INVESCO UK RETIREMENT STUDY

Better retirement outcomes in the DC era

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03 Introduction

04 Executive summary

06 Methodology

07 Theme 1
Navigating pension freedoms

21 Theme 2
Bridging the retirement income advice gap

38 Theme 3
Rethinking retirement income solutions

50 Find out more

We are delighted to welcome you to Invesco's 2024 report on retirement income in the UK.

Just as the concept of retirement has transformed over recent decades, so too has the approach to generating retirement income. The transition from Defined Benefit (DB) to Defined Contribution (DC) schemes, coupled with the introduction of 'pension freedoms' a decade ago, has fundamentally altered how millions of people fund their retirement.

To better understand these changes and their implications, Invesco partnered with NMG Consulting to conduct an extensive study of the UK retirement income space. Our research combined insights from consumers at various stages of retirement, financial advisers active in retirement planning, and senior industry experts.

As you read through our findings, you'll see that while challenges exist, so do opportunities for positive change. From facilitating access to guidance or advice, encouraging engagement, to driving product innovation, we're at a pivotal moment where industry efforts can shape a more secure retirement future for all.

At Invesco, we're committed to supporting the retirement sector as it evolves. Whether it's developing innovative decumulation solutions, providing insights to advisers, or fostering industry-wide discussions, our goal is to contribute to a better retirement future. We invite you to engage with this report and join us in shaping the future of retirement income in the UK. The challenges are significant, but so too are the opportunities to make a positive impact on the financial well-being of current and future retirees.

Georgina Taylor
Head of Multi-Asset Strategies, UK

Kate Dwyer
Head of UK Distribution

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Over the summer of 2024, Invesco and NMG Consulting conducted an in-depth exploration of the UK's retirement income landscape. This comprehensive study engaged consumers, financial advisers, and industry experts, providing a unique, 360-degree view of the challenges and opportunities in the UK retirement income market.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Theme 1

Explores how the shift to DC pensions and introduction of pension freedoms have altered the retirement journey, finding:

- DC pensions' growing dominance leads to a generational shift in retirement income sources. However, expectations have not caught up: recent, DC-dependent retirees are more likely to find their income falls short of expectations, compared to those who've been retired longer.
- A significant portion of non-advised retirees seek no information about their finances, pointing to a worrying knowledge gap in decumulation. Consequently, non-advised consumers focus more on immediate needs, and risk overlooking crucial long-term factors like investment growth.
- Moving from saving into spending can be surprisingly difficult: to prevent their savings running out early, risk-averse retirees live well below their means. Financial coaching and retirement income innovation can foster the confidence needed to enjoy savings effectively throughout retirement.

Theme 2

Examines how the advice landscape needs to evolve to address the retirement income challenges in a DC-dominated world, finding:

- The benefits of early advice stretch beyond pot size and investments. Clients who receive advice earlier in their retirement planning journey demonstrate a better understanding of their pension options and more realistic expectations about their retirement lifestyle.
- Consumer Duty has reshaped retirement income advice delivery, leading to higher levels of service and increased use of the tools such as cash flow modelling. However, there are potentially unintended consequences, with rising costs impacting access to advice for lower-wealth clients.
- Regulatory initiatives like 'targeted support' might address gaps in advice provision, with many advisers seeing its potential for decumulation. Industry experts see targeted support as a key component in developing better default options for those unwilling or unable to access full advice.

Theme 3

Investigates how decumulation solutions need to evolve to meet the changing needs of DC retirees, finding:

- The current range of retirement income products falls short of meeting retirees' complex decumulation needs, with only a small fraction of advisers satisfied with available options. There's a clear appetite for innovation in product development tailored to the decumulation phase.
- Sustainable income generation and longevity protection are top priorities and drive advisers' growing interest in hybrid products. Multi-asset strategies specifically designed for decumulation also feature high on advisers' wish list as they seek solutions that balance income needs with growth potential.
- Complexity, suitability concerns, and regulatory constraints pose barriers to much-needed innovation. Successful innovation requires a balance of comprehensive features and simplicity of use. Only through close collaboration between providers, advisers, pension trustees and the regulator can the industry create decumulation solutions that are both effective and accessible.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Methodology

This study, undertaken by NMG Consulting for Invesco, combines qualitative discussions and quantitative surveys to provide a comprehensive view of the UK retirement income landscape from consumer, adviser, and industry perspectives.

We extend our appreciation to all participants across the three research segments:

Consumers
Individuals aged 55 and over with at least £50,000 in DC pension assets, representing a diverse mix of retirement stages, wealth levels, and advice engagement across the UK.

Retirement-focused advisers
Financial advisers from across the UK actively engaged in retirement income planning and decumulation services.

Industry experts and influencers
Senior representatives from UK trade bodies, master trusts and platforms as well as other industry specialists.

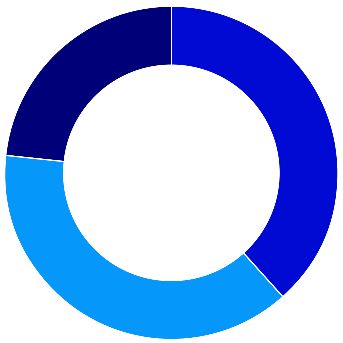
Qualitative interviews were conducted by experienced NMG consultants between July and August 2024. These discussions followed a flexible format, allowing for in-depth exploration of topics relevant to each participant's expertise and experience.

The quantitative element comprised 15-minute online surveys administered in August 2024. Adviser participants were recruited from NMG's established UK financial adviser panel, with screening criteria ensuring significant involvement in retirement advice.

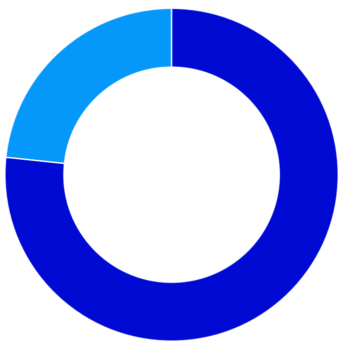
Unless otherwise noted, all figures and charts in this report reflect responses from the 151 financial advisers and 500 consumers who completed the online survey.

Sample size

Qualitative interviews	
Consumers	10
Retirement-focused advisers	10
Industry experts and influencers	6



Quantitative online survey	
Consumers	500
Retirement-focused advisers	151



Theme 1

Navigating pension freedoms

The reality of retirement decision-making

DC pensions dominate retirement income for younger retirees, contributing 43% for those aged 55-59, versus just 19% for those 75+, signalling a seismic shift in retirement planning

Recent retirees face increasing financial shortfalls: 24% receive less than they expect, compared to 14% of all retirees, revealing a widening gap between retirement income expectations and reality

An alarming 29% of non-advised retirees seek no information about their finances, exposing a persistent knowledge gap that leaves many ill-prepared for the complexities of decumulation

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

“I’ve not looked at my pension for 30 years, but I want to retire in 4 months’ time.”

This strikingly common client interaction recounted by an adviser highlights the 180-degree turnaround UK savers must make when they move from accumulation to decumulation. While many savers still envisage retirement as it was with the security of DB schemes, those reliant on DC pensions for their retirement income are confronted with far more choice, complexity, and responsibility than they expect at retirement. After decades of inertia, many find themselves unprepared when they are thrust into the role of managing their own pension, not just at the point of retirement but for years or decades.

Pension freedoms has caused another seismic shift since it was introduced a decade ago. It offers greater flexibility and choice – but also poses significant risks for retirees who lack the knowledge or guidance to navigate these complexities.

The changing face of retirement income

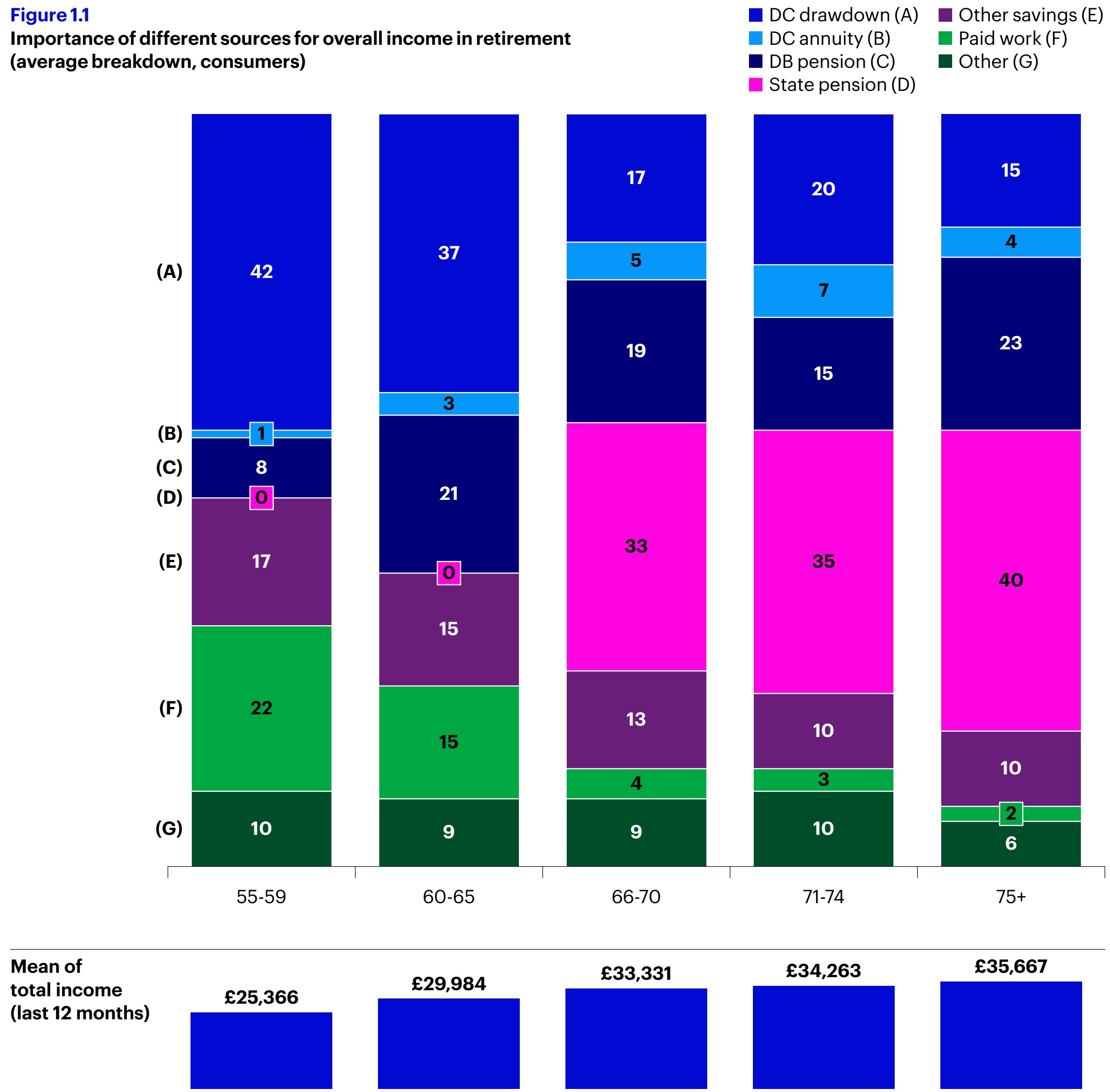
This study reveals a profound shift in retirement income sources, with DC pensions taking centre stage. Among retirees aged 55-59 with DC savings, DC pensions now contribute 43% of their overall retirement income, a stark contrast to the 19% they contribute for those aged 75 and older (**Figure 1.1**). This isn't merely a statistical trend – it marks a fundamental transformation in how retirees must approach and experience retirement.

As one industry expert noted, "Many still have DB benefits, so they are not worried about their DC pot. But that's changing as more retirees rely solely on DC provision." The mental model of retirement still clings to the DB era, when employers ensured predictable income streams on their behalf. For future retirees, the reality will demand much more active involvement in managing their pensions.

The shift to DC pensions is leading to unwelcome surprises. A full 14% of retirees report their retirement incomes are less than expected, with that figure rising to 24% for those who retired within the past year (**Figure 1.2, page 10**). As DC pensions become the norm, this gap between expectations and reality is poised to widen, particularly for those without proper financial planning. Women, in particular, are likely to feel the sting, with 19% finding their income falls short, compared to just 11% of men. Non-advised retirees also fare worse, with 17% reporting disappointment versus 12% of advised retirees.

An additional 16% of retirees say they had no clear expectations of their income at all, highlighting the persistent engagement and knowledge gap in retirement planning, with those most at risk of disappointing outcomes often hesitant to engage with their financial situation. One at-retirement consumer summed up the harsh reality: "The scary bit is there's no way I'll get remotely close to what my salary was, not even a quarter of it."

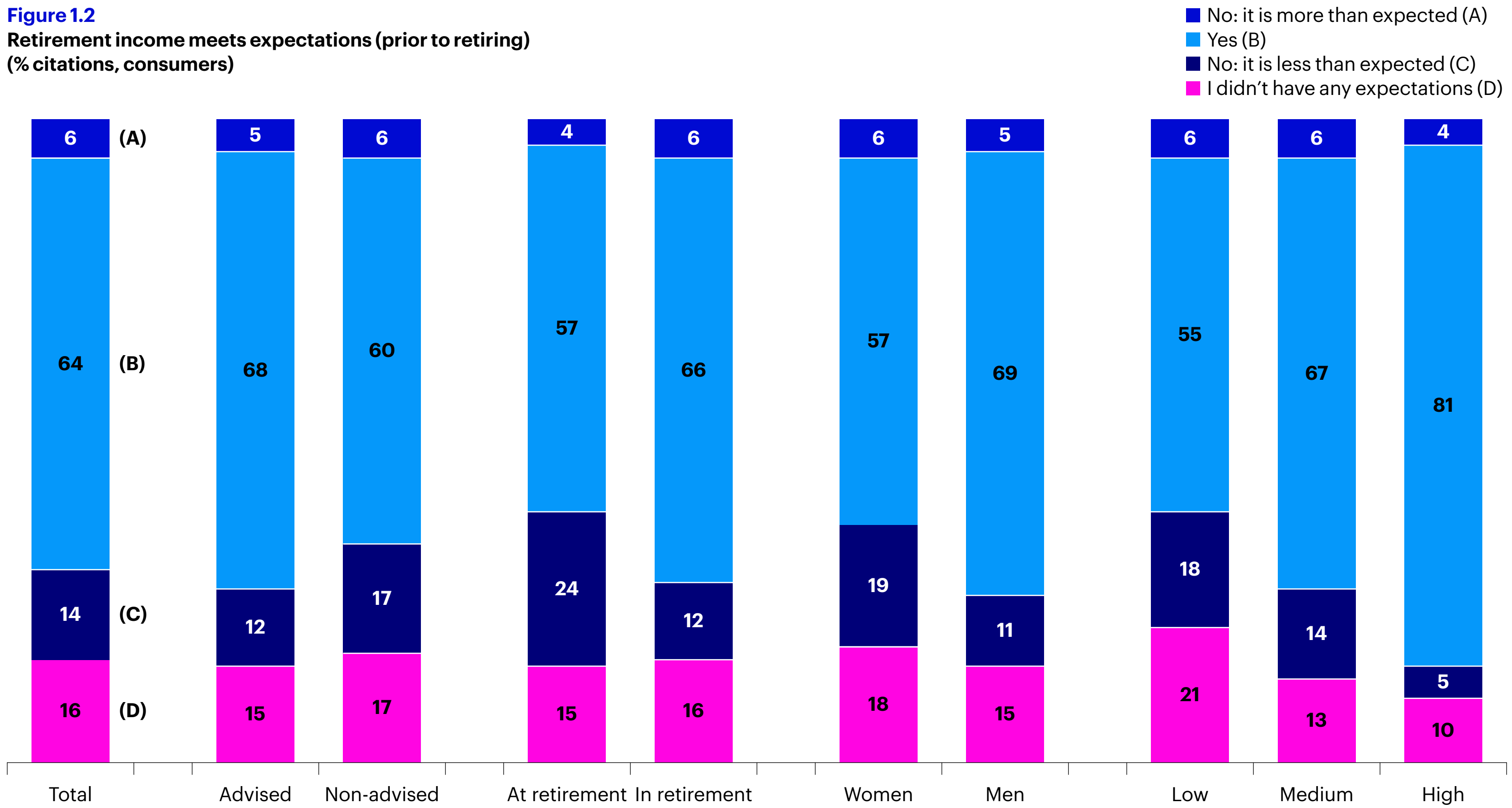
Figure 1.1
Importance of different sources for overall income in retirement (average breakdown, consumers)



What is your annual personal income? Thinking about your income, how much do each of these contribute to the overall amount you receive?

