Mercer

welcome to brighter

What's the price of **freedom?**

Introduction

As we celebrate the 10th anniversary of the landmark Pension Freedoms reforms, it's time to take a step back and reflect on the journey we've been on since 2015. Back then, the pensions landscape was a whole lot more predictable, dominated by annuities and a one-size-fits-all approach to retirement income. When George Osborne boldly proclaimed in 2015 that retirees could now spend their hard-earned savings on whatever tickled their fancy, even Italian sports cars according to Steve Webb, it raised concerns across the industry.[1] However, the promise of choice and flexibility was tantalising to ordinary people, but did it deliver on its promise?

And, what happens when the money runs out? Have we truly equipped people with the knowledge and tools to navigate this freedom, or are we merely setting them adrift in a sea of financial uncertainty?

As we look back on the past ten years, we must ask: Has the industry adapted sufficiently to meet the evolving needs of its members? Has the traditional paradigm actually been shifted?

Using our own data insights, and wider open-source data, we've challenged some of the lazy assertions and common misconceptions – busting a few myths along the way.

Has Pension Freedoms, achieved its aims or has it simply opened the floodgates to a new set of challenges? Should the next decade be less about freedom, and more about informed choices that lead to secure and fulfilling retirements?

Debunking these myths can help individuals make more informed decisions about their pension savings and retirement planning.

[1] Minister fuels pension debate with Lamborghini comment - BBC News

Pension Mythbusting

1. People retire at 65
2. People clock off for good at retirement
3. Pension payments start automatically at retirement
4. People use their pension to give themselves a pension
5. Pensions are tax efficient
6. Everyone books a dream holiday when they retire
7. It's all about <u>my</u> pension

Myth One

People retire at 65

65, the magical number that pops into everyone's head when they think of retirement. Whilst it's true that many default retirement dates are indeed set to this age, the reality is that the majority of members do not change their intended retirement date to reflect their plans. Data from the Mercer Master Trust suggest that 75% of members haven't changed their default retirement age.[2] It's like leaving your phone on factory settings when you could be customising it to suit you.

Now, here's the interesting bit: our award-winning Destination Retirement digital retirement planning and advice services shows that 73% of members who've shared their retirement plans are eyeing an exit before they hit 65.[3] And guess what? The Financial Conduct Authority (FCA)[4] backs this up, revealing that around 70% of people are accessing their pensions before reaching that milestone.

So, what is going on here? It seems there is a bit of a disconnect between what people say they'll do and what they actually want to do. This mismatch can lead to some serious misalignment in investment strategies, potentially leaving many over or under-exposed to investment risk. Over exposed when you want to draw, and you're looking for low volatility, and under-exposed perhaps when you are actually looking for investment growth. Not to mention the fact that accessing earlier means that you are spreading the butter more thinly on the toast.

Freedom and Choice has meant that you can access your pension whenever you want once you reach age 55: and that's precisely what people are doing it would seem. But is that having unwelcome consequences? And what are scheme sponsors and providers doing to manage this risk?

73%
of members who've shared their retirement plans are eyeing up an exit before they hit 65.

70%
of people are accessing their pensions before reaching the age of 65.

[2] Mercer Master Trust Data
[3] HUB Financial Solutions Ltd Destination Retirement Service
[4] [Retirement income market interactive analysis 2023/24 | FCA]

Myth Two

People clock off for good at retirement

Many still picture retirement as a grand exit from the workforce, a one-way ticket to a life of relaxation and no more Monday morning meetings.

But in reality, nearly a quarter (23%) of over-55s[5] who have accessed a defined contribution (DC) pension are still clocking in at work. Retirement is not necessarily a hard stop.

Gone are the days when defined benefit schemes ruled the roost, leaving people to let their retirement plan quietly accrue in the background until they officially checked out for good. Today's retirement landscape looks very different. Recent analysis from the Department for Work and Pensions reveals that earnings from employment make up 21% of income for pensioner households under 75.[6]

Just under one fifth of couples retirement income is coming from gainful employment and this figure is likely to rise as we drift further away from the assurances of final salary.[7]

In fact, around 2.5 million individuals were receiving both a private pension and a paycheck in 2021/22, Most (60%) of these individuals were aged 55-64 and 20% were in the 65-69[8] age group. This suggests that for many, the idea of stepping away from work is evolving. Is the 'freedom' element of Freedom and Choice really affording us more freedom if we're increasingly likely to rely on paid employment to supplement our retirement income?

