Phoenix Insights

Great Expectations: Are people's retirement income expectations adequate and achievable?

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Phoenix

Insights

Using Phoenix Insights Longer Lives Index data from around 16,500 people across the UK, in this report we explore in detail the adequacy and achievability of people's retirement income expectations.

Acknowledgements

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Executive summary

Financial security in retirement

Working-age people today face a real challenge in being responsible for ensuring their financial security in retirement. We wanted to understand who is and who isn't set to be in a financially secure position when they retire. Using the Phoenix Insights Longer Lives Index data – a survey of around 16,500 people across the UK aged 25 and over who are not yet retired – we explore in detail the adequacy and achievability of people's retirement income expectations.

We have examined what retirement income people say that they expect and whether this would be enough to maintain their pre-retirement living standards.

We compare this to their assets and ongoing savings to model who looks on track to achieve their retirement income. We map this on to the Pension and Lifetime Saving Association's ('PLSA') Retirement Living Standards to understand how adequate these retirement incomes would be for a decent standard of living.

For those not on track, the question then becomes what interventions could help? We ask whether working longer or saving more could be sufficient to get them incomes in line with their expectation, or whether other actions or policies may be needed.

Exploring these questions is important. If people are not on track for the retirement they expect, they will need to change either their behaviour (their level of saving or their planned retirement age) or their expectations. The earlier that people are aware and able to make any necessary changes to their behaviour, the more time and options they will have for the changes to make a material difference.

Our findings

There are causes for concern, for different reasons, about the majority of savers in defined contribution ('DC') pension schemes:

The 'Financially Struggling'

4.6 million people (15% of DC savers) expect an income in retirement of less than the PLSA minimum retirement living standard. These are predominantly people with lower resources in working life and are more likely to be on low incomes or expect to rent in retirement.

The 'Downgraders'

3.7 million people (12% of DC savers) expect at least the PLSA's minimum income and look on track to achieve what they expect, but that income would be insufficient to maintain their pre-retirement standard of living into retirement. These are predominantly people with higher living standards in their working life, disproportionately those on middle and higher incomes, those who own their home (either outright or with a mortgage), and men rather than women.

The 'Undersavers'

12.4 million people (40% of DC savers) expect at least the PLSA's minimum income, but our modelling suggests they are not on track to achieve it. They are disproportionately those on middle incomes, with those who are currently renting but who plan to buy before retirement also overrepresented.

The 'Unsure'

5.8 million people (19% of DC savers) do not give an expected retirement income when asked. Many in this group will be disadvantaged by not engaging with pension decisions that will have important consequences for their retirement. This group is disproportionately those aged 45–54 and those who expect to rent in retirement.

The 'Happily On Track'

4.3 million people (14% of DC savers), reported an expected retirement income above the minimum income, look on track to achieve that income in retirement, and expect that income to maintain their living standards in retirement.

Can working for longer or saving more help people get on track?

Our modelling shows that working longer and increasing saving rates would improve retirement incomes, but realistically these changes would not be enough to get everyone on track for the retirement income they expect.

If everyone worked until they were 68 and saved 12% of their earnings, more would be on track to reach the retirement income they expect but this would be predominantly among people who are already middle and higher earners.

Other sources of income could be another way of helping people get on track. 2.7 million DC savers expect to use the value of their own home, and 2.5 million expect to use an inheritance to support their retirement. But there is no guarantee these will be there when people retire. We also see a big divide, with those who are off track much less likely to be expecting these other financial resources.

Even if people wanted to, delaying retirement and working for longer may not be possible for everyone, since:

- nearly four in ten people are worried about working for longer because of their physical health, and two in ten due to their mental health;
- one in four people worry about discrimination in the workplace for older workers, and one in four worry about being unable to find a new job if needed; and
- nearly one in four worry about a lack of motivation in working for longer.

We need to create an environment where people are not forced to work for longer because they have to, but have opportunities to be in better, more sustainable work that is fulfilling and meets their needs. While many people may benefit from greater understanding and awareness of what a realistic retirement income target might be for them, and better support to get on track, for those facing financial insecurity across their lives, greater support and an adequate safety net will be needed.

Conclusions and recommendations

There is extensive debate about financial wellbeing in later life and how to ensure people are adequately prepared. This research has shown that understanding people's expectations, and whether and how they can get to the retirement they want, is important. Future policies must take into account the fact that for many there seems to be a mismatch between their expectations and likely reality.

1 Engage people much more effectively in their future finances.

Too many of us remain insufficiently aware of and engaged in our own likely financial future. Our research shows that many people have an unrealistic expectation of what their retirement situation will look like. 5.8 million people are unable to give an expected retirement income, 4.6 million have retirement expectations below what is deemed a minimum standard, and 12.4 million people are not on track to achieve the retirement income that they expect.

This is a fundamental problem for our financial security and wellbeing as individuals, and for the public purse. Defaults such as auto-enrolment help people to save without actively thinking about it, but if more of us are to be empowered to make decisions that will affect our financial wellbeing in later life, we need to radically improve how we engage people in their future finances.

The rollout of the Pensions Dashboard will help people keep track of their total accumulated savings, and greater awareness and use of the PLSA Retirement Living can help people to benchmark expectations of their needs in retirement. But the deeper challenge remains to engage people in the first place. Government, the pensions industry, regulators, employers and charities need to redouble their efforts to work together to tackle this.

It requires attention to financial literacy and education for people of all ages, providing people with much simpler and more engaging information about their situation, and closing the 'guidance gap' for the majority of people who don't seek independent financial advice. Greater access to guidance could be addressed by expanding the scope of Pension Wise or having concrete examples of what 'common sense' help providers can give to customers in specific scenarios.

2 Make working for longer more feasible, attractive and rewarding.

We need to **boost opportunities for more people to be in good work for longer**, in a way that supports health and wellbeing, provides meaning and purpose, as well as improving retirement financial security. Government and employers must boost opportunities for individuals to upskill and retrain, allowing for greater and more varied career progression to help 12.4 million undersavers and for the wider benefit of all workers. There is an important role for both government and employers here: in supporting reskilling, upskilling and labour market mobility at all stages of life; and in ensuring that employment policies are age-inclusive, tackle age bias in recruitment and hiring, enable flexible working and support staff with caring responsibilities. Government should introduce statutory carers leave for all as a day one right, and employers should introduce additional paid carers leave policies.

Preventative health support is crucial to ensure that if people want to work for longer, they will be able to do so. Phoenix Insights has called for a proportion of the savings to public spending arising from any increases to the state pension age to be reinvested to support opportunities for people to remain in work for longer.[1]

4 Create a safety net of support for those unable to work longer or save more.

We need to recognise that while staying in work and saving more increases financial security, not everyone will be able to do so. Government needs to reimagine the state pension and how it works with key policies and benefits for the 4.6 million who our analysis show are financially struggling. Our modelling shows that these people cannot reasonably be expected to get on track for PLSA minimum standard of living without increased income through work or the welfare system. In the context of the increasing state pension age, ensuring adequate support for those unable to work at older ages will be vital.

We need an adequate safety net and support for those likely to be on inadequate retirement income, to smooth the cliff edge between working age and pensioner benefit systems, as well as improved uptake of Pension Credit, particularly for those who struggle to make ends meet throughout their working lives.

3 Encourage saving for those who can afford to through more flexible provision.

It is important to **encourage more saving** to help people get to the retirement they want. But this needs to **target those who can afford to do so**. Additional defaults should be explored, such as auto-escalation of pension contributions when salary increases. Middle and higher income earners in particular may require substantial saving rate increases to get them on track for the incomes they currently expect, and a change in the narrative to highlight the step change that is required may help people plan more realistically.

We need **greater flexibility** for people to **switch between periods of working and not working**, and therefore of **accumulating and decumulating savings**. This will require product innovation by the pensions and savings industry, alongside concerted efforts by employers to increase the range of options that support career breaks throughout life, and more flexible working patterns, particularly in the run-up to retirement.

5 Recognise that financial preparedness is about more than just pensions and savings.

We need to support people to **prepare for retirement in a holistic way by considering their housing costs and assets**. Improving information and support for people to access their housing wealth in retirement could also be key for future living standards, particularly for those on middle and higher incomes. We also need to be enabling access to affordable housing and supporting those on low incomes to become owner occupiers, as well as creating circumstances for affordable and secure renting to ensure better living standards in retirement.

We need to **increase understanding of how people's wider support networks, partners, families and other potential sources of income** all interact with their financial security in retirement.

Our analysis shows that those most likely to be expecting additional resources in retirement (housing, inheritance or support from a partner) are the same groups who are already likely to be on track or higher earners. Initiatives such as the midlife MOT should consider individuals' wider support networks and financial obligations.

1. Phoenix Insights 2022, Reaching a certain age: Public attitudes to the state pension (London: The Phoenix Group).

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Introduction

Adequacy and achievability

The growth in pensioner incomes and dramatic falls in pensioner poverty over the past two decades are achievements to be celebrated. The proportion of pensioners in relative poverty (after housing costs) has fallen from being in excess of 40% in the late 1980s[2] to 15% today.[3] Average pensioner incomes are now on a par with those of working age households, having been a quarter or so lower prior to the 1990s.[4] But the future may not be so bright.

The challenge of being financially secure in retirement has increased substantially, leaving current working-age people at risk of falls in living standards in later life. The current cost of living crisis is squeezing many people's ability to save for the future. Increasing longevity and changing labour markets mean that the twentieth century templates of saving and working patterns need to be redesigned to ensure that people have adequate living standards in older ages. And with the disappearance of defined benefit ('DB') pensions and a state pension that now only provides a basic level of income, it is people rather than corporations or the government who are expected to take the lead in securing their financial future. Yet some people are not well placed to do this, and we cannot wait until they reach retirement for that to be made apparent.

In partnership with Frontier Economics, we have used the Longer Lives Index data based on approximately 16,500 people aged over 25 who are not yet retired, to explore the adequacy and achievability of their retirement income expectations. This represents a population of 41.7 million people in the UK.

We explore who has adequate and achievable plans given their current situation and behaviour, and who does not. We also ask whether retiring later or saving more could be sufficient to help those who are not on track for the retirement income they expect get there, and if not, what other actions or policies may be needed.

Measuring what is adequate and achievable

A fundamental challenge for people in securing their financial future is working out what retirement income they want and can achieve. This will vary across people, depending on their circumstances – in particular (but not only) how much they earn during their working life.

It is a delicate balancing act. Saving more for the future reduces living standards today but increases living standards in retirement.

Our approach in this research is to examine people's own self-reported financial goals for retirement.[5] We have asked people about the income they expect to have in retirement (in today's money) after housing costs. This is their personal income in retirement which could be a share of a household income. We then compare this to the PLSA's Retirement Living Standards.[6] These standards provide an indication of the income required for three different levels of spending, based on a range of commonly bought goods and services and the costs of these.[7]

PLSA Retirement Living Standards (2021)

	Within London		Outside London	
	Couples	Singles	Couples	Singles
Minimum (£)	21k	13k	17k	11k
Moderate (£)	36k	25k	31k	21k
Comfortable (£)	52k	37k	50k	34k

2. Resolution Foundation (2019) 'The generation of poverty'.
3. Department for Work and Pensions (2022) 'Households below average income'.
4. Institute for Fiscal Studies (2019) 'The future of income in retirement'.
5. The exact wording of the main questions used is set out in the Annexe.
6. More detail on the different standards and the process behind them can be found here: https://www.retirementlivingstandards.org.uk/.
7. The 2021 version of the Retirement Living Standards is based on research from 2019 on desired baskets of goods in retirement, with the costs of those goods updated to reflect prices in 2021.

The 'Minimum' standard covers all needs, with some left over for fun; the 'Moderate' standard enables more financial security and flexibility; and the 'Comfortable' standard translates into financial freedom and some luxuries.

We also asked people about the living standard they expect their retirement income to allow them and how this compares to their current living standard. This is important, since the income people expect may not necessarily be the income they deem adequate.

Disposable income of less than the PLSA's minimum amount is unlikely to represent an adequate income, given we aspire to live in a society where everyone can afford to buy more than just necessities in retirement. While some people may choose to reduce their income in retirement, we interpret a reduction in living standards in retirement as being indicative of an inadequate income.

It is important to understand whether people are on track to achieve the retirement income they expect. If they are not, they will need to change their level of saving, their planned retirement age, or reassess their retirement income (or some combination of these). There are advantages to making such changes earlier – additional savings have more time to accumulate returns, while other long-term decisions (such as employment choices) will be more appropriate if they are based on correct expectations about retirement timing.