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Figure 1.2
Retirement income meets expectations (prior to retiring)
(% citations, consumers)



Does your income in retirement meet your expectations (prior to retiring).

"14% of retirees report their retirement incomes are less than expected."

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

> “Many still have DB benefits, so they are not worried about their DC pot. But that’s changing as more retirees rely solely on DC provision.”

Industry Expert

Common misconceptions in retirement planning

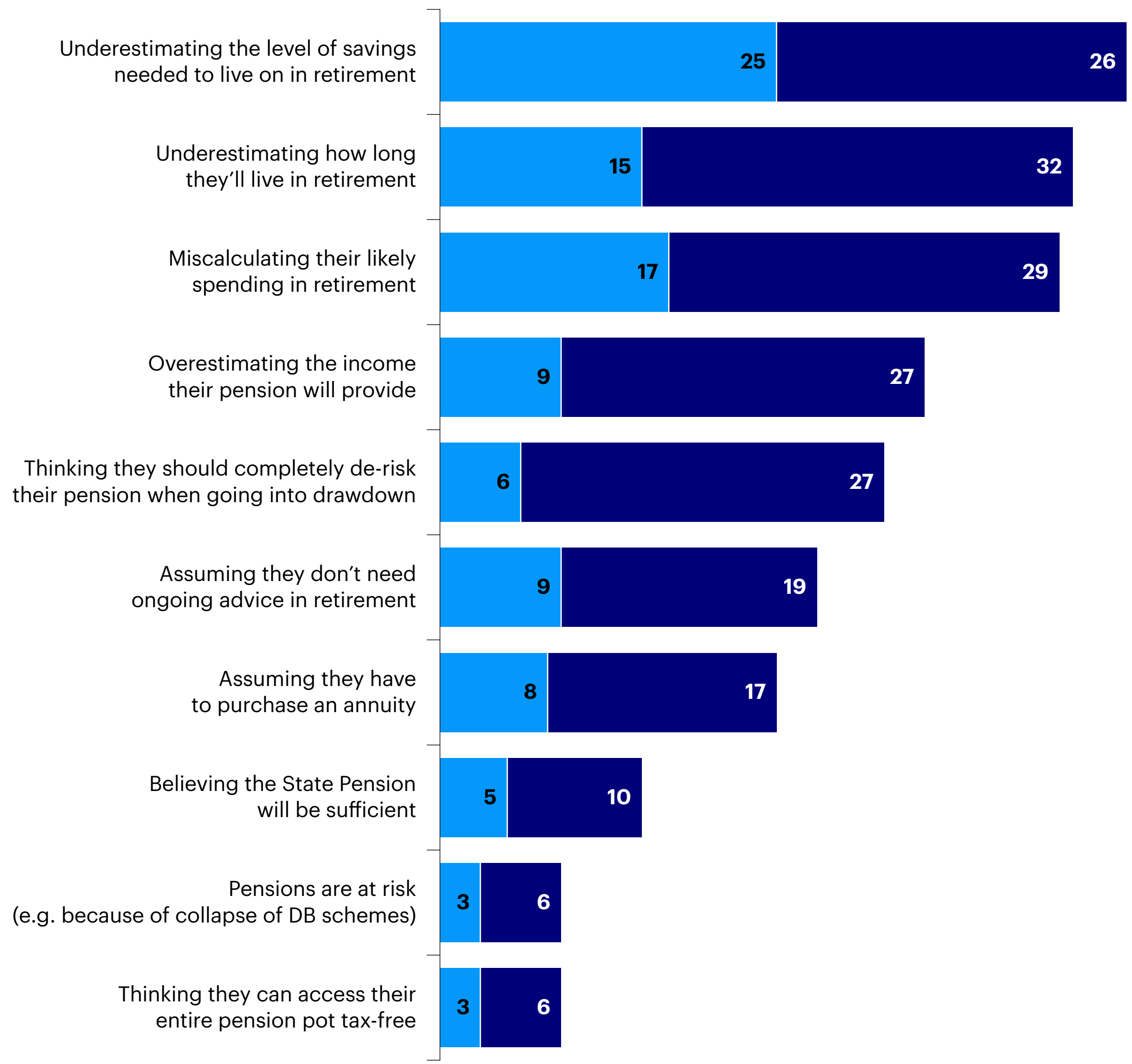
As the retirement landscape shifts towards DC pensions and their reliance on personal responsibility, a significant knowledge gap leaves individuals approaching retirement unprepared for the complex decisions they will face. Advisers point to three major misconceptions among their clients: underestimating how much they need to save (51%), underestimating their life expectancy (47%), and miscalculating likely retirement spending (46%) (**Figure 1.3**). These misconceptions are often rooted in low pension engagement during working years. As one adviser explained: "Those that seek advice just before retirement often want you to try and undo all the bad decisions they have made in the last 30 years and that can be impossible".

The impact of this knowledge gap becomes stark when consumers begin drawing from their DC pensions (**Figure 1.4, page 13**). Advised retirees take a more comprehensive approach – factoring in investment risks and growth, income tax, and ongoing management needs – whereas non-advised consumers often overlook these critical aspects, exposing them to heightened risks during drawdown.

Non-advised retirees cite multiple areas where they wish they had known more at the point of retirement, with 38% noting inflation as a top concern, a reflection of recent inflationary pressures (**Figure 1.5, page 13**). Tax implications and understanding different retirement options also feature prominently as knowledge gaps. Many retirees also wish they had better understood how their spending patterns would change in retirement, echoing advisers' concerns about miscalculating retirement spending.

This lack of awareness is compounded by disparities in how consumers access retirement information (**Figure 1.6, page 14**). While advised individuals (understandably) primarily rely on their financial advisers, non-advised retirees lean on a mix of sources, with pension providers being most common. Troublingly, nearly a third of non-advised retirees report not seeking any information about their retirement finances at all, highlighting the ongoing engagement issues that persist into the decumulation phase.

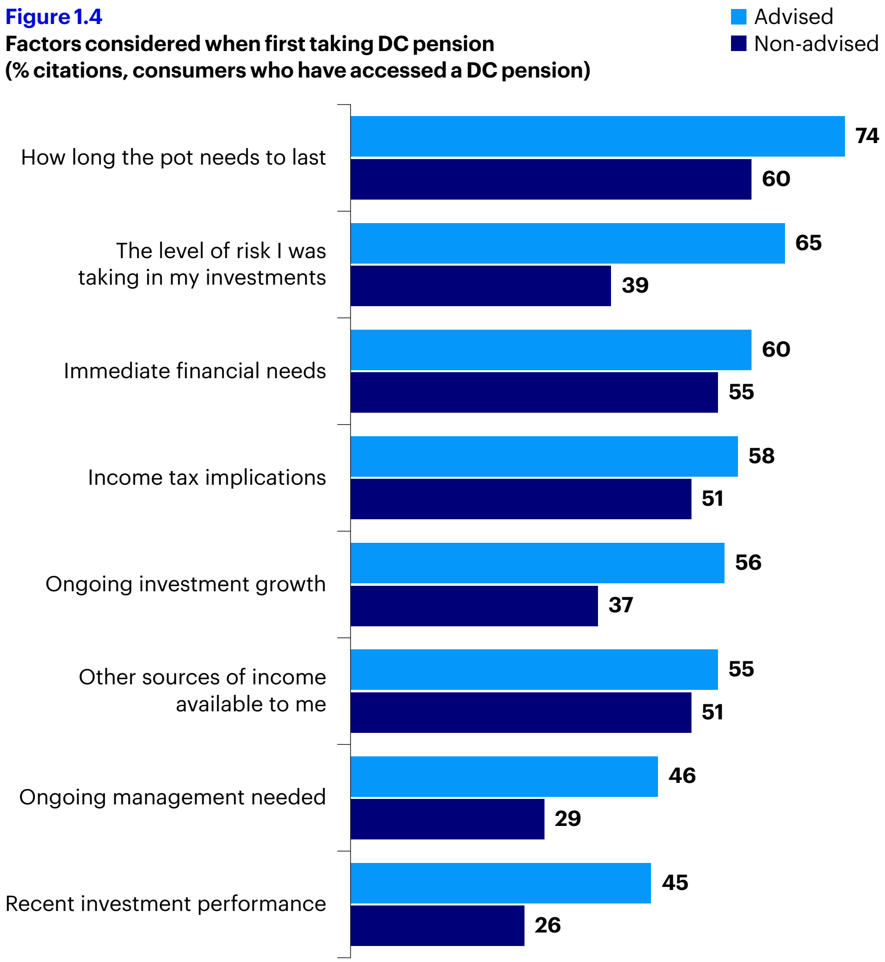
Figure 1.3
Client misconceptions about retirement (% citations, advisers)



What are the most common misconceptions you encounter when clients approach you for retirement advice?

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

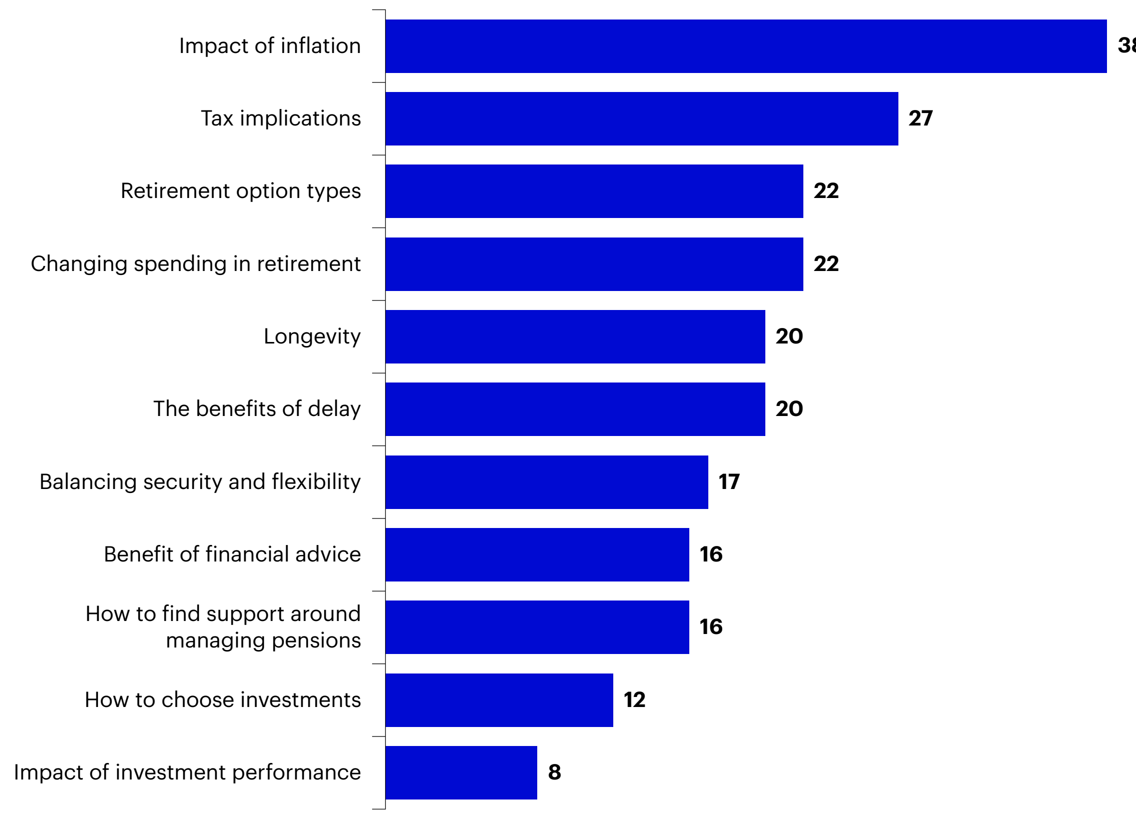
Figure 1.4
Factors considered when first taking DC pension
(% citations, consumers who have accessed a DC pension)



When you first accessed your DC pension, how much did you consider each of these factors?

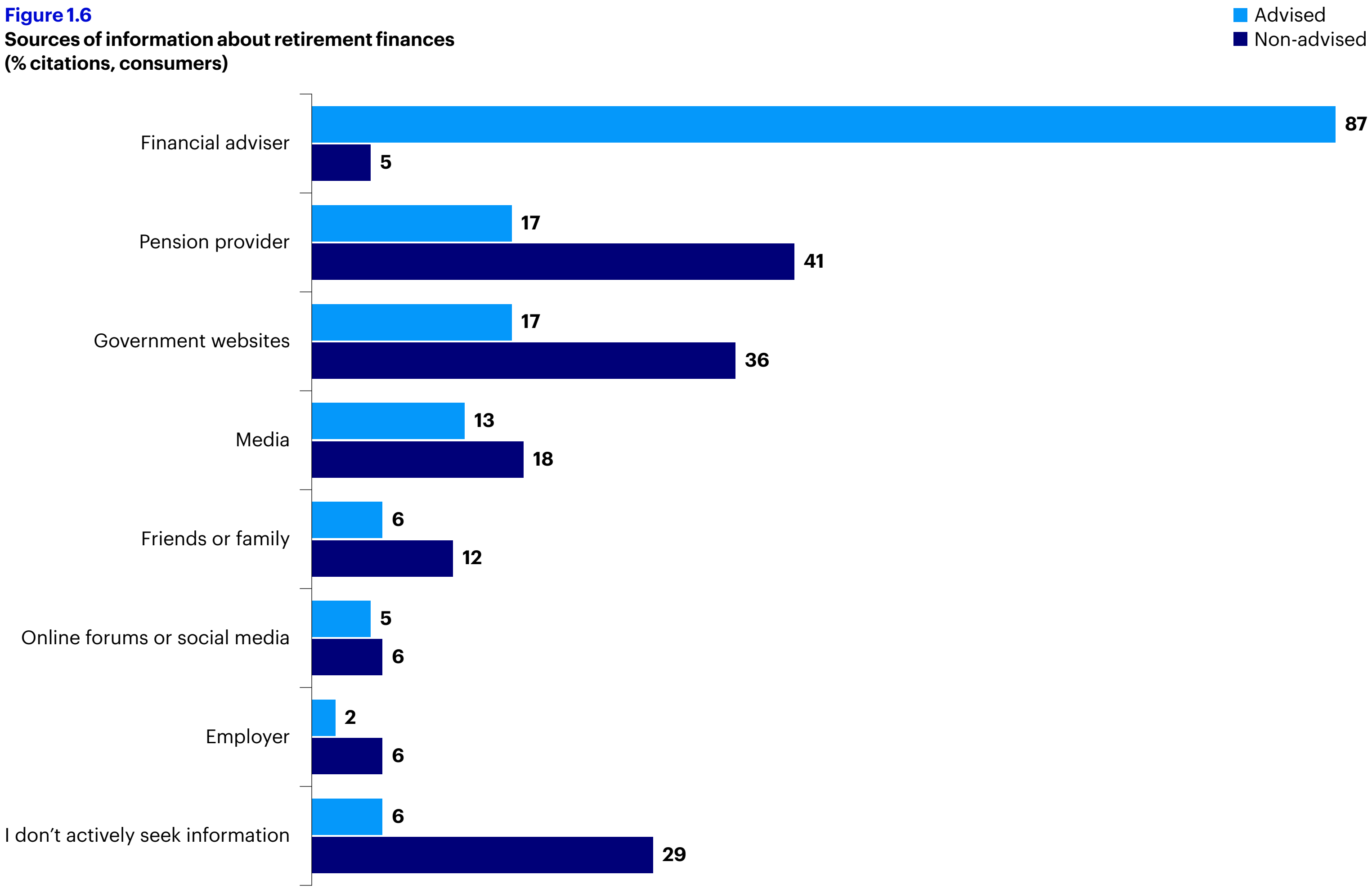
"38% of non-advised retirees note inflation as a top concern."

