The Aviva Real Retirement Report

Issue Eight

December 2011
Welcome to Aviva’s eighth Real Retirement Report. We have been tracking the concerns and finances of the three distinctive ages of retirement – pre-retiree (aged 55-64), retiring (65-74) and long-term retired (over 75) for two years now and have found distinctive trends emerging.

Each quarter we look at an area of particular concern to this age group with the focus for December 2011 on the journey to retirement. When do people start planning? At what age do they start worrying? What do they wish they had done more of?

It seems today’s over-55s only started actively thinking about retirement at 48 years of age but it took them another four years (52 years old) before they started seriously thinking about their retirement income. The situation is even more serious for some as over a third (37%) of economically active over-55s have yet to make any practical preparation for retirement (page 4).

This lack of preparation is likely to be linked to today’s retirees’ biggest regret – over two-thirds (67%) wish they had saved more for their retirement (page 6). This lack of provision was linked to lack of money (45%) for the vast majority but some said family commitments hampered their efforts (19%) and others said they were too busy to think about it (6%).

Household finances remain tight as the over-55s (who are more likely to have a fixed income than any other age group) felt the impact of significant inflation. However, this did not dissuade them from working towards securing their financial future and the number of people who were not saving hit the lowest level in two years (page 12).

Clive Bolton, ‘at-retirement’ director at Aviva
The three ages of retirement

The Aviva Real Retirement Report considers retirement as three stages to reflect the fact that ‘retirement’ has several different ages, rather than simply being a single event.

- **Pre-retirees** - (55 to 64 years old) are on the countdown to retirement but 30% still have outstanding mortgages (£57,942 – average outstanding balance) and on average they are repaying £2,732 worth of unsecured debt. Despite moving towards the end of their careers, 22% have savings of less than £500 and 39% are not saving anything each month.

- **Retiring** - (65 to 74 years old) have just passed the age at which people generally retire and while 22% are still working, many are looking to relax after a long working life. However, retiring may come as a shock to some as 10% have no savings and 11% still have a mortgage that they need to service.

- **Long-term retired** - (75 years and older) most are 10 years or more into retirement. Those with private pensions (37%) or employee pensions (53%) are likely to have annuitised. While 73% own their homes outright, a worrying 10% are still paying off a mortgage (average amount of mortgage debt - £52,498). Despite generally being less economically active, there is still a significant number of savers in this age group (61%).

### Population Trends

![Chart showing population trends by age group from 1986 to 2026.](chart.png)
Countdown to Retirement – The flight or fight syndrome

- People start actively thinking about retirement at 48 years old
- Over a third (37%) of economically active over-55s have yet to plan their retirement
- Two thirds (67%) of retirees wish they had saved more for retirement

Having tracked the over-55 generation for two years now, it has become clear that pre-retirees appear to be the least financially organised of the three age groups. Despite many being economically active, they have the smallest savings pots (£6,665 – Dec 2011), biggest debts (£79,598 – Dec 2011), and save the least each month (£28.06 – Dec 2011).

This lack of financial engagement appears to go against conventional wisdom which suggests that people use the final ten years before retirement to become more organised. With this in mind, this Aviva Real Retirement Report looks at when people start preparing for retirement in earnest and how they prepare.

**Late engagement:**

The typical age at which a person starts to actively think about retirement is 48-years old but it takes another four years (52 years old) before the majority of people start worrying or seriously thinking about their retirement income.

Although women have traditionally retired five years earlier than their male counterparts, this does not appear to have hastened their planning. Both sexes start actively thinking about retirement at approximately the same age (48 years old) but men (52 years old) start seriously thinking/worrying about their retirement income a year earlier than women (53 years old).

With the typical age at which people plan to retire being 61 years old, this only gives people 11 years to plan their finances for the remainder of their lives. Their financial situation naturally governs a person’s retirement activities and goals but the majority only starts thinking about what they would like to do in retirement at 54 years old, thus giving them significantly less time to make up any shortfall.

**Timeline to retirement**

![Timeline to retirement](image-url)
How to prepare?

While over a third (37% - Dec 2011) of economically active over-55s have yet to make any practical preparation for retirement, others have started to make plans to varying degrees. In fact, 39% (Dec 2011) have worked out how much income they will receive from their pension/investments and 25% have discussed the financial and emotional implications of retirement with their partner.

