Choices for retirement income products and financial advice

The role of the
Financial Services
Compensation Scheme

Prepared for
the Financial Services
Compensation Scheme

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Abstract

Since the introduction of pension freedoms in April 2015, people have had more options for how to allocate their pension pot (before or at retirement) than simply buying an annuity, as was typical before the reforms. These pension options involve differing degrees of risk and the need for financial advice may have increased.

In this context, the Financial Services Compensation Scheme (FSCS) wanted to understand the role of FSCS protection both in how consumers choose their retirement income products, and in whether they decide to obtain financial advice. To explore this further, the FSCS commissioned Oxera and the Centre for Experimental Social Sciences (CESS) to conduct a behavioural experiment to better understand consumer decision-making.

The experiment enables us to observe what people actually choose in a realistic environment. The results of the experiment provide insight into actual consumer behaviour and the importance of the FSCS in their decision-making.

Participants in the experiment were presented with information on various retirement income products, modelled in a format similar to the Pension Wise website. Information was provided on the product characteristics of eight options for retirement income; obtaining financial advice; taxation; scams; and FSCS coverage (which was varied in the different information treatments). Participants then selected their preferred retirement income products, and decided whether to take financial advice (at a cost), before answering questions exploring their comprehension of the choices available to them and their preferences.

The results of the experiment confirm that there is a relatively high degree of awareness of the FSCS. Despite this, the presentation of more information on the FSCS still affected choices.

The results highlight the important role that the FSCS plays in the choice of retirement income product and financial advice:

- those who are aware of the FSCS or think that the FSCS is important are more likely to take advice and choose retirement income products that are protected by the FSCS (although further work is required to see whether this relationship is causal);
- people think twice about what risks they are willing to take when they hear more about the FSCS. Upon being shown information about the FSCS at the point of decision, fewer people choose to withdraw their pension pot to invest it in stocks and shares;
- those choosing income drawdown products are more likely to take financial advice.

The results of this experiment highlight the important role that the FSCS played in the choices of many (but not all) of the participants in terms of retirement income products and financial advice. It is important that people are aware of the differing levels of coverage that the FSCS provides depending on which retirement products they choose to purchase.

Executive summary

Pension freedoms have changed our options

Since the introduction of pension freedoms in April 2015, people have had more options for how to allocate their pension pot (before or at retirement) than simply buying an annuity, as was typical before the reforms. These pension options introduce differing degrees of risk that people may not understand and, arguably, the need for financial advice has increased.

Most people choose a retirement income product when they reach retirement. As this is a one-off decision, there is little opportunity to learn from past experience. There is also little opportunity to learn from others' experiences, as the market is relatively new and the consequences of choosing an inappropriate retirement income product materialise over many years.

What is the impact of the FSCS on our pension decisions?

The FSCS protects consumers when an authorised financial services firm goes bust. It provides some cover for retirement income products and for taking financial advice. The amount that the FSCS protects varies according to the product that the individual decides to buy, and ranges from £50,000 for investments to unlimited cover for long-term insurance such as pensions.[1]

In this context, the FSCS wished to investigate the role that it plays in how consumers choose their retirement income products, and whether they decide to seek financial advice.

Oxera conducted an innovative experiment to find out...

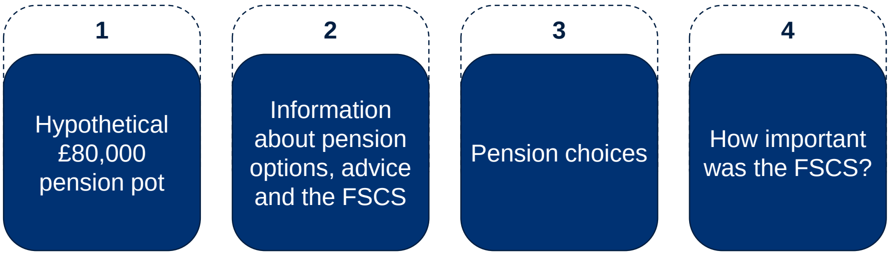
The FSCS commissioned Oxera and the Centre for Experimental Social Sciences (CESS) to conduct consumer research to explore consumer decision-making.

A behavioural experiment was conducted rather than a survey. An experiment enables us to observe what people actually choose in a realistic environment, whereas a survey would provide information only on people's stated preferences (which may deviate from what they actually do in practice). The results of the experiment provide insight into actual consumer behaviour and the importance of the FSCS in their decision-making.

The experiment was reflective of the population as a whole, and involved a sample of 2,056 participants from the UK aged 45+. Participants were asked to make decisions about what to do with their pension pot at retirement, and whether they wanted financial advice. They were given a hypothetical £80,000 pension pot (1); provided with information about pension options (2); and then asked to make their product and advice choices (3).[2] After this, participants were asked questions about their choices, including about the importance of the FSCS (4). This is shown in the figure below.

[1] See FSCS website 'What we cover: Pensions (Retirement savings)', https://www.fscs.org.uk/what-we-cover/products/pensions/, accessed 26 September 2017.
[2] The pension pot size of £80,000 was chosen as above the current average defined contribution pension pot size in the UK, since this figure is currently increasing due to the shift from defined benefit to defined contribution pension schemes. It was also chosen so that the difference in FSCS protection of annuities and investment products was a relevant consideration (the FSCS covers 100% of annuities and up to £50,000 per investment product). See Association of British Insurers (2017), 'The new retirement market: the evolution continues', 11 April. https://www.abi.org.uk/news/news-articles/2017/04/the-new-retirement-market-the-evolution-continues/, accessed 26 September 2017. An area for future research would be to test how the impact of the FSCS on consumer choices varies with the pension pot.

Structure of experiment



Source: Oxera and CESS.

Participants were given different sets of information about the FSCS, referred to as 'treatments' (2). Some were given standard information (the 'plain' treatment), some were given more prominent, upfront information (the 'salient' treatment), and some were given no information at all about the FSCS (the 'control'). Participants were incentivised to pay attention, but there was no 'right answer' among the choice of pension product of whether to obtain advice.

The research confirmed a high awareness of, and familiarity with, the FSCS among the over-45 age group.[3] Furthermore, one-third of participants stated that the FSCS was *very important* to their pension decisions.

Key findings

The findings of the research confirm a number of important points about the role of FSCS protection for retirement income products and the impact of FSCS information on the choices that people make. They also shed some light on people's decisions to obtain professional financial advice more broadly.

The key points are discussed in the following pages. The essential conclusions are as follows:

- those who are aware of the FSCS or think that the FSCS is important are more likely to take advice and choose retirement income products that are protected by the FSCS (although further work is required to see whether this relationship is causal);
- people think twice about what risks they are willing to take when they hear more about the FSCS. Upon being confronted with information about the FSCS at the point of decision, fewer people choose to withdraw their pension pot to invest it in stocks and shares;
- those choosing income drawdown products are more likely to take financial advice than those choosing any of the other products.

All of the findings are robust to controlling for other factors, such as demographics.

Those who attribute high importance to the FSCS are more likely to take financial advice

Strong correlations were found between the choices made by the participants and the relevance of the FSCS that they reported in the subsequent questions. Those who considered the FSCS to be important were more likely to choose

[3] 70% of participants reported that they had previously heard about the FSCS.

retirement income products that were protected by the FSCS. They were also more likely to choose financial advice, as shown in the figure below.

The research therefore shows those who see the FSCS as important are more likely to take advice, although this does not necessarily imply that increasing the perceived importance of the FSCS would encourage more to take advice. (In other words, it does not prove a causal relationship between FSCS importance and advice.) This correlation may reflect both the importance of risk management to many participants, and their level of awareness that certain retirement income products and regulated financial advice are protected (to varying degrees) by the FSCS.

People who said the FSCS is more important are more likely to obtain financial advice

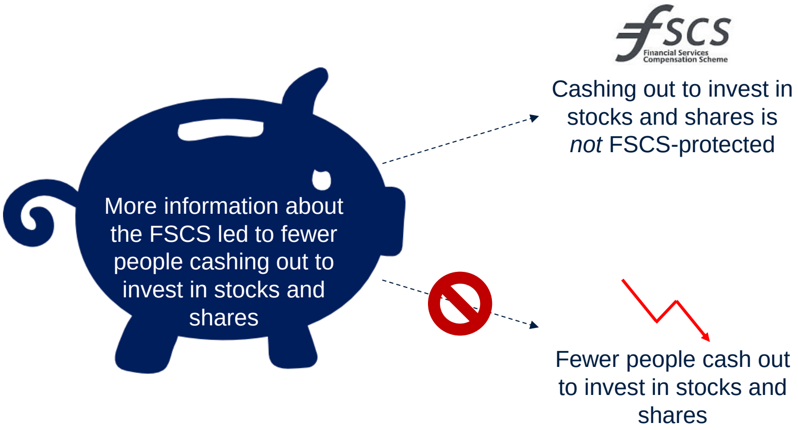
Source: Oxera and CESS.

The availability of more information about the FSCS reduces the number of people choosing ***unprotected*** *options*

Given the strong awareness of the FSCS, the clear correlation between product/advice choice and the importance of the FSCS was apparent even when no information about the FSCS was provided to participants.

