



United Kingdom Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings and recommendations

- **Retirement associations are positive:** UK respondents are more likely to associate retirement with positive words such as 'leisure' (48%) and 'freedom' (47%) than negative words such as 'insecurity' (15%) and 'poverty' (13%).
- **Improvement is needed in retirement planning:** while the majority (58%) of UK workers have a retirement plan, for only 12% is it written down. Another two-fifths (39%) do not have any plan at all.
- **Employers are a useful but underdeveloped resource:** Where employers offer retirement planning services they are found to be very useful by employees. However 36% of workers claim not be offered retirement services and 23% are unaware of what is available.
- **A flexible transition to retirement will be the new norm:** Half (50%) of workers expect to continue working in some capacity, whether part-time or on temporary contracts, after reaching the retirement age. Only 29% anticipate immediately transitioning into full retirement.
- **The UK ranks seventh in retirement readiness:** The UK scores 6 out of 10 on the Aegon Retirement Readiness Index and is placed seventh in our global ranking. A 'medium' score, this indicates that the typical UK worker is moderately prepared for retirement.
- **Take ownership of retirement planning:** The general optimism of UK respondents towards life in retirement has not necessarily translated into robust saving and planning. A plan of action can help people stay on track: individuals must be empowered to take charge of their retirement planning by taking time to consider goals, write down and review actions. Those currently in the workforce may find their financial outlook much improved once plans have been formalised..
- **Prepare for a phased retirement:** As more workers will transition from full to part-time work before retiring completely, it will become increasingly important to consider whether one's skills allow you to do so or if retraining is necessary to continue working in later life.
- **The government should encourage saving through greater tax assistance:** One third (32%) of workers say that more generous tax breaks on long-term savings products would encourage them to save more for retirement. As a starting point, individuals should make sure they make the most of existing tax efficient savings products when they are able to save.
- **Simpler is better:** The complexity of financial products and a lack of financial understanding can make saving unnecessarily difficult. However in recent years technology has put power in consumers' hands. New products and research services can often be done online or on mobile devices. Individuals should take advantage of solutions that enable them to act quickly and lead to better financial outcomes in retirement.
- **Consult a financial adviser:** The planning process may be helped by consulting a financial adviser. A majority (65%) of workers surveyed whose employer offers face-to-face meetings with an adviser indicate that they find professional financial advice very or extremely helpful.

The Survey

The findings used in this report are based on the UK responses of a 15 country survey, in which 16,000 people were interviewed. Respondents were interviewed using an online panel survey and interviews were 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](http://www.aegon.com/en/home/research). The range of issues covered in the research include attitudes to pension preparedness, which are used as the basis of the annual Aegon Retirement Readiness Index, as well as looking at the role of the government and employers in providing retirement benefits.

In the UK 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 UK 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 in this survey is to provide a broader perspective based on the mainstream working population.

1. Retirement in the United Kingdom

Retirement planning in the UK is undergoing a number of fundamental reforms. The UK's pension system has previously been difficult to understand and, even the process of pension tax simplification in 2006, resulted in more complexity.

- Currently the UK state pension system consists of the Basic State Pension, State Second Pension (S2P), and the Pensions Credit, which had previously extended means tested retirement benefits to as many as one-in-three retirees. A new single tier state pension comes in from 2016 and will lead to less complexity over time. There will however be a long transitional period which is likely to be complex.
- The rollout of automatic enrolment from 2012 until 2018 means that employers have to make pension contributions for employees who choose to stay in their workplace scheme once they have been auto-enrolled (employees can choose to opt-out). This has the potential to extend workplace pensions to 9 million employees.

- More flexibility in how people can use savings in retirement following the Government's recent Budget announcements. This liberalisation allows retirees, on top of accessing their tax free cash lump sum, to cash in their pension taxed at their marginal rate, as an alternative to buying an annuity or income drawdown. This will allow extra choice and flexibility from age 55.
- The government is also looking to impose a duty on providers and pension schemes to provide a new 'guidance guarantee' from April 2015. This will involve offering extra information to over 400,000 people annually in order to help them make informed decisions about their retirement income.

