India Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings and recommendations

- **Retirement associations are positive:** Indians are more likely to associate retirement with positive terms such as ‘freedom’ (39%) and ‘enjoyment’ (36%) than negative words such as ‘insecurity’ (16%) and ‘loneliness’ (16%).

- **Retirement planning is strong but can be improved:** The majority of workers (80%) have a retirement plan, however only 18% claim to have a plan that is written down. One-sixth (18%) do not have any plan at all.

- **Auto-enrolment is very appealing to Indians:** Given the option to be automatically enrolled in a workplace pensions and contribute 6% of their salary, 78% say they would find this appeal. The mean amount that employees would find reasonable to contribute to a workplace auto-enrolment plan is 8.5% of salary.

- **A flexible transition to retirement will be the new norm:** The majority of Indian workers (58%) plan to change the way they work, whether through temporary or part-time work, once reaching retirement age. Only 18% will immediately stop working and enter full retirement.

- **India ranks first in retirement readiness:** In the country’s first year participating the survey, India scores of 7 out of 10 on the Aegon Retirement Readiness Index and is placed first in our global ranking. A ’medium’ score, this indicates that the typical Indian worker with internet access is moderately prepared for retirement.

- **Widening pensions coverage through automatic enrollment:** Having put in place reforms to create a retirement savings framework which provides funded DC retirement plans across both public and private sector employees, India needs to continue with this process of reform. Given the experience in other countries, automatically enrolling employees into workplace pension arrangements could play a significant role in achieving the need for wider private pension coverage.

- **Developing simple savings and investments which help people manage long-term finances:** India has witnessed unprecedented improvements in household income levels in recent decades which means Indians are increasingly able to save for their long-term finances and undertake retirement planning. Policymakers need to facilitate this process through encouraging the further development of third pillar (personal) pension products and other long-term savings products which can help Indians to manage long-term investment risks and meet future retirement income needs through offering guaranteed pay-outs. The need to create simple savings and investment products should be a key consideration in this process as well as the need to ensure that these products are appropriately incentivized through the tax system.

- **Developing a broader understanding of financial planning needs through a national financial education program:** While many Indians are clearly positive about their outlook for retirement it remains the case that people require much greater knowledge about retirement planning to help them keep up to date with product and investment decisions in what is likely to be a fast changing market place in the coming years. Building general levels of financial awareness, and in particular, awareness about retirement planning choices and the requirement to consider annuities and other income generating options in retirement should be a major priority for policymakers.

The Survey

The findings used in this report are based on the responses in India 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 India 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 Indian 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 India

2014 is the first year that India is participating in the Aegon Retirement Readiness Survey. The country is placed first in our Aegon Retirement Readiness Index (ARRI) rankings, ahead of BRIC counterparts, Brazil and China. While this position reflects the dynamism common to emerging markets, it is no doubt also linked to the strong savings cultural engrained in Indian society. The economy is young and vibrant; and many Indians are optimistic of future prosperity.

As this survey finds, those in India who have access to a pension are largely confident about retirement. Yet this group represents only a minority of a population that, in a broader sense, faces much more extensive challenges to retirement readiness. The economy hosts a large informal sector of which many workers have little means to participate in formal savings plans. Instead individuals at risk of poverty in old age must rely solely on savings and the family as a means of support. In addition, the equity of the benefit system is eschewed in favour of public sector workers. Only until the last decade was the generous public sector pension scheme made to require contributions by recipients - a plan that placed intense financial burden on the public purse.

As social welfare was prominent in discussions of the national elections this year, the role of pensions in poverty prevention is an obvious area where improvement can be made. The extension of the National Pension System (NPS) to all citizens and the establishment of a subsidy for low-income earners (NPS Lite) has made headway towards this goal. Yet uptake of NPS remains low and highly concentrated in the public sector.[1] In the period of prosperity that drives young Indians optimism for the future, the challenge for retirement readiness will be to distribute these gains among all of society.

