

# How prepared are people for retirement?

PPI Briefing Note Number 103

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## This Briefing Note:

- ✓ Helps us measure how well prepared individuals might feel for retirement.
- ✓ Who are the 'don't knows' (the largest single group for each question below)?
- ✓ For those that do have a view, how realistic is it, and how this varies by age group and income level?
- ✓ What might be possible interventions to address gaps?

## Main findings

- The 'don't know' responses tend to belong to the young and people with low income.
- While there is great uncertainty, at the same time there is a desire for more information to aid engagement.
- People seem to become more realistic about the income they may receive in retirement over the years.
- The lack of knowledge of the pensions system remains a problem to deal with.
- Automatic enrolment makes the difference between saving and not saving but the lack of engagement created may be perceived as acceptable at young age, where at some point in their life people will need to take active decisions around their savings, given the current levels of automatic enrolment contribution.
- There are still impediments to attaining levels of savings to provide people with their desirable retirement income.

## Introduction

This Briefing Note explores people's changing thoughts about pensions and their retirement over time. The aim of the analysis is to understand how their thoughts have changed over the years between 2006 and 2016 and how certain they are of their own future.

The analysis uses survey data collected each year, from 2006 to 2016, by YouGov<sup>1</sup> plc for Scottish Widows.<sup>2</sup> More than two hundred questions have been asked in each survey, which has evolved over time. All the figures in this Briefing Note are in 2016 earnings terms.

## Background

The introduction of automatic enrolment in 2012 requires all employers to designate a pension scheme into which all of their employees, subject to age and income criteria, should be automatically enrolled. There are minimum contribution levels, which are set to 8% of band earnings, with at least 3% coming

from the employer. This policy is designed to increase private pension coverage and saving by individuals without imposing compulsion. The right to opt-out of saving will remain, but the expectation and evidence to date is that inertia will lead many people to remain automatically enrolled. Inertia can work even if people do not know about pensions and how much they need to save.<sup>3</sup>

However, with the contribution level through automatic enrolment not high enough to give many individuals an adequate income in retirement,<sup>4</sup> and difficulties in engaging people with active saving decisions,<sup>5</sup> there are several survey questions that can help us measure how well prepared individuals might feel for retirement.

- How much do I consider to be a 'comfortable' household income in retirement?
- When do I expect to be able to afford to retire?
- What would encourage me to save more for retirement?

- Where do I go to get guidance and advice on retirement?

The most common response to each of the questions is the same - 'don't know'. Few people seem to have clear ideas on pensions and their retirement. Many of them do not know how much they will need at retirement, when they will be able to retire, how to save or even where to go to receive more information.

## Who are these 'don't knows'?

**Younger people are more uncertain about pensions.**

There is a high correlation between this lack of knowledge (**don't know**) with both age and income. However, there does not seem to be a correlation with gender.

Younger people are more difficult to engage with their retirement so far from them. There are multiple barriers preventing young people from engaging with pension savings. In particular, stereotypes about later life might influence their engagement with retirement.<sup>6</sup>

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They do not know how much income they will need and when they will be able to afford to retire. While uncertainty is lower in older cohorts, over the years the number who respond 'don't know' is rising over time for each age group [Charts 1, 2]. Cohorts have become more uncertain over time, reflecting the changing pensions environment.

Between 2006 and 2016 the proportion of people answering 'don't know', about what they think they will need to be comfortable in retirement, has tripled [Chart 1]. That means that nowadays a significant number of people are unaware of what they will need. Whatever people may think they will need, the experience of current pensioners is that they have an average income of around £18,900.<sup>7</sup>

The uncertainty of when people will be able to afford retirement is high. In 2016 a quarter of people who answered this question did not know when they might be able to afford to retire [Chart 2].

## What can encourage people to start saving?

Automatic enrolment has worked to get people in by default rather than relying on an active decision to start pension saving which can be difficult to achieve.<sup>8</sup>

What is clear from the analysis is the high correlation between a 'don't know' response and the income of the individual. The more you earn the more sources of information you have and the more you may know about pensions [Chart 3].

