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Retirement income and assets: outlook for the future

Pensions Policy Institute

11 February 2010

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Daniela Silcock, Pensions Policy Institute

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Retirement income and assets for future hypothetical individuals

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- New pensions and savings landscape
- Impact on individuals retiring in 2030
- Impact on individuals of different incomes
- Replacement rates, levelling down, working longer, costs of care

Retirement income and assets: outlook for the future

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- Case study analysis – 2030 –
- A low-earning woman
- A median-earning man
- A high-earning woman

20% of today's 65 year olds will need care costing over £50,000 during their retirement

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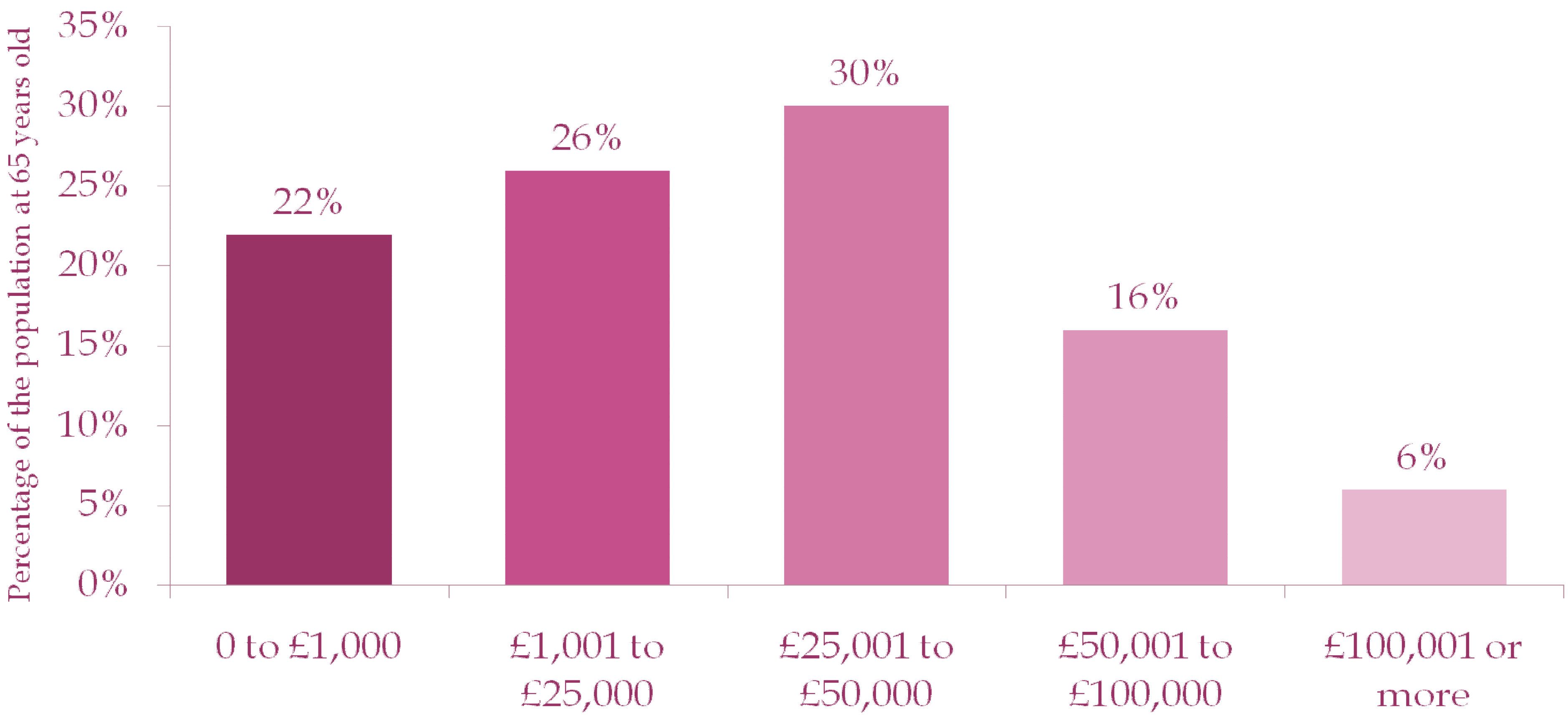
Care costs expected before death for current population of 65 year olds, by percentage of 65 year olds and level of costs



