Age Partnership
Retirement Specialists

Is the UK retirement ready?

We surveyed British adults of all ages and analysed industry research to find out the answer to this much contemplated question. Explore the results.

Whitepaper by Age Partnership, released March 2018.

Is the UK retirement ready?

Workplace, private, or state pension? ISA savings, equity release, or downsizing?

How are you planning for retirement?

It can be difficult to know where you stand when it comes to your future finances. If you don't plan properly, you risk not being able to make ends meet. For those who do get organised, how much you'll have when you do retire sometimes isn't guaranteed. And for many of us, saving for the future doesn't always feel like a priority – or a possibility.

1 IN 4 STRUGGLE FINANCIALLY

We decided to find out if the British public is retirement ready, or on track to suffer a financial shortfall. We conducted a survey of British adults of all ages[1], and have analysed industry research, to get a picture of where the UK stands in terms of finances and planning.

The basic state pension is currently £122.30/week[2], but our survey revealed that the average retired person lives off £208 per week, indicating **pensioners must find an additional £340/month to make ends meet.**

So, how will retirees make up the deficit?

We asked how people plan to fund their post-work lifestyles and the concerns they have about the future. **With 30% of retired people reporting that they're worried about their finances, and 1 in 4 retirees struggling financially[1],** it's clear that the numbers aren't adding up.

BASIC STATE PENSION
£122.30 per week

AVERAGE LIVING COSTS
£208 per week

DEFICIT
£85 per week
(or £340 per month)

A picture of retirement in the UK

To really understand the retirement landscape in Britain you should know what influences it:

- An ageing population with a growing life expectancy
- A State Pension that is in the process of changing
- People's personal plans for retirement

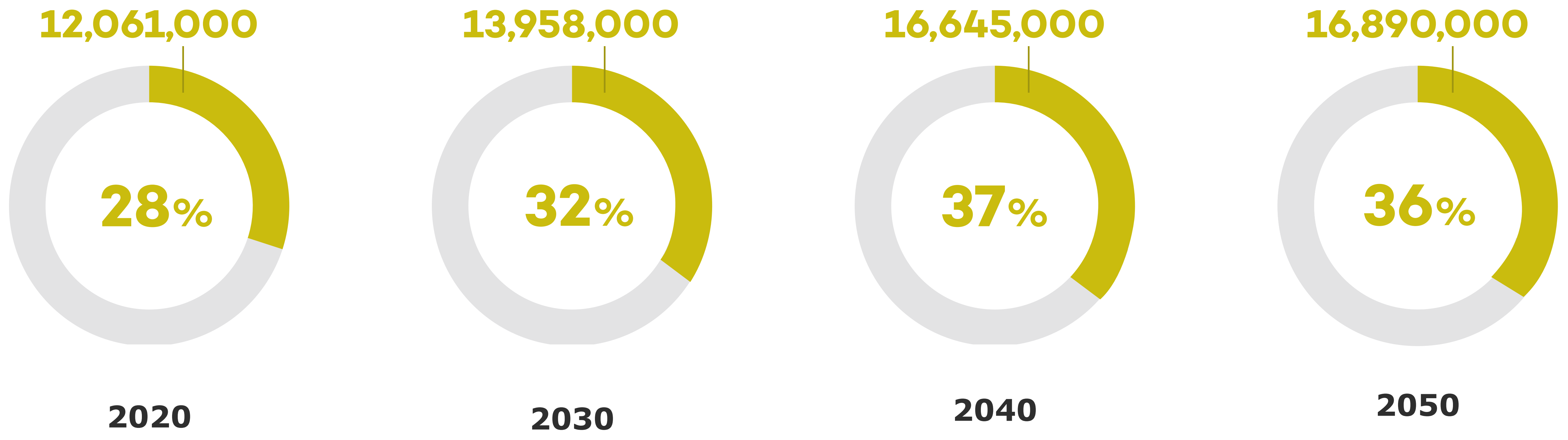
Let's explore each of those factors in turn…

Getting older and living longer

The UK's ageing population and growing life expectancy means the number of people who are of State Pension age is set to increase over the coming decades.

In 2016, **18% of people in the UK were age 65 and over[3] - that's 11.8m Britons.** According to the Pension Policy Institute, this is set to further increase before it begins to level out[4]:

Number of people state pension age or older and % of working age population



This factor is influencing the way we feel about our future retirement. **40%[1] are worried that the balance between the working and the retired population is not sustainable enough to fund retirement through the state.** Increased life expectancy has also raised concerns: 38%[1] of people don't know how long their retirement fund may need to last.

