Retiready from AEGON

Aegon UK Readiness Report

The impact of the pension freedoms and the new state pension

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Seismic shifts in the retirement landscape, but positive signs for the future

It's been twelve months since the most radical shift in the pensions landscape in a generation, and two years since we first looked at how ready the UK is for retirement. In this, the fifth Aegon UK Readiness Report, we study the impact of the pension freedoms and tackle the next significant changes to the system: the new flat rate state pension and the changing age from which people will receive it. We wanted to examine people's attitudes to these latest developments and their understanding of how the changes will affect them.

The good news first: in the last twelve months there has been a significant upward shift in the numbers of people that are on track for the retirement they want. Our readiness score looks at saving behaviour, but also at whether people's understanding, planning and pot size actually matches the lifestyle they are looking for.

Nearly 12% of people are now on track for their retirement. This is 4% more than just six months ago, and equates to 1.62million more people being retirement ready. With nearly 6.2 million now saving more into their pension as a direct result of the attractiveness of pension freedoms, the signs are positive that we are seeing a seismic shift in attitudes towards saving for later years.

But we must exercise caution – the job is not yet done. Not only does that leave 88% of people falling short of their retirement expectations, but there are more immediate issues to overcome. The new state pension should in theory make the benefit clearer, but over half (53%) are calling on the government for greater clarity. The state pension is an important part of people's retirement income, and industry and government alike must do more to ensure people know exactly how much they will receive and from when. Without this knowledge, it is impossible for people to judge how much they need to save. We have an opportunity to build on this clearly growing engagement, and make saving for retirement a clear, simple and stress free process for future generations.

SECTION 1 – HOW READY IS THE UK FOR RETIREMENT?

Introduction

April is an important first anniversary of the pension freedoms. It marks a full year since the reforms launched in the UK, and twelve months since people with defined contribution pensions have been able to access their pension in the way that suits them from as early as age 55. In this, Aegon's fifth UK Readiness Report, we wanted to take stock of just how the freedoms are being used, and seek to understand the impact the changes are having on the nation's readiness for retirement.

The report considers not only those in the 'at retirement' age group, but also the working age population, and uncovers how the pension freedoms are influencing the saving behaviours of the entire working population.

The state pension is also dramatically changing, and this report seeks to uncover just how well the changes have been understood by the UK public. We find that awareness of the new state pension is low, which is particularly worrying given how important people say the state provision is as a source of their expected retirement income.

This report contains key statistics, information and analysis based on a survey of over 4,000 people in the UK. Those who took part completed a series of questions designed to assess their behaviour, awareness and finances relating to pensions and savings.

Aegon then applied its retirement readiness algorithm to create a unique readiness score for the UK population, broken down by gender, region, and profession. This score shows if people in the UK are on track to achieve their retirement ambitions. The higher their score, the closer their retirement reality is to their expectations.

About the readiness score

There are three categories which make up the readiness score. Each of these are explained below.

- **Financial** – This gives us a picture of the person's financial situation and expectations in retirement and included questions like: 'In today's money, what annual income would you like in retirement?'
- **Awareness** – This assesses awareness of what type of lifestyle people want in retirement and their understanding of the level of funding required to achieve their chosen lifestyle and included questions like: 'What is the current maximum New State Pension per week?'
- **Behaviour** – This assesses the actions people have taken towards their retirement in order to fund the income required to achieve the retirement they want. This included questions such as: 'How much do you make in regular contributions to your ISAs each month?' and 'How recently have you checked the performance of your retirement savings?'

Contents

Almost 2 million additional people are now on track for the retirement they want since April 2015

Aegon's readiness score isn't just about how much people have saved, it's about helping people understand whether their current savings and ongoing saving behaviours match the lifestyle and income expectations they have for retirement.

Factors like age, monthly savings, expected retirement age, guaranteed retirement income and broader pensions understanding all make up the readiness score, which gives a mark out of 100. Scoring 70 and over indicates that people are on track for the retirement they would like or expect.

Using this measure, 12% of the UK population are now on track for the retirement they want.

This is up from 7% in April 2015 – just as the pension freedoms were introduced and marks a significant shift in people's readiness for retirement.

These increases mean, in the last year, almost 2 million people have been able to put themselves on track for the retirement they want. The UK's average readiness score has also improved, rising to 51 this year from 47 in April 2015.

Despite the improvements, 88% of UK adults need to either revise their expectations down, or increase their savings levels, in order to secure the retirement they are aiming for.

April 2015 VS April 2016

April 2015	April 2016
15% Score of 30 or less	**11%** Score of 30 or less
45% Score of 30-49	**35%** Score of 30-49
33% Score of 50-69	**42%** Score of 50-69
7% Score of 70 or more	**12%** Score of 70 or more

= 10% of UK population

So what does this really mean and what type of person are you when it comes to getting ready for retirement?

A readiness score below **30**

11% of the UK population, down (so an improvement) from 15% in April 2015

You have your head in the sand and are totally unrealistic about what will happen when you reach retirement. You may be cynical about pension savings or expect the state pension to meet your needs. You may have over inflated retirement income expectations given your current situation and savings behaviour (or you're holding out hope for that big lottery win!).

A readiness score of **30** to **49**

35% of the UK population down (so an improvement) from 44% from April 2015

You're struggling to put aside as much money as you'd like to. In a normal month you've just about got your head above water and, although you might have started a pension, your contributions are nowhere near where they need to be. Your perception of the realities of retirement are forming but you're more focused on the here and now and probably need some support to move forward and build a plan. In the scheme of things you're getting behind but are making a positive start.