23%
of over-55s who have accessed a DC pension are still clocking in at work.

21%
of income for pensioner households under the age of 75 comes from employment earnings.

[5] Planning and Preparing for Later Life - GOV.UK
[6] Pensioners' incomes: Financial years ending 1995 to 2023 - GOV.UK
[7] Pensioners' Incomes: financial years ending 1995 to 2023 - GOV.UK
[8] Helping savers understand their pension choices - GOV.UK

2.5m

individuals were receiving both a private pension and a paycheck in 2021/22.

Myth Three

Pension payments start automatically at retirement

Let's set the record straight: nothing happens until you make it happen! With the growing prevalence of defined contribution (DC) pensions, combined with Freedom and Choice, accessing your money isn't as simple as it used to be.

Gone are the days of defined benefit schemes, where accessing your pension seemed as easy as flipping a switch. Now, navigating a DC pension is more like trying to solve a Rubik's Cube blindfolded; there's a lot to consider. You've got tax implications, product choices, charges, longevity risk, investment risk, decisions on income levels, sequencing risk, cash flow needs, and a whole host of other variables swirling around like confetti at a wedding.

You'd think that with all these choices and trade-offs, people would be clamouring for professional advice, right? Wrong! According to Government research, 30% had received no information or guidance whatsoever.[9]

Professional advice is the gold standard for making informed decisions at retirement, but it's probably time for a shake up to make it more accessible and affordable for everyone. After all, when it comes to advice fees, the numbers can be eye-watering. Let's face it, traditional advice models can sometimes feel like trying to buy a ticket to a sold-out concert, expensive and out of reach. For instance, if you have a £100,000 pot, you might pay anywhere from £2,000 to £4,500 as an initial fee. This may explain why the Financial Conduct Authority (FCA) Retirement Outcomes Review revealed a concerning trend: the percentage of consumers purchasing drawdown products without advice skyrocketed from 5% before Pension Freedoms to 30% in 2016. Fast forward to 2019-2020, and the FCA found that a staggering 50% of pension plans were accessed without any form of advice or guidance.[10]

30%
who accessed a Defined Contribution pension had not received advice.

Moreover, many individuals approaching retirement tend to underestimate their life expectancy, which can significantly influence their pension decumulation decisions.

This is particularly crucial for those with flexible pension products, who face greater longevity and inflation risks compared to those opting for annuities.[11] According to the Institute

50%

of pension plans were accessed without any guidance or advice in 2019/20.

for Fiscal Studies, people in their 50s and 60s underestimate their chances of reaching age 75 by around 20 percentage points. This misjudgement can make annuities seem less appealing to those who do not expect to live as long as actuarial estimates suggest.[12]

Consider this: only 29% of 55-59 year-olds say they have a clear plan for their retirement, and a staggering 17% don't even know they have to make any choices.[13] The price for freedom is choice. If individuals don't realise they need to make one, have we really delivered on the promise of freedom? Digital advice can help lower the cost of advice and democratise the service for everyone. Now, we get it: there's a bit of hesitation when it comes to trusting digital advice tools. However, our Destination Retirement service offers access to advice with no initial fee - and we have seen thousands of members register for it.

However you look at it, Freedom and Choice mean decisions. And the pensions industry needs to be helping people make good decisions.

The Government's challenge to create 'targeted support' services is a step in the right direction but the solutions will need to tackle the twin challenges of complexity and cost. AI and digitisation will be two major factors in developing the solution.

[9] Planning and Preparing for Later Life - GOV.UK

[10] Pension Freedoms: a qualitative research study of individuals' decumulation journeys - GOV.UK

[11] Pension Freedoms: a qualitative research study of individuals' decumulation journeys - GOV.UK

[12] Individuals underestimate their chances of survival through their 50s, 60s and 70s, potentially hindering their ability to plan their retirement. | Institute for Fiscal Studies

[13] Planning and Preparing for Later Life - GOV.UK

Myth Four

People use their pension to give themselves a pension

Unfortunately, this doesn't appear to be the case. Many individuals are cashing-in their savings at unsustainable rates rather than using them as intended - to secure a stable income for retirement. Purchasing an income for retirement is generally considered the prudent choice, however, insights from the industry suggest that this wisdom is not translating into reality. 81% of those entering drawdown did not take an income, according to Mercer Master Trust member data.[14] This raises an important question: are we, as an industry, upholding our end of the bargain with our customers?

