



# RETIREMENT INCOME UNCOVERED

LIFTING THE LID ON RETIREMENT  
INCOME IN THE UK TODAY

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# FOREWORD

BY CARLTON HOOD

**I often think we underestimate people when it comes to planning for their retirement. Common perception suggests that people aren't saving enough, are disinterested and generally not prepared. But is that real?**

As we approach the most significant changes we have seen for a generation to the way people can access their retirement savings we looked at how much income people have in retirement, where they get it from and what might change in future.

The study uncovers an active, pragmatic Britain that is facing up to the challenges of a retirement that they expect to last for 21 years.

People are happy to settle for 47% of their pre-retirement income when they stop working, rather than the previously assumed two thirds. Our survey shows the average income in retirement in Britain

to be £19,000 but that amount is almost £5,000 shy of what pre-retirees would like to achieve.

People are working more, reducing expectations and showing resourcefulness by using all the options open to them to generate extra income.

It is not just about pensions, people are looking at other investments as well as their house and part-time work to create additional income.

Will the new retirement income freedoms help people close that gap? Well potentially yes, but so can careful planning and financial advice.

Having a target income and taking financial advice can lift the actual income achieved to £26,000. Income drawdown can potentially boost annual income to £23,400 compared to £19,000 with an annuity, although of course there are risks people need to consider when weighing up drawdown vs an annuity.

Overall, the picture of retirement income in the UK today is not as bleak as some would like us to think.

**CARLTON HOOD**  
CUSTOMER DIRECTOR



# EXECUTIVE SUMMARY

## SECTION 1 – RETIREMENT REALITY

**21**  
YEARS

### **We expect retirement to last for 21 years** – page 7

The average expected retirement age is 63.6 years, and the average age we expect to live to is 84.5. Therefore those approaching retirement are looking to provide income for a further 21 years of their life, once they give up full-time work.

**25%**

### **There is a 25% shortfall between expected and actual income in retirement** – page 9

Those already in retirement have an average income of £19,000, which is 42% of their pre-retirement income level. The average target income is £23,700 per annum meaning there is a £4,700 or 25% income gap between expectation and reality.

**47%**

### **People need roughly half of their pre-retirement income to be satisfied in retirement** – page 9

The average amount of income people hope to achieve in retirement is 47% of their pre-retirement earnings. Interestingly, those who are satisfied in retirement say their income level is 47% of their pre-retired level, highlighting 47% as the magic income level for a comfortable retirement.

## SECTION 2 – PLANNING PAYS

**£157,500**

### **Having a target = an additional £157,500 of income** – page 11

Planning matters. Those who had a target income in mind while they were building up their pension fund have an average annual income of £25,000 against £17,500 for those without a goal. Over 21 years of retirement that is an additional £157,500 of income.

**£26,000**

### **Financial advice pays** – page 11

Retirees who used a financial adviser are more than twice as likely to have a target income in retirement. The average income for people who had a target and took financial advice was £26,000.

Men are nearly twice as likely to set a retirement goal compared to women.

## SECTION 3 – THE CHANGING FACE OF RETIREMENT

50+

### **Britain counting on more than just pension income in retirement – page 13**

Those approaching retirement aged 50+ are 25% less dependent on final salary pension schemes as an income source compared to those already in retirement. Expected reliance on other forms of pensions is also down, with some of the slack being picked up by alternative forms of investment such as ISAs and property, which show a 57% and 27% increase in dependency respectively.

30%

### **'Semi-retired' is in vogue – page 15**

The line between working life and retirement has become blurred. Just under a third (30%) of people expect to continue working part-time. With only 11% of those in retirement working part-time, that's a big shift in expectations.

Many people feel too young to stop working and actually want to keep going to keep busy, or for social reasons. Others can't afford to stop work altogether, so continue working part-time to make ends meet.

63%

### **More realistic expectations – page 15**

Those who have a retirement income goal are 63% more likely to be satisfied with that income than those who do not. Nearly three-quarters of those in retirement who had a retirement income goal say they are satisfied with their income.

Overall, just 16% of those in retirement expressed dissatisfaction with their current level of income.

This is contrary to all the usual doom and gloom surrounding pensions. People are becoming more realistic in their expectations and the mix of semi-retirement, together with a broad choice of income sources and increased flexibility is helping to make people more optimistic.

