AVIVA

Family Finances
Report July 2018

Research to investigate current family finance **attitudes, priorities, issues and needs**

Growing pains as prosperity rises

Contents

Introduction & overview

As economic commentary focuses on the risks of an overheating economy, Irish households are increasingly positive in their outlook. The latest Aviva Family Finances Report 2018 finds growing optimism about the future performance of the economy with half of our respondents expecting further growth over the next six months.

Over a third expect the world economy to do better, up 6 points from the same time last year. For now, at least, it seems that growing numbers are discounting the prospects of future storms arising from Brexit or possible trade wars with the United States. Our research, conducted online by Red C in mid-May, was based on a representative sample of 1,292 adults.

It found widespread optimism, across all age groups and regions, about job opportunities with half the population believing their ability to get or move jobs will improve over the next six months. Most positive was the 18 - 24 year old cohort: adolescents of the recession, they are now the most hopeful about their prospects for the future. Almost 3 in 5 expect to fare better in their jobs and in their disposable income over the next six months.

Delving deeper into the current financial well-being of Irish households, Aviva's fourth Family Finances Report sheds light on the shifting fortunes of families as some regain prosperity lost during the recession while others fall victim of the problems of our growing economy.

The proportion of the population that say they struggle financially remains stubbornly high at 29% - over 1 million adults. But there has been a shift in the composition of this group. The position of the 45 – 54 year-old age group has eased somewhat, dropping 5 points in the struggling category. Meanwhile, the proportion of those aged 35 - 44 has increased by 11 points. At 39%, this cohort is now significantly more likely to be struggling financially.

The current housing crisis looms large for this group with the number of mortgage holders among them falling by 8 points over the last year while more of them are now renting: 42% compared to 35% in May 2017.

Across the population, renters emerged as among the most stressed financially. Just over a year ago, 1 in 3 of our respondents in the struggling category were renters. Today, that figure has risen to 41%, up 8 points. The number of mortgage holders who say they are struggling fell by 2 points to 29%. The last census put the number of households who are renting at 497,000 in a market where rental prices are at all-time highs[1].

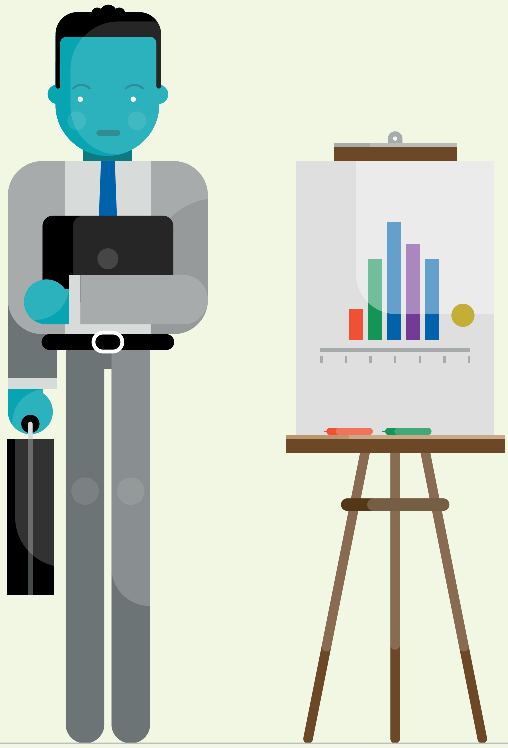
Notwithstanding the upward trend in renting, there is no sign of any abatement in our love of home ownership. Our research over the last two years shows the numbers who would prefer to own their home is a consistent 90% of the population. In this survey, we asked those who would like to own their home when they expected to be able to buy. Half said they planned to buy in the next five years. The responses of the remaining half were sobering: 40% do not expect to achieve their goal before 2028 at the earliest while more than 1 in 4 now believe they will never be able to afford their own home. Ireland's housing shortage is the defining social ill of this generation and its implications for the wider economy are now becoming clear[2].

Over the course of Aviva's four surveys, the numbers who say the recovery has benefited them personally has lagged other indicators by some distance. While there has been a marginal increase in May 2018, the outlook for disposable income remains flat. This is somewhat at odds with national figures which point to an increase in disposable income on an aggregate basis[3].

Those aged 18 - 24 are the most optimistic about money in their pockets with 58% expecting an increase in the next six months, up 3 points. But optimism dissipates with age and only a quarter of those with children expect to be better off. Renters have also seen a drop in optimism in the last year with just a quarter hopeful their disposable income will rise. The group that is most pessimistic in this respect is the unemployed with a 10% increase in those who see no hope of any rise in their financial circumstances.

Overall, the last year has seen a discernible increase in optimism across all metrics of financial well-being, notably among young adults aged 18 - 24. Those who struggle have also become more optimistic across most metrics: their belief in the recovery has risen by 12 points.

In our Spotlight section, we examine attitudes towards the government's proposal to tackle Ireland's low pension take-up through a new system of auto-enrolment. We also take a look at contribution levels to private pensions over the last five years.



1. CSO: Census 2016
2. Ibec: Better Lives, Better Business report – Housing crisis damaging ability of companies to hire and retain talent.
3. Ibec Economic Outlook (April 2018): Irish disposable incomes rising by 5% per annum.

Sentiment rises

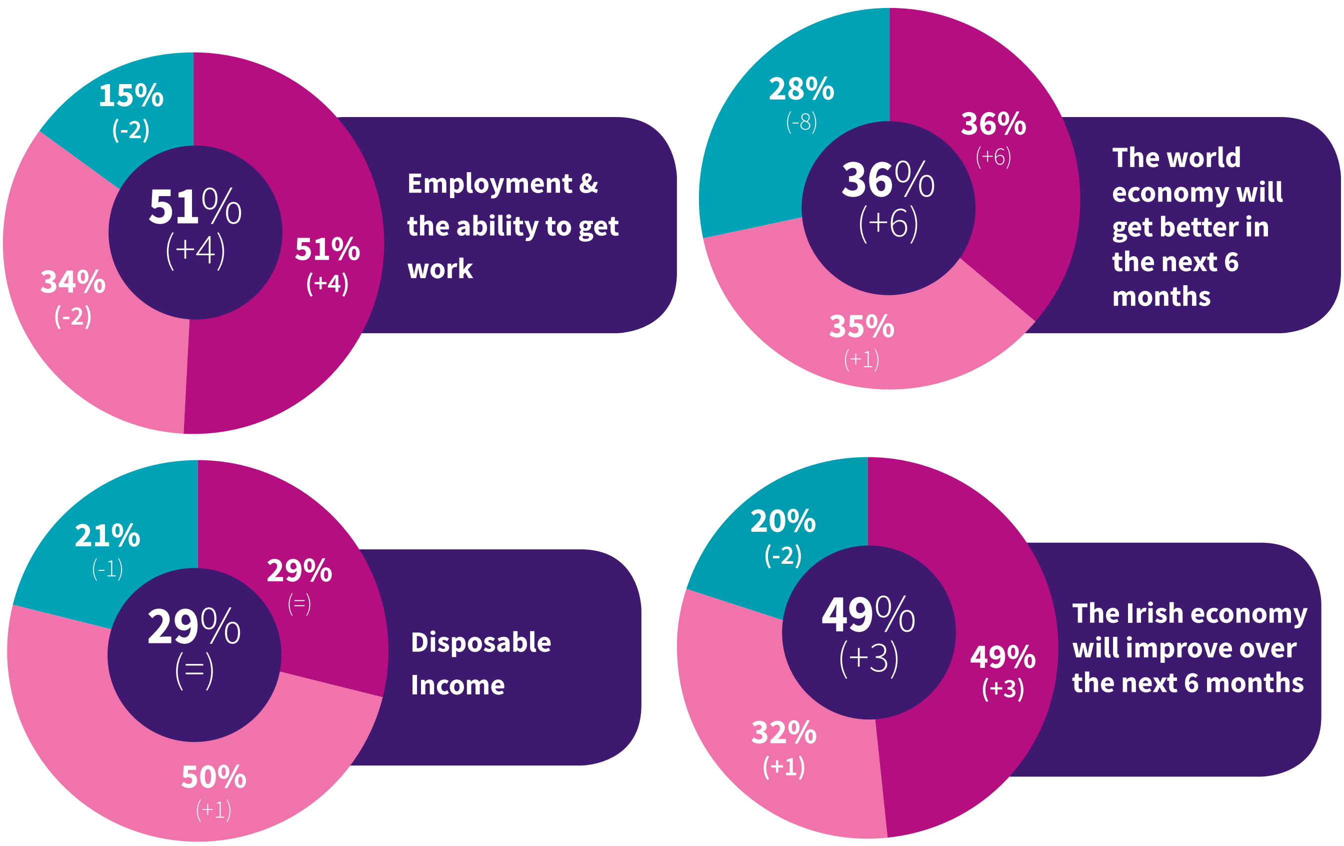
As Ireland's current economic growth phase continues, consumer and household sentiment is steadily improving. Confidence that growth will continue in the near term has increased as has confidence in the outlook for the world economy, despite the threats of an imminent hard Brexit and a global trade war.

