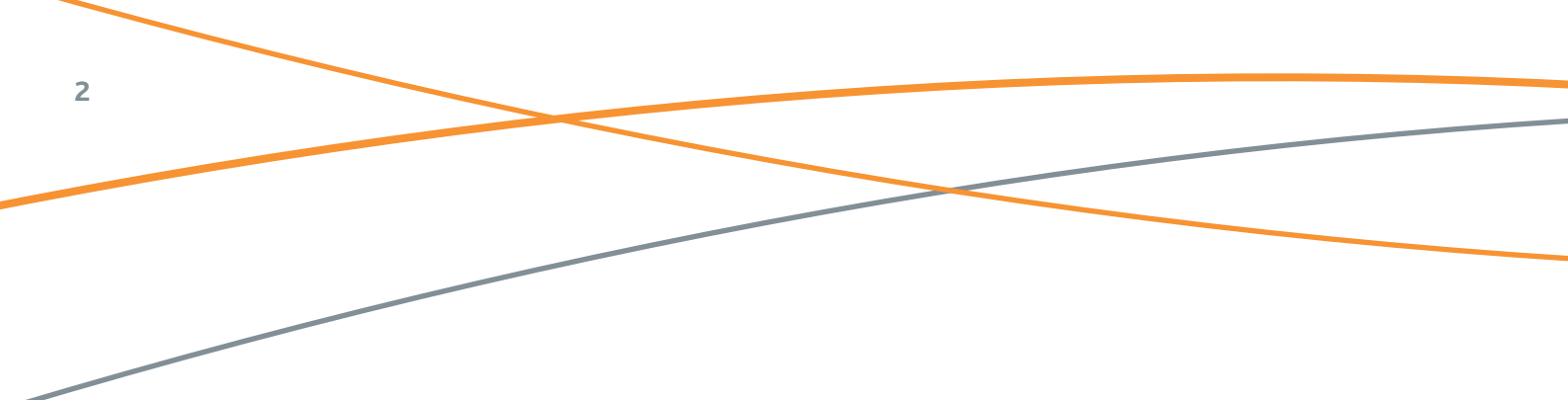




Retirement Realities: Tomorrow's worth saving for



“Regardless of later life income, we see how additional savings improve pensioners’ quality of life at all levels, no matter how incremental the increases in income.”

Contents

-
- 01 **Foreword**
page 4 »
-
- 02 **Background to this study**
page 6 »
-
- 03 **Key findings**
page 8 »
-
- 04 **Evidence of a financial tipping point**
page 13 »
-
- 05 **The importance of having more than the State Pension**
page 17 »
-
- 06 **Income and quality of life**
page 20 »
-
- 07 **Looking beyond income**
page 26 »
-
- 08 **Appendix**
page 29 »

Foreword

The findings in this report highlight the vital difference automatic enrolment will make for many people, who may otherwise have found themselves out of reach of a comfortable retirement. Regardless of later life income, we see how additional savings improve pensioners' quality of life at all levels, no matter how incremental the increases in income.

However our most striking finding is clear evidence of a tipping point at an annual household income of around £15,000. This seems to be the basic threshold for comfort and financial stability in retirement, based on what pensioners think and feel about their lives in retirement today regardless of how much they earned when they were working.

Across the vast majority of measures we investigated, from perceived life satisfaction to the affordability of everyday bills, people living on a household income of less than £15,000 are more likely to be struggling. Emotional and financial well-being rises steeply among pensioners with between £15,000 and £20,000, and then continues to improve more gradually from there.

This tipping point holds true regardless of household size. Although we found some evidence that living with another person may lead to a happier outlook on life, household size doesn't alter the £15,000 threshold on most measures of financial capability and emotional well-being.

Following this year's Budget, there are now even more options for people to ensure they have a decent standard of living when they retire. We are looking carefully at the implications for NEST members and will be consulting widely on how to help them get the best possible outcomes under the new rules. But regardless of how and when people choose to take their retirement income, our findings confirm that a workplace pension will give savers a solid foundation to build on.

For the average person likely to be automatically enrolled in NEST at the start of their savings career, the minimum payments they make throughout their working life, topped up by employer contributions, could go a long way. Their workplace pension could give them an income of around £6,700¹, taking them almost to £15,000 a year when a flat rate State Pension of £7,500 is taken into account.

With this helping hand from automatic enrolment, even greater flexibility when it comes to retirement, and the solid foundation of a triple-locked flat rate State Pension, the case for sticking with saving is now stronger than ever.



A stylized, handwritten signature in black ink, appearing to read 'Tim Jones'.

Tim Jones,
Chief executive officer, NEST

¹ This is calculated on the basis of a 22 year old earning £20,600, saving at the minimum automatic enrolment level, including employer contributions, throughout his working life and retiring at 68 (State Pension Age). £20,600 is the median salary of the section of the population most likely to be automatically enrolled in NEST.

Background to this study

Opinium Research conducted 2,028 online interviews with UK retirees aged 40 to 75, between 17 and 20 March 2014. The sample is comprised of 144 40-59 year olds, 1,321 60-69 year olds and 563 70-75 year olds.

Respondents were asked a series of questions on their household income level, pension, and overall life satisfaction.

Note on the demographic composition of the survey sample:

Approximately half of the sample is living in a one-person household and half live with one other person. Household income is used throughout when referring to income in this report. Our analysis of the data suggests that the results are largely consistent regardless of household size. Where the results are different for one or two-people households, we have explicitly mentioned this.

More information on the demographic profile of the respondents can be found in the Appendix.



Key findings

Financial well-being and quality of life in retirement increase in line with household income, although it begins to level out at around £40,000 a year.



Pensioners' overall sense of satisfaction with life increases by an average of 7 percentage points per £5,000.



The more pensioners receive in retirement income, the more likely they are to be enjoying some of the little extras in life, such as going out for a drink with friends, going shopping or treating themselves.

