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Pension income falls by more than 70% in just a decade

Personal pension savers are facing an uphill battle in their quest to fund a comfortable retirement, according to the latest survey by Investment Life & Pensions Moneyfacts.

Personal pension maturity values

Its quarterly insight into personal pension payouts revealed that the average personal pension pot has dropped by a staggering 60 per cent over the last decade. According to the survey, someone who had paid £100 gross per month into a balanced managed fund for the preceding 20 years would have built up a pension fund of £40,749 if they retired now, compared with £103,914 if they had retired a decade ago.

Richard Eagling, Editor of Investment Life & Pensions Moneyfacts said: "Given that the last decade presided over a dotcom crash and a credit crisis, it is hardly surprising that pension funds have performed so poorly. However, unless individuals increase their contributions and take greater interest in the returns generated, the next decade could prove just as disappointing."

The situation facing many pension savers would have been even more desperate had it not been for the recent stock market revival, which saw the average pension fund grow by 22.35% in 2009, the highest annual return since 1999.

Pension Income

While the continued decline in personal pension maturity values is disappointing, for those nearing retirement this unfortunately represents only half of the story. Despite the increasing prominence of income drawdown and the so called 'third way', the vast majority of retirees still look to secure themselves a regular income from their pension pots as early as possible via an annuity.

However, annuity rates have been in steady decline for a number of years and when taken into consideration alongside struggling pension fund returns, the situation facing retirees today appears ever more bleak. A combination of falling gilt yields and improving mortality rates have forced the average 65 year old male level without guarantee annuity rate down 28 per cent over the last decade.

Table 1 overleaf highlights the impact that a combination of the two factors has had on average pension income for a male contributing £100 gross per month into a balanced managed fund over a 20 year period and retiring at age 65 with a standard level without guarantee annuity.

The results are more than a little disturbing. Pension income has fallen from £8,998 per annum in January 2000 to just £2,542 in January 2010, a drop of £6,456 or almost 72%. This alarming trend illustrates the need for pension contributions to increase markedly if tomorrow's pensioners are to enjoy the same level of retirement as their predecessors. To achieve the same pension income as someone who retired a decade ago and had been contributing £100 per month gross, those retiring now would instead have needed to save around £355 gross per month.

Mr Eagling added: "Although these figures do little to inspire confidence, they at least serve as a powerful reminder of the investment risks inherent in saving via a defined contribution pension. It is clear from such alarming statistics that if the pensioners of tomorrow are to enjoy the same level of retirement as their predecessors, much has to change and quickly."

Table 1: Average pension income January 2000 - January 2010

Pension fund figures as at 1 January (based on a gross annual premium of £500), source: Lipper
 Annuity figures based on a male annuitant aged 65 buying a standard 'level without guarantee' annuity .

Maturity date	Pension fund value	Annuity rate per £10K	Annual retirement income
January 2000	£103,914	£866	£8,998
January 2001	£ 84,906	£859	£7,293
January 2002	£64,325	£807	£5,191
January 2003	£45,365	£717	£3,252
January 2004	£47,622	£700	£3,333
January 2005	£46,589	£682	£3,177
January 2006	£50,134	£661	£3,313
January 2007	£50,577	£670	£3,388
January 2008	£49,617	£700	£3,473
January 2009	£36,325	£684	£2,484
January 2010	£40,749	£624	£2,542
Ten year change	- 60.7%	- 27.9%	- 71.7%

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