

Helping members achieve their retirement goals

February 2024



The Retirement Living Standards

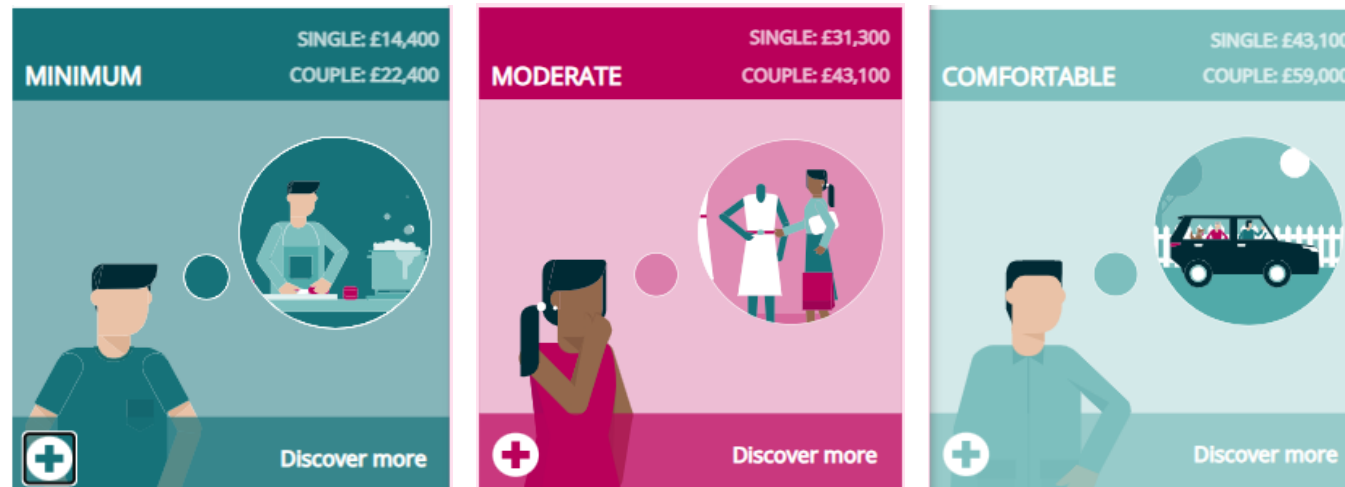
- How much money will you need when you retire? And what standard of living will that give you?
- In 2019, the Pensions and Lifetime Savings Association (“PLSA”) launched their Retirement Living Standards (“RLS”) to help members answer those questions. The RLS are the levels of expenditure required to achieve Minimum, Moderate and Comfortable standards of living in retirement. They’re derived using a “basket of goods” approach, which reflects the cost of goods and services on which individuals typically spend their retirement income.
- On the 7 February 2024, the PLSA updated its RLS to reflect changes in the cost of living, including high food inflation and rising energy costs. Unsurprisingly, this has led to significant increases in the Standards, particularly to the Moderate RLS, and members will now have to contribute more or work longer (or both) to achieve the same standard of living as before.
- We’ve analysed how different combinations of contribution rate and salary impact the chance of achieving the new RLS for an early career member today.

How much will I need?

If you're single, then:

- For a **Minimum** standard of living, you'll now need **£14,400 pa.** This represents a **13%** increase from the previous level.
- For a **Moderate** standard of living, which gives you more financial security and flexibility than the minimum, you'll need **£31,300 pa.** This is **34%** higher than the previous level.
- For a **Comfortable** standard of living, which gives you more financial freedom and money for some luxuries, you'll need **£43,100 pa.** This represents an **16%** increase.

The PLSA also produces standards for couples, which are less than twice the standards for singles; members who are part of a couple can therefore achieve a higher standard of living for the same level of contributions as their single counterparts.



Source: ([PLSA - Retirement Living Standards](#))

How much might I have?