For those saving in DC pensions we model whether they look on track to achieve their stated expected retirement income, given their accumulated wealth to date, their saving behaviour, their planned retirement age and their expected housing costs in retirement.[8]

In particular:

- **Accumulated savings to date:** We assume people correctly report the amount they have accumulated to date in workplace and other pensions.
- **Future savings behaviour:** We assume people save a constant proportion of income throughout the rest of their working life, equal to what they state they currently save.
- **Income growth**: We assume real annual salary growth of 1.75% until age 50 (and no real earnings growth thereafter – reflecting the profile of average earnings in the UK which peaks around age 50).[9]
- **Economic factors:** We assume a real return on investment of 2.4% (less an annual management fee of 0.75%) during working life which is constant for everyone and does not reduce as people approach retirement. In retirement we assume no real return on investments.
- **Life expectancy:** We use an average life expectancy based on age and gender.
- **Housing costs:** We assume that people are correct in their assessment of whether they will pay rent for their house in retirement, and if so, what will be the amount of rent payable.
- **Other income sources:** We do not take into account in our modelling any retirement income from other possible sources, such as drawing on housing wealth, inheritances or sharing savings within a household.

The future is obviously uncertain, and so these simulations should be interpreted illustratively. But such modelling helps to build a picture of whether a given level of future retirement income is likely to be feasible given someone's current situation, and whether there are any particularly at-risk groups. An advantage of the data used in this research is that we can examine the achievability of respondents' own self-reported expected income in retirement, providing a unique insight into financial preparedness.

We do not model whether those who are currently saving in DB pensions are on track for the retirement income they expect. This is primarily because our data do not contain the detail on DB scheme rules and accrued entitlement that would be required to make such an assessment. However, in any case, the issues and choices facing DB savers are somewhat different to those who only have access to DC pensions.

"It is important to understand whether people are on track to achieve the retirement income they expect. If they are not, they will need to change their level of saving, their planned retirement age, or reassess their retirement income."

8. We capture rental expectations; some individuals might also expect to have mortgage costs in retirement but the transient nature of these costs makes them difficult to quantitatively capture in our analysis.
9. We have also tested the sensitivity of our results to assuming earnings continue to grow until age 60, but the results are little affected by this.

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Our findings

What retirement income do people expect?

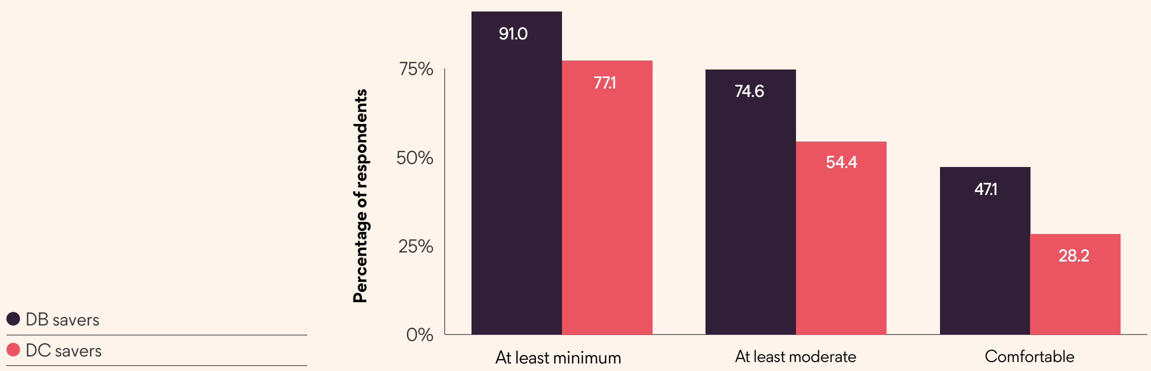
The majority of people expect to have a disposable income in retirement of at least the PLSA's minimum standard, but many do not expect their retirement income to maintain their pre-retirement living standard into retirement.

27 million people (around four in five of those who gave an expected income) expect to have a retirement income of at least the PLSA's minimum amount – with around 9 million expecting an income of a moderate but not comfortable level, and 11 million expecting a comfortable income. Figure 1 shows that those currently contributing to defined benefit (DB) pensions typically expect higher levels of retirement income than those saving in defined contribution pensions or not currently saving in a pension.[10]

Looking at the current retirees, around four in five of those aged 65–74 have an income (after tax and rent costs) above the PLSA minimum level.[11] However, the proportions with at least a moderate income and a comfortable or higher income are much lower (at 37% and 11% respectively) than the proportions of working-age people currently expecting these income levels (60% and 33% of those who reported an expected retirement income). The circumstances of different generations do vary – for example, working-age generations have enjoyed greater lifetime earnings, while DB pensions have been in decline – but the size of these differences may already indicate that the retirement income ambitions of some people are too ambitious.

Figure 1

Share of respondents whose pension goal is above each PLSA band by DB status



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The vertical axis represents the percentage of respondents whose pension goal is above each PLSA band (shown in the horizontal axis) across the sample of all DB savers and all DC savers. DC savers includes all those not currently saving in a DB pension (whether or not they are currently saving in a DC pension).

10. Throughout we use 'DC savers' to refer to all those not currently saving in a DB pension, regardless of whether or not they are actually currently contributing to a DC pension.
11. Frontier Economics calculations using the Family Resources Survey 2021. Department for Work and Pensions, NatCen Social Research (2022). Family Resources Survey, 2020–2021. UK Data Service. SN: 8948, DOI: 10.5255/UKDA-SN-8948-1.

Figure 2 shows that those on higher incomes[12] are more likely to expect higher retirement income. But there are people across the salary distribution who expect to have a comfortable level of income in retirement (shown by the coral coloured dots). Indeed, nearly one in three of those with a salary between £20,000 and £49,999 expect a comfortable income.

Whether a given retirement income level is in fact 'adequate' will depend on what someone is used to and what their personal aspirations are.

The income that someone reports as their 'expected' income in retirement may already be influenced by how much they think they can save for retirement, rather than necessarily what they would deem adequate. Indeed, what we observe in Figure 3 is that many do not expect their retirement income to be enough to maintain their current living standard into retirement. This is most true of those expecting lower levels of income – over 60% for those expecting an income of less than the PLSA minimum associate it with a reduction in living standards. But this is also an issue for those expecting high levels of retirement income. For example, nearly one in three of those expecting a comfortable income level also expect a drop in living standards. Perhaps surprisingly, DB savers are just as likely to expect their retirement income to result in a fall in their living standards in retirement. This suggests that being able to save in a DB pension is not necessarily the complete guarantee of retirement security that it is often assumed to be – or at least it is not perceived to be by the savers.

Close to 7 million people (20% of all those who gave an expected income) expect an income less than that the PLSA's 'minimum' amount in retirement. The majority of these, 4.6 million, are DC savers that we have termed 'Financially Struggling'. This is a cause for concern as it means these people would be unable to afford their basic needs and have some resources left over for leisure. Of course, it could also reflect a lack of awareness of how much the state pension will provide in retirement, or of how much private savings will be worth. However, this share is comparable to the proportion of current retirees who have an income below the PLSA minimum amount, so suggests an accurate estimate of the numbers involved.

Figure 2

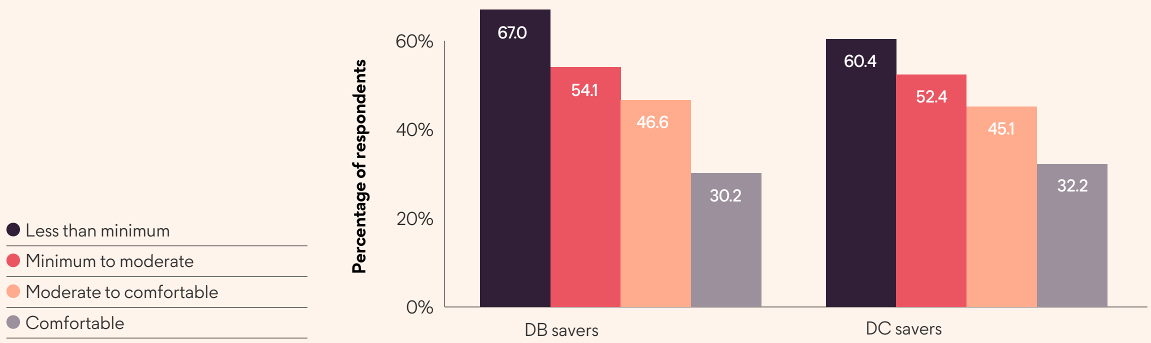
Share of respondents expecting a pension income within each PLSA band by current salary band

Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The 'Percentage of respondents' on the vertical axis represents the percentage of respondents belonging to a specific PLSA band (each represented by one of the colour-coded dots) out of all respondents in each salary band.

12. Throughout this report low income is defined as below £20k per year, medium income as £20k to £50k per year, and higher income as above £50k per year.

Figure 3

Percentage expecting a fall in living standard in retirement by PLSA band and DB status



Source: Frontier Economics analysis of Phoenix Longer Lives Index dataset.
Note: The vertical axis represents percentage of respondents expecting a fall in living standard in retirement out of all DB savers or DC savers in each PLSA band. DC savers includes all those not currently saving in a DB pension (whether or not they are currently saving in a DC pension).

Who is unable to give an expected retirement income?

Engagement with retirement planning is an issue, with close to 7 million people unable to say what income they expect in retirement.

Not all respondents report an expected retirement income when asked. The proportion who do not answer (17%) is greater than the proportion of people who do not report their current salary (6%), suggesting that this non-response is not just about a general inability or unwillingness to provide financial information.

11% of those saving in a DB pension are unable to report an expected retirement income, compared to 20% for those without a current DB pension. This likely reflects the greater clarity and certainty of future benefits this type of pension provides.

The high incidence of not being able to give an expected retirement income – particularly among DC savers – highlights the important issue of engagement with pension saving. Given the increasing onus on individuals to financially prepare for their own retirement, an understanding of future retirement income is important. Without this, big and unexpected changes in the standard of living in retirement could come as a shock to many.

Younger adults, for whom retirement is still a long way off, might be forgiven for not being able to say how much income they expect in retirement. But it is not just young people who are uncertain. In fact, among DC savers who did not give an expected income, adults aged 25–34 were underrepresented, while those aged 45–54 were overrepresented. This lack of awareness among those in midlife is a particular concern. One possible reason for greater uncertainty among this group could be that they may have accumulated more separate pensions and therefore find it harder to keep a sense of their overall future prospects. The pension dashboard initiative, when it becomes operational, should help people in that situation by enabling access to information on all their pensions in one place.

Women are also overrepresented among the group who did not give an income expectation. This may reflect an allocation of decision-making and financial planning within a household. Those who expect to rent in retirement, as well as those who expect to retire later are more likely to be unable to give an expected retirement income, suggesting those who are less financially secure are more likely to be unable to give an expectation for their future income.

A full comparison of the characteristics of those unable to report what retirement income they expect, as compared to DC savers in general, is provided in the Annexe.

Figure 4

Compared to DC savers as a whole, those uncertain about their retirement income are:

13%	... less likely to be aged 25–34
15%	... more likely to be aged 45–54
27%/20%	... more likely to be women in couples/single women
17%	... more likely to be on a low income
33%	... more likely to expect to rent in retirement
11%	... more likely to expect to retire between 66 and 70

Are DC savers on track for their retirement income?

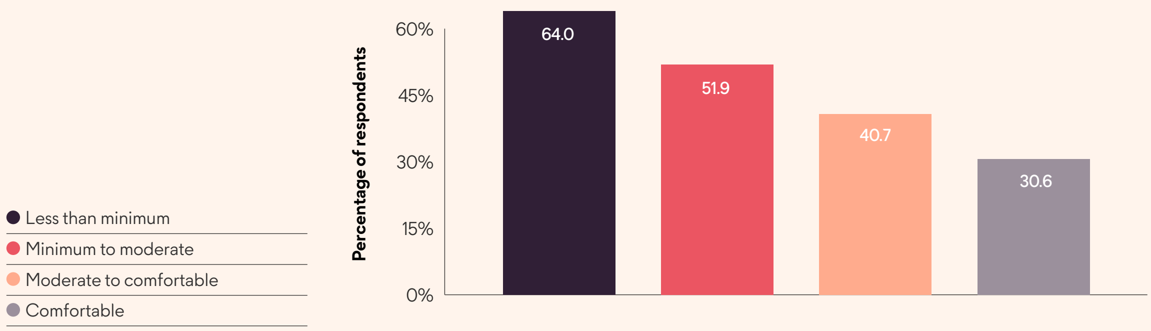
Many DC savers are not on track for the retirement income they expect, given their current saving behaviour.

