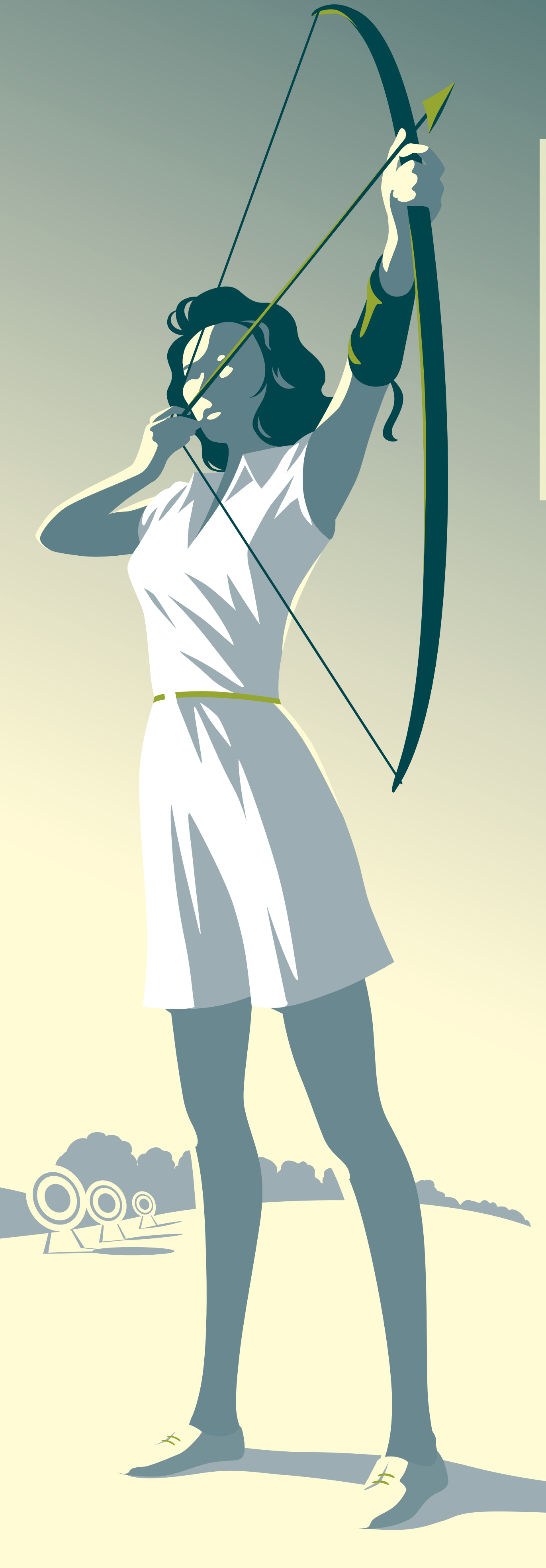


RETIREMENT REALITIES

WHAT LIES BENEATH THE INCOME GAP?

This report contains survey data collected by YouGov Plc.

M&G INVESTMENTS

INTRODUCTION

When we talk about retirement income, the first thing we usually hear is that most of us are facing a 'gap' between our expectations and reality. When M&G carried out a survey on the topic of retirement in February 2015, we wanted to get beyond finding out what the average income gap might be. We thought it would be more useful to try and highlight some of the factors underlying the gap – the reasons people fail to make adequate financial provision for retirement, and reveal some of the behaviours and actions that might make a difference.

New pension freedoms that came into force on 6 April 2015 have opened up a new world of opportunities and risks for retirees. Some people will be able to use the opportunity to close the gap, others face the risk of widening it. We believe the difference could come down to closing all kinds of other gaps our survey uncovered – gaps in goals and expectations, gaps in knowledge and understanding, gaps in attitudes and gaps in planning.

Perhaps our most important finding was that the most likely route to a comfortable retirement seems to be careful planning and the willingness to take advice – both from professionals and from older generations that have already learnt some difficult lessons.

This survey has been conducted using an online interview administered to members of the YouGov Plc UK panel of 350,000+ individuals who have agreed to take part in surveys.

THE PLANNING GAP:
WHY REALITY MAY NOT MATCH EXPECTATIONS

Generating an income for living expenses in **retirement was the main financial priority** for the largest proportion of people we surveyed. However, other results suggest there is a gap between prioritising this goal and taking action to achieve it.

