Retirement Reality Report

equity release SUPERMARKET

Contents

Retirement Reality Report

Welcome to the Retirement Reality Report, written by financial journalist Sam Shaw. Equity Release Supermarket has taken the financial temperature of the nation as they approach retirement: where they stand today; when they think they will arrive; how they want to get there and what they expect to find.

Let's prepare

We live in a world where our futures are no longer mapped out the way they once were.

Jobs for life are the exception, not the rule; final salary or defined benefit (DB) pension schemes have a huge shadow of doubt cast over them with most closed to new money, if not completely. Shifts in asset prices and record low interest rates since the global financial crisis mean where DB schemes do still exist, returns are low, with reliable income sources harder to come by. Our workforce is increasingly independent and the rise of contract, freelance and flexible working means collective support towards future retirement provision looks set to wane. Add to that the fact that we are all living longer, and we have a sizeable retirement gap to tackle as responsibility tilts increasingly inwards.

The UK retirement gap is on track to widen to $33 trillion by 2050[1] and with the shift towards defined contribution (DC) schemes come significantly lower contributions than the 10%-15% of annual salary recommended to support a reasonable level of income in retirement.

Alongside this have been many years of steadily rising house prices, and - notwithstanding the recent slowdown witnessed in London - we can expect to see the average UK house costing roughly £285,000 in 2025, around 9% more expensive than they were last year. Furthermore, only 28% of households currently have a mortgage[2].

In April 2015, the government relaxed the pension rules, banning compulsory annuity purchases and introducing 'pension freedoms', which, while mainly focused on pension savings, now joins hands with the shape of the housing market to support an argument for considering the home as an asset that could potentially work harder for you.

Our workforce is increasingly independent and the rise of contract, freelance and flexible working means collective support towards future retirement provision looks set to wane.

The UK retirement gap is on track to widen to $33 trillion by 2050.

Yet, always, with greater choice also comes greater confusion. Taking personal control of our financial futures, where possible, rather than deferring to external parties can be seen as an opportunity in a sea of uncertainty, where even the smallest of lifeboats can offer some comfort. The size and shape of that lifeboat will differ according to one's circumstances, and we recognise that uncertainty does not just apply to the world in which we live.

As such, we surveyed 4,000 people, representing those in their 40s, 50s, 60s and aged 70+, to find out more about their retirement journey. We asked how prepared they were, about their expectations, and any steps they had taken with a view to preparing for retirement.

While an encouraging number of people were some way towards planning for their retirement, the sense of uncertainty was palpable. We discovered a common trend running from the most prepared to those farthest away from being ready for retirement: their goals and aspirations had little bearing on any financial plans they were making, and vice versa.

We accept there are many unknowns to navigate on the retirement journey and the only thing of which everyone can be certain is that planning is crucial. We invite you to join us in understanding some of the motivating factors that drive people's retirement choices, while considering the updated shape of equity release as part of the possible solution.

1 http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf

2 https://www.pwc.co.uk/economic-services/ukeo/ukeo-july18-uk-housing-market-outlook.pdf

Chapter 1: What do people want in retirement?

Retirement is no longer characterised by two stereotypes: the sad, lonely pensioner with a single gas bar lit, or an attractive, silver-haired couple sailing around the world. We know the reality is represented by a diverse spectrum that will look even more different over the coming years, as flexible working and phased retirement become more commonplace and the ability to live for 20 or 30 years on the typical state pension becomes less viable.

Speaking to an assorted sample of people – from those decades away to those firmly into retirement – throws up equally diverse views. While 94% expect to retire, they seem less clear on the details of how that might look.

Age: not just a number

There is a clearer degree of confidence in men than women about their financial futures, with 58% of men and 43% of women expressing this feeling, supported by the fact that, as it stands today, more than twice as many men than women plan to retire before they reach their respective state retirement ages.

Yet, when asked the age at which people hoped to retire, there were differing answers. Of those who seemed a bit clearer of their position – i.e., who plan to retire and know the age at which they plan to do so – 30% said they expected to retire aged 66-69; by far the dominant singular response. Yet a combined 59% plan to do so before the new state retirement age of 66, set to be in place before 2020, suggesting a level of optimism over their financial wellbeing.

