Financial Vulnerability Taskforce

Retirement INCOME Taskforce

CONSUMER DUTY ALLIANCE

Transitioning into Retirement

A ‘vulnerable event’ and its impact on financial advice and planning

In partnership with L&G

Foreword

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This guide has been written to suggest actions that financial advisers and planners might consider in reframing retirement income planning as more than a technical exercise. In so doing, this will hopefully help minimise the possibility of foreseeable harm and underpin the continued delivery of good client outcomes.

In recent years there has been much commentary about the changing nature of both working life and retirement. Many who have been raised on the traditional notion of a three-stage approach to working lives (education, followed by work and then a distinct period in retirement), are witnessing this well-established pathway beginning to collapse, with a blurring of traditional lines.

For an increasing number of people, retirement is no longer a specific date (or event marked by a traditional gold watch or similar) but a period where retirement is phased, where the distinction between accumulation and decumulation periods, work and leisure, and work and education is getting less distinct. At the same time, life expectancy is rising, final-salary pensions are vanishing, and increasing numbers of people are juggling multiple careers.

As we live longer, this transition into later life can also introduce significant changes to physical and mental health, risks that can impact a person's ability to maintain their standard of living, manage finances and cope with life changes. While for some it is a time of opportunity, the combination of shrinking income sources, inflation and potential health decline makes managing later life – whether working, in partial retirement or in full retirement – a significant vulnerability for many. For some, mental health challenges are significant, with depression being common (see page 8), albeit usually manageable with proper planning for purpose, social engagement and proactive mental healthcare.

So it's not surprising that the FCA sees retirement as a major change event, and while it offers freedom and opportunity, it is also considered a period of potential high vulnerability from a financial, physical and emotional standpoint. Put simply, the FCA identifies that, due to the significant changes in personal circumstances for many, and the need for consumers to typically have to confront complex, high-stakes decisions (such as investment and inflation risk), retirement in its many forms can make consumers especially susceptible to harm.

Contents

The changing nature of retirement – it's getting more complex!

Retirement is no longer one-size-fits-all. It is now a personalised, long-term process involving decisions about income management, work-life balance and health management. It is increasingly recognised as a more complex, longer and daunting journey, with a recent survey suggesting roughly 73%[1] of people believe it will become even more complex in the future. For many, even the concept of retirement is seen to be overly simplistic, as they continue to work into retirement age either in similar or entirely new roles, or engage in 'gig work'. Indeed, a growing body of research suggests younger people expect to continue working well into traditional retirement years.

1. Source: Standard Life Centre for the Future of Retirement | Retirement Voice 2025 | October 2025

Whatever the view of the future individuals may have, increasing complexity evident today can be seen to stem from several structural shifts or changes, making many feel overwhelmed by the choices and risks involved, and the transition into retirement, in whatever form that takes. Key among these are:

1.
The Shift to Individual Responsibility (DC Pensions)

- **Decumulation pressure:** With more people relying on defined contribution (DC) schemes, retirees must decide how to manage their pension pots, which for many will need to last for 30+ years. However, a complex pension system, lack of education and no long-term pension roadmap all create vulnerable circumstances that act as barriers to engagement and understanding.
- **'Pension Freedoms':** While freedoms allow flexibility in accessing funds, they bring significant complexity, such as the risk of running out of money, triggering high tax charges, or selecting poor drawdown strategies. Complexity will require many to make ongoing rather than one-off decisions. Pension Freedoms was introduced on the assumption that people would make informed, rational decisions or seek advice. Advice, however, was never mandatory and people often do not make rational choices with their money, even if they believe they are doing the right thing.
- **Multiple pots:** Managing, consolidating or tracking down numerous small pension pots from different employers adds to the administrative burden.

2.
Economic and Financial Pressures

- **Inflation and cost of living:** The recent 'cost of living crisis' has resulted in a refocus on higher inflation and its impact on the purchasing power of savings, where in some cases income that once seemed adequate may no longer cover expenses.
- **The 'advice gap':** Only a small minority of people take professional financial advice, yet it is often reported that the majority of advised people feel more confident in converting savings into income.

