



AEGON

Center for
Longevity and
Retirement



Spain Country Report

Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

Contents

Introduction	1
<i>Key Findings</i>	1
1. Spain's Changing Retirement Landscape	2
2. Retirement Expectations and Aspirations	4
3. Retirement Saving and Planning	7
4. The Retirement Savings Habit	9
<i>Recommendations</i>	13

Introduction

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. It also sets out how this changing financial landscape is impacting on people's expectations and aspirations for later in life. In Spain, the picture of retirement readiness has changed little during the three years since we launched the study. Optimism remains subdued both in terms of how people view the prospects for the Spanish economy, as well as how they view their own personal finances. The need to change fundamental savings behaviours remains a major priority towards improving retirement readiness. Through the development of the Aegon Retirement Readiness Index (ARRI), our research is able to quantify what gaps remain to achieving a comfortable retirement for workers across Spain. Undoubtedly obstacles exist that are out of the hands of individuals: interest rates in the Eurozone are at historic lows and an ageing population is placing ever greater pressure on public finances at a time when they are already being stretched. In order to overcome these challenges, the need to get more people saving regularly, and getting them to start saving at an early age, provides the surest means to attaining financial security in retirement.

Key Findings

■ **Spain ranks third lowest in 2015 Aegon Retirement Readiness Index**

With a score of 5.1 out of 10, which is well below the overall average for all 15 countries (5.9), Spain is assessed as having one of the lowest levels of retirement readiness. Globally, Spain ranks 13th out of the 15 countries included in our 2015 survey.

■ **While most Spaniards understand the need to save for retirement many are failing to put this into action**

There remains a great deal of concern over the financial aspects of planning for retirement. A lack of consistent saving and retirement planning is at the root of this financial anxiety. Currently, only one-in-five (20%) Spanish workers claims to have a written plan for their retirement. Digging deeper, just under a half (47%) have no retirement plans at all.

■ **Spanish workers also lack a broader sense of financial resilience against unforeseen financial shocks**

Even more disturbing, but perhaps predictable considering the economic climate in Spain, is that two-thirds (65%) have no backup plan if they are faced with an unpredictable life event preventing them from continuing working before their planned retirement age.

■ **Constructing a savings landscape that encourages habitual saving is the responsibility of individuals, employers and government**

Key to retirement preparedness is consistent saving from a young age. While individuals need to adopt a savings mind-set, employers and governments play a crucial role in encouraging saving. Helping the nascent third pillar pensions market through major public policy changes, such as automatic enrollment or auto-escalation into workplace pensions -as employed in other European markets- will help to drive the necessary changes.

1. Spain's Changing Retirement Landscape

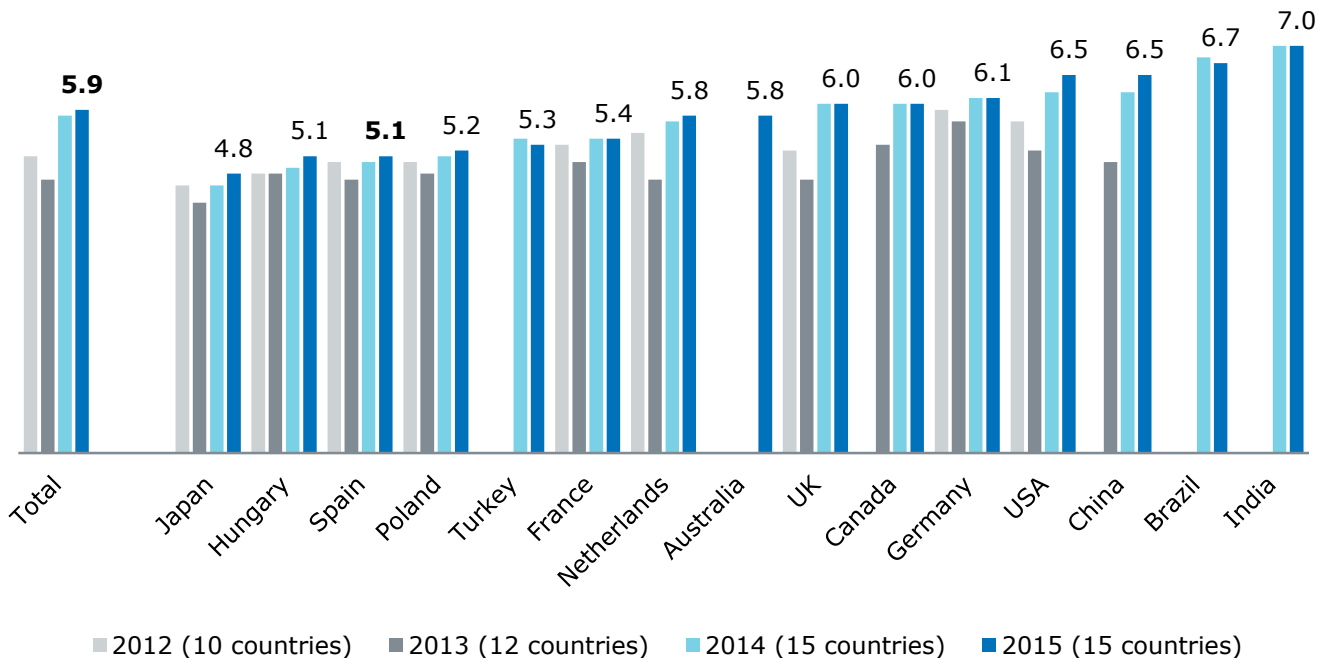
The prolonged economic downturn after the 2008 financial crisis has dampened efforts to improve Spain's retirement readiness. The downturns in Spain's real estate market and the high levels of unemployment have overshadowed efforts to better prepare for retirement. In this economic climate, workers' attempts to contribute towards their retirement have been limited by mistrust of job security. An additional factor that may contribute to weak retirement preparedness is that the average Spanish worker's wages are among the lowest of countries in the OECD.¹ But as recently reported, the economy is being making positive strides: growing at an annualized rate of 2.6% Spain is now among Europe's better performing economies.²

Our survey next year may well reveal evidence that Spain has turned the corner during 2015, but for now the evidence shows that 2014 remained a difficult time for those employees contemplating retirement planning.

