



AEGON

Brazil Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings

- **Retirement associations are positive:** Brazilians are more likely to associate retirement with positive terms such as 'leisure' (47%) and 'freedom' (43%) than negative words such as 'insecurity' (14%) and 'poverty' (8%).
- **Improvement is needed in retirement planning:** Nearly half of workers (47%) claim to have a plan but for only 22% is this written down. Over one-in-four (27%) claim to have no plan, lower than the 40% reported globally.
- **Auto-enrolment is appealing to most employees:** 82% of Brazilians considering being auto-enrolled in a workplace pension and contributing 6% of their salary either very or somewhat appealing (the highest proportion of all the countries surveyed).
- **A flexible transition to retirement will be the new norm:** Only one-in-four employees (24%) believe that they will stop working altogether and enter full retirement however currently only 18% of employees are offered the option to move from full-time to part-time working in later life.
- **Brazil places second in retirement readiness:** In its first year participating in the survey, Brazil scores of 6.8 out of 10 on the Aegon Retirement Readiness Index and is placed second in the global ranking, behind only India. A 'medium' score, this indicates that the typical Brazilian with internet access is moderately prepared for retirement.

Recommendations

- **Workplace pensions should be made more attractive:** Pension provision in Brazil spans three tiers, dividing responsibility for retirement income among the government, employers and individuals. Yet too few employers offer group pension plans to their employees, leaving out an important pillar of income support. Considering the uncertainties around the future of Social Security, including high levels of public debt, there is a need for employees to protect themselves through greater participation in workplace pensions. Employers need to take greater ownership of retirement provision for their employees and the Government should encourage this through public policy interventions.
- **Public sector pension reform is vital:** The federal government and a few states have made efforts to shore up the ballooning costs public sector pensions. This new system aims to make benefits payment more viable through several measures. These include closing to new participants older DB plans guaranteeing upwards of 100% of final salary and limiting the pension's amount to the cap of the General Social Security System while offering a supplementary defined contribution plan to those who earn more than this cap (with 100% matching by the sponsoring institution, up to 8.5% of the new participant's salary). However, there remain many states and municipal governments who have yet to join this initiative. If public pension spending is to return to a sustainable level, it is necessary for all levels of government to adopt realistic pension commitments.

The Survey

The findings used in this report are based on the Brazilian responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Brazil 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Brazilian survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in Brazil

This survey finds that Brazilians are confident about retirement and many will be provided with a package of benefits that enviable to any western country. While this position reflects the dynamism common of emerging markets, it is no doubt also linked to Brazil's comprehensive social security system (INSS).

There are, however, storm clouds lining the generosity of publicly provided benefits. Firstly, because of the strong role of INSS many have not felt the need to save outside of the public system, in effect crowding out occupational and personal pensions. Secondly, public deficits and population greying will soon render the status quo financially unviable. The country already spends a

disproportionate amount of funds on pensions and public finances will struggle to keep pace as the country ages rapidly over the coming decades.

A subject once off-bounds, pension reform will soon take a centre place in Brazilian politics. The next Government to form in January of 2015 will face the challenge of fiscal rebalancing after years of slow growth and deficits. The foreseeable ballooning costs of pensions benefits is an obvious target when cuts are to be made. If Brazilians are to maintain their accustomed quality of pension provision, long term savings through occupational and private pension plans must be encouraged.

2. Retirement aspirations and expectations

Respondents in Brazil have by far the most positive expectations for the economy and their own financial situation over the next 12 months. Over two-thirds (69%) expect the economy to improve, far higher than the 28% reported globally. Another, 82% of Brazilians expect their own financial situation to get better, compared with 31% globally. However, this very positive mood does not extend to how Brazilians see future generations of retirees. Only one-third (32%) believe that future generations of retirees will be better off than those currently retired, with nearly as many (29%) expecting them to be worse off.

Chart 1: Expectations for both the economy and respondents' own financial situation are very positive

Q. Thinking ahead over the next 12 months, do you expect the economy in Brazil to...? (Base: All respondents (n=1000))

Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?

