Phoenix Insights

The Longer Lives Index: A crisis of confidence

March 2022

Phoenix
Insights

To explore the Longer Lives Index data for yourself, visit our data hub at thephoenixgroup.com/longerlivesindex

Acknowledgements

This report is based on analysis conducted by a team at Frontier Economics, including Kalina Kasprzyk, Paul Cullum, Francesco Barcellona and Sumaiya Rahman. BMG Research carried out the survey, and Amanda Taylor and Jacopo Hirchstein at data visualisation studio Tekja built the Digital Data Hub for the project.

Phoenix Insights would like to thank all those stakeholders who have advised on the work, including colleagues from the Association of British Insurers, Centre for Ageing Better, Deloitte, Independent Age, International Longevity Centre UK, Institute of Fiscal Studies, Money and Pensions Service, Pensions Policy Institute and Phoenix Group.

Citation

Please cite this report as: Phoenix Insights (2022) The Longer Lives Index: A crisis of confidence (London: The Phoenix Group)

thephoenixgroup.com/views-insights

Contents

Foreword

Catherine Foot
Director, Phoenix Insights

Average life expectancy in the UK has risen significantly over the last two centuries and many children born in rich countries today can expect to live to more than 100 years old. Our increased longevity is a fantastic success story of human ingenuity in areas like public health, nutrition and medical science, but the way we plan and think about our lives needs to catch up. Without change, too many people will reach later life lacking the resources and confidence to make the choices they want.

The Phoenix Insights Longer Lives Index provides new data to understand who is and isn't confident and prepared for their financial futures. By understanding the scale and nature of who lacks confidence in their financial futures and why, we can begin to understand what actions need to be taken today.

Being able to be confident in a good financial future is about more than saving money; it is about building up other connections and assets throughout life. Looking across five critical factors – savings, housing, work and skills, health, and support from family and friends – we find that one-in- four people lack confidence about their future later lives.

This report provides an overview of our findings and draws out some of the key implications and actions needed as we see them. We will publish further analysis based on the data in other reports during 2022 – for example, looking in greater depth at what different groups of people say they expect from their financial situation in later life, and how issues with people's savings, housing, work and health intersect, leaving some groups at particularly high risk.

We are also making the dataset fully available to anyone who would like to use it, and have built a digital data hub thephoenixgroup.com/longerlivesindex to enable people to explore the data for themselves. We hope this dataset will prove useful to everyone interested in improving financial wellbeing for people across the life course.

The times we are living through make us all feel particularly uncertain about what the future will hold. But bringing greater support and certainty for people about their capacity to live well in to older ages is within our grasp, if we choose to prioritise it. It requires action to better support people with information and advice, action on jobs and making workplaces more age-inclusive, action on health inequalities and action on housing. We must act now if we are to ensure that more of us can go into retirement and later life with financial security and wellbeing.

01

Executive summary

About the Longer Lives Index

The Phoenix Insights Longer Lives Index, conducted in partnership with Frontier Economics, is based on a new survey of approximately 16,500 people, aged over 25, who are not yet retired. This represents a population of 41.7 million people in the UK. It explores their expectations for and confidence in their financial wellbeing in later life.

We explore five critical dimensions of life that are major determinants across the life course of financial wellbeing in later life:

- Savings
- Work and retirement age
- Housing
- Health
- Financial support networks

In each dimension, we asked people about:

- Their expectations and plans for the future
- How confident they are about that dimension of their life when they are older

We also asked participants to share with us some information about their pensions, savings and income, and used this data to model the gap between people's current actions and how much they may actually need to save for the retirement they want.

Our large sample size has enabled us to analyse the data by a range of variables, including age, gender, ethnicity, geographic region and income.

Our findings

Savings

- Of all the dimensions (savings, work, health, housing, and family support), confidence in savings is lowest. On average, people score their confidence in their future savings at just over five out of 10.
- More than two-in-five people in the UK say they are not confident they will have enough savings to meet their future goals in later life. The most significant reason for low confidence is people's inability to afford to save regularly, followed by worries about paying off debts. People are also concerned about the uncertainty of their future costs, such as care costs.
- Those with higher confidence are more likely to have a final salary pension, a defined contribution workplace pension, a non-workplace pension or another type of savings for retirement.
- Our modelling found that 36% of people are most likely not saving enough to be able to meet their financial goals for retirement and later life, with an estimated savings gap of £50,000 or more. Our findings suggest that between 15 and 17 million UK adults are not saving enough to retire when they want on the income that they want.
- There is a worrying potential disconnect between perceptions and reality for some. More than one-in-three of those reporting high levels of confidence in their savings actually face, with our model, a substantial savings shortfall of over £100,000. Half of this group are 45–65 years of age.

Work and retirement age

- The average confidence in work is 6.4 out of 10. A quarter (25%) of people are not confident that their work will enable them to meet their financial goals in retirement.
- Many people are not confident that they will be able to remain in work to their preferred retirement age. One-in-four people are not confident in their ability to secure work and are worried that ill health, discrimination or the wrong skills will stop them from earning and saving what they need for later life.
- The majority of people expect to retire before the State Pension age (53% expect to retire by the age of 65). This expectation could be unrealistic for many, particularly for many younger adults who say they expect to retire earlier than other groups, despite a rising State Pension age.

Housing

- Average confidence in future housing was 6.9 out of 10, with 26% of people not confident.
- There are stark divides between those who own and rent. Of the four in ten current renters, less than a third expect to buy a house, leaving close to 11 million people needing to fund ongoing rental costs in retirement.
- Just under 3 in 10 of those renting who expect to buy are not confident about being able to get a mortgage at all or paying it off before they retire. This implies over 13 million people are likely to face ongoing rental or mortgage costs in retirement.
- Housing benefits will provide support to those expecting to rent who are on very low incomes, but for others adequate financial preparation for retirement means saving more money now to afford rent or mortgage repayments in retirement.
- For some, choosing to rent in retirement may be a positive, flexible and affordable choice, but this is likely to be challenging for many, in particular as renting is often associated with higher ongoing living costs than paying off a mortgage.

Our findings
continued

Health

- Average confidence in health was 6.2 out of 10, with 27% of people not confident about their health in future enabling them to reach their financial goals in future. Close to 6 million of those in poor health now and another 6 million of those without current health issues worry their health overtime might impact their financial preparation for retirement.
- Health is the dominant worry that individuals have about their ability to remain employed as they get older. There is strong correlation between how confident individuals are about their health, their employment and their ability to save adequately. Health confidence is strongly correlated with work confidence (at 70%), meaning that those feeling insecure about their health in the future are highly likely to feel insecure about their ability to work for long enough.
- Close to 13 million individuals (3 in 10 aged 25 to 75) say they suffer physical or mental health issues today, and half of those people are affected by both. Those with ongoing health issues today are less confident than others about their health in the future allowing them to reach their financial goals for retirement. Individuals with mental health issues are less confident than those with physical issues, and the lowest confidence overall is seen for those affected by both mental and physical health problems.

Financial support networks

- 15% of people are not confident in this aspect of their financial preparedness, but overall, support was the dimension that people felt most confident about. We asked people about their expectations for both receiving financial support from others (such as relying on a partner's pension income, or inheritance from older relatives), and providing support (such as supporting adult children with housing costs). Average confidence in receiving financial support from others was 6.9 out of 10. Confidence in providing support was 6.8 out of 10.
- This is an encouraging picture, but there is a risk that even if people are confident that others might be willing and able to support them financially in later life, there is no guarantee this will come to pass. Uncertainty over social care costs, unpredictability about future life events, and the supporting individual underestimating their own financial needs may all contribute to a less guaranteed future.
- Over seven million people expect to receive financial support from family and friends in retirement. Given that more than a third (36%) of us are not saving enough to meet retirement plans, this could have significant impact on the plans of friends and family. One-in-10 people expect this financial support to come exclusively from their partner, while 7% expect it from family and friends (which might include a partner but in combination with others). The majority of people (82%) do not expect to receive significant support, but around half of this group expect to receive a little support from family and friends. Meanwhile, over nine million people expect to provide financial support to family and friends.
- There are strong differences in expectations of receiving financial support from family and friends in retirement across ethnic groups. Ethnic minority groups – Asian people in particular – are more likely to expect to receive support from family and friends, rather than a partner alone, compared to White people.

Our findings
continued

Differences between different groups

Our research shows variation in all dimensions by sociodemographic group, both in terms of expectations and confidence levels. There are pronounced differences across age groups, gender, ethnicity, income and region.

Ethnicity

- Across ethnic groups, overall confidence scores are broadly similar but with variation in the specific dimensions. Black people are on average least confident across all dimensions combined, with White people least confident about saving enough specifically. Asian and people with a mixed ethnic background are more confident about providing and receiving support from family and friends.
- Among people who are less confident about their health in the future, Asian people are more than twice as likely as White people to worry that their job will become increasingly difficult to perform in older age (57% of Asian people vs. 27% of White people).
- Some Black respondents (14%) with lower confidence stated that their health deteriorated as a result of the pandemic and they weren't able to work as much as before. This proportion is much higher than for other ethnic minorities, where it was at around 7%, and for White respondents, where it was 9%.

Gender

- Men are more confident across most dimensions. For example, men score 5.5 on savings confidence, compared to 4.8 for women. Both men and women have similar worries for savings, but differ on their concerns relating to work and skills, with men more anxious about career progression and potential career shifts.
- Women are, on average, confident about the financial support they expect to receive from a partner and other family and friends in retirement. Although this is reassuring, it could also signal a potential vulnerability of women relying on such support if their circumstances change unexpectedly – for example, through divorce or bereavement.

Age

- People are generally more confident across all dimensions as they age, with a small dip among 35–44 year olds. While younger people (aged 25–34) worry relatively more about opportunities for career progression, the oldest group is more concerned with age-based discrimination at work. Younger ages are more worried about mental health being a barrier to employment over time, while older people are more anxious about physical health.
- Looking at confidence in savings, older groups worry more about the uncertain costs of care they might face in future. Meanwhile, younger respondents tend to be more insecure because of their lack of knowledge about pensions and how much they need to save.

Income

- There are large gaps in the confidence scores between high and low income earners. Confidence across most dimensions increases with income. One exception is relying on support from others, where low earners are more confident than middle income earners, and similarly confident to those on high incomes.
- People across all income groups are concerned about how they will manage their jobs in older age. Low income earners fear they may not have alternative options if they get ill, and high income earners worry about the impact of having to cut down their hours. Lower earners are more than twice as likely to say that their physical health will become a barrier to continued employment (43% of low income earners vs. 21% of high income earners).

Region

- Overall confidence levels are similar across all regions, but vary across specific dimensions. The South West is the most confident region, on average. London presents a unique picture, exhibiting the highest confidence in savings but the lowest in both housing and work.
- The negative impact of the pandemic on savings confidence is much more pronounced in Northern Ireland than elsewhere in the UK. Nearly 40% of people in Northern Ireland say the pandemic negatively impacted their future finances – compared to around three-in-10 in most other regions, including London.

Impact of the pandemic

- In the two years since the start of the pandemic, the number of economically inactive people aged over 50 has increased by nearly half a million, with over 50s accounting for around 94.4% of the increase in economically inactive people.[1] This reverses a two decade long trend when older workers had driven employment growth in the UK. The pandemic has impacted people's health, career plans, savings and those of their wider family and friends.
- Almost a third of people feel less confident about saving for retirement, and half of those individuals no longer feel confident about saving enough to meet their financial goals.
- A minority (16%) feel more financially confident because of the pandemic, but for almost half of them this boost was not enough to make them feel confident about saving enough.
- The most common drivers of lower confidence are linked to reductions in income as a result of working less, being on furlough or losing their job. Links to others also played a part – some less confident people suffered because of helping family and friends, or because someone in their household was unemployed.
- Younger groups have had a more extreme and polarised reaction to their retirement savings confidence from the pandemic. People aged 25–34 years have both the highest share of those that feel less confident due to the pandemic, and the highest share of those feeling more confident. Both of these extremes sharply decrease across age groups.
- Older groups are more likely to see a drop in confidence due to the pandemic, usually because of a fall in income (41% of over 65-year-olds gave this as a reason), or losing out on investments (given as a reason for low confidence by more than one-in-five over 65-year-olds).

1. 'Movements out of work for those aged over 50 years since the start of the coronavirus pandemic' (ONS, March 2022)

Conclusions and recommendations

The policy debate about financial wellbeing in later life is often limited to trying to get people to save more, through engagement, information and defaults like auto-enrolment. This is critically important, but not enough. People's ability to save enough throughout their life depends on a wider set of resources – their work and skills, their health, their housing and their relationships with others. Actions by both policymakers and industry to increase financial preparedness must consider these holistically.

Actions for change

- We need to make access to good information and support about our future finances the norm for all of us, rather than the preserve of the wealthy few, and something that starts early in adult life. People also need this information and advice to be holistic, covering things like pensions and housing together.
- It will be especially important to reach people with the largest savings gap, and we could speculate that the group within that with highest confidence might be particularly hard to reach.
- Defaults like auto-enrolment can help but we need to go further, particularly to make it easier for people to save more when their circumstances allow it. Additional defaults should be explored, such as auto-escalation of pension contributions when salary increases, along with nudges when personal circumstances might change that enable greater interest/capacity for saving – for example, children leaving home. We also need to expand the coverage of auto-enrolment to those not yet covered, including people who are self-employed or aged under 22.
- People expecting to give financial support to others in their retirement face additional pressures. The government and the industry should help these individuals in making the right decisions to ensure their preparation is adequate. Equally, those living without a partner or ageing without children, or those living geographically isolated from family or support networks will also all have different experiences and needs. Service providers and businesses need to tailor their offers to better reflect this diversity and the role that family and social networks, or the lack of them, play in people's financial wellbeing.
- We need to redesign the world of work for longer lives, and shift employers' attitudes and actions. Not everyone will want and need to work for longer, but by making work more age-inclusive, we will help reduce age as a barrier to people being able to earn and save when they need to meet their financial goals over their longer lives. Employers must be proactive about tackling age-bias in recruitment and hire age-positively, enable flexible working, support staff with caring responsibilities, and encourage career development and training for staff of all ages.
- People cannot save for the future if they cannot even make ends meet today. The levelling up agenda must tackle in-work poverty and the prevalence of precarious jobs with very low pay and few prospects for progression. We also need to do more to support people with health conditions and disabilities to find and remain in good work. Too many people are forced into early retirement due to health problems, limiting their income and capacity to save, and wasting their skills.
- Many people who worry about saving enough for retirement do so because they are concerned about their ability to stay employed over time. This shows the important role of policy in supporting reskilling, upskilling and higher labour mobility, particularly later in life. We need to see a revolution in adult education so that many more people are supported to retrain and reskill at different points throughout their working lives, and not just rely on the education they received at the start of their lives.
- Housing inequalities will play a huge role in determining who is or isn't financially secure as they enter later life. Addressing housing affordability and availability, and renters' rights, will be critical to supporting people to afford a decent standard of living in later life, particularly for younger generations.
- We need a national conversation on longer lives and what they mean for all of us. We need to support people to take time to think about where they want to be in later life, and what this means for their work and finances at younger ages. Interventions to support and guide people in mid-life could also play an important role here.