Almost a quarter (23% - Dec 2011) have started to research pension/annuity options, 22% (Dec 2011) are looking to pay off any unsecured borrowing as quickly as possible, and 17% (Dec 2011) say they have increased the amount that they are paying into their savings pots.

In addition, 15% (Dec 2011) have spoken to an independent financial adviser about their finances. Women (17% - Dec 2011) are marginally more likely than men (13% - Dec 2011) to speak to an IFA.

However, while some are preparing for retirement, others have decided that they do not want to give up work just yet. Seven per cent have discussed extending their working lives with their employer and 5% have retrained so they can work in another field.

Retiree wishes:

To understand the relative importance of each of these steps, we asked retired over-55s what they considered to be the two most important practical steps that they had made when preparing for retirement.

Working out how much income they would receive from their savings and investments (45%) was voted as the most critical choice, followed by discussing the implications with their partner (21%).

Barriers to action:

While a quarter (26% - Dec 2011) of people did not undertake any additional financial retirement planning after their fiftieth birthday, as they felt their retirement planning was ‘as advanced as it needed to be’, this was not the case for the majority. Worryingly, the highest percentage (47% - Dec 2011) said ‘lack of money’ meant they were unable to do more preparation.

In addition to this, almost one in five (19% - Dec 2011) said family commitments meant they were unable to do more planning for their retirement and 15% (Dec 2011) intended to work for as long as they were able so felt less need to plan their finances.

The ‘flight or fight’ syndrome suggests that people put off dealing with difficult issues to avoid panic and this is something that can be seen clearly with retirement planning. Indeed, 8% (Dec 2011) said ‘they were simply too busy to think about it’ and a worrying 4% (Dec 2011) admitted they assumed they had enough but ‘were too worried to check’.

Lack of money (53% - Dec 2011) and family commitments (22% - Dec 2011) were bigger barriers for women than men (44% and 17% - Dec 2011) respectively.

“Everyone’s financial circumstances have been affected by the recent economic downturn, with almost half of over-55s citing a lack of money as a true barrier to improving their retirement finances. However, there are also powerful psychological barriers to saving we must take into account in order to improve the retirement finances of future generations. Simply telling people to save more is not enough.”

Clive Bolton, ‘at-retirement’ director at Aviva
Retirement Regrets:
Over two-thirds (67% - Dec 2011) of today’s retirees wished that they had saved more for their retirement. Interestingly, men (67% - Dec 2011) are marginally more likely than women (66% - Dec 2011) to feel they should have saved more – potentially supporting the theory that despite earning higher salaries, men do not always make the most of their money.

In the Aviva Real Retirement research, we have observed a ‘retirement bounce’. This is the phenomenon whereby people in the first few years of retirement (65 – 75 years old) experience more worry and lower optimism as they get used to not working and potentially - for some - surviving on a lower income.

Regrets also increase and the 65 – 74s (70% - Dec 2011) who are no longer economically active are most likely out of all the groups to regret not saving more – 55-65 (65% - Dec 2011) vs. over-75 (58% - Dec 2011).

Personal choice:
While the end to the Default Retirement Age in October 2011 has meant that people can no longer be forced to retire by their employers, some still have a specific age in mind. Indeed, nothing would change 39% of people’s decision on when they want to retire.

However, for 61% (Dec 2011) of people, changes to their financial, employment or personal circumstances could move their retirement date. A quarter (26% - Dec 2011) would keep working if they were able to find a job they could do when they were older, 18% (Dec 2011) would stay on if their employer offered them flexible/part-time work, and 13% would stay (Dec 2011) if their employer asked them to stay on.

While remaining in the workforce either due to financial or social reasons was the factor for many, other retirees suggest they would have put off retirement if they were told just how little income they would get in retirement (19%) or their pensions/investment underperformed (17%).

With 11% of people being forced out of work due to ill-health, 8% (Dec 2011) said they would return to work if their health improved.
“It’s been said that today is the tomorrow we failed to plan for yesterday, and, as the Aviva study clearly shows, this holds especially true when it comes to financial planning for retirement.

“There are three main reasons why even the most sensible and intelligent men and women fail to prepare properly for the day they retire. The first is that, for most people, the prospect of saying goodbye to a way of life that has interested and rewarded them for decades, proves highly stressful. Powerful negative emotions trigger the psychological defence mechanisms of avoidance – ‘it won’t happen if I don’t think about it’ or denial – ‘it’s never going to happen to me!’

