

Research report

Perceptions of income requirements in retirement

by Mehul Kotecha, Natalie Maplethorpe, Sue Arthur, Naomi Stoll, Rosie Green, Natasha Wood and David Hussey

Department for Work and Pensions

Research Report No 773

Perceptions of income requirements in retirement

Mehul Kotecha, Natalie Maplethorpe, Sue Arthur, Naomi Stoll, Rosie Green, Natasha Wood and David Hussey

A report of research carried out by the National Centre for Social Research on behalf of the Department for Work and Pensions

© Crown copyright 2011.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at:
<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

Any enquiries regarding this document/publication should be sent to us at:
Department for Work and Pensions, Commercial Support and Knowledge Management Team,
Upper Ground Floor, Steel City House, West Street, Sheffield S1 2GQ

First published 2011.

ISBN 978 1 908523 20 4

Views expressed in this report are not necessarily those of the Department for Work and Pensions or any other Government Department.

Contents

Acknowledgements.....	vi
The Authors.....	vii
Summary	1
1 Introduction and background	5
1.1 Background and rationale	5
1.2 Research aims and objectives	5
1.3 The English Longitudinal Study of Ageing.....	6
1.4 Overview of the study design	7
1.5 Conduct of interviews.....	8
1.6 Pattern of replacement rates.....	9
1.7 An overview of the structure of the report	11
2 Financial planning leading up to retirement	12
2.1 Overview of employment history.....	12
2.2 Planning for retirement.....	12
2.2.1 <i>Whether they saw themselves as planners</i>	12
2.2.2 <i>Aim or goal of planning for retirement</i>	14
2.2.3 <i>Making financial provision for retirement</i>	14
2.2.4 <i>Other provision for retirement</i>	16
2.2.5 <i>Reflections on planning</i>	16
2.3 Advice.....	17
2.4 Expectations of retirement income	17
2.5 Decision to retire and rationale	18
2.6 Summary.....	19
3 Financial circumstances in retirement.....	20
3.1 Income and assets drawn on in retirement.....	20
3.1.1 <i>Retirement income</i>	20
3.1.2 <i>Assets</i>	21
3.1.3 <i>Meeting expectations of retirement income</i>	21

3.2	Use of lump sums on retirement	22
3.3	Changes during retirement	22
3.4	Overview of spending	23
3.5	Summary.....	24
4	Lifestyles in retirement	25
4.1	Terms used to define lifestyles	25
4.2	Components of income-related definitions.....	26
4.3	Definition of lifestyles and distinction between them	27
4.3.1	A ‘basic’ lifestyle	27
4.3.2	A ‘comfortable’ lifestyle	28
4.3.3	A ‘wealthy’ lifestyle	29
4.4	Reference point used to define lifestyles	30
4.5	Perceptions of own lifestyle	31
4.6	Financial factors.....	33
4.7	Non-financial factors	35
4.8	Comparing lifestyles in retirement to working life	37
4.9	Summary.....	38
5	Future financial planning	39
5.1	Financial changes in the future	39
5.2	Financial planning for the future.....	40
5.3	Summary.....	41
Appendix A	Calculating replacement rates.....	42
Appendix B	Topic guide	43
References	53

List of tables

Table 1.1	Achieved respondent sample in relation to the primary sampling criteria	8
Table 1.2	Average replacement rates by gender.....	10
Table 1.3	Distribution of replacement rates by gender.....	10
Table 2.1	Decisions to retire	19
Table 4.1	Variations in a ‘comfortable’ lifestyle	29
Table 4.2	Choices open to those with a ‘wealthy’ lifestyle.....	30
Table 4.3	Financial considerations underpinning perceptions of lifestyle	33
Table 5.1	Threats to income and assets.....	39

List of figures

Figure 1	Different lifestyles in retirement.....	2
Figure 4.1	Terms used to define lifestyles in retirement	25
Figure 4.2	Components of income-related definition of lifestyles.....	26

Acknowledgements

This study was commissioned by the Department for Work and Pensions (DWP) and managed by Jane Carr at DWP. We are grateful to Jane and her colleagues at DWP for their thoughtful feedback and support.

We are very grateful to the all of the respondents who agreed to take part in this study.

The Authors

Mehul Kotecha, Senior Researcher, Income and Work Group.

Natalie Maplethorpe, Researcher, Income and Work Group.

Sue Arthur, Research Director, Income and Work Group.

Naomi Stoll, Research Assistant, Income and Work Group.

Rosie Green, Researcher, Society and Social Change Group.

Natasha Wood, Senior Researcher, Health and Wellbeing Group.

David Hussey, Research Director, Statistics Group.

Summary

Background and research objectives

The last ten years have seen a high level of public debate and policy development around the subject of pensions and the financial situation for people post-retirement. A recent report by the Pensions Policy Institute suggested that *'many people felt they would need to have a standard of living similar to working life, in order to be satisfied with their retirement income'*.¹ However, what was not known in any detail was how people determined what was an appropriate retirement income. In light of the paucity of knowledge around this issue, DWP commissioned the National Centre for Social Research (NatCen) to carry out a qualitative study to explore:

- individuals' views about their current financial situation and standard of living in retirement and their feelings about their financial future;
- what factors influence individuals' views about their current financial situation, including their perception of 'appropriate' retirement income and wealth;
- the influence of 'replacement rates' on individuals' feelings about their financial situation. The replacement rate is a calculation of the ratio between earned income before retirement, and income in retirement;
- the factors that may have created a disjunction between aspirations for retirement and actual income and wealth in retirement.

Research design

The study comprised 30 in-depth interviews with respondents drawn from Wave 4 of the English Longitudinal Study of Ageing (ELSA). All respondents had been retired from their main job for at least two years, had been earning between £10,000 and £40,000 in their last main job and had some pension income over and above the State Pension. Respondents were purposively selected based on two key criteria agreed with DWP:

- age (60-69 and 70-77); and
- replacement rate of income pre-retirement and income amount given at the time of their ELSA Wave 4 interview (weighted in favour of 50-74 per cent and divided between two other categories – 49 per cent or less and 75 per cent or more).

The income replacement rates for eligible ELSA respondents were calculated in a similar way to those defined in the Pensions Commission Report² which involved dividing an individual's gross retirement income (from pensions, benefits, savings and investments, etc.) by their gross earnings pre-retirement (i.e. their final salary before tax). However, in this study we used 'current' retirement income (i.e. at the point of the Wave 4 interview) whereas the retirement income definition used in the Pensions Commission Report was income at the point of retirement. To get an individual retirement income for calculating the replacement rate, a couple's joint retirement income was divided by two. A quantitative analysis of the sub-sample of 613 eligible ELSA respondents from which this qualitative sample of 30 was drawn indicated that the median replacement rate was 54 per cent.

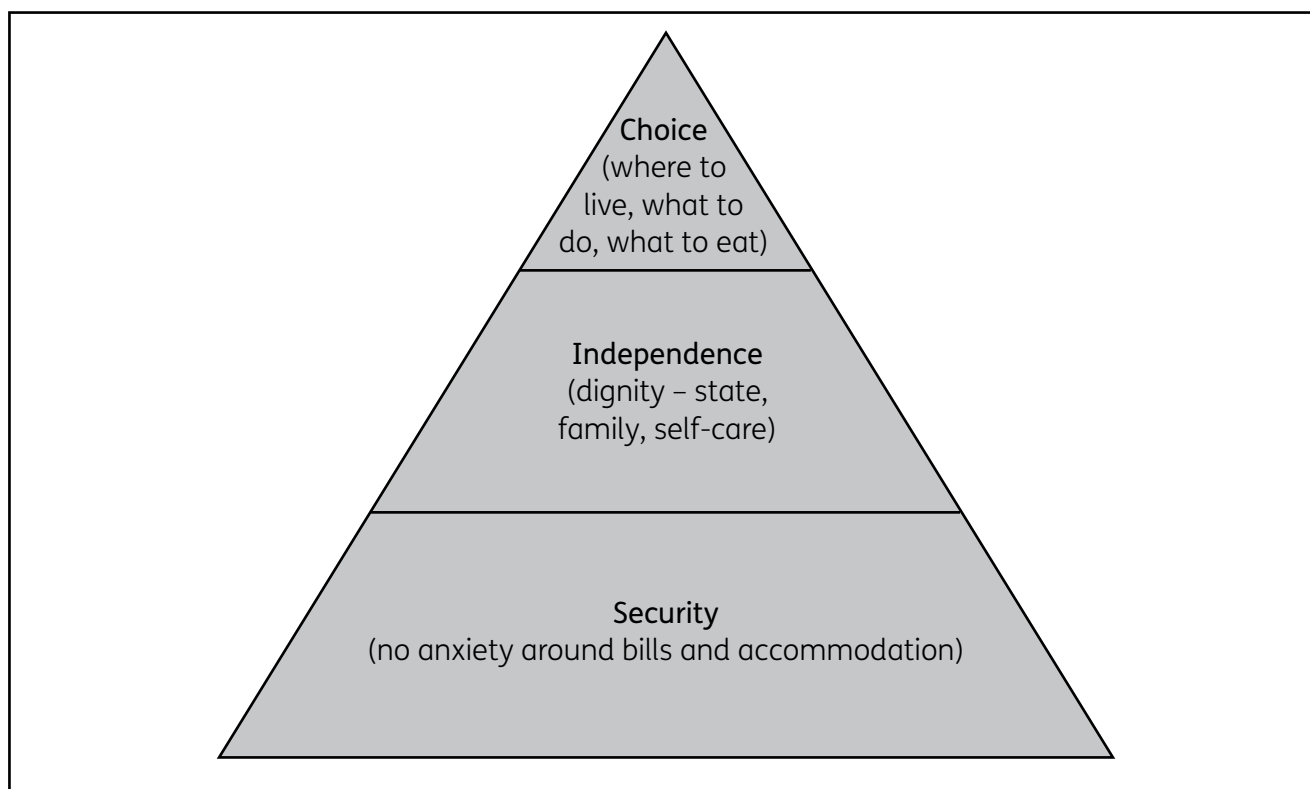
¹ *Retirement income and assets: Do pensioners have sufficient income to meet their needs?* (2009).

² *Pensions: Challenges and Choices. The First Report of the Pensions Commission* (2004).

Definition of different lifestyles in retirement

Respondents identified three categories of lifestyle in retirement: 'basic', 'comfortable' and 'wealthy'. There were three key components informing the definition of these various lifestyles: security, independence and choice, as illustrated in Figure 1.

Figure 1 Different lifestyles in retirement



Security was the most basic need expressed by respondents and related to the absence of anxieties around being able to afford to pay bills (e.g. heating bills), dealing with financial emergencies (e.g. if key white goods such as a refrigerator broke down) and having secure accommodation. The concept of independence was related to respondents being able to manage with the least financial and caring assistance from the state (in terms of benefits) and from family, and being generally able to manage their own self-care. Whereas security and independence were linked to having the income to secure the basic prerequisites of lifestyle, choice related to respondents having the income to be able to **enhance** their quality of life. This included considerations around frequency of holidays and other leisure activities, quality of food and the type of accommodation someone could afford to live in.

A 'basic' lifestyle was seen to be one which lacked financial security and independence and was therefore seen to be characterised by anxieties around being able to afford to pay bills and replace household goods, as well as financial dependence on friends, family and state benefits. In contrast, a 'comfortable' lifestyle was seen to begin at the point of financial security and independence. However, there was a great deal of variation within this lifestyle in terms of the level of choice respondents felt that they had to enhance their quality of life. The difference between a 'wealthy' lifestyle and a 'comfortable' one rested on the ability of those in a 'wealthy' lifestyle to exercise choice on a grander scale (e.g. being able to afford to live in expensive properties).

Perceptions of own lifestyle

Respondents tended to distance themselves from both the ‘basic’ lifestyle, which was associated with media images of ‘pensioner poverty’, and the ‘wealthy’ lifestyle, which was associated with ‘frivolous’ and ‘extravagant’ living. Instead, respondents generally identified with a ‘comfortable’ lifestyle, which may in part be because the sample excluded those who were on pre-retirement incomes of less than £10,000 and above £40,000. This tendency to identify with a ‘comfortable’ lifestyle accounts for why there was a wide variation in how respondents defined it. This variation can be made sense of by further segmenting this lifestyle into the categories of ‘marginally comfortable’, ‘moderately comfortable’ and ‘very comfortable’ based on how tightly respondents needed to budget in order to exercise lifestyle choices and whether they felt they needed additional income.

In defining their own lifestyle (as well as the lifestyle of others), respondents not only drew on media images (largely of ‘pensioner poverty’) and other people (including family, friends, neighbours and former work colleagues) but also their own experiences before retirement and their current attitudes towards spending and money management – which tended to frame the discussion of a ‘comfortable’ lifestyle around being careful with money and not being frivolous.

Respondents’ feelings about their retirement income and their lifestyle were influenced by both financial and non-financial factors. Although it was not possible to identify in what way replacement rates specifically had an influence on feelings about retirement incomes, other financial factors did play a part in shaping these feelings. These included current household income, whether they owned their property and had paid off their mortgage and the level of savings and debt they had. In particular, the ownership of property and the absence of debt contributed to respondents feeling better off in retirement in comparison to their working lives, even though their income may now have been lower.

The following non-financial factors also contributed to feelings about lifestyle so that, as long as basic levels of security were met, respondents felt positive about their lifestyle regardless of their income:

- **Attitudes towards spending:** Respondents displayed the ability to tailor their expectations, expenditure and needs to match their income.
- **Aspirations in retirement:** Tailoring aspirations to age, with one view being that ill health and/or ambitions being fulfilled in working life meant that individuals needed less income in retirement.
- **Health and mobility:** Good health was seen to give individuals the capacity to enjoy their retirement and to limit costs associated with ill health (and hence income needed).
- **Support networks:** A good support network of friends and family was seen to make life in retirement more comfortable because of the emotional and material support they offered.

Views about the future

The recurrent view among respondents was that their income and assets would not increase substantially in the future, over and above any minor adjustments made to their pensions and any changes in interest rates that could affect savings, bonds and other investments.

Respondents described a number of threats to their financial wellbeing both in terms of their level of income and assets and the changing nature of the demands placed on their income. Some of these threats related to their current situation, whilst others were seen to be potential threats in the future (e.g. the death of a spouse or government cuts in entitlements). One such threat was the potential

demands placed on respondents' finances as a result of a deterioration of their (or their partner's) health and mobility as they got older. These demands included the costs of care and other assistance that would be required. Respondents were also concerned about the effect of inflation in eroding fixed pension income and assets, both now and in the future. As a way of meeting this threat, respondents felt that they would need to draw on savings, investments and/or reluctantly consider selling their property and downsizing.

