

How much money do I need to retire?

September 2022

**Content correct and valid until 5th
April 2023**

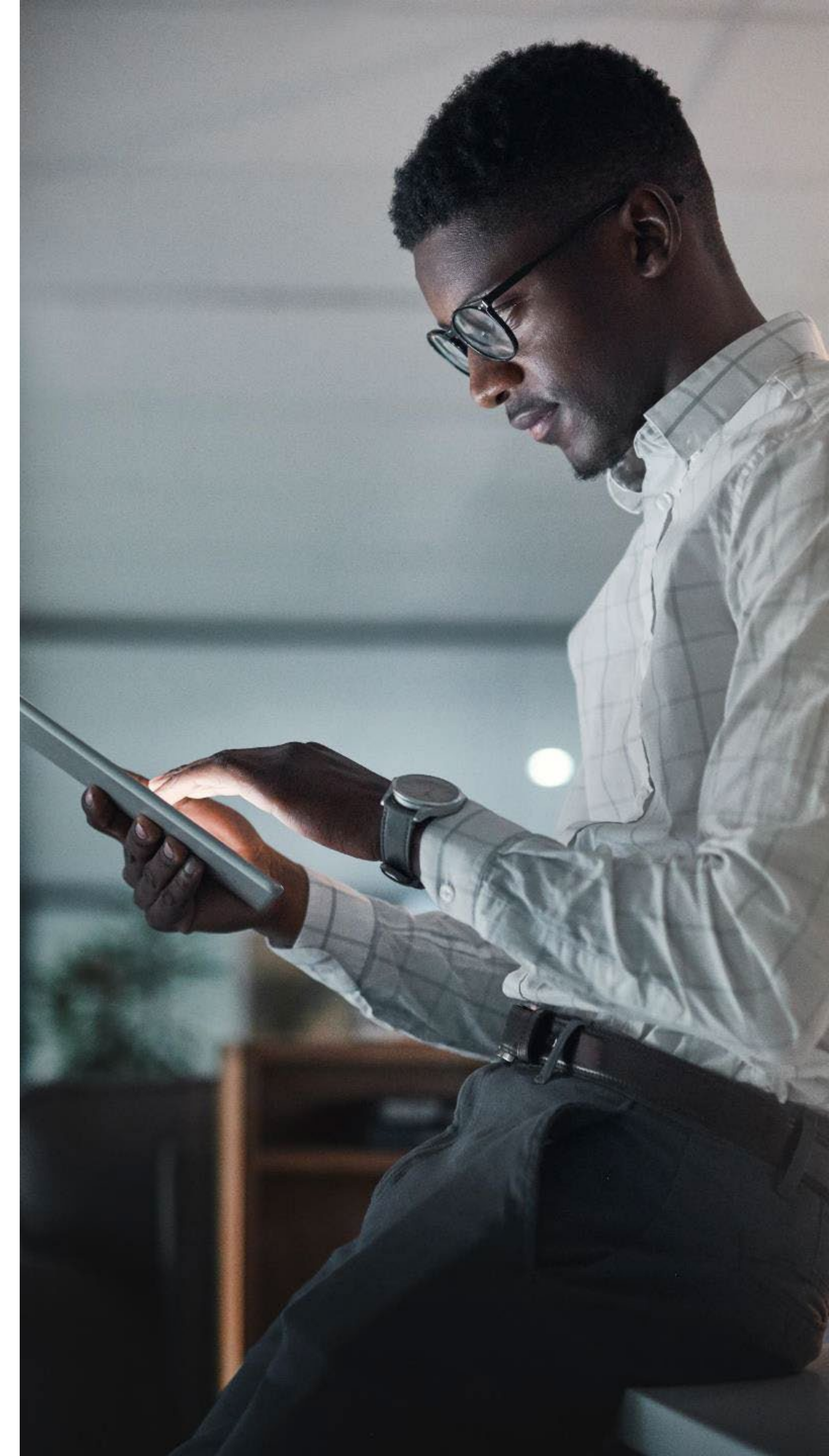
Who is Aon UK Limited?

Aon UK Limited (Aon) is an **EMPLOYEE BENEFITS CONSULTANCY**, authorised and regulated by the Financial Conduct Authority

The RNLI has appointed Aon to provide advice, guidance and information in relation to corporate pension strategy and structure. This includes providing information and guidance to employees who are current or prospective scheme members.

Aon UK Limited is remunerated for the services it provides by the payment of fees by the RNLI.

The contents of this presentation are based on 2022/23 tax year rates and are intended for general information only and should not be construed as advice. If you are unsure about any aspect of your pension planning you should seek financial advice.



Agenda for today

1	Retirement considerations
2	Life expectancy
3	How much income do you need in retirement?
4	Funding your income
5	How much Defined Contribution (DC) fund will you need?
6	Income Tax
7	Increasing DC pension values
8	Questions

Consider....

How long are you going to live for?

How fit & healthy will you be?

What do you want to do when you are retired?

How much will it cost to do what you want to do?

What income will you have when you stop working?

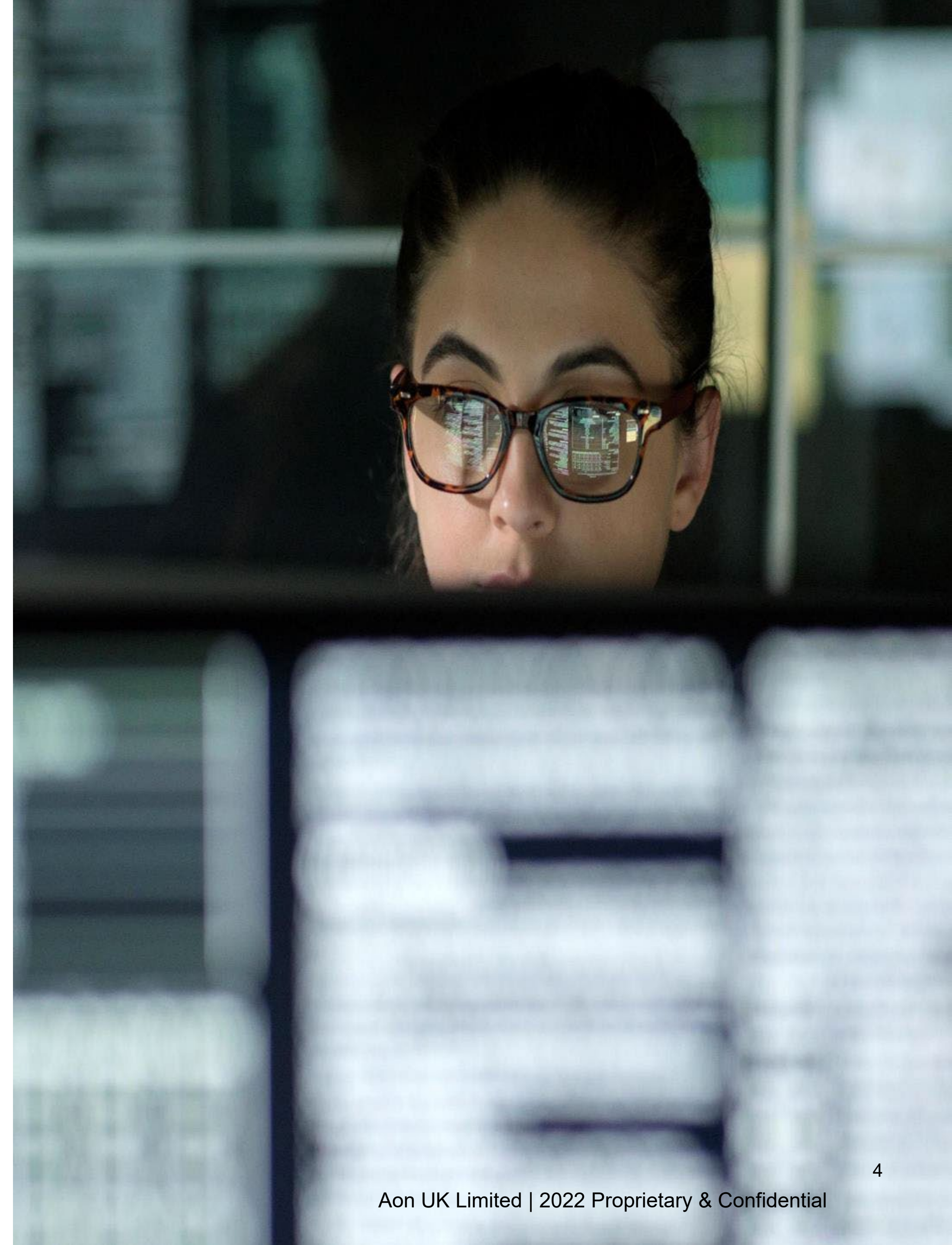
What savings & investments will you have?

Will you have any housing costs (rent or mortgage) when you are retired?

Will you be single or married?

Will your spouse/partner have any income, pensions, savings or investments?

REMEMBER: It is ok that your savings and pensions are reducing in value in order to meet your financial requirements in retirement. BUT you have to consider that you could run out of money to finance your retirement needs at some point.



