Are you fit to retire?

Aviva Real Retirement Report
Summer 2015

AVIVA

Welcome to Aviva's Real Retirement Report Summer 2015

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Foreword

Aviva is committed to helping savers make the most of their money before and during retirement.

We believe it is vital to have as detailed an understanding as possible of people's attitudes to saving, including their goals, habits, plans and concerns, so that we are best placed to support them through what is a period of intense change in the retirement and pensions industry.

This year has brought the issue of retirement finance to the fore as never before. The pension freedoms introduced in April 2015 have transformed the way people can use their pension funds from the age of 55, giving those in defined contribution schemes the opportunity to take their money as they wish. With freedom always comes responsibility – how are people's plans shaping up in this new era, do they have a financial plan for retirement and how confident are they in them?

In this Aviva Real Retirement special report we have examined whether people aged over 45 years and not yet retired are getting their finances in good shape for retirement. This poses the question: 'are you fit to retire?'

Our research includes over-45s for whom retirement is imminent, to those for whom it is up to 30 years away. We have asked them about their level of savings and mix of products, their target income at retirement, how happy they are with the performance of their current savings and investments, and how confident they feel about their financial fitness to retire. This information allows us to assess how 'financially fit to retire' non-retired over-45s are.

The report provides a detailed picture of people who say that the typical (median) target annual income they expect to need from their savings and investments in retirement is £12,590 per year. But while some are on track to achieve this, the current savings levels of the majority mean that many are not. Our research shows that the current typical saving and investments of £53,793 – excluding the value of their home – will deliver income of between £3,117 a year if an annuity is bought, or £3,635 each year if invested in a drawdown plan over 25 years[i].

With an average state pension income – including State Second Pension or State Earnings Related Pension Scheme (S2P/SERPS) – of £6,656 per year[ii] (around £7,800 for those qualifying for the maximum when the new flat rate pension[iii] is introduced), the typical person stands to have a shortfall of at least £2,299 income per year compared to their desired target income including the state pension, or at least £8,955 excluding the state pension. The level of current savings may be sufficient for those who still have years left of their working life, but not for those who are imminently due to retire.

This demonstrates the importance of understanding what measures we need to take as an industry to support and educate people as they make important savings decisions that will affect how they live in retirement.

Clive Bolton
Managing Director, Retirement Solutions, Aviva UK Life

While some are on track to achieve their target retirement income, the current savings levels of the majority mean that many are not

Are you fit to retire?

Fewer than half of not-yet-retired over-45s are confident in their retirement finances.

Just 43% of 45-74s in work are confident their finances are fit to retire

- 45-54s are the most confident (69%) while 55-64s are the least confident (34%)
- Less than half of 65-74s are confident (49%), despite having limited time to earn and save

Overall, fewer than half of over-45s (43%) who are still working are confident that their finances will be fit for retirement. Of these, just 9% say they are very confident in their finances. Over a quarter (28%) are not confident, while 29% of over-45s are not sure whether their finances will be fit to retire.

However, this varies across the different age groups: the youngest age group (aged 45-54) are the most confident that their finances are, or will be, fit to retire (69%), while 55-64s are the least confident (34%). Worryingly, less than half of 65-74s who have not yet retired are confident they have saved enough, despite having limited time to earn and save.

The confidence of the 45-54 age group may be higher because 92% are earning a wage and they have the highest monthly income of all over-45s (£2,040 a month). They also hold the greatest amount in savings or investments: £91,018, more than double the £39,800 held by 55-64s. Although on average, they have the longest period left to finance, they also potentially have a significant number of working years ahead in which to save. The comparatively low level of savings and investments among working 55-64s most likely indicates that the wealthiest in this group have already retired, leaving those with limited financial resources to continue in work out of necessity.

Gender also plays a role. Women are significantly less likely to be confident that their finances are fit to retire (34%) than men (51%). This could be influenced by the fact that women over the age of 45 typically have smaller incomes, earning £1,414 a month compared to £1,761 for men (20% less). They also have significantly smaller savings and investments, typically holding £42,283 in savings and investments compared to £54,845 for men: 23% less.

Women are significantly less likely to be confident that their finances are fit to retire (34%) than men (51%)

How confident are you that your finances are fit to retire?

	All	45-54	55-64	65-74	Male	Female
Confident	43%	69%	34%	49%	51%	34%
Not confident	28%	12%	34%	23%	23%	32%
Unsure	29%	19%	32%	28%	26%	34%
Typical value of savings and investments	£53,793	£91,018	£39,800	£64,477	£54,845	£42,283
Typical current monthly income	£1,612	£2,040	£1,630	£1,535	£1,761	£1,414

Note: Savings and investments include buy-to-let property but exclude the value of people's homes.

On a regional basis, over-45s in the North East (50%), South East and East of England are the most confident about their finances (both 49%), while Yorkshire is the least confident (34%).

Where over-45s hold their savings

Over-45s have a wide range of products to hold their savings and investments. Unsurprisingly, the most commonly used are current accounts (used by 82%) and savings accounts (70%). Fewer than half have each type of pension – 43% have company pension savings and 30% have personal pension savings or Self-Invested Personal Pensions (SIPPs). Other savings products such as Individual Savings Accounts (ISAs) are also popular (cash or stocks and shares ISAs – 46%).

The most commonly used savings and investment products are current accounts (used by 82%) and savings accounts (70%)

The launch of automatic enrolment has meant that pension savings has reached a high with Office for National Statistics 2014 figures[iv] showing that 59% of employees are now saving into a pension, with the increase driven by younger savers in the 22-29 age bracket.

The likelihood of having a pension increases with age for the over-45s cohort. For example, 28% of 45-54s and 55-64s have a personal pension/SIPP, with this rising to 32% of 65-74s. Furthermore, while only 31% of 45-54s have a company pension, 40% of 55-64s and 48% of 65-74s have one. Women are less likely to have a personal pension (22%) than men (37%), and the same holds true for company pensions (37% vs. 48%).

The top five most commonly held savings/investment vehicles

Where are savings/investments currently held?

	All	Male	Female	45-54	55-64	65-74
Current account(s)	82%	82%	81%	91%	80%	82%
Savings accounts	70%	72%	69%	84%	66%	73%
Cash or stocks and shares ISAs	46%	48%	44%	67%	40%	50%
Company pension savings including additional voluntary contributions/ free-standing additional voluntary contributions (AVCs/FSAVCs)	43%	48%	37%	31%	40%	48%
UK personal pension savings/SIPP	30%	37%	22%	28%	28%	32%

Less popular investments include stocks and shares (that are not in an ISA) (24%) and the same proportion invest in National Savings Certificates and bonds. Just one in ten (10%) use fixed term bonds, while 7% own unit or investment trusts. Only 3% have UK bonds or gilts.

55-64s appear more risk averse in their investments: only 19% of this age group have stocks and shares

55-64s appear more risk averse in their investments: only 19% of this age group have stocks and shares compared to over a third of 45-54s (34%) and 27% of 65-74s. This is consistent with 55-64s being the least confident about their retirement finances, and therefore less willing to put money towards riskier investments. This trend is reflected even in more secure investments: just 6% of 55-64s have money invested in fixed term bonds compared to 17% of 45-54s and 13% of 65-74s.

Three quarters (78%) of over-45s who are working own their own home, 39% own their home outright, 39% with a mortgage.

Buy-to-let (BTL) is a far more attractive prospect to 45-54s than the average over-45, with 16% of this age group owning a BTL property compared to an overall average of 8%. Only 7% of 55-64s and 65-74s currently have a BTL investment.

Holding savings accounts, ISAs and company pension savings are key indicators of feeling confident about retirement finances

The products that support a confident stance towards retirement finances

Holding savings accounts, ISAs and company pension savings are key indicators of feeling confident about retirement finances. For example, of those who say they are confident, more than half (56%) have a company pension, while of those who say they are not confident, only a quarter (25%) have a company pension.

A further differentiation between those who are confident about their retirement finances and those who are not is the proportion who have a cash or stocks and shares ISA: nearly two thirds (60%) of over-45s who are confident have an ISA, compared to just 31% of those who are not – a 29 percentage point difference.

