The Aviva Real Retirement Report

Winter - December 2012

AVIVA

Foreword

Clive Bolton,
managing director of Aviva's At Retirement business

Welcome to Aviva's Winter 2012 Real Retirement Report. We have been tracking the concerns and finances of the three distinctive ages of retirement – pre-retiree (aged 55-64), retiring (65-74) and long-term retired (over-75) - for three years now and have found a number of trends emerging.

Each quarter we look at a particular area which is of special relevance to these age groups. The Winter 2012 Real Retirement Report spotlight looks at how people intend to spend their time once they finish full-time work. What are their favourite activities? How much support will they offer their families? What type of community work do they undertake? All these questions are answered and more on page 4.

Over-55s aspire to spend their time gardening, travelling and with their families when they retire from full-time employment. However, 30% also said that once they reach the traditional retirement age, they would still like to work part-time. Half also anticipate that they will be called on to help out their families with - for example - occasional baby-sitting or child minding.

Taking into account the support over-65s provide to their families – and their communities via volunteering – we estimate that they provide 104 million unpaid hours of 'work' each week. In order to be in a position to provide this support, all retirees need to manage their finances carefully and we find that people are increasingly focusing on this.

More people are working longer and while 18% (Q1 2010) of 65-74s cited wages as an income source when we launched the report, this has now risen to 23%. In addition, despite annual inflation of 2.74%, over-55s' spending has actually fallen quarter on quarter as people increasingly focus on issues such as debt repayment.

The over-55s' largest asset remains their home (£234,497) and they are working hard to repay any outstanding mortgage balances (Q4 2011 - £66,622 vs. Q4 2012 - £59,541). Repayment of debt in the current low interest rate makes sense but has meant there has only been a marginal increase in savings pots over the last year (Q4 2011 - £11,153 vs. Q4 2012 - £14,544).

Looking to the future, the over-55s remain concerned about the rising cost of living and meeting unexpected expenses, but living in an environment when bad news is common, the Financial Fears Index suggests they are less worried than previously.

*All figures quoted in the report are Q4 2012, unless otherwise stated.

The three ages of retirement

The Aviva Real Retirement Report considers retirement as three stages to reflect the fact that 'retirement' changes as people get older, rather than simply being a single event.

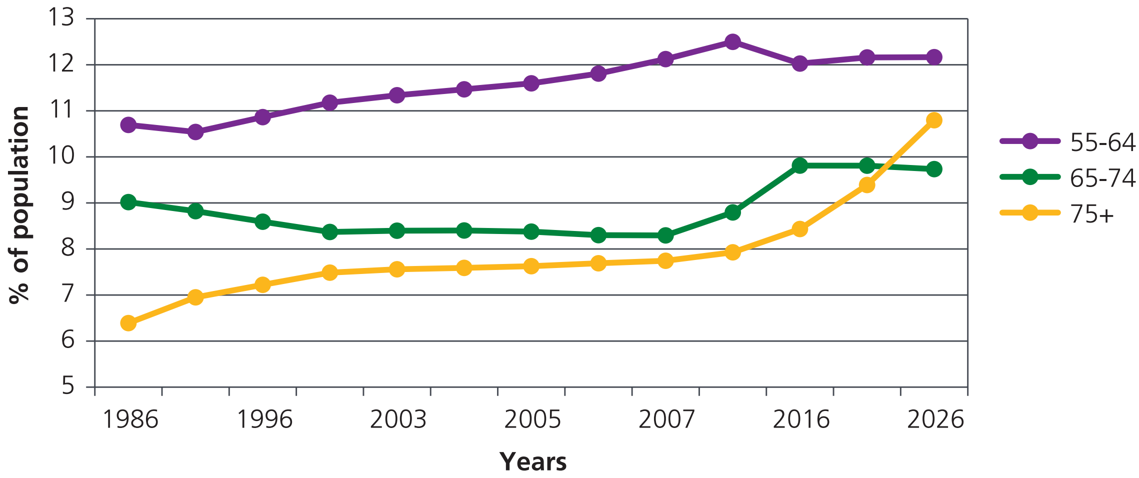
Overview

- **Pre-retirees** – (55 to 64 years old) are on the countdown to retirement …
  - But nearly a quarter (24%) still have an outstanding mortgage (£55,804 – average outstanding balance) on a property typically worth £219,726.
  - Have smaller than average savings pots (£13,873) and are the most likely (13%) to be in debt, with a third (33%) owing money on credit cards.
  - Are the most likely to volunteer at a charity shop or in a practical capacity (20%), or work part-time (41%) after retirement, as they enjoy getting out the house and being active (50%).

- **Retiring** – (65 to 74 years old) have just passed the age at which people often retire …
  - Are most likely (29%) to be receiving an income from their savings and investments and boast the highest savings pots (£18,748).
  - However, they also have the largest unpaid debts (£31,968) and the highest outstanding mortgage value (£69,000).
  - Nearly a third (29%) enjoy passing down their experience to another generation through volunteering or fundraising work.

- **Long-term retired** – (75 years and older) most are 10 years or more into retirement …
  - Are most likely to own their home outright (81%), although 8% still have a mortgage. They have the highest house value of all age groups (£251,852).
  - Have the lowest unsecured debts (£9,442), but a fifth (20%) have credit card debt they do not repay in full each month.
  - Are more inclined than any other age group to volunteer to look after older people (8%).

Population trends



The retirement plan

- Travel, gardening and spending time with family are the top retirement pursuits
- Half (50%) will provide occasional child care and up to 29% say they will take on charity work
- Almost a third (30%) will work part-time in retirement
- Retirees provide 104 million unpaid hours per week of volunteer and family assistance

Retirement planning is no longer just about preparing people's finances to support their lifestyle once they stop working; it is about planning what kind of lifestyle they wish to lead. Changing demographics mean that people in the UK are living longer and retiring from full-time work when they are still relatively active, enabling them to pursue other goals.

Grey globe trotters:

When people retire from full-time work, the most popular activity they anticipate undertaking is occasional baby-sitting for family (50%) followed by travelling more (44%). Senior 'gap years' have become a recognised trend in the last decade and 18% of over-55s use some or all of the tax-free lump sum from their annuity to pay for travel.

However, the next most popular activity is something closer to home, with 42% of over-55s saying they want to spend more time in their garden. As expected, a relatively high proportion of people also expect to spend more time with their families (37%) and socialising with their friends (33%).

Activities over-55s anticipate they will undertake when they retire

	over-55s
Help out my family (for example by occasional baby-sitting)	50%
Travel more	44%
Spend time gardening	42%
Spend more time with my family	37%
Help out my family with regular child care	35%
Socialise more with friends	33%
Continue to work part-time	30%

The findings confirm the anecdotal evidence which suggests a number of people choose to learn new skills once they stop full-time work. The research found 16% of over-55s said they would like to take classes on subjects they are interested in, although only 3% would pursue a university or academic course: indicating that people prefer to indulge in new hobbies and learn new practical skills.

It seems that men and women have slightly different priorities for their retirement, with the top activities for women being gardening (43%), travelling more (39%), spending more time with family (39%), and socialising with friends (38%). Whereas the top activities for men are travelling more (49%), gardening (42%), spending more time with family (36%), and socialising with friends (29%).

