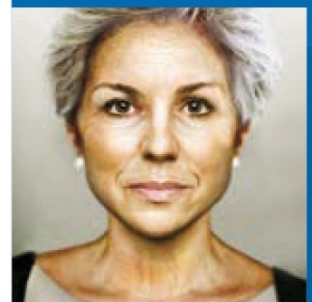
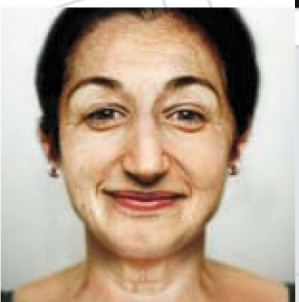
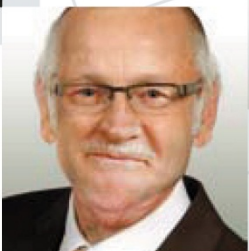
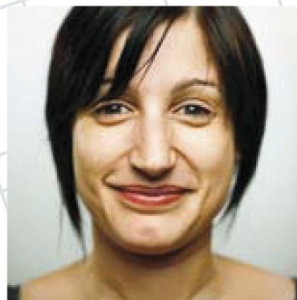
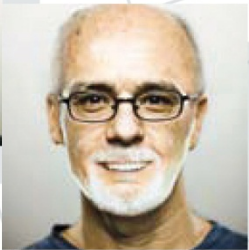


# THE CHANGING FACE OF RETIREMENT

THE AEGON RETIREMENT READINESS SURVEY 2012  
GERMANY FACTSHEET



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# INTRODUCTION – AEGON GERMANY REPRESENTATIVE

## KEY FINDINGS

- **Acceptance of greater personal responsibility:** 73% of respondents agree that they are more likely to have to plan for their own retirement due to the financial crisis. This is coupled with a desire to take fewer risks: 65% agree they must take fewer risks when it comes to saving for retirement
- **Germans are in a relatively strong position:** Germany comes out top of the AEGON Retirement Readiness Index. This is reflected in the fact that Germany has the highest proportion of habitual savers, with 45% always making sure they are saving for retirement.
- **However, a pessimistic economic outlook persists:** The acceptance of greater personal responsibility is closely related to a pessimistic outlook towards the future. 71% believe that future generations of retirees will be worse off in retirement.
- **A balanced approach to retirement:** Despite the Government's desire to move towards greater individual responsibility in planning for retirement, a large minority (36%) of Germans are generally in favor of a balanced approach to retirement in which individuals, employers and the Government all play an equal role.

## THE SURVEY

The findings used in this report are based on the responses of 9,000 people in 9 countries.<sup>1</sup> Respondents were interviewed using an online panel survey and interviews were conducted in January and February 2012. The interviews dealt with a wide range of issues covering attitudes towards pension 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.

We interviewed 8,100 employees and 900 retired people to provide a contrast between the responses of current workers and those already in retirement. The survey did not include the unemployed, long-term incapacitated or the self-employed as each of these groups faces specific challenges in planning for retirement which requires specific public policy interventions. Instead, our objective in this survey is to provide a broader perspective based on the mainstream working population.

## 1. RETIREMENT IN GERMANY

Germany, like many other countries, is facing an acute demographic crisis over the next half-century, with the population set to decline by 17 million over the next 50 years. At the same time the working age population will decline from 50 million to around 26.5 million. In addition, the ratio of people of working age for every pensioner in Germany is predicted to fall to 1.6 in 2050 from 4.1 in 2010. Despite the rebound in the German economy in the wake of the financial crisis is helping to counter the economic shock on the public pension system, the state will still begin to feel the strain under the weight of the increasing number of retirees in the coming decades. This is more pronounced in Germany than other European countries such as France, which have a higher birth-rate.

Data suggests that state pensions in Germany are three times the size of the economy.<sup>2</sup>

Reforms such as an increased retirement age - increasing to 67 between 2012 and 2029 - and taxes on pension contributions are being introduced to make the system more sustainable in the long term, and the result will be to reduce the total level of the state's provision to pensions to below 50% (from about 65% of last income at present). Company pensions are presently generous for large organizations, but solvency rules are bringing them under pressure as schemes where companies use all their assets to back liabilities are becoming less acceptable.