The products that support a confident outlook to retirement finances

Products owned by the over-45s. Average % with product

	All	Confident financially fit to retire	Not confident financially fit to retire	Difference in percentage points
Savings accounts	70%	83%	57%	26
Cash or stocks and shares ISAs	46%	60%	31%	29
Company pension savings including AVCs/FSAVCs	43%	56%	25%	31
UK personal pension savings/SIPP	30%	39%	21%	18
Stocks and shares	24%	37%	9%	28
National Savings Certificates and bonds, including premium bonds	24%	36%	11%	25

The total current retirement fund – made up of savings and investments – is £53,793

The typical total retirement fund among over-45s who have not yet retired is £53,793, comprising a range of savings and investments. Over-45s have the most saved in their company pension pot (£13,558), closely followed by their personal pensions pot (£11,391). Assuming they have both products, this would give over-45s a total pension pot of £24,949. However, over a 25 year retirement, this total pension pot would result in an annual income of just £1,686 if invested in a drawdown plan or £1,419 if a single-life annuity is bought (paid until date of death). This demonstrates the importance of possessing as many sources of savings as possible and continuing to save right up to retirement.

The typical amount stored in savings accounts is £3,857, while £5,768 is kept in a cash or stocks and shares ISA.

Understandably, the difference in the amount of money held by those who are confident that their finances are fit to retire and those who are not is significant. Those who are confident typically have £28,526 in their company pension compared to just £2,918 for those who are not. While confident pre-retirees have £23,654 in a personal pension, those lacking confidence have just £3,675.

This trend is mirrored across all major savings and investments, leaving those who are not confident with a total retirement fund of just £16,636, or £831 for each year of retirement. This group will ultimately be highly dependent on state pensions and other benefits. In contrast, those who are confident that they are fit to retire have total savings of £109,374, resulting in a far healthier annual income of £5,469, without state pension contributions.

How the value of savings differs between those who are confident and not confident about their retirement finances

	Median – over-45s	Median – Confident	Median – Not confident
Company pension savings including AVCs/FSAVCs	£13,558	£28,526	£2,918
UK personal pension savings/SIPP	£11,391	£23,654	£3,675
Savings accounts	£3,857	£9,105	£1,072
Cash or stocks and shares ISAs	£5,768	£12,192	£1,761
All investments	£53,793	£109,374	£16,636

The typical total retirement fund among over-45s who have not yet retired is £53,793

Those who are confident have total savings of £109,374, compared with just £16,636 among those who are not confident

How much income do people expect to need and are current retirement savings on track to deliver this?

Most people will rely heavily on the state pension to achieve their current target retirement income.

Mind the retirement income gap

The typical target retirement income from savings and investments is £12,590 a year but the typical person's current savings and investments would provide income of between £3,117 a year if a single-life annuity is bought, or £3,635 each year if invested in a drawdown plan over 25 years. This leaves an income gap of £8,955 (71%) a year – or £2,299 (18%) even with today's average state pension included.

£12,590
a year

The typical income that people expect they will need from their savings and investments when they retire is £12,590 per year, but surprisingly a third (29%) do not know or have not thought about how much money they will need. Worryingly, those closer to retirement (aged 55-64 – 34%) are more likely to not have thought about or do not know this than younger age groups (45-54 – 21%).

However, the amount that people think they need varies across age groups and by gender – older age groups expect to need less than younger – those aged 65-74 expect to need £12,050, those aged 55-64 to need £12,820 and those 45-54 £14,400. Men expect to need £13,250, £1,640 more than women who only expect to need £11,610. There is also a difference between those who say they are confident their finances are fit to retire and those who are not – confident people expect to need £14,000, compared to not confident people who expect to need £11,180.

It is quite clear that based upon current savings and investment pot levels, most people will rely heavily on the state pension to achieve their current target retirement income. The typical person only has enough private savings to finance 29% of their target income currently. Even the best off – those who are confident in their financial fitness to retire – have a current shortfall of 47% against their target income.

The typical savings and investments of £53,793 that over-45s hold would deliver income of between £3,117 a year if a single-life annuity is bought, or £3,635 each year if invested in a drawdown plan over 25 years[i]. With average state pension income of £6,656 per year (including S2P/SERPS), the typical person has a shortfall of at least £2,299 income per year to make up to achieve their desired target income (£12,590), or at least £8,955 per year excluding the state pension, based on their current financial position. When the new flat rate pension of around £7,800 per year is introduced in April 2016, this will reduce the shortfall by around £1,150, for those qualifying for the maximum.

29% do not know or have not thought about how much money they will need when they retire

The typical person only has enough private savings to finance 29% of their target income currently

Typical retirement income shortfall

	All	45-54	55-64	65-74	Male	Female	Confident fit to retire	Not confident fit to retire
Value of savings and investments	£53,793	£91,018	£39,800	£64,477	£54,845	£42,283	£109,374	£16,636
Annual income expected to be needed from savings and investments once retired	£12,590	£14,400	£12,820	£12,050	£13,250	£11,610	£14,000	£11,180
Potential annual income from current savings	£3,635	£6,150	£2,689	£4,357	£3,706	£2,857	£7,390	£1,124
Retirement annual income gap (excluding state pension)	£8,955	£8,250	£10,131	£7,693	£9,544	£8,753	£6,610	£10,056
% income gap (excluding state pension)	71%	57%	79%	64%	72%	75%	47%	90%
Retirement annual income gap (including current state pension)	£2,299	£1,594	£3,475	£1,037	£2,888	£2,097	–£46	£3,400
% income gap (including current state pension)	18%	11%	27%	9%	22%	18%	0%	30%

Note: potential income and the resulting gap is based on the assumption that all existing savings/investments are used as regular income in retirement.

How much income do people expect to need and are current retirement savings on track to deliver this?

Many over-45s will have time to save much more, but 55-64s are closer to retirement and may have less time to address this shortfall. This group, with typical savings and investments totalling £39,800, would have an annual income of between £2,288 a year if a single-life annuity is bought, or £2,689 each year if invested in a drawdown plan over 25 years[i]. Excluding today's state pension, this age group typically have an annual shortfall against their target income of £10,131 (£3,475 including the state pension). Over 65s who are still working typically have pots of £64,477; this would result in an annual income of between £3,741 a year if a single-life annuity is bought, or £4,357 each year if invested in a drawdown plan over 25 years[i]. This age group typically have an annual shortfall of £7,693 excluding the state pension, or £1,037 including the state pension.

Although men and women have different savings and investment pot values, because they have different retirement income targets, their current target income shortfalls are similar (72% for men compared with 75% for women, excluding the state pension).

How can people close the retirement income gap?

Faced with a typical annual income gap of £2,299 in today's terms once the state pension is added to their private savings and investments, the typical over-45 would need an additional pot of £42,000 to make up the difference in retirement. While this sounds a considerable amount, it is affordable enough to be within reach by making extra savings contributions.

Assuming they wanted to retire at 67 and achieved a 3% rate of return net of charges[v], a 45 year old paying the basic 20% rate of tax could reach the target £42,000 by increasing their monthly savings contribution by £86, or just £64 for a higher (40%) taxpayer. Even if they delayed taking action until the age of 55, they could reach the £42,000 target by increasing their contribution by £179 a month (for basic taxpayers) or £134 a month (for higher taxpayers).

Closing the retirement income gap

Age at which extra savings start	Retirement age	Target fund	Gross annual contribution needed	Gross monthly contribution needed	Monthly contribution net of tax for a basic (20%) taxpayer	Monthly contribution net of tax for a higher (40%) taxpayer
45	67	£42,000	£1,289	£107	£86	£64
50	67	£42,000	£1,786	£149	£119	£89
55	67	£42,000	£2,678	£223	£179	£134

Where will people's income in retirement come from?

The key sources of income expected in retirement are the state pension (76%), income from savings such as ISAs (48% of people), personal pension (44% of people) and company pension (43%).

The fact that only 76% of all over-45s expect an income from the state pension reveals a confusion or ambiguity over whether it will exist in the future. Expectation of the state pension is seen to decline with the number of years people are away from retirement, with 84% of respondents who are retiring in two years or less, anticipating they will get an income from a state pension but only 52% of those 30 years away from their retirement assuming they will receive it.