Respondents tended not have any concrete plans for the future, with the recurrent view being that they would keep drawing on their current income and asset streams without any further planning. Reluctance to think about future planning was based on perceived limitations that a fixed retirement income placed on financial planning, a reluctance to think about unpleasant issues that may require planning (especially the deterioration of health) and not seeing the point of planning given that respondents did not know how long they would live.

1 Introduction and background

1.1 Background and rationale

The last ten years have seen a high level of public debate and policy development around the subject of pensions and the financial situation for people post-retirement. The early years of the decade saw the falling value of pension funds leading to reduced payouts for defined contribution schemes and changes to the structure of pension schemes, in particular the closure to new members of a large number of final salary schemes leading to a greater responsibility for the funding of pensions falling on the individual. Against this backdrop, Pension Credit and the Minimum Income Guarantee were introduced to help pensioners on very low incomes, and the Pensions Commission was set up in 2002 to review, among other things, the adequacy of pension saving, particularly among people on modest to average earnings.

The first report of the Pensions Commission concluded that ‘the present level of pension right accrual is both deficient in total and increasingly unequal’.³ In terms of adequacy, the report used the concept of **replacement rates** to look at the degree to which people’s retirement income ‘replaced’ their income from earnings.⁴ Secondary analysis presented in the report showed that actual replacement rates for the modest to average earnings group were around 60 per cent. In terms of **desired** retirement income, people at the very lower end of the earnings range were hoping for 100 per cent or above replacement income, whereas people with slightly higher earnings (e.g. above £12,000 a year) hoped for around 70 per cent replacement.⁵

A recent report by the Pensions Policy Institute suggested that ‘many people felt they would need to have a standard of living similar to working life, in order to be satisfied with their retirement income’.⁶ It was argued that people would not be able to replicate their working life living standards solely from pension income. However, it would be easier for people with occupational and/or personal pension income or a combination of assets and savings.

What was not known in any detail was how people determined what was an appropriate retirement income: to what extent their expectations were shaped by previous earnings, by patterns of expenditure, future expectations, or the relationship between their income and their savings or capital assets. It was also not known how views about what was an appropriate retirement income varied between people, and how these views changed the further into retirement people went.

In light of this paucity of knowledge, the DWP commissioned NatCen to carry out a qualitative study to explore these issues.

1.2 Research aims and objectives

The overall aim of this research was to provide greater understanding of how people feel about their retirement income, in relation to what they consider to be appropriate or adequate income, how they determine what is adequate and their thoughts about the future.

³ *Pensions: Challenges and Choices. The First Report of the Pensions Commission* (2004).

⁴ The replacement rate is a calculation of the ratio between earned income before retirement, and income in retirement (see Section 1.6 for how this was calculated in this report).

⁵ See Figures 4.8 and 4.10 from the Pensions Commission’s first report (2004). Desired income relates to median income (not earnings) and for a specific age group (aged 45-54).

⁶ *Retirement income and assets: Do pensioners have sufficient income to meet their needs?* (2009).

The specific study objectives were to:

- investigate individuals' views about their current financial situation and standard of living in retirement and their feelings about their financial future;
- understand what factors influence individuals' views about their current financial situation, including their perception of 'appropriate' retirement income and wealth;
- explore the influence of 'replacement rates' on individuals' feelings about their financial situation. The replacement rate is a calculation of the ratio between earned income before retirement (using income from last main job), and income in retirement (see Section 1.6 for how this was calculated in this report);
- identify factors that may have created a disjunction between aspirations for retirement and actual income and wealth in retirement.

To focus the research, three parameters were set up to define the population of interest. To be eligible for the study, people needed to have:

- been retired from their main job for at least two years (and not more than 20);
- earnings in their last main job of between £10,000 and £40,000 (with maximum annual gross household earnings of £50,000). This was judged to be a level where they would have sufficient income to save if they wanted to, but still within the range where government information or support around finances is likely to be valuable;
- some private pension income over and above the State Pension.

1.3 The English Longitudinal Study of Ageing

Respondents for the study were drawn from the ELSA sample, which is held at NatCen. ELSA is a comprehensive study of people aged 50 and over and their partners in England. It explores the dynamic relationships between health and functioning, social networks and participation, and economic position as people plan for, move into and progress beyond retirement. ELSA has been developed through a collaboration between University College London, the Institute for Fiscal Studies and NatCen. Every two years, the same participants are approached to measure changes in their health, economic, and social circumstances.

The original ELSA sample was drawn from households that had previously responded to the Health Survey for England (HSE) in 1998, 1999 or 2001. The first wave of ELSA fieldwork was conducted in 2002 when a total of 12,099 interviews were achieved. Interviews for the fifth wave were completed in May 2011. Interviews for the fourth wave, from which the sample for this study was drawn, were conducted in 2008 and 2009. Funding for the first five waves of the study has been provided by the US National Institute on Aging and a consortium of UK Government departments.

The eligible sample drawn from ELSA for this qualitative study was defined as follows:

- aged between State Pension age (SPA) (assuming age 60 for women and age 65 for men) and 75 at Wave 4;
- retired from their main job at Wave 4 (for at least two years but no more than 20); if working when retired, not more than 20 hours per week;
- core members from Cohort 1 and Cohort 3, who had taken part in a life history interview⁷;

⁷ Excluding partners for analysis but including them for the sampling.

- annual gross salaried income in their last main job was between £10,000 and £40,000 gross per annum;
- annual gross salaried household income in their last main job was below £50,000 per annum;
- receiving some pension income (can include state but must have private pension income or income from other sources as well).

This definition of the sample should be taken into account in interpreting the research findings.

1.4 Overview of the study design

Qualitative in-depth interviews were conducted with 30 respondents who had retired, drawn from among 613 ELSA respondents who fitted the above eligibility criteria (see Section 1.5 for more detail on the conduct of the interviews). The sample was selected using a purposive sampling method, whereby key criteria were identified and quotas set for these to ensure a representation of a range of characteristics and circumstances. The primary criteria used were:

- **Age:** Two age groups were included: 60-69 and 70-77. The focus of the study was on those who were closer to the retirement process, the decision-making and the adjustment to retirement. Inclusion of the older age group meant that issues relating to the financing of health care were more likely to arise, and that longer-term adjustments to income or reflections on adequacy could be explored.
- **Replacement rate of income pre- and post-retirement:** These were weighted in favour of the 50-74 per cent category and divided between two other categories (49 per cent or less and 75 per cent or more). See Appendix A for a discussion of how the replacement rate was calculated.

The following secondary criteria were also monitored:

- **Gender:** Equal numbers of men and women; this was particularly important given women's differential engagement with the labour market and pension provision.
- **Household type:** Weighted slightly in favour of couple households.
- **Final income from last, main job before retirement:** This was divided equally between three categories (£10-19k, £20-29k and £30-40k). As discussed, the focus of the research was on people whose income level during their working life meant they might be more likely/able to save for their retirement but may also need to draw on government support.
- **Highest educational qualification:** Divided between higher education qualifications, school level qualifications, qualifications obtained in another country and no qualifications.
- **Geographical area:** These were divided between rural and urban areas. The urban/rural classification was defined by the ELSA team through the use of a postcode look up system. This draws on the Office for National Statistics (ONS) definition of the 'urbanity' of the census 'output area' in which a respondent's address fell.

Much of the information required about participants could be gained from their responses to the ELSA interview. However, given that participants' circumstances may have changed and the importance of focusing the research on a well-defined group, a short screening questionnaire was also carried out at the point of recruiting participants. This ensured that participants fitted the required profile for the study, and allowed any additional information to be collected as appropriate. The screening questionnaire was carried out by NatCen's Telephone Unit.

Table 1.1 Achieved respondent sample in relation to the primary sampling criteria

Characteristic	Number of respondents
Gender	
Male	14
Female	16
Age	
60-69	20
70+	10
Household type	
Single	14
Couple	16
Income at retirement	
£10-19k	10
£20-29k	11
£30-40k	9
Replacement rate	
49 per cent or less	8
50-74 per cent	16
75 per cent or more	6
Type of area	
Urban	28
Rural	2
Total number of respondents	30

Table 1.1 indicates that the study managed to capture a range of respondents around the primary sampling criteria. It must be noted that particular challenges were experienced around recruiting respondents from rural areas. However, rurality was not anticipated to have a key impact on the analysis in the way that our other key analytical criteria (e.g. replacement rate) did. Researchers' early impressions of the interviews suggested that participants from rural and urban backgrounds differed very little in how they perceived their own income in retirement and what they felt they required in retirement.

1.5 Conduct of interviews

The interviews were carried out using a topic guide developed in consultation with DWP (see Appendix B). The topic guide set out key areas to be covered and ensured consistency across the interviews, whilst also enabling the researcher to flexibly explore the range of issues raised in different interviews and to respond and follow up on new subject areas raised by respondents.

The interviews covered background information (current living arrangements, employment history and decision to retire); planning for retirement and the types of pensions and other provisions that respondents had put in place as well as their current financial situation and a comparison with their working life. Respondents were then asked to identify and comment on different standards

of living and lifestyles in retirement and to reflect on their own financial situation. Respondents were also encouraged to consider the standard of living of those with higher and lower incomes than themselves. Towards the end of the interview respondents were asked about their plans for the future.

Interviewers provided respondents with timelines to help them plot their employment histories. This was particularly useful where respondents had experienced a great deal of change during their working lives and to aid recall, particularly among those people who had been retired for longer. A pie chart template was also given to respondents to help them in calculating the broad pattern of their expenditure.

Interviews were generally carried out with individuals. However, where an individual specifically requested that they participate in an interview with their partner, this was accommodated. Interviewers were mindful of the concerns associated with interviewing elderly respondents and the potentially sensitive nature of the topics being discussed.

Interviews lasted approximately one hour and were conducted on a face-to-face basis at locations that were convenient for respondents, usually their homes. Assurances of confidentiality were given at the start and end of each interview. Respondents were given a thank you payment of £20 at the end of the interview. All of the interviews were digitally recorded with the respondent's consent.

It is worth noting here that, as a qualitative piece of work, this study sought to explore and understand views around deciding what people considered to be an appropriate income for retirement, rather than to quantify these. This focus is reflected in the decisions around the sample size, the use of purposive sampling (which sought to achieve diversity among sample members rather than to build a statistically representative sample) and the method of questioning used – all of which are designed to explore views and experiences in depth and within an individual context, rather than to generate data that can be analysed numerically.

1.6 Pattern of replacement rates

The income replacement rates for eligible ELSA respondents were calculated in a similar way to the definition used in the Pensions Commission report.⁸ This involved dividing an individual's gross retirement income (from pensions, benefits, savings and investments, etc.) by their gross earnings pre-retirement (i.e. their salary from their last main job, before tax). For the analysis here, retirement income was measured at the Wave 4 ELSA interview, rather than at the point of retirement. Retirement income for couples was divided by two in order to get individual income. Further details of the calculation method are given in Appendix A.

To interpret the replacement rates presented in the report, it is worth noting that someone who has a low income before retirement will need to have a higher replacement rate to get them to particular benchmark income level than someone on a higher pre-retirement income. The fact that someone has a high replacement rate does not necessarily mean they are well off. Similarly, someone on a high pre-retirement income can be well off, even if their replacement rate is low. The replacement rate, therefore, always needs to be considered in relation to pre-retirement income in order to understand what it means for income levels.

The mean replacement rate was calculated for all 613 eligible respondents from the ELSA survey sample (i.e. the sample from which the qualitative sample of 30 was selected). The mean was 62 per cent whilst the median rate was 54 per cent, showing that the data are skewed by a small

⁸ *Pensions: Challenges and Choices. The First Report of the Pensions Commission (2004).*

10 Introduction and background

number of respondents having a very high replacement rate. Around ten per cent of respondents had a replacement rate of over 100 per cent (this arises when gross retirement income exceeds gross income pre-retirement). This may be for a number of reasons, including women in couples whose post-retirement income may have been favourably influenced by their partner's post-retirement income (because of the way that household income was divided by two to reach an individual income figure).

Table 1.2 Average replacement rates by gender

Gender	Unweighted N	Median replacement rate	Standard deviation
		%	%
Male	301	45	41
Female	312	60	50
Total	613	54	46

Average replacement rates differed between men and women, with women having higher replacement rates than men. In particular, women were more likely to have a replacement rate over 100 per cent. Only five per cent of men fell into this category, compared to 16 per cent of women. Again, this is mainly explained by women's lower pre-retirement incomes combined with the effect of dividing household income in two for our calculations, whereby women are allocated half their husband's income. There was no evidence of any relationship between replacement rates and age.

Table 1.3 Distribution of replacement rates by gender

Categorised replacement rates (%)	Men		Women	
	Unweighted N	%	Unweighted N	%
0 to 9	1	0.4	3	1.1
10 to 19	10	3.6	3	0.9
20 to 29	44	14.1	18	5.5
30 to 39	61	18.9	33	11
40 to 49	64	22	43	14.1
50 to 59	37	12	53	16.7
60 to 69	24	9	40	13.3
70 to 79	20	6.3	34	10.3
80 to 89	14	4.8	20	6.8
90 to 99	9	3.4	15	4.4
Over 100	17	5.5	50	15.8
Total	301	100	312	100

1.7 An overview of the structure of the report

The remainder of this report presents findings from the interviews with respondents. Chapter 2 explores respondents' financial planning for retirement. Chapter 3 provides an overview of respondents' current financial circumstances in retirement, including sources of income and assets drawn on and patterns of expenditure. Chapter 4 moves on to discuss how different lifestyles in retirement were defined by respondents and how they felt about their own lifestyle, as well as the factors that informed this. Chapter 5 provides an overview of respondents' feelings about the future, including whether they see any changes to their financial situation and any planning they have undertaken.

Where case studies are used in the report to provide an illustration of views, we have taken care to preserve anonymity and the names used are all pseudonyms.

2 Financial planning leading up to retirement

This chapter presents an overview of how people planned their finances for retirement. It discusses the range of pension planning behaviours and retirement decisions among the sample and identifies categories that can be valuable in helping to explain differences between people's views and behaviour discussed later in the report. The chapter starts with a description of respondents' employment histories which puts their planning for retirement into context. The key influences for determining when and why pensions and other provisions were put in place are described. Sources of advice used to plan for retirement are also discussed. The chapter ends with a discussion of when and why respondents decided to retire.

In discussing their pre-retirement attitudes and behaviour, respondents were often recalling thoughts and actions from many years' ago and were not necessarily able to recall much detail. It is worth noting that this chapter is intended to set the context for the report and the question of pre-retirement financial planning was not the main focus of this study.

2.1 Overview of employment history

There was great deal of variation in the employment histories of respondents particularly in the level of change they had experienced during their careers.

