Canada Life

The Retire UK Report

Income, Spending and Wealth and the next wave of retirees

Retiree incomes hit new heights, and the retired population takes a bigger slice of the UK income pie

Foreword

At Canada Life we are committed to helping people prepare for retirement, and helping retirees make the most of their savings, even if they want to continue working in some capacity when they give up full-time employment for the last time. Huge changes in the law mean retirees now have enormous financial freedom, and so need financial advice to manage and enjoy their new-found financial firepower. At the same time, people can expect to have a longer retirement than ever before.

Under the CanRetire banner, we offer our customers a whole range of solutions that give them the flexibility to meet their retirement goals. So whether they want to consolidate multiple pension pots, take their pension as an income, as a lump sum or even both – they can. For today's retirees, understanding how to manage their money to ensure it provides a good standard of living for the rest of their lives is more important than ever.

Our Retire UK report is the first in a series that will shed light on how the face of retirement has changed for the better.

Richard Priestley
Executive Director, Retirement Income, Canada Life

Executive Summary

Part 1: Income

- The retiree population is growing rapidly, and has reached 11.7m. By 2025, it will make up one in five UK citizens
- Across the UK, retirees receive £176.8bn per year in income, up by 170% from £65.4bn in 1995
- Income across non-retirees has risen to £933.6bn, a much slower rise of 118% over the same period
- Average income has increased per retired household, standing at £23,695 compared to £10,427 twenty years ago
- In the last twenty years, retirees' income growth has comfortably outstripped the wider population's, with 2015 average household income 127% higher than 1995
- Rising income from private and occupational pensions is the biggest factor in household income growth, tripling since 1995
- Divergence between retired and non-retired household incomes has accelerated since the recession
- By 2025, we estimate retirees will receive 18% of all UK household income compared to 16% this year

Part 2: Spending

- Increased income has brought higher spending among retired households, with spending up 53% per household in the last decade
- Disposable income has increased 43%, indicating that retirees feel comfortable spending more of their income
- A retired household will spend £17,465 this year, up from £11,438 in 2005
- Retired households will spend a total of £130bn this year, up 71% compared to 2005, and spending is forecast to reach £194bn by 2025
- Non-retired households have seen a much slower increase, with spending up just 27% since 2005 – one third of the rate of increase seen by retired households
- Retirees are enjoying life more, with increased spending on having fun (leisure, entertainment, alcohol etc) up 56% per household in the last decade, while spending on essentials is up only 38%
- Rise is much slower among non-retired households, with spending on having fun up just 9% since 2005 and spending on essentials up 22%
- Retirees are now spending £13.6bn more per year on having fun than in 2005, pointing to an improved quality of life

Part 3: Wealth and the next wave of retirees

- Retirees hold £394bn in net financial wealth, one third of UK total
- Retirees' net financial wealth largely unaffected by downturn, up by 25% since 2006-2008, with their share of UK financial wealth growing
- Those approaching retirement have also seen net financial wealth grow in relative terms too, climbing to 21.8%
- Retired owner-occupiers have amassed £1.66trn in net property wealth, excluding property investments, up 79% since 2005
- Pre-retirees boast a further £926bn, meaning 29% of the population owns 77% of the UK's net property wealth
- Increasing owner-occupation among these two groups has been pivotal, as this form of tenure falls in other age groups
- Pensioners' private pension wealth rises to £1.15trn, but falls as a proportion of UK pension wealth as younger savers, with more risk in portfolios, benefit from market upswing
- Next ten years see average retirement age increase by five years, and pre-retirees are seven times more likely to seek paid employment in retirement than current retirees (43% compared to 6.3%)
- Current standard of living among retirees is better than ever, and pre-retirees' finances in strong shape. Financial advice will be crucial to ensure they are maximising their financial firepower

The UK's population of over 65s is growing rapidly

As it does so, it is changing the UK economy. New patterns of household income, of who holds the nation's spending purse-strings, and of how wealth is distributed, are emerging

Introduction

The UK's population of over 65s is growing rapidly. As it does so, it is changing the UK economy. New patterns of household income, of who holds the nation's spending purse-strings, and of how wealth is distributed, are emerging.

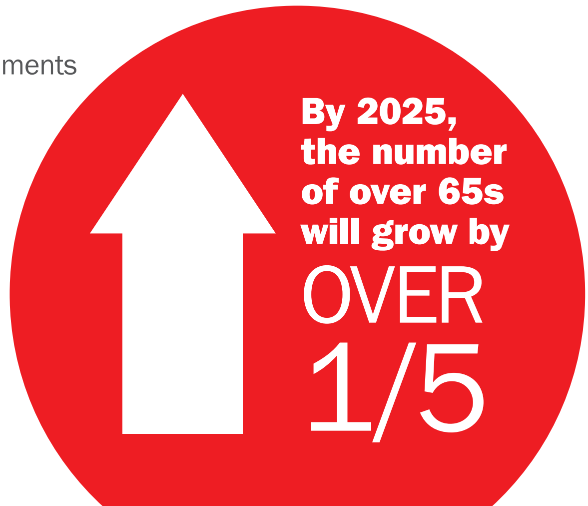
In this first Canada Life Retire UK report, we examine how the financial firepower of the nation's burgeoning population of retired people is developing. This is a group which, contrary to popular belief, has seen dramatic increases in its standard of living, far in excess of the wider population. Retiree incomes are still lower than younger households', but by a smaller margin than it seems at first glance, and they have been growing quickly.

We also consider the position of those 55-64 year olds who are now approaching retirement. How things will look for future generations depends largely on the decisions people make today for themselves. Planning ahead for your retirement is the most important way to ensure you can enjoy living standards at least as good as those of the current generation of retirees.

The Silver Army

In 1975, over 65s numbered one in seven of the population. Their ranks have swelled by almost half since then, reaching 11.7 million this year, according to ONS estimates. A relatively high birth rate and rapid immigration have kept the overall UK population growing briskly too, so the proportion of over 65s grew relatively slowly for most of the last forty years, only creeping up to one in six by 2012 (and a little more today). The next ten years will see a step change. By 2025, the number of over 65s will grow by over one fifth, and will make up more than one in five of our citizens, though by then, the state retirement age will have risen to 66.

This has obvious implications for governments considering pension policies as well as health and social care provision, but it also means profound changes in the economy as businesses increasingly adapt their products and services to meet the needs of a very large demographic with, as we shall see, a rapidly growing spending power.



Part 1

Income in Retirement

Retiree incomes hit new heights, and the retired population takes a bigger slice of the UK income pie

Retiree incomes hit new heights

This year, retirees' income will be £23,695, a 127% increase in 20 years

The UK is getting richer. As a country, we have enjoyed a big increase in living standards over the last twenty years. Household incomes[1] have doubled from £20,399 to £40,983, far outstripping consumer prices, which increased by almost half in the same period. And while living standards have recently been squeezed following the UK's deepest recession since the Second World War, that process is now over as wage growth accelerates.

This year, the UK will collectively enjoy £1.11trn in income, compared to £493bn in 1995, as population growth has combined with these rising incomes.

We are not all moving at the same speed. Retired households have done much better than the rest of the population (whom we call non-retirees) though they came from a lower starting point. In 1995, the average retired household had an annual income of £10,427, of which half came from state benefits, and half from a range of private sources, predominantly pensions, but also investment income. This year their income will be £23,695, an increase of 127% in twenty years.

Private sources of income rise fastest, despite low savings interest rates

On average, income from private and occupational pension schemes has risen fastest, tripling in twenty years (see FIG.1), while income from state benefits has more than doubled, up almost 119%. In today's low interest rate environment, income earned from savings and investments has, however, fallen markedly since 1995. Retirees have noticed the increase in income too. 61% say their income has increased since they retired, compared to just 12% who say it has declined.

