Ninth annual report on the state of retirement in the UK today
Last April, this Government introduced historic reforms to pensions, giving consumers unprecedented access to their hard-earned retirement savings. This was a huge change, and we recognise and appreciate industry’s response so far. The new freedoms have already proven to be popular with over 230,000 people accessing £4.3 billion flexibly from their pension pots in the first year.

It is important that people have the right information and tools to make informed and confident decisions when planning for their retirement. That is why Government announced at Budget 2016 that it would support industry in designing and delivering a pensions dashboard – a digital interface where individuals can view all their pensions in one place – by 2019.

The Budget also announced that we would implement all measures that the recent Financial Advice Market Review recommended Government take forward which will help make advice affordable and accessible for everyone, at all stages of their lives. As an example, we will increase the tax exemption for employer provided pensions advice.

The FCA has also launched their Advice Unit, offering regulatory support to help firms bring innovative and affordable, automated advice options to the market more quickly.

Changes are also underway on pensions guidance. The Government has announced a new pensions guidance body, going live in 2018, that will allow people to get all their pension queries answered in one place, replacing Pension Wise and The Pensions Advisory Service. In the meantime, we’ve made improvements to Pension Wise; reducing the eligibility age for an appointment from 55 to 50 so individuals can start planning sooner. And we have legislated to expand Pension Wise so that it can provide guidance to people thinking of selling their annuities.

I welcome this report which provides invaluable insight into consumer behaviours and attitudes towards financial advice.

Harriett Baldwin MP
Economic Secretary to the Treasury

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In doing so, we noticed the degree to which the new pension freedoms – implemented a little over a year ago – are impacting the nation’s thoughts, feelings and plans around retirement. This wealth of choice has diversified our options: when and how we retire, how we access, spend or re-invest our life savings, and what advice we take to make the most of our later years.

It has brought the issue of financial advice into sharp focus. The decisions we make before and at retirement are among the most important of our lives, and with the increased choice it becomes crucial that people are able to access affordable, professional help.

Although our consumer research was conducted before 23rd June, the referendum decision for the UK to leave the EU will also undoubtedly have an economic impact on those in and approaching retirement. While the economic consequences of this decision are still unknown, it further highlights the need for consumers to take professional financial advice before making important decisions about their retirement income.

Receiving regulated advice while saving for retirement can help people get a better return on their investment, leaving them with a higher value pension pot, and at retirement can help ensure people shop around and get more from their money. We estimate people who shop around for an annuity typically receive 23% more income and Citizens Advice research shows that being with the wrong pension provider can mean people lose up to 10% of their pension pot in high charges. Despite this, most people are not on board with the need for advice or have not understood its value. Even though those who do take advice feel it is worth it, it is often too expensive for many which leads people to go it alone, or seek advice from friends and family. This “advice gap” is leaving many with a poorer retirement than they could have.

New, affordable solutions – like LV=’s Retirement Wizard – are important to help make regulated advice accessible to the mass market, but alongside this we need a concerted effort from Government, industry and the regulator to show people the value of advice.

Only when we have the majority of the nation taking advice and it is seen as a normal part of retirement – just as you would use a conveyancer when buying a property – will we see the true benefits. These benefits will not only be felt by individuals, but also more widely by the economy as fewer people will need to rely on the State in retirement, and pensioners will have more disposable income.

The Financial Advice Market Review was a good start, but we still think there is more that could be done to speed up these reforms and ensure advice is seen simply as a natural step you need to take before retiring.

John Perks
Managing Director of Retirement Solutions at LV=
The nine States of Retirement at a glance

In order to take a wide-reaching look at the typical scenarios that retirees find themselves in, we started by exploring the Financial Conduct Authority’s behavioural segmentation of UK consumers. This breaks retirees into two very broad groups – essentially the well-off (Retired with Resources) and those who are struggling (Retired on a Budget). Yet, within and between these groups there are further delineations to be made based on behavioural and financial differences.

