



Germany Fact Sheet

# The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013



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# Introduction

## Key Findings

- **Retirement associations are positive:** people are more likely to associate going into retirement with positive characteristics such as leisure (57%) and freedom (36%) more than negative words such as poverty (21%), insecurity (10%) and ill-health (13%).
- **A negative economic outlook:** 76% believe that future generations will have worse retirements than those currently retired, equal to the 2012 survey. Moreover only 10% expect the economy to improve in the next 12 months, and 21% expect to get personally better off.
- **In reality, early retirement is not the aspiration many see it to be:** 64% of retirees surveyed retired sooner than planned, and of these 63% say they did so due to ill-health, 23% due to unemployment.
- **Transition from the cliff-edge retirement:** Respondents in Germany are gradually moving away from seeing retirement as a time when work stops completely: 43% of full and part-time employees expect to give up all working immediately on retirement, compared with 58% of retirees who stopped working immediately.
- **People expect to be independent in retirement:** The majority expects neither to provide (51%) nor receive (58%) financial support to or from their family during retirement.

## The Survey

The findings used in this report are based on the German responses of a twelve country study, in which 12,000 people were interviewed. Respondents were interviewed using an online panel survey and fieldwork was conducted in January and February 2013. The questionnaire dealt with a wide range of issues covering attitudes towards retirement preparedness, the role of the state and the employer in providing pensions, and the impact of the financial crisis on attitudes to issues such as investment risk and retirement planning.

In Germany, 900 employees and 100 fully retired people were interviewed to provide a contrast between the responses of current workers and those already in retirement. All findings in this report are based on results from Germany unless otherwise stated. The survey did not include the unemployed, long-term incapacitated, homemakers, or the self-employed as each of these groups faces specific challenges in planning for retirement which requires specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working population.

# 1. Retirement landscape

Germany, like many other countries, is facing an acute demographic crisis over the next half-century, with the population set to decline by 17 million over the next 50 years. At the same time the working age population will decline from 50 million to around 26.5 million. In addition, the ratio of people of working age for every pensioner in Germany is predicted to fall to 1.6 in 2050 from 4.1 in 2010. Despite the rebound in the German economy in the wake of the financial crisis which is helping to counter the economic shock on the public pension system, the state will still begin to feel the strain under the weight of the increasing number of retirees in the coming decades. This is more pronounced in Germany than other European countries such as France, which have a higher birth-rate.

Data suggests that state pensions in Germany are three times the size of the economy. Reforms such as an increased retirement age - increasing to 67 between 2012 and 2023 - and taxes on pension contributions are being introduced to make the system more sustainable in the long term, and the result will be to reduce the total level of the state's provision to pensions to below 50% (from about 65% of last income at present).

The government also enacted reforms to stimulate companies and individuals to step into the gap and increase their pension savings. The German government has introduced some incentives to encourage the uptake of private pensions and occupational pensions but, to date, these are insufficient or even counterproductive. As a consequence, an increasing number of employees no longer have an interest in saving to supplement their public pension. In addition, the voluntary individual private schemes that were supposed to take over part of the income replacement function of the scaled down public pensions are marred with high costs and excessive administrative charges. The wage conversion scheme for occupational pensions has proved more successful and could better emulate some of the advantages of social insurance such a joint shouldering of the financial responsibility between employers and employees. Employers can also help their employees in obtaining more favorable insurance conditions by reducing transaction costs, overcoming information asymmetries, and limiting the taxation of labor income.<sup>1</sup>

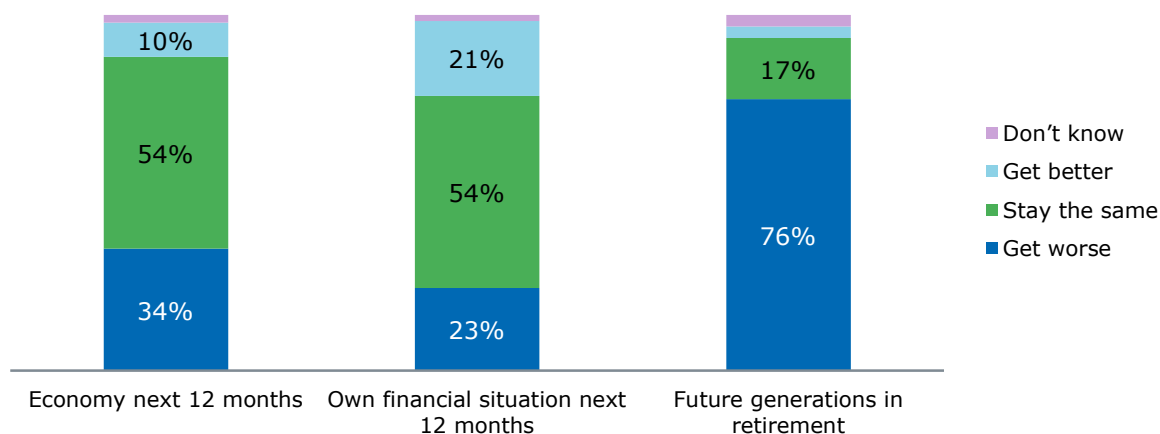
# 2. The growing retirement income shortfall

**Chart 1: Respondents are more optimistic about the present than the future, but still believe their financial situation is getting worse or staying the same.**

Q. Thinking ahead over the next 12 months, do you expect the economy in [COUNTRY] to...?

Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?

