



Addressing the pensions knowledge gap

AEGON Pensions Report

May 2009





Introduction

Addressing the pensions knowledge gap

In its latest consumer research study into pensions, AEGON has uncovered a worrying trend when it comes to people's preparations for retirement. The research found that people are generally confused about their retirement options, worried about the level of savings they have accumulated and over-optimistic in their estimations of what income they can expect when they retire. These findings, combined with some of the worst economic conditions for decades, suggest that people must grasp the nettle and address their retirement savings and speak to a financial adviser sooner rather than later. It may be that some are comfortable with their level of savings and have made alternative plans to keep working. However, the research suggests that many people risk arriving at retirement age only to find they can't afford to live the life they had expected to.

'If you plan, your retirement could be everything you had hoped for.'

A pension may well be the most important thing you will buy in your lifetime. Such an important purchase requires careful planning. Unfortunately, our research suggests that many people could be sleepwalking into an impoverished retirement because they have not properly planned for the time when they will come to rely on their pension income. For many people, the initial challenge will be to address their situation and find out exactly what they can expect to retire on, and what steps they need to take next. Help is at hand, in the form of consumer websites, pension providers, newspapers and, most importantly, financial advisers.

All of this comes down to your individual expectations for retirement and your knowledge of the options available to you now. If you plan, your retirement could be everything you had hoped for. However, the longer you delay planning, the greater risk you have of receiving an unpleasant surprise when you come to retire. Don't let that happen to you and your pension. Address the pensions knowledge gap and start planning for your retirement today.

[Rachel Vahey](#)

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AEGON commissioned Opinion Matters and [tickbox.net](#) to research the views of 1425 people in the UK between the ages of 30 and 65, to gauge their opinions on their levels of pension savings, their current fund values, their attitudes towards saving for retirement and their current investment risk concerns. The research was carried out between 16.03.09 and 23.03.09.

All commentary in this report can be attributed to Rachel Vahey.





Research findings at a glance:

- **47%** of people who have pensions savings have accumulated two or more pension pots throughout their working lives. However, only **27%** know the combined current value of their savings.
- Women appear to be less likely to know the value of their current pension savings than men are. **77%** of women claim they have no idea as to the value compared to **67%** of men.
- Far fewer women than men believe they have made adequate provision for retirement at **13%** compared to **23%**.
- **87%** of people want to retire on an income greater than £10,000 a year, yet **40%** of all those questioned admitted to having no pension savings at all.
- **23%** of people say they have made some provision for their retirement; however, they know they need to save more. A further **22%** say they know they need to save more but can't afford to increase their contributions. Only **17%** stated they have made adequate provision for a comfortable retirement.
- **15%** of people between the ages of 61 and 65 intend to carry on working past their normal retirement age, as they know they will not be able to live on their pension income alone.
- **A quarter** of people between the ages of 30 and 40 admitted they would reduce their pension contributions before reducing luxury expenditure if they had budget constraints.
- **52%** of people who have accumulated pension savings stated that they do not know how to go about tracking down details of all their pension arrangements from previous employers.
- **55%** of all respondents say their attitude to investment risk has changed in the current market and they are more cautious now than before.

‘87% of people want to retire on an income greater than £10,000 a year, yet 40% of all those questioned admitted to having no pension savings at all.’



A closer look at some of the findings:

■ 40% of people say they have no pension

Rachel Vahey says:

The research found that 40% of respondents have no pension provision whatsoever.

Although worrying, unfortunately this figure is not completely unexpected. It's broadly in line with other reports and surveys. The Department of Work and Pensions (DWP) estimates there are around 7 million people who are not saving anything or who are not saving enough to generate the type of income they are likely to want or expect in retirement.

People need to save if they want to enjoy a decent income in retirement. Pensions are a highly tax efficient way of saving as the contributions receive tax relief, meaning that for every £8 you pay in, the Government adds £2. If you're a higher rate taxpayer, you may still be entitled to more tax relief. In addition, employers often offer pensions as part of your salary package at work, and will contribute towards your pension pot.