“These reactions are most likely to occur in Aviva’s first stage of retirement (pre-retirees). Ask most people what they do and most will tell you what he or she does at work. This close association between self-identity, self-worth and the job done, means retirement is often seen as psychological death.

“With any bereavement this can result in anger directed at others – ‘how dare my company throw me on the scrap heap!’ – or anger turned against oneself as guilt – ‘why didn’t I prepare better for retirement!” As before, powerful emotions that can get in the way of practical planning. These responses are most likely to occur in Aviva’s second stage of retirement (retiring). In the third and final stage comes regret and, since it is usually too late to do anything to improve one’s situation, reluctant acceptance.

“In addition to these two psychological factors we also need to consider a third barrier to effective financial planning - the MYGO factor. Standing for ‘My Eyeballs Glaze Over!’ It describes how many people react to anything involving numbers. Finding figures tricky to understand or even to think about, they put their pension plans on a mental ‘backburner’ until ‘in the mood to deal with them’. Sadly they never feel ‘in the mood’ so nothing gets done!”

Dr David Lewis, psychologist, author of Life Unlimited! Peak Performance Past Forty
Economic Overview:

- Over-55s RPI (5.4%) vs. all UK (5.4%)

The over-55s RPI jumped significantly between September 2011 (4.76%) and December 2011 (5.41%) as costs which make up a significant amount of their monthly spend soared. For example, annual inflation on fuel and light rose from 8.57% (Sep 2011) to 20.21% (Dec 2011). This brings over-55s RPI in line with the rest of the UK’s RPI but is likely to have much more impact on this group as the majority are on a fixed income.

CPI vs RPI

![CPI vs RPI graph]

Annual rate of inflation:

However, while over-55s may now be experiencing the same level of overall inflation as the rest of the UK, their ‘shopping-basket’ is likely to be different from most other age groups.

For example, with 59% (Dec 2011) owning their own home outright they are unlikely to be in a position to benefit from the very low inflation (1.20%) on housing.

The cost of essentials has seen significant year on year inflation – food (5.75%), clothing and footwear (12.59%) and personal goods and services which includes some medicine (4.29%) have all risen. However, there may be some light at the end of the tunnel as while the annual cost of food has increased 5.75%, this is lower than the annual increase recorded last quarter (6.75%).

The impact of this market force is something that the UK’s over-55s are acutely aware of and 36% (Dec 2011) say they are worried about their pension being eroded by inflation. The retiring (65 – 74) are the most worried (40% - Dec 2011) but as they settle into late retirement these worries ease (over-75 – 33% - Dec 2011).
Income

- The most common source of income for over-55s is a State Pension (57% - Dec 2011) then an employer pension (39% - Dec 2011) followed by wages/earned income (38% - Dec 2011)
- Despite inflation at 5%, over-55s income is down 4% to £1,285 (Dec 2011) from £1,335 (Dec 2010)

Rather than focusing simply on the amount of income the UK’s over-55s receive, the data – compiled exclusively for Aviva’s Real Retirement Report – focuses on the sources of income. This allows meaningful tracking of trends across the three age groups.

The largest single source of income for over-55s is the State Pension with 57% (Dec 2011) receiving this income. It is interesting to note that in March 2011 (61%) the number of over-55s claiming the State Pension was higher. This is likely to be due to a combination of factors including: the end to the Default Retirement Age, people deferring taking their pension, and women having to wait longer until they are eligible to claim.

The second largest single source of income for this group is employer pensions (39% - Dec 2011). Men (46% - Dec 2011) are significantly more likely than women (29% - Dec 2011) to draw some of their income from this source. This is likely to be due to more women taking time off from their career to raise a family.

Working longer:
Wages and earned income (38% - Dec 2011) is the third most popular source of income for the over-55s. Predictably, the number of people who derive part or all of their income from this source drops with age – from 55% (55 – 64) to 22% (65 – 74) to 10% (over-75s).

When we look back to the first Aviva Real Retirement Report in January 2010, we see the same picture – 41% (55 – 64) to 18% (65 – 74) to 9% (over-75). However, the percentages were lower in 2010 – suggesting that in the current economic climate with the abolition of the Default Retirement Age and significant inflation, those over-55s who are able to work are doing so.

Personal pensions:
A third (33%) of over-55s derive income from a private pension. While it is to be expected that some people in the pre-retirees (55 – 64) have yet to access their pension and thus only 23% (Dec 2011) of this age group derive an income from this source, the statistics for the older generations reveal a more worrying trend.

