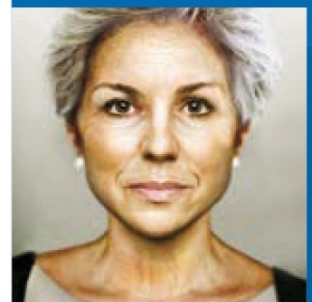
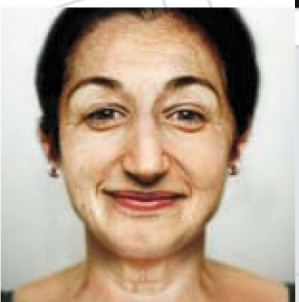
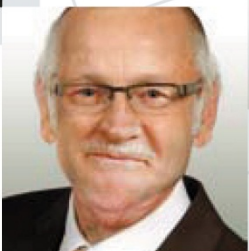
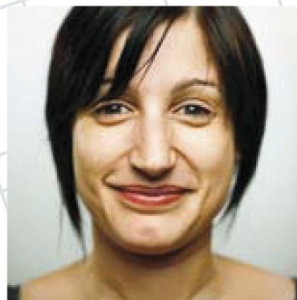
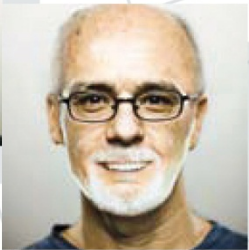


# THE CHANGING FACE OF RETIREMENT

THE AEGON RETIREMENT READINESS SURVEY 2012  
UNITED KINGDOM FACT SHEET



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# INTRODUCTION

## KEY FINDINGS

- **End of cliff-edge retirement:** More than in any other country surveyed, respondents in the UK are moving away from seeing retirement as a time when work stops completely: 69% of employees expect to keep working in retirement in some form.
- **A lack of auto-enrolment awareness:** 22% of respondents ranking themselves as “very unaware” of the government’s auto-enrolment scheme. However our results also suggests that the reform may be successful, as 44% rank themselves as 4 or 5 out of 5 in terms of their ability to afford the commitment.
- **Greater personal responsibility:** 66% of respondents agree that they are more likely to have to plan for their own retirement due to the financial crisis. 51% are prepared to accept increases in taxes and reductions in benefits in exchange for ensuring the state pension is protected.
- **Women at risk in retirement:** Women expect to be retired for just 15 years, whereas life expectancy trends suggest this is a significant underestimate. This puts them at risk of falling into poverty in old age if their savings run out.
- **Pessimistic economic outlook:** The acceptance of greater personal responsibility is closely related to a pessimistic outlook towards the future. 75% believe that future generations will have worse retirements than the current one, and 49% strongly agree that the state pension will be cut by the time they retire.

## THE SURVEY

The findings used in this report are based on the responses of over 9,000 people in 9 countries. 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 THE UNITED KINGDOM

In his 2012 Budget Speech, UK Chancellor of the Exchequer George Osborne discussed old-age benefits, noting that “Every generation hopes that the next will be better off than their predecessors. But today’s grandparents face the painful possibility that their own children and grandchildren will end up not better, but worse off than they themselves are now.” This situation reflects the demographic reality of the UK’s ageing population, with one-in-four expected to be over-65 by 2050. This has resulted in stress upon what had been seen as the “traditional’ entitlement of British retirees – an employer-funded final salary pension, with the state pension acting as a safety net.

Such a system has been rendered unaffordable; large gaps have emerged in the funding for company and civil service final salary schemes. Employers and the government have reduced the generosity of their pensions – this year Shell became the final FTSE-100 listed company to close their final salary scheme, and the Department for Work and Pensions estimated that final salary pension pay-outs will peak in late 2012 at an average of £7,100, falling to just over £2,400 by 2060.

The problems caused by an ageing population have not gone unnoticed by the British public. When asked if they believed future generations would be better off in retirement than current retirees, only 5% agreed; 75% believe they will be worse off, emphasizing the depth of the challenge facing the UK retirement system.