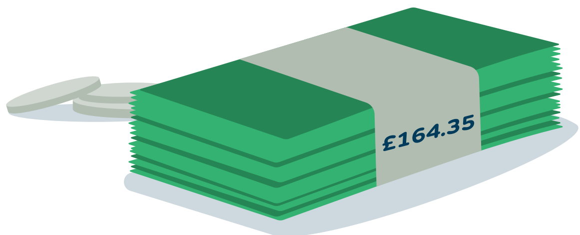
At the other end of the spectrum are those who aren't sure. Of total respondents, 20% did not know at what age they planned to retire, either through never having thought about it, or being genuinely unsure. Our research indicates that this uncertainty isn't necessarily a result of the sample being lackadaisical. Indeed, those who are unsure indicate a degree of vulnerability: women; single dwellers; those who may be worried about their levels of disposable income and those solely reliant on the state pension.

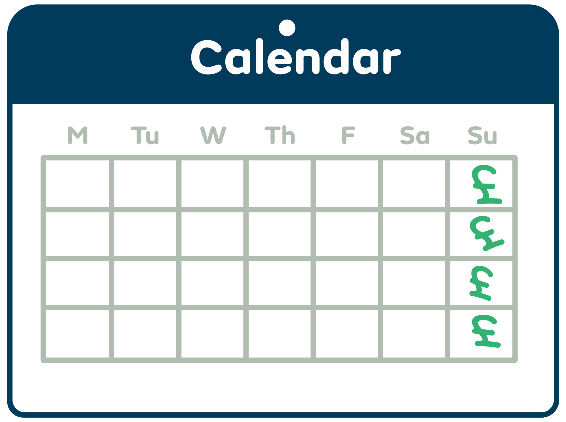
Is the future bright?

This polarised state of confidence over retirement age is only the beginning. Respondents appear to feel more negative than positive over what to expect in retirement, with one in three (33%) feeling their standard of living will likely get worse and more than half (51%) think their level of disposable income will decrease.

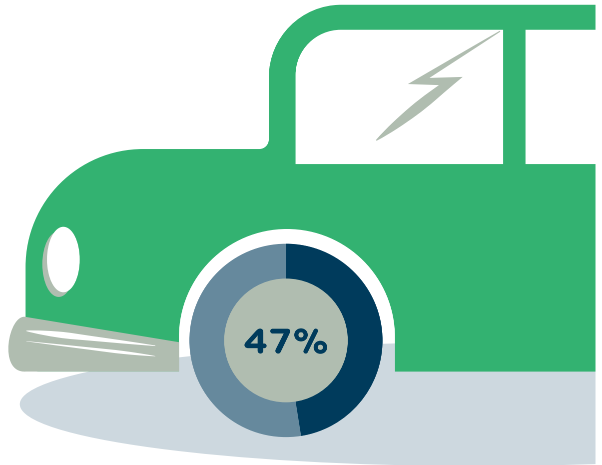
The UK's full new State Pension is currently £164.35 per week.

Source: https://www.gov.uk





Travel regularly made up 47% of all responses.



Today's state retirement age sits at 65 for men with equalisation plans for women currently underway.

Gradual increases for all are on the horizon.

Unsurprisingly, those who feel more confident financially, feel better prepared for retirement and have additional provisions in place to be able to enjoy the fruits of their position in the form of a phased exit of the workforce.

There are certain patterns emerging of those who expect their living standards to decline. Roughly 40% of this group also fit at least one of the following criteria, with likely overlap in places:

- **They live in London (possibly due to the higher costs of living in the capital)**
- **They live alone**
- **Do not have enough disposable income and are at times worried about money**
- **Have no additional provisions in place.**

This is the reality, yet there are signs of readiness, too, with two-fifths of our survey stating that they hope to scale back their work hours and enter into partial retirement, ahead of retiring fully. Unsurprisingly, those who feel more confident financially, feel better prepared for retirement and have additional provisions in place to be able to enjoy the fruits of their position in the form of a phased exit of the workforce.

Needs and wants

So, while doubt, uncertainty and a state of unpreparedness seem to dominate feelings towards retirement, there is a juxtaposed clarity over what people hope to do more of when they retire, with travel top of the list.

We gave our survey a list of all the things they might like to do more of in retirement, and nearly half said they wanted to travel regularly, 44% wanted to live stress-free and 31% hoped to spend more time with their family. Also important was 'me time', with 27% wishing to spend more time on their hobbies.