## Chart 1: The number of people who don't know how much they will need is increasing

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How much do I consider to be a 'comfortable' household income in retirement?

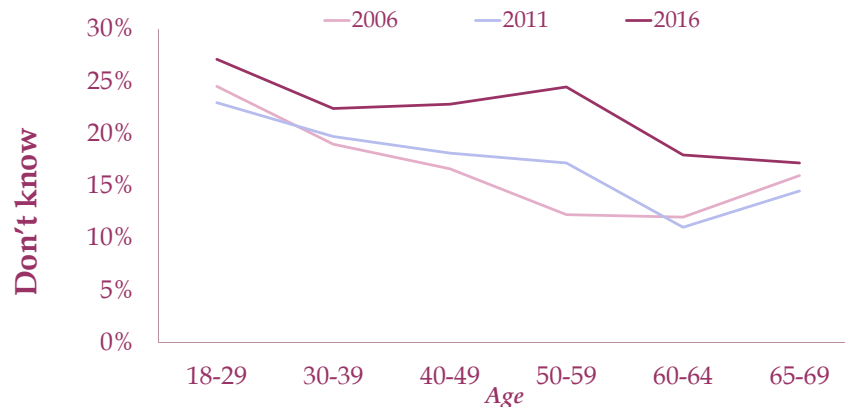


Source: Scottish Widows data

## Chart 2: People are becoming less certain when they can afford to retire

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When do I expect to be able to afford to retire?



Source: Scottish Widows data

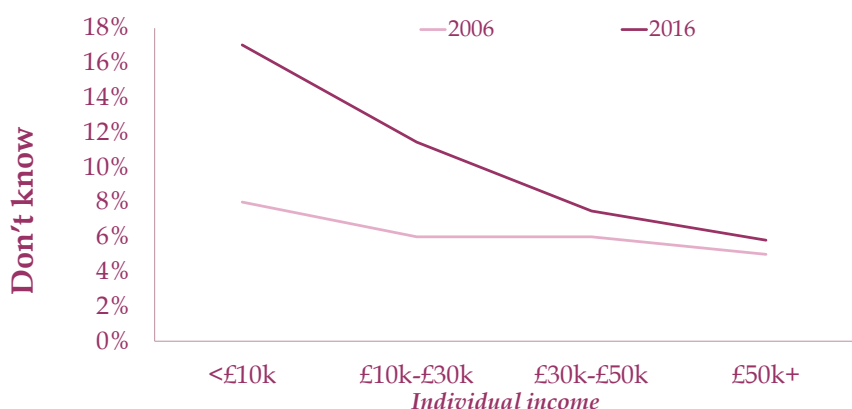
## Do people know where to go for guidance and advice?

Pension knowledge is hard to come by for those who do not work most closely with the system. This could be due to a lack of interest, lack of available information, not understanding information available, or not being able to identify information sources.

In 2016 around a third of people of all ages did not know where to go for guidance and advice on pensions [Chart 4]. This has clear consequences for any potential future increase in their knowledge.

## Chart 3: People on lower incomes don't know what could encourage them to save more

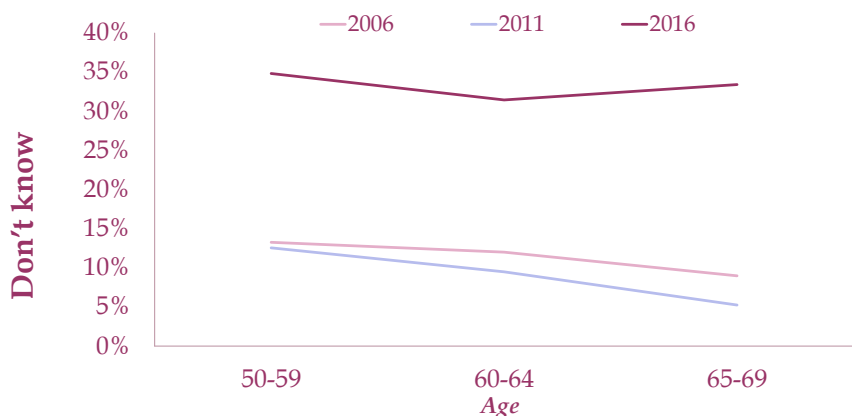
What would encourage me to save more for retirement?



