Legal & General Group Plc
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Covid-19 pressures could see people in their fifties £100,000 worse off at 75

- **Those aged between 50-59 have reduced their retirement savings by £165 a month in response to Covid-19**
- **A 50-year-old opting out of a workplace pension could be nearly £100,000 worse off by the age of 75 if they never opted back in and continued working full time throughout**
- **Calculations show the value of saving back into the pension within 6 months, a year and three years**

New calculations from Legal & General Retail Retirement show that workers in their fifties who have stopped saving into their pension in response to Covid-19 could be nearly £100,000 worse off by the age of 75 if they fail to start saving again and continued working full time until their retirement.

Legal & General initially ran research in May, which found that those between 50-59 had decreased their pension savings by £175 on average. The most recent findings reveal this is still the case with people saving £165 less a month for their retirement, in response to the pressure the pandemic has placed on their finances[1].

For many people in the UK who contribute into their employers DC pension scheme[2], reductions of this size equate to opting out entirely[3], with no idea on when they may be able to start making payments again.

The analysis shows the reality and the impact of freezing pension contributions in ones 50s on the eventual retirement pot at ages 65, 70 and 75 (table 1). Importantly, Legal & General has also calculated the value of re-introducing pension contributions as soon as possible, evidencing the benefitting of reinstating savings after 6 months, a year and 3 years (table 2).

Table 1 – Impact of opting out of pension contributions at the age of 50 for 6 months, 1 year, 3 years and the reality of never opting back in *(£ figure represents total pension pot)*

Retirement age	Projected pension pot size with no freeze on pension payments	Total pension pot after opting-out of pension contributions over time			
		6 months	1 year	3 years	Never opt back in
65	£153,621	£151,953	£150,789	£145,180	£113,070
70	£204,225	£202,175	£200,745	£193,855	£138,894
75	£269,297	£266,780	£265,023	£256,559	£170,617

Table 2 – Impact of reinstating pension contributions in ones 50s after opting-out for 6 months, 1 year and 3 years *(£ figure represents amount lost)*

Retirement age	Projected pension pot size with no freeze on pension payments	Total loss of pension savings from opting out of pension contributions over time			
		6 months	1 year	3 years	Never opt back in
65	£153,621	£1,668	£2,832	£8,441	£40,551
70	£204,225	£2,050	£3,480	£10,370	£65,331
75	£269,297	£2,517	£4,274	£12,738	£98,680

According to the analysis, a 50-year-old earning the average UK wage of £30,566 a year[4], with a pension pot of £61,000[5] would be nearly £100,000 (£98,680) worse off by the age of 75 if they never saved into their workplace pension again. By opting out of payments, they would be left with a pension pot over a third smaller at £170,617, compared to the £269,297 they would amass if they maintained their regular monthly contributions. This assumes that the individual continues to work full time up until their retirement age.

However, by re-instating pension contributions in 3 years' time, they would still be able to accumulate £256,559 by the time they are 75, meaning a loss of just £12,738. Opting back in quicker means losses are limited further; paying back into the scheme within a year means losses of £4,274 and a break of just 6 months means being £2,517 worse off in retirement.

A 50-year-old aiming to retire at the age of 70 would be retiring with £204,225 if they stopped contributions entirely, £65,331 less than if they had carried on making regular payments. A three-year break would see this reduced to losses of £10,370, a year £3,480 and a 6-month freeze would see the pension pot reduced by just £2,050.

Many in their fifties may have hoped to retire by the age of 65, but the calculations show how cutting contributions may make this difficult. A 50-year-old who continued to make payments would be left with a pot of £153,621 at 65, but halting payments now would see that reduced by over a quarter to £113,070. Were they able to start making contributions again within 3 years, they would amass a pot of £145,180, missing out on £8,441. Again, getting back to contributing as quickly as possible pays off, with a 1-year break depleting a fund by £2,832 and a 6-month gap by just £1,668.

"The pandemic has thrown millions of people's retirement plans off course and has inevitably forced many of those struggling to make ends meet to opt-out of their workplace pension.

For those in their fifties, stopping contributions now can have a big impact on their savings and ability to retire as planned. From our own research, we already know that that 1.5 million workers aged over 50 will delay their retirement as a direct result of the Covid-19 pandemic[6], with workers who had been furloughed or taken a pay cut during the pandemic most likely to delay retirement.

These are of course challenging times, but while it may be hard to look past current difficulties, it is important not to lose sight of the long-term benefits of saving into a pension to secure a comfortable retirement.

Despite current circumstances proving challenging, we would urge those who have already saved something for retirement to maintain their contributions. Pausing them may be tempting, however people should explore every possible alternative before considering this.

For those who have already taken the difficult choice to opt-out, our projections highlight how vital it is to prioritise enrolling back into the scheme as soon as they are able to do so, to limit the losses to their retirement fund".

Chris Knight, CEO, Legal & General Retail Retirement

Notes to editors

References

[1]Opinium Research ran a series of online interviews among a nationally representative panel of 2,004 over 50s from the 15th to the 18th May 2020 and again 3rd to the 5th August 2020.

[2]Assumes 5% contribution of their salary each year into their DC pension, in line with the median private sector contribution. The median contribution was derived from the 2019 private sector employee contribution information outlined in a report from the Office for National Statistics. The median was derived by finding the 50% point from the data list. The 50% point lies in the 4%-5% contribution band and therefore an average of 5% was used for this analysis

[3]Median pension reduction of £165 a month equates to £1,980 a year. For the average 50 year old modelled, this is higher than the contributions that would have been made by this individual, meaning it is effectively a contribution holiday i.e. where no contributions are made for the given period.

[4]Employee earnings in the UK: 2019, Office for National Statistics - converted median weekly earnings for full-time employees (£585) to an annual salary of £30,566 by multiplying through by 52.25. This also assumes an average annual salary growth of 3.5%, as per FCA data.

[5]Retirement income market data 2018/19, FCA

[6]Opinium Research ran a series of online interviews among a nationally representative panel of 2,004 over 50s from the 15th to the 18th May 2020 and again 3rd to the 5th August 2020. 452 out of 2,004 UK adults on a nationally representative survey count themselves as aged 50 and over and not-retired. 452 / 2004 * 52,673,000 = 11,892,206. On the latest survey focusing on the over 50s, 136 of the 1034 did not count themselves as retired said that they would most likely need to delay retirement. 136 / 1034 * 11,892,206 = 1.5 million.

Calculations assume an investment return of 5% and an investment management charge on the individuals DC pension pot of 0.80%. This represents both the service charge and fund charge on their pension product. Calculations assume that individuals continue to work on a full time basis until their retirement age.

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About Legal & General Retail Retirement
Legal & General Retail Retirement (LGRR)'s mission is to help its customers lead longer, healthier, happier lives.

We believe everyone should be able to have a 'more colourful retirement'. The Division comprises the Group's individual annuity, lifetime mortgage and care solutions businesses - it has more than half a million customers and circa £21 billion of assets under administration.

In 2019, LGRR wrote £970 million of annuity premiums and issued £965 million of lifetime mortgages.

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