(Base: All respondents (n=1000))

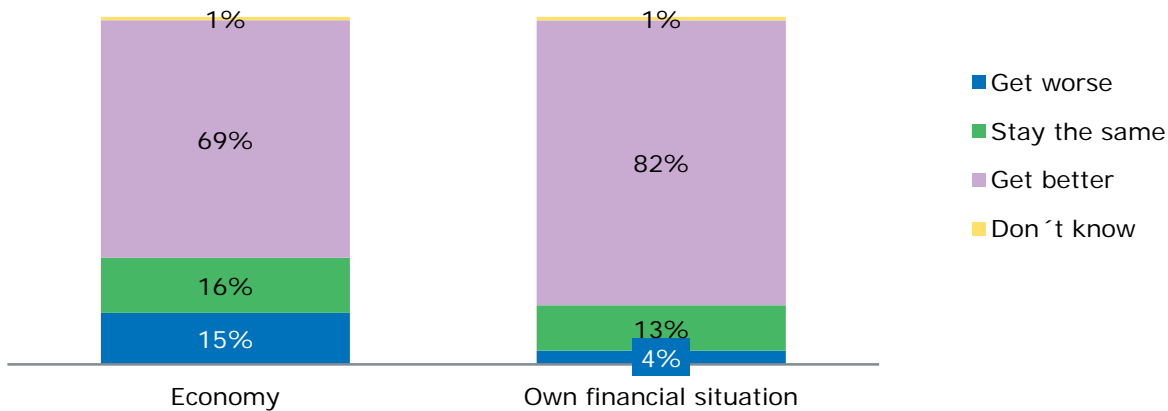
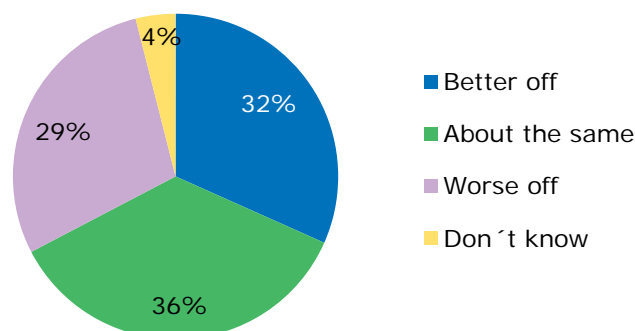


Chart 2: Future generations of retirees are mostly not expected to be better off

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?

(Base: All respondents, n=1000)

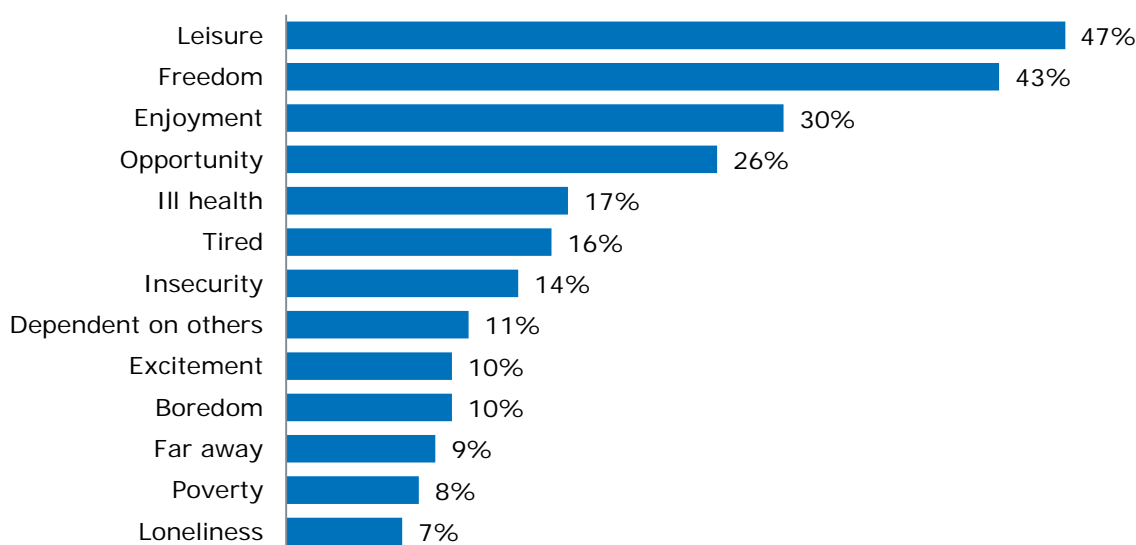


The relatively positive retirement mood is reflected in the attitudes that Brazilians have towards retirement. When asked what words they most associate with retirement (from a list) the most common are 'leisure' (47%) and 'freedom' (43%). However, for 17% retirement is associated with ill health, for 16% with being 'tired', and for 11% with insecurity. Nearly three-quarters (73%) aspire to travelling in retirement, whilst 63% look forward to spending more time with friends and family. Just over a half (51%) are looking forward to pursuing new hobbies, although for one-in-six (16%) there is the aspiration to continue working in the same field.