## SECTION 4 – EMERGING WORLD OF PENSION DRAWDOWN

£59,000

### **Drawdown can reduce the pension pot required by 25% – page 16**

Average income (£19,000) over an average retirement period (21 years) can be achieved with a personal pension pot just three quarters the size, or £59,000 smaller, than that needed when buying an annuity. (£178,000 vs £237,000).

Income drawdown is increasing as a source of income. 14% of those approaching retirement expect to use it, versus just 6% currently in retirement.

17%

### **Understanding of drawdown is worryingly low – page 18**

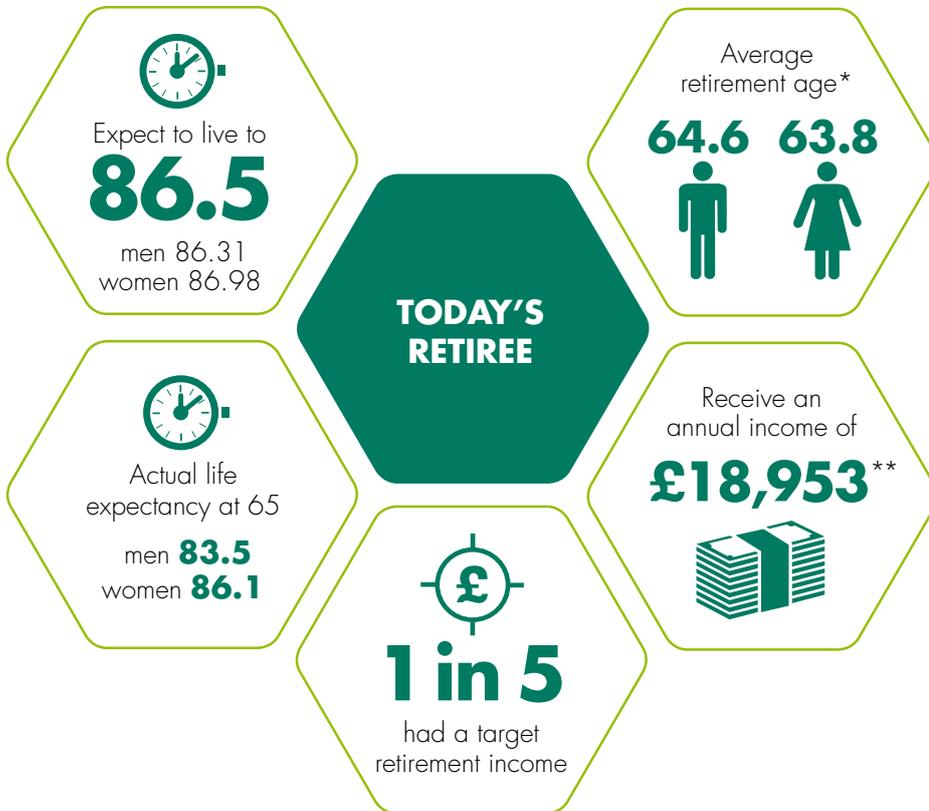
Even as income drawdown hits the headlines, less than one in five (17%) claims to have a good level of understanding. Perhaps more concerning is the fact that half of those already in retirement say that their understanding of pensions is poor.

# SECTION 1

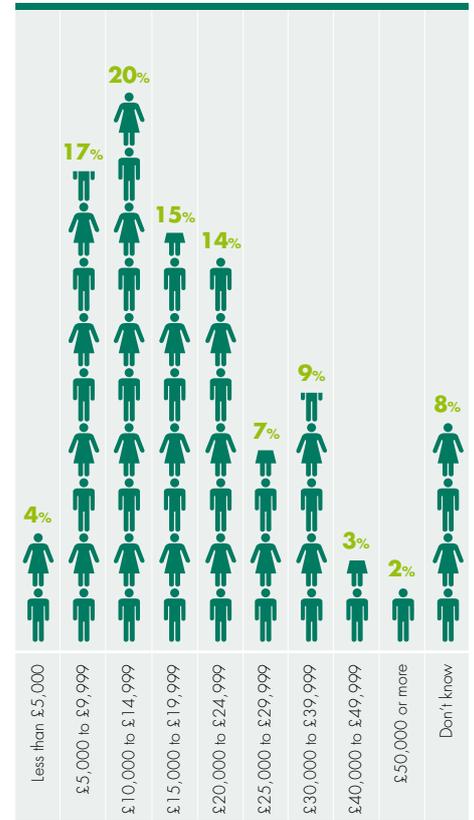
## RETIREMENT REALITY

What does 'retirement' look like for people in the UK today and how is that outlook set to change in the future?

