

The forgotten generation?

Retirement income prospects
of Generation X

Interim findings



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Summary

Generation X are sleepwalking into retirement with insufficient pensions and savings.

“We haven’t benefited from final salary pensions but were too late for auto-enrolment. Many of us have huge mortgages, significant costs supporting our children and have not had long, stable careers. These things make saving the last priority every time. We face very grim, very late retirements.”

Many Gen Xers¹ face the grave reality of retiring without an adequate income. 15 years on from the Pension Commission's Second Report, we again find ourselves in challenging times. Among other issues, the ongoing COVID-19 pandemic, high housing costs, low returns on investments, job insecurity, increasing caring responsibilities, and low increases in wage rates, are making it difficult for those aged between 40 and 55 to adequately prepare for retirement.

With support from Phoenix Group, ILC has been assessing these challenges to highlight the stark realities facing this cohort of 14 million people.² Through a series of panel discussions, we have spoken to people from across this group to hear first-hand just how difficult preparing for retirement is. This interim report paper highlights these concerns, as well as some of the key findings from a nationally representative survey of over 6035 UK adults aged 40-55 (Gen Xers).

Our initial analysis only amplifies the level of difficulty facing this group. Amidst a myriad of challenges, we found that the key issues affecting this group are:

1. Many Gen Xers can expect low incomes in retirement. Lots are pessimistic about the likelihood of retiring, while others may be sleepwalking towards a dismal future.

“I will suffer a large drop in living standard when I retire.”

Many Gen Xers await a bleak financial future. At least 1 in 3 – or 4.3 million- are at risk of **retirement with incomes that would result in minimum standards of living** due to inadequate pension contributions, and no defined benefit pension savings to support them.³

It is unsurprising, then, that this cohort is largely pessimistic about their future; **50% of Gen Xers who are yet to retire are worried they won't be able to live the lifestyle they want** in retirement and 48% think they'll be worse off than their parents in retirement.

A significant proportion may struggle to get by given that nearly 1 in 5 Gen Xers (18%) who are not yet retired expect to predominantly rely on the state pension in retirement – that's around 2.3 million people mostly relying on just over £9000 a year. Shockingly, more than 1 in 4 (27%) expect to mostly or completely rely on the state pension or don't have any pension savings at all, and nearly 1 in 10 (8%) expect the state pension to be their only source of income in retirement.

At the same time, 27% of those who think they'll be able to at least maintain their living standards in retirement are actually at risk of having inadequate savings in retirement due to low pension contributions.⁴ This amounts to over 1 in 10 Gen Xers overall (11%). This means a significant proportion – potentially 1.4 million people - may be sleepwalking into financial hardship.

2. Many Gen Xers find it hard to prepare for retirement due to a lack of financial stability and other pressing priorities.

"I'm trying to cover my mortgage, I'm trying to do the best for my kids, my parents are starting to need care... I feel like a duck that's paddling as fast as I can, under the water, retirement is just so low on the list..."

More than half (57%) of Gen Xers who are yet to retire say they want to save more but are struggling to do so. But a multitude of barriers prevent Gen Xers – who are often referred to as the 'squeezed middle' - from preparing for retirement. When asked

the four main factors that make it difficult to save for retirement, 6 in 10 (61%) say they can't afford to save more than they currently do or are prioritising paying off debt, and 29% say they have too many other priorities to think about. Insecure incomes and outgoings which make it hard to save on a regular basis (19%), a lack of motivation (13%) and a lack of information (10%) are some of the other key challenges facing this group.

3. COVID-19 is only going to make things harder – the economic fallout will set back many Gen Xers, but it could also increase engagement in retirement planning.

“A lot of them [Gen X friends] are working part time and have suffered as a result of COVID...they have no income at the moment or much less income than they did.”

COVID-19 has had a severe impact on this generation's income and savings. 24% of Gen Xers who are yet to retire – around 3.1 million people – have either been furloughed, made redundant, or have had to reduce their hours as a result of the pandemic. 2.6 million (20%) are either spending their savings or are saving less as a result of the pandemic.

However, 23% of Gen Xers who are yet to retire – around 3 million people – say that this pandemic has made them think more about saving for retirement in some way – mainly because they are worrying more about their financial security. As such, this crisis may provide a unique opportunity to increase awareness and engagement with retirement planning.

