



Spain Fact Sheet

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013



Contents

Introduction	1
<i>Key Findings</i>	1
<i>The Survey</i>	1
1. Retirement landscape	2
2. Aspirations and expectations for a changing retirement	2
<i>Spain is ranked near the bottom of the AEGON Retirement Readiness Index (ARRI), with lower readiness than in 2012</i>	3
3. Dealing with the readiness shortfall	5
4. Sustainable solutions	8
5. Call to action	11

Introduction

Key Findings

- **Retirement associations are generally positive:** people are more likely to associate retirement with positive words such as enjoyment (30%) and leisure (27%) more than negative ones such as poverty (14%), though 22% associate retirement with insecurity.
- **Spain falls near the bottom of the AEGON Retirement Readiness Index (ARRI):** Spain's ARRI score has fallen compared to 2012, and in the table of readiness it is ranked eleventh out of twelve countries surveyed.
- **Uncertainty over financial support in retirement:** In Spain, over a third of respondents do not know if they will be either providing financial assistance to relatives in retirement or receiving it.
- **Opposition to the idea of a rising pension age:** Nearly half (48%) of Spanish respondents are against any increases to retirement age.
- **People expect a bleaker retirement in the future:** Nearly three quarters (72%) expect future generations to be worse off in retirement than current retirees, and only 6% expect them to be better off.

The Survey

The findings used in this report are based on the Spain 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 Spain 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 the Spain results 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 of this survey is to provide a broader perspective based on the mainstream working population.

1. Retirement landscape

State pensions in the EU countries are facing significant challenges due to demographic phenomena such as low birth rate and extended life expectancy. They require adaptations to ensure their long term viability and to maintain living standards of senior citizens. Spain is not an exception, and the Social Security system should take over the payment of a growing number of pensions with a shrinking population in employment and to be paid for increasingly longer periods.

In Spain, public pensions are over 80 percent of the last wages earned, twice the OECD average. This generosity helps to explain low levels of money

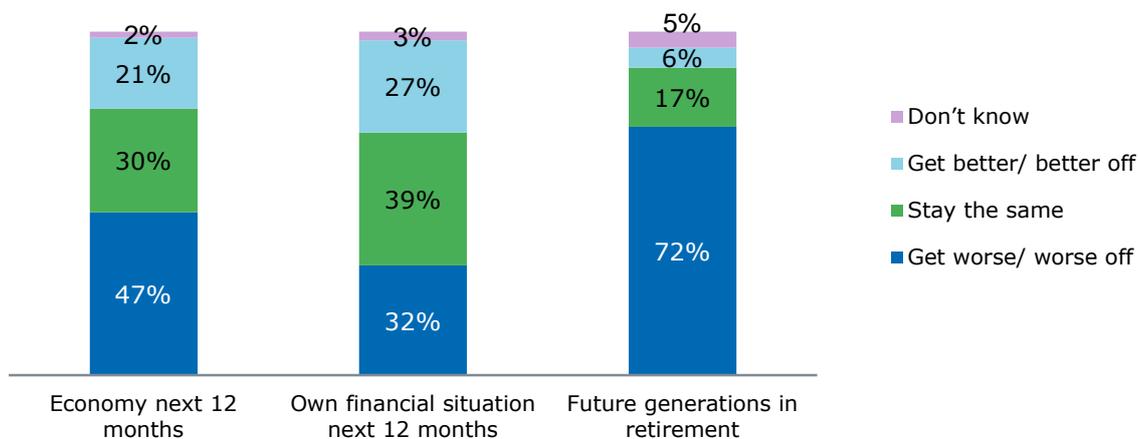
invested in private pension funds. Recent statistics suggest this is only 8.2 percent of GDP, compared to 30.7 percent on average in the EU. However the trend of demographics and mathematics is now questioning the sustainability of the system.

This lack of sustainability has helped trigger the latest austerity policies of the government, which has introduced reforms such as the increase in the retirement age, using longer working periods to calculate the final pension amount and promoting longer working lives. However, they seem not to be enough to cover the 'pension gap'.

2. Aspirations and expectations for a changing retirement

Chart 1: Respondents are more optimistic about the present than the future, but nearly half think the economy will soon get worse.