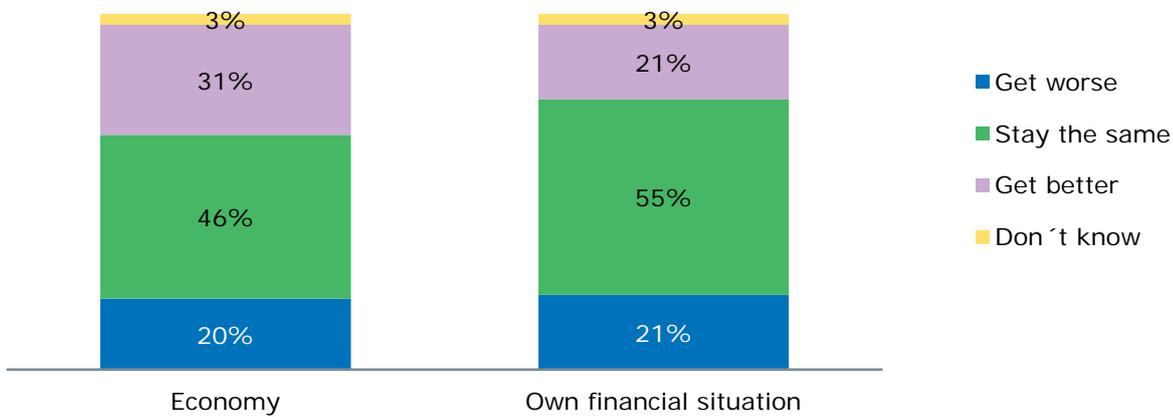
Consequently, the UK's retirement planning landscape is transforming. This report sets out the views of UK employees and retirees as to how the current economic climate is impacting their level of retirement readiness.

2. Retirement aspirations and expectations

Expectations for the economy remain tepid in spite of positive economic performance. Even though the UK economy is predicted to grow by 2.9% in 2014¹, the fastest growth rate in the G7, nearly half of those surveyed (46%) anticipate economic performance will not change over the next 12 months. [Q8] Over half (55%) say that their own financial situation will stay the same over the next year, while only 21% believe they will be better off. Most respondents are also concerned over the retirement prospects of future generations. Nearly two-thirds (65%) believe that future generations will be worse off in retirement than current retirees.

Chart 1: Expectations of the economy are more positive than for respondents' own financial situations

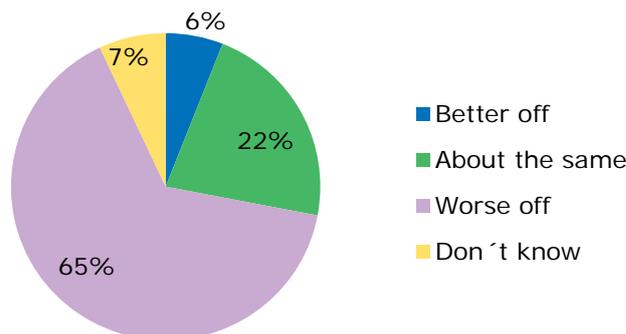
Q. Thinking ahead over the next 12 months, do you expect the economy in the United Kingdom to...?
 Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)



Respondents in India are amongst of most positive of all the countries surveyed, both with regard to expectations for the economy and their own financial situation in the next 12 months. For example, 48% expect the economy to get better during this time, and 34% expect it to stay the same. Furthermore, 57% expect their own financial situation to get better and 33% expect it to remain the same. Nearly twice as many Indians are positive on both measures than the global averages of 28% and 31% respectively. This relatively positive mood also extends to how Indians see future generations of retirees- nearly half (45%) believe that future generations of retirees will be better off than those currently retired, with only 18% expecting them to be worse off.

