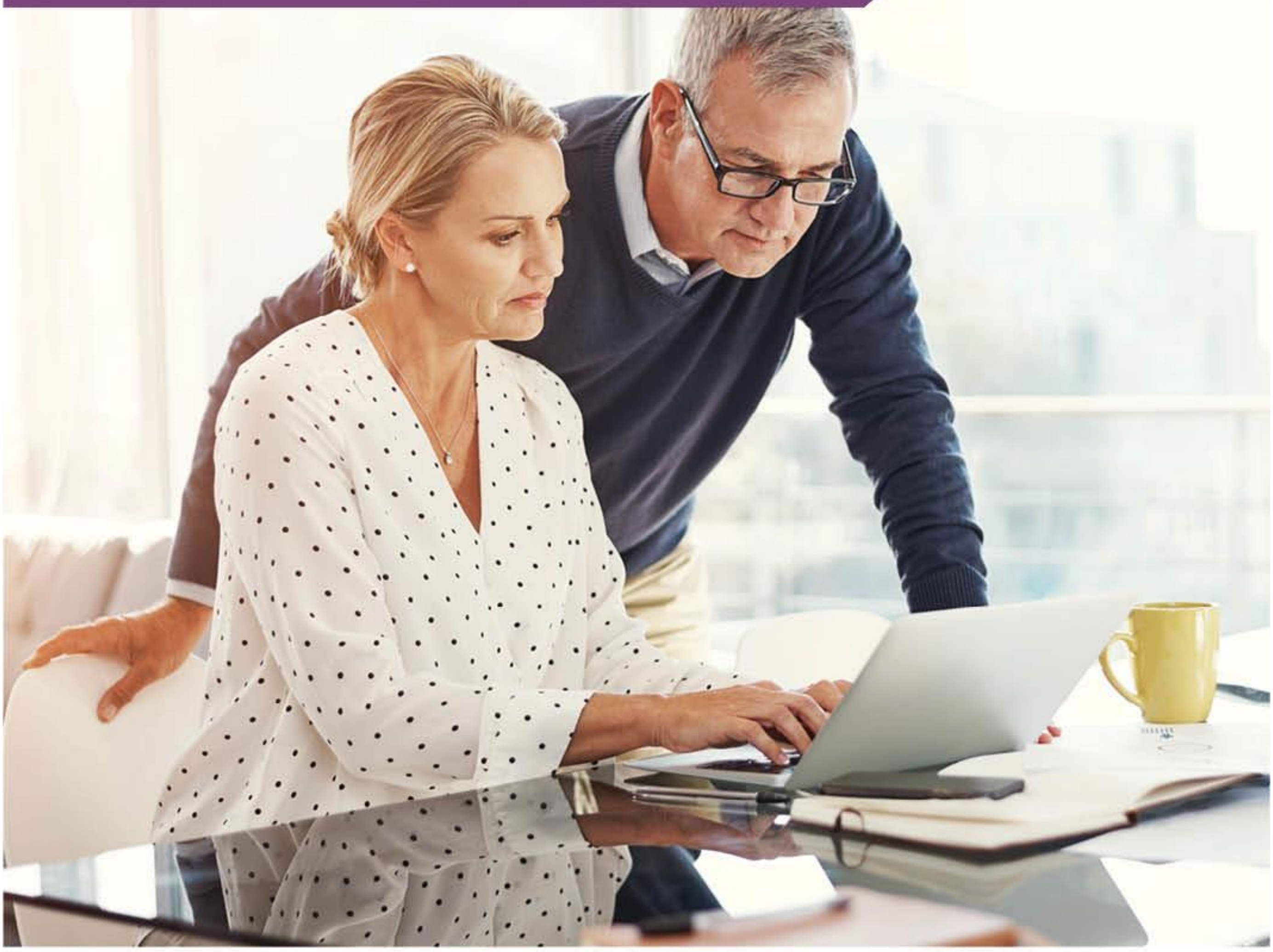
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Consumer Research Report

Pension and retirement income
Key challenges for consumers

July 2024



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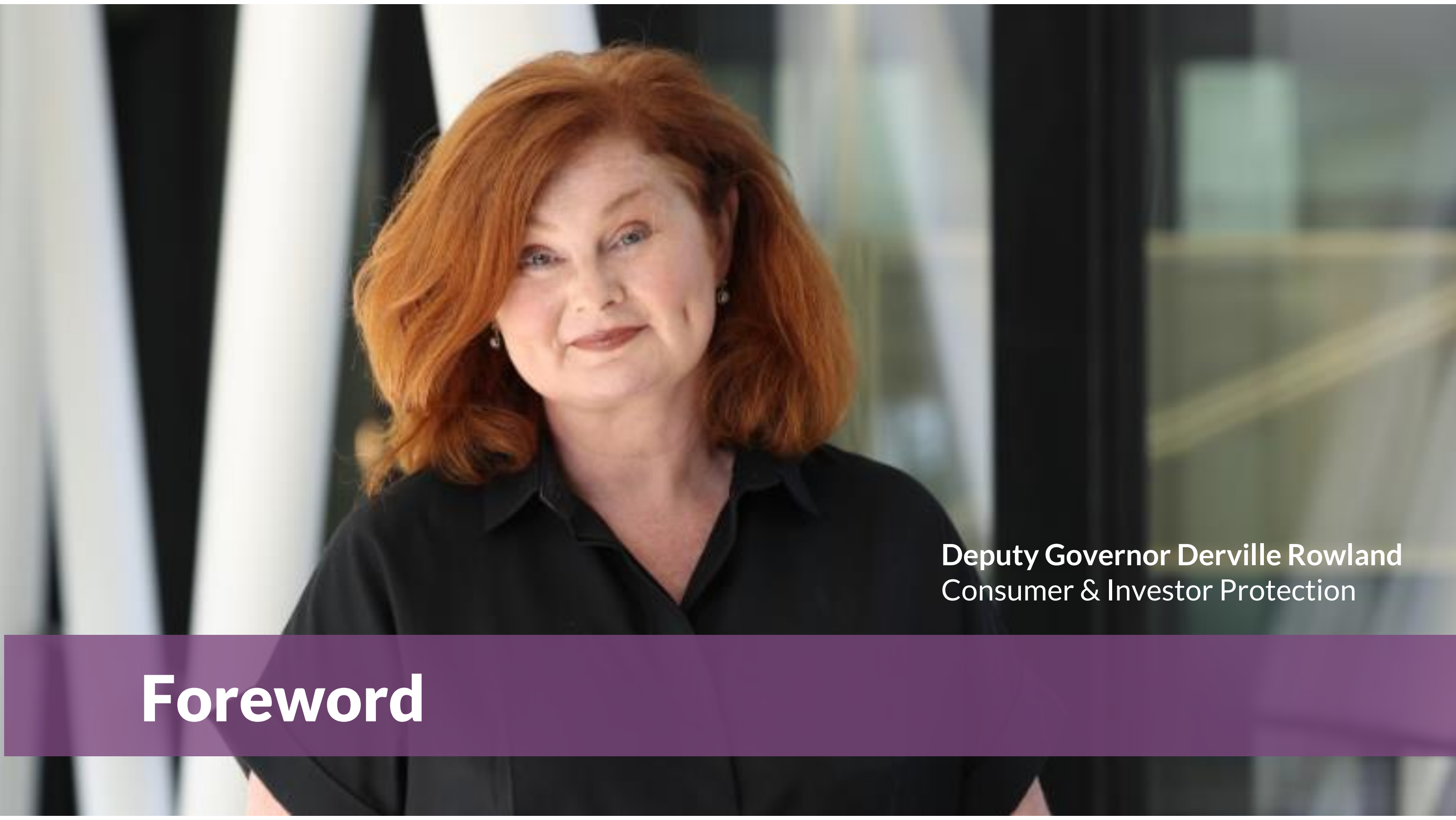

Deputy Governor Derville Rowland
Consumer & Investor Protection

Foreword

Under the Central Bank's integrated mandate, our core objectives include the stability of the financial system and the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected. We also have an objective to provide analysis and comment to support national economic policy development. In exercising our powers we are required to do so in a way that is consistent with, among other things, the orderly and proper functioning of financial markets, the public interest, and the interest of consumers.

Saving for a pension represents an important household financial decision, comparable to taking out a mortgage in terms of significant commitment over a long-term time-horizon. Pensions play an important role in a well-functioning financial system by helping individuals save for their retirement and contributing towards their financial well-being. Pensions not only contribute to household wealth but can also play a vital role in the financial system, by channelling individuals' savings and investments to fund businesses within the broader economy.

Pensions not only influence households' saving and consumption decisions but also have significant financial implications for financial stability. Ireland’s ageing population will exert increasing pressure on demographically sensitive areas of public expenditure such as pensions, healthcare and housing. This will place a significant cost on future generations to fund such expenditure from taxation. Indeed, the long-term shift to renting and changes in home ownership will also place further pressures on the funding of our pension system. Future generations who rent into their retirement will be faced with funding challenges if relying upon a state pension designed for a time when home ownership was more widespread.

Replacing existing income with a sustainable retirement income is a key challenge for citizens across Europe. Ireland is among those countries where policy makers have been, and continue to be, concerned about the adequate provision of pensions. Put simply, consumers are not saving enough to provide for a comfortable retirement, and this places a commensurate burden on governments to provide for a basic level of state pension. It is important that consumers understand not only their financial needs in retirement, but also how much they must save over time to fund those needs in the future.

Financial literacy and education also play an important role in relation to pensions. Improved financial understanding can help consumers to appreciate the link between adequate pension provision in retirement based on average life expectancy and what level of saving over time is needed to support a desired level of income in retirement.

We have undertaken this research to inform the wider debate on pension provision in Ireland. The research seeks to understand the extent to which consumers understand the challenges they face when planning for retirement and deciding on their pension options when they reach retirement age. We analysed key consumer groups’ behaviours and attitudes based on a series of important pensions-related questions, in order to advance regulatory and policy outcomes concerning the financial services firms we supervise, and to work with other State authorities with a role in pensions to support their objectives in this area.

We intend to address the consumer challenges identified in this research by raising awareness of the issues identified, and by improving communication to consumers through regulatory measures. Taking these steps, and our engagement with others in the pensions ecosystem, is timely, as the Government seeks to introduce its automatic-enrolment initiative. This flagship initiative provides an important opportunity to address pension provision in Ireland for workers into the future.

We hope that this research will stimulate policy makers and regulators alike to develop the appropriate policies to secure consumers' interests by improving the experience and understanding of consumers on this vital topic.

Executive Summary

The Role of the Central Bank

Under the Central Bank's integrated mandate, our core objectives include the stability of the financial system and the proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected. We also have an objective to provide analysis and comment to support national economic policy development. In exercising our powers we are required to do so in a way that is consistent with, among other things, the orderly and proper functioning of financial markets, the public interest, and the interest of consumers.

We retain regulatory oversight over a range of sectors providing financial services in Ireland and into Ireland from other jurisdictions. We want to foster a well-functioning financial system underpinned by high-quality regulation. Our regulatory approach seeks to support a resilient and trustworthy financial system; with sustainably profitable, resilient, well run firms serving the needs of consumers and the economy.

We regulate life insurance companies, credit institutions and investment firms - institutions that provide personal pension products - as well as intermediaries in relation to the sale of, and provision of advice regarding, pension products. We are also responsible for the collection of data on occupational pension schemes under European Central Bank regulations.[1]

For consumers, their pension and retirement funding will be one of the most important financial decisions they make in their lifetime. The increased effective engagement by consumers in pension saving can better secure their lifetime financial security, as well as driving broader benefits in funding the wider economy.
Considering the importance to the individual and to the economy, pensions are an important area of financial services on which the Central Bank seeks to engage with firms and within the broader ecosystem.

[1] In 2018, the ECB introduced Regulation (2018/231) on statistical reporting requirements for pension funds. This Regulation requires pension funds to report information on assets, liabilities and member numbers.

Challenges in pensions in Ireland

The European Commission has identified the adequacy of pension provision as a key concern across the EU: "demographic change … will put increasing pressure on the adequacy and sustainability of pensions in the decades to come, while profound transformations in the economy and the world of work pose fundamental questions on how to make our social protection systems, including pensions, fit for the future."[2]

Pension provision is particularly concerning for Ireland. Ireland is projected to experience a significant demographic shift, with one of the fastest ageing populations in Europe.[3] According to the Department of Finance report '*Population Ageing and the Public Finances in Ireland*' (2021)[4], the old-age dependency ratio in Ireland – the number of retirees as a fraction of the number of workers – is set to nearly double over the next 30 years, from 24 per cent at present to 47 per cent by the middle of this century (53 per cent by 2070). This transformation is driven by increasing life expectancy and a declining fertility rate.

In Ireland, most people retire between the ages of 60 and 65. With life expectancy now exceeding 81.5 years[5], this means that some consumers will need to provide themselves with an income for up to 20 years or more during their retirement.[6] Yet according to the Central Statistics Office, 32% of consumers aged between 20 and 69 are not signed up to a private pension. To accommodate future generations of retirees, the pension system must adapt to these demographic changes.

There also exists stark gender differences in pension provision in Ireland that ultimately will need to be addressed. Recent studies have shown that the average pension income of retired women is 35 per cent lower than that of retired men[7], and that women will have to work an extra eight years on average, to achieve the same pension as male colleagues.[8]

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[2] Social Protection Committee and the European Commission, Joint Pension Adequacy Report, 2021.
[3] https://www.cso.ie/en/releasesandpublications/hubs/p-opi/olderpersonsinformationhub/ageingpopulation/projectedpopulationaged65/
[4] https://www.gov.ie/en/publication/6ba73-population-ageing-and-the-public-finances-in-ireland/
[5] https://www.cso.ie/en/releasesandpublications/ep/p-mip/measuringirelandsprogress2021/keyfindings/#:~:text=Male%20life%20expectancy%20at%20birth,years%20above%20the%20EU27%20average.
[6] For example, the Pensions Authority pensions calculator suggests that consumers need to save as much as 15-20% of their income from the age of 30 to fund reasonable retirement expectations.
[7] https://www.esri.ie/news/ireland-has-a-gender-pension-gap-of-35-per-cent
[8] https://www.irishtimes.com/business/2024/05/30/the-pensions-gender-gap-is-worse-than-you-think/

Pensions reform

The pensions market in Ireland is currently undergoing a significant degree of change. The Government is progressing the Automatic Enrolment Retirement Savings System Bill 2024[9] to address retirement income provision for many employees in the workforce who are not otherwise paying into a pension. Automatic-enrolment is expected to be introduced in early 2025. In parallel, new EU legislation[10] is imposing higher standards of governance on pension scheme trustees. Increasingly, multi-employer schemes - known as master trusts - are playing a greater role, while the number of single-employer pension schemes is falling. There has also been an increased uptake of personal retirement savings accounts (PRSAs). This process of change is expected to continue, with a smaller number of larger pension schemes. It is expected that this can bring further economies of scale.

