RETIREMENT REPORT 2024

SCOTTISH WIDOWS

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FOREWORD

THIS IS THE 20th YEAR IN WHICH WE HAVE PUBLISHED OUR ANNUAL RETIREMENT REPORT.

We look back over the last 20 years in a special anniversary section, which reflects on the themes which we have championed at Scottish Widows and also reflect on the impact of significant regulatory and legislative interventions during that time.

Much has changed over the last 20 years, including the impacts of the Retail Distribution Review (RDR), Auto Enrolment, and Pension Freedoms. There has been progress in closing the gender pensions gap and the role played by technology has evolved significantly.

Looking forward, the UK will rely on Defined Contribution (DC) pensions to a much greater extent in the future, but our savings rates lag significantly behind those of our international peers and it's now urgent that something is done to improve pension adequacy.

We have again spoken to about 6,000* people who are representative of the UK population, to understand their hopes and aspirations in respect of their retirement, to understand the plans that they have made, and to also understand their actual expectations.

Unfortunately, there is a growing polarisation between those who are enjoying retirement today and those who may not enjoy retirement to the same extent in the future. There is also a polarisation between those who can expect a comfortable retirement and those for whom retirement will be very challenging. Industry and Government need to work together to level up the retirement prospects of those who are less well placed.

In our report, we shine a light on the issues which the UK faces and also set out what needs to be done to address the challenges.

We welcome the new Government and wish them well. We look forward to working with them to urgently progress the pensions policy agenda.

Chira Barua
CEO, Scottish Widows

* See page 56.

EXECUTIVE SUMMARY

This is the 20th year of the Scottish Widows Retirement Report. Over much of that time we tracked the progress of pensions adequacy through our 'Adequate Savings Index', which tracked the proportion of people who were saving enough during that year.

Last year we introduced our 'National Retirement Forecast', which allowed us to project the retirement outcomes of the nation against three 'Retirement Living Standards' which have been set out by the Pensions and Lifetime Savings Association (PLSA) and to also quantify a fourth group who will fall short of the lowest of those living standards.

We anticipated that it would be a number of years before anything meaningful could be identified in terms of trends, but unfortunately we have already seen increased polarisation of projected retirement outcomes, primarily associated with a significant rise in the cost of living over the last few years.

Polarisation

There is a growing polarisation between those whose wages have been able to keep up with the cost of living and those whose have not.

Rents for example have increased by 15% between 2022 and 2023, whilst the State Pension increased by 8.5% and wages by 6.2%.

This means that 38% of people are now on track for living standards in retirement below the minimum level set out by the PLSA. This is up from 35% last year.

There is also a growing polarisation between those who are currently in retirement and those who are thinking about what retirement might look like in the future. 84% of those who are currently retired are enjoying retirement, particularly those who are in good health with few financial worries. Only 9% of current retirees are pessimistic, compared to 34% of those who will retire in the future.

Many future retirees struggle to save more – only 42% of people felt they had the headroom, above day to day pressures, to save anything for retirement. There are other reasons for less optimism. Many future retirees recognise the State Pension will be important but worry about its future. More people will be renting or carrying mortgage repayments on through retirement in the future. While the average age that people would like to retire remains at 62, 54% expect to retire later than they would like, on average by 7 years.

Beyond those that cannot save more we see continuing evidence that people are struggling to navigate their choices. Many don't know how much to save or what their options are, while there are those who may benefit from more formal support through financial advice who are intimidated or unsure how to go about it.

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The retirement jigsaw

The National Retirement Forecast is based on the principle that retirement preparations depend not just on pensions but on the wider financial picture of households: savings and other investments, housing and its role for some as an expenditure item and for others as an asset, and inheritance.

Looking across this full picture we see that those who have the largest savings also tend to have the biggest pension pots and housing assets, compounding polarisation. Those with the highest housing costs (renters) also tend to be those on the lowest salaries. This exacerbates their inability to save for retirement, increases outgoings through retirement and removes a potential income source later in retirement, once again acting as a driver of polarisation.

Shining the Spotlight

Understanding which groups are least likely to achieve good retirement outcomes and why, could allow policy interventions to be more targeted and therefore more effective.

To help understand the factors that contribute to either good or poorer retirement outcomes, we have compared and contrasted the research findings across different types of employment. We find that the self-employed, part-time workers, and those whose income comes from multiple employments are likely to be the least provisioned for in retirement.

We have also looked across different communities, exploring ethnicity, sexual orientation and those with a disability.

The Indian and Pakistani communities are least likely to fall short of the minimum standard of living in retirement. The Black community are the most optimistic about retirement despite having forecast the poorest outcomes from a financial perspective. The White British community are amongst the least optimistic about retirement and the most likely to believe that they will never be able to retire.

Amongst current retirees, those with a disability and those who are renting are much more likely to report health concerns which are adversely impacting their retirement. These groups are also more likely to believe that they will never be able to stop working.

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Policy Proposals

The starting point is to create headroom across households and businesses to facilitate higher levels of retirement saving. Driving increased productivity and real wage growth will be key to creating this headroom and to reduce the polarisation of retirement outcomes between current and future retirees. Ensuring a fair distribution of that increased wealth will help address the polarisation we see between the cohorts and communities in our population.

Our policy proposals are summarised as follows:

- **We need a roadmap to increase contributions** from 8% to 12%, with a strong steer that those who can afford 15% should do so.
- **Productive Finance should continue to be explored**, with potential to support productivity growth and further boost pension pots.
- **Reforms to automatic enrolment** to lower contribution age, remove the lower contribution threshold and remove the contribution threshold. These reforms would be of particular benefit to some ethnic groups, women, those in the LGBTQ+ community and the young.
- **An equivalent to automatic enrolment for the self-employed** will be required to help over 4 million self-employed workers have the same retirement prospects as employed workers.
- **Further work is needed to help guide and support customers**. New tools which allow us to have more personalised and directive guidance conversations with customers are needed, and technology should be utilised to greatly reduce the cost of providing a full advice service to those with less assets, to the point that there is no need for an additional charge to be presented to the customer at the point this support is required.

We also recognise that wider economic issues matter, particularly the role of housing. More housing needs to be built to improve affordability. Many will never be able to afford to buy a home and there needs to be adequate availability of social housing.

The role of housing, alongside the need to increase the day to day financial resilience of the nation, needs to be considered alongside retirement saving. The three challenges are interconnected and can't be considered in distinct silos. We are therefore urgently calling for a **Lifetime Savings Commission** to agree a long-term roadmap which has the necessary breadth of scope and the necessary breadth of support.

HEADLINE FINDINGS

The State Pension

The State Pension is hugely important for today's retirees	**75%** of recipients say it helps them pay for essentials
Future retirees also expect significant State Pension income	**25%** of future retirees say they expect the State Pension will provide a significant part of their retirement income
The triple lock is growing the State Pension	**2.6 MILLION** are projected to avoid a less than minimum lifestyle in retirement because of the triple lock
But there are real worries about whether it will continue to exist	**12%** don't expect the State Pension to be around for them when they retire

The state of retirement today

Most retirees are enjoying their time	**84%** find retirement at least somewhat enjoyable and have the freedoms they expected
The top financial focus is on helping family	**37%** are financially helping their children or grandchildren in some way
Poor health is a key driver of an unhappy retirement	**49%** of those not enjoying retirement cite their own poor health or their partner's
Poor health is a particular problem for those on a low income	**54%** of those on lower incomes do not enjoy their retirement because of poor health

Challenges for future retirees

Many are not on track for a minimum lifestyle	**38%** are not on track for a minimum lifestyle in retirement
People know they are not preparing adequately	**66%** do not think they are preparing adequately
People are expecting to work longer than they would like	**54%** of future retirees expect to retire later than they would like to, an average by 7 years
People approaching retirement may be worst off	**40%** of those aged 60-64 are not on track for an adequate retirement

REFLECTIONS ON 20 YEARS OF PENSION REFORM

Automatic enrolment in workplace pensions revolutionised the UK's pension system. Reversing the decline in pension participation, it made saving for retirement the norm, helping millions of people save into a pension, often for the first time.

Automatic enrolment remains crucially important in tackling our under-saving crisis. But more must still be done – for the majority of people, saving 8% of a band of earnings into a pension is not sufficient to deliver an adequate retirement income. That's why we strongly support the government's plans to lower the automatic enrolment age to 18, and for contributions to be based on the first pound earned.

The new Government should swiftly enact these changes and urgently set out a plan to gradually raise contributions further, taking account of the impact on lower income earners.

In a world where final salary schemes are increasingly rare and individuals bear more risk, defined contribution pension savers need much more help to make sense of their pensions, and to take decisions at and through retirement.

For a start, Pensions Dashboards will be a gamechanger, reconnecting people with almost £27bn of unclaimed pensions and giving them for the first time a complete view of their pension entitlements.

It will be crucial that the advice and guidance reforms bear fruit in time for dashboards being available, so that pension providers can offer more help to their customers as they navigate this new pension world.

Dr Yvonne Braun OBE
ABI Director of Long-Term Savings Policy

Pension policy has been a true standout success of the last 20 years. In the early 2000s, the Pensions Commission identified participation as a key issue and developed a policy that effectively addressed it – automatic enrolment – resulting in millions more saving for retirement.

The numbers are staggering: 70% more people are saving into a pension since automatic enrolment was introduced, and in total more than 22.5 million employees are now contributing to a pension.

Reform has boosted participation but left gaps – some intentional and some not. The biggest gap is well known by policymakers and industry: savings rates are still too low for millions, and without further effort many will have a much lower standard of living in retirement than they would expect, and others will rely much more heavily on the state than might be necessary.

We should remember the lessons from the last generation of policy makers and embrace an ambitious agenda to encourage saving for the next generation.

Lord Gus O'Donnell
Chairman, Frontier Economics,
former Cabinet Secretary

REFLECTIONS ON 20 YEARS OF PENSION REFORM

The first Scottish Widows UK Pensions Report was launched in 2005 to provide a robust yearly snapshot of the level of retirement provision in the UK.

As it evolved into the Retirement Report, it has tracked improvements in retirement provision showing that more people can expect a satisfactory living standard in retirement.

20 years ago, the prospects looked quite bleak with half of adults undersaving or making no retirement provision at all, and an expectation that the decline in defined benefit pensions would make the situation worse.

There is still a long way to go, particularly in encouraging consumers to engage with their retirement arrangements, but the pensions landscape today looks fairer and more robust.

Ian Naismith
Former Scottish Widows pensions expert and author of the very first report

The introduction of automatic enrolment has been the biggest positive change in pensions over the last 20 years – more than 10 million extra savers have been brought into workplace pension saving for the first time.

However, while the policy will help a vast number of workers achieve a higher income in retirement, we need contributions to rise from 8% of some earnings to 12% of all earnings for the full power of automatic enrolment to be realised.

We believe most of this increase should fall on the employer, so that workplace pensions are funded on a 50/50 basis between employers and employees.

We also need to broaden out automatic enrolment, or something similar, for the self-employed and gig economy workers and we need the UK government to require pension schemes to provide more support to people at the other end of the retirement savings journey. Introducing these two changes should be the number one priority for the UK.

Nigel Peaple
Director of Policy and Advocacy at the PLSA

LOOKING BACK: 20 YEARS OF THE RETIREMENT REPORT

MAJOR POLICIES OVER THE LAST TWO DECADES HAVE TRANSFORMED HOW PEOPLE PREPARE FOR AND MANAGE THEIR RETIREMENT

June 2005
Scottish Widows publishes first UK Pensions Report

June 2005
Scottish Widows launches Retirement Account, the first personal pension to include 'to and through' retirement facilities, self-invest facilities and unbundled service, investment and adviser charges

2006
Scottish Widows introduces Pension Investment Approaches (the blueprint for modern default funds)

June 2011
Pension triple lock introduced

Oct 2012
Automatic enrolment introduced at 2% contributions, with phased rollout

2013
Retail Distribution Review introduced, unintentionally creating the 'advice gap'

Sept 2014
The Scottish Widows bus hits the road for the first Pension Awareness Day

2015
Pension Freedoms introduced

2016
Changes to State Pension

Oct 2017
Automatic enrolment contributions increased to 5%

2018
Automatic enrolment increased to 8%, and State Pension age for women reaches 65

2018
Scottish Widows launches Master Trust

Oct 2020
State Pension age reaches 66 for men and women

2021
Scottish Widows launches annuity bureau for its customers

Sept 2022
Launch of Pension Engagement Season

2023
Government passes bill to allow certain changes to automatic enrolment

Jan 2024
Scottish Widows introduces open finance features to its app to help engagement

Apr 2024
Scottish Widows launches Ready Made Pension

SCOTTISH WIDOWS HAS BEEN AN ACTIVE PART OF THE DEBATE

THE MORE THINGS CHANGE...

We've been tracking the nation's attitudes and personal circumstances related to retirement for two decades, beginning in 2005 with the publication of The Scottish Widows UK Pensions Report, later renamed The Scottish Widows Retirement Report in 2014.

