Centre for Ageing Better

Have we saved enough?

Do people approaching later life have an adequate retirement income?

June 2021

Pensions Policy Institute

PPI

Contents

Background

About this report

This insight report is based on independent research the Centre for Ageing Better commissioned from the Pensions Policy Institute. The two charities have signed a Memorandum of Understanding and will work together with a shared goal of a society where everyone enjoys their later life. The alliance will initially focus on adequacy of income in retirement and the impact of COVID-19 on financial security in later life.

Centre for Ageing Better

The UK's population is undergoing a massive age shift. In less than 20 years, one in four people will be over 65.

The fact that many of us are living longer is a great achievement. But unless radical action is taken by government, business and others in society, millions of us risk missing out on enjoying those extra years.

At the Centre for Ageing Better we want everyone to enjoy later life. We create change in policy and practice informed by evidence and work with partners across England to improve employment, housing, health and communities.

We are a charitable foundation, funded by The National Lottery Community Fund, and part of the government's What Works Network.

The Pensions Policy Institute (PPI)

The Pensions Policy Institute (PPI) is an independent educational research charity. The PPI does not lobby for any particular solution and are not a think-tank taking politically influenced views. The PPI is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. News and other information about The PPI is available at **www.pensionspolicyinstitute.org.uk** and via Twitter: **@PPI_Research.**

Executive summary

Despite recent reforms to improve the adequacy of retirement incomes many people approaching later life are set to be financially ill-equipped for a good later life.

Compared to previous decades where more people were in more financially secure defined benefit (DB) pension schemes, 2 in 3 employee contributions are now in defined contribution (DC) schemes. Around 90% of all DC savers[1] are at risk of not achieving a decent replacement rate – the proportion of their pre-retirement income that their pension provides.

While the retirement income adequacy of people aged 50 to SPA is an immediate cause for concern, future generations are equally at risk of being financially unprepared in later life. Fuelled by the COVID-19 pandemic, the situation is ripe for an imminent retirement income crisis, and unless urgent steps are taken to avert this crisis, consequences will be devastating for UK's long-term economy. We risk seeing more people pushed into poverty, financial inequalities widening, and long-lasting effects on not just the generations closest to retirement but also the quality of life for future generations.

While both the fixed income ('basket of goods' approach) and proportional income (replacement rate) measures may suggest an adequate retirement income for some, they don't guarantee financial security for all.

Findings by the Pensions Policy Institute (PPI) reveal that irrespective of the measure used, many over 50s approaching later life were at risk of missing out on an adequate retirement income:

- One in four people (around 3 million people) are at risk of not reaching the JRF (Joseph Rowntree Foundation) minimum income standard
- Single person households are around four times more likely to be below the JRF minimum income standard
- Low-income households are twice as likely to risk inadequacy under the JRF minimum income standard
- One in three can expect a 'Moderate' retirement, and one in ten a 'Comfortable' retirement under the PLSA (Pensions and Lifetime Savings Association) definitions
- Only around half of people can expect to maintain an acceptable level of income in retirement
- The challenge of maintaining acceptable incomes is greatest for the highest paid, with 77% of those in the top quintile missing the target in contrast with only 3% of the bottom income quintile

[1] PPI modelling

The long-term job loss effects of COVID-19 will reflect in lower pension contributions and inadequate retirement incomes, more so for some groups than others:

- **Black, Asian and minority ethnic groups:** During COVID-19, the average earnings for people from BAME groups dropped by 14%, compared to a 5.1% drop for White people.[2]
- **Private renters:** The risk of missing the JRF minimum income standard (after housing costs) for private renters in London rises to 87%. People from some BAME groups in the 50-69 age group are particularly likely to rent in retirement, with 56% of Black people in this age group renting compared to less than half of White and Asian people (24% and 26% respectively).
- **Women:** For single person households, 57% of women are at risk of failing the retirement income adequacy target compared to 45% men.

The question of 'what is an adequate income in retirement' is a fundamental challenge to UK pensions policy and individuals' later life income. The challenge now is to establish a settled consensus on retirement income adequacy involving a light-touch, government-led consensus brokered by a new Pensions Commission to obtain buy-in from employers, industry, unions and stakeholders.