Slightly less important were ideas such as owning their own home, socialising more, or eating out in restaurants. The vague, but all-important 'bucket list' accounted for 9% of answers, while the more altruistic responses of increasing the amount of charity work or giving their family an early inheritance fell to the other end of the table, accounting for 7% and 3% respectively. Home improvements took 5% of answers, while 13% weren't sure.

Is it a choice?

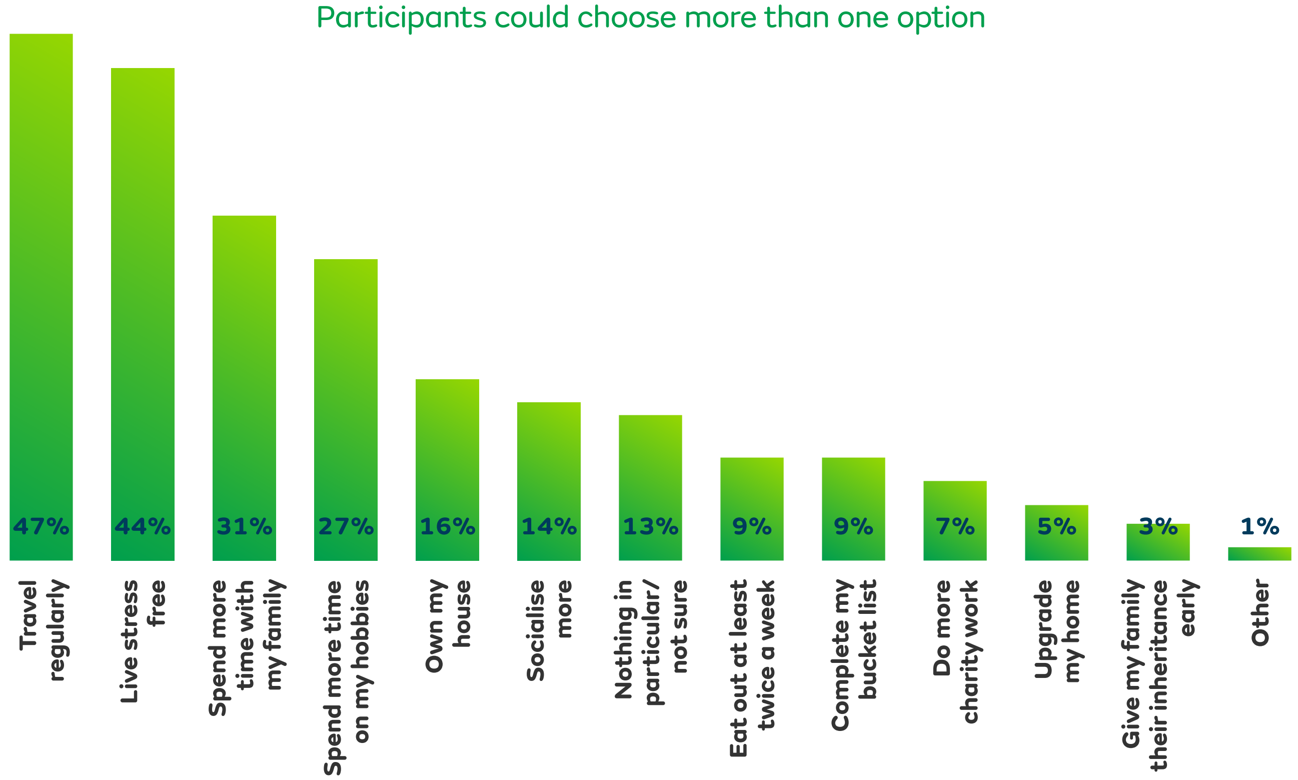
Our opposing ends continue to diverge when we look at those not expecting to retire. While only a minority 6%, the reasons behind that figure present two very different scenarios. At one end are those who don't believe they will ever be able to afford to retire, accounting for just less than half of answers, at 48%. For others it is a more active choice; 58% enjoy working so much, they never intend to retire.

Research shows that the younger respondents seem less confident. Only 12% of those aged 70+ said they cannot afford to retire, compared with 56% of those aged 40-50, for whom retirement is still far enough away to be full of unknowns.

Of the group with no plans to retire, older respondents seem to be the most prepared: not only are they more able to *afford* to retire but they are also the most likely to continue working because they enjoy it, making up 85% of responses, compared with 58% of total adults.

What do you want to do more of in retirement?

Participants could choose more than one option



Chapter 2: How do they plan to achieve their goals?

