

**Global  
Retirement  
Reality  
Report  
2018  
UK  
Snapshot**

# Hopes & Fears

# The Expectations

# and Reality of

# Retirement

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The concept of retirement remains constant. The reality of retirement continues to change.

Since Freedom and Choice in 2015, pension scheme members have more options than ever. The announcement changed the way people think about retirement and what they can do with their savings. But this freedom can make it more difficult for them to decide among the array of investment and income options.

And it's not just in the UK. Globally, we are seeing a big shift from defined benefit (DB) to defined contribution (DC) systems. Countries are at different stages in this evolution, however, all members have one thing in common — they will each be more responsible for determining their own retirement outcomes.

In this report, we look at the expectations of UK workers and compare this with the reality of retirees — in terms of spending needs, consumption sacrifices, income preferences and sources for advice.

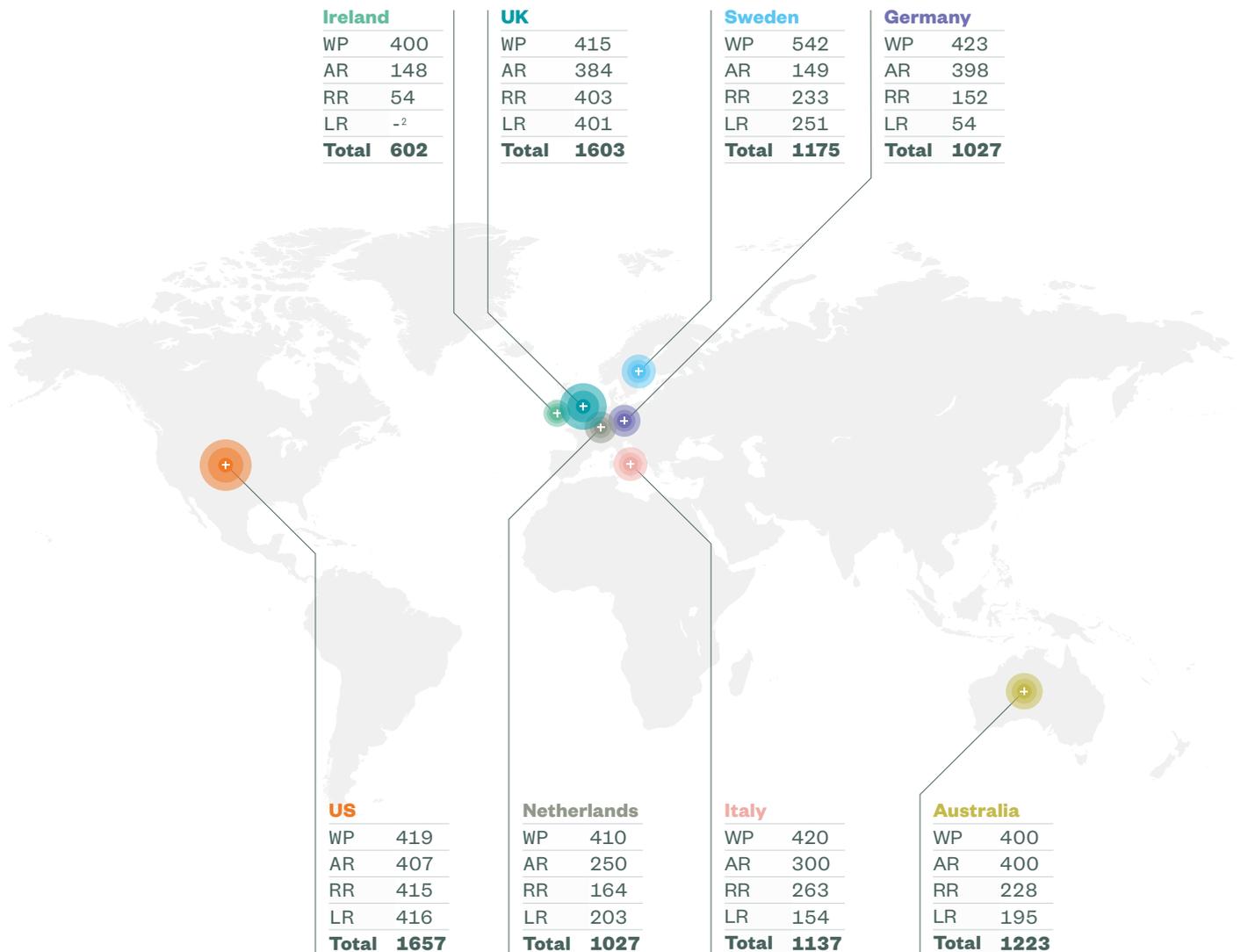
## Survey Methodology

During the first quarter of 2018<sup>1</sup>, State Street conducted an online survey, in conjunction with YouGov, across eight countries representing a range of retirement systems.

We asked 9,451 people at every stage of the retirement spectrum, from those new to the workforce to those later in retirement itself, to better understand the milestones and inflection points across the whole savings journey. All respondents participate(d) at some level in a DC or private savings plan.

### Sample Groups

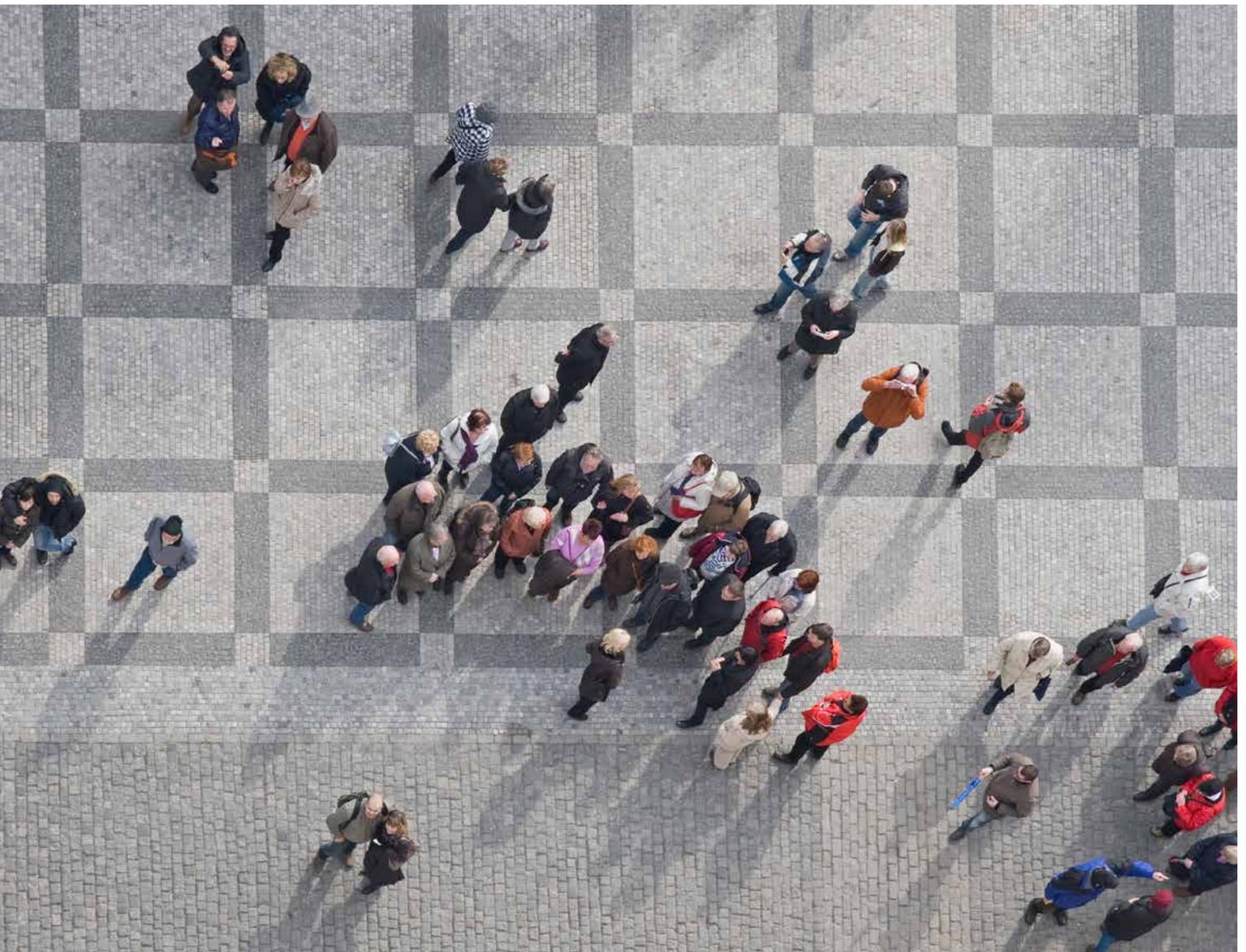
- (WP) Working Population — Working and not planning to retire in the next 5 years
- (AR) Approaching Retirement — Working and planning to retire in the next 5 years
- (RR) Recently Retired — Retired within the last 5 years
- (LR) Later in Retirement — Retired more than 5 years ago



