

Our Retirement Nation



A special report by **MGM Advantage**

mgmadvantage

About this report

Our Retirement Nation is a specially commissioned report by MGM Advantage to examine the financial and emotional well-being of those approaching retirement and those already retired.

To create this three-dimensional picture of this often under-represented group, we worked closely with psychologist Donna Dawson and pension industry expert Rachel Vahey.

mgmadvantage

MGM Advantage is a specialist in retirement income based in Worthing, West Sussex.

The life assurer opened its doors in 1852 as Marine and General Mutual Life Assurance Society, making it Britain's longest-registered company with over 159 years of mutuality.

In 2008, the company rebranded as MGM Advantage and started focusing on providing innovative retirement income solutions, including an Enhanced Annuity designed to provide additional income in retirement for people with certain health conditions or a poor medical history.

Its product range also includes an investment-backed annuity, the Flexible Income Annuity, which gives customers the flexibility to change income levels at different stages of retirement and the potential for growth and therefore, the potential to negate the impact of inflation. It also provides a minimum income guarantee and death benefits. Enhanced rates are also available for the Flexible Income Annuity.

MGM Advantage is a mutual society owned by its members, and manages assets in excess of £1.6 billion (as at April 2011).



Donna Dawson
Psychologist

Donna Dawson was born in Boston, Massachusetts, but has spent most of her life in England. She was educated at the prestigious Brandeis University in Massachusetts, where she studied Psychology under Abraham Maslow.

Donna covers a wide range of subjects (sex, relationships, social issues, self-confidence, physical and mental well-being, the workplace, stress, human nature, the differences between men and women, celebrity analysis, body language, depression, personality 'typing', financial habits, food choices, colour psychology, to name but a few), and she has extensive radio and television experience.

As well as regular appearances on TV chat shows, debate programmes and news programmes, Donna has written for a variety of major newspapers and magazines and also advises large consumer companies on lifestyle surveys.



Rachel Vahey
Author

Rachel is a well-known and highly regarded member of the pensions industry. Her passion and enthusiasm for the subject of retirement means she is often quoted in trade and national press, and has both written and presented widely on the subject.

She has spent over 20 years in the pensions industry working for Scottish Life and Aegon. Now working as a consultant, Rachel helps companies analyse, understand and respond to the changing pensions environment. Her aim is to make it more attractive for consumers to buy and use retirement solutions, so giving them a better standard of living in retirement.

Foreword



Chris Evans
Chief Executive
MGM Advantage

MGM Advantage is dedicated to helping people secure the best possible income for their retirement by providing innovative, easy to understand products that offer real value.

As a retirement income specialist, it's vital that we understand the hopes, fears and financial position of people approaching and entering their retirement years.

Each year, we carry out extensive research with the older generation to make sure our products and services continue to meet the needs of this important group.

This means genuinely listening to what retired people have to say and acting on their behalf to make sure their voice is heard, both within our industry and at government level.

Our Retirement Nation is our most extensive report to date and looks at the psychology of retired people as well as the facts and figures of this often poorly-served sector of the population.

The report paints a wonderfully colourful picture of the rich diversity of the 11.8 million people who make up our Retirement Nation and why they deserve our respect and attention for the contribution they make to society.

But it also portrays a worrying picture about how these people prepare for and fund their retirement and sends a clear message about our responsibility to do more.

December 2011





Executive Summary

The Retirement Nation is the fastest-growing sector of the UK population. It has enormous influence on our society. But to help it, we need to understand more about its diversity, and its hopes and fears for retirement.

Our approach

To understand the Retirement Nation better, MGM Advantage commissioned research which paints a picture of how they live their lives. We wanted to know how much wealth they have, do they understand retirement products and risks, how healthy they are, and how they spend their time. But we also wanted to dig deeper and get a better understanding of how they feel emotionally about retirement – what are their biggest worries, do they have any regrets in life, and what do they feel is the best thing about retirement.

Our aim was to use psychology to break down the Retirement Nation into different types or groups, with different characteristics, which could help us understand better how each person approaches retirement and what their fears and hopes are.

The research was conducted online by Research Plus between 7th and 17th October 2011 with 2086 UK adults aged 55 years and over, of which 1261 were retired and 825 non-retired.

Chapter 1 - Importance of the Retirement Nation

The proportion of older people is growing. This chapter considers the wealth they have accumulated, the power that brings, but also the financial demands they make on our society. We also look at the ‘invisible’ financial contribution to society - our survey shows the UK’s Retirement Nation saves the State and society at least £25 billion a year through unpaid care, community, and voluntary work.

Chapter 2 - Overview of the Retirement Nation

Our research shows that people who make up the Retirement Nation do not believe that UK society treats retired people well. Those already retired want to be described as ‘retired’ or as a ‘senior citizen’, not as an ‘OAP’ or ‘old’. We also examine how retired people spend their time. As well as watching television and indulging in hobbies, 36% of them undertake some charitable or voluntary work.

Chapter 3 - Pressures facing the Retirement Nation

Lack of money and failing health are their two biggest worries. But the Retirement Nation also faces emotional pressures, health pressures – including how to fund long-term care - and financial pressures. They also experience inflation pressures although they may not be aware of it – 19% of non-retired people were not even aware of the negative impact of inflation and 54% did not know of any way to off-set it.

Chapter 4 - Psychology of the Retirement Nation

This chapter explains the different types of people who make up the Retirement Nation and considers the hopes and fears of each group. The largest group is the Comfortable types, who are trying to keep up their living standards in retirement, but it’s a struggle, and they have to be careful with budgeting.

Psychology Types

'Thriving'

Has both the money and good health to really enjoy retirement, and to do the things they have always dreamed of.

'Aspiring'

Dreams of a better life in retirement but may not be able to achieve it as money hasn't performed as well as hoped, or health problems may cut down their ability to travel and enjoy hobbies.

'Comfortable'

Enjoys good health, and has enough money to maintain the same lifestyle throughout retirement, as well as treat themselves and their family occasionally.