Figure 1: Pensioners who feel satisfied with their life, by household income

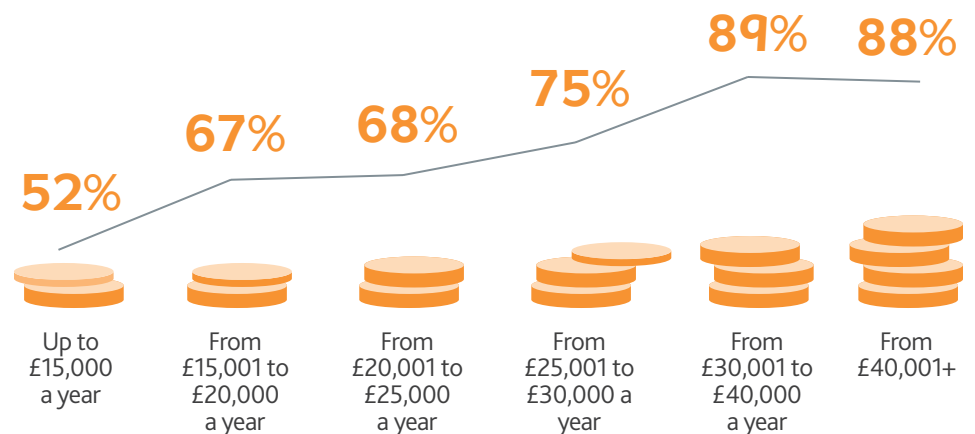


Figure 1

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

And having more than just the State Pension is important.

85%

of people who have additional income say it has made a difference to their quality of life and 56 per cent say this difference has been considerable.

50%

who have no additional income say understanding what it's like to be retired makes them wish they'd saved more.

However there seems to be an initial threshold for a greater sense of well-being at around £15,000-£20,000 a year.

Figure 2: Pensioners who feel comfortable financially

Almost twice as many people with an annual retirement income of £15,000-£20,000 a year describe their financial situation as comfortable.

43%



Pensioners living on household income of £15,000 to £20,000 a year who are comfortable

24%



Pensioners living on household income of less than £15,000 who are comfortable

2x

Those with an annual retirement income of £15-£20,000 are more than twice as likely as those with less to agree their income is enough to give them the retirement they were hoping for.

Figure 3: My annual household income is enough to give me the retirement I was hoping for

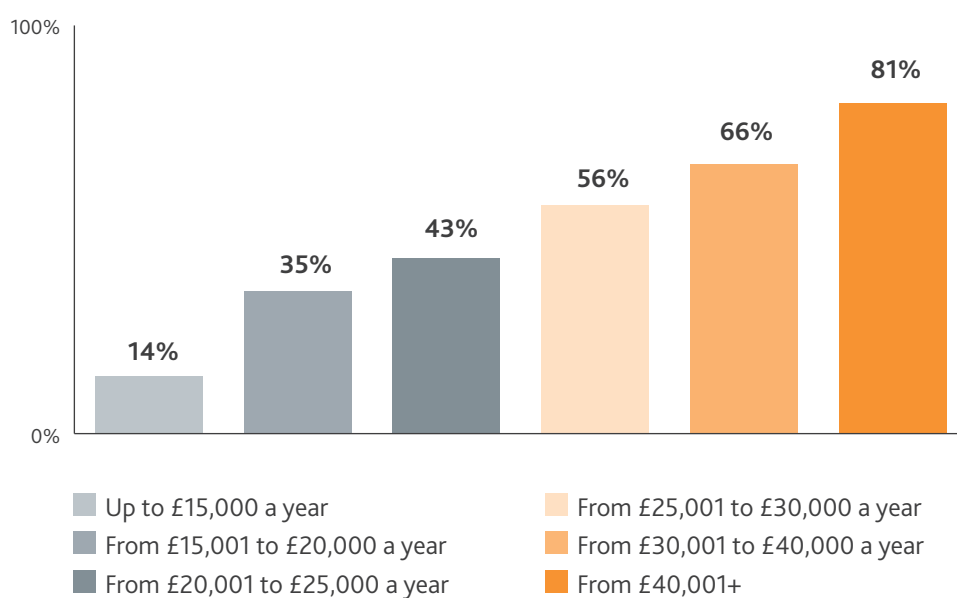


Figure 3

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

Having at least £15-£20,000 a year seems to make a significant difference to people's day to day standard of living.

2x

Pensioners living on less than £15,000 are twice as likely as those with £15-£20,000 a year to be struggling with day to day living costs.

33%

More than one in three pensioners living on £15,000 or less find it difficult or very difficult to afford their household energy bills, compared to 15 per cent living on £15-£20,000.

23%

of those with £15,000 or less a year find it difficult to afford groceries, compared to 9 per cent of those living on £15-£20,000.

50%

More than half of all pensioners with £15,000 or below would struggle to pay an unexpected bill of £200, compared to 34 per cent of those living on £15-£20,000.

Reaching an annual income of £15,000 seems to have a positive impact on people's emotional well-being and happiness.

33%

The amount of people feeling satisfied or happy with life falls by up to a third at income levels of less than £15,000 and the numbers of people feeling anxious rise by a quarter.

However, money isn't everything...

58%

of pensioners think the most important factor for their quality of life in retirement is staying healthy. The next most important factor is having more retirement income, cited by 38 per cent of pensioners.



The evidence shows that living with someone rather than living alone also leads to a greater sense of well-being and happiness.

“Pensioners with an annual household retirement income of £15,000-£20,000 a year are almost twice as likely as those with less to describe their financial situation as comfortable.”



Evidence of a financial tipping point

Our research suggests the level of household income required for a satisfactory level of comfort and stability in retirement is around £15,000 a year. This is apparent across nearly all indicators, with the number of pensioners reporting higher levels of satisfaction and well-being jumping significantly at the £15-£20,000 threshold.

It is true that levels of satisfaction continue to rise steeply in line with income and that a majority of people begin to feel more satisfied with life at around the £20-£30,000 household income level. However £15-£20,000 appears to be the lower threshold needed for significant numbers to begin feeling more positive about their situation in later life.

Pensioners with an annual household retirement income of £15-£20,000 a year are almost twice as likely as those with less to describe their financial situation as comfortable. While comfort levels continue to rise steadily in line with income this is the biggest step change between income bands, representing the first clear tipping point.