While 45% (Dec 2011) of the retiring (65 – 75) have a private pension, just 37% of the long-term retired (75+) claim they derive an income from this source. This is likely to be due to people choosing single rather than joint-life annuities and when they pass away, leaving their spouse with a much reduced income.

“The fact that we see the number of people deriving an income from a private pension drop as they age highlights just how important choosing the right annuity is. It appears that some simply pick the product they think will give them the largest income when they take it out - without considering inflation and how their spouse will fare in the future.”

Clive Bolton, ‘at-retirement director’ for Aviva
Investment and savings income:
The number of people who derive an income from savings and investments has increased from 26% (Sep 2011) to 28% (Dec 2011). As there has not been an increase in the base rate, and the majority of savings accounts have failed to keep up with inflation, this seems to suggest that they are using the capital rather than the income to survive. This puts some over-55s in a precarious situation if the world economic situation does not improve.

Income from property:
While 9% (Dec 2011) of over-55s claim to own a second property, just 5% (Dec 2011) say they claim an income from this source. Therefore, it is safe to assume that some of these properties are not buy-to-let investments but holiday homes, time-share or property used by other family members.

Money from family:
Just 1% of over-55s say they regularly receive money from their family members, but women (2% - Dec 2011) are more likely than men (1% - Dec 2011) to receive help in this way. This links in with research recently published in Aviva’s Family Report which highlighted the fact that people were more likely to help their mothers financially than their fathers.

Income changes:
The median income – person in the middle of the sample – for the over-55s is £1,285 per month (Dec 2011) which is up slightly from last quarter (£1,216 – Sep 2011), but down 4% on the same-time last year (£1,335 – Dec 2011).

The long-term retired (over 75 - £1,125 – Dec 2011) have the lowest income followed by the pre-retirees (£1,271 – Dec 2011) and then the retiring (£1,388 – Dec 2011). The ‘retirement-bounce’ when payouts from the state pension or a company pension lift income is a phenomenon that has remained constant since these figures were first tracked in January 2010.

Average monthly income by age group

Although the median income for the over-55s is £1,285 (Dec 2011), 11% survive on less than £500 per month and 20% survive on less than £750 per month. Women (30%) are over twice as likely as men (14%) to live on a monthly income of less than £750 per month. The long-term retired who have stopped working and may not have much of their original savings pot left are the most likely to be living on this low income – 55-64 (20%) vs. 65 – 74 (17%) vs. over-75 (23%).

At the other end of the scale, 21% (Dec 2011) of over-55s have an income of more than £2,500 per month. The retiring (22% - Dec 2011) are most likely to receive this level of income due to the fact that many are still working.

This theory is backed up by the fact that 42% (Dec 2011) of over-55s in employment have an income of more than £2,500 compared to 18% (Dec 2011) of those who are retired – a statistic which clearly highlights the income drop that many people can expect when they retire.
Expenditure

- Top five expenses are housing (22% - Dec 2011), food (15% - Dec 2011), debt repayment (15% - Dec 2011), fuel and light (9% - Dec 2011) and entertainment, recreation and holidays (7% - Dec 2011)

Expenditure is naturally different for each age group, region and marital status so this section focuses on the expenditure of those who actively pay for or purchase goods and services. The top five typical expenses for the over-55s are housing (22% - Dec 2011), food (15% - Dec 2011), debt repayment (15% - Dec 2011), fuel and light (9% - Dec 2011) and entertainment, recreation and holidays (7% - Dec 2011).

The top five typical expenditures for the over-55s have remained largely stable since the last quarter. It appears that over-55s are working hard to maintain their standard of living – in the face of significant inflation – by down-shifting their spending. However, they are worried and 30% (Dec 2011) of economically active over-55s are concerned that when they retire they ‘will be unable to afford the little things that make life worth living’.

Average over-55s expenditure - Top Expenses

- Housing (mortgage or rent)
- Debt repayment
- Food
- Fuel and Light
- Entertainment, recreation and holidays
- Motoring
- Other expenditure

Interestingly, we have seen an increase in the amount of income spent on debt repayment from 11% (Dec 2010) to 15% (Dec 2011). However, this change has coincided with the gradual increase in the debt burden that this age group shoulders, so this change is likely to be due to them keeping up with repayments rather than actually increasing the amount repaid.