FIG.1 Retired Household – Sources of Income[1]

Source of Income	1995	2005	2015	Change 1995–2015
Private Pensions/Annuities	£3,319	£6,260	£9,998	201%
Investment Income	£1,629	£1,540	£1,490	-9%
Other Private Income	£293	£689	£828	183%
Total Private Income	£5,241	£8,489	£12,315	135%
State Pension	£3,804	£6,062	£9,192	142%
Other Benefits	£1,382	£2,277	£2,187	58%
Total State Benefits	£5,186	£8,339	£11,379	119%
Total Income	£10,427	£16,828	£23,695	127%

(Source ONS)

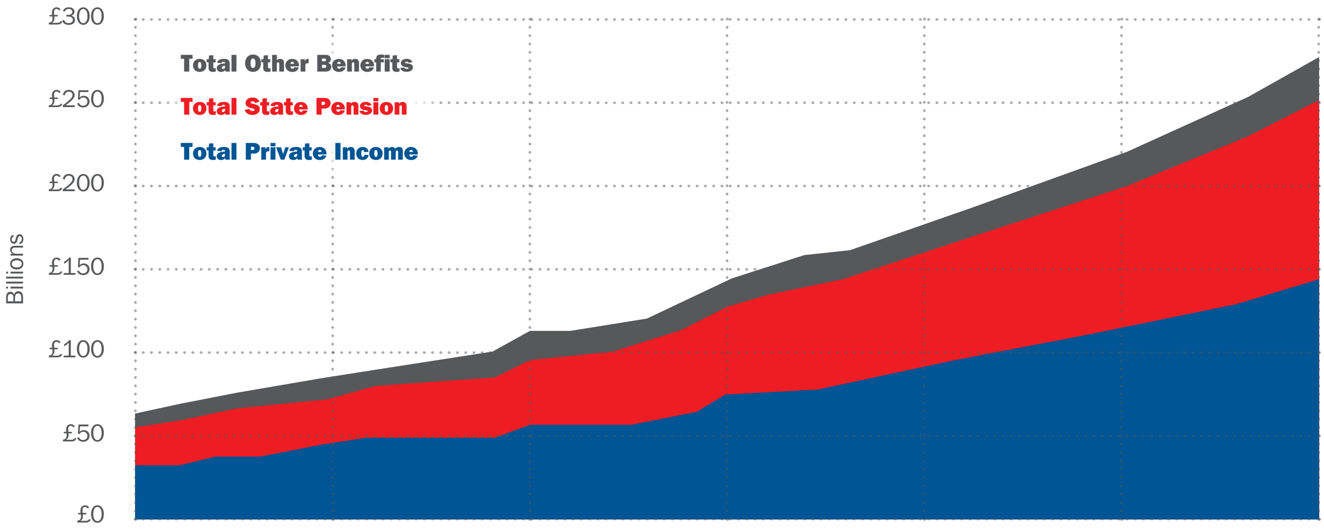
1 Gross household income, source ONS

Growing retiree incomes combine with a growing population

Once population growth is taken into account, the figures are even more dramatic. Since 1995, the number of retired households has grown by 1.2 million to 7.5 million. Higher retirement incomes, combined with the rising population of older people, means their collective income has soared. The total income of the UK's retired population has risen almost threefold from just £65.4bn in 1995 to an astonishing £176.8bn this year.

Since 1995, the number of retired households has grown by 1.2 million to 7.5 million

FIG.2 UK Retired Population – Gross Income

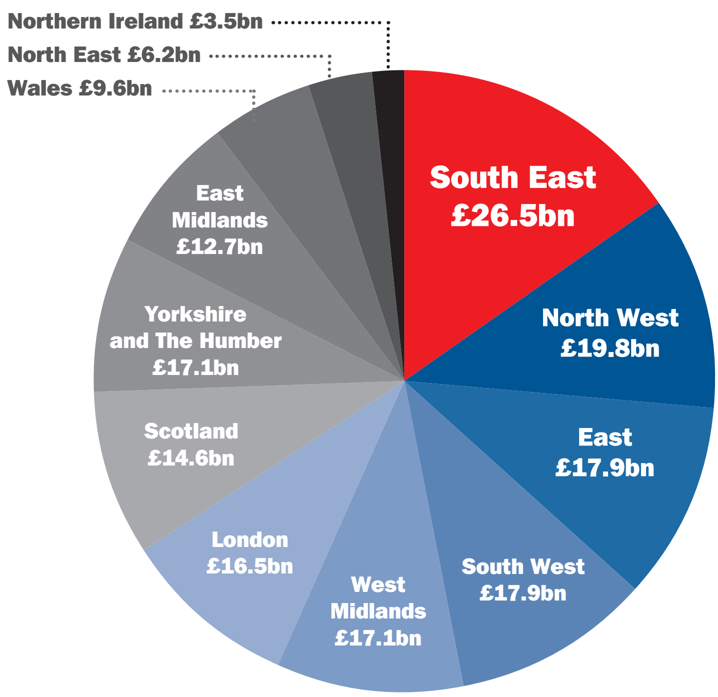


(Source ONS, Canada Life)

The largest pool of retirement income is in the South East

The distribution of the retiree income pool around the UK is largely determined by population, though the households with the highest incomes are to be found in London, the lowest in Northern Ireland and the North East. The largest retired population is in the South East (accounting for one in seven of the UK's retirees), with the smallest in Northern Ireland (accounting for one in thirty eight). With among the richest pensioners, and the largest retired population, the South East therefore receives the lion's share of the UK's total retirement income. (See FIG.3)

FIG.3 Retiree Income by Region 2015

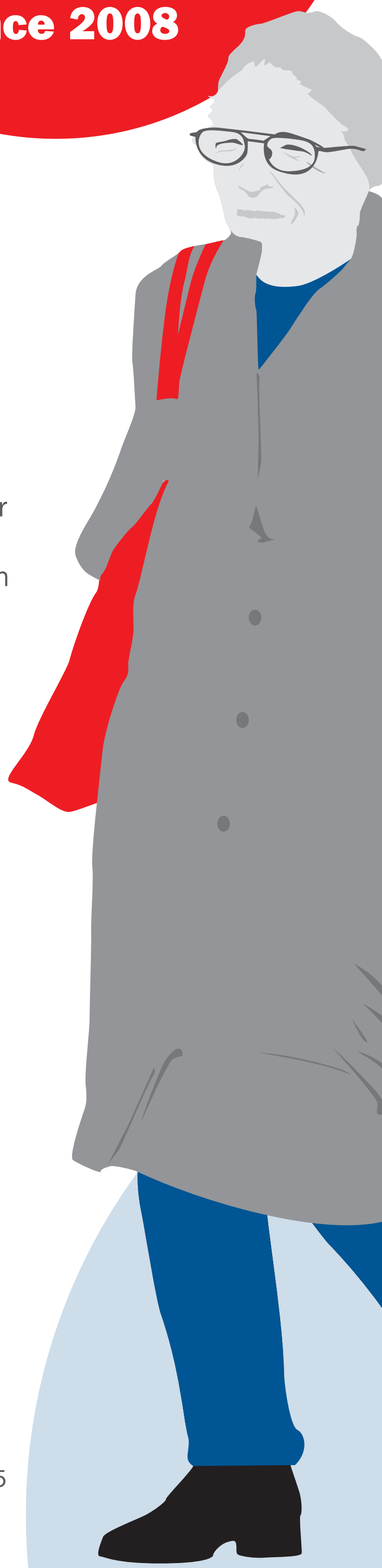


(Source ONS, Canada Life)

Retirees' total income has risen 2.8x faster than the rest of the country since 2008

And for those who have not yet retired, incomes have grown much more slowly

Non-retired households naturally have larger incomes on average than retired ones, as they tend to have working adults. In 1995, the income of a non-retired household was £23,894. The vast majority (89%) came from private sources such as wages and salaries, and self-employment income, with the rest topped up by benefits of various kinds. This year, the average non-retired household income will be £47,555, an increase of 99% in twenty years, exactly twice the pace of inflation, and significantly slower than retirees.

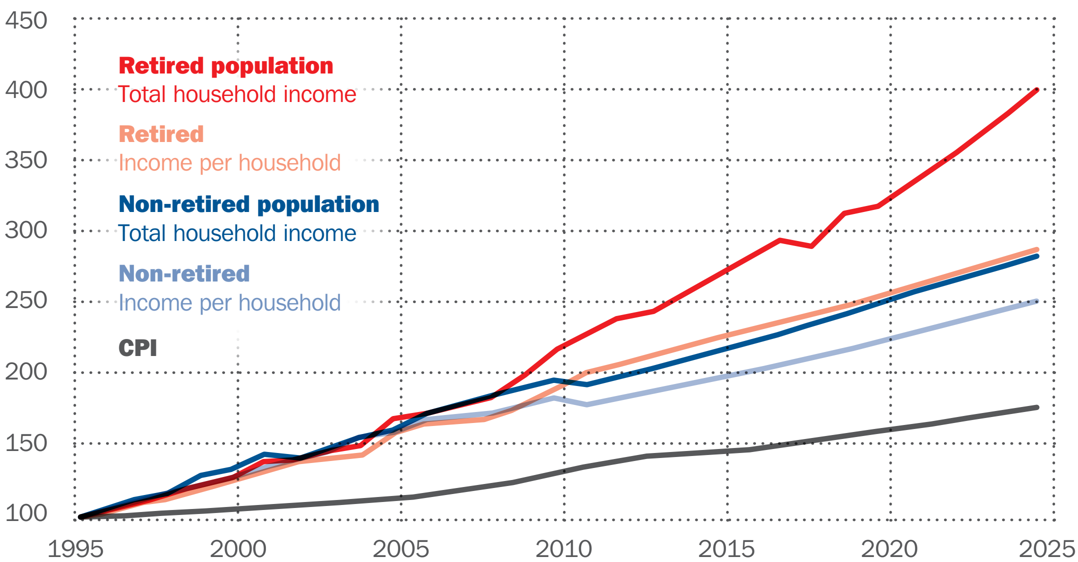


The retired population takes a bigger slice of the UK income pie, especially since 2008

In 1995, the total income of all the UK's non-retired households was £427.8bn. With a growing population, that will have risen to a collective £933.6bn this year, a rise of 118%. But this is far slower than the rising income firepower of retirees. Their population and incomes are both increasing much more quickly, pushing their collective income up 170%, far ahead of the rest of the UK.