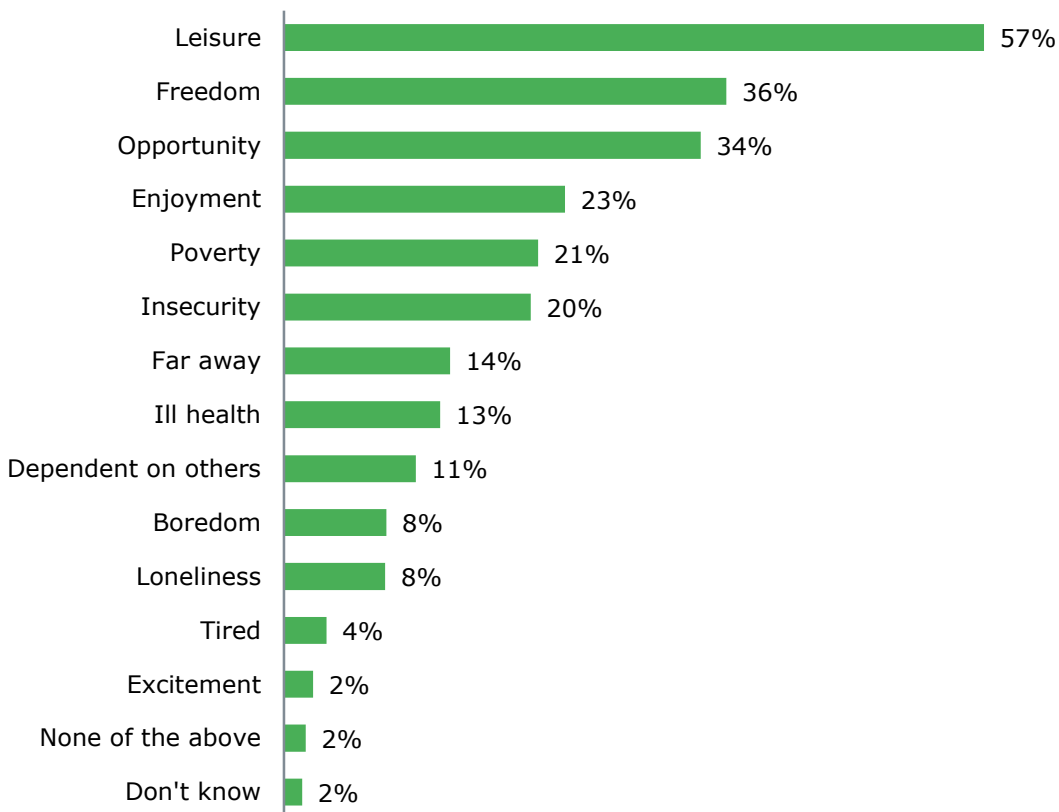
Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



In both this year's and last year's survey, a majority of respondents in Germany believe that retirement will get worse: 76% this year and last future generations will be worse off in retirement than current retirees. This pessimism may be linked to a sense of stagnation or decline around the present: 88% of people think the German economy is going to get worse or stay the same in the next year, and about one fifth (21%) believe they will become personally better off.

**Chart 2: Despite the negative outlook, retirement retains positive associations**

Q. Which, if any, of the following words do you most associate with retirement? Please tick up to three words.



The main associations people have with retirement are very positive: 'leisure', 'freedom' and 'opportunity' being the most mentioned. However, for some, retirement is also associated with 'insecurity', 'poverty' and 'ill-health'.

**Germany is once again first in the AEGON Retirement Readiness Index (ARRI), albeit with lower readiness than in 2012.**

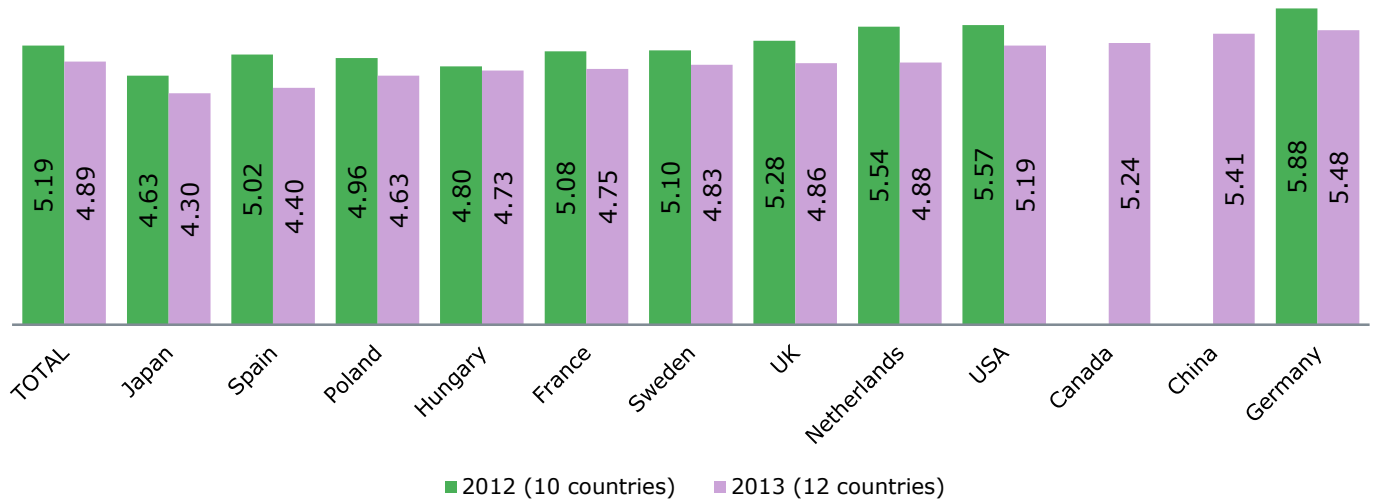
This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- Three cover **attitudes**: whether employees accept personal responsibility for retirement income, whether they're aware of the need to plan for retirement, and whether they understand financial matters
- Three cover actual **behaviors**: the extent to which employees have retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required retirement income.