Nevertheless, the provision of information about the FSCS at the point of decision-making still significantly affected participant choices, reducing the number cashing out their pension pots to invest in stocks and shares. The explanation for this is likely to be that some people were discouraged from this option due to the lack of FSCS protection. This is shown in the figure below.

More information about the FSCS led to fewer people cashing out to invest in stocks and shares



Source: Oxera and CESS. Icon designed by Freepik.

The results suggest that people think twice about the risks that they are willing to take when they find out about the FSCS and the protection that it provides.

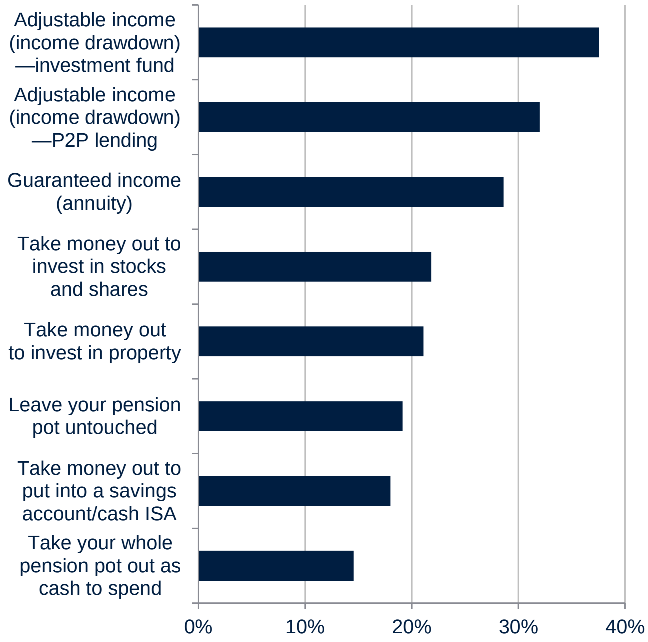
Those choosing income drawdown products are more likely to take financial advice

The choices that participants made about retirement income products were broadly in line with what might be expected given the choices observed in the real world, albeit with a stronger preference for pension annuities over income drawdown than might be implied by recent trends.

One-quarter of participants chose to receive financial advice, at a one-off charge of £1,500, reducing their hypothetical pension pot to £78,500.

The decision to take financial advice was strongly correlated with product choice. As expected, participants choosing an income drawdown product were much more likely to choose advice than, for example, those choosing to leave the funds in the pension pot, put the funds into a savings account, or take out the money to spend it. This is shown in the figure below.

Proportion of participants choosing to take advice, according to their choice of pension product

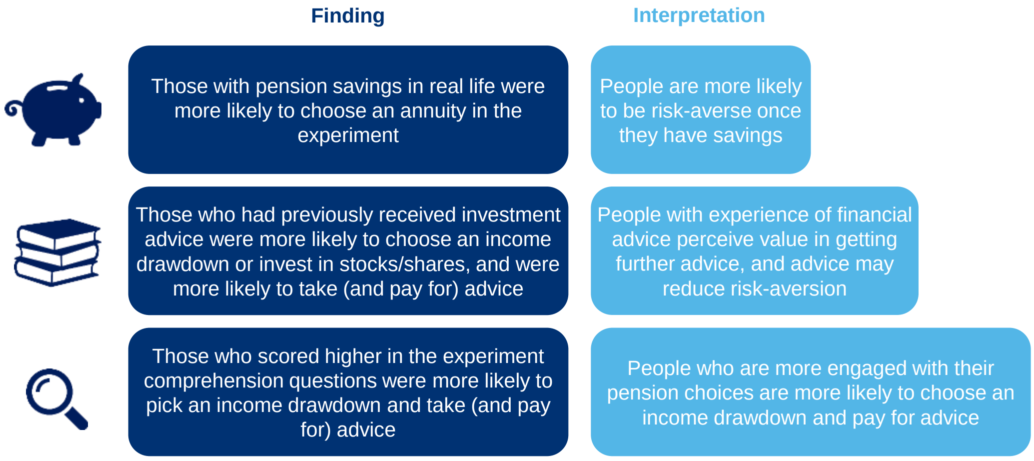


Source: Oxera and CESS.

Other factors also affect pension choices

Other information collected in the experiment was also found to be correlated with the choices made by participants, and may provide some additional insights into why those choices were made. Some of the stronger findings (all statistically significant) are summarised in the figure below.

Other factors that affect pension choices



Source: Oxera and CESS. Icons designed by Freepik and SimpleIcon from Freepik.com.

Where to go from here?

With increased choice, the range of options now available to people means that the pension decision has greater consequences for their future welfare. This makes it vitally important that people consider their pension choices carefully.

The results of this experiment highlight the important role that the FSCS played in the choices of many (but not all) of the participants in terms of retirement income products and financial advice. Demand for FSCS-protected products and advice is linked to the role of the FSCS in providing protection.

Furthermore, the provision of additional information about the FSCS in the experiment lowered the demand for products not protected by the FSCS. *It is important that people are aware of the differing levels of coverage that the FSCS provides depending on which retirement products they choose to purchase.*

The experiment confirms that there is a relatively high degree of awareness of the FSCS, and that, while consumers may not be familiar with the precise details of FSCS protection, they do appear to be broadly aware of what is, and is not, covered by it. They use this information to help inform themselves about the risks they are willing to take and the pension decisions that they make.

1 Introduction

Oxera and the Centre for Experimental Social Sciences (CESS) conducted a behavioural experiment on behalf of the Financial Services Compensation Scheme (FSCS) to assess the impact that information about the FSCS had on choices of retirement products and financial advice. This report presents the findings of the experiment.

Box 1.1 Summary of section 1

Section 1 introduces the context for the experiment—i.e. the April 2015 pension freedoms, and the differing protection that the FSCS offers different pension products.

1.1 Objective

Since the pensions liberalisation in April 2015, individuals with defined-contribution (DC) pension funds have been able to choose from among a wide range of options for their pension funds at retirement. Many people still choose to buy a pension annuity, while increasing numbers are choosing income drawdown products or deciding to withdraw funds from the pot directly.[4] All of the options require careful consideration of the risks and potential rewards involved, including rates of return, capital risk, possible scams, taxation, and the degree of protection afforded by the FSCS (see Box 1.2).

Most people choose a retirement income product when they reach retirement. As this is a one-off decision, there is little opportunity to learn from past experience. There is also little opportunity to learn from other people's experiences, as the market is relatively new and the consequences of choosing an inappropriate retirement income product materialise over many years. In the case of FSCS coverage, poor outcomes are likely to arise for only a small proportion of people.[5]

The FSCS therefore wished to investigate the role that it plays in how consumers choose their retirement income products, and in whether they decide to obtain financial advice. FSCS coverage is part of the set of characteristics that people may take into account in their choices of retirement income products and advice. Therefore, ensuring that consumers have suitable information on FSCS coverage should help them to pick products that are most closely aligned their risk appetite.

In this context, the FSCS wished to explore whether:

1. consumers' understanding of the FSCS is correlated with their product choices or their decision about whether to obtain advice;
2. providing more or less salient information on the FSCS at the point of the retirement decision-making has any impact on people's product choices or their decision about whether to obtain advice.

With this objective, the FSCS commissioned Oxera and CESS to conduct an online behavioural experiment to explore consumer decision-making. The

[4] See Financial Conduct Authority (2017), 'Data bulletin 8', February, https://www.fca.org.uk/publication/data/data-bulletin-issue-8.pdf, accessed 26 September 2017.
[5] In a typical year, the number of claims paid out by the FSCS is around 50,000, which is a small fraction of total financial services activity. See FSCS, 'Annual Report and Accounts', https://www.fscs.org.uk/industry/publications/annual-reports/, accessed 26 September 2017.

experimental environment provided participants with a broadly realistic online environment for exploring and expressing their product and advice choices, while allowing for different information to be provided to different participants. The approach also allows for participants to be asked questions about their choices after they have made them, to understand the reasons for their decisions without the risk of affecting the choices themselves.

The experiment and its key findings are summarised in this section, with further details provided in the following sections and appendices.

Box 1.2 FSCS protection

The FSCS protects consumers in certain situations where (authorised) financial firms fail. It provides differing levels of cover for different retirement income products, and provides cover for using financial advice. Since its inception in 2001, the FSCS has helped 4.5m people and paid out over £26bn.[1]

The FSCS pays compensation to consumers of retirement income products when the authorised financial firm is unable to meet its commitments, with the amounts varying depending on the circumstances. FSCS protection covers:

- annuities from authorised financial firms—annuities are considered to be long-term insurance products, and the FSCS compensation limit is therefore no less than 100% of the value of the annuity;
- investment products from authorised financial firms—certain retirement income products are considered to be investments, which the FSCS covers up to £50,000 per person per firm. Income drawdown products invested in investment funds are thus covered if the provider of either the income drawdown product or the investment fund fails. However, peer-to-peer (P2P) lending is not covered by the FSCS—an income drawdown product invested in P2P lending would be covered if the income drawdown provider failed, but not if the P2P provider failed;
- cash deposits with authorised financial firms—cash deposits, such as those in a typical high-street bank savings account or cash ISA, are covered by the FSCS up to £85,000 per person per firm.