The first report was introduced by former Scottish Widows Chief Executive Archie Kane and in many ways his words ring as true today as they did 20 years ago:

"Effective retirement planning is becoming increasingly important for all of us. We live in an ageing population, and one that, in many ways, is financially under-prepared for the future. State Pensions are declining relative to average earnings and defined-benefit pensions schemes, which until recently were the bedrock of pension provision for a very large proportion of the population, are now closing to new members in large numbers. Against this backdrop, individuals must increasingly plan for their own retirement."

It's true that many of the challenges we face today are the same as they were in 2005, and in some cases the challenges have been exacerbated. But progress has been made over the last two decades, and while this report is about looking forward, it is important that in our 20th year we reflect on some of the big changes which have taken place.

The Government has introduced **policies which have fundamentally changed how people prepare for retirement**, including automatic enrolment and pension freedoms. **Scottish Widows has been a powerful voice for change** and we have actively informed the debate over the last 20 years by advocating for policy reforms to help people save. We've also changed the way we do things to make it easier for people to save for retirement, increasingly within the digital space.

Reforms have led to **real improvements** over the last 20 years in how many people save for retirement and how much they save. Not all groups have seen their retirement prospects improve at the same pace however, and there continues to be big challenges to face in tackling the gender pensions gap and addressing the structural inequalities which disproportionately impact marginalised communities.

Looking back over our past reports, we also see that people have become more accepting about having to work later in life. **Individual responsibility has become more important** in preparing for retirement, as most people now save into defined contribution pensions and have new pension freedoms to manage.

At the same time, it is **not clear that individuals are taking on the mantle of this responsibility**. In our later **Shining the spotlight** section we show the limited engagement some people have with their retirement preparations. And the result is that more than a third of people are currently at risk of not being able to meet their basic needs in retirement, as shown by our National Retirement Forecast.

It is more important than ever that people engage with their pensions and other retirement preparations. People can put themselves on better paths by taking a more active role in their retirement preparations.

Government and pension providers should help empower people to make these decisions. In our later **Looking to the future** section we set out our policy recommendations to Government and give tips to people to help them prepare for retirement.

REFLECTIONS ON 20 YEARS OF PENSION REFORM

The biggest positive change in the last 20 years has to be automatic enrolment. Opt out rates have been lower than anyone predicted and even during the pandemic, when some faced significant financial hardship there was no discernible increase in opt outs and contributions actually increased overall.

We have not made progress in adapting our pension system to the modern world. The three stages of our lives – education, work and retirement used to divide neatly into thirds, but this is no longer the case. We can't save enough in a working life of 40 years to retire for 20-25 years. We change jobs, move between full time, part time, employed, self-employed and unemployed. We marry, divorce and remarry. The retirement system needs to adapt.

The biggest challenge will be to ensure adequacy of saving for everyone. A relatively small group achieve adequate savings with significant inequality by gender and ethnicity.

The system is too complex – genuine simplification so that everyone can plan and save for retirement without needing an actuary, lawyer and investment manager is much needed.

David Fairs
Partner at LCP

No-one should face poverty in old age. A public policy adage we can all get behind. But cost-of-living headwinds are pushing many households in the wrong direction.

Four in ten people seeking help with debt from StepChange are in full time work. People most vulnerable to problem debt find retirement saving most challenging.

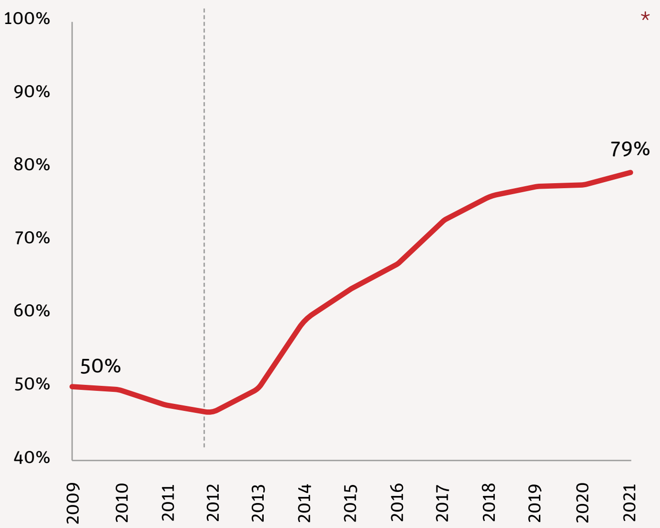
If unaffordable rents, high essential living costs and insecure incomes become baked-in, auto enrolment becomes increasingly less powerful in ensuring adequate retirement income for all.

So evolving auto enrolment to fit better with the realities of lower income workers is a must. So is rebuilding the financial resilience that retirement saving rests on. Paying the bills now and saving enough for the future shouldn't be a problem.

Peter Tutton
Head of Policy at StepChange Debt Charity

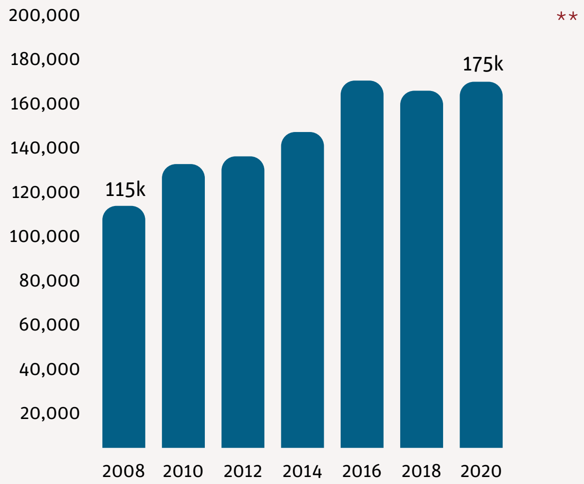
MUCH HAS IMPROVED OVER THE LAST TWO DECADES

70% Increase in **pension participation** since 2009



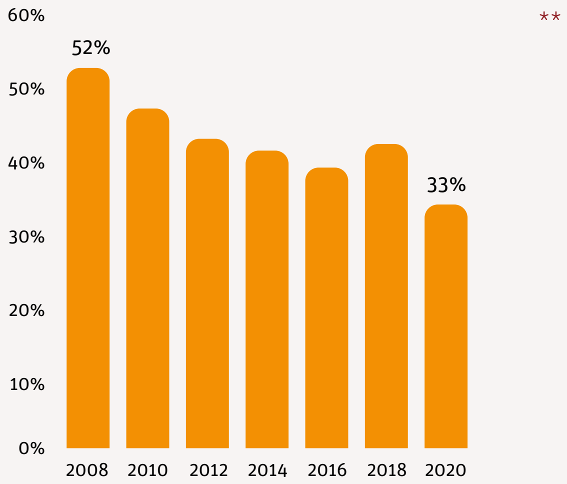
This increase can largely be attributed to the introduction of automatic enrolment in 2012.

51% Increase in real **average pension wealth** for those aged 50-64 since 2008



The increase was more pronounced for women in that age bracket – whose real average pension wealth rose by 83% to £140,400.

36% Reduction in the real **gender pension gap** for those aged 50-64 since 2008



This is due to the falling gender pay gap, and increased pension participation for women.

We will explore this further in our 2024 Women & Retirement report.

* Source: ONS ** Source: ONS, Wealth and Assets Survey

RECENT TRENDS HAVE MADE PLANNING FOR RETIREMENT HARDER AND MORE COMPLEX

Generous defined benefit schemes replaced by defined contribution schemes

The proportion of employees with occupational defined benefits fell from 46% in 1997 to 28% in 2021.*

Increased State Pension age

State Pension Age has risen to 66 and is set to increase to 68 by 2046.

Increased living expenses

Increased cost-of-living over the last two years (which has now slowed).

11.1%: Peak annual inflation rate in October 2022

Increased housing expenses

15% increase in average private rental prices since 2020.

42% of new mortgages have end dates in retirement (Bank of England).

People are living longer

Life expectancy has risen by three years for men, and two years for women over the last 20 years.

So pension pots must stretch further.

Wage stagnation

Real wages and productivity have been stagnant since 2007 (Resolution Foundation).

* Source: Office for National Statistics – Annual Survey of Hours and Earnings (ASHE)

RETIREMENT TODAY

Retirement is going well for most of today's retirees, but some have their freedom limited by financial constraints or health issues. This section sets out:

- Most people today retire by State Pension Age and enjoy retirement (see page 17).
- Retirees prioritise spending on helping their children and leisure activities (see page 18).
- The State Pension is important for helping most retirees cover essentials (see page 19).
- For those not enjoying retirement, poor health and financial difficulties are key drivers (see page 20).

- Even though retirement is going well for most people today, there is a concern about polarisation with generations yet to retire, as we discuss in later sections.

MOST PEOPLE ARE ENJOYING RETIREMENT

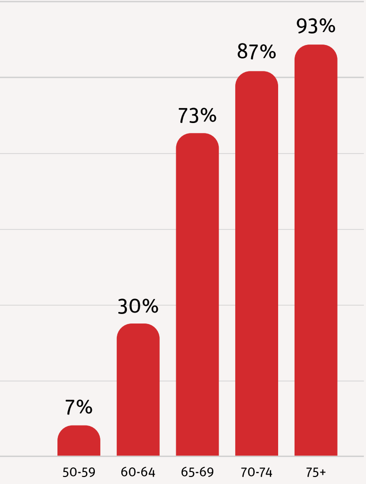
83% of people retire by the time they hit **State Pension Age**

Groups least likely to be retired by State Pension Age are:

Men

Renters

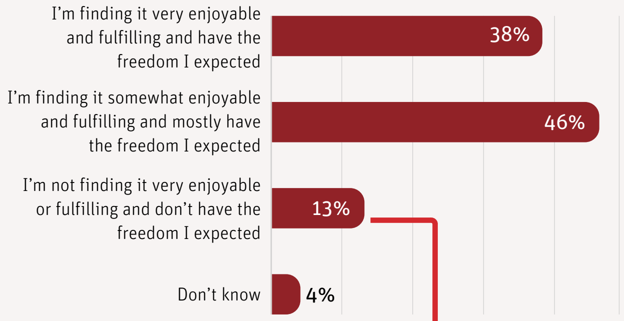
% retired by State Pension Age



Percentage retired by age

84% find retirement at least somewhat **enjoyable** and **mostly have the freedoms** they expected

How are retirees finding retirement?

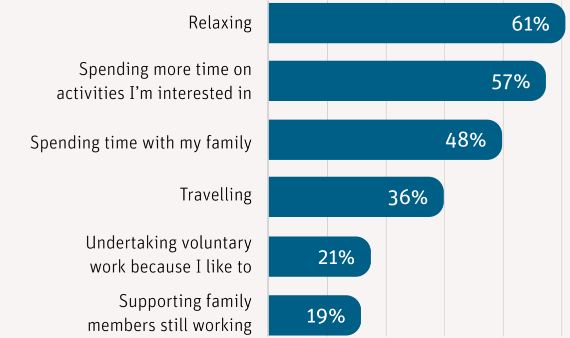


Groups most likely to not be enjoying retirement are:

Disability	Renters	Low Income (<£10k)
19%	20%	23%

Retirees prefer to spend their time **relaxing**, on their **hobbies**, with family, and **travelling**

Top answers as to how retirees plan to spend retirement years



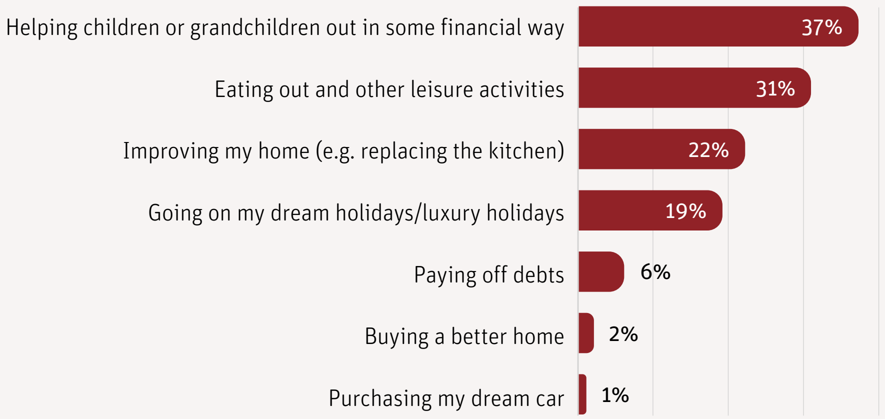
Other answers include:

- Having caring responsibilities (**11%**),
- Happily undertaking paid work (**3%**), and
- Moving abroad (**2%**).

