



Spain Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings

- **Retirement associations are generally positive:** The Spanish are more likely to associate retirement with positive terms such as 'enjoyment' (37%), 'leisure' (34%) and 'freedom' (33%) than negative terms. However these are not far behind the positive, with 'insecurity' being chosen by 22%.
- **Improvement is needed in retirement planning:** Only a fifth (19%) of workers have a written plan and a further 27% have a plan that is unwritten. The remaining 55% either do not have one at all or don't know.
- **Employers are a useful but underutilized resource:** Where employers offer retirement planning services they are found to be very helpful. However a majority of employees (51%) claim that their employer provides no form of retirement support or planning services and a further 14% are unsure.
- **Immediate retirement is still common in Spain:** While most of the world is transitioning towards favouring a phased retirement, the majority of Spaniards still expect to enter into full retirement immediately (52%). Just over a fifth (21%) intend to change the way that they work, whether it be working part-time in the short or longer term, and 13% state that they will continue to work as they currently do beyond the official retirement age.
- **Spain ranks thirteenth in retirement readiness:** Spain scores 5 out of 10 on the Aegon Retirement Readiness Index and is placed thirteenth out of fifteen in our global rankings. A 'low' score, this indicates that the average Spaniard is underprepared for retirement.

Recommendations

- **Translate awareness of the need to save for retirement into action:** Individuals are increasingly aware of the need to plan for retirement but this alone is not sufficient to initiate better savings habits. Governments and employers should provide individuals with concise and clear statement of projected benefits which the individual may expect in retirement, as well as tools and information that individuals can use to determine their own retirement savings goals.
- **Embrace active aging and working longer:** Workers envisage staying active longer in later life, including through work. Working longer, beyond mandated or expected retirement ages, can only help individuals to bridge gaps in retirement savings. Governments should make the required changes to labor laws and employers should adjust their workforce policies to this new reality. Making these changes will be vital for flexible retirement to become a success.
- **Plan for the unexpected:** To avoid depleting retirement savings, individuals should include in their retirement plans unexpected events such as job loss, caring for others, disability or illness. A back-up plan could include establishing a personal emergency fund or obtaining insurance for income replacement upon disability or unemployment where offered. This will help individuals weather short-term financial difficulties without sacrificing their retirement.

The Survey

The findings used in this report are based on the Spanish responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Spain 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Spanish survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in Spain

A wave of pension reform took place in Spain following the aftermath of the financial crisis. Beginning in 2011 a series of controversial policies have been pursued in order to shore up fiscal imbalances linked to generous state benefits. Among them was an increase in the mandatory retirement age from 65 to 67 by 2027 and an extension of the period used to calculate the contribution base. Although the outcome of these early reforms indicated positive movement, the severity and longevity of the financial crisis reversed much of this progress. Lower than expected tax receipts, chronic unemployment and high levels of emigration to other

EU states by working age persons each contributed to a state of flux for the Spanish pension markets.

New measures will be adopted from this year onwards to cap index-linking of pensions benefits.¹ Instead of being automatically indexed to inflation, pensions will now raise at a base rate of 0.25%, with the option of an additional rise in a favorable economic environment.² And from 2019 pensions will be tied to life expectancy projections, or the “Pension Revaluation Index.” This report sets out the views of Spanish employees and retirees as to how the current economic climate is impacting on their level of retirement preparedness.

¹ Toyer, Julien and Ron Aksew (2013). *Spain moves forward with tough pension reform: government document*. Reuters [online] <http://www.reuters.com/article/2013/09/17/us-spain-pensions-idUSBRE98G0YK20130917>

² La Moncloa [the Prime Minister's Office] (2013), *Parliament approves reform of pension system*, The Government of Spain [online] http://www.lamoncloa.gob.es/IDIOMAS/9/Gobierno/News/2013/20131219_Pension_System.htm

2. Retirement aspirations and expectations

With Spain only starting to show signs of exiting the crisis, 70% of respondents expect their financial situation to stay the same or worsen over the next twelve months. The percentage of those who believe it will improve (28%) is marginally more optimistic than in other developed economies. That said, almost three quarters (72%) believe that the outlook for future retirees as a whole is less positive than for current retirees.