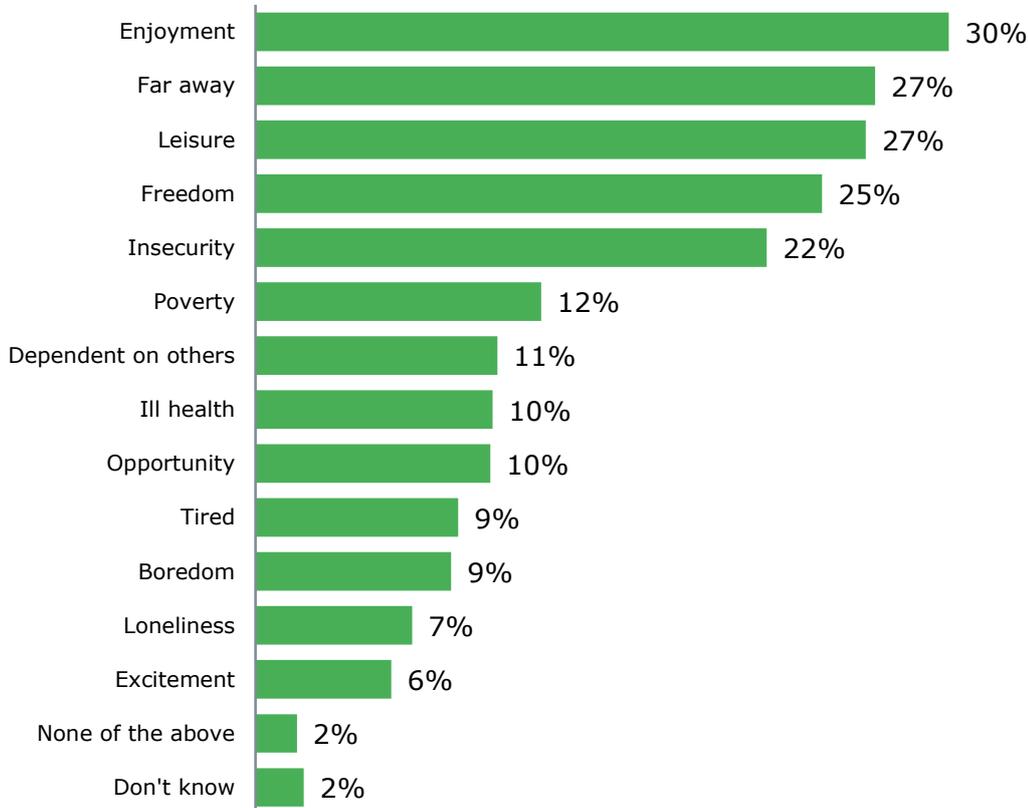
- Q. Thinking ahead over the next 12 months, do you expect the economy in [COUNTRY] to...?
- Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
- Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



In both this year's and last year's survey, a large majority of respondents in Spain believe that retirement will become worse: 72% say future generations will be worse off in retirement than current retirees. There is more optimism when it comes to people's own immediate prospects- 27% expect their financial situation to get better in the next year, compared to only 6% who think future retirees generally will be better off.

Chart 2: Retirement has generally positive associations

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



In Spain, retirement has generally positive associations, particularly, enjoyment, leisure and freedom. More worrying is that many think about retirement in terms of it being 'far away' (27%), including 23% of 45-54 year olds.

Spain is ranked near the bottom of the AEGON Retirement Readiness Index (ARRI), with lower readiness than in 2012

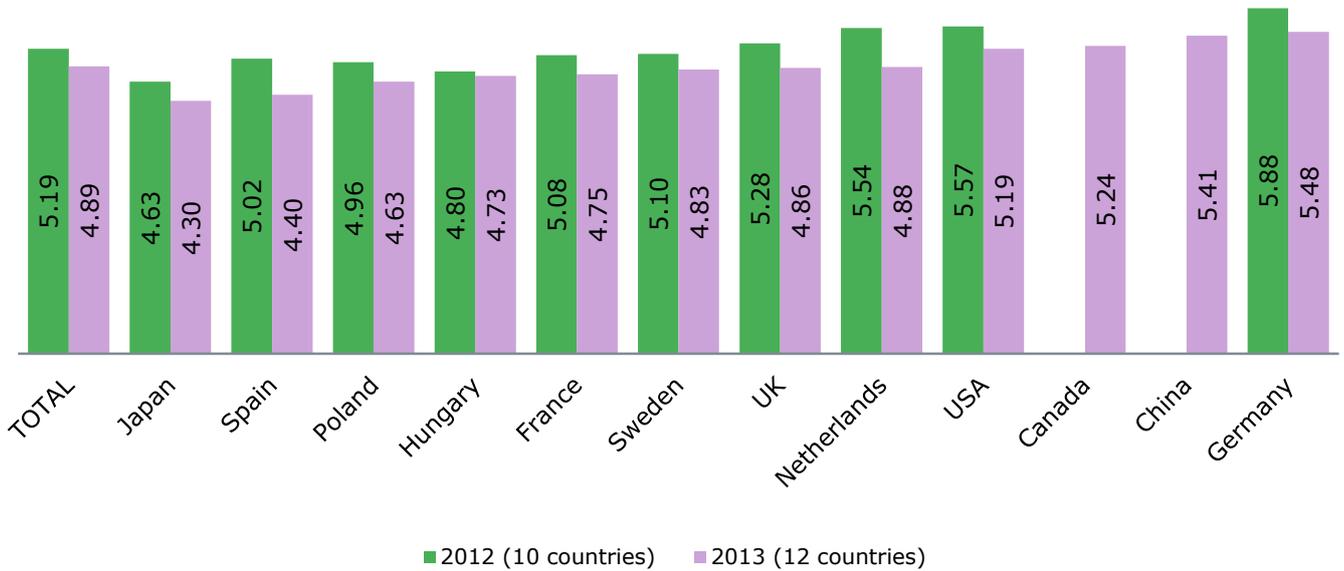
This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- 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

