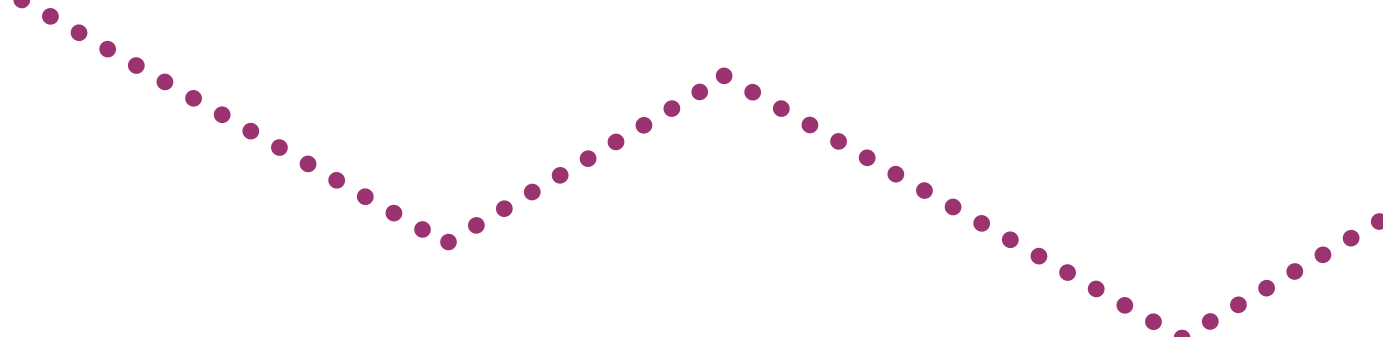


Planning for a brighter tomorrow

The state of the nation's retirement finances





“Do not save what is left after spending; instead, spend what is left after saving.”

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Research methodology

An online survey was conducted by Atomik Research among 2,002 20-55 year olds in full or part-time employment in the UK, with 60% of respondents required to have an annual household income before tax of at least £40,000. The research fieldwork took place between 13th and 18th September 2018. Atomik Research is an independent creative market research agency that employs MRS-certified researchers and abides to MRS code.



Introduction

“Do not save what is left after spending; instead, spend what is left after saving.” These are the words of Warren Buffett, who is widely considered the world’s best investor.

Wise as this advice may be, the brutal reality is that very few people live by this mantra. The reasons for this are complex and have puzzled financial experts and politicians for decades. That is one of the key reasons we have decided to undertake this research, to understand why it is that UK households, on average, fail to prepare adequately for retirement.

Some of the factors are blindingly obvious. The legacy of the 2008 financial crisis has been a decade of low wage growth and rising inflation, which has resulted in a painful squeeze on household income. Put another way, many families are having to make the choice between putting food on the table and clothing their children, or saving for their future. Unsurprisingly, therefore, pensions take a back seat for many people.

Today, we have more retirement options than we have ever had before. In some ways this is positive, providing a variety of choices for UK savers. But in reality, the vast array of retirement products on offer will only serve to confuse those who are less financially savvy.

While of course we are not the first to research this topic, our findings highlight a worrying trend that will only become worse if we do nothing about it. It will take some inventive thinking to change the attitudes towards saving in this country, but I genuinely believe this is possible.

The opportunity is there for advisers, politicians and regulators to help achieve a more financially secure retirement for everyone; now they just need to grasp it.



Roger Brosch, CEO, Foster Denovo

Saving for retirement

Saving priorities

When it comes to saving, the majority (60%) of employed adults say that saving for the long-term is their priority while almost a third (32%) of employed adults surveyed say that saving for the short-term is their priority. Worryingly, almost one in ten (9%) don't save anything at all, indicating that a decade of stagnant wage growth and rising inflation is taking its toll on UK households.

According to a recent parliamentary briefing paper, the average student leaves university with debts of more than £40,000. While those from the poorest families can finish their studies owing in excess of £53,000¹. Burdened by these debts, it is therefore unsurprising to find that 51% of people in their twenties prioritise short-term saving over long-term. By contrast, 68% of 50-55 year olds, 65% of adults in their forties, and 58% of adults in their thirties say that saving for the long-term is their priority, suggesting that retirement planning is likely to be high on the agenda.

51%
of people in their 20s prioritise saving for the short-term

Workplace pension

In 2012, the Government introduced auto-enrolment for pensions to combat the UK's retirement savings crisis. It means that, by law, firms must enrol their staff into a workplace pension, with some exceptions for younger workers and low earners.



