



# The Scottish Widows UK Pensions Report

A major assessment of  
pensions savings behaviour

June 2009



# Foreword

**The past twelve months have brought unprecedented financial turmoil to the UK as it has suffered first from the 'credit crunch' and then from the deepest recession for many years. As people have faced uncertainty about the future, and often financial hardship, the effect on savings, and particularly savings for retirement, has been difficult to gauge.**

In this, our fifth Scottish Widows UK Pensions Report, we reveal that overall there is an improvement in the level of savings. Both our key measures (the Scottish Widows Pensions Index and the Scottish Widows Average Savings Ratio) have increased for the third year in a row. However, the improvement is by no means uniform across the population, and there are particular concerns over the saving habits of women and the over 50s. Overall almost half of those who could and should be preparing financially for their retirement are not currently doing enough.

The continuing shortfall highlights the importance of key measures designed to increase levels of saving including the Savings Gateway, the Money Guidance pathfinder currently under way in the north of England and, of course, the introduction of automatic enrolment into pensions and the launch of Personal Accounts being planned for 2012.

The Scottish Widows UK Pensions Report is widely regarded as one of the most authoritative surveys of consumers' preparation for retirement. The range of questions asked and large sample size of over 5,000 each year combine to produce robust analysis of changes in attitudes and behaviours over time. This provides a solid foundation for Scottish Widows, policymakers and other stakeholder groups to consider what more can be done to help all consumers prepare for a comfortable retirement.

We hope that you find this edition of the Scottish Widows UK Pensions Report interesting and helpful.

**Andy Briggs  
Managing Director  
Scottish Widows**

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# Executive Summary

The annual Scottish Widows UK Pensions Report, now in its fifth year, has become firmly established in providing the most thorough assessment of the UK's attitudes and behaviour towards saving for retirement. In 2005, we created two key benchmarks to help us to understand better any long-term trends in how we as a nation are preparing for retirement. This year's findings are based on a sample of 5,007 UK adults conducted between 6th and 9th April 2009 by YouGov. The survey was carried out online and the figures have been weighted to be representative of all UK adults.

The findings reveal a promising rise in the amount Britons are saving for their retirement. Both of our measures of savings adequacy – the Pensions Index and the Average Saving Ratio – have increased for the third consecutive year. Yet again, we see a steady core of **around half of Britons\*** who are currently on course to enjoy an adequate retirement income. (based on our Index Group – See Appendix 1) The annual Pensions Index figure of 54% conceals some major variations with 86% of those who have access to a defined benefit scheme saving enough for retirement. This falls to 5% of those with no access to a pension. This clearly demonstrates the value of a pension in providing the best route towards achieving an adequate retirement income – more so than relying on property assets. This is one of the strongest messages to come out of this year's findings.

Equally important is the need for a major step-change in UK savings behaviour. At no point during the last five years has the proportion of people who are saving adequately moved significantly above or below half, with each year's Pensions Index being no more than 5% either side. We also see a consistent number of people – around one-fifth – who do not save at all.<sup>1</sup> This is consistent with Office for National Statistics figures which show that around one-quarter of households in the UK had no savings in 2006/07.<sup>2</sup> This potentially reveals that the UK has hit its **'natural rate' of pension savings** and that the level of UK pension adequacy is not making positive strides over time. The need for a radical shift in behaviour naturally prompts a debate about the need to successfully introduce the new automatic enrolment regime, including personal accounts, in 2012. But we also need to look at other obstacles to saving for retirement, many of which will persist even after personal accounts are in place.

\*Britons – UK, inc N.I.

## The Scottish Widows Pensions Index

The Pensions Index focuses on working people who can reasonably be expected to save for the long-term – those aged between 30 and retirement age and earning £10,000 or more per year. It establishes a target retirement income based on an individual's current working age income. This income is likely to be achieved by those who receive their main retirement income from a defined benefit pension scheme (DB) or who save 12% of their earnings continuously from age 30 until they reach state pension age. (See Appendix 1.)

- The Scottish Widows Pensions Index for 2009 is 54%, up on last year's 51%. However, there are large differences between groups of consumers.
- **Income** has always been a major factor in determining how well consumers are preparing for retirement, and remains so. This year the major change has been among those who are relatively well off, with earnings between £30,000 and £50,000 a year. 64% of them are preparing adequately. There has been a more modest improvement among lower earners, and little change among very high earners.
- **Age** is also an important factor, with older people more focused on providing for their retirement. A significant change this year has been increased levels of preparedness among 30 to 50 year olds (up from 46% to 53%) but a deterioration in preparedness among over 50s who are set to transition into retirement within the next 10-15 years (down from 61% to 58%). With the UK pensioner population set to hit 12 million by 2020,<sup>3</sup> this suggests that around two-fifths of them – nearly 5 million – will be entering retirement with insufficient means to generate an adequate retirement income in their own right.
- **Gender** also has a major impact on levels of preparation for retirement. Between 2007 and 2008 we saw the gender pension gap fall from 13% down to 9%. The recession has halted that progress. In 2009 we see 59% of men on track for a comfortable retirement; this compares with 47% of women – a gap of 12%, up 3% on last year.
- Of the 46% who are under-saving, some two-fifths (42%) are saving nothing at all. The persistency in non-savings behaviour increases with age demonstrating the need to convert non-savers, preferably before they reach their 40s when non-saving becomes more engrained.
- The percentage who are mainly relying on a defined benefit scheme for retirement income is holding firm, despite most private sector schemes being closed to new entrants. There are several reasons for this:
  - The public sector, which generally still offers defined-benefit provision, has increased in the past year while the private sector has declined.<sup>4</sup>
  - We base the Index on the pension from which individuals expect to receive most pension in retirement. Those who have spent most of their career with an employer offering a defined benefit scheme but have recently moved on may still expect the bulk of their income to come from the DB scheme. There is, therefore, some lag time before the Index fully reflects changes in current pension provision.
  - We found last year that consumer confidence in DB provision was returning, and it is possible that this year confidence in defined-contribution pensions (DC) has declined. Some consumers who last year expected a DC pension to provide their main income may now feel it is more likely to come from a DB scheme they hold.

## The Scottish Widows Average Savings Ratio

This measures the average savings as a percentage of earnings for those who are not relying mainly on a defined benefit pension. Those with a ratio of 12% or more are treated as saving adequately.

- The Scottish Widows Average Savings Ratio for 2009 stands at 9.3%. This is up from 8.7% in 2008 and establishes a new high in UK savings levels since we began our survey in 2005. However, the improvement is not uniform, and older women are saving significantly less than last year.
- The improvement in the Savings Ratio appears to hide the fact that overall there are fewer people saving, but those who continue to save are saving more. This raises the prospect that UK savings are becoming more polarised as the downturn takes its toll. Britain is still a nation divided by its savings behaviour.
- As with 2008 there are increasing amounts being channelled into non-pensions savings – up from an average of £241 per month to £254 per month. However, at the same time 43% saved nothing for retirement outside of their pension or their property. This is up from 38% in 2008.
- Pension contributions have edged up, but again not across the board. Older women and those earning under £30,000 a year are seeing lower amounts going into employer-sponsored pension arrangements, but those earning £10-30K are taking the initiative and increasing contributions to personal pensions.

## Reasons for changes to the Index and Ratio

While it is difficult to pin down precise reasons for changes in savings habits, the survey provides a number of useful pointers:

- The proportion of the population relying mainly on a defined benefit scheme for their retirement income remains stable. As mentioned above, this appears to be partly due to new entrants to public sector schemes and partly a time lag between individuals moving away from an employer with a defined benefit pension and them stopping seeing that pension as their principal source of retirement income.
- There appears to be a definite increase in non-pension savings among all groups except women over 50. This may result directly from belt-tightening during a recession and concerns about possible loss of employment. The money is retained outside pension in case it is required in the short term, but otherwise is earmarked for retirement income.
- Average contributions to defined contribution pensions are also increasing among most groups. This may partly reflect the move from defined benefit to defined contribution pensions among larger employers, who tend to have relatively generous contribution rates, but also an awareness by individuals of the value of an employer-sponsored pension.
- Lower earners are putting increasing amounts into personal pensions when they have no access to an employer's pension scheme. This suggests that the message of needing to provide for ourselves may be starting to get through, and could bode well for personal accounts.
- The single biggest area of concern is women over age 50, where savings for retirement are down across the board. It appears that many of them may have concluded that it is just too late for them to try to build up worthwhile retirement savings.

## Attitudes to retirement

There are crucial aspects of retirement planning which have remained remarkably stable since 2005 – notably, people’s attitudes to when and how they want to retire. Even now during a downturn we find little change in respondent’s attitudes.