Source: Chart reproduced from HM Government (2009) *Shaping the Future of Care Together*, p. 98

Three proposals for funding care and support

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- Partnership: state pays some portion of basic care and support costs
- Insurance: Partnership plus option to purchase insurance covering care and support that state does not pay for
- Comprehensive: everyone over SPA is required to pay into an insurance scheme - pensioner's care and support is paid for by the scheme

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In the future, low earners are likely to receive more income from state pensions

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- Many low earners will receive more from state pensions because of pension reforms
- Some low earners may be auto-enrolled
- Some low earners may need personalised information or advice

Some low earners could meet a replacement rate through state pension and benefit income alone

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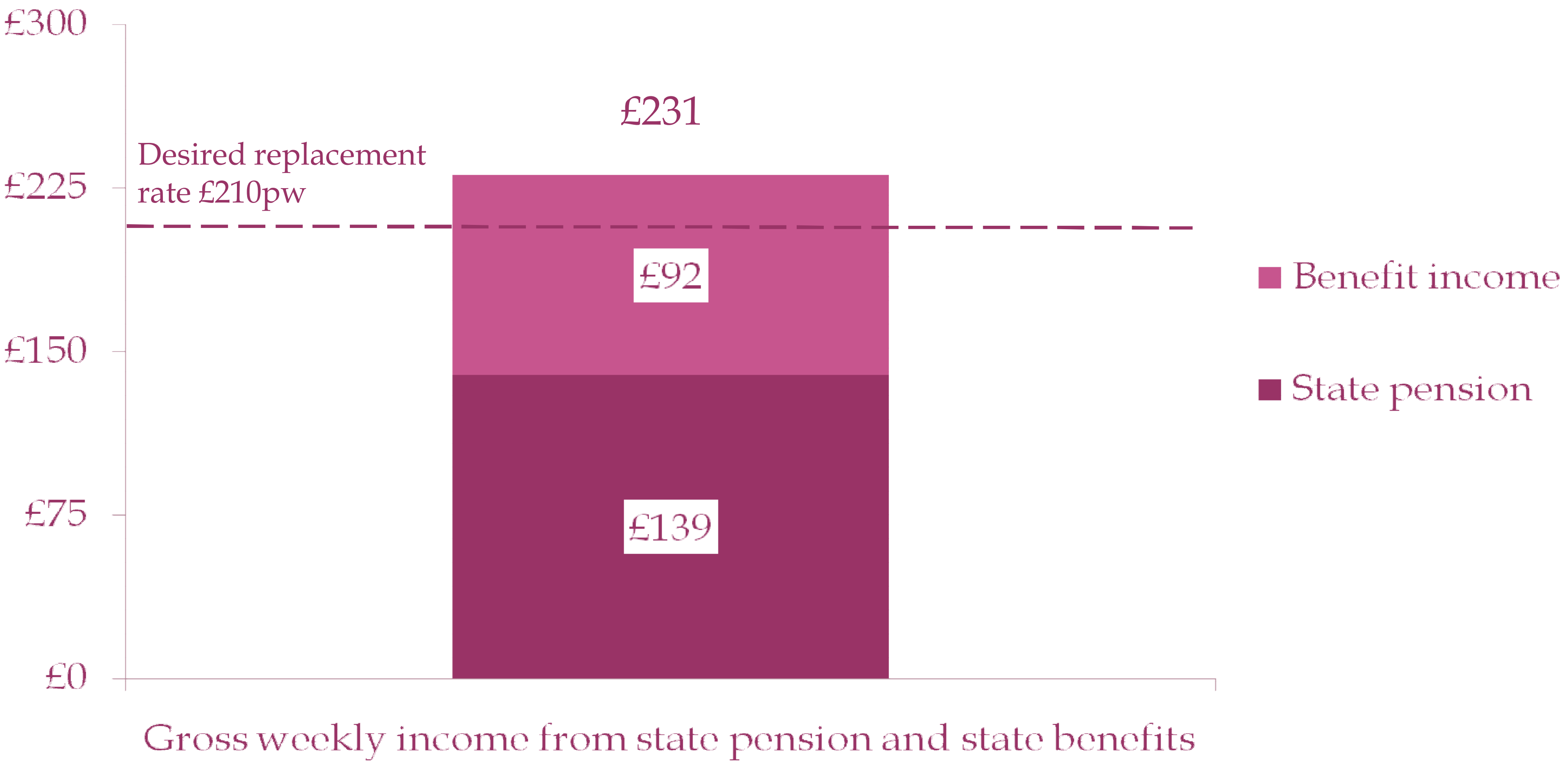
Lower Earning Woman – gross weekly income at SPA in 2030 from different sources in 2009 earnings terms (BHC)



