



AEGON

Germany Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

Contents

Introduction	1
<i>Key Findings</i>	1
<i>Recommendations</i>	1
<i>The Survey</i>	1
<i>General situation in Germany</i>	2
1. Retirement landscape in Germany	3
2. Retirement aspirations and expectations	3
3. Planning for retirement	5
4. Making saving easy	9
5. A flexible transition to retirement	11

Introduction

Key Findings

- **Retirement associations are positive:** Germans are more likely to associate retirement with positive terms such as 'leisure' (61%) and 'freedom' (39%) than negative words such as 'poverty' (24%) and 'insecurity' (21%).
- **Improvement is needed in retirement planning:** The majority of workers (61%) have a retirement plan, however only 15% claim to have a plan that is written down. One-third (33%) do not have any plan at all.
- **Personal retirement planning process:** Only 16% of workers feel their retirement plans are very well developed. An almost equal number feel their planning is either underdeveloped or non-existent (18%), while the majority (65%) are between the two.
- **Employers are a useful but underdeveloped resource:** Where employers offer retirement planning services, they are found to be very helpful. However nearly two-fifths (38%) of employees claim not to be offered any services from their employer and 21% are unaware of what is available.
- **A flexible transition to retirement will be the new norm:** An immediate transition to retirement is more common in Germany than in other countries, yet almost half (46%) plan to continue to work in some capacity, whether part-time or on temporary contracts.
- **Germany ranks fifth in retirement readiness:** Germany scores of 6.1 out of 10 in the Aegon Retirement Readiness Index and is placed fifth in our global ranking. A 'medium' score, this indicates that the typical German worker is moderately prepared for retirement.

Recommendations

Providing retirement solutions and advice that help individuals de-risk their retirement can help avoid losses or erosion due to inflation. Financial products and plans may also help individuals in developing and financing a backup plan in the event they leave the workforce prior to their expected retirement date – be it voluntarily or involuntarily. However, in order to grow savings into something adequate for retirement some financial solutions with stronger expected returns may be necessary. An early planning process for individuals is key while still having the chance to act instead of react – workers are aware of this but lack personal discipline to convert thoughts into action.

The Survey

The findings used in this report are based on the German responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Germany 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the German survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

General situation in Germany

Germany is heralded as a success story of the financial crisis. Fiscal conservatism and structural reform, among other factors, allowed the country to exit the crisis sooner and in better form than its European counterparts. That is not to say however that Germany escaped the same fate as others following 2008. In 2009 GDP contracted by 5.1% and unemployment grew to 7.7% - a level equal to that of Italy at the time. Confidence in the market plummeted and so too did the willingness of individuals to save. A steady decline in household savings began in 2008 that continues to today.

However as the markets recovered so too did consumer morale. By this year annual GDP growth has increased to 1.7% and unemployed returned to near the 5% mark.¹ Likewise indicators of consumer confidence show that Germans have more than surpassed pre-recession levels. Yet these gains have not coincided with an increase in the household savings rate, instead it continues to decline. And negative attitudes towards retirement remain common. For example, nearly half (48%) of workers are pessimistic that they will have enough money to live on in retirement. The German saver is in the unfortunate position where it is simply difficult to save. The European Central Bank (ECB) has reduced the benchmark interest rate to record lows, weakening returns on investments. Meanwhile inflation floats around 1.5%, which when taken into account means that savings are being devalued.² The economic environment is effectively signalling to Germans that now is not the time to save.

But a robust plan for retirement preparation requires consistent savings accumulation. And for many, this has impeded their ability to do so. Soon life insurance products will undergo reforms lessening their return on investment. As early as January of next year, the guaranteed minimum return of products such as old age insurance could decrease from 1.75% to 1.25%, lessening their appeal to savers. The reform is one way in which the Government has reacted to low interest rates, in an effort to ensure that these products remain financially viable. In the near future, Germany may see more investors transfer to other savings products capable of generating higher returns.³

The typical German also must incorporate into their retirement plans spending longer periods of time in retirement. As life expectancy continues to increase, the pot saved for retirement must be spread over more years. This has posed a challenge to both individuals and government. For years German population has experienced both increases in life expectancy and falling birth rates, a combination which strains the ability of most Western societies to fund pension systems. As the portion of the population of retirement age draws closer in size to those of working age, more will be required from current savers.

A clear area where retirement preparation can be improved is in the groups which are currently not as active in saving. The accumulation phase typically takes the form of an arch peaking towards late in an individual's career. By encouraging savings into both earlier and later life, industry and the government can guide savers towards sound financial habits.

