LV= State of Retirement

2017

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Foreword

The past year has seen further evolution in the UK retirement market, with a number of significant developments. The Government's 2017 Review of Automatic Enrolment will be focusing on ways to help ensure that in future people have more savings with which to fund retirement, but the impact of the review will be long-term. In the meantime, there are some indications that the market place is changing.

Compared to the first year in which Defined Contribution (DC) pension flexibility was available we have seen fewer people taking lump sums, and more use of income drawdown products. Annuity sales, after an initial drop, have remained relatively constant. But perhaps worryingly the proportion of both annuities and drawdown products being sold without advice has been increasing. For some individuals – perhaps with access to other pensions or assets – this might not be too concerning. But we are unlikely to be able to tell if individuals are ultimately happy with the decisions they have made for many years.

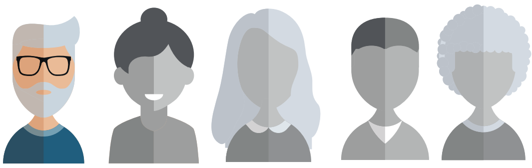
And we know that the future landscape will continue to evolve, as the income from Defined Benefit pensions dwindles, to be replaced by larger amounts of DC savings driven by automatic enrolment. Future generations will be faced with different mixes of assets and different retirement decisions.

One of the key focusses of the PPI's research this year has been consumer engagement, relevant for both how much people save, and then how they decide to access what they have saved. While it is important that there are strong defaults to help people avoid the worst outcomes, the research shows that there are ways in which it is possible to work with people to help them improve their own situations. One of the next challenges is to put this theory into practice.

Many of these issues, and others, are outlined in this new report from LV= which provides a useful contribution to the evidence base highlighting the challenges facing the UK's retirement income market today.

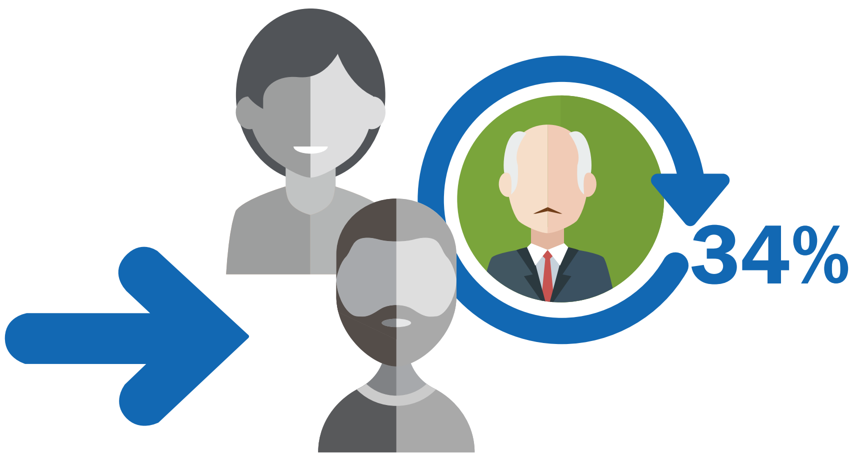
Chris Curry
Director of the Pensions Policy Institute (PPI)

Introduction



1 in 5 (18%)

UK adults would confidently say they're familiar with new pension reforms. This increases to just one third of those who have retired since the reforms came into effect.



The pensions landscape has undergone significant changes in recent years, with the introduction of the 2015 Freedom and Choice reforms affording consumers much more flexibility and the industry responding with new products and solutions. Giving consumers more control in retirement is a very positive step, but it has also introduced new complexities, which has left many confused by their options and at risk of making the wrong decision.

To ensure consumers are able to enjoy the retirement they wish for, it's vital they plan appropriately for the future and make the right choices at retirement. Yet, worryingly we're seeing signs this isn't happening as well as it should. In our tenth annual State of Retirement report, we explore what people want from retirement alongside some of the key issues that may prevent them from achieving this, such as:

- Poor consumer engagement and understanding;
- Consumers opting for the path of least resistance; and
- Low numbers taking advice.

We look at the reasons behind these issues, how people can be better supported to make the right decisions, and the positive future people can look forward to if we get it right.

The new pensions world undoubtedly offers consumers more options, and we found that many people are now looking forward to their retirement and seeing it as an exciting second chapter, yet knowledge of the reforms is still not high enough. Two years on from the changes being introduced, and three years since they were announced, our research has found only one in five (18%) UK adults would confidently say they're familiar with the new rules. This increases to just one third (34%) of those who have retired since the reforms came into effect.