<sup>1</sup> Survey data fielded between 8 February and 3 April 2018.

<sup>2</sup> A significant sample of respondents in later retirement could not be formed for Ireland.

# Key Findings From the UK



## Finding 1

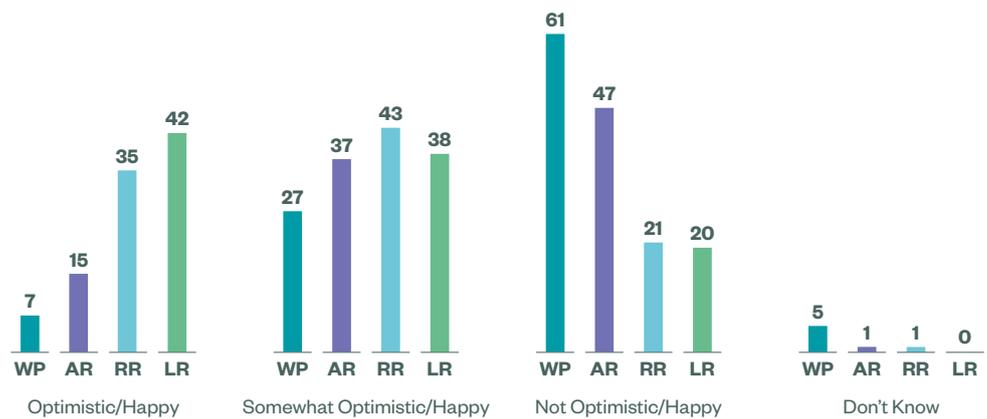
### People in the UK realise there is a retirement challenge

The good news is that people in the UK are aware about the challenge of how they are going to fund their retirement. They are concerned about retirement, realising that the amount they're saving will not be close enough to what they will need.

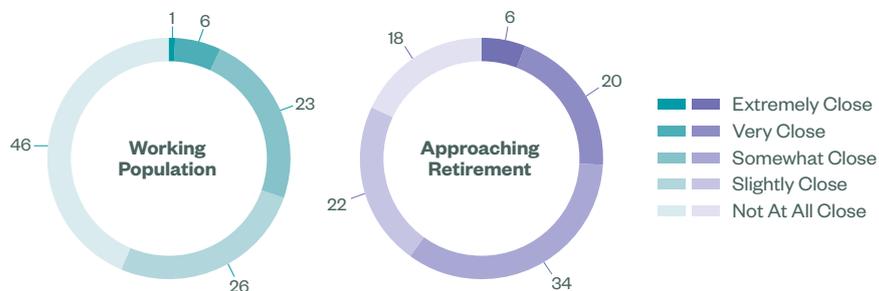
This concern reduces with age — those approaching retirement are much more confident than younger workers, which may result from their having achieved higher savings as well as greater experience of the DC system.