Government need to:

- Lead a consensus building exercise to reach a shared understanding of adequacy.
- Enact the recommendations from the automatic enrolment review 2017 as soon as possible. Lowering the age criteria, removing the earnings threshold 'entitled worker' category, and improving participation of the self-employed will significantly help adequacy outcomes for millions of people.
- Ensure a greater uptake of Pension Wise advice and guidance through the implementation of auto-appointments for people when they reach age 50. This will help people understand their pensions options before taking anything from the pot.
- Ensure a wider take up of pension credit with an action plan to increase uptake over the next 5 years.
- Explore raising the minimum contribution rate by an additional 8%.
- Increase state pension so that everyone can reach the 'Living Pension' benchmark and the JRF minimum income standard.[3]
- Ensure a mechanism for uprating the state pension to avoid retirement income adequacy falling below an acceptable level and losing value over time. This may not be the 'triple lock', but need other similar alternative measures to be put in place.
- Protect renters so that pensioners do not use all their retirement income on rent, including changes to Housing Benefit to include renters with private pension savings.
- Revisit groups highlighted in the Cridland review that need extra support, such as carers and those with health conditions, to consider giving early access to state pension.

[2] FCA (2021) Covid-19 and the UK's BAME communities – an economic perspective

[3] Resolution Foundation (2021) Building a living pension. Closing the pension savings gap for low-to-middle income families

Employers need to:

- Match contributions to a higher level. This would encourage employees to contribute more to their pensions and highlight how important pensions are.
- Highlight pensions as part of the remuneration package. This should come with training internally on contribution rates and retirement options to improve awareness among employees of all ages.

Financial services and pension providers need to:

- Ensure the launch of the Pensions Dashboard is paired with guidance so people can make better choices about contributions and adequacy.
- Provide better support for women by encouraging people to purchase annuities on a joint life basis to secure survivor benefits, and ensure pensions are considered in divorce as an important part of assets. This is linked to sharing more data and research on pension sharing.

The landscape of retirement income adequacy and why it matters

Financial security is one of the essential cornerstones of a good later life. Yet many people approaching later life are woefully unprepared and end up with inadequate retirement incomes. Research commissioned by the Centre for Ageing Better and conducted by the Pensions Policy Institute[4] found that low-income households are most at risk of financial insecurity in later life, many of whom are single person households, private renters, women and people from certain Black, Asian and minority ethnic (BAME) groups.

These groups approaching later life are also more likely to work in low paid jobs, work part-time or flexibly, be self-employed or unemployed, and facing increased chances of later life poverty and inadequate retirement incomes.

There have been some recent encouraging pension policies to tackle inadequate retirement incomes. Automatic enrolment into workplace pension schemes have resulted in more people saving into their pensions, with up to 85% of workers participating in schemes now compared to under 50% almost a decade ago. Compared to previous decades where more people were in defined benefit (DB) pension schemes, 2 in 3 people are now in defined contribution (DC) schemes, which afford significantly lower levels of financial security. Most people are also saving at low levels and are still inadequately prepared for a financially secure later life. The overall impact of trends in pension policy in the 21st century could be characterised as redistributive of, rather than absolute growth in, pension provision. In other words, there are more people with pensions, but they have far less money in retirement.

[4] PPI (2021) What is an adequate retirement income?

"There are more people with pensions, but they have far less money in retirement"

For those set to have inadequate retirement incomes, the new flat rate state pension may provide some relief for low earners, including women, people from BAME groups and private renters. However, the full new state pension is only 24.1% of national average earnings (in April 2020)[5] and is low compared to other countries[6] meaning that individuals cannot rely on the state pension alone as an adequate source of retirement income.

People over 50 may face a series of competing demands on their retirement incomes that squeeze them financially, and many have been forced to take early retirement during COVID-19. This group faces additional barriers to re-entering the job market, and as a result will have probably stopped contributing to their pensions earlier than planned. Many in this generation may be paying off debts carried into retirement, and supporting other family members with regular financial payments, housing deposits and loans. A significant section of those approaching later life will also be paying rent in retirement, with home ownership less common in this generation than among previous generations.

While the retirement income adequacy of people aged 50 to state pension age (SPA) is an immediate cause for concern, future generations are equally at risk of being financially unprepared in later life. Fuelled by the COVID-19 pandemic, the situation is ripe for an imminent retirement income crisis, and unless urgent steps are taken to avert this crisis, consequences will be devastating for the UK's long-term economy. We risk seeing more pushed into poverty, financial inequalities widening, and long-lasting effects on not just the generations closest to retirement, but also the quality of life for future generations.

What is an adequate retirement income?

