PENSIONS
THROUGH THE AGES

Generation 2050 and Beyond

CONTENTS

INTRODUCTION

Planning for retirement is one of the most talked about areas of social policy. Financial responsibility for those years in retirement is clearly shifting from the state to the individual.

The UK government has made significant changes to pension provision over the past three years. Reforms to the state pension, the introduction of automatic enrolment and the new pension freedoms offer individuals greater choice and a wider range of options to help them secure a comfortable retirement. These changes, which are welcome by Royal London, are still fundamentally dependent on accepting personal responsibility in retirement.

The government's consultation, Strengthening the Incentive to Save: a consultation on pension tax relief , invited views on whether further change to the current pension system is needed to encourage more people to save and to save more. As part of this the Treasury asked whether the valuable tax relief currently available to those contributing to a pension to fund their income requirements should be changed.

As the UK's largest mutual life, pensions and investment company, Royal London commissioned independent research to provide new insight on the views and aims of some of the key age groups impacted by the recent pension changes, to understand their attitudes to long-term saving and what, if anything, would encourage them to save more.

The groups include today's younger generation aged 18 - 29 and those aged 30 - 40 who need to be making preparations for their potential retirement in 2050 and beyond. The research compares these younger age groups, some of who are already halfway to retirement, with the experience of today's 65 - 75 year olds to provide some understanding of the realities that these younger generations may face.

This UK representative research of over 3,000 UK adults[1], split across each age group, by Harris Interactive, forms the basis of this report, **Pensions Through the Ages – Generation 2050 and beyond**. The report provides an analysis of the UK population's approach to savings and the challenges it faces when it comes to saving for retirement. As well as saving and spending behaviours the report examines savers' perceptions of the state pension and how this might influence their income requirements in 2050 and beyond; the impact of workplace pensions and the perceived value of financial advice. The report uncovers where savings behaviours and retirement attitudes are changing and the impact that this may have on encouraging more people in the UK to save for the long term.

The report also offers guidance for future retirees, and their advisers, on the level of income that may be required in retirement based on work commissioned by Royal London with the Centre of Economics and Business Research (CeBR). Using data from the Office of National Statistics (ONS) Family Spending Report, CeBR have forecast what the cost of living for people in retirement in 2050 is likely to be.

As a leading pension provider, Royal London hopes that the insight gained from **Pensions Through the Ages** will help us, the advisers we work with and government, to better understand some of the realities of pension saving and the level of retirement income required. The report highlights the need to:

- Improve the UK population's understanding of the importance of saving for the long term so there is greater engagement with pension savings particularly with the younger generations;
- Promote the value of the benefit of pension tax relief incentives to encourage a stronger savings culture; and
- Improve the level of long term savings, with people understanding the level of income they need to secure to provide them with a comfortable retirement.

PENSION SAVINGS: A TAXING ISSUE

In his April 2015 Budget speech the Chancellor floated the idea of a very gradual move to a new savings system reforming current pension tax relief. Those who already had pensions would be unaffected, but for new pension savings the tax treatment would look more like an ISA – in that people would make contributions out of their post-tax income, but any returns would be tax-free. This is a Taxed - Exempt - Exempt system which is often referred to as TEE and this new product has been dubbed a "Pensions ISA" or "PISA". To encourage more people to save the Chancellor has suggested that there could be a Government "top-up" into the new saving fund. There are some attractions to doing this particularly if it was focused on younger people or those with modest savings.

The current pension tax relief system is designed to incentivise individuals to consider long term saving and defer taking an income until they reach retirement. The tax position is very simple with pension contributions exempt from tax when they are made but taxed when they are paid out. This is referred to as Exempt - Exempt - Taxed or EET. In offering pension tax relief the government provides tax incentives for employers and employees to save into pension but loses out on revenue from income tax. Employer pension contributions are not subject to employer or employee National Insurance Contributions. However, the distribution of pensions tax relief across the population has evolved over time and currently two thirds of pension tax relief goes to higher and additional rate taxpayers. This has been corrected with the gradual reduction of the lifetime and annual allowances.

Pension tax relief cost the government nearly £50 billion in tax in 2013-14 and so it is no surprise that they are interested in suggestions on whether or how the current pension tax relief system could be reformed. Instead of giving tax relief throughout a working life and only gradually receiving tax through the decades of retirement, an ISA-like treatment would allow the Chancellor to tax income as soon as it is earned, forgoing taxation in decades to come. With National Debt in excess of £1.5trillion, this is worth exploring.

The biggest prize of all would be to unlock the untaxed wealth in the pension funds of those who have been saving for decades. For example, if people were able to move their pension pot into a PISA, repaying most of the tax breaks they had already received, in return for a cash bribe and a promise of no future taxation, the fiscal impact could be dramatic.

Commenting on the consultation, Phil Loney, Chief Executive of Royal London said: ***"Some people say that the Chancellor has already made up his mind what to do, but I hope that he reviews the evidence presented to him, such as the findings in the Pensions through the Ages Report, to ensure that more people are encouraged to save over the long term in a pension and not an ISA, to secure an adequate income in their retirement.***

The research findings highlighted that an incentive giving people a pound for every two pounds that they save would encourage over four fifths (84%) of those surveyed to save more. Based on the research findings, the introduction of a single flat rate of pension tax relief for all at 33 percent, so that the Government puts in one pound for every two pounds that a person saves, could actually boost the savings of those who have the biggest savings shortfall. This would also pave the way for the abolition of the complex Lifetime Allowance and the simplification of the Annual Allowance.

This Report presents a very strong case for keeping pensions as the main option for long term savings, while making pension tax relief much simpler and fairer. With the benefits of pension tax relief clearly understood this should provide the incentive that is needed for more people to save and to save more.

Plus, less than half (49%) of people surveyed believe that the state pension is likely to exist in 2050. If this is an indication of people's confidence that government promises will be kept, then care needs to be taken not to meddle with these incentives in the future. Any meddling may result in people being deterred from saving if they don't believe the incentives will still be there."

Phil Loney, Chief Executive

SPENDING REALITIES

40%

of 30 - 40 year olds think that it is somewhat unlikely or very unlikely the state pension will exist in 2050

£1,183

is the current average monthly spend of a single retiree not reliant on the state pension

£2,930

is expected to be the average monthly spend of a retiree not reliant on the state pension in 2050

One of the most alarming findings from the Pensions Through the Ages research is the level of income that Generation 2050 will need to simply match the same spending power of today's retirees.

Based on research that Royal London commissioned with the Centre of Economics and Business Research, (CeBR) today's retiree not reliant on the state pension, currently spends an average of £1,183 per month. CeBR have forecast that the level of income required to maintain the same level of spending power by 2050 will be £2,930; an increase of 148%.

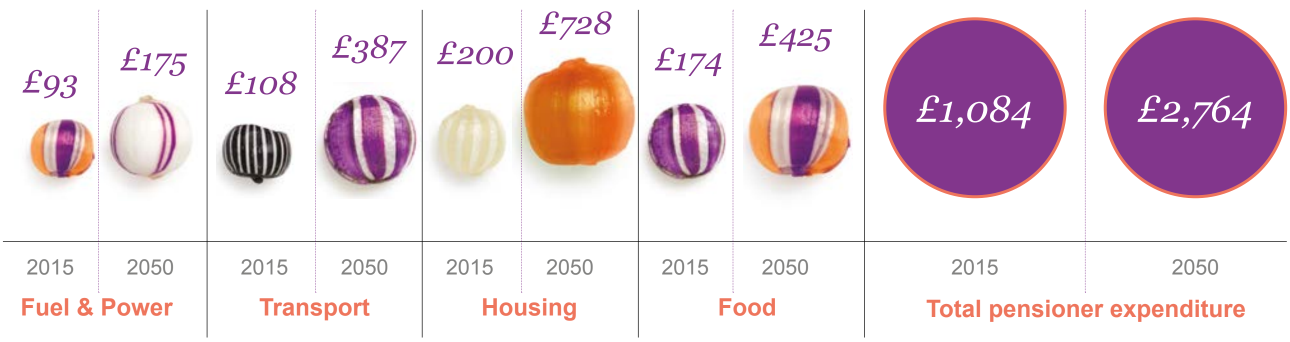
CeBR forecast that between 2015 and 2050, essential spending such as utilities is expected to account for an increasing share of total pensioner expenditure, rising from 53% to 62%. This will then have a corresponding impact on discretionary spend, such as holidays, which will fall from 47% to 38%. Housing costs are predicted to see the fastest increase in essential expenditure, followed by transport and food. This forecast assumes that the UK continues to suffer from a relative shortage of housing supply, leading to housing price growth above the headline rate of inflation.