Men vs. women retirement pursuits

	Male	Female
Working part-time	34%	25%
Fundraising for charity	17%	20%
Volunteering in a charity shop	9%	14%
Volunteer in a practical capacity e.g. meals on wheels	15%	19%
Help out my family for example by occasional baby-sitting	49%	52%
Helping my family out by regular child-minding	34%	37%
Travel more	49%	39%
Spend time gardening	42%	43%
Socialise more with friends	29%	38%

Volunteer army:

It is not just leisure activities that people look forward to when they stop working full-time. Half (50%) of over-55s say they would help out their family, for example with occasional baby-sitting, and 35% say they would help out their family with regular child-minding.

In addition, up to 46% say they'd like to take part in unpaid work. Broken down by the types of activity people say they would like to take part in, 18% say they'd like to fundraise for charity, 11% say they'd like to volunteer in a charity shop, and 17% say they'd be interested in volunteering in a practical capacity e.g. meals on wheels.

Benefits of helping others:

There is no one simple answer as to what people feel are the benefits of volunteering or fundraising work. Almost half (49%) said it is a way for them to give something back to the community, with women more likely to say this (55%) than men (43%).

A further 48% said that it gets them out of the house and forces them to be active, with 41% saying it means they are able to mix with more people of all age groups.

The retiring (55-64 year olds) were most likely to say it is a way of getting them out of the house (50%), whereas over-75s were most likely to say it meant they are able to give something back to the community (51%).

Most popular type of volunteering

	All	55-64s	65-74s	over-75s
Working in a charity shop	20%	22%	17%	15%
Sitting on a committee / being a trustee	19%	18%	20%	20%
Teaching children to read	18%	18%	18%	18%
Practical help such as DIY for people who need it	12%	14%	10%	8%
Mentoring young people	11%	14%	7%	6%
Looking after older people	7%	7%	7%	8%

For those who are interested in volunteering, working in a charity shop is the most popular type of work (20%), just ahead of sitting on a committee (19%), teaching children to read (18%), and practical help such as DIY or cooking for people who need it (12%).

The over-65s were more likely to want to sit on a committee / be a trustee (20%), and the 55-64s were most likely to want to offer practical help such as DIY or cooking for people who need it (14%) or to want to work in a charity shop (22%).

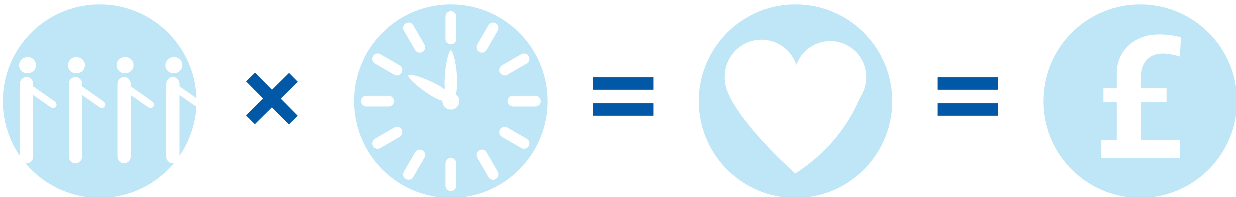
It takes time:

While over-55s who have retired from full-time work take up volunteering or help their families because they want to, it does take time and - if paid for - would cost millions of pounds.

The typical over-55 who helps their family by providing regular child-minding spends 30 hours a month or 363 hours per year helping out. This equates to £2,247 worth of free child care at minimum wage, but with figures suggesting that the average yearly expenditure on child care costs for a child under two is £5,103 this help is likely to be worth far more.

Value of the volunteer army	Average hours per month	Average hours per year	Cost per year at minimum wage
Fundraising for charity	8	99	£616
Volunteering in a charity shop	16	193	£1,197
Volunteer in a practical capacity	20	235	£1,454
Help out my family for example by occasional baby-sitting	21	252	£1,563
Helping my family out by regular child-minding	30	363	£2,247

With 10.4 million over-65s in the UK and all retirees typically spending 10 hours per week on these activities, it equates to 104 million unpaid hours or £643.8 million worth of unpaid work undertaken by the UK's over-55 volunteer army every week.



10.4 million over-65s × 10 hours per week = 104 million unpaid hours = £643.8 million

Still active in the workplace:

Just under a third (30%) of over-55s say they will continue to work part-time when they retire. This figure is highest among the pre-retirees (41%) and gradually declines as people age (19% of 65-74s and 13% of over-75s). In general, men (34%) are more likely to want to work part-time than women (25%).

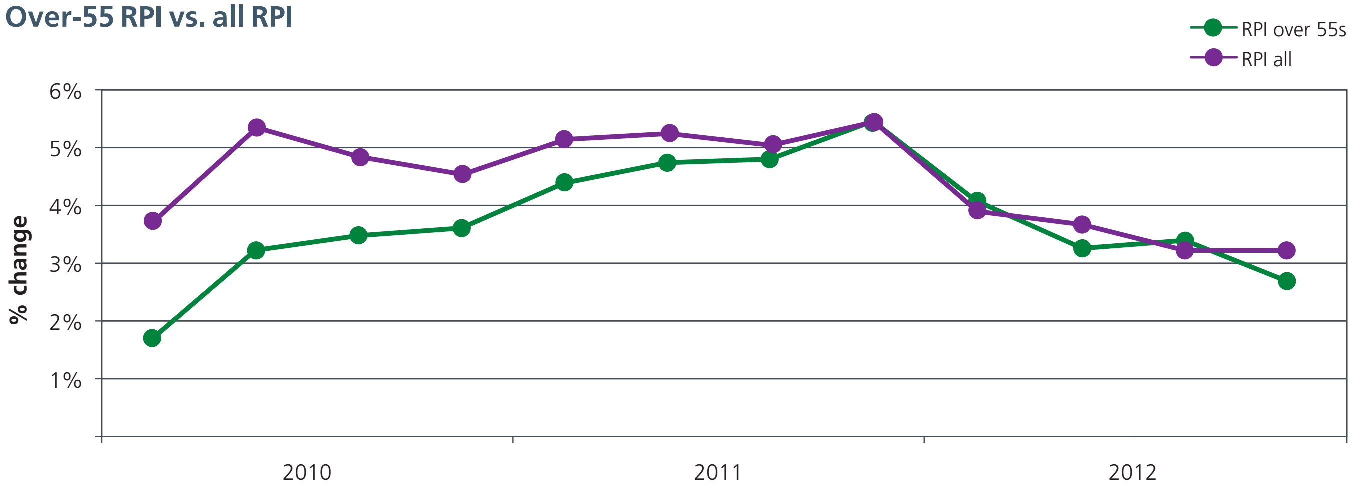
However, the hours spent on these activities is telling. The typical over-55 only intends to spend 11 hours working per week, and only 9% intend to work for more than 15 hours per week. So while the end of the Default Retirement Age may see people staying in the workplace for longer, they will not necessarily be a threat to the vast majority of other job seekers, who may search for longer hours.

