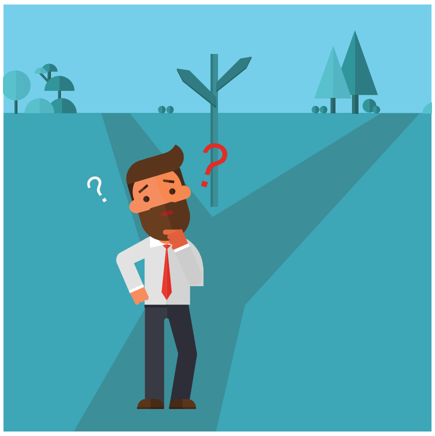
Between two places

Laura Blows explores the unique retirement saving challenges of those aged 50-59, particularly in the wake of Covid-19

Summary
• Those aged 50-59 may have a mix of DB and DC pension provision but will probably retire with less than previous generations.
• Covid-19 has affected over-50s retirement plans and pension savings levels.
• The pensions industry needs to help 50-somethings understand their retirement options.



To be aged 50-something today is be continually caught in the middle. The last of the baby boomers or the first of the Generation Xers; no longer a spring chicken, but certainly not yet old. Sandwiched between adult children and elderly parents to support. Decades since started work but possibly still many years to go until retirement. The last to potentially have defined benefit (DB) pension savings (outside of public sector work) while also being part of the first cohort to save under auto-enrolment.

Pension provision

"At the top end there will be those who have benefitted from generous DB provision and perhaps saved into a personal pension alongside this," AJ Bell senior analyst, Tom Selby, says.

"However, there will also be lots of people who missed out on DB pensions and never saved in a pension for themselves prior to automatic enrolment being introduced. For this group, auto-enrolment will have arrived too late to deliver a decent retirement income."

Prior to auto-enrolment, only around 60 per cent of people were saving into a workplace pension, Money and Pensions Service (Maps) head of pensions policy and strategy, Carolyn Jones, points out, and PLSA director of policy and research, Nigel Peaple, says that while 50-somethings may be more likely to have DB provision than younger generations, about 30 per cent actually do, according to the Office for National Statistics.

According to PPI senior policy researcher, Lauren Wilkinson, this age group is likely to have a lower retirement savings than previous generations.

'People who are expected to retire in the next 10-15 years, and specifically those who are currently in their 50s, are likely to have lower levels of private pension savings and entitlements than previous generations of retirees," she says.

"PPI analysis carried out in 2018 found that a quarter of individuals then aged 50 to 65 had low levels of DC savings (below £9,500) combined with either no DB entitlement or entitlement to an income of less than £7,000 a year. This means that even when income from the state pension is taken into account, many in this cohort are unlikely to achieve income adequacy targets that would enable them to replicate working life living standards."

A SunLife survey in May found 90 per cent of over-50s expected the state pension to pay for their retirement, 66 per cent said a private pension would do so, 50 per cent named savings and investments, 27 per cent said a partner's private/workplace pension and 12 per cent planned to use income from work.

A further 11 per cent expected their retirement income to be bolstered by inheritance, with 14 per cent saying they planned to downsize their property and 6 per cent to access equity release.

More than a third (36 per cent) of the women surveyed did not have a private pension, compared to just 20 per cent of male respondents. The same percentage of women were doubtful they had enough money to fund their retirement, and just 13 per cent of female respondents confident they had enough for a comfortable retirement.

This age group must now shoulder the challenge of achieving a comfortable retirement themselves. With freedom and choice reforms just five years old, 50-somethings are part of the first wave of people that have to navigate the increased options available when accessing their retirement savings.

This year also features the milestone of the highest number of people in nearly two decades reaching pension freedom age, with some 940,000 people turning 55, Maps research states, yet it finds only 7 per cent of over-50s it surveyed feel fully prepared.

This complements Fidelity's findings, as its research in February revealed that 24 per cent of people in their 50s have not made any changes to their retirement plans since freedom and choice came in, while only 26 per cent say they understand the options available to them from age 55 under the reforms.

Covid challenges

However, the biggest challenge this year has been Covid-19, and the additional, difficult, financial pressures it has placed on many approaching or post-55, the age at which people can first access their pension savings without penalty.

The economic fallout from Covid-19

has resulted in 41 per cent of working people aged over 50 concerned about job security, Legal & General Retail Retirement research finds, with 31 per cent concerned about finding new employment if they lost their job.