CeBR also forecast that if the state pension were to still be in existence in 2050, the average monthly spend of a pensioner reliant on the state pension is projected to be £1,827. This is an increase of 141% on the average £757 monthly spend for today's pensioners who are reliant on the state pension. For pensioners mainly reliant on the state pension, spending on essentials is expected to account for 70% of total expenditure in 2050, 10% more than the 60% currently spent on essentials in 2015.

The State Pension

Based on the research findings, the 18 - 40 year age group recognise that the state pension may not exist when they choose to retire. Around two fifths (37%) of 18 - 29 year olds and 40% of 30 - 40 year olds stated that they think that it is somewhat unlikely or very unlikely for the state pension to be in existence in 2050. And should the state pension still be in existence in 2050, these groups believe that the income available will not be at a level to provide the financial support that today's retirees benefit from.

Fig 1: The average, monthly spend on essential goods/services, for all single UK pensioners



£654

monthly state pension (based on full NI contributions)

£1,558

monthly state pension in 2050
(assuming 2.5% per year growth through triple lock)

Despite this, the number who said that they will be reliant on the state pension in retirement is still worryingly high. Over two thirds (71%) of those aged 18 - 29 and 64% of people in their 30's did not say financial security in retirement should be their responsibility. A third (33%) of 18-29 year olds and two fifths (40%) of those in their 30s who are not currently saving for retirement said that they think they will rely on the state pension. Of those not retired and not saving for retirement, more women than men expect to rely on the state pension when they do retire (43% of women versus 32% of men).

In contrast, 71% of those aged 65-75 that are not yet retired and not saving for retirement said they would rely on the state pension.

Funding retirement

The findings suggest a misconception of expectations of how retirement will be funded. Nearly four in 10 (39%) of 18 - 29 year olds and almost half (46%) of those in their 30s say they could not live off the state pension in retirement.

When asked what proportion of their income in retirement they would receive from different sources, 18-29 year olds and 30-40 year olds both felt they would get nearly half (46%) of their retirement income from a pension. This is over double the amount of income that they believe will be funded by savings or investments, which was 18% for 18-29s and 15% for 30s-40s. The state pension/ benefits was expected to make up 12% and 16% of their retirement income respectively.

Chart 1: How likely do you think it will be that the State Pension will exist in 2050?

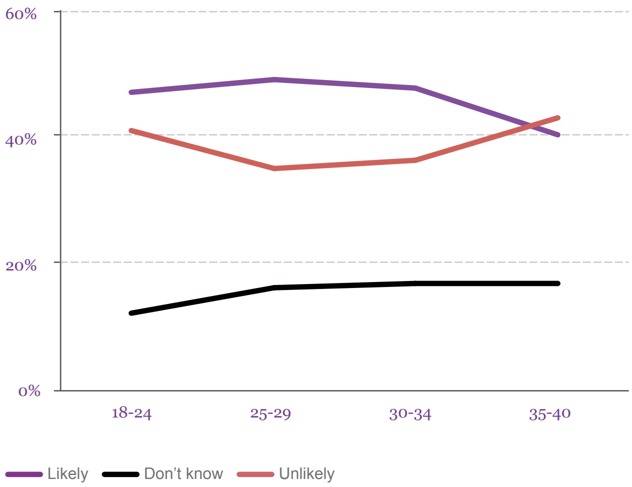
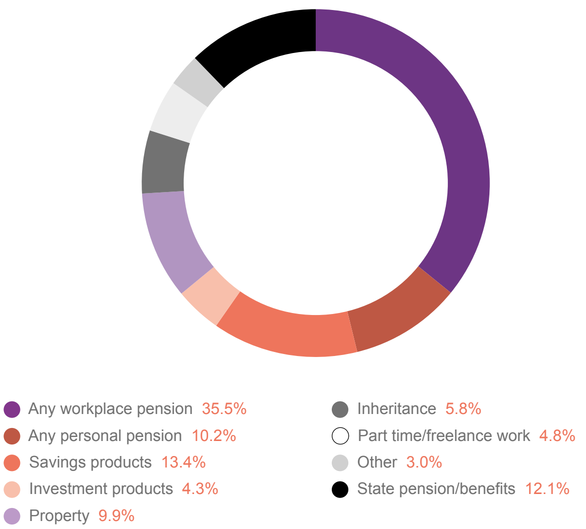


Chart 2: Expected proportion of income in retirement (18 - 29 year olds)



64%

of people in their 30's did not say financial security in retirement should not be their responsibility

40%

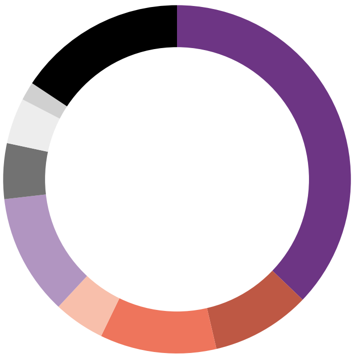
of those in their 30's currently not saving for retirement said they think they will rely on the state pension

Almost a third (30%) of those aged 18-29 and 19% of 30 - 40 year olds who do not currently have a pension say they will rely on a future pension when they reach retirement, showing they do have plans to start saving.

Over half of those aged 18-29 (51%) and slightly more of those in their 30s (57%) would work part time after they retire to supplement their income. More women than men expect to work part time to supplement their retirement income (60% of women versus 50% of men). Compare this to today's pensioners, of whom only 5% work part time.[2]

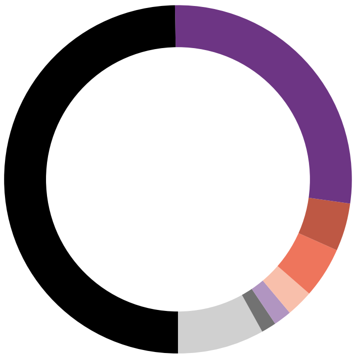
Of those not yet saving for retirement, people in **London** (30%) and the **West Midlands** (29%) came top for the proportion of people expecting to work part time or freelance when they 'retire'. Of those not yet retired who were asked how they would supplement their retirement income, **London** was the region most likely to look at alternative forms of income including income from other savings/ investments (32%), selling possessions (25%) and renting out a spare room (21%).

Chart 3: Expected proportion of income in retirement (30 - 40 year olds)



Any workplace pension 36.7%
Any personal pension 9.1%
Savings products 10.7%
Investment products 4.7%
Property 11.1%
Inheritance 5.1%
Part time/freelance work 4.2%
Other 1.7%
State pension/benefits 15.5%

Chart 4: Expected proportion of income in retirement (65 - 75 year old retirees)



Any workplace pension 27.1%
Any personal pension 4.4%
Savings products 4.6%
Investment products 2.3%
Property 1.7%
Inheritance 1.3%
Part time/freelance work 0.1%
Other 7.8%
State pension/benefits 49.0%

57%

in their 30's expect to work part time after they retire

20%

of today's retirees are solely reliant on the state pension

The reality is however, when looking at the income that current retirees are receiving, the state pension accounts for nearly half (49%). The level of income funded by pensions was the next largest at 31% with saving and investments making up just 5% and 2% of retirement income. The research findings show how future generations will be reliant on the income they receive from their pension savings, particularly if they wish to maintain a reasonable lifestyle rather than just live off the state pension, (if it is still available at all).

According to our survey, one in five (20%) of today's retirees is reliant solely on the state pension. Yet while one third of those aged 18-40 are not saving for retirement, just one in fifty (2%) of them think they will be reliant solely on the state pension. In addition, over two fifths of all those surveyed (42%) believe that financial security in retirement will be their own responsibility. This reveals a certain level of delusion towards the levels of income they will have in retirement.

