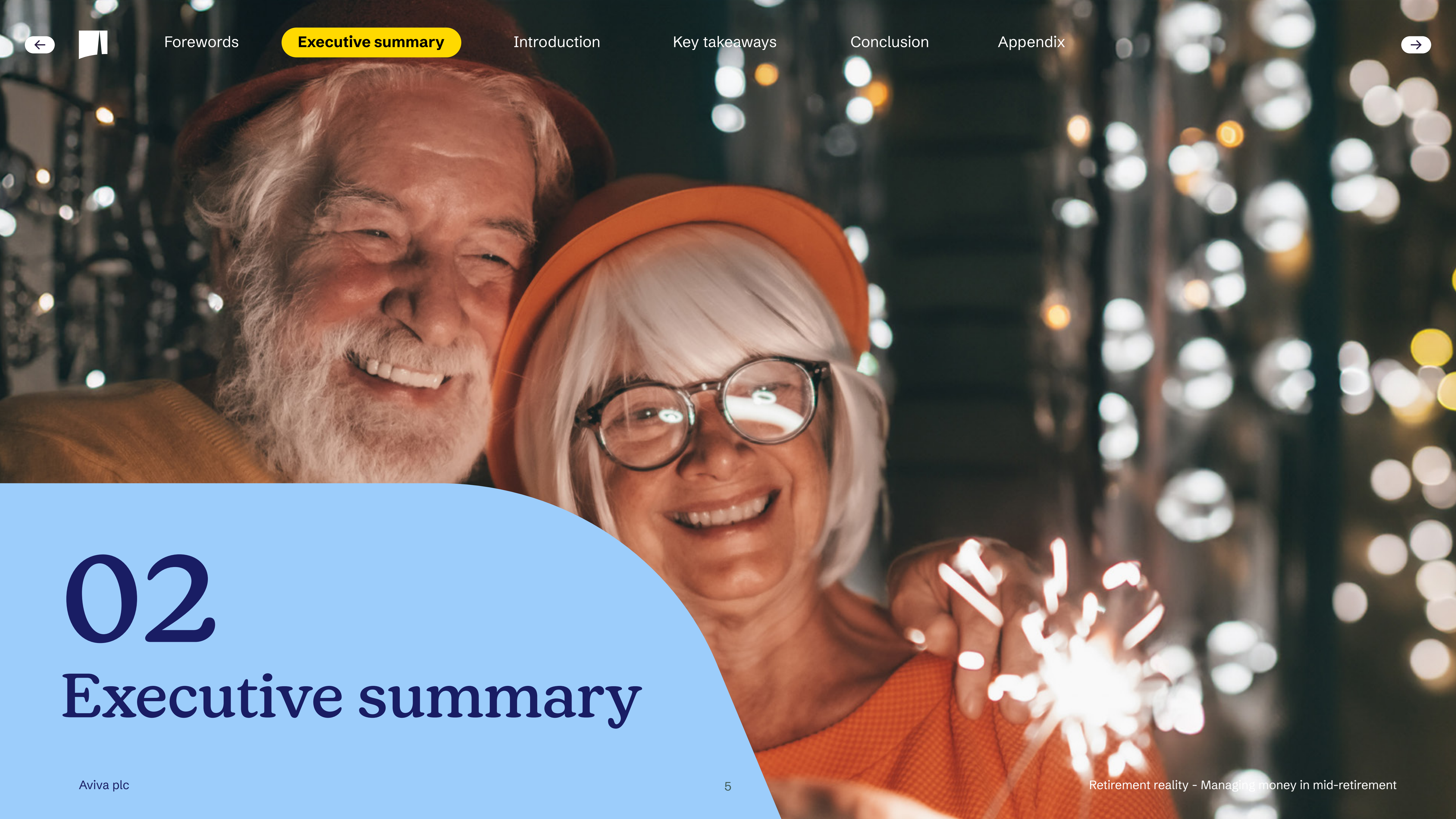
As the first cohort of ‘freedom and choice’ users get older, the time is now right to evaluate how people are utilising their savings and figure out how to help people get the most out of these flexibilities. As they approach their mid-70s, a crucial point in people’s lives as many experience greater incidence of health conditions or cognitive decline, it’s important to take a step back and see what people now want from their pensions, and where the charity sector and pensions industry can step in to provide a helping hand.

Alongside the risks of taking complex financial decisions as people get older, there is also much potential to drive better later life outcomes. Developing a greater understanding of what people want and how this be delivered seems like a no-brainer... and Age UK is pleased that the direction of travel across industry and Government is to provide more assistance here.

As well as potentially positive outcomes, there are many risks. Ultimately, the worst possible outcome is for people to run out of money at some point and plunge into poverty, and with 24% of people aged 80 and over living in relative poverty (before housing costs), this work is very much about preventing people spending their last years living on a very low income. DC savings may be growing, but this highly individualised way of saving for retirement leaves people very exposed to some potentially serious issues. We all need to pull together to make sure that everyone can do what’s in their best interests and safeguard themselves and their families against the worst possible outcomes.

We look forward to working with Aviva in future to pursue these aims further and help change the way we age.

Paul Farmer
CEO of Age UK



02 Executive summary

Findings at a glance

People in their mid-70s overwhelmingly report that they want the security of an income for life, yet very few are confident that their savings will last. Many underestimate how long they need to budget for and tend not to engage with ongoing planning as they age. Modelling shows the risks of remaining in drawdown and the benefits of Flex First, Fix Later solutions that include later-life annuitisation as a way of addressing these challenges. Such an approach would balance the need for flexibility with the security of a steady income in later years, as health issues, family changes, and cognitive decline increasingly make financial decisions more challenging. As retirees' circumstances vary, there is a compelling need for flexible products and appropriate guidance to support active decision-making throughout retirement, helping everyone get the most out of their hard-earned pension savings.

Income security

- 83% of non-advised pension savers aged 65-75 (referred to throughout this report as mid-retirees) reported that the security of an income for life from their pension savings has become more important to them as they get older, with women more likely to feel this way than men.
- Only half (48%) of mid-retirees are confident they are on track to make their pension savings last for life, even though their assumptions about longevity still fall short of reality. Expectations of 'for life' have shifted slightly upwards since mid-retirees were in their 50s.

Financial planning

- Many mid-retirees are not engaging in ongoing financial planning, often adopting a 'set and forget' approach to withdrawing DC pension funds.
- Pension Policy Institue (PPI) modelling shows that withdrawal rates above 7% pose significant risks of depleting pension pots prematurely, while a 10% withdrawal rate from age 75 would exhaust the assumed remaining pot after 13 years.

Flex First, Fix Later strategies

- Strategies that combine drawdown with later-life annuitisation appeal to mid-retirees. They offer higher starting incomes compared to traditional drawdown strategies, protection against cognitive decline, and greater financial security.
- However, these strategies require ongoing decisions throughout the retirement journey, necessitating significant support and guidance, especially around the major decision to annuitise later in life.

Comprehensive support needs

- Mid-retirees report that their need for guidance and support extends beyond financial reviews, including estate planning, fraud protection, access to state benefits, and managing finances as they start to experience cognitive decline.
- Such support will not only benefit retirees in their day-to-day lives but also enhance the effectiveness of any Flex First, Fix Later strategies.

Introduction

Over the past decade, retirement saving has transformed.

The shift from Defined Benefit (DB) to Defined Contribution (DC) plans, the introduction of Auto-Enrolment (AE), and the implementation of pension freedoms have reshaped how people save for retirement and manage their post-work lives. These changes have moved the system from a prescriptive, one-size-fits-all approach to one based on individual choices, with savers bearing additional risks. The shift also introduces difficult decisions about safe withdrawal rates, longevity insurance, and tax implications.

Whilst many studies have looked at DC pension holders making initial decisions, typically aged between 50 and 65, to date very little has been done to shine a light on those in mid-retirement.

To fill this gap, the focus of this four-part study is on mid-retirees, aiming to better understand the unique challenges they face and identify areas for improvement in their decision-making process.

Literature review

- Comprehensive literature review of the experiences of UK retirees.
- Comprehensive literature review of international experience of retirees with DC pots, drawing on information from US, Australia and New Zealand.

Quantitative element

- Survey of 1,000 non- advised private pension holders aged 65-75.
- Excluding people in receipt of State Pension only.
- Excluding those with more than £20,000 of DB household income.

Qualitative element

- 4 x 1.5 hour focus groups and 30 x 60 minute online depth interviews with non- advised private pension holders aged 65-75.
- Excluding people in receipt of State Pension only.
- Excluding those with more than £20,000 of DB household income.

PPI modelling

- Analysis of existing datasets to explore the current financial position of people in their mid-70s.
- Exploring the potential impact on living standards of different financial strategies.

Mid-retirees are typically seeking a reliable income to support a modest, predictable lifestyle throughout their remaining years.

Our research found that mid-retirees are generally accustomed to living a modest, yet predictable lifestyle - similar to the Pensions and Lifetime Savings Association (PLSA) minimum living standard - which they hope to sustain throughout their remaining years. Reported spending patterns are broadly similar to when they first retired, in sharp contrast to the U-shaped income needs model which predicts a decline in spending in these mid-retirement years.

To live this modest lifestyle, they say that need an income that is a little higher than the State Pension.

10%

of our survey respondents felt that they would be able to live off the State Pension alone. Furthermore, they would like to have this additional income for life.

83%

of our survey respondents agreed that having the security of an income for life from pension savings has become more important as they get older. Women are more likely to feel this way than men (87% compared to 80%).

64%

mid-retirees think that a pension should provide an income for life.

83%

agreed that they are used to managing on a certain amount of money coming into their household and would be worried if this income fell.

2%

said they would be very comfortable with a fluctuating income.

Mid-retirees are not engaging in adequate financial planning and continue to under-estimate longevity which distorts their decisions.

Our research found that mid-retirees are no better at financial planning than younger cohorts, usually adopting a 'set and forget' approach. Withdrawal decisions are focused on topping up the State Pension to cover lifestyle needs, with little evidence of detailed planning to ensure their income lasts for life.

Furthermore, while their expectations of what 'for life' means have increased a little since their 50s, their assumptions about longevity still fall somewhat short of reality, distorting decision-making on sustainable drawdown rates and the value of an annuity.

Just over one in ten (12%) DC pension holders strongly agreed that they are confident that they are on track to make pension savings last for life.

When asked to think about how much longer their DC money would last, nearly four in ten (38%) DC pension holders simply did not know.

The Pension Policy Institute (PPI) analysis of the Wealth and Assets survey also shows that mid-retirees' pension wealth is, and will be for at least the next 10 years, concentrated in the hands of one member of the couple. Yet, just one in three (36%) of those in a couple have any knowledge about their partner's pension, and we observed a very poor understanding of whether or not a spouse's pension will be paid if they have an annuity or a DB pension.

PPI modelling clearly demonstrates the risks to mid-retirees of withdrawing at rates of 7% or above.

A core part of this study is work done by the PPI to model potential incomes for different types of retirees - singles, couples, renters, and homeowners - using data from the Wealth and Assets Survey. Their modelling looked at how incomes could play out for mid-retirees aged 75 into their mid-90s, by comparing the outcomes of annuitisation at 75 with drawdown at various withdrawal rates.

The analysis showed that:

After age 75:

- Withdrawal rates that exceed 7% risk depleting pension pots prematurely.
- At a 10% withdrawal rate would exhaust the assumed remaining pot after 13 years. This means that, for couples, there is a 75% chance the pot will run out while one person is still alive.

Beyond age 75:

- At the highest withdrawal rate in the PPI model, a 16.2% withdrawal rate, pension pots last just 7 years beyond age 75, with most individuals forecast to outlive their savings.
- For couples, this means that there is a 95% chance the pot will run out while one is still alive. Half of those using this strategy will face living off an income that falls below the PLSA's minimum living standards for at least 6 years, 25% for at least 11 years, and 10% for at least 15 years.

Flex First, Fix Later strategies provide security of an income for life and higher initial incomes compared to sustainable withdrawal rates of 5% and 7%.

Mid-retirees very much appreciate the flexibility provided by pension freedoms, and we observed no appetite to return to the days of compulsory annuitisation. When asked about the primary benefit of pension freedoms, 40% cited having control over how to use their pension, while 16% specifically mentioned that not having to buy an annuity was the main benefit. Whilst they value the freedom to take their money in a way that suits their particular set of circumstances, they are very mindful of the challenge of making money last for their life especially as DC pots take over from DB as the main source of income in retirement beyond State Pension.

International experiences from more established DC markets, such as the US and Australia, highlight a further universal issue: the tension between having the freedom to make personal financial decisions and possessing the capability to make sound financial choices. Nonetheless, it remains essential for retirees in drawdown to remain engaged in decision-making whenever possible, as the value of their holdings – and the money they can safely draw down – will fluctuate. This issue persists globally, and remains an unresolved problem.

Very few of the mid-retirees in our study had even started to consider how getting older might affect their decision making. On reflection, they recognised that changes in their health and family dynamics posed a challenge to making sound financial decisions. This difficulty would increase when cognitive decline begins to affect their ability to manage these decisions effectively.

To address these difficulties, innovative Flex First, Fix Later strategies that combine drawdown strategies with later-life annuitisation are being developed in the UK. These aim to offer a blended approach, providing flexibility in the early years while ensuring the security of a lifetime income. It will be crucial, however, to understand how these new options will compare in terms of attractiveness and value to existing products that are already available in the market.

Headline rates often play a significant role in influencing consumer behavior when it comes to financial decisions. A key question, then, is how the income generated by these new Flex First, Fix Later strategies will compare to the income provided by traditional annuities, or various drawdown strategies. To explore this, the PPI has modelled lifetime outcomes under each product, assuming a starting retirement pot of £100,000 at age 75 (see Figure 1 for more detail.).

Although the PPI analysis included withdrawal rates above 10%, withdrawals at this rate are not sustainable for life, and are therefore not directly comparable to a lifetime income solution. Therefore, to ensure a fair comparison, we focus on comparing the outcomes of a Flex First, Fix Later strategy with the sustainable withdrawal rates of 5% and 7%.

Up to age 75 - This period has not been modelled by the PPI

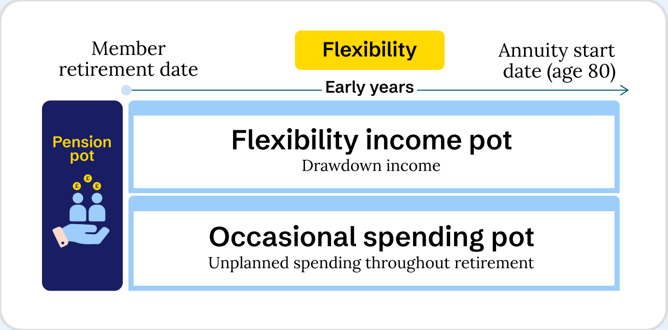
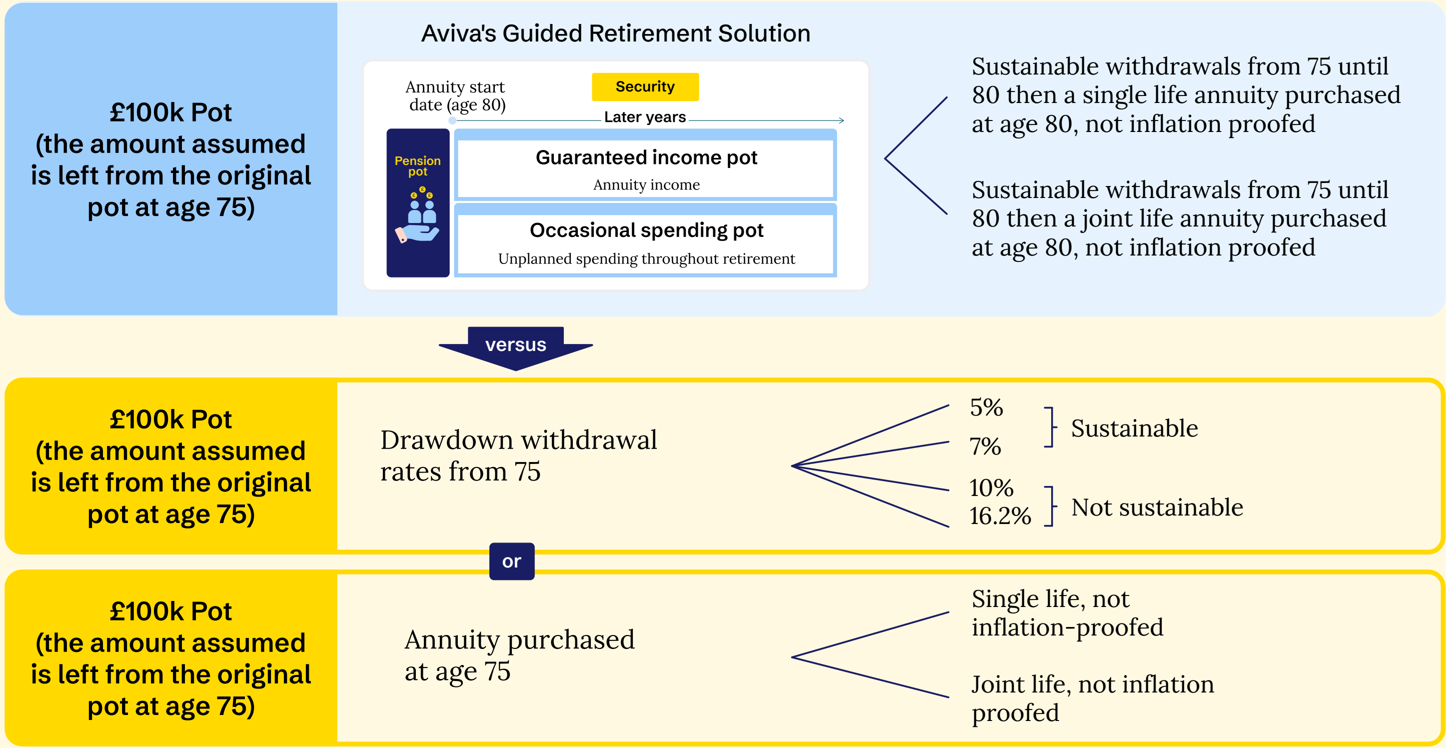


Figure 1 PPI modelling explainer: PPI modelling is designed to compare potential lifetime outcomes from mid retirement (age 75) onwards until death



Notes:
'Sustainable' means that the income will last until age 97.
The pension holder is assumed to live until age 87.
If they are in a couple, PPI model assumes that the pensionholder is outlived by their spouse.

The PPI analysis showed that:

- The withdrawal of one State Pension upon death significantly impacts the financial wellbeing of couples. If a single life annuity has been purchased, the death of the fund holder results in the remaining spouse's income falling below the PLSA's minimum income standard. This occurs because they lose both the annuity and the couple's State Pension, leaving them to rely solely on their single State Pension. This outcome is particularly poor for the remaining spouse if they have no other savings or sources of income. Given that the Wealth and Assets survey indicates pension wealth will be concentrated in the hands of one member of a couple for many years, spouses are left vulnerable. Many Flex First, Fix Later strategies acknowledge the variety of annuity options available, emphasising the need for active decision-making to choose what best fits individual circumstances.
- Flex First, Fix Later headline rates of income compare well to sustainable drawdown.

Joint life Flex First, Fix Later strategies:

The starting income (age 75) for a homeowning couple (£29,465) is higher than the income generated from both a 5% (£27,218) and 7% (£28,818) withdrawal rate.

Single life Flex First, Fix Later strategies:

The starting income would be slightly higher again, at £30,183.

- The starting income generated under a Flex First, Fix Later strategy is slightly less than annuitisation at 75, but full access to funds for a further 5 years makes this a very favourable trade-off.
- It is extremely difficult for renters in the PPI model to take a sustainable income and meet the PLSA's minimum living standard at any withdrawal level.

The decision to annuitise in later life is difficult, feels like a ‘gamble’, and change to requires guidance and support.

Flex First, Fix Later strategies will involve a decision about purchasing a later life annuity, where mid-retirees will need to think about the type of annuity that may be best for them, and where they need to consider making an irrevocable decision to hand over substantial sums of money in return for the security offered by a guaranteed income for life.

From our in-depth discussions, we found that this would have been a straightforward decision for those who purchased an annuity at retirement age as they feel that a Flex First, Fix Later offers the ‘best of both worlds’ – the security of an income for life in return for a fraction of their pot – compared to what they had actually bought.

The decision to annuitise is more difficult for individuals currently in drawdown. When asked why they had reservations, many participants cited negative perceptions of annuities, often shaped by media coverage or anecdotes from friends. A common concern was the ‘payback’ period — how long it would take for them to recoup the value of their retirement pot through the income stream.

This shows a need for better awareness of the various types of annuities that are available to suit different scenarios. It also shows there is more work to do to promote the upsides of annuities.

Many also expressed worries about what would happen to their money if they annuitised and passed away soon after, framing the decision as a gamble that they were not comfortable with taking. While there is no strong desire to deliberately leave pension money to family members as a planned inheritance (in our survey just 2% of DC pension holders had this as a firm plan), there is a strong desire for their family to benefit from any money that is left.

Underestimating life expectancy:

Even at this stage, around 75% of people tend to underestimate life expectancy, often believing they will only live into their mid-80s. No-one recognised the reality that one in ten people of this age is estimated to live beyond 100. Once confronted with these statistics, their view of the gamble and the potential value of a later life annuity was seen in a more positive light. They felt more should be done to ensure people know the right numbers. Reframing ‘annuity’ to be ‘long life insurance’ may help to overcome their issues.

Impact of cognitive decline:

People are faced with very challenging decisions just around the time when cognitive decline starts to occur. Worryingly, they may not recognise this change and overestimate their ability to face these complex decisions. Recognising the impact of cognitive decline can tip the balance in favour annuitisation or sophisticated default approaches. Having blended retirement approaches becoming the norm may help as it won’t be seen as a sudden decision as much.

Extended review phase needed:

It is clear from the feedback we received that the later-life annuity purchase will not be an easy decision to make and that our mid-retirees will undoubtedly need support during an extended review phase as they navigate their way through the pros and cons.

Mid-retirees support needs extend way beyond retirement income reviews.

Whilst the introduction of Flex First, Fix Later strategies means that support and guidance around the later-life annuitisation decision would be at the core of any mid-retirement review, our in-depth interviews suggested that needs extend much further than that.

Our mid-retirees are still experiencing a period of considerable change in their lives, for which they often feel ill-prepared. Most had some issue with their health – but coverage of wills and estate planning is patchy. They are sleepwalking into the impact of cognitive decline, which is particularly concerning as one person tends to take care of the big financial decisions and they have given limited thought to what happens if that person dies or is cognitively impaired.

Their biggest financial challenge right now is dealing with the rising cost of living on a relatively fixed income, but some are no longer actively managing finances and shopping around. Substantial savings are not working as hard as they could, and mid-retirees will need a strong intervention to nudge them out of their financial rut. Fraud and scams are an increasing worry as they get older, as scammers always seem to be one step ahead.

Yet they feel that support and guidance for their age group is very limited. Seven in ten mid-retirees think that there is not enough being done to help people manage their financial needs as they age.

The Advice Guidance Boundary Review, a joint initiative by the UK Government and the Financial Conduct Authority (FCA), aims to examine and refine the regulatory boundary between financial advice and guidance. This review should help remove barriers to development. Its primary objective is to ensure consumers have access to timely and affordable support when making crucial financial decisions, thereby addressing the existing 'advice gap' where many individuals struggle to obtain appropriate financial guidance.

The Review's current focus on the concept of 'targeted support' aims to provide a mid-point between basic guidance and holistic advice. This approach has the potential to improve retirement outcomes for many individuals who are currently making decisions on their own.

The concept of a broad-ranging mid-retirement check-up tested well with the target market.

It came as no surprise that the concept of a broad-ranging mid-retirement check-up tested well with the target market. Their needs extend well beyond a financial check-up to determine whether they are on track to make their pension money last for life – ranging from estate planning, to access to state benefits, and protecting themselves against fraud and scams.

As people draw down their pension savings, and develop health conditions as they get older, they may become eligible for state support, for example, Pension Credit or non-means-tested disability benefits. These could make a significant difference to people's incomes, helping address some of the more difficult financial challenges and it is important that people who may previously have had enough income are helped to access such support. A mid-retirement review would make sure people are aware of what's on offer and potentially help them claim.

88%

of mid-retirees, when shown Money and Pensions Service (MaPS) Midlife MOT service felt it would be valuable to have a similar service specifically designed for those later on in life, to review their financial situation and ensure they are on track for retirement.

36%

of the 88% felt it would be very valuable.

1%

said it would not be valuable at all.

A multi-channel approach is needed for this age cohort, and there is a strong preference for an independent service. They expect the service to be delivered for free. Our qualitative respondents are strongly opposed to paying a private sector organisation for this service, as they believe it would create an opportunity for that organisation to upsell products or services.

Figure 2: Topics that should be covered in mid-retirement guidance and support

Conclusion

The evidence from all four elements of our research strongly supports two key recommendations.

Recommendation 1:
The widescale introduction of Flex First, Fix Later strategies for DC pension holders, which combine the flexibility of drawdown in the early years of retirement with the security of a fixed income for life in the later years.