From 2012, the Government is introducing automatic enrolment into pensions. This means every employer will have to automatically enrol every worker into a pension scheme and pay a contribution for him or her. People are not being compelled to save in a pension - they can opt out of the scheme if they want to. Nevertheless, if they stay in they too will have to contribute to their pension pot.

Hopefully, these new developments will help to remind people about the tax breaks for pensions, and how regular saving through a pension can help them achieve a decent income for later life, and so enjoy their retirement.

Perhaps this figure also reflects the difficult times we're living in. People know they should save more, but they feel they just don't have any spare money to set aside. However, we should all seriously think about providing for our financial security in retirement. If we don't, no one else will. Unfortunately, the longer you put off saving, the more expensive it becomes. As a general rule of thumb, for a comfortable retirement, whenever you start saving you should ideally be putting aside half your age in percentage terms. So a 30 year old who starts saving today should think about setting aside 15% of their salary. Obviously, the sooner you start saving, the more affordable it becomes and the better off you are likely to be in retirement.

‘Pensions are a highly tax efficient way of saving as the contributions receive tax relief, meaning that for every £8 you pay in, the Government adds £2.’



- **73% of people who have been saving for retirement don't know the value of their pension plans**

Rachel Vahey says:

For those who have been saving into pension plans, there seems to be an extremely high level of confusion as to the value of their contributions. An alarming 73% of people who have contributed to pension arrangements have no idea of the current value of their plans. Everyone has ambitions and certain expectations for their retirement years, but how can you properly plan if you don't know how much your income will be in retirement?

Most pensions companies and schemes provide customers with a yearly statement indicating the current fund value of pension saving and what that might look like in the future. However if you have moved house and not told previous employers or pension providers your new address, you may no longer be receiving your yearly statements. We would encourage anyone in this position to contact previous employers and pension providers and ask for current fund values. AEGON has produced some letter templates to help people find out what savings they have built. These template letters can be found on the AEGON website at:

<http://www.aegon.co.uk/pensions/saving-for-retirement/index.html>

Once you have this information, speak to a financial adviser to find out if you're on track to receive the sort of income you need. Not having an overall view means possibly being in for a nasty shock - rather than being in control and knowing what your future income will be.

- **Nearly half of people surveyed (47.5%) want to retire on between £10,000 and £20,000 a year**

Rachel Vahey says:

Almost half of the people we questioned want to retire on between £10,000 and £20,000 a year, and yet only 17% are satisfied they have made adequate provision for a comfortable retirement. For an income in retirement of £10,000 – including your full state pension – you would need to build up a pension pot of around £110,000. The average pension pot at retirement today is nearer £25,000.

There does seem to be a gap between what people expect in retirement and what they will realistically achieve. One of the main reasons for this is because people generally don't realise how long they can expect to live – and therefore how long they can expect to need an income in retirement. According to the National Statistics office, a man aged 65 could expect to live another 17.2 years, and a woman aged 65 another 19.9 years. (Based on 2005-07 mortality tables). And life expectancy is increasing - we now expect one in four children born today to reach 100 years old.

It is a good idea to start saving when you are young, and regularly save as much as you can throughout your life. People can save in many ways - through property, pensions, and other investments. Contributing to a pension is a very tax efficient way of saving because the Government adds in money, and the employer possibly could do so as well.

‘It is a good idea to start saving when you are young, and regularly save as much as you can throughout your life.’

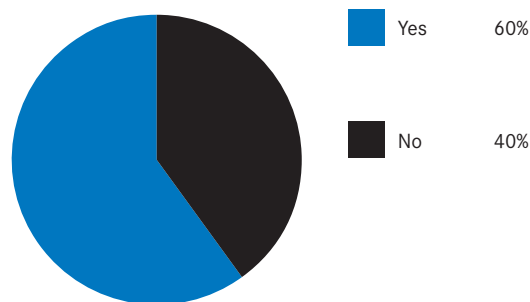


AEGON's survey results in detail:

Lack of savings

40% of those surveyed stated they have no pension savings whatsoever. This is worrying as the people questioned were all between the ages of 30 and 65. This age group should be saving something to provide them with an income in retirement.

