The Aviva Real Retirement Report

February 2010

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Foreword

Aviva believes that there is no such thing as a 'typical' older person. As a result we have decided to track three ages of retirement (55 – 64; 65 - 74 and over 75) to provide us with a broader understanding of this key population group (see page 3).

- **Inflation is not as unkind as thought** - Contrary to popular belief, over the last decade as a whole general inflation (RPI) rose at a roughly similar rate for non-pensioners (see page 4)
- **Pensioner poverty is a real issue** - 21% of over 55s subsist on an income of less than £750 per month (see page 6)
- **Pre-retirees have the lowest savings** – 35% (55 – 64), 25% (65 – 74) and 20% (Over 75 years) have £2,000 or less in savings (see page 8)
- **Homeownership is high** – 80% of over 55s own their own homes – 62% outright - but a minority still have significant mortgages (see page 9)
- **Pensioner worries** – Rising cost of living (74%), unexpected expenses (45%) and falling return on savings (38%) are the top three worries (see page 10)
- **Annuity confusion** – 68% of over 55 don't know what a joint annuity is and thus only 29% of married people under 65 take one out, potentially leaving their partner with financial worries (see page 11)
- **Regional Overview:** – The over 55s with the highest monthly income are those in London (£1,681); Scotland (£1,531) and the South West (£1,520) (see page 12)

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Welcome to the first Aviva Real Retirement Report

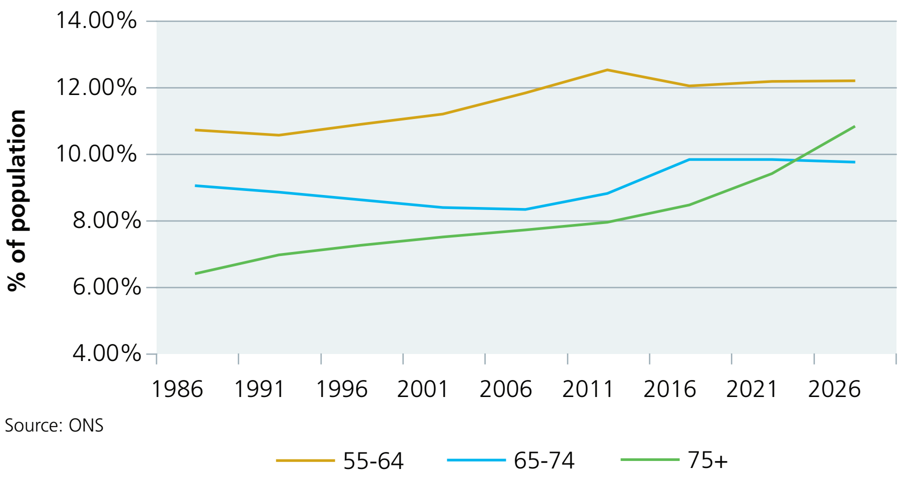
Almost 18 million or 29% of the UK population will be over 55 by 2011 but – unlike in previous decades – there is no longer such a thing as a 'typical older person'. Therefore, Aviva has chosen to launch a quarterly 'Real Retirement Report' which segments this age group into three ages of retirement and takes an in-depth look at their finances and related concerns.

Three Ages of Retirement

- Pre-retirees - (55 to 64 years old) are on the countdown to retirement but according to our research they appear to be financially unprepared and likely to face a shock when they retire.
- Retiring – (65 to 74 years old) have passed the current Government retirement age and while some may still be working, many are looking to relax after a long working life.
- Long-term retired – (over 75 years old) are normally at least 10 years into retirement and those with private pensions have started to collect income from their annuities.

See Appendix for a more detailed review of the three retirement ages.

