The Aviva Real Retirement Report

Autumn 2014

Freedom and choice special edition

AVIVA

Contents

Foreword

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In this Real Retirement Report special edition we look at over-55s' attitudes to their finances in Q2 2014 and the degree to which they are concerned about running out of money in later life. It is an important question because over-55s will have increased flexibility from April 2015* in how they take their defined contribution pension savings. The opportunity of taking all of their money in one go could prove too tempting for many, but whether they will is yet to be seen. My view is that savers will largely continue to look for reliable and good value retirement solutions.

In this report we look at people's attitudes to the freedom and choice changes announced in this year's Budget. It is interesting to consider what people actually think about the new freedom and choice options being offered from next year. The early signs are that there is still a lot of work to do to explain to people what that increased flexibility will offer them, and that the new options need careful consideration. Advice and guidance is likely to prove key in helping people make informed decisions.

In the regular tracker section of this report we see the UK's over-55s continuing to benefit from the improving economy. Income, spending and borrowing are all generally increasing over time, potentially encouraged by improving property prices of late. Spending on what we would normally consider luxury items, for instance, has increased suggesting that the over-55s feel they have more disposable income than recent times. It is interesting to see this pattern of increased consumer confidence emerge as the UK continues its recovery.

It is possible that we are seeing the start of a return to the high spending and high borrowing economy that we saw prior to the recession. If this is the case then we should call for caution when it comes to retirement planning as there has never been a more important time to think carefully about how best to budget for retirement.

* From April 2015, from age 55 years, people will be able to take their defined contribution pension savings how they wish, subject to their marginal rate of income tax in that year, and 25% of their pot will remain tax-free. These changes were announced in the 2014 Budget.

Freedom and choice – how the over-55s plan to respond to the Budget 2014 changes

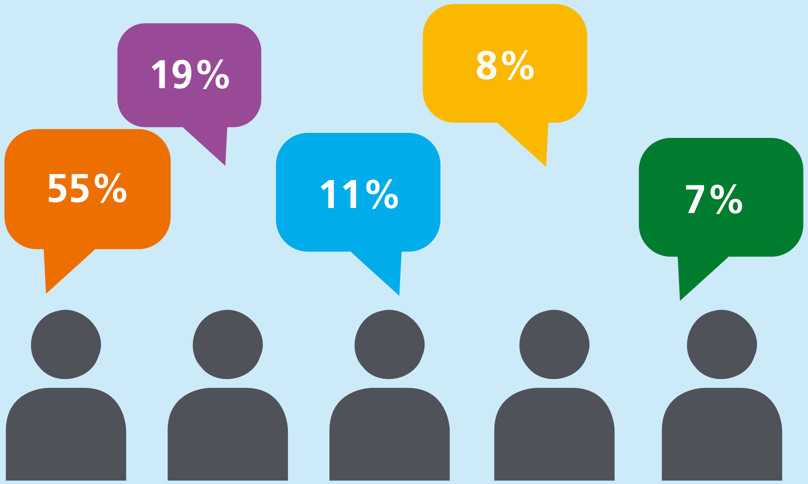
With the new flexibilities offered by the 2014 Budget just around the corner, there has been a huge focus on how over-55s will respond and concern about their potential to spend all their money too early.

This speculation all presumes that those making their retirement decisions from April 2015 will be inclined to access their pension savings early rather than taking the more traditional guaranteed income offered through an annuity or looking to a long-term income drawdown plan, with some money still invested.

Awareness about the Budget changes is high with 78% of over-55s (who are not yet retired) saying they know about the changes, and only 10% saying they do not. Interestingly, there is less awareness among a slightly younger cohort of 45-54** year olds with 70% awareness. Despite this level of awareness, more than half (55%) of over-55s who are not retired say the changes do not affect them, suggesting that advice and guidance needs to play a significant role in ensuring people thoroughly consider the new options open to them from April next year.

More than half (54%) say the freedom and choice changes will not alter how they actually prepare for retirement, and 36% say they do not know whether they will. Only 10% say they will affect their plans. Even many of the younger cohort of 45-54 year olds, who will have more time to consider and prepare for the increased flexibility, say the changes will not affect their plans (36%) or they don't know whether they will (54%). Only 7% of over-55s say they are worried about spending their pension savings too early and running out of money because of the new freedoms, although this is significantly higher in a younger 45-54 year old cohort at 16%.

How over-55s feel about having earlier and more flexible access to their pension savings



- Does not affect me
- Peace of mind in being able to access money how and when they want
- More anxious about having enough money to last the whole of retirement.
- Confused over having more decisions to make about pension savings
- Worried about spending pensions savings too early and running out of money

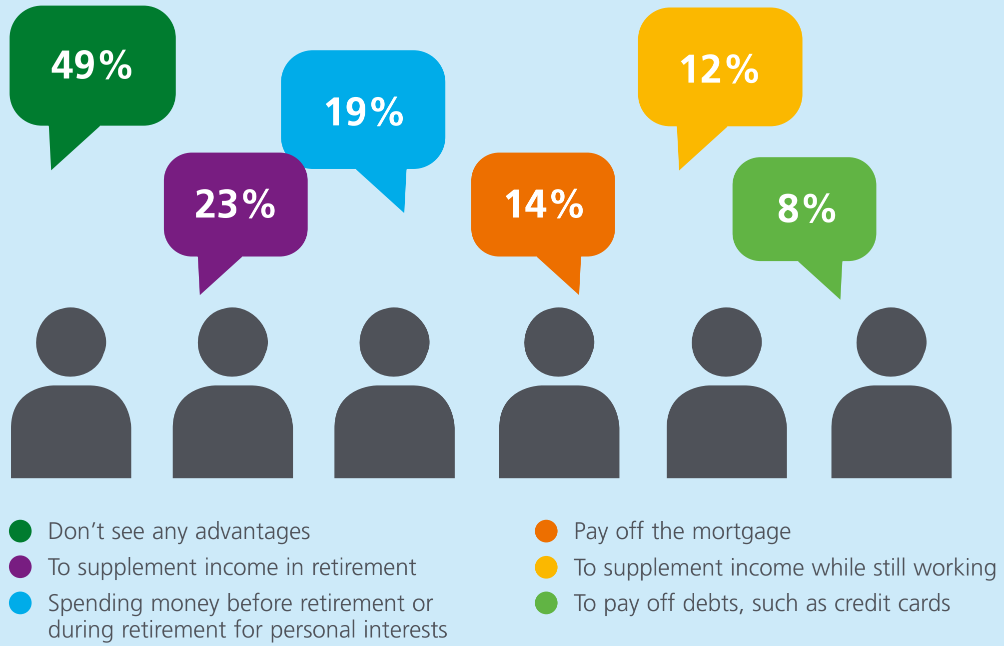
** For this freedom and choice spotlight we also asked a younger cohort of people aged 45-54 year olds, to track their emerging views on the Budget changes. All data using this age group is referenced. All other figures relate to the over-55s.

