Foreword

This is the fourth Aviva Real Retirement Report, a quarterly analysis of the finances and related concerns of people in three distinctive ages of retirement (55 - 64; 65 - 74 and over 75) (see page 3). This report covers the quarter to December 2010.

In April 2011, as part of age discrimination legislation, the default retirement age will be abolished, meaning that people will no longer be forced to retire when they hit a specific age. This will open up a world of possibilities for the over-55s who now will be able to stop working at a time to suit them and their finances – DIY retirement. The move could also see an increase in down-shifting working habits immediately before retirement. This report investigates this phenomenon and looks at traditional drivers behind finishing work and how these may change (page 4).

In addition, we track the latest trends on subjects covered in previous reports to develop the broadest possible understanding of this important population group. The key trends identified in this quarter’s report are:

December spotlights

- **DIY retirement and down-shifting** – 33% of retired people say they only stopped working because their employer suggested it or they had reached the ‘normal age of retirement’ at their place of work (see page 4).

Overview of finances for the three age groups

- **Housing now largest single expenditure** – 18% of over-55s’ expenditure is on housing as consumers cut back spending on food to pay off debts (see page 6)

- **Number of low income over-55s falls slightly** – The proportion of people surviving on less than £750 per month falls from 21% (September) to 20% (December) (see page 9)

- **Mean savings fall** – As people look to pay off debts, the mean savings have fallen from £143 (September) to £140 (December) (see page 10)

- **Significant increase in over-55s’ fears about rising cost of living** – both for the next six months and the next five years (see pages 12 / 13)
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.

Three ages of retirement

- **Pre-retirees** - (55 to 64 years old) are on the countdown to retirement but many still have outstanding mortgages and may not be saving enough to fund the retirement lifestyle they desire.

- **Retiring** - (65 – 74 years old) have passed the current Government retirement age but some may still be working either full-time or part-time.

- **Long-term retired** - (75 years and older) most are 10 years or more into retirement. The majority of people with private pensions will have been collecting income from their annuities for several years now.

Population trends
Spotlight: DIY retirement and down-shifting

Rise of DIY retirement
As part of age discrimination legislation, from 06 April 2011 businesses will no longer be able to tell employees that they need to retire at the age of 65. These changes have significant implications, not only for businesses, but all UK citizens, particularly those approaching retirement.

Involuntary retirement
Currently, 33% of over-55s retire either because their employer suggested it or they ‘reached the normal age of retirement’ at their place of work. In addition, 20% retire due to chronic or age-related health conditions and 10% retire as a result of being made redundant. With the impetus to retire removed, Aviva predicts that we will see people taking more of a “Do It Yourself” approach to entering retirement.

Focus on health and retirement
When people plan for retirement, very few people consider that ill-health may force them to retire before they want to. However, research shows that almost one in five (19%) stop work due to chronic or age-related health issues. Women (18%) are marginally less likely than men (19%) to be pushed into retirement by these issues. With predictions that the UK population is steadily becoming more unhealthy, it is interesting to note that more 55-64 year olds (23%) cite health as the reason behind their retirement than over 75 year olds (19%). This highlights the fact that this trend may well continue to grow.

Rather than simply giving up work, 58% of people look to reduce their work commitments or “down-shift” in the run up to retirement – starting at an average age of 57. Of those who did not plan to down-shift, 17% said that their choice of career would not allow them to and 25% said that they did not want to.

Unable to down-shift
Of those who were unable to down-shift, this was normally put down to having a career which required a set number of hours to be worked, or having a job that did not allow down-shifting (39%). However, for 29% the need to maintain financial commitments – such as bills - was paramount. The drive to save as much as possible for retirement also had an impact on people’s decisions and 13% chose to keep working in order to do this.

Different flavours of down-shifting
Down-shifting takes a variety of forms with 21% working fewer days and 15% working fewer hours, while remaining in the same career. Others switched to a different form of employment, 16% decided to move to a less stressful role, 11% moved to consultancy work and 11% turned a hobby or interest into an income-generating career.

“As longevity increases, people are finding that they don’t necessarily want to retire completely in later life. As a result we are seeing the rise of down-shifting whereby people continue to be economically active and gain benefits of employment, but without the stress and long hours that they may have experienced at other times in their career.”

