



Heidi Karjalainen

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@TheIFS

How are people planning to access DC pots? Who are those taking pots out in full?



Economic
and Social
Research Council



**How are people planning
to access their DC pension
wealth?**

How are people planning to access their DC pension wealth?

- We analyse questions on how people aged 50+ plan to access their DC pension pot (or rest of it if they have partially drawn)
- Can choose all that apply from:
 - **Don't know**
 - Buy an **annuity** (guaranteed income) offered by your **own pension provider**
 - Buy an **annuity** (guaranteed income) from a **different provider** on the open market?
 - Invest pot to give a regular (adjustable) income (referred to as '**flexi-access drawdown**')
 - **Take cash in chunks** from the pension pot as it is needed
 - Apart from the lump sum, **leave** the rest of the pension pot **untouched**

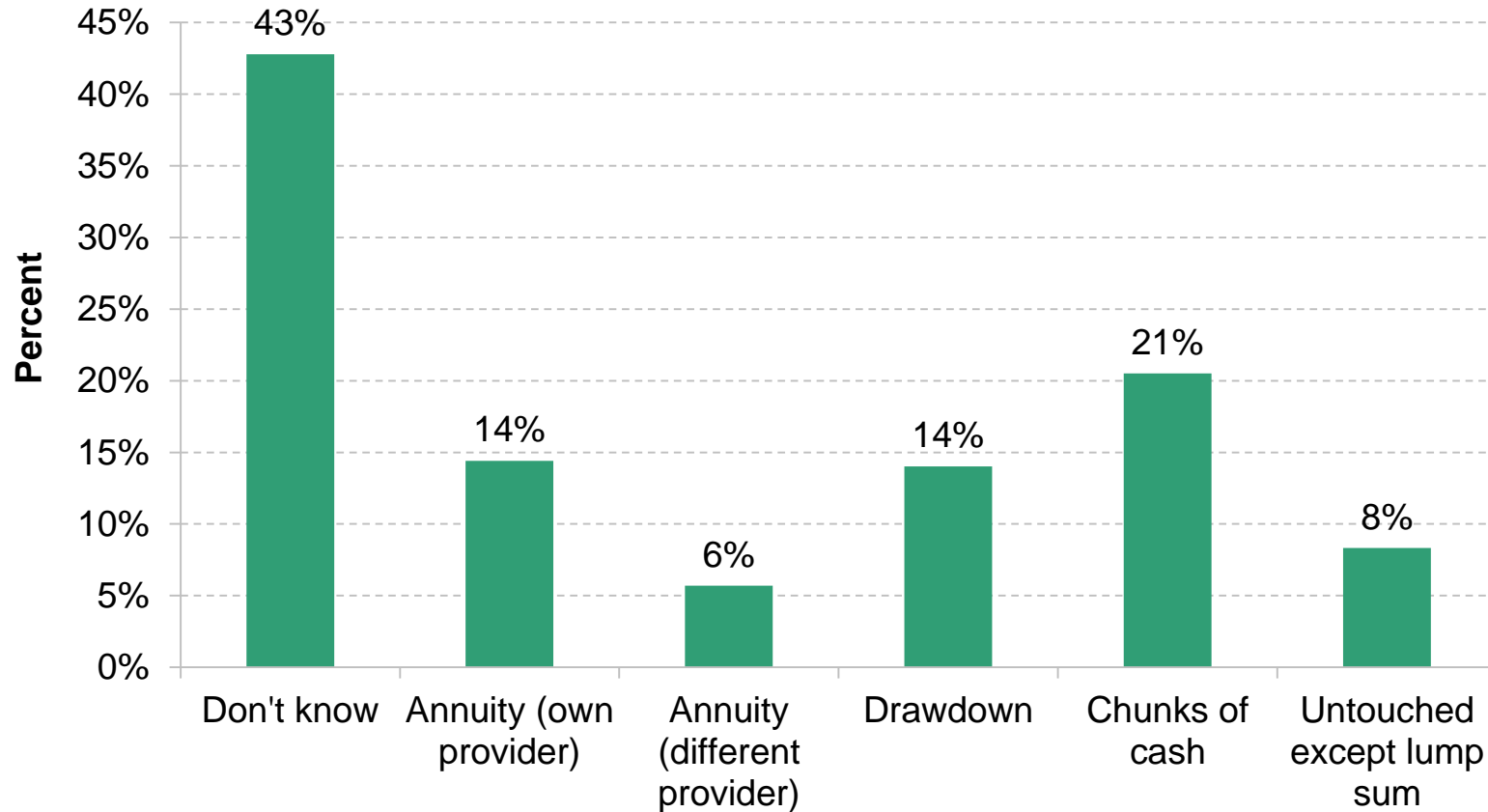
Sample – aged 50-64 in 2018–20 with unannuitised DC wealth

