



Mind The Gap

Quantifying The Pensions Savings Gap in Ireland
September 2010

About Aviva

Aviva is the world's sixth-largest* insurance group. Our main business activities are long-term savings, fund management and general insurance, with worldwide total sales of £45.1 billion and funds under management of £379 billion at 31 December 2009.

We have 53 million customers across Europe, North America and Asia Pacific. Aviva is the leading provider of life and pension products in Europe.

In Ireland, Aviva is the largest multi-line insurance provider, serving over 1.2 million customers across our pensions, savings, investments, home, motor, commercial and health insurance portfolio.

*based on gross worldwide premiums at 31 December 2009



Foreword from Jim Dowdall, Group Chief Executive, Aviva Ireland



By 2051, just over 40 years from now, 50% of our current population reaches retirement age and the number of people working in Ireland to fund those who are in retirement will drop from 6:1 to just 2:1. Further, although 54% of the population has some form of pension coverage in place, this figure has remained more or less static over the last few years. For those individuals with pension cover in place, the amount they are currently setting aside will not be enough to meet their expected income requirements in retirement. Collectively, Ireland faces a €20.2bn annual gap in savings for retirement.

Aviva's inaugural study of the scale of Europe's pensions funding issue is published at a time of recession in Ireland, falling consumer confidence, property market collapses, rising unemployment and increased cost of borrowing. The need for prudent and long-term financial planning has never been more to the fore.

For many, planning for retirement is viewed as a problem for another day but our research shows clearly that taking action today will significantly reduce the scale of the gap we face. With an aging population living longer and enjoying more active lifestyles than ever before, planning now for retirement is the only way to ensure that the appropriate funding will be there in those 'golden years'.

This issue has already been considered and debated by many in Ireland, most recently in the National Pensions Framework published in March 2010. Insurers too have a significant role to play and it is our intention that Aviva's latest research, unique in Europe, will provide further insights to inform this debate for Government, the pensions industry, employers and individuals at both national and European levels. The time for us all to work together for a solution is now.

A handwritten signature in black ink, reading 'Jim Dowdall' in a cursive, flowing script.

Jim Dowdall
Chief Executive Officer
Aviva Ireland

Key Findings for Ireland

Those retiring in Ireland between 2011 and 2051 need to collectively save an additional €20.2bn per annum to meet their expected income in retirement. While averages typically mask the impact on the most vulnerable, this €20.2bn annual pensions savings gap equates to an average of €9,100 per retiree or €758 per month for individuals retiring between 2011 and 2051. The pensions savings gap is defined as the additional amount that individuals would need to save to ensure an adequate lifestyle in retirement.¹

In comparison with other European countries the severity of Ireland’s pensions savings gap in monetary terms per individual ranks in the top 3, behind the UK and Germany.

Table 1. Savings and retirement income gap for individuals retiring 2011-51

Country	Annual pensions savings gap per person (€000s)	Annual pensions savings gap by country (€ bn)
United Kingdom	12.3	379.0
Germany	11.6	468.8
Republic of Ireland	9.1	20.2
Spain	7.0	170.5
France	6.1	189.1
Turkey	5.7	221.4
Czech Republic	5.5	30.3
Italy	3.1	97.6
Russia	2.9	202.1
Poland	1.9	38.1
Romania	[0.8]	[8.4]
Hungary	0.5(2)	2.5

¹“Adequate” is defined by the OECD as an average retirement income of 70% of pre-retirement income and is in line with Aviva’s own Consumer Attitudes to Saving Research. Aviva has further refined this definition for different income groups as 90% for low income groups, 65% for middle income groups and 55% for high income groups.



Case study: Karen Murphy

“At 33, I felt retirement was something in the far off future, something I didn’t have to worry about yet, as there are many more working years ahead of me.

However in the last year, I have married and I have just given birth to my daughter Sophie. It is fair to say life has changed, as have my responsibilities and priorities.

I work as a teacher part-time and have a pension at work, but now that I have additional responsibilities I feel I need to do more so I can retire comfortably and not be dependent on my children.

I believe it is never too early to start planning for retirement and I put a little extra aside each month into an AVC with Aviva. This is important to me as I want to be able to continue to enjoy the good lifestyle that I currently have well into retirement.”

As Table 2 shows, the gap is most easily resolved for those who are younger as their gap is lower, reinforcing the benefits of starting pension provision at a younger age. Conversely, individuals who are not currently setting money aside for their pension or are at an older age face a greater gap. In 2010 for instance, individuals who are nearing the retirement age of 65 are facing a significant shortfall, one that may not be feasible for them to address.

Table 2. Average per person annual pensions gap in Ireland by age in 2010

All those retiring 2011-51 up to age 65	Age in 2010				
	60 years	50 years	40 years	30 years	20 years
€ 9,100	€21,100	€6,900	€3,900	€2,500	€1,700

To really understand what the gap means for individuals in Ireland, we need to go further, measuring the gap using disposable income. This provides a sense of the affordability for individuals of closing the gap. The average gap for Ireland’s retirees is the equivalent of 34% of disposable income, although again, this varies significantly depending on age in 2010.

Table 3. Pensions gap in Ireland as a percentage of disposable income by age in 2010

Average	Age in 2010				
	60 years	50 years	40 years	30 years	20 years
34%	78%	26%	14%	9%	6%

“It’s crucial that we each mind our own ‘personal gap’. Aviva’s research provides valuable insight into the extent of the gap on a national and per-capita basis in Ireland and across Europe. Yet factors such as age, amount being saved and expectations can’t be ignored. Will we continue with our current level of saving, increase or even decrease it? All these impact on the gap for each individual.”

