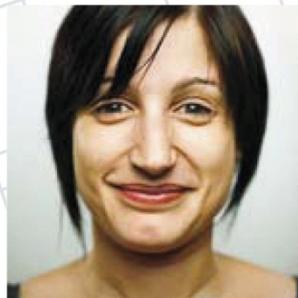
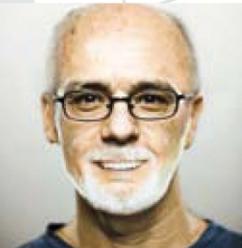
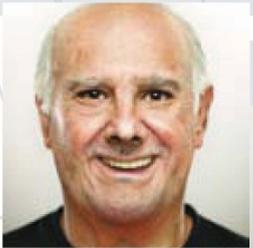


# THE CHANGING FACE OF RETIREMENT

THE AEGON RETIREMENT READINESS SURVEY 2012  
SPAIN FACT SHEET



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# INTRODUCTION

## KEY FINDINGS

- **A generation that will never retire?** 36% of current employees in Spain believe that instead of retiring, they will just continue in their current work patterns into old age.
- **Pessimistic economic outlook:** 70% believe future generations of retirees will be worse off than the current generation. Surprisingly, those under 25 are the most optimistic, with 14% believing they will be better off than the current generation
- **Fear of government cutbacks:** A large majority (76%) agree that state pension benefits will be less valuable due to government cutbacks. Coupled with this, 62% agree that their employer or pension fund is more likely to cut back on workplace pension benefits
- **Support for balanced pension reform:** 49% of Spanish respondents want their pension system kept solvent through both tax cuts and benefit reductions.
- **A worrying degree of reliance on the state:** 42% of Spanish respondents believe there is “nothing wrong” with relying on the state to provide in retirement, which, given cutbacks in benefits, could lead to many retiring into poverty.

## THE SURVEY

This first-ever AEGON Retirement Readiness Survey was conducted among 9,000 people in nine countries.<sup>1</sup> In collaboration with the Transamerica Center for Retirement Studies<sup>®</sup> and Cicero Consulting, AEGON conducted the research to contribute to a common understanding among European countries and the United States of what measures need to be taken by individuals, employers and governments to create a new blueprint for modern retirement.<sup>2</sup>

Respondents were interviewed using an online panel survey, and the interviews were conducted in their local languages in January and February of 2012. The interviews dealt with a wide range of issues covering attitudes toward retirement preparedness, the roles of government and employers in providing retirement benefits, and the impact of the financial crisis on attitudes regarding investment risk and retirement planning.

8,100 employees and 900 retirees were interviewed to provide some comparison of the outlook of current employees and those already in retirement. The survey did not include the unemployed, long-term disabled or the self-employed, as each of these groups faces specific challenges in planning for retirement. Instead, the objective for this survey is to provide a broader perspective based on the mainstream working population.

## 1. RETIREMENT IN SPAIN

The financial crisis has left the Spanish government's finances facing difficult times. The public deficit in 2011 was among the highest in Europe at 8.5%.<sup>3</sup> Spain's residential property market has fallen 22% from its peak in 2007 to the end of 2011 and is predicted to fall an additional 15 - 20%. This has been unwelcome news to people relying on their property to fund their retirement. Unemployment in Spain also reached 23.6% in February 2012, with youth unemployment exceeding 50%, placing a further strain on the public finances and creating a potential "lost generation." This could have serious consequences for Spain's future productivity.<sup>4</sup>

At the same time, Spain's retirement system also appears troubled. There is an identifiable "pensions gap," with virtually no occupation-based "second pillar" for the majority,

and further cuts to state pensions are likely under the current government's austerity plan. Additionally, many people were relying on property to fund their retirements; the bursting of the Spanish housing bubble has now made this far less attractive as option for supplementing state pensions.

This government, under Mariano Rajoy, has embarked on an ambitious program to fix Spain's public finances. EUR 28.7 billion will be cut from the budget this year with the aim of reducing Spain's deficit from 8.5 to 5.3% of GDP.<sup>5</sup>

Although the 2012 budget will see a rise in public sector pensions, the need for the state to offload liabilities as well as challenges of Spain's aging population will place further pressure on public finances in the coming years.

