Foreword

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Since last year’s Retirement Report, a great deal has happened in the UK, not least the announcement that Britain will leave the EU following the referendum vote, and the Bank of England’s decision to cut interest rates for the first time since 2009. We are all adapting to the challenges of living with some uncertainty surrounding the impact of Brexit, not just in terms of the wider political and economic context, but also our individual and family circumstances.

As a business that has supported our customers for more than 200 years, we have experienced our fair share of change and I am immensely proud of the continued dedication of our employees, who remain focused on putting individuals and families at the heart of everything we do, to help the nation successfully plan for its future.

Our annual Retirement Report provides us with a useful barometer check of the nation’s attitudes towards retirement saving and their level of readiness. This year, the proportion of adequate retirement savers – which had been on the rise since 2013, buoyed by the introduction of auto-enrolment – has plateaued at 56%. At the same time, the number of people expecting to receive a defined benefit pension continues to fall.

The report seeks to shed light on some of the challenges which exist when it comes to attitudes towards saving, to ensure we continue to see record levels of adequate saving in the coming years. This year we found that whilst more people would like to retire earlier, they intend to start their saving plan later. Worryingly, the amount of people in their forties who are adequately saving declined, with those in their thirties – who have an additional decade of earning potential ahead of them – catching them up.

A recent supplementary study also found that the Brexit result knocked consumers’ confidence about their retirement savings, and many feel uncertain about what the decision could mean for them. That said, many do remain optimistic about their plans – in fact, we found that 1 in 4 of those in the youngest age group (18-24 years) suggested they may even increase the amount they save due to Brexit.

When it comes to financial products, public comprehension is still low. Life-long financial education, such as that provided through our Money for Life programme, is essential if we are to support consumers in making better, more informed choices.

What is apparent is that people from different generations have their own set of thoughts and preconceptions regarding retirement plans. The question for us all – providers, government, society as a whole – is how do we best prepare for the future based on each generation’s individual circumstances?

During this unprecedented period of change, consumers need the stability of having clarity over what is best for their families’ financial future. We have grown as a business by taking the longer term view, which remains our focus as we support our customers in planning for a happy and comfortable future.
HOW WELL ARE WE SAVING FOR RETIREMENT?

56% of people are saving adequately for retirement
47% of those in their 30s and 40s are saving inadequately or not at all
19% of people in their 60s are not saving

HOW DO WE LIKE TO ENGAGE WITH RETIREMENT PLANNING?

40% say seeing their state pension estimate and forecast private pension in one place would help them achieve their desired retirement income

HOW ARE WE THINKING ABOUT RETIREMENT PLANNING?

WHAT AGE SHOULD WE START RETIREMENT PLANNING? (see pg 15)

64% of 60-64 year olds think you can start saving for retirement
51% of 50-somethings think you can start saving for retirement
31% of 50-somethings think you can start saving for retirement

PLANS FOR SPENDING TAX-FREE LUMP SUMS FROM PENSIONS (see pg 28)

29% of 60-somethings
15% of 60-somethings
31% of 60-somethings

CIRCUMSTANCES AFFECTING LONG-TERM FINANCIAL PLANNING (see pg 20)

Caring for an adult 18%
37% Looking after children
8% Divorced
15% Divorced

UNABLE TO SAVE MORE IN THE COMING YEAR (see pg 21)

Increase savings
31%
24% of 50-somethings
29% of 60-somethings

WHAT AGE SHOULD WE START RETIREMENT PLANNING? (see pg 15)

26 27 28 29 30 31 32

is the latest age that 60-64 year olds think you can start saving for retirement
is the age, on average, that people think you can start to save for retirement
is the latest age 18-21 year olds think you can start saving for retirement

HOW BREXIT HAS AFFECTED PEOPLE’S VIEWS (see pg 23)

Optimistic about short-term financial prospects
Financial situation compared with the previous year was more positive
Don’t know how they feel about short-term finances
Uncertain about long-term finances
Uncertain about retirement

Pro-Brexit
Post-Brexit

Optimistic about short-term financial prospects
23%
32%
32%
67%
67%

Financial situation compared with the previous year was more positive
23%
35%
51%
63%
63%

Don’t know how they feel about short-term finances
23%
35%
51%
63%
63%

Uncertain about long-term finances
23%
35%
63%
63%
63%

Uncertain about retirement
23%
35%
63%
63%
63%

44% still want their statements by post
65% want to access information online
INTRODUCTION: A GENERATION GAME

“THE STATE OF THE NATION’S FINANCES.”

