Aspect8

Savings shortfall: 41% worry they won't have enough to retire

If you are worried you will not have enough saved for your retirement, you are not alone, a major new study has found.

Figuring out how much you should save for your retirement is never easy. Your needs change over time, just as your income fluctuates.

If you knew exactly how much you would earn in your working life, how much your investments would return and how long you'd need to live on retirement, your financial planning would be a doddle.

But, as 2020 has proven, it is impossible to predict anything with certainty. That is perhaps why so many of us are concerned that we will run out of money in retirement.

According to Schroders Global Investor Study (GIS) 2020, 41% of investors globally fear that they won't have sufficient savings to fund their retirement.

GIS is an independent online survey of more than 23,000 investors across 32 worldwide locations conducted between 30 April and 15 June 2020.

A warning from the elders?

The worry over retirement funding appears to become more acute as we near retirement age.

Nearly half (47%) of people aged 71 and over, and 43% of Baby Boomers (51-70 years of age), said they were concerned their retirement income will not be enough. That compares with 39% of Millennials (aged 18-37).

People who are concerned their retirement income will not be sufficient, by age group

Generations			
Millennials (18–37)	Generation X (38–50)	Baby-Boomers (51–70)	Older (71+)
39%	41%	43%	47%

Source: Schroders Global Investor Study 2020. 509577.

Why are people worried about their retirement savings?

The pandemic, job security and general uncertainties of life aside, many don't trust their country's state pension to provide enough of a safety net in retirement.

Asked whether they agreed or disagreed, the study found 55% of investors agreed that the state provision for retirement is not enough to live off. Just 19% disagreed.

Also, the constant shifting of the rules as to how the pension system in their country works has left many bewildered.

A significant number of investors (41%) agreed that governments' changing of the rules, meant that they didn't see the point in trying to save specifically for retirement at all. Only 35% disagreed.

Do you agree or disagree?

Do you agree or disagree with the following statements:	Agree	Disagree
The state provision for retirement is not enough for me to live off	55%	19%
The government keeps changing the rules about how people should save for, and fund, their retirement, so I don't see the point in trying to save specifically for my retirement	41%	35%
I am concerned my retirement income [will not be/is not] sufficient	41%	35%
I don't understand the options available to me with my retirement savings	38%	31%

Source: Schroders Global Investor Study 2020. 509577.

Pension rules changing

Investors are struggling to keep up with the demands of saving for retirement. The pandemic has placed added pressure on job security and squeezed workers' incomes.

Soaring global government debt and low interest rates, in part the result of the global financial crisis, have been exacerbated by the pandemic. Growing life expectancy has added to governments' costs of providing state pensions.

State pension case study: what's changing in the UK?

From October last year, men and women in the UK will now have to wait until they are 66 to draw their state pension. This comes after a decade of increases in the qualifying age for the benefit.

There are plans for more changes. The retirement age is set to rise to 67 gradually between 2026 and 2028; a further rise to 68 is due to be phased in between 2044 and 2046, depending on when you were born.

To put these changes into context, when the first old age pension was introduced in the UK in 1908 it did not start paying out until the age of 70. Life expectancy at birth was 40 years for men and 43 for women, and only 24% of people reached state pension age. Those who did would typically claim it for nine years.

By 2017, 85% of people were reaching the state pension age and the typical life expectancy for those who did was another 24 years.

The UK is just one example and is not alone.

Rupert Rucker, Head of Investment Solutions at Schroders, said: "It is a concern that the complexity and constant changing of the pension rules is putting people off saving for retirement. Unfortunately, that doesn't look like it will be changing anytime soon.

“Governments are deep in debt and will look at ways of reducing that debt in future. They have been doing it for a while but they are purposely shifting responsibility for retirement savings from the state to the individual.

“There is no easy answer. However, avoiding saving for retirement is not it. It just kicks the can down the road. We have to take individual responsibility and understand better how much we need to save or learn to live with less income.

“The best advice is to save something, preferably as much as you can afford, from as early as possible. But always speak to a financial advisor.”

So what are people doing about it?

Amidst these concerns around retirement income, it makes sense that the majority of people see themselves working into their “retirement”. Retirement now is undergoing a transformation, with many people carving their own paths.

While the majority still see themselves reducing their working hours in retirement, a significant proportion do not.

Anticipated number of hours worked per week in 'retirement' (expectation vs. reality)

	Retirement status	
	Non-retired	**Retired**
Increase	9%	4%
Stay the same	32%	23%
Reduce gradually	45%	45%
Reduce close to zero	13%	28%

Source: Schroders Global Investor Study 2020. 509577.

Rupert Rucker said: “It is noteworthy that people are understanding more that they need to take responsibility which is a change from the previous generation.

“There are three simple choices to make. It is really up to individuals to decide their own compromises, understanding how much life expectancy has increased: Continue to earn money into retirement years, save more for retirement, spend less in retirement.”