How and when people prepare for future events will always vary. By nature, some of us are forward planners, while others thrive under the pressure of a last-minute panic. But there are certain things in life where the latter just won't cut it, and, sadly, retirement planning is one of them. The power of compounding dictates that if you started saving £200 a month today at age 40, and your investment grew by 5% each year, it would provide £126,000 by age 66, according to Hargreaves Lansdown, whereas if you saved twice that from age 50 then you'd still only end up with £117,000.

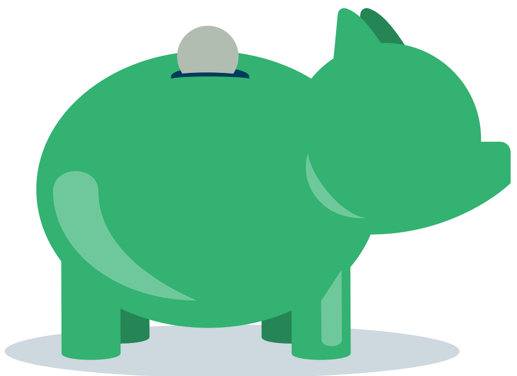
In exploring people's levels of readiness, or how organised they were in terms of their future finances to ascertain what they intended to do, the dominant responses, again, were somewhat polarised. While 24% said they began saving towards retirement when they were very young, almost as many, 22%, had not begun saving at all.

Setting the starting point

Just a quarter of respondents said they had an idea how much they were expected to live on in retirement, yet, perhaps more reassuringly, nearly half of these said they felt fully or somewhat prepared for retirement. This indicates that while people may feel ready or organised, that feeling, when asked to attach any real numbers to it, falls short.

24% began saving towards retirement aged 20-34.

Only a quarter of people knew how much they were expected to live on, per week, in retirement.



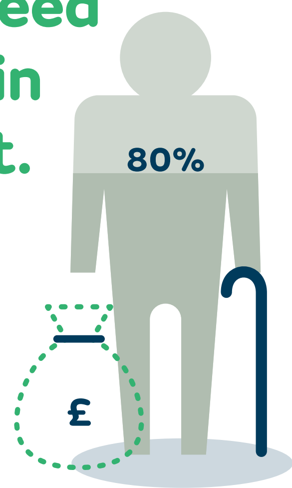
Of the 1,123 people who feel somewhat or fully prepared for retirement, 59% do not know how much money they are expected to live on, 29% have no additional provision in place beyond their state pension and 71% have not consulted a financial adviser. Therefore, one might question what that sense of 'preparedness' is based on.

When it comes to those who feel prepared, 38% sit comfortably away from retirement in their 40s, while more of the older generation – as one might hope – demonstrate a sense of feeling on top of things, with 80% over 70 and 66% of those in their 60s agreeing they feel somewhat or fully prepared.

Unsurprisingly, the groups least likely to know how much they will need to live on include those:

- **For whom retirement is further away**
- **Who live alone**
- **Without sufficient disposable income**
- **Lacking additional provision in place.**

80% of those under 60 do not know how much they will need to live on in retirement.



Of the 1,123 people who feel somewhat or fully prepared for retirement, 59% do not know how much money they are expected to live on...

Yet, perhaps more worrying is that 56% of those over 60 also do not know how much they will need to live on, and for the vast majority of them, retirement is imminent.

However, drilling deeper into people's levels of preparedness, and what that actually means, tells another story. Indeed, our findings reveal that many who say they feel prepared still have not actually put into place any preparations for retirement, suggesting a disconnect between aspirations and readiness.

Live for today and tomorrow
With inflation set to stabilise for the coming years but real wage growth relatively low against volatile investment markets, it is easy to see how people may not be in a position to put more away for the future. But for others, the 'live for today' mentality may be a factor. Obviously, to prepare for the future, there are certain sacrifices that must be made before the event, whether putting aside a few pounds a week from disposable income, or something more significant, like forsaking a holiday or a new car.

The majority of those involved in the survey, seemingly, did not know where they would best make sacrifices; 42% were not sure or did not feel they had any to make. Cars, holidays and home improvements ranked thereafter, comprising 36%, 31% and 29% of answers, respectively. The

Yet, perhaps more worrying is that 56% of those over 60 also do not know how much they will need to live on, and for the vast majority of them, retirement is imminent.