The results show that many younger people are expecting to rely on the state pension in retirement, despite the fact that the majority don't think it will provide enough for them to live on, and a significant proportion believe it will no longer exist in 2050.

There is no reason to believe that future pensioners will want to spend any less than current pensioners, in fact their expenses are likely to be higher than they are now. Savers in their 30s and 40s should start to think in terms of the income they want to get out of their pension, rather than the amount they put in to it, and save accordingly.

Fiona Tait
Pensions Specialist at Royal London Group

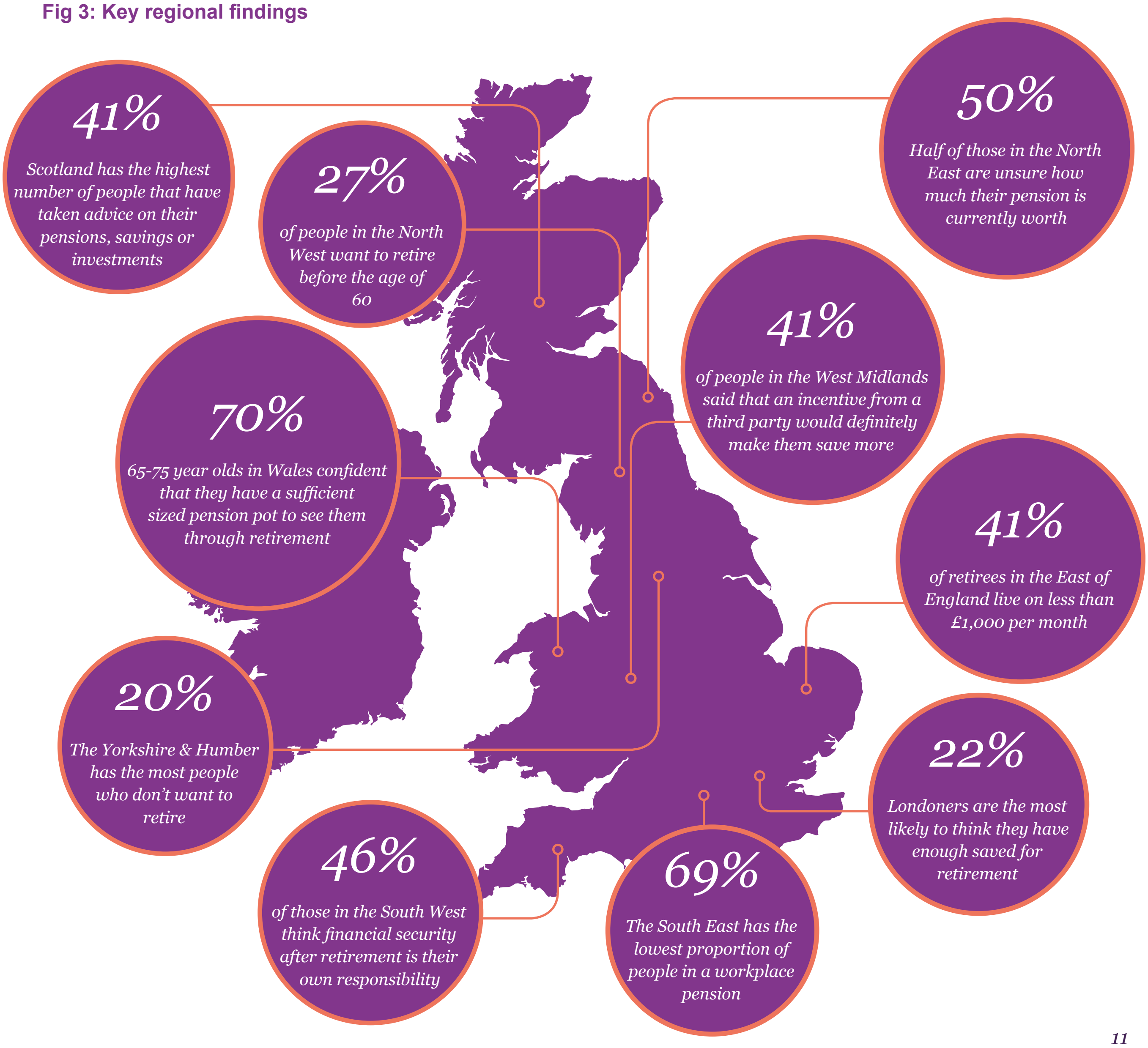
Fig 2: The role of the state

However these attitudes vary from region to region.

Only a quarter (25%) of people in **Northern Ireland** think that financial security after retirement is their own responsibility, the lowest of all the regions. **Wales** is the second lowest (36%). People in the **North East** and **South West** have the highest number of people thinking that financial security after retirement is their own responsibility, with almost half (46%) from both regions stating this.

Those in **Wales** or the **West Midlands** who are not saving for retirement are most likely to expect to rely on the state pension, with almost half (48%) stating this. Those in the **North West** are the least likely to think they will rely on this (27%).

Fig 3: Key regional findings



RETIREMENT
REALITIES

The Retirement Realities of Generation 2050 and Beyond

100

24% of women and 17% of men aged 65 today are expected to live to 100

20%

of Londoners want to retire before the age of 60

41%

of retirees in the East of England live on less than £1000 per month

The past few years have seen demographic shifts that are changing the shape of the UK population and the length of time we are likely to spend in retirement. Life expectancy has increased significantly over the past century. By 2050, those over 65 are expected to make up almost a quarter of the population, according to a report by Oxford University.[3]

A 65 year old male in 2012 could expect to live for 18.2 years and a woman 20.7 years. People are expected to live longer in years to come as understanding of health, lifestyle and medical advancements increases. For example, a 65 year old male in 2050 is estimated by the Office of National Statistics (ONS)[4] to live for a further 22 years to 87 and a woman a further 25 years to 90. More alarmingly, these are only averages with just under one in five men (17%) and one in four women (24%) expected to live to 100.

While this increase in life expectancy is a positive for our society, individuals due to retire in 2050 and beyond will require a greater level of savings to provide them with an adequate income throughout their retirement. This makes it more important than ever that individuals build up an adequate level of pension savings to meet their aspirations in retirement and plan for how they use their savings through their retirement.

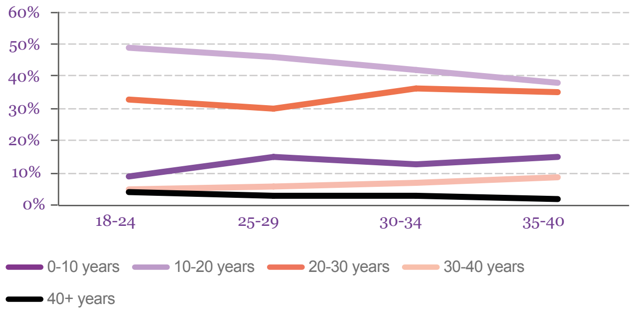
Time spent in retirement

The **Pensions Through the Ages** research findings show that younger generations expect that they will retire earlier. Those aged 18 - 29 believe they will retire at 66 years old and those aged 30 - 40 believe they will retire at 67. The reality is that they will not receive their state pension currently until they are 68, later than they currently expect. In addition, the state pension is regularly reviewed and may change in the future, as explained on the DWP calculate your pension website.[5]

London has the highest proportion of people who want to retire before the age of 60 (20%), closely followed by those in the **North West** (19%) and **Wales** (19%). **Yorkshire & Humber** (20%) and the **North East** (18%) have the highest proportion of people who don't want to retire.

Our research showed that two-fifths (40%) of those in their 30s expect to spend between 10 - 20 years in retirement, 35% expect to spend 20 - 30 years in retirement and 8% expect to be in retirement for 30-40 years. In comparison, almost half (47%) of those aged 18 - 29 think they will spend 10 - 20 years in retirement and a third (31%) expect to spend between 20 - 30 years in retirement. Only 6% think they will spend 30 - 40 years in retirement. Across all age groups there is a significant gap between how long people expect to live for and how long the official statistics suggest.

Chart 5: How long do you expect to spend in retirement?