Jobs and employment growth are at the heart of the improvement in personal outlook. The percentage that expects their job prospects to get better has increased by 4 points to 51%. This optimism is widespread across all regions and age groups with just 15% expecting a deterioration in their ability to get or move jobs.

The numbers expecting to have more money in their pockets remains static at 29%, despite salary increases and tax reductions in the last budget.

Agree Neither Disagree ( ) vs May '17.

Outlook over the next 6 months



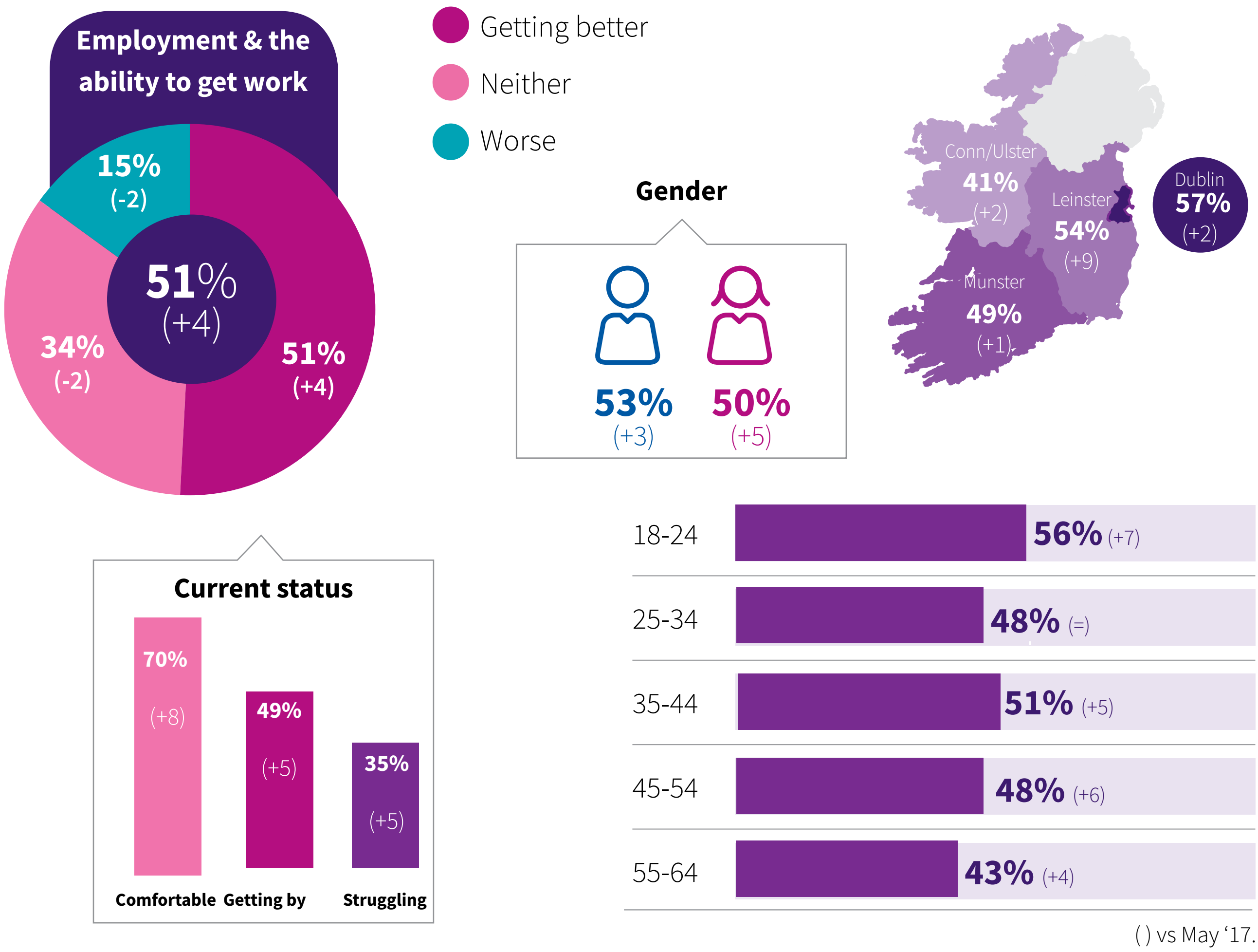
Jobs

Employment in Ireland grew to 2.23 million in Q1 2018, exceeding the all-time peak reached in 2007, though still lower in percentage terms given the increase in population in the intervening years[4].

The latest youth unemployment numbers, at 12.5%, are well below the EU average of 15.6%[5]. Optimism among the 18 - 24 age group grew strongly over the last twelve months, a recurring theme in our survey.

Overall, there was a surge in Leinster with marginal increases in other regions.

Outlook by key groups % getting better



4. CSO: The number of people employed in Ireland grew to 2.23 million in Q1 2018, which although lower in percentage terms when population increases are factored in, exceeds in absolute terms the peak numbers employed in the pre-crash era.
5. Statista.com: https://www.statista.com/statistics/266228/youth-unemployment-rate-in-eu-countries/

