Media Release

PLANNING FOR RETIREMENT HARDER THAN NAMING A CHILD

- People planning for retirement confused about how best to access their pension savings, how much income they will need in retirement and how long their money will last
- Columbia Threadneedle Investments calls for auto-enrolment into income drawdown funds for those about to retire

LONDON, 20 MARCH 2018: New research by Columbia Threadneedle Investments found that people about to retire are struggling to navigate the complex task of planning for retirement and making decisions about how to convert their pensions savings into income. Many consider planning for retirement among the hardest decisions in life – harder than naming a child or buying a house – and believe that their savings may not last them throughout retirement.

In February 2018, Columbia Threadneedle surveyed adults aged 55+ to better comprehend the challenges faced by retirees and assess their ability to understand and plan financial matters.

The report entitled "Planning for Retirement: Are people joining up the dots?" found that while people are comfortable thinking about when they might retire and how long they might live, they find it difficult to assess how long their pension savings might last, how best to convert these savings into a regular income and how much is likely to be needed to sustain a comfortable standard of living in retirement.

According to Columbia Threadneedle, the manifest confusion of people on the cusp of retirement is very concerning, particularly given the recently implemented freedom and choice reforms providing retirees with total flexibility over how to access their pensions savings.

Following the successful implementation of auto-enrolment for pension savers in the UK, the focus should now move to retirees and steps to ensure a comfortable retirement, which could include being automatically enrolled into a regulated retirement investment solution.

Chris Wagstaff, Head of Pensions and Investment Education at Columbia Threadneedle Investments, said: "People are retiring in a perfect storm of challenges and struggle to make informed decisions about how to turn their savings into a secure and appropriate stream of retirement income. They are effectively being asked to make one of the biggest financial decisions of their lives at a time when financial literacy is starting to decline and gut feel takes over.

"The situation is set to get worse over the next decade as we continue to move from a system of generous pension provision where everything was *done for you* to one that is increasingly less generous with ever greater levels of individual responsibility, where everything is *down to you*. We will continue to see defined benefit pensions disappear, the state pension being pushed out to ever later in life and people becoming more reliant on their DC pension pots to support their standard of living in retirement which, for many, will last for more than 30 years.

"There have been a few barriers to innovation in the post-retirement space due to the pace of policy change, uncertainty about how the market will develop and the fact that most DC pension pots are relatively small. But we can't afford to wait. Auto-enrolment for working people has been heralded as a great success so far. The same principles should be applied to those at the point of retirement, who could be automatically enrolled into a regulated income drawdown fund with a preset investment strategy and income withdrawal rates."

Below is a summary of the survey responses of those between the ages of 55 – 64, the mid to late baby boomers who have just retired or are about to do so.[1]

- Fifty-eight per cent of respondents had retired or expected to retire between the ages of 60 – 69. Three quarters (76 per cent) expect their retirement to last for 20 years or longer, although a quarter (26 per cent) did not know how long their retirement might last.

- Nearly a third of people (28 per cent) do not know whether their pensions savings will last for the full term of their retirement. Of the remaining respondents, 30 per cent believe their savings will last them for 20 years or less into their retirement.

- When asked how difficult making retirement decisions are, 66 per cent said it was more difficult than naming a child, 47 per cent said it was more difficult than choosing other financial products such as insurance or mortgages and 40 per cent thought it was more difficult than buying a house.

[1] Survey conducted in partnership with YouGov In February 2018, surveying 838 adults aged 55+. The sample size of 55 – 64 year olds is 328. Survey highlights exclude those who responded as "don't know" unless otherwise stated (ie where this answer was statistically significant).

- Over half (53 per cent) of respondents are expecting to work until or beyond the state pension age of 65 years.

- The most important consideration for half of the respondents (49 per cent) was securing a standard of living in retirement equivalent to that enjoyed pre-retirement.

- Three quarters (75 per cent) believe that an annual gross income *below* £25K would provide a “comfortable” retirement. By contrast, the Pensions and Lifetime Savings Association recently suggested that this would require a *minimum* gross income of £25K per year.[2]

- While the largest sample of people mainly rely on their defined benefit pension schemes (38 per cent), for 31 per cent the new full state pension of currently £159.55 per week represents their most significant source of income. Eighteen per cent mainly rely on their Defined Contribution (DC) workplace savings and/or Self-Invested Personal Pensions (SIPP).

- Over a third of respondents (37 per cent) have yet to make a decision on how to convert their pension pot into income. The reasons cited were that retirement was a long way off (30 per cent), almost a quarter (23 per cent) didn’t know enough about the available options, 17 per cent didn’t trust the pensions and/or investment industry, while 14 per cent weren’t prepared to pay for financial advice. Almost one in every five baby boomers (19 per cent) is unaware of the new UK pension freedoms, introduced in April 2015.

- Perhaps as a result, 53 per cent believed that being automatically enrolled into a default income drawdown fund, which would make the often complex investment and income withdrawal decisions on the retiree’s behalf, would simplify the decision-making process.

Chris Wagstaff continued: “An increasing number of people are opting for income drawdown over annuities, but they must somehow navigate their way around the longevity and inflation risks that come with income drawdown. If not managed well, these risks can add up to an uncomfortable retirement at best, or worse, lead to people outliving their savings.

[2] In a recent survey of 55 to 64 year olds, the PLSA suggested that securing a comfortable retirement would require a minimum income of £25K per annum. See: Hitting the Target – Delivering Better Retirement Outcomes. PLSA. October 2017.

"Therefore, the focus should move to those people at the point of retirement who are largely unsupported and unadvised. The solution could be to automatically enrol retirees into a regulated income drawdown fund with a preset investment strategy and income withdrawal rates. The managers of these funds would determine the combination of default investment strategy and longevity insurance that would provide people with a sustainable, guaranteed minimum income throughout retirement, all within a regulated charging structure.

"In our opinion, this would ease the enormous burden of decision-making put on the shoulders of a rapidly ageing population and ultimately lead to a more comfortable retirement. We hope that the pensions and investment industry can work together with the government and regulators to find a workable solution for the UK's future retirees."

Columbia Threadneedle published a paper alongside the research entitled "Generating retirement outcomes to be enjoyed and not endured" which explores in more detail the current pensions landscape and challenges faced by those at and in retirement, and how auto-enrolling retirees would lead to better retirement outcomes.

To read the full paper, click here.

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Notes to Editors

About Columbia Threadneedle Investments

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of actively managed investment strategies and solutions for individual, institutional and corporate clients around the world.

With more than 2000 people including over 450 investment professionals based in North America, Europe and Asia, we manage £366 billion[1] of assets across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

Our priority is the investment success of our clients. We know investors want strong and repeatable risk-adjusted returns and we aim to deliver this through an active and consistent investment approach that is team-based, risk-aware and performance-driven. Our investment teams around the world work together to uncover investment insights. By sharing knowledge across asset classes and geographies we generate richer perspectives on global, regional and local investment landscapes. The ability to exchange and debate investment ideas in a collaborative environment enriches our teams' investment processes to ensure the best insights are applied to portfolios. More importantly it results in better informed decisions for our clients.

Columbia Threadneedle Investments is the global asset management group of Ameriprise Financial, Inc. (NYSE:AMP), a leading US-based financial services provider. As part of Ameriprise, we are supported by a large and well-capitalised diversified financial services firm.

Source: Columbia Threadneedle Investments as at 31 Dec 2017

[1] Source: Ameriprise Financial Q4 2017 earnings release.

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All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 838 adults. Fieldwork was undertaken between 7 and 9 February 2018. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 55+).