



**AEGON**

Center for  
Longevity and  
Retirement



Germany Country Report

# Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

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## Introduction

Improvements in life expectancy have become an established fact of life. The expectation is that retirement will now last longer than childhood, providing clear public recognition that retirement is a major part of peoples' lives. As such, it rightly requires a robust approach to financial planning. However, while people may recognize that time spent in retirement is becoming longer, this is not reflected in their long-term planning.

Aegon's mission is to help people take responsibility for their financial future, and this has never been more important than it is today. The Aegon Retirement Readiness Survey series explores how increasing life expectancy is having a profound impact on how societies all over the world plan for retirement. Through the development of the Aegon Retirement Readiness Index (ARRI), our research is able to quantify what gaps remain for people to achieve a comfortable retirement. Undoubtedly obstacles exist that are out of the hands of individuals: interest rates in the Eurozone are at historic lows and aging populations put pressure on the funding of state pensions. However the fundamentals remain. Saving regularly and from an early age is the best way to attaining financial security in later life.

From a global perspective, our research shows that the overall trend is one of improving retirement readiness among today's generation of working-age people. The global ARRI score has edged up slightly from 5.76 (out of 10) in 2014 to 5.86 in 2015. This is the highest score since the survey began in 2012. In Germany, we find that strong momentum in retirement preparedness has been maintained over the past four years. Positive sentiment about retirement remains high and, in the short-term, people view their financial position as stable. Despite these circumstances, the lack of sound saving habits remains a significant obstacle to retirement preparation.

## Methodology

The Aegon retirement readiness survey is conducted in cooperation with the Transamerica Center for Retirement Studies® and Cicero Consulting. As part of the research, we calculate the Aegon Retirement Readiness Index (ARRI), a score on a scale of 1 to 10 which tracks how prepared people are for retirement.

The ARRI was created in 2012 to assess the relative levels of retirement preparedness among people in the countries included in our survey. Respondents are grouped according to whether they achieve a high index score (8 or above out of 10), a medium score (between 6 and 7.99) or a low score (below 6).<sup>1</sup> With a score of 6.1 this year, the Germany ranks 5<sup>th</sup> out of the 15 countries surveyed.

The 2015 findings are based on the responses of 14,400 employees and 1,600 retired people in 15 countries: Australia, Brazil, Canada, China, France, Germany, Hungary, India, Japan, the Netherlands, Poland, Spain, Turkey, the United Kingdom, and the United States. These countries were selected on the basis of their distinctive pension systems, as well as their varying demographic and aging trends. Interviews were conducted online between 6th and 23rd February 2015. In Germany, 1,000 people were questioned, 900 employees and 100 retirees.

<sup>1</sup> In 2015 we surveyed a total of 16,000 people in 15 countries around the world. This included 14,400 people currently in work and a further 1,600 people who are already living in retirement. The index is calculated using a group of questions measuring both behavior and attitudes of respondents regarding retirement preparation. For further information please see <http://www.aegon.com/index>

# Key findings

## Global

The Aegon Retirement Readiness Survey 2015 report, "Inspiring a World of Habitual Savers" explores how a global increase in life expectancy is transforming the financial planning landscape and, ultimately, how it is shaping expectations and aspirations for later life. In 2015, the findings reveal an increasingly positive picture about global retirement confidence. The improving fortunes of the global economy, compared with 2012 when this study was first conducted, is clearly impacting people's economic outlook. Compared with previous years, we see an increase in the number of people who feel positive about their own financial situation. This increasing positivity extends to the perceived prospects for future generations of retirees. While just 17% are feeling positive about future generations, this percentage has improved year-on-year. Positivity is also reflected in the slight, but welcome, improvement in this year's Aegon Retirement Readiness Index (ARRI).

However, this positive sentiment about retirement readiness is only partially matched by changes in savings behaviour. There has been an increase in the number of people saving for retirement as well as the number of people who are saving on a consistent basis; however, it is also clear that some people are feeling buoyed simply by the improving economic situation.

There are still many people who are not saving for their retirement and, too few are saving on a regular basis. Just 39% of employees globally are identified as "habitual savers," i.e., those who say that they always make sure that they are saving for retirement. This group is twice as likely to achieve a high ARRI score compared with the overall average.

In total, one-third of this group achieve a high score while three-quarters (75%) achieve at least a medium score. Saving on a consistent basis is therefore considered our gold standard of retirement planning.