[1] *Towers Watson. India: New pension Law Enhances Framework for national Pension System. Global News Briefs, Sept 26 2013. http://www.towerswatson.com/en/Insights/Newsletters/Global/global-news-briefs/2013/india-new-pension-law-enhances-framework-for-national-pension-system*

2. Retirement aspirations and expectations

Respondents in India are amongst of most positive of all the countries surveyed, both with regard to expectations for the economy and their own financial situation in the next 12 months. For example, 48% expect the economy to get better during this time, and 34% expect it to stay the same. Furthermore, 57% expect their own financial situation to get better and 33% expect it to remain the same. Nearly twice as many Indians are positive on both measures than the global averages of 28% and 31% respectively. This relatively positive mood also extends to how Indians see future generations of retirees- nearly half (45%) believe that future generations of retirees will be better off than those currently retired, with only 18% expecting them to be worse off.

Chart 1: Expectations for both their economy and their own financial situation are far more positive than negative

Q. Thinking ahead over the next 12 months, do you expect the economy in India to...? (Base; All respondents, n=1000)
Q. Thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base; All respondents, n=1000)

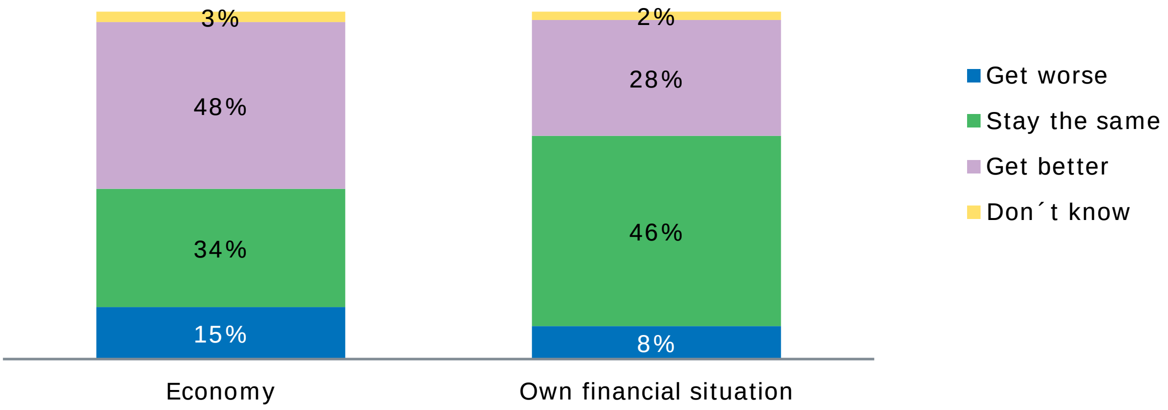
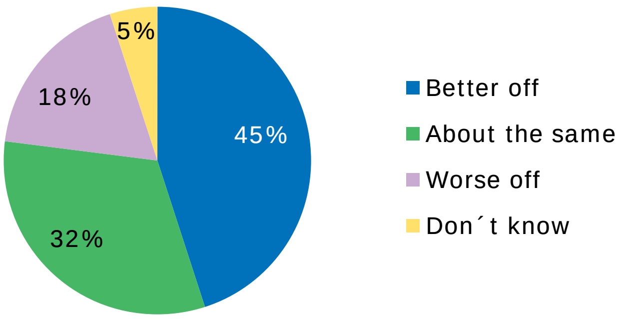


Chart 2: Future generations of retirees are expected to be better off

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)