Chart 2: Future generations of retirees are expected to be better 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)

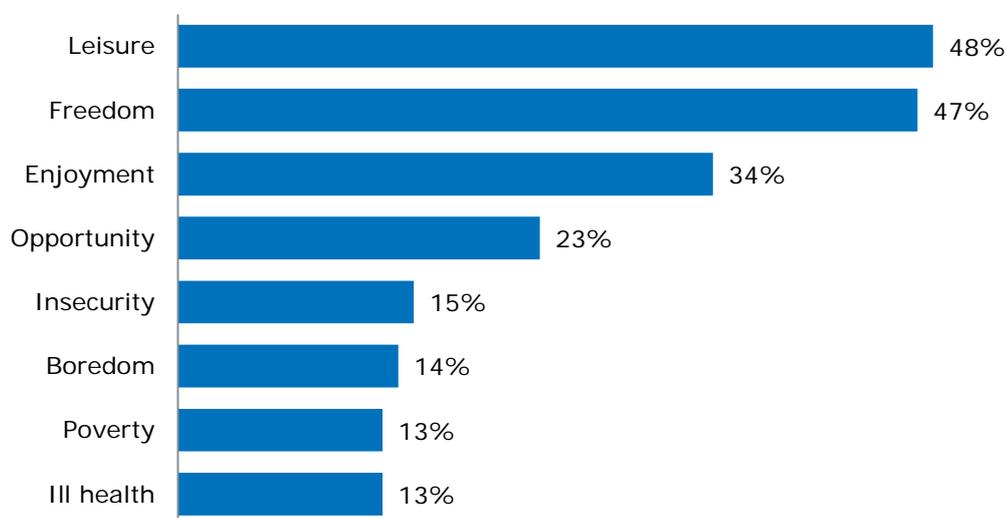


¹ International Monetary Fund. World Economic Outlook April 2014; see table 1.1

In spite of the economic backdrop since 2008, UK respondents have retained a largely positive attitude towards life in retirement. When asked to select words associated with retirement, nearly half of respondents chose 'leisure' (48%) and 'freedom' (47%), while slightly fewer said 'enjoyment' (34%). Aspirations coincide with these generally positive attitudes. More than half (56%) of respondents claim that travelling is an important goal in retirement, and a similar number (55%) aspire to spend more time with friends and family. One in seven (15%) associate retirement with 'insecurity' while slightly less (13%) associate it with 'poverty' and 'ill health'. However, at the same time people do have clear concerns around retirement. Two fifths (41%) of non-retirees are not confident that they will retire with a lifestyle that they consider comfortable and one-third (32%) of retirees doubt whether they will be able to maintain a comfortable lifestyle throughout all of retirement.