Retirees told us that on average they:



% Receiving income range in retirement

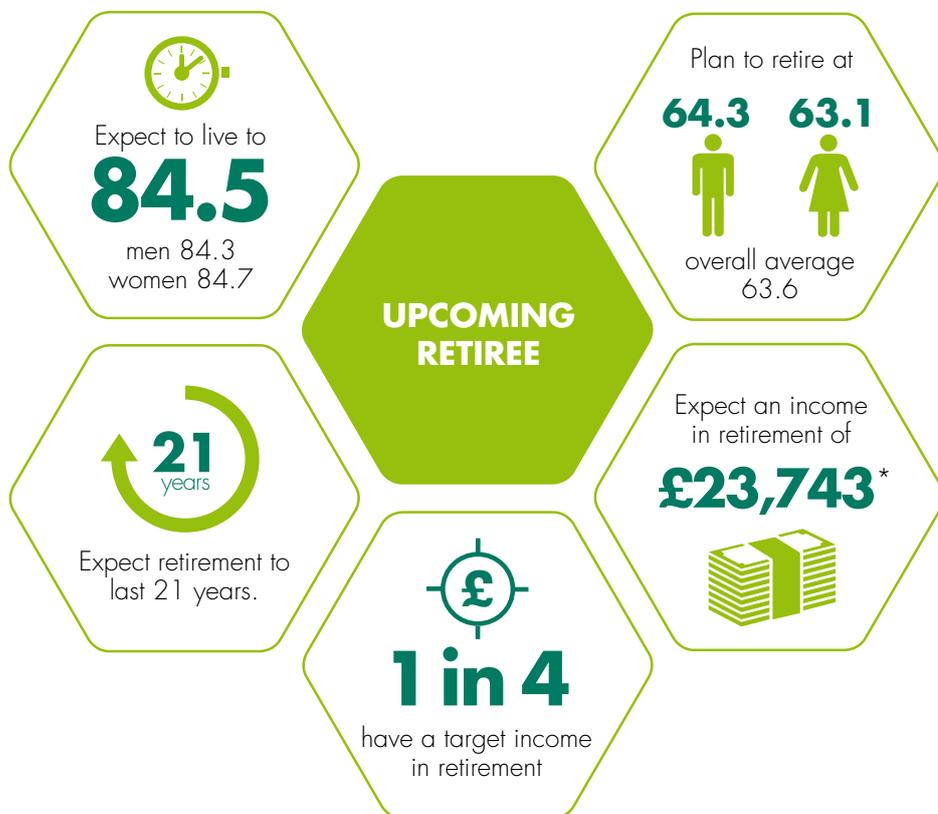


\*Source: ONS Data

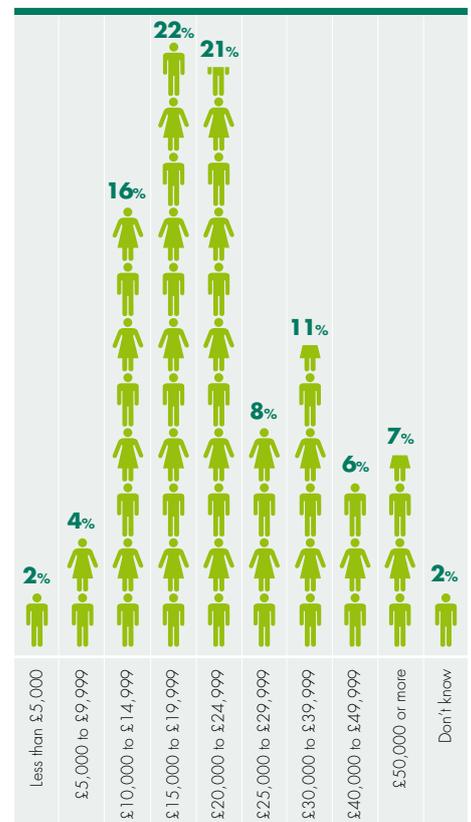
\*\*Which is 42% of pre-retirement earnings. The biggest proportion (20%) receive between £10,000 – £14,999.