This confusion is why it is vital people start planning for their future lives and thinking about their options even earlier than before. Early planning is likely to become even more important in future given the introduction of auto-enrolment. Auto-enrolment has been a huge success in getting more people to save into a pension, but being passively opted in by your employer means many struggle with the concept of making active decisions at the point of retirement, having never engaged with pensions before. We therefore support the Government's ongoing campaign to get more people to take an active approach to thinking about their retirement savings.

The benefits of taking professional, financial advice therefore cannot be overlooked, and yet we know that far too few people take advice at the point of retirement. Not only does advice ensure people are expertly matched to the right product, or products, to suit their needs and preferences, but it also minimises the risk of being scammed. With the latest figures reporting £43 million of retirement savings having been lost to fraudsters since April 2014, it's crucial this low take up of advice is addressed without delay.

There is widespread acknowledgement from Government, industry and regulators that more has to be done to ensure the reforms work for retirees. The Financial Conduct Authority's interim report of the Retirement Outcomes Review indicated that actions are required to reduce the risk of poor customer outcomes, and to build a policy and regulatory environment that enables consumers to have more confidence the system works for them. The recent announcement that the House of Commons Work and Pensions Select Committee will be conducting an inquiry into whether the freedoms are working as intended is welcomed in this debate. We will actively support these reviews as it's absolutely right that the impact of these reforms is regularly assessed. We believe that with advice, consumers will be better informed, have more appropriate solutions, and be better protected from the scams that infect our markets. We also truly believe that if someone if over the age of 45 and has not reviewed their pension benefits, they should do so now. Consumers need to realise that understanding their present position and future options is essential. There is a strong and highly professional financial adviser network in the UK, offering a range of services to suit the individual.

Since 2015, retirement has had a new meaning, with the pension freedoms allowing people to approach retirement with more flexibility. Consumers have the power to use their pension savings alongside other incomes, savings, and property to create a future life that fulfils their dreams.

LV= has repeatedly warned that without action to address the issues in this market, we are facing a 'mis-buying' scandal, where consumers are in the dark about their options and making decisions without being fully informed. We believe that unless more is done, and urgently, consumers will not be able to fully take advantage of the positive opportunities the reforms present.

Steve Lewis
Life Sales and Marketing Director at LV=

The Future of Retirement

What people are achieving

Perhaps unsurprisingly, many retirees are choosing to spend their newfound free time with loved ones – more than half (55%) are making the most of time with family and more than two in five (45%) with friends. However, they're also taking the opportunity to explore the activities they enjoy. Three in five (60%) say they feel stopping working has opened up new opportunities and half (52%) say they're using their time to pursue their hobbies, with nearly one in five (17%) saying they're learning new skills.

They're also enjoying well-earned holidays, with more than two in five (43%) visiting places they'd never been to before. While European destinations, Spain and Italy, are are popular choices (29% and 21%, respectively), many are choosing to explore more far-flung destinations with more than two in ten (22%) opting for a cruise, around one in seven (15%) enjoying the likes of the Caribbean and one in ten (11%) venturing as far afield as Australia.

Interestingly, while trips away are, on average, high on the agenda for most retirees, those who retired after pension freedoms came into effect are more conservative with spending on more everyday leisure activities. While around the same number of pre and post-April 2015 retirees expect their retirement income to cover holidays (65% and 63% respectively), those who retired after the new rules were introduced are less likely to expect it to cover dining out (56% versus 45%) and cinema or theatre trips (55% versus 45%).

Future generations' aspirations

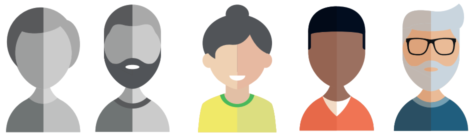
It looks like this trend towards using retirement to explore new opportunities and experiences is set to continue. Looking at future generations of retirees, more than two in five (42%) think retirement will be exciting and three in five (60%) say it will enable them to do more of what they enjoy. In fact, more than half (55%) of those still working say they do not see it as retirement, but as another phase in their life, with nearly half (47%) believing it will open up new opportunities for them.

Holidays still top the list of ways that those who are currently working would like to spend their retirement. The younger the respondents currently are, the further they dream of travelling when they're of retirement age. A quarter (25%) of 18-24 year olds see themselves heading to New Zealand and a similar number (26%) are keen to use their retirement to visit Asia.