Chart 3: Leisure, freedom and enjoyment most associated with retirement

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



3. Planning for retirement

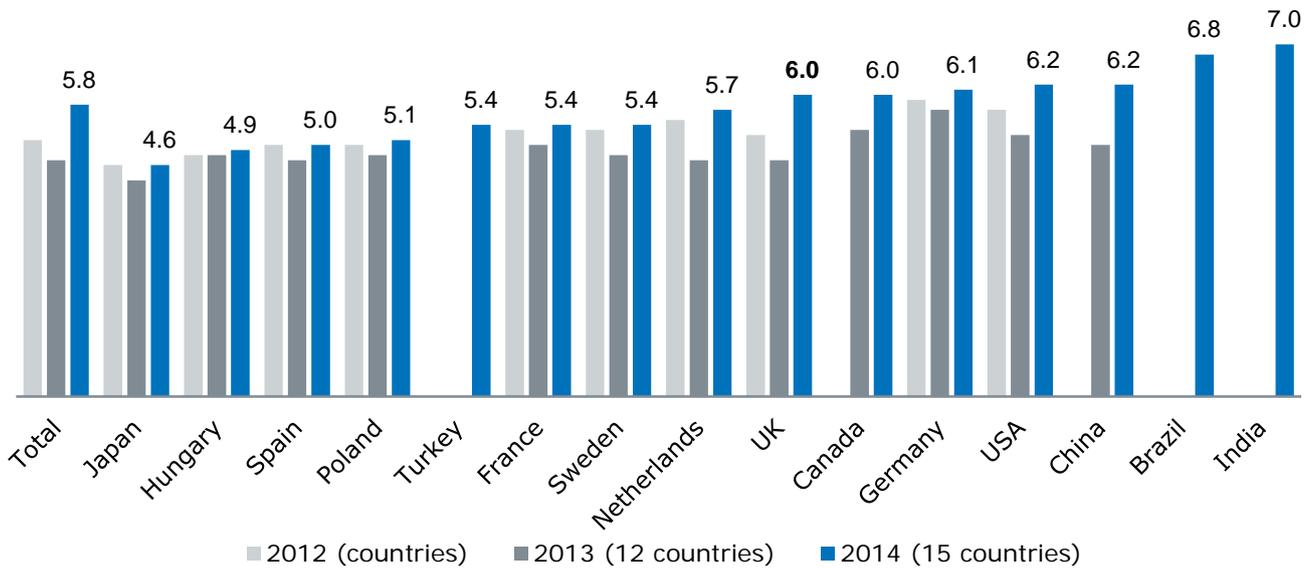
To better assess how well employees view their level of retirement readiness, we developed the Aegon Retirement Readiness Index (ARRI) weighting six survey questions covering attitudes towards personal responsibility, awareness, understanding, preparedness, income replacement and savings habits. By combining the 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 of readiness scores from last year and the UK was no exception. However, the retirement readiness scores remain low.

The UK's Index score of 6 out of 10 overtook the Netherlands in 2014 but continues to lag behind Germany and the United States. Brazil and India were introduced into the survey this year and now lead the global rankings. The UK's improvement can be attributed to an increase in retirement planning and financial preparedness scores which are weighted relatively heavily. A bounce in the stock market has helped restore some of the value and confidence in pension funds which were lost during the financial crisis. The UK has close to £1.5 trillion² (2012) invested in pension funds, much of which is held in UK equities which rose by 9% during the course of 2013.³

² OECD. Pension Markets in Focus 2013. Pp 37. [Online] last accessed 08/05/14 <http://www.oecd.org/pensions/PensionMarketsInFocus2013.pdf>

³ Caldwell, Kyle. Stock Market Predictions: what will the FTSE 100 do in 2014? The Telegraph Dec. 17 2014. [Online] last accessed 08/05/14 <http://www.telegraph.co.uk/finance/personalfinance/investing/shares/10522440/Stock-market-predictions-what-will-the->

Chart 4: The UK ranks seventh in retirement readiness in 2014



The low level of retirement planning in the UK helps to explain the low index score, even though it has improved since last year. Only one in five respondents (19%) believe that their personal retirement plans are very well developed. Nearly two fifths (39%) of non-retirees claim not to have any plan at all and only 12% have a plan that is written down. Only one quarter (27%) of respondents have incorporated back up planning into their retirement strategy, while two thirds (67%) would be left unprepared in these circumstances.

Chart 5: Nearly two fifths 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)

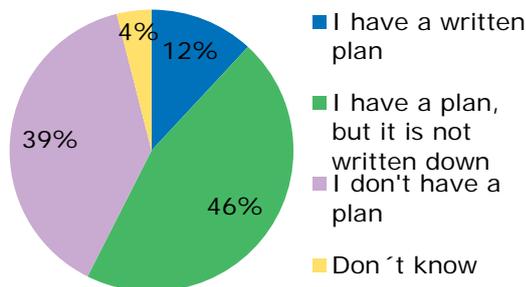
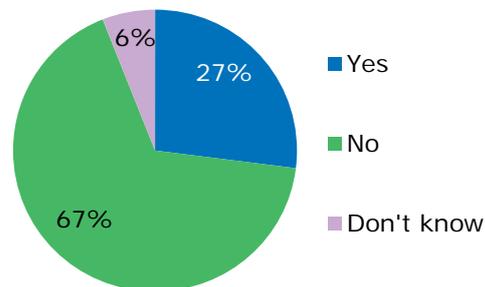