Perhaps one reason for the lack of concern over running out of money due to the freedom and choice changes is that half (49%) of over-55s who are not retired say they do not see any advantages to taking their pension savings as a lump sum, potentially allaying fears of people spending their money too soon. Whether this opinion will change over time is yet to be seen, and may well be affected by the economic landscape at the time.

Of the 10% of over-55s who say their plans for taking their pension savings will change, the majority (59%) say they are more likely to take some or all of their pension savings as soon as they can, and 34% say they may take some of their pension savings as a lump sum to fund their retirement.

Benefits of taking all their pension savings as a lump sum

Over-55s who are not retired say:

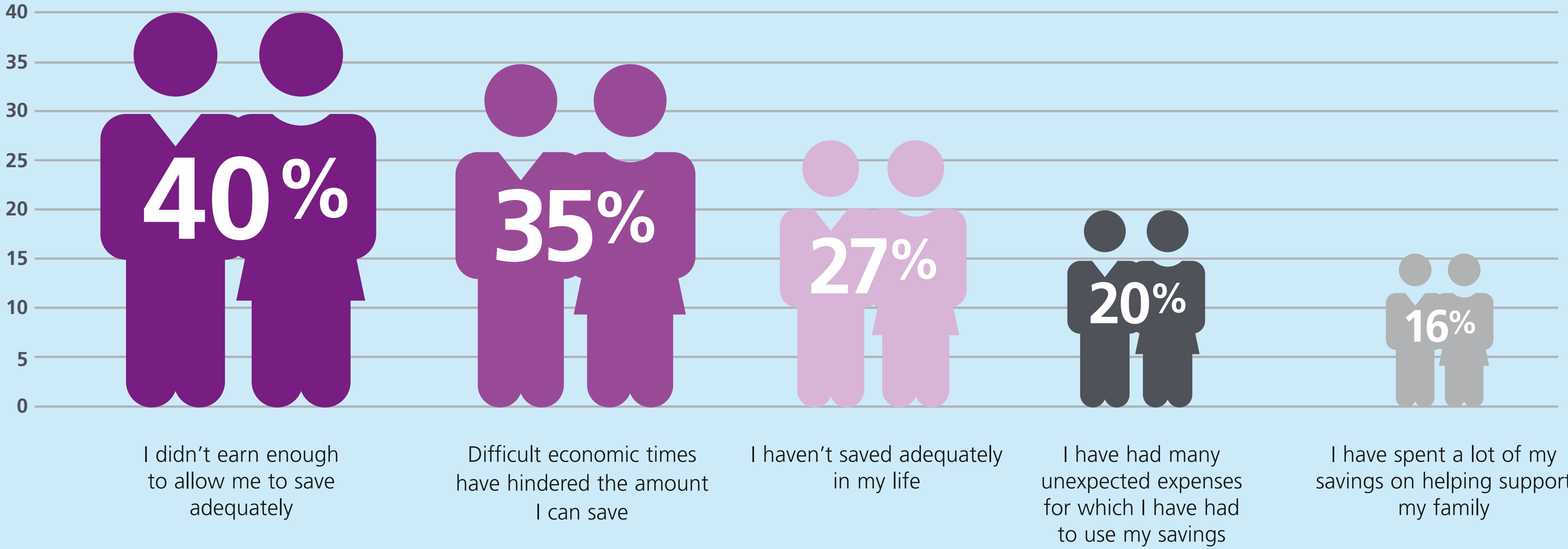


Having enough money through the retirement years

With increasing confidence in the economy, the UK's over-55s are experiencing one of the most buoyant economic periods in the history of this report. More money in their pockets, property prices rising and increased spending indicates a returning optimism to this part of the population.

Despite an overall trend towards increasing confidence, many over-55s remain concerned about whether they will have enough money to live on in retirement. While 52% think they will have enough money in retirement, 17% think they will not have enough, and a further 27% will only go as far as saying they may have enough.

Those people who do not feel they will have enough money in retirement put it down to:



The possibility of running out of money in retirement becomes more likely when people have the option to take all of their pension savings how they wish – including in one cash instalment as they can from April next year. For today's over-55s, running out of money is a possibility, but many are clear on what they are prepared to cut back on if necessary and what remains absolutely critical to their lifestyle, as can be seen from the accompanying graphics.

Only 5% of people say a key worry is living longer than they expect and not having the money to fund their retirement. And 8% also say they are worried about running out of money in retirement because they have spent too much, too soon.

This relatively low level of concern sits in stark contrast to what the over-55s feel are the more fundamental concerns about growing older: ill health (56%), conditions such as dementia (50%), being dependent on other people (36%), going into a care home (30%), and dying or people close to them passing away (25%).