## 2. THE CHANGING NATURE OF RETIREMENT

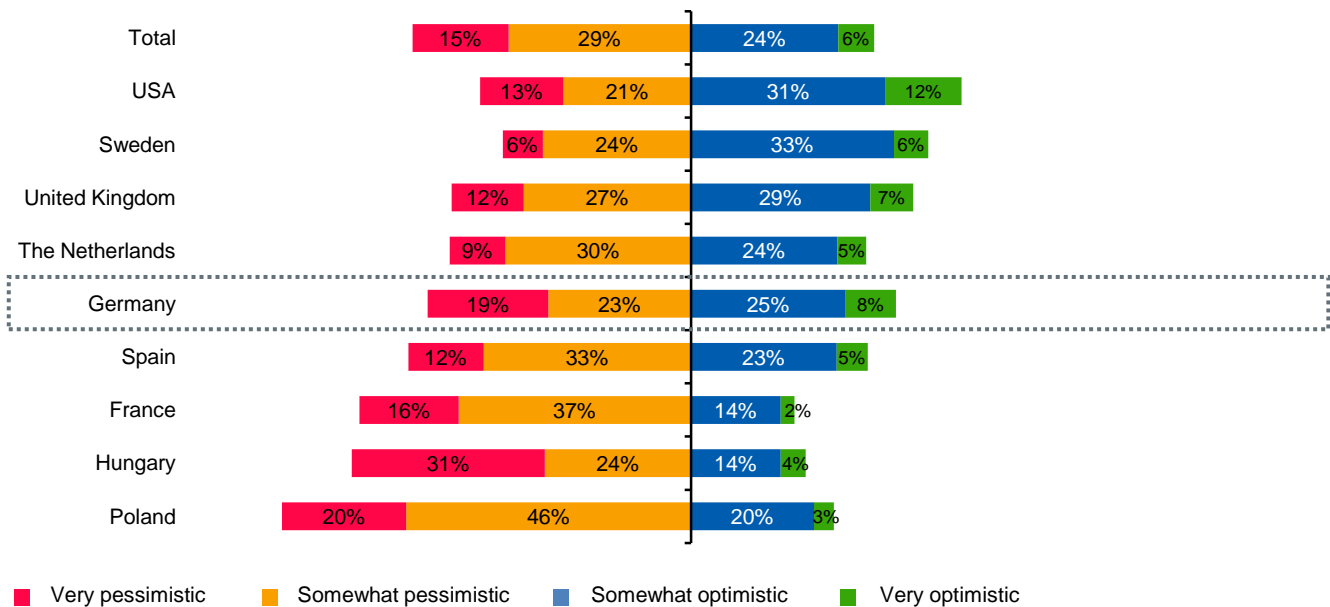
Given the slowly declining generosity of the state pension system, it is unsurprising that pessimism is outweighing optimism amongst Germans. Chart 1 shows 33% of respondents in Germany are confident of retiring with a comfortable lifestyle, whilst 42% are not. Despite having one of the lowest employment rates of all OECD states, pessimism is greatest among women (49%), compared to just 35% of men.

Once in retirement, respondents in Germany are particularly keen to live abroad, with 18% expressing a preference for doing so. Only the Swedish and the British were more likely to want to move abroad out of the countries surveyed. Yet on more financial measures, respondents become pessimistic; 50% believe they will not have enough money to live on in retirement.

The steady reduction of state financed pension level and a shift towards a pension system focused more on employers and private contributions is reflected in people's attitudes to planning. 83% of Germans agree that due to the financial crisis they are more likely to have to plan for their retirement, with 62% strongly agreeing. These retirement plans may include an increased level of contributions to private pensions, with 81% of Germans agreeing that state pension benefits are likely to become less generous in the future. Encouragingly, German workers were unwilling to let the belt-tightening brought on by the financial crisis and state cutbacks affect their personal saving for retirement, with only 31% believing the financial crisis will have this effect. This is possibly a result of German laws encouraging flexible working hours and a good relation between unions and employees meaning jobs are fairly secure and pension contributions will continue.