In addition to this, they're also keen to move abroad - only half (48%) see themselves staying in the UK once they're drawing a pension with a third (33%) of those wanting to leave attributing it to the opportunity to experience life in another country.

Despite the appetite to travel, the 45-54 year old group are least likely to plan to go on holiday with a third (33%) saying this doesn't feature in their vision of retirement. It may be that this is because they are the group who are feeling the financial pinch the most – they are least likely to feel confident about their retirement finances, with only just over one third (37%) believing they'll be able to manage financially.

"Holidays still top the list of ways that those who are currently still working would like to spend their retirement."



3 in 5 (60%)

say they feel stopping working has opened up new opportunities

Half (52%)

of retirees say they're using their time to pursue their hobbies

Over half (55%)

of people do not see it as retirement but as ***'another phase of life'***

Preparing for the next chapter

The pension freedoms certainly seem to have changed how people view retirement, and we're also seeing that the transition between work and retirement is blurring for many. UK adults either work, or plan to work, during retirement for an average of around four years after retirement age. Of those who are not currently retired, a fifth (20%) do not plan on retiring at all, and nearly half (46%) are happy to keep on working past the traditional retirement age.

However, one in ten (10%) say they expect to continue working for more than 10 years after retirement, with this doubling to one in five (19%) for those currently between 35 and 44 years old. More than three in five (62%) of this age group don't know the amount that's currently in their pension pot and of those who do, two thirds (66%) believe it to be £50,000 or less.

Given that this age group estimates it will need a monthly income of £1,454 to live comfortably in retirement, £50,000 of savings would currently only last just under three years. While there is clearly an appetite to work flexibly into retirement, these figures suggest it may be more of a necessity for some, rather than a choice.

Following the new pension freedoms, people are approaching this stage of life in a very different way and this opens up many more opportunities. However, with this new flexibility, it is more important than ever that people understand their options and how to fully prepare to make the most of this new chapter. This is why financial advice is more important than ever before.

Average pot size
£71,342

66% of 35-44 year olds
Have **less than**
£50,000

62% of 35-44 year olds
Don't know how much they have saved for retirement

14% of 35-44 year olds
Have **nothing** saved at all

Where are we now?

In light of this shift in perceptions, and future aspirations for retirement, we wanted to understand how the freedoms have impacted both those who are taking benefits now and, perhaps more importantly, those who are looking to stop working now. In particular, we wanted to see whether there has been a change in behaviour, whether people are planning ahead, and whether they are taking advice and shopping around.

Low consumer engagement

In the years before an individual takes benefits they can really make a difference to their retirement savings, especially as their salary is likely to be higher, and there is an opportunity to consolidate their pensions into one place, with lower management charges. With the vast range of options available to people now, this is also the ideal time for people to start thinking about what kind of retirement they may want and ensure their pension pot – or pots – are going to be able to provide for them. We believe age 45 is the time to take action as it can make a big difference and consumers need to realise that it is not too late.

Yet, worryingly, our research revealed that those aged 45-54 spend significantly more time thinking short-term such as planning a holiday, or painting a room in the house than planning their retirement, which could indicate they have a poor understanding of their financial situation and fall short of what they want to live off.

Half (50%) of respondents we surveyed aged 45-54 admitted they didn't think about retirement at all last year. Those who did, spent on average three hours and 42 minutes planning their retirement, significantly less than the average time they spent researching their last holiday (five hours 42 minutes) or planning before redecorating a room in the house (five hours six minutes).

Given the complexities of the new pension freedoms, coupled with the fact those approaching retirement age aren't spending enough time exploring their options, it's perhaps unsurprising that our research revealed a lack of knowledge about their pension situation. Six in ten (62%) 45-54 year olds don't know how much they have saved for retirement. If someone is over the age of 45 and does not understand their pension benefits, then we think they should see an adviser now.

Our research showed 45-54 year olds expect to need around £1,360 a month to live comfortably in retirement. In order to guarantee this, someone retiring at 55 would need to have around £311,000 saved (assuming they also qualify for the full state pension). However, only 6% of 45-54 year olds we surveyed had more than £200,000 in their pension pot, with the average pension pot actually far lower and one in seven (13%) not having anything at all.