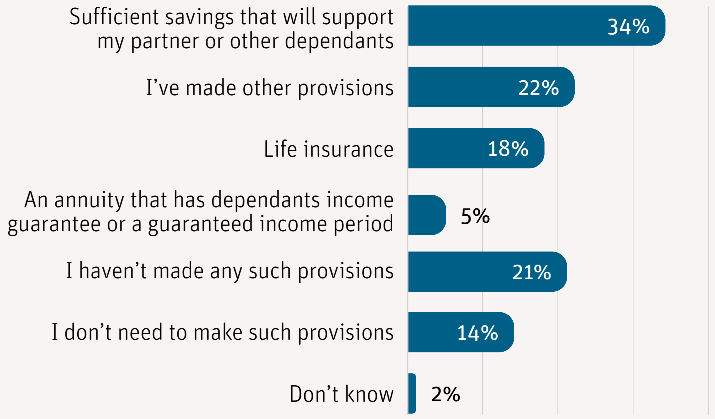
RETIREES PRIORITISE SPENDING MONEY TODAY ON HELPING THEIR CHILDREN, AND LEISURE ACTIVITIES

Helping children or grandchildren is the most common priority for how retirees spend their retirement savings

Retirees' top priorities for spending their retirement savings



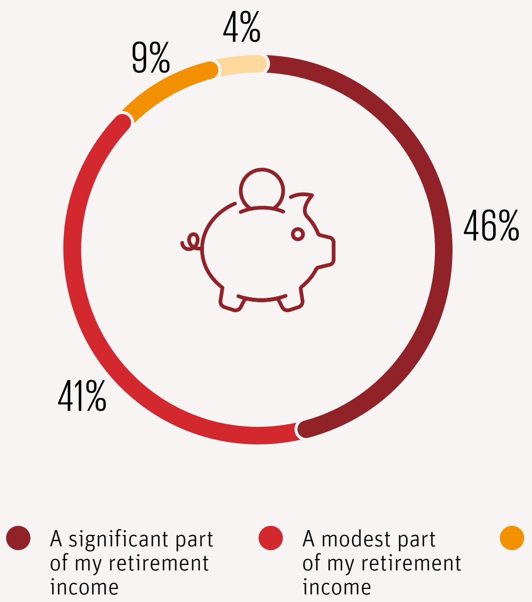
Yet, over a **fifth (23%)** of people aged 65+ **haven't or don't know whether they have any provisions in place** to provide income to dependants if they passed away



Specifically, of those who say they prioritise helping their children or grandchildren in some financial way, 17% haven't or don't know if they have made any provisions, suggesting disengagement with their own retirement priorities.

THE STATE PENSION IS IMPORTANT FOR HELPING MOST RETIREES COVER ESSENTIALS

46% of retirees say the **State Pension** provides a **significant proportion** of their income

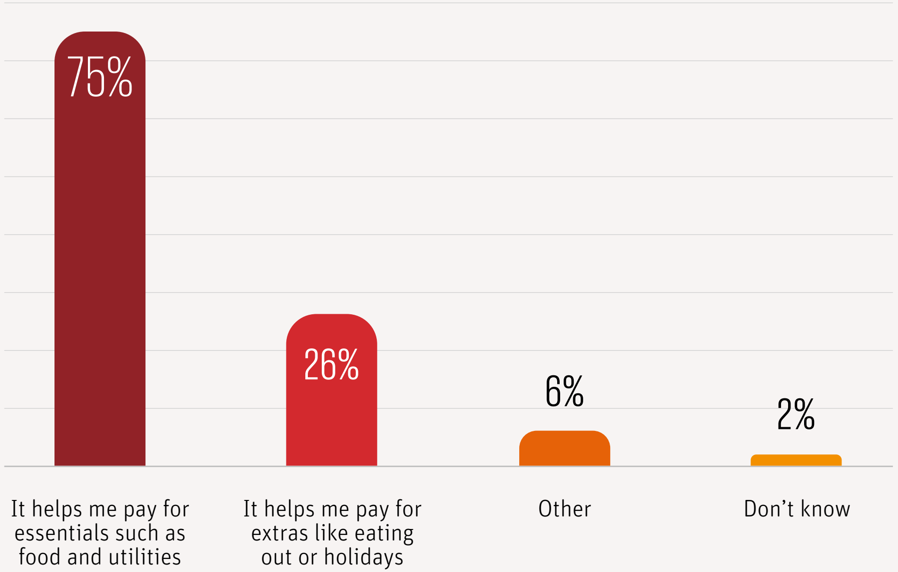


However, retirees' reliance on the State Pension varies

- 39% **of men**
- 60% **of renters**
- 52% **of those earning <£30,00 a year**

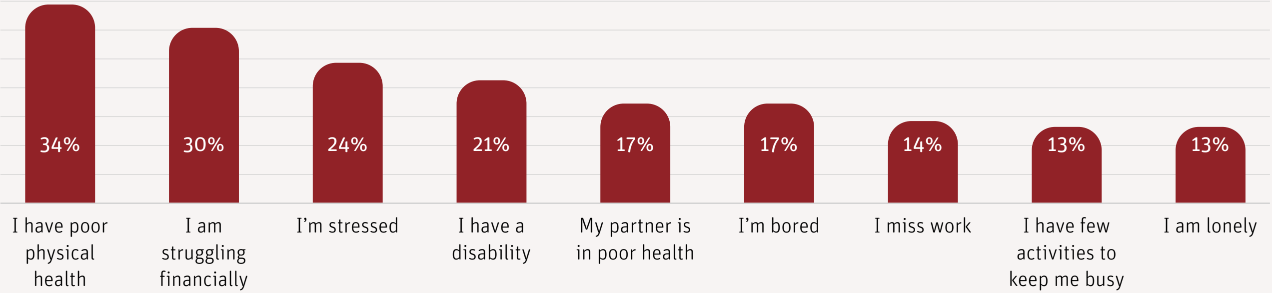
% of retirees who report that the State Pension forms a significant part of their income

75% of retirees who receive the State Pension said it **helps to pay for essentials** such as food and utilities

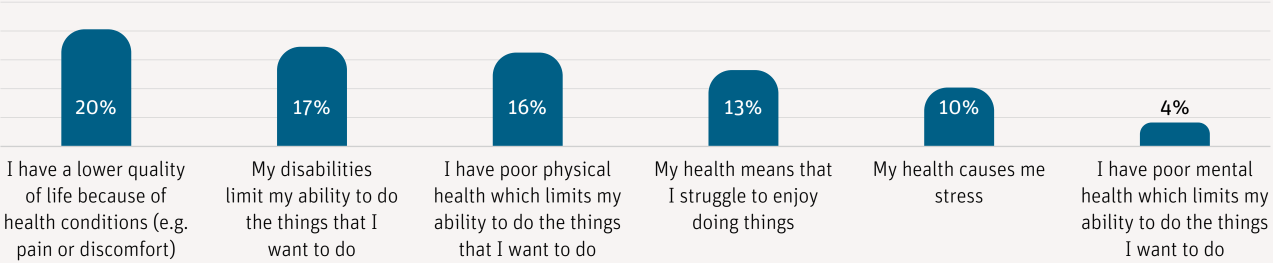


FOR THOSE NOT ENJOYING RETIREMENT, POOR HEALTH AND FINANCIAL DIFFICULTIES ARE KEY DRIVERS

- For those not enjoying retirement, the most common reasons are poor **physical health, financial struggles and stress**



- Health is an important aspect of the retirement experience, as **49%** of all retirees say **their health has impacted their retirement** and has limited what they can do.



- Poor health in retirement affects many disproportionately, often **compounding financial struggles**

% whose health negatively affects retirement

Low income (<£10k) 41%	**High income (£50k+)** 23%
Renting 55%	**Homeowner** 40%
Living in Wales 61%	**Living in London** 45%

THE NATIONAL RETIREMENT FORECAST – INCREASING POLARISATION

Proportion of people on track for different retirement lifestyles

	2023		2024
COMFORTABLE LIFESTYLE	36%	-4.5%*	32%
MODERATE LIFESTYLE	11%	-4%	7%
MINIMUM LIFESTYLE	18%	+5%	23%
LESS THAN MINIMUM LIFESTYLE	35%	+3%	38%

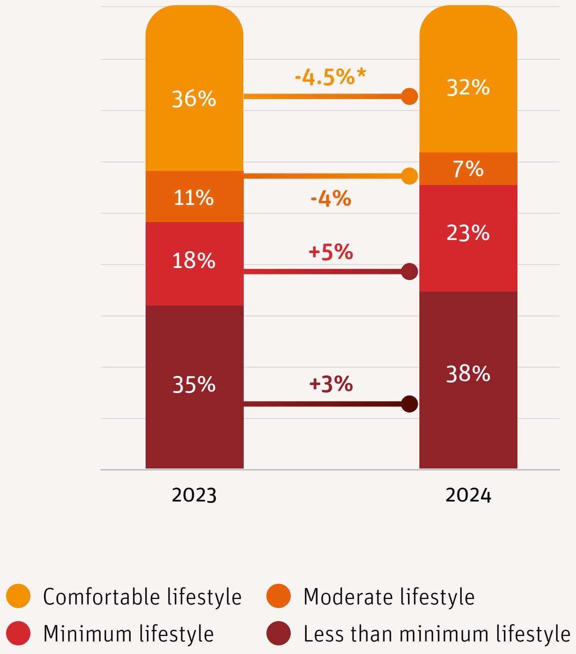
OVER A THIRD RISK NOT BEING ABLE TO COVER THEIR NEEDS IN RETIREMENT

GETTING WORSE: THIS PROPORTION HAS INCREASED SINCE OUR FIRST NATIONAL RETIREMENT FORECAST LAST YEAR

- We first ran the National Retirement Forecast (NRF) in our 2023 Retirement Report, with the expert help of Frontier Economics. The NRF assesses the potential retirement outcomes for those aged 22 to 65. It is a projection based on the current savings and behaviours of individuals and takes a comprehensive view of sources of retirement income, including the **State Pension, private pensions, other long-term savings and inheritance.**
- The NRF compares the retirement income people are on track for to the costs they could face: **living expenses** for different PLSA retirement living standards (see page 25), and **housing costs** for those who expect to rent or continue to pay off a mortgage in retirement.
- Based on current savings behaviour most people are on track for at least a minimum lifestyle (covers all your needs with some left over for fun, but limited freedom and flexibility). But the forecast also shows **significant polarisation**, with over a third of people falling short of even the minimum lifestyle. We show which groups are particularly affected later in the report (see pages 26, 27, 42, 45 and 46).
- The number of people at risk of not being able to cover their basic needs and face poverty in retirement (i.e. a less than minimum lifestyle) has increased due to living costs and housing costs rising faster than the State Pension and private sector wages (which drive private pension contributions).

* Numbers in chart have been rounded

RISING COSTS MEAN THAT FEWER PEOPLE ARE ON TRACK FOR BETTER RETIREMENT LIFESTYLES



People are **less likely to be on track for a comfortable or moderate retirement lifestyle** and more likely to be on track for a minimum or less than minimum lifestyle

- Since last year's report the PLSA have revised their retirement living standards categories and as a result these paint an even bleaker picture of the number of people who will fail to save enough for even a minimum lifestyle in retirement.
- This reveals that rising living and housing costs are having a significant impact, with 3% more of the population now projected to have below the minimum lifestyle (see **pages 23 & 25** for further details of the rising costs).
- The overall distribution has shifted lower, with 8% more of the population projected to be in the minimum or less than minimum lifestyle category.
- This extends to those previously projected to achieve a comfortable retirement lifestyle as well, with a 4.5% decline in the comfortable category.
- Results across both years show the polarisation in retirement experiences, with an increase in separation as the overall proportion of people projected to have a comfortable or moderate lifestyle has decreased by 8%.

Continued >>>

* Numbers in chart have been rounded

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MUCH OF THE DIVERGENCE FROM 2023 IS DRIVEN BY:

Increasing living costs raising the thresholds for each lifestyle

Costs for a minimum lifestyle have increased by **13-18%***

Homeowners face lower costs, whilst rental prices increase

15% increase in average private rental prices since 2020

42% of new mortgages have end dates in retirement

Further cost increases expected for **3 million** households still on lower fixed rate deals

Those who save little to nothing into a pension

28% of future retirees say they have not yet started saving for their pension

* See page 25. % increase to the 2024 PLSA standards based on 2023 data, compared to previous PLSA standards based on 2022 data.

