



The Aegon UK Readiness Report

How ready is the UK for retirement?

April 2014

FOREWORD



Sue Hayward
**Personal Finance and
Consumer Expert**

When you're climbing the career ladder or busy with family life, retirement can seem a long way off, and with big financial commitments like a mortgage, thoughts of pension saving can easily slip to the bottom of your 'to do' list.

Aside from a lack of surplus cash, I think the blunt truth is most of us simply don't know where to start when it comes to saving for retirement. This is coupled with the fact that there's a huge gap between what we 'want' in retirement, compared with how much we're prepared to save. Most people want an annual income of £35,000, according to the Aegon UK Readiness Report, yet in reality they're likely to get two-thirds less; just £12,000.

Changes in the Budget mean we're in the driving seat with greater control over how we spend the contents of our pension pot, but as we're living longer, making our money last will be a tough challenge.

Even for those of us who are saving; it's rarely a case of being able to sit back and do nothing and the news that 42% of us have never checked the performance of our retirement savings should be a real wake-up call.

Sue Hayward's Top Ten Tips

- New to pension saving? Work out how much you can afford to save each month.
- Do something. Opening a cash ISA is a good start.
- There's no 'one size fits all' way to save for retirement. Think what's best for you, whether that's property, shares or a company scheme.
- Every penny counts. Pension contributions qualify for tax relief so £80 is worth £100 for basic rate taxpayers.
- Keep track of how your investments are performing.
- Get a pension update. If you've moved jobs, you may have small amounts stuck in different funds. The Pension Tracing Service can help with this.
- Maximise your annual ISA allowance. From July you can pay in £15,000.
- Don't dip into retirement savings; the money's there for a reason.
- Property rental can provide a pension income but relying on downsizing for your nest egg could prove tricky if you can't sell when you want to.
- Find out your readiness score to see how prepared you are for retirement.



Mark Polson
Principal of the Lang Cat

This excellent report from Aegon gets right to the heart of one of the single biggest challenges of our age – how to make sure we’re financially sorted, when we’d rather be tanned and windswept on a beach than out there earning a daily buck.

Aegon finds only 7% of the UK currently on track for the retirement they want. This is depressing, yes. But surprising, no. Most people don’t wake up every morning thinking “How can I contribute to my future retirement today”. (What, you do? I wouldn’t admit that, you’re not normal).

Only a minority have wealth that gives them access to a personal, ongoing advice service. The rest have to make their own way. And the facts in this report show, clearly, that they are struggling.

So how do we fix this? How do we help the 93% staring into the retirement savings void?

Public policy makers are having their say and in the past 12 months or so it’s been hard to keep up.

There are initiatives to encourage saving: auto-enrolment into workplace pensions is going great guns and the March Budget gave us the £15,000 ‘New’ ISA and the sweeping away of restrictions on access to pension funds at retirement. Then, with the focus firmly on workplace savings, there are initiatives

to remove legacy commission, force greater disclosure of underlying fund charges and consult on the introduction of a charge cap.

Workplace-based initiatives may hold the key to adding pounds to the average retirement savings pot. But people change jobs, work in increasingly flexible ways and (if they are lucky and astute) may have access to other savings too.

The next few years have got to be about continuing the quest to develop technology-based, cost-effective and genuinely user-friendly ways to help consumers understand their bigger financial picture, gain more control over it and make positive decisions on managing their retirement savings.

In the current platforms market we already have a good starting point, and my bet is we’ll now see the lines between advised and direct to customer platforms blurring and the more joined-up and customer-centric propositions moving to the fore.

The 93% matter and a commercial prize awaits for those who get it right.

INTRODUCTION AND BACKGROUND



David Macmillan
Managing Director, Aegon

It's time to get real. Over the past few years we've all heard the shock stories and scare tactics about the UK's lack of retirement savings. But the tactics aren't working. The reality is that retirement planning behaviour has changed very little. Retirement, for most of us, will be long and needs planning for. This isn't about walking along the beach at sunset arm in arm, or travelling the world first class. This is about reality. Living the lifestyle that you would choose – on your terms.

The recent changes announced in the 2014 Budget and the growing demand for products and services which don't require advice, mean that the pensions industry has a chance to reconnect with customers. It's time for a change and we at Aegon want to empower, rather than frighten, the UK to get ready for retirement. That's why we've built a smart 'score', which is really simple to use and allows people to assess their own readiness. The score evaluates essential aspects of retirement planning, from financial to expectations and awareness of what people need and want in retirement. The score is the centrepiece of our own new Retiready digital service, launched to enable people to take control of their future finances. We want to show people that small adjustments to both their savings and their expectations can make a big difference, reassuring them and putting them in control.

