The Aviva Real Retirement Report

Autumn 2013

AVIVA

Foreword

Clive Bolton, managing director of Aviva's 'at retirement' business

Welcome to Aviva's Autumn 2013 Real Retirement Report. Since the beginning of 2010 we have been monitoring the concerns and finances across three distinctive ages of retirement – pre-retiree (aged 55-64), retiring (65-74) and long-term retired (over-75) – and our findings continue to add new depths to our understanding of how the country's over-55s fare financially.

With each report we provide a different perspective on the fortunes of these age groups when it comes to money management. In this edition, we explore the financial wisdom of the retired and ask how the experiences they have collected impact their overall outlook, as well as questioning what the true ingredients of a happy retirement are. Were their career choices fuelled by genuine passion for the job or an impressive pay cheque? Would they rather have enough money to live comfortably in retirement or are they just pleased to have someone to share their time with? These answers and more are revealed on page 4.

Although many over-55s chose their main career based on the belief they would be good at it, a surprising number embarked upon their chosen occupation purely because of its convenient location. Men are almost twice as likely as women to have been influenced by salary above all else, while women are more likely to have chosen their career based on its location.

More than half of over-55s changed occupation during their working life, for a variety of reasons. A fifth were prompted to bite the bullet as they were unhappy in their current position, with those in the current 55-64 age bracket significantly more likely to have done so than the over-75s. This hints at the improved mobility and increased opportunities we have seen developing over the past couple of decades. Others were simply inspired by a passion to try something new.

The key to a happy retirement, irrelevant of age, is good health, with having enough money to live comfortably a close second. Contrary to popular belief, pursuing hobbies and interests appear surprisingly far down the list, while more than one in six over-55s believe sharing their retirement with a partner to be the most significant priority. However, the importance of companionship appears to increase with age.

The continued low interest rate environment has severely impacted the general finances of over-55s, with the number of people over the age of 65 receiving income from savings falling by almost a tenth over the past year. Although short and long-term financial fears have fallen slightly overall during the last quarter, the general concern about the rising cost of living remains unchanged.

Despite gains made in terms of income, shrinking savings pots and a continued upward trend in expenditure means that the finances of the over-55s remain stretched. Effective financial planning is therefore absolutely essential to ensure that retirement budgets are able to meet day-to-day costs.

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.

- **Pre-retirees** – (55 to 64 years old) are on the countdown to retirement …
  - But they have the lowest income than any other age group (£1,451) and are most likely to earn under £750 (22%) or £500 (14%) each month.
  - They are also the most likely (40%) to save nothing each month, putting away a monthly total of just £33.
  - They place the most importance (32%) on having enough money to be able to live comfortably in retirement and are the mostly likely to have changed occupation during their working life.
- **Retiring** – (65 to 74 years old) have just passed the age at which people often retire …
  - Are the least likely to have no savings (11%) and save the most on a monthly basis (£76).
  - As they approach retirement, they are the most concerned about the rising cost of living, both in the short-term (78%) and in the long-term (75%).
  - Are the most likely to say they would tell their younger selves to save more on a monthly basis (52%) and make better use of savings products such as ISAs (48%).
- **Long-term retired** – (75 years and older) most are 10 years or more into retirement …
  - Are the most likely to own their home (88%), either outright (77%) or with a mortgage (11%). As a result, only 3% live in private rental accommodation.
  - They also have the healthiest savings pots (£14,998) and lowest monthly expenditure (£1,170).
  - Are the most likely to feel they got the right balance between enjoying their life and planning ahead (41%).

The financial wisdom of the retired

- Financial stability second only to good health when it comes to a happy retirement
- Salary overtakes passion as a priority when choosing a second career
- Saving more on a monthly basis is the over-55s' simple advice

Such is the importance placed on saving for retirement in 2013 that the UK is in the process of enrolling millions of working adults into pension schemes to help them prepare for later life. As the economy edges towards recovery, the financial future of the population in retirement is one of the most pressing conundrums facing government, industry experts and organisations across the public and private sectors.

When the House of Lords select committee publically states that the country is "woefully underprepared" to support the rising number of elderly people, the need for action is clear. But what about those already approaching or experiencing their retirement? The financial lessons they have learnt along the way provide a valuable insight into working and paying your way towards a comfortable retirement.

Their varying life experiences mean the over-55s are well placed to suggest what makes for a happy retirement; which life decisions are worth prioritising your money for; where the right balance lies between work and pleasure; and what advice would make the biggest difference to anyone contemplating their financial future in retirement.

The pursuit of happiness:

Financial stability features prominently among the ingredients of a happy retirement. Good health ranks as the number one priority for the over-55s (38%); otherwise, having enough money to live comfortably (27%) is of greater importance than sharing retirement with a partner (17%), having a happy family life (12%), devoting time to hobbies and interests (3%) or being able to support others financially (1%).

The 55-64s place the second greatest importance on being able to afford to live comfortably in retirement (32%), compared with 22% of 65-74s. Interestingly, its importance increases again beyond the point of retirement, with 25% of over-75s in agreement. In terms of priorities, the difference between financial stability and companionship in retirement lessens with age, but money matters are the second most important factor across all three age groups.

The key to a happy retirement:

	All	55-64s	65-74s	Over-75s
Being in good health	38%	38%	42%	31%
Having enough money to live comfortably	27%	32%	22%	25%
Sharing my retirement with a partner	17%	13%	20%	23%
Having a happy family life	12%	11%	10%	18%
Being able to devote more time to hobbies and interests	3%	3%	3%	0%
Being active socially	2%	2%	2%	1%
Being able to support others financially	1%	1%	1%	1%

Passion or vocation?

With income an unavoidable factor in planning for retirement, the over-55s' career choices and motivations provide important context to their financial experiences and outlook.

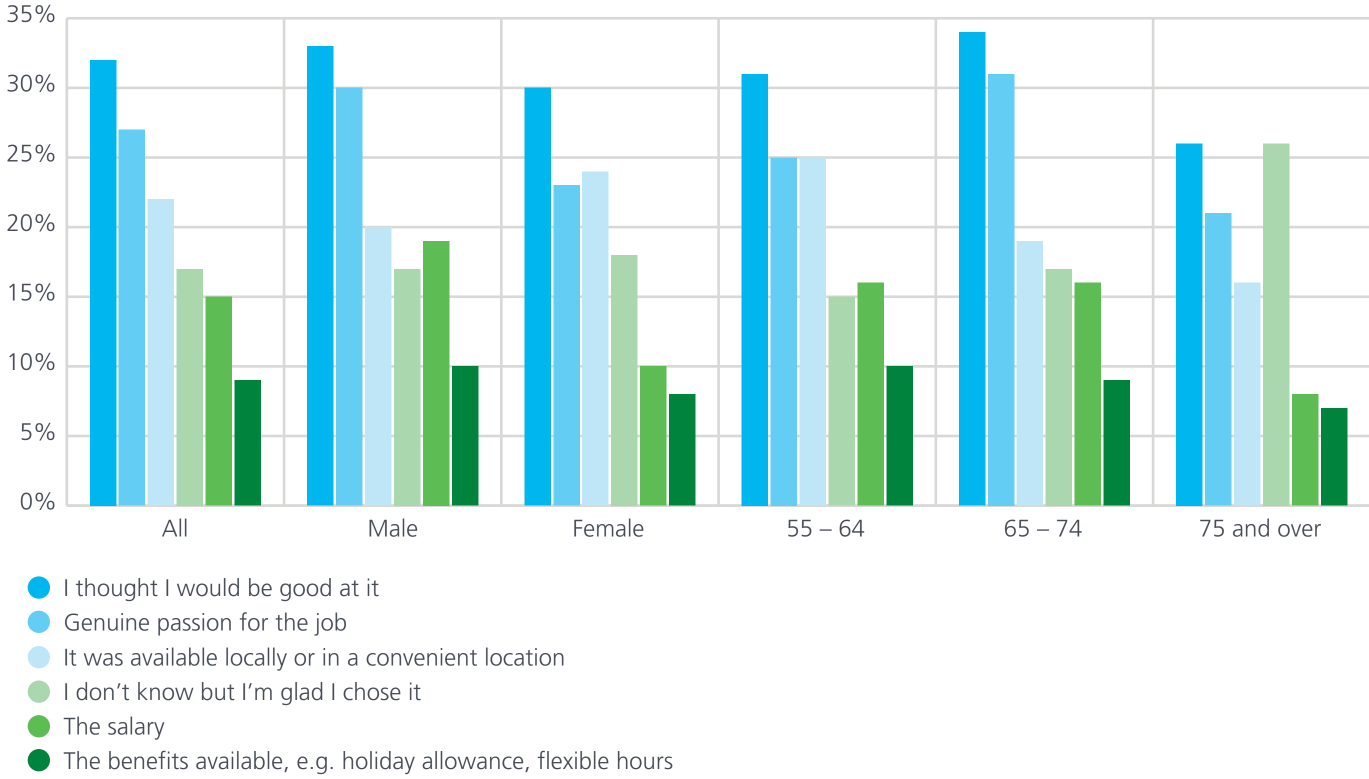
It is therefore interesting that despite the importance they place on financial security in later life, the salary offered does not feature among the three most common reasons behind over-55s' career choices. Instead, almost one in three chose their original occupation because they thought they would be good at it (32%), while more than one in four were motivated by a genuine passion for the job (27%).

A passion for their career is more likely to have been a motive for men than for women (30% vs. 23%) and more likely to have influenced those aged 65-74 (31%) than those aged 55-64 (25%) or over-75 (21%).

Being able to pursue their chosen occupation locally or in a convenient location was the deciding factor for 22% of people, including 24% of women and 20% of men. Interestingly, more people claim not to know why they chose their primary career (17%) than were motivated to pursue it for the salary (15%).

There is another clear gender divide when it comes to the importance of money: 19% of men made their career choice on this basis, compared to just 10% of women. Across the age groups the financial aspect of work has become a more important motivator over time: 16% of 55-64s and 65-74s based their decision on the available salary, compared to 8% of over-75s.

Over-55s' motives for choosing their primary career:



Time for a change:

Over half of over-55s changed career during the course of their working life (57%) with a range of motives behind their decision. More than half of those who switched to another occupation made an active decision to do so (53%), rather than being obliged to by changing circumstances such as moving house, changes in the job market or reasons relating to their health.

One in five over-55s made a change because they were unhappy in their previous job, with the younger 55-64 age group far more likely to have done so than the over-75s (22% vs. 12%). While money featured as the fifth most common reason for choosing their main career, it ranks as the third most popular reason for switching in later life: 17% of over-55s took this measure overall, including 18% of 55-64s and 20% of over-75s.

A desire to try something new prompted 15% of people to act, while a similar number (14%) took the opportunity to pursue an interest or passion: therefore meaning that while passion outweighs salary by almost 2:1 as a reason for choosing a main career, financial concerns have the upper hand when it comes to putting 'Plan B' into action.

What determined the career choices of the over-55s:

	A better salary	Passion for the job
The reason they chose their main career	15%	27%
The reason they changed their career	17%	14%

Women are marginally more likely than men to have changed career through the desire for greater flexibility (13% vs. 11%, compared with 12% overall) or for less pressure (12% vs. 10%, compared with 11% overall). Just 6% of over-55s – including an equal proportion of each gender – made their decision because they were already comfortable financially and could afford to make a change.