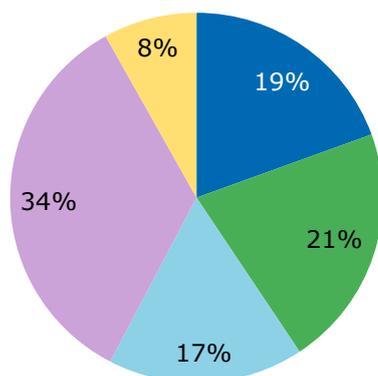


All countries saw their ARRI score fall this year, and Spain was no exception, with a rise in the number of respondents receiving low scores. As such Spain remains near the bottom of the ARRI. Noteworthy Spain findings from the questions comprising the ARRI include:

- A very high proportion of Spanish respondents (40%) do not know if they are on course to achieve their desired retirement income.
- Only 5% say they are already saving enough for retirement, falling to just 1% of 45-54 year olds.
- Women are more likely than men to be aspiring savers- 41% are not saving for retirement though they intend to, compared with 27% of men. Men, on the other hand, are more likely to be current savers- 48% versus 34%.

Chart 4: A fifth of Spanish employees always make sure they are 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

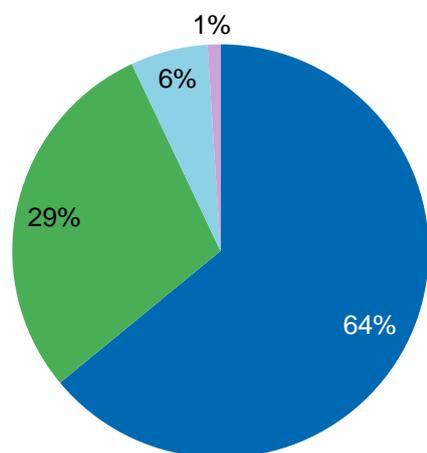
3. Dealing with the readiness shortfall

Two-thirds retired sooner than they had planned to, for mostly negative reasons

Retiring sooner than planned is associated with ill-health, which over half (52%) of this group said was an important reason for early retirement. In contrast, 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?



- I retired sooner than I had planned to
- I retired at the age I had planned to
- I retired later than I had planned to
- Don't know/ can't recall

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.

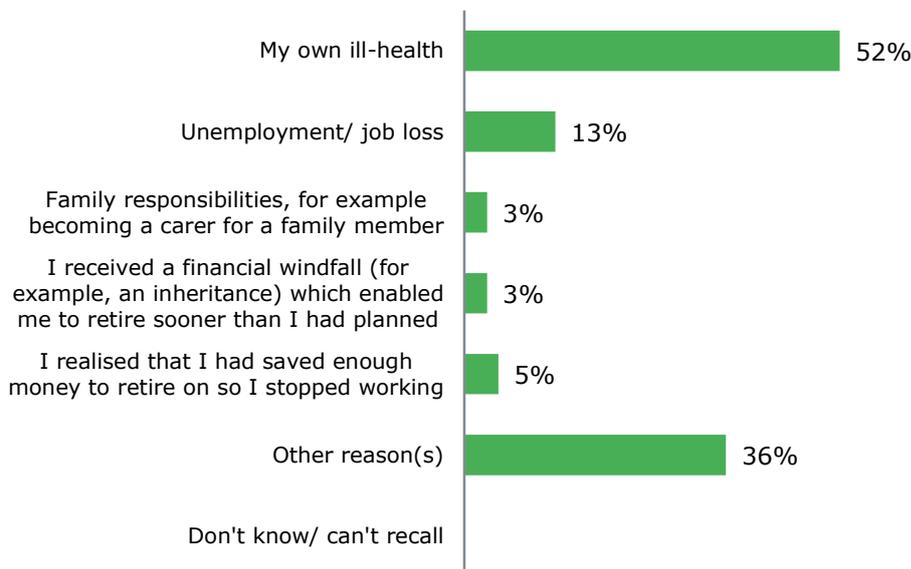
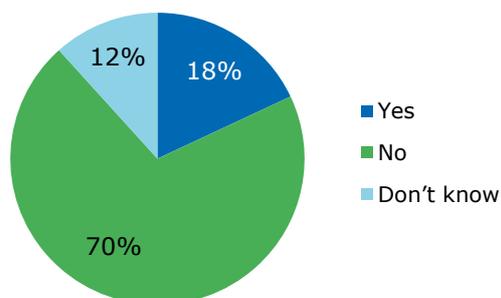