Chart 6: The majority do not have a retirement back-up plan

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)



Over three fifths (62%) of workers claim to be currently paying into a personal or workplace pension. On average they expect to receive of a gross annual income of 62% of current earnings. However less than one quarter (22%) of employees feel that they are actually on track to achieving this income. When asked if they knew how much income their pension would provide them with in retirement, the majority (70%) have a vague to exact knowledge of this amount. These attitudes coincide with earlier Government warnings in 2011 that 40% of consumers between 22 and the state pension age (SPA) will not save enough to meet their income targets.⁴

⁴ Department for Work and Pensions Perceptions of income requirements in retirement. 2011. [Online] last accessed 08/05/14 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214555/rrep773.pdf

4. Making saving easy

A lack of money is what stops most UK workers (62%) from saving for retirement. Almost half (46%) claim that a pay raise would encourage them to save more for retirement. Other incentives would include more generous tax breaks on savings and retirement products (32%), a more certain economic environment (22%), and simpler investment products (21%).

Chart 7: 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)

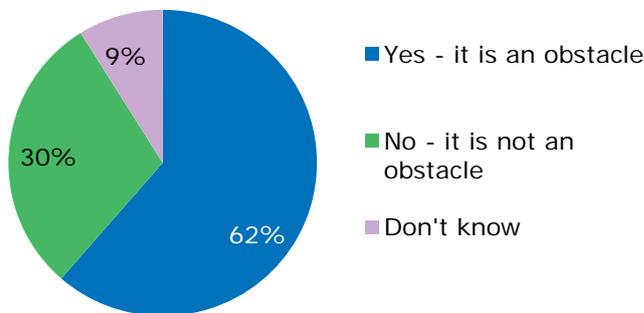
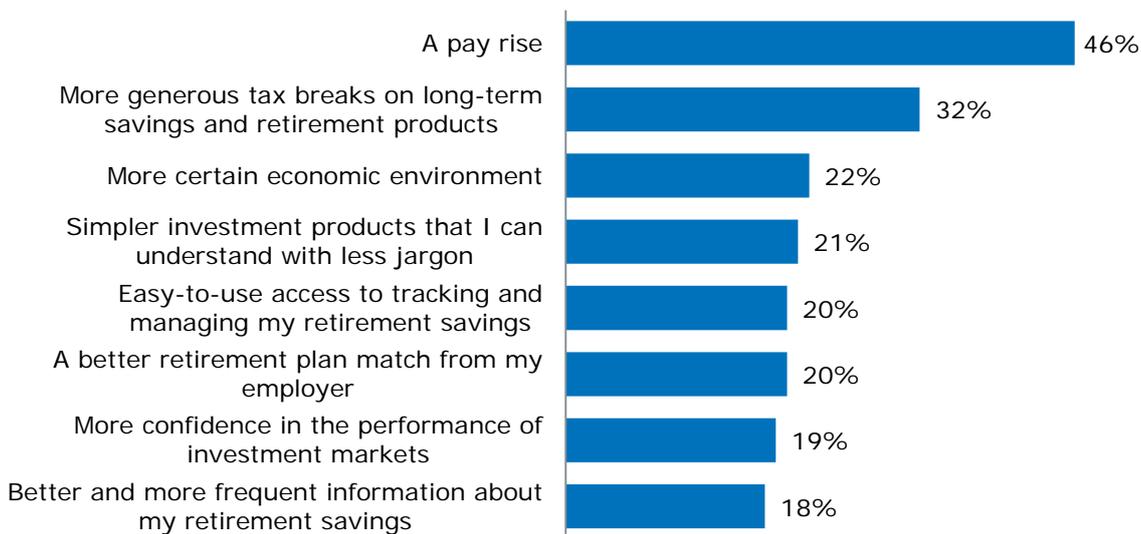


Chart 8: A pay raise, better economic performance and tax breaks offer best encouragement for saving