We also surveyed those approaching retirement to see how their perceptions of retirement differ.

In comparison they told us they:



% Expecting income range in retirement



\*Which is 47% of pre-retirement earnings. The biggest proportion (22%) expect to receive between £15,000 – £19,999.

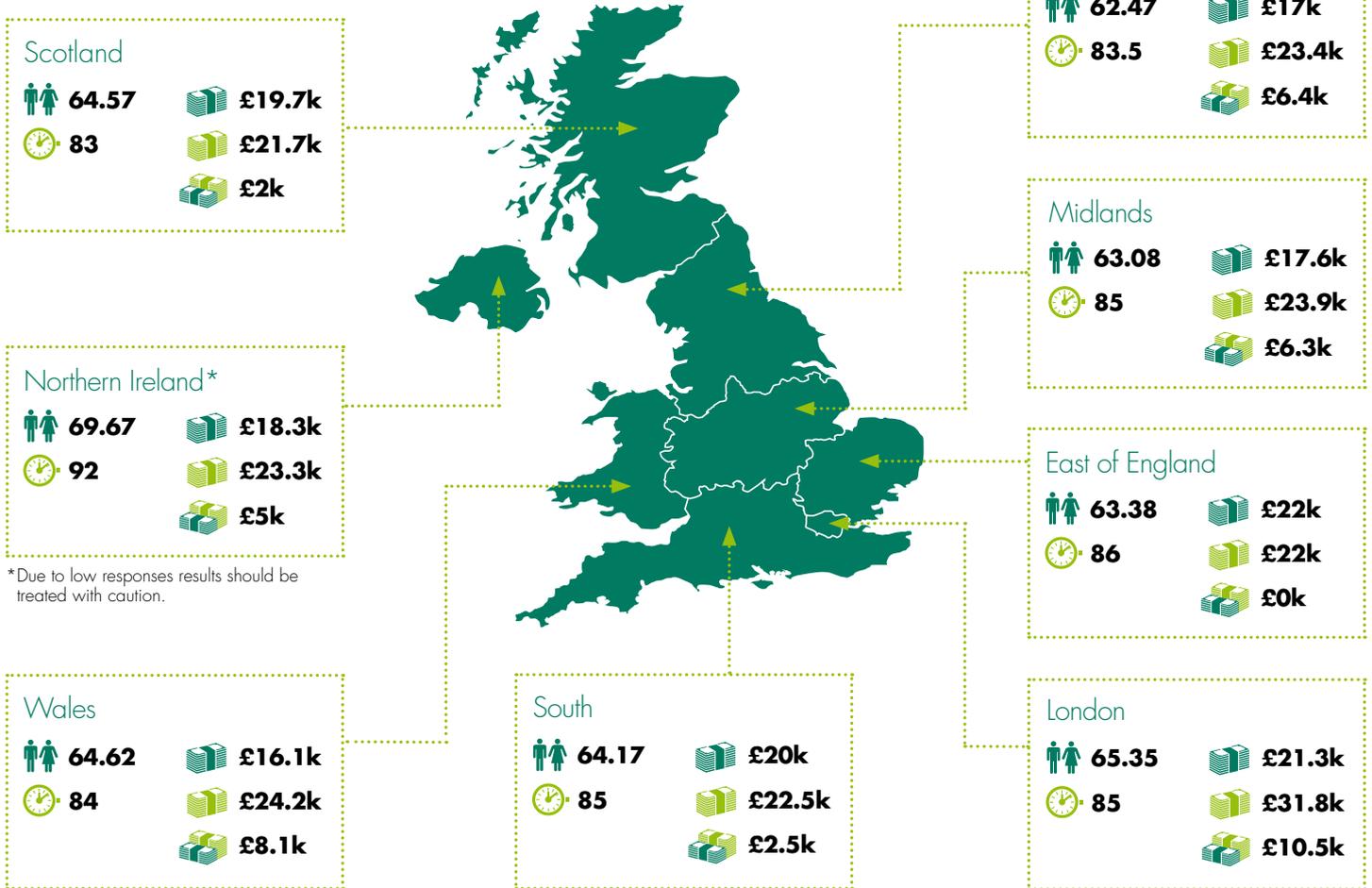
# REGIONAL VARIATIONS

## Highlights:

- Londoners expect to be working two-and-a-half years more than their Northern colleagues – 65 vs 62½ yrs, They expect almost £32,000 per year in retirement, over £10,000 more than the current average income.
- Those in the East of England approaching retirement have income expectations most aligned with the income of current retirees – at £22,000 for both.
- In general, those in retirement expect to live longer than those who are yet to retire, showing that perhaps the realisation of how long retirement is likely to last doesn't hit until it begins.