Source: Scottish Widows data

## Chart 4: People are becoming more uncertain where to turn for advice and guidance

Where do I go to get guidance and advice on retirement



Source: Scottish Widows data

### How much people think they will need in retirement

Asking people to think about their household income at retirement, how much they will need to feel 'comfortable' is one of the questions in the surveys. When asked in 2006, 33% of the people thought they will need an income between £25,000 and £35,000 per

annum to be comfortable in retirement, 19% higher than National Average Earnings (NAE).

More recently people's expectation of income in retirement has reduced. Since 2011 the most common answer is between £10,000 and £20,000 per annum, with an average that is less than NAE. This reduction of

expectations in retirement could be linked to external factors such as the global financial crisis.

### Working-life income versus needs in pension-life

In 2006 median earnings were less than the amount people thought they would need to feel 'comfortable' in retirement [Table 1]. This situation had been reversed by 2011.

Table 1: Earnings versus needed in retirement

Year	What people want in retirement (Data)	Median earnings (ONS)
2006	£29,000	£28,400 <sup>9</sup>
2011	£24,000	£27,300 <sup>10</sup>
2016	£24,000	£28,000 <sup>11</sup>

Expectation varies by age and over time. While in 2006 younger cohorts said they might need more to feel comfortable in retirement than older cohorts, by 2011 all cohorts say they needed less, and by 2016 the situation was reversed with older cohorts feeling they needed more than younger cohorts [Chart 5].

### People's expectation to afford their retirement

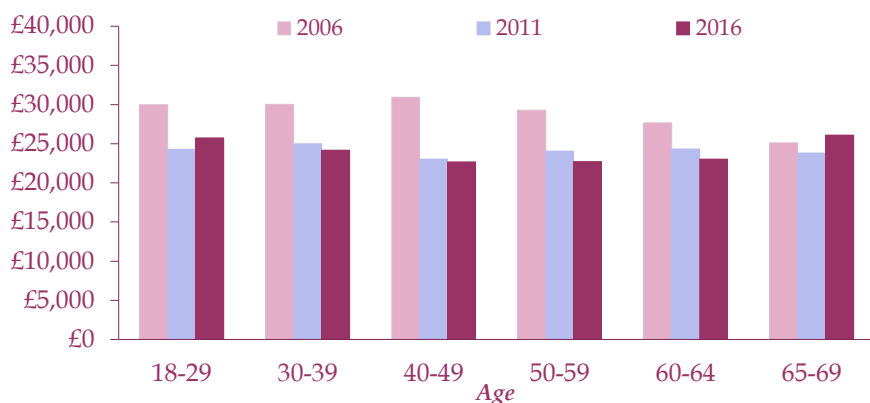
Being able to afford to retire does not mean this is when an individual will actually retire, but when they have accrued the necessary wealth or pension entitlement to afford it. Some will retire before this point accepting a lower income, while others may voluntarily remain in work.

Since 2006 the expected age to afford to retire has risen significantly stabilising between 2011 and 2016 [Chart 6]. The oldest two age bands, where expectations increase, include people who have

## Chart 5: Younger people have reduced their expectation of what is a comfortable income



How much do I consider to be a 'comfortable' household income in retirement?



Source: Scottish Widows data

would need for a comfortable income than 'don't know' when they may afford to retire. This greater certainty around income could indicate that people are more flexible when it comes to the timing of their retirement, potentially altering the timing to allow them to make adequate saving to attain this income level.

### What would encourage people to start saving more?

In 2006 the challenge was to get more people to start saving. Since the introduction of automatic enrolment the challenge has changed. Now the aim is to get people who already save (particularly at a low level) to save more.