3.
Changing Later Life Lifestyles

- **The collapse of the three-stage approach to our working lives** (education, followed by work and then a distinct period in retirement), as evidenced by the current shift from an abrupt to phased retirement for many. This introduces complex tax implications on combining employment income with pension income.
- **The growing 'unretirement' trend** where those who have retired come back to work, primarily due to financial pressures.
- **The rise in 'bridge employment'** in later life (part-time work or career changes) and a focus on finding purpose, leading to a blending of work and leisure.
- **The rising State Pension Age:** the State Pension Age is rising to 67 by 2028, creating a gap between when people want to retire and when they can, known as the 'retirement expectation gap'. Could we potentially see an increase in the already high State Pension Age, means testing of the State Pension, or the removal (or amendment) of the triple lock? While the continued increase in life expectancy is not likely to be a trigger for the State Pension to be reviewed on its own, it may be a contributing factor.
- **Emotional and social hurdles:** Sometimes referred to as 'sudden retirement syndrome' – a loss of identity, structure and social connection – affects many, sometimes leading to anxiety, depression or a sense of aimlessness.

The regulatory position

Given the growing complexities involved, retirement in its various forms is increasingly seen by the FCA as an event or period of time that creates a higher risk of harm as people move along the 'spectrum of risk'.

Key aspects of the FCA's focus on retirement as a risk factor include:

- **The interplay across the Four Drivers of Vulnerability:**

  Health, life events, resilience and capability. Retirement is one of the life events in question, but it's more often a period of transition than an event in itself, often coinciding with other vulnerabilities, including many of the other life and health events listed below that in turn need consideration. This interplay increases both the nature and complexity of vulnerabilities in play at any given time, as it moves individuals along the spectrum of risk from lower to higher risk. Of course, vulnerable circumstances can be created at any time but are more commonplace and foreseeable during retirement. (See table 1.)

- **The 'At Retirement' Pivot:**

  This is the critical transition from a primary focus on accumulating wealth to drawing down assets, requiring a shift from growth-focused investing to secure income, reducing debt and planning for lifestyle, health and purpose. It is a holistic shift involving mental, social and financial adjustments, during which the FCA has specifically expressed concern around issues such as the rise in consumers withdrawing funds early to cope with the cost of living, increasing susceptibility to scams, 'cash drag' (defaulting clients into cash or cash-like assets) and poor long-term outcomes.

- **Consumer Duty Focus:**

  Since the introduction of Consumer Duty, the regulator has made it clear it will view adherence to its principles through the lens of vulnerability, given that firms are expected to provide additional care to ensure that consumers in vulnerable circumstances receive outcomes as good as those experienced by other consumers. This places retirement advice centre stage when it comes to adherence to the cross-cutting rules of Consumer Duty.

- **Changing Circumstances:**

  Due to the likelihood of changing circumstances in retirement, the FCA expects regular, ongoing reviews to ensure ongoing needs are met, including alignment of portfolios with the client's risk capacity.

Table 1: Characteristics associated with the four drivers of vulnerability

Health	Life Events	Resilience	Capability
Physical disability	Retirement	Inadequate (outgoings exceed income) or erratic income	Low knowledge or confidence in managing finances
Severe or long-term illness	Bereavement	Over-indebtedness	Poor literacy or numeracy skills
Hearing or visual impairment	Income shock	Low savings	Poor English language skills
Mental health condition or disability	Relationship breakdown	Low emotional resilience	Poor or non-existent digital skills
Addiction	Domestic abuse (including economic control)		Learning difficulties
Low mental capacity or cognitive disability	Caring responsibilities		No or low access to help or support
	Other circumstances that affect people's experience of financial services eg leaving care, migration or seeking asylum, human trafficking or modern slavery, convictions		

Identifying specific risks

The following, while not an exclusive list, are some of the key risks that create vulnerable circumstances in the years immediately leading up to and throughout retirement, all of which need to be recognised, identified, responded to appropriately and where possible managed in order to ensure good outcomes from the advice process.

Health

- **Depression:**

  Retirement significantly increases the risk of depression, with estimates suggesting that roughly 28% to over one third of retirees experience it. Studies indicate that retirement can boost the probability of suffering from clinical depression by approximately 40%, often driven by loss of purpose, social isolation, and health issues.