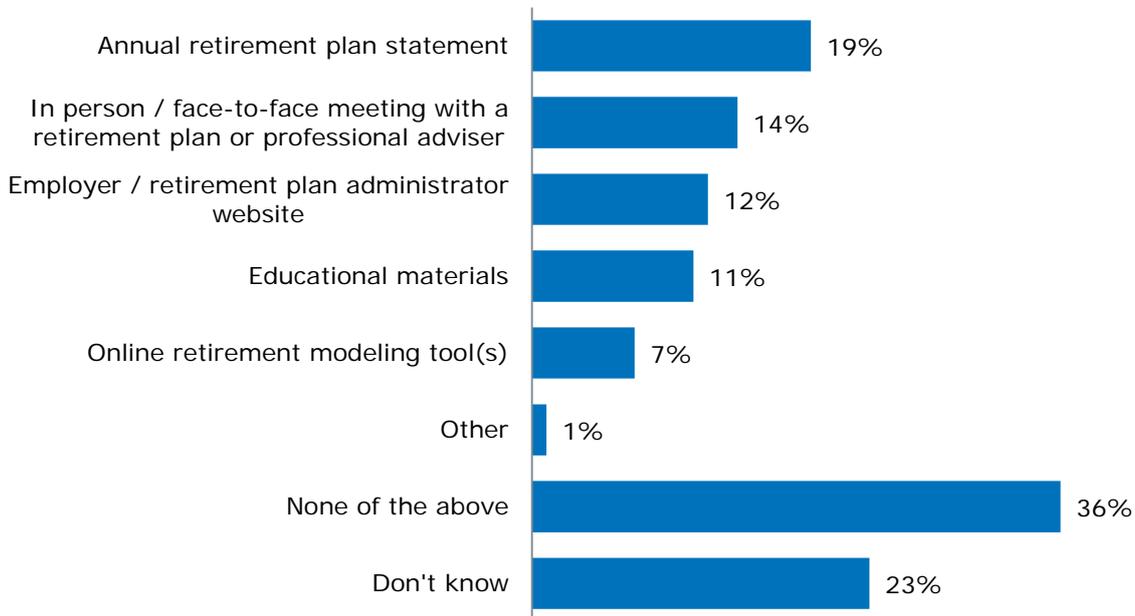
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivising people to save for retirement will involve a strong role for both the government and employers. Yet, most employees feel that their employer could be doing more. When asked whether their employer offers retirement planning services, 36% of employees claimed not to receive any services at all. Just one-in-five (19%) received an annual retirement statement. However, where employers do offer retirement planning services, employees find them to be very useful. Two thirds (66%) of respondents felt that offering employer or retirement plan administrator websites was very to extremely helpful. Likewise face-to-face meetings with professional advisers were found to be very or extremely helpful by 65% of respondents.

Chart 9: Over two thirds of employers offer 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)



Since October of 2012 the Government has introduced automatic enrolment of eligible employees into workplace pension plans. Contributions are required of up to 8% of band earnings by 2018 with employers contributing 3%, individuals paying in 4% and the government 1%. The Department of Work and Pensions (DWP) estimates there will be an additional 6-9 million persons saving or saving more into a private pension by 2018 because of the programme, generating an extra £8 to £12 billion of savings.⁵ Nevertheless there are concerns that auto-enrolment is still not sufficient to meet growing pension needs.

When asked what portion of their salary respondents considered a reasonable contribution both personally and by their employer, the preferred amount for personal contribution was 6.08%, just over 2% higher than the automatic enrolment minimum contribution, and for the employer it was 6.87%, over double what is required under automatic enrolment. If given the opportunity to be auto-enrolled into a workplace pension with a contribution level of 6% of earnings, the majority of respondents said they would find this attractive. Two fifths (41%) claimed that they would find a 6% contribution level appealing while nearly a quarter (23%) said it would be very appealing. The challenge ahead will be to enable savers to go beyond auto-enrolment and take further ownership of retirement preparation. Encouraging savers to make decisions about retirement including timing and quality of life cannot be achieved by legislation alone. The pensions industry must build engagement with savers in order to educate on early saving, planning and proper management of investments.

