The ticking time bomb facing the over 50s at retirement

Prospective retirees over 50 are caught in a retirement bind: lacking engagement, knowledge and financial resources. 66% have made either no firm plans or no plans at all for their retirement finances

COVID-19 is the top financial worry for both pre- and post-retired savers. 57% of the not-yet retired expressed concerns

The need for strong default funds is paramount, with 56% of those who have saved in a default choosing to remain in it after retirement

Tax-free cash is key! With nearly 40% of prospective retirees planning to access their pot just for this perk, retaining this benefit and nudging savers to use it efficiently is vital

London 14~~0~~.12.20 – Five years on from Freedom and Choice, non-advised savers over 50 are facing a ticking time bomb at retirement, according to a survey by Legal & General Investment Management (LGIM) and NMG Consulting (NMG). 66% of those saving into a defined contribution (DC) pension and 58% of those who have already retired have either no firm plans or no plans at all for their retirement finances.

This has translated into considerable concern, with 57% of savers and a third of retirees fearful about their financial situation in retirement.

Non-advised savers are also less clued up than their retired peers and more likely to say that their financial situation has been negatively impacted by COVID-19, which was their top financial worry. 57% expressed concerns due to the pandemic, compared to just 41% of those who had already given up work. More than a third (35%) of prospective drawdown users admit they know nothing about the funds they are invested in, and another third is unsure.

The 25% tax-free lump sum remains the most well-known and appealing feature of DC pensions. 42% of existing drawdown users have already accessed their pot to take advantage of this, whilst 39% of those who have not yet retired expect to withdraw their tax-free cash and leave the rest of their pot invested. Ensuring this benefit stays will be crucial for future retirees. And for squeezed savers, phasing these withdrawals could ensure they don't take out too much, too soon.

Meanwhile, a low risk tolerance and reluctance to engage informed the desire of 56% of those who had used a default fund during the accumulation journey to stay in the same product during decumulation. Therefore, defaults need to be suitable – and flexible for members' needs.

When asked about whether they saw a need for financial advice, 41% of prospective and 35% of existing users of drawdown were put off by the idea of having to pay a fee, while one in five (20%) say they mistrust advisers.

Automated online guidance tools also faced scepticism. Four in five existing drawdown consumers are cynical about the objectivity of online calculators from pension providers. However, provider websites are the most used information source for both prospective (53%) and existing drawdown users (34%).

Leading on the research, Jane Craig, Partner for NMG Consulting commented: "Our research highlights that a lifetime of low engagement with pensions hits hard at the time when pensions really matter – at the point of making retirement income decisions. Consumers lack knowledge and show over-stated confidence in their abilities to make good decisions and this is likely to have consequences on their outcomes in retirement for many years."

Solving non-advised savers' decumulation dilemmas today could mean a brighter future for 'Generation DC'.
In light of these statistics, LGIM has developed two retirement journeys for its non-advised contract, own trust and sole governance Mastertrust members. Both of LGIM's investment pathways give members the ability to choose and switch across four different options to fulfil their requirements at different stages of retirement, and one of the journeys has an additional emphasis on ESG factors.

These pathways fit well with the asset allocation within L&G default funds, thus providing a consistent approach for members as they move to and through retirement and minimising transaction costs.

Emma Douglas, Head of Defined Contribution at LGIM, comments on the findings: "Generation X could be the 'canary in the coalmine' when it comes to the long-term changes taking place in UK pensions. Pension freedoms are already approaching their five-year anniversary, but the long-term consequences are just starting to come through.

"As DC pension pots grow, the decisions made by individuals as they near their retirement could have significant consequences for their finances and standard of living. Increasingly a 'good member outcome' is not only about helping members to build up as much as possible in their pot in the accumulation phase, but also about giving them the right options and help when it comes to spending this money. The FCA Investment Pathways and the PLSA's work on decumulation are both steps in the right direction and we'll see more developments along these lines as more members approach retirement relying increasingly on their DC pension to provide them with the income they need."

Notes to editors

About NMG
NMG Consulting is a global consulting and insights business that provides advisory services exclusively within the investments, insurance and reinsurance industries. NMG has major hubs in London, New York, Singapore, Sydney, and Toronto.

About the study
The research is based upon an in-depth exploration, using qualitative in-depth interviews with 40 consumers approaching or in pension drawdown on a non-advised basis, all age 50 plus. This was complemented by a quantitative online survey amongst 1150 consumers, age 52+, all non-advised and considering access to, or already drawing down their DC pension. Those with pensions wealth of less than £10,000 were excluded from the study. Fieldwork took place in September and October 2020.

About LGIM Investment Pathways
The standard retirement journey is invested in LGIM's ESG-integrated Multi Asset Fund, while the other is invested in the ESG-driven FutureWorld Multi Asset Fund.

Employers will be able to opt between two different journeys for their scheme.

Members will only see the investment pathway selected by their employers.

They will be able to pick their most suitable option through a practical questionnaire on their retirement objectives, stage of lifecycle and future spending intentions.

About Legal & General Investment Management

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.2 trillion (€1.4 trillion, CHF 1.5 trillion, JPY 166 trillion, $1.5 trillion) [1]. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

[1]LGIM internal data as at 30 June 2020. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

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