'Careful'

Independent, self-sufficient, and wants to keep the same lifestyle throughout retirement, but the modest pension, investment and equity they have built up over their working lifetime is making this tough.

'Squeezed'

Income will be less in retirement because of low savings, and they may have to continue working if their health allows.

'Restricted'

Mainly dependent upon the State and possibly family for financial support, they have to budget very carefully and cannot plan ahead.

Chapter 5 – How can we help the Retirement Nation?

People need help in preparing for retirement but also in securing a retirement income from a vast array of different products and options – 72% were unaware that certain medical conditions could entitle them to a higher level of pension income through an enhanced annuity. Shopping around for the best retirement income product is important – but 31% had not even heard of the open market option which gives them the right to do so.

Our recommendations

We felt it was clear from the research that change was needed to make sure the Retirement Nation gets the respect and support it deserves. In Chapter 6 of the report we outline our recommendations on how that can be achieved. Everyone has a part to play – us as a nation, the media, the financial services industry and the Government. Working together we can generate real improvements for today and tomorrow's Retirement Nation.

Respect

We need to change our attitude towards the Retirement Nation and recognise their individuality and what they contribute to the UK.

Representation

The Retirement Nation is a big part of UK society, not just for what they contribute, but also the help and support they need. The Retirement Nation needs a voice. We recommend the Government creates a Minister for Retirement.

Education

We need to help people maximise and make the best use of their financial wealth in retirement. The first step is to help people to improve their basic knowledge about retirement and finance. The financial services industry, government, and media all have a role to play in achieving this.

Simple products

Financial services and government need to continue to work together to innovate and design new retirement products that meet the needs of the Retirement Nation and are straight-forward, easy to understand, accessible, and offer good value.

Personal Responsibility

People need to take ownership of their retirement planning – from starting to build up a pension pot in their 20s and 30s, to making the best retirement income decision when they retire.

Chapter 1

Importance of the Retirement Nation

The Retirement Nation – those approaching retirement or already in retirement – in the UK is the fastest growing sector of the population. As it grows in numbers, it also grows in influence – by what it contributes to our society, what demands it makes on our society, and also in the way it shapes our society.

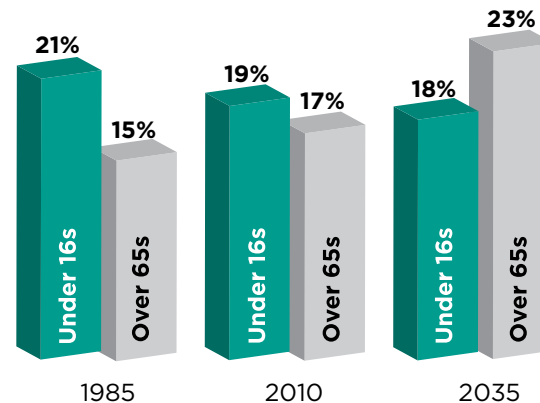
It's important therefore that we understand the Retirement Nation, and their hopes and fears about retirement.

A growing population

The number of people in the UK who are either retired or approaching retirement is substantial and growing. We are simply following the global trend which, because of increasing longevity and the growing number of surviving births, saw the world population hit 7 billion on 31 October 2011.



Change in UK population



Source: ONS September 2011

In 2010, the UK population was estimated to be 62 million, and of that 16% were over age 65, compared to 19% who were under 16 [ONS September 2011]. This is destined to increase over the next 25 years, with those over 65 set to become a greater proportion of the UK population.

In 2011, 658,000 people reached age 65, an increase of 12,000 on the previous year, bringing the number of retired people to 11.8 million. In 2012, it's expected 806,000 will reach 65, a further yearly increase of around 150,000 [DWP 2011]. The number reaching retirement is increasing at a fast rate, as the baby boomer generation grows older.

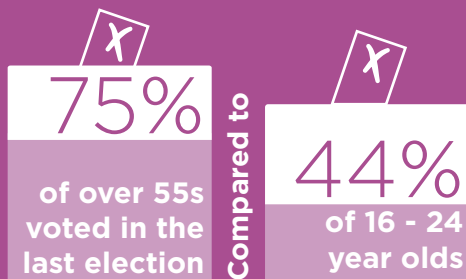
Influence

The baby boomer generation – those born between 1946 and 1964 – are the best educated, healthiest and fittest group of older people this country has ever seen. And they are exercising a growing influence on our society.

They want to be more involved. For example, participation in the UK 2010 general election appeared to be highest amongst older voters, with 75% of people aged 55 or over saying they had voted, compared with only 44% of those aged 18-24 [Electoral Commission 2010].

Financial contribution

Retirees in the UK have built up some considerable wealth over their working life. Our survey shows their average claimed net worth is £243,900, which includes the value of property, savings and investments. This gives this group strong buying power. Although a sizeable proportion of this value will be tied up in property, the UK's finances will benefit from the tax paid by retirees on the annuities, savings and investments they hold.



£243,900

is the average wealth at retirement



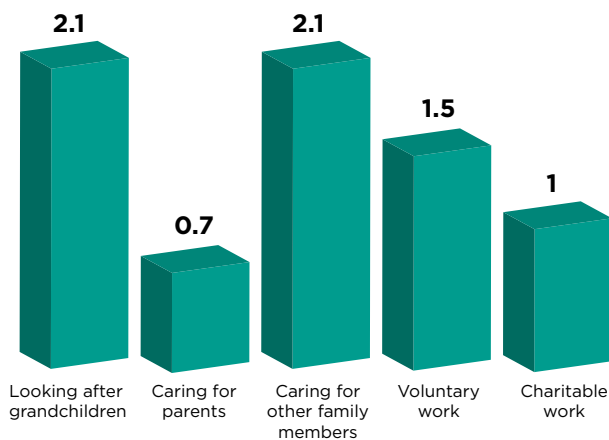
£25 billion

is the value of the child care and unpaid voluntary work carried out by retired people

Also significant is the fact that few retired people have substantial debts. Our survey shows 57% of retired people say they have no debt at all, and the average debt amongst this group is £8,200. This contrasts sharply with those approaching retirement who have considerably more debt, an average of £22,500. It could be that a number of respondents intend to use cash lump sums from pensions and other investments to clear their debt, in an attempt to start their retired life with a 'clean slate', leaving them with only living expenses to find.