How different motives lead the over-55s down various career paths:

Occupation most likely to have been chosen...	
Because of the salary	Construction and property (29%)
Because of the available benefits	Education and training (18%) Legal and financial services (18%)
Because they thought they would be good at it	Construction and property (57%)
Because it was recommended by their parents	General and personal services (17%)
Because it was recommended by their school	Sport, leisure and tourism (25%)
To follow the family trade	Animals, plants and land (13%)
Without knowing why (but they were glad they did)	Arts, crafts and design (43%)
Occupation most likely to have prompted a career change...	
Because they were unhappy with their job	Medicine and nursing (40%)
Because they needed more money	Construction and property (29%)
Because they wanted more flexibility	Construction and property (29%)
Because they wanted less pressure	Medicine and nursing (27%) Transport, distribution and storage (27%)
Because they wanted to try something new	Media, journalism and marketing (40%)
To pursue a passion or interest	Legal and financial services (32%)
Because they were already comfortable financially	Information technology (14%)

Live to work or work to live:

When it comes to managing their money, it is encouraging to see that even with the benefit of hindsight, more than one in three over-55s feel they got the right balance between enjoying their life and planning ahead (35%). The over-75s are noticeably more content with their approach: 41% share this view, compared with 38% of 65-74s and just 32% of 55-64s.

In other cases hindsight encourages them to reassess, with 16% wishing they had achieved a better work/life balance. Men are significantly more likely than women to fall into this category (19% vs. 13%). In terms of what they would change, nearly one in four of all over-55s would have focused more on planning ahead (22%) whereas just 13% would have focused more on enjoying their personal life.

Again there is a clear gender divide, with women having greater regrets about a lack of planning while men are the ones who feel they have neglected their personal lives.

How the over-55s would manage their money differently with hindsight:

	All	Men	Women
I would focus more on planning ahead	22%	21%	24%
I would focus more on enjoying my personal life	13%	15%	12%

Given the emphasis on better planning, it is unsurprising that twice as many people wish they had worked harder than wish they had enjoyed their working life more (6% vs. 3%). When it comes to taking financial risks, the element of the unknown perhaps accounts for the fact that as many people would have taken more financial risks as would have taken less (both 7%).

Nearly one in five would have taken more responsibility for understanding and managing their money (17%), yet just 10% would have sought financial advice at a younger age. Significantly, the greatest yearning to have solicited advice at an earlier stage of their life is among those who are generally at the point of leaving the workforce (aged 65-74) and facing up to their post-retirement financial future.

Context plays a major role in evaluating financial decisions and there are clearly contrasting outlooks depending on over-55s' level of income. Those with an annual income above £30,000 are the most likely to feel they had the right balance when managing their money (45%) – although they also have the greatest desire to have taken more financial risks (14%).

At the other end of the scale, those with an annual income below £15,000 are the most likely to wish they had planned further ahead (28%) or sought financial advice at a younger age (11%). They are also the most likely to wish they had enjoyed their personal life more (16%) – perhaps borne from a feeling their efforts have fallen short of delivering a comfortable retirement.

How income affects over-55s' outlook:

		Annual income past the age of 55		
	All over-55s	<£15k	£15-30k	>£30k
Feel they got the right balance	35%	27%	39%	45%
Would have planned further ahead	22%	28%	20%	14%
Would have enjoyed work more	3%	4%	3%	3%
Would have enjoyed their personal life more	13%	16%	14%	11%
Would have taken more financial risks	7%	5%	6%	14%
Would have taken fewer financial risks	7%	6%	10%	8%
Would have worked harder	6%	7%	4%	6%
Would have achieved a better work/life balance	16%	18%	16%	18%
Would have sought financial advice at a younger age	10%	11%	10%	9%
Would have taken more responsibility for their finances	17%	21%	14%	14%

Decision time:

Certain decisions over the course of a lifetime have a significant impact on people's financial fortunes in retirement. In some cases there can be a clear benefit; in others there is considerably less certainty about the outcome.

Judging from the experiences of today's over-55s, taking steps to pay off a mortgage and/or buy a house outright is a clear route to financial success while taking chances with stocks and shares is a less advisable decision.

Over-55s' best financial decisions*	
Paid off my mortgage/bought my house outright	96%
Took a break from work to raise a family	95%
Started a workplace pension	94%

* Based on the % of over-55s who are glad they took certain actions

Over-55s' worst financial decisions**	
Took chances on the stock market	29%
Emigrated	27%
Started my own business	18%

** Based on the % of over-55s who regret taking certain actions

Over-55s' biggest missed opportunities***	
Paid off my mortgage/bought my house outright	46%
Went to college/university	41%
Started a workplace pension	40%

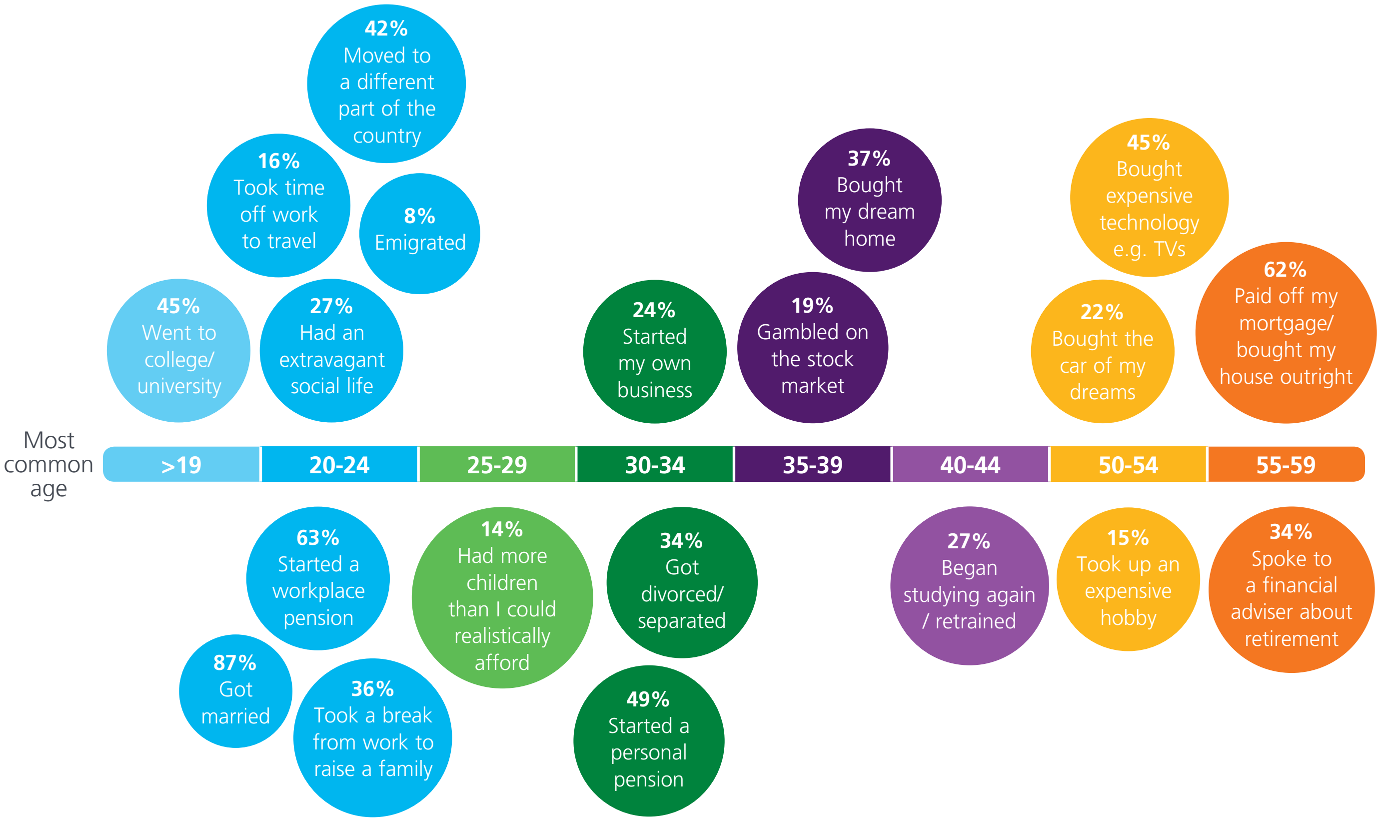
*** Based on the % of over-55s who regret not taking certain actions

Over-55s' luckiest financial escapes****	
Took chances on the stock market	95%
Took up an expensive hobby	92%
Had more children than I could realistically afford	91%

**** Based on the % of over-55s who are glad they avoided certain actions

A lifetime of financial decision-making by the over-55s

% of all over-55s who took each action and the age they were most likely to have done so



The benefit of experience:

The over-55s have a simple message when it comes to financial planning for retirement: save more on a monthly basis. Exactly half (50%) would advise their younger self to take this action, with those who are facing retirement (aged 65-74) the strongest advocates (52%).

The second strongest recommendation from over-55s is to make better use of savings products such as ISAs (40%) – a difficult challenge in the current environment of low interest rates, which arguably calls for even greater thought and attention to detail. Nearly one in five men recommend using a financial adviser to help plan ahead (18%), although women are noticeably less inclined to promote this course of action (12%).

Pensions form another key focus of the over-55s' recommendations. Nearly two fifths would advise their younger self to take out a workplace pension (39%) and a similar number recommend personal pensions (35%). This corresponds almost exactly with the number of over-55s who receive an income from these products (40% from workplace pensions and 35% from personal pensions) hinting that those who have them in place would urge others to do the same.

The financial advice that over-55s would give their younger selves:

	All	55-64s	65-74s	Over-75s
Save more on a monthly basis	50%	50%	52%	48%
Make better use of savings products e.g. Isas	40%	35%	48%	39%
Take out a workplace pension	39%	35%	46%	35%
Start contributing to a personal pension earlier	39%	32%	49%	33%
Start contributing to a workplace pension earlier	38%	33%	47%	35%
Take out a personal pension	35%	33%	40%	27%
Use a financial adviser to help plan ahead	15%	14%	16%	17%

Long-term gains:

Given widespread concern over the future prospects of the UK population in retirement, it is encouraging that over half of over-55s say that financial worries have had no impact on them in later life (58%). In fact, the over-75s are most likely to feel this way despite being the furthest into their retirement (69%), which could be taken as evidence of better planning or a stoical approach.

Among those over-55s who have been affected, the most common impact of financial constraints in retirement is people's inability to afford to put their original plans into action, including holidays or travelling ambitions. Almost half of this group have been affected in this way (48%) and one in five overall (20%).

The second most common effect is a prolonged period of working part-time (impacting 16% of those with financial worries) or working full-time (affecting 15% of this group). The same number – 15% – feel more stressed coping with retirement than they did while they were working, while 14% have felt their health suffer as a result. Almost one in ten have experienced the feeling of having let their family down (9%).

How those with financial pressures in later life describe the effects:

	All	55-64s	65-74s	Over-75s
They have affected my health	14%	15%	11%	16%
I feel I have let down my family	9%	6%	11%	20%
I feel more stressed than when I was working	15%	15%	18%	5%
I can't afford what I had originally planned e.g. travelling, holidays	48%	41%	55%	59%
I have had to continue working full-time	15%	21%	8%	2%
I have had to continue working part-time	16%	17%	14%	18%
I had to retire much later than I would have liked	14%	15%	11%	18%

In almost every category the over-75s have experienced noticeably greater effects – clearly highlighting the benefits of taking action as early as possible to plan ahead. Unsurprisingly, more than half of over-55s agree the most important benefit of financial stability in later life is a stress-free retirement (51%).

More than one in five cite the freedom that financial stability provides to enjoy holidays or hobbies (21%), while a similar number place the most value on the ability to support yourself without relying on family members (18%). This is twice the number who see the primary benefit as helping family members with the money they have saved (9%).

