Class of 2022

by abrdn

An in-depth review of the plans and preparedness of 2022's retirees – brought to you by the financial planning experts at abrdn

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Welcome to the Class of 2022 report by abrdn

Our second iteration of the **Class of** report series paints a picture of what the Class of 2022 have in store for their retirement – from how they plan to spend their time to how prepared they are for what is to come.

We've also spoken to those who retired in 2021 to see how they've got on in their first year of retirement and if there's anything they'd do differently.

The **Class of** series surveys 2,000 UK adults who are either planning to retire in the next 12 months, or who had retired in the 12 months prior. We will continue to build on data year after year – providing a detailed view of how the UK retires.

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Welcome to the Class of 2022

"We hope to inspire today's and tomorrow's retirees, getting them excited about what lies around the corner and instilling confidence in them."

Colin Dyer
Client Director at abrdn

We're back again to look at what we believe is one of the most significant life events we can go through as adults – retiring.

Moving into this new life stage is a monumental moment and is a decision that many will have worked towards for years and years. But despite common assumptions, it doesn't have to mean slowing down, with an increasing number using it to start afresh and look at new opportunities.

Our latest **Class of** report delves into the attitudes and readiness of those who will retire in 2022, identifying what worries or excites them most and if they feel prepared for what is to come. We also chart the emergence of trends, particularly the rise in 'flexi-retirement' – people choosing to do some form of work even after they have officially 'retired'.

We want to use our latest research and insights to paint a detailed picture of what it's like to retire in the current environment. For those on the cusp of retiring, making the decision to go ahead with it is already one of life's biggest transitions, but more than ever people are understandably finding it unnerving.

We hope the latest findings and insights from our research help to inspire today's and tomorrow's retirees, getting them excited about what lies around the corner and instilling confidence in them.

"Thinking about your legacy can be a vital part of planning for the future, and for many people at retirement age it can help give confidence and peace of mind."

Shona Lowe
Financial Planning Expert at abrdn

Through our advice service, we help customers create a plan so they can enjoy their retirement to the fullest.

This means ensuring they can have a comfortable retirement and meet their own personal needs, but also carefully planning so that they can leave family and friends provided for.

Wills, pension nominations, powers of attorney, trusts and inheritance tax planning are all relevant here – but all are things people put off.

In this year's report we've also looked at the hopes and wishes of the Class of 2022 when it comes to leaving something behind for their loved ones and how prepared they are.

This can be a vital part of planning for the future, and for many people at retirement age it can help give confidence and peace of mind. We want to encourage more people to plan their legacy now.

Who are the Class of 2022?

Shining a spotlight on this year's retirees

The Class of 2022 come from a range of backgrounds and across the country – each have their own retirement ideas, concerns and ambitions.

It's clear that the pandemic continues to significantly impact retirement plans and the 'meaning' of retiring for our soon-to-be-retirees – with it now being less and less about giving up work altogether.

Who are our Class of 2022, and what does retirement, and its preparation, look like for them?

What have the Class of 2022 saved?

£385,000 is the average amount in pension pots

One in five (21%) have less than £100,000 in their pension

£293,000 is the average amount in savings and investments

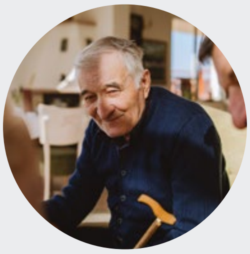
More than a quarter (28%) have less than £100,000 in savings and investments

More than half (55%) are retiring earlier than planned – with top reasons being:

22%
Making the most of their time following Covid-19

17%
Looking after grandchildren

11%
Not wanting to commute for work



A fifth (20%) are retiring later than planned – with top reasons being:

20%
Not having enough saved

19%
Not wanting to retire during Covid-19

16%
Enjoying a better work / life balance during the pandemic

Two thirds (66%) of the Class of 2022 plan to continue working – with their plans being:

24%
Go part-time at either their current or a new employer

15%
Continue to work for their own business

14%
Do some volunteering

12%
Start their own business

Ready, set, retire

How ready is the Class of 2022 for what's to come?