  → talkspace.com/mental-health/conditions/articles/retirement-depression/

  → healthline.com/health/senior-health/retirement-depression

- **Cognitive (Mental) Decline:**

  Retirement, particularly when it leads to decreased mental stimulation and social isolation, is associated with an increased risk of accelerated cognitive decline. Research shows that cognitive function often stays stable in the early 60s, but more than 40% of adults experience low cognitive function by their late 80s. This highlights the critical importance of establishing LPAs (as well as Wills) – understanding mental capacity, when to assess it and by whom.

- **Physical (Health) Decline:**

  The prevalence of multimorbidity, which is the presence of two or more chronic conditions at the same time, is significant during later life. In 2023 one of the largest studies of multiple long-term conditions (MLTCs), conducted by researchers from Imperial College London and the University of Leicester, found that nearly 15% of people in England are currently living with two or more health disorders. For those over age 80 this prevalence was nearly 70%.

  (Source: → imperial.ac.uk/news/249937/multiple-long-term-conditions-affect-more-than/)

Life Events

- **Later-Life Divorce:**

  Often described as 'silver splitters' or 'grey divorcees', separation and divorce has risen steadily for over–50s for more than two decades. This trend is not confined to couples married for several decades; second marriages feature prominently and often introduce additional layers of complexity.

- **Social Care:**

  Studies confirm that over half of people turning 65 will require some form of long-term care (LTC) during their lifetime, making it a highly likely scenario for older adults. Some estimates suggest that for individuals reaching age 65, the chance of needing care is even higher, approaching 70%.

- **Bereavement:**

  One of the most significant life events that those in later life will inevitably face at some point in time. When the primary breadwinner goes first, there is also likely a reduction in income. Although household expenses will go down some, for many, the drop in income is more significant.

Resilience and Capability

- **Loss of Purpose:**

  Retirement can lead to a loss of identity, social interaction and routine, causing emotional challenges.

- **Decision-Making Strain:**

  The pressure of making complex, often irreversible, decisions about pensions in a volatile market can lead to panic selling or poor financial choices.

- **Reduced Financial Resilience:**

  As people age, they may experience changes in physical or cognitive health, making it harder to manage financial affairs.

- **Increased Risk of Falling Victim to Fraud and Scams:**

  Preying on financial insecurity, scammers frequently target those in or approaching retirement.

- **Financial Elder Abuse Risk:**

  It is often reported that the majority of abusers are people the victim already trusts, such as friends or family.. The effects are not just economic: shame and fear can take an emotional toll as well.

Inherent Risks to Mitigate with Effective Retirement Planning

- **Longevity Risk:**

  The risk of outliving one's savings, which is exacerbated by rising life expectancy, underestimation of longevity and in the case of drawdown, full pot withdrawal.

- **Inflation and Cost of Living:**

  The risk of rising costs for essentials like energy and food eroding the purchasing power of fixed retirement incomes.

- **Sequence of Returns Risk:**

  Experiencing a market downturn early in retirement, while actively drawing down a portfolio, can make it difficult to recover and disproportionately devastate a portfolio's longevity.

- **Income Drop:**

  Many retirees face a significant reduction in income compared to their working life, with 34%–39% of UK workers at risk of being unable to cover basic needs in retirement[2].

- **Resisting Risky Decisions and Temptations**

  Such as treating their pension as a windfall in the early stages of retirement (or pre-retirement), gifting assets to family members in order to avoid paying for care, and short-term or fatalistic decisions generally.

- **Complexity of Choice:**

  The move toward drawdown, which requires ongoing management, increases risk for those without financial advice.

- **Public Policy Risk:**

  The government can change laws, rules and regulations at any time, sometimes retrospectively. This can include new rights such as those of Pensions Freedoms without the necessary safeguards alongside.

2 Source: National Retirement Forecast | Scottish Widows & Frontier Economics | 2025

Identifying particularly vulnerable client groups

While the above risks and vulnerable circumstances may be applicable to any particular individual or groups of individuals, the following are especially susceptible to harm.

