The Long and Winding Road?

Beating Retirement Stereotypes

We all know that retirement is changing, but how? We spoke to some DC members (aged between 55 and 65) about their saving and spending patterns as well as their approach to life after work. So, are new retirees thinking 'here comes the sun' or 'help!'?

Key findings:

- Retirement is increasingly split into early 'active years' and 'old age' rather than one uniform state.
- Individuals' financial circumstances often turned out to be better than they expected
- Taking the 25% tax-free cash sum is often considered apart from retirement planning
- Concerns that individuals are disengaged even at the point of retirement do not appear justified

When I'm 84

Forget "knit(ting) a sweater by the fireside" — the baby boom generation are front-loading their retirement purchases. Travel, home improvements, leisure and following the sun were high up on a roster of 'retire desires'. 80 may become the new 60, as respondents do not generally expect to wind down until the middle of their ninth decade.

However, many contributors were quite realistic about what they could afford, which supports our earlier findings that individuals spend their retirement income responsibly.

Fixing a (financial) hole?

A happy result of our research was that people were often better off than they had anticipated. Our participants reported fretting that they would not have enough to cover their retirement, which was exacerbated by gloomy stories in the media and by the pension industry itself.

Many were pleasantly surprised by their state pension entitlement. Often, households also had a defined benefit pension, but few knew how much it was. Most respondents recorded that their household would need around £1,500 - £2,000 per month once they retire. They were surprised to find that, taking into account all sources of household wealth, the savings they had amassed so far were close to or sufficient to provide this level of income.

Money (That's what I want)

Our respondents were very keen on accessing their 25% tax free lump sum between the ages of 55-59. This is despite the fact that many had no intention of retiring until later — some until their late 60s. This 'freedom' wasn't typically seen as a part of the retirement planning process, which is potentially alarming. It may be worth prompting members about the potential consequences of early access for a day in the life of their later retirement journey.

Let it be

Contrary to popular belief, we found that participants who are close to retirement check their pension pots regularly. Although concerns about financial planning far ahead of retirement are justified, we definitely did not see a lack of engagement as people approach their last day in employment. Respondents would check at least every six months, peaking when work has just stopped and there is no new inflow of cash. Some would even check every day.

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This raises the spectre that members might be 'over- active' in a down market and sell positions which could crystallise their losses. Our research pointed to the need for careful education here.

We can work it out

Ultimately, baby boomers want more flexibility – in their pension pot, how they spend it, and when they spend it. Each retirement journey is different, and needs to be customised for the individual's income and retirement aspirations.

Our challenge is to create a retirement solution which caters to the evolving needs of a new generation (today's 55-65 year olds) in a simple, dynamic and affordable way.

Read more in the longer version of our Four pots for your retirement report' by contacting LGIMevents@LGIM.com for a copy.

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Written by

Veronica Humble
Head of DC Investment Solutions

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