The breadth of undersaving

Pensions Age examines the many recent reports of pensions undersaving across various segments of society

Recent reports about the levels of pensions undersaving make for grim reading.

Included in this are stats from the top, as data from the Department for Work and Pensions (DWP) in early March revealed that 38 per cent of working age people, around 12.5 million savers, are undersaving for retirement.

This was measured against a target replacement rate (TRR) before housing costs (BHC), and was based on converting the full value of an individual's defined contribution (DC) pension into an annuity.

In particular, the research found that higher earners are more likely to be undersaving relative to TRRs, as around 14 per cent of those in the lowest earnings band, with less than £14,500 gross pre-retirement earnings per year, were undersaving, compared with 55 per cent in the top earnings band, with more than £61,500 per year.

It also found that 12 per cent of working age people, around 4.1 million savers, are undersaving for retirement when measured against Pensions and Lifetime Savings Association's (PLSA) minimum Retirement Living Standard (RLS).

However, this increased to 51 per cent (17.7 million) and 88 per cent (30.4 million) when comparing against the PLSA moderate and comfortable RLS, respectively.

In contrast to the findings around TRR, the data suggested that lower earners are more likely to be undersaving when measuring against the PLSA RLS, as around 34 per cent of people in the lowest earnings band are projected to not meet the PLSA Minimum RLS, compared with 3 per cent in the top earnings band.

However, assistance is also coming from the top down, as efforts are being made to address some of underlying factors that contribute to so many factions undersaving for retirement.

For instance, MP Jonathan Gullis' Private Member's Bill seeks two extensions to auto-enrolment (AE) – abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled to 18.

It had a third reading on 24 March, with a consultation on the implementation approach and timetable expected to be launched in the autumn.

The recent Budget announcements may also be of some assistance for undersavers.

In it, Chancellor, Jeremy Hunt, announced plans to give 30 free hours of childcare per week for eligible working parents of children aged nine months to three years, with the plan to be rolled out in phases from April 2024.

This is expected to help mothers to stay in work, which is turn should help reduce the gender pension gap.

Hunt also confirmed that the DWP will expand access to its in-person midlife MOT offer, providing financial planning and awareness sessions for 50+ Universal Credit claimants, aiming to reach up to 40,000 individuals a year.

"Planning for later life can be difficult, and some may leave the workforce early without a full understanding of their long-term financial resilience," it stated.

"A midlife MOT is a review to help individuals take stock of their finances and wellbeing to prepare for a more secure retirement."

Gender pension gap

Aviva research, revealed in March and based on the workplace pension data for over five million pension schemes, discovered that the gap between women's and men's pension contributions for 35-39-year-olds was 21 per cent in January 2023, compared to 18 per cent in January 2022.

Aviva's research also discovered that this disparity began to "significantly" widen from the age of 35, increasing from a gap of 17 per cent for the age group 30-34 by 4 per cent for 35-39-year-olds and by an additional 3 per cent for ages 40-44.

The gap was additionally discovered to have widened since last year, increasing by 2 per cent from 2022 to 2023 for 30-34-year-olds and by 1 per cent for 40-44 year-olds.

Aviva cautioned that this disparity in pension contributions could lead to an imbalance persisting into retirement, reporting that women aged 60-65-years-old had pension pots which are, on average, just 57 per cent the size of men's pots at the same age.

Aviva's research did not just discover widenings of the gap, however, as it also reported that the gap in contributions narrowed from age 45 upwards.

The research also discovered that this narrowing continued for all savers up to the age group of 65 and over, where the gap was 39 per cent, 10 per cent less than the figure recorded in 2022 and the biggest fall for any age group in Aviva's research.

However, in March, Penfold data found that the value of the average pension pot for men is 22 per cent more than for women and that women have smaller pension pot sizes in every age category, something that gets "dramatically" worse the closer they get to retirement.

Meanwhile, research from Now: Pensions and the Pensions Policy Institute in March suggested that working single mothers have missed out on over £852 million in pension savings since the introduction of AE in 2012, revealing that "only a fraction" of the 1.59 million single mothers in the UK are saving into a workplace pension.

Their statistics found that single mothers may have to work an additional 28 years, until age 93, to retire with the same amount of money as a man, whereas single fathers would only need to work an additional three years to age 68.

Generational divides

Generation X are facing a "huge pension black hole" as 66 per cent will have inadequate savings at retirement, Interactive Investor's analysis of data from the DWP revealed in March.

Meanwhile, Money.co.uk's February survey discovered that 69.7 per cent of 25–34-year-olds were saving for retirement, the highest percentage of any age group.