Chart 1: Expectations of the economy and respondents' own financial situations are mixed

Q. Thinking ahead over the next 12 months, do you expect the economy in Spain to...? (Base: All respondents, n=1000)
 Q. thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All respondents, n=1000)

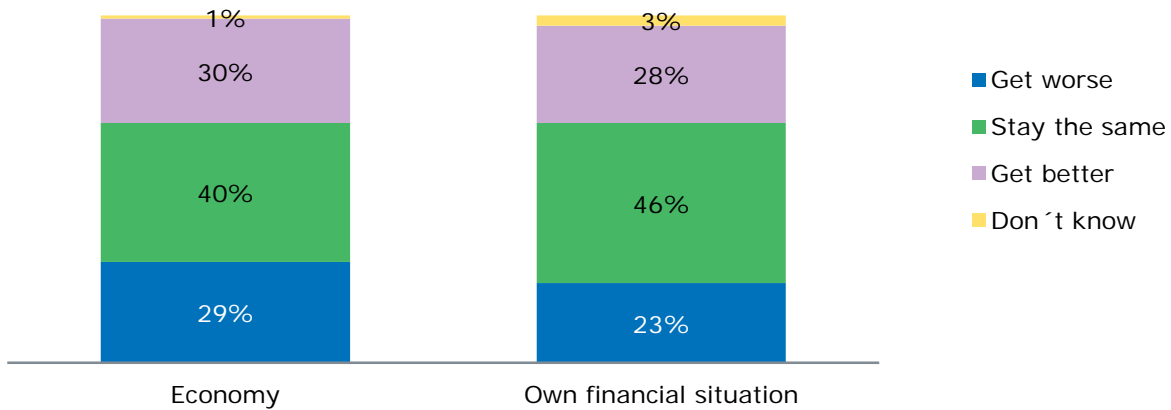
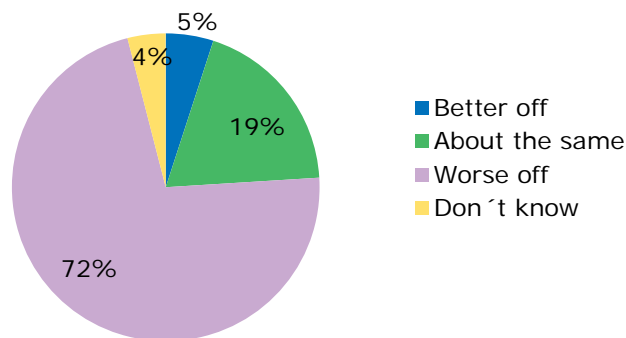