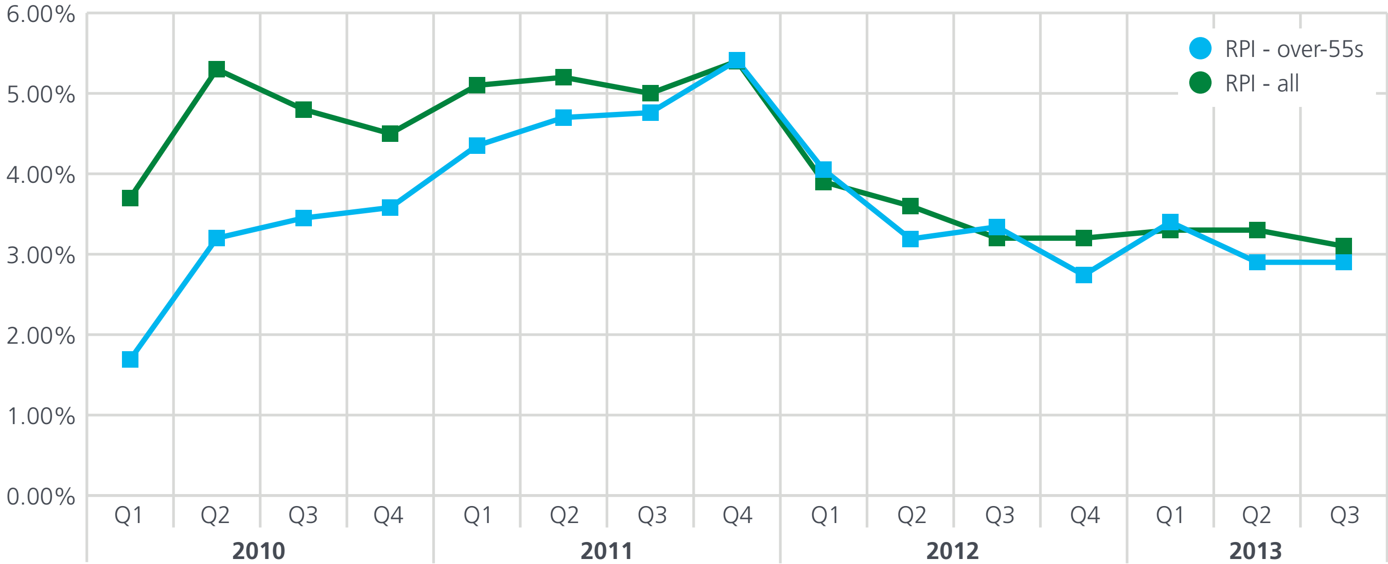
> "It's refreshing to see that over half of over-55s say financial worries have had no impact on them in later life. However, for those who have been affected, some have been forced into full or part-time work while others have suffered problems with their health, possibly due to stress. The majority of those with financial worries also find themselves restricted in retirement, unable to carry out travelling or holiday plans due to limited funds. Beginning to save for retirement as early as possible remains the best way to protect your financial freedom."
>
> Clive Bolton, managing director of Aviva's 'at retirement' business

Economic overview

55s' RPI (Retail Price Index) annual inflation remains higher at 2.9% than the end of last year when it stood at 2.7%. Nevertheless the overall outlook has improved over the summer having registered at 3.4% earlier in 2013.

Where individual items are concerned, fuel and light has defied this marginal fall in inflation to increase from +7.2% in March to +8.0% in October. Above-average inflation continues to affect clothing and footwear (+9.3%); postage, telephone calls and internet connections (+6.4%); food (+3.8%); and entertainment, recreation and holidays (+3.3%).

RPI since February 2010



The over-55s' RPI rose above the RPI for all consumers for the first time in March 2013 (3.4% - over-55s vs. 3.3% - UK) but has since fallen back below this measure with the latest national RPI sitting at 3.1% (July 2013).

The new policy of forward guidance from the Bank of England suggests there is little prospect of the Base Rate rising above its current 0.5% in the immediate future, meaning that interest rates on savings may continue to weigh in lower than inflation.

Nonetheless, there is growing evidence of an improvement in the wider economy which offers cause for optimism, with recent rises witnessed in the service sector, factory output, car sales and house prices over the summer.

Income

- 55-64s left trailing by income gains among older age groups
- Savings and investments relied on less as a source of income in later life

The Real Retirement Report has seen income levels fluctuate among the over-55s since January 2010 as people look to different sources to support their finances and put the resulting income to a range of uses.

Level of income:

The last year has seen the typical over-55 gain an additional £26 in their monthly income, boosting the overall average to £1,489 per month: the highest figure seen by the report series since it first launched almost four years ago. An increase of £128 over the last three years from £1,361 means that people have 9% more money at their disposal each month than they did in August 2010.

Those who are retiring or already retired have made the greatest gains over the last three years. The typical 65-74s' monthly income has increased by £241 or 19% in that time to £1,534, while over-75s have seen their income swell by £312 or 26% to £1,500. In contrast, the 55-64s have experienced a 2% loss of monthly income since August 2010 to £1,451 in October 2013.

Monthly income changes among the over-55s:

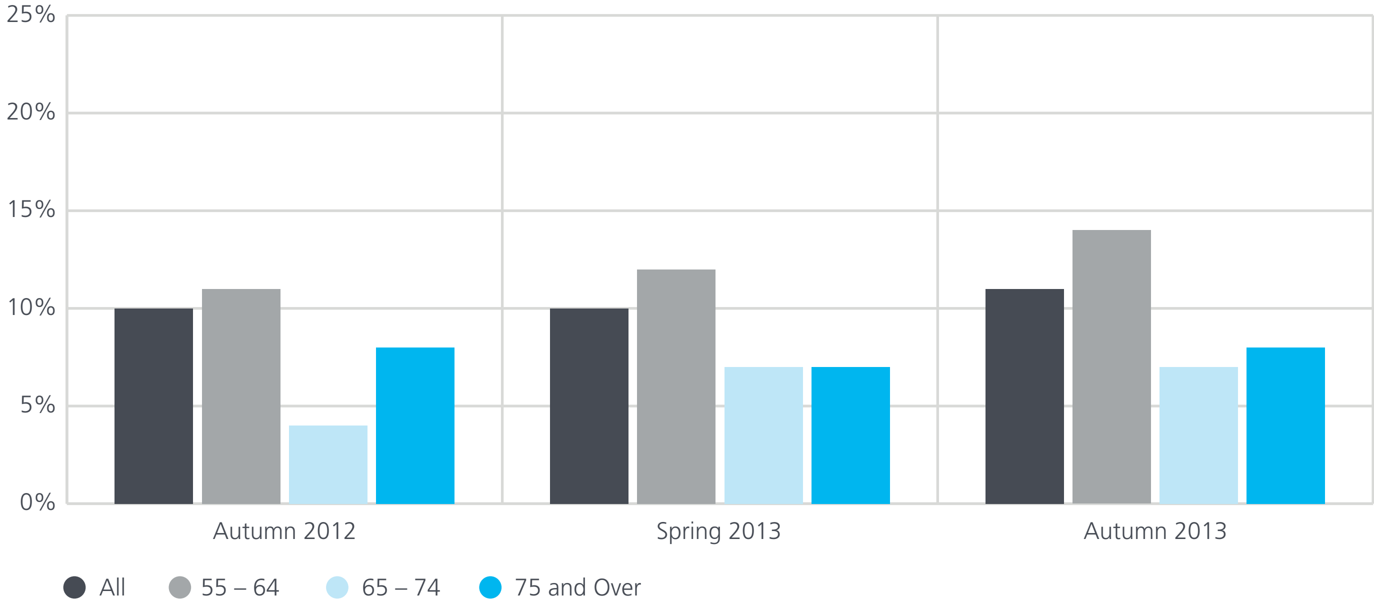
	All over-55s	55-64s	65-74s	Over-75s
October 2013	£1,489	£1,451	£1,534	£1,500
September 2012	£1,464	£1,560	£1,488	£1,331
August 2010	£1,361	£1,476	£1,293	£1,188

Income bands:

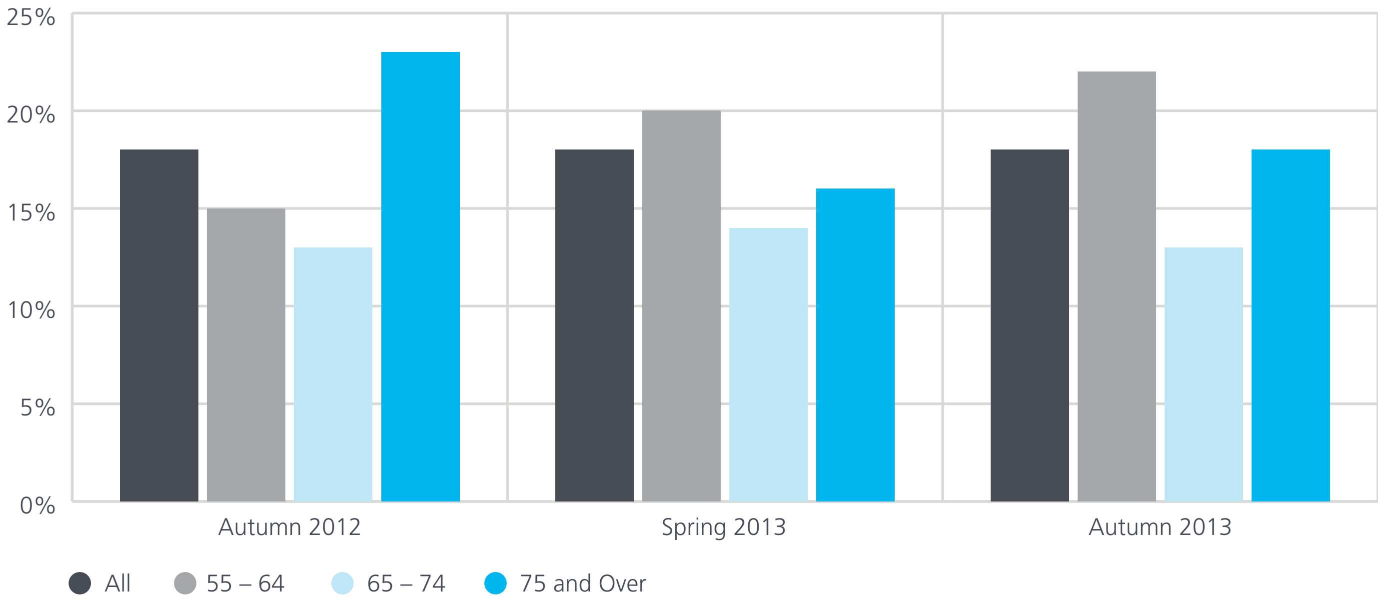
Recent progress has been curtailed when it comes to the number of over-55s falling into low income brackets. The percentage earning less than £750 per month remains stable in October 2013 at 18% as it has since September 2012. This is still the lowest figure recorded by the report series; but the percentage earning less than £500 a month has crept up to 11% from its previous low of 10% in March 2013.

The 55-64s appear to have borne the brunt of this reversal. More people in this group earn less than £500 or less than £750 per month than either older age group and, in both cases, the numbers who fall into these categories have swelled in recent times. In September 2012, 11% earned less than £500 while 15% took home less than £750. Both figures have shifted significantly in October 2013 to 14% and 22% respectively.

Over-55s with less than £500 income per month



Over-55s with less than £750 income per month



Despite a quarter of 55-64s earning more than £2,500 each month (25%), this has fallen over the last twelve months having peaked at 28% in September 2012. With people typically remaining in employment until a later age, the percentage of 65-74s with this level of monthly income has jumped from 12% to 18% over the same period. However there has been a downward shift in the over-75 age bracket, from 17% to 13%.