> "For many people retirement is a phased exercise, whereby they stop working full-time and move to part-time employment while enjoying other activities. Volunteering is popular and older age groups provide invaluable support to many charitable causes. However, to ensure you are able to make the choices you want to when you reach retirement, you do need to carefully plan your later life to ensure your own financial arrangements provide you with the flexibility of choice."
>
> Clive Bolton, managing director of Aviva's At Retirement business

Inflation

- Over-55's RPI (Retail Price Index) annual inflation fell significantly between Q4 2011 (5.41%) and Q4 2012 (2.74%). This is lower than the RPI for all consumers (3.2% - Oct 2012)
- This is likely to be welcomed by many over-55s - especially those who are on a fixed income, are reliant on their savings or are within the 18% who have an income of less than £750 per month.

Over-55 RPI vs. all RPI



However, while inflation has fallen overall, some of the day-to-day costs that the majority of over-55s need to meet are still rising. Housing (+2.68%), food (+3.13%) and fares (+5.40%) have also recorded relatively high rates of inflation.

> "Inflation hits every population group slightly differently depending on their spending patterns. So while the typical over-55 may find their income goes further than it did last year, those who are still working and need to pay travel costs may still feel under pressure."
> Clive Bolton, managing director of Aviva's At Retirement business

Other costs which have seen notable increases include clothing and footwear (+6.38%), postage, telephone and internet (+7.65%).

We have seen the cost of fuel and light fall (-1.12%) over the last year. However, energy prices are expected to rise in 2013 so while this has yet to filter through, over-55s are likely to feel the pinch in the future.

Looking ahead, although the Bank of England is looking to manage the economy by keeping interest rates low, inflation is likely to remain relatively high. However, if we do see a return to growth, the over-55s who are likely to have repaid most of their borrowing and have greater savings are likely to benefit more than some other groups.

Income

- Over-55s' monthly income climbs just £109 in two years
- The removal of the Default Retirement Age is evident as more people stay in work

Since the Real Retirement Report was first launched in January 2010, it has tracked not only the impact of inflation but also people's level of income, sources of income and how this income is spent.

Level of income:

While the average median income of the over-55s fell marginally between Q3 (£1,464) and Q4 (£1,444), it is still up on the same time last year (Q4 2011 - £1,285).

However, a closer look at the incomes by age group over the last two years reveals this increase is driven by the retiring (+£166 since Q4 2010). Indeed, pre-retirees have seen a very marginal increase (+£9) and the long-term retired have actually seen their incomes remain fairly static since 2010 (-£1).

Over-55s income tracking

	All	55 – 64s	65 – 74s	over-75s
Q4 2010	£1,335	£1,480	£1,318	£1,181
Q4 2011	£1,285	£1,271	£1,388	£1,125
Q4 2012	£1,444	£1,489	£1,484	£1,180
Two year difference	+£109	+£9	+£166	-£1

The main driver behind the increase in the 65-74s' income growth appears to be the fact that more people are working past traditional retirement age. In Q1 2010 18% of this age group said they received wages or other earned income. This has now risen to 23% which seems to suggest that many people are taking advantage of the legislation to end the Default Retirement Age in 2011 and working longer to improve their income.

Income bands:

While some over-55s are working to increase their retirement savings or simply to improve their standard of living, the proportion of people who have an income of less than £500 a month (11% - Q1 2010 and 11% – Q4 2012) has remained static. Therefore, with inflation at 2.75%, some over-55s are likely to find it increasingly difficult to meet their day-to-day living costs.

Percentage of over-55s who survive on less than £500 per month

At the other end of the scale, the proportion of over-55s who have an income of more than £2,500 per month has risen from Q1 2010 (17%) to Q4 2012 (22%).

Income sources:

The top sources of income change as people move from being pre-retirees (55 - 64) to retiring (65 - 74) and then becoming the long-term retired (over-75s). Once people stop working altogether, pensions become the dominant form of funding with 99% of over-75s claiming the state pension.

Proportion of each age group who derive an income from this source:

	55 – 64s	65 – 74s	over-75s
1	Working (55%)	State Pension (94%)	State Pension (99%)
2	Personal Pension (32%)	Employer Pension (47%)	Personal Pension (54%)
3	State Pension (29%)	Personal Pension (46%)	Employer Pension (39%)
4	Employer Pension (27%)	Spouses Pension (31%)	Spouses Pension (28%)

When you look past State funding, it is interesting to note that the long-term retired are less likely than the retiring (47%) to have a pension linked to a former employer. However, they are more likely to have a personal pension (54% of over-75s) than the retiring (46%).

This clearly shows the increasingly important role that workplace benefits play in retirement planning. It will be interesting to see how the advent of automatic enrolment will impact on the choices that people make. Income from a spouse's pension also plays a significant role in the finances of many over-55s, but with some married retirees choosing single life policies, this can lead to problems in the future.

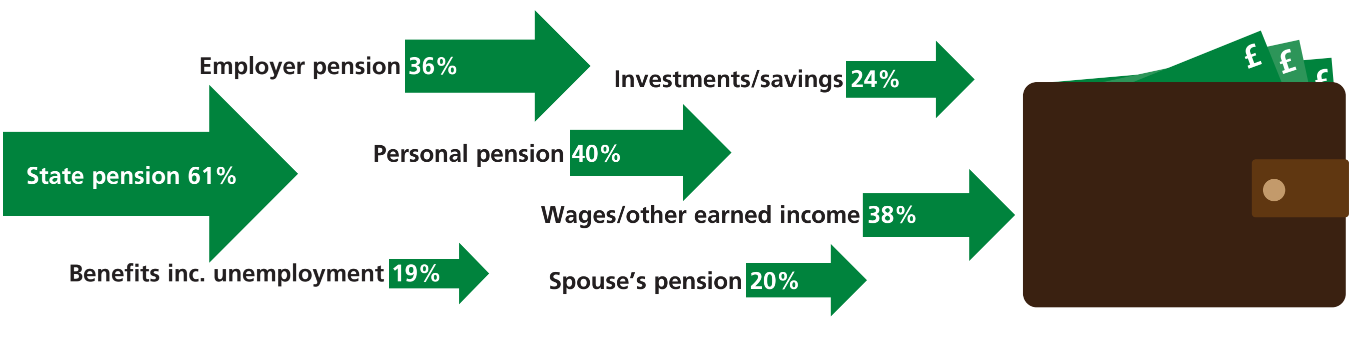
> "While taking out a single life annuity policy will provide you with a higher income upfront, it can also mean that - should the named person die - then their spouse is not only faced with a bereavement but also a drop in income. When people plan their retirement finances, they need to consider all the factors that could have an impact on their future, rather than just how much they will receive in the short-term."
>
> Clive Bolton, managing director of Aviva's At Retirement business

Additional sources:

Outside the top four income sources, 24% cite savings/investments as an income source, 19% receive some form of Government benefits, and 5% say they receive rental income either from a second property or from letting out a room.

With the Bank of England base rate at its lowest for over 35 years, over-55s who do have savings (typical savings pot - £14,544 – Q4 2012) are unlikely to derive much income from the interest and may need to dip into the capital. In Q4 2011, 28% of over-55s listed income from savings as a source of income, but this has now fallen to 24% (Q4 2012).