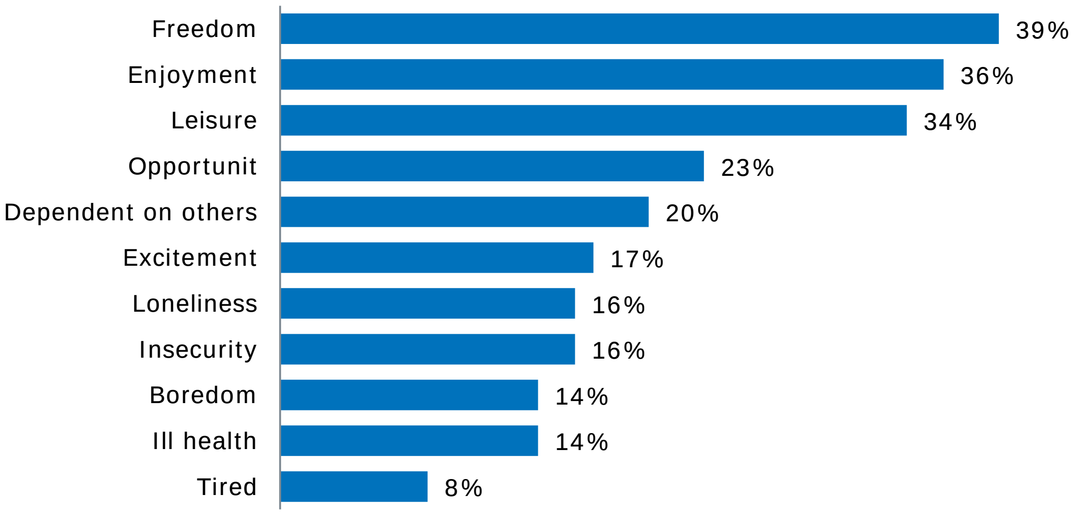
The relatively positive mood is reflected in the attitudes that Indians have towards retirement. When asked which words they most associate with retirement (from a list), 73% chose at least one of the positive words offered, although 48% do have negative associations. The most common word associations are: Freedom (39%), Enjoyment (36%), and Leisure (34%). However, for 20% retirement is associated with being 'dependent on others' and for 16% each with insecurity or loneliness.

Nearly two-thirds (62%) aspire to spending more time with friends and family in retirement, whilst 53% expect it to be a time of travelling. More than in any country surveyed, nearly half (46%) look forward to volunteer work and a further 22% expect to continue working in the same field.

Overall, 37% of workers are confident that they will be able to fully retire with a lifestyle they consider comfortable (double the global average of 19%), although one-in-five (20%) are either not very confident or not at all confident. These figures are fully supported by fully retired Indians, 43% of whom are confident that they will always be able to live in retirement comfortably.

Chart 3: Retirement associations in India 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)