Pensions are designed to provide income when employment stops. While flexibility and choice can be beneficial, if the majority of people are not using their savings to replace their employed income, we must ask ourselves whether we are truly serving the needs of our customers.

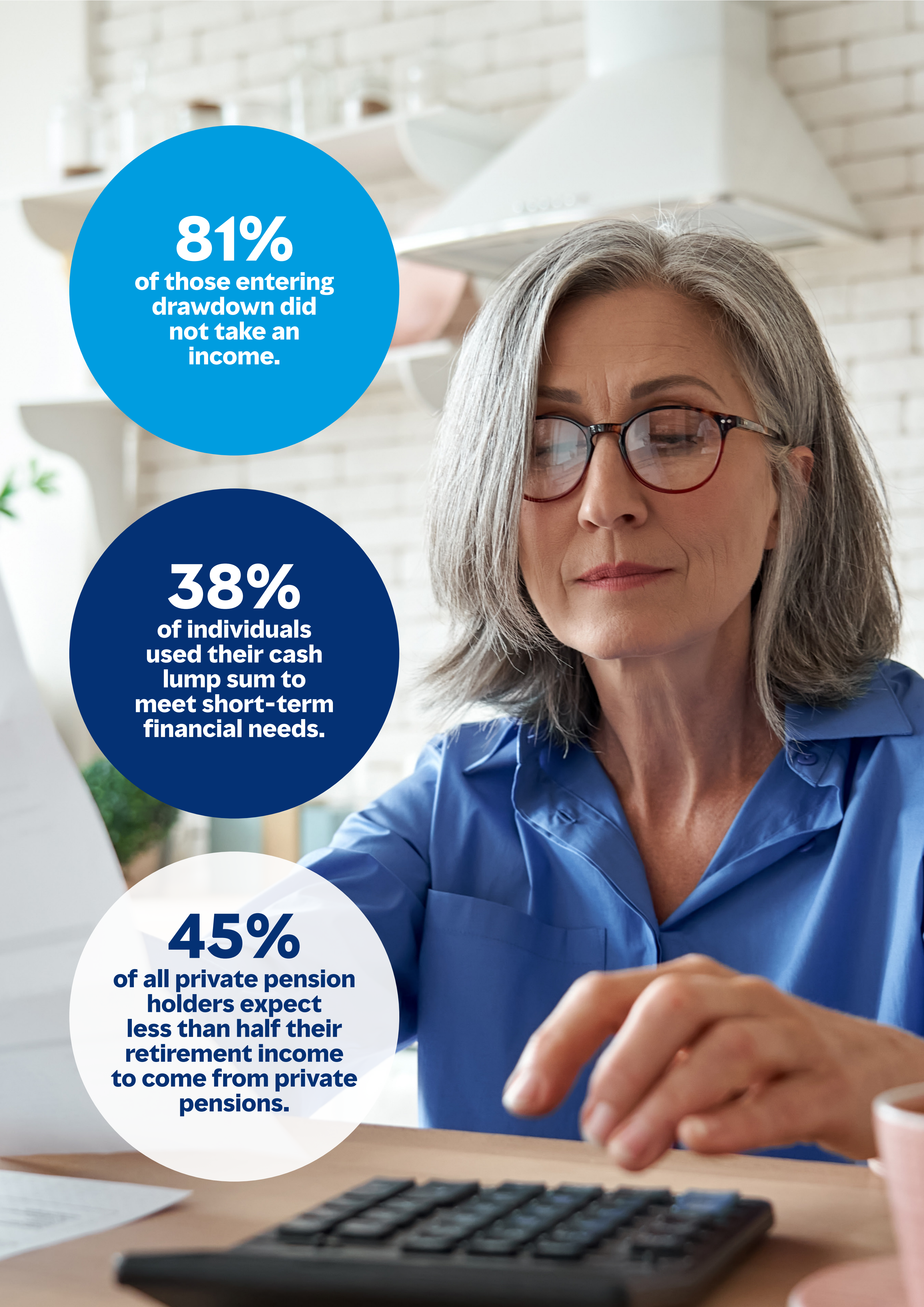
The data speaks volumes. 56% of 60-65 year olds with a DC pension had accessed at least one pension and 67% of those chose to take a cash lump.[15] Alarmingly, 38% of individuals used the funds to meet short-term financial needs, such as covering immediate living costs. This short-sighted approach raises significant concerns, especially since 59% of those accessing their DC pension before State Pension age had no other private pension provision.[16]