- **Low to Middle Earners:**

  Those in their 30s with incomes of £20,000–£35,000 are often on track to lose half their income in retirement[5].

- **Older Renters:**

  Paying rent in later life is a major financial burden, with reports suggesting a third of older renters live in poverty after housing costs. Renters have a 38% relative income poverty rate compared to 12% for owner-occupiers[3].

- **The Over-85s:**

  This cohort faces a sharp decline in resilience, increased health issues and higher care burdens.

- **Those Divorced or Separated:**

  Separation more than doubles the risk of a low-income trajectory in retirement, often due to split assets and reduced pension wealth.

- **Those Leaving Work Before State Pension Age (SPA):**

  Individuals forced out of the workforce early (eg due to illness or caring responsibilities) often face lower income and increased poverty rates.

- **Self-Employed Workers:**

  More than half (51%) are at risk of not being able to cover basic needs, as they are often excluded from auto-enrolment schemes[6].

- **Single Pensioners:**

  The poverty rate for single pensioners is nearly double that of couples.

- **Women:**

  Women are more likely to live in poverty in retirement due to lower earnings, interrupted careers for caregiving, and longer life expectancies. The gender pensions gap currently stands at around 33%. To put this into context, where retiring men will have an average pension fund of £205,000, by comparison the average woman's pension stands at £69,000. The ONS's data shows that there are many more female centenarians in the UK, and that they are more than twice as likely to live to 90 years old or more than men. Of the 16,650 centenarians in the UK in 2024, 81.5% were woman with 18.5% men. The problem here is evident. Women are expected to survive on a significantly lower retirement income than men, for a longer retirement.[4]

3 Source: https://ifs.org.uk/publications/means-tested-support-people-approaching-and-beyond-state-pension-age
4 Source: Office for National Statistics: Estimates of the very old, including centenarians, UK: 2002 to 2024
5 Source: Institute of Fiscal Studies
6 Source: 2025 Retirement Report | Scottish Widows

The changing nature of financial advice and planning in retirement

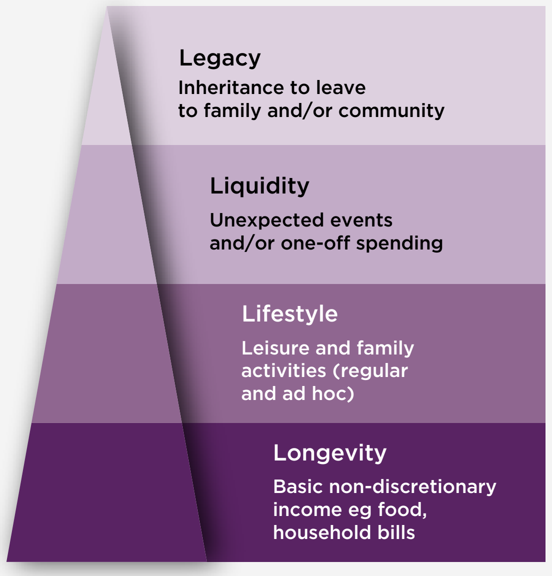
As the nature of retirement evolves, so too should retirement planning conversations and resultant advice. With greater complexity comes an increasing need for advice to move away from product silos to a more integrated approach, that reflects not only the transitional nature of retirement, a more holistic approach to use of assets to fund key phases of later life, but also more rounded lifestyle conversations with clients to determine how a healthy financial framework underpins multiple elements of a positive retirement.

While good outcomes from advice prior, at and during retirement are linked to the specific needs and circumstances of individual clients, good practice typically includes the following:

- **The Use of Encompassing Retirement Frameworks,** examples of which include:
  - The 'Four Ls' framework – Longevity, Lifestyle, Liquidity and Legacy – is being used to design personalised, sustainable retirement plans.
  - Structuring income in retirement and associated products aligned to distinct types of expenditure is another approach – starting with paying off debts and then focusing on the following in turn: essential expenditure, lifestyle expenditure, discretionary expenditure and then legacy expenditure. A simpler version of this is 'needs, wants, wishes' as illustrated below.
  - Structuring both income and assets in retirement that recognise both predictable expenditure and risk-based expenditure such as the payment of care fees.
- **A Total Assets Approach to Income Funding**

  Including consideration of the use of significant untapped potential property wealth – through downsizing, lifetime mortgages/later life lending, property rental or geographical arbitrage via moving to a lower-cost area or abroad to free up equity and ultimately help close the retirement income gap.