Over 55 Population Trends and Projections



Source: ONS

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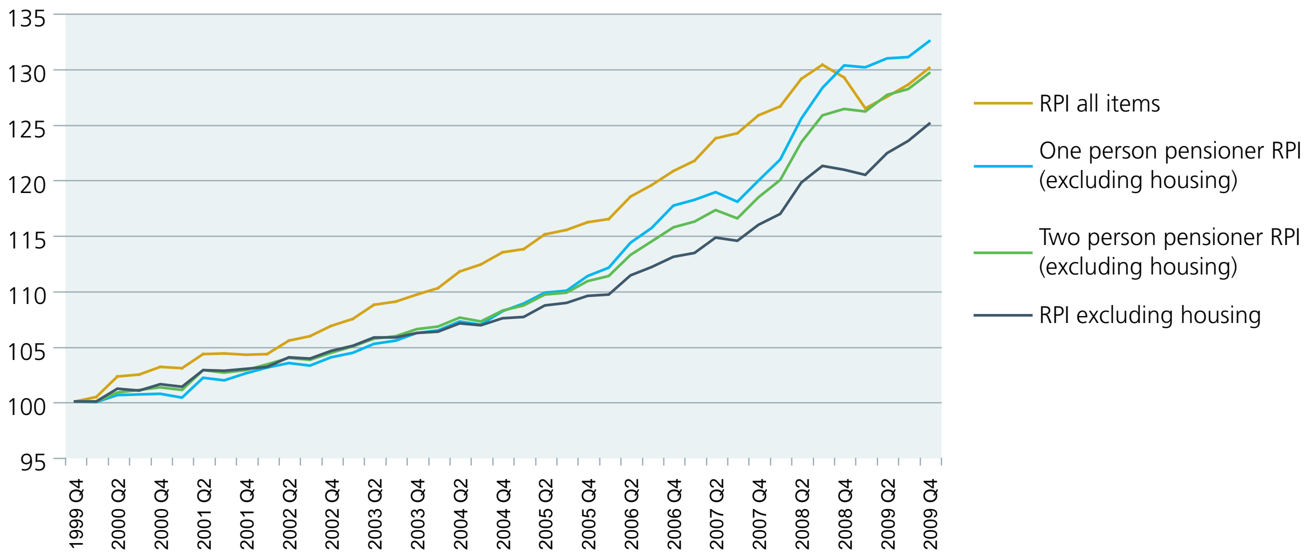
Inflation and Spending Patterns

Contrary to popular belief, over the last decade - as a whole - general inflation (RPI) rose at a roughly similar rate for non-pensioners as it did for pensioners. However, as pensioners' 'shopping baskets' are skewed towards certain products and services, they experienced different peaks and troughs than other consumers.

In the early part of the century, rising housing costs drove general inflation (RPI) for many UK consumers but these costs have slowed down due to falling house prices and a historically low base rate. Only 10% of pensioners have mortgage borrowings so while they were insulated from these increases, they did not benefit from the falling costs.

Pensioner Inflation Indices



Source: ONS

However, significant aspects of pensioners' spend increased sharply between 2005 and 2009; food increased by 25% and fuel and lighting by 77%. Between them these two costs account for 40% of a single pensioner's expenditure and 36% for a couple. At around a quarter of total pensioner expenditure, food takes up more than twice as much of a pensioner's budget than it does as a share of overall household expenditure (11.8% in 2009). The oldest pensioners have suffered the most as their budgets are more skewed to fast rising fuel costs than those in other categories.

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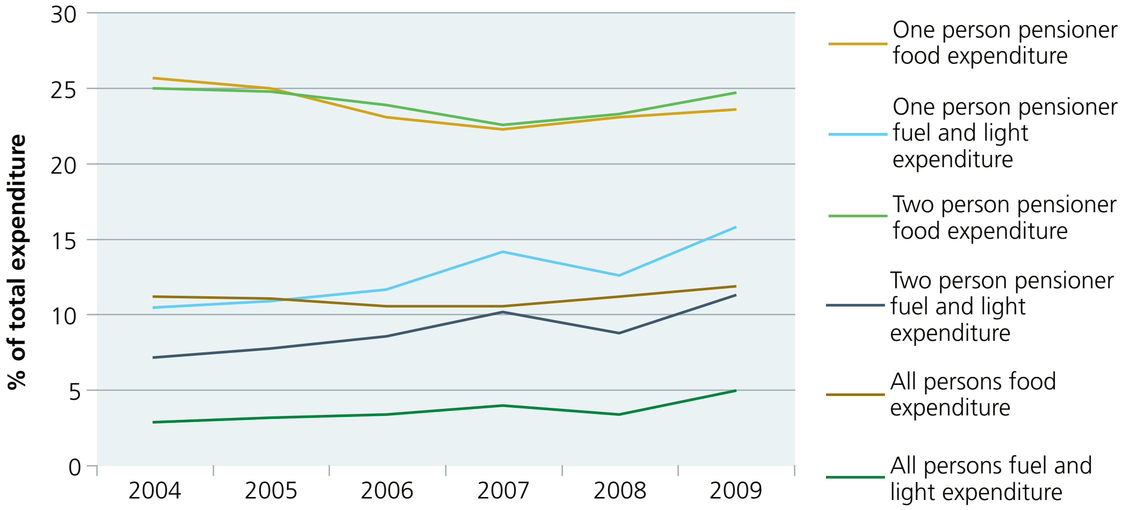
Food, fuel and light as a % of total Pensioner Expenditure