Key stakeholders in pensions regulation

At a national level, the Pensions Authority retains the primary competency for pensions regulation in Ireland. A significant number of occupational pension schemes fall under the regulation of the Pensions Authority, which monitors and supervises compliance with the requirements of the Pensions Act, 1990, as amended, by trustees of occupational pension schemes, personal retirement savings accounts (PRSA) providers, registered administrators and employers.[11]

The Competition and Consumer Protection Commission (CCPC) is also a key actor in the pensions arena. The CCPC has a statutory role in relation to, among other things, informing consumers on financial matters and the development of financial education and capability in Ireland. The CCPC carries out this role by conducting public awareness campaigns on personal finance issues and financial products, including pensions. Along with these authorities, and with policy makers within central government, the Central Bank seeks to play its role in to advance the policy framework for pensions. Aligned to our mandate and the scope of our responsibilities, we seek to work with other stakeholders to support improvements in the functioning of the pensions ecosystem so as to enhance outcomes for consumers and the broader economy.

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[9] https://data.oireachtas.ie/ie/oireachtas/bill/2024/22/eng/initiated/b2224d.pdf

[10] IORP II Directive (Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

[11] E.g. Pensions Act 1990, European Union (Occupational Pension Schemes) Regulations, 2021.

Central Bank's research

It is clear that wherever consumers are on their pension journey, including those who have still not started a pension, it is important that they understand their future retirement funding needs. Consumers need to consider whether retirement savings are, or will be, adequate to fund those needs. If a pension is not in place or is not adequate, consumers should take steps towards addressing the resulting shortfall to provide for their long-term financial well-being.

Examining consumer attitudes towards these issues through research is one way in which we can seek to inform the functioning of the pensions ecosystem more broadly - so that we can work alongside others to support consumers to address their pensions needs. It is in this context that the Central Bank conducted research involving a broad range of people within two key consumers groups – namely those who already have a pension and are close to their retirement, and those who have recently retired.[12] We did so by commissioning in-depth qualitative interviews and two quantitative surveys to understand consumers' experiences and attitudes towards pensions and retirement.

What our research found

There is a concern that the long-term nature of a pension combined with the complexity of pension products means some consumers do not sufficiently engage with the value of their pension or take meaningful action to address any shortfall.

Our research has revealed the following:

[12] We surveyed two cohorts of Irish consumers: those in pre-retirement (adults over 45 years with a pension, and pension holders over 55 years who are likely to retire in the next five years); and those consumers over the age of 55 years who have already retired/drawn down their pension in the past 2 years (see the Appendix for more details).

Expectations of consumers regarding their retirement needs

Consumers often have unrealistic expectations regarding their retirement needs. Our research indicates that consumers are concerned about the potential value of their pension fund when they retire, but there is often a disconnect between their retirement income goals and the projection of what income their pension is likely to contribute.

> I suppose my costs won't be that severe when I get older, just day to day living and if we can get away for 3 or 4 breaks in the year that would be nice.

Pension awareness is the extent to which consumers are aware of their post-retirement income and understand whether or not this is adequate for their individual needs. If the expected pension income is not adequate, a consumer with sufficient pension awareness knows the actions they could take to address it. Our research demonstrates consumers are not universally aware of key pensions-related matters, as there remains significant numbers who do not intend to address their pension-funding shortfall.

When contemplating retirement, consumers often focus on the positive aspects, anticipating less expenditure in retirement and believing they can manage financially on reduced incomes. However, many consumers are hesitant to confront retirement planning, with a significant portion either disengaged or uncertain about how they will fund their retirement.

Concerns about the potential value of pension funds at retirement are prevalent among consumers. This concern reflects the fear of a substantial gap between income aspirations and projected retirement income, with only **43% feeling they have sufficient savings for a comfortable retirement.** While many expect to receive the state pension, uncertainty remains regarding eligibility and payment entitlement.

Healthcare costs in retirement are often overlooked, with **54% of consumers uncertain about, or not prioritising, funding for future healthcare needs**.

Lack of engagement among consumers

When consumers are saving for a pension, many are not actively involved in the process and are uncertain about their future income needs during retirement. Making decisions about pensions is challenging for consumers, who are often passive or disengaged.

> "I just feel when the time comes you would work around whatever you can afford, and you would be hoping the government or family would look after it."

Our research shows that retirement and pension planning are not a priority for many consumers. Despite optimistic and generic assumptions about retirement, knowledge and active planning for retirement and confidence in one's financial well-being in retirement is not evident amongst the majority of consumers.

Consumers demonstrate short-term bias when thinking about their retirement and pensions. In the period before retirement, it is much easier to focus on the household's immediate financial needs over the next few months and years, and perhaps on the early, active years, of retirement. They should be considering how to portion out an income over a retirement that could run into decades, with unexpected shocks and shifting priorities coming to light as the retiree ages and experiences potential health issues and physical decline.

Among consumers, **55% report not actively participating in financial planning for retirement.**

Those consumers who have already retired reported meaningful pension engagement, typically occurring in their 50s. Consumers, on average, initiate private pension planning at age 32, but postpone serious consideration of financial needs in retirement until around age 56.

Even when consumers acknowledge issues with their future pension funding, there is a reluctance to take meaningful action. **Seventy percent (70%) of those not planning to act on their pension in the next two years nevertheless express concerns about their pension fund's value at retirement.**

Poor understanding of products and awareness of choices

Pensions can be seen as complex by consumers, leading to challenges in understanding pension concepts. At decumulation phase – meaning the period following retirement when one starts to drawdown a pension as the primary source of income - consumers can have difficulty in selecting the best drawdown options due to a lack of understanding among consumers of the different options.

> I would say I have broke my heart reading the pamphlets and booklets and whatever, I don't understand this.

Reported levels of knowledge about pensions and retirement planning vary, with **61% expressing uncertainty or lack of knowledge.**

Our research reveals widespread confusion among consumers regarding pension products and terminology, with significant percentages expressing limited understanding of key concepts such as 'benefit projection', 'investment performance', and 'transferability'.

Understanding of pension drawdown products, such as annuities or Approved Retirement Funds (ARFs), is particularly low, with only **18% of consumers claiming a good understanding of the different products.**

The workplace as a stimulus to action

The workplace plays an important role in prompting pension participation – and automatic-enrolment will strengthen this influence.

For many consumers, early pension participation tends to be prompted by an external influence such as one's employer, and the workplace is highlighted by those surveyed as the one of the most likely sources of advice on pensions.

Taking action toward one's pension

Our research highlights the range of motivations and incentives that may prompt more active engagement with one's pension.

> I haven't thought about anything spoken to anyone about. And I suppose the time is coming. That's something that I should be doing in the near future.

Among consumers who report that they will *not* take action towards their pension in the next two years, **having an existing pension in place** and **affordability** are the key reasons cited.

These reported attitudes have important policy and communication implications for all consumers, regardless of whether they have a pension or not. Consumers not only need to understand the immediate and long term financial benefits of a pension but also the future risk of one's pension not being adequate for their needs.

Automatic-enrolment will provide a strong base for pensions saving among consumers, but better understanding is needed across all consumers that simply having and contributing to a pension, although an important step, is not a guarantee of adequate funding for all future needs.

Our research suggests there are good levels of recall, attention and understanding towards the **annual pension statement**. Of the 77% of consumers who report receiving a statement:

- 64% report a good understanding of it; and
- 66% report paying particular attention to their statement.

Communication regarding pension fees and charges is inadequate for many consumers, with many expressing a preference for simplified and more frequent information. Despite receiving annual pension statements, **only 32% of consumers take action based on this information.**

Our response to these findings

Overall, the range of pensions-related findings are a cause for concern. There are clearly risks to the provision of an adequate level of funding of consumers' retirement needs – risks caused by misguided expectations of retirement income and a poor understanding as to what retirement needs might be, and whether their savings can meet those needs. To improve consumer outcomes in pensions and retirement saving, addressing these issues is critical. Initiatives such as enhanced financial education and literacy, increased pension awareness, simplification of product complexities, transparency on fees and charges, and optimisation of pension communications, can together lead to better consumer engagement and understanding.

Consumers' understanding of and engagement with their retirement needs, and with their pension funding, needs to be improved, for example, through better and more relevant information for consumers on private pension products. However, because of the various roles of different agencies in the pensions system in Ireland, joint action would be a more effective way forward, where possible supported by improvements to the pensions system by Government intervention, including the planned wide scale move to automatic-enrolment.

The Central Bank can contribute to these improvements by working with key stakeholders in the pensions ecosystem. We are continuing to work with stakeholders to identify possible improvements, and we will continue to support initiatives led by Government and others that enhance the knowledge, understanding and engagement by consumers of their long-term pension needs. In particular, we will take the following actions:

- **Working with key stakeholders:**
  We have undertaken to work with the Pensions Authority to conduct a review of disclosures (and other information available) including work that will have potential impact on consumer engagement and information. Our joint objective in this collaboration is to promote the provision of better information to consumers who are contributing towards their pensions, and to seek to spur active consideration of future pension needs. This review could look at the current requirements on disclosure of fees and charges and potential regulatory warnings to address engagement and adequacy issues relating to pensions. The output of our review will include a

consideration of various options to address the issues identified by our research, including potential nudges prompted by the research that might result in better awareness and engagement.

Through our representation and participation in the Pensions Council, the Central Bank will continue to support important initiatives such as the Retirement Living Standards, which aim to reflect the basic financial needs and aspirations of older people in Ireland. This project will also examine the factors that influence the retirement living standards of older people in Ireland.

We have engaged with the CCPC to share the findings from the research, and we will continue to support any future initiatives relating to pension education or literacy, including examining the role that financial services firms can play in this regard. More broadly, the Central Bank will continue to support the development of the National Financial Literacy Strategy being led by Government and the CCPC. We believe publishing this report can inform the work in this area in overcoming key challenges.

- **The Central Bank will continue to evolve key policy frameworks and approaches:**
  There are amendments proposed in our review of the Consumer Protection Code[13] that will require firms to improve the annual statements to policyholders to seek to promote consumers' engagement with the continuing suitability of the pension product for them. There will also be a requirement for firms to notify consumers if ongoing suitability reviews will be carried out, and if not why not.

- **Role of Pensions with EU Capital Markets Union:**
  Consumers need to access diverse range of savings and investments products to fund their retirement and secure their long-term financial well-being. Pensions savings, prudently and appropriately diversified and invested, support the broader economy growth by channelling investment to fund growing businesses and infrastructure projects. Achieving positive outcomes in this regard is one of the central objectives of

[13] https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations/consumer-protection-code-review

EU proposals towards a Capital Markets Union. Pensions are seen as an important mechanism to unlock the benefits of Capital Markets Union in future years. The Central Bank will continue to support EU level policy initiatives aimed at advancing the Capital Markets Union, given key outcomes it can deliver for consumers, businesses and the resilience of the macro economy.

- **Supporting the implementation of automatic-enrolment:**[14]
  One of the long-standing deficiencies in the Irish pensions system has been the absence of compulsion to save for retirement out of occupational earnings. Ireland is the only OECD country without some form of mandatory or quasi-mandatory earnings-related retirement savings scheme, which explains the low level of occupational pensions coverage to date.

  The automatic-enrolment initiative is one measure aimed at reducing reliance on the state pension by automatically enrolling all employees into a pension scheme. The new system is designed to simplify the pensions decision for workers and make it easier for employers to offer a workplace pension. Under automatic-enrolment, employees will have access to a workplace pension savings scheme that is co-funded by their employer and by the State. As a result of this initiative, approximately 750,000 workers will be enrolled into a new workplace pension scheme. The Government has committed to implement automatic-enrolment in 2025. When implemented, automatic-enrolment will fundamentally improve the extent to which Irish workers are provided for in their retirement.

  The Central Bank will play our part in the effective implementation of automatic-enrolment. Through our engagement with the Department of Social Protection (DSP), our aim is to ensure the prudential and consumer protection regulatory architecture can facilitate planning implementation of automatic-enrolment where applicable.

[14] https://www.gov.ie/en/campaigns/0ab04-automatic-enrolment-for-pensions-hub/

Conclusion

Overcoming the challenges in relation to consumers' pension behaviours and choices can be a complex and elusive regulatory and policy issue. Pensions are a remote and distant income-goal for many consumers. Competing financial commitments and cost-of-living pressures will affect many consumers' ability to prioritise pension saving and retirement income. While automatic-enrolment will ensure access to occupational pensions for workers in Ireland, and thereby improve the adequacy of retirement savings for many consumers in future years, there remains the problem that many existing pension savers are not contributing enough to meet their income needs in retirement. The challenge is to overcome barriers for these consumers, to stimulate their own interest in the adequacy of their retirement savings, and to prompt action by consumers to improve their retirement planning.

Expecting all consumers to think and act earlier, and more frequently, in relation to their pensions, may be an unrealistic expectation. Notwithstanding this, consumers need guidance and prompts to assessing and quantifying their retirement needs, and to understanding the adequacy of their pension savings to fund those needs. In addition, there is the challenge of prompting consumers to take meaningful action. Modest increases in current levels of engagement and understanding may help to address some of the consumer challenges identified in this research.

While the Central Bank is regulator of much of the financial service industry, we have a limited and incidental role in pensions. Pensions is an area that has other key responsible agencies, and much of the needed structural changes are happening outside of the Central Bank. We will seek to work with those other stakeholders, most notably the Pensions Authority, to identify where improvements can be made building on the findings and implications of this research.

As a means to secure a sustainable future for pensions and address the consumer challenges identified in the research, a combination of raising awareness of these issues, enhanced financial education and improved communication to consumers through regulatory measures are an important step forward. The Central Bank will continue to support the initiatives of Government and relevant authorities to make the pensions framework, and the involvement of consumers in that framework, work better.

Consumer research findings

Chapter 1: Attitudes to pensions and retirement in Ireland

Retirement planning is not an area of immediate concern for consumers. Many consumers have more immediate issues on their mind and consider retirement as something that will happen far in the future.

There is a hesitancy among consumers towards thinking about their future personal finances in detail. Those further away from retirement are less confident that they are financially prepared for this phase of life.

When thinking about life in retirement, consumers tend to focus more on the positive aspects, such as having fewer demands, fewer expenses and more opportunities to travel.