Only 76% of all over-45s expect an income from the state pension – revealing a confusion or ambiguity over whether it will exist in the future

Only 16% of all over-45s expect to receive income from investments, but this more than doubles (33%) amongst the 45-54 age group. This type of income is anticipated least amongst the 55-64 age group (12%) and amongst those aged 65-74 it is higher at 18%.

17% predict they will receive an income in retirement from selling a property. People in the 45-54 age group have the greatest expectation of this (25%), compared to just 17% of those in the 55-64 and 65-74 age groups.

Between men and women, the greatest difference in expectation is seen in pension income – 49% of men but just 39% of women predict they will have an income from a personal pension, and 48% of men but just 37% of women assume they will have income from a company pension.

17% predict they will receive an income in retirement from selling a property

Top five source of income in retirement

State Pension	76%
Savings e.g. ISAs	48%
Personal Pension	44%
Company Pension including AVCs/FSAVCs	43%
Spouse's Pension	30%

What role may property play in retirement?

The average 45-74 year old has a property worth £286,126, which is £232,333 more than the value of their savings and investments (£53,793). Therefore it is not surprising that many people plan to utilise the value of their property as part of their retirement.

More than a quarter (28%) of people age 45-74 say they would consider downsizing their property in retirement to release funds and 4% aim to sell a secondary property to do so. 17% of people say they expect to use income from selling a property, people aged 45-54 have the greatest expectation of this (25%) compared to just 17% of those aged 55-64 and 65-74. 14% of those who are not confident their finances are fit to retire say they will boost their income by selling a property but 21% of those who think their finances are fit to retire will do the same. Six per cent would consider using equity release. A further 11% would consider investing in their home through home improvements.

The potential role of property in retirement

	All	45-54	55-64	65-74
Current value of property	£286,126	£297,361	£271,156	£295,895
May consider downsizing	28%	27%	28%	28%
May sell property to provide income	17%	25%	17%	17%
May consider equity release	6%	7%	5%	6%
May invest in home improvements	11%	16%	17%	17%

What each retirement saving pound comprises

Less than a third of existing investments had money added to them in the last year.

How the typical retirement saving pound is split

Company pension savings including AVCs/FSAVCs	£0.25
UK personal pension savings/SIPP	£0.21
Buy-to-let property	£0.19
Cash or stocks and shares ISAs	£0.11
Savings accounts	£0.07
Stocks and shares	£0.03
Fixed term bonds	£0.03
Unit/investment trusts	£0.03
Current account(s)	£0.02
Overseas shares/ investments	£0.02
National Savings Certificates and bonds, including premium bonds	£0.01
Employee shares and share options	£0.01
Overseas pensions (due to having worked/ saved internationally)	£0.01
UK bonds/gilts	£0.01
Other	£0.01

Note: total adds up to £1.01 due to rounding to the nearest 1p

To show the weighting of asset classes within the typical pot of £53,793 savings and investments we have calculated this for each individual £1. The retirement savings pound consists of 46p in pension savings in total (with 25p in a company pension pot and 21p in a personal pension). 7p comes from a savings account while 11p comes from a cash or stocks and shares ISAs. Interestingly, 19p comes from buy-to-let property. However, this can be an expensive venture – of those who do have a BTL property, the typical investment is £126,440. Stocks and shares make up 3p of the typical retirement savings pound, while just 2p comes from a current account.

Where have people been investing in the past year?

An ethic to grow savings and investments is present among the over-45s who are still working. They have largely been adding to or leaving untouched their savings and investments over the past 12 months. Just one in five has reduced the balance of their savings accounts and one in four the balance in their current accounts because of the need to spend. For all other savings and investment products, fewer than one in 10 people took money out that reduced their balance in the past year. However across all categories of saving and investment products, on average half (51%) have had no action taken on them at all, revealing an absence of active engagement among savers and investors.

How over-45s treat their savings and investments

	Average (across all savings/ investments)	Current accounts	Saving accounts	Cash or stocks and shares ISAs	Company pension savings
Added money to	32%	24%	41%	50%	40%
Took money out to spend	7%	24%	21%	9%	1%
Took money out to invest elsewhere	11%	11%	10%	3%	1%
No action taken	51%	28%	23%	33%	47%

The top three most widely held savings products (other than current accounts) were among the top four products most popular for new investment.

Cash or stocks and shares ISAs were the most popular for new investments; of the 46% of over-45s who have an ISA, one in two (50%) have added money to them. Savings accounts, held by 70% of this group, were added to by two in five people (41%), as were company pension savings (40%), which are held by 43% of over-45s.

Of less widely held investment products, employee share option schemes were most popular for further investment – 47% of the 7% who hold them have increased their savings over the past year. Not far behind in popularity were unit/investment trusts, which only 7% of people hold but 39% of these added to them in the last year.

The least popular products for new investments were stocks and shares, added to by only 30% of the 24% who hold them; buy-to let property, added to by only 21% of the 8% who have it; and National Savings and Investments (NS&I) bonds and gilts, added to by only 28% of the 24% who hold them.

Balances in current accounts – the most widely held product used for saving money – were increased by one in four (24%) people, which may reflect the appeal of accounts that have offered interest rates of up to 5%, exceeding rates on most savings accounts and ISAs by a wide margin.

51% of savings and investments have had no action taken on them in the last year, revealing an absence of active engagement

ISAs were the most popular product for new investment; stocks and shares were among the least popular

What each retirement saving pound comprises

Nearly a quarter (23%) of those with a company pension say they do not know how it has performed

Satisfaction with level of investment returns

Most people are aware of how their savings or investments are performing – more than three in four holding each type of product have a view of whether it performed better, worse or as expected in the past 12 months. The key exception is company pensions, which nearly a quarter (23%) of those with one say they do not know how it has performed.

Mostly people say their savings and investments performed as they expected in the past year – this was the view of between 50% and 75% of people holding each type of investment or savings product. This has to be seen as a positive indicator that people feel in control of the way their long term savings portfolio is being built up.

Stock market investments exceeded expectations more than any other savings or investments, reflecting the upturn in the markets over the past 12 months. 30% of those with unit trusts and 24% of those holding stocks and shares say the performance was better than expected. In comparison, savings accounts and ISAs generated most disappointment – 30% say their savings accounts did worse than they expected, as did 25% of those with ISAs.

Best and worst performing savings and investments

Better than expected	Worse than expected	As expected
Unit/investment trusts – 30%	Savings accounts – 30%	Fixed term bonds – 75%
Stocks and shares – 24%	Cash or stocks and shares ISAs – 25%	Index linked savings and bonds – 72%
Average of 45-74s who own savings/investment products – 14%	**Average of 45-74s who own savings/investment products – 14%**	**Average of 45-74s who own savings/investment products – 62%**

Confident to retire savers are engaged in boosting their balances

People who say they are confident that their finances are fit to retire are more likely to be adding to their savings than those who are not. Confident to retire savers increased their balances in current accounts (30%), personal pensions (49%), savings accounts (48%), company pensions (45%) and most of all ISAs (62%), with very few reducing their balances in any products.

In comparison fewer of those who are not confident their finances are fit to retire have boosted their savings balances – for example just 31% of those with company pensions and 27% of those with personal pensions added to them. They are also more likely to have reduced their savings – 35% lowered their current account balance and 36% reduced their savings account balance in the year.

