



AEGON

Center for
Longevity and
Retirement



Brazil Country Report

Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

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Introduction

The Aegon Retirement Readiness Survey series explores how increasing life expectancy is having a profound impact on how societies all over the world plan for retirement. It also sets out how this changing financial landscape is impacting people's expectations and aspirations for later life. In Brazil, we find that optimism over retirement is high and that, in the short-term, people view their financial position optimistically. Yet, a lack of sound saving habits remains a significant obstacle to retirement preparation. Through the development of the Aegon Retirement Readiness Index (ARRI), our research is able to quantify what gaps remain for Brazilians to achieve a comfortable retirement. Undoubtedly obstacles exist that are out of the hands of individuals. Economic stagnation limits workers' abilities to set aside funds for the future and shifting demographics will ultimately curb the generosity of state pensions. However the fundamentals remain: saving regularly and early on is the surest means to attaining financial security in later life.

Key Findings

■ **Brazil ranks second in 2015 Aegon Retirement Readiness Index**

With a score of 6.7 out of 10, Brazil is assessed as having a medium level of retirement readiness. Globally, Brazil ranks 2nd out of the 15 countries included in our 2015 survey. Relative to the global picture, optimism in Brazil over the future is extremely high. This is a factor determining the position Brazil in the retirement readiness score, and a trait common among emerging economies.

■ **Brazilians are largely positive towards retirement however important obstacles threaten the future of public pensions**

Many Brazilians feel secure in their preparation for retirement. However as the role of the state in retirement income provision recedes, savers will need to engage with the nascent private pensions market to ensure a comfortable lifestyle in old age.

■ **While most in Brazil understand the need to save for retirement many are failing to put this into action**

The majority of Brazilians feel responsible for ensuring they have sufficient income in later life and understand that personal saving is part of this. However, our research shows that retirement planning has much room for improvement when examined in detail.

■ **Producing a savings landscape that encourages habitual saving is the responsibility of individuals, employers and government**

Key to retirement preparedness is consistent saving from a young age. While individuals need to adopt a savings mind-set, employers and governments play a crucial role in encouraging saving.

1. Brazil's Changing Retirement Landscape

Brazilians enjoy retirement benefits that are among the most generous in the world. Typical to emerging economies, a comprehensive public pension system in Brazil (part of the INSS) is the cornerstone of retirement income for many. Yet extensive benefits in combination with an ageing population and economic torpor have taken a toll on public coffers. Relative to GDP, public spending on pensions in Brazil surpasses many European countries despite having a significantly younger population¹. Reforms that have long been on the political horizon are now coming to the center.

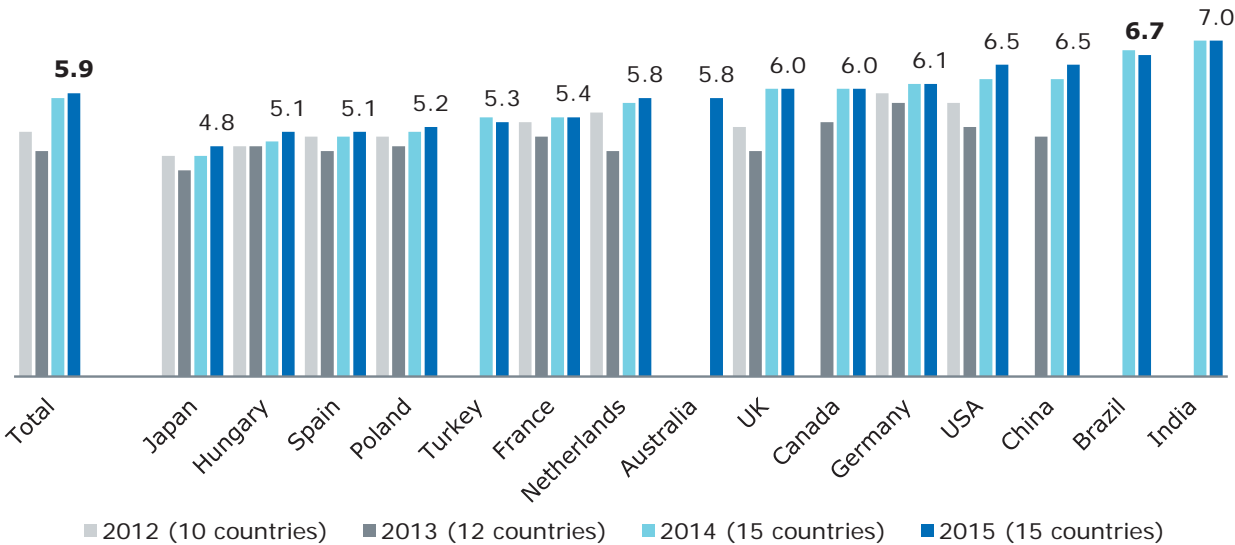
As the government pushes to enact austerity programs aimed at rebalancing the fiscal deficit, pension benefits are a target for tightening. In the future, it is unlikely that state pension plans will maintain the same role in the retirement income provision of Brazilians. Our survey shows that the

outlook on retirement by Brazilians is still very optimistic despite these warning signs. However, if Brazilians are to enjoy the lifestyle in retirement which they are accustomed to, long term savings through occupational plans or private pensions must be encouraged.