Clive Bolton, ‘at retirement’ director for Aviva
Desire to shift careers
As age discrimination legislation comes into force, concerns have been raised that, as people put off retirement, the younger generations will suffer if they are unable to climb the career ladder. However, 60% of over-55s do not want to keep working for their current employer past the traditional retirement age (60 for women and 65 for men). This highlights the fact that while people do want to remain economically active, they are looking for a more flexible approach to work or new challenges.

The top three jobs that over-55s consider to be ideal ‘part-irement’ roles are office administration (13%), full-time or supply teaching (7%) and working in a shop (7%). So, while we are likely to see people working well into later life, their ‘second career’ aspirations appear to focus on more flexibility, giving-back to the community, lower stress and a high level of interaction with people, rather than climbing the corporate ladder.

However, while administration and retail work do not necessarily require specific training, choosing to change career to become a teacher in later life does. It is then important that people factor any costs or retraining requirements into retirement planning.

Focus on redundancy and retirement
For 11% of people redundancy was the impetus behind retirement as employers chose to target people close to the end of their careers. Men (11%) who have historically received higher salaries are more likely than women (8%) to be made redundant.

In addition, the economic turmoil and resulting job losses of the past few years are apparent. Over twice the number of 55 – 64 year olds (11%) said redundancy caused them to retire than those who are aged over 75 years (5%).

Focus on caring careers in later life
When asked what their ideal job would be in later life, many people focused on giving something back to the community. Three per cent of people were looking to become carers and 2% highlighted volunteer work. In addition, animal welfare (2%), charity work (2%) and counsellors (1%) were also popular choices.
Inflation and spending patterns

While general inflation (RPI) rose at a roughly similar rate for non-pensioners as it did for pensioners over the last ten years, the pensioner’s ‘shopping basket’ is skewed towards certain products and services. As a result, they experience different peaks and troughs compared to other consumers.

Annual inflation rate

For over-55s, the cost of living in the year to November 2010 increased to 3.58% (Retail Price Index - RPI) which is below the 4.5% (RPI) experienced by all population groups in the UK. The RPI is traditionally viewed as more volatile than the Consumer Price Index (CPI) which tracks a similar ‘basket of products’ with the exclusion of housing.

The over-55s spend less of their income on housing (18%) than other age groups (up to 30%) and are therefore less affected by changes in this sector. This age group will be further insulated from any shifts in the housing market when all public pensions are linked to the CPI in 2011 – rather than their current link to the RPI.

CPI vs RPI

Top monthly expenditure changes

As a percentage of outgoings, the main change from September to December 2010 is that housing (mortgage or rent) now makes up the largest share for the over-55s, accounting for 18% of total expenditure (14% - September 2010). This is likely to be due to a variety of reasons, from landlords increasing rents, to people choosing to pay down their mortgage in the current low interest environment.

While spending on housing increased, spending on food fell to 16% (23% - September 2010). There was some indication that people were economising in other areas in order to repay their debts. Indeed, the quarter saw an increase in the level of debt repayment as a share of monthly spending, up to 11% (December 2010) from 7% (September 2010). However, while over-55s have chosen to economise on food over the past quarter, this figure may increase in January 2011 when the planned VAT increase hits some foodstuffs.
Inflationary pressure points

While housing and food account for the largest expenditure for the over-55s, they have only seen relatively modest annual increases: +3 percentage points and +4 percentage points respectively. At the other end of the scale, clothing and footwear (+9 percentage points) and personal and goods (+6 percentage points) have seen significant increases, but as they only account for 3% and 2% of expenditure respectively, this is unlikely to significantly impact on the over-55s.

While motoring (+9 percentage points) has seen a significant annual increase, this is below the annual increase recorded to September 2010 (+15 percentage points) so inflationary pressures on the UK’s older drivers have decreased.

With the onset of the cold weather, over-55s are likely to be pleased that the cost of fuel is down two percentage points on an annual basis. However, with some utilities companies promising tariff increases later in the year and early 2011, it remains to be seen whether these costs - which take up 10% of the average expenditure for the over-55s - remain low.

Food, fuel and light as a percentage of expenditure

![Graph showing food and fuel expenditure over time.](image-url)
Income

In order to allow meaningful comparison, the data compiled exclusively for the Aviva Real Retirement Report examines the weightings attached to the variety of income sources as opposed to the values being provided by each income source.

The largest single source of income (25%) for the over-55 age group is the state pension, followed by employer pension (15%), and then personal pension (14%). Income from savings provides just 11% of income - down marginally from September when it was 12% - which continues to show the impact of the Bank of England’s decision to maintain the historic low base rate at 0.5% since March 2009.