A readiness score of **50** to **69**

42% of the UK population, up from 33% from April 2015

You're part of the crowd and mirror most of the UK population. You're thinking about things a bit and you're probably saving monthly into a pension. You do have ISA accounts but probably haven't designated this as part of your retirement saving. You're making good progress but at the moment you aren't going to meet your preferred income level, or your expected income level is higher than it should be based on your finances, behaviour or awareness.

A readiness score of **70** and over

12% of the UK population, up from 7% from April 2015

You are completely on track and have realistic expectations which match your retirement savings and the lifestyle you want. Whether you started early or have had to play catch up, you've made sound decisions that have left you in an excellent position in the run up to your retirement. But remember to keep checking you remain on track.

12%
of the UK population is on track for the retirement they want

Why has the UK's Readiness score changed?

The UK's average readiness score has risen from 47 to 51 since April 2015, and for the first time in these reports, surpassed the 50 barrier. This comes hand in hand with a significant increase in the number of people reaching a readiness score of 70 or over.

Since April 2015, it's good to see that the number of people scoring a readiness score of below 50 has dropped. The number of people scoring under 30 has decreased by 4%, and the proportion of the population in the 30 - 49 bracket has also fallen, from 44% in April 2015 to just 35% now.

This reduction has led to a significant increase in the number of people scoring 50 - 69 and, more encouragingly 70+, resulting in an increase in the UKs average readiness for retirement.

This shift is one of the most encouraging signs that reforms such as the pension freedoms and auto-enrolment are having a positive impact on pension saving in the UK. It highlights that on the whole the UK population is moving in the right direction as the gap between people's pension savings and their retirement expectations narrow, and they have a better understanding of how to improve their situation.

Of the three categories that underpin the readiness score calculation, 'financial' remains the weakest for people in the UK. Despite increasing to 31 from 26 in April 2015, it still presents the greatest challenge for savers in the UK as they struggle to plug the gap between current guaranteed retirement income and the income they are hoping to receive.

The UK's awareness score has also improved, but the greatest jump has been in the behavioural score, increasing by six points in the last 12 months to reach 65. This suggests that the pension freedoms and other reforms such as auto-enrolment are positively impacting the level of contributions made today, and, while it will take time for this to translate into a healthy financial score, the country is taking steps in the right direction.

Steven's view: 'It's been only twelve months since the pension freedoms landed in the UK but it's clear that people are already exhibiting both better awareness about the pension landscape and better saving behaviours. Both of these are beginning to translate into a higher level of actual financial preparedness.'

A readiness score of 31

Financial: A Readiness score of 31

People on average want an annual income of £38,000 in retirement, a fall of £4,000 from 12 months ago. While expectations are moving in a realistic direction, these figures remain well above average income across the working population. In practice, people are only on track for an average estimated income of £14,000, leaving a huge £24,000 shortfall. There is clearly still some way to go until expectation meets reality, but it's encouraging to see that the gap between desired and estimated income is narrowing. 12 months ago the UK was facing an average shortfall of £30,600, so as people have become a little more realistic, this has fallen by £6,600.

While these indicators have improved, the reason financial readiness remains low is largely because people continue to be unrealistic about the sums they are likely to live on in retirement. An annual income of £38,000 would require a private pension on top of the full new state pension of £30,000 a year which could be over the £1million lifetime allowance for pension tax relief particularly if you want inflation proofing and protection for a surviving spouse.

A readiness score of 41

Awareness: A Readiness score of 41

The UK's awareness score has improved, from 39 in April 2015 to 41. Perhaps the greatest contributor to this change has been an increase in the age people expect to retire at, bringing it much closer to the actual current average. The fifth UK Readiness Report records the first increase in this age since 2014, rising from 63 to 64. However, with the state pension age soon increasing to 66 for both men and women, this still comes against a backdrop of increasing life expectancy, which will contribute to people retiring later in life.

A readiness score of 65

Behaviour: A Readiness score of 65

One major outcome of the pension freedoms has been a positive impact on the UK's behaviour towards reviewing and improving their pension savings. In the last six months, 24% of people have checked the performance of their retirement savings, up from 19% in April 2015. 22% have taken steps to review or affect their plans for retirement, an increase from 18% in April 2015. The pension freedoms in themselves will not directly increase the amount of money people eventually retire with, but where they encourage greater engagement, they will invariably lead to better outcomes.

Gender divide

Women are still significantly behind men when it comes to their overall readiness for retirement. Women have an average readiness score of 49, and while this marks an increase on last year, it remains lower than men's score of 54.

Men are more engaged with their retirement plans, with 46% having reviewed their plans in the last 12 months. This is compared to just a third (35%) of women. Indeed, almost half (48%) of women have never checked in on their pension pot.

Women hope to retire aged 64, whilst men expect to stop working aged 65. This comes at a time when the government works to equalise state pension age, increasing it for women from 60 to 65, and then for both sexes to 66 from 2018.

Readiness score for women

May 2015 **44**
vs.
April 2016 **49**

Readiness score for men

May 2015 **54**
vs.
April 2016 **54**

Steven's view: 'Despite the heightened focus on pensions, women still lag behind men when it comes to financial preparedness, behaviour and awareness. While much of this has its roots in previous employment patterns and social norms, there is a real need for the government and industry to make a more concerted effort to engage with women, especially at a time when state pension changes are set to affect them so dramatically.'