Some retirement income products are not covered by the FSCS. For example, if the consumer withdraws their savings to invest in property or the stock market, the FSCS would not cover the investment.

However, the FSCS does cover consumers if they obtain advice from an authorised financial adviser and make a claim against that firm for bad/misleading investment advice and the firm is unable to pay. The limit for compensation in the case of bad investment advice is £50,000 per person per firm.

Note: [1] See Financial Services Compensation Scheme (2017), 'Annual Report and Accounts 2016/17'.

Source: Oxera, FSCS.

2 The experiment

The experiment was designed to explore the role of the FSCS in consumers' choices of retirement income products and whether they decide to seek financial advice. The main elements of the experiment, described in this section, were as follows:

- experimental environment (section 2.1);
- information treatments (section 2.2);
- FSCS awareness and perceived importance (section 2.3);
- other questions and data collected (section 2.4);
- group assignment (section 2.5);
- outcomes (section 2.6);
- key outputs (section 2.7).

Box 2.1 Summary of section 2

Section 2 describes the experiment in detail, explaining the reasoning behind design decisions, including the experiment environment, structure and incentivisation. The different treatments are also presented, with the key differences highlighted.

This experiment was more than a survey; it recorded what people actually chose in a realistic environment, so the results provide insight into actual consumer behaviour and the importance of the FSCS in their decision-making.

2.1 Experimental environment

Developing an appropriate online environment in which participants select retirement income products and financial advice was a key element of the experiment. Information on product options and features was based on situations from the real world, modelled in a format similar to the Pension Wise website.[6]

The design process involved two stages of pre-testing: a laboratory test followed by a focus group to see how well participants understood the tasks; and a small online experiment (386 participants) using CESS's panel of subjects and subjects recruited from Prolific Academic (an experimental participant platform) to see whether the experiment generated meaningful results. Both were successful and resulted in only minor changes to the experiment.

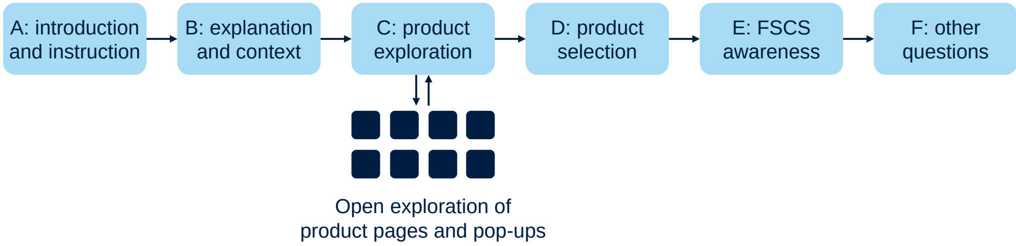
The final online experiment was conducted with a sample of 2,056 participants from the UK population aged 45+, with a mean and median age of 58. Those in the experiment would be expected to be facing decisions about their retirement income in the near future, if they had not already done so. Participants were registered panel members with Respondi, a large online panel in the UK with

[6] The Pension Wise website is described as providing 'Free and impartial government guidance about your defined contribution pension options'. See https://www.pensionwise.gov.uk/en, accessed 26 September 2017.

45,000 registered subjects, 48% of whom are older than 45.[7] The experiment was conducted over the period 14 to 28 June 2017.

The key stages of the experiment are illustrated in Figure 2.1, and are described below.

Figure 2.1 Experiment structure



Source: Oxera.

- **A**: introduction and instruction—participants were given an initial introduction to the experiment and their potential pay-off, and then asked a series of basic questions about themselves, including about their gender, age, income and education level.
- **B**: explanation and context—participants were then provided with a set of instructions. Relevant terms and concepts were explained in the context of making choices on how best to use the pension pot and choosing financial advice. Participants were also informed about the incentivisation to pay attention in the following stage.
- **C**: product exploration—participants were presented with a number of pages of information on the available retirement income products. There was one page per product with FSCS pop-ups (under the treatments). There were also pages on tax and financial advice. Participants were able to click through the pages in any order and were able to view each page multiple times. They did not have to view every page or pop-up.
- **D**: product selection—having viewed the information, participants faced decisions on their product choice and whether they would take financial advice. They were asked to explain their choices in open-text boxes. They also faced six incentivised multiple-choice questions on the information at the product exploration stage.
- **E**: FSCS awareness—participants then faced questions about whether they noticed the FSCS in the experiment, their perceptions of the FSCS, whether they had received financial advice before, whether they had a pension fund, and whether they were planning for retirement.
- **F**: other questions—participants answered a series of questions around time and risk preferences as well as other factors. This data allowed us to see whether there were any underlying drivers behind the results other than the treatments.

As the focus of this study was to understand the behaviour of people who were considering buying a retirement income product, and this behaviour will typically

[7] Respondi is an ISO 26362-certified survey company. For more detail on how the participants were recruited, see Appendix A1.

take place online, the product exploration stage was designed to represent a real-world online environment for selecting a retirement income product.

Participants were asked to imagine being at the point of retirement with a pension pot of £80k, and were told that they would face a choice of how to use their pension pot.

This kind of hypothetical scenario has successfully generated participant engagement in previous online experiments conducted by Oxera and CESS,[8] and participants' open-text responses demonstrated that there was again excellent engagement with the experiment, with participants honestly reporting their considered preferences.

The following text was presented to participants:

> Imagine that you have a pension pot of £80,000 and you are about to retire.
>
> You will need to think about how to best use your pension pot to provide you with a source of income during retirement. You will need to think about what kind of income you will need, as well as the security of different income sources. You may have other sources of money as well, such as a state pension, income from any employment you choose to continue and any property already owned.
>
> You will be given the opportunity to explore some information about your options for your pension pot at retirement, across a number of pages and corresponding pop-ups. The options include a number of different financial products that you could choose in real life. You will then be asked to rank your top three choices for your £80,000 pension pot on retirement.
>
> We would like you to respond as you would expect to in this situation, optimising your choices given your personal circumstances. Take your time and think carefully about your decisions.

Online pensions advice environments often offer basic advice on the factors that should be considered when choosing a retirement income product, in order to inform consumers.[9] The experiment followed this design by presenting relevant factors to consumers before the product exploration stage:

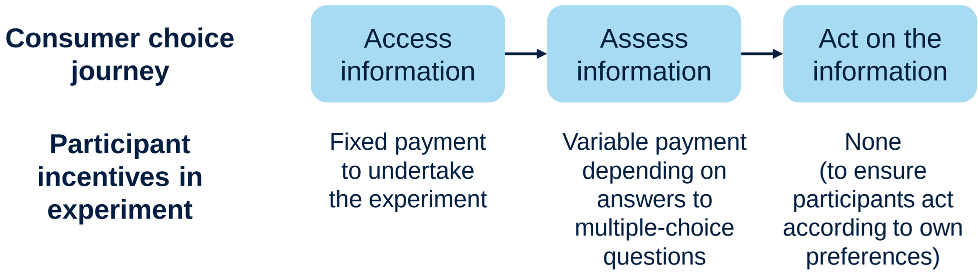
> Many of us are living longer so there is a high chance that you will stay retired for a long time. It is therefore important to make sure you have enough income.
>
> Everyone's situation is different but when you are exploring the pension options in the following pages, you may want to keep in mind the following aspects.
>
> - Flexibility—many people still have other sources of income when they retire (such as part-time work). You may value the flexibility to adjust how much pension income you take.
> - Yield—different types of retirement income products offer different rates of return on your pension savings.
> - Inheritance—you may want to leave some or all of your pension savings and/or the income from these to your dependants when you die.
> - Future spending—your expenditures may change as you get older, for example due to care or medical costs.
> - Inflation—prices tend to rise over time. If your retirement income does not keep up with rising prices (inflation), then you may struggle to make ends meet as you get older.
> - Security—you don't want to run out of money, but at the same time, you don't want to live more frugally than you actually need to.

[8] Oxera and CESS (2017), 'Identifying metrics to aid consumer choice in the income drawdown market', March; and Oxera and CESS (2016), 'Choices for retirement income products and financial advice', June.
[9] For example, see Money Advice Service 'Retirement income options tool' https://www.moneyadviceservice.org.uk/en/retirement-income-options/retirement-options, accessed 26 September 2017.

The incentivisation was also explained clearly, and participants were given the incentive to pay careful attention to the experiment. Incentivisation, in accordance with experimental best practice, encourages participants to take their time and think carefully in the experiment.

In this experiment, attention was incentivised, rather than choice of product, to prevent participants being ‘pushed’ into any particular product choice (or into taking financial advice). Thus, the experiment captured participants’ genuine preferences for a particular product and for seeking financial advice, rather than any experimenter-demand effect. A broadly similar proportion of people chose each type of product and advice as in actuality.[10] In terms of the access/assess/act framework, the incentivisation occurred at the assess step (see Figure 2.2).

Figure 2.2 Incentivisation in the access, assess, act framework



Source: Oxera; and Office of Fair Trading (2010), ‘Behavioural economics and competition policy’, presentation by Amelia Fletcher, OFT behavioural economics seminar, 22 April.

The information treatments, which occurred in the product exploration stage, are described below.