	Proportion
Female	44%
In paid work	94%
Age 50-54	42%
Age 55-59	37%
Age 60-64	21%
Median number of schemes	1
Mean number of schemes	1.2
Number of individuals	1,950
	DC wealth (£)
25 th percentile	£5,684
Median	£33,527
75 th percentile	£114,868

Note: Non-proxy respondents aged 50-64 with some unannuitised DC wealth. WAS Round 7 (2018–20).

Plans for using DC pension pots

How do you plan to use (the rest of) your pension pot?

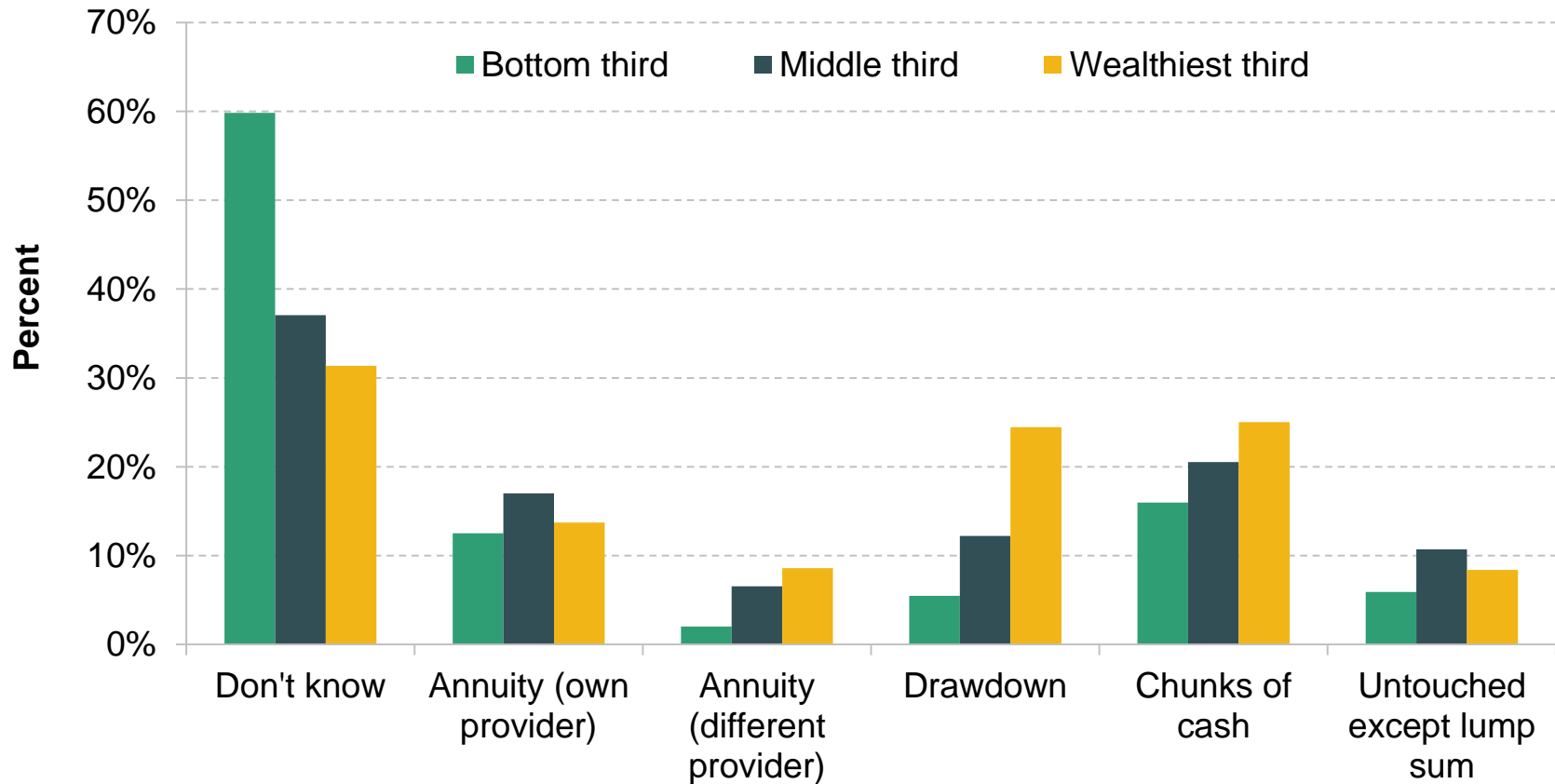


Note: Non-proxy respondents aged 50-64 with some unannuitised DC wealth. The percentages do not add up to 100 because people can give more than one answer to this question.

Source: Authors' calculations using WAS Round 7 (2018-20).

How do answers differ by wealth?

How do you plan to use (the rest of) your pension pot?



Note: Non-proxy respondents aged 50-64 with some unannuitised DC wealth. Wealth thirds defined among those with any DC wealth aged 50-64. Wealth is defined as total net private wealth at the individual level (excluding non-housing physical wealth and state pension).

Source: Authors' calculations using WAS Round 7 (2018–20).

Multivariate analysis

- We run regressions to see which associations remain after controlling for a number of other characteristics
- We control for:
 - Age, sex, whether lives with partner / spouse, employment status, disability status, education, housing tenure, region
 - Wealth, income, whether has DB pension, DC wealth, whether in receipt of a pension, whether has taken some money out of DC pots
 - Whether answers financial literacy questions correctly, whether used a financial adviser in the last 12 months