The 2015 Aegon Retirement Readiness Index (ARRI) reflects this economic trend. The ARRI was created in 2012 to assess the relative levels of retirement preparedness across employees in all countries included in our survey. Respondents are grouped according as 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).³ With a score of 5.1 this year, Spain ranks as one of the lowest in retirement preparedness out of the 15 countries surveyed.

Chart 1: Spain places 13th in the 2015 Aegon Retirement Readiness Index (ARRI)

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



¹ OECD Pensions at a Glance (2013)

² Trading Economics, May 2013

³ 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>.

With the economy beginning to show signs of improvement, there still remain hurdles to ensuring that everyone is able to prepare financially for retirement. Savers are being squeezed by low interest rates, a factor which is common to all economies across Western Europe and North America. People too are concerned about the future of social security and the possibility of retirement benefits being reduced. Perhaps most significantly, over two-thirds (68%) of Spaniards believe future generations will be worse off in retirement than current retirees. Interestingly, this view increases significantly with age (52% among ages 18-24 up to 74% among 55-64 year olds) meaning that younger people may not even be thinking about this possibility, even though their generation will be the most directly affected by a potentially less generous retirement system.

“...over two-thirds (68%) of Spaniards think that future generations of retirees will be worse off than those currently in retirement.”

Women and younger generations are very much ‘at risk’ of experiencing low levels of retirement preparedness. For women, the need to balance family

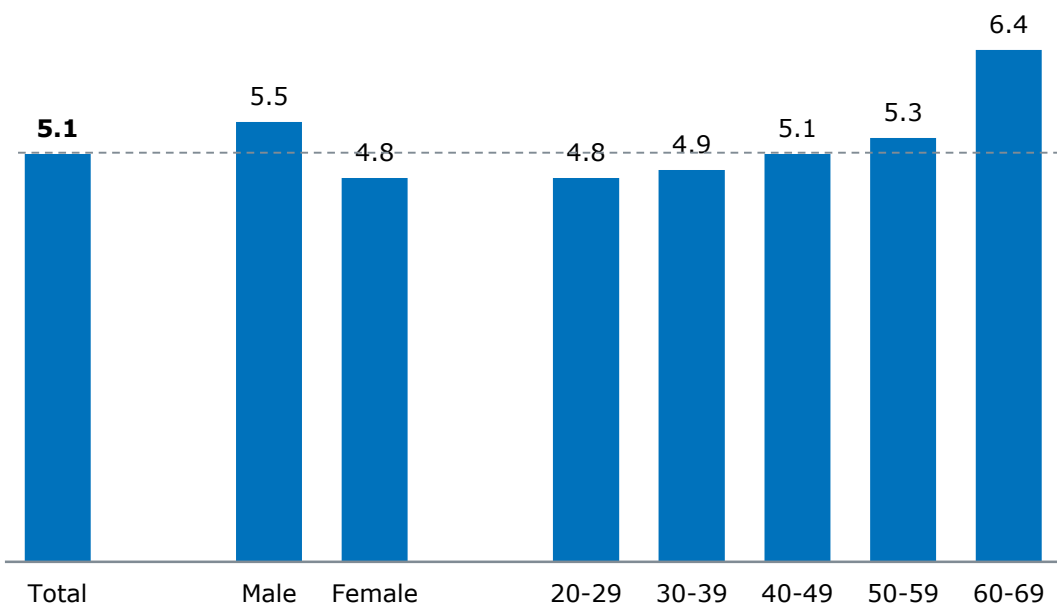
and career means that they are more likely to be absent from the job market. Nearly three-quarters (72%) of women in Spain scored a ‘low’ index ranking (less than 6.0) compared to 57% of men.

For younger workers, it is understandable that retirement preparation takes time. But what is concerning is that successful financial habits are typically not adopted among younger age groups. It is only when we look at those in their 40s that those behaviours, and the sense of retirement readiness, become more positive. This is simply too late to secure the kind of retirement people anticipate. With people expecting to need on average 69% of their working age income in retirement, many people will fall short of this if they defer retirement savings until they reach their 40s. The ARRI score of young workers remains persistently low around the globe, despite our research showing that effective savings habits are possible even among those on more modest incomes.

This report highlights the factors that have resulted in a low ARRI in Spain. Important questions remain. How to make real changes in savings behavior? How to encourage individuals to contribute more consistently and feel more positively about their retirement finances? The following section shows how people view retirement and what expectations lie ahead.