Life expectancy in the UK



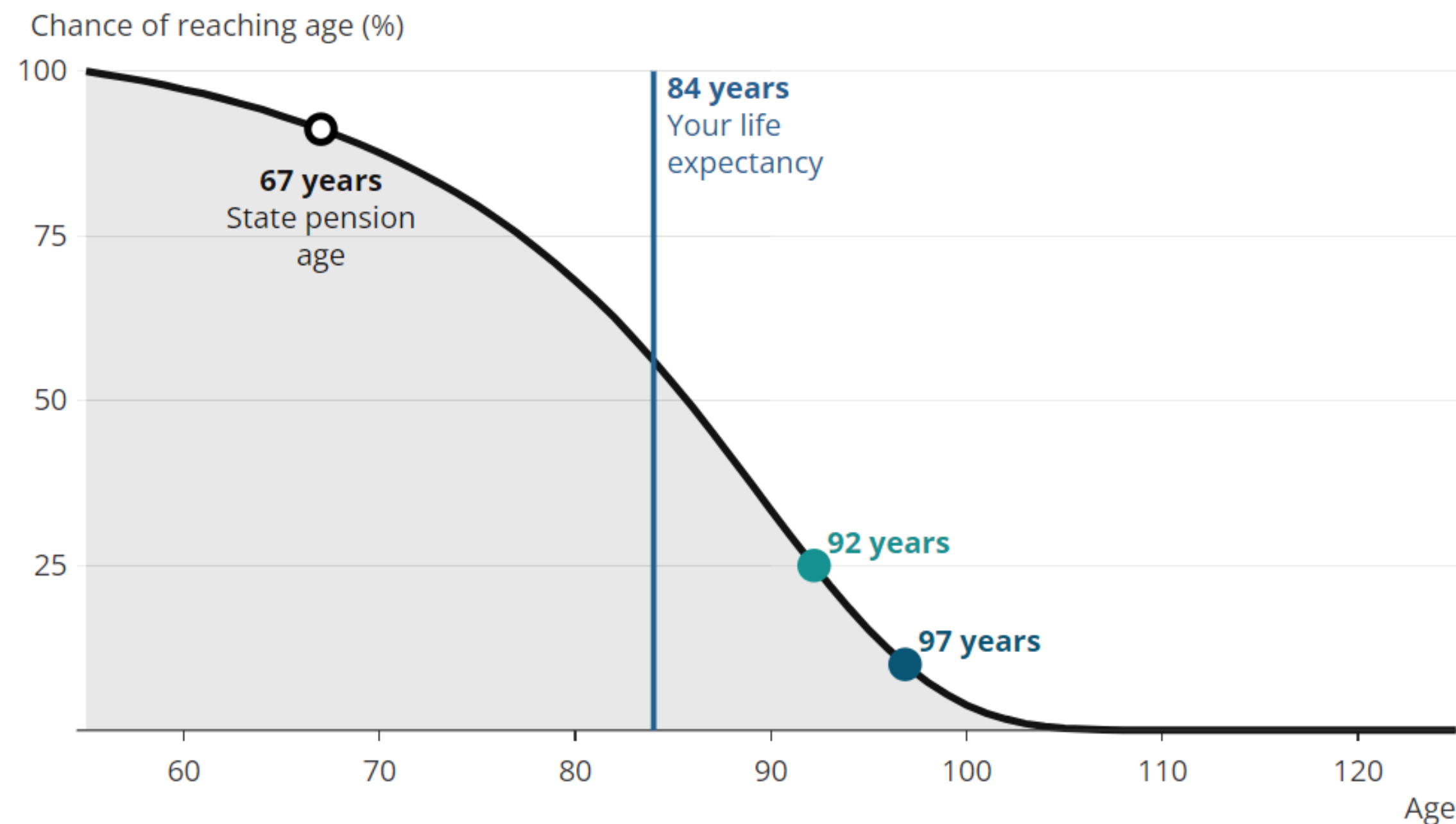
Life expectancy - Male

Man aged 55 in 2022 has a life expectancy of

84 years

However there's a chance you might live longer...

- **92 years**
1 in 4 chance
- **97 years**
1 in 10 chance
- **100 years**
3.8% chance

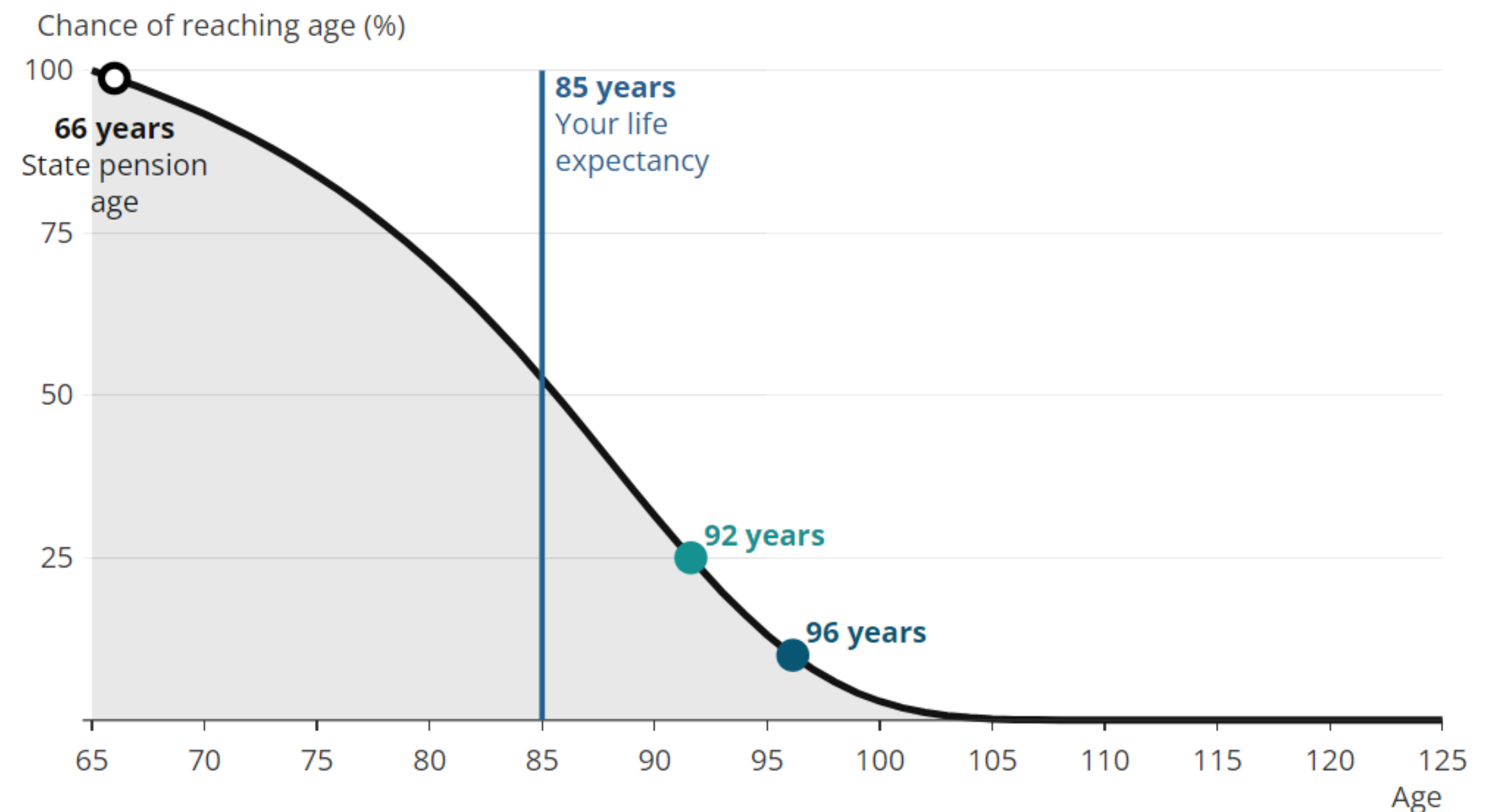


Man aged 65 in 2022 has a life expectancy of

85 years

However there's a chance you might live longer...

- **92 years**
1 in 4 chance
- **96 years**
1 in 10 chance
- **100 years**
2.9% chance



Source: Office for National Statistics – Life expectancy calculator

www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07

*Figures based on a man aged 55 or 65 now and may not be directly relevant to you

Life expectancy - Female

Woman aged 55 in 2022 has a life expectancy of

87 years

However there's a chance you might live longer...

