interactive investor

Show me my money 2023

The pensions landscape in the UK has changed beyond recognition over the past decade. We have seen the positives of auto-enrolment and pension freedoms rub up against an increasing state pension age.

People are having to wait longer and longer to retire and with that comes uncertainty. Responsibility has increasingly shifted onto individuals to fill in the gaps, making it harder to enjoy a comfortable retirement.

More heartening is that 86% of eligible workers are now saving into a workplace pension. But this success masks a more serious national pensions issue particularly affecting the over 55s.

The positive impact of auto-enrolment masks a serious national issue, with a comfortable or even moderately comfortable retirement off the cards for many. Almost two fifths of over 55-year-olds have less than £50,000 in their pension pot and only 1 in 10 women have enough for a moderate retirement.

Millions of older people are heading towards an uncertain financial future. We saw worrying knowledge gaps across all ages which risks long-term financial resilience. But we were especially surprised to find that those over 55 were the least familiar with their pensions: how much they have saved, risk level, pension fees and whether they are reducing their risk in the run up to retirement.

That's despite having fewer pension pots to navigate. Over 55-year-olds with defined contribution pension pots told us they had an average of 2.1 pension pots compared to 3.2 for 18-34 year olds and 2.5 for 35-54 year olds.

Pension savers are effectively estranged from their pensions, and we need to accept that as an industry, it's us – not them.

We all need to do better, but it is noteworthy that we found that pension blind spots are much greater amongst those whose main pension pots were with the traditional life companies (the high street names we've all grown up with), compared to those who were with more modern investment platforms. That's not unexpected given that self-directing private investors are often highly engaged, and many will have consolidated their pensions. But it is still food for thought, with risk a worrying case in point.

The pensions dashboard will go some way to help, but much can be done before it finally launches. While Consumer Duty might have made the imperative for pension providers to help customers achieve good outcomes in retirement a rule, it shouldn't be anything new.

The landscape we've uncovered here needs to look very different and pension providers are at the heart of making that change happen. It is absolutely crucial that people across this industry – that includes regulators, pension companies and the government – do more to solve this collective failure.

There is an immense responsibility here. We feel the weight of that at interactive investor. We know it's our job to help people prepare for and enjoy their retirements. The whole pension industry needs to help engage, inform and educate. It must do better.

There's no question that we have growing issue here, but not everyone has time to wait for change to come from policy makers. At the end of this report, we have included calls to action for Government, but we have also highlighted some steps that people can take to arm themselves with knowledge. It's not always as late as you think.

Richard Wilson
CEO, interactive investor

Introduction by Alice Guy

Head of Pensions and Savings at interactive investor

Adults in the UK today should be better prepared than ever to enjoy their post-work lives thanks to two major changes in recent years. There's been auto-enrolment, which means millions more are now saving into a workplace pension, and then the pension freedoms, which came into effect in 2015 and have led to greater freedom of choice around how and when to make use of pension funds for income in retirement.

The huge problem we face, however, is that pension freedom has not translated into true empowerment. **Today's pension savers, in the main, have pension blind spots which hamper their ability to make good, informed decisions about their financial future.** This is hugely damaging to people's retirement planning and their eventual retirements. If people are not in a position of knowledge, they are not in a position of control.

Many people are heading for a poor retirement; their pensions are failing them. There's a lot that could be done better and every single member of the pensions industry from those who provide the products to the regulator and even consumers themselves all have a role to play.

Auto-enrolment was built around the principle that the same few key decisions could be made on behalf of millions. Within certain income and age ranges, everyone would be contributing 8% of their salary to a workplace pension scheme; these schemes all have a default fund with controls on the fees they can charge.

This has been a good start, but no more than that. Everybody's life circumstances are unique: Everyone has their own employment experience, their own family circumstances, their own state of health, their own aspirations around their later life.

Our first step to start assessing and tackling the problem of poor engagement was conducting research to find out exactly where the cracks are and who is falling through them.

About the research

Opinium questioned 2,000 nationally representative UK adults on our behalf between 26 May and 30 May 2023. What we found was worrying.