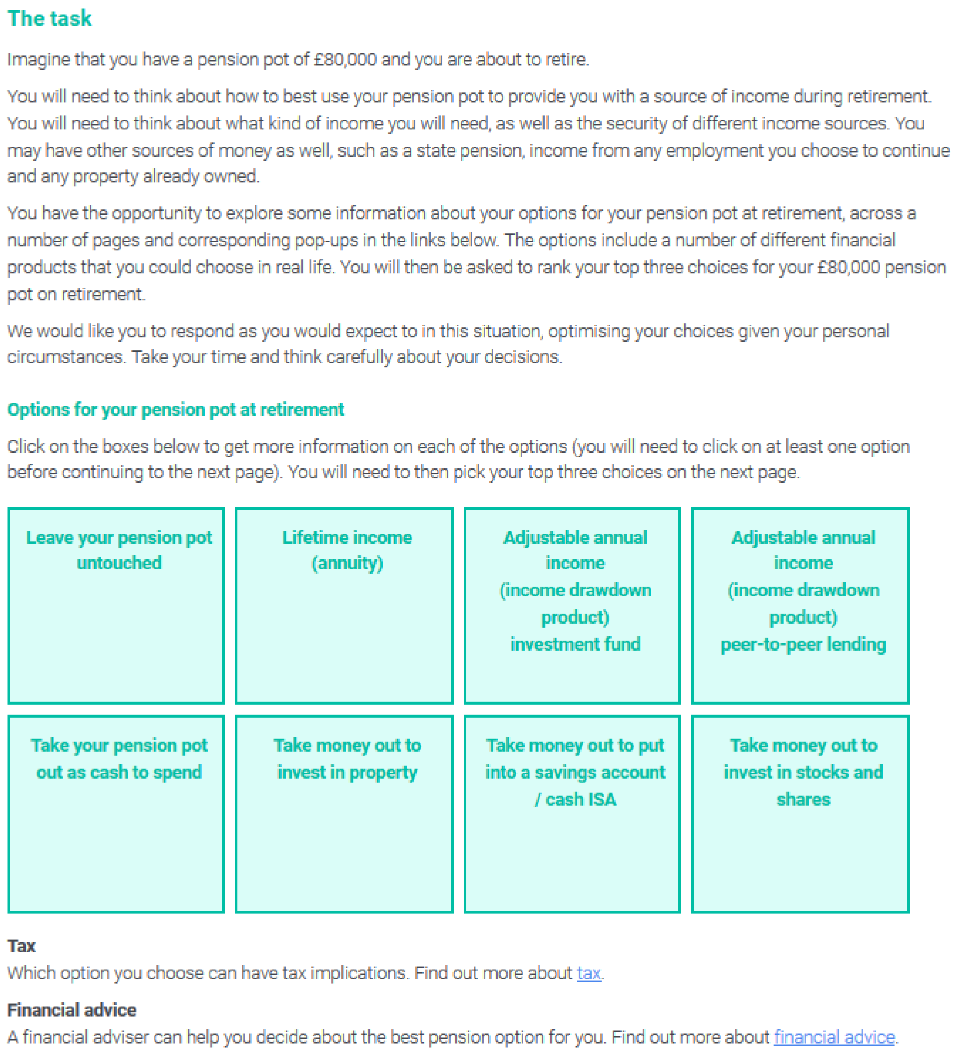
2.2 Information treatments

The information treatments provided information on the FSCS. They were designed to be no more salient than what those presenting pension choices to customers might reasonably implement in reality. For example, participants were in control of what information they viewed (i.e. the choice to click on a particular page or pop-up), rather than being forced to see certain information. Therefore, the findings of the experiment are directly relevant to what the FSCS, or those describing the FSCS, might reasonably implement.

The main screen in the product exploration stage is shown in Figure 2.3. This was designed to be sufficiently complex such that the treatment information on the FSCS was not overly prominent, reflecting its position in the real world.

[10] See section 3.1 for details.

Figure 2.3 Product exploration main screen



Note: The boxes turned a different shade once they had been clicked on. This is a common feature of online hyperlinks, and enabled participants to keep track of which pages they had viewed.

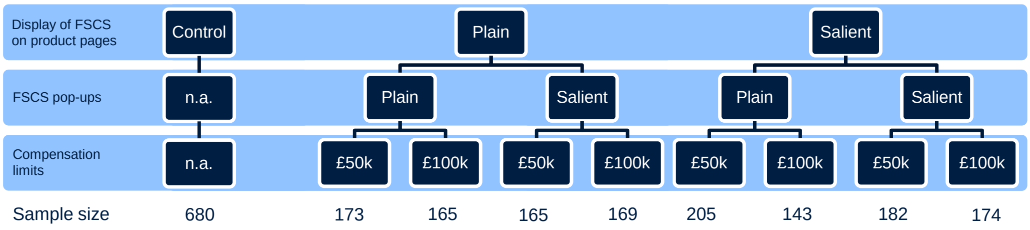
Source: Oxera and CESS.

The experiment had one control treatment and eight information treatment cells, as illustrated in Figure 2.4 below. The control treatment consisted of 680 participants, with an average of 172 participants per information treatment cell.

There were no differences between the control treatment and the information treatments, other than the content and presentation style of information about the FSCS. Participants in the control treatment saw no information on the FSCS in the product exploration or product stages of the experiment.[11] Therefore, comparing the results from information treatments with the results from the control treatment robustly illustrates the effect of the information treatment.

[11] The only mention of the FSCS in the control treatment was at the FSCS awareness stage.

Figure 2.4 Cells in experiment



Source: Oxera and CESS.

The information treatments are described below.

- The FSCS display in the product pages and the financial advice page was either ‘Plain’ or ‘Salient’. The Salient FSCS product page display was designed so as to gain greater attention from participants.
  - The **Plain** FSCS text described the FSCS briefly at the bottom of the product page.
  - The **Salient** FSCS text described the FSCS at the top of the product page and included the FSCS logo.
- The FSCS pop-up in the product pages and the financial advice page was either Plain or Salient. The Salient pop-up was designed so as to be more impactful.
  - The **Plain** FSCS pop-up described the FSCS with less impactful language and did not include the FSCS logo.
  - The **Salient** FSCS pop-up had more impactful language and included the FSCS logo.
- The FSCS investment compensation limit for investment products was varied between £50k and £100k. The current limit in reality is £50k, and the £100k limit was included to see whether it changed consumer choices.

Replicated below are the product pages for ‘Adjustable annual income (income drawdown product) – investment fund’ under the Plain and Salient FSCS display (Figure 2.5) and pop-up (Figure 2.6) information treatments.

Figure 2.5 Presentation of product pages under different FSCS display information treatments

Plain

Adjustable annual income (income drawdown product) – investment fund

Description

Income drawdown

Income drawdown is where you transfer your pension pot to an income drawdown product. With such a product, your pot is invested and you take an (adjustable) income directly from it, typically every year. As the rest of your pension pot remains invested, it will continue to benefit from any investment growth. As you take income, your pension pot gets smaller until it is depleted. Depending on your usage decisions and investment returns, your pension pot may run out – potentially this could happen while you are still alive.

- You get 25% of your pot as a single, tax-free cash sum.
- The other 75% is invested in mutual funds to give you a regular, taxable income.
- You can adjust the annual income you take and when you take it.

Investment funds

If you choose this option, you will need to be involved in choosing investment funds to invest your money in. Investment funds pool together money from lots of individuals and invest in a range of assets (such as stocks and shares, or bonds) in the UK and abroad. The value of your pot can go up or down.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme covers the income drawdown product – if your income drawdown provider goes bust, you *may* be protected by the Financial Services Compensation Scheme (FSCS).

The FSCS also covers the provider's investment funds that you invest in through the income drawdown product – if the investment fund provider goes bust, you may be protected by the the FSCS.

Find out more about how the Financial Services Compensation Scheme applies to this option here.

Financial advice

If you're interested in this option you might want to get financial advice first. A financial adviser can help you assess if an income drawdown product is a good option for you as well as compare different annuity options and work out which is best for you. Find out more about financial advice here.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

<< Back to main page

Salient

Adjustable annual income (income drawdown product) – investment fund

Financial Services Compensation Scheme

The Financial Services Compensation Scheme covers the income drawdown product – if your income drawdown provider goes bust, you *may* be protected by the Financial Services Compensation Scheme (FSCS).

The FSCS also covers the provider's investment funds that you invest in through the income drawdown product – if the investment fund provider goes bust, you may be protected by the the FSCS.

Protected

Click here to find out more about how the Financial Services Compensation Scheme applies to this option. You can be compensated up to £100,000 per firm. Your pension pot is £80,000.

Description

Income drawdown

Income drawdown is where you transfer your pension pot to an income drawdown product. With such a product, your pot is invested and you take an (adjustable) income directly from it, typically every year. As the rest of your pension pot remains invested, it will continue to benefit from any investment growth. As you take income, your pension pot gets smaller until it is depleted. Depending on your usage decisions and investment returns, your pension pot may run out – potentially this could happen while you are still alive.

- You get 25% of your pot as a single, tax-free cash sum.
- The other 75% is invested in mutual funds to give you a regular, taxable income.
- You can adjust the annual income you take and when you take it.

