

Department for Work and Pensions

Research Report No 515

Information needs at retirement: Qualitative research focusing on annuitisation decisions

Sarah Horack, Margaret Watmough, Andrew Wood and Kate Downer

A report of research carried out by RS Consulting on behalf of the Department for Work and Pensions

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Any remaining deficiencies are the responsibility of the four report authors.

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Abbreviations

ABI	Association of British Insurers
AVC	Additional voluntary contributions
DB	Defined benefit
DC	Defined contribution
DWP	The Department for Work and Pensions
FSA	The Financial Services Authority
HMRC	HM Revenue & Customs
HMT	HM Treasury
IFA	Independent Financial Adviser
ISA	Individual savings account
OMO	Open market option
PEP	Personal Equity Plan
RPI	Retail Prices Index
SERPS	State Earnings Related Pension Scheme
SPA	State Pension age
S2P	State Second Pension
TPR	The Pensions Regulator
TPAS	The Pensions Advisory Service

Glossary of terms

Additional State Pension

A Government scheme which allows certain people to top up their basic pension entitlement with additional pension payments. Prior to April 2002, this was known as the State Earnings Related Pension Scheme (SERPS) and was available to employees and based on their earnings. From April 2002, SERPS was replaced with the State Second Pension (S2P) designed to give more to the lower paid and middle earners and include carers and the long-term disabled with broken work records.

Alternatively Secured Pension

Prior to April 2006 it was compulsory for an individual to use their pension savings to buy an annuity by the age of 75. In April 2006 an alternative option, the Alternatively Secured Pension, was introduced. It is a form of **income drawdown**. Instead of buying an **annuity** by age 75, an individual can continue to invest their pension savings and draw an income from their fund, within laid down limits.

Annuitant

An individual who converts investments made in one or more **pension funds** into an **annuity**.

Annuity	In the context of a defined contribution (DC) pension, an annuity is a contract with an insurer to provide a series of pension benefit payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is most commonly the end of a specified period or the death of the person receiving the annuity. A description of the main annuity types appears at the end of this glossary of terms.
Contract out	The use of a pension scheme which meets certain conditions to provide benefits in place of the Additional State Pension .
Defined benefit (DB) scheme	A scheme where the scheme rules define the benefits independently of the contributions payable and benefits are not directly related to the investments of the scheme.
Defined contribution (DC) scheme	A pension scheme providing benefits on a money purchase basis. Individual members' benefits are determined by reference to contributions paid into a pension scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.
Dependant	A person who is financially dependent on a member or pensioner, or was so at the time of death or retirement of the member or pensioner. Scheme rules may define a dependant differently.
Final salary scheme	A DB scheme where the benefit is calculated by reference to the final pensionable earnings of the member; the benefit is usually also based on pensionable service.
Frozen defined benefit (DB) scheme	A DB scheme where no further contributions may be paid and no further benefits accrue but members are entitled to preserved benefits.

Group Personal Pension (GPP)	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a personal pension scheme on a grouped basis. This is not a single scheme; merely a collecting agreement.
Income drawdown	Withdrawal of income from an approved arrangement that provides benefits on a money purchase basis, while annuity purchase is deferred. Most DC pension schemes permit income drawdown before the age of 75, allowing holders to take a taxable income direct from the pension fund , up to a maximum amount set by HM Revenue & Customs (HMRC).
Independent Financial Adviser (IFA)	An adviser, or firm of advisers, who is in a position to review all the available products and companies on the market as the basis for recommendations to clients. All IFAs are regulated directly by the Financial Services Authority (FSA).
Lifetime allowance	The lifetime allowance represents the maximum value of pension savings that can benefit from tax relief (£1.6 million in 2007 but increasing to £1.8 million by 2010). Funds in excess of the lifetime allowance are considered to have benefited unduly from pensionschemetaxadvantagesand, therefore, a tax charge is made.
Normal minimum pension age	The minimum age at which individuals can annuitise a DC pension . This is currently 50 and by April 2010 it will be increased to 55.
Pension fund	Strictly speaking the assets of a pension scheme but very often used to denote the pension scheme itself.

Personal Accounts

Personal Accounts will be a low-cost pension saving scheme aimed at median- to low-income workers, who currently do not have access to an occupational pension scheme. From 2012, it is planned that eligible employees whose employers choose to adopt the Personal Accounts scheme will be automatically enrolled into a Personal Account, if they are not already in a workplace pension scheme that offers comparable benefits. The employer will contribute a minimum of three per cent to the employee's pension. This will sit alongside four per cent from the employee and around one per cent from the Government in the form of tax relief. If employers choose not to offer the Personal Accounts scheme, they will be required to give employees access to another scheme offering comparable benefits.

Personal Equity Plan (PEP)

Many investors have, over time, built up a significant amount of money in PEPs. Although contributions to PEPs ceased on 5 April 1999, by this time some £92 billion had been invested; PEPs were replaced by individual savings accounts (ISAs).

There are no qualifying periods for PEPs in order to benefit from the tax advantages. As PEPs are equity-based, however, investors should regard a PEP as a long-term investment.

Personal pension scheme

A personal pension is a **DC** scheme purchased by an individual from a pension provider such as a bank, life assurance company or building society. It is owned entirely by the individual, allowing them to continue to contribute to it if they move jobs.

Protected rights funds

Where an individual **contracts out** of the **Additional State Pension** using a **personal pension** or stakeholder pension, a rebate of some of the National Insurance paid for that person is paid to the pension provider some time after the end of the tax year by the HMRC. These rebates are known as protected rights contributions.

Retail Prices Index (RPI)

The RPI is expressed as a percentage of price levels at a given time relative to a previous date, called the reference date. The base point of 100 is currently January 1987.

The Office for National Statistics (ONS) compiles the RPI, which is the main domestic measure of inflation in the United Kingdom and measures the average change each month in the prices of goods and services purchased by most households in the UK. Although the RPI covers the whole of the UK, expenditure of certain higher income households and pensioners that are mainly dependent on the basic State Pension are excluded.

State Pension age (SPA)

In terms of the retirement age, the state retirement pension is currently paid to people who reach the SPA of 65 for men and 60 for women and who fulfil the conditions of the National Insurance contributions. The amount received is not affected by income and savings but is taxable.

Under section 126 of the Pensions Act 1995, SPA will increase to 65 for both men and women from 2010 to 2020. It will then increase from 65 to 68 for men and women by 2046.

Trivial commutation

If the aggregate of an individual's pension rights totals less than one per cent of the **lifetime allowance** (the previous threshold of £15,000 rose to £16,000 in 2007), trivial commutation rules apply, meaning that the entire **pension fund** can be taken as a cash lump sum. Twenty-five per cent of this is paid to the individual tax free, the remainder being taxable.

Wake-up letter

A letter that providers send to their policyholders a few months before they have the option to annuitise their pension. Different providers include different information in the letter; a typical formula is a statement of the value of the fund held with that provider and an illustration of how this could be received as a monthly income.

Glossary of main annuity types¹

Single-life	Single-life annuities pay out an agreed annuity payment to the annuitant only during their lifetime.
Guaranteed	Guaranteed annuities provide an annuity payment each month for the length of the guarantee period, even if the annuitant dies before the end of that period; in this case, the guaranteed annuity payments can continue to be paid to another person. The maximum guarantee period is ten years.
Level-term	Level-term annuities continue to be paid at the same level, whatever the rate of inflation.
Inflation-linked	Inflation-linked annuities increase the annual payments by the rate of increase in the Retail Prices Index (RPI), to give payments some protection against inflation.
Escalating	Escalating annuities increase by a fixed percentage year on year, to give the pensioner some protection against inflation and to allow for possible increased income needs as the annuitant ages.

¹ Adapted from HM Treasury (2006), *'The Annuities Market'*.

Joint-life	Joint-life annuities pay an agreed annuity payment to an annuitant and then to the annuitant's partner after the annuitant dies. Following the death of the annuitant, the contract pays either the same amount or an agreed reduced amount for the remainder of the partner's lifetime.
Investment-linked	Investment-linked annuities involve the fund backing the annuity being invested in an equity product. The annuitant receives an annuity payment that is related to the performance of the equity market.
Impaired-life	Impaired-life annuities pay an increased annuity payment, if the annuitant has health problems such as cancer, chronic asthma, diabetes, heart attack, high blood pressure, kidney failure, multiple sclerosis and stroke.
Phased	Phased annuities mean that instead of converting the whole pension fund at once, withdrawals are scheduled to be made from it over the course of several years, with the fund being split into a number of separate segments.
Short-term	Short-term annuities allow use of part of a pension fund to buy a fixed-term annuity lasting up to five years. Individuals can choose level-term, inflation-linked or escalating options. The remainder of the pension fund remains invested for annuitisation at a later date.

Preface

This is a report of research planned during the spring and summer of 2007, with interviews conducted between early October and early December 2007.

The research programme and subsequent reporting of findings have coincided with a number of relevant government initiatives in the area of the annuitisation open market option (OMO) and of advice on retirement planning as detailed below. These have not been taken into account in the conduct, content or reporting of the research findings.

Open market option review

A review of the OMO, published in October 2007, was led jointly by HM Treasury (HMT) and the Department for Work and Pensions (DWP), working with a range of stakeholders, including consumer groups. The review recommended improvements in annuity information products and in guidance on annuity purchase. It agreed a package of measures including the following:²

- The Pensions Advisory Service (TPAS) would set up a web-based tool to help people make choices when they want to turn their pension saving into an annuity.
- The Financial Services Authority (FSA) would obtain relevant management information from the allegedly worst performing providers in terms of delays in transferring OMO funds.
- The FSA would review pension saving providers' maturity literature to see how effectively the OMO is being communicated to consumers.

The FSA has completed its review of OMO literature and is well advanced with its investigation into payment delays. The results of both pieces of work will be published near the end of July 2008.

The TPAS Online Annuity Planner was launched on 2 May. It is a self-help tool that has been designed to be of particular help to people with relatively small pension

² HMT and DWP (2007), *'Outcome of the review of the operation of the Open Market Option (OMO)'*, available from http://www.hm-treasury.gov.uk/pbr_csr/documents/pbr_csr07_pensions.cfm

savings who may also find it more difficult than others to afford good independent financial advice or to receive it when annuitising without incurring out-of-pocket expenses.³ The planner uses links to FSA comparative tables.⁴

Thoresen Review of generic financial advice

The provision of appropriate generic financial advice is a high priority for Government.

On 15 January 2007, the Government announced the Thoresen Review, to examine the feasibility of delivering a national approach to generic financial advice.⁵ Otto Thoresen reported on an interim basis on 22 October 2007,⁶ after which prototypes of a national service were tested. The Review's final report, published on 3 March 2008,⁷ set out recommendations on designing a national Money Guidance service, previously described as generic financial advice. A larger scale pilot of Money Guidance will be designed and implemented by the FSA, working in collaboration with HMT, which is co-funding the pilot.

Retirement planning is one of the areas covered by Money Guidance. The service will signpost users with relevant enquiries to TPAS.

Topics outside the scope of the research

The research asked interviewees which sources of information they used, as well as seeking their own views about specific generic sources they may have used, such as advice from professional sources (e.g. independent financial advisers (IFAs), accountant, lawyers) or from government sources (e.g. DWP, FSA). It also asked which sources they found most useful, but it did not specifically seek participants' views on generic financial advice, as opposed to independent regulated advice from an IFA. The research does however report any unprompted responses to these questions.

It may well be that good generic financial advice is a good starting point for many annuitants or provides sufficient information for people looking to purchase an annuity. The current research did not set out to test this hypothesis, nor did the research test interest in an online annuity planner.

All we can report on these topics is that no research participant mentioned either

³ See <http://www.pensionsadvisoryservice.org.uk/>

⁴ The impartial FSA tables which compare annuity products from different companies are available at <http://www.fsa.gov.uk/tables>

⁵ See http://www.hm-treasury.gov.uk/media/1/F/fincap_150107.pdf

⁶ See http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_interim_221007.pdf

⁷ See http://www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf

TPAS or a desire for a web-based annuity planner in their responses. Participants had used sources of generic financial **information** such as the FSA website. In terms of one-to-one **advice**, other than from an IFA, they mentioned seeking advice from employers, from pension scheme trustees and from friends, family and colleagues. No-one mentioned the use of third parties such as Consumer Direct or the Citizens Advice Bureau for advice about annuities.

Summary

Research aims

This research study was designed to explore defined contribution (DC) pension scheme policy-holders' understanding of the choices available to them when they become eligible to convert their pension fund into an income. The research included both occupational DC and personal pensions.

The findings of the study will feed into policy developments aimed at improving consumer access to high-quality information about their provision for retirement; at increasing their understanding of annuities, and at enhancing their ability to assess the options available to them as they approach annuitisation.

The study examined, in depth, how well individuals understand choices and trade-offs about when and how to annuitise; how decisions about annuitisation are being made now; whether and where individuals coming up to annuitisation go for information and/or advice; what people need, and want, to know in order to make sound choices given their own circumstances and when and how best to communicate information to individuals about annuities and the annuitisation process.

It is important to emphasise that the research is qualitative in nature. It does not provide statistical data relating to the frequency of experiences and views across the general population.

Background

The decisions that individuals face as annuitisation approaches are complex and have significant implications for retirement income. Annuitants must take irreversible decisions relating to four principal areas:

- When to annuitise.
- Whether to take a lump sum payment or not.
- What type of annuity to buy.

- Whether to buy the annuity from their current pension provider or an alternative provider through the open market option (OMO).

A fifth consideration for many annuitants is whether to seek advice, including the use of an independent financial adviser (IFA); this was also a topic for the research. The use of an IFA may be appropriate, especially when the annuitisation decision is made in the context of other decisions to do with taking the State Pension; with annuitising any other defined benefit (DB) or DC pensions, and with understanding the combined tax implications of these and any other income sources.

Key findings and implications

Annuitisation decisions are often ill-informed

The importance of annuitisation decisions makes it crucial for individuals to take these decisions on the basis of an understanding of the options that are available.

This study highlights some variation in the degree to which participants both engaged with the annuitisation process and, even when they engaged, understood the choices available to them.

Although, overall, awareness of the options to defer annuitisation and to take a cash lump sum was high, awareness of the different types of annuity was lower, as was the level of understanding of how to exercise the OMO and its potential advantages:

- **When to annuitise:** Participants were typically aware of the option to defer annuitisation. It was rare for them to be unaware that postponing annuitisation was a possibility. In other words, only a few believed that they had no other choice than to take their pension at a prescribed age.
- **Whether to take a lump sum payment:** Participants were typically aware that they had the option to take up to 25 per cent of the final fund value as a cash lump sum, although, rarely, the belief was also expressed that 100 per cent of the final fund value could be taken as cash⁸.
- **What type of annuity to buy:** Married participants were aware that they could choose between a joint-life or single-life annuity. Other annuity types were less widely understood. Some participants were unaware of the difference between a level-term or inflation-linked/escalating annuity. There was very little awareness of other, non-standard annuity types, including impaired-life annuities, even among those who appeared to be eligible to receive them.

⁸ This was the case, even though all participants had pension 'pots' greater than the trivial commutation amount i.e. the amount below which taking 100 per cent of the pension in cash is permitted. See Sections 1.2.2 and 1.4.1.

- **Whether to take the OMO:** Participants were usually aware that they had the option to purchase an annuity from a provider other than the one with which they held their pension fund but often they believed that it would be complicated, time-consuming and not worth the effort to investigate the open market. In fact, awareness of the processes involved in exercising the OMO and of the impact it might have on their final pension income, was very low.
- **Whether to use an IFA:** Individuals knew that they had the option to use an IFA for advice on annuitisation but they often mistakenly believed that taking advice from an IFA would involve high, upfront out-of-pocket fees⁹.

Annuitisation decision-making is influenced largely by financial awareness and knowledge and by level of engagement

Two characteristics drove the way in which participants coped with the annuitisation process: their degree of financial awareness and knowledge particularly about pensions and annuities, and their level of engagement with saving for retirement and the annuitisation process. In this report we use the term '*financial knowledge*' as shorthand for '*financial awareness and knowledge*'.

Those who had a high degree of financial knowledge and a high level of engagement with the annuitisation process typically dealt well with information provided and reached rational, calculated decisions about which annuity type was likely, in their view or in the view of any IFA used, to be most financially advantageous to them.

Those at the opposite end of the scale believed there was little they could do or have done in annuitising to achieve more income in retirement; they often ignored information that was available to them. Such a view was not necessarily reflective of inherent cynicism toward pensions or retirement saving but may have been triggered by learning, at some point in the years before annuitisation, that a fund value was far less than expected.

No link was observed between number of pensions held by an individual and their financial awareness and knowledge.

Perceived weaknesses in provider literature as well as other factors contribute to less well-informed decisions

The more financially knowledgeable tended to know what information to seek, where to go for it, and how best to use it. For many of the less financially

⁹ As many IFAs take commission relating to annuitisation decisions from the eventual annuity provider, no fee is normally charged directly to individuals. Except in some cases where the pension fund value is very low, the cost of advice is usually incorporated into the purchase price of the annuity, whether or not the annuity is purchased through an IFA. This means that in most cases, professional advice pertaining to annuitisation decisions can be available to individuals without them incurring high, upfront fees.

knowledgeable, however, the only source of information they recalled receiving about their annuitisation options was the printed information and letter from their pension provider setting out the background and decisions to be made, some four to six months before their expected retirement date (the so-called 'wake-up' letter). For these individuals in particular, the provider information was lacking in certain important ways:

- it was seen as overly complicated, difficult to understand and full of financial jargon;
- the sheer quantity of information was a barrier to using the literature;
- much of the information was perceived to be irrelevant;
- the quantity and complexity of information meant that projections (generally thought useful by participants who read them) were overlooked by some participants;
- it was perceived to assume that individuals would annuitise with the current provider;
- information about IFAs was not clear on two counts: how to go about accessing IFA advice, and the current market practice that an IFA could usually be consulted about annuity decisions at no additional cost to the individual.

A range of other factors contributed to less well-informed decision-making, including:

- a belief that smaller pension funds, typically with values below £40,000, allowed only a limited range of choices about annuity types, or that decisions made about annuitising them were financially inconsequential;
- individuals' personal circumstances, such as the existence of multiple pensions, complex tax scenarios, and unexpected redundancy some years ahead of expected retirement age;
- established attitudes and patterns of behaviour, including a sense of resignation to achieving a poor result from annuitising a pension; a mistrust of providers and advisers, and conversely, in some cases, a sense of loyalty to a provider acting as a barrier to considering the OMO;
- delays by providers at various points in the annuitisation process were also said to have impeded decision-making and affected outcomes in a negative way. Issues mentioned included wake-up letters being sent too near to the scheduled annuitisation date; failure to send routine information until requested; payment of an annuitised pension beginning later than expected, and grievances with the manner and speed with which the original provider handled the transfer process when the OMO was exercised.

The least financially knowledgeable and least engaged with retirement planning, saving and the annuitisation process have the most to gain from an improved communications strategy

At present, those who choose not to engage in decision-making about annuitisation or are not financially knowledgeable in this area may be making decisions without being aware that:

- at annuitisation they can tailor solutions to their own circumstances and may achieve more satisfactory outcomes as a result;
- they may be able to take advice from an IFA without incurring out-of-pocket costs.

Even those who appreciate the significance of annuitisation decisions may not cope well with the provider information, which is often perceived as only suitable for those confident or experienced in comparing financial products. Facing difficulties in understanding or failing to read provider literature is occasionally compounded by information being sent later than the participant would have wished, leading to decisions that are hurried and under-informed.

An improved communications strategy would need to achieve two goals:

- increasing understanding of the options available;
- increasing awareness, where appropriate, that independent financial advice may not carry high, upfront out-of-pocket costs to individuals.

A revised strategy might consist of the following elements:

- An independent *Key messages* document sent with the provider wake-up letter or earlier. In many cases, individuals' inability or refusal to deal with the large quantity of information they receive is compounded by the fact that they had not been expecting to receive so much information. A simple document, sent some time before decisions must be taken, explaining the broad options available, could address this issue.
- Simplified and standardised information, written in plain English, that providers give to individuals before annuitisation.
- Highlighting the availability of taking independent financial advice, as well as sources of publicly-available financial information and advice, especially where individuals' circumstances are known to be complicated.
- Improving awareness of the OMO, as it is too easy for prospective annuitants to assume that they must, or should, annuitise with their current provider. It should be recognised, however, that it was not uncommon for the participants in this study who had taken IFA advice to be recommended against exercising the OMO. There were also isolated cases of individuals exercising the OMO experiencing excessive delays.

Approach to the research

The research participants: eligibility and ineligibility

The project was qualitative in nature and comprised 60 in-depth interviews conducted in person with recent and prospective annuitants between early October and early December 2007. The interviews, using similar topic guides for prospective and recent annuitants, lasted around an hour on average.

Recent annuitants were those having made an annuitisation decision three to nine months before being interviewed. Prospective annuitants were those who had just received a wake-up letter from their provider to alert them to the option to make decisions about annuitising in around four months' time.

All participants had a DC fund valued at between £15,000 and £100,000. The research focused on decisions to do with individual funds of a value £15,000-£100,000.

Participants in the study may also have had other provision in place for income in retirement. The study excluded, however, potential participants who expected their total personal income in retirement to be over £40,000 a year, because such individuals were considered unlikely to face the same difficult decisions and trade-offs that individuals on lower incomes face.

Recruitment: an opt-out process

To identify eligible individuals for this study, we worked with six pension providers who agreed to identify, from their records, individuals who would be likely to qualify for participation in the study. Providers then wrote to identified contacts. The letter provided individuals with the opportunity to opt out of the research, by returning a freepost opt-out slip to the provider within three weeks.

RS Consulting conducted screening interviews with potential participants who had not opted out, in order to achieve interviews among a good mix of individuals fulfilling the two core eligibility criteria.

Reporting

The research has not revealed differences between the behaviour of recent and prospective annuitants. Reporting is, therefore, mainly at the level of all annuitants who participated in the research.

More importantly, we note that analysis has been based on what participants have told us. **Annuitants' perceptions are important, whether they have been well or poorly informed.**

If, for example, we report as commonly held a more or a less favourable view of an information source, this is because more of the participants held this view. We believe it is a strength of the research that non-lay readers will be able to recognise where information sources are being understood and where they are being misunderstood by their intended audience.

1 Introduction

This report provides the findings from a study conducted by the Department for Work and Pensions (DWP) to explore defined contribution (DC) pension scheme policy-holders' understanding of the choices available to them when they convert their pension fund into an income for retirement. Specifically, the aims of the research were to understand:

- how well individuals understand choices and trade-offs about when and how to annuitise;
- how decisions about annuitisation are being made now;
- whether, and where, individuals coming up to annuitisation go for information and/or advice;
- what people need, and want, to know in order to make sound choices given their circumstances;
- when and how best to communicate information to individuals about annuities and the annuitisation process.

Decisions taken about when and how to annuitise a DC pension form only part of the range of decisions that individuals must take as retirement age approaches. Two other decisions are:

- if, when, and over what period of time, to reduce time spent in paid employment;
- when to take the State Pension and what income to take from it¹⁰.

¹⁰ State Pension Deferral rules allow an individual to put off claiming a State Pension after the State Pension age (SPA) if they wish, allowing them to build up an extra State Pension income or, if they defer for at least a year, a taxable lump sum. For further information see The Pensions Service publication '*Your guide to State Pension Deferral*': (<http://www.thepensionservice.gov.uk/pdf/spd/spd1apr06.pdf>)

Decisions in each of these three areas do not need to be taken simultaneously. For example, the normal minimum pension age at which individuals can currently annuitise a DC pension is 50¹¹, whereas the SPA is 60 for females and 65 for males¹². Although this study was designed to focus only on DC scheme annuitisation, wider decisions about when to retire from work and to take the State Pension inevitably impacted upon individuals' annuitisation decisions.

This chapter details the policy background to the study, and outlines the decisions that DC pension scheme policy-holders face as retirement approaches. It also describes the research objectives and methodology; the profile of the participating annuitants; the limitations of the study and, finally, it gives an overview of the structure of this report.

The main research instruments, including the topic guides, are included at Appendix B.

1.1 Policy background

The DWP is currently developing its pensions information and communications strategy, which aims to ensure both that individuals have access to high-quality information about their current provision for retirement and the income this provision will potentially provide and that they become more knowledgeable about, and able to assess, the options available to them.

To support this strategy, it is important to have a better understanding of the decisions faced by policy-holders of DC pension schemes as annuitisation approaches, during a period when the number of DC schemes has been increasing and will continue to increase relative to the number of defined benefit (DB) schemes, as the following figures illustrate:

- the number of active members of private sector DB pension schemes has been falling steadily since the late 1960s, down from a peak of 8.1 million members in 1967 to 3.4 million in 2006¹³;
- demand for annuity premiums is predicted to increase by between nine to 11 per cent per year over the next ten years¹⁴;
- since 1994, sales of annuities have almost trebled and the Association of British

¹¹ By April 2010 it will be increased to 55.

¹² This will increase to 65 for women from 2010 to 2020 and then increase from 65 to 68 for men and women by 2046.

¹³ Office for National Statistics (2006), *'Occupational Pension Schemes Survey'*.

¹⁴ Cannon and Tonks (2006), *'Survey of annuity pricing'*, DWP Research Report, p. 318.

Insurers (ABI) expects the annuity market to double over the next six years¹⁵;

- nearly 300,000 new DC annuity contracts were issued in 2005, totalling £8 billion in premiums¹⁶.

Members of DB schemes do not have to make choices about their pension income, as this is determined by the scheme rules. DC policy-holders, on the other hand, have a number of decisions to make on annuitisation and their choices may have significant implications for income in retirement. Moreover, annuitants remain affected by the consequences of their annuitisation choices for the rest of their lives and the implications for their families may continue beyond the annuitant's death. Decisions are irreversible and, unless specified by a joint-life or guaranteed annuity option, annuities do not allow for payments to a partner or dependants after the annuitant's death.

There is limited evidence available regarding individuals' understanding of annuitisation decisions: where they go for information or advice and their understanding of the sources of information available to them. The research aimed to address these gaps in knowledge, in order to feed into policy developments towards improving consumer understanding of annuities within the context of ongoing pension reform.

1.2 Options available to individuals as they approach retirement

The options available to individuals as they approach retirement relate to four principal areas:

- when to retire and when to annuitise;
- whether to take a lump sum payment, or not, as part of an annuity;
- what type of annuity to buy;
- whether to buy the annuity from their current pension provider or an alternative provider using the open market option (OMO).

Sections 1.2.1 to 1.2.4 summarise the options available within each of these areas. It does not necessarily follow, however, that the individuals themselves recognise four discrete decision categories. Whether they do or not depends to some degree on the information available to them, and on their own perceptions. Later sections of this report focus on how these decisions are reached and implemented in practice.

¹⁵ Harrison, Byrne and Blake (2006), *'Annuities and accessibility: How the industry can empower consumers to make rational choices'*, Pensions Institute/CASS report.

¹⁶ HM Treasury (2006), *'The Annuities Market'*.

Section 1.2.5 summarises the stages of the process that members of DC pension funds go through as they decide whether, and how, to annuitise their fund.

Many annuitants also consider whether to use an independent financial adviser (IFA). Individuals' complex circumstances at the point of retirement may make it favourable for them to take independent financial advice and examples of these circumstances are given in Section 1.2.6.

1.2.1 When to retire and when to annuitise

Retirement from work does not necessarily coincide with annuitisation. Although in practice many individuals take the decision to stop or reduce their working hours at a similar time to annuitising, retirement from work does not form part of the 'critical path' for annuitisation.

Under current annuitisation rules, individuals can annuitise their DC pension at any time between the normal minimum pension age¹⁷ and 75. Although an individual is able to approach their pension provider at any time from the normal minimum pension age to request conversion of their fund into an income, in most cases individuals do not take any action in the years before their expected retirement date. Usually it is the provider who makes the first move by sending a 'wake-up letter' to the individual four to six months before their expected retirement date, to inform them of the annuitisation decisions they face.¹⁸

On receiving the letter, the individual may either commence the annuitisation process or postpone the decision to annuitise. If they choose to postpone annuitisation, they must state to the provider a new expected annuitisation age or date, subject to the rule that they must annuitise their pension by the age of 75. The provider then re-contacts the individual four to six months before the amended date.

1.2.2 Whether to take a lump sum payment

Current annuitisation rules allow most DC pension fund holders to take up to 25 per cent of their pension fund as a tax-free lump sum at any time from the normal minimum pension age to the age of 75. Most DC pension funds also permit income drawdown before the age of 75, allowing holders to take a taxable income direct from the pension fund, up to a maximum amount set by HM Revenue & Customs (HMRC). The remainder of the fund must be used to purchase an annuity or an Alternatively Secured Pension.¹⁹

¹⁷ The normal minimum pension age is currently 50 but by April 2010 it will be increased to 55.

¹⁸ See Section 1.2.5 for further detail on the wake-up letter.

