The Great British Retirement Survey 2021

interactive investor

Foreword.

A pension is likely to be the biggest pot of money someone ever has in their lifetime. But the business of looking after a pension yourself can be daunting, particularly in uncertain times. It raises crucial questions: Will I have enough to live on or leave to loved ones? Will I need care and if I do, can I afford it? Am I getting a good return? Should I take more risk? Will the value of my investments fall?

Understanding the experience of others can help us find the answers for our own retirement planning - this is one reason we produce the annual Great British Retirement Survey.

This year's survey, our third, gathered more than 10,000 responses. There were more than 100 questions and many respondents chose to go into far more detail than we had asked. I would like to thank everyone who took the time and effort to complete it.

The amazing volume of answers is testament to the strength of public feeling and opinion about what retirement looks like in modern Britain, as well as how it has changed for better or for worse.

We found that good judgment is important for retirement outcomes, but luck also has an undeniable role to play, and some people are inherently more vulnerable than others.

After six years of pension freedoms, we are seeing evidence of a flipside to freedom. Freedom to choose and manage your own pension investments is a good thing, but requires more education, guidance, and tools. Without these, people accumulating and drawing their pensions can fall foul of complexity and make mistakes.

Fear of policy changes affecting pensions is a strong theme. The freezing of the Lifetime Allowance and rumours of further changes are causing greater than usual anxiety. The concern among younger respondents that the state pension may not be there for them at all is a very troubling finding.

As a leading UK pension provider, we are here to support people through the process of investing for retirement, both as they build up a pot and draw it down. The survey reveals that a pension remains the top choice among ways to provide an income in retirement for two thirds of people – it is important that it retains this crown. A public confidence boost in state and private pensions is needed now, more than ever.

Richard Wilson,
Chief Executive of interactive investor

Introduction.

'I Want to Break Free' is one Queen song to which many of us might have found ourselves involuntarily humming along during recent months, as a collective sense of cabin fever had people longing to get out.

We certainly found ourselves strumming air guitar and channelling Freddie Mercury while working through the findings of the third annual Great British Retirement Survey from interactive investor.

'Who Wants to Live Forever' was not a question for this survey, but we did ask 'What does retirement mean to you'? and found the pandemic seems to have prompted a rosier view of retirement. 'These Are the Days of Our Lives' could be the title of choice for those who told us they want to spend retirement enjoying freedom, independence, travel and hobbies. More people than last year associated retirement with a life of pleasure. The YOLO (you only live once) view of life, whether a temporary pandemic response or permanent, was certainly in evidence among the responses.

Notably up from last year was the proportion associating retirement with travel. Dreams of vistas other than the end of the garden translated into two thirds of people (67%) hoping to get around more in retirement. Almost one third – 29% of those yet to retire, put travel as their top retirement priority. This lust for life, if you'll permit a bit of Iggy Pop in the mix, may prove motivating, encouraging people to invest even more, so that they are able to seize the day in future. Or it may instead cause people to dip in perhaps a little too much to the wealth they have built up, then risk not having enough to last the whole of their retirement. We will have to wait and see how that particular trend translates into retirement planning.

The desire to break free was also evident in responses around drawdown. The increasing complexity of both building and accessing a decent pension pot had many nostalgically yearning for simpler times, when a pension paid you a decent income for life and you didn't have to think about it. 'I Want It All' springs to mind. However, the desire for simplicity has not translated into renewed demand for annuities, with the majority still viewing them as poor value and opting for the more complicated but more rewarding drawdown instead.

Despite most people choosing drawdown, the drawbacks of this approach to retirement income were a strong theme for those who had already begun to access their pensions: 'Under Pressure' the theme tune for those trying to make multiple pots last, keep charges and tax down and returns high, but risk as low as possible. The complexity of drawdown has left many feeling under pressure to make the right decisions but not always feeling they have sufficient knowledge to do so. The flipside of freedom may be less simplicity and more time spent considering your options.

Some respondents were anxious, seeing government policy changes as undermining the endeavour of investing in a pension. Potential changes to the Lifetime Allowance were a source of anxiety for those likely to be affected – 'I Want It All' again the refrain of those who don't see why they should pay a tax charge for strong investment growth. Many respondents see the entire pensions system as under pressure from the Government, as it looks at ways to pay pandemic debts. Young respondents doubt whether the state pension will be there for them at all when they retire – assuming it will be a case of 'Another One Bites The Dust.'

Those who fell into one of the vulnerable categories we identified, including: those not entitled to the full state pension, women facing pension inequality, the self-employed, disabled people, people with outstanding debts and scam victims, reported that their circumstances had dented their retirement prospects. Worryingly, fewer scam victims reported getting their money back this year. 'Keep Yourself Alive' the tune that perhaps resonates the most with those at the sharp end of managing retirement income. The more vulnerable respondents feel under financial pressure to live off less and to continue to work past retirement age. Finally, worries about stock market returns falling add to this pressure cooker atmosphere for those approaching or already in retirement, with so much dependent on factors beyond our individual control.

The impact of the pandemic on household finances is well documented, but our survey responses suggest that on balance, more people were feeling wealthier as a result of making unexpected savings than had experienced financial loss. Those who had suffered financially were a significant minority.

'The Show Must Go On', naturally, and despite pressure, anxiety, falls in the value of pension portfolios, the freezing of dividend income payouts and loss of earnings for older workers in the pandemic, pensions remained the first choice product for retirement planning among our respondents, although people were keen to point out ways the system could be improved. Among the comments left were some practical suggestions for solutions to some big issues, with respondents floating the ideas of pooling Lifetime Allowances for couples and offering further tax benefits to the millions of unpaid carers in the UK, who see their pensions suffer through time out of formal employment.

Finally, the wish to learn about and manage pension investments independently was a strong theme. The increase in the percentage of respondents who said they did their own research when making decisions was dramatically up on last year, as lockdowns gave people time to do their own research. 'We Are The Champions' the song choice for those independent-minded investors who prefer the DIY approach of becoming their own financial expert and investing their way to pension victory.

Becky O'Connor,
Head of Pensions and Savings

Source

The research was conducted by CoreData, a global market research consultancy, on behalf of ii between March and July 2021 by more than 10,000 respondents online.

Key Findings

Covid/global events

There have been more financial winners than losers from the coronavirus pandemic. More than one in three (36%) of our respondents have seen their wealth increase. But one in five (21%) said their wealth had decreased, and 13% had been made redundant or lost income.

Worries about financial markets remain high. Despite markets recovering most of the losses seen at the start of the pandemic (the FTSE 100 index reached 94% of its pre-pandemic high in August 2021[1]), concerns about future falls in the value of shares remain. 49% of non-retired respondents and 47% of retired respondents listed this in their top three financial concerns.

Investment worries are impacting retirement plans. 10% of non-retired respondents think they will need to delay retirement, one in five (20%) are more likely to need to work in retirement to make up for shortfalls, and 7% are more likely to buy an annuity to ensure a guaranteed income.

Pensions complexity

Most adults have multiple pension pots, which can lead to confusion and a risk of losing track of retirement savings. Two thirds (66%) of non-retired respondents had more than one pension pot, and 15% of these had four or more. One in 17 (6%) of non-retired respondents did not know how many pension pots they had, highlighting a significant risk that they could lose track of parts of their retirement income.

Pensions still dominate retirement plans, but many plan additional income sources – and the strong interest in property as an investment has not abated. 65% of retired and 60% of non-retired respondents said pensions were their most important source of retirement income. Half of respondents also had stocks and shares ISAs, and one in five had buy to let investments.

Attitude to risk

Many people wish they had understood more about investment risk and the benefits of taking a higher-risk approach when they were younger. 39% of non-retired respondents and 30% of those retired said they wished they had understood more about risk at an earlier stage in life.

Most people's attitudes to risk have not been affected by the pandemic. 78% of retired and 70% of non-retired respondents are neither more nor less risk-averse or risk-tolerant because of the pandemic experience.

Tax and regulation

Many young people are not confident that the state pension provision will exist for them by the time they retire. 26% of respondents in their thirties and 53% of those aged between 24 and 29 said they were not sure that the state pension would provide for them.

There is much consternation about the freezing of the Lifetime Allowance. 21% of non-retired respondents believe they will be hit with charges for breaching the limit,

[1] FTSE 100 Index 2020 high was 7674 on 17 Jan 2020 and reached 7219 on 13 August 2021

with a further 24% nearing the affected threshold.

Uneasiness about government changes to tax and regulations is rising. Nearly one in three (30%) of non-retired respondents listed tax as a top-three financial concern.

Ethical investing

Interest in ethical investing is going mainstream, with nearly half of respondents investing ethically at least some of the time. 6% of respondents said they invested ethically, 40% said they did sometimes but not always, and 6% said they did not but would like to do so. 38% thought workplace pensions should offer ethical investments as a default option.

Information about how workplace pensions are invested may be developing but still needs improvement. One in three (35%) said their pensions were invested in a way aligned with their moral values. But 41% said they did not know how they were invested, though this was lower than last year's figure of 54%.

Information and education

More people are doing their own financial research online. Two thirds (65%) of our respondents said they did their own online research, a significant increase on last year's survey, potentially highlighting the extra time available to some during lockdowns.

Financially vulnerable groups

Having a disability can have a serious effect on saving for retirement. Almost half (45%) of our non-retired respondents with a disability said their disability had hindered their retirement prospects. 33% said they had not been able to earn as much, and 12% said they had not been able to save as much, with many highlighting the added burdens of care costs and the impact of caring on income.

Self-employment can negatively impact retirement prospects. One in five (20%) self-employed people said it had negatively affected their retirement prospects. 15% said they were relying on a successful sale of a business to generate income for retirement – the pot of gold at the end of the rainbow. This is a path loaded with risk. Many recognised the benefits of self employment, too, and the opportunity it provides many to continue working as long as they like or to glide into retirement.

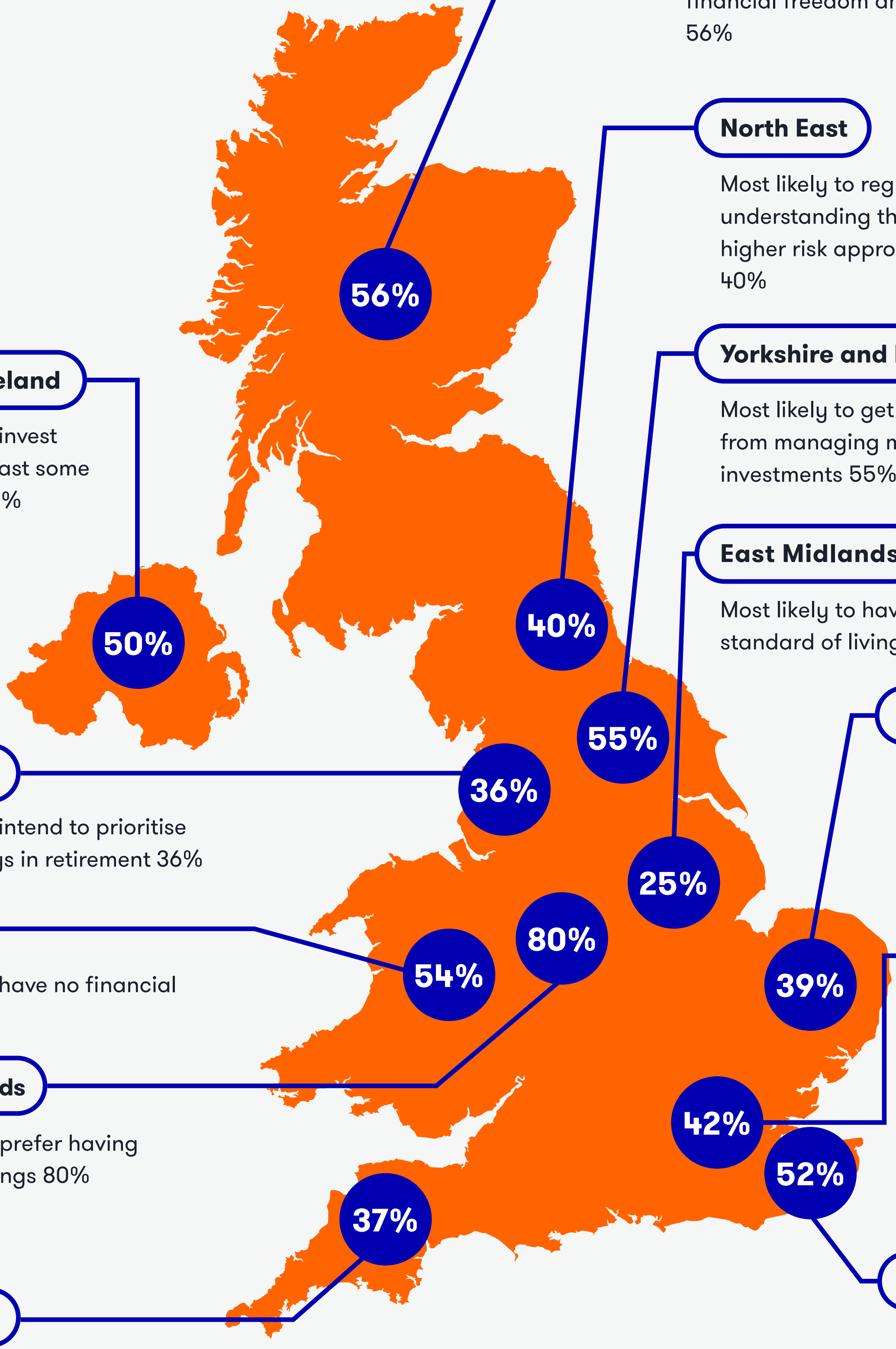
Housing costs in retirement are a significant worry for renters. Only 32% of renters who were not yet retired thought their pensions would be enough to cover rent and other costs after retirement. Another 38% were not sure. Less than one in three (30%) thought their pensions would not be enough.

Victims of financial scams have been less likely to get their money back. Slightly fewer respondents reported being a victim of a financial scam this year (9% versus 13% last year). But only 34% of those who fell victim had received their money back – a drop of 9 percentage points. 56% had not had their money returned, and 11% were still waiting. People may be becoming more "scam smart", and banks may be getting better at thwarting scams – but the responsibility for recognising fraud seems to be pushed increasingly towards the victim.