Figure 4: My financial situation is comfortable

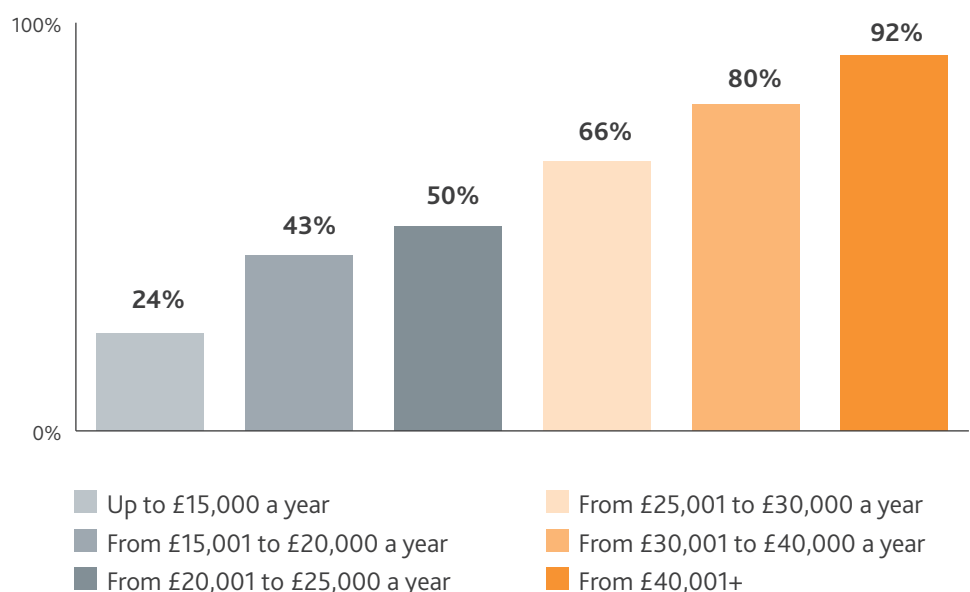


Figure 4

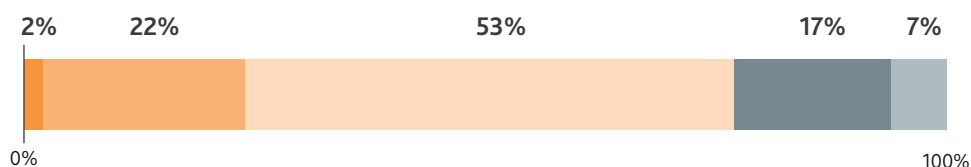
Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

At the opposite end of the scale, nearly a quarter of those with £15,000 or less say they are actually struggling financially. This rises to a third among those earning under £10,000. For retirees living on the State Pension alone, 21 per cent are struggling financially, compared to the sample average of 13 per cent.

Figure 5: What is the best way to describe your current financial situation?

All respondents on household income of £15,000 or less



All respondents on household income between £15,000 and £20,000



■ Very comfortable ■ Struggling
■ Comfortable ■ Really struggling
■ Coping

Figure 5

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

Looking at how pensioners view their retirement, those with an annual household income of £15-£20,000 are more than twice as likely as pensioners living on less to agree they're getting enough to give them the retirement they were hoping for. Again, this positive correlation continues all the way through the income scale, but £15,000 is the first significant tipping point we see.

Figure 6: To what extent do you agree that your annual household income is enough to give you the retirement you were hoping for? Percentage of respondents strongly agreeing/ agreeing

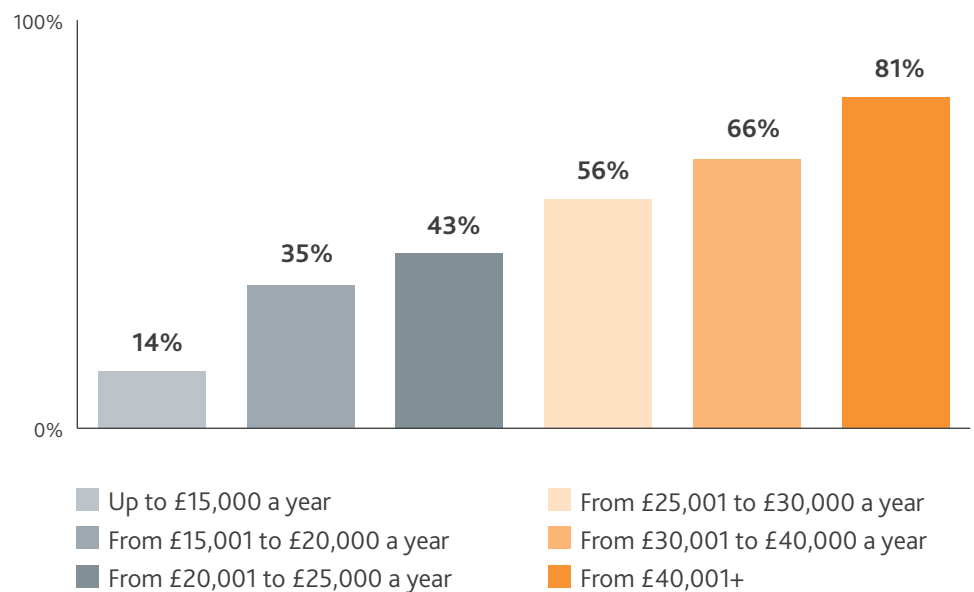


Figure 6

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

“Regardless of income, the vast majority of pensioners with more than the State Pension say the additional money has made a difference to their quality of life.”



The importance of having more than the State Pension

Having additional income over and above the State Pension seems to be an important factor in determining quality of life.

85% of pensioners who have a bit extra say it has made a difference to their quality of life. 56 per cent agree it has made a considerable difference.

Among those who do have more than the minimum, it's at the £15-£20,000 level where a majority say the additional money has made a considerable difference to their quality of life.