The table shows the total income (including the State Pension of around £11.5k for the 2024/25 tax year) members could reasonably expect to achieve under different combinations of salary and contribution rate:

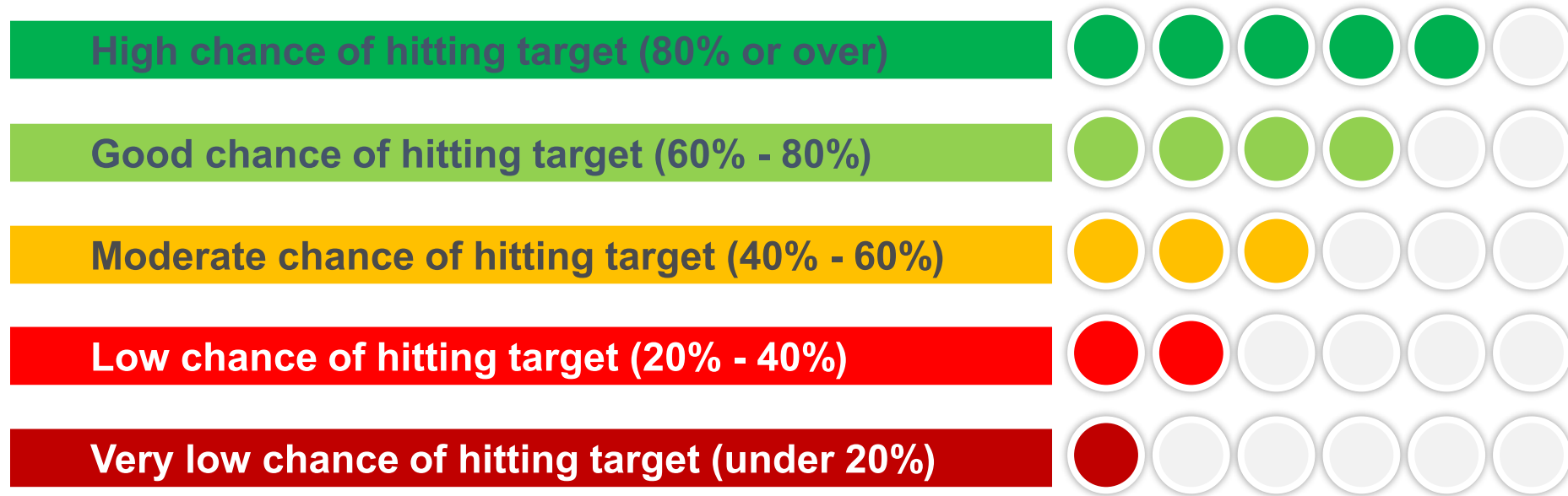
| | Total contributions (% of pensionable pay) | | | | | | | | | | | | |
|------------|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 8% | 9% | 10% | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
| 50k | £29,300 | £31,500 | £33,700 | £36,000 | £38,200 | £40,400 | £42,600 | £44,900 | £47,100 | £49,300 | £51,500 | £53,800 | £56,000 |
| 45k | £27,500 | £29,500 | £31,500 | £33,500 | £35,500 | £37,500 | £39,500 | £41,500 | £43,500 | £45,500 | £47,500 | £49,500 | £51,500 |
| 40k | £25,700 | £27,500 | £29,300 | £31,100 | £32,900 | £34,600 | £36,400 | £38,200 | £40,000 | £41,800 | £43,500 | £45,300 | £47,100 |
| 35k | £24,000 | £25,500 | £27,100 | £28,600 | £30,200 | £31,700 | £33,300 | £34,900 | £36,400 | £38,000 | £39,500 | £41,100 | £42,600 |
| 30k | £22,200 | £23,500 | £24,900 | £26,200 | £27,500 | £28,900 | £30,200 | £31,500 | £32,900 | £34,200 | £35,500 | £36,900 | £38,200 |
| 25k | £20,400 | £21,500 | £22,600 | £23,700 | £24,900 | £26,000 | £27,100 | £28,200 | £29,300 | £30,400 | £31,500 | £32,600 | £33,700 |
| 20k | £18,600 | £19,500 | £20,400 | £21,300 | £22,200 | £23,100 | £24,000 | £24,900 | £25,700 | £26,600 | £27,500 | £28,400 | £29,300 |
| 15k | £16,800 | £17,500 | £18,200 | £18,800 | £19,500 | £20,200 | £20,800 | £21,500 | £22,200 | £22,800 | £23,500 | £24,200 | £24,900 |

As an example, a member earning £15k pa. at the start of their career and contributing at the auto-enrolment (AE) minimum (ie a total rate of 8% pa) until they retire could achieve a total retirement income of £16.8k pa.