Chart 2: Women and young workers have lowest ARRI scores

I. Index numbered assigned Base: Not Fully Retired (n=900)



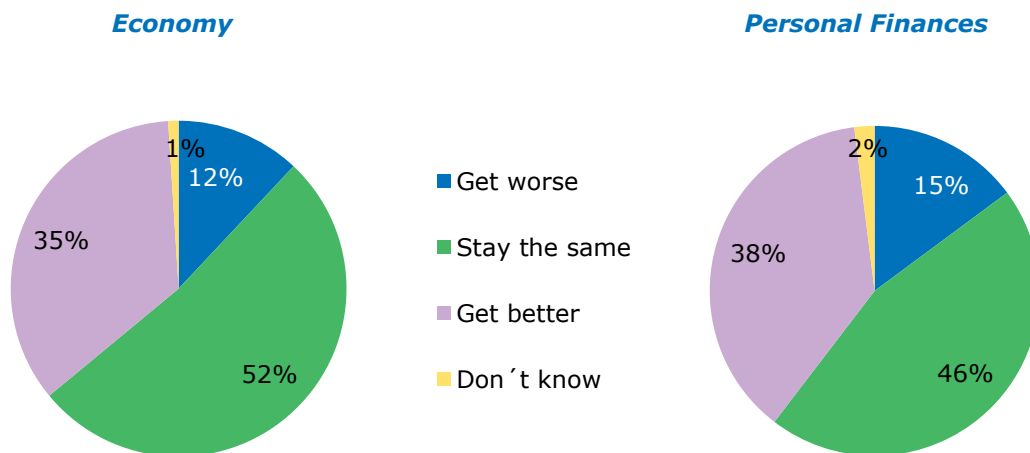
2. Retirement Expectations and Aspirations

After enduring a long period of recession and austerity, optimism appears to be growing among Spanish workers. Nearly half (46%) of Spaniards expect the economy to remain unchanged over the coming 12 months while a slightly greater number (52%) expect their personal finances to do the same. In fact, nearly two-fifths (38%) believe the economy will get better and one-third (35%) feel the same for their personal finances. This is a typical mindset shared across both men and women.

It is interesting to note that while most of the younger workers agree that the economy will stay the same, they are considerably more optimistic about their own personal finances growing in the next 12 months. Over half of 18-24 year olds (54%) and half of 25-34 year olds (49%) believe their personal finances will improve over the next 12 months. They may be encouraged by recent news that unemployment will experience a steady decline resulting in greater job creation and perhaps the opportunity to move on to new jobs and earn more. Already over the last 2 years, we have seen Spain's jobless rate fall from a peak of 27% in 2013 to below 24% as of today.⁴

Chart 3: Economy and personal finances not expected to change over coming 12 months

Q. Thinking ahead over the next 12 months, do you expect the economy in Spain to...? And thinking ahead over the next 12 months, do you expect your own financial situation to...? Base: All Respondents (n=1,000)



Spaniards envision a notably active and social retirement, more so than we find in other many countries around the globe. They will be more likely to travel (74%), spend time with family (60%) and pursue new hobbies (47%). Half (50%) are optimistic that they will maintain good health during their retirement years, perhaps in anticipation of pursuing these leisurely activities. Working in any capacity (e.g. full or part-time, working for a while longer before retiring, continue working as before retirement age, etc.) does not play a role in their retirement plans.

A majority (54%) will immediately stop working and enter full retirement at their expected retirement age.

Most Spaniards (68%) have a positive view of retirement. Words associated the most with retirement mirror views of their retirement pictures - enjoyment (43%) tops the list followed closely by freedom (37%) and leisure (37%). Few view retirement negatively, with around one-in-ten associating it with poverty (10%), dependency on others (10%), loneliness (9%), ill health (9%), tired (9%) or boredom (7%).

⁴ National Statistics Institute (INE)

