

## HOW TO ESTIMATE LIKELY RETIREMENT LIVING STANDARDS

This document provides some indications of how pot size or contributions can provide a rough guide to likely living standard.

### EXPLAINER

- ▶ The RLS figures show what retirement might cost at three levels: minimum, moderate and comfortable.
- ▶ The three different levels can be described as:
  - ▶ A **minimum standard** of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.
  - ▶ A **moderate standard** of living in retirement in the UK is about more than just meeting your basic needs. It means being able to access a range of opportunities and choices, having a sense of security and the option to do some of the things that you would like to do.
  - ▶ A **comfortable standard** of living in retirement in the UK is about more than just meeting your basic needs; it is about having a broad range of opportunities and choices, peace of mind and the flexibility to do a lot of the things that you would like to do.

### WHAT DO THE STANDARDS MEAN FOR ME?

- ▶ The Retirement Living Standards give you an expenditure figure – what the basket of goods at each of the three levels will cost. You might want to do some personal financial planning to work out what you want and what you might be able to save towards.
- ▶ Remember, the costs can be funded through a variety of means – pensions and other types of income. People may have incomes from DB pensions, DC savings, other types of savings, equity release or part time work.
- ▶ The Standards are part of a three-step journey:
  - ▶ Awareness,
  - ▶ Understanding,
  - ▶ Action.
- ▶ Awareness: The standards provide a rule of thumb approach to increase *awareness* about retirement lifestyles and costs in a simple way.
- ▶ Understanding: The examples provided on the website seek to develop further *understanding* about what this might mean for people of different ages and who earn different types of salaries.
- ▶ Action: For the third step – *action* in developing an individualised target – people will need to make some decisions.

## WHAT ACTION CAN I TAKE?

- ▶ There are various tools, guidance bodies, advisers and providers and schemes may be able to help you with more detailed planning.
- ▶ You will want to think about whether you want to change the basket of goods to tailor them to personal choices, and think about other costs you might need to take account of – such as mortgages, rent, social care and tax – and what other income you might have.
- ▶ The standards assume people are mortgage and rent free, because this is still what most of the population close to retirement will achieve in the next few years. Moreover, some people on low incomes with low savings are sometimes eligible for Housing Benefit payments to cover the cost of rent. However, although most older households are currently projected to be owner-occupiers over the next 20 years or to be in receipt of Housing Benefit, it's crucial to recognize that an increasing number of individuals will face additional housing costs, ie mortgage payments or rental costs. If you think you will be in this position, it will be necessary for you to add the relevant amount of mortgage or rent to the Retirement Living Standard of most interest to you, and you will find resources that give you typical rental prices across the UK on our website and others.
- ▶ Pensions UK are working with organisations who have direct contact with consumers and who also have the expertise to work with individuals to develop personal targets and plan with them.

## HOW DO I KNOW IF I AM ON TRACK?

- ▶ As a pension saver you can look at a few things to see what you might be on track for from your pension savings. A key piece of information is your annual benefit statement. If you have DB pension savings your statement will tell you directly about your income. If you are in a DC scheme, then you will have a forecast from your scheme.
- ▶ We have also provided some figures below to show you:
  - ▶ What sort of income level you need, **after paying tax on your income**, and after receiving State Pension income to achieve each of the Retirement Living Standards.
  - ▶ What sort of level of overall savings, or pot size, you need in a DC pension to generate an annuity income to meet the costs of the standards (if you are not using any other income apart from your DC pension and your State Pension).
  - ▶ We have provided these income and pot size figures for singles and also two person households.
- ▶ These are just high-level indications to give you a flavour of the type of figures involved – and do not take account of other income you may have, or other ways you might want to use your pension pot. *Please note that annuity rates vary over time and according to which product type is chosen by an individual, the saver's age and other circumstances of the saver eg*

location, health etc. The annuity rate examples provided are given as an illustration only, annuity rates change frequently so please check the current rate and product appropriate for your own needs and circumstances.

**TABLE 1: FUND SIZE REQUIRED TO REACH DIFFERENT RLS STANDARDS – SINGLE**

RETIREMENT LIVING STANDARD	ANNUAL EXPENDITURE	STATE PENSION*	POT INCOME PRE TAX	TOTAL INCOME PRE-TAX	TOTAL INCOME POST TAX	APPROX FUND SIZE REQUIRED IF PURCHASING AN ANNUITY**
Comfortable	£43,900	£11,975	£40,245	£52,220	£43,900	£540k - 800k
Moderate	£31,700	£11,975	£24,508	£36,483	£31,700	£330k - 490k
Minimum	£13,400	£11,975	£1,632	£13,608	£13,400	£20k – 35k
*Full state pension for 2025-26		**Rounded illustrative indicative figures based on annuity rates ranging from £5,000 to £7,500 per £100,000. Rates vary according to the type of product and saver circumstances including location and health. <i>Provided as an illustration only, annuity rates change frequently.</i>				

**TABLE 2: FUND SIZE REQUIRED FOR TWO PEOPLE**

RETIREMENT LIVING STANDARD	ANNUAL EXPENDITURE (TWO PEOPLE)	STATE PENSION* (PER PERSON)	POT INCOME PRE-TAX (PER PERSON)	TOTAL INCOME PRE-TAX (PER PERSON)	TOTAL INCOME POST TAX PER PERSON	APPROX FUND SIZE REQUIRED PER PERSON IF PURCHASING AN ANNUITY**
Comfortable	£60,600	£11,975	£22,758	£34,733	£30,300	£300k-460k
Moderate	£43,900	£11,975	£12,320	£24,295	£21,950	£165k-250k
Minimum	£21,600	£11,975	-	£11,975	£11,975	£0 (fully covered by the state pension)
*Full state pension for 2025-26		**Rounded illustrative indicative figures based on annuity rates ranging from £5,000 to £7,500 per £100,000. Rates vary according to the type of product and saver circumstances including location and health. <i>Provided as an illustration only, annuity rates change frequently.</i>				

### How to interpret the numbers

- ▶ The State Pension will provide approximately £11,975 per year for most people (based on the full state pension for 2025-26).
- ▶ The pot income and State Pension will make up a person's total income pre-tax.
- ▶ Fund size required means the total amount of DC pension saving required to achieve a particular Standard. The fund size required will provide you with a pot income and the illustration above is based on an annuity of an amount of income per £100,000 (eg in April 2025 an illustration obtained for a single standard basis level rate with no guarantee at age 65 was £7,650; for a 3% escalation with no guarantee £5,700), 3% escalation + 50% joint life (£5,300). *The annuity rate examples provided are given as an illustration only, annuity rates*

*change frequently so please check the current rate appropriate for your own needs and circumstances.*

- ▶ This will not factor in any other pension savings, lifetime savings or income that a person may have that may contribute to funding annual household expenditure.

### **Important Note on Annuity Income Figures**

The annuity income figures illustrated above are provided for **illustrative purposes only** and are designed to help you understand the potential level of income that might be available when using your pension savings to purchase an annuity. They are calculated using **assumed rates** as of April 2025 and are intended only as a general guide.

Please be aware that actual annuity income will vary depending on several factors, including but not limited to factors such as:

- Your age and health
- Chosen annuity type (e.g., single or joint life, level or escalating)
- Pension savings at the time of purchase
- Rates available from annuity providers at that time

This note does not offer financial advice, nor does it recommend or endorse any particular retirement income product or provider. We strongly recommend speaking to a **regulated financial adviser** or using a service like **Pension Wise** before making any decisions about how to access your pension.

**Taxation** of annuity income depends on your personal circumstances and may be subject to change.