It is also interesting to note that the amount spent on fuel and light (9% - December 2011) is the same amount as was spent last year (9% - December 2010). According to Met Office Statistics, December 2010 was one of the coldest months since 1910 but the weather - thus far over this period – in 2011 has been far warmer. Thus, we can clearly see the impact of double digit (20.21%) inflation in the cost of fuel and light. This is worrying as it raises the question how can those 20% (Dec 2011) of over-55s who survive on less than £750 per month afford to heat their homes if there is another cold snap?

Age specific costs:

The percentage of income that the over-55s spend on their homes gradually decreases as they age and pay off their mortgages – 23% (55 – 64) to 22% (65 – 75) to 20% (over-75).

However, the fact that it still remains the largest single outgoing for this group, reminds us that paying off a mortgage is not the only cost associated with owning a home and people need to ensure they have sufficient savings for its upkeep.
Assets

- Typical savings pots have fallen 27% since December 2010 – as inflation hits hard
- Number of non savers hits lowest level in two years
- One in ten over-75s is still repaying a mortgage (£52,498 – average mortgage debt - Dec 2011)

The typical person over 55 has £11,153 (Dec 2011) in savings and investments and has housing equity worth £223,112 (Dec 2011). Median savings have fallen over a quarter (27% - Dec 2011) since the same time last year (£15,262 – Dec 2011) as some over-55s find themselves dipping into their savings pots to meet day-to-day costs.

However, this decrease in typical savings is not only due to people spending their savings but also due to the number of ‘new savers’. Indeed, the number of over-55s with no savings has fallen too, from 16% (Dec 2010) to 15% (Dec 2011) and the number of people with savings of less than £2,000 has also fallen from 28% (Dec 2010) to 25% (Dec 2011). The over-55s appear to be doing their best to build up a savings pot – even if it is a small one.

The retiring (£21,070) have the highest level of savings followed by the long-term retired (£8,498) and then the pre-retirees (£6,665). The jump that happens when people retire is likely to be due to the lump-sum gained from an annuity, rather than any sudden improvement in savings ethic.

The typical savings for the long-term retired and retiring have remained relatively stable since last year. However, we have seen a significant decrease for the pre-retirees – £11,903 (Dec 2010) to £6,665 (Dec 2011) – the tough economic climate, unemployment and significant inflation appears to be hampering their efforts to build up a nest egg prior to retiring. Women (£5,468 – Dec 2011) have significantly less in savings than men (£18,844).

Regular savers:
The number of over-55s who are saving something each month rose from 59% (Dec 2010) to 64% (Dec 2011) as the older generation have looked to improve their financial security.

While the number of people saving increased, the amount saved per month fell by 14% between December 2010 (£31.17) and December 2011 (£26.90) as over-55s worked hard to save but were unable to consistently put away significant amounts.

“It is good news that people are looking to get into the savings habit, but they also need to consider ways in which they can save more. On the other hand, retirees must also balance savings activity against paying down existing debt, which may carry significant interest rates.”

Clive Bolton, ‘at retirement’ director for Aviva.

The number of over-55s who are not saving hit the lowest level since the Aviva Real Retirement Report started tracking this data – 36% (Dec 2011) compared to 41% (Dec 2010) compared to 39% (Jan 2010) – which is good news. This supports the theory that overall savings have dropped as the relatively modest savings pots of new savers are bringing the typical size down.

That said, while the pre-retirees (39% - Dec 2011) and retiring (33% - Dec 2011) have both seen the lowest number of non-savers this quarter, this is not the case for the long-term retired (39% - Dec 2011).

This group saw the smallest number of non-savers in September 2011 (26%) – suggesting that while people might have good intentions, it can be difficult to sustain them. The relative importance of saving has not gone unnoticed and 23% of economically active over-55s are worried about coming to the end of their savings when they retire.
Gender divide:
In March 2010, there were more women savers (60%) than men (59%). However, while this held true for the first half of 2010, this has now changed and more men (65% - Dec 2011) save than women (62% - Dec 2011). This is likely to be due to the fact that women (£1,092 – Dec 2011) have a net monthly income which is 27% lower than men’s (£1,493 – Dec 2011) so they are likely to be feeling the pinch more.

Homeownership:
In December 2011, 59% of over-55s own their own homes outright and 20% own their homes with a mortgage. In addition to this 11% live in social housing, 8% in private rental accommodation and 2% in sheltered accommodation. These figures have stayed broadly the same since the last quarter.