Income in retirement

Today's 18 - 40 year olds believe they will need a higher proportion of their salary to enjoy their retirement. For example, those retiring in 2050 and beyond think they will need approximately 60% of their existing salary to live on in retirement. Today's 65 - 75 year old retirees said that they only have 48% of their pre-retirement salary as income.

Those in the **East Midlands** not yet retired believe they will need 67% of their current income to live on in retirement, the most of any region in the UK. Retirees in this region are currently living on 45% of their pre-retirement income.

Of today's retirees, the **East of England** survive on the least amount of their pre-retirement income (40%). Those surveyed who are yet to retire in this region, think they will need 63% of their existing salary.

Richard, 40, Knottingley

"I have a pension with Royal London, but haven't paid into it for the past five years as I just couldn't afford to. With three children, I have had other financial commitments that had to come first. I hope the state pension will exist by the time I retire as I will probably need to rely on this. I expect to retire at 67, but think I will need to continue to work part-time after this point. I don't think I'll be fit enough at this age to do the heavy lifting needed in my current warehouse job, so would look to do something different."

The primary purpose of a pension plan is to provide long term income. Relatively few savers recognise that their retirement may last over 30 years and consequently there is a danger that, if they don't save enough, their savings will run out.

Many also overlook the fact that their spending needs may actually increase in later retirement as their health begins to deteriorate. People should start saving earlier in order to balance the fact that they need their income to be paid out for longer.

Fiona Tait
Pensions Specialist at Royal London Group

CURRENT SAVINGS REALITIES

15%

Only 15% of 18 - 40 year olds think they are on track and have saved enough for retirement

£666,000

The fund size needed to provide the same standard of living as today's pensioners at retirement in 2050

£14,000

is the medium sum saved for retirement by those aged between 30 and 40 with a pension

Focusing on the younger generations surveyed for Royal London's Pensions Through the Ages Report, the research findings show that they are saving. The majority (87%) of the 18 - 40s surveyed have savings products and 81% of the 18 - 40s advised that they are actively saving. Over two thirds (67%) are saving for retirement.

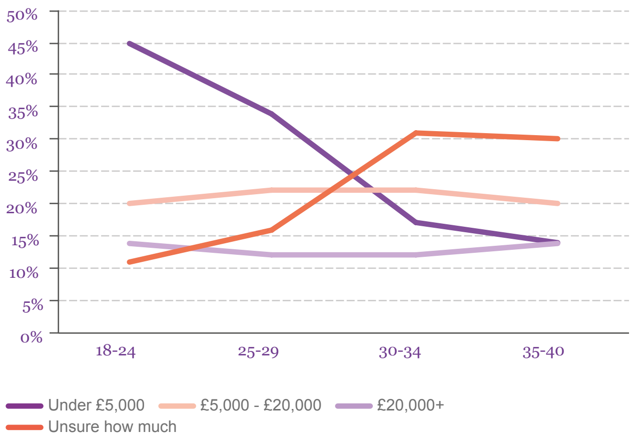
This is really good news. However, digging deeper it becomes clear that the younger generations are unfortunately not saving very much.. The median sum saved for retirement by those with a pension under the age of 30, is only £6,000 and rises to only £14,000,for those in their 30s with a pension. These figures would appear to support government and industry concerns that with people having to take greater responsibility for their pension savings, they are unlikely to be able to meet their aspirations in retirement and many will be extremely disappointed with the level of income they are actually able to secure.

There is acknowledgment by the younger generations surveyed that they are not saving enough. Just over a quarter (26%) of 18 - 29s and one fifth (20%) of those in their 30s think they have enough saved and/or invested to meet any savings goals/general needs. Only 15% of 18 - 29 year olds and 30 - 40 year olds believe they have enough saved/invested to see them through retirement.

Of the 15% of 18 - 40 year olds surveyed that think that they are on track and have saved enough for retirement, a quarter (25%) advised that they have less than £20,000 currently saved in their pension and 13% advised that they were unsure of how much they did have saved.

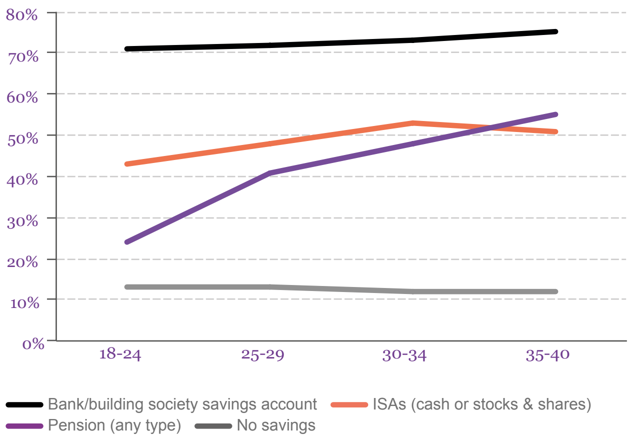
Of the nearly three quarters (71%) of 18 - 40 year olds who don't think they have enough saved for retirement, over half (52%) have less than £20,000 currently saved in their pension and nearly three quarters (70%) have less than £20,000 in all savings and investments, excluding pensions; two fifths (40%) have less than £5,000 in savings, excluding their pension.

Chart 6: Roughly how much do you have saved in pensions?



When reviewing the types of savings and investment products held, it was clear that bank and building society savings accounts were the key means of saving, with the level at 70% or just above across all 18 - 40s surveyed. When all cash and investment ISA holdings are compared with pension holdings, there is a recognisable jump in those aged 25 - 29 then holding pensions, such that by age 35 - 40, pension savings overtake those saving in ISAs.

Chart 7: What savings or investment products do you hold?



Another key reason why pension saving levels are so low is that over two fifths (44%) of those aged 18 - 29 and nearly four in ten people (39%) in their 30s contribute only between 1% and 5% of their salary to a pension each month.

When it comes to incentives, while the current government consultation on encouraging savings has not yet been concluded, 84% of those aged 18 - 40 said that they would be encouraged to save more with an incentive from a third party, by a top up of £1 for every £2 saved. Clearly, the current system of tax reliefs, which already offers a similar top up, is not fully understood.

What is encouraging is that only 13% of 18 - 40 year olds said that they had no savings at all. This suggests that the green shoots of a savings culture does exist among the vast majority of those we surveyed.

Of those 18 - 40 year olds yet to start saving for retirement, when asked if they could afford to save for one extra thing, only 15% mentioned either retirement or care costs in older age. Most suggested shorter-term goals such as a major purchase, including buying a car or travel/holidays, being the most popular. It would appear that short term desires are more important than securing an income in retirement.

Workplace pensions are making a difference

The introduction of automatic enrolment is creating greater opportunities for more people to save and have more certainty in retirement. Although there are a significant number of people, 1.6 million, still paying into a defined benefit scheme (DB) in the private sector and the membership of defined benefit schemes remains high in the public sector, many private sector employers have or are closing their defined benefit schemes to new and existing members and so there is a continuing shift to defined contribution schemes, (DC).

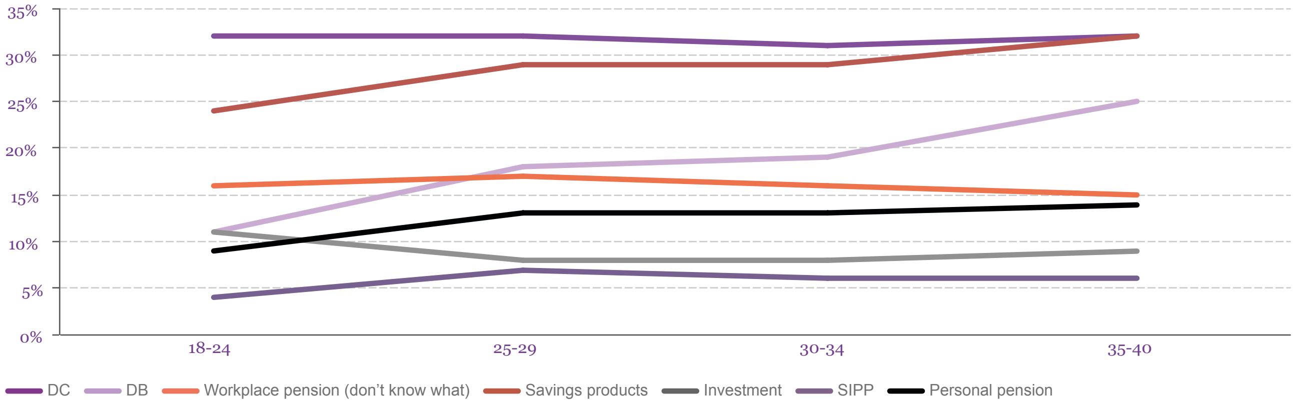
Since the start of automatic enrolment in 2012, workplace pension membership in the private sector has risen from 32% to 49%. Only around 9-10% of individuals are choosing to opt out of being automatically enrolled. The findings of Royal London's Pensions Through the Ages Report confirm that the introduction of automatic enrolment is reversing the decline in the proportion of workers now saving in a workplace pension. As at March 2014, the majority of employers (72%) were enrolling their employees into a defined contribution pension scheme and the number of individuals saving for retirement will increase further in the future. The latest update from the Department of Work & Pensions (DWP)[6], estimates that by 2018 nine million workers will be newly saving or saving more as a result of automatic enrolment and that approximately half of the eligible target group is aged under 40.