Overall, one in five over-55s currently receive more than £2,500 income each month (21%), two percentage points fewer than in September 2012.

Sources of income:

Changes to the benefits system have clearly impacted the over-55s since the turn of the year. While almost one in five received an income from benefits in December 2012 (19%), just 15% now fall into this category as was the case in March 2013.

Poor returns on savings as a result of the economy and the government's Funding for Lending Scheme (FLS) have also trimmed the percentage of people who count savings as a regular source of income. This applied to 29% of over-55s in September 2012 but has fallen consistently since, to just 23% in October 2013.

Predictably, older savers have been hardest hit by the lack of appealing rates on many savings accounts. Last September 45% of over-75s received an income from savings or investments compared with just 34% now. There has been an equal drop from 35% to 24% among 65-74s over the same period of time.

A fall in the overall proportion of over-55s receiving wages or other income – down from 38% to 36% in the last twelve months – disguises the fact that employment rates have actually increased among the two older age groups. An increase of one percentage point since September 2012 means that 21% of 65-74s are currently receiving a wage, while a rise of two percentage points has pushed the equivalent figure from 4% to 6% of over-75s.

Among the different types of pensions on offer, two in every five over-55s now draw on an employer pension (40% vs. 36% at the end of 2012) although the frequency of personal pensions has dropped in the same period from 40% to 35%.

"It's great to see that more over-55s are stating employer pensions as a source of income, possibly as a result of auto-enrolment. Company pensions often come with a whole host of benefits that help to make your life in retirement easier, and the money contributed by your employer could make the world of difference. However, with the UK population living longer and retirement funds needing to last the course, it is advisable to consider a wide range of investments in order to provide an extra financial resource in later life."

Clive Bolton, managing director of Aviva's 'at retirement' business

Expenditure

• Luxuries combine with essentials to drive expenses higher

• Spending on food and fuel swallows an increasing share of over-75s' budgets

Spending by the over-55s has risen steadily over the last two years, with the latest average monthly outgoings – currently £1,308 – the highest figure recorded by the Real Retirement Report. This represents a 3% increase from September 2012 when the typical spend was £1,269 per month and a 9% leap from £1,195 in September 2011.

Those who have been retired the longest have been the most successful in limiting their additional spending. Outgoings by the over-75s have increased by just £30 per month in the last two years (up 3% to £1,170) while the 65-74s are spending an additional £65 per month compared with September 2011 (up 5% to £1,287).

In contrast, the typical 55-64 year old is spending 14% more each month than they did two years ago (£1,343 vs. £1,182). This increase is evident across all categories other than personal goods and services, where their typical spend has fallen by 2%. It is interesting to note that spending on entertainment, recreation and holidays (+30%) and eating out and takeaways (+25%) has grown at a faster rate for this group than debt repayments (+24%).

How the amount spent by over-55s has altered in the last two years:

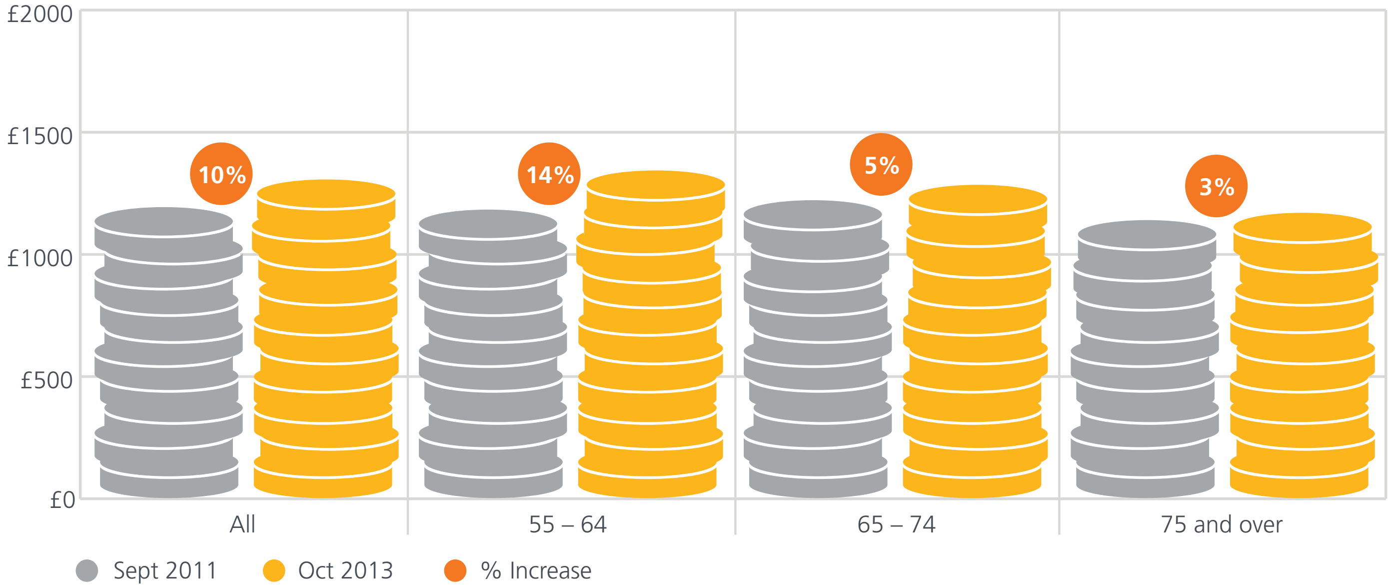
	All	55-64s	65-74s	Over-75s
Clothing and footwear	3%	12%	-2%	-13%
Debt repayment	10%	24%	-2%	-18%
Eating out or takeaways	25%	25%	28%	14%
Entertainment, recreation and holidays	24%	30%	15%	52%
Fares and other travel costs	-1%	10%	-9%	-43%
Food	13%	14%	9%	37%
Fuel and light	7%	9%	-2%	34%
Furniture, appliances and pet care	-10%	2%	-14%	-49%
Housing (mortgage or rent)	11%	11%	13%	5%
Leisure goods	-8%	3%	-18%	-29%
Motoring	2%	12%	-4%	-15%
Personal goods and services	-9%	-2%	-11%	-34%
Postage, telephone calls and internet connections	7%	11%	15%	-26%

The same is true among 65-74s, with social spending growing faster than essential payments such as housing. Debt repayments have fallen by 2% while the greatest cutbacks in spending have been made in leisure goods (-18%) and furniture, appliances and pet care (-14%).

Like retirees, the over-75s have also cut their spending across eight different categories. But while the greatest increase in spending has been on entertainment, recreation and holidays (+52%) this age group has also been most affected by rising food and fuel costs. The typical over-75 spends 37% more on food in October 2013 than in September 2011 (compared with a 13% increase among all over-55s) and 34% more on fuel and lighting costs (compared with a 7% increase among all over-55s).

As a result the combined costs of food and fuel account for 27% of over-75s' spending – up from 21% two years ago. These costs account for 24% of monthly outgoings among the two younger age groups: a figure that has remained unchanged in the last two years.

Rising expenses over the last two years



Assets

Over-75s alone in boosting their retirement savings pots

Financial safety net shrinks as more people enter later life with nothing saved

The typical amount saved by the over-55s each month has reached £50 this quarter for only the second time since the Real Retirement Report began back in February 2010. The other occasion came one year ago when average monthly savings exceeded the £50 mark and hit a high point of £52 (September 2012).

Given that monthly savings habits declined sharply afterwards to just £29 per month at the end of 2012, this is a positive trend that is largely due to improved savings habits among older people. In October 2013 the typical 65-74 year old put aside £76 per month compared with £62 in September 2012, while the typical over-75 has increased their monthly savings from £61 to £69.

	Over-55s	55-64s	65-74s	Over-75s
October 2013	£50	£33	£76	£69
December 2012	£29	£24	£41	£0
September 2012	£52	£39	£62	£61

In contrast, savings habits among pre-retirees have shifted in the opposite direction from £39 to £33 a month over the last 12 months. This has been influenced by the fact that 40% of this group – two percentage points higher than a year ago – now save nothing each month.

Nonetheless, the overall proportion of over-55s in this category remains relatively stable (36% in October 2013 compared with 35% in September 2012).

See-saw effect on savings pots:

This improvement in monthly savings habits may be to compensate for the decline in savings pots over the last year. While the typical over-55 had £18,364 put away in savings and investments in September 2012, that total has fallen by 23% to £14,184.

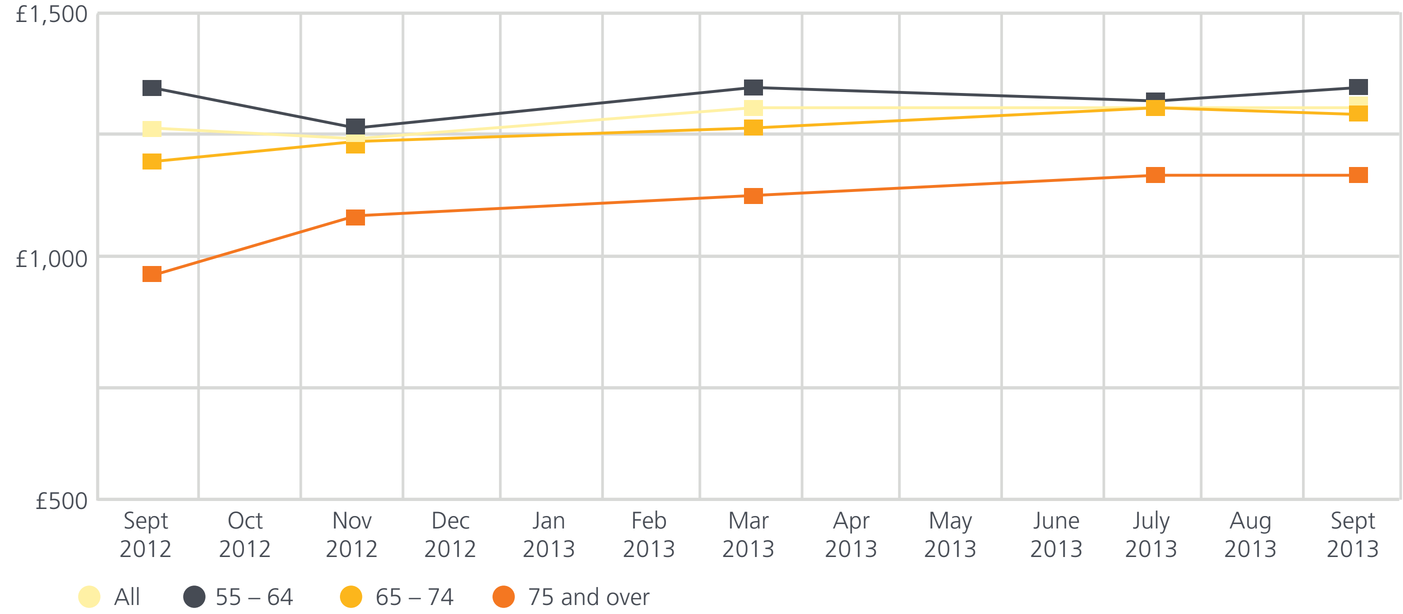
Those at the retiring stage have seen their financial foundations dwindle the furthest during this period: down by 41% from £30,624 to £18,213, equivalent to the loss of £1,034 per month for the last year. The likelihood is that the presence of lingering debts at the point of retirement – whether in the form of a mortgage or unsecured borrowing – has prompted some to dip into their cash reserves to clear any outstanding balances and start afresh with their budgeting during retirement.