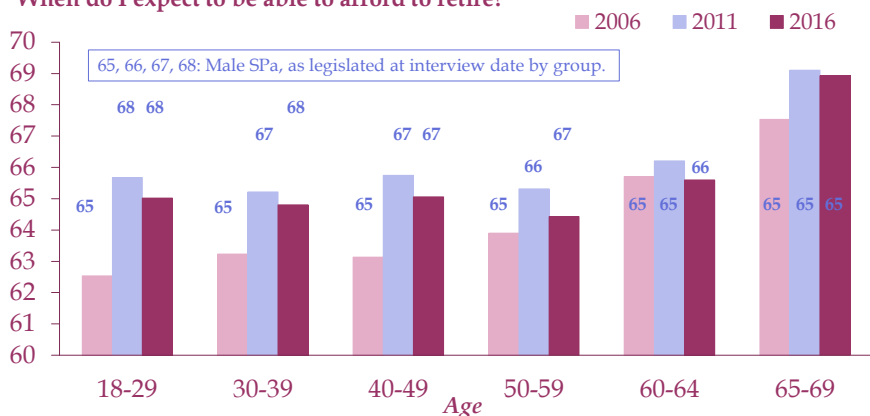
Over the years the motivations for saving more have varied considerably. However there are common themes throughout [Chart 7, 8].

In 2006 the three most common answers to this question were 'If I earned more money', 'If the tax incentives were greater' and 'A credible guarantee that my pension will increase in value over the long term'. The proportions were, unsurprisingly, dependent upon income levels. The high earners, who already have the greatest tax incentive would be the most motivated by additional tax incentives. It appears that these individuals are just trying to find the most efficient means of saving, rather than making additional saving. Pensions saving would, therefore, be increased at the detriment to another form of saving. They would also like to receive a guarantee on their pension increasing over the long

## Chart 6: Younger people expect to be able to afford to retire before State Pension age



When do I expect to be able to afford to retire?



• Age band 65-69 is limited to those who have not retired, yet have passed SPa

Source: Scottish Widows data

passed State Pensions age (SPa), but not yet retired. These people may know they need more income than they already have available and perhaps that is what's driving them to continue working.

Younger workers, most notably millennials who have more recently entered the workforce, have shown an expectation that

they would be able to retire prior to SPa. This may reflect a lack of awareness of their own SPa, but it does raise questions about how they expect to finance this period between retiring and reaching SPa without supplement from either earnings or the State Pension.

Fewer people say they 'don't know' how much income they

## Chart 7: Selected motivations to save more for retirement in 2006

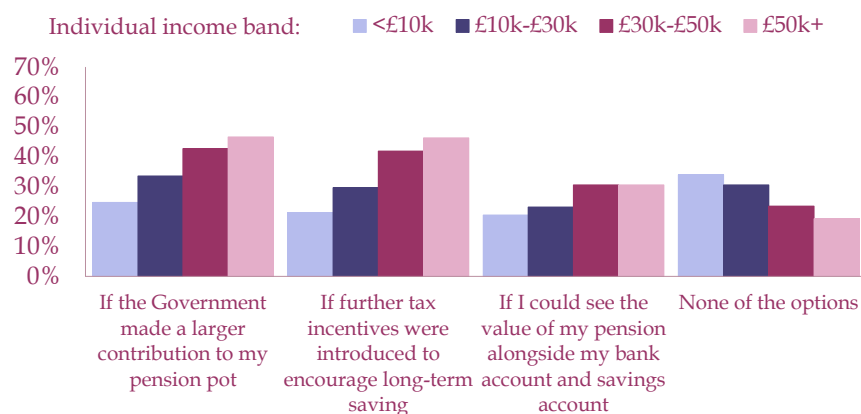
What would encourage me to save more for retirement?



Source: Scottish Widows data

## Chart 8: Selected motivations to save more for retirement in 2016

What would encourage me to save more for retirement?



Source: Scottish Widows data

term as well as the low earners. The low earners, for obvious reasons, would be the most motivated if they earn more money and therefore have a greater capacity for saving.

In 2016, there are few approaches that would appear to motivate people to save more in pensions,

especially for the high earners. These include 'If the Government made a larger contribution to my pension pot', 'If further tax incentives were introduced to encourage long-term saving' and 'If I could see the value of my pension alongside my bank account and savings account'. The latter tying in with the concept of a pensions dashboard.