This is the all-encompassing phrase used every day to describe the almost infinite range of personal circumstances, expectations, ambitions, pressures and concerns that influence the way millions of Britons spend, save and invest their money.

If there’s one thing that our in-depth research into our current and future finances has shown over more than 10 years, it’s that our unique set of personal circumstances are hugely significant. In fact, along with other factors including society’s views of generational stereotypes, they can fundamentally influence our attitudes towards saving, spending, risk and reward – with knock-on effects that can alter the very foundations of our future lives.

Nowhere is that clearer than when it comes to retirement planning.

One of the most important figures to come out of this year’s study is that more than half (56%) of people¹ across the country are setting aside enough money to provide an adequate retirement income, assuming they maintain their savings level every year. Against a backdrop of ground-breaking programmes to get more people saving for older age, this figure is exactly the same as it was last year and is only up slightly from 53% in 2014. This stalled overall rate of improvement is somewhat difficult to understand.

At the same time, however, it also means that more than two fifths (44%) of people who should be saving still aren’t doing enough to deliver the retirement future they hope for.

While the nuances of generational differences and their potential to affect our financial habits have long been acknowledged, they have never been properly explored. A better understanding of these would provide insight into how individuals that make up the UK’s workforce pursue their retirement goals. With this in mind, we may have a shot at making the retirement savings process work for real life circumstances, not just for now, but for the future. At Scottish Widows, we aim to do just that.

<table>
<thead>
<tr>
<th>SAVING FOR AN ADEQUATE RETIREMENT</th>
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<tr>
<td>% of people saving adequately</td>
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<tr>
<td>% of people relying on defined benefit (DB) scheme</td>
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¹ Among those who should be saving – those aged 30 or over, who are not retired, and are earning at least £10,000 a year.
PROPERLY ASSESSING THE WAYS DIFFERENT GENERATIONS THINK ABOUT RETIREMENT PLANNING RELIES ON BEING ABLE TO QUANTIFY HOW PREPARED THEY CURRENTLY ARE. AND THE NEWS SEEMS CONSISTENTLY POSITIVE.

Our benchmark Scottish Widows Pensions Index of those saving adequately for their retirement has remained at the record high level of 56% achieved in 2015. The percentages of men and women saving adequately – 60% and 52% respectively – have also remained at last year’s record levels.

However, beneath these headlines there have been significant changes reflecting the shift from traditional funding styles to newer, more sustainable ones.
This makes no difference to the Pensions Index, but without this group the Average Savings Ratio would be marginally lower at 12.5%. 3 4.61m people. Source: Office for National Statistics Labour Market data Jan 2016.

We have changed the population for the Pensions Index and Average Savings Ratio this year to include women aged 60 to 64 who are still working.

Meanwhile though, 2016 marks a record high year.

The proportion of people relying mainly on DB pensions for their retirement income is now only 24% – down from 28% last year – and a third below the 36% recorded in our first survey in 2005. For 2016, a big part of that has been the drop in public sector workers who expect their main income to come from these kinds of schemes. For this group, the percentage of people saving adequately (the Pensions Index) and the average percentage of earnings being saved by those not relying mainly on DB pensions (Average Savings Ratio). The derivation of the Pensions Index and Average Savings Ratio is covered in more detail in the Appendix.

This is the percentage of income saved by those not relying mainly on a DB pension – and it is up from 12.1% last year to 12.6% this year2. This increase is partly driven again by the public sector – here paying into relatively generous defined contribution (DC) schemes – [2016 (25%) v. 2015 (21%)]. However auto-enrolment has also continued to have an impact as it rolls out to smaller companies across the country. A record 55% of those with incomes between £10,000 and £30,000 are now working for themselves3, still an overall increase. A key test will present itself when auto-enrolment staging and phasing is complete, especially if there is a continuing decline in DB provisions that could send our Pensions Index into reverse.

The obvious problem with any workplace-based scheme though, is that the growing army of people working for themselves silently slips through the net. Last year (2015) more than six in ten (61%) of those working for themselves weren’t saving enough compared with 44% of the overall workforce. This year, with more than 4.5m now working for themselves1, still more than half of this group are not saving enough – albeit a slightly smaller proportion at 57%.

It is also worth bearing in mind that this pattern just represents those at the start of their savings journey, and we should expect to see average levels of savings continue on their upwards trajectory again in 2018 and 2019 when the step ups towards minimum contributions of 8% kick in.