**WP/AR — How optimistic are you about your financial situation when you retire?**  
(%)

**RR/LR — Now you have retired, how happy are you with your financial situation?**  
(%)



**How close do you think your current pension savings are to providing you with what you need by the time you retire?**  
(%)



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## Finding 2

### **Workers are realistic about their expected income in retirement**

People know that their income will fall in retirement and most expect their retirement income will fall by around half.

This is quite accurate when you compare it with the income retirees are receiving in retirement as a ratio of the income they received when they were working.

The industry should help workers understand whether they are on track to meet these income expectations and, if not, what actions are needed to get on track. Clear, meaningful information delivered at the right time in the right method becomes even more important in a DC world.

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**What is your current gross annual personal income?**

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£39k

Working Population

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£41k

Approaching Retirement

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£20k

Recently Retired

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£21k

Later in Retirement

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**How much do you think your projected retirement income will be per annum?**

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£20k

Working Population

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£22k

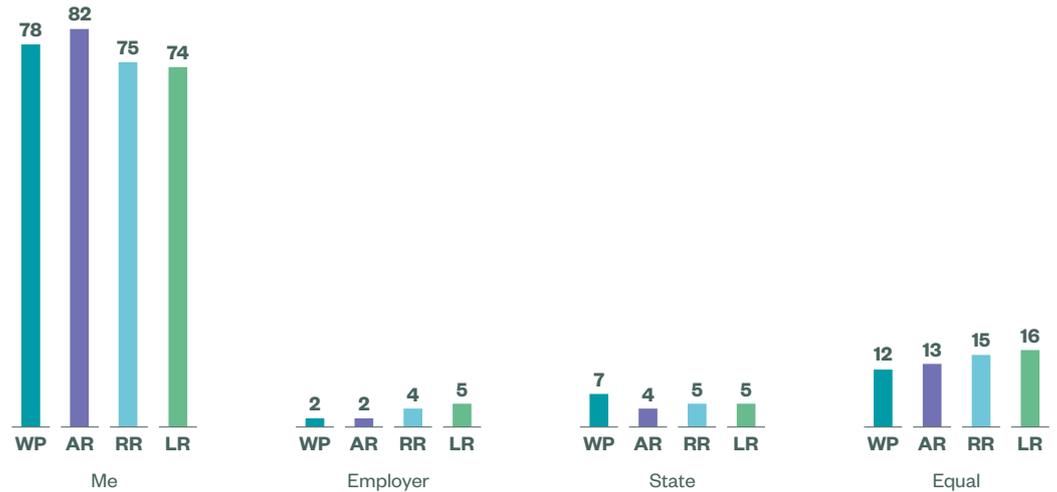
Approaching Retirement

### Finding 3

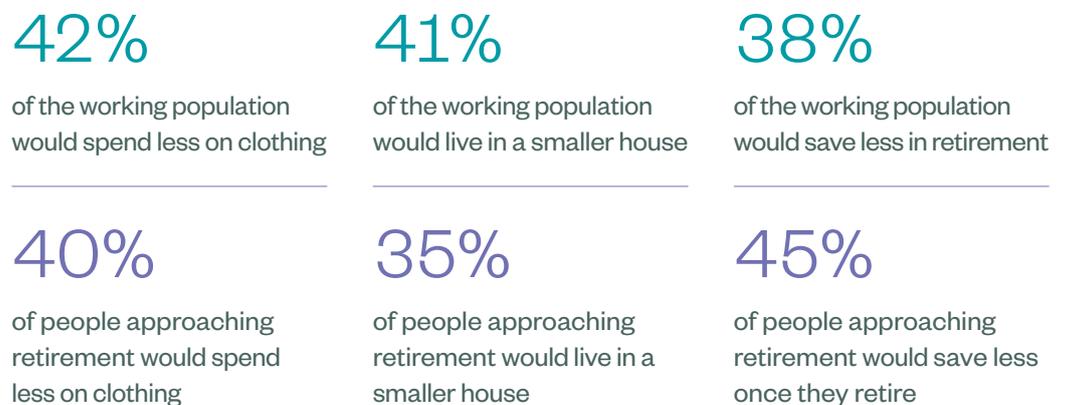