SOURCES OF EXPECTED RETIREMENT INCOME VARY WIDELY, WITH PRIVATE PENSION INCOME VARYING THE MOST

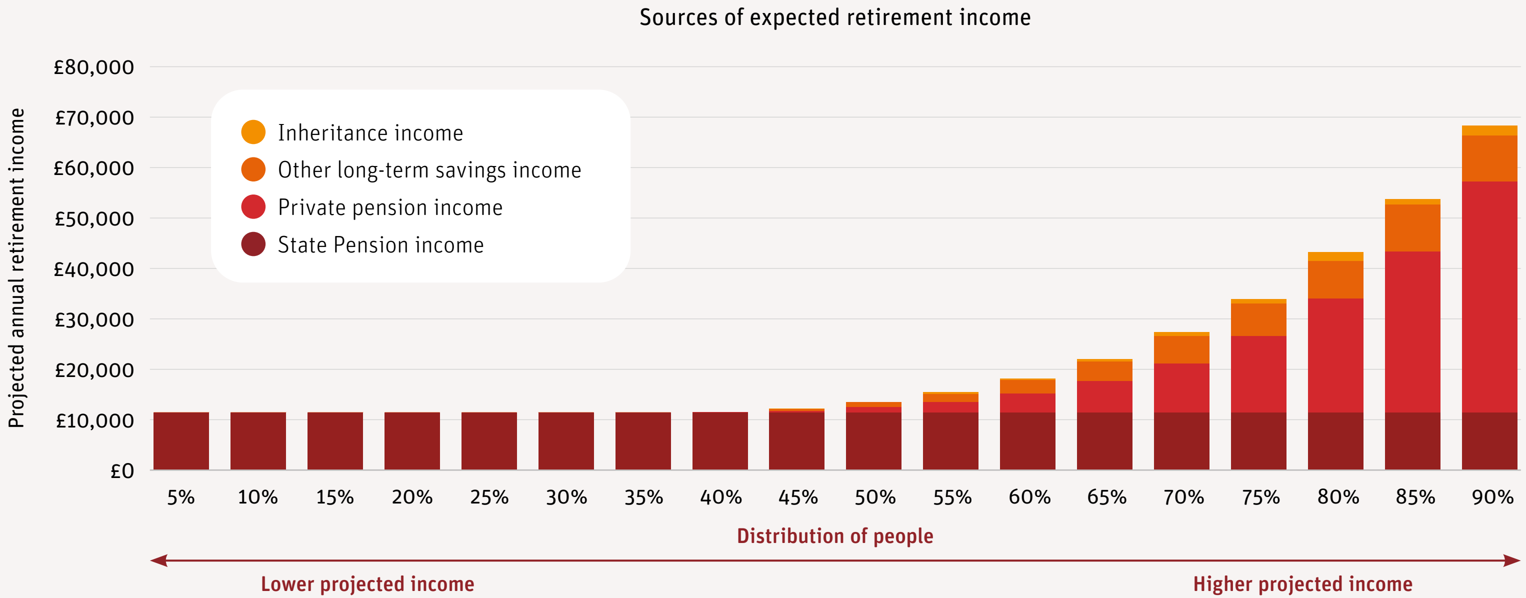
56%

of people are on track for private pension income

£14.3K

Median projected annual private pension income*

Private pensions are the main factor driving which retirement lifestyles different people are on track for.



These projected retirement incomes assume people take out their private pension at 65 and purchase an annuity. If people draw from their pension before the age of 65, this will reduce their retirement income.

*For those projected to receive that type of income in retirement.

RETIREMENT OUTCOMES ARE BENCHMARKED TO THE PLSA'S RETIREMENT LIVING STANDARDS

	Minimum	Moderate	Comfortable
Single	**£14,400** (+13%*)	**£31,300** (+34%*)	**£43,100** (+16%*)
Couple	**£22,400** (+18%*)	**£43,100** (+27%*)	**£59,000** (+8%*)

Minimum

Covers all your needs with some left over for fun

For example, this includes (for a couple):

- £95 a week on groceries
- £30 a month on takeaways per couple
- No car
- One week holiday in the UK annually

Moderate

More financial security and flexibility

For example, this includes (for a couple):

- £100 a week on groceries
- £20 a week on takeaways per couple
- Three-year-old car replaced every seven years
- Two week 3* all-inclusive holiday in the Med, and a long weekend UK break.

Comfortable

More financial freedom and some luxuries

For example, this includes (for a couple):

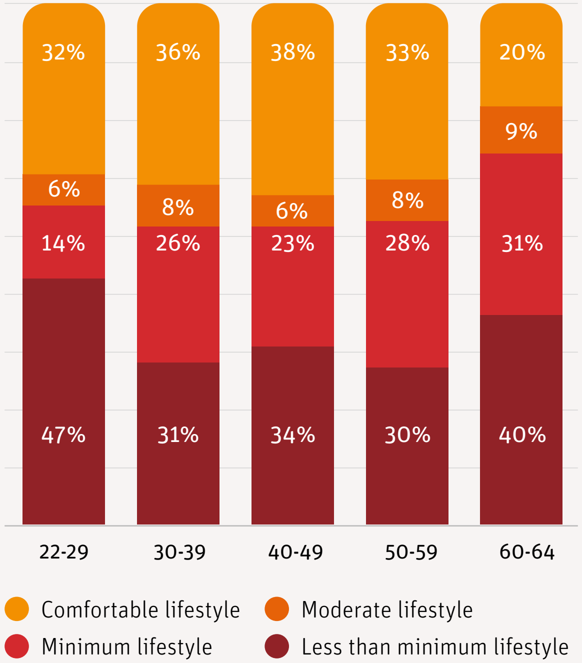
- £130 a week on groceries
- £30 a week on takeaways per couple
- Three-year old car, replaced every five years
- Two week 4* all-inclusive holiday in the Med, and three long weekend UK breaks

- The PLSA's standards show the income thresholds for different retirement lifestyles, in terms of the amount that can be spent on food, clothing, transportation, holidays, and maintenance of a home.
- The PLSA has increased its thresholds this year, reflecting both the rising cost of living and changes in expectations.
- For example, retirees are now placing higher priorities on activities with family and friends, such as eating out and holidays.

Note: The costs shown in this table are for singles and couples who live outside of London. The forecast also considers standards for those who live in London.

* % increase to the 2024 PLSA standards based on 2023 data, compared to previous PLSA standards based on 2022 data.

THE GENERATIONAL PICTURE



Due to roundings, totals may not always equal 100

Concerningly, **40% of those approaching retirement (60-64 years old) still risk not being able to cover their basic needs** in retirement

- The generation closest to retirement (early 60s) are the least likely to be on track for a comfortable or moderate lifestyle and most likely to be hit hard by sharply rising living and housing expenses.
- They are less likely than the previous generation to have benefited from generous defined benefit pension schemes.
- And they have also had less time to benefit from automatic enrolment.

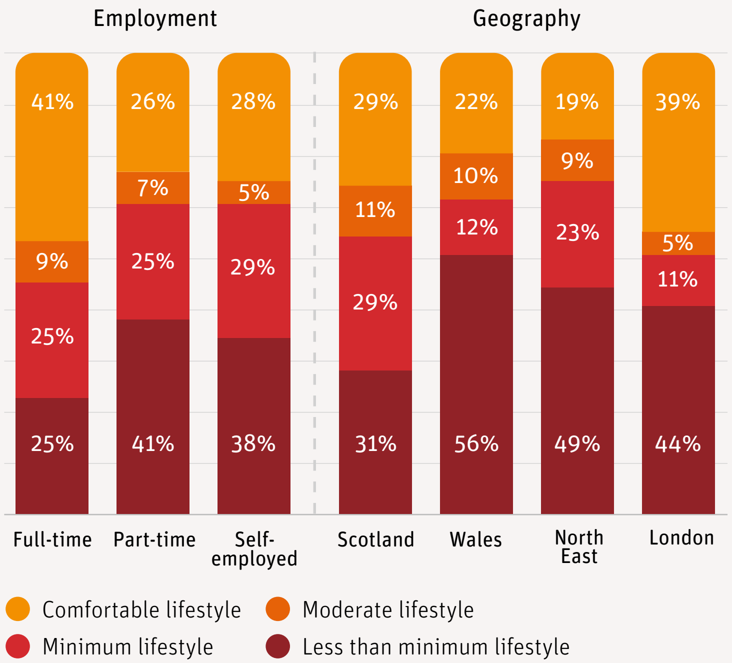
Less of the **generation retiring in 20 years** will experience the poorest outcomes

- 40–49-year-olds are the group most likely to be on track for a moderate or comfortable lifestyle (38%).
- This reflects stronger current savings behaviours, with many benefiting from automatic enrolment and increased default contributions.

The **generation retiring in 40 years** are on track to be the least likely to cover their basic needs in retirement, but have **plenty of time to change course**

- This is based on current behaviour, such as lower pension engagement and a focus on other priorities, like housing.
- But this younger generation also has the most opportunity to take control of their retirement preparation and improve their retirement outcomes.

PART-TIME AND SELF-EMPLOYED WORKERS ARE MORE LIKELY TO FACE WORSE RETIREMENT OUTCOMES, AS ARE THOSE IN WALES AND THE NORTH-EAST



Part-time and self-employed workers are more likely to face worse retirement outcomes than full-time workers

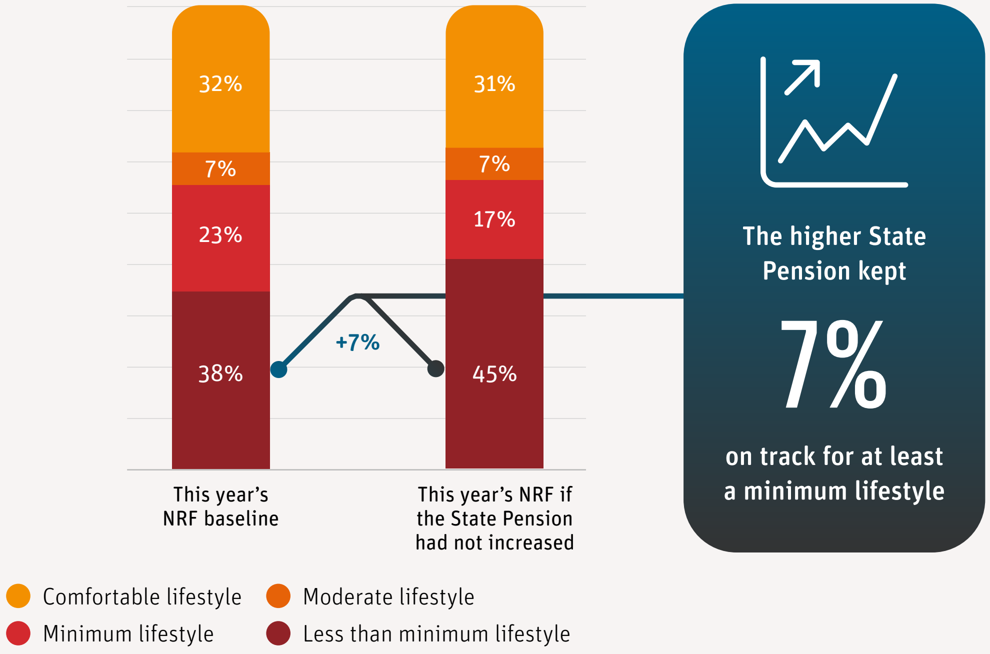
- 41% of part-time employees are not on track for even a minimum lifestyle in retirement (compared to 25% of full-time employees). This is driven by part-time workers earning less, but also because many of them do not qualify for automatic enrolment as they earn less than £10k per year.
- 38% of the self-employed are not on track for even a minimum lifestyle. Self-employed people also fall outside of automatic enrolment.

Wales and the North East are the regions in the UK most likely to face worse retirement outcomes

- 56% and 49% of those aged 22-65 in Wales and the North East are not on track for even a minimum lifestyle. This is driven by higher proportions of people on low income in these regions.
- On the other hand, only 31% of those aged 22-65 in Scotland are not on track for even a minimum lifestyle. Lower incomes in Scotland tend to be more than counterbalanced by lower housing costs.
- London is the region with the most polarisation in retirement outcomes, with a higher-than-average share not on track for even a minimum lifestyle, but also a higher-than-average share on track for a comfortable lifestyle. This is driven by generally higher but varied incomes, as well as very high housing costs.

Due to roundings, totals may not always equal 100

THE TRIPLE LOCK HAS BEEN CRITICAL TO KEEPING PEOPLE ON TRACK FOR RETIREMENT



The triple lock has resulted in a **£900** increase in State Pension this year

- Policies like the triple lock provide a consistent increase to the State Pension in line with rising living costs and it has been critical for keeping people on track for at least a minimum lifestyle.
- For a significant proportion of the population, their State Pension entitlements, pension credits, and other benefits are the primary drivers enabling them to achieve at least a minimum lifestyle in retirement.
- If we had only accounted for increased living and housing expenses but not the increase to the State Pension, then our NRF would have projected 45% of people as not being on track for even a minimum lifestyle in retirement (compared to 38% in our NRF baseline where we do account for the State Pension increase).