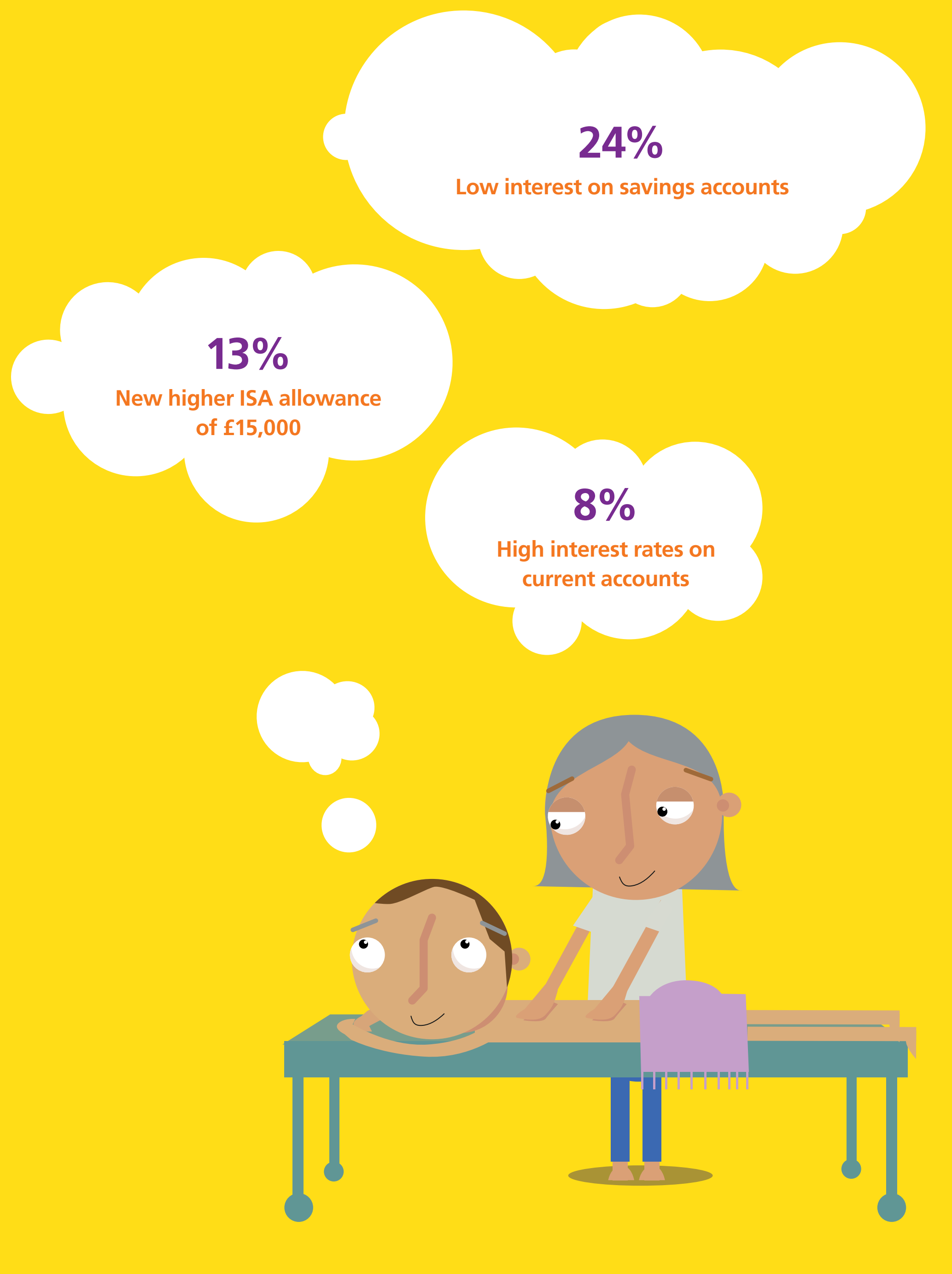
Just two in five (38%) over-45s changed their savings and investment strategy in the past year

Low interest rates greatest influence on savings strategy

Just two in five (38%) over-45s changed their savings and investment strategy in the past year. The top three reasons for doing so were low interest rates, the higher ISA allowance and current accounts offering higher interest rates. One in four (24%) were prompted to do something about their savings because of persistent low interest rates. The higher ISA allowance of £15,000 in 2014-15 mobilised 13% into action, and 8% were motivated to take action by the higher rate paid on certain current accounts.

Those who see themselves as confident that their finances are fit to retire were more likely to take action over their savings than those who admit to not being confident. Confident people took action as a result of low interest rates on savings accounts (33%), the higher ISA allowance (21%), higher interest rates on current accounts (11%) and the pension freedoms (8%). The only issue to prompt action by those who admit to not being confident their finances are fit to retire, was low interest rates on savings accounts, and just 14% were motivated by this.

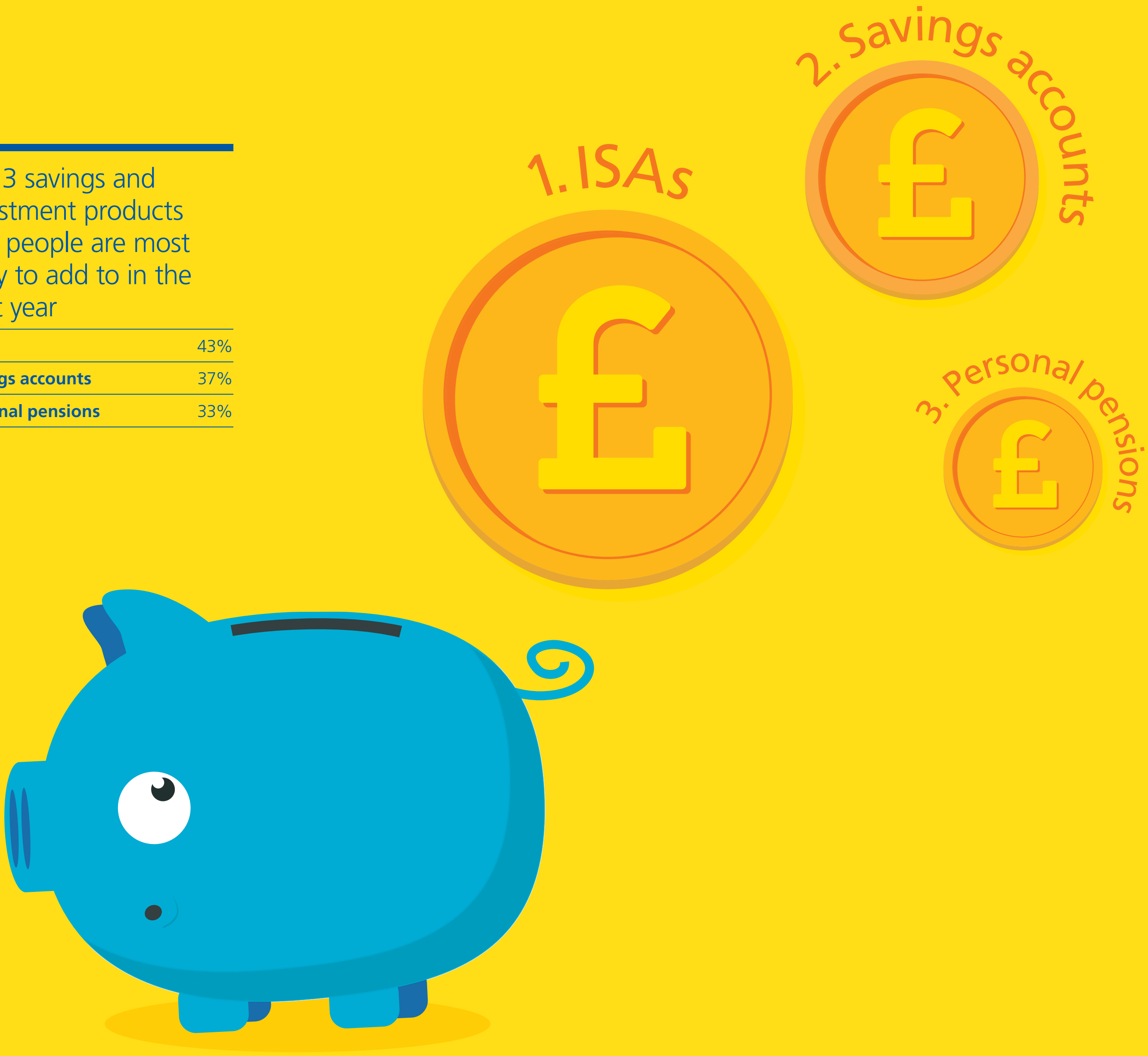
Top reasons for changing savings and investment strategy in the past year



One in four (24%) have been prompted to do something about their savings because of persistent low interest rates

Saving and investment plans for the next year and next five years

Attention focused on ISAs, savings accounts and personal pensions to grow wealth.