Responses are then correlated based on their importance in determining a respondent's saving profile, and each respondent is scored out of ten.

### Chart 3: AEGON Retirement Readiness Index (ARRI) by country

Readiness Index created by weighting the responses to six questions related to retirement readiness according to statistical importance

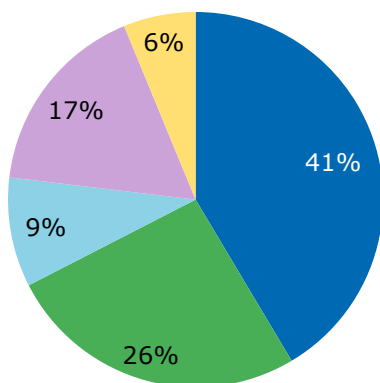


All countries saw their ARRI score fall this year, and Germany was no exception, with a rise in the number of respondents receiving low scores. Germany did not move its position in the rankings compared to 2012. Noteworthy German findings from the questions comprising the ARRI include:

- Three out of ten (30%) employees do not know if they are on course to achieve the income they will need in retirement, including 27% of those approaching retirement age (55-64 year olds) and 36% of women.
- 68% of employees are aware of the need to plan for retirement, yet only 14% have 'very well developed' plans and 9% have no plan at all.
- 67% of German employees are saving for their retirement, while 33% are not currently saving.

### Chart 4: Only 41% of German employees are regularly saving for retirement

Q. Which of the following best explains your approach to saving for retirement? This can include money you contribute to any long-term investment including pensions, stocks and shares, investment-linked insurances, property, etc. Please select the option below that is closest to your view.



- I always make sure that I am saving for retirement
- I only save for retirement occasionally from time to time
- I am not saving for retirement now, although I have in the past
- I am not saving for retirement though I do intend to
- I have never saved for retirement and don't intend to

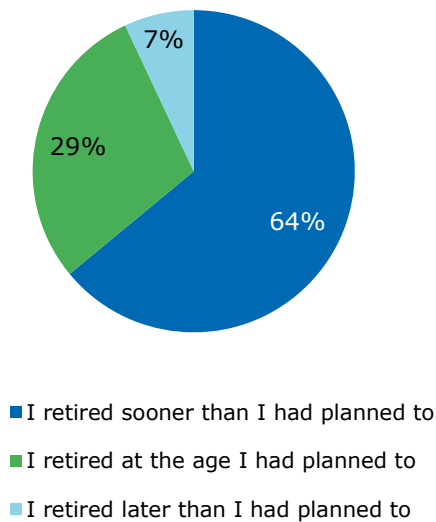
### 3. Dealing with the readiness shortfall

#### 64% of retirees left work sooner than they had planned to, for mostly negative reasons

Whilst retiring sooner than planned is associated with negative reasons such as unemployment and ill-health, the global findings show that retiring later is associated with positive factors such as people enjoying their careers and wanting to keep their brains active.

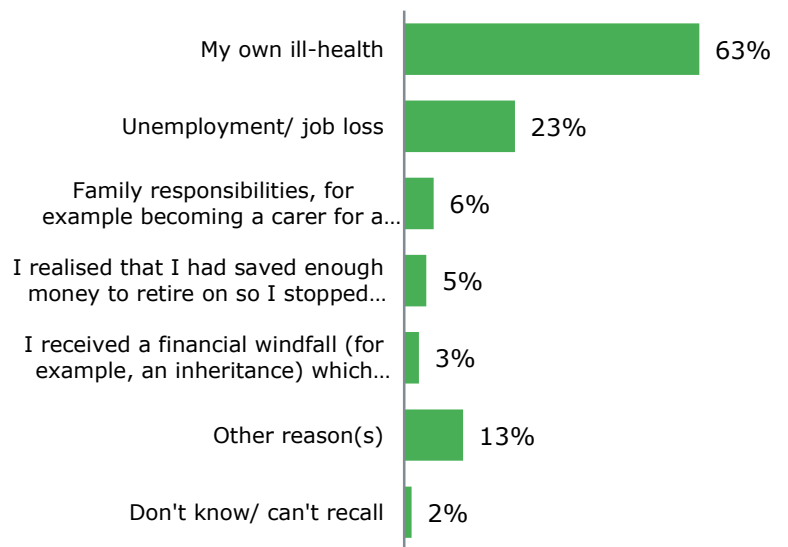
**Chart 5: Retiring sooner or later than planned**

Q. Would you say that you fully retired from all paid employment sooner or later in life than you had planned, or at the age you had planned to?