¹ GfK, *Slight improvement in German consumer climate*. Feb. 26 2014. [online] last accessed 06/05/14 <https://www.gfk.com/news-and-events/press-room/press-releases/pages/slight-improvement-in-german-consumer-climate.aspx>

² Martin, Michelle. *Rock-bottom rates convert German savers to spending*. Reuters, Feb. 23 2014. [online] last accessed 06/05/14 <http://www.reuters.com/article/2014/02/23/us-germany-savings-idUSBREA1M0CV20140223>

³ Dauer, Ulrike. *German Govt set to guaranteed payouts for new life insurance policies*. Wall Street Journal, Jan. 8 2014. [Online] <http://online.wsj.com/article/BT-CO-20140108-702926.html>

1. Retirement landscape in Germany

Pension reform was enacted much earlier in Germany than in other European countries, which are now undertaking a similar approach. Facing rapid ageing, a declining population and high structural unemployment, the Government began a push in the early 2000s to shore up fiscal imbalances of the burgeoning state pension system. By extending the retirement age to 67 and encouraging participation in occupational and private pension plans, Germany laid down a path for much of Europe to follow in the aftermath of the financial crisis.

Yet the 2014 pension reform plan has marked a sea change in the direction of public pension provision. Angela Merkel's coalition government has proposed reducing the retirement age to 63 for employees who

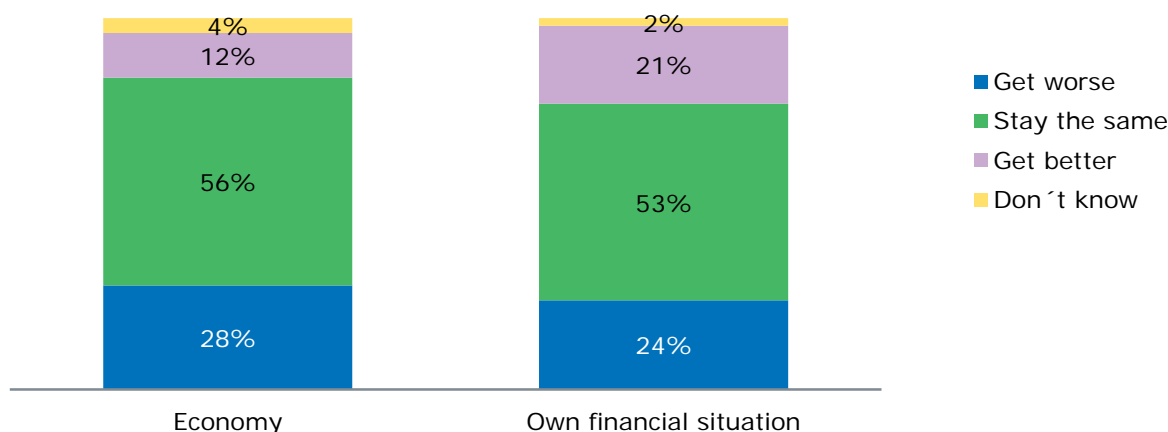
have worked for 45 years as well as a higher state pension for mothers. These changes, on course take effect in July of this year, come at a time when southern European countries are increasing the retirement age towards 67.⁴ Critics of the Government's plans warn that it sends mixed messages to the European community and threatens sustainability of pensions if contribution rates are not raised. Irrespective of what may come from the reforms, the retirement planning landscape for many Germans will be transformed. This report sets out the views of German employees and retirees as to how the current economic climate is impacting on their level of retirement preparedness.

2. Retirement aspirations and expectations

Expectations of the economy remain tepid despite the economy expanding at a faster pace than last year. After growing by just 0.4% in 2013, Germany will see annual GDP growth reach 1.8% this year – however many respondents' views do not reflect these gains. Over half (56%) expect economic performance to stay the same over the next 12 months, and a higher portion expect it to worsen (28%) than improve (12%). Expectations of respondents' own financial situations present a more optimistic picture. While half (53%) also expect no change regarding their own finances, the proportion of those expecting it to improve accounts for one-fifth (21%) of responses. Yet there are still more who expect their financial situation to worsen (24%). There are also broad concerns over the prospects for future retirees. An alarming 80% believe that future retirees will be worse off than those currently in retirement, a higher proportion than in any country surveyed.