Chart 2: Future generations of retirees are expected to be worse off

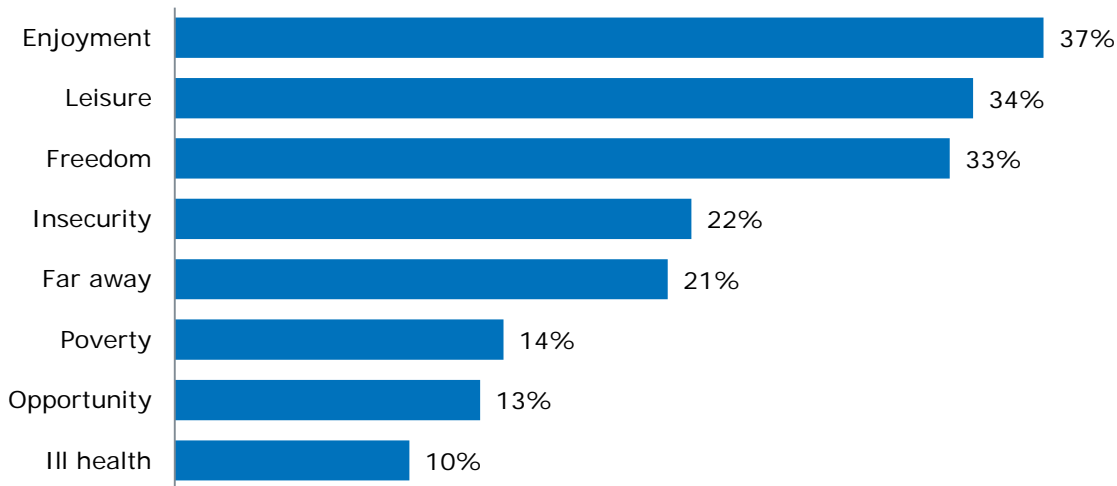
Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All respondents, n=1000)



In spite of this economic backdrop, Spaniards have remained largely positive in their view of retired life. When asked to select words associated with retirement, around a third selected 'enjoyment' (37%), 'leisure' (34%) and 'freedom' (33%). Negative connotations to retirement are not far behind, however, with 'insecurity' (22%) and the idea of being 'far away' (21%) being expressed as the next most significant associations. As a whole, Spaniards are 19% more positive than negative in their perceptions of retired life.

Chart 3: Enjoyment, leisure and freedom most associated with retirement.

Q. Which, if any, of the following words do you most associate with retirement? (Base; All respondents, n=1000)



3. Planning for retirement

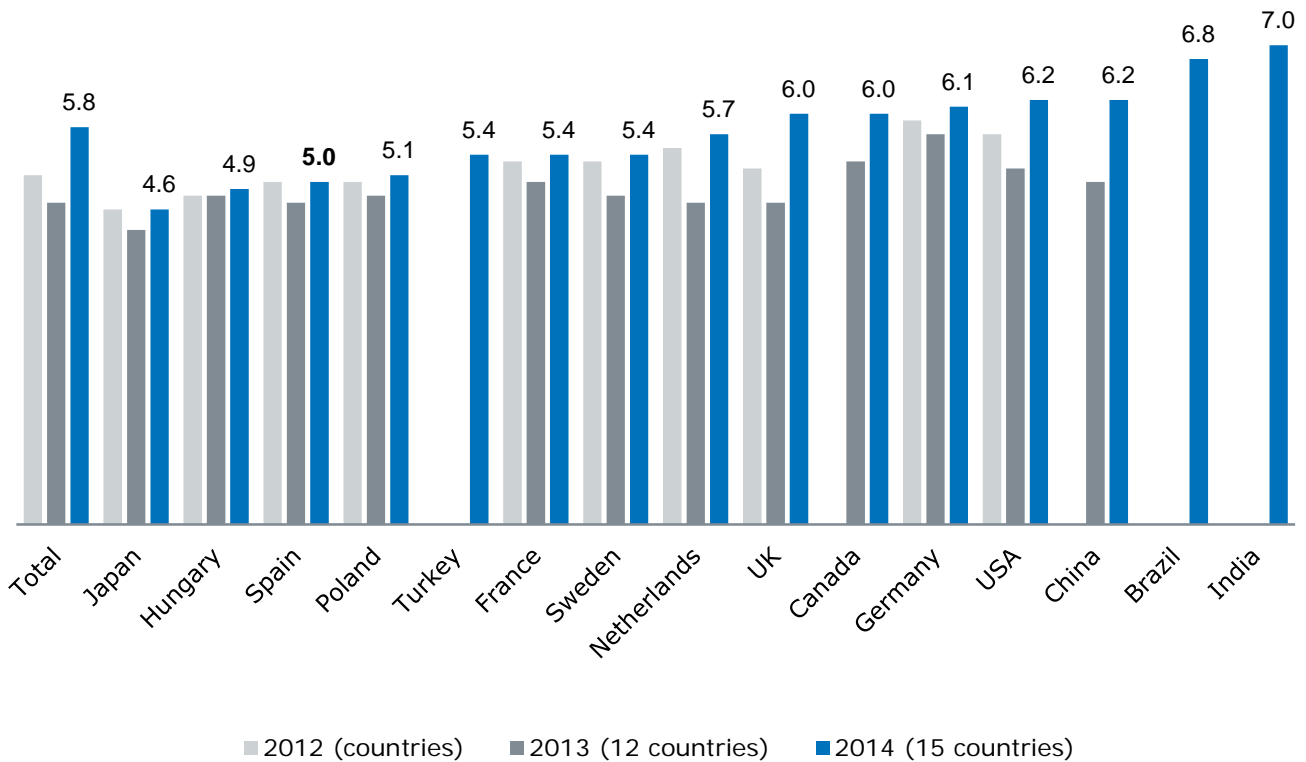
To explore the lack of confidence in retirement planning, we have developed the Aegon Retirement Readiness Index (ARRI) weighting six questions covering attitudes towards personal responsibility, awareness, understanding, preparedness, income replacement and savings habits. By comparing responses to these questions we are able to rate respondents’ readiness for retirement on a scale of one to ten. A low score would be anything below 6, a medium score between 6 and 8 and a high score, 8 or more. There was near universal improvement in the readiness scores from last year and Spain was no exception.