Overall, 34% of employees are confident that they will be able to fully retire with a lifestyle they consider comfortable (nearly double the global average of 19%), although nearly as many (31%) are either not very confident or not at all confident. These figures are not supported by fully retired Brazilians, 60% of whom are not confident that they will always be able to live in retirement comfortably. This can be associated with the fact that the retirement income amount gets closer to the minimum wage salary as years go by. The minimum wage salary increases more than the yearly inflation adjustment, considerably decreasing the purchase power of the fully retired. In fact, only 14% of retired Brazilians are either extremely or very confident of continuing comfort, lower than the global average of 21%.

Chart 3: Retirement associations in Brazil are generally more positive than negative

Q. Which, if any, of the following words do you most associate with retirement? (Base: All respondents, n=1000)



3. Planning for retirement

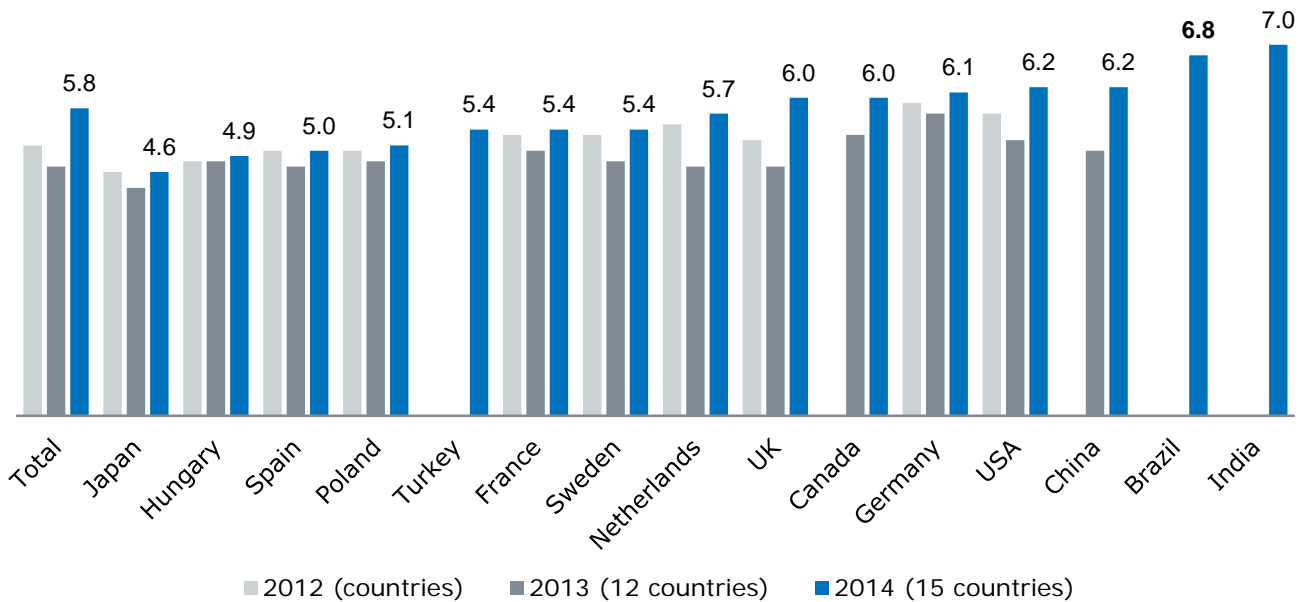
To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index the six attitudinal and behavioral question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions are computed and each mean score is multiplied by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

The Brazil Index score of 6.80 is the second highest of all 15 countries surveyed (behind another new country to the survey, India), although this means that an 'average' or 'typical' Brazilian with online access has only a 'medium' level of retirement preparedness..