Worryingly, women and those over 55 are particularly at risk of poor retirement outcomes.

Key findings

Through our research with Opinium we found that people are typically not saving enough into their pension, risk running out of money in retirement, don't know how much their annual pension charges are, and are either taking too much or too little risk in order to achieve their objective.

Even those who do know how much they are paying intuitively feel they are not getting value for money: almost a fifth with defined contribution pensions (19%) are certain they are not getting value for money, and 38% don't know.

Lack of understanding and lack of engagement are the two common themes we found. We will look at drivers behind this and explore why these themes keep popping up through different ages, groups of people and types of pension providers.

Worryingly, women and those over 55 are particularly at risk of poor retirement outcomes. For those closest to retirement (aged 55 and over), we found they know less about their pensions than younger people, pay less into their pensions and less frequently understand the fees they're paying.

There is also a large gap in engagement and knowledge between those who held their biggest pots with the largest pension companies and those who do so with DIY platforms.

That won't come as a surprise to many – people who manage their own pensions will by definition be more engaged, and so it's important not to over play this, and the data suggests that we all have work to do. However, we still think there is some food for thought here in the comparisons, and it is concerning that so many people with traditional providers do not know their risk level or whether they are being de-risked – twice as many as those with the investment platforms. But by the same token, the number of investment platform customers who were unsure whether they were being de-risked as retirement approaches was higher then we would have expected ourselves.

	Largest pension with traditional company*	Largest pension with DIY platform**
Average amount in pension savings* **	£35,000	£45,000
Don’t know how much they’ve got saved	23%	13%
Don’t know how much they’re contributing to their pension	13%	6%
Don’t know the risk they’re taking	20%	10%
Don’t know if they’re de-risking on way to retirement	49%	23%
Don’t know how much they pay in fees to their pension provider each year	72%	41%
Don’t know what assets they are invested in	55%	20%

*Includes all respondents who have their biggest pension with the biggest 6 traditional life companies by the Opinium data: Aviva, Standard Life, Scottish Widows, Legal & General, Aegon, and Prudential.

** Includes all respondents who have their biggest pension with the biggest DIY platforms: including Halifax, interactive investor, Hargreaves Lansdown AJ Bell, Fidelity, Pensionbee and Bestinvest.

***Median average. Data includes all pension savers who could estimate the value of their pension savings.

some **28%** of those over 55 do not have a pension at all

Those 55 or older are in the greatest trouble

While many are struggling to save properly for their futures, some sections of society are more disenfranchised than others. Worryingly, this includes those approaching and already in retirement.

Our research revealed that over 55s know less about their pensions than younger savers. What's more is they are more likely not to know the fees they are paying.

We have a national emergency: some 28% of those over 55 do not have a pension at all, a higher percentage than 35- to 54-year-olds (23%) and the same proportion as 18- to 34-year-olds. This is a ticking time bomb, and while auto enrolment offers hope for younger generations (although perhaps not the self-employed), we have real concerns for a lost generation who are facing a frightening retirement.

This emergency is exacerbated by inadequate current pension pots, with average pension savings of £85,000 for over 55s, according to our research. This falls far short of the £248,000 needed for a moderate retirement according to the PLSA retirement living standards.

Our 2021 report "Is 12% the new 8%?" showed that the level of current minimum auto-enrolment rates is not sufficient for any more than a minimum retirement and millions of pension savers are under-saving without realizing, and heading for a poor retirement. But it's clearly not just how much you contribute, but also how much investing risk you take as de-risking too early may further deflate pension values – which is why we find our research findings around risk so concerning.

Small pension pots

Our research reveals that only 21% of over 55s with defined contribution pensions, some of whom are already retired, currently have over £250,000 saved in their pension (which is what the Pension and Lifetime Savings Association retirement living standards state that people need for a moderate retirement). Some 58% have less than £100,000 and 39% have less than £50,000 in their pension pot.

The numbers reveal that most over 55s are not on track for a comfortable or even moderate retirement.