Retirement planning is complex and multi-faceted – from knowing how you'll meet day-to-day expenses or pay for future care costs, to having a plan for passing on money to loved ones.

The Class of 2022 will need to tackle all of these considerations alongside contemporary challenges including the long-term impact of the coronavirus pandemic and rising inflation.

Confidence in financial readiness to retire has fallen

Only a quarter of this year's retirees feel very confident they have saved enough to fund their retirement – **compared to nearly a third (30%) of the Class of 2021**.

The rising cost of living is a key factor in this drop in confidence – **with more than a quarter (27%)** saying they don't know how to mitigate the impact of inflation on their retirement income.

When it comes to funding their retirement, one in five **(20%)** will use their **State Pension** as their main source of income. For others, their main income source will be:

15% Savings / investments

13% Defined Benefit / final salary pension

12% Private pension pot

12% Defined contribution workplace pension

Despite the State Pension expected to increase by 3.1% in April, inflation is currently surpassing 5% – **meaning the value of the State Pension is also declining in real terms**. That's why beating the rising cost of living through clever decisions and professional support has never been more important!

How much is needed above the State Pension to fund retirement?

With the current full State Pension value for 2021-22 being £9,339 per year, we've taken a look at how much extra the Class of 2022 will need as an individual to meet the various retirement lifestyles set out by the Pension and Lifetime Savings Association's (PLSA) Retirement Living Standards.

	Income needed on top of State Pension (per year)	Income needed on top of State Pension (30-year retirement period)
Minimum Covers all your needs, with some left over for fun	£1,561	£46,830
Moderate More financial security and flexibility	£11,461	£343,830
Comfortable More financial freedom and some luxuries	£24,261	£727,830

Note: the standards assume that individuals are mortgage and rent free. For more information on how the standards are generated, please visit: www.retirementlivingstandards.org.uk/details.

Please mind the (advice) gap

How can we encourage more people to seek advice and open up about retirement?

Seeking help with retirement planning can make what is perceived to be a complex and emotive process much easier to manage.

Our Class of 2022 rely on a wide range of sources to help shape their retirement ambitions – from friends and partners to their employers.

When it comes to discussing retirement, the Class of 2022 are most frequently turning to:

39%	28%	23%	19%
Partners	Children	Friends	Employer / boss

But few are benefiting from speaking to professional advisers:

Less than a fifth **(18%)** have sought advice from a professional adviser about their plans to retire.

However, soon-to-be retirees have been more open to seeking professional help on topics such as estate planning **(30%)**, debts **(29%)** and the rising cost of living **(20%)**.

One in ten **(9%)** haven't spoken to anyone about their plan to retire this year.

What have the Class of 2022 done to prepare for retirement?

- ✓ Just **16%** have mapped out how they'll make their money last
- ✓ One in five **(20%)** have made a will
- ✓ Only **15%** have looked at how their savings can outpace inflation
- ✓ **15%** have consolidated their pensions
- ✕ **5%** have done nothing to prepare for retirement

Gerard and Jacqueline's story

A retired library assistant and teacher from Dundee

"My wife and I sought advice to understand if it would be financially possible for us both to retire. She had retired the year before with a company final salary scheme, and I was keen to know if I could follow.

"Our adviser worked with us to check if our regular spending patterns would be achievable in retirement, while also helping understand how to mitigate the impact of inflation on our finances and structure our income in the most tax-efficient way.

"The plan we developed was stress tested against a number of different scenarios – from another market crash to how bereavement would impact our finances – to give us the comfort that we were ready no matter what.

"We really valued having that extra bit of support from an adviser when thinking about our future. Ultimately, it meant we felt more in control of our finances and could confidently make the decision to move into that next stage of our lives."

NB: Every person's circumstance is unique and will require individual advice. What was right for case studies quoted throughout this report might not be right for you.

Aspirations and apprehensions

A look at how the Class of 2022 will approach retirement

No two retirements are the same – every one of our Class of 2022 has their own hopes and ambitions.

For some, years of hard work and the daily grind of early starts and late nights means they can't wait to retire their daily alarm clock. For others, this will be a time for family or new hobbies.