The 2015 Aegon Retirement Readiness Index (ARRI) reflects this complex picture of retirement in Brazil. The ARRI was created in 2012 to assess the relative levels of retirement preparedness across employees in all countries included in our survey. Individuals are grouped according to whether they achieve a high index score (8 or above out of 10), a medium score (between 6 and 7.99) or a low score (below 6)². With a score of 6.7 this year, Brazil is second only to India out of the 15 countries surveyed. As this report will show, Brazil's standing is largely attributed to people's overly optimistic attitudes.

Chart 1: Brazil places second in the 2015 Aegon Retirement Readiness Index (ARRI)

I. Index numbered assigned Base: Not Fully Retired (n=14,400)



¹ The Economist (2012) Brazil's pension system: Tick tock
² In 2015 we surveyed a total of 16,000 people in 15 countries around the world. This included 14,400 people currently in work and a further 1,600 people who are already living in retirement. The index is calculated using a group of questions measuring both behavior and attitudes of respondents regarding retirement preparation. For further information please see <http://www.aegon.com/index>

The position of Brazil in the ARRI notwithstanding, there remains hurdles to ensuring that everyone is able to prepare financially for later life. The strength of INSS has meant that Brazilians have not needed to develop savings outside of the public system – effectively crowding out personal and occupational plans. However with reforms approaching, savers may in the future be left with a lack of savings to support themselves in later life. Disturbingly, many in Brazil may be unaware of this peril. While two-fifths (41%)

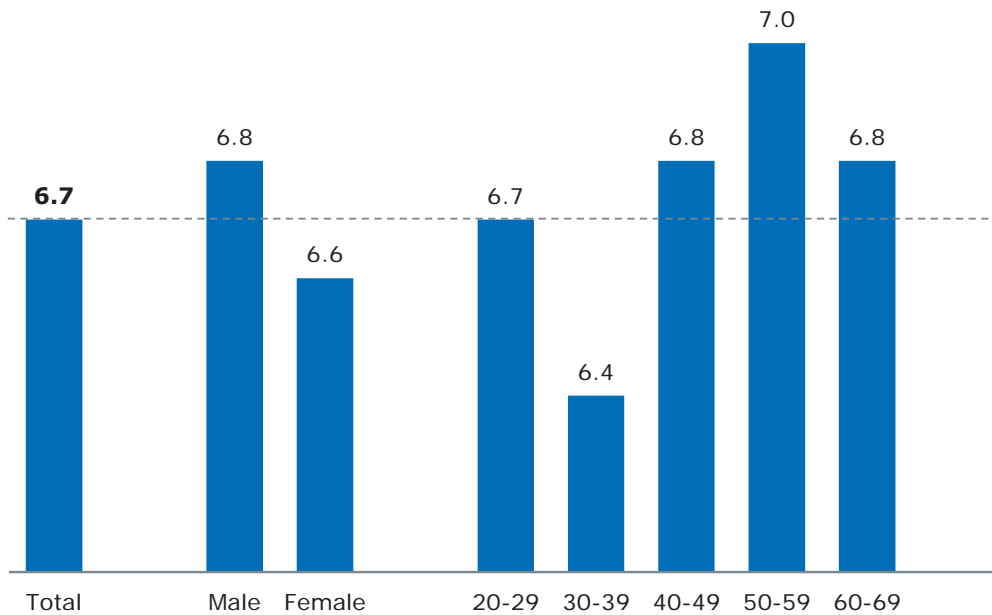
of Brazilians feel that future generations of retirees will be ‘worse off’ than those currently in retirement, over half feel that they will be ‘about the same’ or ‘better off’ (32% and 23%, respectively).

While achieving a medium index score, women and workers in the 30 to 39 year old age band have the most ‘risk’ of experiencing lower levels of retirement preparedness among Brazilians.

“...41% of Brazilians believe future generations will be worse off in retirement than those currently in retirement.”