Changes to the State Pension

The changing State Pension age

To respond to the growing population and proportion of pensioners, the age when workers can claim their State Pension is set to increase. The current State Pension age is:[5]

- Age 65 for men born before 6 December 1953
- Between ages 60 and 65 for women born between 6 April 1950 and 5 December 1953

However, the retirement age will become the same for men and women, and is projected to be extended to:

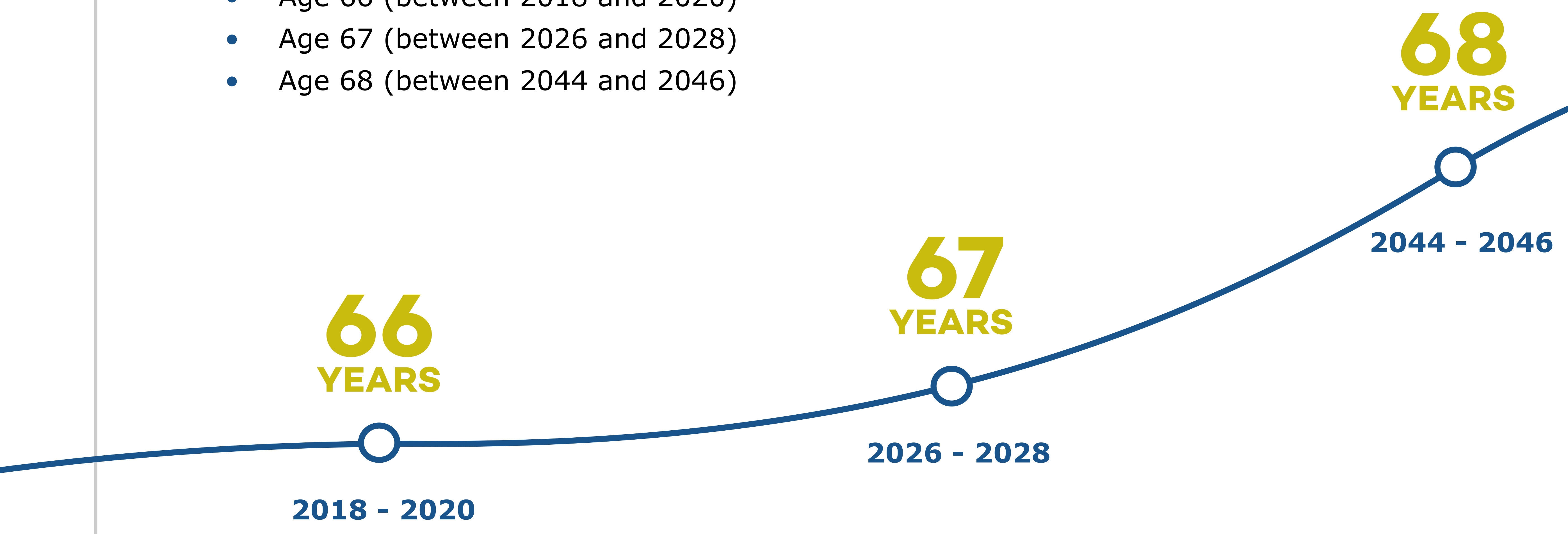
- Age 66 (between 2018 and 2020)
- Age 67 (between 2026 and 2028)
- Age 68 (between 2044 and 2046)

The change from basic to single tier

In April 2016, the government triggered the transition from the basic State Pension to the single tier State Pension. This affects:[6]

- Women born on or after 6 April 1953
- Men born on or after 6 April 1951

The full new State Pension is £159.55 per week, but the amount that pensioners receive depends on their National Insurance contributions.[7]



The age we plan to retire

While retirees won't be able to claim their UK State Pension until they reach the official State Pension age, it doesn't mean they'll be working until then. Our survey of UK adults revealed that people expect to retire (or already have retired) several years earlier:

- Those who are **already retired** did so at **age 60**
- Those **approaching retirement** (within 10 years) **expect to retire at age 62**
- Those **not yet approaching retirement** (10+ years away) **expect to retire at age 63**