¹⁹ Before April 2006 the tax-free lump sum had to be taken at the same time as the fund was annuitised. Since April 2006, however, it is possible to take all or part of the tax-free lump sum and leave the rest in the pension fund, to be annuitised at a later date. Alternatively, Secured Pensions were not a topic for this piece of research and no participant mentioned them.

The principal exception to this rule applies to DC pension funds of an aggregate value less than £16,000 in 2007, i.e. £16,000 is the total value of a single or multiple pension fund held by the individual.²⁰ In this case, trivial commutation rules apply, meaning that the entire pension fund can be taken as a cash lump sum; 25 per cent of this is paid to the individual tax free, the remainder being taxable.²¹

1.2.3 What type of annuity to buy

There are a number of different types of annuity available, offering different income options over a specified period, usually for the life of the annuitant. The decision to purchase a particular type of annuity is irreversible. The number of annuity products offered, and their features, differ by provider.

Two fundamental decisions affect individuals' choice of annuity:

- whether they wish their pension to continue to support a partner after their death or to pay out only during their own lifetime;
- whether they wish pension payments to remain at the same value for their whole lifetime or, at the cost of receiving lower initial monthly payments, either to keep pace with inflation or to increase in value by a set percentage each year.

Table 1.1 shows the basic annuity types associated with these choices.²²

²⁰ This represents one per cent of the maximum value of pension savings that can benefit from tax relief. This will increase to £18,000 by 2010.

²¹ As individuals with pension pots of this value do not face the same annuitisation decisions as individuals with larger funds, they are excluded from this study. See Section 1.4.1 for further details.

²² Adapted from HM Treasury (2006), *'The Annuities Market'*.

Table 1.1 Basic annuity options available

Decision type	Annuity type	Description
Whether to support partner after annuitant's death	Single-life	Single-life annuities pay out an agreed annuity payment to the annuitant only during their lifetime.
	Joint-life	Joint-life annuities pay an agreed annuity payment to an annuitant and then to the annuitant's partner after the annuitant dies. Following the death of the annuitant, the contract pays either the same amount or an agreed reduced amount for the remainder of the partner's lifetime.
Whether payments should keep pace with inflation	Level-term	Level-term annuities continue to be paid at the same level, no matter the rate of inflation.
	Inflation-linked	Inflation-linked annuities increase the annual payments by the rate of increase in the Retail Prices Index (RPI), to give payments some protection against inflation.
	Escalating	Escalating annuities increase by a fixed percentage year on year, to give the pensioner some protection against inflation and to allow for possible increased income needs as the annuitant ages.

Other annuity types available vary somewhat by provider and given the large, and increasing, number of products available it is impossible to list them all here. The most common annuity types are listed in Table 1.2. Some are available as either single-life or joint-life annuities, although this does vary depending on the precise characteristics of the product offered by the provider.

Table 1.2 Common alternative annuities available

Annuity type	Description
Guaranteed	Guaranteed annuities provide an annuity payment each month for the length of the guarantee period, even if the annuitant dies before the end of that period; in this case, the guaranteed annuity payments can continue to be paid to another person. The maximum guarantee period is ten years.
Investment-linked	Investment-linked annuities involve the fund backing the annuity being invested in an equity product. The annuitant receives an annuity payment that is related to the performance of the equity market.
Impaired-life	Impaired-life annuities pay an increased annuity payment, if the annuitant has health problems such as cancer, chronic asthma, diabetes, heart attack, high blood pressure, kidney failure, multiple sclerosis and stroke.
Phased	Phased annuities mean that instead of converting the whole pension fund at once, withdrawals are scheduled to be made from it over the course of several years, with the fund being split into a number of separate segments.
Short-term	Short-term annuities allow use of part of a pension fund to buy a fixed-term annuity lasting up to five years. Individuals can choose level-term, inflation-linked or escalating options. The remainder of the pension fund remains invested for annuitisation at a later date.

1.2.4 Whether to buy an annuity from a current pension provider or from an alternative provider using the OMO

It may be financially advantageous for individuals to purchase their annuity from a provider other than their existing one. All DC pension scheme providers are required, in the wake-up letter, to tell customers about their right to exercise the OMO.

Independent sources of information are available for individuals to compare rates offered by different providers²³ but in addition to these rates there may be other, non-transparent charges and fees that reduce an annuity's effective income.

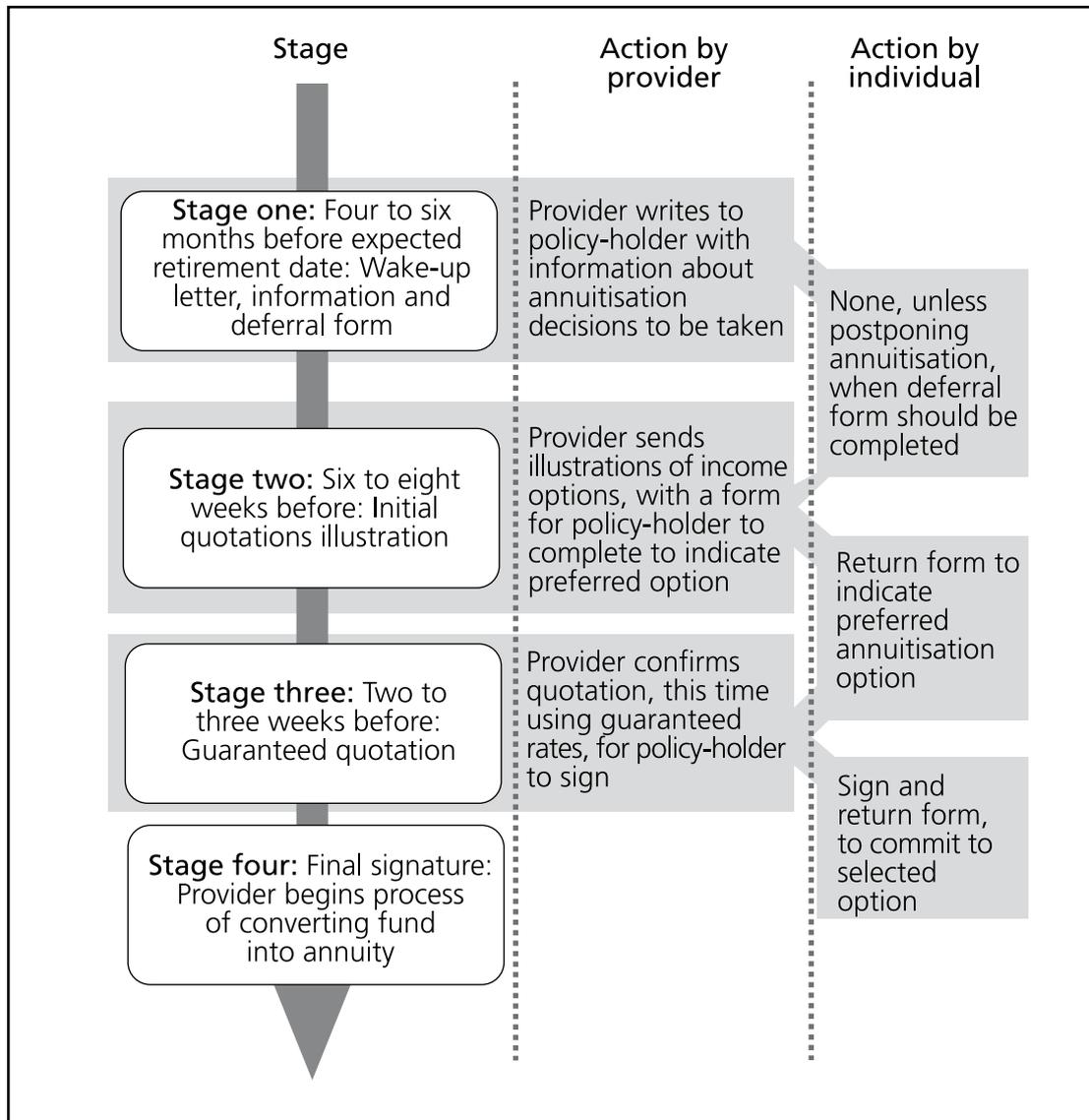
In some cases, this is because the original pension provider may charge a fee if the pension fund is transferred. Little publicly available information exists on the extent of these fees across the annuities market as a whole. In other cases, delays of several months in switching provider can occur. Since back-dating of annuity payments is not permitted, this may cause an effective loss of retirement income.

1.2.5 Steps of the annuitisation process, as operated by the providers in the study

Figure 1.1 describes the stages that prospective annuitants must go through, as they make decisions about whether and, if so, how to annuitise their fund.

²³ The Financial Services Authority (FSA) provides impartial tables to compare annuity products from different companies at <http://www.fsa.gov.uk/tables>

Figure 1.1 Steps of the annuitisation process



The information provided at Stage One varies by provider but typically includes the following:

- a company brochure, which outlines the income options the provider offers;
- an 'annuitisation timetable', outlining the steps of the annuitisation process;
- a deferral form, allowing individuals to postpone annuitisation, if they wish to do so. If so, they must state in this form their new expected annuitisation age or date;
- confirmation that the individual may purchase their pension from another provider;
- a recommendation that the individual take independent financial advice before committing to a particular income option.

In some cases, further information leaflets are also included, such as one from the FSA.²⁴

At Stage Two the individual has not yet selected their preferred annuity product, or decided whether they wish to take a cash lump sum. Information from participants showed that the providers participating in this study handled this stage differently in terms of the number and detail of illustrations provided. For example, one provider gave just one initial illustration based on standard assumptions, whereas another gave up to 24 initial illustrations, each based on different combinations of options. Quotations provided at this stage are not guaranteed and are subject to recalculation.

The provider can only proceed to Stage Three – issuing a guaranteed quotation – once the individual has responded to indicate their preferred annuity product. Rates provided at this stage are typically guaranteed for between seven to 28 days, depending on the provider.

Stage Four – the provider converting the fund into an annuity – culminates in the annuitant receiving the first of their regular pension payments. This should normally happen within a few weeks. Depending, however, on the time taken by the provider to complete the transfer of funds, the annuitant may not begin to receive payments as early as this.

An individual may choose to exercise the OMO at any stage before returning a final signed annuity contract to the existing provider, at which point they are bound to take the annuity with the existing provider.²⁵ Exercising the OMO may cause further delays to the overall timeline.²⁶ Even if a delay is experienced, payments are not backdated.

1.2.6 How individuals' complex circumstances at the point of retirement may make it appropriate to take independent financial advice

Sections 1.2.1 to 1.2.5 have already demonstrated that the process of annuitisation involves several stages and several separate decisions, if annuity choices are to be well-informed. This may constitute reason enough for guidance from an IFA or other sources of publicly-available financial information for what is an important and irreversible decision: the selection of an annuity.

For a variety of other reasons too, it may be in individuals' interests to take independent financial advice as part of their annuitisation decision-making:

²⁴ The current FSA guide to retirement options is available at http://www.moneymadeclear.fsa.gov.uk/pdfs/retirement_options.pdf

²⁵ Providers typically request that they are contacted as soon as possible after sending the wake-up letter, if the individual wishes to purchase elsewhere.

²⁶ In this study one annuitant experienced a delay of 12 months for a variety of reasons (see Section 5.4.2).

- Decisions about annuitising a DC pension may need to be taken within the context of other, possibly many, decisions as retirement age approaches, including if, when, and over what period of time, to reduce time spent in paid employment; and when to take the State Pension. These are clearly decisions which influence whether it is in an individual's best interests to postpone annuitisation of a private pension fund, for example.
- Drawing a private pension while still in work has tax implications. Calculating the total amount of income tax that would be due on total income from employment, from the State Pension, from any private pension and from any other sources may be beyond an individual's ability. Again, considering deferring annuitisation may be appropriate.
- Many individuals hold multiple private pensions in addition to the State Pension.²⁷ The experience of annuitising one pension may not be a good guide for annuitising another. Co-ordinating annuitisation of two or more pensions may also be complex.

As many IFAs take commission relating to annuitisation decisions from the eventual annuity provider, no fee is normally charged directly to individuals. Except in some cases where the pension fund value is very low, the cost of advice is incorporated into the purchase price of the annuity, whether or not the annuity is purchased through an IFA. This means that in most cases, professional advice pertaining to annuitisation decisions can be available to individuals without them incurring high, upfront fees.

1.3 Research objectives

Section 1.2 discussed the potentially complex decisions and processes faced by individuals who are approaching retirement. The research project was designed to investigate and understand both individuals' understanding of these choices and trade-offs and the kind of information that would help them in this decision-making process. The research was conducted among individuals who had recently made an annuitisation decision and among individuals facing such a decision imminently. As described in Section 1.4.1, these participants in the study are referred to as 'recent annuitants' and 'prospective annuitants' respectively.

The questions the research sought to answer concerned levels of understanding of available options; awareness and use of sources of information; the process of decision-making and the ability to make informed choices:

- How are decisions about annuitisation being made now?
- Do individuals coming up to annuitisation seek information and advice?

²⁷ For example, in this study, one individual held seven private pensions in addition to the State Pension.

- Of which sources of information and advice are annuitants aware, even if they have not used them? What trust do they have in, or place on, these sources, and how do information and advice, when received, impact on decision-making?
- What do individuals need, and want, to know in order to make advantageous choices? When, and how, should they receive this information and advice?
- Do people understand the options available to them in terms of when to annuitise and the range of annuity products?
- In particular, are individuals aware of, and do they understand, the OMO? What affects their decision to exercise, or not to exercise, the OMO?
- Overall, what misunderstandings exist among those facing annuitisation decisions and how can any misunderstandings be overcome?
- What levels of financial capability exist among annuitants and how does financial capability affect their decision-making?
- When and how best should information be communicated to individuals about annuities and the annuitisation process?
- What are other motivations for making decisions around annuitisation? Which factors do individuals take into account? For example, do they take into account their health, their dependants, other assets, debts, the impact on any state (means-tested) benefits and annuity rates at a given point?

Although this study was designed to focus only on DC fund annuitisation, wider decisions about when to retire from work and to take the State Pension inevitably impacted upon individuals' annuitisation decisions and we report participants' comments on these, in particular in the case studies in Appendix A.

1.4 Project methodology

The project was qualitative in nature and comprised 60 in-depth interviews conducted in person with recent and prospective annuitants between early October and early December 2007.

The research was conducted in five stages, which are summarised in turn in Sections 1.4.1 to 1.4.5:

- setting eligibility criteria;
- sample-sourcing via six pension providers;
- telephone screening and appointment-setting;
- face-to-face interviewing using a topic guide;
- analysis and reporting.

1.4.1 Eligibility

The two core eligibility requirements were to do with fund value and with timing of the annuitisation decision in relation to the timetable for the research.

Firstly, the research targeted individuals who had a **fund valued at between £15,000 and £100,000**:

- If the aggregate of an individual's private pension rights totals less than £16,000, so-called trivial commutation rules apply, meaning that the entire pension pot can be taken in cash. At the time of designing the study, the cut-off limit was £15,000, and this accounts for DWP's decision to make £15,000 the lower end of the fund eligibility range.
- A pension fund value of £100,000 would on average, based on current actual rates, pay a pension of around £7,000 a year after annuitisation, if no lump sum were taken. The upper end of the range was selected with the aim to exclude from the research individuals with well above average income in retirement.

Many individuals hold more than one pension other than the State Pension. When the sample was received from the providers, we could not know what other pension funds the individuals in the sample might hold with other providers. Although the research, therefore, focused on decisions surrounding funds of the value £15,000-£100,000, the individuals in the study may also have had other provision in place.

Individuals with an expected total personal income in retirement in excess of £40,000 a year were also excluded from the study,²⁸ because such individuals were considered unlikely to face the same difficult decisions and trade-offs that individuals on lower incomes face.

In addition, potential participants in the research needed to be **recent annuitants or prospective annuitants**:

- For the research findings to be meaningful, participants needed to have been through the process of annuitisation recently enough to remember what they had done or to be facing a decision in the near future.
- Recent annuitants are defined as having made an annuitisation decision three to nine months ago.
- Prospective annuitants are individuals who had just received a wake-up letter to alert them to the option of making decisions about annuitising in around four months' time.

²⁸ This included all sources of income, including money earned, any benefits received and income from other sources. Individuals who were unable to estimate their approximate income in retirement were allowed to qualify for the study.

Prior to receiving sample from the providers, we had hoped to interview an even split of both occupational and personal pension scheme policy-holders among both prospective and recent annuitants. The uneven distribution of available sample meant that the actual breakdown of annuitant and scheme types was slightly different from this, as Table 1.3 shows.

Table 1.3 Number of participants by annuitant type and scheme type held

	Prospective annuitants	Recent annuitants	Total
Occupational pension scheme policy-holders	16	11	27
Personal pension scheme policy-holders	17	16	33
Total	33	27	60

1.4.2 Sample from pension providers: opt-out procedures followed

To identify eligible individuals for this study, we worked with pensions providers who had kindly agreed to provide sample.

To ensure a spread of customer types across a range of providers and administrative practices, a number of providers were asked to take part in the research by providing samples of recent and prospective annuitants. Six agreed to do so.

Providers followed data protection guidelines in providing sample for the study. They first identified from their records individuals who would be likely to qualify for participation in the study, namely individuals who had annuitised their fund in the last six months (and hence, by the time of interview would have done so in the last three to nine months) and individuals who were about to receive a wake-up letter.

Providers then wrote to all identified contacts. In some cases this letter,²⁹ to explain the purpose and nature of the study and DWP's sponsorship of it, was sent with the wake-up correspondence. The letter also **provided individuals with the opportunity to opt out of the research**, by returning a freepost opt-out slip to the provider within three weeks.

Providers deleted from their lists of identified individuals those who had opted out, before forwarding contact details for prospective and recent annuitants to the research team at RS Consulting.

²⁹ A copy of this invitation letter is included at Section B.1.

1.4.3 Telephone screening and appointment-setting

Sample was provided in batches to RS Consulting and screening could then take place, from late September to late November 2007.

We managed sample and conducted screening interviews that lasted four minutes on average, in order to achieve useful interviews among a good mix of individuals fulfilling the two core eligibility criteria.

The screening questionnaire was designed principally to:³⁰

- verify the core eligibility criteria: fund value and status as a prospective or recent annuitant;
- exclude any candidate who was unaware of having a pension or an annuity with the provider or who did not know whether that pension was personal or occupational;
- confirm whether the pension under discussion was personal or occupational;
- exclude any candidate who expected to have a total personal income of over £40,000 a year in retirement;
- confirm marital status and financial responsibility for a partner in retirement;
- confirm gender;
- confirm willingness to participate and set a time for a depth interview to be conducted in their home or at a public venue of the participant's choice.

Of 148 individuals contacted for a screening interview, 51 refused to participate in the research, 37 were screened out as ineligible and 60 were confirmed as eligible and willing to participate.

1.4.4 Face-to-face depth interviews

The interviews, using similar topic guides for prospective and recent annuitants,³¹ lasted around an hour on average, although some participants actively wished to discuss the subject for longer in interviews lasting up to two hours. Participants received a **thank you** of £30 as a personal cheque or charity donation.

The first ten interviews (five with prospective annuitants and five with recent annuitants) were conducted by the core project team, allowing the topic guide and interviewing procedures to be fine-tuned. The remaining 50 depth interviews were carried out by RS Consulting's executive interviewers.

Topics covered in the interviews were primarily:

- financial circumstances and involvement with pension decisions;

³⁰ A copy of the screening questionnaire is included at Section B.2.

³¹ The topic guides are included at Sections B.3 and B.4.

- awareness of available options (e.g. postponing annuitisation, taking a lump sum payment, types of annuity) and of the perceived benefits and disadvantages of these options;
- reactions to these options specifically in terms of personal financial circumstances;
- the process of decision-making: factors the individual will take, or took, into consideration, and what the process is likely to involve, or did involve;
- types of information and advice likely to be used, or which were used, and their source and helpfulness;
- unmet needs for information and advice;
- suggestions for improving decision-making about annuities and annuitisation.

Given the nature of the study, it was necessary for interviewers to understand what options participants were aware of without biasing their responses by revealing what these options were. Consequently, care was taken to ensure that questions about awareness and understanding were covered before discussing decisions taken or planned, and the reasons for these.

In addition, all awareness questions were open-ended, so as not to reveal possible answers. For example, when participants were asked, '*Which different types of annuity were available to you for you to choose between?*' available annuity types were not revealed by the interviewer as possible answers.

1.4.5 Analysis and reporting

The depth interviews were taped and transcribed by each interviewer. From transcriptions, interview write-ups were produced by the core research team, who were able to clarify any apparent inconsistencies in the transcription or ask the interviewer to call back the participant for further information, as interesting themes were emerging from the research programme as a whole.

These write-ups, which included selected verbatim comment, were organised around a number of broader topics and more specific topics within these. The broad topics were the participants' background in terms of work and financial provision for retirement; their attitudes to pensions before annuitisation and any thoughts they had had about annuitisation decisions; the choices they had now made or were planning to make in relation to annuitisation; the sources of information they had used, or were using, and the impact of information on their decision-making.

The write-ups served two purposes in analysis and reporting: Firstly, the detailed structure of the write-ups facilitated analysis of topics and themes across the 60 observations. Secondly, selected write-ups could be converted into shorter case studies illustrating themes that emerged among the participants in terms of their financial awareness and engagement with annuitisation; these case studies are included in Appendix A.

It was considered important to interview both recent and prospective annuitants, because they could provide insight into annuitisation decision-making from slightly different perspectives: what had they experienced, and did they feel satisfied with the process, compared to what their experiences are now, and what are their thought processes in planning for annuitising. Recent and prospective annuitants are not discrete groups as such; rather, they are individuals at slightly different stages in a decision-making process. This study has not revealed differences in the behaviour of recent and prospective annuitants and reporting is mainly at the level of all annuitants.

The analysis has been based on what participants have told us. Annuitants' perceptions are important, even if they may be poorly informed. If, for example, we report as commonly held a more or a less favourable view of an information source, this is because more of the participants held this view. It does not necessarily follow that this is a view that might be shared widely by financial services experts. Indeed, it is a strength of the research that non-lay readers will be able to recognise where information sources are being understood and where they are being misunderstood by their intended audience.

1.5 Profile of participating annuitants

Table 1.4 profiles the 60 individuals who participated in the research. Interviews were conducted with a close to even split of prospective and recent annuitants. Around half of each of these two groups had a personal pension, while the other half had an occupational DC pension.

All other characteristics were allowed to fall out naturally, in line with the sample available. The sample captured a wide range of individuals of varying characteristics and backgrounds, including pension fund value and expected retirement incomes. The main points to note were:

- low fund value is sometimes, but not always, linked with low household income before and after retirement; this serves as a reminder that the study is designed around interviewing individuals about one relatively small pension fund (which may not be their sole pension provision), not individuals who have low household income. Participants typically expected the pension under discussion to provide less than 30 per cent of their income in retirement;
- average household income at the time of interview was just over £36,000. Recent annuitants had a lower income on average than prospective annuitants, because they were more likely to have stopped working or to have reduced their hours of work. Over one-half of recent annuitants were continuing to work full-time or part-time; however
- around one in three participants appeared to be reasonably or very financially aware. Of these, two-thirds had relatively large pension funds with a value of £40,000 or more.

Other characteristics of the participants were that:

- two-thirds were men;
- most were married;
- almost all were aged 59 to 65; very rarely they were slightly older than this.

Table 1.4 Profile of participants

Annuitant number	Annuitant type	Pension type	Sex	Marital status	Fund size	Household income
1	Prospective	Personal	Male	Married	>£15k-<£40k	<£40k
2	Prospective	Personal	Male	Married	£40k-£100k	£40k+
3	Prospective	Personal	Female	Single	£40k-£100k	£40k+
4	Prospective	Personal	Female	Divorced	>£15k-<£40k	Not specified
5	Prospective	Personal	Female	Single	£40k-£100k	£40k+
6	Prospective	Personal	Male	Married	>£15k-<£40k	£40k+
7	Prospective	Personal	Female	Married	>£15k-<£40k	<£40k
8	Prospective	Personal	Male	Married	>£15k-<£40k	£40k+
9	Prospective	Personal	Male	Married	>£15k-<£40k	<£40k
10	Prospective	Personal	Female	Married	£40k-£100k	£40k+
11	Prospective	Personal	Male	Co-habiting	£40k-£100k	Not specified
12	Prospective	Personal	Male	Married	£40k-£100k	<£40k
13	Prospective	Personal	Male	Divorced	>£15k-<£40k	<£40k
14	Prospective	Personal	Male	Married	>£15k-<£40k	Not specified
15	Prospective	Personal	Female	Married	>£15k-<£40k	£40k+
16	Prospective	Personal	Female	Divorced	>£15k-<£40k	£40k+
17	Prospective	Personal	Female	Married	£40k-£100k	<£40k
18	Prospective	Occupational	Female	Married	>£15k-<£40k	<£40k
19	Prospective	Occupational	Male	Married	£40k-£100k	<£40k
20	Prospective	Occupational	Male	Married	£40k-£100k	£40k+
21	Prospective	Occupational	Male	Married	£40k-£100k	£40k+
22	Prospective	Occupational	Male	Married	>£15k-<£40k	£40k+
23	Prospective	Occupational	Female	Married	>£15k-<£40k	£40k+
24	Prospective	Occupational	Female	Married	>£15k-<£40k	<£40k
25	Prospective	Occupational	Male	Married	>£15k-<£40k	<£40k
26	Prospective	Occupational	Male	Married	£40k-£100k	£40k+

Continued

Table 1.4 Continued

Annuitant number	Annuitant type	Pension type	Sex	Marital status	Fund size	Household income
27	Prospective	Occupational	Male	Married	>£15k-<£40k	£40k+
28	Prospective	Occupational	Male	Married	£40k-£100k	<£40k
29	Prospective	Occupational	Male	Married	£40k-£100k	<£40k
30	Prospective	Occupational	Male	Married	>£15k-<£40k	<£40k
31	Prospective	Occupational	Male	Married	>£15k-<£40k	£40k+
32	Prospective	Occupational	Male	Married	>£15k-<£40k	£40k+
33	Prospective	Occupational	Male	Married	£40k-£100k	<£40k
34	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
35	Recent	Personal	Female	Single	>£15k-<£40k	Not specified
36	Recent	Personal	Female	Divorced	>£15k-<£40k	<£40k
37	Recent	Personal	Male	Married	£40k-£100k	<£40k
38	Recent	Personal	Female	Divorced	>£15k-<£40k	Not specified
39	Recent	Personal	Female	Married	>£15k-<£40k	<£40k
40	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
41	Recent	Personal	Male	Married	£40k-£100k	<£40k
42	Recent	Personal	Female	Married	>£15k-<£40k	<£40k
43	Recent	Personal	Female	Married	>£15k-<£40k	£40k+
44	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
45	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
46	Recent	Personal	Male	Married	>£15k-<£40k	£40k+
47	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
48	Recent	Personal	Male	Married	>£15k-<£40k	<£40k
49	Recent	Personal	Male	Married	>£15k-<£40k	Not specified
50	Recent	Occupational	Male	Married	>£15k-<£40k	<£40k
51	Recent	Occupational	Male	Single	>£15k-<£40k	Not specified
52	Recent	Occupational	Male	Married	£40k-£100k	£40k+
53	Recent	Occupational	Female	Married	>£15k-<£40k	<£40k
54	Recent	Occupational	Male	Married	£40k-£100k	<£40k
55	Recent	Occupational	Female	Married	>£15k-<£40k	£40k+
56	Recent	Occupational	Male	Married	£40k-£100k	£40k+
57	Recent	Occupational	Male	Married	>£15k-<£40k	<£40k
58	Recent	Occupational	Male	Married	>£15k-<£40k	<£40k
59	Recent	Occupational	Male	Married	>£15k-<£40k	<£40k
60	Recent	Occupational	Male	Married	£40k-£100k	<£40k

1.6 Purpose and limitations of the project

1.6.1 The research is qualitative, not quantitative

The study is wholly qualitative in nature and focuses on a specific section of the population. It is designed to explore individuals' experiences at annuitisation in depth.

The study does not attempt to report on the number of individuals holding a particular view or having a particular set of experiences. The qualitative nature of the research and the make-up of the sample means that the research cannot provide statistical data relating to the frequency of views across the general population. The aim of qualitative research is to define and describe the range of issues encountered, rather than to measure their prevalence.

1.6.2 We can comment on whether decisions made by annuitants were informed but not whether they were correct

The aims of this research are to understand how individuals make decisions about annuitisation, where they go for information and/or advice and what they need to know to make sound choices. The research was not designed to evaluate whether the decisions annuitants took led to 'positive' or 'negative' outcomes for them.

Where relevant we point out that participants were themselves satisfied, or dissatisfied, with the outcome of the annuitisation process; this is not necessarily a measure of 'success' or 'failure', because a participant may, for example, have been unaware that alternative, more favourable options were available.

In many cases, we are able to conclude as researchers that participants did or did not make an 'informed decision', depending on whether participants took decisions based on what appeared to us to be comprehensive information that was relevant to their circumstances.