But there are no guarantees and, depending on investment markets and other factors, the member could face a better or worse outcome at retirement.

Assessing your chance of meeting the RLS

- We've used our Guided Outcomes™ model to determine the chance of meeting the RLS for different combinations of salary and total contribution rate.
- We categorise the results using a red/amber/green colour scale, where red means unlikely to achieve the standard and green means likely.



Achieving the Minimum

In our modelling, we've assumed that members are entitled to the full State Pension, which is scheduled to increase to £11,500 pa for the 2024/25 tax year.

The chart shows that members who contribute regularly over their working life have a very good chance of achieving the Minimum standard of £14.4k pa.

| | 8% | 9% | 10% | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
|-----|-----|------|------|------|------|------|------|------|------|------|------|------|------|
| 50k | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 45k | 99% | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 40k | 98% | 99% | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 35k | 98% | 98% | 99% | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 30k | 95% | 97% | 98% | 99% | 99% | 99% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 25k | 91% | 94% | 96% | 98% | 98% | 98% | 99% | 99% | 99% | 100% | 100% | 100% | 100% |
| 20k | 85% | 88% | 91% | 93% | 95% | 97% | 98% | 98% | 98% | 99% | 99% | 99% | 99% |
| 15k | 74% | 79% | 82% | 86% | 88% | 90% | 93% | 94% | 95% | 96% | 97% | 98% | 98% |

The 100% figures in the table don't mean the outcome is guaranteed. Rather, there are no scenarios in our modelling for which regular contributions over an entire working life, plus the State Pension, don't result in the member achieving the Minimum standard.

So, things look pretty good vs the Minimum. But most people will want to aim for something more than that. How do they get there?

Aiming higher

The charts below show the chance of achieving the Moderate and Comfortable RLS for the same combinations of salary and contribution rate.

Moderate (£31.3k pa)

| | 8% | 9% | 10% | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
|------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Annual pensionable salary (£ p.a.) | | | | | | | | | | | | | |
| 50k | 36% | 41% | 46% | 50% | 56% | 60% | 64% | 68% | 70% | 72% | 75% | 77% | 79% |
| 45k | 32% | 36% | 41% | 45% | 49% | 54% | 59% | 61% | 66% | 68% | 71% | 73% | 75% |
| 40k | 28% | 32% | 36% | 39% | 43% | 48% | 51% | 56% | 60% | 62% | 66% | 68% | 70% |
| 35k | 23% | 27% | 31% | 35% | 37% | 41% | 44% | 48% | 51% | 55% | 59% | 61% | 64% |
| 30k | 18% | 22% | 25% | 29% | 32% | 35% | 37% | 41% | 43% | 46% | 49% | 52% | 56% |
| 25k | 13% | 16% | 20% | 22% | 25% | 28% | 31% | 33% | 36% | 38% | 41% | 43% | 46% |
| 20k | 8% | 11% | 13% | 15% | 18% | 21% | 23% | 25% | 28% | 30% | 32% | 34% | 36% |
| 15k | 3% | 5% | 7% | 8% | 11% | 13% | 15% | 16% | 18% | 20% | 22% | 24% | 25% |