The challenge is to inspire a world of habitual savers and make this a global trend. Within the global picture there are important variations. The positive sentiment and the feelings of retirement preparedness are greatest among the BRIC economies – of which our survey includes Brazil, China and India. In these higher growth societies, it is clear that higher interest rates are helping to boost the value of retirement savings. In Europe and North America, interest rates range between 0.05% and 0.75%; whereas we see rates of up to 13.25% in Brazil and 7.5% in India. Even allowing for higher inflation rates in the emerging markets, people still broadly benefit from positive real interest rates compared to Europe.<sup>2</sup>

The level of interest rates is likely to be a key determinant in a world where two-fifths of people (39%) now rely to some extent upon their savings to fund retirement. Savings are now a more widespread tool for retirement planning than either defined benefit pensions (used by 26% globally) or private pensions (used by 24%). This reliance on savings for retirement illustrates that individuals need more support and guidance to improve their retirement-related decision making.

The failure to allocate savings and investments appropriately, or to save consistently, demonstrates why we need to focus our efforts on changing behaviour among individuals. We must also recognize that making habitual saving a global trend is a shared responsibility among individuals, employers, and governments. Only by adopting a collaborative approach, which shares the financial burdens and risks associated with aging, can we hope to secure our future prosperity in retirement.

<sup>2</sup> Trading Economics website, as of 30 April 2015

## Germany

This report highlights the continued strong performance of Germany on the ARRI. As the impact of the financial crisis continues to recede, a sense of optimism is growing in Germany. People are recognizing that economic conditions have become more stable and this is reflected in their outlook towards their own personal finances. Most older Germans expect the economy and their own finances will remain unchanged or get better over the coming 12 months. Interestingly, more people among the general population were likely to feel that overall economic conditions would decline compared to their own personal finances.

Germans benefit from many favourable conditions that make saving for a comfortable retirement possible. As the fourth largest economy in the world in terms of GDP, Germany has been a bright spot in the troubled Eurozone. Historic lows in unemployment and rising wages have further helped to limit income inequality in society. Building on these successes, recent reforms regarding increases in annuities and benefits have made a secure retirement all the more attainable for workers.

- **Germans are very positive towards retirement**

When asked what words they associate most with retirement, leisure, freedom and opportunity are most common.

- **Yet many are not confident that they will be able to retire with a lifestyle that they consider comfortable**

Just 16% of workers are very or extremely confident that they will be able to retire with a comfortable lifestyle, while over two-fifths (44%) are not confident.

- **Germans are not translating their awareness of the need to plan for retirement into action**

The majority (83%) of workers are aware of the need to plan financially for retirement however just one-in-nine (11%) Germans feel that their plans are very developed.

- **Longer life expectancy is not on the minds of workers, worrying given that few have a clear understanding of their future income level in retirement**

Just over one-fifth (21%) of workers ages 50+ anticipate living more than 20 years in retirement and less than one-out-of-five Germans (18%) knows exactly what their future pension benefits will be. The combination of these facts could mean that people have fewer resources than they expected during their retirement.

- **The most commonly preferred form of retirement benefits are annuities providing a regular source of income**

Half (52%) of workers say that they would prefer to receive a regular income (such as an annuity payment), while just 6% say they would prefer a lump sum.

- **Germans recognize the need to have a strategy for their retirement assets**

Nearly half (46%) of respondents feel it is important to have an investment strategy for their assets in retirement. This increases to 64% among 'very high' income earners.<sup>3</sup>

<sup>3</sup> Very high' income earners are those with an annual personal income of USD 90,000 or above.