The score is fundamental to how we engage with consumers, so we wanted to put the UK population through this test to understand

readiness from a national perspective, before offering individuals the same opportunity.

And the results¹ are concerning. Only 7% of the UK population achieved a retirement score of 70 or more (out of 100). And the average score was a disappointing 52. The problem is not restricted to particular professions, or regions, or demographics. This is a real issue which is affecting the whole UK population. People are just not close to matching expectation with reality. The results show that on their current plans, people will be £23,000 a year short of the income they want in retirement.

One major reason for this is the lack of engagement with retirement planning. 42% have never checked the performance of their retirement savings and 30% have never done anything to review or affect their plans for retirement.

We're currently seeing some of the biggest changes to the pensions industry in recent memory and it's the right time for the industry itself to lead the charge and help consumers through the minefield of pensions' planning. It's up to us to help people form realistic expectations for their retirement, and then help them take those small steps that could make a real difference. People can now have a renewed sense of optimism about saving for retirement after the changes announced in the 2014 Budget. We need to step forward and educate people, making it our mission to get the UK ready for retirement.

¹ Research was conducted by Watermelon on behalf of Aegon. Total sample size was 4,062 adults. Fieldwork was undertaken in February 2014. The figures have been weighted and are representative of all GB adults (aged 18+). The research was then put through Aegon's own unique methodology to create a readiness score.

This report contains key statistics, information and analysis based on the Aegon Readiness survey of over 4,000 people in the UK. People who took part completed a series of questions designed to assess their behaviour, awareness and finances related to pensions and savings. And, most importantly, the study looked at people's expectations about retirement against the plan they have in place now.

Aegon then applied its retirement readiness calculation to create a unique readiness score for the UK population. This score shows if people in the UK are on track to achieve their retirement ambitions. The higher their score the closer their expectations are to the reality of their situation.

About the readiness score

There are three categories which make up the readiness score. Each of these are explained below.

- **Financial** – This gives us a picture of your financial situation and expectations in retirement
- **Awareness** – This assesses your awareness of what type of lifestyle you want in retirement and your understanding of the level of funding required to achieve your chosen lifestyle
- **Behaviour** – This assesses the actions you have taken towards your retirement needs and to fund the income required to achieve the retirement you want

Contents

The Readiness Report is divided into three sections, which clearly demonstrate how ready the UK is for retirement.

Section 1 – National readiness profile

Looks at how the UK is positioned as a whole when it comes to being ready for retirement

Section 2 – What's the problem: why aren't we ready?

Highlights how the UK measures up in awareness, behaviour and financial capability

Section 3 – Expectations vs. reality

Examines differences between gender, region and profession and discusses the key facts

SECTION 1 – THE NATIONAL READINESS PROFILE

JUST **7%**

of the UK population are on track for the retirement they want

Understanding how ready the UK is for retirement isn't as straightforward as measuring how close everyone is to achieving a pre-determined income level at a certain retirement age.

Factors like age, monthly savings, expected retirement age, guaranteed retirement income and broader pensions understanding, all make up the readiness score, which gives a mark out of 100. Scoring 70 and over indicates that people are on track for the retirement they would like or expect.

Using this measure, just 7% of the UK are on track for the retirement that they want, with 93% needing to adjust their savings or expectations to achieve the retirement they would like. That is just 4.5 million people out of a population of 63.8 million.² As a whole, the UK achieves an average readiness score of 52 – a long way short of the 100 that would ensure people get the retirement they want.

 **4%** Score of 30 or less

 **41%** Score of 30-49

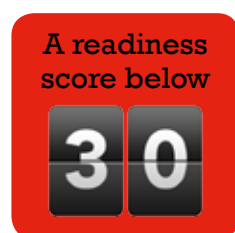
 **48%** Score of 50-69

 **7%** Score of 70 or more

 = 10% of UK population

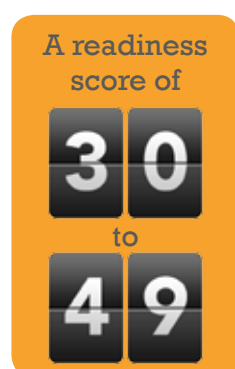
²Data from ONS Population Estimates for UK, <http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/mid-2011-and-mid-2012/index.html>

So what does this really mean and what type of person are you when it comes to getting ready for retirement?