## Recognition that changes lie ahead

Importantly, most people recognise that ultimate responsibility for their income in retirement sits with them and they are prepared to do something about it. They are prepared to make sacrifices including spending less on clothing and even downsizing their property. They are also prepared to work part-time and retire later to make up shortfalls.

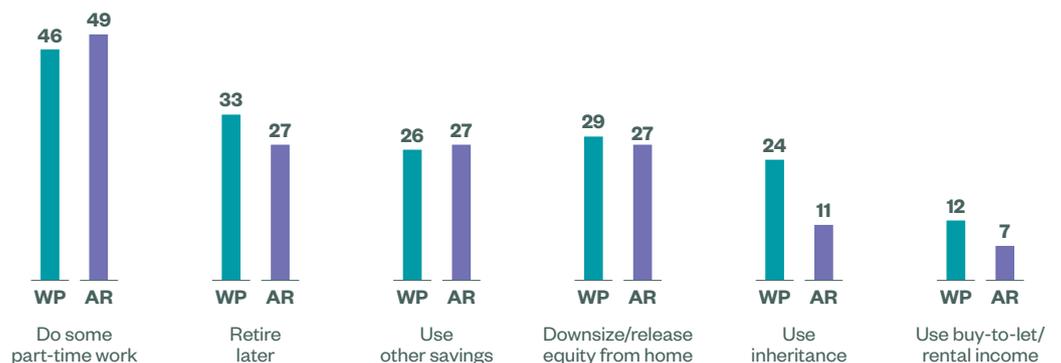
**Who is most responsible for making sure that you have adequate income in retirement?**  
(%)



**Which of the following changes/sacrifices to your lifestyle would you be prepared to make when you retire?**



**What do you intend to do to make up the difference between your retirement savings and what you wanted to have saved by that time?**  
(%)



## Finding 4

### Employers could play a key role

64% of the working population and 51% of those approaching retirement want their employer to help them plan for retirement.

Employees would also like their employers to help make them aware of the options available (c80%) and provide consultation/advice (c60%).

**Do you want your employer to provide you with help and advice in planning for your retirement?**

% of people who responded Yes



**Did your employer provide you with help and advice when planning for your retirement?**

% of people who responded Yes



**What help and advice do you expect your employer to provide you with?**

Make me aware of the options available



Provide consultation and advice



Recommend a solution that is specific to my needs



Provide a solution for me





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c80%

of employees would like their employers to help make them aware of the options available

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c60%

of employees would like their employers to provide consultation/advice



## Finding 5

### Growing importance of independent financial advice

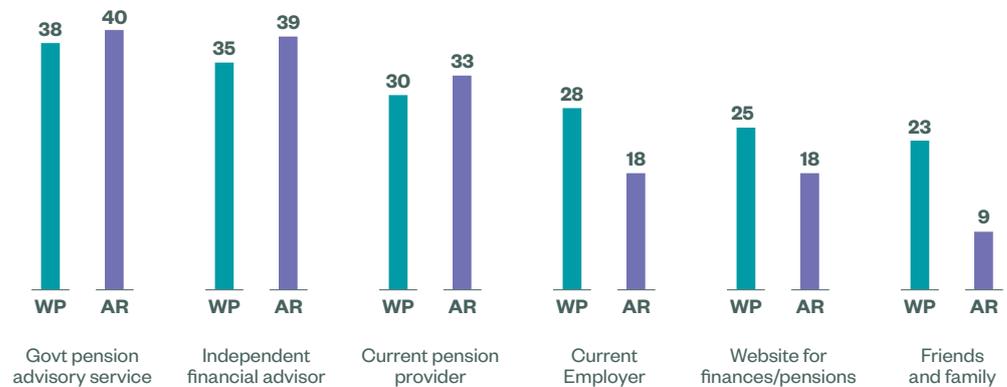
We are also seeing a willingness to seek advice — c40% of workers are willing to use a government pension advisory service and c40% are willing to use an independent financial advisor (IFA).