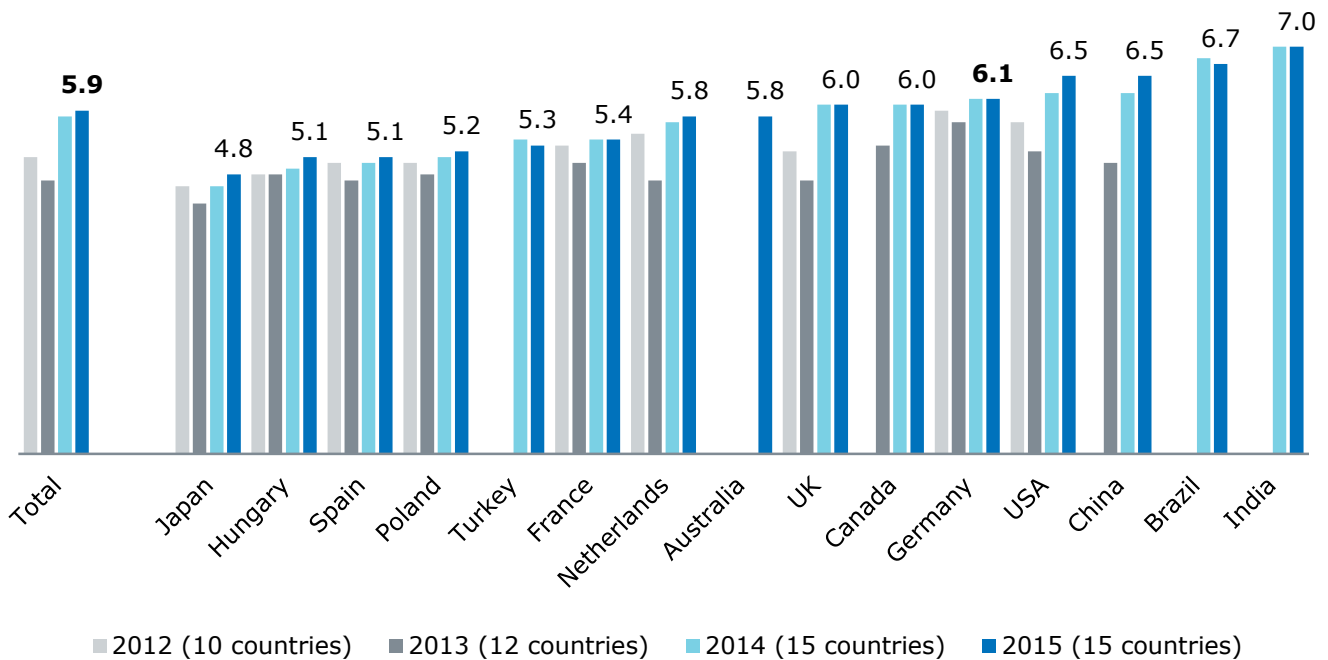
# 1. The Changing Retirement Landscape

German workers benefit from many favourable conditions that make saving for a comfortable retirement possible. Average worker earnings are higher than many others in Europe. Moreover, recent

reforms regarding annuities and increased in benefits have been made possible by rising employment and rising wages. The 2015 ARRI reflects these positive aspects of the German pension system.

**Chart 1: Germany places fifth in the 2015 Aegon Retirement Readiness Index (ARRI)**

I. Index numbered assigned Base: Not Fully Retired (n=14,400)



Despite Germany's strong ranking within the ARRI, there still remain hurdles to ensuring that everyone is able to prepare financially for their retirement. Savers are being squeezed by low interest rates, a feature common to all economies across Europe and North America. People are also concerned about financing what they consider a comfortable lifestyle in retirement. Perhaps most significantly, a large majority (80%) of Germans feel that future generations of retirees will be worse off than those currently in retirement.