The study did not include review of annuitants' decisions by independent financial experts. This report does not, therefore, comment on the appropriateness of decisions. For example, we may comment that an annuitant with a serious medical condition had not known about or purchased an impaired life annuity; we can conclude that the decision to take out a different annuity had not been fully informed but we cannot conclude that the decision had been wrong.

1.7 Report plan

Chapters 2 to 6 of this report cover the following:

- attitudes to annuitisation: seven groups of annuitants are identified among participants, based on a combination of attitudes to retirement and financial capability;

- decisions taken as annuitisation approaches, including when to retire and when to take a pension and awareness of annuitisation options;
- information and advice used;
- problems and issues affecting decision-making about retirement, including misunderstanding around annuitisation, personal circumstances and problems perceived to be created by providers;
- conclusions on priorities for change.

Appendix A contains 21 case studies that highlight the cross-section of participants interviewed and includes participants that exemplify each of seven annuitant groups, or 'types' identified, see Chapter 2.

Appendix B contains the materials used to conduct the research, namely the letter to participants to explain the purpose and nature of the study and the screening questionnaire and topic guides used to conduct the interviews.

2 Attitudes to annuitisation

Chapters 3 to 6 refer to the effects on decision-making of both annuitants' ability to deal with financial information and their level of engagement with the annuitisation process of the pension fund in question. Both of these factors had a considerable impact on the way in which individuals understood and handled the information available to them. For example, in Section 3.3.3 we point out that the least financially knowledgeable participants were often unclear as to the difference between level-term and escalating/inflation-linked annuities.

In assessing participants' financial awareness and knowledge and their level of engagement we needed to use our own interpretative skills as qualitative researchers. No single specific measures of financial knowledge and level of engagement were sought. Rather, all available evidence, which could differ by interview, was used qualitatively to place participants along a broad continuum from less to more financially knowledgeable, and less to more engaged.

Knowledge, behaviour and characteristics used to assess financial knowledge included (broadly in decreasing order of importance):

- the ability to talk clearly and in detail about the financial decisions annuitants faced at retirement;
- an understanding of what happens when a pension fund is converted into a retirement income;
- explicit comments from participants as to their own ability to understand and deal with financial information, and their own confidence that they would make decisions that were appropriate for them;
- awareness of the main types of annuity, of the open market option (OMO) and of the option to postpone annuitisation;
- additionally, the profession of some participants, for example accountancy and financial services, implied a high degree of financial knowledge.

Behaviour and characteristics used to assess level of engagement with the annuitisation process included (broadly in decreasing order of importance):

- the importance to the participant of the pension fund in question, relative to their other expected income sources in retirement;
- the amount of consideration given to converting this pension fund into an income, including sourcing information;
- their level of involvement in monitoring the pension fund value in the years prior to annuitisation/retirement.

By examining the way the participants in this study approached or handled annuitisation, we have been able to segment them into seven groups, or types, on the basis of financial literacy and their engagement.

These seven groups, shown in Figure 2.1, cannot be extrapolated to a wider universe of annuitants; this qualitative research study has not been designed to identify if certain characteristics, such as gender or income or profession, are predictors of behaviour toward annuitisation. Rather, the groups serve to demonstrate that a wide range of behaviour does exist among individuals in respect of annuitising a pension pot of £15,000 to £100,000. The labels simply help to place individuals on that spectrum.

The more engaged and the more financially knowledgeable an individual is, the more likely they will make an informed decision that is probably a good decision for them. Hence, **Maximisers**, one of the labels on Figure 2.1, typically plan for retirement and monitor the value of their fund; because they engage with the annuitisation process and use a number of information sources to understand their options, often including an independent financial adviser (IFA), they make calculated, informed decisions and they are pleased with the retirement income they achieve.

Conversely, those with little financial awareness and knowledge and who fail to engage with the decision-making process, are either not making choices (by accepting without question the default annuity offered by their provider) or are making poorly informed choices that may not be the ideal choice for their circumstances. Such are the **Resigned** who do not engage with the annuitisation process, because they believe little can be done to affect the amount of income in retirement the plan will provide. Such a view is not necessarily reflective of any inherent cynicism toward pensions or retirement saving but may develop over time or be triggered by learning, for example, at some point in the years before annuitisation that a fund value was far less than expected.

Figure 2.1 Attitudinal segments among annuitants participating in the study

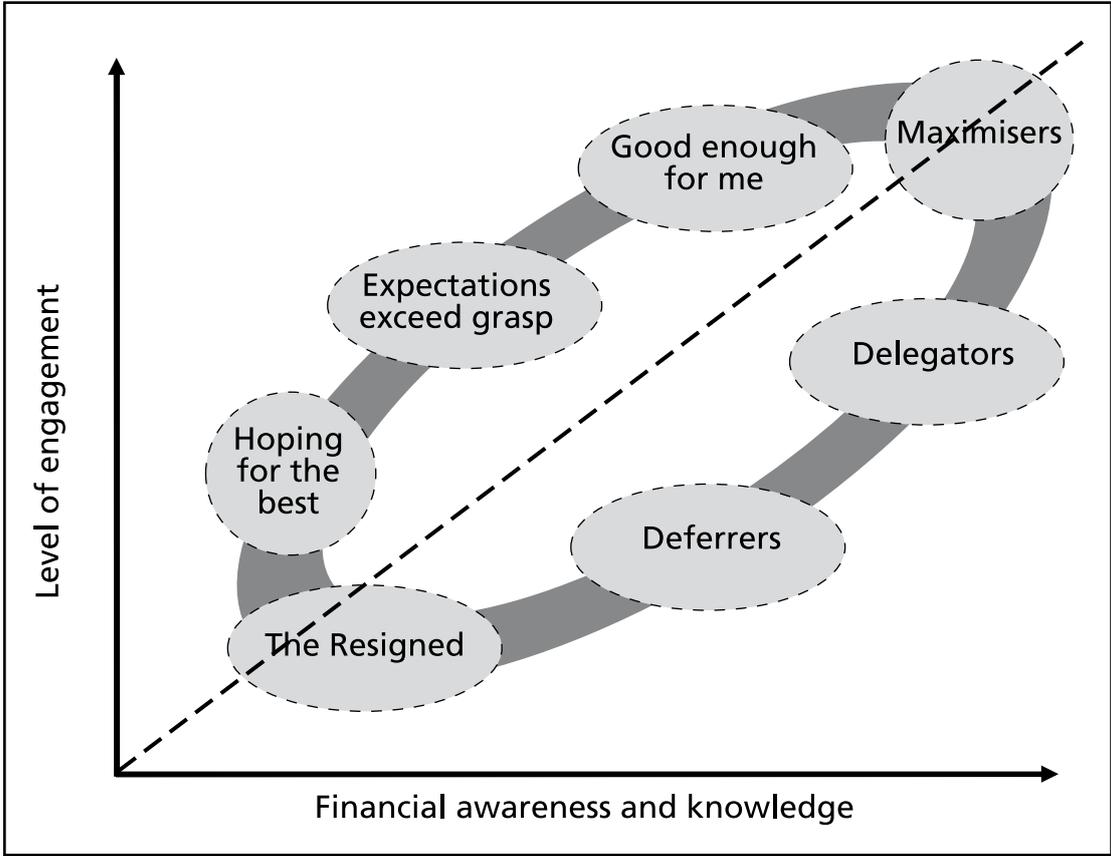


Table 2.1 illustrates the behavioural and attitudinal traits that distinguish the seven groups of annuitants.

Table 2.1 Behavioural and attitudinal traits of segments

Segment	Pension pot size within the range £15,000 – £100,000	Income	Financial knowledge (about pensions)	Pension planning for retirement	Use of an IFA before retirement	Information	OMO	Typical outcome
The Resigned	Small end of the range	Although pot is very small, income is not necessarily low	Low. Believe little can be done when annuitising to achieve more retirement income	Minimal – but may now regret not saving more	Rare. Reject seeking expert advice, although may have met with an IFA to discuss other investments	Few, if any, sources used. Likely to ignore information sent by provider. Ignore information that appears complex	Rarely aware; even more rare to exercise	May miss options of potential benefit but had few expectations to begin with so end up indifferent rather than disappointed
Hoping for the best	Typically small end of the range	Typically below average	Little knowledge of pensions or annuitisation process. Want a good pension but may remain ignorant, or retain fundamental misunderstandings	Want a good pension but confused by whole subject of pensions and little thought is devoted to retirement or pension	Rare	Use provider information and 'casual' advice from colleagues, friends or family. Wait for information to arrive or seek but do not know where to look. Often find information too complex.	Unaware, or may only find out by chance. Do not use OMO	Lack of understanding causes problems. Likely to sign default option without consideration (or without ever knowing that other options were available)

Continued

Table 2.1 Continued

Segment	Pension pot size within the range £15,000 – £100,000	Income	Financial knowledge (about pensions)	Pension planning for retirement	Use of an IFA before retirement	Information	OMO	Typical outcome
Expectations exceed grasp	May be any size within the range	May be any size	Limited knowledge of process and options. Misunderstandings common	Want to maximise pension; may look at fund statements in years before retirement but unlikely to think about how much income it will provide	Rare – but may use other professional sources, e.g. solicitor	Use information from provider and sometimes from press or media. Attempts to piece together a strategy using information sources often result in misunderstanding, and demotivation	Usually aware. Most consider but do not use	Usually reach broadly acceptable solution but ignore more complex options that may have been advantageous
Good enough for me	May be any size within the range	May be any size	May or may not be financially literate but have basic understanding of options available	Take an active role in trying to maximise income from fund	Frequent	Typically use multiple sources, often including an IFA. Basic understanding means information is needed only to fill gaps in understanding; this is usually achieved successfully	Usually aware and investigate	Ultimately end up satisfied that they made the most pragmatic decision possible, although may be disappointed in value of pension

Continued

Table 2.1 Continued

Segment	Pension pot size within the range £15,000 – £100,000	Income	Financial knowledge (about pensions)	Pension planning for retirement	Use of an IFA before retirement	Information	OMO	Typical outcome
Deferriers	Small but may have other sources of income that make this pension of relatively minor importance	Often above average	Limited – decisions are all deferred to someone else	Want to minimise involvement with entire process	Usual	Sources used are usually limited to IFA or spouse	Often aware (find out from IFA) but do not usually act on information	IFA usually ensures acceptable outcome, but more favourable outcomes may be missed without individual's engagement
Delegators	May be any size within the range	May be any size	Have a basic level of understanding. Any feeling of preparedness is a direct result of the IFA's input and does not stem from belief in their own literacy, however	Typically monitor the fund and care about maximising value of pension but do not want to carry responsibility for achieving this maximisation	Usual. Will make effort to spend time with an IFA before making decision	Use an IFA and provider information and become aware that pension maximising pension income is possible and worthwhile. Often put off by excessive or complex provider information and rely on IFA	Tend to be aware but unsure about switching providers	IFA secures good outcome that is satisfactory to individual
Maximisers	Large within the range. Often have other pension pots, and/or alternative income sources	Typically higher income brackets	High – often through experience gained in the workplace	Typically plan for retirement for years. Monitor fund; have understanding of income it is likely to provide	Usual – long before retirement approaches. Or may consciously decide to 'go it alone'	Use an IFA and a variety of other sources. Deal well with all information provided	Aware and investigate, but still unlikely to use OMO	Reach a rational, calculated, advantageous decision

3 Decision-making and awareness of annuitisation options

Section 1.2 described the options that are available to annuitants as they approach retirement and the process that they have to go through as they make these decisions.

This chapter looks at participants' awareness of these options and discusses the decisions that recent annuitants have made, and that prospective annuitants are in the process of making, about when to stop working; what type of annuity to buy; whether to take a cash lump sum, and whether to investigate, or exercise, the open market option (OMO).

3.1 When to convert a pension and stop working

Every individual who invests in a pension must decide at what point to retire from work and when to convert the pension fund into an income.

The decisions to retire and to annuitise need not be made at the same time, however. It was usual for participants to be in some kind of paid work, particularly the prospective annuitants. Those with smaller pension funds were more likely than those with larger funds to be in employment.

Many chose to continue in full-time paid employment or stop work completely at the time of annuitising, with others choosing to reduce working hours in a more gradual way, for example by giving up a full-time job to do part-time work in its place.

Recent annuitants were typically satisfied with the decision they had made about when to stop or reduce time spent at work. It was when the individual had been denied the opportunity to make this decision themselves that negativity arose; this was typically because of redundancy or illness or, in one case, company policy.

'I took the only decision I could. With my redundancy, I had no option but to take the pension and decisions had to be made quickly.'

(Male; recent annuitant; >£15k – <£40k fund value)

3.1.1 Continuing in full-time work

Recent annuitants who continued in full-time work and prospective annuitants who planned to do the same were influenced by a number of personal factors, including:

- the participant could not afford to reduce the amount of income earned and was obliged to stay at work on a full-time basis;
- the participant enjoyed good health or did not yet feel that the time was right to consider stopping work or becoming a pensioner;
- the participant wanted to remain active and sought to achieve this by continuing to work on a full-time basis.

Some of those who worked in full-time jobs would have preferred a part-time position but this was not an option with their employer.

'The company I am with now might not be happy at me reducing hours. In my type of work, I could start working part-time and be paid accordingly, but would probably end up working full-time hours and not be paid for it.'

(Male; prospective annuitant; >£15k – <£40k fund value)

3.1.2 Stopping work altogether

Annuitants who had chosen, or planned, to go from full-time employment to stopping work completely, were often driven by a wish to 'be retired' in the conventional sense: to substitute all previously earned income for that yielded by a pension.

Some of the participants had been in full-time employment for as many as 50 years and explained that they had simply reached a point where they were ready to leave the world of work.

'I thought, "I'm 65, do I really want to go on any more?" You have to stop sometime. It just became the obvious thing to do.'

(Male; recent annuitant; £40k – £100k fund value)

These participants had typically paid off their mortgage and perhaps also begun to receive income from another pension, such as a final salary scheme. These individuals were now able to enter retirement in relative financial security.

In contrast, some participants had been forced to stop work by circumstances beyond their own control, including poor health and redundancy.

'I have stopped working. ...I did not consider reducing my time. My [health] condition, I felt, compromised safety for me and my colleagues.'

(Male; prospective annuitant; £40k – £100k fund value)

3.1.3 Working on a part-time basis

Some recent annuitants had chosen to exchange full-time for part-time work, with several more prospective annuitants stating their intention to do the same.

Although it was rare for participants to mention phased retirement explicitly, the switch to part-time work was often perceived as a transition to full retirement. Some participants wanted to 'wind down' gradually from full-time employment, while some wanted to keep active or feared that an immediate change from full-time work to no work at all would result in boredom.

'I had [major surgery] nearly four years ago, which redefined my life. That forced me into three months off work and when I went back I was able to cut down to a four-day week, and then a two-day week, and eventually stopped. It was great to be able to wind down that way.'

(Male; prospective annuitant; £40k – £100k fund value)

3.2 Awareness of the option to defer annuitisation

Participants were generally aware that it was possible to defer annuitisation. This was especially true of prospective annuitants and those with pension funds at the higher end of the scale under study.

Of those who were aware that annuitisation could be postponed, it was usual to annuitise as soon as the opportunity arose. Often a major incentive was the opportunity to take control of the cash lump sum. Some participants put the lump sum to a specific use; others simply wanted to take responsibility for this proportion of the investment themselves, rather than leave it with the provider.³²

Some participants were forced by current circumstances such as redundancy or illness to annuitise, because they needed to replace income from paid work.

'Sick pay wouldn't pay all the bills, so I decided to cash in my pension.'

(Male; recent annuitant; >£15k – <£40k fund value)

'I was thinking of working up to 65 and then taking my pension, but I was made redundant. I spoke to one of the trustees and he recommended I take my pension now.'

(Male; recent annuitant; >£15k – <£40k fund value)

³² See Section 3.3.1 for more detail.

It was rarer for participants to postpone annuitising the pension fund. Those who did tended to have smaller pension pots and postponed annuitisation with the intention of increasing the fund value. In exceptional cases participants were so bewildered by the choices with which they were faced that they decided to delay making decisions at all by deferring annuitisation.

'I switch off as soon as I read or hear anything about pensions, because I don't understand. ...I suppose that's one of the reasons why I don't want to retire: the money will be useful, but I don't want to have to make the decision either. ...I feel quite inadequate in making the decision.'

(Female; prospective annuitant; >£15k – <£40k fund value)

It was rare for participants to be unaware that postponing annuitisation is a possibility. These participants believed that they had no other option than to take the pension at a prescribed age, sometimes referring to the point where they 'had' to take the pension they were discussing. These participants tended to be among the less financially knowledgeable in the sample.

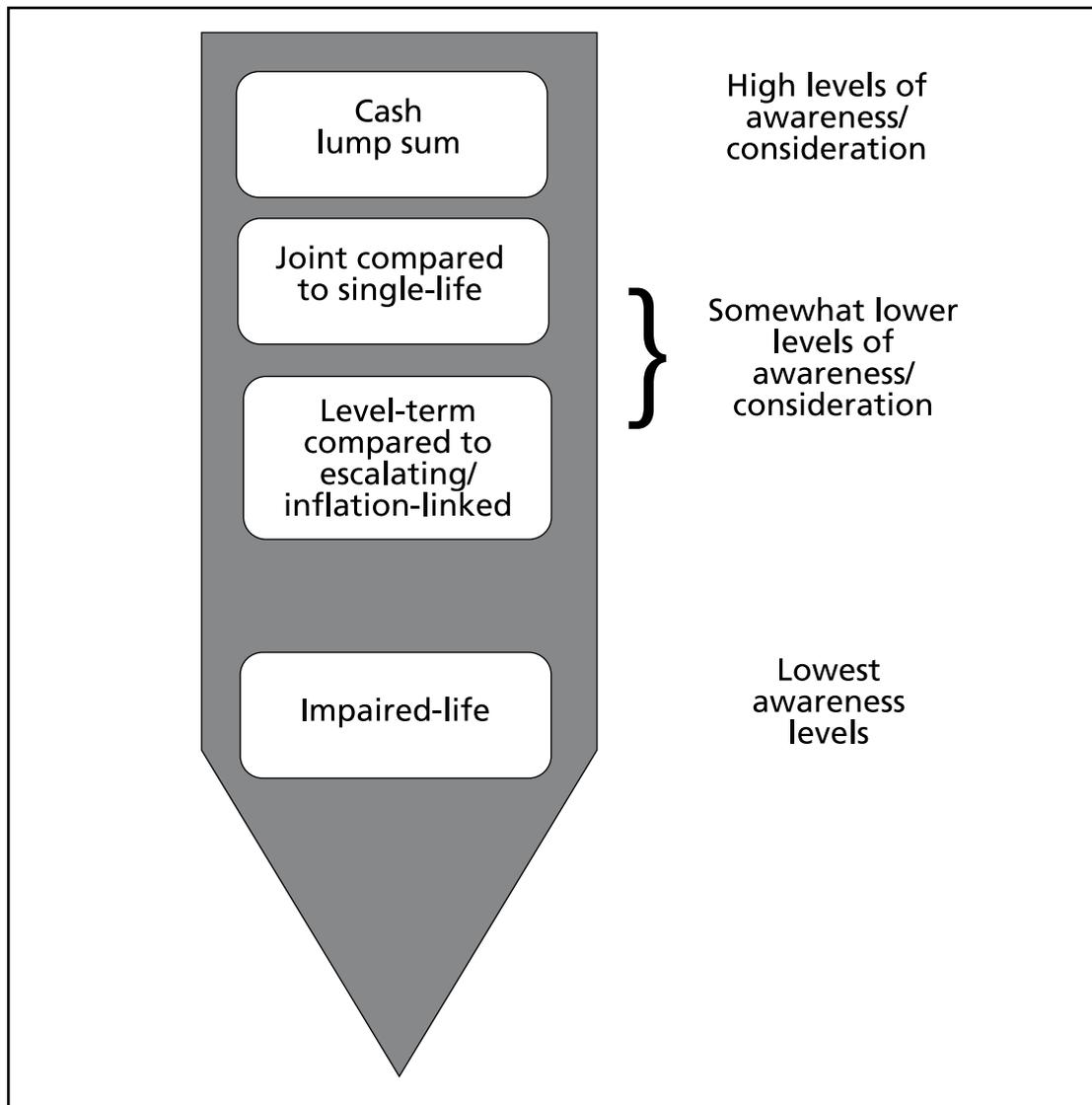
3.3 Awareness of different types of annuity

Participants were asked to describe the ways in which they could choose to receive income from their pension fund. The answers they gave were spontaneous and not influenced by, for example, a list of typical annuity types that they might have recognised.

Participants were usually aware of the option to take part of their investment as a tax-free cash lump sum and of the difference between single-life and joint-life annuities. Some participants were also aware that annuities could pay an income that was either fixed or inflation-linked/escalating. Awareness and understanding of other annuity types and of income drawdown was low, however, particularly among participants who did not have a high level of financial understanding.

Generally speaking, participants had considered taking the options of which they were aware. Figure 3.1 shows the options that participants were aware of and had considered; these options are discussed further in Sections 3.3.1 to 3.3.3. Awareness of impaired-life annuities was noticeably lower; these are discussed in Section 3.3.4.

Figure 3.1 Awareness and consideration of different annuity types



It was extremely rare for annuitants to demonstrate any awareness of other annuity types such as phased or short-term annuities or index-linked annuities. Participants aware of non-standard types tended to have larger funds and be more financially able.

As Section 3.3.5 describes, some participants were not aware they had any choices to make at all with regard to annuity type.

3.3.1 Cash lump sum

It was usual for participants to choose to take a cash lump sum or intend to do so, typically the maximum available sum of 25 per cent. Two separate sets of motivations were common: those who wished to invest the money compared to those who had a specific purchase in mind.

It was common for participants to be motivated by the wish to have control over as much of the fund as possible, investing it in a manner of their choosing. They often had little faith in their pension provider, or indeed the pensions industry as a whole, and felt that they could, or should, have invested the contributions they had made to their pension more wisely in the first place. The tax efficiency of the lump sum was recognised as attractive to some of the participants who had a reasonable level of financial knowledge.

'I was always going to take as much as I could as a lump sum. If I could take all of it, I would. ...I don't trust the finance industry. It is very much a case of, "You put your money into a pension pot and the Government will give you tax relief, therefore we – the insurance company – will charge you so we get our share of the tax relief." In any other situation where you want to save money, you don't get charged.'

(Male; prospective annuitant; £40k – £100k fund value)

Alternatively, it was common for participants to use the lump sum for a specific investment or purchase. Often, this was a purchase that in some way marked the changes that retirement would make to their life. Some, knowing that they would no longer receive an earned income, made repairs to their homes; others made gifts to their family or to themselves to celebrate their retirement.

It was rare for participants to opt to take a proportion lower than 25 per cent of the fund value as a cash lump sum. When they did so, it was generally with a specific goal in mind, such as a purchase.

Those who decided not to take a cash lump sum typically cited the small size of their fund as their motivation. There was very little misunderstanding about what taking a cash lump sum meant and annuitants rarely thought that they would be able to take the entire fund in cash.

'I wanted to have all my money back, but was told this was not possible.'

(Male; recent annuitant; >£15k – <£40k fund value)

3.3.2 Joint-life or single-life annuity

Married participants considered the decision to take a joint-life or single-life annuity to be one of the most significant in the process and made an effort to understand its implications, both in terms of its impact on themselves and potentially on their partner.

It was usual for recent annuitants who were married to choose joint-life options, with the intention of providing financial security for a husband or wife after their own death.

Married participants who had bought, or intended to buy, a single-life annuity, had taken the decision for one of two reasons:

- another, larger pension scheme had already been annuitised, or ring-fenced, to provide adequate income for a spouse if the policy-holder died;
- to maximise the income this particular pension would pay in the short to medium term.

'My wife is a civil servant, so she has got her own pension. If I roll over, she gets half my RAF pension, and if she does, I get a third of her civil service pension. We realised neither of us was going to be destitute, so I decided to take as much money as I could get.'

(Male; prospective annuitant; £40k – £100k fund value)

3.3.3 Level-term or inflation-linked/escalating annuity

Some participants, especially those with only a basic level of financial understanding, were unclear about the difference between level-term and escalating/inflation-linked annuities. Where awareness was shown, participants tended to prefer level-term annuities and had either purchased one already or were certain they would do so when they came to annuitise. Short-term views predominated, and participants showed a preference for receiving more income now through a level-term annuity, than receiving more in the future through an inflation-linked/escalating annuity.

'I am looking most at a level-lifetime annuity, to get as much money now as I can whilst I am fit. ...I am thinking of getting a small part-time job, if I need to increase my income.'

(Female; prospective annuitant; >£15k – <£40k fund value)

The more financially knowledgeable participants sometimes took a longer-term view and gave consideration to an inflation-linked/escalating annuity, although that did not necessarily lead to them actually purchasing one.

3.3.4 Impaired-life annuities

Some of the individuals interviewed had serious health problems, usually leading to inability to work before reaching State Pension age (SPA) and resulting in the individuals receiving reduced or no income from employment.

It was rare even for those with serious health problems to report awareness of impaired-life annuities and where awareness existed, an application was not always made, sometimes reportedly due to a lack of support in finding an appropriate product.

'I had hoped to get a larger weekly income due to ill health but this did not happen. ...I should have pushed more regarding my claim for an ill health pension. No-one seemed to want to help me.'

(Male; recent annuitant; >£15k – <£40k fund value)

3.3.5 No awareness of choices between different annuity types

A number of participants – both prospective and recent annuitants – believed the annuity type available to them to be predetermined or limited to one or two options. Generally, these individuals explained that their fund size was too low to allow for much flexibility of choice.

'I had no option as the type of annuity was arranged when the fund was set up.'

(Male; prospective annuitant; £40k – £100k fund value)

3.4 The open market option

Participants demonstrated a range of behaviour from those with no awareness of the existence of the OMO, to those who had made an active decision to use it. Participants were usually aware that it was possible to purchase their annuity from an alternative provider but, ultimately, it was not usual to make an active investigation of this option and even more rare for an individual eventually to make the switch from one provider to another.

3.4.1 Aware of the OMO but did not/will not exercise it

Participants were typically aware of the OMO but had decided, or were intending, for a mixture of reasons, to buy an annuity from their existing pension provider.

In many cases, the decision to remain with the original provider was not an active one but could instead be ascribed to inertia or apathy. They did not make the effort to understand the processes involved in exercising the OMO or the impact that it might have on their final pension income. Others assumed the process of changing providers would be an onerous one and that the effort involved would not be worthwhile. Some said that they were satisfied with their pension provider and felt there was no need to switch; this reason was sometimes reinforced by the assertion that the provider was well-known or well-regarded and therefore ought to be trustworthy.

'As I am with [provider] and have something running with them and they came strongly recommended, I would probably choose them.'

(Male; prospective annuitant; >£15k – <£40k fund value)

Participants who had used an independent financial adviser (IFA) during their decision-making process had sometimes been told that exercising the OMO would not be worthwhile and had not pursued it further. Some, especially those who had depended to a significant extent on the input of an IFA, had trusted their IFA to make investigations on their behalf and had remained with the original pension provider without actually studying offers from alternative providers supplied by their IFA.

Some were aware of the existence of the OMO but had made a rather more active decision not to exercise it. These individuals usually thought that switching providers would necessarily be costly or that doing so would reduce the fund's value.

3.4.2 Actively seek information and use the OMO

It was rare for participants to either use, or be confident that they would use, the OMO when annuitising. These individuals were generally more financially knowledgeable and had fund values at the higher end of the scale. They were often prompted to switch by dissatisfaction with their provider.

Grievances with the way that the original provider handled the transfer process itself were also sometimes voiced by annuitants who were exercising the OMO.

'The process has taken from mid-July to mid-September, because suddenly, we want to see birth certificates and marriage certificates. Now, why couldn't they have asked for that back in May? [Provider] have purposefully slowed the process down in order to hold onto my money for as long as possible and to make things as difficult as they can.'

(Male; prospective annuitant; £40k – £100k fund value)

3.4.3 Unaware of the option to purchase an annuity from another provider

The participants who were not aware that it was possible to purchase an annuity from a provider other than the one with which the fund had been invested, were not financially knowledgeable and tended to have lower-value funds. Some had taken the advice of an IFA but in these instances, contact had been minimal or the individual in question intended to postpone annuitisation and did not have to make a decision in the near future. Either they had accepted without question that their annuity would be purchased from the original provider, or they had not noticed any mention of switching in the information sources they had used.

'The company decided what pension scheme we went into. They went into [provider]. The annuity just came from who you paid into.'

(Female; recent annuitant; >£15k – <£40k fund value)

3.5 Summary comments

Although awareness of the options to defer annuitisation and to take a cash lump sum was high, awareness of the other options to be considered when selecting an annuity was somewhat, to considerably, lower, as was the level of understanding of how to exercise the OMO.

3.5.1 When to convert a pension and stop working

Annuitisation is not necessarily linked to retirement. Cases among participants where the two happened concurrently were somewhat infrequent and sometimes involved 'emergency' annuitisation to replace lost earned income, needed because the annuitant's working life had ended unexpectedly due to illness or redundancy.