Figure 1.5
Topics consumers wish they had known more about at retirement
(% citations of non-advised respondents that wish they knew at least one factor, consumers)



Is there anything you wish you had known more about when you started (semi)retirement?

Figure 1.6
Sources of information about retirement finances (% citations, consumers)



Where do you primarily get information about retirement finances?

> "Troublingly, nearly **a third** of non-advised retirees report not seeking any information about their retirement planning at all."

The tax-free cash conundrum

"Initially, it was exciting that I got this lump sum and could do so much with it – and then reality kicks in and you realise it is there for a reason." This candid reflection from a retiree sums up the appeal – and risk – of tax-free cash (TFC). For many, TFC feels like a tax-efficient windfall offering instant gratification. However, as this study reveals, hasty decisions about TFC can significantly undermine long-term retirement income.

The study shows modest differences between advised and non-advised consumers in how TFC is accessed. While 59% of non-advised retirees took their entire TFC in at once, 52% of advised retirees did the same. Meanwhile, 35% of advised retirees opted to withdraw less than the full amount, compared to just 24% of non-advised consumers (**Figure 1.7, page 16**).

The purpose of TFC also varies. Among those who took TFC, 57% of non-advised consumers put the money into a savings account, compared to 48% of advised consumers (**Figure 1.8, page 16**). This happens despite the fact that, by doing so, they lose the tax-advantaged status and growth potential of keeping money within the pension wrapper. Notably, most consumers use TFC for non-essential purchases, rather than for critical financial needs like paying off mortgages or settling debts, raising concerns about the long-term sustainability of their retirement income. Both advisers and consumers express concerns about potential changes to TFC rules, which drives many to withdraw it early.

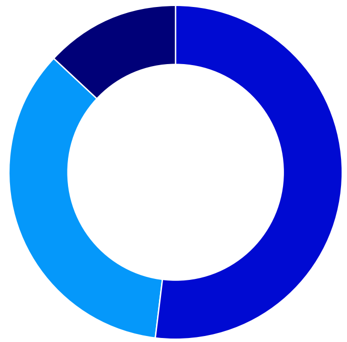
Advisers warn that some clients make TFC decisions before seeking advice, often limiting their options at and even before retirement. One adviser explained, "Some have spent their TFC on non-essential things and now want more because they need the money, but the additional withdrawals are taxable." Another added, "We've seen clients trigger the Money Purchase Annual Allowance by taking TFC from smaller pensions while still working, leading to hefty tax bills every year."

These examples illustrate the lasting consequences of ill-informed TFC decisions. Whether it's depleting funds too quickly or triggering unexpected tax liabilities, the risks are real and enduring. The difference in behaviour between advised and non-advised retirees underscores the value of early access to professional guidance – before making any TFC decisions at the latest.

Figure 1.7
Tax-free cash take-up (% citations, consumers)

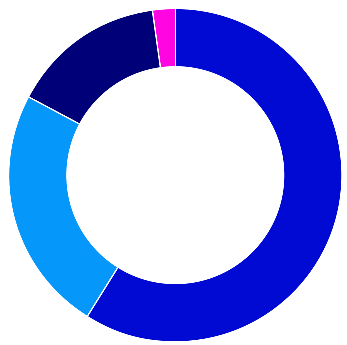
Advised

Maximum amount in one go	52
Less than maximum	35
Not taken TFC	13
Don't know	0



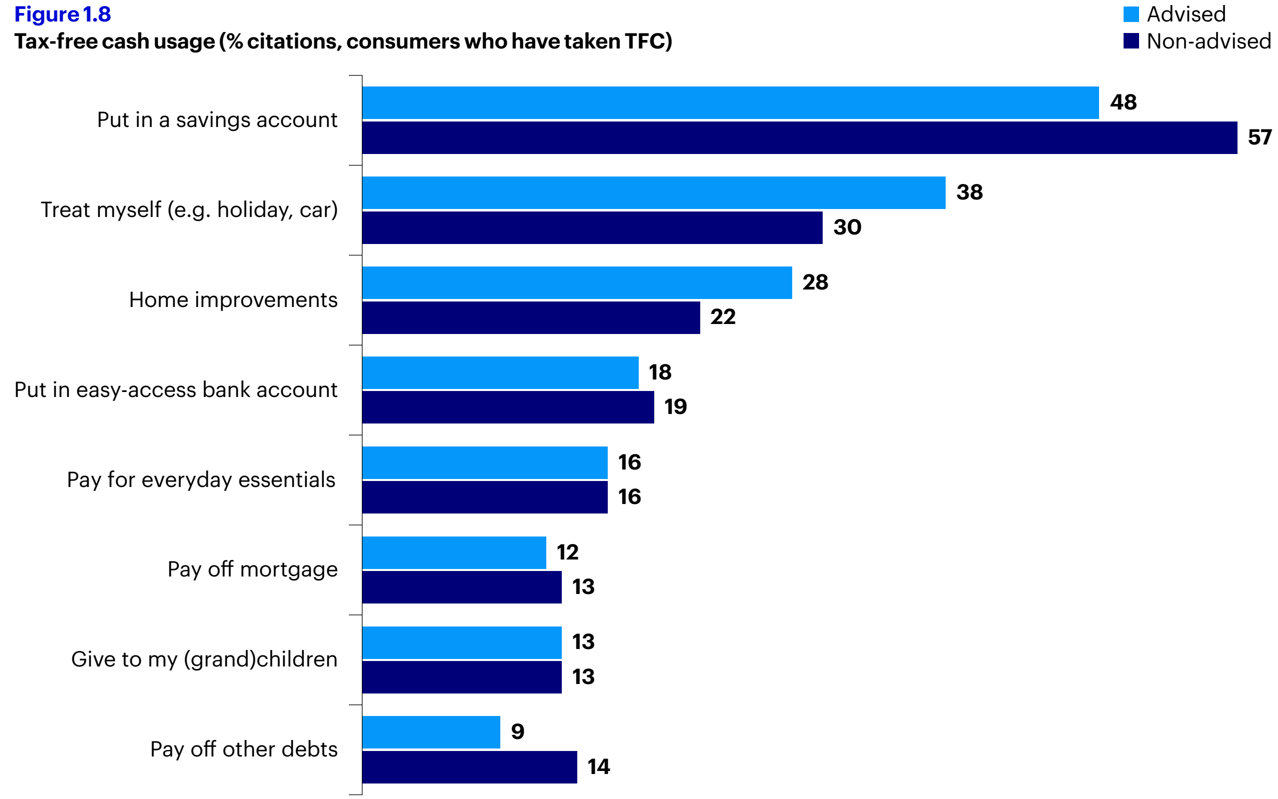
Non-advised

Maximum amount in one go	59
Less than maximum	24
Not taken TFC	15
Don't know	2



Have you taken any tax-free cash from your pensions?

Figure 1.8
Tax-free cash usage (% citations, consumers who have taken TFC)



What did you use/do you plan to use your tax-free cash for?

"35% of advised retirees opted to withdraw less than the full amount, compared to just 24% of non-advised consumers."

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

“When people have been savers their whole lives, it’s hard to coax them into spending.”

Financial Adviser

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

The psychology of spending in retirement

"You have more money than you need – spend it, stop putting it off." This blunt advice from an adviser reflects a surprising paradox: after a lifetime of saving, retirees often struggle to shift from saving to spending, even if they have more than enough.

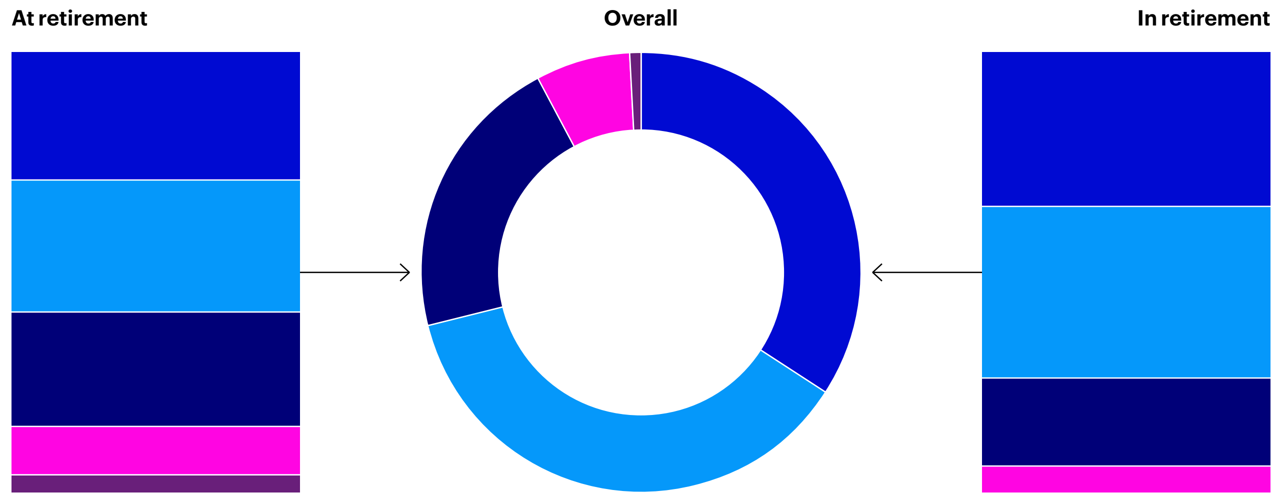
Among recent retirees, 59% report spending comfortably within or even below their means, suggesting that many remain net savers even in retirement. This number rises to 74% for those retired longer, pointing to growing cautiousness over time (**Figure 1.9**). This increase in saving behaviour among longer-term retirees is largely driven by lower risk tolerances, fears of outliving their money, and the potential costs of future long-term care.

While 55% of respondents cite having 'not very expensive needs/lifestyle' as the primary reason, other concerns are more telling. Worries about future health emergencies (35%), discomfort with seeing savings diminish (32%), a desire to leave an inheritance (28%), and saving for later-life care (25%) round out the top reasons for underspending (**Figure 1.10, page 19**).

One adviser put it succinctly: "When people have been savers their whole lives, it's hard to coax them into spending. But we also don't want them drawing money from a tax-efficient vehicle just to stick it in a low-yield bank account, which is all too common."

The difficulty retirees face in moving from saving to spending is clear. Deep-rooted fears – especially around unexpected health costs and the potential need for expensive long-term care – drive a caution that can lead to lower living standards than necessary. This tension between financial prudence and quality of life in retirement raises questions about how individuals in DC pensions can be better supported, and underscores the often critical role of professional advice in coaching clients and thorough cash flow planning to help retirees overcome these psychological barriers and enjoy their hard-earned wealth.

Figure 1.9
Spending relative to means (% citations, consumers)



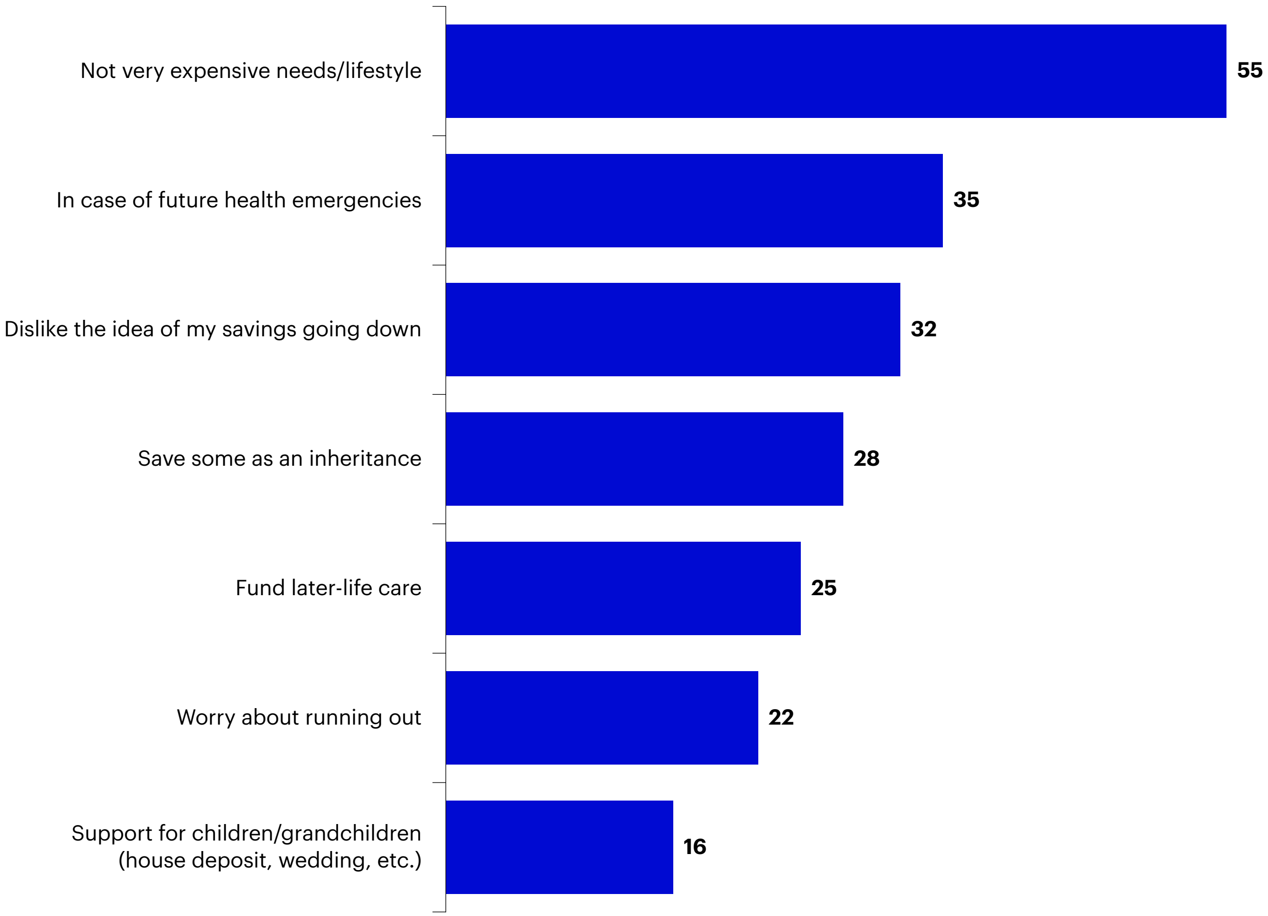
	At retirement	Overall	In retirement
Well within means	29	34	35
Within means	30	37	39
Just in line with means	26	21	20
Above means	11	7	6
Well above means	4	1	0

Do you feel your outgoings/spending in retirement are...