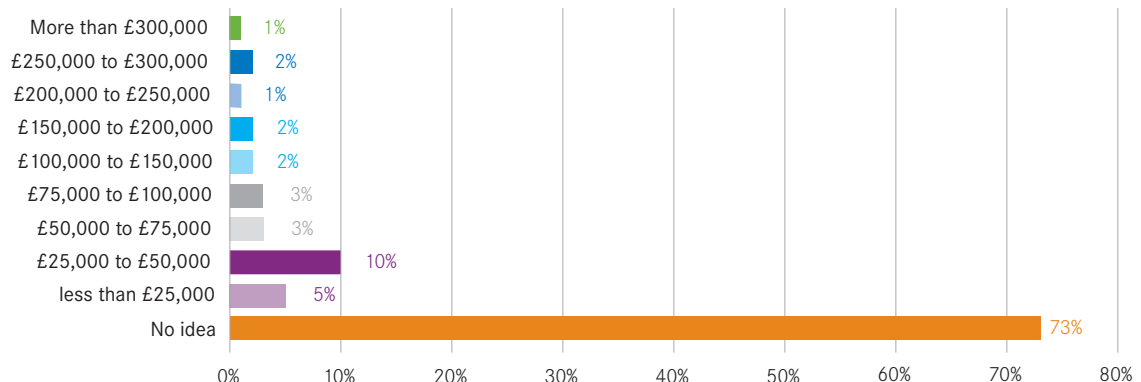
Do you currently have any pension savings?



Knowledge gap

Considering that a pension is such an important lifetime purchase, it's alarming to see such a high proportion of people, who have saved, who have no idea of the current value of their accumulated pension pots. Planning for retirement is vital. You can't make any firm plans for retirement unless you know what sort of income you can expect to receive as a pension, and you can't know this unless you know what you have now and if you're on track to meet your retirement expectations.

What is the current value of your accumulated pension pots?



‘You can’t make any firm plans for retirement unless you know what sort of income you can expect to receive...’



Income expectations

The majority of people surveyed want to retire on between £10,000 and £20,000 a year, even though many are not saving towards a pension at all. This suggests people may have over-optimistic expectations of what they would like to receive as an income in retirement and what they will actually achieve.

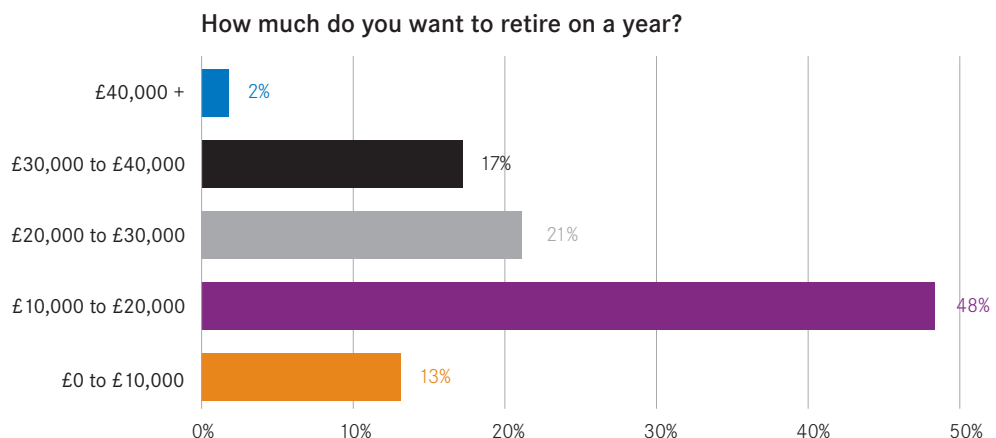
Most people realise that the state pension isn't going to provide them the level of income they want to rely on in retirement. And although they know they want to save more, they are not sure where to start.

The first step is to think about how much you want to live on in retirement, probably as a percentage of your current earnings. By the time you retire you may have paid off mortgages and other debt, but your income needs may also change over the whole period of retirement. People are living for longer, and you could be retired for 20, 30 or even 40 years.

People may want to ask a financial adviser to help them make these decisions. A good rule of thumb is to take someone's age when they start saving, halve it, and this is the percentage of their income they should save in their pension. For example, someone who is 30 when they start saving should save 15% of their income towards their retirement.