The long-term retired (73% - Dec 2011) were most likely to own their own homes outright followed by the retiring (72% - Dec 2011) and the pre-retirees (46% - Dec 2011). This seems to suggest that while people are likely to move house and remortgage several times in their lives, the majority have a plan in place to repay their borrowing before they retire – even if it is simply to use some of their pension lump sum.

That said, the fact that one in ten over-75s are still repaying a mortgage (£59,498 – Dec 2011) is worrying as they are less likely to be working and more likely to have a fixed income.

Property wealth:
Overall, the average house owned by the over-55s is worth £238,284 (Dec 2011) which is 46% more valuable than the typical UK home (£163,311). The long-term retired have the highest mean equity (£262,508 – Dec 2011) of all the age groups as just 10% have mortgages.

Over 55’s assets

<table>
<thead>
<tr>
<th>Value of assets (average house value and median savings by age group)</th>
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<td>Over-55s' assets</td>
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Over-55s also have the most valuable properties of all the age groups (£268,833 – Dec 2011) followed by the pre-retirees (£236,181 – Dec 2011) and the retiring (£233,138 – Dec 2011). It appears that when some people retire, they downsize thus bringing down the typical value of a 65 – 74 year-old’s home.

It is interesting to note that with the typical pension pot standing at £26,940 – the over-55s have more than eight times as much equity in their homes (£223,112 – Dec 2011) as they have invested in their formal retirement savings. This simple fact adds weight to the case for the widespread take up of equity release – be it via formal plans such as lifetime mortgages or via down-sizing. With today’s retiring (55 – 65) being in a worse financial position than the generations ahead of them, we are likely to see this industry grow significantly.
Borrowing

- Debt increase to £21,901 (£19,878 – March 2011)
- Over a third of over-55s have a credit card – but typical borrowing only increased £242 since start of the year to £3,553

While baby-boomers were the first generation to be truly comfortable with debt and benefit from freely available credit, this attitude means that some will be entering retirement with substantial repayment obligations.

Excluding mortgage debt, the mean debt of all over-55s with debts is now £21,901 (Dec 2011) which is up from the start of the year - £19,878 (March 2011). The total debt of those with mortgages and other debts is £80,849 (Dec 2011) which is slightly down from £84,985 (March 2011) but still a substantial burden to be shouldering in the final ten years before retirement.

The most common type of borrowing is credit cards (39% hold at least one – Dec 2011) followed by personal loans (23% - Dec 2011), overdrafts (20% - Dec 2011) and hire purchase (14% - Dec 2011). The average amount owed by an over-55 on a credit card is £3,553 (Dec 2011) which is up from the start of the year (£3,311 – March 2011).

Percentage of over-55s who hold unsecured borrowing products:

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<th>55 – 64</th>
<th>65 – 74</th>
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<tbody>
<tr>
<td>Credit Cards</td>
<td>43%</td>
<td>36%</td>
<td>34%</td>
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<tr>
<td>Personal Loans</td>
<td>26%</td>
<td>19%</td>
<td>17%</td>
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<tr>
<td>Hire Purchase</td>
<td>16%</td>
<td>10%</td>
<td>11%</td>
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<tr>
<td>Overdraft</td>
<td>23%</td>
<td>14%</td>
<td>20%</td>
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Borrowing appears to have increased across the board with the exception being the over-75s who are now accountable for slightly fewer hire purchase agreements (11% - Dec 2011 vs. 12% - Sep 2011).

That all borrowing for the over-55s has risen seems to indicate that they are using credit more often but whether they repay short-term borrowing such as overdrafts and credit cards in full each month remains to be seen. However, with the typical credit card debt increasing by just £242 since the start of the year, it is fair to suggest that they do try to avoid doing this, but it is not always possible.

They are also getting marginally more comfortable with servicing debt and just 5% (Dec 2011) are worried about keeping on top of their borrowing over the next five years.
Over-55s Worries:

- Over-55s less optimistic than last year
- Unexpected expenses consistent worry over six months and five years
- Worries around tax decrease

**Over-55s’ optimism:**
As part of the Real Retirement Report, Aviva has been tracking over-55s’ optimism about how they feel their standard of living will change over the next quarter. Despite the current news about European debt and its potential impact on the UK, over-55s’ views have changed very little since last year.