Chart 4: Retirement Index Scores 2012-2014

Spanish Retirement Readiness Index score			
2012	2013	2014	2014 Global Average
5.0	4.4	5.0	5.8

Spain’s index score of 5 out of 10 overtook Hungary in 2014 but continues to lag behind the pack, with the improved rating moving Spain from being second to third least retirement ready among the surveyed countries. India and Brazil were introduced this year and now lead the global rankings. Spain saw a 0.6 point increase in index score between 2013 and 2014, improvement that can be attributed to gains across all index measures. In particular, the largest improvement was seen in planning, awareness and understanding. The proportion of workers who feel their plans for retirement are somewhat to very well developed increased from 18% to 32%, while a 13% increase was seen in the proportion who felt aware of the need to plan for retirement and able to understand financial matters relating to retirement, reaching 46% and 53% respectively. The proportion of habitual savers also increased from 19% to 27% during this time.

Chart 5: Spain ranks thirteenth in retirement readiness in 2014



The low level of retirement planning in Spain helps explain why the index score is so low. Only a fifth (19%) have a written plan, and whilst a further 27% have an unwritten plan, the remaining 55% either don't have one at all or don't know. [Q 37] Over three quarters (77%) of workers are either unaware or have no form of income protection insurance. [Q 38]

Chart 6: Nearly a half of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

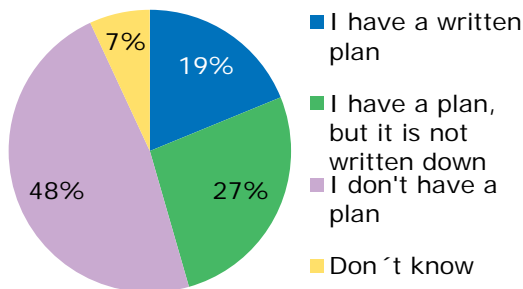
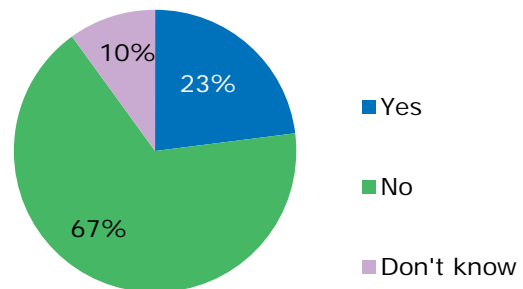