Chart 1: Expectations for respondents' own financial situations are more optimistic than the economy

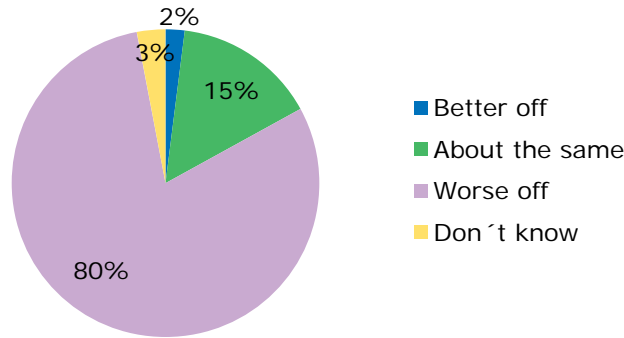
Q. Thinking ahead over the next 12 months, do you expect the economy in Germany to...? (Base: All, n=1000)
Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)



⁴ Ross, Alice. Germany attacked over plan to cut retirement age. Financial Times, Apr. 21 2014. [Online] Last accessed 06/05/14. <http://www.ft.com/cms/s/0/d808f79e-c943-11e3-bba1-00144feabdc0.html#axzz2zcpulor0>

Chart 2: Future generations of retirees are expected to be worse off

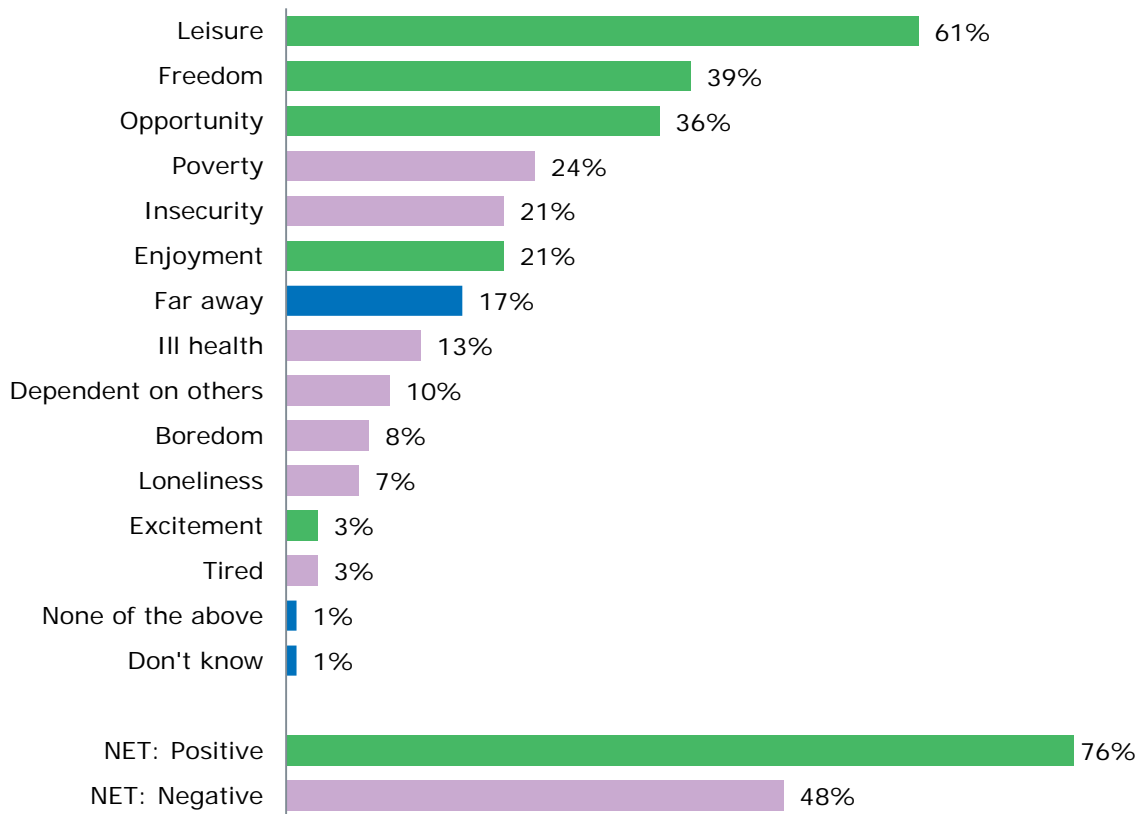
Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All, n=1000)



Germans maintain a largely positive attitude towards life in retirement. When asked to select words associated with retirement, three-fifths of respondents (61%) choose 'leisure' and other common associations include 'freedom' (39%), and 'opportunity' (36%). Retirement aspirations reflect these generally positive associations. Two-thirds (67%) hope to spend more time with friends while just slightly fewer aspire to travel (63%) and pursue new hobbies (60%). However, not all associations are positive: one in four (24%) associate retirement with 'poverty' and one in five (21%) with 'insecurity'.

