



Testing the impact of personalised guidance on lump sum withdrawal decisions

Thinks Insight and Strategy for the Association of British Insurers

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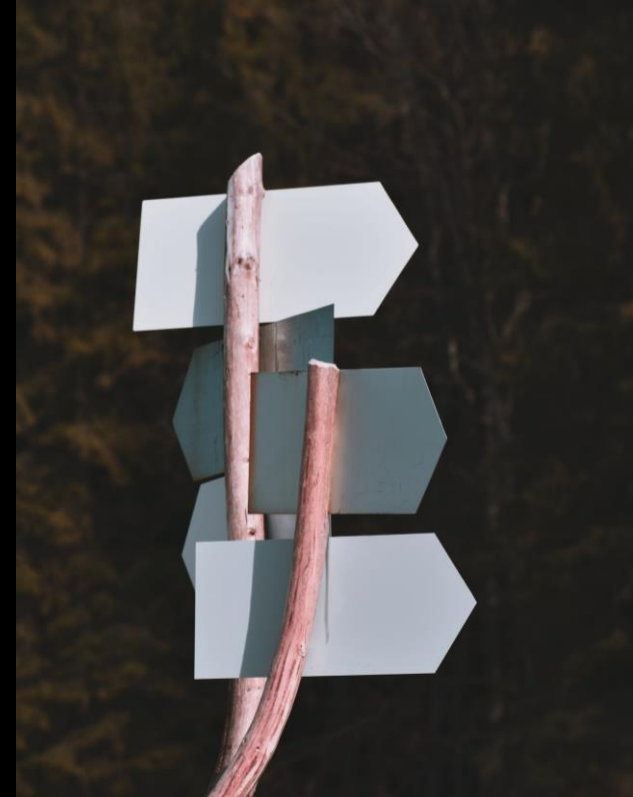
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Executive summary

The challenge:

Effective, timely and informed decisions about pensions are a huge challenge

The role for personalised guidance:

Personalised guidance can help us respond to this challenge

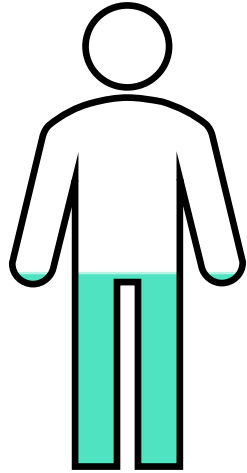
The evidence:

Personalised guidance can significantly increase the quality of decision-making

Applying the evidence:

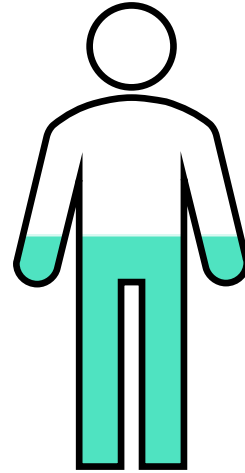
Limit the amount of information and personalise choice architecture

Effective, timely and informed decisions about pensions are a huge challenge



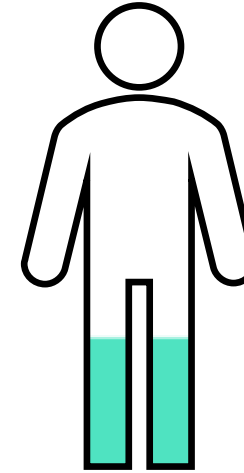
45%

of people aged 18-64 say they **know enough** about pensions to make decisions for retirement.¹



50%+

don't access professional **advice** before making decumulation decisions.²



33%

of non-retired adults have **never** thought about their pension before.³

1. FCA, 2021, <https://employeebenefits.co.uk/engaged-workplace-pension/>

2. <https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf>

3. FCA, 2023, <https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf>

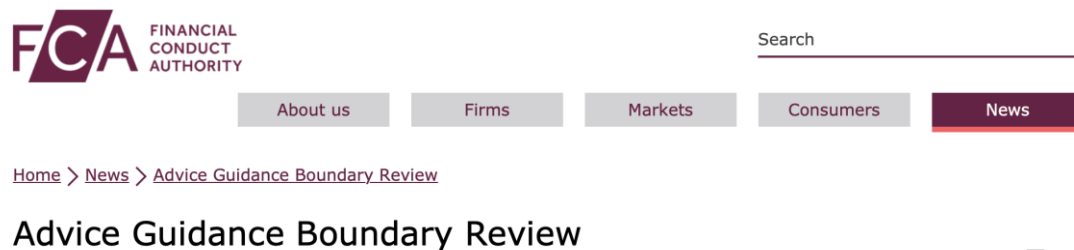
What is **personalised guidance**?

It is information and support tailored to a customer's objectives, intentions, behaviour and/or financial circumstances.

It helps explain the consequences of decisions that ultimately the customer must take.



Personalising guidance could help us respond to these challenges...



"I want something that is **tailored to my situation** and in the long-term something that is going to be **cost effective** as well."

DC pension holder, aged 45

"I need to see **more comparison** about what I'll get if I work later, and how many hours I'll need to keep working and paying in. I want to make sure I retire not too late but not too early."

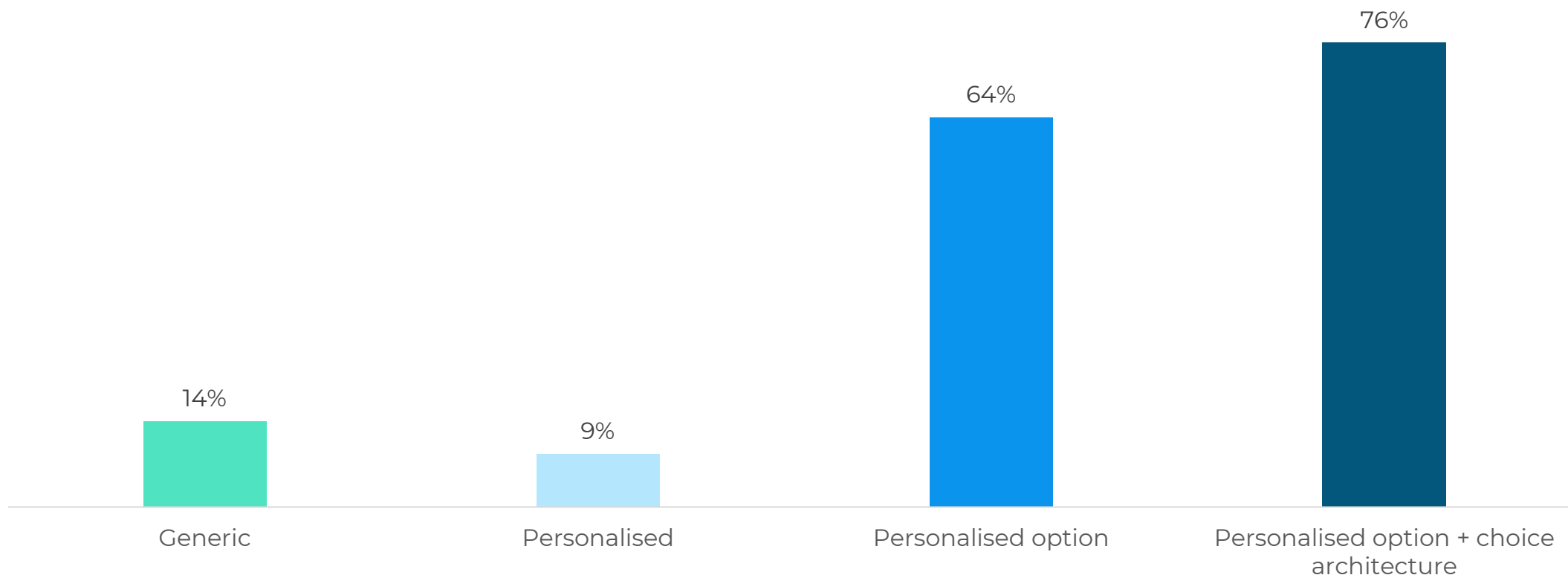
DC & DB pension holder, aged 48

"I only found quite basic information from the [pension provider's] website. I'd like some **more specific advice**... it would be good to see some case studies or something."

DC pension holder, aged 55

Our online experiment showed...

Personalised guidance can *significantly increase* the quality of decision making



The primary outcome is the percentage of participants choosing a withdrawal that provides the best financial outcome.

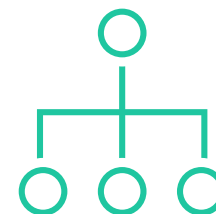
Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Key takeaways for long-term savings providers



Limit the amount of information.