Chart 4: Brazil ranks second in retirement readiness in 2014



Brazil's relatively high index score is not down to any particular question used in its creation. On all six measures the Brazilian mean scores are above average. When asked how far they will be towards achieving the annual income expected to be needed in retirement, Brazilians believe they will achieve a mean of 77% of their required retirement income, a higher proportion than in any of the other countries surveyed.

Despite the relatively positive picture in Brazil, only 22% of workers claim to have a retirement planning strategy that takes the form of a written plan, although it should be stated that this figure is higher than in other countries. Nearly half (47%) claim to have a plan, but not one which is written down. Over one-in-four (27%) claim to have no plan, lower than the 40% reported globally. Just under half (48%) claim to have a back-up plan in case they are unable to continue working before planned retirement age is reached.

Chart 5: Most retirement planning is not in the form of something written down

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

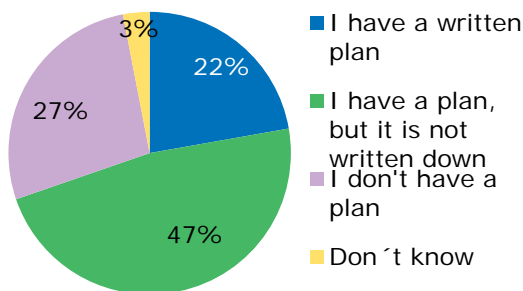
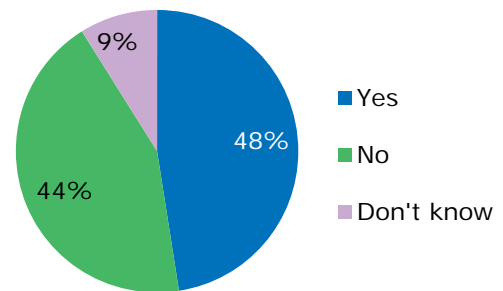


Chart 6: Half of Brazilian employees claim to have a 'back up' plan in the event that they are unable to continue working before their planned retirement age

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income? (Base: Not fully retired, n=900)



4. Making saving easy

Most Brazilian employees (67%) say that a lack of money to invest is an obstacle to saving for retirement, with just one-in-four (28%) claiming this not to be the case. In line with most other country responses, a pay rise would encourage a large proportion (46%) to save for retirement. Another important consideration is having a more certain economic environment, mentioned by 39% of workers.

Chart 7: A lack of money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

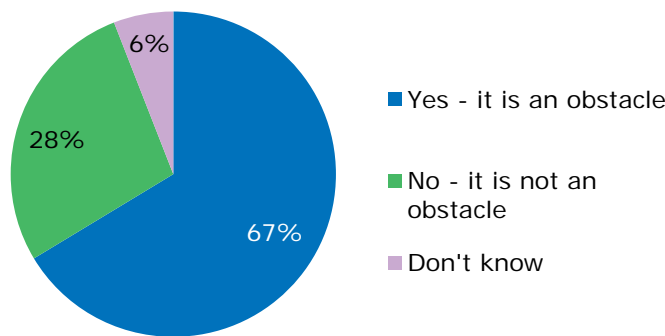
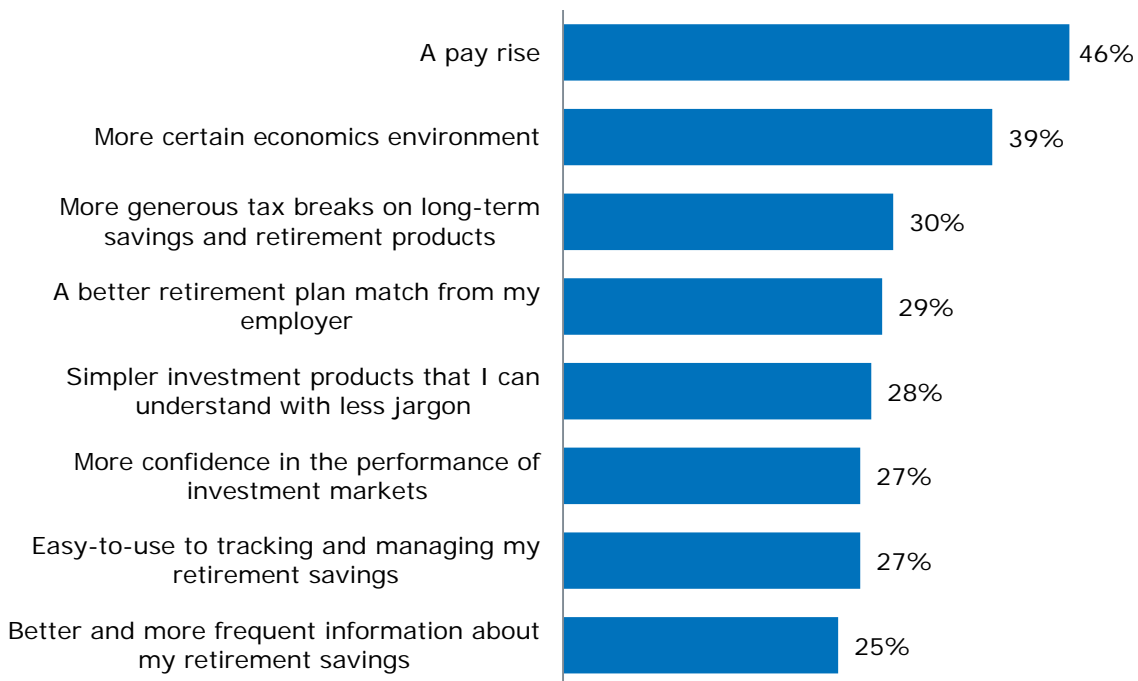