According to the 2022 Pensions and Lifetime Savings Association, a single person needs £12,800 per year in retirement for a 'minimum' lifestyle (a combined £19,900 for a couple) - retirementlivingstandards.org.uk. This "covers all your needs, with some left over for fun and social occasions. You could holiday in the UK, eat out about once a month and do some affordable leisure activities about twice a week."

For a 'moderate' lifestyle for increased financial security and flexibility, a

88% of older (over 55s) pension savers don't know what annual fees they are paying.

single person would need £23,300 (a combined £34,000 for couples). To achieve this income the PLSA estimate they would need a pension pot of around £248,000. That means one foreign holiday per year and eating out a few times a month.

Lack of pension knowledge

With pension savings lagging and many older workers no longer paying into their pension, it's imperative that pension savers make the most of their existing pensions, investing in a way that is appropriate, understanding their investment risk and their fees.

But there is a worrying lack of pension knowledge among older pension savers with defined contribution pensions.

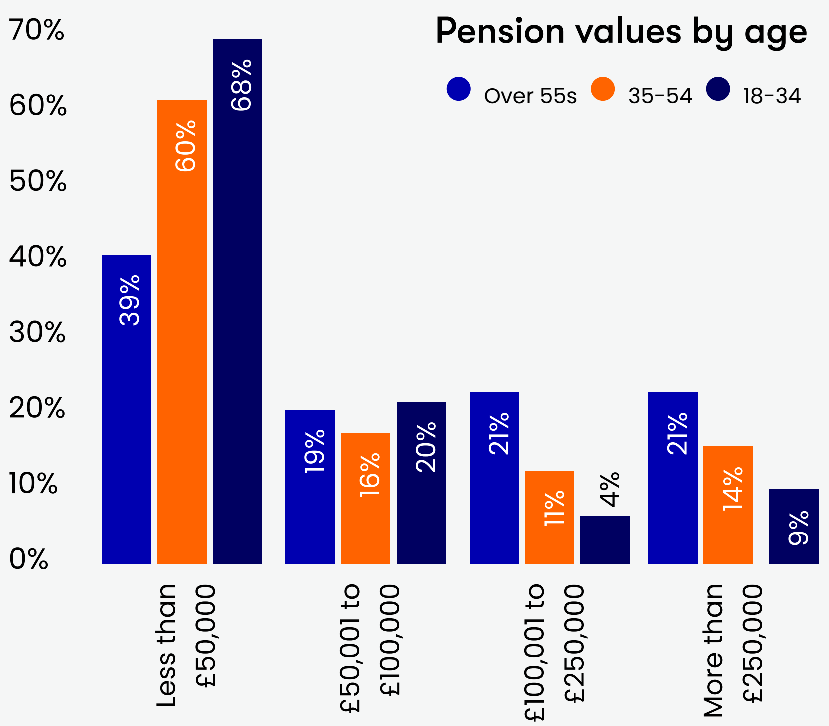
- 88% of older (over 55s) pension savers don't know what annual fees they are paying. This drops down to a little more than half (56%) for 18- to 34-year-olds. It's particularly concerning as a greater portion of older savers will have pensions from before auto-enrolment came into effect with its cap on pension scheme charges. Fees from this era can be high as 1.5%, which could prove detrimental to achieving retirement goals.
- 37% of over 55 year olds don't know how much is in their pension pot, compared to 29% of 18-34 year olds.
- 65% of over 55s do not know if their pension fund is gradually being moved into less risky investment options as they approach their planned retirement date ('de-risking'). That's worryingly more than the proportion of those aged 18 to 34 (40%). This lack of pension knowledge could seriously impact on their retirement as de-risking too early could result in poor outcomes for pension savers. The timescale of de-risking is decided based on a retirement date chosen, potentially years before pension savers' final retirement. Moving out for equities too early could significantly dampen someone's investment returns, especially if they are planning to do income drawdown (and therefore need to stay invested) rather than purchase an annuity. Of course, reducing risk in the run up to retirement will be the right course for some people, but people need to be in a position of knowledge.
- Worryingly, 28% of over 55s don't know or can't remember how much risk they are taking, compared to 29% of 18- to 34-year-olds, even though they are nearly or already in retirement.
- 4 in 10 (38%) of over 55s don't know when they last checked their pension online, compared with 22% of 18- to 34-year-olds and over one in five (23%) of older pension savers don't know when they last checked their pension on paper. This lack of knowledge means many older pension savers risk spending their pension too quickly and running out of money in retirement.
- 73% of over 55s don't know what assets they are invested in compared to 43% of 18-34 year olds.