If we act now, we can prevent millions of Gen Xers from the serious possibility of struggling in retirement.

With these considerations in mind, we need to make sure policymakers, industry representatives and employers are aware of the struggles that Generation X face. Since most Gen Xers say they want to save more but are struggling to do so, there is significant scope to address these challenges.

Our final report, due to be published in early 2021, will make a series of recommendations to support Generation X to retire with more comfortable levels of pension provision. We encourage people from across the policy spectrum to offer their insight and ideas to build on the messages and analysis in our report. We want to transform, improve and reconcile the retirement income prospects of an otherwise forgotten generation: Generation X.

Our findings – the financial preparedness of Generation X

As it stands, 1 in 3 Gen Xers will reach retirement with incomes that would result in minimum standards of living. Many also believe they face a bleak retirement.

“I won't have enough money to survive through retirement.”

Gen Xers are facing a personal crisis when it comes to saving for the future. At least 1 in 3 are at risk of spending their later years with a minimum standard of living. This is due to inadequate pension savings, with pension contributions significantly lower than official recommendations and no defined benefit pension savings to support them.⁵ This means they may have enough to meet their basic needs, but not enough to have financial security and flexibility to do many of the things they might want.

“As things stand, I already see I will have no margin in retirement for house repairs and replacing appliances.”

A significant proportion may also struggle to get by given that, of those expecting to retire, 18% of Gen Xers (around 2.3 million) expect to mostly rely on the state pension in retirement – currently worth just over £9000 a year. Shockingly, more than 1 in 4 (27%) expect to mostly or completely rely on the state pension or have no pension savings at all. 14% of all Gen Xers have never had any kind of pension, while nearly 1 in 10 (8%) expect their only

source of income to be the state pension in retirement, which could put them at risk of falling into poverty.⁶

This lack of preparedness translates into a pessimistic outlook held by this group: 50% of Generation X yet to retire say they are 'worried' about not being able to lead the lifestyle they want in retirement, and nearly 1 in 2 believe they'll be worse off than their parents (48% compared to 19% who think they'll be better off). 40% also think they aren't saving enough to maintain their current standard of living in retirement, even when considering any non-pension savings and income they may have.

This bleak picture reinforces existing research that suggests retirement outcomes are on track to be worse for this generation compared to previous cohorts,⁷ indicating a need to shift course fast if we want to avert a crisis in retirement savings.

Some Gen Xers may be sleepwalking into financial hardship in retirement

"It's still too far away to worry about."

While many Gen Xers are pessimistic about retiring, another group think they are adequately prepared for retirement, when in fact they aren't. 27% of those who think they'll be able to at least maintain their living standards in retirement are actually at risk of having inadequate savings in retirement due to low pension contributions and no defined benefit savings to fall back on.⁸ This amounts to over 1 in 10 (11%) Gen Xers overall.⁹

"I know so many people that...are dependent on property, but that is risky."

Moreover, over a third (38%) of those who are yet to retire, expect to rely on unreliable income sources - the property they live in or inheritance - to help support them in retirement. With most people drastically underestimating their own life expectancy,¹⁰ and nearly 1 in 10 (8%) of those hoping to use their home to support them in later life¹¹ either not owning their current home

or not expecting to pay off their mortgage by the time they retire, there is a risk that this could spell disaster for some Gen Xers.

“It is what it is. Not expecting it to be a lot so will deal with [it] at [the] time.”

Other Gen Xers in this group recognise that they may not have enough income in retirement, but they either plan to do nothing about this or believe that ‘retirement is too far off to think about’ (16%). While for some, retirement is at least 27 years away in terms of the State Pension Age, others will be retiring in just over a decade. More urgency around saving is needed to ensure that Gen Xers are not destined for poorer retirements.

Challenges – the main barriers to saving for retirement

Some Gen Xers simply can’t afford to save more and are faced with other financial and caring pressures.

“I have very little savings and my child is still growing up and I have my two parents to support.”

Most Gen Xers who expect to retire want to save more – with more than half (57%) saying they would like to save more but are struggling to do so. One of the top four main barriers that make it difficult for them to save for retirement is being unable to afford to save more or having to prioritise paying off debts (61%).