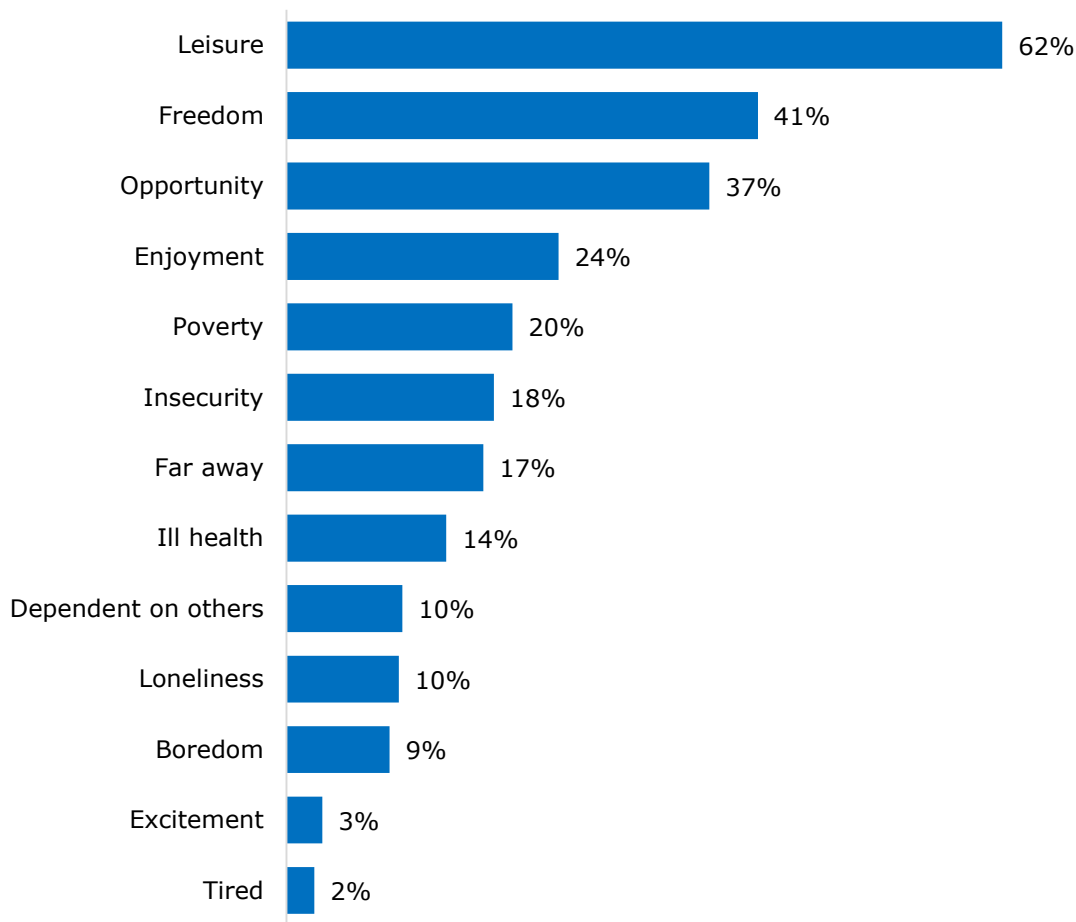
For workers in their 50's and older, retirement in the near future provides a slightly more optimistic picture. Older workers are more likely to score a 'medium; or 'high' index ranking than the population overall. This fact is understandable given that older workers have had almost a full career of saving towards retirement and the experience to learn what works when it comes to saving. However, a sizeable group of older workers are still struggling when it comes to feeling prepared for retirement. Just over two-fifths (42%) of workers aged 50 years or older scored 'low' on the ARRI.

## 2. Attitudes Towards Retirement

Perhaps unsurprisingly, Germans maintain a largely positive outlook on retirement. When asked what words people associate most with retirement, leisure, freedom, and opportunity topped the list. Very few view retirement negatively. Ill-health, tiredness and boredom are among the least mentioned associations. Overall 77% of associations are positive and 46% are negative.<sup>4</sup>

### Chart 2: Retirement associations are very positive

Q. Which, if any, of the following words do you most associate with retirement? Base: All Respondents (n=1,000)

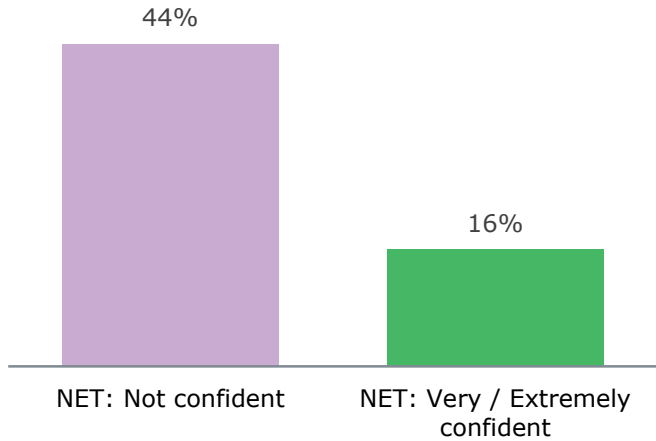


However, when considering financial elements of retirement, this strongly positive sentiment begins to shift. Despite envisioning retirement as a time for leisure and freedom many German workers are not confident that they will retire with a lifestyle that they consider comfortable. Just 15% of workers are very or extremely confident that they will do so, while over two-fifths (44%) are not confident.