What About Other Assets and Non-Pensions Savings?

Many of us consider other assets as part of our plan for a secure retirement. But to what extent can these non-pensions assets, such as the family home, be converted to retirement incomes that will help address the shortfall in income?

On an annual basis, Aviva estimates that Europeans will have somewhere between €370bn (17% of the pensions gap) and €1,080bn (60% of the pensions gap) in non-pensions assets to potentially draw on in their retirement.

In Ireland, non-pension assets could, if calculated with bequests to family, close as little as 30% of the gap. It is clear that non-pension assets will not, on their own, fill the pensions gap, even assuming people were able or willing to spend down the totality of their non-pension assets in retirement. Therefore a combination of actions will be required to resolve the situation.

Attitudes in Ireland Towards Saving

When considering Ireland’s pensions savings gap and how it can be bridged, it helps to look at what our current attitude towards saving for retirement is and in compiling this report Aviva has also drawn on its multi-year research on consumer attitudes to savings.

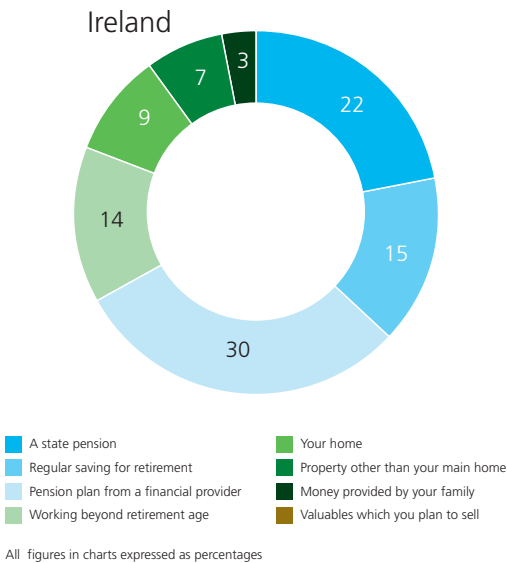
What do we expect our income to be when we retire?

Aviva research among those who are yet to reach retirement age shows that almost 58% of people in Ireland think they will need at least half of their monthly income to ‘get by’ in retirement. Yet 57% also said they would prefer to have at least three-quarters of their income. Clearly the income group in which the individual sits has a bearing on the severity or otherwise of the monetary gap.*

Where do we expect our main retirement income to come from?

30% of those who are working believe that the most important source of income to them when they will retire will be a private pension plan and 22% expect the state pension to be their most important source of income when they retire. Interestingly 15% believe that the practice of regularly setting aside money in non-pension savings and investments will give

them their most important source of income when they retire. However the liquidity of these non-pensions savings and the distribution of risk in those investments needs to be considered. For example, those consumers with an overweight portion of their assets in property are clearly exposed to both liquidity risk and valuation risk at present.



*Aviva Consumer Attitudes to Savings Research, May 2010

Key Implications for Government, The Pensions Industry and Consumers:

Although the €20.2bn gap for Ireland may seem daunting, the positive news is that initiatives to close the pensions savings gap and boost retirement savings are underway. The National Pensions Framework identified that the solutions to this problem lie in all of us working together to increase savings, to re-educate younger generations and to change our current work practices to reflect the longer lives we are living.

Government, the pensions industry, employers, social partners and consumers need to come together and take collaborative ownership and responsibility for resolving the issue:

Education of individuals on what is an appropriate amount to set aside in retirement is paramount.

- Individuals need to clearly understand their own current and future financial position before they will take responsibility. Further action, such as providing every citizen of the EU with an annual consolidated statement of their projected pension from all sources would help bring retirement planning to the fore. Visibility of their potential future income may do more to change consumer behaviours than compulsion measures such as auto-enrolment.

Pension savings incentives should be reformed:

- As this and much other research shows, it pays to start saving at a younger age. However the future is a distant vision and individuals must be incentivised to save for retirement. Worryingly, pension coverage for employees aged under 30 years of age remains low at 37% in Q1 2008. Given the recession, it is likely that as disposable income for many has declined, this coverage has either stayed static or indeed declined.
- Reform and an increase in the incentives provided for pensions is paramount. Despite growing awareness of the importance of having a pension, overall pension coverage has remained largely static since 2002, at 54% of the population in Q1 2008.

- A full review of the tax incentives – those currently available and potential alternatives - should be undertaken to ensure that incentives are equitable and will not only change behaviour of those who are most at risk of an income drop but also provide Government with value for money. This research highlights that middle income groups are most exposed to the pensions gap, so reducing the tax incentives for this group, for example by reducing the marginal rate of relief available to this group, may have a disproportionate impact and create larger societal issues in future years.

Government must continue to lead and deliver change:

- At a time when many issues are pressing, the pensions gap can appear a problem far away that does not require addressing right now. In publishing the National Pensions Framework in March 2010, Government has led the way in putting pensions on the national agenda. This must continue to involve all stakeholders.
- Consideration needs to be given to establishing a 'Pensions Czar' to continue this leadership of the issue, to drive the partnership approach to pension provision between Government, the pensions industry, employers and individuals as referred to in the National Pensions Framework.

Conclusion

The good fortune of living longer and more active lifestyles should not become a burden to individuals or society. With an informed and reformed approach to retirement planning, all of us should be able to enjoy our retirement based on the contributions made during our working lives to our community, our economy and our families. This involves equal responsibility from Government, employers, the pensions industry and individuals. By making these findings available and aiding greater understanding of the gap faced in Ireland, Aviva intends to lead and participate in debate at both national and EU level, to identify real solutions to this problem.

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