Conversely, a 44% rise in over-75s' typical savings pot over the same period from £13,332 to £19,165 may have been assisted by personal pension or annuity payouts for anyone seeking to reinvest their money. As well as benefiting from limiting their monthly spending, the scale of increase may also have been helped by anyone choosing to downsize their property in order to free up more cash to fund the later years of their retirement.

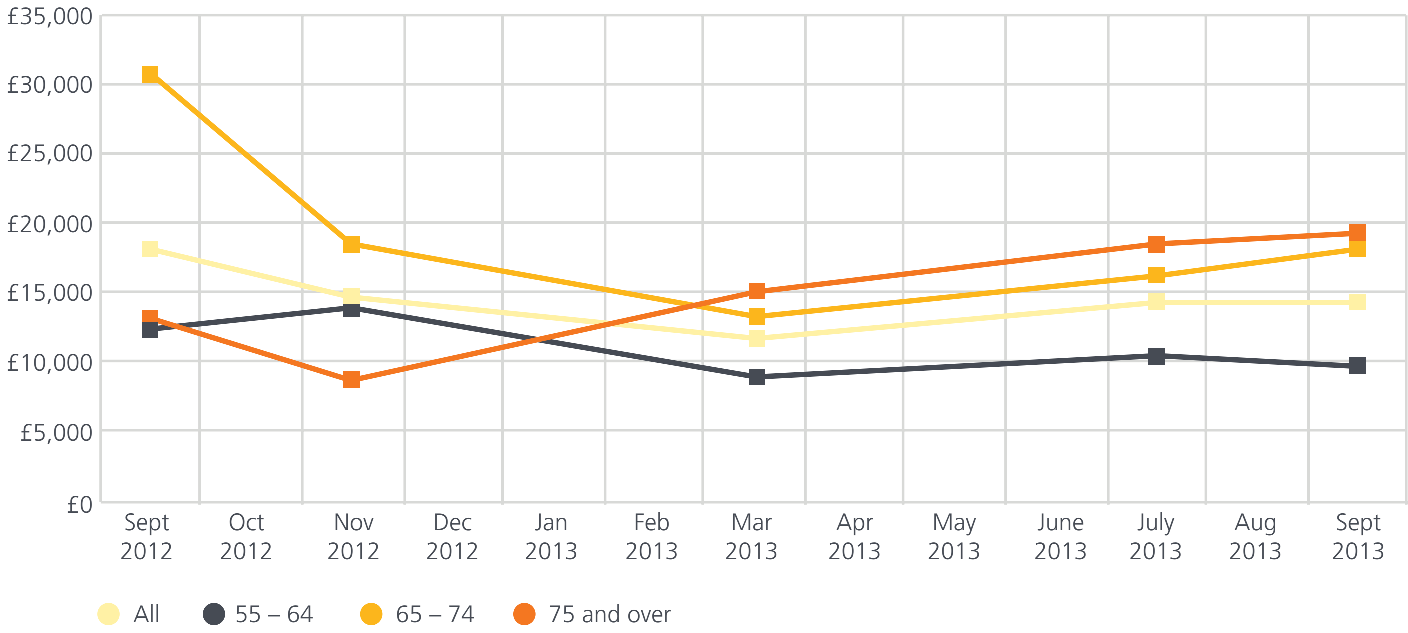
The 55-64s have not fared so well and have instead seen their savings pots fall by 22% since September 2012 from £12,351 to £9,653 – an unsurprising development given how their expenses have grown over the same period. They remain the group most likely to have no savings: in fact one in five 55-64s fall into this category (20%), up two percentage points in the last year.

Monthly expenses rise while savings pots fall

Monthly expenses



Savings pots

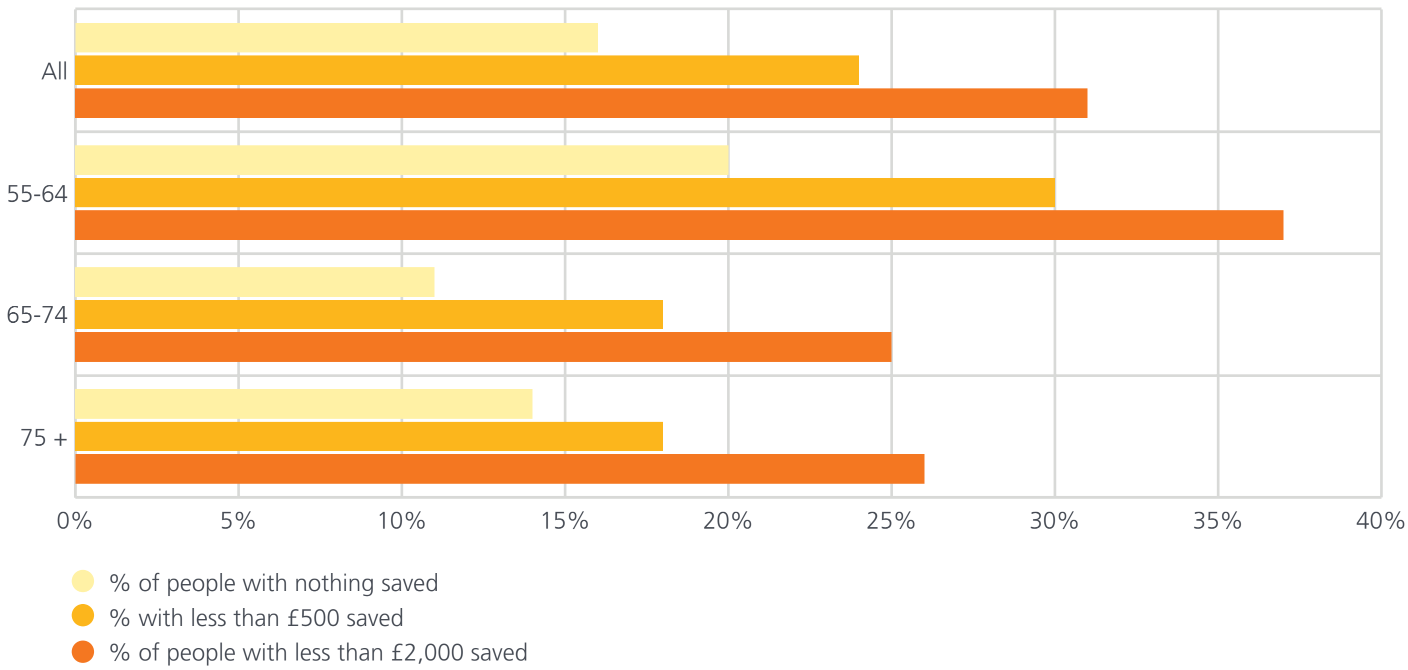


All three age groups feature an increasing number of people without a financial safety net. More than one in ten 65-74s are now cradling an empty savings pot (11% vs. 6% - September 2012) and the same is true among over-75s (14% vs. 8% - September 2012).

The drain on savings pots is even more visible when assessing those over-55s with less than £500 put away. Twelve months ago, fewer than one in five fell into this category (17%), but the proportion has increased to the extent that 24% of over-55s now find themselves in this situation. The biggest impact over the last year has been felt by 55-64s (up seven percentage points to 30%) and 65-74s (up by the same margin to 18%).

Even the most affluent over-55s have been unable to prevent their finances dwindling. While 23% had over £100,000 in savings and investments in September 2012, just 18% remain in this top bracket. Once more the greatest decline has been among 55-64s (dropping seven percentage points to 16%) followed by 65-74s (down six percentage points to 20%).

How many over-55s are surviving without a financial safety net



> "Monthly savings habits among the over-55s appear to have improved recently, which can only be good news for those who are looking to relieve financial pressures in retirement. However, total savings pots have fallen, with those at the retiring stage suffering the biggest losses. This shows that despite their good intentions, the over-55s are feeling the negative effects of consistently low savings rates and rising debt repayments. Shopping around for the best rates and persisting with a monthly savings habit is the best way they can rebuild their savings pots and shore up their retirement finances."
>
> Clive Bolton, managing director of Aviva's 'at retirement' business

Homeownership

Overall patterns of homeownership among over-55s have changed little in recent years, with around four in five owning their own homes either with or without a mortgage. The latest figures show there are three outright homeowners in this age bracket (60%) for every one homeowner who still has a mortgage (20%).

Where the over-55s currently reside:

	All over-55s		55-64s		65-74s		75+	
	Sep 11	Oct 13	Sep 11	Oct 13	Sep 11	Oct 13	Sep 11	Oct 13
A home I/we own outright	59%	60%	47%	48%	70%	69%	72%	77%
A home I/we own with a mortgage	21%	20%	29%	28%	13%	12%	7%	11%
Private rental accommodation	9%	8%	10%	9%	7%	7%	5%	3%
Social Housing	9%	10%	11%	13%	8%	9%	8%	5%
Sheltered housing / retirement complex / Residential care home	2%	2%	1%	2%	1%	2%	5%	4%
I/We live with my family	1%	0%	1%	0%	0%	0%	3%	1%

The most visible shift has occurred among the over-75 population where homeownership is the highest of any age group in this study. Almost nine in ten over-75s currently own their own home (88%), up from 79% two years ago – with seven times as many owning their home outright than own their home with a mortgage.

Because of this the percentages of over-75s in other forms of accommodation have fallen back since September 2011 – 3% fewer live in social housing, 2% fewer live in private rented accommodation, 2% fewer live with other family members and 1% fewer live in sheltered housing, retirement complexes or residential care homes.

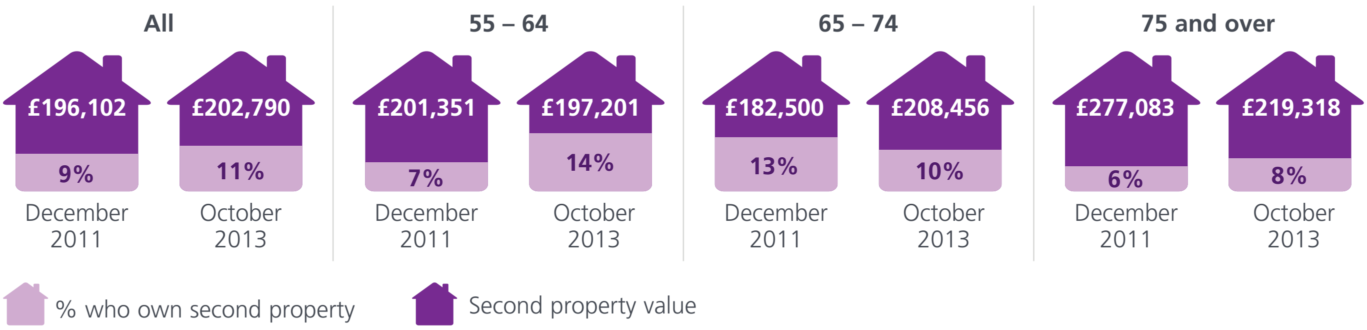
The latest Office for National Statistics' House Price Index and Land Registry House Price Index both show that house prices have increased between 0.8% and 3.1% over the year to June 2013. Despite this, the over-55 population suggest their properties have declined in worth, with the over-75 age group stating a 4% drop in the value of their home since March this year to £226,423. Given a more upbeat trend in recent times, it may be that the over-55s have underestimated how far renewed interest in the housing market will have boosted the value of their homes.

Second properties:

Pre-retirees aged 55 to 64 continue to be the most likely owners of second properties, encompassing holiday homes, time-shares, inheritance or properties occupied by another family member. Just over one in ten over-55s have some form of second property (11%), including 14% of 55-64s, 10% of 65-74s and 8% of over-75s.