As well as its buying power and tax from investment income, the Retirement Nation makes a substantial 'invisible' financial contribution to society. We need to understand the economic value of this to truly appreciate the role this group plays.

Retired people's "invisible" financial contribution (Hours per week)



Our research shows the UK's Retirement Nation saves the State and society at least £25 billion a year [based on average child care costs and the minimum wage] through unpaid care, community, and voluntary work. The graph shows the average amount of hours retired people spend either caring for family, or undertaking voluntary or charitable work.

However, the role played by this major part of society is not fully recognised.

As well as caring for family, volunteering and charity work, a sizeable number of retired people in the UK continue to work. The number of over-65s still in work has doubled in the past decade. Around 412,000 over 65s were in work in 2001, rising to 822,000 in June 2011 [ONS June 2011].

This decision to continue working could be through choice – people enjoying their work and not ready to retire yet – or, increasingly, it could be through necessity, where people feel they are financially unable to retire. For many though it doesn't feel like a short-stop approach – a third of people aged 65 or over do not know when they will retire [MGM Advantage July 2011] – showing they have no end game in sight.

Note: retired population only

Source: MGM Advantage, Retirement Nation survey, October 2011

Demands on society finances

But as well as contributing to society, the 'baby boomer bulge' will make substantial financial demands. The high number of people approaching retirement will apply serious pressure on public services, particularly as their health fades.

People are living longer and can expect to need some sort of care or support at some point in their lives. However, people are generally becoming wealthier and their expectations of the quality of the care they want are rising.

Care costs today can be high and unpredictable. The risk at age 65 of needing residential care during their future lifetime is 1 in 5 for men and 1 in 3 for women. The mean expected future lifetime cost of care at age 65 is £25,000 for a man compared with £44,000 for a woman [Dilnot Commission July 2011]. This cost will have to be met from both the private finances of individuals as well as the public purse.

The Government currently spends £14.5 billion (2010/11) on adult social care in England, and just over half of this is on services for older people. The cost of adult social care is estimated to increase to £22.8 billion by 2025/26.



Chapter 2

Overview of the Retirement Nation

The Retirement Nation is a diverse group in the UK, but they are united in wanting to be recognised for the part they play, and the contribution they have made over their working lives and continue to make in retirement. They don't want to be simply dismissed as old or 'past it' – as they might have seen their parents and/or grandparents treated in previous years.

Respect

The Retirement Nation do not believe UK society treats retired people well. Interestingly, this belief is stronger amongst those who are still working but approaching retirement, with 39% saying society treats retired people badly. But it seems the reality isn't as bad as they perceive, as only 30% of retired people share the same view.

This observation is shaped by living in a society driven by media obsession with youth and good looks, where high-profile people – especially women – are considered past their 'sell by' date at around 50. Perhaps this is because the UK is different to other cultures – such as some Asian ones – where the elder population is held in higher regard.

The Retirement Nation is asking for some respect and this is revealed in the names they would choose to describe themselves. Of those retired, almost one in three (32%) want to be described as 'retired', and almost another third (31%) would want to be described as a 'senior citizen'. Our survey shows they don't want to be called anything clichéd or easily ridiculed. In contrast, those who are still working displayed slightly more appetite for 'wacky' titles such as 'grey panther' and 'silver surfer'.

“One third of retired people don't think society treats them very well”

There was, however, a resounding rejection of the more traditional – and some would argue, insulting – titles. Only 2% of people were happy to be described as 'OAPs', and only 1% described themselves as 'old'.

Pastimes and activities

Go back a generation and retirement was thought of as the last few years of life, living a sedentary existence. But this has now changed. To help the Retirement Nation, we need to understand how they spend their time and how they contribute to society.

Generally, our research shows that retirement is viewed as a positive time with retirees carrying out a wide range of activities. However, their time could be described as

'disjointed', with an hour or two spent on one activity and an hour or two on others.

Watching television is the most popular activity with almost two thirds (65%) of retired people watching more than 10 hours a week, which is, on average, an hour and a half a day. And, 95% of retirees spend time reading.

But this does not mean they are inactive. Two thirds (67%) indulge in sporting activities, 93% in hobbies, and 10% undertake adult education classes.

Family and friends are important to this group. They spend on average five and a half hours each week socialising with family and friends, and another two and a half hours talking on the phone with them.

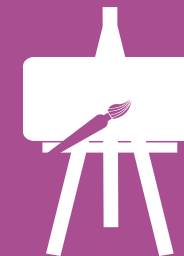


Don't call us
OAPs

Only **2%**
were happy to
be called OAPs



65%
watch more than
10 hours telly
each week



93%
have some
kind of hobby

Those who describe themselves as retired (as opposed to still working) do little part-time work, with only 9% saying they work and, on average, for just half an hour a week. But this does not mean they do not contribute to society. Over a third (36%) look after grandchildren. And 36% undertake some charitable or voluntary work, contributing on average around two and a half hours a week.



67%
play a sport



95%
Spend 2.5 hours on the phone to friends and family each week

Chapter 3

Pressures facing the Retirement Nation

The Retirement Nation views retirement, on the whole, as a positive experience. The key things they want from their retirement are more freedom and more control over their lives.

Our research reveals that 80% of retired people said the best thing about retirement was having the time to do what they wanted (for example hobbies and holidays). However, it seems those still working but approaching retirement are less enthusiastic, with only 69% giving the same answer. Both groups agree not having to work so hard and having more control over their lives (63%) is also important.

