

Watson Wyatt Pensions reduction in 10yrs

Pension incomes reduced by three quarters in 10 years

New figures from Watson Wyatt show that the average income a pension saver receives has been cut by more than three-quarters in the past ten years.

Lower returns on investments mean that the pension pot after saving for 20 years is less than half what it would have been ten years ago and annuity rates used to convert pension pots into income have also reduced by nearly half over the same period.

Once these two cuts are combined, the resulting income is down by 78 per cent for a man and 76 per cent for a woman, for savings of identical amounts.

For instance, a man who had contributed £200 a month for 20 years in an average with-profits pension policy would have received an annual annuity of £20,513 when retiring aged 60 in January 1997. In contrast a man who retired at 60 in January 2007, having contributed the same amount over 20 years, would receive £4,613 a year.

A woman who had contributed £200 a month for 20 years in an average with-profits pension policy would have received an annual annuity of £17,847 when retiring at age 60 in January 1997. A 60-year-old woman retiring in January 2007, having contributed the same amount over the last 20 years, would receive only £4,209 a year.

Stephen Yeo, senior consultant at Watson Wyatt, said: "The cost of pensions has risen due to lower investment returns, the increased cost of security and greater longevity. People saving for their own pension need to respond by saving more or working for longer.

"Those who are lucky enough to have a defined benefit pension provided by their employer will not be directly affected, though these figures do shed light on why the cost of such pension arrangements has risen so sharply.

"Annuity rates have actually risen over the last year and have fallen by only just over 5 per cent in the last three years combined, but fell steeply in the early part of the last decade. Pension pots are still getting smaller for the same amount of saving and this has cut the pension income for someone reaching retirement by 7 per cent compared with last year."

The figures have been derived by Watson Wyatt using the annual survey of individual with profit pensions by *Money Management* magazine and annuity rates from its own research.

With-profit policies were the most popular medium for pension saving by individuals for most of the period in question. The results using unit-linked policies show a similar pattern and produce an even lower income in 2007.

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