Technical Report

How effectively does the current UK pension system support positive later life outcomes? Tracking progress through data

Analysis sponsored by Phoenix Insights

About this paper

This Technical Report details the analysis that explores the extent to which the current UK pension system supports people to achieve positive later life outcomes through different stages of their pensions journey. It includes:

- An Executive Summary
- Introduction
- Section 1: Saving for retirement
- Section 2: Retiring
- Section 3: Living as a pensioner
- Conclusions

Full results of the modelling are available in a separate Appendix.

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PPI

Executive Summary

This research explores the extent to which the current UK pension system supports people to achieve positive later life outcomes, and how this has evolved in recent years, using data from a range of sources to track progress over time. It sets out available data across three stages: saving for retirement, retiring, and living as a pensioner.

Saving for retirement

The introduction of automatic enrolment has significantly expanded pension coverage in the UK, increasing active pension participation (across both Defined Benefit and Defined Contribution schemes) from 48% in 2011, to 79% by 2021. At the same time, participation in Defined Contribution (DC) schemes has also risen, with half of employees active members of a DC scheme by 2021, up from 17% in 2011.[1] In contrast, Defined Benefit (DB) scheme participation has declined, with the majority of active DB membership now concentrated in the public sector. By 2023, there were 7.1 million active members in public sector DB schemes, compared to just 700,000 in the private sector and 14 million active members of workplace DC schemes, with master trusts the dominant form of DC arrangement.[2]

DC pension wealth is becoming an increasingly important component of retirement planning, while other traditional sources of retirement security such as DB entitlement and housing wealth are in decline. Certain demographic and socio-economic characteristics are associated with an increased risk of being underpensioned and experiencing poor later life outcomes as a result. Underpensioned groups include women, people from minority ethnic backgrounds, people with disability, carers, and people in non-traditional employment, such as multiple jobholders and the self-employed. The affordability of pension contributions varies widely across socioeconomic groups, particularly for lower-income households. Affordability concerns are less likely to be a significant issue for those in higher income deciles with relatively high levels of residual income, but for those with low levels of residual income, relatively small increases in essential expenditure could make current pension contributions unaffordable.

Overall, while automatic enrolment has improved pension participation, challenges remain in ensuring adequate contribution levels and addressing the affordability concerns of lower-income workers.

Retiring

The retirement landscape is evolving, with retirees becoming older (retiring later), more likely to be single, and reporting worse health, but experiencing improved financial situations before retirement on average. Retirement pathways have become more varied and complex, moving away from the traditional model of a one-step transition from full-time work to retirement. Women, in particular, are retiring later than previous retirees due to increases in the State Pension age (SPa) and are expected to have a shorter retirement than women born shortly before them who experienced a lower SPa as increases to SPa took place more rapidly than longevity has increased in recent years to make up for previously unaccounted for longevity increases. At the same time, the complexity of retirement decisions has increased due to flexible access to pensions, and the growing prominence

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[1] ASHE 2001-2021

[2] PPF (2023); PPI (2023a) – PPI Aggregate Model

of DC schemes. However, access to guidance and advice remains low. Although only a small proportion of retirees use advice or guidance, those who do generally report it helped them to make decisions about retirement more effectively. The changing demographic and financial circumstances of retirees, along with more flexible retirement options, underscore the need for better access to guidance and advice to navigate these decisions in a way that is likely to lead to more positive retirement outcomes.

Living as a pensioner

Pensioner incomes have increased over the last two decades driven by increases in the State Pension, supported by the triple lock, and growing income from occupational pensions.[3] However, despite these gains, relative pensioner poverty has risen over the past decade. Since 2011, income growth for the poorest pensioners has lagged behind that of the broader population. As a result, relative pensioner poverty (poverty among those aged over State Pension age) has increased from 13% in 2011-12 to 16% in 2022-23, equivalent to 300,000 more pensioners living in poverty.[4]

Income sources for pensioners have shifted, with private pensions becoming a larger share of retirement income, while reliance on benefits has decreased. The overall share of pensioner income coming from benefits, including the non-means-tested State Pension, has declined from 46% in 2001/02 to 44% in 2021/22 - although in 2022/23 one in five pensioners still received means-tested benefits. Meanwhile, the share of retirement income sourced from occupational pensions has grown significantly, rising from 26% to 33% over the same period.[5]

While average pensioner incomes have risen, increasing pensioner poverty highlights widening income inequality among retirees, with poorer pensioners seeing slower income growth compared to the general population. The shift towards private pensions providing a larger share of pensioner income emphasises the importance of occupational pension schemes, even as benefits remain a crucial source of pension income for many.

[3] Pensioners' Income Series 2001/02-2021/22
[4] IFS (2024)
[5] Pensioners' Income Series 2001/02-2021/22

Pensions Policy Institute

Introduction

The landscape for pension saving and retirement has evolved rapidly in recent years, with:

- The introduction of a number of significant policy changes, including automatic enrolment and flexible pension access.
- Market changes, relating to these policy changes and changes in the broader economy, which have seen DC provision grow in prevalence and DB provision decline, particularly in the private sector.
- Demographic changes, including increases in life expectancy that may necessitate a change in expectations for retirement.

As a result, pension savers now face greater challenges and risks to achieving positive later life outcomes, for which many are poorly prepared. This research brings together data from a range of publicly available sources to answer ten key questions which together indicate how well the existing UK pension system supports individuals to achieve positive later life outcomes and how this has evolved in recent years.

This paper is structured into three sections representing the different stages of the pensions journey:

- **Saving for retirement:**
  1. What pension schemes are being used by savers?
  2. How much are people saving?
  3. How affordable is pension saving?
  4. How much are savers accruing?
  5. What support do savers have?

- **Retiring:**
  6. What does a retiree look like?
  7. What does a retirement process look like?
  8. What financial decisions do people make and how?

- **Living as a pensioner:**
  9. Are pensioner incomes adequate?
  10. What sources of income do pensioners have?

Full results of the modelling are available in a separate Appendix. MODELLINGAPPENDIX

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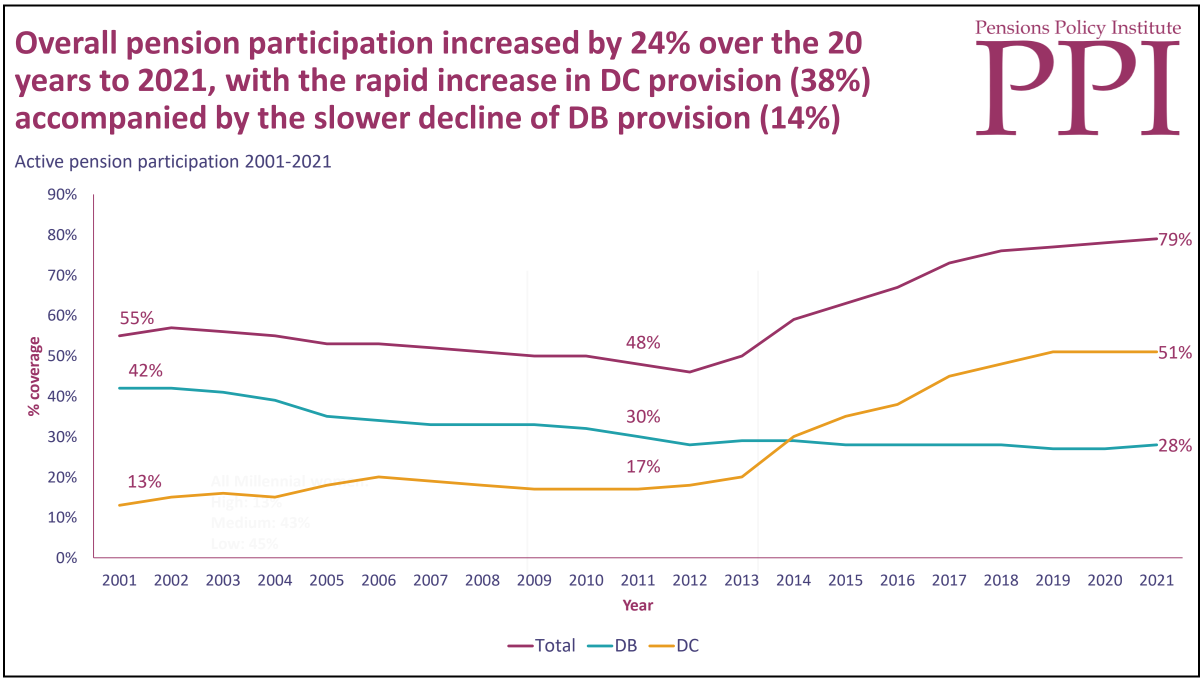
Section 1: Saving for retirement

1. What pension schemes are being used by savers?

Automatic enrolment has increased the coverage of pension provision

In 2011, prior to the introduction of automatic enrolment, 48% of employees were participating in a pension scheme. This represented a decline in overall pension participation over the course of the previous decade, from 55% in 2001. By 2021, overall pension coverage reached 79% of employees (Figure 1.1), with the remainder comprised of people who do not meet automatic enrolment eligibility criteria and those who have opted out.

Figure 1.1[6]



Automatic enrolment has accelerated the rise of DC pension participation, while DB provision has continued to decline

While overall pension participation increased by 31% between 2011 and 2021, participation in DC schemes increased more rapidly, from 17% in 2011 to 51% in 2021. Meanwhile, DB coverage declined by 2% over the same period (Figure 1.1). Continuing DB provision is heavily concentrated in the public sector, while many private sector DB schemes have closed, either to new members, new accruals, or been wound up entirely. In 2011, only 16% of private sector DB schemes were open to both new accruals and new members; and by 2021 this had declined to 11%.[7] In 2023, there were just 700,000

[6] ASHE 2001-2021

[7] PPF (2021) – Distribution of schemes by scheme status and year

active members in private sector DB schemes, compared to around 7.1 million active members in DB schemes in the public sector.[8]

Membership of DC schemes has grown rapidly, partly as a result of DB closures, but primarily the result of automatic enrolment bringing many new savers into the pensions landscape, with most enrolled into DC schemes. In 2023, there were around 14 million active members in workplace DC pension schemes, comprising around 9.1 million in master trusts, 2.6 million in DC schemes which existed prior to automatic enrolment and around 2.3 million in new DC schemes created subsequent to automatic enrolment (but which are not master trusts).[9]

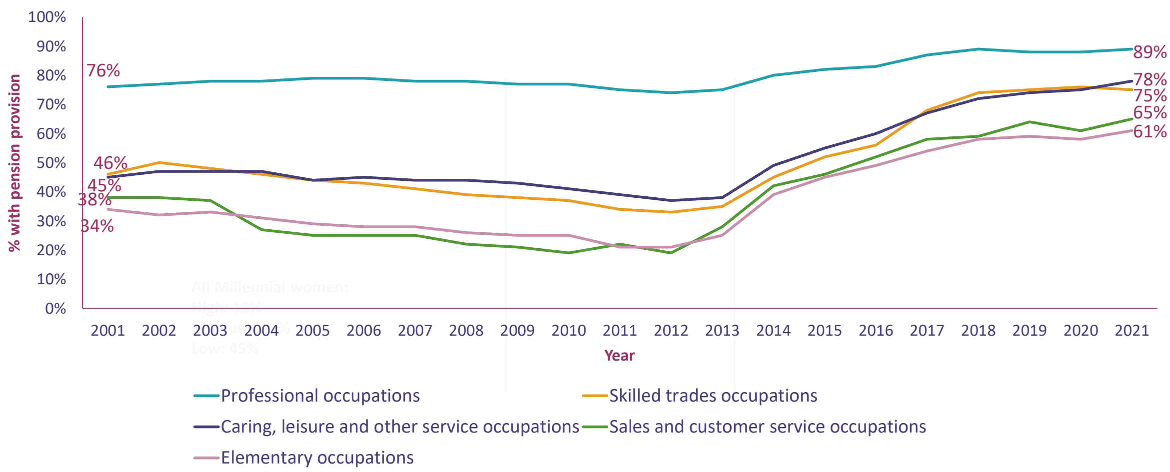
The impact of automatic enrolment varies across different occupational groups

The introduction of automatic enrolment increased pension participation across all occupation groups but the extent of this uplift varies. For some occupational groups, increases in participation rates have been much more substantial. For example, active pension participation in 'caring, leisure, and other service occupations' increased by 39% between 2011 and 2021, but remains significantly lower than occupational groups for which the level of pre-automatic enrolment participation was higher but has grown less substantially, such as professional occupations, for which coverage increased by 14% over the same period.