Top monthly income sources for over 55s



Expenditure

- Over-55s' spending falls year-on-year as people cut household budgets
- Spending on essentials such as housing, debt repayment and fuel and light increases

As people age and their lifestyles change, so do their spending patterns. Therefore, while a young family may find that a significant proportion of their income goes towards repaying their mortgage, someone who is in later retirement is less likely to find this.

The typical over-55 spends £1,241 each month on day-to-day living costs such as housing, food, transport and heating and light. This has fallen slightly since the last quarter (£1,269) and the same time last year (£1,300).

	All	55 – 64s	65 – 74s	over-75s
Q4 2011	£1,300	£1,336	£1,261	£1,169
Q3 2012	£1,269	£1,353	£1,194	£959
Q4 2012	£1,241	£1,261	£1,238	£1,078

While this might seem counter-intuitive, as inflation has gone up during this period, closer investigation suggests the UK's over-55s are carefully trimming any additional spending and repaying debt.

In the last quarter alone, we have seen spending on items such as clothing and footwear, entertainment and leisure goods fall as the over-55s tighten their belts.

Typical over-55s expenditure	Q3 2012	Q4 2012
Clothing and footwear	£32.34	£28.03
Eating out or take-aways	£40.59	£37.04
Entertainment, recreation and holidays	£96.65	£78.55
Furniture, appliances and pet care	£34.89	£29.35
Leisure goods such as sports equipment or CDs	£21.08	£18.95
Motoring	£81.42	£73.97
Personal goods and services such as make-up and medicine	£20.27	£19.95
Postage, telephone calls and internet connections	£36.32	£35.37

However, there are some expenses that either can't be cut or people are prioritising, so we have seen increases in the amount people spend on debt repayment, travel costs and fuel and light.

Typical over-55s expenditure	Q3 2012	Q4 2012
Debt repayment	£165.14	£177.58
Fares and other travel costs	£48.83	£51.94
Food	£188.25	£189.45
Fuel and Light	£108.72	£110.78
Housing (mortgage or rent)	£294.52	£281.96

It will be interesting to see if over-55s continue to 'trim' non-essential spending in the future or if they really have cut their spending and incomes need to increase in order to sustain their current standard of living.

Looking to the future, 80% of over-55s say the rising cost of living is the biggest threat to their lifestyle over the next six months and 74% say the same for the next five years which seems to suggest that they may be unable to cut their spending much more.

Assets

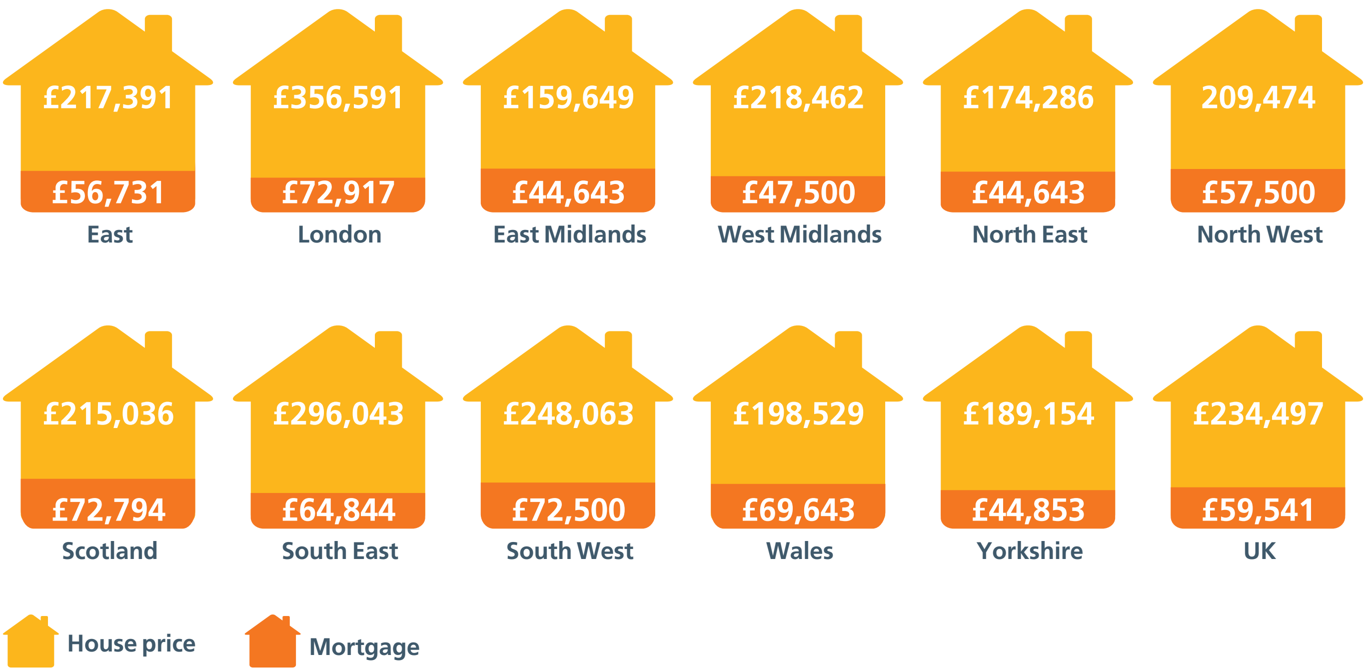
- Homes are the largest asset for over-55s as prices hold up well
- Savings fall as more over-55s feel the pinch

The largest asset for the majority of over-55s is their home. Almost two-thirds (61%) own a property outright and 19% own a property with a mortgage. Just 10% live in social housing and 8% live in private rental accommodation.

With the value of the typical over-55's home (£234,497) reflecting the fact that it has commonly been a family home, it is generally higher than the average UK house price (£158,426). And, while the average value has fallen since last year (£238,284 – Q4 2011), it is only by 1.6% so this end of the market appears to have held up relatively well.

The long-term retired (£251,852) have the most valuable properties, followed by the retiring (£246,953) and the pre-retirees (£219,726).

Regional over 55s' house prices



Savings pots:

In addition to housing wealth, the majority of over-55s have some savings set aside for retirement with the typical savings pot containing £14,544. This has fallen from £18,364 (Q3 2012) last quarter but actually risen year-on-year (£11,153 - Q4 2011).

The retiring – 22% of whom take a lump sum from their annuity to put towards their savings pot – have the largest amount of savings (£18,748) compared to the pre-retirees (£13,873) and the long-term retired (£8,748).

It is interesting to note that while the savings of the 55-64s has hit its highest level since the Real Retirement Report was launched in January 2010, the other two groups have actually seen their savings fall.

Over-55s' savings in Q4 2012 compared with previous quarters

	55-64s	65-74s	Over-75s
Over 12 tracked quarters	1st of 12	6th of 12	11th of 12

This trend seems to highlight that while the older age groups are struggling to maintain their standard of living on a fixed income and are therefore dipping into their funds, those who are still able to work are doing their best to boost their savings cushion.