Disposable income

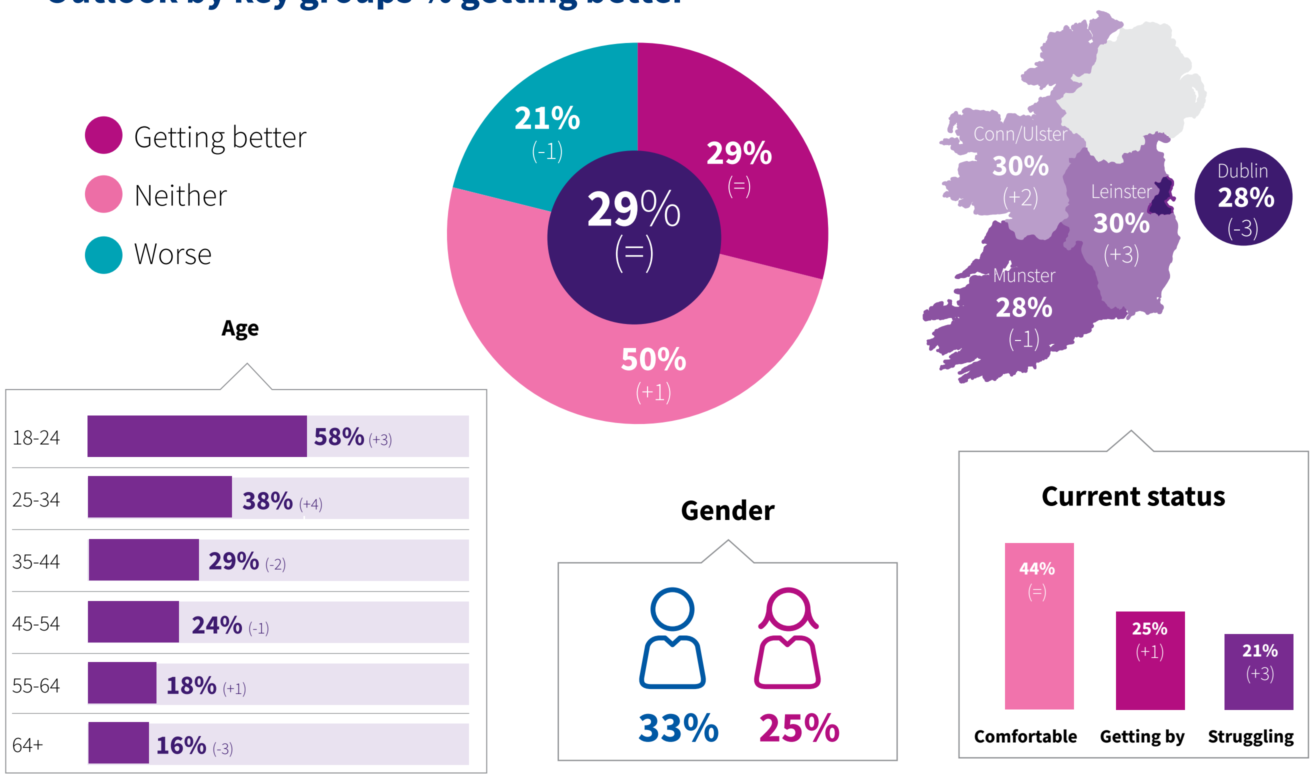
The numbers expecting their disposable income to grow remains static at 29% and the pattern of optimism dissipating with age is reinforced in our latest survey.

A trend emerging from our research is the gender gap in personal finances. One-third of men are optimistic about their income prospects compared to 1 in 4 women, echoing previous studies on a gender pay gap in Ireland. In general, women tend to be less optimistic about both their personal prospects and the economic outlook[6].

Among our categories of financial circumstances, those who struggle showed the largest rise in expectations, though at 21%, their hopes for an income increase are the same as those who are unemployed.

( ) vs May '17.

Outlook by key groups % getting better



6. CSO: A study in 2016 found a 13.9% pay gap between males and females.

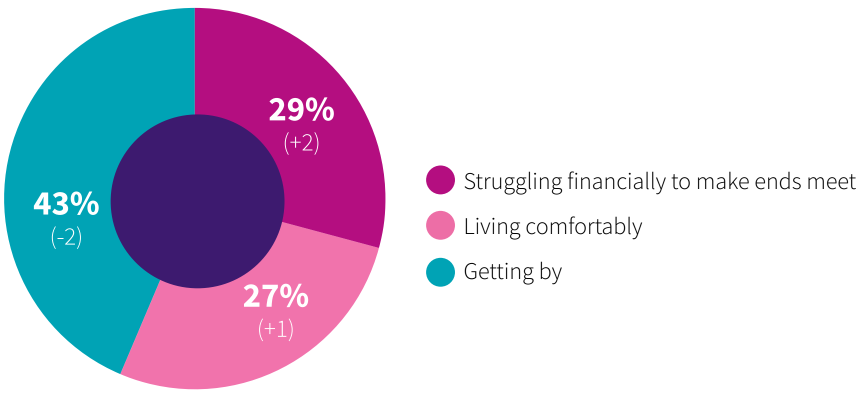
29% are struggling to make ends meet.

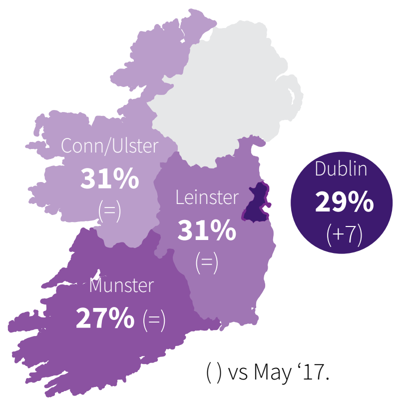
That remains at over 1 million adults in Ireland.

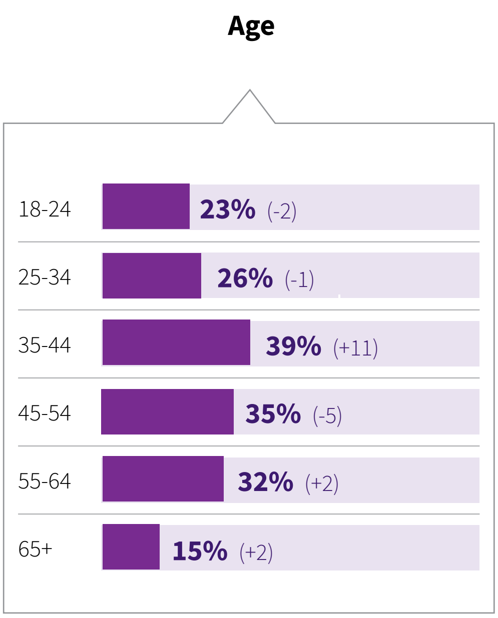
This is now most prevalent amongst 35-44 year olds as the position of 45-54 year olds improves somewhat

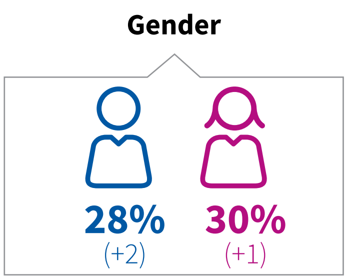
Those who **struggle**

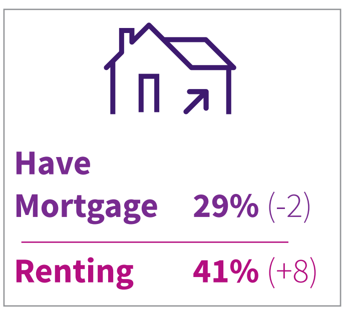
The numbers who say they are struggling have increased marginally but the most significant change in this category has been the emergence of the 35 – 44 age cohort as the most financially stressed at 39%, an increase of 11 points since May 2017. They replace their immediate seniors in the 45 - 54 cohort who stood out as “the squeezed middle” in May 2017. Dublin is the only part of the country to see a year-on-year increase in numbers who struggle. Those with children and those who rent are more likely to struggle.

