

Helping members achieve their retirement goals

September 2022

The Retirement Living Standards

How much money will you need when you retire? And what standard of living will that give you?

In 2019, the Pensions and Lifetime Savings Association (“PLSA”) launched their Retirement Living Standards (RLS) to help members answer those questions.

The RLS are the levels of expenditure required to achieve Minimum, Moderate and Comfortable standards of living in retirement.

The standards are derived using a ‘basket of goods’ approach, which means they can be described in terms of the goods and services members will spend their money on when they retire.

The PLSA hope that, “by giving savers a general figure that they can understand,...they can start to develop their own personal targets based on individual circumstances and aspirations.”



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How much will I need?

If you're single, then:

- For a **Minimum** standard of living, you'll need **£10,900 p.a.**
- For a **Moderate** standard of living, which gives you more financial security and flexibility than the minimum, you'll need **£20,800 p.a.**
- For a **Comfortable** standard of living, which gives you more financial freedom and money for some luxuries, you'll need **£33,600 p.a.**

The PLSA also defines standards for couples which are approximately 1.5 times the singles' RLS.



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

How much might I have?

The table shows the total income (including State Pension) you could reasonably expect to achieve under different combinations of salary and contribution rate:

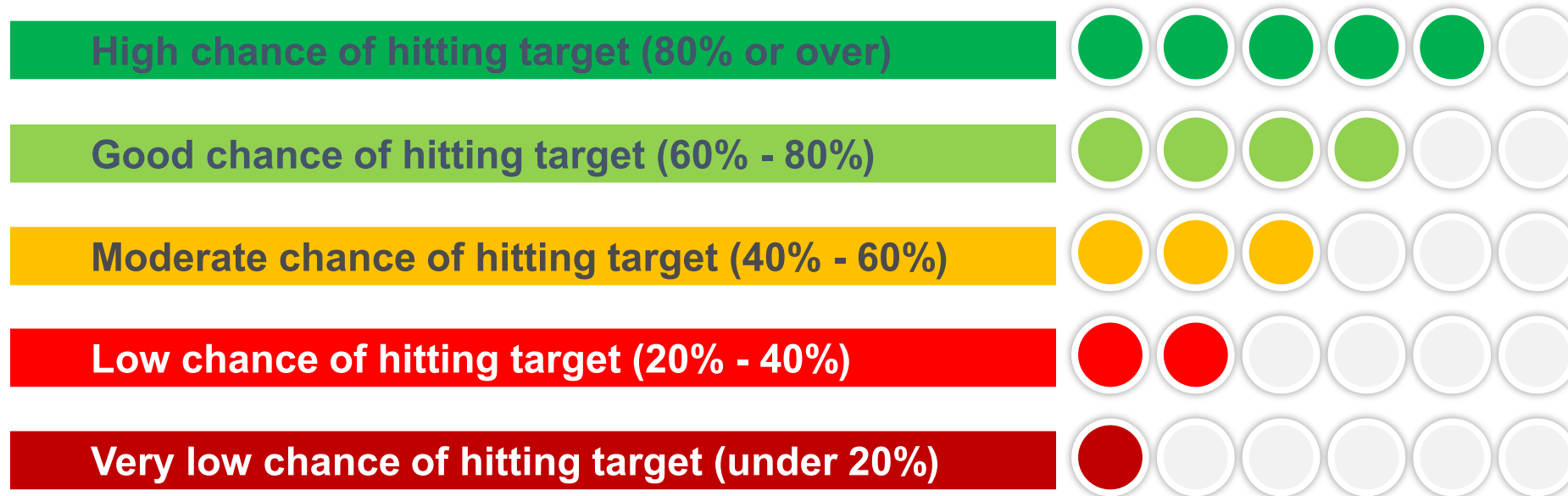
		Total contributions (% of pensionable pay)												
		8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
Annual pensionable salary (£ p.a.)	50k	£26,300	£28,400	£30,500	£32,600	£34,700	£36,700	£38,800	£40,900	£43,000	£45,100	£47,200	£49,300	£51,300
	45k	£24,600	£26,500	£28,400	£30,300	£32,200	£34,000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

As an example, a member earning £15k p.a. at the start of their career and contributing at the auto-enrolment (AE) minimum (i.e. a total rate of 8% p.a.) until they retire could reasonably expect to achieve a retirement income of £14.6k p.a.