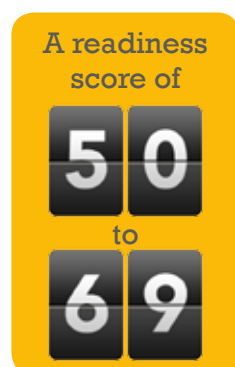
4% of the UK population

You have your head in the sand and are totally unrealistic about what will happen when you reach retirement. You're likely to be cynical about pension savings, potentially expect the state pension to meet your needs – or have over inflated retirement income expectations based on your current situation and the plans or lack of plans you have in place (or you're holding out hope for that big lottery win!).



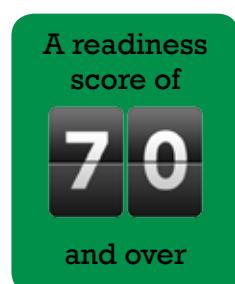
41% of the UK population

You're struggling to put aside as much money as you'd like to. In a normal month you've just about got your head above water and although you might have started a pension, your contributions are nowhere near where they need to be. Your perception of the realities of retirement are forming but you're more focused on the here and now and probably need some support to move forward and build a plan. In the scheme of things you're getting behind but are making a positive start.



48% of the UK population

You're part of the crowd and mirror most of the UK population. You're thinking about things a bit and you're probably saving monthly into a pension but you're not going to meet your preferred income level, or your expected income level is higher than it should be based on your finances, behaviour or awareness. You do have ISA accounts but probably haven't designated this as part of your retirement saving. You're almost on track but need to re-evaluate or do more to make sure you're not disappointed.



7% of the UK population

You're wise and have super-realistic expectations which match your retirement savings and the lifestyle you want. Whether you started early or have had to play catch up, you've made sound decisions that have left you in an excellent position in the run up to your retirement.

SECTION 2 – WHAT'S THE PROBLEM: WHY ISN'T THE UK READY?

Getting ready for retirement is different for everyone. However, the survey does show some significant themes.

People scored least favourably in the financial section, followed by awareness and behaviour.



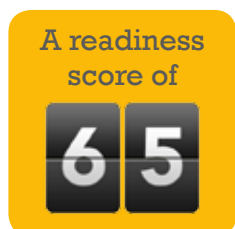
Financial

- On average, people wanted an income of £35,000 a year in retirement, but in reality are currently projected to see only £12,000.
- Nearly one in ten (8.8%) scored 0 on financial, indicating that **almost 3.3 million people of working age in the UK** are doing no planning for retirement, and are currently planning to rely solely on the state pension.



Awareness

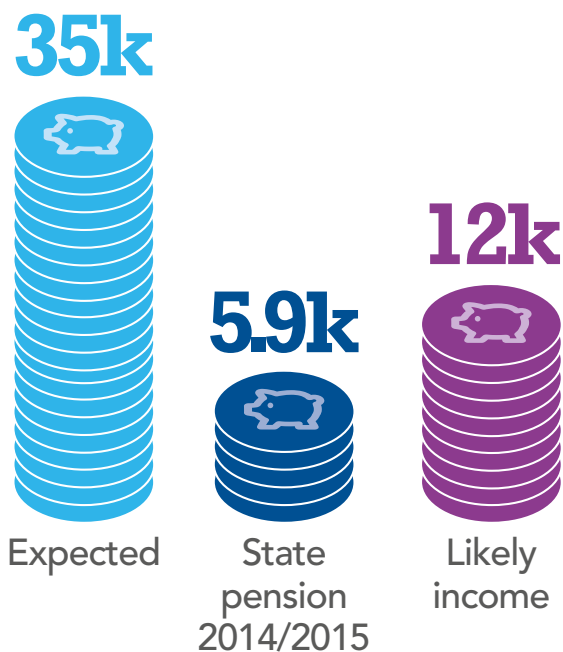
- Across the UK there is **very low awareness** of what is required to achieve retirement income goals.
- **Only 4%** received an awareness readiness score of 70 and over.
- **More than half of the UK** over-estimates the maximum state pension they could receive.
- The average age the UK expects to retire is **63**, which implies that for much of the population there is denial about the planning they've undertaken and refusal to comprehend the possibility of living to 100 and beyond.



Behaviour

- Interestingly, **39% of respondents scored 70 or over here**, suggesting that at least people are starting to understand the steps they need to take to get ready. However, while people are claiming they regularly review the progress of their savings and investments, there is still a strong minority that aren't doing nearly enough.
- Nearly a third have never done anything to review or affect their plans for retirement, and **42% have never checked the performance** of their retirement savings.

The average income desired in retirement of £35,000 per year is more than the current average national salary and more than five times the £5,881.20 offered by the current 2014/2015 state pension for a single person. In reality, most people are only likely to get a personal income, on their current planning, of £12,000.



