



Key Points

- ▶ Freedom and Choice has moved UK pension policy from a mandatory to a voluntary system for annuitizing Defined Contribution (DC) pension funds.
- ▶ Overseas evidence – such as from Australia – is that voluntary annuitisation systems result in very few people using their pension savings to obtain secure, guaranteed incomes during retirement.
- ▶ Coupled with existing evidence of a ‘savings bias’ among UK pensioners and low levels of financial capability, we can forecast that average private pension incomes will gradually decline following the Freedom and Choice changes.

Income Security and a Good Retirement

- ▶ Quantitative research looked at how level of secure income affects people’s experience of retirement among those with private pension incomes.
- ▶ Regardless of the level of someone’s financial wealth, we found that level of guaranteed income is significantly associated with various aspects of wellbeing and leisure.
- ▶ These include going to the cinema, reading a daily newspaper, taking a holiday, participation in community groups and other civic activities.
- ▶ Income is also associated with how people feel about their life, and whether they report “the conditions of my life are excellent” and “I have got the important things I want in life”.
- ▶ The research suggests that an average DC pension saver would be likely to have a better retirement if they seek to maximise their level of guaranteed income.
- ▶ If private pension incomes do decline following Freedom and Choice, this will likely lead to a reduction in levels of wellbeing among the older population.

Our recommendations

- ▶ Actively promote receipt of a guaranteed income in pension policy to improve the wellbeing of retirees.
- ▶ Educate savers about the role of a guaranteed income in a good retirement.
- ▶ Include information about the importance of a guaranteed income for wellbeing in retirement in guidance and information from Pension Wise.
- ▶ Ensure receipt of a decent, guaranteed retirement income is the default option for DC pension savers.
- ▶ Undertake regular research into the effect of the April 2015 changes on older people’s wellbeing.

To download the report:

<http://strategicsociety.org.uk/income-security-and-a-good-retirement>

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