Half (50%)

of people aged 45-54 didn't think about retirement at all last year

Average time spent researching retirement

3 hours 42 mins vs 5 hours 42 mins

researching their last holiday

Six in ten (62%)

45-54 year olds don't know how much they have saved for retirement

> Ten years away from retiring is really the last opportunity people have to make any significant changes to their savings that could allow them to live a more comfortable retirement. So it's extremely worrying people spend longer thinking about a holiday, which might last one or two weeks, than retirement, which might last thirty or more years.
>
> "We urge anyone approaching retirement to check their pension pots annually, and consider using a professional financial adviser to help them make a plan. From 2019, the Pensions Dashboard will be crucial in helping people better understand their financial situation by allowing people to view all their pensions in one place, but this will still require consumers to actively decide to log on to the system.

John Perks, Managing Director of Life and Pensions at LV

Taking the path of least resistance

At LV=, we believe that taking professional financial advice at retirement is the best way to ensure that consumers are able to get the most from pension savings, and have a safe and secure retirement. Taking advice means consumers are able to make informed and active decisions, and are encouraged to shop around. Yet our research has found that is not the case, with too few taking financial advice and many simply planning to take the path of least resistance and stick with their existing provider.

Seven in ten (68%) people not yet retired say they plan to stick with their current pension provider when they do retire, with the top reasons being trusting their existing provider (30%) and not feeling confident enough they could make the decision to switch (20%).

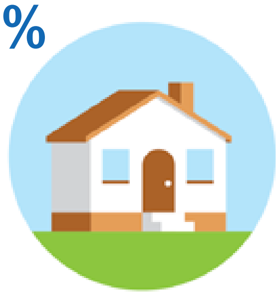
This is particularly worrying as people increasingly expect their retirement income to cover more than just the essentials and therefore their pension savings need to stretch even further. Nearly six in ten (57%)of those planning to retire in the next five years want their retirement income to cover home maintenance costs, over half (53%) want it to cover holidays, and a quarter (24%) say they'd like to leave money behind as inheritance.

We commissioned the Pensions Policy Institute (PPI) to explore the issue of people not shopping around further and understand what people are missing out on. The PPI research showed that, in 2016, there were around 30,000 people who took out an annuity with their existing provider and missed out on additional income by not reviewing their options. In total, they lost out on an additional £130 million, which equates to an average £4,000 each over the course of their retirement.

Until shopping around becomes the 'new norm' for people at retirement, they are less likely to get a good deal and improve their retirement income. Indeed, the Financial Conduct Authority's interim report into its Retirement Outcomes Review highlighted consumers accepting drawdown from their current pension provider without shopping around as one of their key emerging issues.

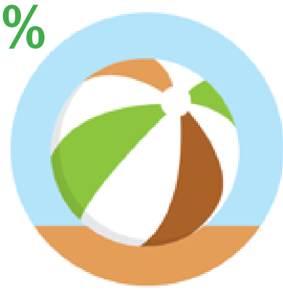
Of those planning to retire in the next 5 years...

57%



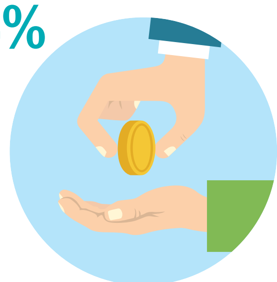
want their retirement income to cover home maintenance

53%

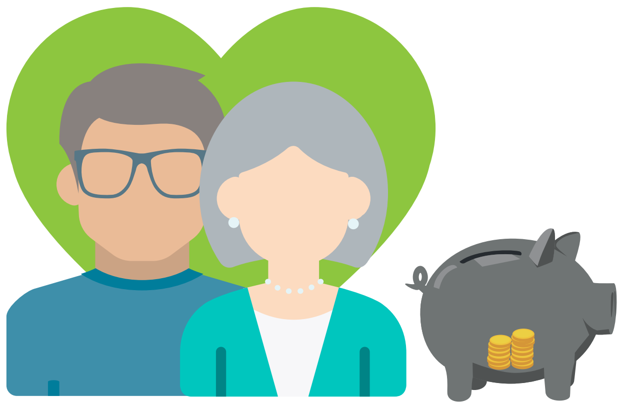


want their retirement income to cover holidays

24%



want to leave their retirement income behind as inheritance



The role of financial advice

Taking professional financial advice is the best way for someone to ensure their retirement savings meet all their needs throughout retirement, as advisers will search the market for the best deal and advise on the best product, or products, to suit a client. Yet, the numbers of consumers taking professional financial advice are low, with only 25% of those who have already retired having taken financial advice to help them with their decision, and eight in ten (78%) over 55s having no plans to see a financial adviser about preparing for this stage in their life.