Trends

	2021	2020	2019
What does retirement mean to you? Travelling	67%	60%	57%
What are your priorities for retirement (non-retired)? Top rank: Travelling	31%	25%	22%
Have you helped your children buy property? Yes – I gifted money for a deposit	35%	32%	27%
Do you own a property other than your own home?	31%	25%	22%
Source of help for planning retirement finances: Own online research	65%	36%	42%
Biggest financial concerns (retired, in top 3): Falls in value of stocks and shares	47%	52%	42%
Biggest financial concerns (non-retired, top 1): Falls in value of stocks and shares	23%	10%	8%

Regional variations



Scotland

Most likely to see retirement as offering financial freedom and independence 56%

North East

Most likely to regret not understanding the benefits of a higher risk approach when younger 40%

Yorkshire and Humberside

Most likely to get sense of satisfaction from managing money and investments 55%

East Midlands

Most likely to have maintained standard of living on retirement 25%

East

Most likely to plan to do voluntary work once retired 39%

London

Most likely to see retirement as an opportunity to start a new business/pursue new hobbies 42%

South East

Most likely to see retirement as time to dedicate to others 52%

Northern Ireland

Most likely to invest ethically at least some of the time 50%

North West

Most likely to intend to prioritise travel/holidays in retirement 36%

Wales

Most likely to have no financial regrets 54%

West Midlands

Most likely to prefer having money in savings 80%

South West

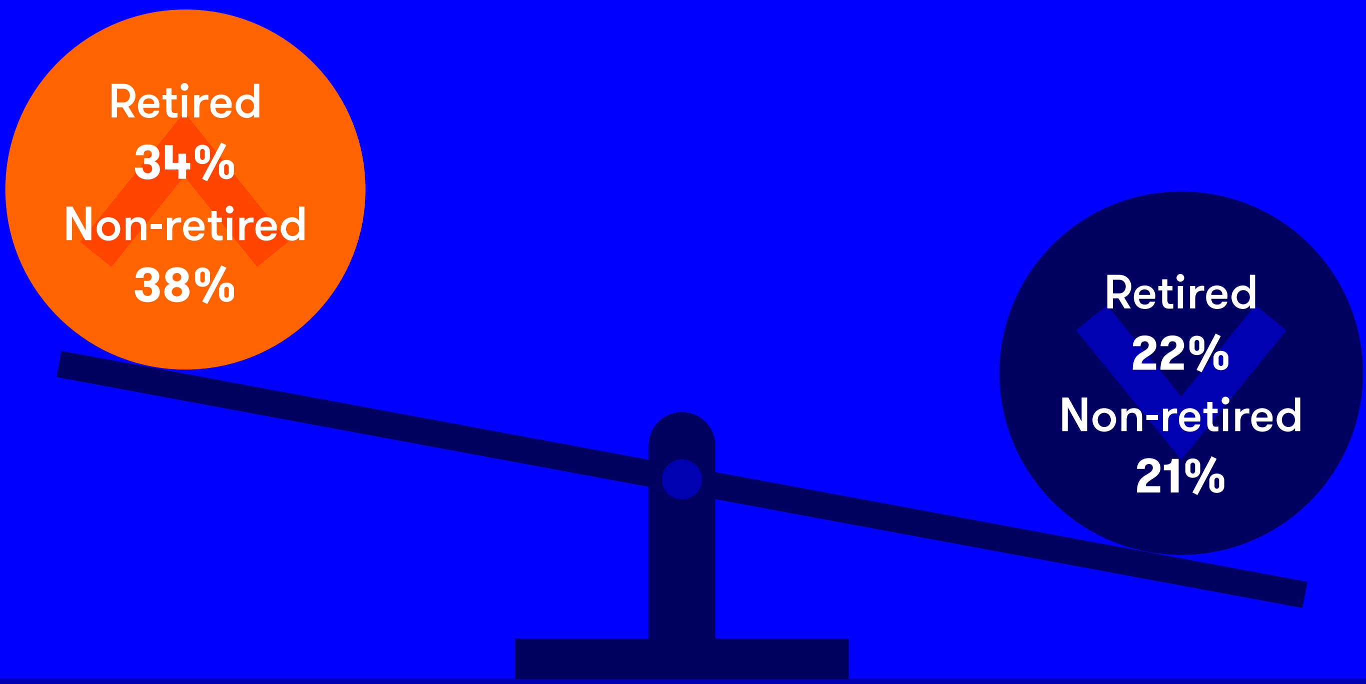
Most likely to have pension invested in a way that aligns with moral values 37%

1

Coronavirus

Financial impacts

The effects of coronavirus are still playing out on people's finances and retirement plans but perhaps surprisingly there were more winners than losers among the respondents to our survey.



% who saw their wealth increase or decrease over the pandemic

It seems that some people have benefited from a very high risk approach, and while this may in some cases have resulted in wins, long-term a more diversified approach may give you a better night's sleep.

"I invested a third of my SIPP in US high tech before COVID, which has increased in value by 60% during COVID"

Wealth winners

More than one in three (34%) retired respondents said their wealth had increased (29% somewhat and 5% significantly). Responses suggest some were lucky in their investment timing; others said they had been able to invest extra when normal spending was restricted during lockdowns.

Among non-retired people, even more (38%) said their wealth had increased (32% somewhat and 6% significantly).

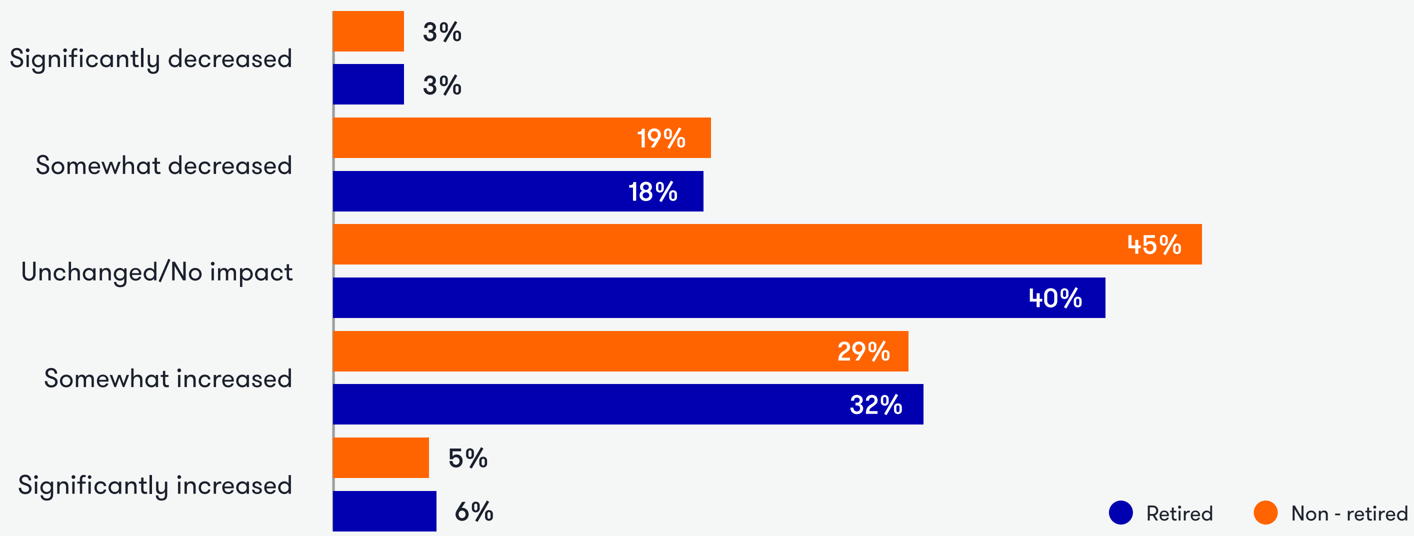
"I invested a third of my SIPP in US high tech before Covid, which increased in value by 60% during Covid."

"I usually take holidays each year, and because of the pandemic I chose to invest the money on higher-risk investments – which grew in value."

"I was fortunate enough to transfer one of my pension pots just before the pandemic hit last year. As a result, I had cash in my SIPP, which I was able to invest when the stock market was down."

"Working from home has greatly increased my ability to save money – fewer commuting costs. Prior to the pandemic I was spending £270 a month on petrol, contributing carbon to the atmosphere and giving me less money to save up for my own retirement. Also, the amount of time I save in travel time makes me able to work longer hours in the same job. I'm sure I must be more efficient than before the pandemic."

Has the pandemic increased or decreased your wealth?



Base: All respondents

> "Covid has affected my pension pot value negatively, it's still recovering."

Wealth losers

A smaller but significant number – around one in five – saw their wealth depleted during the pandemic.

Among retired people, 22% said their wealth had decreased (19% somewhat and 3% significantly). Potential reasons could be poor investment choices; being forced to draw down income from investments when markets were low, which weakened recovery chances; having to use capital to make up for reduced dividend income; or being forced to retire earlier than planned.

Among non-retired people. 21% said their wealth had decreased (18% somewhat and 3% significantly).

"I have long Covid and have received no financial help, so I've been six months on sick pay alone and used nearly all the savings I have."

"Covid has affected my pension pot value negatively, it's still recovering."

"Covid forced me to use a lot of my savings due to being unable to travel for work."

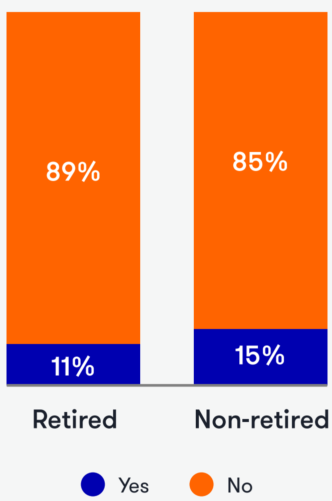
"Because of Covid, I lost my job. I'm unlikely able to get another that fits around looking after my grandchildren, so I took early retirement on very little private pension."

Loss of income due to coronavirus

15% of non-retired respondents said they had been made redundant or lost income because of the coronavirus pandemic. One in 10 (11%) of retired respondents said the same.

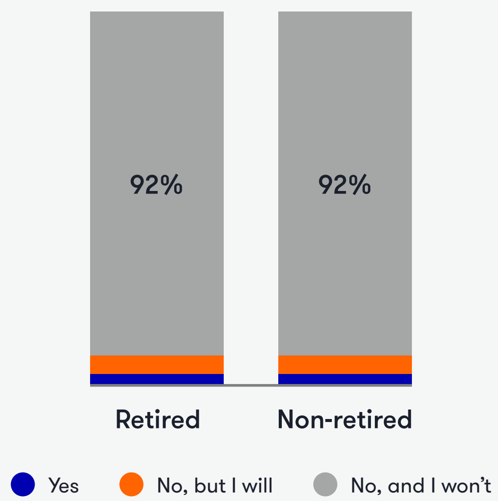
Some respondents (3%) have needed to drawdown from their pensions because of the impact of the pandemic on their income, and a further 5% said they would need to do this.

Have you been made redundant or lost income as a result of the coronavirus pandemic?



Base: All respondents

Have you had to drawdown from your pension because of the impact of the coronavirus pandemic?



Base: All respondents who have access to their pensions

Even when markets had recovered, many were still taking a hit on income because of companies slashing or cancelling dividend payouts [2]. Over the year from March 2019 to 2020 UK companies cut dividends by 41.6%. Globally, dividends fell by over a fifth in the second quarter of 2020. 51 FTSE 100 companies, 115 FTSE 250 companies and 149 AIM-listed companies cut, suspended, or cancelled dividends in 2020[3].

"Reduced dividends due to the pandemic have reduced my income by 20%."

"Covid has resulted in the premature disposal of my hospitality business."

Effects of poor investment performance

Many respondents cited the coronavirus pandemic as a major factor that had derailed their retirement plans.

"Coronavirus has affected my ISA and SIPP value."

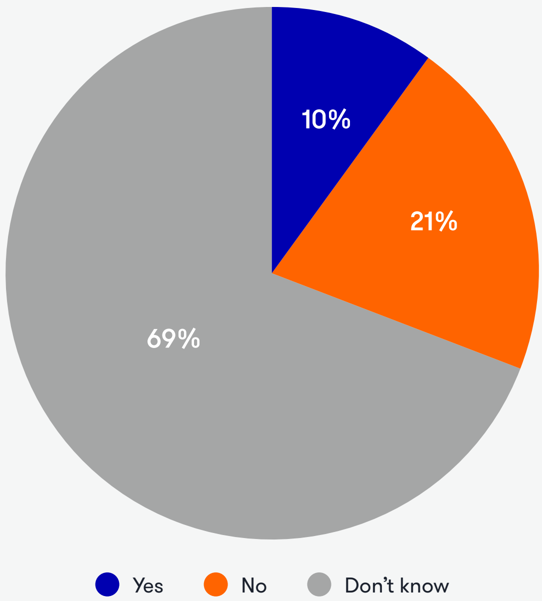
"Covid means my investments are worth a lot less and will delay my retirement."

We asked our non-retired respondents whether they would have to delay retirement because of poorer than expected investment performance. 10% said they would have to delay retirement, and 21% were not sure.

Compared with last year's survey, this is a slightly lower proportion (10% versus 12%). There was also less uncertainty, with 69% saying they would not have to delay (versus 54%) and only 21% being unsure (versus 33%).

"Covid means my investments are worth a lot less and will delay my retirement."

Will you delay retirement because of poorer than expected investment performance?



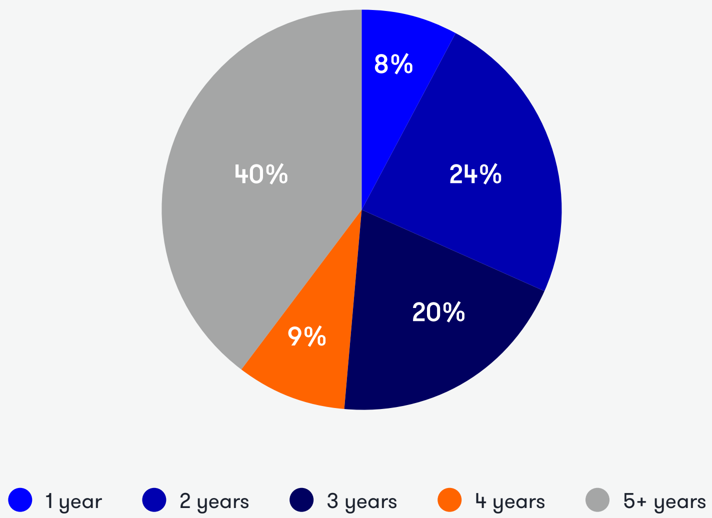
Base: Non-retired respondents

[2] https://www.ft.com/content/2719966c-b228-4300-bdc0-dcbe2f7050fd

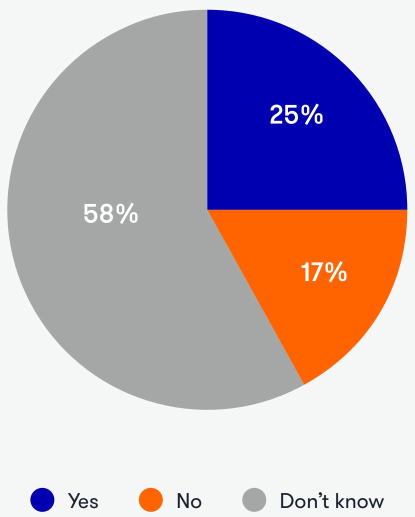
[3] https://www.which.co.uk/news/2021/07/coronavirus-how-to-protect-your-investment-portfolio/

Nearly half (49%) of those who said they would need to delay retirement said they would have to postpone for four or more years. A quarter (25%) said they feared they would never be able to afford to retire, illustrating a serious impact on a significant minority of working people.

How long will you delay your retirement because of poorer than expected performance?



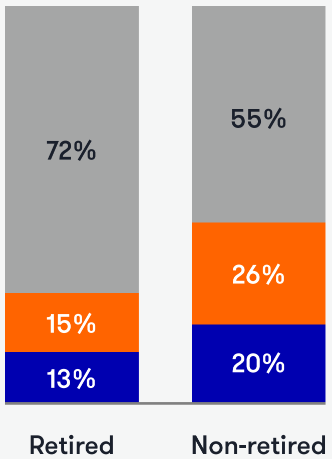
Do you fear that you'll never be able to afford retirement owing to poor market performance?



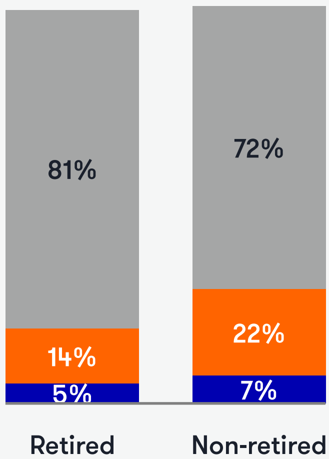
Base: Non-retired respondents who will have to delay retirement

Poor market performance affected the retirement plans of a minority in other ways as well. One in five (20%) non-retired people and 13% of retired people said they were more likely to need to work in retirement to make up for shortfalls. 7% of non-retired and 5% of retired were more likely to buy an annuity to ensure a guaranteed income. These are like the proportions seen in last year's survey. Clearly, the financial impact of the pandemic continues to reverberate for some people.