With regard to employment, many participants either stopped working completely, or continued working on a full-time basis after annuitisation. Others switched from full-time to part-time work before retiring completely; in some cases this was part of a prior plan, while in others it was enforced by personal circumstances.

Under current annuitisation rules, individuals can annuitise their pension at any time between the normal minimum pension age³³ and 75. Participants were typically aware of the option to defer annuitisation, but it was more common to annuitise at the first opportunity than to postpone doing so.

3.5.2 Whether to take a lump sum payment, or not, as part of an annuity

Current annuitisation rules allow most defined contribution (DC) pension fund policy-holders, including all those included in this study, to take up to 25 per cent of their pension fund as a tax-free lump sum at any time from the normal minimum pension age to the age of 75. The remainder of the fund must be used to purchase an annuity.

It was usual for participants to be aware that they had the option of receiving up to 25 per cent of the final fund value as a cash lump sum. It was also normal for individuals to opt to receive the maximum amount available and to have a clear idea of what they wanted to do with the money.

3.5.3 What type of annuity to buy

Two fundamental decisions affect individuals' choice of annuity:

- whether they wish their pension to continue to support a partner after their death or to pay out only during their own lifetime;
- whether they wish their pension payments to keep pace with inflation; to increase in value by a set percentage each year or to remain at the same value

Married participants who were aware of different annuity types typically appreciated the significance of deciding between a joint-life and single-life pension and many selected joint-life products, although some also had reasons for selecting single-life annuities. The decision whether to buy a single- or joint-life annuity product was an important one in the eyes of married annuitants and they made an effort to understand the implications of this choice.

³³ The normal minimum pension age is currently 50 but by April 2010 it will be increased to 55.

Participants appeared to like the 'certainty' they perceived in a level-term annuity and the general preference was for this type, rather than inflation-linked/escalating annuities.

There was little awareness of non-standard annuity types, including impaired-life annuities, even among those who appeared to be eligible to purchase them.

3.5.4 Whether to buy the annuity from their current pension provider or an alternative provider using the OMO

It may be financially advantageous for individuals to purchase their annuity from a provider other than their existing one. All DC pension scheme providers are required, in the wake-up letter, to tell customers about their right to exercise the OMO.³⁴

Participants were usually aware that they had the option to purchase an annuity from a provider other than the one with which they held the pension fund but for reasons that ranged from inertia to loyalty to the current provider, it was not usual for participants to exercise the OMO.

³⁴ See Section 1.2.4 for further information.

4 Sources of information used

The way in which individuals are able to handle the sources of information available to them influences whether or not they take financially advantageous decisions about annuitisation. This chapter investigates the sources of information used by participants and their opinions as to their usefulness.

The participants were sent information about their imminent annuitisation decisions by their pension provider, along with their wake-up letter. This provider information fell into two broad categories:

- generic written communications, e.g. brochures and leaflets (see Section 4.1);
- personalised retirement income projections (see Section 4.2).

Participants usually also recalled having received information from the Department for Work and Pensions (DWP) pertaining to their State Pension, including a State Pension forecast. Although this information was not necessarily relevant to annuitising the defined contribution (DC) pension scheme covered in this study,³⁵ participants often compared the information from the DWP to information from the providers and so it is instructive to examine participants' reactions to it. This is done in Section 4.3.

Other sources of printed information used, such as guidance from the Financial Services Authority (FSA), press articles and online information are covered in Section 4.4.

It was usual for participants in the study to have used an independent financial adviser (IFA) at some point in relation to saving for retirement but they did not necessarily do so when annuitisation was imminent. Section 4.5 examines when and how independent financial advice was used in annuitisation decision-making.

³⁵ This study focused on annuitisation decision-making for funds valuing £15,000 to £100,000. Participants may have had other pension schemes, including larger funds that contributed more to their income.

It also reports on participants' perceptions of the value an IFA brings to that decision-making.

4.1 Generic written communications from the provider

The participants were sent written information about their options as annuitisation approached and about the procedure followed by their provider. For individuals who had not used an IFA prior to receiving the wake-up letter, particularly the least financially knowledgeable, this provider information was commonly the first and only source of information they recalled receiving and consequently, they had had little or no prior expectation about the procedure. The typical content of the information is set out in Section 1.2.5; it had to cover a range of scenarios and was seen by some as being quite complex.

Some of the most financially knowledgeable participants in the study were very positive about the usefulness of the information received from the provider. These individuals typically confirmed that they were already experienced, or at least confident, in comparing the features of financial products. They considered the information to be comprehensive, clear and useful, and found that the communication of the various annuity types – usually in tabular form – made it easy for them to compare their options.

Many participants, however, were of the opinion that the provider information was overly complicated and difficult to understand. The degree of criticism was necessarily influenced by the individual's ability to cope with financial information. Nevertheless, the research has revealed six causes of participants' difficulties with the information about annuitisation:

- Many felt that the documents were laden with financial terminology and did not use plain English.

'The brochures made absolutely no sense to me whatsoever. I didn't have a clue what I was filling in – it was as simple as that. ...It should be written in normal, everyday English with less jargon. You can't trust anything you can't understand.'

(Male; recent annuitant; >£15k – <£40k fund value)

'You're not talking the same language that they're talking. Their jargon uses words like "annuity". What does the word mean?'

(Male; recent annuitant; £40k – £100k fund value)

- Some saw the information as a confusing mass of paperwork and forms, feeling that the sheer quantity of information provided, including the small print, made it impossible for them to cope. The less financially knowledgeable found it impossible to pinpoint information that they considered relevant to their own personal circumstances: they felt that a high proportion did not pertain to them.

'You are buffeted with investments and pensions and "Do this" and "Do that". There is just so much paperwork to go through. I just stalled and went for the easy option and made a decision on the information in front of me at the time.'

(Female; prospective annuitant; >£15k – <£40k fund value)

- Some felt that the information seemed to underplay important practical guidance, most significantly with regard to the option of using an IFA. All providers recommended individuals to use an IFA prior to taking final decisions on annuitisation but some participants felt that providers did not describe clearly how they could access independent financial advice.
- Similarly, some participants who were aware of the open market option (OMO) mentioned that wording in the provider literature seemed to assume that individuals would annuitise with the current provider.

'I got the letter two weeks ago and it's a month till I retire. The main letter referred to [provider] being the provider of the annuity, which I know isn't necessarily the case. I expected them to say, "You haven't got to get your annuity with us" and "We would like to present what we offer, in as favourable terms as possible in comparison with others." Well I don't think I've actually had that.'

(Male; prospective annuitant; £40k – £100k fund value)

- Finally, although not a criticism of the written communications themselves, it is worth noting that some felt that the fact that the wake-up letter was sent four to six months before the scheduled annuitisation date meant that they did not have enough time to consider their options.

'It would have been better to receive it earlier, to give me time to decide, "When I am 65, this is what I want to do." I think they should give it to you about two years before.'

(Male; prospective annuitant; £40k – £100k fund value)

Faced with these issues, individuals' approaches to dealing with the information varied depending on their own financial knowledge and their level of engagement in the annuitisation process. We explored these different approaches in Chapter 2. Ultimately, however, some participants reported that the information left them floundering and that they 'switched off' and eventually gave up on trying to understand. Consequently, they may never have been fully aware of the range of options available to them. This may have led to specific problems in some cases: we discuss these in Chapter 5.

4.2 Personalised retirement income projections

Providers sent prospective annuitants personalised projections of weekly or monthly annuity payments in retirement before they were required to commit to a particular annuity type. These projections were based on standard assumptions. Participants typically recalled receiving them.

Some, in particular the more financially knowledgeable, found the projections to be clear and helpful. The projections were seen to be the 'real' information that they needed, i.e. how much pension they would receive after they retired and how the decisions they needed to take would affect its value. In some cases, annuitants went on to request further projections based on alternative assumptions.

'They were extremely useful because they laid out exactly what I could expect to get. I looked at them and analysed where I was going to get the best returns. I asked for more examples.'

(Male; recent annuitant; £40k – £100k fund value)

In other cases, however, participants were unable to make best use of the information provided. This happened for various reasons:

- some did not recall receiving the projections. This usually appeared to be because the sheer quantity of written communications from the provider (as detailed in Section 4.1) meant that the projections simply got lost in the information;
- while some recalled receiving projections, they were put off by their complexity, and were unable to understand, or unwilling to take the time to understand, their significance;
- some providers only gave income projections based on particular types of annuity. Sometimes these projections were based on annuity products that individuals were not considering and felt they would be unlikely to choose.

'The quotations are not correctly tailored, and sometimes it's unclear why providers make the assumptions they do.'

(Female; prospective annuitant; >£15k – <£40k fund value)

4.3 Information from the Department for Work and Pensions on the State Pension

The aims of the DWP State Pension information are very different from the aims of provider information. The DWP aims to provide relatively straightforward information on State Pension forecasts and these do not initiate the same complex decision-making processes as the provider information does.

Participants had typically received a State Pension forecast from DWP prior to making decisions about retirement: some received a forecast automatically; some had requested one.

Participants were asked about the forecast **after** discussing the provider information. Consequently, the DWP information was often compared favourably with the provider information: it was seen as tailored to their own circumstances, using clear language and to leave few questions unanswered.

'It was very useful. It was well laid out and all the information was there, so I knew what information they were basing the pension on.'

(Male; recent annuitant; >£15k – <£40k fund value)

Some participants, however, also commented that receipt of the State Pension forecast was academic, since there was nothing they could do to change the value of their State Pension, or at least, no pointers were given, they said, as to action that could be taken.

4.4 Other sources of printed information

Other sources of printed information were used more rarely. Some recalled receiving, along with their provider wake-up letter, an information leaflet from the FSA regarding their annuitisation options.³⁶ The more financially knowledgeable found this useful for comparing advanced annuity types that may not have been offered by their particular provider. Some, however, particularly the less financially knowledgeable, found the FSA leaflet difficult to understand, often commenting on its use of financial jargon. Others dismissed it as being aimed for a 'specialist' audience, not the average person.

Some of the more financially knowledgeable participants had used and trusted financial supplements in broadsheet newspapers as a source of information for many years. These individuals often used these successfully as sources of information in the run-up to retirement as well. Those who were not already readers of such publications did not mention starting to use them in relation to decisions about annuitisation.

4.5 In-person information and advice from an independent financial adviser

The participants in the study had commonly used independent financial advice in relation to saving for retirement in the years before they needed to make annuitisation decisions. This included individuals whose IFA had been provided by their employer and those who had arranged an IFA themselves.

Participants who used an IFA in relation to annuitisation decisions had typically used an IFA before for other investment and retirement planning.

Those using an IFA as a source of information and advice about annuitisation typically considered the advice and information to be extremely useful, and frequently said an IFA was the single most useful source of information that they had used. The principal advantages of using an IFA were seen to be:

³⁶ The current FSA guide to retirement options is available at http://www.moneymadeclear.fsa.gov.uk/pdfs/retirement_options.pdf

- IFAs cut through the terminology and explained it in terms understandable to individuals. They did not attempt to baffle with jargon.

'It was useful to have someone to talk to who understands what you're going through, who understands how and why things are relevant and what the terminology means.'

(Male; prospective annuitant; £40k – £100k fund value)

- Their active involvement made the whole annuitisation process easy for many.
- IFAs encouraged those who would otherwise have adopted default solutions to consider and adopt options better suited to their own circumstances and goals.

'He helped me to actually make decisions and get a better deal than I would have done had I blindly signed up to an annuity from [provider].'

(Male; prospective annuitant; £40k – £100k fund value)

- In particular, IFAs helped individuals to understand information that generic communications could not, e.g. the tax implications of annuitising a pension before stopping work.
- In comparison to the providers, IFAs were sometimes seen as impartial.

'I am assuming that he is an independent financial advisor and is not going to come back and just offer me [IFA organisation] products.'

(Female; prospective annuitant; £40k – £100k fund value)

IFAs' involvement suited several groups of individuals. The financially knowledgeable knew how to make best use of an IFA to explore options and achieve the best possible returns. The less financially knowledgeable could use an IFA to explain information that they otherwise would not have comprehended. Those who understood their options but did not wish to spend time dealing with annuitisation, discovered that they could delegate much of the process to an IFA.

The participants who did not use an IFA appeared to fall into four categories:

- some participants were confident in their own ability to make correct decisions for themselves and so actively chose not to use an IFA;
- some had simply never considered using an IFA or were not aware that using one was an option;
- some did not know how to contact an IFA, despite being recommended to use one by their provider;

- finally, for some participants fear of out-of-pocket costs was a deterrent to using an IFA.³⁷

4.6 Summary comments

There is some variation in terms of how useful the participants found the sources of information relating to annuitisation that were available to them:

- many found the generic information sent to them by their provider to be overly complicated, difficult to understand, too voluminous and sometimes not directly relevant to them;
- although the retirement income projections sent by the provider were often seen as helpful and relevant, especially by the more financially knowledgeable, they were sometimes not used because the individuals had already been turned off by what they perceived as excessive information;
- those who used an IFA typically found the information provided to be clear, impartial and relevant; it helped them to come to decisions they considered to be financially advantageous.

Individuals' abilities to use several sources of information available to them, to help them make financially advantageous decisions as retirement drew near, were linked largely to their own financial knowledge. The more financially aware tended to know what information to seek, where to go for it and how best to use it.

For some of the less financially knowledgeable, however, the printed information they received from their pension provider with the wake-up letter was the only source of information they had about their retirement options. In many cases we know from participants that important messages, such as making use of an IFA or considering exercising the OMO, were not noticed or were misunderstood.

³⁷ As many IFAs take commission relating to annuitisation decisions from the eventual annuity provider, no fee is normally charged directly to individuals. Except in some cases where the pension fund value is very low, the cost of advice is usually incorporated into the purchase price of the annuity, whether or not the annuity is purchased through an IFA. This means that in most cases, professional advice pertaining to annuitisation decisions can be available to individuals without them incurring high, upfront fees.

5 Problems that affected decision-making about retirement

Chapter 3 explored participants' awareness of the options available to them in terms of when and how to annuitise a pension fund and reported the decisions that they took. Chapter 4 looked at the information they used as they made these decisions and their own opinions as to their usefulness: it found some variation in terms of how valuable they found the sources of information and also showed that some of the less financially knowledgeable participants missed or misunderstood important information pertaining to their decisions.

It appears that lack of clear, useful information is often a contributory factor to a number of specific problems that affect decision-making around annuitisation. The problems the participants encountered fell into four categories; these are explored in this chapter:

- problems caused by a lack of knowledge or a misunderstanding (Section 5.1);
- personal circumstances adding complications (Section 5.2);
- established attitudes and patterns of behaviour impeding a reasoned approach to decision-making (Section 5.3);
- problems perceived to be created by providers (Section 5.4).

This chapter also considers how and why the problems arose and to what extent the quality of information that was available to individuals contributed to these.

5.1 Problems caused by a lack of knowledge or a misunderstanding

Fundamental misunderstandings or problems caused by lack of knowledge were the most wide-ranging of those reported. Individuals whose degree of financial awareness was relatively low were the most likely to make false assumptions and

were also the least likely to understand and use the information available to them and so to be able to correct these false assumptions.

Although the different problems were numerous, the three most common are examined in Sections 5.1.1 to 5.1.3, with other less common misconceptions summarised in Section 5.1.4.

5.1.1 Independent financial advisers' advice about annuitisation was thought to involve paying high, out-of-pocket fees

The misunderstanding that was mentioned most frequently was the belief that taking advice about annuitisation from an independent financial adviser (IFA) would necessarily involve high, out-of-pocket fees.³⁸ Participants with low levels of disposable income, such as those who had been, or were still, in low-paid jobs, were reluctant or unable to pay for financial advice that they believed would be expensive.

This deterred them from seeking advice.

'It's possible to shop around, but I'd have had to consult an IFA, which would have cost money that I really couldn't afford.'

(Male; prospective annuitant; >£15k – <£40k fund value)

The information given to individuals by the providers did not always dispel this belief. Providers' printed information recommended individuals to use an IFA prior to taking final decisions on annuitisation but some participants reported that they did not describe how individuals should go about this.

Without an IFA's guidance, it appeared that some participants made less well-informed decisions about when to annuitise, which annuity types to select, and whether to consider using the open market option (OMO).

5.1.2 Small funds were thought to allow, or to merit, little active decision-making

Some participants believed that funds at the smaller end of the scale, typically with fund values below £40,000, allowed only a limited range of choices about annuity types or that decisions about annuitising such funds were financially inconsequential because of the fund's modest size. In reality, while for some the pension pot in question may indeed have been inconsequential, for others decisions that were not well-informed, such as whether to take a lump sum or

³⁸ As many IFAs take commission relating to annuitisation decisions from the eventual annuity provider, no fee is normally charged directly to individuals. Except in some cases where the pension fund value is very low, the cost of advice is usually incorporated into the purchase price of the annuity, whether or not the annuity is purchased through an IFA. This means that in most cases, professional advice pertaining to annuitisation decisions can be available to individuals without them incurring high, upfront fees.

to take a fixed or escalating annuity, may in fact have had a significant impact on their retirement income.

There was no evidence that the belief that choices were inconsequential was in any way generated or supported by information given by the provider. Instead, it often coincided with disappointment about the value of the pension fund having led to a sense of resignation. The consequence of this was typically that individuals gave little consideration to the options available to them and paid less attention to the information sent to them by the provider. They believed that any decisions they made at such a late stage would have negligible effect on their retirement income. Their views also impacted negatively on their likelihood to consult an IFA.

5.1.3 It was not thought to be worth looking into switching provider because the OMO was complicated and time-consuming

Section 3.4 of this report noted that of the participants who had actively sought information about the effort and potential costs of exercising the OMO, some ultimately chose to switch provider and some did not. In these cases, where decisions appeared to be well-informed, some degree of research always took place, often in consultation with an IFA, before a decision was reached.

There were, however, many individuals who were aware of the OMO, but held a preconceived belief that exercising it would be complicated, time-consuming and not worth the effort. This belief appeared to have been reached with little first-hand experience to support it: typically they had learned about the OMO from their provider's literature, which according to participants simply mentioned that individuals had the option of switching provider if they wished, with little further detail given about how to pursue it. Since few other information sources were used by these individuals, neither written information nor an IFA consultation, their decision not to consider the OMO could not be viewed as an informed one, although it cannot be judged to be necessarily wrong.

This scenario was more common among participants annuitising a small fund, where the perceived difficulties of using the OMO seemed even more daunting relative to the amount of additional income that might be achieved. The decision not to pursue the OMO also often coincided with a sense of loyalty to the existing provider, a factor we report in Section 5.3.3.

5.1.4 Other misunderstandings and uncertainties

Several other misunderstandings or uncertainties were embedded in the decision-making processes of annuitants. None of these was frequently mentioned, but nevertheless, the following collection of misunderstandings shows how limited financial awareness and knowledge could be:

- lack of awareness of impaired-life annuities by those with potentially life-shortening conditions, such as Parkinson's disease;

- the belief that annuitisation had to be effected immediately upon retirement from paid employment or that it had to take place after receiving a wake-up letter, i.e. sooner than required, without the option to postpone;
- independent, expert advice about annuitisation could be obtained from an employer;
- at a certain date or age, pensions would be paid automatically, with money starting to come into the individual's bank account, without having to take any action to organise these payments;
- the full value of a pension fund could be taken as a lump sum, in cash, even when the fund value was greater than the trivial commutation amount;
- as annuitisation approached, the pension provider would send an adviser or arrange access to one.

5.2 Personal circumstances adding complications

Section 1.2.6 explained that the decisions faced by individuals as annuitisation approaches can be complex. Many individuals hold multiple private pensions of different types in addition to the State Pension – indeed in this study, many participants held more than one and co-ordinating annuitisation decisions can be complex.

The individual circumstances that led to complications during annuitisation were numerous. Some participants reported that their decisions about annuitisation were complicated because their pension had been started in the 1970s, 1980s or 1990s and obeyed different rules from more recent pensions. Past decisions to contract out of the Additional State Pension were also a source of complication. Participants who were members of defined benefit (DB) schemes that had been frozen also referred to this as an added complication when looking to annuitise their defined contribution (DC) fund. In many cases the participants could not explain clearly the full impact they believed these circumstances had.

Sections 5.2.1 to 5.2.3 examine three specific areas of complexity, and the impact they had on the decision-making process:

- multiple pensions;
- tax on pension income;
- redundancy.

5.2.1 Multiple pensions

Having two or more pensions in addition to a State Pension was common; one participant had seven. Having several pensions to annuitise created problems for the following reasons:

- different procedures often applied to the annuitisation process across schemes of different types held with different providers, requiring greater knowledge and understanding overall;
- prior experience of converting a different kind of pension, for example a DB pension, into an income was not necessarily a good guide for annuitising another pension. In fact, it may occasionally have been responsible for creating false assumptions or expectations about procedures and rules;
- simply co-ordinating annuitisation of multiple funds could be complex or time-consuming and may have been a disincentive for an individual to make the effort to maximise the value of each one.

The most common way that participants with multiple pensions reached an outcome that was acceptable to them was by using the services of an IFA.

'We all think when you reach a certain date, your pensions all click in and it all happens automatically. It was only when I approached that date that I realised there were lots of options. ...[The IFA] discussed with me how those options were likely to be affecting me and my particular circumstances [The participant had four private pension funds in addition to the State Pension.]'

(Male; recent annuitant; £40k – £100k fund value)

5.2.2 Tax treatment of income from pensions varied with circumstances

Participants typically recognised that income from pensions was not tax-free, although many felt it should be. Those who used an IFA to give them tax advice were usually satisfied with the advice they received.

'I've learned through the IFA that there could be other factors to look at, related to tax and benefits to my husband as well. We would have thought that it was not worth doing because it's such a tiny pot. ...But the IFA is helping us to make a financial decision based on the most effective tax implications for all of us. ...He was the most helpful source of information to us because of his range of knowledge – which he used to respond to all our questions.'

(Female; prospective annuitant; £40k – £100k fund value)

Some participants who did not use an IFA failed to factor in taxation when considering their total retirement income and looking at separate projections for two or more funds. Others knew that tax was a factor but did not know how to calculate this correctly.

Typically, the participants who had not thought about tax implications did not think that their decisions would have been, or would be, any different. It is impossible to assess whether this belief is accurate, however, as in reality the tax implications of taking different options, such as taking a lump sum compared to not taking a lump sum, can be considerable.

5.2.3 Redundancy at 50-plus and subsequent unemployment

Unexpected redundancy five, ten or 15 years ahead of expected retirement age, with subsequent difficulty in finding paid work again, shortened the timetable for decision-making about annuitisation for some, out of financial necessity. Affecting men rather than women among participants, redundancy led to annuitisation earlier than expected.

'I took the only decision I could. With my redundancy, I had no option but to take the pension and decisions had to be made quickly. I was not well prepared. I was told what to do. I filled some forms in; the company filled others in. I didn't know what was happening.'

(Male; recent annuitant; >£15k – <£40k fund value)

5.3 Established attitudes and patterns of behaviour impeding a reasoned approach to decision-making

Established attitudes and patterns of behaviour that posed problems for decision-making about annuitisation typically went hand in hand with low levels of engagement when it came to pensions. These were:

- resignation and powerlessness;
- mistrust of the pensions industry;
- loyalty to a specific provider.

Unlike the specific misunderstandings described in Section 5.1, which could sometimes be rectified by the information sources available, these attitudes were more deeply ingrained and proved to be a considerable barrier to appropriate decision-making for those that harboured them.

5.3.1 Resignation and powerlessness

Some participants reported that they had become resigned to a poor result from annuitising their pension and felt powerless to achieve a better outcome. This differed from the misunderstanding described in Section 5.1.2 that small funds merit little decision-making, in that their attitude pertained to their entire personal financial situation, rather than just one fund. It was sometimes rooted in initially unrealistic expectations about the income in retirement that their level of pension savings would achieve, combined with the inability or difficulty of saving more over the long term.

Commonly, the trigger for the sense of resignation was learning at some point in the years before annuitisation that the fund value was far less than expected. Some annuitants expressed regret that they had not saved for retirement in another way.

'My objective was to achieve the same level of pension as my earned income. In the early days of taking out the pension, this seemed possible. Subsequent estimates showed that my projected retirement income would be substantially less – and insufficient. This led me to stop paying into the fund, because I felt unable to make the level of payments required to secure a pension of £15,000 to £20,000.'

(Male; recent annuitant; >£15k – <£40k fund value)

5.3.2 Mistrust of providers and advisers

Some participants had a deep-seated mistrust of the pensions industry that included providers and IFAs. Poor investment performance; scepticism about the quality of advice provided by IFAs paid on commission and previous errors or slights seemed to motivate much of this hostility. Misunderstanding the cost of consulting an IFA about purchasing an annuity may also have encouraged mistrust of them.³⁹

'It's the only business where you pay somebody the same amount regardless of whether they succeed or fail. If somebody doesn't fix my car properly, I don't pay them. But these people [provider] take my money regardless!'

(Male; prospective annuitant; £40k – £100k fund value)

Taking the maximum lump sum upon annuitising a pension was commonly viewed as a means of wresting control of 'my money' from a provider, even when there was no intention of investing for higher returns.

5.3.3 Sense of loyalty to a provider

Feelings of affiliation with a provider, having had a long and unblemished relationship and of liking, based on television advertisements and other favourable publicity, led some to make less well-informed decisions about annuitisation. For these individuals, it was simply easier to believe that a satisfactory outcome would be achieved by purchasing an annuity from their existing provider, than to contemplate the potentially difficult process of searching for an alternative provider.

'I asked [provider] if I had to purchase the annuity from them, in the phone call I made to them. They said, "There are other places you can move your money to, if you want to," but I was happy enough to stay with them. They are such a good, well-recognised company; you see them on TV, and I've never heard of anyone who's had problems with them.'

(Male; recent annuitant; £40k – £100k fund value)

³⁹ See Section 5.1.1.

5.4 Problems perceived to be created by providers

Two specific and major problems were mentioned by participants and attributed by them to providers.⁴⁰

Lack of clarity in the information provided was the most widely-reported problem.

Delays by providers at various points in the process of annuitisation were also said to have impeded decision-making and affected outcomes in a negative way.

5.4.1 Lack of clarity of information provided

Chapter 4 of this report describes several areas in which the information that providers gave individuals as retirement approached was perceived to be lacking, with many participants complaining about literature that was impossible to understand and/or overwhelming in quality. In some cases, participants considered the information to be a barrier to appropriate decision-making. Complaints were made by those who were knowledgeable and engaged in the annuitisation process as well as those who were not. The lack of clarity in provider literature was occasionally said to be intended to confuse policy-holders into accepting a default option when an alternative might have been more advantageous.

'[Provider's information was] a wad of unintelligible garbage. I am a fairly intelligent man. I have a degree, but even the attachments are enough to put someone off and [you] think, "Christ almighty!" They are purposefully designed to confuse you and guide you to just signing the bottom line.'

(Male; prospective annuitant; £40k – £100k fund value)

5.4.2 Delay

Delays by providers at three points in the annuitisation process were mentioned, unfavourably, by some participants:

- Wake-up letters were said to have been sent only a few weeks before the scheduled annuitisation date, rather than four to six months before, as is normal practice. This allowed little time for prospective annuitants to seek information, take advice if they wanted to and weigh up their options. Some felt short notice was designed to favour unquestioned acceptance of annuitising with the provider.

'I had to pester [provider] for information, and eventually received it two weeks before I was due to retire, and so I had to make a hurried decision. If I had made the decision to seek advice from an IFA, I would have needed more time to arrange an appointment.'

(Male; recent annuitant; >£15k – <£40k fund value)

⁴⁰ The research was not designed to verify whether participants' assertions were correct and fair.

- Failure to send routine information until requested, e.g. initial illustrations of income options.
- Payment of an annuitised pension failing to begin when expected.

5.5 Summary comments

The problems that participants faced in the decision-making process were varied, but fell into four principal categories:

- problems caused by a lack of knowledge or a misunderstanding;
- personal circumstances adding complications;
- established attitudes and patterns of behaviour impeding a reasoned approach to decision-making;
- problems perceived to be created by providers.

Lack of knowledge and lack of engagement were both likely to increase exposure to many of the problems affecting the annuitisation process.

A lack of information and advice or poor-quality information, was a contributory factor to most of the problems encountered by participants. Consequently, the conclusions to this report in Chapter 6 focus largely on achieving an effective communications strategy.

6 Conclusions: priorities for change

This report has explored the decisions that participants have taken, or are taking, in the approach to annuitisation, including their consideration of when to retire; when to annuitise a pension and the options they are aware of when it comes to doing so. It has also discussed participants' awareness and use of sources of information and advice.

As we have seen, a variety of problems and issues may affect decision-making. These include misunderstandings around annuitisation, complications introduced by annuitants' personal circumstances and problems perceived to be created by providers.

Based on attitudes to annuitisation and financial knowledge, Chapter 2 segmented participants into seven groups, to illustrate the different ways in which annuitisation decisions may be made.

Decisions surrounding annuitisation are complex and cannot later be reversed. These decisions are, however, often not well-informed. This is often, in part, a result of perceived weaknesses in literature from pensions providers but is also sometimes due to other issues, among them ingrained patterns of financial behaviour; long-standing misconceptions, and complicated personal financial circumstances.