Defining what constitutes an adequate retirement income and why this matters is complex and defined in different ways by different stakeholders:

- For individuals, adequate retirement income is the ability to maintain living standards in their household from working life through into retirement.
- Employers have broadly two attitudes to adequacy - those who view pensions as a benefit to attract and incentivise employees and those who regard pensions simply as a cost of employment.
- The state's attitude to retirement income adequacy is driven by wanting to provide a safety net to those at risk of poverty as well as to avoid people needing to fall back on means-tested benefits.
- Society has a perception that having a pension system drives a certain level of fairness and equality whilst ensuring the system remains sustainable and creates a fair return for work.

[5] PPI (2020) The Pensions Primer: A guide to the UK Pensions system
[6] PPI (2015) How might the UK pensions landscape evolve to support more flexible retirements?

There are two main approaches to measuring adequacy of retirement income:

The fixed income target (or 'basket of goods' approach) – Is the cost of a basket of goods and services required to meet a certain standard of living, regardless of working-life income levels. This method is used by the Joseph Rowntree Foundation[7] (JRF) in their minimum income standard (MIS) and by the Pensions and Lifetime Savings Association[8] (PLSA) to produce their 'Moderate' and 'Comfortable' standards. The target amounts for an adequate retirement income vary, depending on the measurement approach used, type of household (single or dual person household), type of lifestyle standard ('moderate' or 'comfortable'), or geographic location (London or outside London).

The proportional income target (replacement rates) – The Pensions Commission[9] used this approach to make its adequacy assessments. They defined targets in the form of 'replacement rates' – the proportion by which retirement income replaces that immediately before retirement.

Each approach for measuring retirement income adequacy has its strengths and weaknesses. The strength of fixed income is that it is an objective and external standard. However, specific items in the 'basket' such as mobile phones and holidays, have been controversial points. The strength of the replacement rate is that it is sensitive to the immediate pre-retirement income which allows individuals to maintain pre-retirement living standards after retirement. However, the key risk is that even when the poorest may achieve a high replacement rate (up to 100%), they will still be in poverty.

What this means for an individual's pension pot is that while these adequacy measures may support an adequate retirement income for some, certain age cohorts and groups are at risk of falling through the cracks and will not be financially secure in later life.

50%

of adults who are from Black, Asian and minority ethnic groups have had to draw down on their savings to cover their day-to-day expenses compared to 29% of White adults (Financial Conduct Authority, 2021, Financial Lives 2020 survey: the impact of coronavirus)

[7] https://www.jrf.org.uk/income-benefits/minimum-income-standards

[8] https://www.PLSA.co.uk/Policy-and-Research-Defined-Contribution-Retirement-Living-Standards

[9] The Pensions Commission (2006) A New Pension Settlement for the Twenty-First Century HMSO

Who is most at risk of missing out on an adequate retirement income?

How many are at risk of missing out on adequate retirement income?

Analysis by the Pensions Policy Institute (PPI) showed that irrespective of the measure used, many over 50s approaching later life were at risk of missing out on an adequate retirement income.

Findings according to the fixed income measure reveal that:

- One in four people (around 3 million people) are at risk of not reaching the JRF minimum income standard
- Single person households are around four times more likely to be below the JRF minimum income standard
- Low-income households are twice as likely to risk inadequacy under the JRF minimum income standard
- One in three can expect a ‘Moderate’ retirement, and one in ten a ‘Comfortable’ retirement under the PLSA definitions.

Findings according to the replacement rates measure show that:

- Only around half of people can expect to maintain an acceptable level of income in retirement
- The challenge of maintaining acceptable incomes is greatest for the highest paid, with 77% of those in the top quintile missing the target in contrast with only 3% of the bottom income quintile.