Chart 2: Women and 30-39 year old workers have lowest ARRI scores in Brazil

I. Index numbered assigned Base: Not Fully Retired (N=900)

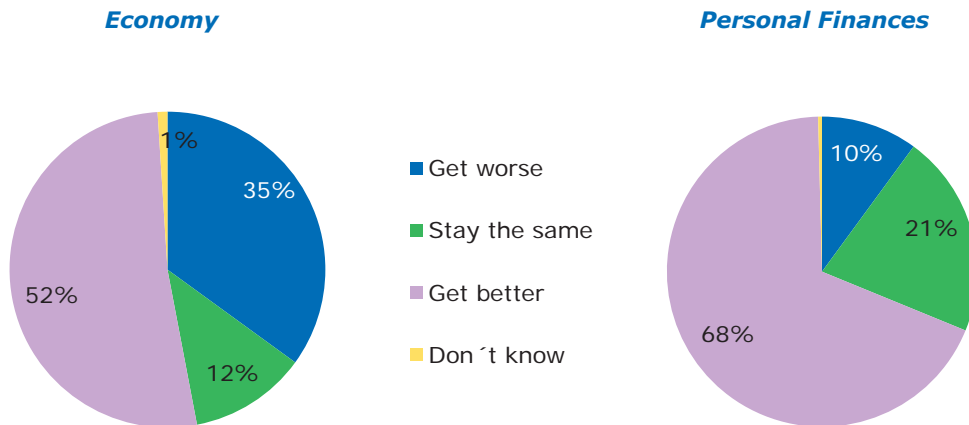


2. Retirement Expectations and Aspirations

Brazilians are notably optimistic towards both the economy and their personal finances. Half (52%) feel that the economy will improve over the next 12 months, and even more (68%) expect their own financial situation to do the same. However, economists recognize that Brazil's economy is in a difficult position. Growth averaged 1.3% over the past four years and many experts forecast economic contraction this year.³ Our research shows that only a small number of Brazilians are aware of these concerns: just one-third (35%) of individuals anticipate the economy worsening over the coming year. Ongoing economic adjustments being implemented by the newly appointed Minister of Finance, Joaquim Levy, have garnered greater attention in recent months towards Brazil's economic performance. While this snap shot of financial awareness is discouraging, the Government's focus on the roots of the economic slowdown may contribute to an improvement in awareness.

Chart 3: Economy and personal finances expected to get better over the coming 12 months

Q. Thinking ahead over the next 12 months, do you expect the economy in Brazil to...? And thinking ahead over the next 12 months, do you expect your own financial situation to...? Base: All Respondents (N=1,000)



While retirement aspirations are similar to the lifestyle of previous generations in retirement - including travel (76%), spending more time with family and friends(62%) and pursuing new hobbies (51%) - work will play a much larger role in the retirement of current workers. At the age of retirement, only one-quarter (24%) of workers will immediately stop work altogether.

Even though many people expect to work in some capacity beyond retirement age, Brazilians maintain a largely positive view of retirement.

Indeed there are many benefits to extending one's working life beyond normal retirement age. These benefits include enjoying greater financial, physical and mental well-being as people are able to keep active for longer, earn more money and can keep saving. When asked what words they associate most with retirement, freedom (45%), leisure (44%), and enjoyment (30%) topped the list. Less than half 46% view retirement negatively, most common negative associations include insecurity (20%), tired (15%) and ill health (15%).

