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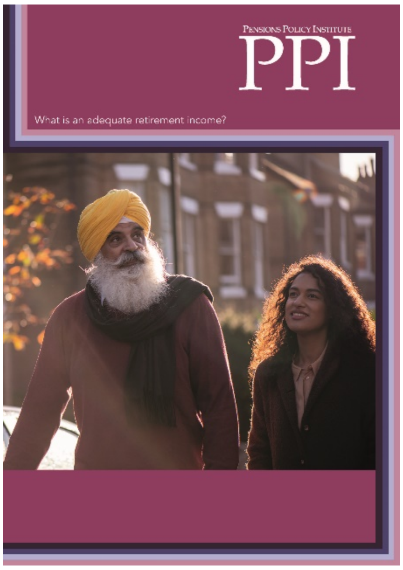
'What is an adequate retirement income?'

Launch write up



The Pensions Policy Institute (PPI) held a policy seminar on Wednesday 9th June 2021 to launch **What is an adequate retirement income?**, a report sponsored by the Centre for Ageing Better.

This report explores the question of 'what is an adequate income in retirement?', which is fundamental to both UK pensions policy and individuals' own life savings. Without a target to aim for or a method to assess progress, people's efforts to provide financially for retirement risk being undermined by the pressures of day-to-day needs and other demands on resources. A settled consensus, such as that brokered by the Pensions Commission, driven and supported by Government, and involving key stakeholders such as industry, employers and unions, is likely to be required in order to generate agreement on what adequacy target sets the boundary of acceptability given the various economic, political and societal pressures.

The event was held virtually and attended by over 100 people representing a broad range of interests across government and industry. **Chris Curry, PPI Director,** chaired the event.

Nick Hurman, Research Associate, PPI, presented the key findings of the research, highlighting the challenges associated with defining adequacy, not least the different and often competing concerns of different stakeholders, including individuals, employers, government and society. Nick outlined the different approaches to adequacy that currently exist, those that use fixed income targets in order to cover needs and those that focus on a more proportional approach by using target replacement rates relating to working life incomes. Using a range of available adequacy measures, the report outlined the number of those approaching retirement at risk of not achieving adequacy in later life and the characteristics and circumstances that can increase this risk. A new consensus on adequacy is likely to be needed in order to improve retirement outcomes.

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Claire Turner, Director of Evidence, Centre for Ageing Better, presented the sponsor's response to the research. Claire applauded this insightful piece of research for tackling the tricky issue of adequacy in retirement, noting concern at how many people are approaching retirement at risk of not achieving adequate living standards, especially for those already in their 50s and 60s who have limited time to close the gap. While there is an immediate concern for those closest to retirement, adequacy is also likely to be a problem for younger generations, who are less likely to have substantial, if any, DB entitlement and more likely to be renting at older ages. Claire reiterated the report's key finding that a consensus is needed in order to align competing ideas and perspectives on adequacy, as well as the need for a more joined up approach across a broad range of policy areas that contribute to retirement adequacy.

Jonathan Watts-Lay, Sales & Marketing Director, WEALTH at work, provided a response to the research based on his experience providing financial education to individuals through employers. Jonathan emphasised the importance of taking a holistic and realistic approach to retirement adequacy, both during the accumulation and decumulation phases. During accumulation, it is important to understand the way that retirement saving interacts with other financial demands and constraints, as well as the changes that could encourage increased contribution rates. When making decisions about how to access and use pension savings, it is vital that people have a realistic view of the living standards they are likely to achieve based on their savings levels, as well as the challenges they may experience in later life which may require flexibility of income.

The remainder of the event, including panel discussion and Q&A session, was held under the Chatham House Rule and the views expressed do not necessarily reflect the views of the PPI or panelists.

The following themes of discussion emerged during the panel discussion and Q&A with the audience:

- The diminishing role of Defined Benefit in securing retirement adequacy: The retirement landscape is currently going through a transitionary period, as private sector provision shifts from DB to DC. Future generations of retirees are likely to find it more difficult to achieve adequacy with limited or no access to DB entitlement, especially those for whom automatic enrolment has come too late in working life to accrue significant amounts of DC savings.
- The changing role of pension savings in the post-pension freedoms landscape: We tend to think of retirement income as being the goal, but perhaps in light of pension freedoms this view ought to be broadened to consider both income and capital, the latter of which is likely to be needed to respond effectively to unexpected challenges in later life. The pension flexibilities are still a relatively

new policy, so it remains to be seen how those who have opted for flexible drawdown products will manage their savings and income over the course of retirement, as well as interaction with other factors, such as care needs and inheritance.

- Building a new consensus on adequacy: The Pensions Commission was over 15 years ago and since then the pensions landscape has gone through a great deal of transition. There is a strong case for driving forward a government-led consensus, and there is a broad range of data and different conceptions of adequacy to assist in this process. While it may take some time to reach a consensus, discussions of adequacy must have a sense of immediacy in order to avoid having a 'lost generation' of retirees slipping through the gaps in the meantime.
- Longer working lives: This is frequently identified as a possible solution to adequacy concerns, however so far not a lot of progress has been made. Ageism was identified as a key barrier to progress in this area, with stereotypes about later life making it more difficult for older workers to remain in employment, even if they want or need to.
- Changes in housing: There are questions not just around the cost of renting, with a greater number likely to be renting in older age, but also around costs of maintaining and in some cases adapting homes as older ages are reached. There may also be a role for equity release in some people's retirement plans, taking a holistic view of their savings and assets and how these can be used in combination in order to support later life. Use of property assets is likely to be especially important for the self-employed who are unlikely to have accrued much in terms of pension savings.
- Long-term care costs: While the report did not take direct account of this in its modelling, this is an important consideration. It can be incredibly difficult to plan for care costs as health declines are so unpredictable, especially for those who remain in good health at the point of retirement. Insurance may be the only way to effectively respond to this challenge.