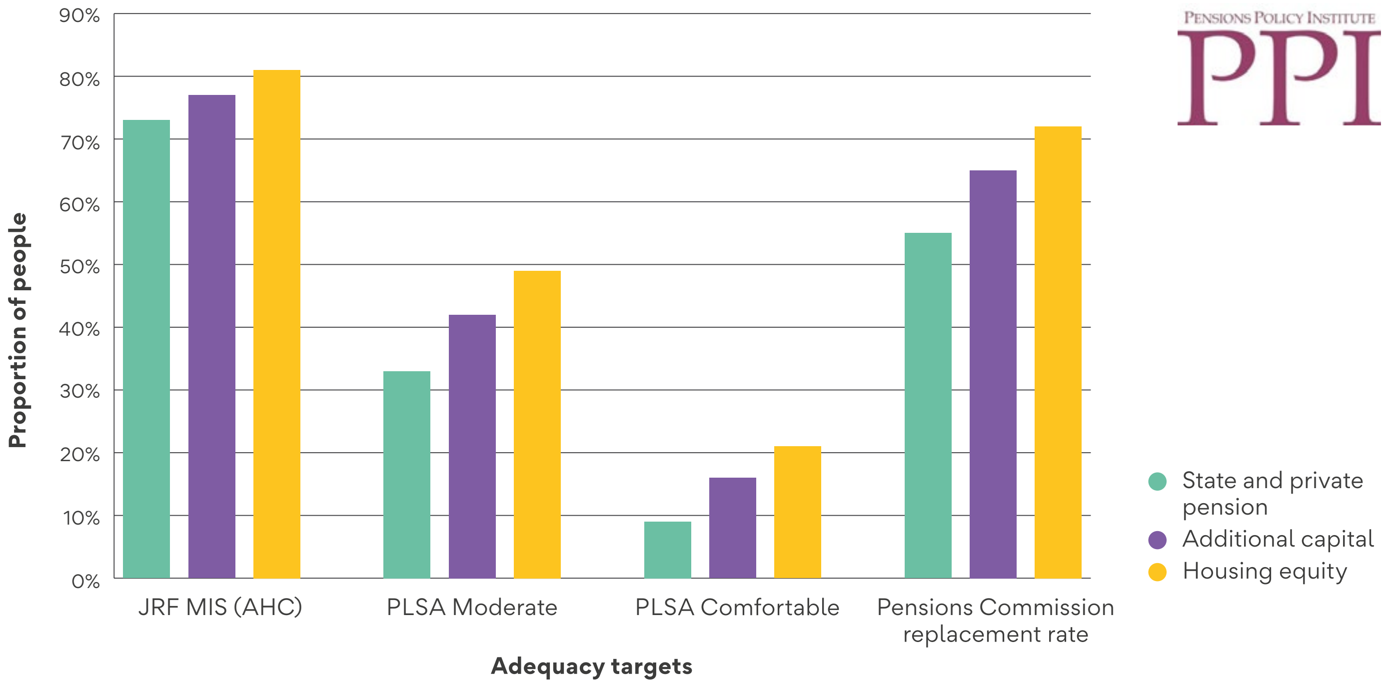
Substantial pension funds are required to meet the fixed income PLSA Moderate and Comfortable targets in addition to the state pension. The table below sets out the annual retirement income required to meet PLSA living standards.

Annual retirement income required to meet PLSA living standards[10]

PLSA retirement living standards	Single households		Couple households	
	Outside London	London	Outside London	London
Minimum	£10,500	£12,700	£16,100	£20,300
Moderate	£20,700	£24,700	£29,900	£34,200
Comfortable	£33,900	£37,300	£48,800	£50,600

To achieve working-life income replacement rates, even those on low incomes earning £15,700 per annum will require private pension wealth of £57,000, while those at median incomes earning £24,900 per annum will require £278,000 to meet their target replacement rate (in addition to state pension income and excluding use of the 25% tax-free lump sum).[11] Using state and private pension income (excluding the 25% tax-free lump sum), around 27% of people aged 50 to 65 could miss the minimum income standard and 91% could miss the PLSA's "comfortable" living standard (Figure 1).

Figure 1: Proportion of UK population aged 50 to 65 in 2016/18 who are on track to reach retirement adequacy targets using different sources of income, GB



PENSIONS POLICY INSTITUTE PPI

[10] Pensions and Lifetime Savings Association (2019) Developing Retirement Living Standards

[11] PPI modelling

State pension reform has helped to close the savings gap except for those on very low incomes. However, the savings gap in retirement income adequacy for people aged 50 to SPA and other future generations approaching later life is likely to be substantial. For those without a full contribution record of 35 years, the combination of the new state pension and pension credit delivers a safety net of around £175 pw (£9,110 pa) for an individual.[12] This sets the basic level of adequacy for pensioners as currently determined by the state, however, 39% of those eligible for pension credit do not claim it.[13]

Assuming full entitlement to the new state pension and a lifetime of minimum automatic enrolment contribution rates, anyone earning over £12,700 will require additional savings beyond the default 8% of band earnings to reach their target replacement rate which will allow them to replicate working life living standards in retirement.