Key statistics:

- Women have significantly less saved in their pension pots compared to their male counterparts, just £20,000 compared to men's £49,000.
- 39% of women admit that the biggest barrier to checking their pension is a lack of understanding, compared to just 30% of men.
- 48% of women have never checked the performance of their retirement savings, compared to 37% of men.

Impact of pension freedoms:

- 16% of men and 14% of women have decided to save more into their pension pot as a direct result of the pension freedoms.
- 38% of women don't know anything about the pension freedoms, compared to 28% of men.

State pension awareness:

- Both men (51%) and women (56%) want the government to provide more clarity on how much state pension they are personally due to receive.
- 32% of women see the state pension as their main source of income in retirement, compared to just 30% of men.

Regional summary

People in London and the South East have taken the crown for being the most ready for retirement off the West Midlands, landing a readiness score of 53 this year, closely followed by East and West Midlands, and Yorkshire and the Humber. Those in Scotland are the least prepared scoring 48, only marginally behind by Northern Ireland on 49.

Across the country there remains a discrepancy between regions when it comes to the income people expect to have in retirement and what is actually being saved. Those in London and the South East have the highest income expectations, hoping to retire with an annual income of £45,700. However, it is the West Midlands which has the highest likely income in retirement of £16,700.

Impact of pension freedoms in the regions

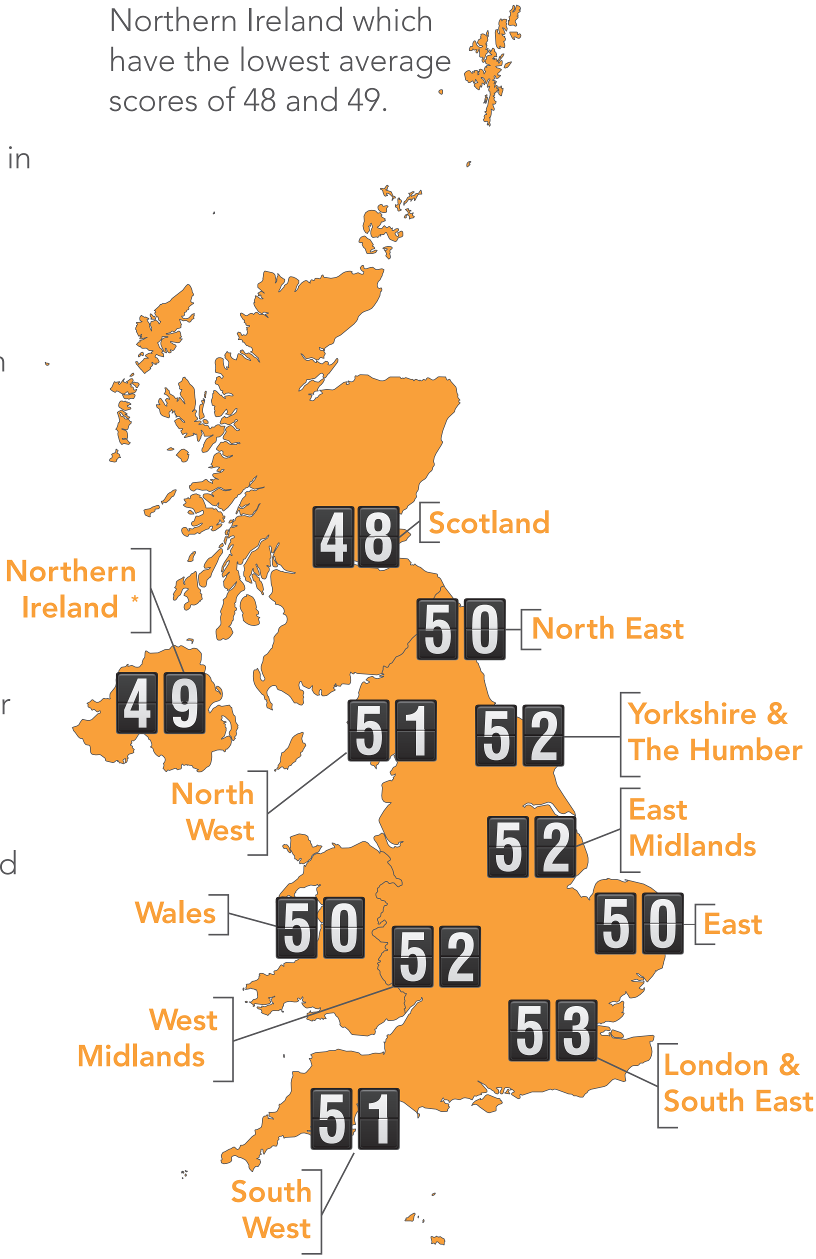
- Those in London, the South East and South West are the most engaged with their pensions, and 25% have checked the performance of their pension savings in the last six months. In 2015, Yorkshire and Humber was alongside these regions as one of the most engaged.
- The West Midlands have the greatest number of people who have increased their savings as a direct result of the pension freedoms, with 18% taking the decision to increase their pension contributions. In contrast, in Scotland only 10% have decided to save more, fewer than the 11% in Wales and 12% in the East.
- 44% of the population in Northern Ireland have never heard of pension freedoms .
- 44% of those in the North East have said they plan to take a cash lump sum at retirement – the highest of any region.