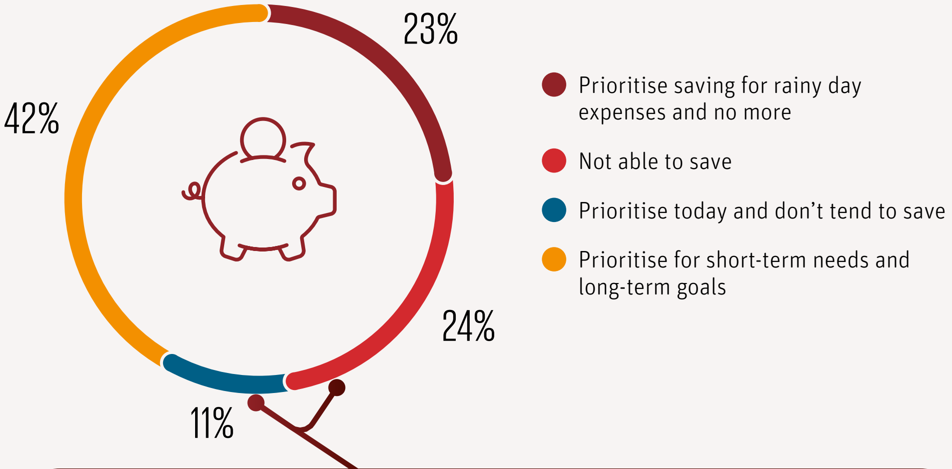
CHALLENGES PREPARING FOR RETIREMENT

The National Retirement Forecast shows that significant numbers are not on track for even a minimum lifestyle in retirement. In this section we explore some of the drivers and people's attitudes and experiences of preparing for retirement. We find that:

- Most people are **not prioritising long-term saving**, and many people don't know or underestimate how much income they will need in retirement.
- People **recognise they are not doing enough to prepare for retirement**, and they are **concerned that consequently they will have to work longer**.
- Future retirees are **more concerned about retirement** in general than today's retirees.
- Almost half are **not doing anything to address their concerns** about retirement. This is common even amongst those who are nearer to retirement.
- **Many cannot save more, but there is also a lack of confidence in managing retirement savings**. Cost of living pressures are a barrier to many, but others are unsure how much they should save and do not understand their options.
- **People are most reliant on friends and family for guidance**. A minority access financial advice and most find it helpful and good value. There are many though who might benefit, for example those managing sufficiently large pension pots, but who feel intimidated, unsure or do not trust financial advisers.

MOST PEOPLE ARE NOT PRIORITISING LONG-TERM SAVING

Only **42%** of people **prioritise long-term saving** beyond saving for rainy day expenses



35% are **not able to** or **don't** tend to **save**

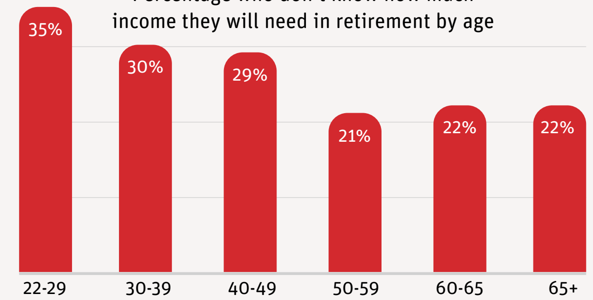
Groups least likely to be saving are:

AGED 40-49	LOW INCOME (<£10K)	RENTERS
43%	43%	46%

AND MANY PEOPLE DON'T KNOW OR UNDERESTIMATE HOW MUCH INCOME THEY WILL NEED IN RETIREMENT

Almost **1 IN 3** (28%) **do not know how much income** they will need in retirement

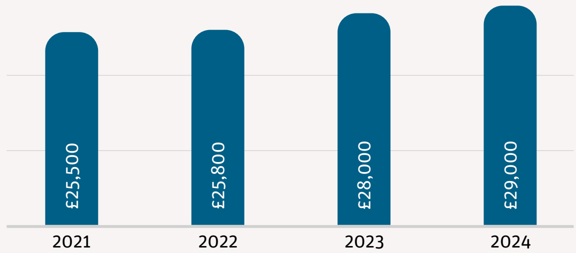
Percentage who don't know how much income they will need in retirement by age



- More than 20% of soon-to-retire individuals don't know how much money they'll need in retirement.
- People retiring in the next 15 years have started to give more thought to what they might need to retire on.
- A third of the generation retiring in 40 years are unsure but have time to gain more knowledge.

29K The average **annual household income** that people think they need to feel "comfortable" in retirement

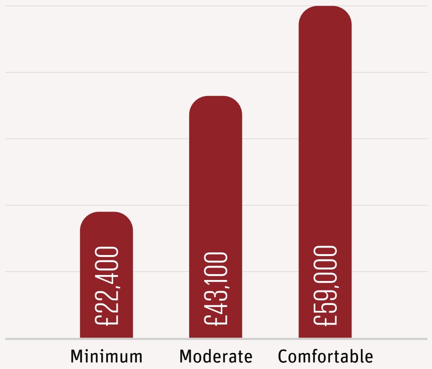
Average annual household income people think they need to feel "comfortable" in retirement over time



- Our National Retirement Forecast shows that 43% of people would be on track to have £29k income in retirement.
- The income people think they'll need to feel comfortable has increased by 15% in the last three years alone.

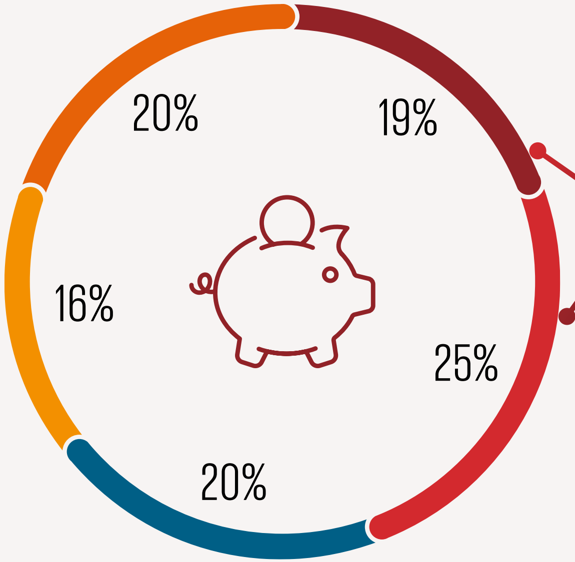
But PLSA thresholds suggest people may be **underestimating** how much they need

Comparing £29k to the PLSA retirement lifestyle thresholds for couples



- A £29k household income would give a couple a minimum retirement lifestyle that covered their basic needs but would not provide much security or freedom (as defined by PLSA).

MOST EXPECT TO RELY ON THE STATE PENSION, AND MANY ARE CONCERNED ABOUT CHANGES TO IT



- It will provide a significant part of my income in retirement
- It will provide a modest part of my income in retirement
- It will provide very little of my retirement income
- I don't expect it will be available when I retire
- I don't know much about it

43%

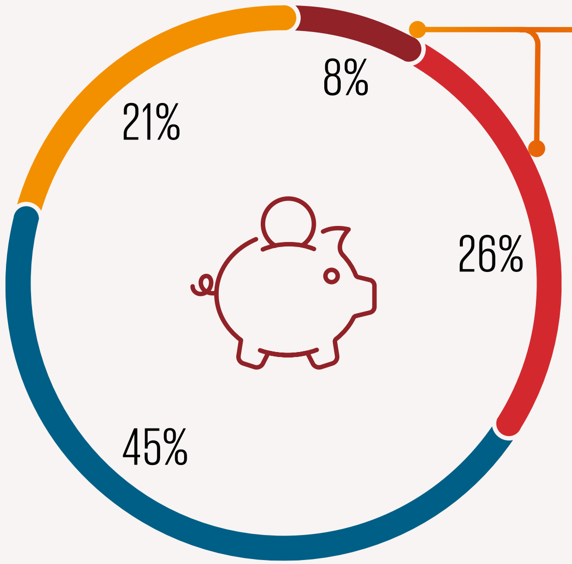
of future retirees expect the State Pension to provide a **modest or significant part** of their income in retirement

Men anticipate depending more on the State Pension, with 46% expecting it to contribute a moderate to significant part of their income, compared to 41% of women.

But many are concerned about changes to the State Pension or that it might not be available to them at all

- **45%** of future retirees are concerned about changes to State Pension
- **16%** of future retirees think the State Pension will not be available to them when they retire

PEOPLE RECOGNISE THEY ARE NOT DOING ENOUGH TO PREPARE FOR RETIREMENT



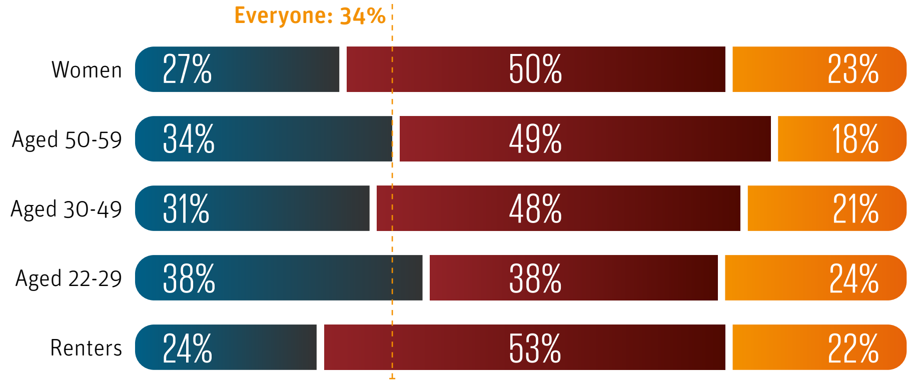
- I am preparing more than adequately
- I am preparing about adequately
- I am not preparing adequately
- Don't know

Only

34%

of people think they are preparing adequately for retirement

Women, those **aged 30-49**, those with a **disability**, and those who **rent** are less likely to think they are preparing adequately for retirement



How people believe they are preparing for retirement

Adequately | Not adequately | Don't know

Due to roundings, totals may not always equal 100

- The proportion of people who think they are preparing adequately has been stable over the last few years – it was 35% in our 2019 survey.

FUTURE RETIREES ARE MORE CONCERNED ABOUT RETIREMENT IN GENERAL THAN TODAY'S RETIREES

Future retirees are much more likely to **be pessimistic about retirement** than **today's retirees**

Proportion of retirees	Optimistic about retirement	Pessimistic about retirement
Today's retirees	56%	9%
Future retirees	29%	34%

Those with a disability, those aged 40-49, women, and those with a low income (<£10k) are **less likely to be optimistic** about retirement

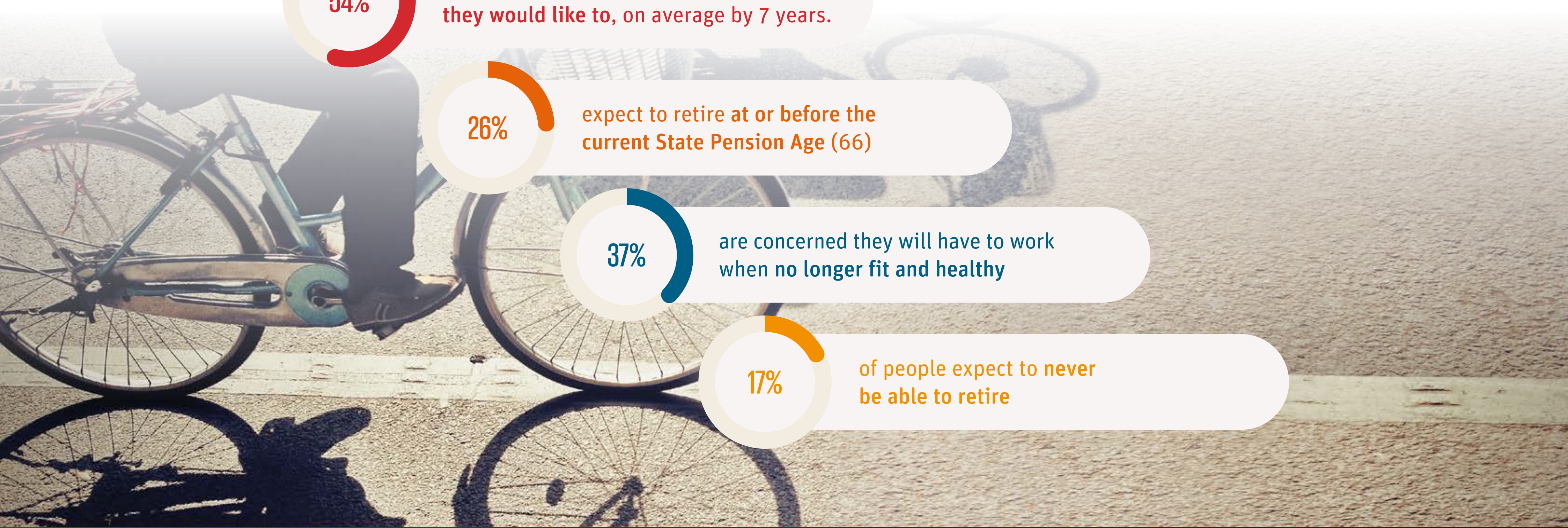
Disability	Aged 40-49	Women	Low income (<£10k)
21%	21%	24%	26%

Future retirees are also more concerned they will **run out of money** in retirement than **today's retirees**

Proportion of retirees	Concerned they will run out of money	Concerned about rising housing costs
Today's retirees	38%	8%
Future retirees	64%	31%

- Women are more likely to be concerned about running out of money (69%), as are the middle aged (72% of 40–49-year-olds, and 69% of 50–59-year-olds) and those with disabilities (72%).
- The Black community (53%), homeowners (52%) and men (59%) are less likely to be concerned.

MOST PEOPLE EXPECT TO WORK LONGER THAN THEY WOULD LIKE



54% of future retirees **expect to retire later than they would like to,** on average by 7 years.