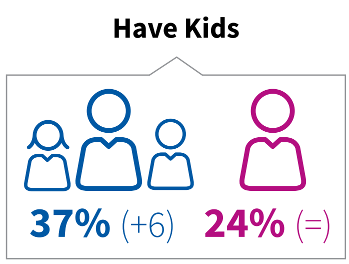


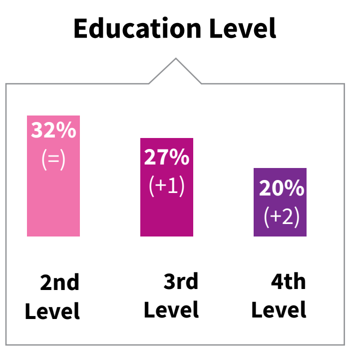








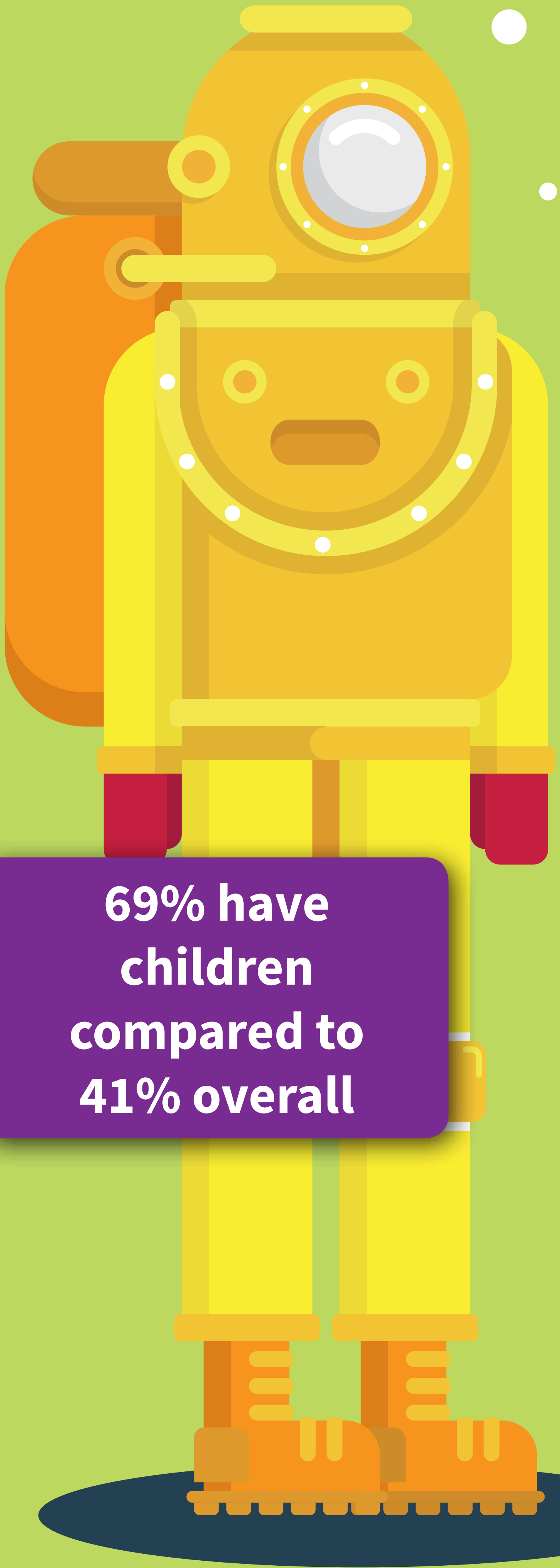




Deep Dive

35 - 44 year olds

The major change in the circumstances of this group over the last year relates to their housing status with an 8 point drop in the numbers who are mortgage holders and an almost equivalent increase in the numbers who are renting



42% renting compared to 31% in the overall population

69% have children compared to 41% overall

39%

of 35-44 year olds are now struggling to make ends meet versus just

28%

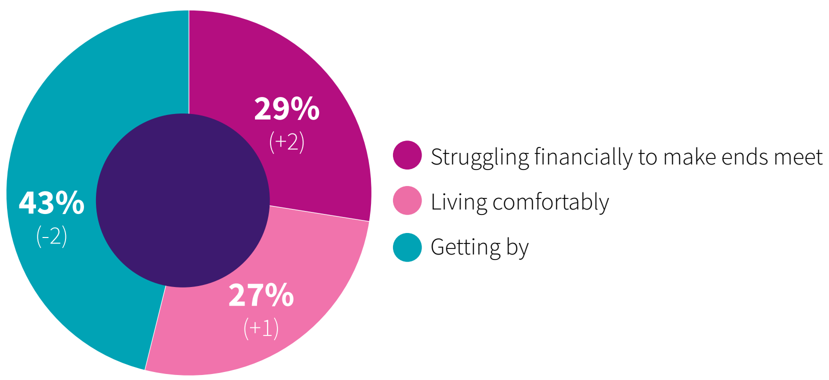
in May 2017

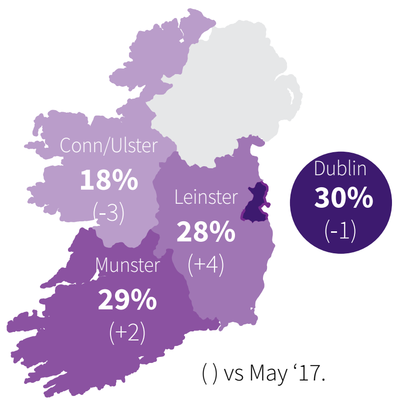
The **comfortable**

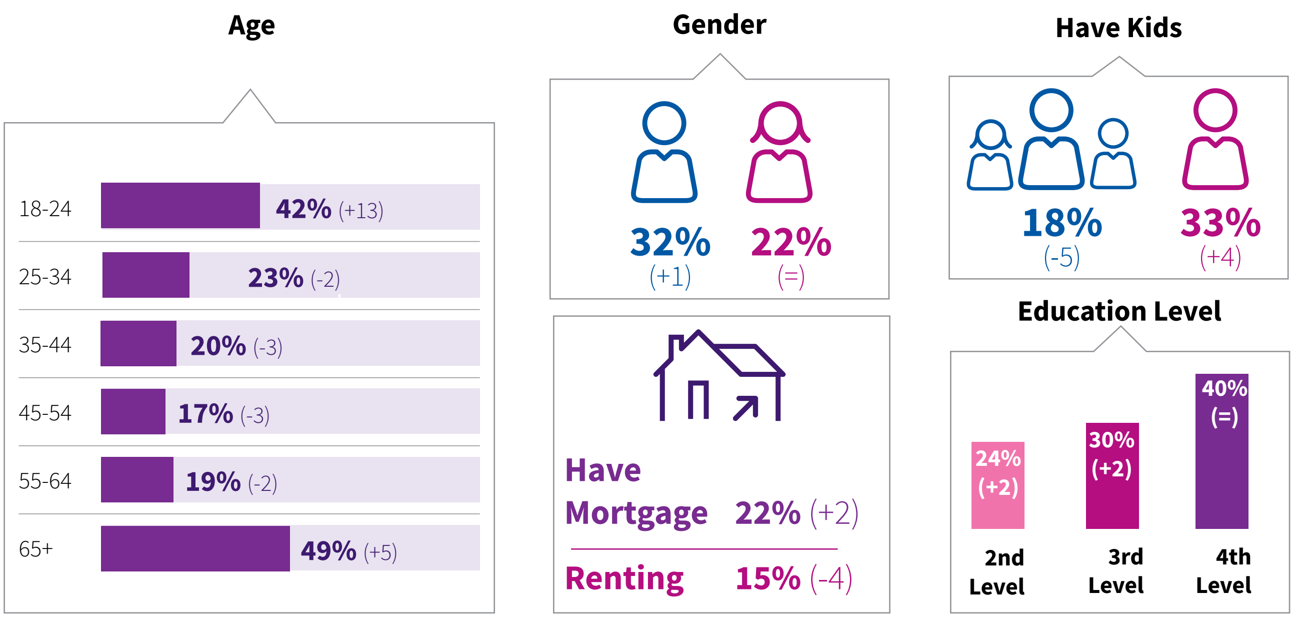
With young people aged 18 - 24 emerging as the most optimistic about their near term financial prospects, it is no surprise that they should migrate in substantial numbers to the comfortable category. It is reasonable to assume that they are unencumbered by children or accommodation costs: the two great expenses of adulthood.