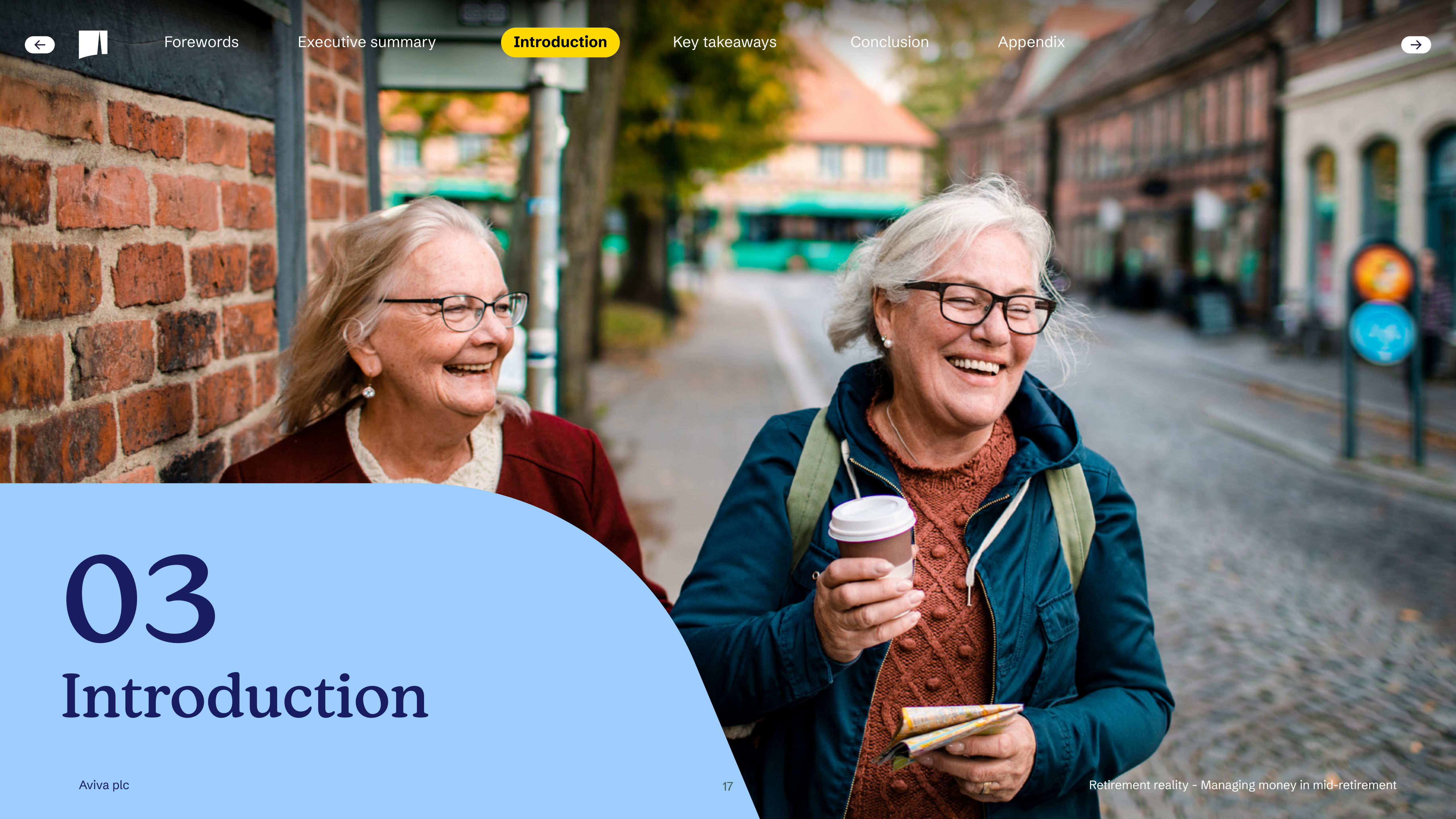
Recommendation 2:
A thorough financial and lifestyle check-up designed specifically for individuals in the middle stages of their retirement, which aims to help retirees reassess their financial health, future plans, and overall wellbeing as they navigate this pivotal life stage.

Aviva is developing its own Flex First, Fix Later product called 'Aviva Guided Retirement'. It is an innovative retirement strategy that aims to provide its workplace pension members with a sustainable income for life.

Age UK and Aviva advocate for this type of intervention and are assessing the feasibility of piloting it. Developing a mid-retirement intervention will be challenging, with several obstacles to overcome, including:

- Ensuring widespread take-up, so that support reaches beyond those who actively seek help.
- Designing an approach that is both affordable and effective in aiding decision-making.
- Determining whether interventions should involve partners and/or wider family.

It is therefore possible that several models may need to be developed and robustly tested to inform future policy.



03 Introduction

Introduction

Background to the study

Ten years on, pension freedoms have revolutionised the way people think about their DC pension pots and broken many of the traditional norms. We have seen a switch from a one-size-fits-all prescriptive approach – where people accessed their pension at retirement to deliver an income for retirement, usually by purchasing an annuity – to one based on individual choices and savers bearing additional risks.

This introduces new and big decisions around how much can be safely drawn down, how/whether/when to purchase longevity insurance, and the taxation and benefit implications of withdrawal decisions. Withdrawal rates will depend on a range of personal factors such as changing health/life expectancy, housing needs, family position, and so on. It is perhaps not surprising that this has been called the 'hardest problem in finance'.

Yet while much has been done to look at decision-making at the point of accessing pensions for the first time (typically total encashment or taking tax-free cash and moving into zero income drawdown), very little attention has been paid to the challenges faced by those who have fully retired and who now have to navigate living off their accumulated assets for the rest of their life. We also know that very few people take financial advice (less than 8% of all UK adults according to the FCA's Financial Lives survey), and there is no holistic support designed to help people in their 70s make appropriate decisions. Consequently, as they do in other countries, some people will take a risk-averse approach, living much more frugally than they need to. Others will overspend, exhausting their wealth too early. There is also a likelihood of sub-optimal strategies more generally, such as an over-reliance on holding savings in cash, overpaying tax, inadequate provision for longevity, and too much (or not enough) focus on bequests. Alongside these risks, there is an existing challenge of people living much more sparingly than they need to due to not claiming means-tested benefits to which they are entitled (eligibility for which is made all the more complex by pension freedoms).

Flex First, Fix Later strategies are in development and are likely to come to market shortly. These propositions, of which the Aviva Guided Retirement solution is a good example of, require decisions around whether an annuity should be purchased in later life. Whether or not to take out an annuity is a big decision at any time, let alone for people to make at a time when health issues may be starting to occur, family situations are changing as grandchildren are grown and may need financial help, and thoughts turn to downsizing before it becomes too stressful. People are faced with very challenging decisions just around the time when cognitive decline starts to occur. Worryingly, they may not recognise this change and overestimate their ability to face these complex decisions.

And this is on top of existing challenges, such as if, how and when to draw down housing wealth, dealing with ill-health, navigating long-term care, and ultimately coping with the emotional and financial impact of the death of loved ones.

Research objectives.

To understand the challenges faced by mid retirees – 10 years on from pensions freedoms – to fill this important information gap, Age UK and Aviva have set the following objectives for this research programme:

- Examine the current financial situation of retirees in their late 60s and early to mid-70s and reflect on the positive and negative impacts of the pension freedom reforms and what these mean for decision-making in later life.
- Explore what guidance people in their mid-70s (i.e. around 10 years into retirement) need to help them manage their finances confidently. As well as their current financial position, and potential for enhancing income (e.g. benefit take-up, rationalising tax position, etc), should guidance consider their health (life expectancy, care needs, etc), their housing circumstances (e.g. adaptations, down-sizing), likely future wealth, health, and housing needs as well as the current financial position and potential for enhancing income?
- Explore options for light-touch interventions that could deliver that guidance, with proposals for a pilot to test the effectiveness.
- Explore how those decision-making challenges will evolve for future cohorts over the next couple of decades as Defined Contribution (DC) replaces Defined Benefit (DB) as the main source of retirement income.

Methodology.

The project has four research elements, each combining to form a comprehensive picture of the challenges faced by mid-retirees and the potential size of the prize if interventions can improve decision-making.

Literature review

- Comprehensive literature review of the experiences of UK retirees.
- Comprehensive literature review of international experience of retirees with DC pots, drawing on information from US, Australia and New Zealand.

Quantitative element

- Survey of 1,000 non- advised private pension holders aged 65-75.
- Excluding people in receipt of State Pension only.
- Excluding those with more than £20,000 of DB household income.

Qualitative element

- 4 x 1.5 hour focus groups and 30 x 60 minute online depth interviews with non- advised private pension holders aged 65-75.
- Excluding people in receipt of State Pension only.
- Excluding those with more than £20,000 of DB household income.

PPI modelling

- Analysis of existing datasets to explore the current financial position of people in their mid-70s
- Exploring the potential impact on living standards of different financial strategies.

Rather than reinvent the wheel, the first stage of the project looked to see if there were any lessons from countries that are much further on in their DC journey - notably, Australia, the US, and New Zealand. A comprehensive international literature review, conducted by the PPI, explored the experiences of mid-retirees in these key locations and considered whether there are any policy interventions we might want to adopt or adapt to improve member outcomes in the UK.

The modelling element, again conducted by the PPI, drew extensively on The Wealth and Assets Survey dataset[1], a representative sample of individuals comprising data on 15,000 individuals aged between 55 and 79 years old representing 16.5 million of the British population. Here, the PPI used the Wealth and Assets Survey (WAS) data in two ways:

- To understand the current financial situation of the target population. Alongside the wider financial circumstances of the household, including income and wealth measures, PPI has explored demographic and other descriptive data to understand the scale (the size of the population of interest) and the severity of the issue (how vulnerable mid-retirees' financial circumstances are to poor decision making).
- To identify a set of representative individuals, using the WAS data to define realistic income and wealth levels, as well as typical household situations, and model alternative projections to see how much retirement incomes could be improved through efficient use of assets, to maximise sustainable income and tax-efficiency.
- To explore the various options available to this cohort at age 75, and how these choices could impact their financial wellbeing in later life. The modelling assumes an average pension pot of £100,000 left at this stage, once tax free cash and withdrawals up to age 75 have been taken. This has been based on Aviva's own research, which projected that the average auto-enrolled saver will have around £225,000 by retirement in the 2050s —providing a forward-looking estimate.

The Wealth and Assets Survey offers a wealth of valuable information, but it falls short of capturing how people feel and the reasons behind their behaviours. To address this limitation, we commissioned a tailored survey of 1,000 non-advised retirees with pension savings, alongside a programme of in-depth interviews. This approach provided a deeper understanding of the challenges mid-retirees face, their awareness of the risks they face, and their confidence in managing their finances and making critical decisions as they age.

This report draws on all four elements to build a robust evidence base for our two key policy recommendations.

> **Recommendation 1:**
> The widescale introduction of Flex First, Fix Later strategies for DC pension holders, which combine the flexibility of drawdown in the early years of retirement with the security of a fixed income for life in the later years.
>
> **Recommendation 2:**
> A thorough financial and lifestyle check-up designed specifically for individuals in the middle stages of their retirement, which aims to help retirees reassess their financial health, future plans, and overall wellbeing as they navigate this pivotal life stage.

Key takeaways

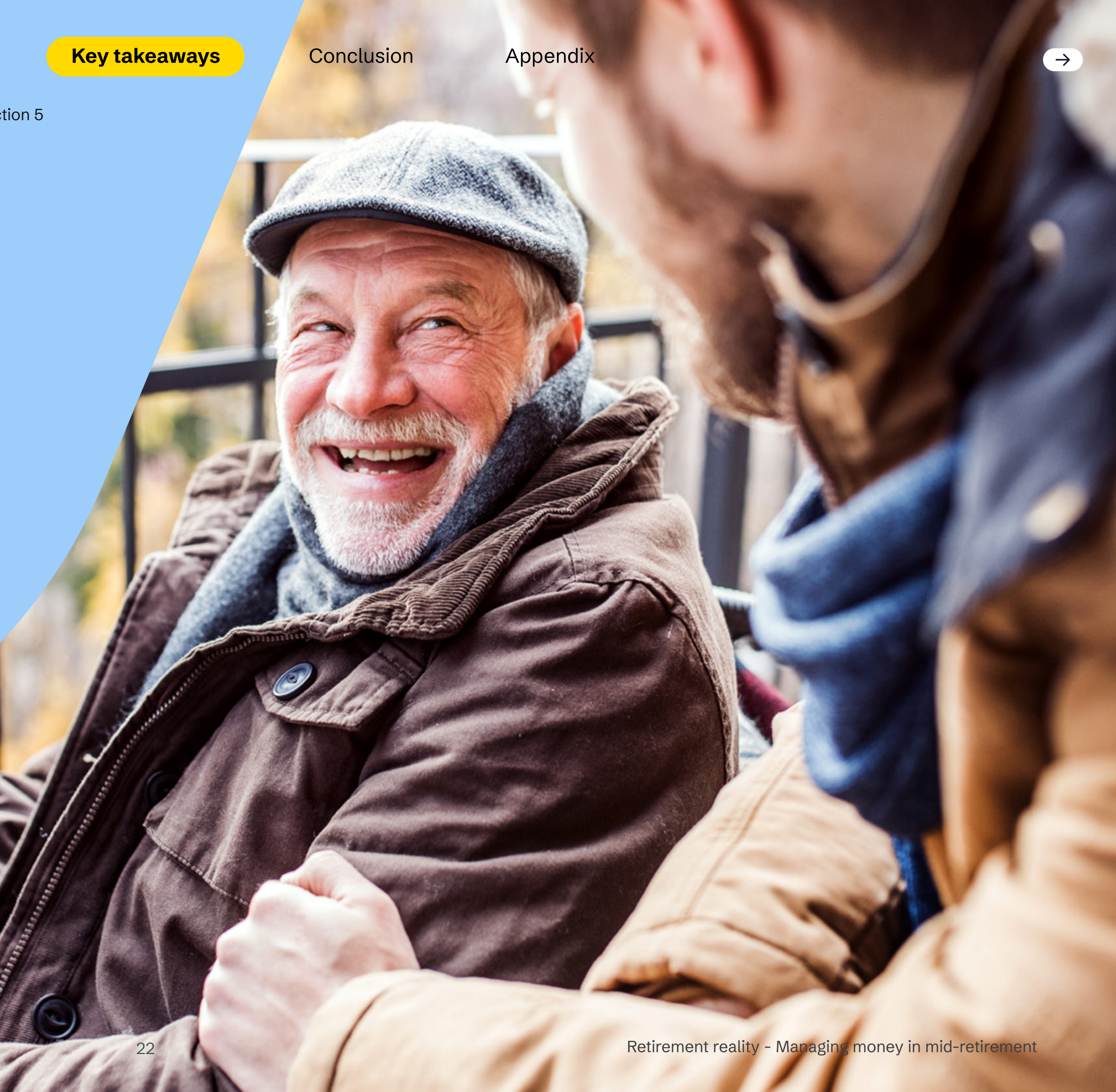
Section 1: Are mid-retirees' retirement wants and needs being met by current options and support?

Section 2: Is there an optimal framework for managing retirement spending?

Section 3: How can we optimise the design of 'Flex First, Fix Later' solutions from the mid-retirees' perspective?

Section 4: What are the wide-ranging guidance and support needs for retirement journeys?

Section 5: How could we address the wider support gap through a Mid-Retirement Check Up?



1 Are mid-retirees' retirement wants and needs being met by current options and support?

In this section, we explore what mid-retirees want and assess to what extent their needs are being met by the current range of products and guidance available under pension freedoms.

Human nature, in its core aspects, tends to remain constant over time. While cultural, technological, and societal factors can influence how these traits are expressed, the underlying tendencies have remained largely the same throughout history. Behavioural biases, in particular, are deeply ingrained in human behaviour. They stem from the way our brains are wired to process information, make decisions, and react to situations. Exploring the wants, needs, attitudes, and behaviours of current mid-retirees therefore gives us useful insights into how future cohorts, who are likely to have much bigger DC pots to deal with, will behave.

The findings from our research indicate that the current situation under pension freedoms, a choice between either an inflexible annuity or leaving ordinary individuals to tackle one of the most complex financial challenges on their own — is far from ideal. Neither strategy fulfils their needs, and there appears to be a latent need for a middle-ground, which we refer to here as a Flex First, Fix Later which strikes a balance between flexibility, accessibility, stable and later life security.

Busting the myth of U-shaped spending in retirement - a slow decline in spending appears to be the norm.

Adjusting to retirement often takes time and it can feel unsettling to transition from a regular wage to relying on accumulated savings, with our respondents saying it typically took them about two years to get comfortable. During this time, they tried to be “a bit more careful” with their money, for example, by not buying many new clothes and cutting back on social outings in the early years.

This sense of caution is widespread, with 70% of respondents in our survey saying they are more careful with money than they used to be. A third admitted to spending less than they could have in the early stages of retirement due to concerns about their money lasting. This worry is especially common among homeowners (35%, compared to 26% of renters) and those relying solely on DC pensions (41%, compared to 25% of those receiving a regular income through a defined benefit pension or an annuity).

This highlights the risk that DC pension savers may risk both underspending and overspending—behaviors the Pensions Policy Institute (PPI) has identified in more mature retirement markets, such as Australia.

Our survey also shows that patterns of spending vary, with 41% reporting that they are spending less now than when they first retired, 31% reporting that they are spending more, and 28% taking a neutral stance.

Our qualitative respondents talked about fairly modest lifestyles in retirement which had not significantly changed over the years. Most had not been long-haul travellers in their working lives and had not expected to do this in retirement. Off-peak holidays in Europe may have been replaced with a few, shorter trips to the UK as airports become more difficult to cope with, but the cost is roughly the same.

> “Our income will be pretty much constant. We’re not thinking about going on the world sort of cruises or anything like that. I don’t like doing long-haul flights or anything like that now. We did all that sort of thing when we were younger. We look after our grandchildren three days a week. So we get a lot of joy from that. A lot of joy from seeing our kids do well and the grandchildren growing up. We are very much family-orientated. So we’re just sort of fairly happy now the way we are.”
>
> **Male,** aged 70-75

> “We don’t go abroad on massive holidays, never have done. I wouldn’t, even if I were a millionaire, it doesn’t appeal to me anymore at all. We’ve done the things we wanted to do and we enjoy staying at home and having weekends away in various spots, no more than an hour and a half away. I don’t like to drive much more than that. I don’t like driving at night now. I prefer the local stuff now.”
>
> **Male,** aged 70-75

If anything, our mid-retirees are expecting a slow decline in spending as they cut back on activities as they age. Six in ten (60%) agreed with the statement “I expect that I will spend less money in the later years of my retirement as I get less active’, but just 13% strongly agreed.

Policy implication

U-shaped retirement needs refers to the pattern of spending many retirees experience over the course of retirement, where expenditure is significantly higher at the beginning and end of retirement, with a dip in the middle—forming a "U" shape when plotted over time. However, the Dilnot Commission estimated that only around one in seven people in the UK will face substantial care costs, often cited as exceeding £100,000 over their lifetime, suggesting that most will not experience the final part of the U-shape. Regardless it is highly unlikely, given adequacy issues with pensions as they stand today, that care costs will be funded from DC pots in foreseeable future, if ever.

Furthermore, the evidence we are seeing here, and in various academic studies[2], indicates that many people will not spend significantly more at the start of retirement either. For the vast majority of ordinary people, spending will follow a gradual downwards slope.

This has implications for the design of the later life income.

No evidence of a strong desire to keep DC money back as an inheritance – but they do want any residual money to pass on to their family on death.

There is no evidence to suggest that people are underspending or holding back pension money to leave as a bequest.

In our survey, seven in ten (68%) agreed with the statement 'pension money is for me/me and my partner to live off in retirement, and I am not planning to leave it as an inheritance'. Those with very small savings (under £10k) are, not surprisingly, more likely to agree with this statement than those with more, but beyond this £10k threshold, the level of savings makes no difference to the sentiment. Overall, just 12% of our survey respondents disagreed. Recent changes to Inheritance Tax rules are likely to reduce this figure.

> "We've got four children between us and they're getting nothing apart from the house. My old father-in-law, said to us years ago, you can't take it with you. So we're going spend it."
>
> **Male,** aged 70-75

That said, there was a very strong feeling that any DC money left on death should be passed on to their family.

Mid-retirees often report a fairly modest lifestyle, aligned with the PLSA's minimum living standard.

Mid-retirement appears to be marked by a transition towards more local and manageable experiences, with a greater emphasis on maintaining close relationships with family and friends and preserving health. At this stage of their lives, many have moved on from long-haul travel having 'done that' in their working lives. Social lives have not fully recovered to pre-COVID levels, and generally revolve around local activities. Hobbies are very important to wellbeing, and some are trying to keep as active as possible by walking or regular visits to the gym.

As a result, most of our respondents, particularly those in a couple, described themselves as "comfortably off," reflecting a sense of financial stability that supports a fairly modest, yet fulfilling, lifestyle.

> "I think you could say we're comfortable. We watch what we spend, but I would say we're comfortable. We don't want for anything. And we're at the stage now. If we want to buy something and we need it, we just buy it."
>
> **Male,** aged 70-75

> "I'm not worried and I'm able to pay my electricity and gas and that's very important at my age."
>
> **Female,** aged 70-75

All of our qualitative respondents received the State Pension. Couples generally reported that while two lots of State Pensions were just sufficient to cover the basics of everyday living, the money they received from the state fell short of enabling them to "have a life" beyond essential expenses.

Our homeowning respondents, recruited to represent lower to middle income earners commonly suggested that an additional £1,000 per month beyond the State Pension is necessary to achieve the lifestyle they are now living. For couples, this equates to an annual income of approximately £34,000, with £22,000 coming from the new State Pension and an extra £12,000 required to bridge the gap. This figure is slightly below the PLSA's moderate expenditure targets.

For singles and renters, however, the challenges were far greater, as the State Pension alone was insufficient to meet even their basic financial needs. Here, the amount they said needed was in excess of £1,500 per month, highlighting a significant disparity in financial security based on living arrangements and household composition.

The current generation of mid-retirees do not feel particularly financially secure - despite having the underpin of some DB.

Overall, a quarter of our survey respondents (26%) said that they feel financially secure. This is a surprising result, given that the vast majority of our survey respondents (83%) reported having a regular income from a private or workplace pension. It is also worrying, given that the next generation of retirees will be even more reliant on DC pensions to deliver their retirement income than the people we surveyed here, and so the situation is likely to get worse over time.

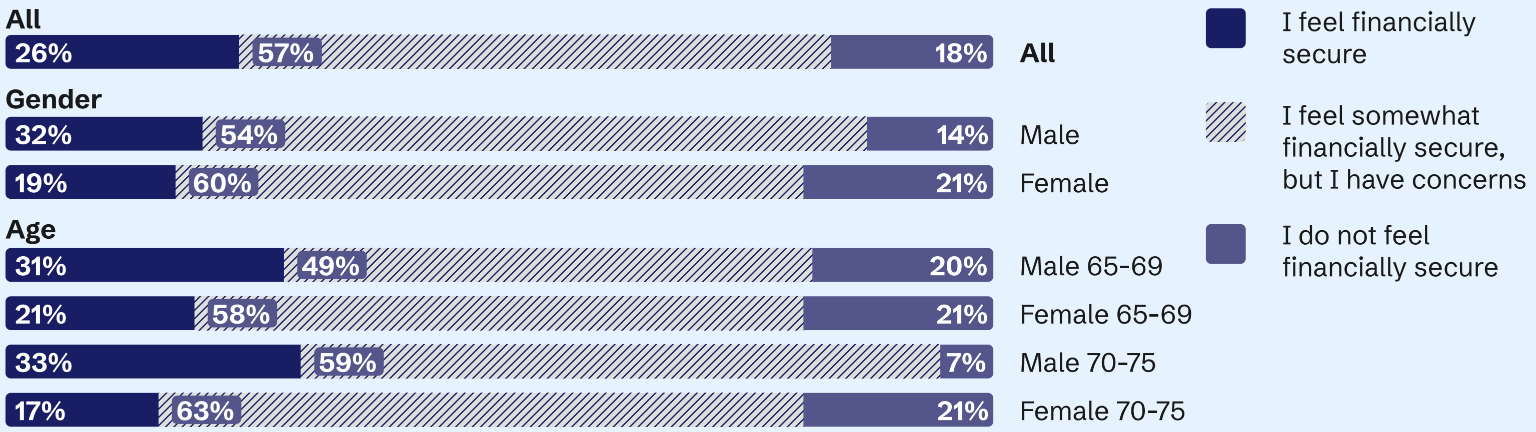
Digging deeper into this data we found that there is no significant difference in feelings of financial security between those with DB pensions and those without. Among individuals with modest DC pension pots (either untouched or in drawdown), also having a guaranteed income for life through an annuity or some DB does not seem to influence their sense of financial security.

However, the level of the DC pot is a much stronger driver of sentiment. 30% of those with DC pots under £20,000 feel insecure, while this figure drops to 11% for those with pots valued between £20,000 and £49,000, and to just 1% for those with pots exceeding £100,000. This may be acting as a proxy for other factors, such as overall financial wealth (for example, 54% of those with non-pension feel insecure, with this percentage decreasing steadily as non-pension increase).

Home ownership, however, shows a clear correlation, with 29% of homeowners feeling financially secure compared to only 12% of renters.

Interestingly, our 70-75-year-olds were less likely to report financial insecurity (14%) compared to our 65-69-year-olds (21%).

Figure 3: Extent to which mid-retirees feel financially secure

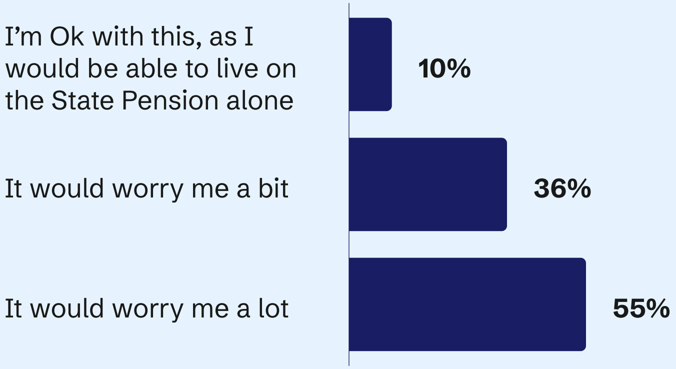


Question: How financially secure do you feel at this stage of your life?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Life would be very difficult if they ran out of pension money and had to live off State Pension alone.

Figure 4: Attitude towards living off State Pension alone



Question: If you ran out of pension money in later life and the State Pension was your only source of income, how would you feel about this?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Overall, just 10% of our survey respondents felt that they would be able to live off State Pension alone.

Those who own their homes outright were almost twice as likely to say this as renters (11% compared to 6%). The fear of relying solely on the State Pension intensifies with age, particularly among women. Among women aged 70-75, 71% expressed significant concern about this, compared to 54% of women aged 65-69.