This chapter summarises the findings of the research, leading to our recommendations for 'priorities for change' that are also based on participants' comments.

6.1 Annuitisation decisions are complex and irreversible

The decisions that individuals face as annuitisation approaches are complex and have significant implications for retirement income. Annuitants must take irreversible decisions relating to four principal areas:

- when to annuitise;
- whether to take a lump sum payment or not;
- what type of annuity to buy;
- whether to buy the annuity from their current pension provider or an alternative provider by taking the open market option (OMO).

A fifth consideration for many annuitants is whether to seek information and advice, including, as part of this, exploring the use of an independent financial adviser (IFA). The use of an IFA may be appropriate for many, for example when the annuitisation decision is made in the context of other decisions to do with taking the State Pension, annuitising any other defined benefit (DB) or defined contribution (DC) pensions and understanding the combined tax implications of these and any other income sources.⁴¹

6.2 Annuitisation decisions are often ill-informed

Given the importance of annuitisation decisions, it is crucial that individuals take these decisions on the basis of accurate and appropriate information: in other words, an understanding of the options that are available.

This study highlights some variation in the degree to which participants both engaged with the annuitisation process and, even when they engaged, understood the choices available to them.

Although, overall, awareness of the options to defer annuitisation and to take a cash lump sum was high, awareness of the different types of annuity was lower, as was the level of understanding of how to exercise the OMO and its potential advantages:

- **When to annuitise:** Participants were typically aware of the option to defer annuitisation. It was rare for them to be unaware that postponing annuitisation was a possibility, in other words believing that they had no other choice than to take their pension at a prescribed age.
- **Whether to take a lump sum payment:** Participants were typically aware that they had the option to take up to 25 per cent of the final fund value as a cash lump sum, although, rarely, the belief was also expressed that 100 per cent of the final fund value could be taken as cash.
- **What type of annuity to buy:** Married participants were aware that they could choose between a joint-life or single-life annuity. Other annuity types were less widely understood. Some participants were unaware of the difference between a level-term or inflation-linked/escalating annuity. There was very little awareness of other, non-standard annuity types, including impaired-life annuities, even among those who appeared to be eligible to receive them.

⁴¹ This research did not investigate whether, and for what questions, generic financial advice may be sufficient. See Preface for further background.

- **Whether to take the OMO:** Participants were usually aware that they had the option to purchase an annuity from a provider other than the one with which they held their pension fund but often believed that it would be complicated, time-consuming and not worth the effort to pursue this. In fact, actual awareness of the processes involved in exercising the OMO and of the impact it might have on their final pension income, was very low.
- **Whether to use an IFA:** Individuals knew that they had the option to use an IFA for advice on annuitisation but they often mistakenly believed that taking advice from an IFA would involve high, upfront out-of-pocket fees.⁴²

6.3 Perceived weaknesses in provider literature contribute to less well-informed decisions

The way in which participants were able to handle the sources of information available to them dictated whether or not they took well-informed and potentially more financially advantageous decisions about annuitisation. The more financially knowledgeable tended to know what information to seek, where to go for it and how best to use it.

For many of the less financially knowledgeable, however, the printed information they received from their pension provider with the wake-up letter was the only source of information they recalled receiving about their annuitisation options. For these individuals in particular, the provider information was lacking in certain important ways:

- it was seen as overly complicated, difficult to understand and full of financial jargon;
- the sheer quantity of information was a barrier to using the literature;
- much of the information was perceived to be irrelevant;
- the quantity and complexity of information meant that projections (generally thought useful by participants who read them) were overlooked by some participants;
- the provider literature seemed to assume that individuals would annuitise with the current provider;

⁴² As many IFAs take commission relating to annuitisation decisions from the eventual annuity provider, no fee is normally charged directly to individuals. Except in some cases where the pension fund value is very low, the cost of advice is usually incorporated into the purchase price of the annuity, whether or not the annuity is purchased through an IFA. This means that in most cases, professional advice pertaining to annuitisation decisions can be available to individuals at no extra cost.

- Information about IFAs was not clear on two counts: how to go about accessing IFA advice, and the current market practice that an IFA could usually be consulted about annuity decisions without the individual necessarily incurring high, upfront fees.

The provider information sometimes left participants without an understanding of the range of options available to them and in some cases it was said not to describe how to go about obtaining an IFA.

Those who did use an IFA in relation to annuitisation typically found the IFA to be the most valuable source of information used: clear, impartial and relevant, helping them, in their own view, to come to financially advantageous decisions.

6.4 Other issues can have an adverse impact on decision-making

Lack of clear, useful information was not the only reported issue that either put individuals at a disadvantage during decision-making or made the annuitisation procedure more difficult. Other problems mentioned fell into four main areas:

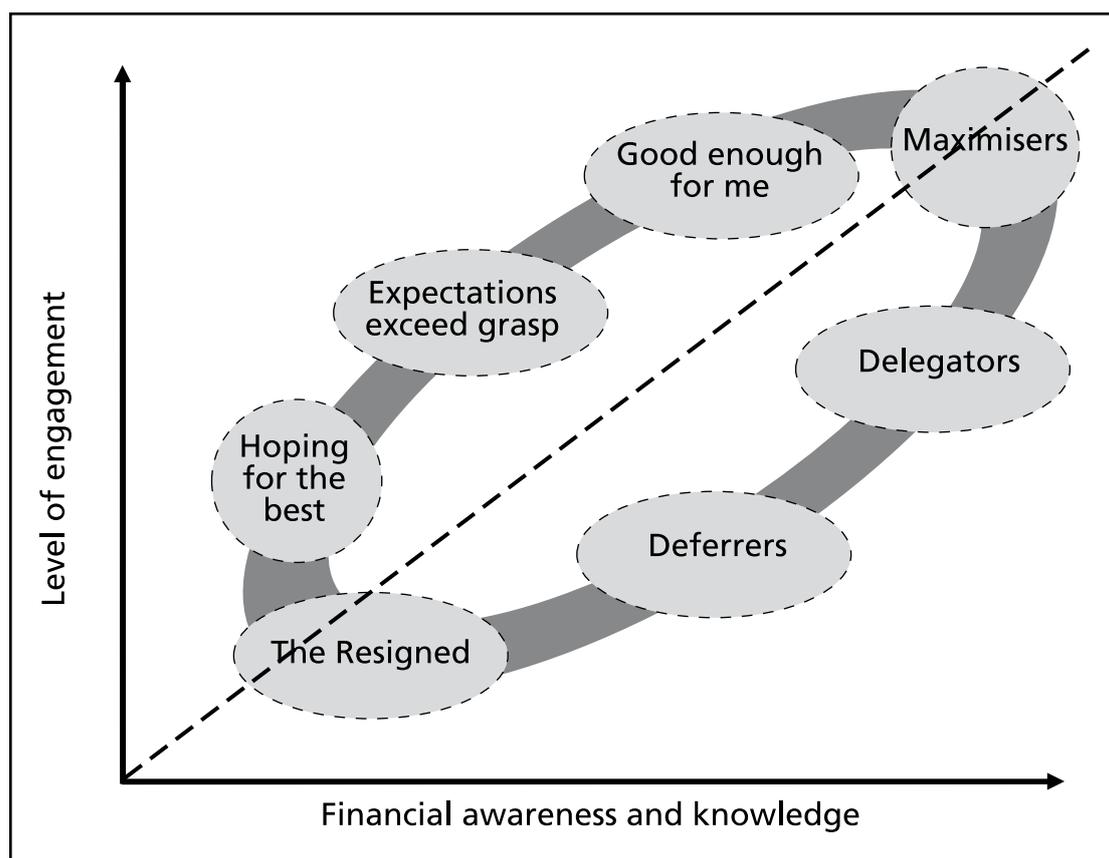
- there was a wide range of specific misunderstandings held by participants that may have negatively affected the choices they made. The most significant was the common belief that smaller pension funds, typically with values below £40,000, allowed only a limited range of choices about annuity types or that decisions made about annuitising them were financially inconsequential;
- in many cases, individuals' personal circumstances added complications. As well as the existence of multiple pensions and complex tax scenarios, unexpected redundancy some years ahead of the expected retirement age, shortened the timetable for decision-making about annuitisation for some, out of financial necessity;
- established attitudes and patterns of behaviour proved to be a considerable barrier to informed choice for some. These included a sense of resignation to achieving a poor result from annuitising their pension; a mistrust of providers and advisers and conversely, in some cases, a sense of loyalty to a provider acting as a barrier to considering the OMO;
- delays by providers at various points in the annuitisation process were also said to have impeded decision-making and affected outcomes in a negative way. These included wake-up letters being sent too near to the scheduled annuitisation date; failure to send routine information until requested; payment

of an annuitised pension failing to begin when expected, and grievances with the way that the original provider handled the transfer process when the OMO was exercised.

6.5 Annuitisation decision-making is influenced largely by financial awareness and knowledge and by level of engagement

Two characteristics drove the way in which participants coped with the annuitisation process: their degree of financial awareness and knowledge and their level of engagement with saving for retirement and the annuitisation process.

Figure 6.1 Attitudinal segments among annuitants participating in the study (repeat of Figure 2.1)



Those who had a high degree of financial knowledge and a high level of engagement with the process, the **Maximisers** in Figure 6.1, typically dealt well with information provided and reached rational, calculated decisions as to which annuity type was likely to be most financially advantageous to them.

Those at the opposite end of the scale, the **Resigned**, believed there was little they could have done in annuitising to achieve more income in retirement; they often ignored information that was available to them. Such a view was not necessarily

reflective of any inherent cynicism toward pensions or retirement saving but may have developed over time or been triggered by something specific. This may have been, for example, learning at some point in the years before annuitisation that a fund value was far less than expected. Also at the low end of the scale with respect to knowledge, the **Hoping for the best** were unable to cope with the information they received. Among both groups, informed choices did not take place.

In considering how the annuitisation experience might be improved for the **Resigned** and the **Hoping for the best**, it is instructive to look at the other attitudinal segments that fall in between the extremes.

On the upper half of the ellipse in Figure 6.1, two segments – **Expectations exceed grasp** and **Good enough for me** – represent individuals whose level of engagement was high relative to their financial awareness and knowledge. Although they tried to use the information available to them to piece together a solution, they often found the annuitisation process and the information provided confusing. For these groups, any improvements in the provider information would lessen a significant barrier to informed choice. Improvements would also benefit the **Hoping for the best**, one of the groups currently least able to cope with the information available.

Improvements to provider information alone would have a lesser impact upon those whose level of engagement was relatively low compared to their financial knowledge: the **Deferrers** and **Delegators**. These groups preferred to rely on others – usually an IFA – to achieve the outcome they desired. Improving access to an IFA might also benefit the **Resigned**, who may be able to achieve a more positive outcome from annuitisation with relatively little effort made themselves.

6.6 The least financially knowledgeable and least engaged have the most to gain from an improved communications strategy

At present, those who are not financially knowledgeable or choose not to engage in decision-making about annuitisation may be making decisions without being aware that:

- at annuitisation they can tailor solutions to their own circumstances and may achieve more satisfactory outcomes as a result;
- they may be able to take advice without out-of-pocket costs.

Even those who appreciate the significance of the annuitisation decisions may not cope well with the provider information, which they often see as only suitable for those confident or experienced in comparing financial products. Facing difficulties in understanding or failing to read provider literature is occasionally compounded by fact that the information is sent later than the participant would have wished, leading to decisions that are hurried and under-informed.

An improved communications strategy would need to achieve two goals:

- **increasing understanding of the options available**, not least for those individuals that show a desire to maximise their pension, but are currently unable to cope with the information provided (the **Hoping for the best and Expectations exceed grasp** segments);
- **increasing awareness, where appropriate, that independent financial advice may not carry high, upfront out-of-pocket costs to individuals**, with a particular focus on those who are unlikely to make significant effort themselves (the **Resigned**).

A revised strategy might consist of the following elements, which we discuss in Sections 6.6.1 – 6.6.4:

- an independent *Key messages* document sent with the provider wake-up letter;
- improvements in information from providers;
- highlighting the availability of taking independent financial advice;
- improving awareness of the OMO.

6.6.1 Independent Key messages document

In many cases, individuals' inability or refusal to deal with the large quantity of information they receive is compounded by the fact that they had not been expecting to receive so much information. A simple document, sent some time before decisions must be taken, explaining the broad options available, could address this issue.

We would suggest that the document might be produced by an independent source of pensions information. Examples might be the Department for Work and Pensions (DWP), the Financial Services Authority (FSA), the Pensions Advisory Service (TPAS) or The Pensions Regulator (TPR). Public sector authorship would ensure consistency of information supplied to all prospective annuitants. The document should highlight the following pieces of information:

- the key message: *'Decisions you take at retirement will have a big effect on the payments you receive for the rest of your life – even if your pension pot is small'*;
- the options to postpone retirement and annuitisation;
- the permitted amount that can be taken as a lump sum and the impact on annuity payments of taking a lump sum;
- basic annuity types;
- how an individual can obtain and compare quotations from providers;

- what happens next and when;
- how to access independent financial advice, without out-of-pocket costs.

In practice this information would need to be sent by pension providers with the wake-up letter, as providers hold details of all their own policy-holders. Although participants generally felt that four to six months before annuitisation was an acceptable time for providers to send the information, where procedural delays occurred, they led to unacceptably hurried decisions. It is, therefore, important that this information is sent no less than four months before the scheduled annuitisation date and ideally earlier, to allow the individual sufficient time to begin to consider the major decisions involved.

6.6.2 Improvements in information sent to prospective annuitants

The information that providers give to individuals before retirement is in some need of standardisation and simplification; it should be written in plain English. More specifically:

- explanations of options need to focus on the benefits for the individual, not the features of the financial product, for example through the use of flow charts or decision trees;
- personalised projections and generic information about options could be presented together; one is of little use without the other;
- the initial projections of monthly annuity payments might be given for basic scenarios and permutations only, to avoid 'information overload': i.e. lump sum compared to none; single-life compared to joint-life; fixed compared to index-linked/escalating;
- income projections for alternative annuity types should not be given automatically, as they are relevant to relatively few individuals. Instead they could be made available on request to those whose needs and circumstances make them relevant.

6.6.3 Highlighting the availability of taking independent financial advice

Even good-quality, publicly-available financial information and advice may not be sufficient for everybody's circumstances, which may be complicated. For example, the tax implications of taking a pension while still working will need to be illustrated on a personalised basis. Face-to-face independent advice was enough to encourage some participants who would otherwise have taken very little action. Conversely, a lack of two-way, face-to-face contact tended to reinforce passivity among the least knowledgeable. The option of taking professional advice should therefore be highlighted in the *Key messages* document.

How IFA advice about annuitisation might be obtained without out-of-pocket costs being incurred should also be highlighted.

This information needs to be sent four months before retirement or sooner, to allow time to make use of the advice available.

6.6.4 Increasing awareness of the OMO

It is too easy for prospective annuitants to assume that they must, or should, annuitise with their current provider. If information about how to exercise the OMO is provided in the *Key messages* document, this will heighten awareness that there are potential advantages to using the OMO.

It should be remembered, however, that in this study, many participants who had taken IFA advice were recommended **against** exercising the OMO. There were isolated cases of individuals exercising the OMO experiencing excessive delays.⁴³

⁴³ See Sections 3.4.1 and 3.4.2.

Appendix A

Case studies

Chapters 2 to 6 referred to the effects on decision-making of annuitants' ability to deal with financial information and of their level of engagement with the annuitisation process. In Chapter 2 we examined the way the participants in this study approached or handled annuitisation and we segmented them into seven groups on the basis of the financial knowledge and engagement that have driven their behaviour.

This appendix includes 21 case studies, including participants who fell within each of the seven groups identified.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
1	Prospective	Personal	Male	Under State Pension Age (SPA)	Divorced	>£15k-<£40k	<£40k

This man, who had had a low-paid manual job, had taken out a pension plan nearly 20 years previously. Although it was his only source of income in retirement other than the State Pension, he had not expected it to contribute a large proportion of his retirement income. Indeed, the fund value was below £20,000, and he now anticipated his personal pension would make up about around 15 per cent of his income in retirement.

'I just took it out knowing that I would just get whatever. And that was it, as far I was concerned.'

He had intended to work 'until I dropped', but heart problems had led to his needing to stop work completely around a year previously. Since then he had been living off his savings, and he had applied for and was awaiting delayed Incapacity Benefit (IB). He was expecting on reaching 65 to both receive a full State Pension

and to be able to take his personal pension into which he was still paying.

He had little awareness of annuitisation options other than that he knew it was possible to take a lump sum. Indeed, as his fund was low, he had considered that it was probably unwise to take a lump sum, in order to maximise the amount he would receive annually.

He did not know about the open market option (OMO). Nor did he know about impaired-life annuities, something which he might have considered given his retirement due to ill health.

He had *'binned'* the provider's literature, after reading a few lines *'about three or four options'* and finding the information incomprehensible. He recalled seeing the word *'annuity'*, for example, but did not know what it meant. He was not IT literate and did not intend to seek information from the web or indeed any other source. Hence, he had one source of information only – the provider's literature – which he had thrown away. Nor did he intend to seek professional advice.

'You needed a solicitor to look at it [the provider's literature]!'

He, therefore, assumed his plan would provide a pension when he was 65 but did not know how this would happen.

This man knew extremely little about annuitising a pension. He had not engaged with pension provision at all, after once taking out the plan and he was also disengaged about taking an income from his pension, expecting simply to take what income his provider sent.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
2	Prospective	Personal	Male	Under SPA	Married	>£15k-<£40k	Not specified

This man was a self-employed tradesman, who worked mainly on an ad hoc basis. He said he was *'sold'* the pension plan by *'an agent'* and based his choice of provider on the fact that some of his colleagues used this company.

This pension plan would be a primary source of income after retirement, along with his State Pension, although he was unable to indicate what proportion the private plan would contribute. He also had some money in savings accounts.

He was not worried about his retirement, as he was confident that his sons would look after him if he found that, once retired, he was not financially secure. He had friends who were at retirement age but many had died while relatively young, which he said had reinforced his *'live for today'* approach to life.

He was disillusioned with his provider and did not trust the company, having little confidence that it would protect his interests. Overall, he had had minimal

involvement with his pension fund, other than being aware that he had received annual statements. He had not considered how the value of his fund would affect his options at retirement. He felt that, as he had little control over the outcome, he would simply *'wait and see'* whether he would be as *'pleasantly surprised'* about its value, as some of his colleagues had been.

He had a limited understanding of annuitisation. He thought it might be possible to take a lump sum and to leave the rest *'to be drawn out on a pension'*. He did not know he could buy his annuity from another provider but said he had a *'clever'* son, on whom he could rely to make the necessary arrangements.

The provider had sent him calculations showing annuity payments if retirement was taken at different ages, but he did not understand the information and had not investigated it further.

'I thought, "Blow it, why should I bother to ring them up? While I'm ringing them, I could be earning more money".'

He had requested a State Pension forecast and, although he felt that the person he spoke to was informative, nevertheless he distrusted the Department for Work and Pensions (DWP).

In terms of information sources, he relied on his sons and the experiences of colleagues and relatives. The other sources, he said, were not helpful. He believed his generation was *'not geared up to pensions like the generation of today'*.

He intended to take as much cash as possible, as this would be more *'worthwhile'* than drawing a pension. He had plans to invest the money either in his son's business or in an individual savings account (ISA), which he believed to be *'the only thing you can invest in'*. He felt that other financial options, such as investing in pensions and building societies, involved a lot of risk. He had not considered what type of annuity he might take.

He preferred to have things explained to him face to face, rather than having to read the information himself. He felt that if his provider had sent over an agent 12 months in advance to discuss his options, he would have been able to make better financial decisions about converting his pension.

Overall he had a very negative attitude to the pensions industry and the way that it managed his money. He also thought that the State Pension system was unfair and would not reward him for having worked so hard. He summed up his attitude to life as *'I live for today, and tomorrow never comes'*.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
3	Prospective	Occupational	Female	Under SPA	Married	>£15k-<£40k	<£40k

This woman had a relatively small pension fund, as she had stopped work for several years to raise her family and also because, when she did work, it was on a

part-time basis. Part-timers were excluded from her employer's scheme for many years but she did join eventually, however, and said this was because she had insisted on being allowed to do so.

She did not know whether she and her husband would have an adequate income in retirement and said she did not understand pensions. She planned to retire when she was 63 and convert her pension then, so that she could continue to receive a salary in the meantime and build up a bigger fund. Apart from this, she had not considered her retirement income in any detail and said that if she and her husband did not have enough, their family would have to look after them.

She had encountered some difficulty in finding out about deferring the pension. Even so, while she thought deferring was *'probably an option'*, she certainly intended to continue working, whether or not she was receiving an income from her pension.

She had consulted an IFA in the past to discuss how to invest an inheritance, which she hoped she could live off in retirement but had not yet talked to him about her pension fund. Her involvement in monitoring her fund had been minimal: *'out of ten, I suppose one'*.

She believed that on retirement she would get *'a pot of money'* from her pension plan. She did not know that different types of annuity existed, nor that she could purchase an annuity from another provider.

She knew she could take some cash in advance of drawing the pension and she had decided to take as much cash as possible, so she could *'be in control'*. She said she did not trust pension providers and did not understand the information they sent her, particularly the forms.

She had received booklet BR 33 from *'The Pensions Service'* but said this was not very useful because it did not answer her main question about what to do if you are postponing retirement.

'It tells you all sorts of things, but not what to do if you don't want to claim your pension.'

The provider's information had confused her, particularly because it did not, she said, give her the option to defer retirement. She phoned them to explain she was postponing. Had she been going to retire on her original retirement date, she would have wanted to receive the provider's information six months beforehand.

'Three months is not really enough – it's a bit of a panic by then.'

She said there ought to be better information. She would have liked to receive a simple letter; to attend local seminars and to have a face-to-face meeting. She had close friends who had retired and a lot of colleagues at work were in the process of retiring but she did not want to discuss pensions with them; she wanted to talk to someone independent instead.

She was particularly concerned about completing the paperwork correctly and making the right choices. She said she *'switched off'* as soon as she read or heard anything about pensions because she did not understand it.

'I suppose that's one of the reasons why I don't want to retire. The money will be useful, but I don't want to have to make the decision either. I feel quite inadequate in making the decision and the information is inadequate. The people that supply the information either don't want to give it easily, or they think we already know.'

She had tried to get a State Pension forecast from the DWP but at the time (summer 2007) she was unable to speak to anyone because the DWP computer system was down. She was eventually told by the DWP that there was no need to act for the time being.

This individual found pensions bewildering and had encountered difficulties and confusion with each of the sources of information she had encountered. She was largely unaware of the options available to her and ascribed her hesitation in making a decision about annuitising to the quality and timing of the information she was offered.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
4	Recent	Personal	Male	Under SPA	Married	>£15k-<£40k	<£40k

This man had been made redundant two years earlier from an engineering job he had held for 20 years. He had had to leave his next position after only a short time on medical advice, in view of an existing health condition. He claimed long-term sickness benefit for about two months but as sick pay was insufficient to cover bills, he took up an offer (made subsequent to redundancy) to annuitise the pension he had held with his former long-term employer. He later began to work again on a part-time basis in the services sector, partly because he found that being at home *'was driving me mad'*. His pension then accounted for around a third of his income; the household's income also included the State Pension his wife was already drawing.

He had given very little thought to his pension plan before being made redundant, although he was already aware that he could take a tax-free cash lump sum, as a colleague had been through this process.

The literature he had received from his pension provider offered him *'the choice to take a pension immediately or on retirement'*. The literature, as he recalled it, focused largely on whether or not to take a joint-life annuity. He also recalled an annuity that was *'a bit weird in that if I died, all the money is gone'*. Overall, he found the paperwork complicated and said there was too much of it.

'The paperwork was never very clear, as it never is anyway – they try to confuse you as much as they can.'

He made no mention of having read about or having considered an impaired-life annuity. Nor did he mention any information from Government sources.

On redundancy he was given the phone number of an Independent Financial Adviser (IFA) by his employer and he tried unsuccessfully, to contact the IFA.

Even though he was confused by the literature, he was happy with the annuity at the time he bought it from his provider. He had called the provider's helpline, as part of his decision-making and had found it reassuring and helpful, not least because he had learned that stock market performance affects the level of pension a plan provides. He decided to annuitise, rather than defer, because the market was 'up' and he was pleased that his annuity would provide a fixed income.

'It seemed a good deal to me at the time anyway.'

He decided to buy a joint-life annuity, as he was anxious to make provision for his wife and he took the 25 per cent lump sum, as he thought *'the money was better in my account'* and that he would get a better return by investing it in an ISA.

He had noticed information about the OMO in the literature sent by his provider. The helpline had also told him that he could purchase an annuity from another provider. He had decided not to investigate purchasing elsewhere, largely because, he said, his provider had said he could see an IFA to discuss this but that seeing an IFA would *'cost money'*.

Only after purchasing his annuity, did he read more about pensions and buying annuities in the press. He said that looking back, he realised that he had not understood his options, in particular that he had not really understood the OMO. If he could make the decision again, he might have shopped around, but said that he would do this on his own, to avoid the cost of an IFA.

'I didn't realise the options were quite so widespread.'

Also thinking back, he felt his former employer could have done more to provide him with access to an IFA. IFA sessions were held for new employees, not for past employees no longer on site, without access to advertising for the sessions. His employer had also been taken over some time before he was made redundant, such that his pension plan was in effect two plans. This had meant that on contacting his provider he had had to talk with two separate departments. He said he had *'lost'* £40 a week, until paperwork about the older plan was sourced.

This man had made some use of provider information and had trusted he was receiving a good pension. After the event, he recognised that he had made a decision without being well informed and he still found the subject confusing.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
5	Recent	Occupational	Male	Under SPA	Married	>£15k-<£40k	<£40k

This man had had a manual job in the manufacturing industry for many years, before being made redundant. He now worked three days a week in administration. As he was under 65, he did not receive the State Pension. His pension from the provider accounted for about ten per cent of the household income, with his wife’s State Pension accounting for 30 per cent; the rest was mainly earned income, although he indicated that he had other very limited sources of pension too.

The pension in question was worth much less than he had anticipated and he was distrustful of the pensions industry as a result. He had begun making contributions to the scheme just over 20 years ago, when it was a final salary scheme. This scheme was subsequently wound up. His employer had twice changed ownership and each time changes were made to the pension scheme. He thought the value of the pension had fallen on each occasion and although he continued to pay contributions, he was unable to say why he had done so.

‘The company changed hands again and the pension fund changed again. I still stayed, but never took much interest.’

When he was made redundant he said it had been essential to arrange another source of income and that converting his pension immediately had been the only option he had considered. He felt that this had been arranged in a rush because of the redundancy.

He had known it was possible to take a lump sum and that there were different types of annuity, such as single-life and guaranteed annuities. He had a medical condition and had hoped this would help him to secure a better rate. He also knew he could buy an annuity from a company other than his provider but explained that the scheme trustee had advised him to buy his annuity from the existing provider, as this would give him *‘the best deal’*.

The provider had sent annual statements. When he was made redundant he annuitised his fund after speaking to one of the scheme trustees. He said, however, that his employer had made many decisions on his behalf and he had not received sufficient attention, advice, or assistance during the annuitisation process.

‘There were other people who were retiring and we did not seem to be treated as individuals. We did not have the chance to make choices.’

He had discussed his arrangements with his wife and colleagues at work. In addition he read articles in the press, which he said he thought were impartial and provided him with *‘pointers’*.

The most useful source of information was the pension scheme trustee, who had told him what would happen when he converted his fund. He had also looked for information on the internet but had been unable to understand what he read about the proportion of the fund that could be taken as a lump sum or the different sorts of annuity available.

He had received a booklet from the Financial Services Authority (FSA), which he had been unable to understand because it was too complicated. He found the DWP State Pension forecast useful, however.

He said that all the information from his provider had been sent to his employer rather than to him personally. He had seen details of the value of his cash lump sum and what his monthly pension income would be and said that this information had been helpful, in that it had made him realise he would have to get another job after being made redundant.

He took the maximum lump sum to pay off his debts and to be able to save some money *'for a rainy day'*. He bought a level-term annuity with a guarantee, which was the option recommended by the scheme trustee.

In retrospect, he said he wished he had sought more advice. He had not realised that he would not have to pay to see an IFA.

'If I did it again I would get some advice. I did not know until I had retired that the company would have paid the fees for me to see an IFA. I was scared of the costs.'

This man had used several different sources of information but said that he had not known what questions to ask. Consequently, he was only partly satisfied with his decision. He felt that his provider, his employer and the employer's pensions adviser had let him down, particularly as they had not explored the option to get a better pension due to his health condition despite his repeated requests. His dissatisfaction was exacerbated by conversations he had had with colleagues, who had stopped contributing years before he had, yet were due to receive pension incomes similar to his.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
6	Recent	Occupational	Male	Over SPA	Married	>£15k-<£40k	<£40k

This was a married man who had previously worked in the building sector. He was now working part-time in a self-employed capacity, in order to supplement his pensions.