Those who had a low level of change had worked for the same employer for all or most of their working life. Among our respondents, this was particularly common in, although not limited to, public sector workers such as teachers and civil servants. There were a number of reasons for experiencing a low level of change including job satisfaction, opportunities for promotion and development within the organisation, the incentive of receiving a good occupational pension, and the expectation that one would 'have a job for life'. Respondents who had experienced a high level of change moved between roles, sectors and working patterns. The reasons for this high level of change included redundancy, financial incentives and life events, such as the birth of a child or the death of a family member. As might be expected, female respondents tended to have had more fragmented career trajectories due to taking maternity leave or time out to care for their children. Moving between part-time and full-time work had also been more common for female than male respondents.

Respondents were asked about how they perceived their income when they were working and to indicate whether they considered themselves to have been low, middle or high earners. The recurrent view among them was that they had been middle or average earners. This is not surprising as the sample was deliberately selected to reflect this group (on the basis of their final salary). However, perceptions of income were subject to change over time with respondents describing themselves as higher or lower earners at different points during their careers.

2.2 Planning for retirement

2.2.1 Whether they saw themselves as planners

Respondents differed in the extent to which they had planned for retirement and whether they considered themselves to be an 'active planner' or someone who 'just lets things happen.' It was possible to categorise respondents as 'planners', 'non-planners' or 'opportunists'. It is important to

note that there is some fluidity between category membership. A respondent may have displayed the characteristics of a non-planner at the start of their career but then resembled a planner as they moved closer to retirement.

Non-planners

Non-planners were members of occupational pension schemes and generally said they had believed that these would provide them with a sufficient retirement income. They had been informed they would be opted into these schemes when they started their job without having to make any decisions about the detail of their pension or to take a 'pro-active' approach to planning for the future. Non-planners had a tendency to focus on the present and had had no or very vague goals for retirement.

'I've never been much of a one for planning...I'm more of, one of these people that sort of, just gets along with what I'm doing at the time and tomorrow can look after itself really.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £10-19k)

'I always thought that I would have a pension from [name of company] and it would be a good pension, occupational pension and leave it at that.'

(Female, replacement rate less than 49 per cent, aged 60-69, current income £10-19k)

Opportunists

Opportunists were similar to non-planners in the respect that they had not actively planned for their retirement. However, unlike non-planners they had been required to make some decisions about their financial future. When they started their job they were offered the opportunity to join a pension scheme or make some other kind of provision for retirement and they had made the decision to do so. Members of this group felt that taking advantage of the opportunities presented to them had allowed for a good pension or retirement income even if it was not carefully planned. A downside of this lack of planning was that this group sometimes felt uncertain about the future and 'hoped things would work out OK'.

'I can't say we planned for retirement, we just hoped to make the right decisions when alternatives were presented to us. That's the thing...it's like travelling you know, you come to a crossroads, you try and make the right decision, that's the way we did it. It's not planning, it's not really planning at all.'

(Male, replacement rate 50-74 per cent, aged 70+, current income £20-29k)

Planners

Financial planning had either been very important to 'planners' throughout their working lives or it became more important in the years leading up to retirement. Members of this group had a high level of awareness about their own finances and had known how much they would need for their retirement. In addition to this personal knowledge, planners had also frequently sought advice from a range of sources to assist with their planning. Planners had typically had specific goals in mind when planning for their retirement such as maintaining the same standard of living as when they were working and had felt that careful planning for retirement would help to ensure that these goals were met.

'I think we were always looking ahead to, you know, the day when we shouldn't have a regular income each and we should need to live off pensions and possibly capital eventually.'

(Male, replacement rate 50-74 per cent, aged 70+, current income £20-29k)

2.2.2 Aim or goal of planning for retirement

As touched on already, respondents identified a wide range of goals they had held for their retirement: these can be categorised as having no goals, vague goals or specific goals.

No goals for retirement

Respondents who had not set goals showed a reluctance to look to the future. For these people setting goals for their retirement had been less of a priority than living day to day or was just not considered.

Vague goals for retirement

Vague goals included having a sufficient income in retirement to 'live comfortably' or 'a decent enough pension to live on.' Respondents did not provide any detail about what they had felt living comfortably would involve or how much a decent pension would need to be.

Specific goals for retirement

Respondents who had specific goals had had a clear view about what they were expecting from their retirement. A common goal was to have the same standard of living as when they were working.

Related to goals were respondents' expectations about what their retirement would be like. People tended to have had fairly modest expectations and were most concerned that their basic needs would be met in retirement.

'...we would have sufficient income to support a comfortable life. That is to say to have enough to eat, to be kept, to be able to keep ourselves warm in...a suitable accommodation, or you might say a nice house and probably to...until we get too old to, to drive or something to have a car to carry us about and so on you know.'

(Male, replacement rate 50-74 per cent, aged 70+, current income £20-29k)

'Just really to be able to continue to live the way I was. Not to be concerned about shortage of finance, shortage of money, to be able to run a car, to live comfortably.'

(Male, replacement rate 50-74 per cent, aged 60-69, current income £10-19k).

2.2.3 Making financial provision for retirement

An overriding set of factors influenced the extent and type of provisions people had put in place for their retirement:

- Income during working life influenced the type of provisions put in place. If people had a lower income they often could not afford to make savings or invest their money. However, some had made provisions when they were given the opportunity, e.g. the reinvestment of any windfalls or lump sums they received. Respondents with higher incomes often had put a number of provisions in place for their retirement and had access to financial advice.
- It had been important for people to strike a balance between planning for their future and having enough to live on during their working lives.
- Risk was also a factor in determining the types of provisions that had been made. There was a preference for lower risk investments particularly once people had entered retirement. It is possible that as people became more aware that they were living on a fixed income they also became more risk averse.

- Stability of employment had also influenced pension provision. Those with low levels of change during their careers tended to just have an occupational pension scheme in place. Respondents with high levels of change had more variability in the types of provision they had put in place for retirement.

'It's all very well to say "I wish I'd have saved more", but could you afford to save more? There's always a compromise on what you need to spend then and now isn't there? It's like people that are...are bringing up a family, 'cause they've got a mortgage, they've got family to bring up, and then when you retire you hope that you won't have a family to bring up, your mortgage should be paid, so therefore, you're relatively well off, compared with what you were.'

(Male, replacement rate 75+ per cent, aged 70+, current income £10-19k)

There was variability in the types of pensions taken out by respondents. The reasons when and why a particular pension scheme was chosen can be categorised according to pension type.

Personal pension

An important factor influencing taking out a personal pension was whether people were members of an occupational pension scheme. Respondents who had not been offered the opportunity to join a pension scheme by their employer had sought out personal pension schemes.⁹ However, some respondents who were members of occupational pension schemes had also taken out personal pensions to supplement their retirement income. One approach was for people to start paying into a personal pension in the years leading up to their retirement when they felt they needed to 'boost' their retirement income. The advice provided by independent financial advisers, banks and insurance companies had also influenced whether people took out a personal pension.

Occupational pension

It was common for respondents to have been opted into an occupational pension scheme when they started working for an organisation or to have assumed that it was compulsory to join. However, some respondents had joined schemes at different points during their career. When respondents had joined later, a key reason was their financial situation – they would not previously have been able to afford to pay into the scheme. Some respondents had increased their contributions as they moved closer to retirement. This was either because they had more disposable income later in their career or because they had become more conscious that it was important to save for their retirement. Work colleagues at all levels had had an influence on whether people joined occupational pension schemes. Line managers had provided direct advice to people and peers offered recommendations and comments about pension schemes.

Related to occupational pension schemes were Additional Voluntary Contributions (AVCs). Those who had made AVCs had often started to make them shortly before retirement to boost their income or because they had been advised to make them. They were not always considered the best way to have saved for retirement by those who had made them and some indicated that, with hindsight, a personal pension or savings account would have given a better financial outcome. Paying AVCs was linked to a higher level of planning as it required somebody to have been more active in their approach.

⁹ Sample members were selected on the basis of having a pension additional to the State Pension. Sample members without an occupational pension would therefore have had a personal pension.

A key influence for contributing to both types of pensions had been that there would be a financial benefit to joining the scheme. This included the obvious direct benefit of a source of income in retirement or lump sum payment but also less direct advantages such as tax relief on contributions.

A final influence for people joining a pension scheme was the view that it had been a 'sensible thing to do'. It was considered the 'norm' amongst respondents to have taken out a pension and to save for the future in a general way.¹⁰ On the other hand, it was also thought that there had been little detailed information about pensions available to people in this age group and they had been unsure about how to plan more specifically for retirement.

State Pension

Respondents had been aware that they would receive the State Pension but had often been unsure how much they would receive and whether this would be sufficient to live on. These concerns are discussed in further detail in Section 2.4. Those who had not contracted out of the State Earnings-Related Pension Scheme (SERPS) had decided to stay in the scheme because 'everyone was doing it'.

2.2.4 Other provision for retirement

Respondents had made various types of other financial provisions, although these had not necessarily been put in place specifically for their retirement. These included savings and investments such as stocks, shares, Individual Savings Accounts (ISAs) and endowment policies but also property investments, paying off their mortgage and receiving allowances from non-salaried activities such as councillor duties and fostering. Respondents differed in their reasons for putting these provisions in place:

- People who had saved all their lives thought it was important to have savings and other provisions in place but these were not necessarily intended for retirement.
- Independent financial advisers, banks or other advisers had suggested that people put a particular provision in place.
- The provision had formed part of a longer-term plan, for example, one respondent bought a house specifically so that she could start working as a foster carer and receive a fostering allowance when she retired.

2.2.5 Reflections on planning

Those who had made plans for their retirement were usually satisfied with their planning or felt they could not have done anything differently given their circumstances. Those who said they would have planned for their retirement differently either would have invested their money in another way or would have started saving earlier. Level of income during working life had an influence on how respondents felt about their planning. Some of those with lower incomes would have liked to have planned differently for retirement but felt they could not have afforded to.

'Well I would probably have liked to have done something different, but I don't think I could have afforded to have done anything different, let's put it that way.'

(Male, replacement rate 75+ per cent, aged 70+, current income £10-19k)

¹⁰ This may reflect the fact that respondents in this sample all had pension income over and above the State Pension.

2.3 Advice

Respondents were asked about the type of advice they had received, what had been helpful and what advice they would have liked to have received. A distinction can be made between formal and informal sources of advice:

- **Formal advice** included guidance from employers on their pension scheme, external speakers provided by employers, statements or forecasts, independent financial advisers, advisers from banks or insurance companies, external organisations such as Citizens Advice Bureau or The Pensions Advisory Service.
- **Informal advice** included guidance from friends, family members and media reports. Friends and family members sometimes had specialist knowledge or experience of working in a relevant field. Work colleagues had either provided advice directly to respondents or had been used as a basis for making assumptions, e.g. if people saw that ex-colleagues were struggling financially in retirement then they assumed it would be difficult for them too.

Respondents had found it useful to receive general advice about how to plan for retirement and when to retire, but also more specific advice about which pensions and products to take out and where to find further information. Respondents had also found detailed information about the State Pension helpful, such as making the full National Insurance contribution rather than the reduced married woman's contribution.

Respondents thought it would have been helpful if they had received more information about how much they were going to get from their (occupational and personal) pensions and how best to maximise their retirement income. It would have been useful for them to have known how much the company was contributing and how much they would receive at retirement at the rate they were paying in. Respondents would also like to have been told about the advantages and disadvantages of particular financial products. Information that was said to have been unhelpful had been generally related to specific investments and savings, which had ended up performing less well than hoped. Banks and insurance companies were perceived as a less trusted source of advice and viewed as less impartial because they were selling a product.

The timing of advice was felt to have been important as there was a need to strike a balance between offering advice too early when people were not yet considering retirement and offering it too late when they did not have enough time to act on it.

It is worth noting that not all respondents received advice about planning for retirement, and some said that they had not needed or wanted advice.

2.4 Expectations of retirement income

Respondents were asked about what kind of retirement income and lifestyle they had expected prior to retirement. Their responses need to be interpreted in light of the fact that they were often thinking back a number of years, and looking from the perspective of their current situation. Respondents differed in the extent to which they had been aware of their likely retirement income and can be broadly categorised as having been aware or unaware.

- Being **unaware** of likely income in retirement tended to be characterised by a lack of access to (or recall of) information.¹¹ Respondents had not known where to find information, had not received statements (or could not remember having received them), and said they had been given little or no information by pension providers or employers. It had also often been difficult for people to estimate the income that would be received from an occupational pension if it was dependent on their length of service and final salary. Respondents who had only found out their likely income shortly before retirement can also be put into the ‘unaware’ category.

These people had also had difficulty accessing information and found it was too late to make any changes to their planning once they had received it. Being unaware did not necessarily mean that people had been anxious about their future income, as some respondents had felt confident that their pension would be sufficient because it was a ‘good’ pension (e.g. a teacher’s pension) or because others managed with similar types of pensions.

- Respondents who had been **aware** of their likely income in retirement had been able to easily access relevant information. These people had received advice from an independent financial adviser or other knowledgeable source, received regular detailed statements or had been supplied with other useful information from their pension provider or employer. However, some felt once they retired that their pension statements had been misleading and they received less than they had expected (see Chapter 3).

As discussed earlier in the chapter, respondents had often been unsure about how much they would receive from the State Pension and whether this would be adequate. It was thought that the State Pension would be sufficient if respondents had:

- observed other people living comfortably on the State Pension alone;
- modest expectations about the type of lifestyle they expected in retirement.

The State Pension was considered likely to be low and insufficient to maintain the lifestyle people wanted during retirement if respondents:

- had higher expectations about the type of lifestyle they hoped for in retirement;
- were unsure how much they would receive but assumed it would ‘not be enough’.

Information about how much would be received from the State Pension was not always felt to have been easily accessible. Those wishing to find out their likely income from the State Pension had had to ‘write off’ for information or seek help from a financial adviser or other source.¹²

2.5 Decision to retire and rationale

There was variation amongst respondents regarding their decision about when and why to retire. The reasons for retirement can be separated into ‘push’ and ‘pull’ factors. A combination of push and pull factors had influenced the timing of retirement, with one factor particularly dominant in some cases. For example, where a respondent had an acute health condition this acted as a very strong push factor in their decision to retire. However, when a respondent experienced a gradual decline in health it was a weaker push factor in conjunction with other factors such as being offered early retirement.

¹¹ This mirrors the findings of a recent study, which found that limited information from pension companies and lack of knowledge about how pension plans would perform in the future made it difficult for individuals who had not retired to predict their income in retirement (Kotecha, M., Kinsella, R. and Arthur, S. (2010). *Research on prediction of income in retirement*. DWP Working Paper No. 87. Department for Work and Pensions).

¹² Requesting a State Pension forecast can now be done using the Internet.

Table 2.1 Decisions to retire

Push factors	Pull factors
Default retirement age ¹	Offered early retirement/voluntary redundancy
Expectation all employees in organisation retire at particular age	Wanted to spend more time with partner
Norm that 'everyone will retire at 65'	Wanted to participate in leisure activities
Health reasons	Partner retired at same time
Caring responsibilities (partner, parent)	
Unable to keep up with changes in profession	
Relationships at work	
Compulsory redundancy	

¹ The Default Retirement Age is the law which allows employers to retire employees at age 65 without having to explain why. This law is being phased out in 2011.