82%

of employed adults have a workplace pension

15%
don't

3%
are unsure

Our research shows that more than eight in ten (82%) employed adults surveyed have a workplace pension, with men being slightly more likely than women to have a workplace pension, at 85% compared to 79% of women.

The findings reveal a worrying lack of engagement from a significant proportion of people in their twenties, with one in 20 (5%) of those respondents unsure whether they even have a workplace pension. This lack of engagement could store up severe problems for these young workers in retirement.

Among those who do have a pension, there's an almost even split of those who have a defined contribution pension (44%) and a defined benefit/final salary pension (41%), with 5% having a National Employment Savings Trust (NEST) pension.

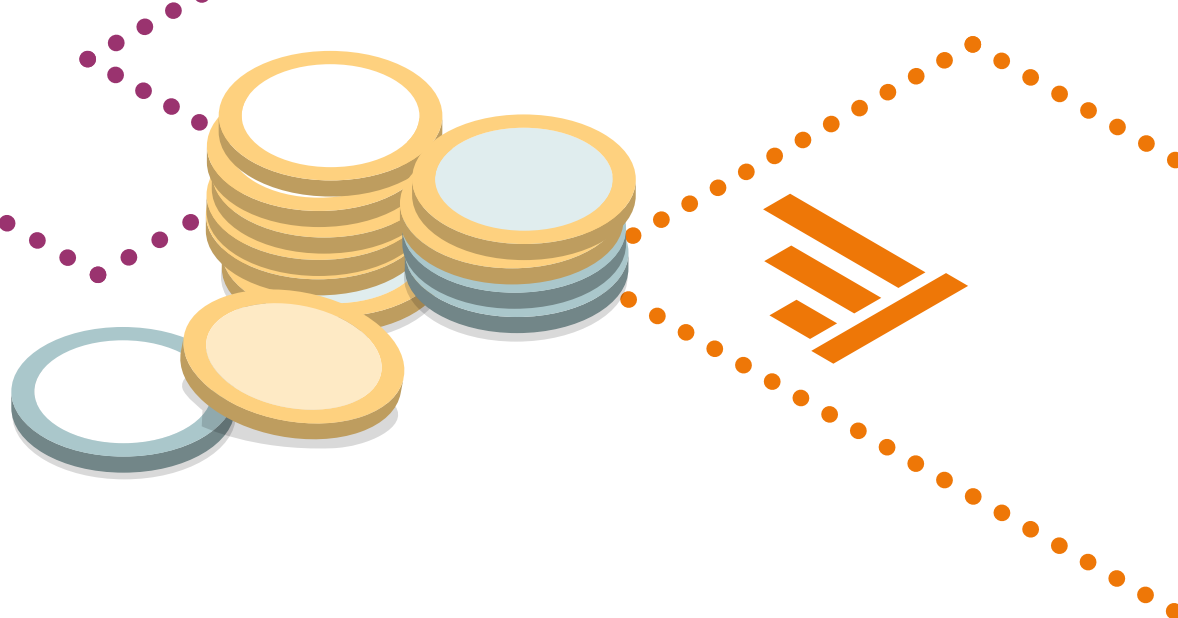
Among those with a workplace pension, 66% are saving for their retirement through other means, while 34% are not.

Almost half (46%) of those saving for their retirement are using savings, compared to 33% who are using cash in their bank account and almost a third (32%) have a cash ISA. Given savings rates have been at historic lows for much of the past decade, it's surprising to find so many people saving via cash. A major concern is that these people are making choices that put them at higher risk of running out of cash in retirement.