## 2. THE CHANGING NATURE OF RETIREMENT

### ATTITUDES AND ASPIRATIONS TOWARDS RETIREMENT

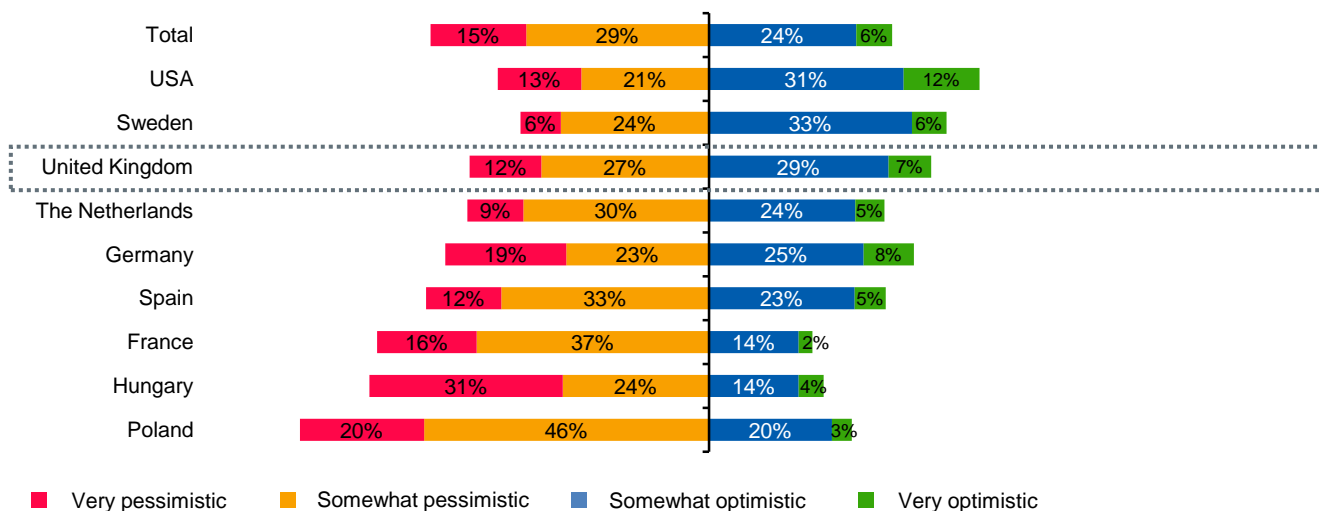
Given the poor economic sentiment and the rising state pension age, it is unsurprising that negativity emerges in British attitudes towards their financial status in retirement. Chart 1 demonstrates that 36% in the UK are optimistic about retiring with a comfortable lifestyle, whilst 38% are not. Pessimism is greater amongst women (46%) as well as those respondents in their 40s and 50s (43%).

It is encouraging to see that UK respondents are less pessimistic than those in most of the other countries surveyed and, British employees remain on the whole optimistic about having an enjoyable, physically active retirement with hobbies, friends and family. Even on the issue of choosing your own living arrangements, 38% are

pessimistic versus 39% optimistic, suggesting that many people are expecting the weak property market of the past few years to have little effect on their retirement plans. On more financial measures, respondents are less positive; 46% do not think they will have enough money to live on in retirement, and only 28% are optimistic about being able to choose when they will retire. This may be due to the rising state pension age – due to increase to 67 in the coming years – as well as similar rises for public sector employees. Combined with the current insecurity and high levels of unemployment (particularly for young people), it is unsurprising that people no longer believe that they will have the economic resources and security to be able to choose their own retirement date.