Multivariate analysis

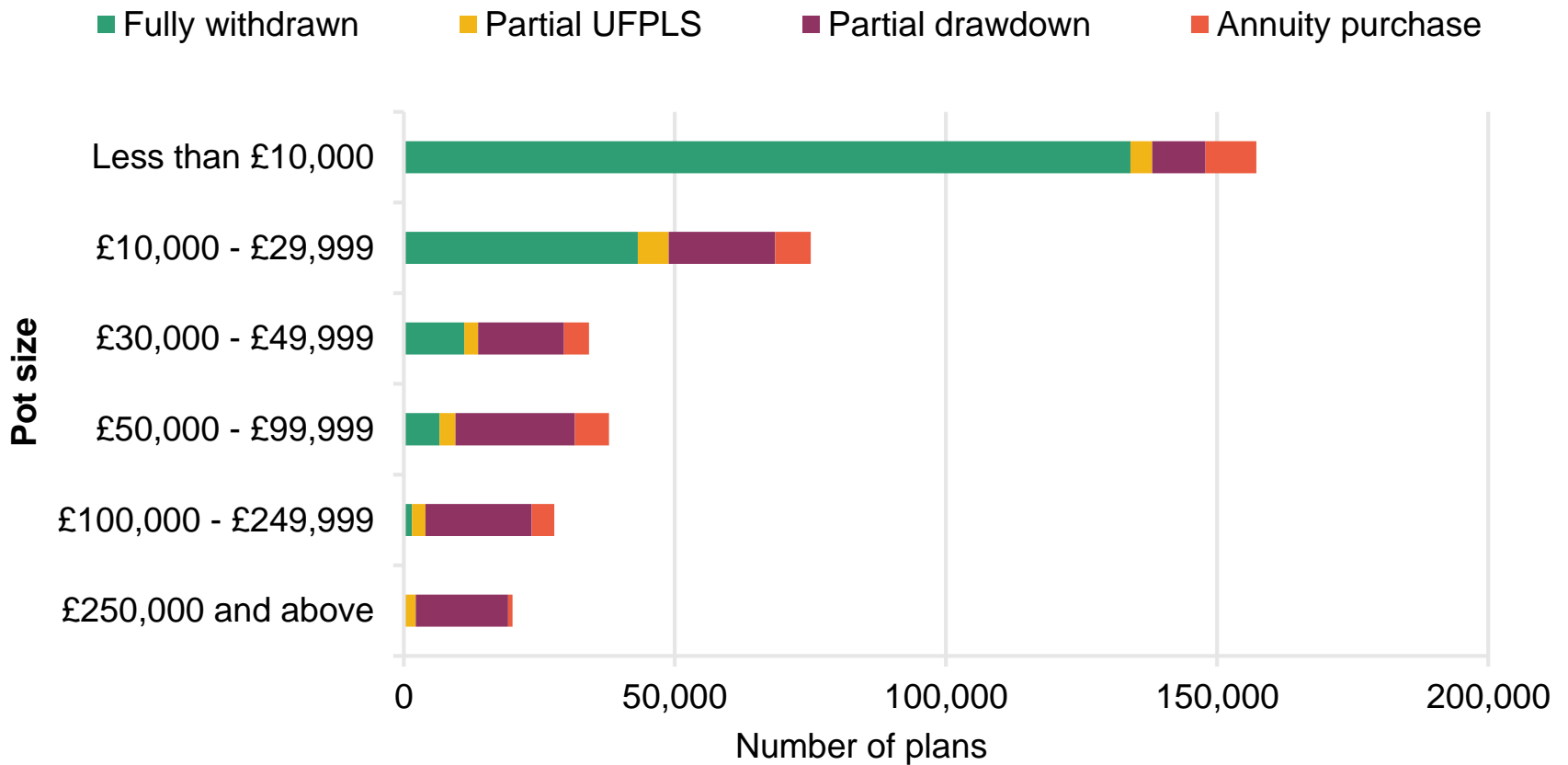


- After controlling for these characteristics, we still see significant differences by:
 - **Wealth**
 - Those with more wealth are more likely to prefer flexible access, and less likely to say ‘don’t know’
 - **Employment status**
 - Those in paid work are more likely to answer ‘don’t know’, and less likely to respond that they plan on flexible drawdown
 - **Use of financial adviser**
 - Those who have used a financial adviser in the last 12 months are less likely to respond ‘don’t know’ and more likely to respond they plan on flexible drawdown
 - **Financial literacy**
 - Those who answer correctly to all financial literacy questions are more likely to plan to purchase an annuity



**Who withdraws their DC
pension pots in full?**

How are people accessing their pension pots?

