Aviva's Real Retirement Report **Part 2**

Working beyond 50: peak earnings, but pensions postponed

What's inside

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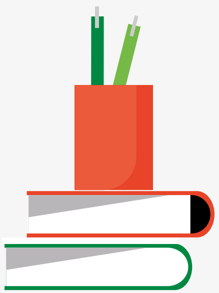
Welcome to Aviva's Real Retirement Report 2017 – Part 2

Over-50s workers reach 'peak earnings' aged 51 on average – presenting a crucial window of opportunity to boost their pension savings and bring their retirement plans closer to fruition.



Lindsey Rix,
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As a nation, we're working and living longer. Last year there were 571,245 people aged 90 and over living in the UK[1] – the highest estimate ever given by the Office for National Statistics (ONS). Although this is a positive trend, living longer poses a challenge in terms of how we financially support ourselves as an ageing population.

The introduction of auto-enrolment means that 78% of eligible employees are now saving through their workplace – a 21st century high.[2] However, the Financial Conduct Authority (FCA) recently warned that as many as 15 million Britons are not currently saving anything into a pension.[3] The amount being saved is also failing to keep up, with typical contribution levels meaning many people remain at risk of falling short of enjoying a comfortable standard of living in retirement.

In this, part two of our 2017 Real Retirement study into the over-50s working population, we find this growing band of workers reached or expect to reach 'peak earnings' aged 51 on average – presenting a crucial window of opportunity to boost their pension savings and bring their retirement plans closer to fruition.

However, we also uncover that, for many older workers, this high earning period does not easily translate into saving more for retirement. Only around one in ten (12%) say they have or will save more into a workplace pension during their peak earnings period. Many have not yet calculated how much they might actually need to save.

Instead, while some are tempted to spend instead of save, our findings show there are complex factors behind the disconnect between peak earnings and peak pensions. One of the primary reasons many older workers struggle to save is simply that they have little spare income once they have covered everyday living costs. Rising inflation means this will only become a more pressing concern. Others have financially dependent relatives or lingering mortgage debt to address before they can start to save for longer-term goals.

This forces them to focus on the financial present and – with retirement action plans delayed – many are relying on external factors to help fund later life. This ranges from receiving an inheritance, profiting from downsizing and no longer having financial dependents to more far-fetched events such as winning the lottery.

Wherever possible, retirement saving shouldn't be left to chance. While older workers have multiple demands on their income, taking time to understand what needs to be saved in order to afford a good standard of living in retirement and putting more away each month – no matter how small the increase – can make a big difference. Employers can help protect the financial futures of their staff by increasing workplace pension contributions, while industry must ensure pension saving is made as accessible as possible.

1 ONS, Estimates of the very old: 2002 to 2016, September 2017

2 ONS, Workplace Pension Participation and Savings Trends of Eligible Savers Official Statistics, June 2017

3 FCA, Financial Lives Survey, October 2017

Maximising peak earnings

Key findings

- Older workers reach peak earnings aged 51
- 34% save more during peak earnings period
- But 21% spend on big purchases and only 12% increase contributions to an existing workplace pension

Earnings peak aged 51

According to the experience of today's over-50s workers, people reach or expect to reach their peak earnings – the highest amount of income earned during their lifetime – at the age of 51 on average. This is broadly in line with data from the Office for National Statistics (ONS), which suggests wages for those aged 21 in 1975 (now age 63) peaked at the age of 53[3].

The majority (74%) of older workers say they have already reached their peak earnings. This includes over half (54%) who have passed this stage and a fifth (20%) who are currently earning what they expect will prove to be their peak level of income. Only one in ten (13%) are yet to have reached this stage, although this rises to 24% aged 50-54.

Three in four over-50s workers have reached their peak earnings
%

Peak earnings	Over 50s
Have already passed peak earnings	54
Are currently earning their peak income	20
Have not reached their peak earnings yet	13
Don't know	13

Continuing to work beyond peak earnings in later life is likely to be driven by a combination of choice or necessity, depending on people's financial comfort and other motives to remain in work.

One in three over 50s workers save more during peak earnings period

Older workers expect the peak earnings stage of their career to last 5 ½ years on average, giving them more than half a decade to take advantage of greater financial resources at their disposal. Among those who are still working but plan to retire within the next two years, almost a third (29%) are currently earning their peak income, which suggests a potential window to maximise their savings as they approach retirement.