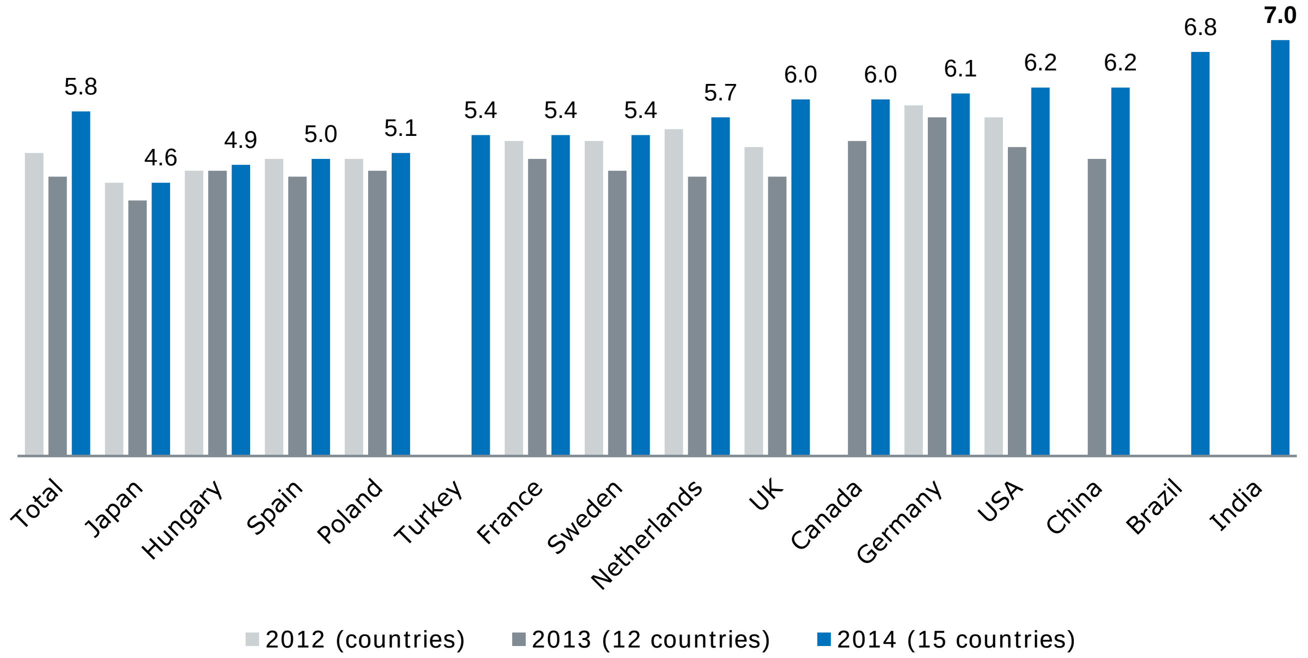
3. Planning for retirement

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 behavioural 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 India Index score of 6.96 is the highest of all 15 countries surveyed, although this means that an 'average' or 'typical' Indian with online access has only a 'medium' level of retirement preparedness.

Chart 4: India ranks first in retirement readiness in 2014



India's relatively high index score is not down to any particular predictor question. On all six measures the Indian mean scores are above average, although on two of the behavioural measures (retirement planning and financial preparedness) Indian scores are particularly high. Furthermore, nearly half (49%) of the Indian employees surveyed claim to be habitual savings, compared with 38% of the global sample.

Despite the relatively positive picture in India, only 18% of Indian employees claim to have a retirement planning strategy that takes the form of a written plan. The majority (61%) claim to have a plan, but not one which is written down. Just 18% claim to have no plan, much lower than the 40% reported globally. Just over half (53%) claim to have a back-up plan in case they are unable to continue working before planned retirement age is reached. For three-quarters (74%) of those with such a plan, savings will be used.

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

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

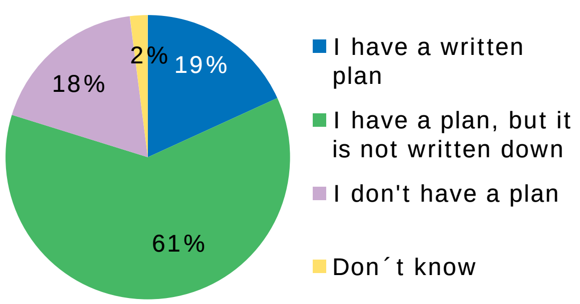
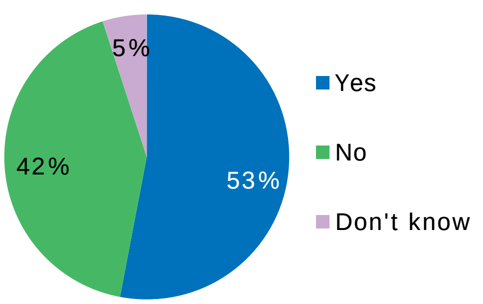


Chart 6: Half of Indian workers claim to have a 'back up' plan in the event that they are unable to continue working before their planned retirement age

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)