45%

of all respondents were **unsure they had made adequate financial provision** for retirement.

Half

said the reason was simply **not being able to afford to,** but 35% attributed it to **not having the time and/or knowledge** to make a plan.

31%

of all respondents had **not made a financial plan for retirement** This figure was slightly higher for younger age groups, but was still at **28%** for those in the later stages of their expected working lives (45-54 year olds).

Almost **a third**

This was despite **almost a third** of that age group reporting that generating retirement income was the main financial priority.

42%

Perhaps unsurprisingly then, **42%** of the 45-54 age group were **concerned they did not have enough time left to generate adequate financial provision** for retirement.

Under a **quarter**

Just under **a quarter** of people had a **clear financial plan** for how to achieve their retirement income goals. Even for the over 55s, this rose to only **37%**, with **15%** of this age group saying they had **not started any kind of financial planning for retirement**.

27%

For many of those approaching or in retirement (over 55s), while daily living expenses remained their main concern, there was a **wider spread of income goals** they wanted to achieve. Focus had notably turned to **future generations**. **27%** listed helping family members or leaving an inheritance as their main financial priority.

27%

Despite having income goals beyond the daily essentials. When asked what they thought would help them achieve these goals, the **largest proportion (27%)** of over 55s said they **do not know**.

Save or invest **more**

For all other age groups, the most common answer was to change spending habits to **save or invest more**. It seems those near or in retirement are keenly aware that the time to change long-term habits has passed, but are **unsure of what other action they can take**.

22%

For some people, this may put retirement further out of reach. **22%** of all respondents expected to **retire after the age of 70, or not at all**.

THE KNOWLEDGE GAP: THE NEW WORLD OF PENSIONS

Giving retirees the freedom to try and create better financial futures for themselves and their families should be a positive thing for many people. However, **the key to harnessing the opportunities and avoiding the pitfalls is understanding** how to use the new freedoms in the most beneficial way, dependent on individual circumstances.

The results of our survey suggest there remains a significant degree of risk in this area in terms of a lack of awareness or understanding around pension reform. Before taking action, **individuals must ensure they have engaged with the issues and understand their options**.

64% of respondents had **heard of the new pensions freedoms**. But only **8%** fully **understood** what it meant for them.

30% Of Defined Contribution scheme members, **30%** said they **may change their retirement plan** when they find out more about the new freedoms.

20% In light of the new freedoms, only **16%** planned to **buy an annuity** with the majority of their pension pot. However, the largest proportion of respondents – **47%** – said a **guaranteed income for life was the most important outcome** for them. This further highlights the level gap between what people want and how they expect to achieve it.

Almost a **third** Almost **a third did not know how they intended to use their pension pot**, rising to **44%** among those in the later working-life stage (45-54 age group).

2% However, despite the uncertainty, there were encouraging signs that people are **overwhelming taking a sensibly cautious approach**. Only **2%** planned to use the majority of their pot for a one-off purchase such as a **new car or holiday.**

THE ADVICE GAP:
A PROBLEM SHARED

Almost **a quarter** of respondents **did not know what they need to do to make a positive impact** on achieving their financial goals for retirement. Our survey suggests the best **piece of advice would be to take advice**. There were a number of areas in which receiving professional advice seemed to have made a significant difference to the outcomes.

