Creating a rule of thumb

Sophie Smith sits down with Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, to discuss the latest update to the Retirement Living Standards, and the difference a cheese grater can make

The latest update to the Pensions and Lifetime Savings Association's (PLSA) Retirement Living Standards (RLS) saw significant increases across all levels, especially moderate.

In the latest update, the cost of a minimum RLS increased 12.7 per cent for a single person, rising from £12,800 to £14,400, and 12.3 per cent for a couple, increasing from £19,900 to £22,400.

But understanding the drivers behind this increase is key, as PLSA head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, notes that these changes include both a price change to reflect recent inflationary increases, as well as changes to the components in the basket of goods that the standards are based on.

"So that is a key reason in why we have seen such significant changes this year," she explains. "Obviously prices have changed a lot, we have all seen the specifics on fuel, motoring, energy costs, which have been extortionate, with a more than 100 per cent increase in the time that we've been doing the RLS, which you would obviously expect to see coming through."

But Harrington-Clark points out that savers' expectations have also changed "a lot" of the past year, which has particularly impacted the moderate and comfortable savers.

Indeed, the moderate RLS recorded the highest increase in percentage terms, as costs increased from £23,300 to £31,300 for a single person and from £34,000 to £43,100 for a couple.

The impact of the cost-of-living crisis on this group was clear, as Harrington-Clark points out that the shift in expectations was not actually driven by an increase in retirees' costs, but in how much they support their wider family.

"One of the discussion groups found that those at the moderate level wanted to be able to help their family members financially with a budget of £1,000, as well as an additional £100 per month to take family members out for a meal. So the real reason behind the changes in moderate are retirees essentially helping people in their family eat," she says, emphasising that whilst it may sound melodramatic, many simply can't afford to eat out anymore.

Childcare costs are also an increasingly important factor, as Harrington-Clark notes that the discussion group raised the need to pay for grandchildren's after school clubs, as well as additional costs, such as food and activities, that pensioners may face when providing childcare for their grandchildren.

"So there is a cost impact that is shifting across generations," she says, clarifying however, that this is not a universal shift.

"Comfortable hasn't gone up as much proportionally because those in the comfortable bracket have managed their expectations down and dampened the effect of some price increases," she explains, noting that the updated standards now include a three-year-old small car for comfortable – a change from the more expensive mid-sized 4x4 options previously included.

This has also led to a narrowing in the gap between working life expectations and retirement expectations, as Harrington-Clark notes: "People are no longer thinking that they're going to have very extravagant lifestyles, but they're also no longer thinking they're going to have a very budget-based lifestyle, so the gap is reducing. This is really interesting but it's unclear whether that might

change and the gap might widen again over time."

And this is where the importance of personal choice and preference can be seen, as Harrington-Clark reveals that cheese graters were actually a key point of discussion for focus group members this year, as many comfortable savers had opted to shy away from expensive branded options, and settle for a non-branded or supermarket option.

"That is effectively just personal preference," she says, "and clearly people prioritise different things – we can see that in working lives, so it's not exactly rocket science to expect it in retirement too – but I think that can be complicated to communicate because people see the headline number and think, I need that in order to live."

The issue of personal circumstances is perhaps most notable in relation to housing costs, as whilst council tax and costs associated with a property are included in the RLS, costs for the "actual brick and mortar" are not.

But whilst the RLS have received criticism for omitting renting and/or mortgage costs, Harrington-Clark argues that this is "justified" currently, although it will be kept under review.

"At the moment, the main reason for this is because more people are still, unbelievably, retiring owning their house than aren't," she explains. "When that 50 per cent switches the other way, we'll do something different, but until that point, more people are represented by the idea of owning their house."

In the meantime, she points out that there is also a table to show some of the estimated rental costs, and the regional differences in this, which can be used by providers in their modelling to help savers get a more realistic idea of the income they'll need in retirement.

This table itself gives some insight into the challenge the PLSA would face in incorporating housing costs in the RLS though, as Harrington-Clark stresses that there are "huge, huge" regional variations in the cost of renting.

"This is one of the hurdles that we haven't quite figured out," she says.

And whilst regional differences could be factored in in future, Harrington-Clark warns that "we could risk diluting the value of the RLS if we ended up with 80,000 variations".

However, she admits that this can create a communications challenge, acknowledging that while providers may be able to integrate the standards into their modellers to help create a bespoke experience for savers, it can be more difficult in the personal finance world.

"We hadn't necessarily anticipated that they would be so popular with personal finance, which has been great, but I think we do see some difficulties around that bespoking piece," she says, continuing: "Providers, they're able to do full calculators and modellers, but those that see the RLS as a sort of target are finding it a bit more difficult to communicate.

"And they are not targets, they are just standards and people will make choices that are different to their composition, so they are only good as a rule of thumb, they're not an exact science.

"I think we need a balance between adoption just for adoption's sake, and also making sure that people understand they can bespoke them."

And although the standards have a key role to play, more support is needed at-retirement, as Harrington-Clark says "we really need something more instructional for savers in retirement".

"I would like the policy landscape to make it easier for schemes and providers to do something for those retiring, rather than nothing, and currently the balance is the opposite way," she says. "I think a lot of the current advice/guidance review proposals could help to extend the guidance and support, but we're also pushing for trustees to be able to do things that are clearly not advice, they're just helping people make reasonable choices at retirement."

This could be something like targeted support, although Harrington-Clark points out that the joint HM Treasury/FCA review is very much targeted at regulated firms, which is "interesting given the wider discussion on decumulation with the Department for Work and Pensions and The Pensions Regulator, who are likely to place an obligation on schemes to do something that looks very similar to targeted support, or maybe even advice".

"So there needs to be a bit closer work between the two as to what their expectations actually are and how they dovetail together", she says, adding that "it could actually be a little bit more than *[targeted support]* as trustees are only operating in savers' best interests."

Written by Sophie Smith