³ The Economist (2015) Brazil's coming recession: The crash of a titan

Chart 4: Most Brazilians expect an active retirement

Q. Which, if any, of the following are important retirement aspirations for you? Base: All Respondents (n=1,000)

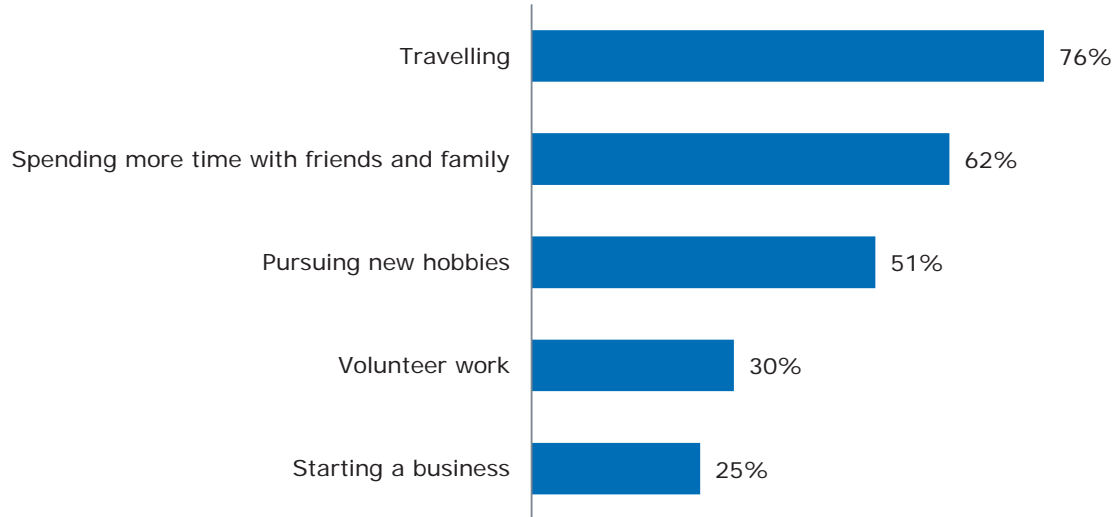


Chart 5: Retirement is generally viewed positively

Q. Which, if any, of the following words do you most associate with retirement? Base: All Respondents (n=1,000)

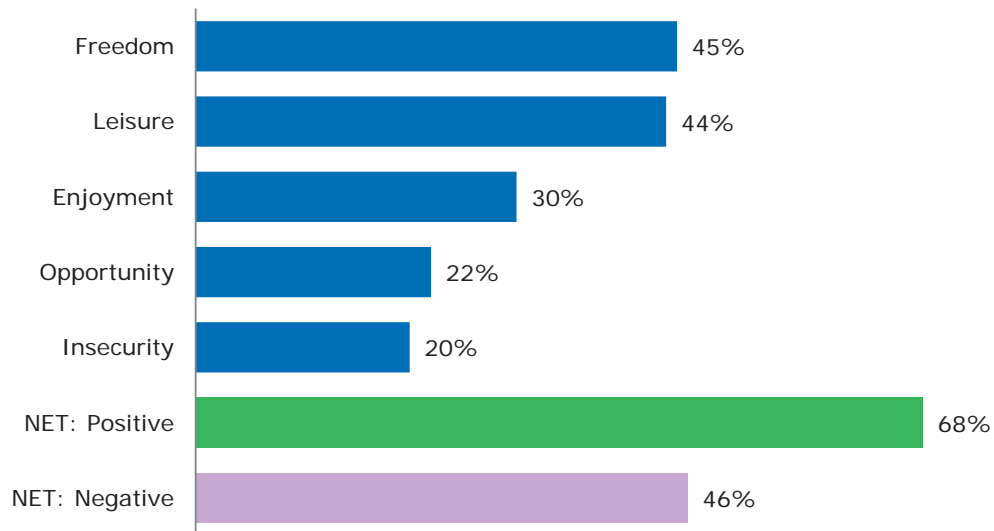
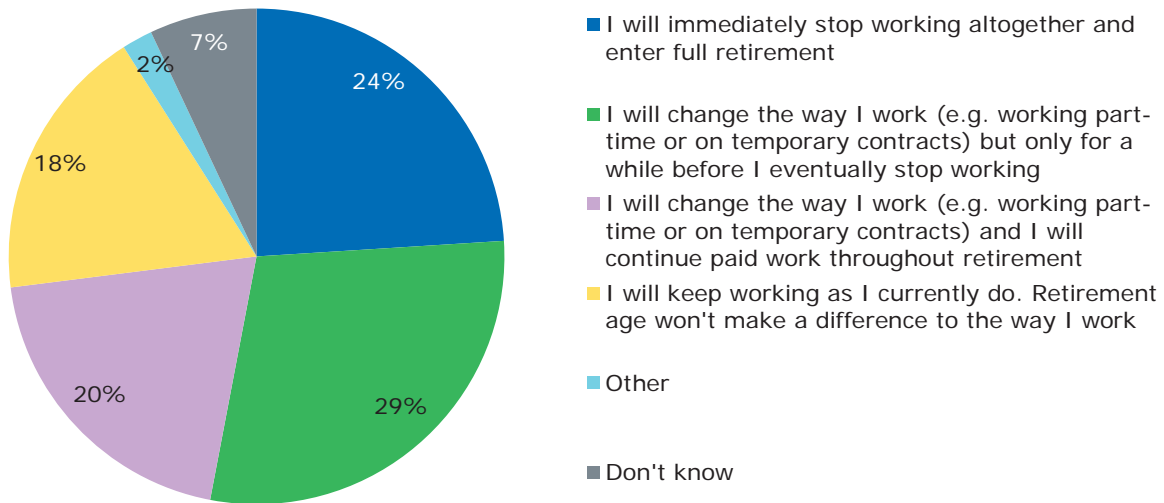


Chart 6: Working into retirement will be the new norm

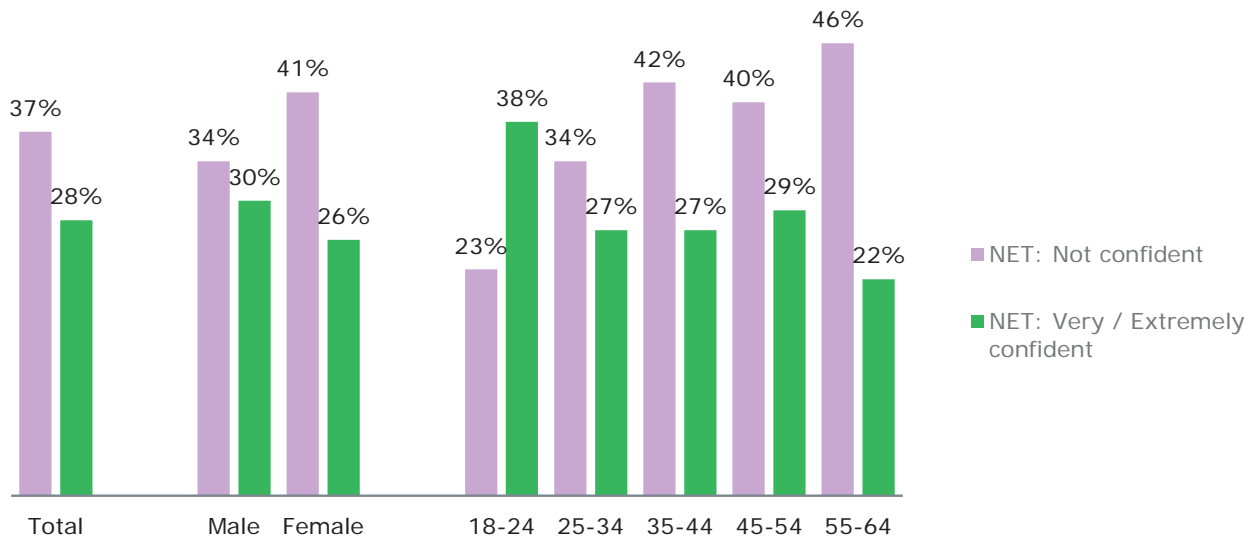
Q. Looking ahead, how do you envisage your transition to retirement? Base: Not Fully/ Semi Retired (n=868)



