Legal & General Group Plc

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Today's twenty-somethings could see a shortfall of more than £25k a year in retirement, if savings don't shift

- New analysis from Legal & General Retail, released for Pensions Awareness Week (11th to 15th September) has found that a significant number of young people could face a gap in their retirement savings
- Nearly one in five young people with a workplace pension (18%) have no idea how much is being contributed to it each month
- Putting just £30 more away a month could result in £100,000 more in the eventual pension pot of the average 22 to 32-year-old
- Legal & General will launch new podcast ***A Little Bit Richer*** from the 14th September to help young people make sense of their money

Young people in the UK (adults aged 22 to 32) could see an income shortfall of more than £25k a year in retirement if they continue saving at current levels, according to new analysis by Legal & General Retail[1], from its **Lost Decade** research, exploring the retirement outcomes of today's young people.

This group of Zoomers and young Millennials are forecast to have an average of £800,899 (equivalent to £242,822 in today's cash) in their retirement pot at the point where they reach the state pension age, based on current savings levels. This equates to an income of approximately £52,699 a year in retirement. While this might sound like a healthy amount today, by the 2060s this will be the equivalent of just £15,978. This will leave savers with a significant shortfall of £26,350 a year, which they'll need to find from other sources of income.

Contribution rate	At-retirement pot	At-retirement pot (adjusted for inflation)	Prospective annual retirement income	Prospective annual retirement income (adjusted for inflation)
8%	£800,899	£242,822	£52,699	£15,978
12%	£1,201,349	£364,233	£79,049	£23,967
20%	£2,002,248	£607,055	£131,748	£39,944

(Based on Legal & General analysis)

Auto-enrolment has been a huge success in getting young people saving, but more needs to be done

People aged between 22 and 32, make up the first decade of workers to see the full benefit of auto-enrolment, where employees are automatically placed in a pension scheme to which they and their employers both contribute every month. While the scheme has been a huge success in getting people saving earlier, there are some suggestions that minimum contribution levels need to increase to ensure people have an adequate retirement.

At present, the minimum auto-enrolment contribution to an employee's pension savings is 8% of qualifying earnings, with employers paying at least 3% and the employee paying 5%. However, the Living Pension[2] savings target estimates that 12% of a worker's annual salary should be put aside in order to adequately meet people's retirement needs.

Pensions awareness among young people is low

According to Legal & General's research, young people have low awareness about their workplace pension. Nearly one in five young people with a workplace pension (18%) have no idea how much is being contributed to it each month and a third (34%) have never checked how much they are paying in. Overall, 37% admit they do not know how their pension works.

For many, this is because they are focused on other goals. Over two fifths (43%) of young people admitted to not thinking about retirement as they are focused on purchasing a home instead.

The research found that young people are not engaging with their retirement savings at a crucial time where small actions could see the biggest benefit. Putting just £30 extra away a month from the age of 27 could see someone with £100,000 more in their pot by the time they reach the current state pension age. However, three out of five 22-32 years olds do not know what is meant by 'compound interest' (61%), which sees savers earn interest on top each previous year's interest, meaning that contributions made early in life can grow significantly over time.

"At a time where incomes are stretched, it can be hard for people to consider putting more money aside to meet the needs of retirement, which might feel quite far off for many young workers. However, we should consider the long-term impact of the retirement shortfall on both individuals and the nation, as a whole. Auto-enrolment has been a huge success, which has prompted millions more people to start saving. This is particularly true in light of proposed changes which will boost the number of people enrolled into a workplace pension. However, as we look to the future, we might want to consider further changes that will ensure people have enough set aside to guarantee an adequate income in retirement.

"Young workers who do have more flex in their monthly budget might want to consider increasing the amount they are putting towards retirement. The greatest asset that young people have on their side is time, and seemingly small amounts put aside now could result in a vastly different quality of life. This Pension Awareness Week, we want more young people to understand their workplace pension and the power of compound interest in helping to shape their futures."

Katharine Photiou, Managing Director of Workplace Savings at Legal & General

To help guide young people on everything they need to know to manage their money in their twenties and early thirties, Legal & General will be launching a range of resources. It's new TikTok account **@legalandgeneral** will provide bite-sized money guidance. Meanwhile, its new podcast ***A Little Bit Richer,*** will launch from the 14th September. Hosted by financial influencer Kia Commodore, the podcast will cover everything from making sense of your payslip, to mortgages and pensions, to financial wellbeing and mental health. This can be downloaded from Legal & Generals' official site or through your preferred podcast listening app.

-ENDS-

Notes to editors

[1]Analysis based on the following research and assumptions:

- Opinium Research conducted 2,000 online interviews of people aged 22-32 between the 15th and 29th August 2023
- CPI = 3%
- Salary premium = 1%
- Salary increase = 4%
- Median male salary at age 27 = 35,000
- Median female salary at age 27 = 25,000
- Start saving into a workplace pension at age 22, retiring at age 68
- Investment return on pension pot, assuming broad 60/40 asset split, (6.9% p.a.)
- Qualifying earnings – Currently (£6,240 to £50,270), Historical years (actual LEL and UEL), Future years (increased annually by CPI assumption)
- Income based on current Legal & General annuity

[2] Living Pension recommends 12% of a full time salary, as calculated by the Living Wage Foundation

About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with over £1.2 trillion in total assets under management* of which 39% is international. We have a unique and highly synergistic business model, which continues to drive strong returns. Legal & General provides powerful asset origination and management capabilities directly to clients, which also underpin our leading retirement and protection solutions. We are a leading international player in Pension Risk Transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. Our purpose is to improve the lives of our customers and create value for our shareholders. Through inclusive capitalism, we are investing in long-term assets, such as real estate and infrastructure, that can help build a better society for the future.

**as at HY 2023*

About Legal & General Retail

Legal & General Retail helps create brighter financial futures for all our customers. The division covers the savings, protection and retirement needs of our c.13 million retail policyholders and workplace members.

In 2022, we had total individual annuity sales of £954 million, and issued £632 million of Lifetime Mortgages and Retirement Interest Only Mortgages. Our Workplace pension platform served 4.9 million members, while our Protection businesses gave peace of mind to more than 6.3 million UK life insurance, 1.8 million group and 1.5 million US customers, taking in £3.1 billion of gross written premiums.

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