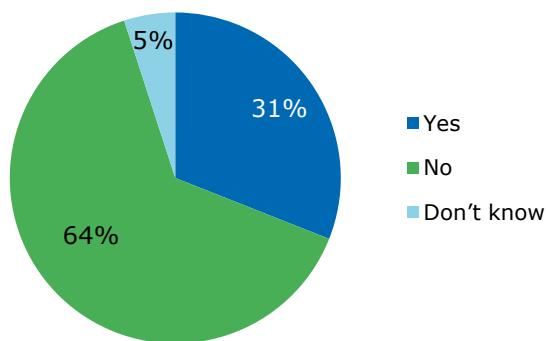
**Chart 6: Reasons for early retirement**

Q. Which, if any, of the following were important reasons in your retirement from all paid employment sooner than you had planned? Please tick all that apply.



#### Chart 7: Despite nearly two-thirds of retirees having done so sooner than expected, 64% of employees have no backup plan for retirement

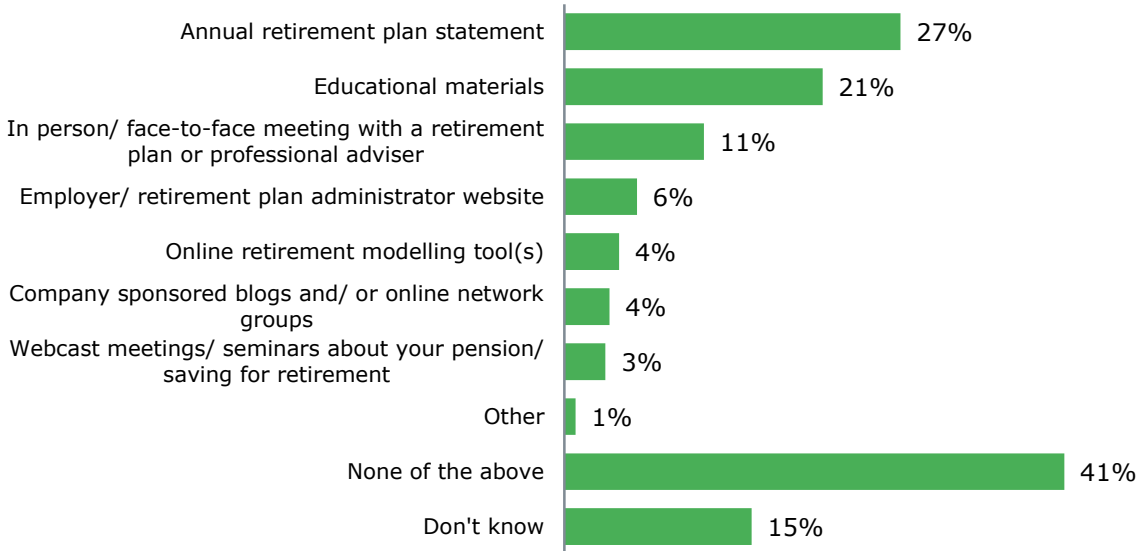
Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income



This finding is concerning since it suggests a lack of financial knowledge among respondents about what will be required to ensure a comfortable retirement: no backup plan means being dangerously exposed to poverty in old age if you find you can no longer work.

**Chart 8: A majority of employees do not know about or receive no retirement planning services**

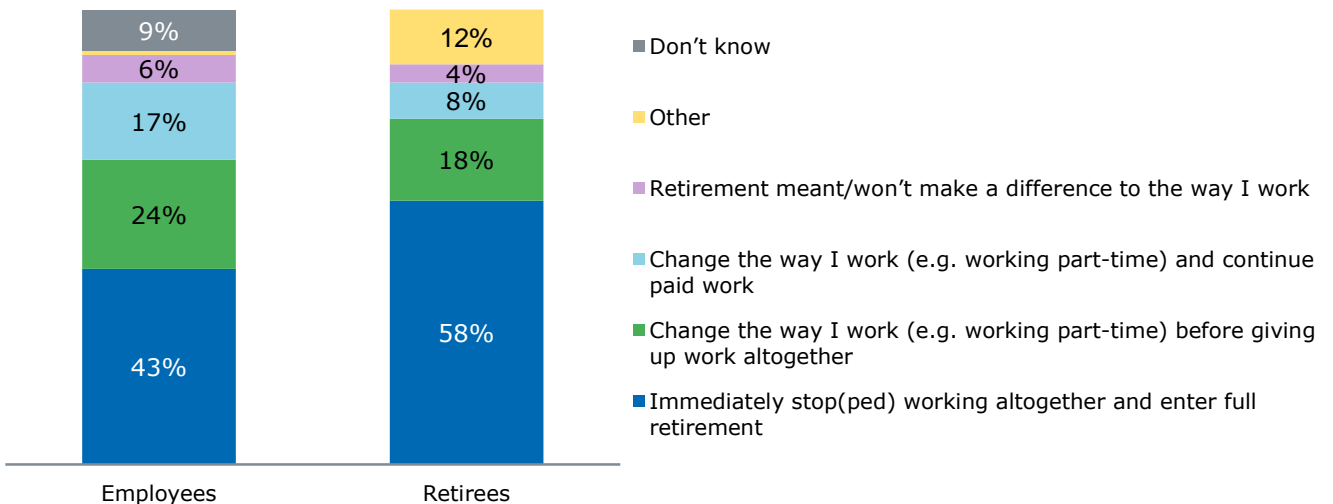
Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer to help you prepare for retirement?)