Chapter overview

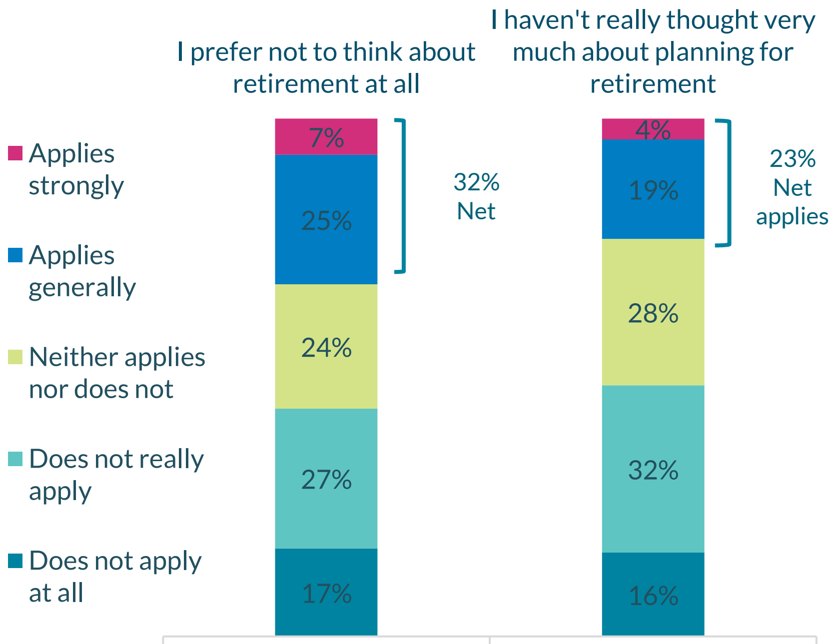
Chapter 1 examines how consumers think about retirement. It looks at the financial expectations of consumers when planning for life in retirement and explores the social and cultural context of retirement as perceived by Irish consumers.

Thinking about retirement

Our survey research found that consumers spend little time thinking about retirement planning, and many prefer not to think about retirement at all. 23% report having given very little attention to planning for retirement and 32% would rather not think about retirement at all.

"When it comes to the time, I think I'll do something. I'll keep my hand in at something, and it's not even a financial thing, it's just, it's more for the head I think"

Fig 1.1 | Attitudes to thinking about retirement



Base: 401 adults not retired.
Q.8 Thinking about planning for retirement, to what extent do the following apply to you?

Expectations about life in retirement

Our qualitative research found that some consumers believe that in retirement they will be entering into a different phase of life without the structure and purpose that employment often provides. Some consumers are concerned about experiencing a loss of meaning, purpose and social engagement in retirement.

> "I suppose my costs won't be that severe, just day to day living and if we can get away for 3 or 4 breaks in the year."

However, there is a broad sense that retirement will bring about a shift to an easier phase of life. Many visualise their retirement to be a continuation of how they live now. They relate retirement to their current experience rather than to the future.

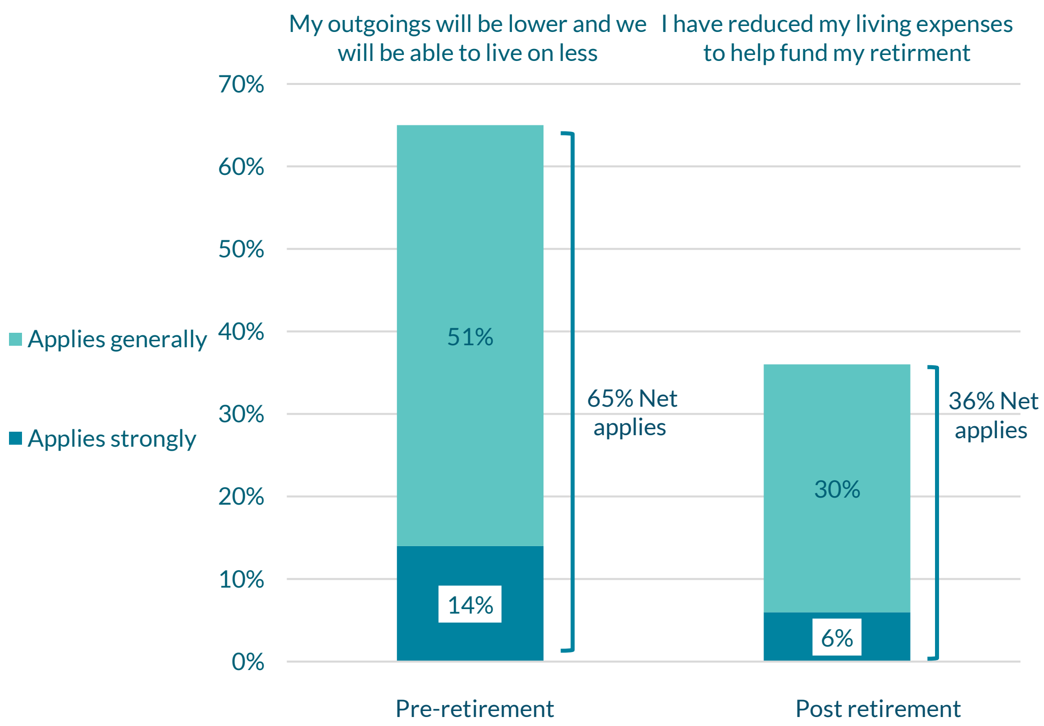
Other expectations of retirement include a general sense that costs will be lower and life will be easier because of lower work stress, less demands from dependants and lower outgoings or expenses.

Outgoings and expenses in retirement

Among consumers who are yet to retire, our survey found that 65% believe that their outgoings in retirement will be lower and that they will be able to live on less. However, it may be difficult for consumers to judge how much their cost of living will actually decrease in retirement.

Of those consumers already retired, 36% report they have reduced their living expenses to help fund their retirement.

Fig 1.2 | Consumer expectations of outgoings and expenses in retirement



Base: 401 adults not retired.
Base: 128 retired adults.
Q.9/10 Again thinking about planning for retirement, to what extent do the following apply to you?

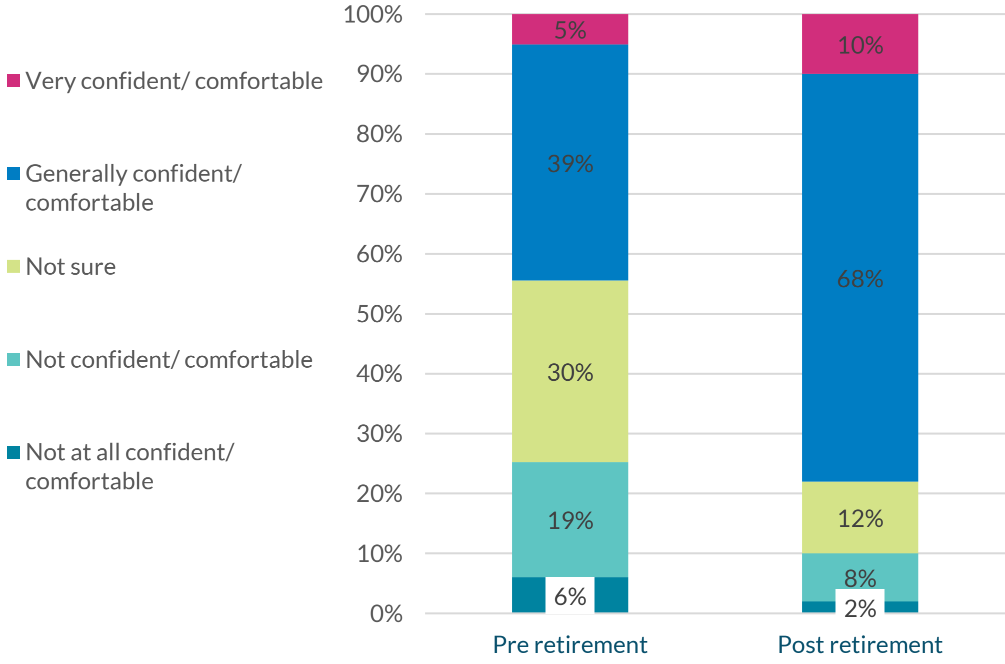
Financial wellbeing and security in retirement

Most consumers have a positive perception of how financially secure they will be in retirement. 44% report they are confident about their financial wellbeing and security in retirement while 25% report they are not confident and 30% are unsure.

Despite this positive perception, consumers who are yet to retire are less confident compared to retired consumers with their financial wellbeing and security in retirement. When comparing consumers yet to retire and retired consumers, we see that 10% of those already retired report not being confident with their financial wellbeing and security in retirement - compared to 25% of consumers who have yet to retire.

This indicates that consumers are less confident about their financial wellbeing before they retire and that their confidence grows when they reach retirement.

Fig 1.3 | Confidence with financial wellbeing & security in retirement



Base: All Pre-retirement – 401.
Base: All retired: 128.
Q.34 How confident/comfortable are you currently about your financial wellbeing and security in retirement?

Pre-retirement engagement with financial planning for retirement

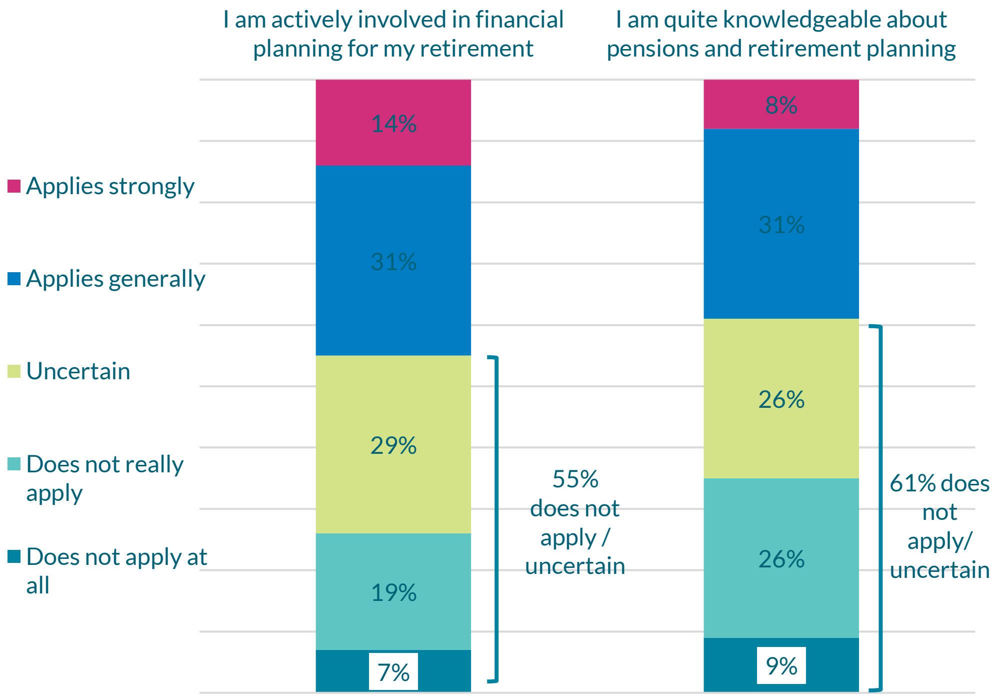
Our survey research indicates a split among consumers in relation to their level of involvement in financial planning for retirement.

- While consumers are saving and contributing passively to their pension, these consumers do not appear to be actively involved, or have certainty in, their financial planning for retirement. 55% report they are either not actively involved or are uncertain in their involvement. This includes 26% who report they are not involved in financial planning for their retirement and 29% unable to indicate whether they are or not.
- 45% surveyed agree that they are actively involved in financial planning for their retirement.

When asked about their level of agreement with the following statement: *I am quite knowledgeable about pensions and retirement planning:*

- 39% report they believe they are quite knowledgeable.
- 26% report that they are uncertain.
- 35% report they do not believe they are knowledgeable.

Fig 1.4 | Planning and knowledge about pensions and retirement



Base: 401 Adults not retired.
Q.9 Again thinking about planning for retirement, to what extent do the following apply to you?
Q.8 Thinking about planning for retirement, to what extent do the following apply to you?

Summary

Our research shows that retirement and pension planning are not a priority for consumers. Despite optimistic and generic assumptions about retirement, knowledge and active planning for retirement and confidence in one's financial wellbeing in retirement are not clearly established among the majority of consumers. This social context provides the background for the following chapters which identify common challenges experienced by consumers in their retirement and pension planning.

Chapter 2: Lack of clarity on income expectations in retirement

Consumers tend to have a general knowledge and understanding of their pension fund rather than knowledge of the exact value of it.

The majority of consumers are, to some extent, worried about the potential value of their pension fund at retirement.

Based on consumers' estimations, there is likely to be a gap between retirement income aspirations and what consumers predict their savings are likely to realise on retirement. On average, the predicted shortfall in retirement income is 22%.

Healthcare in retirement is not an area Irish consumers put particular focus on and many consumers do not factor in paying for healthcare, as they get older when planning for their retirement.

The majority of consumers believe they will receive the state pension when they retire and have factored the state pension in to their retirement funding decisions.

Chapter overview

Chapter 2 looks at how consumers think about income in retirement and examines retirement income expectations. Consumers' desired income in retirement is compared with the income they predict they will be able to fund when they retire. This chapter also looks at the role of the state pension in retirement planning.

Value of pension fund at retirement

Our qualitative research identified that consumers conceptualised a retirement lifestyle in terms of not having to worry about basic needs (e.g. college fees, mortgage payments etc.) and being able to afford leisure activities.

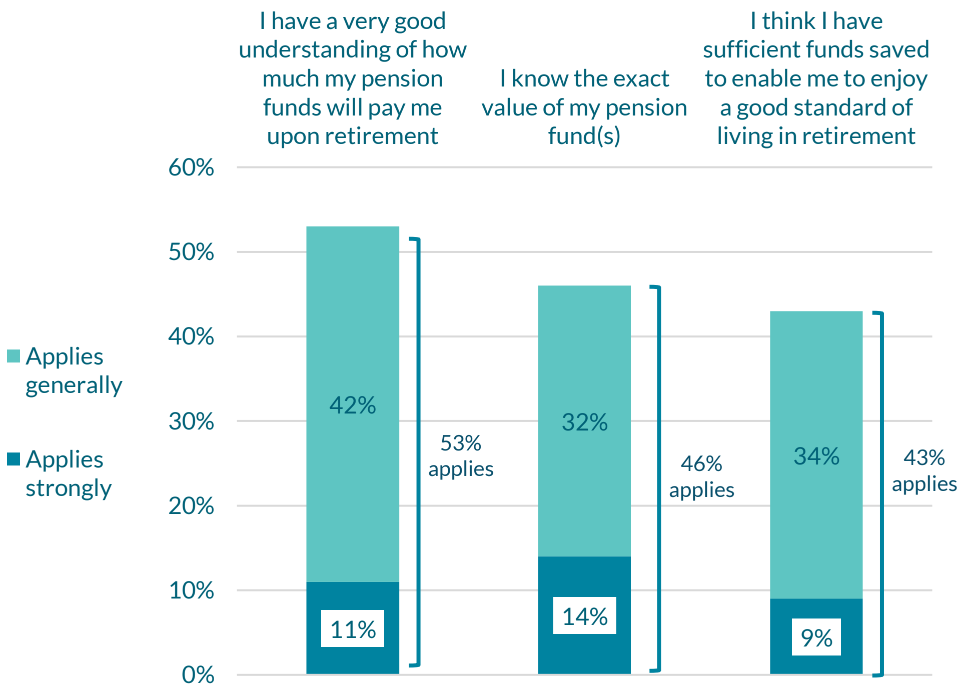
The types of expenditure reflected a tendency to focus on the independent phase of retirement and a lack of consideration of later stages of retirement, including health and social care costs.

However, our qualitative research found that consumers experience difficulty in '*translating*' what their current pension savings are into a future retirement income.

