

More than six million Britons over-50 look set to retire on less than minimum wage

Do you know how to make the right choices when taking your pension benefits?

The LV= State of Retirement Report [1], now in its fifth year, reveals 6.25 million Britons aged over-50 (28 per cent) have no pension plan in place and look set to rely on just the state pension in retirement, a huge increase on the 1.2 million people who live solely on the state pension today [2]. The basic state pension equates to an annual income of up to £5,587 and averages at £9,672 a year when you take into account additional benefit income (e.g. additional state pension, pensions credit etc) [3]. This is up to 51 per cent lower than the income someone in the UK working full time on the minimum wage would earn, which is £11,477 per year [4].

Even with Government plans to introduce a Universal State Pension at £140 per week, this will still provide an annual income significantly below the minimum wage.

When asked if they could live on the equivalent of the minimum wage in retirement, 43 per cent said they couldn't live on that alone and over a quarter (27 per cent) said they would really struggle.

For those who have private pension savings, the average income in retirement is currently £7,488 a year [5]. When you combine this with the state pension many people are still only living on marginally more than the minimum wage.

Retirement savings shaved in run-up to retirement

The LV= report also reveals that 15 per cent of those already retired, or within five years of retirement have cut back on contributions to their long term savings over the

last 12 months, with an average decrease of £296 a month or £3,552 per year. This equates to a total of £8.31 billion "lost" in retirement savings in the last year [6]. While these are significant cuts, a greater sum, £11 billion, was shaved off retirement savings by this group in 2011 (£343 per month) [7]. Savers into private pension plans have made the most significant cuts in 2012; an average of £523 per month over the last 12 months, compared to a £164 cut on average made by those with public sector pensions.

Inclined to plan ahead

It is worrying that so many people are saving little or nothing for their retirement "wages", instead expecting to fall back on the state pension. While working hard up to their retirement to bring home a decent wage, I'm sure many will be disappointed to retire with an income equivalent of less than the minimum wage. If more people reflected on their pension as a "wage" that they will potentially be relying on for over two decades, they might feel more inclined to plan ahead.

Over half (58 per cent) of those set to retire within five years have become more concerned over the last year about their financial situation and their level of savings for retirement. The biggest worry is the rising cost of food and utilities (76 per cent), followed by the general poor state of the UK economy and national debt (63 per cent). The effect of low interest rates impacting savings (61 per cent), high inflation (61 per cent) and the recent reforms to UK pensions (44 per cent) are all major causes of concern pre-retirees.



Coalition Government pension reforms

The recent proposals from the Coalition Government around pension reforms have not been well received; the LV= report looks at over-50s views on which proposals and initiatives are fair bearing in mind the current economic backdrop:

- Nearly a third (32 per cent) believe the introduction of a flatrate state pension for all, and abolition of pension credits is a fair introduction
- Only 8 per cent agree with the freeze in age-related allowances that will impact pensioners (dubbed the “Granny Tax”)
- A quarter (24 per cent) believe the raising of the retirement age to 67 for men and women by 2028, and to 68 by 2046 is justified
- Just 14 per cent agree with the introduction of a new “defined ambition” pension scheme that would share the risk between the employer and individual
- Just 17 per cent agree with taxing the state pension at source, before it is paid to pensioners (currently taxed after payment) is fair | Over a third (34 per cent) think changes to public sector pensions to make them more
- A quarter (24 per cent) agree with the new auto-enrolment workplace pensions

- A third of all over-50s (30 per cent), do not think that any of the above Government proposals are fair

The Coalition Government has proposed a raft of changes in the run-up to, and in, Budget 2012, which will have a huge impact on retirees. Many feel it is this group who are taking the biggest hit as a means to help the economy to stabilise overall, which has come as a bitter pill to the older generations, especially as the current high inflation and low interest rate environment has already hit them hard.