## KEY (UK average)

- Expected retirement age **(63.73)**
- Life expectancy **(84.51)**
- Average income received in retirement **(19k)**
- Average income expected in retirement **(23.7k)**
- Gap between current average and expected income **(4.8k)**



\*Due to low responses results should be treated with caution.

# INCOME DIFFERENCES AND EXPECTATIONS



There is a widely-held view that people should aim for two-thirds of current salary in retirement. This research shows that non-retirees are aiming, on average, to achieve just under half (47.7%) of their pre-retirement income in retirement. Our retirees who are 'satisfied' with their income, on average have achieved 47% of their pre-retirement income level. Those retirees who suggested they were unsatisfied with their income achieved on average just 31%.



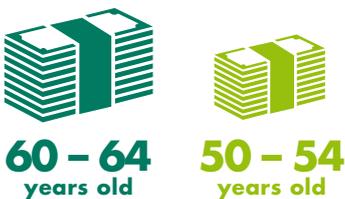
There is a £4,700 income gap between what the retired get, and what the pre-retired expect to get. The average income for those in retirement is currently £19,000, however the average target income for those approaching retirement is £23,700.



41% of current retirees told us they receive less than £15,000 per year in income. This compares to only 22% of those approaching retirement who expect to receive a similar amount when they retire.



Conversely, 13% of those approaching retirement are expecting to receive over £40,000 in retirement, yet only 5% currently receive that much.



Within our age groups, those already retired between 60 and 64 receive the highest income in retirement, at £19,200, with the lowest achieved by the youngest retirees, between 50 and 54 at £17,000. It is interesting to note that income does not rise significantly around the time at which the state pension comes into play for many, suggesting that people secure the income they require in retirement rather than taking the maximum they can.

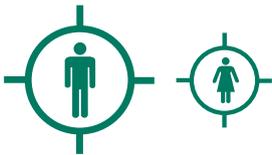
## GENDER DIFFERENCES



The reality and expectation of retirement income across the sexes is also marked, with over £7,000 difference between the average retirement income for a male (£22,600) and female (£15,300).



The gap does show signs of shrinking with our non-retired respondents showing just £4,500 difference between the sexes. This is still in favour of the men, who anticipate an average £25,500 income in retirement versus £21,000 for women.



Men are almost twice as likely to set a retirement goal compared to women



Men are more satisfied than women in retirement (men 12% dissatisfied / women 19% dissatisfied)



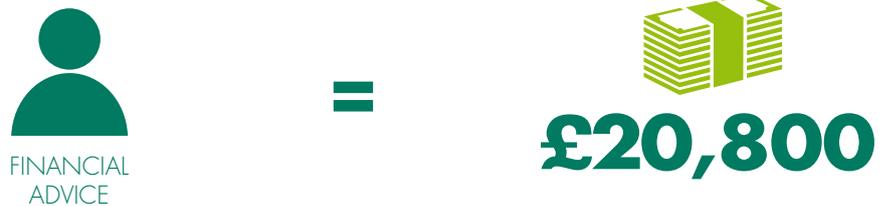
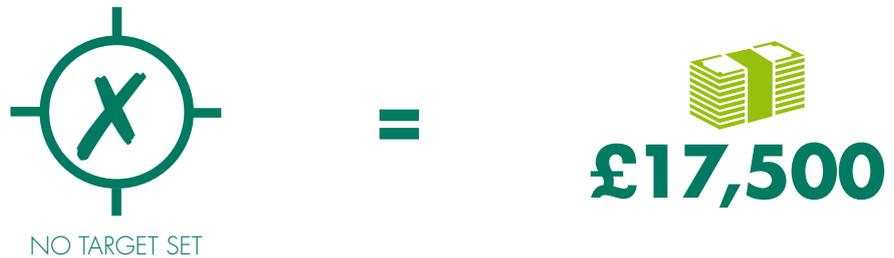
Women are more pessimistic (65% of women expect living standard to drop when they retire, 53% of men expect it to drop)

## SECTION 2 PLANNING PAYS

### Taking financial advice and setting a goal make a difference.

Those retirees who did not have a target income achieve an average of just £17,500 per year. Retirees who saw a financial adviser at least once saw average income in retirement increase to £20,800. Retirees who have used a financial adviser are more than twice as likely to have a target income in retirement.