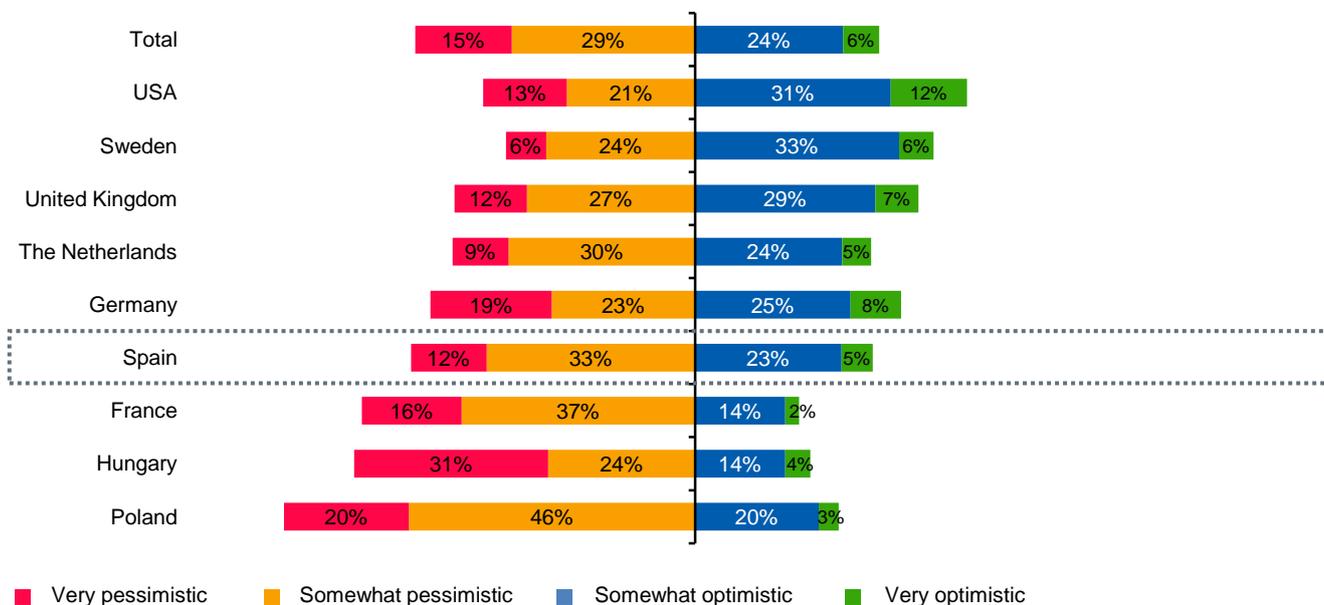
## 2. THE CHANGING NATURE OF RETIREMENT

Given the challenging economic reality and declining generosity of the state pension scheme, it is unsurprising that pessimism is outweighing the optimism among the Spanish. Chart 1 shows that 29% of people in Spain are confident of retiring with a comfortable lifestyle, while 45% are not; this shows more pessimism than the global average. Pessimism is greatest among those in their 20s and 30s, for whom employment prospects are the worst and the current austerity will affect the most.

It is encouraging however, to note that despite problems with the Spanish housing market, people are more optimistic (39%) than pessimistic (30%) about having the freedom to choose where they want to live. Moreover, the downturn has led 70% to claim they are now more likely to plan for their retirement, a positive message of growing personal responsibility from the overall negative picture.

**Chart 1: More pessimism than optimism about retiring comfortably**

Q: How confident are you that you will be able to fully retire with a lifestyle you consider comfortable?  
(Uncertains and “neithers” not shown)