Chart 4: Most Spaniards expect an active retirement

Q. Which, if any, of the following are important retirement aspirations for you? Base: All Respondents (n=1,000)

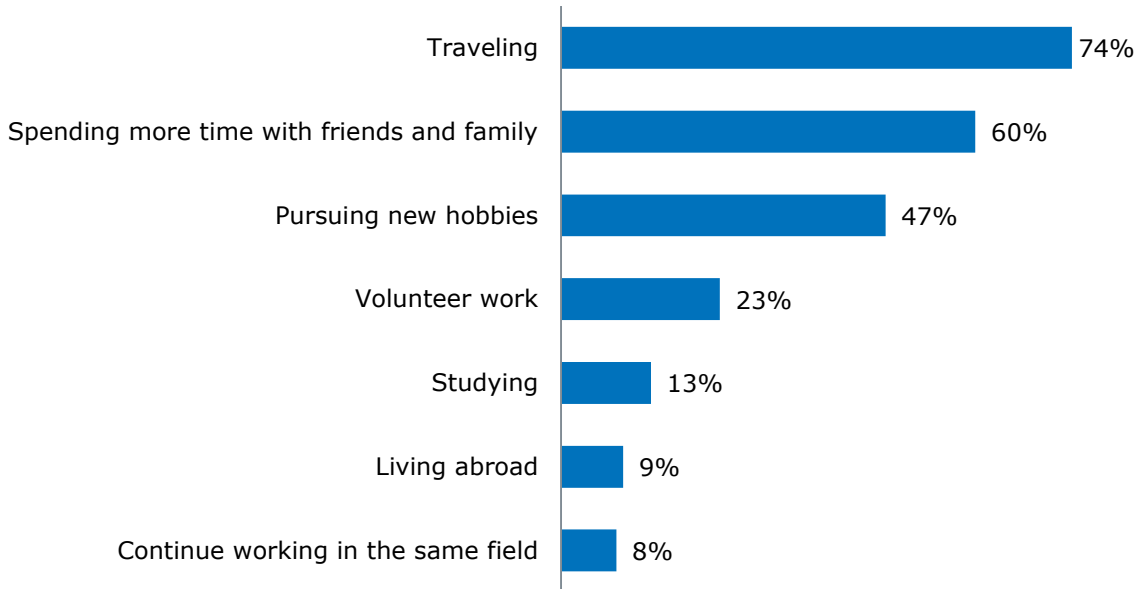


Chart 5: Most Spaniards will stop working at full retirement

Q. Looking ahead, how do you envisage your transition to retirement? Base: Not Fully/ Semi Retired (n=877)

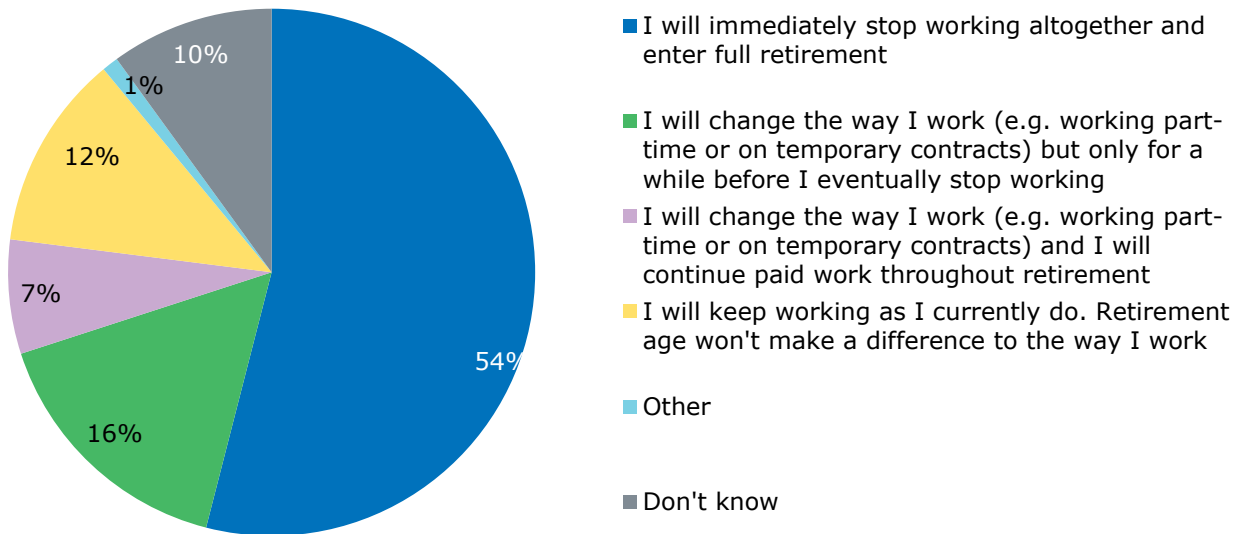
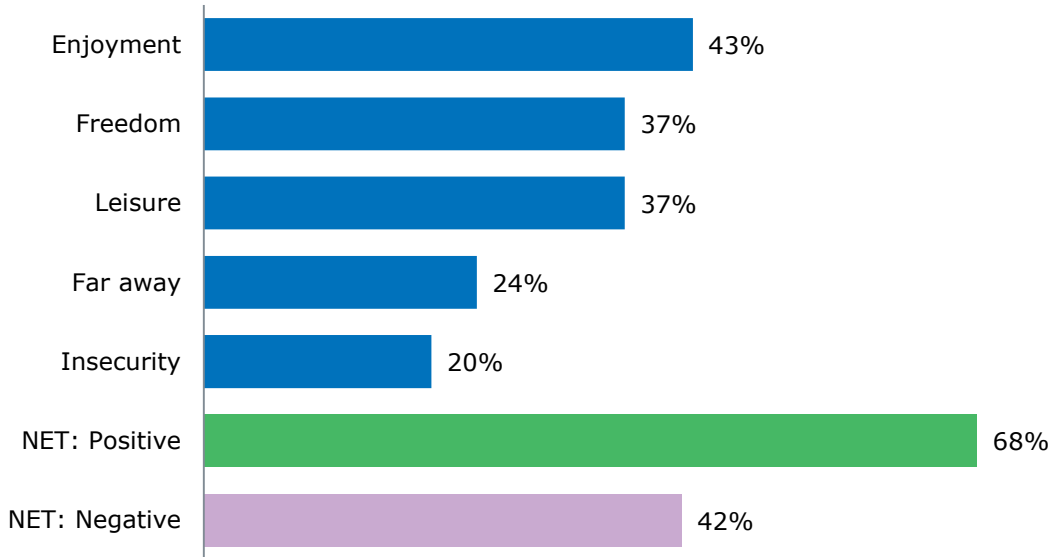


Chart 6: Retirement is generally viewed positively

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



The financial burden of preparing for their retirement is a major cause for concern for most Spaniards. Many doubt that the security they envisage in their retirement years will become a reality. Nearly three-in-five (56%) workers are not confident that they will retire with a comfortable lifestyle, particularly women (63%). This high level of insecurity runs across all ages.

Healthcare costs can prove to be another stumbling block that may impede contributions to future finances. A third (32%) of workers is pessimistic about the ability to fund theirs and their spouses' medical expenses in retirement. Women (35%) are more pessimistic than men (28%). Additionally a majority (56%) feel that they will have to take on the added burden of supporting a family member, mainly their children (49%).