- Changing attitudes to retirement age continue to lag behind “official” planned changes to State Pension Age (SPA). While the SPA is set to increase to 68 our findings show that Britons would be angry if forced to work beyond 66.
- Approaches to phased retirement (ie working in some capacity beyond pensionable age) continue to garner support among two-thirds of Britons. However, there is no evidence to suggest that this is increasing. Furthermore, support for this approach remains based upon the aspiration of early retirement, rather than the fear of not having enough money in the pension pot.

## The impact on pensions and personal accounts

While the increased Pensions Index in 2009 is very welcome, there are other aspects of pensions where the recession is having a negative effect. Many of those in personal pension arrangements are placing less of a priority on their retirement planning as they see the value of their pension funds fall. We also see an impact on sentiment towards opting out of personal accounts.

- This year we see 30% of respondents expecting to make contributions to the new scheme from 2012 onwards. This is down from 33% in 2008 – this reverses another positive trend following an 11% increase in the likely number of personal account savers (22%) reported in 2007. Again younger people are more likely to remain within the scheme. Almost half (46%) of those over 50 claim to have access to alternative pension provision.
- The recession may also be affecting perceptions about the likely amounts people intend to save into personal accounts. In 2009 many of those who said they were likely to choose to have an account said they would be likely to save no more than trivial amounts – in the region of £10 per month.

**Table 1: Emerging Themes and wider implications**

<p>Overall UK pensions preparedness has not moved forward since 2005</p>	<p><b>A step-change in pension savings is required</b></p> <p>We have yet to break the high water mark of 55 % preparedness established five years ago. Potential blights on the pension landscape – such as the impact of annuitisation rules, means-testing and the need for more flexible and accessible forms of long-term savings – all need to be addressed.</p> <p>So too should the need to tackle consumer attitudes particularly of non-savers. Our findings clearly reveal that attitudes on when to start saving and when to stop working are not changing markedly over time. A recent FSA discussion paper (FSA DP 08/05) highlights a whole host of ingrained consumer mentalities which put people off long-term saving: this includes ‘procrastination’ bias where the cost of taking action today outweighs the perceived benefits of long-term savings; as well as ‘status quo’ bias which is the tendency to stick with prior behaviour, which for persistent non-savers may mean doing nothing over many years. The national programme for financial literacy needs to redouble efforts to understand and overcome these forms of bias through more targeted adult financial literacy.</p>
<p>In spite of major reforms, the gender pensions gap persists</p>	<p><b>Further steps to reverse the growing gender pension gap</b></p> <p>The Pensions Index has been driven largely by men (up 4 % on last year) when compared with women (up 1 %). The findings also reveal that fewer women than men feel able to save more during the coming 12 months which would suggest a further growth in the gender pension gap in 2010. Given all the progress in recent years to close this gap, it would seem that fresh efforts need to be considered to get more women on track.</p>
<p>The role of employer contributions retains a critical role in retirement preparedness</p>	<p><b>Further support to help people hit their 12% target</b></p> <p>It is clear looking at our findings that even the well-intentioned with the means to save will struggle to save 12 % of salary without some form of outside intervention. Usually, this will be provided by employer contributions into a work-based pension scheme. Where this is the case we find savings rates as high as 17 % of annual salary. Support is needed during the downturn to help employers to protect what is still seen by many employees as an important tool in helping to recruit and retain staff.</p>

Access to long-term savings and financial advice remains critical

### **Broadening access to pensions and other forms of long-term savings**

Encouraging a wider distribution of savings products across the population will make a major impact on reducing the general levels of under-preparedness. This needs to be supported with advice though we need to also recognise that the forms of advice, and the way people wish to access them, is changing rapidly. Over the five years of our report, we see support for IFAs remain high but with growing demand for online forms of information.

The message from advisors must be that these savings need not necessarily sit within a pension. While a pension would be the best way of ensuring adequate preparation for retirement, we have to work with the grain of people's lives in recognising that even by saving 2 to 3% of salary into a more flexible, accessible long-term savings product, the non-saver can make a huge impact on their long-term financial well-being. The fact that 1-in-5 people are currently saving nothing must be addressed as a matter of priority.

Continued low awareness of personal accounts, particularly within the key target market

### **Targeted marketing campaign for the personal accounts scheme**

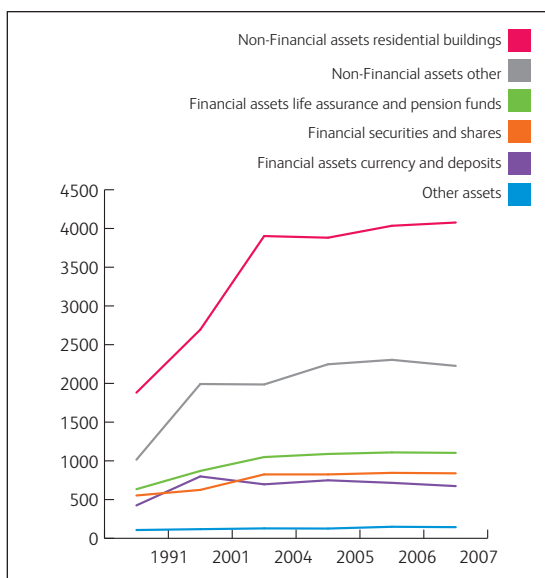
The personal accounts may provide a 'jolt' in savings behaviour in 2012. However, our findings show that the likely impact of the new savings scheme has diminished since 2008. Public awareness of the scheme remains low. 39% of those who had not retired had not heard of the new personal accounts. This is higher among target personal accounts savers such as those earning £10,000-30,000 per year (42%) and those with no pension savings (45%). This demonstrates that any attempt to disturb the market will require a successful attempt to publicise the scheme and build consumer awareness well in advance.



# Introduction: The Pensions Index 5 years on

The UK should, in theory, be witnessing a steady increase in pension savings. After all, there appears to have been an extended period of wealth accumulation by UK households. Official figures reveal that the average household net wealth per head has doubled in real terms between 1987 and 2007 to reach an average of £113,000 per head<sup>5</sup>. However, this increasing level of wealth has become increasingly distorted towards property wealth following a near -15 year boom in property prices, and the growth in other forms of household assets – notably life insurance and pensions – appears to be faltering. This is significant as our findings reveal that holding a pension is the most effective route to security in retirement. While only 54% of people who could and should be saving in the UK are on course for a secure retirement, as many as 98% of those on who are on track have at least one pension arrangement.

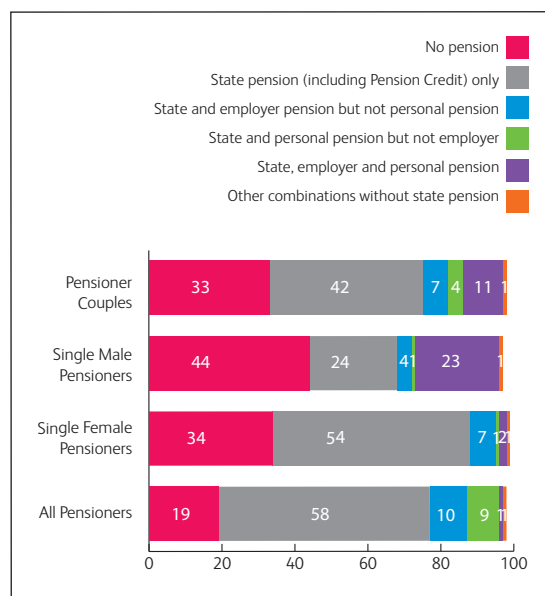
**Chart 1:** The composition of household wealth in the UK.<sup>6</sup>



So what is preventing us from saving specifically for retirement? One possible clue can be seen below. The increase in household wealth – currently in reverse thanks to falling house prices – has not been matched by increases in household income. Figures show that between 2006 and 2007 growth in real household disposable income in the UK was just 0.1% which lags far behind the 3.0% increase in GDP that year<sup>7</sup>. As a result of stagnating real income levels, the proportion of people in the UK who claimed to be ‘living comfortably’ peaked at 44% long before the current downturn – as long ago as 2003. By 2007 the figure had fallen to 36%<sup>8</sup>.

This matters because affordability is the major obstacle to saving in a pension. Any attempts to increase the amount of retirement income derived from private sources, rather than the state, will hinge on whether households can spare sufficient income to save in the first instance, and secondly whether they can access the appropriate savings products.

**Chart 2:** Sources of retirement income by gender (2007/08).



Source: Family Resources Survey 2007/08, Department for Work and Pensions, pages 63 and 64. For further breakdown of composition of retirement income sources see Social Trends 39, ONS, pages 119-120.