**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)

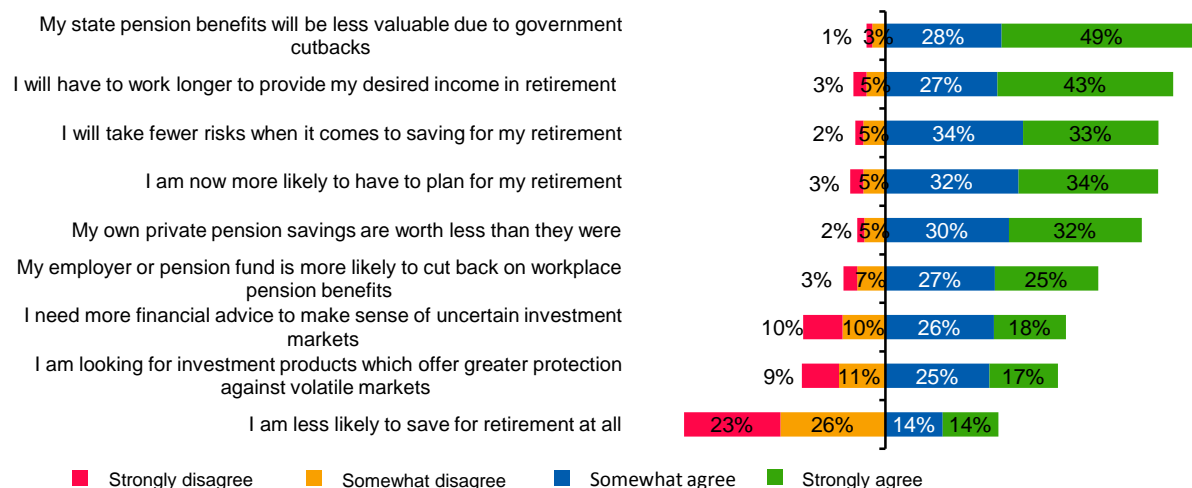


The attitudes of women towards retirement are driving much of this pessimism. 54% of women are pessimistic about having enough money in retirement compared to 38% of men, and this gender gap is wider amongst those in their 20s than those in their 50s. Women are particularly vulnerable to poverty in old age, for a variety of reasons including the gap between men and women’s average pay and the large proportion of women in part-time rather than full-time work, which reduces potential pension contributions. This reality, combined with reforms to equalise retirement ages appears to be having a negative impact on women’s perceptions of retirement.

The financial crisis and subsequent recession in the UK brought to the fore numerous concerns about the UK’s pensions system. Chart 2 shows there is broad agreement that the financial crisis has reduced the value of state, company and private pension funds, in doing so increasing the length of time people will spend working and reduced the desire for risk taking. Encouragingly, British 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 28% believing the financial crisis will reduce how much they save. The strongest disagreement was amongst those in their 20s and 30s, which suggests either a growing culture of personal responsibility towards retirement amongst the young, though may also reflect the fact that this demographic group was likely not saving much to begin with.

**Chart 2: A later retirement with less help from state and employers is anticipated by today’s workers**

Q: To what extent do you agree with the following statements concerning the impact of the financial crisis on your retirement plans?



According to the OECD, the effective retirement age for men in the UK is 64.3, and 62.1 for women. The median expected retirement age of our respondents was 66 for both men and women, rising to 67 amongst those in their 30s. 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 important as most of those retired people living in poverty

are women in late retirement (75 years old and greater), and single women claim over half the total means-tested pensions benefits bill, more than single men and couples combined. Although the greater workforce participation of current generations of women may mitigate this problem to some extent, persistently different work patterns between the genders may still leave women more at risk of poverty in old age, a problem that is reinforced by their rising life expectancy.

Table 1

	MEN	WOMEN
Effective retirement age	64.3	62.1
Life expectancy at 65	18.1	20.8
Expected retirement age	66	66
Expected years in retirement	18	15

### THE CHANGING MEANING OF RETIREMENT

Amongst current retirees in Britain, a large majority transitioned to retirement with an immediate halt to work. Our findings reveal that this is drastically different to how current workers believe they will transition, with most seeing a more gradual change to work patterns than a 'cliff-edge' sudden end to work. This shift in attitudes is not only prevalent amongst the young, but also in a majority of workers in their 50s. Overall, our research shows the retirement "event" more as a cue to develop a new, perhaps

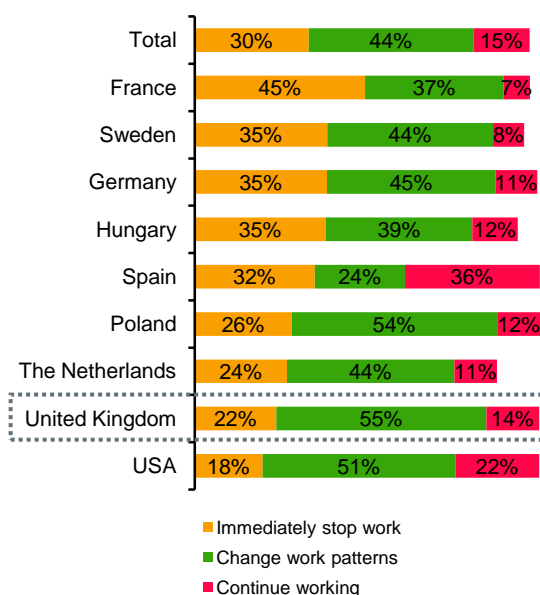
less strenuous, attitude to work, but not as a time where no paid employment will be undertaken at all.

The UK is more advanced towards this new definition of retirement than other countries surveyed. On average 44% of workers were expecting a phased transition to retirement, whereas in the UK it was 55%.