Figure 7: Having additional income over and above the State Pension has made a considerable difference to my quality of life

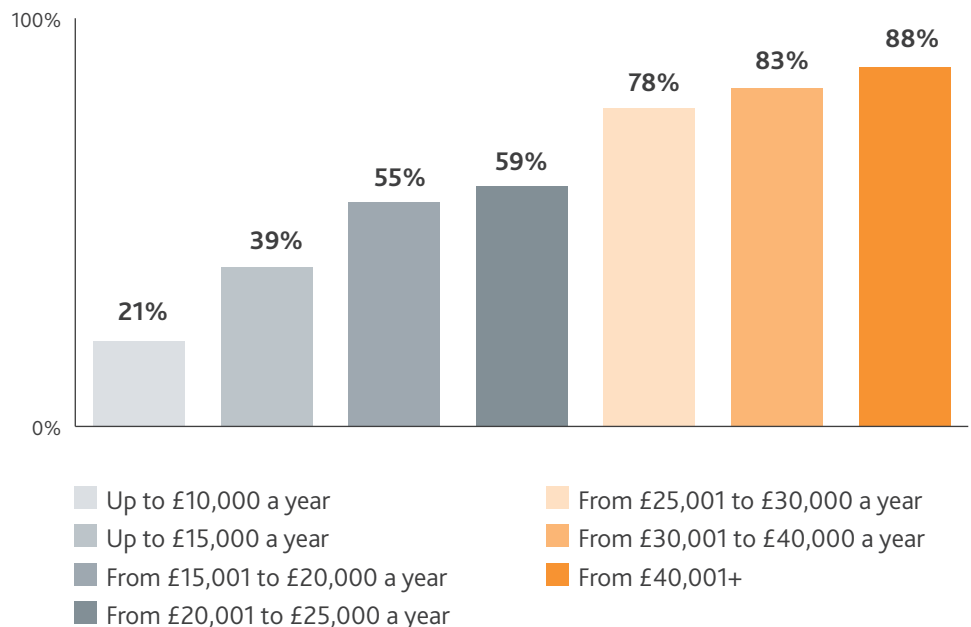


Figure 7

Base: 1,287 UK retirees aged 75 or under who have other income provisions other than the basic State Pension

Figure 8: Retirees with additional income vs. those on just State Pension

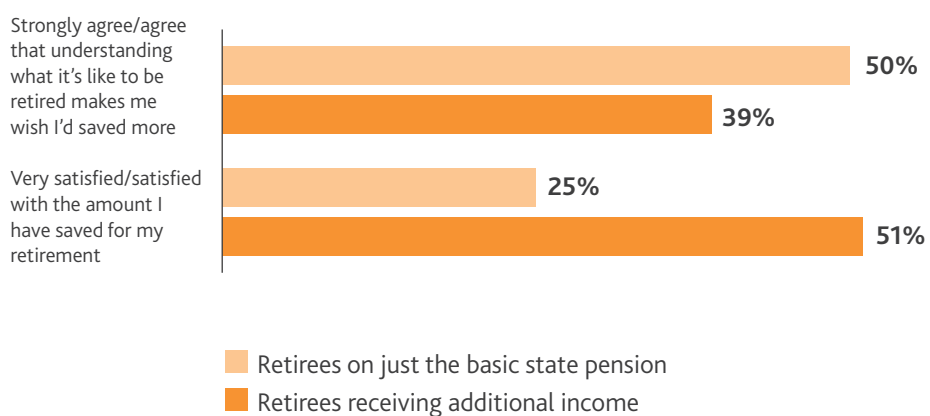
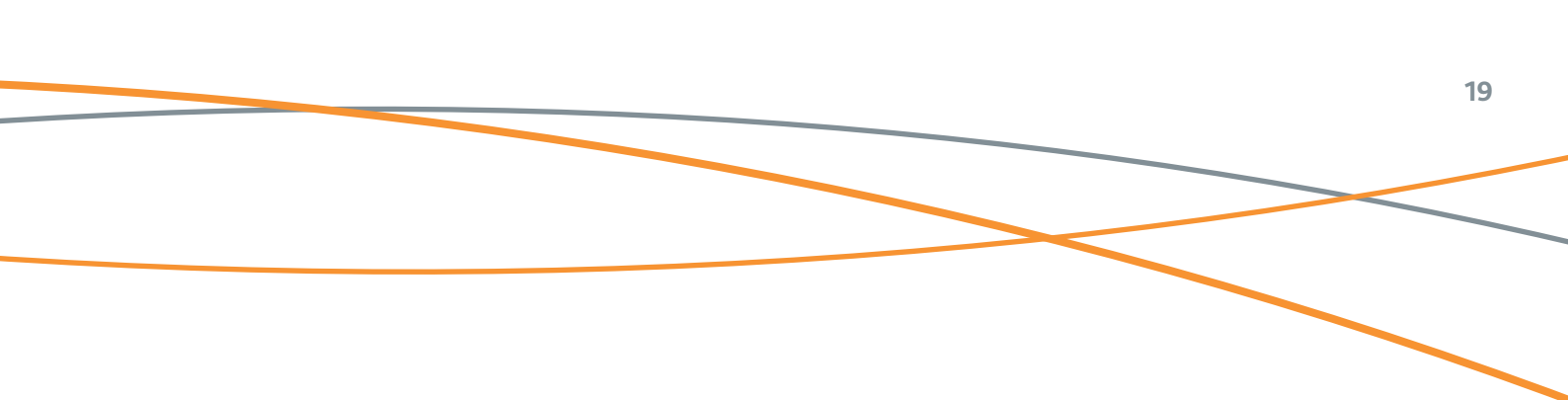


Figure 8

Base: 1287 retirees with additional income and 741 retirees with no income other than the basic State Pension

Source: Opinium 2014



Only a quarter of people who receive just the State Pension are satisfied with the amount they have. Whereas among pensioners who receive a bit more than the State Pension, 51 per cent are satisfied they have saved enough. One in two people with no savings say understanding what it's like to be retired makes them wish they'd saved more.

Women are less likely to be satisfied with their retirement income than men. 41 per cent of women disagree that their annual income is enough to give them the retirement they were hoping for, compared to 31 per cent of men.

While the income gap is still prevalent among the working population, this finding generally reflects a similarly significant disparity between men and women's income in retirement. 23 per cent of female retirees in our sample are living on £10,000 or less a year, which is nearly 10 percentage points above the sample average and more than twice the proportion of men.