Chart 8: A pay rise would encourage nearly half of Brazilian workers to save for retirement

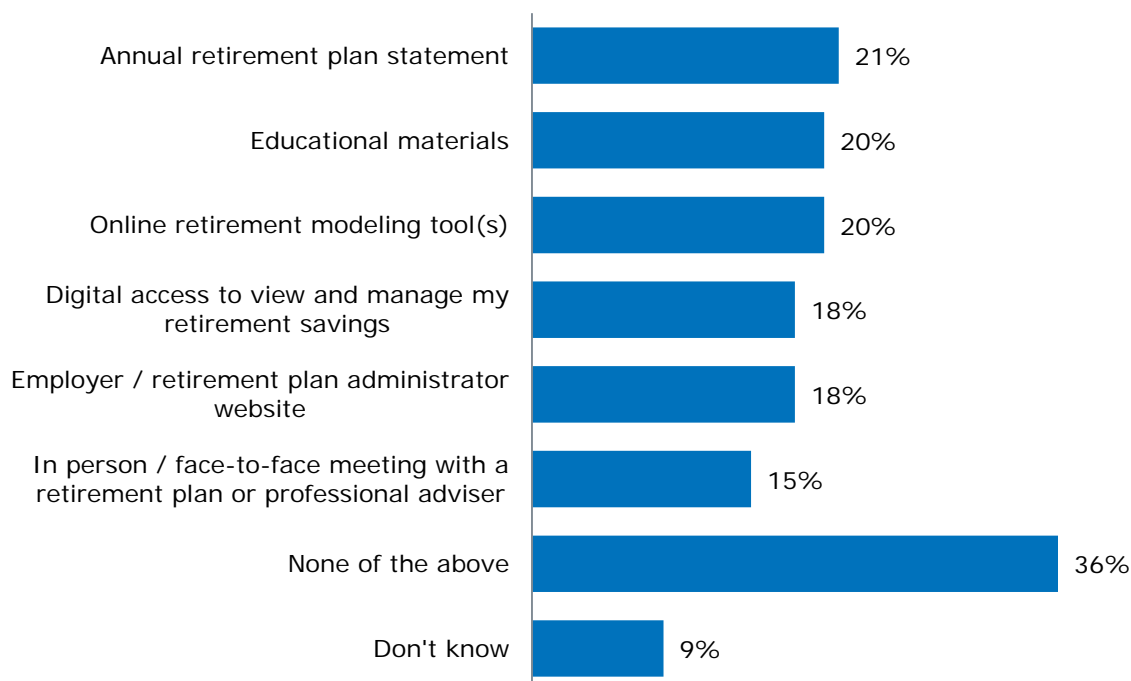
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivising workers to save for retirement will involve the help of both government and employers. However, most employees in Brazil suggest that their current employer could do more in terms of providing retirement-related services. More than one-in-three (36%) claim that their employer offers no retirement services (from a list of nine options), with a further 9% unaware of any such services. Just one-in-five (21%) say that their employer offers an annual retirement plan statement, with similar numbers being offered educational materials or online retirement modelling tools. Where individual services are offered, typically three-quarters or more find them to be either extremely or very helpful.

