

HOW TO ESTIMATE LIKELY RETIREMENT LIVING STANDARDS

This document provides some indications of how pot size or contributions can provide a rough guide to likely living standard.

EXPLAINER

- ▶ The RLS figures show what retirement might cost at three levels: minimum, moderate and comfortable.
- ▶ Our modelling tells us that at current contribution levels¹ and assuming an annuity is purchased at retirement:
 - ▶ About three quarters of employees are likely to achieve at least the minimum Standard.
 - ▶ Around half of employees are projected to have an income between minimum and moderate.
 - ▶ About one in six employees are projected to have an income between moderate and comfortable.
- ▶ The full State Pension topped up by automatic enrolment contributions over a lifetime will make the minimum achievable for most people.

WHAT DO THE STANDARDS MEAN FOR ME?

- ▶ The Retirement Living Standards give you an expenditure figure – what the basket of goods at each of the three levels will cost. You might want to do some personal financial planning to work out what you want and what you might be able to save towards.
- ▶ Remember, the costs can be funded through a variety of means – pensions and other types of income. People may have incomes from DB pensions, DC savings, other types of savings, equity release or part time work.
- ▶ The Standards are part of a three-step journey:
 - ▶ Awareness,
 - ▶ Understanding,
 - ▶ Action.
- ▶ Awareness: The standards provide a rule of thumb approach to increase *awareness* about retirement lifestyles and costs in a simple way.

¹ This assumes that people continue saving at their current levels and that the Government implements its policy of removing the lower earnings limit to the band of earnings used for automatic enrolment. The PLSA worked with Hymans Robertson using their Guided Outcomes methodology to undertake the modelling for this work.

- ▶ **Understanding:** The examples provided on the website seek to develop further *understanding* about what this might mean for people of different ages and who earn different types of salaries.
- ▶ **Action:** For the third step – *action* in developing an individualised target – people will need to make some decisions.

WHAT ACTION CAN I TAKE?

- ▶ There are various tools, guidance bodies, advisers and providers and schemes may be able to help you with more detailed planning.
- ▶ You will want to think about whether you want to change the basket of goods to tailor them to personal choices, and think about other costs you might need to take account of – such as mortgages, rent, social care and tax – and what other income you might have.
- ▶ PLSA are working with organisations who have direct contact with consumers and who also have the expertise to work with individuals to develop personal targets and plan with them.

HOW DO I KNOW IF I AM ON TRACK?

- ▶ As a pension saver you can look at a few things to see what you might be on track for from your pension savings. A key piece of information is your annual benefit statement. If you have DB pension savings your statement will tell you directly about your income. If you are in a DC scheme, then you will have a forecast from your scheme.
- ▶ We have also provided some figures below to show you:
 - ▶ What sort of income level you need, after paying tax on your income, and after receiving State Pension income to achieve each of the Retirement Living Standards.
 - ▶ What sort of level of overall savings, or pot size, you need in a DC pension to generate an annuity income to meet the costs of the standards (if you are not using any other income apart from your DC pension and your State Pension).
 - ▶ We have provided these income and pot size figures for singles and also couples.
- ▶ These are just high-level indications to give you a flavour of the type of figures involved – and do not take account of other income you may have, or other ways you might want to use your pension pot.
- ▶ Looking at it from another angle – for those in a DC scheme – you could think about how much you are saving. For example, someone on a median salary of £29,574 and saving at 8% (total contributions from employer an employee and tax relief – the current AE minimum contribution) will be above minimum but may not reach moderate. A median earner with a full

work history is likely to achieve a £55,900 pot size at retirement age.² Increasing contributions to 12% would take them some way to midpoint between minimum and moderate.

TABLE 1: FUND SIZE REQUIRED TO REACH DIFFERENT RLS STANDARDS

RETIREMENT LIVING STANDARD	ANNUAL EXPENDITURE	STATE PENSION	POT INCOME	TOTAL INCOME PRE TAX	TOTAL INCOME POST TAX	FUND SIZE REQUIRED* IF PURCHASING AN ANNUITY
Comfortable	£33,600	£9,339	£29,521	£38,860	£33,600	£590k
Moderate	£20,800	£9,339	£13,521	£22,860	£20,800	£270k
Minimum	£10,900	£9,339	£1,561	£10,900	£10,900	£31k
*For illustration only, figures based on an annuity of £5,000 per £100,000						

TABLE 2: FUND SIZE REQUIRED FOR A COUPLE

RETIREMENT LIVING STANDARD	COUPLE ANNUAL EXPENDITURE	STATE PENSION FOR BOTH	POT INCOME PER PERSON	INCOME PRE TAX PER PERSON	TOTAL INCOME POST TAX PER PERSON	FUND SIZE REQUIRED* PER PERSON IF PURCHASING AN ANNUITY
Comfortable	£49,700	£18,678	£18,581	£27,920	£24,850	£371k
Moderate	£30,600	£18,678	£6,644	£15,983	£15,300	£133k
Minimum	£16,700	£18,678	£0	£9,339	£9,339	£0
*For illustration only, figures based on an annuity of £5,000 per £100,000						

How to interpret the numbers

- ▶ The State Pension currently provides £9,339 per year for most people (2021). The DWP predicted that between 85% and 90% of people reaching State Pension age would receive the full ‘gross’ new State Pension amount.³
- ▶ The pot income and State Pension will make up a person’s total income pre-tax. There are both gross and net income estimates.
- ▶ Fund size required means the total amount of DC pension saving required to achieve a particular Standard. The fund size required will provide you with a pot income and the illustration is based on an annuity of £5,000 per £100,000 (i.e. a £200,000 pot will provide an annual pot income of £10,000).
- ▶ This will not factor in any other pension savings, lifetime savings or income that a person may have.

² DWP Automatic Enrolment Review 2017: Analytical Report

³ Note that this figure negates the effects of the contracting-out system. This statistic is taken from Impact of New State Pension (nSP) on an Individual’s Pension Entitlement – Longer Term Effects of nSP https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/491845/impact-of-new-state-pension-longer-term-reserach.pdf Page 16

- ▶ The standards do not include rent or mortgage costs