For those on median earnings in 2020 of £24,900,[14] the total contribution rate needs to be about 20%, a further 12% above the minimum required under automatic enrolment of 8%, which would yield a fund of around £113,000 by SPA.[15]

Groups most at risk of missing out on adequate retirement income

People at risk of inadequate retirement incomes are more likely to work in low paid jobs, work part-time or flexibly, or be self-employed or unemployed. They will generally find it more difficult to save into a workplace pension and will struggle to achieve retirement income adequacy levels. They are likely to be heavily dependent on the level of income provided by the state pension and state benefits and will be sensitive to changes to these. They are more likely to belong to one or all these sub-categories – low-income households, or median earners, or single person households, or private renters, or live in London. The following section looks briefly at each of these groups.

Low-income households are likely to be at risk of missing out on an adequate retirement income

Low-income households are likely to have an inadequate retirement income, according to both adequacy measures. According to the fixed income measure of retirement income adequacy, 50% of low earning people aged 50 to 64 risk missing the minimum income standard (after housing costs) target compared to 25% of middle earners and only 9% of high earners. Similarly, according to the replacement rate approach of measuring retirement income adequacy, lower earners will struggle to meet adequacy targets in retirement for more than a few years. While the ‘triple lock’ can be a stabilising factor during market shocks in protecting low-income households who are dependent on the state pension in retirement, they remain at risk of inadequate retirement incomes.

[12] www.gov.uk/pension-credit/what-youll-get

[13] Age UK (2020) Pension Credit take-up remains stagnant despite it being the only way over 75s can get a free TV licence from 1st June

[14] ONS (2020) Annual Survey of Hours and Earnings time series of selected estimates

[15] PPI modelling

Median earners are likely to be at risk of missing out on an adequate retirement income

Median earners, retiring at age 67, who have average levels of DC savings for their cohort and no DB entitlement will only be able to maintain the PLSA comfortable living standard until age 70, the PLSA moderate standard until age 75, and their target replacement rate until age 78, before running out of pensions savings. State pension income and defined benefit savings are sufficient to allow them to maintain the minimum income standard throughout retirement, however future generations will have lower average levels of DB entitlement and will find it harder to meet adequacy targets.

Single person households are likely to be at risk of missing out on an adequate retirement income

According to the fixed income measure, individuals in single person households are four times more likely to be below the minimum income standard and higher again for single women. Around 51% of people in single person households[16] risk failing the JRF minimum income standard target whereas the risk for those in a two person household is just 13%. For single person households, 57% of women are at risk of failing the retirement income adequacy target but slightly lower for men at 45%.

Single median earners are unlikely to be able to maintain adequacy targets above the minimum for long in retirement, using average DB, DC savings and state pension. The current level of the state pension is lower than the JRF minimum income standard, so single women-led households may be worse affected. Women are also more likely to have lower lifetime contributions to private pensions due to career breaks and hence are less able to make up the gap between state pension and the minimum income standard. In matters of divorce too, with pensions usually not included in settling divorce assets, single households, particularly led by women, may be more at risk. It is therefore important for pension assets to be considered in matters of divorce settlements.

[16] That is who are single at the point of data capture in the Wealth and Assets Survey. PPI have not modelled changes in household composition.

Private renters are likely to be at risk of missing out on an adequate retirement income

More than two-thirds (70%) of renters risk missing the minimum income standard compared to only 12% of owner-occupiers. The risk of missing the minimum income standard (after housing costs) for renters in London rises to 87%. People from some minority ethnic groups in the 50-69 age group are particularly likely to rent in retirement, with 56% of Black people in this age group renting compared to less than half of White and Asian people (24% and 26% respectively).

Londoners and those in West Midlands are likely to be at risk of missing out on an adequate retirement income

39% of those in London are likely to miss the minimum income standard (after housing costs), 12% points higher than the 27% national average using the state and private pension income measure. Those in the South East (20%), South West (22%), East Midlands (22%) and Wales (22%) are least likely to miss out. This reflects the specific problems of high living costs in London reflected in the minimum income standard which has higher London targets against a background of inequalities in the distribution of wealth nationally.

According to the replacement rate approach of measuring retirement income adequacy, only 11% of people fail to meet the target replacement rate. The highest risk is in the West Midlands and South East with 49% and the lowest is on the North East at 38%.

1 in 3

More than one in three people are retiring with unpaid debts, averaging around £17,500 (Key Retirement Solutions, 2020)

What might future retirement income adequacy look like for people aged 50 to state pension age?