Chart 9: Over one-third of Brazilian workers claim their current employer offers no retirement preparation services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer...? (Base: Not fully retired, n=900)



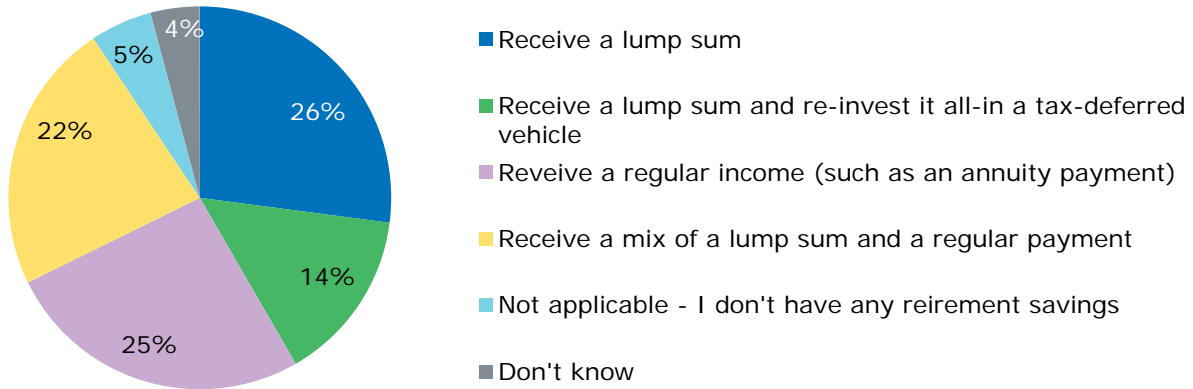
Employees were asked if they were automatically enrolled in a workplace pension what proportion of their salary or wages would be a reasonable amount for, firstly, them to contribute and, secondly, their employer to contribute. The mean percentage regarded as reasonable for employees to contribute is 7.36%, slightly higher than the global average of 6.45%. The mean percentage regarded as reasonable for employers to contribute was 8.64% (globally 7.86%).

Support for auto-enrolment was further reflected when employees were asked about the appeal of auto-enrolment if employees were expected to contribute 6% of their annual salary or wages to it. Overall, 82% of Brazilians find the proposition either very or somewhat appealing (the highest proportion of all the countries surveyed).

With an appetite for retirement saving clearly established, it is encouraging to note that when they enter full retirement most employees would use their retirement savings responsibly. Only one-in-four (26%) would prefer to receive a lump sum which (presumably) would not be re-invested. Whilst only 14% would want to receive a lump sum and re-invest it all in a tax-deferred vehicle, nearly half (47%) would either prefer to receive a regular income, such as an annuity payment (25%), or receive a mix of a lump sum and a regular payment (22%).

Chart 10: Half of Brazilian employees would want at least some regular income from their retirement savings

Q. How would you prefer to receive your retirement savings when you retire from all paid employment?
 (Base: Not fully retired, n=900)



Social security old age benefits in Brazil have gained notoriety for being amongst the most generous in the world. An individual contributes between 8% and 11% of their salary according to earnings band (and it could go as high as 20% for self-employed people). For the retirees who fall under the \$2000 ceiling, the benefit paid is the average of 80% of the best monthly earnings up to retirement date, multiplied by an actuarial coefficient. Today a typical Brazilian retires at the age of 54 and draws a pension of 70% of his or her final pay;¹ an opportunity that most in the world would be envious of.

The outcome is that pension spending in Brazil resembles that of a much older, advanced economy. Public spending on pensions accounts for 11.3% of GDP in Brazil, an amount similar to that of Greece (11.9%).² However these funds are being spent on a much smaller portion of society: in Greece there are 29 elderly persons for every 100 of working age while in Brazil there are only 11.³ Moreover many in Brazil do not feel the need to save outside of the public plans because of this elaborate social security system. The high cost of contributions means that employers find it difficult to implement occupational retirement savings plans. INSS contributions alone amount to 20% to 23% of an employee's full payroll depending on sector and 12% of profits.⁴ Occupational and personal pension plans are subsequently being crowded out of market, resulting in low levels of coverage.