More information can lead to poorer outcomes.



Design will also influence your customers.

If you have the data and the rules allow, personalise your interface ('choice architecture') by providing salient options.

Overview of the project



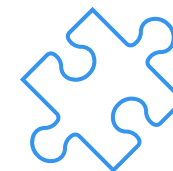
IDENTIFY

- Modelled two decumulation decisions: withdrawal rate in drawdown and withdrawing a lump sum.
- Selected withdrawing a lump sum.



EXPLAIN

- Heard from 12 people in the UK about their approach to making decisions about their retirement income.
- Supported ABI to produce generic and personalised guidance on lump sum withdrawals.



INFLUENCE

- Designed an online simulation of both generic and personalised guidance.
- Ran online randomised controlled trial with 3,105 participants.

Identify



We first had to identify the decumulation decision to focus on in the experiment

We considered **annuitisation, pension consolidation, withdrawal rates in drawdown and lump sum withdrawal** decisions for the experiment.

We determined that **inappropriate annuitisation, unsustainable withdrawal rates and the negative tax implications** of withdrawals were the **most significant risks** to customer outcomes.

We decided that **lump sum withdrawals and withdrawal rates in drawdown** were the best options to build a scenario around in the experimental setting.

Ultimately, we decided to focus on lump sum withdrawal decisions

To narrow down to one decision for the experiment, we conducted a workshop session with ABI and members. Here, we modelled different decisions and user journeys, and considered the impact of guidance on both withdrawal rates in drawdown and lump sum withdrawal decisions...



...Ultimately, we opted for **decisions around lump sum withdrawal** for the experiment as this is a decision where there is a clear opportunity for many to benefit from personalised guidance. Specifically, personalised guidance **can address a clear and simple risk of incurring unexpected tax liabilities.**

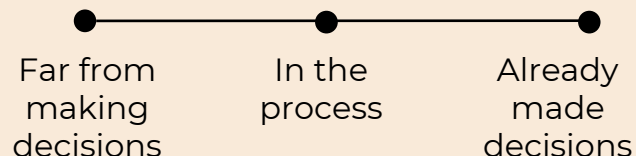
Explain

We then conducted qualitative research with 12 people living around the UK

We sought to understand their approach to making decisions about their retirement income. Interviews were designed to understand how the target audience engage with existing guidance, and how they might respond to personalised guidance.

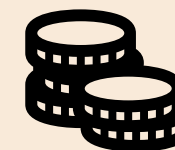


Varying stages in their decumulation journey



Mainly aged 55-65

Expected retirement wealth of between £30,000 and £120,000



A range of financial confidence and financial literacy

Low	2 participants
Medium	6 participants
High	4 participants

Note on analysis, we used the COM-B behavioural framework to understand the barriers and levers to participants taking optimal decisions on the decumulation journey. This analysis process also informed our approach to designing suitable interventions in the experiment.*

Participants say they want to feel 'comfortable' financially in retirement, but what this means varies by person to person

- Across the sample, having a '**carefree**' retirement is said to be important.
- Spontaneously, **sufficient finances** is raised as a key contributor to achieving '**comfortable**' retirement.
- But the threshold for living a financially comfortable life varies.

*"In one word, I just want my retirement to be **stress-free**... so I worked out what me and my wife might need each month and we can make that work."*

DC & DB pension holder, aged 66

*"I just want to be **comfortable** – you know, able to treat me and my family every now and then."*

DC pension holder, aged 45

*"I care more about the experiences I can afford... I want to make sure I have **enough money to take care of myself**, in case my health rapidly deteriorates, and I need medical care."*

DC & DB pension holder, aged 59

And planning retirement income is seen as challenging – consistent with existing research

Participants in our qual sample told us pensions are confusing and complex due to being in multiple locations, managed by different people and having lots of rules and jargon associated with them.

Plus, retirement feels far away to most, meaning few say they start engaging until they 'need to'. So, when they do engage closer to retirement, planning can feel overwhelming or 'too late'.

These findings are not new, mirroring previous research conducted by Thinks on behalf of the ABI.¹ This tells us these problems and concerns **are deeply held and persistent** and unlikely to go away without interventions.

*"I get **confused** with all of the figures and different amounts."*

DC pension holder, aged 66

*"I guess I thought about this in my 30s too, but then I didn't really think about what I'd need, and **it felt so long away.**"*

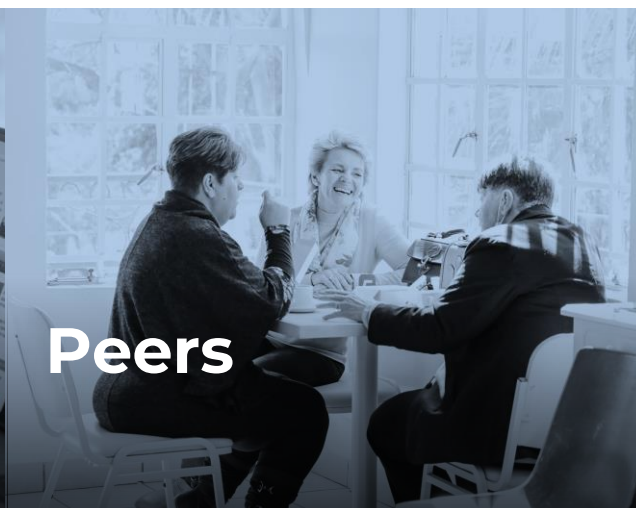
DC pension holder, aged 66

Participants told us there are four key sources of information they access to help demystify pensions



Internet sources

The vast majority use the internet to find information about pensions



Peers

Many also discuss talking to family, friends and colleagues about this



Workplace advice

Some mention information or guidance they have received at work



Independent advice

Accessing IFAs appears to be less common

But they also say information can feel unspecific to them, and often would like something more tailored

"I want something that is **tailored to my situation** and in the long-term something that is going to be **cost effective** as well."

DC pension holder, aged 45

"I need to see **more comparison** about what I'll get if I work later, and how many hours I'll need to keep working and paying in. I want to make sure I retire not too late but not too early."

DC & DB pension holder, aged 48


"I only found quite basic information from the [pension provider's] website. I'd like some **more specific advice**... it would be good to see some case studies or something."

DC pension holder, aged 55

Influence

Drawing on the ABI's extensive experience and the qual research we supported the production of four examples of guidance:

Generic guidance

 [Click to see scenario](#)

Information on withdrawals:

You may end up paying more tax than you need to if you withdraw pension pots in full rather than across multiple tax years.

25% of your withdrawal will be tax-free; but for people with standard personal allowances in England, Northern Ireland and Wales the rest will be taxed depending on how much else you earn in the tax year to 5 April 2024.

You will be taxed:


20% on all earnings over £12,571 to £50,271
40% on all earnings over £50,271 to £125,140
45% on all earnings over £125,140

Note that withdrawing more than just your tax-free cash (25% of the total pot) will limit what you can pay into your pension pots in future years to £10,000

How much do you wish to withdraw?

£ [Withdraw](#)

Personalised guidance

 [Click to see scenario](#)

Please consider the following before making your withdrawal:

Withdrawing your £20,000 pot in full now means **you would pay £4,000 tax**. You would therefore receive £16,000 this tax year. ?

If you do not need to spend all this money before 6 April 2024, **you should consider withdrawing less** from this pension pot now to avoid the 40% income tax rate. You can withdraw the rest in future tax years.

Remember that 25% of your withdrawal will be tax-free.


You will then be taxed:

20% on all earnings from £40,271 to £50,271
40% on all earnings over £50,271

How much do you wish to withdraw?

£ [Withdraw](#)

Personalised option

 [Click to see scenario](#)

Please consider the following before making your withdrawal:

Withdrawing your £20,000 pot in full now means **you would pay £4,000 in tax**. ?

You would therefore receive £16,000 this tax year.


If you do not need to spend all this money before 6 April 2024, **you should consider withdrawing a maximum of £13,300 now** from this pension pot to avoid the 40% income tax rate. ?

You would receive £11,305 this tax year and you'll pay only £3,000 in tax overall if you withdraw the remaining £6,700 from your pot after 6 April 2024.

How much do you wish to withdraw?

£ [Withdraw](#)

Personalised option + choice architecture

 [Click to see scenario](#)

Please consider the following before making your withdrawal:

Withdrawing your £20,000 pot in full now means **you would pay £4,000 in tax**. You would therefore receive £16,000 this tax year. ?