This was ahead of the 35–44-year-olds, as 67.5 per cent of respondents in this age group stated they were saving for retirement, and higher than 45–54-year-olds, of which 62.1 per cent were saving.

This was also the case for 55-64-year-old, as only 64.2 per cent of these were saving for retirement, and just 54.1 per cent of over-65s.

The group that had the lowest number of people saving for retirement was found to be 18–24-year-olds, at just 48.9 per cent.

However, Money.co.uk pointed out that the 18-24 age group (Gen Z) was three times more likely to save for retirement before the age of 20 compared to Millennials aged 25-34, as 18.6 per cent of Gen Z started saving for their retirement in their teenage years compared to 6.5 per cent of 25–34-year-olds.

Ethnicity pensions gap

In February, research from the Social Market Foundation (SMF) found that just 25 per cent of people from ethnic minorities have a workplace pension, compared to a national rate of 38 per cent.

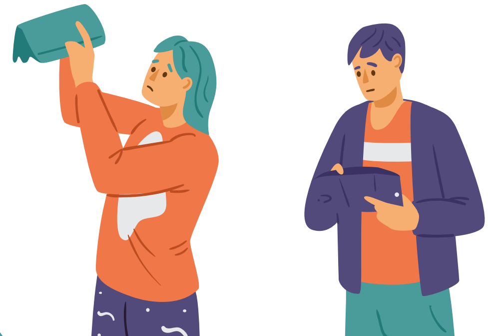
According to the analysis, just 16 per cent ethnic minority consumers whose household earned under £30,000 a year contribute to a pension, compared to 26 per cent of the general population.

Furthermore, among ethnic minority workers with household earnings between £30,000 and £60,000 a year, only 22 per cent have private pensions, less than half the 48 per cent rate for the whole population with similar earnings.

The findings also revealed that 13 per cent of ethnic minorities without a pension stated that they are not interested in having one, compared to 9 per cent of the general population.

Meanwhile, 21 per cent of black women are ineligible for AE pension schemes as they do not meet the earning criteria, compared to 17 per cent of South Asian women and 4 per cent of white women, the Scottish Widows *Women and Retirement Report* revealed in March.

The report found that 54 per cent of black women have little or nothing saved for retirement, compared to 35 per cent of white women, while 68 per cent are concerned that they will run out of money during their retirement years, falling to 58 per cent among white women.



Coupled-up versus single

Over half (51 per cent) of households where partners take decisions together are on track for a moderate retirement income, compared to 42 per cent of savers who said they did it on their own, February research from Hargreaves Lansdown revealed.

The firm pointed out that this figure is also higher than the average for those households where key decisions are left to one person, with 45.5 per cent of those who said their partner made the decision on track for a moderate retirement.

Hargreaves Lansdown's Savings and Resilience Barometer also showed that almost one in five (18 per cent) households who take decisions together were on track for a better retirement and were classed as 'comfortable', compared to 15 per cent households overall.

This matched March research from Broadstone, which found that single people are more than twice as likely to not achieve a minimum retirement living standard than couples, with 19 per cent unlikely to achieve the PLSA's minimum standard, compared to 8 per cent of couples.

Self-employed

Self-employed workers saving into a pension rarely change the contribution amounts they make, March research from the Institute for Fiscal Studies (IFS) found, with half (49 per cent) of those saving in two consecutive years are saving the same amount a year later.

The report also found that, among those who are still saving in a pension nine years later, close to a quarter (23 per cent) saved the same amount in cash terms.

In addition to this, the IFS found that while self-employed people earning between £10,000 and £20,000 per year have average pension contributions similar to those of employees with defined contribution schemes, for those earning above £20,000 per year, the self-employed who save in a pension contributed substantially less than similarly paid employees.

Renters versus homeowners

Renters are three times more likely than homeowners to fail to reach a minimum standard of living in retirement, research from Broadstone revealed in March.

The research found that 25 per cent of renters are unlikely to achieve even the PLSA definition of a minimum income standard of £12,800 per annum, compared to 8 per cent of homeowners.

The gap was even wider when looking to reach a moderate retirement income standard of £23,300, with 71 per cent of renters unlikely to reach this level compared to 45 per cent of homeowners.

In sickness and in health

Research from Phoenix Insights in March found that over-50s that have left work due to ill health have just 5 per cent of the wealth of those who have retired early by choice.

The analysis showed that the median average wealth – as estimated according to the total of pension, property, financial, physical assets – for 50- to 64-year-olds who choose to retire is around £1.24 million.

This compares to people who are out of work due to ill health or disability, where average wealth is just £57,000, less than 5 per cent the wealth of those who have chosen to retire. The average wealth of those who are out of work to look after family is £137,000.

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