European Employee Benefits Benchmark

Expectations vs. Reality: Meeting Europe’s Retirement Challenge
Aon Consulting employs a comprehensive network of employee benefits and risk management professionals, representing thousands of clients throughout Europe. Aon Consulting is among the top global employee benefits and HR consulting firms, with more than 6,300 professionals in 229 offices worldwide. The firm works with organisations to improve business performance and shape the workplace of the future through employee benefits, talent management and rewards strategies and solutions. Aon Consulting was named the best employee benefit consulting firm by the readers of Business Insurance magazine in 2006, 2007, 2008 and 2009.
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Four concerns dominate the minds of EU employees when they think about retirement: their state of health, whether they have saved enough into their pension schemes, the prospect of a fall in living standards, and the fear of inflation wiping out their savings. The relative weight of each of these four concern varies widely between the EU countries surveyed.

In three countries – Ireland, Spain and the UK – there is serious concern about paying off outstanding mortgage obligations prior to retirement.

Most European employees now expect to be working beyond the official retirement age. Employers need to consider how they will accommodate an ageing workforce.

More than one-third of Europeans (34%) say they are happy with the minimum state retirement age being raised in their country, and even that they expected this to happen.

Of those who expect to work beyond official retirement age, over two-thirds think that they will be working for two years or more, with the majority of these assuming that they will work for two to five years longer.

However, 29% say they would rather stop working earlier and receive less income, while another 26% will buy additional cover at their own expense so they can retire at the age they originally planned.

There is a general (but again varying) mis-match between anticipated income and anticipated income requirements in retirement. Across all the countries surveyed, over three-quarters of employees considered that they would need 60% or more of their current salary for a comfortable retirement, yet only just over one-third believed that this was achievable.

The average European thinks that he or she will need to retire on 74% of their annual salary in order to live comfortably – but they will actually have only 57% of their salary as a retirement income.

Attitudes towards pensions saving vary widely across the 10 countries surveyed, with considerable differences, for example, in respondents’ interest in pensions and their understanding of pension tax incentives.

Nearly a quarter (24%) of people living in Europe claim to be “really interested” in their pension plan.

But one in 20 isn’t planning to get a pension, and will live off state benefits instead, while 7% think pensions are “a con”.

Almost 40% of Europeans say that their employer provides them with a pension plan.

Despite recent financial and economic turmoil, relatively few employees are cynical about pensions savings.

Spain is the most popular destination to retire to for those planning to move away from their home country in retirement; nearly 20% of Europeans say that they would like to live there when they stop working.

Other popular retirement destinations include France, the Netherlands and Denmark.
From a pensions and retirement perspective, Europe is far from homogeneous. Previous Aon Consulting studies have shown, from a supply perspective, how varied the approach to pensions and savings is in different countries. Aon has previously researched the differing levels of state pension provision, different approaches to funding, and the role of insurance and other factors that determine the sustainability of pension arrangements within individual European countries.

The European Employee Benefits Benchmark (EEBB) examines the demand perspective: what do employees expect from retirement and from the pension arrangements that they have in place? What are employees’ main concerns with their retirement, and when do they think this period of their lives will commence?

The EEBB will be invaluable to human resources directors designing benefits packages for employees in a rapidly changing financial and economic landscape. As Europe’s population gets older and the retirement age increases, this will be a growing challenge for companies. How should they model their human resources and benefits policies to reflect an ageing workforce? By 2050, more than 25% of the population in OECD countries will be 65 years old or older, compared with slightly less than 15% today.*

Understanding differing attitudes and concerns between national groups is key for companies trying to understand the relative value that employees in different countries attach to different benefits, such as healthcare versus cash or flexible working hours.

The findings also demonstrate a challenge for policy makers as they try to create a level playing field for pensions across Europe. Many governments around the world have raised, or are in the process of raising, the minimum retirement age in their countries to help pay for the pensions and healthcare of a rapidly-ageing population. But have they done enough to explain the tax incentives available to encourage employees to save? Will state benefits be sufficient to sustain an ageing population that hasn’t saved enough during its working years?