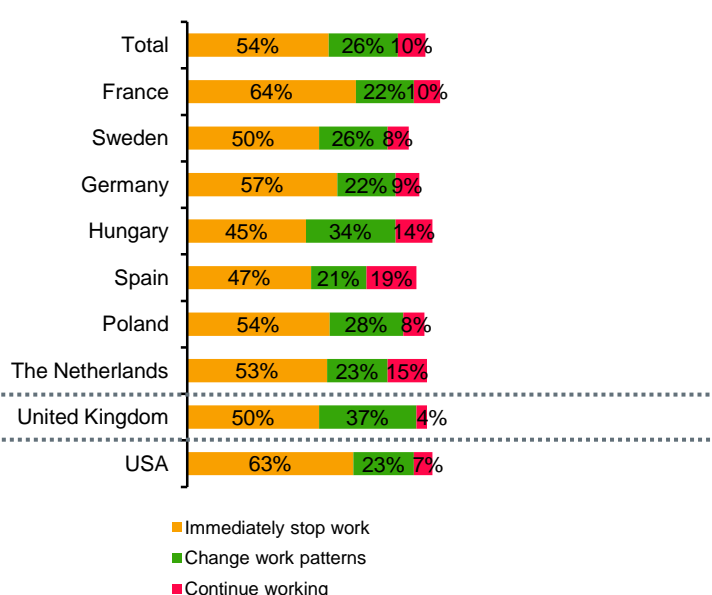
### Charts 3 and 4: The end of "cliff-edge" retirement?

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

#### CURRENT WORKERS



#### RETIREES

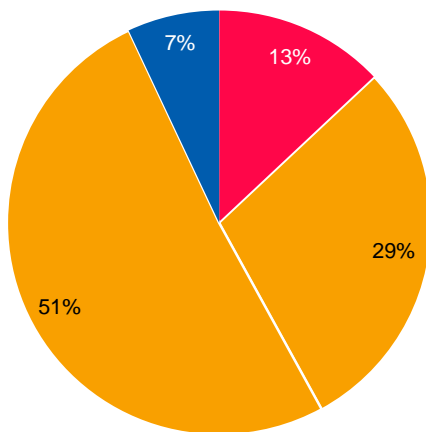




**Charts 5 and 6: A majority believe taxes should rise to meet the costs of the state pension**

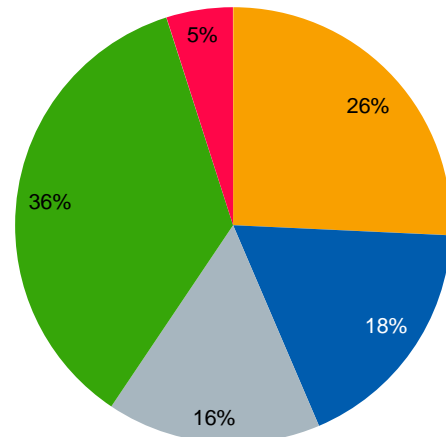
Q: With the costs of government pensions becoming a greater concern as people live longer, which of the following do you think the government should undertake?/ To what extent do you feel that people should expect to work longer into old age as a way to offset the costs of people living longer?

**PAYING FOR THE STATE PENSION**



- 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 (29%)
- A balanced approach with some reductions in individual payments and some increases in tax, (51%)
- They should not do anything. State pension provision will remain perfectly affordable

**INCREASING RETIREMENT AGES**



- 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 tiny minority of respondents believe that the state pension will remain affordable into the future without reforms, and a majority accept some need for some tax rises in order to fund these reforms. This rational approach to the future of pensions is encouraging for Britain, and is reflected in some of our other findings:

- 83% 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 minimise risk.
- Only 33% agree that “there’s nothing wrong with relying on the state to provide a retirement income”
- Only 36% believe the state pension age should remain unchanged, though there is no agreement amongst the rest as to how the age should be raised.

**HOW TO TRIGGER SAVING AND INVESTMENT**

The British government is attempting to increase saving into employer sponsored schemes, with auto-enrolment (starting in late 2012) , wherein employers must offer an ‘opt-out’ defined contribution pension scheme to employees, being one of the activities supporting this. Our survey questioned workers on their awareness of auto-enrolment, and worryingly 22% were “very unaware” of the plans, and only 17% “very aware”.