Chart 7: The majority of Spaniards do not have a retirement back-up plan

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? (Base: Not fully retired, n=900)

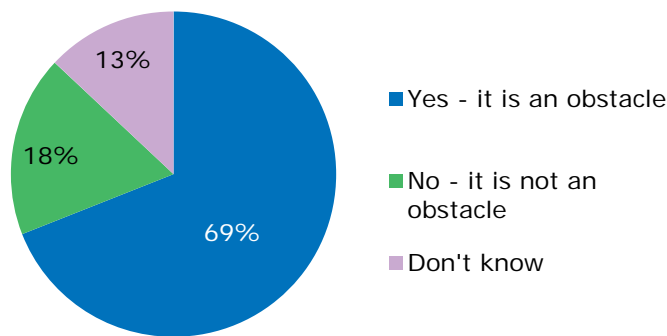


4. Making saving easy

With a shaky economic recovery and among one of the lowest of minimum wages in the EU, Spanish respondents cite the prospect of a pay rise (46%) as the greatest potential incentive for saving for retirement. Not surprisingly a lack of money is said to be a barrier to saving by over two-thirds (69%) of respondents.

Chart 8: A lack of money is a major obstacle to saving

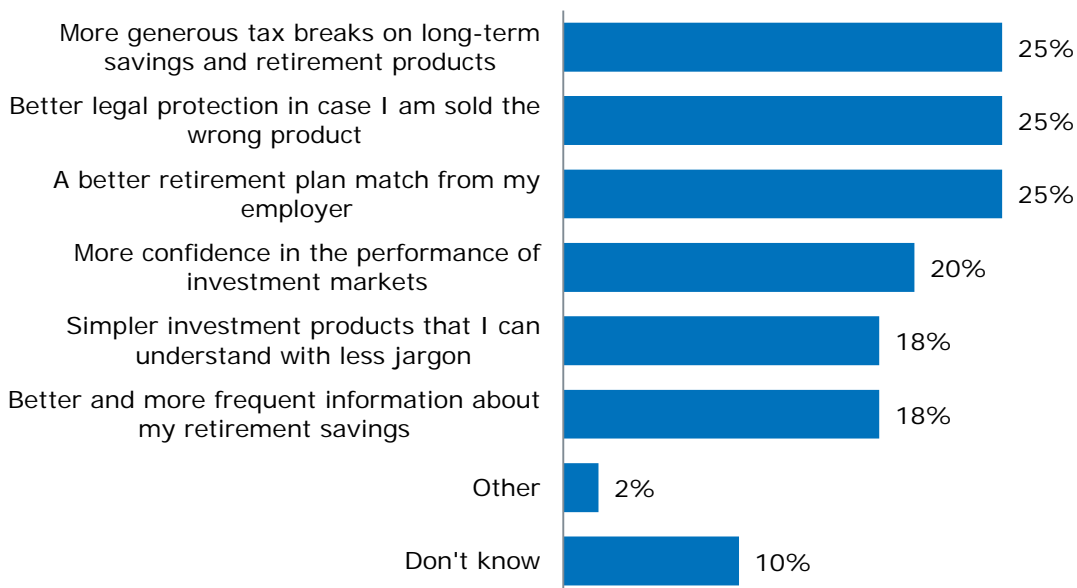
Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)



There are many obstacles to restoring economic stability in Spain, particularly with youth unemployment soaring above the national unemployment rate of 26.03% (as of Q4 2013). Following an exodus of working age Spaniards looking for employment abroad, population greying has accelerated. On current projections, Spain will have over 30% of its total population in retirement age by the year 2045.³ For employees Spain, a more certain economic environment (39%) is the second best incentive for saving for retirement.