Annual statements relating to retirement plans should be the norm for anyone with an occupational pension, but only 27% of employees in Germany say that they receive them from their employers.

**Chart 9: There is still a retirement 'cliff-edge' for many in Germany**

Q. Looking ahead, how do you envisage your transition to retirement?  
 Q. Looking back, how did your transition to retirement take place? Please select the response closest to your view.

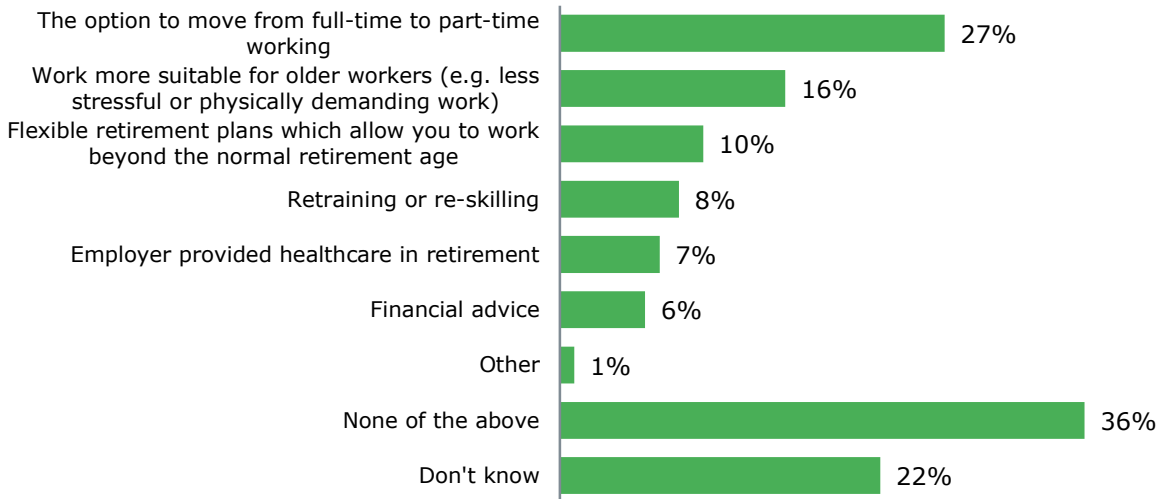


In this year's survey there was less of a contrast in Germany between current retirees, the majority (58%) of whom stopped working completely on retirement, and current employees, 43% of whom plan to do the same (up from 35% in last year's survey).



### Chart 10: Provision of 'Phasing into' retirement services is not the norm

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?



The survey questioned employees and retirees about the services their employers provided to help phase into retirement. Along with the fact that a large proportion of employees say they are not provided with any such services or do not know of them, the results show:

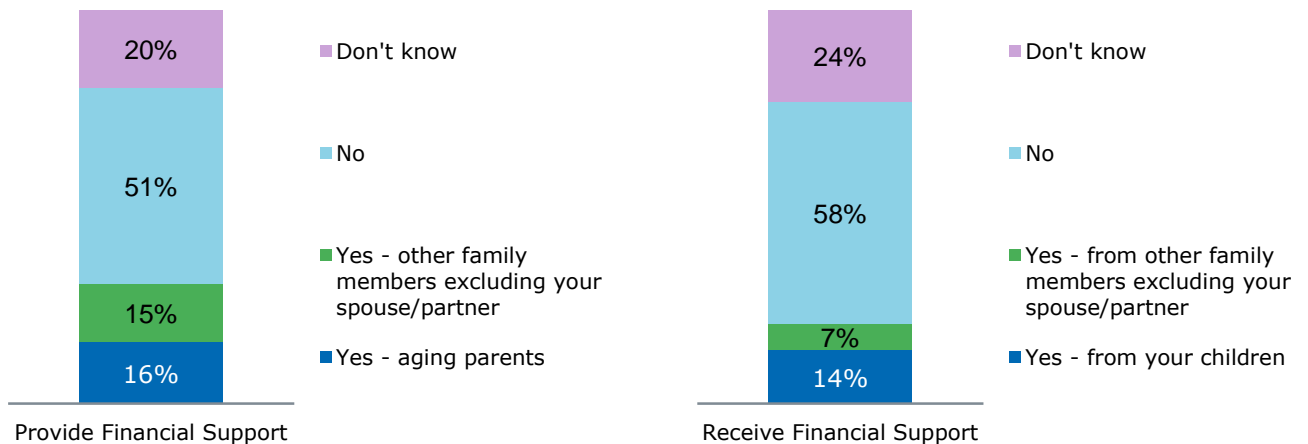
- The most common aids to retirement planning that employees are provided with by employers is the option to move from full time to part time work (27%) and the availability of work more suitable for older workers (16%).
- Where retirement help is provided by employers, employees find these services helpful.

### Chart 11 & 12: A majority expect neither to give nor receive financial support in retirement

Q. Do you expect that you will need to provide financial support for your family (other than your spouse/partner) while you are retired? Please tick all that apply.