People's ability to answer what income they expect in retirement does not necessarily mean they are saving appropriately to meet their financial goals. In fact, among DC savers, our modelling suggests half of them are not on track for the income they expect. This equates to around 14 million people. And they are not just slightly 'off track'. The average size of the saving gap for this group is at £337,000 and for 68% of them the gap is bigger than £100,000.

Figure 5 shows that those expecting higher incomes are the most likely to be disappointed. Only around one in three of those expecting a comfortable income are modelled to be on track, compared to around half of those expecting a retirement income of between a minimum and moderate level.

Figure 5

Percentage of respondents on track by PLSA band



Source: Frontier Economics analysis of Phoenix Longer Lives Index dataset.
Note: The vertical axis represents the percentage of respondents who are on track out of all those belonging to a specific PLSA band.

What additional risks do people face?

People may be thrown (further) off track by shocks to their health, ability to work or spending needs in retirement.

How financially secure people are in retirement will be heavily influenced by the timing of their retirement – the point at which they go from saving for the future to drawing on those saved resources. If people are hit by health or employment shocks, this could derail financial plans. Shocks as people approach their planned retirement age can be especially problematic, as many people contribute a high proportion of their retirement saving in the final years of working life.

In the Longer Lives Index we asked people to rate their confidence in a number of outcomes on a scale of 1 to 10, where 1 is 'Not confident at all' and 10 is 'Very confident'. Interpreting answers of 1 to 4 as 'not confident', over one in four DC savers are not confident about their ability to 'remain employed until their preferred retirement age in a way which allows them to reach their financial goals for retirement'. The proportion is similar for those who are not on track for the retirement income they want. Figure 7 sets out the reasons people gave for low confidence about their future employment. The most cited concern was physical health, followed by concerns about a lack of support for older workers, and an ability to find a new job if needed. This is consistent for all groups whether or not they are on track for their expected retirement income.

Health shocks may not just limit work, but also result in higher spending needs – for example on equipment or housing modifications, ongoing costs of treatment, social support or lifestyle adjustments. Three in ten DC savers were not confident that their health would allow them to reach their financial goals for retirement. Again this is similar, if slightly lower, for those who are not on track for the retirement income they want.

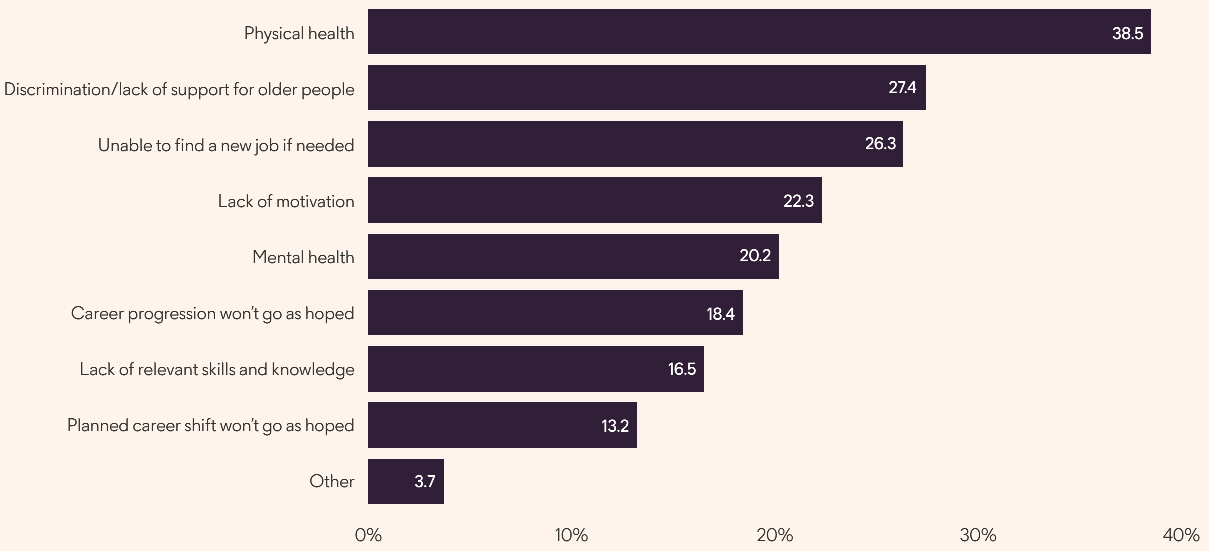
Figure 6

Proportion of DC savers with low confidence by dimension of confidence

27%	... savers not confident about 'being able to remain employed until preferred retirement age in a way that allows you to reach financial goals for retirement'
30%	... savers not confident about 'your health allowing you to reach your financial goals for retirement'
36%	... savers expecting to buy before retirement are not confident about 'being able to own a home in future and paying off your mortgage before retirement'
43%	... savers expecting to buy before retirement are not confident about 'having saved enough for your retirement to pay rent if this happens'

Figure 7

Reasons for low confidence about being in work until preferred retirement age



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The horizontal axis represents the percentage of respondents who mentioned a specific reason for low confidence about being in work until preferred retirement age out of all respondents whose self-reported confidence score was between 1 and 4 (on a scale from 1 to 10).

Housing costs are one of the biggest components of spending for many households, and something most aspire to be free of before retirement by owning their own home. However, there is a great deal of uncertainty for the 6.4 million DC savers who expect to own a home outright before retirement but do not currently. Indeed more than one in three of them are not confident in their ability to own their home and be mortgage free in retirement. If people find themselves still paying rent or mortgage repayments in retirement, their savings may not enable them to enjoy the retirement living standards they currently expect. They would need to save considerably more in order to cover rent throughout retirement in addition to their non-housing costs. While state support would be available to some in the form of Housing Benefit, this is only available to those on low incomes and may not cover the full cost of private renting.

Summary of groups of concern

Overall there are reasons to be concerned about the future retirement situation of the majority of DC savers.

The 'Financially Struggling'

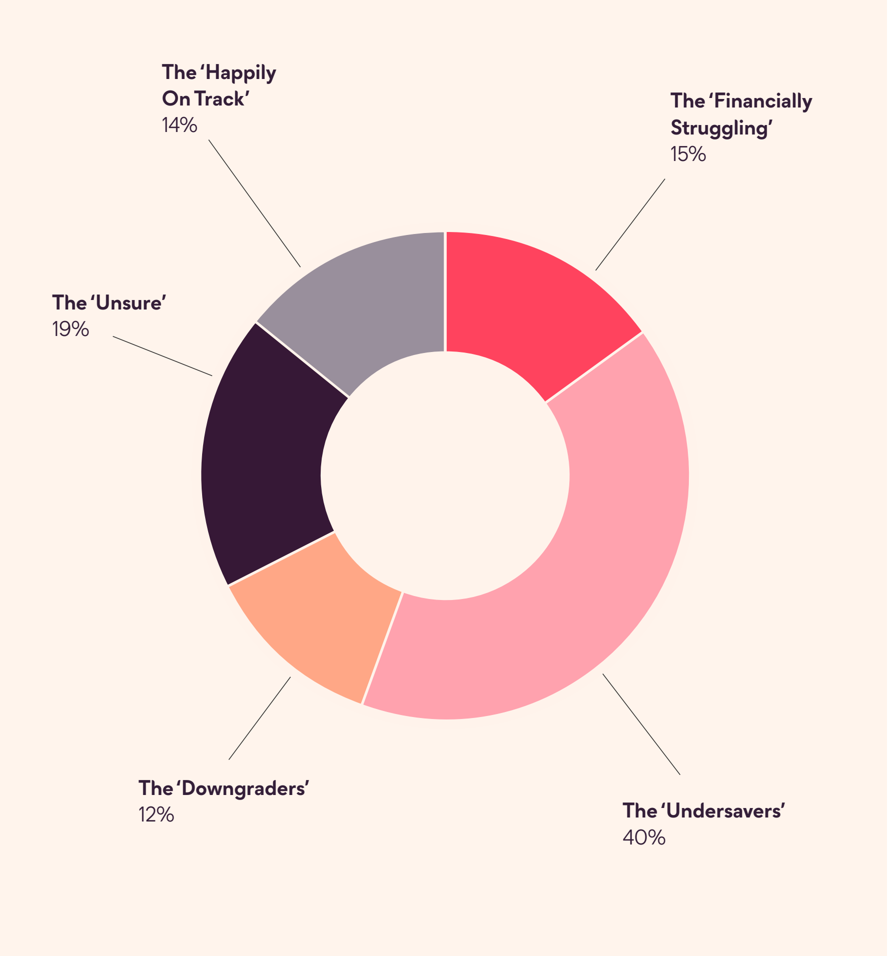
4.6 million (15%) expect a disposable income of less than the PLSA's minimum amount. This is unlikely to represent an adequate income, and we aspire to live in a society where everyone can afford to buy more than just necessities in retirement. Among this group 1.6 million (one in three of them) are also not on track to achieve their expected income in our illustrative modelling.

The 'Undersavers'

12.4 million (40%) think they will get at least a minimum income, but in our illustrative modelling are not on track to achieve their expected income. These people risk being disappointed on retirement and could benefit from changes to their behaviour now.

The 'Downgraders'

3.7 million (12%) think they will have an income of at least the PLSA minimum level, and are on track to achieve what they expect, but do not think that this retirement income would maintain their pre-retirement living standard. If we assume that having an adequate income means being able to maintain your working life living standard into retirement, this group may not have adequate resources. However, we realise that not everyone may want to save enough to maintain their pre-retirement living standard, so not all this group may be of concern.

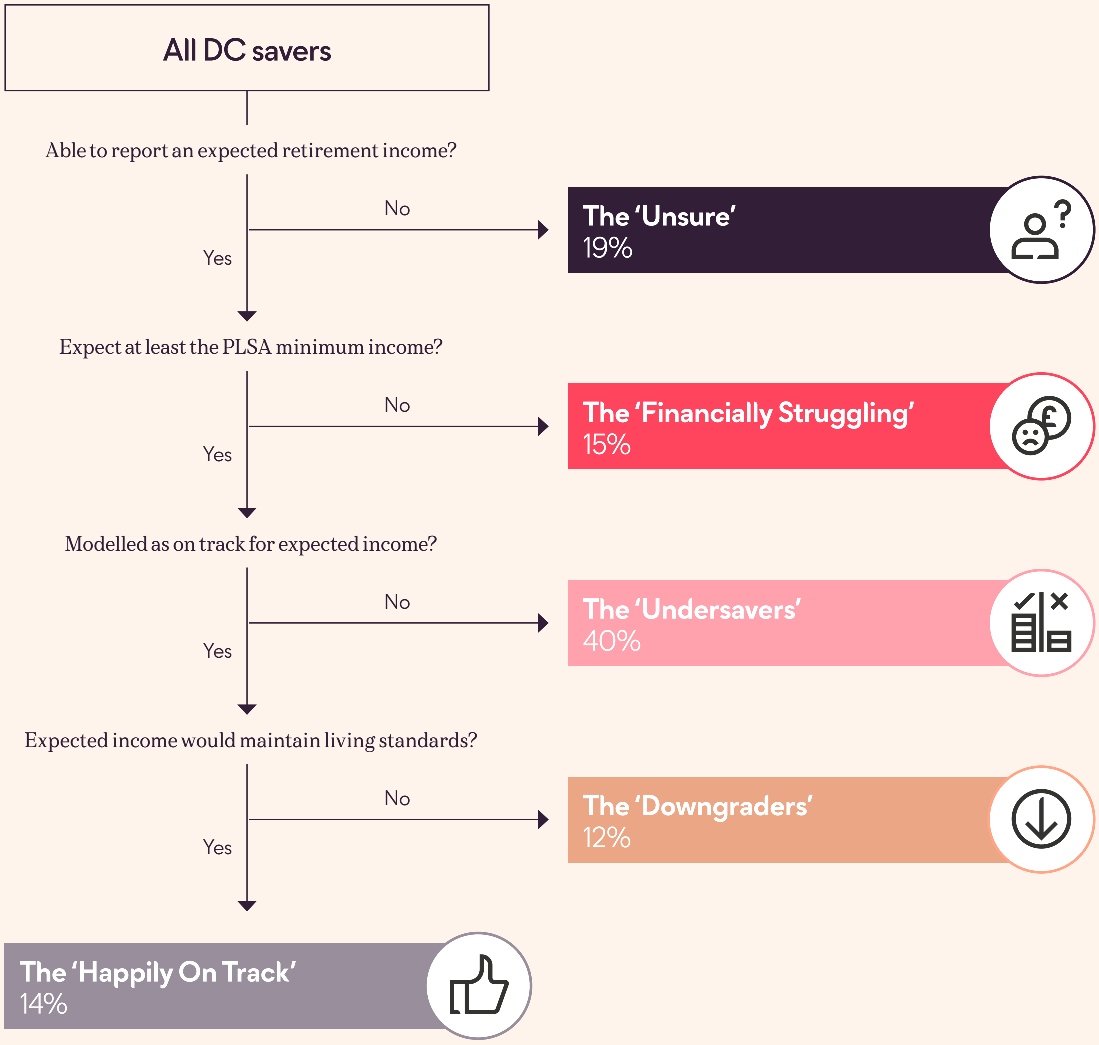


The 'Unsure'

5.8 million people (19%) were not able to report what income they expect to have in retirement. Again, not all these people are necessarily going to be financially ill-prepared for retirement – some may just be averse to guessing about things of which they are not certain. But some of this group will be disadvantaged from not engaging with pension decisions that do have important consequences for their retirement.