Almost two-thirds of Gen Xers (62%) who are yet to retire and who can’t afford to save more for retirement than they currently do cite ‘not earning enough’ as the main reason for this. This may be expected, given that this cohort has experienced worse growth in disposable household income compared to other generations.¹² Furthermore, almost one in five Gen Xers (19%) who said they can’t afford to save more identified either poor health or other factors (e.g. age discrimination, redundancy) as significant

barriers which limit their ability to work either full or part time. Other reasons reflect the multitude of responsibilities and financial costs imposed on this generation, including mortgage payments being too high (17%), rent payments being too high (10%) and needing to financially support adult children (8%). In some cases, it also includes helping to pay the care costs of an adult (e.g. for a partner/relative who is unwell), or being unable to work either full or part time due to being a carer; this represents 5% of Gen Xers who are yet to retire and who can't afford to save more. It is clear that, for many, other financial concerns are taking precedence over thinking about retirement.

It is unsurprising, then, that another major barrier this cohort faces when saving for retirement is that they are too distracted and overwhelmed by other pressures and priorities. This was selected by 29% of respondents¹³ as one of their top four barriers to saving and was reinforced by some of the Gen Xers we spoke to who described their generation as being the 'squeezed middle'.

Other barriers also affect this group, including insecure incomes and outgoings which make it hard to save on a regular basis (19%) and motivational barriers (13%). A lack of information is also a barrier affecting 1 in 10 Gen Xers yet to retire, with 6 in 10 of this cohort saying they'd benefit from receiving guidance and/or financial advice on retirement planning (60%), while only 14% have received paid-for financial advice and 13% have received free guidance on this topic to date.

The multitude of barriers highlight the magnitude of issues facing this group when it comes to saving for retirement. Furthermore, it shows that no member of this group is the same, with each person facing individual challenges to building a nest egg for later life.

How has COVID-19 affected retirement savings?

COVID-19 has made it harder for Gen Xers to save for retirement – but it has encouraged some to think more about retirement savings.

“Those people who have lost jobs or seen their incomes reduced because of COVID will undoubtedly see an impact on their ability to save for retirement.”

COVID-19 has left 1.6 million Gen Xers on furlough, around 1.3 million with reduced hours and just over half a million being made redundant.

The economic hardship caused by the coronavirus pandemic has affected all generations, yet with many Gen Xers nearing the middle and end stages of their careers, this only makes preparing for the next stage of life more challenging. These findings are even more concerning since previous ILC research found that older workers find it harder to return to the labour force after becoming unemployed than younger workers, and are subsequently more likely to leave the labour market for good.¹⁴

“I lost my job at the start of the crisis and haven't been able to find work yet, so I am spending my savings.”

With this economic downturn, 12% of Gen Xers who expect to retire are now spending part of their savings and 13% say they are saving less as a result of COVID-19. This equates to 2.6 million having their savings disrupted by the pandemic.

Our findings highlight that COVID-19 is now carving into the savings of Generation X. With falling incomes and employment levels due to the pandemic, Gen Xers are understandably turning to their savings to cover the shortfalls. The long-term impact this will have on retirement incomes is not as clear, but what is apparent is that for the small number of older Gen Xers having to access their savings, they will now have less time to recover these savings and fill in the gaps.

“I now feel very vulnerable and once I start earning again, I want to save as much as possible to build up my pension pot.”

Nonetheless, this crisis has also helped 14% of Gen Xers who expect to retire, or around 1.8 million people, to save more due to lockdown because they have more disposable income. It may also create an opportunity to increase Gen Xers' engagement in retirement planning; 23% stated that COVID-19 had caused them to think more about saving for retirement in some way, with 16% stating the pandemic had made them worry and think about how they can save more. Nonetheless, this means nearly 3 million people have been given a wake-up call about their future incomes.

What happens next?

Report launch and next steps

Our preliminary findings have highlighted that many Gen Xers are unprepared for retirement. However, with the right actions, there is still time to remedy the financial barriers and pension shortfalls facing this cohort.