Figure 1.2[10]

Automatic enrolment has increased pension participation across all occupations, but some have increased more rapidly than others and significant inequalities persist

Active pension participation 2001-2021 by occupation



Changes in participation also varied by sector. Participation in the public sector has remained relatively stable, with relatively high levels prior to automatic enrolment and DB provision continuing to be prevalent. In the private sector, participation has increased rapidly as a result of automatic enrolment. Participation in a DC scheme among private sector employees increased from 23% in 2011 to 68% in 2021.

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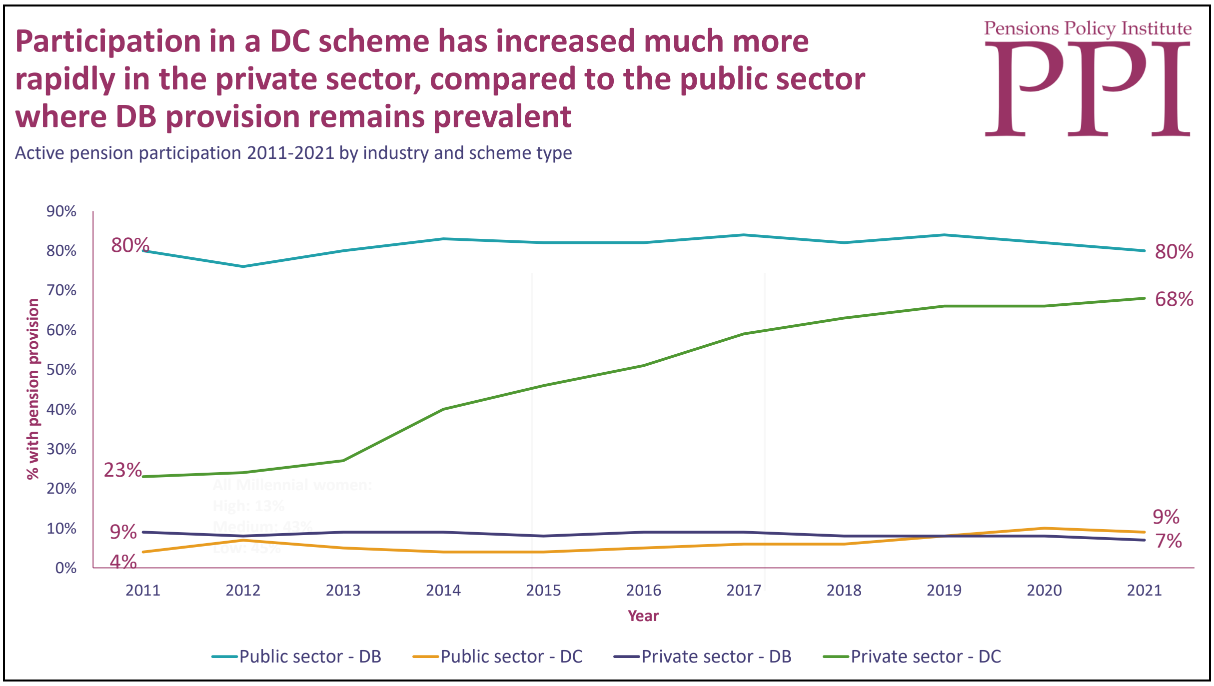
[8] PPF (2023)
[9] PPI (2023a) – PPI Aggregate Model
[10] ASHE 2001-2021
Occupational groups defined - https://www.ons.gov.uk/methodology/classificationsandstandards/standardoccupationalclassificationsoc/soc2020/soc2020volume1structureanddescriptionsofunitgroups

Figure 1.3[11]



2. How much are people saving?

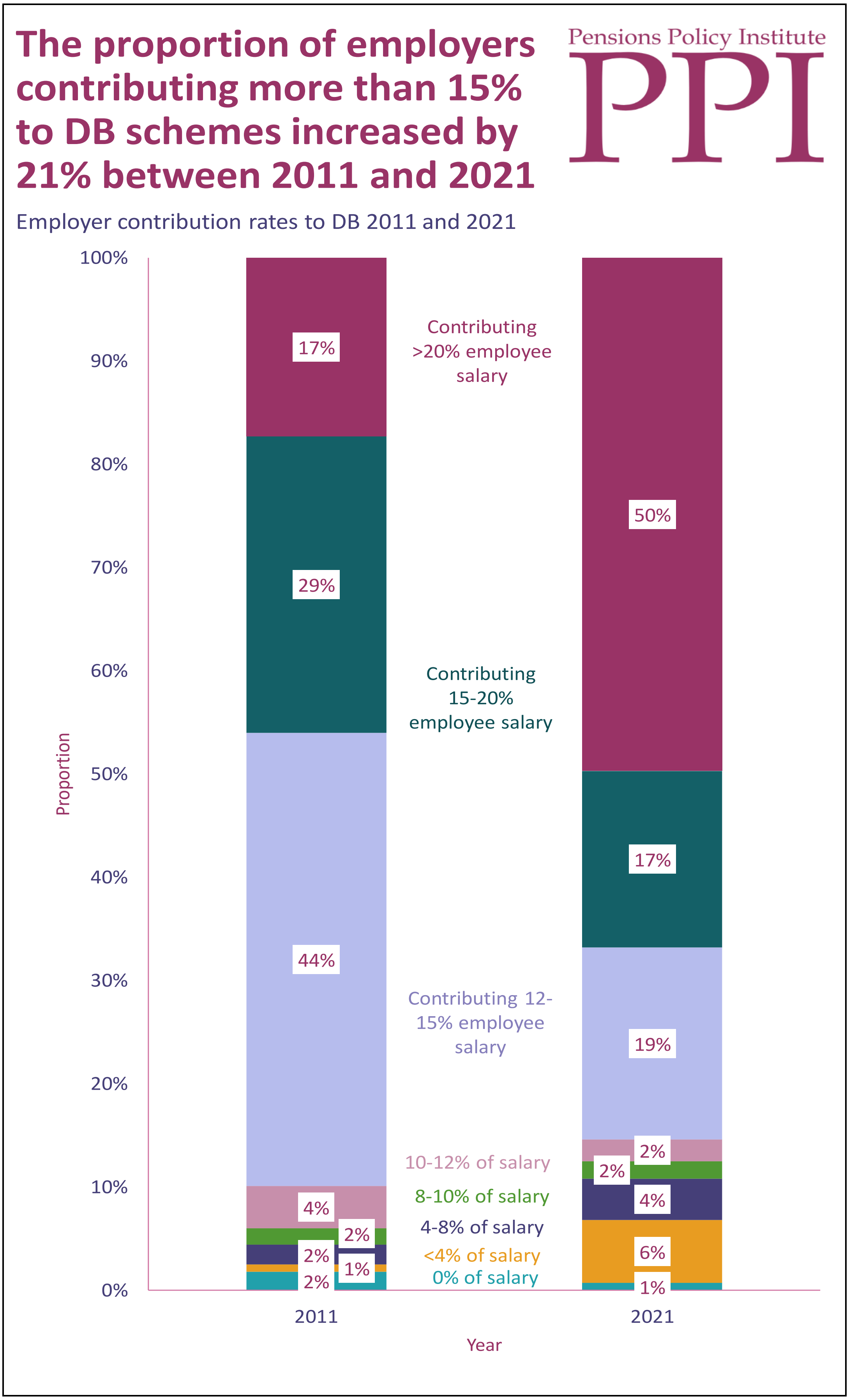
Defined Benefit (DB)

Employer contribution rates to DB schemes have changed significantly in recent years as liabilities and funding positions have evolved. In 2011, nearly half (44%) of employers offering a DB scheme were contributing between 12% and 15%, by 2021 this had shrunk to 19%. There was a small increase in employers making lower contributions (11% in 2011 vs 15% in 2021) and a much larger increase in those making higher contributions (46% in 2011 vs 67% in 2021).

At the same time, there has been an increase in the proportion of DB members contributing at higher rates. In 2011, just 14% of DB members were contributing at more than 7%; by 2021 this had increased to nearly half (47%). Most of this increase shifted from those contributing between 6% and 7% (44% in 2011 vs 13% in 2021). However, there was also an increase in the proportion contributing between 5% and 6% (19% in 2011 vs 27% in 2021) and a decline in the proportion contributing less than 5% (25% in 2011 vs 13% in 2021).

[11] ASHE 2011-2021

Figure 2.1[12]



The proportion of employers contributing more than 15% to DB schemes increased by 21% between 2011 and 2021
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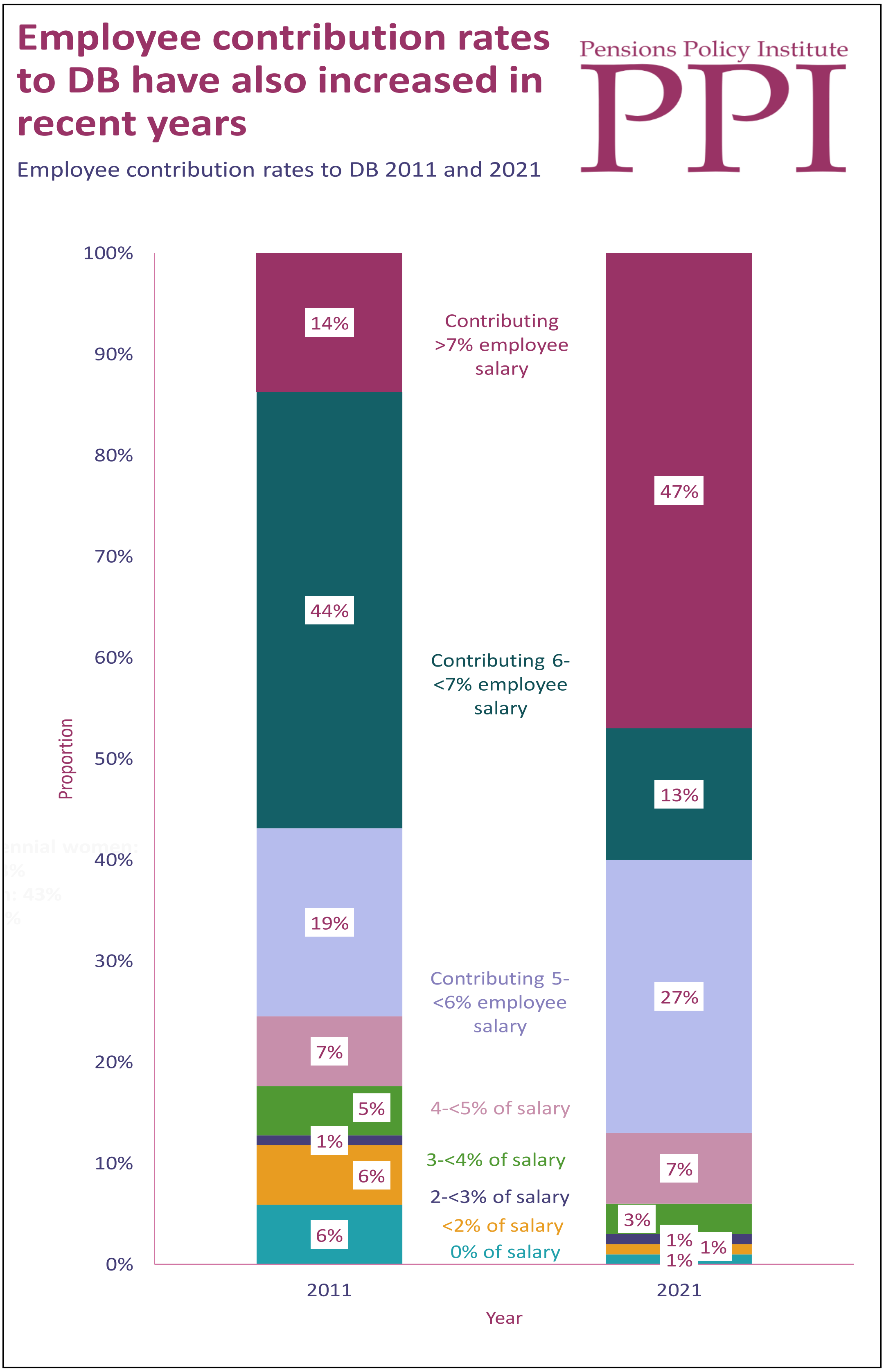
Employer contribution rates to DB 2011 and 2021
Proportion
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
17%
29%
44%
4%
2%
2%
1%
2%
50%
17%
19%
2%
2%
4%
6%
1%
Contributing >20% employee salary
Contributing 15-20% employee salary
Contributing 12-15% employee salary
10-12% of salary
8-10% of salary
4-8% of salary
<4% of salary
0% of salary
2011
2021
Year