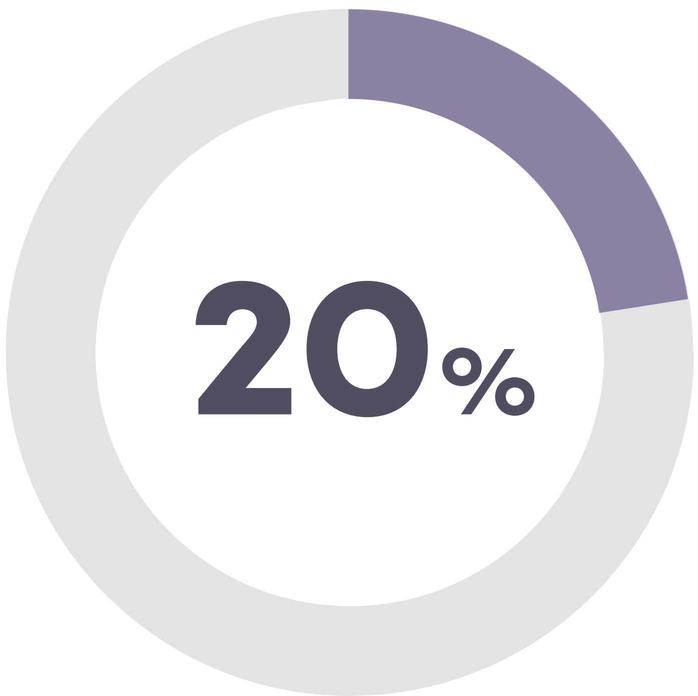
But, both before and after reaching the State Pension age, retirees will need to find money to make ends meet, which is something many are concerned about: **more than half (54%) of Britons are worried about inflation and fear the cost of living will rise faster than pensions.**[1]

The UK's plans for funding retirement

It's clear retirement planning should be a priority – so how are working Britons preparing for the future?

According to our survey, the average British worker starts saving for retirement at age 32. However, **20% of those who are at least 10 years away from retirement say they don't know how they'll fund it** (compared to 4% who are approaching retirement within 10 years and 1% who are currently retired).[1]

As well as the State Pension, many people will, or plan to, rely on multiple sources of funding:



don't know how they'll fund retirement

68% STATE PENSION

49% WORKPLACE PENSION

37% PRIVATE PENSION

36% ISA OR SAVINGS ACCOUNT

13% INVESTMENTS OR STOCKS

11% DOWNSIZING PROPERTY

11% WORKING DURING RETIREMENT

5% EQUITY RELEASE

The government's plans for retirement spending

The majority (68%) of Britons plan to (or already) rely on the State Pension to fund at least part of their retirement.[1] As it stands, plans for government spending on pensions are:[8]

£102 bn 2016/17

£107 bn 2021/22

£129 bn 2027/28

£192 bn 2037/38

However, many people aren't confident they can rely on the government to support them in retirement: **39% say they're worried the Department for Work and Pensions could implement policy changes that will affect their funds.**

The State Pension

The State Pension is the most important source of income for the UK's retired population: on average, 68% of our respondents say they will (or already do) depend on the State Pension to fund their retirement. However, this likelihood decreases the further away people are from retiring:

Plan to (or already) use the State Pension

The Financial Conduct Authority's Financial Lives Survey echoes this: it found younger people are less likely to expect the State Pension to be their main source of income in retirement (only 33% of non retirees aged 55+, and a 26% of non retirees aged 45 54).[9]

But retired people don't only use their State Pension – they depend on it. **The FCA found the State Pension is the main source of income for half of retirees** (49% of those aged 65 and over, and for 56% of retirees aged 85 and over).[10]

Those who depend on the State Pension as their main source of income are more likely to be:[11]

- Female
- Single
- Have no savings/investments
- Not own their home outright and be renting
- Less satisfied with their overall financial circumstances