The research findings show that 42% of those aged 18-29, 54% of those in their 30s and 58% of 65 - 75s, have a workplace pension. DC pensions schemes are the most popular choice of product for those actively paying into a product for retirement, with the level at over 30% among those aged 18 - 40. DB pensions are increasingly popular among older age groups, doubling from 11% at age 18 - 24 to 25% for those aged 35 - 40. This is in addition to the over 15% across all age groups who said that they had a workplace pension but were not sure what type of pension scheme it was.

For those aged 18 - 24, 32% say that they are paying into a DC pension scheme, while 24% say that they are paying into some form of savings products. 11% of those aged 18-24 were paying into an investment product for retirement. For this group, paying into a DC scheme is the most popular form of saving for retirement.

14% of 18 - 29 year olds and 18% of 30 - 40 year olds have a personal pension.

Chart 8: What products are you paying into for retirement?



Of those saving for retirement, the **South West** has the highest number of people with a workplace pension (81%). Almost four-fifths (78%) of **Scots** have a workplace pension, the second highest in the UK. The **South East** has the lowest proportion of people in a workplace pension (69%).

It appears that the initial stages of auto-enrolment have been successful at increasing the number of people saving for their retirement, with the Pensions Through the Ages research showing that around 6 in 10, 60% of those in a DC scheme across all the age groups have been auto-enrolled. This figure is encouraging when you take into consideration that auto-enrolment has only been in place for three years.

The next step is to help people to understand that they need to save more to ensure that they are able to secure sufficient income in their retirement to maintain that standard of living into and throughout retirement

Fiona Tait
Pensions Specialist at Royal London Group

Ela, 29, South East London

"I work for a small company and am soon to be auto-enrolled into a workplace pension. I'm not yet sure what the contributions from both me and my employer will be, but I'm keen to get my head around this. I must admit, my pension isn't something I think about every day, and my financial priority recently has been to save for a deposit for a house.

My mother has recently retired and is reliant on the state pension. I'm aware we're lucky to have this in the UK, and think I will also probably need to rely on it when I come to retire.

I hope to retire at the age of 60, so I can be fit and active enough to do more travelling. Realistically though, I think this might be closer to 65."

INCENTIVES TO SAVE

50%

of 18 - 24 year olds not saving for a pension believe they don't yet need to have started

55%

of 30 - 34 year olds not saving for retirement said they cannot afford to save

84%

of those surveyed were likely, very likely or would definitely save more with an incentive from a third party

Based on those surveyed who have a pension, the average age that people started to pay into a pension is 24 for those aged 18 - 29. It rises to 27 years old for those in their 30s. This is a full four years earlier than today's retirees, with 65 - 75 year olds having started to pay into a pension at an average age of 31. This suggests the introduction of auto-enrolment is having a positive influence on when people start a pension.

Worryingly, of those not saving for a pension, a key reason from over 50% of 18 - 24 year olds was that they didn't need to save for a pension yet. However there does appear to then be a reality check, from age 25 - 29 when the key reason for not saving for retirement is clearly because they are not able to afford it, jumping from 35% to 55% by age 30 - 34.

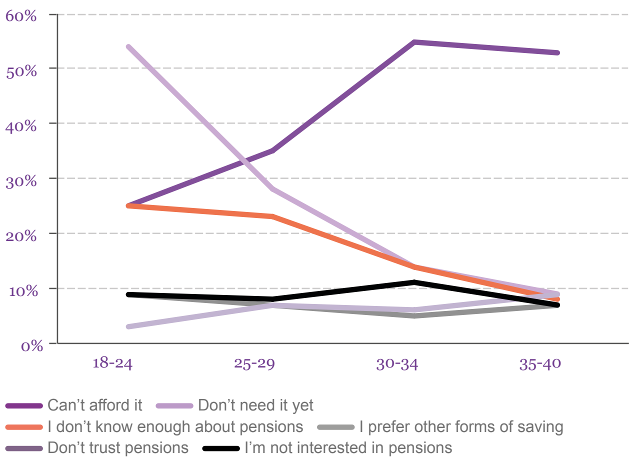
Another worrying reason given by a quarter (25%) of 18 - 24 year olds is that they don't know enough about pensions to know where, and how to start to save. This falls to less than 10% for 35 - 40 year olds. The findings importantly highlight that there is clearly still a need for further education on the benefits of starting pension savings early.

Northern Ireland has the highest number of people aged 18 - 40 who said that they can't afford to save or invest on their current salary, nearly half (47%). In addition, 45% say they wish they were better at saving money. Over a quarter (26%) of **Londoners** aged 18 - 40 stated that they love spending money, the highest of all regions.

Interestingly, of all those who were aged 18 - 40 and not saving for their retirement (33%), very few of this group (10% or less) stated that they didn't save because they didn't trust pensions, or because they didn't have an interest in saving.

So pensions do appear to be popular with the younger generations. When asked why they weren't saving for retirement, less than 10% said that they prefer other forms of saving.

Chart 9: Why are you not saving for your retirement?



Drivers for saving more

The debate about how to encourage people to save more for their retirement rumbles on, but the **Pensions Through the Ages** research shows that effectively incentivising people would have a markedly positive impact on their savings behaviours.

In addition, the findings show a need for greater simplicity and transparency in the way pension products are developed. Generation 2050 want their savings to be safe and secure, a requirement that is considerably more important than any other. This was the number one consideration for both those in their 30s and those aged 18 to 29 when choosing or selecting a saving or pension product, 26% and 28% respectively. This is a surprisingly simple criteria.

However, 84% of those surveyed said that they would be likely, very likely or would definitely save more if there was an incentive which meant that they would receive a top up of £1 for every £2 which they saved. This was the incentive which received the most positive response across all age groups. With a response rate this high the proposal to introduce a flat rate pension tax relief of 33% across the board, which is how a top up of £1 for every £2 contributed would work in practice, requires serious consideration. This incentive could be an effective way to encourage people to save more, helping them to have adequate savings in retirement and ensuring they do not become reliant on the state.

At a regional level, 41% of people in the **West Midlands** said that an incentive from a third party would definitely make them save more.