02

Introducing the Longer Lives Index

Introducing the Longer Lives Index

Average life expectancy in the UK has risen significantly over the last two centuries. Our increased longevity is a fantastic success story of human ingenuity in areas like public health, nutrition and medical science. But much of how we structure and organise society is just not suited to support people with 80, 90 or 100 year-long lives, and the gap in healthy life expectancy between rich and poor is growing.

And although the future has always been uncertain, the burden of that uncertainty is now more than ever on the individual. With the disappearance of defined benefit pensions, people rather than governments and corporations are expected to take the lead in securing their financial future.

The Phoenix Insights Longer Lives Index is a comprehensive look and who is and who isn't ready and confident for a financially secure future in later life across the UK.

Conducted in partnership with Frontier Economics, the Longer Lives Index is based on a new survey of approximately 16,500 people aged over 25 who are not yet retired, exploring their expectations for and confidence in their financial wellbeing in later life. This represents a population of 41.7 million people in the UK.

We have chosen to explore five critical dimensions of life that are major determinants across the life course of financial wellbeing in later life: savings; work; housing; health; and financial support networks between family and friends.

Five life course dimensions of financial wellbeing in later life

One of the fundamental challenges of living longer lives is to prepare financially. This includes saving more or for longer, but this interacts with other dimensions that impact our wellbeing over our longer lives:

Savings

In order to support an adequate level of income in retirement, building up enough savings is critical. Living a longer life, and a desire to lead a more active life in retirement, requires people to think about how they save and invest for the future.

Work

For many, living longer will mean extending working careers to support financial security in retirement. Staying in one sector across a whole working life may not be realistic or desirable for many. This highlights a need to consider reskilling, changing working patterns, or moving careers throughout our working lives, to maintain motivation and sustainability of work over the long run.

Housing

Together with savings, housing makes a major contribution to financial preparedness. Housing costs are one of the largest single costs of living for people across their lives including in retirement. Many will need to own their own home, or have finances to rent into retirement. Many also see housing assets as a key source of income or equity in later life.

Health

While many are living longer lives than previous generations, not all of those years are lived in good health and there are widespread health inequalities across the life course. Good health can help to maintain independence at home and in work and delay the need for social care costs. A person's health throughout working life is also linked to their ability to make a living and build the capacity to save for retirement.

Financial support networks

Intergenerational family assistance and support from family, friends or a partner are an important component of financial wellbeing across our longer lives. The expectations of the support people get from their relationships have implications for the financial preparations they need to undertake themselves and any support people expect to give others requires more saving on their part.

Five life course dimensions of financial wellbeing in later life

continued

In each dimension, we asked people about:

- Their **expectations and plans** for the future. For example, are they planning to buy a house or rent in retirement? Are they planning to support family and friends financially in the future, and if so, how are they preparing for it? Are older respondents thinking about potential future care costs?
- How **confident** they are about each dimension of their life when they are older. A confidence metric enables a comparison across the various dimensions of preparation, as well as allowing us to track sentiment over time.

We also asked participants to share with us some information about their pensions, savings and income, and used this data to model the gap between people's current actions and how much they may actually need to save for the retirement they want.

Our large sample size has enabled us to analyse the data by a range of variables including age, gender, ethnicity, geographic region and income.

This report sets out our overall findings and discusses their implications. The full dataset is freely available for use by others, and you can explore the data for yourself by using our digital data hub thephoenixgroup.com/longerlivesindex, where you can choose which groups of people you are interested in, and download data and key charts to use and share.

For more detailed information on the methodology behind the index, please refer to the annex of this report.

Measuring the confidence gap

Individual saving is at the core of financial preparedness. This is because for many, the State Pension constitutes an inadequate replacement rate of income in retirement and they need to rely on savings to top up their income. In this section, we focus specifically on that dimension of preparation, exploring:

- How confident individuals are about saving enough;
- How big is the savings gap, and
- How the confidence and the size of the savings gap correlate for individuals.

About confidence

The self-reporting and subjective nature of people's responses to measures of their own confidence mean they may be prone to bias. For example, evidence suggests that women might systematically underestimate their confidence.

However, the results from our survey suggest the extent of the bias is likely to be small in this case. Notwithstanding these potential limitations, confidence metrics remain a helpful and widely used way to measure sentiments regarding a specific area as a reflection of respondents' perceptions of their personal circumstances or the reality around them.

In this case, they provide a neat way to compare preparedness across the various dimensions, and track how it changes over time. Beyond that, understanding if and how confidence might deviate from actual outcomes of individuals is informative in designing effective policy solutions.

The existence of a savings gap is an important issue when we consider financial preparation for retirement in the UK. The savings gap refers to the discrepancy between the actual level at which individuals save and what they need to save for an adequate or desired income in retirement. Existing estimates suggest the savings gap in the UK is very large. Pensions Policy Institute research highlights particularly 'underpensioned' groups at risk of inequalities associated with lower retirement incomes, including women, ethnic minority groups, disabled people, carers, and low earners with multiple jobs.[1] In 2014, the Department for Work and Pensions (DWP) analysis estimated that 12 million UK adults are failing to save enough for an 'adequate income' in later years.[2]

We know that people's incomes or saving rates are not consistent across their lives, with spending needs, lifestyle choices and career earnings changing at different life stages. The Institute for Fiscal Studies have undertaken theoretical modelling that suggests that if an individual is aiming to smooth their spending over their lifetime, then they should save a greater proportion of their earnings for retirement at later ages when earnings are higher, rather than saving at a constant rate throughout working life.[3]

Whether individuals are on track with their retirement saving depends on several factors, including:

1. Savings behaviours: how much wealth they have already accumulated and how much they are saving now.
2. Financial goals for retirement: the aspects of financial preparedness that determine how much they need to save – including the age at which they want to stop paid work; whether they own a home or will need to pay rent; whether they will have support from others, or need to give support themselves; any health or social care costs they expect; and the level of income they want to achieve in retirement.
3. Future economic factors such as inflation; any changes in income before they retire; and investment returns. These factors determine how savings will grow before retirement and how much income any savings can support.
4. Their individual life expectancy.

1. 'The Underpensioned Index', Pensions Policy Institute (2020)
2. Scenario analysis of future pension incomes, Department for Work and Pensions (2014)
3. When should individuals save for retirement? Predictions from an economic model of household saving behaviour – Institute For Fiscal Studies, Institute for Fiscal Studies (2021)

Measuring the confidence gap
continued

Measures of the retirement savings gap tend to compare individuals' savings behaviours against a standard imposed threshold of what an adequate savings behaviour across the society should be. For example, the Pensions and Lifetime Savings Association suggest this is 12% of income and for DWP this is a saving rate that allows the individual to get a common replacement rate for each income band based on the ratio of average pension income (average over all years in retirement) to average earnings from age 50 and State Pension age.[1]

This approach is only one part of any savings gap. It does not account for the different financial goals people have for retirement. Some people may have already accepted a lower replacement rate in retirement, or a later retirement date, and so are meeting their financial goals with lower levels of savings. Some people may have much higher expectations of living standards in retirement than the replacement rates imply, or be planning an earlier retirement age, and so are under saving against their own goals.

Our approach in this research is to understand both savings behaviour (now and in the past) and compare these with individuals' financial goals for retirement. We have asked people about the income they aspire to in retirement and their expected retirement age and use this as a benchmark for whether they are on track with their savings. This approach provides a unique insight into financial preparation for retirement in the UK.

The size of the savings gap does not just depend on savings behaviour today and individuals' financial goals. The savings gap will also be sensitive to what we assume about the future. In particular:

- Future savings behaviour: We assume people save a constant proportion of income throughout the rest of their working life, equal to what they state as their current level of saving. This means that in absolute terms their contributions will increase in line with their income growth, but they will not change in relative terms. In reality, many people are likely to change the share of their income they save over the lifetime.
- Income growth: We assume real annual salary growth of 1.75% until the age of 50. In reality people will face different income and employment trajectories depending on their career aspirations, their employment status and working patterns, their level of education and the type of sector they are employed in.
- Economic factors: We assume a real return on investment of 2.4%, which is constant for everyone, and does not reduce as people approach retirement.
- Life expectancy: We use an average life expectancy based on age and date of birth. This doesn't take into account individual life expectancy factors like gender, regional or lifestyle differences.

These assumptions might influence the accuracy of our modelling at an individual level and affect the precise size of the savings gap for the UK population. However, our results are intended to provide a rough magnitude of the savings gap and the share of the UK population on track with their retirement savings. As such, these assumptions should not influence the validity of our findings as indicative of the general trends in financial preparation for retirement in the UK.

1. Hitting The Target – A Vision For Retirement Income Adequacy, Pensions and Lifetime Savings Association (2018)

03

Our findings

Overall confidence

On a scale of one to 10 the average overall confidence about financial preparation for retirement in the UK is just over six. This indicates a neutral to mildly positive outlook across all dimensions.

This is a weighted average of headline confidence scores across all dimensions: savings, housing, work, health, and financial support networks.

This overall score corresponds closely to average level of sentiments felt around housing, work and health. Confidence level about savings, by contrast, is significantly lower, at just over five. More than two in five are not confident about this fundamental aspect of preparation.

The dimension with the highest confidence level is that of financial support between family and friends. Both those expecting to receive support as well as those expecting to provide support to others are on average more confident about this aspect of retirement planning than about other dimensions.

The headline average scores will hide a lot of variation across individuals. We explore how this variation looks across key sociodemographic dimensions – age, gender, ethnicity, region and income – on page [26] of the report.

Finally on page [36] we explore how confidence about saving enough was impacted by the pandemic, and how these differed for key sociodemographic groups.

Overall confidence

	Overall	Savings	Work	Health	Housing	Support (receiving)	Support (providing)
Average confidence	6.2	5.2	6.4	6.2	6.9	6.9	6.8
% not confident	25%	43%	25%	27%	26%	15%	15%

Savings

Saving enough is a fundamental aspect of a person's financial preparation for retirement. Yet confidence about savings is the lowest of all the dimensions we looked at in this research. Close to 18 million individuals (over 2 in 5 aged 25 to 75) are not confident about saving enough to meet their financial goals in retirement.

Confidence level is clearly influenced by preparation actions undertaken. Those with higher confidence are more likely to have a final salary pension, a defined contribution workplace pension, a non-workplace pension or other types of savings for retirement.

The key reason behind low confidence is the inability to afford savings on an ongoing basis, indicated by over two in five respondents with low confidence. Over one in five are not confident because they worry about paying off their existing debts.

But non-financial reasons are also important. Many do not know how to plan given the uncertainty about their lifespan, or lack of information about pensions. Two in 10 respondents are worried about saving enough given their physical health issues and costs of care they might face in older age.

For many people there is a significant savings gap in terms of how prepared they are for their longer lives. Just under 25 million people in the UK (three in five aged 25 to 75) are comfortably on track to save enough to meet their financial goals for retirement – that is their aspired retirement age and income. A further 2.5 million are roughly on track, with a savings gap of less than £50k. This leaves just over 15 million people who are not saving enough to meet their financial goals for retirements at the moment.

How individuals are doing in terms of saving preparations affects their confidence. As might be expected, those almost on track are less confident than those comfortably on track.

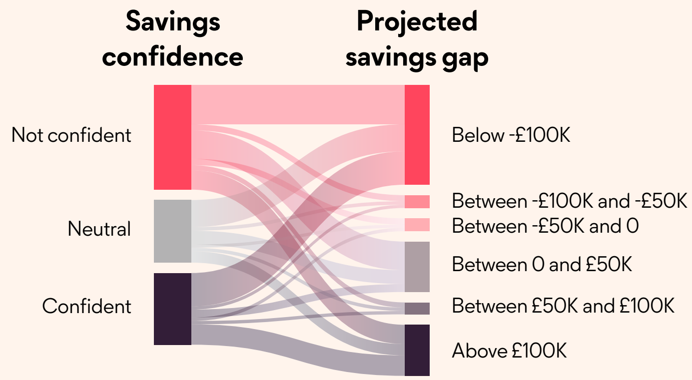
Of those comfortably on track, over two in five are not confident about meeting their financial goals, which might reflect ongoing worries about uncertainty in the future, or the fact that they are more aware about future uncertainties they may face. It is worth noting that a similar share of those not on track are not confident, suggesting that financial confidence may only be loosely linked to actual preparedness.

Most surprisingly, those not on track to meet their goals show the highest average confidence level. 36% of those confident about saving enough have a substantial saving gap of over £100k, showing a huge disconnect between perceptions and reality.

This disconnect is not explained by over-optimism among younger generations that might hope to adjust their saving behaviours over time. Average confidence about saving enough to meet a person's financial goals increases with age for those with savings gap of over £50k. And around half of respondents with high confidence and savings gap over £100k are 45 to 65 years of age.

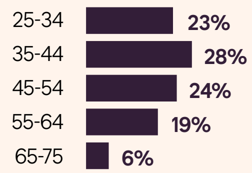
1. While £50k is a substantial savings gap, we use this threshold to indicate those "roughly" on track given the approximate modelling nature of the savings gap – see the annex for more detail on the methodology and its caveats. Given this the focus of this exercise should be on the share of respondents not on track, which indicates a conservative view of those currently not saving enough to meet their financial goals for retirement.

Disconnect between savings confidence and reality



Saving confidence by age group for respondents with gap > £50K

Age distribution group for respondents with high confidence and savings gap > £100K'



Confidence is not an indication of whether savings are on track

Savings confidence measures confidence in being able to save enough money to reach your expected annual income for retirement.