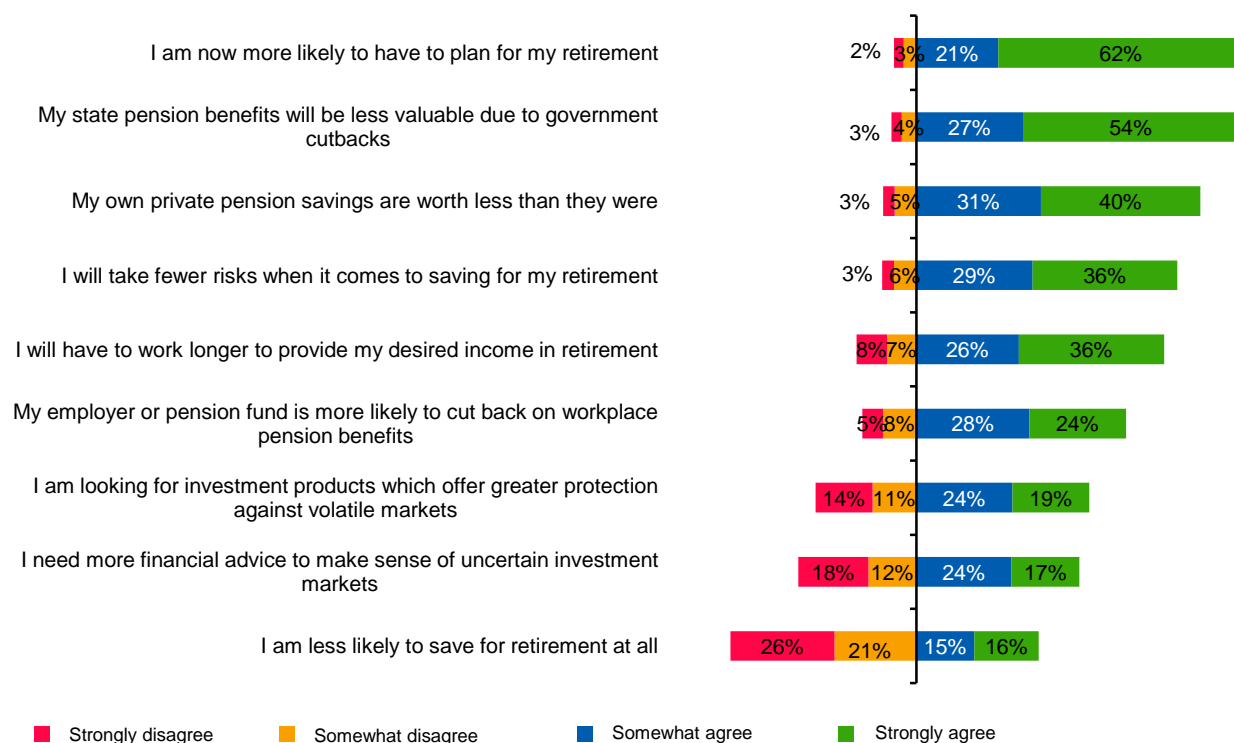
**Chart 1: More pessimism than optimism about retiring comfortably**

Q: How confident are you that you will be able to fully retire with a lifestyle you consider comfortable? (Uncertains and “neithers” not shown)



**Chart 2: The financial crisis is forcing greater personal responsibility on Germans**

Q: To what extent do you agree with the following statements concerning the impact of the financial crisis on your retirement plans? (Uncertains and “neithers” not shown)



According to the OECD, the effective retirement age for men in Germany is 61.8 and 60.5 for women.<sup>3</sup> The median expected retirement age of our respondents was 65 for both men and women. People appear to be anticipating future increases in the state pension age, and reacting by delaying retirement plans past current effective ages. Women in

particular are underestimating the length of their retirements. This is concerning because as they are expected statistically to live longer, and they may not be sufficiently prepared to live past their expected years in retirement.

Table 1

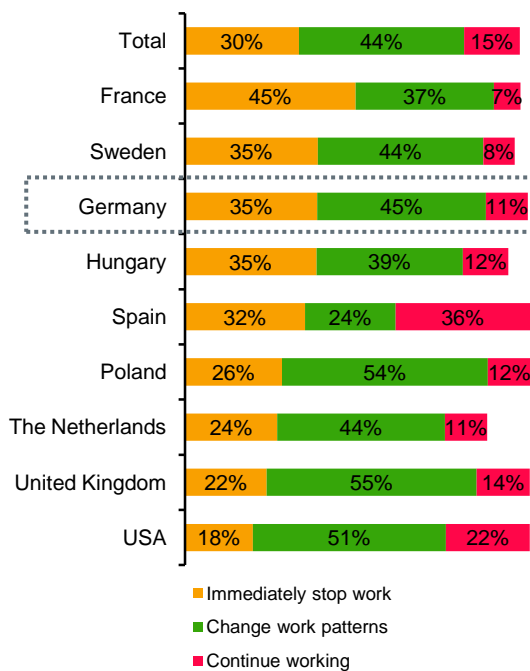
	MEN	WOMEN
Effective retirement age	61.8	60.5
Life expectancy at 65	17.6	20.8
Expected retirement age	65	66
Expected years in retirement	17.5	16.5