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Future low to moderate earners may be affected by private pension changes

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- Low to moderate earners are likely to see increases in their state pension income because of pension reforms
- Low to moderate earners could benefit from auto-enrolment and compulsory employer contributions
- Some low to moderate earners may accumulate private DC pension savings for the first time

Median earners may not meet replacement rate from state and private pension income alone

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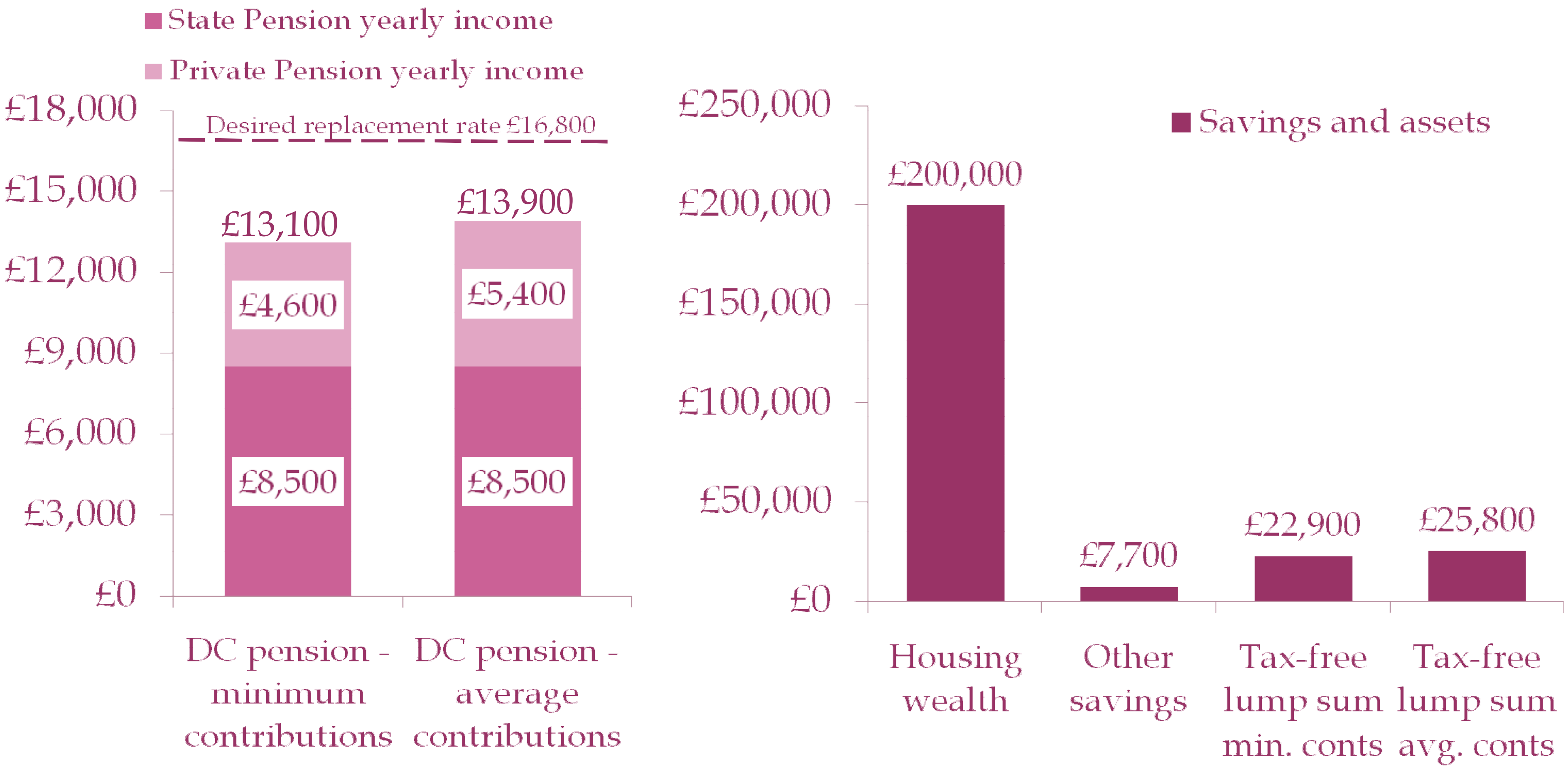
Median Earning Man's estate - with DC pension (average & minimum contributions) at SPA in 2009 earnings terms