Second properties have therefore become more frequent among the oldest and youngest retirement age groups in the last two years – just 7% of 55-64s and 6% of over-75s owned a property other than their home back in December 2011. With steep deposit requirements still limiting first-time buyers' access to the property ladder, this is evidence of the trend among younger generations to look to the 'Bank of Mum and Dad' – or the 'Bank of Grandma and Grandad' – for help with making the step from renting to home ownership.

Second properties by age group



Borrowing

- Over-55s collectively back away from available methods of unsecured borrowing
- Retirement prompts 65-74 year olds to lead the way on debt repayments

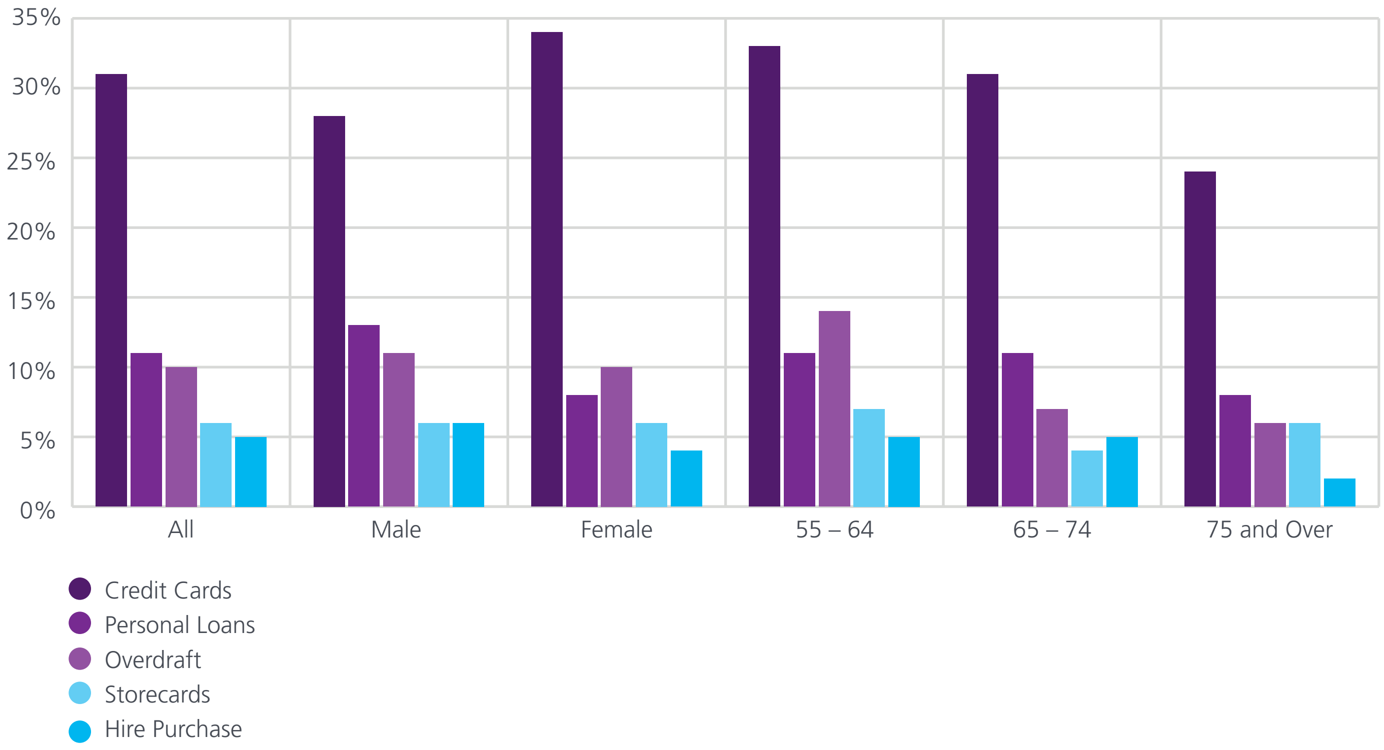
The impact of increased spending on debt repayments over the last two years can be seen in the average amount of unsecured debt among the over-55s, which appears to have been brought under control after a period of growth. Those with unsecured debt typically owe £19,939: down by 16% since December 2012 from £23,676 to a level slightly below that of September 2011 when the average was £20,001.

Those aged 65-74 have been the most successful in reducing their outstanding balances, making a dent of 23% in the amount they owed at the end of last year. This commitment to reducing their debt burden has brought their average unsecured debt down from £31,968 to £24,620 in less than a year, although the fact that savings pots have shrunk the most among 65-74s shows the price they have had to pay.

In contrast those aged 55-64 on the approach to retirement have maintained a stable level of debt with just £461 wiped off their balances since December 2012, leaving their current unpaid sum at £21,015.

The figures tell a different story among the over-75s whose typical unsecured debts now total £13,423 – a 42% rise since December 2012. Those who have grown their savings pots at the same time appear to have the finances in place to address the situation; but this level of borrowing will be a significant worry for any of the 14% of over-75s who have no savings put away.

Most common forms of unsecured borrowing among over-55s



Credit cards hold their position as the most common form of unsecured borrowing in later life. Almost one in three over-55s have at least one credit card (31%), although the popularity of plastic declines with age from 33% among 55-64s to 31% of 65-74s and – owing partly to limited availability from lenders – just 24% of over-75s.

Overdrafts are the second favourite form of borrowing among 55-64s (14%). Above this age people are more likely to opt for personal loans: 11% of 65-74s and 8% of over-75s have one in place.

Despite the fact that those over-55s with debt typically owe 112% of their annual income, it is interesting to note that every form of unsecured borrowing without exception has experienced a loss of popularity over the last two years.

Loans have been the most affected overall: whether from mainstream lenders or from family members and friends, 8% fewer over-55s are turning to each option than in September 2011. The over-75s are the group who have most visibly turned their back on unsecured methods of borrowing, with a drop of at least 9% in usage across all available forms of credit.

Given how their average debt has risen at the same time, it suggests that a smaller number of over-75s are shouldering an increasingly heavy debt burden in later life.

The declining use of unsecured borrowing among over-55s since September 2011:

	All over-55s	55-64s	65-74s	75+
Credit Cards	-5%	-7%	-2%	-9%
Personal Loans	-8%	-10%	-5%	-9%
Hire Purchase	-7%	-10%	-4%	-10%
Overdraft	-7%	-6%	-5%	-13%
Loans from family members/friends	-8%	-9%	-5%	-9%
Doorstep lenders	-7%	-7%	-4%	-9%
Storecards	-6%	-6%	-6%	-9%
Any other informal borrowing	-7%	-9%	-5%	-9%

The picture is more positive when it comes to mortgage borrowing which – where it exists – has fallen by 10% among over-55s since September 2011. In this respect over-75s have made the most progress by reducing their typical mortgage debt by 23% in the last two years to £48,214, of those with a mortgage.

This compares with a 15% reduction among 65-74s over the same period of time to £53,526 in October 2013, and a 7% fall among mortgage holders between 55-64 who now owe £60,511 on average.

"A collective move away from unsecured methods of borrowing signals a stronger financial position for over-55s, with those about to retire making particularly impressive reductions to their overall debt. However, not all age groups have been able to match this dedication to debt reduction, and with lending slowly starting to pick up again the over-55s must be careful not to be tempted into further borrowing. Regularly chipping away at existing debts while minimising unsecured borrowing will put them on a stronger footing in later life."

Clive Bolton, managing director of Aviva's 'at retirement' business

Over-55s' Financial Fears Index

- Both short and long-term fears at record highs
- Squeezed savers worry about falling return on savings

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

Using 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 rising cost of living remains the most pressing concern for over-55s, with 76% identifying this among their top three financial fears in the next six months. Perhaps because they are most likely to be on the cusp of retirement and facing a situation where their income may be reduced, the greatest degree of fear is among those aged 65-74 (78%).

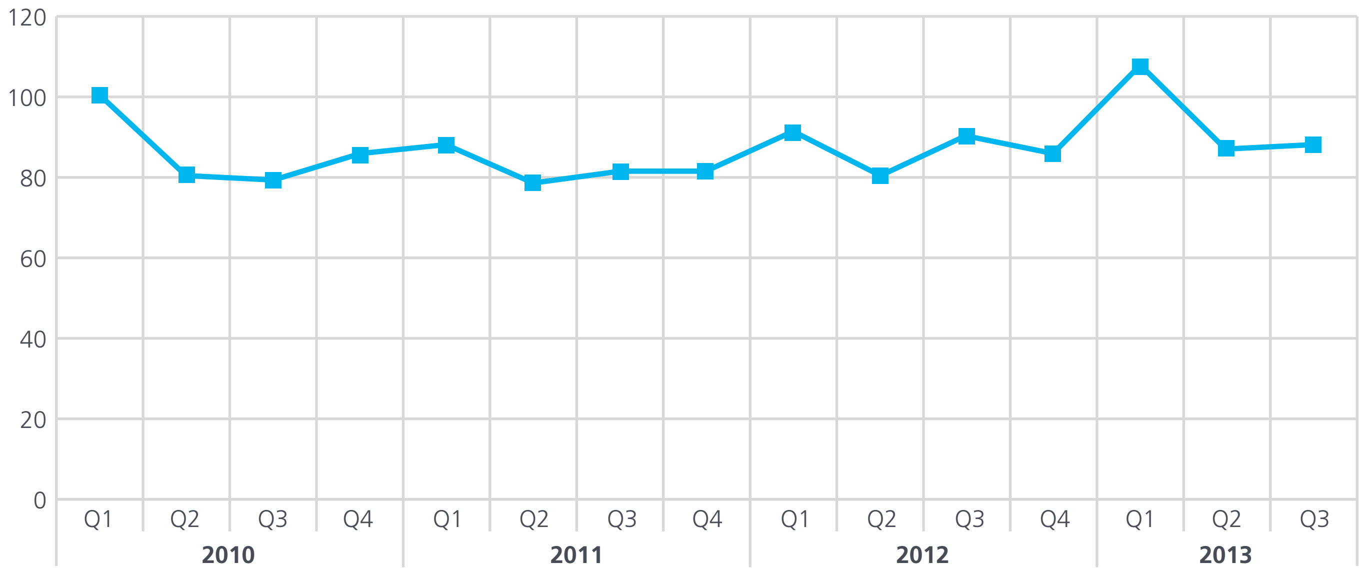
Unexpected expenses continue to feature as the second most common concern, rising two percentage points to 44% since September 2012. Having registered as a concern with less than one in three over-55s in September 2011, the increasing worries in this area suggest retirement budgets in 2013 are finely balanced and not built to withstand additional costs.

The threat of serious illness is another area that is causing greater concern, with almost one in five over-55s citing this as a major worry (19%) compared with just over one in ten only two years ago (11%).

It is interesting to note that just 29% are mindful of falling returns on savings. Given the forward guidance issued by the new Bank of England governor, Mark Carney, which suggested interest rates are likely to remain at 0.5% until other economic indicators improve, it may be that over-55s have come to accept poor savings returns as a reality in the current climate and are not wasting their time by worrying unnecessarily.

Accordingly, while the short-term fears index hit an all-time high of 107 in March 2013, it has fallen back to 88 – two points higher than it was at the end of last year (86 – December 2012) but two points lower than it was twelve months ago (90 – September 2012).