This argument is strengthened by looking at the percentage of people who do not have any savings. Overall, 15% of over-55s have no savings. This breaks down as 17% of pre-retirees, 12% of the retiring (who receive a boost from any annuity income or final bonus) and 19% of the long-term retired (who will have dipped into their savings).

Taking a closer look at the amount people have saved, it appears that over a quarter (28% - Q4 2012) of over-55s have less than £2,000. This proportion has grown since the same time last year – especially among the retiring and long-term retired.

Proportion of Over-55s' with less than £2,000 in savings

	All	55 – 64s	65 – 74s	over-75s
Q4 2011	25%	30%	19%	27%
Q3 2012	24%	31%	17%	23%
Q4 2012	28%	31%	23%	30%

While for 20% of over-55s a lump sum from an annuity gives their saving pot a boost, for the most part it is regular saving which grows their retirement nest egg. However, the typical over-55 saves just £28.67 or just 1.99% of their monthly income. This has fallen from a record high of £52.18 (Q3 2012) but risen slightly from last year (£26.90).

Looking at the different age groups, it transpires that the long-term retired (£0) save the least followed by pre-retirees (£24.04) and then the retiring (£40.75). This is the first time that the long-term retired have typically saved nothing and suggests that for those on fixed incomes the rising cost of living has been very difficult.

Typical monthly savings amounts for all over-55s

They are also the group (51%) which has the highest proportion of people saving nothing each month, followed by pre-retirees (43%) and the retiring (39%). This is the first time a majority of any one of the three ages of retirement (the long-term retired) are making no monthly savings and a significant increase from last year (39% - Q4 2011).

"Many people see retirement as a fixed goal, yet they fail to realise it is as much about planned accumulation as sensible decumulation. It is therefore worrying that the majority of over-75s are no longer saving, as even with the rising cost of living, they should be trying to replenish the savings pot they may have had to dip into in a low interest rate environment."

Clive Bolton, managing director of Aviva's At Retirement business

Second properties:

Since the introduction of the Housing Act in 1998, the UK property market has been relatively attractive to potential investors and for a long time, residential property was highlighted as ideal for those saving for retirement.

It is therefore unsurprising that 12% of over-55s say that they own a second property of some sort. This may include a property investment, holiday home, time-share, inheritance or property that is currently occupied by a family member – for example for use while at university.

The second property (£208,686) is generally worth less than the main family home (£234,497) but 75% of those who have a second property say it is mortgage free. However, the 25% who do have a mortgage owe an average of £148,864 which suggests that they still have a substantial amount to pay and would find this difficult if it was not occupied by tenants.

Borrowing

- Unsecured debt falls to £23,676 from £31,221 (Q3 2012)
- Over-55s with debt repay £177.58 per month which is almost as much as they spend on food (£189.45).

While the over-55s' largest asset is their home, it is also the source of their largest debt and the typical older person with a mortgage owes £59,541.

The trend has generally been towards this debt decreasing as people age but this report shows that the retiring (£69,000) owe more than pre-retirees (£55,084) or the long-term retired (£51,786). This is likely to be for a variety of reasons including the use of interest-only mortgage products.

With a sluggish housing market and one million interest-only mortgages due for repayment over the next 8 years, without a specific payment plan listed, some of the retiring are likely to be faced with repaying a substantial sum just as they retire. The pre-retirees who have potentially longer left in work are far more likely to be in a position to change to a new mortgage.

Amount outstanding on mortgage

	All	55 – 64s	65 – 74s	over-75s
Q4 2011	£66,622	£66,423	£67,500	£65,625
Q4 2012	£59,541	£55,804	£69,000	£51,786

Proportion with mortgages

	All	55 – 64s	65 – 74s	over-75s
Q4 2011	20%	30%	11%	10%
Q4 2012	19%	24%	14%	8%

When you compare mortgage borrowing against the same time last year, it is clear that the pre-retirees have made it a priority to repay their borrowing - but the retiring have been unable to do so.

Indeed, while fewer (24%- Q4 2012 vs. 30% - Q4 2011) pre-retirees now have an outstanding mortgage balance than the same time last year, more of the retiring (14% Q4 2012 vs. 11% Q4 2011) are facing this issue. Just 8% of over-55s use their annuity lump sum to repay their mortgage which suggests that a lack of pension saving means that they don't have enough to do so, even if they wanted to.

Unsecured debt – swings and roundabouts:

While almost one in five (19%) over-55s still has a mortgage, a larger proportion has unsecured debt such as a personal loan, credit card or overdraft. The typical over-55 with unsecured debt owes £23,676 which is a drop from the last quarter (Q3 2012 - £31,221) but a slight increase from the same time last year (£21,901 – Q4 2011). The long-term retired (£9,442) owe the least while the retiring (£31,986) owe the most followed by the pre-retirees (£21,476).

For some, the difference between the amount of debt shouldered by the retiring and the long-term retired is likely to be due to the use of a lump-sum from an annuity, as 5% use this to repay unsecured debt. However, for the majority this is likely to be due to the reduced number of credit options available to older people.

Plastic rules:

The most common type of unsecured debt for over-55s (that is not repaid in full on a monthly basis) is credit cards (31%) followed by personal loans (15%) and an overdraft (14%).

The proportion of people with unsecured debt falls as people age. For example, 33% of pre-retirees have a credit card balance but just 20% of the long-term retired do. However, they still use unsecured borrowing relatively often: 15% of over-75s have a personal loan, 14% have an overdraft and 9% owe money on store cards.

Over-55s with debt repay £177.58 per month which is almost as much as they spend on food (£189.45).

Over-55s financial fears index

- Fears fall as over-55s become immune to bad news
- Nearly a fifth (17%) worried about rising taxes

Since the Real Retirement Report was launched in January 2010, it has tracked the views of over-55s as to what they thought would be the key threats to their standard of living over the short-term (six months) and the long-term (five years).

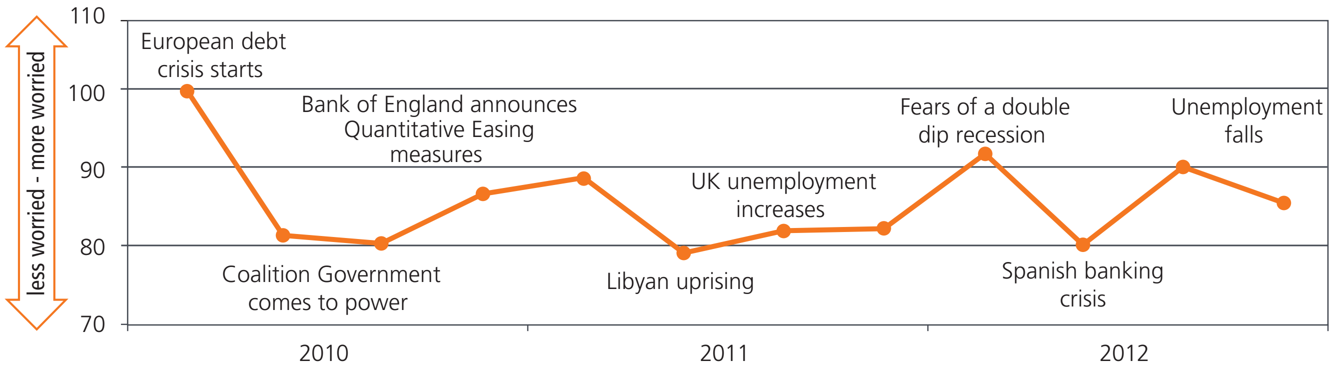
Using the data from the first Real Retirement Report as a base (100), it is possible to observe the trends over time and gain a broader understanding of how the over-55s view their world.