"59% of recent retirees report spending comfortably within or even below their means."

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Figure 1.10
Why live within means (% citations, consumers living within means)



Is there a reason you don't spend as much of your pension and savings as you could?

"While 55% of respondents cite having 'not very expensive needs/lifestyle' as the primary reason, other concerns are more telling."

The shift to DC pensions and the introduction of pension freedoms have radically transformed the UK retirement landscape. This study shows that the challenges seen during the accumulation phase – low engagement, limited financial literacy, and reluctance to seek advice – not only persist but often worsen as individuals transition to retirement.

These findings highlight a troubling gap between the complexity of decumulation decisions and retirees' readiness to navigate them. From underestimating to mismanaging tax-free cash and grappling with the shift from saving to spending, retirees face substantial obstacles in managing their pension wealth effectively during drawdown.

Tackling these issues will require a comprehensive approach: improving financial education, creating more accessible advice models focused on retirement, driving innovation in decumulation products, and enhancing engagement with pension providers. Policy initiatives must also encourage earlier, more proactive retirement planning. The remainder of this report will explore potential solutions, with collaboration needed from the industry, regulators, and policymakers to maximise the advantages of pension freedoms while minimising the associated risks emerging.

Key takeaways

01

There is a significant knowledge gap in planning for retirement

Many retirees, especially those without advice, lack understanding of complex retirement income decisions, highlighting the need for improved financial education and guidance tailored to the decumulation phase.

02

Tax-free cash is not being used optimally by many retirees

Many individuals take their entire tax-free cash allowance at once and often move it into low-yield savings accounts, potentially undermining their long-term retirement income and losing valuable tax advantages.

03

Many retirees are overly cautious with their retirement spending

A majority of retirees report spending comfortably within or below their means, suggesting that fear of outliving savings may be leading to unnecessarily frugal retirements and reduced quality of life.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Theme 2

Bridging the retirement income advice gap

In a DC-dominated world

Early advice significantly improves retirement outcomes: 64% of advisers say that early-advised clients better understand pension options, yet 23% seek advice too late, limiting their ability to plan effectively

Consumer Duty reshaped retirement advice delivery, with 52% of advisers increasing documentation and 44% increasing the use of cash flow modelling. However, rising costs risk limiting access for lower-wealth clients

'Targeted support' could bridge the advice gap, with 55% of advisers believing it could help retirees better understand their options. However, 78% of advisers worry it might blur the line between guidance and advice

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

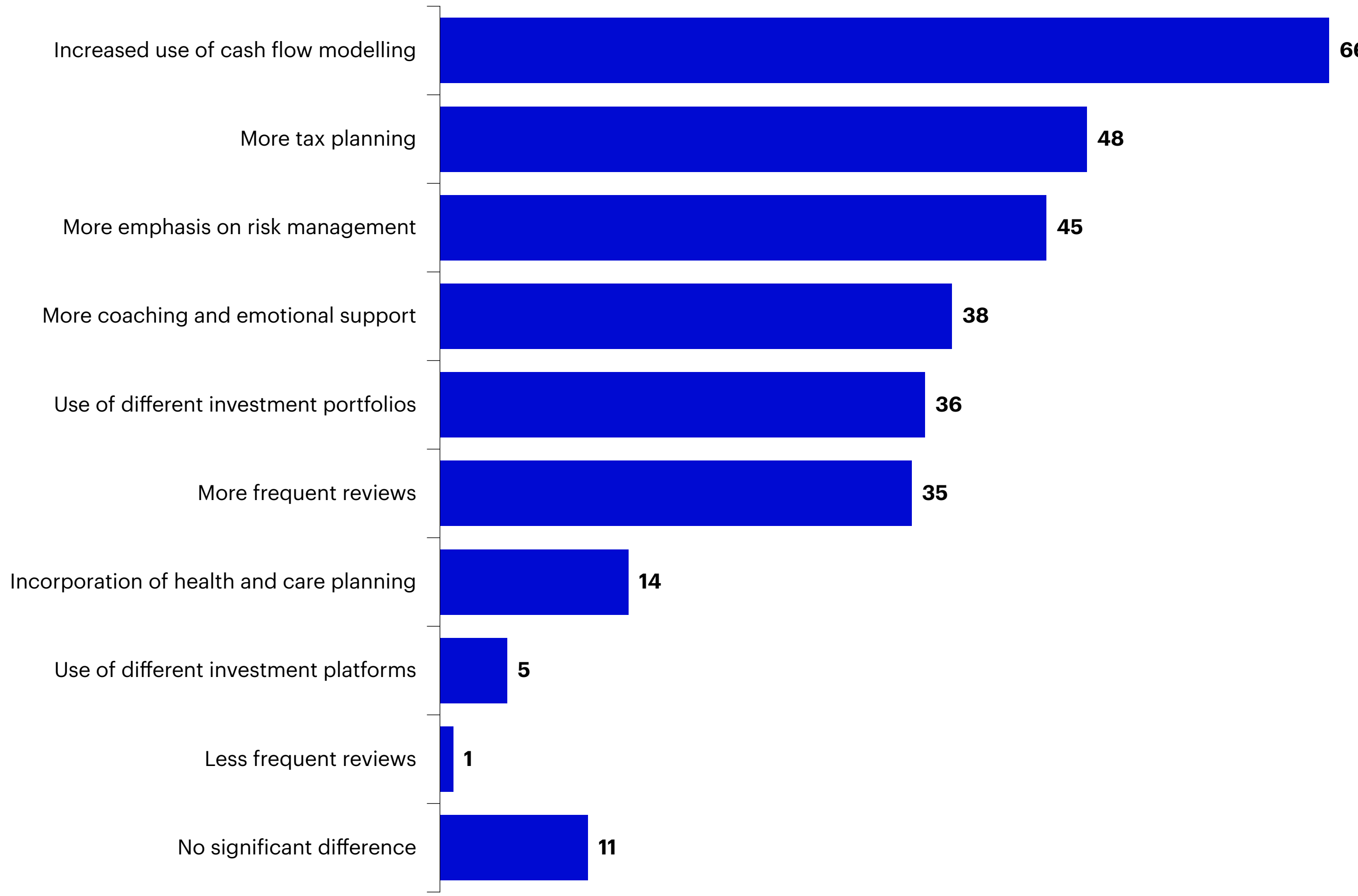
"The success of auto-enrolment relied on inertia, giving people outcomes without requiring them to make difficult decisions. **Pension freedoms flipped this**, presenting individuals with a problem: try to work out how long you will live, where to invest and what income you can safely draw without having skimped or spent too much money. It is the hardest problem in finance."

This insight from an industry expert encapsulates the UK's central retirement dilemma. The shift from DB to DC pensions, combined with the introduction of pension freedoms, has created a complex decumulation landscape that many struggle to navigate independently.

Advisers now focus less on simple product selection and more on holistic life planning. Compared to accumulation, 66% of advisers report increased use of cash flow modelling, 48% focus more on tax planning, and 45% emphasise risk management in decumulation (**Figure 2.1**).

While those who seek advice benefit from increasingly sophisticated planning, most retirees navigate this terrain alone. This gap is especially worrisome for those with modest pension pots, who may lack access to professional advice yet face more severe consequences from poor decisions.

Figure 2.1
Difference in advice proposition for decumulation compared to accumulation (% citations, advisers)



How does your advice proposition for decumulation differ from your accumulation advice?

“Compared to accumulation, 66% of advisers report increased use of cash flow modelling.”

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

The value of timely advice

The value of early advice is clear. Advisers say that clients who receive advice early are more likely to understand their pension options (64%), have confidence in their retirement plans (53%), and set realistic lifestyle expectations (47%) (**Figure 2.2**).

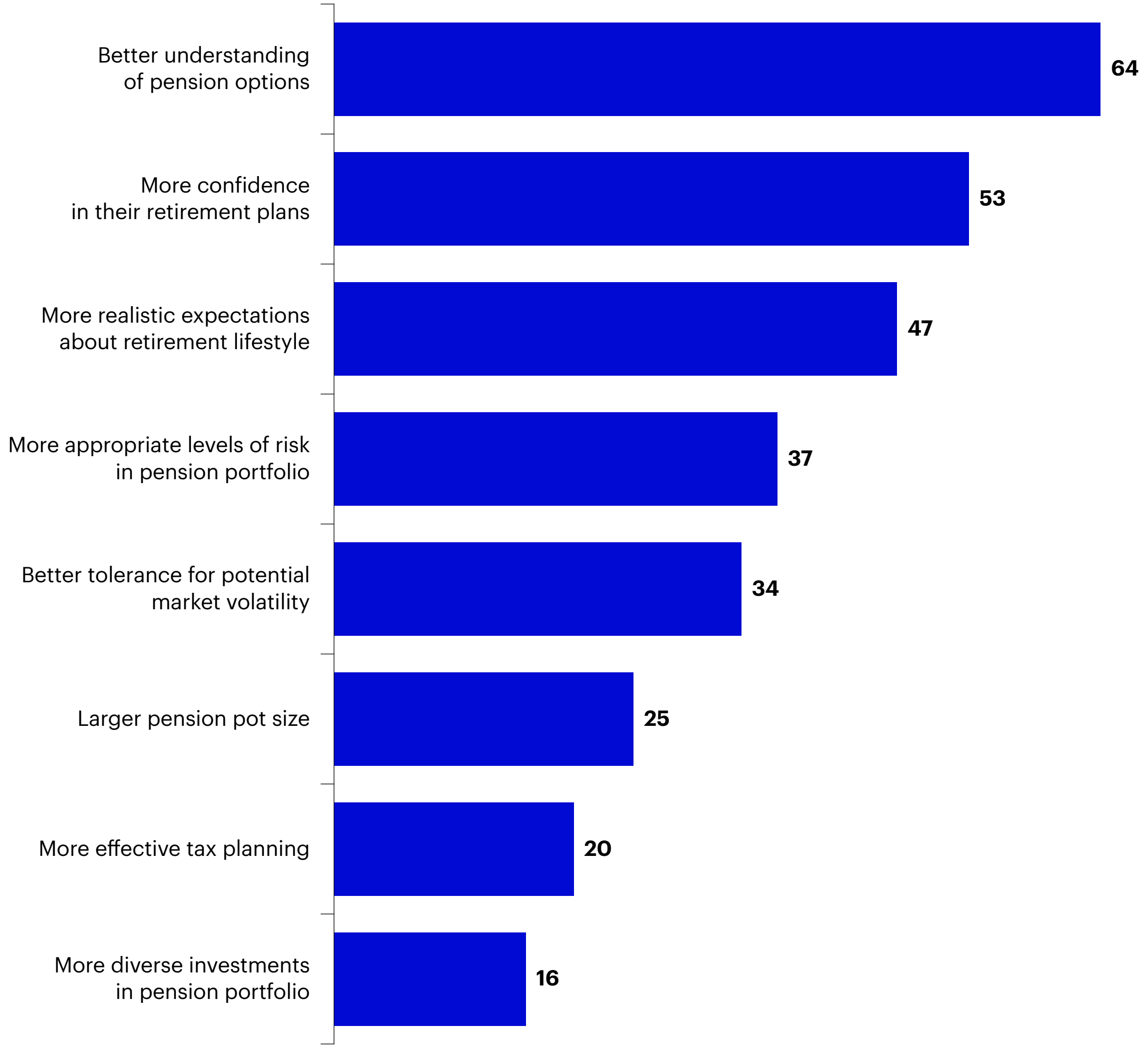
However, advisers estimate that around 23% of clients seek advice too late, limiting their ability to make meaningful adjustments (**Figure 2.3, page 25**). One adviser explained: "During accumulation, we help clients identify needs and adjust savings. The year before retirement, we focus on the major financial and psychological shifts ahead." Another shared a common frustration: "Clients often expect us to undo 30 years of poor decisions, which is an enormous challenge."

This 'advice gap' stems from more than just a lack of awareness. Psychological barriers, such as fear or embarrassment about one's financial position, prevent many from seeking help. As one consumer admitted, "I don't want to know what my outcome will be because my pot is nowhere near as big as others."

Master trusts and platforms, with their scale and direct relationships with scheme members and customers, are well-positioned to address this gap. However, they face the same challenges as the wider industry in overcoming the reluctance around advice. Even when offering relatively affordable fees, these organisations find that many people avoid seeking advice due to distrust or a belief that it's 'too late' to improve their financial situation. This problem was outlined by an industry expert working with one such organisation: "We offer advice at a cost you are not going to get much cheaper and people are still not taking it. There is a barrier around taking advice which is not cost-driven: part will be around not thinking you want to take advice, distrust of advisers, or not being brought in at the right time in the process. So there is an element of coaching: you need to get people to a position where they can move to the decision phase."

This reluctance to seek advice, particularly among those with more modest savings, is a significant challenge for the industry and policymakers. Bridging the gap will require more than making advice available; it must address deep-seated psychological barriers and perceptions around financial advice.

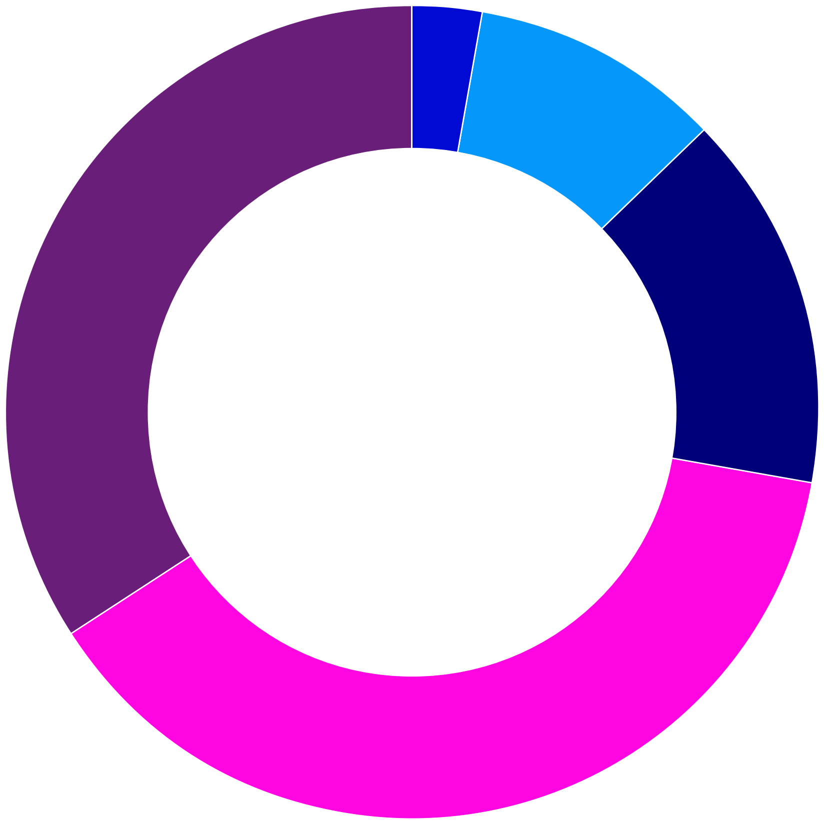
Figure 2.2
Differences between clients taking advice during accumulation compared to at retirement (% citations, advisers)



What is the main differences between clients who receive advice during accumulation versus those who only seek advice at the point of retirement?

