

On National Numeracy Day, let's focus on members' retirement decisions

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For the first time, [National Numeracy Day](#) has a theme – money. And if people find money matters difficult in general, then pensions are harder still.

About one-third of people who would like to be more numerate feel that way because they want to manage their money better, according to [a poll linked to today's event](#). And problems dealing with personal finances are no new thing.

Surveys over many years have found that people struggle to keep their finances in order – and often dread dealing with money matters. And the cost of living crisis has shone a spotlight on how financial worries [can affect our mental health, relationships and work](#).

I've worked in pensions for a long time, so I'm lucky enough to feel comfortable dealing with numbers. I'd describe myself as pretty numerate, although that was put to the test when I tried to help my daughter with her GCSE maths revision. It feels to me like vectors and frustums didn't exist 30 years ago.

Pension scheme members face complex choices

Pensions are complicated, and I've worked with some brilliant people who have taken the time and trouble to (repeatedly) explain to me some of the maths sitting behind pensions. I've tested their patience. But it made me think about what understanding pensions is like for our members, who don't have the luxury of knowing a bunch of maths experts they can call.

First the good news – the key here is the member outcome. As a member I don't need to know the intricacies of how my early retirement factor was generated, or how my [GMPE was equalised](#) (let's not open that box today). I need to know what the numbers mean to help me make the decision that's right for me. Retirement is one of the most important financial decision points anyone faces, so I focused on thinking about numeracy, money and making your retirement decision.

Basic numeracy skills are important for people to understand what their retirement options mean. But this is only part of the story. When thinking about money there is even more to think about. I turned to behavioural science, and among lots of interesting research a few things jumped out at me.

Is a tax-free lump sum the best choice?

One is about the value of money over time. I know, from looking at our data, that about 75% of people making their defined benefit retirement decision choose to take a tax-free lump sum. This is effectively a decision about a chunk of money now against a flow of the money for the rest of their lives.

Our data also shows that people who retire at 55 take the most cash – suggesting they may be doing so to meet immediate financial needs. But the average life expectancy for someone retiring at 55 today is about 85 for a man and 88 for a woman. It should be easy to see how taking cash now might not be the best outcome for the member in the long run.

There could be a number of behavioural biases coming into play here. People tend to favour immediate rewards, overvaluing a lump sum now against money in the future. They also tend to underestimate their longevity – a study by JUST in 2018 suggested some people may underestimate their longevity by nearly 10 years.

Too many options overwhelm us

Another point to consider here is the number of retirement options offered to members. Some defined benefit schemes offer members two outcomes:

- A pension for life
- A reduced pension for life and the maximum tax-free cash available

But many schemes offer more options: things like temporary bridging pensions that cease when the member reaches state pension age, exchanging lower pension increases for a higher pension today or other weird and wonderful ideas created over time in the name of member choice (or scheme de-risking?).

Choice can be good, but this many options can overwhelm us. There is lots of research that suggests most people can cope with three or four alternatives for something as complex as pensions, but more than that and you're significantly increasing the risk of a poorer member outcome. Other studies have shown that the order options are placed in will also exert significant influence on the person's decision.

Put yourself in your members' position

So, what can we do about this? There are a number of things we can consider:

- Make sure your administrator is in the room when you're thinking about offering new retirement options to your members, and let your administrator comment on how members will cope with more complexity. They talk to members every day and know the questions members are asking and how changes to your scheme might affect them
- Think about the language and layout of your retirement packs, information and platforms – we're doing this right now at Aptia to make sure we have the right information, in the right order to help members better understand the decisions they need to make
- Use digital processes and online retirement capability. Again, this is what we're doing at Aptia. A combination of digital processes, that let you to tailor what you show members based on the data you hold about them and their pension scheme, along with clever, clear design can create a pathway to guide people through retirement.
- Finally, remember two important truths – more people than ever want to manage their pension online, and some people will always want to engage in a different way. At Aptia we offer the Pension Decision Service, so people can call us and get guidance to help them understand their pension, their options and the implications of their decision

I found writing this piece a useful reminder of just how hard pensions can be for lots of people. And on a personal level, it's confirmed how important it is to help people arrive at a pension outcome that's right for them. And I feel confident that the work we're doing at Aptia is helping us to get there.

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Insight numeracy



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