> "There's no way that small amount of money which, let's face it is way below the minimum wage, would stretch out to pay even the basic bills, let alone have any sort of life. It would be a complete worry. It would be impossible."
> **Male,** aged 70-75

> "No, I couldn't just live on the government pension. We get my pension and my wife's pension as well so we get by. We can afford to go on holiday once a year."
> **Male,** aged 70-75

> "I would struggle to live on the State Pension on its own. I think we would be a lot more careful about where we went on holiday, a lot more careful about eating out."
> **Female,** aged 70-75

These fears are understandable. Data from the PPI, given in Figure 5, clearly shows that the State Pension, the bedrock of retirement income, is not enough for single people and renters to live off.

Figure 5: Is State Pension enough to meet the PLSA's minimum living standard?

Net income After Housing Costs	After Housing Costs income in 2024	PLSA living standard	Additional income required for minimum
Couple, homeowner	£23,005	Minimum	£0
Couple, renter	£17,233	Below minimum	£5,167
Single, homeowner	£11,502	Below minimum	£2,898
Single, renter	£5,730	Below minimum	£8,670

Source: PPI Modelling, net of tax and after housing costs (AHC)

In the PPI's modelling, a homeowning couple receives £23,005 in State Pension in 2024, which is enough to put them slightly over the PLSA's target for a minimum income. Homeowner couples are therefore fine while both are alive, but the death of one person has a devastating impact on household finances. If the State Pension is all they have to live off, the remaining partner will find themselves in the same position as a single person, facing the same shortfall of £2,898 to reach the PLSA's minimum living standard. This is not an optimal position to be in, and it is easy to see how any savings could quickly be depleted.

> "We are OK now, but if one of us died well that's different. Obviously, a State Pension will then be missing. So I would say that then we would possibly be on the borderline – or the one who is left will be."
>
> **Male,** aged 70-75

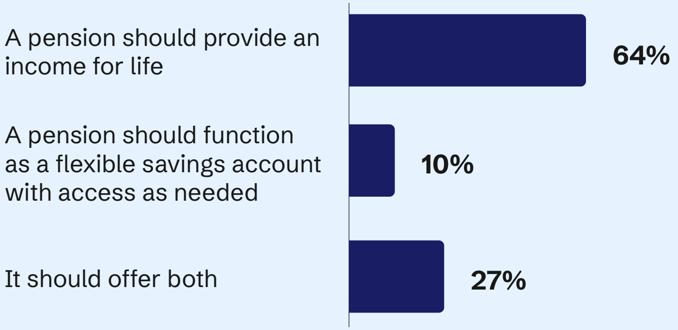
Unfortunately, for those dependent on a partner's DC pension—where single-life annuities were commonly purchased— these anxieties may become a reality, highlighting the potential financial vulnerability of married women in this age cohort.

This may help to explain why just one in five (19%) women felt financially secure, compared to a third (32%) of men. And why those who have never been married - and therefore have always had to make their own provisions - are the group who felt the most secure.

The picture is much bleaker for renters due to their ongoing housing costs. Here, the PPI model suggests a single renter relying on the State Pension only would have a shortfall of £8,670 per year to reach the minimum living standard, and a couple who are renting would need an additional £5,167.

Nearly seven in ten mid-retirees think that a pension should provide an income for life.

Figure 6: Thoughts on the purpose of a pension



Question: In your opinion, should a 'pension' be used primarily to provide an income for life, or should it function more like a flexible savings account?

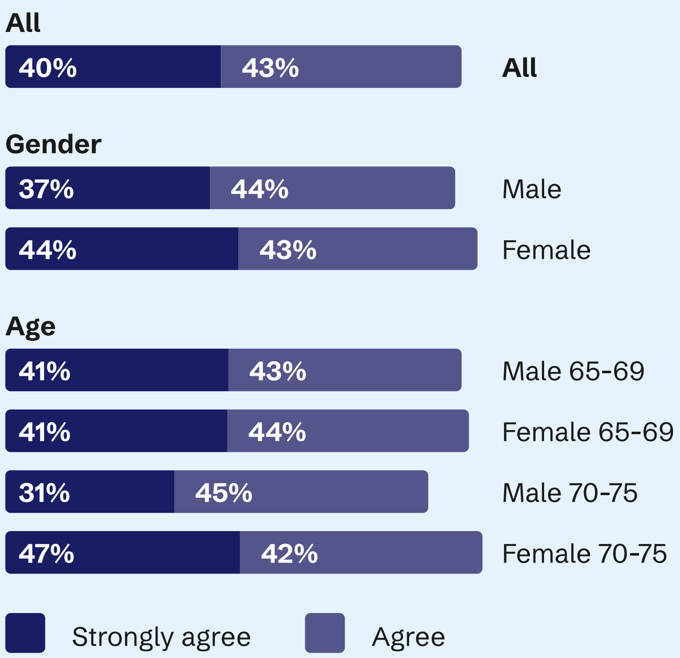
Base: All non-advised private pension holders aged 65-75 (n=1,000)

Almost seven in ten mid-retirees think that the purpose of a pension is to deliver an income for life. Looking a bit deeper into the data shows that older individuals are more likely to believe pensions should deliver an income for life (67% agreed with the statement compared to 61% of their younger counterparts), with no notable differences observed by gender, housing tenure, or marital status.

Among those receiving a regular income from a DB pension, 69% share this perspective, compared to 51% of individuals with DC pensions.

While only one in ten people (10%) view pension pots purely as another type of savings account, nearly a quarter appreciate the flexibility they now offer under pension freedoms - providing both a potential lifelong income and a savings pool to draw from. This again highlights the need for solutions that can deliver the best of both worlds. There are some differences based on their pension experiences. This view is held by just 7% of those receiving a regular income (from DB or annuity), compared to 15% of those with DC pensions.

Figure 7: Importance of a secure income for life



Question: To what extent do you agree or disagree with the following statements: I am used to managing on a certain amount of money coming into my household and I would be worried if this income fell.

Base: All non-advised private pension holders aged 65-75 (n=1,000) aged 65-75 (n=1,000)

The desire for the certainty and stability of a retirement income for life is increasing as they get older.

Overall, 83% of our survey respondents agreed that having the security of an income for life from pension savings has become more important as they get older. Women are more likely to feel this way than men (87% compared to 80%). Looking deeper into the data, we see that there is no difference in sentiment between single and couples, but those not married or in civil partnership feel most strongly (91%) that they could not cope with too much insecurity. Homeowners are more likely to agree than renters (85% compared to 77%).

Looking at those with a DC pension, respondents who also have an income for life (DB or annuity income) are more likely to feel this way than those who have DC only (84% compared to 72%).

> “As you get older you do tend to err on the side of caution a bit more. Nothing is straightforward and you tend to worry about little things that you didn’t worry about before. So if I was in a situation where my income was affected by what the stock market was doing, I would be a bit concerned. In fact, I’d be more than concerned, I’d be worried. I would certainly probably be a bit more frugal maybe with the energy usage at home and maybe sell the car and use public transport.”
>
> **Male,** aged 70-75

No appetite amongst mid-retirees for an income that could fall or fluctuate.

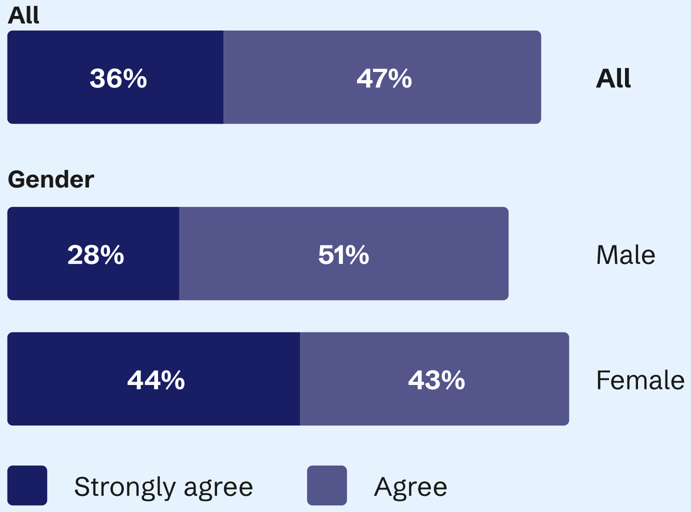
The vast majority, 83%, agreed that they are used to managing on a certain amount of money coming into their household and would be worried if this income fell. There is no difference between those aged 65-69 and those aged 70-75.

However, women are much more likely to feel this way than men (87% compared to 79%). In this instance, renters are more likely to be concerned about a fluctuating income than homeowners (here, 90% of renters compared to 81% of homeowners said they would not be comfortable).

Having a safety net of other assets to draw on makes a significant difference to their views on the need for a stable income. 95% of people with no savings (other than their pensions) agreed that income variability would be an issue, compared to just 76% of those with savings between £50,000 and £99,000.

At this stage of life, just 2% would be very comfortable with a fluctuating income; a further 21% would be quite comfortable with this. On the flip side, one in five (21%) would not be comfortable at all with a variable income. Again, the types of people who feel most concerned about this are women, renters, and those who are divorced or widowed.

Figure 8: Importance of a stable income



Question: To what extent do you agree or disagree with the following statements: I am used to managing on a certain amount of money coming into my household and I would be worried if this income fell.

Base: All non-advised private pension holders aged 65-75 (n=1,000)

> "I just need to know where I am. You fix your electricity and gas; you fix what you can. And okay you might lose out on it, you might gain on it, but I know how much I'm paying out each month. I like to know what our income is and what our expenditure is. My priorities have changed, I just like the simple things in life and our income allows us to do it. And I like the regular income that we get. It allows us to plan a little bit ahead."
>
> **Male,** aged 70-75

Policy implication

A preference for a stable income that does not fluctuate or fall is a key factor to consider when designing future retirement income propositions.

Despite their desire for security and stability, there was very little support for compulsory annuitisation in their 50s or 60s.

Respondents in the qualitative research talked about their experiences of compulsory annuitisation before the introduction of pension freedoms. On the positive side, they were pleased that it had all been done for them and the decision process was relatively simple and straightforward.

Policy implication

However, it's concerning that most individuals did not shop around for their annuity, potentially missing out on better options and deals. This highlights the need for the industry to provide better guidance and support, ensuring that people can make informed decisions and purchase the right annuity for them, if this is the route they choose.

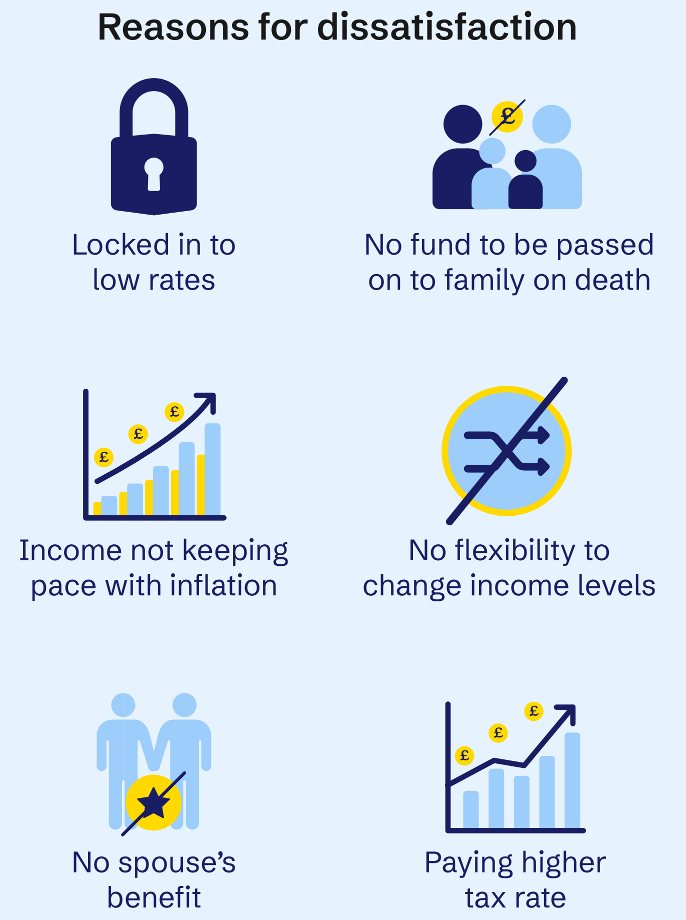
That said, there was a widespread recognition that annuitisation in their late 50s and 60s was not a panacea for delivering retirement income. The most common issues with annuities were locking into low rates of return, and the fact that there is no pot of money to be passed on to their family.

More recently, the flexibility to adjust income levels in drawdown has helped people cope with the cost-of-living crisis. Just over half (56%) of DC pension pot holders in our survey felt that having the freedom to take pension money as and when they want it, rather than having a fixed amount each month, allowed them to maintain their lifestyle as prices increased rapidly. On the other hand, our annuity purchasers saw soaring costs, but their pension income remained the same.

A small number felt that, under the old rules, they had been 'forced' into buying an income for life that they simply did not need. This, combined, with their DB pensions and State Pension, had pushed them into a higher tax bracket, and they felt disgruntled that they were 'losing' 40% of their income.

> "I suppose I don't think annuity rates are that great. And the thing is there's nothing to pass on once the annuities come through. Once you've gone, that's it. That's the end of it."
>
> **Male,** aged 70-75

Figure 9: Reasons for dissatisfaction with compulsory annuitisation



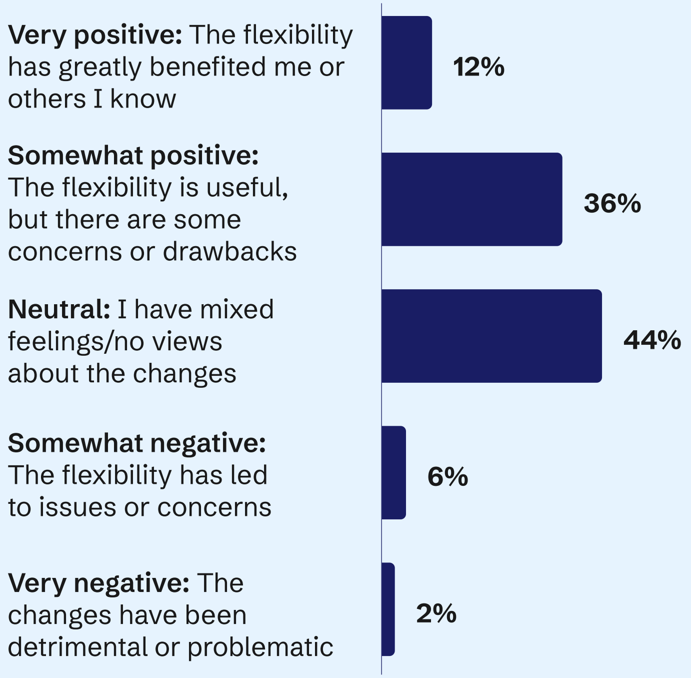
Most older pension savers have some reservations about pension freedoms but do not want to go back to pre-2015 rules.

Pension freedoms removed the enforced purchase of a product that was becoming increasingly unpopular and inappropriate for the target age group. Removing it exposed a different problem - the need for previously inert customers to make difficult financial management decisions.

On balance, **most of our mid-retirees had positive feelings about the change, with fewer than one in ten expressing predominantly negative sentiments about pension freedoms.** That said, just 12% were very positive. The vast majority (80%) had mixed feelings, reflecting a mix of both benefits and drawbacks.

People in our survey with both DC and DB pensions were the most positive about the new flexibilities. Our data shows that 25% of those with both DB and DC felt very positive about the new freedoms and felt that the change had benefited them or people, they know. This contrasts with just 16% of those with DC pensions only.

Figure 10: Perceptions of pension freedoms



Question: With the benefit of hindsight, what are your thoughts on these changes for society?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Table 11 draws on PPI analysis of the latest Wealth and Assets survey to show the proportion of households where at least one person has either an active or deferred DB pension. Overall, we see that four in ten (38%) UK households have some DB provision. Perhaps surprisingly, this data also shows that the figure does not vary significantly by age. If these figures are correct, a surprising proportion of households will still have the protection of some DB provision for quite some time – although it may not be a meaningful amount.

Table 11: DB provision by age

Age of household head	% if households with some DB provision (active or defered)
16 to 24	31%
25 to 34	45%
35 to 44	49%
45 to 54	56%
55 to 64	49%
65 to 74	15%
75 and over	5%
Total	**38%**

Source: PPI analysis of the Wealth and Assets Survey

What is clear from this data is that, even with the benefit of hindsight, mid-retirees value the flexibility the pension freedom changes have brought, albeit they also recognise that this comes with some compromises. A sentiment that was strongly echoed in our qualitative discussions.

> “I think if I had access to it, there wouldn’t be much left by now. So I think it’s better if someone else manages it for me.”
> **Male,** aged 70-75

> “Some people are good with money; some people are rubbish with money. And it’s a big responsibility for them to have to manage their money to the end of their life.”
> **Male,** aged 70-75

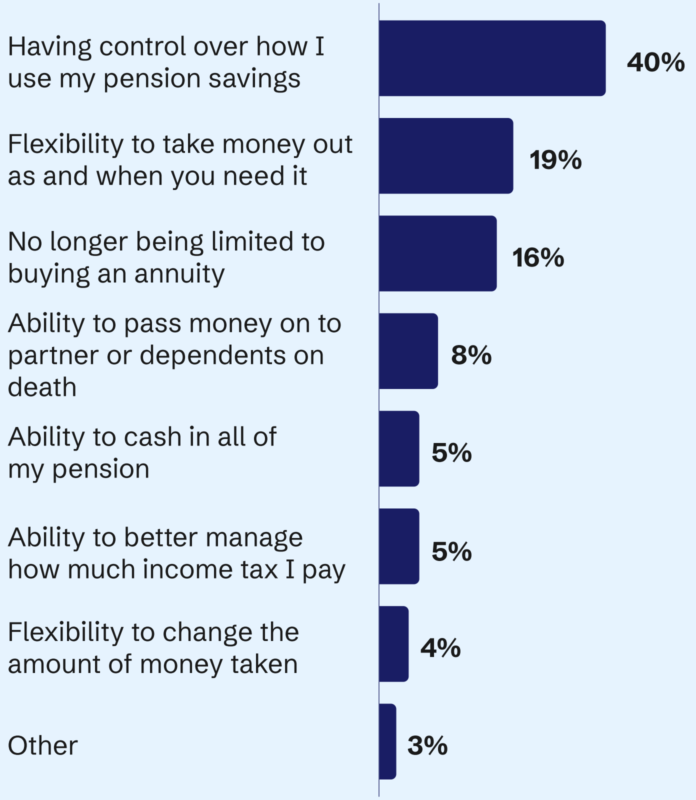
Having more control of their DC pots is highly valued, but the responsibility of making substantial DC pots last for life is daunting.

Our survey data shows that mid-retirees think that the primary benefit of pension freedoms is having control of how you use your own money, as mentioned by four in ten (40%) of our respondents. Flexibility (19%) and not having to buy an annuity (16%) are some way behind.

However, when our qualitative respondents thought more deeply about the responsibility that was now being placed on ordinary people, they started to worry about whether people would be able to make the right decisions, and the implications of this on their wellbeing in retirement.

This became particularly concerning when they were asked to put themselves in the shoes of future private sector workers who will only have DC pensions and their State Pension to live off. A typical worker on average earnings receiving minimum AE contributions of 8% into their workplace pension from age 22 until retirement will have an estimated pension pot of around £225,000[3]. This is broadly equivalent to a DB pension of £10,000 per annum.

Figure 12: Perceptions of the primary benefit of pension freedoms



Question: What do you see as the primary benefit of pension freedoms?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

> "I'm very risk averse. I'm not that comfortable with having to manage a huge pot like that. I'd prefer somebody else worrying about getting the best interest on it and what have you."
>
> **Female,** aged 70-75

> "It's a big responsibility, in my opinion, to actually think that you can take this pot of money and you can enjoy life now and not worry about the future. I'm glad that that option wasn't available to me because in my fifties I might have taken that option and that would be a bad move. I didn't have a choice, and overall I'm happy with that."
>
> **Male,** aged 70-75

We asked people who are currently getting this level of DB income how they would feel if they had a pot instead of the regular income flow. They were very worried about managing this level of money themselves and having the responsibility of making it last for life. They often felt sorry for the next generation facing up to these difficult problems.

> "I really feel for them. I'm guaranteed an income every month. I know what I'm getting and there's no problem. So I don't have to think about it. I like it the way it is."
>
> **Female,** aged 70-75

> "I get a bit scared when you look at sort of what I consider bigger sums and then think that's for however long your life is. Suddenly you've got this big sum of money and you think I could go on a huge holiday, or I could do this, or I could do that. And then you think, well, no, I need to think about investing it. And there's all these things popping up on social media. You're being bombarded with loads of things. When you're looking at big amounts of money, it's, it's a bit scary to think what is the best thing to do with it? Because It's for the rest of your life, isn't it?"
>
> **Female,** aged 70-75

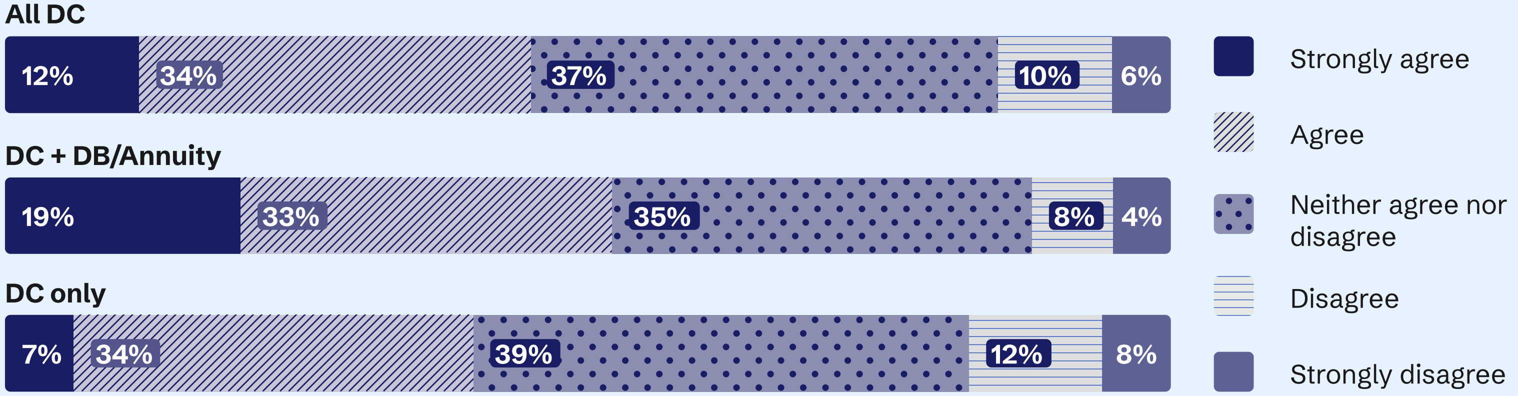
> "I'm so pleased I've got a teacher's pension. It just comes in every month and I've not got anything to worry about. This is a real eye-opener to me. I've been very naive about what people have to cope with. Oh, thank God for all those long tedious teaching years."
>
> **Female,** aged 70-75

Most of our DC pension holders are not sure whether they are on track to make their money last for life.

Overall, just over one in ten (12%) DC pension holders strongly agree that they are confident that they are on track to make pension savings last for life. This figure falls to just 7% of those with DC pensions only.

When asked to think about how much longer their DC money would last, nearly four in ten (38%) simply did not know.

Figure 13: Confidence in making their DC pension last for life



Question: To what extent do you agree or disagree with the following statements: I am confident that I am on track to make my/our pension savings last for life.

Base: All non-advised DC pension holders (n=373)

Limited evidence of planning before or during retirement to ensure that a needs-based spending approach will mean income lasts for life.

Findings from our qualitative research reveal several key insights regarding DC pension withdrawals. First, withdrawals are typically needs-based, with individuals accessing their funds based on immediate financial requirements rather than structured planning for long-term security. Additionally, most withdrawals tend to be taken as ad-hoc payments rather than as regular income, suggesting a preference for more immediate access to funds. In our survey, only a third (37%) of those in drawdown said they were taking regular payments from their pension money.

That said, for those who anticipated or expected retirement, significant spending often occurred in advance of their income stopping. Common expenditures included purchasing a new car or caravan, renovating their home, or saving for a few major holidays to mark the transition into retirement, paid for by a mixture of redundancy, tax-free cash, and savings. These preparations reflected a desire to set themselves up for their new lifestyle, where they no longer rely on a regular wage, even in the absence of detailed financial planning.

It was rare to hear of anyone actively revisiting or reviewing their financial situation, particularly around their DC pensions. None of our qualitative respondents with DC pensions had revisited or reviewed their withdrawal strategies, and none had utilised any available tools (for example cashflow modellers or retirement income planners) to assist in managing their retirement savings, suggesting a ‘set and forget’ strategy is the norm. Furthermore, there was a notable lack of awareness regarding any support from pension providers that might be available to help individuals assess whether they are on track to meet their retirement goals. Annual statements are the primary (often only) form of communication they now receive from providers, and they could not recall seeing anything on those statements that indicate whether they are in danger of taking too much and running out of money in the future.

> “I actually bought myself a little camper van. I rarely use, it now, maybe only to go away for a few days because of my husband’s illness.”
>
> **Female,** aged 70-75

> “We didn’t spend any big money apart from one big holiday, and that was it really.”
>
> **Male,** aged 65-69

Policy implication

Mid-retirees are often stuck in a financial rut. Future retirees may benefit from an intervention, such as a mid-retirement financial health check, to determine whether they are withdrawing too much or too little from their accumulated wealth, as well as exploring if other options could also help them. This could also provide an opportunity to address other important financial and life decisions they may be postponing.

Given their state preference for ad-hoc payments, it is important that any Flex First, Fix Later strategy offers the flexibility for consumers to take income in a variety of ways to suit their needs, e.g. regular monthly, quarterly or annual payments or ad-hoc withdrawals across the financial year.

Expectations of 'for life' have grown since their 50's yet longevity assumptions still fall short of reality.