Comfortable retirement

- The amount people say they could live on comfortably in retirement varies widely by region, from £16,300 in the East Midlands or £16,800 in Yorkshire and the Humber, right up to £19,500 in the North West, and £23,800 in London and the South East.

Highest Readiness score

- London and the South East have the highest readiness scores, with an average of 53, 1 point above the national average of 52. This is compared to Scotland and Northern Ireland which have the lowest average scores of 48 and 49.



Profession summary

We continue to see a vast difference between the financial readiness of people in different professions. Those in the insurance and pensions sector boast the largest average pension pots of £88,900 already saved, while those in management and statistics have an average savings pot of £74,200. At the other end of the scale, those in the creative arts have significantly less, with an average pot size of £13,500.

People who work in the creative arts, as well as those in publishing and journalism are among the least engaged with their retirement plans, over 57% of this group have never reviewed their retirement plans.

Those working in advertising, marketing and PR plan to retire the earliest at 58. By contrast, those in mining and land surveying expect to retire much later at 68.

Those working in human resources and employment are the most likely to have increased the amount they are saving into their pension as a result of the freedoms. 29% of these professionals increased the amount they saved into their pension as a result of the freedoms, well above the national average of 15%.

The ages different professions expect to retire

65	Transport, logistics and distribution
65	Retail, buying and selling
64	Construction and property
64	Healthcare
64	Hospitality and events management
64	Engineering, manufacturing and production
63	Education

Pension pot by profession

£89k	Insurance and pensions
£74k	Management
£73k	Banking, financial management and accountancy
£60k	Engineering, manufacturing and production
£57k	Information technology
£53k	Scientific services
£44k	Construction and property
£43k	Charity and voluntary work
£38k	Education
£33k	Healthcare

Introduction

The present generation of savers have experienced more pension reform than any generation that has gone before. No longer is it the norm to retire on a decent final salary pension built up with one employer. However, having moved on from that, for the vast majority of people the recent changes including the pension freedoms and automatic enrolment have been good news, providing greater encouragement and support for those saving, and greater flexibility and choice for those accessing their retirement savings. Nevertheless, many in the industry are concerned that the pace and scale of change is too fast, and that for all our efforts, people are more confused by pensions than ever. This report focuses on two major reforms that have recently reshaped the way people can expect to receive an income in retirement, the pension freedoms and changes to state pension, and asks whether enough is being done to educate people about how the changes will affect them when they reach retirement, while they are still young enough to do something about it.

The first of these two reforms, the pension freedoms, launched with great fanfare in April 2015. It promised pension savers with defined contribution pensions a level of flexibility previously unheard of, firmly removing any real or perceived 'need' to buy an annuity on reaching retirement. For the first time, it gave people the right to access their pension savings from the age of 55 alongside a full range of income options.

This freedom to access money and choose an income option that suits people's needs has been a great victory for consumer choice, but it also places a greater burden on the individual to make the right financial decisions when they reach retirement. This greater responsibility has fortunately already had a positive impact on engagement, and many people are saving more into their pensions knowing they will have more flexibility to access the money in a way that suits them. As we mark an important first anniversary for the changes, we take stock of the way people aged between 55 and 65 are already using the freedoms, to better understand the way savers today can expect to use them in future.

The government has also introduced a new flat rate state pension. Separately, but all happening in a similar timeframe, there are also changes to bring the state pension age for women in line with that for men and then to increase state pension age for both. The new state pension was heralded as a simplification designed to make it easier for people to know how much to expect. But in practice the transitional arrangements changed National Insurance contribution requirements and deductions for those who have contracted out, meaning it will be many years if not decades before we see a true 'flat rate' state pension. Until then, things remain every bit as complicated as the previous system. In terms of the increases in state pension age, the government has received criticism for weaknesses in communication as well as over the speed of changes for certain groups of women.

While the new state pension may eventually become simpler, it will not be more generous for all. Figures released in January by the Department for Work and Pensions show that at least 16 million people under the age of 43 will be worse off as a result of the move to the new flat rate pension. There is no denying that as a financial safety net the state pension is a vital and highly valued force for good. But it is heavily relied on to provide a financial boost for private pension savers, making it hugely worrying that some severely overestimate the level of income that it provides.

Whether you're a winner or loser, from April this year the new flat rate state pension has become a reality for today's workers. As people come to terms with the new system, we ask whether enough is being done to explain to people still in work what a retirement reliant on the state pension looks like, so they will continue to strive to have a private pension large enough to give them the retirement they are looking for.

Both of these major reforms have been designed to improve prospects and outcomes for savers and workers in the UK, but as the report will show, too many remain in the dark about how they are affected. The very real risk here is that younger savers have misguided impressions about the retirement income they are likely to receive from the state, and therefore the amount they need to proactively save. The issue is amplified when people only truly consider their pension arrangements when their own retirement comes into sharp focus. This is too late, and in the following chapters we will explore what more can be done to address this, to help get the nation more engaged with their pensions, to get the nation ready for retirement.

The pension freedoms one year on

The 6th of April 2016 marked the first anniversary of the pension freedoms landing in the UK. The new rules have freed defined contribution savers from the perceived, and for many the effective, requirement to buy an annuity with their pension pot, and allow them to decide from age 55, how they would like to invest, spend, or save their pot. People aged 55 and over – whether or not actually planning 'retirement' – have now had a full year to use their new found freedoms and many are taking advantage the new choice.