The three groups tracked in this report have different spending patterns to the average UK consumer and consequently feel the impact of inflation in different ways. The over 55s population segment spends relatively more on food (28% vs. 11%) and fuel and light (18% vs. 5%) when compared to the general population. However, they spend comparatively less on housing (18% vs. 24%) and transport (8% vs. 14%). Over the last year falling fuel costs and low food inflation have made life easier for pensioners.

This Aviva survey enables a detailed analysis of the key aspects of the three age groups' spending. All three groups spend most on food: as a proportion of spending it represents 23% for 55-64s, 25% for 65-74s and 23% for over 75s.

However after food, some variation is seen in key spending; over time, housing costs diminish in importance, and utilities rise, but the fourth key element of spending for all three age groups is debt repayment. As not all of the age groups have non-mortgage debt, this shows the significance of debt repayment to those who are burdened by it.

After food, 55-64s spend most on housing (mortgage or rent) (19%), followed by utilities (15%) and debt repayment (12%). 65-74s second key area of spending is utilities (17%), then housing costs and socialising at 13%, followed by debt repayments (12%). The oldest age group (75 and over) spend most on utilities (18%), followed by socialising (12%) and debt repayment (11%).

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Income

UK pensioners and those approaching retirement have experienced both positive and negative effects of inflation over the last ten years.

Average Incomes

The average income for households across these groups is £1,284 per month or 31% less than the average UK monthly income (£1,623). This falls as people age - pre-retirees (£1,433); newly retired (£1,385); long-term retired (£1,136).

Poverty Gap

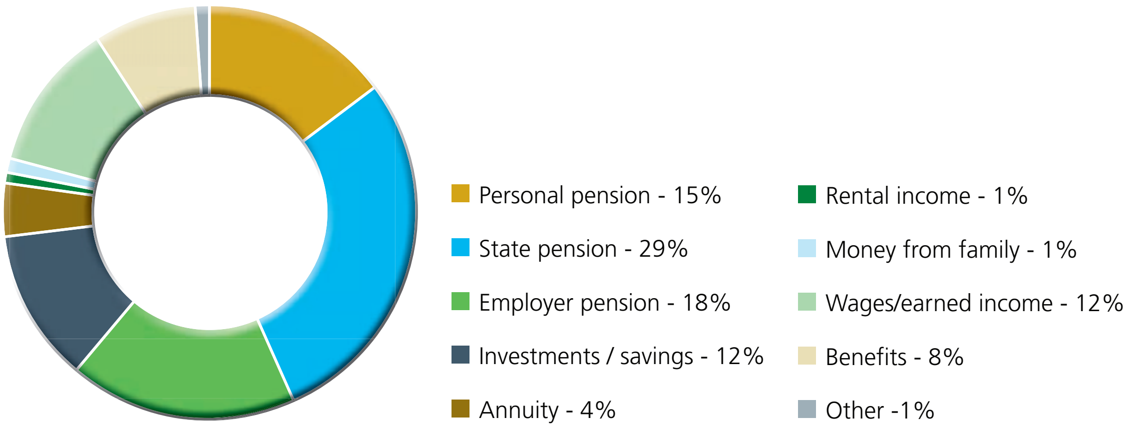
While state pension increases have outstripped inflation by 12% (state pension increase: 32% vs. inflation: 20%) over the last 10 years, many pensioners are still struggling to survive on a very low monthly income. More than 21% or 1 in five of those surveyed (retirees and pre-retirees) subsist on less than £750 per month.

The over 75s (25%) are most likely to struggle by on this low income followed by ages 55 – 64 (23%) and 65 – 75 (19%). A number of pre-retirees (55 – 64), however, actually benefited as they reached the retirement age. Receiving their state pension means their incomes were pushed over the £750 per month threshold.