Short-term fears - six month index



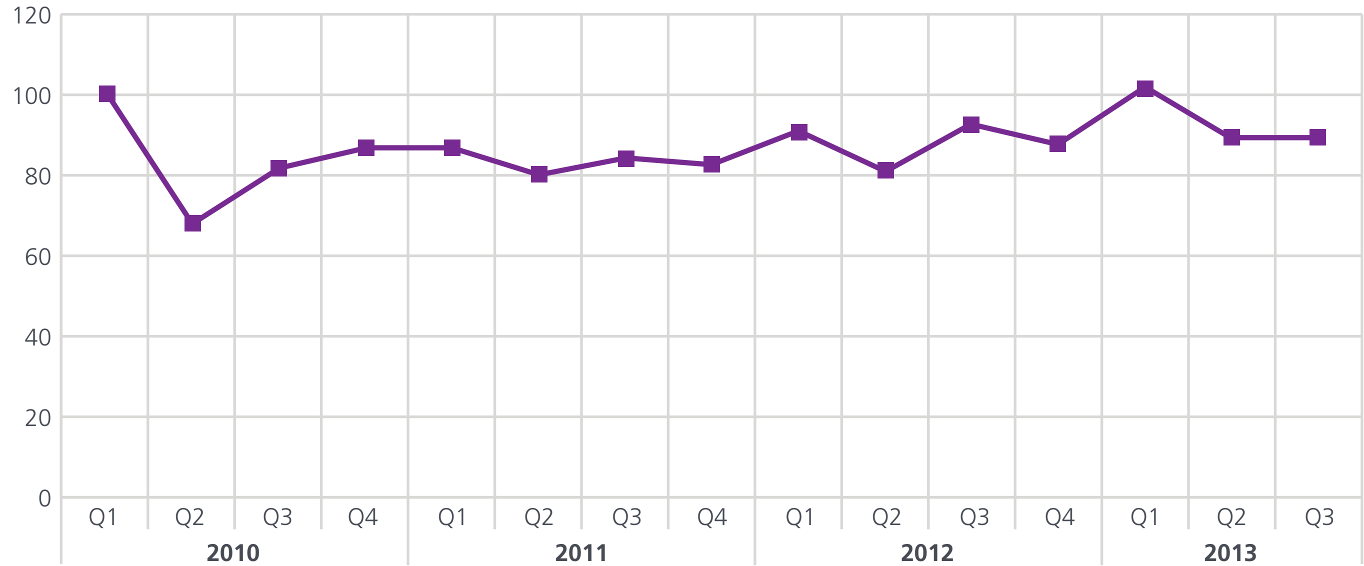
Long-term overview (five years):

The rising cost of living and the fear of unexpected expenses both dominate the long-term outlook for over-55s as well as the short-term. In both areas, fears have risen since September 2011: concern over the rising cost of living increased from 70% to 72% in the year to September 2012 and remains at this level, while unexpected expenses trouble two in every five over-55s (40%), up from 37% a year ago and 31% in September 2011.

Taking a longer-term view appears to mean acknowledging a greater risk of serious illness having a personal impact or affecting a partner. Fears have grown from 20% to 28% in the last two years, potentially linked to a reliance on continuing good health to remain active in the workforce during later life.

The long-term fears index has mirrored the short-term index by registering a drop since it peaked at 102 in March 2013. The improvement in the long-term outlook is less dramatic, however: the index has fallen by 13 points to 89 (compared to a 19 point drop in the six month index). Again, over-55s' five-year fears are less pronounced than they were twelve months ago (93 – September 2012) but slightly more than at the end of last year (88 – December 2012).

Long-term fears - five year index



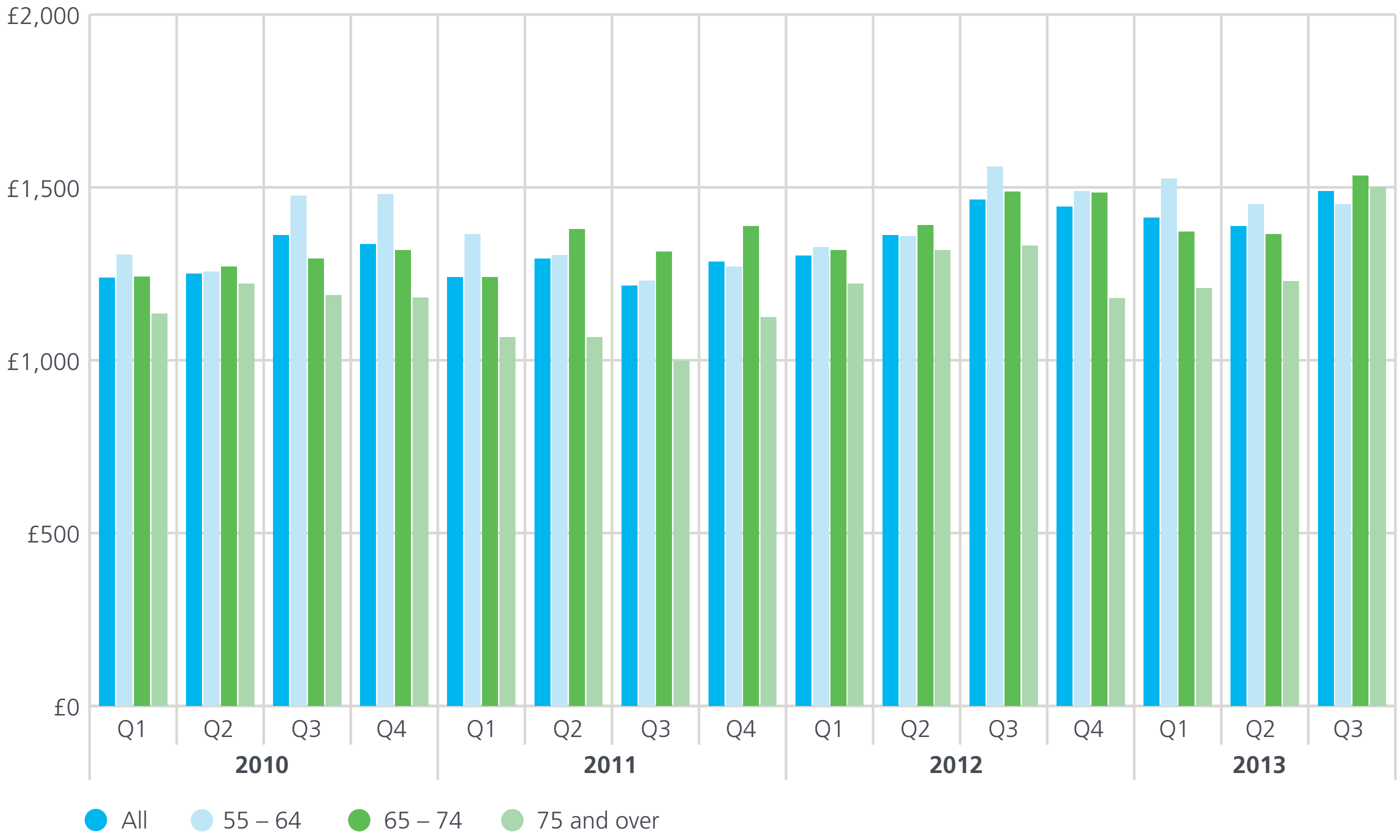
Overview of the over-55s' finances over the last 46 months

Income:

Since the Real Retirement Report began in February 2010, over-55s' monthly incomes have recorded an overall increase of 20%. The main beneficiaries have been the over-75s whose typical income has swelled by 32% to £1,500 (equivalent to £366 per month) compared to a 24% gain for 65-74s and an 11% gain for 55-64s.

The typical monthly income exceeded £1,400 for the first time in September 2012 and – barring a temporary dip in the summer – has remained above this point ever since. The latest overall figure of £1,489 is the highest seen by the report series, while both 65-74s and over-75s are currently enjoying the largest monthly income they have received during the last four years.

Monthly incomes steadily increase for over-55s



Savings:

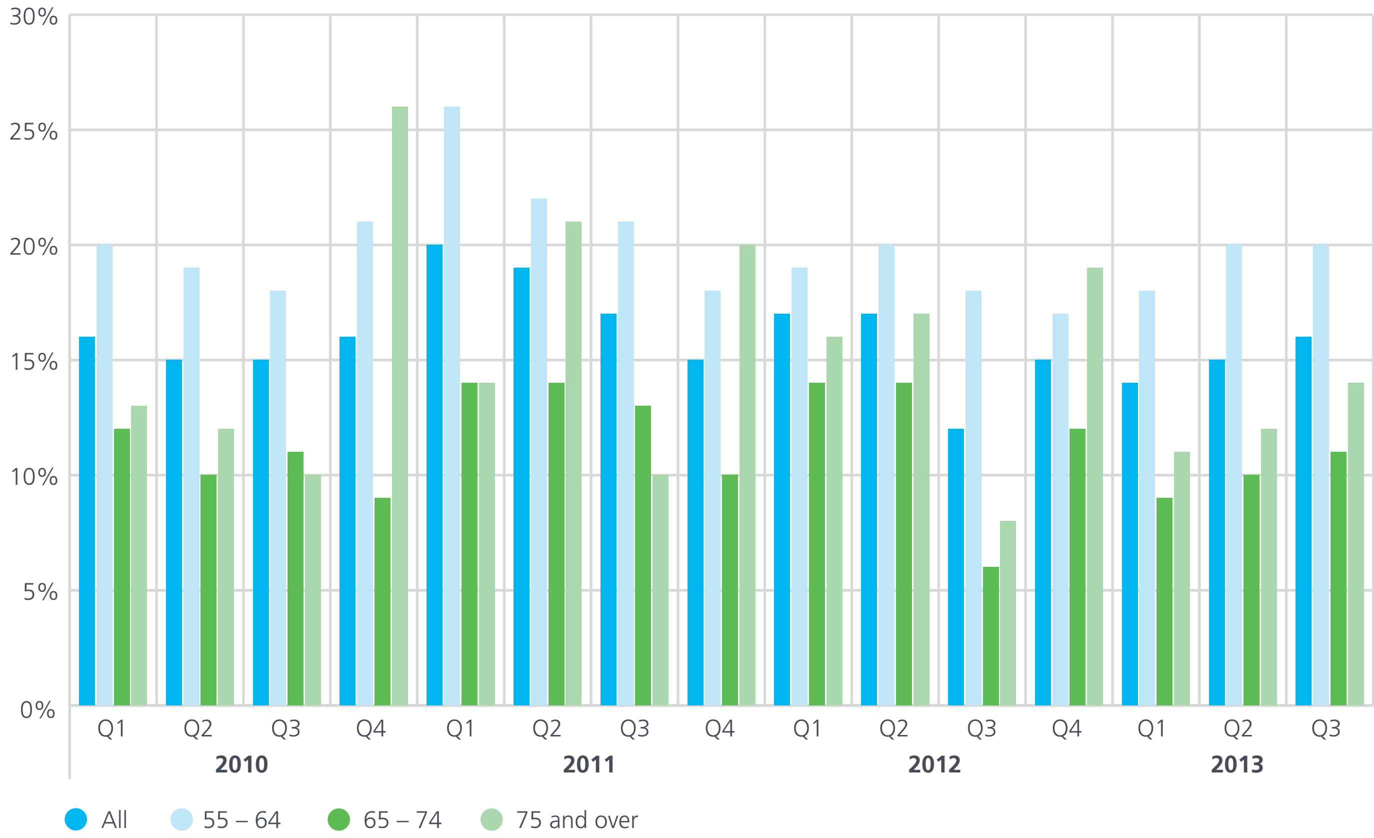
The pressures of meeting living costs have caused savings pots among the over-55s to fluctuate since February 2010. As well as impacting the typical amount put aside in savings and investments, this has also caused the number of people without a retirement nest egg to rise and fall.

It is typically the 65-74 age group which has proved the most stable by having the lowest number of people with no savings put away in 13 of the 15 studies to date. People in the 55-64 age group are the most likely to be living on a financial knife-edge, with as many as one in four having nothing saved (26% - January 2011).