Things to cut back on and preserve in retirement if money runs short

Things over-55s have/will cut back on if necessary

45%	40%	36%	36%	28%	24%
Eating out/ evening entertainment	Gifts and treats for myself, friends and family	Holidays and hobbies	Household upgrades	General living	On all things

Things over-55s are not prepared to give up

48%	44%	41%	31%	16%	14%	7%
Home	Seeing friends and family	General living	Holidays and hobbies	Gifts and treats for myself, friends and family	Eating out/ evening entertainment	Household upgrades

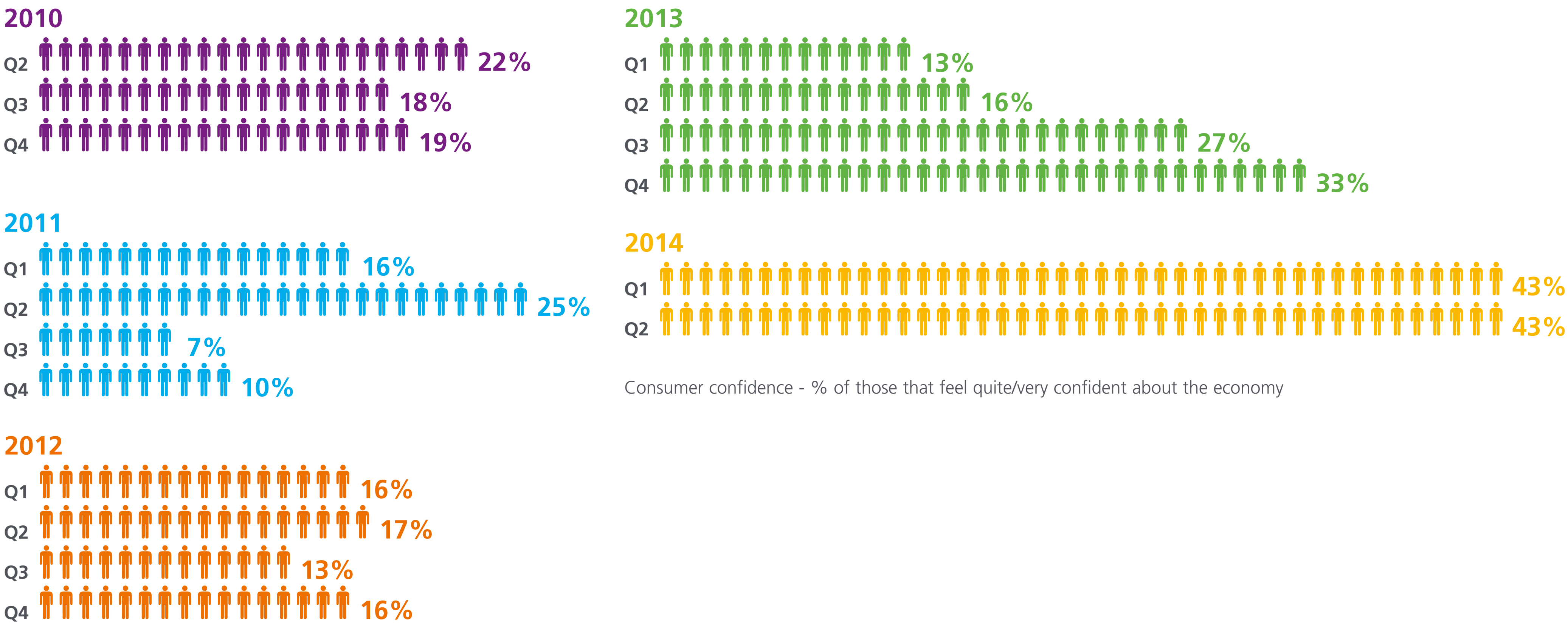
Economic Overview

2014 has seen unemployment levels return to pre-recession levels, with the economy growing at a healthier rate once again and signs all pointing to a more positive economic outlook.

This improved economic trend is reflected in the views and behaviours of those aged over-55 years in Q2 2014 as they become financially more confident. However, there are signs to take heed of in the over-55s, particularly in how ‘borrowing’ rather than ‘saving’ is beginning to be used to fund the lifestyles people want.

UK economic confidence has never been higher with 43% of those aged over-55 feeling ‘very/quite confident’ about the economy and 29% feeling ‘not very/not at all’ confident. Compared to recent years, the positive pattern is very clear amongst this segment of the population and has not been higher since the recession.