## Developing sources of retirement income

With the retirement income needs of UK households set to increase – as increasing life expectancy means we can expect a longer period in retirement – the long-term goal must be to increase the amount of income which is derived from private sources of income. The average contribution of personal pensions to overall pensioner incomes made up 13% in 2006/07. While this may seem small, this figure had quadrupled since 1994/95 making personal pensions the fastest growing source of retirement income<sup>9</sup>.

While we are moving in the right direction, it is clear that on current performance – with 46% of individuals still saving too little for their retirement – something is required to ‘disturb’ people’s behaviour. Reforms such as the introduction of automatic enrolment and personal accounts – which will aim to work with the grain of inertia – may see some movement, but not enough. However, it is the root of the inertia which needs to be addressed. We need to change mindsets, not just behaviour. Without greater awareness and engagement by UK consumers we will continue to see shortfalls in provision. And we will almost definitely see consumers remain wedded to current retirement ages in spite of government attempts to encourage people to work longer.

There has been much speculation that the current economic downturn will prompt changes in how people view retirement and how they plan for it. The recession will undoubtedly have an impact. People are likely to re-assess their financial priorities, for example, as forms of consumer credit become less widely available. However, it is too early to say whether any changes in attitudes or behaviour will turn out to be long-term or whether, like the recession itself, they will in time come to pass.



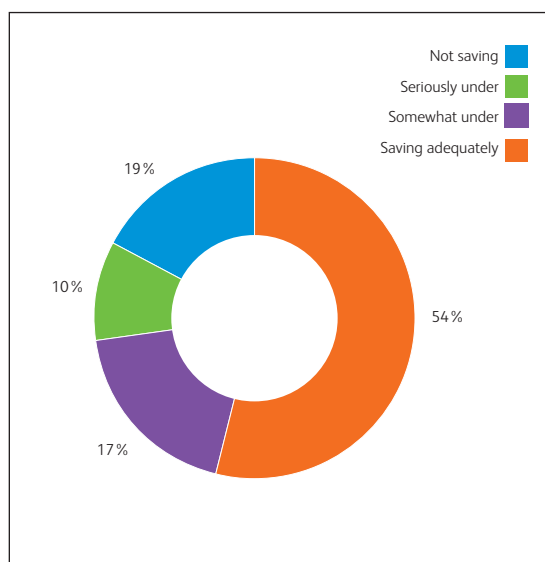
# Part 1: 2009 Pensions Index and Savings Ratio: Key Findings

Continuing the trend in 2007 and 2008, our key finding reveals that the number of people in the UK who are on track for a comfortable retirement has increased during the backdrop of the economic downturn.

## The Scottish Widows Pensions Index

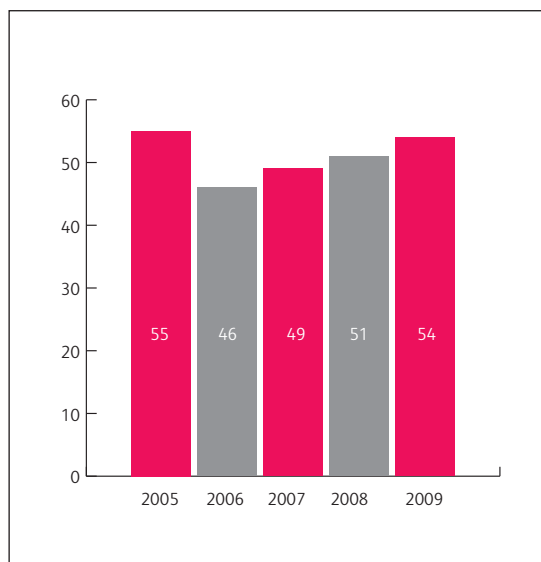
The Pensions Index focuses only on those who could and should be saving for their retirement. We define those people as working, being between the age of 30 and state pension age (65 for men, 60 for women) and earning £10,000 per year or more. For each group we estimate how much they need in retirement as a percentage of their current working age income, and concluded that for all earnings levels a contribution rate of 12% of earnings should be sufficient. (See Appendix 1.)

**Chart 3:** Scottish Widows Pensions Index 2009.



% of 'could and should' be saving who are on track for a comfortable retirement.

**Chart 4:** Trend in Pensions Index.



5 year Pensions Index trend.

**The Scottish Widows Pensions Index this year stands at 54%. What is more, the 3% increase in the Pensions Index – up from 51% in 2008 – marks a significant shift in one year.**

**The impact of gender;** we see continued disparities between men and women with men more likely than women to be saving more than a year ago. As a result, there has been a noticeable shift in the gender gap with 59% of men on track for a comfortable retirement, up 4% on 2008. The number of women who are on track at 47% has only risen by 1%.

The chart below shows the average monthly amount put aside for retirement by those in our index group who contribute to different types of pension and savings. On average, men in the group earn 28% more than women (£32,400 compared with £25,400 a year) so the difference in employer contributions between men and women largely reflects earnings differences. But when it comes to individual pension contributions men put aside significantly more of their earnings than women, although women savers tend to invest a slightly higher percentage in non-pension vehicles.

**Table 2: Average monthly savings**

	Women	Men	Difference (%)
Employer's pension – employer contribution	£191	£241	+26%
Employer's pension – employee contribution	£114	£187	+64%
Personal pension	£188	£278	+48%
Stakeholder pension	£100	£195	+95%
Non-pension savings for retirement	£242	£294	+21%

The other major factor in the difference between the genders is access to final salary (defined benefit) schemes. Notably, as the working lives of men and women become more alike over time the gender gap disappears. Amongst those with one or more private pension aged 30-50, men were approximately 10% more likely than women to say a DB scheme would provide some income in retirement. This gender gap falls to just 1% among men and women aged under 30.

*From the perspective of the Pensions Index this is a potentially negative development as it would imply that over time men will "level down" towards levels of pension preparedness traditionally experienced by women, rather than women "levelling up" towards levels of preparedness traditionally enjoyed by working men.*

**The impact of having access to a pension;** 65% of those with one or more pensions are saving adequately for retirement. Where there is no access to a pension the number of people saving adequately falls to just 5%. Having access to a pension is the biggest single factor in explaining whether someone will have an adequate retirement income. This is particularly the case for those with defined benefit schemes where 86% are on track with their retirement preparations, compared to 68% of those who own their home outright.

**The impact of employer contributions;** the number of pension-holders in the index group having confidence that defined benefit pensions will provide them with most retirement income has risen slightly up 1% from 40% to 41%. This is a factor in the widening gender gap as the increase has been concentrated among male respondents: 44% of respondents citing defined benefit schemes as the main source of retirement income – up from 42% in 2008. The figure for women citing defined benefit schemes has reduced slightly from 37% to 36%.

Overall, 71% of those in defined contribution pensions are saving adequately. However, there is a subtle continuing shift away from employer to employee contributions. In employer-sponsored defined contribution schemes we find a slight fall in employer contributions (as a percentage of salary) from 6.6% in 2008 down to 6.4% in 2009. Meanwhile we see that employee contributions have increased from £129 to £135 per month. So while employers continue to make a major impact towards an adequate pension, the trends do not look promising for individual savers.

**The impact of married life;** as in previous years we find major similarities between single people – 52% of whom are prepared for retirement – and those who are co-habiting people – where the preparedness figure stands at 49%. The figures show that after people get married we see their level of preparedness rise markedly – to 59%. This may partly reflect the higher average age of married people.

**The impact of starting a family;** this year the findings appear to throw up a mixed picture. There is little difference in pensions preparedness between those with no children (55% are prepared) and those with one child (54% are prepared). It is only when people have a larger family (three or more children) that pension savings takes a severe hit. Only 48% of these people are on track. The negative impact on pensions associated with starting a family seems to be less significant during 2009.

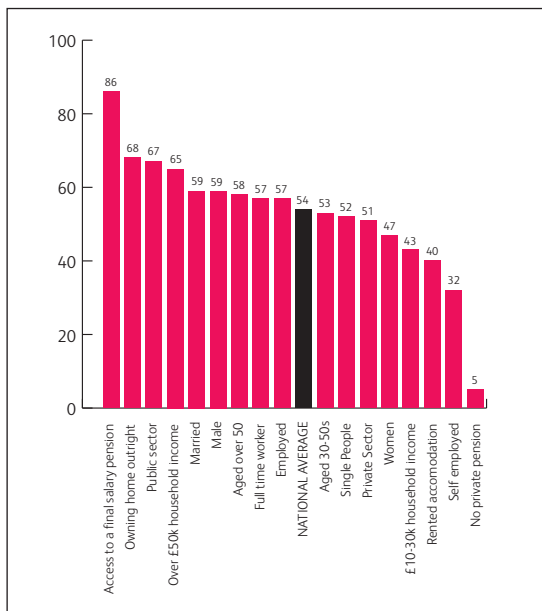
In previous years we found that it was those with the youngest families (children aged under 5) that felt the greatest impact on their pension savings. However, in 2009 these people do relatively well with 55% of them preparing adequately – just ahead of the national average of 54%. This year it is those with children aged 5-17 who are feeling the impact with preparedness falling to 50%.