Consumers report having a good understanding of their pension funds - 53% claim to have a very good understanding of how much their pension fund will pay upon retirement. However, reported knowledge of the exact value of their pension is lower, with only 46% claiming to know the exact value of their pension fund.

Only 43% of consumers think they have sufficient funds saved to enjoy a good standard of living in retirement.

Fig 2.1 | How consumers think about funding for their retirement



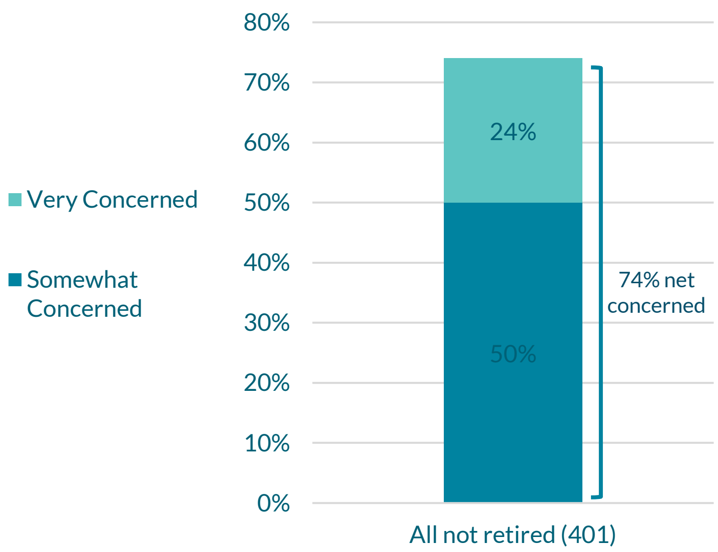
Base: 401 adults not retired.
Q.8 Thinking about planning for retirement, to what extent do the following apply to you?

Concern about value of pension fund at retirement

The majority of consumers are worried about the potential value of their pension fund at retirement (74% net concerned[15]). A smaller percentage (27%) are broadly confident or do not express particular concerns.

Our analysis also shows that women are 12% more likely to report not knowing the exact value of their pension fund and 12% more likely to report being concerned about the value of their pension fund.

Fig 2.2 | Concern about value of pension fund at retirement



Base: 401 adults not retired.
Q.19 Have you any concern about the value of your pension fund at retirement.

Confidence in the Value of Pension Funds

We measured consumer’s confidence in the value of their pension funds using three outcomes:

(1) knowledge in the exact value of their pension fund;
(2) thinks that there are sufficient funds in their pension fund; and
(3) concerned about the value of their pension fund.

[15] Net Concerned is the combined percentage for Very Concerned and Somewhat Concerned.

We found that people who are confident in managing their money are associated with a higher confidence in the value of their pension fund. People who are confident in managing their money are:

- 63% more likely to know the value of their pension fund;
- 64% more likely to think that they have sufficient funds in their pension fund; and
- 22% less likely to be concerned about the value of their pension fund[16].

Expectations of income in retirement

We asked consumers to estimate the following income scenarios:

- What percentage of your current income would you like to have on retirement?
- What percentage of your current salary do you think your existing pension contributions will fund?

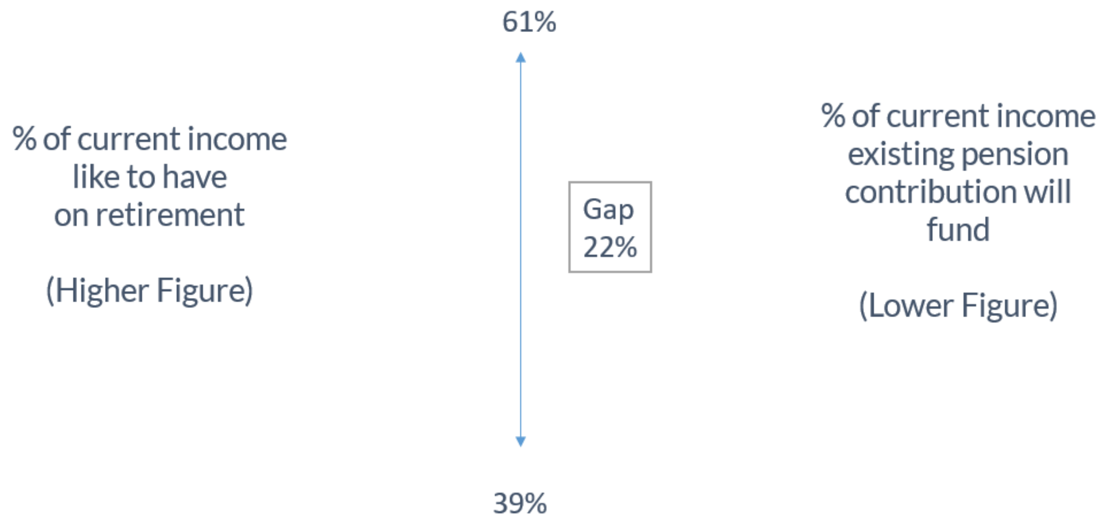
On average consumers indicate they would like to have 61% of their existing income in retirement. However, based on the reported value of their current salary and existing pension contributions, most consumers indicate that they expect to experience a shortfall of income in retirement. On average, consumers predict that on retirement, they will only be able to guarantee 39% of their existing income.

Based on these current estimations, there is likely to be a gap between people's retirement income aspirations and what they believe their retirement savings are likely to realise on retirement. The average predicted shortfall in retirement income is 22% among consumers.

[16] The result can be read in the following way with respect to low confidence:

People who are less confident in managing their money are 62.9% less likely to know the value of their pension fund, 64% less likely to think that they have sufficient funds in their pension fund, and 22.2% more likely to be concerned about the value of their pension fund.

Fig 2.3 | Current retirement income gap (as reported by respondents)



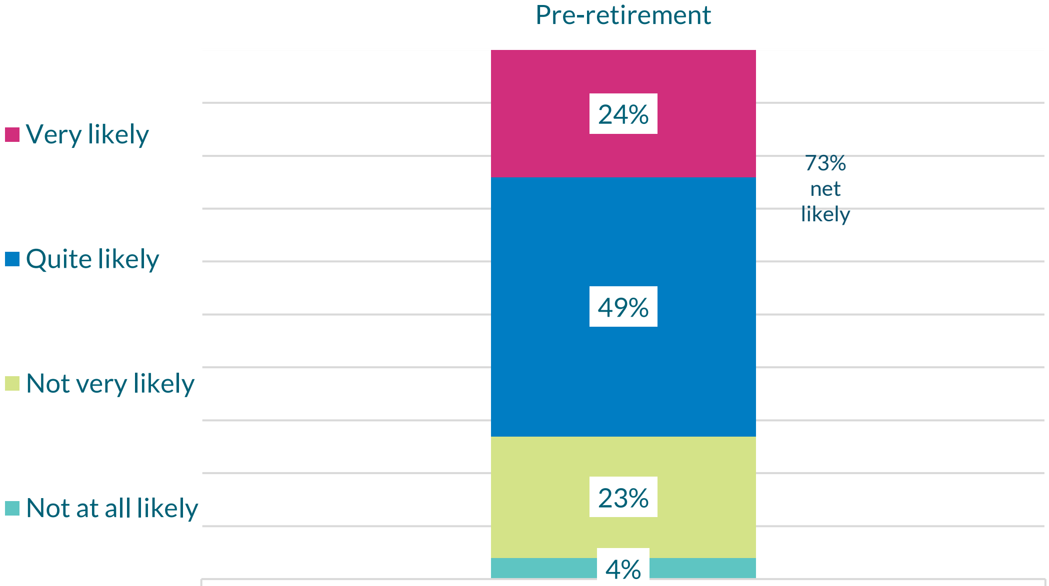
Base: 401 Adults not retired.
Q.13 What percentage of your current income would you like to have on retirement?
Q.13a What percentage of your current salary do you think your existing pension contributions will fund?

Addressing a shortfall or deficit in retirement income

When presented with the scenario of a pension-funding shortfall[17], 73% of those not yet *retired* believe that they will take action to address any shortfall or deficit in retirement funding. While this may indicate a positive response to addressing pension funding, it should be noted that the majority of consumers (49%) report they are '*quite likely*' which is a weaker indicator of intent or future action.

[17] Respondents in the survey reported the % of income that they would like to receive upon retirement and the % of current income their existing pension would pay. This was presented to respondents as their pension fund shortfall (see Fig. 3.1).

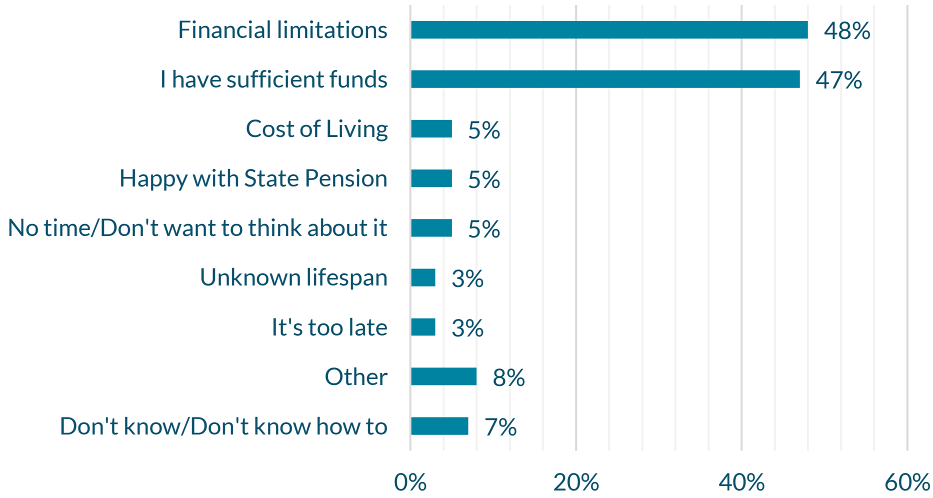
Fig 2.4 | Likelihood of taking action to address any shortfall or deficit



Base: 401 adults not retired.
Q.13b How likely are you to take action to address any shortfall or deficit?

The main reasons provided by consumers who report they are not likely to take action[18] to address a shortfall or deficit were 'financial limitations' or a feeling that they had sufficient funds in place.

Fig 2.5 | Reasons not likely to take action to address a shortfall or deficit



Base: 116 Adults.
Q.13c Why are you not likely to take action to address any shortfall/deficit between your current salary and what your pension will provide you? (Multicode – respondents allowed to select more than one answer)

[18] 27% of pre-retirement consumers who report they are 'not very likely' or 'not at all likely' to take action.

Our research shows that even when consumers identify a funding shortfall, it does not trigger action or further engagement in the near term. As noted later in Chapter 3[19], some consumers who will not take action on their pension report that they are '*Already contributing to a pension in work*'. While maintaining the *status quo* of their pension arrangements is a positive, it does not adequately address the concerns they may have about their pension fund.

Lump sum intentions

Almost all pension arrangements allow those retiring to take a tax-free lump sum within certain limits at retirement. Those retiring may also be able to take an additional lump sum which is taxable. Different rules apply to the amount of cash you can take out of a pension arrangement depending on the type of arrangement you have. For personal pensions, personal retirement savings accounts and occupational pension scheme members transferring to approved retirement funds (ARFs) at retirement, it is generally possible to take up to 25% of your fund as a tax-free lump sum, subject to certain limits[20].

Our qualitative research found that, for consumers, receiving a lump sum is outside of their normal frame of reference – it rarely happens and can prompt excitement, making it a more difficult aspect to understand or to know how to address.

Our qualitative research identified that most consumers were uncertain about whether they will receive a lump sum or not. Very few had any details of the size or nature of the lump sum.

Our survey research explored consumers intentions in relation to their lump sum. Among those yet to retire[21]:

- 38% report they will spend their lump sum (this includes travel; home improvements; money for family; living expenses; new car).
- 35% report they will reinvest or save their lump sum (includes: reinvest; save for a rainy day; holiday home or property investment; savings bonds and funeral fund).
- 13% report they will pay off their mortgage or other debts.

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[19] See Figure 3.7: Reasons for not starting a new pension or investing in other options in the next two years.

[20] If you are a member of an occupational pension scheme with 20 years' service or more, you can generally choose to take a lump sum of 1.5 times your final remuneration, if higher, provided that your residual benefits are taken in the form of a pension i.e. you do not wish to transfer residual retirement funds to an ARF. (Source: Pensions Authority: https://pensionsauthority.ie/lifecycle/benefits_payable_on_retirement/lump_sums/#:~:text=If%20you%20are%20a%20member,retirement%20funds%20to%20an%20ARF

[21] Respondents were permitted to select more than one option in answering this question; therefore, total responses exceed 100%.

- 20% are undecided at this stage as to what they will spend their lump sum on.

Among consumers who had retired, 76% reported they received a lump sum on retirement[22]:

- 59% reported they reinvested or saved their lump sum;
- 28% reported they spent their lump sum (including travel; home improvements; money for family; living expenses; new car); and
- 28% reported they paid off their mortgage or other debts.

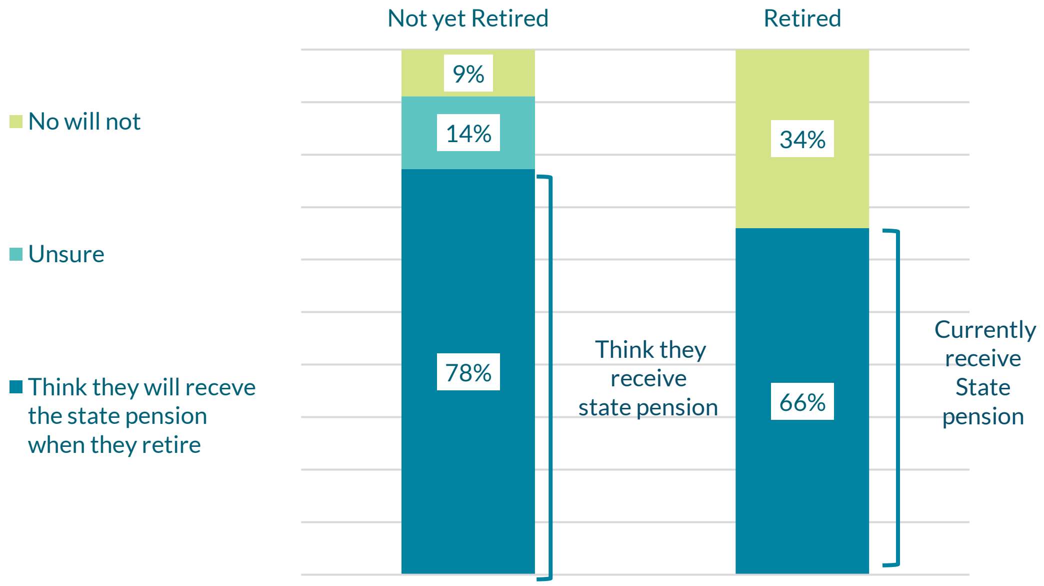
The gap between intentions and reported actions suggest consumers are more likely to see the lump sum as a windfall rather than as a means for reinvesting and funding their retirement.