The main reasons over 55s say they don't want to take advice are: wanting to decide based on their own research (32%) or thinking they don't have enough saved to make it worthwhile (24%).

However one in ten (10%) also say they don't trust advisers and a similar percentage (9%) say it is too expensive.

People who have retired and did spend time with an adviser to plan their retirement found this a positive experience: three quarters (75%) think it helped them to get more from their money (rising to 79% for those who retired during or after the announcement of pension freedoms in April 2015). In addition to this, 86% believe they made the right choice about what they did with their money. Tellingly, one in five (19%) who didn't take financial advice confess even though they don't regret that decision now, they worry they may in the future.

Eight in ten (78%)

over 55s have no plans to see a financial adviser about retirement

Three-quarters (75%)

say financial advice helped them get more for their money

Nine in ten (86%)

of those who took advice feel confident they made the right choice about what to do with their money

Retirement case studies

Colin, 76, East Sussex

Colin is 76 and lives with his wife in East Sussex. Colin retired in 1997, having been made redundant following a merger between his employer and another.

Colin spent four years volunteering in various capacities before retiring completely in 2001. He now spends retirement seeing his grandchildren, playing golf, fishing, as well as travelling.

He admits his generation were fortunate to be able to rely on DB pension schemes and knows that future generations won't enjoy the same benefits he has enjoyed.

Colin's advice to future generations is to make sure they start planning for retirement early to make sure they can afford a comfortable lifestyle. He acknowledges that the pensions landscape is very complex and people should speak to a financial adviser to ensure they get the most from their savings.

"If you have a job you enjoy you don't want to leave it, but retirement comes to everyone eventually. I was only 56 when I retired and I felt that I had so much more to offer. I continued working out of choice and was lucky that I was in a position that I could give back by offering my time and expertise for free."

Christine, 69, Essex

Christine is 69 years old and lives with her husband in Essex. Christine retired in March this year after deferring her state pension for nine years, which has given her a reasonable lump sum to enjoy in retirement.

With minimal pension savings - just a small DC pension set up since auto-enrolment was rolled out at her company, and a slightly larger NHS pension - Christine had no choice but to continue working past state pension age. While she enjoyed working and was in good enough health to continue, she would have liked to have more money put aside as she was reliant on the state pension lump sum to allow her to enjoy her first few years of retirement to the fullest, such as going on holidays and redecorating her kitchen.

Her husband is still working and his income is necessary at the moment to cover day to day living costs as her pensions will not last long if she uses her savings for everyday expenditure. She admits that she didn't start planning for retirement, or review her pension savings, early enough to allow her to make a difference.

Christine says she didn't have enough money put aside to make it worthwhile speaking to a financial adviser about retirement, but she did speak to The Pensions Advisory Service (TPAS). She only heard about TPAS through her daughter who works within pensions and says she wouldn't have known where to start looking on her own. She found the free guidance extremely helpful and would recommend this as a starting point for anyone not sure what to do about their retirement options.

"I am enjoying my retirement so far – although I certainly wouldn't call it 'retiring' as I think that has quite negative connotations. I've got more free time to do the things I enjoy, like swimming, and I've also started doing pilates classes – something I'd never tried before. I am planning to volunteer and may even go back into part-time work next year, partly because of my financial situation but also because I know I still have a lot to give. I'd definitely recommend people think about retirement earlier than I did if they don't think they will want to, or be able to, keep working past state retirement age."

Graham, 53, Darlington

Graham is 53 and works as a director of an engineering company. He is eligible for his state pension when he reaches 67.

He hasn't made much in the way of retirement plans, and expects that he will carry on working past 67. He said that currently he thinks this is out of choice.

"It will be too big of a shock to go from working all of my life to suddenly not working. I think I would be lost."

However, because Graham doesn't have any substantial retirement plans, he expects that as he reaches retirement age continuing to work will become a necessity. Graham plans to slowly decrease the amount of hours he works, rather than stopping work altogether.

Graham has never sought professional financial advice for his retirement, but thinks perhaps he should soon. He doesn't have a specific retirement investments or a private pension, so occasionally does worry about whether he will be able to continue his lifestyle after he retires. As well as continuing to work part time, he would like to use his retirement to travel, and take up writing more seriously; he is currently attempting to write novel.

Harish, 61, Milton Keynes

Harish lives with his wife in Milton Keynes. He retired 2 years ago in 2015, having been made redundant due a knee replacement operation earlier that year, which meant he could not work as his job involves working in the car garage and constantly on his knees and feet. He was made medically retired by his company.

