Weathering the storm: The impact of the cost-of-living crisis on pensions and retirement plans

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The rapid rate of inflation over the past 12 months has led to a cost-of-living crisis unlike anything seen in the UK for almost half a century. Many will not have experienced an economic climate as challenging.

The Consumer Prices Index (CPI) increased by 9.4% in the 12 months to June 2022, according to the Office for National Statistics. But the worst is yet to come; when the energy price cap rises again in October, experts are predicting that the CPI could hit 13% or higher.

Rewind a year, in August 2021, the Bank of England stated that inflation would, in the short-term, be more "pronounced" than expected but that it would still be transitory. In November last year, it was still predicted that inflation would peak at 5% in 2022 before cooling off.

On each of those occasions, the Bank of England had voted to keep interest rates at a record-low 0.1%. Since then – between December 2021 and August 2022 – the central bank has voted for six consecutive base rate hikes, the latest by 0.5%, resulting in a rise to 1.75%.

Evidently, inflation is not as transitory as economists had hoped, with the cost of living rising far more steeply than expected a year ago. Rather, the current economic conditions represent a major challenge for people across the UK, with the expectation that the crisis will get worse before matters improve in 2023.

Inflation has reached 9.4% and could rise to over 13% by the end of 2022.

However, what impact is this having on pension planners and retirees?

My Pension Expert has commissioned new, independent research to find out. A survey of 1,254 UK adults was carried out through the market research agency Opinium between 29th July and 2nd August 2022 – the nationally representative sample included 788 respondents who, at the time of the survey, were aged 40 and above and in full-time or part-time work, and a further 466 who were retired.

This timely quantitative study uncovers the true impact of the cost-of-living crisis on those preparing for or in retirement. The findings of the research are detailed in this report.

Key findings at a glance

Of the 788 UK adults aged 40+ and in part-time or full-time work:

- 7% have come out of retirement in 2022 to re-enter the workforce due to inflation pressures
- 21% have delayed their retirement date because of the cost-of-living crisis
- 37% feel retirement is an impossible dream right now
- 67% say their pension savings and investments are failing to hold their value against inflation
- Just 13% have spoken to an independent financial adviser about their pension strategy during the cost-of-living crisis

Of the 466 UK adults in retirement

- 12% say the cost-of-living crisis has upended their retirement plans
- 34% are worried they will not be able to sustain their desired lifestyle in retirement due to the cost-of-living crisis
- 6% think they will need to 'unretire' in the coming months to bolster their retirement finances further
- Less than half (46%) are confident in their current retirement finance strategy
- Just 5% have spoken to an independent financial adviser about their retirement finances during the cost-of-living crisis

The rise of unretirement

My Pension Expert's research contains many significant insights. Chief among them is the finding that a sizeable number of adults in the UK have come out of retirement to resume work as a result of the cost-of-living crisis.

Indeed, 7% of the over-40s we surveyed said they had 'unretired' in the first seven months of 2022 because rising inflation meant they had to – or wanted to – earn more money for their retirement.

Add to this, 6% of those in retirement told us that it was likely they would come out of retirement in the final months of 2022 because inflation had rendered their savings insufficient to sustain life after work.

This is a stark finding, underlining just how far-reaching the consequences of the cost-of-living crisis are. People work and save over many decades to one day retire with enough money to sustain their desired lifestyle. However, as inflation rises sharply, people's retirement savings will not stretch as far – if this trend continues for another 12 months, the "buying power" of people's pension pots could be greatly diminished.

As a result, our research highlights that the workforce could be flooded with people in their 50s and 60s coming out of retirement as they seek to bolster their finances.

Furthermore, for those not yet retired, the cost-of-living crisis is still having a major impact on their plans. My Pension Expert's survey found that 21% of over-40s currently in work have delayed their retirement date because of the cost-of-living crisis. A startling 37% said that retirement now seems an impossible dream.

Notably, it is not just those in their 40s or early 50s who feel retirement is out of reach at present; the exact same number of over-55s as 40-54-year-olds (both 37%) said retirement seems unrealistic right now.