● **94 years**

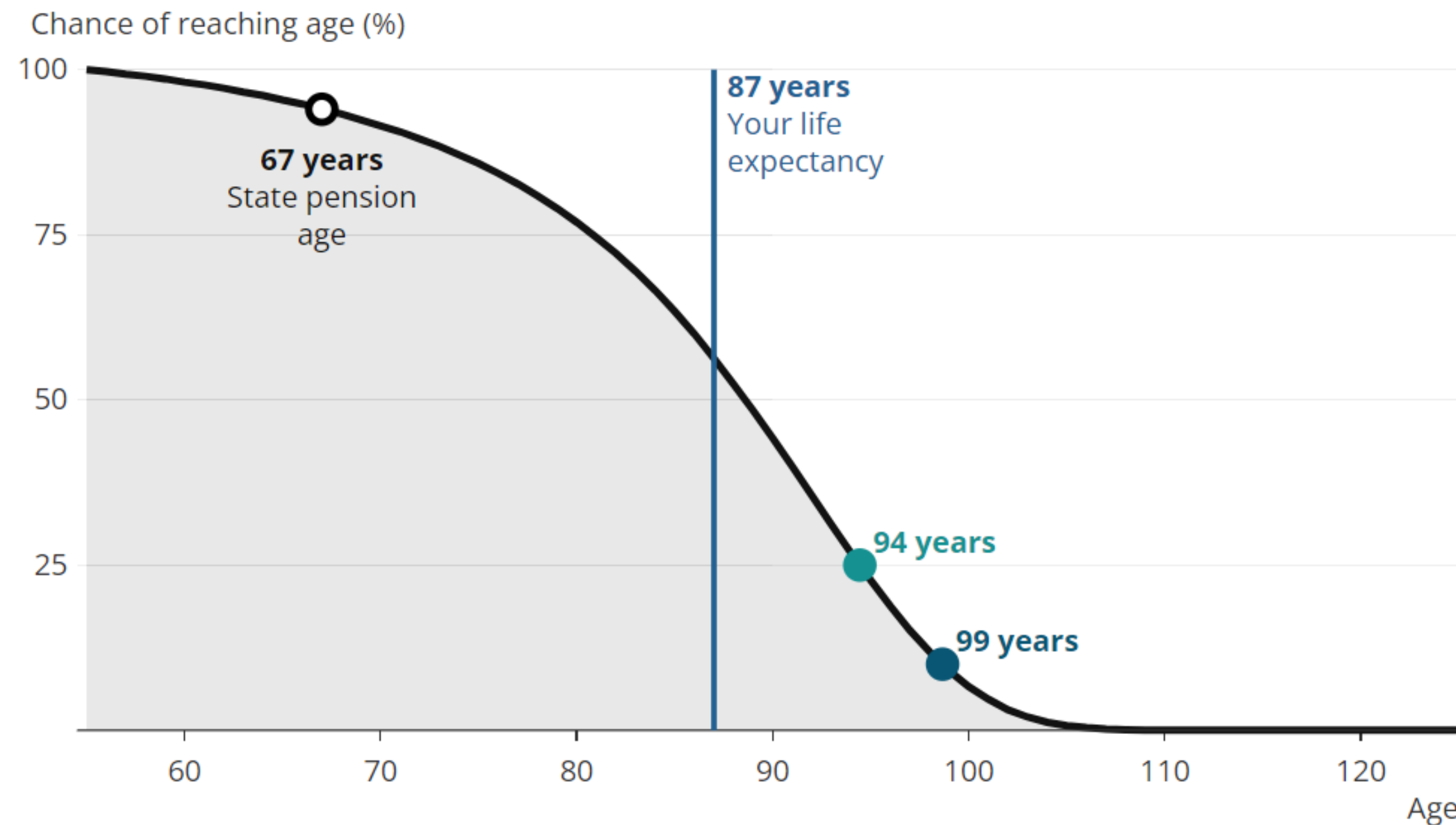
1 in 4 chance

● **99 years**

1 in 10 chance

● **100 years**

6.6% chance



Woman aged 65 in 2022 has a life expectancy of

87 years

However there's a chance you might live longer...

● **94 years**

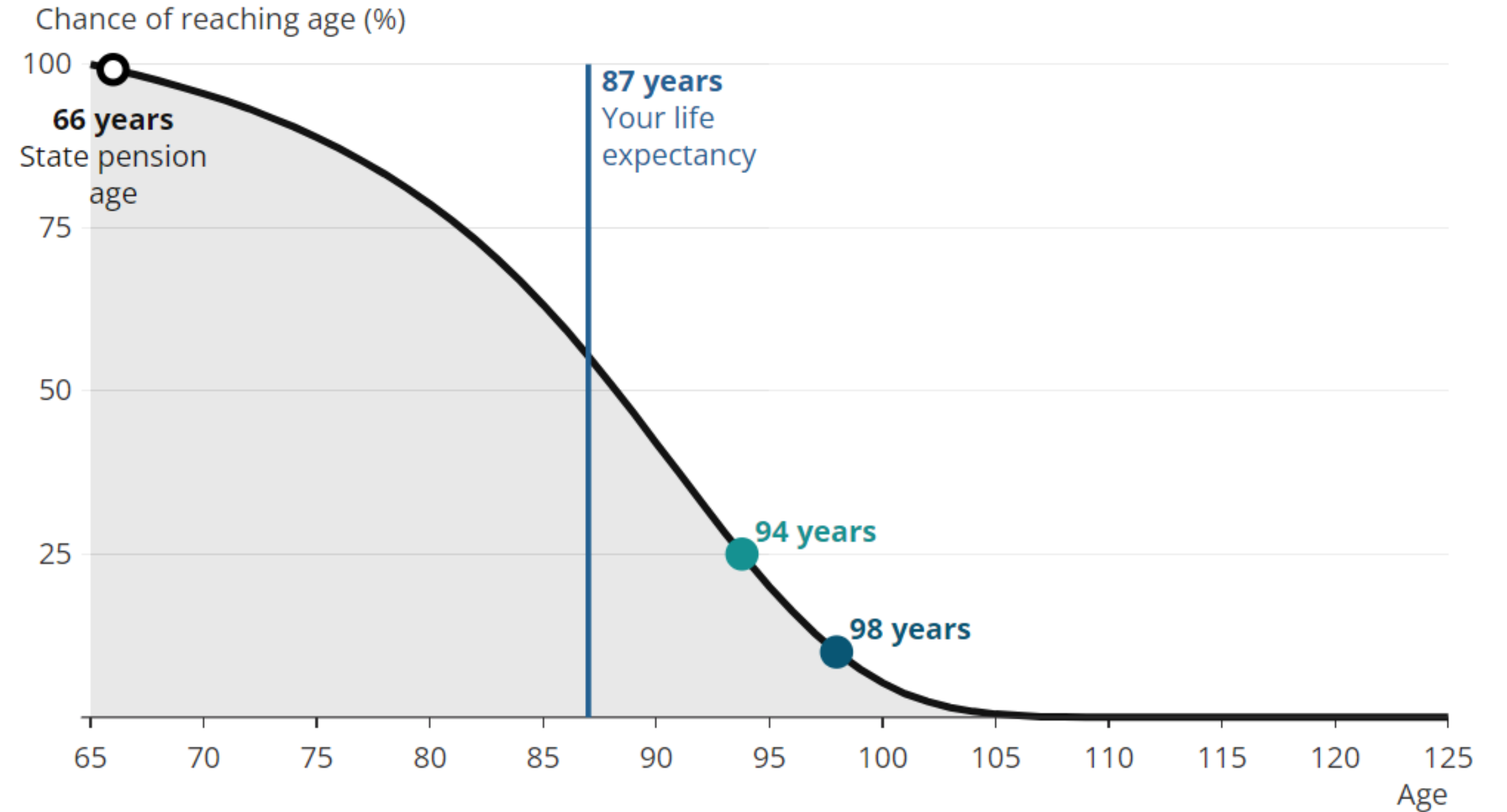
1 in 4 chance

● **98 years**

1 in 10 chance

● **100 years**

5.3% chance



Source: Office for National Statistics – Life expectancy calculator

www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07

*Figures based on a woman aged 55 or 65 now and may not be directly relevant to you

“Healthy Life” Expectancy

Whilst a 65 year old is likely to live, on average, for around 20 years how much of that time are they likely to be healthy enough to do what they want to do in retirement?

Healthy life expectancy = An estimate of lifetime spent in "very good" or "good" health, based on how individuals perceive their general health.

	Male	Female
Healthy Life expectancy in 2017 to 2019	10.4 years	11.0 years
Change since 2014 to 2016 (weeks)	+13.0	+6.3
Change since 2014 to 2016 (months)	+3.0	+1.4

[Health state life expectancies, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk) - Table 3: Summary statistics of latest health state life expectancy estimates at age 65 years; UK, 2017 to 2019



How much income will you need in retirement?



Starting to Plan

“Psychological Anchoring” = human tendency to rely too heavily on one trait or piece of information when making decisions

For retirement income the natural tendency is to “anchor” the retirement income you want to your pre-retirement salary either as a fraction or percentage of salary earned BUT... as your lifestyle, costs and income requirements will change once you retire, you should not consider income required in relation to salary but align it to your needs and objectives.

1. Decide **WHAT you want to do in retirement** so that you can then calculate how much it costs to be able to do this
2. Calculate your **Minimum Income Requirement (MIR)**, which is the amount of cost you have each month to “exist” (i.e. bills & food)
3. Calculate your **Desired Income Requirement (DIR)**, which is the amount of cost you have each month to “live” (i.e. MIR amount + discretionary spending such as holidays, gifts, eating out, buying new things, better food, saving or investing etc)

Calculate the amount of MIR & DIR assuming you are retiring today, this gives an understanding of the income you need to be have but remember the healthy life expectancy, you may not be able to do everything you want to do for the entire period of your retirement. **Will your income requirements change as you get older?**

Now consider the level of **GUARANTEED** income you (and any spouse or partner) will have in retirement from either State Pensions and/or a guaranteed ‘for life’ scheme pension or annuity. The difference between income required (MIR or DIR) plus any income tax you will have to pay and the guaranteed income you have is the amount that you need to fund in retirement from pensions and/or savings.