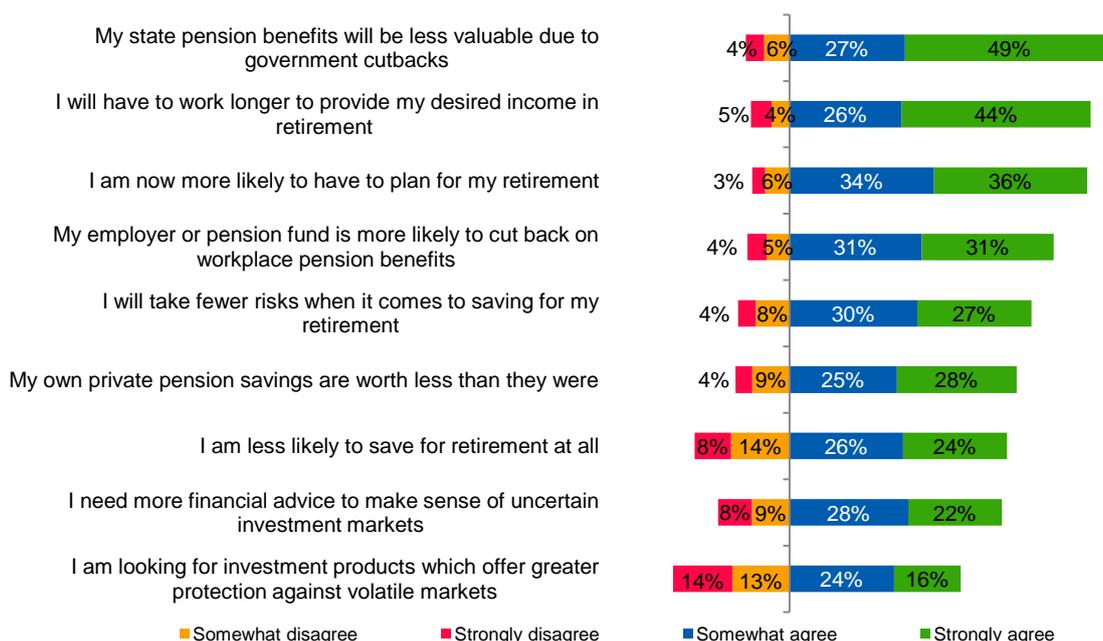


As chart 2 shows, the government’s planned cutbacks to benefits have penetrated the public consciousness;

76% agree that their state pension benefits will be less valuable due to government cutbacks.

**Chart 2: Cutbacks to state and longer careers are seen as inevitable**

Q: To what extent do you agree with the following statements concerning the impact of the financial crisis on your retirement plans?

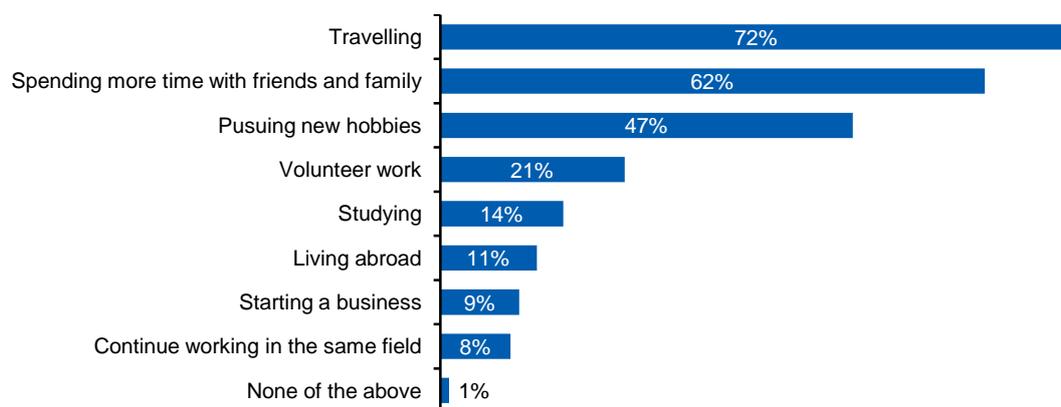


According to how respondents conceive their expenses will be distributed when retirement arrives, our study shows ambitious aspirations: 72% want to travel, and 20% of the people between 18 and 24 plan to open a business when they are retired. The idea of retirement as a time to allow more time for family and friends is strong: 62% of

respondents share this view. These positive ambitions contrast with the pessimistic view the majority of respondents, who doubt they will be able to afford to choose to do so. 31% are optimistic about having a sufficient pension on which they can live. However, only 19% feel they will be able to choose when to stop working.

**Chart 3: A retirement to travel and relax?**

Q. Which of these aspirations for retirement are important to you?



**Table 1**

|                              | MEN  | WOMEN |
|------------------------------|------|-------|
| Effective retirement age     | 61.8 | 63.4  |
| Life expectancy at 65        | 18.3 | 22.4  |
| Expected retirement age      | 67   | 67    |
| Expected years in retirement | 16   | 15    |