	Comfortably on track – no savings gap	Almost on track – gap less than £50k	Not on track – Savings gap bigger than £50k
% of respondents	58%	6%	36%
saving confidence	5.0	4.9	5.5
% not confident	46%	47%	38%

Work

Good work over our longer lives is an important enabler of financial preparation for retirement, helping individuals' financial security in their current lives while building resources for the future.

Longer lives also mean that many people will need to think differently about how and when they will work. The ability to adapt and continuously refresh work-related skills will become important to enable career shifts and reinventions throughout a longer working life. This is a big change from a historic, linear career model where individuals may have completed education in young age and followed a single career until retirement.

Our findings show that the majority of people expect to retire early: 53% expect to retire by the age of 65. 65 is the most popular age to plan to retire, indicated by one in four respondents.

Younger age groups may experience future changes to the State Pension age as individuals live longer and as an increasing ratio of retirees to working population puts pressure on public finances. It is therefore perhaps surprising to see that younger ages in fact expect to retire at earlier ages than older respondents. The average expected retirement age is 64.9 for 25 to 34 year olds, compared to 65.3 for those aged 55 to 64. This may indicate a mismatch between expectation and reality with current trends suggesting that people will need to work for longer on average to fund their longer lives. This may also indicate a lack of serious consideration for a life event that feels very far away for younger age groups.

Confidence levels about remaining in employment in a way that supports individuals' financial goals for retirement among employed individuals are similar across employment status. Perhaps surprisingly, self-employed individuals are almost as confident as those employed full-time, in spite of having lower security for their pension provision.

The self-employed workforce also have a wide variety of work and savings experience. Part-time workers are marginally less confident, and those out of work are significantly less confident.

The idea of working longer or shifting careers can pose significant challenges and uncertainty to many. By far the key reason stated behind the low work confidence were concerns about health impacting ability to continue working. Other key concerns include lack of support for older colleagues in workplaces, inability to find a new job and lack of motivation to work for so long.

Work summary

Work confidence measures confidence in being able to work (or return to work) until your preferred retirement age in a way that supports financial goals for retirement.

	Employed full time	Employed part time	Self-employed	Out of work - planning to work again	Out of work - not planning to work again
% of respondents	70%	21%	6%	1.5%	1.4%
Work confidence	6.5	6.3	6.4	5.7	N/A
% not confident	24%	26%	25%	31%	N/A

Housing

Housing is an important aspect of a person's preparation for retirement. Most fundamentally, those renting across their longer lives face high cumulative costs without any benefit of an asset.

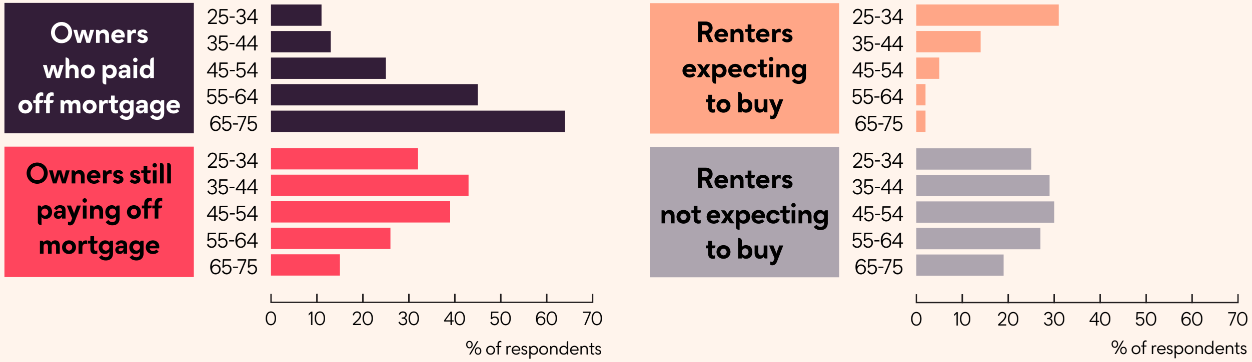
Renters often face higher ongoing housing costs throughout their working lives as well as a lack of security in terms of tenure or predictability of costs, making it harder to save adequately for their retirement. A housing asset can also be a source of income in retirement and constitutes an important part of inheritance for many.

Only 25 million people aged 25 to 75 (and still in employment) in the UK currently own a house (equivalent to around 6 in 10 in this group), and only 10 million among them have already paid off their mortgage. House ownership is significantly lower in younger age groups, an age effect of asset accumulation as well as a generational effect of the housing market.

Of the four in 10 current renters, less than a third expect to buy a house, leaving close to 11 million people facing ongoing rental costs in retirement. The share of those expecting to rent in retirement is generally higher for under 65s, likely reflecting the fact that getting on the property ladder in the UK is harder nowadays than in the past. 25–34 year olds at the moment are somewhat more optimistic than those over 35. It remains to be seen how those expectations pan out over time given changing housing costs over time, the future of housebuilding as well as the impact of inheritance in the long term.

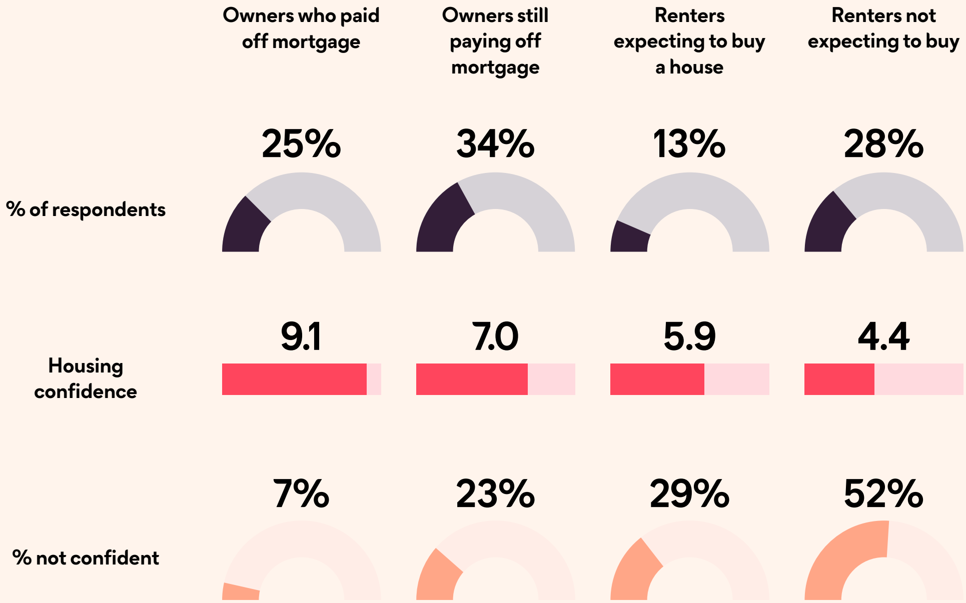
The confidence around housing in retirement varies depending on the expectation about how housing will be paid for. Not surprisingly, those already owning a house are more confident than renters. Among those expecting to buy a house before they retire, around 30% are not confident about their ability to do it. Over half of those expecting to rent in retirement worry about how they can afford their rental payments, even though many should expect housing support in the future. This low confidence is concerning and signals potential large scale financial resilience issues among renting retirees in the future.

How housing expectations vary across age groups



Housing summary

Housing confidence measures confidence in managing any housing costs in retirement.



To note:
The question asked varies depending on expectations of the housing situation, e.g. those expecting to own a house in retirement with mortgage paid off were asked how confident they are about achieving this, while those expecting to pay rent or mortgage instalments in retirement were asked about their confidence to afford these. For more detail, see the methodology annex.
For those owning a house with a mortgage paid off, a confidence score of 10 was inputted if respondents did not expect to change their living situation in retirement.

Health

Good health plays a crucial role in the ability to continue to work and save to support better financial wellbeing in later life.

Poor health is one of the major factors leading to people leaving work earlier than they might want to and there are stark inequalities, with those in the lowest quality work most likely to see it impacting their ability to work and earn for longer.[1]

Close to 13 million individuals (three in 10 aged 25 to 75) experience physical or mental health issues today, and half of those people are affected by both. Those with ongoing health issues today are not very confident that their health in the future will allow them to reach their financial goals in retirement. Individuals with mental health issues are less confident than those with physical issues, and the lowest confidence overall is seen for those affected by both mental and physical problems.

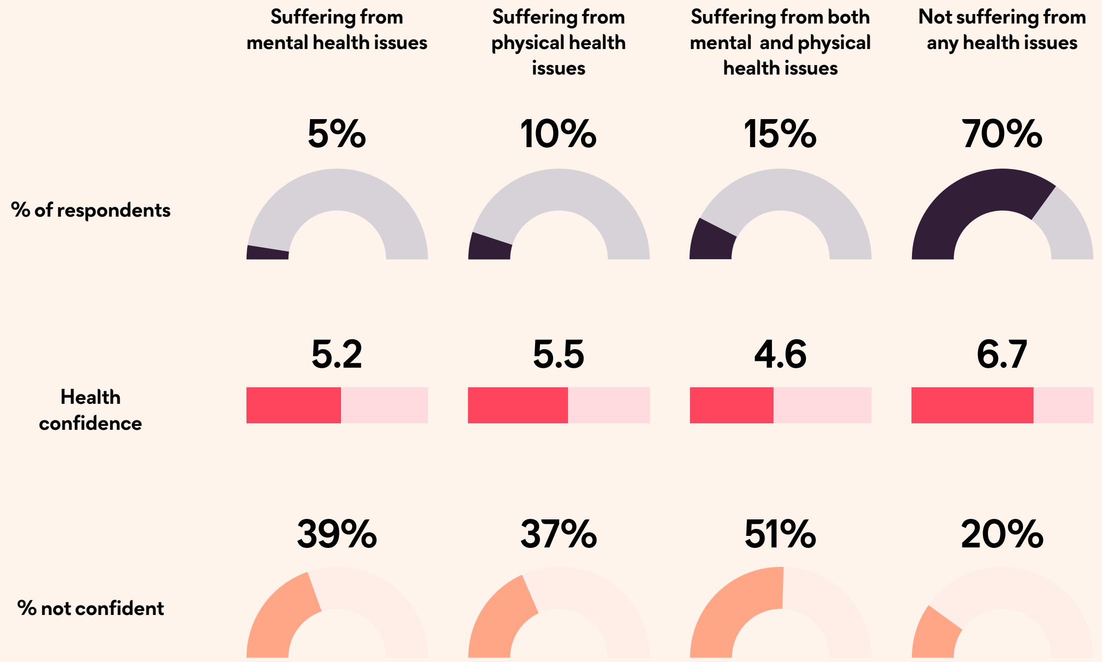
Health confidence is strongly correlated with work confidence (at 70%), meaning that those feeling insecure about their health in the future are highly likely to feel insecure about their ability to work for longer. A positive although slightly less strong correlation is also seen between health and savings confidence – those worried about their future health also worry that they are not saving enough now.

Given that current health determines confidence about future health, current health conditions are also linked to how confident individuals are about saving enough and working for longer. Those with health issues are more likely to lack confidence about saving enough or being employed until retirement, particularly if they suffer both physical and mental health issues.

This means that individuals with poor health or those who expect to have poor health in future may face multiple related disadvantages, with likely ongoing health costs and financial difficulties, worries about employment prospects and inability to put money away for retirement. This suggest a strong need for policy solutions supporting individuals with health issues and worries in their financial preparation for retirement.

Health summary

Health confidence measures confidence in your health allowing you to reach your financial goals for retirement.

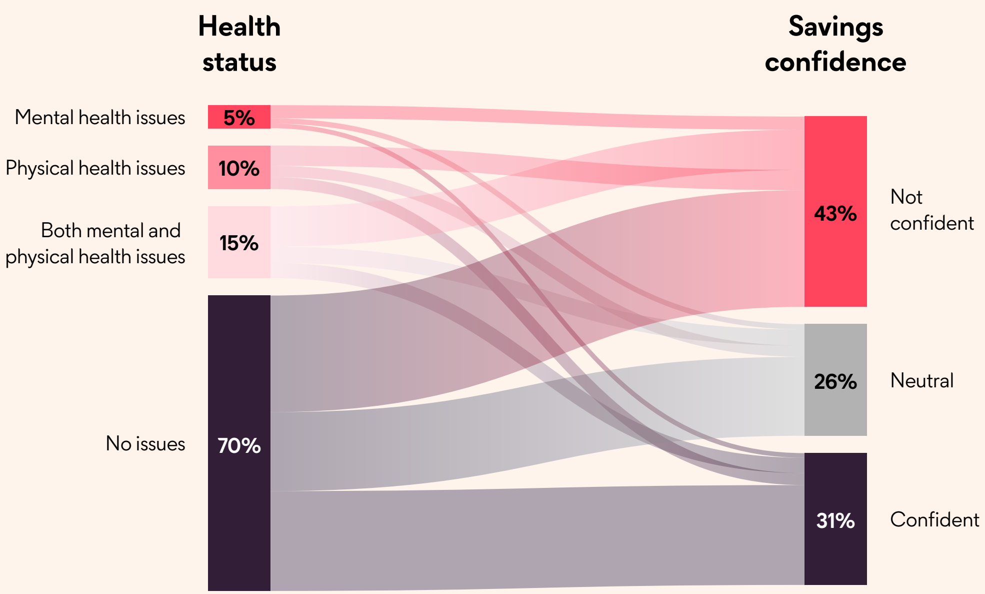


1. Fuller Working Lives: evidence base (Department for Work and Pensions, 2017)

Health
continued

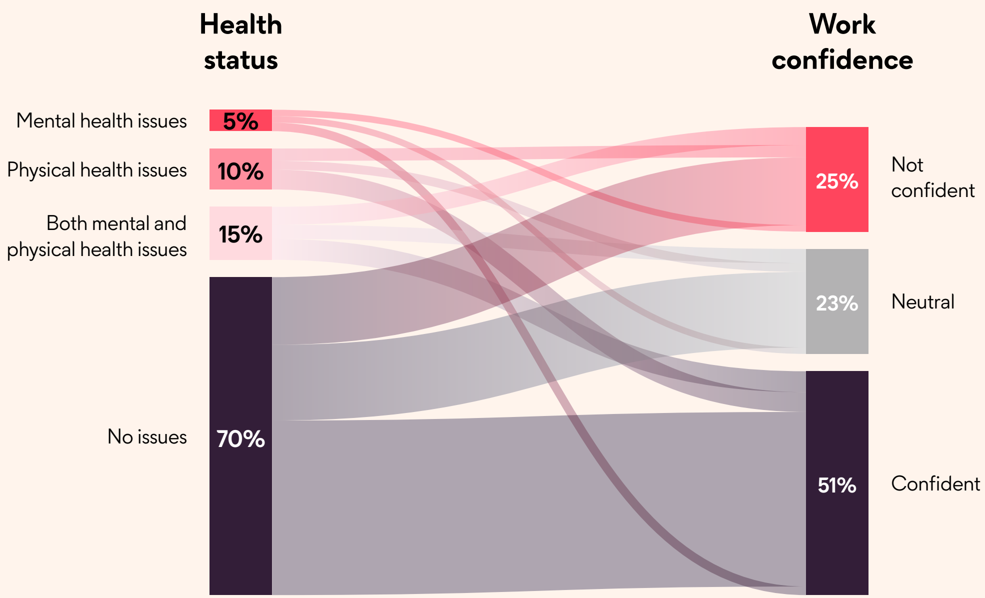
Correlation health status and savings confidence

Individuals who worry ill health will affect their ability to prepare financially for retirement



Correlation health status and work confidence

Individuals who worry current health issues will prevent them from working enough to save for retirement



Financial support networks – relying on others

Just under one in five people told us they expect significant financial support from a partner, family or friends in retirement.