While people hold largely positive views about what they expect from retirement, the financial burden of preparing for that retirement is still a major cause for concern. Many doubt that the security they envisage in later life will become a reality. Just 28% of workers are very or extremely confident that they will retire with a lifestyle they consider comfortable.

Chart 7: Over three-fifths not confident they will retire with a comfortable lifestyle

Q. Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable? Base: Not Fully Retired (n=900)



3. Retirement Saving and Planning

In Brazil, there is seemingly a disconnect between employees' levels of financial awareness and their actual savings behavior. Most workers (79%) feel personally responsible for ensuring they have a sufficient income in retirement. A slightly greater number (82%) are aware of the need to plan financially for retirement. However it is clear that this has not translated into effective savings habits being adopted. A likely cause relates to extensive benefits of the social security pension program. As traditionally many retirees have been able to rely on the government as a primary source of retirement income, private savings went over looked when preparing for retirement. Current workers are seeing a transition take place in the role of the government from being a provider of income to a facilitator of savings. Our survey shows that people's savings habits may take time to adjust to this change.

Looking into the details of workers' retirement plans, we find that more than one-quarter (28%) do not have any retirement plan at all and just 23% have a written plan. This is in spite of the fact that a majority (57%) describe their retirement planning process as somewhat or very well developed, and more than two-fifths (44%) feel they are prepared in terms of how much they are putting aside for retirement. When it comes to the reality of retirement planning, the truth is less inspiring than workers' initial sentiment towards their progress. Just one-third (35%) feel that they are actually on course to achieving the income they expect to need in retirement.

Chart 9: Majority of Brazilian workers are aware of the need to save for retirement ...

Q. How would you rate your level of awareness on the need to plan financially for your retirement?
Base: Not Fully Retired (n=900)

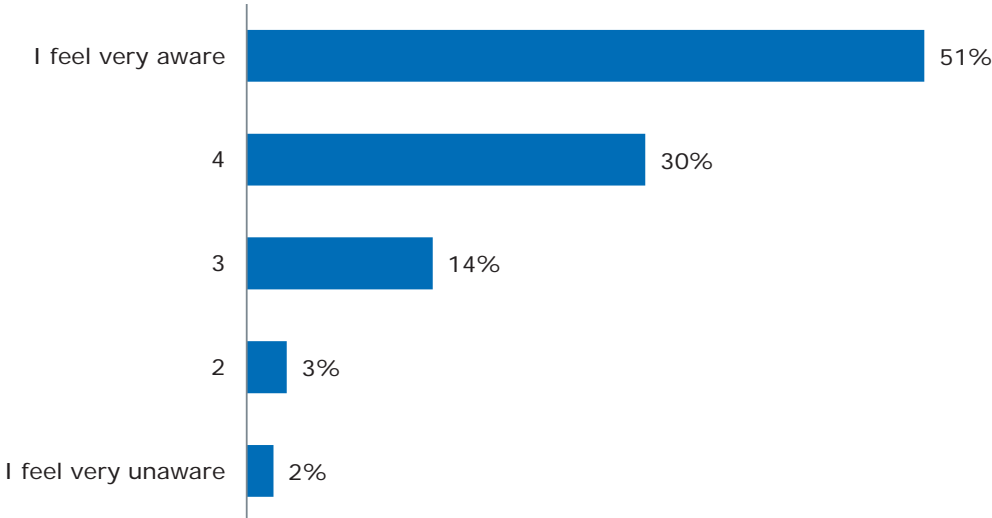
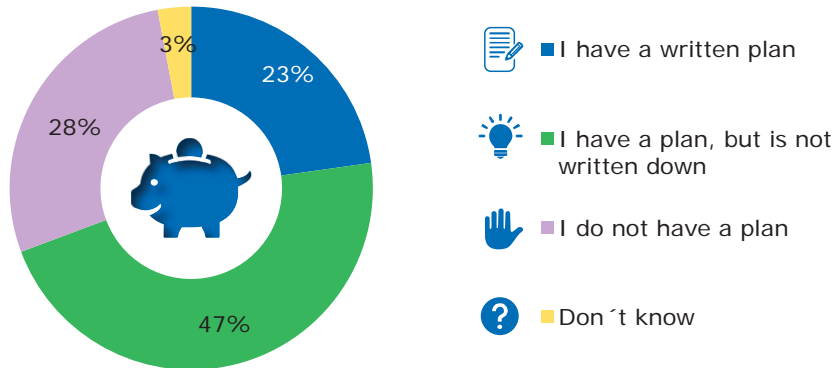