	Over 55s	35-54	18-34
Average amount in pension savings*	£85,000	£35,000	£25,000
Average number of pension pots	2.1	2.5	3.2
Do not have a pension**	28%	23%	28%
Don't know who their main pension pot is with	24%	31%	26%
Don't know how much is in their pension pots	37%	33%	29%
Don't know/ can't remember how much risk they're taking	28%	32%	29%
Don't know if they're de-risking on way to retirement	65%	56%	40%
Don't know how much they pay in fees	88%	75%	56%
Don't know when they last checked their pension online	38%	30%	22%
Don't know when they last checked their pension on paper	28%	30%	23%

Data includes all pension savers with defined contribution pensions and excludes those with only defined benefit pensions and those who have no pension outside the state pension.

**Median average. Data includes all pension savers with defined contribution pensions who could estimate the value of their pension savings and excludes those with only defined benefit pensions.*

***Base includes all survey respondents, including those with defined benefit pensions*



Data based on median average and relates to values of combined pension pots. Data includes all pension savers with defined contribution pensions who could estimate the value of their pension savings and excludes those with only defined benefit pensions. Figures are rounded and may not add up to 100%

Explainer: de-risking

By de-risking, the pensions industry means gradually reducing the amount of investing risk people take with their investments decline as they get closer to retirement. For example, a default de-risking fund might start to move pension saving out of equities into bonds or cash once they are 10 years from their selected retirement date.

De-risking is designed to reduce the danger of individuals having their pension pot size shrink in size just before they buy an annuity or withdraw cash. However de-risking too early may reduce returns, especially if a pension saver decides to stay invested through retirement instead of taking an annuity. It's a careful balancing act, and will be right for some people. But with retirement no longer a cliff edge, and money needing to work harder for longer, people need to be in a position of knowledge.

55% of those with tradition pension companies don't know what assets they are invested in

Are you being served?

As we have said previously, it is no great surprise to see that it is UK adults with the traditional providers who know and understand less about their pensions. But that doesn't mean that the wider industry – including us – don't have more to learn.

- When it comes to general risk profile, those with traditional pension companies are less likely to know how much risk they're taking with their money in the run up to retirement. A fifth (20%) did not know, compared to 10% with DIY platforms. We drilled down further into our own data here and found that 71% of ii SIPP customers specifically logged on to their account in May alone, which confirms how active our own customers are.
- 55% of those with tradition pension companies don't know what assets they are invested in, compared with 20% of those whose main pension is with a DIY platform.
- While we at ii can't claim to have all the answers, and we know we all have more work to do, we nevertheless think that this is thought provoking. How can you know if you are being served well if you don't even know your asset split, let alone your risk profile?

One in three don't know when they last checked their pension online

It's impossible to start making practical plans for retirement if you don't know how much you have saved.

But our research shows that one in three (31%) of pension savers can't remember when they last checked their pension online and a further 24% don't know when they last checked their pension on paper.

Worryingly, customers with the biggest pension providers (traditional pension companies like Aviva and Aegon) check their pensions less often and are less likely to remember when they last checked their pension than those with DIY platforms. One in five (22%) of those with traditional pension companies have no idea when they last checked their pension online versus one in twenty (6%) of those invested through a DIY platform.

- Nearly one in five (18%) of those with traditional pension companies have no idea when they last checked their pension on paper versus one in ten (10%) of those invested through a DIY platform.
- In total, one-third (35%) of those with traditional pension companies either don't know when they last checked their pension online or checked it over one year ago, compared with one in five (21%) of those invested through a DIY platform. There is a valid school of thought that you can check your pension pots too often, but there surely has to be a happy medium!