Consumer confidence among the over-55s

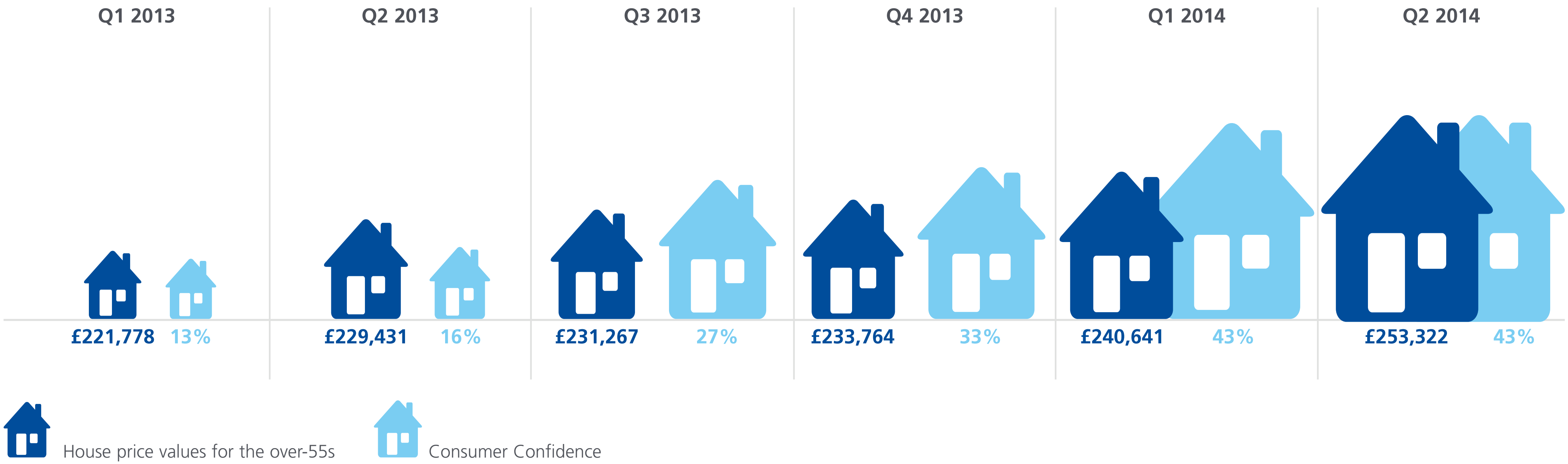


Consumer confidence - % of those that feel quite/very confident about the economy

There are a number of signs that the over-55s are beginning the move back to an economy built on borrowing and spending. One instance where this can be seen is in monthly 'in-goings and out-goings'. As borrowing rates have started to rise, household expenditure is also increasing – especially amongst the more 'luxury' items, such as eating out and holidays. This is at a time when the average household shopping basket (measured in the RPI Index – page 13) continues to remain quite low, and thereby keeping disposable income relatively high.

A point particularly relevant to the over-55s is how closely the improved economic outlook, which is starting to drive spend, is built purely on the housing bubble. The over-55s are most likely to own their own home (almost two-thirds of those aged over-55 do so) and so benefit from the recent house price trends. However, they are therefore also the section of the population most likely to be hit fastest and hardest if 'the housing bubble' bursts.

Average house prices for the over-55s compared to consumer confidence



Income

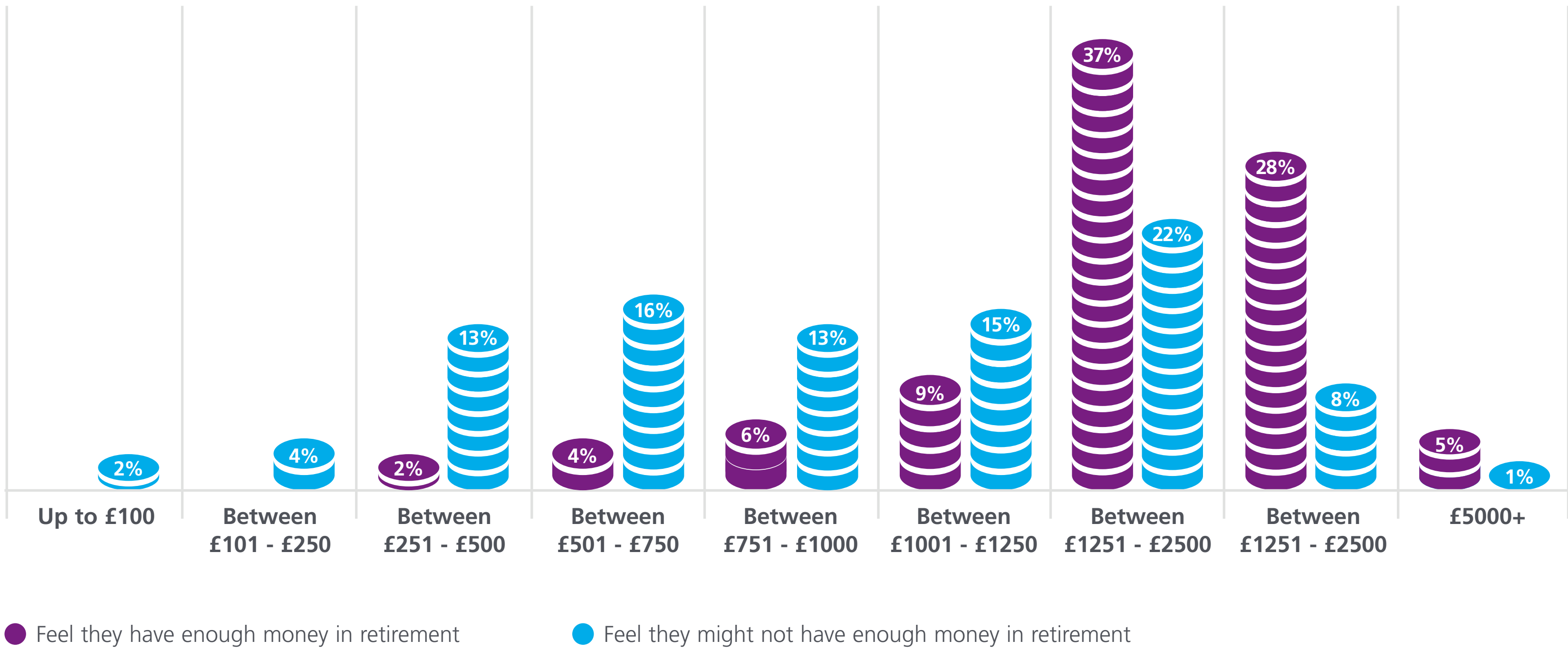
Income is continuing to remain slightly higher in 2014 than in previous years, with the middle income value (median) for over-55s being £1,346 a month compared to £1,212 in Q2 2013.

With the economy improving, incomes do seem to be trending upwards slightly amongst this section of the population.

Regional disparities persist with London seeing a typical income of £1,587 a month, closely followed by the South East at £1,473 and both around £200 more than almost any other region.

Despite income in the over-55s increasing over time, we have seen that a significant proportion of this group do not feel confident about their ability to fund their retirement and adequately finance what they need to pay for.

The link between a lack of financial confidence and income level is evident with a monthly income of about £1,800 seeming to be the marker at which an individual is more likely than not to feel comfortable about their financial situation.