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

Assessing your chance of meeting the RLS

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



Achieving the minimum

In our modelling, we've assumed that members are entitled to the full State Pension, which is currently £9,600 p.a.

The chart shows that such members, who contribute regularly over their working life, have a very good chance of achieving the Minimum standard of £10.9k p.a.

		Total contributions (% of pensionable pay)												
		8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
Annual pensionable salary (£ p.a.)	50k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	45k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	40k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	35k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	30k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	25k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	20k	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	15k	98%	99%	99%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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

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

Aiming higher

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

Moderate (£20.8k p.a.)

		Total contributions (% of pensionable pay)												
		8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
Annual pensionable salary (£ p.a.)	50k	64%	69%	74%	78%	82%	84%	87%	89%	90%	92%	93%	94%	96%
	45k	59%	65%	69%	73%	77%	81%	83%	85%	87%	89%	91%	93%	93%
	40k	51%	59%	64%	68%	72%	76%	78%	82%	84%	86%	87%	89%	90%
	35k	43%	50%	57%	62%	67%	70%	73%	76%	78%	81%	83%	85%	87%
	30k	37%	42%	48%	53%	59%	63%	67%	69%	72%	75%	77%	79%	82%
	25k	30%	35%	39%	43%	48%	52%	57%	60%	64%	67%	69%	71%	74%
	20k	22%	26%	30%	34%	37%	40%	43%	48%	51%	55%	59%	61%	64%
	15k	14%	17%	20%	23%	26%	29%	32%	35%	37%	40%	42%	44%	48%

Comfortable (£33.6k p.a.)

		Total contributions (% of pensionable pay)												
		8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
Annual pensionable salary (£ p.a.)	50k	27%	31%	35%	38%	42%	46%	50%	55%	59%	62%	65%	68%	69%
	45k	22%	27%	31%	35%	38%	41%	44%	48%	52%	56%	59%	62%	65%
	40k	19%	22%	27%	30%	34%	36%	40%	42%	46%	49%	52%	56%	59%
	35k	15%	19%	22%	25%	29%	31%	34%	36%	40%	42%	44%	48%	50%
	30k	11%	14%	17%	20%	22%	26%	29%	31%	34%	36%	38%	40%	42%
	25k	7%	10%	12%	15%	17%	20%	22%	24%	27%	29%	31%	33%	35%
	20k	4%	5%	7%	9%	11%	13%	15%	17%	19%	21%	22%	25%	27%
	15k	2%	3%	3%	4%	5%	7%	8%	10%	11%	13%	14%	16%	17%

Some headlines

For average earners, contributions of more than 12% p.a. are required to give a good chance of achieving the Moderate standard.

The Comfortable standard is probably out of reach for the average earner, without contributions of more than 20% p.a.

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

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

Low earners paying as much as 20% contributions still have only a 50/50 chance of achieving the Moderate standard.

If you pay the 8% minimum total contribution under auto-enrolment, then you'd need a salary of £40k p.a. to have a 50/50 chance of achieving the Moderate standard.

A salary of £50k p.a. combined with AE minimum contributions would give only a 1 in 4 chance of achieving the Comfortable standard.

For a salary of £50k p.a., a total contribution rate of 17% would be required to have a good chance of achieving the Comfortable standard.

What next?

A call to action for Trustees, Providers and Employers

1

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

2

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

3

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

Reliances and limitations

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

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

- Minimum RLS – £10,900 p.a.
- Moderate RLS – £22,857 p.a.
- Comfortable RLS – £38,857 p.a.

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

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

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

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


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

The representative member is assumed to have the following characteristics:

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

The modelling has an effective date of 31 July 2022

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



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