  Recently, the FCA have focused on this specific issue, referring to later-life lending as the 'fourth retirement pillar,'[7] alongside state pensions, workplace pensions, and personal pensions. Arguably, there is a fifth pillar – savings and investments. That aside, they make a more general critical observation: the personal finance sector still operates in silos, increasing the risk of fragmented advice and poor outcomes for consumers, who do not live their lives in silos.



Source: L&G, Decumulate Differently Guide 2026

7 Source: fca.org.uk/news/speeches/later-life-lending-building-fourth-retirement-pillar

- **Applying Frameworks Used for Scenario Planning**

  Via the use of cash flow modelling based on both an understanding of consumption and income needs, resulting in a well-designed decumulation strategy. Such planning may reflect the reality that more people are staying invested during retirement, withdrawing income only as needed.

- **Encompassing Longevity Planning**

  Because people are living longer, they need to plan for a '100-year life', which requires more capital or longer working years. Scenario planning should reflect this possibility as well as reflect the reality that average life expectancy is an inadequate planning tool, especially for affluent and healthier individuals who tend to live significantly longer than average.

- **Understanding the Impact of Morbidity on Retirement**

  Morbidity, particularly multimorbidity (multiple chronic conditions), significantly drives early, partial or disability retirement, often forcing individuals out of the workforce prematurely, with poorer mental health outcomes, reduced quality of life and limited wealth accumulation coupled with financial strain.

- **Creating referral models**

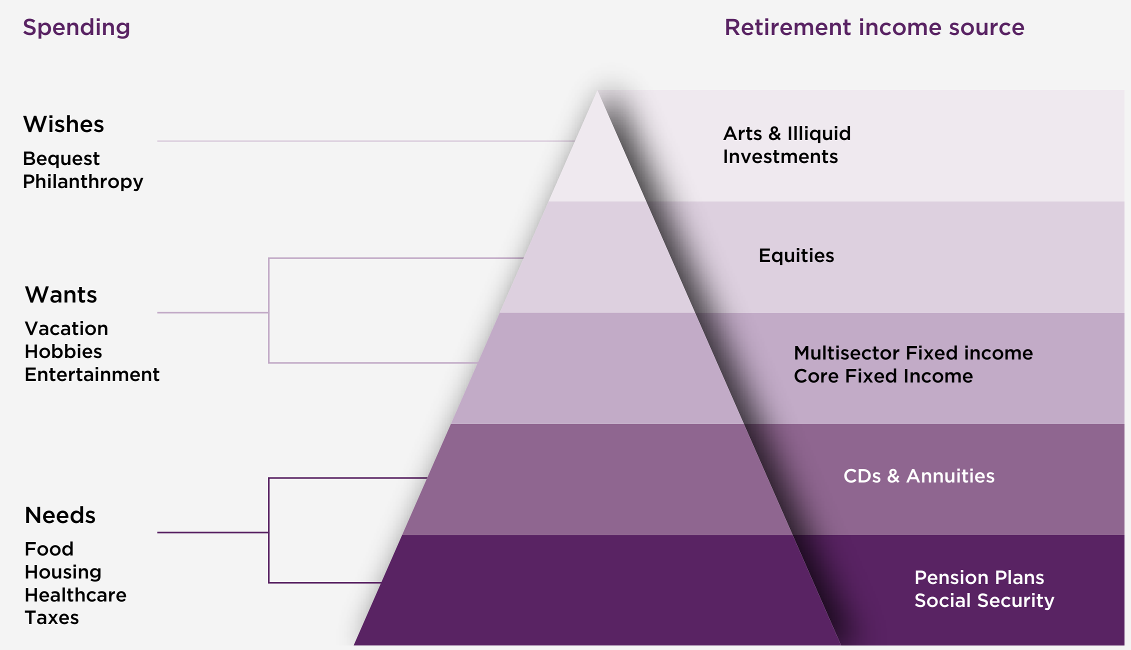
  Given the FCA's focus on fragmented advice and its added complexity when it comes to retirement and later life, there is an increasing need for firms to ensure their clients receive advice in respect of all major options – mortgages, pensions, investments, planning and care. Where firms do not offer advice on the full range of options available, referral models that provide access to expertise in these areas need to be considered.