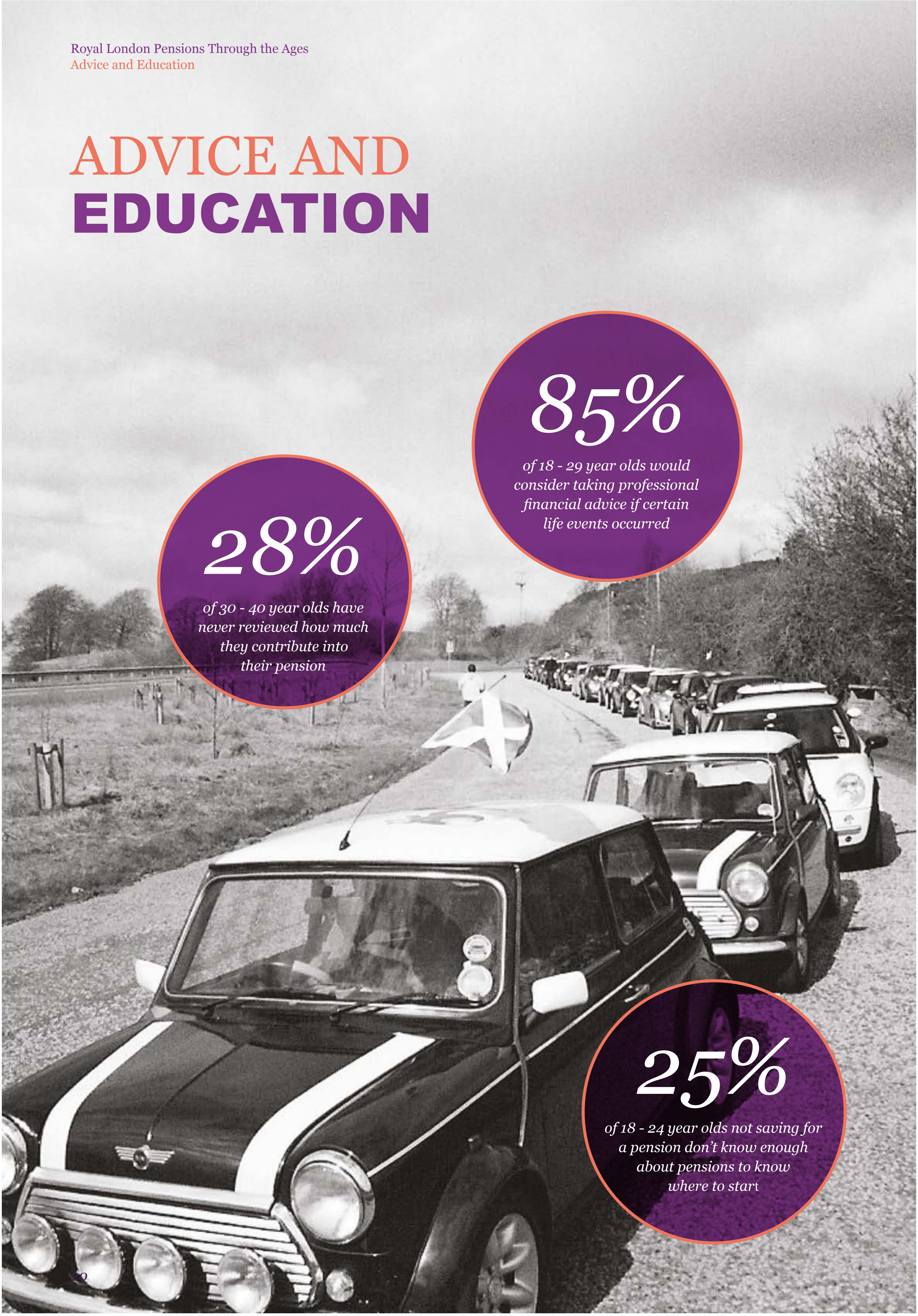
Tax incentives for saving would have the most resonance in **Scotland**, with almost a quarter (24%) of 18 - 40 year olds stating that this would definitely encourage them to save more.

Nearly a quarter of 18-29 year olds (24%) and nearly three in ten (28%) 30 - 40 year olds said that receiving a windfall would 'definitely' act as a trigger to save more and nearly a quarter (23%) of 18 - 29 year olds and 22% of 30-40 year olds say a pay rise would definitely encourage them to save more.

Seb, 37, East London

"Clearing off my bills and debts would be the first thing that would help me save more towards my retirement, as I could afford to put more away. Once I am at that point, an incentive from a third party would then help to encourage me to do so. I'm a saver, not a spender, and from a young age my father instilled in me the importance of being good with money. I go by his motto that 'if you haven't got it, you shouldn't spend it'."

ADVICE AND **EDUCATION**



85%

of 18 - 29 year olds would consider taking professional financial advice if certain life events occurred

28%

of 30 - 40 year olds have never reviewed how much they contribute into their pension

25%

of 18 - 24 year olds not saving for a pension don't know enough about pensions to know where to start

When it comes to advice about money, an encouraging number a quarter (25%) of 18 - 29 year olds, a third (33%) of those in their 30s and almost half (46%) of 65 - 75 year olds have taken some form of advice on pensions, savings or investments.

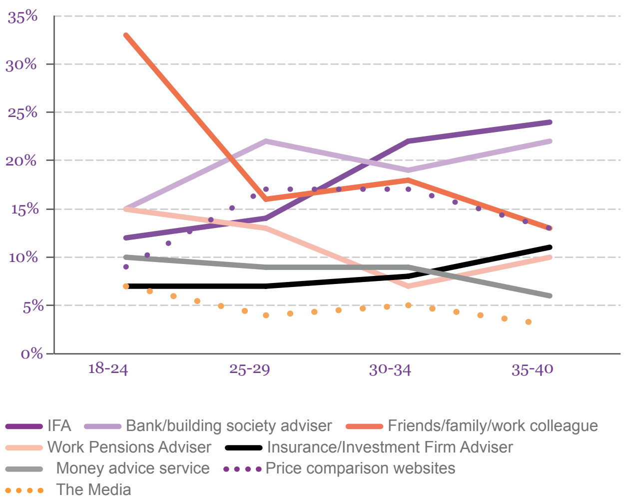
Unfortunately, only very few of those aged 18-40 who had taken advice got this advice from a financial adviser (22%). Professional financial advice was more the preserve of those at, or in, retirement, with nearly half (48%) having said they've done so. There are however encouraging signs as for those aged 30 - 40, a financial adviser was the most popular main source of advice, with nearly a quarter (24%) of those aged 35 - 40 citing one as their main source.

The **North East** has the lowest number of people that have taken financial advice on their pensions, savings or investments (26%) and **Scotland** has the highest (41%).

Two out of five people in the **North West** consider an IFA to be their main source of advice.

For 18 - 24 year olds who have taken advice, their main source was friends and family (33%) but this drops by half to 16% of those aged 25 - 29 years old. The media and the Money Advice Service scored far lower as a primary source of advice, at or below 10% across all the younger age groups.

Chart 10: What would you consider your main source of advice?



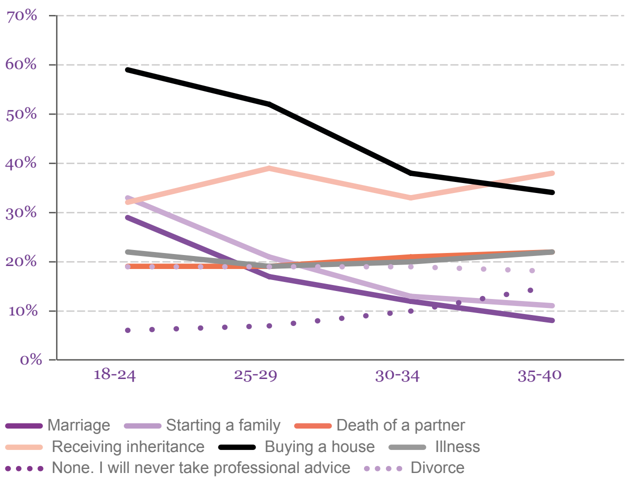
Over four-fifths (85%) of 18 - 29 year olds and nearly three quarters (74%) of people in their 30s would consider taking professional financial advice if certain life events occurred, such as buying a house or receiving an inheritance.

The research demonstrates that there is a clear role for professional advice across all the generations, particularly when nearly three in ten (28%) of those in their 30s and just over a fifth (22%) of 18 - 29 year olds revealed that they have never reviewed how much they contribute to their pension.

For one fifth of people aged 18 - 29 (21%) and those aged 30 - 40 (20%) achieving a certain level of savings / investments would prompt them to seek professional financial advice.

Given the range of options selected, it would appear that as they get older, people recognise the need for professional financial advice over more general forms of financial guidance.

Chart 11: What life events might prompt you to take financial advice?



The education challenge

The greatest challenge for advisers is educating their clients about how much they need to save to ensure that they have a comfortable retirement. Most people in the UK, as outlined in the survey, underestimate how long they will need their pension income for and as a result the size of the fund required to provide that income. People tend to think in terms of the size of the fund that they have accumulated, especially if they are in a DC pension scheme, rather than the income they might need. Income planning tools are becoming more widely available which can really help demonstrate in visual terms how long income may need to last and so help clients consider what they wish to live on if their funds should run out.