Chart 7: Nearly three-quarters have no backup plan for retirement

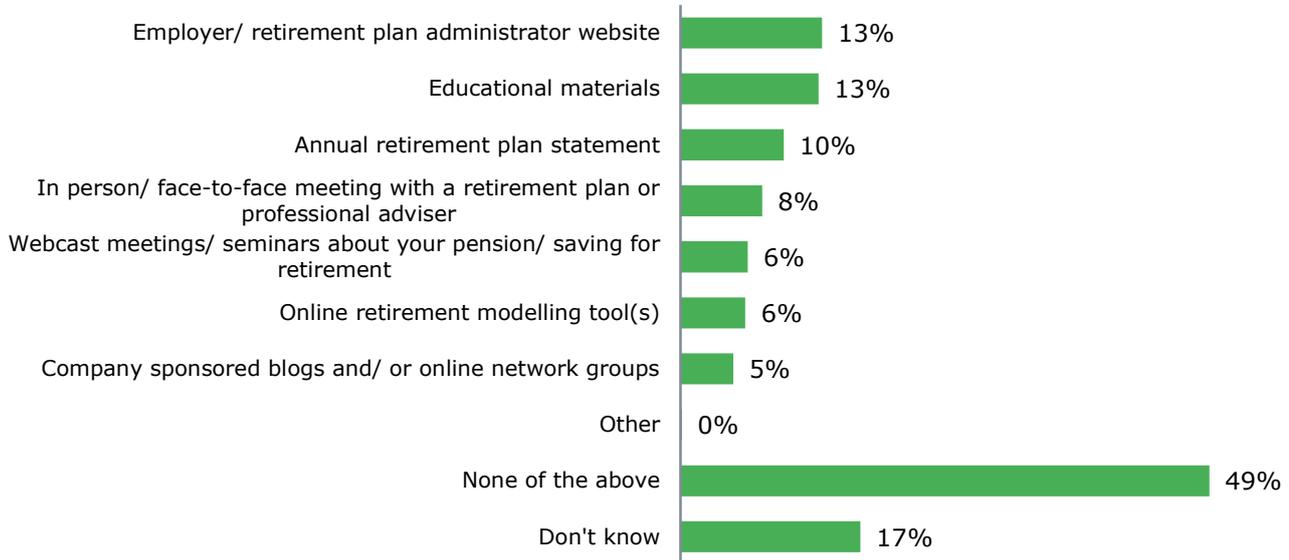
Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income?



Such a 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: Retirement planning services are not widely utilized

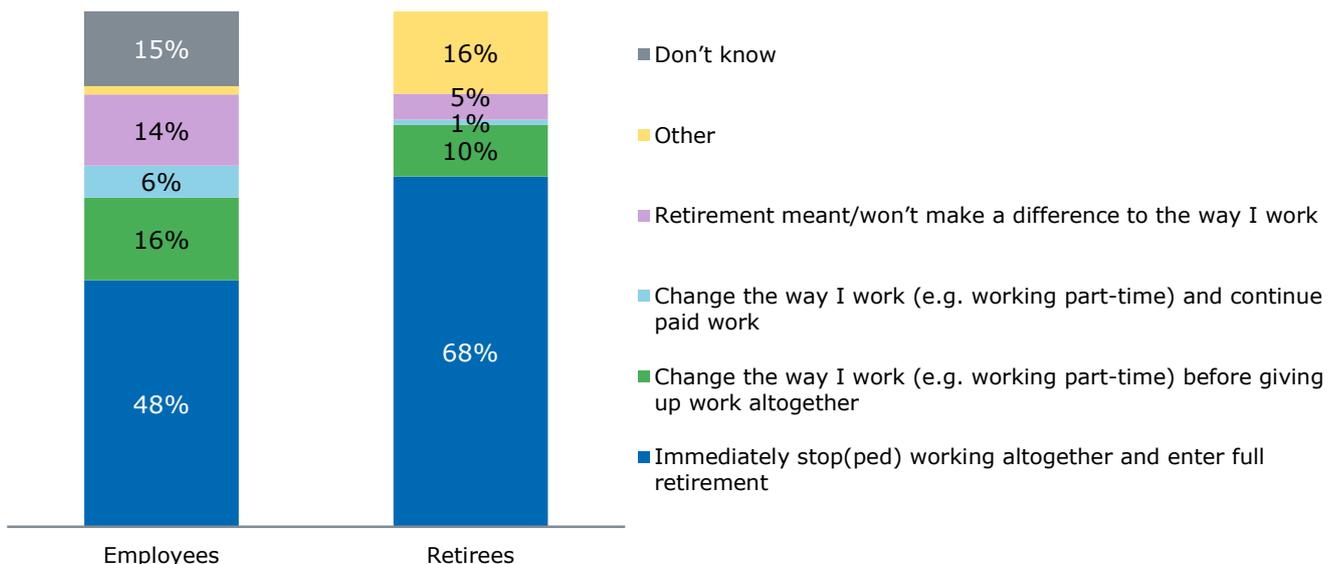
Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer to help you prepare for retirement?)