Over-55s
access the freedoms at age 63, and drawdown £13,843

In March 2016, the ABI reported that over-55s had accessed £5.9 billion of pensions money in the year since the freedoms were introduced, with more than half of this, some £3 billion, paid out in cash. This is a lot of money, but our own research suggests this still represents well under a fifth of all people aged between 55 and 65. Of the 800 people within this age range interviewed for this edition of the Aegon Readiness Report, 71% said they have not taken a lump sum yet, and don't plan to do so until they reach at least 65.

Two thirds of 55 to 65 year olds haven't yet accessed their pension and don't plan to until they are at least 65

Nevertheless, these figures do suggest that over a quarter of those nearing retirement are seriously considering using the pension freedoms. By taking a closer look at the sort of things people are using them for, now we should be able to shed some light on how people further away from retirement can plan for 'in retirement' years.

How the freedoms are being used

Analysis of Aegon's own customer base, reveals that the average age people are choosing to access their savings, whether in whole or in part, is 63, suggesting that the vast majority of those who are dipping into their pot are not doing so in their later 50s. The average amount people are taking is £13,843. While this is a significant lump sum, it is not enough to generate a comfortable income that will see people through 20 to 30 years in retirement. So for those with small pension funds, a lump sum may make sense.

30%
are using the freedoms to pay off debts

By far the most common reason why people are withdrawing money under the pension freedoms is to pay off debts. Nearly a third (30%) of those taking a lump sum are using it to settle arrears, which is perhaps a sensible decision given the debt will likely be accruing more interest than pension savings will be earning if they remain invested. StepChange, the debt charity, reported a 37% increase in the number of people over 60 seeking help with debt between 2009 and 2012, with over 13,000 people reaching out for support. The same study calculates that 5.9% of the population aged over 50 have what is referred to as problem debt, that is, an over indebtedness that is difficult to balance with the current level of income. If some of this group have a pension they can access, then this may be a positive outcome as a means of climbing out of this debt. 6% of those surveyed have called on their retirement savings to either pay off a mortgage, or invest in a property outright. But while tackling debt may be good, retirees face significant financial commitments, which begs the question of how they will go about financing their basic living costs.

The next most popular destination for money taken from a pension before the age of 65 is the cash ISA, with 22% moving savings into this alternative tax free wrapper. With few fixed rate cash ISAs paying more than 2% interest, this raises a number of alarm bells about how hard this money is actually working when taken out. Just as concerning are the 22% that withdraw money only to place it in a bank account, where there is just as high a chance that it is stagnating, and potentially even losing money in real terms if the interest paid falls behind the rate of inflation. 15% are willing to take more risk with their money for the chance of greater returns, investing in a stocks and shares ISA or directly in stocks and shares (10%).

only 9%
have used the pension freedoms to buy a new car

When the pension freedoms were announced by the Chancellor at the 2014 Budget, it was feared that thousands would spend this cash windfall irresponsibly, with the Pensions Minister of the time suggesting tongue in cheek that there would be a rush to purchase Lamborghinis or other luxuries. In reality only 9% of those accessing the money have done so to buy a new (and we expect far more modest) car, with 14% using the cash on a new kitchen or extension to the house. These may involve significant sums, but for many they are life necessities, and in many cases property improvements for instance are a worthwhile and recoverable investment. Perhaps more concerning, if understandable, is the 11% that have spent some of their hard earned pension money on a holiday. If we are to view the behaviours of those today as a signal of how people will behave in the future, it's important to ask whether this is really the most responsible way to be spending any significant part of savings which are intended to carry someone through 20 or 30 years of retirement.

When we look at the lump sums people are withdrawing, so far the average is £13,843. This would suggest that few with six figure pension pots are taking the full amount as a lump sum and instead are spreading their savings across retirement. However, 5% of those interviewed in the research admit that they have used the freedoms to draw down their full pot, which begs the question how those that have done so plan to sustain themselves through retirement.

Steven says: 'The pension freedoms were primarily designed to ensure that those at retirement had more control over their own retirement income. And there are positive signs that these freedoms are being used responsibly. Despite the scaremongering, the majority of people are not withdrawing vast sums of money to embark on a reckless spending spree. There are a few warning signs however, and education remains vital.

'Taking money out of pensions to sit in a cash ISA or bank account is rarely going to offer the inflation beating returns needed to ensure that they have a sustainable income in retirement. The recommendations of the Financial Advice Market Review must be implemented to make advice and guidance more accessible, but to complement this, we as an industry need to educate those coming closer to retirement age: their money might well need to last 20 or 30 years, and only through careful planning will they get closer to the retirement they want.'

Better awareness of pension freedoms needed for all walks of life

The proportion of people using the freedoms to access their retirement savings remains relatively low, but a year into the new system there is still some way to go until full awareness of what is on offer will have percolated through society. Despite the significant impact the pension freedoms have on personal pension saving, a third (33%) of the UK public have never heard of them, while a further third (32%) have come across them but don't understand what they mean for their own retirement savings. Many of those that are aware of the changes simply don't know where to get support with their retirement options relating to the freedoms, with over a quarter (28%) of the UK public still not knowing which way to turn.