The 'Happily On Track'

4.3 million people (14%), reported an expected retirement income above the minimum income, look on track to achieve that income in retirement, and expect that income to maintain their living standards in retirement.


All DC savers
Able to report an expected retirement income?
No
Yes
The 'Unsure'
19%
Expect at least the PLSA minimum income?
No
Yes
The 'Financially Struggling'
15%
Modelled as on track for expected income?
No
Yes
The 'Undersavers'
40%
Expected income would maintain living standards?
No
Yes
The 'Downgraders'
12%
The 'Happily On Track'
14%

Who is at risk?

Working life resources, in the form of income and assets are unsurprisingly an important factor in whether people have adequate and realistic retirement income expectations.

The 'Financially Struggling'

Those expecting low retirement incomes are predominantly those with lower resources in working life: people on low incomes and who expect to rent in retirement are overrepresented relative to the population. Those expecting low incomes in retirement are also more likely than average to be expecting to retire at age 66 or later.

Compared to DC savers as a whole:

- 93% more likely to be on a low income
- 64% more likely to expect to rent in retirement
- 16% more likely to be planning to retire between 66 and 70

The 'Undersavers'

Those who think they will have at least a minimum income on retirement, but who are not on track to get there are disproportionately those on middle incomes. Those who are currently renting but plan to buy before retirement are also overrepresented. This group is disproportionately planning to retire at younger ages, which could be one reason why they are less likely than others to be on track for the income they expect.

Compared to DC savers as a whole:

- 9% more likely to be on a middle income
- 11% more likely to be currently renting but planning to buy
- 27% more likely to be planning to retire between 51 and 60

The 'Downgraders'

Those who are on track for their expected retirement income, but where that income would result in a fall in their living standards are predominantly those with higher working life living standards: they are disproportionately those on middle and higher incomes, and those who own their home (either outright or with a mortgage). They are also disproportionately men.

Compared to DC savers as a whole:

- 56% / 13% more likely to be on a higher/middle income
- 24% / 22% more likely to have a mortgage/ to own outright
- 34% / 9% more likely to be men in couples/ single men

The 'Happily On Track'

Those on track for their expected retirement income, where that income is not expected to result in a fall in their living standards are similarly advantaged. They are disproportionately those who have paid off a mortgage already and those who are on high incomes.

Compared to DC savers as a whole:

- 71% more likely to be on a higher income
- 49% more likely to own outright
- 45% more likely to be men in couples

A detailed comparison of the characteristics of the different groups of DC savers compared to the population as a whole is provided in the Annexe.

Potential solutions – what would help more people be more financially secure?

Many people have other retirement resources beyond just their savings, but these are not evenly distributed. Those not on track for the income they expect are less likely to be expecting these additional resources.

Do people have other resources they can draw on?

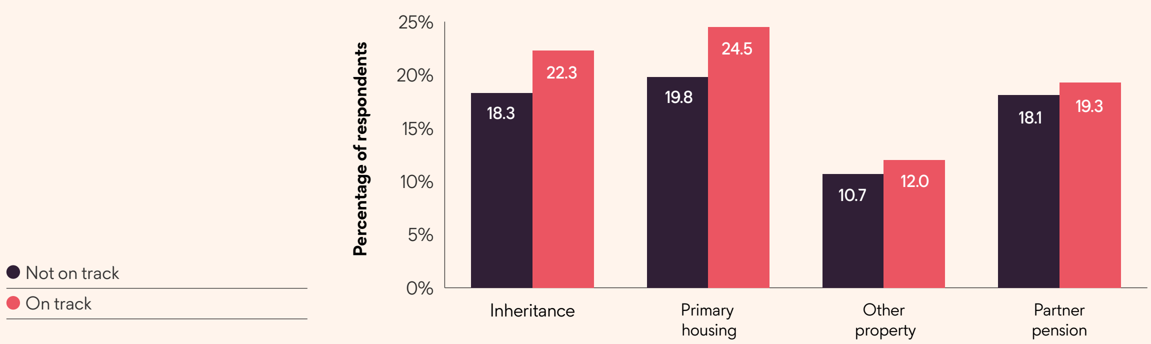
Private and state pensions are expected to be main source of income for virtually all DC savers, but some people do expect to also finance their retirement using other sources. 2.5 million (nearly one in five) DC savers who are not on track expect to use an inheritance, 2.7 million (nearly one in five) expect to draw on their primary housing wealth (either by selling their home or releasing equity), and 1.5 million (over one in ten) expect to use other property wealth (either from selling another property or from buy-to-let income).

These sources of income could help fill the gap between what income people expect in retirement and what our modelling suggests their pensions and other savings will support. However, it is worth noting that those who are already modelled to be on track in terms of their retirement expectations, are the groups who are also more likely to expect these additional sources of income.

Household interactions and the joint nature of saving decisions for couples are also important. Half of working-age people are married or in a civil partnership. Some people may appear not to be on track to achieve their expected retirement income because part of their expected retirement income is being funded by their partner's saving. This might be expected to arise if couples have unequal incomes, or if one partner has access to more generous pension arrangements from their employer. This cannot be the only driver of why people are not on track though. As figure 8 shows, only around one in five of those not on track say that they expect to rely (in part) on someone else's income or pension in retirement, and this proportion is similar among those who are on track for their expected income. It is also not necessarily a given that someone else's income would be sufficient to get the person on track for the retirement income they expect.

Figure 8

Expectations of other sources of retirement income, by whether currently on track to reach expected retirement income



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset .

Note: The vertical axis represents the percentage of respondents expecting to rely on one of the sources of income on the horizontal axis out of all respondents on track, or out of all those not on track.

Can people get on track by working longer?

Working longer would not be sufficient alone to enable everyone to achieve their expected income.

Working longer improves financial security in retirement. It reduces the number of retirement years in which people need to draw on their savings, and it increases the number of years of work during which someone can save for retirement.

The average expected retirement age is around 66 among those not currently saving in a DB pension. Figure 9 shows that the expected retirement age is lower for younger adults, and (for all ages) those on medium and particularly higher incomes. For some people there will be health concerns that may mean they cannot work at older ages. But for many it will be easier to work for longer than has historically been typical, as life expectancy and health at older ages are much more favourable for current working-age generations than for the generations that preceded them.

We have modelled how working longer could alter retirement income for those not currently on track for the income they expect. We considered two scenarios:

(A) Everyone works an additional two years (irrespective of their current expected retirement age). This corresponds to the increase in the average age of labour market exit for men between 2002 and 2020, and for women between 2009 and 2020.[13]

(B) Everyone works until at least 68 (or later if they already planned to retire later). 68 is the state pension age currently legislated for those born on or after April 1978 (who are currently 44 or younger), though the government is currently considering bringing forwards this increase so that some older adults may also see their state pension age increase to 68.

We find that 1.2 million DC savers (8% of those not on track) would be brought on track for the income they were expecting (or the PLSA minimum income if they were expecting less than that amount) by retiring two years later. Figure 10 shows how this varies according to the income level expected in retirement. 10% of those who are expecting a minimum to moderate income but are not currently on track would be brought on track by retiring two years later, compared to 5% of those who are expecting a comfortable income but are not currently on track.

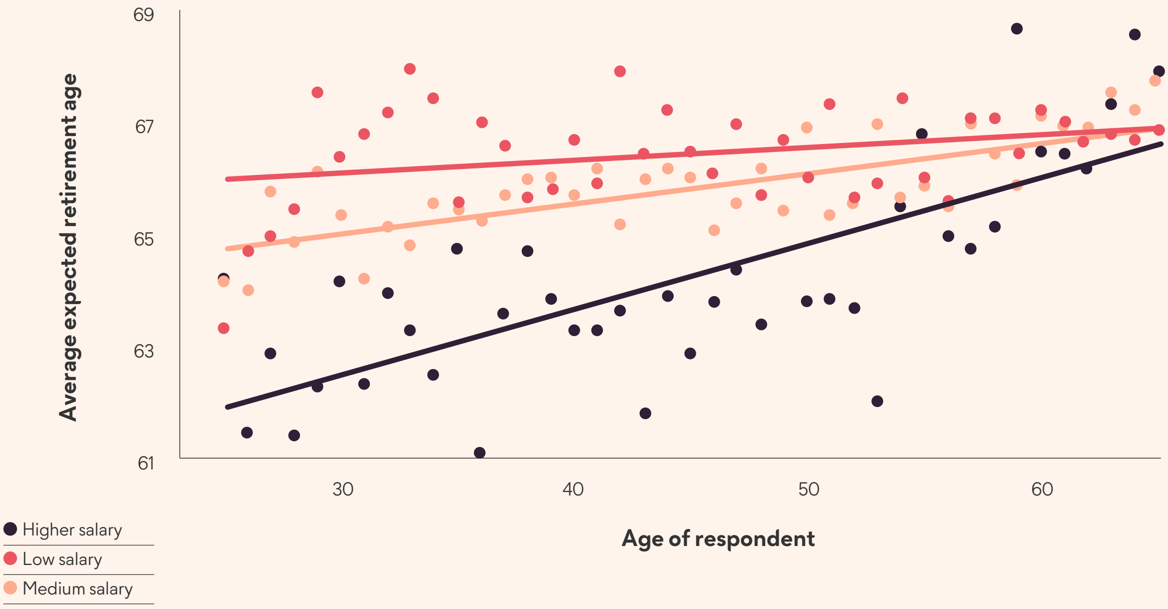
2.8 million DC savers (20% of those not on track) would be brought on track if those planning to retire before age 68 worked until age 68 instead. Again, figure 10 shows the proportion brought on track is greater among the groups expecting lower incomes in retirement. 20% of those not currently on track and expecting a minimum to moderate retirement income would be brought on track, compared to 18% of those not currently on track who are expecting a comfortable income in retirement.

Younger and higher income people on average expect to retire earlier, and so they are more likely to be brought on track by delaying retirement until age 68, as this would entail more extra years of work (relative to current expectations) for them. But figure 11 shows that even among those on high incomes aged under 50, delaying retirement to age 68 would get fewer than half of them back on track.

13. Department for Work and Pensions (2020) 'Economic labour market status of individuals aged 50 and over, trends over time' .

Figure 9

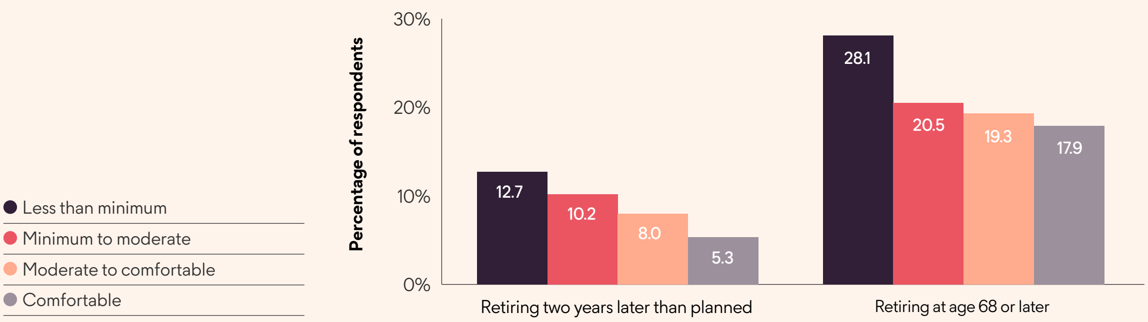
Average expected retirement age by age at time of survey collection and salary band



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: Low income is defined as below £20k per year, medium income as £20k to £50k per year, and higher income as above £50k per year.