Do you think that you're more likely to do some form of paid work in retirement to offset for investment losses linked to poor market performance



Are you more likely to consider taking out an annuity, which offers guaranteed income for life, as a result of poor market performance?



Yes No Don't know

2

Coronavirus
Changing behaviours and attitudes

The pandemic that has changed the world has the potential to have an equally significant impact on our attitudes and behaviours towards money. Covid was clearly a wake-up call for many, encouraging them to embrace life more on the lifting of lockdown.

One respondent captured the mood of many when he said:

"I regret not spending more on cars and holidays when we could have died from Covid, making a mockery of long-term planning."

A rosier view of retirement

Our survey responses showed more people than last year saw retirement in a positive light, perhaps in contrast to the current difficulties they or people around them were facing. More saw retirement as a time of financial freedom and independence (49% of non-retired, a rise of 14% percentage points, and 58% of retired, a rise of 7 percentage points) and a life of pleasure (45% of non-retired and 49% of retired, both rises of 6 percentage points). An increased proportion saw retirement as an opportunity for new business or new hobbies (42% of non-retired and 30% of retired, rises of 8 percentage points and 5 percentage points respectively).

Non-retired people appeared more optimistic about retirement, with more thinking life could improve (up 4 percentage points to 31%) or at least stay the same (up 7 percentage points to 44%). Some even had rosier expectations of how long they might live once they retired (19% thinking they would live a further 30 or more years and 38% hoping for another 20-29 years, both rises of 6 percentage points).

The desire to travel

"The idea of retirement being a time for enjoyment and travel has been totally dispelled during the last 12 months. I feel as if I'm living in a dystopian nightmare."

A heightened desire for future travel is perhaps an unsurprising consequence of the pandemic restrictions. An extra 9% of non-retired people saw retirement as a time to travel, with an additional 7% (29% versus 22% last year) putting travel as their top priority for time use in retirement.

Many had seen financial gains from the restrictions on taking trips, though.

"I've been able to delay drawing on my pension funds, as I'm unable to spend money on retirement priorities such as travel."

Importance of property

For some the pandemic has shone a light on the benefits of property ownership – whether the importance of a good environment to live in during lockdowns or as a perceived safe investment in uncertainty. The stamp duty holiday and a rush for more space and greener environments saw average property prices rise by 13.2% in the year to June 2021, according to the Land Registry[4]. Property sales rose, too, reaching a record high in June 2021, according to HMRC figures[5], before falling away dramatically in July after the stamp duty holiday ended.

[4] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/june2021
[5] https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above/uk-monthly-property-transactions-commentary#Forestalling

"I think equity release is legalised robbery"

Our survey showed an increase of 7 percentage points in people owning properties in addition to their homes. While it may not be reflected across the whole population, this shows the strong interest in property as an investment has not abated – despite ratcheting down the tax perks over the past decade to take the heat out of the buy to let market. This subject is discussed further in Chapter 5.

Last year we raised concerns about the Bank of Mum and Dad at risk of default. The past year has seen demands on parents continue.

The desire to help children on to the property ladder in an increasingly expensive market was still strong. 60% of our retired respondents with children said they had helped them on to the ladder, usually by gifting or loaning money towards a deposit. 37% of our non-retired parents said the same, with 5% of these acting as guarantors for loans.

Despite the strength of house prices, interest in equity-release schemes has not grown. A higher number of our non-retired respondents would not consider an equity-release scheme (81% versus 73% last year), with an increasing number saying they wanted to preserve equity.

86% of our retired respondents said they would not consider an equity-release loan, with some strong comments being made about them.

"I think equity release is legalised robbery."

"I think equity release is for the most part an absolute scandal that's poorly understood by consumers. My mother-in-law is saddled with a large loan accruing interest at 7% and penal charges for early release."

Financial concerns

Falls in the value of stocks and shares remained the primary financial concern, with a repeat of the high levels first seen in last year's survey for both retired (47%) and non-retired (49%) respondents. Running out of money (27% retired and 41% non-retired) and the rising cost of living (34% retired and 42% non-retired) also ranked highly.

Concerns about tax have increased since last year, with 30% of non-retired and 25% of retired respondents citing it as a significant financial worry. We investigate this further in our section on the Lifetime Allowance in Chapter 5.

The impact of the pandemic on attitudes to risk is considered in detail in Chapter 4.

Financial research online

This year's survey showed a big upward swing in respondents doing their own financial research online. Two thirds (67%) of non-retired respondents said they did their own research online (an increase of 33 percentage points), as did 64% of retired respondents (an increase of 26 percentage points). There was also an increase in respondents reading the financial press (43% of all respondents versus 28% in last year's survey).

This appears to reflect the additional time some people had during lockdowns, with fewer entertainments and distractions available to them.

Even amid restrictions on meeting in person, the number of respondents who consulted a financial adviser for financial planning guidance did not fall – remaining at around one in four (25%). The fact that this figure did not drop is perhaps testament to the speed with which advisers adopted video-conferencing calls, as well as a heightened urge among people to sort their finances.

3

Pensions complexity

The drawbacks of drawdown

Several respondents highlighted the complexity of managing pensions. They compared the relative simplicity of the final salary pension schemes of the past with the pension options available today and the challenges of managing pensions in drawdown.

"There are very few final salary pensions left, and people are more likely to have multiple jobs throughout their life – making pension management more complicated."

"The financial world is much more complicated than it ever was."

"Everything is more complicated today. There are no safe options."

"There is far more flexibility both in the job market and regarding financial products. However, this complexity is a double-edged sword."

New questions in the Great British Retirement Survey this year asked our respondents about their pension holdings to investigate how complex they were.

"Everything is more complicated today. There are no safe options"

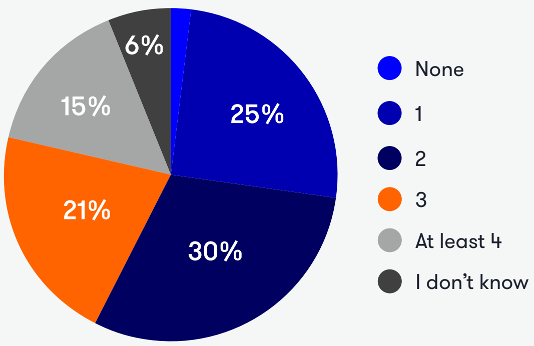
Lots of pots

We asked our non-retired respondents how many pension pots they had. Two thirds (66%) of non-retired respondents had more than one, and 15% of these had four or more. One in 17 (6%) of non-retired respondents did not know how many pension pots they had, indicating a significant risk that they could lose track of parts of their retirement income.

The Association of British Insurers estimates that there were 1.6 million pension pots unclaimed in 2020, worth £19.4 billion[6]. The number of people with multiple pension pots is likely to go up in light of the introduction of auto-enrolment pensions, increasing the potential for pension holdings to be lost.

This adds to the urgency behind the government's delayed project to create a Pensions Dashboard, enabling Britons to view all their pension pots in one place. The project has been subject to several delays and is currently expected to go live in 2023. It cannot come soon enough.

How many pension pots do you have?



Base: Non-retired respondents

[6] https://www.abi.org.uk/news/news-articles/2020/05/19.4-billion-of-pension-pots-unclaimed-just-because-of-house-moves/#:~:text=Research%20commissioned%20by%20the%20Association,%C2%A313%2C000%20per%20pension%20pot.

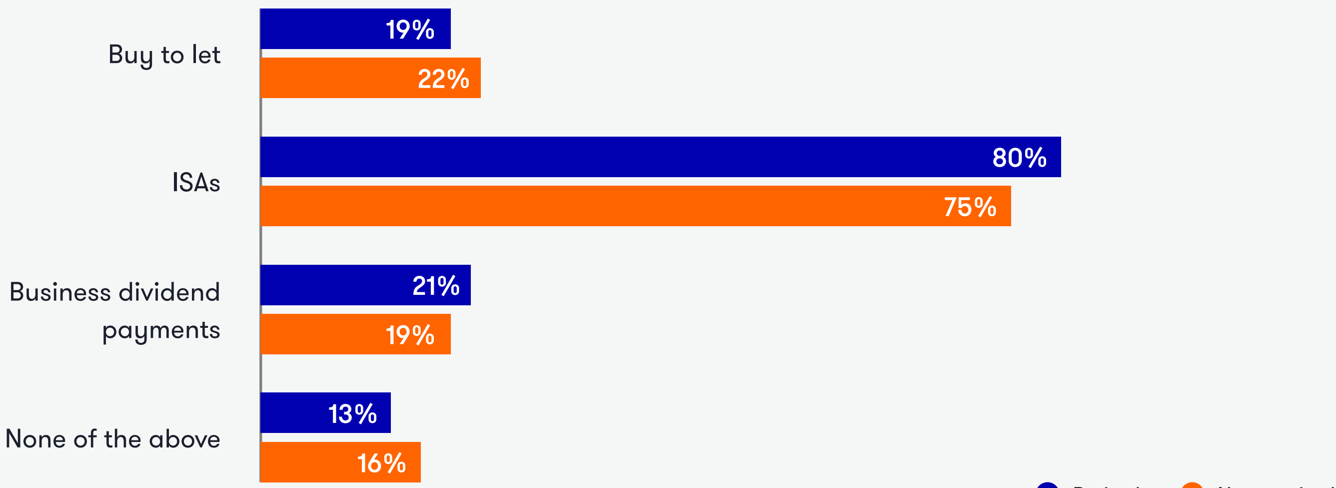
Only 2% of our respondents had no pension pot, potentially reflecting the success of the auto-enrolment programme. 25% had one pension pot, 30% had two, 21% had three, and 15% had four or more.

Among our respondents, interestingly, the number of pension pots held did not vary significantly by age, suggesting younger people can quickly end up with complex pension holdings as they move jobs.

Sources of retirement income

We asked what sources of retirement income apart from pensions our respondents had. A large majority – 80% of retired respondents and 75% of those who were not yet retired – said they had ISAs. Around one in five respondents had a buy to let property, and a similar proportion had business dividend payments. Only 13% of our retired respondents did not have any of these additional sources of income, while 16% of non-retired respondents had none of them.

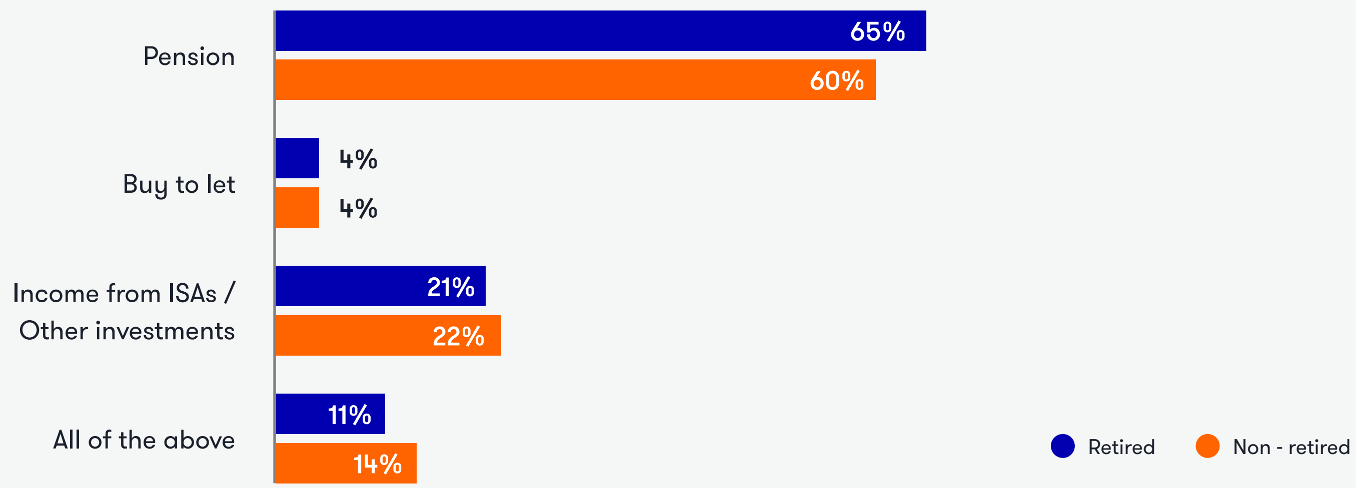
What (if any) other sources of retirement income do you have?



When asked which source was most important to their retirement income, two thirds (65%) of retired respondents said pensions were the most significant. Three in five (60%) of non-retired respondents identified their pensions at the most important source of income. This importance of pensions to most people's retirement income highlights the need for young people to start saving into them.

Only one in five respondents said ISAs or other investments were more important than pensions. Very few (4%) said buy to let properties were of highest importance. 11% of retired people said all their income sources were important, as did 14% of those not yet retired.

What do you think will be more important to your retirement income?



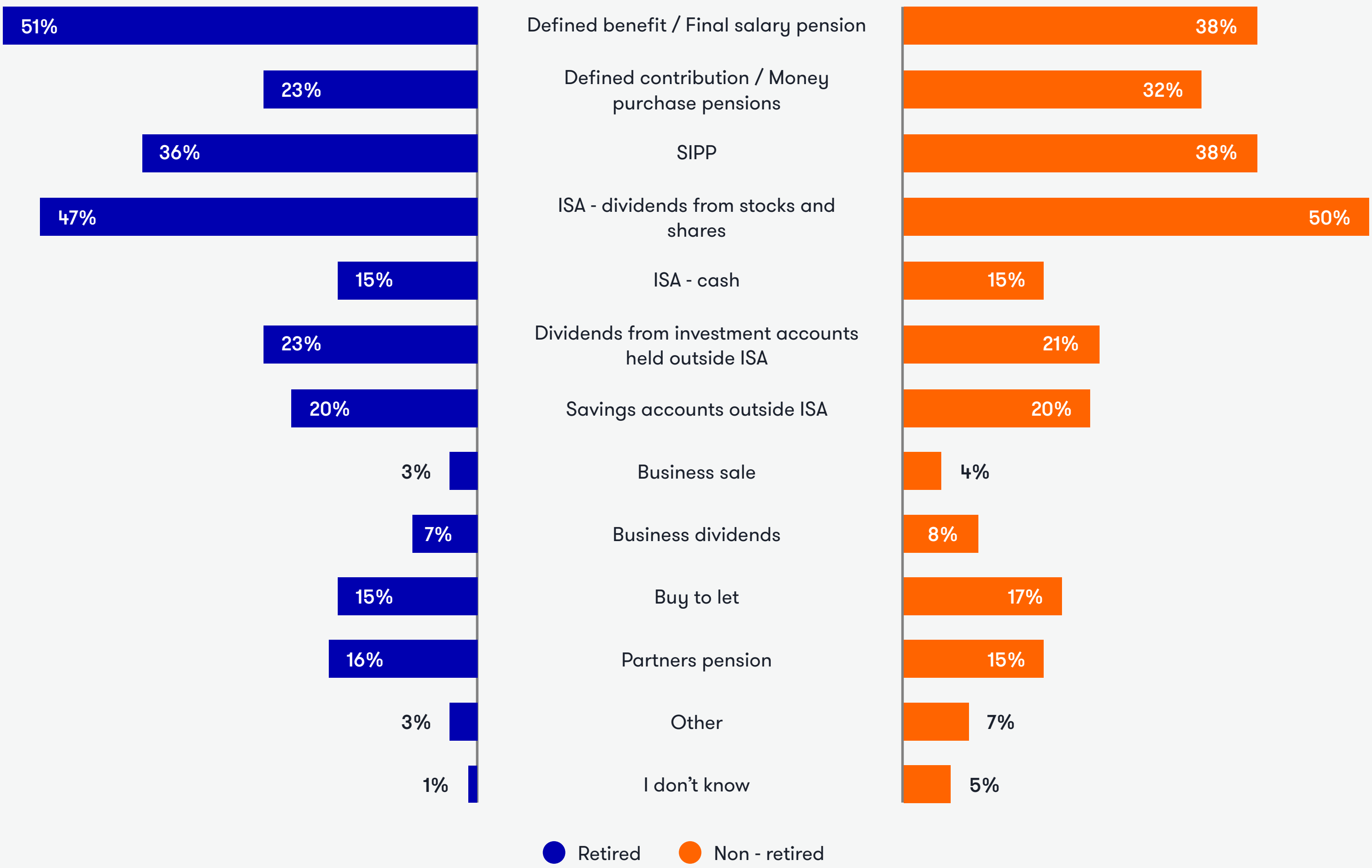
Base: All respondents

It was clear from the responses that pensions still dominate as the primary method of securing a retirement income. However, a significant proportion of our respondents had additional sources of retirement income.