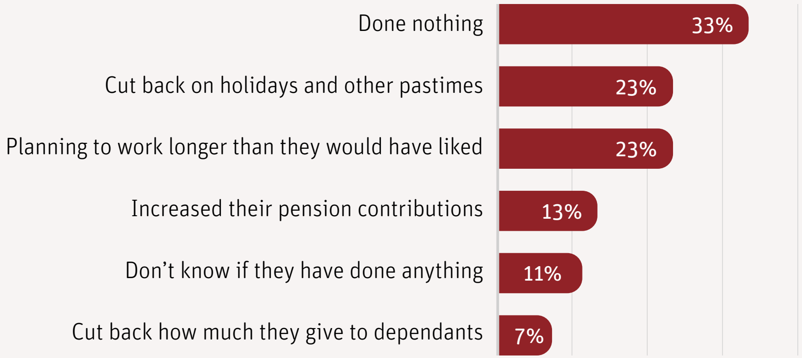
26% expect to retire **at or before the current State Pension Age** (66)

37% are concerned they will have to work when **no longer fit and healthy**

17% of people expect to **never be able to retire**

ALMOST HALF ARE NOT DOING ANYTHING TO ADDRESS THEIR CONCERNS ABOUT RETIREMENT

44% Almost half (44%) of those with concerns about retirement **have not or don't know** whether they have done anything to **address these concerns**



- The most common way people have addressed their concerns has been to cut back on holidays and other pastimes (23%).
- Just over a fifth (23%) plan to address their concerns by working longer than they would have liked.
- Few (13%) say they have done so by raising pension contributions.

50% Worryingly, half (50%) of people in their 50s and early 60s have still **done little to no research** on how much they might need to **save for retirement.**

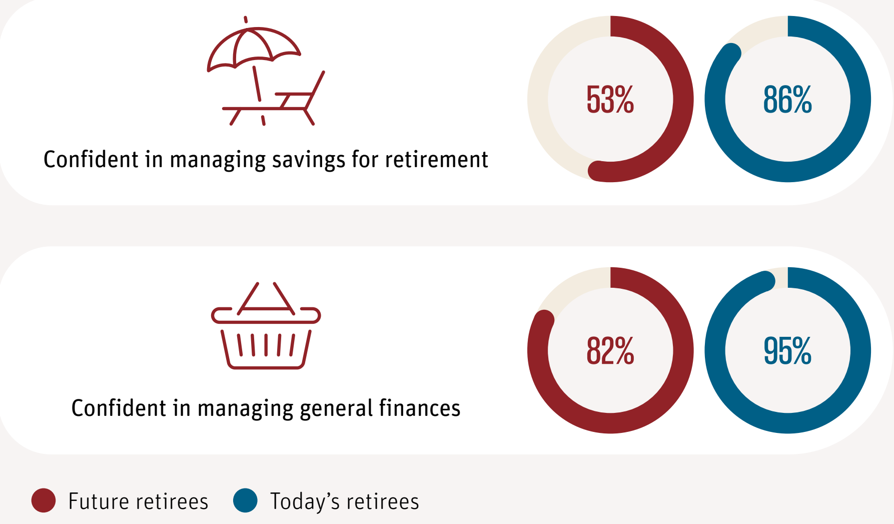
	Researched how much they might need to save for retirement	Have checked their State Pension entitlement
Those in their 50s and early 60s*	**50%**	**63%**

- Women (37%), under 30s (38%), renters (39%), low income (<£10k) (40%), and the disabled (39%) are less likely to have researched how much they need to save.
- Under 30s (19%), renters (38%), and those on low incomes (<£10k) (42%) are least likely to have checked their state entitlement.

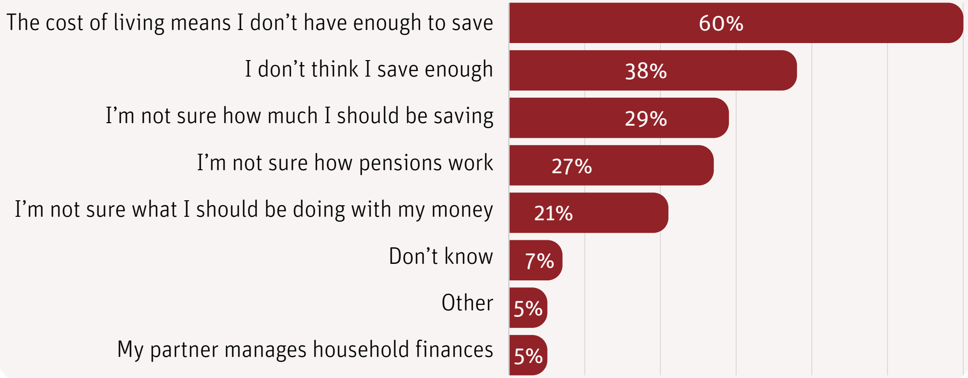
* Net, up to age 64

THERE IS UNCERTAINTY OVER HOW MUCH TO SAVE, BEING UNABLE TO SAVE MORE AND THE AVAILABLE OPTIONS

Future retirees are **less confident** about **managing their savings** for retirement than managing general finances



Of those who are not confident in managing their savings, the majority say it is because the **cost of living** means they **don't have enough to save**



Top tips to help you prepare for retirement can be found on **page 55**

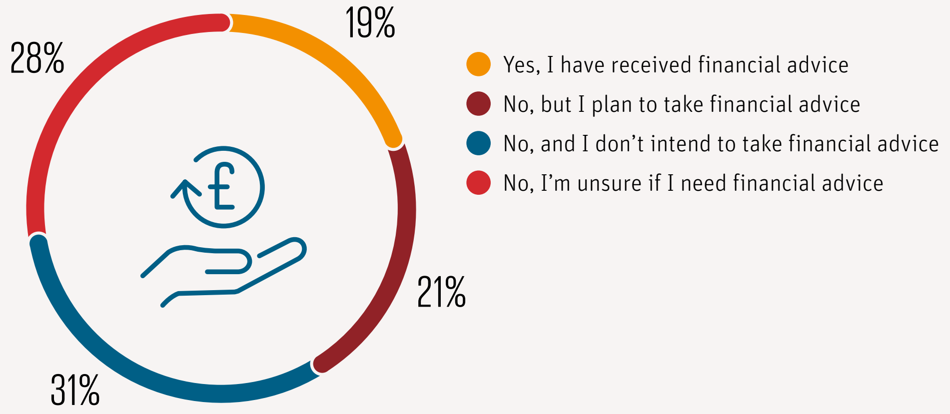
MOST PEOPLE LOOK TO FRIENDS, FAMILY AND OTHER INFORMAL SOURCES OF GUIDANCE

Friends, family and the internet are the most common sources of financial guidance, but **many don't get any**

	Future retirees
How many don't get financial guidance from anyone	**32%**
How many get financial guidance from friends and family	**34%**
How many get financial guidance from the internet	**34%**

- Speaking to friends and family or using the internet still likely leaves people uncertain of how to prepare for retirement given their individual circumstances.

40% of people **have received or plan to receive formal financial advice** to manage their pension

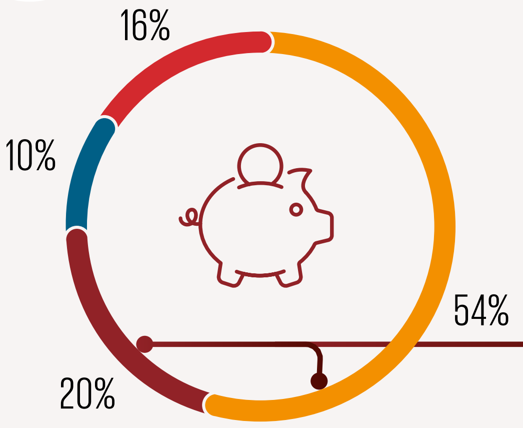


- For people aged 60-64, only **30%** have taken financial advice and only a further **11%** plan to.*

* Generally, the public think about advice as being 'help that comes from someone who knows more than they do'. They tend to be unaware of the regulatory boundary between what industry insiders refer to as 'guidance' and 'regulated advice' – the findings need to be read in that context. Due to roundings, totals may not always equal 100

THOSE WHO GET FINANCIAL ADVICE GENERALLY FIND IT HELPFUL

Most people that took **formal financial advice** found it **helpful** and **good value**



74% of people that took financial advice found it helpful, with 54% saying it was good value for money.

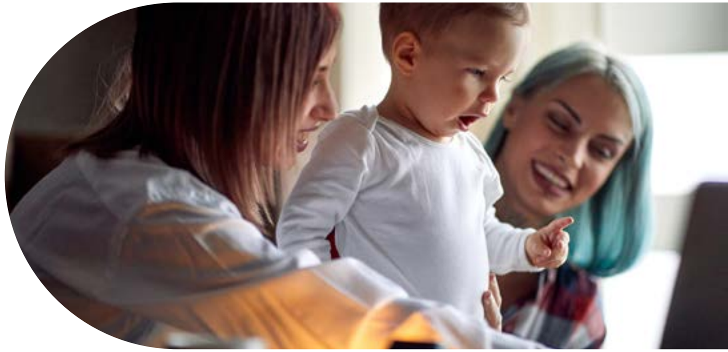
Government and pension providers should help empower people to prepare more – we explain how in the 'Looking to the Future' section.

33% Of those who have not taken financial advice, the most common reason was it **being expensive**

- The second most common reason is people thinking their pension savings are too small to make it worthwhile (26%).
- But even of those who are on track to have over £200k in savings for retirement, only 57% have received or plan to receive financial advice.
- And a significant minority feel intimidated, don't know how to get advice or don't trust advisors.

SHINING THE SPOTLIGHT

SHINING THE SPOTLIGHT



The Retirement Report has for some years now explored the experiences and outcomes of different groups and communities across the UK.

Clear themes have emerged which we continue to explore on our 20th anniversary.

We see divergent economic conditions, retirement preparations, and confidence around the topic of finance.

Our growing evidence base points to the continuing need to build greater economic opportunity for all, and to have better outreach to some groups who feel intimidated by potential avenues of support.

ETHNICITY

- Optimism regarding retirement varies between communities.
- The level of optimism is not always correlated to the retirement outcomes which we are forecasting.

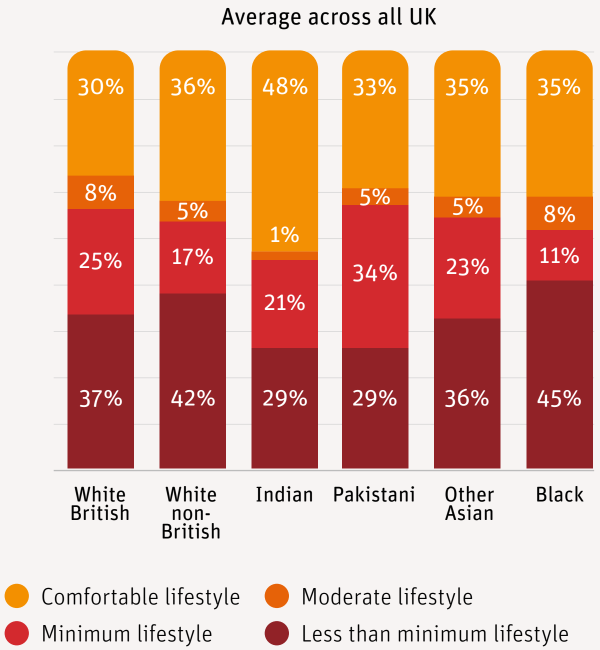
DISABILITY

- Disability is strongly associated with a less enjoyable retirement.
- Those with a disability are forecast to have less income and also face higher costs.
- Much higher proportions are expecting never to be able to afford to retire – working into old age may not be possible.

LGBTQ+

- The LGBTQ+ community is much less likely to be on track in retirement preparations.
- Economic insecurity is high: nearly a quarter LGBTQ+ have low or insecure income.
- Confidence is lower and those in the LGBTQ+ community are much more likely to cite being intimidated or uncertain how to access potential avenues of support like financial advice.

ETHNICITY: THERE CONTINUES TO BE SIGNIFICANT DIVERGENCE IN EXPECTED RETIREMENT OUTCOMES



Due to roundings, totals may not always equal 100

Those in the Indian community are most likely to be on track for better retirement outcomes

- 48% in the Indian community and 33% in the Pakistani community are on track for comfortable lifestyles. People in these communities are both more likely to be married and able to share costs in retirement, and the Indian community has higher than average incomes.
- Only 29% of those in the Indian or Pakistani communities are not on track for even a minimum lifestyle.
- The Black and White non-British communities are most polarised in terms of projected retirement outcomes, with 45% and 42% not on track for even a minimum lifestyle, but also 35% and 36% on track for comfortable lifestyles.
- There has been a deterioration in expected outcomes for the Black community since last year's National Retirement Forecast. As we build a longer data series we will test whether this is a consistent pattern and any reasons for it.
- The White British community is the least likely to be on track for a comfortable lifestyle (30%).