This is equivalent to over 7 million people. One in 10 expect this to come exclusively from their partners, while 7% expect it from family and friends (which might include a partner but with combination with others). Although even among the 82% who do not expect significant support, around half expect a little support from family and friends.

Confidence about receiving significant financial support among those expecting it is high, making this the dimension of preparation where confidence is strongest. The majority of those expecting financial support from their partner are confident of receiving it, but there are still 15% who are not confident. It is important to note that even when individuals are confident that they will receive support, and friends or family are willing to offer it, that is no guarantee that the finances will be available in the future due to the inability to accurately predict the financial security of those offering support.

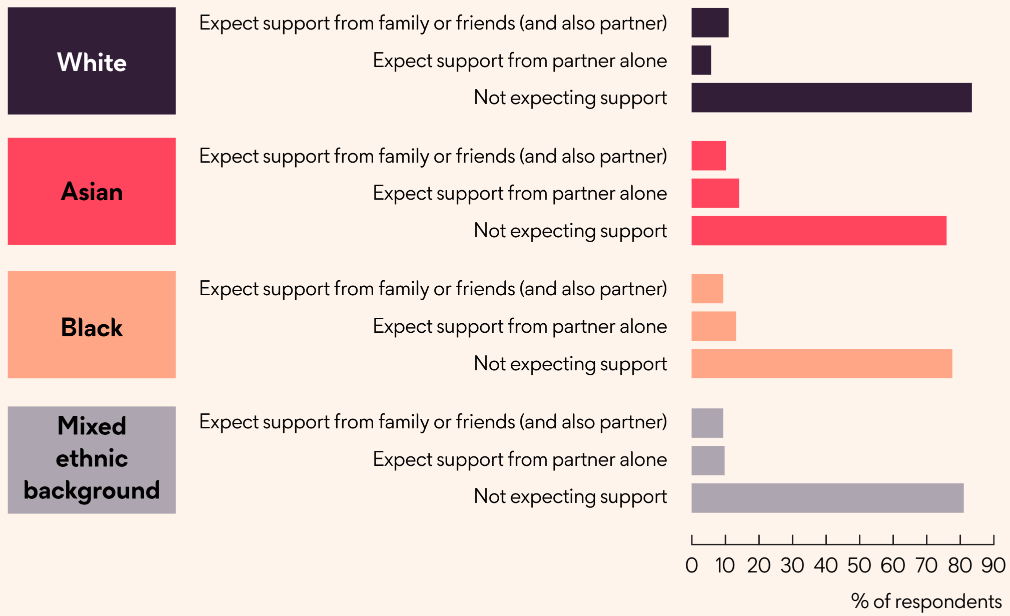
There are strong differences in expectations of receiving financial support from family and friends in retirement across ethnic groups. Ethnic minority groups – and Asian people in particular – are relatively more likely to expect to receive support from family and friends rather than a partner alone compared to White people.

Relying on others

Relying on others confidence measures confidence that family, friends or partners will provide you with financial support.

	Expecting significant financial support from partner alone	Expecting significant financial support from family or friends	Not expecting significant financial support from family or friends
% of respondents	11%	7%	82%
Relying on others confidence	7.4	6.1	N/A
% not confident	15%	15%	N/A

How support expectations vary across ethnic groups



Financial support networks – providing to others

On the other side of the support equation, some expect to continue providing financial support to family and friends in retirement – 22% expect to be providing the support, as compared to 18% that expect to receive it.

One in 10 expect to provide financial support in retirement to their partner exclusively, while 12% will provide it to family or friends more broadly. The share of those expecting to significantly financially support a partner in retirement is similar to those expecting this support from a partner. In contrast, the share of those expecting to support family and friends is higher than the share expecting to receive this support from family and friends.

This indicates a potential mismatch and suggests that expectations are not always shaped by explicit conversations among family and friends. While people over- rather than under-expect to support others, there is no guarantee that they will be able to do so in the future.

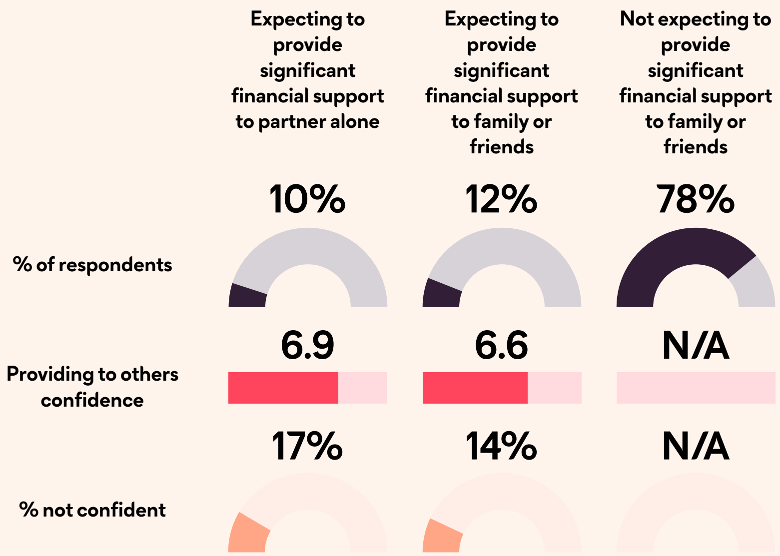
Financially supporting others in retirement requires additional financial resources, which for many will mean additional preparation ahead of retirement. Our future research will explore how individuals are preparing, and if they're on track to be able to adequately support their family and friends who count on this support for their financial security.

The average confidence about being able to provide the support is high, particularly among those expecting to support a partner as opposed to other relations. It is worth noting that partners expecting to provide support are less confident than the partners are that they will receive it – at 6.9 versus 7.4 respectively. In contrast, those expecting to support family and friends more widely (including in combination with a partner) are more confident about their ability to do so, than the family or friends are in receiving it – at 6.6 versus 6.1.

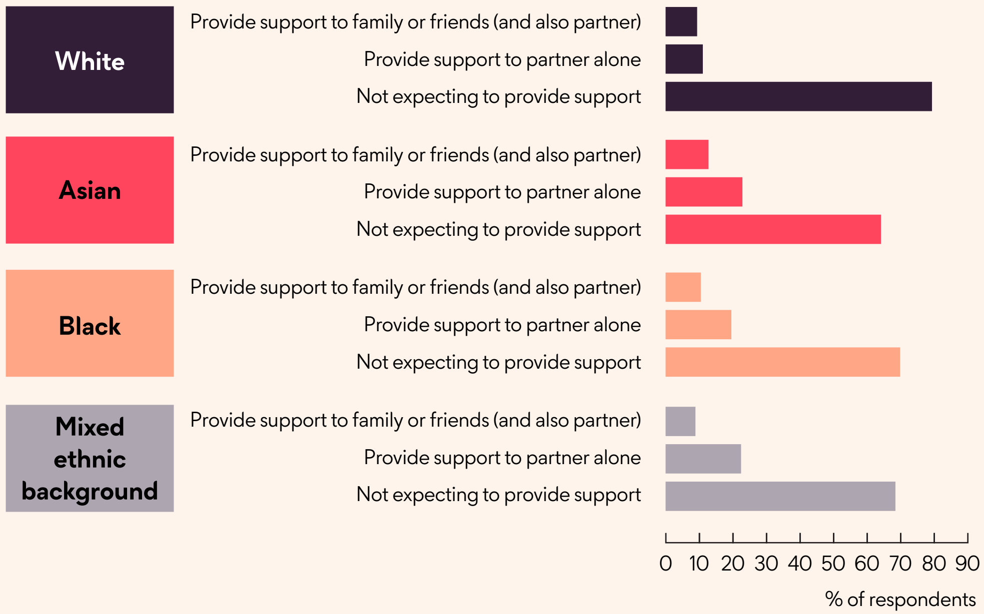
Similarly to expectations of relying on support, ethnic minority groups are relatively more likely to expect to provide support to family and friends more broadly and not just partners than White people.

Providing to others

Providing to others confidence measures confidence that you will provide financial support to family, friends or partner.



How support expectations vary across ethnic groups



Sociodemographic differences

In the previous section we looked at average confidence metrics for each dimension of retirement preparation. But averages mask differences in experiences across various groups.

In this section we look at some of the main demographic groups and the differences in confidence between them. Understanding these differences is important to designing effective policy solutions to tackle inequality in how people experience their longer lives. We explore five key individual characteristics; age, gender, ethnicity; income and region.

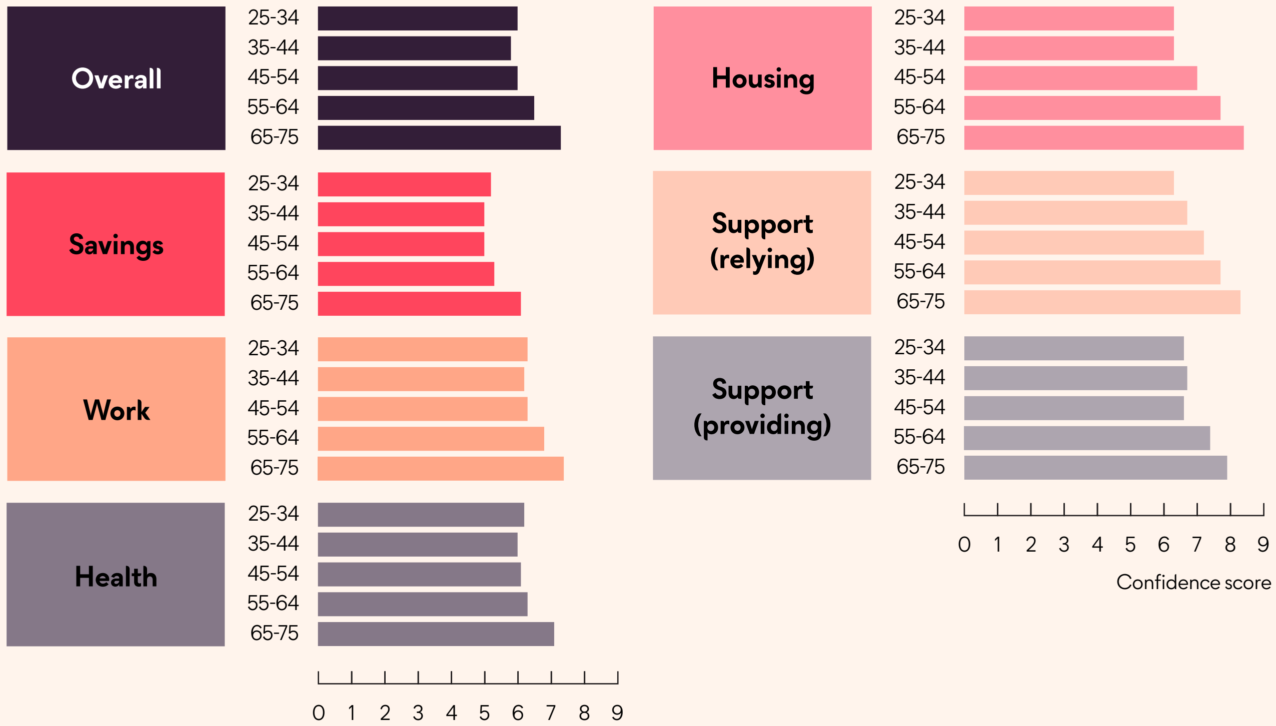
Sociodemographic differences: Age

Older age groups are generally more confident across all dimensions than younger age groups.

There is, however, a slight dip in confidence among 35–44 year olds relative to the younger group. This could be reflective of an age-cohort to have had access to direct benefit pension schemes, and too old to have had access to auto-enrolment in the early stages of their working lives.

Relative levels of confidence for each dimension are consistent with all age-groups seeing the highest confidence levels in terms of support from family and friends and the lowest confidence in the dimension of savings.

Confidence levels across the five dimensions by age group



Sociodemographic differences: Age
continued

The drivers behind low confidence vary across age groups.

For example, while the youngest age group worry relatively more about career progression, the oldest group is more concerned with age-based discrimination. The youngest group is more worried about mental health being a barrier to employment over time, while those who are older are more anxious about physical health.

Physical health concerns are also a major reason behind low confidence among older people in the savings dimension, who worry about the costs of care they might face. Younger respondents tend to feel less secure because of their lack of knowledge on pensions and how much they need to save.