What are the sources of your (and your partner’s) monthly income?

Eclectic approach to retirement saving

The broader picture however, highlights a lack of saving into people’s retirement pensions. When the income from pensions / annuities (17%) is compared to the proportion of income people get from their state pension (25%), there is a clear inequality.

While this lack of saving into personal pensions will worry the Government as it continues to examine ways to cut the pension bill, it also suggests that people prefer to save a significant amount towards their retirement outside of a traditional pension plan. Indeed, people derive 11% of their income from savings and investments.

For the 55 – 64 year olds, wages (25%) make up the largest percentage of their income, but this changes as people retire with the over 65s being most reliant on the state pension (31%). It is interesting to note that pre-retirees (10%) are significantly more reliant on benefits that the retiring (4%) or the long-term retired (7%).

The data shows there is a noticeable reliance on pension income from a spouse or partner throughout the over-55s age group which highlights the importance of choosing a joint annuity. Spouse / partner pension income accounts for 6% of the monthly income of those aged 55-64. This increases to 11% for those aged 65-74 but drops to 9% of monthly income for the over 75s.
Income changes

The mean monthly income for the over-55s was £1,210, which is marginally down on six months ago (May 2010 - £1,239). However, while the mean income has fallen there has been a slight reduction in the proportion of people in retirement struggling to get by on less than £750 per month from 21% (September) to 20% (December).

Pre-retirees’ mean monthly income (£1,313) is marginally lower than those in the ‘retiring’ age group (£1,374), but significantly above the monthly income of the long-term retirees (£1,203). This minor increase around the traditional retirement age has been a constant since Aviva started tracking these age groups and seems to indicate that for some, collecting their state pension provides them with a much needed financial boost.

Predictably, the economically active 55 – 64s have more people earning over £2,501 per month (10%) than the retiring (6%) and the long-term retired (2%). This highlights that while the state pension gives some low income earners a boost, for the majority of people, retirement or down-shifting sees their income drop.

Women’s income low but steady

Women’s average monthly income (£1,006) remains significantly below that of men (£1,555). However, it has risen compared to six months ago (£997), while men’s has actually fallen (£1,640). With more men (11%) retiring due to redundancy than women (8%), this is likely to be a contributing factor.

Rental properties continue to provide income

Since this report was first launched in February 2010, rental income has provided up to 2% of over-55s’ incomes. While this figure is small, with an estimated 3.64 million households in private rental accommodation in the UK, the number of consumers deriving retirement income from property is likely to increase in the next few years.

“Around a third of landlords identify securing their future financial position as their main motivation for investing in rented accommodation.”

Barry Markham from the National Landlords Association
Savings

The Bank of England’s Monetary Policy Committee has now maintained the Bank base rate at 0.5% for 20 months. As a result, it is no surprise to see that the percentage of people claiming to have no savings has increased slightly from 15% (September 2010) to 16% in (December 2010).

The over-55s derive 11% of their income from their savings and investments portfolio, so if we do not see rates increase in the short term, this percentage is likely to grow.

In addition, at the other end of the spectrum the proportion of people with more than £100,000 in savings has fallen from 21% to 17%. As the impact of the low savings rates continues to bite, people are apparently being forced to eat into their capital rather than using the interest. Indeed, we have seen the average savings fall from £16,296 (September 2010) to £15,262 (December 2010).

While it is concerning to see that the long-term retired (26%) are the most likely of the tracked categories to have no savings, the fact that the pre-retirees (21%) also have a significant number of people with this issue is a concern. This economically active age group has the highest average income (£1,480) and while they are likely to have more commitments, it does suggest that they are not saving enough.

**Monthly savings**

Despite the recent austerity measures announced by the coalition Government, the proportion of non-savers has actually increased marginally from 40% (September 2010) to 41% (December 2010). In addition, mean savings have fallen to £140 (December) from £143 (September 2010), highlighting that even those who save are putting less into their ‘rainy day’ funds.

Many consumers appear to earmark the last few years before retirement as a time to increase their savings in preparation for a period of economic inactivity. This is clearly illustrated by the fact that the retiring (63%) has the highest number of regular savers amongst all the age groups.

**Debts**

Unlike their parents, the current generation of over 55s are facing the prospect of paying off a significant amount of mortgage debt as they move into retirement. Indeed, the practice of buying houses later in life and releasing capital to pay for items such as cars, holidays, children’s university costs etc has possibly taken its toll.