There were signs one year ago that savings situations had improved across the board, as the overall percentage of over-55s with no savings fell to 12%. Data for September 2012 suggested each age group had made significant progress to put a safety net in place, recording lows of 18% (55-64s), 6% (65-74s) and 8% (over-75s) with neither savings or investments to fall back on.

However, the rising cost of living seems to have rendered this a temporary improvement, with the overall figure having risen back to 16% since then. Each age group has been affected and registered an increase of between two and six percentage points in the year to October 2013.

Wavering numbers of over-55s without savings or investments

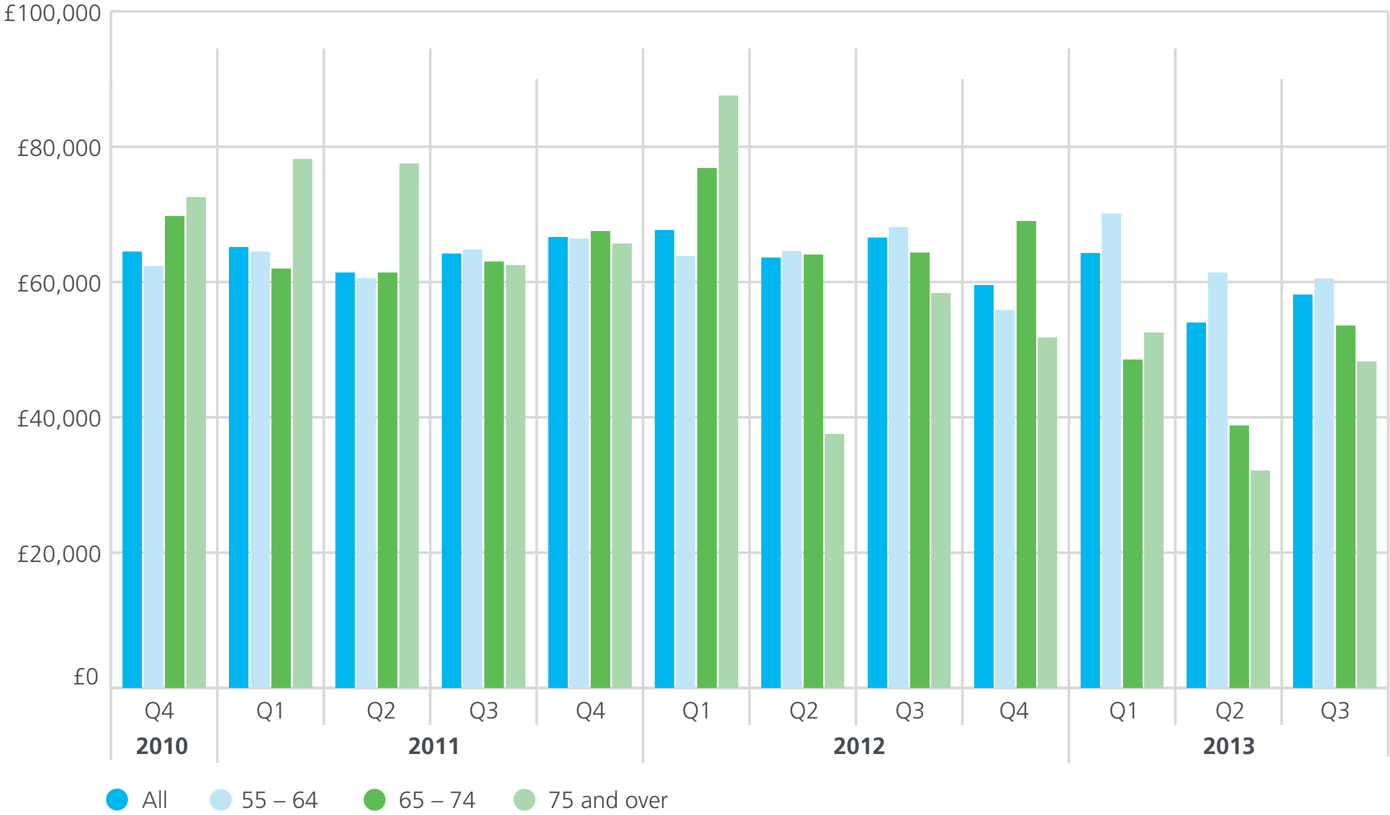


Mortgage debt:

Findings published by the Financial Conduct Authority (FCA) in May 2013 suggested that many borrowers with interest-only mortgages may struggle to repay their balances at the end of the loan period. While the suggestion was greeted with concern, the overall picture of mortgage debt among over-55s has improved since the end of 2010.

While the typical level of debt among mortgage holders has fallen by 10% overall, over-75s have reduced their amount owed by 34% and 65-74s have shaved 23% from their outstanding balance. These figures contrast favourably with the progress made by 55-64s whose typical mortgage debt is still 97% of the average from December 2010.

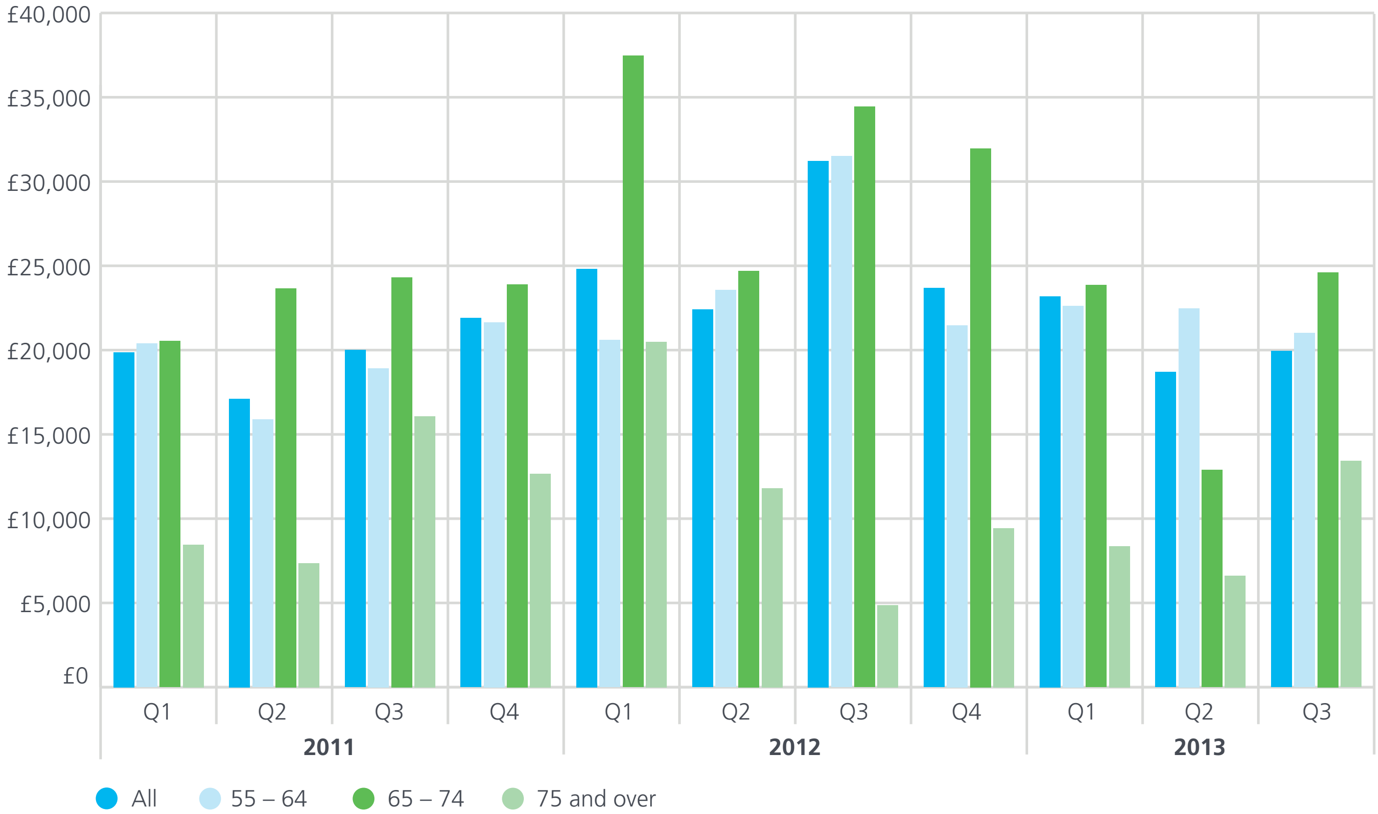
Outstanding debt among mortgage holders has gradually reduced



Unsecured debt:

The average unsecured debt among those over-55s with debt has returned to the level seen when the Real Retirement Report began tracking this data in January 2011. The overall level of debt peaked in September 2012 with the two younger age groups reducing the typical amount owed by up to 36% in the twelve months since – although debt levels have significantly increased among over-75s at the same time.

Unsecured debt levels rise and fall



So what does this tell us?

The Autumn 2013 edition of the Real Retirement Report explores the financial decisions of over-55s and the motivations behind them and asks what they would do differently if they were given a second chance. The findings bring us to the following conclusions:

1. **Weigh up your options** – there is a lot to consider when approaching retirement and the fast pace of the modern world does not often allow us the necessary breathing space. One in five over-55s wish they had taken more time to plan ahead and would have managed their money differently. Speaking to a qualified financial adviser can help you to determine how to make the most out of your available assets.
2. **Little and often** – savings pots are dwindling and low interest rates are not helping matters. Having enough money to live comfortably has been noted as one of the most important factors in a happy retirement. The best way to ensure you are able to maintain your lifestyle is to set some money aside each month and begin doing so as early as possible. No matter how small the sum appears to be at the time, it can make all the difference when it comes to your final calculations.
3. **The answer may be right under your nose** – homeownership levels have remained stable over the past year but house prices are on the rise. If you find yourself with an insufficient savings pot then it may be worth exploring the option of equity release to give you more financial freedom as an alternative to downsizing.
4. **Make it personal** – more than a third over-55s say they wish they could advise their younger selves to take out a personal pension, with a further one in ten regretting not starting a personal pension earlier. Thanks to the introduction of auto-enrolment all workers will have a workplace pension by 2018, unless they choose to opt out. But a personal pension allows you to take control of your own money, by choosing how much you put into it and where.

"Hindsight is a wonderful thing, so it is instructive to see the ways in which today's over-55s would reconsider some of the financial decisions they made earlier in their lives and how they would approach the challenge differently. The subject of retirement finances can be daunting but by seeking the right advice and starting your preparation early you can ensure that you are able to make the most of your later years."

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 more than 17,686 UK consumers aged over 55 were interviewed between February 2010 and October 2013.

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 become apparent.

Additional information sources include:

- Office for National Statistics, Consumer Price Inflation, July 2013 [published August 2013]
- Office for National Statistics, House Price Index, June 2013 [published August 2013]
- Office for National Statistics, Index of Production, June 2013 [published August 2013]
- Land Registry, House Price Index, June 2013 [published August 2013]
- House of Lords Select Committee on Public Service and Demographic Change, Report of Session 2012-13 – Is the UK Ready for Ageing? [published March 2013]
- Society of Motor Manufacturers and Traders (SMMT) new car registrations, July 2013 [published August 2013]
- Markit, Purchasing Managers' Index, July 2013 [published August 2013]

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.

Over-55s' Financial Fears Index:

The over-55s' Financial Fears Index uses data from 12 separate indicators – including fears over falling returns on investments, rises in the cost of living, 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 have been feeling about the all the pressures on their finances.

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