Top 3 savings and investment products that people are most likely to add to in the next year

ISAs	43%
Savings accounts	37%
Personal pensions	33%

Further reflecting a strong aim among 45-74s to build their savings and investments, the majority intend to leave their investments to grow untouched or to invest more across the next year and next five years.

In the next year, the top products that people are likely to invest more into are ISAs (43% who have them will add to them), savings accounts (37% of those who have them will add to them), personal pensions (33% of those with them will add to them), and employee share option schemes (31% of holders plan to add to them).

Very few people plan to withdraw from their savings or investments in the next year. Current accounts and savings accounts are most likely to be drawn on for spending (9%/8% respectively) while people are most likely to move money from savings accounts (10% will), UK bonds/gilts (14% will), and fixed term bonds (10% will) to invest elsewhere.

Savings and investment plans in the next year/five years

	Top 3 most likely to add to	Top 3 most likely to withdraw from to spend
In the next year	ISAs – 43%	Current accounts – 9%
	Savings accounts – 37%	Savings accounts – 8%
	Personal pensions – 33%	Fixed term bonds – 5%
In the next five years	ISAs – 43%	Current accounts – 9%
	Savings accounts – 38%	Savings accounts – 8%
	Personal pensions – 32%	Personal pensions – 8%

Over the next five years most people intend to follow a similar course of action, with ISAs, savings accounts, personal pensions and company pensions remaining the most popular places for further investment.

Over five years both people who are currently confident that their finances are fit to retire and those who are not, have strong intentions to save more. Over a third (38%) of both groups plan to invest more in savings accounts, ISAs (46% of those who are confident, 42% of those currently unconfident), and company pensions (28% of those who are confident, 27% of those who are currently unconfident).

A proportion of people are uncertain about what to do with their savings and investments and not surprisingly, over five years this number increases for each product. Investors in UK bonds/gilts show the greatest uncertainty – 24% are uncertain what to do with their investments in the next year and 33% over five years. Meanwhile fixed rate bonds show the greatest increase in indecision between one and five years – 7% of investors are unsure of what to do over the next year but 19% are unsure over the next five years. The smallest "indecision" gap is over BTL properties -14% are unsure of their plan in the next year and 17% are unsure of the next five years.

The top products that people are likely to invest more into this year are ISAs, savings accounts, personal pensions and employee share option schemes

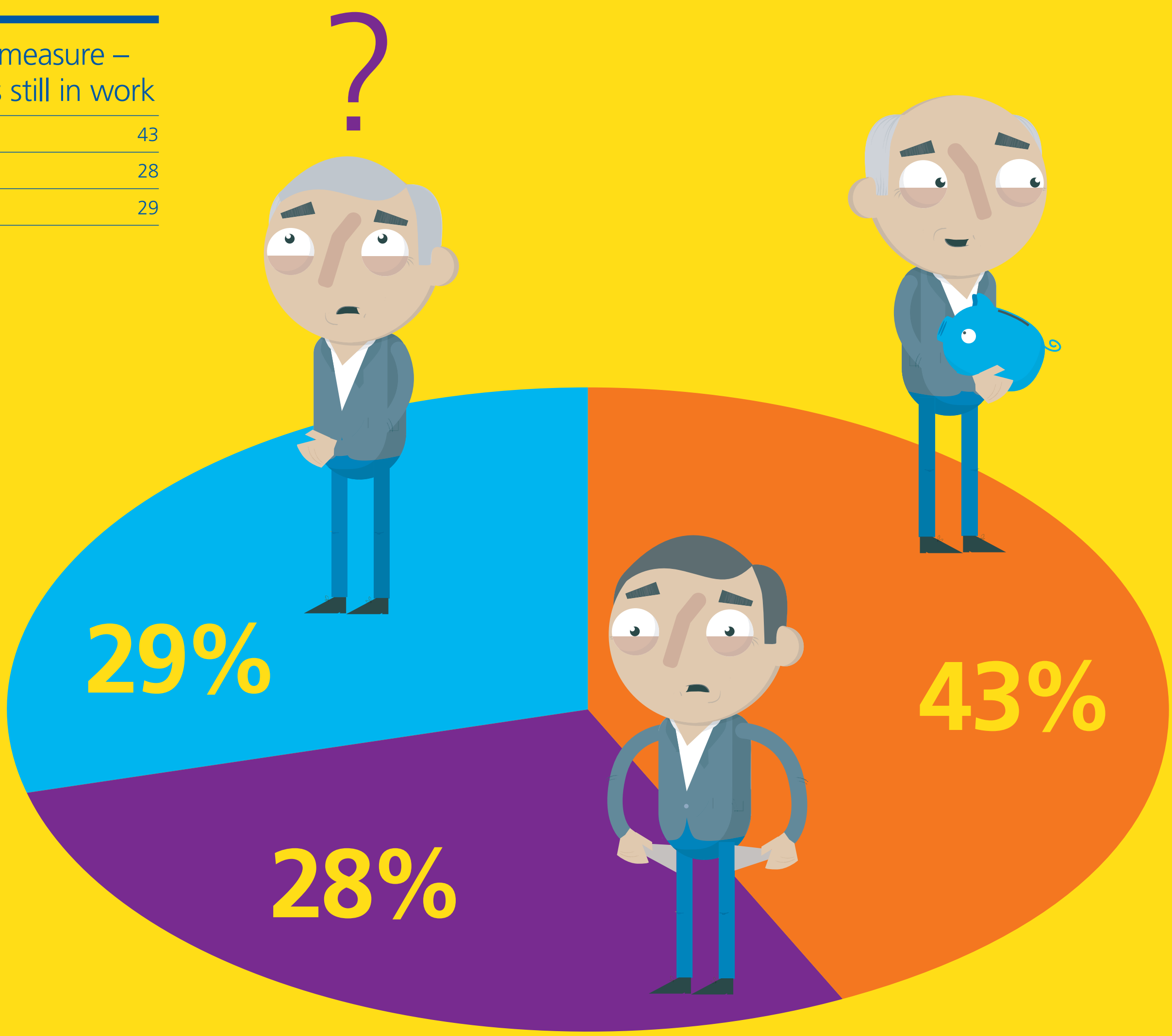
Investors in UK bonds/gilts show the greatest uncertainty – 24% are uncertain what to do with their investments in the next year and 33% over five years

A picture of those who are confident they are financially fit to retire and those who are not

There are some clear indicators and characteristics that affect people's confidence about whether they are financially fit to retire.

Confidence measure – % of 45-74s still in work

Confident	43
Not confident	28
Not sure	29



A picture of those who are confident they are financially fit to retire and those who are not

	Confident they are financially fit to retire	Not confident they are financially fit to retire
Homeownership		
Own home outright	54%	22%
Home and mortgage	39%	36%
Private rented	4%	19%
Social housing	3%	20%
Live with Family	0%	2%
Marital Status		
Cohabiting/married	74%	58%
Single	11%	25%
Divorced	10%	12%
Widowed	3%	2%
In a relationship	2%	2%
Confidence in the economy over the next 12 months		
Net confident	61%	25%
Net not confident	14%	46%
Current income (mean monthly)	£2,111	£1,205
Source of monthly income		
Wages/earned	90%	81%
Investments/savings	31%	6%
Employer Pension	21%	4%
Personal Pension	17%	6%
State Pension	16%	7%
Spouse's Pension	12%	4%
Rental Income	10%	2%
Annuity	6%	1%
Benefits	5%	26%
Money from family	1%	2%
Current Savings		
Mean:	£109,374	£16,636
Value of house (mean)	£321,983	£236,445
Value of mortgage outstanding	£83,683	£75,982
Spending (mean per month)		
Food	£232	£202
Housing (mortgage or rent)	£166	£254
Fuel and light	£125	£103
Entertainment/recreation/holidays	£116	£55
Motoring	£87	£62
Fares and travel costs	£60	£49
Eating out/takeaways	£52	£27
Clothing/footwear	£49	£31
Debt repayment	£46	£77
Postage/telephone/internet	£46	£44
Alcohol	£38	£31
Furniture/appliances & pets	£31	£24
Personal goods and services	£27	£18
Leisure goods e.g. Sports equipment	£19	£12
Cigarettes/tobacco	£12	£19
How much save/invest per month		
Mean:	£171	£3
Nothing:	14%	44%
Stage in retirement?		
Still working and not nearly retired (2+ years away)	63%	89%
Still working and will retire in next 2 years	37%	11%

