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Making Financial Sense

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Gender disparity

Funding a post-work life will be difficult without sufficient planning

A new report has revealed a huge gender disparity when it comes to pension savings and income, indicating that funding retirement is likely to be a significant challenge for many women.

According to the annual 'State of Retirement' report by LV=, women who have occupational or private pensions reach retirement with pots worth on average £107,000. This is almost half that of men who, on average, retire with a fund worth £201,000.

APPROACHING RETIREMENT

The potential difficulty facing women is highlighted by the fact that one in four (23%) women approaching retirement have only the State Pension to rely on, compared to just 9% of men. As fewer women have pension savings, the income gap is even wider if we look across the genders at all those approaching retirement. This sees the average woman's private pension at retirement fall to just under £10,000, which is less than a tenth of the equivalent average male pension pot (£131,000).

INCOME GAP

However, that's not to say it is all plain sailing for men. The report reveals that, regardless of gender, funding a post-work life will be difficult. The findings uncover a gap between the level of income those approaching retirement say they need and what they can expect. Indeed, although those nearing retirement say, on average, that they will need at least £14,352 a year to meet essential expenses, they can actually expect just £10,590 a year from their private and State Pension combined – a shortfall of £3,744 a year[1].

BURDEN OF DEBT

For many, this problem is heightened by the burden of debt and family dependencies now following them into retirement. Currently, 4.3 million retirees have some form of debt in the form of a mortgage (1 million) or outstanding credit card debt (2.5 million). Over a third (4.4 million) of retirees have given financial help and support to family members, mainly children, in the last 12 months. The figures also reveal that 1 in 50 over-50s plan to take their pension as a lump sum to pay off debts.

RETIRING LATER

These financial concerns, coupled with the fact that people are spending longer in retirement, have caused many to reconsider their retirement plans. Nearly a quarter (22%) of over-50s say that they now plan to retire later than previously considered, while 1.6 million over-50s don't think they'll ever stop working. The findings also show that one in five (18%) over-50s who had retired have since re-entered the workplace.

ALIVE AND WELL

It is clear that some people have returned to work because they need to. However, for others, the adage that 'sixty is the



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new forty' is alive and well, with one in four (23%) retirees re-entering the workplace because they wish to keep working. One of the main reasons for this is a desire to keep active and make use of the skills they have spent a lifetime honing; the other is the social aspect of being at work.

PENSIONS FREEDOM

The recent pensions freedom changes that commenced on 6 April now offer retirees the chance to make more of their pension pot by selecting alternatives to standard annuities and potentially combining annuities with income drawdown. However, there is confusion amongst over-50s around what the new rules mean. Only a fifth (23%) claim to have a good understanding of the reforms, while a further third (33%) have little or no understanding at all. One in ten (12%) over-50s are completely unaware of any pension freedom changes, resulting in the fact that many could miss out on the chance to improve their income in retirement.

TIME TO SIGNIFICANTLY BOOST YOUR INCOME?

We are now spending longer in retirement and have greater choices as to how we use our pension fund, with the pensions freedom changes helping many savers to significantly boost their income. The new government campaign Pension Wise will go some way to informing people about the new pensions landscape and the ways they could fund their retirement; however, we recommend that if you are considering accessing some or all of your pension pot, obtaining professional financial advice is essential to ensure you make the most of your savings tax-efficiently. Please contact us to review your situation.

Source data:

The State of Retirement research was carried out by Opinium Research from 27-30 January 2015. The total sample size was 1,518 British adults over 50 and was conducted online. Results are weighted to a nationally representative criteria.

[1] According to the research by Opinium, 879 over 50s (those not retired) people were questioning how much money they thought they would need in retirement per week, as a bare minimum. The mean answer was £276 (equivalent to £14,352 per year). According to CEBR research carried out for the report, the average retiree has £73,100 in private pension wealth upon retirement. An average annuity for a male or female smoker retiring with this sum would pay £4,709 a year. With State Pension (£5,881), this brings the total income to £10,590 a year or £204 a week – £72 less than the minimum standard – or £3,744 per year.

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