Chart 10: ... Yet few have made formal plans for retirement

Q. Which of the following best describes your retirement planning strategy? Base: Not Fully Retired (n=900)



When making financial plans for the long-term it is clear that people need to think beyond the obvious. Unexpected events such as periods of illness or unemployment, for example, have the potential to derail retirement preparation, so it is important that planning involve a backup plan. Currently half (49%) of workers in Brazil do not have alternative arrangements in place if they were unable to work prior to retirement. Yet further concerning is that of those who do have backup plans, the most common strategy is to dip into accumulated savings (57% of workers with a backup plan expect to resort to drawing on savings). If workers are to prevent the potential detrimental impacts of these events, adjusting savings habits early on is key.

Chart 11: Over two-fifths of Brazilian workers have a backup plan for retirement

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)

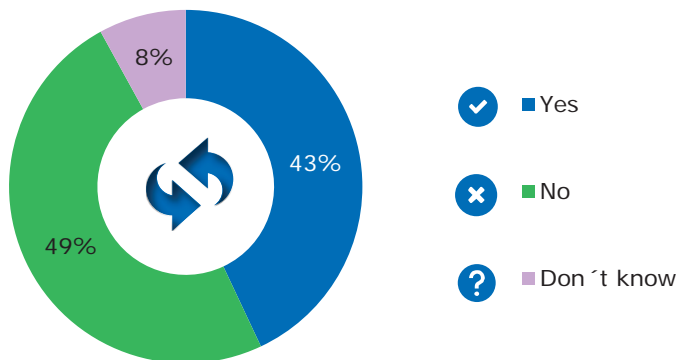
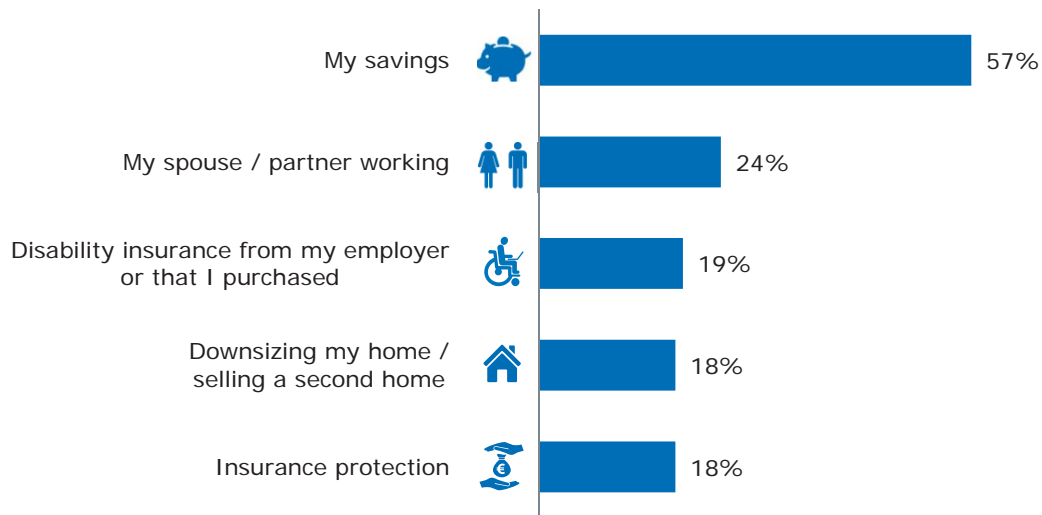


Chart 12: Most often backup plans involve dipping into savings

Q. Which, if any, of the following are part of your "backup plan" for an income in the event that you are unable to continue working due to ill health or job loss? Base: Have "Backup Plan" (n=391)