Working longer and deferring state and private pensions can increase retirement income

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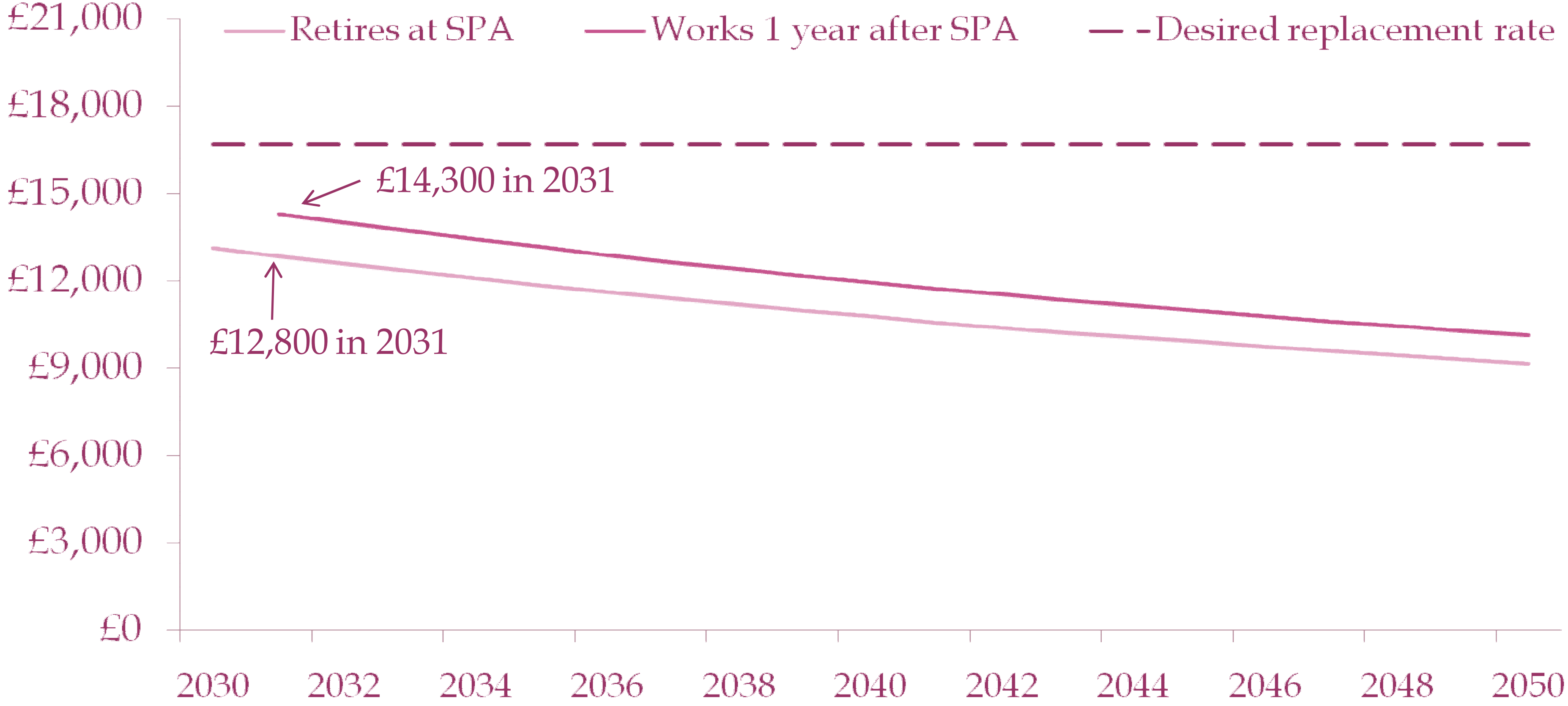
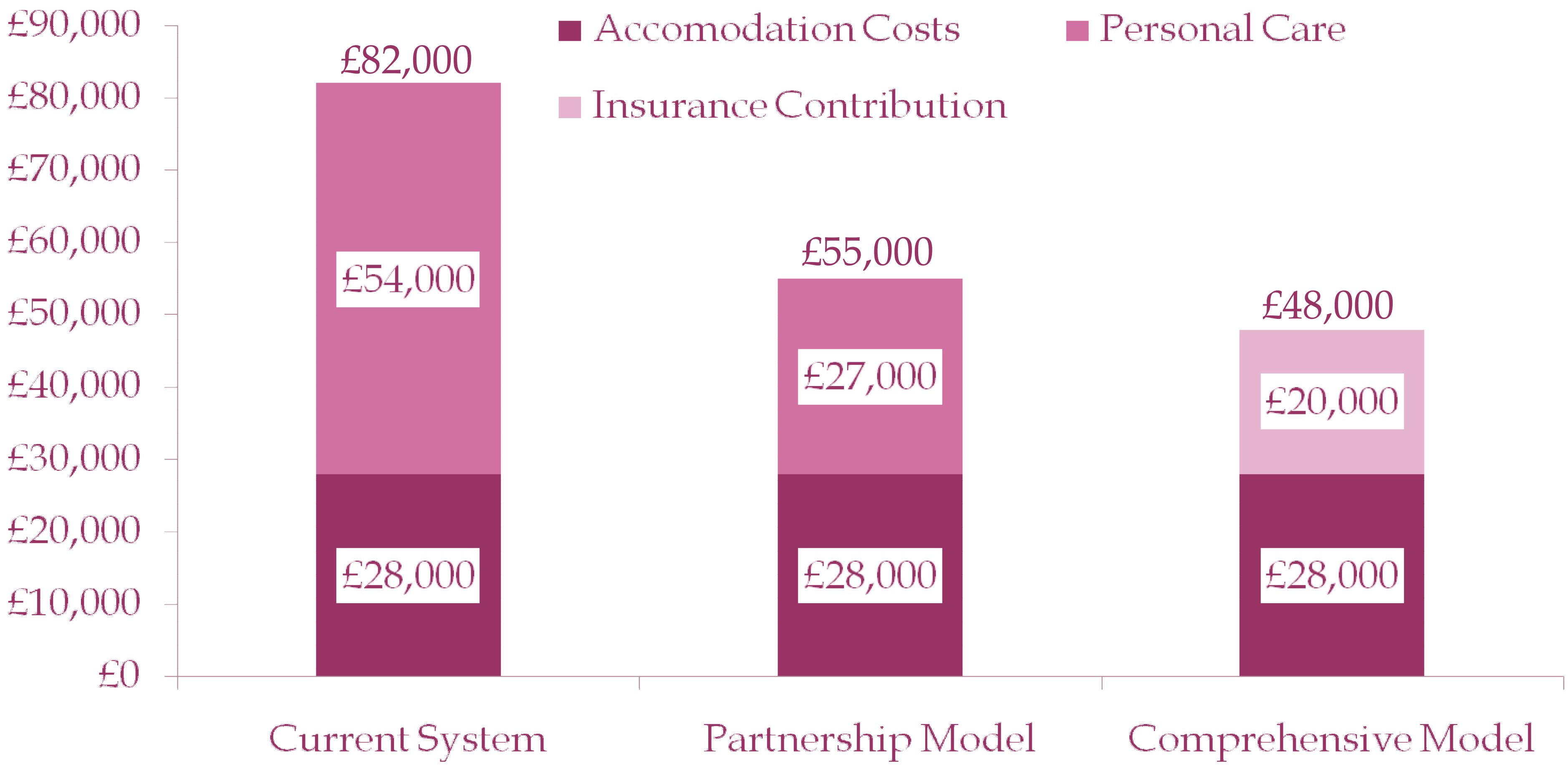
Median Earning Man – State and private pension income retiring at SPA (66 in 2030) and with one year of work after SPA - minimum pension contributions (2009 earnings terms)



Median earners may be required to pay less towards their own care in future

Amount that Median Earning Man might need to pay towards his own care under different models of care funding



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Future higher earners could have more complex baskets of assets and income

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- Higher earners are likely to see increases in their state pension income because of pension reforms
- Higher earners may have one or more DC (and/or DB) pensions, other savings and assets incl. housing wealth
- The amount high earners receive from private pensions may depend on responses to pension reform and to changes in the pensions market