This is becoming increasingly difficult as the rate for annuities, which provide a secure income in retirement, have fallen by 75% over the past 15 years. A saver retiring in 2000 with a pension fund of £89,366 would have secured an annual retirement income of £7,748 per year, due to higher annuity rates and more favourable investment returns. Based on the same level of contributions, a saver retiring today would have a final fund value of £42,440 and would only secure an annual income of £2,109.[7] There is a real danger that tomorrow's pensioners could end up in poverty if they neglect their pension provision.

Evidence shows people who take financial advice tend to save more and unsurprisingly retire with bigger pension funds and so a larger income. Advice, however, can be seen as costly, particularly by those with smaller funds. Many advisers find it difficult to offer a profitable service to people with pension funds of £30,000 or less. More cost effective solutions are required, such as utilising technology to help analyse a client's current financial position and future needs and highlight any savings shortfall. But technology should not replace advice; it should be used to enhance the service provided.

Our **Pensions Through the Ages** report highlights the savings challenges facing Generation 2050 and beyond. Those aged 18 - 40 who have started saving for a pension need to save more, and those who have not started need to act now before it is too late.

Fig 4: Reviewing pension and seeking professional advice

> *The research shows that people are likely to save more if there is a financial incentive for them to do so, however incentives only work if people understand what they are and the effect they will have on their eventual savings.*
>
> *Many people find it hard to envisage how much they will need to save in order to maintain their current lifestyle, or know where they can go to get help. Pensions can appear complicated but the concept is simple and both government and pension companies need to do more to communicate to potential savers why they need to save as early as possible, set savings goals and regularly review the progress they are making. For those who don't have the time or expertise to do this for themselves a financial adviser can create a financial plan and help them to follow it. There is considerable evidence to show that those who have a long term plan are likely to end up with higher savings and are less likely to have to rely on a state pension that could look very different by the time they come to retire.*

Fiona Tait
Pensions Specialist at Royal London Group

CASE STUDY

Geraint Jones, former England international cricketer, retired from the sport aged 39 in September 2015. He lives with his wife and two young children in Essex. Geraint started taking financial advice when he began his professional cricket career at the age of 24.

I wasn't aware of how much I needed to save or the income my pension savings will deliver for me in retirement. Luckily my parents were great and explained to me the damaging effects that not saving from an early age could have on my retirement income. So I started saving as soon as possible. I'm a firm believer that people need to rely on themselves when it comes to retirement provision. I have friends who are currently not saving into any pension and they're not even thinking about where their income will come from in retirement. This really concerns me given the cost of living is likely to increase, the state pension is a relatively small amount and there is also no guarantee that it will exist when they come to retire. Educating and helping people in this camp to understand the importance of saving is critical, otherwise they're going to have a bleak old age.

However, getting young people into a mind set to save for retirement is no easy task. Without the savings culture instilled into me by my parents, I probably wouldn't have taken planning for retirement very seriously until a lot later in life. My father was a school teacher so by his nature he was always going to want to help me understand the importance of planning for the future.

I was lucky enough to be automatically enrolled into my work pension when I started playing cricket at the age of 24, but it is down to my father that I topped up the contributions paid by my employer. I am up to speed on my pension contribution levels, how my pension is performing and the importance of saving as much as possible.

I have been very lucky to have the start in life that I've had. With two children to support, I cannot afford to give up work now and so I am just about to start a new career as a cricket coach at a local school. I recognise that if I want to retire in or around 2050, then I need to put away as much as I can over the coming years. I am planning to generate income in retirement from a number of sources.

Financial advisers, who I have used since the age of 24, have helped me to build a diverse portfolio of savings and investment products to fund different life events for me and my family, including my retirement. When I finally get to retirement age, I want to really enjoy it and not have to worry about cutting back on things. I aim to retire around the age of 60, so fingers crossed I will spend 20 to 30 years in retirement.

For me, the ideal retirement would be centred on seeing major sporting events around the world. I'd love to watch The U.S. Open golf tournament. My wife loves to travel, so it will be great to live our dream and to see the world without having to worry about the finances!"

FUTURE LIFE
IN RETIREMENT

26%

of 65 - 70 year old retirees cannot afford to do the things that are on their bucket list

27%

of 65 - 70 year olds said "start saving as soon as possible" is the single piece of advice they would give to today's 35 year olds

Wales

is the region 65 - 75 year olds are the most confident they have a sufficient pension pot for retirement

What can younger generations learn from today's retirees? What perspective can they offer to help change the way they think, and behave, when it comes to pensions and retirement? The Pensions Through the Ages research shows there are some lessons to be learnt from today's retirees.

The typical age of retirement among 65 - 75 year olds is at age 61. Over two thirds (68%) have a pension, with the median size pension pot being £72,000.

Only two thirds (63%) of retirees surveyed who are aged 65 - 75 believe that their pension pot is sufficient to see them through retirement. Of these, only 40% say they will be able to live the lifestyle they want and 23% say it will be enough but that they will need to cut back on essentials. Over one in five (22%) say they will not have enough saved.

65 - 75 year olds in **Wales** are the most confident that they have a sufficient sized pension pot to see them through retirement (70%). People in **Northern Ireland** are the least confident (28%), which is well below the UK average of 63%.

Just over half (54%) of women aged 65 - 75 think that their pension pot is sufficient to secure an income that will see them through retirement. This compares to almost three quarters (72%) of men. 16% of women do not know whether their fund is sufficient to secure an income to see them through retirement (versus 8% of men).

The biggest single piece of financial advice that 65 - 75 year olds would give a 35 year old person today is to start saving as soon as possible (27%). 17% say they would tell them to start to think about the amount of income they may need in retirement, and 16% would tell them to 'not count on the state for support'. Thankfully, only 2% would tell a 35 year old to 'live for today and worry about retirement when you get there'.

Based on the research findings, over a third (36%) of today's retirees wish they had saved for something they cannot afford to do now they have retired, with one in five (21%) saying they wish they had saved more to maintain their standard of living or in order to remain healthy. These figures rise to 53% and 28% among those relying on the state pension/benefits in retirement. 12% wish they had saved enough to be able to have a holiday each year (rising to 21% of those relying on the state pension / benefits).

Margaret, 65, retired, from Surrey
"I wasn't in a position to save anything for my retirement and rely entirely on the state pension and housing benefit. I live comfortably, but frugally, and wouldn't recommend that anyone retiring in the future doesn't save for their retirement, particularly as I don't think the state pension will exist by 2050. The main piece of retirement planning advice I would give to someone in their thirties would be to take advantage of contributions from employers into a workplace pension and supplement this as much as possible."

Michael, 67, retired, from London
"I put aside money into a company pension during my working years, but didn't really plan for retirement. I am in a comfortable financial position now, but I put this more down to luck than judgement and do feel I've landed on my feet. The number one piece of advice I would give to someone in their thirties on retirement planning and saving would be to put away as much money as they can without interfering with their day-to-day life, as who knows what the future will bring."

Most people (75%) have ticked off some things from their bucket lists. Sadly, 15% say their health isn't good enough to do what is on their list, and 26% simply can't afford to do the things on their list. Almost a third (28%) of those relying on the state pension / benefits wish they had saved more to maintain their standard of living or remain healthy. The majority of younger age groups (60% of those aged 18 - 29 and 65% of people in their 30s) say the most important thing in retirement is to remain healthy.

Those in **Northern Ireland** and **Scotland** put more importance on being able to afford to remain healthy in retirement than other regions, with 44% and 40% respectively listing this as extremely important.

FUTURE RETIREMENT
PEOPLE'S BUCKET LISTS?

53%
Spending time with my family and friends

28%
Leaving a financial legacy for my children/ grandchildren

21%
Staying at home

50%
Hobbies/pastimes

9%
Setting up a new business

61%
Travelling

9%
Buying a fast car

12%
Adventure activities

A COMFORTABLE RETIREMENT
FOUR EASY STEPS

The savings tips which follows are some simple commitments we can all make to help secure an income in retirement that provides a comfortable lifestyle.