When retired people were asked which specific sources were their main sources of retirement income, the option most often selected was a defined benefit (final salary) pension. Around half (51%) of retired respondents selected this as a main source of income, with dividends from stocks-and-shares ISAs the next most popular (47%). SIPPs were next, with 36% of retired respondents saying they were a main source of income, followed by defined contribution (money purchase) pensions and dividends from investment accounts held outside ISAs (both 23% of retired respondents).

Non-retired people had different expectations. The most frequently selected source of income was dividends from stocks-and-shares ISAs, with half (50%) of non-retired respondents selecting this as a main source of retirement income. Next most popular were SIPPs (38%) and defined benefit (final salary) pensions (38%), followed by defined contribution (money purchase) pensions (32%).

Which sources of retirement income are you main source? / Which sources of retirement income will be your main source?



Although new taxes and regulations have eaten into buy to let investors' profits in recent years, 71% of our respondents with buy to let properties or other second homes viewed them as a source of income for retirement.

Do you view your other properties as pension income when you retire?

Base: Non-retired respondents who own a property other than their own home

"I should have had the courage to buy my first buy to let earlier"

Some respondents were relying predominantly on buy to let investments to fund their retirement.

"I don't have much of a private pension, but I own three buy to lets. These will be our main source of income, plus the state pension."

Many respondents mentioned regrets that they had not bought more buy to let properties.

"We shouldn't have sold my wife's flat – we should have kept it on as a buy to let."

"I should have had the courage to buy my first buy to let earlier (mid-1990s)."

Children helping parents in their retirement

One source of retirement income that may be considered in some cultures but not others is your children. There were different responses to questions around helping out older relatives when they reach retirement depending on the ethnicity of respondents. Among BAME (Black and Minority Ethnic) respondents, 48% said it is usual for young people to help retired parents financially, compared with 13% of white respondents. Meanwhile 28% of BAME respondents believe children should expect to give financial help to their retired parents, compared with 8% of white respondents.

4

Attitudes to risk

Risk aversion versus risk tolerance

Previous interactive investor research has identified that pension investors in younger age groups are likely to view themselves as risk averse: among those under 40, 41% described their risk appetite as medium and 33% said it was low. Recent work by the Financial Conduct Authority has also highlighted the harm to long term investment returns from too much risk aversion.

We asked our respondents how they felt about investment risk. A relatively small proportion – 5% of retired people and 7% of non-retired people – considered themselves risk-averse, describing themselves as too worried about losing money to invest.

There was something of a Goldilocks approach to risk. While most respondents said they took a pragmatic approach to risk and were comfortable with some risk, they did not want too much risk. This attitude represented 59% of retired people and 51% of non-retired people.

The remaining respondents identified themselves as risk-tolerant, saying they were happy to take risk. This group made up 36% of retired respondents and 42% of those not yet retired.

How do you consider yourself when it comes to investing?

Some respondents felt the traditional ways of describing attitude to risk were too simplistic, describing their own attitudes as more nuanced. This was particularly relevant when discussing the use of different risk profiles for different pots of money.

"Five-to-10-year investments are good, but if you retire at the bottom of a dip, it can be hard manage income until investments have recovered. Investing in low risk might not cover 30+ years of retirement."

"I adopt a range of different risk profiles, although currently it's split between medium to high risk along with very low risk (e.g., cash)."

"I have low-risk investments that produce income and then higher-risk investments that may make my children wealthy."

With more people managing their own finances in drawdown, this criticism of simplistic attitudes to risk is pertinent. More retirees will draw on non-pension assets first, because of the Inheritance Tax benefits of pensions wrappers. Assets earmarked for the long term – or ultimately for children and grandchildren – can have a higher risk profile than those needed sooner. It is interesting to see how many people are realising the need to adopt a sophisticated approach to risk.

The importance of understanding risk

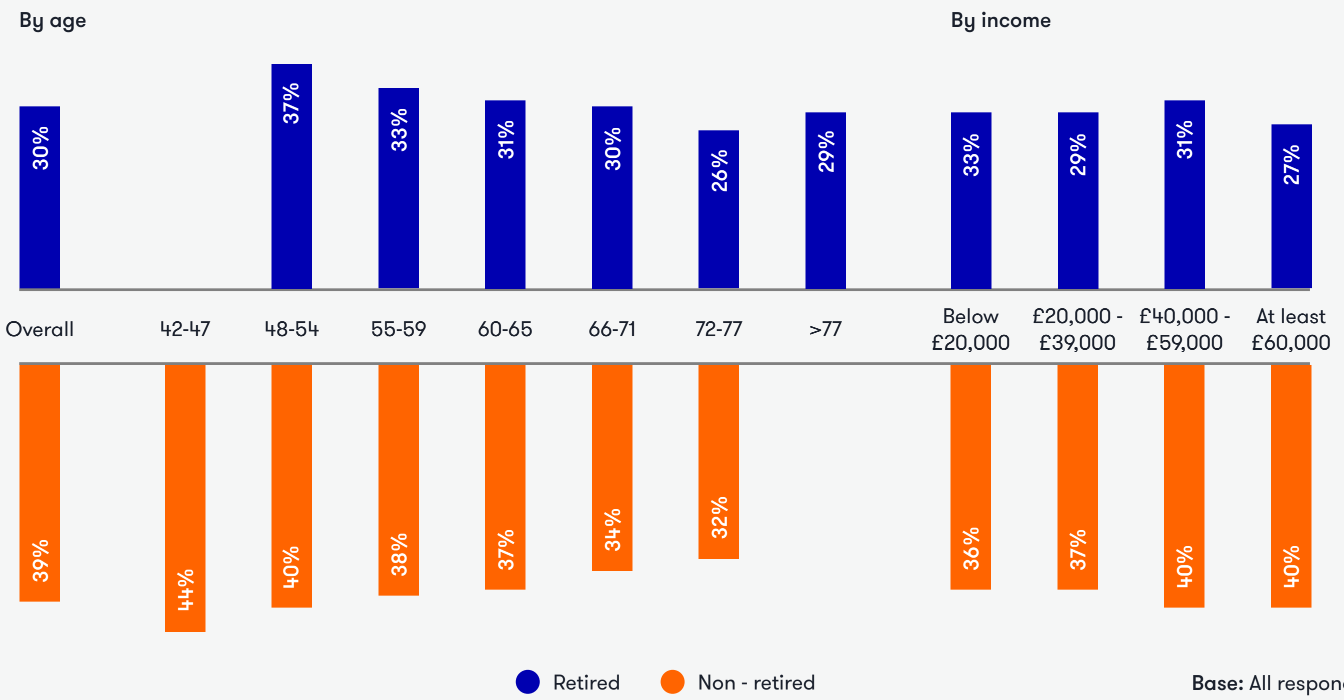
Risk was also a topic that came up frequently when discussing financial regrets. Particularly interesting was the large number of people who felt they had not taken enough investment risk in life, therefore missing out on potential gains.

We asked our respondents whether they wished they had understood more about the benefits of taking a higher-risk approach with their pensions when they were younger.

30% of retired respondents said they wished they had understood more at an earlier stage in life. The rate was higher for non-retired respondents, with 39% saying they wished they had known more about investment risk and its benefits when they were younger.

This rate tended to be higher in younger age groups. Among retired respondents, those with higher income had fewer regrets – presumably happy with the outcome of their retirement saving. Among the non-retired however, those in higher current income bands were more regretful of earlier lost opportunities for growth.

Do you wish you had understood more about the benefits of taking a higher risk approach with your pension when you were younger? (Those who answered yes)



Base: All respondents

Some felt traditional financial advisers had encouraged them down a path that was too risk averse.

"[I regret] seeking financial advice and suffering miserable risk-averse growth and hefty fees as a result."

"I took too much notice of safety-first IFAs."

"I was too conservative in my choice of investment, choosing income over growth."

"I regret being too risk-averse in my early career and investing."

"I regret that I was financially illiterate and overly risk-averse."

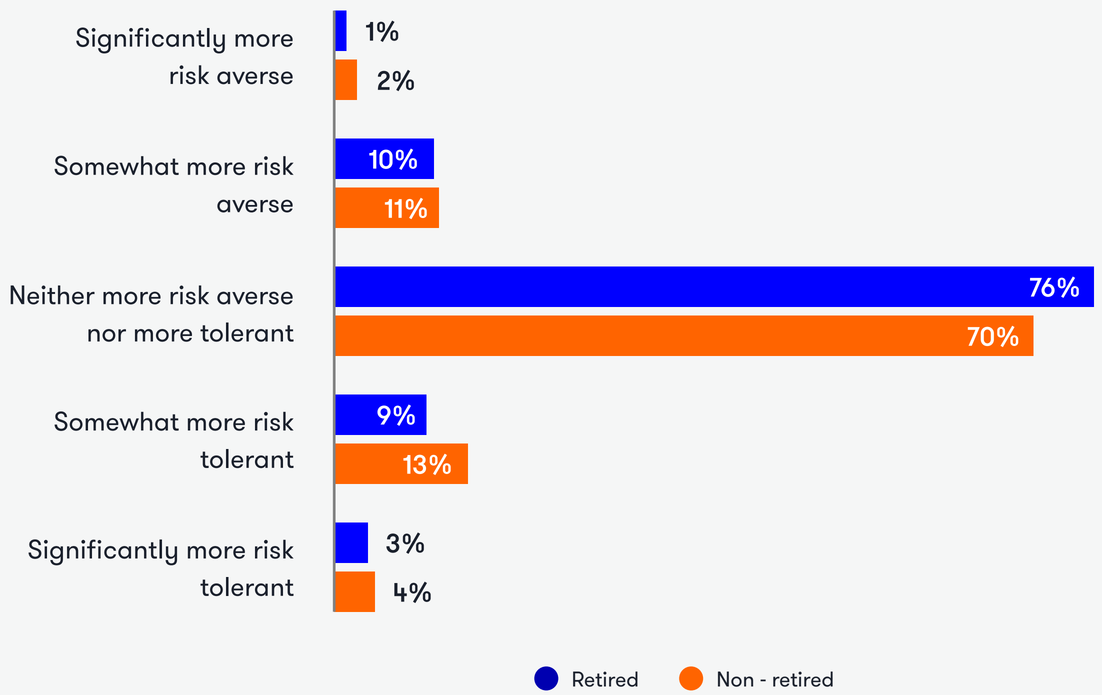
These regrets reiterate the importance of financial education and information, something we discuss further in Chapter 7.

The effect of global events on attitudes to risk

The uncertainty caused by the coronavirus pandemic, worrying world events in recent years and fear of global catastrophe from phenomena such as climate change all have the potential to affect investors' attitudes to risk.

We asked our respondents whether they thought the experience of the pandemic had made them more risk-averse with their pension planning. Most did not think they had changed in their attitude to risk. 76% of retired respondents and 70% of non-retired said they were neither more risk-averse nor more risk-tolerant.

Do you think the experience of the pandemic has made you more risk averse with your pension?



Base: All respondents

"My biggest financial fear is Brexit and COVID..."

The remaining respondents were relatively equally split between those who had become more risk-averse and those who had become more risk-tolerant. Among retired people, 11% had become more averse and 12% more tolerant. Among non-retired people, 13% had become more averse and 17% more tolerant.

This balance demonstrates how major events can have different – and even opposite – effects on individuals. It is also interesting that a major world crisis such as Covid has not reduced the confidence of nearly 90% of respondents, indicating a certain level of resilience and appreciation of the way risk assets that fall have traditionally recovered over time.

That said, many respondents were concerned about investing in uncertain times, reflecting perhaps also the wall of worry that investors traditionally climb in recovering and rising markets.

"My biggest financial fear is Brexit and Covid creating uncertainty, leading to share and property price decreases."

"I think there's more uncertainty about what the future holds than most people recognise. For example, political tensions could lead to capital controls, meaning the income or capital from international investments might be frozen abroad. It's hard to judge whether the benefits of diversification outweigh this risk."

"I don't expect the current high market valuations to last long. Reality has to catch up soon."

Others regretted that their anxiety around the political events of the past few years had led them to be too cautious with their investments.

"My biggest financial regret is being out of the markets too long, 'waiting for things to settle down' from things such as leaving the EU/Brexit/UK elections."

While they regretted potential losses to date, some still felt nervous about the direction financial markets would take.

"I regret not investing because I expected markets to crash. They didn't. And I still expect them to."

Others had taken advantages of the circumstances of the pandemic. One respondent offered this advice to those feeling uncertain about making investments.

"Don't panic over short-term market fluctuations. The adage applies: time in the market, not timing the market."

5

Tax and regulation

Concern about changes

There have been several significant changes in recent times to the rules and regulations for pensions and retirement saving:

- The increase in state pension age for men and women from 65 in 2018 to 67 in 2028, which is being kept under review and may change again in future
- The rise in women's pension age from 60 to 65 between 2010 and 2020, which has resulted in claims for compensation for women who, it is argued, were given inadequate warning
- The number of qualifying years of National Insurance contributions needed to qualify for a full state pension was raised in April 2016 to 35 years from 30 years (the same for men and women)
- The continual reduction in Lifetime Allowance (LTA) for pensions pots, from £1.8 million in 2011/2012 to £1,073,100 in 2020/2021, where it has been frozen, meaning inflation continues to erode the amount it is possible to save before facing extra charges
- Buy to let investments that often form a part of retirement planning have been subject to a series of tax changes

At every Budget there is speculation that further changes will be made to pensions, such as reductions to contribution limits, the removal of tax benefits and, more recently, lowering the LTA even further. This can send subliminal messages to those who are not experts that pensions are unsafe and can undermine confidence in this form of retirement saving, which we have demonstrated is vital to most people.

Many of our respondents highlighted their fears that tax and regulation changes would impact the benefits of their efforts in saving for retirement.

"My biggest financial concern is...

> ***… a change in policy on retirement age.***
>
> ***… wealth being means-tested or taxed away.***
>
> ***… further buy to let tax raids.***
>
> ***… more changes in pension legislation.***
>
> ***… an independent Scotland changing the tax rules.***
>
> ***… changing government policy – e.g., freezing the LTA."***

As we have said, these fears can act as a disincentive to saving for retirement. They can build distrust in heavily regulated savings vehicles – such as pensions – that require savers to lock away money for the long term in accounts that are at the whim of many successive governments over a working life.