Short-term overview (six months):

The two main concerns over the next six months are the rising cost of living (80%) and unexpected expenses (41%). Fears surrounding the rising cost of living have grown by 4% since September (76% - Q3 2012) and 2% since the beginning of the year (78% - Q1 2012).

However, taking into consideration all concerns over the next six months, over-55s are actually less worried about the future (Q4 – 86) than they were last quarter (Q3 - 90) and at the beginning of 2012 (Q1 – 91). This suggests that despite continuing economic difficulty, over-55s remain hopeful that conditions will improve in the near future.

Short-term fear index

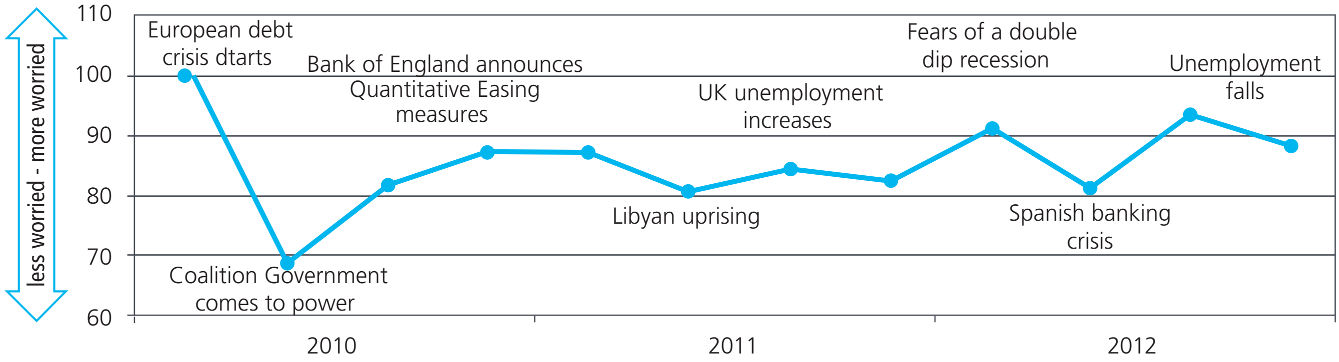


Long-term overview (five years):

The same two concerns hold true in the long-term as well as the short-term. Fears surrounding the rising cost of living are up on last quarter (Q4 2012 - 74% vs. Q3 2012 - 72%) but worries about unexpected expenses are marginally down (38% - Q4 2012 vs. 37% - Q3 2012). Being able to afford care for either themselves or their partner is another significant worry, with the rising cost of elderly care sustaining this fear throughout the year (9% - Q1 and Q4 2012).

Despite this, the long-term outlook also looks positive, with the Fear Index for this quarter falling from 93 in Q3 to 88. While this may seem to contradict the increase in certain concerns, it is possible that over-55s have become accustomed to handling their finances effectively in the midst of economic difficulty and are hopeful the economy may start to recover after several years of recession.

Long-term fear index



Benefit worries:

The loss of current Government benefits is an alternative issue which has the potential to impact on the financial security of the over-55s. On a long-term basis, this fear has risen 3% in the last quarter, up from 9% (Q3 2012) to 12% (Q4 2012). Pre-retirees are most worried about this, with 14% of people aged 55-64 agreeing this is a long-term fear.

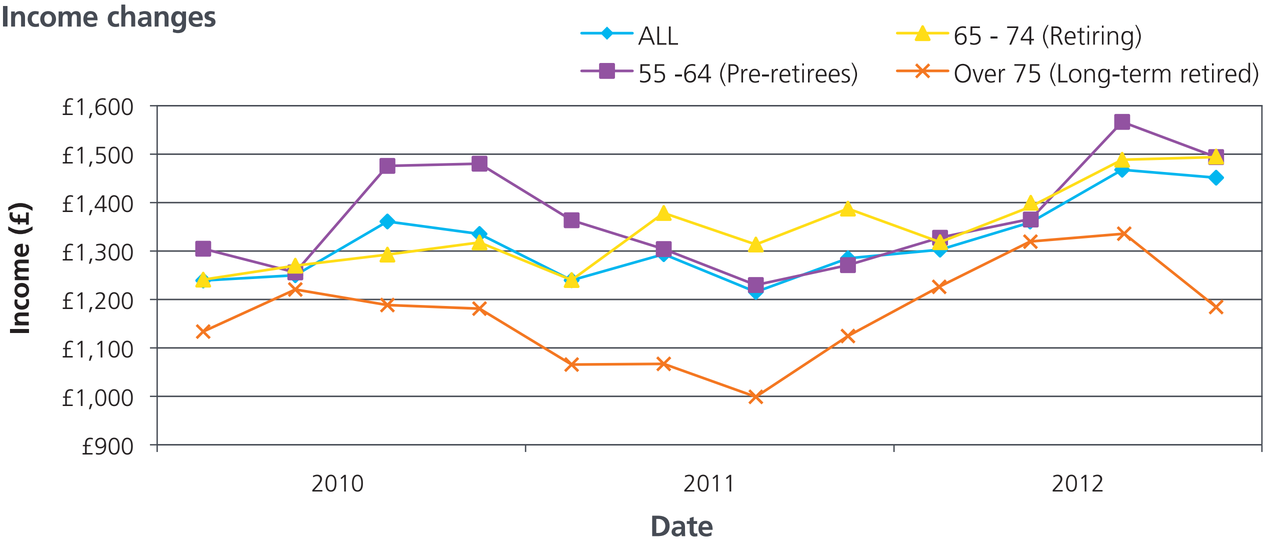
Fears surrounding an increase in taxes in the next five years have also increased, with nearly a fifth (17%) worried about rising taxes this quarter compared to 14% (Q1 2012) at the beginning of this year. This fear is most common among the retiring, with 19% of people aged 65-74 citing this as a long-term concern.

Overview of the over-55s finances over the last 36 months

Income:

Incomes have risen since 2010, increasing from £1,239 (Q1 2010) to £1,444. This is likely to be partly due to an increase in the number of over-55s who are still in employment – 38% received income in the form of wages this quarter, an increase of 9% since Q1 2010 (29%).