When asked what they will do or have done during this period of peak earnings, the most popular (34%) response among all workers aged 50 and above is to save significantly more to make the most of their higher income.

Those who are mortgage free and own their home outright are even more likely to increase their savings during this period of peak earnings (40%). While a positive trend for this group, the situation is potentially more challenging for the growing number of people carrying mortgage debt into later life who may find their savings capacity squeezed.

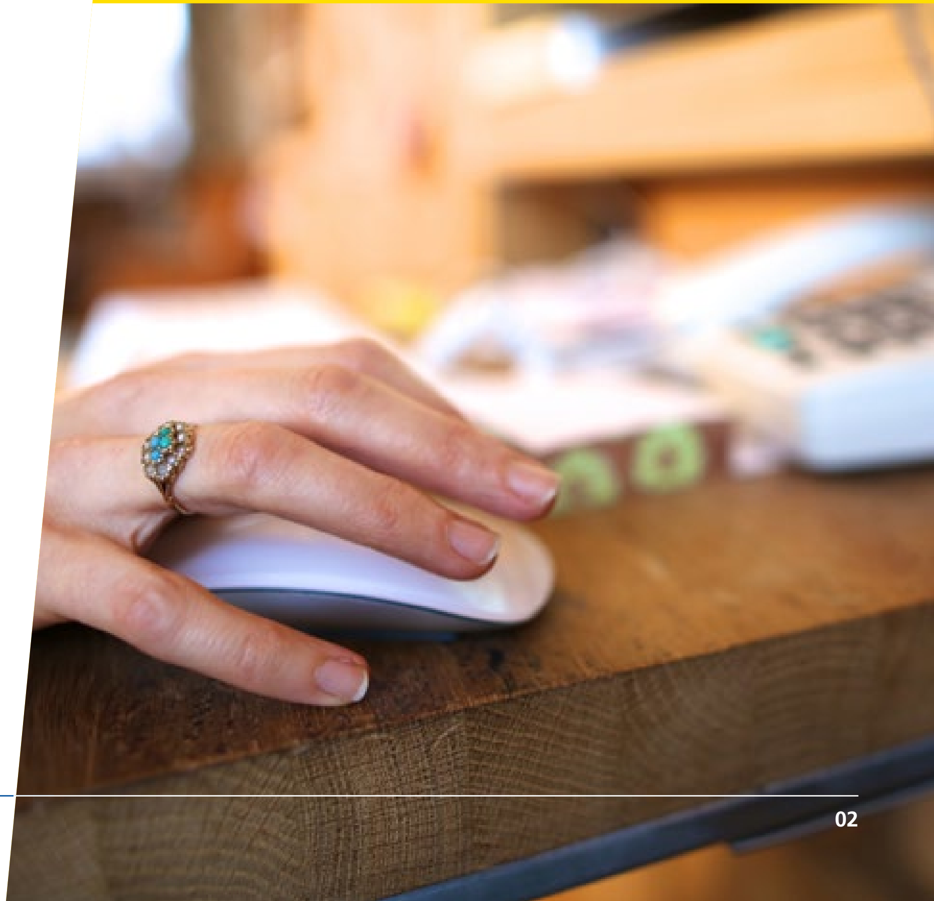
3 ONS, People who started employment in the 1990s were 40% better paid than those in the 1970s, July 2014

Pension pots neglected during high income period

However, while there is a clear motivation among many older workers to save more while their income is at its highest, Aviva's findings suggest few are funnelling these savings directly into their pensions. Only 12% of over-50s workers say they have increased, or would increase, their pension contributions to an existing workplace pension scheme.

A similarly low proportion (12%) say they have started, or would start, a private pension scheme during their peak earnings period.

Only 13% say they have or would seek professional advice via a financial adviser, which may be one reason why so few are concentrating on adding to their pension pots despite being in such a crucial earnings period.



Maximising peak earnings

continued

One in five over-50s spend peak earnings on big purchases

While some older workers look to save as much as possible while their income is at its highest, many others in this age group have other financial priorities to explore or address.

A fifth (21%) of over-50s workers, or 2.1 million people[4], say they have or intend to spend on big one-off purchases such as a new car, kitchen or extension while their income is at its highest. This means they are almost twice as likely to make a big purchase as contribute more to their workplace pensions.

Spending isn't limited to large purchases either: one in five (20%) choose to spend more on everyday living and enjoying themselves while their earnings are at their highest. On the surface, this may appear a worrying sign of a 'spend not save' mentality, but as subsequent findings show, it could equally be a symptom of the financial pressures that otherwise impact many people's lives.