Figure 2.3
Clients that seek advice too late (% citations, advisers)

More than 75%	**3**
51-75%	**10**
26-50%	**15**
11-25%	**38**
10% or less	**34**



What percentage of your clients come to you "too late" for optimal retirement planning?
Estimated average of 23% calculated using midpoints = (88% x 3%) + (63% x 10%) + (38% x 15%) + (18% x 38%) + (5% x 34%).

"Advisers estimate that around 23% of clients seek advice too late."

The impact of Consumer Duty

Consumer Duty has reshaped the retirement advice market, driving higher standards and income sustainability. According to this study, 52% of advisers report increased documentation and compliance processes, and 44% have ramped up their use of cash flow modelling **(Figures 2.4 and 2.5, page 27)**. An industry expert noted, "Consumer Duty has put pressure on retirement advisers to provide clearer advice and monitor income sustainability through regular cash flow reviews."

However, these improvements come at a cost. One adviser commented, "We now spend much more time on non-client-facing tasks. Once we adjust to one regulatory change, there's another one." This increased workload has forced advisers to raise fees and, in some cases, set higher minimum asset requirements, excluding lower-wealth clients. Fair value assessments have also led firms to lower fees for larger clients while raising them for smaller ones – possibly to unaffordable levels.

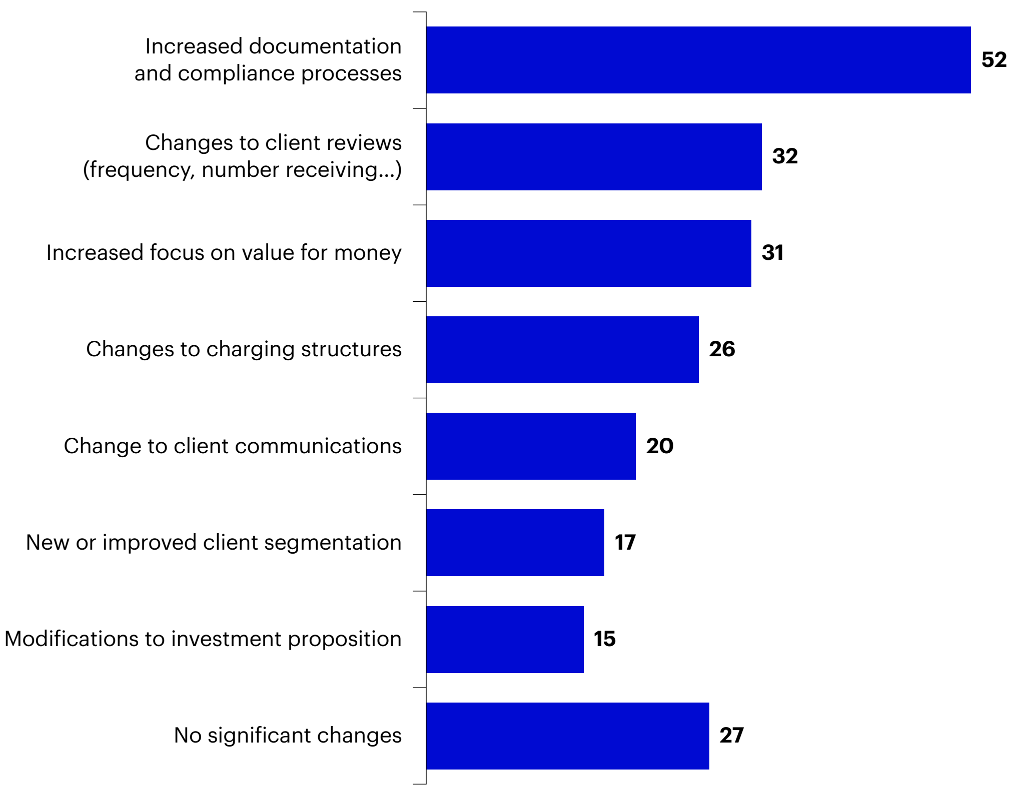
As one industry expert put it, "Firms have raised fees because the preparatory work, reporting, and research have become more time-consuming." An adviser added, "Our minimum fees increased significantly, and smaller cases were effectively subsidised by larger ones. We had to make changes."

The unintended result? A reduction in access to advice for clients with smaller pension pots. One adviser shared, 'We lose money on lower-end clients, so we're shifting them to an 'On-Demand' model. We don't want to charge ongoing fees when it could disadvantage them."

While Consumer Duty has improved advice quality, it has also widened the advice gap. The increased costs of compliance have driven some firms to focus on wealthier clients, potentially leaving those with modest pots underserved. As the industry adapts, finding ways to deliver high-quality, cost-effective advice across the wealth spectrum will be essential to ensuring equitable retirement outcomes.

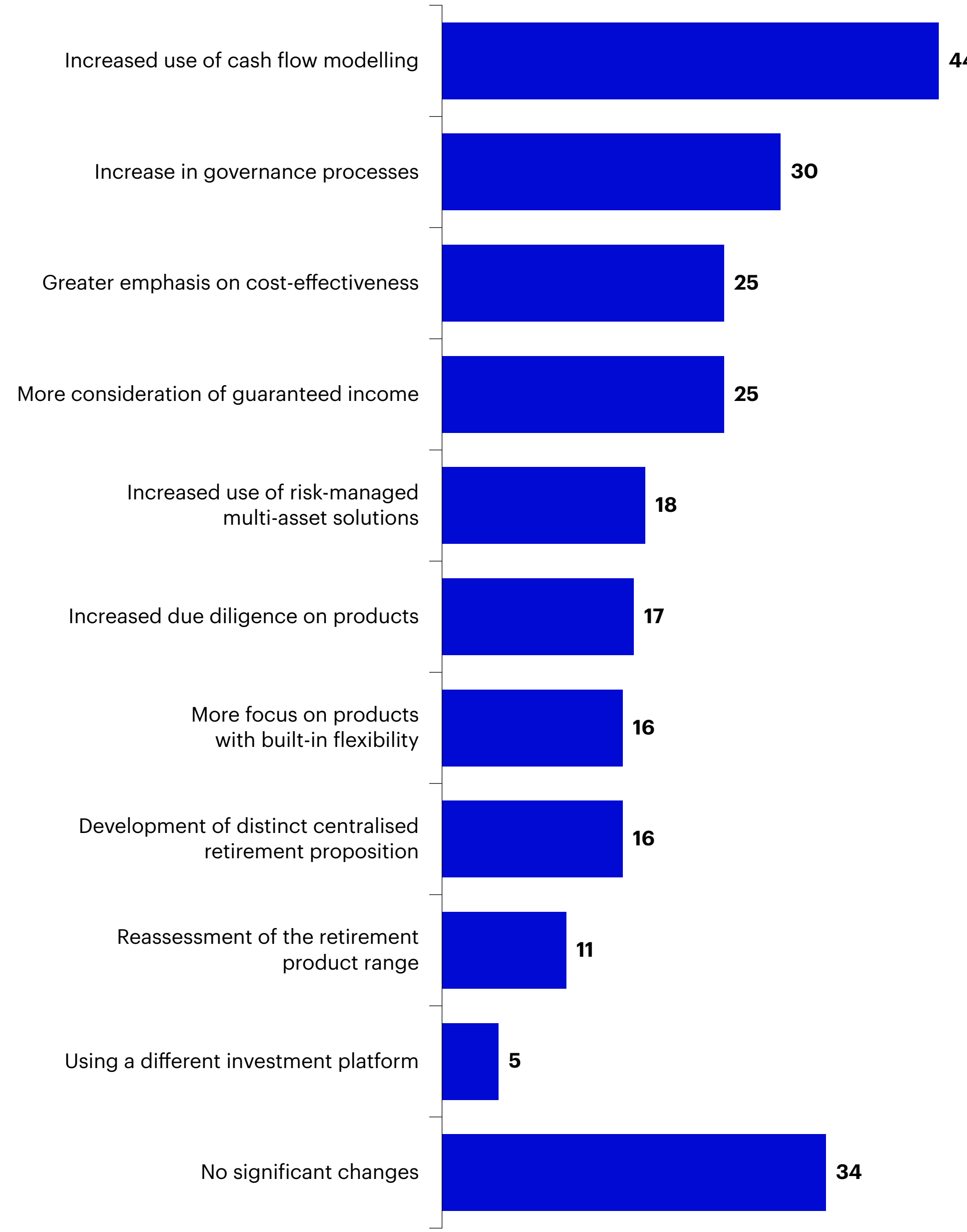
“52% of advisers report increased documentation and compliance processes.”

Figure 2.4
Impact of Consumer Duty on retirement advice (% citations, advisers)



How has Consumer Duty affected your retirement income business?

Figure 2.5
Impact of Consumer Duty on retirement products and solutions (% citations, advisers)



In light of Consumer Duty and the Retirement Income Advice Review, how has your approach to retirement products and solutions changed?

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Exploring regulatory solutions to bridge the gap

As the industry grapples with this widening advice gap, regulators are proposing initiatives to make retirement guidance more accessible. Two key ideas – 'simplified advice' and 'targeted support' – are in the spotlight, though both face significant hurdles in implementation.

Simplified advice

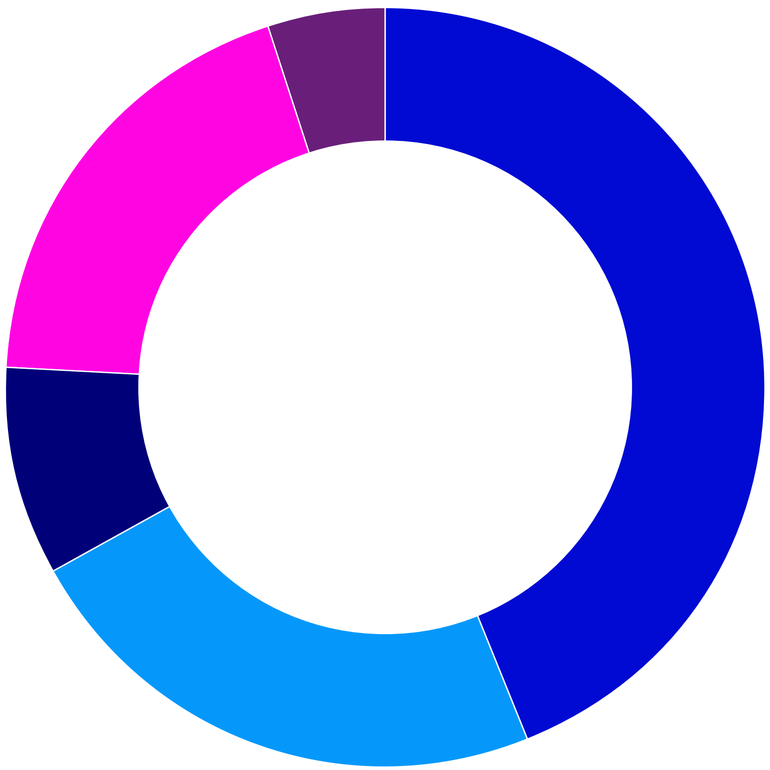
Simplified advice, as envisioned by the FCA, seeks to streamline advice for consumers with less complex financial needs. While not currently targeted at decumulation, some debate its potential applicability here. The goal is to deliver focused, cost-effective advice on specific issues without considering a consumer's broader financial circumstances. However, 44% of advisers see it as a "minefield", and 23% think it would have limited usefulness, citing the complexity of retirement income planning (**Figure 2.6**).

Advisers worry about future complaints if clients' circumstances change, making past advice unsuitable. Retirement planning decisions are interconnected, making it difficult to offer 'simple' guidance. As one adviser put it, "Decumulation presents unique challenges that can't be addressed with a one-size-fits-all approach, unlike the past, when annuities were the default."

Despite these concerns, some see potential. 19% of advisers believe simplified advice could serve lower-value pension holders, and 9% see it as an entry point for those hesitant to seek full advice. Simplified advice could become a bridge, guiding clients toward full-fat financial advice later on.

Figure 2.6
Views on 'simplified advice' for retirement income (% citations, advisers)

A minefield that needs clear protections for advisers before we would offer it	**44**
Limited usefulness due to complexity of retirement income	**23**
Useful mainly as an entry point to full advice	**9**
Important for serving lower-value clients	**19**
Don't know	**5**

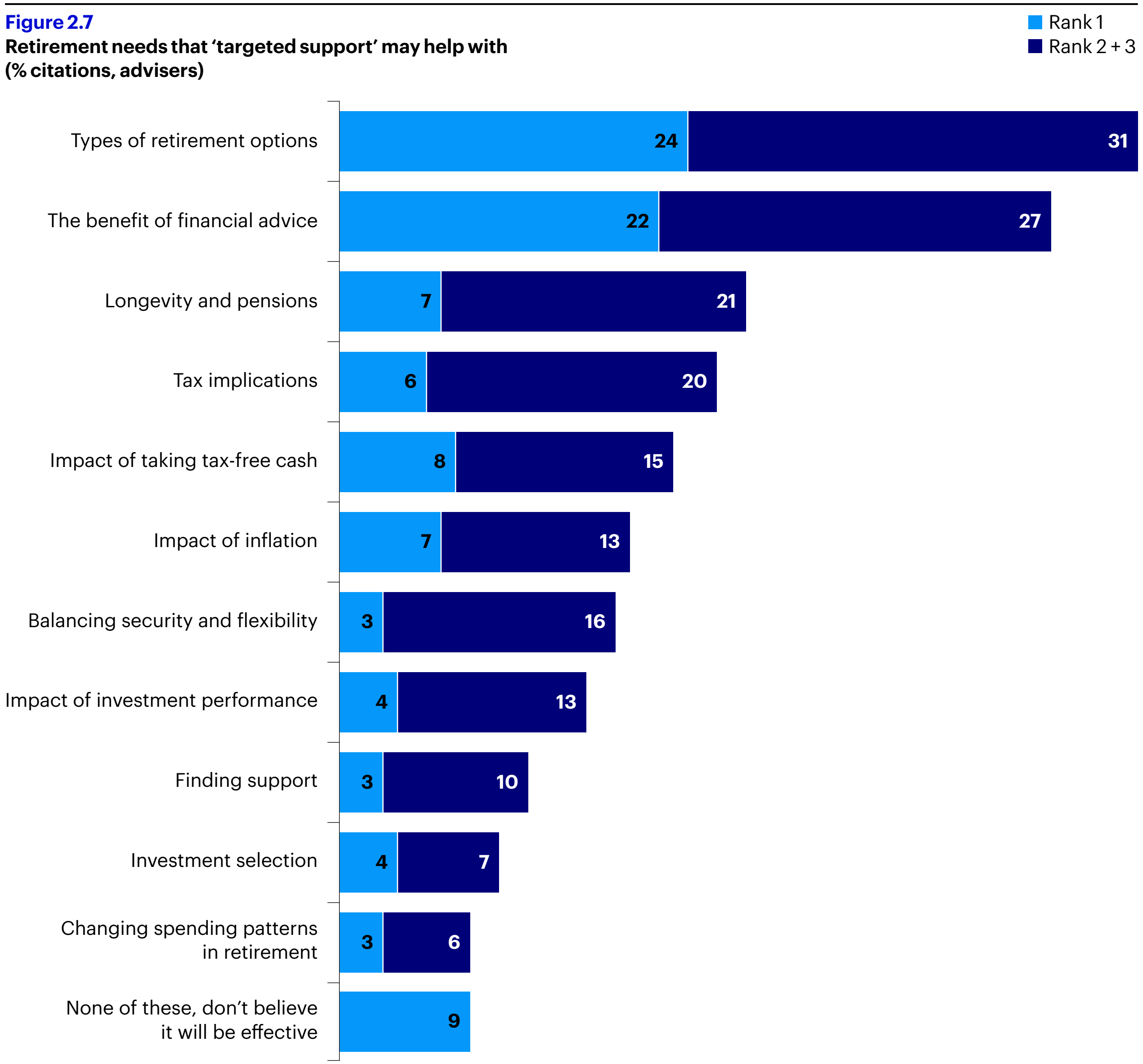


Which of the following options do you feel closest to, thinking about the FCA's proposed 'simplified advice' in the retirement income space?