Investment funds

If you choose this option, you will need to be involved in choosing investment funds to invest your money in. Investment funds pool together money from lots of individuals and invest in a range of assets (such as stocks and shares, or bonds) in the UK and abroad. The value of your pot can go up or down.

Financial advice

If you're interested in this option you might want to get financial advice first. A financial adviser can help you assess if an income drawdown product is a good option for you as well as compare different annuity options and work out which is best for you. Find out more about financial advice here.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

<< Back to main page

Source: Oxera and CESS.

Figure 2.6 Presentation of product pages under different FSCS pop-up information treatments

Plain

About the Financial Services Compensation Scheme (FSCS)

FSCS protects consumers when financial services firms fail. It's the compensation scheme for customers of UK authorised financial services firms.

If your provider can't pay you

You can be compensated for up to 100% of the value of your annuity pot if you have bought a guaranteed income product (annuity) from a pension provider authorised by the Financial Conduct Authority (FCA).

FSCS can pay compensation if your provider has failed and cannot return your investments or money owed, and you lose money.

If you used an authorised financial advisor, you may also be protected by the Financial Services Compensation Scheme if you suffered a loss arising from bad investment advice, poor investment management or misrepresentation.

Salient

About the Financial Services Compensation Scheme (FSCS)

FSCS protects consumers when financial services firms fail. It's the compensation scheme for customers of UK authorised financial services firms. Since its inception, the FSCS has helped over 4.5m people, paying out more than £26bn in compensation.

fscs

Protected

The FSCS is a non-profit, independent organisation set up by the government. The FSCS does not charge individual consumers for using their service.

If your provider can't pay you

You can be compensated for up to £100,000 per firm if you have invested in a peer-to-peer (P2P) lending platform as part of your adjustable income pot from a pension provider authorised by the Financial Conduct Authority (FCA).

If your P2P lending product provider can't pay you

You *cannot* be compensated by the FSCS if your P2P lending platform has failed and can't pay you. P2P lending platforms are not covered in the scope of the FSCS.

However, if you used an authorised financial advisor, you may be protected by the Financial Services Compensation Scheme if you suffered a loss arising from bad investment advice, poor investment management or misrepresentation.

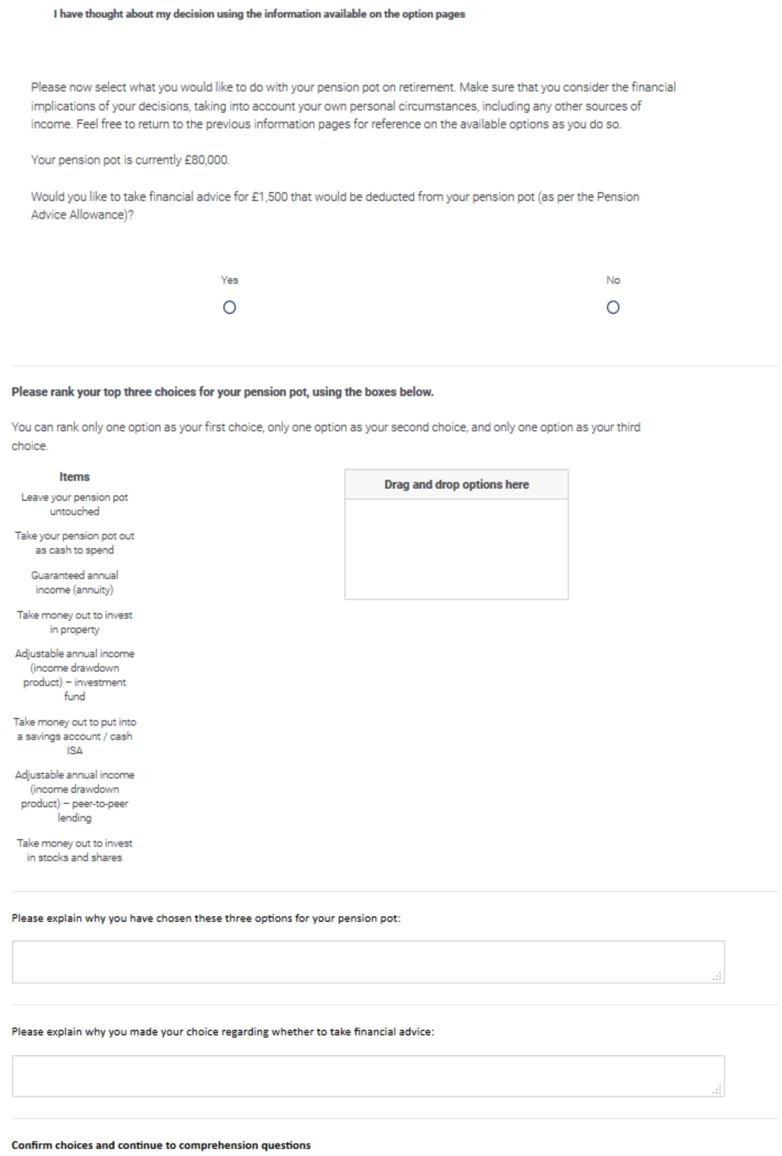
Source: Oxera and CESS.

Screenshots of all the information treatments can be found in Appendix A2.

2.2.1 Product selection

Participants were then presented with a screen where they chose their top three product choices, in order of preference. They also chose whether they would obtain financial advice (see Figure 2.7).

Figure 2.7 Product selection screen


I have thought about my decision using the information available on the option pages

Please now select what you would like to do with your pension pot on retirement. Make sure that you consider the financial implications of your decisions, taking into account your own personal circumstances, including any other sources of income. Feel free to return to the previous information pages for reference on the available options as you do so.

Your pension pot is currently £80,000.

Would you like to take financial advice for £1,500 that would be deducted from your pension pot (as per the Pension Advice Allowance)?

Yes No

Please rank your top three choices for your pension pot, using the boxes below.

You can rank only one option as your first choice, only one option as your second choice, and only one option as your third choice.

Items

Leave your pension pot untouched

Take your pension pot out as cash to spend

Guaranteed annual income (annuity)

Take money out to invest in property

Adjustable annual income (income drawdown product) – investment fund

Take money out to put into a savings account / cash ISA

Adjustable annual income (income drawdown product) – peer-to-peer lending

Take money out to invest in stocks and shares

Drag and drop options here

Please explain why you have chosen these three options for your pension pot:

Please explain why you made your choice regarding whether to take financial advice:

Confirm choices and continue to comprehension questions

Source: Oxera and CESS.

The eight products that respondents were asked to choose between incorporated a variety of FSCS-protected and unprotected options, with a range of FSCS compensation limits. This allows us to test whether views about the FSCS and the salience of the FSCS in the experiment nudged people towards FSCS-protected options.

Participants were asked to choose their top three products (rather than just one product) to allow them to indicate relative preferences between products. The open-text boxes that allowed participants to explain their choices did not require a response in order for the participant to continue in the experiment, and were included so as to encourage participants to engage with the experiment. Many participants provided quite lengthy comments about the drivers behind their choices, including issues around costs, trust in the financial system, protection from risk, and rates of return.

After product selection,[12] the participants answered the multiple-choice questions.

2.2.2 Multiple-choice questions

There were six multiple-choice questions to test comprehension, each of which was worth £0.50 to the participants if answered correctly. The questions were factual questions based on information presented in all treatments at the product exploration stage. Participants could not navigate back to find the answers, and the pay-off was therefore based on recall.[13] Participants were informed of their pay-off at the end of the experiment.

2.2.3 Ethical standards

Oxera and CESS uphold the highest ethical standards in conducting behavioural experiments and do not seek to deliberately deceive participants.[14]

Participants therefore faced an additional screen after their product choices that made it clear that the FSCS investment limit is £50k in reality, and that the cost of financial advice may vary. It also made it clear that the experiment was not in itself financial advice. Participants had to acknowledge and accept this before continuing. This disclaimer page is shown in Appendix A2.

2.3 FSCS awareness and importance

According to Financial Conduct Authority (FCA) data, the level of awareness of the role of the FSCS is relatively high (as indeed was confirmed by the experiment).[15] This means that the information treatments may have had only a limited impact on participants' behaviour, if, on the whole, they were already aware of the role of the FSCS. The experiment was therefore designed to explore the role of the FSCS in decision-making beyond the informational treatments, by asking additional questions about the relevance of the FSCS after choices had been made.

As these questions were asked once the participants had confirmed their choices, and were no longer able to change these, the stated role of the FSCS could be compared with the choices made beforehand. Consistency of those

[12] Preferences were elicited in relation to pension products by asking the participants to allocate their pension in proportions to the different products. For example, a participant could choose to allocate 100% of their pot to their first choice, or 40%, 35% and 25% to their top three pension choices respectively. Participants could enter any allocation of products as long as the total allocation was no more than 100%. However, this response method elicited inconsistent responses from a large number of participants—similar to the classic 'preference reversal' found in the literature on this topic. (See, for example, Grether, D.M. and Plott, C.R. (1979), 'Economic Theory of Choice and the Preference Reversal Phenomenon', *The American Economic Review*, **69**:4, pp. 623–38, September.) For this reason, the results of this response method were excluded from the formal results analysis. Note that participants could not navigate to previous screens in the experiment from the screen that asked them to allocate proportions—i.e. there was no risk that this question could 'contaminate' the other product selection question.