Confident people are more likely to:

- Own their own home outright
- Be married or co-habiting
- Have more confidence in the economy
- Earn almost twice as much as not confident people
- Have far more sources of income other than benefits
- Have six times the value of savings
- Have a house that is 50% higher in value than non-confident people
- Spend less per month on housing costs
- Save four times as much per month

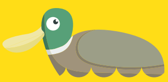
Regional Picture

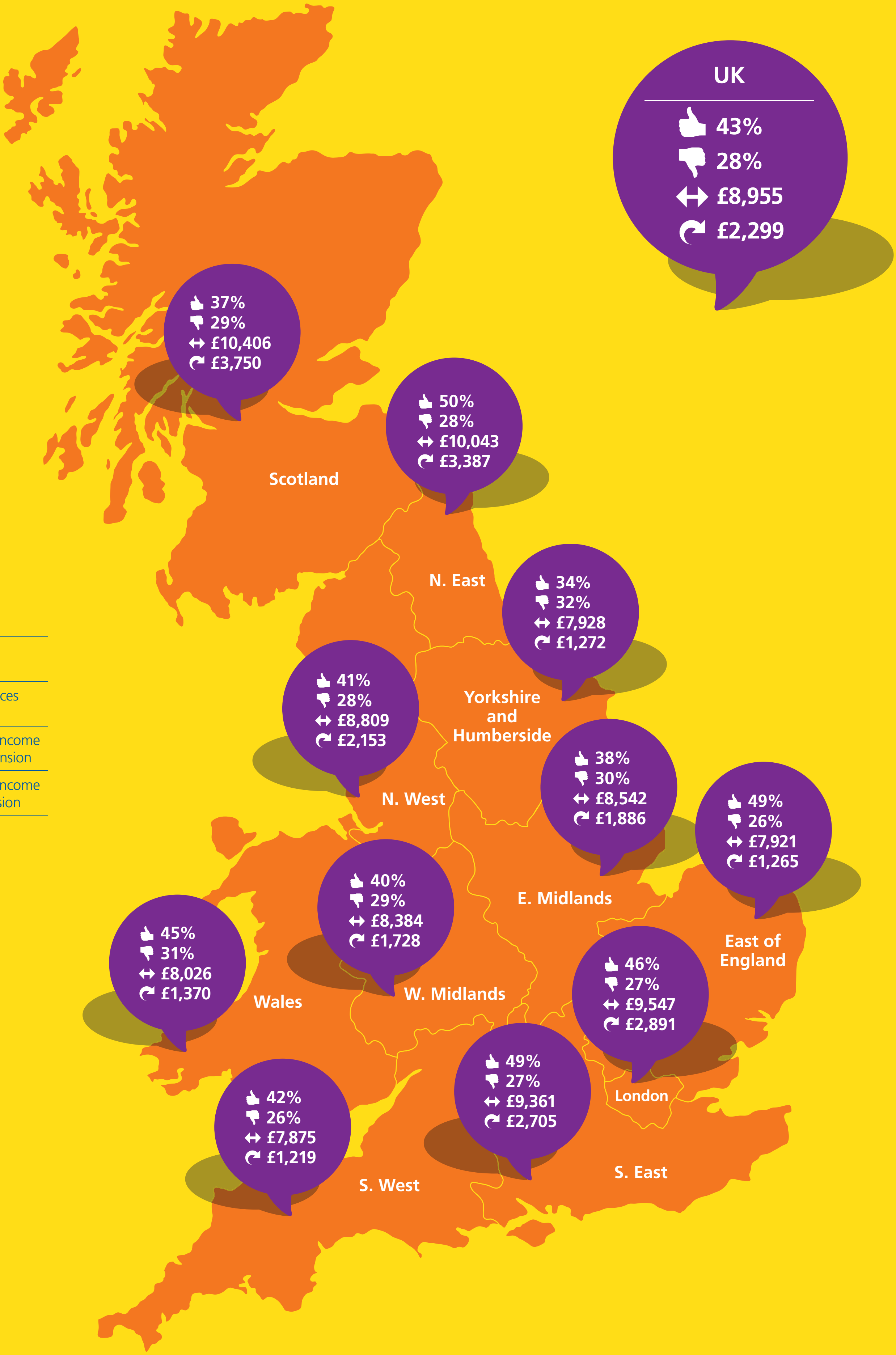
Over-45s in Scotland, London, the South East and North East have the highest gaps between what their current savings and investments are likely to generate in retirement and what they expect. Ironically those in the North East and South East are most confident their finances are fit to retire.

Potential annual income from current savings and investments

London	£5,033
South East	£4,549
South West	£4,385
Wales	£4,354
East of England	£4,199
West Midlands	£3,956
UK	£3,635
Scotland	£3,524
Yorkshire and Humberside	£2,962
North West	£2,951
East Midlands	£2,708
North East	£2,027

Note: As the regional samples are quite low for some areas – please see the values as indicative only.





Confident finances are fit to retire

Not confident finances are fit to retire

Retirement annual income gap before state pension

Retirement annual income gap after state pension

What this means for savers

This research presents a clear picture of the degree of financial preparedness for retirement of the UK's working 45-74s and will enable everyone in this part of the population to see which one of the three groups they currently fall into: the reasonably financially fit to retire, the potentially financially fit to retire and the currently financially unfit to retire.

What should consumers consider?

As with any fitness, financial fitness to retire is not going to be achieved without clear goals and an investment of time.

Our analysis is designed to help people assess how 'financially fit' they are to retire – and what action they need to take to build on this. It is clear that most people have a shortfall currently in reaching their target retirement income from their current savings and investment pots, and that everyone is relying on the state pension as a bedrock of future retirement income. But regardless of age, it is never too late to improve their outlook by getting more engaged in their savings.

What should consumers consider?

- Understand what your savings will translate to in retirement
  It is vital to understand what your savings pot will turn into as retirement income. The typical non-retired 45-74 year old has current total savings and investments of £53,793 which will deliver annual income of between £3,117 if an annuity is bought, or £3,635 if invested in a drawdown plan over 25 years[i]. Even with the current average state pension income of £6,656, this leaves a shortfall of £2,299 to achieve their target income of £12,590. Assessing your personal circumstances will help you work out how to bridge the gap.

- Diversify your investment and don't hold all your money in savings accounts
  Think about how you save and whether your approach to risk is right for you – most people instinctively shy away from investments which have the greatest potential for long term value growth. For example, 70% of people have general savings accounts but fewer than half hold any form of pension or ISAs, and fewer than 25% have investments like stocks and shares, NS&I certificates and bonds. A broader range of products might help you to achieve greater growth.

- Commit to pensions and make the most of personal and employer contributions
  There are a host of reasons to start saving into a pension – including tax advantages and company pensions benefits from employer contributions. Pensions are revealed as the power boost in retirement savings portfolios, typically making up 46p in each pound of income in retirement. For those who have pensions, their strength as a source of retirement income is considerable; for those who don't have them, it is an enormous gap. Currently only 43% of working 45-74 year olds have a company pension, and just 30% have a personal pension.

- Consider steps you can take to increase your regular savings
  Adding today's state pension to the typical over-45s' potential annual income from savings and investments reduces the retirement shortfall from £8,955 to £2,299 a year. This would require an additional fund of £42,000 to close the gap, but by saving an extra £86 a month, a 45 year old could reach this target by the age of 67. A 55 year old could manage the same by saving an extra £179 a month – so while it is never too early to act, it is never too late to make a difference.

- Take an active interest – don't let apathy rule when it comes to your future
  Find out how your money is working for you and take an active interest in your savings. Nearly a quarter of people with a company pension have no knowledge of how it has performed in the past year compared to their expectations, suggesting a lack of expectation in the first place; 34% of those age 55-64 haven't thought about how much income they need in retirement; and 21% of those 45-54 also haven't thought about it either. If this sounds familiar, it is important to ask whether you can afford to leave your financial future to chance.