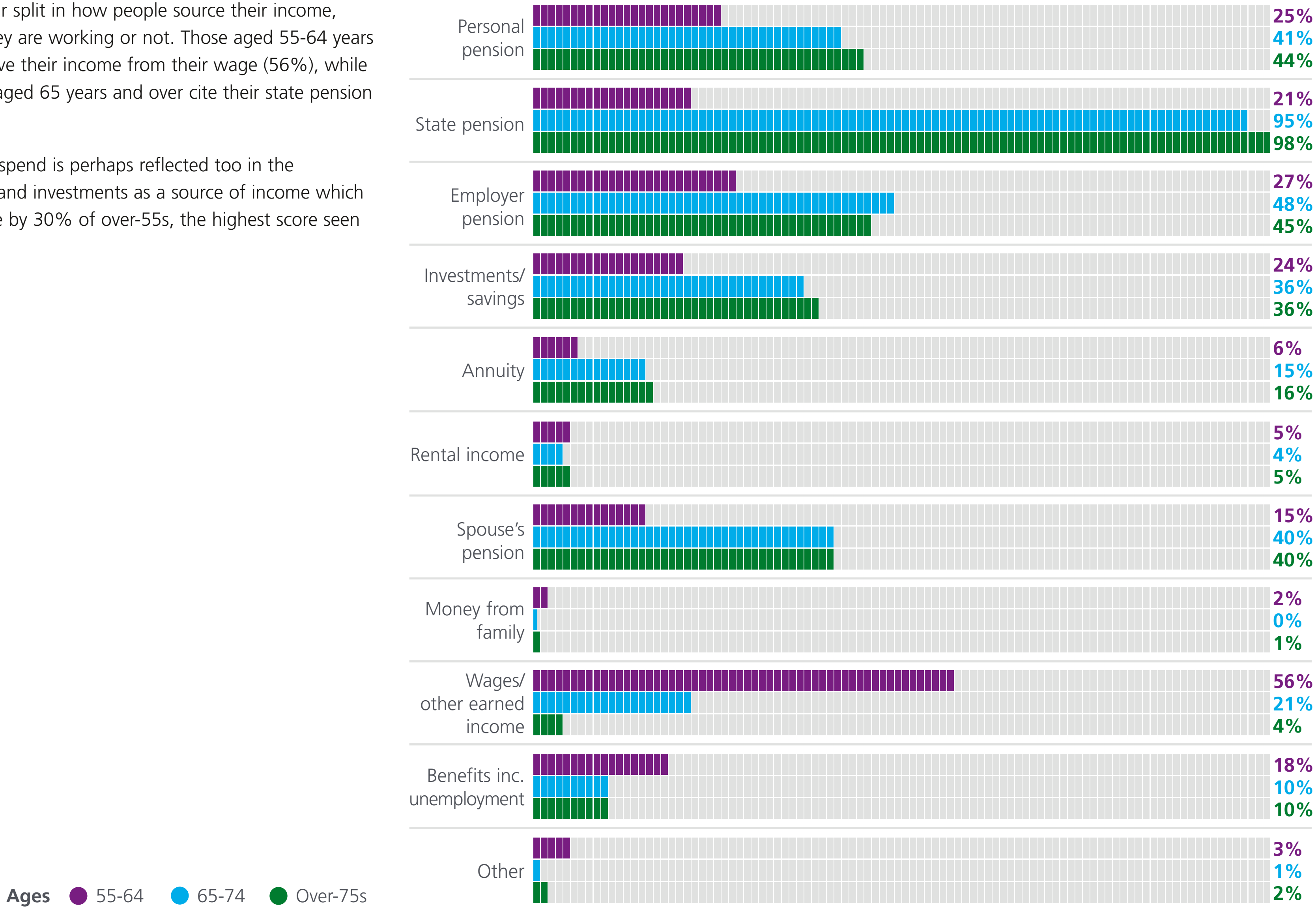
Comparison of monthly income amongst those who feel they have 'enough' money for retirement, and those who do not

Sources of income:

As expected there is a clear split in how people source their income, depending on whether they are working or not. Those aged 55-64 years are far more likely to receive their income from their wage (56%), while more than 95% of those aged 65 years and over cite their state pension as the main source.

The shifting propensity to spend is perhaps reflected too in the continuing rise of savings and investments as a source of income which is now seen to be a source by 30% of over-55s, the highest score seen since 2011.

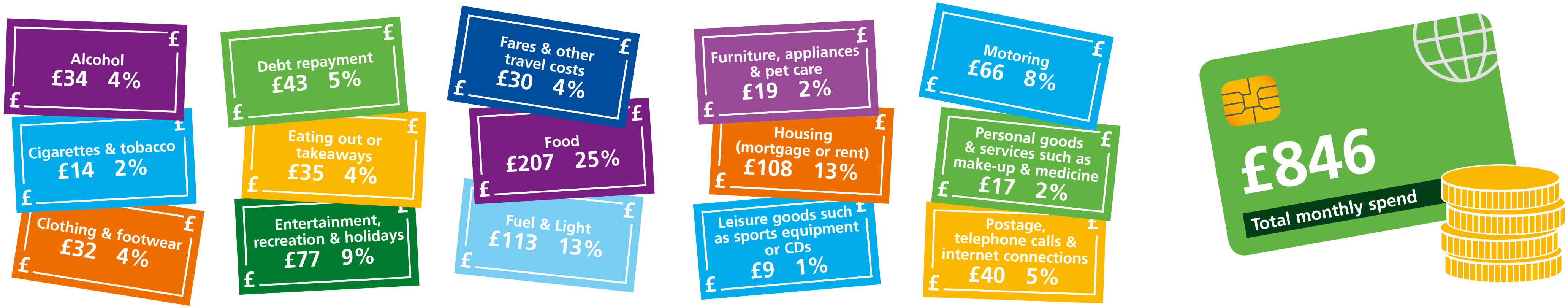
Sources of income in retirement



Expenditure

Personal expenditure continues to climb amongst this demographic with a typical monthly expenditure of £846 (compared to £792 in Q2 2013), which is also the highest seen since this tracker began.