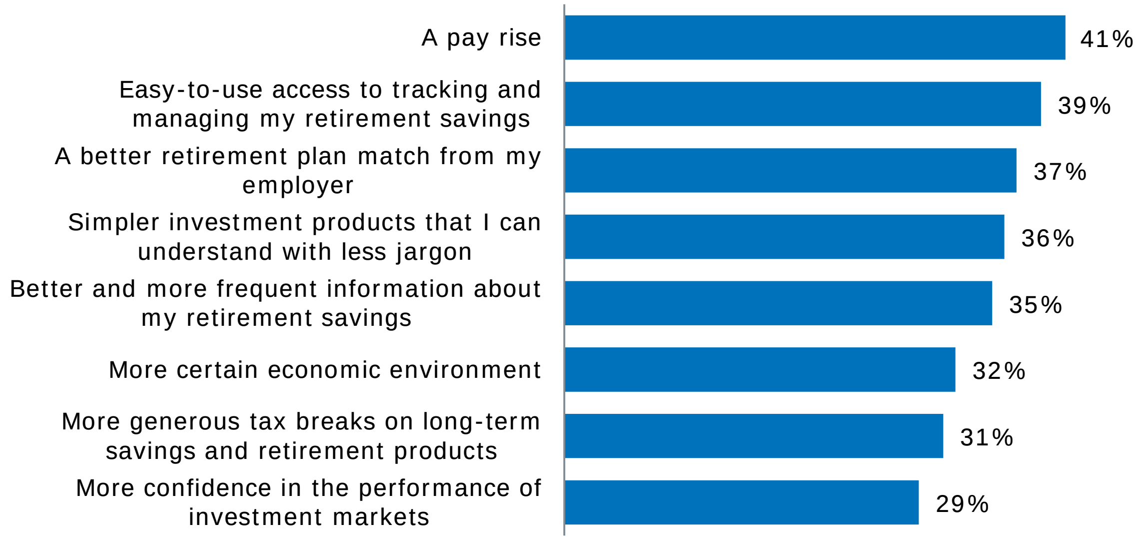
Indians (both workers and those already fully retired) are using a range of instruments to invest in for retirement. Fixed deposits (59%) and Life insurance (54%) were mentioned by over half of those surveyed. Other popular instruments include: provident funds (47%), gold (41%), property (40%), pension funds (NPS) (37%), and mutual funds (35%). Generally, National Pension Savings (NPS) are seen as at least as safe as both the Government Pension scheme and bank fixed deposits. Interestingly, twice as many Indians would choose a 'lower return, guaranteed' pension over one that offered higher returns but more uncertainty (62% vs. 31%).

4. Making saving easy

Most Indian workers (65%) say that a lack of money to invest is an obstacle to saving for retirement. A pay rise would encourage 41% to save for retirement. Furthermore, In India easy-to-use access to tracking and managing retirement savings would encourage a similar number (39%) to save, whilst 37% would do so if they received a better retirement plan match from their employer.

Chart 7: There are many factors in India which would encourage saving 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 as well as the willingness of employees to look towards their retirement, something which may be decades away. Auto-enrolment is something that has been discussed in many countries, and this year we gauged the views of workers towards its possible introduction.

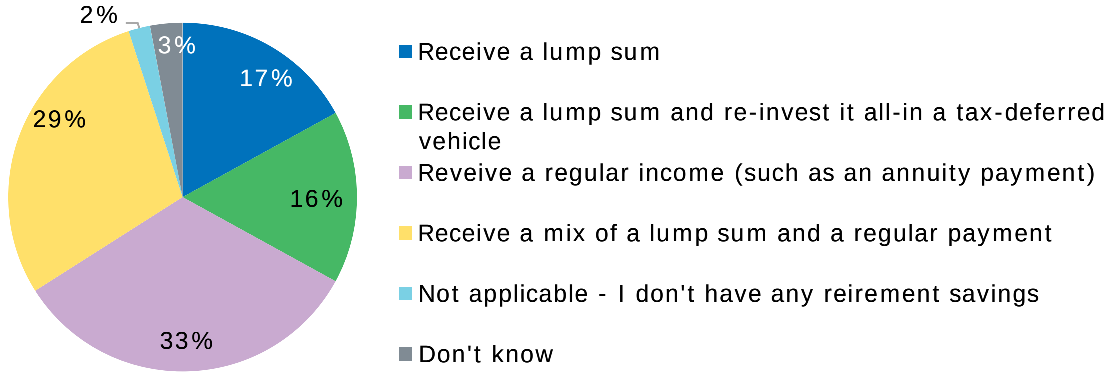
Respondents were asked to imagine that they were automatically enrolled in a workplace pension and asked what proportion of their salary or wages would be a reasonable amount for, firstly, them to contribute and, secondly, their employer to contribute. The mean percentage regarded as reasonable for employees to contribute is 8.45%, exactly 2% higher than the global average. The mean percentage regarded as reasonable for employers to contribute was 9.07% (globally, 7.86%).