Moreover, the divergence between the two groups has accelerated in the last few years. Since 2008, the average retired household income has grown by almost a third, while the rest have seen theirs rise just 13.6%, well below inflation of 18.0%. Taking rising populations into account, retirees' total income has risen 2.8x faster than the rest of the country since 2008. This divergence was even greater between 2010 and 2014. Retirees therefore have enjoyed improving living standards in the last few years, while the wider population have seen theirs eroded by the rising cost of living. (See FIG.4)

FIG.4 Indexed Retired vs. Non-Retired Income



(Source ONS, Canada Life)

An index is a way of comparing different series of data. In this case pensioner incomes versus non-pensioner incomes. Numbers are rebased to a common reference point, in this case 100, enabling the rate of change in each series to be measured quickly and compared easily. An index value of 110 = 10% growth.

Mind the gap – it's getting much smaller

With retirees' incomes growing so much faster, the gap between retired and non-retired household incomes has narrowed from 2.3x in 1995 to 2.0x today. That may still seem wide, but it does not compare like with like. First of all, retired households tend to be smaller, and they tend to be less highly taxed. The equivalised disposable income is an international measure that adjusts income for household size, and takes into account direct and indirect taxes. On that measure, the income of non-retired households is only 32% higher, the narrowest gap on record; the gap was at its widest in 1990, when the equivalised disposable income of a typical non-retired household was more than double a typical retired one.

1 in 10

retirees is saving more than £500 per month

Retirees enjoy highest ever living standards

Moreover, retired households tend to have lower living costs, particularly when it comes to paying for housing (as the next part of the Retire UK report, on the topic of spending, will show), so their need for income may not be as high. Indeed, many are able to save too. On average, retired households save £282 per month – £3,380[1] per year (source YouGov for Canada Life). One in ten is saving more than £500 per month. The income gap between the top and bottom retired households is also much narrower than the rest of the population. We do not disregard the plight of those who find themselves living in poverty in old age, but it mischaracterises this demographic group to assume that an impoverished lifestyle is inevitable in later life.

Overall, retirees are enjoying the highest living standards ever, both in absolute terms, and relative to the rest of the population.

By 2025, we estimate retirees will receive

18% of all UK household income

Compared to just 13% in 1995

1 We have separately calculated the difference between disposable income and household spending as reported by ONS. That implies the average retired household was able to save £3,313 in 2014, almost precisely in line with our survey's findings.

The next ten years will continue to see rapid growth in the income firepower of UK retirees

The triple lock on the state pension has served retirees well in recent years, ensuring it always rises at least as fast as wage growth, while private pension income has also grown strongly. Even if their income growth no longer outstrips everyone else's from here on, the UK's ageing population means retirees' total income will continue to grow faster. By 2025, we estimate retirees will receive 18% of all UK household income (based on 66 as the retirement age), compared to 16% this year, and just 13% in 1995. Their total incomes will have risen more than fourfold in thirty years, and will have tripled on a per household basis.

Retirees receive £176.8bn per year in income, up 170% since 1995

Part 2:

Spending in Retirement

From necessities to fun: the surging strength of the silver pound

Retirees are spending their increased incomes

Higher incomes have brought higher spending. Over the last ten years, the typical retired household has increased its spending by 53%. Over the same period, disposable income has increased 43%. The amount saved per annum has, however, remained stable at around £3,300, as retirees have felt increasingly confident about their financial position, and have spent all the additional disposable income they have received. All categories of retirees have increased their spending significantly, but those dependent on state benefits have increased theirs fastest (+69% for a state-dependent couple, compared to +42% for a couple with private sources of income too).

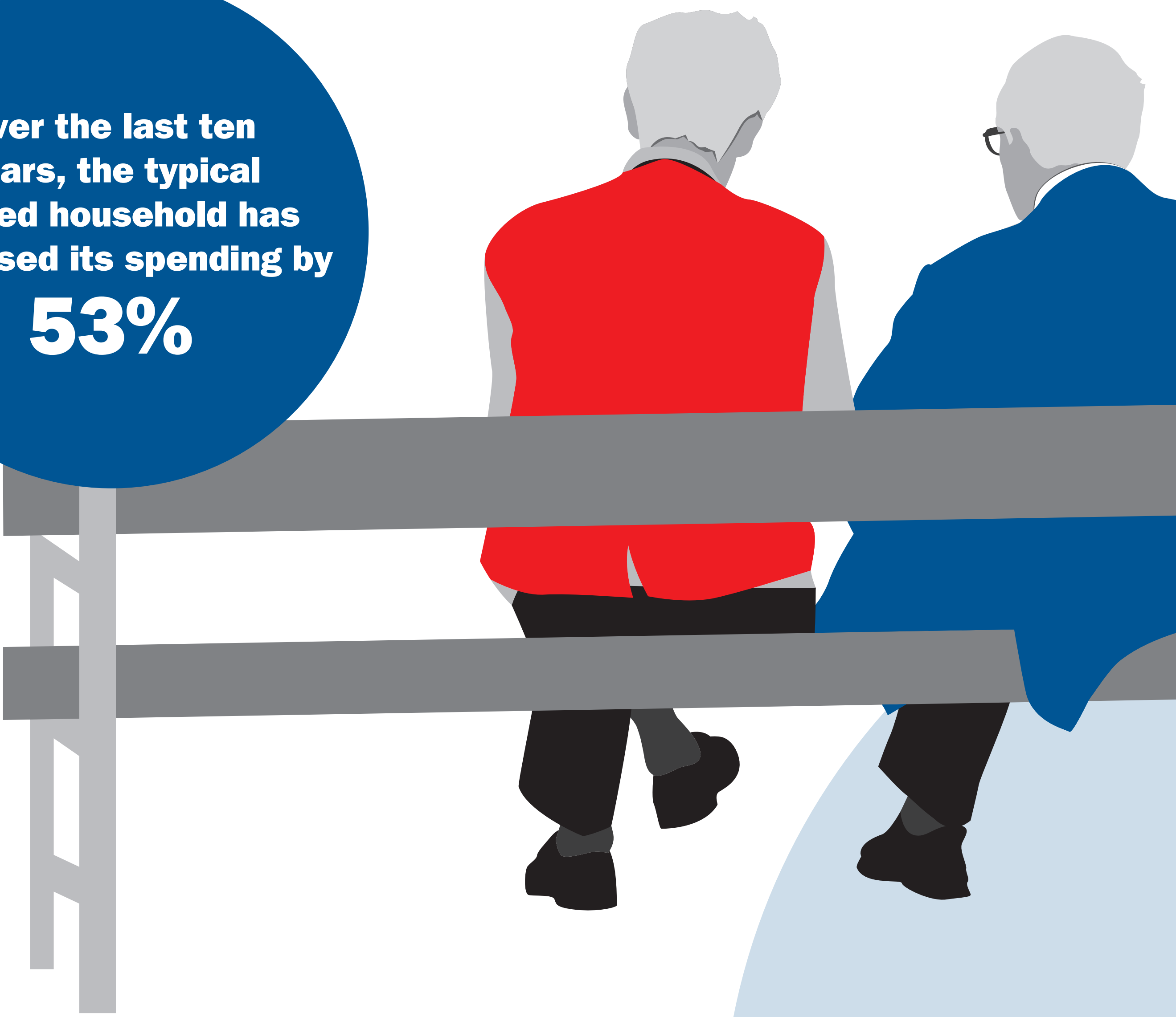
On average, a retired household will spend £17,465 this year, up from £11,438 in 2005.