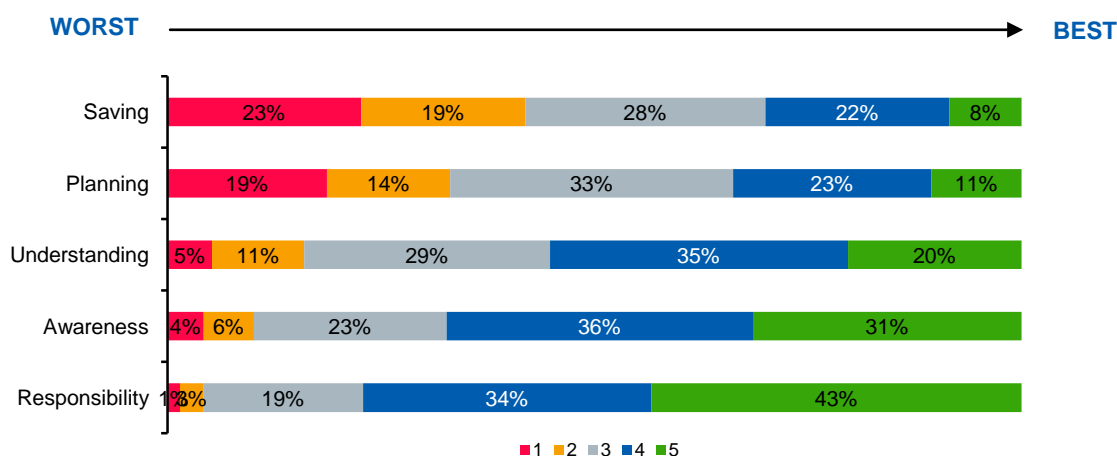
When asked to pick the most important product for their retirement needs, the most popular amongst concerned providing protection to spouses (28%) and protecting against inflation (20%). These product preferences are interesting as they are at odds with current UK market behaviour, where single-life annuities are more popular than k joint-life products. Capital protection (13%) was also seen as important for, particularly amongst middle-aged respondents, suggesting people are worried that without a return to robust economic growth, their pension pots may begin to fall in relative value instead of rise.

### 3. THE STATE OF RETIREMENT READINESS

Our research looked not only into British attitudes towards the future and retirement, but also sought to gauge how prepared people are for retiring. To do this, we required employees to score themselves from one to five on a series of issues, from their understanding of the need to save towards retirement to the extent to which they are actively doing so. Chart 7 maps how British employees perceive themselves on a range of retirement readiness measures,

scoring themselves on a five-point scale. Whilst our research shows the UK scores highly in terms of employees taking personal responsibility for retirement, being aware of the need to save and understanding retirement issues, a gap emerges when we look at how good respondents perceive themselves to be at actually planning and saving for their retirements..

Chart 7: A gap between understanding and planning in the UK



Respondents were asked to rank their retirement behaviour 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 behaviours. The survey asked three questions covering attitudes: whether employees accept personal responsibility for 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 behaviours: 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 behaviours towards their own planning and saving, as well as how on course they were to achieve their desired replacement income.

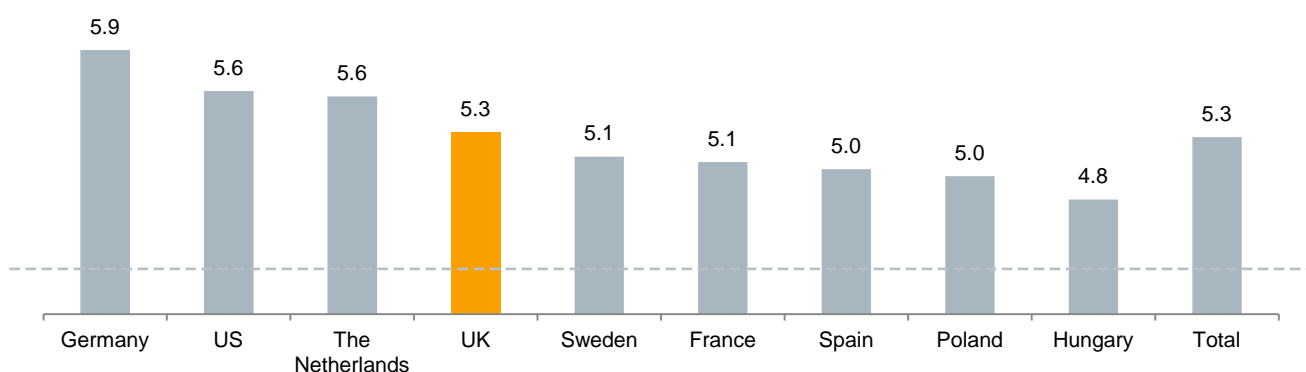


As chart 8 shows, the UK is placed fourth out of the nine countries surveyed in the ARRI, and equal with the global average. This placing makes sense for the UK's context: it has a large amount of pension assets relative to GDP, but

the impact of the financial crisis, housing market collapse and a stagnant economy since 2008 have left workers sceptical about the ability of these assets to grow in value and fund their retirement.