The reasons for low confidence vary across age-groups

Work and skills	25–34	65–75
Older people are not supported and are discriminated against in the workplace	22%	31%
My mental health will become a barrier to continued employment	25%	8%
My physical health will become a barrier to continued employment	31%	45%
My career progression will not go as I hope	28%	6%

Savings	25–34	65–75
I don't know how long I am going to live	26%	52%
I am worried about my physical health and the costs of care I might face in older age	18%	32%
I don't know enough about pensions	26%	12%
I don't understand enough about how much I need to save	25%	11%

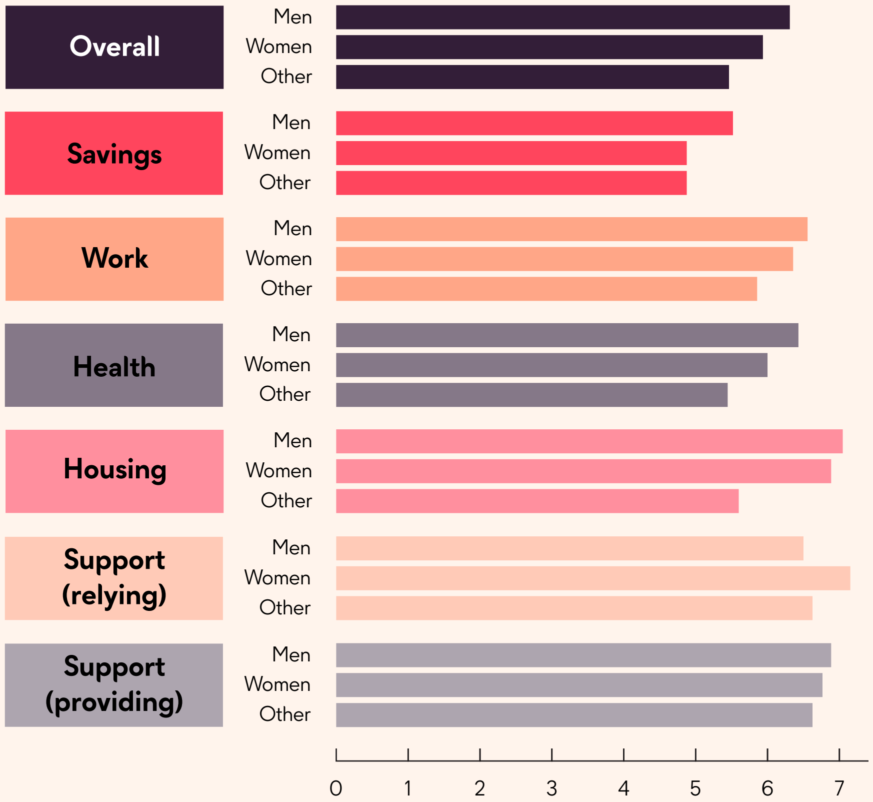
Sociodemographic differences: Gender

Men are more confident across most dimensions compared to women and other gender classifications.

Women are markedly more confident in relying on support from friends and family than men, likely reflecting historical societal structures where the primary earner in the household is often male. Women and others are, however, less confident about health compared to men.

These differences in confidence among genders could be driven by two factors: genuine differences in circumstances and expectations or perceived differences of confidence among genders. This is documented at large in academic literature which suggests that men are predisposed to report higher confidence than women irrespective of underlying factual differences. Further research is required to better understand the relative importance of these two factors.

Confidence levels across the five dimensions by gender



Other "includes non-binary and other classifications, as well as those not preferring to disclose their gender. This group accounts for 1.2% of the sample.

Sociodemographic differences: Gender

continued

Reasons for low confidence are quite similar across men and women when it comes to savings, but less so for work and skills.

While both men and women worry about physical health affecting their work, for women it is the major reason for their lack of confidence. Both genders are also apprehensive about their ability to remain motivated to work in the long-run. Men, in particular, are more anxious about career progression and potential career shifts than women.

This research finds that women are more worried when it comes to savings, and this is due to their current incomes which do not allow for greater savings, or their lack of knowledge about savings and pensions. On the other hand, men feel they are on track with their savings, but are concerned about how things may change in the future.

The reasons for low confidence vary between men and women

Work and skills	Women	Men
My physical health will become a barrier to continued employment	41%	35%
I will struggle to motivate myself to continue working for so long	21%	23%
My career progression will not go as I hope	16%	20%
My planned career shift will not go as I hope	11%	15%

Savings	Women	Men
I can't afford to save enough to accumulate sufficient income in older age	48%	36%
I don't know enough about pensions	23%	19%
I don't understand enough about how much I need to save	22%	17%
I am currently on track, but worry that things might change over time	13%	19%

1. Other includes non-binary and other classifications, as well as those not preferring to disclose their gender. This group accounts for 1.2% of the sample.
2. Confidence Men? Evidence on Confidence and Gender among Top Economists, AEA Papers and Proceedings Vol. 111, May 2021 and Confidence gap between men and women in medicine: a systematic review, Sravya V. et al, Current Orthopaedic Practice, Volume 31, October 2020.
3. Gender differences in self-perception accuracy: the confidence gap and women leaders' underrepresentation in academia, Herbst T., Journal of Industrial Psychology, Volume 46 N.1, January 2020.

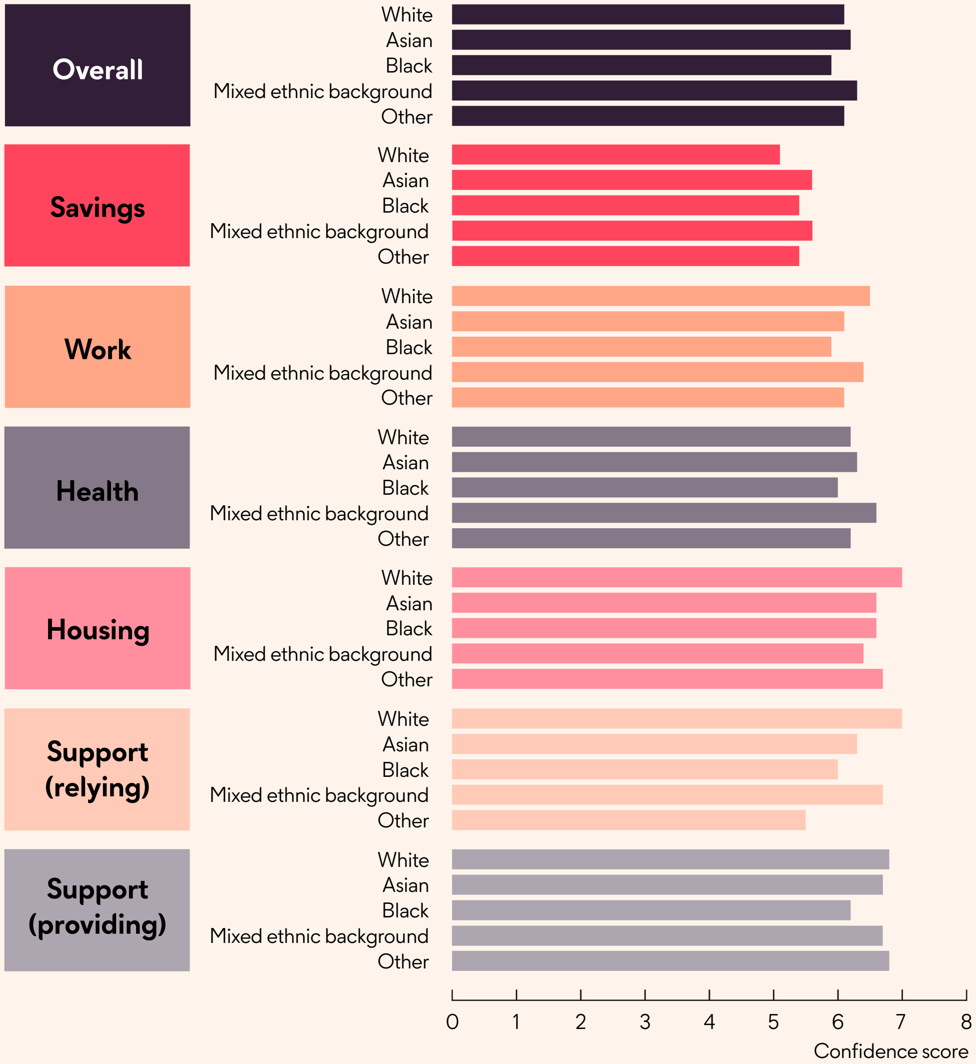
Sociodemographic differences: Ethnicity

Overall confidence scores are broadly similar across most ethnic groups, but confidence levels differ when looking at specific dimensions.

White people are more confident about work, but they are much less so about savings relative to all other ethnic groups. Black people are less confident across several measures, notably housing and health. While Asian and Black people are more confident about supporting their family and friends rather than receiving support themselves, the situation is reversed for White people.

Averaging across these dimensions, Black people have the lowest overall confidence, while people with a mixed ethnic background have the highest overall levels.

Confidence levels across the five dimensions by ethnicity



Sociodemographic differences: Ethnicity
continued

The reasons for low confidence are quite different across ethnic groups.

Asian people are more concerned about their physical health affecting work, while White people are most worried about their career prospects. For example, White people doubt if their skillset will remain relevant, or if they'll be able to find a suitable job if they need to change.

Concerns across health issues are widely shared among Asian people. More than half of all Asian people fear that their health may be prohibitive for their jobs as they age, or that an illness will hinder their ability to prepare for retirement. White people who are in poor health currently are more worried than other groups about the impact their illness will have on their future.

The reasons for low confidence vary between ethnic groups

Work and skills	White	Asian
My physical health will become a barrier to continued employment	39%	31%
My career progression will not go as I hoped	16%	24%
I will need to change role or employer but will not be able to find a new job	23%	26%
I won't have the relevant skills and knowledge to remain in employment	17%	21%

Savings	White	Asian
I worry that my job is increasingly difficult to perform in older age and I will need to cut down the hours I do to manage[1]	27%	57%
I will get sick and this will affect my ability to prepare financially for retirement[1]	35%	46%
My current health issues make me generally worried about the future[2]	53%	31%
My current health issues prevent me from working enough to save for retirement[2]	41%	31%

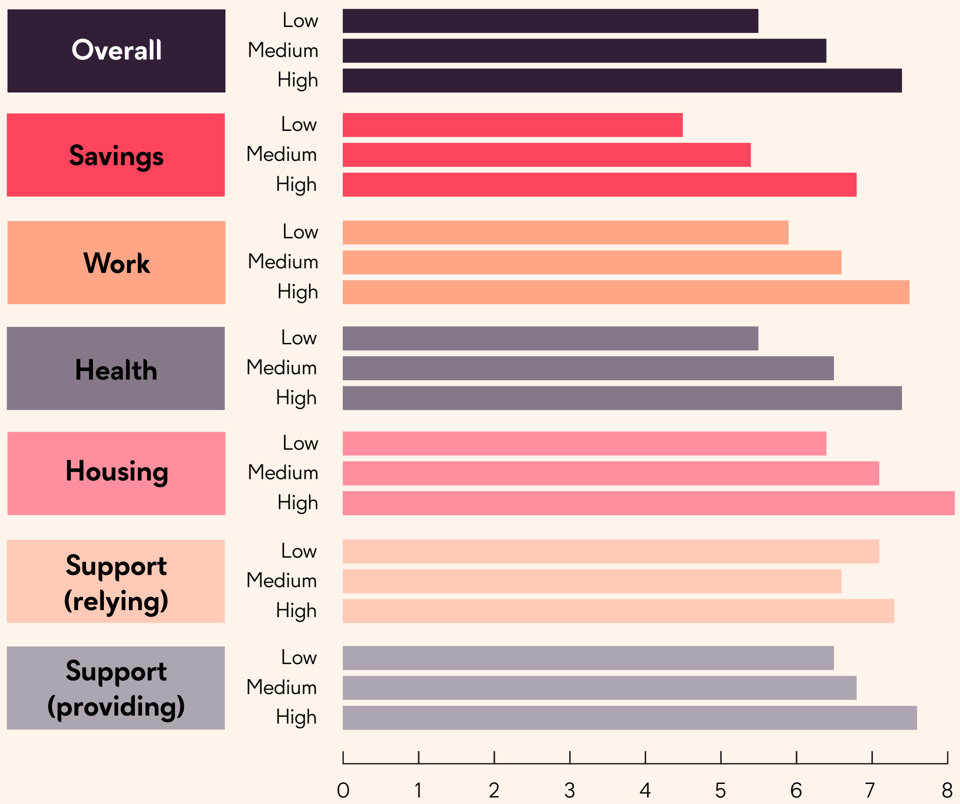
1. Share of healthy individuals with low health confidence.
2. Share of unhealthy individuals with low health confidence.

Sociodemographic differences: Income

Large gaps exist in the confidence scores between high and low income earners. Low income earners are least confident across most dimensions. The difference in confidence levels for savings is particularly stark between low income earners (4.5) and high income earners (6.8).

High income earners are also somewhat more confident about receiving financial support from family and friends than low income earners. However, low income earners are more confident about this support than middle income earners. This could suggest a U-shaped relationship between the level of income and the nature and strength of relationships and support for the elderly from family and friends.

Confidence levels across the five dimensions by income level



Low: under £20K
Medium: £20K - £80K
High: over £80K

Sociodemographic differences: Income

continued

The reasons for low confidence are mostly health dependent among low income earners.

In terms of work and skills, low income earners fear that their physical health will potentially become a barrier to continued employment. High income earners are concerned more about their career plans and progression, or their ability to remain motivated.

Concern about how people will manage their jobs in older age is common across all income groups. Low income earners fear they may not have alternative offers if they get ill, and high income earners worry about cutting down their hours. While low income earners with poor health are unlikely to work enough to save for retirement, high income earners are more nervous about what would happen if their current health worsens.

The reasons for low confidence vary between low and high income groups

Work and skills	Low	High
My physical health will become a barrier to continued employment	43%	21%
I worry I will need to change role or employer but will not be able to find a new job	20%	32%
I will struggle to motivate myself to continue working for so long	22%	27%
My planned career shift will not go as I hope	10%	17%

Health	Low	High
My job is increasingly difficult to perform in older age and I will need to cut down the hours I do to manage[1]	28%	45%
My job is increasingly harder to perform in older age and finding a new job will not be easy for me[1]	26%	9%
My health condition may deteriorate and this could affect my ability to work in the future[2]	39%	49%
My current health issues prevent me from working enough to save for retirement[2]	48%	33%

1. Share of healthy individuals with low health confidence.
2. Share of unhealthy individuals with low health confidence.