Three things the Class of 2022 are looking forward to are:

The freedom of their own schedule	Spending more time with friends and family	Taking up new hobbies or learning new skills

Worries the Class of 2022 have about retiring are:

Staying healthy so they can enjoy retirement	Getting bored	Another lockdown

Relocation, Relocation, Relocation

72%
of the Class of 2022 will relocate in retirement.

19%
will move closer to family – while **15%** might even move in!

31%
will downsize – either to free up space **(15%)** or make money **(16%)**.

23%
City life is a popular choice for retirees – with **23%** wanting to retire in a city.

15%
are ready to wave goodbye to the UK and will move abroad.

Have the Class of 2022 put money aside for later life care?

Although most would prefer not to think about old age and are more focused on enjoying their newfound freedom, later life care is something that many will need so it's important to prepare for that financially.

31%
of retirees don't know how to prepare for care costs in later life.

27%
have no plans to hold money back for care costs.

8%
would rather enjoy spending their money than saving it for care.

9%
will rely on selling their home to fund any later life care costs.

5%
believe the government will be able to fund it all.

Planning beyond retirement

Planning ahead and ensuring the best for loved ones

The Class of 2022 worked hard for their money, so they want to make the most of it, enjoy it and make sure it's meeting their retirement needs.

However, when the time comes, many will want to consider how to maximise the amount of wealth they can pass on. But how many have thought that far ahead?

One in 10 (9%)
have already started gifting wealth to friends and family to reduce their inheritance tax bill.

Just 23%
feel very confident in knowing how they will pass on any leftover assets to loved ones.

Only 30%
have had conversations with their partner about passing on their estate, while just **26%** have spoken to their children about it.

Three simple steps to calculating IHT

Shona Lowe, financial planning expert from abrdn

By following these three steps, retirees can get an idea of their potential inheritance tax liability. Remember that this is just a guide.

01 Add up your assets

Add up your assets, taking into consideration everything from your home and any other property to cars, motorhomes or boats, cash savings and investments. Don't forget to also include life insurance that pays to your estate, anything you've inherited – and finally – any gifts you've made in the last seven years. If you're married or in a civil partnership, you should do this separately and each include half the value of any joint assets.

02 Consider loans / debts

Calculate any loans or debts you may owe. That includes any mortgages (just your share of it), personal loans, credit card debts or overdrafts.

03 Calculate what your estate may have to pay

If you're not married or in a civil partnership, to work out your potential inheritance tax bill you now need to deduct the nil rate band (currently £325,000) and multiply the answer by 40%. If you have a spouse or civil partner, combine your estate values together and then deduct your combined nil rate band (£650,000) and multiply the answer by 40%.

And there you have an estimate of your likely IHT bill – it's as easy as that!

For more information about tax planning, passing on wealth and much more, read our wealth management guide **here**.

NB: Laws and tax rules may change in the future, and the information here is based on our understanding in February 2022. Individual circumstances also have an impact on tax treatment and the above will not take into account all factors.

How are the Class of 2021 getting on?

What has retirement looked like for those that retired in 2021?

Despite the challenges of living through a pandemic, we reveal what the Class of 2021 are enjoying the most about their first year of retirement – and what guidance they'd offer to those about to make the transition.

The top 3 things the Class of 2021 are enjoying most are:

01 Having spare time (26%)

02 Spending more time with the family (25%)

03 Being able to dedicate more time to their mental and physical health (22%)

The best 3 things the Class of 2021 did ahead of retiring were:

01 Consolidating their pensions (24%)

02 Seeking financial advice (22%)

03 Saving more into their pension in the years immediately preceding their retirement date (20%)

Two-thirds (66%)
said that if they could rewind time they wouldn't have changed their decision to retire in 2021.

Only 13%
had mapped out how much they could afford to spend each year.

Only 14%
looked at how their savings could outpace inflation.

Lessons from the Class of 2021

What can we learn from last year's retirees?

Understanding what this year's retirees have found challenging can help those yet to make the transition better prepare for what's ahead.

The pandemic meant last year's retirees faced a particularly challenging set of circumstances – and many pressures persist.

