

# Saving: A matter of personality

✓ **Phil Brown explains why learning more about savers will only help the pensions industry**

It's fair to say that the first nine years of automatic enrolment have been a success, with 10 plus million more people saving into a pension, but can the same be said for our collective performance when it comes to making those savings last?

The latest round of the New Choices, Big Decisions research that the consultancy Ignition House conducted on behalf of The People's Pension and State Street Global Advisors suggests that there are dramatic improvements that can be made for those savers with funds that are below the threshold where they are unwilling or not able to engage an adviser. The report finds that many of these savers are 'sleepwalking into retirement' with some risking running out of money with up to a third of their retirement left.

Since the advent of pensions freedoms in 2015, our research has focused on a group of savers who are either approaching retirement or are recently retired and have between £30,000 and £250,000 in pension savings. The problems highlighted in the report arise in part because designing an effective pension retirement product for an individual is complex. Skills drawn from actuarial science, economics, and medical science, as well as investment knowledge would help any of us make informed decisions and not too many of us would have all, if any, of those. However, our job is made even harder because, as individuals, we have deep-rooted behavioural biases that make it difficult for us to grapple with risks



such as outliving savings and a lack of appreciation of the effects even a low level of annual inflation can have on the value of savings over time.

Last month, further research identified seven different types of personalities that researchers encountered during the interviews for New Choices, Big Decisions. Each is based upon the decisions taken by interviewees as they approached their retirement. The 'Can Do Better Colin and Clares' typically took all of their money as soon as they could, even though this could see them paying up to 40 per cent tax. Many have little or no knowledge at all when it comes to investments and they have ended up placing all their pension money in a cash ISA with their own bank.

Another significant group, 'Spend it Sally and Simons' were happy to take their money, usually some tax-free cash – to spend on holidays, home improvements, a new car, or a treat for a family member. They would take the rest of their cash in drawdown as and when they need it. 'Winding Down Wendy and Williams' are people in phased retirement with some taking their DC savings in drawdown to act as a 'bridge' until they

draw their state pension. The 'Leave it Linda and Larrys' struggled so much to come to a decision about what to do with their pension that, five years on, the pot remained untouched while 'Buy-to-Let Brian and Barbaras' did what it said on the tin.

Risk averse 'Secure Stan and Sues' on the other hand tend to buy an annuity rather than run the risk of running out of money while the small group of 'Help Me Helen and Harrys' were the only ones which sought the help of independent financial advisers.

While there are comparatively few people who are currently retiring with only DC assets, this group is going to increase significantly over the next decade. The innovation required to meet their needs will likely require solutions which combine products and give people more guidance.

Subsequent YouGov polling we conducted supports this view: that nearly four in 10 (37 per cent) of those who are saving for retirement would be prepared to be guided towards taking a pension that was split between giving them a guaranteed regular income (an annuity) and the rest as a flexible income pot (drawdown) after taking the tax-free lump sum upfront.

Now that we understand more about the decisions those approaching retirement make and what they want from a product and a provider, it's important that the industry continues to work on solutions that will future-proof DC retirement.

To read our full report go to; [www.thepeoplespension.co.uk/ncbd-report](http://www.thepeoplespension.co.uk/ncbd-report) or for further information call us on 0333 230 1310.



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