Figure 2.2[13]



[12] ASHE 2011 / 2021
[13] ASHE 2011 / 2021

Defined Contribution (DC)

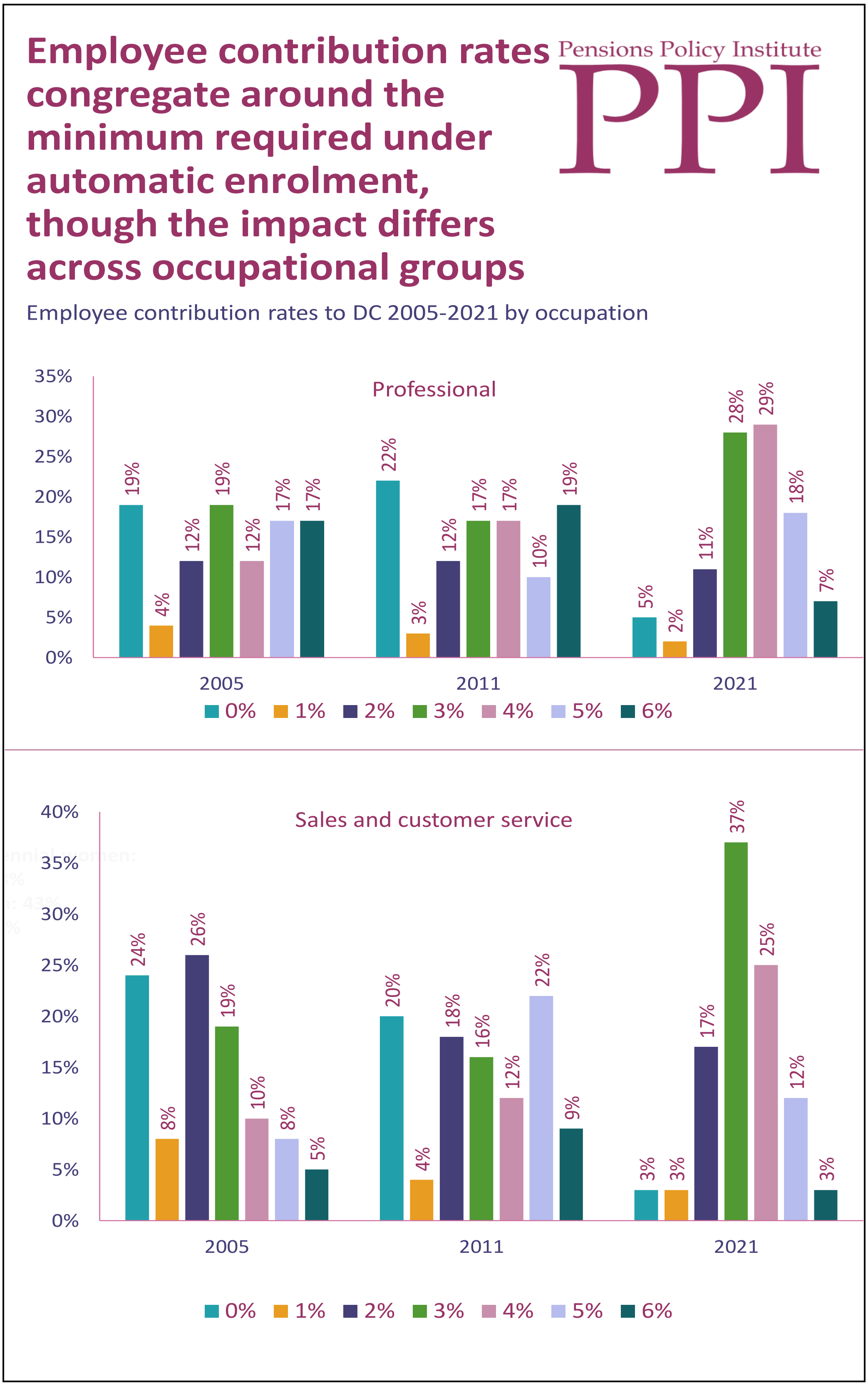
Average employee and employer contribution rates in DC have stagnated around the minimum mandated rate

While those who were already members of workplace DC schemes prior to the introduction of automatic enrolment, have for the most part continued contributing at the same rates, large numbers of new savers contributing at minimum rates have reduced average contribution levels. As automatic enrolment was introduced, median employee contribution rates initially fell as a result of more employees joining pension schemes for the first time and paying minimum contributions alongside their employers. Average employee contribution rates increased in correlation with increases to the minimum required automatic enrolment contribution rates in 2018 and 2019. However, since these changes were made, and with no further increases currently planned for minimum contribution rates, average employee contribution rates have stagnated at 4% in trust-based DC schemes and have seen only a very small uplift to 4.1% in contract-based schemes.

There are some differences in contribution rates across occupational groups. For example, in 2021, 25% of employees in professional occupations contributed above the minimum rate, compared to 15% of sales and customer service employees.

Pensions Policy Institute PPI

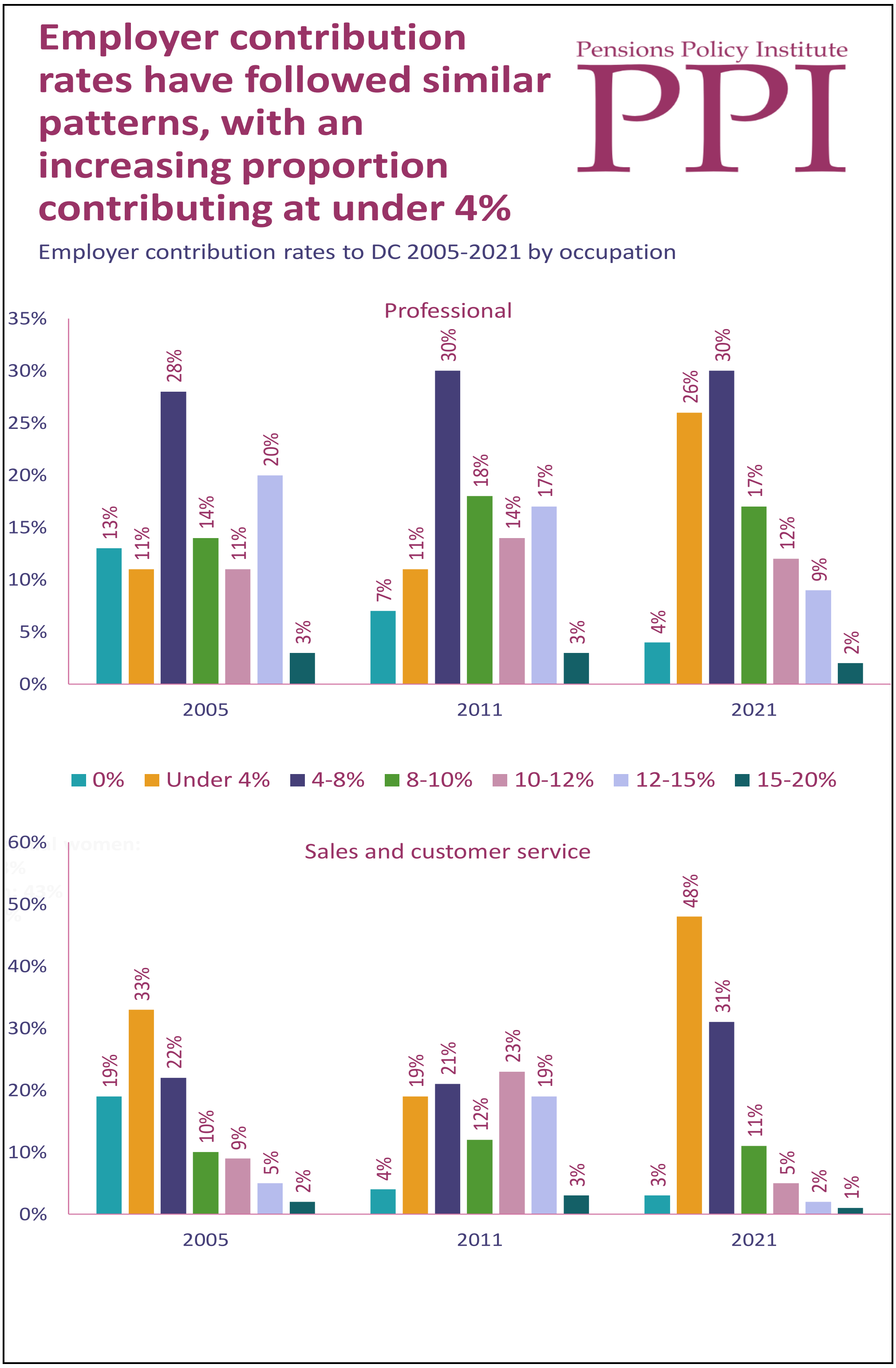
Figure 2.3[14]



[14] ASHE 2005-2021

Median employer contribution rates also increased as a result of increases to the mandatory minimum in 2018 and 2019. However, like employee contribution rates, average employer contribution rates have also stagnated, with average contribution rates only slightly above the minimum as of 2021 (3.4% in trust-based DC schemes and 4.4% in contract-based schemes).