Income Sources

Government data shows that 59% of retirees' income comes from state pensions and other benefits. Income from employment (18%), occupational pensions (24%) and investments/savings (11%) make up the rest of the average UK retirees 'take home' income. This population sector's reliance on income from employment is likely to grow in the future as people work well beyond what was previously the 'normal' retirement age.

Over 55 Income Sources



Source: Aviva

The data compiled exclusively for this Aviva Real Retirement Report looked at the variety of sources of income rather than the value of each source and enables additional conclusions to be drawn. Rental income from property contributes to 1.1% of retirees and pre-retirees income, with the younger age groups (1.4%) most likely to derive financing from this source.

It is also interesting to note that only 4% of 65 – 74 and over 75s believe they derive income from annuities. As the conversion of a pension fund into an annuity is to a large extent compulsory at 75 years of age, this is very unlikely to be true and highlights the confusion around these financial vehicles.

The majority of retirees' income (42%) was derived from state pensions and benefits with employment (18%), occupational pensions (24%), personal pensions (4%) and investment/savings (11%) making up the remainder.

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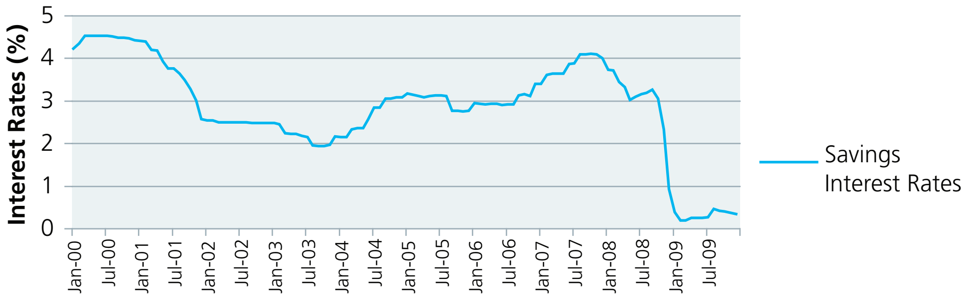
Savings Income Plummets

Retirees say they derive 11% of their income from investments/savings, thus the recent collapse in the UK base rate came as a blow for many. The average typical savings pot (£11,590) provided an income of £41 per month in January 2000 (best buy 30 day notice account) but this has dropped to just £3 in December 2009.

Average Savings Interest Rates



Source: Bank of England

> "The fact that one in five over 55s is struggling to survive on less than £750 a month is shocking and really highlights the importance of realistic long-term financial planning. It also challenges us as providers to develop products which will allow people to make the most of their full range of assets."
>
> Clive Bolton, 'at-retirement' director for Aviva

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Savings

Overall averages suggest healthy savings and investments. The average saved for those aged 55 and over is £58,074 and for the economically retired £59,789. But this is highly misleading as there is an enormous distribution in savings wealth. The median or typical amount of savings is far lower; £11,590 across the whole age group, with one in four (24%) having less than £500 while one in six (17%) have more than £100k.

Median or typical savings rises across the three age segments. Shockingly for those approaching the normal retirement age (55-64s) it is just £8,593, for those aged 65-74 (£13,957) and those aged 75 and above (£18,748). The median for retirees within these age groups is £14,999.

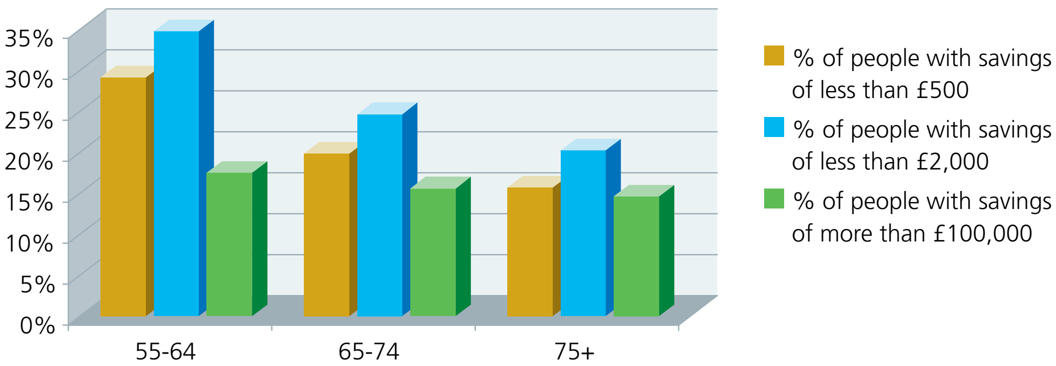
In addition, significant minorities have very low savings of £2,000 or less; 35% of 55-64s, 25% of 65-74s and 20% of those aged 75 and over. Married couples are best off and divorcees the poorest. The median or typical savings for a married person is £21,537, while for a divorcee it is just £2,599.