Pensioners with DB pension income may find it easier to meet their replacement rates

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Higher Earning Woman - Estate if she retires at SPA (2030) with DB pension income in 2009 earnings terms

Higher earners with DC pensions may not meet replacement rates from pension income alone

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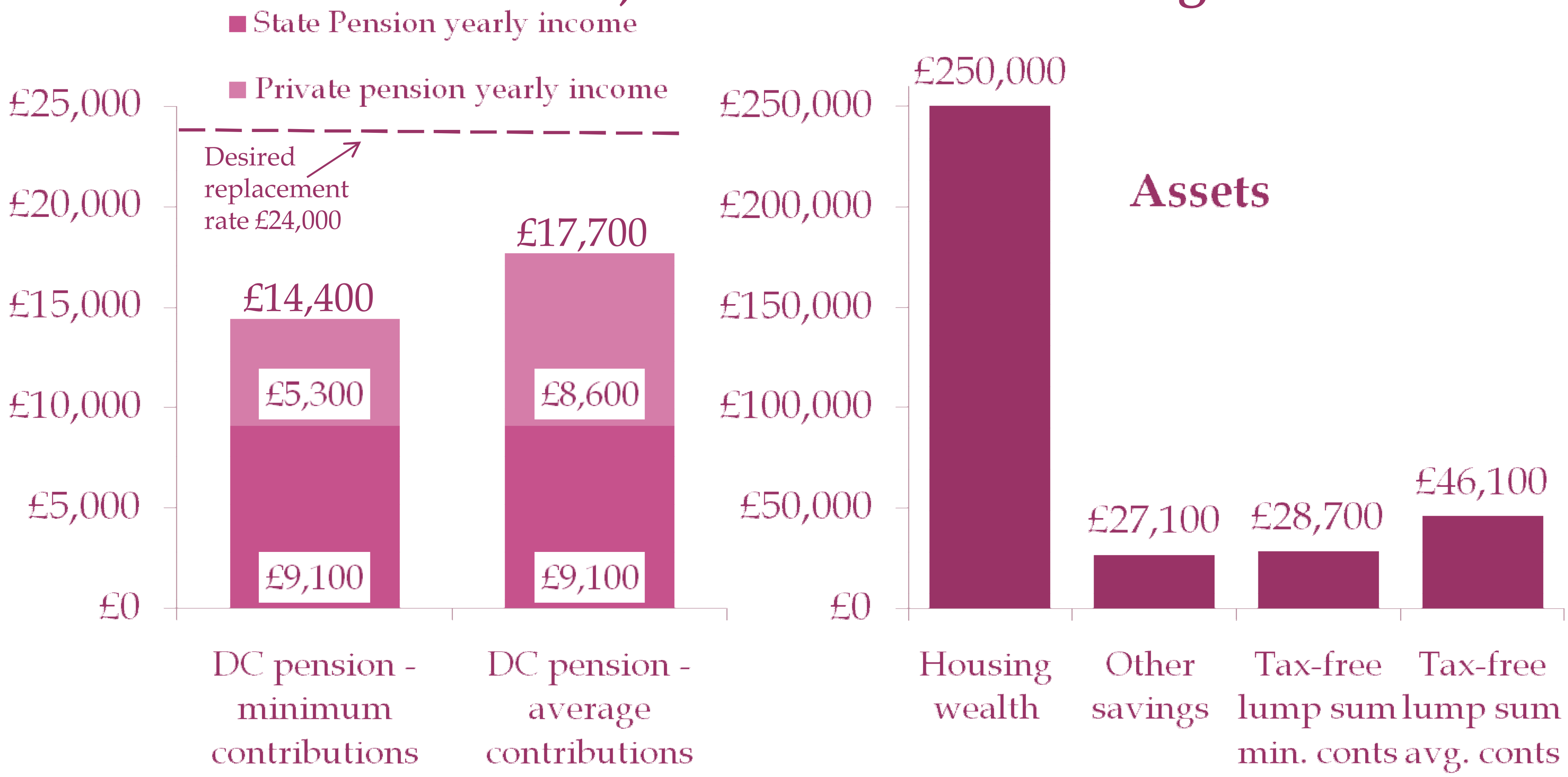
Higher Earning Woman – estate - with DC pension (average & minimum contributions) at SPA in 2009 earnings terms