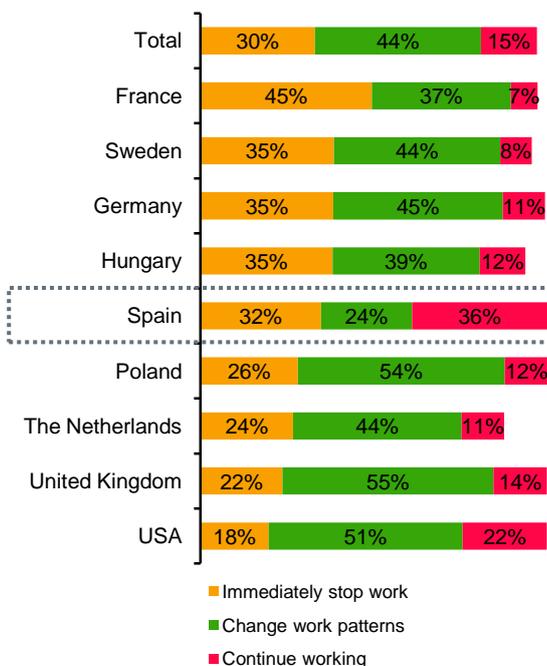
According to the OECD, the effective retirement age in Spain is 61.8 for men and 63.4 for women. The median expected retirement age of our respondents was 65 for both men and women. People appear to be anticipating future increases in the state pension age, and reacting by delaying

retirement plans past current effective ages. Women in particular are underestimating the length of their retirements. This is concerning, because as they are likely to live longer, they may not be sufficiently prepared financially to live past their expected years in retirement.<sup>6</sup>

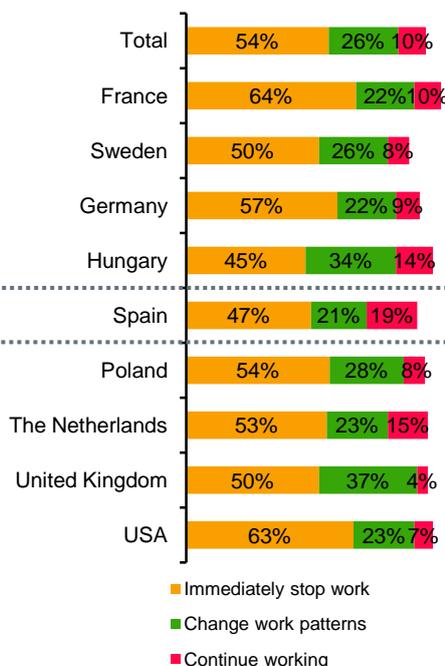
### Charts 4 and 5: The end of “cliff-edge” retirement?

Q: Looking ahead, how do you envision your transition to retirement/ Looking back, how did your transition to retirement take place?

#### CURRENT WORKERS



#### RETIREES



Our research reveals, in all countries surveyed, a significant difference in the transition to retirement of those already retired, and the expectations of current employees. In Spain, 47% of current retirees immediately stopped work upon retirement, while only 32% of current employees feel

this will be true for them. Of those under 35, only 27% believe they will immediately stop working. Most shocking is that 36% of Spanish respondents **do not see themselves retiring at all**; they expect to just keep working.

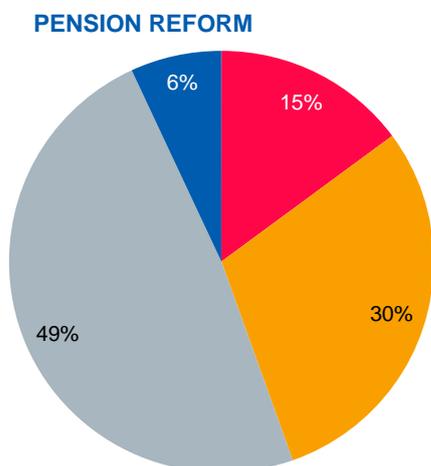
### WHO SHOULD PAY FOR RETIREMENT?

This evolution we find in attitudes toward the onset of retirement is echoed by our findings regarding the relative roles of the state, employer and individual in retirement. Spanish people are generally in favor of a balanced approach to dealing with the pension challenge,

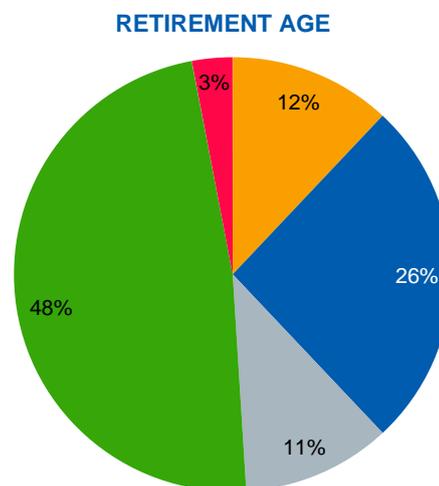
with 49% believing that the government should keep the state system solvent through some reductions in individual payments and some increases in tax. Only in Hungary and the UK was this view more pronounced.