**The impact of working life;** 56% of those working part-time (8-29 hours per week) are preparing adequately, much the same as for full-time workers (57%). Public sector workers are among the most prepared (67%). This falls to 51% among private sector. The self-employed are among the least well prepared group of savers. Only 32% are saving adequately. One-third of self-employed people (33%) are not saving at all.

## Savings shortfalls: Profile of low-risk and high-risk groups

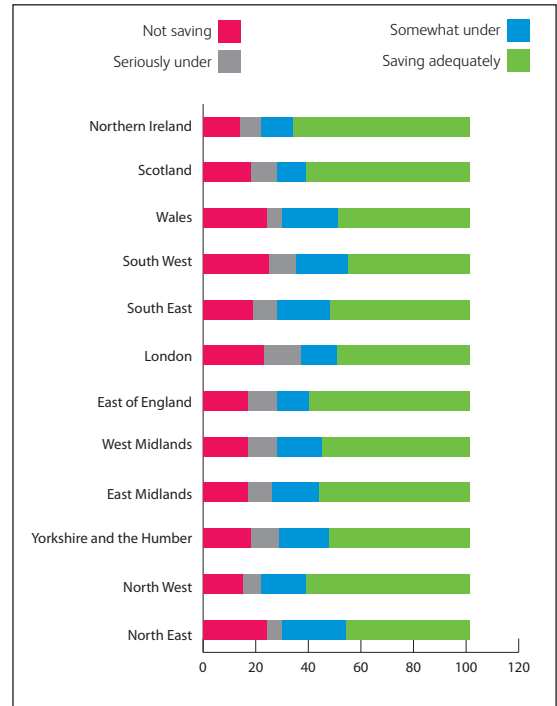
Within the overall preparedness figure of 54% we see some worrying trends compared with 2008. Chart 5 shows which groups are most and least likely to be saving enough for retirement. The profile of a secure future retiree would be that of a married male currently in his 50s; he is likely to own his own home and work full-time in the public sector with access to a defined benefit scheme. The profile of someone who is under-saving would be that of a single woman in her 30s, she too is in employment though may be self-employed without access to a pension scheme. Her income is likely to be under £30k and she might not yet be on the property ladder. Worryingly, the profile of a prepared saver is dying out with the demise of defined benefit pensions, labour mobility and ‘broken’ career patterns.

**Chart 5:** Pensions index by demographic group.



There are also huge regional variations as revealed in Chart 6 below. The level of preparedness in Northern Ireland – the best performing part of the UK – came out at 65%, while this slumped to just 45% in the South West of England, the UK’s worst performing area.

**Chart 6:** Pensions Index around the UK.



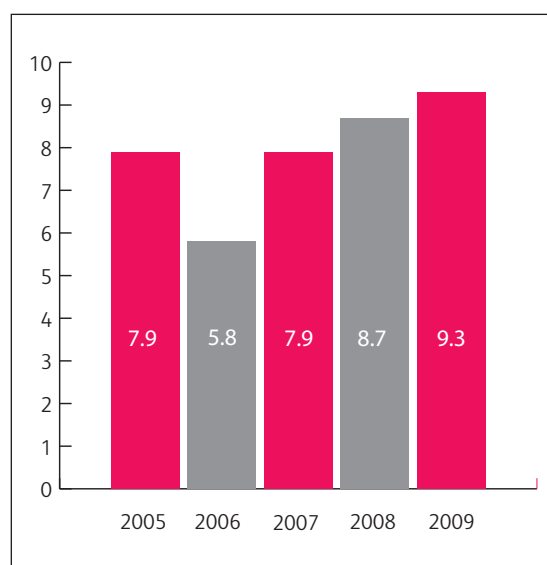
## The Scottish Widows Average Savings Ratio

**The Scottish Widows Average Savings Ratio tracks annually the average savings level of those not relying on defined benefit pension schemes.**

**Each year we measure the overall average against our benchmark of 12%.** This figure is based on someone aged between 30 and 65 earning over £10,000 per year and compares with the personal accounts benchmark of 8%, which assumes that people start saving earlier at age 22. Both models result in similar outcomes by way of the likely retirement income.

- The baseline Scottish Widows Average Savings Ratio stands at 9.3% in 2009. This is above the figure recorded in 2008 and marks a new high in the UK's savings level since we started the tracker in 2005.

**Chart 7:** Average Savings Ratio trend.



**5-year Savings Ratio trend % of annual income saved (excluding defined benefit pensions).**

## Hitting the 12% – save more, save regularly, save in a pension

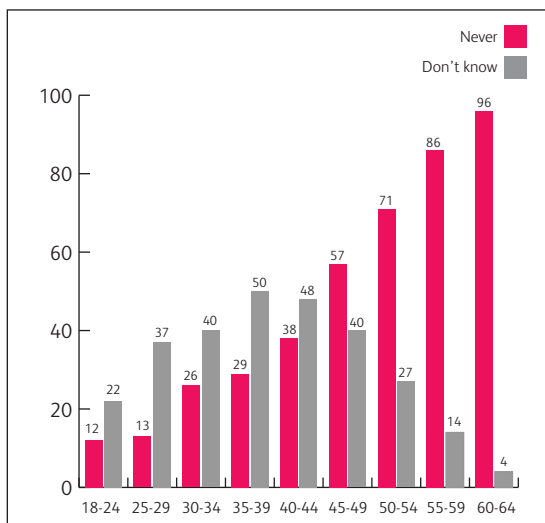
The groups most likely to outperform the average ratio are those aged over 50, men, those in employment. However, the biggest single factor is having access to a pension and whether the person saves on a regular basis. Those with access to a pension are saving on average 11.2%. The ratio differs greatly depending on pension type. Those with a defined contribution scheme where they or their employer is currently making contributions see their average savings rate rise to 17%. Individual personal pension savers averaged between 14-15% of salary. This compares to just 3.8% saved by those not currently contributing.

The ratio for some groups is pulled down by a large number of people within those groups who reported that they weren't saving anything. This would include;

- Women (26% of whom are not saving compared with men on 15%);
- Single people (24% of whom are not saving compared with married people on 15%);
- The self-employed (33% of whom are not saving compared with 18% of non-savers among the employed).

Therefore, efforts to raise the savings ratio should start by widening access to private savings products to these groups with higher concentrations of non-savers. By converting non-savers into savers (even where they are saving small amounts to begin with) we could see a major impact on improving the overall UK Average Savings Ratio. However, as Chart 8 below reveals, non-savers need to be targeted at a young age. Non-savers still in their 20s and 30s are likely to remain unsure about when they will start to save. By the time they hit 45 non-savers become more likely to state that they will never save. The status of the non-saver becomes ingrained over time.

**Chart 8:** When non-savers might start saving.



**Non-Savers: when do you expect to start saving? (by age group).**

**This need to build access to private pension savings comes at a time when household budgets are coming under increased financial pressure and important types of pension provision, such as defined benefit schemes, are in terminal decline.** While over half of those aged 50 or over with a private pension, claimed to be in a DB scheme, this falls to just 16% of those aged under 30. While defined benefit pensions form the main source of income for 30% of people with a private pension, this will continue to fall over time. Against this backdrop the need to address the current low levels of public awareness towards pensions will be central to achieving greater savings levels going forward.

- Currently, 71% of retired people thought that there is insufficient emphasis on people saving for their retirement.
- More fundamentally, 34% of Britons don't even know how much they have amassed in savings. This peaks among those with young families, people working part-time and those outside paid employment, but not unemployed, long-term sick or retired (possibly taking a break between jobs).
- Only 9% of people who were not retired said that they knew "quite a lot" about increases in the State Pension Age (SPA). This rose to just 13% of those in the pre-retirement age group. An equal number of people in this age group (13% of those aged 50-59) said that they "have not heard of it". This is a worrying admission by people whose retirement is on the immediate horizon. Among women aged 51-59 only one-in-six (16%) said they knew quite a lot about the state pension age even though women in this age group can expect to see the State Pension Age rise from the current age of 60 to 65 years between next April and 2020.