Figure 2.4[15]



15 ASHE 2005-2021

Minimum contribution rates are unlikely to deliver adequate and sustainable retirement outcomes

Average contribution rates to DC schemes are significantly lower than those made to DB schemes and for many are unlikely to deliver adequate and sustainable retirement outcomes. Under an assumption of full entitlement to the new State Pension (nSP) and a lifetime of consistent contributions, anyone earning over £12,700 will require additional savings beyond the default 8% of band earnings to reach their target replacement rate, which will allow them to replicate working-life living standards in retirement. While there is broad consensus that higher contribution rates will be required to achieve adequate and sustainable retirement outcomes for DC savers, there are differing views on the level of contribution needed, ranging upwards from around 12%. PPI modelling suggests that for those on median earnings, total contribution rates may need to be as high as 20%, a further 12% above the minimum required under automatic enrolment, in order to meet their target replacement rate.[16]

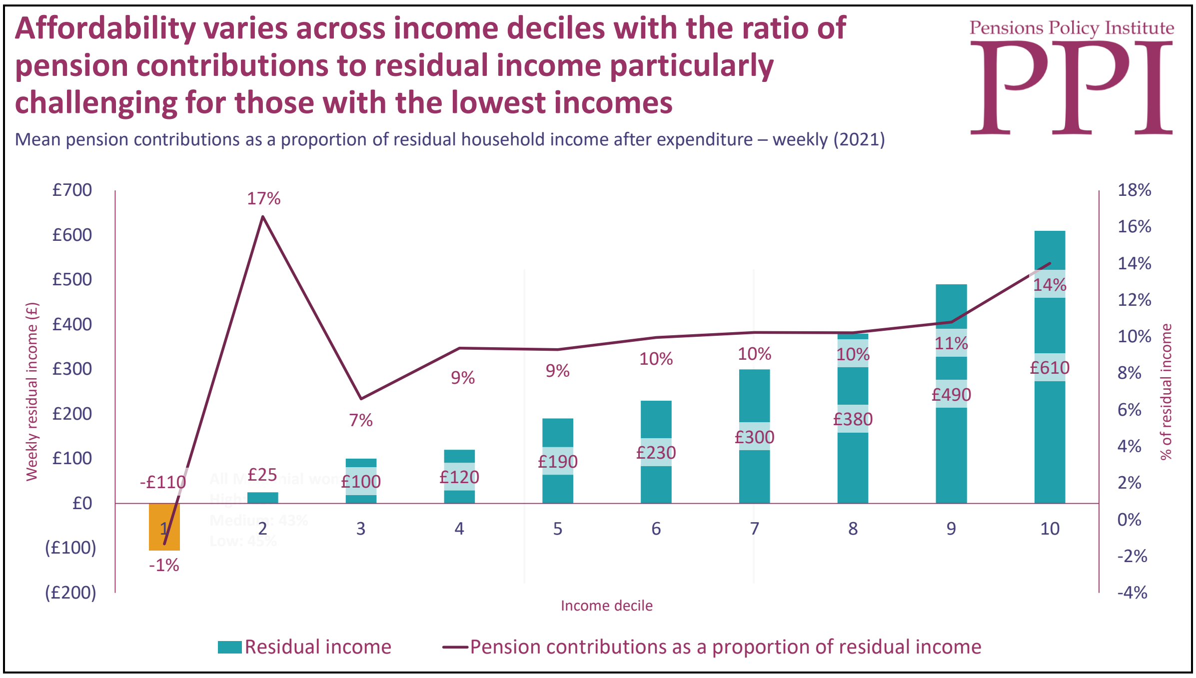
3. How affordable is pension saving?

Affordability of pension saving varies across socio-economic groups depending on income and other financial pressures

Lower income households in particular may face tensions between the cost of pension contributions and their overall financial well-being. The extent of these affordability concerns can vary significantly and should be understood in the context of each household's specific circumstances. For households in the lowest income decile, average pension contributions exceed the amount of money left over after expenditure, with residual income for these households negative on average (-£105 per week). For households in the second lowest income decile, residual income is positive but very low (£25 per week), with pension contributions equal to a significant proportion of residual income. Pension contributions equate to a smaller, relatively stable proportion of residual income for middle income deciles, before increasing to 14% for the highest income decile. Affordability concerns are less likely to be a significant issue for those in higher income deciles with relatively high levels of residual income, but for those with low levels of residual income, relatively small increases in essential expenditure could make current pension contributions unaffordable.

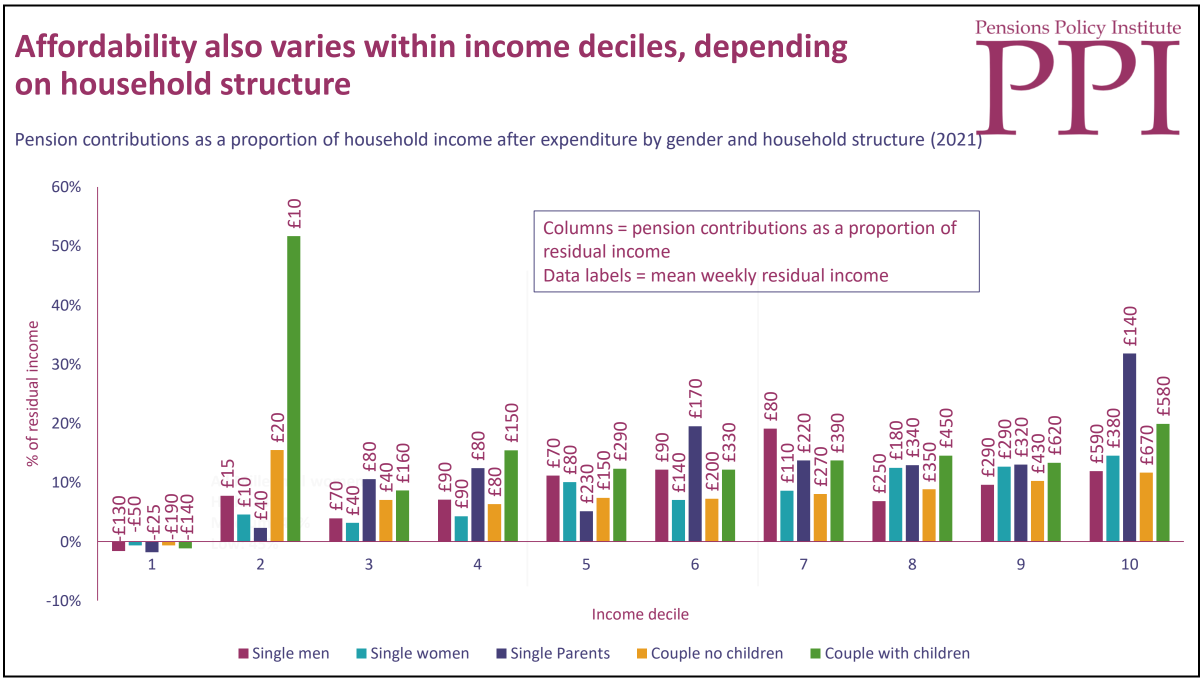
[16] PPI (2021)

Figure 3.1[17]



There are also differences in affordability within income deciles, depending on household structure. For example, for couples with children in the second lowest income decile, pension contributions are equal to 50% of residual household income, which is particularly low (£10 per week). Similarly, pension contributions are equal to a higher-than-average proportion of residual income for single parents in the highest income decile, compared to others in this decile, as a result of much lower levels of residual income left over after essential expenditure.

Figure 3.2[18]



[17] Living Costs and Food Survey, 2021-22 data collection

[18] Living Costs and Food Survey, 2021-22 data collection

Pension saving goals need to be balanced against more immediate financial needs, with those in lower income groups more likely to be at risk of not keeping up with essential payments, and having to cut back on essential expenditure or falling into debt. In the current cost of living crisis, people are cutting back on spending, saving and investing in order accommodate increases in essential expenditure. However, very few have reduced or stopped contributing to their pensions. In the 12 months leading up to January 2024:

- 77% (40.5 million) of people either spent less or worked more to manage their finances.
- More than half (52% or 27.5 million) reduced their use of electricity or gas in order to save money.
- Overall, nearly two-thirds (65% or 34.3 million) cut back on essentials such as food, heating or basic household items, with 16% (8.2 million) doing so in order to pay their mortgage or rent and 14% (7.2 million) to manage debts or credit payments.
- Over two-fifths (44%) stopped or reduced saving or investing, and 23% used their savings or investments for daily expenses, with 53% (27.6 million) in total taking one or both of these actions.
- By contrast, only 3% (1.8 million) stopped or reduced pension contributions during this period.[19]

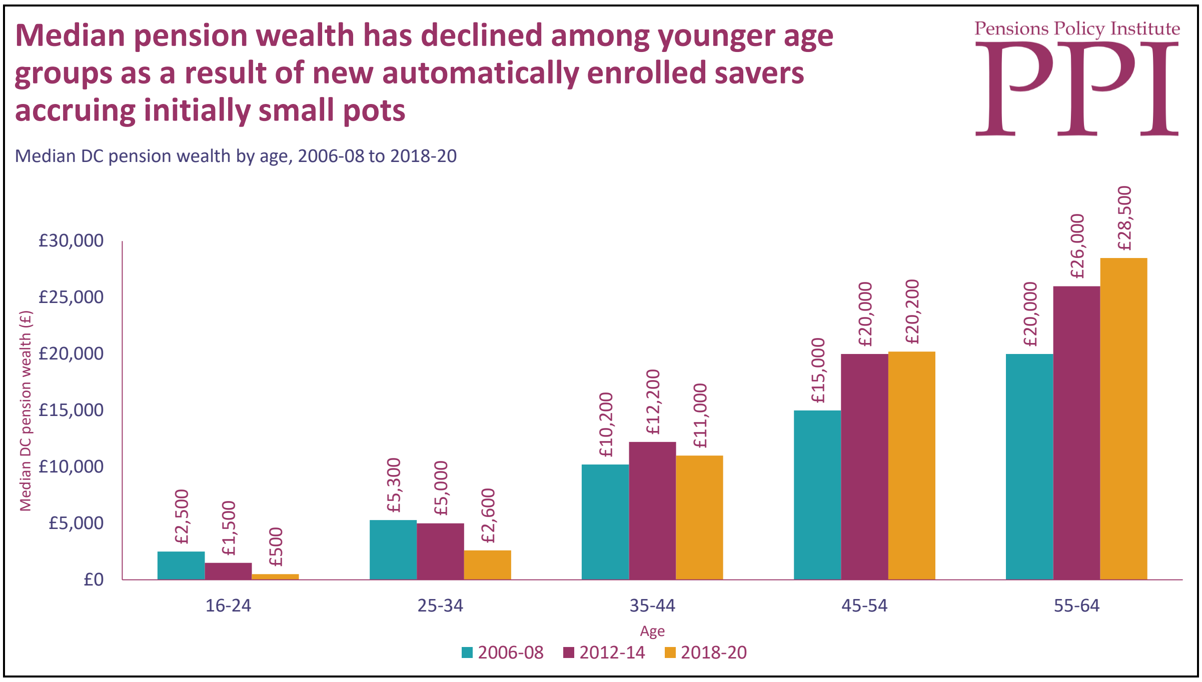
4. How much are savers accruing?

Average pot sizes have increased for those closest to retirement, but have declined among younger savers, as more have been brought into pension saving for the first time

Among those with pension savings, average pot sizes have declined among young savers as a result of new automatically enrolled savers accruing initially small pots, but are expected to grow as savings continue. For savers closer to retirement (aged 45-64) average pot sizes have increased since 2006-08.

[19] FCA (2024)

Figure 4.1[20]

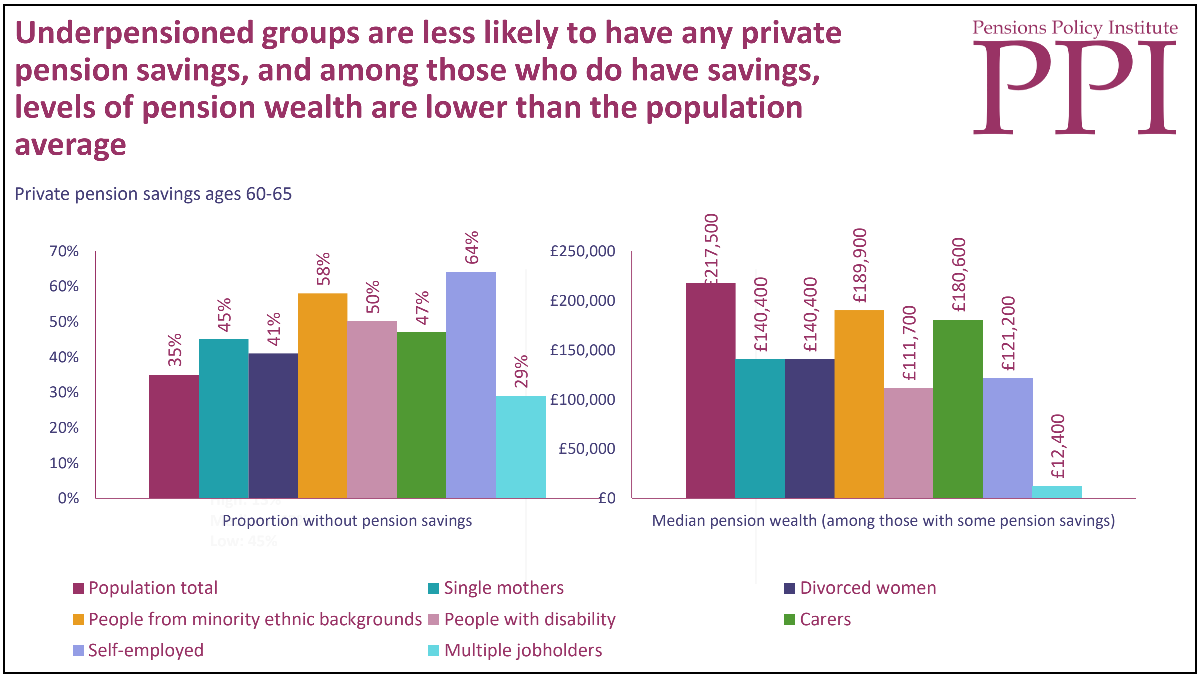


Some groups are at greater risk of experiencing poor later life outcomes

Certain demographic and socio-economic characteristics are associated with an increased risk of being underpensioned and experiencing poor later life outcomes as a result. Levels of pension wealth among these groups are significantly lower than the population average. In fact, low levels of coverage among some groups (among people from minority ethnic backgrounds and people who are self-employed, more than half do not have any pension savings at all) mean that average (median) pension wealth is £0, unless only those with some pension savings are taken into account.