Those who saw an adviser and also had a target saw their income increase further to £26,000. We found that people currently in retirement who have visited a financial adviser on at least one occasion are 35% more likely to be satisfied with this income than those who didn't. (57% vs 42%)



## SECTION 3

# THE CHANGING FACE OF RETIREMENT

**While pensions are still high on the agenda we found that the retirement income story is not all about pensions. People are looking to other sources.**

The top five differences in sources of income between those approaching retirement and those in retirement are:

1. More of those yet to retire are expecting to use part-time work (30% approaching vs 11% of retirees)
2. More expecting to downsize their main property (15% approaching vs 2% of retirees)
  - However downsizing is only expected to provide 3% of income on average.
3. Fewer having access to a final salary pension scheme (33% approaching vs 50% retirees)
4. Fewer anticipating using other investments (14% approaching vs 24% retirees)
5. More expecting to use pension drawdown (14% approaching vs 6% retirees)

The full picture of how retirement income is changing is below:

### PERCENTAGE OF PEOPLE USING, OR PLANNING TO USE EACH INCOME SOURCE FOR PART OF THEIR RETIREMENT INCOME

	Retirees	Pre-retirees	Difference
Pension (state)	74%	86%	12.0% ▲
Company pension (Final salary)	50%	33%	-17.0% ▼
Savings accounts	38%	29%	-9.0% ▼
ISAs	34%	28%	-6.0% ▼
Pension (private) annuity	28%	31%	3.0% ▲
Other investments (stocks & shares, bonds etc)	24%	14%	-10.0% ▼
Company pension (Money purchase)	18%	24%	6.0% ▲
Part-time work	11%	30%	19.0% ▲
Other state benefits	8%	8%	0.0% —
Inheritance	7%	12%	5.0% ▲
Pension (Private) drawdown	6%	14%	8.0% ▲
Property – Buy to let	6%	11%	5.0% ▲
Other	6%	5%	-1.0% ▼
Property – Downsize from main home	2%	15%	13.0% ▲
Property – Equity release from main home	1%	3%	2.0% ▲

**We also asked people to indicate what proportion of their income will come from each source.**

For pre-retirees our study shows that there is greater value being placed on other forms of investing rather than just pensions. For instance, the data shows those approaching retirement who have access to a final salary scheme are actually 25% less dependent on those schemes as an income source compared to those already in retirement.

Expected reliance on other forms of pensions such as money purchase and the state pension is also down, with some of the slack being picked up by other forms of investment such as ISAs, savings and investments, and property.

**CHANGES IN USAGE AND VALUE OF RETIREMENT INCOME SOURCES**



## KEY DIFFERENCES



### Bricks and mortar

Buy to Let and Downsizing from main home are increasing in both popularity and value for those approaching retirement. 5% more pre-retirees expect to use buy to let than retirees do currently. More significantly, 15% of pre-retirees plan to downsize compared to just 2% of retirees.



### Decline of final salary

Final salary schemes move from contributing on average 62% of current retirement income to 45% for those approaching retirement.



### Increasing use of part-time work

Part-time work is expected to contribute 27% of future income, versus 16% for those already in retirement.



### Reliance on state

More people are expecting to access the state pension (86% vs 74%) but for a smaller proportion of their overall retirement income (39% vs 45%).



### Drawdown flexing

More of those approaching retirement expect to use drawdown as an income source (14% vs 6%) but for a smaller percentage of their overall income (26% vs 39%).



### More using ISA now than expect to in the future

34% use ISAs for income now versus 28% expecting to, but they are more valuable going forward – providing 11% of expected income versus 7% of current income on average.