A third of people have never heard of the pension freedoms

Lack of awareness rises in younger people, with 40% of those aged 25 to 34 saying they don't know anything about the new pension freedoms. If younger people are more aware of the benefits of saving, including the new freedoms, they are more likely to value a workplace scheme they are auto-enrolled into and more likely to stay engaged, so it is clear that more needs to be done to help them understand the potential benefits of building up a pension pot.

This lack of awareness thankfully melts away as people near retirement age themselves, but not completely. Indeed when people aged between 55 and 65 were asked about their likelihood of accessing some of their pension pot, 11% were unaware that it was even possible to do so. Interestingly, for those that are closer to retirement age, and more aware of the varied financial pressures that may mean they want more flexibility with their retirement savings, they are less likely to opt for an annuity. Upon reaching retirement, only 28% of people aged 55 to 65 think they will opt for one, much lower than the 40% of people aged 25 to 34. It seems that the closer people come to the reality of retirement, the more likely they are to appreciate the varied financial pressures that might mean an annuity is not the best option.

With awareness comes greater action

For those that are aware of the pension freedoms, and have a good understanding of what it means for their retirement income prospects, we are already seeing a positive impact on saving behaviours among working age people. 15% of the working UK public, some 6.2 million people, are now saving more into their pension as a direct result of the reforms. For a further 10%, the freedoms have helped them to realise that they need to plan more for their retirement, while a further 7% have already looked into their options. Overall, the very fact that the reforms have been introduced to give savers greater power to access their retirement savings in the way they would like, has resulted in 41% of the UK public taking some sort of action to review or amend their savings plans for retirement.

6.2 million people are saving more into their pension as a result of the reforms

The freedoms have also stoked up enquiries from the public about how they will be affected. 14% have spoken to a financial adviser about how they are set to impact them. While financial advisers are a natural first step for many, others are more likely to speak to their family and friends (10%) about how the freedoms affect their pension, than with one of the newly structured pensions guidance service (e.g. Pension Wise, the Pensions Advisory Service, Money Advice Service). Three in five (60%) have yet to speak to anyone about the changes, perhaps because they feel retirement is too far off, although worryingly, over a quarter (28%) simply don't know where to get information about their options.

Steven says: 'As well as offering far greater choice to those in retirement, the pension freedoms have a secondary benefit – by encouraging greater saving and engagement in the UK population as a whole. To see our research suggesting an extra 6.2m people are saving into their pension as a result of the reforms, within the first year of implementation, is a fantastic result. The combination of spreading auto-enrolment and the freedoms themselves is clearly having a positive impact. We need to make the most of this momentum, further highlighting the benefits of saving and helping individuals take control of their financial futures.

'Financial advice remains critical for many with complex financial decisions to make and the Financial Advice Market Review offers up opportunities to widen its reach cost-effectively. The pensions guidance services also have a valuable role but have some way to go to make a real impact. With over a quarter of people not knowing where to turn for support on these vital issues, providers also have a duty to provide simple, convenient digital tools to make the savings journey clearer.'

The new state pension: a partial safety net?

The pension freedoms have radically opened up the choices people have when they approach retirement. The government was very clear that it no longer wanted to tell people how to use their savings to provide for their retirement and instead was placing its trust in retirees to do the right thing for themselves. But with this greater choice comes greater personal responsibility to make the right financial decisions, which is why the government introduced Pension Wise to supplement existing sources of advice and guidance.

People are now free to take their full pension pot and spend it, which is arguably the riskiest strategy if you want to provide income throughout your retirement. Individuals can still purchase an annuity, although early signs are that this is not appealing and more are using flexi-access drawdown to leave their pension pot invested and draw income either on a regular basis or of variable amounts.

While the freedoms are very welcome, they also increase the risk that some people find themselves suddenly reliant on the state pension, so it is absolutely vital that people understand exactly what this state pensions is likely to pay them, and indeed if they will even qualify.

The government's move to launch a new flat-rate state pension on the 6th April 2016 was designed to provide a safety net here. The new pensions applies to all people reaching state pension age on or after the 6th April, and is a single weekly payment, with the full amount set at £155.65 for the financial year 2016/17. This is above the level when individuals become entitled to means tested benefits, so the idea was that if someone did want to blow their full pension pot on a Lamborghini, at least they wouldn't then be subsidised by other people through the means tested benefit system.

But the new state pension will be far from flat rate at outset, and won't become so for a lengthy transition period which could stretch to decades. First, the amount an individual actually receives is dependent on their National Insurance contributions. 35 years of qualifying contributions are needed to get the full flat rate state pension, five years more than would have been the case with the previous two-tier system. Those with between 10 and 34 years of contributions, often those who took work and career breaks, will receive a lower weekly payment if they didn't qualify for National Insurance credits. Those with under 10 years of qualifying contributions will receive no new state pension. Furthermore, anyone who has been 'contracted out' of the previous additional state pensions through a workplace or private pension will see a deduction from their new state pension. This group will have paid lower National Insurance in the past, with the balance going to build up a higher private pension, but are unlikely to have any clear insight into what this means for their state pension. All this means that people may have very different levels of new state pension, and some may find it falls far below the £155.65 a week.

To complicate matters further, the state pension age is also going up. It is currently 65 for men, and is gradually levelling up for women from 60 to 65, sitting at 63 from April 2016. From December 2020, it will reach 66 for both men and women. With life expectancy continuing to improve, further increases are in store, from 66 to 67 between 2026 and 2028, for both men and women.