Chart 7: The majority are not confident they will retire with 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)

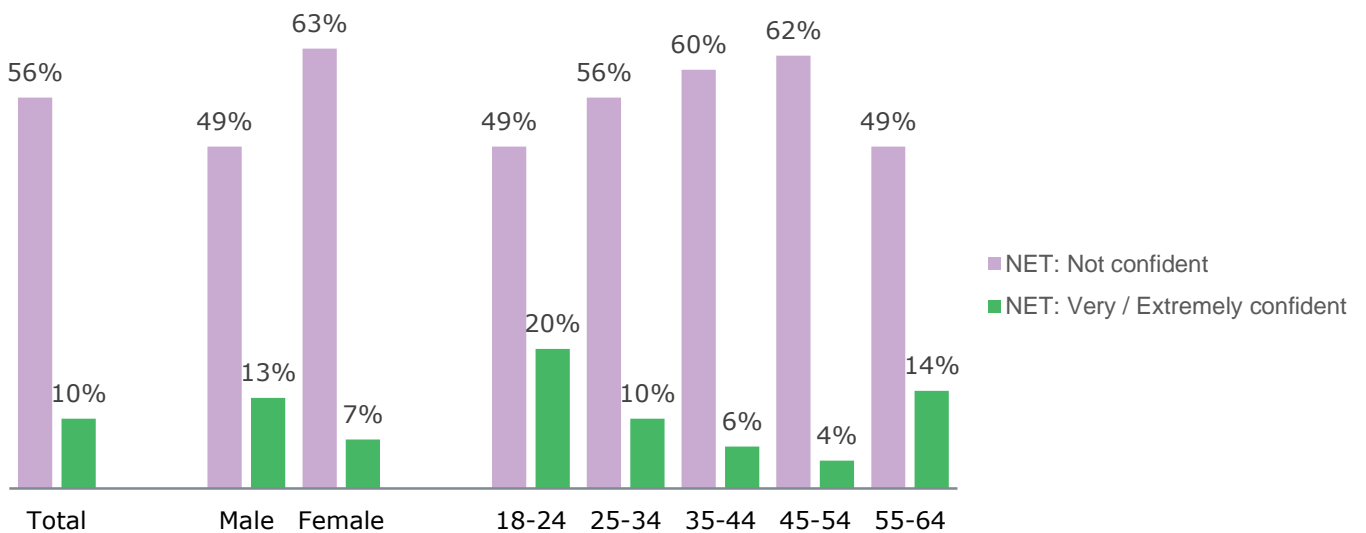
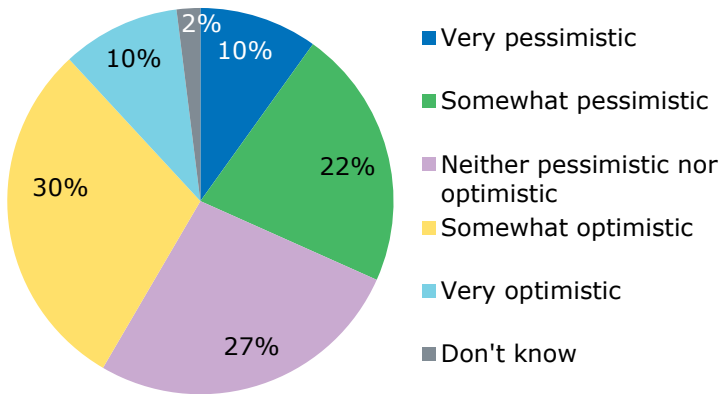


Chart 8: Nearly a third of Spaniards are pessimistic about funding medical expenses in retire

Q. When thinking about your retirement, how optimistic are you about having enough money to take care of my (and my spouse's/ partner's) medical expenses? Base: All Respondents (n=1,000)

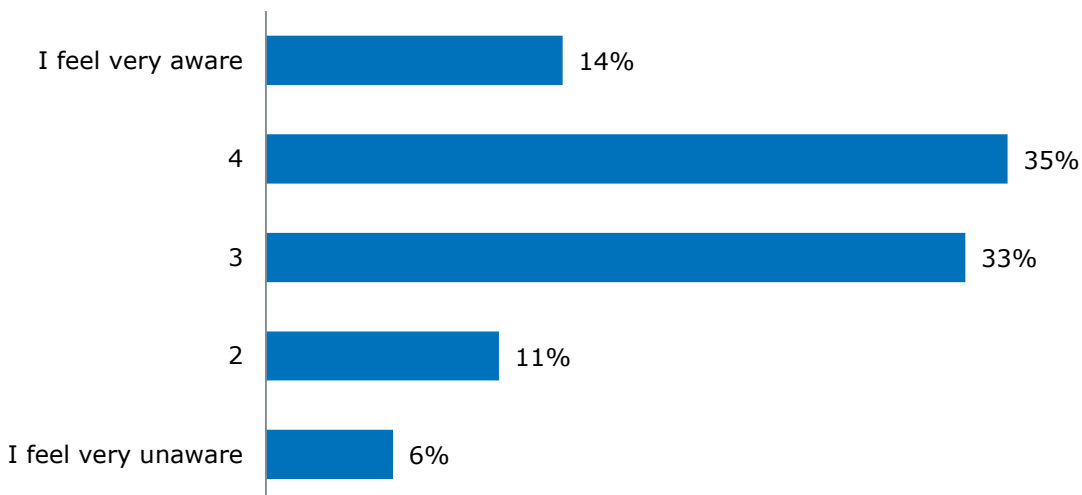


3. Retirement Saving and Planning

There is an obvious disconnect between workers’ levels of financial awareness and their actual savings behavior. Three-fifths (60%) of Spaniards feel personally responsible for ensuring they have sufficient income in retirement yet only half (50%) are aware of the need to plan financially for retirement.