Crucially, benefits provided by DC pensions are more likely to produce income that is just ‘adequate’, particularly because employer contributions are generally much lower than for DB pensions. So while the number of adequate savers has been higher in the last couple of years, this may reflect a levelling out of retirement provision among different groups rather than an overall increase. A key test will present itself when auto-enrolment staging and phasing is complete, especially if there is a continuing decline in DB provisions that could send our Pensions Index into reverse.

While new record highs across many of our measures are welcome, and highlight the success of automatic enrolment, we need to be cautious about reading too much into them. We are only trying to establish whether individuals are likely to have an ‘adequate’ retirement income without attempting to differentiate between those who just meet the hurdle requirement and those who exceed it and those with prospects for a comfortable retirement. Many in DB pensions are likely to be in the ‘comfortable’ group, particularly if they have remained with the same employer for much of their career.

24% of self-employed people are not saving at all

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This year 60% of those we spoke to were prompted to start saving into a pension because they were auto-enrolled. For 30% it was qualifying to join a company pension scheme that kick-started saving. Clearly, employment status is a critical component in the UK’s savings gap. And with the numbers of self-employed Britons continuing to grow significantly year-on-year, this is becoming a serious problem that must not be ignored.

With that in mind it is also encouraging to see that, with the number of under-saving one-man bands falling a little each year, it seems the wider awareness drive associated with auto-enrolment is being heard by those working for themselves. Even if the need to save without the boost from employer input means millions continue to struggle. It suggests that the message can, indeed, get past the everyday cash-flow challenges and priorities faced by so many.

24% of self-employed people are not saving at all

40% of people started saving for retirement because they were auto-enrolled

Not only that, but because the older we are the more likely it is that we are self-employed, it is clear the generation game is being played throughout society. It demands a closer look.

2 We have changed the population for the Pensions Index and Average Savings Ratio this year to include women aged 60 to 64 who are still working. This makes no difference to the Pensions Index, but without this group the Average Savings Ratio would be marginally lower at 12.5%.

OUR DATA CONTINUES TO SHOW A LACK OF ENGAGEMENT WITH RETIREMENT PLANNING THROUGHOUT THE UK DESPITE EXTENSIVE AWARENESS CAMPAIGNS, FLUCTUATING STOCK MARKET PRICES THAT COULD AFFECT FUNDS BY THOUSANDS OF POUNDS AND ABOVE ALL, THE FACT THAT PENSIONS HAVE RARELY BEEN OUT OF THE NEWS IN RECENT MONTHS.
Although the full state pension is now a maximum of just over £8,000 every year, the British public incorrectly believes it is closer to £5,000 on average. And yet half (48%) of the country expects this ‘best guess’ amount to at least contribute towards a reasonable standard of living when they stop work.

At the same time, around a quarter (22%) of the country’s savers check the balance of their personal pension pots less than once a year and only 5% look at their future financial affairs every quarter.

Indeed, for women in particular, separate research from Scottish Widows found that “participants were often more engaged in other financial issues. Pensions did not generate the same satisfaction or motivation; instead they were seen as a cost without reward.”

Evidently, the connection is still not being made between current savings habits and how they translate into our financial futures. And yet certainty and information is something the British public says it craves. A significant 40% said seeing both their state pension estimate and forecast private pension income all in one place, for example, would help them achieve their desired retirement income. In addition 39% said that knowing what income they need in retirement would make a big difference.

But technology also plays a bigger part in engaging with retirement planning than we may realise. Just over two fifths (44%) of people may still want to receive their statements by post, but almost two thirds (65%) would like to be able to access the information online or through an app.

Meanwhile, with the uplift in the economy, the UK’s workforce believes a comfortable retirement will cost them £750 more a year than they thought it would this time last year. To get there, around 40% of Britons think cash savings (despite the effects of inflation) will help deliver their retirement income aims, followed by property and inheritance.

The generation story plays a key part here too, but not in the ways we might imagine. Nationwide, for example, the British public feels that starting to save for retirement should kick in on average just after we turn 29 years old. Among 60-64 year olds – those on the brink of retiring and perhaps seeing the consequences of a lifetime of savings decisions up close – it is closer to 27.

But the way different generations deal with money isn’t just about the varying financial realities that affect different age groups at different times in life. It’s also clear that the experiences of different generations in terms of wider societal assumptions, assurances and expectations play a part. Even the economic backdrop at key points in life can make a difference.