Amid all this change, it's disturbing to discover that a significant majority of the UK public remain in the dark about the new state pension, especially the two most important elements of it: the amount they are personally set to receive, and the age from which they will receive it.

67% remain in the dark about how much the state pension will pay

Two thirds (67%) of the 4,000 working age people interviewed in the research were unable to identify that the new maximum state pension payment will pay £155.65 per week. Worryingly, a third (34%) are overly optimistic, and expect the weekly payments will be higher than this. The reality is even starker. The government has predicted that 63% of those reaching pension age in 2016/17 will receive less than the maximum amount of £155.65 per week. Only 22% of the population realise they are among this group, and 38% have no idea where they stand. It's clear that the government has to date failed to fully explain the implications of the new state pension system, so it comes as little surprise that more than half (53%) of the population are calling on the government to provide more clarity on how much state pension they are personally set to receive. The Work and Pensions Committee report, published on 27 March this year, acknowledged the confusion about the new system, and called on the Department for Work and Pensions to directly contact those affected rather than relying on general awareness campaigns.

24% of women still unaware state pension age is rising from 60 to 65

The changes in state pension age have also been missed by some. Despite intense media coverage around the hundreds of thousands of women that are set to lose out under the new system, nearly a quarter (24%) of working age women in the UK are still unaware that the state pension age is rising dramatically from 60 to 65 for those retiring after April 2016. And as we know, from 2018 the state pension age will be even higher. With such a dramatic and sudden uplift, it's understandable that over a third (36%) of the public are calling for any further age increases to be halted, rising to 39% for women. At present, the average age men and women expect to gain access to their state pension is lower than reality, age 64 for men and 63 for women.

Steven says: 'It's absolutely vital that the government act quickly to ensure individuals know how much they personally are due to receive from the new state pension, and when. This needs to be made available at younger ages so that people can better assess how much additional private pension they need to save. And it's also vital that before people access pension freedoms they know exactly what their state pension entitlement will be and where they will stand if they run out of private pension. The industry and the government are both making strides in the education process, but it's hard to see how people can truly make themselves ready for retirement if they don't have early and full access to this important information.'

How state pension awareness is changing private pension saving behaviour

Awareness is the first step towards bringing about action. Upon learning the new state pension will pay a maximum of £155.65 per week, over a third (37%) say they now plan to contribute more to their private pension to make sure they receive an adequate income in their retirement. One in five (22%) have already changed plans for retirement on realising that the state pension would not be enough to support them financially.

Over a third pay more into private pension on realising the level of state support

So what will people actually receive? Not everyone will qualify for the full amount, only 13% of those reaching state pension age in the first year of the new state pension will receive the full flat rate of £155.65 a week. But for those that do, they can expect to receive £8,116 in annual income when they retire. This is well under half the £19,624 that interviewees say is the minimum annual income they could live on comfortably in retirement; a significant shortfall for a private pension to make up. People believe they will be able to come close to making up this shortfall, suspecting they are set to receive an average of £7,200 in estimated private retirement income, but even this brings the total up to only a little over £15,000. However, the fact that most people entering retirement from 2016 won't be receiving the full new state pension, means there's likely to be an additional shortfall.

One thing is clear, when people are informed about the level of support the state will provide them with when they reach retirement, many are quick to increase saving levels to ensure they do not have to spend their retirement in relative poverty. So while the government may not relish the prospect of communicating disappointing news on future state pension entitlements, if it results in greater personal responsibility for retirement planning, that has to be positive.

Steven says: 'The state pension is an important and valuable safety net for many, but the government needs to clear up widespread confusion and come clean on how much every individual is actually likely to receive. While some people will be disappointed, the government owes it to the public to set the picture straight and allow people to adjust their personal savings accordingly. Our research shows how much of a positive impact knowledge can make on savings behaviour. If people's expectations of the state pension remain out of sync with reality, a significant proportion of the UK will be in for a nasty shock when they reach retirement. By this time it is too late.'

The state pension, why it matters

While it may be coming in for criticism around its complexity and variability, it's hard to deny that the state pension is a valuable financial safety net for millions in the UK, and makes up a vital proportion of most people's retirement income.

Our research suggests that 58% of the UK public expect the state pension will make up at least half of their retirement income. This isn't far from the reality – the Pensions Policy Institute calculate that on average 51% of retirees' income is made up by the state provision, with the remaining 49% coming from private pensions, including income from annuities, savings, property, and stocks and shares. Almost one in ten (9%) expect the state pension will be their sole income in retirement.

There is also a fundamental misunderstanding about how the state pension is funded. Three in five (57%) mistakenly believe National Insurance contributions from working life are invested in a fund, which is then used once they retire to pay their state pension. In reality, state pension payments to today's pensioners are paid by the National Insurance contributions and income tax from those currently in work, meaning that future payments are actually much less secure and rely on future NI and tax payments from future generations.

70% don't trust government to reform state pension in a way that is fair for all

So state pensions involve a complex intergenerational transfer of wealth from today's workers to today's pensioners. It's interesting to note that well over two thirds (70%) of the UK population don't trust government to make fair decisions when it comes to reforming the state pension to strike the right balance between pensioners and those of working age. Given the pace of pensions change, and the number of those close to retirement that believe they have been adversely affected by, for example, increases in state pension age, it's perhaps unsurprising that the older generation are on the whole less trusting on this point. Distrust rises from 64% for those aged between 16 and 34, to 76% for those aged between 45 and 54.