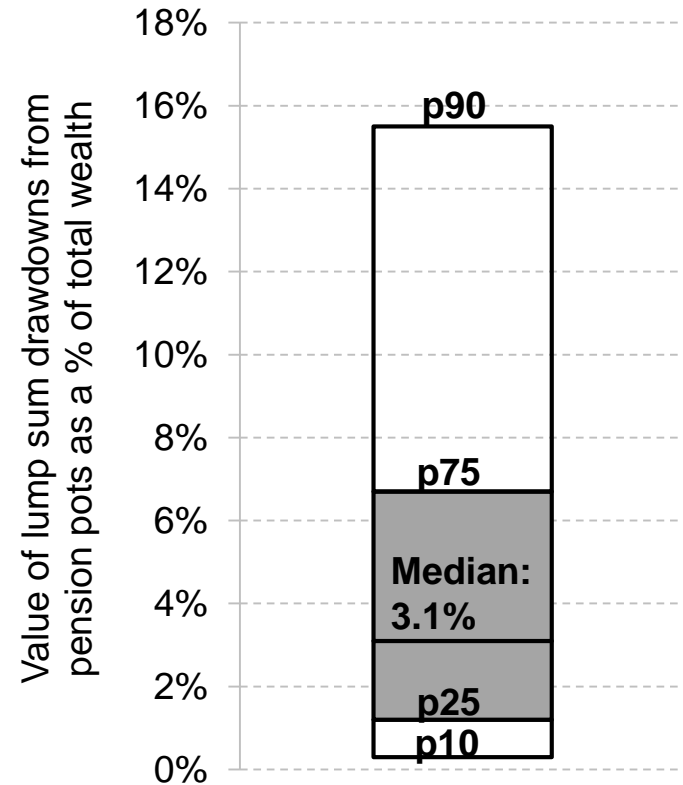
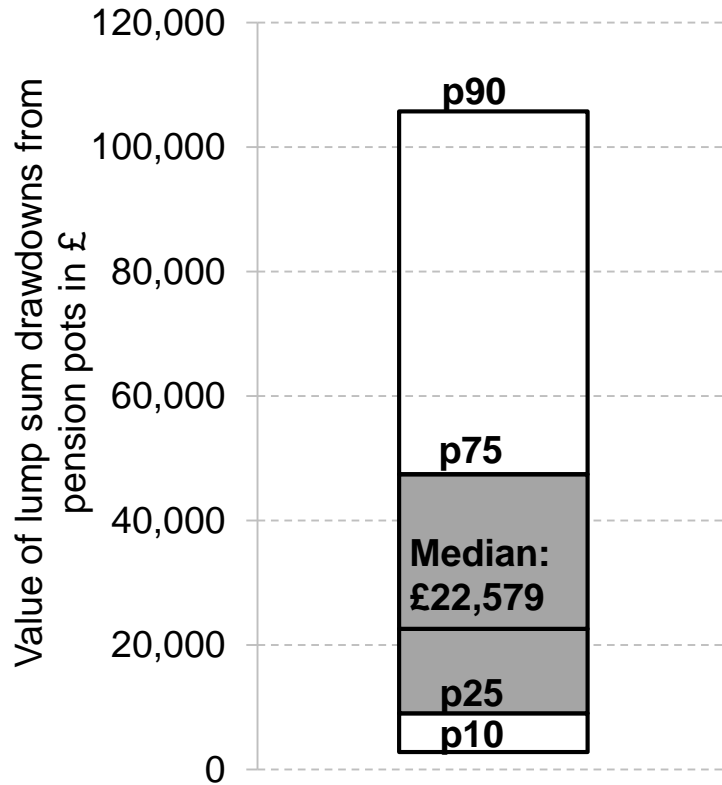


Source: FCA retirement income statistics 2021/22

How are people accessing their pension pots?

- These administrative data do not give us information on the overall circumstances of the individuals including:
 - Other wealth (e.g. other pensions, financial wealth)
 - Household circumstances (e.g. home ownership, spouse's resources)
- We can use WAS to look at:
 - **How do amounts drawn in full from DC pots relate to the overall resources available to people?**
 - **What are the characteristics of people who have taken out their DC pots in full?**

Size of full pension pot withdrawals



Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years. Number of observations 335.

Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

Who are the people taking out their pension pots in full?