The importance of family and friends to the Retirement Nation is evident again with 40% saying one of the best things about retirement is having time to see more of children and/or grandchildren, and 40% saying it's the opportunity to socialise with friends.

Pressures and anxieties

However, the Retirement Nation face pressures and anxieties. The graph shows the two biggest worries in retirement are failing health and lack of money.

The hopes and fears of the Retirement Nation are two sides of the same coin; without money or good health they can't do the things they want to, and so they lose the freedom and control over their lives that they crave.

Importantly, when asked what their biggest regret in life is at this point, the highest answer from those who were retired was not having enough money (for example

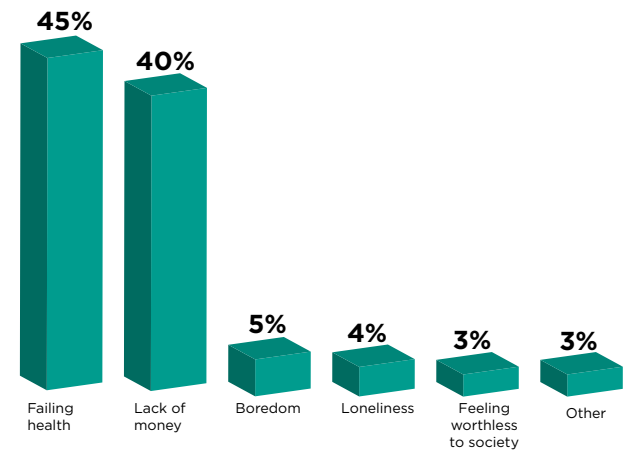
savings) (21%). The median average people felt they needed to feel financially comfortable was an extra £98 a week. They would need an extra £83,800 in their pension pot to be able to secure this additional income in their retirement.

(A purchase price of £83,800 is needed to buy an annuity of £425 each month (£98 a week), based on a male, aged 65, non-smoker, level annuity, and five year guarantee, November 2011.)

Emotional pressures

To find out how retirees feel about retirement, we asked them a series of questions to probe their emotions, hopes and fears.

Biggest worry in retirement



Note: both retired and non-retired population
Source: MGM Advantage, Retirement Nation survey, October 2011



£98

is the extra weekly amount needed to feel comfortable about their finances



45%

Feel confident or content about retirement

27%

Feel anxious



72%

don't know they could qualify for a higher income through an enhanced annuity

Their answers obviously show they are positive about retirement. Over a third (35%) said they have more time on their hands to do the things they enjoy. And when asked to sum up how they feel about retirement, 45% said they were either confident or content. However, from their responses, we can see they worry that a lack of money will harm their ability to have the full freedom to live the life they want.

A fifth (20%) of people are slightly nervous that their funds won't cover their ambitions to fully enjoy the rest of their retirement. And when asked how they feel about retirement from an emotional point of view, the largest response, just under a third (32%), said it is a good time, but 'there is still a gap between what I want to achieve and what I can afford'. And 27% admitted to feeling anxious about retirement.

So, they hope and desire that retirement will be a better time, but at the back of their minds is the niggling anxiety about how they are going to finance it over the longer term. This clearly shows how money adds an 'emotional' layer to views about retirement.

Health pressures

Failing health ranks as the biggest worry of the Retirement Nation, even ahead of money. It's therefore positive, and probably understandable, that over half of those retired (53%) had undergone a personal health check in the last six months (compared to 36% of those still working and approaching retirement).

Those still working were on the whole healthier (maybe because they were younger), with over half (53%) having

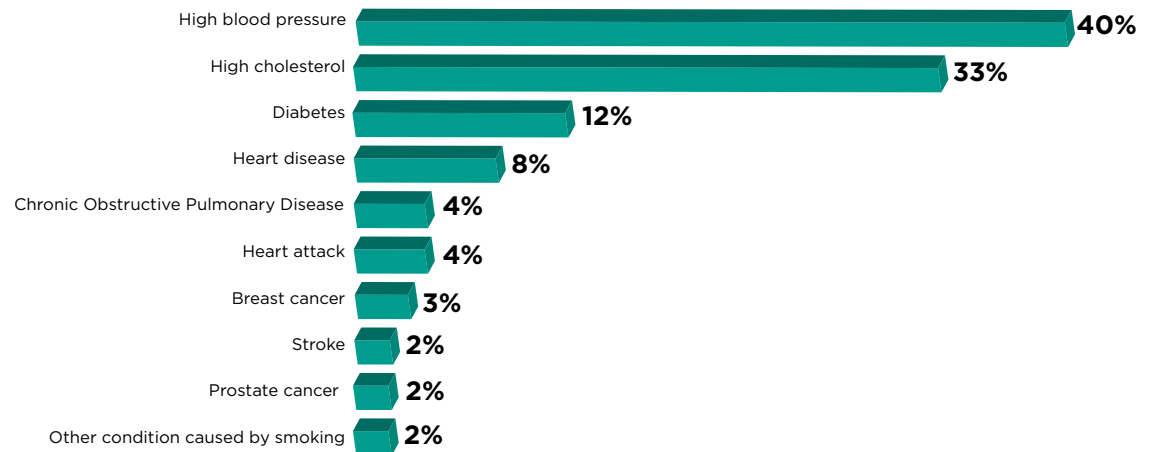
none of the medical conditions listed below. But amongst the retired, 45% said they had experienced high blood pressure and 38% had experienced high cholesterol (compared to 30% and 24% respectively of those still working).

A worrying 72% of people, almost three quarters of the survey, were unaware that certain medical conditions (including the two the majority of them had experienced - high blood pressure and high cholesterol) could entitle them to an enhanced annuity. This pays out a higher level of pension income than a standard annuity. It's obvious the industry needs to take steps to make sure people are aware they need to take account of any medical conditions as part of the retirement process.