There may be a number of factors at play but certainly women have traditionally had fewer opportunities to save independently, and many are often reliant on a partner's income. Indeed our results show that 47 per cent of women who live alone in retirement are dissatisfied with their retirement income compared to 33 per cent of men in the same position.

Income and quality of life

Retirees' household income has a definite effect on their overall standard of living and ability to cope with every day expenses.

33 per cent of pensioners living on a household income of £15,000 or less say they find it difficult or very difficult to afford their energy bills. Nearly a quarter of those with £15,000 or less a year find it difficult to afford groceries. And while a significant minority of those receiving £15-£20,000 also say they would struggle to pay an unexpected bill of £200, more than half of all pensioners receiving £15,000 or less a year are in this position.

Figure 9: Retirees below and above the £15k threshold

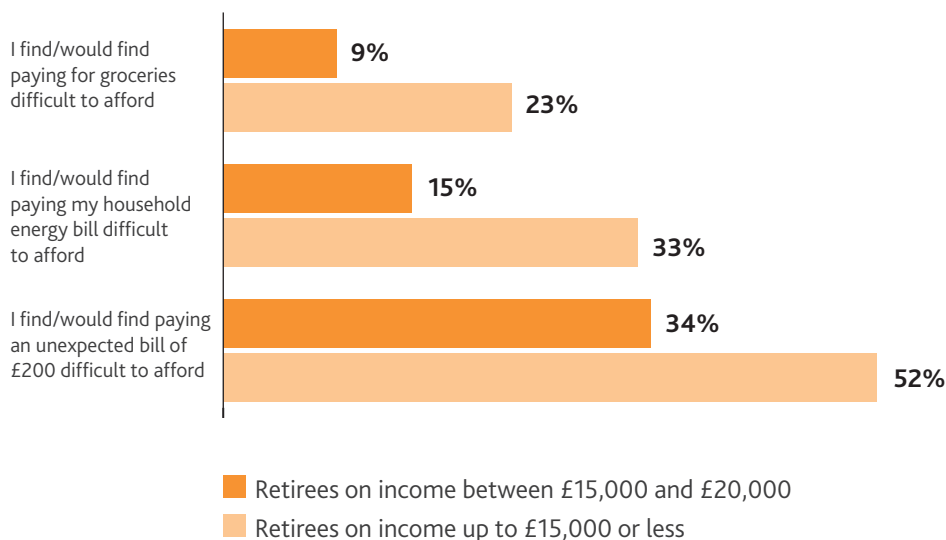


Figure 9

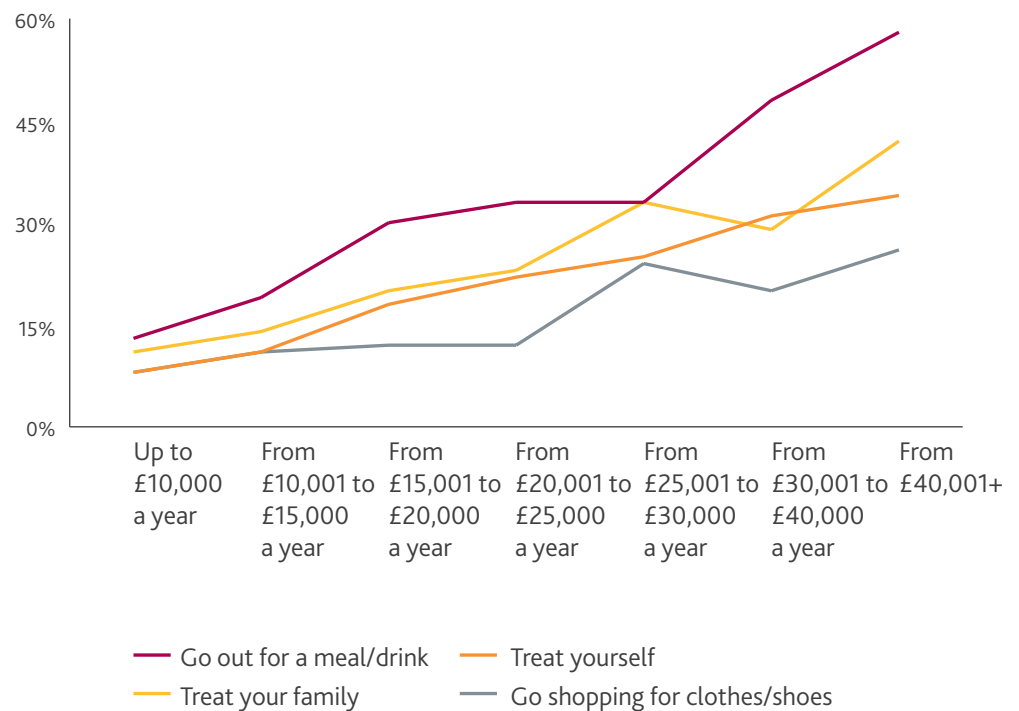
Base: 1,287 retirees with additional income and 741 retirees with no income other than the basic State Pension

Source: Opinium 2014

The likelihood that pensioners are enjoying some of the little extras in life, such as going out for a drink with friends, treating themselves or going shopping also increases in line with income.

Only 16 per cent of pensioners with an annual retirement income below £15,000 often go out for a meal or a drink. This proportion almost doubles to 30 per cent for those who are living on a retirement income of between £15,000 and £20,000.

Figure 10: I often do the following activities



There is evidence that reaching an annual income of £15,000 has a positive impact on people's emotional well-being and happiness as well. The findings over the following pages are based on questions asked in the Office for National Statistics' Well-being survey (see box on the following page), and therefore are not concerned with financial matters specifically but attempt to understand people's personal sense of well-being in the round. However we continue to see fairly clear correlations between these indicators and household income.

Figure 10

Base: 2,028 UK retirees aged 75 or under (Percentage of respondents by household income)

Source: Opinium 2014

About National Well-being^{ONS}

In 2010 the Office for National Statistics (ONS) launched a programme of work on measuring national well-being. The term 'well-being' is often taken to mean 'happiness'. Happiness is one aspect of the well-being of individuals and can be measured by asking them about their feelings – subjective well-being. As the ONS defines it, well-being includes both subjective and objective measures. It includes feelings of happiness and other aspects of subjective well-being, such as feeling that one's activities are worthwhile, or being satisfied with family relationships.