If you do not need to spend all this money before 6 April 2024, **you should consider withdrawing a maximum of £13,300 now** from this pension pot to avoid the 40% income tax rate.

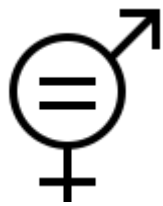
You would receive £11,305 this tax year and you'll pay only £3,000 in tax overall if you withdraw the remaining £6,700 from your pot after 6 April 2024. ?

How much do you wish to withdraw?

[£13,300](#)

[Custom Amount](#)

We then conducted an experiment with the following sample



Gender*

Male	Female
1,608	1,494



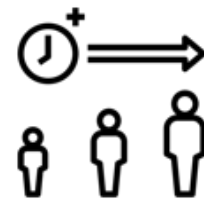
Employment Status**

Full-time	Part-time	Retired	Other
1,270	653	704	478



Ethnicity*

White	Ethnic minority
2,980	120



Age

55-60	60-66
1,677	1,428



Region

England	Wales	Scotland	N. Ireland
2,642	152	253	58



Pensions Held

DC Only	Mixture of DC + DB Pensions
1,988	1,117

* Does not include those preferring not to say their gender/ethnicity

** Other employment status includes self-employed, mature students and unemployed

Within the sample, the following characteristics of possible vulnerability were observed. As exploratory measures we looked at how these impacted decisions:



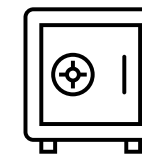
Level of Financial Confidence

Low	Middling	High
16%	49%	35%



Potential Health Vulnerability

Not Vulnerable	Potentially Vulnerable
81%	19%



Potential Financial Vulnerability

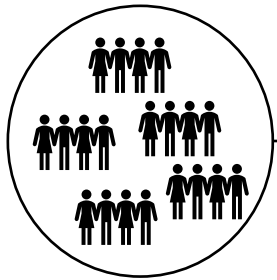
Yes	No	Don't know
19%	79%	2%

Level of financial confidence is defined as a mean of confidence on a 0-10 scale in: Managing your money, Working with numbers, Understanding pensions and Reading and understanding financial information. Low (0-4.75), Medium (5-7.75) High (8-10)

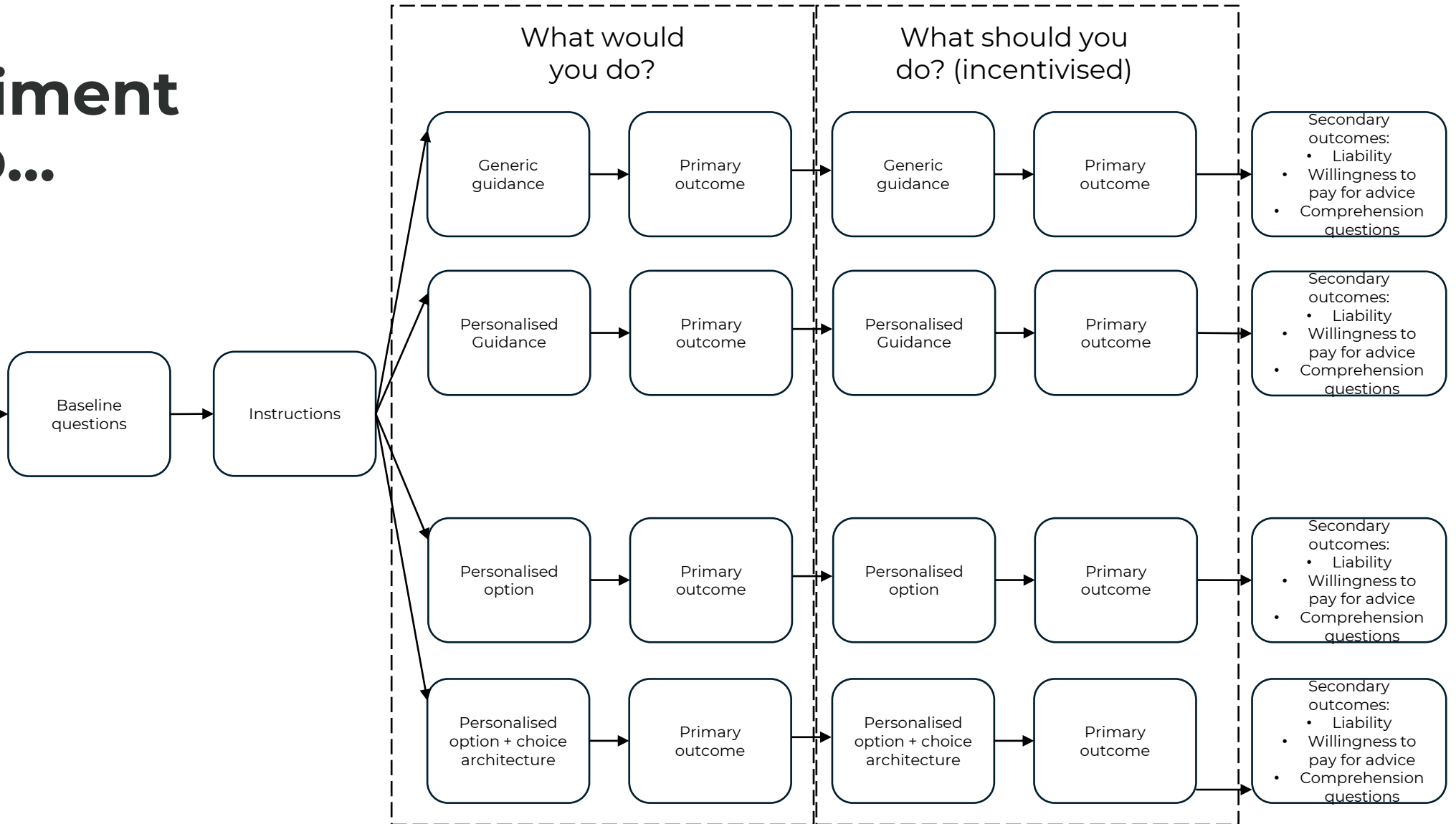
Health vulnerability is defined as a long-term health condition lasting more than 12 months that affects the ability to carry out day-to-day activities

Potential financial vulnerability is defined as currently experiencing low savings, inadequate or erratic income, over-indebtedness, Other financial hardship.

The experiment set up...



N = 3,105 55-66
with DC
pension only
or DC / DB
pension mix



CLOSE

Primary and secondary outcome measures

Primary outcome measure

Whether or not participants make the correct decision about the amount of their pension to withdraw as a lump sum in the incentivised 'what should you do' part of the experiment.

Secondary outcome measures

Whether or not participants are willing to pay for guidance.

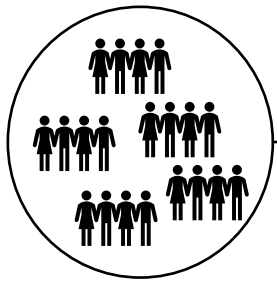
Whether or not participants are willing to pay for advice after seeing the guidance.

Expectation around liability if guidance 'goes wrong' i.e. whether liability sits with providers of guidance or customers.