Changing pension strategies

Focusing on those still working full-time or part-time, our study found that many are changing strategies where their pensions and retirement investments are concerned. Yet there is not a common consensus on the action being taken.

Similar numbers have opted to increase (13%) their pension contributions in 2022 as have chosen to decrease them (11%). The majority (76%) have made no changes.

Only one in three (33%) workers aged 40 and above say their pension savings and investments are currently holding their value against inflation. Moreover, 7% have moved money into other investments in 2022 to try to achieve returns that can match or beat inflation.

However, despite many pension planners opting to increase or decrease their contributions or changing their investment strategy more drastically, My Pension Expert's research found that very few have sought advice. Indeed, just 13% of over-40s in work have spoken to an independent financial adviser about their pension strategy in 2022.

Only 33% workers aged 40 and above say their pension savings and investments are currently holding their value against inflation.

Upending retirement plans

As established, many people are reversing or delaying their retirement decisions. For those in retirement, further difficult decisions are having to be made.

One in eight (12%) retirees in the UK told us that the cost-of-living crisis has "upended" their retirement plans. Further, more than a third (34%) said they are worried they will not be able to sustain their desired lifestyle in retirement due to rising inflation.

Less than half (46%) of UK adults in retirement are confident in their current financial strategy.

As with those in work (7%), a small but not insignificant number (5%) of retirees stated that they have moved some or all their pension savings into riskier investments in the past 12 months in an attempt to help their money hold its value against inflation.

Tellingly, less than half (46%) of UK adults in retirement are confident in their current retirement finance strategy. Men (55%) are more likely to be confident in their strategy than women (37%).

Again, however, My Pension Expert's research revealed just how few people had sought advice in the current climate. A mere 5% of retirees have spoken to an independent financial adviser about their retirement finances during the cost-of-living crisis.

Comment from Andrew Megson

My Pension Expert's Executive Chairman explains why advice is more valuable than ever

"My Pension Expert's research into the impact of the cost-of-living crisis on retirement plans warrants serious attention – not just from those approaching or in retirement, but also from pension advisers and providers as well. The whole industry must take note.

"We are living through an extremely challenging economic climate, with skyrocketing inflation evidently upending people's financial plans, not least when it comes to pensions and retirement finances. This is no more evident than when it comes to the increasingly prevalent trend of 'unretirement': millions of UK adults are returning to work or delaying their retirement.

"Six consecutive interest rates hikes by the Bank of England – designed to curb inflation – would usually be good news for pension planners, improving the performance of their savings. In reality, any improvements in the interest earned on savings will be dwarfed by inflation, which is only going to rise more steeply in the months to come.

"Our research highlights just how many people are worried about – or lack confidence in – their pension plans. And yet so few are seeking financial advice. Make no mistake: this is deeply concerning.

"It is so important right now that people refrain from making any rash decisions that could later damage their financial security. Where pension planning is concerned, in times of economic uncertainty, it is crucial people first review their retirement strategy. Decades of hard work to accrue savings means careful, considered action must be taken to ensure it is protected and performing as well as it could be.

"Speaking to an independent financial advisor is an ideal way of exploring all of the options available, whether that is annuities, flexible-access drawdowns, or riskier investments that could offer more favourable returns in the face of inflation. There is no one-size-fits-all solution; it is about finding the right approach for an individual's circumstances and needs.

"That so few (only 13% of over-40s in work and just 5% of retirees) have spoken to an adviser is likely the result of longstanding misconceptions around the relevance, availability, and cost of advice.

"Firstly, independent financial advice is worthwhile for everyone, not just the super-rich. It will ensure an individual is able to develop the right savings or investment strategy, choose the right pension pots or products, and ultimately achieve a financially secure retirement. Yes, it will incur a fee – but during economically turbulent times such as these, having expert assistance to overcome the challenges of rising inflation and interest rates can be extremely beneficial.

"I would urge all those approaching or in retirement to take stock, assess their finances, and seek independent financial advice as required to ensure they are well equipped to weather the cost-of-living storm."

Andrew Megson
Executive Chairman

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