These range from attitudes – to money, advice and retirement – to available resources – both in terms of money and advice. By analysing research from our regular poll of the over 50s we were able to identify key trends and commonalities, which we used to construct our ‘States of Retirement’. These nine segments describe typical situations that retirees find themselves in during, at the point of, or sometimes a little before, retirement.

In this report we give an overview of all these segments, as well as an in-depth look into three ‘states’. In all cases, the gross numbers in each segment are based on an estimation of 12.3 million people at retirement age or older.

Around one in 10 (11%) retirees rely on friends or family for cash – equivalent to more than a million pensioners. The majority of retirees (60%) also take advice from non-professional sources (i.e. friends and family).

Pension Investors

This segment uses pension resources to re-invest – and effectively treat this investment role as a part-time job. Having left work, they use some of their new free time to make active decisions about their money and continue to grow their reserves.

The numbers: Around 9% of pensioners have re-invested part of their pension or lifetime savings.

Looking to the future: Decreasing. Of those approaching retirement, only 6% intend to re-invest.

Defined and Refined

These people are retired on a healthy defined benefit pension, which provides a fixed income for life, often increasing with inflation and which can be passed onto a spouse after death.

Many of the nation’s baby-boomers held jobs with attractive – often final salary – pension schemes, allowing them to realise a very good standard of living in retirement. These Defined and Refined are living in a period described by some as the golden age of pensions, yet with people living for longer than expected such schemes have proven expensive and as a result have become increasingly rare.

The numbers: 24% of retirees state that their main income source comes from a defined benefit or final salary pension.

Increasing

Property Pensioners

These retirees rely on some value from their property when they retire – primarily through downsizing, relocating or equity release. For some this is their primary asset at retirement, and for many it is a natural part of retirement planning – cashing in an unused space by downsizing or using freedom from work to move to a more affordable area. However, the property market has made things difficult for Property Pensioners, leading us to call for the scrapping of stamp duty for downsizing pensioners to help them.

The numbers: Our research suggests that 22% of retirees are Property Pensioners – approx. 2.7 million people.

Looking to the future: Increasing. 34% of those approaching retirement say they’ll be Property Pensioners.

Grey-collar Workers

This segment describes a significant minority of people who choose to carry on working after typical retirement age (65) either through choice or necessity. The good news is that for most this is a choice, with the majority (87%) of those working at retirement age doing so because they want to. Only one in ten Grey-collar Workers feel obliged to work – a stark contrast to three years ago, when our research found a quarter of those in this situation were unhappy to still be working.

The numbers: ONS recorded 1.17m people over 65 still in employment.

Looking to the future: Increasing. The same ONS study showed an increase of 276,000 since 2011.

Reliant on Others

This group describes those requiring assistance from friends or family either financially and/or for advice. This is one of the more extreme segments, showing a significant minority of people are not prepared for retirement.

The numbers: Around one in 10 (11%) retirees rely on friends or family for cash – equivalent to more than a million pensioners. The majority of retirees (60%) also take advice from non-professional sources (i.e. friends and family).

Looking to the future: Potentially increasing. Among those approaching retirement, the number getting financial help was higher (27%) and even more (72%) will rely on friends and family for financial advice.

Falling Short

These retirees worry that their savings and/or pension will not last their full retirement or allow them to have a comfortable lifestyle in their later years.

The numbers: This is a difficult segment to quantify as it is based on how long someone estimates they will live for. However, a quarter (24%) of retirees worry that they do not have enough saved for the lifestyle they want – equating to around three million people.

Looking to the future: Increasing. When looking at those within 10 years of retirement, 55% are worried about money, suggesting that the next generation of pensioners are more likely to ‘fall short’.

Decreasing

Pension Investors

This segment uses pension resources to re-invest – and effectively treat this investment role as a part-time job. Having left work, they use some of their new free time to make active decisions about their money and continue to grow their reserves.

The numbers: Around 9% of pensioners have re-invested part of their pension or lifetime savings.

Looking to the future: Decreasing. Fewer people approaching retirement (20%) can look forward to such healthy pensions due to the decline in final salary pensions.