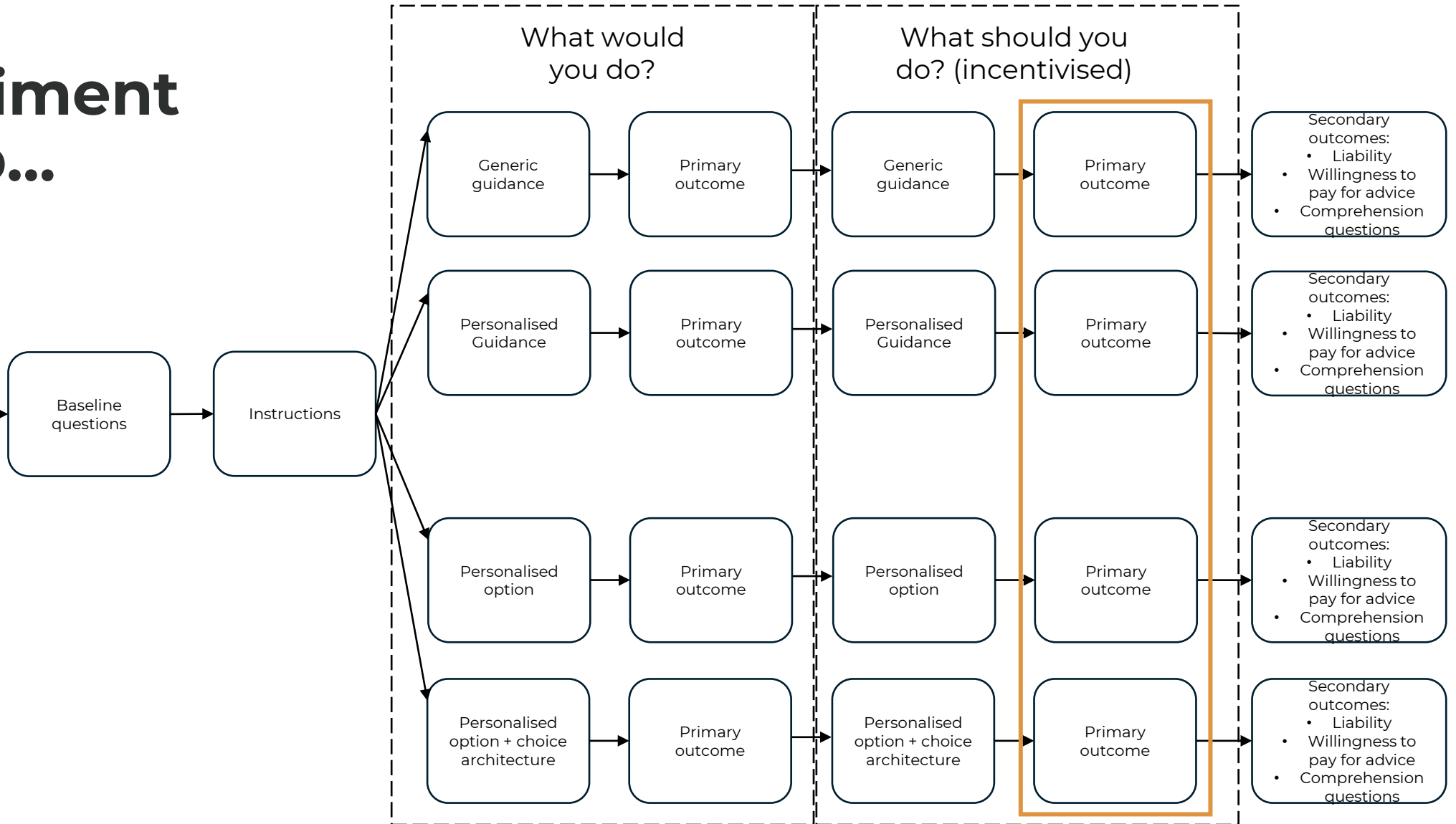
Participant comprehension of guidance.

Stated need for further support to interpret guidance.

The experiment set up...



N = 3,105 55-66
with DC
pension only
or DC / DB
pension mix



CLOSE

The scenario: Withdrawing a lump sum

Please read the following scenario and think about what you would do in this situation:

- You are 62-years-old. You are still in full-time employment, earning £40,271 per year.
- You have a £10,000 loan you have to repay now. You have no cash savings or other way to pay this loan off.
- You also want to help your granddaughter with some upcoming bills due October 2024 – paying what you can after you've paid off your debt.
- You were speaking about what to do with a friend. The friend told you that you can withdraw cash from your pension before you retire.

You have logged on to the website of the provider of one of your pensions intending to withdraw the pension pot you hold with them in full – that's a total of £20k.

Now please look at the information your pension provider provides you and make a decision on how much you think you would withdraw from your pension in this scenario.

More details:

You have one pension pot currently valued at £20,000. You have another pension pot which you do not want to access yet and would like to keep saving £4,000 per year into until you retire in four or five years. You do not receive means tested benefits.

Based on the scenario information shown, a correct answer would have been anything between £11,800 and £13,300, allowing them to pay off the debt while avoiding the 40% tax rate*.

How did we personalise the guidance?

This additional information was shown to participants who saw the personalised guidance versions:

- Personalised guidance
- Personalised option
- Personalised option + choice architecture.

You are looking to withdraw from your pension

You give the following information to the provider to help them give you guidance

Current yearly income

What is your current yearly income before tax? Please input this amount in the box below.

Where do you live?

Benefits received

If you receive means-tested benefits, how much do you receive per week? Please input this amount in the box below.

Do you have other pension pots that you are saving into?

Do you plan to contribute more than £10,000 per year?

Why are you withdrawing your pension in full?

To spend? (eg gifts to children, new car, holiday) **Yes/ No**

To buy specific investments not available in a pension wrapper? **Yes/ No**

To support a sudden change in circumstances? (eg health related) **Yes/ No**


To pay down debt? (eg mortgage or other debt) **Yes/ No**

Through fear of losing tax-free cash availability in future? **Yes/ No**

To leave in a bank account / savings account? **Yes/ No**

Guidance seen by participants across routes

Generic guidance

 [Click to see scenario](#)

Information on withdrawals:

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You will be taxed:


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40% on all earnings over £50,271 to £125,140
45% on all earnings over £125,140

Note that withdrawing more than just your tax-free cash (25% of the total pot) will limit what you can pay into your pension pots in future years to £10,000


How much do you wish to withdraw?

£ [Withdraw](#)

Personalised guidance

 [Click to see scenario](#)

Please consider the following before making your withdrawal:

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Personalised option

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How much do you wish to withdraw?

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Personalised option + choice architecture

 [Click to see scenario](#)

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How much do you wish to withdraw?

[£13,300](#)

[Custom Amount](#)

Generic guidance

 Pension Online

[Click to see scenario](#)

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How much do you wish to withdraw?

£


[Withdraw](#)

Personalised option + choice architecture


 Pension Online

[Click to see scenario](#)

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[£13,300](#)

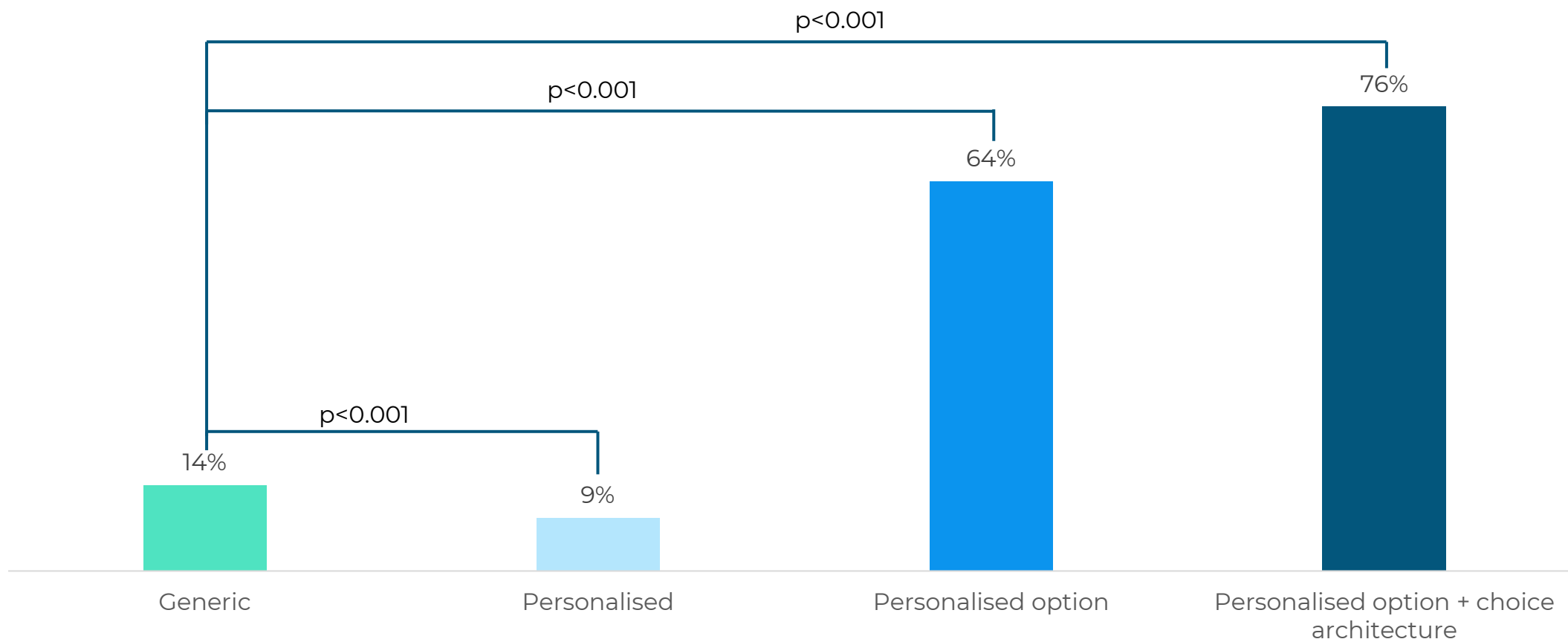
[Custom Amount](#)