Chart 9: Half of Spanish workers are aware of the need to save for retirement ...

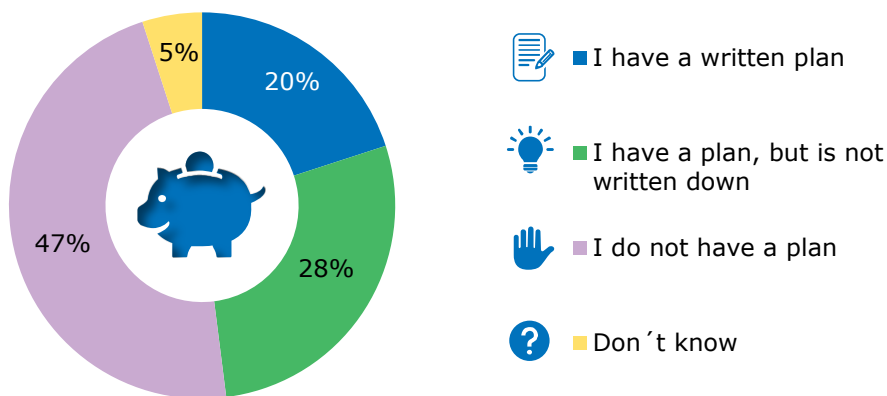
Q. How would you rate your level of awareness on the need to plan financially for your retirement? Base: Not Fully Retired (n=900)



Despite this awareness, our research uncovered that only a third (34%) have a well-developed retirement plan and even fewer (26%) say that they are prepared and already saving enough. What's more only 20% have a written plan and, perhaps most shockingly, slightly less than half (47%) have no retirement plans at all.

Chart 10: ...Yet few have made formal plans for saving

Q. Which of the following best describes your retirement planning strategy? Base: Not Fully Retired (n=900)



It is important that, when planning for retirement, workers also consider potential roadblocks to saving. However in Spain it is worrying that two-thirds (65%) of workers have no backup plan if they are unable to continue working prior to retirement. Therefore it is vital to encourage all individuals to include a viable

“Plan B” in their retirement strategy. Currently, of those with a back-up plan, nearly three-fifths (57%) will dip into their savings – a troubling strategy when considering the adverse impact it will have on retirement preparedness. .

Chart 11: Less than one-quarter of Spanish workers have a 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? Base: Not Fully Retired (n=900)

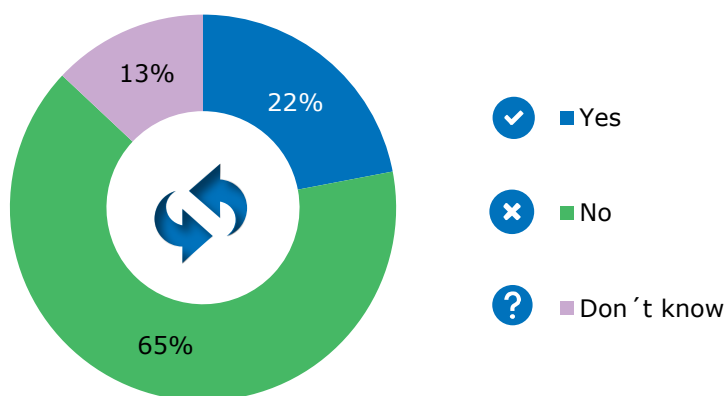
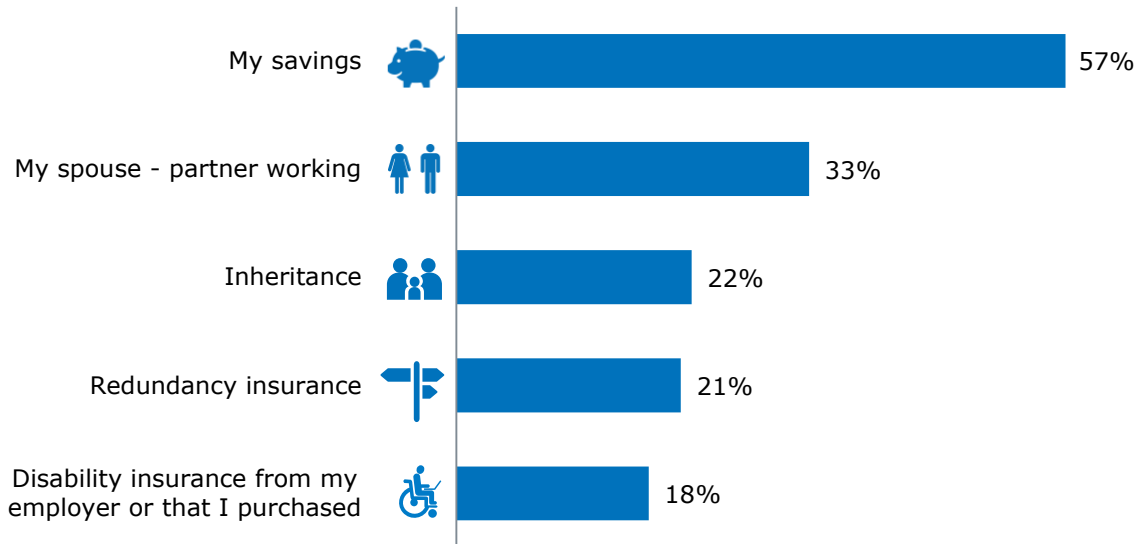