- Think about contributing more to all of your investments
  Take appropriate action on your investments. A degree of wishful thinking and lack of direct action is revealed by most people – for example, in the past 12 months only 32% of people on average added money to existing investments while 51% took no action at all with existing investments. Only two in five people changed their savings and investment strategy in the past year – but acting sooner rather than later may mean you can reap greater rewards in the long term.

Whatever your circumstances, it is vital that you take action to understand your financial position, set a goal for how much income you need in retirement and ask how close or far from that you currently are. Reviewing the mix of savings and investment products that you hold, and how they are performing, is essential to decide the best way forward. We also urge more people to consider how investments including pensions could boost their retirement pots.

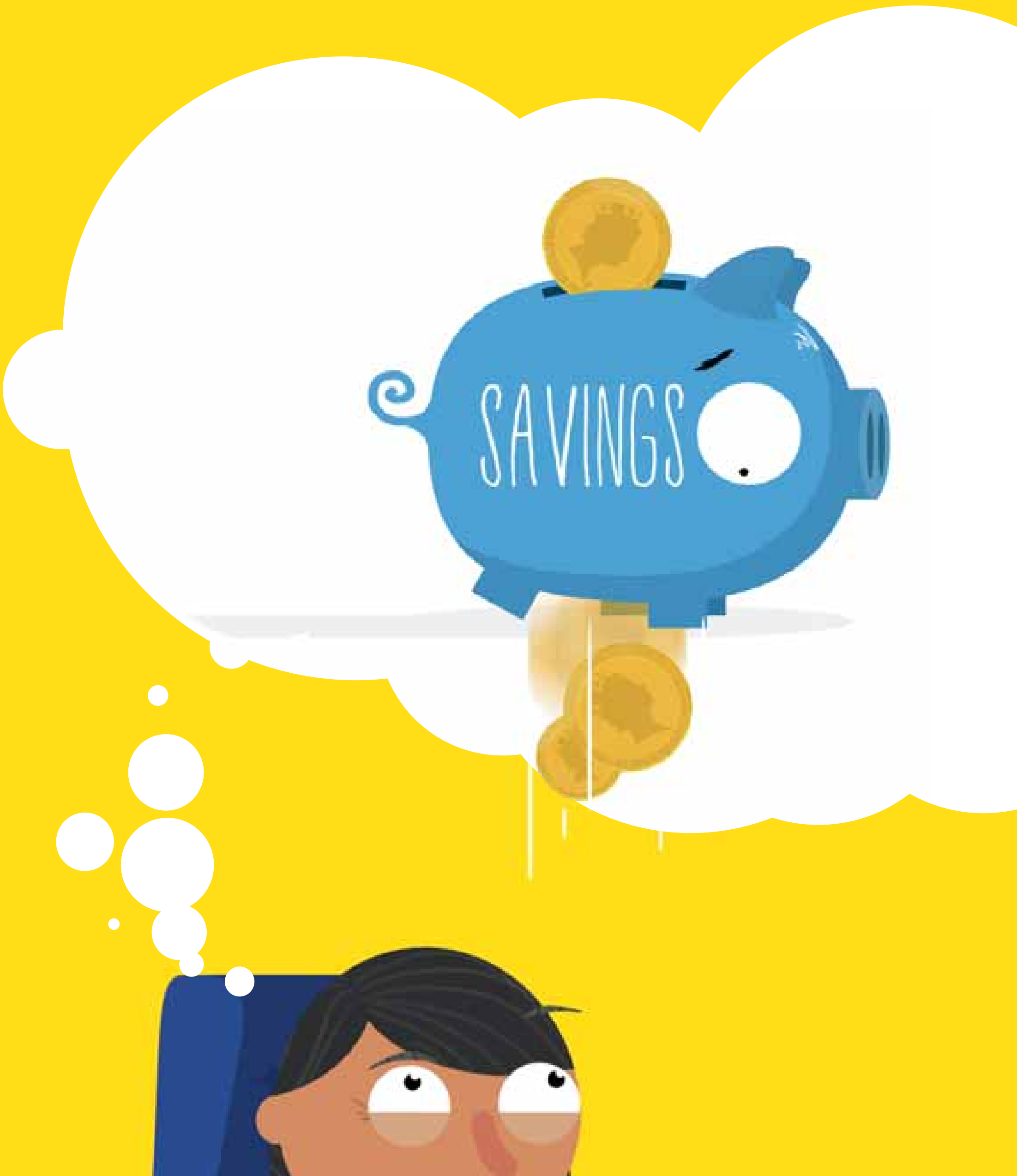
Aviva Real Retirement Report: over-55s quarterly index (Q1 2015)

Aviva has undertaken a comprehensive survey of the finances of those aged 55 and over for five years.

Worries about threats to living standards in the next five years

Rising cost of living	39% (83%)
Unexpected expenses	38% (39%)
Serious illness	34% (15%)
Need to pay for care	24% (3%)
Falling return on savings	20% (30%)

Note: Q1 2011 figures in brackets.



In Q1 2015 people's financial wellbeing is continuing to improve as we come out of recession. There is a continued increase in median monthly income and spending on entertainment has continued to rise. While debt repayment is higher than last quarter, it is still lower than in the same period in 2014. Over-55s are now less worried about financial concerns such as the cost of living, but are more concerned about health issues such as paying for care or having a serious illness. Awareness of the new pension freedoms continues to rise.

Income

Typical monthly income (median) has risen 12% from £1,304 to £1,455 in the past quarter. This represents an increase of 30% compared to Q1 2011, when the typical monthly income was £1,115. Sources of income have remained very similar since Q4 2014, with the top source being the state pension (58% of people receive it), followed by 40% earning a wage, 38% receiving employer pension income, 34% receiving personal pension income and 33% receiving investment or savings income. However, over the past four years there has been a gradual trend of over-55s working for longer, with the proportion earning a wage rising by four percentage points since Q1 2011.

Typical monthly income (median) has risen 12% from £1,304 to £1,455 in the past quarter

Property and mortgages

Tenure remains stable with 68% of people owning their own home outright and 18% owning it with a mortgage. Since Q1 2011, the proportion of over-55s owning their home outright has risen by nine percentage points, while the proportion owning it with a mortgage has decreased by three percentage points.

Since Q1 2011, the proportion of over-55s owning their home outright has risen by nine percentage points

Since Q4 2014, the average value of a home owned by over-55s has risen from £259,029 to £283,096 – an increase of £24,067 or 9%. House prices have risen significantly in the past four years: in Q1 2011, the average value of an over-55s' home was £233,780, a difference of 21%.

For the 18% who do not own their home outright, outstanding mortgage values have risen by 12% in the last quarter, from £30,139 to £33,820. However, four years ago, over-55s had much greater levels of debt, typically owing £61,364 on their mortgage, indicating a significant trend to paying down mortgage debt.

Credit card debt is most prevalent among over-55s and has increased the most

Unsecured debt

There has been a general rise in levels of debt among those who have borrowings. Credit card debt is most prevalent and has increased the most – 32% of people owe money on credit cards and the typical balance has risen between Q4 2014 to Q1 2015 from £551 to £945, a 72% jump. However, over-55s owe 4% less on their credit cards than they did in Q1 2011.

Only 3% of people have loans from family and friends but this has almost doubled in size over the past quarter, from £100 to £186. This is also significantly higher than Q1 2011's figure of £105.

Among the 7% with overdrafts debt has almost tripled between Q4 2014 to Q1 2015, from £62 to £160, yet has fallen by more than a quarter over the past four years, when overdraft debt stood at £221 (Q1 2011). Among the 7% who have other informal borrowing, the level has jumped four-fold over the past quarter from £75 to £294, and has almost tripled since Q1 2011.