[20] Wealth and Assets Survey – Waves 1, 4 and 7

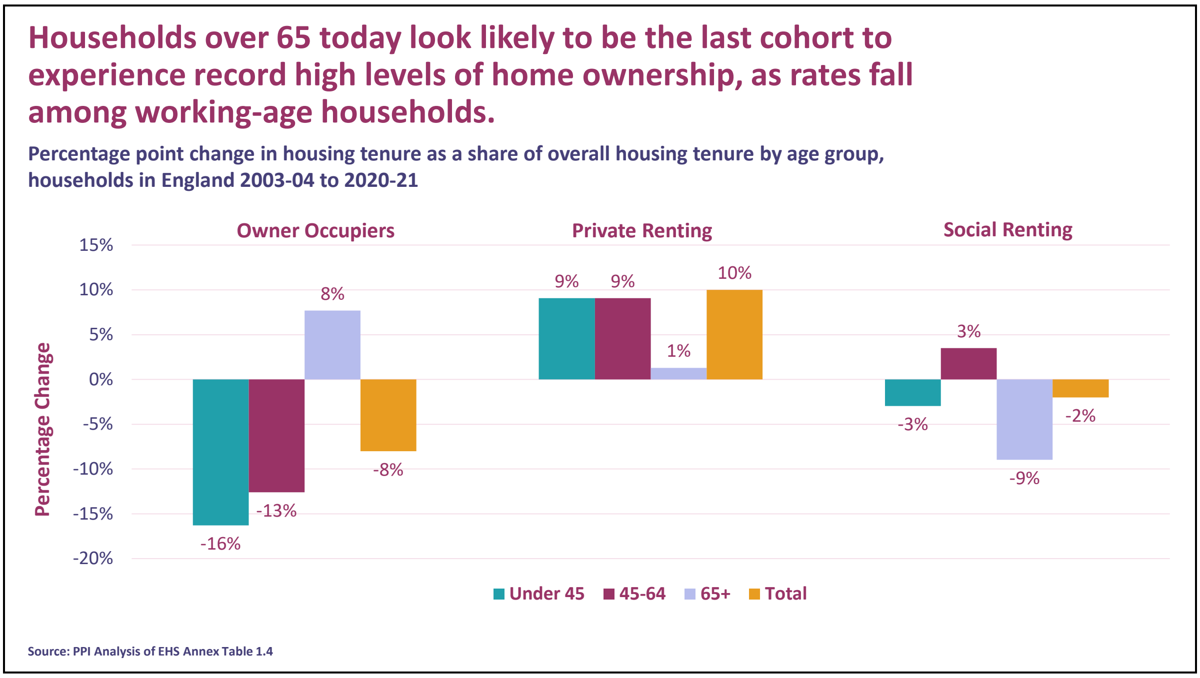
Figure 4.2[21]



Historically, housing wealth has played a significant role in retirement planning, but this is expected to change for future generations

Over the last two decades, homeownership has increased by 8% among over 65s, while for those aged between 45 and 64 it has declined by 13% and for those aged under 45 by 16%.

Figure 4.3[22]



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[21] Wealth and Assets Survey – Wave 7

[22] PPI (2023b); English Housing Survey 2022

If patterns of homeownership among today's 45-64 year olds were to persist through to retirement, and all other factors were to remain equal, by 2041:

- The proportion of households who own their own home in retirement could fall from 78% to 63%, the proportion living in the private rental sector could rise from 6% to 17%, and the proportion in social housing would remain unchanged.
- The number of households renting in retirement could rise to 3.6 million, of whom 1.7 million would live in the private rented sector, around 1.2 million more than today.

Long-term housing tenure is typically determined before the head of a household (usually defined as the highest earner) reaches the age of 45, meaning that, for this group, there is a strong degree of certainty that the trajectory towards lower home ownership in retirement cannot be reversed.[23]

5. What support do savers have?

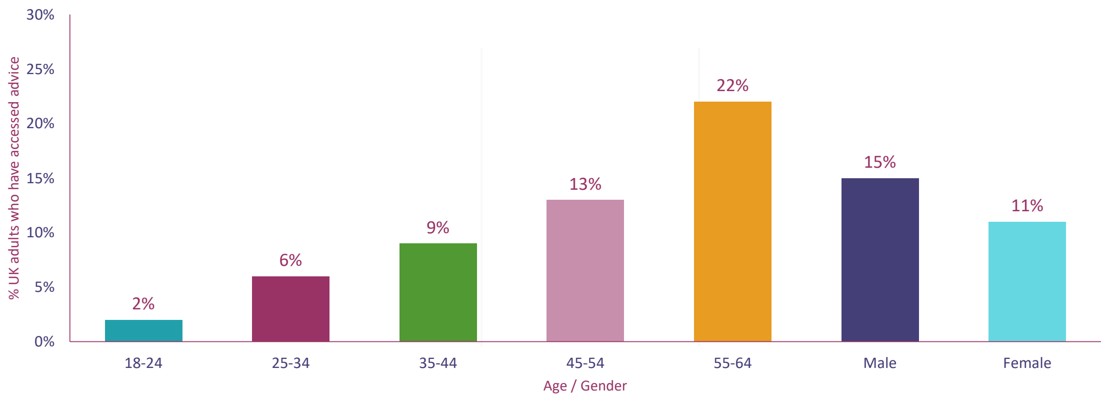
Levels of engagement with pensions, planning for later life, and financial guidance and advice are extremely low

The FCA estimates that among adults with at least one active DC pension, over a quarter (27%) have a 'very low engagement' level, with a further quarter (24%) categorised as 'low engagement'.[24] While engagement typically grows as people approach retirement, many still struggle to prepare for retirement decisions; more than four in ten people in their 50s and early 60s who have DC savings do not know how they plan to access their pot.[25]

Figure 5.1[26]

Access to regulated advice is positively correlated with age, although even among those closest to retirement (aged 55-64) less than a quarter have received regulated advice in the last 5 years

Proportion of UK adults who have received regulated advice in the last 5 years, by age and gender



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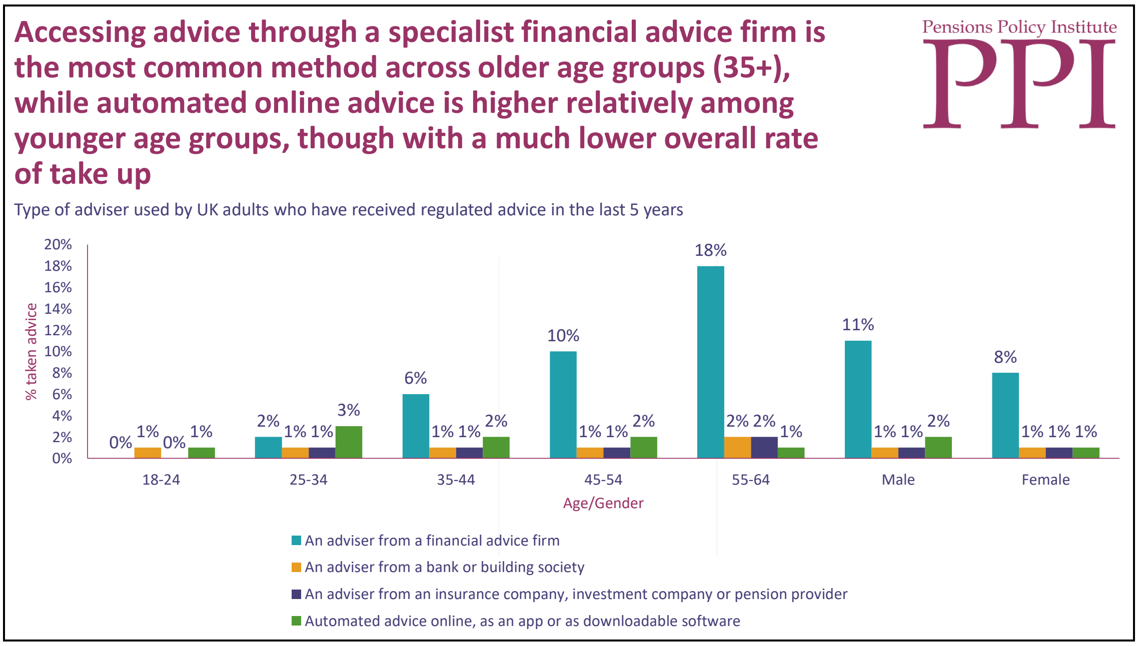
[23] PPI (2023b)
[24] FCA (2023)
[25] IFS (2023)
[26] FCA (2023)

Figure 5.2[27]



Age/Gender	An adviser from a financial advice firm	An adviser from a bank or building society	An adviser from an insurance company, investment company or pension provider	Automated advice online, as an app or as downloadable software
18-24	0%	1%	0%	1%
25-34	2%	1%	1%	3%
35-44	6%	1%	1%	2%
45-54	10%	1%	1%	2%
55-64	18%	2%	2%	1%
Male	11%	1%	1%	2%
Female	8%	1%	1%	1%

Certain demographic and socio-economic groups are more likely to seek financial advice than others

Several factors influence the likelihood of individuals seeking financial advice, including:

- **Age:** The likelihood of accessing financial advice increases as individuals approach and transition into retirement. Those approaching retirement or already retired are more likely to seek financial advice due to the complexity of making decisions about accessing savings, managing pension withdrawals, and ensuring a sustainable income in retirement.
- **Wealth and income levels:** Individuals with higher incomes and greater levels of wealth are significantly more likely to seek financial advice.
- **Education:** Individuals with higher levels of education are more likely to seek financial advice
- **Financial literacy:** People with a better understanding of financial matters are more likely to recognise when they need advice and to seek it out. This group is also more likely to recognise the potential benefits of receiving advice, such as improved investment returns or better retirement outcomes.
- **Life events:** Individuals experiencing significant life events, such as marriage, divorce, the birth of a child, inheritance, or the death of a spouse are more likely to seek financial advice as these events often necessitate a reassessment of financial goals and strategies.
- **Gender:** Historically, men have been more likely to seek financial advice than women, though this gap has been narrowing. Women with higher incomes or those who are the primary breadwinner in their household are more likely to seek financial advice.
- **Employment status:** The self-employed are more likely to seek financial advice due to the complexity of managing both personal and business finances. However, this group are also less likely to prioritise pension saving.

[27] FCA (2023)

- **Pension scheme type:** DC savers are generally more likely to seek financial advice than those with DB pensions, likely because they bear greater individual responsibility for achieving positive retirement outcomes, as well as greater individual risks. The predictability and security of DB entitlement may reduce the perceived need for financial advice, unless members are considering transferring out of the scheme.