Chart 9: A pay rise and better economic certainty offers the best incentives for saving

Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)

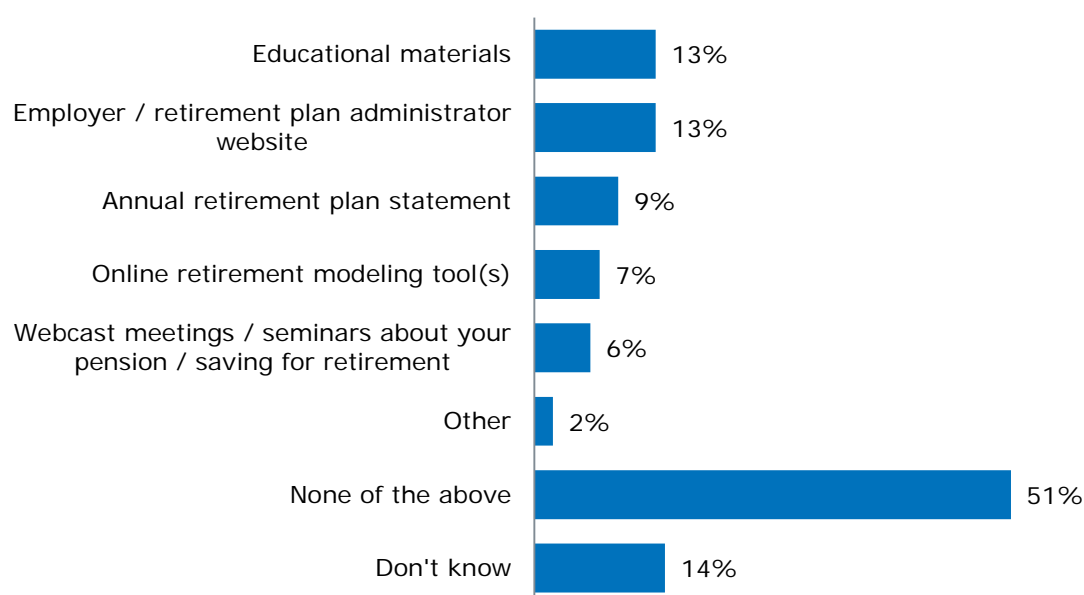


³ European Commission (2012), Spain in The 2012 Aging Report, EC [online] http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf

The average value of a public pension, relative to average earnings of a full-career worker entering the labour market in 2008, was 81.2% in Spain.⁴ This was far above the OECD average of 57.3%. The projected replacement rate has been brought down in recent years, standing at 73.9% in 2011, but the materials provided by employers to prepare their workers for the new realities of retirement in Spain remain poor. A majority of employees (51%) are of the view that their current employer provides no form of retirement support or planning services, with a further 14% unsure. Where these services are offered however they are found to be helpful. For example, 62% of employees offered company blogs or online networking groups found them to be very to extremely helpful.

Chart 10: Almost two thirds of employers do not offer retirement services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? (Base: Not fully retired, n=900)



The percentage of working age people in Spain enrolled in a private pension scheme is a relatively small 18.6%.⁵ The vast majority of these are personal plans, rather than occupational, and all of which are taxed at the point of withdrawal. The monetary value in saving through such schemes is questionable, and is effectively a vehicle for tax-deferral rather than tax-saving. Administration costs of pension plans in Spain are also uncommonly high, and their performance among the worst in the OECD.