Chart 3: Retirement is associated with leisure, freedom and opportunity

Q. Which, if any, of the following words do you most associate with retirement? (Base: All respondents, n=1000)



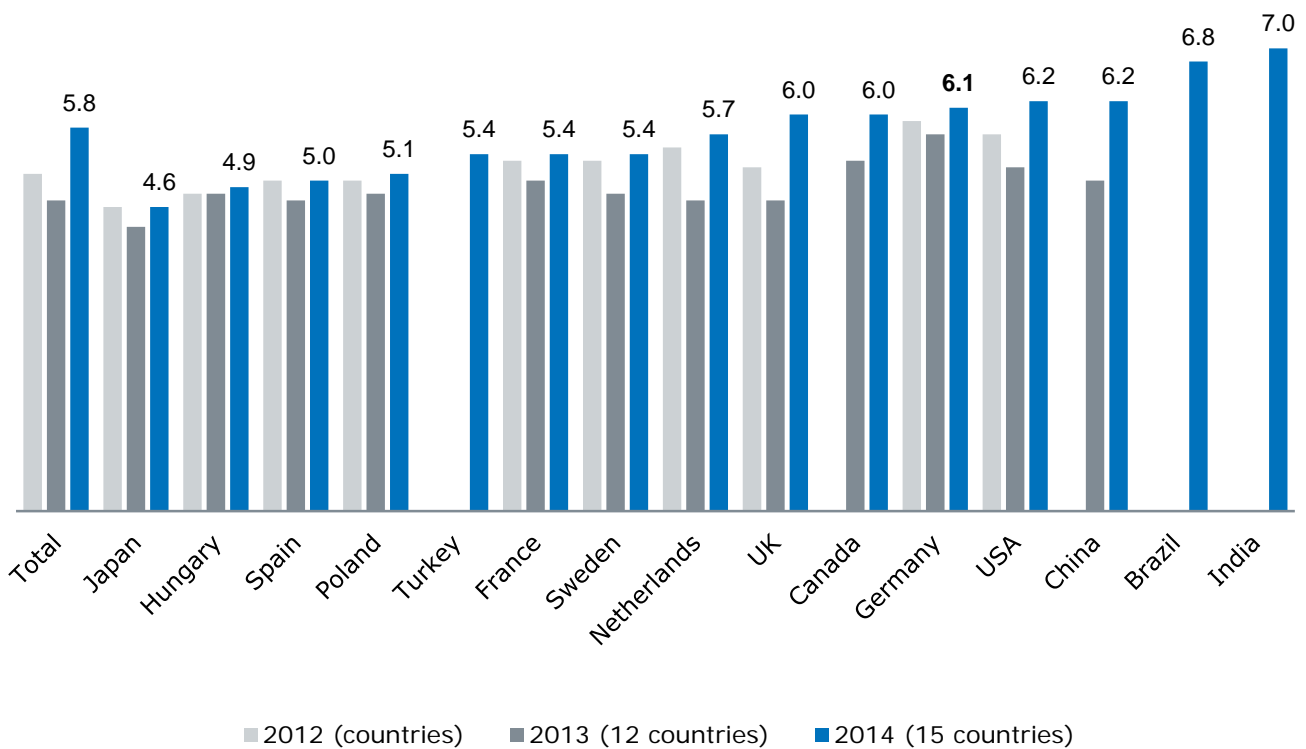
3. Planning for retirement

To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.⁵

We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

With a score of 6.1 out of 10, Germany is placed 5th in our global rankings. Compared with 2013 there has been universal improvement in the readiness index scores, and Germany is no exception. The 0.67 point growth between 2013 and 2014 can be attributed to improvement surrounding awareness and understanding of retirement matters. The proportion of workers who say they are somewhat or very aware of the need to plan for retirement has increased, from 68% to 79% since last year. Likewise those who believe that they are somewhat or very able to understand financial planning has increased from 55% to 63%.

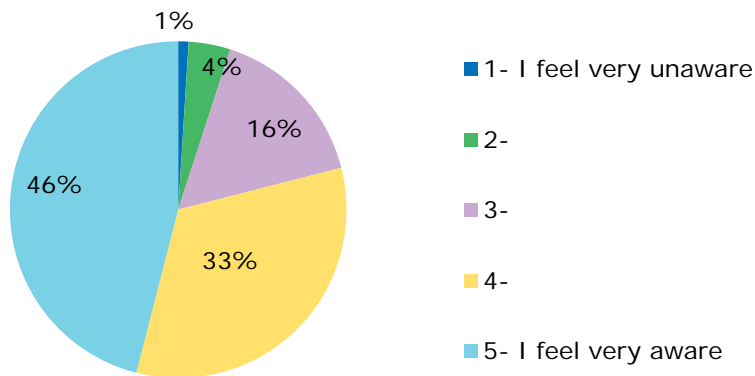
Chart 4: Germany ranks fifth in retirement readiness in 2014