## WORKING LATER

**More people approaching retirement (30%) expect to continue in some form of part-time work until later in their lives compared to those in retirement (11%). But it's not all about the money.**

More of our intended part-timers expect to carry on because they want to, not because they need to. They want to stay busy and they are too young to stop yet. They are also keen to keep up the social side of work. Around one in ten is in it for the adventure. They want to try something new or set up their own business.

In a further nod to the need to have a plan, for those with a target income in retirement, the personal needs associated with part-time work are even greater than the financial. A part-time job is less about making ends meet (29%), it is all about keeping busy (75%).

Reasons to keep working in retirement	Expect to continue working	Already in part-time work
In order to make ends meet / to address retirement income shortfall	52%	29%
Maintain lifestyle	41%	49%
To keep busy – too young to stop yet	56%	75%
Maintain social interaction	48%	64%
To try a new type of work	11%	15%
To set up my own business	9%	12%
Other	9%	5%

Those who had an income goal are 63% more likely to be satisfied with their income than those who did not (72% vs 45%).

Just 16% of people currently in retirement expressed dissatisfaction with their overall retirement income, which is being generated from a variety of different sources. People are becoming more realistic.

## SECTION 4

# EMERGING WORLD OF PENSION DRAWDOWN

**How can the average income of around £19,000 be achieved over the average retirement of 21 years using two of the most popular pensions decumulation vehicles available – annuity and income drawdown – excluding the current full state pension of £113.10 per week (or £5,881.20 per year)?**

**Average income of £19,000 less state pension leaves a shortfall to be found of £13,118.80.**

## ANNUITY

Annual income for 21 years:

**£13,118.80**



Pot required

**£237,000**



Remaining value after 21 years

**£0**

Using the average of the top five annuity quotes\* to achieve an annual income as close to the shortfall of £13,118.80 as possible (£13,113.70) would require a pension fund of £237,000.

Therefore £237,000 is roughly the size of private pension fund required to secure the average income from retirement from an annuity.

It should be noted at this point that annuity income is guaranteed for life, so this figure would sustain until death, beyond the average retirement period of 21 years.

## INCOME DRAWDOWN\*\* – ANNUITY MATCH

Annual income for 21 years:

**£13,118.80**



Pot required

**£237,000**



Remaining value after 21 years

**£154,000**



Taking the same income level (£13,118.80) via income drawdown, the same size pot (£237,000) could last up to 37 years.

In this scenario, if the person did die at age 85, there will be a £154,000 fund (or £92,100 in today's terms) remaining to be handed down to beneficiaries, whereas with an annuity there would be none, whatever age you died at.

It should be noted that drawdown income is dependent on investment performance which is not guaranteed, may be less or greater than shown above and may not sustain for your lifetime.

## INCOME DRAWDOWN\*\* – SMALLER POT

Annual income for 21 years:

**£13,118.80**



Pot required

**£178,000**



Remaining value after 21 years

**£0**

Our calculations also reveal that to deliver an equivalent income to that of an annuity via income drawdown for the duration of the average retirement (21 years), a pension fund of £178,000 will suffice. This is roughly £60,000 less than the pot required for an annuity to deliver the same income over the same period.

## INCOME DRAWDOWN\*\* – HIGHER INCOME

Annual income for 21 years:

**£17,499.96**



Pot required

**£237,000**



Remaining value after 21 years

**£0**

With Income Drawdown the funds remain invested, providing the opportunity to increase the level of income that can be taken. A drawdown plan could potentially sustain higher income of £17,499.96 for the average length of retirement expected of 21 years.

This equates to £92,000 more over the average expected retirement length than an annuity purchased with an equivalent fund size.

\* MAS website 20/10/14

\*\* Calculations assume 5% growth net of fund charges but include product charge. Any advice charges on annuity or drawdown would be agreed separately