In addition to the push and pull factors, the conditions surrounding the timing of retirement had also been important. For example, a respondent had been offered early retirement but decided not to take it as their income was insufficient to retire at that point.

When respondents had been made compulsorily redundant, the extent of the impact it had had on their pension planning depended on whether they had:

- been able to find alternative employment and whether the salary received was comparable to their last job;
- other income streams to draw on. This was particularly important if the respondent had been made redundant before the SPA or the normal retirement age for their pension scheme and could not access their pension. It had sometimes meant that redundancy payments were used up to fund day-to-day living.

2.6 Summary

Respondents differed in the extent to which they had planned for retirement and the types of provisions they had put in place. People could be broadly categorised as non-planners, planners and opportunists. Non-planners typically had been opted into an occupational pension scheme and did not plan any further, opportunists put provisions in place when they were presented to them and planners took an active role in planning for their retirement. A range of goals for retirement were described by respondents. These varied from having no goals or very vague goals to specific goals such as maintaining the same standard of living as when working. A set of overriding factors influenced the type of provision put in place while still working; level of income during working life, financial risk of particular provision, stability during career, and attempting to balance saving for retirement with everyday living costs. Additional factors influenced whether personal pensions were set up or occupational pensions taken up, including whether an occupational pension was provided by their employer, their income level, and whether advice was received. Respondents had also put other types of financial provisions in place such as savings or investments but these were not necessarily for retirement. People generally felt satisfied with how they had planned for retirement or felt that they could not have done anything differently given their circumstances.

3 Financial circumstances in retirement

This chapter provides an overview of respondents' situation in retirement. This includes a description of the range and type of income sources and assets drawn on in retirement, as well as an overview of spending patterns. We also look at the ways in which people's financial situation did or did not match their expectations and the changes people had made in the time since they were first retired. The aim of the chapter is to follow on from Chapter 2 in providing a description and context of respondents' lives in order to more fully understand their views presented in Chapters 4 and 5. The nature of the qualitative material presented in this chapter means that descriptions of people's financial situations are intended to be illustrative, rather than to be used to draw conclusions about the financial situation of the wider population.

In this study, the amount of time respondents had been retired varied from around three to four years to up to more than 15 years: the longer length of time tended to reflect an early retirement. For people who had been retired for longer periods, it did not always appear to be easy in interviews for them to recall back to the time when they had first retired and discuss changes and adjustments made subsequently.

3.1 Income and assets drawn on in retirement

3.1.1 Retirement income

The annual amount of retirement income received by respondents in this sample ranged from below £10,000 (for single pensioners only) to around £55,000 (for a couple).¹³ This generally consisted primarily of pension income (occupational, private or state) although there were a number of other non-pension components which were also drawn on, such as:

- disability benefits and allowances;
- allowances for specific roles (e.g. a councillor);
- Housing Benefit;
- rent from property;
- income from interest received on savings/investments.

By the time of the interview, none of the respondents was getting any income through work, although some had done so earlier in their retirement.

These additional incomes could form a substantial part of people's overall income and, as already discussed in Chapter 2, had sometimes formed part of a deliberate strategy for funding retirement.

Some respondents had also used a lump sum received from their pension, from a redundancy package, an equity release scheme or a maturing insurance policy towards funding their retirement. These are discussed separately (Section 3.2) as they were a one-off payment rather than a regular stream of income.

¹³ This range is likely to be related to the sampling strategy of limiting the sample to people whose salary in their last main job before retirement was between £10,000 and £40,000 (see Chapter 1).

The State Pension tended to form a significant component of respondent's overall income – typically between one-third and two-thirds. Where the State Pension (including the SERPS component) was high, then it could end up comprising most of people's income.

The replacement rate of (current) retirement income as a percentage of their income from their last main job ranged from just over 20 per cent to a little over 100 per cent for the 30 respondents in this study.¹⁴

It was not an aim of the study to collect sufficient information about respondents' working lives to be able to fully analyse the reasons why some people had higher and some lower retirement incomes, but it is clear that income levels during working life, combined with attitudes towards saving for retirement are likely to have a key role to play here.

3.1.2 Assets

As with income, there was a wide disparity in the type and level of assets held by respondents in their retirement. Not all respondents owned their home, and a small number had virtually no savings. On the whole, however, respondents did own their home, and had levels of savings that ranged from a few thousand pounds up to several hundred thousand pounds. The type of savings held included ISAs, bonds, stocks and shares, and investment in property. Future financial planning is discussed in Chapter 5.

3.1.3 Meeting expectations of retirement income

As already discussed in Chapter 2, not all respondents had had any expectation of what sort of income they were going to get when they retired, and had not been sufficiently concerned or interested beforehand to try to find out. Part of the explanation for not seeking specific details on forecast income appears to be that respondents made assumptions about the kind of pension they would get relative to people they knew (friends, colleagues) or felt they had a general understanding of whether their pension was likely to be 'good' or 'poor'. For example, people with a public sector pension had higher expectations of their pension whereas people who had had a number of career breaks had low expectations of their pension.

Where people either had this broad understanding of the kind of pension they would have, or either had a precise understanding based on recent pension forecasts or an understanding of the relationship to their final salary, then the income they finally got was generally in line with their expectations. However, there were, nonetheless, a number of disappointments within this group, for example where respondents had been unaware that their pension income was going to be taxed.

For others, their pension income had turned out to be different to what they had expected. The main reason why respondents' pension income had turned out to be more than expected was where their State Pension (including SERPS) was higher than they had anticipated. Where respondents had not sought a State Pension forecast, expectations were that the State Pension would have been anything from £150 to £400 a month, and respondents were pleasantly surprised to sometimes be getting more than twice what they had expected. To put this in context, the average level of State Pension in August 2010 was £420 a month¹⁵.

¹⁴ A statistical analysis of replacement rates for the ELSA sample of 613 from which the qualitative sample was drawn is given in Chapter 1.

¹⁵ DWP Information Directorate: Work and Pensions Longitudinal Study. The information is published on the DWP tabulation tool at <http://83.244.183.180/100pc/tabtool.html>

There were three main situations where respondents felt that their pension was not as much as they had hoped:

- where they felt their pension had under-performed, the value of the fund had dropped, and it had delivered less than promised;
- where they had retired early and as a result had not made full contributions, so that their final pension income was out of line with earlier forecasts; and
- where their employment history had been disjointed, but they nonetheless felt they had made enough contributions to merit a better pension income than they finally received.

3.2 Use of lump sums on retirement

Some respondents had received lump sums from their pension and/or from insurance/endowment policies which had matured at around the time they retired. Others had received redundancy payments. For those who had received a lump sum, the value ranged from around £2,000 to over £100,000. As a result of receiving the lump sum, some respondents commented that they felt 'well-off' when they first retired.

There were three different ways in which a lump sum was used:

- **Invested:** in savings/ISAs/bonds, or in an ongoing or new personal pension.
- **Used for one-off expenditure on large items:** this tended to reflect a level of planning around the best way to prepare for a future where income would be fixed and possibly lower than before:
 - paying off a mortgage;
 - paying off debts/credit cards;
 - buying a new car or a holiday home: seen as something needed for retaining their standard of living;
 - refurbishing their house: this was also seen by some as a type of investment and included double glazing, central heating, refurbished kitchen, conservatory;
 - a one-off holiday.
- **Used as income to live off:** where there was no other income or to supplement a very low income, while waiting for the age where they could claim State or other pension income.

3.3 Changes during retirement

On the whole, respondents' financial situation had remained fixed and stable during the period they had been retired. However, there were a number of different ways in which some respondents' situation had changed during retirement and these are discussed in this section.

- **Transitions into retirement:** as might be expected, respondents had not always had a clear point where they had retired and claimed their pension income. There were two ways in which the point of their retirement was less clear-cut:
 - Early retirement or redundancy: where this early move out of work was not made through choice but by necessity (including for reasons of ill-health), it was not always possible to draw an occupational pension immediately nor to receive the State Pension. In these circumstances, respondents had to draw on their savings to live on, reducing the amount available for the future. Sometimes this also meant getting into debt during this period.

- Continuing to work after retirement: a retirement ‘transition’ could also involve continuing with some part-time or consultancy work for a short number of years. This meant that retirement income was enhanced during that period.
- **Significant life events:** for some, the period following retirement had seen a number of life changes which could not have been anticipated: one couple had spent several years supporting their son and grandchildren after a divorce, drawing significantly on their savings to do so (as well as their emotional and energy reserves) which had affected their attitude towards their retirement during that time. They had responded to this by using an equity release scheme to release additional funds. Other respondents had experienced major changes in their health, and one respondent’s husband had died shortly after she had retired. These events had, of course, impacted significantly on their lives and attitudes towards retirement, as well as on their financial situation.
- **Changes to housing situation:** downsizing their home was something which was often discussed in interviews. This was seen to impact on the financial circumstances of the respondents, in terms of levels of capital and ongoing costs (for example, reduced costs of maintenance, heating, etc.).

3.4 Overview of spending

To encourage a discussion of how ‘adequate’ their retirement income was, we asked respondents to give us an overview of their spending. In the lower income group (i.e. around £10–15,000 per year) people’s monthly spending tended to be dominated by bills and weekly food shops.

Among people who were on higher incomes, the main differences were slightly higher levels of spending on socialising or eating out, and on other types of items, such as membership of clubs (golf, bowls), subscriptions to magazines or organisations like the National Trust and charitable donations.

There were some respondents who were not able to identify any particular adjustments or changes in spending they had made since they had retired. Others discussed how their spending had reduced since they first retired (for example, if they had paid off their mortgage some time after retiring, or no longer had to support family). A final group talked about how they felt they had needed to scale down their spending since they had retired, giving examples of the impact of rising prices, particularly fuel prices, on their fixed retirement income. Scaling down hobbies was also discussed, and attributed partly to demands on income but also to reduced desire to take part as they got older.

One respondent felt they had perhaps been a bit ‘complacent’ about their spending when they first retired, and could have spent more time thinking forward to their later retirement:

‘I do remember having a conversation with a friend, about ten years ago, and we were in similar situations I think, and I remember thinking “I’ve got £100,000 in the bank, what more do I need? I’ve got a pension, I’ve got free time...” and the friend I was talking to, she was busy buying houses, making her £100,000 work a lot harder than mine. And I thought she was greedy...but looking back, maybe she was right, maybe I was complacent...because she’s now very well off...And perhaps I was just being lazy.’

(Female, replacement rate 50–74 per cent, aged 60–69, current income £20–29k).

Others had done this kind of planning immediately before they retired and felt it had been worthwhile, in terms of looking at exactly what income they would have, what they would be able to spend and where they would need to save.

3.5 Summary

The respondents in this study were deliberately selected to represent people on 'middle' incomes prior to retirement, with some source of pension income in addition to the State Pension. Respondents' sources of income were varied, but the State Pension (including SERPS) tended to form quite a significant component of their overall retirement income. Some respondents had been pleasantly surprised at the size of their State Pension, particularly where it included a SERPS element.

There were three main ways in which respondents who had received lump sums at retirement had used them: investing it in further saving, using it towards large one-off expenditures (such as paying off the mortgage or refurbishing the house, also seen as a form of investment) or using it to live on while waiting for other sources of income to become payable.

There were a number of ways in which respondents' circumstances after retirement were not as they might have planned. This included having to take early retirement before being able to claim a pension, resulting in a difficult start to their retirement years, where savings could get used up or they had ended up getting into debt. Similarly, significant events in their lives had influenced respondents' retirement years, both in terms of their financial situation but also their attitudes towards retirement, for example serious ill-health, or the death of a spouse, or the need for financial support for other members of their family.

4 Lifestyles in retirement

Having provided key contextual information around respondents' situation in retirement in Chapter 3, this chapter moves on to explore how respondents labelled and defined various types of lifestyles in retirement (as well as the points of reference that informed this), and how they felt about their own lifestyle. In doing so, this chapter also explores the factors that informed respondents' perceptions of their own and other's lifestyles and what they considered to be a comfortable income to have in retirement.

Sections 4.1 to 4.4 will provide an overview of how respondents defined different lifestyles, while Sections 4.5 to 4.8 will detail how respondents felt about their own lifestyle and the factors that informed this perception.

4.1 Terms used to define lifestyles

Respondents were encouraged to suggest terms for lifestyles spontaneously where possible, but prompts were used with those respondents who found it difficult to engage in this definitional work. Although respondents used a variety of terms to denote different lifestyles, these can be broadly organised according to three categories: 'basic', 'comfortable' and 'wealthy'. Figure 4.1 represents these categories alongside some of the terms that respondents used.

Figure 4.1 Terms used to define lifestyles in retirement

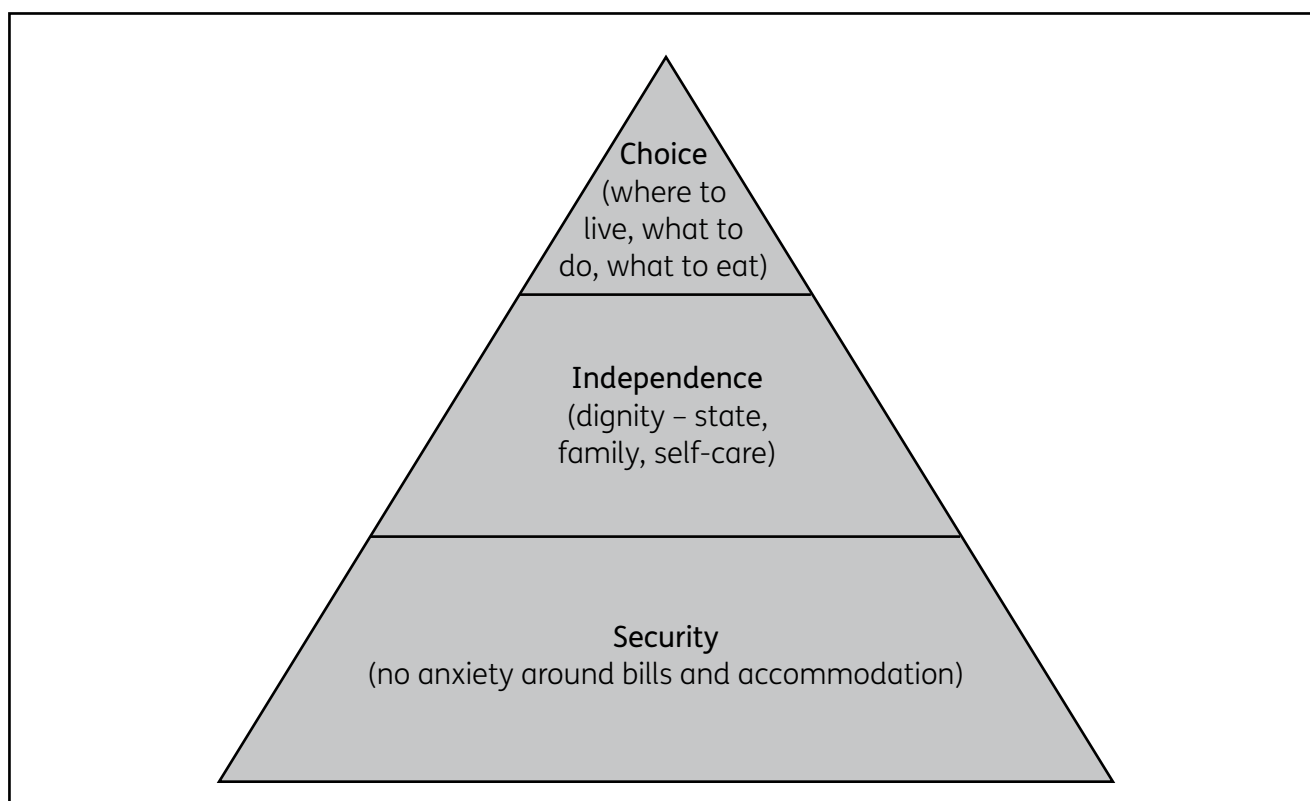
'Basic'	'Comfortable'	'Wealthy'
Other terms used included: <ul style="list-style-type: none"> • Poor • Less well off 	Other terms used included: <ul style="list-style-type: none"> • Cosy • Very comfortable • Normal • Content • Above basic • Quite good 	Other terms used included: <ul style="list-style-type: none"> • Extravagant • Very well off • Luxurious • Rich • Acquisitive • Above average

It is interesting to note that respondents spontaneously and consistently used the term 'comfortable' to denote a lifestyle that they felt fell between 'basic' and 'wealthy'. This suggests that this term is familiar and recognisable to respondents, perhaps more so than other terms such as 'adequate'.