So the evidence in India is that auto-enrolment is regarded as a reasonable way of saving for retirement. This was further supported 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, 78% find the proposition either very or somewhat appealing, with only 8% regarding such a scheme as unappealing. Given that Indians regard higher than global average contributions as reasonable, it is not surprising that the 78% is significantly higher than the 63% global figure.

With an appetite for retirement saving clearly established, it is encouraging to note that when retired most workers would use their retirement savings responsibly. Only one-in-six (17%) would prefer to receive a lump sum that (presumably) would not be re-invested. Whilst a similar proportion (16%) would want to receive a lump sum and re-invest it all in a tax-deferred vehicle, the majority (61%) would either prefer to receive a regular income (such as an annuity payment (33%) or receive a mix of a lump sum and a regular payment (29%).

Chart 8: Most Indian workers 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)*



Several factors should contribute to strong potential demand for annuities in India. A prominent savings culture serves as a base retirement preparation and increases in life longevity after the age 65 mean that savings need to last for longer than in the past. The National Pension System also already mandates unitization of 60% of savings. Yet despite these favourable conditions the use of annuities in India remains relatively uncommon. Last year for example annuities represented just 6% of all insurance policies underwritten.[2] The annuities market would benefit from tax incentives that are currently lacking, and certain regulatory burdens limit the profitability of offering these products.

Two provident funds operate in India: the Employee's Provident Fund (EPF), a mandatory scheme for private sector workers and the largest fund in the country; and the Public Provident Fund (PPF), a statutory scheme operated by the State Bank of India open to any resident citizen. Provident funds have historically provided rates of return which struggle to match inflation. Between 2007 and 2012 only in one year did the interest on EPF savings rise above 8.5%. Meanwhile the PPF fluctuated between 9% and 8% - much lower than the 12% seen the 1990s. In contrast, at 10% last year, inflation in India is among the highest in Asia; a problem which is eroding household budgets and weakened growth.[3] Economists have noted a shift in the composition of household savings away from financial instruments.

[2] *International Monetary Fund. India: Financial Sector Assessment Program- Detailed Assessment Report on IAIS Core Principles. IMF Country Report No. 13/265, August 2013. [Online] last accessed 06/05/14 http://www.imf.org/external/pubs/ft/scr/2013/cr13265.pdf*

[3] *BBC. India raises interest rates rise to stem inflation. Jan. 28 2014. [Online] last accessed 06/05/14 http://www.bbc.co.uk/news/business-25923743*

Both overall savings and financial savings rates declined in 2013, with household savings averaging 22% of GDP. Household savings have shifted towards physical investments such as gold and real estate in recent years because of the negative impact of inflation and lower returns on bank deposits, stocks and insurance.[4]

The equity of retirement provision across the public and private sector in India is notably eschewed. Historically, public sector workers benefited from a generous pension system that was funded through taxation on a pay-as-you-go basis, meaning that civil servants were not required to pay into their own pension pot. The Civil Servants Pension was a defined benefit (DB) scheme covering government workers recruited up to 2003. The plan was designed at a time when life expectancy extended only 8 years after the age of retirement and encountered major financial as life expectancy improved. Between 1990-91 and 2006-07, the annual expenditure of the CSP rose from Rs. 32.72 bn to Rs. 306.27 bn.[5] This cost was a main cause of the government's implementation of the National Pension System (NPS), which is a funded DC pension scheme.

