Inside the Pension Pots of UK Retail Investors

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Contents

KEY FINDINGS

1

Many retail investors can't put a value on their pension assets

Over a quarter (26%) of retail investors don't know the current total value of all their pension savings. And the lack of knowledge is higher when investors are asked what they think the size of the total pension pot will be when they decide to access it. Over a third (36%) say they don't know this. Without this knowledge, investors might get an unpleasant pensions surprise when they want to retire.

With defined contribution (DC) becoming the dominant form of pension provision for most, individuals need to know more about their pensions, in order to make good decisions for their retirement. Compared to top-down control inherent in defined benefit (DB) pensions, the bottom-up decisions made by individual DC scheme members on how much to contribute, where to invest and how to take benefits have a greater impact on their retirement prospects.

There is evidence in this research that initiatives such as the Pensions Dashboard could help individuals, particularly younger investors, but this exercise is still in the planning stage, with implementation not for a few years at least.

2

Even active investors might have unrealistic pension income expectations

When we asked the retail investors, what they expect their total pension pot value to be when they retire, the weighted average from all responses was £279,210. At the same time, when asked what they expected their annual pension income to be in retirement, the weighted average was around 7% of the total pension pot size at £19,605.

The annual income here in relation to the size of the pension pot seems unrealistic. A glance at the best buy annuity tables on the Hargreaves Lansdown website shows a £100,000 single life, level, no guarantee annuity at age 65 paying £4,953. For a £100,000 joint life 50%, level, no guarantee annuity, the annual income is £4,265. So around 4% to 5% would be a more realistic expectation, if an annuity is used. For income drawdown, many advisers would recommend taking only around 3% or 4% a year to avoid eroding a fund too quickly and to give investment growth a chance to boost the overall fund value.

These results show how investors, even if they have some financial knowledge, tend to overestimate how much they can expect to receive in retirement. Again, better information in the forms of initiatives such as the Pensions Dashboard, would help individuals understand how much they can expect to receive in retirement, given the value of their pension savings.

3

There are clear differences between men and women

The survey shows some big differences between how men and women save into pensions and how much they have in pension savings. In our sample, women (46%) are more likely to be members of DC workplace pensions than men (36%). One factor to consider is that women are more likely (51%) to give auto-enrolment as their reason for having a pension compared to men (36%). This is relevant because auto-enrolment into a workplace DC pension is often associated with relatively low paid staff, so it appears more women are in this category here.

One of the greatest differences between men and women is over their stated knowledge about how much they have in pension savings; almost half of women (48%) say they don't know this compared to 14% of men. Women also have a different view of the most significant risks compared to men. For example, 41% of women see not having enough to fund long-term health care needs as a significant risk, compared to only 26% of men. And only 12% of women see investment risk, such as a dramatic fall in the stock market, as a significant risk, compared to 36% of men.

The differences between men and women can be mainly accounted for by the fact that women in this survey are, on average, younger and considerably less well-off than men. On average, female respondents were six years younger, at 54, compared to men, at 60, and were more likely to be part-time workers. The weighted average household annual income for women, £35,837, was 63% of the weighted average for men, £57,187, while the weighted average household total wealth for women was £237,475, which is 49% of the equivalent for men (£488,825).

The effect of these differences on pensions is that for men, the average value of all current pension savings is £268,325, while for women, the equivalent figure is only £52,155.

4

Mind the generation gaps

When comparing the Millennials, or Generation Y (aged 24 to 39) with Generation X (aged 40 to 55) and Baby Boomers (aged 56 to 74), we can see some interesting differences.

Firstly, for their age, Generation Y and Generation X have a high rate of pension scheme membership at around 89%, which is a result of the introduction of auto-enrolment in the UK from 2012. This should help its members build up good pensions, as starting early gives more time for the power of compound interest to increase the money invested. For Generations Y and X, DC pensions are used by around 50% of those with pensions, compared to only 19% of Baby Boomers. This reflects the move away from DB towards DC pensions in the last couple of decades. Perhaps more surprisingly, around a third of Generation Y have personal pensions (38% for Generation X).

The greater digital literacy of Generation Y over older age groups is shown by the fact that 44% of Generation Y consider a website bringing all of an individual's pension information together as a useful aid to pension consolidation, compared to 38% for Generation X and 26% for the Baby Boomers.

Another interesting age-related finding is that investment risk, or the dangers of a dramatic stock market fall, are less likely to be seen as a risk when pension saving by younger age groups. Only 9% of Generation Y put it in their three biggest risks for a pension, compared to 24% for Generation X and 42% of Baby Boomers. Here, time to retirement is probably a factor, as younger investors have longer to recover from market slumps. This finding goes against the design of some modern DC investment strategies, which try to shield new members from market volatility.

Methodology: CoreData Research surveyed 370 retail investors in the UK in March 2020. The investors comprised a wide mix of those working, either full-time or part-time, and fully or semi-retired investors from all age groups in the adult population. They invest in pensions, investment and savings products and use various methods of taking pension benefits for those aged 55 and above. The average pension fund for the retail investors was worth £189,565, while the average stocks and shares ISA was worth £151,475.

PENSIONS BACKGROUND

In a perfect world, pensions would be relatively simple arrangements, enabling individuals to save for their old age without fuss or worry. But as we all know, in our messy reality, pensions are complicated. There is a bewildering array of retail and occupational pension arrangements, the variety of which has multiplied over time. This is for a number of reasons.

Firstly, successive governments have tinkered endlessly with rules around pensions, taxation and employee benefits in general. Each new set of changes adds an additional layer to pensions regulation, like the different layers of rock or sediment making up the earth's crust, with new pension products created in response to new regulations. Radical simplification would mean some would lose out on their accrued pension rights and no politician wants to take responsibility for this. As a result, proposals for pension simplification generally fail to overcome the natural tendency of legislators to legislate.

There is also a perpetual battle going on between policymakers and the Inland Revenue on one hand, and employers and wealthy individuals, aided by their advisers and lawyers, on the other. The former want to create a pension system that fits their social vision and maximises the tax take without losing public support, while the latter want pensions to work as part of their employee benefit, or long-term savings strategy while minimising their tax liabilities.

The complexity of UK pensions is also a reflection of the diverse nature of the UK workforce. Pension schemes that suit one employer may not suit others and the same is true for individual employees, who could vary from a corporate high-flyer to a low-paid, part-time worker. Defined benefit (DB) pensions worked best when people spent most of their career at one employer and, on average, did not live very long after retiring. Now, defined contribution (DC) pensions are arguably better suited to most peoples' working lives, with more frequent job changes, career breaks and flexible working patterns. But individuals who have had several different jobs will have contributed to several different pensions over the years, so understanding what pensions they have and how much they are worth can be a challenge.

CoreData

About Us

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- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.

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