- **Involving Professional Collaboration**

  Furthermore, collaboration with other professionals within the legal, tax, property and non-regulated care sectors is often needed to achieve the best long-term outcomes.

- **Understanding Client Behavioural Issues**

  - **Behavioural bias** – including understanding how such biases can contribute to consumer harm, to be able to identify when and where this might happen, and to respond accordingly.



→ newcapitalmgmt.com/news/hedging-for-different-market-scenarios-5r6bf

Transitioning into Retirement

  - **Tapping into 'teachable moments'** – when clients are more likely to be receptive and engage fully. These could be challenging life events such as bereavement or time in hospital, if they prove the impetus for personal reflection.
  - **Careful framing of information, options and choices** to maximise engagement and increase the likelihood of individuals adopting desirable behaviours.
  - **Emotional management during times of market stress** – help clients to separate noise from structural change. Professional reassurance reduces the likelihood of emotionally driven decisions that lead to poor outcomes, such as locking in losses. Contrary to the view of many consumers, retirement outcomes depend less on tactical decisions and far more on sustained behaviour over time. Maintaining contributions, staying invested through cycles and rebalancing when necessary, require consistency that many individuals struggle to maintain alone.

> *Advisers must take a holistic view of all of a client's assets, deciding what role each asset should play and managing the trade-offs between income needs*
>
> **Cecilia Furner, Distribution Director, Retail Retirement at L&G**

- **Navigating psychological barriers**

  Help clients transition from a saving to a spending mindset after decades of disciplined saving, without which many clients can find it psychologically difficult to switch gears and begin spending. This fear of depleting their resources can lead to one of two detrimental outcomes.

  - **Some retirees may live too frugally**, holding onto their money out of fear and, as a result, fail to enjoy their later years. They may die with significant savings, having missed out on experiences and opportunities that could have enriched their lives.
  - **Conversely, others may overspend early on**, believing they have ample resources, only to face a financial crisis in their 90s when their funds run low. In this context, it's perhaps unsurprising that a recent study from L&G and the Danish think tank, the Happiness Research Institute, found that retirees with an annuity report higher levels of wellbeing across a range of measures. They were also 51% more likely to report lower levels of stress than retirees without an annuity.[8]

- **Factoring in the Known Unknowns**

  Many people fail to consider the possible and likely circumstances that will affect the money they need in retirement. A recent survey found that fewer than one in five (17%) of all respondents had considered the possibility of having to go into care and reflected that in their retirement plan; just 19% had considered and planned for the prospect of getting a serious illness; while a further 43% had thought about it but not included it in their retirement planning.[9] Good practice requires a focus on:

  - **Planning for the possible** – eg cognitive decline. Cognitive abilities can more often decline in later life, making it harder to manage complex financial decisions in later retirement years.
  - **Planning for the unpredictable** – there is an increased likelihood compared to other life stages of experiencing major adverse events during retirement, however these are often unpredictable and difficult to plan for, eg divorce.
  - **Planning for the probable** – eg care fees. Longer lives and the rising expense of long-term care means financial plans must now account for significant potential health expenses.
  - **Planning for the inevitable** – 'death and taxes' is a common idiom referring to the absolute inevitability of dying and paying taxes. It's also a useful reminder that bereavement is an inevitable event that will happen to most of us at some point.

- **Effective Engagement with Female Clients and Family Members**

  Despite the gender pension gap referred to earlier on page 10, the majority of wealth is increasingly being owned by women in later life, in part due to intra-spousal transfers, something that is likely to continue in the decades to come. As such it is critical for financial advice firms to build meaningful relationships with both female clients and female partners of clients.

- **Recognition of the challenge of digital literacy**

  Given online platforms are an increasing focus for scammers, further strengthening why financial advice is so important in supporting them.