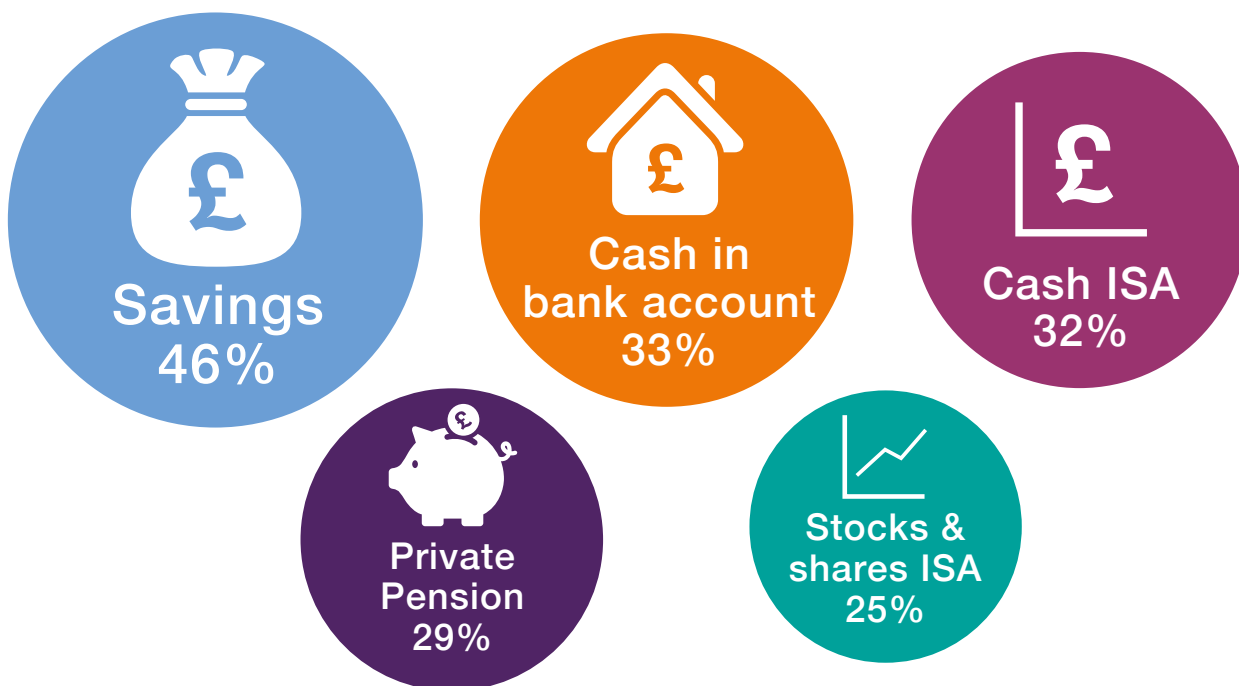


45%

of adults in their 40s are not saving for retirement outside of their workplace pension scheme



Top 5 methods of saving for those saving for their retirement in addition to a pension



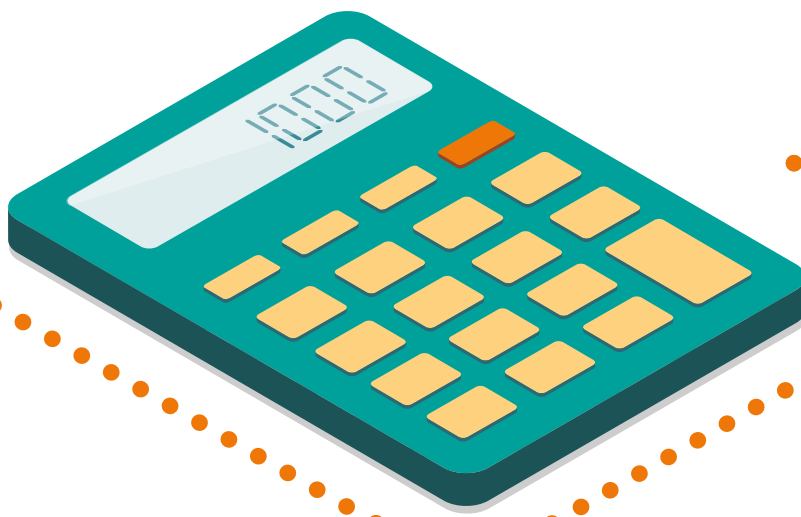
As expected, high earners are using more saving methods than low and mid earners. Excluding their workplace pension, adults with an annual household income of £100,000 - £150,000 are using four different methods to save, compared to two saving methods among those with an annual household income of below £40,000.

Men are also more likely to be using a wider range of methods than women, including saving via a private pension (32% v 25%), investments (28% v 19%), and

stocks and shares ISAs (30% v 19%). On average men are saving using 3 different methods (excluding a pension), compared to 2 among women.

Those who are saving for their retirement through other means, as well as a pension scheme, appear to be benefitting from their forward planning, as 61% feel confident they are on track to achieve the income they think they'll need during retirement, compared to just 15% who aren't saving through other means.