Take today’s 18-21 year olds coming into the workforce at a time of austerity, continuing economic uncertainty and a drive towards greater retirement saving awareness through the workplace pension. They actually plan to start saving at 29 – three years earlier than they think is necessary.

Despite an ultra-low interest rate environment for much if not all of their adult lives, a staggering 51% of 18-29 year olds believe cash savings will help support them, compared with only 36% of 30-49 year olds who remember far healthier returns on their cash. With one of the healthiest appetites for risk, younger generations could be missing out on potentially life-changing amounts of money by saving their money rather than investing it in a pension.

**Perception and reality**

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4 Fawcett Society and University of Sheffield research into women’s attitudes to pension savings.

5 E.g. 18% of 18-21 year olds would be happy to accept the risk that their income could fall and rise in retirement depending on what’s happening in the economy.
Meanwhile, few 20-somethings are currently even on the property ladder compared with the generations above them. Despite this, more than a third (36%) still believe income from property will bolster their retirement income, compared with just a quarter (25%) of the baby boomer over 50s generation that, arguably, have gained the most from the bricks and mortar market over recent years. Have younger adults become convinced that property is the answer to their prayers based on their own parents’ experiences? Perhaps, with a third (31%) of 18-29 year olds expecting an inheritance to help support their retirement lifestyle, they may hope their parents’ homes will bridge their own retirement savings gap.

A particularly important trend to emerge this year is that while savings have increased to record levels among those in their 30s and their 50s (with 53% and 64% respectively saving adequately), among those in their 40s adequate savers have fallen from 57% to 53%. Our 2016 research demonstrates that this is the first year in which those in their 30s are preparing as well in retirement as those in their 40s.

Perception and reality

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<td>31% of 18-29 year olds expect an inheritance to help support their retirement lifestyle</td>
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<td>47% of those in their 30s and 40s are saving inadequately or not at all</td>
<td>19% of people in their 40s are not saving</td>
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The key driver of these changes is an increase in non-savers in this age group – up from 16% in 2015 to 19% this year, despite the overall reduction in non-savers from 19% to 18% (though that number stubbornly stays at around a fifth of the population, where it has been for many years).

The worsening savings habits of those in their 40s echoes the findings of the 2016 Scottish Widows Savings Study6. This identified that many in that generation prefer to spend now rather than save for the future.

And they know it. Those in their 30s and 40s – with particular pressures on their finances ranging from high borrowing levels to dependent mouths to feed – feel the lack of saving keenly, with 47% reporting that they are saving inadequately or not at all. Up from 43% in 2015, it represents a worrying decline among the over-40s at a stage in life where they should be looking to increase retirement savings. For them, the average saved has fallen from 12.7% to 12.1% of income in the last year.

6 http://reference.scottishwidows.co.uk/docs/2016_03_Yolo.pdf
In general, although the UK’s adults are generally more positive about their short-term finances than they were 10 years ago, that optimism wanes with increasing age. The over 40s are the most negative about their long-term finances compared with other age groups.

Indeed, with factors like DB scheme closures, the effect of the financial crisis is still being felt by pension pots, not to mention the precious little being earned on cash savings. Today’s 40-somethings are now more pessimistic than they were 10 years ago.
The UK’s adults are generally more positive about their short-term finances than they were 10 years ago.

While more 40-somethings are now saving adequately than the same age group did 10 years ago, their ambitions are far lower than they were for the age group above them at the same stage of life. Although other age groups have also reined in their expectations significantly over the last 10 years, it’s here that the difference is most remarkable.

In 2006, 40-somethings felt a retirement income of more than £30,000 was necessary. Today it’s just £22,700 (compared with, for example, the £26,000 the nation’s youngest adults feel would be necessary).

Yet again, here is a generation with a unique set of personal circumstances and financial constraints. As first-time parents get older, and our own parents survive much longer than they would have done in the past, today’s 40-49 year olds are being squeezed more acutely than ever before.

Of the 40-somethings we spoke to, more than a third (37%) of those who aren’t currently working are looking after children and almost a fifth (18%) are caring for an adult. But by their late 40s and early 50s other family situations can start to affect long-term financial planning far more fundamentally than having children. 8% of 50-somethings are divorced, rising to 15% for those a decade or so older.

Whatever their age, our findings show that, having uncoupled their financial futures and meticulously split assets, those who have gone through a divorce feel more pessimistic about their financial future than the rest of the population. This is for good reason as our research shows they are less likely to be saving adequately.