This is not uncommon for countries with highly developed first pillar schemes, however it lends responsibility to the government to ensure that public pensions are financially sound. Unfortunately there are several signals that Brazil's pension generosity will not extend to future generations of retirees. The size of the elderly population in Brazil is expected to double from 11% currently to 22% in 2025.⁵ However this has been combined with lifestyle changes that further undermine the capacity of society to fund effective pensions. Primarily, the length of working life has fallen since the mid-20th century: increases in education delay entrance into the labour force, while Brazilians are also retiring earlier

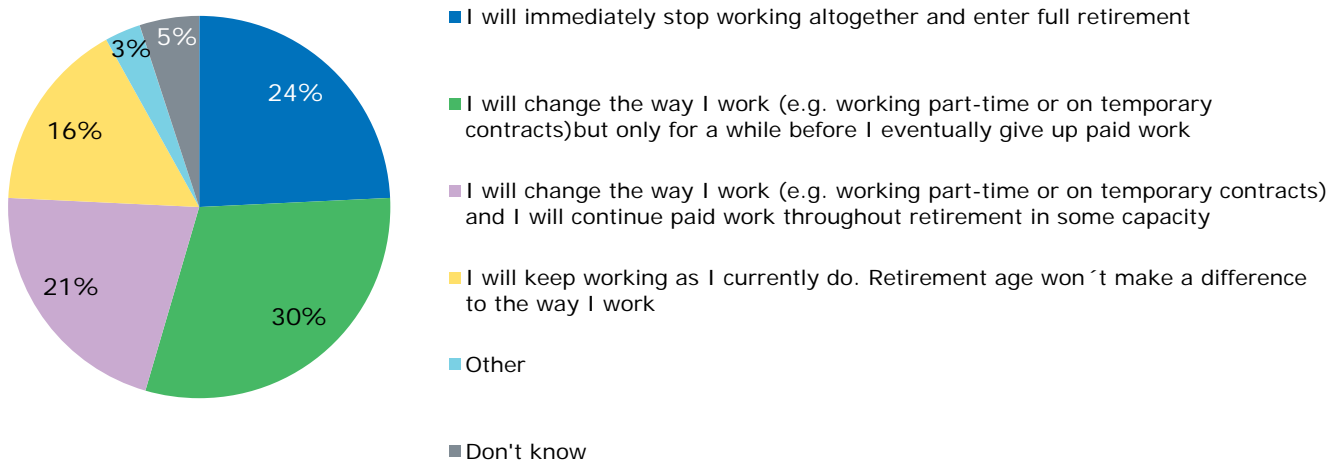
¹ The Economist. Land of the setting sun, Sept. 28th 2013. [Online] last accessed 07/05/14 <http://www.economist.com/news/special-report/21586682-brazil-country-future-spends-far-too-much-its-past-land-setting-sun>
² *ibid*
³ *ibid*
⁴ Swiss Life. Brazil Employee Benefits Reference Manual, 2013. [Online] last accessed 07/05/14 https://www.swisslife.com/content/dam/id_corporateclients/downloads/ebrm/Brazil.pdf
⁵ Economist Intelligence Unit. Brazil. Preventative Care and Healthy Ageing a Global Perspective. [Online] last accessed 07/05/14

5. A flexible transition to retirement

The traditional view of a 'cliff edge' retirement, where workers reach a certain age and stop paid work altogether is no longer expected in Brazil. Only one-in-four employees (24%) believe that they will stop working altogether and enter full retirement. In Brazil half (51%) expect some sort of transition, either by changing the way they work (e.g. working part-time or on temporary contracts) before eventually giving up paid work (30% envisage this), or by changing work and continuing in some capacity throughout retirement (21%). A further one-in-six (16%) believe they will keep working as they currently do.

Chart 11: Most Brazilian workers do not expect to immediately retire altogether and enter fully retirement

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=867)



For many workers, as they get older working to the same energy levels or in the same role or occupation may no longer be an option. Employers increasingly need to help employees alter their roles and responsibilities, where appropriate. One example may be those workers whose jobs require considerable physical exertion. The evidence globally is that employers do not provide their employees with sufficient options for working later in life. This is also the case in Brazil, although to a slightly lesser extent. For example, only one-in-four (25%) Brazilian workers claim their employer offers work more suitable for older workers (e.g. less stressful or physically demanding work), and 18% are offered the option to move from full-time to part-time working. One-in-four (24%) are offered financial advice, and the same number are offered employer provided healthcare in retirement.