1. Start pension saving as soon as possible

Saving even a small amount regularly and as early as possible will help ensure that an individual can continue to build their savings to the level they need at their chosen retirement date.

Check whether it is possible to join a pension scheme offered by their employer. This could mean that their savings levels are boosted by an employer's contributions.

2. Set Goals

Be realistic about how much can be put aside into a pension on a regular basis.

Establishing a target retirement date will help to identify the time available to build savings.

Be ambitious about the level of income needed in retirement to enjoy those special treats!

3. Check the progress of any pension savings

Reviewing pension savings at least once a year will help to identify if savings are still on track to meet the target income required.

Review pension contributions made at key points, for example on getting a pay rise or if there is a change in your financial commitments or circumstances.

If not on track or behind the target income required, don't panic. Consider increasing the level of contributions made and this might mean making sacrifices to ensure the target retirement income is reached.

Check the level of state pension likely to be available to ensure any potential shortfall in the income received is limited.

4. Consider financial advice

Taking independent financial advice should be considered where possible as an adviser will be able to help explain the options available and the most tax efficient way to achieve savings goals.

The Money Advice Service (MAS) or unbiased.com have useful links to help find a local independent financial adviser.

If using a financial adviser is not possible then make use of other often free sources of guidance on pensions, such as The Pensions Advisory Service (TPAS).

CONCLUSION

Ultimately it is up to individuals to ensure they save enough to see them through retirement and importantly, that they are able to afford the lifestyle they want during those years. It is the industry and government's responsibility however, to ensure we provide the right products, the right tools and access to the right advice, in order to help future retirees be properly prepared for their retirement

The **Pensions Through the Ages** report offers a comprehensive, albeit sobering view. Those due to retire in or after 2050 will need a retirement income of nearly £3,000 per month to maintain the same spending power of today's retirees, which is likely to be required for at least 20 years.. The research findings show that the median pension pot of those in their 30s is £14,000 so today's younger generations are unlikely to be able to fund the most basic standard of living when they come to retire. An incentive to save into a pension is crucial if savings levels are to be improved.

The research shows signs that the younger generations are becoming more aware of the reality of saving for retirement. They are starting to save earlier, as the average age for an 18 - 29 year old starting a pension is 24, compared to 27 for a 30-40 year old and 31 for a 65 - 75 year old. Less than 10% aged 18 -4 0 who are not saving for retirement don't trust pensions. In addition, they understand the responsibility to fund their own retirement, as 71% of 18 - 40 year olds stated that they don't have enough saved for retirement. This is very encouraging.

However the report demonstrates a potential area of concern, the 'squeezed middle' of those aged 30 - 40, who face a massive uphill battle to achieve a comfortable retirement. An overwhelming 54% of this age group who weren't saving for retirement said they couldn't afford to save. Based on our research, the amount they need to save to maintain the same standard of living as today's pensioners when retiring in 2050 is £1553 per month. This certainly highlights the need to start saving as early as possible. More importantly though it shows the value of employer contributions and a government top-up, through pension tax relief or a tax incentive, to help Middle Britain's squeezed middle actually achieve an adequate income in retirement.

For its part, the government and the pensions industry must continue to help people understand their savings and retirement options, and ensure that products and solutions to encourage people to save even earlier and to save significantly more are available to them.

Access to advice for people with all levels of retirement savings remains crucial. Royal London has been calling on the government and the Financial Conduct Authority (FCA) to deliver an advice regime that meets the needs of those with smaller pension pots, not just those with larger pension pots. Royal London believes that advice is important, particularly if we want more people to save and to save more. This needs to be done in a way that is both affordable to those with smaller pots as well as being commercially viable for advisers.

Pensions Through the Ages research shows there are aspects of pensions savings that the industry can be proud of. The early signs are that, three years after its introduction, auto-enrolment, is working, with people starting to save into a pension at an earlier age. The importance of this should not be underestimated; particularly given that the most popular piece of advice today's retirees would give to a person aged 35 today would be to start saving as soon as possible (27%). 17% suggested that people should start to think about the amount of income needed in retirement now, with a further 16% stating that they should regularly check to make sure that savings are adequate to meet the level of income needed in retirement. Interestingly, a further 16% said that younger savers should not count on the state to support them in later life.

There is simply no substitute for time. A day not saving into a pension could be a day of hardship in retirement. That is the reality facing us all. Greater education and access to advice, and the introduction of appropriate incentives, will help people make informed decisions, and bring greater financial security to more people through the ages.

The ultimate aim of the **Pensions Through the Ages** report is to help educate and engage people, of all ages, to think carefully about, and plan for their retirement futures, and what they need to be doing to fund a comfortable retirement. The government's determination to bring greater flexibility and its decision to explore the role of incentives should be done in a way that builds on the excellent pension savings base now established in the UK with over 80% of younger people saving. This should not be undermined by offering alternative savings options for example through ISAs or withdrawing pension tax relief. The industry, government and individuals must do more if we are to ensure that future generations of retirees are able to 'live long and prosper'.

METHODOLOGY, SOURCES, & ENDNOTES

Data in the Royal London Pensions Through the Ages report is derived from independent research conducted by Harris Interactive UK Ltd, using a bespoke survey with UK individuals across a range of age groups. Additional data was sourced from: the Office of National Statistics (ONS) Family Spending Report; Centre for Economics and Business Research (CeBR).

Research conducted by Harris Interactive Ltd

i) 3,060 UK adults were interviewed online between the 14th August and 19th August 2015.

ii) The respondents were aged: 18 - 29 (741 respondents); 30 - 40 (1,186 respondents) and 65 - 75 (1,133 respondents).

iii) All 18 – 40 year olds interviewed were in paid employment.

iv) Data weighted on age, gender and region to reflect the working population aged between 18 and 40 and the general population aged between 65 and 75.

Individuals were then recruited from the original study by Harris Interactive to be involved in the case studies detailed in this report.

Data from ONS Family Spending report

i) Expenditure for one-adult retired households in the UK mainly dependent on state pension and not mainly dependent on state pension, annually between 1978 and 2013.

ii) Total expenditure is derived from the average household spend on a series of commodities and services over this time frame.

Data from the Centre of Economics and Business Research (CeBR)

i) Forecast of the spending trends of pensioners over the years from present until 2050 based on projected income and CeBR's long term price projections.

ii) Income of pensioner households: based on income derived from state pension, private pensions and investment income and how these will change as a result of expected economic growth, inflation, interest rates and earnings growth. The triple lock for the state pension is retained over the forecast horizon.

iii) Spending forecasts: ONS Family Spending Report data used as the basis for the average pensioner spend for four essentials: fuel and power, food, transport and housing. Changes to inflation, based on CeBR's projection, and the underlying trend rate of volume growth for these essentials are accounted for.

Footnotes

[1]https://www.gov.uk/government/consultations/strengthening-the-incentive-to-save-a-consultation-on-pensions-tax-relief
[2]In total 11% of 65-75s are in paid employment and a further 3% are semi-retired.
[3]http://www.beyondcurrenthorizons.org.uk/review-of-longevity-trends-to-2025-and-beyond/
[4]http://visual.ons.gov.uk/how-long-will-my-pension-need-to-last/
[5]https://www.gov.uk/calculate-state-pension/y
[6]https://www.gov.uk/government/policies/automatic-enrolment-in-workplace-pensions, July 2015
[7]Moneyfacts: https://moneyfacts.co.uk/news/annuities/retirement-incomes-are-79-lower-than-last-year/, September 2015. Based on saving £100 per month over 20 years.

Contacts

For more information about Royal London or this report please contact:

Berni Ryan – PR Manager
Email – berni.ryan@royallondon.com
Phone – 0207 506 6740

Gareth Evans – Head of Corporate Affairs
Email – gareth.evans@royallondon.com
Phone – 0207 506 6715

Tom Johnson – Press Assistant
Email – tom.a.johnson@royallondon.com
Phone – 0207 506 6620

Daisy Hall – Director (FTI Consulting)
Email – daisy.hall@fticonsulting.com
Phone – 0207 269 7226

September 2015