Though 56% of the nation is now saving enough for retirement, only 44% of divorcees can say the same. And while less than a third of singles, co-habitors, spouses and even separated individuals are pessimistic about their long-term finances (between 27% and 31%), that figure rises to almost 40% of divorcees.

Our figures also show that almost half (49%) of the UK’s divorcees don’t believe they’ll be able to save more in the coming year compared with 34% of married couples, 29% of those co-habiting and 33% of singles.

More worrying is that three quarters of those divorcees we spoke to said they didn’t discuss pensions as part of their divorce settlement – a scenario that is significantly more common for women (79%) than men (64%).

As a result of all these factors, those who are divorced or separated expect to have to work for longer. Preferring to stop work by the age of 64, divorcees are prepared to remain in the workforce for between two and four additional years if necessary. Married couples, by comparison, would like to stop working by the time they are 62 and would only consider stretching it to age 66.

But it’s not just marital status that has a major effect on our attitudes towards retirement as it gets closer. In fact, as retirement approaches, people in general become less optimistic about their financial situation.

Though around 40% of the UK’s workforce are optimistic about their long-term financial future, as they were last year, that figure rises to half (50%) of 18-29 year olds but drops back to just over a third (37%) of the over 50s.

As more people find they need to think laterally about when and how they wind down their working lives to make the sums add up, the older we are, the less optimistic we feel about job security – dropping from 37% of the under 40s to just 14% of those in their early 60s. Clearly, more needs to be done to offer our ageing workforce greater certainty in the workplace.

With older generations in particular trying to grapple with the growing chasm between lifelong expectations of the how and when they will retire and the reality up close, it is increasingly clear that the transition period is becoming an ever more confusing and worrying time.
OLDER GENERATIONS IN PARTICULAR ARE TRYING TO GRAPPLE WITH THE GROWING CHASM BETWEEN LIFELONG EXPECTATIONS OF THE HOW AND WHEN THEY WILL RETIRE AND THE REALITY UP CLOSE. SO IT IS INCREASINGLY CLEAR THAT THE TRANSITION PERIOD IS BECOMING AN EVER MORE CONFUSING AND WORRYING TIME.

AND NOW, BROADER ECONOMIC UNCERTAINTY HAS ADDED A NEW LAYER OF CONCERN.

The debate around retirement planning often focuses entirely on an individual’s specific circumstances, however this year, events playing out in the wider world are having a significant impact.

The decision of the UK to leave the European Union means that, suddenly, the relationship between our own present and future finances, and that of the country as a whole, has become the topic of discussion online, across dinner tables, in pubs, and around office water coolers all over the country.

Research conducted for this report after the EU referendum result shows, compared with pre-vote sentiment, the UK’s decision has affected its citizens’ feelings of certainty and optimism across the board.

Before 23rd June, around four in every ten (41%) people felt optimistic about their short-term financial prospects. After the vote that dropped to under a quarter. A third (32%) of the country had said their financial situation compared with the previous year was more positive, dropping to 23% after the vote. Similarly, the number of people who now feel pessimistic about their current personal financial circumstances is up from 26% pre-vote to 34% today.

Even with much longer time horizons, the 40% of Britons who had felt optimistic about their long-term future, and the 31% who were positive about their retirement, dropped to 26% and 21% respectively.

Our research suggests the key issue is the level of uncertainty that Brexit has brought to everyday life. Today, half (51%) the population doesn’t know how they feel about their short-term finances – up from only 35% before the vote. Similar numbers are now uncertain about their long-term finances and retirement – 43% and 47% – compared with 32% and 35% before the vote. A lack of clarity over how the vote will impact on pension funds is also worrying almost half (47%) the nation.

HOW BREXIT HAS AFFECTED PEOPLE’S VIEWS

![Graph showing changes in optimism and uncertainty post-Brexit](image-url)
Having said all that, the majority of people (53%) don’t think the results of the referendum will affect their retirement saving and only one in ten (11%) say the vote will mean they are able to save less. There is also some evidence that the vote and subsequent economic uncertainty may serve to encourage some to take control of their financial future. Among 18-24 year olds, in particular, one in four (26%) think they will put away more money for retirement as a direct result of the 'leave' vote.