⁵ In order to create the index the six attitudinal and behavioural question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions are computed and each mean score is multiplied by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

Chart 5: Most workers are aware of the need to plan financially for retirement

Q: How would you rate (on a scale from 1 to 5) your level of awareness on the need to plan financially for your retirement?
 (Base: Not fully retired, n=900)



While gains have been noted in both retirement awareness and understanding, other key areas have seen little or even negative growth. For example, the proportion of workers who always or occasionally save for retirement has decreased from 67% to 63%; a finding that directly impacts Germany's index score. We find this trend also supported by questions external to the index calculation. Half (49%) of workers claim to be not very or not at all confident that they will be able to achieve a comfortable lifestyle in retirement. Only one-in-nine (11%) are very or extremely confident that they will be able to do so.

Chart 6: Half of workers are not confident they will achieve a comfortable lifestyle in retirement

Q: Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable?
 (Base: Not fully retired, n=900)

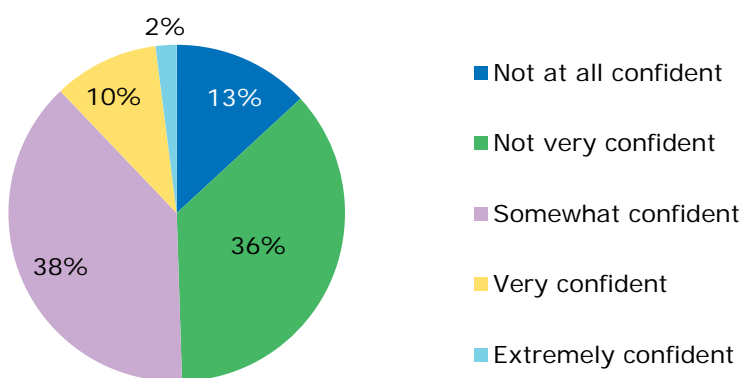
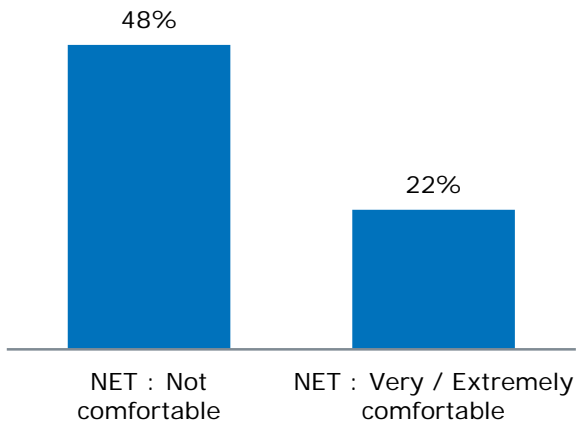


Chart 7: Half of retirees are uncomfortable in retirement

Q. Overall, how financially comfortable do you currently feel in retirement? (Base: Fully retired, n=100)



Awareness has also not necessarily translated into robust planning strategies. Only 15% of workers claim to have a plan that is written down, while one-third (33%) do not have any plan at all. Likewise the proportion of workers feel that their plans very well developed is only 16%. When asked whether they had a back-up plan in the event of being unable to work prior to reaching retirement age, only one third (33%) of workers claim to have one. Considering that 83% of retirees who left the workforce earlier than expected did so because of ill-health or job loss, it is clear that those without back-up plans need to develop them in order avoid the risk of drawing on savings too early.

Chart 8: One-third of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

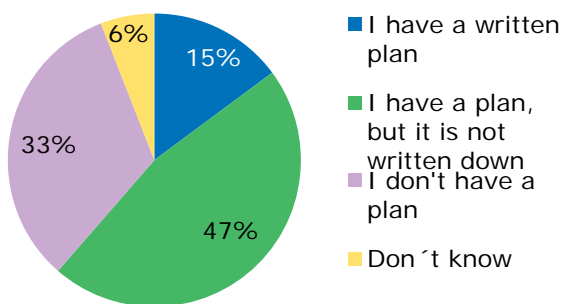


Chart 9: The majority of workers do not have a retirement back-up plan in the event that they are unable to continue working before their planned retirement age

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'back-up plan' to provide you with an income? (Base: Not fully retired, n=900)