<sup>4</sup> Up to three responses were allowed to this survey questions giving a total greater than 100%

**Chart 3: More than two-fifths are not confident they will retire in a comfortable lifestyle**

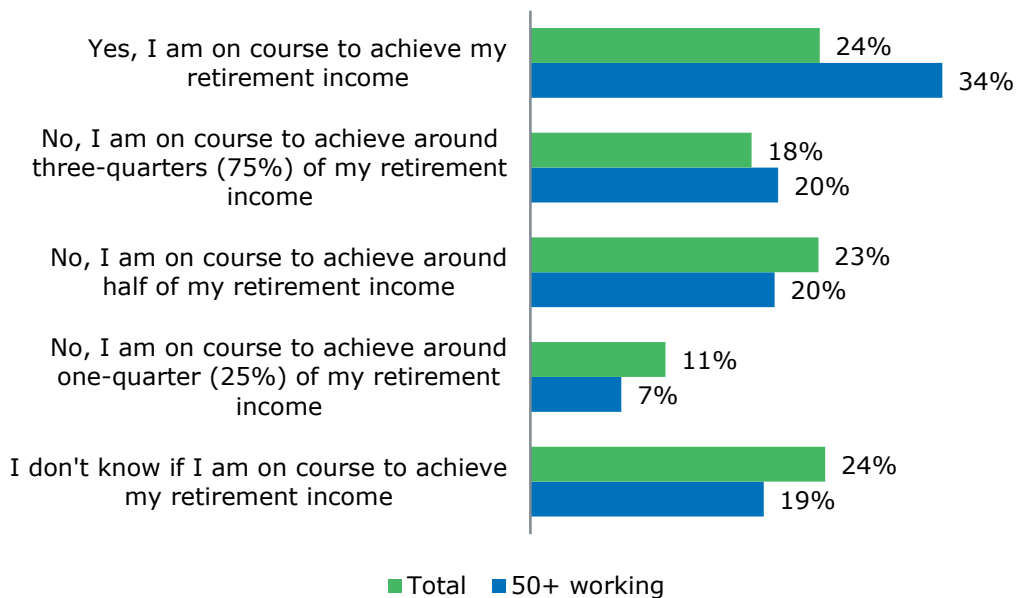
Q. Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable?  
 Base: Not Fully Retired (n=900)



Digging deeper, we find that, on average German workers, anticipate that they will need three-quarters (75%) their current annual salary (before taxes) per year in retirement. When asked how confident workers are in attaining this level of income in retirement, the results are again worrying. In total, only one-quarter (24%) of workers feel they are on course to fully achieve the income level they will need in retirement. Among the 50+ age group, this is slightly greater, at one-third (34%), however this is still troubling given their proximity of retirement.

**Chart 4: Few workers feel fully on course to achieve the income level needed in retirement**

Q. Do you think you will achieve this income? Base: All Respondents (n=900)



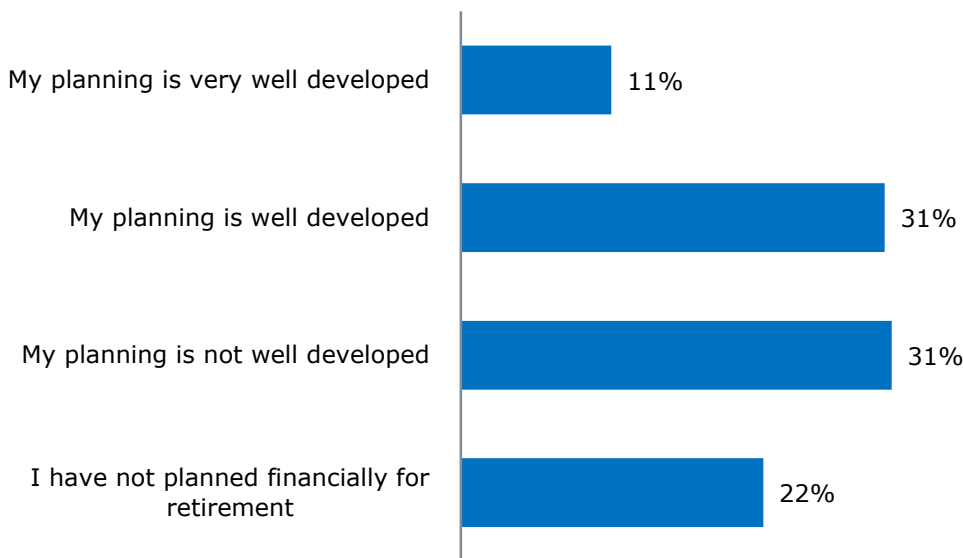


### 3. Planning for Retirement

Workers' anxieties towards the financial aspects of retirement are inevitably linked to their progress in personal planning. We find that there is a contradiction between people's awareness of the need to plan and what actions people are taking to do so. The majority (83%) of workers feel they are aware of the need to plan financially for retirement. Levels of awareness further increase with income, among 'very high' income earners (having a personal income of USD 90,000 or higher), this level reaches 91%. Yet when people are asked how well developed their retirement planning is, just one-in-nine (11%) feel that their plans are very developed. Over half (53%) say their planning is either not well developed or that they are not planning financially for retirement at all.