Private and workplace pensions

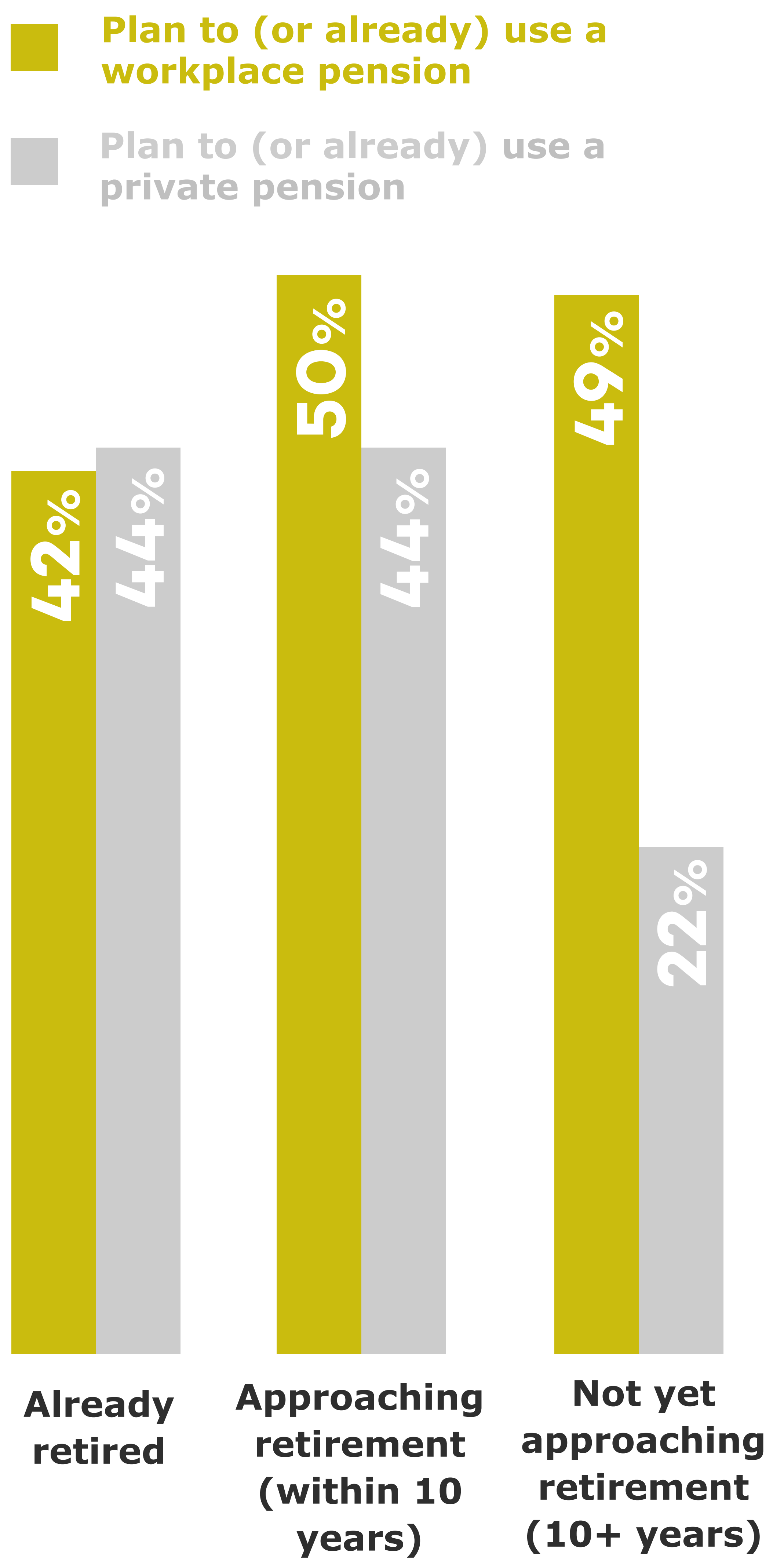
After the State Pension, workplace pensions (49%) and private pensions (37%) are the most common source of retirement funding that our respondents plan to (or already do) use.

Workplace pensions typically involve a percentage of your salary being taken directly from your pay packet and put into the pension scheme each payday. Your employer will often make a contribution, and you'll also usually receive tax relief money from the government.[12]

According to our respondents who are still working, they contribute an average 3.5% of their salary, and their employer makes an average contribution of 3.6%.

Private pensions (sometimes called personal pensions) are something you arrange with a pension provider. You'll decide how much you pay in and on what terms, and there are a variety of ways your money can be invested and withdrawn, depending on the provider.[13]

As the stats show, those who are further away from retirement are less likely to be making private pension preparations. According to the FCA, **15.1 million adults in the UK haven't yet retired and aren't paying into a pension.**[14]



The FCA also found that only 18% of those age between 35 and 44 have given a great deal of thought to their finances in retirement. And this doesn't improve much for the older generation, with only 35% of 45 to 54-year-olds thinking seriously about their post-work finances.[15]

The FCA asked about the reasons behind why adults aged 50+ didn't have private pensions. Common answers included:[16]

- Too late to start one (32%)
- Couldn't afford it (26%)
- Will rely on a partner (12%)
- Hadn't thought about it (10%)
- Preferred alternate ways of saving (9%)