The gender pension gap

It is clear there is a gender pension gap, which although widely researched, is also reinforced by our data, which found a third (32%) of women don't have a pension of any kind compared to a fifth (20%) of men. Worryingly, women's pension savings tend to be much smaller on average compared to men (£25,000 versus £55,000), less than half.

Our research found there are also knowledge and understanding gender pension gaps.

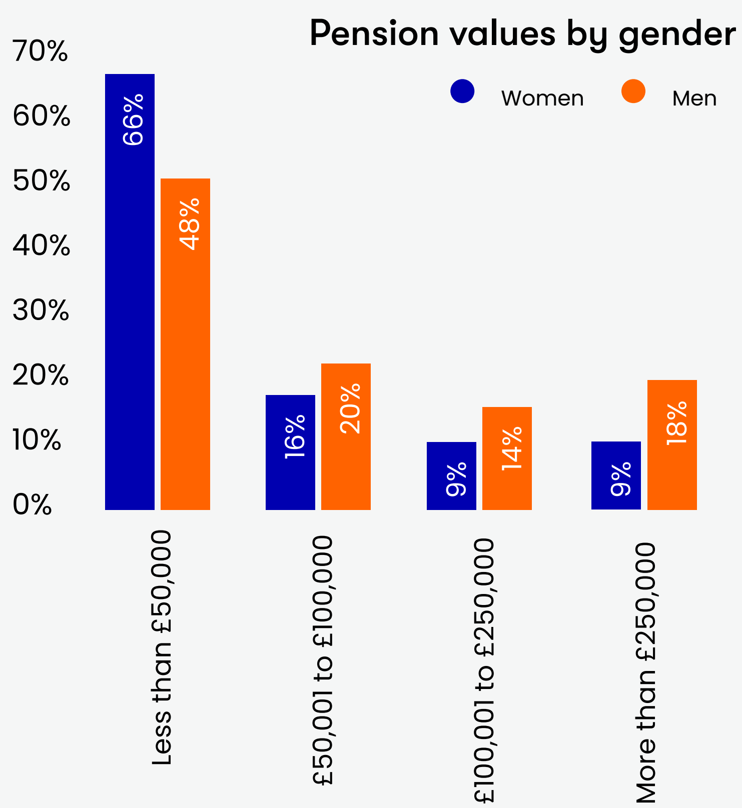
- almost two-in-five women (38%) don't know the amount of risk they are taking in their pension investment strategy, compared to one-in-five men (22%).
- Seven in ten (71%) of women don't know what type of assets they are invested in compared to 53% of men
- 20% of women don't know how much they are currently contributing to their pensions versus 14% of men.
- 32% of women have no pension saving, compared to 20% of men

	Women	Men
Average amount in pension savings*	£25,000	£55,000
Don’t know what they’re invested in	71%	53%
Don’t who know how much they’re contributing	20%	14%
Don’t who know the risk they’re taking	38%	22%
Portion who have no pension savings**	32%	20%

Data includes all pension savers with defined contribution pensions and excludes those with only defined benefit pensions.

**Median average. Data includes all pension savers with defined contribution pensions who could estimate the value of their pension savings and excludes those with only defined benefit pensions.*

***Base includes all those surveyed including people with defined benefit pensions.*



Data based on median average and relates to values of combined pension pots. Data includes all pension savers with defined contribution pensions who could estimate the value of their pension savings and excludes those with only defined benefit pensions. Figures are rounded and may not add up to 100%