**Methodology**

This research is part of the Aon Consulting European Employee Benefits Benchmark, an online survey of more than 7,500 workers from across Belgium, Denmark, France, Germany, Ireland, The Netherlands, Norway, Spain, Switzerland and the UK, 10 of the leading economies in Europe. The Benchmark focuses on the views of workers across Europe on topics such as retirement, employee benefits and other pension-related issues. The survey was carried out in the Spring of 2010.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany (D)</td>
<td>1,019</td>
</tr>
<tr>
<td>UK</td>
<td>1,005</td>
</tr>
<tr>
<td>France (FR)</td>
<td>1,000</td>
</tr>
<tr>
<td>Spain (SP)</td>
<td>1,000</td>
</tr>
<tr>
<td>Belgium (BEL)</td>
<td>800</td>
</tr>
<tr>
<td>Netherlands (NL)</td>
<td>752</td>
</tr>
<tr>
<td>Ireland (IRE)</td>
<td>502</td>
</tr>
<tr>
<td>Denmark (DK)</td>
<td>501</td>
</tr>
<tr>
<td>Norway (N)</td>
<td>500</td>
</tr>
<tr>
<td>Switzerland (CH)</td>
<td>500</td>
</tr>
</tbody>
</table>

* Survey OECD factbook 2009.
Four concerns dominate the minds of EU employees when they think about retirement: their state of health; whether they have saved enough into their pension schemes, the prospect of a fall in living standards; and the fear of inflation wiping out their accrued savings.

With the exception of resource-rich Norway, where employees do not consider inflation to be a major hazard for savings, these four issues lead the table of concerns, although national groups had differing views on the relative importance of each.

Health concerns are particularly pronounced in Germany and Norway, where around two-thirds of our sample said this was their main worry. Health also registered as a big concern for over half of the sample groups in Spain, Switzerland and Belgium.

Employees in Ireland, the UK and France were the least worried about health problems, with less than one-third citing this issue.

### Key concerns about retirement by country (in %)

<table>
<thead>
<tr>
<th>Key:</th>
<th>UK</th>
<th>IRE</th>
<th>NL</th>
<th>D</th>
<th>SP</th>
<th>FR</th>
<th>N</th>
<th>DK</th>
<th>CH</th>
<th>BEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>25</td>
<td>22</td>
<td>10</td>
<td>9</td>
<td>21</td>
<td>8</td>
<td>13</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Haven’t saved enough</td>
<td>54</td>
<td>50</td>
<td>17</td>
<td>53</td>
<td>34</td>
<td>26</td>
<td>29</td>
<td>35</td>
<td>48</td>
<td>16</td>
</tr>
<tr>
<td>Children to support</td>
<td>16</td>
<td>16</td>
<td>4</td>
<td>11</td>
<td>13</td>
<td>15</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Falling living standard</td>
<td>35</td>
<td>40</td>
<td>27</td>
<td>54</td>
<td>48</td>
<td>59</td>
<td>22</td>
<td>39</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>Inflation</td>
<td>32</td>
<td>25</td>
<td>14</td>
<td>34</td>
<td>25</td>
<td>21</td>
<td>9</td>
<td>20</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Health</td>
<td>31</td>
<td>29</td>
<td>35</td>
<td>67</td>
<td>52</td>
<td>30</td>
<td>64</td>
<td>37</td>
<td>52</td>
<td>50</td>
</tr>
</tbody>
</table>

* Answers may add up to more than 100% as the respondents were able to answer more than one option.*
Mortgages - a worry for some

It is telling that the three countries which have experienced some of the most pronounced booms in house prices over the past 10 years – Ireland, Spain and the UK – are the only countries where a significant proportion of respondents (between 20% and 25%) cited an ongoing mortgage obligation as a major concern. In other countries, where rented property still remains popular and in some cases the norm, mortgages were of concern to a relatively small proportion of respondents.