Our survey respondents were asked to think back to their 50s and say what age they thought they might live to. Almost one in five (17%) men and one in ten women (11%) aged 65-69 now did not expect to live this long when they were in their fifties. The number is even bigger for the over 75s age cohort. Here, three in ten did not think they would live to see 75.

They have since revised their thinking. But nearly seven in ten still expect someone aged between 65-75 to die before they are 85. They hear average life expectancy figures of around 84, perhaps quoted in the mainstream media, and this is reflected in their estimates.

However, as Figure 14 shows the reality is somewhat different, as no measure of average – neither an arithmetic mean, a median, or a mode - can convey the distribution of deaths.

Our qualitative respondents were very surprised to hear that the most common (modal) age of death is 91, and that one in ten are likely to live to be over 100. Having this information might mean they have to think about their plans again, or they could be in danger that their money might run out.

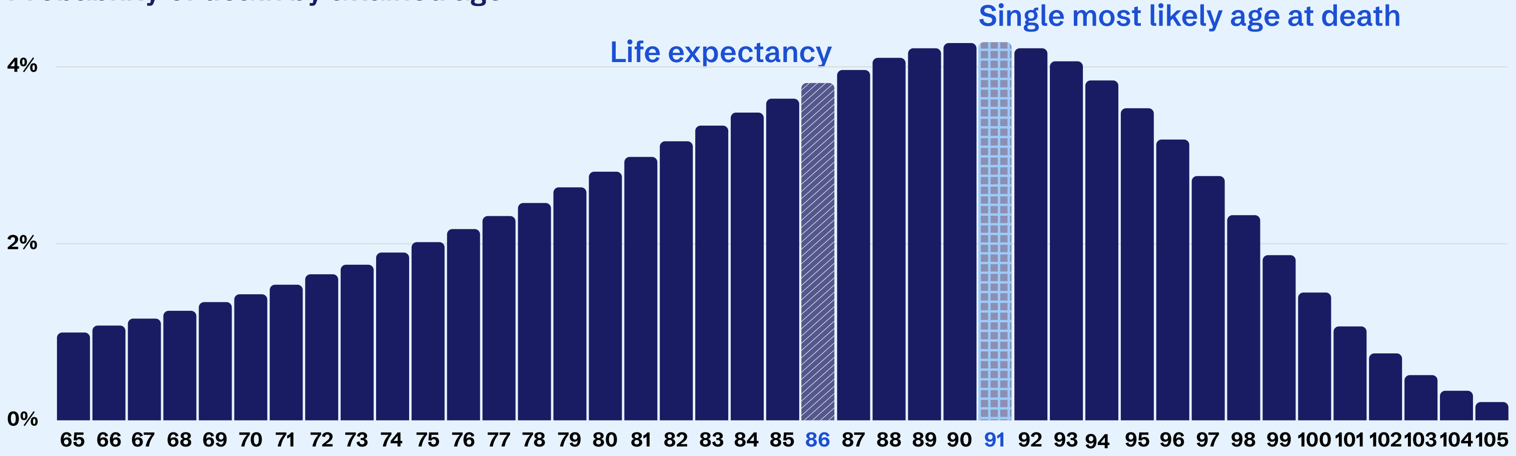
> It's quite worrying actually putting it in that sort of context."
>
> **Male,** aged 65-69

Policy implication

The tendency to underestimate life expectancy, even among those in their late 60s and 70s, is likely to lead to sub-optimal financial decisions. A particular concern is that mid-retirees calculating the 'payback' on later-life annuities may base their assumptions on incorrect projections, making these options appear to offer poor value compared to the reality of their longer lifespans.

Figure 14: Life expectancy distribution

Probability of death by attained age

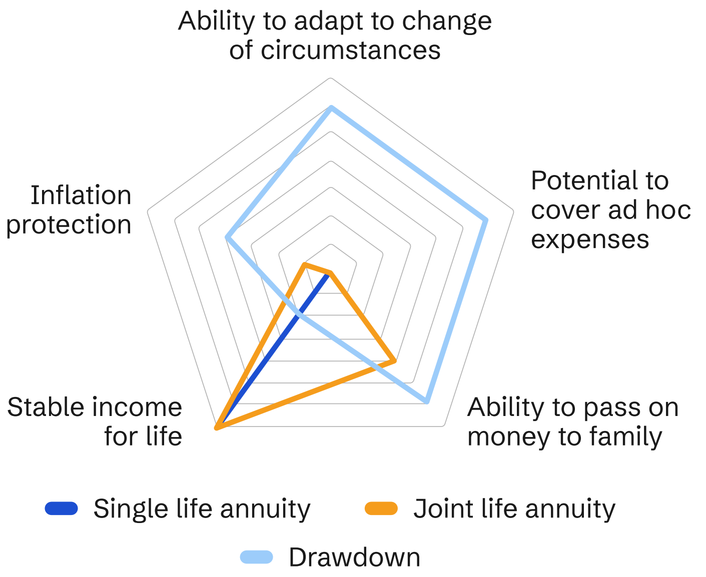


Source: Projection based on mortality rates for the population of England & Wales derived using CMI_2008 [1.5%]

Current retirement options reveal a gap between what is currently available and consumers' stated needs.

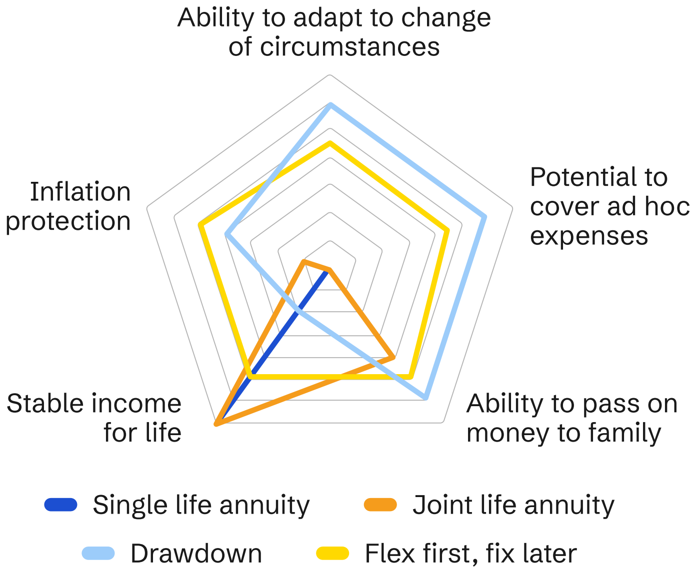
In this section, we have uncovered the features that our mid-retirees most value from any retirement income product. Figure 15 maps the current options – annuity and full drawdown – against these stated needs. What is abundantly clear from this diagram is that the current options - annuitising at the start of retirement or entering into full drawdown – do not offer people what they want. Of course, people can create the middle ground themselves, by blending annuity and drawdown, and to some degree this this has happened for our current mid-retirees as they often have a combination of DB and historic annuity income, whereas future cohorts may not. However, doing this themselves with their DC pots requires a deeper understanding of the issues and a level of financial management sophistication that most simply don't have.

Figure 15: Extent to which current retirement income products meet stated needs



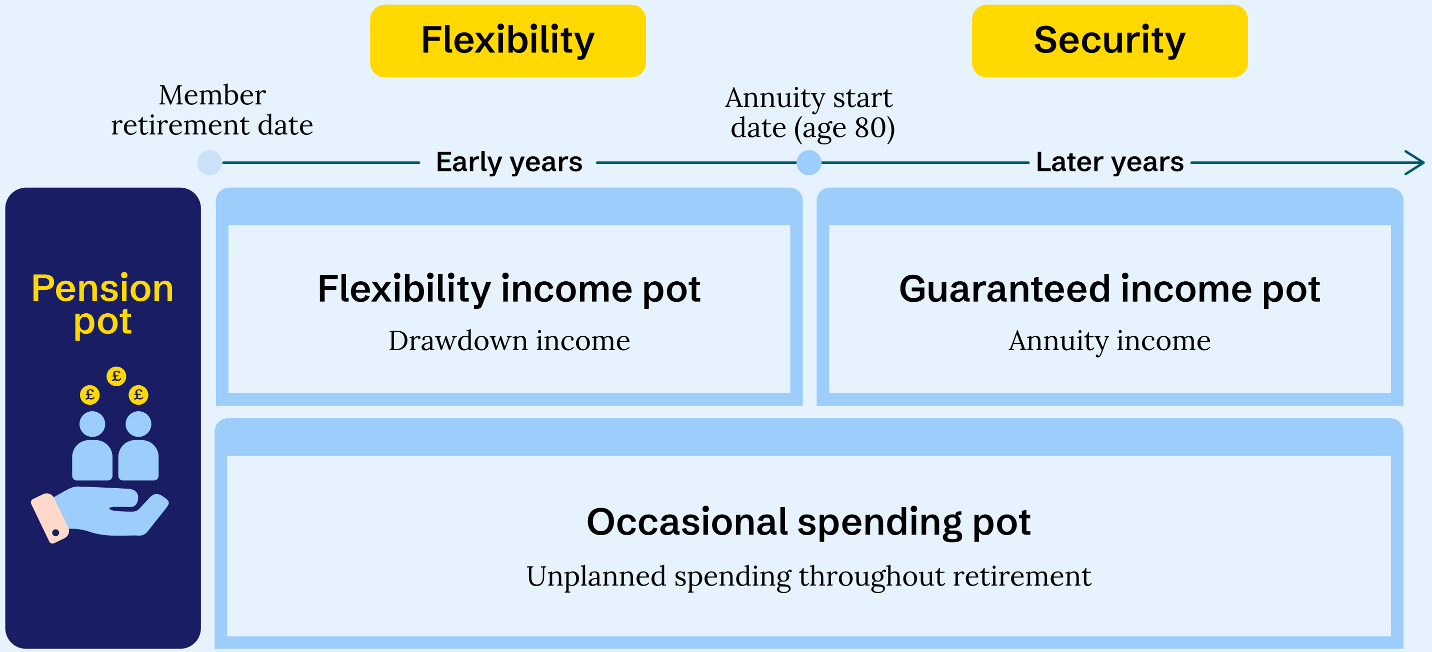
A significant gap exists in the market for a financial management strategy that offers both early retirement flexibility and lifelong income security. This solution would provide the adaptability of drawdown in the initial years, allowing for unexpected changes and ad hoc events, while ensuring a guaranteed income for life. We refer to this as Flex First, Fix Later. Figure 16 maps Flex First, Fix Later against the stated wants and needs of the mid retirees in this study.

Figure 16: Flex First, Fix Later strategy mapped against stated needs.



An example of how this could work in practice is given in Figure 17.

Figure 17: Description of how Aviva's Guided Retirement solution could work



Flexibility in the early years.

In Aviva's Guided Retirement solution money in the 'Flexible Income Pot' (probably around 60-70% of the initial pension pot) is in a drawdown product. As such it can be fully withdrawn at any time, and in the event of death, the money will be passed to the beneficiaries/estate.

The money in this pot is managed by the provider to a fixed date (here we have assumed age 80) at which point the flexible income pot should be fully depleted. If there is any money left over, it continues to be subject to drawdown rules, and so it can be fully or partially withdrawn, passed on to family, or used to boost the annuity income.

To ensure that the money in the Flexible Income Pot lasts until the annuity kicks in, the provider calculates a sustainable income withdrawal level. The rate will be set so that the income should not fluctuate or fall over time, but unlike an annuity, this income level is not guaranteed. Of course, people are free to choose different levels of income. However, if they opt for a higher income, they face a much greater risk of their money running out before the annuity kicks in. Conversely, if they select a lower rate, they may underspend and miss out on living as comfortably as they could in retirement.

Emergency cash fund for unplanned spending.

Should some money (say 10% of the initial pot or a maximum sum of £10,000) be set aside in the optional 'Occasional Spending Pot', this further enhances the ability to manage unexpected ad hoc spending needs, such as a boiler breaking or car repairs. This feature acts like an instant access savings account and is very useful for people who have not managed to save much during their working lives. It is the retirement equivalent of Nest's Sidecar savings concept.

Guaranteed income for life via later life annuitisation.

The final piece of the puzzle is the 'Guaranteed Income Pot'. Here, around 30% of the initial pot is set aside and invested until it is used to buy an annuity in later life.

Up until the annuity is purchased (here we have assumed this is done at age 80) the money in this pot retains full flexibility so it can be accessed, cashed in, moved to a different product, or passed on to the family on death.

At 80, the product holder needs to decide if they wish to use this money to buy an annuity, which will deliver a secure guaranteed income until the day they die or leave the solution and move this money into drawdown.

If they do the latter, they take on the risk of managing their money, but it will still be available to leave to their family on death.

If they buy an annuity, the money is no longer theirs and cannot be passed on to their family. However, in return, they gain the security and peace of mind that they will always have a regular income to rely on, no matter how long they live. This should also mean the retiree has a similar income throughout their full retirement journey.

It's worth noting there are annuity features that can mitigate the risk of losing money, such as minimum guaranteed income periods or values.

2 Is there an optimal framework for managing retirement spending?

In this section, we examine how Flex First, Fix Later solutions - such as Aviva's Guided Retirement - might impact retirement outcomes compared to current options. We refer to the work of the PPI, who have modelled potential incomes options for different types of retirees - singles, couples, renters, and homeowners - using data from the Wealth and Assets Survey. Their modelling looks at how these incomes could play out for mid-retirees aged 75 into their mid-90s, by comparing Flex First, Fix Later strategies with full annuitisation and drawdown at various withdrawal rates.

For simplicity, we show the income from the State Pension along with the income generated from an assumed £100,000 DC pot. The PPI has specifically selected £100,000 as the baseline assumption, as it is roughly the amount someone on average earnings with a full history of AE contributions at the minimum level would have left by age 75, after taking their tax-free cash and making withdrawals for around a decade.

The PPI modelling exercise shows income net of tax and after housing costs (AHC), which for homeowners are assumed to be zero. For renters, the assumed rental payments are in line with English rents outside London. The modelling does not consider any entitlements to means-tested benefits.

The PPI's baseline mortality assumption for couples is that the pension holder dies at age 87. The modelling then goes on to consider the situation of the surviving spouse. It assumes that joint life annuities pay 50% of the income to the surviving spouse. In the case of single life annuities, the money dies with the pension holder and no further income is paid to the spouse. If the pension holder dies while in drawdown, the remaining pot is inherited by the spouse who is assumed to continue drawing down at the same rate.

Full details of the PPI's modelling exercise and the assumptions they have used can be found here. Tables summarising the key findings can be found in the Appendix.

We are fully aware that a potential limitation of the PPI's modelling exercise is the extent to which those aged 75 today will be representative of future 75-year-olds. We therefore end this section by exploring trends in behaviours to see to what extent we might be able to draw meaningful conclusions about the impact on future generations.

Up to age 75 - This period has not been modelled by the PPI

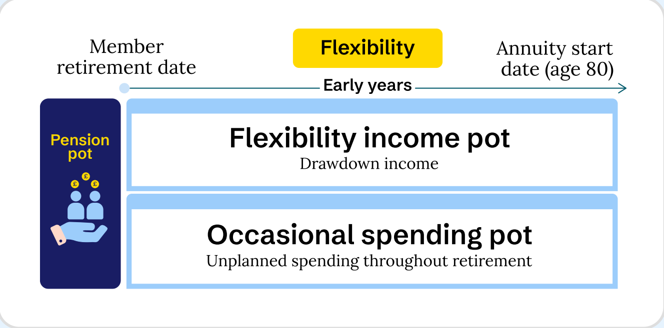
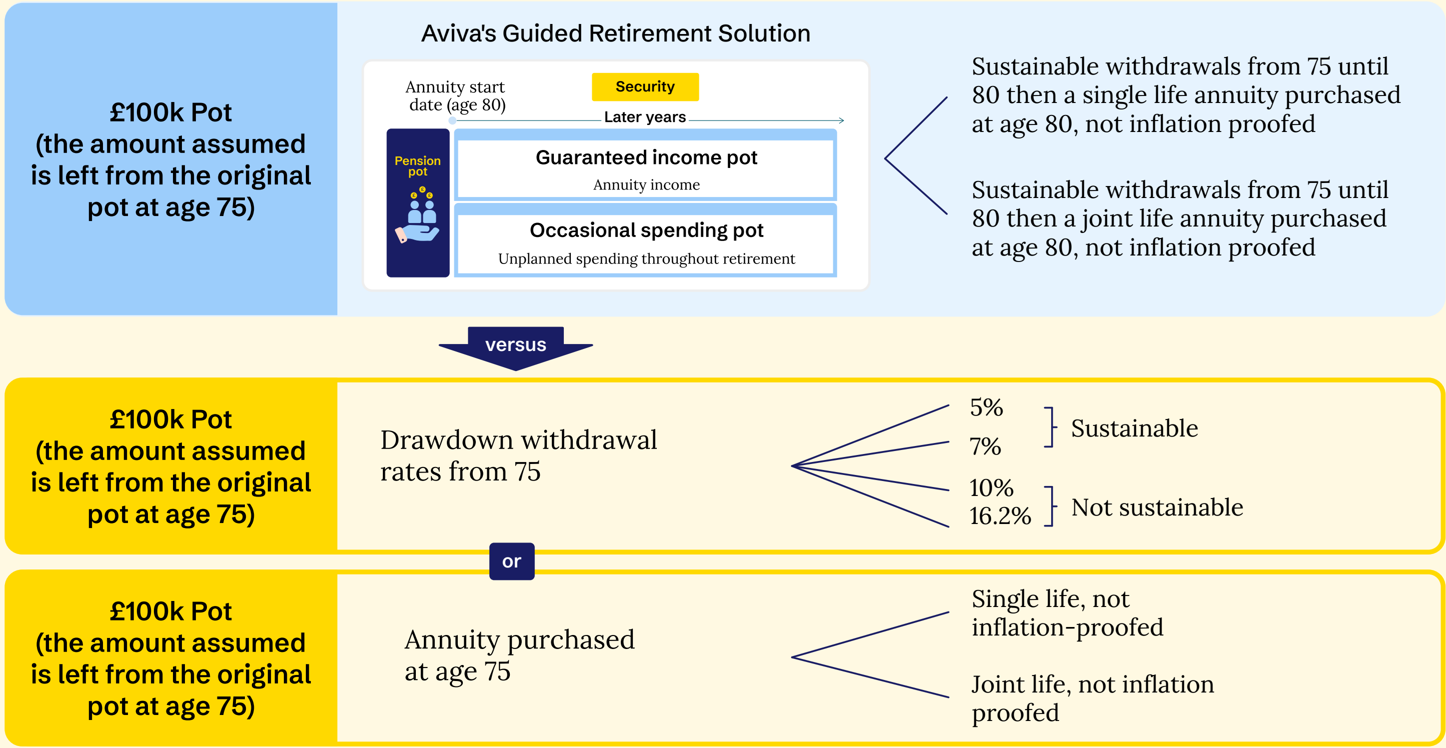


Figure 1 PPI modelling explainer: PPI modelling is designed to compare potential lifetime outcomes from mid retirement (age 75) onwards until death



Notes:
'Sustainable' means that the income will last until age 97.
The pension holder is assumed to live until age 87.
If they are in a couple, PPI model assumes that the pensionholder is outlived by their spouse.

PPI modelling indicates homeowners drawing down over 7% are unlikely to sustain an income for life – current withdrawal rates exceed this level.

The FCA's Retirement Income Market data reveals a concerningly consistent withdrawal pattern. In 2023-24, 71% of contract-based DC pots in drawdown were withdrawn at an annual rate of 4% or higher, and 40% were drawn down at a rate of 8% and higher. These figures have remained virtually unchanged since data collection began in 2016.

> At a 7% withdrawal rate, the PPI estimates that the money will run out at age 97, with only an 8% chance that a pension holder will outlive the money in the pot.

If the spouse is still alive, the PPI assumes that they will continue withdrawing at the same rate. This increases the likelihood of the pot running out before both individuals have died, as the pot needs to last at least as long as the pension holder's life and potentially longer if the spouse outlives them. Consequently, the joint probability of the pot running out while at least one person is still alive is 15%.

However, withdrawing at 7% requires careful financial management and carries risks.

- **Longevity:** The ONS estimates that one in ten people will live beyond age 96.
- **Market Risks:** Market downturns could deplete funds faster, causing the money to run out sooner, if withdrawals are not adjusted.
- **Spousal Impact:** If the pension holder dies earlier than expected, the spouse might have to rely on a single State Pension for a longer period.
- **Cognitive Decline:** Managing money effectively into your 90s and beyond can be challenging due to potential declines in cognitive abilities.

At a 10% withdrawal rate, the pot is expected to last just 13 years from mid-retirement. For couples, this means that there's a 75% chance the pot will run out while one of them is still alive. At the highest withdrawal rate that the PPI modelling tests, 16.2%, the pot will last just another 7 years from age 75, meaning the most of individuals will outlive their DC pension savings. For couples, in this scenario there's a 95% chance the pot will run out while one of them is still alive.

As a result, 50% of people using this strategy will face an income below the PLSA's minimum living standard for at least 6 years, 25% for at least 11 years, and 1 in 10 for at least 15 years.

Policy implication

FCA data suggests that a significant proportion of withdrawals are currently above sustainable levels. FCA's Advice Guidance Boundary Review should help to clarify the extent to which providers can issue risk warnings to drawdown customers.

Headline rates usually drive behaviour. In the PPI modelling, Flex First, Fix Later strategies deliver higher starting incomes than sustainable withdrawal rates of 5% and 7%.

In contrast to drawdown, where the length of time the money lasts depends heavily on the withdrawal rate, a Flex First, Fix Later strategy provides an income for life. When making comparisons between the two it is therefore important to ensure that we are comparing Flex First, Fix later with sustainable drawdown rates.

According to the PPI modelling, a 5% withdrawal rate ensures (subject to market conditions) that the money lasts until the pension holder is at least 120 years old. A 7% withdrawal rate offers a high likelihood — though not absolute certainty — that the money will last for life, with funds running out at age 97. Therefore, we consider both of these withdrawal strategies to be fair comparisons to a Flex First, Fix Later strategy. Figure 18 shows PPI's modelled incomes for homeowning couples at ages 75, 87, and 93 under each option.

The PPI data indicates that the starting income for a homeowning couple under a Flex First, Fix Later strategy (£29,465) is higher than the income generated from both a 5% (£27,218) and 7% (£28,818) withdrawal rate. The same pattern holds true for singles. See Appendix for further modelling.

While the absolute differences are not massive, they are significant. More importantly, the structure and guarantee of a Flex First, Fix Later strategy is likely to provide people with the confidence they need to spend their wealth appropriately, rather than hoard it to avoid running out.

It is important to note that our comparison considers incomes under a joint life Flex First, Fix Later strategy for couples. The starting income under a single life Flex First, Fix Later strategy would be slightly higher again, at £30,183.

Figure 18: Lifetime income journey for homeowners in sustainable drawdown vs a Flex First, Fix Later strategy

	Joint Life Flex First, Fix Later strategy (couples)		5% withdrawal rate (couples)		7% withdrawal rate (couples)	
	Net income AHC	Pension wealth	Net income AHC	Pension wealth	Net income AHC	Pension wealth
Age 75	£29,465	£95,799	£27,218	£98,718	£28,818	£96,639
Age 87	£14,706	£0	£15,284	£61,636	£16,339	£36,894
Age 93	£14,605	£0	£15,066	£48,166	£15,908	£13,597
Age at which money runs out	Never		Age 120		Age 97	

	Joint Life Flex First, Fix Later strategy (couples)		Single Life Annuity at 75 (couples)		Joint Life Annuity at 75 (couples)	
	Net income AHC	Pension wealth	Net Income AHC	Pension wealth	Net Income AHC	Pension wealth
Age 75	£29,465	£95,799	£30,978	£0	£30,096	£0
Age 87	£14,706	£0	£12,646	£0	£14,914	£0
Age 93	£14,605	£0	£12,961	£0	£14,770	£0
Age at which money runs out	Never		Never		Never	

Source: PPI modelling, net of tax and after housing costs (AHC)

Notes:

The PPI model assumes that, for couples, the pension holder dies at 87 and is survived by their spouse. This results in the loss of one full State Pension. In drawdown, the spouse continues with withdraw at the same rate. In the Joint Life Flex First, Fix later a joint life annuity continues to pay 50% of the income to the surviving spouse until death.

Renters struggle to achieve sustainable income and meet PLSA's minimum living standard in PPI modelling.

The PPI has assumed a rent of £5,772 per annum at age 75, which increases in line with the Office for Budget Responsibility's long-term economic determinants. They have not modelled entitlement to any housing benefits. Under these assumptions, their model shows that withdrawing at 5% is not viable for renters, unless they have other sources of income, as this would put them below the PLSA's minimum living standard from age 75 onwards.

Withdrawing at 7%, 10%, or 16.2% while renting is possible while both members of a couple are alive, as DC income plus two State Pensions is enough to keep them just above the PLSA's minimum living standard. However, when one member of the couple passes away, the surviving spouse will lose one State Pension, which means their income falls below the PLSA's minimum threshold. For example, if the DC pot has been withdrawn at a rate of 10% or 16.2%, by 2042 (when the surviving spouse is 93), the DC pot is fully depleted, and their income could drop to just £5,652 after housing costs and taxes. With a 5% or 7% withdrawal strategy, there is still some DC pot remaining at age 93. But the surviving spouse's income (at £7,757 or £8,599 respectively) is again below the PLSA's minimum threshold.

For single renters, the State Pension provides the main bulk of their income and is, paid until they die. They only need to worry about making their income last for life. However, the PPI modelling suggests that under all but the highest withdrawal rate of 16.2%, single renters are below the PLSA's minimum living standards from age 75 onwards. To get over that threshold, single renters need to withdraw at 16.2%. But, of course, this means that their DC pension money runs out at 81.

This emphasises the importance of the State Pension and the benefits system as an underpin for some people in older age, even those who previously had some pension savings.

Spousal protection in Flex First, Fix Later strategies keeps surviving homeowners above PLSA's minimum living standard, but surviving renters remain vulnerable.