Spending firepower of the UK's retirees rises sharply

The spending power of the total retired population, which takes into account the rise in their numbers, is now formidable. This year they will spend £130bn, an increase of 71% in ten years. If their spending keeps pace with disposable income over the next ten years, we estimate it will reach £194bn by 2025, even allowing for the state pension age to increase to 66 from 2018-2020.

Over the last ten years, the typical retired household has increased its spending by

53%



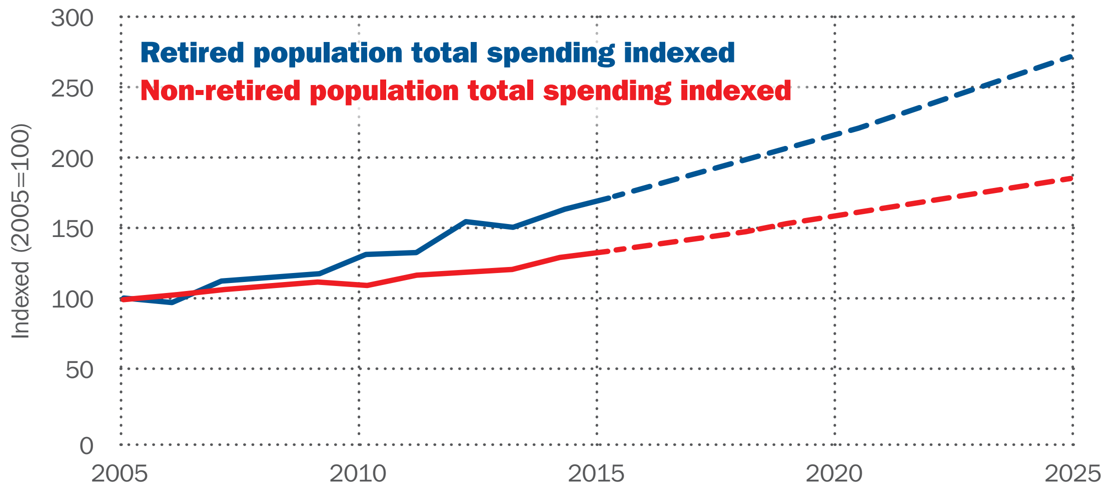
The rest of the UK has tightened the family purse-strings

By contrast, non-retired households on average have seen their spending grow only 21% over the last ten years, compared to a 26% increase in disposable income. This shows not only how much more slowly their spending has increased than that of retirees, but also that they have raised the proportion of their income they tuck away in savings as they tighten the family purse-strings.

A typical non-retired household will spend £32,297 this year, just inching ahead from £26,705 in 2005. In total they will spend £617bn this year, which, allowing for population growth, is an increase of only 27% since 2005.

The retired population has therefore increased its spending almost three times faster than the rest of the UK. (See FIG.5)

FIG.5 Retired Spending vs. Non-Retired Spending



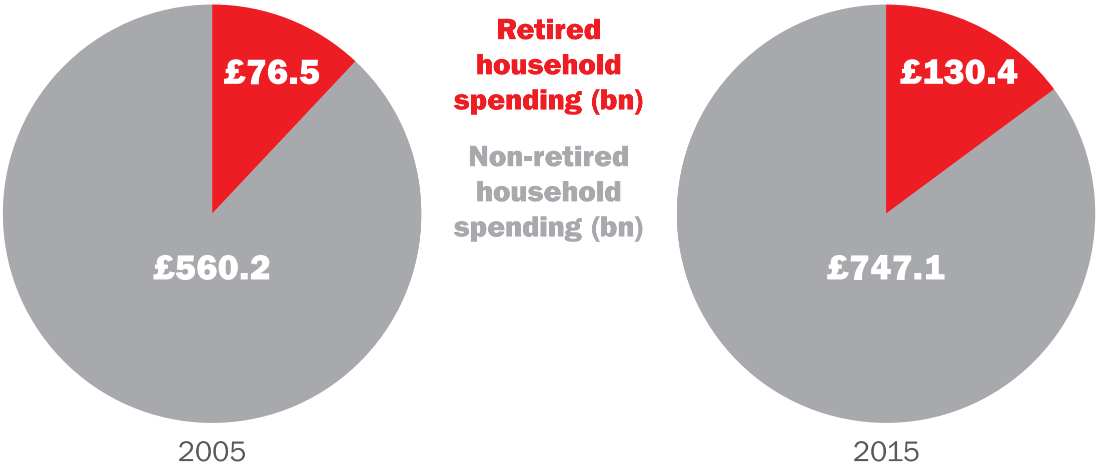
The retired population has increased its spending
3x faster
than the rest of the UK

A typical retired household has increased its spending on essentials just 38% in the last ten years to an expected £2,952 this year

Retirement spenders take a bigger slice of the pie

In 2005, retired households made up just 12% of the UK's overall spending, but within just ten years, they have increased their share by a quarter, now comprising 15% of the total. As the population ages, the spending of the UK's retirees will continue to outpace the wider population. This has clear implications for businesses marketing their products and services. Increasingly they will need to address the growing power of the silver pound.

FIG.6 Retired Spending vs. Non-Retired Spending



The shift from necessities to having fun

This all becomes clearer still when we look at the broad components of household spending and how they have changed. We grouped spending as reported in the ONS Family Spending Survey into five broad categories – essentials, housing (including energy), transport, having fun, and other. Essentials include food and clothing, while having fun comprises alcohol, tobacco, cultural pursuits, entertainment, restaurants and hotels.

Having fun is much easier now that incomes are so much higher, though single retirees may be feeling left out

A typical retired household has increased its spending on essentials just 38% in the last ten years to an expected £2,952 this year. By contrast, the money retirees are splashing out on having fun is up 56% to £4,279 on average. Wealthier couples in particular are having more fun. Their spending on fun is up 77% in ten years, while those who live alone (whether richer or poorer) have increased this portion of their spending more slowly than their overall basket, perhaps because they are more likely to be older and less active, but also because they no longer have a partner to share the fun with. Retiree spending on transport has risen 50.8%.

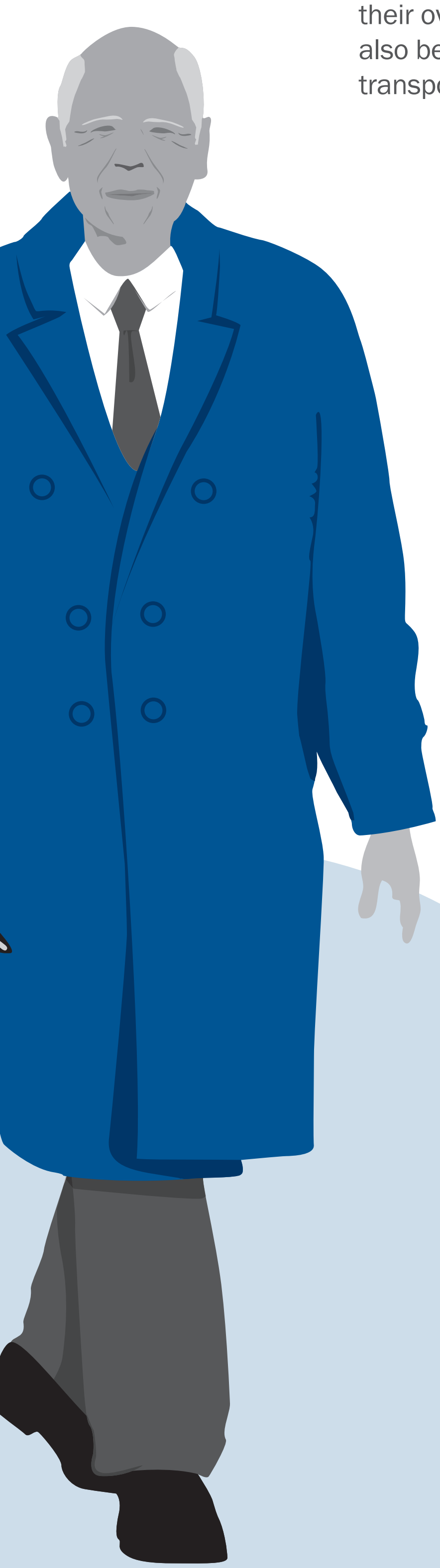
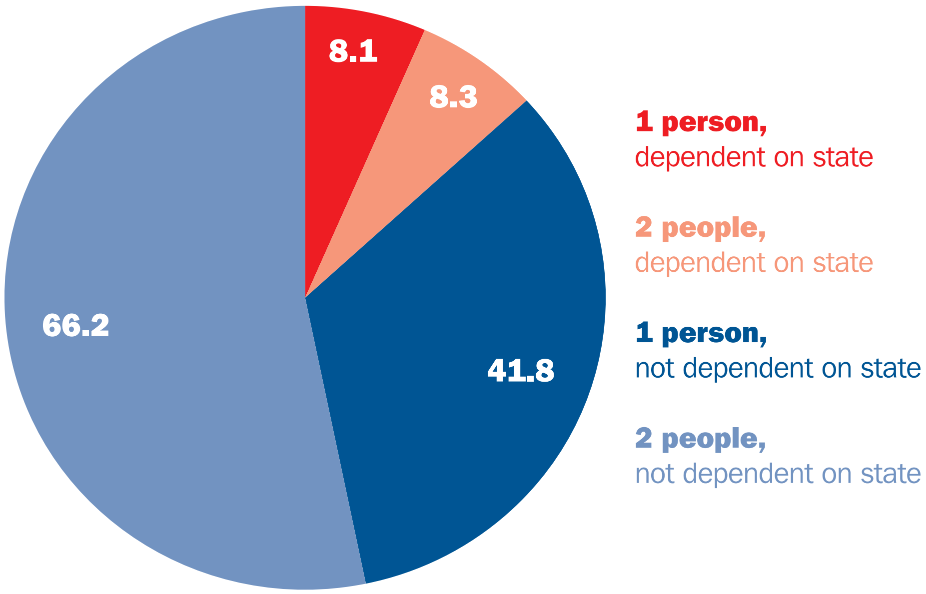