This concern is not unfounded, as The Centre for Ageing Better also finds that just a third of over-50s return to work after losing their job, compared with 54 per cent of 35 to 49-year-olds. Even if they find a new job, it may be with lower pension contributions than previously, Peaple warns.

Already, 13 per cent of over-50s have changed their retirement plans as a result of Covid-19, Institute for Fiscal Studies (IFS) statistics reveal, with 8 per cent retiring later and 5 per cent retiring earlier. "Those with more wealth are also more likely than those with less wealth to be planning to retire earlier as a result of the pandemic," it states, while those DC scheme members who reported a fall in their pension wealth were 6 percentage points more likely to be planning to retire later than those with no DC savings.

Co-op Insurance's recent research places these figures slightly higher, finding that 18 per cent have already had their retirement plans affected by Covid, with 25 per cent of this subset not being able to retire. Ten per cent retired earlier than planned after being made redundant during the pandemic, it finds.

Jones mentions that not all later retirements may be negative; instead some may be happily postponing retirement, enjoying the flexible working rise brought on by Covid-19.

Working or retired, many over-50s have seen a Covid-related impact on their retirement savings, with Legal & General finding 58 per cent of those it surveyed worried about how the pandemic will impact their savings in the long term.

According to Wealth at Work director, Jonathan Watts-Lay, those mainly with DC provision are seeing a dip in their pot value, so may need to work longer as their pension is now worth less. "They will be in for a rough ride over next few years with volatile markets," he adds.

While losses in pension pot value as a result of stock market volatility are likely to be proportionally smaller for those nearing retirement due to de-risking, "they have a shorter period in which to recover than those of younger workers", Wilkinson warns.

Another group, Watts-Lay says, are those that are being made redundant after 55 and so retired earlier than planned, "meaning their pension savings have to last for longer, so them understanding how that pension is invested is very important".

Lastly, some over-55s may dip into their pension savings if their household income generally drops, through themselves or a spouse being furloughed, for example, he adds. "Those who have been furloughed may have seen a small drop in the amount going into their workplace pension," Selby says, "although given the relatively short timescale the impact on their retirement outcome should be negligible."

By April, 11 per cent of over-55s had already accessed or plan to access their retirement pot early due to Covid-19, AJ Bell research states.

The number of people aged 55 to 59 making lump sum withdrawals from their pensions increased by 8 per cent year-on-year to 288,600 in 2019/20, according to Salisbury House Wealth research in September. Around 22,100 more people in this age cohort withdrew lump sums in comparison to 2018/19, when 266,500 accessed their pension.

However, Selby highlights data from Q2 2020 – "right in the teeth of the pandemic" – that revealed flexible withdrawals were down 17 per cent versus Q2 2019, "suggesting many savers responded sensibly to plummeting stockmarkets to ensure their plans remained sensible over the long term".

Another option available to working 50-somethings financially struggling is to drop out of their pension scheme.

However, Canada Life warns that, for example, a 50 year-old earning £100,000 with an existing pension valued at £100,000 could lose out on £71,513 as a result of a three-year pension holiday, equivalent to a 11.2 per cent fall in the value of their pension at retirement.

Where possible, it is still worth paying into a pension while in your 50s, Peaple says, due to the employer contributions and tax relief received. Plus, "with over 55s there is not the downside risk of locking away their money for a long time into a pension as they can access it whenever they want", he adds, as well as over-50s not having the saving obstacles such as saving for a mortgage or children that younger people face, Jones adds.

By still paying into a pension "you might not be able to catch up on 20 or 30 years of missed contributions, but you can still improve your retirement situation", Selby says.

The government is (understandably) currently focused more on the short-term financial pressures facing people, so the pensions industry has a role to play in helping over-50s understand their options, Peaple says.

Jones recommends directing people to other options, such as debt advice or accessing benefits, before 'defaulting' into accessing their pension savings to cover short-term financial strain.

Trustees are increasingly aware of the important role they have in helping members gain guidance or advice to make 'good' decisions at retirement, "but still too few trustees are doing this", Watts-Lay says.

The industry needs to help members take stock of what retirement savings they have and how this compares to the retirement they expect to have, he adds.

Understanding this difference in individual circumstances is vital. As Peaple says: "There is a world of difference between a 50 year-old with 18 years until retirement, and a 53 year-old with two years to go before retiring."

Once again, 50-somethings are caught in the middle.

Written by Laura Blows