NB: Remember to factor in any income tax that would be payable as this will reduce the amount of income you receive

PLSA Retirement Living Standards

The Pension and Lifetime Savings Association (PLSA), in conjunction with Loughborough University, have developed the Retirement Living Standards to show potential levels of income in retirement needed to meet certain objectives.

These are merely a starting point as everybody will have different retirement needs.

Further details about the RLS can be found at : www.retirementlivingstandards.org.uk

The required amounts are **after tax**, and **do not include any rent or mortgage costs** as the majority of individuals close to retirement will not have to support these costs*.

The amounts required can be met by income from any source including:

- Personal pension provision
- Workplace pensions
- State Pension
- Investments
- Property rental income
- Part-time Working
- Savings
- inheritances


	 SINGLE	 COUPLE
MINIMUM <small>Covers all your needs, with some left over for fun</small>	£10,900 <small>LONDON £13,200</small>	£16,700 <small>LONDON £21,100</small>
MODERATE <small>More financial security and flexibility</small>	£20,800 <small>LONDON £24,500</small>	£30,600 <small>LONDON £36,200</small>
COMFORTABLE <small>More financial freedom and some luxuries</small>	£33,600 <small>LONDON £36,700</small>	£49,700 <small>LONDON £51,500</small>

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Source: Pensions and Lifetime Savings Association and Loughborough University, published 2019, updated 2021

Further details about the RLS can be found at www.retirementlivingstandards.org.uk

Details – for an individual

	MINIMUM	MODERATE	COMFORTABLE
SINGLE	£10,900 a year	£20,800 a year	£33,600 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
 HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
 FOOD & DRINK	A £41 weekly food shop.	A £47 weekly food shop.	A £59 weekly food shop.
 TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
 HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
 CLOTHING & PERSONAL	£410 for clothing and footwear each year.	£730 for clothing and footwear each year.	£1,200 for clothing and footwear each year.
 HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Details – for a couple

	MINIMUM	MODERATE	COMFORTABLE
COUPLE	£16,700 a year	£30,600 a year	£49,700 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
 HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
 FOOD & DRINK	A £67 weekly food shop.	A £74 weekly food shop.	A £94 weekly food shop.
 TRANSPORT	No car.	3-year old car replaced every 10 years.	Two cars, each replaced every five years.
 HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
 CLOTHING & PERSONAL	£460 per person for clothing and footwear each year.	£750 per person for clothing and footwear each year.	Up to £1,500 per person for clothing and footwear each year.
 HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

How much money will you need in retirement?

Budget Planner: Household bills

How to use | Income | **Household bills** | Living costs | Finance & Insurance | Family & Friends | Travel | Leisure | Summary

Mortgage & rent ▼

Other property charges ▼

Home insurance ▼

Utilities ▲

Council Tax or Rates <i>i</i>	<input type="text" value="0.00"/>	per Month ▼
Gas <i>i</i>	<input type="text" value="0.00"/>	per Month ▼
Electricity <i>i</i>	<input type="text" value="0.00"/>	per Month ▼
Other household fuel <i>i</i>	<input type="text" value="0.00"/>	per Month ▼
Water <i>i</i>	<input type="text" value="0.00"/>	per Month ▼
Home phone <i>i</i>	<input type="text" value="0.00"/>	per Month ▼

The PLSA RLS are useful as a starting point however they may not be relevant to your personal circumstances or requirements.

There are various way you can calculate the amounts required to meet your MIR and DIR; from old fashioned paper & pen to online budget calculators.

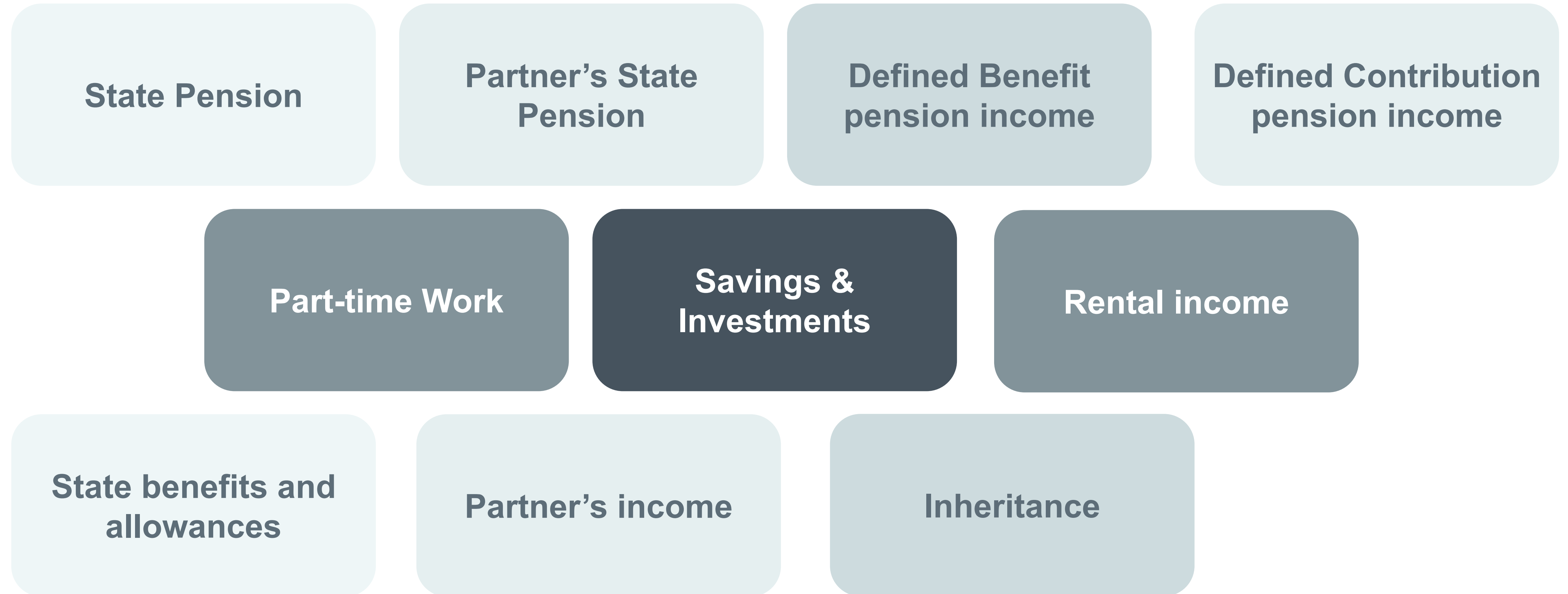
The government-backed Money and Pension Service (MaPS) offers an online Budget Planner (but there are many others)

www.Moneyhelper.org.uk/en/everyday-money/budgeting/budget-planner

Funding your income



Different sources of Income



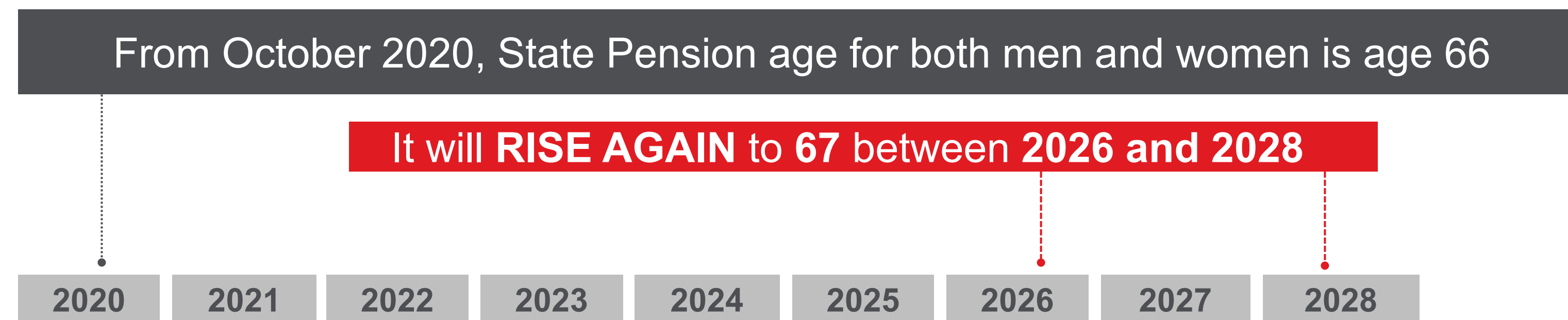
State Pension

You may receive a State Pension when you reach State Pension Age
Full State Pension* (2022/23) = £185.15 per week / £9,627.80 per year

- *35 'qualifying years' needed for the full amount
- Qualifying years based upon your National Insurance contribution history
- Pro-rated amount received if at least 10 qualifying years achieved
- Some state benefits count towards qualifying years
- Rules changed in 2016 - Your National Insurance contributions record in 2016 will be converted to a 'foundation amount'
- Your 'foundation amount' is the higher of your entitlement under the old rules (pre-2016) and what you would be entitled to under the new rules (based on your National Insurance history to 2016)

For more information, including how to get an estimate of the State Pension you could receive, go to the Government website at www.gov.uk

When will I get my state pension?