Retirement planning services of any kind do not seem to be prevalent amongst Spanish employees, and two-thirds of their employees are either not receiving such services or do not know if they are or not.

Chart 9: As with last year, the survey shows there is no longer as much of a retirement 'cliff-edge', many people prefer a phased retirement

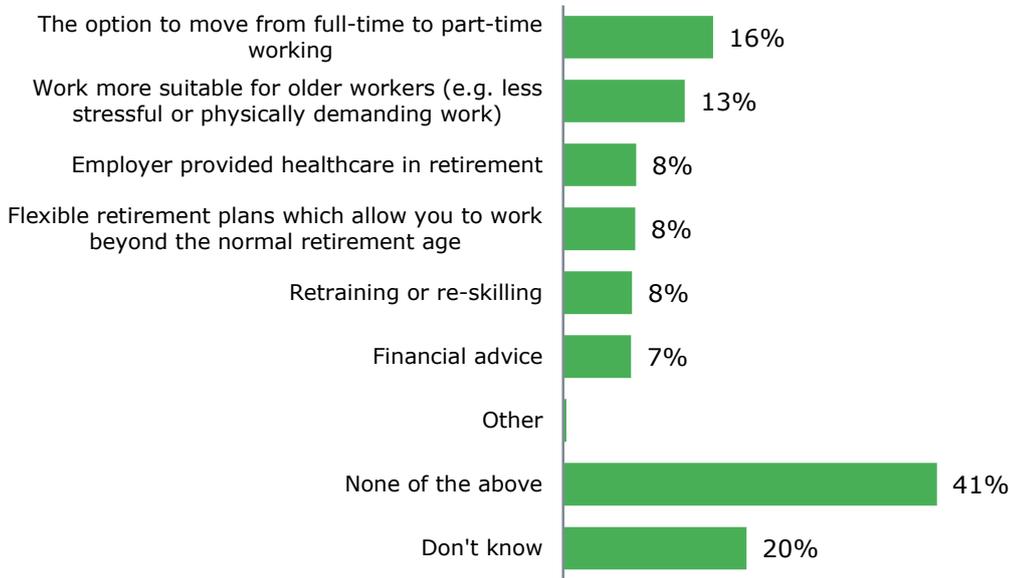
Q. Looking ahead, how do you envisage your transition to retirement?
 Q. Looking back, how did your transition to retirement take place? Please select the response closest to your view.



In this year's survey there is a contrast in Spain between current retirees, two-thirds (68%) of whom stopped working completely immediately on retirement, and current employees, only 48% of whom plan to do the same. Despite this difference, the disparity is much smaller in Spain than other countries surveyed and excluding those who do not know, a majority expect to retire immediately on retirement.