**Chart 5: Awareness of the need to save does not match actual planning**

Q. How well developed would you say your retirement financial planning is?  
Base: All Respondents (n=1,000)

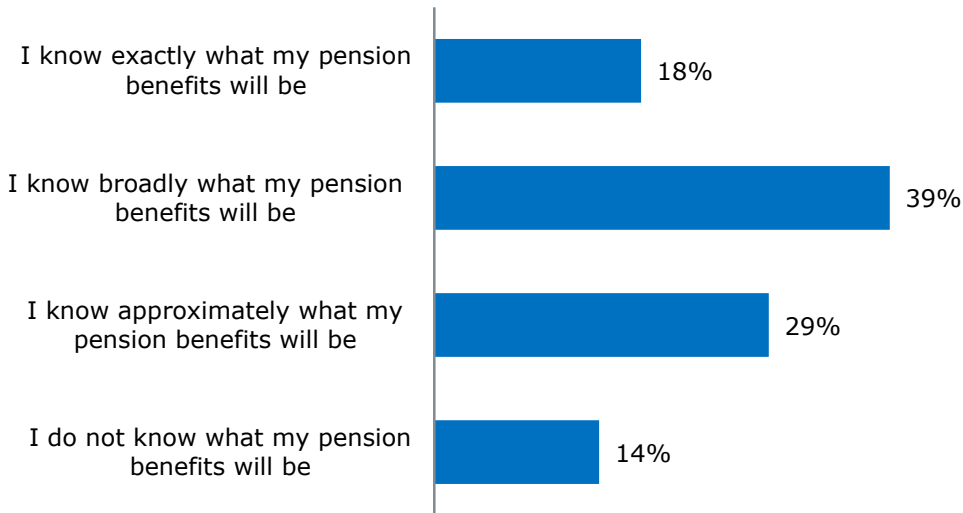


Importantly, while Germans need to improve the extent to which they plan for retirement, they also need to be realistic about the cost of retirement. Just over a fifth (21%) of German workers who are older than 50 expect to retire from all paid employment at the age of 65 and spend an average of 20 years in retirement. As longevity continues to improve in Germany, people need to anticipate funding longer periods of time in retirement than previous generations.

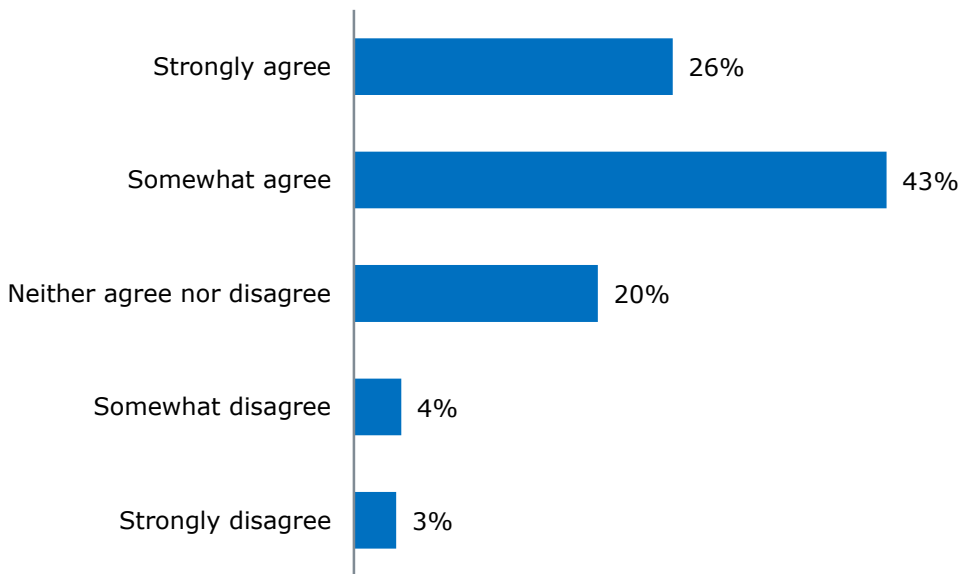
What is perhaps more worrying is that less than one-out-of-five Germans (18%) knows exactly what their future pension benefits will be. We find that the older a person is, the more likely they are to have a better idea of their retirement income. Nevertheless, almost half of all respondents (43%) do not have an accurate overview of their future retirement income. While a majority of Germans (68%) agree that they are interested in 'knowing whether they will be financially safe in retirement', more than a quarter (27%) say that they are either not interested or neither agree nor disagree with this statement. Looking at the broader picture, it is concerning to note that a large number of Germans are not planning far enough into the future, are uncertain as to the level of their future income, or perhaps disinterested in knowing whether they are on path to a financially sound retirement.