Among those who do not have a workplace pension, only half (50%) are saving for their retirement, while 50% are not. This means 9% of employed 20-55 year olds are not saving at all for their retirement in any way (pension or other), storing up problems in retirement for potentially millions of workers. The figure rises to 10% among those in their forties and those aged 50-55, with the biggest reason as to why they aren't putting any money away for their retirement being because they can't afford to save (64%).



Among those who are saving, the top factors that prevent people from saving more towards their retirement



26%
I can't afford to save



20%
Uncertain economic environment



18%
I will rely on property



17%
My workplace pension will be enough



16%
I will rely on State Pension

Reliance on inheritance

It is well known that rising house prices means most young people are reliant on their parents for at least part of their house deposit, labelled the 'Bank of Mum and Dad' by the media.

However, our research shows that it is not just young people who need financial support from their parents. Half (50%) of all employed adults surveyed admit they are relying on inheritance to fund their retirement, with over a fifth (21%) completely relying on this to finance their retirement and 29% relying on it to some extent.

73% 

of adults in their 20s will rely on an inheritance to fund their retirement

9%

of employed 20-55 year olds are **not** saving at all for their retirement



43% 

of adults in their 20s will completely rely on this to finance their retirement

Lack of knowledge

Pension worth

Our research indicates that large swathes of the working population risk a retirement of hardship. Although over eight in ten employed adults are saving for their retirement through a workplace pension, the research found there is a real lack of awareness over the details of their pension schemes, with the majority (55%) having no idea how much their pension pot is currently worth. Furthermore, 62% have no idea how much their total pension pot is estimated to be worth when they retire and 63% do not know how much their total pension pot will give them each month during their retirement. Without knowing how much income they can expect in retirement, it is impossible to gauge if they are saving enough each month to maintain their lifestyle when they finish working.



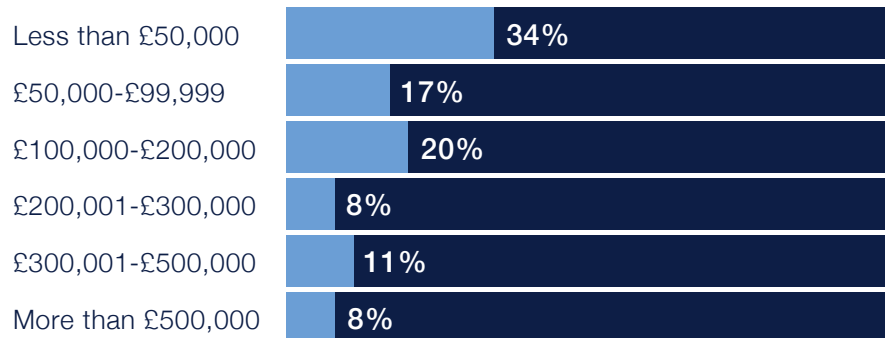
55%

don't know how much their pension is currently worth

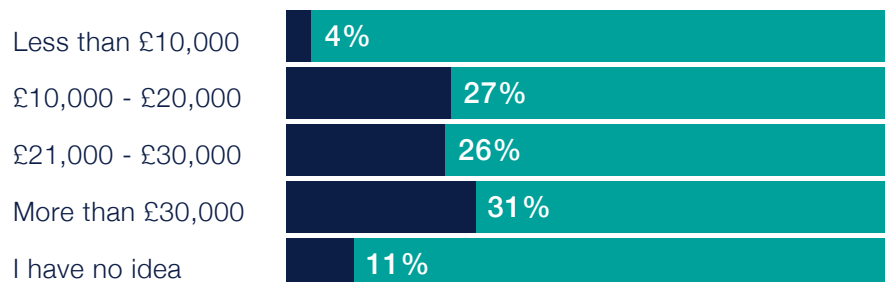


62% don't know how much their total pension pot is estimated to be worth when they retire

Amount people think they need in their pension pot to retire



Amount people think they'll need in annual income to support their lifestyle during retirement



Over 40s show greatest lack of awareness

While most young adults are in tune with their pension worth; adults aged 40-55 show the greatest lack of awareness. Indeed, 70% of people in their forties and 61% of 50-55s do not know their current pension worth. Furthermore, over three quarters (77%) of people aged 40-55 do not know how much their pension pot will be worth when they retire; whilst 77% do not know how much their pension pot will give them each month when they retire.

Pension pot

On average, adults think that they will need **almost £200,000** (£196,441) in their total pension pot to be able to retire.

