

AEGON IFA Insights Survey Research and Analysis

Report Three: [June 2007](#)

Introduction from Graham Dumble

Director of Risk & Regulation

I am delighted to introduce the third wave of research from AEGON's IFA Insights Survey. This study is designed to gauge the opinion of IFAs on the emerging issues affecting our industry. The first report, published in November 2006, surveyed IFA opinion on issues such as financial capability, recruitment and the future of the IFA sector. The second investigated the issues around the FSA Review of Retail Distribution assessing awareness of the review and canvassing opinion on some of the potential outcomes, an area where debate is growing as we approach the publication of the Discussion Paper on 27 June.

Our third wave of research focuses on pensions and retirement planning and on some of the issues around the introduction of Personal Accounts. In it we have asked advisers about their own views and their opinion of the views of the population at large about the issues people will face as they approach retirement.

This report highlights a number of changing attitudes towards the issues of inheritance, retirement planning and saving for the future. We have canvassed IFA opinion on general savings levels and different ways of funding for retirement. We have also looked at whether people are relying on inheritance and whether they believe they will be able to afford to retire when they want to. IFAs reveal that consumer confidence in pensions remains low but, with an important part to play in a balanced retirement portfolio, outline some incentives they believe would boost retirement saving.

The IFA Insights project aims to stimulate debate on emerging issues and to gather information that will help us in providing solutions to meet the needs of customers and advisers.

Scope

The scope of this third wave has been to establish the views of IFAs on a number of issues relating to current consumer trends and opinions, including inheritance, savings, retirement planning and confidence in our industry.

As in our previous reports, we have published the top line findings in this document in order to illustrate the most important points. Should you have comments or queries relating to the following pages, please do not hesitate to contact me, as I would be delighted to hear your views. For more information on the IFA Insights project or to see previous reports please visit our website at www.aegon.co.uk/media

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Question 1

Do you strongly agree, agree, disagree or strongly disagree with the following statements relating to consumers' current views of saving for their retirement?

Results:

	Overall agree*	Overall disagree**
Confidence in pensions has significantly decreased and many people are looking for other means of investing for their future	93%	5%
Pensions are suffering from a lack of consumer trust and need to be promoted more	91%	8%
Government u-turns on the tax treatment of Alternatively Secured Pension funds on death, on Pensions Term Assurance and on putting residential property in SIPP's is damaging confidence in retirement saving	91%	8%
People are increasingly relying on property as their retirement fund	89%	7%
Financial advice has moved away from primarily recommending pensions in favour of a balanced retirement portfolio	76%	17%
Pensions will remain the principal vehicle of retirement planning	67%	29%
Confidence in pensions remains high and is still the preferred route for the majority of people saving for their future	38%	58%

* Those saying 'agree' or 'strongly agree'

** Those saying 'disagree' or 'strongly disagree'

Commentary

There is clearly a desire for pensions to be promoted more and a real belief that pensions remain the principal vehicle for retirement planning. However, despite nearly seven out of ten IFAs believing that pensions will prevail, there is also a feeling that property and other means of developing a balanced portfolio are becoming increasingly popular. Unsurprisingly, IFAs believe that consumer confidence in pensions is low and that Government u-turns have also had an impact on trust.

AEGON Analysis

- Only 3% of respondents agreed strongly that 'confidence in pensions remains high and is still the preferred route for the majority of people saving for their future', while 38% disagreed and 20% disagreed strongly.
- Respondents were most likely to say they strongly agreed with the two statements: 'pensions are suffering from a lack of consumer trust and need to be promoted more' (53%) and 'Government u-turns on tax treatment of ASP funds on death/Pensions Term Assurance/putting residential property in SIPP's is damaging confidence in retirement saving' (52%).

Question 2

Increases in longevity mean people may have to work longer, save more, or a combination of the two to get an adequate retirement income. Do you strongly agree, agree, disagree or strongly disagree with the following statements?

Results:

	Overall agree*	Overall disagree**
An increasing number of people will find they are unable to retire at the age they wish to do so	88%	11%
During the next ten years I expect the average retirement age to rise significantly	88%	10%
People are prepared to work longer before taking their pension	76%	24%
People are resigned to a significant reduction in their standard of living in retirement	71%	27%
People would rather save more than work longer	37%	56%

*Those saying 'strongly agree' or 'agree'

**Those saying 'strongly disagree' or 'disagree'

Commentary

The IFA community thinks the British population is in line for a sharp wake up call, with almost nine out of ten believing that more people will be unable to afford to retire when they want to. The same number believes that the average retirement age is set to rise significantly, indicating that people will have to work longer to make ends meet in retirement. Nearly six out of ten IFAs disagree with the statement that people would rather save more than work longer. Most worrying is that over seven out of ten IFAs believe that people are already resigned to the fact that they will experience a significant reduction in their standard of living in retirement.