Meanwhile, at the other end of the age spectrum, there has been a 5 point increase in the number of over 65s who live comfortably.

The gender gap emerges again in this category with men significantly more likely to describe themselves as comfortable than women.

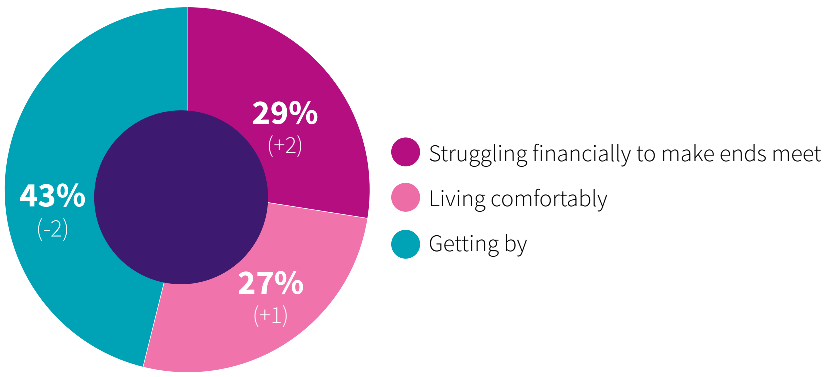


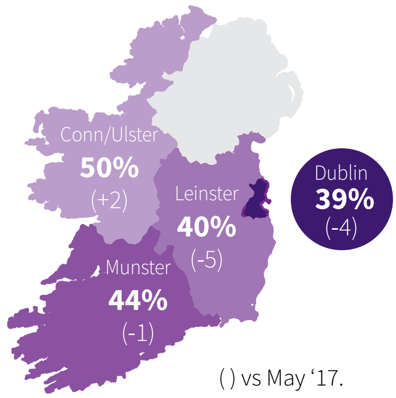


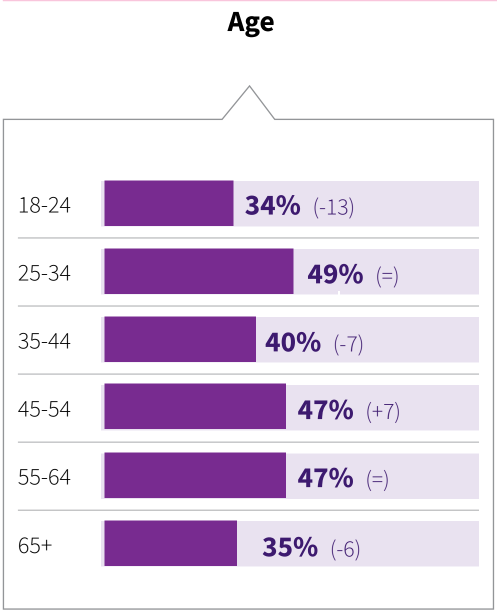


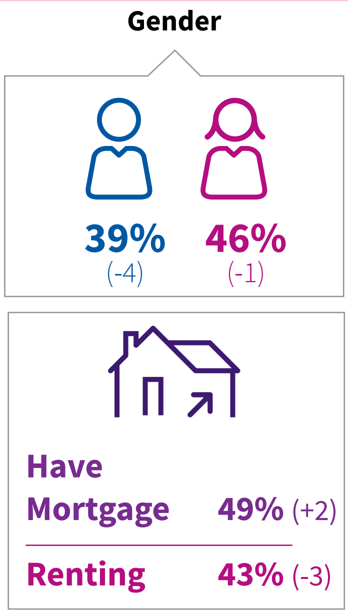
Those getting by

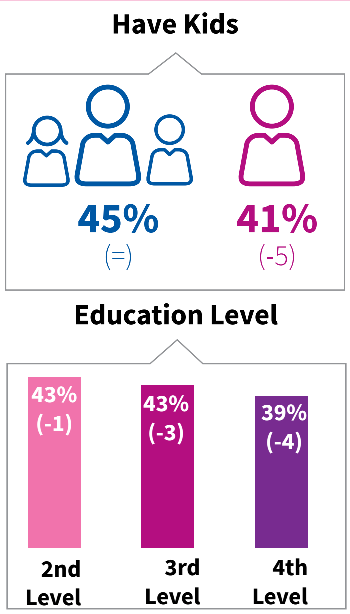
The largest group in our three categories, those who are neither comfortable nor struggling have seen a fall in their numbers. The biggest fall is in the 18 - 24 age group who are now enjoying an improvement in their circumstances in the comfortable category. On the other hand, it can be assumed that the 7 point drop in the 35 – 44 age group went straight to the struggling category.







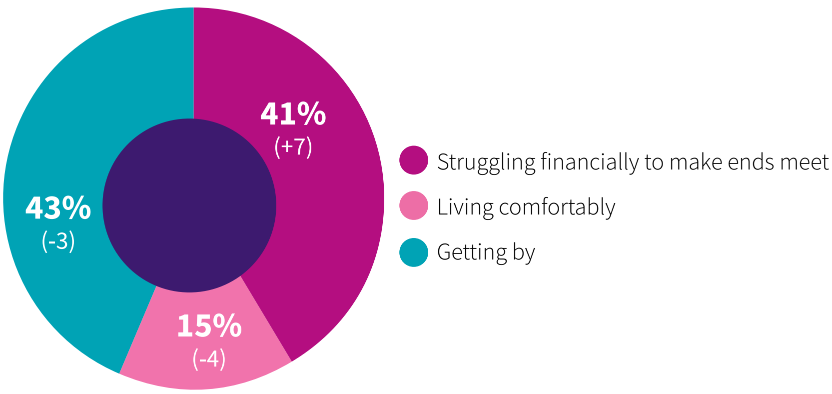




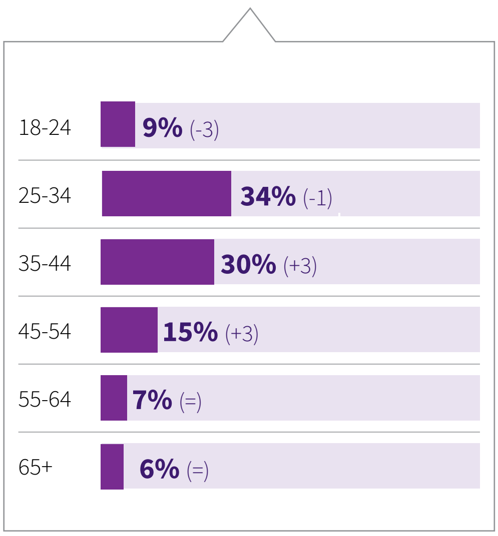
Closer look at **renters**

More than 2 in 5 of those who rent say they are struggling financially, up 7 points since May 2017. Just 15% describe their position as comfortable, down 4 points. Most renters (64%) are aged 25 - 44. The 35 - 44 age group of renters has gone up by 3 points since last year.

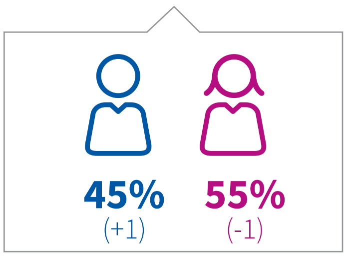
In another indicator of the gender gap, women are more likely to live in rented accommodation than men: 55% to 45%.