But it can be very daunting when you start saving considering how much you need to put in. Remember, you don't have to start saving at that level immediately. You can start at a lower level and build it up over a few years.

Pension providers offer very good online tools to help you figure out how much you want to save to meet your income needs. AEGON's newly launched online pension calculator (<http://www.aegonse.co.uk/pensions/saving-for-retirement/calculators/how-much-to-expect/index.html>) is easy to use and will provide a good indication of the contributions you will need to make for your desired retirement income.



‘Most people realise that the state pension isn't going to provide them the level of income they want...’

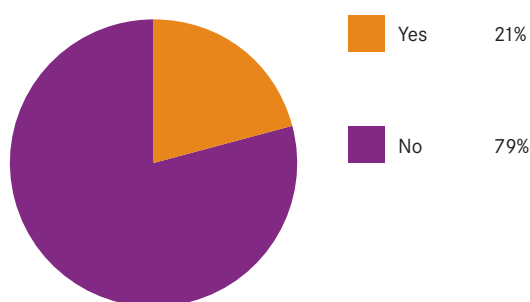


AEGON's survey results in detail:

Don't cut back on contributions

More than one in five people surveyed said they would reduce their pensions contributions before cutting back on luxury items if they had to spend less due to budgetary constraints. This increased to 25% for respondents between 30 and 40. It's important to maintain, or even increase, the contributions we make to our pension plans. Cutting back now will only result in a lower income in retirement. A financial adviser can help with prioritisation of budgets.

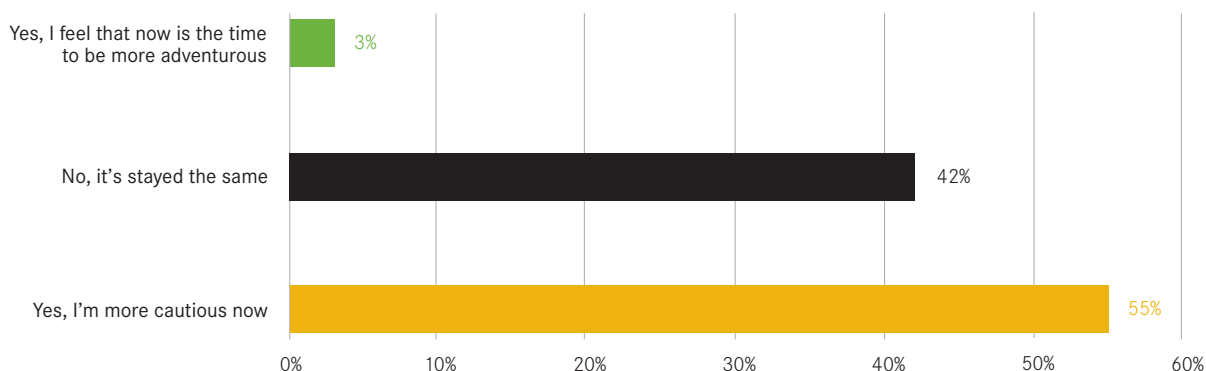
If you needed to spend less due to budget constraints, would you reduce your pension contribution before cutting back on luxury items?



Recognising investment opportunities

Over half of all respondents stated they were now more cautious in their attitude to investment risk. Only 3% recognised that current low equity values might well represent higher long-term opportunities for growth.

Has your attitude to investment risk changed in the current market?



‘Over half of all respondents stated they were now more cautious in their attitude to investment risk.’



‘...a little budgeting and planning now could reap rewards in years to come.’

Saving for the future

Nearly a quarter (23%) of all respondents say they have made some provision for their retirement, however they know they need to save more. A further 22% say they know they need to save more, but can't afford to increase their contributions.

Given today's tough financial climate, it's unsurprising that people feel they can't afford to increase their pension contributions. However, a little budgeting and planning now could reap rewards in years to come.

Again, this is where a financial adviser would be able to offer assistance in budgeting and putting proper plans in place to help people fulfil their retirement ambitions.