Long-term care

Given that the Retirement Nation worries about failing health, it was disturbing to find that they were poorly prepared on how they would finance any care or support they may need later in life. A worrying 21% did not know how they would fund any long-term care, and 28% believed they would have to rely solely on the State for support. So, almost half the people surveyed did not envisage having to use private wealth to pay for this type of care. This shows a concerning lack of knowledge - currently those with assets of over £23,250 receive no financial state support and need to fund their own care. And only 18% of the retired people in our survey claimed the net worth of all their personal assets was £25,000 or below.

Medical conditions experienced by the Retirement Nation (both retired and non-retired)



Source: MGM Advantage, Retirement Nation survey, October 2011

How people plan to pay for long-term care



21%
Don't Know

28%
Rely on the State

19%
Use the kids' inheritance

13%
Sell their property

13%
Use equity release

But some did plan on using private wealth. Nearly one in five (19%) plan to use their children's inheritance, 13% will sell their property, and a further 13% would release equity from their property. This shows a need for equity release schemes. Although the number of equity release customers are currently growing [SHIP October 2011], this area has great potential to help people fund their retirement, and more education is needed so people understand equity release and how it may benefit their retirement.

Only 3% would turn to their families for support, showing that many retirees find it unacceptable to rely on their families, even when in need.

Financial pressures

Lack of money (40%) is the second biggest worry for the Retirement Nation. Although, interestingly, those approaching retirement worry more about not having enough money (47% compared to 35% already in retirement). Maybe those already retired are resigned to making the most of the amount they have.

Of those retired, 37% say their standard of living is about the same as before they retired, but they need to manage their money. And encouragingly, nearly a fifth (19%) believe they are living better now they are retired.

However, over a quarter (26%) say they are worse off than before they retired, and 8% are struggling to keep the same standard of living and are slightly anxious about the future.

"I'm going to spend the kids' inheritance to pay for long term care"

It appears most people are content to tread water during retirement. They have no grandiose schemes for a better or more extravagant lifestyle. Also, they are used to this level of lifestyle, and know with a little more effort they can maintain it. This approach could also explain why the Retirement Nation shows such a level of inertia when tackling financial decisions. Often, they can't be bothered or are too scared to investigate financial matters further, even though it may make a substantial difference to their life.

This resolution to continue as before is shown by 22% saying they can afford to take as many holidays as they want and whenever they want - presumably some are limiting their ambitions. And as opposed to dining out, 41% mostly stay in, and visit family and friends whenever invited.

Inflation pressures

With the average length of time spent in retirement growing, inflation will have one of the biggest impacts on the Retirement Nation's financial health. It is therefore worrying to see the extent to which the Retirement Nation has no knowledge of how damaging inflation can be, or what to do to limit this risk.

Nearly a fifth (19%) of non-retired people were not even aware of the negative impact of inflation, and well over half (54%) were not aware of any way to offset it. This is a worrying situation, as the level of CPI inflation stood at 5% in October 2011 [ONS November 2011], and RPI at 5.4%. This high rate of inflation means that collectively

UK households need to find an extra £44 billion to maintain the standard of living enjoyed 12 months ago. For households where the main occupant is aged 65 -74, the corresponding figure is £3.5 billion, and where they are aged 75 and over, it is £2.74 billion. [MGM Advantage November 2011].

The rate of inflation for pensioners is even higher, due to the high proportion of their income spent on food and fuel, as illustrated in the following table.

Inflation for period September 2007 to October 2011 based on different age bands		
Age band	RPI	CPI
Whole population	14.4%	15.5%
50-64	18.5%	16.4%
65-74	20.1%	16%
75 and over	20.3%	16.7%

Source: Cebr for Saga (November 2011)

However, steps can be taken to manage inflation risk. 28% of retired people said they will retain some exposure to stocks and shares, and new retirement income products are emerging which can help people offset inflation and make sure their income keeps pace with prices through retirement.



41%

mostly stay in or visit friends and family when invited



26%

say they are worse off in retirement



22%

can afford to take as many holidays as they want

Chapter 4

Psychology of the Retirement Nation

What role does psychology have to play?

Psychologists have always known that the way to shift behaviour is to tap into a person's 'hopes' and 'fears', as even though there may be perfectly rational reasons why behaviour needs to change, a person's emotional response will be the strongest 'driver' of all.

Our hopes represent the positive, upbeat side of ourselves, driving us on to realise personal ambition and achievement. Our fears reflect the negative, downbeat, 'what if?' side, the obstacles that may keep us from realising our dreams.

'Hope' and 'fear' are two sides of the same coin. Helping one side also affects the other side in the opposite way. So, as anxiety is lessened, hope will automatically increase, bringing with it the added bonus of a sense of control over one's own life.

To be able to better serve the Retirement Nation we need to understand them, and to understand their hopes and fears about retirement.

The different personality types

We have identified six different personality types within the Retirement Nation. By studying these groups, this will help us as a society to develop our understanding about the hopes and fears of the Retirement Nation.

Split of the groups

Below you can see the split of these six groups in the UK. The largest group is the **Comfortable** type. Most people are trying to keep up the living standards in retirement that they enjoyed in working life. But it's a struggle. They need

to be aware of money and careful with their budgeting. They have worked hard for their retirement and can enjoy a few occasional luxuries. But they are keen not to have to rely on others in later life – not the State, and certainly not their family.

These groups, however, are not static. We do not expect the same split of types in the UK Retirement Nation in, say, 10 or 20 years' time. As fewer people reaching retirement are benefiting from defined benefit pension scheme membership, we expect more people to fall into the categories with less retirement income, where budgeting is more of a concern.

Type 'hoppers'

People do not necessarily remain in the same group for the whole of their retirement. For example, someone could start off in the **Thriving** group, but due to ill-health, could fall into the **Aspiring** group, where they may have the funds to live a full retirement but not the health to enjoy it. Likewise, someone in the **Careful** category may receive an inheritance or windfall meaning they move to the **Comfortable** category, and are able to splash out from time to time. The reason people fall into one category or another could depend on their environment, their health, events in their lives, but also their general attitude. Some people are prone to worry more than others, and therefore fear their money will run out or their health will fade.