Alarming, more than a third of people (34%) think that less than £50,000 in their pension pot will allow them to retire. Yet this is hugely underestimated when considering that recent research by Aegon found that in order to have an annual income equivalent to £27,000 per year during retirement, people will need to have accumulated more than £300,000 in their pension pot².

2. Aegon research, January 2018, https://www.aegon.co.uk/news/p300_000_pensionpotrequiredtomaintainlifestyle.html



While retirees may not need to match the salary they had while working, with such a deficit between the two it has all the signs of a pension crisis in the making. The good news is that it is never too late to improve your quality of life in retirement. However, the later you leave it, the more you will have to save each month as you get older, so you need to make sure you start as soon as possible.



Jamie Smith, Partner, Foster Denovo

Indeed, when employed adults were asked how much annual income they think they would need to live the lifestyle they want during retirement, 31% think they will need an annual income of more than £30,000, 26% think £21,000-£30,000 will be required, and 27% think they will need £10,000-£20,000 per year to support their desired lifestyle.

Worryingly, those who think they'll need the least in their pension pot (less than £50k), are the most

likely to think they'll need an annual income upwards of £30k during retirement, highlighting the public's lack of pensions knowledge. Comparing this to Aegon's research suggests these people are underestimating the amount they need to have in their pension pot by at least £250,000. This means there could be a real disparity between the lifestyle that people are expecting during their retirement, and the lifestyle they will realistically be able to afford.

58% of employed adults do not think or are not sure if they are on track to achieve the annual income they'll need to support their lifestyle during retirement.

When considering that a minority are aware how much their pension pot will be worth on retiring, and how much it will actually give them per month, it is unsurprising that there is a lack of confidence over whether people are on track to achieve what they expect they'll need.

42%

think they are on track to achieve their planned retirement income



28%

don't think they are on track



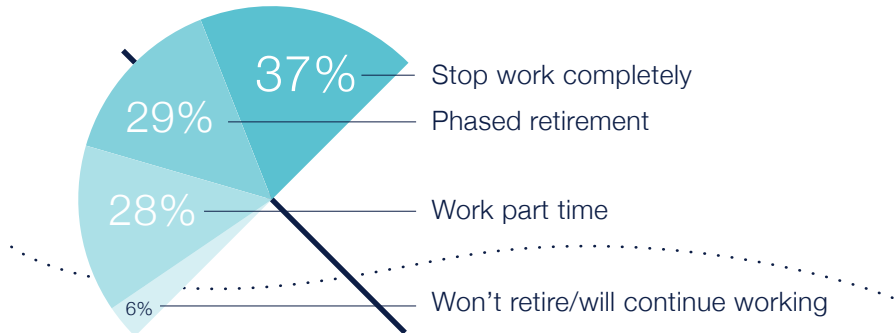
30%

aren't sure



Retirement concerns

How are people planning to retire?



While over nine in ten people hold concerns about their retirement, over a third (35%) of adults would go as far as saying they are scared of retirement, and 20% have simply avoided thinking about it yet. Although perhaps in a more financially stable position, it is the most affluent consumers with a high household income that are most scared of retiring.

The ideal retirement age is 62 years of age on average. However, almost half (47%) would ideally like to retire on or before the age of 60. In reality, people are realistically planning to retire aged 66 on average, which is in line with the UK State Pension Age as it will stand by 2020. Almost a quarter (24%) are planning to retire after the age of 70. This rises to 33% among those with a household income of £20,000 - £29,000, including 18% who think they will be over 80 years old before they can realistically afford to retire.

The thought of retirement is not without its concerns for adults who are used to the stability of employment. While health concerns, boredom and loneliness are some of the apprehensions that people have, it is the financial worry of running out of money that is the biggest concern. As people are living longer, this requires more money to support people during the entirety of their retirement. And indeed, one fifth (21%) of adults are worried about funding their long-term care with 14% worrying that they will live too long.

Despite money being a concern, 30% of adults are hoping to maintain the same lifestyle during their retirement, and 31% hope to lead a better lifestyle. Young adults are the most likely to want to live a better lifestyle, yet they are also the most likely to be fearful of running out of money; with 69% of people in their thirties being scared about their funds running out.