State Pensioners

This is the most common of our states of retirement, where the State Pension is providing the majority of retirement income, often supplemented by personal pensions. While many are comfortable, this segment is also the most likely to worry about having enough money in their retirement years or look to other sources, such as part-time work. The Government has also implemented a major change to State Pension in 2016 in order to make the system simpler.

The numbers: 43% of retirees say the State Pension is their primary source of income – equivalent to more than five million pensioners.

Looking to the future: Decreasing. Of those approaching retirement, around 37% will rely primarily on the State Pension possibly due to an increase in people saving privately for their pension and auto-enrolment.

Unknown

Overwhelmed

This group is approaching or at retirement and is confused by the raft of options available to them. This is undoubtedly influenced by the range of choices opened up by the recent pension freedoms, and the end of the ‘default retirement age’ which means that retirement is no longer a fixed date when people end work and start to collect their pension. In fact, many people now describe themselves as overwhelmed than fully in control when it comes to retirement planning.

The numbers: 19% of those approaching retirement feel completely overwhelmed, compared to 13% who feel fully in control.

Looking to the future: Unknown. While a greater proportion (13%) of those approaching retirement have, or plan to have, a second property, for many this is an aspiration and the new higher stamp duty charges for second homes may put others off.

Second Homeowners

In contrast to Reliant on Others, this group of pensioners have second properties either as an investment or means of income, leaving them able to live comfortably in retirement.

The numbers: One in 14 retirees (7%) have a second property as an investment or means of income – equivalent to 860,000 pensioners.

Looking to the future: Unknown. While a greater proportion (13%) of those approaching retirement have, or plan to have, a second property, for many this is an aspiration and the new higher stamp duty charges for second homes may put others off.

9 in 10 workers at retirement age are happy to be in employment

Around 1 in 10 pensioners have re-invested part of their pension or lifetime savings

Nonetheless, the same ONS study showed an increase of 276,000 since 2011.

43% of retirees say the state pension is their primary source of income – equivalent to more than five million pensioners.


2015/16

3 http://www.ons.gov.uk/ons/gro...
However, not only do downsizers face an inflated price for the type of homes they want, such as bungalows, due to lack of supply, but they also face a significant cost in the form of stamp duty, with the average house purchase coming with a tax bill of £4,600.

Earlier in the year we put it to Government that if pensioners were offered tax incentives on cash savings in their pension, they should also be offered a break from stamp duty if this would help them make the most of their assets.

It would certainly be a strong incentive, in fact four in ten (42%) people nearing retirement said they would be more likely to downsize if this tax cut were introduced.

With three-quarters (77%) of pensioners living without children, who will have often already flown the nest, and six in ten (64%) living in larger properties7, this reform could also help millions of younger homebuyers8 find a family home by encouraging ‘empty nesters’ to move, increasing the supply of larger homes.

While it might seem like an expensive idea, the initiative could become tax neutral in time. In initial calculations, we estimated that if roughly half of those who say the tax break would prompt them to downsize did so, the additional payment of stamp duty revenue from the families moving into these properties would make up any shortfall. Any more than this and the move would be profitable for the tax man. We want the Government to look into this in greater detail, as it could be a win for all.

**Property Pensioners**

Property Pensioners are a growing cohort of retirees who are using their home as a financial resource later in life. This is done primarily through relocating or downsizing – buying a cheaper property and pocketing the difference.

We found nearly nine in ten (87%) people working aged 65 and over were happy to be in employment, with two in five (40%) working out of choice and only around one in ten (11%) feeling obliged to work because they need the money. This is in stark contrast to three years ago when a quarter (26%) of people at retirement age were unhappy to still be working.

We also found a growing number of people choosing to phase their retirement, with one in seven (14%) people approaching retirement opting for semi-retirement and gradually reducing their hours, rather than retiring straight from full time work. At LV= we’re increasingly seeing people take some money from their retirement pot in order to pay off debts or settle their mortgage, while continuing to work to rebuild their retirement fund. This is down to the Government’s pension reforms, which give people more freedom over their retirement options. Retirees are now able to access their money as they wish and are no longer tied to buying an annuity.