Figure 10

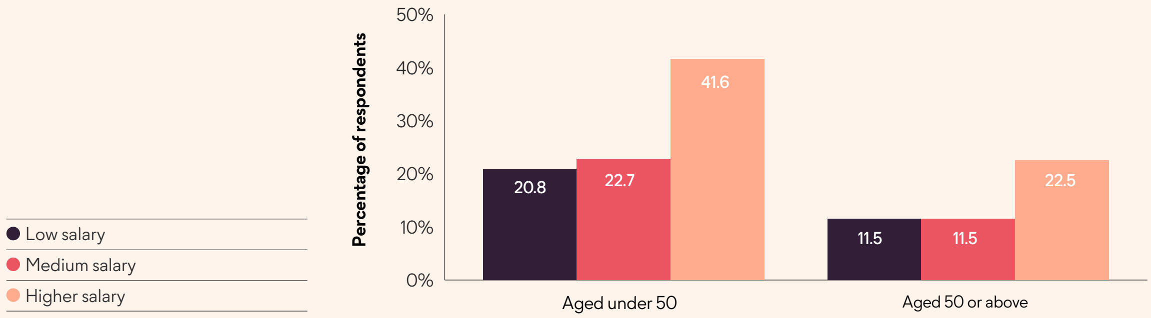
Percentage of respondents who get on track if they retire later than planned – by expected PLSA band



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The vertical axis represents the percentage of respondents who would get on track retiring at age 68 or later out of all respondents not on track within a specific age group and salary band.

Figure 11

Percentage of respondents who get on track if they retire at age 68 or later – by age and income



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The vertical axis represents the percentage of respondents who would get on track retiring at age 68 or later out of all respondents not on track within a specific age group and salary band.

Can people get on track by saving more?

Increasing saving rates would increase retirement resources, but modest increases in saving will not be sufficient to get most people on track for the income they expect.

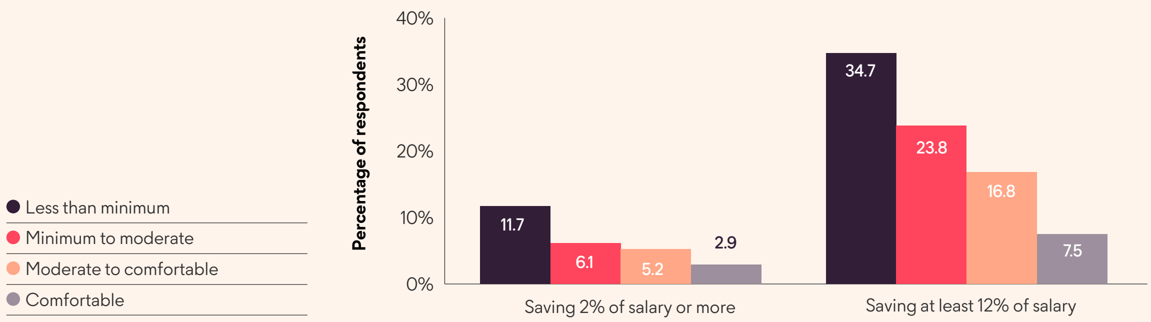
People could increase their income in retirement by increasing their saving rate, putting away a greater proportion of their income now to provide a greater income in future. This will be more beneficial for those further from retirement, as resources have more years over which to accumulate and benefit from compounding returns.

Relatively modest increases in saving rates make only a small difference to the proportion of people who would be on track for the retirement income they expect. 0.7 million people (5% of those not on track) would be brought on track by increasing their saving rate by 2% of salary. Even if everyone currently contributing (between them and their employer) less than 12% of salary increased their contributions to that level, only 2.3 million people (17% of those not on track) would be brought on track.

Figure 12 shows how the proportion who would be brought on track by these changes varies according to the level of expected retirement income. The proportion who would be brought on track is greater for those expecting lower incomes in retirement – in part because these people are more likely to have lower current saving rates, and therefore an increase to a 12% saving rate would be a bigger change in behaviour for them, and in part because the level of their saving gap is smaller. However, it is worth stressing that an increase in pension saving rates to 12% may not be feasible for all – in particular this could worsen the current living standards of some low earners who already struggle to maintain an adequate standard of living.

We have simulated how much those not currently on track would have to save going forward in order to achieve their expected retirement income. Figure 13 shows how this required saving rate compares to people's current saving rate. Many (nearly 70% of those not on track) would need to save in excess of 20% of their salary each year, and 57% would need to save in excess of 30%. Those who would need very high saving rates are disproportionately those closer to retirement, for whom additional savings can be made for fewer years. Realistically, relatively few people on middle and lower incomes could be expected to increase their saving rate to such an extent, without impacting on their present day living conditions.

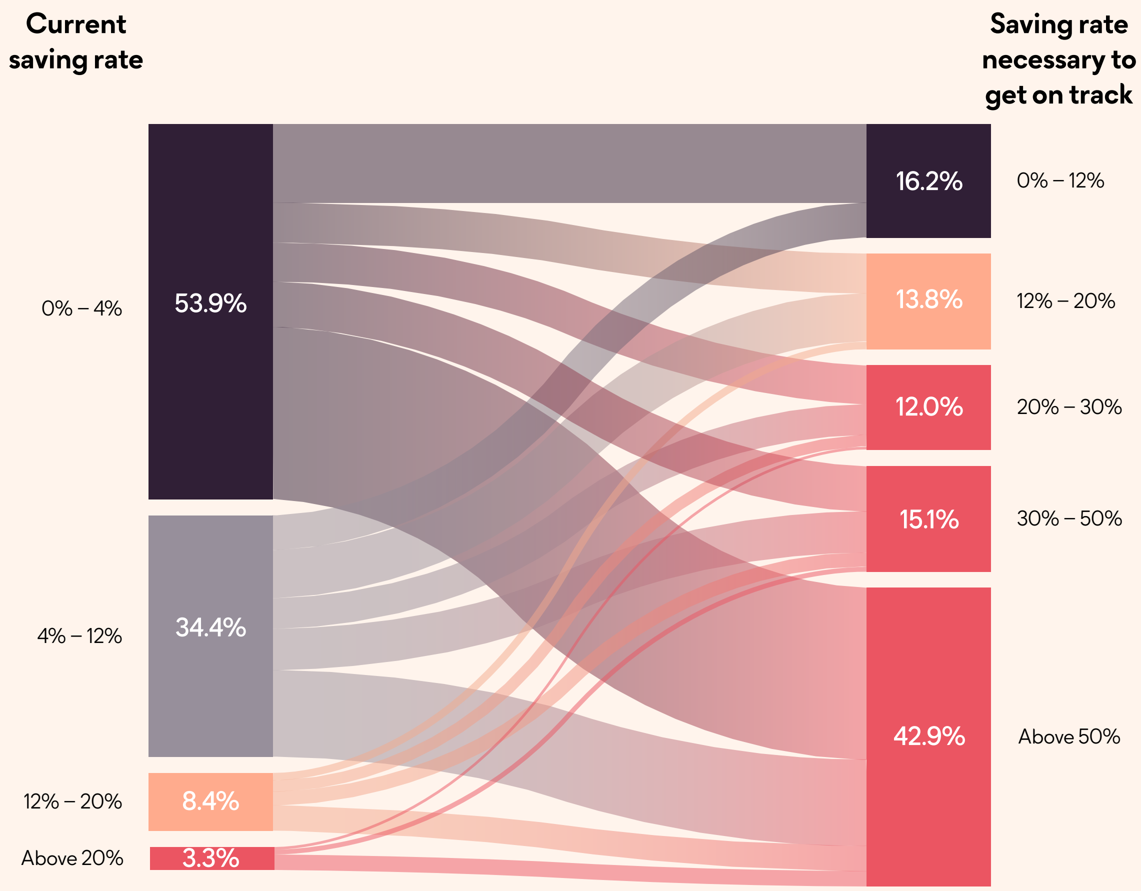
Figure 12
Percentage of respondents who get on track with pension savings if they save more



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.
Note: The vertical axis represents the percentage of respondents who get back on track if they save more out of all those not on track in a given PLSA band.

Figure 13

Among DC savers not on track to achieve their expected retirement income, the required savings rate to get on track (right-hand column) as compared to savers' current savings rates (left-hand column)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Are retirement income expectations realistic?

Working longer and saving more would improve retirement outcomes, but for some the scale of the change needed might not be realistic. These individuals may therefore benefit from a greater awareness of what their longer lives and future retirement may entail, and how to close the gap between their expectations and likely reality.

We have modelled the effect of both working until 68 (or later if that is currently planned) and of contributing 12% of salary to a pension going forward (or more if someone is currently saving a higher proportion of their income). This combination of behaviour change would bring around 39% of those currently not on track in line for their expected retirement income. Figure 14 shows that this ranges from around 60% for those who expected less than a minimum income in retirement, to around 30% for those who expect a comfortable or higher income in retirement.

Figure 15 summarises the disconnect between current expectations of future retirement income and what our modelling suggests those not currently on track could achieve if they worked until at least 68 and saved at least 12% per year. This shows that while some would be able to achieve an income near what they currently expect (or in some cases even higher), many would still only be able to afford an income between the minimum and moderate level.

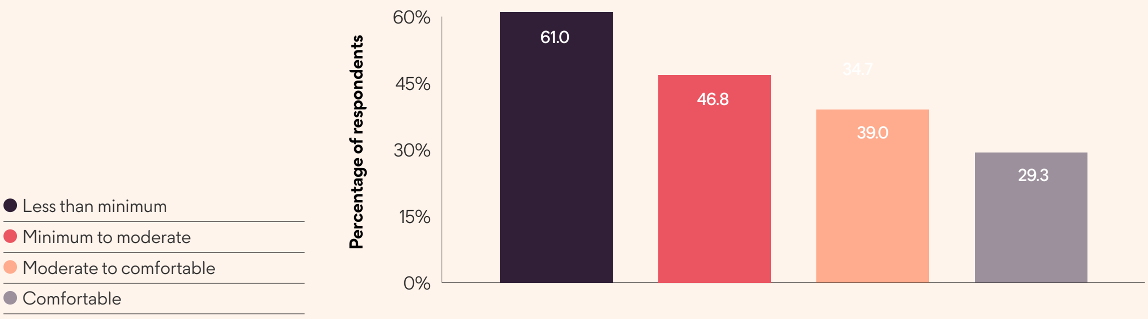
Figures 16 and 17 show what proportion would, under this scenario, be on track for the retirement income they expect to have, for groups of DC savers according to their age, current salary and expected retirement income.

- Among **lower income earners**, relatively few expect moderate or comfortable incomes in retirement (as shown in Figure 2) but among those that do, these expectations tend not to look achievable. Among lower earners who expect less than the PLSA minimum in retirement, most (91%) of those under 50 would be able to achieve the minimum (by retiring at 68 and saving 12%), but only a smaller proportion (71%) of those already in their 50s and 60s could. However this is very likely to mask some challenges, as many of these people may find increasing their saving rate to 12% or working to age 68 (as we have modelled) challenging. Given the low levels of income expected, for those that do not look on track (or for those that could not work until 68 or save 12% of their salary), lowering retirement expectations is not a desirable answer. Other policies will need to be considered to help ensure that these people can enjoy a degree of financial security in retirement.
- Among **middle income earners**, many do expect moderate or comfortable retirement incomes. Indeed, 20% of DC savers aged under 50 are middle earners who expect a comfortable retirement income (and a further 20% are middle earners who expect a moderate to comfortable income). Among this group only half would be brought on track by working until age 68 and saving 12% of salary. This suggests that individuals within this group who cannot count on other sources of income (such as their partner's support, inheritance or housing assets) need either a greater step change in saving behaviour or a reassessment of their retirement expectations. This is particularly true of middle earners who are already in their 50s and 60s.
- Among **higher income earners**, most expect at least a comfortable level of income in retirement. Around 25% of those under 50 would not be on track to achieve their expected income (and more of those who are already in their 50s and 60s). This may suggest that these income expectations are unrealistically high, in particular for individuals who cannot rely on other sources of income in retirement. Those on higher incomes may be more able to save more than 12% of salary, and so their expected retirement income could potentially be achieved with greater changes in their saving behaviour going forward. But 35% would need to increase their saving rate to above 30% going forwards, which is a significant saving rate even for high income earners.