**Unsecured borrowing falls**

Excluding mortgage borrowing, some households still face other significant debts in the form of credit cards, loans and overdrafts. However, there has been a slight decrease of five percentage points in the level of mean non-secured debt from September to December down to £2,580. This might then explain why average monthly savings have fallen as people could be choosing to pay off debts rather than putting money into their savings accounts.

While on average unsecured debts amongst this age group have fallen, there has actually been a slight increase in levels amongst 55-64 year olds (+8 percentage points) and over 75 year olds (+4 percentage points). This suggests that while the retiring are working to square their debts before becoming economically inactive, other age groups are not being as successful.

Nevertheless, these figures are all still significantly below the average household debt in the UK, which currently stands at £8,562 (excluding mortgages). However, if the average debt is based on the number of households who actually have some form of unsecured loan, this figure increases to £17,838.
Homeownership

81% of the 55 and over age group own their homes either with a mortgage (20%) or outright (61%). The average home value of the over 55s is £236,653 (December 2010) which is higher than the most recent UK average (£164,381 – October 2010) and rose 5% over the quarter (September - £224,346). The average equity in over 55s’ property is currently £211,060.

While the majority of over-55s have no mortgage debt, for those 20% who do, it is a significant level - £64,511 on average. This represents only a small increase (+7%) on the last quarter (September 2010 - £60,440) but does highlight the fact that some over 55s are not entering economic retirement debt free.

Indeed, whilst the research shows that the over-55s are starting to pay down other debts such as credit cards, loans and overdrafts, they appear to be struggling to reduce the debt on their largest asset, their house.

Age group differences

The long-term retired own homes which are more valuable (£268,924) than the retiring (£231,962) and pre-retirees (£234,433). However, this age group has a lower incidence of homeownership – 69% (over 75), 85% (65 – 74) and 81% (55 – 64). Due to their age and potential health issues, they are the most likely of all the tracked age groups to live in sheltered housing (8%) or with their families (3%).

The pre-retirees (28%) are the least likely to have paid off their mortgage followed by the retiring (11%) and the long-term retired (10%). However, it is worrying to see that long-term retired people (+75 years old) with a mortgage owe an average of £72,500 as they will need to meet these repayment obligations from a far more fixed income than those who are still in employment.

While people do see their income increase at retirement (65-74), just under one in five (17%) has an income of less than £750. This means that maintaining a basic standard of living and meeting mortgage repayments would be hugely challenging. This fact does however state the case for the use of the outstanding equity – 55 - 64 (£172,131); 65 – 74 (£162,225) and over 75 (£196,424) – to repay the mortgage. This could be done by selling the current home and down-sizing, or possibly by use of a vehicle such as equity release.

“These figures show how valuable an asset residential property can be to the UK’s over-55s. Whilst people look to plan their retirement finances, the equity tied up in their home could provide them with the security and flexibility to help weather spending cuts and the rising cost of living.”

Andrea Rozario – Director General of SHIP, the trade body representing equity release providers

Multiple property ownership

More than one in 10 (11%) of over-55s own more than one property. The mean value of these properties is £202,500 and the mean equity £132,642. However, only 2% earns any income from renting out second properties which suggests that the incidence of holiday and second home ownership is high amongst certain groups within this age bracket.
Over 55 fears

In light of the imminent increase to VAT and the austerity measures outlined in the Autumn Spending Review, it is not surprising that the rising cost of living (74%) is the biggest fear for the over-55s at the moment.

Six month outlook

They are also concerned about the falling return on savings (35%), unexpected expenses (36%) and an increase in taxes (26%). The financial concerns of the over-55s centre on the fear that their already squeezed incomes will fall further and they will be forced to pay for additional expenses out of this money.

In addition, marginally more people are concerned about redundancy (+1 percentage point to 9% - December 2010) although people are no more concerned about retiring than they were in previous months despite recent changes to the state pension age and the abolition of the default retirement age (4%).

“The Government’s recent move to abolish the mandatory retirement age will mean that fewer people will be forced to give up work. As a result, we may see people working until later in life and having a wider array of retirement choices. However that said, the availability of employment and the flexibility offered will rely on the economic climate of the time, so some people might find it harder than others to keep working for longer.”
Clive Bolton, ‘at retirement’ director for Aviva.
Over-55 Fears - five year overview:

Over the next five years, people over 55 continue to fear the rising cost of living more than anything else (70%). This is a huge increase over the last six months (18% in May 2010) and really underlines how the fallout from the recent economic turmoil and the Government’s move away from a welfare state has impacted on this age group’s hopes and fears. It also reflects the growing fear that high levels of inflation will continue to erode the over-55s’ purchasing power.

