

June 2007

Scottish Widows 2007 Pensions Index reveals the nation is still falling short

- **Scottish Widows Pensions Index up 3% from 2006 to 49% but this is still 6% lower than in 2005**
- **Scottish Widows Average Savings Ratio returns to 2005 level – 7.9%**
- **The proportion of people saving adequately for retirement halves to just 25% when you *exclude* those in final salary pension schemes**
- **Those in the Index group relying on final salary schemes to fund retirement has continued to fall - to 32% (from 35% in 2006 and 41% in 2005)**
- **A third of people with at least one pension do not know where their main source of income in retirement will come from**
- **Women, the self-employed and people in debt are among the groups least likely to be on track**

A major report, published today by Scottish Widows, reveals that while confidence is beginning to return to the pensions market (with savings figures up from 2006), only 49% are saving adequately and 24% are not saving at all. Almost a third (32%) of those who have at least one pension are unsure where their main source of income is coming from.

The Scottish Widows UK Pensions Report, first launched in 2005, uses two key measures to monitor pensions savings behaviour in the UK: the *Scottish Widows Pensions Index* and the *Scottish Widows Average Savings Ratio*. While these have risen in the last year, savings levels have still not reached the figures seen in 2005. The Index and Ratio are based on those who could and should be preparing financially for retirement – those aged over 30 and earning at least £10,000 a year.

The Scottish Widows Pension Index, which tracks the percentage saving adequately for retirement, has risen from 46% in 2006 to 49% in 2007. And the Scottish Widows Average Saving Ratio, which tracks the percentage of income being saved for retirement by UK workers not expecting to get their main retirement income from a defined-benefit scheme, rises from 5.8% to 7.9% – back to the level seen in 2005. Although the ratio figure has risen, it still falls significantly short of Scottish Widows' recommended target savings ratio of 12% of earnings.

Ian Naismith, head of pensions market development at Scottish Widows, says: “While confidence seems to be returning slowly to the pensions market, 51% of those who should be preparing for retirement are still not saving adequately. Despite pensions being front page news for much of the past year, there is still some way to go before the nation is truly on track – when you strip out those people that are relying on final-salary schemes three-quarters of the UK population is still not on track for a comfortable retirement.”

The Scottish Widows UK Pensions Report 2007 reveals that someone **saving adequately** for retirement is likely to be:

- **Male** – Almost two thirds of the adequate savers (67%) are men.
- **Working in the public sector** – public sector workers make up almost half of all those that are saving adequately despite being only a third of the workforce.
- **Older** – 53% of those over 50 are saving adequately, compared to 44% of those between 30 and 50.
- **A higher earner** – of those earning over £30,000 – 59% are saving adequately, compared to 44% of those earning between £10,000 and £30,000.

By comparison a **non-saver** is more likely to be:

- **Female** – Almost one third (31%) of women in our index group are making no preparation for retirement, compared with one-fifth (19%) of men.
- **A parent** – 30% of those with a child under 5 are non-savers.
- **In debt** – Only 28% of non savers say they carry no short term debt over from one month to the next – compared to 39% of those saving adequately.
- **Self-employed** – 30% of self-employed people in the group making up our index are saving nothing for their retirement, compared with 23% overall.

Naismith continues: “As in previous reports there are certain groups of society that are continuing to lose out under the current pensions savings scheme. Groups such as women and the self-employed continue to lose out. And when people fall into more than one group the effect is increased. For example, just over a third (35%) of women under 50 are saving adequately, compared with three-fifths (61%) of men over 50.”

In addition, the Scottish Widows report reveals that:

- One in four (24%) of those who could and should be preparing for their retirement are **not saving at all** into any form of pensions savings vehicle. This is down on 2006 (28%) but still higher than in 2005 (17%).

1. UK Non-Savers		2005	2006	2007
Not saving at all	No long term savings in a pension vehicle	17%	28%	24%
2. UK Savers				
Seriously under-saving	Saving between 0 and 6% of earnings	18%	15%	12%
Under-saving	Saving between 6% and 12% of earnings	10%	11%	16%
Saving adequately	Saving over 12% of earnings or depending mainly on defined-benefit provision	55%	46%	49%

(Source: The Scottish Widows UK Pensions Report 2007)

- **Confidence continues to fall** – although more people are saving adequately than 2006, almost a third of savers (32%) don't know what their main source of income will be in retirement. This is matched by a continued fall in people that believe a **final-salary scheme (defined-benefit)** will provide them with most of their income. This has dropped from 35% in 2006 to 32% in 2007.
- **Saving in personal accounts could be limited** – if the Government were to introduce personal accounts today the average amount people would be prepared to save is just £29 per month. Only 35% of those without a current pension said they would not opt out of personal accounts,

with 22% intending to opt out and 43% still undecided. More positively, 54% of those in the personal accounts target group (aged 22 or more and earning £5,000 a year or more) are already saving at the 8% a year minimum envisaged for personal accounts, and automatic enrolment should increase that figure.

Naismith concludes: "Despite the number of people saving adequately rising, this has not been matched by confidence returning to the pensions market. It is concerning that so many people are unsure where their main source of income will be coming from and with the continued decline of final salary schemes this is likely to continue increasing. Personal accounts are not introduced until 2012 and people should not delay saving until then, but take control of their future now."

**THE SCOTTISH WIDOWS UK PENSIONS REPORT IS PUBLISHED ON JUNE 20TH 2007.
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For further information, or to interview Ian Naismith, please contact:

Andy Smith
Lansons Communications
Tel: 020 7294 3675
Mobile: 07764 604436
Email: scottishwidows@lansons.com

Susan McDonald
Scottish Widows Press Office
Tel. 0131 655 7003
Mobile: 07841 741516
Email: susan.mcdonald@scottishwidows.co.uk

Notes to editors:

The research to support the report was carried out by YouGov who interviewed a total of 5,414 people over the age of 18 between 7th and 26th February 2007.

The Scottish Widows Pensions Index measures the percentage of those who could and should be saving for their retirement who are currently making adequate provision. The index is based on those aged between 30 and state pension age who are earning at least £10,000 a year. They are treated as preparing adequately if they expect their main income in retirement to come from a defined-benefit pension scheme or if they are saving at least 12% of their earnings specifically for their retirement (including any employer contribution).

The Scottish Widows Average Savings Ratio measures the average percentage of earnings being saved by those in the Index group who are not depending mainly on a defined-benefit pension.

Glossary

- **Defined-benefit scheme** - A pension scheme in which an employee's pension is based on number of years of service and final salary with each employer. In this type of scheme employees are typically provided with 1/60 of final salary for each year of service up to a maximum of 40/60 that is, two thirds of final salary. At retirement a tax free lump sum may be taken at the expense of a reduced pension. (Source: Global Investor: www.finance-glossary.com)
- **Defined contribution scheme** - A pension plan in which benefits are dependent on contributions to, and the growth of, the pension fund. (Source: Global Investor: www.finance-glossary.com)

Scottish Widows was founded in 1815 as Scotland's first mutual life office. Becoming part of the Lloyds TSB Group in 2000, Scottish Widows has become one of the most recognised brands in the life, pensions and investment industry in the UK. The product range includes long term insurance, such as life assurance, pensions, annuities and permanent health insurance, and savings and investment products. Using a multi-sales network of Financial Advisers, Direct Sales, Direct Marketing, the Internet and via the branch network of Lloyds TSB, Scottish Widows currently employs about 4,000 people.

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