This split is particularly evident when it comes to job security. Before the vote, Britain’s youngest workers were far more optimistic about job security than older generations. More than a third (37%) of 18-24 year olds said they were feeling positive compared with 23% of those over the age of 35. However since the vote, that figure has dropped by 14 percentage points to just over a fifth (22%) amongst the younger generation, making it even lower than the over 35s, which marginally increased to 24%.

Britons are already grappling with the challenges of reaching their savings goals to secure a comfortable retirement based on their own personal circumstances. Now, many are faced with additional uncertainty on a macro-economic level, as questions continue to be asked about what – if anything – will be the impact of Brexit on Britain’s retirement saving.

% FEELING POSITIVE ABOUT JOB SECURITY POST BREXIT

The way we feel about both our own finances and the economic security of the UK as a whole seems heavily influenced by our stage in life. As the referendum debate itself showed a clear split between generations, so too does our study into the psychological effects the result has had.

REGIONAL DIFFERENCES IN ATTITUDES FOLLOWING THE UK’S DECISION TO LEAVE THE EU
THE VERY DIFFERENT WAYS THE NATION’S VARIOUS GENERATIONS THINK ABOUT AND PREPARE FOR THE LONG-TERM REALLY COME TO THE FORE AT THE POINT OF RETIREMENT ITSELF. TAKE OUR YOUNGEST WORKFORCE AS AN EXAMPLE. OVERALL, THE BRITONS OF 2016 THINK THEY WILL NEED AROUND £24,000 A YEAR IN RETIREMENT INCOME. THE UNDER 30S THINK IT’S CLOSER TO £25,750. Compared with the nationwide average of £307,000, 18-21 year olds believe they will have to save £317,000, (rising to as much as £351,000 for 22-29 years) to secure that income. Although they have the least experience of working (or perhaps because of it), 18-21 year olds in particular would be willing to work the longest – until 68 years old – to achieve their aims, with almost half (46%) willing to work to age 70 or beyond.
The generation above them – 30-49 year olds juggling some of the toughest everyday costs such as debts, mortgages and family life – believe, or perhaps hope, it will only cost them £268,000. Most likely to be working full time, they are only prepared to continue working until 66, but would settle for almost £2,000 less a year in income when they do stop working (£23,475 vs £25,750).

In fact, our future income hopes become more modest the older we get, until our late 60s when it reaches the highest rate of any age group at £26,100 – only around 10% below their current average income of £29,100. With such goals, it is little surprise that the over 65s don’t think they’ll be able to retire until the age of 70 and would be prepared to carry on until 72 if absolutely necessary.

It doesn’t help that retirement saving remains a fragmented affair. Two in five (40%) of those we spoke to said being able to see their combined estimated state pension and private pension income in one statement would help them achieve their desired income in retirement. The same proportion (40%) said that being able to see all their pension pots in one place would help them save more. This highlights the benefits of the pensions dashboard initiative.

Meanwhile, the retirement sands are still shifting beneath our feet and the workforce is struggling to keep up with changes to pension legislation that are still being rolled out. 53% of people don’t understand what ‘pension freedoms’ are.

According to our research, the Government-backed impartial service designed to help provide reliable information is a relatively unknown source of support. Only 20% of the population has heard of Pension Wise, dropping to just 8% of 18-21 year olds but still only coming in at a fifth for 65-69 year olds. Among those approaching retirement age in their 50s and early 60s – the demographic the service was really designed to support – just a third of people (32-33%) had heard of it.

### PLANS FOR SPENDING TAX-FREE LUMP SUMS FROM PENSIONS

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<th>Option</th>
<th>50-somethings</th>
<th>60-somethings</th>
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<tr>
<td>Treating themselves</td>
<td>29%</td>
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While three in ten (29%) of those still firmly on the earning side of the fence in their 50s plan to spend any tax-free lump sum treating themselves, only 15% of 60-somethings agree, preferring to add the cash to their savings. A third (31%) said they would use it to increase their retirement income compared with only 24% of those in their 50s.

These marked differences in attitude immediately before and after ‘the big stop’, suggest that it’s still only at the point of retirement that we really begin to appreciate the cost of comfortable living in older age. The truth is the nation is still picking numbers out of thin air when it comes to translating current savings rates and total pension pots into retirement reality.

Just 4% of those surveyed feel their pensions, savings and investments will provide them with more than enough to meet their retirement income needs. And despite the continued roll out of auto-enrolment – arguably the most dramatic change in British pensions history – this year, as last year, a quarter of UK (23%) adults admit they have no idea of the extent to which their pensions, savings and investments will meet their retirement income needs.