## Part 2: Attitudes to retirement – when and how to save, when and how to retire

### Putting it off: the growing cost of delay

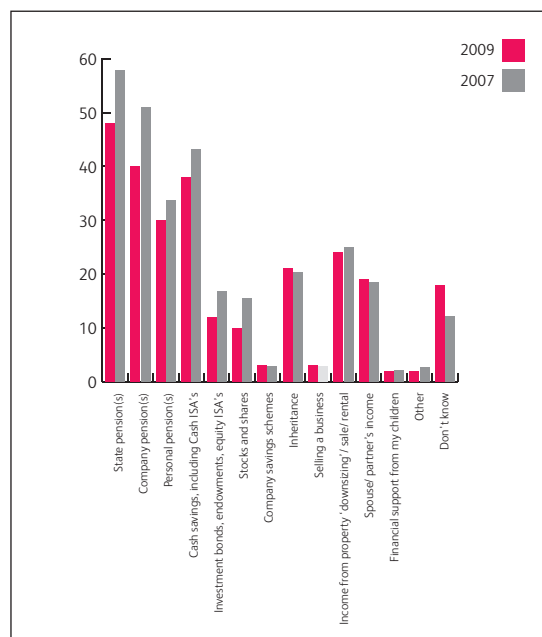
The recession has certainly done nothing to encourage younger people to start saving for retirement earlier. This year's report shows that people think it is possible to put off retirement planning until they are nearly 30 years old (29.7 years). This increases to nearly 32 years among those still under the age of 30. Men under 30 think it possible to defer until age 34. This is a whole twelve years later than the proposed personal accounts starting age of 22 years. People on lower incomes (under £30,000) are likely to think it acceptable to defer until they are 30 years old – a full two and a half years later than those earning over £50,000 per annum.

### Falling confidence in all sources of retirement income

48% said that the state pension would help to ensure they enjoyed a reasonable standard of living in retirement. This compares with 40% who chose company pension schemes. These figures represent a significant fall on 2007 when we saw that 58% thought that the state pension would provide a reasonable standard of living and 51% thought likewise of their company pension scheme. Confidence in personal pensions – though also down – is much more stable having moved from 34% to 30% in 2009.

In Chart 9 below we see that confidence in most sources of retirement income to provide a reasonable retirement has fallen compared with 2007. Even the popular ISA recorded a 5% drop. The only sources which have bucked the trend were a spouse's pension and inheritance, although increased confidence in these may be a triumph of hope over realism. In the current uncertain environment it is telling that the number of people who do not know what source of income will provide for them in retirement has risen from 12% to 18%, while there are now marginally more people who seem to be pinning their retirement hopes on other relatives either saving for them or simply passing on wealth after they die. The notion of exercising personal responsibility seems to have become less apparent.

**Chart 9:** What will provide a reasonable retirement income? (% change, 2007 and 2009).



- Only 15% thought the state pension would provide them with MOST of their retirement income. An even greater number – 1-in-5 people in the UK – do not know what their main source of retirement income will be.
- One-third of those people who do not expect to receive income from a private pension state that they had no idea where their main source of retirement income would come from. Amazingly, given the absence of any private pension savings, only 23% of these people thought the state would provide their main source of income.
- Those in the public sector remain much more confident about the state of their company scheme. 35% of public sector workers are relying on their workplace scheme as their main source of income. This falls to 24% in the private sector.

Upon moving into retirement people think the amount they will need to live comfortably will be £28,000 per annum on average at age 70. However, from the above it is not clear whether people actually understand what it takes to generate the desired (or required) £28,000 per year in retirement income. While reforms such as automatic enrolment will play an important role in widening access to pension savings, in isolation they will come nowhere near providing what is seen to be an adequate pension. Encouraging those who save nothing to save 8% per year is a good starting point, but is not a complete solution. People will need to take further steps if they aren't already doing so. Such steps may include making enquiries about existing employer provision, reviewing one's own contribution levels particularly after major financial events such as changing employer or any fluctuations in household income, as well as considering other forms of savings which may help to amass more flexible or accessible forms of savings.

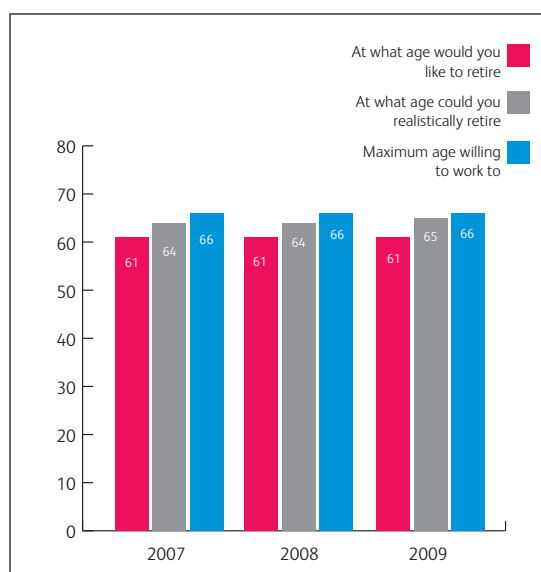
## Attitudes to retirement age

Each year we ask three simple questions to gauge attitudes to what age working people will *want to retire*, what age they think it *likely they will retire* and what age they would definitely *not want to keeping work beyond*. There has been a very consistent picture of people's expectations persistently lagging behind any improvements in life expectancy.

- **People in the UK state that they would like to retire aged 61.** This figure is remarkably consistent irrespective of whether people have any savings or investments or whether they hold a pension. Both men and women aged under 30 aspire to retire before they reach their 60th birthday.
- **The maximum age beyond which people would not be willing to work is 66 years.** This figure is unchanged on previous years and is, again, remarkably similar irrespective of whether people have access to pensions or other investments. As with previous years, those working under 8 hours a week or self-employed would be prepared to keep going until they reach 68 or even longer.
- Within the two extremes – **61 and 66 years – the age at which people realistically expect to retire is just less than 65.** In spite of the historical differences in retirement age between men (at 65) and women (at 60) it seems that any gender gap in expected retirement age has all but disappeared.

As Chart 10 shows, in each case there has been little or no change since 2007 or last year. There is a small shift in 2009 in the 'realistic' retirement age – up from 64 to 65 years.

Chart 10: Attitudes to retirement age.



When looking at people's "realistic" retirement age, there is a marked gap between the retirement age expectations of those saving in a pension and those who are not. Those saving more than £100 per month into a pension think they will be able to retire before they reach 63 with only 8% of these people unsure when their retirement will start.

In contrast, those saving nothing think they will be working to 66 with 22% unsure of what a realistic retirement age would be. A combination of greater uncertainty and a sense of resignation that they will be working longer illustrates that people do see the consequences of not making preparation for retirement. However, in reality non-savers will be required to defer retirement by much more than the three years (compared with savers).

## Attitudes to phased retirement

The onset of the economic downturn has prompted recent speculation that people may be changing the way they look at the onset of retirement – in particular, as the value of pension funds continue to fall in volatile stock markets, more people may be planning to work part-time as they phase their entry into retirement and make good any shortfalls in income. However, the Pensions Report findings do not support this view.

**In 2009 we found that 67% of of working/semi-retired people in the UK would like to stage their retirement.** However, this is almost unchanged on the figures reported in 2007 and 2008. In 2007 we saw a figure of 66%. Therefore, while the onset of the downturn has had a measurable impact on pensions, the decision to pursue a phased retirement does not appear to be linked to the current economic situation.

### **The age at which people would like to transition into part-time work remains low at 57 years.**

Younger people (those under 30) would like that transition to start at 55 whereas those over 50 see the transition starting at nearly 61. Amongst those who want to stage their retirement, the age at which they would like to stop working altogether is just 63. Again, these figures have not shifted in recent years.

People still largely see phased retirement as a means of funding early retirement rather than making good any shortfalls caused by recent poor investment returns, or indeed, the need to fund the likelihood of a lengthening retirement brought about by increasing life expectancy. In other words, phased retirement is seen more as a positive long-term aspiration to retire early, rather than a negative short-term response to having to work longer in order to fund falling pension values.

## Part 3: The impact of the recession

The last 12 months have delivered some major financial shocks to UK households. After 15 years of benign economics the fear of joblessness and problems with meeting mortgage repayments have become mainstay news items. The UK economy shrank by 1.9% in the first quarter of 2009 generating an increase in joblessness of 244,000 in according to the Office of National Statistics.<sup>10</sup> Not surprisingly, our findings reveal that this has affected confidence with 23% of people in the UK now feeling 'pessimistic' or 'very pessimistic' about their career prospects. Today, we see over a quarter of all workers (28%) who either do not feel secure in their current employment, or do not know whether their job is secure. This rises to one-in-three people under the age of 30. Young men feel much less secure than women, 40% compared with 24%. The level of insecurity increases further still when looking at those on the lowest incomes. Over half (53%) of those with a gross household income of less than £10,000 feel insecure. This is having some impact on whether some people choose to save more or not:

- Amongst those who said they were unlikely to end up saving more for the long-term over the next 12 months, 14% said that the uncertain job market and economic outlook was preventing them from saving more.
- This increases to nearly one-in-six of those who could be and should be saving for retirement and one-quarter of those with Stakeholder Pensions.