Working longer and deferring pensions could help meet pension income shortfalls

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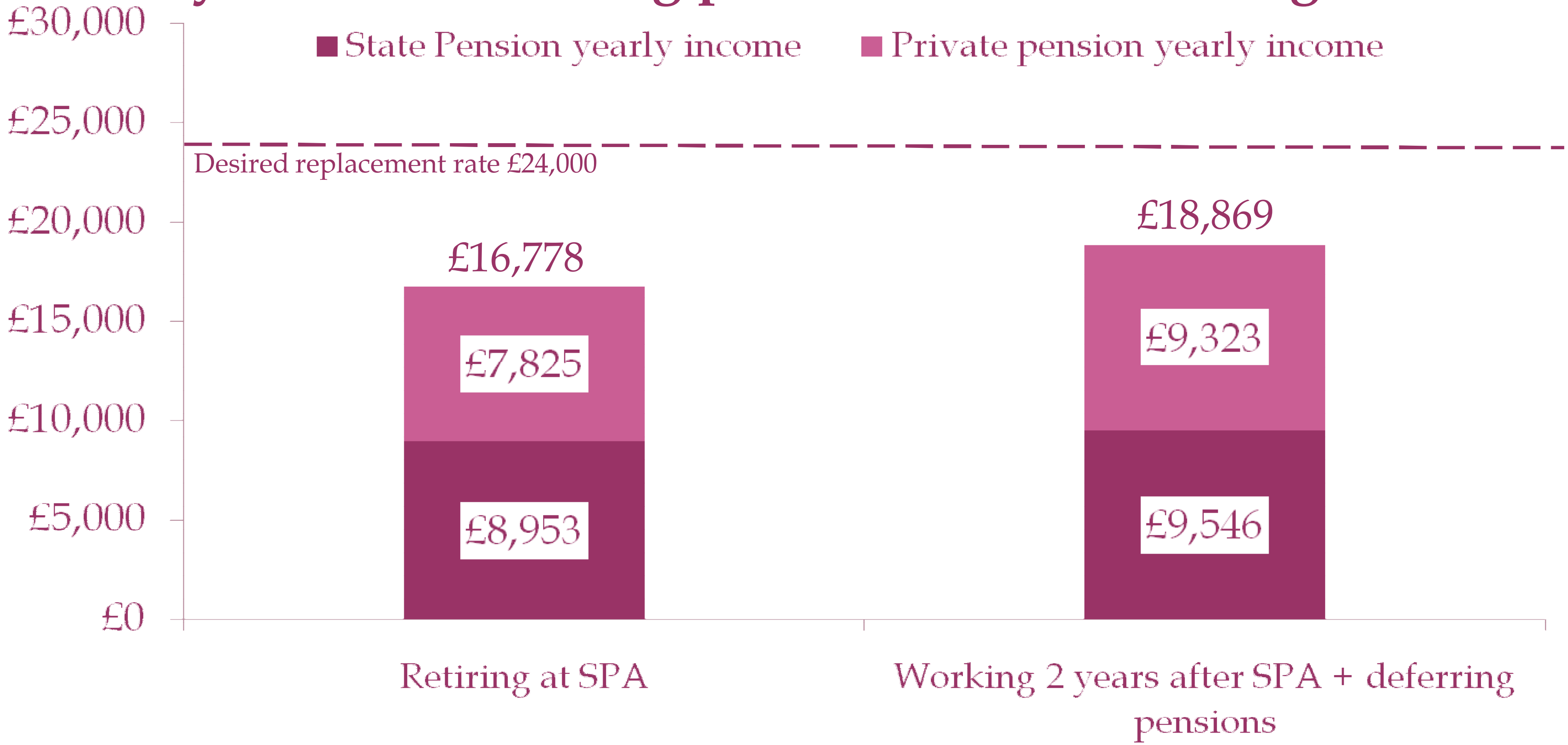
Higher Earning Woman – income from state and private pensions at age 68 in 2032 if retiring at SPA, and working after SPA 2 years and deferring pensions in 2009 earnings terms



Conclusions

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- Future pensioners will all receive more income from state pensions
- Many pensioners may be unable to achieve desired levels of income from pensions alone
- Future pensioners may use a variety of income sources and assets, including housing wealth and working longer, to support retirement
- Proposals on funding care will impact on how future pensioners use income and assets to support themselves