Spending review – how have budgets fared?

Overall, two fifths **(40%)** of the Class of 2021 are spending more than they'd expected in retirement, with the main reasons being:

- Supporting family members in financial difficulty **(24%)**
- Health costs **(21%)**
- Energy bills **(21%)**

On average, the Class of 2021's retirees expect to need their retirement income to last for **17 years** – despite an average life expectancy of 81 years.

A quarter **(26%)** of those retiring from the age of 55 only expect to need it for 6 – 10 years – with just **5%** planning for an income to last them more than 30 years.

The Class of 2021's top concerns are:

1. Ensuring their income will last throughout retirement **(19%)**
2. Budgeting to meet day-to-day living costs **(18%)**
3. Knowing how to make retirement income tax-efficient **(17%)**
4. Budgeting to pay for the costs of care **(16%)**
5. Knowing how to pass money to family and friends in a tax-efficient way **(14%)**

How long should your money last?

Colin Dyer, Client Director at abrdn

Retirement can potentially last more than 30 years – so it's vital that you are fully aware of how you'll make your money last. And, as always, preparation is key.

You need to determine how much you can afford to spend whilst meeting your retirement goals. But this can't simply be a fixed amount every year – with your needs evolving as you move through retirement.

Everyone's situations will be different, but, by thinking ahead, you can be more confident that your funds will last the course. Here, speaking to a professional adviser can be really helpful.

Read more about making your money last throughout retirement in our free **retirement planning guide**.

Andrew's story

A retired finance manager from North Yorkshire

"Retiring in 2021 was the best decision my wife and I could have made. Being still a way off from State Pension age, we weren't even sure if it would be possible financially – but the impact of Covid-19 and working from home pushed us to do what we could to make it a reality.

"After speaking to a professional adviser at abrdn we were able to check what was possible with our finances. They advised us on everything from inflation-proofing our finances to planning for it to last until at least the age of 90 – things we'd never have been able to consider without their help.

"It turned out we did have enough to retire – and even had some money left to upgrade our caravan!

"One year into retirement and we haven't looked back since – with plenty of trips planned in 2022."

Insights from the Class of 2021 – their retirement learnings

"Devise a plan, stick to it and set your retirement goals."

"If you had more than one job, you may have multiple pensions. Make sure you know how to track down all pots."

"Make sure that your income will last you throughout your retirement."

"Consult a financial adviser."

"Don't be afraid to go for it if you're ready!"

The rise of flexi-retirement

We explore how the meaning of retirement is changing – specifically when it comes to work

Gone are the days where retirement meant stepping back from the world of work altogether. Instead, we're seeing an increasing number of retirees tell us that they intend to do some sort of work even once they've officially 'retired' – a rise in so-called 'flexi-retirement'.

Shifting plans: the world of work

For the Class of 2022, two thirds **(66%)** plan to continue working in retirement, compared to **56%** of the Class of 2021 and **34%** of the Class of 2020.

Three in ten **(32%)** of the Class of 2022 planning to reduce their hours or get a part-time job when they retire say they are doing so because they want something to keep them busy. A further three in ten **(31%)** say they will need the income.

Meanwhile, while work wasn't orginally part of the plan for many of the Class of 2021, plans have changed for some since retiring. **22%** have or now plan to set up a business, while one in five **(19%)** have or will return to work part-time.

A third **(32%)** of the 2021 retirees still working have or will take on ad hoc jobs in the gig economy.

For those in the Class of 2021 who are, or plan to, work in retirement, the main reasons were:

01 Mental health benefits **(35%)**

02 Making up the loss of falling investments **(25%)**

03 To meet rising costs of living **(22%)**

Seeking support and guidance

Two fifths **(41%)** of the Class of 2021 working in retirement sought financial advice on the decision, while only **28%** of the Class of 2022 planning to work in retirement have received financial advice so far.

Meanwhile, just a quarter **(25%)** of the Class of 2022 are aware of the potential tax implications around taking from their pension while still working.