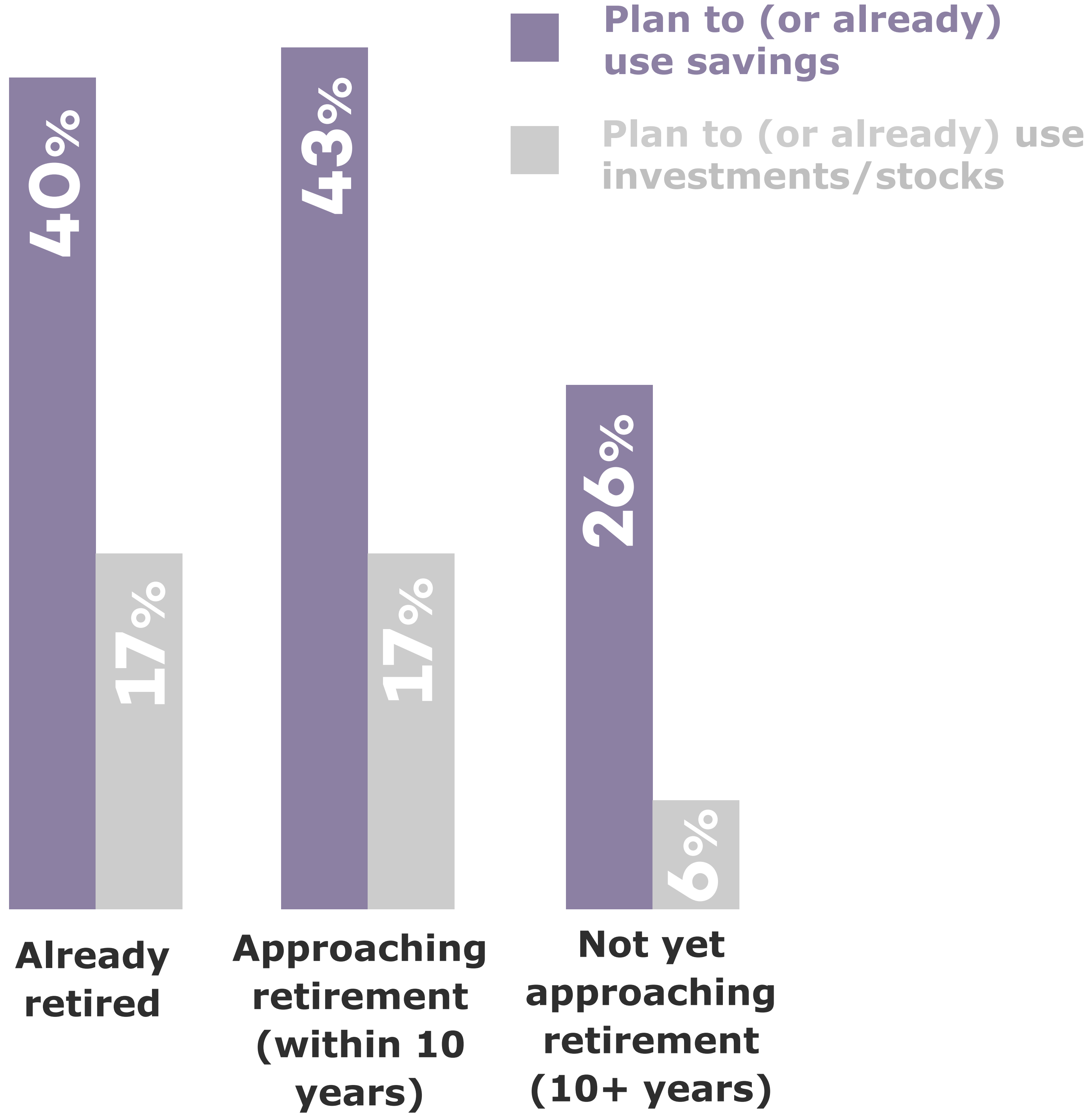
It could also be down to uncertainty: **20% of respondents told us they were worried they may have misunderstood the system** and could be caught out or not have as much for retirement as they originally thought.

Savings and investments

The younger generation has plans to start saving earlier than their predecessors did – and perhaps for good reason: **45% of current retirees told us they regret not saving more for retirement.**

Age people plan to (or did) start saving for retirement:

Already retired	35
Approaching retirement (within 10 yrs)	33
Not yet approaching retirement (10+ yrs)	28



However, those who are not yet approaching retirement expect to use alternative savings and investments less than those who are close to retiring or already retired:

This could be due to low expectations about the savings market **– 44% of respondents said they're worried about low interest rates that will mean their retirement savings aren't as big as expected.**

13% **of retirees have considered going (or have already gone) back to work because they need the money**

Working during retirement

Retirement is all about leaving your working life behind you. However, financial pressures mean that some people believe they will have to get another job after retiring from their primary career.