Section 2: Retiring

6. What does a retiree look like?

Retirees (the people transitioning to retirement) are becoming older and increasingly likely to be single. They are reporting worse health but a better financial situation prior to retirement.

This analysis considers respondents in the Understanding Society dataset who are observed to have retired over the course of the 13 published waves of data. This covers interviews from 2009 to 2023. Their situation is assessed in their interview prior to being observed as retired.

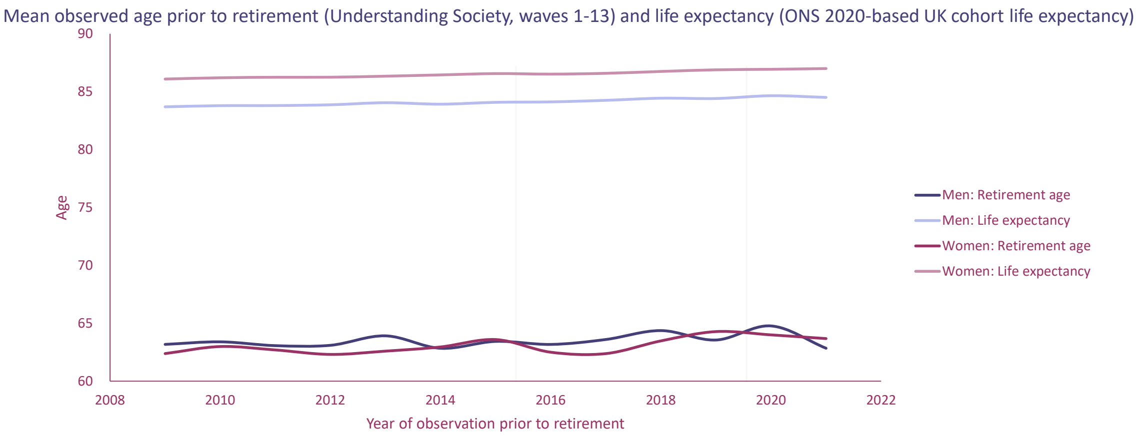
Women are retiring later due to the increase in their State Pension age.

The increase in the State Pension age has had the effect that more women are retiring later. This is a consequence of the practical financial considerations of retirement - the largest part of retirement incomes, for both sexes, is from the State [Figure 10.1].

Women who have more recently retired, at older ages, are expected to have a shorter retirement than the women born shortly before them who experienced a lower State Pension age. This is due to remaining life expectancy at these older ages being lower and any benefit of increasing longevity over time is more than negated by the increase in retirement age.

Figure 6.1[28]

While retirement ages for women have increased as State Pension age has increased, their expected length of retirement has reduced.



[28] PPI analysis of Understanding Society, waves 1-13, ONS 2020-based cohort UK life expectancies.

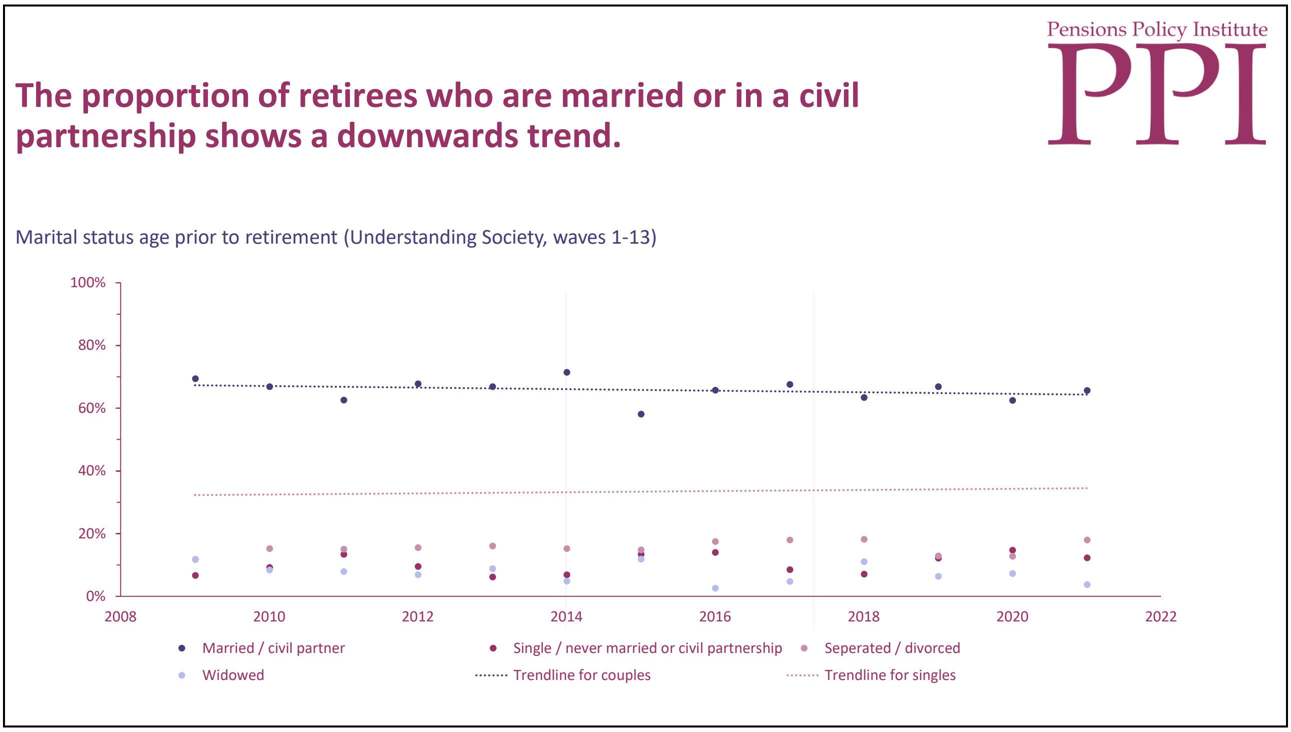
The majority of retirees are married, or in a civil partnership, however, there is an increase in the observation of single retirees.

The proportion of retirees who are not married has increased, both of singles, and divorced or separated. However, the proportion of widowed retirees has not increased.

The gap in the trends between those retiring as couples and those retiring alone has reduced. Between 2009 and 2021 the gap has reduced by five percentage points (from 38 percentage points in 2009 to 33 percentage points in 2021) [Figure 6.2].

The financial challenges of retiring alone necessitate a higher per person pension accrual to maintain the same standard of living. This is due to the opportunity to share costs when living as part of a couple.

Figure 6.2[29]



Retirees are appearing in worse health but improved financial situations prior to retirement.

Self-reported levels of health have reduced with over 10% of respondents assessing themselves in poor health prior to retirement in recent years. This would be associated with an increasing retirement age as older people are more likely to be in poor health, alongside reducing healthy life expectancies.[30] The period analysed covers the years since the global pandemic, which impacted the health of older people more than younger individuals, but this can be taken in the wider context of already reducing healthy life expectancies.

Financially more retirees are reporting a healthier financial situation prior to retirement. This is a self-assessed measurement and while the proportion who report themselves as living comfortably has reduced, the proportion who were finding it difficult or just about getting by has also reduced, and

[29] PPI analysis of Understanding Society, waves 1-13.

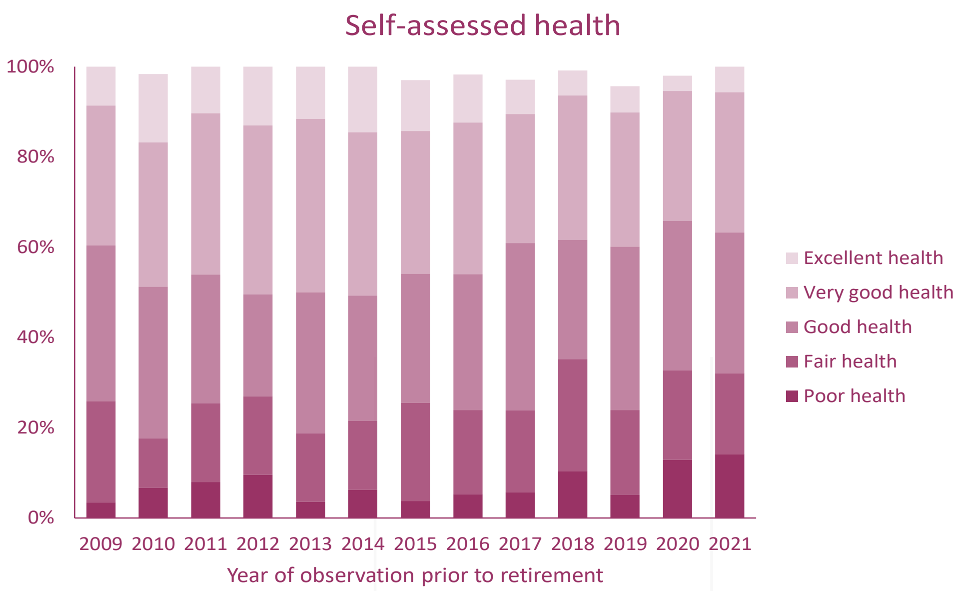
[30] ONS (2024)

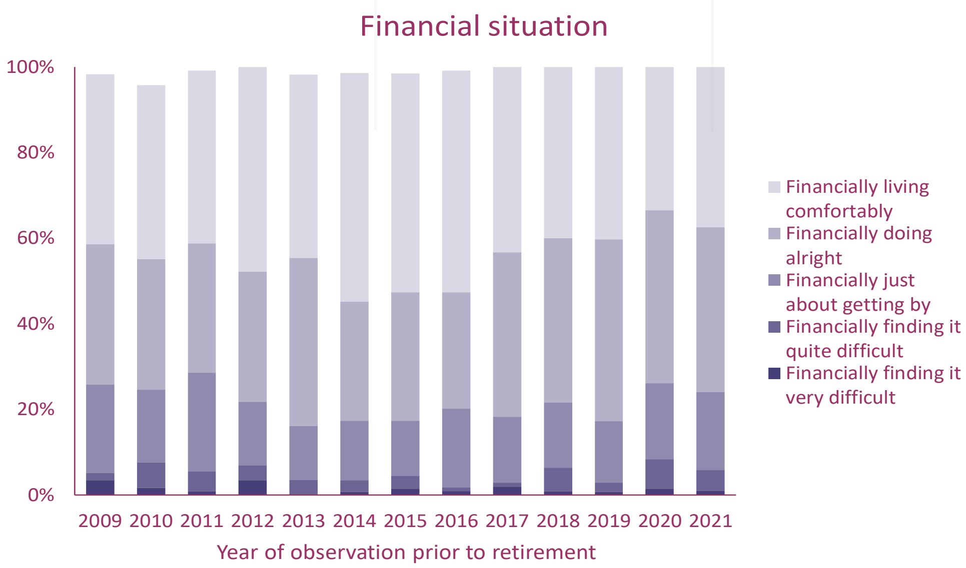
the number now “doing alright” has increased. Of those prior to retirement in 2021, 76% reported they were doing alright or living comfortably, compared with 71% ten years earlier.

Figure 6.3[31]

In recent years self-reported health prior to retirement has deteriorated, however self-reported financial situations have improved.

Self-assessed health and financial situation (Understanding Society, waves 1-13)





[31] PPI analysis of Understanding Society, waves 1-13.

7. What does a retirement process look like?

Retirement is not simply a matter of working full-time and then completely stopping paid work. Only three in ten new retirees were observed to be working full-time immediately prior to retirement. Others with earnings were employed part-time, or were self-employed, while others were unemployed in the labour market. Most retirees retire at State Pension age, but a sizable minority retire substantially earlier or later.