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

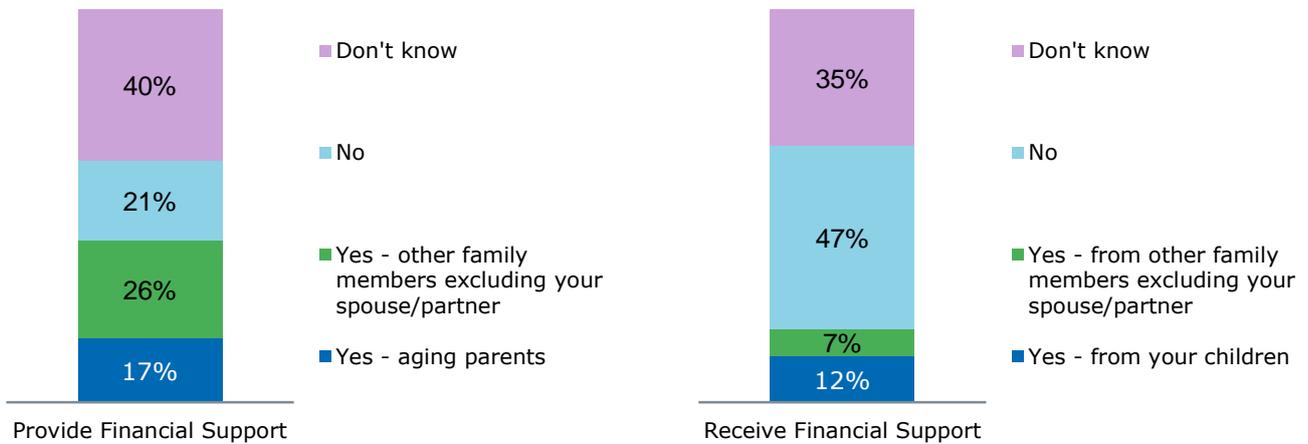
Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?



The survey questioned employees about the services their employers offer to help them phase into retirement. A majority of employees say they are not offered any such services or do not know of them, though where retirement help is provided by employers, employees find the services useful.

Chart 11 & 12: There is significant uncertainty around the issue of financial support in old age

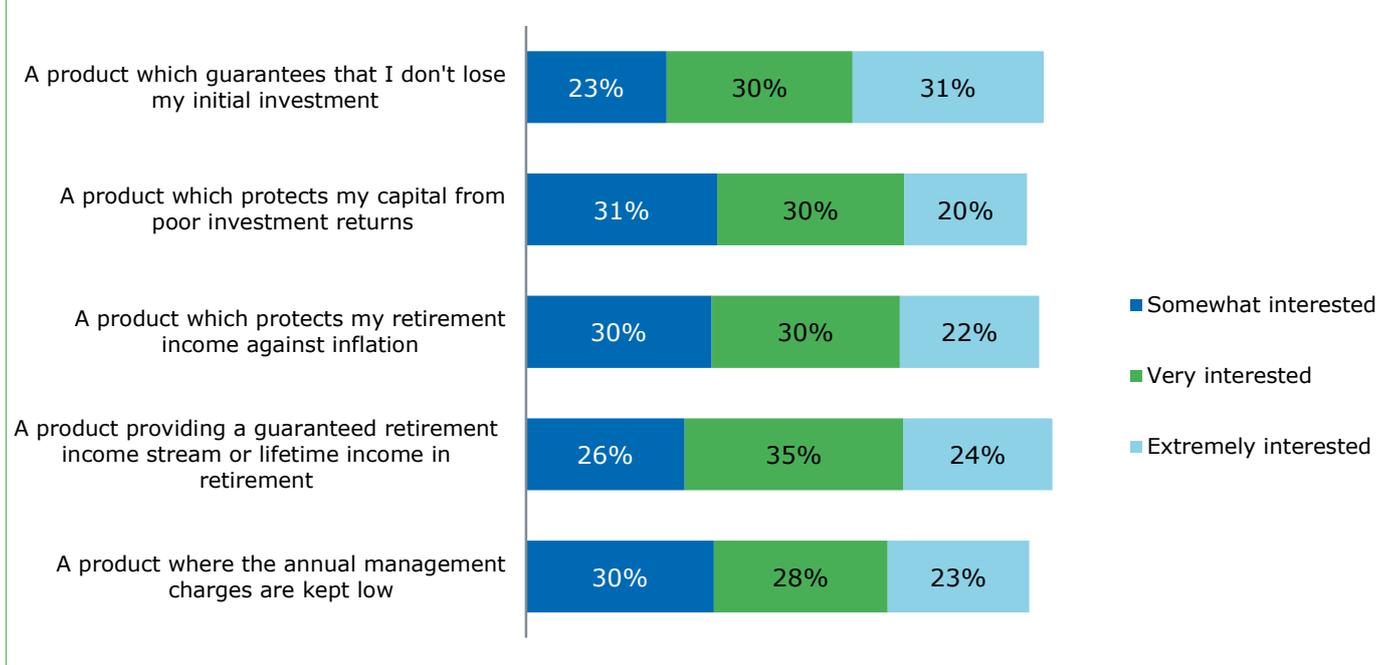
Q. Do you expect that you will need to provide financial support for your family (other than your spouse/ partner) while you are retired? Please tick all that apply.
 Q. Do you expect that you will need to receive financial support from your family while you are retired? Please tick all that apply.
 (Percentages may add to over 100 due to more than one response option possible)



The findings show a large proportion in Spanish employees do not know if they are to give or receive financial support to children or parents in retirement. This uncertainty generally increases rather than decreases with age.