Sociodemographic differences: Region

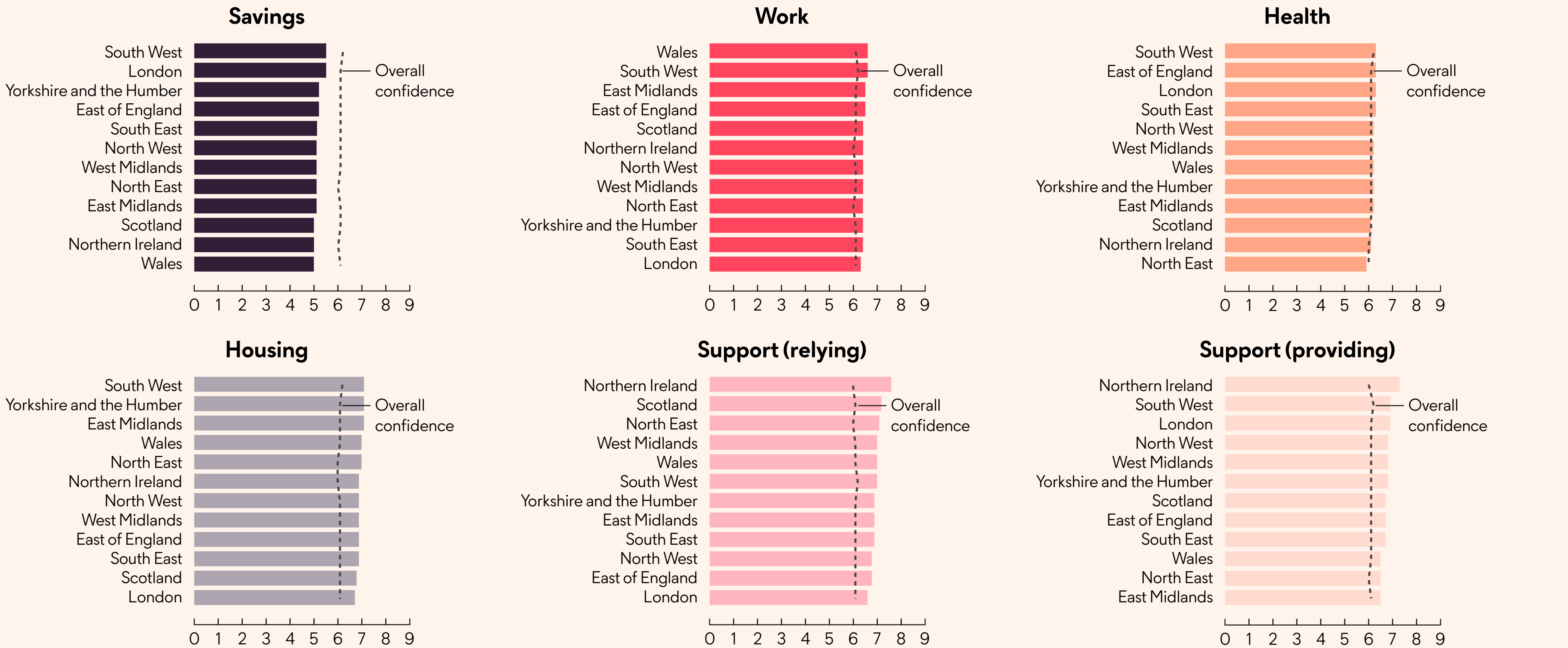
Overall confidence levels are similar across all English regions and nations in the UK, but vary across specific dimension.

London presents a unique picture with the highest confidence in savings but lowest in both housing and work. This may not be surprising given high house prices and the above average level of unemployment in London. Unlike other regions, people in London do have more confidence in providing support to family and friends than in relying on it.

Alongside London, people in the South West have the highest level of confidence in savings, and are also relatively more confident across most other dimensions – in particular on work and housing. On the other hand, people in the North East have overall lower confidence levels about health and financial support networks. Northern Ireland, while low on overall confidence, displays high scores for both familial support and reliance.

Scotland and the North East present interesting discrepancy in confidence in receiving versus providing support to others, with both regions showing some of the highest confidence in providing support, and scoring low on confidence in relying on it.

Confidence levels across the five dimensions by age group



Impact of the pandemic

The pandemic has affected the finances of millions of households in the UK.

For the majority of respondents, this has not impacted their confidence about saving enough for retirement.

But it has left a negative mark for some, with almost a third feeling less confident about saving for retirement, and half of those individuals now do not feel confident about saving enough to meet their financial goals.

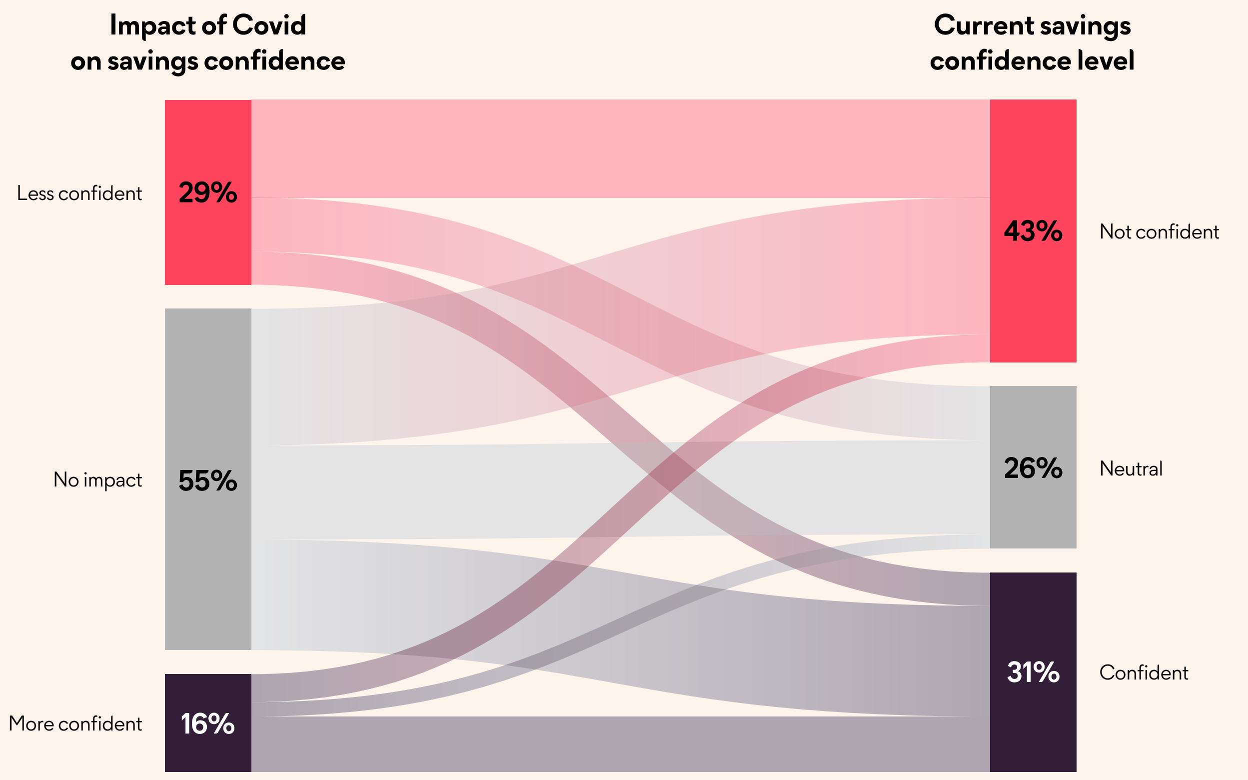
A small minority of 16% feel more confident because of the pandemic, but for almost half of them this boost was not enough to make them feel confident about saving enough.

Impact of the pandemic on different groups' financial confidence: Savings

The most common drivers of lower confidence are linked to reductions in income as a result of working less, being on furlough or losing one's job.

A smaller share of people are less confident because they lost out on their investment during the pandemic. Long-term health implications of Covid also play a part, with 9% feeling less confident about their retirement preparation because they can no longer work as before.

Covid and savings confidence



Impact of the pandemic on different groups' financial confidence: Income and age

There is a strong relationship between income and whether people are more confident about saving enough for retirement as a result of the pandemic.

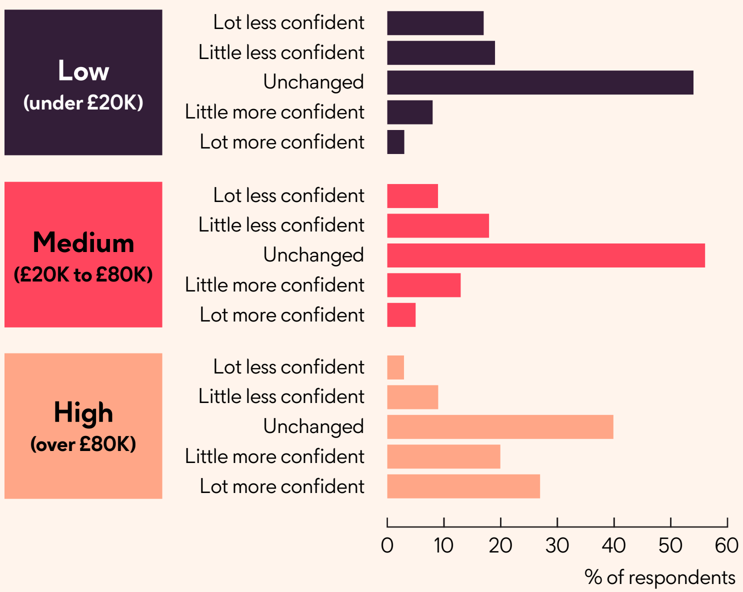
Nearly half of those on high incomes (over £80k) feel more confident, with only 12% feeling less confident. In contrast, only 11% of those on lower incomes (below £20k) feel more confident, whilst over a third feel less confident. Even amongst this lower income group, 54% have felt no impact on their financial preparation.

Younger groups have had a more extreme and polarised reaction to their retirement savings confidence as a result of the pandemic.

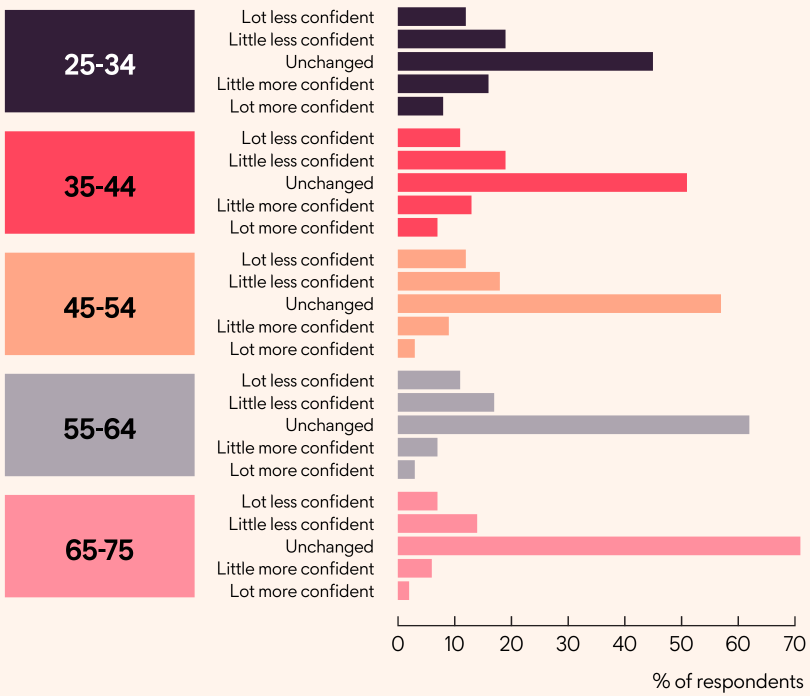
The share of respondents who saw no impact significantly increases across age groups. The youngest age group (25–34 year olds) have both the highest share of those that felt less confident due to the pandemic, and the highest share of those feeling more confident. Both of these extremes sharply decrease across age groups.

The deterioration in health after the pandemic which affected people's ability to work as before was a slightly more common reason for the drop in confidence among 55 to 64 year olds, at 10%, compared to only 6% for over 65, and between 8 and 9% for other age groups.

Sociodemographic differences: income



Sociodemographic differences: age

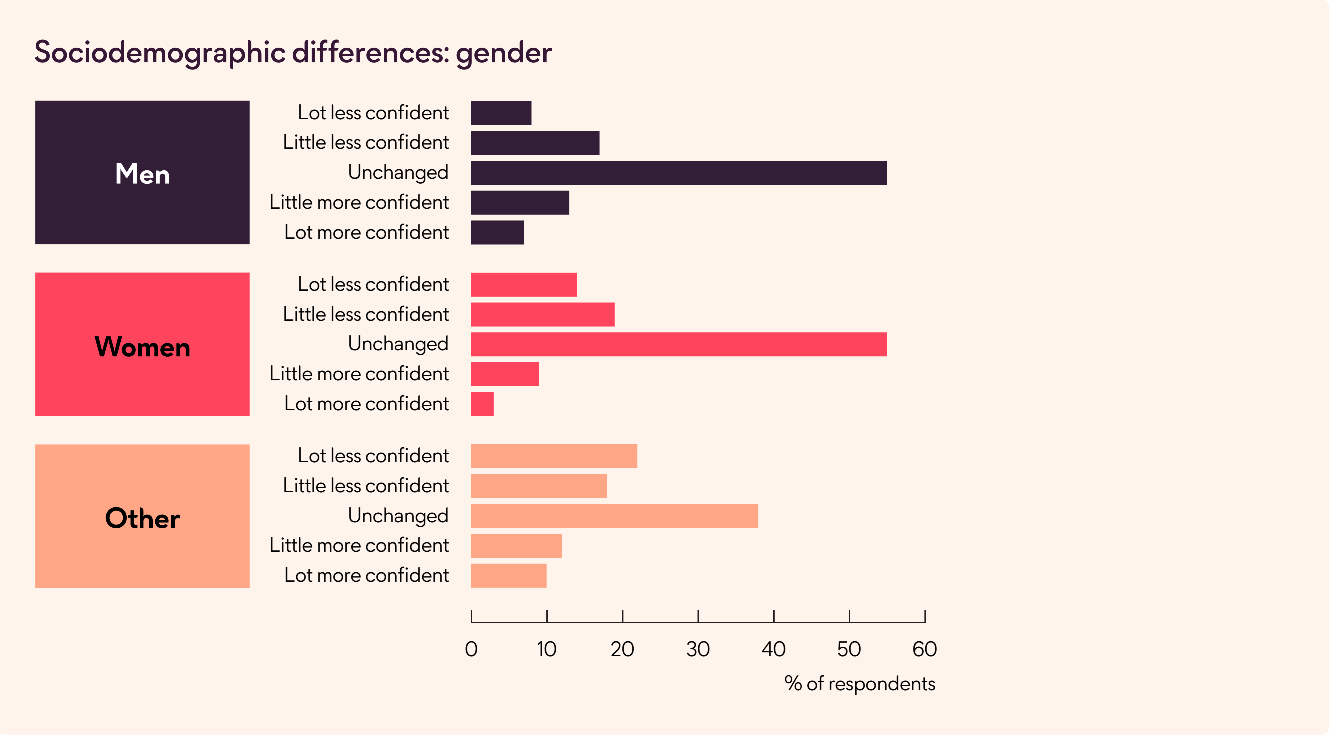


Impact of the pandemic on different groups' financial confidence: Gender

The share of respondents who feel less confident about their retirement savings due to the pandemic is significantly higher for women than men.