Primary Outcome

Primary Outcome

Personalised options guidance **significantly helped participants.**

BUT – just giving additional personalised information (without salient options) harmed decision making

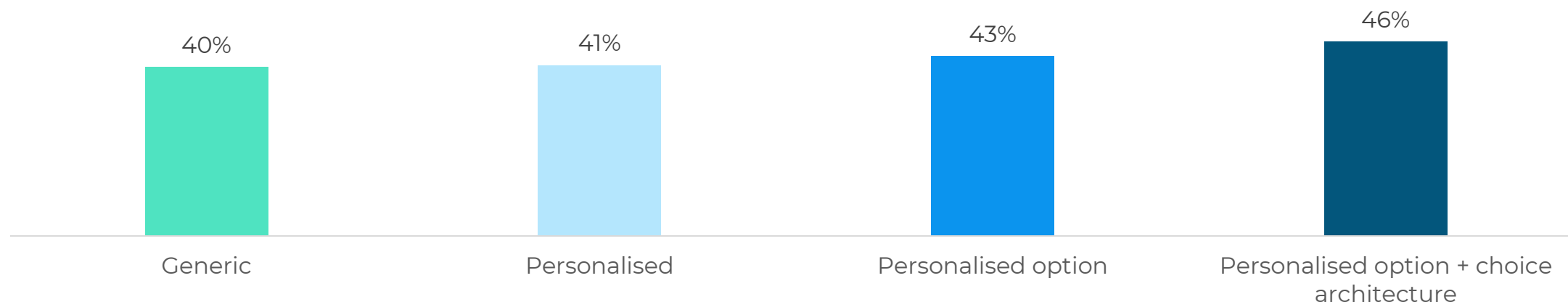


The primary outcome is the percentage of participants choosing a withdrawal that provides the best financial outcome.

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Secondary Outcomes

More participants indicated a willingness to pay for personalised option + choice architecture guidance compared to generic guidance

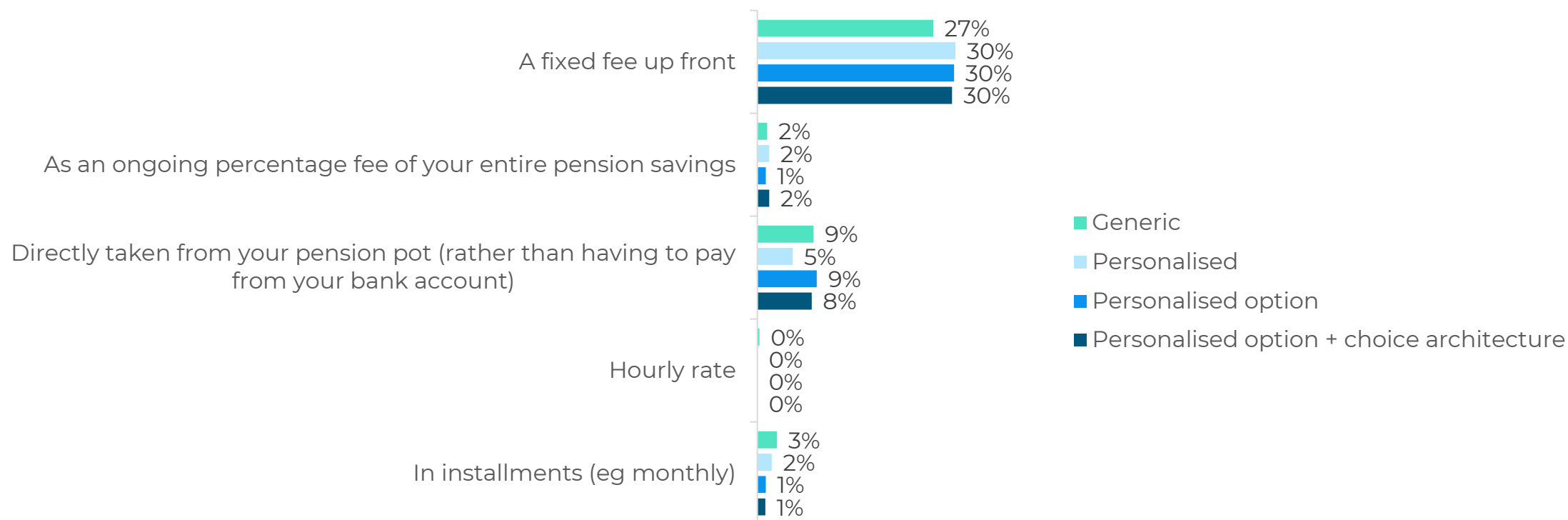


Thinking about your own pension, if guidance like you saw here was available, but you had to pay for it, what is the most you would pay?

A secondary outcome is the percentage of participants in each arm expressing a willingness to pay for guidance

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

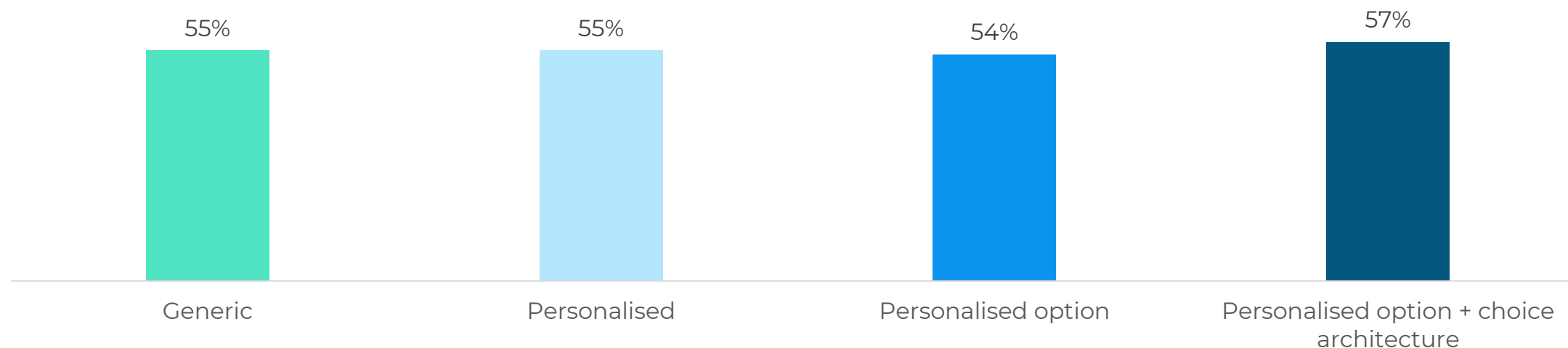
Preference in all cases was expressed for an upfront fee for guidance (among those willing to pay)



How would you prefer to pay for this guidance? (Only asked to those willing to pay at least something)

A secondary outcome is the percentage of participants in each arm expressing a willingness to pay and their preference for how.
 Base = 1301 participants. Generic = 332 Personalised = 317 Personalised option = 325 Personalised option + choice architecture = 327.