Q. Do you expect that you will need to receive financial support from your family while you are retired? Please tick all that apply.

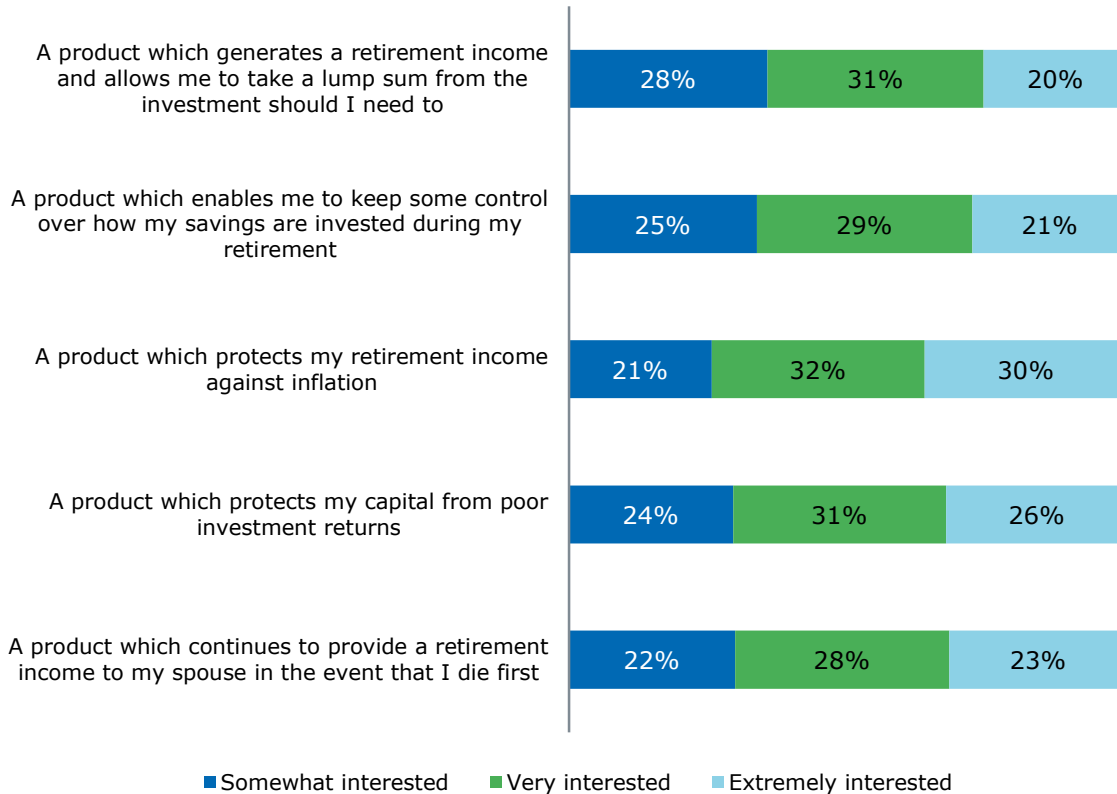
(Percentages may add to over 100 due to more than one response option possible)



The findings show retirement is seen in Germany as a support-free life stage, with a majority expecting to neither provide nor receive financial support in retirement from family. However it is notable that younger respondents (18-24) are more likely to expect to be supporting both parents (38%) and other family members excluding their spouse (17%) in retirement.

### Chart 13: Risk management is a top financial priority

Q. On a scale of 1 to 5 how interested are you in the following options



Popular financial products in the survey, both in this year’s and last, are those which protect against risks such as inflation, poor returns and that provides retirement income to a spouse in the event of death. Other results also support this finding:

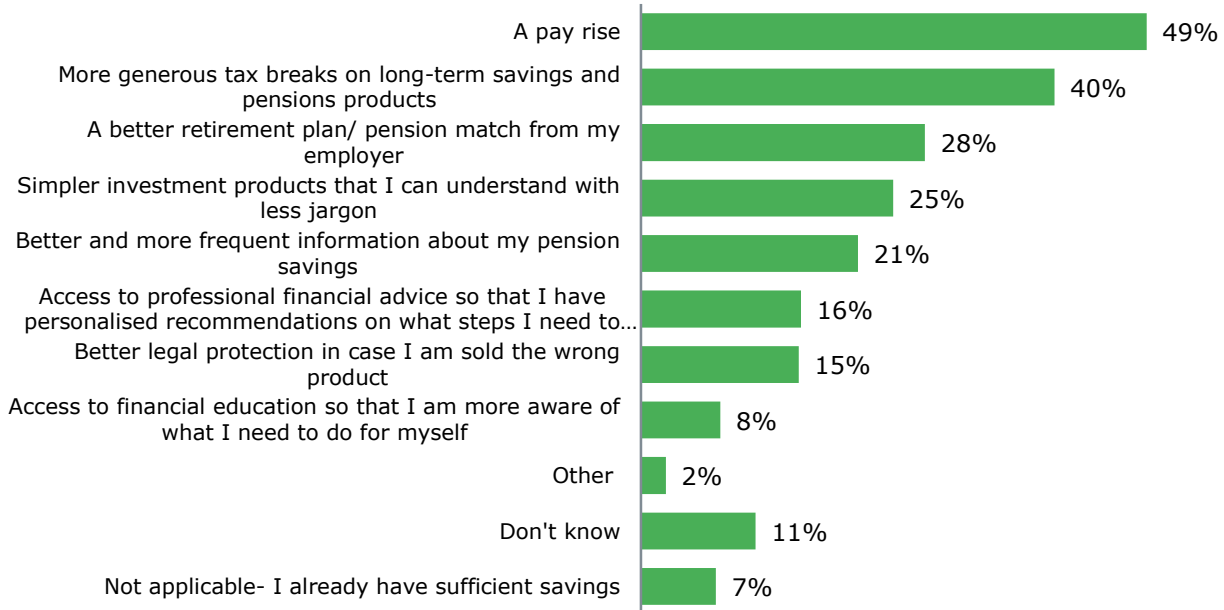
- 53% say the financial crisis means they want to take fewer risks with their retirement savings.
- Of those using professional advice, a service this provides for 28% of people is calculating savings and investment goals.
- 64% agree that it is important to have many sources of retirement income in order to spread risk.