Just two-fifths (41%) of Brazilian employees believe their employer provides them with enough information and support to help with retirement planning. Half (49%) believe this not to be the case. Encouragingly, however, 20% believe more is being done than three years ago, only 11% saying that in fact the opposite is true. Nevertheless, 39% believe that there has been no difference in the provision of information and support.

Chart 12: Retirement phasing services are relatively more commonplace in Brazil than other countries, although none of commonplace

Q. Which, if any, of the following services does your employer offer to help employees phase in retirement?
 (Base: Not fully retired, n=900)

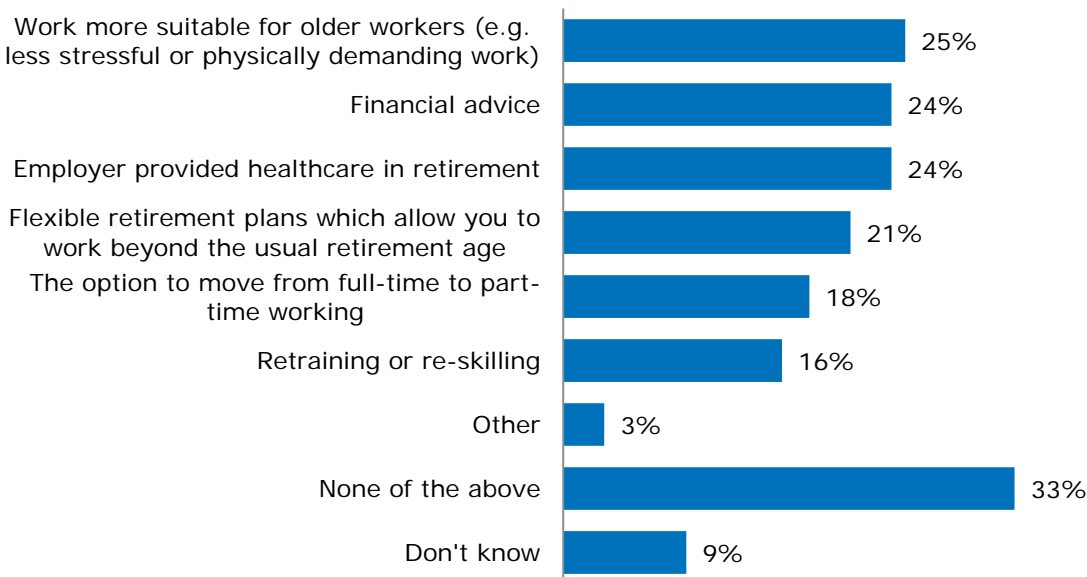
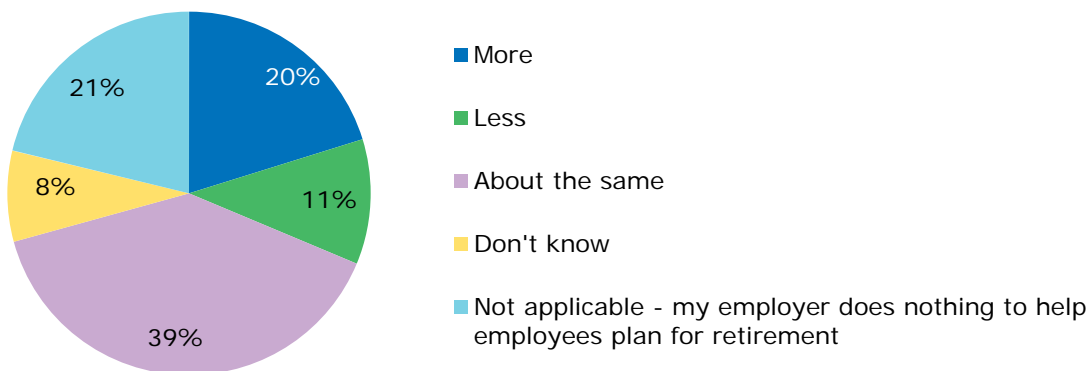


Chart 13: There is some evidence that employers are doing more to help employees phase into retirement

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: Not fully retired, n=900)



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