FIG.7 Retired Spending 2014 – Annual Total £bn, by Type of Household



Housing costs rise faster for poorer pensioners than richer ones

Housing spending has risen the most, up 70%, though at £4,681 per year, it is only a little more than the amount spent on having fun. An increase in rents paid by those retirees who do not own their own homes is a major factor behind the rise. The second is the larger share of their housing costs older people spend on energy, the price of which is sharply higher compared to 2005. Poorer pensioners have seen their housing costs rise faster than richer ones, principally reflecting lower home ownership, and therefore the higher rental component, and the higher share of the budget that energy costs will comprise for poorer people.

Larger retired population and more lavish spending means £13.6bn more fun in ten years

When we take population growth into account, we can see that retirees are now spending £13.6bn more every year having fun, than they did in 2005 (an increase of 74%). This is an important indicator of how the quality of life for older people (particularly couples) has improved significantly since 2005.

FIG.8 Average Retired Household – Annual Spending £

	2005	2015[1]	Change 2005–2015
Essentials	£2,146	£2,952	38%
Having fun	£2,743	£4,279	56%
Housing, fuel and power	£2,746	£4,681	70%
Transport	£1,239	£1,869	51%
Other	£2,564	£3,685	44%
Total Expenditure	£11,438	£17,465	53%

FIG.9 All Retired Households – Total Annual Spending £bn

	2005	2015[1]	Change 2005–2015
Essentials	£14.3	£22.0	54%
Having fun	£18.3	£31.9	74%
Housing, fuel and power	£18.4	£34.9	90%
Transport	£8.3	£13.9	68%
Other	£17.1	£27.5	61%
Total Expenditure	£76.5	£130.4	70%

The rest of the UK falls far behind the retirees

Among the rest of the population, spending trends have been very different indeed. Not only is overall spending up much more slowly per household (21% in ten years, compared to just 26% increase in disposable income, as we discussed above), but the rate of growth of different types of spending is quite different to retirees too.

FIG.10 Non-Retired Household – Annual Spending £

	2005	2015[1]	Change 2005–2015
Essentials	£4,091	£4,997	22%
Having fun	£6,567	£7,181	9%
Housing, fuel and power	£6,831	£9,266	36%
Transport	£3,782	£4,594	21%
Other	£5,433	£6,259	15%
Total Expenditure	£26,705	£32,297	21%

FIG.11 All Non-Retired Households – Total Annual Spending £bn

	2005	2015[1]	Change 2005–2015
Essentials	£74.1	£95.4	29%
Having fun	£119.0	£137.1	15%
Housing, fuel and power	£123.7	£177.0	43%
Transport	£68.5	£87.7	28%
Other	£98.4	£119.5	21%
Total Expenditure	£483.8	£616.7	27%

1 Estimated for full year 2015

Lower mortgage costs hold down housing spending, but there is little budget for fun

Spending on essentials (food and clothing) is up 22% per household, faster than spending overall, but still half the pace of the retired households, indicating that there has been some belt tightening compared to them. Spending on housing is up 36%. This is rapid compared to overall spending but far slower than retired households. The slower pace is explained by the fall in mortgage servicing costs among the home-owning population thanks to the record low interest rates the UK has experienced for the last few years, while higher energy costs take a smaller share of the household budget for the non-retired. Housing costs are nevertheless currently almost twice as high for a non-retired household than for a retired one.

FIG.12 Retiree Household Spending 2015

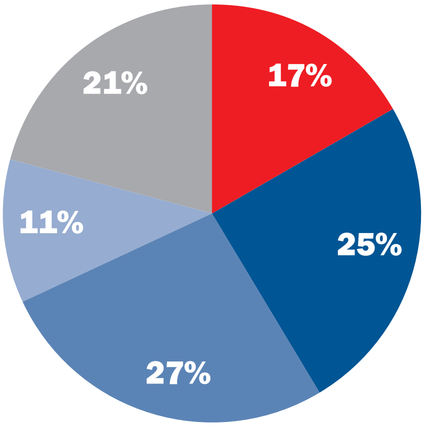


FIG.13 Non-Retiree Household Spending 2015

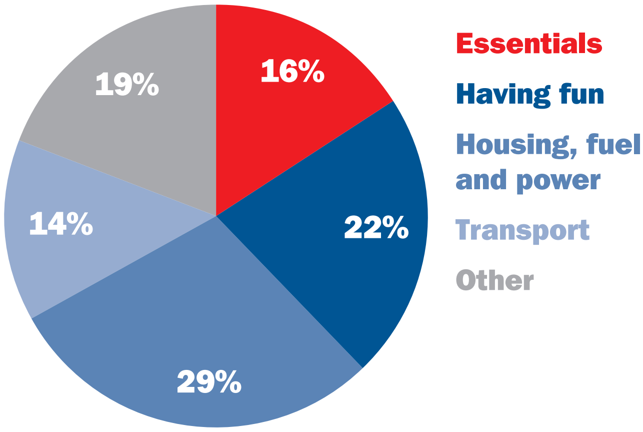
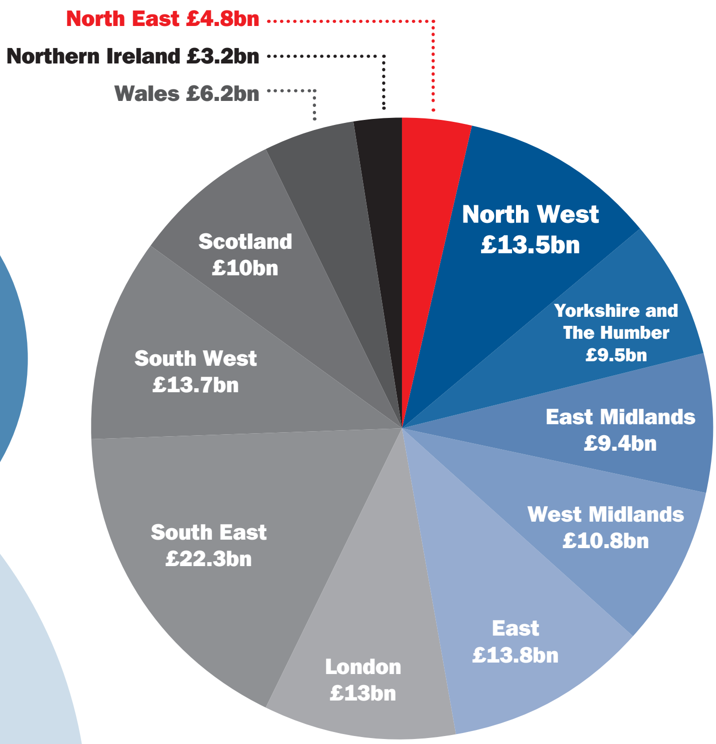


FIG.14 Retiree Total Spending by Region 2015



Spending on having fun inches ahead just 9% in ten years for the UK's non-retired

Most noticeably, spending on having fun has barely increased since 2005, up just 9% for the non-retired population according to the ONS Family Spending Survey. Retirees have increased their spending on these items almost ten times faster than the rest of the population. The impact of the recession on the UK's living standards is clear to see, as modest increases in income have been consumed by essential spending like food, housing and transport.