Chart 13: Risk management as a priority guides investment decisions (Bar 3 data should be 30/30/22)

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 poor returns or capital loss. Other results also support this finding:

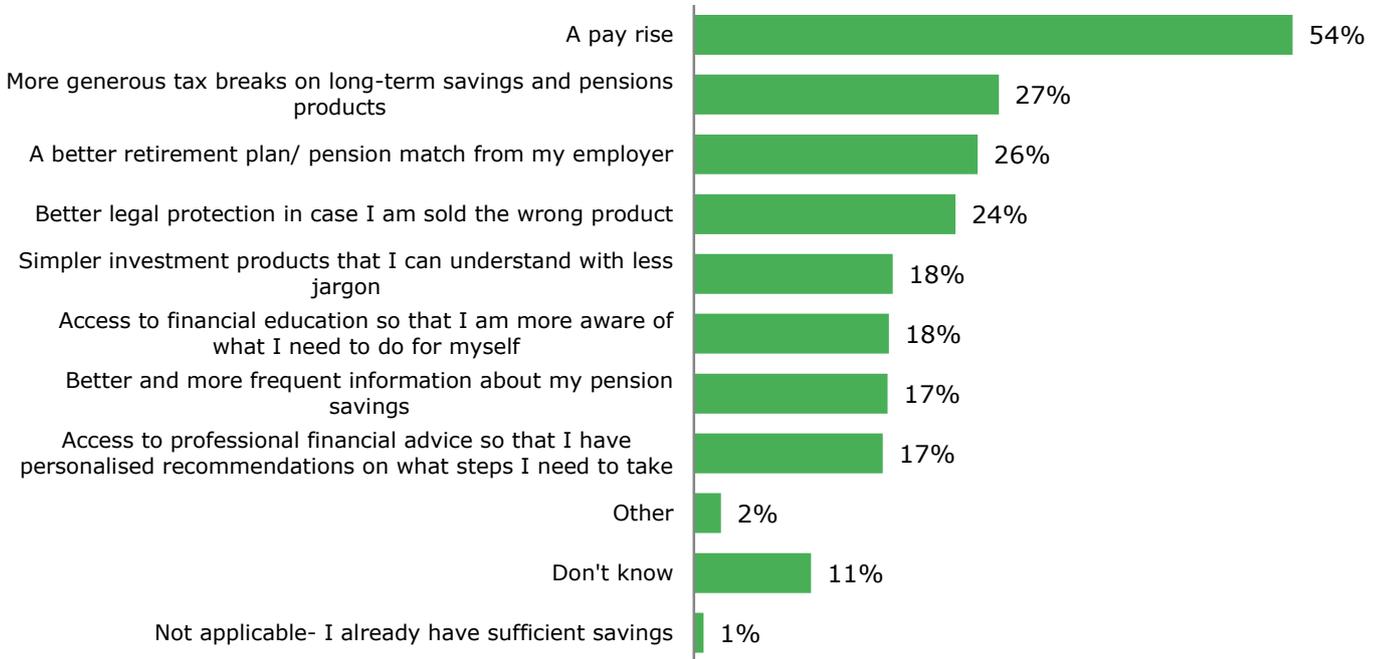
- 47% agree that the financial crisis means they want to take fewer risks with their retirement savings, only 13% disagree.
- Slightly more (50%) believe that rather than reduce risk, the financial crisis has led to them being less likely to save for retirement, opening up the problem of longevity risk.

4. Sustainable solutions

How can retirement systems be made more sustainable in the future? The survey asked 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: Employees would be motivated to save for retirement by higher pay and tax breaks

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

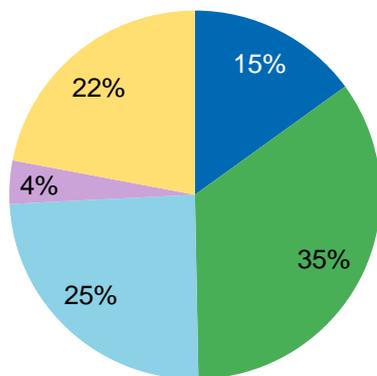


Alongside this finding on the importance of higher pay, the survey also found:

- A lack of money to invest is putting off 38% from saving, rising to 43% of 55-64 year olds.
- A quarter (23%) says that the uncertain economic environment is an obstruction to saving.
- One in ten respondents is put off saving by a lack of trust in the financial services industry.

Chart 15: A large majority 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?