With 48% believing that the state pension is important for a fair and supportive society, and 39% even seeing it as a fundamental human right, it's critical that government listen to the views of the public, and take seriously the important job of effectively communicating any changes to people who are still of working age to enable them to make their own adequate personal provision for retirement.

The hidden of impact of career breaks

As the new state pension lands in the UK, one area of concern is the impact on hundreds of thousands of people that have taken time off from work. The new rules state that individuals need to have made full National Insurance contributions for 35 years to qualify for the full new state pension, which is five years more than under the previous system. Those with under 10 years of National Insurance contributions are not entitled to any state provision at all. This means that individuals with significant career breaks are unlikely to be entitled to the full amount.

The true impact of these changes seems to be flying under the radar. A third (33%) of the population are completely unaware that taking long career breaks (and not paying National Insurance contributions) could mean you won't qualify for the full state pension. While this does leave 67% that do know they need to consider the impact of career breaks, only one in five know how many years they need to be making NI contributions to receive the new full state pension. 80% remain in the dark.

55% have taken at least a year off from work

The lack of understanding is particularly concerning given the numbers that could miss out. Some 55% of the UK public have taken a career break of at least a year at some point in their life. 15% have taken extended periods of time off work for maternity or paternity leave, and another 15% to bring up children where they may be entitled to National Insurance credits. These are genuine and positive reasons to be out of the workforce for a period of time, but for some, breaks will have been unforeseen, and less positive. 14% have been away from work due to redundancy or forced unemployment, while another 14% have had to step away from work due to medical reasons. 49% don't realise it's possible to increase their state pension entitlement by catching up on missed NI contributions.

Steven says: 'With more than half of us likely to have a significant period of time off work during our lifetime, it is essential that the impact of this on state pension entitlement is understood. The state pension remains a vital and often the main source of retirement income for the majority of the population. It's important people have all the information they need to make the correct choices, whether to catch up on missed years of NI or to make additional private provision to plug the gap.'

Conclusion

At the time of our last report in November, 8% of the UK were on track for the retirement they hoped for. This has now increased to 12%, meaning some 1.62 million more people are both aware of what they need to do, and also exhibiting the behaviours to help them get there. This is an extremely positive sign and suggests that between the pension freedoms, auto-enrolment and the new state pension sweeping reforms are putting pensions on the map for millions of people, encouraging both more positive saving behaviours and slightly more realistic goals.

It's tempting to look at this improving picture, and jump to the conclusion that we're becoming a nation of savers, well attuned to the financial requirements of retirement, and savvy enough to back this up with better saving habits. But this would be to ignore the 88% of people that are not yet on the right path, and are likely to enter retirement with considerable shortfalls in their pension provision. It is this group that should be the focus of policy makers and regulators as we enter the next stage of pensions reform.

Despite 59% of us expecting at least half of our retirement income to be made up of a private pension, the reality is that more than half of us will be primarily reliant on the state pension because we haven't saved enough into a private or workplace pension. At a time when this state support is undergoing major changes, it's particularly concerning to see that two thirds don't know how much they are personally set to receive. On the whole, awareness is improving, but less quickly than saving behaviour and nowhere near as fast as it needs to.

This low awareness is understandable given the pace of regulatory change, and there is a clear job to be done to educate people on what changes mean for them. It's clear that despite the confusion, the increased political emphasis on pensions is improving saving behaviour regardless. 12 months on from the pensions freedoms, 6.2 million people are saving more into their pension as direct result of the freedoms, and we're seeing similar behaviour from the millions of people waking up for the first time to the fact that the state pension is not as high as they previously thought. This improved behaviour is seeping through into action, and people now have larger pots, and slightly more realistic retirement goals, even if they remain on the whole far short of where they want or need to be.

The UK is getting better at preparing for retirement, but we risk leaving many people behind if we don't capitalise on this period of high activity, when pensions are frequently discussed and debated in government and across broadcast, print and online media, to create a lasting awareness and understanding of how important private and workplace pension saving is to securing the retirement people want and expect. The real challenge is still ahead of us, continuing to grow retirement readiness when the subject is no longer such a focus for mainstream media. A year into the pension freedoms, and with the new state pension just launched, we all now have a part to play in empowering people to take control of their own financial futures, so that everyone in the UK can feel safe in the knowledge that their financial plans mean their retirement can be one to look forward to.

Age

Age	Average Readiness score
16-24	49
25-34	54
35-44	52
45-54	50
55-65	51

Gender

Gender	Average Readiness Score
Men	54
Women	49

Cities

City	Average Readiness Score
Birmingham	54
Brighton	56
Bristol	56
Cardiff	51
Edinburgh	52
Glasgow	49
Leeds	53
Leicester	56
Liverpool	53
London	56
Manchester	53

City	Average Readiness Score
Newcastle	53
Norwich	53
Nottingham	53
Portsmouth	52
Sheffield	55
York	54

Professions

Profession	Average Readiness Score
Administration	52
Banking, financial management and accountancy	59
Charity and voluntary work	48
Construction and property	54
Creative arts and design	48
Education	53
Engineering, manufacturing and production	56
Healthcare	53
Hospitality and events management	50
I am unemployed	39

Profession	Average Readiness Score
Information technology	60
Insurance and pensions	59
Leisure, sport and tourism	50
Management and statistics	59
Retailing, buying and selling	48
Scientific services	61
Social care and guidance work	50
Transport, logistics and distribution	52

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