Deborah's story

A retired financial services relationship manager from Northumberland

"When I was in full-time work, I used to keep telling myself that retirement was 12-18 months away. However, after the pandemic hit, my job moved from being in the office to being permanently home-based, which just didn't suit me at all. So, when my company extended redundancy packages in my division, I jumped at the chance to retire, finally doing so in December 2020 at the age of 62.

"I knew that I wanted my retirement to include some sort of work, as I'm a person who thrives on structure. In January 2021, I began volunteering one day a week for the Citizens' Advice Bureau (CAB) – a perfect way for me to continue using the skills and knowledge I built up through a career in financial services. I also now volunteer one day a week at the food distribution charity FareShare.

"Taking financial advice was very important to me being able to retire when I could. With my adviser we were able to set up a flexible income plan that would allow me to 'frontload' some of my retirement income before I can start to access my state pension. This gave me the flexibility to retire when I wanted to, and now means I can choose what type of work I do, and how much of it I commit to."

Our guidance for tomorrow's retirees

"Whether it be setting up businesses, pursuing a 'flexi-retirement' and working part-time or doing whatever it is that makes them happy, the Class of 2022 shows that retirement really is what you make of it."

Change is needed to instil greater confidence in retirees.

The decision to retire is not one to be taken lightly. Significant thought and preparation are needed for this major transition.

It could be easy to presume that the lack of confidence we've seen once again in those about to retire is a direct consequence of Covid-19 and other economic pressures, such as the rising cost of living. However, our conversations with clients approaching retirement would suggest this feeling of uncertainty when making such a big decision was the case long before before these challenges began.

That is until they spoke to professionals – with greater confidence and reassurance coming from having a tailored plan for retirement.

At abrdn, we support people every day with advice around their retirement plans. But we know that there are still high numbers of people not seeking professional help. Many people are not even discussing retirement with loved ones, let alone with someone outside of their nearest and dearest, such as a qualified financial adviser.

Speaking to an adviser can help set retirees up for a better retirement both financially and emotionally, and help them feel more confident as a result. And a key part of that emotional wellbeing comes from having taken control of both their own financial future and that of their loved ones, whether gifting money or carefully planning the legacy they want to leave.

One thing that's encouraging to see is that retirees are continuing to challenge the norms when it comes to enjoying retirement. Whether it be setting up businesses, pursuing a 'flexi-retirement' and working part-time, or doing whatever it is that makes them happy, retirement really is what you make of it.

The coming year will present its own hurdles that retirees will need to navigate. But we look forward to seeing how the retirement journeys of our Class of 2022 have progressed when we revisit them in our next edition, as well as what exciting plans our next group of retirees have – the Class of 2023.

Most importantly, we hope to see a positive change in the numbers seeking advice and we will continue with our mission of ensuring even more people get the support they need to enjoy the retirement they've worked hard for.

Colin Dyer

Client Director

About abrdn

At abrdn, we empower our clients to plan, save and invest for the future.

With £532 billion of assets under management and administration (as of June 2021) by abrdn, we strive to help people across the UK plan for their financial futures.

Our UK-based financial advisers are on hand to speak face-to-face, online or by phone to offer advice on retirement, investments and wealth management – supporting you with everything from retirement planning to navigating the intricacies of taxes, trusts and estate planning.

Meanwhile, our digital investing services aims to help people do more with their money than they ever thought possible. This includes our Stocks & Shares Individual Savings Account (ISA) – a simple tax-efficient way to invest, and to give your money the potential to grow to meet your financial goals.

The value of investments can go down as well as up, and could be worth less than originally invested. Laws and tax rules may change, the value of tax benefits will depend on individual circumstances. Any examples used throughout this communication are for information only, and not providing advice. Each client's circumstances will be unique and require tailored advice.

For more information on financial advice, click **here**.

Explanation of methodology

Consumer research of 2,000 UK adults who were either planning to retire in the next 12 months, or who had retired in the 12 months prior.

Research was conducted by Censuswide in late November / early December 2021

Contact us:

For more information about abrdn and how we can help you plan and navigate retirement and get the most from your wealth, savings and investments, please visit **abrdn.com/individual**.

For further information on the report findings, methodology, or for press enquiries, please contact:

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