

Despite being one of the most significant financial decisions of people's lives – often only second in monetary terms to buying a home – retirement income planning is often shaped by fear aversion and emotional connections rather than purely rational calculations.

Figures from Oxford Risk show that over 10.5 million people aged 55 and over fear their retirement savings will not last their lifetime. Meanwhile, data from the Money and Pensions Service (Maps) *MoneyView2025* survey shows that 49 per cent of working-age adults say they do not understand enough to make retirement decisions.

Inertia vs impulse

Broadstone head of policy, David Brooks, notes that emotional biases “undoubtedly play a significant role in retirement income decisions”.

“Fear is a major influence, especially the fear of running out of money, the fear of poor health in later life and the fear of making a mistake that cannot be corrected,” says Hymans Robertson head of DC consulting, Kathryn Flemming.

Maps pensions policy and propositions manager, Tim Sheppard, adds that these pressures appear differently for each person, and can influence both indecision and impulsive choices.

“For some people, *[these pressures]* lead to inertia: delaying decisions, defaulting into drawdown without a clear plan, or avoiding options that feel final. For others, they result in more decisive but potentially poorly understood actions, such as taking the maximum tax-free cash simply because it is available or fully cashing in a pension without a clear long-term plan for how the money will be used,” he continues.

Standard Life head of smoothed funds, Mark Baldwin, notes that the shift between work and retirement affects spending patterns, while Flemming emphasises the challenge of



Summary

- Emotional biases, particularly fear of running out of money, poor health, or making irreversible mistakes, strongly influence retirement income decisions, often overriding rational planning.
- Retirement triggers major psychological shifts, changing how individuals relate to money, prioritise immediate decisions, and understand long-term consequences.
- Industry experts advocate for a human-centred approach: Simplified communication, staged interventions, tailored digital support, and the acknowledgement of emotional impacts.

Decumulation dilemma

Paige Perrin investigates how emotional biases and fear of loss influence the way individuals make retirement income decisions

understanding irreversible choices.

“People tend to treat retirement as a financial event rather than a major life transition, which limits how well people understand the long-term consequences of irreversible choices such as annuity purchases,” Flemming says.

LCP head of financial wellbeing, Heidi Allan, highlights the terminology used around retirement decisions as another challenge that can contribute to increased fear and anxiety.

And despite suggesting that “provider communications are far superior to what they used to be years ago – plain English, things spelt out and more accessible”, she argues that there is still an issue with financial literacy and understanding,

some of the terminology used and putting time stamps on when people need to make a decision.

“We’ve come a long way, but there is still a way to go to make that easier for people so that when they do make those decisions, they’re comfortable and understand the implications of the choices that they’ve taken,” she says.

Bridging the understanding gap

Despite these challenges, progress is evident. Regulatory interventions have begun to address the need for pause points before irreversible decisions are made.

Sheppard highlights the introduction of stronger nudge requirements and the

Financial Conduct Authority's current consultation on proposals to require a standardised pensions fact sheet to be provided before certain transfers, as examples of this.

Yet, "evidence suggests understanding remains uneven, and the decision environment remains challenging as many people still make retirement income choices without engaging with basic sustainability questions", he says.

Flemming suggests that recognising the profound influence of emotions on decision-making should be the industry's starting point.

"A helpful first step for the industry is to acknowledge that emotions significantly affect retirement decisions, rather than by financial reasoning alone," she continues.

People's Pension proposition director, Kirsty Ross, advocates for a system designed with human behaviour in mind.

"Opt-out structures are more effective than opt-in ones, particularly at a stage of life when individuals may feel uncertain about making irreversible decisions. A phased approach that allows flexibility in early retirement, followed by a clearer transition to longevity protection later in life, reflects how spending patterns and risk tolerance tend to evolve," Ross adds.

She also stresses the importance of making communication simpler and better timed. "Short, sequenced interventions that warm people up to the decision are more likely to influence behaviour than lengthy, generic packs issued too late in the process," she says.

Like many aspects of today's rapidly evolving landscape, digital innovations are enhancing retirement planning by providing personalised insights and guidance that bring the consequences of financial choices to life.

"Digital tools have an important role to play, particularly when they are powered by personalisation and scenario-modelling that bring long-term consequences to life," Fidelity International head of workplace investing

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distribution, Daniel Smith, says.

However, Smith argues that digital experiences aren't sufficient alone to build the level of confidence needed to support "such significant choices".

He acknowledges that many savers continue to value personal support and that people require blends of digital and personal support at different moments.

Echoing this, Brooks cautions against oversimplifying retirement as a purely mathematical problem to be solved. "Technology should support, not replace, human judgement, especially where emotions and irreversible commitments are involved," he argues.

People-first retirement

In a shift of normal industry behaviour, experts did not call for governmental or policy intervention, but instead, advocated for awareness and early engagement to help this issue.

Baldwin warns that "behavioural mistakes can be more damaging to retirement than they can be in accumulation, due to lower flexibility, perhaps, and even less time to recover from investment downfalls at a time when money is being spent". However, he stresses that "a singular solution is not the panacea for everybody".

Brooks advocates for stronger financial education throughout working lives, alongside better signposting to impartial guidance, and more integrated support between providers and advisers. "Retirement decisions should not feel

like a one-off transaction but part of a structured journey," he suggests.

Another challenge, Allan notes, is clarifying the boundaries between information, education, guidance and advice.

"As an industry, we need to focus on how all those elements fit together, think of it from a scheme member's journey and make those boundaries a lot clearer for people so that they know what they're getting and when they're getting it," she adds.

Meanwhile, Sheppard argues that better alignment is needed between when people are offered support and when they "actually need to make a decision".

"A more supportive system needs to focus beyond providing generic scheme information and more on actively helping people understand their choices at the point decisions are made," he continues.

"Retirement decisions are often complex and emotionally charged, and education delivered too early or in generic terms does not always translate into confidence or good outcomes later on."

Ultimately, as Brooks puts it, "the industry needs to shift the narrative away from viewing retirement planning as a single rational calculation. It is a life transition".

He argues that a more integrated approach, which combines financial clarity, behavioural understanding, and empathetic communication, could lead to more confident, sustainable retirement outcomes.

And as Ross advocates, retirement journeys are rarely neat or linear. If support is to be effective, it must be designed around how people truly live and decide, not how policy assumes they will.

The task ahead, then, is not simply refining calculations, but reshaping the system to reflect the human realities at the heart of retirement.

 **Written by Paige Perrin**