Summary
- Studies have shown that significant numbers of people do not know how much they are saving into their pension, while almost half of all workers may be unsure as to whether or not they are saving enough.
- ISAs, LISAs and home equity can all form part of a holistic retirement income package.
- Tech and asset frameworks can help savers build a picture of what income they need when they stop working – and how to get it.

A helping hand

More needs to be done to help DC savers work out what retirement incomes they should be aiming for – and how to achieve them

In the life insurer's *2023 Retirement Report*, which was released in June this year, Scottish Widows estimated that one in three Brits are saving too little to match the Pensions and Lifetime Savings Association's (PLSA) minimum retirement living standards.

A couple of months later, Royal London published some stark findings of its own. Out of a sample of 6,000 workers, it found that one in five people did not know how much they were saving into their pension, and that over half of those with a workplace pension were unsure if they were saving enough to live comfortably in retirement.

"That's a significant number of people who are potentially in the dark about whether their pension savings are going to give them the amount they'd like when they stop work," says Royal London pensions expert, Clare Moffat.

These discoveries, which are by no means isolated, underscore the magnitude of the UK's growing pension savings gap. In many ways, this crisis is tied to the displacement of private sector defined benefit plans. This rejection of employer paternalism for employee self-determination was rubber-stamped as a failed experiment with the introduction of auto-enrolment, and it continues to plague defined contribution pension saving. Left to their own devices, many employees are struggling to make the best decisions when it comes to pensions.

How much?

One of the reasons that workers are not saving enough is because it can hard to determine what to aim for.

As Hargreaves Lansdown head of retirement analysis, Helen Morrissey, says, everyone's view of their retirement is different, making any kind of a one-size-fits-all approach redundant from the offset. "For some people a good retirement will include overseas holidays and theatre trips, whereas others will be shooting for something more modest," she says.

Morrissey's view is a commonly held one. And it is why the PLSA's Retirement Living Standards are viewed by some as a blunt instrument that does not provide the "full story", says Barnett Waddingham partner, Paul Leandro.

For Fidelity International head of workplace investing distribution, Dan Smith, the PLSA benchmarks are a helpful as a starting point. "However," he says, "it's worth remembering these categories are subjective, and what constitutes 'comfortable' will differ from person to person".

"Therefore, savers might want to use these as a guide to build upon, thinking about the other factors that might determine how much they need; desired lifestyle and pattern of expenditure, inflation, longevity, ability to cover unexpected expenses or potential long-term care costs," he adds.

Morrissey says people need to carefully think about what they would like their retirement to look like in advance and use tools such as pension calculators to gauge if they are on track to meet those goals. "By thinking about it in advance and checking in periodically, you can amend your goals if need be or opt to contribute more if needed," she says.

Despite subjectivity determining pot accumulation, some providers have crunched some numbers and produced figures that average savers can aim for. Scottish Widows, for example, says workers should save at least 15 per cent of their salary into their pension to meet – and perhaps exceed – the PLSA's minimum income standard, which currently stands at £12,800 a year for a single person, and £19,900 for a couple.

"Saving 15 per cent is of course a significant ask at a time when many people may be struggling to make ends meet in the here and now," says Scottish Widows head of pension policy, Pete Glancy. "But what many people don't realise is that this figure includes contributions from the employer as well as the scheme member, so they don't have to do it all themselves."

Responsibility

As well as offering targets to set their sights on, providers and advisers are also attempting to fill the gap left by former

DB sponsors, by encouraging savers to take more responsibility for their pensions.

Barnett Waddingham has done this by adopting the psychologist Abraham Maslow's "hierarchy of needs" – physiological requirements, safety, belonging, esteem, and self-actualisation – and putting them into a retirement finances context.

By using this method, an individual can picture their retirement income building blocks, says Leandro. "It provides a much more personalised system," he claims. "If we talk about spending requirements, rather than just amounts of income, that helps people better visualise what level of assets they'll require."

At its most basic form, a retirement income framework based on Maslow's hierarchy of needs can be constructed with the aid of some American terminology, says Leandro. 'Go go' is the retirement stage where people are healthy and mobile, so likely to spend more. 'Slow go' is the period when the pace of life begins to significantly decrease and 'no go' is when long-term care costs may come into play.

Assets, not just a pension

This final stage, which increasing numbers of retirees are reaching, illustrates the need for a more holistic view of retirement income streams. The cost of a spot in a care home, for example, may necessitate an insurance policy, or additional saving and income streams.

The latter, says Leandro, could be provided through home equity release products. "The notion of downsizing in retirement is not really a thing," he explains. "People don't want to move away from their community. So rather than downsizing, people could look to draw an income from their home asset."

He suggests a situation where the state pension and an annuity could cover the basics of life for many, while "aspirational spend" could be financed through drawdown if there is a large enough pension pot – or home equity. "To reach those more aspirational levels of Maslow's hierarchy, an income from a home could be a way to get there," he says.

ISAs, arguably, are also a more obvious, but perhaps underappreciated retirement savings tool. As Morrissey outlines, an ISA or a LISA can bring added peace of mind in a retirement saving context, while also ensuring there is some surplus cash to call on for more short-term needs, if required.

"LISAs can be particularly useful for groups such as the self-employed who don't benefit from an employer contribution," she says. "The 25 per cent bonus works in a similar way to basic rate tax relief on a pension."

> **"As an industry, we're not very good at helping somebody understand what a contribution going into a pension pot translates to in terms of retirement income"**

Higher-rate taxpayers however, would currently be better off opting for a pension, which is why Hargreaves Lansdown would like to see the government reduce the early exit penalty on a LISA from 25 per cent to 20 per cent, as well as allowing people to open and contribute to them up until the age of 55. "We think this could significantly boost the retirement planning of self-employed people who may be wary of locking their money up in a pension for the long term," explains Morrissey.

Tech to the rescue

Bringing various retirement saving streams together is a crucial piece of the puzzle. At present, there remains a lack of awareness when it comes to accumulation, says Glancy.

This can be alleviated, however, by coupling app-based solutions with improved financial literacy. Apps, she says, are useful tools for helping savers understand whether they have enough in their pots and, crucially, what options they have to help them reach their future retirement goals.

Leandro agrees. "Generally speaking, as an industry, we're not very good at helping somebody understand what a contribution going into a pension pot translates to in terms of retirement income. And we need a better way of showing that."

This requires a better digital experience, he says, that individuals – and couples – can use in real time.

He points to the open banking apps that various pension providers now have as an ancillary benefit to being a member of their pension plan, where they can see all of their bank accounts, assets, mortgages, and loans in one place. In addition, they can use such systems to budget their finances.

"It's not a leap to see how that could then translate into the at-retirement space," argues Leadnro. "You've got systems that know individuals personally, know their assets, know how they're spending. It will be able to show them a personalised visualisation of what their retirement spending could look like. And whether they have enough to support that required income.

Such a tool could also be interactive, suggests Leandro, allowing savers to predict the impact of various choices to a certain degree. It could also allow for smoother and easier ways to transact. "At the moment, purchasing an annuity is a very protracted process and it creates a barrier," he says. "*[These tools]* could ease decision-making and *[improve transaction times]*."

If use of such tools becomes widespread, then at least DC savers will have a fighting chance to save enough for their old age.

Written by Marek Handzel, a freelance journalist