"After working for so many years, I had been looking forward to retiring and actually enjoying to what life had to offer."

He spends his retirement living in Goa with his wife when it's winter time in the UK. Harish has a flat in a town called Punjim in Goa and ventures out with wife and friends visiting historic churches, beaches and attending festivals such as holi, Diwali and Christmas. He is part of the Hindu Association committee in Milton Keynes and they held a lot of fundraising events to raise money for charities. He is a very active man as he used to be a mechanic so sometimes people ask him to fix their cars privately now.

Harish didn't seek financial advice, and sorted everything out himself. He did however receive advice from family members and close friends as they are retired too. He thinks that it's going to be difficult to the future generations as they won't have the same benefits that he had.

"My advice to the youngsters is to start planning for their retirement as early as possible as they can live comfortably without having any stress. I would also advise them to speak to a financial adviser as they can offer them a plan on how to get the most from their life savings."

Conclusion

It's positive to see how people are making the most of their retirement savings, and how the new opportunities presented by the pension freedoms are changing the way future generations see retirement. This optimism, combined with the new products that pension providers have developed in recent years, can truly make retirement an exciting next phase in peoples' lives, leaving them confident their income can be adapted to meet their changing needs throughout retirement.

However, despite this positive sentiment, our research has also clearly shown that there are issues in the market which need to be addressed if consumers are going to be able to truly realise the benefits of the Freedom and Choice reforms.

In the first instance, it's absolutely vital that more is done to get people more engaged with pensions, and at an earlier point, but even more important is that consumers are encouraged to access high quality, professional advice to help them make the right decision for them.

It's vital that consumers over the age of 45 who haven't sorted out their pension speak to an adviser who will be able to help them consider their options. This is equally important for those aged over 55, looking to take money out of their retirement savings and for anyone looking to stop work and live on their savings. The message is clear; consumers must take the time to plan properly and take advice before choosing their retirement products.

The Financial Advice Market Review (FAMR) has already made a number of recommendations to address this issue which are gradually being implemented, however we cannot be complacent and think that these reforms will be a silver bullet. It's crucial that as an industry we work together with the Government and regulators to continue to explore how we can make advice affordable and accessible to everyone and restore public confidence in pensions.

We believe there are several areas for action here that would help make the new pensions market work better for everyone and ensure consumers are able to have a safe and secure income throughout retirement. If action is taken now, we believe we can avoid the looming 'mis-buying' crisis LV= has warned of and ensure that everyone can live confidently in this second phase of their life.

Tools available for advisers

Blended retirement solutions allow consumers to access a mix of products to suit them throughout their retirement, and there are tools to help advisers offer this.

Pathfinder - digital modelling for clients

LV='s Retirement Pathfinder is a free and impartial retirement modelling tool which enables advisers to create, view and analyse different blended retirement solutions for their clients.

The tool provides advisers with a snapshot of their client's retirement future along with clear scenario comparisons of each solution, including advantages and disadvantages that enables advisers to create tailored solutions to best suit their clients.

Areas for action:

1. **Improved access to and take up of advice:** The 2019 review of FAMR is going to be an important test of this review's effectiveness but the reality is that the numbers taking advice are still worryingly low with many approaching retirement not planning to take advice. It's vital the Government and regulator recognise this throughout the FAMR implementation period. We also believe the new Single Financial Guidance Body should play a key role in directing people to advice who would benefit from it.

2. **Development of a long-term savings strategy for consumers:** We want the Government to explore ways to promote a long-term savings culture in the UK to ensure that people are putting money aside to leave them secure during both their working lives and retirement. The Pensions Dashboard should be considered as part of this as it gives people a better overview of their pension savings. It could therefore encourage people to save more if they are not on track for a comfortable retirement that would allow them to do what they want to do.

3. **Make guidance a default option:** Those who don't have enough money saved to feel that paying for advice would be worthwhile, or choose not to take advice for other reasons, still need supporting. We believe impartial Government backed guidance should be the default option for anyone who chooses not to pay for advice.

4. **Improve trust in the pensions industry:** We know there is a lack of trust in the pensions industry and believe the constant tinkering to pensions and savings rules from Government has left consumers feeling uncertain about their options and the security of their money. Government, regulators and industry need to provide strong assurances about the stability of pension savings and the value they represent to counteract this.

For more information visit:

LV.com/stateofretirement

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