## 4. Sustainable solutions

How can retirement systems be made more sustainable in the future? The survey what can be done to make savings and pensions products more attractive, as well as how to better balance the role of the individual, the state and the employer.

**Chart 14: People would be motivated to save for retirement by higher salaries and lower taxes**

Q. Which, if any, of the following would encourage you to save for retirement?

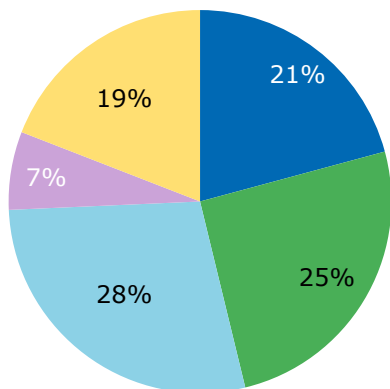


Alongside this finding on the importance of pay to encouraging saving, the survey also found:

- A lack of money to invest is putting off 41% of people from saving.
- The uncertain economy is a disincentive to save for only 9%

**Chart 15: A large proportion of respondents would accept at least some tax increases to pay for the state pension system**

Q. With the cost of government pensions becoming a greater concern as people live longer which, if any, of the following do you think the Government should undertake?

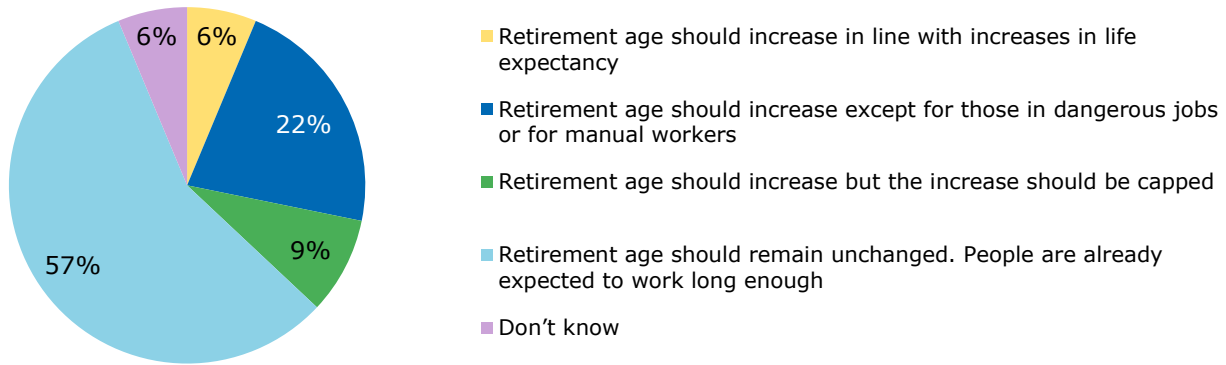


- The Government should reduce the overall cost of state pension provision by reducing the value of individual pension...
- The Government should increase overall funding available for the state pension through raising taxes ...
- The Government should take a balanced approach with some reductions in individual payments and some increases in tax...
- The Government should not do anything. State pension provision will remain perfectly affordable in the future
- Don't know

Difficult decisions are inevitable when it comes to reforming pension systems. Few – only 7% in Germany – believe that the government should not take any action because the state pension will remain affordable. The largest group, 28%, believe that a balanced combination of benefit reduction and tax rises are necessary to make the system sustainable – though this is down significantly from the 36% who chose this option in 2012 (when there was no 'don't know' option).