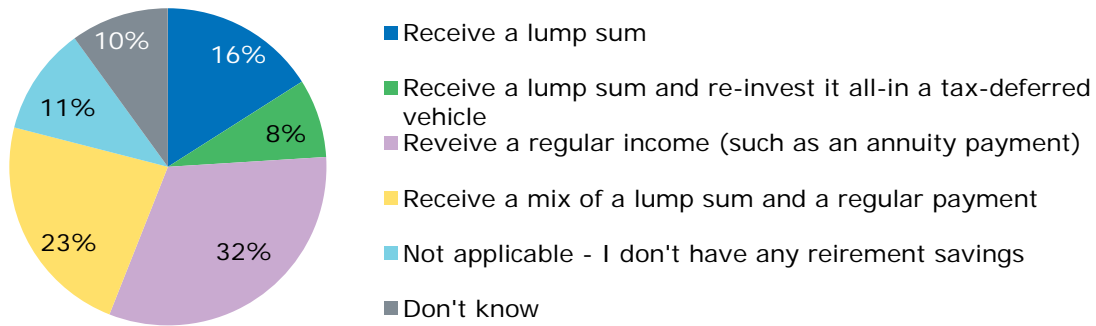
How Spaniards would choose to receive their retirement savings is split three significant ways. Respondents in our survey largely prefer a simple regular payment from their retirement savings (32%), although an additional 23% would choose to mix this option with a lump sum payment and a further 24% would take out a single payment – some of this group doing so with the view to reinvest.

⁴ OECD (2011), *Pensions in Spain: Policies for a sustainable recovery*, OECD [online] <http://www.oecd.org/spain/44686629.pdf>

⁵ OECD (2013), *Coverage of private pensions*, in *Pensions at a Glance 2013*, OECD, p 189 [online] <http://www.oecd.org/pensions/public-pensions/OECDPensionsAtAGlance2013.pdf>

Chart 11: A majority prefer to take either an annuity or a regular payment with a lump sum

Q. How would you prefer to receive your retirement savings when you retire from all paid employment?
 (Base: Not fully retired, n=900)



As the state pension age is extended to 67, the associated gradual reduction in working hours for some workers in their later years of working life, such as part-time working, would imply a reduction of state pension. Wages of the latter years would be lower and would thus provide a less favorable base from which the owed state pension is calculated.

There are positive coefficients in the case of working beyond retirement age, depending on the total amount of years worked (2.75% for 25 to 37 years of social security contribution, and 4% for more than 37 years). But due to the generous replacement rate, what would otherwise be a positive incentive to stay in work may not be sufficient if pension income at the point of retirement is already considered to be adequate.

5. A flexible transition to retirement

Most Spaniards expect to enter into full retirement immediately (52%). Just over a fifth (21%) intend to change the way that they work, whether it be working part-time in the short or longer term, whereas a further 13% state that they will continue to work as they currently do beyond the official retirement age. 63% of Spanish employers, however, are considered or not known to provide any help with phased retirement. [Q49] Unfortunately, this trend does not appear to be improving. Half (50%) of employees claim their employer offers 'about the same' level of information and support as three years ago, and only 5% believe more is now done.

Chart 12: A majority expect to retire immediately upon reaching the national retirement age

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=876)

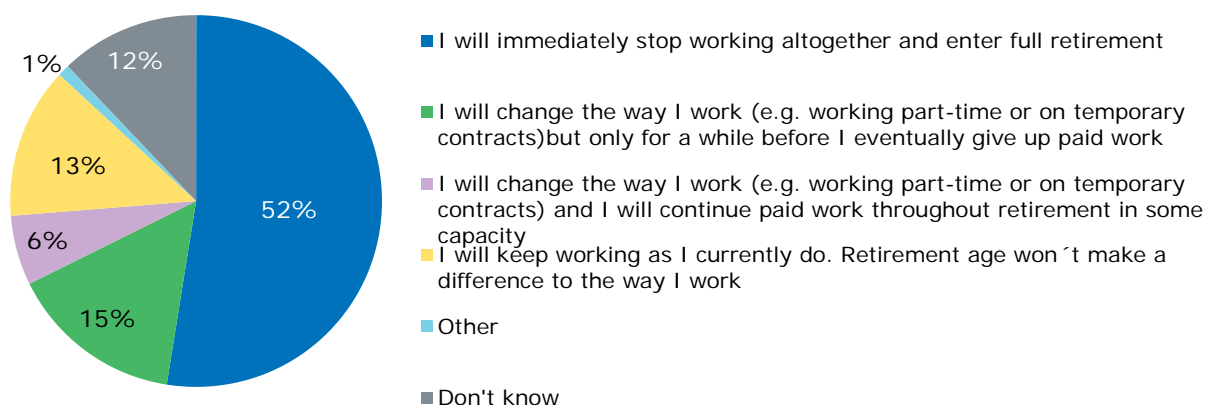


Chart 13: Nearly half of employers don't offer a plan tailored to those at retirement age