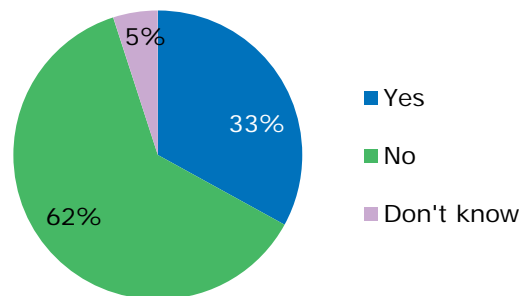
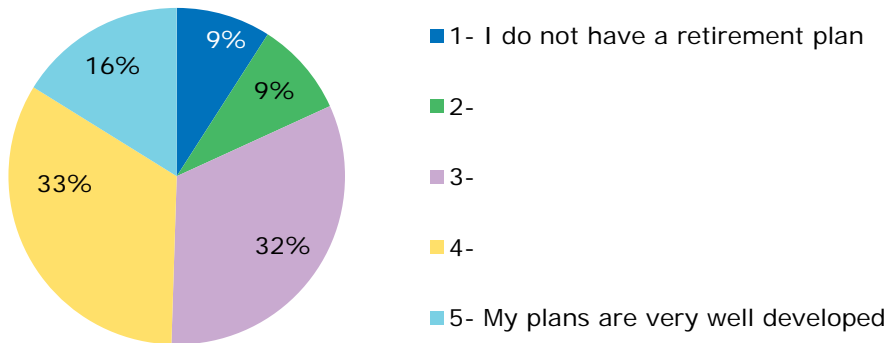


Chart 10: The majority of workers consider their current retirement planning to be insufficiently developed

Q. Thinking about your own personal retirement planning process, how well developed (on a scale from 1 to 5) would you say your personal retirement plans currently are? (Base: Not fully retired, n=900)



Two-fifths (41%) of workers expect to need between 60% and 79% of their current gross earnings as income in retirement. Meanwhile over a third (36%) expect this to be between 80% and 100%. However only one quarter (23%) claim to be on track to fully achieving this income and one fifth (19%) say they will achieve approximately 75%. Fully one quarter (26%) do not know whether they will achieve the income they need in retirement.

Chart 11: Proportion of gross income expected to be needed in retirement

Q. As a proportion of your current earnings what gross annual income do you expect to need in retirement? (Base: Not fully retired, n=900)

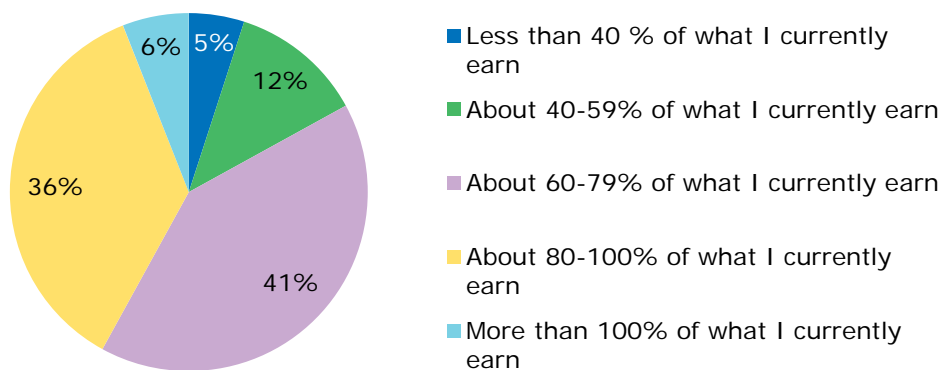
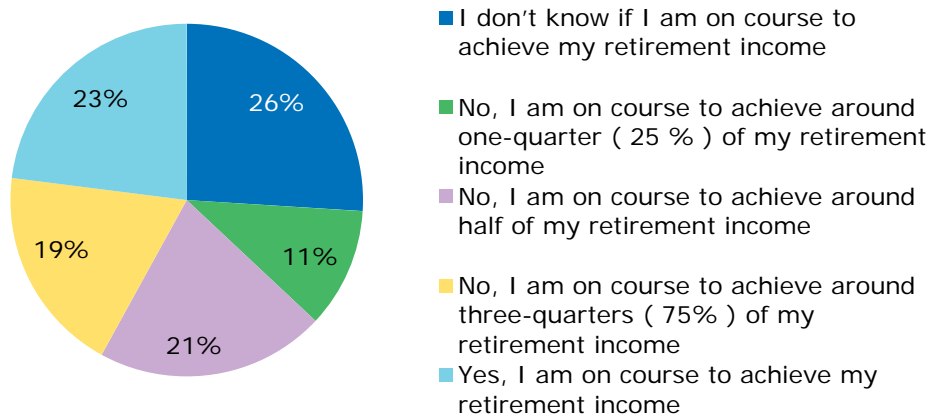


Chart 12: Only a quarter of workers are fully on track to achieving income needed in retirement

Q. Do you think you will achieve this income? (Base: Not fully retired, n=900)



4. Making saving easy

Most German workers (65%) claim that a lack of money is an obstacle to saving for retirement. Likewise almost half (45%) claim that a pay rise would encourage them to save more for retirement. Other incentives include more certainty in the economy (38%), more generous tax breaks (33%) and a better retirement match from employers (21%).