Comfortable (£43.1k pa)

| | 8% | 9% | 10% | 11% | 12% | 13% | 14% | 15% | 16% | 17% | 18% | 19% | 20% |
|------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Annual pensionable salary (£ p.a.) | | | | | | | | | | | | | |
| 50k | 19% | 23% | 27% | 30% | 33% | 36% | 39% | 42% | 45% | 48% | 51% | 55% | 59% |
| 45k | 16% | 20% | 23% | 26% | 30% | 32% | 35% | 37% | 40% | 43% | 46% | 48% | 51% |
| 40k | 13% | 16% | 19% | 22% | 25% | 28% | 31% | 33% | 35% | 37% | 40% | 42% | 45% |
| 35k | 10% | 13% | 15% | 18% | 21% | 23% | 26% | 29% | 31% | 33% | 35% | 37% | 39% |
| 30k | 7% | 9% | 11% | 14% | 16% | 19% | 21% | 23% | 25% | 28% | 30% | 31% | 33% |
| 25k | 4% | 6% | 7% | 10% | 11% | 14% | 15% | 17% | 19% | 21% | 23% | 25% | 27% |
| 20k | 3% | 3% | 4% | 5% | 7% | 8% | 10% | 11% | 13% | 15% | 16% | 18% | 19% |
| 15k | 1% | 1% | 2% | 3% | 3% | 3% | 5% | 6% | 7% | 8% | 9% | 10% | 11% |

Some headlines

In general, members potential retirement outcomes are in a worse position relative to the RLS than they were one year ago.

The State Pension remains a significant component of retirement provision for low earners and members should understand their entitlement.

Most members who will receive the full State Pension are likely to achieve the Minimum standard.

A realistic target for low earners is likely to lie somewhere between the Minimum and Moderate standards.

For average earners, contributions of more than 16% p.a. are required to have a 50/50 chance of achieving the Moderate standard.

Even for high earners, paying the 8% minimum total contribution rate under auto-enrolment is unlikely to achieve the Moderate standard.

The Comfortable standard is well out of reach for most members.

For a salary of £50k p.a., a total contribution rate of more than 18% p.a. would be required to have a 50/50 chance of achieving the Comfortable standard.

What next?

A call to action for Trustees, Providers and Employers

1

Help members set a retirement income target. This can be an effective way of improving engagement and the RLS provide a useful framework for deriving targets that are tailored to members' likely spending patterns.

2

Help members find and understand their State Pension entitlement and what it means for the personal pension savings they'll need for retirement.

3

Provide members with the means to monitor progress against their target and understand what changes they can make to improve their retirement outcome.

Reliances and limitations

Our analysis is based on modelling, which relies on a set of subjectively derived assumptions. It would be possible to set alternative assumptions, which remain reasonable, but produce different results.

The RLS are quoted in terms of expenditure. Our DC projection model uses income targets so we convert the RLS to incomes by adjusting for the appropriate marginal income tax rates. The income figures modelled are:

- Minimum RLS – £14,858 pa.
- Moderate RLS – £35,983 pa.
- Comfortable RLS – £50,887 pa.

Our DC projections are based on The Hymans Robertson Guided Outcomes Model, which calculates future retirement incomes by considering member specific characteristics such as age, salary, contribution rate, current accrued fund, assumed investment choice and retirement age. The effective date of our modelling is 31 December 2023.

In the modelling, we project forward each member's salary and current fund using stochastic projections of asset returns and economic variables such as inflation. We assume that the member continues to contribute to the assumed investment strategy at the assumed contribution rate until they reach their retirement age, at which point they convert their accumulated fund to retirement income by purchasing an inflation-linked annuity.

Stochastic projections of yields are used to estimate the cost of income in retirement.

Income streams have been priced assuming that insurers adopt the S2 series of mortality tables, with best estimate future improvements in mortality rates assumed to be:

- CMI_2018 model, calibrated to E&W population data
- An initial addition to mortality improvements (A) parameter of 0.3%
- Otherwise core settings (including a smoothing parameter (SK) of 7.0)
- Long term rates: 1.5% pa for both males and females

The chances of success vs. the RLS we've calculated are based on representative member assumed to have the following characteristics:

- Age 25
- A starting fund value of £0
- A retirement age equal to State Pension Age
- Invested in a typical lifestyle investment strategy
- Contributions are paid at the same level until retirement
- An inflation-linked salary increase each year

We have complied with the relevant Technical Actuarial Standards (TASs) in place at the current date, namely TAS 100.

Thank you

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