The monthly spend for the over-55s and proportion of total spend



The monthly spend for the over-55s is made up of a variety of core items but the main ones being food, fuel and (for those it applies to) their mortgage.

The key areas where expenditure appears to be rising is in luxury items, which are those that were likely to come off the shopping list first when times were harder in recent years.

For instance, holidays, clothing and eating out are all at their highest levels since the tracking began.

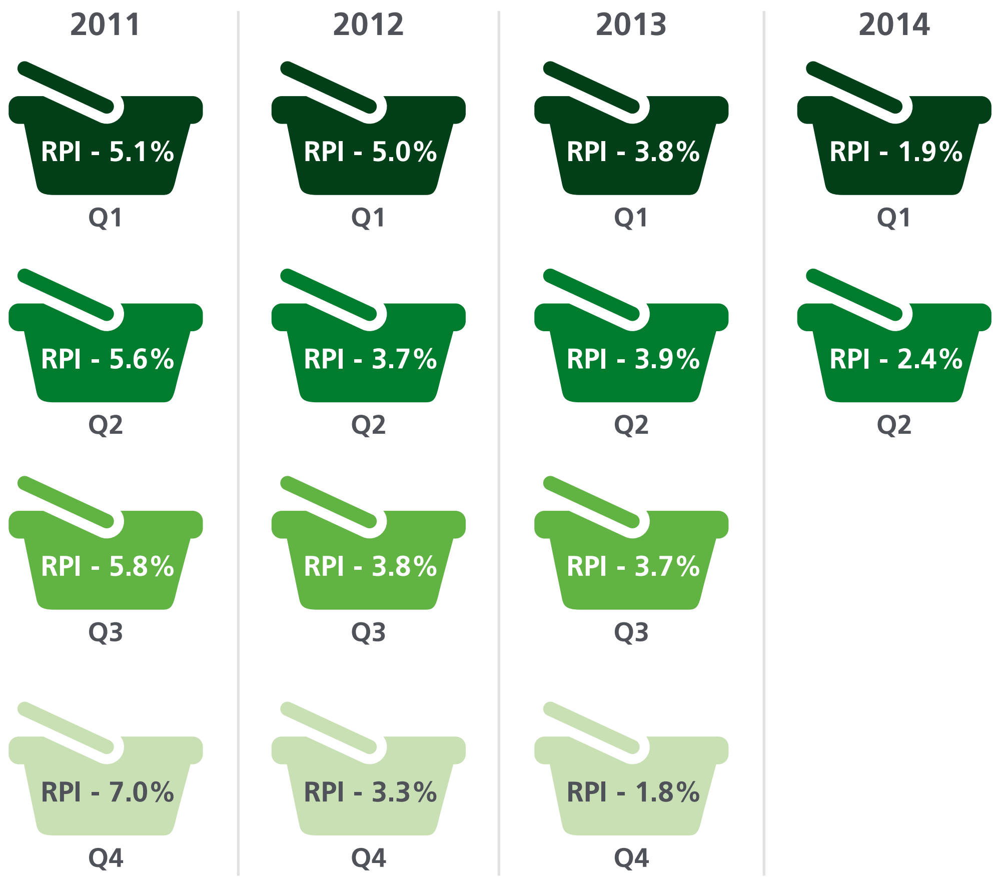
Over-55s shoppping bag - items that have seen an increase in spend

	spend and proportion of monthly basket		
Alcohol	£34	4%	Highest since tracking began
Clothing and footwear	£32	4%	Highest since tracking began
Eating out or takeaways	£35	4%	Highest since tracking began
Entertainment, recreation and holidays	£77	9%	Second highest - second only to Q1 2014
Fares and other travel costs	£30	4%	Highest since tracking began

Retail Prices Index (RPI)

Interestingly, as spending has increased, the relative cost of a shopping basket, the RPI index, is still relatively low amongst this segment of the population at 2.4 (Q2 2014) compared to 3.9 in Q2 2013, and one of the lowest figures seen.

RPI trends amongst the population aged over-55



What does this mean?

The price of goods is still comparatively low, relative incomes are quite high and, thanks to the improved economic outlook, people seem to be spending more on the enjoyable things in life.

Fuel shortages?

With the relative price of fuel actually falling a little this quarter the share of wallet it takes has dropped accordingly. Fuel is a key part of the monthly outgoings for this group of the population making up 10-15% of the bill. Recent reports of fuel hikes and speculation around gas prices continuing to rise disproportionately to costs don't seem to be reflected in this survey. Indeed, gas prices actually seem to fall slightly and we see the same pattern here with fuel and light expenditure at £113, lower than it has been in Q4 2013 and Q1 2014.

Borrowing/debt

Few people in this segment of the population have extensive debts with the majority having paid off their mortgage and settling into retirement.

However, amongst those that do, the three most prominent forms of debt are credit cards, personal loans and overdrafts. A typical person in this age group owes £817 on their credit card, £765 in personal loans and £104 on their overdraft.

These are also the three areas to have seen the highest increase in debt owed this wave, all individually increasing on Q1 2014 and together forming one of the highest amounts of unsecured debt since this tracker began.