Income changes

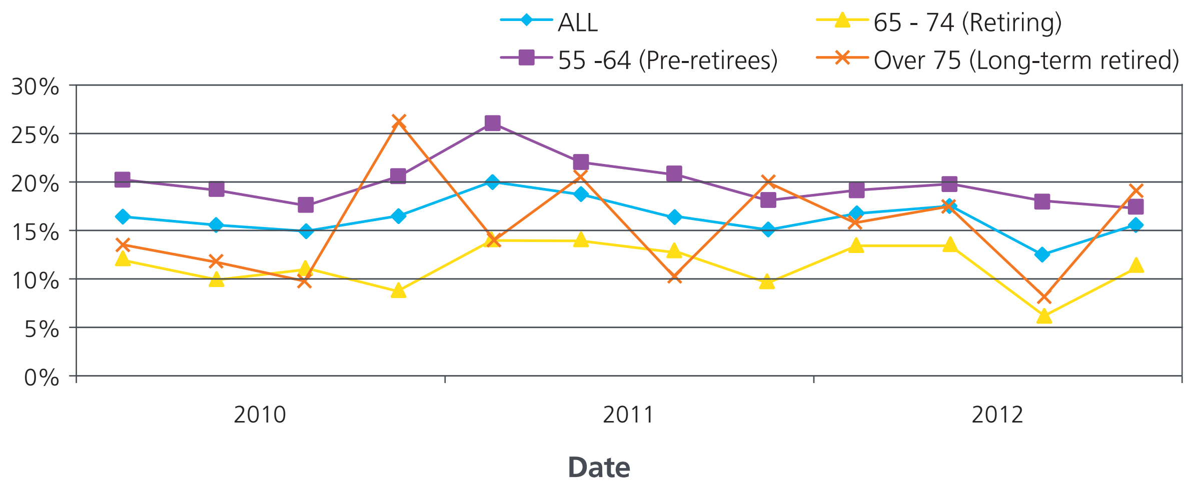


Savings:

Although savings pots are down this quarter compared to the last (typical savings were £18,364 - Q3 2012 vs. £14,544 - Q4 2012), the over-55s have increased their savings pots significantly since Q1 2010 (£11,590).

Despite the economic downturn, the amount of people without any savings has decreased slightly since this report began, with 16% having no savings in Q1 2010 compared to 15% in Q4 2012. However, monthly saving habits have floundered as a result of recent poor economic conditions, with nearly half (42%) of over-55s not putting away any money on a monthly basis in Q4 2012 compared to 39% in Q1 2010.

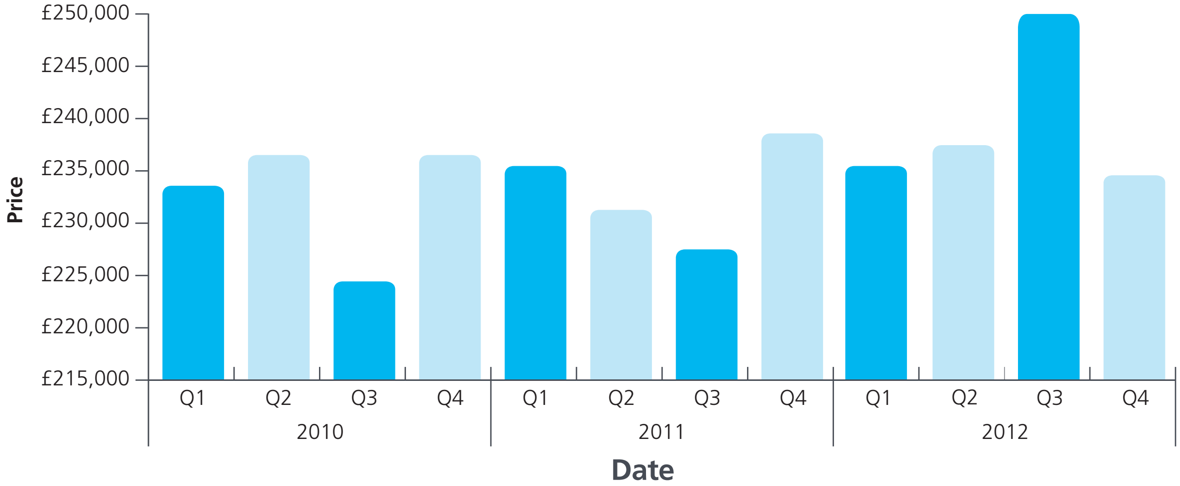
Percentage of people who do not save on a monthly basis



House prices:

Despite a long period of negative or zero growth in the UK property market, over-55s have generally seen the value of their house rise from £232,985 (Q1 2010) to £234,497 (Q4 2012). However, at the same time typical mortgage values have also increased from £54,567 (Q1 2010) to £59,541 (Q4 2012).

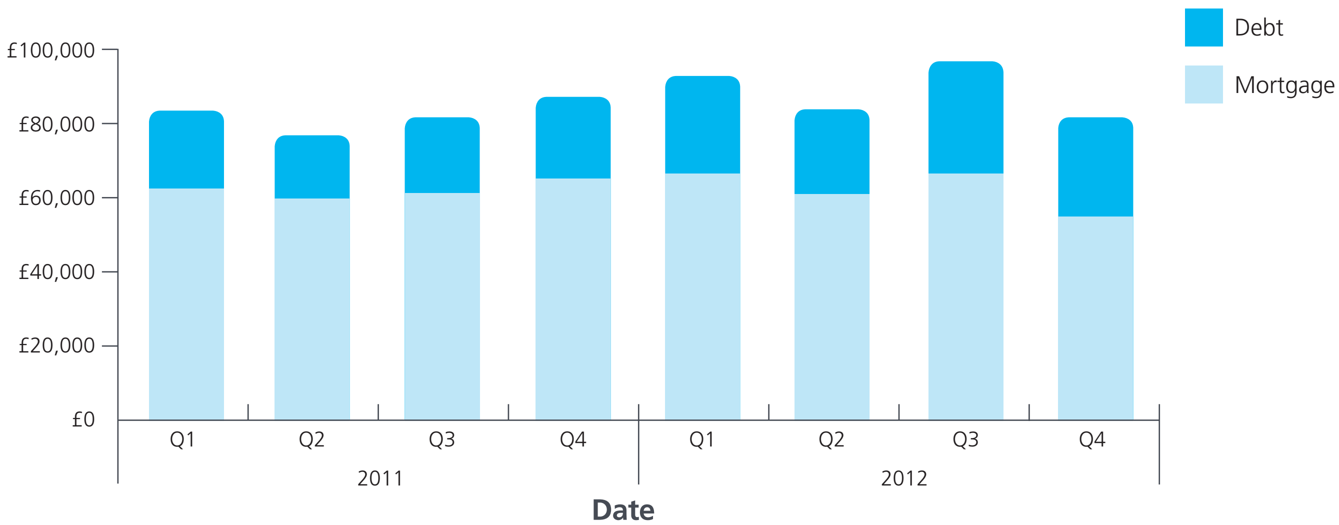
Over-55s' house prices



Unsecured debt:

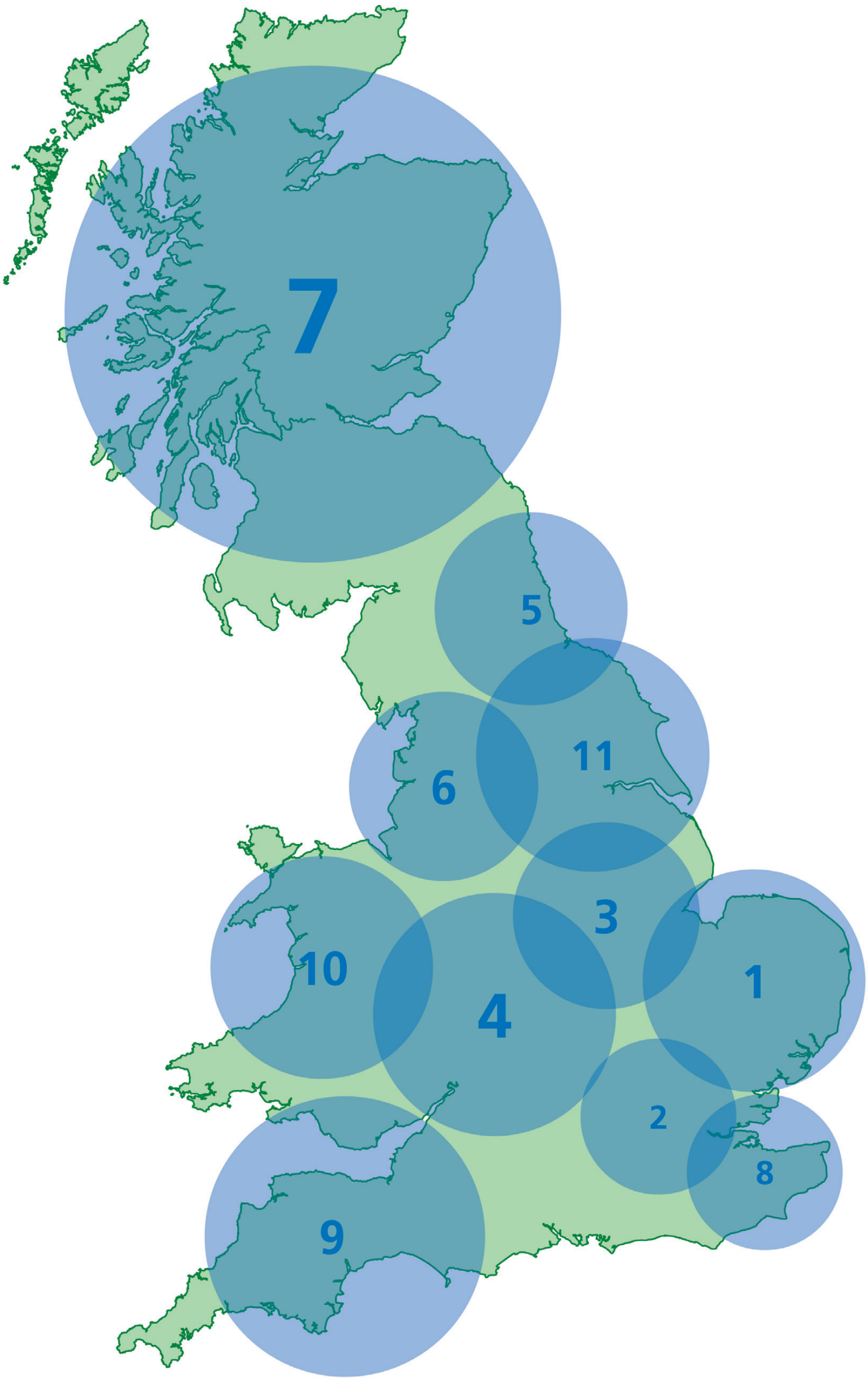
Debt has been tracked by the Real Retirement Report since January 2011. The average amount of debt among the over-55s has risen steadily since this point, with those in debt typically owing £23,676 (Q4 2012) compared to £19,878 (Q1 2011). The retiring have struggled the most to repay debt; the average debt of those aged 65-74 has increased by over £10,000 from £20,538 (Q1 2011) to £31,968 (Q4 2012).

Over-55s' debt



Regional overview

Q4 2012



		Average house price	Average mortgage	Own house outright	Number of over-55s
1	East	£217,391	£56,731	66%	1,746,000
2	London	£356,591	£72,917	57%	1,628,000
3	East Midlands	£159,649	£44,643	60%	1,341,000
4	West Midlands	£218,462	£47,500	56%	1,607,000
5	North East	£174,286	£44,643	60%	782,000
6	North West	£209,474	£57,500	66%	2,029,000
7	Scotland*	£215,036	£72,794	60%	1,531,000
8	South East	£296,043	£64,844	63%	2,525,000
9	South West	£248,063	£72,500	58%	1,727,000
10	Wales	£198,529	£69,643	56%	958,000
11	Yorkshire	£189,154	£44,853	65%	1,511,000
	UK	£234,497	£59,541	61%	**17,385,000**

Source: http://www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-england-and-wales/mid-2011--2011-census-based-/index.html

*Scotland sourced from mid-2010 version as UK version unavailable

So what does this tell us?

This edition of the Real Retirement Report takes another look at over-55s' finances and focuses a spotlight on how they plan to spend their time once they stop full-time work, including the support they provide for their families and the volunteer sector. The findings lead us to the following practical suggestions:

1. **Part-time is a viable option –** Following the end to the Default Retirement Age, an increasing number of people are working longer – either to improve their finances or simply because they want to. This might not be viable for everyone but if you need a stepping stone between work and retirement, part-time work provides a real option.
2. **Make sure your support is appreciated –** After many years of working, retirement is often seen as a time to relax and enjoy the fruits of your labour. However, an increasing number of over-55s are helping their families with child care or practical support. Most people are happy to help but make sure that your loved ones appreciate your support to avoid problems in the long run.
3. **Volunteering provides benefits –** An increasing number of people find that when they retire, they have the time – and the desire - to give back to the community. This provides a wide range of benefits from building up your social network to passing on your knowledge to the younger generation. This does not need to take much time and can be very enjoyable.
4. **Build the retirement you want –** In order to be able to choose when to give up work, help your family or volunteer, you need to have the finances in place. Taking proactive steps when you are younger means you will have more choice when you are older.

"Planning is vital if you want to enjoy a comfortable and stable retirement. This is not only planning throughout your working life to ensure you put enough aside, but also planning your ultimate exit from your career and making use of all the options available to you when you retire. Putting some serious thought into what you want from your retirement earlier on in life can provide real benefits in the long term."

Clive Bolton, managing director of Aviva's At Retirement business

Methodology

The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this, almost 15,000 UK consumers aged over 55 were interviewed between February 2010 and May 2012.

This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics emerge.

Additional data sources include:

- Moneyfacts Treasury Report – UK Mortgage Trends – July 2012
- Halifax House Price – October 2012
- Housing Act of 1998 – The National Archives
- CML data analysis – XIT2 – October 2012
- Daycare Trust – November 2012
- National Minimum Wage – www.gov.uk
- Population Numbers – 2011 Census and mid-2010 estimates - ONS

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 upper middle of a sample.
- An **average** or mean is a single value that is meant to typify a list of values. This is found 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.

Over-55s worries index:

- The over-55s worries index uses data from 12 separate indicators – including fears over falling returns on investments, rises in the cost of living and unexpected expenses – to create an index that allows changing attitudes towards financial threats to be tracked over time. Using the data from the first Real Retirement Report as the base (100) it is possible to observe the trends over time and chart how people feel about the all the pressures on their finances.