Falling living standards

With the exception of the Netherlands and Norway, over one-third of respondents in each country worried about a fall in their living standards following retirement. French employees are the most concerned, with 59% citing this as a worry, making it the single most concerning issue for people in France. Of Germans, 54% felt the same way, as did 49% of the sample from Belgium.

Employees in Germany and the UK worry the most of the 10 countries surveyed about inflation wiping out their pension savings, followed by Belgium and Switzerland.

Have you saved enough?

A full 54% of UK employees and 50% of Irish employees – the two countries with the lowest state pension provision amongst nations included in the survey – were most concerned about not having saved enough through their pension arrangements. By contrast, only 26% of employees in France, which has one of the most generous earnings-related state pension regimes in Europe, cited this as a concern.

The correlation does not extend across the whole sample however; 53% of German employees – where state pension benefits are approximately double than those in the UK and Ireland – are also worried about not having saved enough. This could be linked to another factor – the fear of inflation wiping out savings, as already mentioned. Of German employees, 34% are concerned about inflation – the biggest proportion of any of the individual national survey groups.
Working past the current retirement age is perceived not so much as a choice but as a necessity by many European workers. On average, 55% of the survey respondents expected their working lives to extend beyond the current national retirement age as a result of recent economic issues, and just over one-third were sanguine about the prospect of the official state retirement age being increased.

A relaxed (or perhaps resigned) attitude to working longer was particularly pronounced in Denmark, Ireland and the UK, where almost half of the survey group said that it was not a problem and that they had always expected to work beyond retirement age.

More workers in the Netherlands were unhappy about working longer, with 42% saying that they would prefer to accept a drop in retirement income. Almost three-quarters of employees in France and Germany expect to work beyond retirement age, together with approximately two-thirds of employees in Switzerland and Ireland. The sample groups in Denmark, the Netherlands and Norway considered this to be less likely, with only one-third anticipating such a requirement. However, in these countries there is already the expectation that the national retirement age will be raised to 66 or 67, therefore, this may have influenced their response.

Of those who expect to be working beyond official retirement age, 69% thought that they would be working for two years or more, with most of these imaging they would have to work for an additional two to five years.
Employees in Germany, Ireland and the UK were least happy at the prospect of retiring in their home country, with around half of the respondents stating they would want to move elsewhere. In Denmark, France and Spain, four-fifths or more are content to enjoy their retirement at home.

The survey suggests that Spain could be facing a grey immigration crisis over time, altering the population balance in the country and perhaps putting a strain on healthcare resources. In addition to the 88% of Spanish nationals who intend to retire there, Spain is the first choice for a foreign retirement location in all but two of the national survey groups. Over one-eighth of employees outside of Spain said they would like to retire there. The only other significant European retirement destination was France, where an average of nearly 10% non-French employees said they would like to retire. France was especially popular with Belgian workers.

In France, the most popular foreign destination was Africa, while in Switzerland the USA was most popular. Other popular destinations included Italy and Australasia.
How much money will you need to retire?

Across all the country groups, over three-quarters of employees considered that they would need 60% or more of their current salary for a comfortable retirement, whilst only 41% thought that their pensions would provide such a level of income.

Ireland and the UK were most optimistic in terms of what respondents expected of their material needs in older age, with the smallest proportion of people believing that they would need 60% or more of their current salaries to enjoy a comfortable retirement.

They were also, however, the least optimistic in terms of expectations of their retirement income meeting these needs, with Ireland showing the biggest gap between expected retirement income and expected needs. These two countries have the lowest state pension provision of all the countries surveyed.

The smallest gap appeared in Spain, where only 8% of respondents considered their retirement income likely to be less than 50% of current earnings. The survey was conducted before Spain, which has the most generous state pension arrangements of countries in the survey group, began to consider austerity measures to curb its budget deficit.