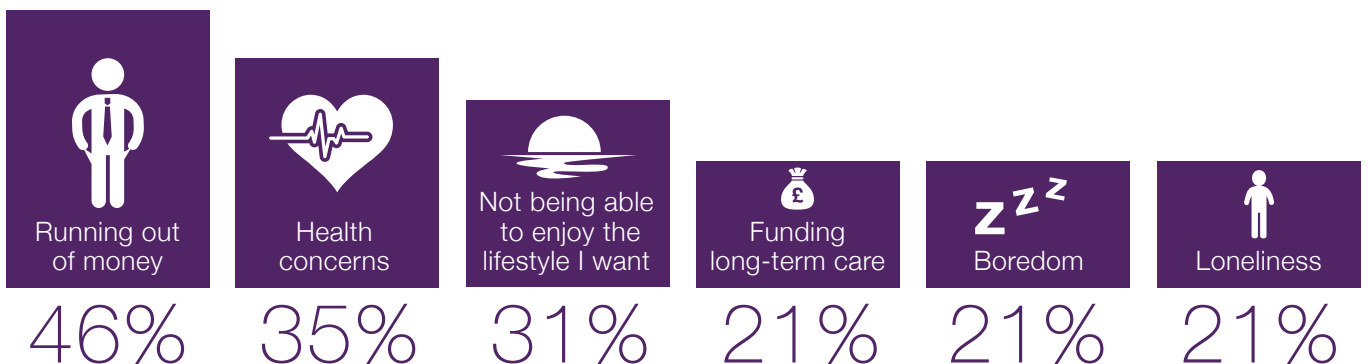


65% of adults are worried about running out of money during retirement

62 YEARS OF AGE
Ideal retirement age

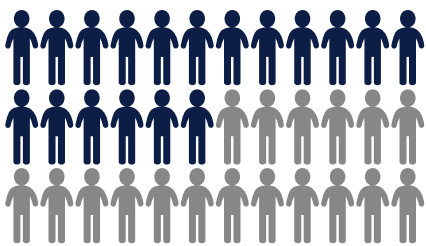
66 YEARS OF AGE
Realistic retirement age

The top biggest concerns that people have about retirement



Financial advice

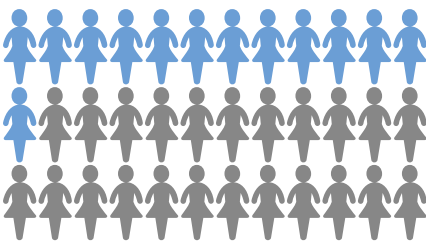
When it comes to planning or saving for their retirement, most employed adults (57%) **have not** sought financial advice from an adviser.



50%[♂]

of men have sought financial advice about their retirement, compared to 36% of women

36%[♀]



With regards to their retirement planning, people are most likely to have sought professional advice on savings and investments, with the advice taking place mostly face to face (74%). Just 17% took advice over the phone and 9% digitally.

Financial advisers were most often found through a personal recommendation from a friend or family member (29%), through their employer (26%) or through their bank (16%).

Those who have not sought financial advice for their retirement planning say it's because it's too expensive / not worth the money (34%), and they have a lack of money to invest (31%). Indeed, there is a clear correlation between income and the likelihood of seeking advice, with high earners being the most likely to have been to a financial adviser. While just 27% of adults with an annual household income of £20,000 - £29,000 have sought advice, this rises to 68% of those with a household income of £75,000 - £150,000.

Reasons for seeking financial advice



45%

Savings and investment advice



39%

Retirement planning



33%

Protection e.g. life insurance, income protection, etc.



30%

Preserving their wealth



27%

Inheritance and estate planning



As an industry, I think it's important we ask why roughly a third of people prefer to seek advice from family and friends rather than a qualified financial adviser. This is in addition to a further third of people who feel that the cost of financial advice is prohibitive. I'm sure there are different reasons for this but ultimately those involved in the industry including the regulator and the Government need to do more to reinforce the value of regulated financial advice.



Jamie Smith, Partner, Foster Denovo



1 in 3 adults (30%) said they would rather seek financial advice from their friends and family than a financial adviser. Internet search engines were also popular with 25% of people searching these for financial guidance. While, 23% look on personal finance websites, 22% use online retirement tools and calculators and 19% go to their employer for advice.



Majority of over 40s have not sought financial advice

Worryingly, as noted previously adults aged 40-55 have the lowest levels of awareness for all aspects of their pension. From its current and future worth, to the options available when taking their pension; and whether they are on track to achieve their financial goals. This level of uncertainty extends to their saving plans with 40% of people aged 50-55 saying they are not sure if they will increase their pension contributions in the next five years.