If you're not sure what your State Pension age is, use the Government's retirement age forecast service at

www.gov.uk/calculate-state-pension

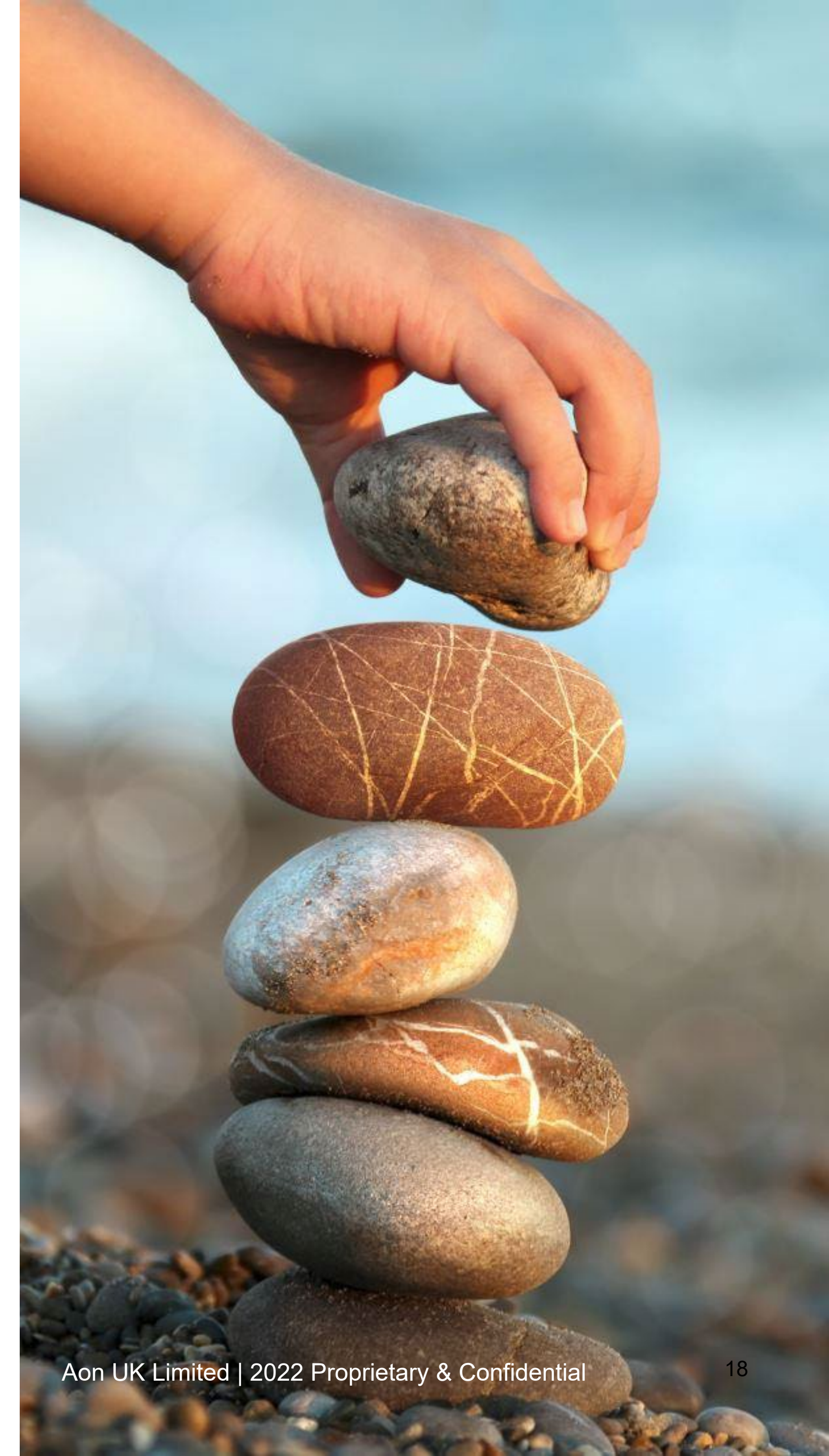
How do I claim my State Pension?

- The Pension Service should contact you 4 months before State Pension Age
- You can claim online at <https://www.gov.uk/claim-state-pension-online>
- For help contact the Pension Service on **0800 731 7898**

Can I defer my State Pension?

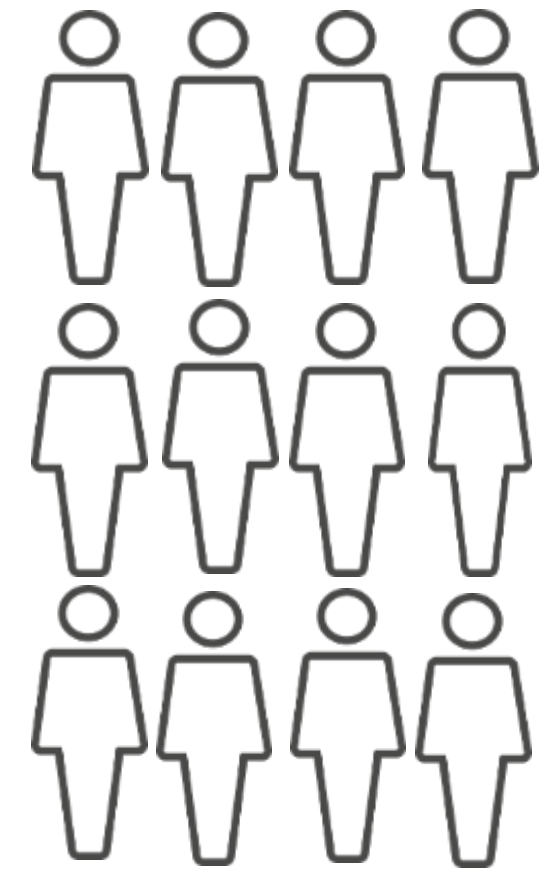
- You can defer your State Pension for at least 9 weeks and claim extra monthly State Pension
- Your State Pension increases by 1% for every 9 weeks you defer.
- This works out as just under 5.8% for every full year - Ignoring the effects of inflationary increases, if you defer for one year, you would need to live for nearly 20 years to be better off

Source: [gov.uk](https://www.gov.uk)



Defined Benefit Pensions

You build up an entitlement to a guaranteed “for life” pension based upon length of membership and salary from specified retirement age



All members contribute in one pooled fund



The taxman contributes



The employer also contributes



Cost of investment met by the fund



Set regular Income for life



Option for a tax free lump sum

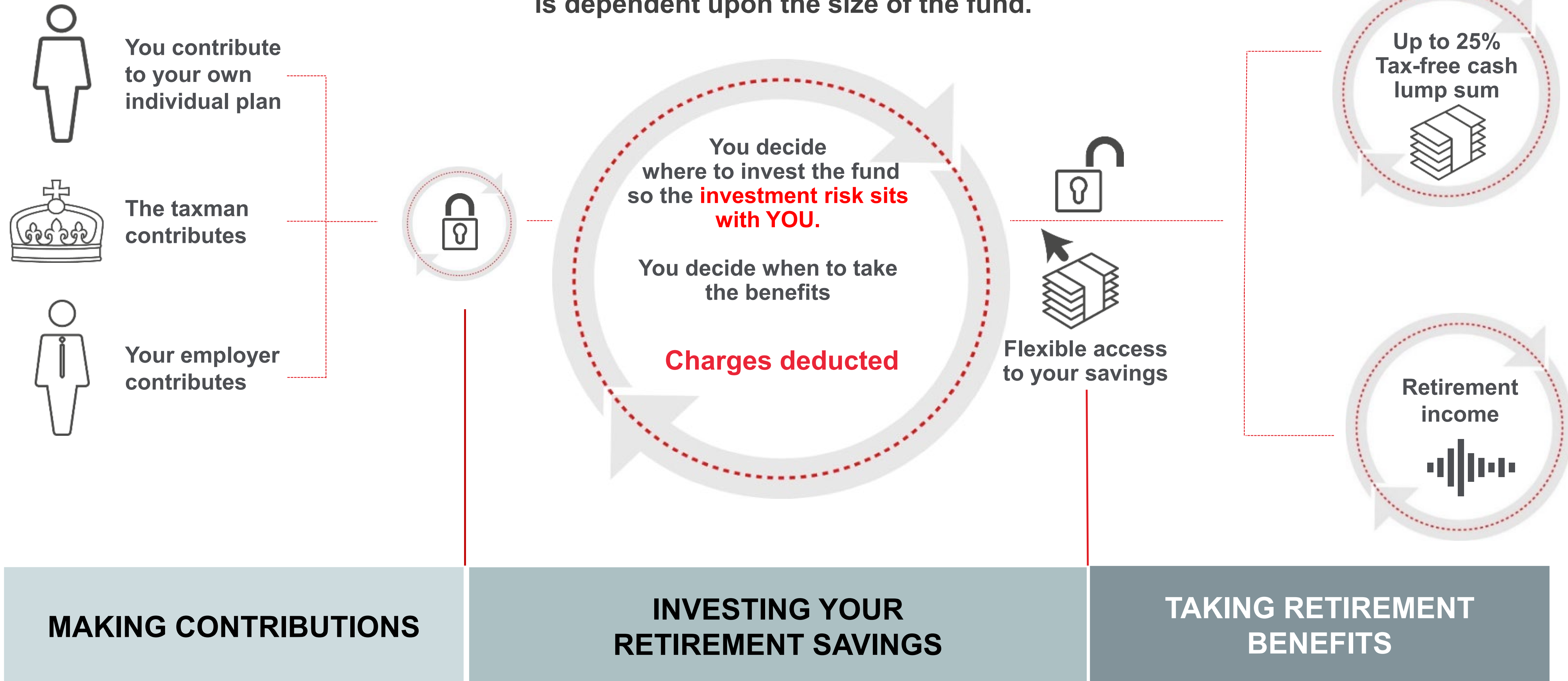
MAKING CONTRIBUTIONS

INVESTMENT

TAKING RETIREMENT BENEFITS

Defined contribution (money purchase) pensions

You build up a fund to be used to provide retirement income. The amount of income available is dependent upon the size of the fund.