The state pension and funding in retirement

It is evident from the research that the state pension will play a significant role in consumer pension planning. When thinking about funding their income in retirement most consumers factor in the state pension. 78% of consumers not yet retired think they will receive the state pension when they retire. Of those 78%, 93% factor in the state pension when thinking about funding their retirement.

[22] Respondents were permitted to select more than one option in answering this question therefore total responses exceed 100%.

Fig 2.6 | Incidence of thinking about / receiving the State pension



Base: 401 adults not retired; 128 retired adults.
Q.12 Do you think you will receive a state pension when you retire?
Q.12 Do you receive a state pension?

Funding healthcare in retirement

Our qualitative research found that consumers do not consider the potential costs of healthcare in retirement, for example, few report thinking about the possible need for residential care in older age. In addition, consumers do not consider physical or mental decline associated with older age as a personal possibility or likelihood and how this may affect their long-term care needs late in life.

Our survey research indicates that some consumers have difficulty in considering what their healthcare funding or living arrangements needs may be when retire or are in late retirement. When asked about planning for the future:

- 54% stated that they are uncertain or will not prioritise having enough money to be able to fund care in older age if necessary.
- 28% report that when planning for retirement, they factor in funding for future living arrangements such as living in a nursing home.
- 41% rarely or never think about funding for future living arrangements.
- When prompted with options as to how they will spend their lump sum, less than 1% of consumers identified ‘funding their care in later retirement’ as an option.

Our survey results indicate that very few consumers consider how their income in retirement may be effected due to health-related issues in the later stages of retirement. When consumers were asked about planning for retirement, 30% report they would consider a lower monthly retirement income in the early stages of retirement and higher monthly income in the later stages due to health-related issues in the later stages of retirement.

Only 28% reported to agree with the statement '*that there are sufficient financial products that address life event uncertainties such as long-term care needs that may arise due to health-related issues in the later stages of retirement*', with 36% reported their disagreement with this statement and 36% reported to be undecided on the issue. The lack of definitive preferences here demonstrate that consumers do not have a clear understanding of their financial product needs in the future or have not thought about it in sufficient detail.

Summary

Pension awareness is the extent to which consumers are aware of their post-retirement income and understand whether this is adequate for their individual situation. If the expected pension income is not adequate, a consumer with sufficient pension awareness knows the actions they could take to increase it[23]. Our research demonstrates that pension awareness is not universally experienced by consumers as there remains significant numbers who do not intend to address their pension-funding shortfall.

The research highlights that consumers demonstrate short-term bias when thinking about their retirement and pensions. In the run-up to retirement, it's much easier to focus on the household's immediate financial needs over the next few months and years, and perhaps on the early, active years of retirement, than to consider how to portion out an income over a retirement that could run into decades – with unexpected shocks and shifting priorities coming to light as the retiree ages and experiences potential health issues and physical decline. The research highlights how financial and money management capability plays a positive role in knowledge of their pension fund value, self-reported adequacy of their pension fund and reduced likelihood of concern about the value of their pension fund.

[23] Pension communication, knowledge, and behaviour: Steven Debets, Henriette Prast, Mariacristina Rossi and Arthur van Soest. September 2020 Journal of Pension Economics and Finance 21(1):1-20

Chapter 3:
Passive engagement towards pension saving for retirement

Most consumers are likely to go to a broker or independent financial advisor when seeking advice about their pensions. The workplace is found to have an important role when planning for retirement and many seek advice there.

Consumers are not actively involved in financial planning for their retirement and do not appear to be that focussed or certain about how they will fund their retirement.

Consumers find pension decision-making a relatively difficult area to navigate and one in which they have a passive or unengaged role. Most consumers report that they will wait until their early to mid-50s before they begin to heighten their level of engagement towards retirement planning.

Chapter overview

Chapter 3 examines consumer engagement when saving for a pension and planning for retirement. It looks at the sources of advice used to seek information about pensions and where consumers source advice about financial products to fund their retirement. This chapter also examines how actively involved consumers are with financial planning for retirement. The final section of this chapter reviews the actions consumers plan to take to address any predicted shortfall in retirement income.

The role of the workplace

Our qualitative research showed that consumers identify the workplace as playing an important role in prompting early engagement with pension planning. For some, their pension is linked to their occupation and their employer provides some form of advice.

"My first pension was through my employer like that when they introduced a Pension scheme and I was a bit young. So, I took it out, everyone was taking it out but I suppose I was young and stupid so when I went from one job to another, I cashed it in."

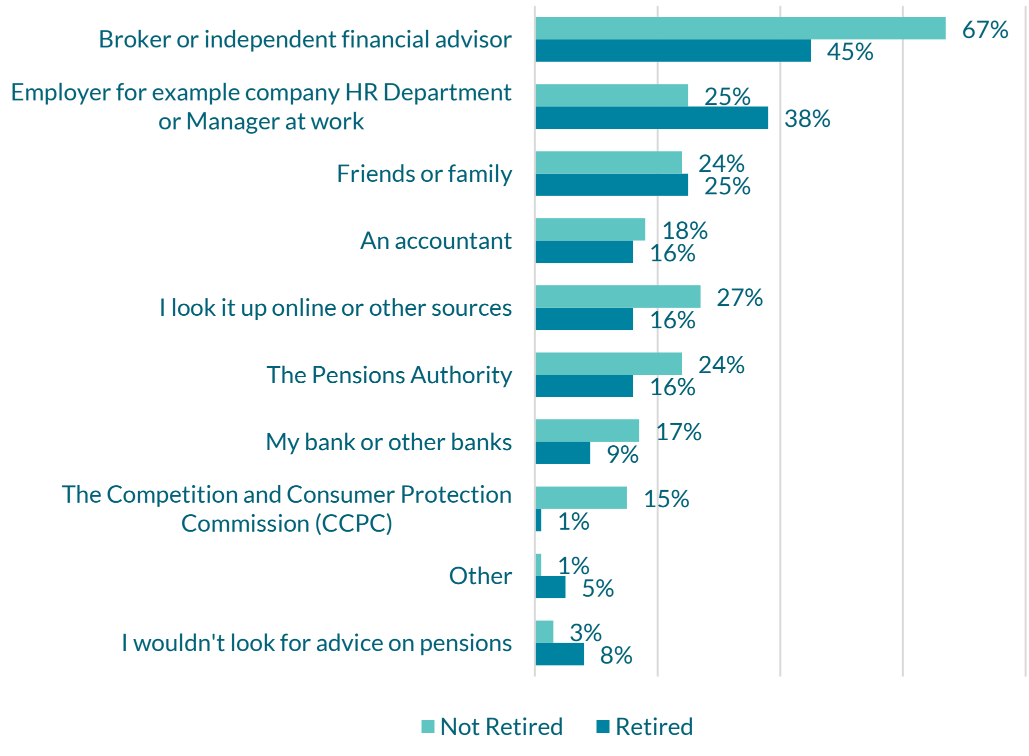
The qualitative research found that there is broad agreement that at the time of starting a pension it made sense to take on a workplace-related pension (because it is available). At this time, there is little consideration of the ultimate financial benefit.

Seeking advice about pensions

Our qualitative research identified that thinking about a pension tends to occur only when prompted by an external influence rather than sought out spontaneously.

When asked where they are most likely to seek advice about their pension, consumers reported being most likely to go to a broker or independent financial advisor (67% of those not yet retired and 45% of those already retired). 25% of those not yet retired and 38% of those already retired are most likely go to their HR department at work for advice about their pensions.

Fig 3.1 | Likely sources of advice about pensions and retirement planning



Base: 401 adults not retired.
Q.4 When it comes to an area like pensions and retirement planning, where would you be most likely to go for advice? Thinking about the area of pensions and retirement planning, where did you get most of your advice from?
(Multicode – respondents allowed to select more than one answer)

Personal and financial planning priorities

There is evidence from our qualitative interviews that consumers do not want to think in detail about life and their personal finances in retirement. Other more immediate financial needs, such as paying down a mortgage, funding home improvements or paying for holidays etc. tend to outweigh the importance of planning for retirement.

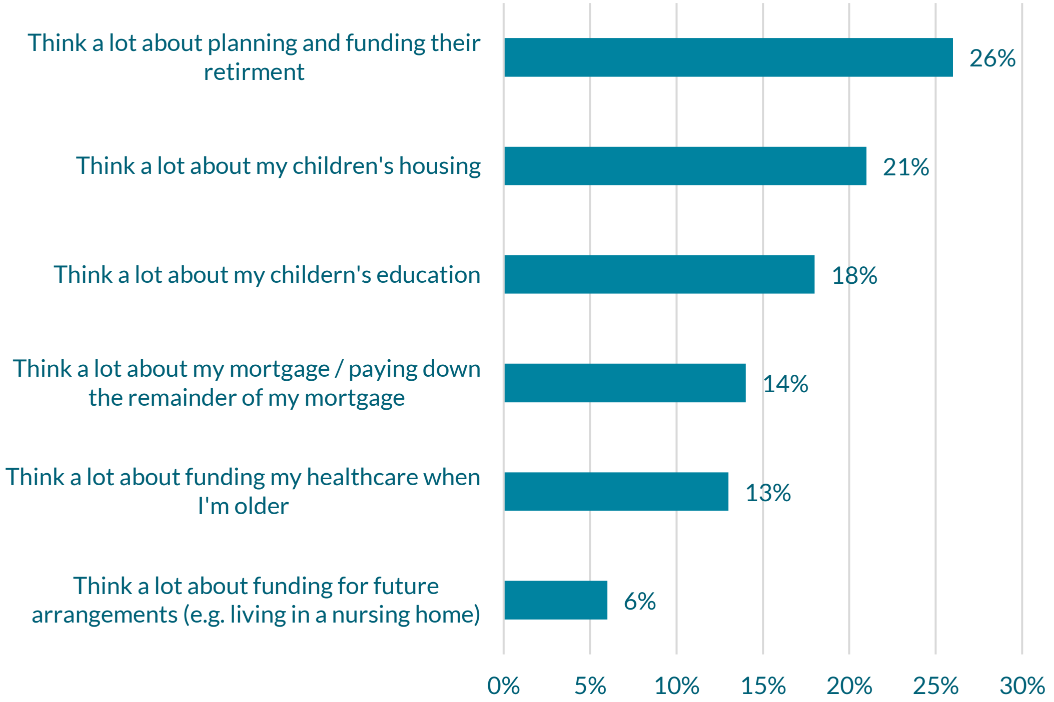
Respondents in our qualitative research also talked of how their children tend to be dependent for longer than in previous generations and discussed how they, as parents, can expect to pay for their children's education and allow them to live at home for longer than previous generations.

Our survey research found that consumers often are more focused on thinking 'as parents' and their children's finances are generally a greater concern than their own:

- 26% think a lot about planning and funding their retirement.
- 21% think a lot about their children's housing.
- 18% think about their children's education.
- Only 14% think a lot about their mortgage/paying down the remainder of their mortgage.
- Only 13% think a lot about funding their healthcare when they are older.
- Only 6% think a lot about funding for future arrangements (e.g. living in a nursing home).

> "I have always kind of thought that between my husband's and my own it will be grand, type of thing. I suppose where I am at the moment, there is so much to pay out between the girls and planning for them."

Fig 3.2 | Personal and financial planning priorities

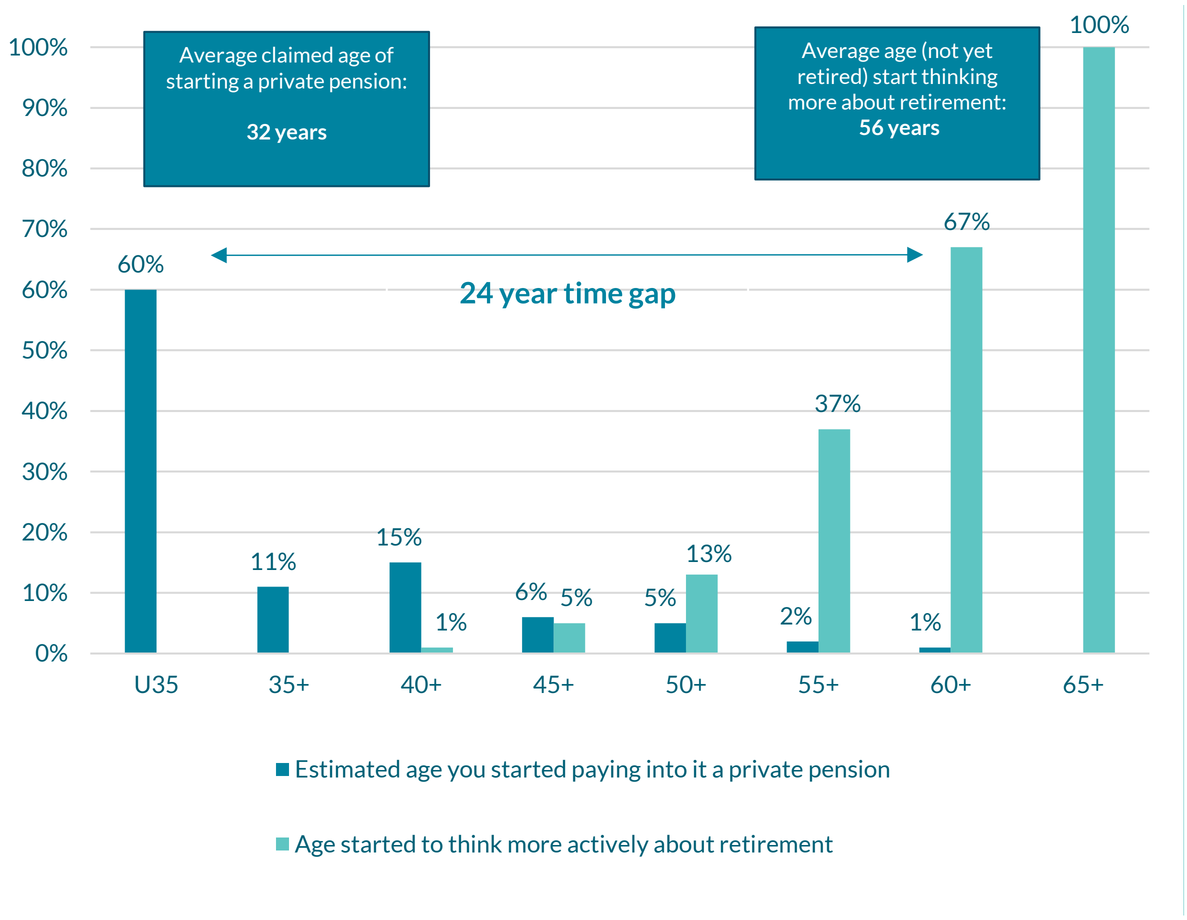


Base: Pre-retirement - 401.
Q.2 Thinking about your future, to what extent do the following take up much of your time or attention?