Chart 12: Most often backup plans involve dipping into savings

Q. Which, if any, of the following are part of your "backup plan" for an income in the event that you are unable to continue working due to ill health or job loss? Base: Have "Backup Plan" (n=195)



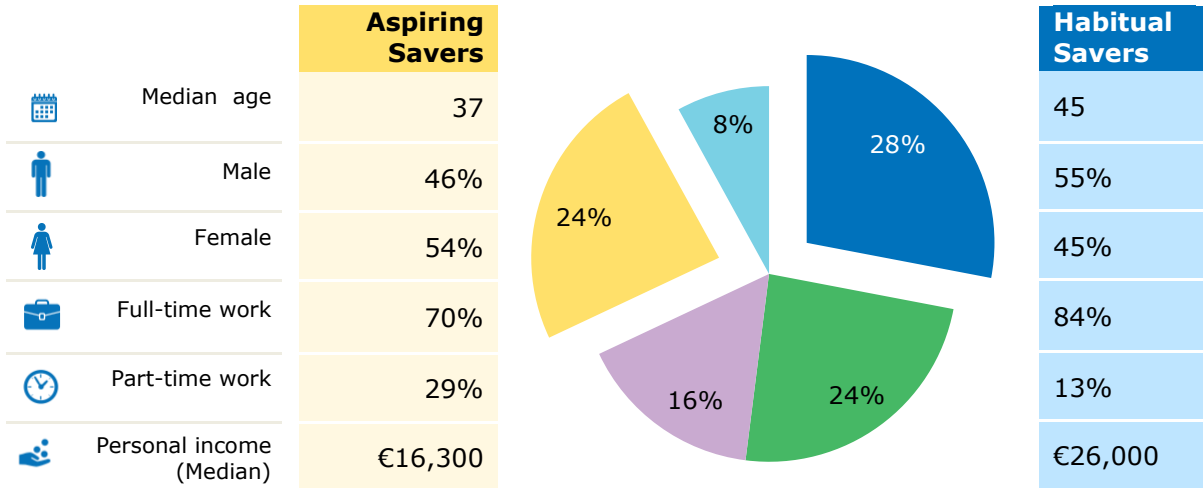
4. The Retirement Savings Habit

As individuals become increasingly responsible for planning and funding their own retirement, personal savings habits take on an even greater role in overall financial preparedness. Our findings reveal that not only do workers need to take steps to start saving, but also to maintain consistent saving over time.

There is a group of savers, those who habitually set aside money for the future, that are driving Spain towards improvement in the ARRI. Habitual Savers are more likely to have a formal written retirement plan, and feel confident that they are both saving enough and will enjoy a comfortable lifestyle in retirement. Less than one-third (28%) of workers are identified as Habitual Savers.

Chart 13: Aspiring and Habitual Savers key to improving retirement readiness

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



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

Chart 14: Retirement outlook and planning – Habitual and Aspiring Savers

	Aspiring Savers	Habitual Savers
ARRI score	3.7	7.0
Positive associations with retirement	60%	80%
Confident of retiring with a comfortable lifestyle	5%	18%
Optimistic about maintaining good health in retirement	37%	65%
Have written plan for retirement	1%	47%
Have backup plan for retirement	7%	42%

Our research shows that successful saving habits can still be achieved even with modest earnings. Comparing the proportion of Habitual Savers across income bands, we see that the rate of Habitual Savers among lower income workers (up to €18,249 per year) is low (20%), but this rate increases as we move up on the income bands, reaching 30% by the medium band (€18,250 to €47,449) and 56% by the high income band (€47,450+).

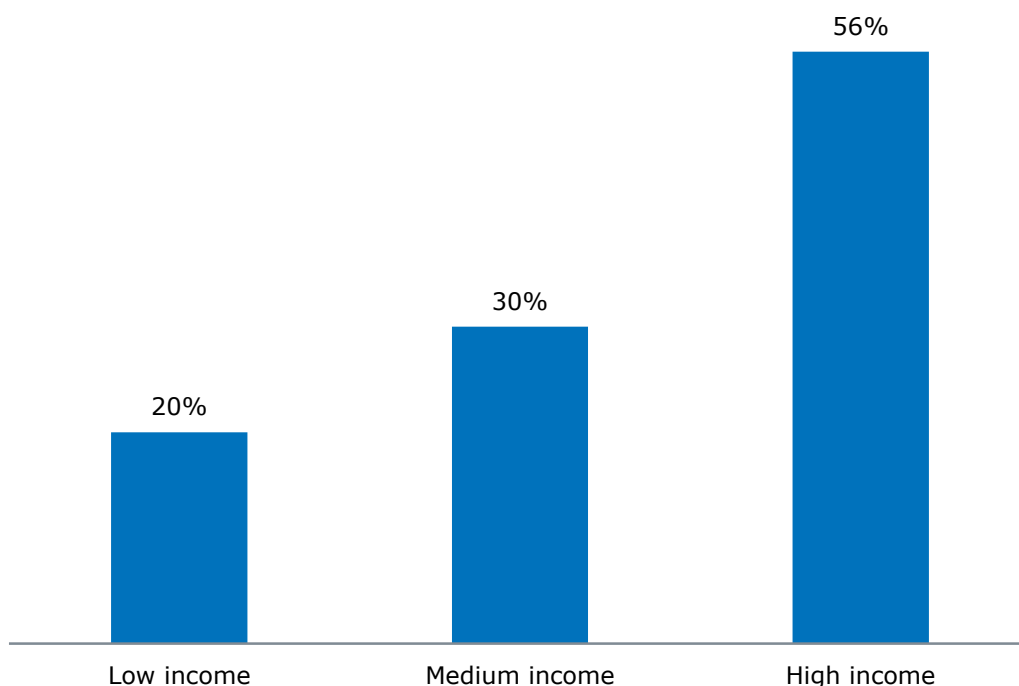
While it is crucial that individuals adopt a savings mind-set, even at higher income bands not all earners are consistently putting aside money for retirement. A financially comfortable retirement may not require higher level earnings, taking ownership of one's financial future is critical for any level of retirement aspirations. Therefore the biggest opportunity lies not