For men, the drop in confidence tends to be driven relatively more by reasons linked to their employment situation. For example, 34% of men are less confident because of a drop in income from their job compared to 28% of women, 18% because they were on furlough compared to 15% for women, and 15% because they were unemployed compared to 13% for women.

By contrast, a higher share of women were less confident because someone in their household was on furlough (11% versus 9%). A higher share of women than men could not state a concrete reason for their drop in confidence (13% compared to 10% for men).



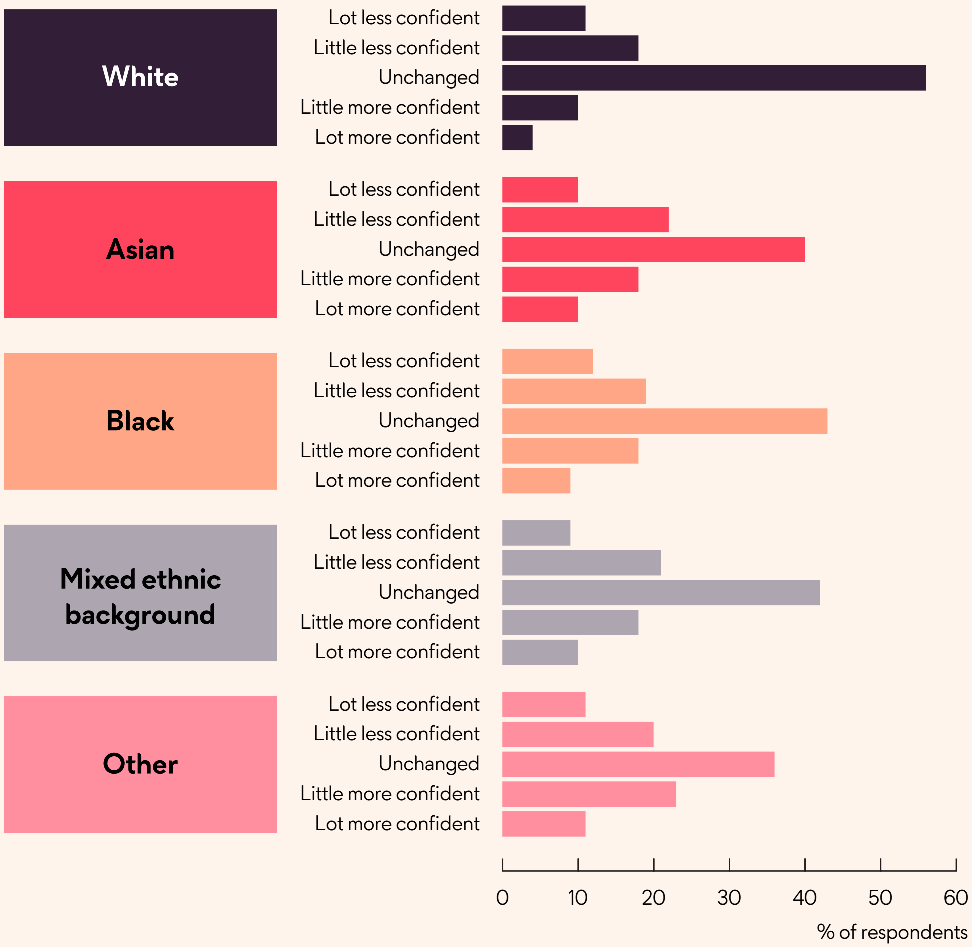
Impact of the pandemic on different groups' financial confidence: Ethnicity

Ethnic minority groups report greater confidence in their financial preparation through the pandemic than White respondents.

The financial strain from helping family or friends financially was a more important reason given for lower confidence among ethnic minority groups than among White respondents (at 23–31% versus 13% for White respondents).

14% of Black respondents with lower confidence stated that their health deteriorated as a result of the pandemic and they weren't able to work as much as before – a proportion much higher than for other ethnic minorities where it was at around 7% and White respondents where it was at 9%.

Sociodemographic differences: ethnicity

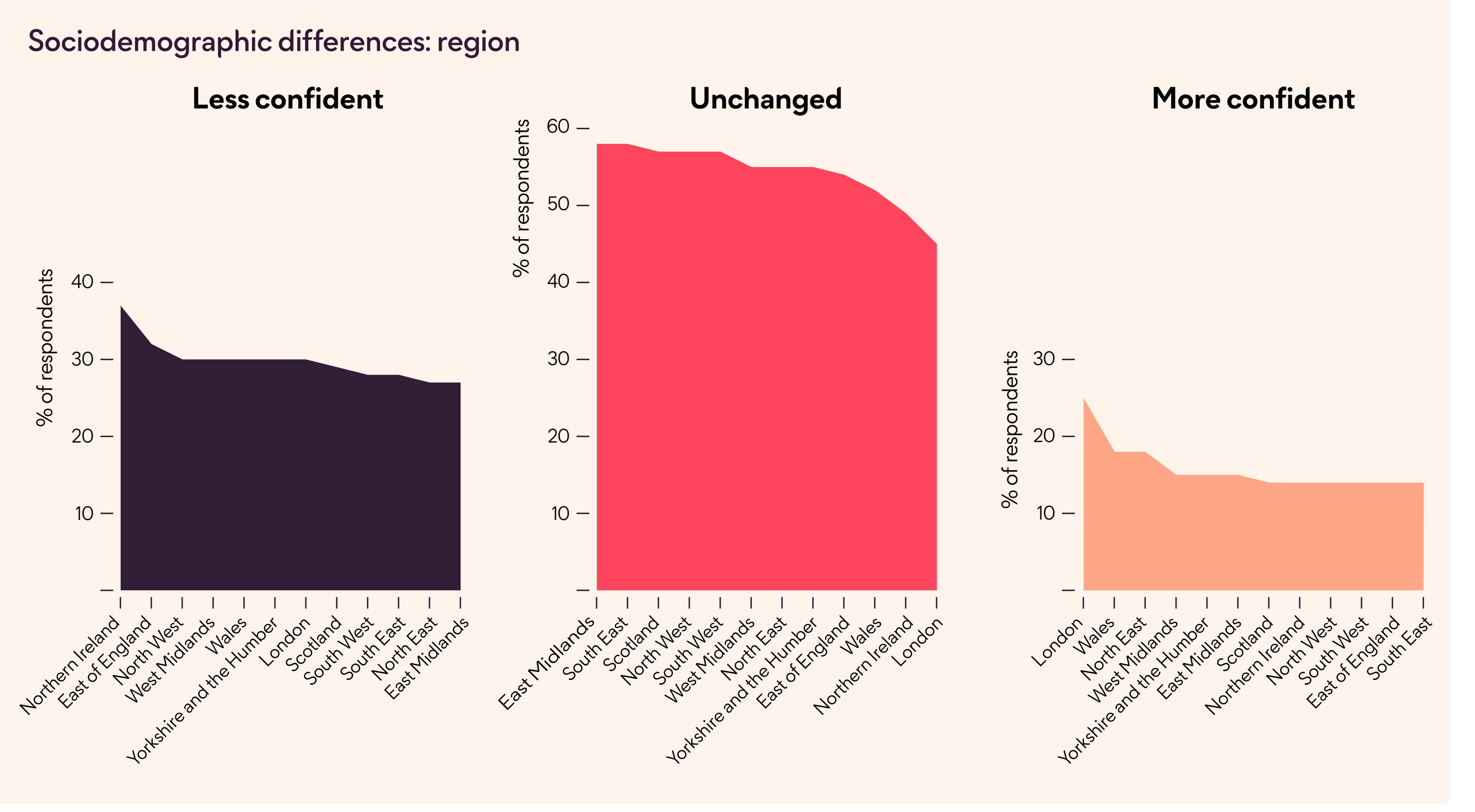


Impact of the pandemic on different groups' financial confidence: Region

The positive impact of the pandemic on savings confidence was much more pronounced in London than in other areas of the UK, with 25% of respondents feeling more confident – compared to 14–18% in other English regions, Scotland, Wales and Northern Ireland.

By contrast the negative impact was much more pronounced in Northern Ireland, where nearly four in 10 experienced a negative impact from the pandemic – compared to around three in 10 in most other areas including London.

Health was also a more prominent issue in Northern Ireland compared to all other areas. 11% of respondents in Northern Ireland reported not being able to work due to deteriorating health as a result of the pandemic, compared to only 6% in Scotland, and between 8–9% in Wales and England.



04

Conclusions and recommendations

Conclusions and recommendations

How can more people across the UK become more confident in their financial future? The policy debate about financial wellbeing in later life is often limited to trying to get people to save more, through information, engagement and defaults like auto-enrolment. This is critically important, but is not enough on its own.

People's ability to save enough throughout a life depends on a wider set of resources – their work and skills, their health, their housing and their relationships with others. Government and public sector bodies, the financial services industry, employers, charities and entrepreneurs all have a role to play in making the structural and attitudinal shifts needed to ensure financial wellbeing for people in later life.

Supporting savers

Uncertainty about how much you need to save or how best to do it is very common. Government and industry needs to work together to close the confusion gap and make it easier for people to engage with long-term savings, and to access effective and affordable information, advice and guidance to help think about the future they want and navigate the uncertainty and complexity of choices. People should also be able to get more holistic advice about their future, such as advice about both pensions and housing together. And we need to be building people's awareness about their future finances from early in adult life.

It will be especially important to reach the group of people with the largest savings gap, but there is a worrying potential disconnect between perceptions and reality for some. Our modelling shows that more than one in three of those reporting high levels of confidence in their savings actually faced a substantial savings shortfall of over £100,000. Worryingly, half of this group are aged 45–65 years of age – a stage of life when people should be making more concrete plans about their financial wellbeing in later life.

Those expecting to give financial support to others in their retirement face additional pressures, and the government and the financial services industry should help those individuals in making the right decisions to ensure their preparation is adequate. Equally, those living without a partner or ageing without children, or those living geographically isolated from family or support networks will also all have different experiences and needs. Service providers need to tailor their offers to better reflect this diversity and the role that family and social networks, or the lack of them, play in people's financial wellbeing.

We can also do more to support savers through expanding auto-enrolment, a policy that has already helped many millions of previously unsupported individuals into pension provision. But we need to go further, particularly to make it easier for people to save more, if and when their circumstances allow it. Additional defaults such as auto-escalation of pension contributions when salary increases and nudges when personal circumstances might change that enable greater interest or capacity for saving (such as when children leave home) should be explored. We also need to expand the coverage of auto-enrolment to those not yet covered, including people who are self-employed, and people under the age of 22.

Supporting workers

Alongside supporting people to save, it is essential that we do more to support people to enter and remain in good work with decent pay and opportunities for retraining and progression. Essentially, we need to redesign the world of work for longer lives. Not everyone will want and need to work for longer, but by making work more age-inclusive, we will help reduce age as a barrier to people being able to earn and save when they need to meet their financial goals over their longer lives.

Half a million over 50s have become economically inactive in the UK since the start of the pandemic. This is a key group to engage and motivate to raise awareness of how leaving work well before state pension age could affect their financial wellbeing in the future.

Leadership and action from employers is essential to support better and more sustainable working lives. The last 20 years have seen a dramatic realignment of the age profile of our workforce. Demographic changes, increases to state pension age and changing working patterns mean that the average age at work has been increasing over recent decades. But workplaces need to catch up to this new reality. Employers must be proactive about tackling age-bias in recruitment and hire age positively, enable flexible working, support staff with caring responsibilities, and encourage career development for people of all ages. Government and employers also need to do more to support people with health conditions to find and remain in good work. Too many people are forced into early retirement due to health problems, limiting their income and capacity to save, and wasting their skills.

We also need to address in-work poverty. People cannot save for the future if they cannot make ends meet today. The Government's levelling up agenda must tackle in-work poverty and the prevalence of precarious jobs with very low pay and few prospects for progression.

Conclusions and recommendations

continued

Supporting learners and career changers

Many of those who worry about saving enough for retirement do so because they are concerned about their ability to stay employed over time. This shows the important role of policy in supporting reskilling, upskilling and higher labour mobility, particularly later in life.

We urgently need to see a revolution in adult education and skills provision so that many more people are supported to retrain and reskill at different points throughout their working lives, and not just rely on the education they received at the start of their lives. We need to provide opportunities to explore new career avenues in the second half of our working lives. We need to create opportunities for non-linear career progression, scope to retrain, take stock at different life stages and ultimately build new cultural norms where sideways moves and career changes are feasible, affordable, modelled and promoted.

We need innovations to show how people can be supported to change sectors or roles that meet their aspirations and wellbeing at work, and ultimately motivate people to continue to gain fulfilment from work for longer.

Supporting people to think about their future

At the heart of all these issues is the importance of thinking about and planning for the future. Part of this involves recognising and reflecting on the full implications of our longer lives. While life expectancy has increased over successive decades, many still underestimate how long they will live themselves and the finances and assets that they will need to support these longer lives. Many people still model their own lives and expectations about the future on the experiences of their parents and grandparents.

The current social structures to organise our longer lifespans are still based on the traditional three-stage approach to our working lives – education first, then work and finally retirement. This three stage approach is poorly suited to supporting longer lives, where as much as a third or more of our adult lives will be spent over the age of 65.