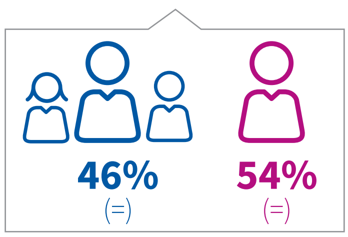
Age

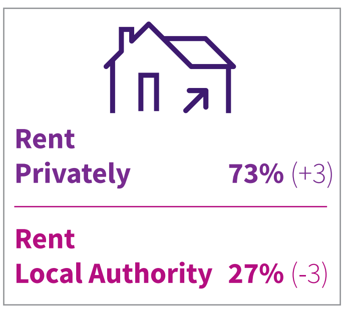


Gender



Have Kids





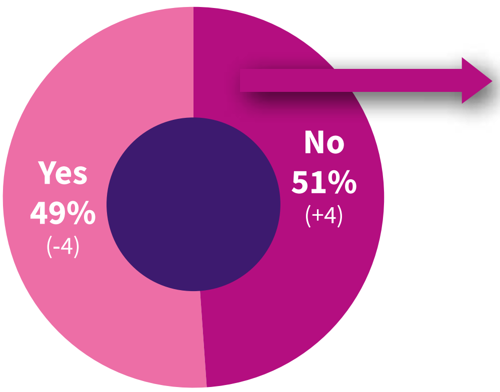
Forever **renters**

Over the last two years, our research has shown the numbers preferring home ownership to renting remains consistently high at over 90%. This latest research shows that a considerable number are now facing up to the reality that they may never be able to fulfil this dearly held aspiration.

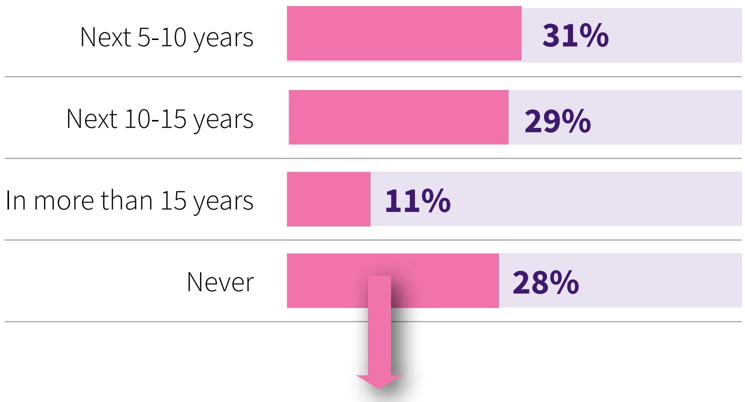
Half of those who don't own their home are planning to buy in the next five years. Meanwhile, 40% of the remainder do not expect to be in a position to buy until 2028 at the earliest and over a quarter believe they will never be able to afford to own their home.

90%
of people consistently say they would prefer to own my own property

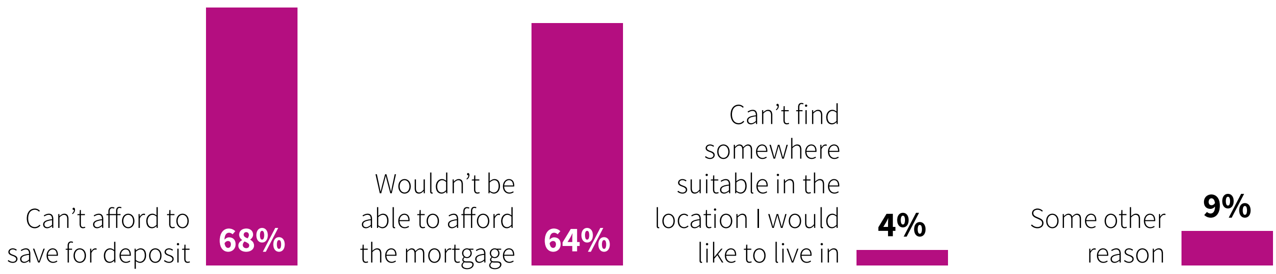
Plan on buying in the next 5 years



When expect to be in a position to buy own home



Reason for never being able to buy own home



Financial **well-being** according to current **financial status**

The stand out finding in this data is the gap between those who are comfortable and those who struggle. This is particularly stark in the response to the question about control of their finances. Nonetheless, there is a discernible increase in optimism about their personal outlook among those who struggle with a 12 point increase in belief in the recovery and a 5 point increase in those who say they have experienced the benefits of the recovery. Increasing confidence has also made this group less fearful about taking the risk of investing. These shifts in attitudes have narrowed the gap between the comfortable and the strugglers somewhat, at least in outlook if not in financial circumstances.

Outlook	Struggling	Getting by	Comfortable	GAP Struggling v Comfortable
I am in control of my finances	36% (+1)	66% (-2)	90% (+3)	**-54%** (-2)
Fear about the future has made me more likely to save	58% (-1)	59% (-9)	65% (+2)	**-7% (-3)**
I would usually save rather than borrow for the things I need	82% (+12)	80% (-1)	85% (+1)	**-3% (+11)**
The recovery is underway	38% (+12)	54% (+5)	72% (-1)	**-34% (+13)**
The recovery has benefited me personally	17% (+5)	21% (-2)	44% (+2)	**-27% (+3)**
The recovery will make me less fearful about investing	26% (+5)	29% (+1)	44% (-1)	**-18% (+6)**

Attitudes to **work** according to current financial status

When it comes to work life, it is clear from our research that those who are comfortable enjoy greater job security, pay and conditions by a margin of 2:1 in many metrics. Nonetheless, the year-on-year change is noteworthy: job security and opportunities to progress have increased among those who struggle. This group is also less stressed. On the other hand, the position of those who are comfortable has deteriorated in almost every metric. They are less secure in their jobs, less likely to get a pay raise although they are working harder and more stressed. The gap is narrowing.

Outlook	Struggling	Getting by	Comfortable	GAP Struggling v Comfortable
I have more job security	24% (+4)	50% (+12)	49% (-3)	**-25% (+7)**
I expect my salary to increase	32% (-2)	52% (+1)	51% (-8)	**-19% (+6)**
There are more opportunities to progress	25% (+9)	38% (=)	34% (-5)	**-9% (+14)**
It is easier to move jobs	23% (=)	43% (+4)	38% (-5)	**-15% (+5)**
I am working fewer hours	23% (-3)	26% (+2)	25% (-10)	**-2% (+7)**
I can take more holidays abroad	11% (=)	33% (+5)	51% (+1)	**-40% (-1)**
My work life balance is better	20% (-1)	45% (+9)	48% (-4)	**-28% (+3)**
I am feeling less stressed	21% (+5)	34% (+2	42% (-7)	**-21% (+12)**

Spotlight:

Pensions reform

The government's auto-enrolment pensions savings plan

After years of debate, many reports and policy papers on the perceived problem of inadequate pension coverage among private sector workers in Ireland, we finally have the outline of a plan. Last February, in the middle of Storm Emma, the government set out its Roadmap for Pension Reform 2018-2023 in which it committed itself to the introduction of a new automatic enrolment savings system by 2022[7].

Under this system, private sector workers will be automatically enrolled in an occupational pensions scheme to which employers and the government will also make contributions. The aim is to provide the 65% of private sector workers who do not have a supplementary pension with a framework for retirement savings.

More details on how the system will work are due to be published imminently and a period of public consultation will follow. But in its Roadmap, the government did set out the bones of a possible approach and based on this, we asked respondents to our survey for their reaction to the following proposal:

From 2022, employees without private pensions will be enrolled automatically in a retirement savings scheme, under new pension reforms announced by the government. The current suggestion is that workers will contribute 6% of their wages, their employers will also contribute 6% and the government will add a further 2%. Workers will be allowed to opt out if they wish.