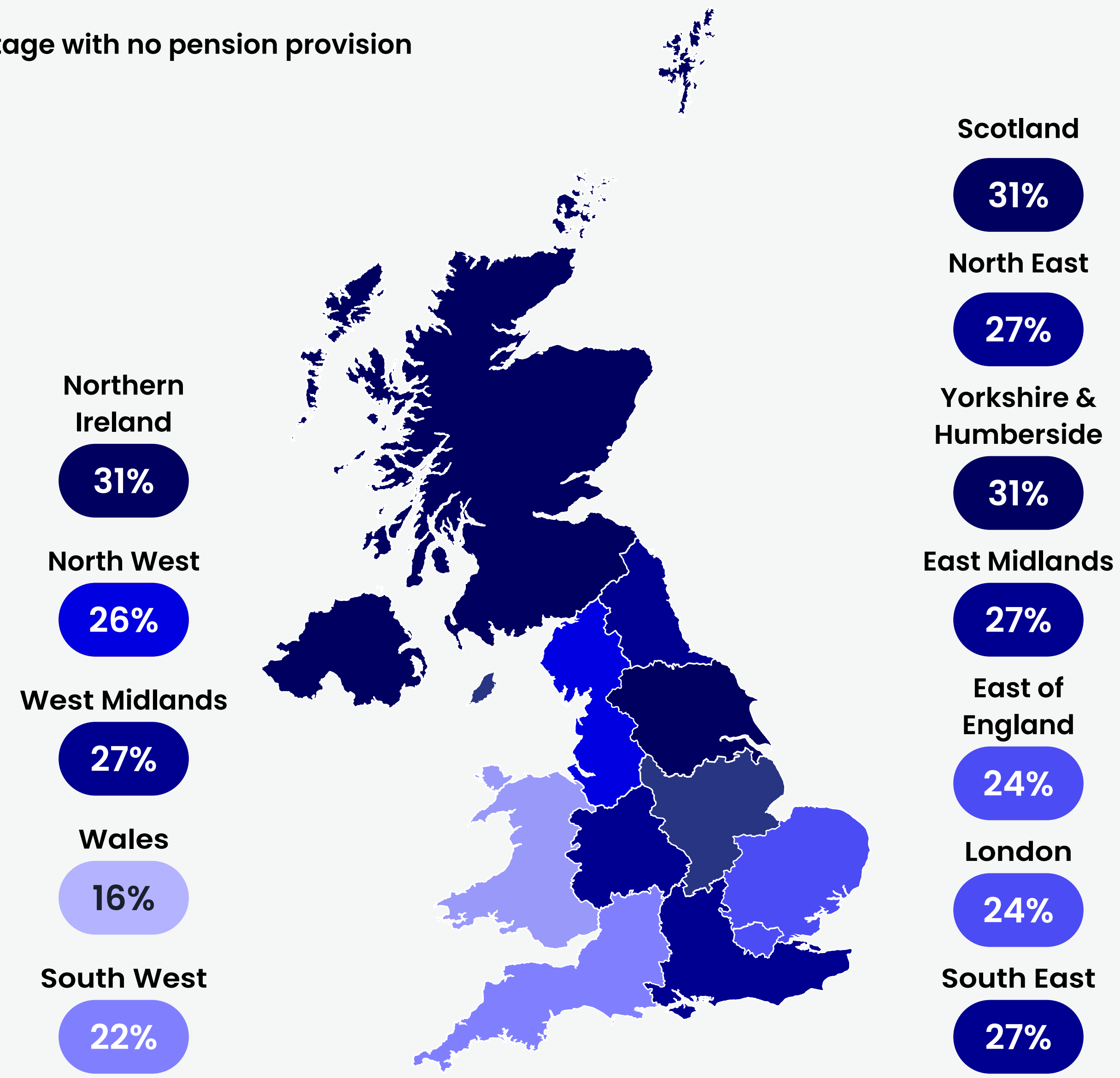
Regional differences

People across all regions are struggling to save enough for retirement with the average pension pot across all regions being £45,000. A number of regions including the Yorkshire & Humberside and Northern Ireland are lagging the national average with an average pension pot of £20,000 and £25,000 respectively.

Although, those living in London are the most knowledgeable about investment, the figures are still concerning. In London, 39% of pension savers do not know what assets they are invested in, compared to 79% in the North-East.

Wales is the area with the most pension provision as only 16% have no pension, compared to 31% in Scotland. There is still a long way to go in all regions as even in London (one of the areas with the most pension wealth), 24% have no pension.