Plan to (or already) fund retirement by working

Approaching retirement (within 10 yrs)

Not yet approaching retirement (10+ yrs)

While 75% of retirees told us they feel relaxed knowing they won't have to work again, **13% of them have considered going (or have already gone) back to work because they need the money.** But it's not always about finances – a further 13% said boredom was a motivating factor to return to work.

Using property: Equity release and downsizing

Property is one of the biggest investments many of us will make over the course of a lifetime, and it can be a valuable source of income in our later years. Downsizing and equity release are two of the most common ways of using property to fund retirement:

- **Downsizing** involves selling your home, buying a smaller one for less, and using the leftover money to pay for your lifestyle. 1 in 10 people plan to (or already have) downsized to fund their retirement.

- **Equity release** allows you to access part of your home's value as a lump sum of tax-free cash, which you can use to fund your retirement. The money that you release is then paid off when you die or move into long term care. Something 1 in 20 people want to do (or already have done).

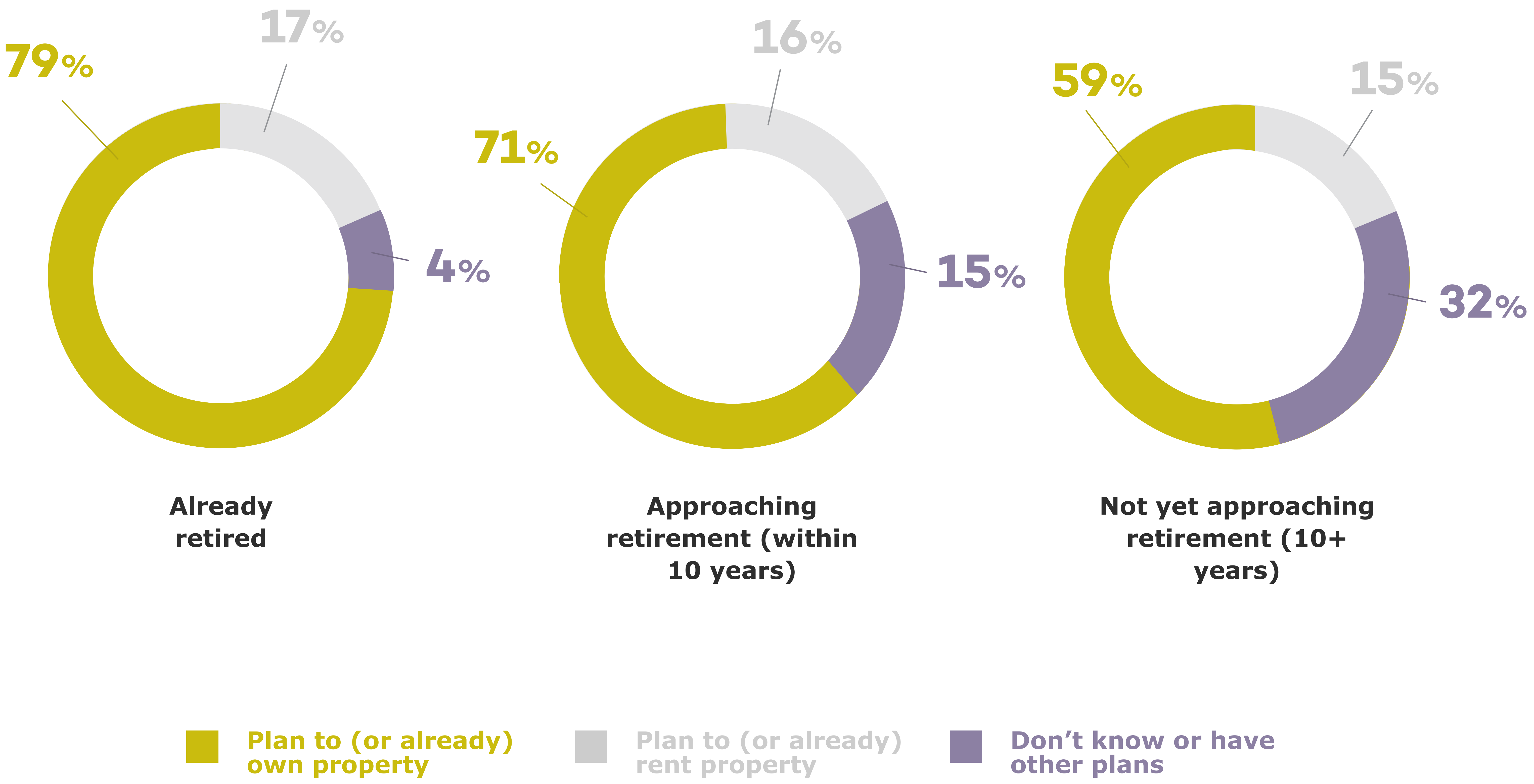
Selling their home and either renting, moving in with family, or transitioning into a care home is also another way retirees can earn money from property.