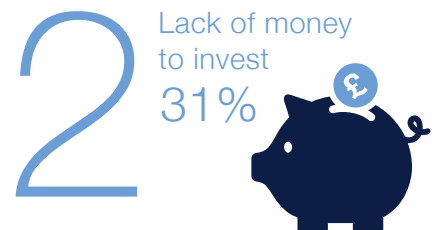
The reason for the lack of engagement with their retirement saving may be explained because 71% of 40-55 year olds have never sought financial advice from an adviser about planning or saving for their retirement. This is because they don't see financial advice as worth the money (37%). Yet, 21% of 40-55 year olds don't know where else they would look for financial advice.

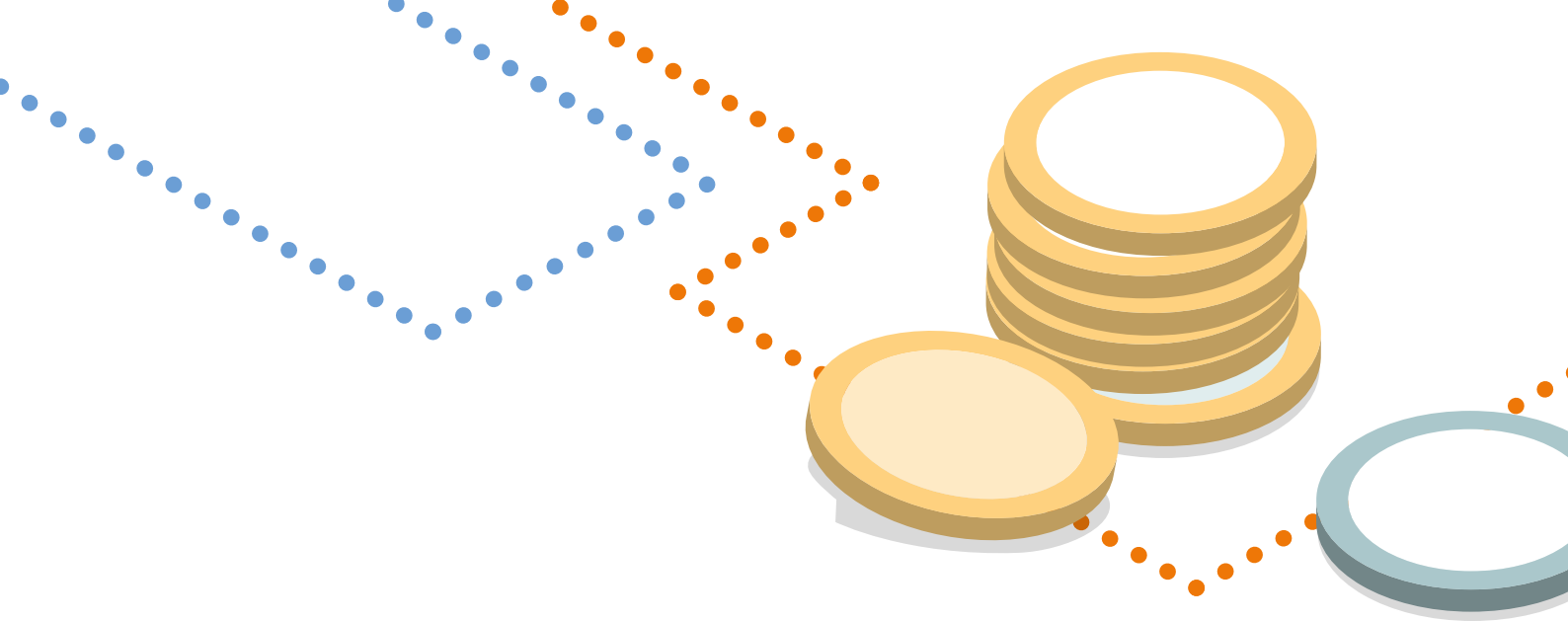
Advice seekers more engaged and knowledgeable about their retirement planning and saving

The research highlights that adults who have sought advice are significantly more engaged in their retirement planning and saving. Indeed, 91% of those who have sought advice are saving for their retirement outside of their workplace pension, compared to only 45% of those who haven't taken advice. Of those without a

workplace pension, 81% of those who sought advice are saving for retirement in other ways, compared with only 37% of those who haven't taken advice. This means that 63% of those without a workplace pension that have not taken advice are not saving for their retirement in any way.