Which one of the following statements below best reflects your feelings towards retirement?	
I have made some provision for my retirement, however I know I need to save more	23%
I know I need to save more for my pension but I can't afford to increase my contributions	22%
I am satisfied that I have made adequate provision for a comfortable retirement	17%
I intend to continue working past the normal retirement age as I know I will not be able to live on my pension alone	11%
The state will look after me in my old age	9%
My property is my pension	8%
I'm too young to think about retirement - it doesn't concern me	6%
I expect my children/grandchildren will have to look after me financially in retirement	1%

Making your savings work harder for you

Our grandparents probably led very different working lives to us. Certainly, we always have the impression that in the past people tended to work longer for one employer, and relied on that employer to provide them with a defined benefit pension on retirement.

Today, it's a very different picture. People tend to change jobs regularly and build up different pension plans with different employers.

Over a full working life, it's easy to lose track of all these different pensions plans – especially if you stay with one employer only a short period of time. One answer may be to combine all your pension plans into a single pot. This may mean you only have to think about one plan, giving you a single view of how much money you have built up over your working life, and what type of income that could buy you in retirement.



‘Consolidating pension plans can allow you to manage your money better...’

Combining all plans may also mean reducing the charges on some, especially older, pension plans, saving money and helping build a bigger income.

Consolidating pension plans can allow you to manage your money better and plan more effectively for retirement. However, it also increases the buying power of your retirement fund as larger funds can often buy better value annuities, which will pay out a higher level of retirement income.

If you have accrued more than one pension fund throughout your working life, have you considered consolidating all of your pension pots from different providers?



Triggers for consolidation

The research found the main reasons people would consider consolidation were: poor fund performance at 35%, high charges at 31% and bad service at 24%.

When thinking about consolidation of multiple pension pots, the main points people should consider are what sort of pension it is and whether it can be transferred easily.

Sometimes there is a charge for moving a pension to another plan. This is now unusual if the pension is a defined contribution plan or money purchase plan – for example a personal pension – where the income you can buy on retirement depends on the contributions you have put in and the investment of the plan. But sometimes these pension plans are invested in ‘with profits’ funds, and some providers may apply a charge for moving the plan depending upon the market circumstances.

If the pension is a defined benefit scheme – where the income you receive in retirement depends upon how many years you have been a member and what your earnings pattern was – then it's very likely the transfer value you are offered from the pension is not equal to the value of the benefits. Trustees of the pension scheme will reduce the value, often to protect the remaining members of the scheme and to reflect current market conditions.

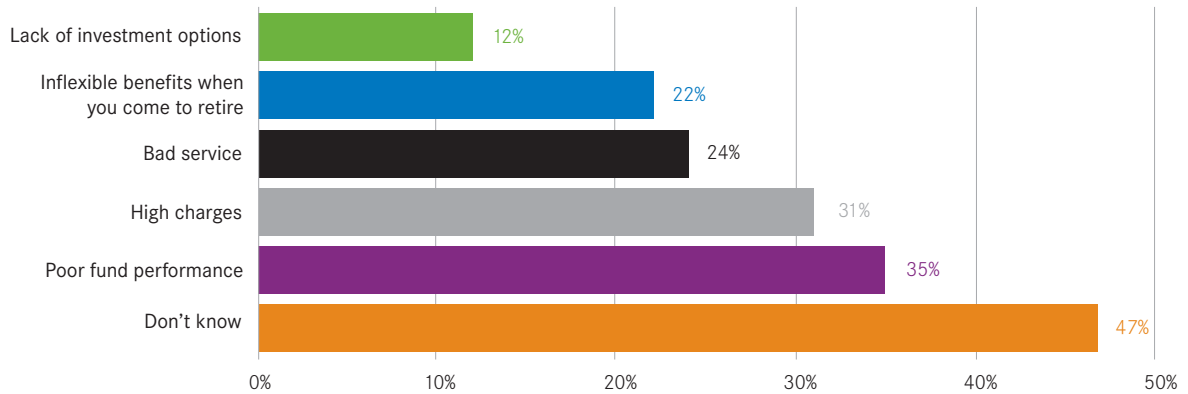
The charges applied will often depend on how far away from retirement you are.

As well as the plans you are considering moving, people also need to consider the plan they want to use to combine all their pensions.