Our results found overwhelming and almost universal support with no real dissenting group among respondents. This shows there is now a widespread acceptance in principle of the need to supplement the state pension with personal retirement savings. The highest level of support came from those over 65: 86% thought it was a good idea and just 1% disapproved. Given that they will not be beneficiaries, one can only assume that their approval is borne out of their own experience of saving for retirement.

The response should embolden the government in its design of the scheme, particularly on the level of the contributions. We have the opportunity to learn from the experience in the UK, where a system of auto-enrolment was introduced in 2012 with initial contributions set at 1% of earnings: we must be more ambitious in our savings level from the outset if we are to provide adequate retirement provision for auto enrolled savers.

Given the complexity of the existing pension landscape, the government's proposal is notable for its simplicity and reminiscent of the Special Savings Incentive Account (SSIA) launched by a previous government in 2001 which was very successful.

There is a lot of work to be done within a tight timescale to have the proposed system in place by 2022. Among the thorny issues to be addressed are:

- the willingness and capacity of small and medium sized businesses to participate in such a pension scheme
- how the scheme will interact with existing incentives i.e. tax relief

The Minister for Finance, Paschal Donohue, recently hinted that tax relief at the marginal rate of tax, currently enjoyed by over 600,000 workers, could be reduced as part of future pension reform. In its example set out in the Roadmap, the government is working to a 1:3 ratio which implies a reduction in tax relief. We will learn more in the autumn when the government's Interdepartmental Pensions Reform and Taxation Group reports prior to Budget 2019.

These are complex issues but they should not derail the government's plan to address a problem which it accepts has implications for a large group of individual citizens and for the wider economy as well. Given the scale of our pension gap, delay is not an option.

7. DEASP: https://m.welfare.ie/en/pressoffice/pdf/PensionsRoadmap.pdf

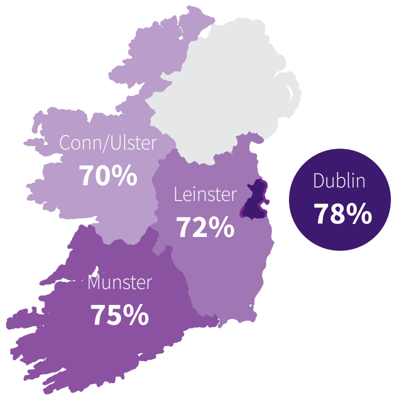
What the people think

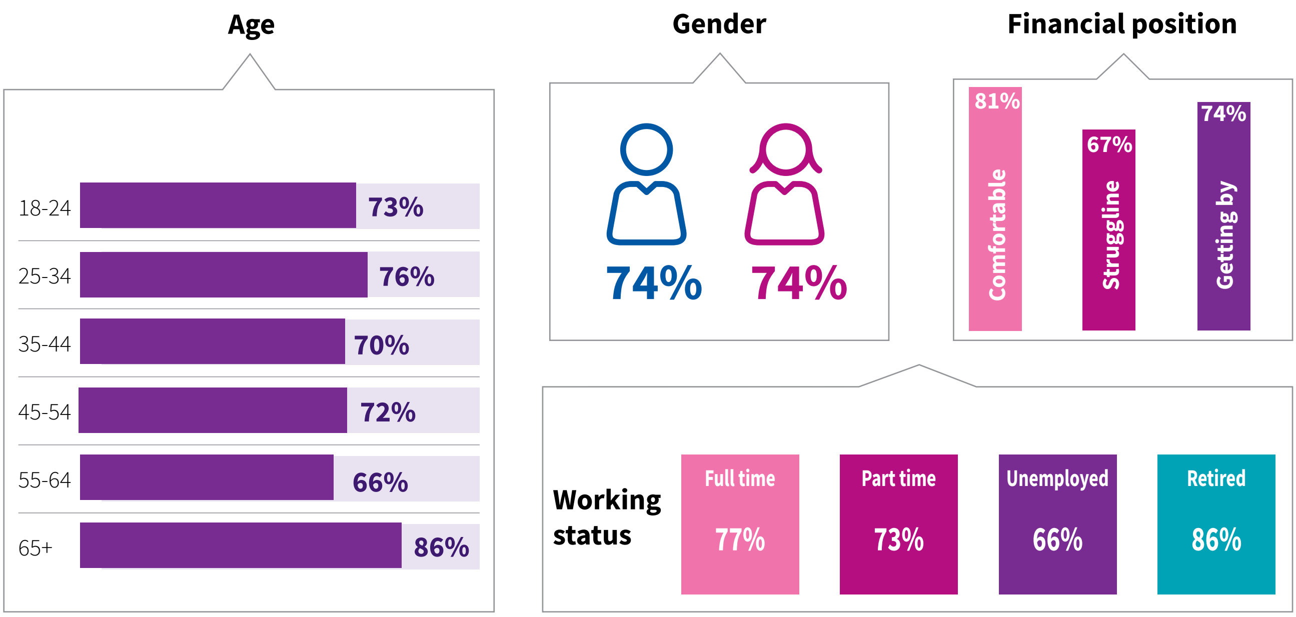
We asked respondents to state their preferences on the following proposal:

From 2022, employees without private pensions will be enrolled automatically in a retirement savings scheme, under new pension reforms announced by the government. The current suggestion is that workers will contribute 6% of their wages, their employers will also contribute 6% and the government will add a further 2%. Workers will be allowed to opt out if they wish.

Nationally, three quarters support the reforms with just 7% against. There is strong support across all age groups but over 65s are fervent advocates. They know more than most the importance of providing for retirement.

Support for the proposal is high across all regions but highest in Dublin. There is also strong support among those who say they are struggling to make ends meet.