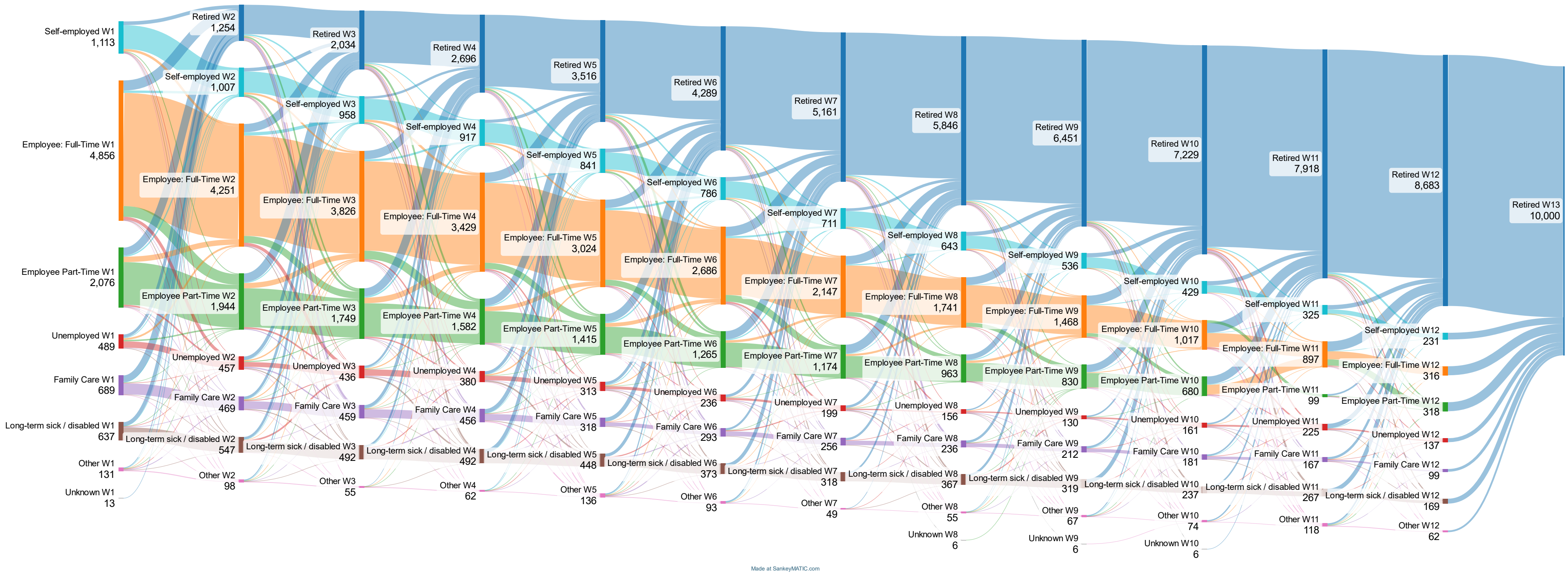
The route to retirement [Figure 7.1]

- **The routes to retirement are many and varied:** The model of simply moving from employment to retirement in a single step does not hold for most retirees.
- **Three in ten new retirees were full-time employees prior to retiring:** 30% of individuals retired from full-time employment. This has been the historical model for retirement, people working one day and ceasing the next. Tracking responses between waves of the Understanding Society data set shows that under one third of transitions to retirement were from full-time employees.
- **Three in ten full-time workers started working part-time in the run up to retirement:** 29% of full-time workers observed to retire were observed to work part-time prior to retirement. The traditional model of retirement would have assumed that employees ceased full-time work to become retired. A sizable number are winding down their employment by reducing their hours in the run up to a full retirement. It may be assumed that some part-time workers at the beginning of observation had previously been full-time employees and this figure is therefore most likely an underestimate of the situation.
- **One in twenty employees becomes self-employed in the run up to retirement:** 5% of employees observed to retire became self-employed between having an employer and retiring. It may be assumed that some of the self-employed at the beginning of observation had previously been full-time employees and this figure is therefore most likely an underestimate of the situation.
- **The sampling frequency of Understanding Society means that some detail of retirement transitions may be lost.**

Figure 7.1[32]

The routes to retirement are many and varied

Weighted retirement journeys for those observed to have retired between waves 1 and 13 of Understanding Society



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[32] PPI analysis of Understanding Society, waves 1-13.

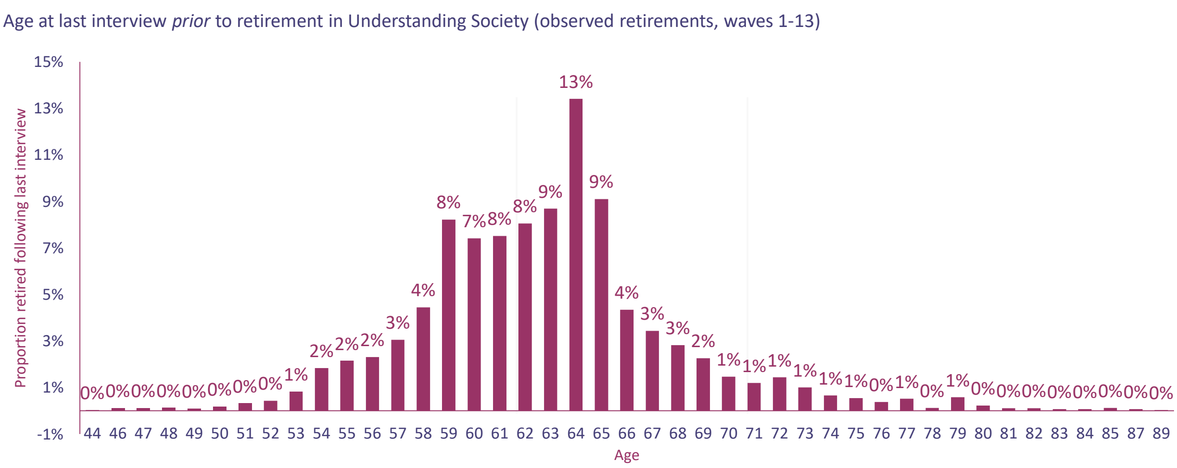
The age of retirement

Most interviewees report their retirement at State Pension age. It should be noted that the period of observation includes the decade of State Pension age equalisation and increase to age 66 for both men and women).

- Very few individuals retire before the normal minimum pension age
- 7% of interviewees observed to retire do not report themselves retired by age 70.

Figure 7.2[33]

While most people retire at state pension age around one in twenty retire by age 55 and one in 14 has not retired by age 70.



8. What financial decisions do people make and how?

Due to the complexity of decisions about how to access DC savings, people may need to use guidance and/or advice to support them in making choices to achieve positive retirement outcomes. Accessing DC savings without the use of advice or guidance increases the risk that individuals will make sub-optimal decisions for meeting their income needs in retirement.

Take up of free Pension Wise guidance remains relatively low, compared to the number of people accessing DC pots each year, but nearly 90% of those who took up appointments said it helped them to make decisions

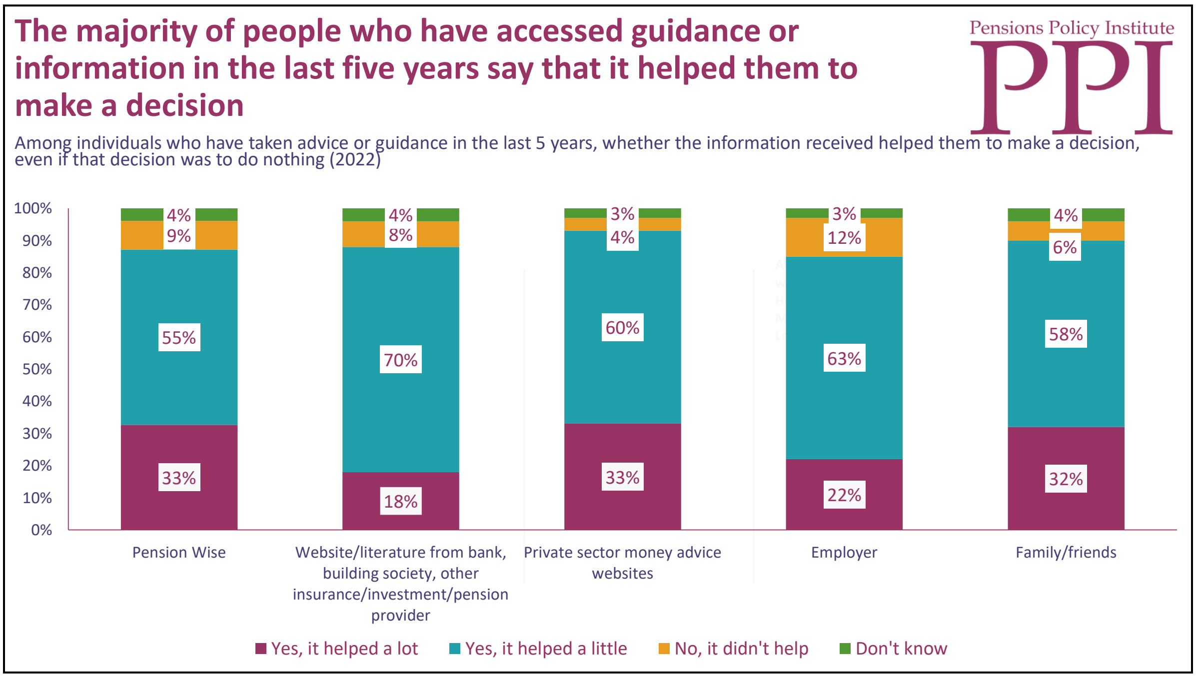
The introduction of pension flexibilities was accompanied by a new, national guidance service known as “Pension Wise”. Pension Wise offers free independent guidance (online, by telephone or face-to-face) to those aged 50 or above with DC savings. During the 2023/24 financial year, there were around 11,000 face-to-face appointments and 170,000 telephone appointments. In addition to appointments, there were around 78,400 self-serve journeys completed via the Pension Wise website. There is a significant gap between the number of appointments arranged and appointments attended; in 2023/24, around 76% of face-to-face appointments and 65% of telephone appointments arranged were attended.[34] New regulations came into force from 1 June 2022 that require pension

[33] PPI analysis of Understanding Society, waves 1-13.

[34] https://maps.org.uk/moneyhelper-pension-take-up-dashboard/

providers to give members accessing their pension pots a 'stronger nudge' towards Pension Wise's guidance services, including offering to book a Pension Wise appointment on the member's behalf.

Figure 8.1[35]

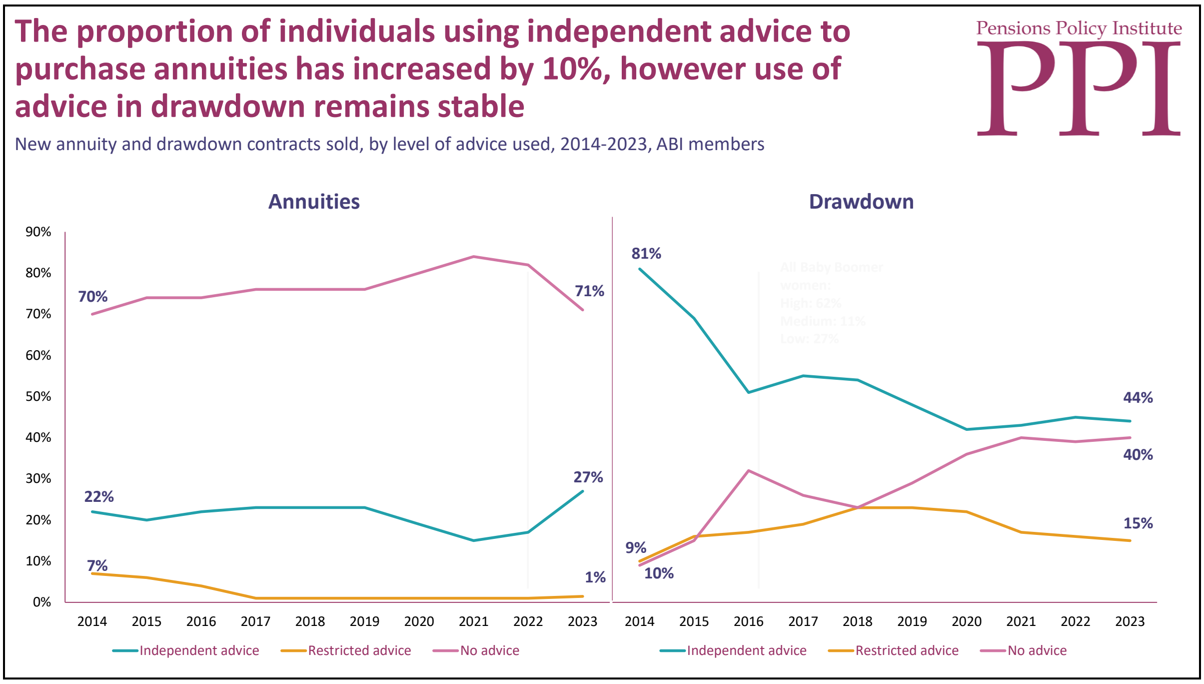


Take up of advice has recently increased among annuity customers, but remains relatively low, while take up of advice among drawdown customers is broadly stable at around 60%

Following the introduction of pension flexibilities in 2015, the use of regulated advice declined among those purchasing a drawdown product, but remained relatively stable at a low level for those purchasing an annuity. Since 2018, non-advised purchase has grown among both annuity and drawdown customers. However, 2023 saw a substantial increase in the proportion of annuity customers taking independent advice, rising from 17% in 2022 to 27%. The use of regulated advice among drawdown customers remained broadly stable.