Unsurprisingly, very few are supportive of the Government’s reforms or think they are fair – particularly when it comes to the freeze in age-related allowances and the rise in retirement age. Unfortunately many of these changes may be a ‘necessary evil’ given the demographic challenges ahead. Ensuring clear communication around these issues is key, otherwise there is a risk that people will be further alienated from the critical need to plan for retirement.

What more could the Government do to encourage people to save for retirement?

The over-50s believe more can be done by the Government to help people save for their retirement, and to save more.

The top five things the over-50s believe should be done are:

Suggested Government initiatives	% of over-50s who agree and support
Improve the tax breaks on pensions and savings	48%
Simplify pensions	47%
Ensure the pensions industry is fair and transparent when it comes to charges and fees on pensions	42%
Raise interest rates to benefit savers	42%
Reduce “red tape” and changes / uncertainty in pensions regulation which makes it difficult to plan effectively for retirement	34%
Bring back final salary pension schemes or find a similar solution	27%

Managing retirement expectations

Financial pressure is lowering expectations of when the over-50s plan to retire; just over a quarter (29 per cent) of over-50s not already retired have changed their expectations over the last 12 months and now expect to retire later in life. One in eight (12 per cent) do not want to work past the age of 65 but know they may be forced to due to financial pressure. The pressure on this group to save enough money is heightened for over a third (36 per cent) who have had family members relying on them for financial support over the last 12 months.

The battle of the sexes

Worryingly over a third 37 per cent of women aged over-50 do not have a private pension, compared to a fifth (20 per cent) of men. Of the women that do have a pension, 16 per cent in or nearing retirement have decreased the amount they have put into their long term savings, by an average of £196 per month, with 15 per cent of men decreasing their savings, by an average of £391 a month. Women have significantly changed their retirement expectations in the last year, as 35 per cent expect to now retire later, compared to 25 per cent of men.

The long term impact of cutting pension contributions will be hugely detrimental to pensioners' buying power and quality of life in retirement. When approaching retirement you should consider all the options to make the most out of your pension pot, as there are many available - everything from drawing an income while your pension stays invested, taking an enhanced annuity that pays a greater income if you are not in perfect health, to releasing equity from your home. If you would like to discuss the range of retirement services we offer, please contact us for further information.

[1] All figures in this release are taken from the State of Retirement Report which was produced by Opinium's Desk Research unit and the Survey team; Survey research was carried out amongst a custom sample of older aged Britons by Opinium Research on behalf of LV=. The online poll amongst a custom sample of 1,559 British adults' aged over-50 years was carried out between 20-27 April 2012.

[2] The LV= research found that when asked "which if any of the following types of pension schemes do you have?" 28 per cent of over-50s said "do not have a pension / savings aside (aside from state pension)". The over-50s population in the UK is currently 22.32 million (Source: Population projections by the Office for National Statistics; 2010-based projections). 28 per cent of 22.32 million equate to 6.25 million.

According to the Office for National Statistics' "Households below Average Income" Survey (based on the Family Resources Survey), and latest available analysis on these datasets reveals that around 1.2 million pensioners (or 9 per cent) rely on just the state pension for their retirement income. This equates to £5,587 each from the basic state pension which is £5,890 less than the UK minimum wage (£11,476).

[3] The figures are taken from desk research carried out by Opinium Research on behalf of LV= as part of the State of Retirement Report in April 2012. According to the Department for Work and Pensions the basic state pension for a single person equates to an annual salary of £5,587 (based on a maximum payment of £107.45 per week times 52 weeks). This equate to £2.96 per hour assuming 36.3 hours are worked per week over 52 weeks a year. Additional benefit income equates to an average of £9,672 per year including basic and additional state pensions, widow's pension and widowed parent's allowance, income-related benefits (pension credit, housing benefit, council tax benefit and social fund grants) and tax credits, disability benefits, winter fuel payments and carer's allowance (this benefit average is based on the Pensioners' Incomes Series 2009/2010, the latest available data on actual earnings of pensioners in the UK published by the Office for National Statistics).