**Chart 8: The UK falls in the middle of the AEGON Readiness Index**

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

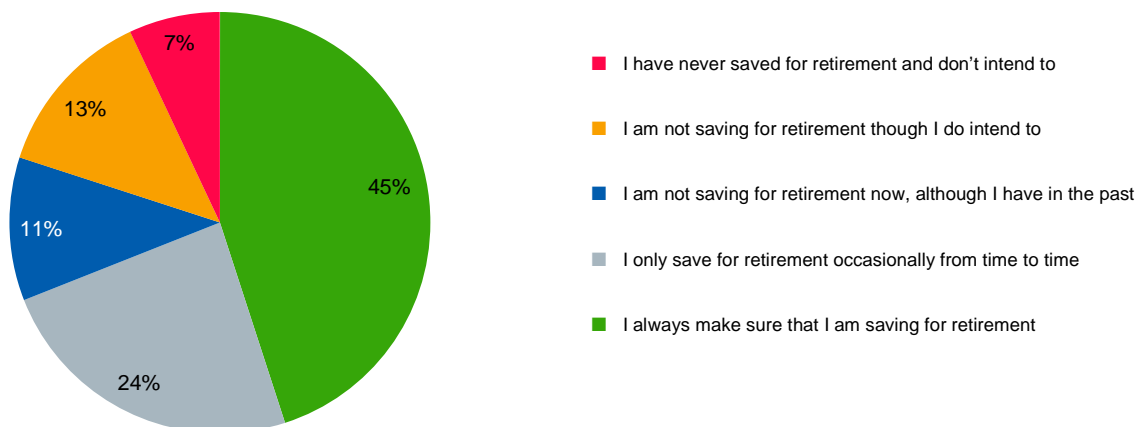


Within the UK, those preparing for retirement can be split into those with high, medium or low scores, and our results show that those who highly on the index are most likely to be male, married but with no dependent children, live in London or the South-East, and be educated to degree or postgraduate level. Those with the lowest scores are mostly under 45, are majority female and are less educated than

average. Whilst falling in the middle of the Readiness Index, chart 9 shows that the UK is ahead of many of the other countries surveyed when it comes to how workers describe their own retirement saving behaviour, with two-fifths of respondents claiming to always be saving for retirement.

**Chart 9: Two-fifths are saving regularly towards retirement**

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



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

- There is a strong sense in the UK of people desiring to take charge of their own retirements and prepare more thoroughly.
- Though this may be driven by the decline of company pension schemes and a less generous state, it is still a positive development in terms of making retirement affordable in the future.
- This is combined with an expectation of a long, healthy retirement in which people expect to remain active whether through working, hobbies or volunteering.
- It is possible to achieve such a retirement, and given the high awareness and understanding of the need to save in the UK, the most important action here is for people to do something with this awareness and become active savers. Of those with high AEGON Retirement Readiness Index Scores, 54% were habitual savers, and 23% occasional savers.
- With auto-enrolment coming into force over the next few years, the British government has taken several positive steps towards improving the quality of pension products and encouraging people to begin saving. However awareness of some of these changes remains low, so there is potentially a need for public information campaigning on this issue. There is also a need to make sure advice services are widely available, so people can consult to discover what these changes mean for their situation.

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- <sup>1</sup> The countries surveyed were the UK, the USA, France, the Netherlands, Germany, Spain, Poland, Hungary and Sweden.
- <sup>2</sup> [http://www.hm-treasury.gov.uk/budget2012\\_statement.htm](http://www.hm-treasury.gov.uk/budget2012_statement.htm)
- <sup>3</sup> <http://www.parliament.uk/business/publications/research/key-issues-for-the-new-parliament/value-for-money-in-public-services/the-ageing-population/>
- <sup>4</sup> <http://www.dwp.gov.uk/newsroom/press-releases/2012/apr-2012/dwp033-12.shtml>
- <sup>5</sup> Income Related Benefits, Estimates of Take-up in 2009-10, DWP
- <sup>6</sup> Statistics on average effective age and official age of retirement in OECD countries, OECD, 2009
- <sup>7</sup> Income Related Benefits, Estimates of Take-up in 2009-10, DWP