**Chart 16: Over half believe that the retirement age should remain unchanged**

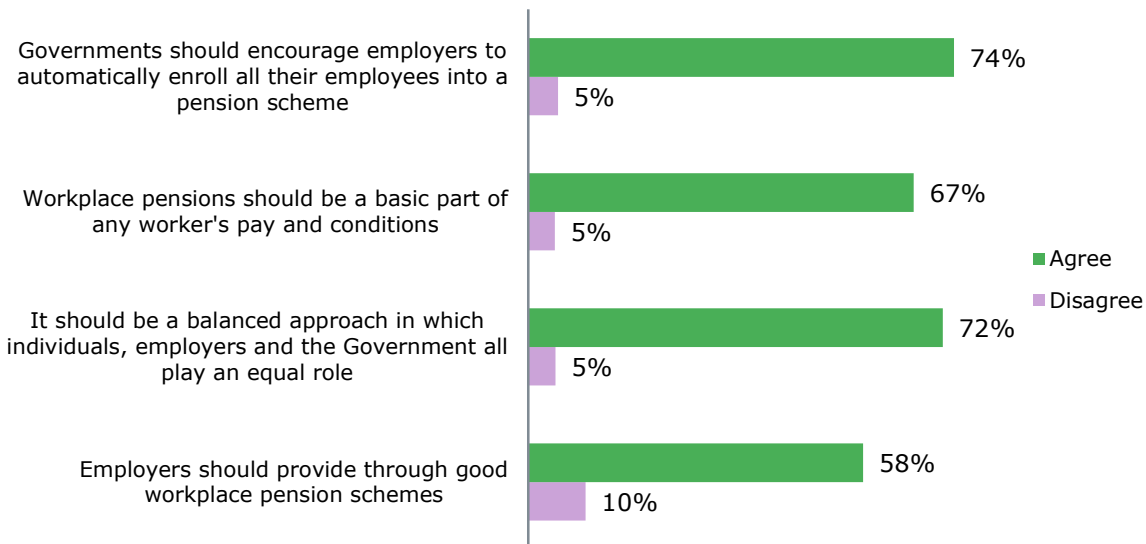
Q. what extent do you believe that people should expect to work longer into old age as a way to offset the costs of people living longer?



A majority do not wish for retirement age to increase at all. This suggests that although employees like the idea of carrying on working into old age, a majority do not necessarily wish to be obligated to do so.

**Chart 17: Strong support is registered for the importance of a balanced approach and auto-enrolment**

Q. To what extent do you agree or disagree with the following statements about taking responsibility for funding people's retirement? Please indicate on a scale from 1 to 5, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: ALL)/ Q. Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements about your work, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: NOT FULLY RETIRED)



The findings show that workplace pensions still have the support of the vast majority of respondents, as does the idea of auto-enrolling people into such a scheme. Elsewhere:

- Supporting these findings, 22% of respondents agree that there was nothing wrong with relying on the state to provide a retirement income, 14% feel this way about relying on a spouse to provide an income.
- 42% are worried that the financial crisis means their employer is likely to cut back on workplace benefits.

## 5. Call to action

### Lack of retirement readiness is an emerging global crisis for governments, employers, and individuals

- Although retirement systems vary by country, the shift in responsibility for a secure retirement to the individual is consistent among the countries surveyed. Similarly, individuals' lack of adequate preparation for retirement was found across the globe. Governments have a significant role in increasing individuals' awareness of this shift in responsibility and of the amount and nature of the government benefits on which the individual can rely in retirement.

In addition, governments and employers can facilitate the offering of tools and information to educate employees of all ages of the need to save, how to save effectively for major life events and also how to transition those savings into a secure retirement.

### Most expect future generations to be worse-off in retirement than current retirees

- Increased longevity has resulted in the likelihood of multiple generations of family members in retirement whose financial security is compromised by cuts in government benefits and the economic downturn. The 'squeezed' generation that is trying to save for retirement is increasingly called upon to support parents and grandparents in retirement while also supporting adult children who may still depend on parental support. Governments, employers and individuals must acknowledge and facilitate efforts to address inter-generational burdens on the 'squeezed generation.' Governments must encourage the use of private sector products and services to address these burdens, and employers can provide or make available retirement planning tools and education to help individuals anticipate and plan to cover inter-generational burdens.

### Delaying retirement offers an obvious solution, but obstacles remain

- Governments and employers can help employees by enabling longer working careers, and providing options for phased retirement and explaining what these are. Employees should also have a backup plan if forced into retirement sooner than expected. Governments and employers can increase awareness of the need

for a backup plan and facilitate the offering of products such as disability and life insurance which are designed to provide a continued source of income to families in the event of a family member's death or disability prior to the planned retirement and accumulation of sufficient savings.

### Widespread retirement illiteracy worsens readiness

- Individuals are increasingly aware that they will need to bear some personal responsibility for their retirement; however, the amount and complexity of information can be overwhelming. Programs designed to address this inertia can help ensure that employees are automatically covered by their employer's retirement plan.

Governments have a responsibility to clearly communicate the expected government benefits. They must guide individuals to the tools and information to help individuals start saving throughout their careers to supplement the government benefits. Employers can serve as a one-stop source of information, tools and supplemental products to help their employees develop their own retirement plan and transition into retirement. Governments can facilitate and encourage the employer's role in providing or making available retirement planning tools and information to its employees through reduced regulatory burdens, safeguards from liability and tax incentives.

### Wary about retirement-related risks, individuals seek solutions

- Providing retirement solutions and advice that help individuals de-risk their retirement can help avoid losses or erosion due to inflation. Financial products and plans may also help individuals in developing and financing a backup plan in the event they leave the workforce prior to their expected retirement date. However, in order to grow savings into something adequate for retirement some controlled risk may be necessary.



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## Media Relations

Telephone: +31 70 344 89 56  
Email: gcc-ir@aegon.com

<sup>1</sup> 'Pension reforms in Germany: can occupational and private pensions compensate for the erosion of social insurance?', Johan de Deken, Aegon Global Pensions View, March 2013.