Some respondents have doubts that the state pension will even exist for them.

"I'm not sure there will even be a state pension by the time I get to pension age. I hope there is, but I just don't know."

The Lifetime Allowance

Tax ranked as a top-three financial concern for 30% of non-retired respondents and 25% of retired respondents, a 4 percentage points increase on last year. And nothing stirred the ire of respondents more than the Lifetime Allowance.

"The LTA needs to be significantly increased or wholly scrapped, as it's a huge disincentive to save for retirement."

"I'm penalised by the superior performance of my SIPP by the LTA, and it's not right."

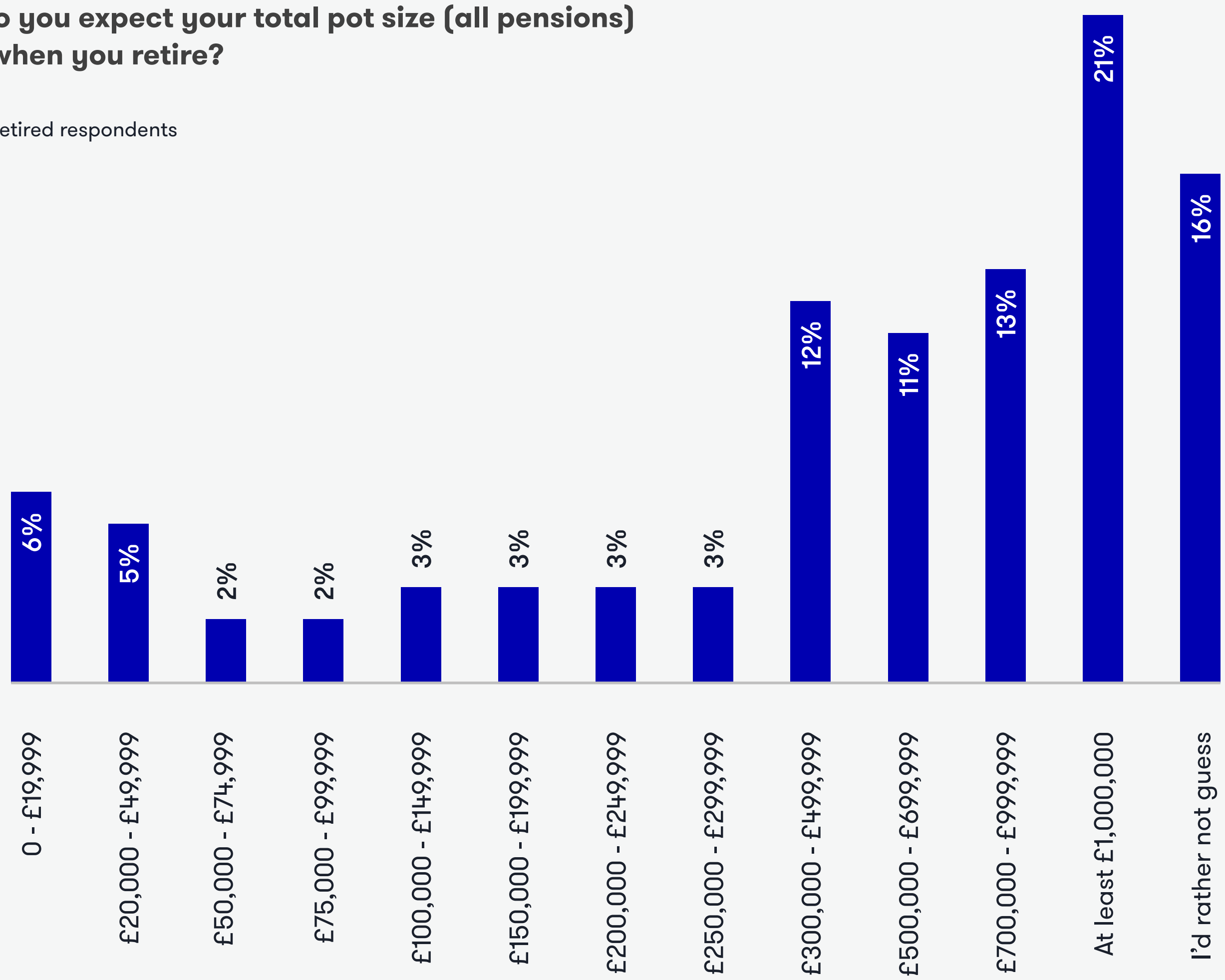
"The possibility of the LTA being further reduced as inflation rises is mad."

"On tax allowances for pensions, even though I probably won't reach a £1m pot, if I did it would only mean a pension of £30,000 max per year, which will hardly give a luxurious lifestyle in the Southeast or London."

We asked respondents how much they expected their total pension pot to be worth across all pensions when they retire. 45% of our non-retired respondents expected a pension pot of over £500,000, and 21% expected their pot to be at least £1 million.

What do you expect your total pot size (all pensions) will be when you retire?

Base: Non-retired respondents



This means more than one in five of our respondents expect almost certainly to have to pay a penalty for breaching the LTA based on the latest rules. And a further 36% are likely to have concerns that they could breach the allowance in the future.

Many respondents expressed regrets at the savings they had placed in pensions.

"I regret saving too much in my pension and consequently being caught by the LTA."

"I regret paying too much into my pension when the LTA was £1.8m... To see it reduced to a little over £1m when I could have diverted that cash into stocks-and-shares ISAs..."

Several respondents pointed out a perceived inequity – that an LTA allowance could not be transferred between spouses when a single pension pot was destined to provide for both partners.

"My wife will only have a small pension, as she worked part-time when our children were born, and my SIPPs will be our primary source of retirement income. However, they're restricted to a single person's LTA."

"There's huge unfairness in a £1m pension savings limit when saving for a spouse at same time."

Buy to let

As highlighted in Chapter 3, one in five of our respondents have buy to let properties as part of their retirement finances, with 4% of respondents considering it a more important component than pensions or other investments.

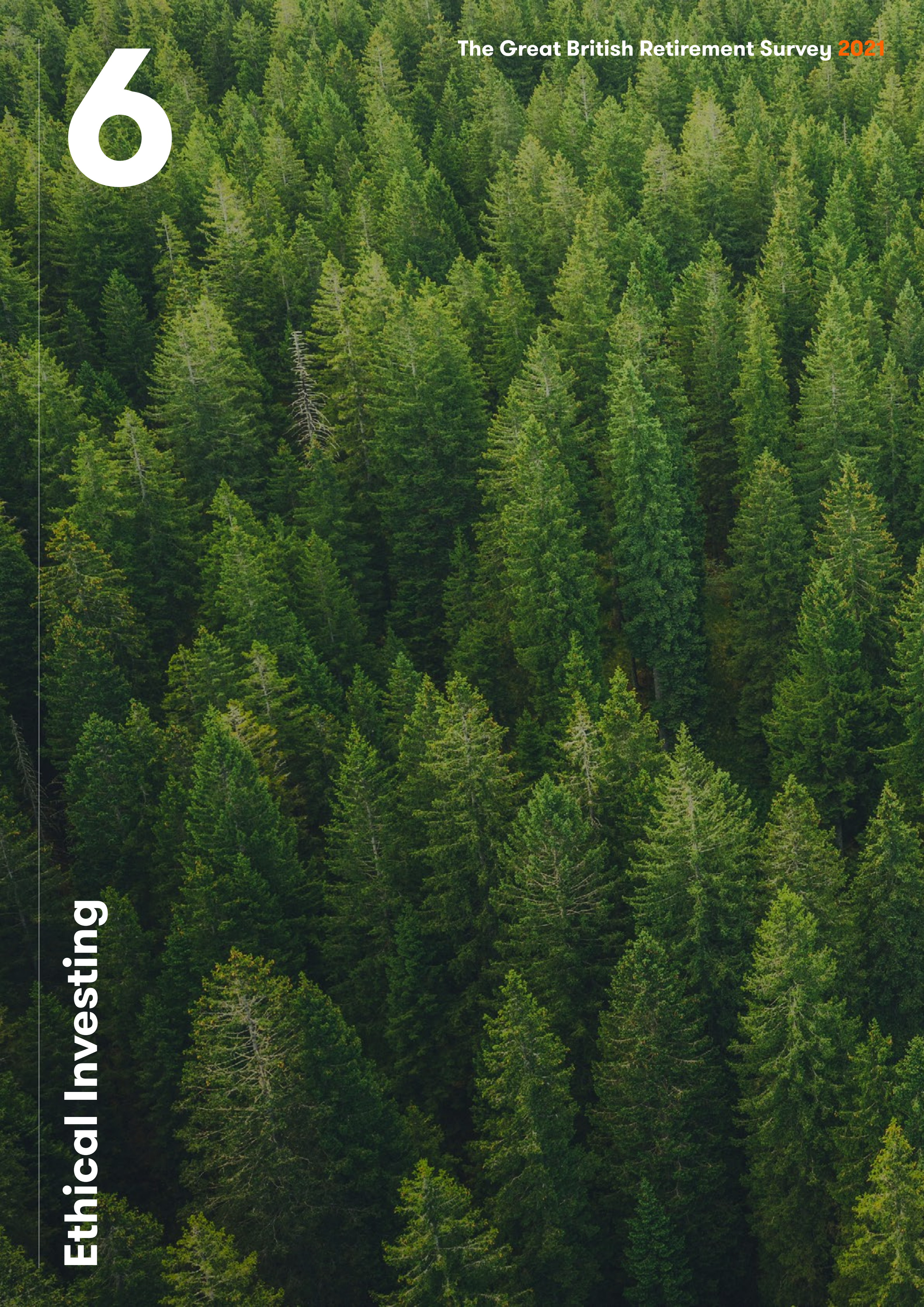
Some were concerned about the rising costs compared to the income generated.

"My biggest financial concern is buy to let costs against rental income."

Others felt buy to let ownership should be discouraged to enable the younger generation to get on to the property ladder.

"Baby-boomers (like me) have had it easy. Government policy is aimed at helping wealthy, second-home-owning, older people. Second properties and buy to let should be discouraged via the tax system."

"The housing market continues to move away from first-time buyers due to increased buy to let investors."



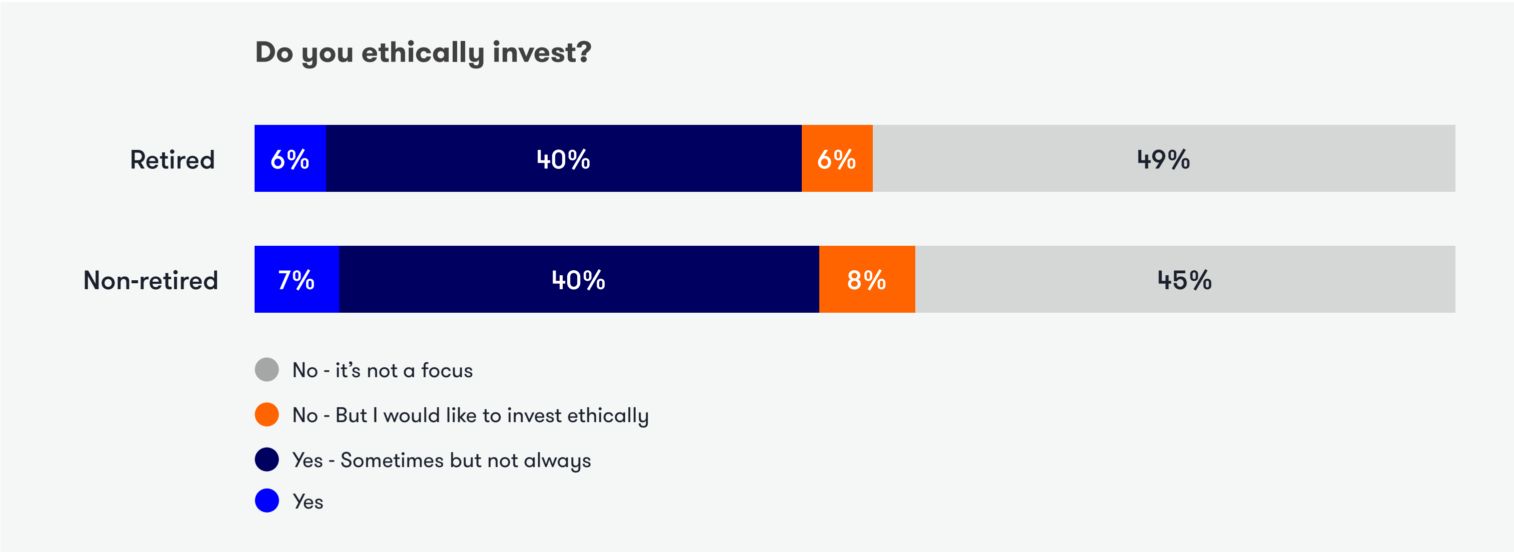
6

Ethical Investing

Appetite is growing

Assets in ethical propositions held by customers of interactive investor have increased significantly in recent years, and this year's survey results indicate interest in ethical investing is moving mainstream.

Many of those who invest ethically do so across just part of their investment portfolios. This may suggest lack of confidence in either the products on offer or the returns that will be generated. 46% of our respondents said they invested ethically at least some of the time. Only 6% said they always invested ethically. A further 7% are not currently investing ethically but would like to do so.



Ethical investing provoked some strong views – both in favour and against.

"Ethical investment is a must-do. Likewise, all investment should be withdrawn from non-sustainable industries."

"I have an ethical pension plan. If everyone had one the world would be half as bad."

"The notion of 'ethical' investments is a shameless campaign to enrich the promoters of these investments. That they call themselves ethical whilst profiting from these schemes is a travesty."

"My politics lean libertarian. Ethical investing is likely to be far too interventionist for my taste. Also, 'Get woke – go broke'."

Transparency and clarity

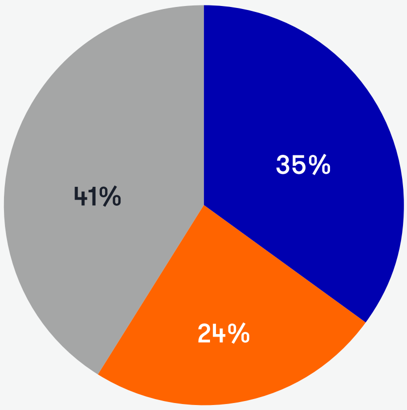
More than a third (35%) of respondents said their pensions were invested in a way that aligned with their moral values – up from 28% in last year's survey.

There was also an increase in those who said their pensions were not invested in a way that reflected their ethics – 24% of respondents, compared with 19% last year. These will include people in workplace schemes who have few options to change their pension providers without losing benefits.

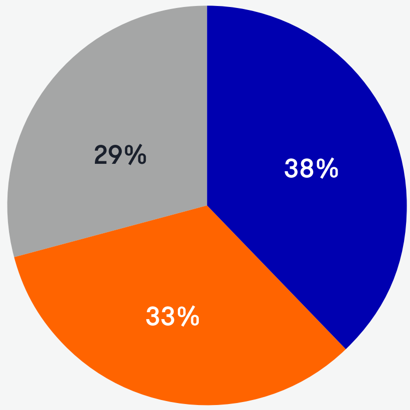
41% of respondents said they did not know the ethics of their pension investments – a smaller percentage than last year, when 53% of respondents did not know.

These changes could be because of heightened interest from pension holders in how their underlying assets are being invested. Alternatively, it may be due to an improvement in the information made available about the ethical nature of pension investments. It still leaves a significant number of respondents in the dark about their pensions.

Is your pension invested in a way that aligns to your moral values?



Do you think workplace pensions should offer ethical investments as a default option?