He had had two pension plans with different providers. The pension being discussed provided about ten per cent of the total household income. The rest came from another private pension, the State Pension for him and his wife (which

were the main source of their income) and a small amount from earnings. He was disappointed with the level of income obtained from both of his private pensions.

He received regular statements from the provider, but said, *'To be honest, it's a minefield for me'*.

He had been aware he could continue working after he had taken the annuity. He knew he could take a lump sum and his provider's representative showed him the lump sum/annuity income trade-off calculations.

Although the provider told him about different types of annuity, he had difficulty remembering what these were. He was not aware he could buy his annuity from other companies but he did not blame his provider for failing to explain this.

'To be fair, I went to the provider and asked them to handle it for me, so they probably assumed that I was aware of other options.'

Although he had given his retirement a lot of thought, he did not know to whom he could turn for advice. He did not discuss his options with friends and family, nor did he use the internet. He tried to get advice from his bank, but was referred to the insurance company that owned it. He did not seek advice from an IFA, and the only sources of information he knew or could think of were the providers of his two pension plans. Of these, he had only managed to speak to the provider of the pension in question, as the other company did not have a local branch and had failed to send him information. With reference to this second provider he said, *'The back-up there was zero'*.

The most useful source of information was the provider's representative, who gave him *'solid'* information and advice. He trusted the representative because the provider was *'guided by a body which can't tell you untruths'*. After annuitising, however, he said he wished he had known about the OMO, as he thought he might have done better by buying his annuity from another provider.

He said that the *'State Pension people'* had written to him six months prior to his retirement date. At the time he paid no attention to the information but when retirement *'was looming up before me'* he contacted the DWP and they re-sent his pension details. He found the DWP helpful, although he was very disappointed with the size of his State Pension.

He made the decision to annuitise about three months before his 65th birthday. He bought a joint-life annuity from his provider, in order to make provision for his wife and he took the 25 per cent lump sum, which *'would provide a couple of holidays'*. The annuity was investment-linked but he thought he had the option to convert it to a standard annuity over the next 18 months.

He said he regretted not starting a pension plan earlier in life. He was quite philosophical, however, saying that he thought individuals who were fit enough should continue to work.

This man had given considerable thought to his retirement but only managed to get information and an outcome that disappointed him. He was somewhat frustrated that he had not known enough to investigate the OMO when he made decisions about annuitisation.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
7	Prospective	Personal	Female	Under SPA	Married	>£15k-<£40k	£40k+

This woman worked in an administrative job. She earned around £20,000 a year, and also received a pension of under £2,000 a year from a previous job in the public sector. This scheme had also generated 'a substantial lump sum' of over £5,000. She estimated that when she retired, her State Pension would account for one-fifth of the household income, with most of the remainder coming from her husband's salary.

She had two other pension plans. One was an occupational scheme with her current employer and had only been running for about four years. The other was the pension in question which she had taken out when she was in another previous job; she expected it to add very little to the household income. Indeed, she intended to carry on working and to defer annuitising until the mortgage was paid off and she was 62. She had a health condition and needed an operation but was waiting until she was retired for this.

She had taken out the pension in question when she met an IFA. She already had an endowment policy and several forms of insurance with the provider and trusted the company as a result.

The provider had sent annual statements by post but she had not monitored the value of the fund closely. Even if her arrangements proved to be inadequate, she had not had the money to improve her situation, she said.

She knew she could defer the annuity purchase and had told her provider of her decision to do so. She expected to make her annuity decisions about six months before the date of her retirement.

She believed her main choice would be between 'a fixed income or one that has slightly more risk attached'; she was interested in finding out more about the riskier option but thought that the small size of the fund would limit her choices. She planned to find out if she could combine her two personal pension funds to see if this might increase the overall value of her income. She also intended to look into buying her annuity from another provider.

The participant had not yet looked at any sources of information in great detail, as she did not know what the final value of her fund would be. She did read pensions information in the press and thought that this would be a useful source of information, given her view that newspapers were independent and able to provide an overview of the pensions industry.

Her own provider had sent information by post and generally she found this useful, although there was no information about how to combine pension funds, which she would have liked to receive. She found the information about taking the annuity at different ages helpful, because she planned to retire two years later than the date on her pension contract. She was less positive about her dealings with the provider over the telephone, however.

'The telephone system is not very successful. I didn't feel the person I spoke to last time understood what I was saying. I'd rather have a face-to-face conversation.'

The information she had received on the State Pension had been the most useful source and had impressed her. It was extremely clear, and her dealings with the DWP had been 'very good'.

Before retiring, she planned to speak again to the provider, to get an updated State Pension forecast and also to consult an IFA.

She was fairly sure that she would **not** take the lump sum. This was because she thought it would be comparatively small and, as she had already received a lump sum from her public sector pension scheme, she did not need the additional capital.

In terms of annuity type, she thought she would choose the inflation-linked option. She explained that she 'likes to take a risk' and that she felt able to afford to do so, since her children were financially independent and her husband had his own pension provision. This last factor had made her think it would not be necessary to buy a joint-life annuity.

Although she had not chosen the provider from whom she would purchase an annuity, she knew she would look for a company 'with a good standing, a firm that is well known'. She said this could be her existing provider.

Overall, she said she wished she had started to pay into the pension earlier and not 'shut her eyes' to the matter. She still felt 'hesitant' about the annuity decision because she could not predict what the general financial situation would be when she came to retire in two years' time. She felt confident that in the intervening two years she could find out enough to be able to annuitise her fund in a financially advantageous way, however.

'I will make sure to get adequate information and I am sure that whatever decision I come to I will be happy with it.'

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
8	Recent	Personal	Male	Over SPA	Married	>£15k-<£40k	<£40k

This man had been made redundant from his job with an engineering company six months prior to his 65th birthday. His household income in retirement consisted of his State Pension, the personal pension in question and a second personal pension from a different provider, from which he was already receiving an income. The State Pension accounted for the majority of his total household income. His wife had a private pension, but it paid out so little that he did not believe it would provide enough for her to live on in the event of his death. This was a major consideration in making his annuity choice.

The pension plan was made available through his most recent employment. He had received annual statements from the provider, but he had not given them much consideration at the time and had filed them away to be used later.

He was not aware that he could postpone his retirement and assumed that his only option was to annuitise at age 65. He did know he could take up to 25 per cent of the fund in cash and thought that there were about ten different types of annuity. Of these he remembered that he could choose between joint-life, level-term and inflation-linked/escalating annuities.

He had a limited awareness of the OMO, as he thought he could transfer his fund but only to his plan with the second provider. In other words, he had confused consolidation of his existing pension funds with the OMO.

There were delays in receiving information from the provider in question. He said that had he wanted to seek advice from an IFA, as was suggested by the provider, he would not have had time. As it was, he felt that his decision had been a hurried one because of his urgent need for a replacement income following the redundancy and the fact that the decision had come earlier than expected, so he did not feel prepared.

His provider sent him details about the impact on his residual pension of taking the lump sum, which he said was useful. He had had to press the provider to send him details about the different types of annuities available, however. When the information finally arrived, about one month before he was due to retire, he did not find it very useful. The information was clear, but he said that the provider knew his fund size and they should have advised him on his best option. He said he would have liked his provider to arrange for someone to visit him, either directly or through his employer, to discuss his options in person.

He did not seek independent advice – although his provider had suggested this – because he thought his fund was too small. He discussed his options with a colleague, who had received independent advice when he had annuitised. The work colleague had warned him that he could lose out if he transferred his fund. The provider of his other pension had given him the same advice.

He had requested a State Pension forecast and said this was very clear and helpful.

He decided to take the maximum lump sum, so that he could afford to make repairs to his home. He chose a joint-life annuity to protect his wife, whose income otherwise would *'drop tremendously'* if he died. He bought the annuity from his existing provider, as he was concerned about the cost of transferring to the provider of his second pension plan.

Overall, he was reasonably satisfied that he had come to a good decision about converting his pension. He did not consider himself to be 'on the breadline' and hoped that his income would be enough to meet his needs. He was, however, disappointed with the overall level of advice he had been given, although he had expected this advice to come from the provider and had not sought advice from an IFA. The decision was 'still left' to him and his wife to make, he felt.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
9	Recent	Personal	Male	Under SPA	Married	>£15k-<£40k	<£40k

This man was made redundant unexpectedly from his job in the transport sector and was unable to find alternative employment. He had too much in savings to qualify for unemployment benefit. He had two pensions which he annuitised after redundancy; a larger occupational pension and a small personal pension he had started as a *'top-up'*.

His two pensions accounted for 80 per cent of the total household income, the remainder coming from savings.

He had bought the personal pension from an insurance representative, who had visited another family member in relation to an insurance policy. For about two years this representative came to see him on a quarterly basis to discuss his fund performance and the possibility of *'upgrading'* the plan. These visits stopped and afterwards the only contact with the provider was via annual statements, which he said his wife monitored.

The redundancy *'came out of the blue'*, so the participant did not feel prepared for retirement. He had planned to retire in five years' time and had expected to start making plans in 2008.

He asked the provider of his personal pension to send him details of his options and knew that he could take part of his pension fund as tax-free cash. He was aware that he could choose between a single-life and joint-life annuity, although he did not use the term *'annuity'*. He was not aware of the OMO and said he had not seen anything about this. This said, he described himself as someone who did not seek change and he used the analogy of utilities, explaining that he had never shopped around for alternative gas and electricity suppliers and would have been unlikely to change pension providers.

He said he checked 'all available' sources about his finances, including his occupational pension scheme, his bank and the other financial institutions with which he had money invested. He requested a State Pension forecast and found this clear and useful and assumed it was completely reliable.

'The Government has an audit committee, and if you can't trust the Government, who can you trust?'

He had not taken face-to-face advice, for example, from an IFA, and said several times that he would have liked to receive information from someone in person. This said, he was overwhelmed by the amount of information from the sources he had used.

'Sometimes there is so much information that by the time you have read it, what was at the front you forget. Sometimes they send so much that you can't be arsed to look.'

His main source of information about his pension plan was the provider, which sent the information pack he requested. He read through his options, which he said were clear. He trusted this information.

'I thought the [provider's] information would be true and legally binding as I had received information in the past stating that the company was government-audited.'

He had expected to receive a follow-up phone call from the provider to discuss the options in the pack but the only point of contact was a phone number in the pack, which he was told he could use 'if necessary'. He completed the annuity application form and returned it. The annuity income started the following month.

He had discussed what to do with the lump sum with his brother, who had already invested his own pension lump sum with his bank. He decided to do the same, selecting a 'higher yield investment' his bank offered him. His provider had not made any suggestions.

'The bank's adviser said, "Give me your £5,000, and I will try to increase it". The provider just said, "Here's your five grand and thank you very much".'

The biggest factor in his decision to buy the annuity immediately was the discovery that he would not be eligible for any benefit from the State between his redundancy and reaching SPA. He considered his age and his current financial situation and how he could provide an income for his wife in the event of his death. He bought a joint-life annuity and took the maximum lump sum.

This man was happy with the decision he made but if he had known he could shop around for his annuity provider he would have checked other options to see if his existing provider offered the best deal. He also stressed that he would have liked face-to-face advice.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
10	Prospective	Personal	Female	Over SPA	Divorced	>£15k-<£40k	<£40k

This divorced woman had continued working in an administrative role past her 65th birthday partly because she did not feel ready to retire and partly because she wanted to increase her retirement income.

Her company's pension scheme was originally offered only to '*professionals*' and not administration employees; approximately ten years ago, however, her employer enrolled her in the scheme when senior office staff became eligible to join.

She received the State Pension and had invested in an ISA, hoping that the interest would pay for holidays and cover extra spending in the future. After she retired she expected earned income to account for about 20 per cent of her retirement income, with 70 per cent coming from the State Pension. Five per cent would come from the pension in question and the remainder from other savings.

Her pension provider had contacted her when she turned 65 and she had asked to continue paying into the scheme. After hearing from the provider she discussed her situation with an IFA, who was a friend of her daughter. He compared seven different providers' offers and told her how much retirement income she could expect. This was quite low, which made her decide to continue to postpone annuitising, to allow the fund to increase.

She knew she could take a tax-free lump sum from the fund and thought she had to make a choice between two types of annuity: a larger regular income, which would remain constant, or a smaller regular income, which would increase over the years.

She was aware that she could buy her annuity from other providers and had asked her IFA to help her to investigate this, although she was concerned about the possibility of additional costs if she chose a different provider.

When she made the decision that she would retire at the end of the year, she considered boosting her income by taking in student lodgers or getting a part-time job. She did not know, however, whether income she earned after retirement would be liable for tax or other deductions.

She trusted the material she received from her provider and found this was the most useful source of information. Her only complaint was that all the options assumed she would take the lump sum, so she planned to contact them for illustrations based on the full fund, just in case this proved to be a better option for her. She felt the provider was approachable as she regularly received updates, information and also contact numbers from them.

She spoke to her son and daughter about her options and also to her IFA. The DWP sent her annual pension statements, which she said were helpful. She read articles in the press but felt they were very biased towards large funds, which made her feel that her pension was worthless.

By postponing retirement, she had had time to think and also to see her IFA and consider his advice. She now felt she knew more about the annuitisation process, although she still felt daunted by the decision.

'I'm fairly confident, though I never feel very confident making decisions. The sum concerned is a small amount, so I don't think I can do anything disastrous.'

She had considered talking to someone at the pension provider or the FSA to get answers to some of her questions, for example whether her pension income could be affected were she to take a part-time job. She was disappointed that her employer had not helped in any way.

'My employer enrolled me in the pension fund, but has not given me any help or advice.'

She thought she would take the full 25 per cent lump sum from her fund because she preferred to have the cash, rather than 'gambling' on the pension payments she received until the end of her life matching the fund value. She said she had asked herself:

'Will I live long enough to get this back in monthly payments?'

If she took the cash, she would invest it in an ISA with the intention of using the money later on for holidays and helping her family. She also wanted to consider what income she could get from the full fund.

She did not know whether she would buy a level-term or an increasing annuity but thought she would opt for the former in order to have as much money as possible immediately, while she was still able to enjoy it. She was not concerned whether any sum would eventually go to her estate and, as she was divorced, she knew she would buy a single-life annuity.

Overall, she said that retiring was a big step and that she would not make a rushed decision. She was aware of gaps in her own knowledge and planned to take steps to counter them.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
11	Prospective	Personal	Male	Over SPA	Married	>£15k-<£40k	£40k+

This man planned to continue working for another five years in the aviation industry, as he said he could not afford to retire. His salary represented about 60 per cent of the household income and he had a final salary pension from a previous employer, which made up about 30 per cent. The State Pension accounted for ten per cent.

He was still paying into two pension arrangements: the personal plan in question and also a company pension scheme, to which his present employer also contributed. Of these two pensions, he said, *'Hopefully, they will improve before I need them'*.

He expected the personal pension to provide about one-quarter of his income in retirement. He bought this about 15 years ago, together with life assurance, through an IFA.

He understood that he could take the personal pension immediately or postpone the decision to annuitise and continue in work. He was also aware that he could annuitise at any time up to his 75th birthday.

He also knew he could take a lump sum and that the remainder of the fund would be converted into an annuity. Although aware that there were different types of annuity, he had not looked into this matter, as he had decided to postpone retirement and thought that his options might change in the meantime. He recognised that when the time came he could buy his annuity from any provider he preferred, depending on which company offered the best income.

He had received statements of the fund's value on an annual basis. He discussed these with his original IFA and also saw a different IFA to get a second opinion about the advice he was given.

'I do not trust anything, which is why I went to two IFAs: to see whether their opinions were at variance with other advice I was getting.'

Both of his IFAs were investigating whether it would be better for him to consolidate the two pension schemes into which contributions were still being made, before annuitising them.

Before he was 65, he had contacted his previous employer, with whom he had the final salary pension to find out how much income he would receive. He also applied for a State Pension forecast and he checked what his current employer's scheme would provide in a few years' time. Then he compared the amount he would receive in total from his various pensions, with what he thought he would require.

He discovered that his personal pension and his current employer's pension were not worth what he had been *'promised'* when they were set up. This was why he intended to carry on working and continue contributions to both arrangements.

Overall, he felt he had prepared well for retirement and was taking sensible actions to improve his outlook. In particular, he believed the information he had received

from his two IFAs was *'very extensive and clear'* and this reassured him that he had made the right decisions.

Apart from the IFAs, he had received information from the DWP *'on all sorts of things'*, including information about retirement in general and information intended specifically for individuals approaching retirement. He found this easy to understand and very useful.

'The stuff I received from the DWP has a broad spectrum: "This is where you are; this is what is going on." It has been the most readable that I have had.'

He also kept abreast of information published in the press.

'I always pay attention to what the papers say about finances. We are in a dollar market so what the papers are saying means a great deal.'

He had received information from the personal pension provider via the IFA who arranged that particular scheme but he referred to this as *'a great bundle of forms'*; he had not paid any attention to this information, since he did not yet perceive any use for it.

Finally, he had compared his experiences with those of friends who had gone through the retirement process.

Although he generally did not trust any source of information, he did have confidence in the advice provided by the IFAs, because they had both told him broadly the same thing. Written information from both IFAs had been less than clear, however. He had contacted them about this and the IFAs had agreed that the information should be rewritten in more readable English.

Overall, he felt that he had received sufficient information and impartial advice. He hoped to be *'very confident'* by the time he came to retire and planned to request updates to his current sources of information, *'to find out how things have gone'*.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
12	Prospective	Occupational	Male	Under SPA	Married	<£40k	£40k+

This man was a self-employed adviser in the construction industry. His wife was retired and drawing her State Pension but almost all of their current combined income came from his salary.

He had five different occupational pensions from past employers and expected that half of their household income in retirement would come from these pensions, with the remainder coming from shares, savings and the State Pension.

The occupational pension in question was set up by his last employer. In the past he had not monitored this or the pensions from earlier employment.

'I just checked the bottom line of the annual statement and then forgot about it for another year.'

Over the last few years, he had made the decision to invest in products other than pensions because he was not happy about the performance of his pension funds. In particular, he felt that he had been let down by an investment with Equitable Life, and that the Government *'removed the tax benefits from pension schemes'*. He was particularly interested in investing in property.

With reference to the occupational pension in question, he expected to be offered the option of postponing drawing the pension. He also expected to receive an up-to-date fund value and advice about annuities. He planned to make his decisions when he was 68, at which point he would semi-retire, with the intention of working part-time until age 70.

He could afford to retire now, but considered that he was *'active, fit and suffered from boredom'*. Furthermore, he thought he would retire with a better pension if he waited a few years, particularly since taking it while working full-time would have meant the income would be taxed at 40 per cent.

He knew that he could choose to buy a pension that would pay an income during just his own lifetime or one that would also pay an income to his wife after his death. His main consideration in terms of annuity type was which of these options to take.

He understood that he could take part of the fund value as a cash lump sum upon annuitising and planned to take the maximum possible amount, because he preferred to have investment control. In fact, he had spent more time looking after his own (non-pension) investments than looking after his pension funds.

He was aware of the OMO and had given some thought to which provider he would purchase his annuity from; he had already discounted one particular provider on the basis of past poor investment performance. His preferred options were two well-known, long-established names – these providers would give him confidence and security.

Recently, he had spoken to an adviser at his bank regarding his options at retirement, and he had also searched the internet for an IFA, but had not yet commissioned one. His biggest decision currently was whether to leave his five pensions where they were in separate funds or to consolidate them into a single fund – hence, he now wanted to seek independent advice.

He preferred the idea of getting leaflets and unbiased information on retirement planning and annuities from the Government. In practice, however, he had found that Government leaflets he had ordered on the internet were not as useful as the provider's materials. For example, the Government leaflets defined different types of annuities but did not explain which options would be most appropriate for different individuals.

On the other hand the information from the providers was very useful to him. He felt particularly confident about the advice given by the provider in question because their literature advised him that he could buy his annuity from another provider, and it reminded him of the need to seek professional advice.

'Although the information was biased in favour of [provider], I didn't feel they were trying to mislead me.'

Overall, he felt there was not much room for improvement as their information was *'easy to understand, and spelled out in plain terms without the use of a lot of gobbledegook'*.

He had also requested a State Pension forecast, which was clear and accurate, but he felt it should have been sent automatically. He also read advice columns in the press, which were *'impartial and aimed at helping the pensioner, not the provider'*.

Overall he did not feel well prepared, and was worried about whether he had put enough into his pension. He felt that if he had taken financial advice at an earlier stage of life, he might have organised his pension in a different way. He stressed that he valued impartial advice and was keen to piece together evidence from a range of sources to get to the overall picture.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
13	Prospective	Personal	Female	Over SPA	Single	>£15k-<£40k	£40k+

This woman worked for a law firm and had a good understanding of pensions.

She started this pension just over 20 years' ago, when she was with a previous employer – also a law firm – that did not offer a pension scheme. At the time she took out a second plan with a different provider. She had already converted this second plan into an annuity.

Her current employer made access to an IFA available to employees on an annual basis, an opportunity of which she had regularly taken advantage.

She had worked for 40 years and planned to retire during the next year. Having paid off her mortgage, she realised working longer would give her an opportunity to save more.

She knew she could defer her personal and State pensions and was aware that if she took them now, the income would be taxed at the higher rate, whereas in retirement she expected to be a basic rate taxpayer.

She was aware of the availability of the tax-free cash option and various other options, which she categorised as either annuitising or using drawdown. She was also aware of the availability of investment-linked annuities, which she had considered.

The employer's IFA had explained the implications of each decision: by taking the maximum amount of cash available, she would get a lower regular income from the pension; by deferring the annuity purchase she might get a higher annuity rate. She knew she could defer the annuity purchase up to age 75 and that she could buy her annuity from a different provider.

Apart from her knowledge of pensions, she was aware of the availability of equity release plans and, as she owned her property and had no mortgage, she said she would consider this option.

She said the employer's IFA was very useful and had helped her decide the best type of annuity for her circumstances. He had told her about her options but she was not keen to take the investment risk with what she saw as a comparatively small fund. She was concerned that the fund could fall in value and that this would affect the annuity rate when she finally made the purchase.

'I think you've got to go with what you think is best for you, not what somebody else thinks. But I have listened to what the adviser had to say and it's given me a better grasp of how it all works and I have acted on some of his advice.'

She explained that she 'always kept an eye out' for articles relating to pensions in the press and that reading these had broadened her knowledge and helped her to better understand the implications of her choices.

She planned to take the maximum cash lump sum and invest the money. As she had no dependants, she intended to buy the annuity that would give her the biggest income and would shop around for the best rate, although she thought her existing provider was competitive.

'I can go to any provider I like – whoever is the best in the market at the time. My current provider is a reputable company and because my savings are with them I might get a better rate.'

This individual had given considerable thought to her retirement income. She was confident that after taking advantage of the information she had sought from different sources, she would be able to make informed and appropriate decisions.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
14	Prospective	Personal	Male	Under SPA	Married	£40k - £100k	<£40k

This married man had stopped working in the construction industry after an accident. He was still hoping to get another job. As this would probably pay less than his previous employment, however, he was also looking to annuitise his pension plan to help make up a considerable drop in income.

His wife already received the State Pension. He expected that his pension plan would provide 30 per cent of the total household income, with 70 per cent derived from the State Pension, once he too reached SPA.

He took out his pension plan 20 years ago, when the Government introduced personal pensions, which at the time he thought were mandatory. He said he always read his annual statements and that he looked at the annuity rates in the newspapers.

He expected to make a choice between drawdown and an annuity. His pension plan was in two sections. He expected to convert the first section to an income stream in late 2007 and to convert the second when he turned 65.

He trusted the information that his provider had sent. He was not happy, however, with the provider's telephone helpline. The call centre adviser gave him two different transfer values and when he queried these he was unhappy with the fact that he had to speak to someone in a foreign call centre, who could not explain the difference in the two transfer values *'in layman's terms'*. He would have preferred *'to speak to someone who speaks better English and didn't learn things in parrot fashion'*.

Before receiving an information pack from this provider that outlined his choices and gave him illustrations of the incomes for these choices, he had contacted an IFA with the intention of consolidating his investments to achieve an additional income and to advise him on the annuity purchase. He had also put his house up for sale a year previously with a view to downsizing.

His main source of information was his IFA, whom he trusted and felt had his interests at heart. While he had been aware of the benefit of using the OMO, he had been surprised when the IFA's information explained that the difference between the best and worst rates could be as much as 30 per cent.

He was now paying more attention to financial pages in the press, which he trusted as a source of information and which had confirmed his decision to use an IFA to arrange exercising the OMO. He had also requested a State Pension forecast 18 months ago and had recently asked for an update. He said the DWP was *'very obliging and asked if I wanted more information'*.

His provider offered six types of annuity including a single- and joint-life, and an inflation-linked/escalating annuity. He was aware that he could take 25 per cent of the fund as tax-free cash.

He wanted the maximum immediate income and therefore, planned to take the maximum cash. He expected his IFA to arrange for him to use the OMO.

If his IFA did a good job with the annuity arrangements, he would consider using the firm for his other investments. He had *'muddled through'* over the past seven or eight years and felt this was the time to appoint someone *'to consolidate his other financial interests'*.

Overall, he said he was confident in his ability to do research. He had given a lot of thought to his pension plan and decided at an early stage to use an IFA to arrange his annuity purchase with the best provider. He said he was very happy with his decisions, although he recognised that anyone could make mistakes: *'Nobody is infallible'*.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
15	Recent	Personal	Male	Under SPA	Married	£40k - £100k	<£40k

This man had taken early retirement from his main, long-standing employment. From this he had a final salary pension, which was enhanced when the company offered generous early-retirement terms.

He had continued to work afterwards, firstly in one job for five years where he built up another small final salary pension. The pension under discussion was a personal plan he had taken out at his very last employer.

He no longer worked and his personal pension, the proceeds from which he considered to be a *'bonus'*, accounted for about ten per cent of the total household income in retirement. About 70 per cent of the income was derived from his own and his wife's final salary pensions; the remainder came from State Pensions, other savings and investments.

He received annual reports from the provider and took an active interest in the fund choice. Overall, he said he was very well prepared for retirement and able to retire at his preferred age, having started work at 15.

'All my life I had thought of retiring at 60, and things have worked well towards this. I felt these arrangements were enough.'

He knew he could take a lump sum and did his own calculations, assessing what impact this would have on his remaining pension income. He was aware of the different types of annuity, for example, joint-life and guaranteed annuities. He

was also aware of the OMO and knew that his pension provider was a 'top' annuity provider, as he used newspapers and online sites to check this. Indeed, he had checked his provider's offer against annuity top-ten tables in the press and online.

He also asked for a State Pension forecast and found this useful.

As he had had a bad experience with IFAs in the past, he decided to sort out the annuity himself, explaining that *'I did my own homework'*.

'For the last three years I had followed the pension company's performance on the website. I also used this site to calculate different annuities. I had followed the pension provider and they were in the top three or four in the annuity league tables in the Sunday Times. Payouts in the top ten varied very little so I decided that if my provider's quote was reasonable I would accept it. I didn't want the hassle of shopping around.'

He bought his annuity a year later than he had intended due to delays caused by an administrative error on the part of the provider, which appeared to have mislaid his application for several months. He took the maximum tax-free cash, as he preferred to have control of the money. He had calculated the impact of the lump sum on his residual pension carefully and he had asked that a medical condition that was prevalent in his family, although he did not suffer from it at the time, be taken into account.

'I knew that unless I lived beyond age 73 I had probably taken the right decision in taking the lump sum.'

He was keen to provide for his wife, so he bought a joint-life annuity with a five-year guarantee.

This individual had a high level of financial awareness and had taken an active interest in his investments. He was confident about making financial decisions and happy with those he had taken.

'I am a confident person and am prepared to live with my decisions.'

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
16	Prospective	Personal	Male	Under SPA	Married	>£15k-<£40k	<£40k

This man, who worked in the transport industry, had decided to continue in his current full-time job for as long as he was in good health. His salary was the main source of the household's total income, his wife being a dependant. In retirement, his pension with the provider would be his second most important source of income, after his State Pension.

He had been communicating with his IFA several times a year for the previous six years, in preparation for turning 65 and annuitising. He said he wanted to start

drawing the pension as soon as possible, to enjoy the income sooner rather than later.

He was aware that he could use his pension fund to purchase a regular income, and that there were different options: for example, he could choose a level-term or increasing income and could also buy an income for his wife in the event of his death.

He knew that he could take up to 25 per cent of the fund as a lump sum and planned to do so, in order to enjoy the '*spending money*' as soon as possible.

He had known '*for a long time*' that these were the choices he would make. He had discussed them with his IFA several years ago and had not changed his mind since. He was aware that he could purchase from other providers because his IFA had told him so. Nevertheless, he planned to purchase from his current provider because '*he was happy*' with what they were offering. He did not intend to reconsider; he was satisfied that this was the right decision.

The only source of information he used was the IFA. He had handed over to the IFA all the information he received from the Government and his provider and he relied on the IFA to explain it to him. The IFA provided him with calculations that showed how the value of annuity payouts could change, depending on his age, which he found useful.