Chart 13: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

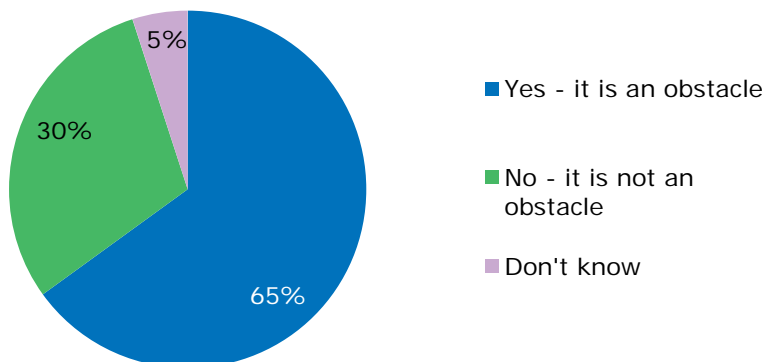


Chart 14: A pay rise, a more certain economic environment and tax breaks would encourage retirement saving

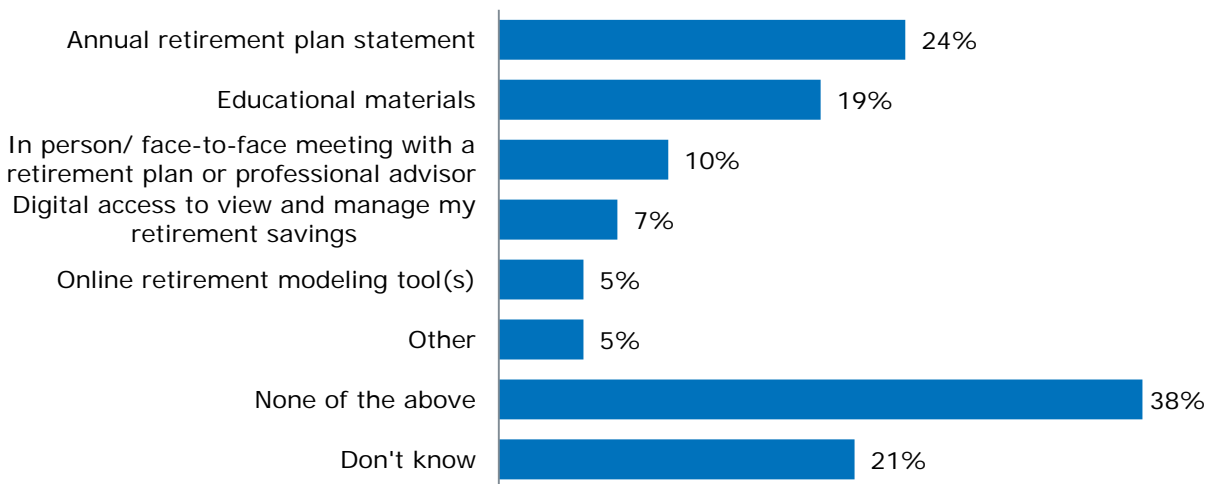
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivising people to save for retirement will involve a strong role for both government and employers. Yet most employees in Germany feel that their employer could be doing more. When asked whether their employer offers specific retirement planning services, nearly two-fifths (38%) claim not to be offered any, with a further 21% unaware of any. One-quarter (24%) receive annual retirement plan statements. However where employers do offer retirement planning services, they are found to be very helpful. Almost two-thirds (63%) of those offered annual retirement plan statements claim that they are very or extremely helpful and 58% feel the same of digital access to view and manage retirement savings.

Chart 15: Over one-third of employees claim their current employer does not offer any retirement preparation services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? (Base: Not fully retired, n=900)