The exact questions NEST has asked to its sample of retirees are four questions taken directly from the ONS survey:

- Overall, how satisfied are you with your life nowadays?
Scale is 0 – 10 where 0 is 'not at all satisfied' and 10 is 'completely satisfied'.
- Overall, to what extent do you feel the things you do in your life are worthwhile?
Scale is 0 – 10 where 0 is 'not at all worthwhile' and 10 is 'completely worthwhile'.
- Overall, how happy did you feel yesterday?
Scale is 0 – 10 where 0 is 'not at all happy' and 10 is 'completely happy'.
- Overall, how anxious did you feel yesterday?
Scale is 0 – 10 where 0 is 'not at all anxious' and 10 is 'completely anxious'.

Higher levels of personal well-being in terms of life satisfaction, worth and happiness are defined as 7 or more out of 10. However, for anxiety 3 or less out of 10 is used because lower levels of anxiety indicate better personal well-being.

While NEST has used the ONS question wording it is important to note that the sample and methodology are different between the two studies and results should be compared with caution and used for illustrative purposes only.

The results suggest that overall levels of satisfaction amongst pensioners are fairly high, with 65 per cent of retirees claiming they are satisfied with their life. Looking at this by household income, we can see from figure 14 that although life satisfaction increases fairly steadily in line with income it is levelling off at around £40,000. Furthermore, reaching the £15,000 threshold is still a significant factor across the income scale.

Figure 11: I am satisfied with my life nowadays

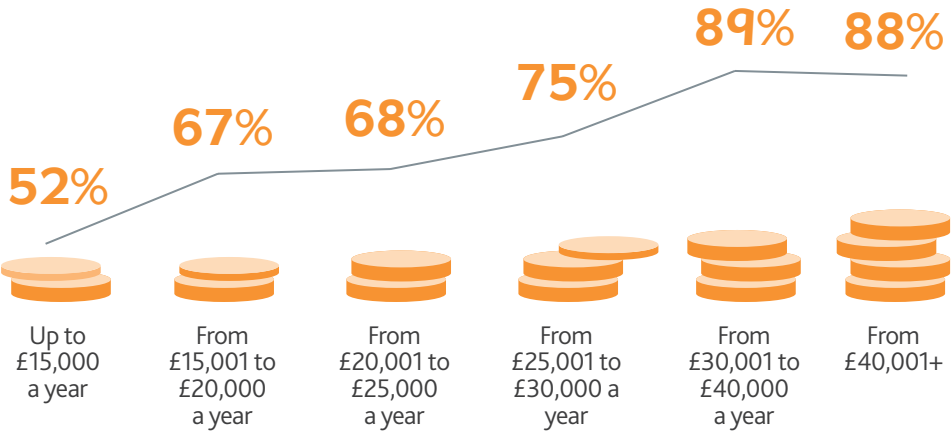


Figure 11
 Base: 2,028 UK retirees aged 75 or under; Percentage
 of respondents satisfied with life
 Source: Opinionium 2014

Anxiety, as with life satisfaction, could be driven by a number of factors unrelated to income. We can see, however, that overall anxiety levels do track income and the £15,000 threshold is again important. Pensioners' sense of anxiety decreases by 26 per cent amongst those on incomes below £15,000 to 12 per cent amongst the higher income bands.

Figure 12: Overall, how anxious did you feel yesterday?

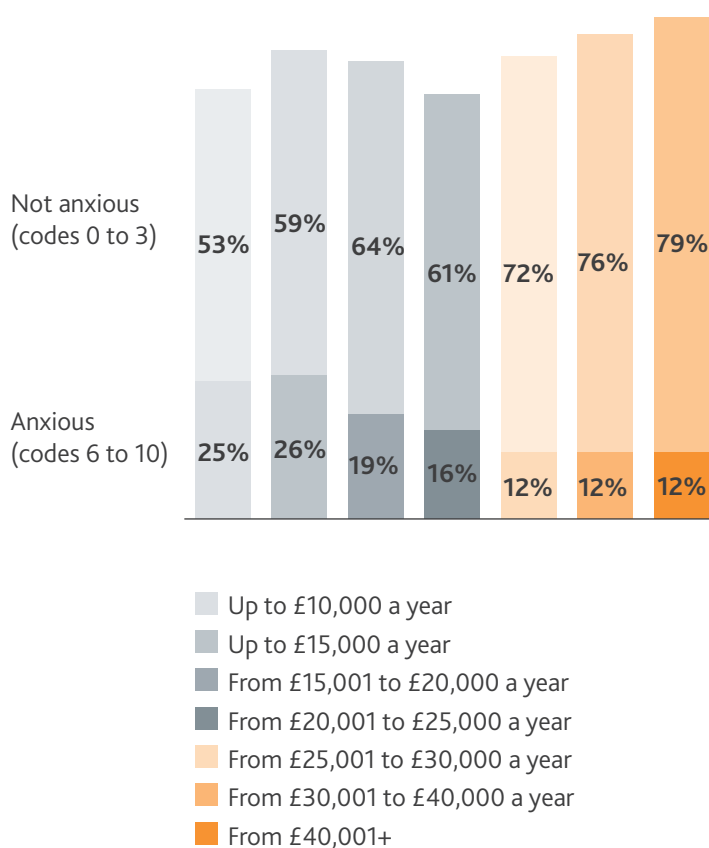


Figure 12

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

Note: Codes 4 and 5, which represent 'neither', have not been displayed.

Across all four indicators, the evidence suggests a correlation between income and an improved sense of well-being. All additional income over and above the State Pension, even at very low levels, seems to have a positive impact.