Rise in unsecured debt

	Q1 2011	Q4 2014	Q1 2015
Credit Cards – Mean	£985	£551	£945
Personal Loans – Mean	£787	£534	£492
Hire purchase – Mean	£89	£144	£210
Overdraft – Mean	£221	£62	£160
Loans from family members/friends – Mean	£105	£100	£186
Doorstep lenders – Mean	£10	£35	£37
Store cards – Mean	£71	£26	£58
Any other informal borrowing – Mean	£103	£75	£294

Spending and saving

Typical monthly spending rose over the quarter on entertainment, food, and travel costs, and debt repayment, also probably reflecting the Christmas season spending. Broadly speaking, spending was stable however, a reflection of the low inflation rate.

In comparison to Q1 2011, there have been significant increases in essential areas of expenditure such as food (up 12%), travel (up 33%) and fuel and light (up 7%). However, spending on entertainment (up 66%) and eating out (up 30%) has also increased, suggesting over-55s have coped well with inflation over the past four years.

Essential expenditure increases – but so does spending on leisure and entertainment

	Q1 2011	Q4 2014	Q1 2015
Food	£182	£196	£203
Fuel and Light	£106	£112	£114
Housing (mortgage or rent)	£100	£93	£95
Entertainment, recreation and holidays	£56	£72	£94
Motoring	£66	£61	£68
Postage, telephone calls and internet connections	£38	£39	£43
Eating out or takeaways	£29	£32	£38
Debt repayment	£46	£32	£37
Fares and other travel costs	£28	£26	£37
Clothing and footwear	£28	£30	£33
Alcohol	£26	£31	£29
Furniture, appliances and pet care	£20	£16	£21
Personal goods and services such as make-up and medicine	£17	£17	£19
Cigarettes and tobacco	£15	£11	£10
Leisure goods such as sports equipment or CDs	£11	£8	£9

The typical monthly amount saved increased by 53% over the past quarter to £75 (up from £49 in Q4 2014). This is a significant uplift since Q1 2011, when the typical amount saved per month was just £17. One in four people continue to save nothing per month in Q1 2015: a 10 percentage point decrease compared to Q1 2011.

There have been significant increases in essential areas of spending such as food, travel and fuel and light

Aviva Real Retirement Report: over-55s quarterly index (Q1 2015)

Worries about future serious illness and the need to pay for care have increased significantly over the past four years

Worries about threats to current standard of living in next 5 years

Over-55s' number one concern is the rising cost of living, although this is less so with just 39% citing it, compared to 52% in Q4 2014, possibly reflecting the current exceptionally low rate of inflation. Concerns over the cost of living have also greatly decreased in the past four years, down from 83% in Q1 2011 when the impact of the 2008 financial crisis was still being keenly felt.

Unexpected expenses remains the second greatest concern for 38%. This has been a consistent concern over the past four years, suggesting over-55s are still not confident that they have enough savings to act as a safety net should an unexpected expense arise.

Worries about future serious illness and the need to pay for care have increased significantly over the past four years, up from 15% and 3% to 34% and 24% respectively. This reflects growing concerns over the cost of care crisis and negative news coverage of NHS hospitals' struggle to cope with patient volumes in recent years. Similarly, fears over the death of a partner have risen from 7% in Q1 2011 to 20% in Q1 2015.

Despite six years of a 0.5% base rate, concerns over falling returns on savings have fallen from 30% in Q1 2011 to 20% in Q1 2015, perhaps as consumers get more accustomed to a low base rate environment.

The state of the economy and rising inflation has become less of a concern in the past quarter, cited by just 19% of people, no doubt a reflection of the low inflation level.

Worries about threats to standard of living in next 5 years

	Q1 2011	Q4 2014	Q1 2015
Rising cost of living	83% (1st)	52% (1st)	39% (1st)
Unexpected expenses (e.g. major repairs to home)	39% (2nd)	38% (2nd)	38% (2nd)
Serious illness (for me or my partner)	15% (6th)	29% (3rd)	34% (3rd)
Need to pay for care for me or my partner (e.g. care assistance in my own home or move into residential care home)	3% (11th)	19% (5th)	24% (4th)
Falling return on savings	30% (3rd)	19% (5th)	20% (5th)
Death of my partner	7% (9th)	17% (7th)	20% (5th)
Rising inflation/state of the economy	N/A	26% (4th)	19% (6th)

Over the quarter (Q1 2015), the number of people who started planning for retirement increased from 38% to 49%

Plans for retirement

With the start of the new pension freedoms in April this year, Aviva has been tracking the plans of people aged 55 and over who are not yet retired to assess their response to the new retirement options. The impact of the pension freedom changes may be prompting people to make plans for retirement. Over the quarter (Q1 2015), the number of people who started planning for retirement increased from 38% to 49%. The proportion of people who have thought about it but not actively done anything and the proportion who haven't even thought about it fell from 38% to 34% and 24% to 17%.

Awareness of the Pension reforms

There is now strong awareness among people who are not yet retired of the pension reforms, with 90% of people now aware of the changes announced in the 2014 Budget to enable people aged over-55 to have more choice with their pension savings. This is up from 83% in Q4 2014 and 78% in Spring 2014. Only 3% say they are unaware of the changes.

There is also more confidence in what the changes mean for people.

Over the quarter, an increased proportion of people believe there are potential benefits to them in being able to take their pension savings as a lump sum from age 55. More than one in five (22%) now say it can supplement their income, up from 17%, 24% say it will give them spending money for personal interests such as hobbies and travelling, up from 18%, and 10% say it will pay off their debts, up from 4%. 12% now say their preparations for retirement will change due to having more flexibility, up from 9%.

Increased awareness of pension reforms

	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Awareness of pension reforms	78%	80%	83%	90%
Preparations for retirement will change as a result	10%	11%	9%	12%
Taking lump sum from pension will supplement income	23%	25%	17%	22%
Taking lump sum from pension will give them spending money	19%	22%	18%	24%
Taking lump sum from pension will pay off debts	8%	7%	4%	10%

However almost half (48%) still don't believe it will give them any advantages or that having earlier and more flexible access will affect them or their plan for retirement, although this is a small reduction from Q4 2014 when 57% saw no advantages and 52% said it wouldn't affect them or their plan. A third (34%) say they don't know if their preparations for retirement will change.

Almost half of over-55s (48%) still don't believe the pension reforms will give them any advantages or will affect their plan for retirement

Summary

Wage growth outpaced inflation for the first time in Q4 2014, and the benefits of this is beginning to be felt by over-55s, who are increasingly confident to spend more on entertainment and leisure pursuits. This means that fears over the rising cost of living have shrunk significantly in the last four years. The financial hangover from Christmas means that over-55s had significantly higher levels of debt in Q1 2015, particularly on credit cards, although broadly speaking debt has been successfully reduced since 2011.

Over-55s are also able to save more, although this hasn't stopped fears over the cost of care and unexpected expenses from growing. Health concerns in particular have skyrocketed in the past four years. While there's only so much individuals can do to prevent themselves from getting a serious illness, building up a healthy savings pot will provide a valuable lifeline should they need to pay for care for themselves or their partner.

Methodology

The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research. The Real Retirement tracking series referenced within this report has been running since 2010 and totals 23,336 interviews among the population over the age of 55 years.

For the bulk of this special edition – 'Are you fit to retire?' – 1,554 working people over the age of 45 but not yet retired were polled in March 2015. For the latest wave of tracking data (Q1 2015), 1,733 people over the age of 55 were interviewed, including those who have already retired.

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. All figures in this report are medians unless otherwise specified and are referred to as 'typical' rather than 'average' (mean).
- A mean is a single value that 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.

i Annuity income is based on a single-life annuity for a 65 year old in postcode EH42, no spouse's pension, normal health, no guarantee, no escalation, monthly in arrears (source: Money Advice Service). Drawdown income assumes the fund grows at 5% per annum net of charges over a 25-year period with the aim of depleting the fund to zero after 25 annual withdrawals.
ii Department for Work and Pensions: Pensioner Income Series 2012/13 (Jan 2015).
iii The new state pension – https://www.gov.uk/new-state-pension/overview
iv Department for Work and Pensions: Britain now has the highest level of pension saving since records began in 1997 (Feb 2015).
v Based on a 5% nominal rate of return net of charges and a 2% rate of CPI inflation applied to the shortfall between the date saving begins and retirement at age 67.

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