4.2 Components of income-related definitions

Respondents drew on a variety of factors when defining and distinguishing between different lifestyles. These ranged from the capacity to meet household bills to the type of leisure activities that different lifestyles afforded them, for example, number and type of holidays (see Section 4.3 for a fuller discussion of this variation). However, it is possible to identify three key components underpinning these definitions which formed the foundation of the distinctions between lifestyles. These are 'security', 'independence' and 'choice', and can be seen to form a hierarchy of needs, as represented in Figure 4.2. Each of these components will be described in turn.

Figure 4.2 Components of income-related definition of lifestyles



Security was the most basic need articulated by respondents and related to the absence of anxieties around being able to afford to pay bills (e.g. heating bills), dealing with financial emergencies (e.g. if key white goods such as a refrigerator broke down) and having secure accommodation. These concerns tie in with participants' awareness of their income being fixed in retirement and related sensitivities around ensuring they could cover their basic needs.

Further up the hierarchy of needs, the degree of **independence** was another key dimension underpinning the definitions of lifestyle. Independence ties in closely with the need to have dignity in retirement and relates to respondents being able to manage with the least financial and caring assistance from the state (in terms of benefits) and from family (in terms of financial assistance and other forms of 'caring' support), and being generally able to manage their own self-care. Examples of being able to manage self-care included having the financial means to run a car to do the weekly shopping or being able to afford domestic help if health did not permit respondents to undertake housework.

Choice was the final dimension underpinning the way people thought about lifestyles. Whereas security and independence related to having the income to secure the basic prerequisites of life, choice related to respondents having the income to be able to enhance their quality of life. This included considerations around:

- how frequently respondents went on holidays and the nature of these;
- the quality of food respondents were able to purchase on a regular basis;
- the area and type of accommodation they could afford to live in;
- if they became lonely, having an income that enabled them to socialise (e.g. going out for meals or going to the pub) or being able to afford to have entertainment at home (e.g. the internet/cable TV).

The above discussion also indicates that respondents envisaged deprivation in material terms; in other words, about what their income did or did not allow them to own or do in terms of ‘security’, ‘independence’ and ‘choice’.

4.3 Definition of lifestyles and distinction between them

Having outlined the various components, this section explores how respondents drew on these to both define lifestyles and to distinguish between them. It is worth noting here that respondents generally defined their own lifestyle as a ‘comfortable’ one, sometimes regardless of their financial situation, and tended to see the lifestyle of others with more or less income than them as either ‘basic’ or ‘wealthy’ (this will be explored further in Section 4.5).

4.3.1 A ‘basic’ lifestyle

There seemed to be very little variation in how respondents defined a ‘basic’ lifestyle. A key feature in this definition was not being able to afford the basic prerequisites of life. In the first instance, this meant a lack of security, characterised as a ‘hand-to-mouth’ existence, in a constant state of anxiety around being able to afford bills (particularly heating bills) and worrying about how to replace expensive household goods, such as refrigerators and carpets. This sense of anxiety is captured by a respondent’s reflection on a ‘basic’ lifestyle in the quote below.

‘Yes, I wouldn’t like to be in the position of you know [of] somebody who is living on a weekly basis and wonders whether at the end of the week he’ll be able to pay the gas bill and that sort of thing. That is not a comfortable way of life.’

(Male, replacement rate 50-74 per cent, aged 70+, current income £20-29k)

Lacking the ability to afford the basic prerequisites also meant that respondents tended to see those living a ‘basic’ lifestyle as being financially dependent on others to meet their needs. This included relying on family, friends and, perhaps more importantly, on state benefits to top up their State Pension – although respondents tended to be vague about the type of benefits they felt individuals would be receiving, with references made to Pension Credit and even Income Support. The independence of those with a ‘basic’ lifestyle was also seen to be compromised by being unable to afford to run a car, which was considered to be important by all respondents. Even those who relied on public transport nonetheless felt it would be useful to have a car. A car was seen to be particularly important for individuals as they got older and their health deteriorated in order to provide them with the ability to run key errands, such as grocery shopping.

'I'm lucky to have actually, have a bus pass, but...not having a car would be very inconvenient... well I think you know, especially looking after the kids [grandchildren], taking them to school, bringing them back from the school, doing the shopping, the grocery shopping and so on...I think it's so practical.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £20-29k)

Not surprisingly, individuals living a 'basic' lifestyle were also seen to lack the income needed to enhance their quality of life. In short, they were seen to lack the choices around what to eat, where to live and how often to socialise that were open to those with other lifestyles.

4.3.2 A 'comfortable' lifestyle

A 'comfortable' lifestyle was seen to begin at the point where an individual was able to meet the basic prerequisites of life. In particular, this meant having the financial capacity to pay bills and not have anxiety regarding their accommodation. This is illustrated in the quote below, where a respondent outlines a 'comfortable' lifestyle. Some respondents felt that being able to afford healthy and good quality food was also a characteristic of a 'comfortable' lifestyle. This included being able to afford fresh fruit and vegetables, as well as food that had not passed its sell-by date.

'So the absence of worries about finance and the pleasures of having family around, family activities around children, etc [constitutes a 'comfortable' lifestyle].'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £20-29k)

Beyond this point of having security, respondents' views on what constituted a 'comfortable' lifestyle varied greatly. On one level, there were differences with regards to the degree of independence respondents felt a 'comfortable' lifestyle afforded people. This led to differences in views, for example, around whether domestic help (such as a cleaner, gardener or decorator) was necessary for a 'comfortable' lifestyle and, if so how, how often this help was needed. Another example of this is provided in the contrast between the quotes below, where two respondents offer different ideas of what it means to have a car as a mode of transportation. In the first quote, it is clear that the respondent feels that being 'comfortable' means having multiple cars and being able to change them when they want. In the second quote, the respondent is happy with having a single car for the occasional trip down to the sea.

'...two weeks ago my wife's car, which is a little four wheel drive was six, seven or eight years old and my Mercedes was four years old and she said "I think I'm ready now to have another car, a new car" so we changed it last week and she's got a bigger four wheel drive. I don't need my Mercedes now...it would be nice to have an open top car for a bit and enjoy that so I've just bought one. So, its being able...in the last two weeks we've both changed our cars...So, to be able to afford a new car or two new cars, OK you've got to go and choose an investment or something to, you know to [raise funds], but it's, one's able to do so and so that's comfortable [respondents own definition].'

(Male, replacement rate 75+ per cent, aged 60-69, current income £30-40k)

'Well we do spend more money on petrol don't we? And car parks, well you've got a thing [referring to parking permit] now don't you?...Mind you I think what I would call extravagant is when you [partner] take me to the sea. I don't have to go to the sea, but if I get really down, I love the sea. And he'll take me to the cliffs but apart from that, I don't do anything. We're quite happy as we are.'

(Female, replacement rate 75+ per cent, aged 70+, current income £10-19k)

However, a key source of difference in the definition of a ‘comfortable’ lifestyle centred largely on the level of choice that respondents felt they needed to enhance their quality of life. This variation in views around quality of life related to two key domains: firstly, views on the frequency and type of holidays and secondly, the social activities respondents engaged in. These differences are summarised in Table 4.1.

Table 4.1 Variations in a ‘comfortable’ lifestyle

Lifestyle choice	Examples of variation
Holidays	<ul style="list-style-type: none"> • Having a holiday once a year to having a holiday every couple of months. • Being content with domestic holidays to wanting holidays abroad to see friends and family.
Social activities	<ul style="list-style-type: none"> • Having inexpensive hobbies, such as playing cards, to being a member of a golf club. • Eating out once a month to socialising with friends on a daily or weekly basis – e.g. going to pubs and lunchtime meals with friends.

This variation in respondents’ definition of what constitutes a ‘comfortable’ lifestyle will be further explored in Section 4.5.

4.3.3 A ‘wealthy’ lifestyle

The component of choice was also seen to be key in distinguishing between a ‘wealthy’ lifestyle and a ‘comfortable’ one. The importance of choice in defining this lifestyle is summed up by a respondent below.

‘Well [below a ‘wealthy’ lifestyle] the choices wouldn’t be so wide. You see I think life really comes down to... most things in life is choices. When you, when you can afford choices then life is good; if you don’t have choices then life is bearable but not very good.’

(Female, replacement rate 49 per cent, aged 60-69, current income £10-19k)

Those with a ‘wealthy’ lifestyle were essentially seen to engage in the same types of leisure and shopping activities as those on a ‘comfortable’ lifestyle, but had the income to do so on a grander scale and with no budgetary restrictions. Table 4.2 summarises the choices that those with a ‘wealthy’ lifestyle were felt to have that those with other lifestyles did not.

Table 4.2 Choices open to those with a ‘wealthy’ lifestyle

Lifestyle choice	Examples of variation
Holidays	<ul style="list-style-type: none"> • Go away on holiday frequently and as often as wanted. • Travel in style (e.g. first class). • Able to go on highly priced holidays (e.g. to exotic locations, on cruises). • Able to be away on holiday longer.
Shopping habits	<ul style="list-style-type: none"> • Shop more frequently. • Buy better quality food (e.g. organic fruit and vegetables). • Shop at more expensive retail outlets for food and other items.
Social activities	<ul style="list-style-type: none"> • Engage in more expensive hobbies, such as golf and bowling. • Socialise more often (e.g. go to the pub every weekend). • Engage in expensive social activities (e.g. go to the theatre whenever they wanted, attend football matches and eat out at expensive restaurants).
Home refurbishments	<ul style="list-style-type: none"> • To refurbish the home as often as wanted. • Buy expensive items for the home (e.g. curtains and furniture).

Perhaps as a result of this level of choice, this lifestyle was also seen to be status-orientated and acquisitive in nature, with individuals seeking to have the best and newest of everything in order to maintain this standard of living. This view is summed up below by a respondent reflecting on the ‘wealthy’ lifestyle of a friend.

‘But she is much more...acquisitive than I am. ...if she buys a pair of shoes in one colour she’ll buy three pairs, in other words you know, cause she wanted the blue, the black and the green you know, sort of thing...she’s much more conscious of image, which I’m not...’

(Male, replacement rate 50-74 per cent, aged 60-69, current income £10-19k)

Although choice was the key point of differentiation between this lifestyle and a ‘comfortable’ one, respondents also felt that a ‘wealthy’ lifestyle extended a greater level of security and independence to individuals than the other lifestyles. Thus, for example, respondents referred to people living this lifestyle as having beautiful and expensive properties, and not just a home. Likewise, respondents referred to this lifestyle as giving individuals an income to be able not only to have a car to get around, but to be able to afford expensive models and to change these as often as required.

4.4 Reference point used to define lifestyles

Respondents drew on three reference points in defining the various lifestyles:

- **Other people:** This included a wide variety of individuals, such as friends, family, neighbours and colleagues who had retired.
- **Media images:** This was particularly the case when respondents defined a ‘basic’ lifestyle, drawing on news reports and other images of ‘pensioner poverty’.
- **Their own experience before and after retirement:** This included comparisons to their financial situation and lifestyle prior to retirement and their current situation. For example, there was a view that lifestyles post-retirement were more comfortable than they had been at certain points during working life, when respondents had children and other financial commitments. Likewise, respondents drew on elements of their current lifestyle, such as their attitude and experience of living within their means (discussed further in Section 4.7), to define what ‘comfortable’ meant.

It is important to note that respondents tended to socialise in what they considered to be groups that had similar income and lifestyles to themselves; this meant that they sometimes found it difficult to comment on lifestyles made possible by a level of income above or below their own. This pattern of socialisation can be accounted for by a number of reasons, including the continuation of friendships in retirement with individuals from similar working backgrounds, respondents socialising in specific settings (such as playing cards and Rotary clubs) where individuals with a similar income are likely to be found and living in neighbourhoods in particular income catchment areas.

Having provided an overview of the definitions accorded to the different lifestyles, Sections 4.5 to 4.8 will explore how respondents felt about their own lifestyle, the reasons behind this and how their lifestyle in retirement compared to working life.

4.5 Perceptions of own lifestyle

Respondents in this study either identified their lifestyle in retirement as ‘basic’ or, as was generally the case, ‘comfortable’. This may in part be because the sample excluded those who had a pre-retirement incomes of less than £10,000 and more than £40,000.