### The retirement gap: expected income vs expected retirements (in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Needing 60% or more of current Income</th>
<th>Expecting 60% or more of current income</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU Average</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Spain was also, together with Belgium and Norway, the most confident group in terms of retirement income expectations, having the lowest proportion of “don’t knows” when asked how much money they expected to receive in retirement. Germany, Switzerland and Denmark were the least confident, with over 20% of respondents saying that they didn’t know what their retirement income would be. There seems to be quite an information gap across the region that needs to be addressed by both employers and the state.
Combining the survey results for expectations of income in each country (how much annual retirement income will you actually have) and expectations of requirements (how much annual income will you need to retire on) allows us to construct a rudimentary Retirement Optimism Index. We took 60% as the cut-off as the majority of respondents feel that they will need 60% or more of their income to retire on. Dividing the percentage of respondents expecting to have at least 60% or more of their current income in retirement by the number of people expecting to need at least 60% or more shows how the relative mismatch of needs and expectations varies across national groups. A number of 100 or more would indicate a perfect match or better based on the survey respondents.

From this analysis, Spain is the most optimistic group, with income expectations almost matching requirements; the survey was taken before the introduction of recent austerity measures. Ireland is the most pessimistic, with an index number of just 23. The average index figure across all of the countries was 53, which means that more than half of the workers are concerned that they will not have enough income to retire on comfortably.

The average European thinks he or she will need to retire on 74% of annual salary in order to live comfortably – but in reality, believes he or she will actually have only 57% of salary as a retirement income.
There are widely varying attitudes across different European nations in terms of interest in pensions, faith in the pensions system and tax incentives for pensions saving. Danish and Norwegian employees are the least likely (less than 10%) to consider that they can’t afford a pension, possibly reflecting the highly-regulated, compulsory pension arrangements in those countries. About one-fifth of employees in France, Germany, Ireland, Spain, Switzerland and the UK say that they can’t afford pensions savings.

Despite the impact of economic and financial turmoil on pension funds over the past two years, few of the respondents in any country considered pensions to be “a con”. The highest proportions – around 10% of respondents – were seen in Germany, Ireland and the UK. Tax breaks for pension savings were not cited as a significant incentive to invest substantially in pensions saving in any of the countries, with the exception of Belgium (33%), Switzerland (31%), and Germany (18%). UK employees were the least likely to be influenced by tax breaks, with fewer than 4% agreeing that tax relief was an incentive to make greater savings. This suggests that employers and tax authorities could improve their efforts in some countries to generate a fuller understanding of the tax incentives available for pensions saving.

There was a marked difference between the country groups with regard to the interest that employees take in their pension plans. In Belgium, Germany and Switzerland, one-third or more stated that they were “really interested in their pensions”. Just over 11% of respondents made the same claim in France, the Netherlands and the UK. Both European governments and employers are failing to educate their citizens and workforces sufficiently about the long-term value of their pensions, with less than one-quarter of European workers saying that they are interested in their pension, despite it being the very thing that will support them in retirement.

Only 5% of employees on average expected to live solely on state benefits in retirement. French employees were the most likely to think they would do so, which is perhaps not surprising given France’s traditionally generous earnings-related state pension. But even in France, the proportion stating this was only just over 11% of respondents.

<table>
<thead>
<tr>
<th>My employer provides me</th>
<th>UK</th>
<th>IRE</th>
<th>NL</th>
<th>D</th>
<th>SP</th>
<th>FR</th>
<th>N</th>
<th>DK</th>
<th>CH</th>
<th>BEL</th>
<th>AVG</th>
</tr>
</thead>
<tbody>
<tr>
<td>with a pension plan</td>
<td>47</td>
<td>39</td>
<td>68</td>
<td>30</td>
<td>14</td>
<td>36</td>
<td>76</td>
<td>63</td>
<td>N/A**</td>
<td>27</td>
<td>39</td>
</tr>
<tr>
<td>I don’t have a pension – I can’t afford to make pensions savings</td>
<td>18</td>
<td>22</td>
<td>12</td>
<td>20</td>
<td>21</td>
<td>20</td>
<td>6</td>
<td>9</td>
<td>24</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>I don’t have a pension – but I should, I have never got round to it</td>
<td>12</td>
<td>9</td>
<td>7</td>
<td>11</td>
<td>22</td>
<td>19</td>
<td>5</td>
<td>7</td>
<td>12</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>I don’t have a pension – I’ll live off State benefits when I’m older</td>
<td>5</td>
<td>2</td>
<td>9</td>
<td>4</td>
<td>7</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>I don’t have a pension – I have other savings instead</td>
<td>11</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>11</td>
<td>12</td>
<td>4</td>
<td>3</td>
<td>10</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>I think pensions are a con</td>
<td>10</td>
<td>7</td>
<td>10</td>
<td>11</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>I put lots of my savings into a pension plan because of the tax breaks</td>
<td>4</td>
<td>8</td>
<td>5</td>
<td>18</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>10</td>
<td>31</td>
<td>26</td>
<td>14</td>
</tr>
<tr>
<td>I am really interested in my pension – it is what I am going to be living off</td>
<td>12</td>
<td>19</td>
<td>12</td>
<td>17</td>
<td>25</td>
<td>12</td>
<td>17</td>
<td>27</td>
<td>33</td>
<td>34</td>
<td>24</td>
</tr>
</tbody>
</table>