It is not possible to quantify from this analysis exactly what proportion of people have expectations that are 'too high'. Some may be able to save more or work for longer than we model, some may benefit from greater earnings growth (particularly younger, higher-educated people), and some may be correctly expecting retirement income from other sources. On the other hand, some may not be able to work until age 68 or to save 12% of their salary as we have modelled. But overall, our evidence certainly suggests that some people have retirement income expectations that are unfeasibly high. This is particularly likely to be of concern for those who are closer to retirement or middle income earners who expect a comfortable level of income in retirement.

Figure 14

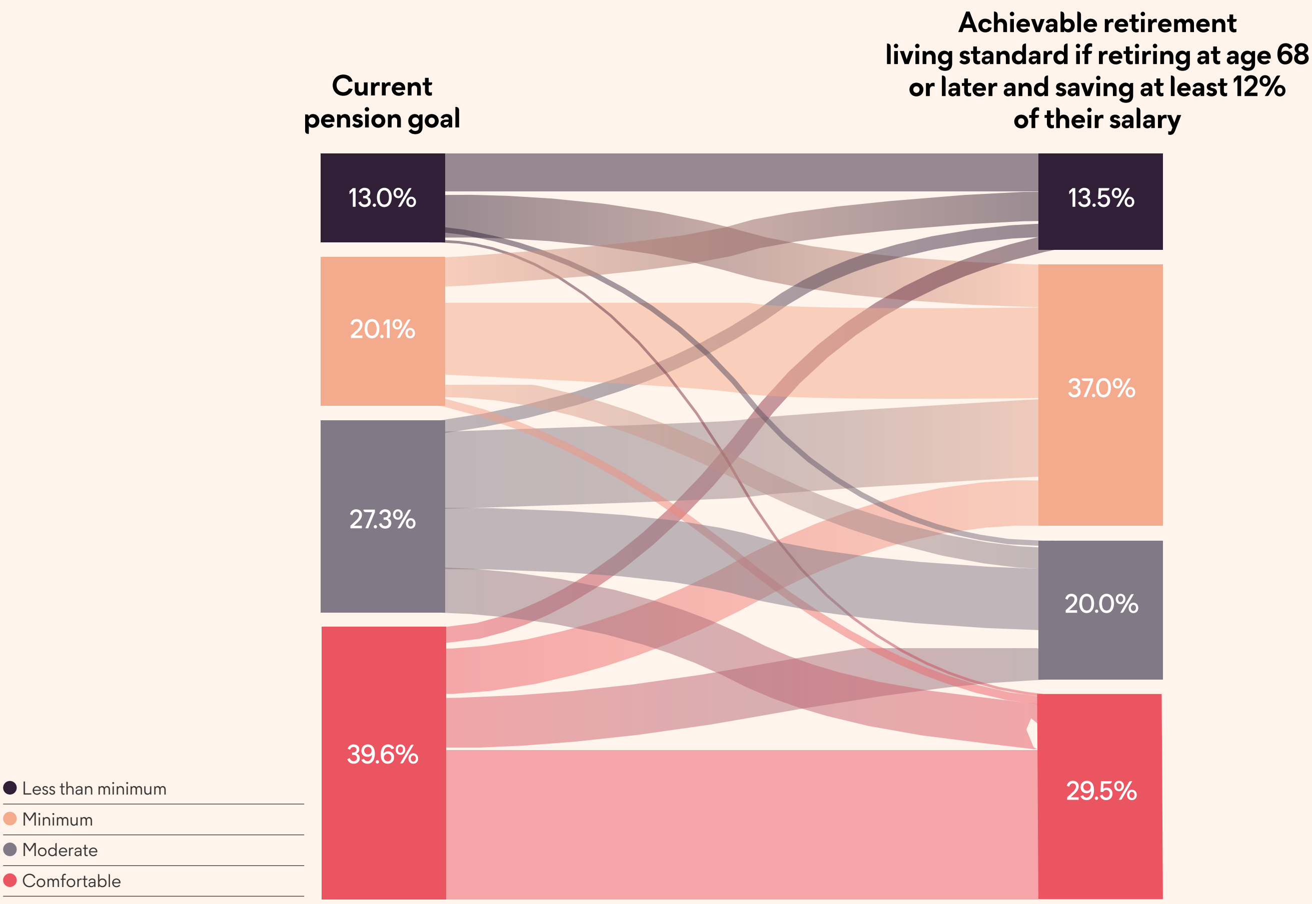
Percentage of respondents who get on track if they retire at age 68 or later and save at least 12% of their salary



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 15

Among DC savers not on track to achieve their expected retirement income, the proportions of people who could achieve different retirement living standards if they retired at 68 and saved at least 12% of their salary (right-hand column), as compared to their current retirement living standard goal (left-hand column)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 16

Percentage of respondents aged under 50 who are on track if they retire at age 68 or later and save at least 12% of their salary – by salary band and expected pension (PLSA bands)

Salary bands	Less than minimum	Minimum to moderate	Moderate to comfortable	Comfortable
Low	90%	78%	53%	19%
Medium	98%	92%	72%	50%
High	100%	100%	98%	75%

Source: Frontier Economics analysis of the Phoenix Longer Lives index dataset.

Figure 17

Percentage of respondents aged 50 or above who are on track if they retire at age 68 or later and save at least 12% of their salary – by salary band and expected pension (PLSA bands)

Salary bands	Less than minimum	Minimum to moderate	Moderate to comfortable	Comfortable
Low	71%	50%	34%	22%
Medium	85%	72%	53%	36%
High	100%	92%	79%	60%

Source: Frontier Economics analysis of the Phoenix Longer Lives index dataset.

What these findings mean for individuals

Our modelling demonstrates that people in a variety of situations are at risk of ending up with a retirement income that is less than what they currently expect to have. What people need to do to prepare better will depend on their current situation, behaviour and expectations – which we illustrate with some examples.

Joe is 50 years old, currently earns £42,500 and expects to retire at 65 with an annual income of £27,500 (a moderate level for a single adult) and no housing costs. He has saved £160,000 so far and is currently contributing – together with his employer – 8% of his salary to his workplace pension pot. He is not currently on track for the retirement income he expects, falling some £110,000 short. He could accumulate enough savings to be broadly in line with his expected retirement income if he stayed in work until 68 and increased his contribution from 8% to 12%.

Miranda is 50 years old, currently earns £42,500 and expects to retire at 65 with an annual income of £27,500, similarly to Joe. She, too, has saved £160,000 so far and is currently contributing – together with her employer – 8% of her salary to her workplace pension pot. Unlike Joe, however, she expects to have to rent from a private landlord during retirement, with rent of around £440 a month. For this reason, despite being very similar to Joe, the current size of her saving gap is bigger – she is falling some £170,000 short of her pension goal – and even if she were to work until 68 and increase her contribution to 12%, she would not be on track for the retirement income (after housing costs) that she expects.

Simon is also 50 years old and expects to retire at age 65 with an annual income of £27,500 and no housing costs. Unlike Joe, his current salary is £27,500 and he has only saved £50,000 so far, though he (together with his employer) is saving 8% of his salary into his workplace pension. He is not currently on track for the retirement income he expects, falling some £285,000 short. Even if he were to work until 68, and increase his contribution to 12%, he would not be on track for the retirement income he expects. He would only be able to afford £17,500 a year in retirement – something he may need to come to terms with. A saving rate higher than 50% would be needed to provide the income he wants, which is unlikely to be feasible.

Sheema is 35 years old and expecting to retire with an annual income of £27,500 and no housing costs. She expects to retire at 60, and has been saving for retirement already, amassing £80,000 so far. Sheema currently saves (together with her employer) 8% of her salary into her pension, but that is not enough to leave her on track for the retirement income she wants. However, she could achieve that if she were to work until 68 and save 12% of her salary each year.

Jen is also 35 years old and expects to retire at 68 with an annual income of £22,500 and no housing costs. She's not been making any retirement savings so far, instead enjoying life and putting away whatever she can towards her first home. To meet her retirement goals, Jen would need to save 21% of her income from now on, which might not be realistic. Jen needs to start saving for her retirement now, but with a 12% contribution she would only have a retirement income of around £17,500 a year.

Conclusions and recommendations

There is extensive debate about financial wellbeing in later life and how to ensure people are adequately prepared. This research has shown that understanding people's expectations, and whether and how they can get to the retirement they want, is important. Future policies must take into account the fact that for many there seems to be a mismatch between their expectations and likely reality.

1 Engage people much more effectively in their future finances.

Too many of us remain insufficiently aware of and engaged in our own likely financial future. Our research shows that many people have an unrealistic expectation of what their retirement situation will look like. 5.8 million people are unable to give an expected retirement income, 4.6 million have retirement expectations below what is deemed a minimum standard, and 12.4 million people are not on track to achieve the retirement income that they expect.

This is a fundamental problem for our financial security and wellbeing as individuals, and for the public purse. Defaults such as auto-enrolment help people to save without actively thinking about it, but if more of us are to be empowered to make decisions that will affect our financial wellbeing in later life, we need to radically improve how we engage people in their future finances.

The rollout of the Pensions Dashboard will help people keep track of their total accumulated savings, and greater awareness and use of the PLSA Retirement Living can help people to benchmark expectations of their needs in retirement. But the deeper challenge remains to engage people in the first place. Government, the pensions industry, regulators, employers and charities need to redouble their efforts to work together to tackle this.

It requires attention to financial literacy and education for people of all ages, providing people with much simpler and more engaging information about their situation, and closing the 'guidance gap' for the majority of people who don't seek independent financial advice. Greater access to guidance could be addressed by expanding the scope of Pension Wise or having concrete examples of what 'common sense' help providers can give to customers in specific scenarios.

2 Make working for longer more feasible, attractive and rewarding.

This research has shown that there are many people planning to retire before the state pension age, particularly among younger and higher income people, and that these plans may be unfeasible given people's retirement income expectations. For many, planning to retire later would result in greater financial security. But as our previous research has shown, over one in four DC savers are already not confident about their ability to remain employed until their preferred retirement age in a way which allows them to reach their financial goals. The most cited concerns were their physical health, followed by concerns about a lack of support for older workers, and their ability to find a new job if needed.

We need to **boost opportunities for more people to be in good work for longer**, in a way that supports health and wellbeing, provides meaning and purpose, as well as improving retirement financial security. Government and employers must boost opportunities for individuals to upskill and retrain, allowing for greater and more varied career progression to help 12.4 million undersavers and for the wider benefit of all workers. There is an important role for both government and employers here: in supporting reskilling, upskilling and labour market mobility at all stages of life; and in ensuring that employment policies are age-inclusive, tackle age bias in recruitment and hiring, enable flexible working and support staff with caring responsibilities. Government should introduce statutory carers leave for all as a day one right, and employers should introduce additional paid carers leave policies. Preventative health support is crucial to ensure that if people want to work for longer, they will be able to do so.

Phoenix Insights has called for this support to be funded through a reinvestment of savings to public spending arising from any increases to the state pension age. The last state pension age rise from 65 to 66, led to a saving to the Treasury of nearly £5 billion. Redistributing 10–20% of those savings could provide an intergenerationally fair solution to support longer working lives and cushion the impact on those most negatively impacted by an increase to their state pension age.[14]

3 Encourage saving for those who can afford to through more flexible provision.

It is important to **encourage more saving** to help people get to the retirement they want. But this needs to **target those who can afford to do so**.

We need to ensure that the automatic enrolment ('AE') system doesn't result in complacency and a lack of understanding from savers. Saving 8% of salary alone is not enough for many middle and higher earners to reach the retirement income they expect. We need to ensure that the recommendations for the government's 2017 Review of AE are implemented soon. This is to include low earners, those on multiple lower paid jobs (who are predominantly women already facing a significant gender pension gap), and lowering the age threshold to 18 to encourage savings from an early stage. Additional defaults should be explored that could encourage more saving among those that can afford to do so – such as auto-escalation of pension contributions when salary increases, or nudges to increase saving at other times, such as when children leave home, on receiving an inheritance, or when mortgages are paid off.

We need **greater flexibility** for people to **switch between periods of working and not working,** and therefore of **accumulating and decumulating savings**. This will require product innovation by the pensions and savings industry, alongside concerted efforts by employers to increase the range of options that support career breaks throughout life, and more flexible working patterns, particularly in the run-up to retirement.