However, respondents did not identify with the ‘wealthy’ lifestyle, even though it was sometimes evident to researchers that this may have been a more accurate description of their lifestyle, based on discussions about their level of security, independence and the choice they had in their lifestyles (see Section 4.2 for a discussion and examples of these components). A key reason why respondents felt reticent to position themselves in this lifestyle is suggested by the pejorative terms they associated with this lifestyle, such as ‘acquisitional’, ‘frivolous’ and ‘extravagant’ (see Section 4.1 and Case Study 1). Respondents belonged to a generation that grew up in a post-war period where rationing was still in existence. Perhaps because of this they tended not to believe in excessive, ‘frivolous’ spending and waste – all associated with this lifestyle. This hints at a ‘generational effect’ in attitudes towards this lifestyle and hence a reluctance to be identified with it.¹⁶

Given the tendency of respondents to identify with a ‘comfortable’ lifestyle, it is not surprising that there was such a wide variation in the definition of this lifestyle. However, it is possible to segment respondents who felt ‘comfortable’ into a further three groups, based on the level of choice they felt they had (as noted in Section 4.3.2, this was the area in which variation occurred), their response when asked whether they needed any additional income and the researchers’ interpretation of how constrained a respondent’s finances were. These groups are as follows:

- **‘Very comfortable’:** These respondents did not feel they needed to budget tightly to exercise choice and could, for example, go on holiday spontaneously and without saving up. This group also tended to feel that they would not want any additional income as they had the income they needed and so it would not make a difference to the quality of their life.
- **‘Moderately comfortable’:** This group of respondents felt that they needed to budget fairly tightly in order to exercise choices around their quality of life. However, they did not necessarily ‘need’ any additional income but would take it if was offered it to them. Furthermore, this group felt they would use this income not only for personal use, but also to provide financial assistance to others – e.g. helping out family members in purchasing a house or giving it to their charity of choice.

¹⁶ This ‘generational effect’ was largely surmised by researchers from the interviews. However, it is important to note that respondents themselves did allude to differences in attitudes towards expenditure between their own generation and that of their children and grandchildren. These differences were expressed, for example, in terms of ‘younger’ generations wanting more consumer goods and being less likely to save up for what they wanted, relying on credit instead.

- **‘Marginally comfortable’:** These respondents also felt that they needed to budget tightly in order to be able to exercise the kinds of key choices around their quality of life discussed in Section 4.2. They also felt that they needed additional income in order to help them realise these choices and would use it largely for personal use – e.g. to decorate their house or help them buy more clothes.

The case studies illustrate these different types of respondent.

Case study 1 – ‘Very comfortable’

George

George worked as a driver for most of his life, both in the public and private sector. George draws on a personal pension and a State Pension, as well as his savings. George’s household income in retirement is £20k per annum and he owns his home and is free from debt. George considers his lifestyle to be ‘very comfortable’ because financial considerations do not restrict what he wants to do in retirement, including being able to go out as often as he wants to socialise with friends and being able to run his car. Being free from debt and owning his own home adds to George’s sense of financial wellbeing. George feels he has enough income and would not like any more even if it was offered to him.

(Male, has a partner, replacement rate 50-74 per cent, household income in retirement £20-29k, aged 60-69)

Case study 2 – ‘Moderately comfortable’

Janet

Janet worked as an administrator in the public sector throughout her career and ended her working life as an administrative officer. Janet’s chief source of income is her public sector occupational pension and her State Pension, although she also receives a small amount from an equity fund. Her household income is £12k per annum. She feels her lifestyle is ‘comfortable’ because there is nothing important she has to go without, although she has to budget and cannot afford luxuries, such as expensive holidays. She also feels lucky to be able to engage in hobbies, such as walking and photography, and to be able to attend ‘lunch clubs’ with her friends. She feels content with the money she has but would not mind a little extra income to help her children out financially.

(Female, single, replacement rate 75+ per cent, household income in retirement £10-19k, aged 60-69)

Case study 3 – ‘Marginally comfortable’

Harold

Harold used to work as a wholesaler and also had a shop as a side business. Harold draws on a very small personal pension and the State Pension. Harold’s household income in retirement is £10k per annum, but Harold feels that owning his home and having savings of £40k make him feel comfortable in retirement. Although Harold does not want for anything, he does have to watch how he spends his money – he cannot go to the pub when he would like, he does not have alcohol in the house and only buys supermarkets’ own-brand products. He would like an additional income to buy these ‘little luxuries’.

(Male, has a partner, replacement rate 49 per cent, household income in retirement £10-19k, aged 70+)

The next two sections will explore the financial and non-financial factors that underpinned respondents' definition of their own lifestyle.

4.6 Financial factors

Three financial factors had some influence on perceptions of lifestyle: current household income, replacement rates (with reference to current income compared to final salary prior to retirement) and the demands on respondents' income (including debt and their housing costs).

Table 4.3 indicates the financial factors that appeared to be associated with three different levels of comfort. These levels of comfort are categories created by the research team based on respondents' perception of their own situation, the extent to which they felt the need for additional income, and researchers' interpretation of their circumstances. The pattern is complex, with some similarities between groups in terms of the financial factors. The key differences are that the 'moderate' and 'very comfortable' groups have a higher current household income, and respondents in the 'basic' group have either debt or housing costs, or both.

Table 4.3 Financial considerations underpinning perceptions of lifestyle

Group	Financial characteristics
'Very comfortable'	<ul style="list-style-type: none"> • Current household income: £20k plus per annum • Individual income prior to retirement: £30-40k per annum • Replacement rate: Tended to be 60 per cent or less • Debt: None • Homeowners with no mortgage • Other assets to draw on: Yes, investments and savings
'Moderately comfortable'	<ul style="list-style-type: none"> • Current household income: Greater than £11k per annum but less than £20k • Individual income prior to retirement: £20-29k per annum • Replacement rate: Tended to be 60 per cent or less • Debt: Largely none (although evidence of non-mortgage-related debt) • Homeowners with no mortgage • Other assets to draw on: Largely yes, investments and savings
'Marginally comfortable'	<ul style="list-style-type: none"> • Current household income: £11k per annum or less • Individual income prior to retirement: £20-29k per annum • Replacement rate: Tended to be 60 per cent or less • Debt: Largely none (although evidence of non-mortgage-related debt) • Homeowners with no mortgage • Other assets to draw on: Largely yes, investments and savings
'Basic'	<ul style="list-style-type: none"> • Current household income: £11k per annum or less • Individual income prior to retirement: £10-19k per annum • Replacement rate: Over 70 per cent • Debt: Yes (e.g. credit card loans) • Homeowner with mortgage or renting • Other assets to draw on: None

Table 4.3 presents a complex picture of the differences between the groups in relation to the financial factors considered. There is no single financial factor which influences how people feel about their retirement income, but rather a combination of different factors, such as current income level and existence of savings or debt.

Although respondents from the ‘very comfortable’ group had a similar replacement rate to the other two ‘comfortable’ groups, they had a higher final salary prior to retirement and, consequently, this replacement rate contributed to a higher household income in retirement. Unlike respondents in the ‘basic’ group, they did not have a mortgage or any other debts and so the demands on their income were also low. This accounts for why these respondents felt they had the disposable income to exercise a greater degree of financial choice in the leisure and shopping activities they could pursue, as detailed in Section 4.3. Respondents in the ‘basic’ group had a high replacement rate (over 70 per cent) but this does not translate to a high income, because their pre-retirement income was low.

Likewise, although the ‘moderately comfortable’ and ‘marginally comfortable’ groups seem very similar in their financial profile, including having similar levels of pre-retirement income and similar replacement rates, it was the higher income at a household level post-retirement that separated the ‘moderately comfortable’ group. This may account for why those in the ‘moderately comfortable’ group felt they needed to budget a little less than those in the ‘marginally comfortable’ group in order to realise the types of lifestyle choices discussed in Section 4.3, such as organising spontaneous holidays or going out to eat.

Similarities in financial profile also exist between the ‘marginally comfortable’ group and the ‘basic’ group in terms of household incomes, with both tending to have an income of less than £11k per annum. However, those in the ‘marginally comfortable’ group tended to feel more comfortable for three reasons: they had a higher individual income prior to retirement, a ‘buffer’ of savings and investment they could draw on in case of emergencies (e.g. their ‘white goods’ breaking down) – perhaps as a result of a higher income prior to retirement – and, just as importantly, they had fewer demands on their income in terms of housing costs or household debts, such as credit card and bank loans. This meant that they felt they had a higher disposable income than those in the ‘basic’ category, which enabled them to have a level of security (e.g. ability to pay bills) and lifestyle choices (e.g. able to go on holiday) that those in a ‘basic’ lifestyle did not. The importance of having this ‘buffer’ is illustrated in the quote below, where a respondent in the ‘marginally comfortable’ group reflects on the significance of not having a mortgage, and in the case study of a respondent with a ‘basic’ lifestyle – which can be contrasted to Case studies 2 and 3 in the previous section.

‘It [having a mortgage in retirement] would be terrible. We wouldn’t have, you couldn’t survive, we could never have survived...we’ve just been in a very fortunate position, we’ve looked after ourselves, you know, and seen that we have had done the right thing...like paid off the most important things, paid off our mortgage...I know there are a lot of people that are still in our position, they’ve got mortgages.’

(Female, replacement rate 75+ per cent, aged 60-69, current income £10-19k)

Case study 4 – ‘Basic’ lifestyle

Daniel

Daniel used to work as an engineer. He now draws on modest occupational and personal pensions and a State Pension. He also receives Pension Credit. Daniel has no other investments and a very small amount of savings. His household income is around £11k per annum. Although he owns his home, he still has £24k to pay on his mortgage, which he does on a monthly basis. He is also paying off credit card payments and bank loans. Daniel feels that he is ‘just keeping his head above water’ in meeting his monthly outgoings. He also feels he has very little savings or investments to draw on in order to meet any unexpected expenditure, such as replacing a broken television or a fridge. He relies on his family to help him out and feels that he is ‘bottom of the league’ financially compared to other retired people.

(Male, has a partner, replacement rate 75 per cent+, current income £10-19k, aged 60-69)

Daniel’s reference to ‘being bottom of the league’ summarises what respondents in the ‘basic’ lifestyle felt in terms of the restrictions placed on their lifestyle by their income. These restrictions not only meant they lacked security (e.g. meeting monthly outgoings), but also impinged on their ability to socialise (e.g. not going out to eat at all or not going out to the pub), travel (e.g. not having a car) and go on holiday. The financial consequences of having a ‘basic’ lifestyle are illustrated in the quote below.

‘Well, we’re poor..., we’re just living but...can’t afford to do anything like go on holiday...I can’t afford to go in pub...Well, like I say it’s a struggle sometimes. I mean that little pension that I get [private pension], I use that, it’s like taking Peter to pay Paul sort of thing, but I use that [private pension money]...a little bit to pay off that loan.’

(Male, replacement rate 75+ per cent, aged 60-69, current income £10-19k)

However, it is important to reiterate here that the respondents in this study tended to describe themselves as ‘comfortable’, albeit ‘marginally comfortable’, despite having differing financial profiles – even those respondents with a low pre-retirement income and a replacement rate lower than 60 per cent. This indicates that there may be non-financial considerations at play, which will be explored in the next section.

4.7 Non-financial factors

This section explores the effects of the following key non-financial factors on respondents’ perceptions of their lifestyle:

- attitudes towards spending;
- aspirations in retirement;
- health and mobility;
- value placed on strong support networks.

In terms of **attitudes towards spending**, respondents in this study displayed the ability to adjust and tailor their expectations, expenditure and needs to match their income. Providing that their basic level of security was met, this ability to adjust to their financial situation enabled respondents to feel ‘comfortable’ about their lifestyle – albeit sometimes marginally – regardless of their current

income and replacement rate. The adjustments that respondents made in response to this mindset included budgeting tightly and living frugally, as well as finding contentment from inexpensive hobbies and activities, such as playing cards, when their finances did not allow them to do anything else. This resilient mindset is summed up by a respondent below, who considers her lifestyle to be 'comfortable'.

'I don't need loads of money anyway, I'm not one of those people that moans not having loads of money. I just cut my cloth according to the size it's got to be, and I think you can enjoy your lifestyle no matter what you've got.'

(Female, replacement rate 75+ per cent, aged 60-69, current income £10-19k)

Aspirations in retirement also affected respondents' perceptions of their lifestyle. One view was that respondents needed less money as they got older. For some this was because their health prohibited them from doing the things they did when they were younger and/or they no longer had a desire to do these things, as they had already done them during their working life. Aspirations seemed to be limited particularly around leisure activities. For example, some respondents mentioned not being able to go on holidays abroad because of health reasons or not wishing to because they had travelled the world widely when they were working.

General feelings about **health and mobility** (both their own and their partners, if relevant) also contributed to respondents' perceptions of their lifestyle. Good health was seen to give respondents the capacity to enjoy their retirement. For example, being physically fit was seen to enable individuals to go on holiday or have the mobility to engage in social activities. It was also seen to hold certain cost-saving advantages. For example, being in good health and having mobility was seen to save respondents the cost of social and medical care or needing a car to get around.

Respondents placed a great deal of importance on good health and sometimes even placed it above their financial situation in defining a 'comfortable' lifestyle. For example, respondents did not aspire to a 'wealthy' lifestyle as this was seen to be a lifestyle that was built on individuals working very hard in their working life, which led to sacrifices in physical and mental health being made. In comparison, having a 'marginally comfortable' lifestyle and good health was seen to be far more preferable. This point is made by the respondent below, who compares their own 'comfortable' lifestyle to a 'wealthy' lifestyle of a couple they know.

'And they have the most beautiful house...that anyone would love to live in. And, have [an] excellent income as well as savings...but my gosh have they worked hard to get it all, and one of them is poorly. So, you know, she lives in luxury and style but doesn't have the health that I have...[Their income] doesn't allow them to do much cause they don't have the health.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £20-29k)

Another non-income related factor that was considered an integral part of a 'comfortable' lifestyle was the support network of friends and family that respondents drew on. This support network was seen to provide individuals with not only emotional support, for example, helping them to feel less lonely, but also material support. This material support manifested itself in a number of ways, including financial assistance from family members and physical assistance to do household chores. Even among respondents who did not feel they had a large disposable income, the presence of a network of support from friends and family was seen to offset their financial situation and to give them a feeling of 'wellbeing'. The importance of family to feeling comfortable is described by a couple in the quote.

Interviewer: *'And is there anything else that sort of ties into, into comfort?'*

Respondent 1: *'Well, health of course and we, we both take pills of various sorts and basically we're both in reasonable nick which helps [laughs].'*

Respondent 2: *'And we've got good family.'*

Respondent 1: *'Oh yes, I mean a terrific family yes.'*

Respondent 2: *'And it all builds this feeling of comfort and satisfaction.'*

(Couple, replacement rate 75+ per cent, male 70+, current income £10-19k)

The findings also hint at two other factors that may have influenced how 'comfortable' respondents felt. One of these was whether respondents lived alone or with others. There was evidence from interviews to suggest that some respondents living alone felt that couples may have a better quality of life due to having two incomes to rely on. This view was also shared by respondents who had recently lost a partner or a loved one. For example, a respondent who lived with her mother prior to her passing away, felt financially worse off now because of not having anyone to help her with her bills. The loss of companionship, in itself, also detrimentally affected the quality of life of these bereaved respondents – as was the case with one respondent, who felt that his social activities had greatly contracted and his sense of isolation had grown as a result of losing his wife.