Unlike younger generations who will benefit from being in auto-enrolment for longer, people aged 50 to SPA have had less time in auto-enrolment and lower levels of DB pension entitlements compared to older generations. They are also likely to retire with unpaid debts – on average, around £17,500 per person – and to be private renters, all of which worsen the adequacy of retirement income for people approaching later life.

Almost 5 million people aged 50 to SPA will struggle to achieve adequacy

Around 90% of DC savers including around 5 million people currently approaching retirement are unlikely to meet their target replacement rate.[17] For the minimum income standard (after housing costs) the proportion missing the target increases from 26% to 40% and for the PLSA 'Moderate' from 67% to 91% and PLSA 'Comfortable' from 91% to 98%.

People aged 50 to SPA are more likely to be private renters

People aged 50 to SPA are less likely to own their own home than previous generations and more likely to be private renters. The need to pay rent in retirement is the most

[17] PPI modelling

significant indicator for a reduction in disposable income which leads to a reduction in standards of living. The risk is further compounded because those renting in retirement who have saved into a private pension may also lose eligibility for Housing Benefit.

If this trend persists, future generations of those approaching later life, mainly 'millennials' (people born between 1981 and 1996) will be even more likely to be private renters as they grow older.

Over 90%

of all current 'defined contribution' savers may be at high risk of not achieving their replacement rates (PPI Modelling)

Defined contribution pensions are complex to navigate

Most people struggle to know how much to save, when and how to access, and how much they might need to live on in retirement.[18] Making informed decisions about pensions savings requires complex knowledge about the economy and market-risks, numerical skills and knowledge about the potential impact of unknown factors, which the majority of the UK population do not have.[19]

While pension providers have made some efforts to engage pension scheme members by signposting tools to assist with personalised retirement income adequacy targets, people generally find it too complex to understand and these tools see low rates of engagement. Some savers also use guidance and support services like Pension Wise, however, many make decisions without support. As a result, many people struggle to make informed decisions which offer them the best chance of both achieving their aspirations for retirement and protecting themselves against future risk.[20] In the future, the Pensions Dashboards which is facilitated by the Money and Pensions Service and will allow people to view all their pension savings in a single place, may help more people to understand what their future retirement income trajectory might look like.

[18] Silcock, D. et. al. (PPI) (2014) How complex are the decisions that pension savers need to make at retirement? Pensions Policy Institute

[19] Silcock, D. et. al. (PPI) (2014) How complex are the decisions that pension savers need to make at retirement? Pensions Policy Institute

[20] OPM (2009)

The impact of COVID-19 on retirement incomes

COVID-19 may result in long-term scarring of around 3% to the economy.[21] Unexpected job losses may result in people making calls on savings and rainy-day funds to lessen the financial shock, or using pension savings and housing equity. These are immediate impacts which are likely to be fully played out prior to retirement, however the time taken to recoup financial resilience may have a knock-on effect on adequacy in later life.

Women approaching later life

Women's retirement income adequacy is more likely to be impacted by COVID-19 for a variety of reasons.

- Women are more likely to work in sectors most affected by COVID-19 redundancies, namely hospitality and retail sectors. In February 2021, women's employment was down 0.6% from where it was in February 2020.[22]
- Women are more likely to work in low-paying and part-time jobs than men. Closures in schools and day-care facilities during COVID-19 mean that many women were juggling caring responsibilities with

[21] OBR (2020) Economic and fiscal outlook – November 2020

[22] ONS (2021) Employment in the UK: April 2021

work. In January 2021, around 25% of working mothers were using annual leave, 18% had to reduce working hours and 7% were taking unpaid leave in order to manage caring responsibilities.[23] Any reduction in employment is likely to affect women's ability to make pension contributions.

- Women are also more likely to be in debt because of COVID-19. Between January and December 2020, 60% of those who accessed debt advice through StepChange debt advice, were women.[24]

Black, Asian and minority ethnic groups approaching later life

People approaching later life from BAME groups are more likely to be impacted by COVID-19 for a number of reasons.