Overall, his objectives were to provide for his wife in the event of his death and to receive the maximum lump sum. He also wanted the maximum immediate income and said he would buy a level-term annuity.

He regarded the decision-making process as a simple one. He had decided what was most important for him a long time before he had to convert his fund and had chosen which option to take. After making his decision, he had not been interested in shopping around for other options or providers. He said he relied on his IFA to advise him on how to achieve what he wanted and felt the IFA had prepared him well enough to make a good decision.

This man's reliance on his IFA was notable, as was the firmness of his decisions: all the information he had considered had come from his IFA, who was now a personal friend. He felt there was no need to consult other sources and was happy with his choices.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
17	Prospective	Personal	Female	Under SPA	Married	£40k - £100k	£40k+

This woman worked part-time as a designer. She was married, but with no dependants. She and her husband planned to sell their house and emigrate in a few months' time.

The pension in question related to her previous employer. This would represent ten per cent of the household income in retirement, while the couple's State Pensions would represent 25 per cent. The remainder of their income would come partly from the proceeds of their house sale, as they planned to buy a cheaper home abroad, which would leave money to invest. The couple also owned another property that they rented out, which already provided a source of income and would continue to do so.

She had joined her previous employer's scheme after the employer offered to pay matching contributions. At the time of joining, she was able to 'bolt on' a personal pension scheme previously set up with the same provider.

She relied heavily on the IFA from her previous employer's scheme for all her annuity decisions and their implementation.

'He told me to call him two months before I wanted to retire and that is what I did. Two months ago I called him, filled in some papers, sent them off to him, and what I understood would happen was that he would find out what the best deal was to buy the annuity.'

With the help of this IFA, she had monitored the value of her fund. She had not known, however, whether the fund would meet her needs in retirement but said she had 'just trusted that it would be alright'.

As a result of discussions with her IFA, she understood she could use the entire fund to buy the annuity or to take up to 25 per cent as a lump sum. She was not aware that different types of annuity were available but knew about the OMO.

Through conversations with her IFA, she found out when she would have to make choices about her pension. She 'had not been consulted by anyone' about when she wanted to retire, or the possible implications of remaining in paid employment, however. Although she had been intending to retire at the age of 60 for a long time, the decision to retire abroad had been a fairly recent one.

'No-one at any point has said to me, "Are you sure you want to take your pension now? If you leave it for another five years...". No-one has talked it through with me at all; no-one has checked if I am going to carry on working.'

She had decided to take the lump sum to help pay for the move abroad but was still waiting to hear which provider her IFA would recommend, adding that her suspicions would be aroused if he only offered her products sold by his own organisation. She had gone to him specifically to use the OMO and said that, had she decided to buy direct from her provider, she could have done this on her own.

She also discussed her financial arrangements once a year with an accountant, and he made suggestions to her, such as the possibility of investing in ISAs, which would help with retirement planning. The accountant advised her to investigate her retirement options and to discuss these with friends and colleagues. This puzzled her.

'I remember thinking, "How the hell am I going to talk to people? I don't even know where to start. What does one do?" No-one else seems to know either. When you read about pensions, it is just reams and reams of material, and with the life I lead I don't have much time to sit down and discover all that.'

She had telephoned the provider several months before she was due to retire, and the provider had '*strongly recommended*' she use the services of an IFA. She thought this was strange, as it gave her the impression that the provider did not think she should trust them. The provider's written information had been the least useful source she received (*'it was gobbledegook'*). Her attempts to complete the paperwork had reinforced her impression that it was important to use the IFA. She believed the provider was '*squeaky-clean*' but felt very strongly that clarity of communications had been a serious problem for her.

She had received a State Pension forecast and trusted the information but had telephoned to confirm the figure, initially believing it might be a mistake, as it was more than she had expected.

Overall, this woman felt her IFA was crucial to the annuity decision-making process. Although she felt reasonably well prepared, her belief was that she had '*rushed*' the process somewhat, and that she ought to have pushed for face-to-face input from her IFA at an earlier stage.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
18	Prospective	Occupational	Male	Under SPA	Married	£40k - £100k	<£40k

This man worked in the transport sector. He intended to postpone retirement for three years past SPA, provided he was well enough to do so, in order to maintain his lifestyle. He planned to convert his pension fund when he reached 65, however. As he had a medical condition, his main concern was for the quality of life he could expect both before and after retiring.

His wife had already retired and received what he regarded as a very small State Pension. They had an adult son, who was financially dependent on them. When he retired, the man expected that his State Pension would account for 70 per cent of his total household income, with his private pension contributing most of the rest. He also received a small amount from interest on investments.

He felt well informed and confident on the subject of pensions, thanks primarily to an IFA who provided accessible information about the options available to him. He had made a decision about the type of annuity he would purchase, but was yet to decide between the two providers recommended by the IFA, neither of which was his original provider.

Before meeting the IFA, he had had a relatively low level of involvement in the monitoring of his pension. He had read his pension fund statements but taken no further action. He had requested and received a State Pension forecast, in order to help him determine whether he should retire or continue working either full time or part time.

He expected that a representative from the provider would come to see him and inform him of his options. He was aware that he could shop around for his annuity, and that he could take a tax-free lump sum of up to 25 per cent, which would result in a lower annuity income. His IFA told him about an investment-linked annuity, and he understood that with this annuity the income would be dependent upon the fund performance. The IFA also told him about level-term annuities, but the participant was concerned that inflation could erode the value of this type of annuity. Given his medical condition, his IFA had also told him about the possibility of an impaired-life annuity.

He considered his IFA to have been the most useful and clearest source of information, although he was not sure whether the initial meeting had been arranged via his employer or by the provider. The IFA provided several sources of information, including quotes and schedules from different providers, an FSA fact sheet explaining different annuity types and information on how to shop around for annuity providers. He read all the information that the IFA gave him and also asked his family and friends for advice.

The provider sent information and he read this with the view that *'all information is valuable'*. Nevertheless, he said he preferred to rely on the information provided by his IFA when he made his choices, as it was more accessible. He considered his State Pension forecast to have been very useful, even though it had merely confirmed what he had previously thought his position would be.

He considered all the sources of information he had used to be trustworthy as they were either from the Government, the FSA, or from companies whose reputation was dependent upon providing good information. He mentioned that he would have been more wary of information from newspaper sources *'such as the Daily Star'*, which he considered less reputable.

He said he intended to take the maximum lump sum, as he wanted to make some home improvements. His decision was in part due to his view that *'a bird in the hand is worth two in the bush'*, and in this he was influenced by the death of a friend, who had only recently annuitised. He also wanted control, saying that *'they can't take away what I have had'*. He also thought that if he did not take the lump sum he would have to live into his 80s before his annuity income matched the original fund value.

He was seriously considering an investment-linked annuity, with the hope of increasing his income each year and therefore maintaining the best standard of living that he could.

Although already aware of the OMO, he believed that, had it not been for the IFA's improving his knowledge and confidence, he would have been more likely to stay with his original provider. He also appreciated the fact that the IFA provided advice and information but left the final choice to him and was not 'pushy'.

In summary, this man did not consider that he had lacked information from any worthwhile source, but had benefited considerably from the IFA in particular, whom he trusted and who explained his options very clearly.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
19	Prospective	Personal	Female	under SPA	Married	>£15k-<£40k	<£40k

This woman worked for a government organisation as a contract employee. She joined the employer's scheme about ten years ago because she thought it was expected of her when she started the job. Four years ago she increased her contributions. In addition to this pension scheme, she also had 'several other pensions' from previous jobs.

She did not have a clear picture of her overall pension provision, although she thought it would be low. Her husband had worked in financial services before retiring a few years ago and was the woman's main source of advice.

'As I have a husband who knows a lot more about it [pensions], I've rather handed it over to him.'

After hearing from her provider, the woman decided to annuitise at age 60. She also intended to keep up part-time work, as she enjoyed her job, although she knew it would not provide an adequate income unless supported by a pension.

She believed that 75 per cent of the fund must be used to buy a pension from her provider and that only the 25 per cent lump sum could be invested with an alternative provider, which she said she could find in Yellow Pages.

She relied on her husband to keep up to date with financial matters. He read the financial press and looked at online information. He felt that the Pension Regulator's website was a very good source of information because it explained the different options. Together they had looked at the provider's information. They felt it was not clear and mainly consisted of forms to complete.

The information from the FSA, sent with the provider's communications, was useful to her husband, as it provided internet links to information on the different types of annuities. It also contained a contact phone number, but, as calls to this number would be charged at the national rate, she was worried about the cost.

She stressed that it was her husband who was computer literate and that she was not. She would have preferred a very simple written guide.

'There should be a very, very simplified document which sets out your options and tells you what to do in simple steps, probably some sort of flow chart, without having to have recourse to the net. It should read "You are about to reach retirement age, here is some really important information that you need to spend the time having a look through, as it will help and guide you".'

Her intention was to emulate her husband's decisions. On retirement, he had taken the lump sum and invested this in an insurance bond, from which he was able to draw a tax-free income. He emphasised that tax would play the biggest part in their decisions. In terms of provider choice, the woman said she would choose the company that offered the highest income.

This woman was very aware of her lack of knowledge and said she needed clear written information. If her husband had been less knowledgeable, she said, she would have spoken to her company's IFA, who had come to talk to all employees a while ago. As it was, she planned to rely on her husband for her decisions.

'If I didn't have my husband to look into it, I wouldn't have a clue what to do.'

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
20	Prospective	Occupational	Female	Under SPA	Married	>£15k-<£40k	£40k+

This woman worked in the administration department of her husband's business and had joined the company's pension scheme 30 years ago when she started the job. Her husband had a high salary and expected to retire with a large pension the following year. She regarded her pension as insignificant. Together with another small personal pension she had set up many years ago, it would account for one per cent of the household income.

As she did not regard her pension plan as important, she had had no involvement in monitoring its value. Instead she relied on her broker, another employee of the same firm, to investigate her pension options on her behalf. She trusted the broker to act in her best interests.

'I didn't feel I needed to be prepared, because it is usually the sort of decision my husband and I make together, and as long as his pension is enough to keep us, mine basically is not a great deal.'

She was aware that she could take a lump sum and that different kinds of annuities were available, although she did not know what these were. She was also aware she could buy her annuity from a different provider but was vague about this option: *'My memory is not very good on stuff like that'*.

She thought she had received a State Pension forecast two years previously, but said she had filed it away without even looking at it. Overall, she said she had taken

little interest in her pension provision and had handed over any correspondence from her provider to her broker, because it was *'mumbo-jumbo'*.

'He [the broker] will put everything into the right areas for me and make sure I get the best out of the fund. He is the expert and I know I can trust him, because he has been doing our stuff for years and years.'

Initially, she had planned to annuitise before her 60th birthday because she *'wanted the money and felt it was better in [her] pocket than the Government's pocket'*. Her broker, however, had advised her to wait until she reached 60, because this would mean having a higher fund value. Subsequently, she decided to work a little longer until the couple was ready to move into the home they would live in during their retirement, which was further away from her place of work. She was keen to take the maximum cash to enjoy it while she could and planned to put it towards the cost of building her new home.

'The yearly income won't give me much – probably enough to keep me in tea bags for a week. I would be able to use the lump sum better than receiving it on a yearly basis. When you get to a certain age, you don't know how long you are going to be on this earth. You take a day as it comes, and I'd rather enjoy what I've got.'

The apparent insignificance of the pension, combined with the woman's lack of interest in pensions (*'to me it is a very boring subject'*) meant that she took the easiest and, she felt, safest option – to rely on her broker's expertise and knowledge of her affairs.

Case study number	Annuitant type	Pension type	Sex	Age	Marital status	Fund size	Household income
21	Recent	Personal	Female	Over SPA	Married	>£15k-<£40k	<£40k

This woman, who had just retired, had joined the pension scheme 30 years ago when in a previous job. It accounted for approximately ten per cent of her and her husband's retirement income. Fifty-five per cent would continue to come from her husband's salary, 30 per cent from the State Pension and five per cent from personal equity plans (PEPs) and ISAs.

She had been aware of the options to take a lump sum and an annuity. Her provider offered her two choices: either a larger monthly payment without a lump sum or a smaller monthly payment with a one-off lump sum. She was not aware of any other annuity types and thought this might be because the pension fund value was relatively low. She was aware that she could buy the annuity from an alternative provider and asked her IFA to check the market, but the original provider's offer proved to be best.

The main source of information she used was the IFA, who was also a personal friend. He researched different offers and options and advised her on what to do. She also looked at newspaper articles but did not feel sufficiently well-informed to make an independent decision.

She found the provider's information complicated and hard to understand. The information from the DWP arrived 'too early' and she could not remember whether the content had been useful to her. Nevertheless, she did say the State Pension forecast had been very useful.

She decided to use the whole fund to buy her annuity, as she did not consider the lump sum to be significant and she preferred to opt for a larger income.

This woman seemed to have put some thought into pension planning and even though she did not understand it in detail herself, she had asked for advice from her IFA. She had made decisions with which she was happy.

Appendix B

Materials used in conducting the research

B.1 Invitation letter sent by providers

DWP Department for
Work and Pensions

Pensions Analysis Division
Level 2, Kings Court
80 Hanover Way
Sheffield S3 7UF
Tel: 0114 209 8115

July 2007

Email: rob.hardcastle@dpw.gsi.gov.uk

Title & Name

Policy or ID number

1 Address

2 Address

3 Address

4 Address

5 Address

Dear Title & Surname,

HOW PEOPLE MAKE DECISIONS ABOUT BUYING AN ANNUITY: A DWP STUDY

The purpose of the study

People face important decisions when they use a pension fund, accumulated by contributions over the years, to buy an annuity. The Department for Work and Pensions aims to ensure that people have good information about their provision for retirement and are aware of their options for future income from a pension. Therefore, we are conducting research into people's understanding of annuities and how they make decisions about converting a pension fund into an annuity to provide income in retirement. In the spring of 2008, we will publish a report of the study's findings.

If you participate in this research, you will be providing views and information that may influence future policies for pensions in this country and the assistance we give to informing people about annuities.

An invitation to participate or to opt out of the study

The research will involve interviewing people who are coming up to decisions about buying an annuity or have recently bought one. A number of leading providers of pensions, including yours, [provider], have kindly agreed to help us by asking if some of the people they serve would be willing to be interviewed. You were one of those selected by [provider] as a potential interviewee because of your recent or up-coming need to consider buying an annuity.

Before [provider] can allow you to be contacted for research such as this, we must explain its purpose, tell you what taking part would involve, and give you the chance to opt out of being asked to participate. That is why I am writing to you.

The agency chosen to conduct the research

We have selected RS Consulting to conduct this research. They are a respected, independent research company. Their skilled staff operates in strict accordance with the Market Research Society's Code of Conduct, and their interviewers are trained to be sensitive to concerns that tend to arise around retirement.



INVESTOR IN PEOPLE

What taking part in the research will involve

RS Consulting may contact you by telephone in the coming weeks, to confirm that you are willing to take part and to make an appointment to come to your home to interview you. If you would prefer to meet elsewhere, perhaps in your local library or another quiet place where you could speak privately, please suggest this when you are contacted by RS Consulting. The interview will last 45 to 60 minutes, and you will be asked for permission to tape record it. This will provide an accurate record of what you say, which can be referred to during analysis of all the responses. The recording will be destroyed once the findings have been reported.

If you do take part you will receive £30 in cash, as a 'thank-you' for your help with this study. If you are currently claiming any benefits, this will not affect your entitlements to those benefits in any way.

Confidentiality

The interviews will be strictly confidential. Great care will be taken to anonymise all information that is given so that none of those who were interviewed can be identified by DWP, by [provider], or by anyone else. You will not be asked for personally sensitive information or for detailed facts about your finances. The interview will focus on how people make decisions at the point of buying an annuity and their needs for information and advice.

Opting out of the research

We very much hope that you will be willing to give an interview, but if you decide now that you do not want to take part in the study, please remove the reply form at the end of this letter, fill it in and send it back to [provider] in the post-paid envelope that is enclosed, **within three weeks of receiving this letter**. Please be sure that your name and policy number appear on the form when you return it so that [provider] can ensure you are not among those that RS Consulting is allowed to contact. If you return the form, you will not be contacted again about this research. If you do not return it within three weeks, RS Consulting may telephone you asking for an appointment to do an interview, but you will still be free to decline then.

If you have questions

If you have questions about the Department for Work and Pensions' role in this study or RS Consulting, please contact me at the above address or phone number.

Yours sincerely,



Rob Hardcastle
Senior Research Officer

 ----- *Cut along this line* -----

If you do not want to take part in this study, please detach the form, with the information below, and return it in the post-paid envelope provided.

I do not wish to take part in this research project for the Department for Work and Pensions	<i>Please tick here</i>	
---	-------------------------	--

Title & Name

Policy or ID number

- 1 Address
- 2 Address
- 3 Address
- 4 Address
- 5 Address

- Provider's name and address printed here*
- 1 Address
 - 2 Address
 - 3 Address
 - 4 Address
 - 5 Address



INVESTOR IN PEOPLE

B.2 Screener

DWP Information at Retirement

Introduce yourself. I am calling from RS Consulting, regarding research that we are carrying out on behalf of the Department for Work and Pensions into the financial decisions people face at retirement. We want to talk to people who are about to take decisions about their financial income in retirement, or have recently done so.

You should have received a letter from **[your pension provider]** about 3 weeks ago that included a letter from DWP about the research and gave you the chance to decide whether you were able and willing to help us with it.

[Your pension provider] has passed on to us your contact details as someone who may be willing to be interviewed. We are now calling to check that that is still the position and to gather a few preliminary details prior to a possible full interview. This will only take a few minutes of your time.

If we go ahead with a full interview, it would be face-to-face, at a time and venue of your choosing. The interview will take no longer than an hour, and if you do take part you will receive £30 in cash, as a 'thank-you' for your help with this study. If you are currently claiming any benefits, this will not affect your entitlements to those benefits in any way.

Interviewer notes:

*Respondents who would like to discuss any aspect of the research with a member of the research team at RS Consulting are welcome to contact Kate Downer, Project Manager, on **[telephone number]**, or Clare Fletcher, Senior Research Executive, on **[telephone number]**.*

Respondents can also contact the Market Research Society (MRS) on Freephone 0500 39 69 99 (calls are free from the UK). The MRS will confirm that RS Consulting is a genuine market research consultancy and will provide our switchboard number if the respondent would like this.

A Introduction

A1 Could I confirm that you received the letter from **[your pension provider]**, explaining that this research is taking place?

Yes	1	Continue
No/does not recall	2	Apologise for any confusion. Explain we were given respondent's name by [pension provider] , who we understand to be respondent's pension provider. Offer to resend letter and call back at a later date. Reconfirm address details OR if respondent willing to continue the conversation without the letter, carry on.

If possible, I'd like to ask you some brief questions about your pension arrangements now.

These will help us confirm that you are within the scope of the research and help us prepare for a possible full interview.

First of all I'd like to confirm that I work for RS Consulting, which is completely separate and independent from DWP and from **[your pension provider]**, and I can guarantee that the views that you express will be treated completely anonymously. We will not report back our discussion to anybody at DWP, or anywhere else, in a way that could possibly identify you.

A2 **Prospective annuitants only:** We understand from the information [your pension provider] has given us that, in the next four months, you are due to decide whether you wish to start drawing income from your pension. Is this correct?

- | | | |
|---|---|-------------------|
| Yes | 1 | Skip to Section B |
| No/individual has already signed contract with provider | 2 | Thank and close |
| Don't know | 3 | Thank and close |

Interviewer note: Code 2 should only be selected if respondent has filled in paperwork to arrange their annuity. Those who have simply decided to retire in the next four months (but have not yet actually purchased an annuity) should be coded 1.

A3 **Recent annuitants only:** We understand from information [your pension provider] has given us that you signed a contract with them between three and nine months ago, to convert your pension fund into an income for retirement. Is this correct? **NB respondents can still qualify if they have not yet started to receive payments**

- | | | |
|-----------------------------|---|-----------------|
| Yes | 1 | Continue |
| No/was not 3 - 9 months ago | 2 | Thank and close |
| Don't know | 3 | Thank and close |

A4 And have you already started to receive regular income payments from this pension?

- | | |
|-----|---|
| Yes | 1 |
| No | 2 |

A5 Did you already have a pension fund invested with [your pension provider], before you purchased your annuity from them?

- | | | |
|--|---|-------------------|
| Yes – pension fund invested with [pension provider] | 1 | Skip to Section B |
| No – pension fund not invested with [pension provider] | 2 | Ask A6 |

A6 Who was your main pension provider, immediately before you converted the pension fund into an annuity with [your pension provider]?

Previous pension fund provider _____

If respondent names multiple providers, please note them all down

Don't know 98

Now go to Section B

B Scheme and annuitisation schedule details

B1 **Prospective annuitants wording:** And can I just confirm that the pension you have with [your pension provider] is a [personal/occupational, as applicable] scheme?

Recent annuitants wording: And can I just confirm that the pension you had with [previous pension fund provider] was a [personal/occupational, as applicable] scheme?

- | | | |
|------------|---|---|
| Yes | 1 | Continue |
| No | 2 | Reclassify and check eligibility; then continue |
| Don't know | 3 | Continue |

C Financial circumstances and involvement with pension decisions

C1 Are you able to tell me the approximate total value of the pension fund that you currently hold with **[your pension provider]**? I will read out four size bands. Could you please estimate which one your pension fund fits into?

£15,000 or less	1	Thank and close
Over £15,000 - £40,000	2	Continue
Over £40,000 - £100,000	3	Continue
Over £100,000	4	Thank and close
Don't know	5	Continue

C2 Can I confirm that your marital status is **[marital status]**?

Or if absent: Could you tell me which of the following best describes your marital status?

Enter correct response code

Married/civil partnership	1	Continue
Single	2	Skip to C3
Co-habiting	3	Skip to C3
Divorced/bereaved	4	Skip to C3

C2a Do you expect to need to provide financially for a partner in your retirement, using your own pension income?

Yes	1	Skip to C3
No	2	Continue

C2b Do you expect to rely on a partner, using his or her own pension income, to provide financially for you when you have retired?

Yes	1	Skip to C4
No	2	Continue

C3 Do you expect to need to provide financially for another member of your family in your retirement, using your own pension income?

Yes	1
No	2

- C4 And finally, I'd like to get a sense of what you think your total personal income after retirement will be. Could you please tell me which of the following bands you think your total annual individual income will fall into, before taxes and deductions from pay? Please include all sources of income, including money you earn, any benefits you receive and income from other sources.

£15,000 or less	1	Continue
Over £15,000 - £40,000	2	Continue
Over £40,000	3	Thank and close
Don't know/refused	4	Continue

D Recruitment to face-to-face interview

As you may have read in the letter [your pension provider] forwarded to you on behalf of DWP, we want to talk to people, in person, to collect information from people throughout the UK about the decisions they face coming up to retirement and beyond. In the spring of next year, DWP will publish a report of the study's findings.

- D1 I wonder if one of my colleagues might interview you in person? This interview would take no more than an hour, and if you do take part you will receive £30 in cash, as a 'thank-you' for your help with this study. If you are currently claiming any benefits, this will not affect your entitlements to those benefits in any way. It can be conducted at your home, at a time that is convenient to you, or if you prefer at another location, such as your local library.

Willing to be interviewed	1	Continue
Unwilling to be interviewed	2	Thank and close

- D2 In order to concentrate on the conversation and avoid having to make very detailed notes while talking with you, the interviewer will need to make an audio recording of the conversation. Can I confirm that would be OK?

If necessary reiterate confidentiality: RS Consulting is a completely independent organisation from the DWP, and abides by the Market Research Society's Code of Conduct, which means that I can guarantee that all of the views that you express will be treated completely anonymously, and we will not report back our discussion to anybody in a way that could possibly identify you.

Willing to be audio recorded	1	Continue
Unwilling to be audio recorded	2	Thank and close

Interview date:

Interview time:

Interview location (confirm home address from sample or enter new location)

Respondent email address (if any) so that we can send a confirmation of the appointment and the interviewer's name

Thank and close.

E Demographics

Code gender (do not ask)

Male 1

Female 2

		Prospective annuitants		Recent annuitants	
		Small fund size	Large fund size	Small fund size	Large fund size
Single	Occupational pension	4	3	4	3
Married	Occupational pension	4	4	4	4
Single	Personal pension	4	3	4	3
Married	Personal pension	4	4	4	4

B.3 Discussion guide: prospective annuitants

DWP Information at Retirement

Name:		
Batch number:		Respondent ID:
Provider		
Contact details:		
Interview date & time:		
Interviewer:		
		Tick
Annuitant type	Prospective	✓
	Recent	
Scheme type	Occupational	
	Personal	
Fund size	£15-£40k	
	Over £40k	
Marital status	Married/civil partnership	
	Single/other	
Other notes from screening:		

Introduce yourself.

Thank you again for agreeing to take part in this research for the Department for Work and Pensions.

As my colleague explained earlier, we are conducting research into some of the financial decisions people face at retirement.

The interview will take no more than an hour, and as a 'thank you' we will offer you £30 for the time you give us.

So that I can concentrate on our conversation, I need to audio record the discussion so I can review it afterwards rather than having to write detailed notes while we speak. Can I just confirm that is OK? **Interview must be recorded.**

I hope you will feel free to be open about your experiences and opinions. I work for RS Consulting, which is completely separate and independent from DWP and from companies that provide pensions. I can guarantee that all of the views that you express will be treated completely anonymously, and we will not report back our discussion to anybody in a way that could possibly identify you.

Do not use word 'annuity' until question B3 unless respondent uses term earlier.

A Background and involvement with pension decisions

First of all I'd like to talk about your **[provider]** pension scheme.

I'd like to understand how important your **[provider]** pension will be to you at retirement, relative to any other sources of income you might have. Will your **[prov]** pension be your primary source of income, or do you expect to have other significant sources of income available to you?

A2 What level of involvement did you have in getting yourself enrolled in this scheme setting it up?

How did you come to join the scheme?

Did you take the lead in your joining, or was it your employer?

A3 Since you joined the scheme, could you tell me what level of involvement you have in monitoring the value of your pension fund? *How often? How did you do this?*

A4 Before you were contacted by **[provider]** earlier this year about your retirement, did you ever give consideration to, or make specific plans for, your financial arrangements at retirement? *Why/why not?* **Probe in detail, in particular on whether they did anything to find out whether their current arrangements were enough.**

A5 Before you were contacted by **[provider]** earlier this year about your retirement, did you get information from anybody about your financial options at retirement?

If so: Where did you get this information from? How long ago?

What happened? What influence did it have?

- A6 After you were contacted by [provider] earlier this year about your retirement, what did you expect to happen? When did you expect to have to make choices about converting your pension fund into income in retirement?
- A7 After you were contacted by [provider] earlier this year about your retirement, what did you think you'd need to do, or choose between?
- A8 After you were contacted by [provider] earlier this year about your retirement, how well prepared did you feel about what you thought you'd need to do?

SUMMARY CODES FOR A5 TO A7: Do not prompt, but tick all mentioned.

Purchasing an annuity/taking immediate retirement	1
Postponing annuitisation/retirement	2
Phased retirement	3
Taking (<i>up to 25% of the pension savings, tax-free</i>) a lump sum	4
Taking all of the pension savings in cash Probe: <i>How much cash would you get?</i>	5
Switching provider/OMO	6
Any mention of choices between different types of annuities	7
Others	8
None	98

B Awareness of available options and reactions to them

- B1 I want to focus on what you think are the options available to you now. Could you tell me the different ways in which you could choose to receive income when you do convert your pension fund?

Do not prompt, but tick all mentioned and probe on their understanding of the options and the scope for choice they have:

Purchasing an annuity Tick only if term 'annuity' used	1
Taking a regular income from my pension but term 'annuity' not used	2
Taking (<i>up to 25% of the pension savings, tax-free</i>) a lump sum	3
Taking all of the pension savings in cash Probe: <i>How much cash would you get?</i>	4
Purchasing a short-term annuity	5
Any other mention of choices between different types of annuities Specify	6
Others Specify	7
No choices normally required/it's all set up for you	8
Don't know	98

- B2 Apart from the option of taking some of your pension savings as a lump sum in cash, do you think that you will need to choose between different types of annuity?

Only if unclear on meaning of 'annuity': *A lifetime annuity is a financial product that provides you with an income throughout your retirement. Different types of annuity provide different options for how and when someone receives their pension, and what happens to the fund after their death.*

Will need to make choices between different types	1 Skip to B4
No choices to make	2 Continue
Don't know	3 Skip to B4

- B3 **If no choices to make:** Why will you not need to make a choice? (*e.g. Does something limit your scope for choice? Who decides your options?*)

Then skip to B5a.

B4 Which different types of annuities will be available to you for you to choose between?
Do not read out list, but circle if mentioned either by description or name.