Faced with what is a fairly gloomy outlook, a major section of people – just over one-third – feel pessimistic about their finances.

- 37% are pessimistic/very pessimistic about their short-term finances but these tend to be younger people (under 30). This increased among young people (aged 18-29) to 42% and falls to 34% of those over 50.
- Overall, a similar number of people (36%) feel pessimistic about the long-term finances though these tend to be older people (over 50) who feel most pessimistic on 41% this falls to 25% of those under 30.

### Impact on affordability of saving

In 2009, amongst those who said they were unlikely to end up saving more for the long-term over the next 12 months, affordability remain the biggest single factor for 64% of respondents; women, those aged 30-50, those who are separated or divorced, those with dependent children and those on lower incomes are among the most likely to cite affordability as the reason for why they don't save. **Overall, 63% said that it was 'not very likely' or 'not at all likely' that they would save more.**

So what effect is the downturn having? In line with the ONS's findings which show a fall in those 'living comfortably' our findings do confirm that people feel worse off. In total, 51% felt a little worse off or a lot worse off than they did five years ago. This was felt more by women and older people. People over the age of 50 are almost twice as likely to feel worse off (61%) when compared with those under 30 (33%). This may help to explain why it is that savings levels in our annual savings tracker seem to be showing a bigger drop off in older workers. We find that spending levels have been more affected than savings levels. While the Pensions Index has risen 3% on last year, household spending is down.

### UK households are spending less

- 59% said that they were spending less as a result of the economic downturn. Surprisingly, one-in-three people said that the downturn had had no impact on their spending while 5% said that they were now spending more.
- Within this overall picture women are much more likely to be spending less (64% have made cutbacks compared with 54% of men), so too are people on lower incomes – 70% of those with household income below £10,000 per year have made cut backs. Among the people in our Pensions Index – those who could be and should be saving for retirement – it is notable that 56% of men are spending less while 68% of women are spending less.

- Those with mortgage debts are also cutting back more, even though many people with variable rate mortgages will have seen their mortgage repayments fall during 2009. According to the Bank of England the average mortgage rate paid by existing mortgage holders has fallen from 5.82% in October 2008 to 3.83% in March of this year.<sup>11</sup>

## Making sense of long-term risk – is ‘money in the bank’ considered to be ‘as safe as houses’

Following the collapse of Northern Rock, and the subsequent fall-out from the Icelandic banking collapse which left many Britons exposed, the security of people’s savings is under the spotlight. The recent financial turmoil has hit people’s confidence in savings institutions. Better legal protection for investors in cases where their savings might be threatened by losses, such as those facing savers with Icelandic banks, was cited by 51% of those who are concerned about the security of their investments.

- 16% of those who said they were unlikely to end up saving more for the long-term over the next 12 months, mentioned concerns about the stability of financial services companies as an obstacle to save.

While a number of measures have been put in place to protect savers – including more generous protection under the Financial Services Compensation Scheme – the media still ponders the question “how safe are your savings?”<sup>12</sup> Our findings do reveal a fall in confidence in recent years. This has affected even the less risky forms of savings. In our sample 14% said that bank current accounts were quite or very risky. This was up from just 6% in 2008. Only 18% thought that money in the bank was very safe. This was down from 34% in 2008. Similar numbers are recorded for building society accounts.

In the current climate we find 58% of people drawn towards “mainly safer” financial products. This peaks among those over 50 at 66% which might help to explain why the over 50s have experienced a slight fall in their Pensions Index rating as it would seem that they have been drawn more towards products like Cash ISAs.

We also find that regular savers on lower incomes are much more likely to be drawn to safer financial products – 75% of those earning less than £10,000 who saved regularly. In contrast to this we find that regular savers further up the income scale remain more balanced in their risk appetite: 46% of regular savers earning over £50,000 per year preferred to keep a ‘fairly even mix of riskier and safer financial products’.

## Cash ISAs: short-term savings or sound long-term investment?

**Amidst the recession the Cash ISA is seen as the safest form of investment. 72% said that they were very or quite safe. This view was supported by men and women, and all age groups, illustrating the universal appeal of the product.**

The recent Budget statement revealed that some £290 billion is now amassed in ISAs.<sup>13</sup> With vast sums having been amassed in ISAs over the last ten years, there has been much debate about what people intend to use that money for. Our findings reveal that there are now more people in the UK – some 38% – who see cash savings, including Cash ISAs, as a route to reasonable standard of living in retirement than personal pensions (30%).

The notion that deposit savings have supplanted pensions as a means of funding retirement is particularly clear among younger savers. *People below the age of 30 now see cash savings, including Cash ISAs, as the main way to ensure a reasonable standard of living in retirement being more popular than all forms of pension, including the state.* This was the case with 45% of respondents. This was followed by company pensions on 32%. Given the higher historical returns from equities over longer periods, it must be a concern that younger people are considering using cash savings as the basis for their retirement planning.

However, it is clear that when looking at long-term investments (rather than deposit savings like Cash ISAs) that large numbers of people simply do not know what to think. 35% couldn’t make a judgement about the risk profile of investing in stocks and shares ISAs.

## Using property wealth to fund retirement: is your home also your pension?

Property remains important with one-quarter expecting to release equity from housing or rent out properties to help fund retirement. The option of using property is particularly strong among our 'could be and should be saving' category who are included in the Pensions Index calculation. 31% of these people – including 35% of women between the ages of 30-59 who earn over £10,000 per year – said they would rely on property.

**Perhaps surprisingly, given the bursting of the property bubble, people still thought that property was a safer investment than a pension.** 51% thought property was very or quite safe compared with 44% who said the same about investing in a pension. Notably confidence in both has fallen by around 10% on last year.

People below the age of 30 are more likely to consider property as a risky long-term option, when compared with people over 50. The younger age group is particularly likely to say that they don't know how risky pensions are; this was the response given by 26% of those under 30 which compared with 12% of those over 50.

An important question arises over the extent to which people over-rely on the value of their home. According to our findings, the typical amount of outstanding mortgage debt is currently £81,000. The typical value of people's homes is thought to be around £210,600. It is entirely possible that most of us are guilty of over estimating what our homes are actually worth in the current market, while under estimating how much outstanding debt is secured against them. Our figures compare with a typical house valuation in the UK of £154,716 on an outstanding debt of £107,000 according to the latest Halifax house price index for April 2009.<sup>14</sup>

So while **the average person in our survey assumes that they have around £130,000 in equity built up in their home, thanks to the recession the reality may be closer to £50,000.** This means people actually have a lot less potentially available to fund retirement than they think they do.

Another impact of the recession in diminishing the role of property to fund retirement can be seen in the views of those not currently on the property ladder. People looking to buy their starter home now expect that to take place in the next 4 years. Only 13% expect to buy their first home in the next 2 years. Nearly one-in-three people who don't currently own a home say that they never intend to buy one.

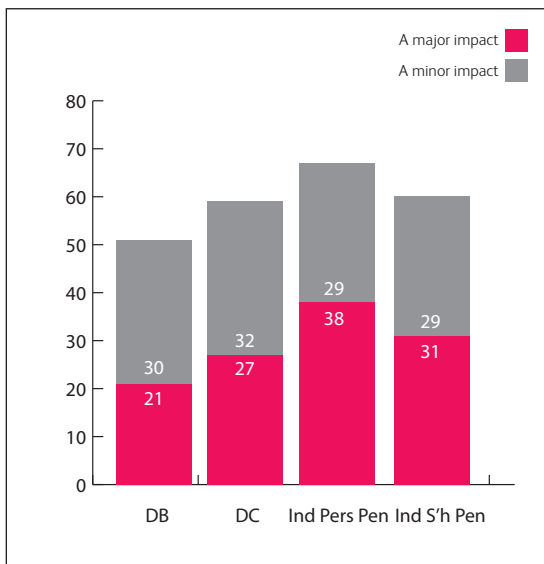
## Confidence in pensions

Even though DB schemes are seen as the "gold-standard" of pensions, only 49% of those in DB schemes are confident that it will deliver as planned. The lack of confidence is even greater when looking at other types of pension. Only 16% have confidence that their defined contribution scheme will deliver the returns they need for retirement. Twice as many people do not know whether their DC pension will deliver as planned when compared with DB schemes.

Confidence among women is only half that of men. We also reveal that three times as many women (20%) compared with men (7%) do not know whether their DC pension will deliver in retirement.