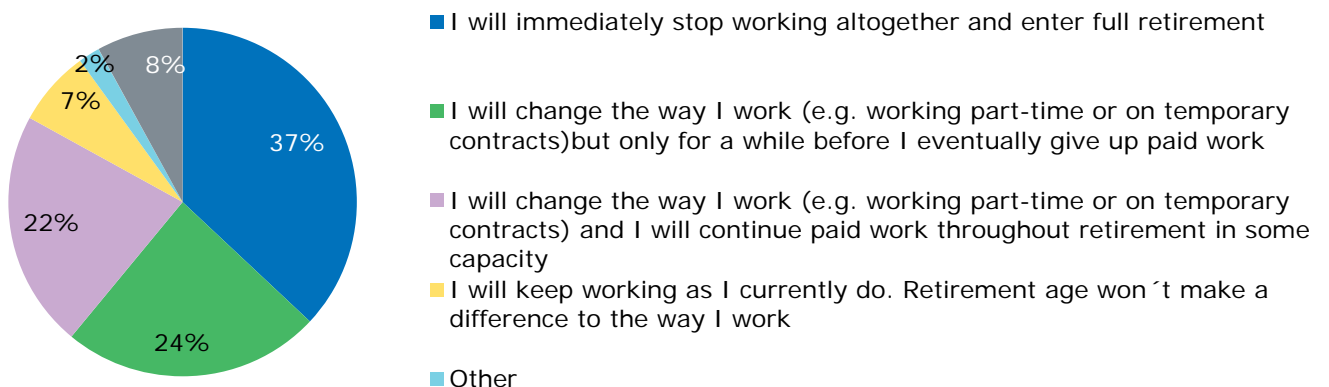
5. A flexible transition to retirement

Most working Germans do not expect to enter into fully retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is the likely path for almost half (46%) of those not already in semi or full retirement. Yet there are proportionally more workers in Germany who expect an immediate transition into full retirement. Whereas 37% of workers expect to immediately stop working and enter into full retirement, the global average is just under one-third (32%).

For those expecting a phased retirement, many will find employers are not yet providing comprehensive retirement options suitable to work in later life. Only one third (31%) of workers claim that their employer allows them to move from full-time to part-time work and only 8% allow workers to continue beyond the usual retirement age. According to German workers, just under one-third (31%) of employers offer no retirement services at all and 22% are not aware of any.

Chart 16: Almost two-fifths of workers expect to immediately transition into retirement

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=887)

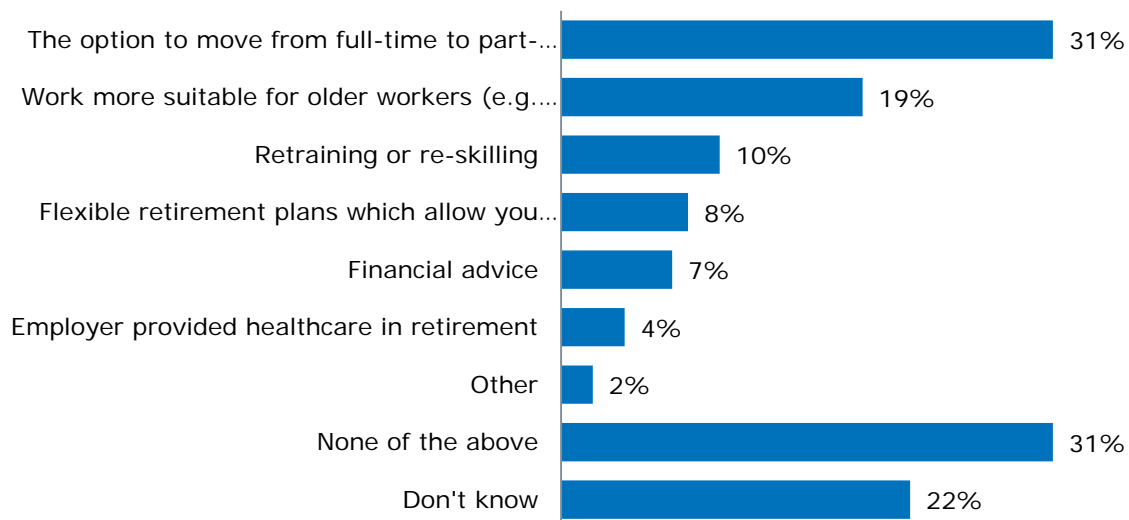


For many, working into their 60s and maintaining the same occupation will not be an option. Those for example whose career requires physical labour may need to change positions or industries to accommodate work in later life. In order to ensure a successful transfer, retraining and re-skilling is an important step. However, we again see a provision gap in supporting these services. When respondents were asked whether their employer offers retraining or re-skilling, only one in ten (10%) claim to have this option.

It is not surprising that workers feel more could be done to help them plan for retirement. Half (50%) of employees feel that their workplace does not provide them sufficient information and support to help with retirement planning. Unfortunately this does not appear to be increasing. Half (49%) of workers claim that the level of information and support provided is 'about the same' as three years ago and equal numbers say this has increased as decreased (8%).

Chart 17: Less than a third of employers offer workers the option to move from full to part time working

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?
 (Base: Not fully retired, n=900)



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