[13] It is conceivable that a participant could search for the answers to the multiple-choice questions online in another browser (although this might take some time). This possibility was not seen as a concern as the multiple-choice questions were not the key output of the experiment—they were included to incentivise respondents to pay attention during the previous experiment stages. Therefore, online searching for multiple-choice answers at this stage, if it did occur, would not 'contaminate' the results.

[14] For more information, see the CESS website: https://cess-web.nuff.ox.ac.uk/ethics/pages/guidelines/, accessed 26 September 2017.

[15] As at 2017, 78% of people in the UK are aware of the FSCS. See Financial Services Compensation Scheme (2017), 'Annual Report and Accounts 2016/17'. In the experiment, 70% of participants reported that they had previously heard about the FSCS.

choices indicates the correlation between the stated importance of the FSCS and the actual choices made.

Questions explored participants' awareness of the FSCS and their views on its importance—in particular, in order to:

- capture prior awareness of the FSCS among the sample of those aged 45+;
- examine whether different information treatments resulted in more participants noticing the FSCS in the experiment;
- explore participants' understanding of the FSCS. Simple (non-incentivised) multiple-choice question were asked about the FSCS which required some relatively deep knowledge of the FSCS (namely, that P2P lending is not covered by the FSCS if bought without financial advice);
- probe into how important participants considered the FSCS to be in their choices.

The FSCS awareness and importance questions are shown in Figure 2.8. While these are 'stated' rather than 'revealed' preference questions, they illustrate participants' views of the FSCS and can reveal correlation with information treatments.

Figure 2.8 FSCS awareness and importance questions

Had you heard of the Financial Services Compensation Scheme (FSCS) prior to the experiment?

- ○ Yes
- ○ No

Did you notice the Financial Services Compensation Scheme (FSCS) in the experiment?

- ○ Yes
- ○ No

Which product is strictly not covered by the Financial Services Compensation Scheme (if bought without advice)?

- ○ Investment fund
- ○ Peer to peer lending
- ○ Guaranteed income (Annuity)

How much did you pay attention to the FSCS in the pension product page? (1=no attention, 5=great attention)

1	2	3	4	5
○	○	○	○	○

How important was the FSCS to you in your choice of product? (1=not important, 5=very important)

1	2	3	4	5
○	○	○	○	○

How important was the FSCS to you in your choice of using an advisor? (1=not important, 5=very important)

1	2	3	4	5
○	○	○	○	○

Would you be more likely to get financial advice if the option you considered was not protected by the FSCS? (1=least likely, 5=most likely)

1	2	3	4	5
○	○	○	○	○

Source: Oxera and CESS.

2.4 Other questions and data collected

Data was collected on a range of participant characteristics, as listed below. For statistics on data collected, see Appendix A1. All the questions, in the format in which they were asked, can be found in Appendix A2.

While the demographic questions were asked at the start of the experiment, the other three categories listed below were asked at the end, to avoid unintentionally priming the participants to select products in a certain way.

- Demographics—data was collected on each participant's age, gender, household income, and education. Only participants aged 45+ were permitted to complete the experiment, in order to match the participant population as closely as possible to the population that will be considering retirement income at some point in the medium term.[16]

[16] An upper bound was not imposed on participants' ages, to allow for a sufficiently large panel population from which to obtain participants. In addition, as people make decisions on their retirement income at different times (or at multiple points in time), an upper bound to participants' ages might have been

- Product ownership and use of financial advice—participants reported whether they had previously used financial advisers; whether they had DC and/or DB (defined benefit) pension pots; and whether they were planning for retirement.
- Financial literacy—information was collected on income and financial literacy (through stated responses on ability and understanding, as well as questions that tested participants' ability to perform simple financial calculations). This involved asking participants: to what extent they agreed with the statement 'Financial services are complicated and confusing to me'; two questions that involved understanding compound interest rates; and a cognitive reflection test.[17]
- Preferences and behavioural biases—collecting four responses on risk preference and time preference. These measured risk aversion, loss aversion, time discount rates, and whether the participant had inconsistent time preferences ('hyperbolic discounting').

Data was also collected on which pages and pop-ups each participant clicked on, and how long they spent on each page/pop-up. This data provides another measure of participant engagement.[18]

2.5 Group assignment

Participants were randomly assigned to the control group or one of the other treatments using the block randomisation method (described in Appendix A1). This method first divides participants into sub-groups ('blocks') based on observable characteristics (gender, high/low education level and high/low income). Then, within each block, participants are randomly assigned to each group. The method ensures that any characteristics of the participants that might influence the outcome are accounted for. For example, if highly educated people are more likely to choose the cheapest product, block randomisation prevents this from skewing results because it ensures that no one treatment group contains too many highly educated people.

The analysis verified that the socio-demographic characteristics of each of the eight groups plus the control were similar. The results are reported in Appendix A1.

2.6 Outcomes

It was made clear to participants at the start that the experiment was incentivised—there was a participation payment (£2.90 for each participant), and the potential for more payments depending on their responses.

Participants also received payment based on the number of follow-on questions that were correctly answered in relation to the content made available on the product pages and pop-ups. All treatment groups were asked the same questions, which did not include any questions on the FSCS. For each of the six questions answered correctly, £0.50 was paid. The pay-off for these follow-on questions could therefore be between zero and £3.00, with a median pay-off of £2.14.

inappropriate for other reasons. Finally, only 73 participants (3.5% of the sample) were aged above 75, mitigating any effect that including individuals who had already been retired for some time might have had on the results.

[17] The cognitive reflection question was 'You buy a bat and a ball for £1.10. The bat costs £1 more than the ball. How much does the ball cost?'

[18] Data was handled such that participant confidentiality and anonymity were preserved at all times. See the CESS website: https://cess-web.nuff.ox.ac.uk/ethics/pages/guidelines/, accessed 26 September 2017.

In this experiment, there was no ‘right or wrong’ answer to the retirement product selections and choice of advice; the focus was on the choices made by participants in different circumstances. Consequently, the reward system based on answers to these follow-on questions was of less relevance to the findings than it had been in previous behavioural experiments.[19]

Participants also received payment based on their response to the risk-preference question (Q34): where participants selected a risky gamble, pay-offs were based on a realisation of a random variable based on the distribution of the participant’s response. The pay-off for the risk-preference question could be between zero and £2.16, with a median pay-off of £0.85.

The whole experiment had a median pay-off of £5.89, with a range of £3.08 to £8.06.

2.7 Key outputs

The key outputs measured from this experiment were:

- the retirement products picked by participants;
- whether a participant chose to obtain financial advice;
- the perceived importance of the FSCS in the product and advice choices;
- the responses to additional questions about financial understanding, risk preferences, and levels of engagement with the experiment.

[19] For example, Oxera and CESS had previously tested the ability of participants to select the lowest-cost income drawdown product, with different information provided, and rewarded them directly according to the quality of their answers. See Oxera and CESS (2017) ‘Identifying metrics to aid consumer choice in the income drawdown market’, March. However, in the FSCS experiment, direct reward for choices was not appropriate.

3 Key findings

The objective of the experiment was to explore the role of the FSCS in the decisions that people make about retirement income products and advice, in a hypothetical online setting involving an £80,000 DC pension pot. In this experiment, there was no ‘right or wrong’ answer in terms of product selection or advice; the focus was on the choices that participants made in different circumstances.

This section presents the key results of the experiment, set out as follows:

1. the choices regarding retirement income products and advice, including the combination of choices;
2. the perceived relevance of the FSCS in the choices that participants made, in terms of both product and advice choices;
3. the response to the treatments—the impact of the presentation of information on the FSCS (the treatments) on the choices that participants made;
4. other drivers of the choices made by participants.

Each is considered in turn below.

Box 3.1 Summary of section 3

Section 3 presents the results of the experiment. The combinations of products selected by participants were found to be broadly consistent with what might be expected. In addition:

- those choosing income drawdown products were more likely to take financial advice;
- those who were aware of the FSCS or thought that the FSCS was important were more likely to take advice;
- people think twice about what risks they are willing to take when they hear more about the FSCS. Upon being presented with more information about the FSCS, fewer people chose to withdraw their pension pot and to invest in stocks and shares.