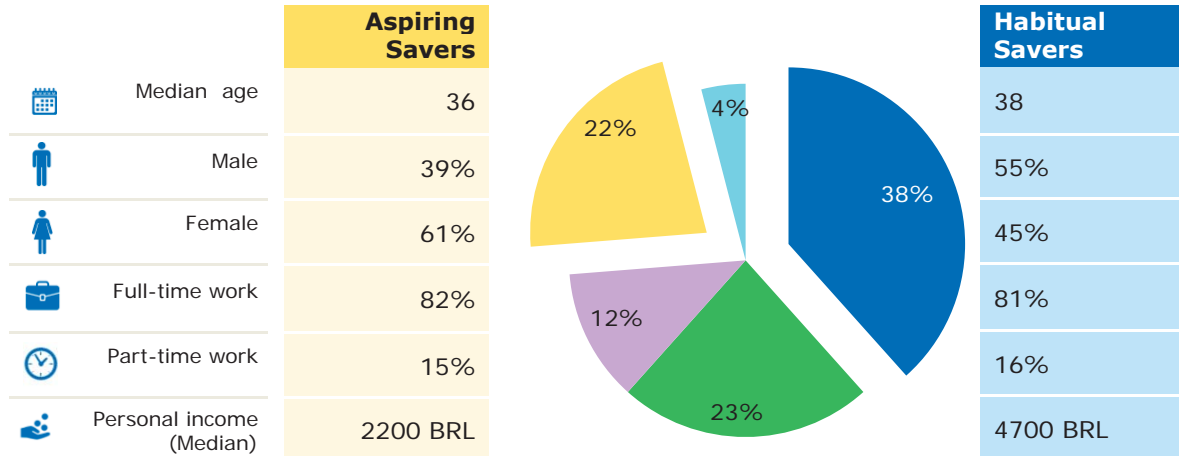
4. The Retirement Savings Habit

As individuals become increasingly responsible for planning and funding their own retirement, personal savings habits take on an even greater role in overall financial preparedness. Our findings reveal that not only do workers need to take steps to start saving, but also to maintain consistent saving over time.

There is a group of savers, those who save consistently, that is scoring the highest in the Brazil ARRI. This group is more likely to have a formal savings plan and feel confident that they are both setting aside enough for retirement and will enjoy a comfortable lifestyle in retirement. When comparing these savers with those who put money aside less frequently, the results are clear: saving consistently even in small quantities, is the best way to improve your readiness.

Chart 13: Habitual and Aspiring Savers are key to improving retirement readiness

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



- HABITUAL SAVERS - I always make sure that I am saving for retirement
- OCCASSIONAL SAVERS - I only save for retirement occasionally form time to time
- PAST SAVERS - I am not saving for retirement now, although I have in the past
- ASPIRING SAVERS - I am not saving for retirement though I do intend to
- NON-SAVERS - I have never saved for retirement and don't intend to

Chart 14: Retirement outlook and planning – Habitual and Aspiring Savers

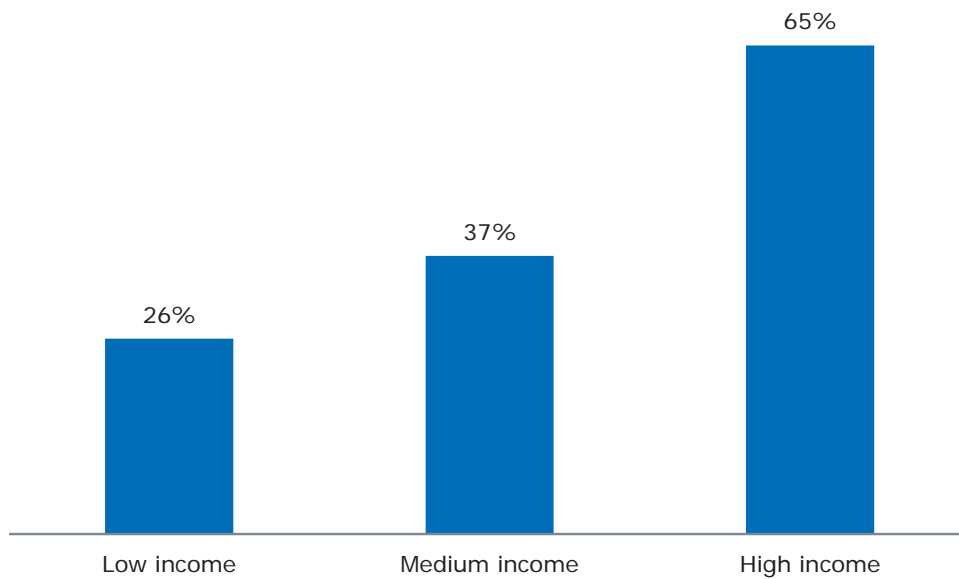
	Aspiring Savers	Habitual Savers
ARRI score	4.9	8.0
Positive associations with retirement	65%	74%
Confident of retiring with a comfortable lifestyle	16%	43%
Optimistic about maintaining good health in retirement	60%	80%
Have written plan for retirement	4%	42%
Have backup plan for retirement	23%	58%

Yet the biggest opportunity lies not in those who have already adopted successful savings habits, but in the aspiring savers who with knowledge or guidance are ready to take ownership of their financial future. It is here where automatic enrolment is potentially having the most profound impact. These Aspiring Savers, typically women and younger workers, may be finding saving challenging due to constraints such as lower income or less access to workplace pension schemes. Creating a pensions landscape which helps convert aspiring savers in to actual savers (and Occasional Savers into Habitual Savers) should be the goal of all employers, governments and individuals. The starting point is to understand the needs of these diverse groups and remove the barriers to planning and preparing for retirement.