Yes No Don't know

Base: All respondents

"37% thought workplace pensions should offer ethical investments as a default option"

37% of respondents thought workplace pensions should offer ethical investments as a default option. This represents a similar percentage to last year.

The absence of clarity and choice in pension investments was highlighted by some.

"Ethical investing should be the default option! In general, people need to be given more information and more choice. I didn't get to choose my pension until I set up a SIPP."

"Ethical investment through major pension providers is a poor experience with limited choice. Ethical investors need to seek out providers like Interactive Investor... to access a wide range of ethical funds."

"I would like to see a lot more effort made to assist people to invest ethically and more options for ethical and environmental funds."

Others discussed the difficulties involved in defining and labelling investments as "ethical".

“It’s all very well talking about ethical investing, but there’s no consistency within the industry. The UN has issued a list of Sustainable Development Goals. Do investors really know what that’s all about? There’s 17 of them – is that confusing for people?”

“I do believe it’s essential that we address climate change. However, we’re far too focused on setting goals and reflecting these goals in our legal framework. We need to give more focus to what we’re going to do to achieve these goals. The benefit of ethical investing is overstated.”

7 Information and education

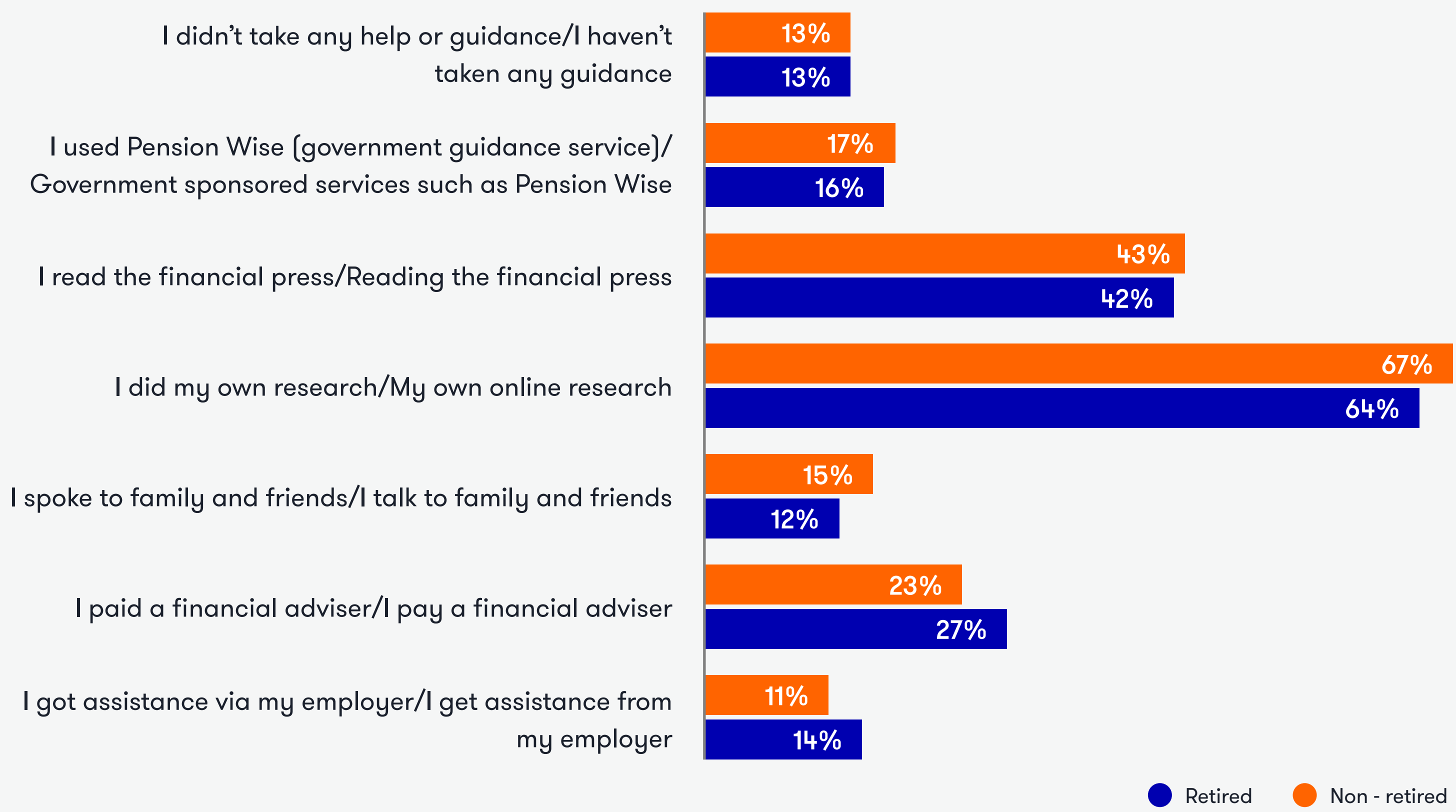
Sources of information

The importance of information, guidance and advice on retirement planning is undisputed. This year's survey shows an increase in respondents doing their own research online.

We asked our respondents where they went for help in planning their retirement finances. Nearly two thirds (64% of retired, 67% of non-retired) said they did their own research online – almost doubling last year's figures. Many also said they gained information from reading the financial press (42% of retired, 43% of non-retired) – an increase of 15 percentage points on last year.

The numbers asking for professional advice were unchanged, with around one in four respondents (27% of retired, 23% of non-retired) saying they paid a financial adviser for help. Smaller numbers used the Pension Wise government guidance service, spoke to family and friends, or got assistance from their employers. Only 13% did not look for any help or guidance at all.

Where did/do you go for help planning your retirement finances?



Finding good advice

Many respondents spoke anecdotally about the difficulty of getting financial advice they could trust.

"When I was deciding on drawing down my pension, the Pension Wise website was of no use whatsoever. It needs improving. You have to trust

“My biggest financial regret was paying for a financial adviser who was very expensive and not very effective”

financial advisers for their advice, despite knowing they have a vested interest in you drawing down your pension. It was difficult to find good, detailed, impartial advice.”

Many had regrets about listening to a financial adviser and paying commission, expressing their distrust.

“My biggest financial regret was paying a financial adviser who was very expensive and not very effective.”

“I regret using professional advisers, all of whom have taken a fee and promised regular reviews of my portfolio – and none of them did.”

“I got poor advice from a supposed professional who was more concerned with selling me a product than understanding my long-term goals, advising accordingly and building a long-term relationship.”

We are acutely aware that as a platform for DIY investors, these comments could be seen as convenient to highlight. We tried to find positive verbatims around financial advice in the interest of balance, but it seems that many of us are perhaps more inclined to comment on poor experiences, rather than positive ones. It could also reflect our research sample, which will have a higher than average proportion of confident, self-directing investors.

Others felt pensions providers should be doing more to make information accessible and understandable.

“Pensions legislation is ridiculously complex and difficult to understand. Pension statements from big providers tend to be relatively incomprehensible for the purposes of comparing performance/fees between providers.”

Lack of awareness of the options available was also highlighted.

“I was amazed to find that, having deferred taking my state pension, I was able to take £79,000 as a lump sum or increase my weekly state pension by about £236 per week. I chose the lump sum and have invested £40,000 in an ISA over two years and dabbled in investing in funds through it.”

Better financial education

Respondents often made the point that more education on pensions was needed from an early age. This is something we support strongly at interactive investor, as sponsors of the Personal Finance Teacher of the Year Award.

“Awareness of pension management should be taught at school age now that a move away from final salary schemes has been made.”

“Children at school should be taught financial planning and made aware of various tools to understand how the stock market has a bearing on savings in pensions and ISAs.”

8 Vulnerable groups

Some sections of society are more vulnerable to having inadequate pension income. They include people who for different reasons may have been less able to make pension contributions throughout their lives – those who have not made full national insurance contributions towards the state pension and potentially those in self-employment or living with disabilities. They also include people whose outgoings may still be significant at retirement – those who do not own property and must continue to make rent payments, those who struggle to pay off a mortgage (particularly if they are making interest-only payments) and those with outstanding debt.

As we highlighted last year, those impacted by the change to state pension age are also a vulnerable group.

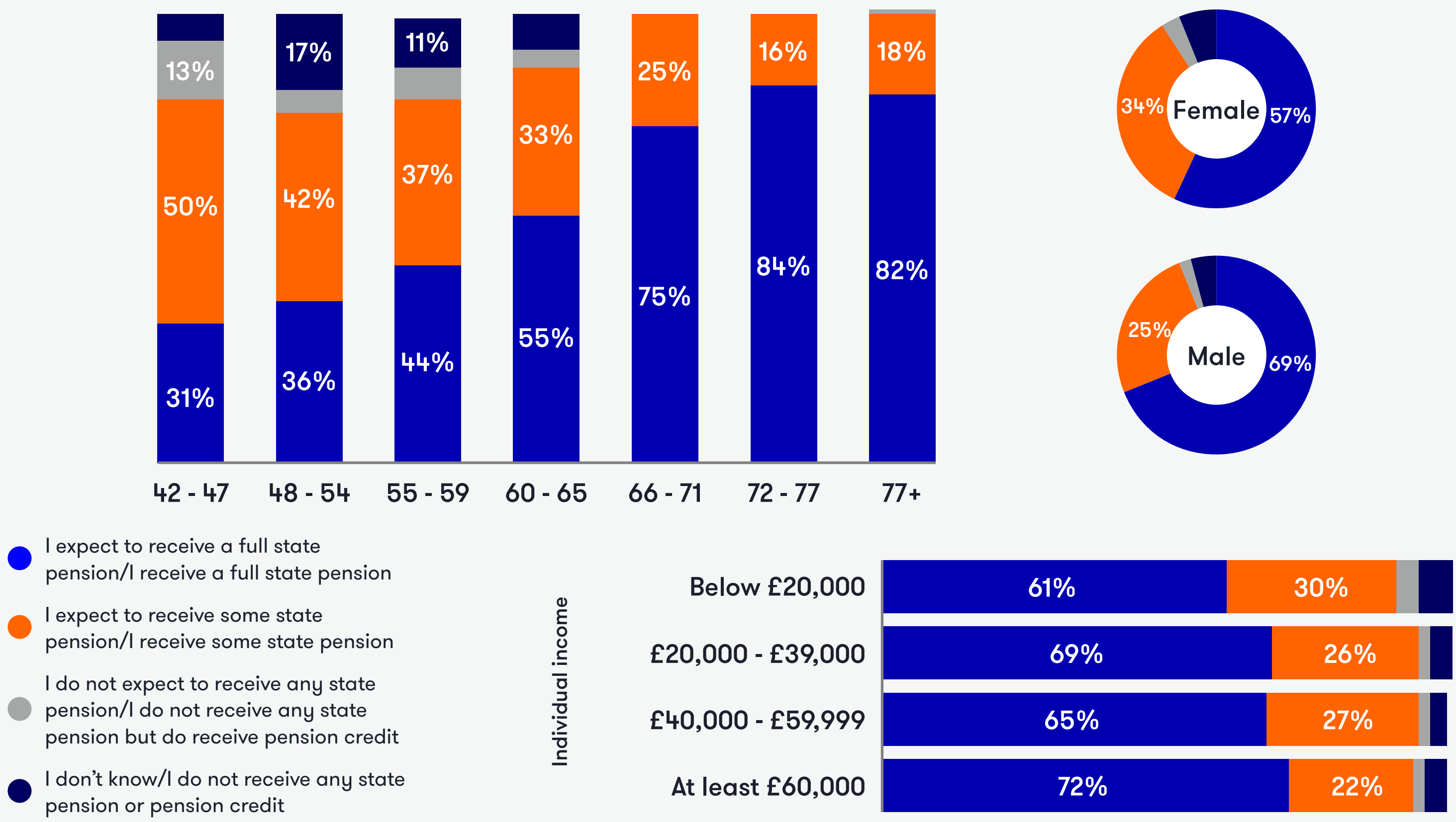
Those not entitled to full state pension

We asked our respondents whether they received or expected to receive the full state pension.

Among retired respondents, 83% of those aged 72 or over were receiving the full state pension. 75% of those aged between 66 or over were receiving the maximum possible amount. Among those who had retired early, expectations of a full state pension reduced significantly by age.

Women and people on lower incomes (under £20,000) had a lower likelihood/expectation of receiving a full state income (57% and 61% respectively).

Have you started claiming your state pension?/Will you be receiving a full state pension?



Base: Retired respondents

While very few of our non-retired respondents had given up all hope of receiving some state pension, there was a higher degree of uncertainty among this group. 65% of those under state retirement age still expected to receive a full state pension, while 14% thought they would receive some state pension. However, 20% did not know whether they would receive any state pension. This uncertainty rose to 26% among people in their thirties and 53% of people aged 24 to 29, indicating a lack of confidence among young people in the fact that the state pension would provide for them.

Among non-retired respondents, women and those on lower incomes had lower expectation of receiving a full state income.

One respondent highlighted a lack of advice for women.

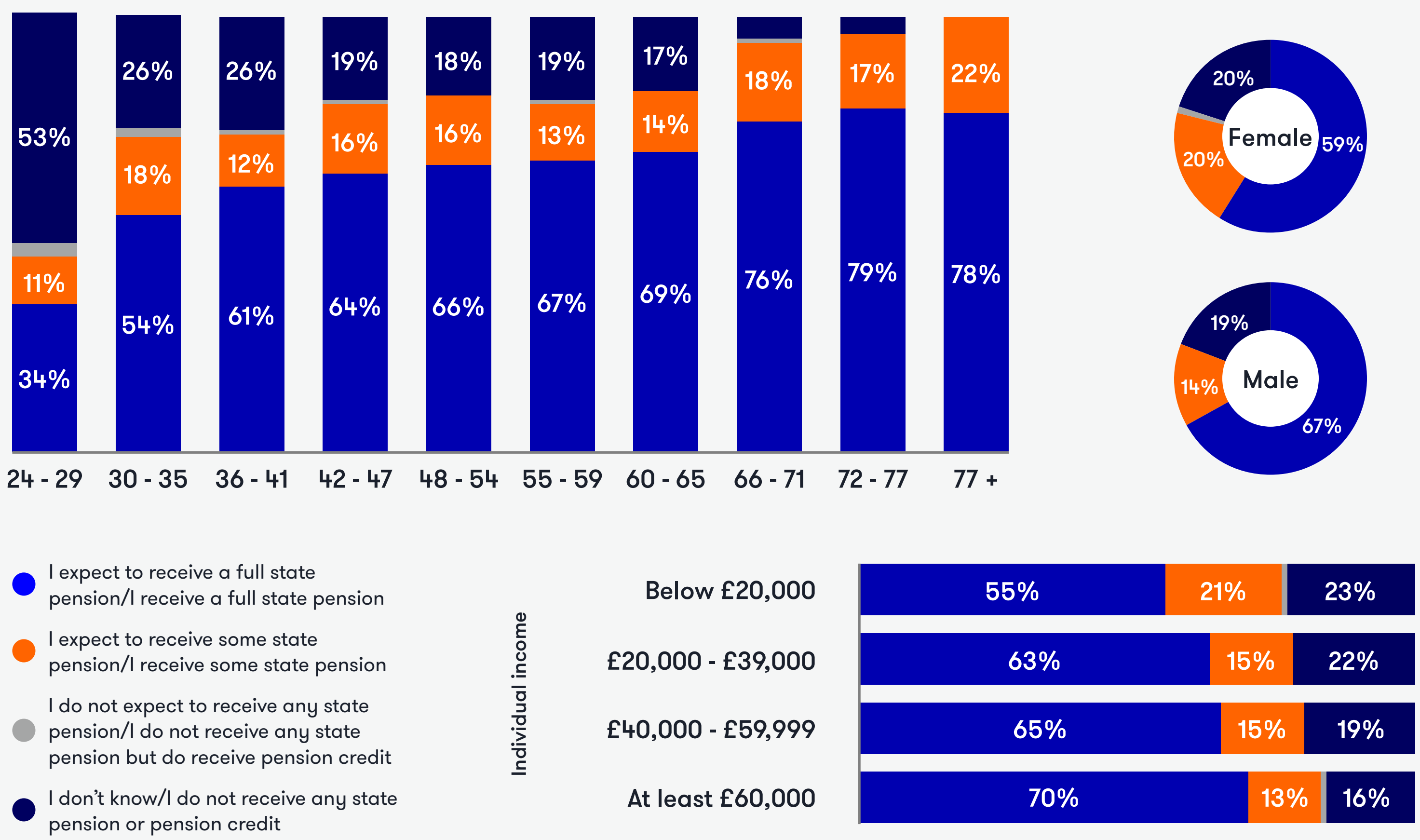
"I do think women of my generation were not properly advised re pensions and making sure to pay enough NI to get the state pension."