NPS is mandatory for government employees, with the exception of the armed forces, and available to all citizens on a voluntary basis. Returns on NPS savings have tended to be higher the EPF that covers private sector workers. In the 2012-13 fiscal year state and central government plans had a return of 12.39% and 13%, respectively, while last year's returns ranged from 12% to 14%.[6] The success of the NPS has been linked to the plan's freedom of allowing exposure to equities.[7] The EPF and PPF are prevented from investing in equities on the premise that guaranteed lower returns are preferable to potential higher returns at greater risk.[8]

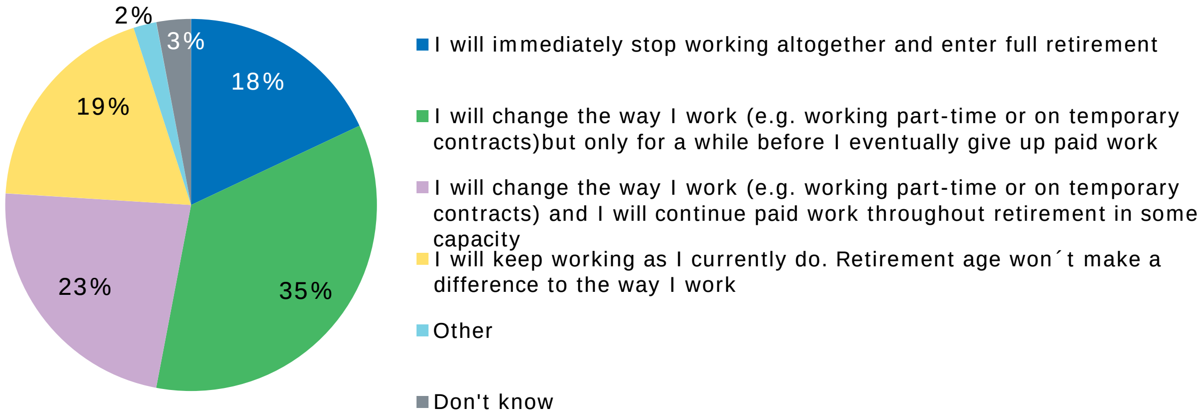
5. A flexible transition to retirement

The traditional idea of a 'cliff edge' retirement, whereby people reach a certain age and stop paid work altogether, is something that most workers in nearly all the countries surveyed no longer expect. India is no exception. Only a small minority of Indian employees (18%), believe that they will stop working altogether and enter full retirement, much lower than the global figure of 32%. In India the majority (58%) 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 (35%), or by changing work and continuing in some capacity throughout retirement (23%). A further 19% believe they will keep working as they currently do, nearly double the 10% reported globally.

[4] Financial Express. Budget 2014 : India's falling savings, inflation, investments and returns. Feb. 18 2014. [Online] last accessed 06/05/14 http://www.financialexpress.com/news/budget-2014-indias-falling-savings-inflation-investments-and-returns/1226932/1
[5] Swarup, Dhirendra. The reform expereince of India: widening coverage in a sustainable and equitable way. IMF. [Online] last accessed 08/05/14 http://www.imf.org/external/np/seminars/eng/2013/oapfad/pdf/swarup_ppr.pdf
[6] The Economic Times. Planning for retirement? National Pension Scheme may be worth a second look. Jun. 2014, 2013. [Online] last accessed 06/05/14 http://articles.economictimes.indiatimes.com/2013-06-14/news/39976403_1_nps-funds-nps-national-pension-scheme
[7] Money Today. High on Interest. Febuary 2014. [Online] last accessed 06/05/14 http://businesstoday.intoday.in/story/employee-provident-fund-to-earn-higher-interest-in-2013-14/1/202665.html
[8] Business Standard. Should EPF invest more money in equity? June 29 2011. [Online] last accessed 06/05/14. http://www.business-standard.com/article/opinion/should-epf-invest-more-money-in-equity-111062900085_1.html

Chart 9: Most Indian 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 retired, n=861)



For many workers, as they get older it may be that working at the same energy levels or in the same role or occupation may not be an option. Employers may increasingly need to help employees change roles and responsibilities, as 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 true in India, although to a lesser extent. For example, only 32% of Indian workers claim their employer offers work more suitable for older workers (e.g. less stressful or physically demanding work), and 31% are offered the option to move from full-time to part-time working. The same proportion of workers claim they are offered flexible retirement plans which allow working beyond the usual retirement age. Encouragingly, 34% are offered financial advice (compared with 13% globally) and 32% are offered employer provided healthcare in retirement (16% globally).