29%

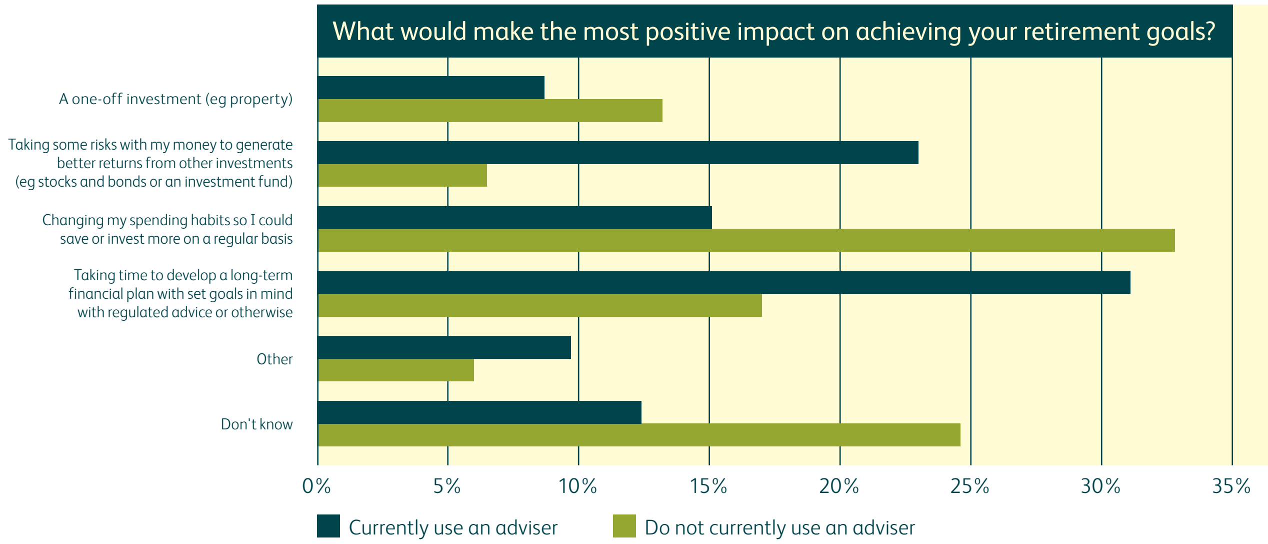
More than double the proportion of people **(29%)** currently using a financial adviser felt they had made adequate financial provision for retirement versus those not using a financial adviser **(13%)**.

More **willing**

There was a noticeable difference in approach between those receiving advice and those not. As the chart below illustrates, while non-advised respondents thought their main option for achieving goals would be to spend less, **advised respondents were more willing to consider options which would not mean changing their lifestyles**, such as taking some financial risk and developing a long-term plan.

Almost **half**

Furthermore, the proportion of people who did not know what they could do to improve their chances of meeting their goals among the advised group was **almost half** compared to the proportion in the non-advised group.



Willingness to take **risk**

The increased **willingness to take risk** with the aim of achieving better financial outcomes among the advised group mean that this group are looking to **a wider range of income sources beyond pensions:**

28% of non-advised people expected the **state pension** to be their main source of income, versus just **15%** of advised people.

3% Meanwhile, just **3%** of the non-advised group thought **financial assets such as stocks and bonds** would provide the majority of their retirement income, compared to **14%** for the advised group.

12% There is evidence that people who use a financial adviser have more long-term outlooks. When asked about financial priorities, only **12%** of this group chose generating income for **current living expenses**, versus **42%** who chose generating income for **living expenses in retirement**.

21% In the non-advised group, **21%** chose current living expenses versus **24%** for retirement expenses.

27% of the non-advised group had **not started saving for retirement**, while only **4%** of the advised group had not started.

51% This willingness or ability to plan for the longer-term may have its rewards. **51%** of the advised group expected to be able to retire before age 65, versus **42%** of the non-advised group.

16% When it came to new pension freedoms, the advised group were better informed with twice the proportion understanding what **new pension freedoms meant for them**. However, this still only equated to **16%** of the advised group.

35% of those receiving advice chose a **guaranteed income** as the most important goal they wanted to achieve with their pension pot, however, **21%** wanted the **flexibility to access their cash** as they wanted it. This suggests one solution may not be enough for most individuals and many people may look to their advisers to help them work out the best way to **combine solutions for a variety of outcomes**.

Over **half** Despite all the uncertainty, **over half** of people not currently receiving advice said they had are unlikely to take advantage of the government's **Guidance Guarantee** – even though **83%** had not even heard of the Guidance Guarantee. This highlights a worrying propensity to **dismiss the opportunity for free advice** out of hand.

THE AGE GAP:
A MESSAGE FROM THOSE AHEAD OF US

One of the most notable indications that came out of our survey was the **difference between what people did and what they thought they should have done**. Breaking the responses down by age particularly highlights this gap and suggests there are some lessons pre-retired people can learn from those who have been there and done that.

27.5 years old

The average age our respondents started saving or investing for retirement was **27.5 years old** – **four and half years later** than the average respondent thought they should have started.