3.1 The choices regarding retirement income products and advice

3.1.1 Choice of retirement income product

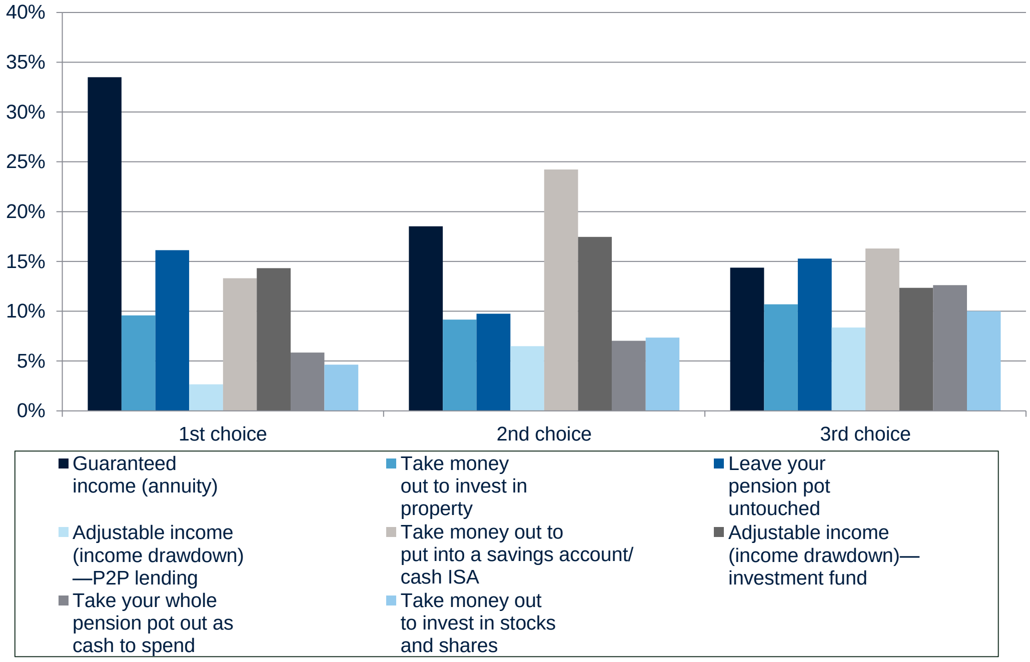
The choices that participants made about the retirement income products were broadly in line with what might be expected given the choices observed in the real world, albeit with a somewhat stronger preference for pension annuities over income drawdown than might be implied by recent trends. In particular:

1. pension annuities were the most popular option, with 33% of participants choosing an annuity as their first choice, and 66% including annuities as any one of their three choices;
2. income drawdown was the second-most popular choice, with 14% of participants selecting this as their first choice, and 43% including income drawdown as any one of their three choices;

Industry data suggests that income drawdown sales are somewhat higher than pension annuity sales—in Q3 2016, there were 20,100 sales of new pension annuities and 22,000 sales of new income drawdown products.[20]

Figure 3.1 presents the choices made by participants regarding the eight products.

Figure 3.1 Proportions of participants choosing different products



Source: Oxera.

The combinations of products selected by participants were also broadly consistent with what might be expected. For example, those whose first choice was a pension annuity were more likely to choose an income drawdown as their second choice (and vice versa), presumably reflecting their focus on the two main FSCS-protected pension income choices. In contrast, those selecting alternative uses of funds—such as investing in property, shares or P2P lending—were less likely to select an annuity or income drawdown as their second choice.

Table 3.1 presents the proportions of participants who chose different products as their second choice, given the product they chose as their first choice. For example, 33% of those people who chose an annuity as their first choice (the third column of the table) chose an income drawdown as their second choice (the fourth row of the table).

[20] See Association of British Insurers (2017), 'The new retirement market: the evolution continues', 11 April, https://www.abi.org.uk/news/news-articles/2017/04/the-new-retirement-market-the-evolution-continues/, accessed 26 September 2017.

Table 3.1 Proportions of participants choosing combinations of products

	Leave	Annuity	Inc Draw	P2P	Spend	Property	Saving	Shares
Leave	0%	14%	9%	6%	8%	7%	14%	5%
Annuity	36%	0%	30%	22%	21%	25%	28%	11%
Inc Draw	13%	33%	0%	29%	8%	10%	10%	17%
P2P	2%	5%	20%	0%	2%	5%	4%	9%
Spend	5%	7%	4%	2%	0%	11%	16%	8%
Property	12%	6%	7%	10%	16%	0%	13%	24%
Saving	28%	30%	19%	20%	38%	29%	0%	26%
Shares	3%	5%	10%	12%	6%	13%	14%	0%

Note: The columns of the table sum to 100%, as the table presents the breakdown of second-choice options given the first product choice.

Source: Oxera.

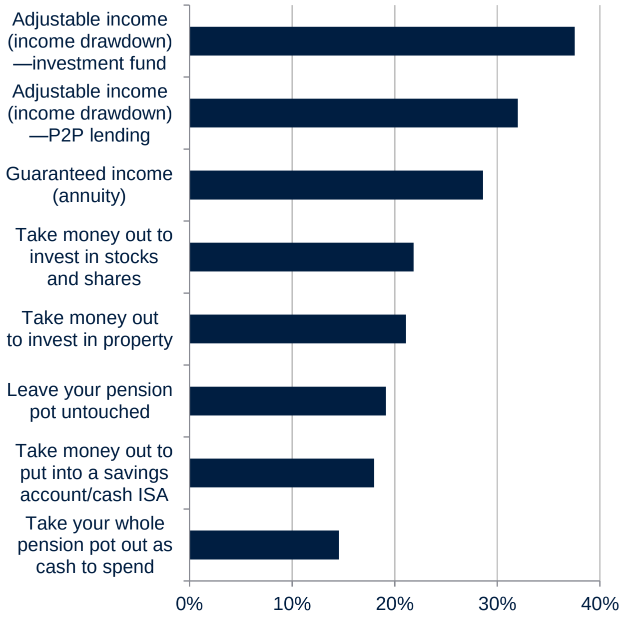
3.1.2 Choice regarding financial advice

Of the participants, 25% chose to pay for financial advice, at a charge of £1,500. FCA data suggests that the proportion of people receiving some form of advice is typically higher than this for income drawdown and annuities, although this includes restricted advice as well as the independent financial advice considered in this experiment.[21] A significant proportion of participants (26%) noted in the comments section that the cost of advice was high, although the presented fee is broadly in line with that charged in reality.[22]

The decision of whether to take financial advice was strongly correlated with product choice. Participants choosing an income drawdown product were much more likely to choose advice as well than, for example, participants choosing to leave the funds in the pension pot, put the funds into a savings account, or take out the money to spend. Figure 3.3 presents the proportions choosing advice by their first choice for the product.

[21] FCA data suggests that 65% of those buying income drawdown products have received some form of regulated advice, while 33% of annuity purchases involved some form of regulated advice. See Financial Conduct Authority (2017), 'Data bulletin 8', February, https://www.fca.org.uk/publication/data/data-bulletin-issue-8.pdf, accessed 26 September 2017.
[22] FCA research finds that the initial cost of advice varies from around 1% to 3% of the value of assets, which would bring the cost of financial advice into a range of £800–£2,400 for a £80,000 pension pot. See Financial Conduct Authority (2017), 'Data bulletin 8', February, https://www.fca.org.uk/publication/data/data-bulletin-issue-8.pdf, accessed 26 September 2017.

Figure 3.3 Proportions of participants choosing advice by first product choice



Source: Oxera.

3.1.3 Allocation of pension funds to products

Participants were also asked to indicate what proportion of their funds they would allocate to their three chosen products. Participants could allocate less than 100% in total to the three products, but could not allocate more than 100% of the pension pot in total.

The data collected by this question was considered insufficiently reliable to provide useful results. In many cases, the answers indicated that the participant had not considered the question carefully. For example, in approximately one-third of cases, the answer involved a larger proportion of the pot being allocated to the second or third choice than to the first choice, which would seem counterintuitive. For this reason, the results are not set out here, although they were included in the econometric analysis (see Appendix A3).

3.2 The perceived relevance of the FSCS in participants' choices

Strong correlations were found between the choices made by the participants and the perceived relevance of the FSCS that they reported in the subsequent questions. There was a clear consistency between the choices of products and financial advice and whether they believed FSCS protection to be important.

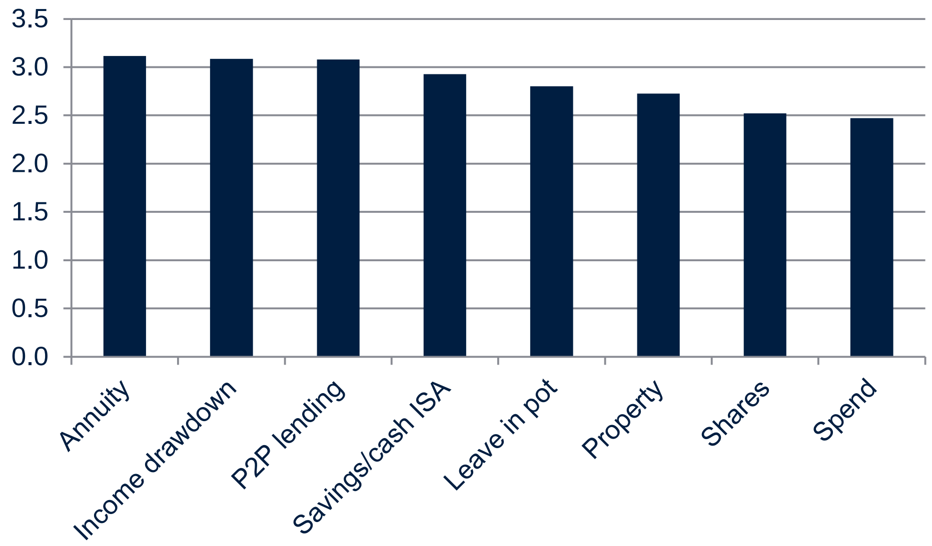
In general, the level of awareness of the FSCS is understood to be relatively high. This was confirmed in this experiment, with 70% of participants reporting that they had previously heard of the FSCS.[23] Of those who were shown information about the FSCS, the rate was even higher, at 79%. In addition, 80%

[23] As at 2017, 78% of people in the UK are aware of the FSCS—see Financial Services Compensation Scheme (2017), 'Annual Report and Accounts 2016/17'.

of participants correctly answered the question about which product was strictly not covered by the FSCS.[24]

With this relatively high level of awareness, it is perhaps not surprising that the answers to the subsequent questions about the perceived importance of the FSCS were broadly consistent with the choices made by participants in the experiment. For example, those choosing an annuity or income drawdown later reported significantly higher importance of the FSCS than those choosing property, shares or spending. Figure 3.4 presents the average score for the importance of the FSCS, by first product choice.