- People from BAME groups are three times as likely as the general population to contract COVID-19, and five times more likely to experience serious outcomes.[25] These health factors can have correlative effects on work and income both in the short and long-term if people have to take sick leave or are unable to perform to the same level due to long-term health complications.
- People from BAME groups are more likely to have been furloughed, made redundant, or have had to cease trading as a self-employed worker. This is demonstrated by the overall losses in earnings resulting from COVID-19: by July 2020, the average earnings for people from BAME groups had dropped by 14%, compared to a drop of 5.1% for White people.[26]
- 50% of BAME adults have had to draw down on their savings to cover their day-to-day expenses compared to 29% of White adults.[27] People from BAME groups are also more likely to have gone into debt as a result of COVID-19. The proportion of over-indebted BAME adults grew from 22% to 26% between March and October 2021, and 42% of BAME adults have reported that their financial situation worsened as a result of COVID-19, compared to 36% of White adults.[28]

BAME women have been even more adversely affected than BAME men and White women. In June 2020:

- 42% of BAME women believed they would be in more debt as a result of COVID, compared to 37% of White women, and 34% of White men.
- 43% of BAME women, said they would struggle to make ends meet over the next three months.
- 24% of BAME mothers were struggling to feed their children.[29]

[23] Trade Union's Congress (TUC) (2021) Working mums: Paying the price TUC
[24] OStepChange (2020) Statistics Yearbook: personal debt in the UK
[25] FCA (2021) Covid-19 and the UK's BAME communities – an economic perspective
[26] FCA (2021) Covid-19 and the UK's BAME communities – an economic perspective
[27] FCA (2021) Financial Lives 2020 survey: the impact of coronavirus
[28] FCA (2021) Ethnicity, personal finances and Coronavirus
[29] Fawcett Society (2020) BAME women and Covid-19 – Research evidence

Carers approaching later life

- COVID-19 has increased the amount of care being provided by unpaid carers by reducing the level of outside care and support available. This has dramatically increased the proportion of people in the UK providing care to a sick, disabled or older person not living with them, from 11% in 2017/18 to 32% by April 2020.
- COVID-19 is likely to have made it more difficult for some carers to maintain full or part-time work and will have had a potentially detrimental effect on their ability to make pension contributions.[30]

Older workers losing jobs and unable to re-enter the job market

- The age group with the highest redundancy rate as a result of COVID-19 is those aged 50 years and over, with 12,800 people being made redundant, up from 4,400 at the same time in the previous year (November 2020 to January 2021).[31]

Those who lose their jobs over age 50 are more likely to experience long-term unemployment, due to difficulty finding a new job, than those aged 25 to 49. In 2014, around one million people aged 50 to SPA were not in work but reported that they would like to be. The main barriers to employment for those over age 50 include: employer attitudes, age discrimination, a mismatch between the health needs of older workers and the characteristics of available jobs, and low levels of training or reskilling available at older ages.[32]

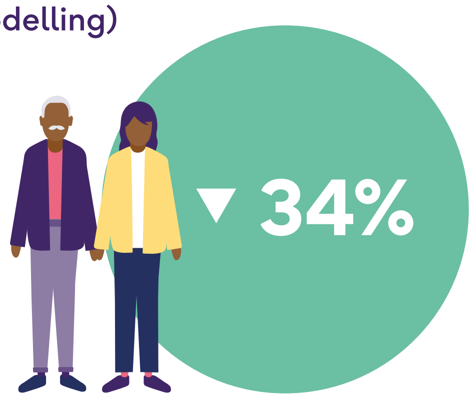
Redundancies and job losses arising from COVID-19 could have a particularly negative impact on the future earnings and pension savings levels of older people. Those who lose their jobs over age 50 are less likely to return to work than those at younger ages, and may therefore experience a long period of unemployment.

Not only will pension contributions be more difficult for unemployed people over age 50, but they may also, if unemployment continues, need to access their private pension savings early to support themselves. This may further reduce the potential retirement income that they will be able to use to top up state pension income to an adequate level.

A median earner who loses their job at age 55, and as a result misses out on over a decade of workplace pension savings, could have private pension savings of around 34% less, £32,812 compared to a £50,393, if they did not lose their job and retired at 68. They may access their DC savings to supplement their income if they are unable to find a job, resulting in even lower private pension savings at SPA.

£32,812

A median earner who loses their job at age 55 could have private pension savings of around £32,812. This is 34% less than if they retired at 68. (PPI Modelling)



[30] Wilkinson, L. et. al. (PPI) (2020) The underpensioned index. Pensions Policy Institute

[31] ONS (2021) Employment in the UK: March 2021 ONS

[32] Parsons, D. Walsh, K (2019) Employment support for over 50s: Rapid evidence review

What can government and employers do to help people reach an adequate income in retirement?