Percentage with no pension provision



	No pension*	Average pension size**	Average monthly pension contributions***	Don't know what assets they're invested in?
Scotland	31%	45,000	£197	64%
Northern Ireland	31%	25,000	£164	64%
North East	27%	35,000	£165	79%
North West	26%	45,000	£243	56%
Yorkshire and Humberside	31%	20,000	£175	66%
East Midlands	27%	35,000	£122	70%
West Midlands	27%	35,000	£165	56%
Wales	16%	35,000	£110	76%
East of England	24%	35,000	£148	72%
London	24%	55,000	£293	39%
South East	27%	45,000	£119	66%
South West	22%	35,000	£131	62%

** Includes all survey respondents, including those with defined benefit pensions*

***Median average*

****Mean average*

Ten years on from auto-enrolment the government now needs to find ways to improve pension knowledge and engagement.

What can the industry do?

Pension providers are in a unique position to engage with, provide information for and educate their customers about their pensions.

We can see from our research that over 55s are disproportionately disengaged with their pensions.

While at ii we feel like we talk a lot about charges, and are proud of our transparent monthly flat subscription fee, in pounds and pence, there is always more to learn. But as an industry, there is far more collective work to do on the impact of charges. The same is true when it comes to talking about risk.

We need to show ambition here.

Public campaigns like pension awareness week and the ABI's "Pay Your Pension Some Attention" are a fantastic step in the right direction. But we need to get practical. We need to move beyond slogans.

We need to encourage pension savers, not just to check their level of pension saving, but also their fees, investing risk and if they are de-risking.

And we need to look at creating tools that are engaging and relevant.

Policy suggestions

There is huge potential here for our industry to break down the needless and expensive barriers to wealth creation and help UK citizens level up their own economic futures.

We want to see straightforward solutions with clear pathways that don't make people feel anxious or put people off, based on clear risk profiles, so that no longer are people unaware of their approach to risk in retirement.

Ten years on from auto-enrolment the government now needs to find ways to improve pension knowledge and engagement. It's not enough for pension savers to have minimal-sized pension pots they don't understand. We need to aim higher and show more ambition.

With this in mind, it's welcome news that the Department for Work and Pensions (DWP) is working with the pensions industry - and wants to form a group by the end of 2023 - to help people consolidate their pots much more easily. It's what's being referred to as 'a default consolidator' model. So instead of people building an array of many small pension pots when they move jobs and receive a new one each time, reforms in the future could see, for example, someone having one pot for life that they can pay in to wherever they work.

Efforts like that from the DWP could help engage people with their lifetime savings and make pensions simpler. But we need to make sure that more modern investment platforms are not left out of the equation. But more could be done.

It's also time for the government to look again at minimum autoenrollment rates and consider increasing minimum contribution rates. The current 8% minimum level of contributions is not enough for a moderate retirement income. Pension savers are consistently under-saving, while assuming that they are saving enough and are on track for only a minimum standard of living in retirement.

Time to question: What pension savers should ask

Consumers can still take some control of the situation and try to figure out what's going on for themselves.

There are actions people can take to try and better understand their situation. There may then be simple changes they can make to better prepare for retirement. It's time to take control.

So, if you're reading this and want to better engage with your pension and get on top of your future retirement, this is a good starting point.

The first step is to ask questions. Like the following:

- What fees am I being charged by my pension provider?
- Is my pension de-risking? If so, your pension provider should tell you based on the funds you are invested. If you can't find the information easily, you can ask.
- Do I have enough investment choice?
- Am I signed up for all the information and updates you send?
- Are there any easy ways I could get a bigger contribution from my employer? For example, perhaps by increasing my own contributions if the employer matches.
- You should also make sure that you know the retirement age you selected, as the wrong retirement age can have a number of unintended consequences.

Time to act: What pension savers should do

Now you've asked some questions of the companies who run your pensions, there are some actions you can take. It's important to arrive at a point where you have a good understanding of your pension savings.

That means being clear on:

- How much you're saving;
- How much those savings could be worth in your retirement; and
- What actions you can take to change the course you're on and improve your lifestyle and comfort in retirement.

Follow this seven-step checklist to take control of your pension:

1. **Ask your pension provider for a cheaper product.** They may be able to tell you what options are available and help you find a better deal within their suite of offering.
2. **Consider changing your provider.** There are many companies across the pensions market and some may offer better deals and more choice than the one you're currently getting.