The other factor hinted at by the findings was the pre-retirement situation of respondents. Respondents who had felt pushed into early retirement, largely due to health reasons, felt financially under-prepared for it. There was a feeling that they did not have enough time to contribute to pension funds and/or other income and asset streams that could have made their quality of life in retirement more financially secure. This was the case, for example, with a respondent who developed back problems through her role at work and was forced to take early retirement, which affected her occupational pension contributions and thus the amount she received. This led her to feel that:

'I do wish I'd...set something in place when I was earning so that I had something to fall back on, if I'd known I was going to have to retire early.'

(Female, replacement rate 50-74 per cent, 60-69, current income £10-19k)

Finally, it is worth noting that age did not appear to have a bearing on perceptions of lifestyle in retirement, although there was evidence to suggest that respondents adjusted and cut down on their expenditure the further into retirement they went. This was largely due to respondents having drawn on their assets (e.g. lump sums from pension funds) early on in retirement.

4.8 Comparing lifestyles in retirement to working life

Although respondents in this study tended to feel that their lifestyle was 'comfortable' to different degrees, comparisons of their lifestyle with working life elicited three types of responses informed by the income and non-income related factors discussed in Sections 4.6 and 4.7:

- **Feeling worse off financially in retirement:** A key reason for this was the view that income in retirement was largely fixed; that is to say, it could not be altered by doing overtime in order to flexibly meet changing needs (e.g. a household emergency) nor was credit readily available for pensioners from institutions such as banks. Other factors that contributed to this included the feeling of not having the income to be able to meet basic needs (e.g. bills) or to do the leisure activities that were possible during working life.

- **Feeling financially worse off in retirement but still ‘comfortable’:** This view was informed by the non-financial factors discussed in Section 4.7 and included attitudinal factors (e.g. tailoring expenditure to income and respondents not feeling they needed or wanted to engage in the activities they did during working life) and the view that a reduction in income in retirement was offset by the quality of life gained from not having the stresses of work life (e.g. getting up early or working in a stressful environment).
- **Feeling that lifestyle is comparable to or better than working life:** This view was informed by the non-financial factors discussed above, as well as the feeling that respondents actually had more disposable income in retirement. This was due to a number of reasons, including not having dependants to support in retirement (e.g. children) not having the financial commitments they had in working life (e.g. mortgages), receiving a ‘windfall’ income in retirement (e.g. inheritance monies or lump sums) and having enough income and asset streams to draw on in retirement to make life comfortable. Comparisons to working life were also favourable in instances where respondents felt that their modest lifestyle in retirement reflected a similar lifestyle in working life.

Respondents who felt either that their lifestyle was comparable to or better than working life tended to have a higher income before retirement (ranging from £20-40k) compared to those that felt worse off (ranging from £10-29k). However, as the above discussion illustrates, non-financial factors were also important in the comparisons respondents made between their lifestyle in retirement and when they worked. This was particularly evident among those who felt their current lifestyle was ‘comfortable’, even though they felt financially worse off than when they worked.

4.9 Summary

There were three key components informing the definition of various lifestyles: security, independence and choice. A ‘basic’ lifestyle was defined as one which lacked financial security and independence. A ‘comfortable’ lifestyle was one which began at the point of financial security and independence, but had a great deal of variation within it to reflect different positions regarding the level of choice respondents felt were open to them to enhance their quality of life. This variation is captured by the categories of ‘marginally comfortable’, ‘moderately comfortable’ and ‘very comfortable’. A ‘wealthy’ lifestyle was one which also differed from the others in terms of choice; this lifestyle was distinguished from a ‘comfortable’ lifestyle by dint of offering individuals the ability to exercise choice on a much grander scale.

Respondents drew on a number of frames of references in defining the above lifestyles. This not only included other individuals, such as family and friends, the media, but also their own previous experiences in working life.

In defining their own lifestyle, respondents identified with either a ‘basic’ lifestyle or, overwhelmingly, a ‘comfortable’ lifestyle. Financial considerations, such as current household income, having a buffer of savings and demands on income (e.g. a mortgage), all played a part in shaping the degree to which respondents felt comfortable. However, other income-related factors, such as health and mobility, aspirations in retirement, support networks and attitudes towards spending also contributed heavily to respondents feeling comfortable about their lifestyle.

5 Future financial planning

In concluding the findings, this chapter explores respondents' views about the future with specific reference to any changes they envisage to their current financial situation and any planning they have undertaken or propose to undertake.

5.1 Financial changes in the future

The recurrent view among respondents was that their income and assets would not increase substantially in the future, barring any 'windfall' they may receive from sources such as inheritance monies. Although income and wealth were seen to be fixed, respondents did acknowledge that there may be minor changes in income and assets in the future due to pensions being adjusted to keep in line with inflation and/or changes in interest rates that may affect savings and investments.

'It's [financial situation] not going to get better is it, because I don't actually earn anything anymore.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income current income £20-29k)

In contrast, respondents described a range of factors which they felt either currently threatened their level of income and the demands on it and/or may do so in the future. Table 5.1 summarises these threats.

Table 5.1 Threats to income and assets

Type of threat	Perceived current threats	Perceived future threats
Demands on income and assets		<ul style="list-style-type: none"> Personal health issues
Threat to level of income and assets (including purchasing power)	<ul style="list-style-type: none"> Inflation 	<ul style="list-style-type: none"> Inflation Death of spouse Concerns about government cuts in benefits and entitlements

As the table indicates, inflation was perceived to be a current and future threat to income and assets. Respondents felt that the cost of living was spiralling upwards continually and this affected the purchasing power of the fixed income they received, particularly from their pensions. Those that had savings and other assets felt that they would need to dip into these more in the future if they were to have the same standard of living as they did currently (as illustrated in the first quote, below). Those that did not have the buffer of savings and assets felt that they would have to cut back on expenditure, such as heating, to ensure that their budget met these needs (as illustrated in the second quote).

'...if income doesn't go up in step with or above what they consider to be the Retail Price Index I can see my, relatively speaking, my income falling and as a result I shall have to draw on reserves which I've built up for that very purpose to maintain the standard of living I have now.'

(Male, replacement rate 50-74 per cent, aged 70+, current income £20-29k)

'The only way I see it changing is if inflation takes over and everybody's wages shoot up and pensioners are left behind...Well if I'm still living on the same money now that I've got, and ten years down the road everybody's living on colossal pensions, then I suppose I would feel the need to downsize and not have as much heat.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £20-29k)

Personal health issues related to the demands placed on respondents' finances as a result of their health and mobility (or their partners') deteriorating as they got older. These concerns related to having to pay for care (e.g. in a nursing home) and any other support and assistance required. Although there was some engagement with this issue, particularly among those who were diagnosed with a condition or had partners that were, respondents on the whole were reluctant to discuss this in any great depth. This may be due to two reasons:

- not wishing to look beyond their current feeling of being healthy and mobile – sometimes out of a desire not to be pessimistic about the future; and
- feeling emotionally overwhelmed and powerless to address health-related issues and their financial implications.

This study took place during a period of economic downturn and budgetary cuts across government departments and local authorities and this seems to have shaped respondents' concerns around their level of income and assets. These concerns centred on the possibility of benefits being reduced (e.g. Housing Benefit or Pension Credit) and/or the government withdrawing other entitlements for pensioners (e.g. free local transport passes) in the wake of the new economic climate.

'Things like our free bus passes and the heating allowance and free prescriptions, they all help and, and I do worry that the government maybe will stop these things and that will impact on, on that sort of thing. I feel threatened by that sometimes. Especially a couple of weeks ago or months ago it was on the television a lot.'

(Female, replacement rate 50-74 per cent, aged 60-69, current income £10-19k)

Death of a partner was also seen to be a future threat to respondents' income, particularly in households which were dependent largely on one income. For example, there was some concern about the loss of benefit income were the partner receiving the benefit to die.

5.2 Financial planning for the future

Generally, respondents tended not to have any concrete financial plans for the future. A recurrent view was that they would keep drawing on their current income and asset streams without any further planning. The drivers for this view included:

- feeling that there was very little prospect for additional financial planning and investments as income in retirement is fixed;
- a reluctance to think about unpleasant issues that may require financial planning, such as the deterioration of health; and
- not seeing the point of planning for the future when respondents did not know how long they were going to live.

But in contrast to this position, there was also evidence of a degree of planning amongst some respondents and this took two forms: **minimal planning** and **active planning**. A key driver for **minimal planning** was to ensure that respondents had the financial means and/or plans in place to meet future financial emergencies. This type of planning involved respondents saving money from their current income streams (e.g. pensions) and/or drawing up contingency plans in response to any anticipated future emergencies – including meeting the financial implications of health-related issues. The plans tended not to be concrete or systematic but involved respondents planning to build up a ‘pot of money’ to act as a financial buffer or devising general ideas around downsizing property to release equity in order to meet healthcare costs, including the costs of nursing homes. It is important to note here that respondents valued where they lived and saw their place of residence as a home and not solely as an asset. There were also respondents who felt that they would like to leave their property to their children as a legacy. These considerations meant that they did not see downsizing as an easy option and were only willing to consider this after exploring other financial avenues (e.g. help from family).

‘It’s [deterioration of health and possibility of care] something that’s in the distance for us all... and I tend to think...I’m not going to think about that for now. But what does become of us when you know care and stuff like that? I mean we’ve only got this little house here and this is obviously for my two children. We didn’t get this, me and my husband, when our parents died. They lived in rented property and I want to give my children something but will this be taken to put one of us in care? That frightens me.’

(Female, replacement rate 50-74 per cent, aged 60-69, current income £20-29k)

At the other end of the spectrum, there were respondents who could be considered as **active planners**. Financial planning for these respondents was not only geared towards meeting future emergencies but represented a continuation of the financial planning that they had undertaken prior to and/or after retirement. A key driver for this planning was to ensure that assets were invested in as tax-effective and inflationary-proof way as possible and that it was distributed to loved ones according to these lines also. This type of planning thus involved respondents actively managing their investment and asset portfolios (e.g. shares, bonds and ISAs) to ensure these goals were reached and ensuring that families inherited wealth in a tax-effective manner. For example, a respondent sought to downsize their wealth by distributing some of their assets to their children so that these would not be subject to inheritance tax in the event of their death.

5.3 Summary

Respondents articulated a number of threats to their financial wellbeing both in terms of their level of income and assets and the changing nature of the demands placed on their income. Some of these threats related to their current situations, whilst others were seen to be potential threats in the future. Concerns around the effect of inflation to erode fixed pension income and assets seemed to be a threat that was faced by respondents both now and in the future.

In terms of financial planning for the future, some respondents across the sample did not have any concrete financial plans in place. They were content to draw on their income and asset streams without any further planning. However, other respondents showed evidence of minimal planning around catering for future financial emergencies, or were active planners – whose planning activities represented a continuation of those undertaken prior to/after their retirement.

Appendix A

Calculating replacement rates

The income replacement rates for eligible ELSA respondents were calculated in a similar way to the definition used in the Pensions Commission report. This involved dividing an individual's gross retirement income (from pensions, benefits, savings and investments, etc.) by their gross earnings pre-retirement (i.e. their salary (in their last main job) before tax).

For this study, the gross retirement income used was in the form of a derived variable produced by the Institute for Fiscal Studies for the archived ELSA data at Wave 4 in 2008 (totinc_bu). This variable represents the weekly total income for each respondent at the Benefit Unit level at the time of the Wave 4 interview. To create an annual income this variable was multiplied by 52 (totretinc). However, it was also necessary to estimate individual retirement income using this variable (totretind). This was done by selecting those respondents who were in couple households and dividing their annual income by two, therefore assuming that resources were shared equally by couples. The retirement income definition used in the Pensions Commission report was an individual's income at the point of retirement.

Gross earnings pre-retirement were calculated using the Life History interview, where respondents were asked for their salary in their last career job as well as the period this salary covered and whether this was reported before or after tax (variables rwsf, rwsfm, rwsfn, rwsfp, rwsfs, rwsfd and rwsfg). To create a useable variable from this information, all salary periods were converted to annual salaries. For those respondents who had reported their salaries after tax, approximate adjustments were made to account for this using the thresholds and tax rates employed by HM Revenue & Customs for the relevant year in which the final salary was received. Finally, inflation in salaries up to the year 2008 (when pension data were obtained at Wave 4) was adjusted for, according to the year in which the final salary was received, using the Bank of England's inflation calculator. These adjustments gave an approximation of the final salary each respondent would have been receiving at 2008 levels (finsaladj).

Once both of these variables had been calculated, gross retirement income (i.e. at the time of the Wave 4 interview) was divided by gross earnings pre-retirement in order to obtain the replacement rate for each individual.

Appendix B

Topic guide

Interview aims: The key aim is to explore respondent's views of what constitutes a 'comfortable/ reasonable' income to have at retirement and the factors and frames of reference that shape this perception. This study will also explore:

- background information around participants' current living situation in terms of employment, living arrangements and decision to retire
- participants' previous employment history
- the financial planning for retirement that was undertaken during working life
- their expectations about their lifestyle in retirement prior to event
- participants' current financial situation, including sources of income in retirement
- how they feel about their current income in retirement in relation to what they consider to be appropriate
- participants' overall experience of retirement and plans for the future

Guidance for interpretation and use of the topic guide: The following guide does not contain pre-set questions but rather lists the key themes and sub-themes to be explored with each respondent. It does not include follow-up questions like 'why', 'when', 'how', etc. as participants' contributions will be fully explored throughout in order to understand how and why views and experiences have arisen. The order in which issues are addressed and the amount of time spent on different themes will vary between interviews.

Introducing the study to participants

- **Introduce self and NatCen** (emphasising the independence of NatCen)
- **Introduce the study**
 - A study which explores people's views of their current retirement income and what they consider to be a comfortable/reasonable income to have in retirement
 - Emphasise the fact that this is not a quiz and that we are not trying to test their knowledge on pensions or finances in general – just want to know their thoughts and views around pensions and retirements
- **Details about their participation**
 - **Why they have been selected** – they participated in the ELSA survey and, having been approached by NatCen recruiters, they agreed to take part in this study
 - **Voluntary nature of participation** – both overall and in relation to any specific questions; drawing the respondent's attention to the fact that the nature of the discussion will mean there is a need to ask for some quite personal information and that the respondent should feel free to let us know if they are uncomfortable sharing any information that we request

- **Recording of the interview** – to have an accurate record of what was said; held securely by the research team
- **Confidentiality** – and how findings will be reported
- **Length of interview** – no longer than 1.5 hours

Introduce timeline to respondent:

- **What it is:** a line that simply marks the passage of time [*draw the line*]. We use the line to mark down when important events happened. The questions we are about to ask are likely to jump around a bit, so it would be really useful to use the timeline to help us see what happened when.
- **How we will use it:** As we discuss different issues, we will use the timeline to mark down the important events that happened in your life and discuss how these informed your thinking around these issues.