When asked about the average income our respondents plan to raise (or already have raised) from property, people seemed to have similar expectations for what they could raise from downsizing and equity release:

But while many people plan to rely on property to fund their retirement in some way, **those who are further away from retirement are less optimistic than older age groups that they'll even own property by the time they retire.** 79% of retirees own or think they'll own property. That drops by 8% for people retiring in the next decade, and falls by a massive 20% for those over 10 years away.

The Equity Release Council reports that **equity release is becoming an increasingly popular way for retirees to raise funds.** As of its Autumn 2017 Market Report:[17]

- The number of product plans on the market has increased by 225% in the last decade
- In the first half of 2017, 31,158 homeowners unlocked housing wealth
- The average age of those who take out a lump sum plan is 68 years old
- The average age of those who take out a drawdown plan is 71.5 years old



The UK's attitude towards retirement: Threats, worries, and concerns

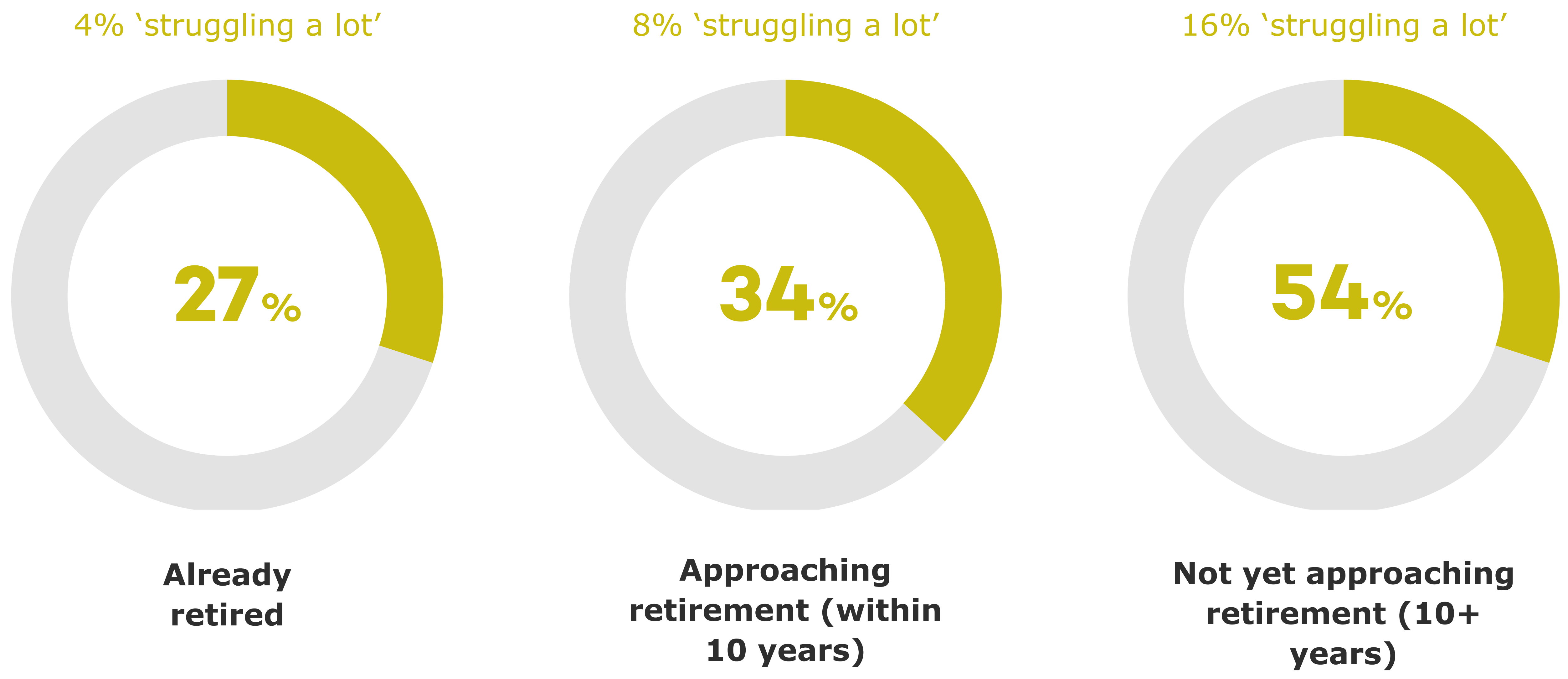
Retiring means entering a new stage of life full of new possibilities – 62%[1] of retirees are excited by the free time they now have. But quality of life in retirement comes at a cost: **1 in 3 (38%)[1] retirees say they underestimated how much money they'd need to live out their retirement comfortably.**