Amount being saved

Two fifths (39%) of all over 55s are currently saving nothing each month. This includes 40% of those aged 55-64, the key pre-retirement age segment, while 38% of 65-74s and 40% of over 75s are saving nothing.

The typical amount being saved per month is low across all age groups. The median or typical amount saved by all over 55s is £35 per month, for those aged 55-64 it is £31 per month, and those aged 65 - 74 it is £42. Those who are officially retired across all over 55s save a typical £31 per month.

Savings Pot Distribution by Age



Source: Aviva

Debts

For most over 55s non-mortgage debt is not a major issue, with the typical (median) over 55 household having no credit card debt, loans or overdrafts. However the average (mean) debt held is £2,336 – showing that some people have a lot of consumer debt.

Those with the most debt are those who also have mortgages (£5,465), those who are living with family (£11,703) and those who are separated (£5,516).

Across the three age segments, those aged 55-64 have the most consumer debt (£2,851), followed by those aged 65-74 (£2,714) and those 75 and over have just £842 debt on average.

> "Baby boomers are far more comfortable with debt than previous generations. Therefore, we are seeing an increasing number of people entering retirement with unsecured and secured borrowing. Aviva research shows approximately, 10% of the proceeds of equity release is used to repay debt."
>
> Clive Bolton, 'at-retirement' director for Aviva

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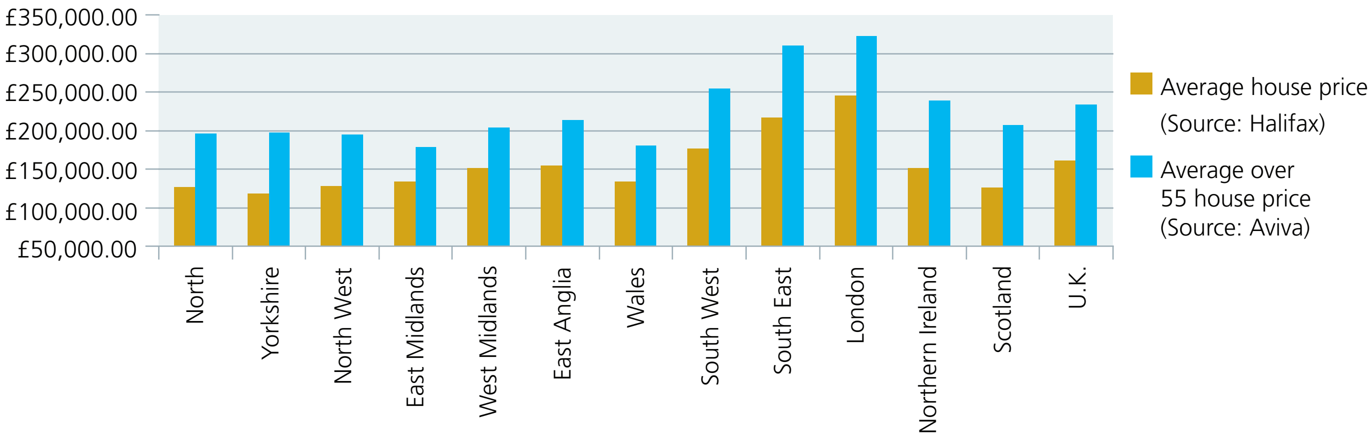
Homeownership

Four in five (80%) of the entire 55 and over age group own their homes, 62% outright. 65-74-year-olds have the highest degree of homeownership – 84%, closely followed by those aged 75 and over (82%). Those aged 55-64 have the lowest degree of homeownership – 76%. 82% of those who are economically retired own their home.

The average home value of the 55 and above age group is higher than the UK average at £232,985 (Average UK House price - £161,280 – Q3 2009). The average equity in their property is £225,988 and the average mortgage £11,615.