Name	Description	
Single-life lifetime annuity	Pays out only during own lifetime	1
Joint-life lifetime annuity/last survivor annuity	Continues to pay an income to partner after own death	2
Level lifetime annuity/single-level annuity	Pays same income, irrespective of inflation	3
Escalating lifetime annuity/inflation-linked annuity	Income increases each year to take account of inflation	4
Lifetime annuity with guarantee period/guaranteed annuity	Guarantees minimum of 5 or 10 years of income; paid to estate if person dies beforehand	5
Annuity protection lump-sum death benefit/value-protected annuity	Paid to estate if annuitant dies before age 75	6
Impaired-life annuity/enhanced annuity	Pay higher-than-normal income for those with health problems threatening to reduce lifespan	7
Investment-linked annuity (with profits or unit-linked)	Annuity invested in stock market	8
Phased retirement/staggered-vesting annuity	Pension fund is gradually converted into an annuity over several years	9
Short-term annuity	Part of pension used to buy a fixed-term annuity lasting up to five years	10
Others Specify _____ _____ _____		11 12 13
None/don't know		98

B5a And whom can you actually buy your annuity from?

Note exact first answer given: Probe in detail if option of purchasing from a different provider/OMO is mentioned, but do not ask about respondent's own plans yet.

B5b **Only if OMO is NOT mentioned:** Do you have to purchase your annuity from [provider]?
Probe.

C The process of decision-making

I'd like to talk about some of the considerations that you may be weighing up as you think about retirement and your future income.

C1a If not known already: Are you currently in any paid employment?

- | | | |
|-----|---|--------------------|
| Yes | 1 | Ask C1b |
| No | 2 | Skip to C1c |

C1b To what degree have you considered reducing your time in paid employment?

*Do you think you will do this over a period of time? **If so:** When will you start reducing your time working? When might you stop work completely?*

Which considerations did you factor into your decision? **Only if necessary:** For example, lifestyle preferences, the nature of the work you were doing, financial issues, health concerns, your employer's policies about retirement, or anything else?

C1c Have you considered when to convert your pension fund into an income for retirement?

If not considered: *Why not?*

If yes, probe in detail on which options considered and why. *When? Over what period of time?*

C1d If respondent is postponing retirement/annuitisation, probe in detail: *Why are you postponing your retirement? Is it a financial decision? **If so:** How will postponing retirement change your financial circumstances? Probe in as much detail as respondent can predict.*

C2a To what degree have you considered whether you will take all or part of your pension fund as a cash lump sum when you do retire?

If not considered, *why not?*
if yes, probe in detail: *Why?*

C2b Which option do you think you might take? **Prompt if necessary; tick option(s) mentioned and degree of certainty.**

	Definite	Possible
Will take all of my pension savings as a cash lump sum if possible	1	2
Will take the maximum amount possible as a cash lump sum	3	4
Will take as much as needed for a specific purpose	5	6
Will not take a cash lump sum	7	8
Other Specify	9	10
Don't know	98	

C2c What factors are you taking into account as you consider these options? **Probe if necessary: Current age, size of fund, health, family, other assets, tax situation, liabilities, entitlement to state benefits**

C2d To what degree have you considered which type of annuity to purchase when you convert your pension fund?

If not considered: Why not? Then skip to C4a.

If yes, probe in detail: Which options and why? Note options in grid below.

Which type of annuity do you think you might buy? **Do not read out types of annuity; tick option(s) mentioned or described, and give degree of certainty.**

Name	Description	Definite	Possible
Single-life lifetime annuity	Pays out only during own lifetime	1	2
Joint-life lifetime annuity/ last survivor annuity	Continues to pay an income to partner after own death	3	4
Level lifetime annuity/ single-level annuity	Pays same income, irrespective of inflation	5	6
Escalating lifetime annuity/ inflation-linked annuity	Income increases each year to take account of inflation	7	8
Lifetime annuity with guarantee period/ guaranteed annuity	Guarantees minimum of 5 or 10 years of income; paid to estate if person dies before	9	10

Name	Description	Definite	Possible
Annuity protection lump-sum death benefit/value-protected annuity	Paid to estate if annuitant dies before age 75	11	12
Impaired-life annuity/enhanced annuity	Pay higher-than-normal income for those with health problems threatening to reduce lifespan	13	14
Investment-linked annuity (with profits or unit-linked)	Annuity invested in stock market	15	16
Phased retirement/staggered-vesting annuity	Pension fund is gradually converted into an annuity over several years	17	18
Short-term annuity	Part of pension used to buy a fixed-term annuity lasting up to five years	19	20
Others Specify _____ _____ _____		21 23 25	22 24 26
Don't know		98	

C2f What factors are you taking into account as you consider these options? *E.g. current age, size of fund, health, family, other assets, tax situation, liabilities or entitlement to state benefits*

C2g Have you considered which pension provider you wish to purchase your annuity from? **If not considered, why not?, if yes, probe in detail: Which providers have you considered and why?**

C2h Which provider are you most likely to purchase from? **Give provider and tick degree of certainty. Probe in detail: Why?**

	Definite	Possible
Provider _____	1	2
Don't know	98	

- C2i **Only read out question if not already clear:** Do you currently have a pension fund invested with [preferred annuity provider]?
- ALL respondents: circle correct answer.**
- | | |
|---|---|
| Yes – currently hold pension fund with preferred annuity provider | 1 |
| No – do not currently hold pension fund with preferred annuity provider | 2 |
- C2j There is a lot to consider here, isn't there? Could you talk me through the sources of information that you have used?
- Prompt if necessary:** *For example, are you comparing experiences with friends or family; gathering information online; paying more attention to what the papers say about pensions and annuities; taking professional advice; shopping around; reading material you've been sent on the subject that you'd probably have passed over before?*
- Probe in as much detail as possible, but do not discuss quality of specific sources of information (e.g. booklets, forecasts) yet.**
- C3 Of all the things you've done or the things you've paid attention to, what seems to be most useful as you consider whether, and how, to convert your pension? *Why?*
- C4 And the least useful? *Why?*
- C5 In what ways has [provider] assisted you in considering whether, and how, to convert your pension into income in retirement? **Probe.**
- If not:** *Has [provider] given you any information at all?*
- C6 How credible, clear and helpful was [provider]'s information?
- What would have been /be better for you?*

- C7 Has **[provider]**'s information come at the right time to be of help to you?
When would have been /be better for you?
- C8 Are there any things you feel you could have done, or should have done earlier, in order to make better decisions about converting your pension into income in retirement?

D Types of information used and how helpful they are

D1 Now I'd like to talk in a little more detail about specific sources of information that people may use to assess their financial options at retirement: whether printed, on the internet, or in person.

I am going to go through several different types of information that you might have received. I would like to understand whether you have ever received each of the different types of information.

For each option used, ask follow-up questions immediately.

Have you ever received...	Tick if rec'd	How did you get this? Did you use it? <i>How?</i> Probe for any changes in behaviour/ what happened next	If used:		
			How useful has it been to you? <i>Why?</i>	Do you trust the information provided? <i>Why?</i>	How could it have been improved?
Quotes and schedules from different providers of annuities	1				
	Rank:				
Information telling you <u>where</u> you can go to get advice about your options	2				
	Rank:				
Financial advice from a professional source, e.g. IFA, accountant, lawyer	3				
	Rank:				
Information given to you by [provider].	4				
	Rank:				

Have you ever received...	Tick if rec'd	How did you get this? Did you use it? <i>How?</i> Probe for any changes in behaviour/ what happened next	If used:		
			How useful has it been to you? <i>Why?</i>	Do you trust the information provided? <i>Why?</i>	How could it have been improved?
Financial information from government sources, e.g. DWP, The Pensions Regulator, FSA.	5				
	Rank:				
An up-to-date state pension forecast	6				
	Rank:				
Trade-off calculations showing the impact of any lump sum payouts on subsequent retirement income	7				
	Rank:				
Calculations showing annuity payments if retirement is taken at different ages	8				
	Rank:				
Information on how to shop around for annuity providers: what using the Open Market Option involves and the benefits it may provide	9				
	Rank:				

Have you ever received...	Tick if rec'd	How did you get this? Did you use it? <i>How?</i> Probe for any changes in behaviour/ what happened next	If used:		
			How useful has it been to you? <i>Why?</i>	Do you trust the information provided? <i>Why?</i>	How could it have been improved?
Information on non-standard annuity options suited to your personal financial circumstances	10				
	Rank:				

D2 If more than 1 source of information used: **Could you please rank the sources of information that you used, in order of the most useful to the least useful? *Which was the most useful? And the next most useful?*** Rank in order 1, 2, 3 etc. using table above.

E Summary and suggestions for improving decision-making about annuities and annuitisation

- E1 Now, thinking about all the information and advice you have received, has it changed your level of confidence in making decisions about converting your pension? **Probe.**
- E2 Of all of the sources you have used, which has been the most helpful or financially advantageous to you, would you say? *Why?*
- E3 Will you use any of the sources again in the future, to get additional or different kinds of information or guidance? Which ones? *How likely would you be to use it?*
- E4 Having discussed these different sources of information, is there any information that you would say you are lacking but would like access to? *Who could provide you with that information? In what format?*
- E5 Is there anything that your employer could do – or could have done – better, that would help you to make better financial decisions about converting your pension?
- E6 Is there anything that your provider could do – or could have done – better, that would help you to make better financial decisions about converting your pension?
- E7 Is there anything that the government could do – or could have done – better, that would help you to make better financial decisions about converting your pension?
- E8 How confident are you, overall, that you will come to a good decision about converting your pension into retirement income? *Have you had adequate information?* **Probe in detail.**

F Size of Pension and Age

Before we finish, I would like to ask some basic questions about your financial circumstances. **Reassure about complete anonymity if necessary.**

F1 Could you please tell me your occupation? **Only if necessary:** Which industry sector is that? **Note down occupation and industry sector as described by respondent.**

F2 Could you please tell me which of the following bands your total annual individual income falls into, before taxes and deductions from pay? Please include all sources of income, including money you earn, any benefits you receive and income from other sources. **Read out.**

Less than £10,000	1
£10,000-14,999	2
£15,000-£19,999	3
£20,000-£24,999	4
£25,000-£29,999	5
£30,000-£39,999	6
£40,000-£59,999	7
Over £60,000	8
Don't know	98
Refused	99

F3a And is there anyone else in your household with a source of income?

Yes	1	Continue
No	2	Skip to F4

F3b And could you please tell me which of the following bands your total annual household income falls into, *before* taxes and deductions from pay?

Less than £10,000	1
£10,000-14,999	2
£15,000–£19,999	3
£20,000-£24,999	4
£25,000-£29,999	5
£30,000-£39,999	6
£40,000-£59,999	7
Over £60,000	8
Don't know	98
Refused	99

F4 Finally, I'd like to get an idea of how your income breaks down into various sources.
For each question, read out and refer to answer grid as necessary.

F4a Approximately what percentage of your current total individual income comes from...

F4b **If anyone else in household with source of income:** And approximately what percentage of your current total household income comes from...

F4c Thinking forward to your total household income after you have stopped working, approximately what percentage of your total household income do you think will come from...

	F4a current individual	F4b current household	F4c household after retirement
Your [provider] pension	_____ %	_____ %	_____ %
Any other personal or occupational pension	_____ %	_____ %	_____ %
State pension	_____ %	_____ %	_____ %
Any other state benefits (not pension)	_____ %	_____ %	_____ %
Any earned income	_____ %	_____ %	_____ %
Any other sources (<i>e.g. rental income, interest, dividends, capital gains, draw down of savings or liquidation of investments</i>)	_____ %	_____ %	_____ %
Specify _____ _____ _____			
	Total 100%	Total 100%	Total 100%

F5 Finally, I would just like to confirm with you your age at your last birthday
Write in, but if respondent refuses to give exact age, read out list and ask respondent to say which category they are in ...

Age:

- 40-49 years 1
- 50-59 years 2
- 60-64 years 3
- 65-69 years 4
- 70-74 years 5
- 75 years + 6
- Refused 99

G Permission to re-contact

Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify things we've discussed, or to follow up on information that is particularly interesting. Would you be happy for us to call you back, if necessary?

Permission given 1

Permission not given 2

Record telephone number respondent would prefer us to use:

Record best day/time of day to call:

Thank you for sparing the time to help us with this study.

Just to reiterate, all of the information you have given me today will be treated completely anonymously, and we will not report back our discussion to anybody in a way that could possibly identify you.

Pay incentive, thank and close.

B.4 Discussion guide: recent annuitants

DWP Information at Retirement

Name: Batch number: Respondent ID: Provider: Contact details: Interview date & time: Interviewer:		
		Tick
Annuitant type	Prospective	
	Recent	✓
Scheme type	Occupational	
	Personal	
Fund size	£15-£40k	
	Over £40k	
Marital status	Married/civil partnership	
	Single/other	
Other notes from screening:		

Introduce yourself.

Thank you again for agreeing to take part in this research for the Department for Work and Pensions.

As my colleague explained earlier, we are conducting research into some of the financial decisions people face at retirement.

The interview will take no more than an hour, and as a 'thank you' we will offer you £30 for the time you give us.

So that I can concentrate on our conversation, I need to audio record the discussion so I can review it afterwards rather than having to write detailed notes while we speak. Can I just confirm that is OK? **Interview must be recorded.**

I hope you will feel free to be open about your experiences and opinions. I work for RS Consulting, which is completely separate and independent from DWP and from companies that provide pensions. I can guarantee that all of the views that you express will be treated completely anonymously, and we will not report back our discussion to anybody in a way that could possibly identify you.

Do not use word 'annuity' until question B3 unless respondent uses term earlier.

A Background and involvement with pension decisions

First of all, I'd like to talk about the pension scheme which [provider] is using to provide your retirement income.

I'd like to understand how important your [provider] pension is, relative to any other sources of income you might have. Is your [provider] pension your primary source of income, or do you have other significant sources of income available to you?

- A1 What level of involvement did you have in getting yourself enrolled in this scheme or setting it up?

How did you come to join the scheme?

Did you take the lead in your joining, or was it your employer?

- A3 After you joined the scheme, could you tell me what level of involvement you had in monitoring the value of your pension fund? *How often? How did you do this?*

- A4 Before you were contacted by your pension provider earlier this year about your retirement, did you ever give consideration to, or make specific plans for, your financial arrangements in retirement? *Why/Why not? Probe in detail, in particular on whether they did anything to find out whether their arrangements were enough.*

- A5 Before you were contacted by your pension provider earlier this year about your retirement, did you get information from anybody about your financial options at retirement?

If so: Where did you get this information from? How long ago?

What happened? What influence did it have?

- A6 After you were contacted by **[provider]** earlier this year about your retirement, what did you expect to happen? When did you expect to have to make choices about converting your pension fund into income in retirement?
- A7 After you were contacted by **[provider]** earlier this year about your retirement, what did you think you'd need to do, or choose between?
- A8 After you were contacted by **[provider]** earlier this year about your retirement, how well prepared did you feel about what you thought you'd need to do?

SUMMARY CODES FOR A5 TO A7: Do not prompt, but tick all mentioned and probe in detail on what they believed the options were:

Purchasing an annuity/taking immediate retirement	
1	
Postponing annuitisation/retirement	2
Phased retirement	3
Taking (<i>up to 25% of the pension savings, tax-free</i>) a lump sum	4
Taking all of the pension savings in cash Probe: <i>How much cash would you get?</i>	5
Switching provider/OMO	6
Any mention of choices between different types of annuities	7
Others	8
None	98

B Awareness of available options and reactions to them

B1 I want to focus on the options that were available to you after you received the letter from your provider inviting you to consider your financial arrangements in retirement. In which different ways could you choose to receive income when you did convert your pension fund?

Do not prompt, but tick all mentioned and probe on their understanding of the options and the scope for choice they have:

Purchasing an annuity Tick only if term 'annuity' used	1
Taking a regular income from my pension but term 'annuity' not used	2
Taking (<i>up to 25% of the pension savings, tax-free</i>) a lump sum	3
Taking all of the pension savings in cash Probe: <i>How much cash would you get?</i>	4
Purchasing a short-term annuity	5
Any mention of choices between different types of annuities Specify	6
Others Specify	7
No choices normally required/it's all set up for you	8
Don't know	98

B2 Apart from the option of taking some of your pension savings as a lump sum in cash, did you need to choose between different types of annuity?

Only if unclear on meaning of 'annuity': *A lifetime annuity is a financial product, that provides you with an income throughout your retirement. Different types of annuity provide different options for how and when someone receives their pension, and what happens to the fund after their death.*

Needed to make choices between different types	1 Skip to B4
No choices to make	2 Continue
Don't know	3 Skip to B4

B3 **If no choices to make:** Why did you not need to make a choice? (*E.g. Did something limit your scope for choice? Who decided your options?*)

Then skip to B5a.

- B4 Which different types of annuities were available to you for you to choose between?
Do not read out list, but circle if mentioned either by description or name.

Name	Description	
Single-life lifetime annuity	Pays out only during own lifetime	1
Joint-life lifetime annuity/last survivor annuity	Continues to pay an income to partner after own death	2
Level lifetime annuity/single-level annuity	Pays same income, irrespective of inflation	3
Escalating lifetime annuity/inflation-linked annuity	Income increases each year to take account of inflation	4
Lifetime annuity with guarantee period/guaranteed annuity	Guarantees minimum of 5 or 10 years of income; paid to estate if person dies beforehand	5
Annuity protection lump-sum death benefit/value-protected annuity	Paid to estate if annuitant dies before age 75	6
Impaired-life annuity/enhanced annuity	Pay higher-than-normal income for those with health problems threatening to reduce lifespan	7
Investment-linked annuity (with profits or unit-linked)	Annuity invested in stock market	8
Phased retirement/staggered-vesting annuity	Pension fund is gradually converted into an annuity over several years	9
Short-term annuity	Part of pension used to buy a fixed-term annuity lasting up to five years	10
Others Specify _____ _____ _____		11 12 13
None/don't know		98

- B5a And whom were you given the option of actually buying your annuity from?
Note exact first answer given: probe in detail if option of purchasing from a different provider/OMO is mentioned, but do not ask about respondent's own actions yet.

- B5b Only if OMO is NOT mentioned: Did you have to purchase your annuity from [provider]?
Probe.

C The process of decision-making

I'd like to talk about some of the considerations that you weighed up as you thought about retirement and your future income.

C1a If not known already: Are you currently in any paid employment?

- | | | |
|-----|---|--------------------|
| Yes | 1 | Continue |
| No | 2 | Skip to C1d |

C1b Have you reduced the time you spend working since you started drawing income from your pension?

- | | |
|-----|---|
| Yes | 1 |
| No | 2 |

C1c How did you decide when to begin reducing your time in paid employment?

*Did you do this over a period of time? **If so:** When did you start reducing your time working? When did you stop work completely?*

Which considerations did you factor into your decision? **Only if necessary:** For example lifestyle preferences, the nature of the work you were doing, financial issues, health concerns, your employer's policies about retirement, or anything else?

C1d And how did you decide when to convert your pension fund into an income for retirement? **Probe in detail on which options considered and why.** *When? Over what period of time?*

C1e What factors did you take into account as you considered these options? *E.g. current age, size of fund, health, family, other assets, tax situation, liabilities, entitlement to state benefits*

C1f Overall are you happy that the decision you took about when to retire was the best one for you financially? **Probe in depth:** *If you could take the decision again, is there anything you would do differently?*

C2a Did you give any consideration to whether you would take all or part of your pension fund as a cash lump sum on retirement? **If not considered, *why not?*, if yes, probe in detail: *Why?***

C2b Which option did you take? **Prompt if necessary; tick option(s) mentioned.**

Took all my pension savings as a cash lump sum	1
Took the maximum amount possible as a cash lump sum	2
Took as much as I needed for a specific purpose	3
Did not take a cash lump sum	4
Other Specify	5
Don't know	98

C2c What factors did you take into account as you considered these options? ***Probe if necessary: Current age, size of fund, health, family, other assets, tax situation, liabilities or entitlement to state benefits***

C2d Overall are you happy that the decision you took about whether to take a cash lump sum was the best one for you financially? **Probe in depth: *If you could take the decision again, is there anything you would do differently?***

C3a How did you decide which type of annuity to purchase when you converted your pension fund? Which types did you consider?

If not considered, *why not?* Then skip to C4a.

If yes, probe in detail: *Which options and why?* Note options in grid below.

C3b Which type of annuity did you buy? **Do not** read out types of annuity; tick option(s) mentioned or described, and give degree of certainty.

Name	Description	C3a Options	C3b Took
Single-life lifetime annuity	Pays out only during own lifetime	1	2
Joint-life lifetime annuity/last survivor annuity	Continues to pay an income to partner after own death	3	4
Level lifetime annuity/single-level annuity	Pays same income, irrespective of inflation	5	6
Escalating lifetime annuity/inflation-linked annuity	Income increases each year to take account of inflation	7	8
Lifetime annuity with guarantee period/guaranteed annuity	Guarantees minimum of 5 or 10 years of income; paid to estate if person dies beforehand	9	10
Annuity protection lump-sum death benefit/value-protected annuity	Paid to estate if annuitant dies before age 75	11	12
Impaired-life annuity/enhanced annuity	Pay higher-than-normal income for those with health problems threatening to reduce lifespan	13	14
Investment-linked annuity (with profits or unit-linked)	Annuity invested in stock market	15	16
Phased retirement/staggered-vesting annuity	Pension fund is gradually converted into an annuity over several years	17	18
Short-term annuity	Part of pension used to buy a fixed-term annuity lasting up to five years	19	20
Others Specify _____ _____ _____		21	22
		23	24
		25	26
Don't know		98	

C3c What factors did you take into account as you considered these options? *E.g. current age, size of fund, health, family, other assets, tax situation, liabilities, entitlement to state benefits.*

C3d Overall are you happy that the decision you took about which type of annuity to take was the best one for you financially? **Probe in depth:** *If you could take the decision again, is there anything you would do differently?*

C3e Did you give consideration to which pension provider you wished to purchase your annuity from? **If not considered, why not?; if yes, probe in detail:** *Which providers did you consider and why?*

C3g Only read out question if not already clear: Did you already have a pension fund invested with [provider], before you purchased your annuity from them?

ALL respondents: circle correct answer

Yes – pension fund invested with [provider] 1 **Skip to C4g**

No – pension fund not invested with [provider] 2 **Continue**

C3g Who was your main pension provider, before your converted the pension fund into an annuity with [provider]?

Previous pension fund provider _____

Don't know

98

C3h Why did you switch from [previous pension fund provider] to [current annuity provider]? **Probe in detail.**

- C3i Could you please talk me through the process you had to go through, from the time you chose to switch from [previous pension fund provider] to [current annuity provider], until you received your first payment? **Probe entire process in depth.**
- C3j Were you happy with the way the switch proceeded, or were there any unforeseen issues or delays that you encountered? **Probe in depth:** *What could have been improved about the process?*
- C3K ALL RESPONDENTS:** Overall are you happy that the decision to select [provider] as your annuity provider was the best one for you financially? **Probe in depth:** *If you could take the decision again, is there anything you would do differently?*
- C4 There was a lot to consider in making your decision. Could you talk me through the sources of information that you used?
Prompt if necessary: *For example, did you compare experiences with friends or family; gather information online; pay more attention to what the papers said about pensions and annuities; take professional advice; shop around; read material you were sent on the subject that you'd probably have passed over before?*
Probe in as much detail as possible, but do not discuss quality of specific sources of information (e.g. booklets, forecasts) yet.
- C5 Of all the things you did or the things you paid attention to, what was most useful as you considered whether, and how, to convert your pension? *Why?*
- C6 And the least useful? *Why?*

C7 In what ways did your [provider] assist you in considering whether, and how, to convert your pension into income in retirement?

If not: *Did the pension provider give you any information at all?*

C8 How credible, clear and helpful was the [provider]'s information?

What would have been better for you?

C9 Did the [provider]'s information come at the right time to be of help to you?

When would have been better for you?

D Types of information used and how helpful they are

D1 Now I'd like to talk in a little more detail about specific sources of information that people may use to assess their financial options at retirement: whether printed, on the internet, or in person.

I am going to go through several different types of information that you might have received. I would like to understand whether you ever received each of the different types of information.

For each option used, ask follow-up questions immediately.

Did you ever receive...	Tick if rec'd	How did you get this? Did you use it? <i>How?</i> Probe for any changes in behaviour/ what happened next	If used:		
			How useful was it to you? <i>Why?</i>	Did you trust the information provided? <i>Why</i>	How could it have been improved?
Quotes and schedules from different providers of annuities	1				
	Rank:				
Information telling you where you can go to get advice about your options	2				
	Rank:				
Financial advice from a professional source, e.g. IFA, accountant, lawyer	3				
	Rank:				
Information given to you by [provider].	4				
	Rank:				
Financial information from government sources, e.g. DWP, the Pensions Regulator, FSA.	5				
	Rank:				

An up-to-date state pension forecast	6				
	Rank:				
Trade-off calculations showing the impact of any lump sum payouts on subsequent retirement income	7				
	Rank:				
Calculations showing annuity payments if retirement is taken at different ages	8				
	Rank:				
Information on how to shop around for annuity providers: what using the Open Market Option involves and the benefits it may provide	9				
	Rank:				
Information on non-standard annuity options suited to your personal financial circumstances	10				
	Rank:				

D2 If more than 1 source of information used: **Could you please rank the sources of information that you used, in order of the most useful to the least useful? *Which was the most useful? And the next most useful?*** Rank in order 1, 2, 3 etc. using table above.

- E Summary and suggestions for improving decision-making about annuities and annuitisation
- E1 Now, thinking about all the information and advice you have received, did it change your level of confidence in making decisions about converting your pension? **Probe.**
- E2 Of all of the sources you used, which was the most helpful or financially advantageous to you, would you say? *Why?*
- E3 Having discussed these different sources of information, is there any information that you would say you were lacking but would have liked access to? *Who could have provided you with that information? In what format?*
- E4 Is there anything that your employer could have done better, that would have helped you to make better financial decisions about converting your pension?
- E5 Is there anything that your provider could have done better, that would have helped you to make better financial decisions about converting your pension?
- E6 Is there anything that the government could have done better, that would have helped you to make better financial decisions about converting your pension?
- E7 How satisfied are you, overall, that you came to a good decision about converting your pension into retirement income? *Did you get adequate information?* **Probe in detail.**

F Size of Pension and Age

Before we finish I would like to ask some basic questions about your financial circumstances, as background to the interview. **Reassure about complete anonymity if necessary.**

F1 Could you please tell me your occupation [if not still working: **immediately prior to retirement**]? Only if necessary: **Which industry sector is that?** Note down occupation and industry sector as described by respondent.

F2 Could you please tell me which of the following bands your total annual individual income falls into, before taxes and deductions? Please include all sources of income, including your pension, any money you earn, any benefits you receive and income from other sources. Read out:

Less than £10,000	1
£10,000-14,999	2
£15,000-£19,999	3
£20,000-£24,999	4
£25,000-£29,999	5
£30,000-£39,999	6
£40,000-£59,999	7
Over £60,000	8
Don't know	98
Refused	99

F3a And is there anyone else in your household with a source of income?

Yes	1	Continue
No	2	Skip to F4

F3b And could you please tell me which of the following bands your total annual household income falls into, *before* taxes and deductions from pay?

- Less than £10,000 1
- £10,000-14,999 2
- £15,000-£19,999 3
- £20,000-£24,999 4
- £25,000-£29,999 5
- £30,000-£39,999 6
- £40,000-£59,999 7
- Over £60,000 8
- Don't know 98
- Refused 99

F4 Finally, I'd like to get an idea of how your income breaks down into various sources.
For each question, read out and refer to answer grid as necessary.

F4a Approximately what percentage of your current total individual income comes from...

F4b **If anyone else in household with source of income:** And approximately what percentage of your current total household income comes from...

F4c Thinking back to the years before you purchased an annuity, approximately what percentage of your total household income would you say came from...

	F4a current individual	F4b current household	F4c household before retirement
Your [provider] pension	_____ %	_____ %	_____ %
Any other personal or occupational pension	_____ %	_____ %	_____ %
State pension	_____ %	_____ %	_____ %
Any other state benefits (not pension)	_____ %	_____ %	_____ %
Any earned income	_____ %	_____ %	_____ %
Any other sources (<i>e.g. rental income, interest, dividends, capital gains, draw down of savings or liquidation of investments</i>)	_____ %	_____ %	_____ %
Specify _____ _____ _____			
	Total 100%	Total 100%	Total 100%

F5 Finally, I would just like to confirm with you your age at your last birthday.

Write in, but if respondent refuses to give exact age, read out list and ask respondent to say which category they are in ...

Age:

40-49 years	1
50-59 years	2
60-64 years	3
65-69 years	4
70-74 years	5
75 years +	6
Refused	99

G Permission to re-contact

- G1 Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify things we've discussed, or to follow up on information that is particularly interesting. Would you be happy for us to call you back, if necessary?

Permission given 1

Permission not given 2

Record telephone number respondent would prefer us to use:

Record best day/time of day to call:

Thank you for sparing the time to help us with this study.

Just to reiterate, all of the information you have given me today will be treated completely anonymously, and we will not report back our discussion to anybody in a way that could possibly identify you.

Pay incentive, thank and close.

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