When Freedom & Choice was introduced, the government was relying on people taking advice from IFAs to help them understand the options. However, there was hesitation from the public as this was not common behaviour for previous generations.

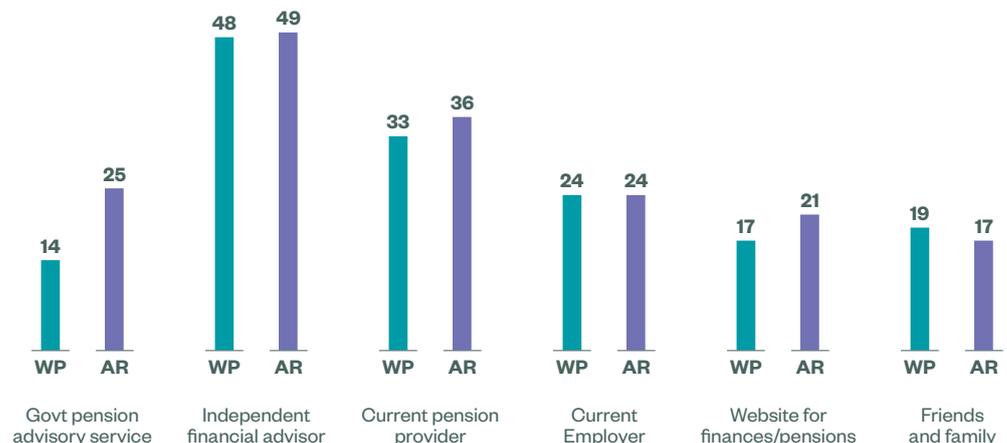
We are now seeing a shift in behaviour — for example, 50% of those in the working population and approaching retirement have already used an IFA.

However, only 15% of people in the working population have actually begun seeking help regarding pensions and that figure only increases to 45% for those approaching retirement. This shows that although there is a willingness to seek help, not enough is actually being done by workers to get the support they need early in their careers.

#### Where will you look for help in deciding what to do regarding your pension and retirement? (%)



#### Which of the following have you consulted for advice regarding your pension and retirement? (%)





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**Have you actively begun seeking help with what to do regarding your pension at retirement?**

% of people who responded Yes

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**15%**

Working Population

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**45%**

Approaching Retirement

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## Finding 6

### The sooner the better

So we know that current savers want to make changes to help improve their retirement but what can they learn from those who have retired with DC pots?

The best advice retirees feel they can give current savers is to start saving earlier and also to engage with their pension earlier — c70%. This is not what's currently happening as shown by the fact that only 15% of people in the working population have actually begun seeking help regarding pensions.

When asked why retirees did not find it easy to make the right decision at retirement, 50-60% of retirees said that the information was confusing and difficult to understand.

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### What advice would you give to people that are currently working and planning for retirement?

Start saving earlier



Engage with your pension planning earlier



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### Why did you not find it easy to make the right decisions?

Responses of retirees who found it difficult to make right decisions about how to access retirement savings.

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53%

of the recently retired said the information was confusing and difficult to understand

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60%

of those later in retirement said the information was confusing and difficult to understand

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44%

of the recently retired thought they would get more guidance

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28%

of those later in retirement thought they would get more guidance

## Finding 7

### More freedom, similar choice

Three years on from the introduction of pension freedoms, what are people's views on accessing their retirement pots?