However while the majority of over 55s have no mortgage debt, of those who do, it is a significant level - £54,567 on average, and £56,250 among the 6% of over 75s who still owe a mortgage.

Average House Prices



Average home values, equity and mortgage debt by age group

The 75 and above age group own the most valuable homes (£261,425), with equity of £258,148 on average. They also have the lowest borrowings as a group although those of this age group with a mortgage still owe £56,250 on average.

55-64s have the lowest value properties - average value £225,988 – and are the most heavily mortgaged. Over a quarter (26%) of the 55-64 age group still have a mortgage, with an average mortgage of £52,535, but 21% of these still owe more than £75,000 at this late stage in their lives.

65-74s have properties worth £233,957 on average, and average equity of £225,945. The 12% of those aged 65-74 who still have a mortgage owe the highest amount of the three age groups - £59,858 on average.

82% of those who are economically retired own their home – and most of these have no mortgage (71%, against 11% of retirees who do still have a mortgage). The average value is £231,528 and average equity £225,440. However those who have a mortgage still owe an average £47,500.

Long Term Care Implications

While the value of unmortgaged equity in the over 55s, homes represents a potentially significant untapped asset to support incomes in later life, it also has long term care cost implications. Currently, those with an estate worth more than £23,500 need to pay for their own care fees.

With care home fees estimated at on average £30,000 per year – unless the results of the current Government investigation into this sector significantly change the realities – many older people will see their estates quickly gobbled up by these costs. This is especially true for the current group of pre-retirees (55 – 64) as they age.

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Over 55s Fears

Across all three age groups, the biggest four fears for the next six months were the rising cost of living (74%) followed by unexpected expenses (45%), the falling return on savings (38%) and falling return on investments (26%). This focus on increasing costs, unexpected payouts and falling income serves to underline the precarious state of the finances of many of those in the three ages of retirement.

This theme continues when they are asked about their fears for the next five years – rising cost of living (71%), unexpected expenses (44%), falling return on savings (33%) and falling return on investments (22%). However, health also becomes a concern for people and 34% fear a serious illness for themselves or their partner.

Approaching retirement with worries

Biggest Threats to Current Standard of Living (Source: Aviva)				
	Total	55-64	65-74	75+
Rising cost of living	74%	72%	75%	74%
Unexpected expenses	45%	45%	45%	45%
Falling return on savings	38%	34%	41%	45%
Falling return on investments	26%	24%	29%	27%

In this survey, the pre-retirees (55 – 64) appear to be financially worst prepared for retirement and their responses show this issue with 19% worried about retiring and 12% worried about redundancy in the next five years.

Long Term Care Issues

As people progress through the three stages of retirement, care becomes a growing concern – 55 – 64 (8%); 65 – 74 (17%) and over 75 (23%) – as people realise that financing a lack of mobility and age related illnesses can be very expensive. The financial concerns around these issues are often shared by their families and 10% of children with parents in this bracket are worried about how their parents will pay for medical costs in retirement.

> "Although we strongly advise people to start saving for their retirement as early as possible, we also need to ensure those approaching retirement have access to the right information and support to maximise their income in their later years."
>
> Clive Bolton, 'at-retirement' director for Aviva

Spotlight on the Annuity Market

The UK annuity market has an estimated value of £11 billion and this is set to rise with the increase in the number of older people. This is largely due to the legislation which specifies that a personal pension or employee pension should be used to purchase an annuity before the 75th birthday of the retiree. When the pension pot (or pots) is converted into an annuity, the person can choose to take up to 25% of the pension as a tax-free lump sum.

Annuity Overview

While annuities provide many people with valuable regular income, there is much confusion around these products. For the average retiree, their pension pot is £27,207 and they take an average lump sum of 15% or £4,338.

The value of men's (£29,600) and women's (£21,825) pension pots are significantly different, with women – who traditionally live longer – having 26% less saved. Women (59 years) take out annuities marginally earlier than men (62 years) but both start drawing an annuity significantly sooner than they have to by law.

Significant Confusion – Joint Life Annuity

There is a wide variety of different types of annuity including a joint life annuity which is specifically designed for married couples. This product specifies that on the death of the annuity holder, a percentage of the payment will continue to be made to the remaining spouse.

While this product is widely available, only 29% of married people under 65 take out a joint annuity and 41% of married people over the age of 65. Aviva research shows that this is not done maliciously, but due to a serious lack of understanding – 54% of consumers over 55 do not know what a joint annuity is.