MOST MINORITY COMMUNITIES HAVE MORE POSITIVE EXPECTATIONS ABOUT RETIREMENT

	Tomorrow's retirees					
	All respondents	White British	White non-British	Indian	Pakistani	Black
Think they are preparing adequately	34%	33%	24%	37%	28%	53%
Expect to never be able to stop working	17%	19%	16%	8%	18%	8%
Optimistic about retirement	30%	27%	22%	37%	29%	56%

Expectations mirroring projected outcomes

- We continue to see positive sentiment from the **Indian** community, who are more likely to be optimistic about retirement and expect to be able to stop working.
- **White non-British** are less likely to think they are preparing adequately for retirement, more likely to expect to never be able to stop working, and less likely to be optimistic.

Expectations contrasting with projected outcomes

- The **Black** community tend to be the **most positive** about their retirement outcomes and preparations, even though they may now be on track for worse outcomes based on current saving behaviour.
- Our survey suggests the **Pakistani community** may be **underestimating** their retirement preparations and likely outcomes.

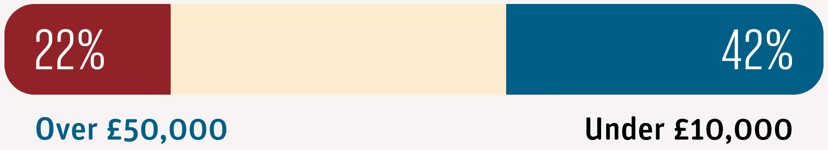
DISABILITY: THOSE WITH A DISABILITY ARE MUCH LESS LIKELY TO ENJOY RETIREMENT

- Retirees with a **disability** are **twice as likely to not be enjoying retirement**

Proportion of retirees...	With a disability	Without a disability
...not enjoying retirement	18%	9%
...of those not enjoying retirement, it being due to poor health	69%	5%
...are in good mental health and are free to do what they want	12%	75%

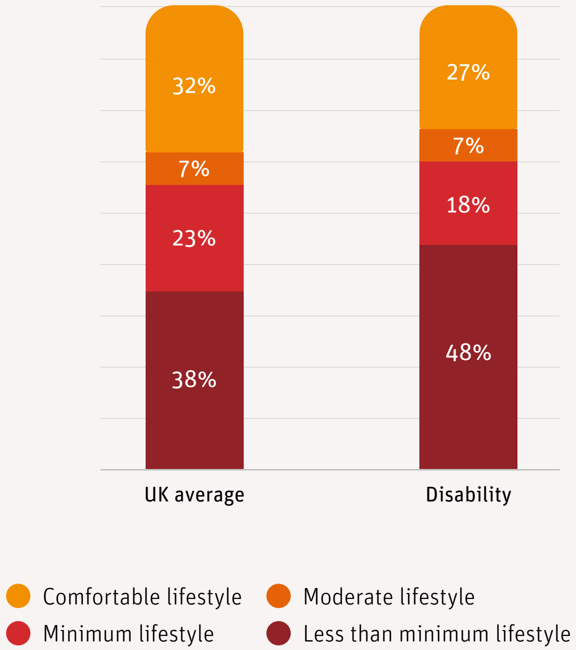
- **41%** of all retirees have a disability, however those **on lower incomes** and **renters** are more likely to have a disability:

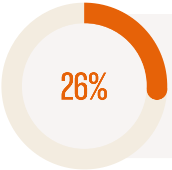
INCOME



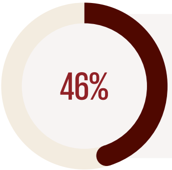
HOME OWNERSHIP

FUTURE RETIREES WITH A DISABILITY ARE STILL ON TRACK FOR WORSE OUTCOMES





of those with a disability expect never to be able to stop working (vs 17% avg.)

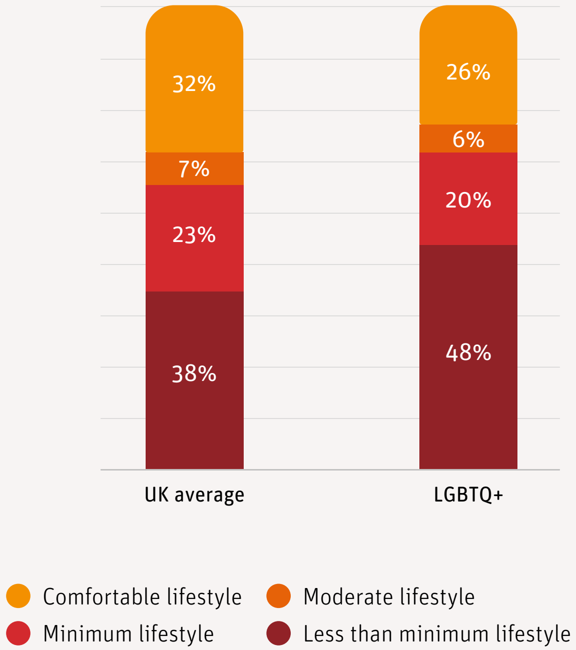


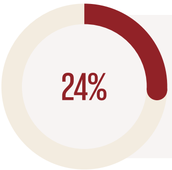
of those with a disability are not able to or tend not to save (vs 34% avg.)

- Nearly half (48%) of those with a disability are not on track for at least a minimum lifestyle in retirement.
- Nearly a quarter of those with a disability expect never to be able to retire, and are also much more likely to report that they are not able to or tend not to save.

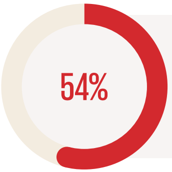
- Current trends suggest that future retirees with a disability are likely to experience similar challenges facing current retirees.
- Lower levels of employment and lower incomes make it much harder to save, leading to low levels of retirement income. These factors are combining to restrict freedoms for those with a disability, making an enjoyable retirement less likely.

LGBTQ+: THOSE IN THE LGBTQ+ COMMUNITY ARE MUCH LESS LIKELY TO BE ON TRACK FOR A MINIMUM RETIREMENT LIFESTYLE





of the LGBTQ+ community say they have low or unreliable income (vs 12% for all others)



of the LGBTQ+ community are not confident managing their savings for retirement (vs 37% for all others)

- The projected retirement outcomes for those in the LGBTQ+ community has deteriorated broadly in line with the UK average. That means that now **nearly half in the LGBTQ+ community are not on track for even a minimum lifestyle in retirement**.
- The continuing divergence reflects wider differences in economic outlook and additional challenges many in the LGBTQ+ community face.
- Economically, **nearly a quarter of those in the LGBTQ+ community say they are on low or unreliable income**, twice the rest of the population.

- There is **lower confidence around savings and finances**. Part of that is ongoing cost of living pressures meaning they cannot save enough (65% cite the cost of living), but 37% are also not sure how pensions work.
- One source of support for some in the LGBTQ+ community is financial advice. Seeking such advice isn't right for everyone, but it is notable that there appear to be greater barriers in place for the LGBTQ+ community. A **quarter of the LGBTQ+ community say they don't know how to go about getting financial advice, and a quarter also feel intimidated** (compared to 12-13% for the rest of the UK).

REFLECTIONS ON THE FINDINGS

While the LGBTQIA+ Community has made progress in rights and equality over the past 20 years, there are still challenges that many people within the community face.

Due to family estrangement and the need to cover daily expenses such as housing, many individuals are unable to save for their futures. There is a concern that the disparity for trans people, in particular, may widen, as public services are reduced and waiting lists for gender-affirming care lengthen.

This has led many trans people to prioritise private gender-affirming care options, which come with substantial costs.

Stephanie Fuller
CEO, Switchboard – LGBTQIA+ Helpline

The report highlights the disparities in retirement outcomes among different communities, revealing that 45% of Black communities are not on track for even a minimum retirement lifestyle based on their savings behaviour. However, what stands out to me is the optimistic outlook of Black communities regarding their retirement outcomes and preparations, despite being a group with poorer predicted retirement lifestyles.

This raises several questions and thoughts on what might be driving these findings. Could this optimism be explained by a different perception of what a retirement lifestyle looks like for under-represented communities? For instance, do they prioritise having one holiday a year to the Mediterranean, or is retiring abroad to their country of family origin a common goal? Alternatively, maybe the optimism stems from a lack of awareness about the actual amount needed for a comfortable retirement, an issue highlighted by many participants in the report.

The suggestion to engage different communities through channels they commonly use and through trusted and representative individuals is an excellent idea. It provides an opportunity to explore what retirement lifestyles look like for under-represented communities and to better tailor financial education and planning resources to meet their specific needs.

Selina Flavius
Black Girl Finance

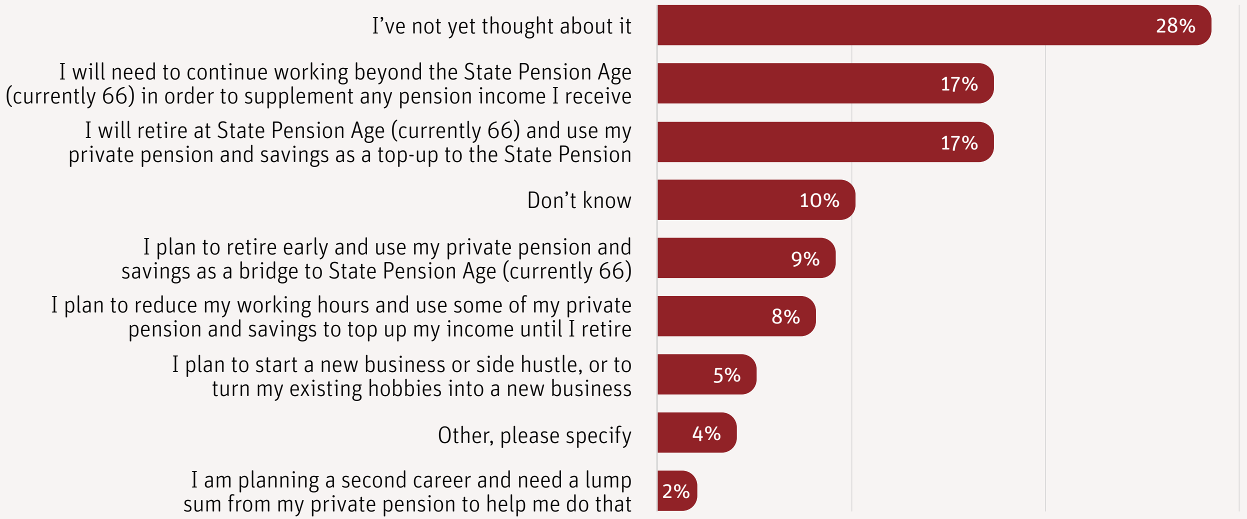
LOOKING TO THE FUTURE – (INCLUDING POLICY RECOMMENDATIONS)

WHAT ARE PEOPLE'S RETIREMENT PLANS?

Understanding how people plan to use their private pension pots as part of their retirement journeys is important to employers for planning purposes. It is important to Government for public policy purposes, including the forecasting of tax revenues and benefit payments.

It is important to the pensions industry who need to develop products and propositions which will meet the future needs of the nation, including help in making difficult decisions.

How are you planning to spend your retirement?



Excluding those who hadn't yet thought about it or didn't know:

- 27% of respondents plan to work until State Pension Age and use their private pension to top up their State Pension.
- 13% plan to work until State Pension Age but reduce their hours, using their private pension to help bridge the income gap.
- 11% plan to use some of their pension to start a new business or embark upon a new career.
- Only 15% intend to retire early and use their private pension to enable them to do that in advance of State Pension Age.
- Unfortunately, 27% believe that they will never be able to retire completely, as their income will be insufficient.

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If UK pension funds were able to invest more freely in the right assets at the right time, this could generate a 'diversification premium', and an 'illiquidity premium'.

- It is often the case that when one type of investment is falling in value, another type of investment could be rising. Including a wider range of assets in a pension fund, creates what is referred to as a 'diversification premium'.
- There will be times when the best potential returns come from assets which are not priced or traded frequently. Investing only in assets which can be priced and traded the same day means that people lose out on what is called the 'illiquidity premium'.

We recommend that the new Government does the following:

- Evolves the disclosure and liquidity demands applying to UK pension schemes, to make these more like those in Canada and Australia, to give us the freedom to achieve those higher returns by including a wider range of asset classes including those with more complex charging structures.
- Tackles the culture of 'cheap as chips' pensions amongst employers and those who advise them, by benchmarking the decisions made by employers and the advice given to them, against the new Value for Money Framework.

£39K

If our recommended policy changes increased annual pension assets real returns by 1% then this could **increase the future pension pot of an average 22-year-old by £39k in today's money** (a 29% increase).*

For context, the **PPI** estimated that Australia's Value For Money Framework could increase pension savers returns by 1.9% if it helped them choose a fund with better governance.

145K

We also estimate it could lift 145,000 people who are currently aged 22-65 and are at risk of facing poverty in retirement onto being on track to cover their basic needs in retirement.**

* Assumes they work full time until 65, with their salary tracking the median across age brackets, based on ONS 2023 earnings data. Assumes they save at the current automatic enrolment default. Assumes investment growth each year after price inflation and yearly charges grow from 2% to 3%. ** To test this, we adapted the National Retirement Forecast with the assumption that everyone would earn 3% real returns on their pension assets going forwards (rather than 2%). This decreased the proportion of working people aged 22-65 with a Defined Contribution scheme on track for less than a minimum lifestyle in retirement by 1.3%. This translates to 145,000 working people, assuming there are 21.8 million employees aged 22-65 in the UK (ONS), and that roughly half of employees have Defined Contribution schemes (ONS).