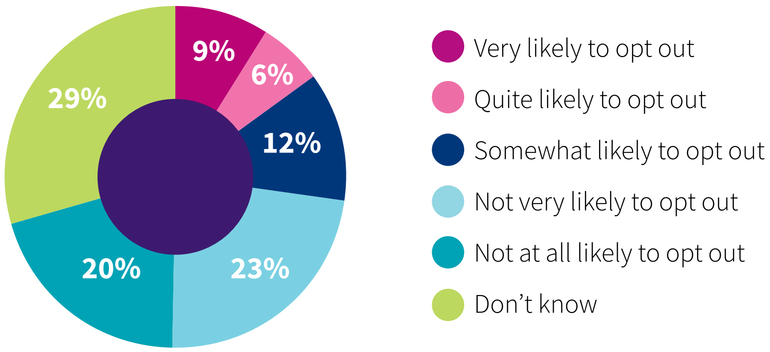


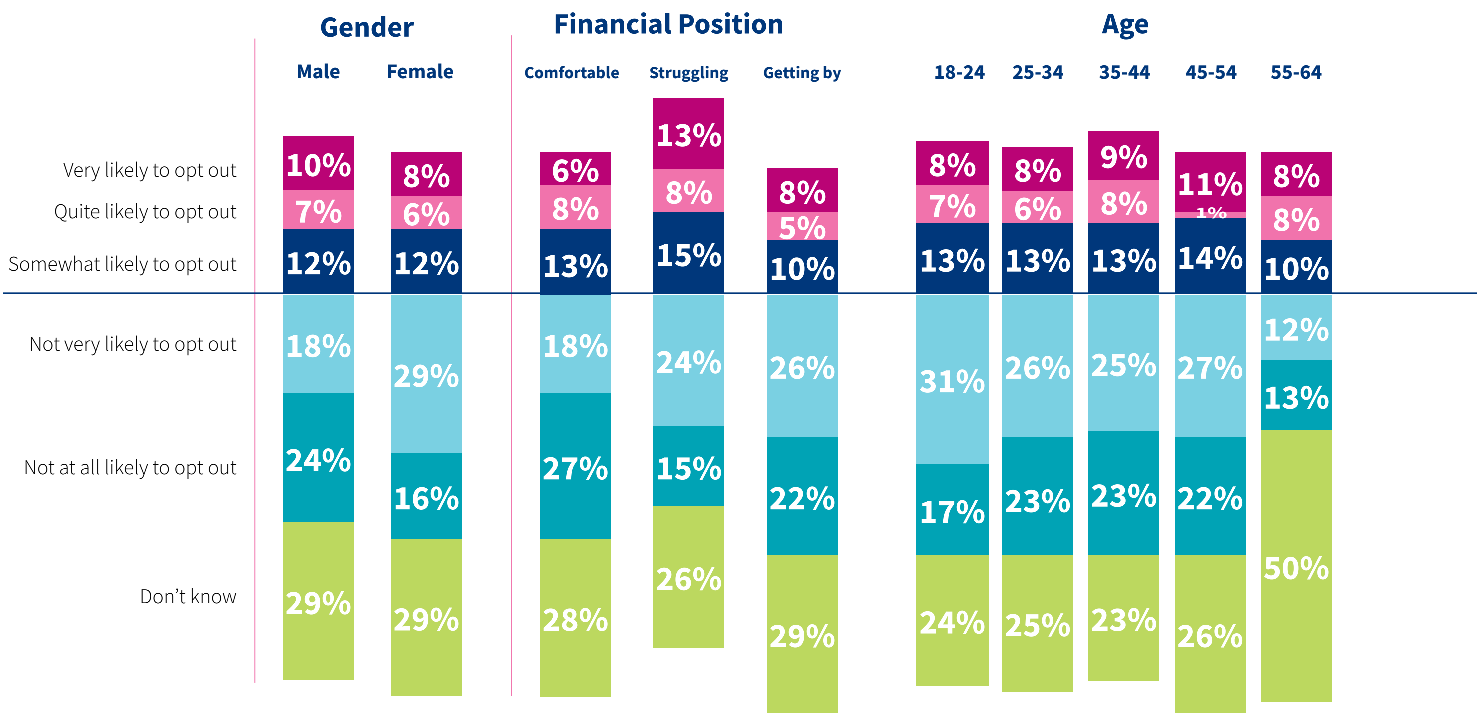
Will workers opt out

By a ratio of 3:1, respondents said they would remain enrolled. Support for remaining in the scheme is high across all age groups, except for the 55 – 64 cohort who may feel it is too late for them to enrol in the proposed scheme.

Support is also high across our three categories of financial circumstances, including those in the struggling category.

Not surprisingly, given the lack of detail on the proposal, the don't know responses are high.

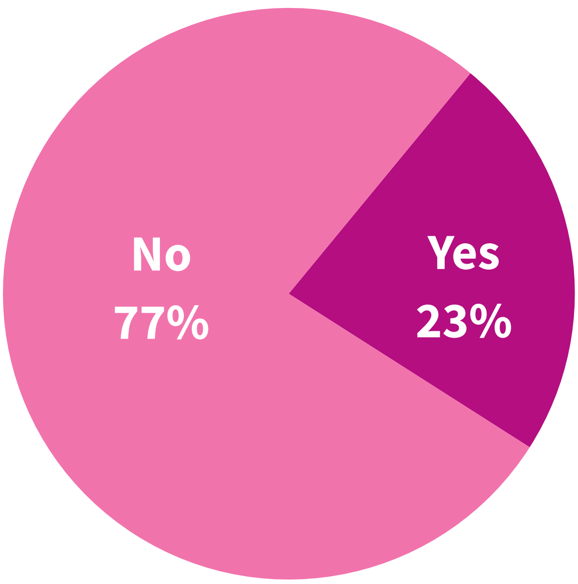




Contributions to private pensions over the last five years

Contributions to the pensions of the 35% of private sector workers who have a retirement savings plan fell off during the great recession. Aviva noticed an increase in contributions by some of its policy holders as they seek to rebuild their retirement savings and a recent report found increased confidence about retirement prospects. But have private sector workers been taking steps to prepare for retirement? Our survey found that close to 1 in 4 with private pensions have taken specific steps to increase their contributions over the last five years.

Increased contributions



Yes	
18-34	31%
35-54	25%
55+	10%
Work FT	27%
Work PT	9%
Comfortable	31%
Struggling	20%
Getting by	20%

8. ESRI: https://www.esri.ie/news/bank-of-irelandesri-savings-and-investment-index-shows-greater-optimism-about-retirement/

Conclusion

Warnings about the dangers that lurk underneath our growing economy are coming at us thick and fast. An overheating economy; the impact of near full employment on competitiveness; the over dependence on the multinational sector: some of the almost daily warnings of storm clouds in the offing. Most recently, the head of the IMF, Christine Lagarde urged us not to sit on our laurels. She said the sun was shining on our economy right now, but we needed to fix the roof in preparation for the rainy day and potential storms ahead.

So how does the average family in Ireland feel about their personal prospects in our burgeoning economy? In our Family Finances Report, Aviva seeks to provide primary data and insights into financial circumstance, well-being and attitudes of households in Ireland.

Our latest research shows a number of trends and movements in personal outlook and fortunes that could have a lasting socio-economic impact. One such trend relates to housing. Over our four Family Finances Reports, we have consistently found that 90% of us would prefer to own our own home.

Of those who do not own a house at present, slightly less than half plan to buy in the next five years. For the remaining 51% - up 4 points since last year - home ownership is becoming a dearly held but distant aspiration rather than a plan. Our survey finds that 40% of this group believe it will be 2028 at the earliest before they are in a position to buy. Over a quarter believe they will never be able to buy. Does this signal the emergence of a sizable cohort of life-long renters?

In a tight rental market, it is no surprise that renters are among the most pressurised financially. More than 2 in 5 say they are struggling while just 15% describe themselves as comfortable. They are also, as a group, more pessimistic about their disposable income prospects with just a quarter of them expecting an increase in the money in their pockets compared with almost a third in May 2017.

Overall, our Report found increased optimism about the outlook for the economy in general and for households. But there were two noteworthy trends. While those who say they are living comfortably remain substantially better off financially, strugglers have grown in optimism. Their belief in the recovery has risen by 12 points and their confidence about their employment prospects has increased by 5 points. Over a third of this group say they are now in control of the finances. The gap in outlook, if not in financial circumstances, between those who are comfortable and those who struggle has narrowed somewhat.

On the other hand, those who are comfortable have become more negative on all measures relating to work, including job security, opportunities for progress and pay: the numbers expecting a salary increase in this category, though still high at 51%, is down 8 points year-on-year. They are also more stressed in their work. Are they the canaries in the mine?

Young adults emerge as the most optimistic age group as 42% describe themselves as comfortable. But for these adolescents of the recession, this may be a brief golden era. As they get older and take on the two great responsibilities in life - children and property - they too may surely struggle to make ends meet.

We hope the findings of this Report will help inform decision makers at all levels as they plan for the future.

About Aviva

- Aviva Ireland provides retirement income, life cover, protection, general insurance, and investment and savings products to almost 1 million customers.
- We employ 1,650 across our four locations in Dublin, Galway and Cork.
- We are one of Ireland's largest insurers and part of Aviva Group, which has to 33 million customers, across 16 markets in Europe, Asia and Canada.
- Aviva's asset management business, Aviva Investors, provides asset management services to both Aviva and external clients, and currently manages over £340 billion in assets. Total group assets under management at Aviva group are £450 billion.
- Aviva helps people save for the future and manage the risks of everyday life; across the Group we paid out £34.4 billion in benefits and claims in 2016.
- By serving our customers well, we are building a business which is strong and sustainable, which our people are proud to work for, and which makes a positive contribution to society.

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