[35] FCA (2023)

Figure 8.2[36]



While it is difficult to attribute specific outcomes to advice and guidance, characteristics of and outcomes experienced by people who have taken financial advice differ from those of people who are unadvised

The value of financial advice is both difficult to measure and difficult to communicate with the average saver. Previous analysis of the Wealth and Assets Survey found that individuals who accessed financial advice between 2001 and 2006, had an average increased wealth of £47,700 in pensions and financial assets in 2014-16 compared to those who received no financial advice.[37] There are also correlations between taking advice and the decisions that are ultimately made about accessing pension savings. For example, 94% of people who accessed their DC pot without using advice accepted the drawdown option offered by their pension provider, compared to only 35% of advised consumers.[38]

[36] ABI data 2014-2023: Pensions New Business – Overview Tables by Channel
[37] ILC (2019)
[38] FCA (2018)

Section 3: Living as a pensioner

9. Are pensioner incomes adequate?

Average pensioner incomes have increased over the last two decades

Increases to the State Pension, supported in recent years by the triple lock, as well as increased income from occupational pensions, mean that pensioner incomes have increased in relative terms over the last two decades.

Figure 9.1[39]

However, relative pensioner poverty has increased over the last decade

Since 2011, income growth for poor pensioners (those in the 10th percentile of the pensioner income distribution) has lagged behind the population as a whole. As a result, relative pensioner poverty (poverty among those aged over SPa) increased from 13% in 2011-12 to 16% in 2022-23, equivalent to an increase of 300,000 pensioners.[40]

In 2021-22, 20.5% of pensioners were below the Joseph Rowntree Foundation Minimum Income Standard (JRF MIS). The likelihood of being below the MIS has increased substantially for single pensioners since 2008-09, from 16.9% to 30.2% in 2021-22, with an additional 900,000 pensioners below the MIS, 600,000 of whom were single pensioners.[41]

[39] Pensioners' Income Series 2001/02-2021/22
[40] IFS (2024)
[41] JRF (2024)

The proportion of working age households projected to miss retirement income thresholds suggest that without change to saving behaviour, the risk of experiencing poverty in later life could be higher for future generations of retirees.

Figure 9.2[42]

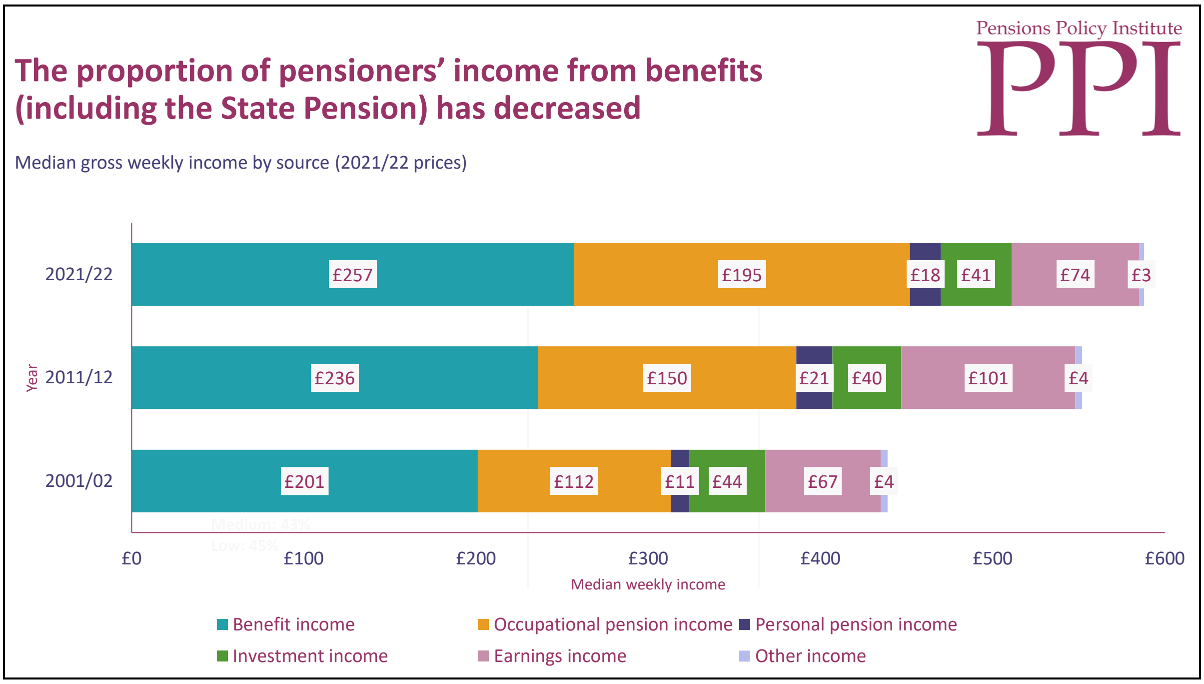
Retirement income threshold	Proportion households below the income threshold		
	Standard income	Additional Capital	With Housing Equity
PLSA RLS Minimum	33%	29%	25%
PLSA RLS Moderate	80%	70%	62%
PLSA RLS Comfortable	96%	91%	89%
Pensions Commission Target Replacement Rates	57%	48%	39%

10. What sources of income do pensioners have?

One in five pensioners received means-tested benefits in the 2022/23 financial year. However, the proportion of gross weekly income received from benefit income, including the non-means-tested State Pension, has declined slightly over the last two decades, from 46% in 2001/02 to 44% in 2021/22. The proportion of income sourced from occupational pensions has grown the most over this period, from a quarter (26%) in 2001/02 to a third (33%) in 2021/22.

[42] PPI (2023c) - Standard income = State Pension, DB entitlement and DC savings after taking a tax-free lump sum, which is not included at this level; Additional capital = all items in standard income, as well as income generated from pension lump sums and financial assets; Housing capital = all items in additional capital, as well as income generated through releasing equity from housing wealth.

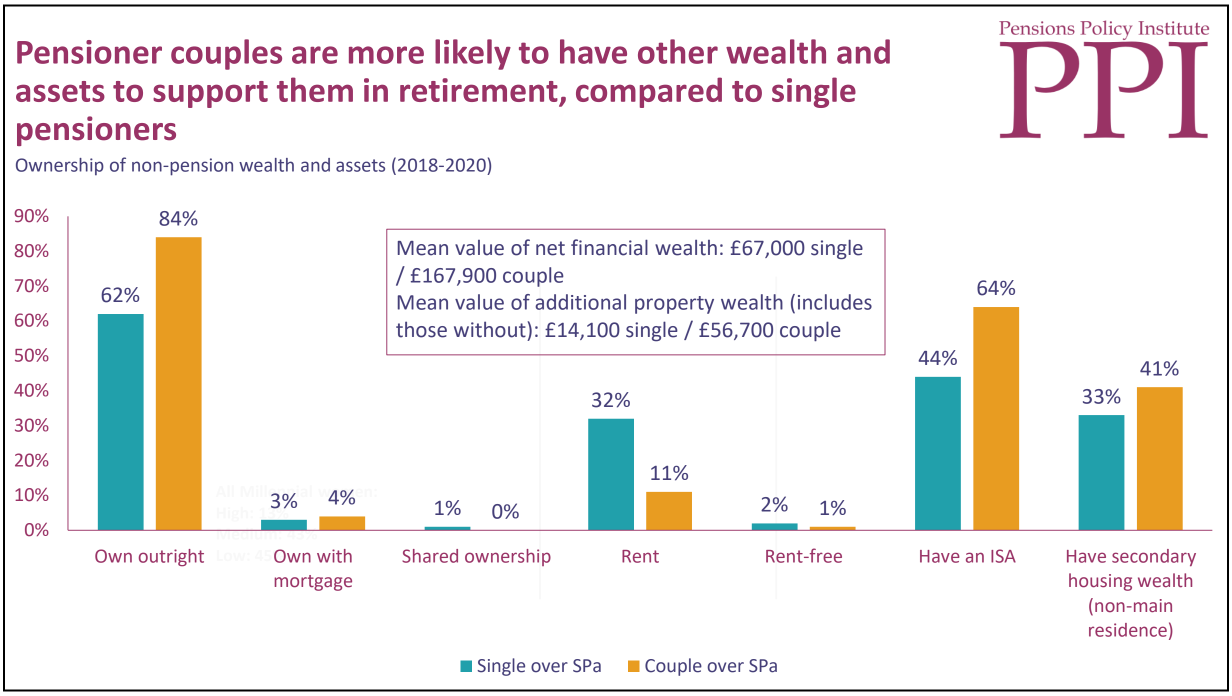
Figure 10.1[43]



In 2021/22 earnings from employment made up an average 13% of pensioners' gross weekly income. This element is primarily present in the incomes of those in the years immediately following State Pension age who remain in full- or part-time employment. However, it is important to note that for most people, earnings from employment are unlikely to be a sustainable source of income over the course of retirement as they reach older ages and experience health declines. People who rely on income from employment to supplement their State Pension in the early years of retirement will experience a decline in living standards when they retire from paid employment if they do not have alternative sources of income and savings to draw upon.

[43] Pensioners' Income Series 2001/02-2021/22

Figure 10.2[44]



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[44] PPI analysis of Wealth and Assets Survey, Round 7

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Conclusions

The UK pension landscape has undergone significant transformation in recent years, particularly due to the introduction of automatic enrolment, and the rise of DC schemes. While overall pension coverage has expanded dramatically, the shift from DB to DC presents new challenges.

Affordability of pension saving remains a key issue, particularly for lower-income households, where pension contributions can exacerbate financial pressures. Additionally, certain demographic groups face a heightened risk of being underpensioned, and experiencing poor financial outcomes in retirement. While average pensioner incomes have risen over the past two decades, largely due to the State Pension's triple lock and growing occupational pension incomes, this increase has not been evenly distributed. Relative pensioner poverty has worsened. At the same time, the composition of pensioner incomes has shifted, with a greater reliance on private pension provision and a relative decline in the share of income derived from benefits (including the state pension). Although this trend signifies growing independence from State support, it also highlights the widening income disparity among pensioners, underlining the need for targeted interventions to address rising poverty in this demographic.

Despite the complexity of retirement decisions and the growing need for financial guidance, engagement with pension planning, guidance, and advice remains low, raising concerns about how well individuals are preparing for retirement. Addressing these issues will be crucial to supporting retirees in navigating the financial challenges of later life.

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