"19% of advisers believe simplified advice could serve lower-value pension holders."

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Figure 2.7
Retirement needs that 'targeted support' may help with (% citations, advisers)



What are the most important needs or questions 'targeted support' can help consumers with at or in retirement?

Targeted support

Targeted support, another FCA initiative, aims to bridge the gap between general guidance and regulated advice by allowing firms to offer semi-personalised support without crossing into regulated advice territory. This could include best practice suggestions or tailored information based on broad demographics or financial circumstances.

This concept is better received by advisers than simplified advice. Around 55% believe it may help clarify retirement options for consumers, while 49% see it as a useful potential gateway to full financial advice (**Figure 2.7**).

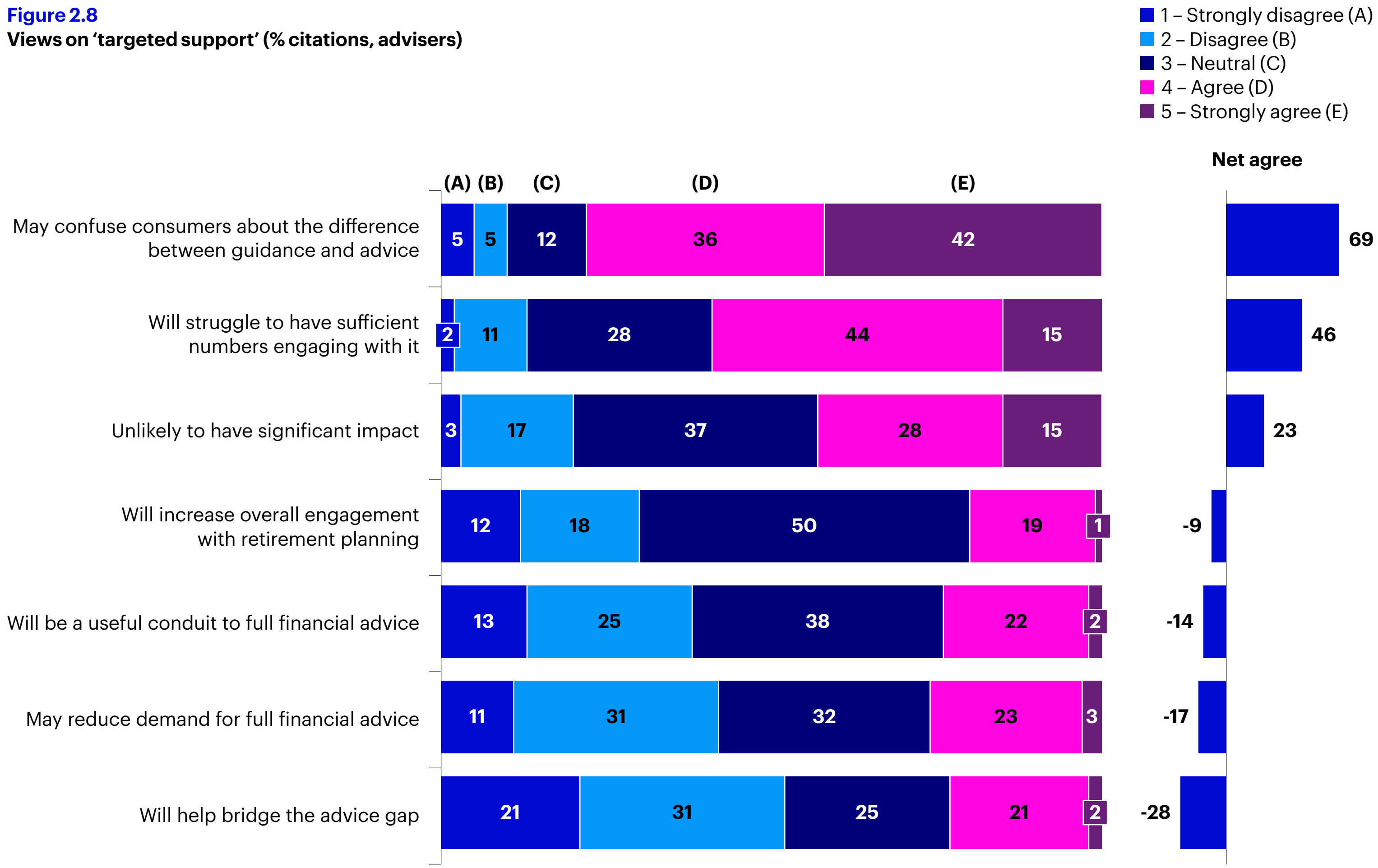
Unlike general guidance, targeted support factors in some individual circumstances, providing a steer alongside generic information; in doing so, it could help consumers better understand the options relevant to them and the implications of different choices. An industry expert commented, 'targeted support could help lots of people with simpler needs make better decisions, provided there's strong product design and a sales process guiding them to solutions that match their requirements.'

However, challenges remain. 78% of advisers worry it may blur the lines between guidance and advice, and 59% believe it will struggle to engage consumers effectively **(****Figure 2.8, page 31****)**. The boundaries between targeted support and regulated advice remain unclear. Some question whether firms can provide this service cost-effectively while staying within regulatory boundaries. Others (26%) fear it could cannibalise full advice, requiring a delicate balance to bridge the advice gap without undermining existing models.

While both simplified advice (if extended to decumulation) and targeted support have potential in addressing the advice gap, implementing these solutions in a DC-dominated world will be difficult. Creating truly 'simple' solutions is no straightforward task, and ultimately, regulatory solutions are likely to be only part of a broader suite of measures needed to bridge the advice gap effectively. True success in delivering effective retirement outcomes for all will likely require a broader suite of solutions and innovative thinking.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Figure 2.8
Views on 'targeted support' (% citations, advisers)



How do you think the FCA's proposed 'targeted support' might impact the retirement space?

"78% of advisers worry 'targeted support' may blur the lines between guidance and advice."

“Targeted support could help lots of people with simpler needs make better decisions.”

Industry Expert

Mandatory engagement: A potential solution to pension apathy

"We should consider making professional advice mandatory for those with substantial pots. We're asking individuals with limited investment experience to manage significant sums – often hundreds of thousands of pounds – in a complex financial landscape."

This bold proposal reflects discussions with industry experts on addressing pension apathy. Many experts argue that mandatory engagement could combat the passivity auto-enrolment fosters. By requiring individuals to actively assess their retirement prospects, it could provide a wake-up call for those behind and reassurance for those on track. It could also address the issue, as seen in Theme 1, where many avoid advice due to embarrassment about their financial situation.

Experts suggest the first mandatory engagement should happen around age 45-50: early enough to make significant changes. Additional check-ins leading up to retirement could ensure individuals are well-prepared for the transition.

This approach does not come without its challenges. Enforcement is one issue, with suggestions like limiting access to tax-free cash unless advice is sought. Another question is what exactly would be mandated – a simple review of pension statements or full financial advice sessions?

Costs are also a concern. Providing broad access to meaningful advice could reduce state benefit reliance but would require substantial resources. Some experts propose integrating these reviews into workplace wellness programs.

Despite these challenges, there was strong support for the concept of mandatory engagement, with industry experts believing It could benefit both individuals and society and play an important role in helping consumers make better decisions.

Technology in retirement advice: Potential and limitations

Industry experts and advisers share an enthusiastic outlook for technology's potential to make retirement advice more accessible and cost-effective. AI and digital tools offer opportunities to streamline processes, improve data analysis, and provide more personalised recommendations at scale.

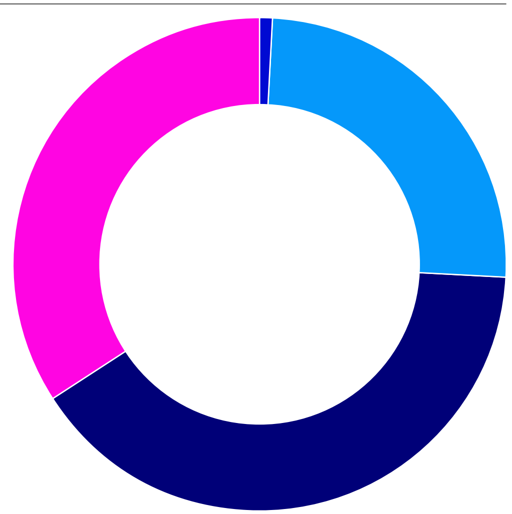
However, this optimism is tempered by the reality of current limitations. Despite industry excitement and investment, 'robo-advice' faces similar engagement issues as the rest of pensions industry, and consequently sees only limited uptake. One industry expert noted, "Robo-advice still requires a level of customer interaction, which is hard to secure."

Only 1% of advisers believe AI will largely replace human advisers (**Figure 2.9**), in large part because it will not be able to provide the emotional reassurance, empathy, and understanding that form such an important benefit of advice: 65% of advisers believe AI will struggle to provide emotional support like peace of mind and 39% question whether it will be able to gain client trust (**Figure 2.10**). As one adviser stated, "If markets drop 10-15%, it's tough for clients to manage without human support."

The concept of 'hybrid' advice – blending human expertise with digital tools – holds significant support. In this model, AI would handle data analysis and routine tasks, freeing advisers to focus on personalised aspects of planning. This approach could allow advisers to serve a broader range of clients, addressing part of the advice gap while keeping the crucial human touch.

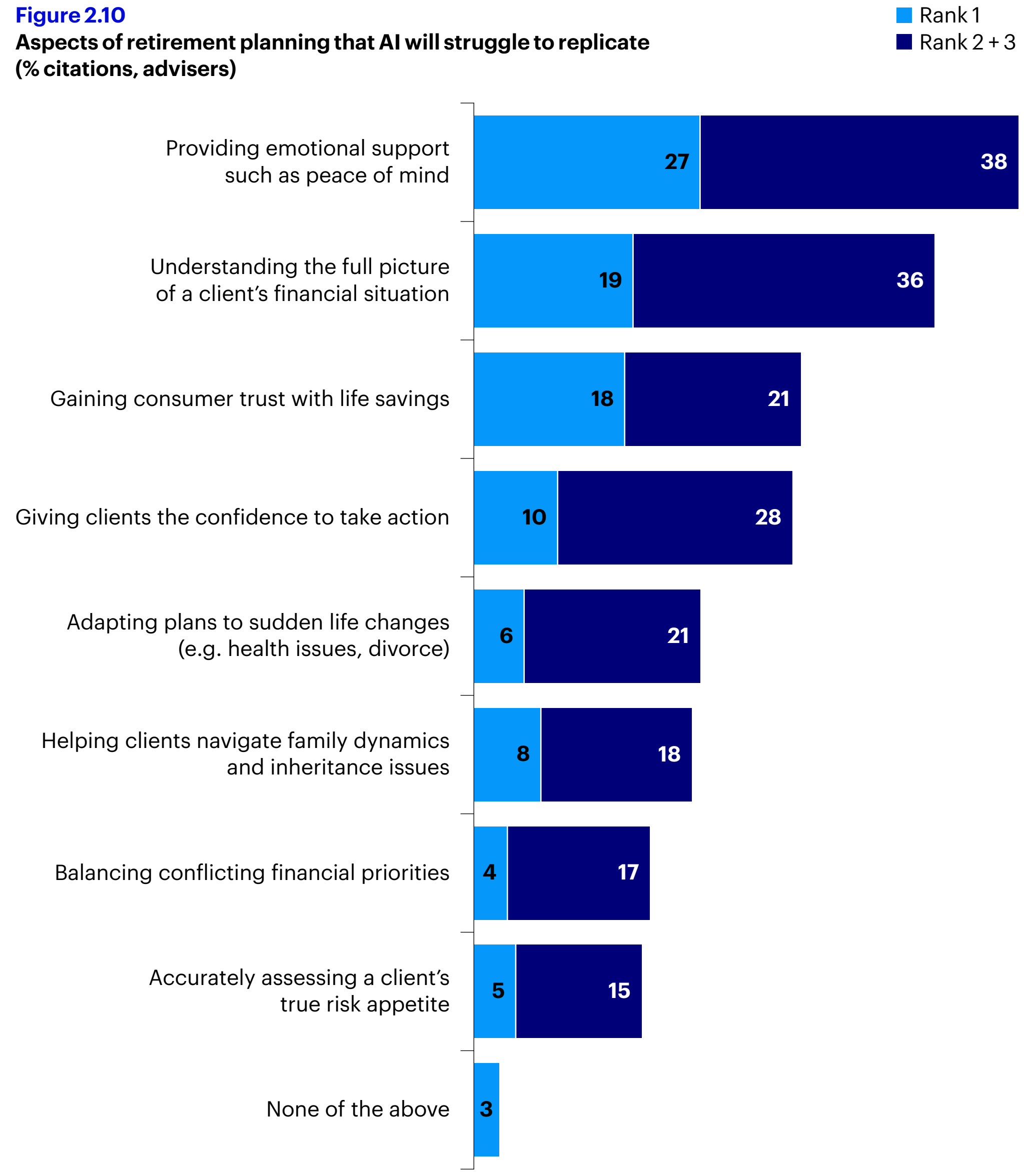
Figure 2.9
Impact of AI and robo-advice over next decade (% citations, advisers)

It will largely replace human advisers	**1**
It will complement human advisers	**25**
It will just serve a segment of consumers i.e. with lower savings levels	**40**
It will have limited impact as not suitable for retirement advice	**34**



What role do you see for robo-advice or AI in retirement income over the next decade?

Figure 2.10
Aspects of retirement planning that AI will struggle to replicate (% citations, advisers)



Which aspects of retirement planning will be most challenging for robo-advice or AI to replicate effectively?

“If markets drop 10-15%, it’s tough for clients to manage without human support.”