From a regional perspective, retirees in the wealthy South East spend the most, £20,584 per household this year, with Londoners just behind them. Those in the East will spend £18,404 this year. Together these three regions account for 38% of retiree spending, despite accounting for only one third of retired households.

Part 3

Wealth in Retirement

The financial foundations for retirement, and expectations of change

The financial foundations for retirement are strong

Not only are retirees enjoying much higher incomes, and making the most of them with big increases in their spending, but they are significantly wealthier too, whether we look at formal financial assets, private pensions or property. Indeed, much higher wealth helps explain why retirees have been comfortable allowing spending growth to outstrip income growth.

FIG.15 Wealth by Type[1]

Type of wealth	Retirees	Retirees' share of total (%)	Non-Retirees
Net property wealth (£bn)	1,667	49.4%	1,710
Private pension wealth (£bn)	1,154	32.2%	2,432
Net financial wealth (£bn)[1]	394.8	30.6%	894.2
Population (1000s)	11,664	18%	53,164.89

1 Based on analysis of latest ONS data

Financial wealth

Financial assets soar in value

According to analysis of the latest ONS data, retirees amassed net financial wealth of £394.8bn by the end of 2012[1], a figure which includes assets such as ISA savings, stocks and shares and cash in current accounts, but excludes pension assets. This is up 25.1% from £315.6bn in 2006-2008, demonstrating that the economic crash made little impact in this group.

Retired households hold almost one third of the UK's net financial wealth

Part of the increase is due to the growing number of retirees, but it is by no means the whole story. Average retired household financial assets stand at £37,755, and are likely much higher today, given the positive movements in the markets since the ONS compiled its data. However, even at this conservative reading, financial assets were 16.6% higher per household than the pre-crisis £32,390 average.

Retirees rapidly increase their share of the nation's financial wealth

Retired households currently hold almost one third (30.6%) of the UK's financial wealth, up from just over a quarter (26.5%) seen before the recession. By contrast, retirees make up only just over a sixth (18%) of the population.

Those approaching retirement enjoy large financial wealth too

Like their older peers, those approaching retirement (55-64 year olds) have also accumulated a large slice of the wealth pie. They own 21.8% of the UK total. This cohort of pre-retirees actually boasts larger assets per household than retirees, standing at £37,863, not surprising since they are still in the key accumulation phase, and have not started to live off their savings.

Between them, retirees and pre-retirees now own 52.4% of the UK's financial wealth, equivalent to £675.8bn, despite making up only 29% of the population.

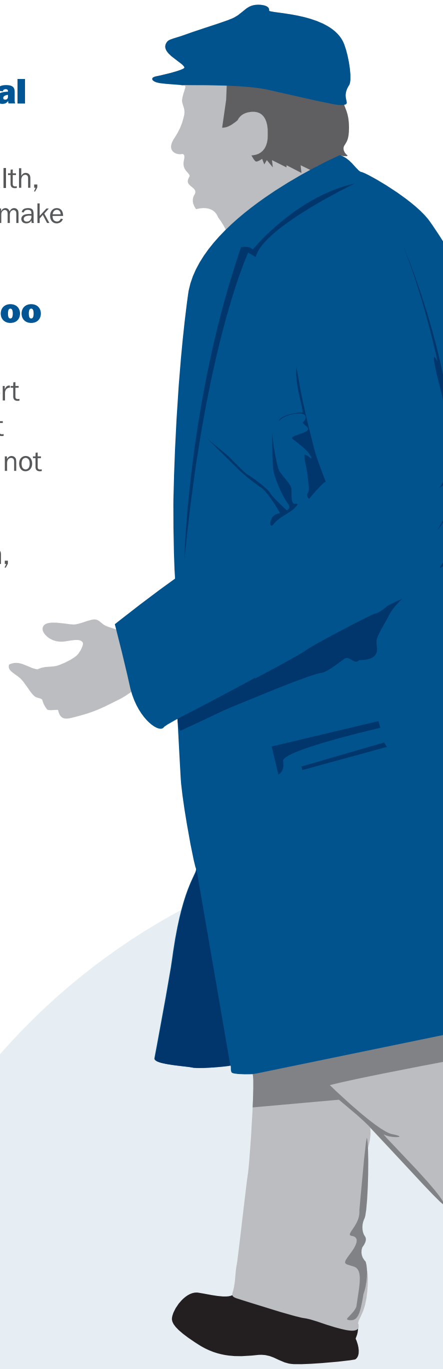
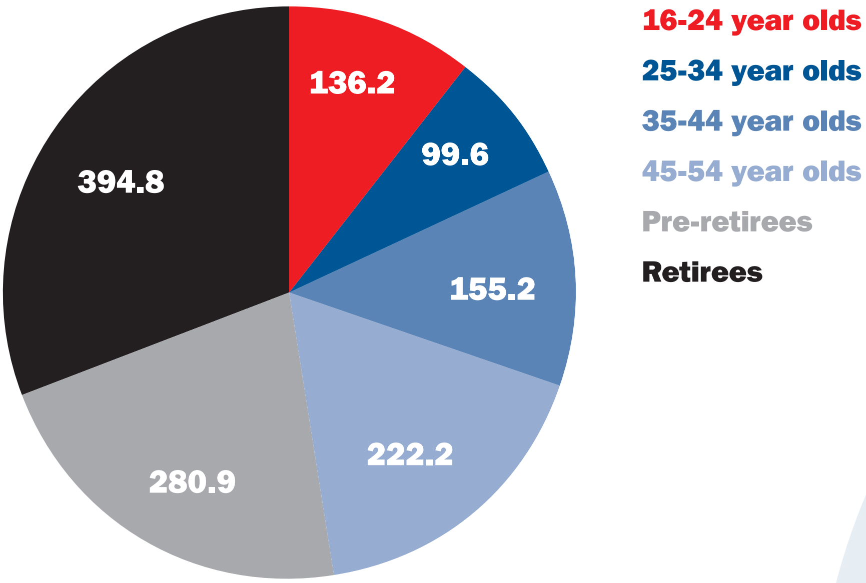


FIG.16 UK Net Household Financial Wealth (£bn)



1. Latest ONS Wealth and Assets Survey, published 2014, containing data up to 2012.

Property wealth

Retiree property wealth hits £1.66trn, half the UK's bricks and mortar

Property wealth naturally comprises the biggest component of retirees' assets. Across the UK, retiree owner-occupiers hold a collective £1.66trn in housing equity (value of homes less mortgage debt). Only one in eight still has a mortgage, and those that do owe just £45,478 on average. Retirees owe mortgages of just £31.9bn, secured against this vast property wealth. Collectively they own almost half (49%) of the UK's housing equity, but are just 18% of the population.

These figures do not include any second or buy to let properties owned by this group. With the value of the private rented sector standing at over £1trn and many retirees using property investment as a means to fund their retirement, a significant proportion of this is certainly also owned by retired households.

Retiree property wealth rises almost four fifths in ten years

With lower mortgage debt, and a higher level of homeownership than any other age group, retirees have been a key beneficiary of long-term property inflation. The rising retiree population has combined with higher prices of homes to push their housing wealth up by 78.7% in the last decade, climbing from £927.6bn in June 2005, and 8.2% in the last year alone.