* Answers may add up to more than 100% as respondents were able to answer more than one option

** NB: This option was not given to Swiss respondents due to local legislation requiring mandatory co-sponsored pension arrangements between employers and employees
Conclusion: meeting the challenges

The turbulent economic and financial environment of the past few years has forced employees, employers and governments to re-examine their retirement strategies. Recent events have provided a stark reminder that the value of pension funds can go down as well as up, while the gold-plated defined benefit pension scheme, twinned with generous state benefits, is rapidly becoming a thing of the past. This creates challenges for employers and employees alike.

Many employers continue to take the provision of appropriate pensions for their employees very seriously, and allocate vast resources to provide for the long-term welfare of their workforce. Although workers do generally value employer-sponsored pension savings – both defined benefit and defined contribution – there is much that employers can do to make employees value them more. For example, they could implement strategies to educate all employees on retirement planning instead of just those who are close to retirement, when such measures will be too late to have any meaningful impact.

Indeed, one could suggest that employers are not getting as good a return on their investment - measured in terms of employee appreciation and retiree welfare - as they might. This return could be enhanced by better communication of the value of and choices relating to retirement benefits. In addition to making their workforce richer in retirement, this can also turn the company pension plan into a more valued benefit and a more effective tool in the war for talent.

At the same time, employers must recognise that people are living longer. It is no longer a given that workers should retire in their early sixties. Older people can bring a wealth of experience to the workforce. Employers might usefully consider strategies to capture such advantages, such as part-time working or even job-sharing. Additionally, they should consider health and wellness initiatives such as employee assistance programmes (a service for employees offering free counseling and professional advisory services), flexible benefits, occupational health initiatives and flexible working days, all of which are effective ways of ensuring the health and welfare of an ageing staff. Employees, meanwhile, face the challenge of taking more responsibility for their retirement plans, including achieving some degree of financial security and planning for the likelihood of a longer working life.

It has long been the case that, for those aged 40 or younger, pensions are secondary to shorter-term concerns such as career advancement, providing for the family, meeting mortgage obligations and other day-to-day worries. The survey shows that this mindset urgently needs to change. The decline of the defined benefit pension scheme puts even greater pressure on younger employees to take their long-term financial security seriously. Those closer to retirement should seek advice based on their personal circumstances. The traditional advice is to begin moving retirement savings out of riskier investments and into lower risk products and vehicles with perhaps less return but more resilience to market volatility.

Finally, for those on the verge of retirement, many will seek to convert their retirement savings to an annuity, which pays them an annual salary. The value of annuities can shift from day to day and from provider to provider. Shopping around is essential to get the most out of a lifetime’s worth of saving. This is where employers can play a crucial role by providing for annuity comparison information, for example - to ensure their employees are able to make informed decisions. Employees themselves need to take a more active interest in their retirement and take steps to make sure they are financially secure if they want to maintain their quality of life upon retirement. Relying on their employer or the State to provide them with an income they can retire on comfortably may no longer be a realistic expectation.
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