"other" outliers suggested non-essentials like football matches, takeaways and eating out at restaurants were 'easy wins', while several respondents felt there was literally nothing left from which to make sacrifices. Some were already trimmed back to basics and did not drive a car, take holidays or use a mobile phone, for instance.

Underlining a sense of uncertainty was that the largest proportion of those answering "unsure" (47%) were also those with no additional retirement provision in place.

Underlining a sense of uncertainty was that the largest proportion of those answering "unsure" (47%) were also those with no additional retirement provision in place.

Getting the house in order, literally
What we can glean from these answers is that uncertainty can become compounded, and the situation can feel a bit 'chicken and egg'. If you aren't sure of what age you want to retire and how much you need to live on, it can be difficult to know where to begin. Even those making provision seem unclear on their requisite budget needed to live once they stop working, so again, without knowing what level of further savings is needed, where to pare back on spending today, and how much more needs to be done to achieve their goals, it presents a shortfall.

The average equity release loan amount was £96,515 for lump sum and £63,530 for drawdown, compared to the average pension pot of £35,000.

Sources: Equity Release Council, January 2019 and Royal London, May 2018

Chapter 2

However, the future need not appear as bleak as some of these headline statistics may indicate. Two in three respondents, or 65%, have taken some financial steps towards preparing for retirement, with the majority of respondents having contributed to a workplace pension scheme. Further, more than half said they have additional provision in place over and above their state pension, largely made up of workplace schemes, private pensions and other savings vehicles. But is it enough?

Consider all the options

When asked how our respondents planned to fund their retirement, 64% said their state pension, 62% said workplace pension and 46% said savings. There was a general feeling from many respondents that residential property – either as a second home offering rental, renting out a parents' home that was being left to them, downsizing or releasing equity – was a viable option once their pensions, savings and investments had been exhausted. However, only 7% clearly stated they would fund their retirement using equity release.

There is a further 22% of those taking part who have not yet started saving. Of these, females are more than one and a half times more likely than males to have not started saving. 37% have expressed concern about sufficient levels of disposable income and 34% have no further provision in place.

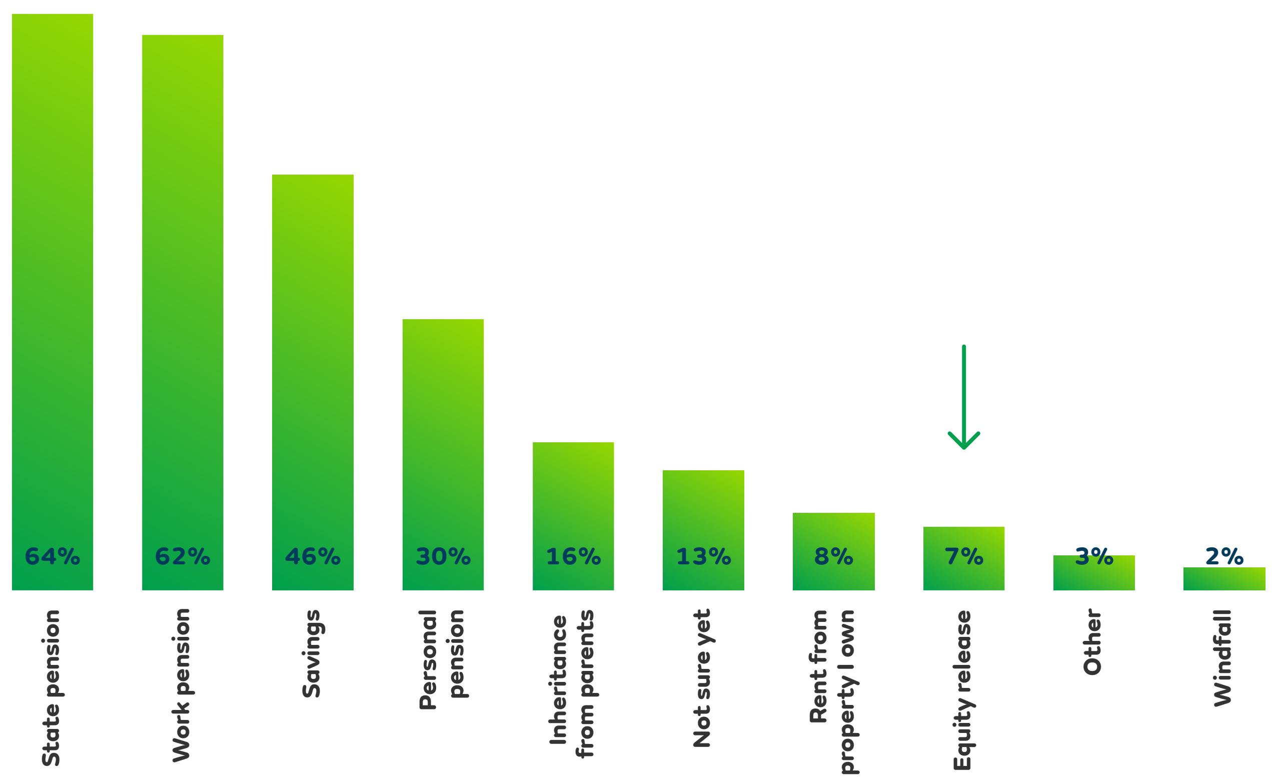
While research suggests that most people have given some thought to how they might fund their retirement, that only 7% have considered equity release as an option suggests a lack of awareness or understanding of the product. It might be worth looking more closely at today's products and how they might work as part of an existing retirement plan, whether to boost regular income from a pension, or to release a lump sum for a dedicated purpose.