Some respondents highlighted the multiple disadvantages facing women regarding retirement planning.

"Please take into account the different financial shortfalls a woman has to contend with at every stage of life – low-wage employment, no recompense for homeworking, caring responsibilities etc."

"Women are poor in retirement because their labour isn't properly compensated. In fact, the more we produce, the more people want. It must stop. We make the workers of the future – and it's exhausting."

Have you started claiming your state pension?/Will you be receiving a full state pension?



Base: Non-retired respondents

"Having to give up good jobs when I had my children. Having to leave jobs every time my husband moved. I've sacrificed a lot for our family. Provided I'm still with my husband, that should all be fine. He will have a very good pension. Mine is much reduced due to family life decisions. We're judged on today's standard, but we had to make decisions in the early 1990s based on the support available to women then – very little. Unlike our parents, married couples' advantages no longer exist."

Women facing state pension inequality

Last year we highlighted the issues surrounding the increase in the state pension age for women – from 60 to 65 between April 2010 and November 2018 – and the further increases that were implemented sooner than originally announced.

Responses from women, particularly those born in the 1950s, described the devastating effects that these changes and the lack of appropriate communication had on their retirement finances.

In July 2020 the Parliamentary and Health Service Ombudsman found there were failings in the action taken by the Department of Work and Pensions to communicate the state pension age. It is now considering the impact of these failings and what action should be taken to address them.

Our respondents continued to highlight the disadvantage they felt they had been subject to because of this change in state pension rules.

"I'm a WASPI [women against state pension inequality] woman. But for having spent part of my working life in the civil service, the resultant loss of contribution years would have reduced my state pension by half."

"I can live without debt because of my husband's police pension, but my state pension deferment has left me not self-sufficient for the first time in my adult life. This has affected my mental health."

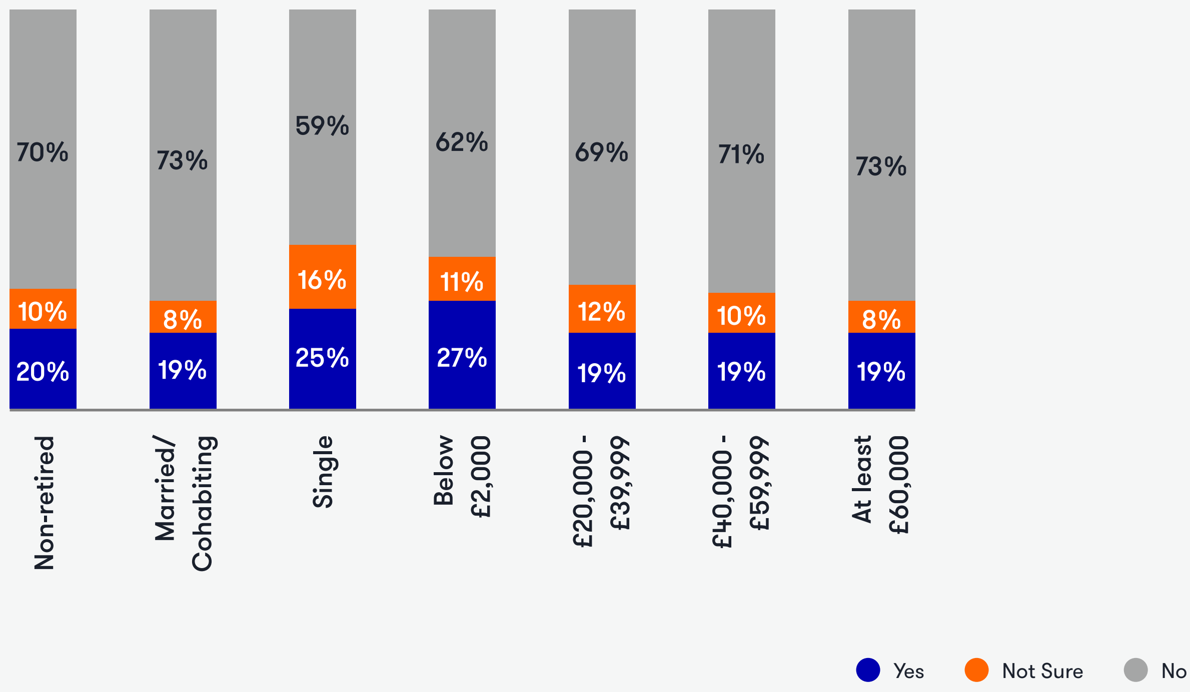
The self-employed with insecure retirement finances

A growing number of Britons are now self-employed, and Covid may have driven more to make the leap – either through choice or necessity. There were more than five million self-employed people in the UK in 2019, according to the ONS[7]. Research by the University of Hertfordshire[8] and the TUC in 2019 estimated the number working in the gig economy had doubled in the previous three years. Companies House data shows a record number of new company incorporations in 2020 to 2021[9].

We asked our self-employed respondents whether they felt being self-employed had a negative impact on their retirement prospects. One in five (20%) felt it had adversely affected their pension plans. A further 10% were not sure about the impact. However, seven in 10 (70%) felt self-employment had not had a negative impact on their prospective retirement.

Self-employed respondents who were not married or cohabiting were more likely to say self-employment was not helpful to planning retirement. One in four (25%) said it had an adverse effect. The proportion was higher again (27%) among self-employed respondents on incomes below £20,000.

Do you think that being self employed has adversely affected your retirement prospects?



Base: Self-employed non-retired respondents

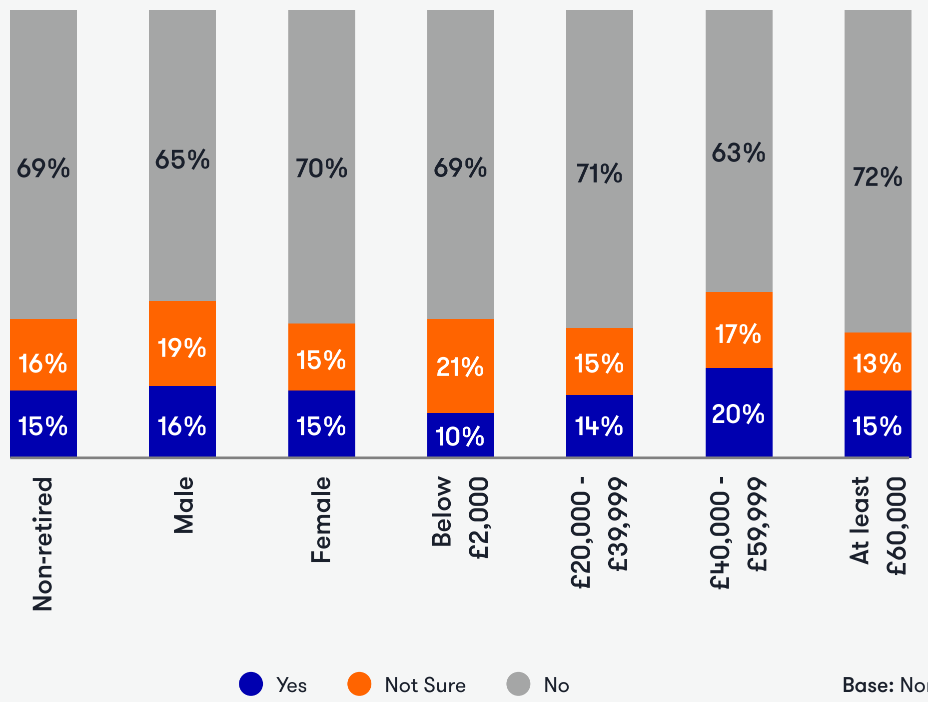
[7] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24
[8] https://www.herts.ac.uk/about-us/news-centre/news/2020/lessons-from-the-gig-economy-for-transforming-public-services
[9] https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021

Pot of gold at the end of the rainbow? Or just an illusion?

Some forms of self-employment bring opportunities not available to employed workers, with potential for business owners to make money from a sale of a business to generate income for retirement. 15% of self-employed respondents said their intention was to sell a business to make income for later life – the pot of gold at the end of the rainbow. The proportion anticipating this pay-out was similar for both women and men (16% and 15% respectively). This opportunity seemed less likely to those on an income below £20,000, with only one in 10 (10%) viewing this as a potential option.

While it can be a lucrative source of retirement income, a successful business sale cannot be guaranteed. Many people may reach retirement and find themselves without alternative plans in place and under-funded.

Do you intend to sell your business to generate income?



Base: Non-retired respondents

Self-employment also gives greater opportunities for flexibility in later-life work and the potential to keep working beyond typical retirement age or glide into retirement. Respondents who were over 65 and stated they were not retired were much more likely to be self-employed – 42% of those working over the age of 65 were self-employed, compared with 17% of all non-retired respondents. The proportions were similar for women (unlike part-time and homemakers, where they were over-represented, and full-time, where they were under-represented).

However, some differences between self-employed workers and other non-retired respondents indicated potential disadvantages among this group – with warning signs for retirement. Those with mortgages were more likely to be paying interest only (25% versus 18% of all non-retired). They were more likely to say a major life event has derailed their retirement finances (22% versus 15% all non-retired; 13% for full-time workers). Among those renting, fewer expected their pension to be enough to cover rent (20% versus 30% all non-retired renters).

Some respondents described how they felt self-employed people were disadvantaged.

"I think the self-employed suffer pensions-wise, because employers also contribute to an employee's scheme, greatly enhancing pensions on retirement. Self-employed are often in cashflow difficulties so are limited in their to contributions to personal schemes."

"It's wrong that my generation of self-employed were encouraged to invest in the stock market to access a retirement income in the 1980s. There should have been some form of secure, government-backed, guaranteed retirement product set up instead of the army of dubious financial advisers let loose on the financially uneducated."

In contrast, self-employed respondents showed some variance in attitudes that indicated a more optimistic outlook. More were willing to consider an equity-release loan in an emergency (22% versus 14% of all non-retired). They were slightly more confident that they would maintain their current standard of living in retirement (44% versus 40%), and they were more likely to say they had no financial regrets (65% versus 57%).

Some respondents felt self-employment was the way forward for young people.

"There are more opportunities for self-employment (web-based businesses). I also feel the old 'rules' of go to uni, work hard etc. are no longer true. I've advised my children that they should aim for self-employment and building their own businesses."

"I think it's easier to get on and improve your earning through employment or running your own business now than previously. Access to capital is easier, access to a global marketplace is easier, and it can all be done from a laptop in your front room."

People with disability

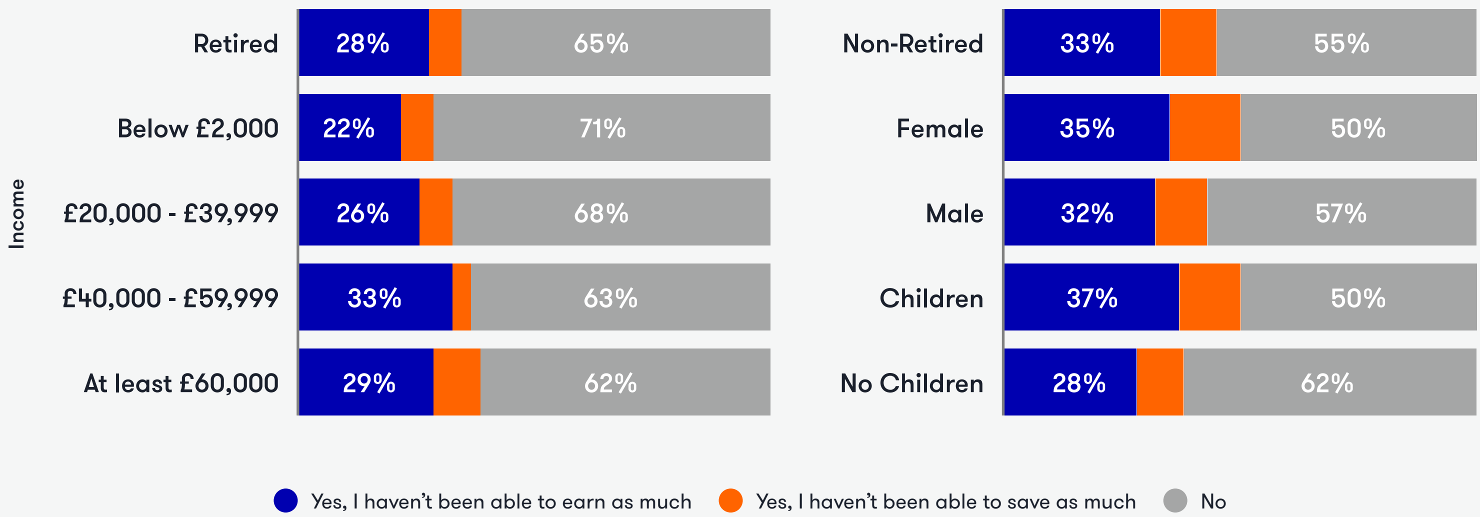
We wanted to understand whether disability influenced retirement plans. 8% of our retired respondents identified themselves as having a disability. The proportion among non-retired respondents was 5%.

More than a third (35%) of our retired respondents with a disability said their retirement prospects had been hindered by it. 28% said they had not been able to earn as much, and 7% said they had not been able to save as much.

Of non-retired respondents with a disability, almost half (45%) said their disability has hindered their retirement prospects. This may be greater than the proportion in the retired disabled group because it is possible some were not hindered by their disability until they had already retired.

33% said they had not been able to earn as much, and 12% said they had not been able to save as much. These proportions were slightly higher for women and for people who had children.

Do you think your disability has hindered your retirement prospects?



Base: Retired respondents

Base: Non-retired disabled respondents

Several of our respondents described the added financial burdens of having a disability. One asked why those who pay unavoidable care costs cannot deduct them from their taxable income.

"It's a huge unfairness that I have had to pay for care costs of £12,000 per annum (and likely to rise as I get older) since the age of 44, sapping my ability to save sufficient for me and my wife, who also had to give up her own work (and saving for a pension) to look after me. Unavoidable care costs should be free or at the very least tax-deductible, in the same manner as pension contributions are."

Disabilities can have a knock-on effect on the finances of other family members as well. 11% of respondents said their retirement plans had been derailed because they had to give up or reduce their work to look after a partner or parent/parent-in-law.

"My wife is disabled. I had to stop work, thus losing around £35,000 of household income."