One-third of people in DC schemes and not retired have seen their confidence undermined by the performance of equity markets. This rises to 46% – nearly half – of women in this age group. 47% expect the recession to affect the size of their pension pot. Among the over 50s this rises to 61% while 66% of those earning over £50,000 believe that the recession is having an impact on their pension pot.

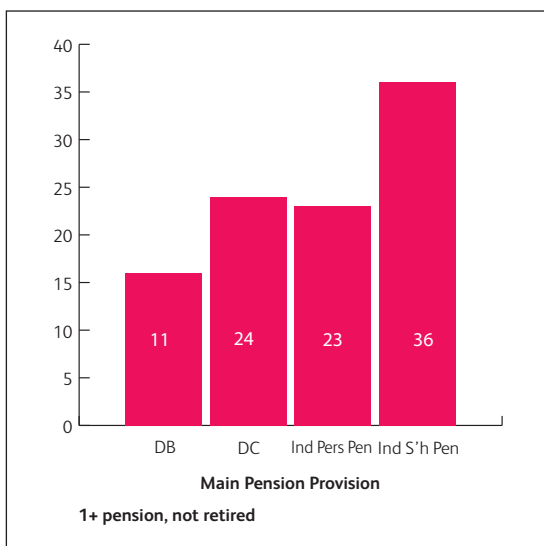
**Chart 11:** Will the recession impact on your pension?



**The impact of recession on pensions, by pension type held.**

The impact of the recession is being more heavily felt by people with personal pensions. 38% of those with an individual personal pension thought the downturn would have 'a major impact' compared with just 21% of those in defined benefit schemes. Furthermore, this negative impact on pension values is having a corresponding negative impact on the priorities of those saving into personal pension.

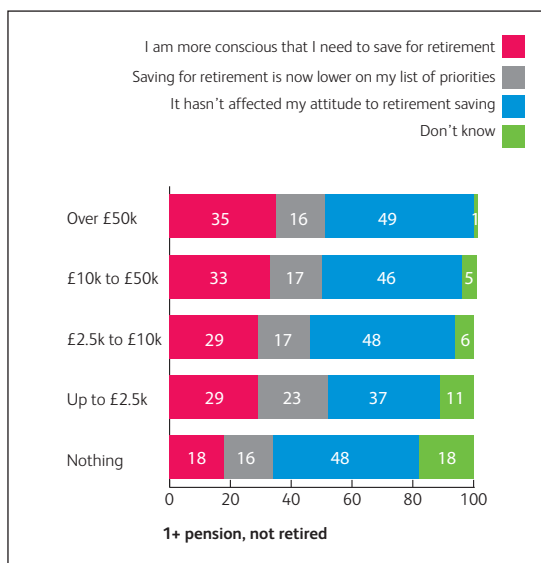
**Chart 12:** Priority of retirement savings.



**Saving for retirement is now lower on my list of priorities.**

We can also see from the graph below that it is those with relatively little by way of other savings and investments that are either less conscious of the need to save or simply do not know what to do.

**Chart 13:** Consciousness of retirement savings need by current savings.



### Advice needs in a downturn

**Independent Financial Advisors (IFAs) remain the most likely source of advice and information about pensions,** – 31% picked the IFA compared with 23% going to online aggregator sites. It is important that independent advice is able to service the widest possible range of savers. However, new sources of information will evolve such as the Money Guidance service currently being piloted in parts of England. The findings show that among those who are likely or very likely to use the Money Guidance service.

- 87% would like to access the service online. This route is highly popular with the over 50s (83%) including the 'silver surfers' with 82% of those in retirement (aged 65-69) supporting online access.
- 32% would like to receive information to be sent by post.
- 39% would like to receive face-to-face guidance through advice centres.

## Part 4: A continuing role for employers

69% of working and semi-retired people think that employers should provide access to a pension and make contributions. Only 8% thought that employers should provide a scheme, but not have to make contributions. There was also a widely held view that where employers do provide pensions, they should also provide some advice or information. 43% wanted access to general information about retirement planning, while 33% wanted full financial advice. The advice needs were greatest among the older people, particularly women over 50. 78% of these people wanted guidance or advice

- Enjoying access to pensions via employers remains a major incentive to save for retirement. This is more so for those over 50 (34%) than for those under 30 (18%).
- As with previous years we see a major gulf between public and private sector workers. 57% of those with a pension in the public sector are currently a member of a DB scheme. This falls to just 29% of those in the private sector.

### Pensions as a staff retention tool

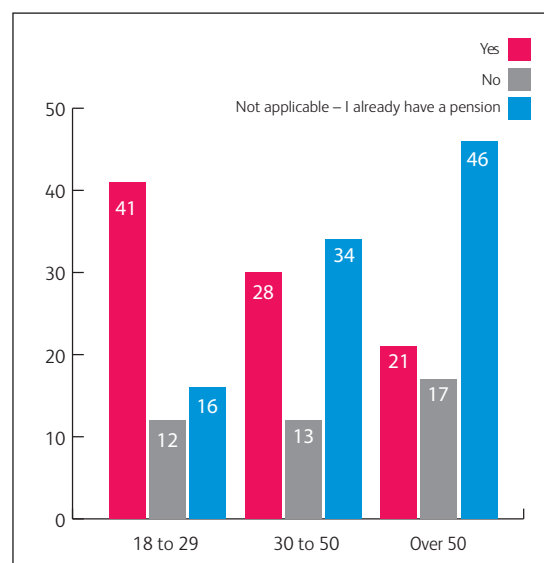
The presence of a defined benefit scheme does seem to have a positive benefit for the employer, notably with the impact on staff retention. Those with access to DB pensions have been with their current employer for nearly 9 years on average. Compare those figures with those in defined contribution schemes where they have stayed with their employer for just over 6 years on average. Where they have no pension the average worker will stay put for less than 6 years.

When looking in greater detail at what influences people to switch jobs, the quality of the company pension scheme was a factor for just under half – 47% – of all workers. 54% said that their workplace pension scheme was an incentive to stay with their current employer. Furthermore, 37% said they would seriously consider looking for work elsewhere if their boss reduced the amount they contributed to the workplace scheme.

### Broadening workplace pensions: the impact of personal accounts

Each year we ask people about their intentions to save into a personal account when they go live in 2012. This year our findings reveal that 30% would remain within the scheme. The findings below suggest that the scheme is likely to hit its target group: those under the age of 30 are twice as likely to remain within the scheme compared to people aged over 50. When asked why they would not join the scheme, people over 50 were three times as likely as those under the 30 to say that they wouldn't need a personal account because they already have a pension.

Chart 14: Are you likely to save in a personal account?



Even if personal accounts do hit the target market, the average amounts people who said they were likely to save into an account expect to save are much lower than the required 4% of qualifying earnings. Over one-third of those likely to choose to have a personal account state that they will save no more than £10 per month .

- Women can expect to save on average just £32 per month.
- Those working part-time (8-29 hours per week) would be likely to save even less at just £23 per month.
- Those with low household incomes (up to £10k per year) are likely to save £15 per month.
- Those with no retirement savings are likely to save £32 per month. This compares with £93 per month among those already saving over £100 per month.

The creation of the personal accounts, targeted at those on low incomes, creates potential issues for those who will be affected by means tested pensions benefits. The 2009 findings reveal that 54% did not know of anybody who had lost part of their state benefits because they had saved into a private pension.

**However, 32% of those aged 65-69 had been personally affected by means tests in retirement.**

As with previous years the findings show varied impacts on people's savings behaviour with 40% of people have been affected by means testing saying that means tests would encourage them to save less for retirement. Whereas only 6% said that means tests would make them save more this rises three-fold to 19% among those under the age of 30.

## The impact of changes in company pensions

In spite of recent further high-profile closures of defined benefit schemes it remains the case that around one-third are confident in their current defined benefit arrangements. The 2009 findings which **show increased** confidence in defined benefit schemes as a main source of retirement income are, at first glance, somewhat at odds with what is happening in pension provision. This partly reflects an increase in public sector employment over the year, but is most likely also the result of a lag between people's perceptions and the reality – many of those in DB schemes today have not discounted the possibility that it might not be there in future years.

- One-quarter (25%) of Britons do not expect to receive any income from any private pension. This is higher among single people, people working part-time, those outside paid employment and the self employed where we see 35% with no pension. Among moderate earners 31% of those in households with earnings between £10,000 and £30,000 a year do not have a pension.
- 20% of people with a DC pension from their employer are currently saving nothing into it. A further 27% do not know how much they are saving.
- Women who are members of DC employer schemes are consistently less likely than men – across all age groups – to know how much they are saving into a personal pension. Also, people with dependent children are more likely to be unaware of how much they are saving into their personal pension.
- Overall, 31% did not know what type of pension arrangement they have in place. This widespread disengagement suggests that they are unlikely to know how much responsibility they bear in deciding how much they should be saving or how much risk they should take on when investing those savings.