Retiree owner – occupiers hold a collective £1.66trn in housing equity

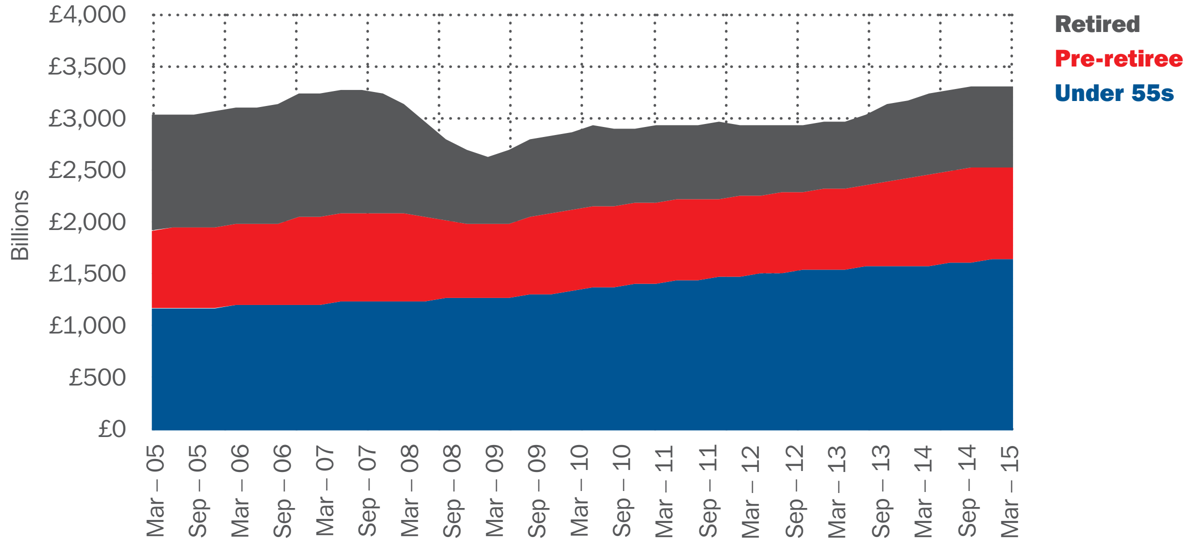
Those approaching retirement age have also tapped into the increase in property values in the last decade. Pre-retirees, aged 55-64, currently have housing equity of £926.1bn, and have seen the value of their holdings increase by a steadier, yet significant 20.6% since 2005, a period which has included a big downturn in the housing market. Owner-occupation among this group has increased, albeit more slowly than among retirees, contributing towards their slower growth in overall net wealth.

Over 55s own more than three quarters of the UK's housing wealth

Retirees and pre-retirees now account for over three quarters of the value of owner-occupied property in the country, meaning 29% of the population own 76.8% of the country's property wealth. While younger generations have increasingly chosen rented accommodation, retirees have continued to see property ownership increase. The number of retired owner-occupier households has increased by 265,000 in the last year alone, compared to a fall of 195,000 for non-retired households.

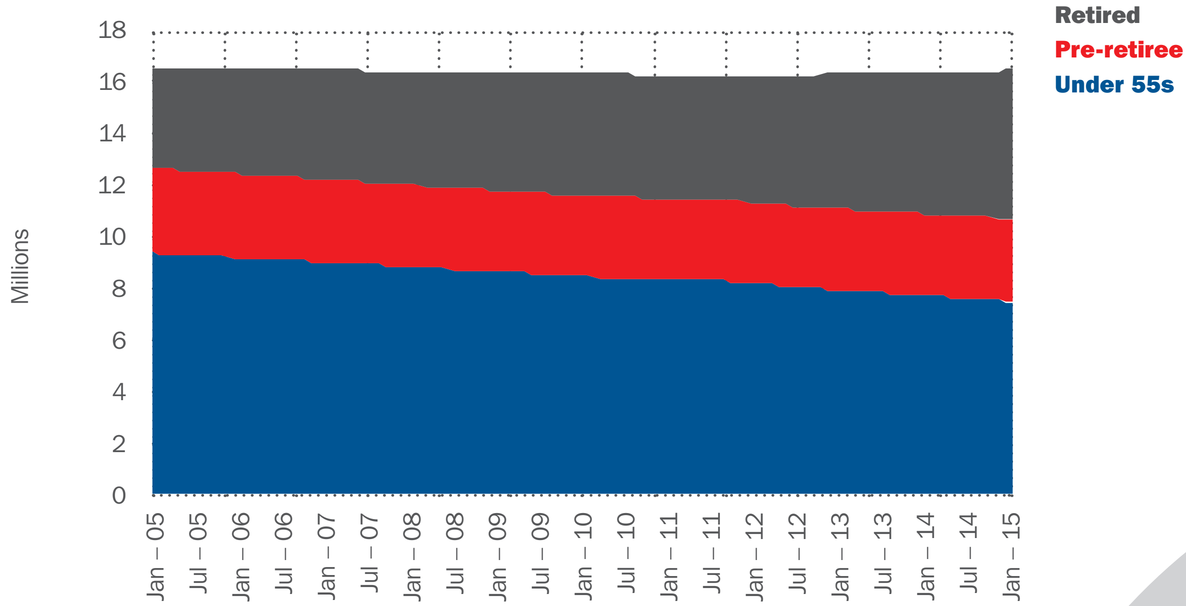
29% of the population own 77% of the country's property wealth

FIG.17 Net Property Wealth



(Source ONS Nationwide, Canada Life)

FIG.18 Number of Owner-Occupier Households



(Source ONS, Canada Life)

Pre-retirees (55-64) do hold more mortgage debt than retirees, although it is still proportionally very low compared to their gross property wealth. 31% of pre-retirees state they have a mortgage, with the average debt standing at £52,710, a loan to value of just 17.5%. As we have noted for other debts, this is typically paid down on retirement via accessing lump sums, or through downsizing.

Only one in eight retirees has downsized their home, though more pre-retirees expect to do so

Currently, one in eight of retired homeowners has downsized from their property on retirement to unlock equity. However, one in five homeowners (19%) approaching retirement expects that they will do the same. Notably, the strength of the finances of current retirees is apparent, with 8% stating they have actually upsized to a more expensive property. By contrast, just 2% of pre-retirees expect to do the same. As a growing component of a retiree's assets, property is set to play a more prominent role in funding retirement.

Just 31% of pre-retirees state they have a mortgage

Pension wealth

Private pension savings grow, but retirees see share of wealth diminish

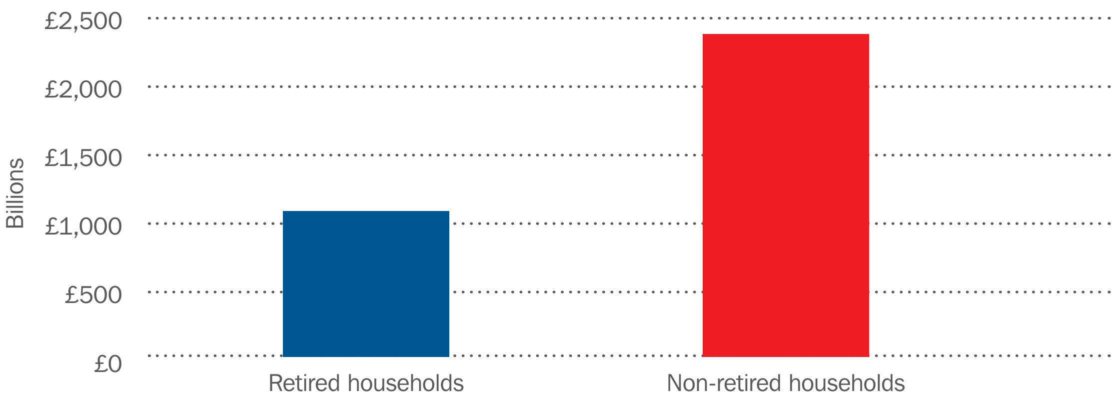
Growing wealth among older generations is also apparent in private pensions. Analysis of the latest ONS data shows private pension assets among retired households stand at £1.15trn, up from £992bn in 2006-2008.

However, unlike with the other financial assets we have discussed, private pension wealth is becoming slightly less concentrated among the retired population. Our calculations suggest retirees account for 32.2% of all UK private pension wealth, down from 34.3% before the recession set in. In part, assets of those further from retirement have benefited more from the post-downturn bull market, given that they are likely to be invested in higher risk assets than those in retirement.

This highlights the importance of investing in the right assets at the right time of life. Choosing the right approach to investment risk at the right time of life is a crucial decision all savers have to make, and on which most should take advice.