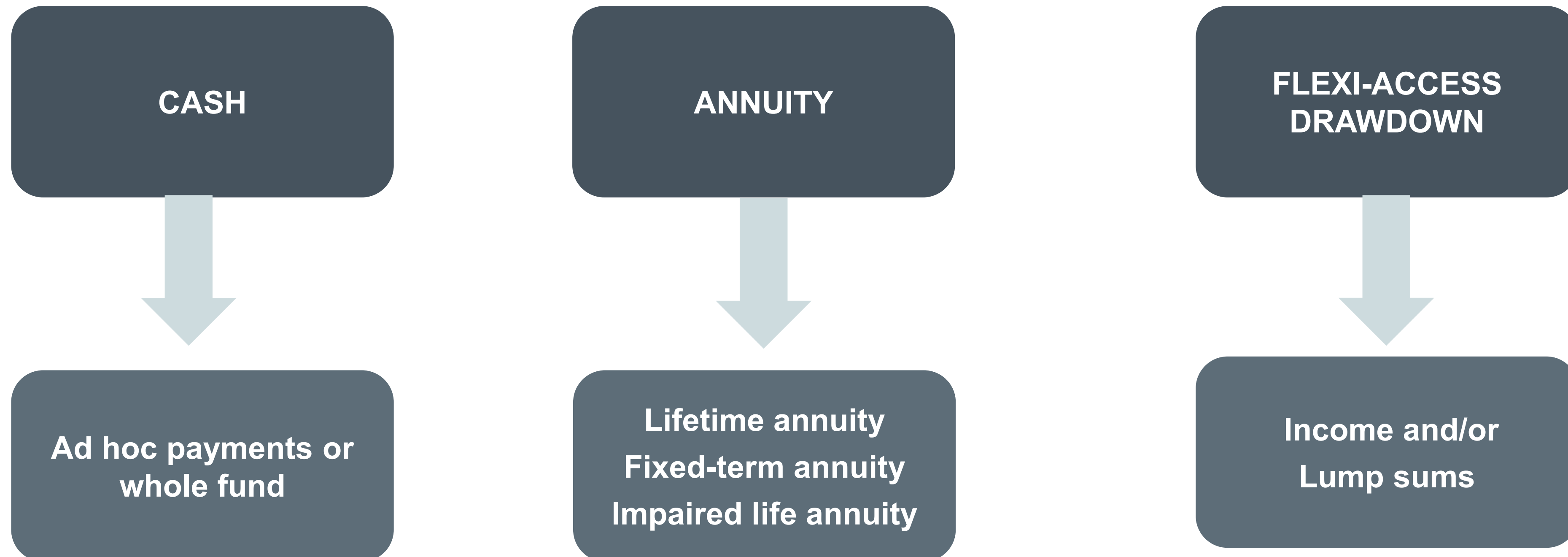


Retirement choices (money purchase) - over 55 only

Up to 25% of any 'unused' fund is available tax free (PCLS*)

*Pension Commencement Lump Sum

Can choose to take taxable income from balance (after PCLS) by using one or a combination of



If you are unsure about any aspect of your pension planning you should seek financial advice

How much DC fund will you need?



Example Annuity Rates

The amount of annuity that can be purchased is dependent upon:

- Where you live (your postcode)
- Your Age
- Whether you want the income to increase during payment
- Whether you want payments to continue to your spouse in the event of your death
- If you want a guarantee period

Example rates based upon a 65 year old* with a 62 year old spouse (where applicable) with a £100,000 fund living in Poole (BH15 1HZ).

*(Non-smoker with no medical conditions):

	Annuity
Single Life, no increase, no guarantee	£6,149 per annum
Single life, level, five-year guarantee	£6,113 per annum
Joint life, 50% widow's pension, level, no guarantee	£5,670 per annum
Joint life, 50% widow's pension, 3% escalation, no guarantee	£3,722 per annum



Pension fund required to meet PLSA RLS objectives

Whilst the State Pension may meet a proportion of required retirement income, it is unlikely to meet the full amount, therefore provision will need to be made to address any shortfall.

In order to calculate the level of pension fund required at retirement to meet income needs, Aon has undertaken some modelling to calculate the potential fund that would be required at age 65 (modelling assumptions below).

	UK (non-London)		London	
	Single	Couple	Single	Couple
Minimum	£31,259	£17,733	£84,791	£49,402
Moderate	£291,821	£300,961	£392,656	£453,501
Comfortable	£640,527	£821,304	£725,034	£870,335

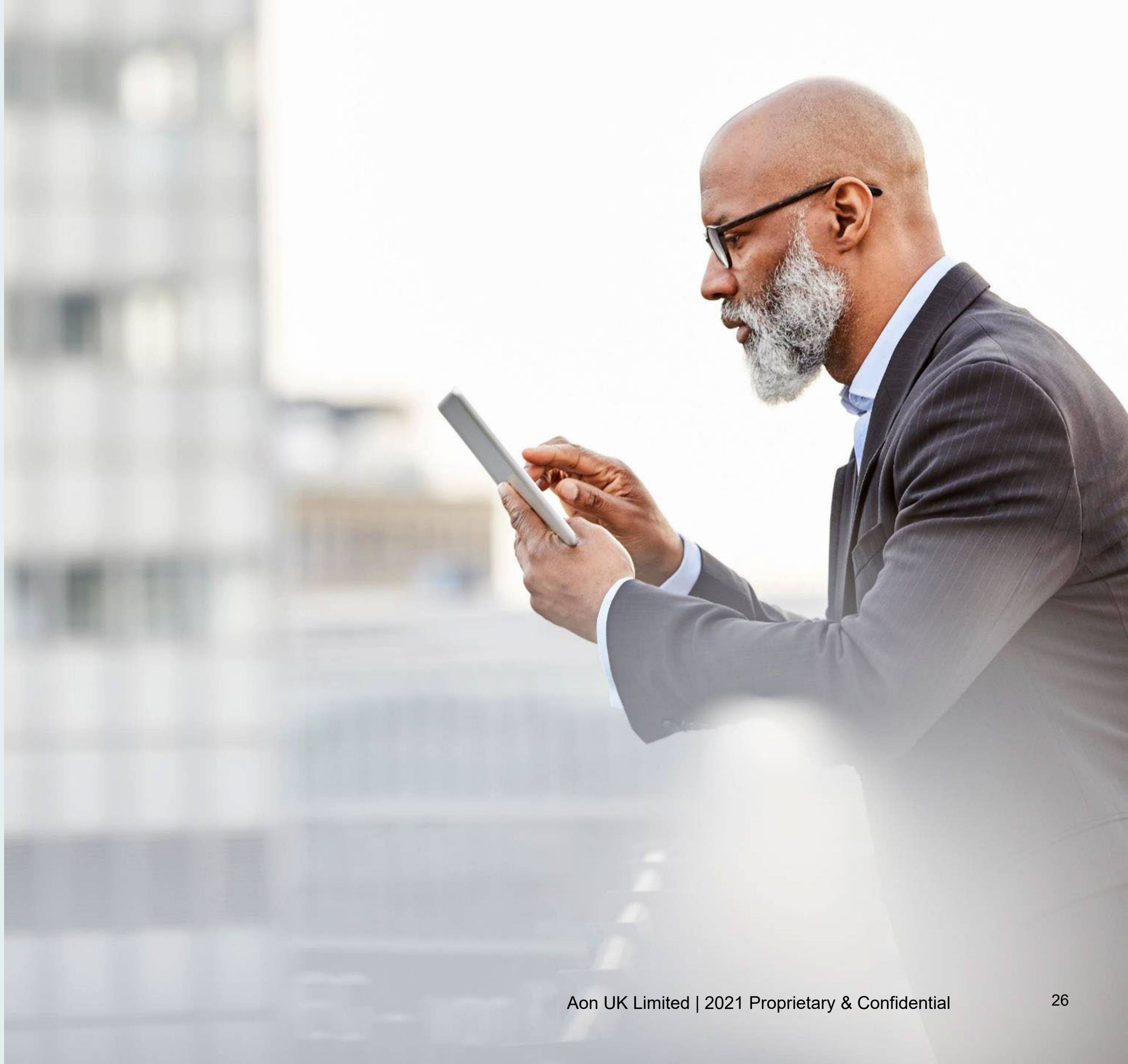
- Assumptions/figures as of 25 January 2022
- Investment growth post retirement of Inflation at 2% plus 1.5% (net of charges)
- Fund taken via Flexi-Access Drawdown in equal instalments to age 90
- Fund eroded at age 90
- Income required from fund increases by 2%pa
- State pension increases by 2.5%pa
- State pension commences at age 66
- Assumes full State pension is received by individual and spouse at same time (from age 66)
- Assumes full personal allowance available on income for main individual only
- Assumes Income Tax at 20% on excess over personal allowance
- Assumes spouse only has State pension as income