Figure 13: How household income affects our sense of well-being

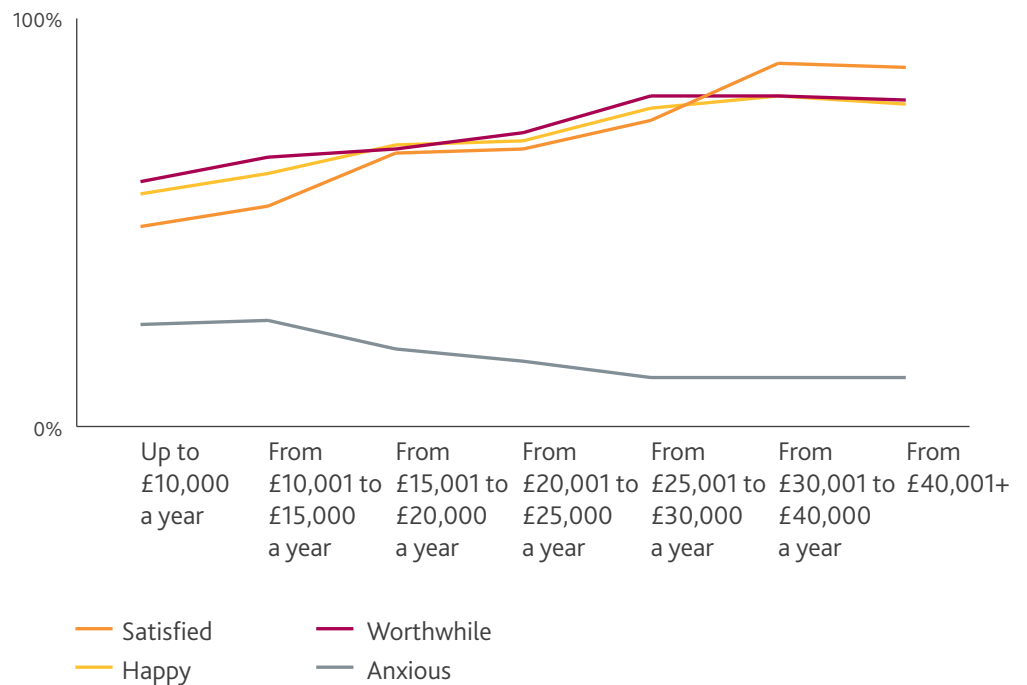


Figure 13

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

Looking beyond income

While we have demonstrated the impact additional income has on day to day living, perceived quality of life, and well-being in retirement, it is worth noting that money isn't everything.

There are clearly many factors that may contribute to how pensioners think about their lives today, with two particular examples that are evident in the research.

When asked what would most positively impact their quality of life, well over half of pensioners say staying healthy is most important to them, as figure 17 reveals. An increase in income comes high up the list in second place.

Figure 14: Which of the following would most positively impact on your quality of life in retirement?

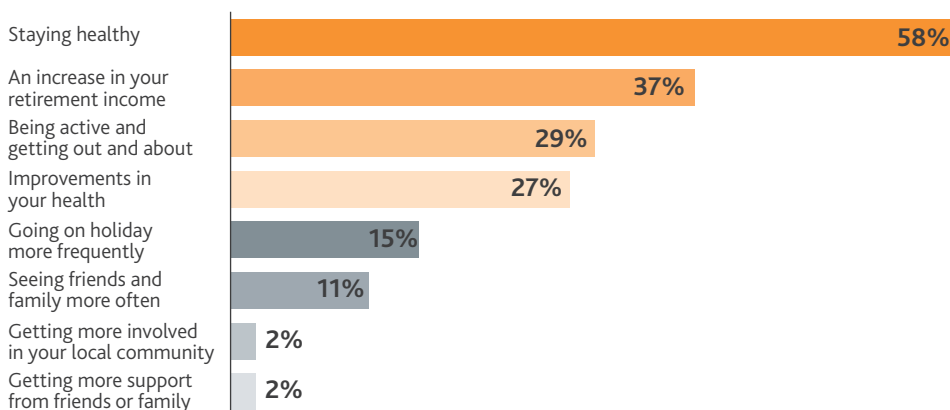


Figure 14

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

In addition, throughout this report we have looked at pensioners' outlook based on household income. We have found that the results are consistent with a tipping point at £15-£20,000, regardless of household size.

The implication is that when pensioners are living with at least one other person they manage to achieve the same levels of financial and emotional well-being on a lower overall income than pensioners who live alone.

Indeed, on a number of measures living with someone appears to have an even greater positive impact on pensioners' outlook on life, even holding income consistent. The below graphs reveal that more pensioners living with at least one other person are happy and content with their lives.

Figure 15: Overall satisfaction with life, by household income and the number of people in household



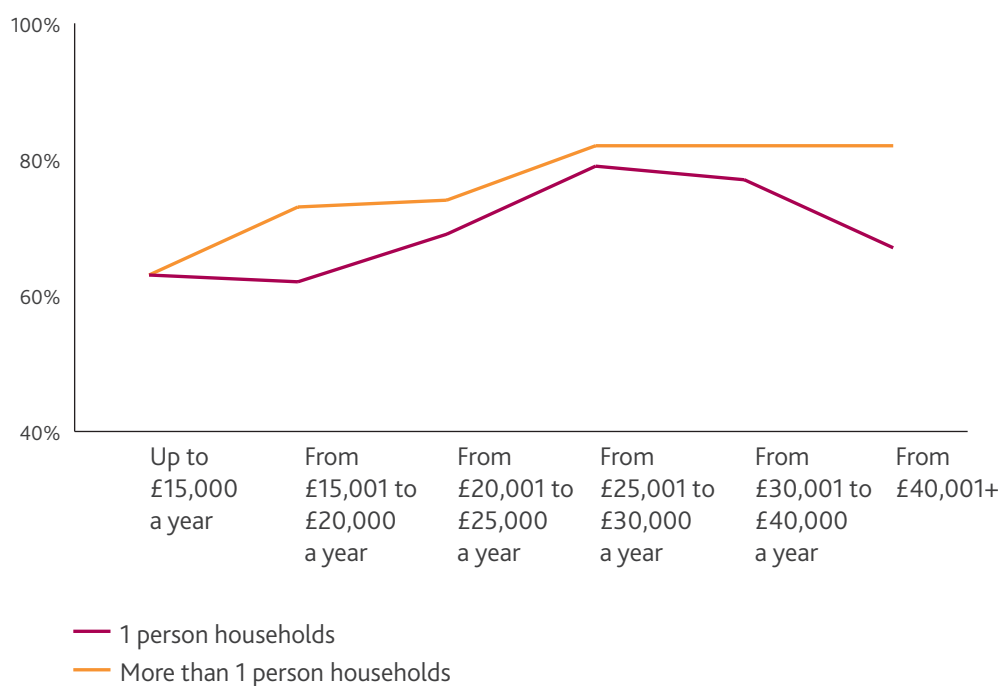
Figure 15

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

Note: Chart displays combined household income for household with more than 1 person; Overall satisfaction with life is defined as 7 or more out of 10 on a 10-point scale where 0 is 'not at all satisfied' and 10 is 'completely satisfied'