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)

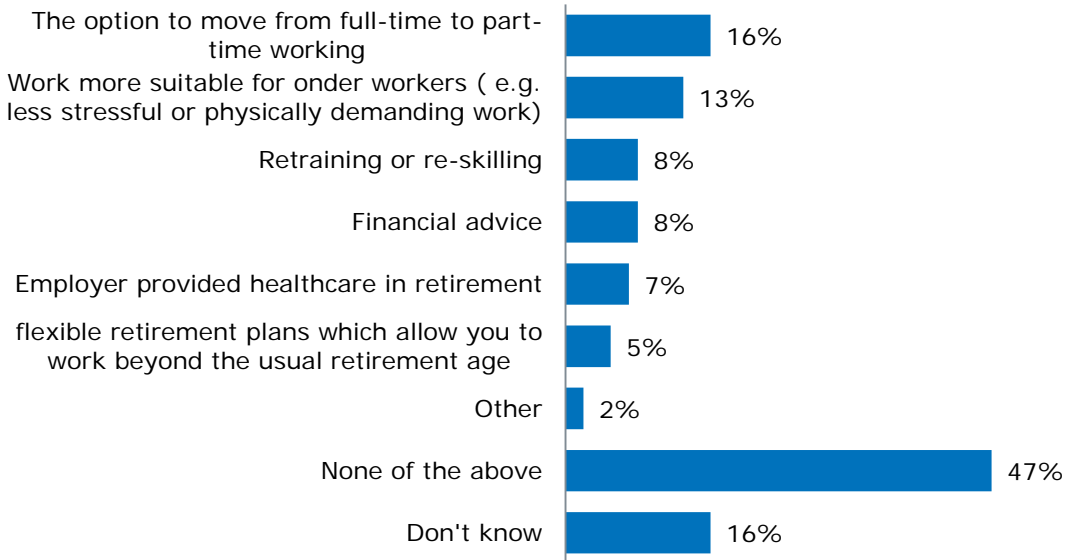
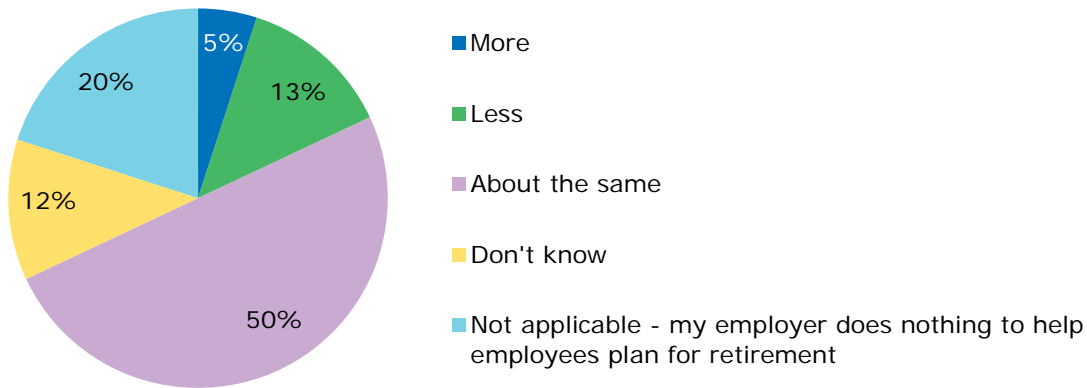


Chart 14: Very few employees think that their employer provides more information and support than 3 years ago

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: Not fully retired, n=900)



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