Our research shows that while income can be a barrier to saving for retirement, successful savings habits can still be achieved even with modest earnings. Examining the proportion of Habitual Savers across income bands, we find that one-quarter (26%) of lower income earners (defined as up to 1,499 BRL per month) consistently save for retirement. However, by the middle income band (1,500-10,899 BRL) this rate increases to nearly two-fifths (37%). What is important is that individuals adopt a savings mind-set – even at higher income bands not all earners are consistently putting aside money for retirement. While a financially comfortable retirement may not require higher level earnings, taking ownership of one’s savings is a crucial step.

Chart 15: Habitual Savers by income band - Brazil

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



Facilitating employees to adopt successful savings habits requires a shared approach among individuals, employers and the government. The government has an opportunity to transition as primarily a provider of retirement income into a facilitator of private savings. As reforms are underway towards streamlining occupational pensions of public sector workers, the nascent private pensions market in Brazil is in a position to play a much larger role in Brazilian's retirement preparation. Policies such as auto-enrolment into occupational pension plans have produced positive results internationally. Auto-enrolment eliminates a substantial psychological barrier to saving by removing the need to make a decision on whether to opt-in to a workplace pension. And most Brazilians agree that this would be a good thing: 78% say that the government should encourage employers to automatically enroll their employees into a retirement plan.

Furthermore, among the Aspiring Savers – where we find more women and young individuals – 77% said that they would find the prospect of being automatically enrolled into a workplace pension scheme with a contribution rate of 6% of salary appealing to them. Support remains high even when the level of contributions is raised to 8% of salary where we find that 70% of Aspiring Savers would still support the idea. This illustrates that the prospect for introducing auto-escalation, where contributions levels increase slowly over time, is unlikely to have a major impact on dissuading Aspiring Savers from joining a pension plan or remaining within their current pension plan even if the default contribution level is increased.

This shows that the workplace remains a vital channel for improving retirement savings habits. This is supported further by other findings. For example, receiving a pay raise is the biggest single trigger point that would encourage people to save for retirement. In total, 45% of workers said that this would prompt them to save. Clearly, employers and employees are likely to know for months in advance when the annual pay review is due: employers can seize on this opportunity to give their employees a gentle reminder or 'nudge' towards the benefits of long-term saving. Many services that are currently underutilized such as educational materials (only 18% of employees are currently offered these in their workplace), and in person or face-to-face meetings with advisers (16%) could be effective ways of overcoming inertia.

As workers expect to stay in the labour force longer and transition into full retirement more slowly than previous generations, it is important that the workplace adapt to this change. Employers can do this through a range of support offered to their workforce, in particular through policies to improving the vitality and wellbeing, alongside policies to improve access to employment. Examples include subsidies for gym membership or education, as well as work place sponsored activities such as fun runs.

Working longer further has the benefit of solidifying retirement savings pots and extending active years into later life. Moreover employers benefit from the additional access to expertise gained throughout a full career. But we find that overall employers can do more to improve their offering of transitional phase benefits. For example, less than one-third (29%) of workers say their employer offers them the option of a phased retirement or other employer programs providing for a transition into retirement.

Chart 16: Access to retirement-related workplace benefits

Q. And which of the following does your current employer offer you? Base: Not Fully Retired (N=900)

Ability to work past the normal retirement age	58%
Flexible working hours	53%
Life insurance/death in service benefits	48%
Retirement plan with employer contributions	44%
Retirement plan without employer contributions	30%
Phased retirement or other employer programs providing for a transition into retirement	29%
Stock purchase plan	21%

Recommendations

Individuals

- Individuals should take ownership of their financial future. Take steps to learn about retirement finances and make a plan to meet these goals. Saving consistently, even in small amounts, is the best way to ensure retirement readiness.

Employers

- Employers can increase the power of their workplace education programmes by timing their messages to important trigger points, like awarding a pay rise. Timing financial education to a pay raise is also an efficient way to encourage consistent saving.
- Employers are encouraged to adopt workplace and benefit policies supporting an age friendly workforce. This would enable people to build skills throughout their career and continue to work past their normal retirement age, either because they want to stay active or want to grow their savings pot. Employers benefit from retaining and attracting older workers with experience and expertise.

Government

- Reforms should be encouraged to facilitate phased retirement programs. Phased retirement programs enable workers who have reached retirement age to continue working in a reduced capacity (reduced hours, less demanding positions, less pay, etc). Older workers could continue to add to their retirement benefits without committing to full-time employment.
- The government could facilitate workforce education and wellness programs and create tax incentives to employers who implement them.
- The government could also encourage employees to create a "Plan B" in the event that they are unable to work to their planned retirement age (because of job loss, disability, etc.) by exempting insurance and other financial protection products from tax

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