For the low earners there appear to be fewer options to encouraging them to save more; except for more Government contributions to their pension pots, making the saving for them. Generally these people would not actively make larger contributions. Alternatively defaults and inertia could be used instead of trying to get an active decision to save more. Many workers may still need to adjust to saving for the first time (as a result of automatic enrolment) and a programme of auto-escalation could help ease people into saving more, rather than mandating higher contribution levels that might drive more to opt-out.<sup>12</sup>

What came out of the surveys is that in 2016, unlike in 2006, more and more people do not really find any of the suggested options would encourage them to start saving more for retirement, especially if their earnings are low.

### A step into the future with the Pensions Dashboard

The Pensions Dashboard is a platform that lets savers see all their pension pots in one place and will help them to plan for their retirement more effectively.<sup>13</sup> The response 'If I could see the value of my pension alongside my bank account and savings account' is particularly topical because there is no way for people to see the value of all of their pensions in one place the Association of British Insurers (ABI) is currently prototyping a Pensions Dashboard.<sup>14</sup> Research has shown that over a third of people approaching retirement find it difficult to keep track of their pension pots.<sup>15</sup>

## People look to professionals as a source of advice

While many people may not have answers now, they are going to need to take active decisions to access their pension savings later in life. They are going to have to become capable of taking such decisions.

There are many services offering guidance and advice, but the most common sources cited by individuals through the years were: Pension Providers, Independent Financial Advisors and their Employer [Chart 9].

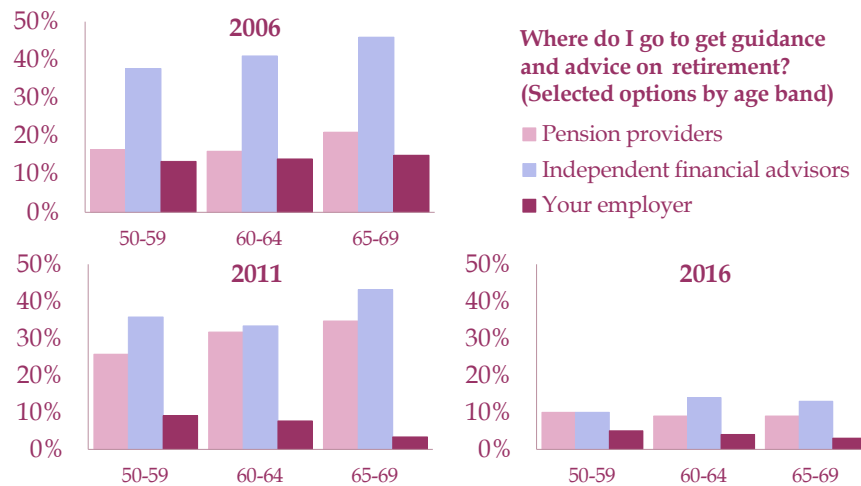
## Advice on decumulation options

People from age 50 onwards who are approaching retirement expect to consult pension providers or Independent Financial Advisors for guidance or advice in order to make decisions regarding their decumulation period. Yet this hides that a third of this older generation 'don't know' where to go.

## Employers are growing in importance as a source of advice

Over the years the reason why people go to their employer for pension has changed just as the pension landscape has. In 2006 more employers offered Defined Benefit (DB) schemes to their employees thereby taking greater responsibility and the burden of risk for the pension schemes. By 2016 their involvement, as a result of automatic enrolment, is more commonly associated with Defined Contribution (DC) schemes. The big recent rise in employer as an answer coincides with greater numbers in workplace pensions. As more people have been introduced to pension saving by

## Chart 9: Sources of advice have changed in importance to people approaching retirement



Source: Scottish Widows data

their employer may, therefore, associate pension saving with the workplace.

While employers emerge as an important source of advice this is clearly not available to the growing numbers of self-employed. Consideration must also be given to the availability of advice to this significant group.

Independent financial advisors are most commonly used by people who have high levels of income. People who have a low level of income use different sources because they often don't like the idea of paying a large sum of money for advice even if they have the funds available within their pension.