Figure 16: Overall feeling that the things they do in life are worthwhile, by income and the number of people in household



Appendix

Demographical profile of the participants

Opinium Research conducted 2,028 online interviews with UK retirees aged 75 or under between the 17th and 20th of March 2014. The survey asked respondents a series of questions on their income level, pension, and overall life satisfaction, and was carried out using Opinium's online panel of 30,000 UK adults aged 18+.

The age of the respondents to this survey ranges from a minimum of 40 years to a maximum of 75 years. The sample of 2,028 adults aged 40 to 75 years is comprised of 144 40-59 year olds, 1,321 60-69 year olds and 563 70-75 year olds.

Figure 17 breaks down the total sample by the number of people currently living in the household.

Figure 17: Sample by household size

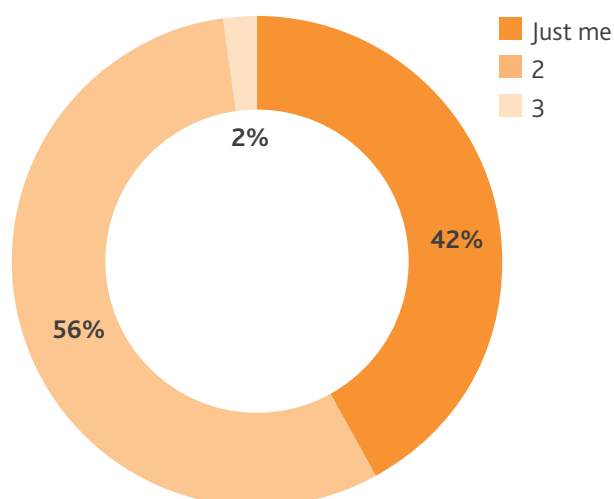


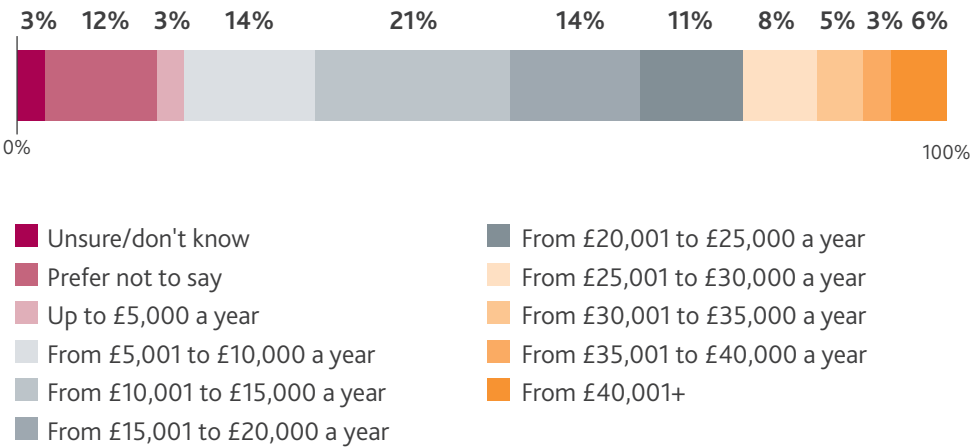
Figure 17

Base: 2,028 UK retirees aged 75 or under

Source: Opinium 2014

The annual retirement income (total retirement provision including any earnings/ income by a partner) is relatively evenly spread across the income spectrum for earnings between £10,000 and £30,000 a year.

Figure 18: Sample by household income



Our sample of 2,028 retirees was comprised of 37 per cent of people on State Pension only and 63 per cent of retirees with other pension income such as a workplace pension, employment or savings and investment.

Table 1: Do you receive income from sources other than the basic State Pension and related benefits? e.g. workplace pension, employment or savings and investment

	100%
Yes	63%
No	37%

The 63 per cent retirees who have additional income are comprised of six in ten who have additional income from savings and investments, nearly four in ten who complement their State Pension with a workplace or personal pension and a significantly large proportion still working, too – a fifth of the sample or 19 per cent.

Figure 19: Sources of additional income

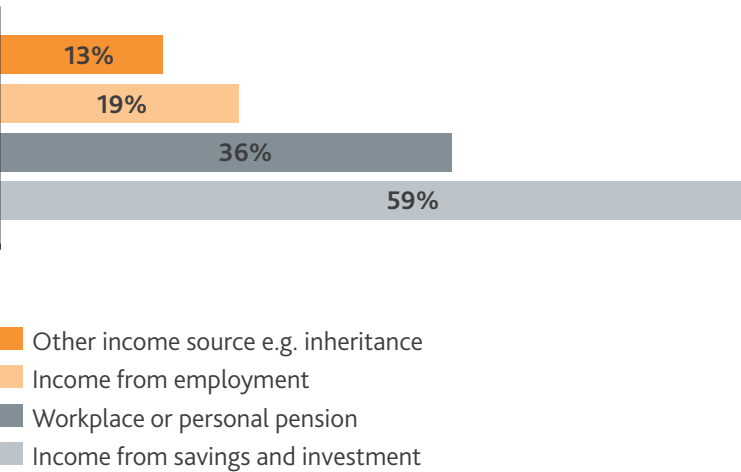


Table 1
 Base: 2,028 UK retirees aged 75 or under
 Source: Opinium, 2014

Figure 19
 Base: 2,028 UK retirees aged 75 or under
 Source: Opinium, 2014

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