Points to consider

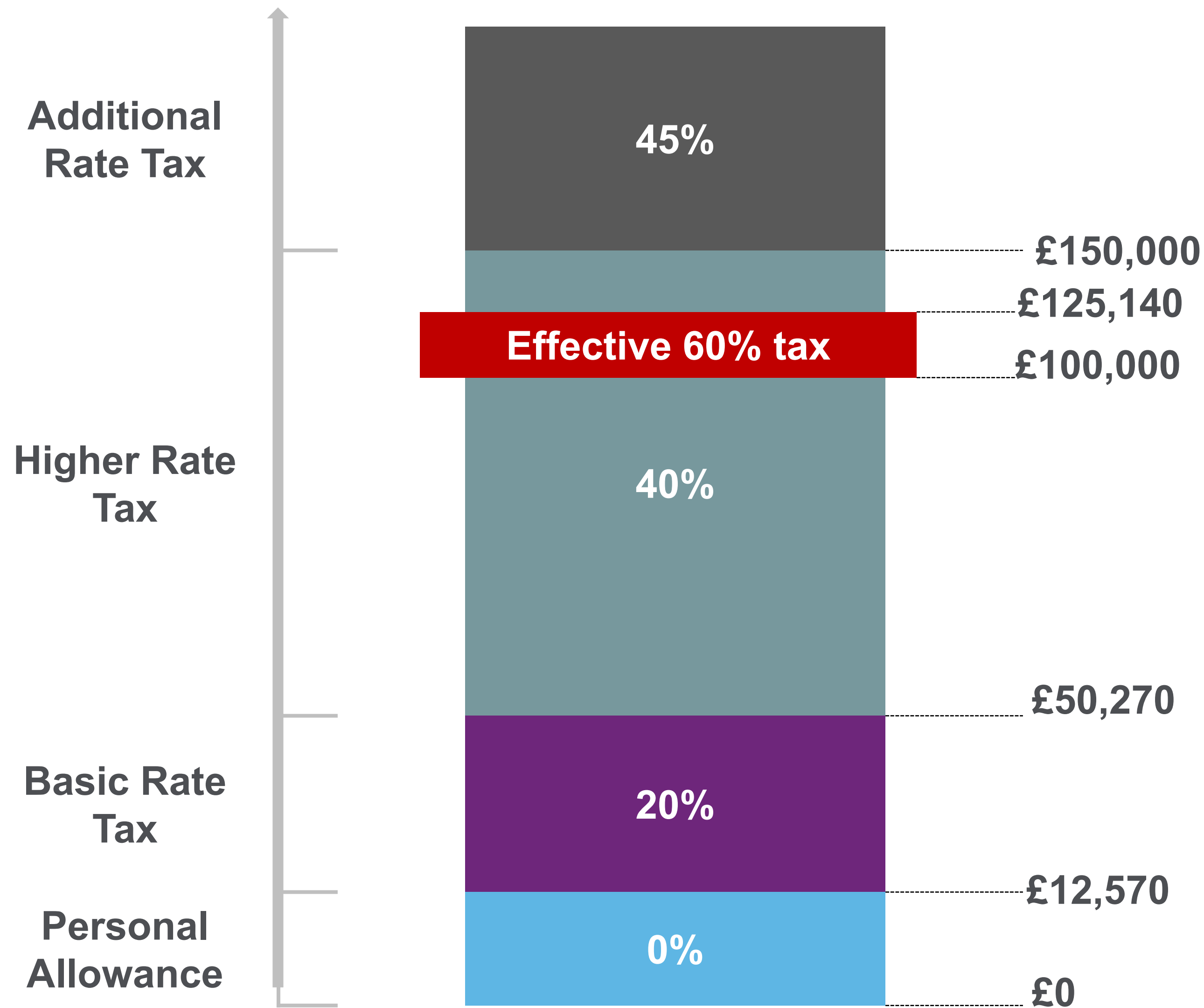
Things to remember and consider:

- Your required income in retirement does NOT have to be funded purely from the pension(s) you have in place
- You may have savings and other investments that could be used
- You could potentially run out of money if you have an insufficient fund or take too much income from your pensions and savings
- However, the purpose of saving for retirement is to have an income to support you when you have no work income so don't over worry if your savings and pensions reduce in value
- If you take a PCLS from your DB pension this will reduce the amount of regular income you receive
- If you take a PCLS from your DC pension this will reduce the amount of pension fund you can use to provide you with income
- Remember that any pension income taken is subject to Income Tax but not National Insurance
- If you choose to flexibly access pension income from a DC fund the fund will continue to be invested **and could go down as well as up in value so you should review where the funds are invested on a regular basis**
- Just because you can afford to retire doesn't mean you have to. HOWEVER if you can't afford to you don't have that choice

Income tax



Income tax rates (UK except Scotland)

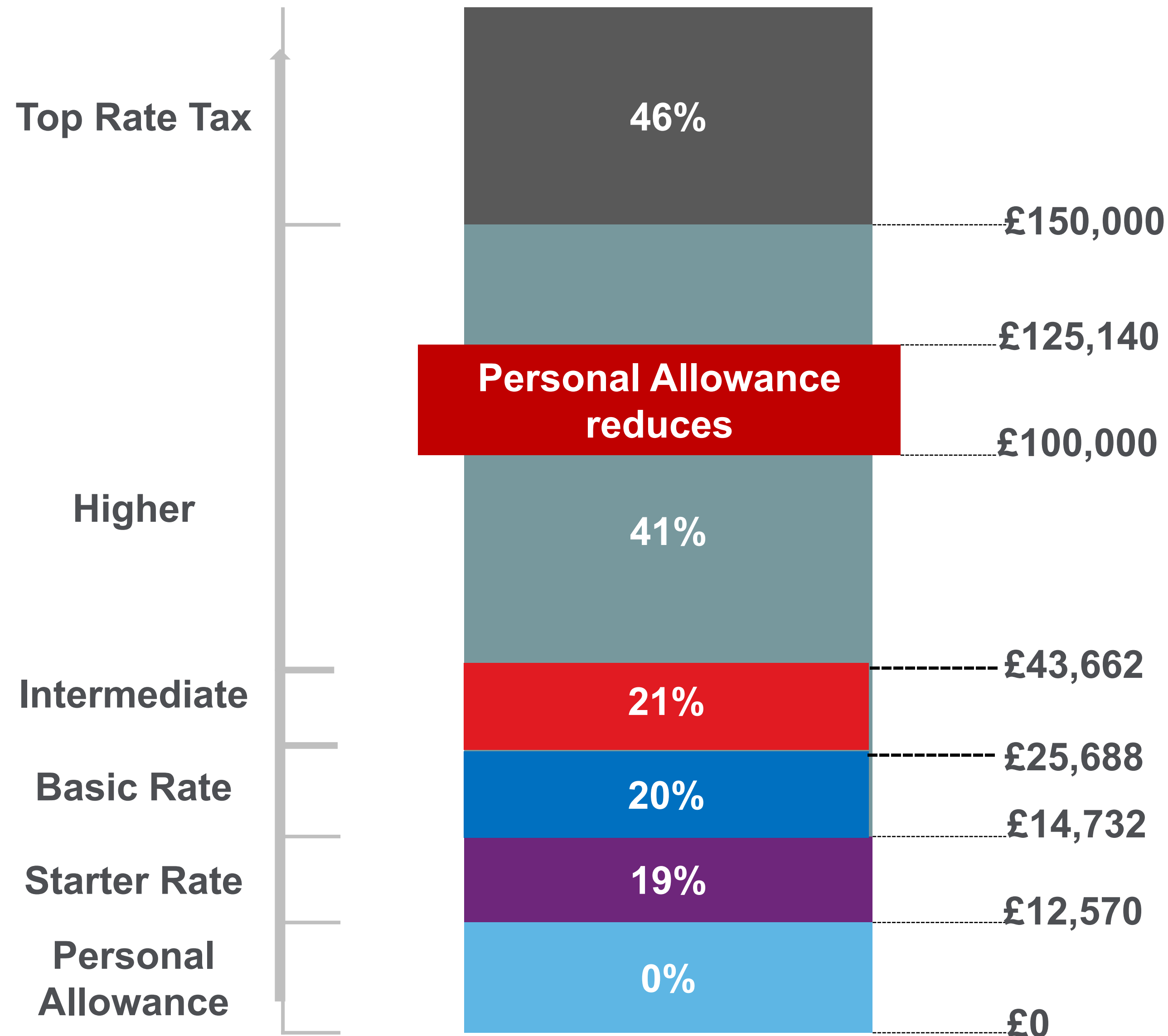


- Personal allowance is reduced by £1 for every £2 of income above £100,000
- When income is £125,140 or more, the personal allowance will be nil
- Effective tax rate for income between £100,000 and £125,140 is 60%*

*This is the case because in addition to paying 40% tax on any income above £100,000, there's the impact of losing some or all of the personal allowance and paying 40% tax on that income too

Tax treatment depends on your personal circumstances. Your circumstances and the tax rules may change in the future.