As older workers approach retirement, there may be an expectation for this age group to consider downsizing. Aviva's research however shows that a small proportion are bucking this trend with almost one in ten (7%) looking to buy a bigger or more expensive home.

One in five older workers prioritise peak earnings on everyday living

Peak earnings

Save significantly more than before to make the most of having a higher income	34%
Make a big purchase e.g. new car, kitchen, extension etc.	21%
Spend more on everyday living and enjoy myself	20%
Seek professional advice via a financial adviser	13%
Start a private pension scheme	12%
Increase my contributions to an existing workplace pension	12%

4 ONS Table A05: Labour market by age group: People by economic activity and age (seasonally adjusted). There are 9,969,000 workers aged 50 and above (October 2017)

It's never too late to save

If you save an extra £100 into your pension for your five and half years of peak earnings, from the peak age of 51, this could boost your pension pot at retirement by about £25,000.

£100 each month for 5 ½ years, amounts to £6,600, but the boost of a matching employer contribution, tax relief and investment returns could deliver approximately £17,000 at the end of five and a half years. Assuming this £17,000 stays invested for a subsequent decade until retirement at age 66, this could amount to approximately £25,000 at retirement. It's never too late to save.

* Assumptions: This case study assumes the person is on average earnings and receives basic rate pensions tax relief on their savings. It is assumed that the employer matches the individual's contributions. It is assumed that the savings grow at a net rate of 2.4% each year, after inflation and charges.

Pension planning postponed

Key findings

- Older workers' ability to save impacted by having no money left after the basic cost of living (33%)
- More than 2 million over-50s workers are yet to take pension saving seriously
- Two in five (42%) have not calculated how much they need to save in order to afford a comfortable retirement

Aviva's research uncovers several reasons why many older workers are unable to use their peak earnings to add to their savings for retirement. Significantly, coping with the rising cost of living is preventing some over-50s workers from adding to their savings pots, while others are restricted by financially dependent relatives and lingering mortgage debt.

These demands caused many workers aged 50+ to postpone planning for their long-term future until their late thirties and forties and continue to exert pressure even when their earnings peak.

Coping with cost of living takes biggest toll on older workers' savings

One of the key factors negatively affecting older workers' ability to save is having no money left after paying for everyday living costs, cited by one in three (33%). Unsurprisingly, those with lower incomes feel this more keenly, with 59% of older workers earning up to £1,250 in monthly household income struggling to save for this reason (vs. 23% of those earning £1,251 or more).

With inflation recently reaching a five-year high[5], more than half (54%) of workers aged 50+ agree the rising cost of living poses the biggest threat to their standard of living within the next five years.

Meanwhile, almost one in five (18%) agree that having children who are financially dependent on them is negatively impacting their ability to save. Currently, almost two million over-50s workers have children or elderly parents who are financially dependent on them[6].

Aviva's data also suggests almost a third (30%) of working homeowners aged 50+ are still paying off a mortgage. Among these, 39% agree the desire or need to pay off a mortgage before retirement is negatively impacting their ability to save – underlining the particular challenges facing the UK's growing population of older mortgage holders.

Cost of living and financial dependents restrict older workers' ability to save

%

Factors negatively impacting older workers' ability to save	All
No money left to save after basic cost of living	33
Children being financially dependent on me	18
The desire/need to pay off the mortgage on my home before retirement	15
I struggle to estimate the true value of my 'pension pot'	12
Being free to spend more frivolously now my children have flown the nest	8

5 ONS, Consumer Prices Index, October 2017

6 Aviva, Retirement plans at risk: Almost 2 million older workers juggle supporting family with own financial future, September 2017

One in four older workers feel their earnings are poor

Aviva's research shows nearly all (93%) workers over the age of 50 consider themselves to be productive workers. In terms of rewards for their hard work, three quarters (76%) gain personal satisfaction from the workplace.

However, fewer would consider themselves to be well paid, with only 11% of over 50s workers saying they are extremely well rewarded financially. A quarter (24%) say their financial rewards in the workplace are poor, although this declines with age (falling to 18% of over-65s still in work). This sense of not earning enough may influence why many older workers feel they are too stretched by the everyday cost of living to commit to saving.