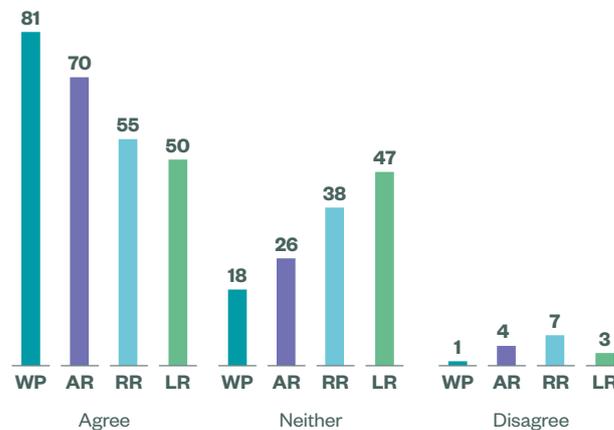
Although only c30% of retirees surveyed bought an annuity, 70-80% of those in the working population and approaching retirement said they would value a solution from their employer that provided a predictable income. This shows that although the popularity of annuities may have fallen with the introduction of Freedom & Choice, people still value stable income.

Also, when retirees were asked whether they would have preferred to take a different option at retirement, increased security is the primary reason for those preferring a different option.

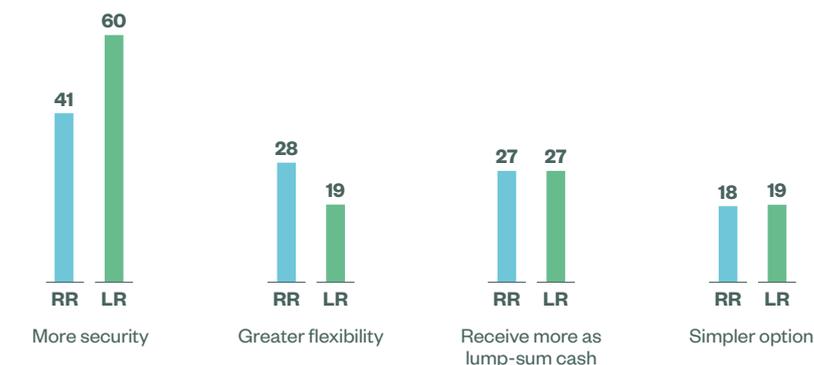
#### How are you currently using your DC pension? (%)



#### To what extent would you agree or disagree with the statement "I value a solution from my employer that provides a predictable income."? (%)



#### Why would you prefer a different option for funding your retirement? (%)



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## Key Takeaways

- Workers are aware of the challenge about saving for retirement, and their willingness to make changes to solve it is encouraging. If people are willing to make sacrifices and save more, we need to make it as easy as possible for them to make those changes, such as nudges that encourage saving. If members actually want to save more for retirement, nudges will have a positive effect.
- Employers can play an important role in helping their employees save more during their working years. This can be through automation or education. For example, employers can help through automatic escalation of pension contributions when salaries increase or help employees understand they can save more by foregoing small things, such as reducing cups of coffee consumed.
- More needs to be done to simplify the options and information being given to retirees. The industry can do more here, including reducing jargon, making the language used in communications easier to understand and layering information.
- When turning their savings into an income, ideally, a mixture of flexible and stable income is the preferred choice for those still working and approaching retirement. Most people would like flexible access to part of their retirement savings in the early years of retirement and a stable income in their later years.

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## Conclusion

Pensions are often perceived in a negative light. We believe the survey results show there is hope for the future.

People are interested in securing their financial future and are willing to make changes to their spending habits to make this happen. They are also realistic about their income expectations in retirement. We must use this positivity to make it as easy as possible for individuals to understand their options, take a sense of ownership and build confidence in their decisions.

Freedom and Choice allows people to have a greater choice about how to turn their savings into retirement. However, the industry needs to deliver them with options that meet their preferences - including both flexibility and security.

DC systems around the world continue to evolve. Despite differences in the retirement landscape, we can learn from each other to help future retirees feel more confident that they will be able to meet their needs in life after work.

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ID13390-22403771.IGBL.RTL

Exp. Date: 31 October 2019