4 Create a safety net of support for those unable to work longer or save more.

The modelling in this research suggested that most people could be brought on track for at least a minimum income in retirement if they work until 68 and save 12% of their salary going forward. But this is not true of everyone (particularly those closer to retirement), and it disguises the issue that many of those on lower earnings struggle to make ends meet already and would not be able to increase retirement saving rates without further depressing their current living standards. It may also be harder for those already expecting the lowest retirement incomes to work until 68 if they disproportionately suffer from ill health or have jobs that may be damaging to their health.

We need to recognise that while staying in work and saving more increases financial security, not everyone will be able to do so. Government needs to reimagine the state pension and how it works with key policies and benefits for the 4.6 million who our analysis show are financially struggling. Our modelling shows that these people cannot reasonably be expected to get on track for PLSA minimum standard of living without increased income through work or the welfare system. In the context of the increasing state pension age, ensuring adequate support for those unable to work at older ages will be vital.

We need an adequate safety net and support for those likely to be on inadequate retirement income, to smooth the cliff edge between working-age and pensioner benefit systems, as well as improved uptake of Pension Credit, particularly for those who struggle to make ends meet throughout their working lives. As the state pension age continues to rise, in future the government needs to ensure that those unable to work are adequately supported by the state, so that what private saving people have managed to accrue is not eroded before they even get to their planned time of retirement.

14. Phoenix Insights (2022) 'Reaching a certain age': Public attitudes to the state pension

5 Recognise that financial preparedness is about more than just pensions and savings.

We need to support people to **prepare for retirement in a holistic way by considering their housing costs and assets**. Improving information and support for people to access their housing wealth in retirement could also be key for future living standards, particularly for those on middle and higher incomes. We also need to be enabling access to affordable housing and supporting those on low incomes to become owner occupiers, as well as creating circumstances for affordable and secure renting to ensure better living standards in retirement.

This research also highlighted that around one in five DC savers expect to use their primary housing to provide income in retirement – either by downsizing, selling their current home or by releasing equity. While equity release is currently relatively uncommon, this is likely to become increasingly beneficial for future generations of retirees, who reach retirement with a portfolio weighted more towards housing relative to pensions than was the case for recent generations of retirees. We should make sure that appropriate information and support is available to people to use their assets in these ways. Supporting people to downsize or move to homes that are appropriate for their needs and preferences could also help release housing stock needed by people at other stages of life.

We need to **increase understanding of how people's wider support networks, partners, families and other potential sources of income** all interact with their financial security in retirement.

Our analysis shows that those most likely to be expecting additional resources in retirement (housing, inheritance or support from a partner) are the same groups who are already likely to be on track or higher earners. Initiatives such as the midlife MOT should consider individuals' wider support networks and financial obligations.

Methodology – questions on retirement expectations

We used two key questions to understand people's retirement income expectations. The exact wording of these questions was as follows:

What annual disposable income (after tax and rent) do you expect to live on in retirement (in today's money)? This should be how much you personally expect to live on, which may be a share of the income you and a partner may expect.
Answers to this question were selected from a list of 15 options that range from 'Less than £5,000' to 'More than £100,000' in bands of £5,000 (e.g. £5,000 to £9,999). Respondents could also choose explicitly 'Prefer not to say' or 'Don't know'.

What standard of living would this income allow you to achieve relative to your pre-retirement standard of living?
Answers to this question could be: 'Significantly below', 'A bit below', 'The same', 'A bit above', 'Significantly above' or 'Don't know'.

Methodology – modelling achievability of expected retirement income

Modelled sample

We exclude those who are currently contributing to a DB pension from our modelling. This is because the survey does not contain enough information to appropriately model future retirement income from current DB pensions. We also exclude from our modelled sample a small number of people who were in work but did not report their salary.

Modelling approach

We take each respondent's initial level of savings as is reported in the survey data. For those who say that they do not know how much pension they have accumulated so far, we assume they have amassed the median amount of savings of someone of the same gender, age (ten-year age bands), and income level (whether a low, medium or high earner).

For each year between age at the time of the survey collection and the respondent's stated retirement age we grow the existing savings pot by the real annual return on pension investment (net of annual management fees) and add workplace pension contributions, other pension contributions and other saving for retirement.

At the expected retirement age, the decumulation process was modelled by taking out of the accumulated savings pot each year the gross amount needed for the individual to have their stated annual desired net pension and meet their expected housing costs, after taking into account income from the state pension and any DB pension income (for those with such pensions who provided this information). Expected housing costs are included for people who report that they expect to rent in retirement. The costs are assumed to equal their expected rent level (divided by two in the case of those who expect to live with a partner in retirement), less any estimated entitlement to Housing Benefit (given their expected rent, the local housing allowance rates in their area, and their expected retirement income).

The residual accumulated pot is assumed to see an annual growth (net of annual management fees) that just keeps pace with inflation.

We calculate the savings that remain at the expected end of life (based on ONS life expectancy). Those who have positive savings left at the end of life are deemed to be 'on track', while those who run out of funds before the end of life are deemed to be 'not on track' for the retirement income they expect.

Main caveats

Whether or not someone is on track or not to be able to support the retirement income they expect will be highly sensitive to the assumptions made – in particular around the real return on investments and the income growth of individuals. In our approach we made standard informed assumptions on these parameters, and we do not test the sensitivity of the results to this.

Other limitations of our approach include:

- using a constant proportion of income individuals save over time, equal to what they state as current behaviour
- using an average life expectancy based on age and gender only
- being unable to explicitly control for the savings of a partner
- being unable to control for income expected from other sources such as housing wealth or (perhaps more speculatively, inheritances)
- not modelling eligibility to the state pension

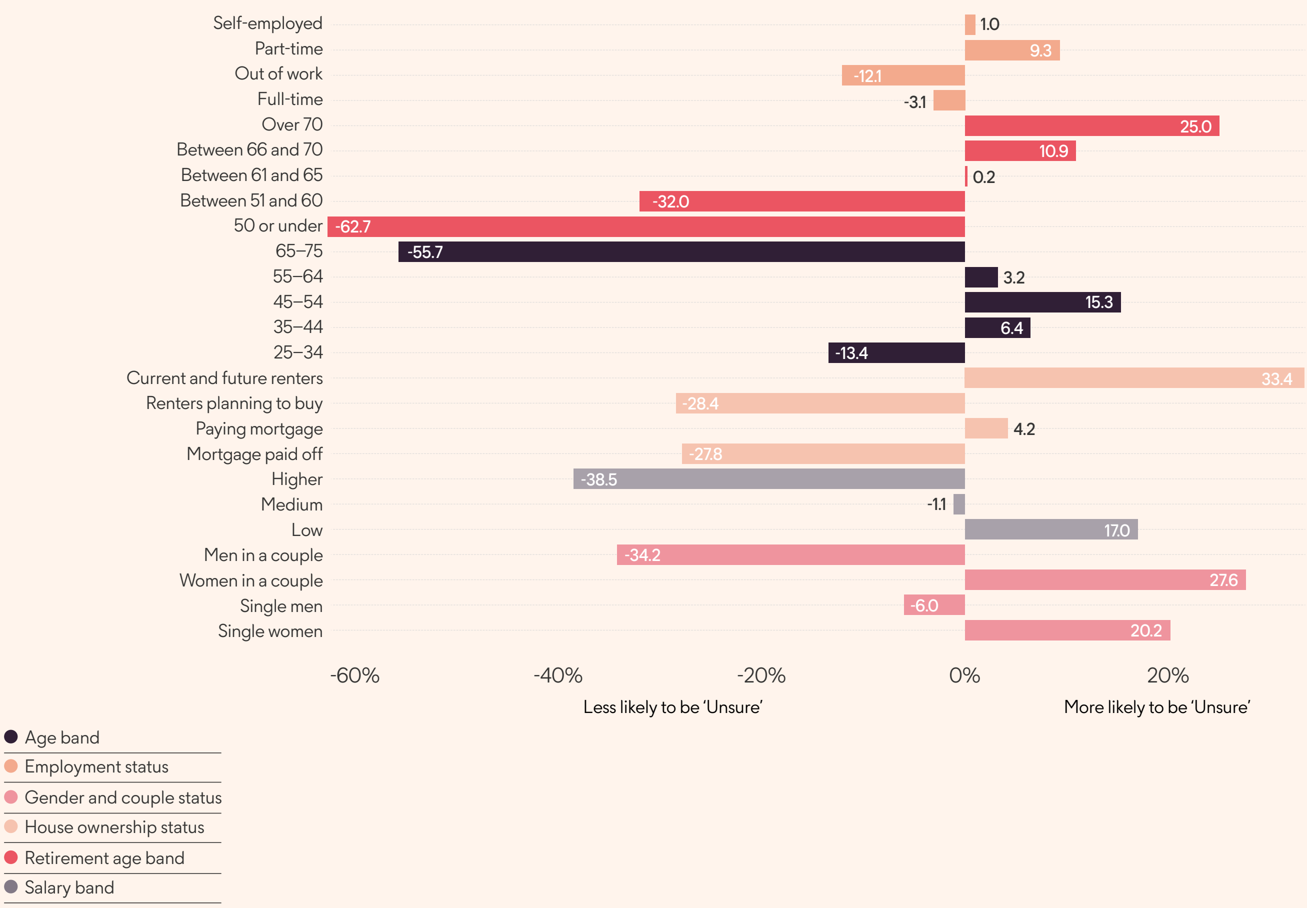
Another caveat is the accuracy of the self-reported data we collect through the survey. Respondents are unlikely to meticulously control their finances in the process of completing the survey, so the accuracy of their responses hinges on their awareness about their financial situation and the extent to which they can easily recall the information.

These limitations might influence the accuracy of our modelling at the individual level. However, our results are intended to paint a picture of the challenges UK savers face, and as such the limitations do not invalidate our findings as indicative of the issues facing savers and the potential relative contribution of different behaviour changes to the solution.

Further detail on characteristics of typologies of savers

Figure 18

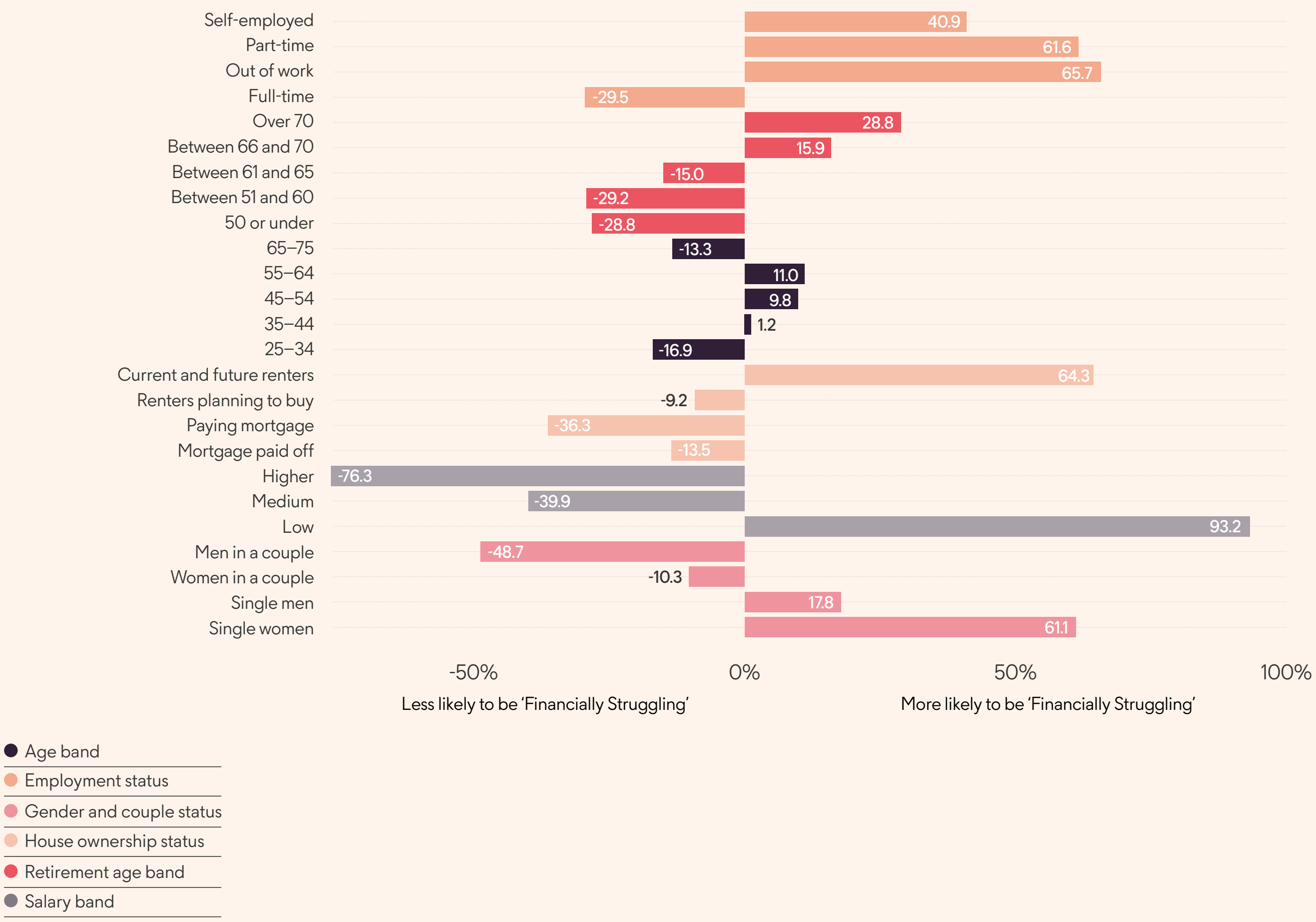
Characteristics of those who do not report a retirement income expectation (relative to DC savers as a whole)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 19