Projected age of actively thinking about retirement among consumers

Although consumers with private pensions spend a large proportion of their working lives contributing to a pension, most of this happens without active engagement. Our research found that the average claimed age of starting a private pension is 32 years. However, consumers estimate they will start thinking **more** about retirement at aged 56 years. This means there is a period of around 24 years in which consumers are comparatively passive or unengaged about their pension.

Fig 3.3 | Age started thinking more seriously about pensions Vs age when starting a pension



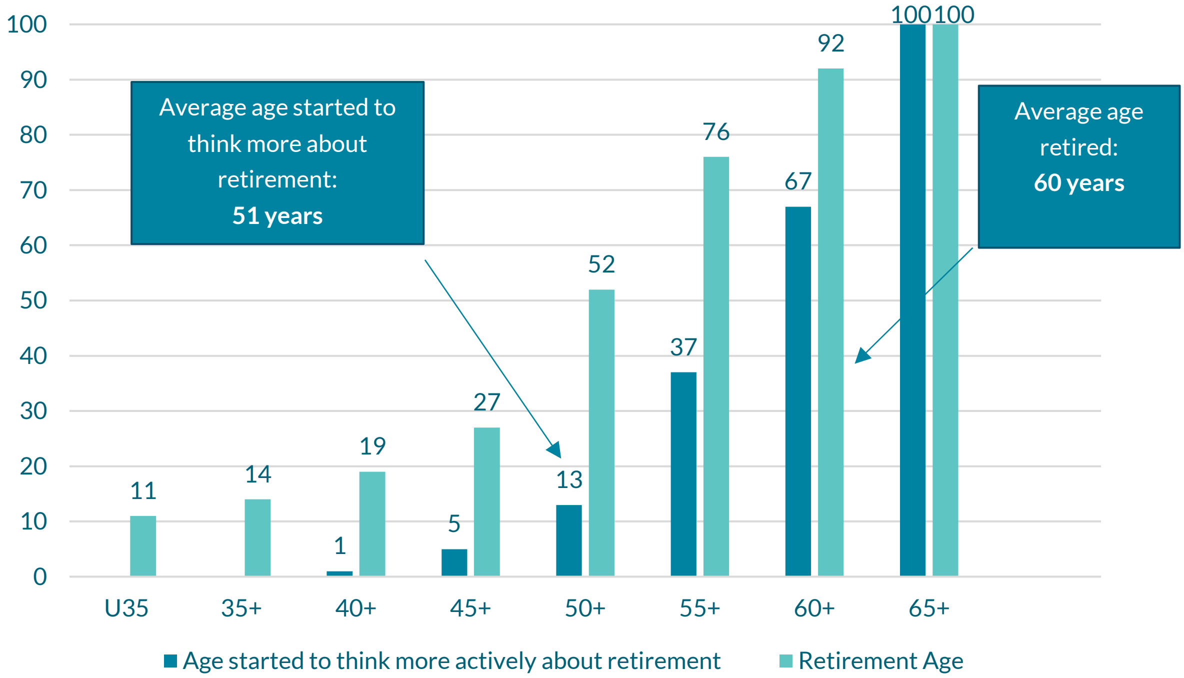
Q.17 In relation to your own private pension, could you estimate the age you were when you started paying into it? Base 529 (all respondents).

Q.11 And at what age do you think you will start (or did start) to think more actively about retirement and your pension, talking to advisors etc.? Base 401 (not retired).

Thinking more actively about retirement among retired consumers

On average, our survey research found that consumers who were already *retired* claimed to have started thinking actively about retirement just before turning 51 years of age and, on average, they retired at 60 years of age. This indicates that on average, they started thinking more actively about retirement nine years before retiring. This highlights how for many actively engaging with retirement planning does not happen until consumers approach retirement age.

Fig 3.4 | Age started thinking more actively about pensions vs retirement age



Base: 128 Retired Adults
Q.11a And at what age did you start to think more actively about retirement and your pension, talking to advisors etc.? Q.11c At what age did you retire?

Among those who are yet to retire, the qualitative research found little evidence of people considering the likely length of their retirement, their retirement income requirement or potential pension income until close to the point of retirement.

Engagement with one's pension

In this section, we report characteristics that are associated with engagement with one's pension. We measure engagement in two different ways, mainly:

1. a person's likelihood of taking action to address any shortfall or deficit and likelihood of increasing pension payments, purchasing a new pension or investing in other options to fund retirement in the next 2 years; and
2. likelihood of thinking about retirement.

Our analysis shows that consumers who are attentive to coverage of pensions in the media are more likely to engage with their pension products. Attentiveness to pension coverage in the media is associated with a 15% more likelihood in taking action to address any shortfall or deficit and with an 18% more likelihood of increasing pension payments, purchasing a new pension or investing in other options to fund retirement in the next 2 years. This group is also positively correlated with more likelihood to think about retirement. People who are attentive to media coverage on pensions are 30% more likely to think about retirement.

The policy implication arising from this finding is important. While it should be noted that the positive correlation could also be interpreted in a bi-directional way (consumers who think more about pensions are more likely to pay attention to the pension coverage in the media), it nonetheless demonstrates the link between communications on pensions and increased engagement.

What actions do consumers plan to take in relation to their pension in the next two years?

Our survey asked consumers how likely they would be to increase their pension payments, purchase a new pension or to invest in other options in the next two years. 58%[24] of consumers reported to be likely to take **any** of the aforementioned actions. Among these:

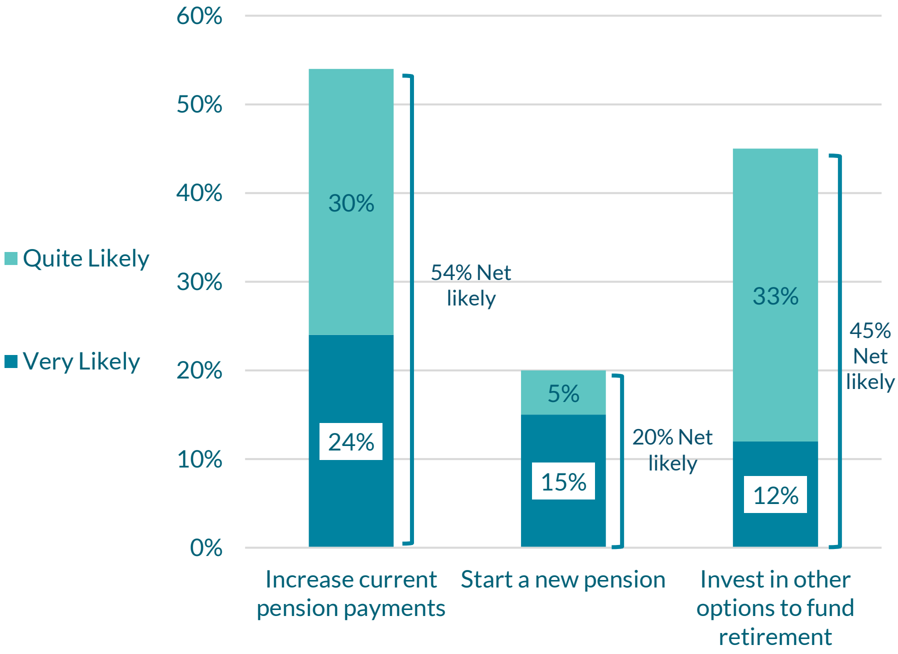
- 54% report they will increase their current pension payments;
- 20% report they are likely to start a new pensions; and
- 45% report they are likely to invest in other options to fund their retirement.

While the survey demonstrates that a majority will take some form of action in relation to their pension, there remains a sizeable number of consumers (42%) who will not engage with their pension funding in the short term.

It should be noted that reported intentions may be inflated or exaggerated on this measure. When we ask consumers what actions (increase their pension payments, purchase a new pension or to invest in other options) they have taken in the past 6 months, our research found that 50% of consumers have taken no action at all in the past 6 months – with the highest reported action: *Seek independent advice on my pension reported* at only 19%.

[24] Includes any mention of the three options presented.

Fig 3.5 | Reported actions *pre-retirement* consumers will take in the next two years



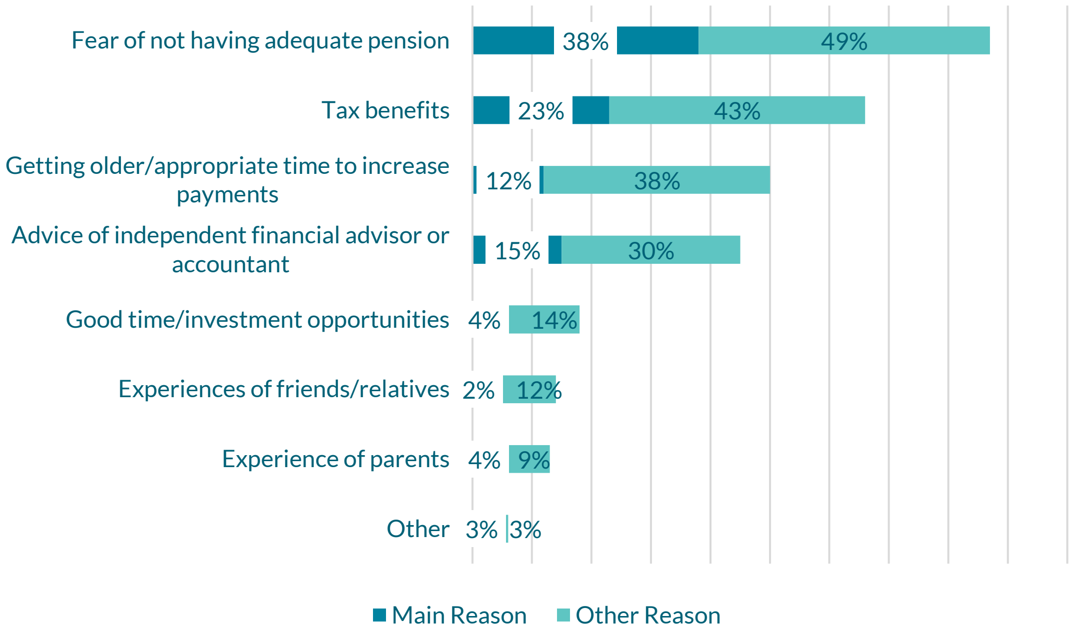
Base: 401 adults not retired.
Q.14 And how likely are you to increase your pension payments; to purchase a new pension or to invest in other options to fund your retirement in the next 2 years?

Reasons for starting a new pension or increasing pension payments in the next two years

Our survey asked about the reasons consumers are likely to consider taking out a private pension or increasing their pension payments. Among those who report they **will take some action**, the main reasons are:

- fear of not having an adequate pension (38%);
- tax benefits (23%);
- getting older/appropriate time to increase payments (12%);
- advice of independent financial advisor or accountant (15%); and
- right time/investment opportunities (4%).

Fig 3.6 | Reasons for considering taking out a private pension or investing in other options in the next two years



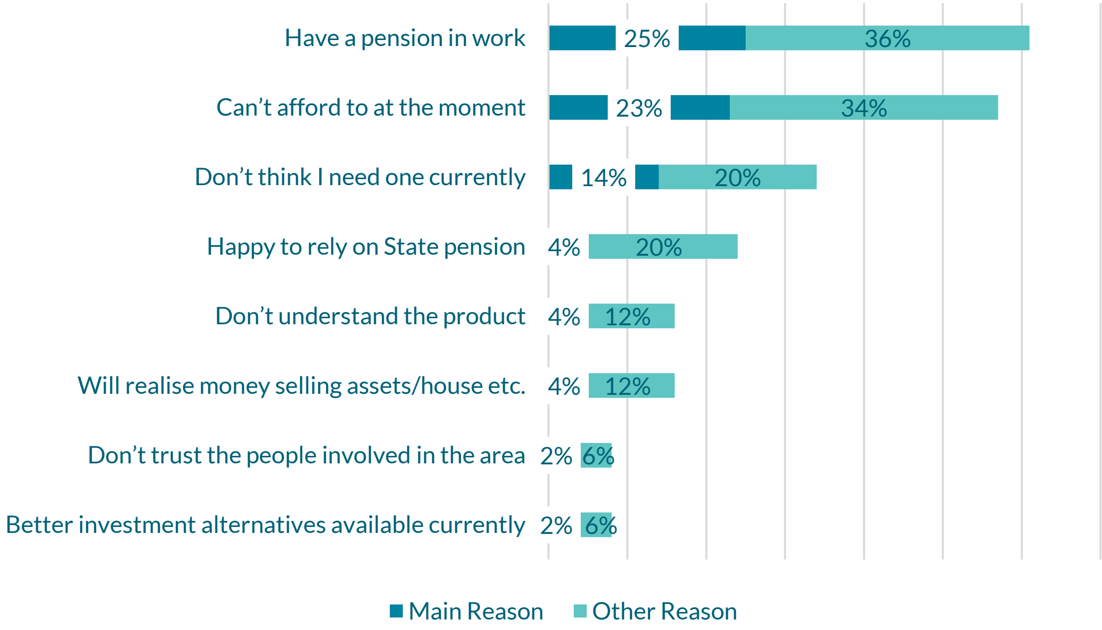
Base: Likely to start new pension/increase payments – 234.
Q.16a And what makes you more likely to consider taking out a private pension or increasing your pension payments? /Q.16a. And what is the main reason you are more likely to consider taking out a private person or increasing your pension payment? (Multicode – respondents allowed to select more than one answer)

Reasons for not starting a new pension or investing in other options in the next two years

Among the 42% of consumers who reported they will **not take action** on their pensions in the next 2 years, the main reasons chosen included:

- already contributing to a pension in work (25%);
- affordability (23%);
- not feeling like they needed to (14%);
- intending to rely on the state pension when they retire (4%);
- not understanding the products available (4%); and
- intending to rely on income from selling assets when they retire (4%)

Fig 3.7 | Reasons for not taking action in the next 2 years



Base: 340 not likely to start a new pension or invest in other options.
Q.15 What makes you less likely to consider taking out a private pension or invest in other options to fund your retirement?/ Q.15a And what is the main reason that makes you less likely to consider taking out a private pension? (Multicode – respondents allowed to select more than one answer)

A large proportion of consumers report that they will not take action in the next 2 years due to having existing pension arrangements (*Have a pension at work – Main and other Reason : 61%)*.

When we analyse respondents who report that they are less likely to consider taking out a private pension, increase contributions or invest in other options to fund their retirement; 70% report that they have concerns about the value of their pension fund at retirement.

Summary

The research highlights that consumers do not engage with their pension for a significant period of their working lives. Intentions to act meaningfully towards one's pension tend to be optimistic and over-claimed by consumers. There is a strong positive correlation between those who engage with their pension and pay attention to media coverage on pensions - highlighting the important role of pension communications. Those consumers who claim they will not increase contributions in the next two years cite existing arrangements in place and affordability as the key reasons, despite having concerns over their pension funds.

The tax relief benefit available should be one of the main advantages of retirement planning, however only 23% report tax benefits as one of the reasons they would start or increase pension contributions.

The research highlights that consumers need to be motivated to engage actively with their pension earlier and more frequently.