	Taken a full pot	Not taken	Taken a full pot	Not taken	Taken a full pot	Not taken	Taken a full pot	Not taken	Taken a full pot	Not taken
	Household has DB pension		Owns outright		Rents		In a couple		Gave a gift or loan	
All										
55-59										
60-64										
65-69										

Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years vs households of the same age with unannuitised DC wealth with no full withdrawal in the last two years. Number of observations 335 and 3,450 per group. Last column only uses data from Round 7 (when questions on giving gifts and loans were introduced) – sample sizes are 268 and 2,216 per group. Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

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	Household has DB pension		Owns outright		Rents		In a couple		Gave a gift or loan	
All	53%	42%								
55-59	57%	49%								
60-64	56%	41%								
65-69	46%	24%								

People who have taken a DC pot in full are more likely to have DB pension in the household

Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years vs households of the same age with unannuitised DC wealth with no full withdrawal in the last two years. Number of observations 335 and 3,450 per group. Last column only uses data from Round 7 (when questions on giving gifts and loans were introduced) – sample sizes are 268 and 2,216 per group. Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

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All	53%	42%	59%	50%	16%	19%				
55-59	57%	49%	39%	38%	27%	22%				
60-64	56%	41%	56%	56%	12%	18%				
65-69	46%	24%	83%	76%	7%	12%				

People in their late 60s who have taken a DC pot in full are more likely to own their home outright

Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years vs households of the same age with unannuitised DC wealth with no full withdrawal in the last two years. Number of observations 335 and 3,450 per group. Last column only uses data from Round 7 (when questions on giving gifts and loans were introduced) – sample sizes are 268 and 2,216 per group. Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

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	Household has DB pension		Owns outright		Rents		In a couple		Gave a gift or loan	
All	53%	42%	59%	50%	16%	19%	69%	62%		
55-59	57%	49%	39%	38%	27%	22%	62%	62%		
60-64	56%	41%	56%	56%	12%	18%	73%	61%		
65-69	46%	24%	83%	76%	7%	12%	74%	62%		

People who have taken a DC pot in full are more likely to be living with a spouse

Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years vs households of the same age with unannuitised DC wealth with no full withdrawal in the last two years. Number of observations 335 and 3,450 per group. Last column only uses data from Round 7 (when questions on giving gifts and loans were introduced) – sample sizes are 268 and 2,216 per group. Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

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65-69	46%	24%	83%	76%	7%	12%	74%	62%	24%	25%

People in their 50s who have taken a DC pot in full are nearly twice as likely to have given a large gift or loan in the last two years

Note: Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years vs households of the same age with unannuitised DC wealth with no full withdrawal in the last two years. Number of observations 335 and 3,450 per group. Last column only uses data from Round 7 (when questions on giving gifts and loans were introduced) – sample sizes are 268 and 2,216 per group. Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020).

Who should we worry about?

Full drawdown	Small proportion of overall wealth	Large proportion of overall wealth
Small amount in £		
Large amount in £		

Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020). Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years. Number of observations 335.

Who should we worry about?

Full drawdown	Small proportion of overall wealth <10%	Large proportion of overall wealth >=10%
Small amount in £ <£20,000		
Large amount in £ >=£20,000		

Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020). Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years. Number of observations 335.

Who should we worry about?

Full drawdown	Small proportion of overall wealth <10%	Large proportion of overall wealth >=10%
Small amount in £ <£20,000	44%	2%
Large amount in £ >=£20,000	38%	16%

Source: Authors' calculations using WAS round 6 and 7 (2016 to 2020). Households where at least one individual aged 55-69 has fully withdrawn a DC pension pot in the last two years. Number of observations 335.



Summary and conclusions

Summary



- Nearly half of people in their 50s and early 60s ‘don’t know’ how they plan to access their pensions
 - This is even more likely among those with low levels of wealth, even after controlling for other characteristics
- Even fully drawn DC pension pots – on average – make up a small fraction of overall resources (median total drawdown 3% of HH wealth)
- However, a minority of individuals take out large sums of money from their DC pots, without a buffer of other resources
- As the importance of DC pots as a proportion of wealth is increasing over time, future generations will be more at risk

Policy implications

- Large lump sum drawdowns are not automatically a cause of concern for policymakers
 - Majority of households currently taking out large lump sums have other sources of wealth (own or spousal) available
- Key question: how can policymakers and industry identify those who are in the most worrying 'at risk' group to target help and advice?

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