Barriers to seeking advice

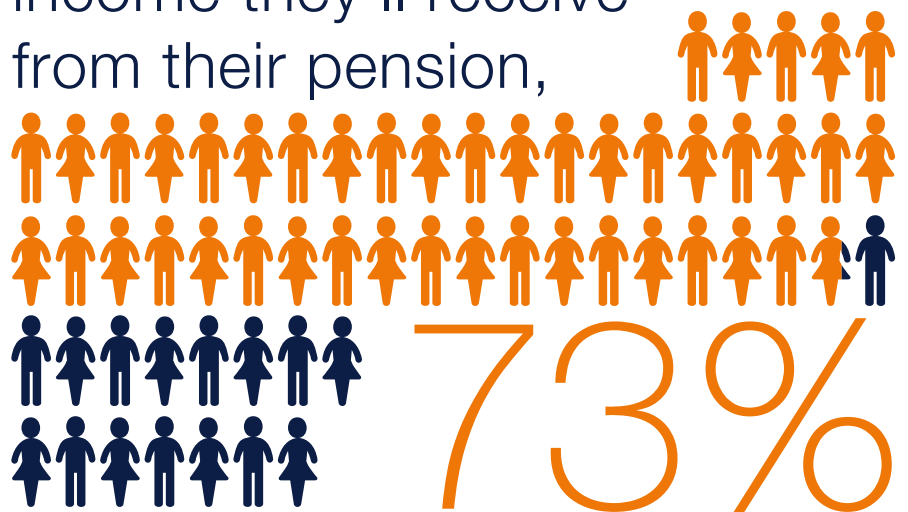




People who have sought advice are also more knowledgeable on the details of their pension, with 72% knowing how much their pension is currently worth, compared to 24% of those who haven't taken advice. Moreover, 68% of advice seekers know how much their pension will be worth when they retire, and 66% know how much their pension will give them each month. In comparison, just 15% of those who haven't sought advice know the future worth and monthly income of their pension.

Through effective planning, 68% of advice seekers believe they are on track to achieve the amount they need to retire comfortably, and 72% plan to increase their pension contribution in the next 5 years.

Having established the income they'll receive from their pension,



of advice seekers are confident that this amount will be enough to retire on.



Conclusion

When we commissioned this research, we hoped to find out more about retirement planning and savings habits in the UK and what was stopping people setting aside more money for retirement.

What we found was that many people, almost one in ten, are struggling to set aside anything at all for their retirement. Younger workers, in particular, are focused on building up a pot to deal with emergencies. While this is sensible, it could be storing up problems for the future.

The results also reveal a clear and widespread misunderstanding of pensions in the UK. A startling 34% of those surveyed believe they will be able to retire with a pension pot of £50,000 or less. Given the average salary is around £27,000, this highlights a worrying lack of knowledge among UK adults.

The key to a comfortable retirement is knowing how much you are likely to receive when you finish work. With that knowledge, you can boost your pension contributions, if possible, should you find out you are not on track. So it is incredibly concerning to find that more than six in ten people have no idea how much income their pot is likely to produce in retirement.

More must be done to educate the general public about the need not just to save for retirement, but to make sure they are saving enough to cover their needs. At the same time, we must come up with solutions to help those who cannot save.

Without immediate action, I fear we are sleepwalking into a new retirement savings crisis.

Roger Brosch, CEO, Foster Denovo



9%

of employed 20-55
year olds not saving
for their retirement
in any way.



More than

6 in 10

people have no idea how much income their pot is likely to produce in retirement.



34%

believe they will be able to retire with a pension pot of £50,000 or less.



About us

We are a multi-award winning national firm of financial advisers. We provide specialist financial advice, services and investment solutions for individuals and their families, businesses and charities.



We have won more than 20 prestigious industry awards, and we've also been recognised by Investors in People.

If you'd like to find out more about how we can help you to plan for your retirement, please contact our financial concierge team:

call 0330 332 7866*;

email advise-me@fosterdenovo.com; or

visit www.fosterdenovo.com.

*Calls are charged at your standard landline rate.

Past performance is no guarantee of future returns and the value of investments and the income they produce can fall as well as rise. You may not get back your original investment and you may lose all your investment.

Accessing pension benefits early may impact on levels of retirement income and your entitlement to certain means tested benefits.

Accessing pension benefits is not suitable for everyone. You should seek advice to understand your options at retirement.

Home reversion plans and lifetime mortgages are complex products. To understand the features and risks, ask for a personalised illustration.

The Financial Conduct Authority does not regulate taxation and trust advice.

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