**Charts 6 and 7: Support for a balanced solution to state pension reform**

Q: With the costs of government pensions becoming a greater concern as people live longer, which of the following do you think the government should undertake? (Don't knows excluded)



- They should reduce the overall cost of state pension provision by reducing the value of individual pension payments.
- They should increase overall funding available for the state pension through raising taxes.
- They should take a balanced approach with some reductions in individual payments and some increases in tax.
- They should not do anything. State pension provision will remain perfectly affordable in the future



- I don't know
- Retirement age should increase in line with life expectancy
- Retirement age should increase but be capped
- Retirement age should increase except for those in dangerous jobs or manual workers
- Retirement age should remain unchanged

Only a small minority of respondents believe that the state pension will remain affordable into the future without reforms, and a majority are willing to accept some of the burden for keeping the system solvent in the form of higher taxes. This rational approach to the future of pensions is encouraging for Spain, and is reflected in some of our other findings:

- 75% of respondents agree that it is increasingly important to make sure that they are planning for their own retirement.
- 74% agree that it is important to spread out retirement investments to minimize risk.
- 55% believe that it is important to save for retirement, yet it is not important for them right now

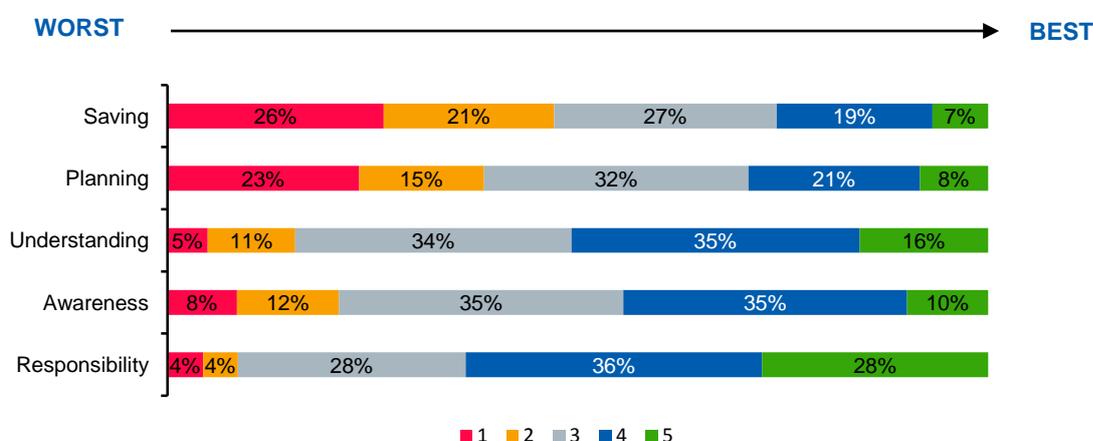
Despite this, Spanish people are the most likely of all countries surveyed (42%) to believe that there is nothing wrong with relying on the state to provide a retirement income.

### 3. THE STATE OF RETIREMENT READINESS

Our research looked not only into attitudes toward the future and retirement, but also sought to gauge how prepared employees are for retiring. To do this, we asked employees to score themselves from 1 to 5 on a series of issues: from their understanding of their personal need to save for retirement, to the extent which they are actively doing so.

As chart 8 shows, the most important gap in Spain falls between understanding the need to prepare for retirement, and actually planning and saving. Poland was the only country with lower reported rates of saving.

Chart 8: A gap between responsibility and saving in Spain



Respondents were asked to rank their retirement behavior in terms of responsibility, awareness, understanding, planning and saving on a scale of 1 to 5, with 5 being the best score.