2/3

of people don't save into an ISA each month and 64% have no ISA savings allocated to retirement

Retirement planning options:

- Clearly more can be done to educate people about the possibilities for retirement planning.

With the recent increase in ISA allowance it's clear what an important part ISA savings can play in retirement planning – but that awareness has not yet filtered through to the UK population.

Retirement age:

- Although the state pension age is set to increase, people still expect to retire earlier, at around the age of 63. This is despite current predictions that an under 30 year-old will be retiring at 78.³

The study highlights a clear gulf between the incomes and lifestyles that people expect or would like in their retirement vs. those they think they'll realistically achieve.

³ Research conducted through the State Pension Calculator. <https://www.gov.uk/calculate-state-pension>

SECTION 3 – EXPECTATIONS VS. REALITY

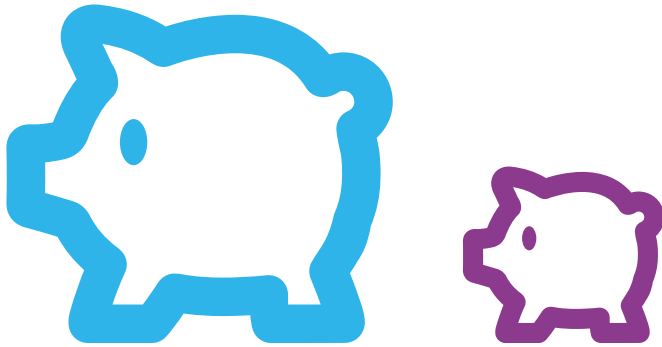
ON AVERAGE
MEN ARE **4%**

more likely to be better prepared for retirement than women, and tend to have pension pots double the size of women.

Gender divide

The study highlighted some interesting differences in retirement readiness across a host of different groups. Some of the starkest differences are between men and women.

This correlates with the wider pay gap between men and women. However, men's expectations are far higher, wanting nearly double the income that women expect in retirement.



Men expected **£47,000** a year, compared to women who expected **£24,500**

Key facts

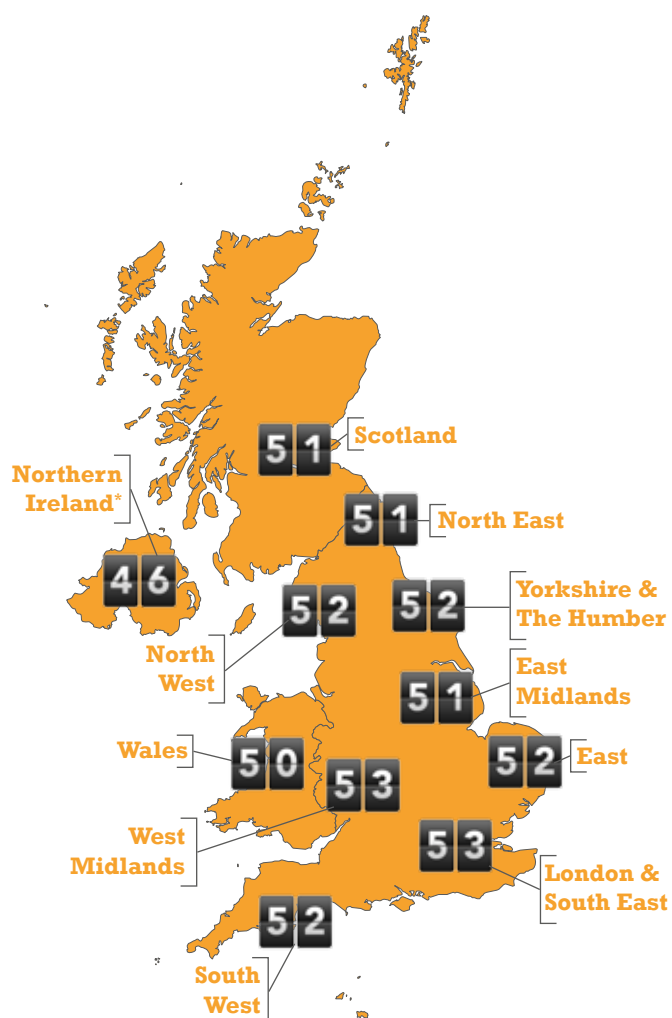
- In both men and women, awareness, behaviour and finance scores peak between 45 and 64, indicating an increased focus on retirement planning and saving and financial capability
- The gap between men and women's readiness scores narrows between the ages of 16 and 44 and widens between the ages of 44 and 64. This may correlate with the gender pay gap which, since 1997, has narrowed for those under 49. For those over 50, the gender pay gap has stayed at a similar level since 2005⁴

Regional similarities

This is a nationwide issue. There are no significant differences between the key regions in the UK, which to an extent is surprising given the high concentration of Gross Domestic Product (GDP) in London and the South East.