POLICY PROPOSALS

Because the amount that people save for retirement is a percentage of their income, there is a strong correlation between a good standard of living today and a good standard of living in retirement.

The prosperity of the UK economy is therefore a critical ingredient. Between 1992 and 2007, real GDP per head rose by 46%. It rose by only 6% between 2007 and 2022. This productivity slump has led to stagnation in real wage growth, and with rising living costs over recent years, our National Retirement Forecast is highlighting a deterioration in retirement living standards in the future as a result.

Growth in the economy could drive higher levels of real wage growth in the future which will also feed through to improved standards of living in retirement. However, as a nation we need to be saving more than we are at present, and that same growth in our economy will be needed to create the headroom in household finances to allow people to save more.

An 8% auto enrolment contribution means that 92% of our incomes are meeting our needs over a 40- year working life, but only 8% is being put aside to meet our needs over a typical retirement of about 20 years. It just doesn't stack up and the UK's level of retirement saving lags significantly behind our international peers.

We recommend that a roadmap be set out by Government which takes the statutory level of retirement saving from 8% to 12%, with strong guidance that those who should be saving 15% should do so. Saving 15% could increase the pot size of the average 18 year old by £157k in today's money.

Parliament has instructed Government to reduce the age at which employers enrol workers into a pension scheme from the age of 22 to the age of 18. They have also instructed that all employers calculate pension contributions without first deducting the lower earnings limit from their salary.

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Enacting these changes will increase the pot size of the average 18 year old by £46k in today's money. We urge the Government to implement these changes as quickly as employers are able to make the necessary changes in payroll systems.

In addition to adequacy, we also have a challenge in relation to coverage. At present low-paid workers, part-time workers, multi-jobbers and the self-employed are excluded from Auto Enrolment.

We believe that the £10k earnings threshold at which workers are auto enrolled be abolished, BUT that workers on those low levels of earnings should be able to opt out of the employee contribution, whist benefiting from an employer contribution towards their retirement. This is on the premise that no-one should be too poor to receive a contribution from their employer towards their retirement.

Women, the disabled, some ethnic groups and many within the LGBTQ+ community are over-represented in these forms of employment, and these reforms would go a long way to addressing some of the polarisation that we see in projected outcomes across different cohorts of the population.

There are over 4m self-employed workers in the UK who are currently excluded from Auto Enrolment.

Whilst the auto enrolment ecosystem designed for employees would not work for the self-employed, an equivalent of Auto Enrolment designed specifically for the self-employed would deliver a material improvement to the UK's National Retirement Forecast.

Whilst the starting point for adequate retirement outcomes is the amount of money that is saved, a second key ingredient is the amount of investment growth.

Recent decades have seen a race to the bottom on price, which employers and those who advise them have selected pension schemes and providers based on what is known as the Annual Management Charge. This is normally expressed as a percentage of the assets in someone's pension pot.

Whilst high charges could have a detrimental impact on the growth of a pension pot over time, if charges are too low, certain types of investment have to be excluded and that could mean that the pension pot grows more slowly.

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A new Value for Money (VfM) framework has been proposed by Government which will allow the performance of pension schemes to be assessed relative to each other, considering the net impact of the investment returns and the charges.

A 1% increase in annualised investment returns would see the average 22 year old increase their pension pot size by £39k in today's money.

We support a new Value for Money framework which will allow employers and/or pension savers to move from poorly performing funds to better performing funds.

We also support other technical reforms which would allow pension schemes in the UK to invest in a wider range of assets which would unlock what is known as an 'illiquidity premium' and also a 'diversification premium' to further enhance investment returns.

We need to address housing. It's not just income that matters in retirement. It's also expenditure.

The shortage of homes means that both house prices and rents are rising faster than wages.

An increasing number of people will be renting through retirement in the future and also a greater number of people paying down mortgages which run into old age.

If this continues, people will need to save a very large proportion of their salary to cover significantly higher living costs in retirement and there will be a sharp rise in the level of housing benefit paid to retirees.

We believe that:

- More homes are needed which could come from building new houses and/or looking at the way in which the existing housing stock is used.
- More needs to be done to help younger people save for a first deposit, as an integral part of their long-term savings and retirement strategy.
- Owning a home won't be right, or possible, for everyone and so the UK needs more, affordable social housing.

Whilst housing impacts the amount that people are able to save for retirement, it plays a very important role in the level of expenditure which people will face in retirement. It could also act as a potential source of additional income, later in retirement and therefore acts as an additional safety net.

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We need to think about financial resilience. Alongside retirement saving, people need access to a pot of money which can act as a 'rainy day' fund. This could be in the region of £1k. This could keep people out of problem debt if they are hit by a sudden expenditure shock.

Also, as part of financial resilience, we need to remember that poor health has an impact on the ability to work and being forced to retire early. It's an area of growing concern especially if people will need to work longer but may not have the health to be able to.

We believe that a Lifetime Savings Commission should be established to consider the challenges of retirement savings (pensions, other savings, other investments, other forms of income), the role of housing and the need to build financial resilience. Considering these matters in distinct silos or at separate points in time could lead to sub-optimal outcomes and unintended consequences.

Making sense of all of this can be challenging for people. People want experts to tell them what to do, but at present that service is only available from professional Independent Financial Advisers, and due to the cost of that support, it's only accessible and worthwhile for people with over £200k in assets.

At present, the 80% of the population who cannot afford those professional services rely on information from a range of sources to try to make the best decisions they can. These decisions and choices can be sub-optimal and the process can place a strain on mental wellbeing.

We have welcomed a recent discussion paper published by the FCA, which explores ways in which this 'advice gap' could be closed.

We are supportive of new tools which have been proposed which could point pension savers more specifically to the best way forward, without this being termed 'Regulated Financial Advice' and coming at a cost.

We also believe that technology has now advanced to a point that Regulated Advice could be digitised for those with smaller pension pots and investments, to a point that the cost of the service be reduced such that no additional charge is required to be presented to the customer at the point the support is needed. This is a hypothesis which we are testing further in terms of the art of the possible.

TOP TIPS TO HELP THOSE CLOSE TO RETIREMENT PREPARE

Top Tips

Tax

- Be careful of tax implications of how you take out your pension pot. If you take it out as income all in one go, you maximise the tax you have to pay.

State Pension

- Check your projected State Pension entitlement: **gov.uk/check-state-pension**
- Apply for national insurance credits if you have years where you have not earned £12,584 but have been looking after a child under 12.*
  * This will ensure you will still receive the State Pension you are due. If you receive the carers allowance already then you will automatically receive national insurance credits and do not need to apply for them: **gov.uk/guidance/apply-for-specified-adult-childcare-credits**

Lost pensions

- Track down lost pensions, using the Government's pension tracing tool and consider if you should combine them into one so it's easier to manage, it could save you money too.
- Visit Pension Wise (**www.adviseme.co.uk**) – the Government's free service for over 55s.

Joint annuities

- Partners should make informed decisions about annuities and the role of joint annuities in providing an income after the death of a partner. 85% of annuities are purchased on a single life basis, but these do not provide an income to the surviving spouse after the death of the annuity holder. Men tend to have bigger pension pots, to be older and to die at an earlier age than their spouses, which means many women lose a significant source of their retirement income when their partner who held a single annuity dies.

ANNEX: METHODOLOGY

The Scottish Widows Retirement Report survey

- Unless otherwise stated, all figures in this report are from the responses to our annual Retirement Report survey and are relevant to the United Kingdom. The survey included general questions on pensions and retirement planning and was carried out online by YouGov Plc: across a total of 5,102 adults aged 18+, weighted to be representative of the UK population, and separately for 1,039 adults aged 18+ to better understand the retirement prospects of minority ethnic groups, also weighted to be representative of the UK minority ethnic population aged 18+.
- Fieldwork was carried out between the 21st March and the 5th April 2024 for the nationally representative survey, and between 28th February and 11th March 2024 for the survey focused on minority ethnic groups, through a 15-minute online survey.

Retirement income

- We estimate people's retirement income as the sum of (1) an annuity purchased using their DC pension pot, other Long-Term savings and inheritance at retirement, (2) any DB pension income and (3) the State Pension. We present retirement income in real terms, so after accounting for inflation.
  - **Real income growth**: We assume people will have a real wage growth of 2% each year.
  - **Retirement age**: We assume everyone will retire at 65.
  - **Defined contribution (DC) pensions and other long-term savings**: We assume people's DC private pensions and other Long-Term savings pot would grow until retirement based on the following assumptions:
    - **Current stock**: We asked people for the current total value of all DC pensions and other Long-Term savings. If people didn't know the total value of their DC pensions or other Long-Term savings, we conservatively assumed they were zero.
    - **Current retirement savings rate**: We asked people how much they are saving each month into their DC pensions and other Long-Term savings, and also how much their employer was contributing. If people didn't know how much they or their employer were contributing to their DC pension, we assumed they were contributing in line with auto-enrolment (with thresholds £6,240 & £50,270, and savings rate 8%). If people didn't know how much they were saving into other Long-Term savings, we assumed they were not saving anything for these.
    - **Savings rate growth**: We assume people's saving rates will change over time between age bands in line with the average profile of savings rate growth we see across people of different ages in our sample.
    - **Real rate of return**: We assume a real rate of return on investments of 2% each year.

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- **Inheritance**: We asked people how much inheritance they expect to use for retirement.
- **Annuity rate**: We assume that upon retirement people will use all of their DC pension pot, other Long-Term savings and inheritance to purchase an annuity. We assume an annuity rate of 3.5%.
- **Defined benefit (DB) pensions**: We generously assume anyone who is currently contributing to a DB pension has been doing so since the age of 22 and will continue to do so until the age of 65 (given this generous assumption, we assume none of them additionally receive any DC pension income). We assume they will accumulate an accrual for each of the 43 years they contribute into the DB pension, with different accrual rates for people working in the private or public sector. We then apply the accumulated accrual to their projected salary at 65 to estimate their retirement income from their DB pension.
  - **Public sector accrual rate assumption**: 1/43. This means we assume anyone who is currently contributing into a DB pension and works in the public sector will have a DB pension income equal to 100% of their projected salary at 65.
  - **Private sector actual rate assumption**: 1/60. This means we assume anyone who is currently contributing into a DB pension and works in the public sector will have a DB pension income equal to 72% of their projected salary at 65.
  - **State Pension**: we generously assume everyone will receive the full State Pension at £11,502 per year.

We estimate people's retirement income left to pay for their retirement lifestyle by subtracting estimated housing costs.

- **Housing costs**: We asked people whether they expected to pay rent or mortgage in retirement, and which area they expect to live in. For people who expect to pay rent or mortgage in retirement, we assume their housing costs are equal to the median rental cost in the region they expect to live in, sourced from the Valuation Office Agency, the Scottish Government and the ONS.

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Estimating the proportion of people on track for different retirement lifestyles

- **We then compare retirement income after housing to the costs of the PLSA Retirement Lifestyle Standards to estimate the proportion of people on track for each lifestyle.**
  - **PLSA Retirement Living Standard**: We use the annual costs PLSA estimated for. These vary between singles and couples, and also people living in and outside London. Because we represent future retirement incomes in real terms, we do not need to apply inflation to 2023 housing or lifestyle costs.
  - **Couple's adjustment**: For people married or in a civil partnership, we asked what proportion of their couple's retirement income they expect to provide. We scaled up the retirement income of these people assuming they are correct in the proportion of their couple's retirement costs they will pay, before we subtract housing costs and compared to the costs of the PLSA benchmarks. This assumption may be generous if in reality people underestimate how much of their couple's retirement income they will provide. If people do not state their contribution share, we assume a share of 50% per spouse.
  - **Excluding people**:
    - We excluded people who didn't know which type of pension they were contributing to. Whilst this could bias our results, we checked that the breakdown of people who did know what pension they were currently contributing to was not substantially different to the national average: 20% currently contributing to DB and 50% to no pension in our sample which excludes people who don't know, versus 23% and 43% respectively from ONS.
    - We also excluded people who did not know or say how much they were saving for retirement income, or who gave implausible answers. As a result of this, the proportions of people with a DB, DC or no private pension in our reduced sample used for the heatmap is different to the proportions across the population. To account for this, we (1) calculated our headline results (i.e. the proportion of people on track to meet different retirement lifestyles) separately for people currently contributing to DB, DC and no private pensions, and then (2) estimated weighted average headline results by weighting the results for each pension type by the number of people currently contributing to each pension type in our nationally representative sample.

Limitations of our analysis

- **Our results are sensitive to the assumptions we use and the accuracy of responses to survey. The purpose of our analysis is to show at a high level the broad proportions of people who are or are not prepared sufficiently for retirement.**

20 YEARS

RETIREMENT REPORT 2024

SCOTTISH WIDOWS

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