Income tax rates Scotland



- Personal allowance is reduced by £1 for every £2 of income above £100,000
- When income is £125,140 or more, the personal allowance will be nil
- Effective tax rate for income between £100,000 and £125,140 is 61.50%

This is the case because in addition to paying 41% tax on any income above £100,000, there's the impact of losing some or all of the personal allowance and paying 41% tax on that income too

Tax treatment depends on your personal circumstances. Your circumstances and the tax rules may change in the future.

Additional tax allowances

Personal Tax Allowance
£12,570

Marriage Allowance
£1,260

Personal Savings Allowance
£1,000*

*£500 for higher rate taxpayers,
£0 for additional rate taxpayers

Dividend Allowance
£2,000

Capital Gains Tax Allowance
£12,300

Trading Allowance
£1,000

Rent a room Allowance
£7,500

Property Allowance
£1,000

Consider tax efficient savings

Increasing DC pension value



What should I contribute?

- **As much as you can sensibly afford** within the limits
- In order to meet your **target income**
- Have you taken advantage of the increased contributions available from the RNLI if you make higher levels of contributions?

Contribution levels are in the table below:

Employee contribution*	Employer contribution	Total contribution
2%	6%	8%
3%	11%	14%
4%	12%	16%
5%	13%	18%
6%	14%	20%
7%	15%	22%
8% or more	16%	24% or more

- **Please note:** if you are a member of the **Pre-May 22 Crew Pension Group**, an alternative pension contribution range is available to you. Members of this Group have an employment start date before 1 May 2022 and have remained in an employed lifeboat crew or Station Manager role (Chiswick, Gravesend, Tower).

You would have been automatically enrolled into the Plan with a contribution of 2% of your pensionable pay

The RNLI will contribute 6%, resulting in a total contribution of 8% being paid.

Your contribution of 2% will be deducted from your net pay and receive tax relief.

In the second month of Plan membership you will have the option to

- increase your contributions which will result in a higher contribution from the RNLI.
- Utilise salary sacrifice to benefit from NI savings

If you want to review or change your level of contribution, please contact the People Administration team by email People_Admin@rnli.org.uk or by calling **01202 663301**.

Annual Allowance (AA)

- The Annual Allowance for 2022/23 is £40,000 and is calculated based upon total pension contributions from all sources
- If you exceed the AA in any given tax year you are able to 'carry forward' unused AA from the previous three tax years to mitigate the excess that would be subject to a tax charge – although you cannot obtain tax relief on contributions which exceed your taxable earnings in the year you pay them
- If you have a tax charge to pay, this needs to be declared via HMRC's self-assessment process
- The excess is added to earned income and Income Tax at the relevant rate is then payable
- NB: Once you 'flexibly access' DC pension benefits you are subject to the **Money Purchase Annual Allowance (MPAA)** which limits the amount of future contributions to registered DC pensions to an annual limit of £4,000.

You can pay (and receive tax relief on) as much in contributions as you like within your salary.

However, if your payments exceed the Annual Allowance, you may incur an additional tax charge

The Money Purchase Annual Allowance (MPAA)

Watch out if you want to draw benefits flexibly and carry on making contributions

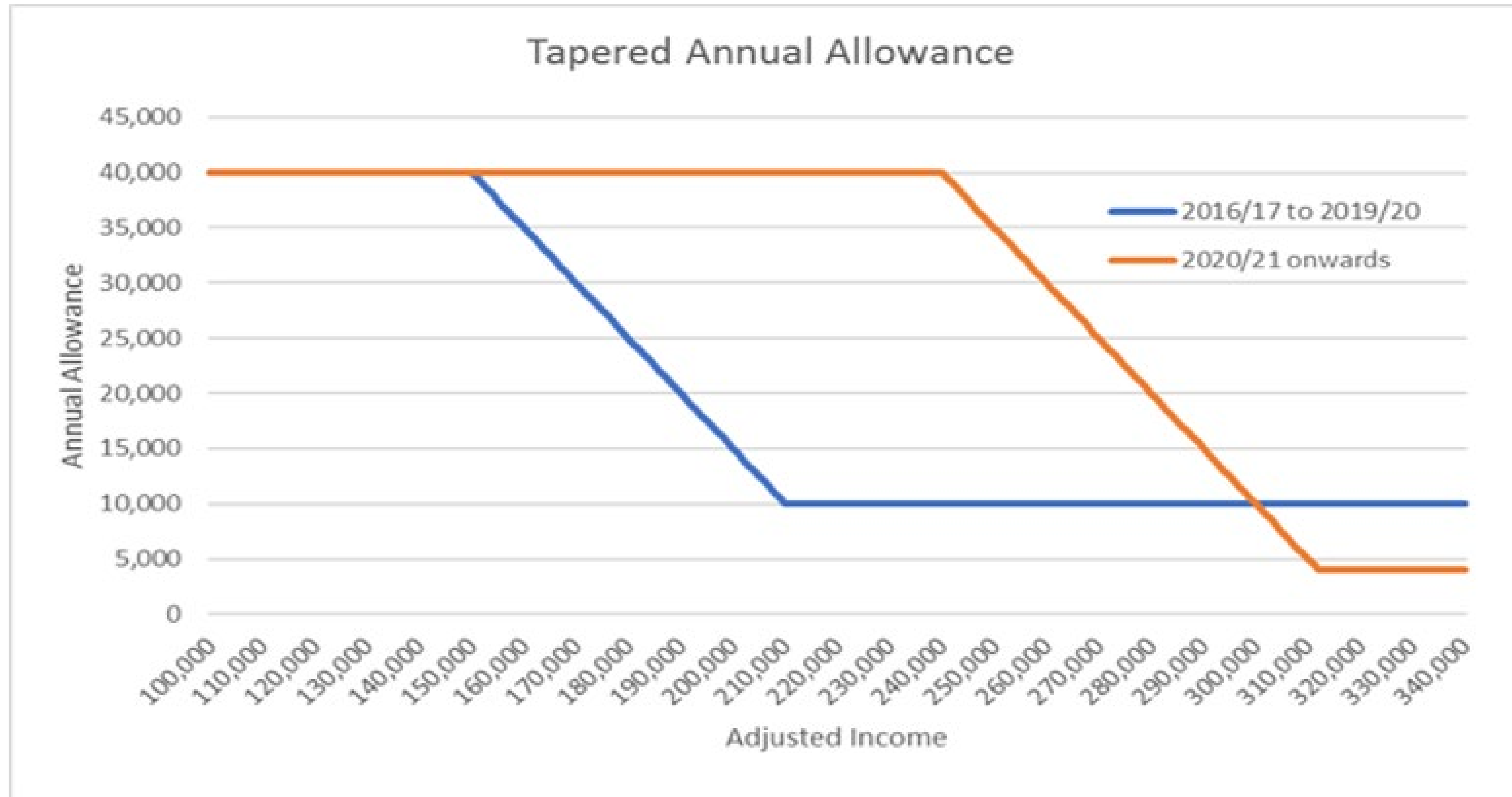
- This is a flat **£4,000** currently
- Unused Annual Allowance **cannot** be carried forward
- Buying a lifetime annuity or taking a final salary pension **does not trigger** the MPAA
- Just taking tax free cash and leaving the remainder untouched in drawdown also **does not trigger** the MPAA

NB: MPAA applies to all future tax years and not just the year flexible income is taken

Tapered Annual Allowance

If you have adjusted income in excess of £240,000 then your Annual Allowance is **REDUCED BY £1** for every £2 of 'adjusted income' above £240,000, to a minimum of £4,000. 'Adjusted income' is your yearly taxable income, plus pension contributions.

If adjusted earnings exceeds £312,000 then your AA will reduce to the minimum level of £4,000 (previously £10,000 up to 2019/20 tax year)



Lifetime Allowance

The Lifetime Allowance applies to the total amount of pension savings you can build up before any Lifetime Allowance excess tax charges are applied

The Lifetime Allowance is £1,073,100 in 2022/23 and has been frozen at this level until 5 April 2026

Lump sum life assurance benefits from a 'Registered' Group Life scheme are also included

- Any excess over the Lifetime Allowance will be subject to a tax charge:
- 55% if the pension fund is taken as a lump sum
- 25% if the pension fund is taken as income plus tax on this income at your marginal rate

How to calculate the value of your pensions

- Value of defined contribution/money purchase funds
- Value of defined benefits equal to 20x pension plus any tax free cash taken
- Test carried out when benefits crystallised and also allows for benefits previously drawn from other pension arrangements



QUESTIONS

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