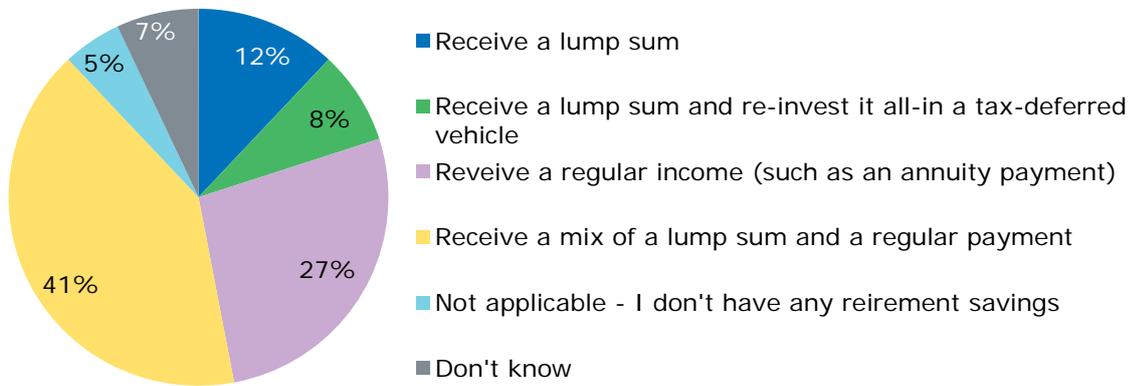
Another area which will help to make pension saving more appealing is to introduce greater flexibility into the long term savings market. The Government announced changes in the recent Budget that will support this.

Our findings suggest that pensioners will exercise their new found freedom wisely: only 12% said that they would prefer to receive a lump sum payment at retirement without reinvesting it. Meanwhile, two fifths (41%) would prefer a mix of a lump sum and a regular payment and 27% would choose to use all their savings purely to secure a regular income. This suggests that the annuity market will remain popular combined with increasing demand for income drawdown options. A role exists for employers, providers and government to support savers throughout this process. The proposed "guidance guarantee" will potentially offer greater access to information allowing people to make informed financial decisions when these changes take effect.

⁵ Department for Work and Pensions (2011).

Chart 10: Only a minority prefer to take a lump sum payment without any annuity

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

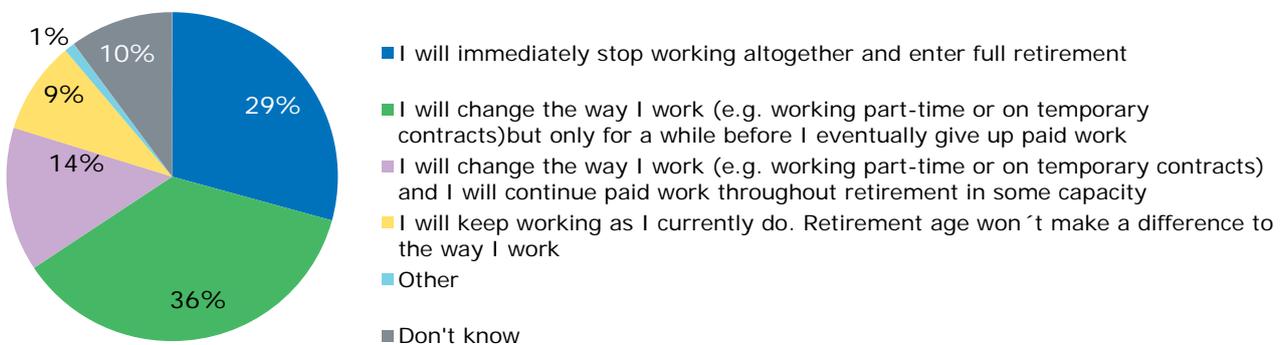


5. A flexible transition to retirement

Most workers do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part time or on temporary contracts, is the expected path by one half (50%) of people in employment. Only 29% expect to transition straight into full retirement. Despite this clear expectation of phased retirement, most employers do not yet provide workers with retirement options suitable for gearing down work in later life. Only a quarter (26%) of respondents claim that their employers allow them to move from full-time to part-time work and one in five (18%) employers allow workers to continue beyond the normal retirement age.