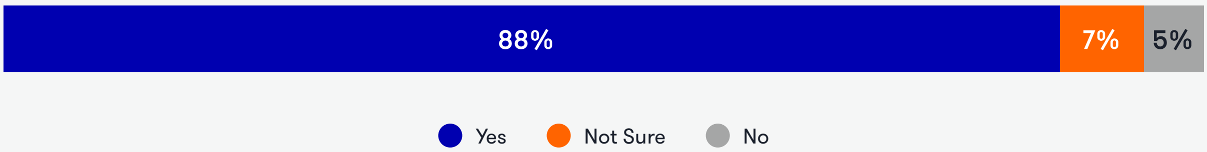
"I had to retire early because of caring for an elderly mother, so I actually retired on a reduced pension. I was told I would be able to return to full-time work later, but I found it impossible to find work after my parent died."

The Joseph Rowntree Foundation estimates that as many as one in 10 employees juggle their work responsibilities with caring for older adults in an informal capacity[10]. While this requires flexible thinking from employers, there may also be scope for tax reforms. Unpaid carers – whether working or not – save the state £530 million every day[11]. More needs to be done to ensure their sacrifice does not also jeopardise their retirement security. At the very least, they should not find their state pensions lessened through being unable to pay sufficient National Insurance contributions.

[10] https://www.jrf.org.uk/report/experiences-working-carers-older-adults
[11] https://www.carersuk.org/news-and-campaigns/news/unpaid-carers-save-uk-state-530-million-every-day-of-the-pandemic

Most respondents thought having enough money was important for maintaining good health. 88% of respondents said having a decent income was important for general health.

Do you think that having a decent income is important for general health?



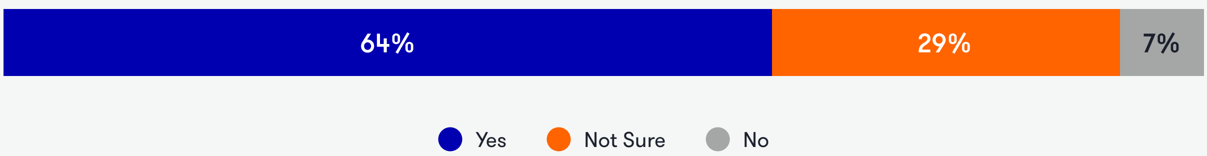
Renters and mortgagees in retirement

According to the ONS, home ownership among over-65s has been rising in England, with three quarters owning a home outright in 2017[12]. Around 4% still have a mortgage, while 21% rent. However, younger people are less likely to own a home than in the past, and people in their mid-thirties to mid-forties are three times more likely to rent than 20 years ago. The ability to pay the rent during retirement may be a growing source of stress for the elderly of the future.

A concerning 29% of our retired respondents who were renting, either privately or from a public body, said their pensions were not enough to cover rent payments and other living costs.

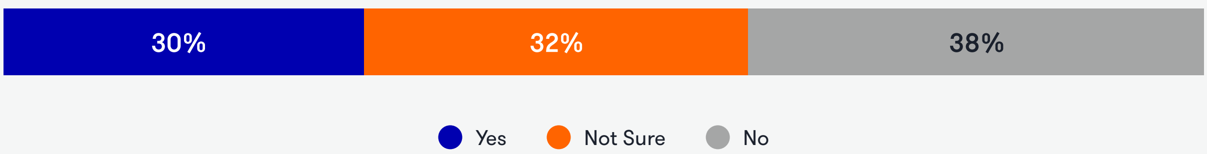
Among renters who were not yet retired, only 30% felt sure their pensions would be enough to cover rent and other costs when they retired. 32% said their pensions would not be enough, and 38% were not sure.

Is your pension enough to cover your rent payments and other living costs?



Base: Retired respondents who are renting

Will your pension be enough to cover your rent payments and other living costs when you retire?



Base: Non-retired respondents who are renting

[12] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime#:~:text=Almost%20three%2Dquarters%20of%20people,two%2Dthirds%2020%20years%20earlier.

A number of respondents mentioned homelessness as a real worry.

"My biggest financial concern is not having enough income to pay the rent and becoming homeless as a result."

"I worry I'll not be able to continue living where I live."

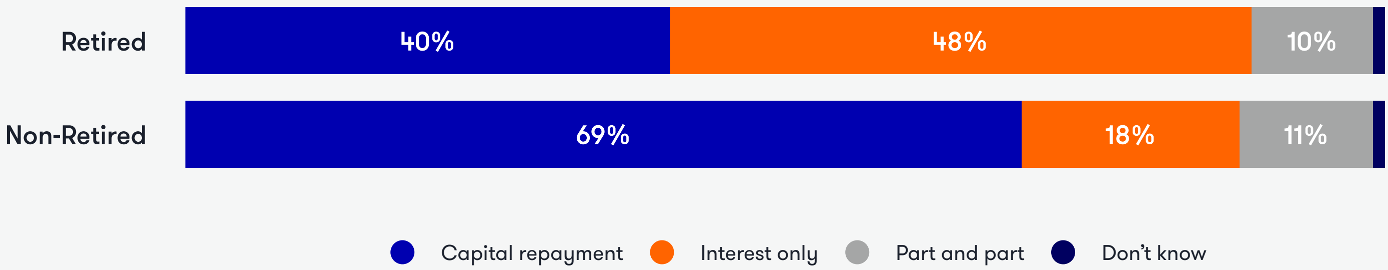
Of our retired respondents who were still paying off a mortgage, 48% were paying an interest-only mortgage. This could be of concern, but only 9% of these interest-only mortgage holders were worried about whether they would be able to pay it off.

Many more of our non-retired respondents (48%) were still paying off a mortgage, and a lower proportion of them were paying off interest-only (18%). However, 14% of these had concerns about whether they would be able to pay off an interest-only mortgage eventually.

One respondent pointed out that older people could be reliable mortgage holders.

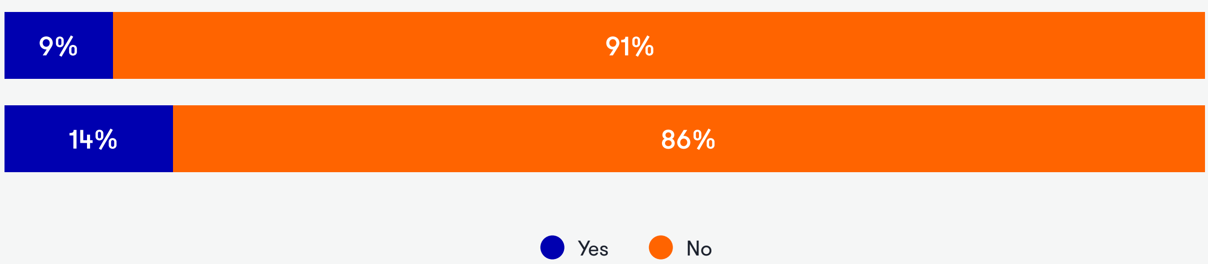
"Mortgage lenders are ageist and can't understand that older/retired people can still afford mortgages and often their income is more stable than a younger employed person who could lose their job!"

Is your mortgage capital repayment or interest only?



Base: Respondents who have a mortgage

Are you worried about whether you will be able to pay off your interest only mortgage?



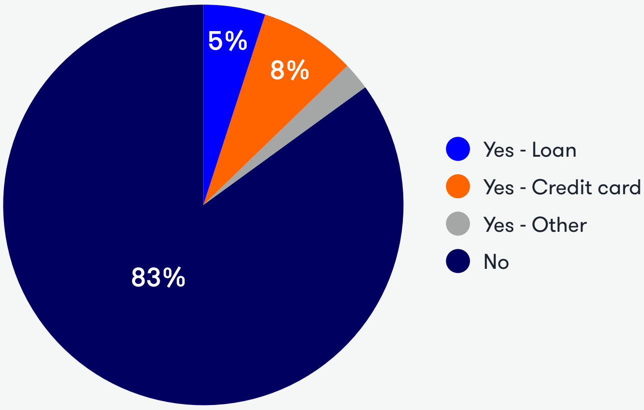
Base: Respondents who have an interest-only mortgage

Retirees in debt

Having debt that is outstanding at retirement age can have a significant impact on whether a pension income is sufficient.

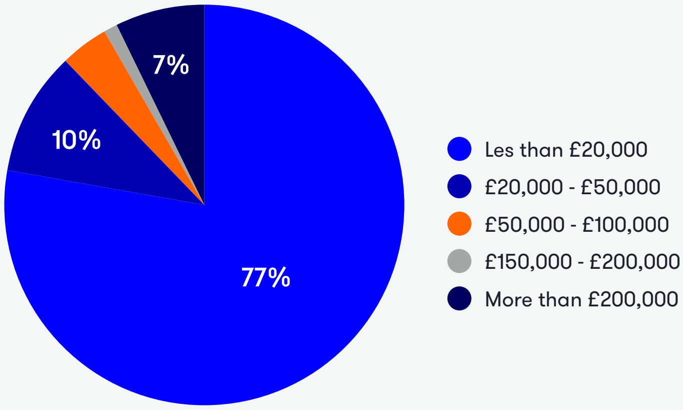
We asked our retired respondents about any outstanding debts they had. 15% said they had amounts still to pay off. 8% had credit card bills to pay, 5% had outstanding loans, and 2% had other debts. Most of these debts (77%) were under £20,000 in value.

Do you have any outstanding loans or credit cards?



Base: Retired respondents

Roughly how much do you have outstanding in total?



Base: Retired respondents with outstanding debt

One respondent blamed credit card debt at retirement on the change in state pension age.

"Because of the change in state pension payments to '50s-born women, I've had to borrow from credit cards and smaller pension pots until my state pension came in at 66."

Victims of fraud

UK Finance reported an overall decrease of 5% in unauthorised financial fraud losses in 2020[13], but it also noted a significant growth in the use of social engineering to trick consumers into making security mistakes or giving away sensitive information.

One worrying factor to emerge from this year's survey was the treatment of fraud victims.

Slightly fewer respondents reported being a victim of a financial scam this year (9% versus 13% last year).

However, only 34% of those who fell victim had received their money back - a drop of 9% points compared to last year's survey. 56% had not had their money returned, and 11% were still waiting. It would be concerning if the introduction of new measures to stop fraud resulted in the burden of blame shifting to the victim.

[13] https://www.ukfinance.org.uk/system/files/Fraud%20The%20Facts%202021-%20FINAL.pdf

Take-aways
to consider for policymakers

We hope the findings in this year's survey are useful to policymakers as well as interesting to everyone investing for their retirement. There have been many suggestions for policy improvements over recent months, both from interactive investor and others including trade bodies and independent taskforces. These have ranged from boosting contributions under auto-enrolment from 8% to 12%, to simplifying annual benefit statements. There appears to be a positive spirit of openness to reform and improvement in the pensions industry at present and a recognition that the current system is not perfect. If there is an open window for change, the below might give food for thought:

- **This survey suggests retirement has become too complex for too many people.** While there is a clear advice gap, product providers need to address the complexity challenge and platforms and other educators should recognise the appetite for more educational support on drawdown and managing various retirement pots. The Pension Wise service is valuable but under-used and better marketing of this scheme might help some to avoid costly mistakes. Investment Pathways was launched in February this year to help overcome some of the barriers to remaining invested for people in drawdown. It is early days for this well-meaning scheme and it is likely that it will require some finessing but also promotion, so that it appeals to more people accessing their pension pots for the first time and achieves it's aim of helping people who are risk averse to have the confidence to remain invested, rather than relying on cash savings, which are at the mercy of inflation. We would like to see some thoughtful revisions to the options available through Pathways in the coming months, as we approach the one-year anniversary of the scheme's introduction.

- **The responses to the survey suggest that the Government should be wary of undermining pensions, through suggested and actual changes to benefits and the freezing of allowances.** It should instead focus on building confidence in the existing system. Our finding that a large proportion of young workers don't think the state pension will be there for them when they retire should ring alarm bells – it suggests the intergenerational contract is as good as broken, in the eyes of the younger generation, at least. It's difficult to know how individuals will respond to this lack of faith in the system but choosing to take punts on get-rich-quick 'investments' rather than opting for the slow and steady decades' long build up of a pension is a risk. Meanwhile, those at the other end of the accumulation journey who are approaching or in retirement are faced with some major challenges as a result of policy meddling. Changes to the state pension triple lock are a concerning indicator that big policies on which millions depend can be altered at the drop of a hat. This insecurity fuels anxiety and makes sensible planning a lot more difficult. There was evidence in the survey that more people taking the view that YOLO 'You Only Live Once', so they are going to enjoy themselves and worry about retirement later – partly because it is just too much to think about. In an increasingly complex pensions world, there is a chance that equity release will look increasingly appealing to people who have more in property than they have in their pension Equity release comes at a cost far higher than the fees paid for pensions. The last thing we need is a decline in retirement saving, following a loss of faith in the pensions system and an attitudinal shift towards living for today and a move towards accepting a lifetime of debt through later life borrowing.

- **Some of the comments about the freezing of the Lifetime Allowance and possible further cuts to it were particularly revealing, with many feeling the Government is penalising good investment decision-making.** One way to deal with this, as one person suggested, could be to pool Lifetime Allowances for couples, giving rise to a current joint allowance of £2,146,000.This would mirror the joint treatment of inheritance tax allowances for residential property. We like this idea and it would acknowledge that for many older couples, a pension for two has been built up in a sole name.

- **Delivering the long-awaited Pensions Dashboard will be key to the growing cohort of people with multiple pension pots, as they try to keep track of pensions built up over a career with many jobs.** While it is unlikely to be top of the wishlist for those currently building up their pensions now, when they come to retire and can't access or even remember old pensions that are rightfully theirs, it will seem a more pressing concern. The longer we wait for it, the greater the risk of consumer detriment through not having everything in one place.

- **Interactive investor has long promoted the importance of school children learning about personal finance – this extends to education on long term investing in the form of pensions.** This would help change the culture around pensions, from a topic that is the preserve of elderly people to one that younger generations are interested in and prioritise, because they understand it. There is no reason young people straight out of school should not be thinking about and investing in their pensions. Reducing the auto-enrolment minimum age to 18, to better reflect a workforce where young people are as likely to be employed in apprenticeships as go to university, would be a step in the right direction here. There is also no reason why students working part-time jobs shouldn't also be set up in company pension schemes, now that the auto-enrolment infrastructure is established and the roll out is complete, so reducing qualifying earnings would be a huge help too.

- **While the Bank of Mum and Dad – and Grandma and Grandad, may be active in lending to buy first homes, such is the high cost of getting onto the ladder, they are less active about paying into their younger relatives' pensions.** When it comes to building up a pension pot, we seem to be on our own, with no intergenerational assistance for this particular asset. Encouraging the older generations who wish to give living inheritances to consider boosting the pensions of the older young (those who have already made it onto the ladder, perhaps) may be a gift that keeps on giving. Meanwhile, more transparency over what a worker's pension is invested in will also be key to engaging younger people in the narrative of their money and what it is doing in the world, and could inspire contribution boosts: clear lists of fund holdings as well as information about the companies within a pension fund would help overcome the abstract nature of pensions and encourage more regular interaction.

- **A strong theme from the responses was the belief that there should be more tax benefits for the millions of unpaid carers whose own futures are jeopardised by their generosity to loved ones.** At the very least, they should not find their state pensions lessened. To this end, carers are currently able to backdate claims for National Insurance credits – 'Carer's Credit' so they don't miss out on their state pension entitlement, but many are not aware this exists so are not claiming it. Improved advertising of NI credit schemes should boost uptake – the Government needs to do more to ensure those who are entitled to it, get it.

Please contact Becky O'Connor, Head of Pensions and Savings, interactive investor, with any questions or feedback on this report Rebecca.oconnor@ii.co.uk