in those who have already adopted successful savings habits, but in the Aspiring Savers who, with knowledge or guidance, are ready to take ownership of their financial future. These Aspiring Savers -typically women and younger workers- may be finding saving challenging due to constraints such as lower income or less access to workplace pension schemes.

Nevertheless, when comparing all groups of savers, the picture is clear: saving even in small amounts regularly is a good strategy for improving Retirement Readiness. To create a pensions landscape that helps convert Aspiring Savers into Habitual Savers should be the goal of all employers, governments and individuals. The starting point is to understand the needs of these diverse groups and remove the barriers to planning and preparing for retirement.

Chart 15: Personal income by level of habitual saving

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



In line of this, facilitating employees to adopt successful savings habits is a key point, requiring a shared approach among individuals, employers and the government.

Indeed, most employees who aspire to save for the future show interest in being automatically enrolled into a retirement plan by their employer. Automatic enrolment is already common in other countries, such as the US and the UK, where it plays an important role in boosting the coverage of workplace pension plans. Among Aspiring Savers – where we find more women and young individuals – half (49%) say that they would find appealing the prospect of being automatically enrolled into a workplace pension plan with a contribution rate of 6% of salary. This level of support remains consistent (47%) when the level of contributions is raised to 8%.

This illustrates that the prospect for introducing “auto-escalation” (where contributions levels increase slowly over time) is unlikely to dissuade Aspiring Savers from joining a pension plan or remaining within their current plan, even if the contribution level is increased. As well, the workplace can offer services that encourage workers to save for retirement beyond

auto-enrolment. While the strongest motivators to increase savings are a pay raise (48%) or a more certain economic environment (41%), a range of other tools are available that have yet to be fully adopted by employers.

When asked what retirement-related workplace benefits employees are offered, only 14% say their employer provides an in-house or retirement plan administrator website, while fewer offer educational materials (13%), in-person or face-to-face meetings with advisers (8%), or online retirement modelling tools (8%). It should be noted that most Spanish workers get the very basic workplace benefits from their employers such as vacation or paid time off, basic salary and a convenient location of workplace. However very few are offered retirement plans with employer contributions (21%), retirement plans without employer contributions (16%) or stock purchase plans (15%). This considerable obstacle to saving should be remedied by the Government working alongside employers to ensure that all workers are sufficiently prepared for their retirement years.

Chart 16: Access to retirement planning workplace services

Q. Which of the following services does your employer (or their retirement plan administrator) offer?
Base: Not Fully Retired (N=900)

Employer/retirement plan administrator website	14%
Educational materials	13%
Annual retirement plan statement	9%
Webcast meetings/seminars about your pension/saving for retirement	8%
Online retirement modeling tools	8%
In person/face-to-face meeting with a retirement plan or professional advisor	8%

Chart 17: Access to retirement-related workplace benefits

Q. And which of the following does your current employer offer you? Base: Not Fully Retired (N=900)

Life insurance	31%
Ability to work past the normal retirement age	30%
Phased retirement or other employer programs providing for a transition into retirement	22%
Retirement plan with employer contributions	21%
Retirement plan without employer contributions	16%
Stock purchase plan	15%

Recommendations

- Employers can increase the power of their workplace education programs by timing their messages to important trigger points, like receiving a pay rise. Timing financial education to a pay raise is also an efficient way to encourage Habitual Savers to increase the amount they set aside for the future.
- The government should facilitate workforce retirement savings education and wellness programs through tax incentives. Further, employees should be encouraged to create a “Plan B” in the event that they are not able to fulfil their retirement savings plan (because of job loss, disability, etc.) by exempting insurance and other financial protection products from taxes.
- Employers should be encouraged to adopt workplace and benefit policies to support older workers who choose to remain in the workforce past the traditional retirement age. It will enable those who wish to continue to work to stay active and increase retirement savings. This would also benefit employers who would like to retain and attract older workers for needed experience and skills.
- Continued training should be encouraged and provided to employees so that they can continue to hone their skills throughout their working years. Increased skills will benefit employees’ earning power, which in turn may contribute to saving more or more consistent saving for retirement.
- The Spanish government and employers should encourage phased retirement programs. These programs enable workers who have reached retirement age to transition from full-time work to working in a reduced capacity (e.g., fewer hours, less demanding positions, lower pay, etc.) while continuing to receive retirement benefits proportionately based upon an eased work schedule.

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