### THE END OF “CLIFF-EDGE” RETIREMENT

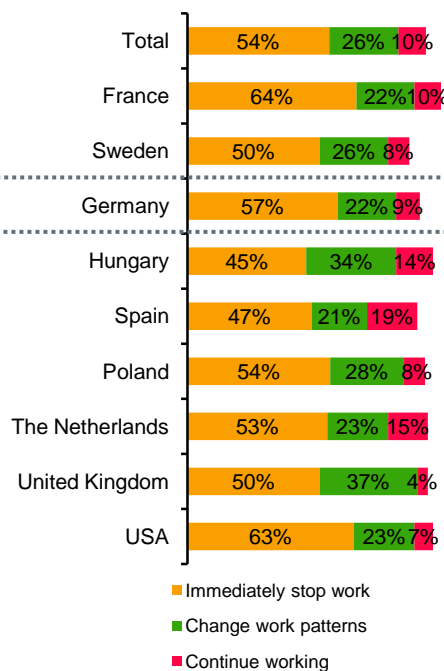
Charts 3 and 4: Germans are moving away from immediately stopping work upon retirement

Q: Looking ahead, how do you envision your transition to retirement/ Looking back, how did your transition to retirement take place?

#### CURRENT WORKERS



#### RETIREEES



German retirees largely transitioned with an immediate halt to work. This is in stark contrast to how current workers believe they will transition, with a large majority seeing a gradual transition instead of a ‘cliff-edge’ end to work. Younger respondents are especially likely to foresee a phased retirement for themselves.



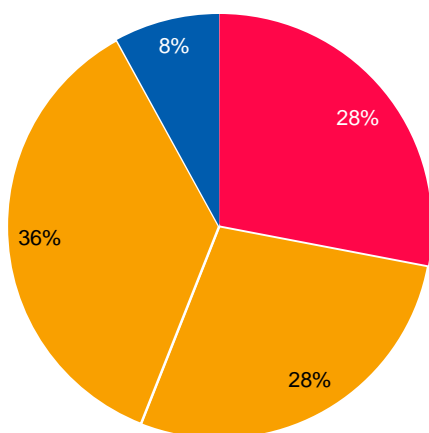
## WHO SHOULD PAY FOR RETIREMENT?

This evolution we find in attitudes towards the onset of retirement is echoed by our findings regarding the relative roles of the state, employer and individual in retirement.

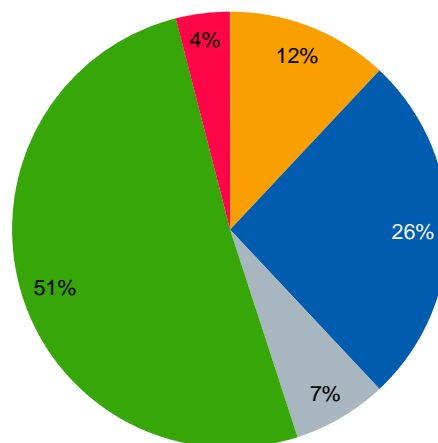
### Charts 5 and 6: Acceptance that the state pension will not remain affordable unless action taken

Q: With the costs of government pensions becoming a greater concern as people live longer, which of the following do you think the government should undertake?

CURRENT EMPLOYEES



RETIREEES



- Reduce the overall cost of state pension provision by reducing the value of individual pension payments
- Increase overall funding available for the state pension through raising taxes (28%)
- A balanced approach with some reductions in individual payments and some increases in tax, (36%)
- They should not do anything. State pension provision will remain perfectly affordable

- Don't know
- Retirement age should increase in line with life expectancy
- Retirement age should increase except for those in dangerous jobs or manual workers
- Retirement age should increase but the increase should be capped
- Retirement age should remain unchanged.