Indeed, 3% (Dec 2011) think their standard of living will improve in Q1 2012, while 64% (Dec 2011) believe it will stay the same and 33% (Dec 2011) feel it will deteriorate. However, it is interesting to note that compared to last quarter, the over-55s are less pessimistic with fewer predicting a deterioration in their standard of living (33% - Dec 2011 vs. 35% - Sep 2011).

**What do you believe will happen to your standard of living over the next quarter?**

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<th>Improve</th>
<th>Stay the same</th>
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<tbody>
<tr>
<td>Feb 2010</td>
<td>3%</td>
<td>75%</td>
<td>22%</td>
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<tr>
<td>May 2010</td>
<td>5%</td>
<td>67%</td>
<td>27%</td>
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<td>Aug 2010</td>
<td>6%</td>
<td>65%</td>
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<td>Dec 2010</td>
<td>4%</td>
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</tr>
<tr>
<td>March 2011</td>
<td>5%</td>
<td>59%</td>
<td>37%</td>
</tr>
<tr>
<td>June 2011</td>
<td>3%</td>
<td>63%</td>
<td>34%</td>
</tr>
<tr>
<td>Sep 2011</td>
<td>4%</td>
<td>60%</td>
<td>35%</td>
</tr>
<tr>
<td>Dec 2011</td>
<td>3%</td>
<td>64%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Six month overview:**
The rising cost of living (74%) was the biggest fear for the over-55s over the next six months followed by falling return on savings (31%) and unexpected expenses (34%). These demographic fears about the rising cost of living have remained relatively consistent since June (73%), but have fallen significantly since March 2011 (83%).

**Tax relief:**
Outside the top five worries, an increase in taxes has also been on some over-55s’ minds. However, since the start of the year it has dropped significantly from 26% (March 2011) to 13% (Dec 2011) as people appear to believe that the Government will not introduce any significant tax hikes in the current environment.

The retiring (28% - March 2011) – possibly due to the fact that they are due to collect a tax-free lump sum from their pensions were the most worried but this has eased over the year (14% - Dec 2011).

**Long-term concerns:**
Over the next five years, 91% of over-55s believe that there are some threats to their current standard of living. The two biggest worries are the rising cost of living (72%) and unexpected expenses (34%). Again, these concerns are fairly constant and they are unlikely to shift in the near future.

With so much discussion about ‘do it yourself’ retirement financing, it is interesting to note that ‘making the most of their money’ is actually a key concern with 28% worried about the falling return on savings and 21% worried about the falling return on investments.

**Care fears:**
While the Dilnot Commission provided some suggestions as to how people should fund care, whether these have been adopted will only be disclosed in early to mid-2012. Thus, the fact that 21% (Dec 2011) of over-75s are worried about how they will meet care costs is understandable. The fact that only 3% (Dec 2011) of pre-retirees are worried about the same issue highlights the fact that most people prefer to think about the ‘here and now’.
Regional overview

- Over-55s in Scotland and South East have highest incomes
- Those in the North East are the most likely to be paying off a mortgage over the age of 55 (29%)

Over-55s in Scotland (£1,445 – Dec 2011) and the South East (£1,513 – Dec 2011) have the highest incomes. They receive over £400 more per month than those at the other end of the scale in Wales (£1,100 – Dec 2011) and the West Midlands (£1,136 – Dec 2011).

The Scots (£17,499 – Dec 2011) also have the highest typical savings – considerably more than the national figure (£11,153 – Dec 2011) and the region with the lowest savings (East Midlands - £4,623 – Dec 2011).

However, while the Scottish have the highest income and savings, they do not have the highest house prices or typical equity. Those in Yorkshire (£162,333 – Dec 2011) and the West Midlands (£183,512 – Dec 2011) have the least valuable homes.

Over-55s in London (£382,051 – Dec 2011) and the South East (£311,719 – Dec 2011) have the most valuable houses – a fact which potentially means that they would have spent more of their income on mortgage repayments leaving them less able to save. They also have the highest equity – London (£364,117 – Dec 2011) and South East (£290,690 – Dec 2011).

Those in the North East (29% - Dec 2011), Yorkshire (27% - Dec 2011) and the South East (25% - Dec 2011) are most likely to be paying mortgages over the age of 55. On the other hand, those in the West Midlands (12%) are least likely to have a mortgage at this age, suggesting that they are putting their efforts into paying off this type of borrowing rather than saving or putting money into a pension.