Financial Adviser

The shift to hybrid models

The rise of DC pensions has created a more complex advice landscape, with significant challenges in accessibility and delivery. While technology offers potential solutions, it cannot fully replace human expertise. The study highlights the need for a delicate balance between innovation and the personal touch retirees require. Hybrid advice models, regulatory adjustments, and efforts to address psychological barriers will be key to ensuring that all retirees, regardless of wealth, can make informed decisions about their retirement income.

Contents

Introduction

Executive summary

Methodology

Theme 1

Theme 2

Theme 3

Key takeaways

01

Early advice significantly improves retirement outcomes

Clients who receive advice earlier in their retirement planning journey demonstrate better understanding of their options and more realistic expectations about their retirement lifestyle.

02

Consumer Duty has reshaped retirement advice delivery

While leading to higher standards of service, increased documentation and compliance processes have raised costs, potentially limiting access to advice for lower-wealth clients.

03

‘Targeted support’ shows promise in bridging the advice gap

There is optimism that targeted support could help more people access retirement guidance and could play a key role in facilitating access to better options for those unwilling or unable to access full advice.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Theme 3

Rethinking retirement income solutions

Innovating to meet the evolving needs of DC retirees

Only 10% of advisers are very satisfied with the current range of retirement products, revealing a gap between available solutions and the complex needs of DC pension holders

75% of advisers believe product innovation is important in addressing retirement challenges, with sustainable income (61%) and longevity protection (56%) identified as top priorities for development

Advisers cite product complexity (56%) and regulatory constraints (49%) as key barriers to adoption, highlighting the need for simpler, more accessible retirement income solutions

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

“There are a lot of places where consumers need help. The question is whether the right help is available through product innovation and related services.”

This insight from an industry expert captures the ongoing challenge in the UK’s pension decumulation landscape. As DC pensions increasingly dominate the market, the limitations of current retirement solutions come into ever-sharper focus. The shift from DB’s security to DC’s flexibility has been seismic, yet this study finds retirement income tools have not adapted to address this new reality.

Each player in the retirement industry has a role to play in overcoming this. On an individual level, advisers are tasked with identifying products that meet the unique and complex needs of their clients. Meanwhile, master trusts must create effective pathways for disengaged members nearing retirement. Platforms, meanwhile, are required to offer personalisation and a broad range of products without overwhelming users or crossing into regulated advice.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Product challenges:
The search for innovative solutions to meet retiree needs

Retirement products encompass a wide range of financial solutions, from traditional options like annuities and drawdown arrangements, to underlying investment strategies such as multi-asset funds, risk-managed portfolios, and income-focused equity funds. More innovative approaches, like hybrid products combining guarantees with growth potential, also fall into the category of retirement products.

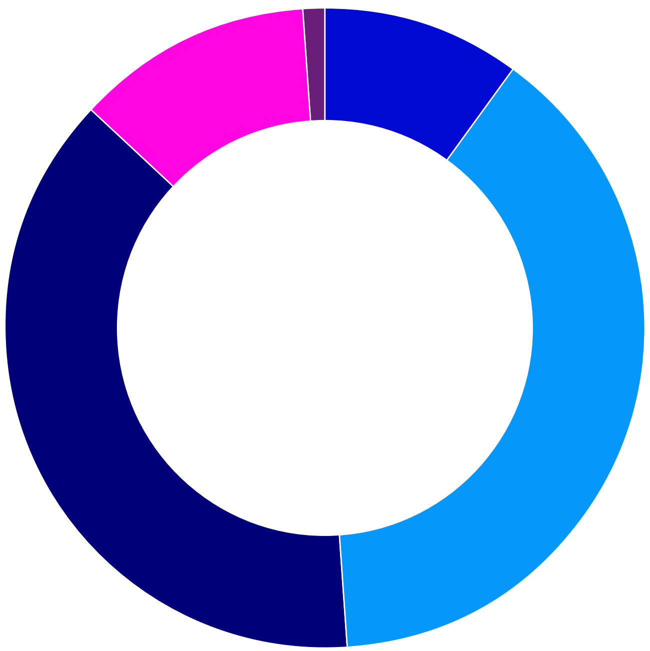
However, this broad array still falls short of meeting retirees' complex needs. A mere 10% of advisers express high satisfaction with the current product range, revealing a significant gap in the market (**Figure 3.1**). As one adviser put it, "The current products can feel like trying to fit square pegs into round holes. We need solutions that can adapt to the diverse and changing needs of modern retirees."

Advisers highlight several limitations, including:

1. **Inadequate longevity protection**
   While annuities offer security against outliving savings, they are often too inflexible, with low potential growth. Meanwhile, drawdown-based options may not address longevity risk adequately.
2. **Lack of personalisation**
   Products fail to account for individual needs, risk tolerance, and retirement goals. This one-size-fits-all approach can lead to suboptimal outcomes, especially for those without access to tailored advice.
3. **Limited accessibility**
   Non-advised consumers often lack sophisticated products due to limited availability on pension platforms or lack of awareness. Advisers, too, find themselves constrained by limited product choices or unproven track records.

Figure 3.1
Satisfaction with current retirement products (% citations, advisers)

Very satisfied	**10**
Somewhat satisfied	**39**
Neutral	**38**
Somewhat dissatisfied	**12**
Very dissatisfied	**1**



How satisfied are you with the current range of retirement products available in the market?

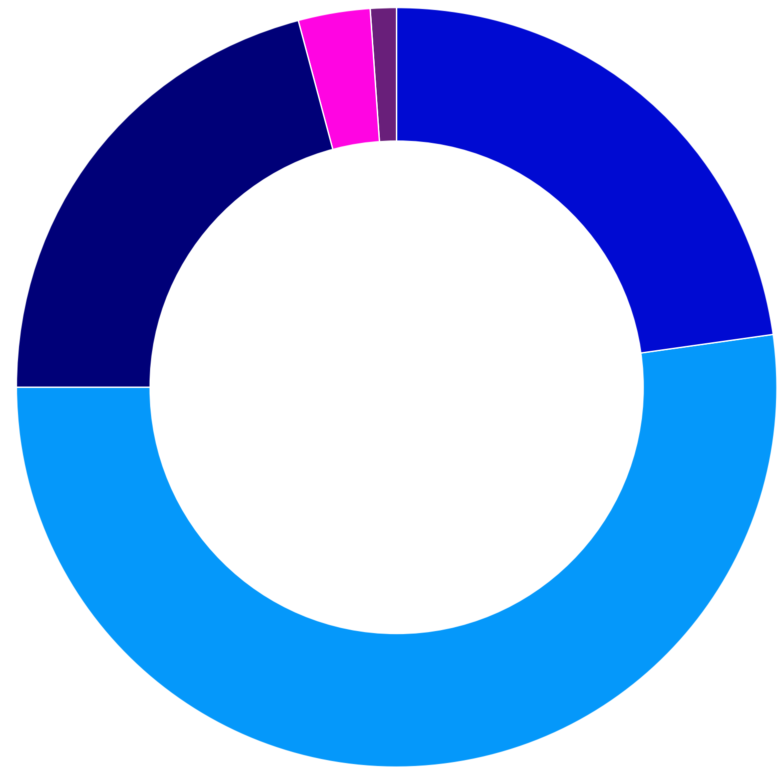
Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

“The current products can feel like trying to fit square pegs into round holes.”

Financial Adviser

Figure 3.2
Importance of product innovation in addressing retirement planning challenges (% citations, advisers)

Very important	23
Somewhat important	52
Neutral	21
Somewhat unimportant	3
Not important at all	1



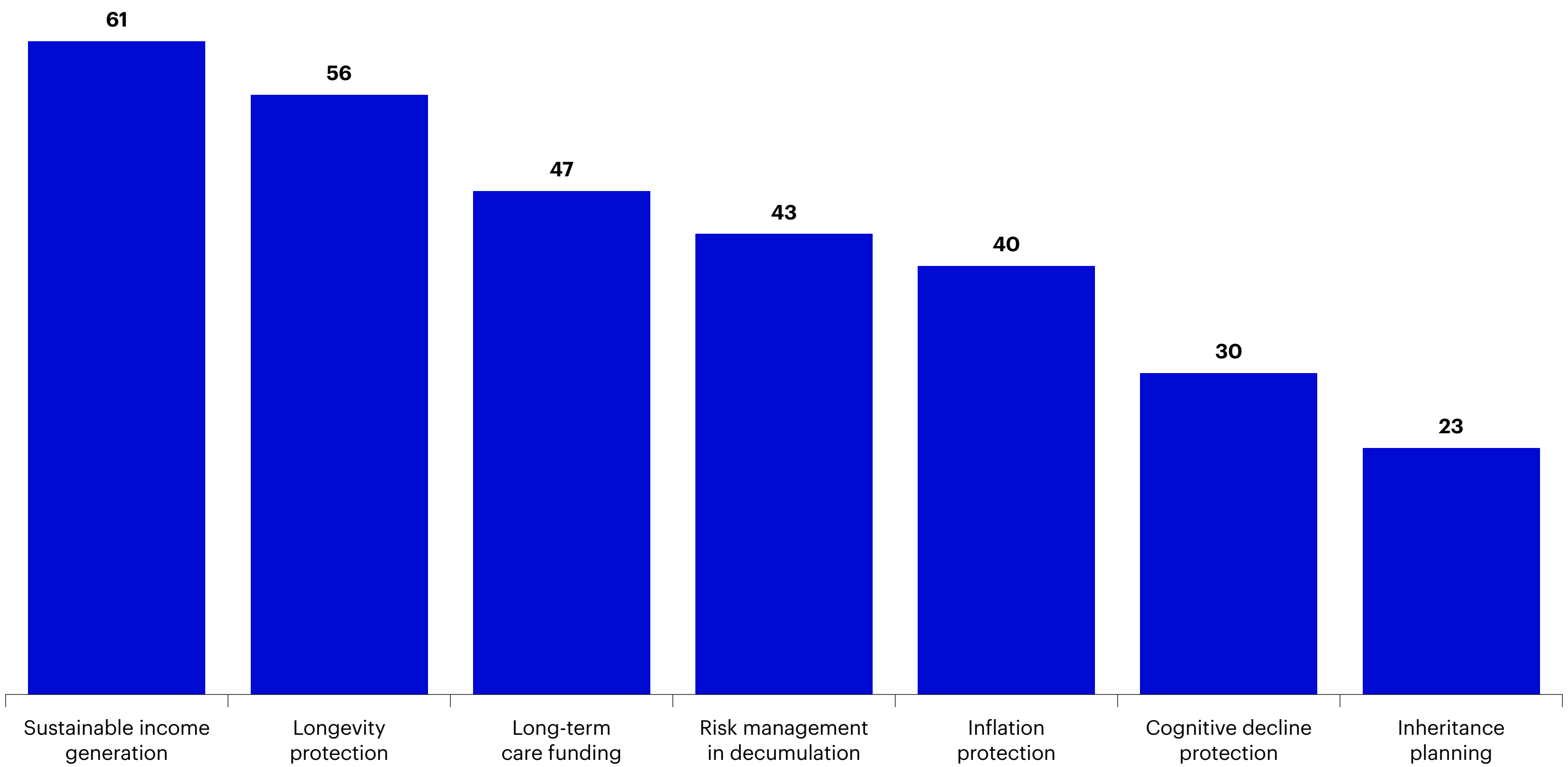
How important is product innovation in addressing the challenges of retirement planning?

Key areas for product innovation

Product innovation is considered by many advisers as central to addressing decumulation challenges, with 75% considering it somewhat or very important to tackling retirement planning issues (**Figure 3.2**). Innovation is most needed for sustainable income generation (61%) and longevity protection (56%) (**Figure 3.3, page 43**). These findings underscore the most pressing gaps in the current market and point to significant opportunities for new developments. From refining existing solutions to creating entirely new product categories, the potential for innovation to reshape retirement planning is considerable.

“61% of advisers say innovation is most needed for sustainable income generation.”

Figure 3.3
Areas in need of innovation (% citations, advisers)



What areas of retirement planning are in need of innovation?

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

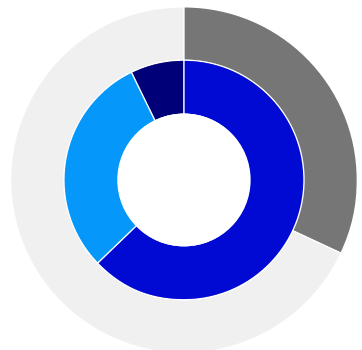
Multi-asset funds focused on decumulation

Multi-asset funds form a cornerstone of decumulation strategies. Already they are used frequently by nearly two-thirds of advisers, and some 32% expect increased use over the next five years (**Figure 3.4**). However, advisers express frustration at having to repurpose accumulation-phase products for decumulation. While recognising there are some decumulation-specific funds available, there is a strong desire for an expanded range, focusing on balancing income generation with growth potential while addressing sequencing risk.

Advisers also seek more options tailored to individual needs, with innovation opportunities in areas such as dynamic de-risking and income smoothing. However, they emphasise the importance of balancing these features with cost-effectiveness, especially with Consumer Duty's focus on value for money.