Willingness to pay for professional advice on the decision did not vary significantly between types of guidance



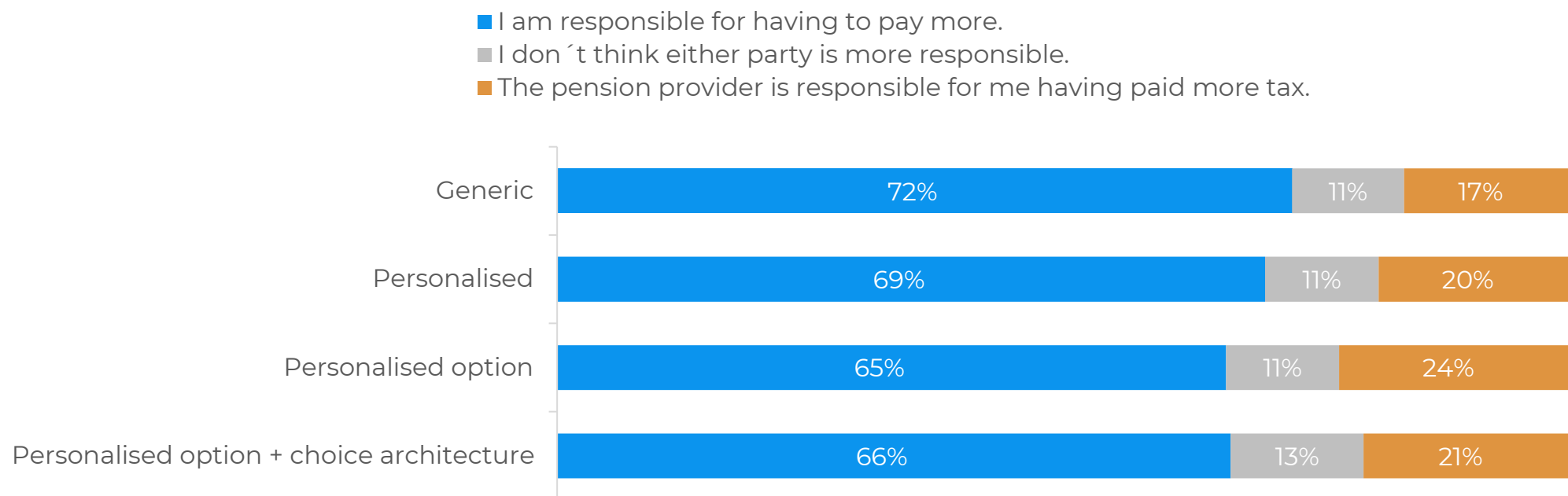
If you had to take a decision like this for your own pension(s), what is the most you would pay for further support from someone who would tell you the best decision to take?

A secondary outcome is the percentage of participants in each arm expressing a willingness to pay for professional advice.

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Participants expect to be financially responsible for their decision

Personalised guidance is unlikely to increase perceptions of provider liability



Earlier in this survey, you received a scenario, and some information from a pension provider, and were asked to make a decision about how much money to withdraw from your pension pot.

Now imagine that in the future you hire the services of a professional financial advisor. This advisor notices that you made the wrong decision, and you paid more in tax than you needed to as a result.

Who do you think should be liable (e.g. take responsibility) for you paying more tax than you needed to?

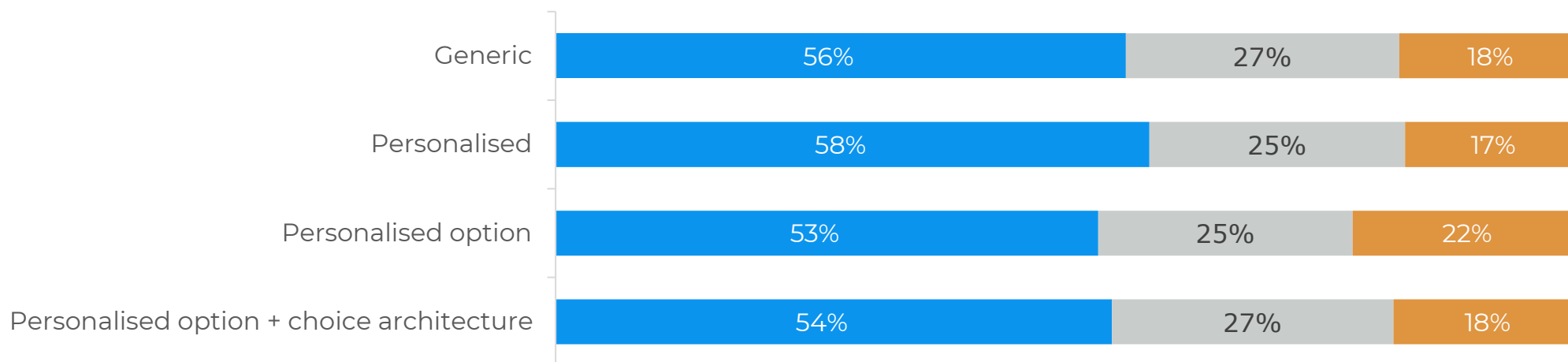
A secondary outcome is the percentage of participants saying the provider should be liable in each case.

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

A majority of participants did not feel there should be compensation from the provider for their errors

Personalised guidance had no impact on this perception

- I should have worked out the right amount to withdraw regardless of the guidance given by my provider.
- I'd need more information to know who was responsible
- The pension provider should pay me compensation because I effectively lost money based on the pension provider's guidance.



Earlier in this survey, you received a scenario, and some information from a pension provider, and were asked to make a decision about how much money to withdraw from your pension pot.

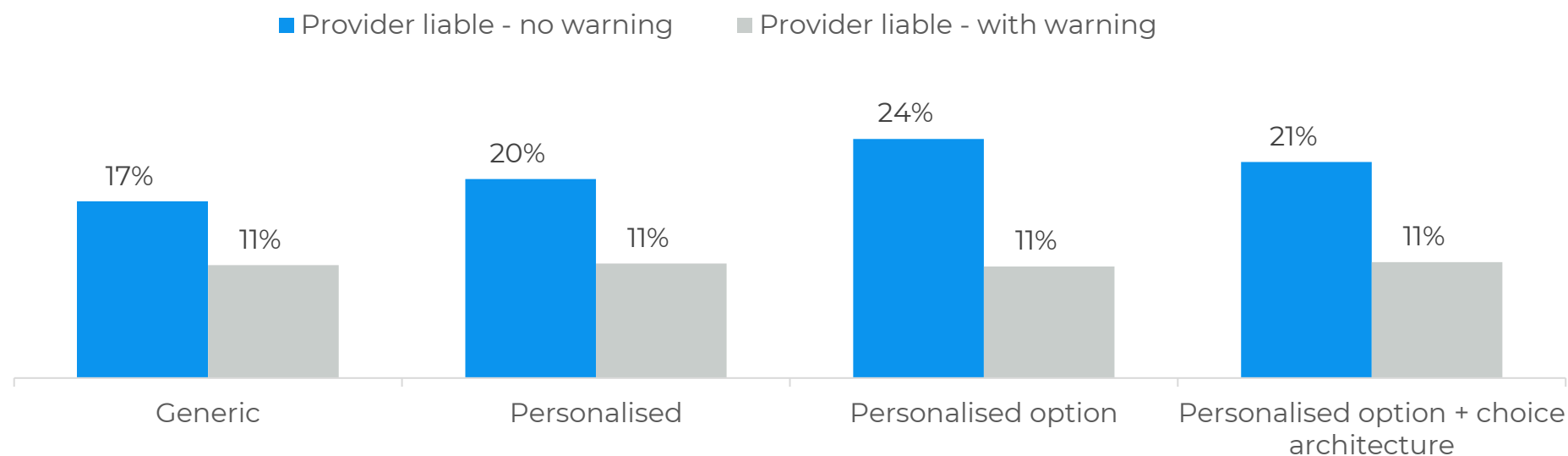
Now imagine that in the future you hire the services of a professional financial advisor. This advisor notices that you made the wrong decision, and you paid more in tax than you needed to as a result.

A secondary outcome is the percentage of participants saying the provider should be liable in each case ['And which of the following do you think best describes this situation?'].

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

After a warning the percentage of participants who felt that a provider should be liable fell in all cases