Regardless of the drawdown rate used, the loss of one State Pension on death has a dramatic impact on the financial wellbeing of couples in the PPI's model. For example, for homeowners in drawdown, withdrawing at rates above 10% will cause living standards to fall below the PLSA's minimum when one member of the couple dies.

The situation is similar under a single life Flex First, Fix Later strategy. This option delivers an income of £12,961 for the surviving homeowning spouse at age 93, which is below the PLSA's minimum. However, a joint life annuity can partially protect the spouse, by continuing to pay a proportion of the annuity payment for the rest of their life. In PPI modelling, 50% has been assumed as this is the most common option in the market. With a joint life Flex First, Fix Later strategy the income for the surviving spouse at age 93 is £14,605. This additional income is enough to keep the surviving spouse above the PLSA's minimum income. The difference – £1,664 - may not seem like a lot, but it could make the difference of not having to choose between heating and eating.

For renters, the situation is worse. The PPI's modelling shows that, without other income sources, the surviving spouse's income will be below the PLSA's minimum living standard, regardless of spousal protection or withdrawal rates.

However, spousal protection comes at a cost. The PPI estimates that the Flex First, Fix Later withdrawal rate would need to fall from 8.7% to 7.8% to pay for this additional protection, reducing starting incomes at age 75 by £718. Additionally, the payback period for single life annuities is 8.7 years, while for joint annuities, it is 10.2 years, requiring one member of the couple to live to at least 90.

In summary, spousal protection can keep surviving homeowners above the PLSA's minimum living standard, but surviving renters remain vulnerable to low incomes once one State Pension ceases on death.

Policy implication

Providers will need to ensure that couples fully understand the risks and consequences of a single-life annuity, particularly if they are homeowners.

Annuity choice architecture may need to change to present a joint life as the 'norm' to couples, especially where one member of the couple has the main bulk of pension savings.

Flex First, Fix Later strategies compare well to annuities.

In this section, we compare the lifetime incomes generated from annuitisation at 75 with a single and joint life Flex First, Fix Later strategy.

In Figure 19 we see that starting income at age 75 is slightly less under the joint life Flex First, Fix Later strategy when compared to annuitisation at 75. However, this needs to be balanced against the benefits of full access to the pot for a further five years.

Notes:

The PPI model assumes that, for couples, the pension holder dies at 87 and is survived by their spouse. This results in the loss of one full State Pension. In the Joint Life Flex First, Fix later a joint life annuity continues to pay 50% of the income to the surviving spouse until death.

Figure 19: Lifetime income journey for homeowners who annuitise at 75 vs a Flex First, Fix Later strategy

	Joint Life Flex First, Fix Later strategy (couples)		Single Life Annuity at 75 (couples)		Joint Life Annuity at 75 (couples)	
	Net income AHC	Pension wealth	JFFFL - JL Annuity	Pension wealth	JFFFL - SL Annuity	Pension wealth
Age 75	£29,465	£95,799	£30,978	£0	£30,096	£0
Age 87	£14,706	£0	£12,646	£0	£14,914	£0
Age 93	£14,605	£0	£12,961	£0	£14,770	£0
Age at which money runs out	Never		Never		Never	

	Flex First, Fix Later strategy (couples)		Single Life Annuity at 75 (couples)	
	Net income AHC	Pension wealth	FFFL - Annuity	Pension wealth
Age 75	£18,681	£95,799	£19,295	£0
Age 87	£17,239	£0	£17,644	£0
Age 93	£16,626	£0	£16,949	£0
Age at which money runs out	Never		Never	

Source: PPI Modelling, net of tax and after housing costs (AHC)

Withdrawal behaviour remains consistent over time.

PPI's modelling shines a light on the trade-offs and decisions mid-retirees will need to make if/when Flex First, Fix Later strategies become mainstream. The question is to what extent can we extrapolate these findings to future cohorts.

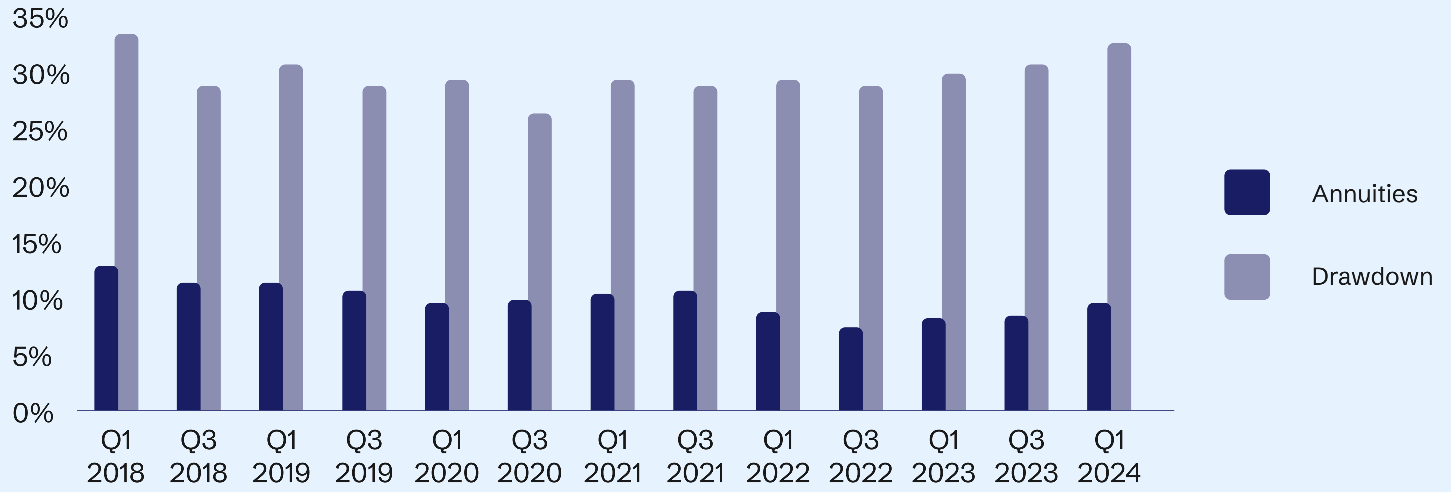
Certainly, when it comes to retirement income decisions, there is strong evidence to suggest that behaviours are not materially changing over time. The Financial Conduct Authority (FCA) has been collecting data from providers since pension freedoms were introduced in 2015. Figure 20 clearly shows a constant set of preferences for flexibility at the initial access point, even though we have seen a period of interest rate increases which should have made annuities much more attractive.

Withdrawal rates are also frighteningly consistent. FCA data shows that in 2023-24, 71% of contract-based DC pots in drawdown were withdrawn at an annual rate of 4% and higher, and 40% were drawn down at a rate of 8% and higher. These figures have been practically the same since data collection began in 2016. These rates may seem high, with individuals risking running out of money, but it is not possible to draw any firm conclusions due to data limitations. A key consideration is that many will have DB, at least at a household level, so DC pots today are being used more as a 'top-up' to other income.

There have been several qualitative studies[4,5] conducted over the 10 years since freedoms were introduced. These in-depth explorations also show that there has been no change in how ordinary people are thinking and approaching 'the most difficult decision in finance', often taking tax-free cash at 55 "because they can", doing little or no financial planning, and taking money based on need or incorrect life expectancy calculations[6].

Over the years we have observed a strong propensity for individuals who withdraw their DC pensions (tax-free cash and total encashment) to invest them in cash-like assets, even where they do not intend to access these funds for several years, which may have lower investment returns. In 2018, an FCA study concluded that around a third of those using non-advised drawdown invested in cash-like assets. The FCA concluded that around half of this group could be losing out as a result. Additionally, the FCA estimated that this behaviour could potentially lead to returns lower by 37% over a 20-year period.

Figure 20: % of pots accessed for the first time



Source: FCA Retirement Income Market data, 2024

No silver bullets - more mature DC markets are also grappling with the same issues, within the context of their particular system.

PPI's extensive literature search demonstrates that patterns seen in the UK are also commonly seen across other countries where the DC market is more mature, suggesting that intrinsic human behaviour is driving similar actions across the globe.

Annuity paradox

Just 12% of retirees in the US purchase an annuity, around half of which are deferred annuities. Deferred annuities are popular as they reduce retirees' minimum withdrawal rates and can act as a way to defer tax.

Preference for a stable, secure income

Managed Payout Funds in the United States, which are products that provide a variable income with a set time horizon, have not been popular.

Bequest motive

In both the US and Australia the ability to bequeath the remainder of a pension pot on death has offset the opportunity cost of not purchasing a lifetime income product. Where a tendency to under-consume retirement wealth reduces the quality of life; individuals may not mind because they do not lose the remainder of their pot.

Unintended defaults

In Australia, individuals have tended to access their DC pensions at or near the minimum withdrawal rate. In many cases, this will be sub-optimal, reducing individuals' quality of life over the course of their retirement. Some reasons for this are financial and may be rational, while not always leading to optimal outcomes: e.g. concerns about running out of money. However, others relate to how individuals process information and run counter to achieving good outcomes: perceptions that the government minimum withdrawal rate is a recommendation; choice overload; difficulty accessing appropriate tools to help with pension decumulation; and difficulty moving from a savings mentality to withdrawing pension savings.

Preference for cash

The Australian Retirement Income Review noted the prevalence of the misunderstanding that the best pension investment strategy is very low risk, such as cash. This affects the behaviour of those holding account-based pensions, similar to UK drawdown products. The Review recorded instances of non-advised retirees switching to defensive investment options, with around half of these switching to cash. Previous instances of switching to defensive options had led to individuals losing out on investment returns.

Source: PPI literature review

3 How can we optimise the design of 'Flex First, Fix Later' solutions from the mid-retirees' perspective?

The previous sections highlighted how a Flex First, Fix Later strategy aligns well with the retirement income preferences and needs of mid-retirees, illustrating the impact these strategies could have on retirement incomes compared to either drawdown or annuitisation.

However, what works in theory may not always translate effectively into practice. A crucial decision awaits our mid-retirees; determining whether the certainty of a guaranteed lifetime income is worth transferring their later-life pension pot to an annuity provider. PPI's assumption of a later-life pot of £100k at 75 is a life-changing amount of money for many people. The decision whether or not to use it to buy an annuity is not a straightforward trade-off to make.

It is very difficult for those currently in their mid-50s and 60s to project forward and think about what life will be like for them in mid-retirement, and what decisions they would make at that point in their lives. Therefore, it is crucial to start understanding how those at or near this pivotal decision point will think and behave. Since human behaviour tends to remain constant over time, the views of our mid-retirees today should offer key insights into what the future might hold.

In this section, we explore mid-retirees' initial reactions to a Flex First, Fix later strategy, before focusing on the later life decision point in more detail. We examine how they feel about the timing of that decision to determine whether this approach could become the norm for the unadvised DC mass market. We conclude by discussing the guidance and support they believe will be necessary to achieve the best possible outcomes.

Universally positive feedback on the 'Flex First and Fix Later' strategy which is seen as the 'best of both worlds'.

The graphic shown in Figure 17 was used as a stimulus to explain how a Flex First, Fix Later strategy could work. Respondents were taken through each of the elements by the moderator and given the opportunity to ask any questions.

The concept was felt to be straightforward to understand, and most quickly grasped the basic concept of how such a product would function. Key questions centred around the annuity decision. It is worth highlighting that even within this age group — who have already made decisions regarding their DC pensions — there was a relatively low level of understanding about annuities. Some respondents in drawdown admitted they had never seriously considered annuities as an option, either because they were unwilling to relinquish control of their pension money to an annuity provider or because they had heard that annuities offered poor value. Others who had purchased an annuity were often uncertain about whether any remaining funds would be passed on to their families upon their death.

Policy implication

Providers should not assume that mid-retirees understand annuities and will need to go back to basics to ensure that they fully understand the consequences of an annuity purchase.

Beyond this, common concerns were raised about the practicalities of how such a product would work:

- **How much will it cost?** The general perception was that it would be expensive as there seems to be a lot of management taken on by the provider.
- **What size pot is needed to make this viable?** Respondents felt that people would need a sizeable pot to be able to generate a decent level of income to make it worthwhile.
- **Am I locked into buying an annuity at a fixed rate from the start?** Respondents worried that they would be locked into poor rates in their 60s, or that they may develop a medical condition that would not be reflected in their future income levels. They were reassured to hear that the money would remain available to them until the point they agreed to purchase an annuity.
- **What happens to the money in the guaranteed income pot if I die?** Again, respondents were keen for reassurance that the money would be passed to family until the point they purchased their annuity.
- **What happens if there is money left in the flexible income pot?** Some were worried that if markets did very well there might be money left over as 'profit' for the provider. They were pleased to hear that the money would remain theirs to do with as they wished.

Overall, the concept tested very well, with respondents very much viewing it as the "best of both worlds".

> "It looks like a good scheme. You've got the choice until 80 of how you use your money, and then there's a guaranteed sum. It's a very interesting scheme. It's something I'd seriously look into. There's just so much out there and unless you have the financial acumen to sort of work your way around these schemes and the jargon it is so difficult. You talk to a financial advisor and my God, it's a different language. It's a minefield. This seems straightforward."
>
> **Male,** aged 70-75

> "I think it's I think it's a good idea as you can keep that flexibility for a longer time. I had to make a decision at 65, but in this, you move it to 80. And the occasional spending pot is good if you're short of saving. I think most people I know in their 50s lived probably one month's salary or two month's salary ahead, and that's about as much as they've got. So I think that would be a good thing."
>
> **Male,** aged 70-75

> "I think in my sixties, I would've made a decision to not leave as much in the pot for later life because my parents died young, and I would be thinking, well, will I even make 80? So why not enjoy it now? And that's the temptation in the system we have now. And this I think, protects you a little bit if you are willing to take the advice."
>
> **Male,** aged 70-75

Reactions became even more positive when respondents were prompted to imagine their futures and consider scenarios where they might face cognitive decline or experience a serious health event, such as a stroke. This particularly resonated with respondents who felt that whilst they were pretty savvy with managing the household finances, their spouse would struggle.

Flex First, Fix Later strategies are immediately attractive to historic annuity purchasers.

When asked if this sort of product was something that would appeal to them personally, our annuity and drawdown respondents gave more mixed views.

All but one of our existing annuity holders stated that had this product been available at the time they made their decision, they would have chosen it instead. This perspective remained consistent when they were asked to consider the position of future DC pension holders, who, according to PPI's assumptions of mid-retirees having approximately £100,000 in their Guaranteed Income Pot by the age of 75.

Policy implication

Annuity purchases are still significant. FCA Retirement Income data suggests roughly 10% of all pots being accessed for the first time are used to buy an annuity. Or, alternatively, 20% of pots that are not totally encashed are used to buy an annuity.

The decision to annuitise is not so clear cut for those currently in drawdown, who see it as a 'gamble'.

The choice to annuitise was not so straightforward for those currently in drawdown. Revealed preference is a concept in economics and decision theory that refers to the idea that people's preferences can be understood by observing their actual choices and behaviour. It assumes that actions speak louder than words— what individuals do reveals their true preferences, even if their stated preferences (what they say they value) may differ. In this case, our drawdown respondents had (and still have) the opportunity to buy an annuity but chose not to do so.

When probed why not, many people simply had bad impressions of annuities from what they had heard in the mainstream media or from friends or felt that the 'payback' period (the amount of time it takes to get the value of their pot back via the income stream) was too long, at around 15 years.

> "Average life expectancy is only 82, isn't it? So it's only a couple years into that guaranteed income pot, you know, so is it worth it?"
>
> **Male,** aged 70-75

Concerns were often raised about what happens to the money if they took out the annuity and died soon after, framing this as the 'gamble' you take with an annuity. There is no strong desire to deliberately leave pension money to family members as a planned inheritance (in our survey just 2% of DC pension holders had this as a firm plan), but there is a strong desire for their family to benefit from any money that is left.

The concept of 'payback' resurfaced when respondents considered the idea of annuitising in later life, say at age 80. The data in Figure 21 shows that, even at this stage, people tend to underestimate life expectancy, often believing they will only live into their mid-80s. In reality, one in ten individuals of this age is estimated to live beyond 100. Once confronted with these statistics, respondents began to view the 'gamble' and the potential value of an annuity in a more positive light.

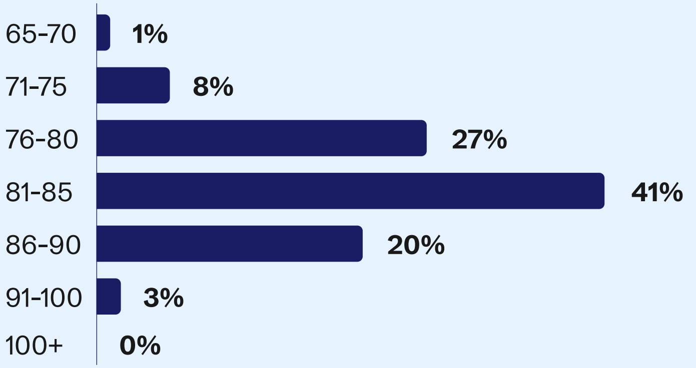
Policy implication

A better understanding of life expectancy is needed so that people have the right framing for annuity purchase decisions. Additionally, a greater awareness of the risks of a drawdown-only journey versus the safety a later life annuity can provide would be beneficial.

A poor understanding of annuities also led to several misconceptions about how ill-health might impact income levels. Many respondents were unaware that certain health conditions could actually increase the amount of income they might receive. This lack of awareness persisted even among some individuals who had already purchased annuities.

That said, the notion of using 30% of their pension pot to secure peace of mind with a guaranteed income for life was consistently seen as more favourable than using the entirety of their pot.

Figure 21: Extent to which mid-retirees feel financially secure



Question: On average, how long do you think that someone in your age group (65-75) will live for?

Base: All non-advised private pension holders aged 70-75 (n=458)

Future 'Guaranteed Income Pot' sizes make this a very difficult decision to make alone.

PPI assumptions suggests that mid-retirees will have around £100,000 of their pension funds remaining by age 75. If annuitisation does not occur by age 80, any remaining funds would be inherited by the family in the event of the retiree's death after age 80. However, these funds may be subject to inheritance tax.

This is a significant sum and deciding whether to take that 'gamble' will be a tough choice.

Our respondents often felt that this was not a decision they would want to take alone, especially as they head towards their 80s. However, they recognised that involving family members could also create a risk of vulnerability to elder abuse.

> "Elderly financial abuse is definitely on the increase. I still speak to colleagues who still work in social work and it is a really high priority now."
> **Female,** aged 70-75

> "Probably get the family involved in that. I've got two sons-in-law, and they're pretty astute."
> **Male,** aged 70-75

Initial evidence suggests that renters may have a notably strong bequest motive. Further investigation is required to confirm this.

Our qualitative sample included a few renters, who had a distinctly different outlook on later-life annuity purchases compared to homeowners. For these people, £100,000 felt like a life-changing amount of money which would, in reality, be the only significant legacy for their family as they have no housing wealth.

As such, when faced with the reality of the choice they would have to make, they were very reluctant to hand this money over to an annuity provider at 80 to secure an income for life in addition to the State Pension. Instead, they expressed a strong preference to take their chances on managing the income themselves.

However, it is important to emphasise that this observation is based on a very small sample, and further research will be needed to determine whether this finding applies more broadly to the renting population.

Recognising the impact of cognitive decline can tip the balance towards annuitisation.

A turning point in the discussion came when we asked people to think about coping with cognitive decline, particularly the impact of dementia or a stroke. This was a huge wake-up call as, although they often had had experience with older family members, they had never considered this possibility for themselves before.

For some, this changed the framing of the annuity decision from a 'gamble' into an 'insurance policy', protecting them - and their loved ones - against the worst-case scenario.

Policy implication

An increase of engagement, awareness and along with a potential rebranding of annuities may be necessary, so that retirees can see that an annuity is a 'long life insurance'.

Providers will need to carefully weigh up the risks of annuitising at 80 against the advantages of a decision at 75.

In Aviva's Guided Retirement soltuion, the age for late-life annuitisation has been set at 80. However, a few respondents, without prompting, questioned whether, cognitively, this age might be a bit too late for such a significant decision. They expressed concerns that people can undergo substantial and rapid changes between the ages of 75 and 80, citing experiences with friends and family members who had begun showing early signs of dementia during this period. These concerns were reinforced by our survey data, which revealed that the average age at which our mid-retiree respondents considered someone to be 'old' was 82.

On the other hand, respondents also felt that there is a period of declining health between the ages of 75 and 80, based on experiencing the onset of life-limiting health issues, or the death, of close friends and family. They expressed a strong desire to avoid a situation where they irrevocably used their money to buy an annuity, only to discover shortly after that they had a limited time to live.

“You are becoming vulnerable because you're losing your ability to make decisions. There's cognitive decline, forgetfulness, and all sorts. I think they do need to sort of see that old age is an experience, for most people, of becoming more vulnerable. Maybe not wanting to accept it, maybe fighting against it, and not making the right decisions. It's very, it's very complex. It's very different from, say, somebody who is 40 or 50 making decisions about money, I think.”

Female, aged 70-75

“What I could do at 60 odd, I can't do at 70 odd. And my brain doesn't go as fast now as it did then. And when I'm 80, I would not be wanting to make huge decisions.”

Female, aged 70-75

Policy implication

The risk of “losing money” on death is a key psychological barrier to annuity purchase. Another reason why engagement is key. Exploring if and what annuity would be best suited to the individual depending on their health, wealth, housing, relationship status etc. is key to get the best outcome for the individual.

Annuities come in different flavours of risk and therefore need to be ideally purchased through engagement e.g. this is where Targeted Support could be beneficial.

Figure 22 highlights some of the pros and cons of annuitising at 80, rather than 75, brought up by respondents during our in-depth discussions. These issues will need to be carefully considered by providers.

On balance, our respondents felt that age 75 might be the better option.

Figure 22: Advantages and risks of annuitising at age 80 versus age 75

Advantages of an annuity purchase at age 80 vs age 75

- Retains the flexibility to deal with unexpected events for longer
- More time for any life-limiting ill-health issues to emerge that would result in a higher income

Risks of an annuity purchase at age 80 vs age 75

- Cognitive decline may impair ability to make a decision
- Less able to take on board new/ complicated concepts
- Higher risk of fraud or scams
- Higher propensity for family to be involved in the decision, especially LPAs
- Higher risk of elder abuse
- ‘Payback period’ looks very short compared to expectations of life expectancy

Help and support will need to be tailored to the specific needs of this more vulnerable age cohort.

Inertia is a powerful driver of behaviour, and the choice architecture of an opt-in or opt-out solution will be critical here. Even with an 'opt-out' model, it is key for mid-retirees to still play an active role in their decisions. For the purpose of our discussion, we have assumed mid-retirees will have to make an active choice to buy an annuity or not. This decision is made against a backdrop of Flex First, Fix Later - a choice they will have made earlier on, knowing that this later life decision may come.

It is clear from the feedback we received that the later-life annuity purchase will not be an easy decision to make and that our mid-retirees will undoubtedly need some help and support during a 'review' phase as they navigate their way through the pros and cons.

There is a wide range of support available for individuals approaching retirement in their late 50s and 60s, including wake-up packs, provider websites, retirement seminars offered by larger employers, and guidance from Pension Wise. However, beyond this stage, support becomes noticeably scarce.

Respondents in our survey have highlighted this gap, with the majority agreeing that there is limited assistance for those already in retirement. Only one in ten (12%) disagreed with the statement that "There is very little support to help those who are midway through retirement understand whether they are on track," and just 2% strongly disagreed. Seven in ten (71%) felt that there is insufficient awareness among the over 70s about state benefits and financial assistance they are eligible for.

> Less than one in five (18%) felt there is enough support available for individuals to manage their financial needs and make informed decisions as they age.

This evidence points towards a significant unmet need for ongoing guidance during retirement.

During our conversations, attention turned to some of the practicalities of how such support should be delivered. Concerns were raised that the help and support provided at key decision points would need to be tailored to the needs of older individuals, particularly those around 80 years old. For example, literature should be written with reduced cognitive ability in mind, information should be available in one place and in bite-size chunks, and checklists should be used to ensure steps aren't missed.

Our respondents also felt strongly that a digital-only strategy would not be appropriate as people tend to rely less on technology in their everyday lives as they age. In our survey, only three in ten (29%) said that they felt very confident in their ability to use technology (e.g. online banking, financial apps) to manage their finances as they get older. Women were less confident than men. Future generations of mid-retirees may have a slightly different attitude as they have had more experience with online banking, shopping, and so on. But technology moves fast, and so the technology of the day still may not feel very accessible to them.

Our respondents felt that important information such as this merited letters, rather than just emails.

Two-thirds (66%) of our survey respondents agreed that people tend to lose track of time more easily as they get older, so providers will need to think carefully about the timing of communications around the key decision point to annuitise or not. It is likely that multiple touchpoints in the retirement journey will be required.

Our respondents also emphasised the importance of having a real person to speak with to make sure they understood what was going on and to ask questions. They stressed the need for UK-based call centres where the operatives have been specifically trained to help older people. Examples of what this entails include not following a script, not speaking too fast, using shorter sentences, and allowing individuals to revisit the same issues multiple times.

They may want to get family involved and this designation process should not be too onerous, especially where Lasting Powers of Attorney (LPAs) are in place. On the other hand, providers will also need to be on alert to pick up on any signs of elder abuse. Safeguarding against fraud and scams is paramount, and systems should have checks and balances built in to prevent this from occurring.

These concerns were very much echoed in our survey.

> “It worries me having to do something online and making such a big decision when there are no people just to go and talk to these days. Even a call centre, you would be lucky to get through and get good information. The younger generation would be able to cope because they'll be so used to technology and dealing with things online rather than going in somewhere and speaking to somebody. Maybe it would work for them. It wouldn't work for me. I'm 80 in a few years and I'm not sure that I would be confident in doing it and making such an important decision.”
>
> **Female,** aged 70-75

> “When you typically try to phone one of these helplines they make it so difficult. They cut you off, they seem to speak quietly, they don't understand as you're older they maybe need to speak a bit clearer, a bit louder. So it just puts you off. Give me more time to process things.”
>
> **Male,** aged 70-75

Figure 23: Support needs for those approaching their 80s

84%

agree that people in their 80's are more likely to want to talk to a real person, rather than relying on reading information.