Retired life: The cost of care

As we grow older, so does our need for support. According to Age UK and NHS Digital, **in 2015/16 there were 1.31 million new requests for social care support from older people,** which led to 47% receiving some form of social care assistance.[18]

57% of retired people said they were concerned about the cost of elderly care and the lack of funding,[1] and they worry the cost of deteriorating health (such as paying for a carer) will impact their retirement funds. Despite this, 85% of people we spoke to haven't factored the cost of care into their retirement plans, including 90% of those who are already retired.

People who describe themselves as 'struggling'



Financial struggles

68% of non-retired people say they expect to live off the same income or higher when they are retired – but many already describe themselves as 'struggling':[1]

Of those who are already retired, 11% are considering asking (or already have asked) their children or relatives to help them financially. Others rely on alternative sources, such as inheritance, their partner's pension, or renting out property to make ends meet.

In summary

58% of retirees say they wish more help and advice about retirement and pensions had been available when they were younger. If we learn from their hindsight, it seems planning ahead is the best way to ensure we have a comfortable retirement.

By exploring options such as workplace or private pensions, equity release, and savings, you can safeguard your future to ensure you can enjoy and thrive in the new chapter of your life.

The experts at Age Partnership can help with a range of financial solutions for the over 50s, from pension income, equity release, mortgages and planning ahead for the later stages of retirement with a will, funeral plan or lasting power of attorney. Our specialists and advisors have been awarded for providing excellent customer service, and are experts in understanding your situation and providing clear advice and guidance.

Contact us today for free no-obligation quotations.

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Sources:

[1] Survey conducted by OnePoll on behalf of Age Partnership in January 2018 of 2,000 respondents from across the UK who identify as 'retirees, close to retirement, or employed and not close to retirement'.
[2] HMRC. The basic State Pension. (Cited February 2018)
[3] ONS. Overview of the UK population: July 2017 (based on 18% of 65.6m = 11.8m). (Cited February 2018)
[4] Pensions Policy Institute. Pension Facts October 2017, p1. (Cited February 2018)*
[5] NI Direct Government Services. Check your State Pension age. (Cited February 2018)
[6] HMRC. The new State Pension. (Cited February 2018)
[7] HMRC. The new State Pension. (Cited February 2018)
[8] HMRC. Benefit expenditure and caseload analysis. (Cited February 2018)
[9] FCA. Financial Lives Survey 2017, p124. (Cited February 2018)
[10] FCA. Financial Lives Survey 2017, p123. (Cited February 2018)
[11] FCA. Financial Lives Survey 2017, p123-124. (Cited February 2018)
[12] HMRC. Workplace pensions. (Cited February 2018)
[13] HMRC. Personal pensions. (Cited February 2018)
[14] FCA. Financial Lives Survey 2017, p125. (Cited February 2018)
[15] FCA. Financial Lives Survey 2017, p19. (Cited February 2018)
[16] FCA. Financial Lives Survey 2017, p122-123. (Cited February 2018)
[17] ERC. Equity Release Market Report Autumn 2017, p4, p8, p10. (Cited February 2018)
[18] Age UK. Briefing: Health and Care of Older People in England 2017, p27. (Cited February 2018)

**The Pensions Policy Institute (PPI) is an educational charity set up to promote, on a non-political basis, the study of pensions and other retirement provisions. They are not a lobby group for any particular solution. They believe that policy should be made with good, independent information and analysis. As a charity, their role in insuring that policy is developed with independent, unbiased evidence in order to aid better retirement outcomes for all is vital. Without the support of their members, they would not be able to continue to produce unbiased factual information within their research papers.*

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