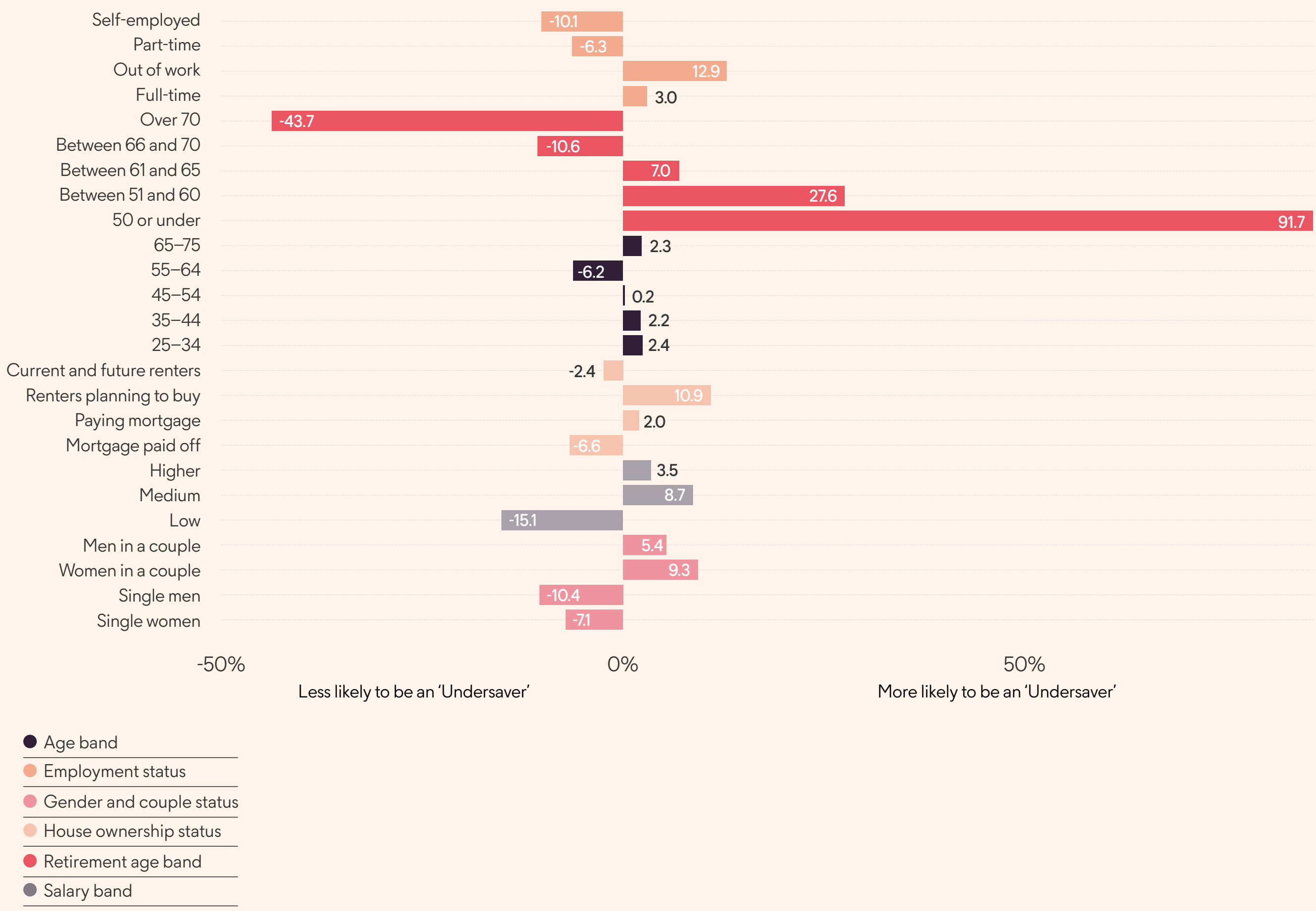
Characteristics of the 'Financially Struggling' (relative to DC savers as a whole)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 20

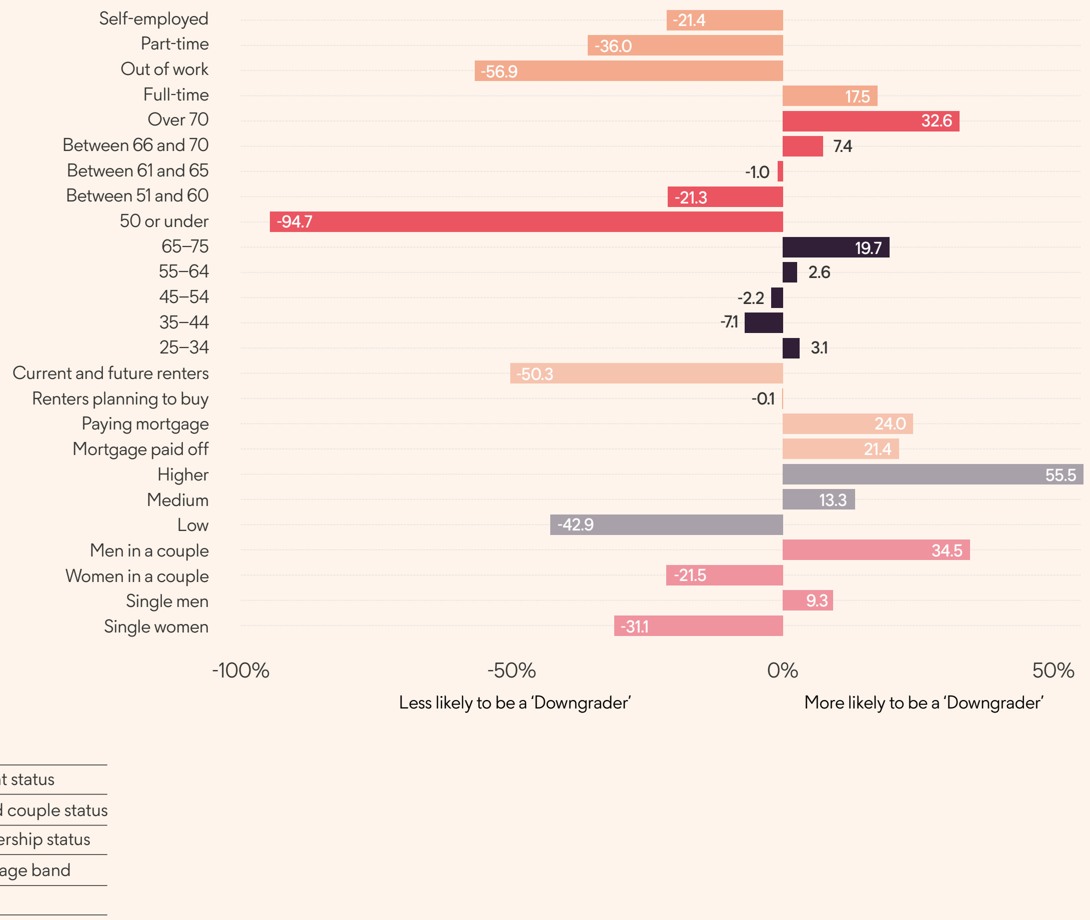
Characteristics of the 'Undersavers' (relative to DC savers as a whole)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 21

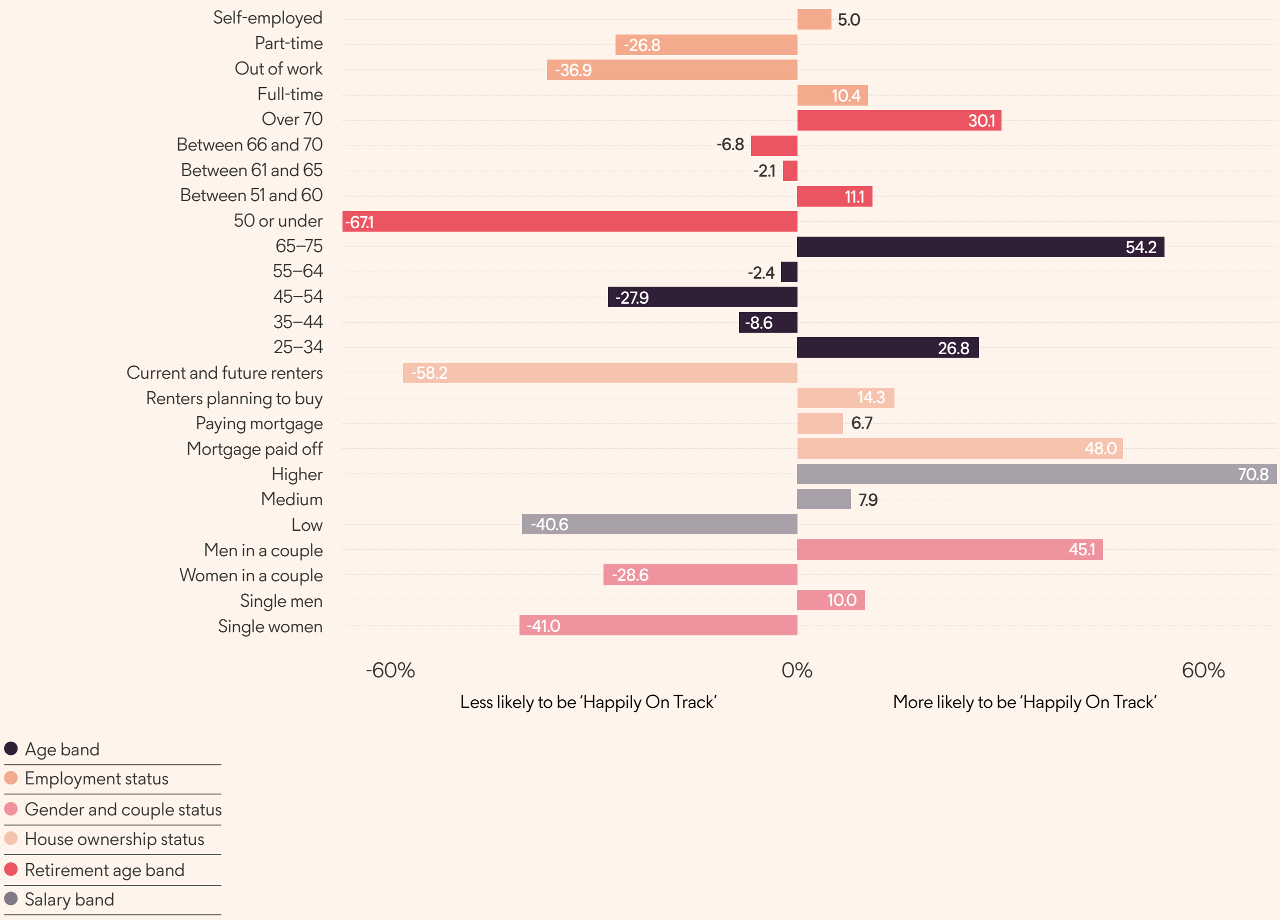
Characteristics of the 'Downgraders' (relative to DC savers as a whole)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

Figure 22

Characteristics of the 'Happily On Track' (relative to DC savers as a whole)



Source: Frontier Economics analysis of the Phoenix Longer Lives Index dataset.

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