Walk this way

Emma Douglas considers pension savers' views on the FCA's Investment Pathways

Do you know where your pension is invested? In 2019, the Financial Conduct Authority's (FCA) *Retirement Outcomes Review* uncovered that for a third of all consumers entering drawdown, the answer is no.[1] Instead, many choose the 'path of least resistance' and remain in the funds they were invested in before they retired.

But can Investment Pathways alone solve savers' woes? LGIM and NMG Consulting investigated the reactions of nearly 1,200 non-advised existing and prospective drawdown users' to the new concept[2], including who finds Investment Pathways useful: Does it meet the requirements of the scheme members most in need? In this article, we discuss our findings.

X marks the spot: Who found the concept the most useful?

The overall reception to Investment Pathways from both prospective retirees and those already in drawdown is warm. Sixty per cent of all respondents are positive about the broad idea. The four Investment Pathway options are relevant to the challenges retirees and the pre-retired face, with nine in 10 consumers able to align one of the options to their needs:

> "It lays out all the options more clearly. Although all these options are already there they are just laying them out in a better way." ***Existing drawdown customer***

In particular, it is reassuring that the Investment Pathway concept appears to meet some of the requirements of the savers who are most in need of a boost. In part one of our research, we highlighted that older 'Generation Xers' (aged 50-56) have fallen through a gap in terms of pensions policy, savings and assets, issues that generations above and below them may not face. The prospective drawdown customers we surveyed, many of whom form part of this cohort, generally express lower confidence and exhibited lower knowledge levels than those already in retirement, anxieties which have been compounded by the Covid pandemic.

Prospective drawdown customers who think the Investment Pathways concept will be quite or very useful for their future pension decisions

Age:	50-54	55-64	65+
	68%	61%	58%

Source: LGIM & NMG Consulting, 2020

So it is encouraging that 68 per cent of prospective drawdown customers aged 50-54 say they found the concept quite or very useful, a number which decreases as age rises, falling by 10 per cent for Baby Boomers over 65. Interest in the broad Investment Pathways concept is strongest among prospective retirees with pot values of between £30,000 and £100,000, the mid-sized group which is in line with the majority of the non-advised drawdown market.

Pathways feel simple enough for the majority of those who had not yet drawn down their pension to say they would proceed without advice. While just 12 per cent said they feel they need formal financial advice to make a decision having seen the concept, 60 per cent feel confident enough to make the decision alone.

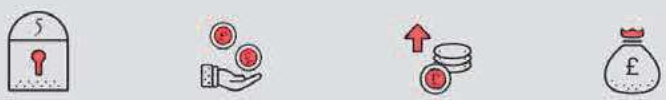
However, for many savers, any more than four choices with a single fund solution attached seems too complicated:

> "I think I would be quite happy making a decision. The way they have tried to simplify this makes me feel more confident. I would want just one fund and one choice." ***Prospective drawdown customer***

Conversely, there is a group of more engaged and confident savers, mostly amongst the already-retired segment, for whom the concept appears too basic. Those who rate themselves as being 'very' knowledgeable or confident about their retirement planning find the concept the least useful, with just 50 per cent and 41

What are Investment Pathways?

Effective after 1 February 2021, Investment Pathways are four options offered by providers to savers at retirement. Each has an appropriate single-fund solution sitting behind it:



Option 1: I have no plans to touch my money in the next five years

Option 2: I plan to use my money to set up a guaranteed income (annuity) within the next five years

Option 3: I plan to start taking my money as a long-term income within the next five years

Option 4: I plan to take out all my money within the next five years

There is no minimum investment amount, and members can mix and match between different options, as well as switching in and out at different times to suit their needs after retirement.

The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

per cent respectively declaring it useful. For this group, who tend to be older, male and better financially resourced, Investment Pathways are not perceived as likely to augment their retirement planning as they are already engaged investors.

A risky business?

While each solution's outcome was key for consumers, some non-advised savers are preoccupied with the perceived risk attached to each solution and 15 per cent describe themselves as 'very' risk averse.

Respondents are lukewarm about option one (leave money invested) because, as a 'medium risk' fund solution, it is perceived to be too high for them at this stage. Similarly, option four (withdraw all money) is seen as reckless, inappropriate for the vast majority and needing to be accompanied with detailed risk information, e.g. on the possible tax implications. Sixty-five per cent of those choosing to purchase an annuity described themselves as 'very' risk averse and likely did so on the basis that an annuity was perceived to be lower risk than the other options.

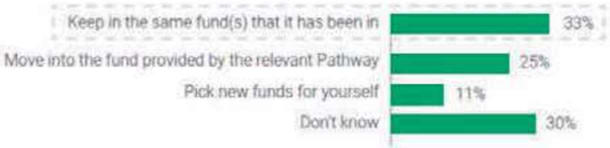
This risk aversion is not the case for everyone. As previously mentioned, for a small group, Investment Pathways are not perceived as likely to augment their retirement planning as they were already engaged investors. In general, however, respondents are very focused on outcomes and far less comfortable discussing the investment solution sitting behind each option.

It's also clear that the existence of the Investment Pathways concept alone should not mean that we treat better retirement planning as a fait accompli.

In our first report, we identified that for the majority of pension savers, default behaviours embedded during the pensions accumulation stage can lead to default behaviours during the decumulation stage. Unless investors are nudged, they are unlikely to break the habit of a (working) lifetime, and the biggest barrier to adoption of the concept will be apathy. Unfortunately, this was more pronounced amongst the generally less confident prospective drawdown group.

At the point of first access to their pension pot, one-third of those who had not yet drawn down expressed a preference for remaining invested in their accumulation fund even after the Pathway concept was explained to them, compared to just a quarter choosing Pathways.

The devil you know: Staying invested in their accumulation fund is the most popular choice for members at retirement



Source: LGIM & NMG Consulting, 2020

At the stage where you need or want to start accessing money from your pension (either just the tax-free cash or more regular income), do you think you would prefer to: (Prospective drawdown customers)

The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

One small step for savers, one giant leap for pensions

Investment Pathways go a long way towards alleviating anxieties and delivering on the promise to firm up retirement options, in particular for non-advised savers who are yet to draw down. Those who previously confessed to having their head in the sand told us that this was a positive first step, a relatable and simple way to make retirement choices feel tangible, with a focus on the outcome of each decision.

The advice gap is still palpable in some non-advised savers' discomfort with risk and unwillingness to consider the investment aspects of the underlying solution. Above all, an unwillingness to engage early on leads to a reluctance after retirement.

Overcoming retirement apathy and ensuring the Investment Pathways concept is adopted fully and broadly begins long before members come to make their decumulation decisions. It starts early on in their accumulation journey and requires frequent touch points using the media savers use in their daily lives.

Written by LGIM head of DC, Emma Douglas

In association with Legal & General Investment Management

[1] https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review
[2] Qualitative research too place in September 2020 and quantitative research in October 2020

Important information

For professional clients only. Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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