81%

agree that people take longer to learn or understand new concepts in their 80s.

79%

agree that people over 80 are more vulnerable to fraud and scams.

Base: All non-advised private pension holders aged 65-75 (n=1,000)

4 What are the wide-ranging guidance and support needs for retirement journeys?

Unlike the accumulation phase, where the objective is clear — save as much as possible from as early as possible— once retirement is reached, we find that there is no single journey or 'one size fits all' approach. Each retiree's experience is unique, shaped by the plethora of life choices they have made and the set of circumstances they find themselves in. The perspective of a single person with no children is very different from that of someone with a partner or other dependents. A person's health status is critical to their life expectancy, and financial situations can change overnight due to ill health or if the main pension holder dies first.

With the benefit of hindsight, people who have already experienced the death or serious illness of loved ones, particularly their partner, have good advice for those who will face the same challenges in the future. By drawing on the extensive qualitative and quantitative research undertaken for this study, we can gain a deeper understanding of the challenges, decisions, and unexpected events that shape individuals' lives as they pass through retirement. Not only do we benefit from hearing their personal experiences, but we can also draw on the lessons they have learned from their older friends and family members.

Understanding these differences, and the areas where there is some commonality will help the industry develop more effective guidance solutions that better address the wants and needs of people as they navigate later life.

The findings in this section clearly demonstrate that current unmet guidance needs go far beyond a simple pension income health check and the decision around fixing or flexing their later life income. They also show how Flex First, Fix Later strategies can have wider benefits for mid-retirees. Guidance and support needs are much broader, addressing other areas where their financial and lifestyle arrangements may not be optimal.

Our mid-retirees are still experiencing a period of considerable change in their lives, for which they often feel ill-prepared.

Although full retirement was a common factor amongst our respondents, even our relatively small snapshot of this population revealed significant variations in their family circumstances. Most were homeowners, but a significant minority were renting social or private housing. Renters may be a small proportion of mid-retirees today; however, their numbers are likely to increase significantly over the next 20 years, according to the PPI[7]. Some had downsized, but others felt that they would never want to leave the family home. Some were close to family members and could rely on them for support as they aged; others were not so fortunate.

Furthermore, their lives are far from static as they navigate major life events such as coping with illnesses, caring for elderly parents, dealing with the death of their partner/parents, moving home, divorce, and addressing the needs of children and grandchildren. Often, the aftermath of these events came as a shock and was not something they had prepared or planned for.

Policy implication

Mid-retirees will benefit from a comprehensive “one-stop shop” offering wide-ranging guidance and support to help them navigate major life changes.

Retirement products should retain flexibility for as long as possible to cope with unexpected events.

> “I guess if I genuinely felt I was starting to go downhill then I would quickly look into it. But you know I’ve got my health and everything at the moment. And what I think about power attorney now might be different to what I think in 10 years.”
>
> **Male,** aged 65-69

> “Somebody said to me the other day, what if something happens to you? I thought, oh my God, I’ve got to get my children to do one for me. I just hadn’t thought of that. I’ve got one for my mum but not for me.”
>
> **Female,** aged 70-75

Health issues are common, but wills and estate planning are often overlooked.

Only a small number of our respondents, primarily those aged 65-69, reported being free of health issues. The most commonly reported conditions included cancer, mini-strokes, heart problems, and breathing issues. In our qualitative discussions, many spoke about the significant health changes they and their peers were experiencing, noting that these challenges tended to accelerate as they entered their 70s.

For many of those we spoke to, these health scares served as a wake-up call to update wills, establish LPA, and inform family members about financial matters. Looking back, they wished that they had taken these steps earlier to ease the emotional and financial burdens on themselves and their families during such challenging times. When asked to explain why they had not taken action before our respondents gave a number of reasons, the most common simply being that they ‘had not got round to it’.

Our survey provides further supporting evidence that there is significant headroom to improve this patchy coverage of the ‘basics’.

Figure 24: Reasons for not having wills/LPAs in place

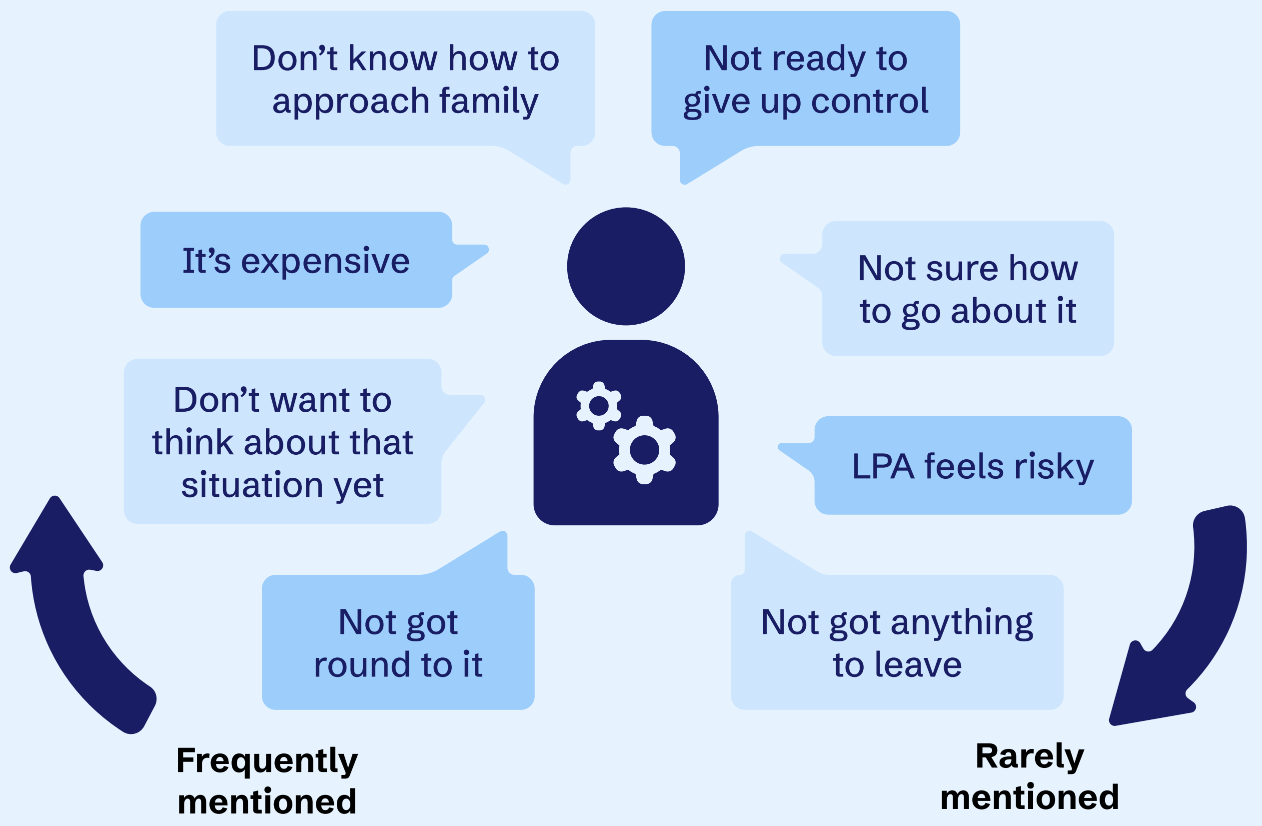


Figure 25: Estate planning provisions

37%
do not have a will.

81%
do not have a Lasting Power of Attorney.

65%
of those with DC pensions have nominated a beneficiary.

84%
of couples have not checked to see if their partner has nominated them as a beneficiary.

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Looking a bit deeper into this survey data also reveals some more worrying findings about wills:

- 27% of those who live in a household as a couple but who are not married or in a civil partnership do not have a will.
- A third (32%) of those who are divorced or widowed do not have a will.
- Almost half (46%) of those who are single do not have a will.
- 61% of renters do not have a will, compared to 32% of homeowners.

Policy implication

Procrastination is a common behavioural response to tasks that people find challenging or are likely to trigger negative emotions. An external push is usually needed to motivate individuals to act on tasks they would otherwise delay.

Mid-retirees would benefit from a strong nudge to make sure they have their affairs in order ahead of such a situation arising. Guidance and support will also be required to help the less savvy navigate their way around household finances should the worst happen.

Head in the sand about the financial impact of a partner's death – just one in three are knowledgeable about their partner's pension.

When questioned in our qualitative discussions, most of our respondents did not anticipate significant changes in their financial situation over the next 5-10 years. Any inheritances have typically already been received or are expected to be small. They are not expecting to release money from downsizing and, barring a big win on the lottery or their Premium Bonds, no unexpected windfalls are coming their way.

Our survey results very much reflect this sentiment. Six in ten (59%) of respondents expect little financial change in the next five years, with no difference between singles and couples.

Sadly, several stories we heard in the qualitative research reflected a very different situation. We heard how the death of one member of a couple significantly affected the surviving spouse. The loss of one State Pension was a big hit, especially as many of the shared expenses did not fall. This is particularly problematic if the person that dies is also the main private pension holder.

While the issue is somewhat mitigated for those in DB schemes where the survivor is generally entitled to a spouse's pension, it still came as a shock to some to find out that they might only be entitled to half of what is currently coming into the household. Furthermore, as single-life annuities are the norm, women are particularly exposed if the husband passes away first, as men are more likely to be the main private pension holder in this age cohort.

Worryingly, in our survey, just over a third (38%) of those in a couple said that they know all the details of their spouse/partner's pension.

Again, when we pressed people to say why they had not had this discussion and shared this information, the most common response was that they had simply not thought about it. Others expressed a reluctance to talk to their partner about it.

> "When he was buying the annuity with Aviva I didn't get involved in that process at all. I had no idea. He was a very introverted man."
> **Female,** aged 70-75

> "We tried to find out quite a long time ago and we haven't ever gone back. I don't actually know whether any of that pension would come to me or my children."
> **Female,** aged 70-75

> “I couldn’t tell you who my wife’s pension is with. She does all the finances mainly in this house.”
>
> **Male,** aged 70-75

> “It’s so easy to put off because it’s not something anybody ever wants to think about. So you don’t want to think once you’re gone I’ll get your pension or once I’m gone you’ll get mine. You just don’t want to think about that. So it’s very, very easy to put that thought in the back of your head and think when it happens somebody will sort it. You always imagine other people must sort these things out, other people lose their spouses and manage. So it’s very easy just to put it on the back burner.”
>
> **Female,** aged 70-75

> “My wife’s always asking me if I pass away, you know, what will happen to my pension? Will it stop dead? Or will she get a percentage of it? And how much and for how long? And to be honest, I’ve still got to look into that. I think she could be entitled but to be honest, I’m not sure what she will get.”
>
> **Male,** aged 70-75

Policy implication

Interventions from the pensions industry are crucial to help mid-retirees understand why nominating a beneficiary, even if they already have a will, is important. These efforts can ensure that pension benefits are allocated smoothly and in line with their intentions. This will become even more important as DC pension wealth increases as AE matures.

Support is needed to help mid-retirees initiate difficult conversations with loved ones about financial matters in the event of death.

The next generation of Flex First, Fix Later strategies will need to carefully consider whether the ‘default’ later life annuity should include spousal protection for couples. This is especially pertinent where one person in the couple holds the majority of household pension savings.

Mid-retirees are sleepwalking into the impact of cognitive decline.

Cognitive decline, a gradual decrease in cognitive abilities, such as memory, attention, problem-solving, reasoning, language, and other mental functions, ranges from mild, normal changes associated with aging (e.g., occasional forgetfulness or slower thinking) to more severe impairments that interfere with daily life. Towards the severe end of the spectrum, it can have profound implications for individuals and their families, yet many people fail to adequately prepare for its potential effects. This tendency to 'sleepwalk' into such challenges often stems from a combination of denial, lack of awareness, and the perception that cognitive decline is a distant concern. Without proactive planning, individuals may face significant difficulties in managing their financial affairs, healthcare decisions, and daily living needs as their abilities diminish.

Our survey data reveals that the average age at which individuals in this cohort think of as 'old' is 82. Interestingly, this perception differs by gender: men typically associate feeling old with age 80, while women, on average, set this milestone closer to age 84. Additionally, the perception of old age shifts upward with age itself. For instance, men aged 65–69 identify 79 as the threshold for feeling 'old' whereas men aged 70–74 extend this to 81.

Our qualitative respondents generally reported feeling cognitively fine, with no significant concerns about their mental sharpness. In line with the survey data, many shared that they don't feel 'old', reserving that label for those in their late 80s and beyond.

However, our qualitative discussions also revealed some interesting hints that cognitive decline is already taking place. Our respondents often identified subtle changes in themselves and their behaviour such as difficulties driving at night, a decreased ability or desire to handle stressful situations like navigating airports, memory lapses, double-checking calculations, and occasionally losing track of time.

Table 26: Age at which someone feels 'old'

	Age at which someone feels 'old'
Men 65-69	79.33
Women 65-69	83.61
Men 70-75	81.28
Women 70-75	84.09

Base: All non-advised private pension holders aged 65-75 (n=1,000)

> "It's a difficult one, very difficult. I know a lot of people in my age group and in their eighties who are spry and able to make decisions spot on, no problems at all. And I know people in their seventies and sixties who really are not all there."
>
> **Male,** aged 70-75

> "I'm not going abroad again because of all the hassle with airports and parking. When you do get older, it's a hassle. We had a recent holiday at a leisure hotel and the only hassle we had there was driving there, which was nothing in comparison."
>
> **Male,** aged 70-75

> "Mid to late seventies, I would say is when cognitive powers start to go. I find when I forget something, I've got to get the answer, then repeat it and repeat it into my head again so that it's lodged there. Your brain is like any other muscle, you've got to train it to keep it going. So generally I would say the mid to late seventies is when cognitive issues start to turn out."
>
> **Female,** aged 70-75

“I tended to be a sort of free spirit when I was younger and I could cope with most things, but it definitely starts to weigh on you as you get older. And little things that you'd just brush off in the past tend to be crises now.”

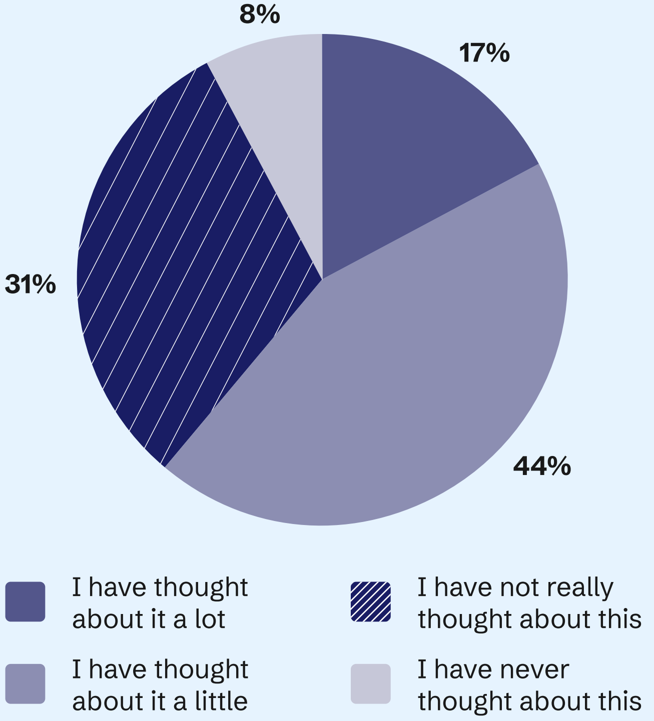
Male, aged 70-75

“If you are out of the workforce there may be that sort of sense of not quite keeping up. I think you have to be quite proactive really about keeping yourself as active and engaged in social things as you can.”

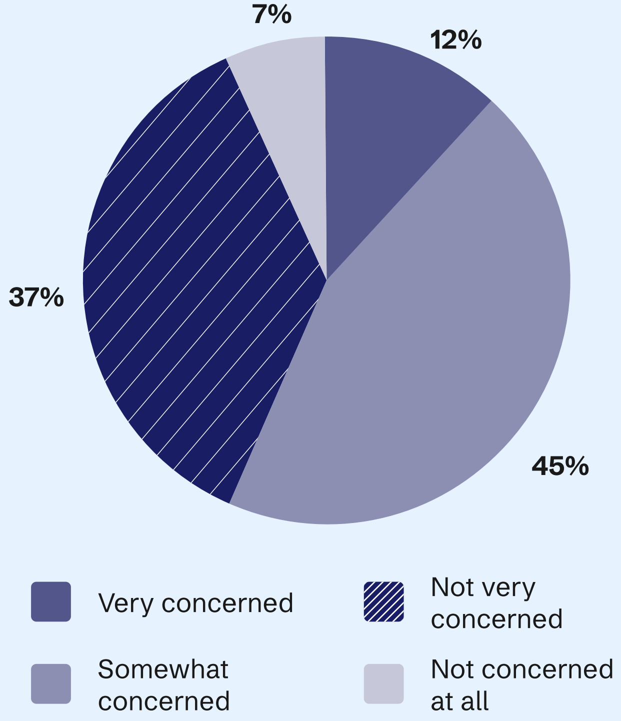
Female, aged 70-75

Figure 27: Extent to which they have thought about the impact of cognitive decline on financial capability

Have you thought much about your ability to manage your finances as you get older say into your 80s or 90s?



And how concerned would you be about your ability to manage your finances as you get older, say into your 80s or 90s?



Base: All non-advised private pension holders aged 65-75 (n=1,000)

Our survey also hints at potential trouble ahead. Almost four in ten (39%) 65–75-year-olds have not yet thought about their ability to manage finances as they get older say into their 80s or 90s. Looking deeper into the data:

- Men are more likely to say this than women (43% compared to 36%).
- Renters are more likely to say this than homeowners (48% compared to 37%).
- There is no difference by age or marital status.

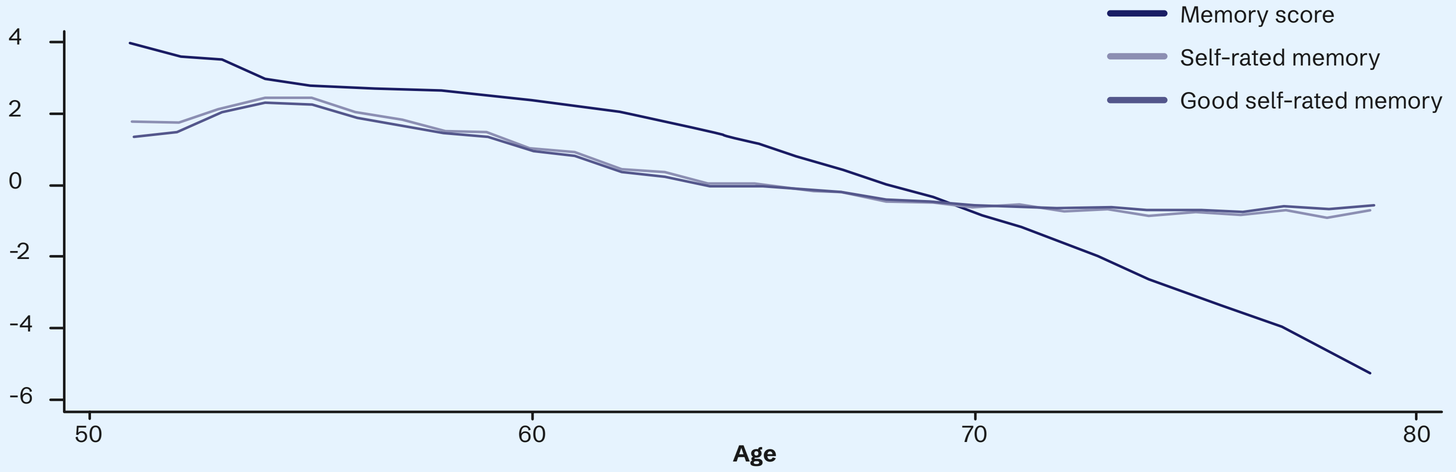
Just over half (56%) of our respondents expressed concern about their ability to manage finances as they age into their 80s or 90s, with 12% reporting they are very concerned. Interestingly, women are more likely to feel concerned than men (60% compared to 52%). Renters also show higher levels of concern compared to homeowners (65% compared to 54%). Similarly, financial arrangements play a role: 62% of those relying solely on DC pensions are concerned, compared to 54% of those with a regular income from a DB company pension.

The consensus in our qualitative discussions was that most people manage well with day-to-day basics until around the age of 80, after which challenges tend to become more pronounced. There was a greater recognition of cognitive decline as a potential concern among more educated respondents. In contrast, those in lower socio-economic groups were more likely to be in denial, believing it unlikely to become an issue for them.

Yet the reality, illustrated in Figure 28, is that in general cognitive decline starts in your 50s and drops steeply after age 70, – although it is highly variable from individual to individual. Perhaps the most worrying finding from this academic study is how quickly the gap widens between how people think they are doing and what is actually happening after age 70.

The literature review conducted by the PPI also highlighted significant evidence on how cognitive decline affects financial capability. For instance, while less than 10% of individuals in their 60s experience cognitive impairment, this rises to 30% for those in their 70s. However, within the 70–79 age group, financial abilities vary widely. A small proportion, under 10%, struggle with basic arithmetic, while around half can manage simple arithmetic but cannot handle calculations involving compound interest or percentages. In contrast, approximately 40% of this age group can still calculate percentages. A particular concern is that individuals may overestimate their cognitive abilities, which can lead to financial decisions that are not in their best interest.

Figure 28: Actual vs Self-rated memory score



Source: University of Chicago https://www.journals.uchicago.edu/doi/abs/10.1086/728697

Policy implication

To date, the UK pensions industry has not particularly considered the risk of cognitive decline affecting future DC pension decisions, mostly because there are relatively few people of this age with significant DC provision. However, by 2050, the number of people over 90 will have grown from 600,000 today to just over 1.4 million. Most will have retired under pension freedoms, suggesting that this is a problem that will need to be addressed sooner rather than later.

Our data suggests that mid-retirees have less time than they think to make "big decisions" before cognitive decline starts to kick in. Action is needed across the board to prevent a situation in which increasingly large numbers of people without sufficient cognitive capacity are having to make big financial decisions. Earlier interventions, help at the point of decision-making, and thoughtful product design should address cognitive decline, helping everyone navigate retirement decisions confidently and effectively.

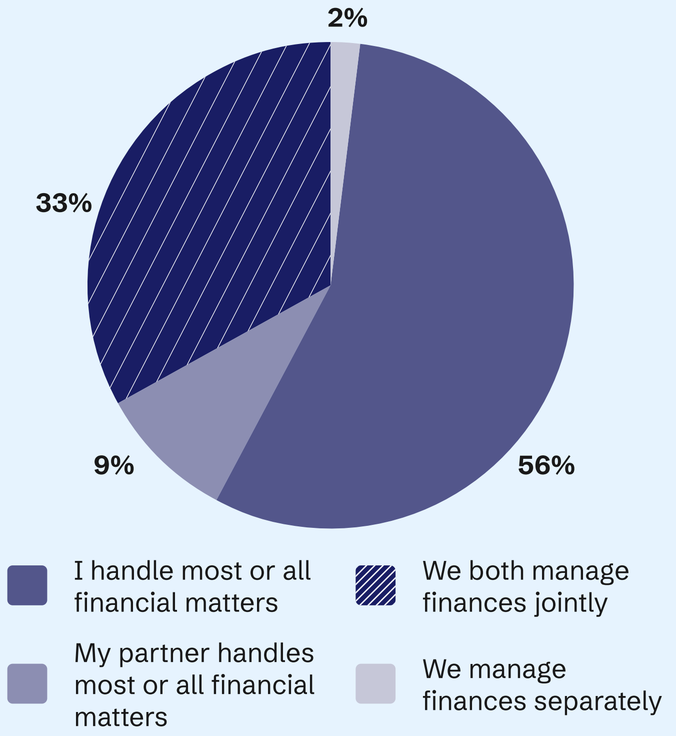
As the drawdown client base matures, providers will also need to think carefully about how they will identify those experiencing the effects of cognitive decline and put in place safeguards to protect vulnerable customers.

One person tends to take care of the big financial decisions – but they have given limited thought to what happens if that person dies or is cognitively impaired.

Our data shows that one person takes the lead on financial decision-making in a significant proportion of households. In our conversations, we observed that some of the men have taken on managing the finances as a 'job'. They don't exactly enjoy the task, but it keeps them occupied. If women have taken the lead, it is because they have a background in finance or have historically managed the household budget.