The Longer Lives Index demonstrates the lack of awareness among younger people in particular about their increasing lifespan and the implications this will have on their financial wellbeing across the life course. On average, 25 to 34 year olds expect to retire at 65, which is unlikely to be a reality for many.

We need a national conversation on longer lives and what they mean for all of us. We need to support people to take time to think about where they want to be in later life, and what this means for their work and finances at younger ages. Interventions like the mid-life MOT – a holistic package of support to help people think about their work, wealth and wellbeing – could play an important role here.

Addressing housing and health inequalities

Housing is one of the largest costs of living throughout life, and one's housing situation is an important contributor to financial preparedness. The Longer Lives Index highlights large discrepancies between homeowners and those needing to rent in retirement. Addressing housing affordability, availability and renters' rights will be critical to supporting people to be able to afford a decent standard of living in later life, particularly for younger generations.

The Longer Lives Index also highlights the critical importance of health in financial wellbeing and confidence about the future, particularly in respect to the ability to continue to work and earn for longer. The health trajectories of our longer lives are deeply unequal, so we cannot reap the rewards of longer lives without tackling the structural determinants of health inequality.

It used to be the case in this country that to be old was to be poor, for a great many of us. In recent decades, things had improved. But pensioner poverty is already on the rise again. And we simply have failed to make the changes we need to support us all to be able to afford 21st century life expectancies.

Towards more confident financial futures

It can feel particularly hard to make the right changes for the future when there are so many pressures and uncertainties for us all today. But if we don't act – to support more people to save, to stay in good jobs, to reskill and retrain, and to support renters and tackle health inequalities – we will soon find that we have squandered the opportunities that longer lives could give us, and returned to a country with much higher rates of later life poverty.

05

Annex

Methodology – the sample

Survey methodology

The survey was conducted by a partner company that used non-probability quota design through online panels. Quotas were based on the latest population statistics and were set on age, gender, social grade and region. Random Iterative Method (RIM) weighting was used to determine the relative weight of each respondent compared to the reference population, by accounting for the share of individuals based on their region, age and gender together, and their region and gender together. The overall sample is composed of 16,436 individuals between the age of 25 to 75, restricted to individuals who have not retired yet.

Sample

The sample was cross-checked against leading data sources in the UK to ensure that it was representative of the UK population across the dimensions of interest, suggesting all the proportions are broadly in line with expectations based on other prominent datasets. Some deviations are expected given the coverage of the Index's sample is for 25 to 75-year olds who are not yet retired, as opposed to the general UK population covered in other sources.

Dimension	Publicly available statistics	Public source	Statistic from our sample
House ownership	63% of households in England owned their home in the two years from 2016 to 2018	Please visit gov.uk for further information	59% of respondents in our sample are house owners
Employment status	Employment rate (Nov 2021) – 75.4%	Please visit gov.uk for further information	87% of individuals in our sample employed
	Unemployment rate (Nov 2021) – 4.3%		1.5% of individuals in our sample out of work but planning to
	Economic inactivity rate (Nov 2021) – 21.1%		1.4% of individuals in our sample out of work and not planning to work again
	Employees working full time (Nov 2021) – 66% of the workforce		70% of individuals in our sample working full-time
	Employees working part-time (Nov 2021) – 20% of the workforce		21% of individuals in our sample working part-time
	Self-employed people working full-time (Nov 2021) – 9% of the workforce		6% of individuals in our sample self-employed
	Self-employed people working part-time (Nov 2021) – 4%		
Health status	Percentage of UK population in the age band 25 to 65 to have a physical health problem lasting or expecting to last more than one year – 31%	Please visit gov.uk for more information	25% of respondents in our sample suffering from physical health issues
	Rates of common mental health problems by region (AMPS 2014) • South West – 20.9% • North West – 19% • West Midlands – 18.4% • London – 18% • South East – 13.6% • East of England – 14.4%	Please visit mentalhealth.org.uk for further information	20% of respondents in our sample suffering from mental health issues

Methodology – survey collection and confidence scores

Confidence scores (i)

The headline confidence score for each dimension of confidence is the weighted average of scores across all individuals in the sample (based on each individual's weight in the sample). The overall confidence score is the weighted average of headline scores across all dimensions: housing, work and skills, familial support, health and savings.

Housing – Each individual's confidence score for housing is based on a different question depending on the mix of their current housing situation and their housing expectations for the future.

Current housing situation	Expectation on housing situation during retirement	Confidence question asked/Confidence score assigned
Group 1 – Current owners who paid off mortgage	Living in the same home I currently own	Score assigned – 10
	Living in a different home and own it with mortgage paid off by the time I retire	How confident are you about paying off your mortgage before you retire?
	Living in a different home and own it without mortgage paid off	How confident are you about having enough money to pay for your rent/mortgage re-payments in retirement?
	Living in a different home renting from a private landlord	
	Living with partner, family or friends in their house and contributing financially	
	Living in a different home renting from a housing association or local authority	
	Living in a different home with partner, family or friends for free	Imagine that your living situation changes and you need to start renting in retirement. How confident are you about having enough saved for your retirement to pay rent if this happens?

Methodology – survey collection and confidence scores

<table>
<tr><th>Current housing situation</th><th>Expectation on housing situation during retirement</th><th>Confidence question asked/Confidence score assigned</th></tr>
<tr><td rowspan="6">Group 2 – Current owners still paying off mortgage</td><td>Living in the same home with mortgage paid off by the time I retire</td><td>How confident are you about paying off your mortgage before you retire?</td></tr>
<tr><td>Living in the same home without mortgage paid off</td><td rowspan="4">How confident are you about having enough money to pay for your rent/mortgage re-payments in retirement?</td></tr>
<tr><td>Living in a different home renting from a private landlord</td></tr>
<tr><td>Living with partner, family or friends in their house and contributing financially</td></tr>
<tr><td>Living in a different home renting from a housing association or local authority</td></tr>
<tr><td>Living with partner, family or friends for free</td><td>Imagine that your living situation changes and you need to start renting in retirement. How confident are you about having enough saved for your retirement to pay rent if this happens?</td></tr>
<tr><td rowspan="2">Group 3 – Current renters expecting to buy a house</td><td>Own my home with mortgage paid off by the time I retire</td><td>How confident are you about paying off your mortgage before you retire?</td></tr>
<tr><td>Own my home without mortgage paid off</td><td>How confident are you about having enough money to ay for your rent/mortgage re-payments in retirement?</td></tr>
<tr><td rowspan="4">Group 4 – Current renters not expecting to buy</td><td>Renting from a private landlord</td><td rowspan="3">How confident are you about having enough money to pay for your rent/mortgage re-payments in retirement?</td></tr>
<tr><td>Living with partner, family or friends in their house and contributing financially</td></tr>
<tr><td>Renting from a housing association or local authority</td></tr>
<tr><td>Living with partner, family or friends in their house for free</td><td>Imagine that your living situation changes and you need to start renting in retirement. How confident are you about having enough saved for your retirement to pay rent if this happens?</td></tr>
</table>

Methodology – confidence scores

Confidence scores (ii)

Work and skills – Confidence score for work is based on a somewhat different question depending on whether individuals currently work or not.

Familiar support (relying on others) – Each individual's confidence score for familiar support (relying on others) is the simple average between the scores given answering the question "How confident are you that they will provide you with support?" for: (i) Partner/Spouse; (ii) Children; (iii) Other family members; (iv) Friends; (v) Others.

Familiar support (providing to others) – Each individual's confidence score for familiar support (providing to others) is the simple average between the scores given answering the question "How confident are you that they will provide you with support?" for: (i) Partner/Spouse; (ii) Children; (iii) Other family members; (iv) Friends; (v) Others.

Health – Each individual's confidence score for health is based on their answer to the question: "How confident are you about your health allowing you to reach your financial goals for retirement?".

Savings – Each individual's confidence score for savings is based on their answers to the question: "How confident are you about saving enough money to reach your expected annual income for retirement?".

Employment status	Confidence question asked
Employed full-time	How confident are you about being able to remain employed until your preferred retirement age in a way which allows you to reach your financial goals for retirement?
Employed part-time	
Self-employed	
Out of work but planning to work in the future	How confident are you about being able to remain employed in a way that allows you to reach your financial goals for retirement once you start working again?
Out of work but not planning to work in the future	

Methodology – savings gap calculations

Savings gap calculations approach

Modelling approach

Using survey data we took each respondent's initial savings lumpsum. On this basis, for each year between age at survey collection and stated retirement age, the cumulation process was modelled by growing the existing savings pot by the real annual return on pension investment net of annual management fees, and adding to it workplace pension, other pensions and other savings.

At the stated expected retirement age, the decumulation process was modelled by taking out of the accumulated savings pot the gross amount needed for the individual to have their stated annual desired net pension (taking into account the State Pension), year after year until expected end of life. The savings remaining at the expected end of life (based on ONS life expectancy) constitute the funds remaining that we used as a measure of the "savings gap".

Main caveats

The size of the savings gap will be highly sensitive to the assumptions made around the return on investments, inflation and income growth of individuals. In our approach, we make standard, informed assumptions on these parameters, and we do not test the sensitivity of the results to this. In particular, we make a standard assumption on how individuals' incomes grow over time – whilst in reality people will face different income trajectories depending on their career aspirations, their level of education and the type of sector they are employed in.

Other limitations of our approach are:

- Using a constant proportion of income individuals save over time, equal to what they state as current behaviour. This means that in absolute terms their contributions will increase in line with their income growth, but they will not change in relative terms. In reality, many are likely to change the share of their income they save over the lifetime, for example younger people might increase it as they earn more, or parents might do it as their kids leave the house and their disposable income increases.
- Using an average life expectancy based on age and date of birth. This doesn't take into account individual life expectancy factors like gender, regional or lifestyle differences.

Another caveat is the accuracy of the self-reported data we collect through the survey. Respondents are unlikely to meticulously control their finances in the process of filling the survey, so the accuracy of their responses hinges on their awareness about their financial situation and the extent to which they can easily recall the information.

These limitations might influence the accuracy of our modelling at an individual level and affect the precise size of the savings gap for the UK population. However, our results are intended to provide a rough magnitude of the savings gap and the share of the UK population on track with their retirement savings. As such, the limitations do not influence the validity of our findings as indicative of the general trends on financial preparation for retirement in the UK.

Assumptions and modelling parameters:

- UK life expectancy by age and gender from 2017–19 national life tables for the UK from the ONS.
- Real annual salary growth rate – 1.75%.
- Real annual return on pension investment – 2.4%.
- Annual management fees paid on pension investment – 0.75%.
- Tax free lumpsum – 25%.
- Personal tax free allowance – £12,570.
- Annual gross state pension – £9,350.
- We assumed that salary grows annually until the age of 50. After the age of 50 salary remains constant until retirement.
- Workplace pension is calculated as a fixed percentage of the salary, as stated in the survey by each respondent. We assumed that the percentage of salary saved as workplace pension does not change over time and is always equal to the percentage stated in the survey.
- Other pension savings and other savings are not calculated as a percentage of salary, as they were stated as nominal amounts in the survey. They are assumed to remain constant until retirement.
- To simplify calculations, we applied to all individuals a 20% tax rate to the pension income above personal allowance, irrespective of their annual gross pension income.
- We assumed that all individuals in the sample are eligible for the basic State Pension.

Nature of confidence metrics

> "Relative to other people your age who earn a similar income to you, how do you think you are doing when it comes to saving enough for your desired income in older age?"

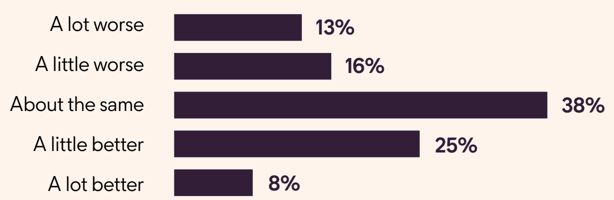
Confidence metrics are a useful way to measure in a survey how optimistic or pessimistic respondents are on a particular topic area.

They provide an indication of future developments by gaining insights into people's sentiments, current attitudes and future expectations. Popular confidence metrics include the Consumer Confidence Index and Business Confidence Index produced by countries to measure the overall health of their economies and forecast likely developments in the short term.

However, given the self-reporting nature of these surveys, there is space for bias as respondents are asked to assess their personal beliefs and expectations. This relies on the survey respondents' introspective ability and honesty to collect the right data for measurement. The assessment is also subjective, which means that two individuals in exactly the same situation might feel different confidence levels depending on their personality or the mood they have at the moment. Additionally, socio demographic differences such as gender can systematically bias the measurement of confidence in these surveys to the extent they are associated with different confidence perceptions. For instance, existing literature provides evidence of a confidence gap between men and women wherein women are less likely to give "extreme" answers in which they strongly agree or disagree[1].

To measure potential bias in reporting retirement preparation confidence we asked respondents to assess how they think they are doing when it comes to saving enough for older age relative to other people of similar age and earning a similar income. The results are encouraging: 34% of respondents feel they are doing better than others versus 29% feeling they are doing worse.

Are you confident you are saving enough



In a no bias situation, one would expect these proportions to be equal. We see a higher share of those feeling they are doing better, suggesting a slight overconfidence bias and a tendency to overestimate one's performance – but the extent of it is not massive.

All in all, despite the potential limitations of confidence metrics, they are a helpful method of measurement. One of the primary advantages is that they can be easy to measure and compare across dimensions where other types of metrics, e.g. actual performance, are harder to contrast, as would be the case with the dimension of retirement preparedness. This helps to track the relative changes over time easily.

They also provide a good measure of understanding the gaps, if any, between self-assessment and other data such as respondents' observed behaviour. A significant gap would have different policy response than what would otherwise be adequate if it were to address overconfidence/under-confidence regarding a particular situation.

1. Confidence Men? Evidence on Confidence and Gender among Top Economists, AEA Papers and Proceedings Vol. 111, May 2021, available at: https://www.aeaweb.org/articles?id=10.1257/pandp.20211086

People are living for longer.
But longer lives are not yet always better lives.
We want to change this.

Phoenix Insights is a new think tank set up to transform the way society responds to the possibilities of longer lives.

We will use research to lead fresh debate, prompt a national conversation, and inspire the action needed to make better longer lives a reality for all of us.

Phoenix
Insights

thephoenixgroup.com/views-insights