**Chart 6: Obstacles to retirement finances: uncertainty over actual retirement income and interest in understanding progress**

Q. Which of the following best describes how much you know about your likely pension benefits?



Q. I am interested in knowing whether I will be financially safe in retirement



We have seen that although Germans are optimistic about retirement, they are falling short when it comes to actively making financial plans. As a result, many do not feel confident in their ability to attain the income they expect to need in retirement. Indeed, by not taking increased longevity into consideration they may even be short in their estimations about the cost of retirement. Important elements of retirement planning still remain to be discussed. Aside from planning, what are workers doing with their money now to save and invest for retirement? And do Germans have plans for their finances while in retirement?

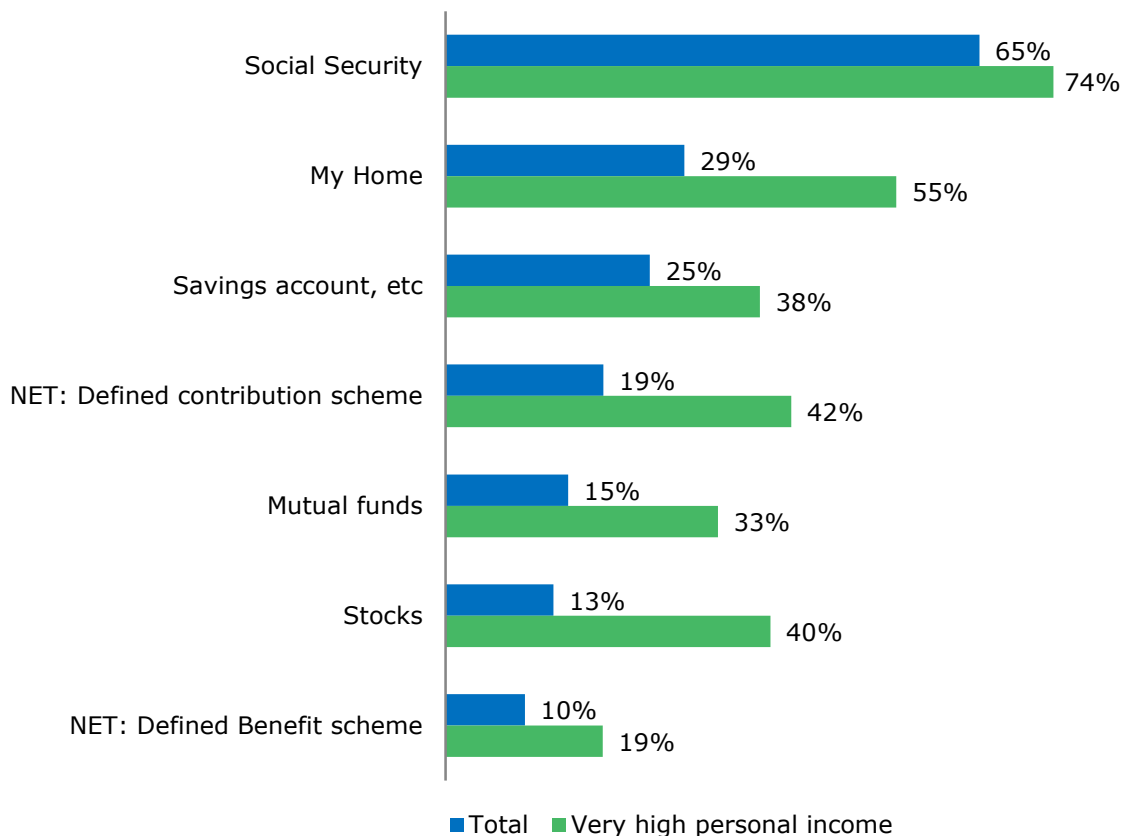
## 4. Saving and investing for retirement

Approximately two-thirds of Germans (65%) say they are relying on the social security to prepare for retirement, while 29% say their home property and 25% savings accounts. Reliance on the social security increases as people get older, with almost three-quarter (74%) of workers aged over 50 placing reliance on this source of income. Germans earning

higher incomes also rely on different sources of vehicles to help them prepare for retirement. Four-in ten people (40%) in the 'very high' income band are using stocks and one-third mutual funds (33%), significantly higher than average earners using these products (14% and 18%, respectively).