   If you decide to move, if you are unsure, you could consider taking advice. It's also important to make sure that you won't lose any valuable benefits.
3. **Get educated.** Find some helpful material so you can begin to get your head around pensions and your future retirement. The Money and Pensions Service, which is government-funded body to help people with their money, will be a good place to start. Also, if you have a defined contribution pension pot and are over 50 you can get a free appointment for guidance on your savings with Pension Wise, part of The Money and Pensions Service.
4. **Think about financial advice.** An independent financial adviser will be able to consider all of your personal circumstances and help you come up with a financial plan. They will be able to help you in the course of action you take, whether that's to move pensions, save more, invest differently or save more tax-efficiently.
5. **Use a pension tracing service, and there is a free government service.** This is particularly important for older savers who have likely had many jobs and have inadvertently created multiple pension pots. Tracking down all of the different pension pots you own will create a much clearer picture of your long-term finances for retirement. There are multiple services out there that will help you do this.

6. **Consolidate.** Once you understand where all your pots are it can be very helpful to consolidate them all into one place and one pension pot. It makes it much easier to monitor the fees you're paying, control where your savings are invested and make sure your pension is on track to achieve your retirement goals. Just make sure you are not losing any valuable benefits, and if in doubt, you can get advice.
7. **It's worth being aware that you can ask your employer to pay into your SIPP instead of your workplace scheme.** Some employers will pay into a personal pension of their employee's choice. So, if you have always wanted to build your own investment portfolio, and chose your provider yourself, but have felt constrained by having to stay with your workplace scheme, it's worth asking HR if this is an option. Either way, you really want to keep your valuable employer contributions.

Next steps - Calls to action

Action from the government:

We need decisive action to help people engage with their pensions. The pensions dashboard has been long delayed and, while there are murmurs of progress and consultations, action is needed sooner. Government needs to:

- Prioritise and accelerate pension dashboards project
- Require pension wake up packs from an earlier age – **50 is far too late**
- In a potentially lower-growth world, and where pensions need to stretch for longer, and when more a more responsibility rests on the individual, we think we need to look at minimum contribution levels again. Auto enrolment could be enhanced by increasing the current minimum level of 8% to around 12% overall contributions to ensure people are saving enough for a moderate retirement, with the ambition to rise to 15% in the future. We wrote about this in our "Is 12% the new 8%" paper with LCP partners.
- Make it easier for pension savers to pay their workplace pension into a pension provider of their choice, rather than the default option chosen by their employer. This would allow pension savers to keep the same pension when they move employer, promoting engagement and ownership.

Financial literacy is another key piece of the puzzle

Ultimately, the conversation about the pension knowledge gap naturally goes hand-in-hand with financial literacy.

Similar to the FCA's ScamSmart Campaign, ii believes we need to see a public financial education campaign, led by the FCA.

But the FCA cannot do this alone. Interactive investor is a strong advocate for improving financial education in school, to help people develop the skills to manage their finances as they enter adult life. In an increasingly complex world, helping people understand their finances and build financial resilience needs to be a key priority for Department of Education, as well as the Department for Work and Pensions.

The big call to action

Success should not be measured by how many people receive an annual pension statement. Success should be measured by how many log on onto view their savings, use online calculators and tools. Success is how many more people get involved and engaged with their pension. This starts with pension providers.

Finally, it's time for the Government to show ambition and tackle systemic issues within the current pension system. A pension system where pension savers change pension provider each time they move employer is not compatible with pension engagement and ownership.

Instead, it's time to think big and look at how to make it easier for employees to have their pension contributions (including employer contributions) paid into a pension provider of their choice, a pension provider that may have more competitive fees, better performance or simply be where the pension saver already has pension savings

UK consumers have not always been well served by Britain's largest pension providers. While we all want to do better,we need to help pension savers take ownership of their pension by opening up competition to a range of providers. At a time when traditional life companies are often seen as the defacto solution, people may be able to get better value and choice elsewhere. There are always other options. And sometimes they are better.

Let's engage the UK with their pensions.

Alice Guy

Head of Pensions and Savings

If you have any questions about the research, please contact alice.guy@ii.co.uk