> "Well, to be perfectly honest, you, I don't where everything is. My wife keeps records of that, and that is a worry for me because sometimes you're frightened to ask."
>
> **Male,** aged 70-75

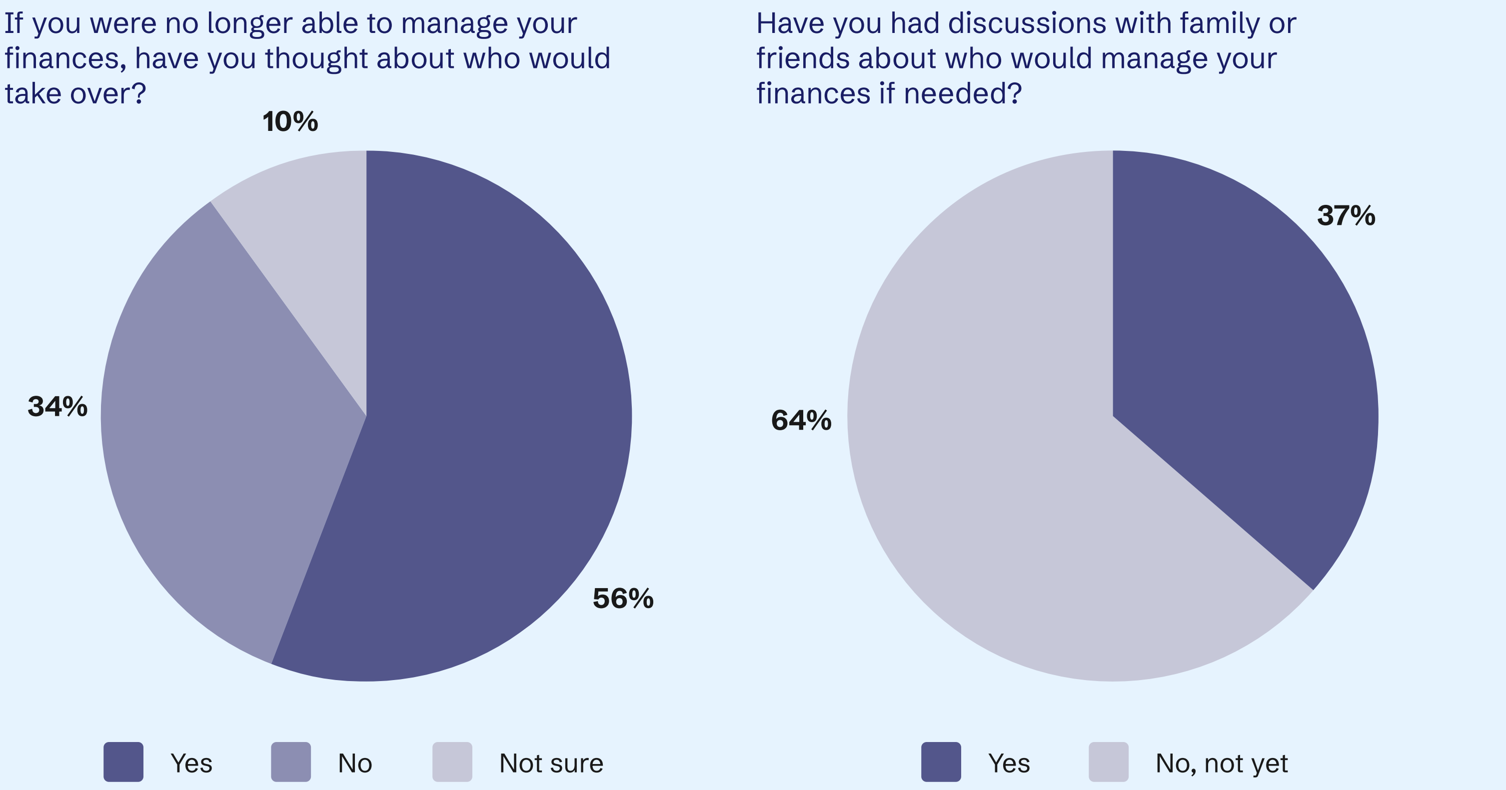
Figure 29: Responsibility for financial matters in the household



Question: In your relationship, who primarily handles financial matters?

Base: All non-advised private pension holders aged 65-75 in a couple (n=601)

Figure 30: Extent to which they have engaged in essential conversations



Question: If you were no longer able to manage your finances, have you thought about who would take over?

Question: Have you had discussions with family or friends about who would manage your finances if needed?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Figure 30 highlights that a significant number of mid-retirees have yet to engage in essential conversations about managing their financial affairs should they become unable to do so independently. Looking deeper into the data:

- 61% of homeowners thought about who would take over their finances compared to 38% of renters
- 79% who have never been married or in a civil partnership have had conversations with family or friends, compared to 38% of couples, and 41% of those who are divorced or widowed.

Many of our qualitative respondents expressed a tendency to delay these discussions, perceiving no immediate need. Without external encouragement, they are unlikely to initiate such planning in the near future. However, several participants who had experienced the sudden loss or severe illness of a partner or family member strongly advised taking proactive steps, emphasising the importance of being prepared for such unforeseen circumstances.

"Just the other day, I said to the wife, look, you'll have to show me how to do all these things. You know, how to do bank transfers and paying this and paying all the bills, credit cards. I'm not 100% sure of all these things. We had a couple of friends pop their clogs suddenly. So that prompted us to get me up to speed."
Male, aged 70-75

"When my husband's father died very, very suddenly it was a big shock to his mother. He had done everything, paid the rent, electricity, gas, whatever. And she just didn't know anything. And then she started getting reminders of overdue payments. And that was when we realised that she just didn't have a clue about who does what and who pays what. And it was an absolute mission for the whole family to get this in place for her again."
Female, aged 70-75

Human nature is human nature, and there is no reason to believe that the behaviour we are observing today will change over time. This is particularly worrying as data from the Wealth and Assets Survey shows that, for at least the next 20 years, mid-retirees' pension wealth will be concentrated in the hands of one member of the couple.

Figure 31: Proportion of DC pension wealth owned by the person with the largest proportion

	Age 55-59	Age 60-64	Age 65-69	Age 70-74
Single	97%	98%	97%	100%
Couple	90%	92%	92%	96%
Total	92%	94%	94%	97%

Source: PPI analysis of the Wealth and Assets Survey Round 7

Biggest financial challenge is dealing with the rising cost of living on a relatively fixed income.

Our survey of 1,000 non-advised 65-75-year-old private pension holders showed that energy and utility bills and the rising cost of essentials are by far their biggest worries. Women are more likely to have this as their primary concern than men, and older women are more concerned than their younger counterparts. Yet this generation has been somewhat shielded from the worst effects of the cost-of-living crisis, thanks to above-inflation increases to the State Pension under the Triple Lock. Many also had the benefit of at least partially indexed DB pensions.

Our qualitative respondents shared that they have tried to live within a set income during the cost-of-living crisis by cutting back where possible. However, some reported that they have either stopped saving altogether or begun dipping into their savings to cover the shortfall.

We observed that individuals who rely more heavily on DC pensions are facing greater financial exposure than those with DB. Annuity purchasers usually prioritised a higher initial income over the long-term protection of index-linking, leaving them increasingly vulnerable to rising costs over time. For example, 68% of all annuity sales are single life, according to the latest figures from the ABI[8].

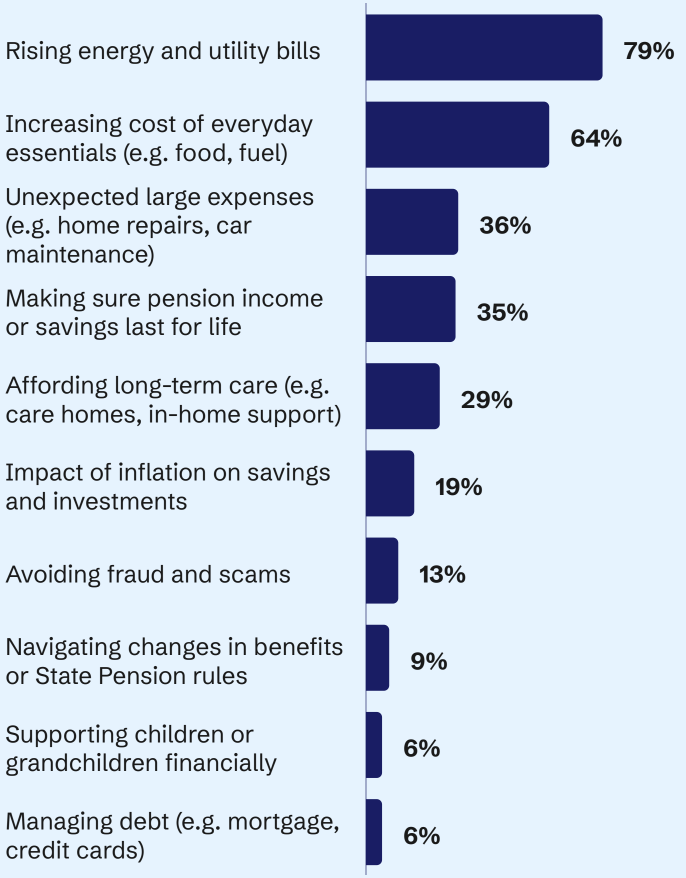
Among our qualitative respondents with DC pensions in drawdown, most reported that they were maintaining their usual withdrawal patterns and drawing on cash savings to cover any financial shortfalls. When questioned, they openly admitted that they had not evaluated whether this approach was either sustainable or optimal in the long term.

Policy implication

Guidance and support are needed to help individuals optimise their financial situation. This includes encouraging them to shop around for better deals, how to review their budgeting and spending patterns, and identifying areas for improvement.

Additionally, more assistance is needed to help them understand the most effective way to utilise their accumulated savings. For example, they may benefit from exploring the implications of withdrawing from savings versus accessing their DC pension funds, enabling more informed and strategic financial decisions.

Figure 32: Biggest financial challenges for the mid-retirees



Base: All non-advised private pension holders aged 65-75 (n=1,000)

Substantial savings are not working as hard as they could, and mid-retirees will need a strong intervention to nudge them out of their financial rut.

In our survey, 30% of our respondents said they had £50,000 or more in savings. This is broadly in line with data from the Wealth and Assets Survey.

Our qualitative conversations confirmed that cash is king for these mid-retirees. But we also heard that their money had been sitting in the same accounts for some time, often earning little or no interest, and that our respondents had not thought to shop around for a better deal.

Policy implication

Mid-retirees are often stuck in a financial rut and may an through some sort of financial health check to consider ways to make their money work harder for them.

> "When you are retired it's very easy to put off things because you have lots of time. You think, well today's not a good day because I'm having grandchildren, tomorrow's not a good day because I'm meeting somebody for lunch. I've tried to phone and they don't answer within the first 10 minutes. So you put it off to the next day."
>
> **Female,** aged 70-75

Fraud and scams are an increasing worry as they get older, as scammers always seem to be one step ahead.

Fraud and scams targeting older adults are a growing concern, as this demographic is often perceived as more vulnerable due to factors like cognitive decline, social isolation, and trust in authority figures. In our survey, the vast majority (79%) felt that people are more vulnerable to scams and fraud as they get into their 80s and 90s.

A surprising number of our qualitative respondents admitted to having already fallen victim to scams, despite perceiving themselves to be financially astute. Many expressed frustrations at how scammers always seem to be one step ahead, using increasingly sophisticated tactics. There was also a sense of uncertainty and concern about how emerging technologies like Artificial Intelligence might further complicate matters, leaving them unsure of what new threats could be on the horizon.

> “I was scammed recently as was my wife. Well, in fact, we were both hit at the same time because they managed to get the password for our email. And they started to do things. Luckily the bank on my behalf, and the company my wife buys clothes from, they were both on it straight away.”
> **Male,** aged 70-75

Policy implication

More readily accessible guidance and support are needed to help people understand the latest scamming tactics and the steps they can take to protect themselves against fraudsters as cognitive abilities decline. Guidance should also include information on when and how to devolve responsibility to family members through LPAs.

Providers will need to carefully consider the optimal age for individuals to make their later life annuity decision in order to minimise exposure to scams. Shopping around for annuities could be particularly risky, as scammers often target vulnerable individuals. This suggests that alternatives, such as redirection to an annuity broker or robust ‘to and through’ solutions, may be necessary to protect retirees against the risk of fraud.

Downsizing is time-sensitive.

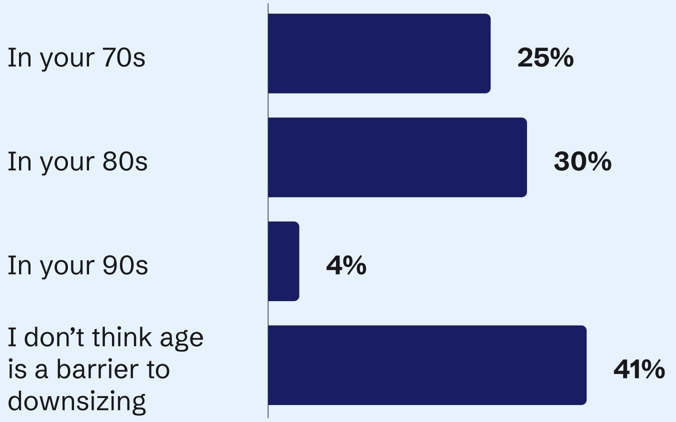
The majority of our survey respondents felt that there is a point when downsizing is too challenging, and this inflection point is usually reached by your mid-80s.

Our qualitative respondents agreed that downsizing is a difficult and stressful process. The emotional attachments to a long-time home, combined with the effort required to sort through years of belongings, can make the decision to downsize overwhelming as you get older. The physical and logistical demands of moving, coupled with the potential disruption to established social networks and routines, add further stress. For these reasons, while downsizing may offer financial benefits, they felt that it is not an easy or straightforward solution for everyone. On balance, they felt that the downsizing move needs to happen before age 80, and preferably earlier, or it will probably not happen at all. This reflects data from the English Housing Survey which suggests that there is a U-shaped pattern to downsizing, decreasing from age 50 until the late 70s and 80s, when it picks up again as people move into sheltered and institutional accommodation[9].

> "That would be a stress without a doubt. To move all the stuff out and move it somewhere else."
>
> **Male,** aged 70-75

Housing wealth outside the South East is limited, and alternative housing is not always available in the areas they want. The handful of qualitative respondents who had downsized reported very mixed experiences. Some had had to dig into savings to fund the cost of the move, others had found that their running costs had reduced but that they had not released substantial sums. They all had the same advice for the next generation – downsize while you are fit and able as you just don't know what is around the corner.

Figure 33: Perceptions of the age at which downsizing becomes too difficult



Question: When do you think downsizing to a smaller home for financial reasons (rather than due to difficulties managing your home) becomes too challenging for most people?

Base: All non-advised private pension holders aged 65-75 (n=1,000)

Policy implication

Any guidance and support service for mid-retirees should also aim to increase awareness of the time-sensitive nature of downsizing, manage expectations, and provide clear information on the pros and cons of alternatives, such as equity release.

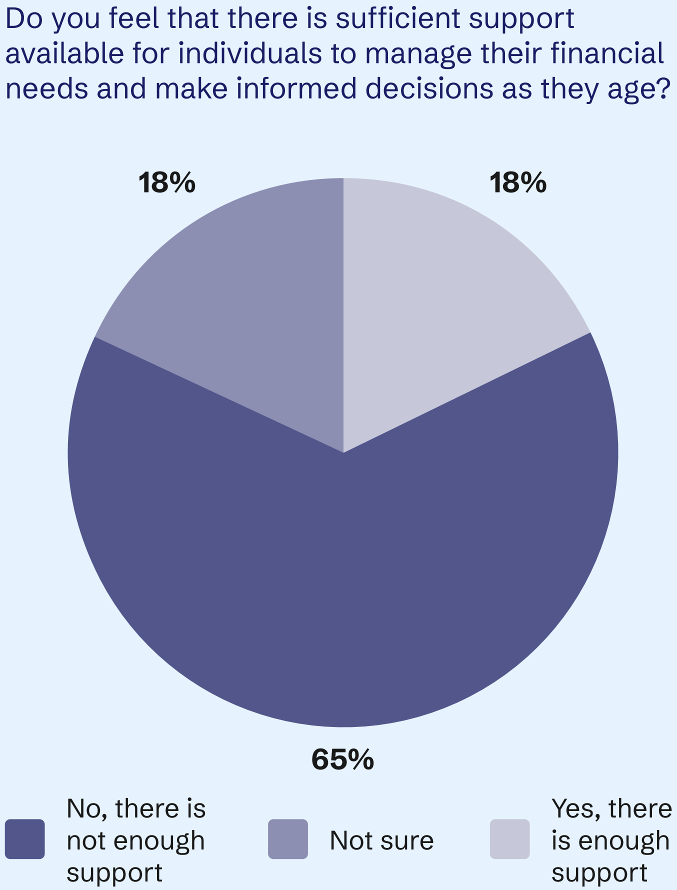
> "My mum is 90 this year and she's in the family home that I grew up in. We've had conversations where she said, I wish when I was about 75 or 80 that I had downsized because now I just can't be bothered with it. So yes, I can see there would be a point when you just think it's too much. I can see that happening with a lot of people."
>
> **Male,** aged 70-75

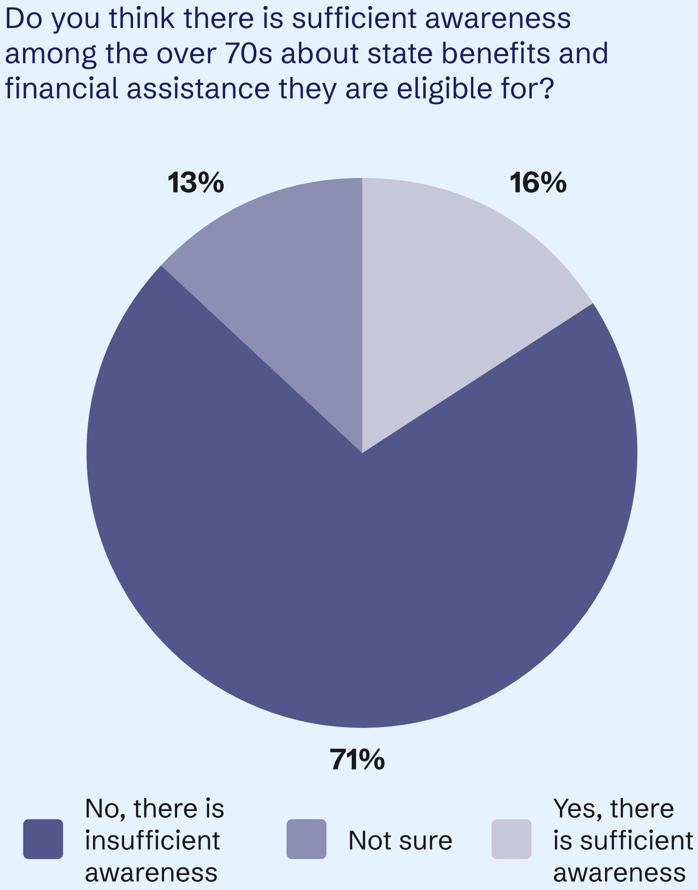
> "I had to downsize in 2008 due to divorce. And I found that so stressful, I could not envision doing it again."
>
> **Female,** aged 70-75

Mind the support gap - almost seven in ten mid-retirees think that there is not enough being done to help people manage their financial needs as they age.

The findings from our qualitative discussions and the data in Figure 34 is clear; mid-retirees acknowledge that there is a significant gap in the availability of comprehensive financial support and guidance for individuals as they grow older.

Figure 34: Extent to which they have engaged in essential conversations





Base: All non-advised private pension holders aged 65-75 (n=1,000)

5 How could we address the wider support gap through a Mid-Retirement Check Up?

There is a wide range of support available for individuals approaching retirement in their late 50s and 60s, including wake-up packs, provider websites, retirement seminars offered by larger employers, and guidance from Pension Wise. However, beyond this stage, support becomes noticeably scarce.

Respondents in our survey have highlighted this gap, with the majority agreeing that there is limited assistance for those already in retirement. Only one in ten (12%) disagreed with the statement that "There is very little support to help those who are midway through retirement understand whether they are on track," and just 2% strongly disagreed. Seven in ten (71%) felt that there is insufficient awareness among the over 70s about state benefits and financial assistance they are eligible for. Less than one in five (18%) felt there is enough support available for individuals to manage their financial needs and make informed decisions as they age.

This evidence all points towards a significant unmet need for ongoing guidance during retirement, not just around DC decumulation but across all aspects of financial wellbeing.

The Advice Guidance Boundary Review, a joint initiative by the UK Government and the Financial Conduct Authority (FCA) aimed at examining and refining the regulatory boundary between financial advice and guidance, may help to remove any barriers to development. The primary objective of this review is to ensure that consumers have access to timely and affordable support when making crucial financial decisions, thereby addressing the existing "advice gap" where many individuals struggle to obtain appropriate financial guidance. There are three keyways in which the Review should help future initiatives:

1. **Further Clarification of the Advice-Guidance Boundary:** this should provide FCA-authorised firms with greater certainty in offering support without crossing into regulated personal advice.
2. **Introduction of Targeted Support:** A new framework that should enable firms to offer tailored support based on the characteristics of specific consumer groups, without the need for explicit charges or comprehensive personal information.
3. **Simplified Advice Models:** Facilitating simplified forms of advice that allow firms to assist consumers with straightforward needs and smaller investment amounts in a commercially viable manner.

In this section, we explore how our 'target market' reacts to a Mid-Retirement Check-Up, and provide some early insights into how mid-retirees think it should be delivered.

The concept of a broad-ranging Mid-Retirement Check-Up tested well with the target market.

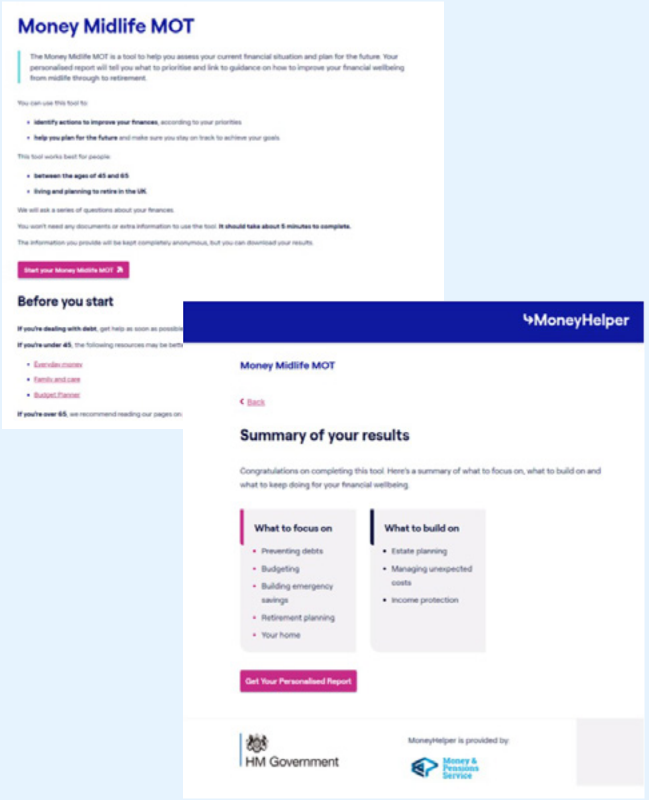
Our survey respondents were shown some screenshots of the MaPs Money Midlife MOT[10] and asked to give their views.

Even from this basic overview of the concept, nearly nine in ten (88%) felt it would be valuable to have a similar service specifically designed for those later in life, say in their 70s, to review their financial situation and ensure they are on track for retirement. One in three (36%) felt it would be very valuable. Just 1% said would not be valuable at all.

To get some more detailed feedback on what a Mid-Retirement Check-Up should cover, we walked our qualitative respondents through the Money Midlife MOT to give them an idea of the look and feel, the kinds of topics it could cover, and the outputs it could deliver. None had seen the Money Midlife MOT before but gave extremely positive feedback on the concept of a one-stop shop for all their key guidance needs.

> "That'll be very useful to have some, a checklist as, as it were, to actually go through and make sure that you've got things covered. Because we haven't looked at funeral insurance or anything like that."
>
> **Male,** aged 70-75

The government's online money advice service, Money Helper, currently offers a free midlife financial MOT for people between 45 and 65 to check their financial situation as they head towards retirement.



> "I would quite like to just go through that exactly like you said and have the conversation and tick the boxes. We don't know about or get told which link to go onto to get help and that's something you really struggle with. It's okay typing into Google or whatever, but actually finding the right place or person that can help you would be amazing."
>
> **Female,** aged 70-75

> "Currently, there's nobody telling you anything, there's nobody sort of sending you anything, or asking have you done this? Have you done that? Make sure you do this. You are sort of left to your own devices. Unless you're on top of it, then you don't know what's out there or what you should be doing. I'm playing it by ear as I go along and this has opened my eyes a lot. It's just so easy to navigate. Those little bullet points of stuff there are very useful."
>
> **Male,** aged 70-75

> "It would be handy. I've still got lots of decisions to make and we've not got ground to doing all these things yet."
>
> **Male,** aged 70-75

> "That is so good. It, it's actually, it's like a scaffolding of things that you should do and it makes you feel very safe. Right so I've done this, I've done this, I've done this. Whereas if you were trying to go through it yourself, you might miss some things off or not consider them because you don't know about it."
>
> **Male,** aged 70-75

Mid-retirement guidance and support needs to cover much more than simply assessing whether they are on track to make pension money last for life.

Based on our qualitative feedback, Figure 35, to the right, summarises the content that mid-retirees would find useful. It is clear from this that their needs extend well beyond a financial check-up to determine whether they are on track to make their pension money last for life – ranging from estate planning, to access to state benefits, and protecting themselves against fraud and scams.

Figure 35: Topics that should be covered in mid-retirement guidance and support

Broad financial health check.

Many of our respondents had significant savings in cash. For some, this had come from redundancy payments set aside for emergencies, or money left over from extracting tax-free cash from a pension. For others, they had always been careful throughout their lives to have a savings buffer. As they grow older, they acknowledge that they have begun to lose focus on actively shopping around for better deals.

As we were going through 'MaPS's tool', our respondents reacted very positively to a nudge to make them look again at where savings are held to see if they could be getting a better deal elsewhere. The Mid-Retirement Check Up would therefore serve as a helpful reminder to restart that process. This tendency toward inertia often extended to other areas of life, making it equally important to be nudged to reassess various insurances, utilities, and other essential services.

Some also felt it could be useful to prompt people to look for missing pensions.

> "If you've had a number of jobs and you might have paid in a small amount into your pension pot and then you moved on, you've forgotten about it. My sister-in-law worked with a firm for about nine years and then she got made redundant, but she did pay into her pension pot and she'd forgotten about it. So we're now in the process of going back to them to see who their pension provider was at the time because she's now 70 and that money's been lying there for years and she didn't know about it. I think that's something a lot of people forget about."
>
> **Female,** aged 70-75

Support to access state benefits and care.

Increased publicity around Pension Credit (linked to the abolition of the Winter Fuel payment) has improved awareness of means-tested state support. Although the vast majority of our respondents ruled themselves out of entitlement, the general feeling was that this would not be an easy benefit to claim, it would be easy to make mistakes, and that people may need some help from an 'expert' to fill out the form. Our qualitative respondents felt that this should be an integral part of any mid-retirement tool to ensure that people on low incomes are getting all the help they can to receive what they are entitled to.

Policy implication

Increased publicity around Pension Credit has increased awareness of means-tested support. However, non-means-tested support has not received the same level of attention or visibility.