Just over half (54%) of Indian workers believe their employer provides them with enough information and support to help with retirement planning, although 39% believe this not to be the case. Encouragingly, 27% believe more is being done than three years ago, only 13% saying that in fact the opposite is true. Nevertheless, 46% believe that there has been no difference in the provision of information and support.

Chart 10: Retirement phasing services are relatively more commonplace in India than other countries

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

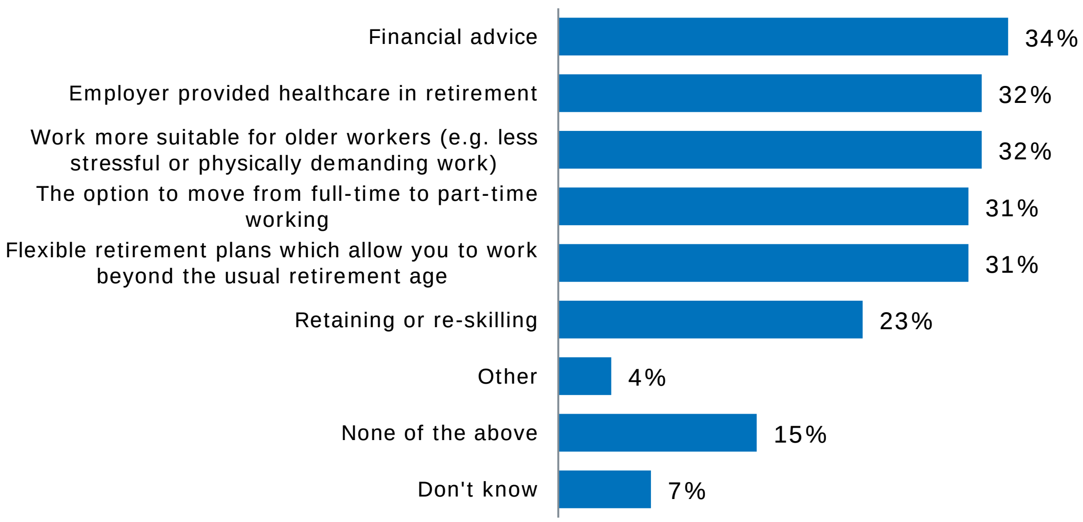
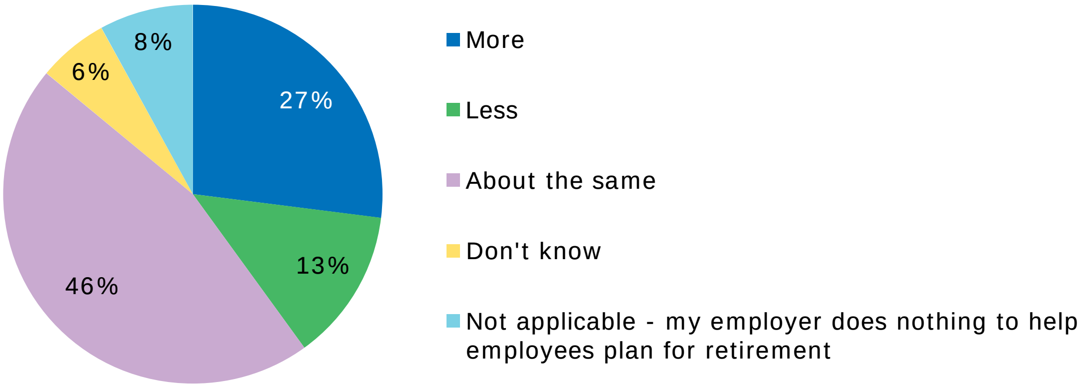


Chart 11: There is some evidence that employers are doing more to help employees phase into retirement

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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