Only a small minority of respondents believe that the state pension will remain affordable into the future without reforms, and a majority are willing to accept some of the burden for keeping the system solvent in the form of higher taxes. This rational approach to the future of pensions is encouraging for Germany, and is reflected in some of our other findings:

- 84% of respondents agree that “it is increasingly important to make sure that you are planning for your own retirement”, and 76% agree that it is important to spread out retirement investments to minimize risk.
- Only 20% agree that “there’s nothing wrong with relying on the state to provide a retirement income”

- Conversely, 51% of Germans reject any change to the retirement age, showing that this is seen as more sacrosanct to many than current pension arrangements.

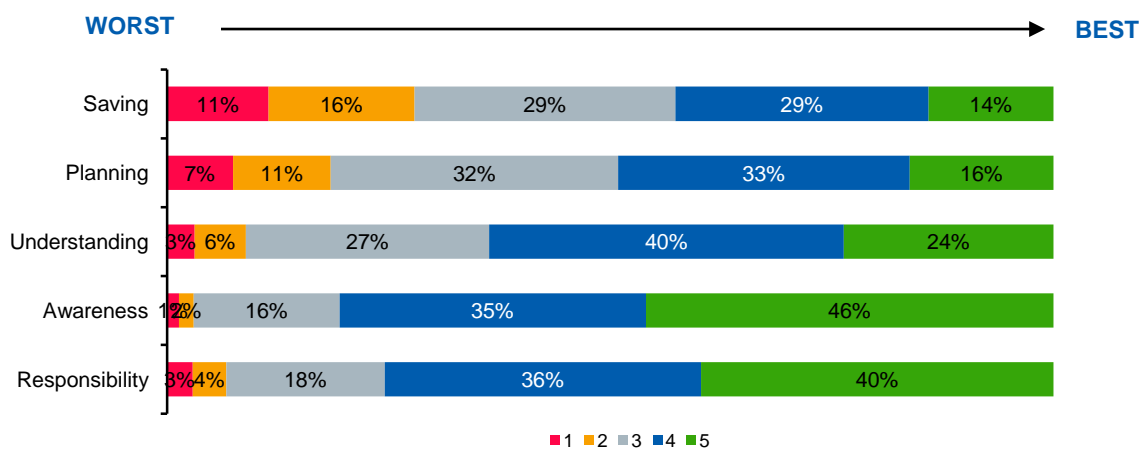
While there is an acknowledgement of the need for individuals to take more responsibility for retirement, results from Germany also show the continued importance of the workplace retirement scheme. 71% agree that employers should provide good pensions, and this support was just as strong amongst younger respondents as those near retirement. This shows that although Germans accept the need for changes to their system, they are still convinced that (alongside the state who provides a basic retirement income) the employer is a major actor in the retirement space.

### 3. THE STATE OF RETIREMENT READINESS

Our research looked not only into German attitudes towards the future and retirement, but also sought to gauge how prepared people are for retiring. To do this, respondents scored themselves from one to five on a series of measures, from their understanding of the need to save towards retirement to the extent to which they are actively doing so. As chart 7 shows, the most important gap in

Germany falls between being aware of your retirement situation, and having an understanding of what needs to be done to improve it. There is a smaller – but still significant – gap between those with understanding and those actually acting upon that understanding through adequate planning and saving behavior.

Chart 7: A gap between understanding and planning in Germany



Respondents were asked to rank their retirement behavior in terms of responsibility, awareness, understanding, planning and saving on a scale of 1 to 5, with 5 being best.

#### THE AEGON RETIREMENT READINESS INDEX (ARRI)

To calculate the index scores, the index incorporates the responses of the 8,100 employees surveyed across the nine countries. Each of the respondents was asked a series of questions to provide a cognitive assessment of their current retirement attitudes and behaviors. The survey asked three questions covering attitudes: whether employees accept personal responsibility their retirement income, whether they are aware of the need to plan for retirement, and their understanding of retirement related financial matters. It also asked three questions covering behaviors: the extent to which employees have put retirement plans in place,

whether they are adequately saving for retirement, and whether they are on course to achieve their required replacement income in retirement.

The responses to these six questions were weighed in the ARRI based on their importance in determining a respondent's saving profile, and an overall score out of ten for each respondent generated. The most important determinants were found to be their behaviors towards their own planning and saving, as well as how on course they were to achieve their desired replacement income.