People need to make sure that the move is for the right reasons, and need to consider the charges under the new plan, as well as how much they are paying for advice to combine the plans.



Which of the following would make you consider transferring your pension away from a pension provider?



Know the score

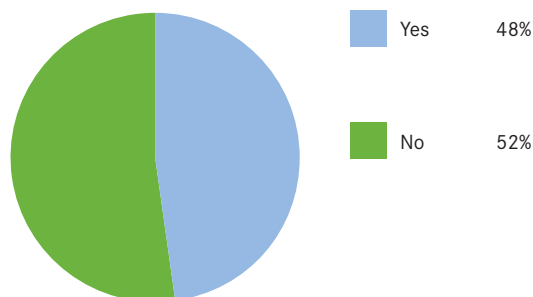
Before you can properly start to plan, you need to know the details of all your pensions arrangements. The research revealed that just over half the respondents do not know how to go about tracking down details of all their accumulated pension arrangements. The younger you are, the less likely you are to know how to get your hands on the information. For respondents between 30 and 40, 65% said they did not know how to track down details.

This could be as simple as writing to your previous employer and asking for a current fund value. AEGON has some helpful template letters available on its website (<http://www.aegonse.co.uk/pensions/saving-for-retirement/index.html>) that people can download to get them started.

If you can't remember details of your accumulated pension arrangements, or have simply lost touch with your previous pension provider, the pension tracing service can help you track down the details.

<http://www.thepensionsservice.gov.uk/atoz/atozdetailed/pensiontracing.asp>

Do you know how to go about tracking down details of all your pension arrangements from previous employers?



‘Before you can properly start to plan, you need to know the details of all your pensions arrangements.’



And finally...

What are people's options at retirement?

Rachel Vahey says:

For a defined contribution pension scheme the fund can be used to pay out a tax-free lump sum, and to buy a retirement income. The tax-free lump sum is usually worth 25% of the fund.

There are several different ways people can use their retirement fund to buy them an income.

However, the first thing to remember is not everyone wants to retire on one specific day – often people want to phase in their money over a period of time, by taking a smaller income to start off with, perhaps whilst they are still working part-time, and building it up over the years. There are pension plans that can be adapted to fit in with your working/retirement aspirations, and financial advisers can help design the right one.

There are three main choices of how to secure an income on retirement. These can be used on their own – or a combination can be used.

The first is to buy an annuity – which pays out a guaranteed level of income until someone dies. You can choose for this income to increase each year – at a set rate, say 3%, in line with inflation, or linked to investment returns. People can also choose for the income to continue to their partner, probably at a reduced rate, on their own death, so providing protection for loved ones. The upside for annuities is that they are guaranteed to be paid out, so the pension buyer does not have to worry about the income stopping. However, there is no opportunity to change the annuity once it has been bought, if for example, personal circumstances change.

An alternative, which gives much more flexibility, is income drawdown or unsecured pension. This option can pay a regular income from the fund, or it can be left untouched until age 75. This means that people do not have to lock themselves into an annuity decision at retirement, and can instead wait until later. The fund remains invested, and the buyer gets the benefit of any good investment returns. On death the remaining fund, less tax, can be paid out.

However, this option comes with risks for the buyer. Because it remains invested then if investment performance is poor this could affect the level of fund left, and there is always a chance that the fund could possibly become depleted or even run out.

The third option, guaranteed drawdown (sometimes referred to as third way or variable annuities) is a combination of the other two. It works like income drawdown, and has the same flexibility to change terms and offer a lump sum on death before age 75. However, the difference is, the income is guaranteed at a certain rate. So regardless of how long the person lives, or what other income plans they buy in the future, say an annuity, the guaranteed drawdown plan will pay out a set rate of income. This guarantee, like all guarantees in life, however, costs money.

Getting help from a financial adviser on retirement is key. They can help you decide what type of retirement income plan you both need and want, including how you can protect your family, and they can recommend the best place to buy that plan. Often buying a retirement income is a once-in-a-lifetime-decision. So, it's worth thinking about whether you need some extra help to make sure you make the right financial decision for the rest of your life.

[For more information on this report or for breakdown results by age, gender and region, please contact:](#)

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