While we have examined the effects of families, separation, debt, and the drive to own property among other pressures on the nation’s finances, half (48%) the country still say planning their retirement is the greatest pressure of all.

Once again, our research this year suggests that Britons still feel they don’t have a clear savings target – something that could make all the difference as 39% of people said knowing what retirement income they need would help push them to achieve it.
Of those who had heard of Pension Wise, almost a quarter (22%, and higher than the national average of 19%) of 50-somethings thought it was a service that recommended products based on personal circumstances. Just 4% of the population said they would seek guidance from the service.

Meanwhile, the greatest opportunity to make a difference to our older age rests with those with decades to make it happen. But one of the major financial services developments announced in the last year and designed to do just that – the Lifetime ISA – is a complete unknown to 70% of 18-21 year olds compared with 56% of the UK as a whole. Just 15% of the population is confident that they understand this savings product.

The other major development designed to inject new life into individuals’ retirement income planning – the introduction of the secondary annuity market – was also met with a discouraging response. Only 13% of those we spoke to said they would consider selling on their annuity income to gain greater control over their retirement funds.

Only 10% would pay for professional advice on selling their annuity, and almost a quarter (24%) suggested it should be their current annuity provider’s job to provide that information.

While almost a fifth (17%) of the nation says that knowing where to find professional advice would help them achieve their desired retirement income aims in general, the number of people who aren’t supported by independent professionals is creeping up. (80% didn’t use an adviser in 2016, compared with 79% last year, 77% in 2014 and 75% in 2013.) Cost and trust remain critical obstacles for almost two thirds (62%) of the population.

Of those who had heard of Pension Wise, almost a quarter (22%, and higher than the national average of 19%) of 50-somethings thought it was a service that recommended products based on personal circumstances. Just 4% of the population said they would seek guidance from the service.

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**05 CONCLUSION**

Our ageing population brings with it the need to overhaul some preconceptions about retirement that have been decades in the making. But it also presents opportunities, not least the chance to save for longer as we stay in work bringing in an income for longer.

This is without doubt a unique period of transition – one that is being experienced differently by the various generations that make up the UK. Acknowledging the unique circumstances, expectations and preconceptions of each to bridge the gap between historical ideas and current realities could help deliver a better retirement for every age group.

But that needs clarity and direction – neither of which the British public feels it has enough of.
AFTER ELEVEN YEARS OF SCOTTISH WIDOWS RESEARCH INTO RETIREMENT TRENDS AND HABITS, THE COUNTRY IS NOW ENTERING A NEW PHASE IN RETIREMENT SAVING.

It is one in which ground-breaking legislation, designed to get more of us saving seriously for older age, really beds in.

The Department of Work & Pensions deserves more recognition for their single-minded focus on ensuring that the roll-out of automatic enrolment to smaller businesses is successful. This hard work is bearing fruit: over the course of the year saving adequacy has increased among those working for companies with between 10 and 49 staff from 40% to 44%.

However, we want to see further simplification of the automatic enrolment system which we believe would be welcomed by small businesses across the UK. Our data indicates that there are two sections of society which are of particular concern. Over the last eleven years this annual report has found that the self-employed and women are consistently falling through the savings net.

The automatic enrolment initiative does not address the self-employed, yet this type of work is growing. Without targeted support the lack of pension provision in this sector threatens to become a significant problem. We believe that pension contributions made by the self-employed should be exempt from National Insurance, in the same way that employer pension contributions are.

More broadly, the pace of change has created significant consumer confusion. To give the reforms the best chance of delivering long-term success, a period of calm is needed in which to embed the new pension’s landscape in the minds of consumers.

The public need the chance to digest the new pension rules, and educate themselves about the options available to them, in order to make crucial decisions about their financial future.

Now that the Treasury consultation on incentivisation has concluded and the Lifetime ISA announced, Scottish Widows urges the Government to confirm that they will make no structural changes to the current system of pension tax relief in this Parliament.

Our research also suggests that more accessible information will improve savings habits. Consumers who were once wary of unfamiliar technology now rely on websites and apps as second nature every day. It’s time the pensions industry caught up.

As part of Lloyds Banking Group’s Helping Britain Prosper plan we have committed to help our customers plan and save for later life through the use of our Retirement Planning website. Between 2016 and 2020 we aim to support 1 million customers through this channel. In addition, Scottish Widows are learning from the digital experience of Lloyds Banking Group to evaluate what additional changes we need to implement to improve the format and accessibility of information about pensions.