Their decisions about how to access their pensions are therefore critical to their long-term financial security. While it's clear that people have choices since the introduction of Pension Freedoms, do they possess the necessary knowledge to make informed decisions? This reliance on pension funds for immediate cash needs undermines the very purpose of these savings, which is to provide a sustainable income throughout retirement.

It's perhaps not surprising that our insights show many retirees are looking beyond their pensions for financial support. Nearly half (45%) of all private pension holders expect less than half of their retirement income to come from their private pensions. Instead, they're looking to the State Pension and other sources of non-pension income, like savings or property, to fill the gap,[18] with 1 in 5 Brits (21%) believing they will have to work part time to supplement their income in retirement.[19]

To ensure that members receive the right support, guidance, and advice at the appropriate time, it is crucial to recognise these trends and their implications for long-term financial well-being. A well-planned retirement should focus on sustainable income rather than immediate cash needs, safeguarding a stable and fulfilling life when regular paydays cease.

[14] Mercer Master Trust member data
[15] Planning and Preparing for Later Life - GOV.UK
[16] Planning and Preparing for Later Life - GOV.UK
[17] HUB Financial Solutions' modelled data from their Destination Retirement digital advice engine (January 2023).
[18] Planning and Preparing for Later Life - GOV.UK
[19] YouGov Planning for tomorrow: GB retirement report 2024



81%
of those entering drawdown did not take an income.

38%
of individuals used their cash lump sum to meet short-term financial needs.

45%
of all private pension holders expect less than half their retirement income to come from private pensions.

Myth Five

Pensions are tax efficient

Pensions can, and should, indeed be tax-efficient, but only if you know how to navigate the system effectively. Whilst the idea of tax-free cash can feel like more of an entitlement than a benefit, the reality is often more complex. Many individuals believe that accessing their pension funds is straightforward, free from the burdens of tax. Unfortunately, that's not quite the case.

Our insights reveal that a surprising number of people are getting hit with higher tax rates on their retirement savings than they bargained for. In fact, a whopping 33% of those taking cash payments are seeing more than 40% deducted in tax on payment.[20] Ouch! This raises a critical concern: despite all the regulations, compliance checks, and procedural safeguards in place, it seems the system is perhaps letting some of us down.

Our digital retirement advice service is designed to help individuals maximise the tax efficiency of their income. By running millions of calculations, it can identify the most effective strategies for withdrawing funds which in some cases can result in thousands of pounds more to spend in retirement.[21] This highlights the importance of making informed decisions when it comes to accessing pension savings.

Choosing the wrong withdrawal strategy can lead to unnecessary tax liabilities, undermining the potential benefits of tax-efficient pension savings. It's clear that support is needed to ensure members are not losing their cash at a time when they need it the most. Understanding the tax implications of pension withdrawals is crucial for optimising retirement income and ensuring financial security.

[20] Data from Mercer's administration partners

[21] HUB Financial Solutions Ltd Destination Retirement Service

33%

of those taking cash payments are seeing more than 40% deducted in tax on payment.

Myth Six

Everyone books a dream holiday when they retire

While the idea of a dream holiday in retirement is the cliché, the reality is that not everyone is rushing to spend their pension pots on extravagant getaways. Data from our Master Trust members reveals a much more grounded approach to retirement planning. Sure, some individuals dream of sun-soaked holidays and exotic adventures, but the majority prioritise the everyday routines of life over these stereotypical retirement fantasies.

Here are the facts:[22]

34%
of Destination Retirement users are planning a big holiday.

90%
of Destination Retirement users are planning regular holidays.

When it comes to spending, retirees tend to want to keep things steady. On average, total household spending per person remains relatively constant throughout retirement, increasing slightly until around age 80, after which it flattens out or even dips.

For instance, those born between 1939 and 1943 spent an average of:

- £245 per person per week at age 67, which nudged up to £263 per week by age 75.