55%

However, **55%** of people did not start saving before the **age of 30**.

31.5 years old

The average age at which respondents aged over 55 had started saving for retirement was **31.5 years old**. However, this group felt the correct age to start is **22.6 years old** – a difference of almost a decade.

25.5 years old

The youngest age group (18-24) came up with an average of **25.5 years old** for the age at which they thought they should start saving for retirement. This difference between the age groups highlights the **gap between expectations and experience**.

83%

Similarly, **83%** of over 55s felt saving for retirement should start before the age of 30, but only **38%** actually had. And while **88%** of 45-54s thought 45 was too late to start, **18%** of them had not begun saving for retirement at all.

15%

15% of over 55s stated they had **definitely not made adequate financial provision** for retirement, compared to **6%** across all age groups. Does this suggest some people face an unpleasant surprise in retirement?

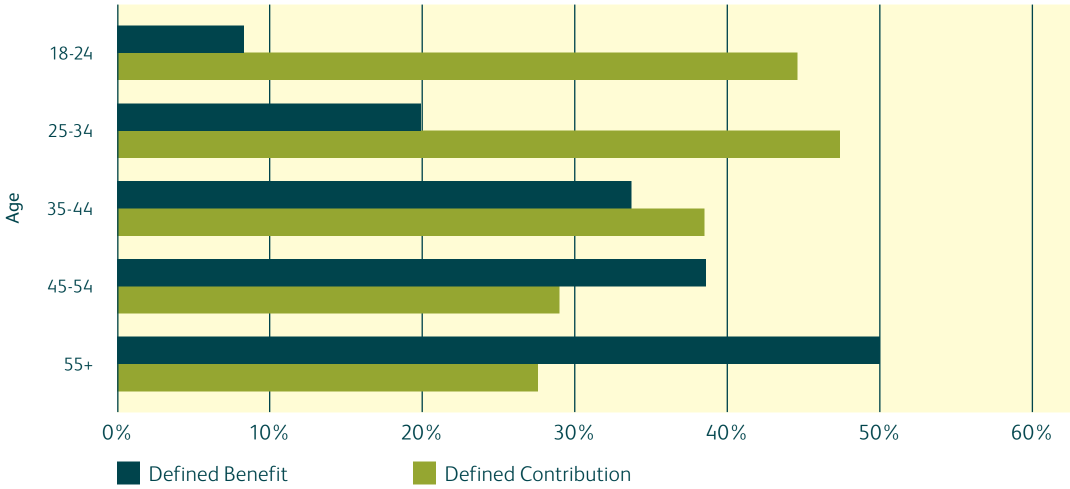
16%

On their positive side, young people appear to have realistic expectations about where their income in retirement will come from. Only **16% of under 24s** expect the **State Pension** to be their primary source, versus **36% of over 55s**.

32%

The corresponding figures for **private pensions** were **32%** for **under 24s** versus **41%** for **over 55s**.

This could be reflecting the noticeable shift from membership of **Defined Benefit** to **Defined Contribution** pension schemes, down the age groups, as shown in the chart below:



67%

Certainly, the expectation seems to be that Defined Benefit schemes are more likely to help retirees achieve their goals than Defined Contribution schemes. **67% of Defined Benefit members** expect their private pension to be their **primary source of retirement income** versus **47% of Defined Contribution members**.

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,217 adults. Fieldwork was undertaken between 24-25 February 2015. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). This report contains survey data collected by YouGov Plc. No information contained within this report may be published without the consent of YouGov Plc and M&G. Methodology: This survey has been conducted using an online interview administered to members of the YouGov Plc UK panel of 350,000+ individuals who have agreed to take part in surveys. Emails are sent to panellists selected at random from the base sample. The e-mail invites them to take part in a survey and provides a generic survey link. Once a panel member clicks on the link they are sent to the survey that they are most required for, according to the sample definition and quotas. (The sample definition could be “UK adult population” or a subset such as “UK adult females”). Invitations to surveys don’t expire and respondents can be sent to any available survey. The responding sample is weighted to the profile of the sample definition to provide a representative reporting sample. The profile is normally derived from census data or, if not available from the census, from industry accepted data. YouGov Plc make every effort to provide representative information. All results are based on a sample and are therefore subject to statistical errors normally associated with sample-based information.

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