Understanding of what a joint annuity is increases with age – over 75s (53% - understand what one is); 65 – 74 (51%) and 55 – 64 (41%). This is worrying given that most people take out an annuity between the ages of 59 – 62, which indicates that people may suffer 'buyer's remorse'.

Significant Confusion – Impaired and Enhanced Annuities

It is estimated that 40% of people could benefit from taking out an impaired or enhanced annuity. These annuities are available to people who have illnesses or health conditions - such as obesity - that are likely to impact to the length of their lives. Consequently they provide a higher than average monthly income.

However, most retirees and pre-retirees choose standard annuities as they do not realise that health conditions could improve their annuity income. Indeed, being a smoker (33%), regularly drinking alcohol (26%), having a serious illness (35%) and being overweight (30%) were only cited as factors that could increase annuity income by a minority of respondents.

> "We believe that some of annuity confusion is as a result of previous generations benefiting from an extensive state benefit support system. They simply didn't need to know about these products! However, this is not the case today which is why it is so important that the current generation of over 55s take the time to understand these products in order to get the best possible in-retirement income."
>
> Clive Bolton, 'at-retirement' director for Aviva

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A Regional View

The over 55s with the highest monthly income are those in London (£1,681); Scotland (£1,531) and the South West (£1,520). By contrast, those in Northern Ireland (£1,093); Wales (£1,189) and Yorkshire (£1,280) have the lowest mean incomes. This largely mirrors the general UK population's income spread – however – with over 55s, those in Scotland appear higher up the income chart, potentially due to their excellent savings ethic.

Indeed, those in Scotland have £13,123 in savings which is the second highest total in the UK and 19% higher than the UK average. Over 55s with the highest savings are found in London (£13,332) and in third place in the North East (£12,856). Welsh (£6,249) over 55s have the lowest savings in the UK. It is interesting to note that high incomes do not necessarily mean the highest savings pots.

For many people in this group, their house is their most significant asset and on average 62% own their own homes without a mortgage. However, people in regions with traditionally the highest house prices are less likely to own their properties outright - London (52%), South West (55%) and South East (58%) - than those in the West Midlands (68%), Yorkshire (66%) and East Anglia (66%).

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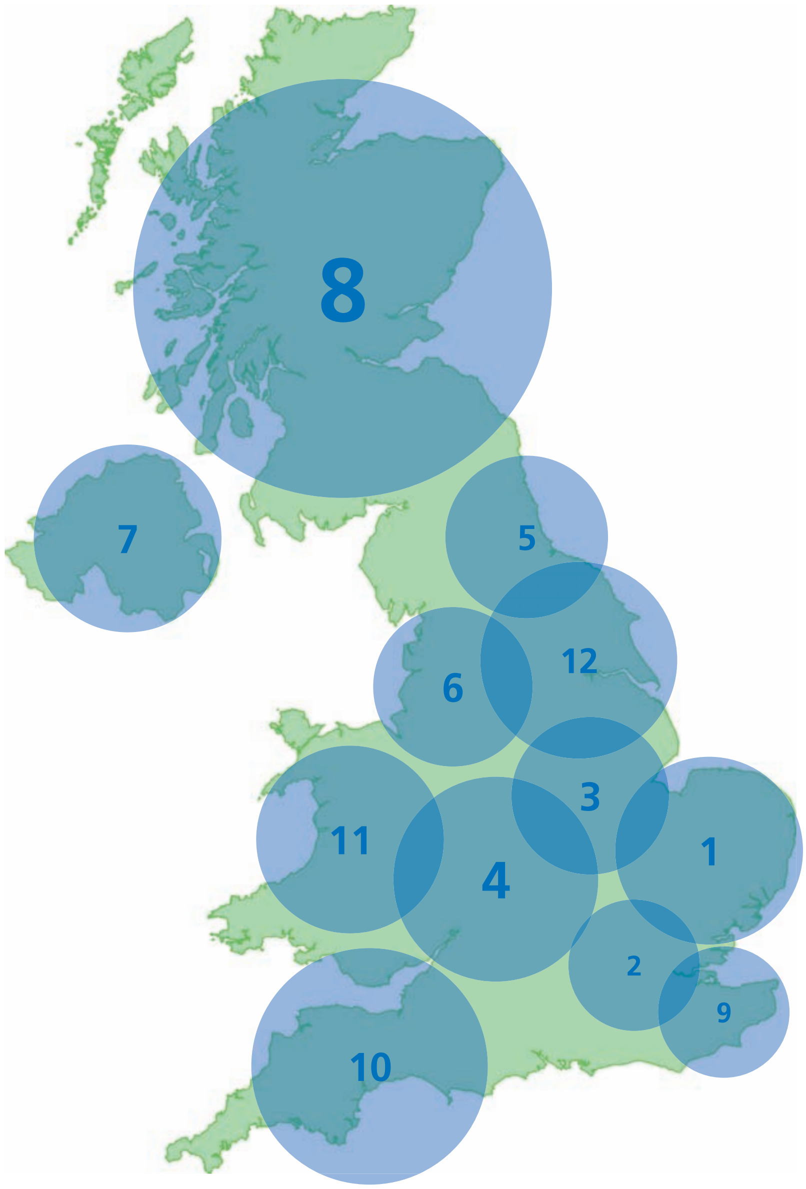
A Regional View