Meanwhile, for those born between 1924 and 1928, spending dropped from:

- £197 per person per week at age 82 to £185 at age 88.[23]

It's evident individuals are rejecting stereotypical retirement aspirations opting to maintain their status quo and focus on the stability of their everyday lives.

Perhaps Freedom and Choice offers us only the illusion of freedom. Half a pint is half a pint, regardless of how many cups you pour it in to.

[22] HUB Financial Solutions Ltd Destination Retirement Service - Data March 2025

[23] How does spending change through retirement? | Institute for Fiscal Studies

Myth Seven

It's all about my pension

It's easy to fall into the trap of viewing your pension pot as a standalone asset, separate from your partner's finances and other savings. However, this perspective can lead to a fragmented understanding of your overall financial situation. A decision regarding a £3,000 pension pot might seem straightforward when viewed alone. However, when you consider this pot in the context of multiple pots, yours, your partner's, and any other savings or investments, the decision-making process can shift dramatically. Given that workers will have an average of 12 jobs during their working life, many people end up with a large number of relatively small pension pots.[24]

Our data shows that 78% of our members plan their retirement alongside their partners.[25] Combining all pension pots and understanding how they interact can lead to more informed choices and better decision-making. Without this holistic view, individuals risk making decisions that could undermine their long-term financial security, running out of money too soon and paying more tax than is necessary. It's crucial to recognise that retirement planning is not just about individual pots; it's about how these assets work together to support a shared financial future.

78% of our members plan their retirement alongside their partners.

12 average number of jobs a worker will hold, often resulting in multiple pension pots.

[24] https://www.which.co.uk/money/pensions-and-retirement/personal-pensions/should-i-combine-my-pensions-aroqs0W26VOR
[25] Mercer Money - Adobe Experience Cloud, Digital Advice - HUB-Financial Solutions

Let's bridge the gap...

As an industry, we love to chat with our members about the bright and shiny future of retirement and all the exciting plans that come with it. But here's the kicker: we don't always stop to consider whether this is actually an exhilarating time for them. Spoiler alert: the stats reveal that for many, it's more of a daunting leap into the unknown, and this ties back to some of the myths we've been busting.

Did you know that 69% of Brits dream of retiring before 65, yet only 34% believe they can make that dream a reality? The gap is even wider among Gen Z, Millennials, and Gen X. Talk about a confidence crisis.[26]

So, has Pension Freedoms achieved its aims, or has it simply opened the floodgates to a new set of challenges? The answer is likely a bit of both. While it has provided individuals with greater flexibility, it has also highlighted the urgent need for informed decision-making and guidance.

We need to shout from the rooftops about how pension savings can actually support various versions of retirement, helping to kickstart exciting new chapters in people's lives.

This report has highlighted some of the areas in which the industry is missing the mark when it comes to engaging with our members. Some of our ideas about retirement needs and wants are still stuck in the old defined benefit mindset. Our members have evolved, and it's high time we did too.

We're constantly striving to communicate effectively and promote positive outcomes, but this report shows we might be shooting ourselves in the foot by marketing ideals that don't reflect our members' realities. If we want to truly engage members, we need to avoid falling into these common traps and instead spotlight the tools we have that can meet their individual needs.

The resources are there; we just need to make sure we're pointing them out in a way that resonates with our members' real lives. Let's go beyond the lazy stereotypes of what people want and focus on building products that genuinely serve their needs, not just what we think they need.

As we move into the next decade, it's clear that we need to rethink our approach to retirement planning. To truly serve our members we need to:

Build Products for People:
Our focus should shift from traditional offerings to innovative solutions that cater to the diverse needs and aspirations of our members. By understanding their unique circumstances, we can create products that genuinely enhance their retirement experience.

Prioritise Advice:
In an increasingly complex landscape, the need for personalised guidance has never been greater. We must ensure that our members have access to the expert advice they require to navigate their retirement journeys confidently.

[26] YouGov Planning for tomorrow: GB retirement report 2024

Redefine Retirement:
Retirement is no longer solely about pensions; it's about securing an income for life. We must embrace this shift in perspective and communicate how our offerings can support a sustainable and fulfilling lifestyle.

By doing so, we can all help bridge the gap between the aspirations of our members and the reality of their retirement journeys, ensuring that more people can look forward to a secure and fulfilling future.

April 2025