Personalised guidance had no impact on this



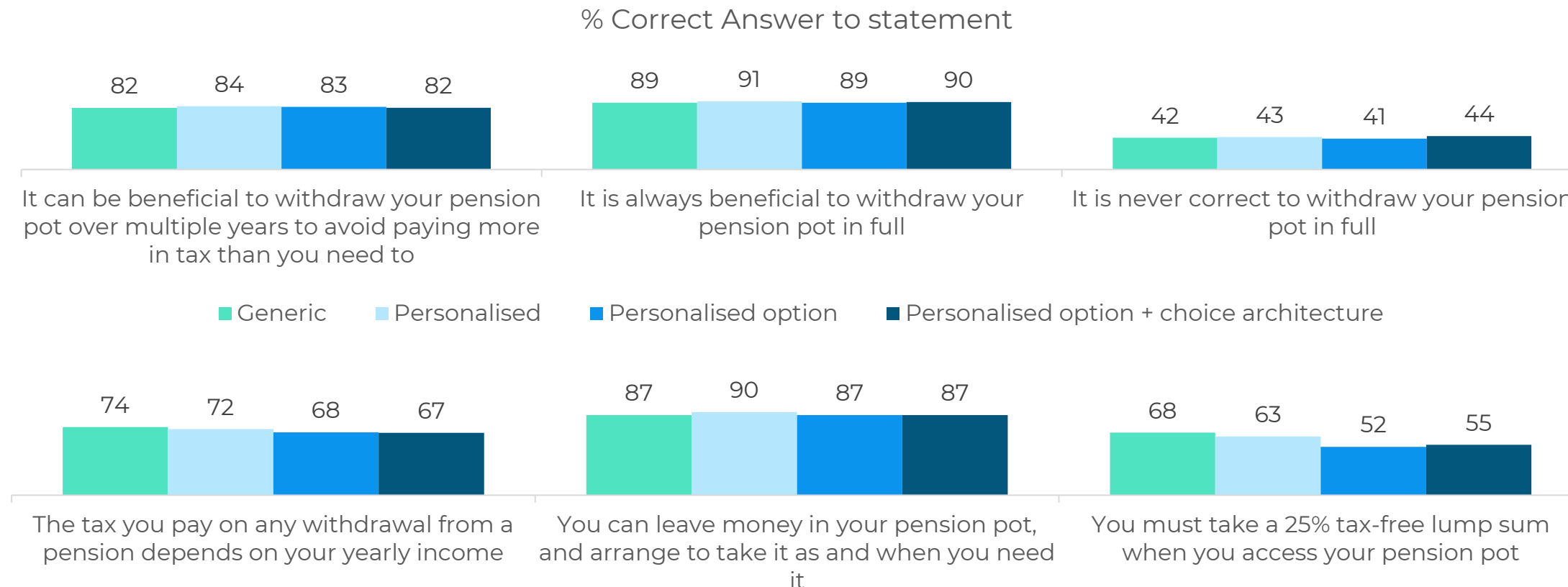
What if prior to receiving the guidance you were given a warning which read:

You are receiving financial guidance which is intended to help you take financial decisions. We have based this guidance on some information about you which you have provided to us (for example, your yearly income). But you are responsible for making sure the decisions you take are right for your individual circumstances and your needs.

Who do you think should be liable (e.g. take responsibility) in this situation for you paying more tax than you needed to?

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Response to comprehension questions did not generally differ by arm

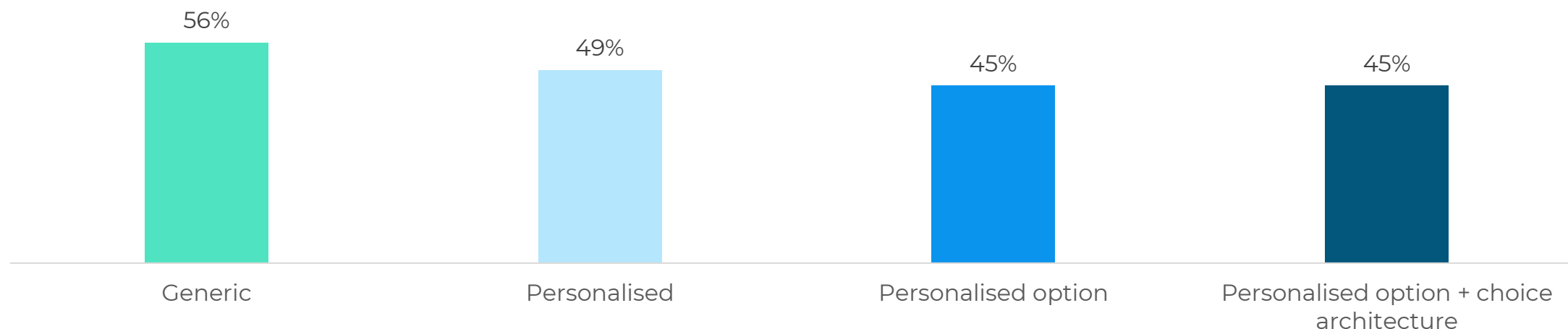


Here are some statements about Pensions. Some of these statements are true and some are false. For each, please state whether you think this is true, false or don't know

A secondary outcome is the correct responses to each comprehension question.

Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

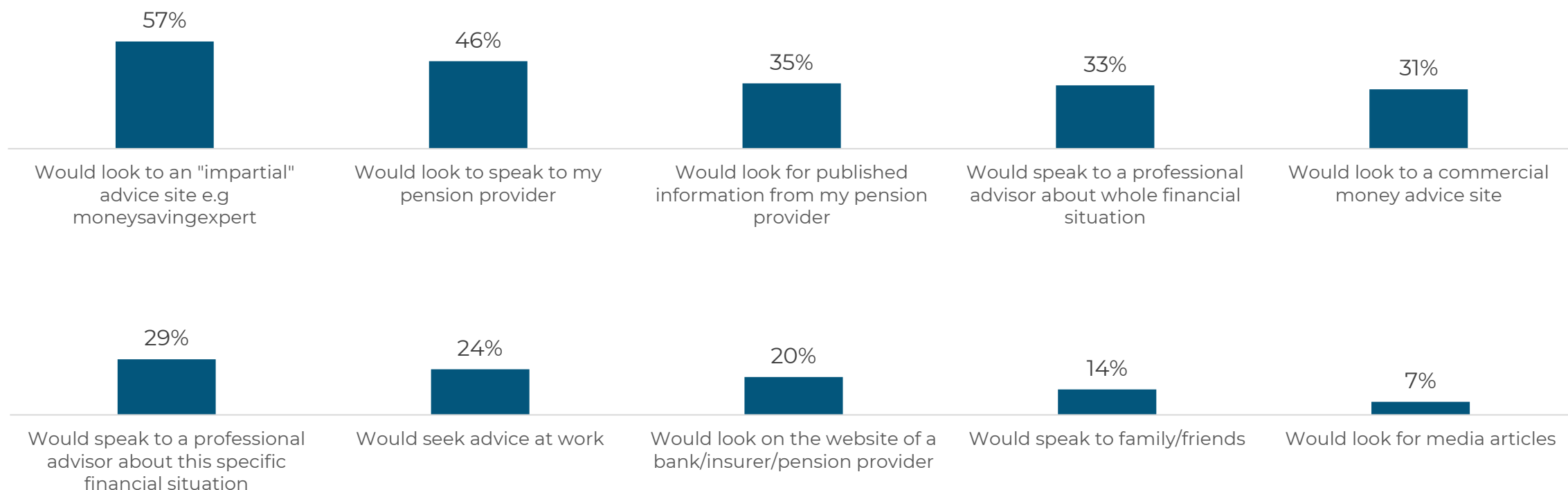
Participants who saw the generic guidance felt they would need to look for more information elsewhere



*Thinking about the scenario you have just seen, *if you were taking a decision like this in real life*, would this have provided you with the information you needed to make a decision, or would you have looked for additional guidance or advice elsewhere?*

A secondary outcome is the percentage of participants in each arm expressing they would have looked for support elsewhere.
Base = 3105 participants. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Internet research was the preferred way for participants to do research on pensions (helpful sources did not differ by arm)



*Which of the following (if any) sources of advice would you find it helpful to consult before making decisions about your pension?**

Base = 3105 participants.

Exploratory Analysis

Additional exploratory analysis of data was conducted in line with ABI hypotheses and interests – this should not be read as suggesting any effects of guidance but may inform the direction of future research

Exploratory analysis

Primary outcome measure

Whether or not participants make the correct decision about the amount of their pension to withdraw as a lump sum in the incentivised 'what should you do' part of the experiment.

Exploratory analysis is additional to the main analysis and is not therefore tested for statistical significance

Participant pension type impact on primary outcome.

Impact of measures of possible vulnerability on primary outcome.