As chart 8 shows, Germany comes out top of the nine countries surveyed. This placing makes sense in the German context; it has a relatively stable economic position, and Germans are reacting well to the demographic challenges to the public pension system by understanding the need for individual planning for retirement.

Since each individual survey respondent was given a ARRI score, it is possible to group the German respondents into high, medium and low scores, and profile each. This shows that those scoring highly on the index are likely to be over 35 and be married. Unlike other countries, there is little correlation between attending university and scoring higher on the ARRI, perhaps due to the importance of vocational training in securing many well-paid jobs in Germany.

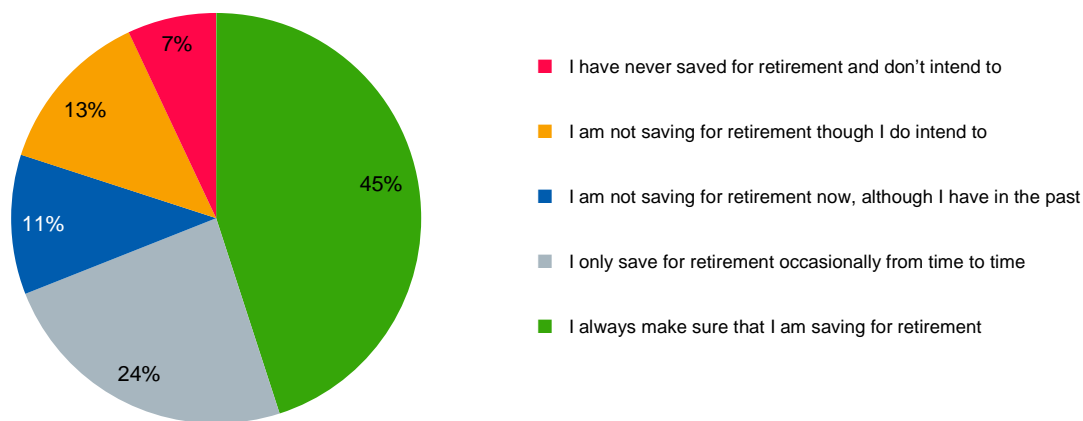
**Chart 8: Germany is top of the AEGON retirement readiness index**

Readiness Index created by weighting the responses to six questions according to statistical importance.



**Chart 9: Nearly half of German respondents are always saving towards retirement**

Q: Which of the following best explains your approach to saving for retirement?



Germany's position at the top of the Readiness Index is reflected in the proportion of people who are habitual savers, which form the largest group of respondents (45%).

Only a very small proportion (7%) are non-savers, one of the lowest out of all countries surveyed.

## 4. THE CALL-TO-ACTION: TAKE ACTION, AND DO IT NOW

- There is a strong sense in Germany of people desiring to take charge of their own retirements and prepare more thoroughly. This should be encouraged by government, and the traditionally weak individual savings pillar of retirement bolstered – 38% would be more likely to plan for retirement if there were more generous tax breaks for saving.
- The German expectation for long, active retirements is a positive one, as is their willingness to carry on working to a degree to pay for it. However people should ensure that they are prepared for the potential healthcare costs and other longevity risks.
- Due to the gradual decline in generosity of the state pension, Germans will have to increasingly fund the retirements they desire by themselves. Therefore our key call to action is **to do something** – take the first step towards personal retirement savings, then carry on doing it!
- At the same time, the role of workplace pensions in Germany must not be diminished. Our research shows employees see them as a key part of their social contract with employers; as such firms should seek to reform their pension arrangements in a way that ensures both compliance with new regulations (e.g. Solvency II) and an acceptable level of pension benefits to employees. There may also be room for the Government as well as employers to improve the communication, information and education to individuals wishing to plan. Internal pension specialists are one positive way in which employers can help their employees plan for retirement.

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<sup>1</sup> The nine countries surveyed are: US, UK, France, Germany, the Netherlands, Spain, Poland, Hungary Sweden.

<sup>2</sup> <http://www.bloomberg.com/news/2012-01-11/europe-s-39-trillion-pension-threat-grows-as-regional-economies-sputter.html>

<sup>3</sup> Organisation for Economic Co-operation and Development (OECD) figures, OECD Health Data 2011.

### MEDIA RELATIONS

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