The financial services industry can also help people move group by giving them the financial security of a stable retirement income that can help guard against risks like inflation, as well as making sure people start off with the highest retirement income possible by shopping around.



The different
personality
types

15%
Thriving

15%
Aspiring

29%
Comfortable

13%
Careful

20%
Squeezed

8%
Restricted

The different personality types

We have identified six different types within the Retirement Nation. By studying these groups, this will help us as a society to develop our understanding about the hopes and fears of the Retirement Nation.

15%

‘Thriving’

Has both the money and good health to really enjoy retirement, and to do the things they have always dreamed of.

This person is quite happy with the pension and investment portfolio they have built up for their retirement. He or she is financially-savvy, shrewd, forward-thinking and organised and knows how to “play the system” to their advantage. Providing their health holds up, they believe anything is possible and they plan to live better in retirement, because they now have the free time to match their income. They plan to indulge more time and energy on their hobbies, spending time with family and travelling.



15%

‘Aspiring’

Dreams of a better life in retirement but may not be able to achieve it as money hasn’t performed as well as hoped, or health problems may cut down their ability to travel and enjoy hobbies.

People in this group are dynamic, hard-working and highly motivated. They want to have a high standard of living in retirement, and they have a good understanding of their financial options. However, they may have a smaller pension or investment portfolio than they expected or hoped for and there may be a gap between what they want to do and the funds to do it. They may be forced to, or choose to continue working – in a reduced capacity or bursts of employment – to fund the lifestyle they want. They may have health problems which will frustrate their ability to earn more money to help them lead the retirement life they dream of.