Chapter 4:
Product complexity issues and lack of understanding of pension drawdown products

Understanding of pension terminology and concepts relating to investing in a private pension is low among consumers. The research indicates that product complexity issues and a lack of understanding may make it difficult for consumers to assess which pension drawdown options best meet their needs.

There is quite a broad spectrum of claims about understanding the terms annuity and Approved Retirement Fund (ARF), with many reporting they do not understand the terms at all. Most consumers have heard of the term annuity however, the term ARF is less well known. There is clearly a lack of certainty about these terms among consumers and, while many say they know what they are, there is evidence of confusion about these retirement products when approaching retirement.

Chapter overview

Chapter 4 explores consumer awareness and understanding of pension-related terminology: Approved Retirement Funds[25] (ARFs) and annuities[26].

Perceived complexity of pensions relative to other financial products

Our research found that consumers find aspects of pensions and retirement planning complex. When asked about which financial products are considered complex, consumers report private pensions and PRSAs[27] (29%) to be complex, compared to other pension

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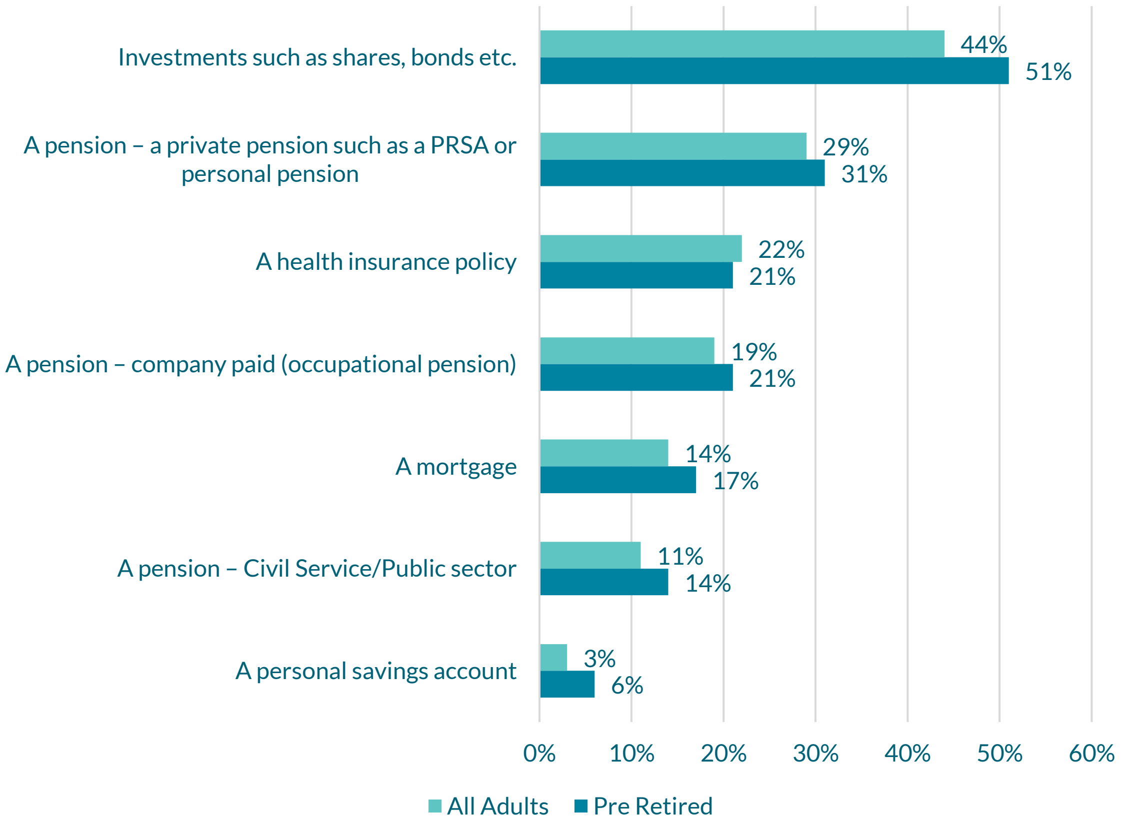
[25] An Approved Retirement Fund (ARF) is a decumulation arrangement holding one or more investment assets, to be drawn on in retirement to provide a regular retirement income. An ARF is an investment contract in which the money is invested with a "Qualifying Fund Manager" (which includes banks, insurance companies and investment firms). The individual can decide how to invest the money which accumulates tax-free.

[26] The term 'annuity' means a series of pension payments, normally monthly, until a particular event occurs. Annuities are normally purchased by payment of a single premium to a life assurance company.

[27] A PRSA is personal pension savings plans captured by an individual contract between a consumer and a PRSA provider. PRSAs were introduced in 2002 in order to increase private pension coverage, targeting people consistently left uncovered by existing pension arrangements, whether by choice or by exclusion. Contributions to a PRSA are tax deductible and there is

products such as an occupational pension (22%) or more familiar financial products, such as a mortgage (14%) or a personal savings account (3%).

Fig 4.1 | Consumers who report finding financial products complex



Base: All adults – 529.
Base: Pre-retired – 401.
Q.1b And thinking about these different types of products how complex or straightforward do you consider each of them to be?

Pension terminology and understanding

The research found that understanding of pension terminology and concepts relating to investing in a private pension is low among consumers.

There is a sizeable portion of consumers who express *a limited or no understanding* of many key pension terms and concepts such as:

- Clear Benefit projection (33%);

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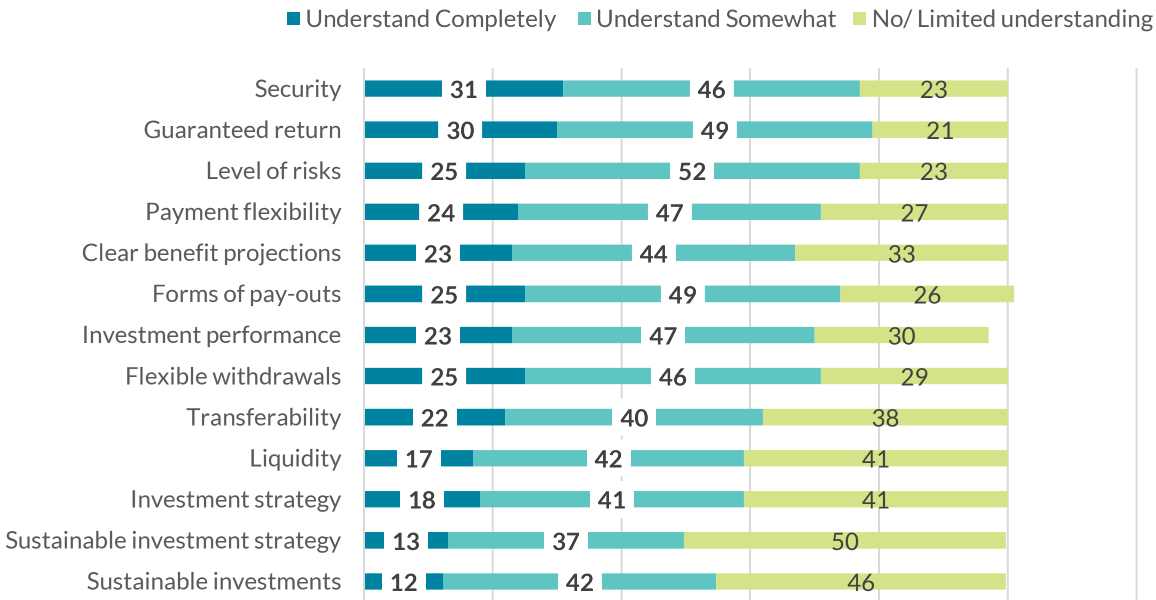
a regulatory cap on costs for a standard PRSA. Non-standard PRSAs do not have costs caps. PRSAs are portable and can be transferred to another PRSA provider without any charge or penalty.

- Investment performance (30%);
- Transferability (38%);
- Investment strategy (50%); and
- Sustainable investment strategy (50%).

Our analysis also identifies that with respect to understanding pensions, women are 16% more likely to report a low understanding of pension terminology and concepts.

Fig 4.2 | Understanding of pension terminology



Base: All adults – 529.
Q.2b When investing in a private pension, to what extent, if at all, do you understand the following elements related to your pension?

Understanding of pension concepts and associated characteristics

We analysed the characteristics associated with a person's understanding of pension products. We consider a participant to have high understanding about pension products if their average score is above the median score in their self-reported understanding of various aspects of pensions[28]. We found that people, who pay attention to the media coverage on pensions, and those who are confident in their money management, report a higher

[28] Aspects such as security, robustness of the provider, payment flexibility, liquidity, easy access to information, simplicity, investment performance, clear benefit projections, sustainable investments, transferability, conditions for accessing before retirement, returns guarantee, levels of risk, flexible withdrawals, forms of pay-out, and investment strategy.

understanding about various aspects of pension products. Respondents who report high understanding about pension products positively correlated with being 47% more attentive to media coverage about pensions and 39% more likely to report being confident in money management.

This finding again highlights the association between communications on pensions and positive consumer outcomes. Furthermore, the association between money management confidence and pension understanding highlights the important role that financial education and improving financial capability can play in pension understanding.

Consumer awareness and understanding of Annuities and Approved Retirement Funds (ARFs)

Understanding of annuities and ARFs, the two principal pension drawdown products consumers choose between at retirement, is found to be low. While awareness of the term annuity is high (84% of consumers report being aware of this term), only 59% report being aware of an ARF. In addition, the survey results show that a detailed understanding of both terms is limited among consumers.

Table 4.1 | Awareness and understanding of annuities and ARFs

	Annuity %	ARF %
Aware of	84	59
Understanding of [29]	44	42

These findings echo the findings in our qualitative research, which found that annuities and ARF's are not understood in detail by consumers and they often feel they need advice in relation to these products rather than being able to navigate them themselves.

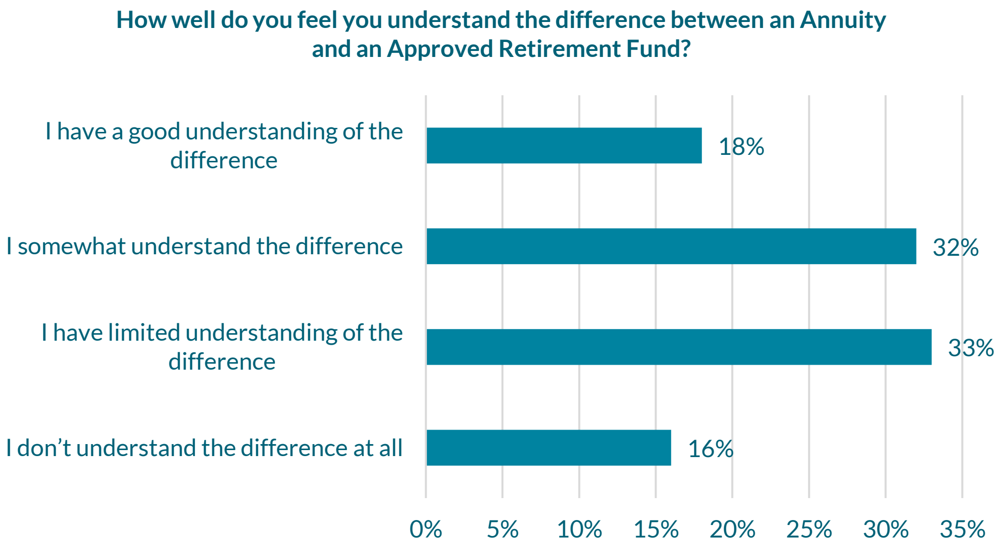
Understanding of the difference between an annuity and ARF

The difference between an annuity and ARF is not well understood by consumers. Only 18% state they have a good understanding of the difference between the two products while 33%

[29] Respondents were prompted with an explanation of each term.

indicate they have limited understanding. This illustrates that there is a lack of understanding among many consumers of both of these pension drawdown products.

Fig 4.3 | Level of understanding of the difference between an annuity and ARF

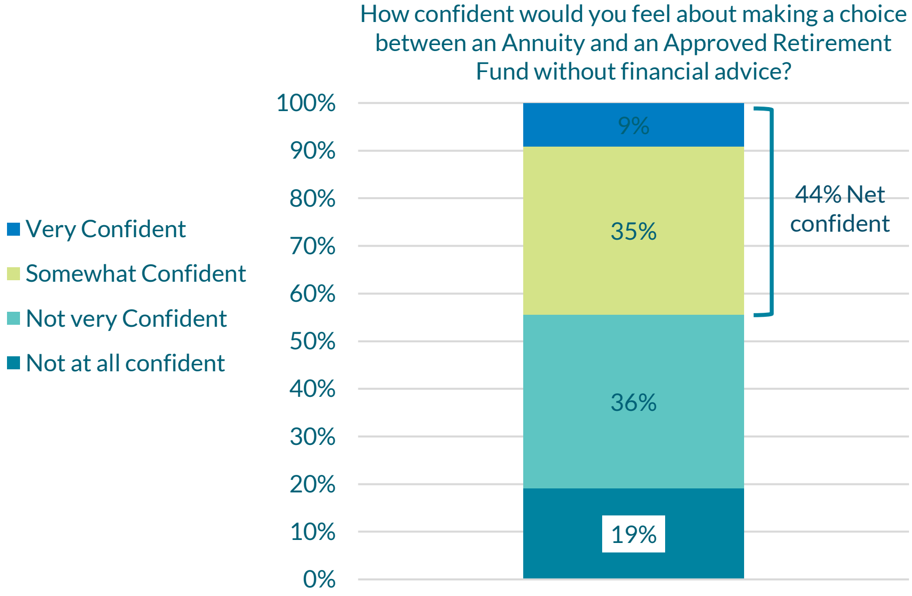


Base: All Adults – 401.
Q.29b How well do you feel you understand the difference between an annuity and an Approved Retirement Fund?

Choosing between an annuity and an ARF

19% of consumers report they are not confident in making a choice between an annuity and ARF without financial advice, while only 9% report they are very confident in choosing between them and 35% are somewhat confident (44% net confident). This indicates that many consumers may require advice to make informed decisions about these products.

Fig 4.4 | Confidence in making a choice between an annuity and an ARF without financial advice



Base: 401 Adults not retired.
Q.29c How confident would you feel about making a choice between an annuity and an Approved Retirement Fund without financial advice?

Summary

Consumers consider that navigating the pension landscape can be difficult and complex. Challenges are experienced in understanding pension terms, concepts and specific decumulation[30] options such as annuities and ARFs. Firms should also proactively engage with their clients to review existing plans on an ongoing basis especially to identify any change in circumstances. More focus on these options throughout a consumers pension journey and re-visiting of what option best suits their circumstances would help consumers. The research highlights the need to simplify the pension engagement journey, enabling consumers to understand key products and concepts so that they are prepared for the decumulation decisions they may need to take as they approach retirement.

[30] Pension decumulation is the process of converting pension savings to retirement income.

Chapter 5:
Challenges identified with pension communications

The level of a consumer's engagement with their pension can be affected by the communications they receive from their scheme or provider.