**Chart 7: State pension/support is the most commonly utilized vehicle for retirement saving  
High income households are using stocks and funds**

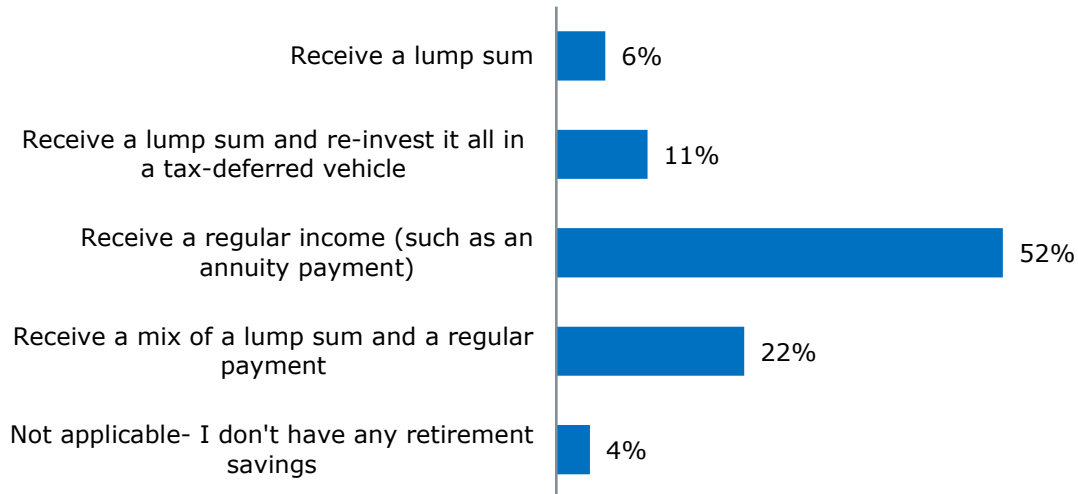
Q. Which financial means, if any, are you currently using to prepare for your retirement? Base: All Respondents (n=1,000)



When considering their future retirement benefits, workers show a strong preference for receiving payments in the form of an annuity providing a regular source of income. Half (52%) of workers say that they would prefer to receive a regular income, while just 6% say they would prefer a lump sum. People in Germany also find it important to have a financial plan once they reach retirement. Nearly half (46%) of people say that they feel it is important to have an investment strategy for their assets in retirement, increasing to 64% among 'very high' income earners.

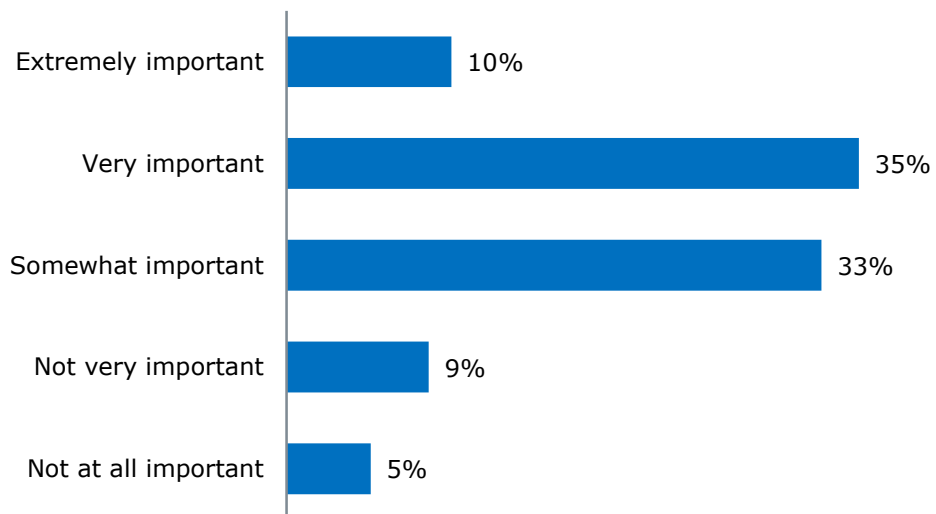
**Chart 8: A majority of workers would prefer benefits providing a regular income stream**

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



**Chart 9: Having an investment strategy for assets while in retirement is important to Germans**

Q. How important is it to you that you have an investment strategy for your assets in retirement?  
Base: All Respondents (n=1,000)



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