Pension planning postponed

continued

More than 2 million older workers yet to take retirement saving seriously
The challenges associated with the daily cost of living mean many people are postponing planning for the long-term. Aviva's research shows almost a quarter (22%) of over-50s workers – or 2.2 million people – say they are yet to have started taking pension saving seriously, including one in five (19%) who plan to retire within two years.

Women are more likely to fall into this category: more than a quarter (27%) of female workers say they are yet to have taken a serious approach to pension saving compared to a fifth (19%) of men.

ONS data suggests over half (54%) of UK adults are confident their retirement income will give them the standard of living they hope for.[7] Yet Aviva's research reveals an alarming number of older workers have not even begun to calculate how much they need to save to afford a comfortable retirement (42%).

A similar proportion do not know how much money they will actually need in retirement (41%).

Nearly half (47%) of female workers over the age of 50 have not calculated how much money they need for retired life, compared to a third (36%) of men. Women are also less likely to have calculated how much they need to save to afford a comfortable retirement (49% vs. 37% of men).

Homeownership also has a major impact on how people calculate their retirement savings. Three in five (61%) over-50s workers who do not own their own home are unaware how much money they need in retirement. This compares to just 35% of homeowners and implies that older workers without their own home are preoccupied with funding the here-and-now rather than planning for the future.

Majority of older workers yet to save more in the approach to retirement
The range of financial pressures they experience mean that almost three in five (58%) over-50s who are still working are yet to ramp up pension saving in the run up to retirement – the equivalent to 5.8 million people nationwide. This includes half (50%) of older workers in the peak of their earnings who admit they have not yet increased the amount they save in preparation for retired life.

Older workers fail to take key steps towards saving for retirement
%

I have not done this yet	All	60-64	65-69	70+
Ramp up pension saving in the run up to retirement	58	57	45	45
Calculate how much I need to save to afford a comfortable retirement	42	41	26	31
Calculate how much money I will need in retirement	41	39	26	29
Become aware of how much I/my employer is saving into my pension	24	25	25	30
Start taking pension saving seriously	22	24	16	21

Although workers aged 60 and above are more likely to have taken key steps towards saving for retirement, there is an increase in inactivity among workers aged 70+ compared to 65-59s. For example, 21% of over-70s still working are yet to have started taking pension seriously compared to 16% of those aged 65-69. This could be because they don't anticipate ever retiring: more than a quarter (27%) of workers in this age group say they don't expect to ever stop working completely compared to 10% of 65-69s.

7 ONS, Early indicator estimates from the Wealth and Assets Survey, June 2017

Pension planning postponed

continued

Among those who have taken action to prepare for retirement, many used their thirties and forties to take vital actions to map out their future once they leave the workforce.

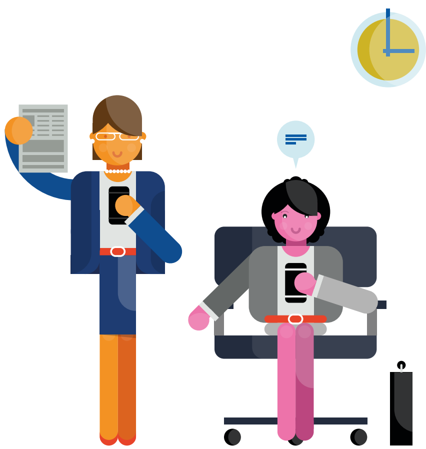
Older workers who have done this say they started taking pension saving seriously in their late thirties – at an average age of 39 – some 15 years after they typically began their careers and six years after they started saving into a private pension (33).

Those who have done so used their mid-forties (45) to calculate how much money they will need in retirement and how much they therefore need to save to afford a comfortable retirement, before ramping up their savings from the age of 47

Average age for proactive retirement management

Average age*	
Start saving into a private pension	33
Become aware of how much I/my employer is saving into my pension	36
Start taking pension saving seriously	39
Calculate how much I need to save to afford a comfortable retirement	45
Calculate how much money I will need in retirement	45
Ramp up pension saving in the run up to retirement	47

* Among over-50s workers who have done this



Retirement prospects left to chance

Key findings

- A quarter (25%) of older workers are relying on making a profit from downsizing to afford a comfortable retirement
- A similar proportion are relying on an inheritance (24%)
- But more than one million (13%) are relying on winning the lottery

With older workers delaying retirement saving to focus on more immediate needs, many are relying on external factors – such as receiving an inheritance, making money from downsizing or even a lottery win – to achieve a comfortable standard of living. As these events are by no means guaranteed, a worrying number are leaving their retirement plans to chance.