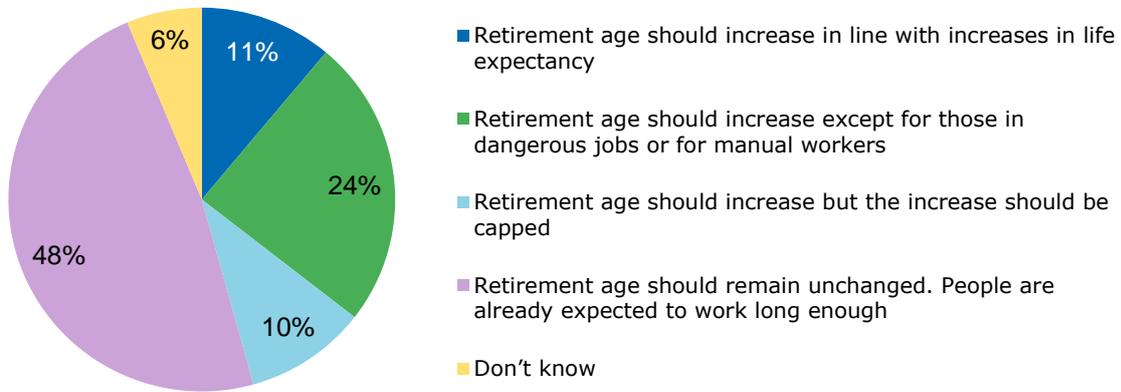


- The Government should reduce the overall cost of state pension provision by reducing the value of individual pension...
- The Government should increase overall funding available for the state pension through raising taxes ...
- The Government should take a balanced approach with some reductions in 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. Only a very small minority –4% in Spain – believe the state pension will remain affordable, though rather than accept a balanced package of cuts and higher taxes, 35% in Spain want the pension system paid for purely through higher taxes.

Chart 16: In Spain there is strong opposition to the idea of a rising pension age

Q. To 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?

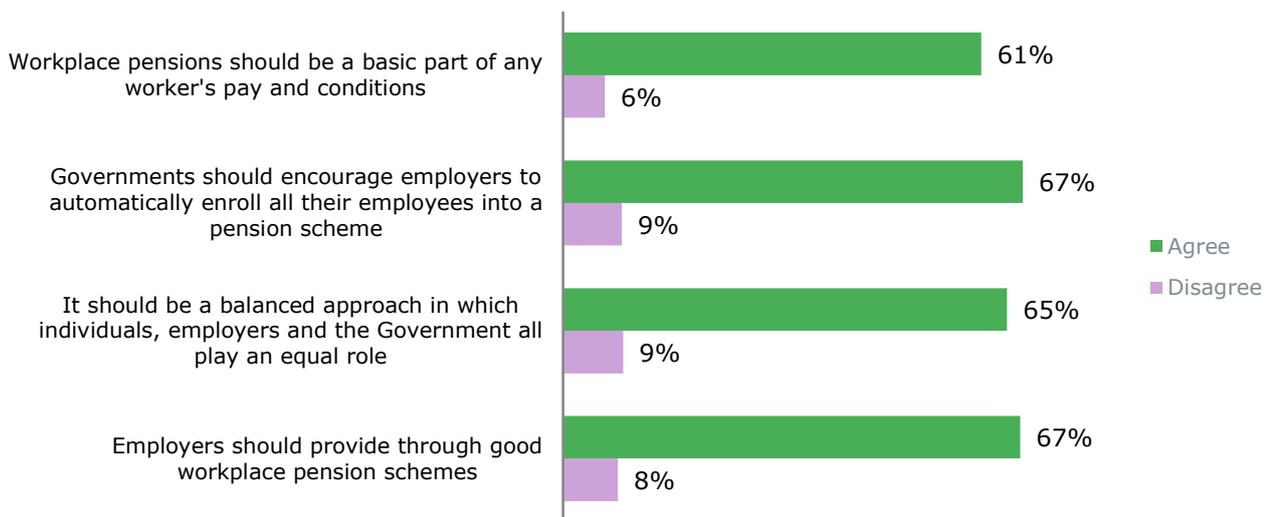


More so than in the other countries surveyed, nearly half (48%) of Spanish respondents are opposed to any increase in retirement age. This opposition rises to 53% amongst women, though younger (18-24) respondents are more flexible, with 51% of this group accepting the need for some increase.

Chart 17: Respondents show overwhelming support for the role of workplace pensions

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) .

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:

- Nearly half (48%) are worried that the financial crisis means their employer is likely to cut back on workplace benefits.
- The most important source of retirement income for 12% is the employee stock purchase.

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: +34 91 203 70 67

Email: aegon.comunicacion@aegon.es