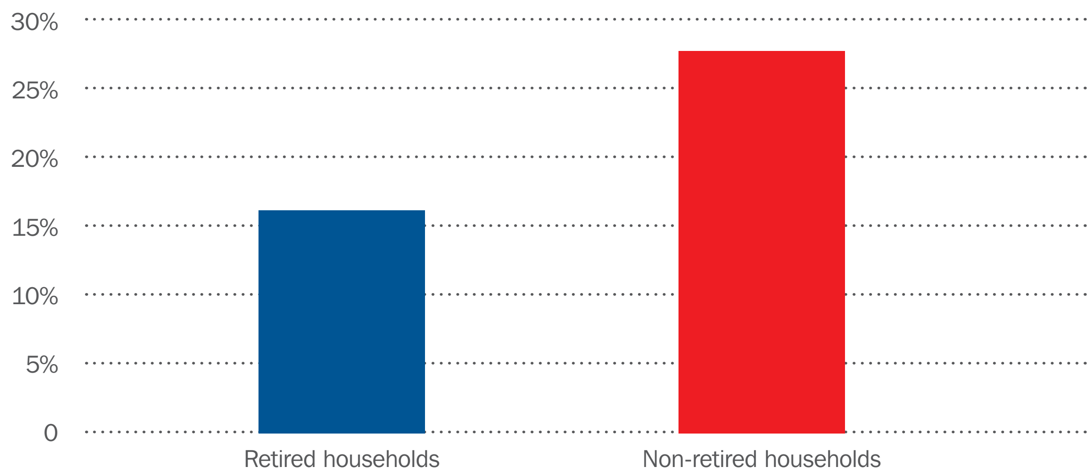
Private pension assets among retired households stand at £1.15trn

FIG.19 UK Private Pension Wealth



(Source ONS, Canada Life)

FIG.20 Increase in Private Wealth since 2006-2008



(Source ONS, Canada Life)

The next ten years

The next ten years will see people choose to retire later

However you look at it, the financial position of retirees has drastically strengthened in the last decade, paving the way for funding a better quality of life. But as we have seen from the increasing wealth of the next cohort (those aged 55-64), the next wave of retirees is by no means financially weak. Nevertheless, with increasing flexibility over how pensions are taken, not to mention a rising state pension age, the retirement of the next cohort is set to be markedly different. For one thing, pre-retirees anticipate they will retire later. Current retirees surveyed retired at an average age of 60. Meanwhile, those aged over 55 who have yet to retire expect to do so five years later, at 65. One in seven doesn't know when they will retire, but a tenth expect to retire older than 70, and one in twenty does not plan to retire at all.

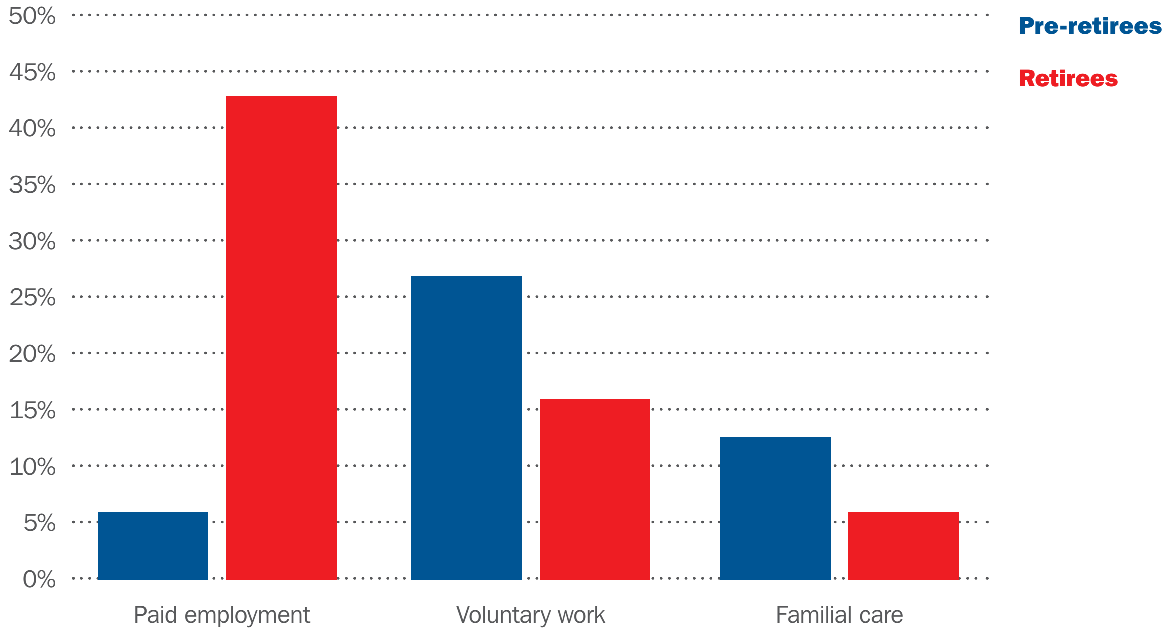
43%

of pre-retirees expect to earn an income from a job when they cease full-time employment

More people expect to work in retirement, with wealthier people more likely to expect to work

For many, working in retirement is also set to grow as a phenomenon. Currently, one in sixteen retirees has some form of paid employment. However, those approaching retirement are almost seven times as likely to work, with a staggering 43% of pre-retirees expecting still to earn an income from a job when they cease full-time employment. Moreover, higher income retirees are much more likely than poorer ones to work or expect to work in retirement, indicating that continuing work is a lifestyle choice, and not driven by financial need. Among those approaching retirement, half of those (49%) with incomes over £20,000 expect to work in retirement, compared to just one third (33%) of those on low incomes (under £20,000). There is little difference between the working intentions of middle and high income households.

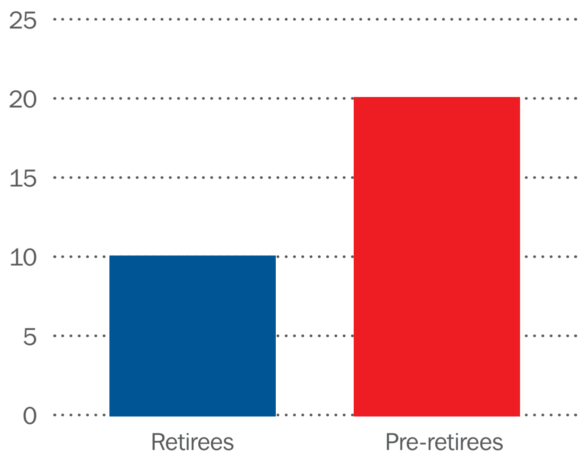
FIG.21 Changing Activity in Retirement



(Source YouGov Survey of 3,000 over 55s)

Prospective retirees also expect to work more intensively in retirement. Currently, those who work in retirement do so for an average of 11 hours per week, including voluntary work or familial care. This is set to almost double to 19.8 hours for the next cohort. Those who do work in their retirement take home pay of £473 per month. Pre-retirees who plan to work anticipate they will generate a monthly income of £999 in retirement.

FIG.22 Current and Expected Hours Worked Per Week in Retirement[1]



(Source YouGov Survey of 3,000 over 55s)

FIG.23 Current and Expected Monthly Income from Work in Retirement

(Source YouGov Survey of 3,000 over 55s)

1. Includes voluntary work and familial care.

Conclusion

However we look at it, the UK's retired population has seen its financial firepower grow enormously in recent years. Retiree incomes have grown far faster than the rest of the population, and are now broadly comparable once adjusted for household size and living costs. They are able to enjoy their greater incomes too, with much more rapid increases in their spending on the more frivolous things in life, like entertainment or alcohol, than younger groups. And they are wealthier than ever before too. Moreover, once the rising population of older people is taken into account, their share of the nation's financial firepower is rising even faster.

The next cohort of retirees is also well prepared for retirement. They have lots of assets saved and are realistic about when they can retire. They too are likely to enjoy a very comfortable standard of living when they give up full-time employment.

Of course there are poorer groups too, but the numbers show that, on average, retirement in the UK is likely to be a pleasant and comfortable life for most. At least for now. The UK's younger demographic groups will find it much harder, and it is possible the next twenty to thirty years will see a peak in the living standards of a typical retiree as newcomers begin to leave work with fewer assets, lower homeownership, and less generous pensions.

For the current generation, and for those retiring in the next decade, understanding how to manage their wealth to ensure it provides a good standard of living for the rest of their lives is more important than ever. As government policy increasingly enables people to have more flexibility over their retirement finances, seeking advice is a vital step to take. At Canada Life we are ready for the challenge.

Principal sources

ONS: The effects of taxes and benefits on household income
ONS: The Living Costs and Food Survey
ONS: Population Estimates
ONS: CPI
ONS: Wealth & Assets Survey

Forecasts: Canada Life estimates

Additional data comes from a survey conducted for Canada Life among 3,000 55+ households (of which 2,000 were 65 or over) by YouGov. The figures have been weighted and are representative of all UK adults (aged 55+).

Methodology

The research team combined ONS data on household income, spending and wealth with population estimates to calculate total population financial metrics.
The team defines a retiree as someone who has reached the state pension age.
Forecasts for future income conservatively assumed 2.5% per household nominal income growth for 2015-2025 (in line with the triple lock). Non-retired households were also assumed to grow their income at the same rate. Total income was assumed to grow in line with per household income and population growth.
Forecasts for future spending were assumed to rise in line with income. Total spending was assumed to grow in line with per household spending and population growth.
Property wealth was calculated using data from ONS, the Bank of England and Nationwide, combined with tenure information from the YouGov survey.