The additional flexibility available today might come as a surprise to those who think they are better informed than they actually are. In addition, those expecting windfalls, not sure, or relying on inheritance coming their way may be better served to consider some additional options.

While research suggests that most people have given some thought to how they might fund their retirement, that only 7% have considered equity release as an option suggests a lack of awareness or understanding of the product.

How do you think you will fund your retirement?

Base: All respondents who intend to retire (2,276)



Chapter 3: Does the reality match the aspirations?

The evidence points to a widespread optimism over people's state of readiness over their financial position in retirement that may or may not be realistic. It is encouraging to note that so many have put plans in place already, but a considerable number have not. Worryingly, those who expect their standard of living to get worse are the least likely to have made any financial preparations, suggesting almost an air of resignation for the 28% of people who have not yet started saving. Again, we return to the chicken-and-egg set-up; are these people saying their position will be worse off because they know they have made no provision? Or are they fearful of what the future holds, so resign themselves to doing nothing?

Doing something is undoubtedly better than doing nothing, and one would hope that a sensible financial plan is worthwhile regardless of whether there is a large pot, a pot of any size, or a non-existent pot and no idea where to start.

Mind the gap

There does appear to be a disconnect between what people want and the plans they are putting in place to achieve their goals. This suggests a clear need for guidance or advice of some sort, as carrying on as they are, if the goals and steps of preparation are not aligned will fail to satisfy either side; they will not achieve their goals without a change in plan, or by not reviewing their aspirations, their current plan becomes redundant.

The retirement reality gap appears to be apparent at both ends of the spectrum. Many of those without sufficient financial provision, those feeling negative about their retirement and who feel least prepared still have designs on early retirement – before the planned 2020 state pension age of 66.

Conversely, a considerable proportion of those who say they feel prepared for retirement have not actively done anything to prepare themselves.

Dom Wilkinson, Marketing Director at Equity Release Supermarket, says the gap between the aspirations for retirement and the reality is something the team sees often:

"To live comfortably in retirement now, an individual needs to supplement a full state pension with about £12,000 per year. For a 20-year retirement, this amounts to a pension pot of £240,000. The reality is that the average pension pot is little over £30,000. Where do we think we'll find the missing £210,000?"

Chapter 4: What did we find?

Our research seems to have its respondents divided: there will always be the haves and the have-nots, the planners and the crammers, the active and the reactive. Yet, there is often usually an expectation with such a broad sample size that the 'middle' would garner the majority of response. However, many of our samples indicated that people seem to be exceptionally prepared, optimistic and well-versed or anxious, ill-prepared and resigned to a poorer future in retirement, and the middle ground did not appear dominant.

> **However, many of our samples indicated that people seem to be exceptionally prepared, optimistic and well-versed or anxious, ill-prepared and resigned to a poorer future in retirement...**

We have extracted five key insights from our survey findings that together present an opportunity for education, advice and for doing things differently.

A reliance on pensions and savings

The majority expect to rely on work pensions, state pensions and their own savings with very few looking at other methods of funding.

This is encouraging, as at least people are taking considered steps towards preparing for their retirement; however, in cases where those steps are not quite enough to get them to meet their goals, perhaps they need to cast their solutions net a little wider.