1. Background information

[Aim: to explore participants' current living and economic situation and to ease them into the interview]

Estimated coverage time: 5 minutes

Explore respondent's current living arrangements and work status

- Current living arrangements
 - Live alone
 - Live with partner [is partner retired?]
 - Live with family
- Explore whether they work and, if so, what they do. Are they:
 - F/T employment?
 - P/T employment? (state hours worked)
 - How long have they been in that situation?
- If they do not work, explore other activities they do in retirement
 - Caring responsibilities
 - Volunteering work

Explore when respondent retired, their reasons for retiring and the circumstances under which they retired [*Use timeline to mark decisions around timing of retirement*]

- Why they retired then?
- Under what circumstances did they retire? e.g.
 - Were they made to retire?
 - Did they have a financial windfall?
 - Caring responsibilities
 - Lack of/limited opportunities for older employees
 - Because their partner was retiring?

2. Overview of employment history

[Aim: to explore participants' previous employment history and perceptions of the level of income earned during their working life]

Estimated coverage time: 5 minutes

Explore *briefly* the main forms of employment during working life *[Use timeline to mark employment events]*

- What were the main forms of employment
 - Sectors worked in
 - Types of employment
 - Shifts in types of employment engaged in
- Note breaks in employment and reasons for these
- Note whether respondents changed the mode of their employment (e.g. switched from F/T to P/T) and reasons why

Explore changes to income during working life

- Note changes in income during working life
 - When did these changes in income take place?
 - Note the range of income they have earned in lifetime

Explore perceptions of income during working life *[Use timeline to capture changes in income over life course]*

- Explore perceptions of their level of income during working life (including at different stages)
 - Did they classify themselves as high earners, medium earners or low earners?
 - Factors that shaped this perception and frames of reference they used. Were the frame of references relating to a particular:
 - ~ Age (e.g. 50th birthday)
 - ~ Life stage/event (e.g. marriage, divorce, change in work or family life, etc....)

3. Planning for retirement during working life

[Aim: to ascertain whether the individual considers themselves to be a 'planner' and to explore the financial planning for retirement that was undertaken]

Estimated coverage time: 7-10 minutes

Explore participants' pension status at various points in their working life *[use timeline to mark when pensions began and when policies began]*

- Explore details of their pension provision:
 - The number of pensions they have
 - The type(s) of pensions they have
 - What made them select these types/policies?
 - How did the State Pension figure in their financial plans for retirement?

- Evidence of any actual planning they did around pensions
 - When they were taken out and why at this point in time? (e.g. did their decision relate to certain key events?)
 - Did they check out their State Pension entitlement and amended contributions accordingly?
 - Was there evidence of joint planning between spouses?
 - Evidence of trying to get the best return for the future?

Explore any other plans they made for financing their retirement, e.g.

- Explore details of other sources of income and investment planned for retirement
 - Paying off mortgage
 - Long term savings
 - Property investment
 - Knowledge of future inheritance
- Evidence of any actual planning for retirement for these sources of income and investment
 - When they were taken out and why at this point in time? (e.g. did their decision relate to certain key events?)
 - Was there evidence of joint planning between spouses?
 - Evidence of trying to get the best returns for the future?

If not already covered in above discussion, when did they first start to plan for their retirement?

- Why at this point in time? (e.g. did their decision relate to certain key events?)

Explore participants' knowledge of their likely income in retirement during their working life

- The income they thought they were going to receive in retirement [*ask participants to specify a range or a figure – whichever they are comfortable with*]
- Reasons why they thought they would receive this income, e.g.
 - Information from pension companies
 - Advice from financial experts
 - Advice from family and friends

Identify any other additional support, information or advice they felt would have been helpful for them to plan their income in retirement

- What information would have been helpful, from whom, why and at what point in time?
- What support would have been helpful, from whom, why and at what point in time?
- What advice would have been helpful, from whom, why and at what point in time?

Reflecting on the above, how they would describe their position on planning for retirement

- Did they consider themselves as an 'active planner'? If so, what did active planning mean to them? (e.g. thinking carefully about income streams at retirement)
- Did they consider themselves as someone that 'let things' happen? If so, why? (e.g. not having the financial security in working life to think about retirement, not being a planner by nature)

Reflecting on the above, explore what participants were hoping to achieve by putting in place pension and other plans for retirement. e.g.

- Aiming for a particular lifestyle
- Trying to achieve financial security

4. Current financial situation

[Aim: to gain factual information around their current sources and level of income in retirement]
 Estimated coverage time: 10 minutes

Explore the income streams they draw on in retirement

- What are the streams of income they are using to live on in retirement
 - State pension
 - Occupational pensions (taken out with an employer)
 - Income from annuity
 - Private pensions (e.g. taken out with a bank)
 - Savings
 - Property (rent or other income received from property)
 - Benefit income (e.g. HB, CTB, DLA)
 - Earnings
- Is this their own income or is it joint with a husband/wife?
- Which of these sources are considered to be regular source of income and why *(for each regular source of income, ask respondent to specify how much they receive from it)?*

Explore details around any assets or savings they have in retirement

- What level of savings do they have *(broadly)?*
- Whether they have a mortgage or own their home?
- What other assets do they have? (e.g. company shares, other forms of shares, other properties owned)
- Pension still to annuitise/pension not yet drawing an income from

Explore whether the income participants have at retirement was the level they had hoped for prior to retirement?

- If they had expectations about their income in retirement:
 - What level of income was hoped for?
 - If no disparities, why they feel this way?
 - If there are disparities, do they have more or less income than they hoped for?
 - If there are disparities, do these relate to particular streams of income? If so, which ones and why?
 - What factors account for this disparity?
 - ~ Were there any issues around the financial transition in taking a pension? (e.g. pension fund performing less well; annuity less than hoped for)
 - ~ Were there any issues around the financial transition in drawing on the other income streams? (e.g. investments not doing as well as expected)
 - ~ They were unable to pay off mortgage
 - ~ They had unexpected expenditures
 - When did they realise this discrepancy?

- If they had no expectations about income in retirement or did not know, why?
 - Expected someone else to take care of it (e.g. the state)?
 - Trusted that they would generally be OK in retirement?
 - Avoided thinking about it?

Briefly explore participants' broad patterns of expenditure in retirement [*If helpful, allow participants to visually note the amount spent on various items using a circle diagram, where each slice of the circle represents different types of expenditure*]

- What are the key items of expenditure in retirement?
 - This could include retired households continuing to support children either now or in the future (e.g. children still living at home).
- Are they still paying into a pension or savings?
- If they have taken a lump sum of their pension on retirement, what they did they spend it on?
 - Holidays
 - Invest it
 - Replace expensive items (e.g. car or boiler)
- Any debts?

How does their consumption and expenditure compare to what they expected to be able to afford when they retired?

- Does their consumption and expenditure broadly fit with what they expected? Why? Why not?
- What can't they afford now that they thought they would be able to? (e.g. Number of holidays, regular meals out).

How does their expenditure and consumption patterns in retirement compare to their working life

- Are there any differences? What are these and why?
- Are there any similarities? What are these and were they expected?

5. Perceptions of 'comfortable/appropriate income' in retirement

[Aim: to explore their definition of what constitutes 'comfortable/reasonable' income at retirement and how current retirement income compares to these definitions and also to their expectations prior to retirement.]

Estimated coverage time: 30 minutes

How they describe their lifestyle now that they have retired

INTERVIEWER NOTE: below we are suggesting the terms 'basic' and 'comfortable' as a way of introducing these issues. Encourage participants to say what they mean by 'basic' and 'comfortable' and allow them to come up with any other terms they feel are more appropriate, probing them to explain why.

- Is it 'basic'?
 - How do they define a basic lifestyle – what are the defining features and characteristics of a basic lifestyle? A list of:
 - ~ What they are able to do (e.g. number of holidays, leisure activities)
 - ~ What they are able to buy
 - What level or range of income is seen to accommodate a basic lifestyle?

- What frames of reference do they use to define a basic lifestyle? e.g.
 - ~ Media reports (e.g. TV reports on pensioners)
 - ~ Perceptions of the lifestyle of an average person
 - ~ Family and friends
 - ~ Their own experience
 - ~ Previous earnings
 - ~ Relationship between income and savings/capital assets
 - ~ How does it sit with meeting needs or wants?
- How does their current idea of a basic lifestyle in retirement compare to any they had prior to retirement? What are the difference and why?
- How do they feel about having this lifestyle?
 - ~ Is it enough for what they want to do in retirement?
 - ~ Why do they feel this way? What frames of reference do they draw on? (e.g. other people's lifestyles etc...)
- What other things shape their lifestyle apart from money?
- Is it 'comfortable'?
 - How do they define a comfortable lifestyle – what are the defining features and characteristics of a comfortable lifestyle? A list of:
 - ~ What they want to do (e.g. number of holidays, leisure activities)
 - ~ What they want to buy
 - What level or range of income is seen to accommodate a comfortable lifestyle?
 - What frames of reference do they use to define a comfortable lifestyle? e.g.
 - ~ Media reports (e.g. TV reports on pensioners)
 - ~ Perceptions of the lifestyle of an average person
 - ~ Family and friends
 - ~ Their own experience
 - ~ Previous earnings
 - ~ Relationship between income and savings/capital assets
 - ~ How does it sit with meeting needs or wants?
 - How does their current idea of a comfortable lifestyle in retirement compare to any they had prior to retirement? What are the difference and why?
 - How do they feel about having this lifestyle?
 - ~ Is it enough for what they want to do in retirement?
 - ~ Why do they feel this way? What frames of reference do they draw on? (e.g. other people's lifestyles, etc....)
 - What other things shape their lifestyle apart from money?

Explore briefly with participants how they would define a 'basic' or 'comfortable' lifestyle *where it is not clear* how they describe their own or where they have only defined one term or the other

Explore whether their definitions of 'basic' or 'comfortable' style changed over time

- How has it changed?
- What factors have prompted this change?

Explore participants' comparisons of current lifestyle to what they had hoped for prior to retirement life (*Note: this may require a light touch if respondents have already covered this in Section 4 – discussion of consumption and expenditure*)

- How does it compare to lifestyle hoped for?
- If there are disparities, why do respondents feel these exist? What factors have contributed to this? (e.g. value of their pension being reduced)
- How do they feel about these disparities?

Explore participants' comparisons of current lifestyle to the one they had during their working life or different stages of their working life (*Note: this may require a light touch if respondents have already covered this in Section 4 – discussion of consumption and expenditure*)

- How does it compare?
- If there are disparities, why do respondents feel these exist?
- How do they feel about these disparities?

Explore whether participants would like a change in the income they have in retirement

- If not, why not?
- If so, what change would they like? (e.g. increase income, increase savings, increase capital assets)
- If so, why?
 - Is it to meet their needs? (How do they define needs? What examples do they give? e.g. able to better meet living costs)
 - Is it to meet their wants? (How do they define wants? What examples do they give? e.g. able to having more holidays a year)
 - How much extra income would they need? How have they arrived at this figure?

6. Overall experience of retirement and thoughts about the future

[Aim: To explore how they have adjusted to changes in income and lifestyle when they were approaching retirement and once they became retired. This section will also explore their thoughts about the future]

Estimated coverage time: 10 minutes

Explore any adjustments made in lifestyle as participants approached retirement

- Were there any adjustments made to lifestyle as participants approached retirement?
 - What adjustments were made? (e.g. increase savings, reduce expenditure, increase pension contribution)
 - Was this a pre-planned strategy or something done in response to experience of approaching retirement?
- How they adjusted to these changes
 - How hard did they find this?
 - Why was it hard/not hard?

Explore adjustments made in lifestyle as respondent entered retirement [*Note: some of this may already be covered in Section 6 – so may require a light touch here*]

- Were there any adjustments were made to lifestyle as participants entered retirement?
 - What adjustments were made? (e.g. going out to eat less etc.)
 - Was this a pre-planned strategy or something done in response to being retired?
- How have they adjusted to these changes
 - How hard did they find this?
 - Why is it hard/not hard?

If they are not newly retired, explore adjustments made to life style after they had been retired for some time (i.e. after they had entered retirement and, if applicable, had more distance from work)

- Were there any adjustments made to lifestyle?
 - What adjustments were made? (e.g. going out to eat less etc.)
 - Was this a pre-planned strategy or something done in response to being retired?
- How have they adjusted to these changes
 - How hard did they find this?
 - Why is it hard/not hard?

Explore whether they feel they should have done something different in planning for their retirement

- What do they feel they should have done differently and why? (e.g. contributed to a pension scheme earlier, changed their pension contributions, etc.)
- What information and support would they have liked to have that could have helped them to plan for their retirement different? [*Note: some of this may already be covered in Section 3 – so may require a light touch here*]

Explore whether they see their financial situation changing in the future

- If not, why not?
- If so, how do they see it changing and why?
 - Anticipated increase in expenditure (e.g. because of health-related issues)
 - Release of income streams in future (e.g. investments maturing)
- How do they feel about this anticipated change?
- How do they balance what they want/need now with what they will want/need in the future?
- Do they feel a need to work in retirement? (Why?)

Explore any steps taken to plan financially for the future

- If none taken, why not?
- If so, steps taken and why?
 - Do they plan to continue or take up work? (Why?)
- What support and information drawn on?
- What additional support and information would they need to help them financially plan as they move further into retirement?

End

- Ask if there is anything we have not covered on their feelings about their income and lifestyle in retirement and what they consider to be an appropriate/comfortable income to have
- Thank them for taking part
- Reassure about confidentiality and field questions
- Leave an information leaflet giving contact details for free financial advice

References

Kotecha, M., Kinsella, R. and Arthur, S. (2010). *Research on prediction of income in retirement*. DWP Working Paper No. 87. Department for Work and Pensions.

Pensions Policy Institute (2009). *Retirement income and assets: Do pensioners have sufficient income to meet their needs?* The Pensions Policy Institute.

The Pensions Commission (2004). *Pensions: Challenges and Choices. The First Report of the Pensions Commission*. The Stationery Office.

This report presents findings of a qualitative study carried out in 2011 to explore the views of retired individuals about their current financial situation, what factors influenced these views, their standard of living in retirement and their feelings about their financial future.

It involved in-depth interviews with 30 respondents drawn from the English Longitudinal Study of Ageing (ELSA). All respondents had been retired from their main job for at least two years, had been earning between £10,000 and £40,000 in their last main job and had some pension income over and above the State Pension.

The research was carried out on behalf of the Department for Work and Pensions (DWP) by the National Centre for Social Research.

If you would like to know more about DWP research, please contact:
Kate Callow, Commercial Support and Knowledge Management Team,
Upper Ground Floor, Steel City House, West Street, Sheffield, S1 2GQ.
<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

DWP Department for
Work and Pensions

Published by the
Department for Work and Pensions
September 2011
www.dwp.gov.uk
Research report no. 773
ISBN 978-1-908523-20-4