Despite the fact that the Scots have the highest income and significant savings pots, they are also the most likely to say they wish they had saved more for retirement (71% - Dec 2011). Significant numbers of people in the East (70% - Dec 2011), Yorkshire (69% - Dec 2011) and London (69% - Dec 2011) were also of this opinion.

However, despite having relatively modest monthly incomes (£1,204 – Dec 2011), only 48% (Dec 2011) of those in the North East wished that they had saved more.

<table>
<thead>
<tr>
<th></th>
<th>Average house price</th>
<th>Average mortgage</th>
<th>Own house outright</th>
<th>Number of Over 55s</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>East</td>
<td>£243,945</td>
<td>54%</td>
<td>1,706,000</td>
</tr>
<tr>
<td>2</td>
<td>London</td>
<td>£382,051</td>
<td>47%</td>
<td>1,574,100</td>
</tr>
<tr>
<td>3</td>
<td>East Midlands</td>
<td>£210,387</td>
<td>62%</td>
<td>1,305,200</td>
</tr>
<tr>
<td>4</td>
<td>West Midlands</td>
<td>£183,152</td>
<td>65%</td>
<td>1,568,900</td>
</tr>
<tr>
<td>5</td>
<td>North East</td>
<td>£208,190</td>
<td>53%</td>
<td>765,700</td>
</tr>
<tr>
<td>6</td>
<td>North West</td>
<td>£200,000</td>
<td>60%</td>
<td>1,977,600</td>
</tr>
<tr>
<td>7</td>
<td>Scotland</td>
<td>£204,844</td>
<td>56%</td>
<td>1,512,000</td>
</tr>
<tr>
<td>8</td>
<td>South East</td>
<td>£311,719</td>
<td>58%</td>
<td>2,458,000</td>
</tr>
<tr>
<td>9</td>
<td>South West</td>
<td>£288,870</td>
<td>59%</td>
<td>1,696,900</td>
</tr>
<tr>
<td>10</td>
<td>Wales</td>
<td>£196,250</td>
<td>70%</td>
<td>938,100</td>
</tr>
<tr>
<td>11</td>
<td>Yorkshire</td>
<td>£162,333</td>
<td>61%</td>
<td>1,475,100</td>
</tr>
<tr>
<td></td>
<td>UK</td>
<td>£238,284</td>
<td>59%</td>
<td>16,977,600</td>
</tr>
</tbody>
</table>
So what does this tell us?

This edition of the Real Retirement Report takes another look at over-55s finances and focuses a spotlight on the issues around financial management immediately before retirement. When do people intend to retire? When do they first start thinking about retirement? Do they believe that they are saving enough? All these questions are addressed and leads us to suggest the following practical suggestions:

1. **It is never too early to start planning your retirement** – While people will naturally have a wide variety of different financial priorities, it is important that plans are put in place to secure your retirement finances. Starting seriously to think about retirement at 48 is simply too late.

2. **Consider your borrowing** – Debt is part of most people’s lives but it is vital that people repay their mortgage and any unsecured borrowing before they retire. No one wants to be repaying a £52,498 (average - Dec 2011) mortgage when they are over-75.

3. **Ignorance is not bliss** – Almost half (46%) of retirees suggest working out how much income you will receive from pensions and investments is vital to preparing for retirement. If you know how much you will receive, you will know how much you still need to save.

4. **Build your own retirement** – With the end to the Default Retirement Age, people can keep working – either in their current role or in a new role – for as long as they want to. Don’t be afraid to broach this topic with your employer or consider retraining as it is your prerogative.

“Following these simple tips will mean that people enjoy a better standard of living in retirement with fewer worries.”

Clive Bolton, ‘at retirement’ director for Aviva.
Methodology

The Real Retirement Report was designed and produced by Wriglesworth Research. As part of this more than 11,600 UK consumers aged over 55 were interviewed between February 2010 and November 2011.

This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics become apparent.

Additional data sources include:

- UK Met Office – January 2011 – Temperatures
- Halifax House Price – October 2011
- ABI – Q2 2011 – Typical UK pension pot

Technical notes

- A **median** is described as the numeric value separating the upper half of a sample, a population, or a probability distribution, from the lower half. Thus for this report, the median is the person who is the utter middle of a sample.

- An **average** or **mean** is a single value that is meant to typify a list of values. This is derived by adding all the values on a list together and then dividing by the number of items on said list. This can be skewed by particularly high or low values.

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