There has been a long-held assumption that equity release is a last-minute, desperate step for homeowners to extract some value from their house when no other options are present. Today's well-regulated plans eliminate the risk of negative equity, can offer borrowers far greater flexibility and control over how, and when, they intend to use the money.

A feeling of uncertainty

Just exploring some new options that might have otherwise been ignored can work wonders in helping to reassure those feeling nervous that there will be a solution out there, but what that solution looks like may be as yet unknown. Whether years away from retirement or facing it

Chapter 4

imminently, the prospect inevitably brings a plethora of concerns.

From the age at which people plan to retire, what their living situation will look like and how they will fund their retirement all throw up a series of questions. While no single solution can provide all the answers, there is ultimately some form of ripple effect, and once the size of the problem is better understood, the combination of solutions becomes easier to find.

As we said at the beginning, in a sea of uncertainty, even the smallest raft of security can be reassuring.

A lack of preparation

A decent proportion of respondents have not begun to prepare for retirement at all and a considerable minority have not started saving or putting in place additional provisions to supplement their state pension. This feels like a consequence of the uncertainty expressed throughout the survey. When people don't know where to start, problems escalate and often the further away the solutions look to be, the harder it is to head towards them. It can feel scary, demoralising and depressing. It need not be.

Breaking problems and questions down into manageable stages will help establish priorities, devise a realistic plan and isolate any areas where significant changes need to be made. With a framework in place,

A decent proportion of respondents have not begun to prepare for retirement at all.

steps can be taken to address the issues, whether that is redefining goals to be more realistic, making adjustments on lifestyle or savings options or looking to introduce an additional source of finance, everyone can improve their level of preparation, wherever they are on their journey.

Resignation

This is not a practical insight, but an emotional one. In general, our respondents are more negative than positive in the expectations of their standards of living in retirement. Yet, of those who feel negative towards their futures, few have taken any steps towards changing that, which suggests an air of resignation.

Optimistically, one would hope that putting a clear, reassuring plan in place and by making some changes to close the gap between what is wanted and what people are realistically on track to achieve, could allay that resignation.

We believe that rather than giving up on a retirement that is more financially secure, it might just require some new options to be taken into consideration that could sit alongside those potentially more familiar.

False sense of security

This is potentially the more worrying of our findings, as it suggests a naivety about where people really are in their journey. This may be because they genuinely do not know – indicating a lack of education, which can be addressed, or because they have the information and are in denial about what it actually means, which raises entirely different concerns.

Over half of our respondents said they feel prepared for retirement yet a large number of them have not put any steps in place to prepare, suggesting they may not be as prepared as they think. If people think they are in better shape, financially, than they actually are, it could throw up surprise problems, which are infinitely harder to deal with than those that are recognised earlier.

The expectation vs reality gap

The retirement gap often talked about is one thing, a result of a multitude of reasons that for many of us, are beyond our immediate control. The economy, increased longevity, changes to healthcare and the stock market are not factors we can change individually.

Yet the gap that appears between our own state of readiness for our retirements and the expectations we have for it is entirely our responsibility, hence this is our key insight.

Many intend to retire before they turn 66 and also have clear plans over the extra social and leisure activities they will undertake once they retire. However, a lack of preparation among many of our respondents suggests an imbalance that needs addressing.

We believe the changing shape of retirement warrants a changing set of solutions, within which equity release may have a role.

Regardless of perceived preparation levels, financial health and point on the retirement journey, everyone may benefit from a reality check of their situation.

Regardless of perceived preparation levels, financial health and point on the retirement journey, everyone may benefit from a reality check of their situation.

Contact

The information contained in this report is based on a survey of 4,000 respondents and material from various sources, which have been referenced within the report.

Equity Release includes lifetime mortgages, home reversion plans and retirement mortgages. To understand their features and risks, ask for a personalised illustration. There will be a fee for expert advice from Equity Release Supermarket, guaranteed not to be more than £995, only payable on the completion of application.

Equity Release Supermarket Ltd registered address; Genesis Centre, Science Park South, Birchwood, Cheshire. WA3 7BH. Registered in England & Wales. Company No. 6553466. Equity Release Supermarket Ltd is authorised and regulated by the Financial Conduct Authority. FCA registered no. 584063. Members of the Equity Release Council.

Get in touch

Call 0800 678 5955

Email us at info@equityreleasesupermarket.com

Visit us at www.equityreleasesupermarket.com