Over-50 workers relying on downsizing and inheritance for a comfortable retirement

A surprising number of older workers are relying on external factors to be able to afford a comfortable retirement. Most notably, a quarter (25%) are relying on making a profit from downsizing to a smaller home or different area. Research carried out by Aviva in 2016 revealed homeowners aged 45+ have or expect to release £57,140 by downsizing[8]: while this would be a welcome boost to most people's pension pots, it is unlikely to be enough to fund a retirement that could span several decades.

This strategy means older workers could also find their retirement plans at risk should significant changes in the housing market take place, making it harder to sell property.

Meanwhile, nearly a quarter (24%) are relying on inheritance money in order to afford a comfortable retired life, while over a fifth (22%) are relying on their relatives no longer being financially dependent on them.

More than one in six (16%) plan to release extra capital through their property via equity release or buy-to-let. An additional 15% are hoping their employer will contribute more to their pension, while one in ten (11%) are relying on receiving a promotion or salary increase.

Worryingly, 13% of over-50s workers or 1.3 million people say they are relying on a lottery win to be able to afford a comfortable retirement, including 6% who are relying heavily on this.

What over-50s workers are relying on to afford a comfortable retirement:
%

	All	50-54	55-59	60-64	65-69	70+
Making a profit from downsizing to a smaller home/ different area	25	28	26	25	19	23
An inheritance	24	32	25	24	14	10
Relatives no longer being financially dependent on them	22	25	23	17	23	19
Using property to fund their retirement, for example, through equity release	16	16	17	15	16	16
Employer contributing more to their pension	15	22	17	13	12	9

8 Aviva Real Retirement Report, Summer 2016

Top tips for consumers

How to successfully plan for a comfortable retirement:

Understand your retirement needs:
To know how much you need to save for retirement, you must first have an idea of the kind of lifestyle you want to have, and how much that will cost you. Think about your goals for retirement and how your circumstances might change. Do you plan to travel, visit friends and family, live in a new location or change the size of your home? Any of these factors could have an impact on how much you will need. Try Aviva's Shape My Future tool for a look at how much the lifestyle you want might cost.

Calculate your estimated retirement income:
Find out how much you are on track to receive once you retire. This will include an estimate of how much your pension plan(s) are worth and how much you are eligible to receive as a state pension, plus any other additional savings and investments you may have. Aviva's Retirement Planner can help to add up the numbers

Mind the gap:
If there is a significant gap between the amount you need for retirement and the amount you are expected to receive, it's time to take action. The most obvious route is increasing your pension contributions via your workplace – where your employer and government will also make a contribution. This may not always seem easy, but reducing small areas of spending elsewhere can add up to a big difference by the time you retire.

Get to know your options:
New pension freedom rules introduced in April 2015 have given people much more flexibility and choice around how they access their pension savings. You can arrange for a retirement income via an annuity or income drawdown product, cash in your whole or part of your pension pot or mix and match your options. All of these choices come with different rules, tax implications, regulations and advantages, so it's important to have a good understanding of what will work best for you. Seek financial advice if you're unsure.

If you are aged 50 and over and have a personal or workplace pension, you can arrange a free Pension Wise appointment. This is a free and impartial government service that provides specialist pensions guidance to help people make sense of their retirement options. You can book an appointment online or by phone.

Please be aware these top tips are relevant to those with a Defined Contribution (DC) pension. This is a pension scheme in which you or your employer can make agreed contributions to your pension fund. By the time you retire, the size of the pension fund will depend on contributions made, length of time invested, investment returns and charges taken. The value of these types of pensions go up and down and you could get back less than you paid in.

Methodology

The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research and Instinctif Partners. The Real Retirement tracking series has been running since 2010 and totals 29,568 interviews among the population over the age of 55 years, including 1,177 in July 2017 for the latest wave of tracking data (Q2 2017). This edition examines data from 3,327 UK adults aged 50 and over, of whom 1,829 are still working.

Technical notes:

- A median is described as the numeric value separating the upper half of a sample, a population, or a probability distribution, from the lower half. Thus for this report, the median is the person who is the utter middle of a sample. All figures are medians unless otherwise specified and are referred to as 'typical' rather than 'average' (mean).

- A mean is a single value that is derived by adding all the values on a list together and then dividing by the number of items on said list. This can be skewed by particularly high or low values.

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