		Monthly Household Income**	Savings*	House price	Own House Outright
1	East Anglia	£1,442	£12,633	£213,554	66%
2	London	£1,681	£13,332	£322,588	52%
3	East Midlands	£1,365	£11,358	£178,512	62%
4	West Midlands	£1,332	£10,531	£204,224	68%
5	North East	£1,513	£12,856	£195,918	54%
6	North West	£1,286	£11,784	£195,341	65%
7	Northern Ireland	£1,093	£10,802	£238,542	71%
8	Scotland	£1,531	£13,123	£207,292	65%
9	South East	£1,496	£9,999	£310,784	58%
10	South West	£1,520	£7,271	£254,741	55%
11	Wales	£1,189	£6,249	£180,867	62%
12	Yorkshire	£1,280	£10,624	£197,656	66%
	UK	£1,284	£11,590	£232,985	62%

Source: Aviva / Lloyds Banking Group / ONS
* = Median/Typical
** = Mean / Mathematical Average

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Appendix

Aviva Real Retirement Report: today's UK's retirees at a glance

	All over 55s	Aged 55-64 Pre-retirees	Aged 65-74 The retiring	Aged 75+ Long term retired
DESCRIPTOR		WORRIED? "Highest income, lowest savings pots, extreme gap between very high and low/no savings, lowest property wealth and largest mortgage debt"	COPING? "Above average income, above average savings, best level of monthly saving, highest property ownership, average property wealth, some burdened by large mortgages"	COMFORTABLE? "Lowest income, highest savings, highest property wealth, least mortgaged, lowest spenders on housing, highest on utilities, a few still mortgaged and repaying debt"
Monthly household income *	£1,284	£1,433	£1,385	£1,136
Savings and investments**	£11,590	£8,593	£13,957	£18,748
Zero savings	16%	20%	12%	14%
Savings of £2000 or less	29%	35%	25%	20%
Savings of £100,000 or more	17%	18%	16%	15%
% not saving monthly	39%	40%	38%	40%
Amount saved monthly**	£33	£30	£42	£21
% who are homeowners	80%	77%	84%	82%
% who own their home outright	62%	51%	72%	76%
% with a mortgage	18%	26%	12%	6%
Average mortgage (those with a mortgage)	£55,000	£53,000	£60,000	£56,000
Average house price	£233,000	£226,000	£234,000	£261,000
Average house equity*	£221,000	£209,000	£226,000	£258,000
Spending on food as % of all spending	24%	24%	25%	23%
Spending on housing as % of all spending	16%	19%	13%	9%
Spending on utilities as % of all spending	16%	15%	17%	18%
Debt repayment (non mortgage) as % of all spending	12%	12%	12%	11%

* mean/true average ** median/typical

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Methodology

The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this over 1,200 UK consumers aged over 55 were interviewed via an exhaustive online survey between December 2009 and January 2010. This data was used to form the basis of the Aviva Real Retirement Report.

Additional data sources include:

- Halifax House Price Indices
- Office of National Statistics – Retail Price Index
- Bank of England – Average Savings Accounts Statistics
- Aviva Management Information (Annuities and Equity Release)

Technical Notes

- A median is described as the numeric value separating the higher 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 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.

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