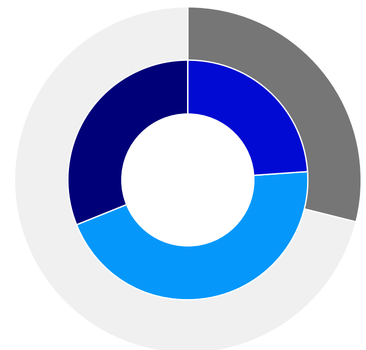
Figure 3.4
Use of retirement solutions (inner pie) / Retirement solutions advisers expect to use more in 5 year's time (outer pie)

Multi-asset funds



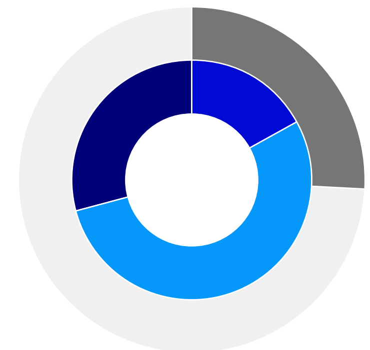
Frequently	63
Occasionally	30
Never	7
Expect to use more in 5 year's time	32

Bucketing strategies



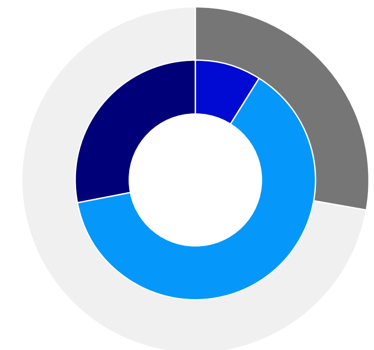
Frequently	24
Occasionally	45
Never	31
Expect to use more in 5 year's time	29

Smoothed funds



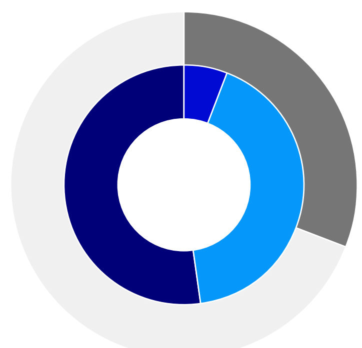
Frequently	17
Occasionally	54
Never	29
Expect to use more in 5 year's time	26

Fixed term annuities



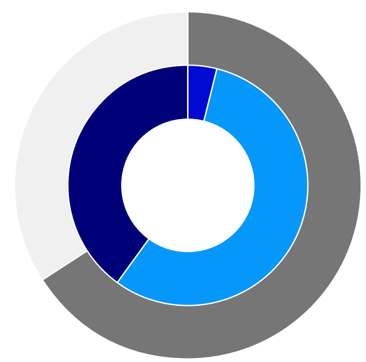
Frequently	9
Occasionally	63
Never	28
Expect to use more in 5 year's time	28

Equity release



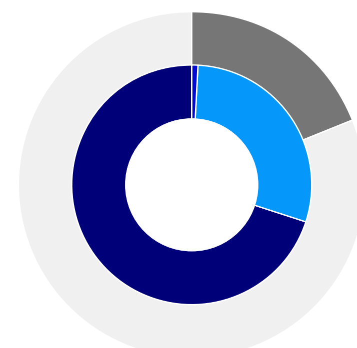
Frequently	6
Occasionally	42
Never	52
Expect to use more in 5 year's time	31

Hybrid annuity-drawdown



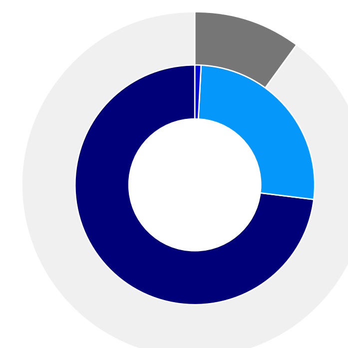
Frequently	4
Occasionally	56
Never	40
Expect to use more in 5 year's time	66

Long-term care insurance



Frequently	1
Occasionally	29
Never	70
Expect to use more in 5 year's time	19

Retirement-focused ETFs

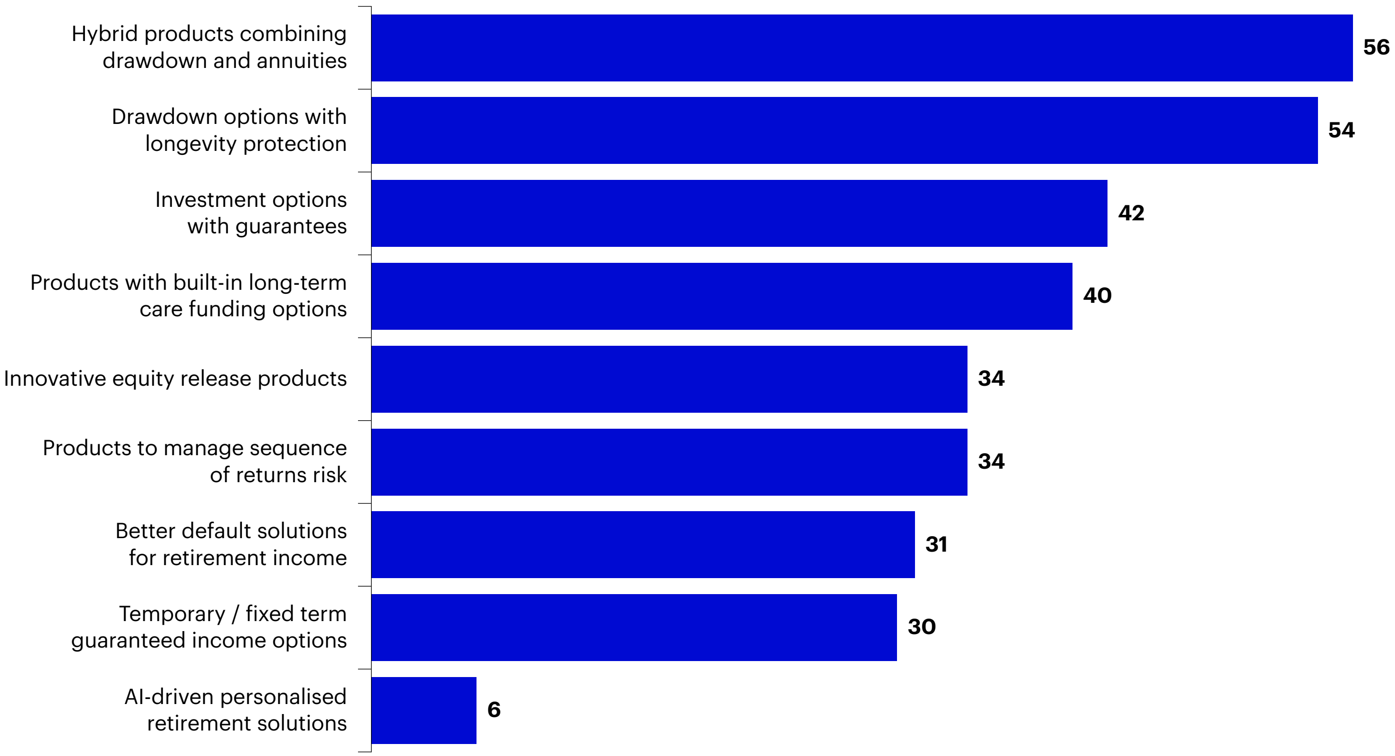


Frequently	1
Occasionally	26
Never	73
Expect to use more in 5 year's time	10

How frequently do you use or recommend the following retirement solutions? Which do you think you will be using more of in 5 years' time?

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Figure 3.5
New products would like to see (% citations, advisers)



What new retirement products or features would you like to see developed for the overall retirement market?

“56% of advisers want to see more hybrid products in the market.”

Hybrid products on the rise

Hybrid products, which combine elements of drawdown and annuities, are gaining attention. These products include options to allow clients to gradually convert a drawdown account into an annuity over time, potentially benefiting from higher annuity rates as they age. Though only 4% of advisers currently use them frequently, hybrid products' ability to balance security and flexibility means 66% of advisers expect to increase their use over the next five years (**Figure 3.4, page 44**) and 56% want to see more hybrid products in the market (**Figure 3.5**).

Advisers seek more sophisticated phased annuitisation options and variable annuities, offering guaranteed minimum income with potential for increasing income alongside investment growth, but find existing products too complex and rigid for many clients.

This strong interest reflects the desire for tools that are more customised to individual client circumstances, risk tolerances, and retirement goals and can help navigate the competing needs for reliable income and market participation.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Longevity protection

A key difference between a DB and a DC world is the emergence of longevity risk (the risk of outliving one's savings) as a critical issue. While longevity protection products exist, 56% of advisers see this as an area ripe for innovation **(Figure 3.3, page 43)**, and 54% would like to see new products integrating drawdown and longevity protection **(Figure 3.5, page 45)**.

Deferred annuities, which begin payouts later in life (typically 80 or 85), are seen as a cost-effective way to manage longevity risk, albeit they would like more variety in how these products are structured and integrated with other retirement solutions. Advisers also express interest in longevity pooling, where risk is shared among retirees. More sophisticated pooling mechanisms might provide protection without the loss of individual control associated with traditional annuities.

The persistent need for varied and refined longevity protection offers an opportunity for providers to innovate further and deliver solutions that align with broader retirement goals.

Bucketing strategies

Bucketing strategies are growing in popularity, with 24% of advisers using them frequently and 45% occasionally **(Figure 3.4, page 44)**. These strategies divide assets into 3 to 4 'buckets', each with a distinct investment objective and time horizon. One adviser explained, "Part of my centralised retirement proposition includes a bucketing solution for sequencing risk. The first bucket holds cash to cover 6-12 months of income needs, the second holds low-risk funds for 2-3 years, and the third is allocated to growth-oriented investments, aligned with the client's risk profile."

While some bucketing-type products exist, advisers are calling for more sophisticated and automated solutions that could dynamically manage bucket allocations, automatically replenishing short-term income buckets from longer-term growth buckets when needed. This approach could simplify bucketing strategies, making them more accessible to a wider range of clients, including those without ongoing advice.

Advisers also see room for customisation within these products, allowing them to better match individual needs, risk tolerances, and retirement goals.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

“Part of my centralised retirement proposition includes a bucketing solution for sequencing risk.”

Financial Adviser

Contents

Introduction

Executive summary

Methodology

Theme 1

Theme 2

Theme 3

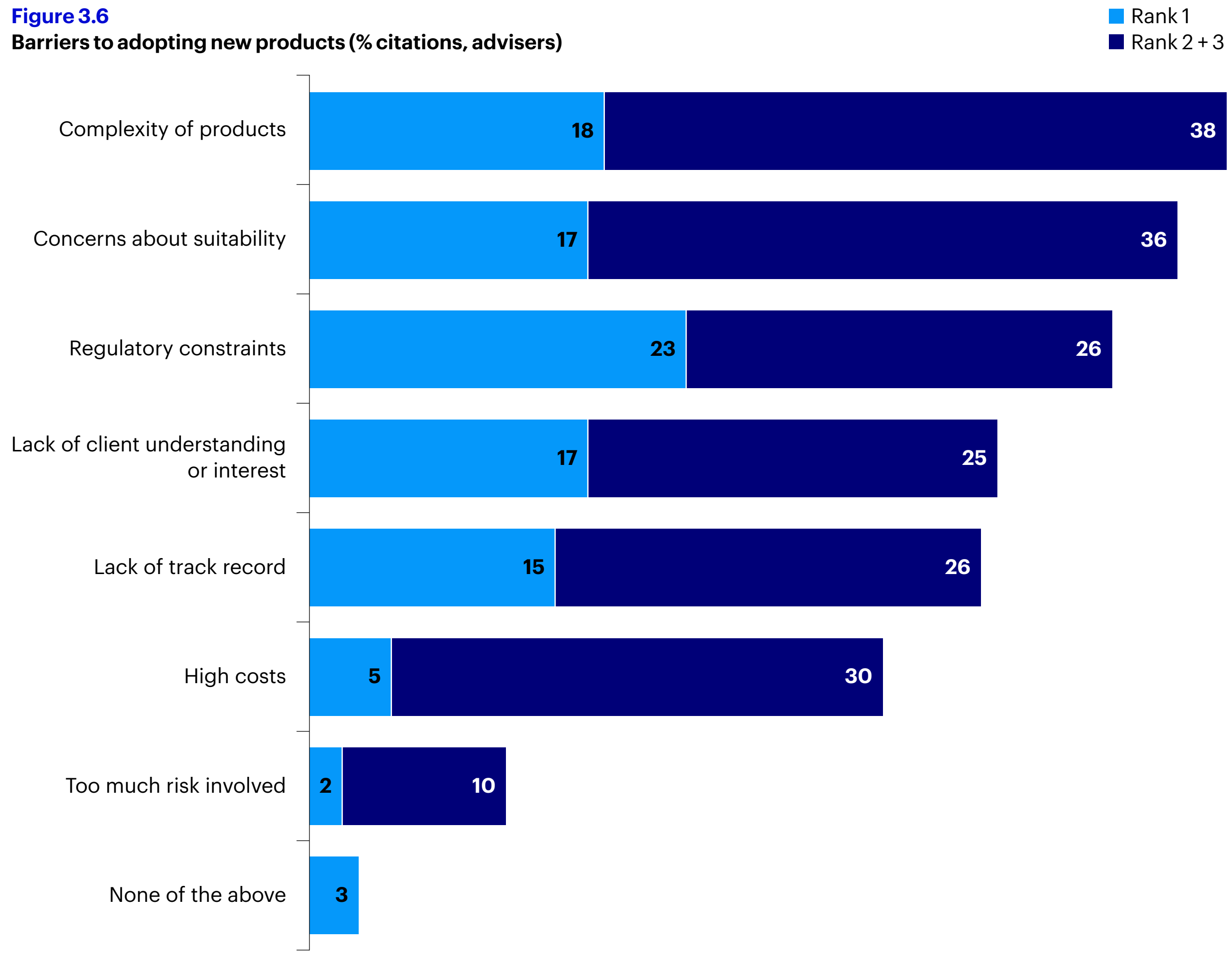
Overcoming barriers to product adoption

Despite clear demand for new retirement products, adoption is hindered by three primary challenges identified by advisers: product complexity (cited by 56%), concerns about suitability (53%), and regulatory constraints (49%). Product complexity, especially in products offering guarantees or combining multiple features, makes it difficult for advisers to explain and for consumers to understand. This often causes hesitation in both recommending and purchasing these products, even if they show potential to meet client needs in retirement.

Effective innovation requires simplifying product design, focusing on clear outcomes over technical features, and effective communication. This applies to solutions offered through advisers, but even more so for providers who want to support non-advised retirees. Ongoing questions about the boundaries between advice and guidance lead one industry expert to note: "Providers are hesitant to innovate due to regulatory uncertainty, which discourages investment in new product development. Many are unclear about the boundaries or how they may move and are adopting a wait-and-see approach."

The introduction of targeted support may help address these issues, but industry experts stress the importance of well-designed default options to guide disengaged retirees into and through decumulation. Suggested approaches include guided drawdown, automatic partial annuitisation at later ages, and target-date funds that adjust asset allocation through retirement. However, implementing effective defaults comes with its own challenges, including balancing standardisation with individual needs and regulatory guidance. "If you have managed to engage clients and are talking to them, most of the risks fall away. You are then left with those who don't want to engage and I think they should be put into a default investment proposition," suggests one industry expert.

Figure 3.6
Barriers to adopting new products (% citations, advisers)



What are the main barriers to adopting new retirement products in your practice?

This study shows current retirement products often fail to meet retirees' complex needs, underscoring a critical gap in the market. Key areas for development include hybrid products that blend security and flexibility, enhanced longevity protection, and more tailored multi-asset strategies for decumulation. However, innovation alone isn't enough: success will depend on simplification and better accessibility to these solutions, potentially through effective default pathways.

Collaboration between product providers, advisers, and regulators will be crucial to creating a dynamic and responsive market. Aligning these efforts will ensure future retirees have access to solutions that truly meet their evolving needs.

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Key takeaways

01

There is demand for innovative decumulation-focused investment solutions

There is need for more solutions that are designed specifically to deliver sustainable income in retirement, while offering greater personalisation and flexibility.

02

Hybrid products will become an increasingly important part of the market

Products that combine elements of drawdown and annuities look set to play a growing role in retirement planning, addressing retirees' dual needs for guaranteed income and potential for growth in a single solution.

03

Well-designed defaults are crucial for non-advised retirees

In many cases, low levels of retiree engagement and the lack of access to advice means there is a pressing need for effective default options to guide individuals through the complexities of decumulation, providing access to solutions that are appropriate for the individual (with features like automatic partial annuitisation at later ages).

Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3

Find out more

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Georgina Taylor
Head of Multi-Asset Strategies, UK
georgina.taylor@invesco.com

Kate Dwyer
Head of UK Distribution
kate.dwyer@invesco.com

Sachin Bhatia
Head of UK Pensions and EMEA Consultant Relations
sachin.bhatia@invesco.com

Mary Cahani
Head of Defined Contribution (DC) Client Engagement
mary.cahani@invesco.com

Owen Thomas
Head of UK Wholesale
owen.thomas@invesco.com

Tristan Murphy
Head of Discretionary and Strategic Partnerships
tristan.murphy@invesco.com

Invesco

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Invesco Asset Management Limited
Perpetual Park, Perpetual Park Drive,
Henley-on-Thames, Oxfordshire RG9 1HH, UK
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Contents
Introduction
Executive summary
Methodology
Theme 1
Theme 2
Theme 3