As a result, it is not clear whether other forms of long-term savings are filling the gaps left by declining defined benefit provision.

# Conclusions

Many of the major implications arising from our 2009 findings have been highlighted in previous years. The need for individuals to take greater personal responsibility in planning for the long-term remains as real now as it did four years ago when we published the first Scottish Widows Pensions Report. However, the onset of recession changes the savings landscape hugely and will only add further pressure on household finances. Given such pressures it is by no means clear for many households which way they should react.

## The Pensions Index

The 2009 findings reveal that despite, or perhaps because of, the recession the UK is saving more for its retirement. The level of pension preparedness has increased during the previous 12 months as households cut back on spending. Some of those cutbacks are making their way into larger savings contributions. However, the distribution of these additional savings is far from equal with the gap in pension preparedness between men and women widening since 2008. While the number of women saving adequately for retirement has gone up, the 1% increase is within the margin of error – it is not therefore significant enough to make a fundamental difference to women savers upon entering retirement. Again, it seems that we need to redouble our efforts to overcome barriers to save for women.

## Developing a long-term view

We suggested in our 2008 Report that there was a need to encourage a more long-term view among savers. This message is even stronger in 2009 as again we find that people are drawn towards short-term savings products as a means of funding retirement. In 2009 the Cash ISA is king. The turbulent investment markets have made consumers more wary about what they save in, and who they entrust those savings to. The obvious danger is that this could give rise to 'reckless conservatism' as savers shun what may well prove to be sound long-term investments.

## Greater emphasis on retirement, particularly for those approaching later life

It remains clear that with the diminishing role of employers, individuals will need to be prompted to save for retirement in other ways. In order to achieve this we need to ensure generally higher levels of awareness about the need to plan for retirement. Currently 68% of people who are not yet retired and aged 50-74 feel that retirement does not receive enough attention, and this increases to 71% among retired people. Also we find that many of the current issues affecting pensions received little attention among the general public. More concerted efforts to educate all consumers across all age groups is required, particularly those over 50 who demonstrate a worrying lack of understanding about their pension planning needs. For example, very few women over the age of 50 seemed to be aware of the planned increases in their state pension age which will start to take effect from next April. Given the proximity to retirement in this age group it is paramount that they are offered much more access to relevant financial planning and advice tools. The government-backed Money Guidance service may be a useful conduit in meeting this need.

## The need for financial advice

It is unlikely that long-term savings, including pensions, will enjoy a renaissance without access to good sources of advice. Yet our findings show that by and large people do not understand their advice needs. We see a major drop off in the sorts of financial advice people are likely to seek beyond the age of 30. Equally, there has been a major fall over the years in the extent to which people cite their IFA as the most likely source of financial advice. The creation of the government-backed Money Guidance scheme may help to provide additional sources of information to some. Equally important will be the need to ensure that the outcomes of the FSA's current review of retail investments provides a sustainable outcome which ensures widespread access to both retirement products and financial advice.

## The continued importance of employers

Given the findings which this year show continued support for workplace pensions as an important recruitment and employee retention tool, it is important that employers continue to recognise the benefits of offering a pension. However, many employers are seeking to cut the cost of their pension schemes during the current downturn notably with the recent decision by some employers to close their defined benefit schemes. This will inevitably impact in the long-term on the UK's level of pension preparedness. Our own findings show that employer-sponsored defined contribution schemes have seen a fall in the level of contributions, as a proportion of employee salaries. Measures to improve the take up of existing workplace pensions – through the wider use of auto-enrolment techniques and the better promotion of workplace benefits would be helpful. Given the findings which this year show continued support for workplace pensions as an important recruitment and employee retention tool, it is important that employers too continue to recognise the benefits of offering pension benefits.

## Personal Accounts

With the introduction of personal accounts another year closer, it is not apparent that the general public enjoys greater awareness of the scheme or its benefits. The recession is causing some people to re-evaluate whether they are likely to remain within the scheme once it enters force in 2012. Given the relatively low levels of contributions among the target market for personal accounts it is clear that there remains a chasm between what people think they will be expected to save in the new pension scheme, and what they will in reality be expected to save. With the Personal Accounts Delivery Authority looking to build the architecture of the personal accounts in the coming 12 months, it is important that the public misconceptions about the scheme are tackled through wide-ranging communications.

# Appendix A: The Pensions Index and the Average Savings Ratio

## Calculation of the Pensions Index

The Scottish Widows Pensions Index is a snapshot of how well employed and self-employed people in the UK are currently preparing financially for retirement. It is based on those who are of an age – between 30 and state pension age – and an income level – £10,000 or more a year – where they could reasonably be expected to be saving for their old age. The target retirement income is one that will leave most people feeling they are in an acceptable financial position, but which is likely to involve a sacrifice in living standard compared with when they were working.

The level of retirement income which consumers are likely to feel is acceptable will depend largely on their income while working. However, the proportion required is likely to be higher for lower earners than for those who are relatively well-off, and that is reflected in our assumptions. We have set the replacement rate at about 90% of pre-retirement income for those earning £10,000 a year, reducing to 40% for those earning £50,000 a year.

We have built in what individuals might expect to receive in state pensions, taking into account the changes planned for 2010 and 2012. We have assumed that individuals will receive the Basic State Pension in full, and 70% of the maximum State Second Pension based on their earnings.

For private pensions, we have assumed an investment return before retirement (net of charges) of 2.5% a year above earnings inflation, and have based the cost of buying a pension annuity at retirement on the assumptions developed by the actuarial profession for statutory money purchase illustrations (SMPI).

Combining all these assumptions, a contribution of 12% of gross earnings paid continuously from age 30 to age 65 provides around the target income level for most people. As in previous years, we have assumed that anyone saving 12% or more of personal income for retirement is adequately provided for.

Those with defined-benefit pensions need to be considered separately, because there is no direct relationship between contribution levels for individuals and the pension provided. Good defined-benefit pensions remain the 'gold standard' of pension provision, and in calculating the Index we have assumed that all those who expect to receive most retirement income from a defined-benefit pension are adequately provided for.

The Scottish Widows Pensions Index therefore tracks the percentage of those aged between 30 and 64 (30 and 59 for women) and earning £10,000 or more a year who are either relying mainly on a defined-benefit pension or saving at least 12% of earnings for their retirement (including any pension contribution by their employer).

The Scottish Widows Average Savings Ratio is the average percentage of earnings being saved for retirement by those in the Index group, but excluding those relying mainly on a defined-benefit pension.

## Savings that are included

While pension arrangements remain the most common and most tax-efficient method of saving for retirement, many people use alternative savings vehicles such as ISAs, perhaps with a view towards moving funds into pension closer to retirement.

In calculating the Pensions Index and the Average Savings Ratio, we have taken account of all savings specifically intended to contribute towards retirement income. These comprise company and employee contributions to employer-sponsored pensions, individual contributions to personal and stakeholder pensions and non-pension savings. We have not included non-financial assets such as residential property.

## Groups that are tracked

While we are able to track preparation for retirement against many different criteria, there are three key differentiators that we monitor every year:

**Gender:** Women have always lagged behind men in pension provision, and we measure whether the gap is growing or shrinking.

**Age:** We divide the index between those aged 30 to 50, who are generally some distance from retirement, and those aged 51 to 64, who are approaching retirement.

**Earnings:** We monitor three bands to see the effect of earnings level on retirement preparation – £10,000-£29,999, £30,000-£49,999 and £50,000 and over.

## Footnotes

- 1 The Scottish Widows Pensions Report series, 2005-2009
- 2 Social Trends 39, National Statistics 2009, p.63
- 3 United Nations World Population Prospects – 2008 revision. <http://esa.un.org/unpp/p2k0data.asp>. Projected UK population in 2020 is 65.09 million, of whom 18.5% are 65 or over, making 12 million pensioners.
- 4 ONS Labour Market Statistics for Q4 2008 – <http://www.statistics.gov.uk/cci/nugget.asp?id=407>
- 5 Social Trends 39, National Statistics 2009, p.67
- 6 Social Trends 39, National Statistics 2009, p.78
- 7 Social Trends 39, National Statistics 2009, p.63
- 8 Social Trends 39, National Statistics 2009, p.67
- 9 Social Trends 39, National Statistics 2009, p.69
- 10 ONS figures, April 2009
- 11 Bank of England figures contained in the Halifax house price index, 6 May 2009
- 12 BBC business website, May 2009
- 13 Budget statement, HM Treasury, April 2009
- 14 Halifax house price index, 6 May 2009



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