AEGON Analysis

- More than half (51%) strongly agreed that 'an increasing number of people will find they are unable to retire at the age they wish to do so', with a further 37% agreeing with the statement and only 1% strongly disagreeing.
- 33% strongly agreed with the statement that 'during the next ten years I expect the average retirement age to rise significantly' and 55% agreed.
- Only 4% strongly agreed that 'people would rather save more than work longer' – 33% agreed.

Question 3

Do you strongly agree, agree, disagree or strongly disagree with the following statements?

Results:

	Overall agree*	Overall disagree**
Equity release products are likely to become more popular in the next ten years	84%	15%
Parents will be expected to support their children for longer	84%	13%
The 'next generation' will receive less inheritance and will have to save more to provide for the future as a result	74%	22%
The idea of parents leaving their house to their children is set to rapidly decline as retirement costs increase	71%	23%
There will be an increasing trend to fund for long term care	64%	29%
There will be an increasing trend of children financially supporting their parents in retirement	47%	47%

*Those saying 'agree' or 'strongly agree'

**Those saying 'disagree' or 'strongly disagree'

Commentary

There is very clearly a view amongst the IFA community that trends in retirement funding and inheritance are set to change dramatically. IFAs believe that equity release products will become more popular, the next generation will receive less inheritance and there will be an increasing need to support children for longer and to fund long term care. The next generation is likely to face increasing financial pressure with seven out of ten IFAs believing inheritance of the family home or other assets will fall and saving will have to increase to fill the gap.

AEGON Analysis

- 31% of respondents agreed strongly that 'equity release products are likely to become more popular in the next ten years' while 12% said they disagreed with this statement and 3% said they disagreed strongly.
- 24% of respondents agreed strongly that 'the "next generation" will receive less inheritance and will have to save more to provide for the future as a result' while only 3% said they disagreed strongly with this statement.

Question 4

Do you strongly agree, agree, disagree or strongly disagree with the following statements relating to the consumers' current view of general savings?

Results:

	Overall agree*	Overall disagree**
In my opinion people tend to have spent their money before they have it	78%	16%
People are no longer saving for a 'rainy day' and I have noticed the general level of savings decrease in recent years	67%	32%
There is no general trend towards saving and I have not noticed any changes in recent years	59%	40%
People are maintaining a general level of savings and I have not noticed a significant shift in terms of increasing or decreasing savings in recent years	45%	50%
In general terms, people are saving more today than they were five or ten years ago	17%	78%

*Those saying 'strongly agree' or 'agree'

**Those saying 'strongly disagree' or 'disagree'

Commentary

IFAs have recognised a shift in the saving habits of the British population. There is a view that people have spent their money before they have it, that there is no plan to save for a "rainy day" and that the general level of savings has not increased in recent years. Fewer than two out of ten believe that people are saving more today than they were five or ten years ago.

AEGON Analysis

- Respondents were least likely to agree that 'in general terms, people are saving more today than they were five or ten years ago', with only 3% saying they strongly agreed and 22% that they strongly disagreed.
- They were most likely to agree that 'people tend to have spent their money before they have it' - 26% strongly agreed and only 1% strongly disagreed.

Question 5

In general terms, when advising clients with regard to retirement planning would you currently highly recommend, recommend, or not recommend the following?

Results:

	Overall recommend*	Overall not recommend**
Investing more in pensions schemes	87%	11%
Identifying alternative means of investing for their retirement	87%	5%
Factoring in housing assets and the potential for future equity release	51%	42%
Investing all surplus cash in pension schemes	32%	63%

*Those saying 'highly recommend' or 'recommend'.

**Those saying 'not recommend'

Commentary

It is clear that the IFA community believes in pensions and almost nine out of ten would encourage their clients to invest more in schemes. However, at the same time, there appears to be a real appetite for identifying alternative means for investing towards retirement, highlighting the desire for IFAs to promote the idea of a balanced portfolio. Less than a third would recommend investing all surplus cash in pensions while nearly nine out of ten would recommend broadening investment beyond pensions. Just over half would want to 'factor in' the potential for equity release.

AEGON Analysis

- Over a quarter (26%) said they would highly recommend 'identifying alternative means of investing for their retirement', closely followed by 'investing more in pensions schemes' (25%).
- Only 6% said they would highly recommend investing all surplus cash in pension schemes, while 63% would not recommend it.

Question 6

Do you strongly agree, agree, disagree or strongly disagree with the following statements relating to the retirement market?

Results:

	Overall agree*	Overall disagree**
People are choosing alternative means of saving for retirement because of the inflexibility of retirement products	85%	13%
More innovation and flexibility in retirement products would encourage greater retirement saving	76%	22%
There is enough choice in retirement products to meet people's needs	69%	30%

*Those saying 'strongly agree' or 'agree'

**Those saying 'strongly disagree' or 'disagree'

Commentary

IFAs would clearly welcome more flexibility in the design of retirement products and believe it would be helpful in increasing retirement saving. While nearly seven out of ten believe there is sufficient choice of retirement products to meet people's needs, more than eight out of ten feel the lack of flexibility within these products is driving consumers away in search of alternative methods of retirement planning. More than three quarters believe that new innovation and flexibility would encourage more retirement saving.