Chart 11: Most Indian workers do not expect to immediately retire altogether and enter fully retirement

Q. Looking ahead, how do you envisage your transition to retirement? (Not fully/semi-retired, n=840)



For many working into their 60s and maintaining the same profession will not be an option. Those, for example, involved in careers requiring physical labour may then need to change positions or industries to accommodate for work in later life. In order to ensure a successful transfer, retraining and education is an important step. However, we again see a provision gap on behalf of employers in supporting these services. When workers were asked whether their employer offered retraining services, only 7% claimed to have this option. It is not surprising

that workers feel more could be done to help them prepare for retirement. Over two fifths (43%) feel that their employer does not provide them with enough information and support to help with retirement planning. Unfortunately this trend does not appear to be increasing. Half (50%) of workers claim services offered are 'about the same' and only 11 % have seen an improvement.

Chart 12: Only a quarter of employers offer workers to move from full to part time work

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

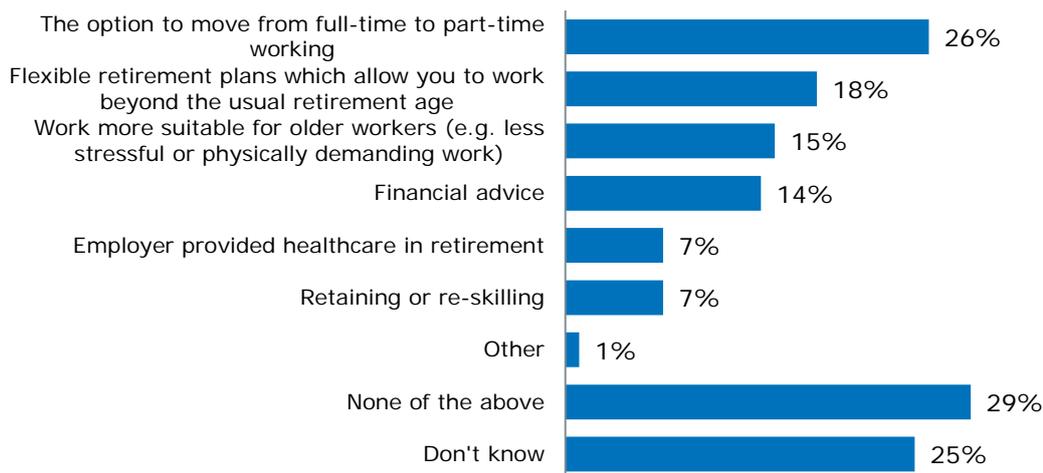
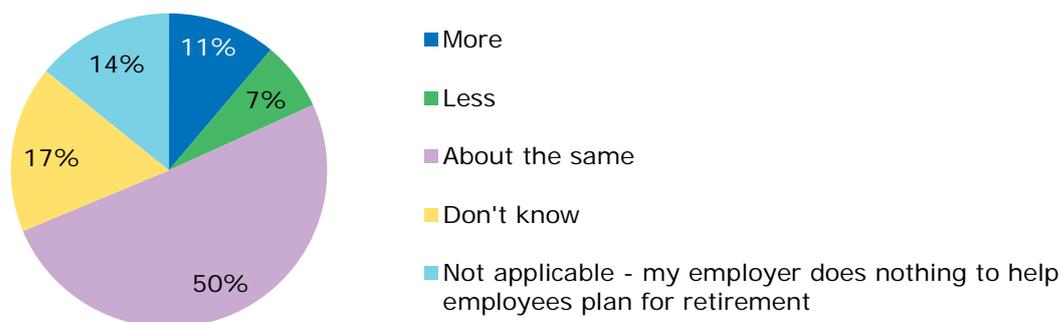


Chart 13: Retirement services offered by employers have not increased over the past three years

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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