While there are good levels of recall and attention towards the annual pension statement, the research found that most consumers do not take action following receipt of their annual pension performance statement.

A significant proportion of consumers do not believe they are sufficiently well informed about fees and charges related to pensions, and there is a preference of consumers to receive more frequent and more simplified information about pensions.

Chapter Overview

Chapter 5 assesses consumers' attitudes and engagement with the communication they receive in their annual pension statement.

Pension communication issues: annual pension statement[31]

Communication about pensions is important to help consumers engage with retirement decisions. One of the most important ways for consumers to stay informed about their pension is by reviewing their annual pension statement. Annual pension statements can provide consumers with estimates about the pension amount they might receive when they retire, and consumers can use this information to make better decisions, such as whether they need to increase their pension contributions.

[31] Another recent change in the pension system relates to the extension of the annual pension statement to deferred members of occupational pension schemes (i.e. those who have left employment but have not yet retired). Until very recently, deferred members of occupational pension schemes did not have to be provided with an annual pension statement. The IORP II Directive introduced an obligation that deferred members be provided with a pensions benefit statement, and trustees in Ireland have had to comply with this provision since 2023. This should help improve consumer understanding of their pension pots, given the large number of deferred members of pensions schemes.

Our research suggests there are good levels of recall, attention and understanding towards the annual pension statement. Of the 77% of consumers who report receiving a statement:,

- 64% report a good understanding of it, with 14% reporting a poor level of understanding; and
- 66% report paying particular attention to their statement, with 9% reporting they do not focus on it at all.

However, active engagement or follow on action from the annual pension statement is considerably weaker:

- Only 32% of consumers report taking action after receipt of their statement.

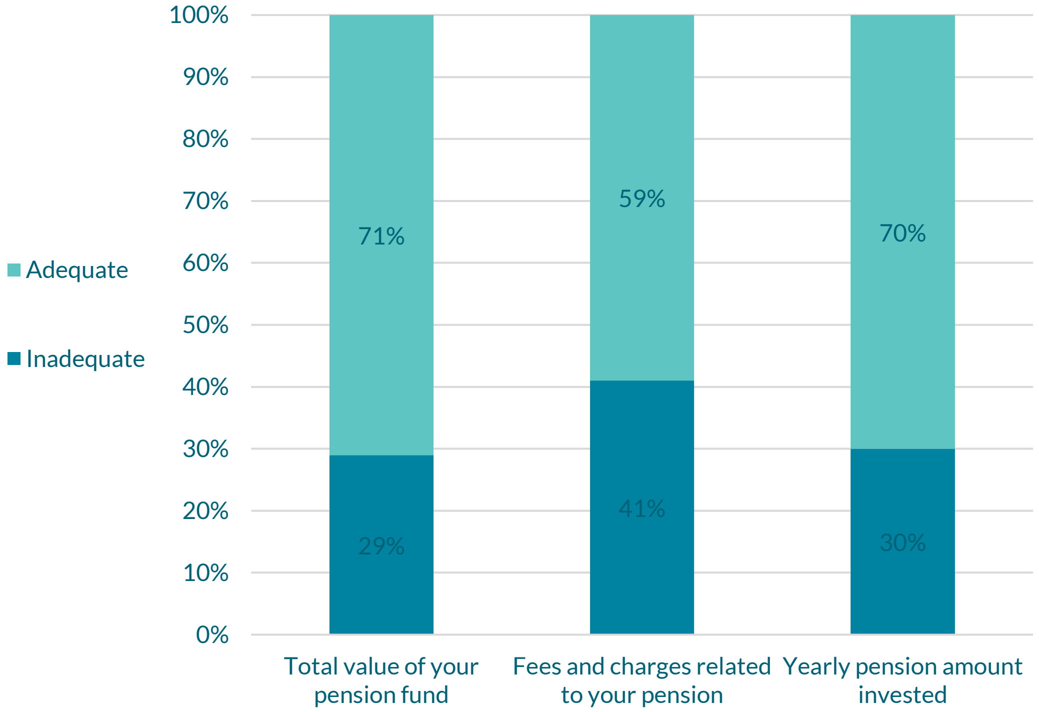
Adequacy of communication about pensions

Our qualitative research found that complicated language, length and lack of consistency in communications (including annual pension statement and communications from pension providers) are all perceived as issues, which can cause consumers to become disengaged.

When asked about the adequacy of information they receive about their pension, consumers report to have adequate communication in relation to the total value of their pension fund (71%) as well as the annual amount invested (70%).

However, there is less clarity among consumers on fees and charges related to pensions with a significant percentage (41%) reporting that they are not sufficiently well informed about fees and charges.

Fig 5.1 | Adequacy of communication about pension

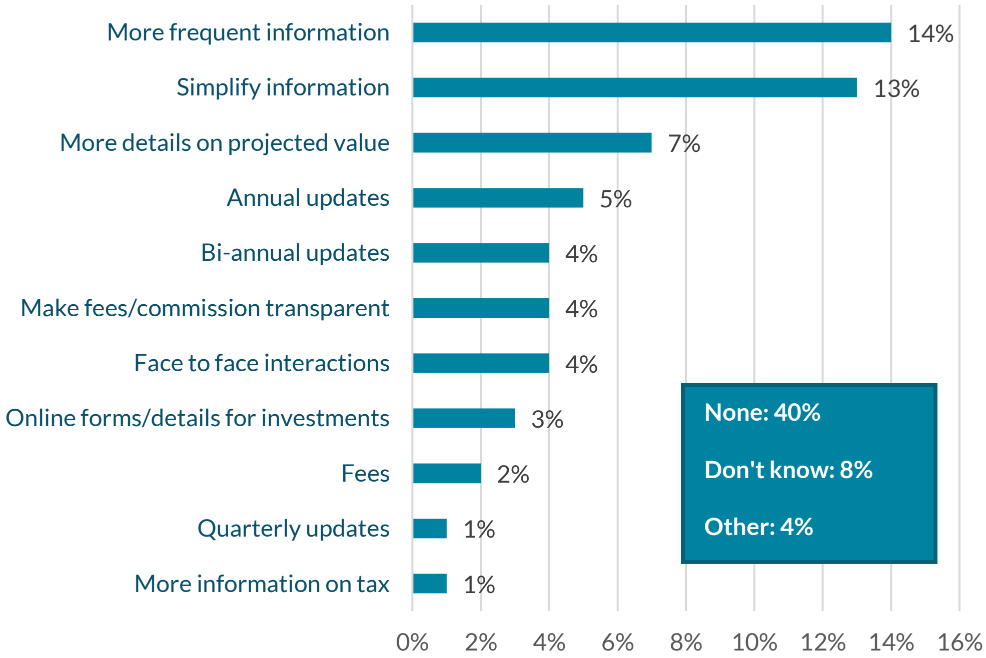


Base: Pre-retirement – 401.
Q.21 Do you feel that you get adequate communication about the total value, yearly amount invested and the fees and charges related to your pension?
Q.21 Before you retired did you feel that you got adequate communication about the total value, the yearly amount invested and the charges related to your pension?

Improvements to communication about pensions

Our survey asked consumers to choose what improvements could be made to communications about their pension. The most common improvement was to receive more frequent information (14%). This was followed by getting more simplified information (13%). While consumers may favour more frequent communication on their pensions, we know from behavioural economics research that there is a risk of information overload from additional disclosure. The more important initiative may be how to improve the effectiveness of existing information received by consumers about their pensions.

Fig 5.2 | Improvements to communication about your pension



Base: Pre-retirement – 401.
Q.22 What improvements could be made in relation to communication about your pension? (Multicode – respondents allowed to select more than one answer)

Summary

The research identifies that the annual pension statement has high levels of recall among all consumers. It can provide the basis for more effective communication for consumers on their pension funding status. Given levels of reluctance to engage with retirement planning and tendency to focus on the present (and not thinking of future retirement needs), consumers may be more receptive to guidance that emphasises the immediate benefits of saving as well as information that helps people easily bring together what their total pension savings and potential retirement income are worth to them.

Appendix

Who we talked to

In order to understand how consumers behave when approaching retirement, two phases of research were undertaken:

1. **Qualitative In-depth Interviews**

The first phase of the research was qualitative in nature, in which IPSOS B&A[32] conducted 12 in-depth interviews and 3 paired in-depth interviews[33] with consumers at various stages approaching, or in, retirement. These interviews were conducted with consumers over the age of 45 years, across a range of social classes and locations, representing both men and women[34].

2. **Quantitative survey**

The second phase of the research was quantitative and was informed by the outcomes of the qualitative phase.

Two surveys were conducted separately in the quantitative phase. First, a face-to-face survey was conducted among a nationally representative sample of 1000 people aged 16+. The purpose of this survey was to measure and quantify our target of *pre-retirement* and *retired* samples. The results from the national representative survey provided the target quotas and accurate weighting for the second main online survey.

The online survey researched two categories of consumers: *pre-retirement* consumers, and *post-retirement* consumers. The total sample size for the online survey was 529. The survey targeted consumers over the age of 45 and excluded those with no pension, those who only had a public sector pension[35] and those who only had a defined benefit pension in place.[36]

This report details and integrates the findings of both the qualitative and quantitative research phases of this project.

The report refers to two types of consumers who were interviewed for the second main online survey:

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[32] Following a procurement process, IPSOS / Behaviour and Attitudes were appointed as the market research company to conduct the consumer interviews and a consumer survey on behalf of the Central Bank.
[33] Paired in-depth interviews involve interviewing couples. The purpose of undertaking these interviews is to understand how joint decision making on household finances influence pension choices.
[34] See further below for demographic detail.
[35] Pensions in scope include those in receipt of a Defined Contribution pension; PRSA or Private Pension arrangement; Additional Voluntary Contributions combined with above pensions; multiple pensions in Ireland or abroad. Pensions/consumers not in scope: state pension only; Defined Benefit Pensions only; Public sector pension only.
[36] See below for more details on the types of pensions held among survey respondents.

Consumer type	Category definition	Percentage of sample	Sample Size (n)
1. **PRE-RETIREMENT** CONSUMERS	Older adults (over 45 years) with a pension **and** pension holders over 55 years who are likely to retire in the next five years	76%	n=401
2. **POST-RETIREMENT** CONSUMERS	Those over the age of 55 years who have already retired/drawn down their pension in the past 2 years	24%	n=128

The qualitative phase of research was conducted in May 2022 with the quantitative fieldwork for the main online study conducted from 22 July – 11 August 2022 and the face-to-face part of the study was conducted from 21 – 5 August 2022.

The results and findings described in this research are based on the recall of the respondents who participated in our survey and in-depth interviews. We tested a number of issues through the use of attitudinal statements relating to pensions. The attitudes and opinions tested in this report describe the respondent's views and are not a reflection of the views of the Central Bank of Ireland on these issues.

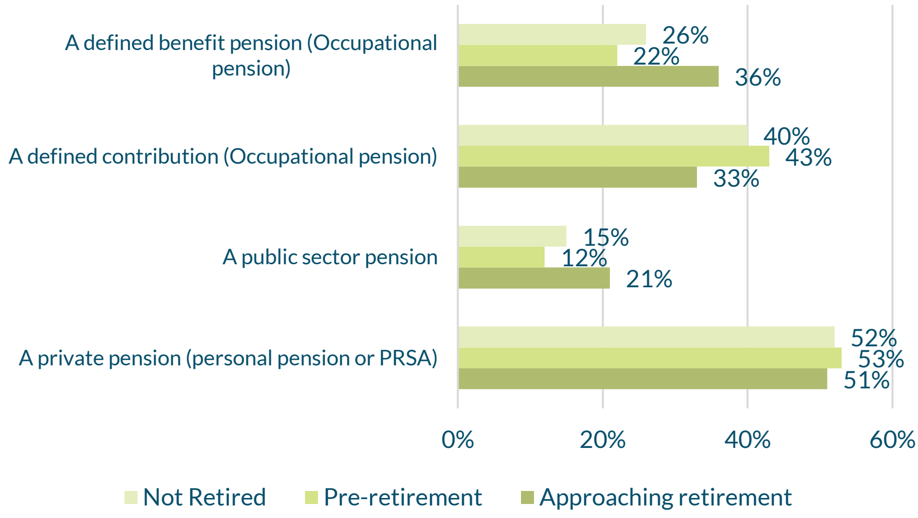
Table 1 | Sample structure for in-depth interviews with individuals

IDI	Location	Class	Gender	Age
1.	West	C2D	Male	45-60
2.	West	BC1	Female	45-60
3.	West	F	Male	55+
4.	West	C2D	Female	55+
5.	Dublin	C2D	Female	45-60
6.	Dublin	BC1	Male	45-60
7.	Dublin	BC1	Male	55+
8.	Dublin	BC1	Female	55+
9.	N. West	F	Female	55+
10.	N. West	C2D	Male	55+
11.	South	F	Female	55+
12.	South	BC1	Male	55+

Table 2 | Sample structure for in-depth interviews with couples

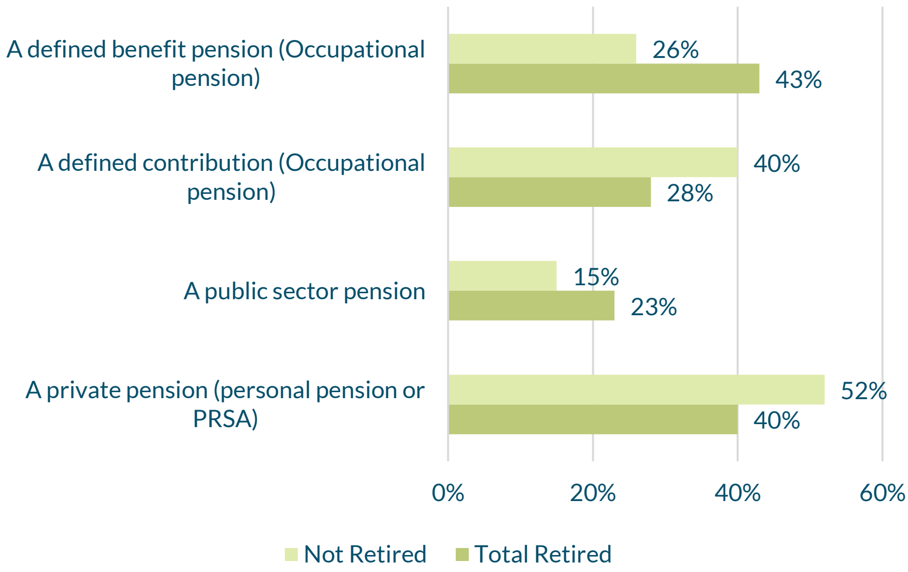
Couple	Location	Class	Gender	Age
1.	South	BC1	Mix	45-60
2.	Dublin	BC1	Mix	55+
3.	N. West	C2D	Mix	55+

Fig A.1 | Types of pensions held by those not yet retired



Base: 401 Adults not retired.
Q.D Do you hold any of the following

Fig A.2 | Types of pensions held by those retired



Base: 128 Retired Adults.
Q.D Do you hold any of the following?

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