The retirement income challenge

Donna Walsh considers how to help more people save enough for a financially secure retirement

It's common for people to neither save nor plan enough for their retirement. And these problems could get even worse – unless we act quickly.

Half of the working-age population are projected to have an income below £21,000 per annum (the PLSA moderate level), when they retire, according to recent government figures *[see Figure 1]*.

Worryingly, this projection might under-estimate the severity of the problem. These figures assume that home ownership continues at similar levels in retirement to existing levels (just under 80 per cent). Yet how many of us believe this is likely?

The Joseph Rowntree Foundation, for instance, says the proportion of households headed by older renters has doubled in the past 15 years. Meanwhile, the decline of home ownership among young adults is well documented.

Married to this widespread trend of not saving enough, is a broad lack of retirement planning.

In 2022, almost three-quarters (72 per cent) of people did little or no retirement planning, according to our *Retirement Voice 2022* report[1]. Since then, the cost-of-living crisis appears to have exacerbated social inequality further, increasing the risk of some members of society being left even further behind when it comes to retirement preparedness.

In light of these challenges, as an industry should we focus on:

1. Building on the success of auto-enrolment, which is predicated largely on inertia?
2. Encouraging employers to voluntarily contribute more?
3. Working even harder to boost member engagement levels?

Given that one size does not fit all, surely, we must do all three.

Let's look at these areas of focus in more detail.

Building on the success of auto-enrolment

Auto-enrolment has been brought back into the spotlight, after the UK government backed legislation to expand savings into workplace pension schemes.

The private members' bill will give ministers powers to lower the age at which employers must put workers into a pension scheme from 22 to 18. It also paves the way to abolish the 'lower earnings limit' that lets companies make no pension contributions on the first £6,240 of a worker's income.

We support the aims of the private members' bill, as they will help to raise retirement savings levels. By themselves, however, they will not be enough to help most people save for a financially secure retirement.

The broader question, of course, is whether total default contributions should increase from 8 per cent to 12 per cent – and, if so, when this might be practical in light of the squeeze on household incomes? We anticipate this being a key pensions question for policymakers and the industry in years to come.

Encouraging employers to voluntarily contribute more

Employers can play an important role in ensuring that the right foundations are laid for their employees' retirement. Indeed, this is an area where we believe employers can differentiate themselves in terms of talent recruitment and retention, while also improving the long-term financial wellbeing of their workforce.

This is why we support the Living Wage Foundation's Living Pension standard.

The Living Pension is a voluntary savings target where employers can help workers, especially those on low pay, build up a pension pot that will provide enough income to meet basic everyday needs in retirement.

Figure 1: Half of working-age people are projected to not achieve a moderate retirement standard

Percentage of UK population projected to not reach each PLSA retirement standard when they retire

Cohort*	PLSA Minimum	PLSA Moderate	PLSA Comfortable	Total**
All individuals	12%	51%	88%	34.7m
2020s	14%	53%	87%	5.6m
2030s	13%	53%	88%	8.3m
2040s	12%	55%	89%	6.6m
2050s	10%	48%	88%	8.1m
2060s	10%	45%	86%	6.2m

Source: GOV.UK
*Decade when reaching State Pension Age
**The total number of individuals in the population

The Living Pension savings target is 12 per cent of a worker's annual salary, with the employer contributing at least 7 per cent.

The Living Pension savings target can also be implemented as a cash amount of £2,550 a year, based on 12 per cent of a real Living Wage worker's salary. The employer would contribute at least £1,448. Under auto-enrolment, by comparison, a Living Wage employee working 37.5 hours per week would have £1,201 going into their pension each year (with £450 coming from the employer).

Working even harder to boost member engagement levels

Auto-enrolment has normalised regular pension saving largely through inertia. But inertia has its downsides, with many people insufficiently engaged with their long-term savings.

Our *Retirement Voice 2022* report indicates that those who do a great deal of planning, or just a little, have a more positive outlook on their future. Yet many people still do no retirement planning, with around 50 per cent of people finding information on retirement planning "overwhelming".

Here, we believe the Pensions and Lifetime Savings Association's (PLSA's) Retirement Living Standards can help. The standards help people to picture the lifestyle they want when they retire, and understand what it might cost.

Standard Life members can see how their pension savings are projected to measure up against the PLSA Standards by using our retirement calculators and tools on the app or on their online dashboard. And employers can see the proportion of their employees on track for each Standard using our online Client Analytics tool.

These Standards to help people picture what retirement can look like for them. But what influences how people think about retirement?

To understand how different cohorts think about pensions and retirement, we entered a three-year joint research initiative with the Organisation for Economic Co-operation and Development (OECD), with diversity, equity and inclusion a key focus.

The OECD's first paper explores potential influences on the ability and willingness to save for retirement. Their analysis shows that income, employment status, age, gender and ethnicity may influence how people perceive saving and risk-taking.

These factors can also influence people's confidence in making financial decisions, the aspects of retirement they consider positive or negative, the financial commitments they expect in retirement, their attitudes towards planning for retirement, and the sources of guidance they are likely to use.

Understanding such differences can shed light on how the design of retirement savings and engagement techniques could improve to target different populations and ensure that their preferences are taken into consideration. Ultimately, we hope this will boost engagement levels and improve outcomes.

Holistic view of finances

Of course, retirement will seem long way away for many, and people may have more pressing financial concerns or decisions to make. Seeing their whole world of money on one screen can help.

This is where our tool Money Mindset comes in. It connects bank accounts, savings, credit cards, mortgages, loans, investments, pensions and more to provide a truly holistic view of members' finances.

Once the accounts are connected, the system can provide smart and actionable nudges to help members make small financial changes and keep their finances on track. Money Mindset can also provide spending insights, budgeting and forecasting tools to encourage healthy spending habits.

By bringing their financial life into one place, Money Mindset can help people to:

- Gain more financial awareness and control
- Make better financial decisions
- Engage with their pension plan
- Feel less financial stress

We all know that financial concerns don't exist in isolation from other areas of life, whether this is our physical health, mental health, or productivity at work.

For instance, a third of employees said that financial stress/money worries in the past year had a severe or major impact on their mental health and sleep, according to the 2022 PwC *Employee Financial Wellness Survey.* Three-in-ten employees said it had affected their self-esteem; while almost a quarter (23 per cent) said it had affected their physical health.

This is why we believe that giving people better control of their spending and financial plans helps them not just with their finances – but also to lead fuller happier lives.

Remember, the value of a pension can fall as well as rise. It's possible it could be worth less than what was originally paid in.

Written by Standard Life head of master trust, Donna Walsh

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[1] In August 2022, Standard Life commissioned an independent study that sought to understand consumer attitudes to pensions and retirement plans. The study questioned a total of 5,980 UK adults, with the data weighted to give a nationally representative sample by age, gender, region and working status. The sample included 1,000 interviews to boost Asian and Black ethnic groups to provide a larger sample for analysis. The research sample included UK adults aged 18–80 and covered a range by income, savings, region, gender, ethnicity, and other characteristics.