SECTION 4:  
**EMERGING WORLD OF PENSION DRAWDOWN**

# UNDERSTANDING OF FINANCIAL PRODUCTS

**People are pretty clued up about ISAs. The same is true of savings accounts, mortgages and loans.**

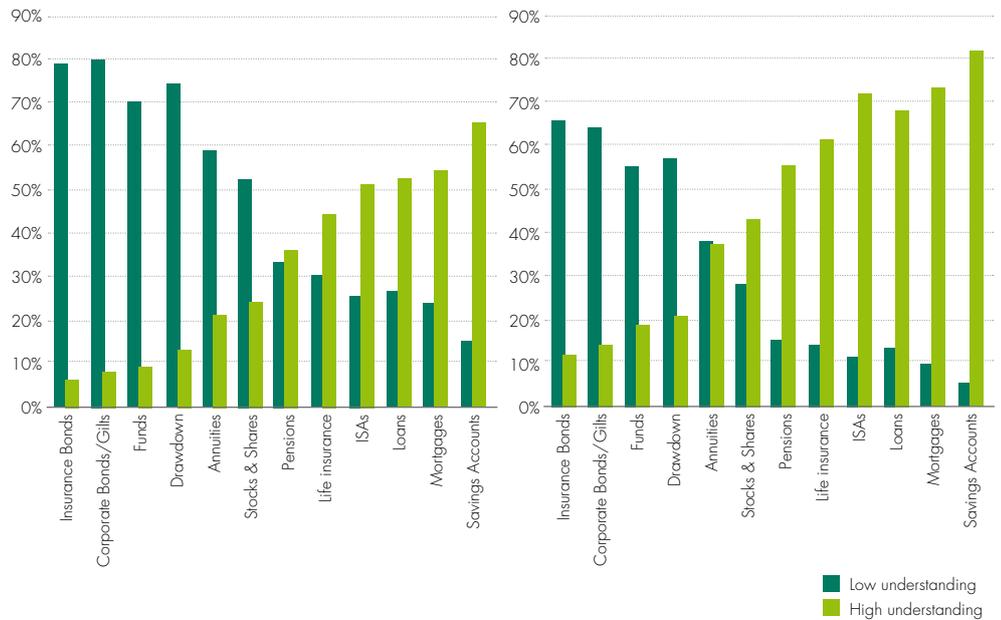
As complexity increases, so understanding drops off. Just under half of all respondents claim a decent understanding of pensions. Worryingly, half of those already in retirement say their understanding is poor. A high understanding of pensions rises from 50 to 64 years old (40% – 52%) at just the right time before dipping at 65-69 (48%) and rising again at 70-75 (55%).

Despite all the movement in the industry this year, it is concerning that some products remain something of a mystery. Only 30% claim a high understanding of annuities, while for drawdown that number is even lower at 17%.

People who have seen a financial adviser at least once have a better understanding of financial products, which is likely to result in better outcomes.

**UNDERSTANDING OF THOSE WHO HAVE NOT USED AN ADVISER**

**UNDERSTANDING OF THOSE WHO HAVE USED AN ADVISER**



# CONCLUSION

BY ADRIAN WALKER

## **I think there are a number of trends we will see over the coming years as the new pension freedoms come into effect in April 2015.**

Overall I think pension cynics will awaken. Those that were previously put off by the inflexible parameters around how money can be withdrawn from pensions will be enticed back to the table and we will see more people saving via pensions.

There is likely to be an increase in pension consolidation activity so that people don't have to inform other pension providers when they take withdrawals. Intergenerational

transfers will no longer be the preserve of the very wealthy as more people take advantage of the removal of death tax on pensions to pass their wealth to beneficiaries.

The removal of the death tax on pensions could also result in people drawing income from other sources first in order to keep their money in the tax efficient haven of a pension for as long as possible.

Retirement income is changing, but this study shows that the UK public is amending its behaviour as they approach this key milestone in their lives. Understanding, education and advice are critical to ensuring they make the right decisions at the right time to achieve their retirement income goals.

**ADRIAN WALKER**  
RETIREMENT PLANNING EXPERT



# METHODOLOGY

- Old Mutual Wealth partnered with YouGov to conduct research into the attitudes and behaviours of those currently in retirement or approaching retirement.
- The research was carried out via an online survey amongst YouGov's consumer panel.
- The sample consisted of 1,536 UK adults aged between the ages of 50 and 75.
  - The sample was split up into 5 brackets (50-54, 55-59, 60-64, 65-69 and 70+) with a target quota of 300 participants in the research from each age bracket.
  - YouGov invited a nationally representative sample to take part within each age bracket
- Fieldwork was carried out between 4th July and 10th July 2014.

The values of investments and the income from them, as used in income drawdown, may go down as well as up, and you may not get back what you put in.

[www.oldmutualwealth.co.uk](http://www.oldmutualwealth.co.uk)

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