8 Source: L&G, Retirees with an annuity enjoy greater life satisfaction and fewer affordability struggles

9 Source: view.barnett-waddingham.co.uk/the-at-retirement-reckoning/p/1)

Summary checklist

Questions to ask yourself in respect of the advice you give …	Yes	No
Do you use an encompassing retirement framework to give more personalised retirement advice based on types of expenditure?		
Do you use a 'total asset' approach to income funding?		
Does your advice include scenario planning based on an understanding of future consumption and income needs?		
Is your longevity planning based on a realistic life expectancy for your client cohort?		
Does your advice factor in the reality of increased morbidity and the potential need to fund care fees?		
Does your advice typically include professional collaboration (for example related legal advice)?		
Does your advice acknowledge and reflect common behavioural issues, the absence of which could increase the chances of foreseeable harm?		
Does your advice factor in the known unknowns (for example care costs)?		
Does your advice accommodate those who are digitally challenged?		
Does your advice reflect the fact that for many, retirement creates vulnerable circumstances that need addressing?		

Sources of additional information

Good practice

The Financial Vulnerability Taskforce has created a number of useful guides in respect of other life events drivers of vulnerability that often occur in later life. These are available for download from the library section of the Consumer Duty Website at **consumerduty.org**

- **FVT** Good Practice Guide
  → **Advising and supporting clients through divorce (England & Wales)**
- **FVT** Good Practice Guide
  → **Understanding and supporting clients with caring responsibilities**
- **FVT** Good Practice Guide
  → **Supporting bereaved clients and their families**

The evolving nature of retirement

In addition, the following guides and sources of information in respect of the evolving nature of retirement may prove useful:

- **Age UK** – Preparing emotionally for retirement
  → **ageuk.org.uk/information-advice/work-learning/retirement/preparing-emotionally-for-retirement/**
- **BNY Investments:** Retirement advice in the UK – turning insight into outcomes
  → **bny.com/assets/investments/ukadviser/pdf/retirement-advice-in-the-uk-march26.pdf**
- **Fidelity Adviser Solutions:** Retirement Advice – The way forward
  → **adviserservices.fidelity.co.uk/media/fnw/guides/retirement-advice-the-way-forward.pdf**
- **L&G:** Decumulate Differently
  → **legalandgeneral.com/adviser/annuities/adviser-academy/decumulate-differently-guide/**
- **L&G:** Generations Redefining Retirement
  → **legalandgeneral.com/retirement/pension-annuity/guides/redefining-retirement/**
- **Professional Adviser:** The Changing nature of retirement planning
  → **professionaladviser.com/opinion/4527883/changing-nature-retirement-planning**
- **Standard Life:** Rethinking the road to retirement
  → **standardlifeplc.com/news-and-views/rethinking-the-road-to-retirement**
- **The Institute of Fiscal Studies:** Understanding retirement in the UK
  → **ifs.org.uk/publications/understanding-retirement-uk**
- **The International Journal of Ageing and Later Life:** Retirement transitions in the 21st century: a scoping review of the changing nature of retirement in Europe
  → **researchgate.net/publication/352307025_Retirement_transitions_in_the_21st_century_A_scoping_review_of_the_changing_nature_of_retirement_in_Europe**
- **The International Longevity Centre:** Understanding retirement journeys: Expectations vs reality
  → **ilcuk.org.uk/wp-content/uploads/2018/10 Understanding-Retirement-Journeys.pdf**

The regulatory perspective

- **FCA: Later life lending: building the fourth retirement pillar**
  Speech by Emad Aladhal, director of retail banking at the Later Life Lending Summit | June 2026
  → **https://www.fca.org.uk/news/speeches/later-life-lending-building-fourth-retirement-pillar**
- **FCA: Retirement income advice:** good practice and areas for improvement
  → **fca.org.uk/publications/good-and-poor-practice/retirement-income-advice-good-practice-areas-improvement**
- **FCA: Later life lending: building the fourth retirement pillar**
  Speech by Emad Aladhal, director of retail banking at the Later Life Lending Summit | June 2026
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