

# Financial security and freedom

Rising prices add almost 20% to 'minimum' cost of retirement

Despite the slow economic recovery, many retirees trying to maintain a basic standard of living have seen the cost of their lifestyle increase by nearly 20% over the past year, according to a new report<sup>[1]</sup>.

The findings were based on research which outlined three different levels of expenditure needed for retirement: Minimum, Modest and Comfortable lifestyles. For those on a Minimum level, the increases in food and energy costs have had the most dramatic effect, with prices rising higher than in other categories.

## EXPECTATIONS FOR RETIREMENT

The Retirement Living Standards, independent research by the Centre for Research in Social Policy at Loughborough University, describe the cost of three different baskets of goods and services, established by what the public considers realistic and relevant expectations for retirement living.

These baskets comprise six categories: household bills, food and drink, transport, holidays and leisure, clothing, and social and cultural participation.

## FOOD AND ENERGY

According to the latest figures, the research identified those on a Minimum lifestyle are potentially at greatest risk due to the heightened increases in food

and energy costs, which form a higher proportion of their budget than other categories.

The cost of a Minimum lifestyle has increased by 18% for a single person and by 19% for a couple. To make sure retirees can still afford a basic standard of living, it's important that the government continues to follow the State Pension triple lock, which was announced in the last Autumn Statement.

## MORE FINANCIAL SECURITY

This commitment means that the State Pension will rise by 10.1% to £10,600 per year, which should be achievable for a single person if they supplement the State Pension with income from a workplace pension saved through automatic enrolment during their working life.

For those looking for a more comfortable retirement, the Moderate level increased 12% to £23,300 for a single retiree and by 11% to £34,000 for a couple. This level provides more financial security and more flexibility, including a bigger budget for weekly food shopping and occasional eating out.

## NEW STATE PENSION

To achieve this level, a couple sharing costs with each in receipt of the full new State Pension would need to accumulate a retirement pot of £121,000 each, based on an annuity rate of £6,200 per £100,000.

At the Comfortable Retirement Living Standard, retirees can expect to have more luxuries like regular beauty treatments, theatre trips and three weeks' holiday in Europe a year. A couple could spend £238 per week on food shopping.

## STRAIN ON HOUSEHOLDS

At this level, the cost of living increased 11% to £37,300 for one person and 10% to £54,500 for a two-person household. The report highlights that to achieve this level, a couple sharing costs with each in receipt of the full new State Pension would need to accumulate a retirement pot of £328,000 each, based on an annuity rate of £6,200 per £100,000.

The cost of living has been on the rise, placing a greater strain on households in the UK. This year has been particularly difficult for living standards across



the board. In particular, domestic fuel costs have risen a staggering 130%, inflicting further strain on incomes for those in retirement.

### **MODERATE AND COMFORTABLE**

The cost of food and fuel has risen significantly over the year, eating up around a third of the budget at minimum income standard levels. This can mean that people struggle to participate in social activities, which is why all budgets include some expenditure on social and cultural participation, accounting for a fifth of the budget at minimum income standard levels and a larger proportion in moderate and comfortable budgets.

At higher incomes, car ownership takes up around 10% of the budget due to an increase in second-hand car prices and petrol/diesel costs.

### **OWN PERSONAL REQUIREMENTS**

Finally, annuity rates may change, which affects how much money one needs for retirement – £6,200 per £100,000 is illustrative; research will help individuals identify their own personal requirements.

Retirement planning is an essential part of financial planning, as it provides individuals with the ability to prepare for their later years. By having a plan in place, retirees can ensure that they have enough money saved up to support themselves and maintain their standard of living when they no longer have a steady income from work. ■

### **WANT TO TAKE THE NEXT STEP TOWARDS YOUR DREAM RETIREMENT?**

It's never too late to start saving for your future and to make sure you don't find yourself facing an uncertain life once you have stopped working. Retirement planning is an essential step towards achieving financial security and freedom in your later years. Planning for retirement now will ensure you don't have to worry about money in the future.

### **Source data:**

*[1] Pensions and Lifetime Savings Association figures quoted are for the UK, excluding London. The pot size calculation assumed an annuity of £6,200 per £100,000 and is illustrative. Annuity rates change frequently and vary according to product type, saver age and other circumstances (e.g. location, health etc.) 12/01/23.*

**A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).**

**THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.**

**YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.**