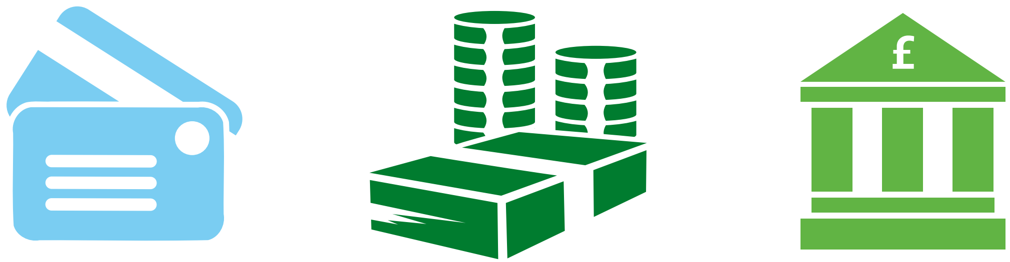
Taking into account the slightly more unusual (and prone to monthly variance) forms of debt, for instance store cards, doorstop lenders and other informal borrowing, Q2 2014 stills sees exactly the same pattern as is seen in the three most prominent forms of borrowing (credit cards, personal loans and overdraft). Here the typical person aged over-55 owes £2,269 – again one of the largest figures for total owed since the tracking began. This sort of value has not been seen since late 2011 when people were most likely looking to pay off debts generated before the troubles of 2009.

At a time when personal, luxury spending is showing record highs we also seeing forms of debt start to creep up too – even though the relative price of goods is still quite low. Could this be the first sign of the return of the 'high borrowing – high spending' economic model Britain flourished under for many years.

The amount over-55s owe on the three key forms of unsecured debt

Q2 2014

£817	£765	£104
Credit Card	Personal loans	Overdraft



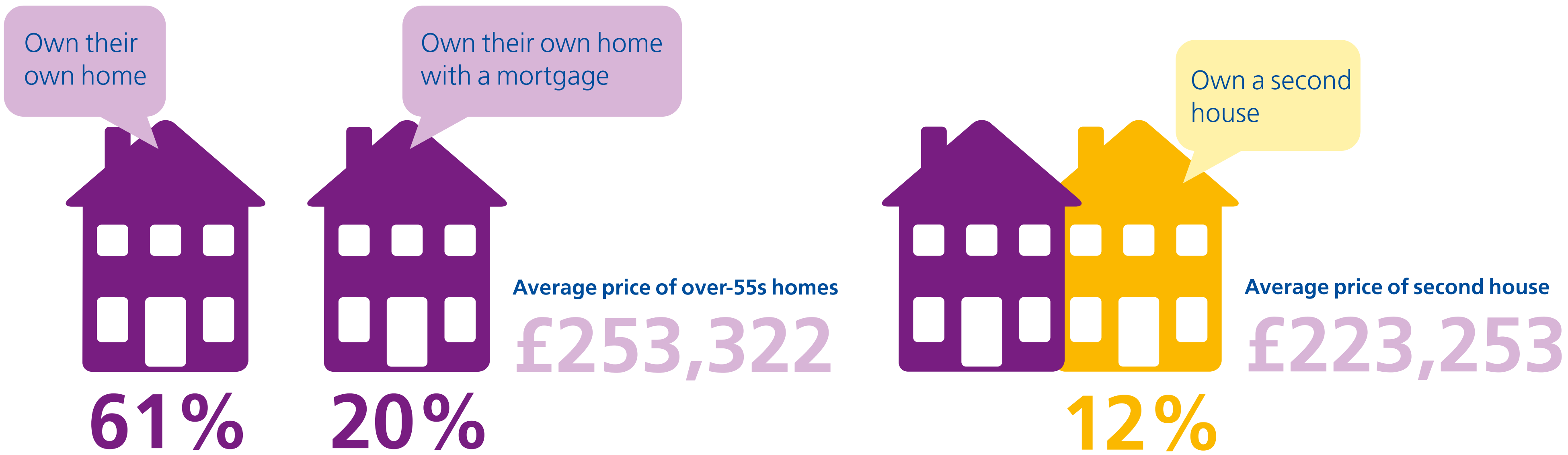
The amount over-55s owe on the three key forms of unsecured debt

Homeownership

Property is by far the largest asset for this group with 61% owning their home outright and 20% owning it but with a mortgage. The average price of a house is £253,322, a figure that has never been higher amongst this age group.

Regional disparities exist between incomes and amount the people tend to save but none are quite as profound as the variance in property prices seen across the UK. At £458,944, London is more than double almost any other region.

A total of 12% of the population in this demographic own a second house too. With the average price of the second home at £223,253 this is another asset the over-55s have that continues to grow in price.