Key facts

- London, the South East and the West Midlands are, by a small margin, the best at planning for retirement, with readiness scores of 53
- Northern Ireland is the least ready for retirement with a readiness score of 46, just below the national average
- London and the South East are perhaps the most ambitious retirement planners and would like a retirement income of more than £55,000 per year



SECTION 3 – EXPECTATIONS VS. REALITY

Professions

The study shows some distinct differences between key professions. Those in management, law enforcement and the insurance and pensions sector, on average claim to have pension pots of over £80,000. This is in striking contrast to people working in the performing arts and events, and hospitality sectors who have average pots of less than £20,000.

Key facts

- People in the banking and finance industry tend to have the highest expectations of their preferred retirement income. Most would like an income of more than £60,000 a year in retirement
- There were more modest expectations in other professions. Those working in charity, leisure, sport and tourism, mining and land surveying, and the environment, were all looking for less than £20,000 a year, which contributes to higher readiness scores for some of these sectors

 **48k** Information services

 **37k** Banking & financial

 **34k** Law enforcement

 **30k** Healthcare

 **24k** Creative arts & design

 **21k** Social care & guidance

 **0k** Unemployed

Conclusion

The findings in the report are concerning. Not only is the UK population far from financially ready for retirement, but the awareness of what people need, and can achieve, is low.

Throughout the report we've seen a low level of understanding and readiness, and a real lack of engagement in retirement planning and finances. We've examined the differences by region, by gender, by profession and even by city, but again and again we see the same issues.

What next?

This report isn't designed to scare people into apathy. The readiness score has been deliberately designed to give individuals a true picture of their likely retirement, and allow them to take some simple steps to improve the picture it paints.

Engagement and control are absolutely key to creating realistic expectations.

1. People can find out their own retirement readiness score to assess their current situation and understand their expectations.
2. Simple changes to retirement expectations could make a big difference: would they really mind retiring a year later? Have they been realistic about holidays?
3. Saving just a little more, as soon as possible, is vital.
4. Know all the options for retirement planning. For instance the changes to ISA limits mean more choice over long-term savings plans.
5. Use the coaching tools and online services available to find out the information needed.
6. And for those that feel they need more help, seek professional advice.

This report should also act as a wake-up call to the industry. People need help to take control of their future finances, and we need to work together to create a nation of retirement realists. Simpler propositions, transparent advice, and services which help consumers understand and take control, are all vital components in making the UK ready for retirement.

The 2014 Budget has made financing retirement infinitely more flexible. But it's taking control at an early stage that will allow the nation to live the retirement they deserve.

APPENDIX: KEY DATA TABLES

Age

Age	Average of total score
16 - 24	51%
25 - 34	52%
35 - 44	53%
45 - 54	55%
55 - 64	54%
65 - 99	48%

Gender

Gender	Average of total score
Female	50%
Male	54%

Cities

City	Average of total score
Belfast	47%
Birmingham	54%
Brighton	54%
Bristol	54%
Cambridge	53%
Cardiff	52%
Carlisle	52%
Edinburgh	53%
Glasgow	52%
Leeds	52%
Leicester	55%
Liverpool	54%
London	54%
Manchester	51%

City	Average of total score
N/A	51%
Newcastle	53%
Norwich	50%
Nottingham	52%
Other	52%
Peterborough	51%
Plymouth	50%
Portsmouth	50%
Sheffield	53%
Southampton	55%
Stoke	53%
Swansea	52%
Swindon	53%
Wolverhampton	48%
York	59%

Professions

Profession	Average of total score
Administration	51%
Advertising, marketing and PR	50%
Animal and plant resources	54%
Banking, financial management and accountancy	56%
Charity and voluntary work	55%
Construction and property	51%
Creative arts and design	51%
Education	53%
Engineering, manufacturing and production	53%
Environment	50%
Healthcare	53%
Hospitality and events management	50%
Human resources and employment	51%
I am unemployed	41%
Information services	61%

Profession	Average of total score
Information technology	53%
Insurance and pensions	56%
Law enforcement and protection	54%
Legal profession	54%
Leisure, sport and tourism	50%
Management and statistics	56%
Media and broadcasting	55%
Mining and land surveying	48%
Other	50%
Performing arts	47%
Publishing and journalism	51%
Retailing, buying and selling	50%
Scientific services	55%
Social care and guidance work	50%
Transport, logistics and distribution	55%

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