The question of 'what is an adequate income in retirement' is a fundamental challenge to UK pensions policy and individuals' later life income. Almost 20 years since the first Pensions Commission charted a new direction in UK pensions policy, due to the changing social, economic and political pressures, the challenge for UK pensions policy now is to establish a consensus on defining adequacy that is sufficiently flexible, equitable and robust enough to be practicable and durable. Different stakeholders have a variety of views on what constitutes an adequate retirement income.

Since the Pensions Commission's guidelines on pension contributions to support an adequate retirement income for later life, there are concerns that current contributions are not sufficient for an adequate income in retirement. Lord Turner, Chair of the Pensions Commission, advocates encouraging people to set aside more than the 8% salary already mandated and has supported the concept of automatic escalation of contributions to around 15%.

The DWP recommended that pensions contributions be calculated from the first pound earned rather than from the lower earnings limit (£6,230 in 2020/21). The DWP estimated this would increase the pension pot of the lowest earners by over 80%t and that of the median earner by over 40%.

The Resolution Foundation has proposed the construction of an employer-facing 'Living

Pension' benchmark to ensure workers can achieve the JRF minimum income standard.[33] They propose that for a full-time living wage earner, it would be equivalent to an additional 8% contribution rate, a proposal supported by the Centre for Ageing Better.

To reach agreement on what retirement income adequacy target is acceptable for all stakeholders, a new settled consensus is needed on retirement income adequacy. This needs to consider both the need for a steady income and for capital to call on in retirement, and address how any gap between the end of career and state pension age can be financed. This should involve a light-touch, government-led consensus brokered by a new Pensions Commission to obtain buy-in from employers, industry, unions and stakeholders that can build a consensus on what an adequate income in retirement is.

Unless we want to accept a lower standard of living, it comes down to mitigation through increasing the current rate of private pension contributions (either throughout working life or at particular ages), supporting longer working lives before retirement and increasing the state pension.

Recommendations

The successful implementation of automatic enrolment, the new state pension and the Pensions Protection Fund have started to create a more positive narrative around pensions. The task of developing a new consensus 20 years after the Pensions Commission around adequacy is formidable, but not unachievable. It needs to be based on a reasoned and shared understanding around 'what is an adequate income in retirement?'. Such a consensus is likely to be a necessary and pressing pre-condition to forming a lasting commitment to the policies required to deliver adequacy of retirement income for people aged 50 to SPA and future generations approaching later life in a COVID-19 impacted world.

The following are recommendations for employers, financial services and government to support adequacy of retirement income for current and future generations in the UK.

Government need to:

- Lead a consensus building exercise to reach a shared understanding of adequacy.
- Enact the recommendations from the automatic enrolment review 2017 as soon as possible. Lowering the age criteria, removing the earnings threshold 'entitled worker' category, and improving participation of the self-employed will significantly help adequacy outcomes for millions of people.
- Protect renters so that pensioners do not use all their retirement income on rent, including changes to Housing Benefit to include renters with private pension savings.

[33] Resolution Foundation (2021) Building a living pension. Closing the pension savings gap for low-to-middle income families

- DWP to ensure a greater uptake of Pension Wise advice and guidance through the implementation of auto-appointments for people approaching later life, and ensuring people understand their pensions options before taking anything from the pot.
- Revisit groups highlighted in the Cridland review that need extra support, such as carers and those with health conditions, to consider giving early access to state pension.
- Ensure a wider take up of pension credit with an action plan to increase uptake over the next 5 years.

Employers need to:

- Match contributions to a higher level. This would encourage employees to contribute more to their pensions and highlight how important pensions are.
- Highlight pensions as part of the remuneration package. This should come with training internally on contribution rates and retirement options to improve awareness among employees of all ages.

Financial services and pension providers need to:

- Ensure the launch of the Pensions Dashboard is paired with guidance so people can make better choices about contributions and adequacy.
- Provide better support for women by encouraging people to purchase annuities on a joint life basis to secure survivor benefits, and ensure pensions are considered in divorce as an important part of assets. This is linked to sharing more data and research on pension sharing.

34%

A third (34%) of people planning to retire in 2020 continue to support their families financially with regular payments amounting to over £3,700 per year. This represents almost a fifth (18%) of the average retirement income. (Key Retirement Solutions, 2020)

Centre for Ageing Better

Let's take action today for all our tomorrows.
Let's make ageing better.

This report is part of our work on financial security and is freely available at **ageing-better.org.uk**

The Centre for Ageing Better creates change in policy and practice informed by evidence and works with partners across England to improve employment, housing, health and communities. Ageing Better is a charitable foundation, funded by The National Lottery Community Fund.