Interventions are needed to ensure that people are aware that such benefits exist, and how to make successful claims to make sure they get what they are entitled to.

Non-means-tested benefits have not received the same level of attention or visibility. In our sample, non-recipients with limiting health conditions often mistakenly assumed they were ineligible for additional state support. This misconception was typically based on owning their home, having substantial savings, or believing their income exceeded the threshold for Pension Credit. Some were entirely unaware of the existence of disability or health-related benefits. We also heard examples of people who had been turned down for assistance until they had the help of an 'expert' to fill in the application form. Across the board, our qualitative respondents expressed a strong belief that more should be done to raise awareness of these benefits, particularly since receiving them can also qualify individuals for other financial support, such as reduced Council Tax.

We also observed that the process of accessing disability benefits is often inconsistent, with many relying on assistance or advice from friends or support workers to navigate the system. Reflecting on their experiences, most felt they could have claimed these benefits much earlier had they been better informed about their eligibility.

> "My brother-in-law was diagnosed with dementia and he came up here for the holidays. And I said has anybody put you in touch with anyone about Attendance Allowance? Nobody had heard about it. I actually did a form for him. And he got awarded it within weeks because his condition was so bad."
>
> **Female,** aged 70-75

> "I think the government ought to be more transparent about benefits. I've heard lots of people that trying to get benefits is a minefield."
>
> **Female,** aged 70-75

> "We've been talking to a neighbour who's a widow and she's never claimed Attendance Allowance. And we've been trying to tell her that speaking to other people it's more than likely she'll qualify for it. We've tried to persuade her to look into it. But she hasn't to this date, which is wrong."
>
> **Male,** aged 70-75

Wills and estate planning.

We know that procrastination is a common behavioural response to tasks that people find challenging or are likely to trigger negative emotions. An external nudge is therefore usually needed to motivate individuals to take action on tasks they would otherwise delay. Our qualitative respondents therefore felt that the mid-retirement intervention would be a wake-up call for them to take action.

> "One of the things that I've really thought of is that we don't talk about death, and I don't mean the act of dying. I mean, actually what it means, somebody being ill and all the things, the finances and everything, that go around that. So what does it mean when you've got power of attorney? You can't make good decision balanced decisions when the worst happens can you, because you've got added pressure on you, haven't you?"
>
> **Female,** aged 70-75

> "It's great to have choices, but with choices comes responsibility. But what you need with the choices is the advice as well."
>
> **Female,** aged 70-75

> "I think you are absolutely spot on. I should be looking more into what's going to happen in the future and accept the fact that my mental state is going to deteriorate in some way. Certainly maybe not dementia, but certainly I forget things now that I was on the button with before. You've sparked me to do something."
>
> **Male,** aged 70-75

Help needed to check pension savings will last throughout retirement.

Currently, individuals in drawdown are responsible for determining their own withdrawal rate. While providers offer tools and calculators to support this decision, these resources are seldom utilised in practice. Instead, withdrawal amounts tend to be more ad hoc and driven by immediate needs. Notably, only around a third (37%) of DC pension holders in mid-retirement opt to take a regular income.

Our qualitative respondents revealed that they do not regularly assess whether they are on track to make their money last throughout their lifetime. At most, they review their annual statements, but to date, these have not included any warnings about the potential unsustainability of their current withdrawal patterns.

> "It's probably something I should do, but I haven't. It's just the thought of just stepping in there and starting to find out about wills and how to proceed. It's like another little reminder to do it, isn't it?"
>
> **Male,** aged 70-75

Furthermore, the introduction of Flex First, Fix Later strategies will present an important decision point for holders in their mid-late 70s or early 80s: whether or not to purchase an annuity. However, misperceptions abound, and without an intervention, there is a danger that mid-retirees will make sub-optimal decisions. For example, if current behaviours in the annuity market persist, many are likely to gravitate toward the option offering the highest income —typically a single-life annuity— without fully considering the potentially devastating financial consequences for their spouse, particularly if they are the main pension holder. Additionally, many individuals will have health conditions that could qualify them for higher income through enhanced annuities if they take the time to shop around.

In the same way that the government stepped in with a free independent guidance service, Pension Wise, to support initial decumulation decisions, our mid-retirees were keen to see a similar service available to guide them through this critical decision point.

Support to have difficult conversations with family.

The current Midlife MOT includes guidance on navigating difficult conversations with loved ones—a feature our respondents deemed essential for any mid-retirement tool. They recognised the profound impact the death of a partner can have on the surviving spouse's financial wellbeing. Participants who had experienced the sudden loss or serious illness of a partner strongly emphasised the importance of taking proactive steps and being prepared for such unexpected events.

> "This is very good because it's getting you to have that conversation. Sometimes these conversations especially about money are very difficult to start up because we're kind of quite private about our money, aren't we?"
> **Female,** aged 70-75

Nudges to consider downsizing before it is too late.

Our qualitative respondents offered valuable advice for the next generation: downsize while you are still fit and able, as life's uncertainties make it hard to predict what lies ahead. They felt that this could be a useful topic for the mid-retirement tool to make sure people make the move before it is too late.

> "You need to do it before you need to do it, before it overpowers you and overwhelms you."
> **Female,** aged 70-75

For many, the key challenge was how they would find out about such a service and be nudged to take it up.

Awareness of current resources is low, and our respondents were unsure how they would get to hear about this valuable service once launched.

If a pension company is involved, they suggested that leaflets could be included with annual paper statements or posted separately. They also had several suggestions for placing information in places that older people tend to frequent, such as doctor's surgeries, hospitals, garden centres, health centres, golf clubs, and so on. They expected charities and social workers to signpost to the service.

A wide-scale TV advertising campaign would work for their generation as they do still watch live TV, rather than streaming.

They felt that a digital communication strategy, for example, emails or pop-ups in online accounts, would be less effective for their age cohort.

A multi-channel approach is needed for this age cohort.

Respondents felt that a multi-channel approach would be essential to engage individuals over 70, combining both face-to-face and online options. Pension Wise was highlighted as a good example of how this could work effectively in practice, with a website, telephone/online appointments, and face-to-face sessions for those who want it.

> "Actually going and talking with somebody and being with somebody is very satisfying. It makes you feel safe or connected. Because it's important information I think sometimes you need to actually talk to somebody there rather than over the other side of the screen. And we know scams can happen."
>
> **Female,** aged 70-75

> "And I think the generation today is far more technically savvy than my generation, obviously, because, they were born with it. Just before my retirement, I had a job with a keyboard in front of me and I can only use one finger on the computer."
>
> **Male,** aged 70-75

Preference for an independent service.

Respondents expressed reservations about private sector companies, such as pension providers or banks, delivering this service due to concerns over independence. If the private sector were to take the lead on delivery, banks were seen as potentially better positioned than pension companies to provide this support as they have more local affiliations and customers can visit a branch, which is particularly reassuring for those concerned about scams.

The government is the obvious provider, especially as MaPs already have something similar in place for those between 45 and 65. That said, some were concerned about sharing personal information with the government and felt that there may be a conflict of interest (for example, using estate planning to avoid tax, or increasing benefit take-up).

On balance, they would prefer trusted, specialist organisations like Citizens Advice or Age UK to deliver these services, as long as they have the necessary resources.

> "I think from my point of view, it would be better if it was a government department, which doesn't have any financial aim in it. If it goes private, then obviously there has to be some sort of reward in it for the company to doing it. So then I would be suspicious."
>
> **Male,** aged 70-75

They expect the service to be delivered for free.

Having seen the Money MidLife MOT, and having experienced Pension Wise, they expect that this mid-retirement service will also be free. They are aware that most of the information already exists, and they could find it if they wanted to; the value is bringing it all together in one place with checklists and action points for them to follow.

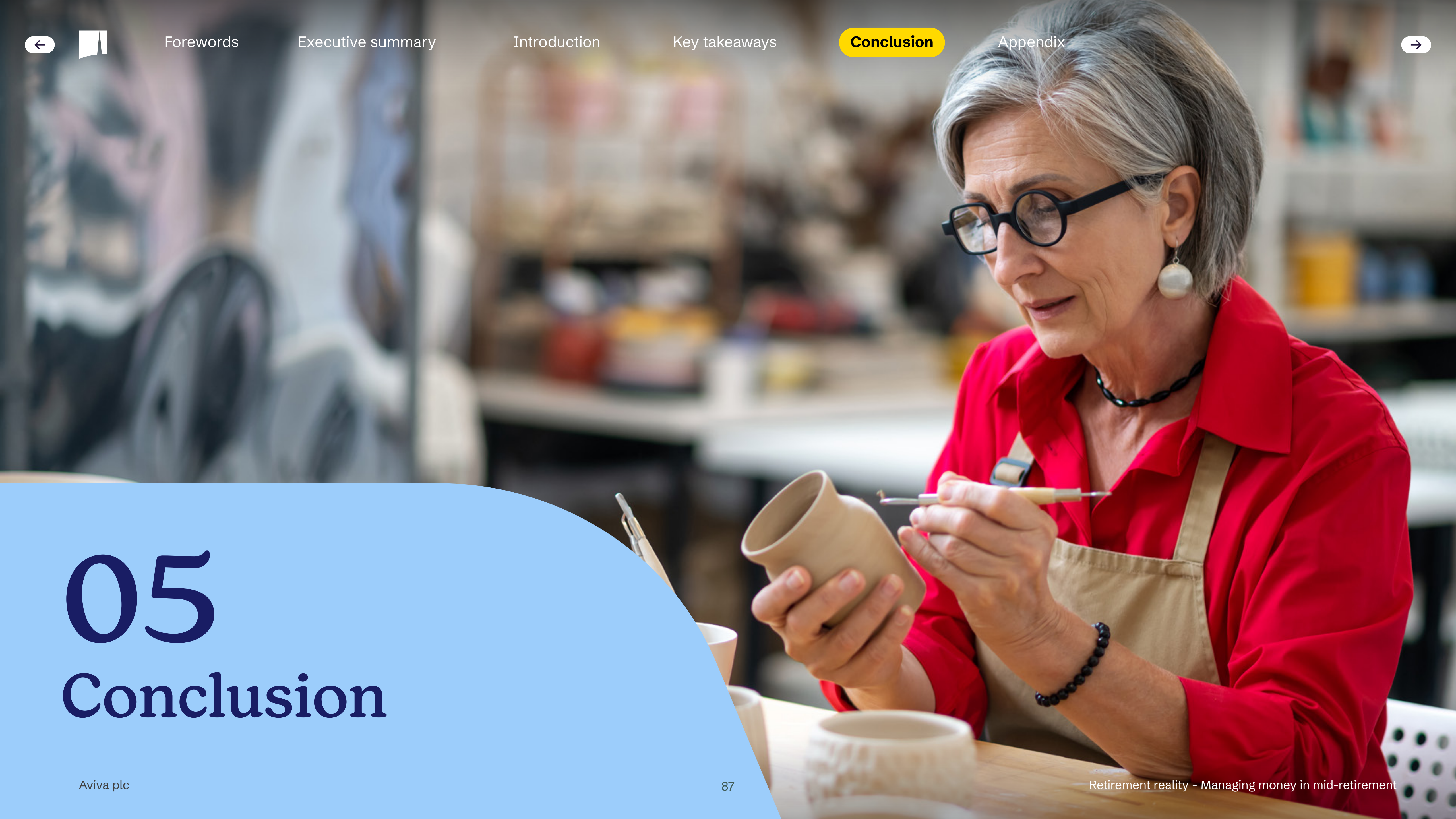
If there is to be a cost, respondents feel it should be under £100. If the service is offered by a charity, they suggested that the cost could be structured as a donation.

Our qualitative respondents are strongly opposed to paying a private sector organisation for this service, as they believe it would create an opportunity for that organisation to upsell products or services.

> "I like the sound of a free health check. It is doing you a little bit of good, it's not forcing you to do anything, but it's just giving you pointers, I suppose. And also you can do it in your own time. You're not being pressured."
> **Female,** aged 70-75

> "It might be a bit off-putting if you had a price with it. Because different people are accessing this with different amounts of money. And for some people who really need it, they might get put off if there is a price."
> **Female,** aged 70-75

> "So maybe a consultation of an hour, maybe £50. So that they're getting something. The meeting is getting paid for and you're both getting enough information for £50 that'll help you safely get whatever you need to ask about."
> **Female,** aged 70-75



05 Conclusion

Conclusion

Ten years after the introduction of pension freedoms, the first generation to benefit from the new flexibilities is now entering into mid-retirement. This transition represents a significant turning point, as individuals shift from earning an income to depending entirely on the wealth they've built over their lifetimes.

Our comprehensive research programme highlights the many challenges that mid-retirees face during this phase of life. There is no 'one-size fits all'; their needs are varied and often complex. Yet many lack detailed financial plans or a clear understanding of where they are at, the consequences of their actions, and what options they still have open to them. They are susceptible to fraud and bad decisions and have limited time to make the big decisions before cognitive decline sets in.

Many retirees are accustomed to a modest, yet predictable lifestyle, which they expect broadly sustain, or slightly decline, as they age. This is in sharp contrast to the U-shaped income needs model, which predicts a sharp decline in spending in these mid-retirement years. It is evident that the State Pension alone will be insufficient to sustain the lifestyle they are accustomed to, necessitating a consistent flow of additional income to bridge the gap. This means that, as they transition into later life, the need for financial security and stability from private pensions becomes ever more important to them.

However, on the contrary, our research shows that mid-retirees are very exposed to a shortfall. Pension wealth is often heavily concentrated in one partner's name, leaving the surviving partner of single-life annuity purchasers and those with DB at risk of a substantial income reduction on death. Furthermore, our mid-retirees are no better at estimating life expectancy than their younger counterparts, and so run the risk that they will withdraw DC pension money at an unsustainable rate.

Neither of the current choices for DC pensions, drawdown, or annuity, offers our mid-retirees the combination of flexibility and certainty they crave. While it is theoretically possible for individuals to create this outcome on their own, doing so would require significant financial expertise and a push to overcome ingrained behavioural habits. On balance, it appears that the challenge of generating a sustainable lifetime income is too complex for most to manage independently, highlighting the need for the industry to develop Flex First, Fix Later strategy, such as Aviva's Guided Retirement.

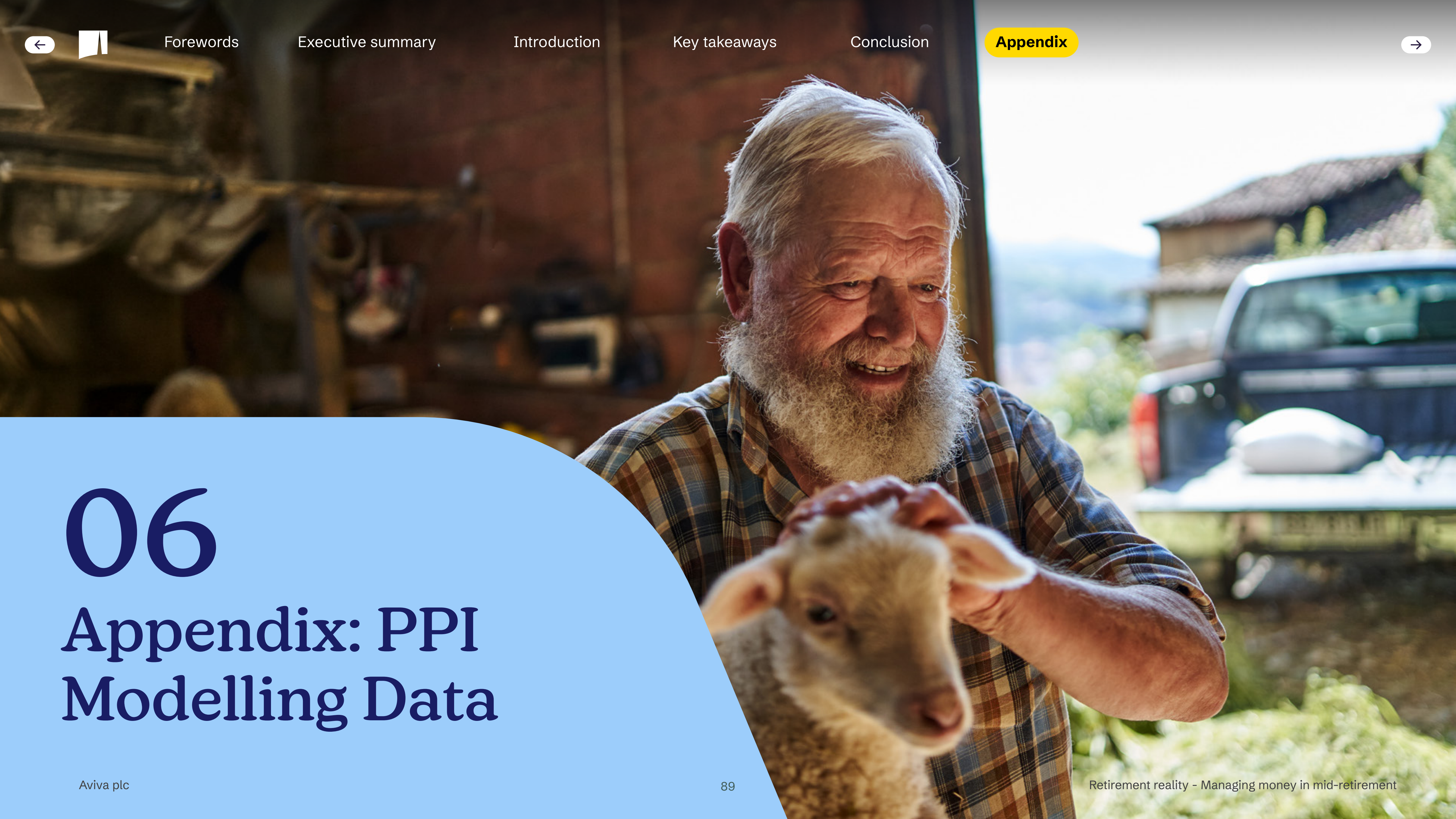
Modelling by the PPI shows that a Flex First, Fix Later strategies potentially delivers a higher starting income than sustainable drawdown withdrawal rates at 5% and 7%, and compares very favourably to annuitisation at 75. There would appear to be a strong case for joint life annuities to be the default for couples, as this protects against the risk of the surviving spouse falling below the PLSA's minimum income standard. In all scenarios, even with the Flex First, Fix Later strategies, renters will find it difficult to take a sustainable income. This suggests that providers will need to provide specific guidance and support for renters to help them decide what approach will deliver the best outcome possible.

And whilst the Flex First, Fix Later strategies had very strong appeal amongst the target audience, the devil is in the details and the decision to annuitise in later life won't be right for everyone. Some will value flexibility and access to funds over security. Others will need help to understand just how long they might live for. This underscores the importance of targeted support and guidance to empower individuals in this stage of life to make the right choices.

But the need for guidance and support extends far beyond simply optimising retirement income. Our in-depth discussions revealed a wide range of financial and life planning requirements, reflecting the diverse and complex challenges retirees face.

It is no surprise that the concept of a broader mid-retirement check-up resonated so strongly. The feedback gathered from this study hopefully offers sufficient insights to kick-start the development of a much-needed pilot program for further testing and refinement.

The announcement of the FCA's Advice Guidance Boundary Review is particularly timely. It is hoped that this initiative will remove any existing barriers to innovation, allowing the industry to broaden the scope of support available to mid-retirees. This, in turn, could lead to significantly improved outcomes for individuals who have limited capacity to recover from poor financial decisions.



06

Appendix: PPI Modelling Data

Figure 36: Probability of running out of money at various withdrawal rates.

Withdrawal strategy	Withdrawal rate	Probability that the money will run out before death	Age at which the money runs out
Low	5%	Almost 0%	120
Moderate	7%	10%	97
High	10%	50%	87
Very high	16.2%	75%	81

The following tables summarise the PPI's modelling exercise.

- Life 1 is the fundholder, Life 2 is their spouse. The fundholder is assumed to hold the pension wealth and dies first, at age 87. At this point, the spouse inherits the pot and continues to withdraw at the same rate.
- Income from State Pension is assumed to be increased in line with the Triple Lock, slightly faster than earnings growth.
- Income after tax, includes annuity, drawdown, state pension, and any other guaranteed income in payment.
- All figures are given in present earnings terms.
- Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

Table 37: Comparison of AHC net income under different withdrawal rates, homeowning couples.

Couple, homeowners			Drawdown at 5%			Drawdown at 7%			Drawdown at 10%			Drawdown at 16.2%		
Year	Age life1	Age life2	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income
2024	75	75	98,718	5,000	27,218	96,639	7,000	28,818	93,522	10,000	31,218	87,079	16,200	36,178
2028	79	79	84,700	4,413	27,722	74,544	6,178	29,134	59,310	8,825	31,252	27,827	14,297	35,629
2029	80	80	81,448	4,255	27,732	69,355	5,957	29,094	51,215	8,510	31,136	13,726	13,786	35,357
2030	81	81	78,310	4,103	27,748	64,315	5,744	29,061	43,323	8,205	31,031	-	13,235	35,054
2036	87	87	61,636	3,297	15,284	36,894	4,616	16,339	-	6,386	17,755	-	-	12,646
2042		93	48,166	2,631	15,066	13,597	3,683	15,908	-	-	12,961	-	-	12,961

Source: PPI analysis. All data presented net of tax, and housing costs and in real terms. Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

Table 38: Impact of the death of the fund holder on renting couples.

Couple, renters			Drawdown at 5%			Drawdown at 7%			Drawdown at 10%			Drawdown at 16.2%		
Year	Age life1	Age life2	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income
2024	75	75	98,718	5,000	21,446	96,639	7,000	23,046	93,522	10,000	25,446	87,079	16,200	30,406
2028	79	79	84,700	4,413	21,530	74,544	6,178	22,942	59,310	8,825	25,060	27,827	14,297	29,437
2029	80	80	81,448	4,255	21,464	69,355	5,957	22,825	51,215	8,510	24,867	13,726	13,786	29,088
2030	81	81	78,310	4,103	21,402	64,315	5,744	22,714	43,323	8,205	24,684	-	13,235	28,708
2036	87	87	61,636	3,297	8,449	36,894	4,616	9,504	-	6,386	10,920	-	-	5,811
2042		93	48,166	2,631	7,757	13,597	3,683	8,599	-	-	5,652	-	-	5,652

Source: PPI analysis. All data presented net of tax, and housing costs and in real terms. Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

Table 39: Comparison of Flex First, Fix Later incomes with and without spousal protection.

			Couple, homeowners Flex First, Fix Later, single life			**Couple, homeowners, Flex First, Fix Later** joint life			**Couple, renters** Flex First, Fix Later, single life			**Couple, renters, Flex First, Fix Later** joint life		
Year	**Age life1**	**Age life2**	**Pension wealth left**	**New private pension income**	**Total net AHC income**	**Pension wealth left**	**New private pension income**	**Total net AHC income**	**Pension wealth left**	**New private pension income**	**Total net AHC income**	**Pension wealth left**	**New private pension income**	**Total net AHC income**
2024	75	75	94,866	8,706	30,183	95,799	7,809	29,465	94,866	8,706	24,411	95,799	7,809	23,693
2028	79	79	65,880	7,684	30,338	70,437	6,892	29,705	65,880	7,684	24,147	70,437	6,892	23,513
2029	80	80	-	7,409	30,255	-	6,645	29,645	-	7,409	23,987	-	6,645	23,376
2030	81	81	-	7,144	30,181	-	6,407	29,592	-	7,144	23,835	-	6,407	23,245
2036	87	87	-	-	12,646	-	2,575	14,706	-	-	5,811	-	2,575	7,871
2042		93	-	-	12,961	-	2,054	14,605	-	-	5,652	-	2,054	7,295

Source: PPI analysis. All data presented net of tax, and housing costs and in real terms. Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

Table 40: Comparing sustainable incomes for drawdown with a Flex First, Fix Later strategy, homeowning couples.

Couple, homeowners			Drawdown at 5%			Drawdown at 7%			Flex First, Fix Later, single life			Flex First, Fix Later, joint life		
Year	Age life1	Age life2	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income
2024	75	75	98,718	5,000	27,218	96,639	7,000	28,818	94,866	8,706	30,183	95,799	7,809	29,465
2028	79	79	84,700	4,413	27,722	74,544	6,178	29,134	65,880	7,684	30,338	70,437	6,892	29,705
2029	80	80	81,448	4,255	27,732	69,355	5,957	29,094	-	7,409	30,255	-	6,645	29,645
2030	81	81	78,310	4,103	27,748	64,315	5,744	29,061	-	7,144	30,181	-	6,407	29,592
2036	87	87	61,636	3,297	15,284	36,894	4,616	16,339	-	-	12,646	-	2,575	14,706
2042		93	48,166	2,631	15,066	13,597	3,683	15,908	-	-	12,961	-	2,054	14,605

Source: PPI analysis. All data presented net of tax, and housing costs and in real terms. Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

Table 41: Comparing single and joint life annuity at 75 with a Flex First, Fix Later strategy, homeowning couples.

Couple, homeowners			Single life annuity at 75			Joint life annuity at 75			Flex First, Fix Later, single life			Flex First, Fix Later, joint life		
Year	Age life1	Age life2	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income	Pension wealth left	New private pension income	Total net AHC income
2024	75	75	-	9,474	30,798	-	8,597	30,096	94,866	8,706	30,183	95,799	7,809	29,465
2028	79	79	-	8,361	30,880	-	7,587	30,261	65,880	7,684	30,338	70,437	6,892	29,705
2029	80	80	-	8,062	30,778	-	7,316	30,181	-	7,409	0,255	-	6,645	29,645
2030	81	81	-	7,774	30,685	-	7,054	30,110	-	7,144	30,181	-	6,407	29,592
2036	87	87	-	-	12,646	-	2,835	14,914	-	-	12,646	-	2,575	14,706
2042		93	-	-	12,961	-	2,262	14,770	-	-	12,961	-	2,054	14,605

Source: PPI analysis. All data presented net of tax, and housing costs and in real terms. Figures in red show instances where the income has fallen below the PLSA's minimum living standard.

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