Figure 3.4 Average score for the importance of the FSCS by first product choice



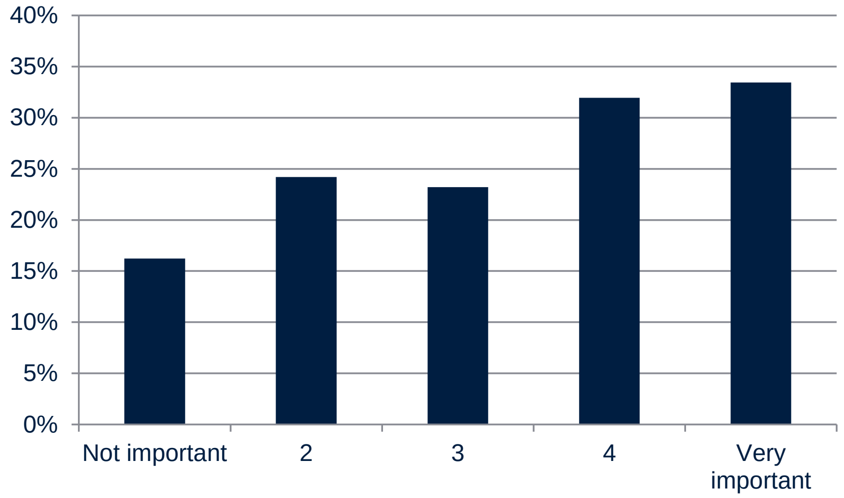
Note: The question 'How important was the FSCS to you in your choice of product?' was rated from 1 (not important) to 5 (very important), which then provided the basis for estimating the average score.

Source: Oxera.

There were also strong correlations between whether the participant chose advice and the reported importance of the FSCS. Those who chose advice were more likely to report the FSCS as being important both for product choice and for choice about whether to use an adviser. For example, Figure 3.5 presents the percentage of participants who chose advice, according to the level of importance that they associated with the FSCS in relation to product choice.

[24] There were three possible answers to the question ('Which product is strictly not covered by the Financial Services Compensation Scheme (if bought without advice)?'—namely, Investment fund; Peer to peer lending; or Guaranteed income (annuity).

Figure 3.5 Proportion choosing advice by FSCS importance for product choice



Source: Oxera.

The correlations between the perceived importance of the FSCS and product/advice choices does not prove causation—for example, it may be that inherently risk-averse people are more likely both to see the FSCS as important and to choose products that are FSCS-protected. However, the correlations do show that participants acted consistently regarding the FSCS, and further support the relatively high levels of awareness of the FSCS. For example, those who believe that the FSCS is important are more likely to choose financial advice, perhaps reflecting both the importance of risk management to these people and their awareness that regulated financial advice is covered by the FSCS.

As explored further below, the importance of the FSCS was not correlated with the treatments. This may reflect the relatively high awareness of the FSCS beforehand, in which the treatments did not significantly alter this awareness. Only 21% of participants who were presented with information about the FSCS reported that they were not previously aware of the FSCS. This means that the correlation between the perceived importance of the FSCS and the choice of FSCS-protected products and regulated advice must arise from prior understanding of the role of the FSCS, rather than information gained from the experiment itself.

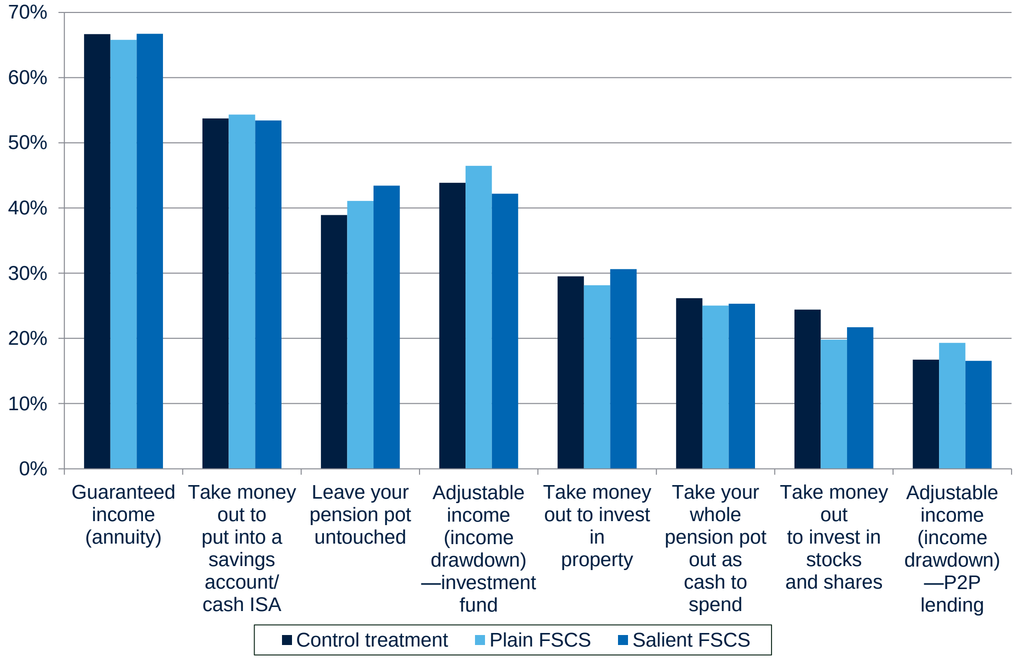
3.3 The response to the treatments

The sample of 2,056 participants was randomly divided into eight groups and a control group. Each group was shown a slightly different presentation of information about the FSCS, but the treatments differed in no other way. Participants then made choices about products and advice, but it is important to note that they were incentivised only to pay attention to the information, not to make any particular choices for products or advice. The 'correct' choice of retirement products was expected to differ based on each individual's personal circumstances, with FSCS coverage being only one factor in their decisions.

This means that only a small impact on decisions could be expected from the treatments, to the extent that the presentation of information altered the decisions that participants made. This was particularly the case given that the individuals in the sample already had a relatively high level of awareness of the FSCS (and hence were likely to have already formed a view on its relevance).

The variation in product choices across the treatments was therefore relatively small (see Figure 3.6).

Figure 3.6 Proportions selecting products as their first, second or third choice, by treatment



Source: Oxera.

The impact of the treatments was therefore relatively limited, although a number of statistically significant impacts were noted, including a reduction in the proportion of participants choosing:

- stocks and shares. This can be explained in terms of some people being discouraged from this option due to the lack of FSCS protection;
- income drawdown products for the most salient presentation of information about the FSCS—with an opposite increase in the proportion of participants choosing to leave funds in the pension pot.

The changes in behaviour were relatively small but statistically significant (see the econometric results in Appendix A3).

No overall impact was noted on the choice about taking financial advice. While there is a strong correlation between choosing advice and the perceived importance of the FSCS, the impact of the treatments could have involved two confounding effects. First, some participants could have been deterred from choosing products that are correlated with lower levels of advice, including stocks and shares, and property. On the other hand, some participants appear to have been discouraged from taking out income drawdown products, where the level of advice-taking is typically high. Overall, these effects may have cancelled one another out.

There did, however, appear to be a correlation between the views on advice and the treatments. In particular, there was a statistically significant reduction in the number of participants who mentioned the cost of advice (as a reason for not choosing advice) when presented with the treatments. Cost was mentioned by

26% of participants overall, but by only 22% of participants who were presented with information about the FSCS.

3.4 Other drivers of the choices made by participants

Other information collected in the experiment was also found to be correlated with the choices made by participants, and may provide some additional insights into why certain choices were made. Some of the stronger findings (all statistically significant) can be summarised as follows.

- Those with **higher levels of income and/or education** were found to be more likely to choose products that involve investment risk, including income drawdowns, P2P lending, stocks and shares, and property (and less likely to choose an annuity, spend the cash or leave it in the pension pot). They were also more likely to choose advice, even after controlling for the product choice.
- Those who indicated **a greater level of interest and understanding** (for example, in terms of scoring higher on the comprehension questions) were more likely to pick an income drawdown product and to choose to take advice.
- Those who had **previously received investment advice**[25] were more likely to choose an income drawdown product and to invest in shares, and were more likely to choose to take advice.
- Those who had an **accumulated pension pot** were more likely to choose an income drawdown product and advice if they had a DC pension, and were more likely to leave the money in the pot if they had a DB pension. All participants with a pension pot (DC or DB) were more likely to choose an annuity, and less likely to choose property, than those without.

[25] Participants were asked whether they had previously received advice from a financial adviser.

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