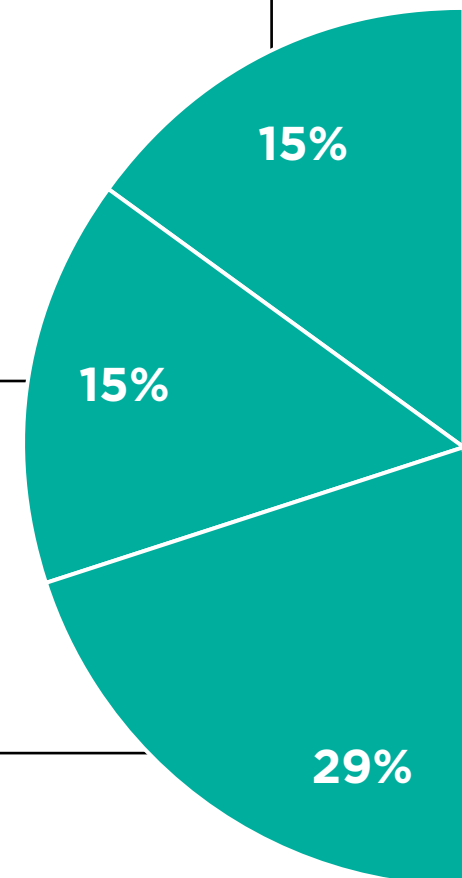


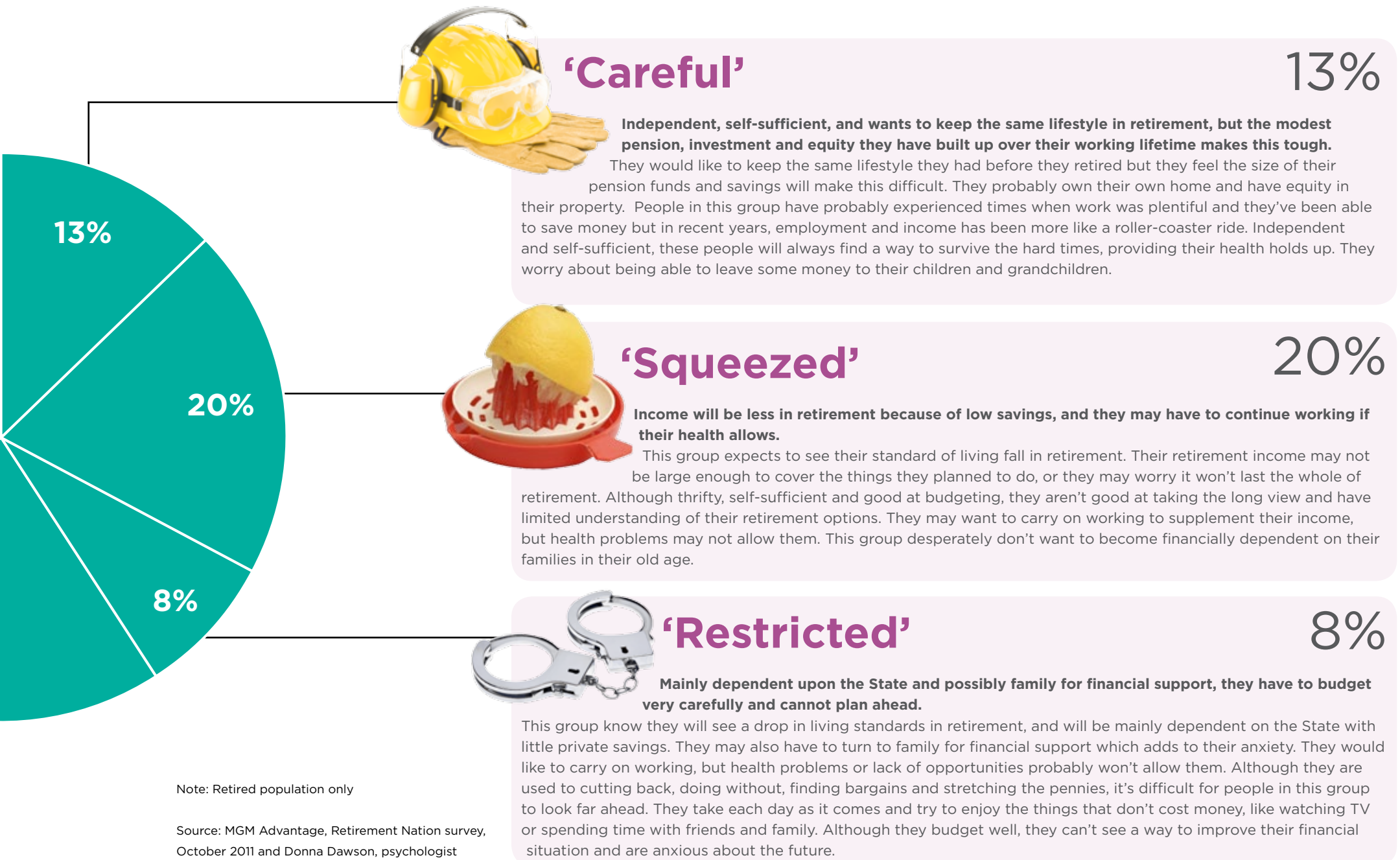
29%

‘Comfortable’

Enjoys good health, and has enough money to maintain the same lifestyle in retirement, as well as treat themselves and their family occasionally.

This person expects to have the same lifestyle in retirement using the decent pension and savings they have built up through planning ahead. But they also expect to have to be careful with money. They don’t have overly-ambitious plans for retirement, but want to devote more time to family, hobbies and voluntary work. They are conservative, moderate, organised and practical. They do have the money to be able to ‘splash out’ occasionally, for example on an extra holiday. They have done some financial homework, but some will still be unclear about their financial options.





Note: Retired population only

Source: MGM Advantage, Retirement Nation survey, October 2011 and Donna Dawson, psychologist

Chapter 5

How can we help our Retirement Nation?

We need to help people make the most of their retirement – and that means in all areas – emotional, health and financial. In particular, we need to understand their hopes and fears about retirement, and how to help them control their lives and enjoy the freedom of retirement.

Preparation

There's evidence showing that, generally, there is a lack of preparation for retirement. 54% of non-retired UK adults are 'not at all prepared' for retirement [MGM Advantage July 2011] and 24% do not know what savings or investments will provide them with an income in retirement [MGM Advantage October 2011]. This demonstrates a high level of apathy and uncertainty for financial retirement planning.

Part of the problem is that people are unaware of the choices they have or the decisions they face. The range of financial products available to provide retirement income is growing, but the Retirement Nation seems unaware of the choice available in this market.

Only 29% of people in our survey were confident they knew exactly what an annuity was. This is worrying as most people use annuities to turn their pension savings into an income. Therefore, the majority of our survey would have either been faced with the decision of buying an annuity over the past few years, or they will be in the very near future. Women were less sure than men, with just 20% confident they knew exactly what an annuity was compared to 39% of men.

"I'm not at all prepared for retirement" (54%)

Financial advice

Fewer people are seeking independent advice than they were three years ago (14% in 2011 compared to 16% in 2009) [MGM Advantage July 2011]. And part of the problem is the supply of financial advice is falling. The number of Independent Financial Advisers (IFAs) who would be willing to advise clients with less than £50,000 in their pension fund has fallen in the last year from 56% to 44% [AFIA October 2011].

Because of this, there are a growing number of people who will have to make their own decisions about how and when to use their pension fund to secure a retirement income. The financial services industry therefore needs to find other ways of communicating with these people and helping them through this difficult life-changing decision.

Securing a retirement income

Using pension savings to secure a retirement income is tricky, and there are many risks and areas people need help with. They need a solution that means their income won't run out, regardless of how long they live, and one that can cope with rising inflation. This is against a backdrop of falling annuity rates, meaning people are receiving less annuity income for their pension pot than they would have a few years ago.

There are growing concerns that too many people are simply sleep-walking into buying a standard annuity with their pension provider, rather than considering other products and other suppliers. Generally, people can use their pension pot to buy an annuity or a different type of retirement product from a range of providers.



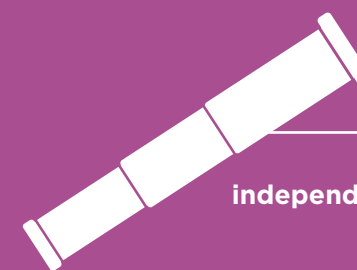
The difference in income over the course of the average retirement between the best and worst annuity rates



£9,881
(average 17 years in retirement)



£10,569
(average 20 years in retirement)



Only 14%
of people seek independent financial advice

We need to do more to equip the Retirement Nation in understanding their choices. There are numerous new retirement income products being brought to the market, which can help manage the risks people face in retirement, such as inflation.

Standard annuities are becoming less attractive as the default retirement income option and fewer people are buying them. This is due to a combination of factors, the most influential probably being falling annuity rates.

Instead of buying a standard annuity, some people may be better off buying what's known as an enhanced annuity. This pays out a higher level of income, on average 23% more than a standard annuity [MGM Advantage October 2011], where people have certain medical

conditions, such as high blood pressure, high cholesterol, or diabetes. The table below gives more information about the possible extra income people can receive each year.

Our survey showed 72% of the Retirement Nation were unaware that certain medical conditions could entitle them to a higher level of pension income through their annuity provider. As this option could benefit many, we need to make sure people are more aware of enhanced annuities.

In 2010, only 20% of all annuities sold were enhanced annuities [ABI 2011], even though our research shows over 50% of people have a medical condition that could qualify for an enhanced annuity.

“Too many people are simply sleep-walking into buying a standard annuity”

Shopping around

When people do buy annuities, they need to be aware they may get a better price if they buy their annuity from a different provider than the company they saved their pension with. It's important therefore to shop around, and take advantage of the 'Open Market Option' (OMO), which allows people to buy annuities from any provider.

Shopping around can mean receiving significantly higher incomes. The average difference in the income paid between the top and bottom quartile annuity (for both standard and enhanced annuities) rates is 18.56%. And over the average retirement this would build up to bring in an additional income of £9,881 for men and £10,569 for women, on a pension pot of £50,000 [MGM Advantage October 2011].