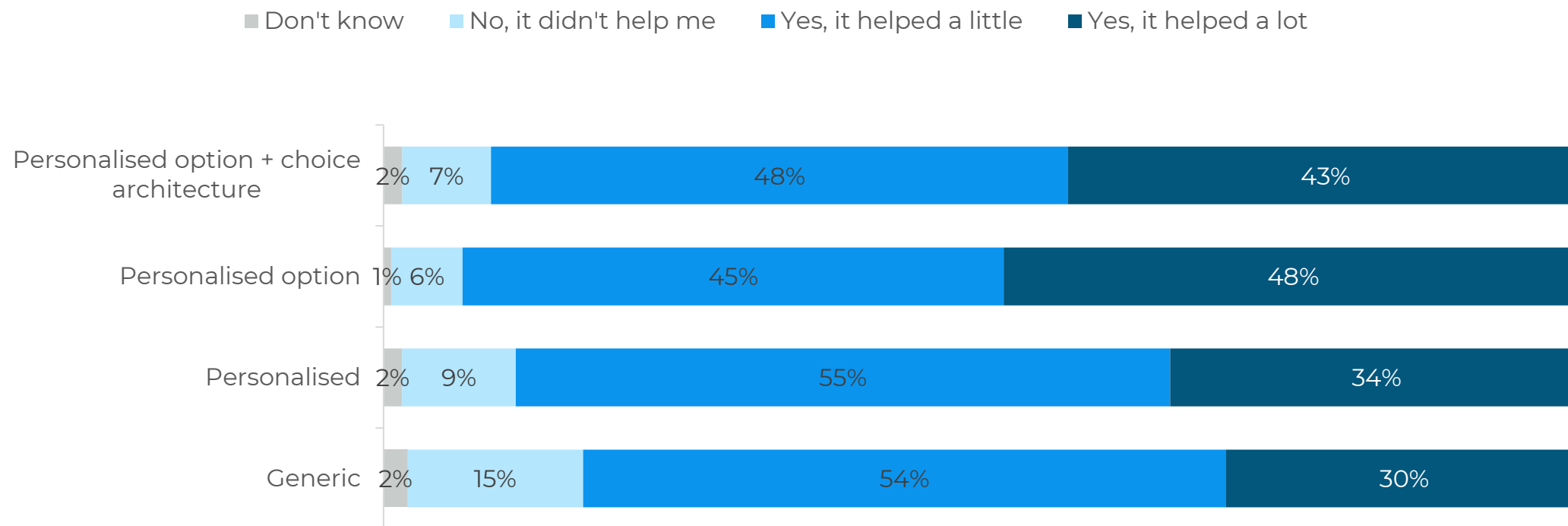
Impact of participant financial confidence on primary outcome.

Participant subjective rating of guidance helpfulness.

Sources of further guidance and support that participants would seek (covered in previous section).

Difference in response between incentivised and non-incentivised decision.

Attitudes toward the guidance



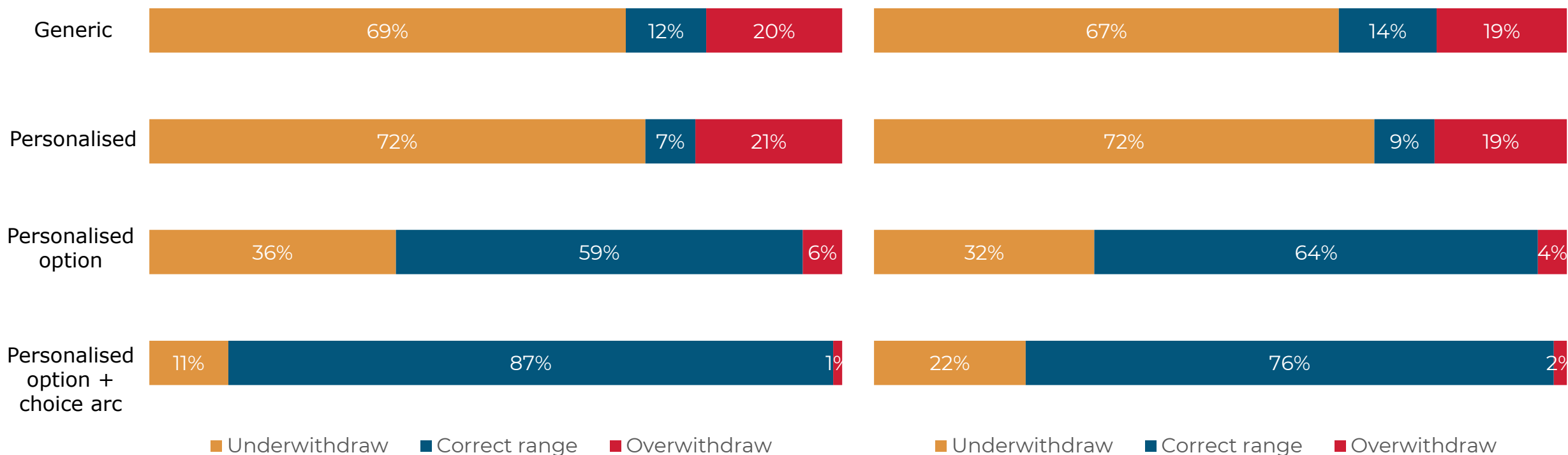
Overall, did the guidance you received help you decide what to do in the scenario?

Base: 3105. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Impact of incentivisation on distribution of “correct” answers

Distribution: “what would you do”
% distribution of participant responses

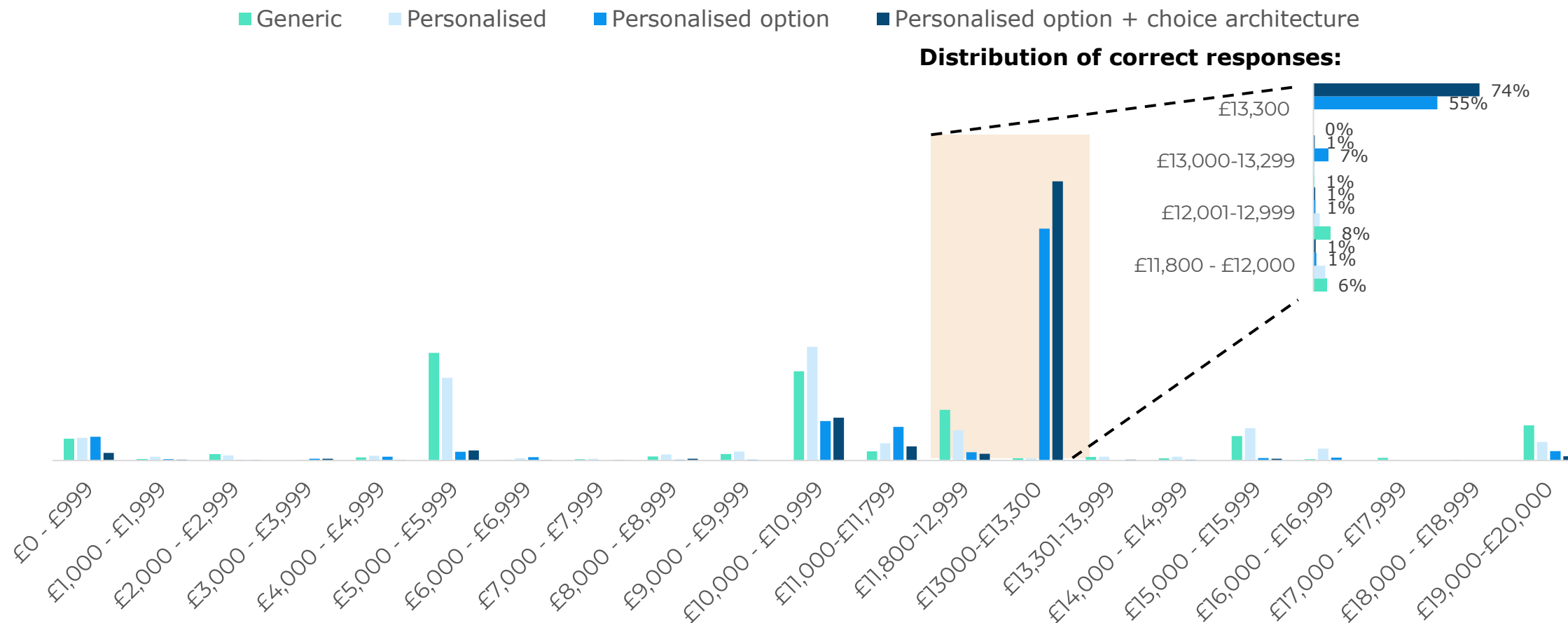
Distribution: “what should you do”
% distribution of participant responses



Comparing outcomes ‘what would you do?’ has no incentivisation vs ‘what should you do?’ where respondents are incentivised to answer correctly

45 Base: 3105. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Full distribution of responses to primary outcome



Distribution of response amounts 'what should you do?' where respondents are incentivised to answer correctly

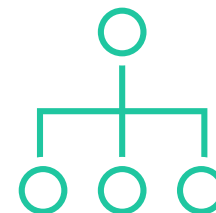
Base: 3105. Generic = 799 Personalised = 779 Personalised option = 758 Personalised option + choice architecture = 769.

Key takeaways for long-term savings providers



Limit the amount of information.

More information can lead to poorer outcomes.



Design will also influence your customers.

If you have the data and the rules allow, personalise your interface ('choice architecture') by providing salient options.



Get in touch

For more information:

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