At a national level we believe that the pension dashboard provides a great opportunity to build confidence and engagement in planning for retirement. However, people will lose confidence in the system if some schemes or plans are missing.

Scottish Widows believe that legislation is required to ensure that the pension dashboard is delivered by 2019. Only legislation will ensure that Government, the regulator and both DB and DC pension schemes work together to deliver this initiative.

However, the levels of knowledge about financial matters remains extraordinarily low. For example, 71% of women do not know how much they need to save in order to achieve their desired level of income in retirement. Financial education initiatives, such as that provided by our Money for Life programme, are part of the solution. The Government’s guidance service, Pension Wise, is another. The programme of reform for the financial advice market will also be critical to ensure that consumers make appropriate decisions.

Recommendations

7 Scottish Widows will be publishing a separate report on Women & Retirement later in the year.
APPENDIX

THE PENSIONS INDEX AND THE AVERAGE SAVINGS RATIO

CALCULATION BASIS

The Scottish Widows Pensions Index is a snapshot of how well employed and self-employed people in the UK are currently preparing financially for retirement. It is based on those who are of an age – between 30 and 64 – and an income level – £10,000 or more a year – where they could reasonably be expected to be saving for their old age. The target retirement income is one that will leave most people feeling they are in an acceptable financial position, but which is likely to involve a sacrifice in living standard compared with when they were working. The level of retirement income which consumers are likely to feel is acceptable will depend largely on their income while working. However, the proportion required is likely to be higher for lower earners than for those who are relatively well-off, and that is reflected in our assumptions.

We have assumed that saving 12% of earnings will provide an adequate income when combined with State pensions. The 12% includes employer pension contributions, tax relief and any non-pension savings for retirement, and could provide an annuity of around 27% of earnings at age 65, based on the Pension Calculator on the Money Advice Service website. However, this annuity does not increase in payment, and if an adjustment is made so that it is inflation-linked the amount falls to around 19% of earnings. When added to a state pension of £8,100 a year, those earning £10,000 a year and saving 12% a year may have much the same income in retirement as when working, those earning £30,000 may have a replacement rate of around 46%, and those earning £50,000 may have a replacement rate of around 35%. If they stop work at age 65, they will also have a funding gap between then and when state pension starts.

If individuals continue to work and contribute to their pension until state pension ages when these increase above 65, these replacement rates will be increased significantly. For example, if contributions are continued until age 68, the private pension could provide inflation-proofed income of around 23% of earnings. When added to a full state pension at the current level, this could give replacement rates of around 104% for earnings of £10,000 a year, 50% for £30,000 earnings and 39% for £50,000 earnings.

Similarly, higher contribution levels or a lower starting age would produce an income closer to what might be considered ‘comfortable’.

Those with defined benefit pensions need to be considered separately, because there is no direct relationship between contribution levels for individuals and the pension provided. In calculating the Index we have assumed that all those who expect to receive most retirement income from a defined benefit pension are adequately provided for. The Scottish Widows Pensions Index therefore tracks the percentage of those aged between 30 and 64 and earning £10,000 or more a year, who are either relying mainly on a defined-benefit pension or saving at least 12% of earnings for their retirement (including any pension contribution by their employer). The Scottish Widows Average Savings Ratio is the average percentage of earnings being saved for retirement by those in the Index group, but excluding those relying mainly on a defined benefit pension.

In previous years, we have not included women aged 60 to 64 in the Pensions Index and Average Savings Ratio, reflecting the previous female State Pension Age. For the past four years we have calculated the Index and Ratio both including and excluding women aged 60 to 64. This has had no impact on the Index, and only a marginal one on the Ratio, largely because relatively few women over age 60 are still earning. From this year we have included the group of women aged 60 to 64 for both the Index and Ratio. Excluding them this year would have reduced the Ratio from 12.6% to 12.5%, with no impact on the Index.

SAVINGS THAT ARE INCLUDED

While pension arrangements remain the most common and most tax-efficient method of saving for retirement, many people use alternative savings vehicles such as ISAs, perhaps with a view towards moving funds into pension closer to retirement. In calculating the Pensions Index and the Average Savings Ratio, we have taken account of all savings specifically intended to contribute towards retirement income. These comprise company and employee contributions to employer-sponsored pensions, individual contributions to personal and stakeholder pensions and non-pension savings. We have not included non-financial assets such as residential property.