But worryingly, our survey shows many in the Retirement Nation are unaware of this option. Almost a third (31%) had not heard of the open market option, showing that shopping around still hasn't got the coverage it needs. People are already, to a large degree, comfortable with the concept of shopping around, for car insurance, bank accounts, or energy suppliers. It shouldn't therefore be too problematic to extend this principle to annuity providers, and so make a real difference to people's retirement income.

We believe more needs to be done to support the work that the Government, the Association of British Insurers and the Pension Income Choice Association are doing to make it as simple as possible for people to shop around at retirement.

Inertia

However, the Retirement Nation shows a high level of inertia when it comes to financial matters, which will explain why so few shop around for an annuity. Often, they are too accepting of their current situation and do not believe they can change it. The roots of this inertia are embedded in fear, lack of trust in financial services, products that are too complicated, and the fact they often don't know where to start or where to go to for help.

The financial services industry, together with the Government, needs to tackle this inertia head on. There needs to be a two-pronged approach:

1. We need to educate people, to make sure they understand why it's in their interests to shop around.
2. We also have to make sure people understand and do not fear financial products. They need to be designed with the customer in mind, and be simple, accessible, and offer good value.

Condition	Extra amount each month**	Extra amount each year
High blood pressure***	£46	£552
High cholesterol***	£46	£552
Smoker	£67	£804
Bowel cancer	£131	£1,572
Diabetes with complications	£224	£2,688
Major health condition	£420	£5,040

Example: A man aged 65 years old has £100,000 in his pension fund. His pension provider assumes he is 100% healthy and offers him £500* a month for the rest of his life as income.

An enhanced annuity can provide approximate additions to this monthly amount**:

Source:
*Avelo, November 2011, average of top 3 quotes

** MGM Advantage, November 2011

***To qualify with high cholesterol or high blood pressure, you usually have to be taking more than one medication.

Chapter 6

Making it happen

- our recommendations

1. Respect

“We need to change our attitude towards the Retirement Nation and recognise them as individuals and what they contribute to the UK.”

The Retirement Nation is not a single group of people – but a wide diverse group at different stages in their lives with varying needs and attitudes. Everyone in the UK needs to start recognising this and to respect the variety of types of people that go to make up this segment of our population.

The financial services industry also needs to consider how it communicates with the Retirement Nation, and to target different types in different ways. We need to appeal to their hopes and fears to help change their behaviour, and so help create a better financial life for them in retirement.

2. Representation

“The Retirement Nation is a big part of the UK society for what they contribute, but also the help and support they need. The Retirement Nation needs a greater voice in Government.”

Many of the issues that are most pressing to the Retirement Nation are dealt with by several different government areas – for example the Department for Work and Pensions, the Department of Health, and the Department for Energy and Climate Change.

We recommend the Government creates a Minister for Retirement, who will be able to see across all these government strands, and will take responsibility for making sure the needs of older people are understood and represented.



3. Education

“We need to help people maximise and make the best use of their financial wealth in retirement. The first step is to help people improve their knowledge about retirement and finance.”

The Retirement Nation shows a high level of inertia when it comes to making decisions about their retirement finances. This is often down to fear of things they don't understand and not knowing where to start.

The industry needs to focus on education. People need to understand the choice of retirement products available, and what risks and challenges they will encounter in retirement. They need to understand the impact of inflation, but also, importantly, what they can do to combat the negative effects.

The Government can also offer more support and help to people preparing for and approaching retirement. In 2012, the Government will kick start an information campaign to educate people about starting a pension through automatic enrolment. But it could also consider what should be done to educate people approaching retirement - for example by giving everyone standard information when they approach retirement. This could tell them about their state benefits, including what support they could receive for long-term care, but also about how to convert any pension savings into a retirement income. It could signpost where to receive further information.

The media also has a role to play by continuing to highlight issues for people to consider as they approach retirement, and to publicise best buy tables for retirement income products, energy bills, or household items. It can help send out the message that by shopping around, people could save a little extra each year, which could add up to a substantial amount over the course of their retirement .

4. Simple products

“Financial services companies and government need to continue to work together to innovate and design new retirement products that meet the needs of the Retirement Nation and are easy to understand, easy to buy and offer good value.”

The financial services industry needs to encourage people to seek financial advice. But we need to be realistic and acknowledge not everyone will be able to get the professional help they need. So we need to make sure the retirement income market works better.

Although still a good solution for many, standard annuities are becoming less relevant for others, as people enter longer retirement periods where their retirement income needs to vary as they get older. The financial services industry needs to continue to innovate and design new retirement products that meet these changing needs, by putting people at the heart of product design.

But in doing so, industry and government needs to acknowledge that part of making sure people understand and use the financial services market is to take away their fear factor of products. Retirement income products therefore have to be:

Simple – straight-forward products so that people know exactly what they are buying and how it could match their needs

Accessible – so even those without access to financial advice are able to buy the most appropriate product for their needs

Good value – so people will trust buying products and will get the best available return from their hard-earned pension savings.

5. Personal responsibility

“People need to take ownership of their retirement planning – from starting to save into a pension pot when they are in their 20s and 30s, to making the best retirement income decision when they retire.”

Often people are left with little choice at retirement, and don't receive the retirement income they feel they need to maintain their lifestyle, because they have not saved enough through their working life. Hopefully, automatic enrolment will go a long way in encouraging people to kick-start their pension saving habit, but industry and government need to do more to encourage people to stick with the habit and to save more than 8% of their earnings.

People approaching retirement need to take a fuller role in choosing the right retirement income product for them, rather than just taking the standard annuity from their pension provider.

This means considering which retirement income product best meets their needs. If they decide to buy an annuity, people need to consider the best shape (for example whether a partner's pension is also needed and whether it should increase each year in value to try and keep up with inflation), and shop around for the best rates, taking into account if their health qualifies them for an enhanced annuity.



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