## Technological era

Despite the increasing uncertainty [Chart 4], 2016 data shows people are also turning to internet search engines to find more about pension savings. Examples of online help are [The Pensions Advisory Service](#)

(TPAS)<sup>16</sup> which delivers professional, independent and impartial free help with their pensions or [Pension Wise](#)<sup>17</sup> which is a free and impartial Government service providing guidance on DC pensions.

## Conclusion

The 'don't know' responses tend to belong to the young and people with low income. While there is great uncertainty, at the same time there is a desire for more information to aid engagement. The engagement is important and consideration should be given to the timing of intervention to help.

People seem to become more realistic about the income they may receive in retirement over the years and may be becoming more flexible around when they retire allowing themselves time to attain an income they need.

The lack of knowledge of the pensions system remains a problem to deal with. The Pension Dashboard could help further this,

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since 21% of people are asking to see the value of their pensions alongside their bank account and savings account as an aid to saving more.

Government contributions through tax relief are poorly understood. The language with which it is communicated may not help people understand the value of this contribution to their pension saving.

Due to the introduction of automatic enrolment the number of savers is increasing. Regardless of how engaged an employee may

be or how much they do or **don't know** they are defaulted in. This lack of engagement may be perceived as acceptable at young age, but at some point in their life people will need to take active decisions around their savings, given the current levels of automatic enrolment contribution.

Automatic enrolment makes the difference between saving and not saving. More saving is needed above the minimum contribution levels for many people if they are not to see a fall in living standards in retirement. Auto-escalation

could be seen as a mechanism helping through leverage of inertia, potentially alongside improved engagement, to get people closer to their retirement aspirations. While it could aid people enrolled in workplace schemes, there is still the outstanding needs of the self-employed to be considered.

There are still impediments to attaining levels of savings to provide people with their desirable retirement income. More progress on how to overcome these barriers and achieve engagement needs to be made.

<sup>1</sup> YouGov (2006-2016) *Survey data for Scottish Widows*

<sup>2</sup> The surveys have been conducted using an online interview administered, at random, to members of the YouGov plc GB panel who have agreed to take part in surveys. Scottish Widows uses these surveys to get a useful barometer check of the nation's attitude towards retirement savings and their level of readiness. They published their findings annually in their Retirement Report.

<sup>3</sup> GOV.UK (2010) *Making Automatic Enrolment Work*

<sup>4</sup> PPI (2013) *Automatic Enrolment Report 1: What level of pension contribution is needed to obtain an adequate retirement income?*

<sup>5</sup> PPI (2017) *Consumer engagement: the role of policy through the lifecycle*

<sup>6</sup> PPI (2016) *Engagement of young adults with pension savings, Briefing Note Number 85*

<sup>7</sup> FRS (2015-2016) *Family Resources Survey financial year 2015/16 - Pensioners' Incomes Series*

<sup>8</sup> ABI (2017) *ABI response to the initial 2017 Automatic Enrolment Review questions*

<sup>9</sup> ONS (2006) *Annual Survey of Hours and Earnings*

<sup>10</sup> ONS (2011) *Annual Survey of Hours and Earnings*

<sup>11</sup> ONS (2016) *Annual Survey of Hours and Earnings*

<sup>12</sup> Baroness Altmann, R. - Pensions Minister (2016) *My priorities for 2017 auto-enrol review*

<sup>13</sup> GOV.UK (2016) *Pensions Dashboard prototype to be ready by spring 2017*

<sup>14</sup> ABI (2017) *The Pensions Dashboard*

<sup>15</sup> NOW: Pensions (2013) *The UK's pension pot predicament - a quarter of over 55s have four or more pension pots*

<sup>16</sup> TPAS *The Pensions Advisory Service*

<sup>17</sup> GOV.UK *Pension Wise*

This Briefing Note uses survey data collected each year, from 2006 to 2016, by YouGov plc for Scottish Widows. The PPI is grateful to Scottish Widows for their support in producing this note and for Silene Capparotto for writing this Briefing Note.



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