AEGON Analysis

- 32% of IFAs strongly agree that 'more innovation and flexibility in retirement products would encourage greater retirement saving' with a further 44% agreeing with the statement.
- 28% strongly agreed that 'people are choosing alternative means of saving for retirement because of the inflexibility of retirement products' with a further 57% agreeing and only 5% strongly disagreeing with the statement.

Question 7

How successful do you believe each of the following would be in encouraging people to invest more in pensions in the future? (Very successful, somewhat successful, no difference, somewhat unsuccessful, very unsuccessful).

Results:

	Overall successful*	Overall unsuccessful**
Improved tax incentives	88%	5%
Increased confidence in the industry	80%	9%
Incentives to encourage employer participation	77%	11%
Workplace marketing	73%	15%
Auto-enrolment	63%	14%
Better consumer understanding of the different risk/reward profiles of different investment strategies	63%	12%
Reduction in means testing	62%	17%
Combined state and private pension forecasts	56%	9%

*Those saying 'very successful' or 'somewhat successful'

**Those saying 'very unsuccessful' or 'somewhat unsuccessful'

Commentary

According to IFAs, improved tax incentives is the number one policy that would lead to greater savings for retirement. However, not far behind, eight out of ten IFAs believe increased confidence in the industry is needed. Initiatives such as workplace marketing, auto-enrolment and reduction in means testing are all viewed favourably, but IFAs believe incentives to encourage employer participation would be the most important of these other measures in encouraging more pension saving.

AEGON Analysis

- Respondents were most likely to say that 'improved tax incentives' would be successful – nearly half (49%) said they would be very successful and 39% that they would be somewhat successful.
- They were least likely to think that 'combined state and private pension forecasts' would be successful and 33% thought that they would make no difference.

Question 8

Do you agree strongly, agree, disagree or strongly disagree with the following statements?

Results:

	Overall agree*	Overall disagree**
The government needs to be clearer in its definition of the target market for Personal Accounts	91%	7%
The introduction of Personal Accounts will not significantly boost overall savings as much of the money will be re-cycled from existing saving	78%	14%
Public trust in pensions is at an all time low and therefore reform is essential	77%	21%
The moves to increase state pension age are sensible in light of increases in longevity	65%	33%
Pensions do not need to be reformed	23%	76%
The introduction of Personal Accounts will achieve the government's aim of getting more people to save more for retirement	21%	77%

*Those saying 'strongly agree' or 'agree'

**Those saying 'strongly disagree' or 'disagree'

Commentary

IFAs are concerned that more thought needs to go into the introduction of Personal Accounts, with more than nine out of ten saying the Government has not been clear enough in its definition of the target market. IFAs believe the introduction of Personal Accounts will not achieve the Government's aim of boosting new retirement saving by encouraging more people to save more and say that further clarity would be one way of addressing this. Instead almost eight out of ten believe it would lead to a re-cycling of existing saving. Almost the same number of IFAs believe that reform of the pensions system is essential since public trust in it has reached an all time low. Two thirds believe that moves towards raising the state retirement age are sensible in light of increases in longevity.

AEGON Analysis

- People were most likely to agree that 'the government needs to be clearer in its definition of the target market for Personal Accounts' – 44% agreed strongly with this statement and a further 47% agreed.
- They were least likely to agree with the statement, 'the introduction of Personal accounts will achieve the government's aim of getting more people to save more for retirement' – 4% strongly agreed and 17% agreed while over three quarters disagreed (43%) or disagreed strongly (34%).

Conclusion

With the Government's pension reform agenda well underway this third wave of research for the AEGON IFA Insights Survey gives a useful view of the changing attitudes towards retirement planning. The results show IFAs still believe pensions have an important part to play in a balanced retirement planning portfolio, and would advise their clients to invest more in them. However, IFAs are clearly concerned that low consumer confidence in pensions, combined with a lack of flexibility in product rules, are driving consumers away in search of alternative methods of retirement planning.

IFAs foresee financial pressures for people currently trying to make provision for their retirement increasing from all sides. Eight out of ten say parents will be expected to support their children for longer and six out of ten believe people will increasingly have to set aside provision for long-term care. Coupled with this, IFAs expect the amount of inheritance people will receive, either in terms of housing or other assets, to fall creating an additional savings gap. Equity release will play an increasing, but frequently inadequate role in filling this.

Not surprisingly almost nine out of ten IFAs believe the average retirement age will increase significantly over the next ten years and an increasing number of people will be unable to afford to retire when they want to indicating that the British population is heading for a sharp wake up call.

In terms of measures to boost retirement saving advisers identified improved tax incentives, more flexibility in pension products and increased confidence in the industry as most likely to achieve this.

Methodology

Populus interviewed 100 Independent Financial Advisers specialising in retirement, long term savings and investment products between 23 and 30 April 2007.

For further information

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