#### THE AEGON RETIREMENT READINESS INDEX (ARRI)

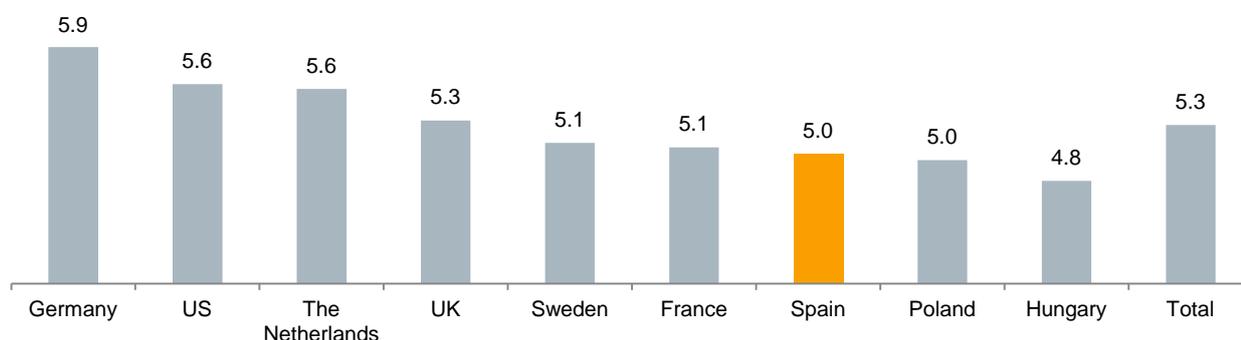
To calculate the index scores, the index incorporates the responses of the 8,100 employees surveyed across the nine countries. Each of the respondents was asked a series of questions to provide a cognitive assessment of their current retirement attitudes and behaviors. The survey asked three questions covering attitudes: whether employees accept personal responsibility for their retirement income, whether they are aware of the need to plan for retirement, and their understanding of retirement related financial matters. It also asked three questions covering behaviors: the extent to which employees have put retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required replacement income in retirement.

The responses to these six questions were weighed in the ARRI based on their importance in determining a respondent's saving profile, and an overall score out of ten for each respondent generated. The most important determinants were found to be their behaviors towards their own planning and saving, as well as how on course they were to achieve their desired replacement income.

In order to create a robust and cross-country comparable measure of retirement preparedness, these five measures were taken, combined with expected replacement income in retirement, and weighted according to statistical importance. This creates the AEGON Retirement Readiness Index, where each country in our survey is scored out of 10. As chart 7 shows, Spain is below average in the Retirement Readiness Index. This placing is understandable in the

Spanish context due to the poor economic context of massive austerity, high unemployment and a continuing unstable eurozone. The low score also reflects the low levels of private sector and occupational pensions in Spain. Retirement plans relied too much on the state or property, and now that these are likely to yield lower levels of benefits, much of Spain is left unprepared for retirement.

**Chart 9: Spain falls towards the bottom of AEGON Retirement Readiness Index**  
Readiness Index created by weighting the responses to six questions according to statistical importance.



**Chart 10: Five saver profiles**

Q: Which of the following best explains your approach to saving for retirement?



Spain's position in the Retirement Readiness Index is reflected by is reflected in the proportion of people who are habitual savers, which form just 26% of respondents, more

than only Poland of all the countries surveyed. Worryingly, 51% of respondents are not currently saving for retirement.

## 4. THE CALL TO ACTION: TAKE ACTION, AND DO IT NOW

- Increased individual responsibility is key in Spain; people can no longer expect the state or their properties to provide in retirement. It will take individual savings.
- Helpfully, there is a plurality of understanding among Spanish people that there is a need to save for retirement, but turning these thoughts into actions remains a challenge. If future generations of retirees are to enjoy a comfortable retirement, then they need to **take action** with their awareness and become active savers.
- The government needs to provide incentives and encouragement to people to secure sources of retirement income, perhaps through tax incentives or educational campaigns, otherwise they may end up with a generation that cannot retire, or is dependent on an inadequate state pension.
- While it is unlikely that there will be a significant reversal of Spain's traditional aversion to occupational pensions, it is important for employers to become more involved in helping their workers plan for the future.

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<sup>1</sup> The nine countries surveyed were: France, Germany, Hungary, the Netherlands, Poland, Spain, Sweden, the United Kingdom and the United States.

<sup>2</sup> The European countries included in the study were commissioned by AEGON. The US component of the survey was commissioned by the Transamerica Center for Retirement Studies®, a non-profit, private foundation.

<sup>3</sup> <http://www.europolitics.info/deficit-drops-but-debt-rises-in-eu-art332348.html>

<sup>4</sup> <http://www.fxstreet.com/fundamental/analysis-reports/euro-area-debt-crisis-analysis/2012/04/23/>

<sup>5</sup> <http://m.bbc.co.uk/news/business-17557172>

<sup>6</sup> Statistics on average effective age and official age of retirement in OECD countries, OECD, 2009