In our final report, we will consider which groups are most affected and how the barriers to saving differ by sub-group, along with the opportunities for policymakers, employers and industry to address these. We will also consider Gen Xers' views on these ideas to see what policy solutions may be most beneficial. Our final report will make a series of policy recommendations and will consider a number of questions including:

1. How can we build on the success of auto-enrolment to increase savings levels of Gen Xers?
2. What is the role for information, advice and guidance and how do we get it to those Gen Xers who could benefit most?

3. How do we address affordability barriers to saving?
4. How can we ensure that our tax system best supports those who are most in need to save for retirement?
5. How can we minimise the damage that COVID-19 may have on individuals' retirement savings?

If you would like to feed into our final ideas and contribute your thoughts, join us at our Future of Ageing conference on 3 December, or email SophiaDimitriadis@ilcuk.org.uk or PatrickSwain@ilcuk.org.uk.

Notes

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 6035 adults. Fieldwork was undertaken between 13th - 24th November 2020. The survey was carried out online. The figures have been weighted and are representative of all UK adults aged 40-55.

Any numbers that are not noted as percentages, unless otherwise stated, are derived from ILC calculations using YouGov survey figures. These are taken either as a proportion of the Generation X UK population (14 million – see endnote 1) or as a proportion of the estimated Generation X population who have are yet to retire (13 million). The latter was estimated using the fact that 93% of the YouGov respondents surveyed (in Generation X) are yet to retire.

¹ Those born between 1965 and 1980

² Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland - Office for National Statistics (ons.gov.uk), 2019

³ The definitions of a 'minimum' and 'moderate' lifestyle in retirement, and the contributions required to achieve this, are taken from 2019 research by the Institute of Actuaries, which are based on definitions created by the Pensions and Lifetime Savings Association:

<https://www.actuaries.org.uk/system/files/field/document/Saving%20Goals%20for%20Retirement%20V08.pdf>

<https://www.plsa.co.uk/Press-Centre/Press-Releases/Article/PLSA-launches-Retirement-Living-Standards>

For this statistic, the proportion of Generation X who are on track to miss out on a 'moderate' lifestyle in retirement refers to those who do not have/or do not know they have a Defined Benefit pension and are contributing 8% or less of their earnings into a pension. This is based on the fact that the Institute of Actuaries estimates that individuals will need to save 26% of their earnings (along with their

employer) into a pension to ensure their pension savings are sufficient to ensure they can lead a 'moderate lifestyle' in retirement.

⁴ This refers the number of survey respondents (aged 40 to 55), who are not retired, who believe they will either be able to maintain their living standards in retirement or live more comfortably than now in retirement, whilst they also do not have/or do not know they have a Defined Benefit pension and are contributing 8% or less of their earnings into a pension. The figure in the text is the proportion who believe they will either be able to maintain their living standards in retirement or live more comfortably than now in retirement and satisfy these criteria. See ¹ for the explanation as to why these savings may be inadequate to be able to lead a 'moderate' lifestyle in retirement, based on estimates by the Institute of Actuaries.

⁵ See ².

⁶ https://www.ageuk.org.uk/Documents/EN-GB/Campaigns/end-pensioner-poverty/how_we_can_end_pensioner_poverty_campaign_report.pdf?epslanguage=en-GB&dtrk=true; [Age UK on poverty in old age.pdf \(futureyears.org.uk\)](https://www.futureyears.org.uk)

⁷ <https://www.pensionspolicyinstitute.org.uk/research/research-reports/2019/2019-11-07-generation-vexed-solving-the-retirement-puzzle/>

⁸ See ³.

⁹ This figure is the count noted in ² as a proportion of all survey respondents in Generation X who are yet to retire.

¹⁰ <https://www.ftadviser.com/pensions/2017/11/28/most-over-50s-underestimate-life-expectancy/>;
<https://www.theactuary.com/news/2018/05/2018/05/02/millions-brits-underestimating-their-life-expectancy-decade>

¹¹ Among those who have not yet retired.

¹² <https://www.dthomas.co.uk/content/fs/downloads/GenX.pdf>

¹³ Who are yet to retire

¹⁴ ILC (2014) The Missing Million, https://ilcuk.org.uk/wp-content/uploads/2019/11/The_missing_millions_web.pdf

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