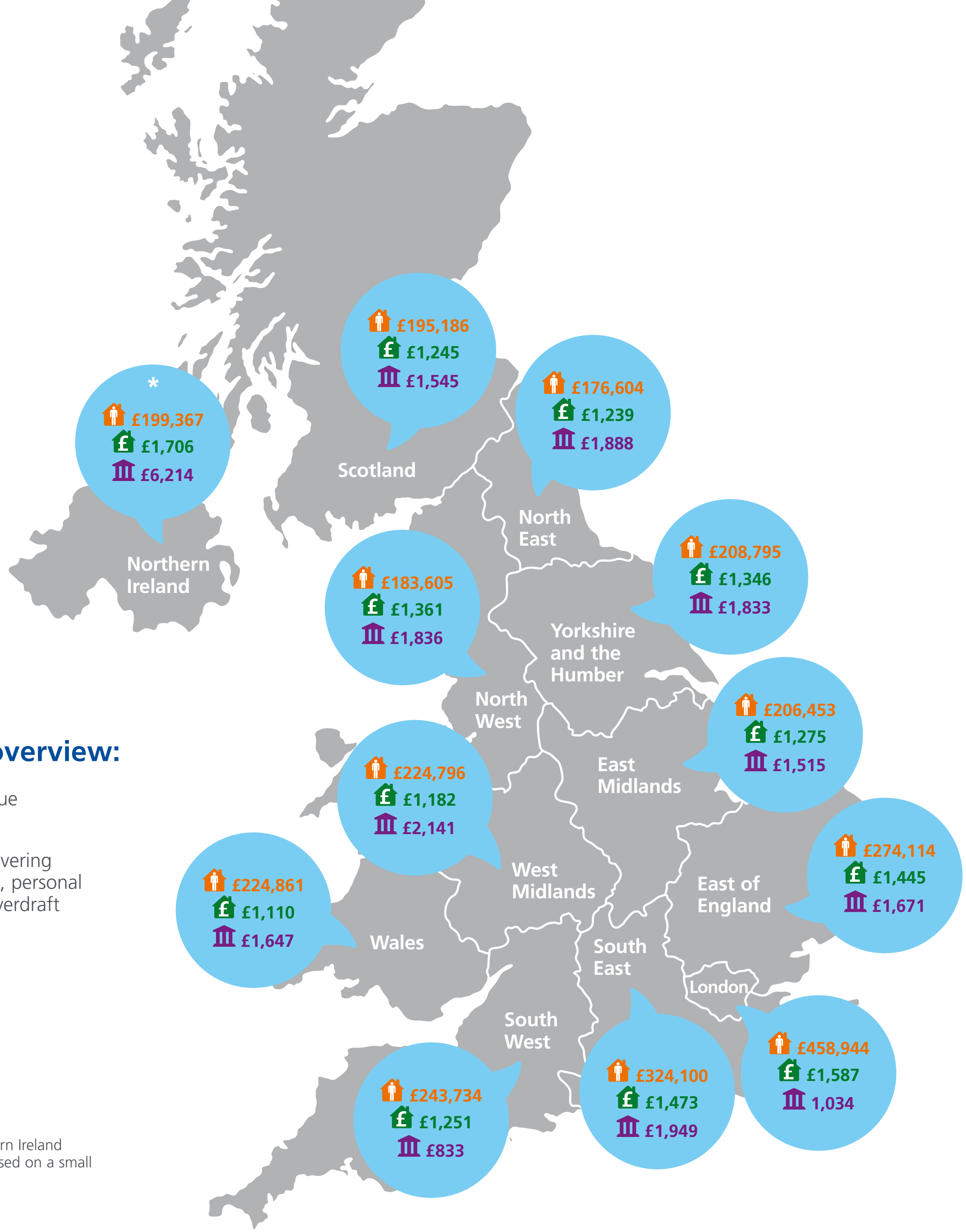


A regional snap-shot of over-55s in the UK

There are signs that the confidence in borrowing and spending in the over-55s could in part be fuelled by the buoyancy of the housing market. If this is the case, then the over-55s will potentially feel the brunt of any fluctuations in the housing market in the UK in the coming months and years.

Regional overview:

- Property Value
- Income
- Debt in £ covering credits cards, personal loans and overdraft



* Note - Northern Ireland figures are based on a small sample size.

Savings/Assets

In our last report, in Spring 2014, we reported that Q1 2014 had seen some of the highest savings since this tracking began.

While still high, Q2 has not quite followed the same trend with a typical over-55 year old owning £14,779 in savings and investments, compared to £11,894 in Q2 2013.

This is typically higher among the elderly with the over-75s category owning £20,211, 65-74s owning £20,844 and 55-65s just £10,067.

Average savings this quarter have fallen slightly with a typical person aged over-55 years putting away £46 each month.

This represents a £2 drop since Q1 2014 where the typical amount saved was £48 per month. By historic standards this is still a very high amount saved, indeed second only to Q1 2014 when looking at the amount this group tends to put away each month. The correlation between income and savings looks to follow quite closely in recent waves as we can see in the following graphic.

Typical monthly income and how much people save/invest each month

So what does this tell us?

The Autumn 2014 Real Retirement Report looks in detail at the finances of the over-55s and explores people's views on running out of money, and how they feel the changes announced in the 2014 Budget will affect them. Aviva recommends consumers consider the following:

1 **Have a realistic view of how much money you will need to last you for the remainder of your life.** As you plan your retirement, be clear about how much money you will need in retirement, and how long you expect to live. Being realistic about your financial needs into your later years, and how they could change, will help you budget accordingly and not over-spend.

2 **Get up to speed with the changes being introduced by the government that will give you far more freedom in how you take your retirement savings.** The changes announced in the 2014 Budget will give the over-55s far more freedom in how they use their pension savings. It's essential that you really understand what these changes mean for you, and how they could benefit you. The government pledged impartial guidance for everyone in a defined contribution pension scheme to help them make the decision that is best for them. Take this guidance and choose carefully so that you have money to last the whole of your retirement.

3 **Take a balanced approach to your spending needs, particularly as the economy recovers.** Having enough money to last the whole of your retirement is essential, so be clear about what you can afford to spend now, regardless of how good the economy is looking.

4 **Be conscious that the improving economy and property prices can fluctuate.** If your spending and borrowing habits are partly fuelled by the recovering economy and the significant price increases in property – then exercise some caution. The economy and property prices can rise and fall, and it's important to always spend within your means and stick to your budget.

5 **Continue to save.** Many over-55s continue to work either full-time or part-time and should, where possible, continue to put money away for the future. Maintaining a savings habit into retirement is as important as when you are younger.

Methodology

The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research.

The Real Retirement tracking survey referenced throughout this report has been running since 2010 and totals 19,193 interviews amongst the population over the age of 55 years.

Some questions have only been running in a common manner since 2011 (so totalling 14,583 interviews) and thus are only reported on for this period.

1,202 people aged over 55 years were polled for this wave of research (Q2 2014) in July 2014.

An additional 305 people aged over 45 years were interviewed and are only referenced where indicated in the report.

Technical notes

- A **median** is described as the numeric value separating the upper half of a sample, a population, or a probability distribution, from the lower half. Thus for this report, the median is the person who is the utter middle of a sample.
- An average or **mean** is a single value that is meant to typify a list of values. This is derived by adding all the values on a list together and then dividing by the number of items on said list. This can be skewed by particularly high or low values.

For further information on the report or for a comment, please contact Diane Mangan at the Aviva Press Office on 01904 684164 or diane.mangan@aviva.co.uk

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