How they will manage on their retirement income is forefront of their minds. Fears include worries about unexpected expenses (36%) and falling returns on savings (32%). However, this age group is marginally less concerned about returns on investment (-1 percentage point to 19%) which may reflect the recent improvement in the performance of the stock market.

The current low interest rate environment is particularly damaging to these age groups as a typical saver (£15,262 – December 2010) would only get an annual income of £151 (branch-based notice account) from their savings.

Although the Real Retirement Report shows that the retiring (£1,374) have a higher average monthly income than the pre-retirees (£1,313), 17% of 55 – 64s are worried about retiring. While worries about loss of income are certainly part of the issue, some of the concerns could be related to the psychological aspects of retiring. The research shows that many over-55s value the social benefits of working - such as keeping one’s mind active (44%) and interaction with others (43%) - as well as the financial ones.

With the effects of the Autumn Spending Review only beginning to be felt, one in four over-55s (25%) are concerned about an increase in taxes and 14% are worried about the loss of current Government benefits.

“When you consider that for a savings pot of £15,262 you would get an annual gross income of just £151 from a standard branch-based notice account, you can understand why many over-55s are very worried about their finances. With the Bank of England expecting further increases in inflation, it is becoming increasingly important to choose inflation-linked products or ones that offer other benefits.”

Clive Bolton, ‘at retirement’ director for Aviva.
Regional Overview

The over-55s in London (September 2010: £1,856 and December 2010: £1,608) continue to enjoy the highest monthly household incomes.

By contrast, those in Northern Ireland (December 2010: £1,143) and the North East (December 2010: £1,024) have the lowest mean incomes.

With regards to income sources, those in Yorkshire derive the highest percentage of their income from the state pension (32%). A personal pension is the largest source of income for those in the East Midlands (17%) and the over-55s in the North West derive the lowest percentage of their income from an employee pension (12%).

Londoners (£1,538) also have the highest typical savings although the number of Londoners with more than £100,000 in savings has fallen significantly to 19% (31% in September 2010) - perhaps reflecting the significant number of redundancies in the financial services arena.

However, the South East now has the highest number of over-55s with more than £100,000 in savings (22%) suggesting that the wealthy are moving away from the city as they grow older and retire. Those in Northern Ireland (£1,249) have the lowest typical savings.

For many people in this age group, their house is their most significant asset and on average 81% own their own homes (entirely or with a mortgage). However, those in London, which traditionally has the highest house prices, are less likely to own their properties outright (48%) when compared to those in the Wales (74%) and Northern Ireland (83%).
So what does this tell us?

“This edition of the Real Retirement Report highlights the fact that with the abolition of the default retirement age, people now have a real choice as to how they want to finish their working life. This will fundamentally change how people plan their finances in later life but the following common sense steps should still be integral:

1. **Develop a complete picture of your assets.** In the run up to retirement, it is especially important to understand what your assets and liabilities are. Once a complete financial picture is developed, it is far easier to make decisions with regards to down-shifting or making other career changes.

2. **Track down your pension pots.** People no longer tend to stay in the same job all their lives and are therefore likely to have a variety of different pension pots. By combining them when you buy an annuity, you may be able to get a better deal.

3. **Plan your retirement with your health in mind.** Some people work in careers which have physical or mental demands which might become harder to deal with as people age or if their health deteriorates. Therefore, the potential need to rethink your plans or stop work due to health issues needs to be considered.

4. **Consider how your career can change.** If you want to work into later life, consider how you can change or adapt your career sooner rather than later. For example, does your job allow you to work fewer days or shorter hours? If not, you may want to think about how you can switch careers, which may involve getting further qualifications or retraining.

Following these simple steps could mean that working into retirement and enjoying a financially secure later life can be easier than you might think.”

**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 2,400 UK consumers aged over 55 were interviewed in November 2010 and May 2010. This data was used to form the basis of the Aviva Real Retirement Report.

Additional data sources include:

- Department for Local Government and Communities
- LSL Property Services
- Nationwide Building Society – House Price Index
- Halifax House Price Index
- Credit Action – National Money Education Charity
- The Bank of England

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.