The industry has responded with new solutions that allow people to use combinations of products to best meet their needs in retirement, which offer people both flexible access to their pension and security. However, with increased choice it is important people have the support they need to make this decision, particularly as many are worried about their savings.

More than half (55%) of those approaching retirement are concerned they will not have enough saved and a similar percentage (56%) think they will need to find income from other sources.

It is important people are encouraged to save early on, but it is also crucial people have access to regulated financial advice at retirement, whether that is face-to-face, over the phone or online, as this will help them get more from their money.

**Grey-collar Workers**

More people in the UK are working beyond retirement than ever before, with very few doing it just for the money.
Reliant on Others

Our final in-focus segment covers those least prepared for retirement. These people, around a million pensioners, are financially reliant on friends and family to some degree.

Worryingly, those within 10 years of retirement are almost three times as likely to be in this situation (27%), which suggests that the next generation of pensioners will be even more vulnerable.

At the same time, there is a general trend of people taking financial advice about retirement from their nearest and dearest rather than professionals. Six in 10 (58%) pensioners took financial advice from non-professional sources – such as friends and family – and three quarters (72%) of those approaching retirement plan to do the same.

Only a quarter (25%) of over 50s have taken, or plan to take, professional advice about their retirement, despite the fact that this could help them get more from their money.

45% of people approaching retirement thinking the reforms are too difficult to understand

Advice has always been crucial, but with more flexibility and choice available than ever before, people really do need access to advice – whether face-to-face, over the phone, or online. This will help them fully investigate their options and ensure they’re getting the best solution for their needs.

The Financial Advice Market Review carried out by HM Treasury and the Financial Conduct Authority has provided some potential solutions for the advice market and took forward several of the recommendations we made in our consultation response. For example, introducing a single definition for advice will help consumers understand exactly what they are getting and what protections they have, and increasing the income tax and national insurance relief for employer-arranged pension advice to £500 will help make advice more affordable for some. However, we strongly believe that there is still work to be done if we are to see a real sea change in this market.

The Pensions Dashboard project should be implemented sooner

Firstly, the Pensions Dashboard project should be implemented sooner. The Chancellor was absolutely right to recommend the development of a Pensions Dashboard as it should improve people’s understanding of their financial situation and help them make better decisions about what to do with their money. However, we believe consumers should not have to wait until 2019 for this to be introduced, and we are actively working with the Government and industry to see how LV= can action this sooner.

Where next for pension freedoms and advice?

Throughout this report, it is apparent that taking regulated financial advice at retirement is of paramount importance.

We would also like pension guidance to be made compulsory for those people who do not take advice.

Secondly, while LV= fully supports the Financial Conduct Authority’s “second line of defence” rule that requires providers to highlight that Pension Wise, or regulated advice, is available, we are aware many providers may still aggressively market their products to customers before their retirement date. We therefore believe Government should introduce tough regulation to ensure pension providers are not able to sell specific income retirement products to customers until an individual has confirmed that they have either had regulated advice or Government guidance or actively turned it down.

We would also like pension guidance to be made compulsory for those people who do not take advice, in the longer term. These are always likely to be some people for whom the cost of advice is prohibitive or is not worth it for the size of their pension pot, but this does not mean they should be without support. Free, quality, impartial guidance can help people understand their options and ensure that those who would benefit from advice are directed towards taking it.

Ultimately we need to get this market into a position where advice is accessible to everyone, and not just a privileged few.

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For details of LV’s range of flexible retirement solutions, insurance and investment products go to www.LV.com

For further information on LV’s State of Retirement Report please contact: Philip Brown, Head of Policy at LV=, philip.brown@lv.com

Sources
The State of Retirement research was conducted by Opinium Research 10-14 March 2016 and 20-22 May 2016. The total sample size was 1,523 UK adults over 50s. The research was conducted online and results have been weighted to a nationally representative criteria.

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