



THE CHANGING FACE OF RETIREMENT

THE WORKPLACE PERSPECTIVE



PEOPLE ARE LIVING LONGER THAN AT ANY TIME IN HISTORY AS A POSITIVE RESULT OF ADVANCES IN TECHNOLOGY, MEDICINE, ENVIRONMENTAL AND SOCIO-ECONOMIC CONDITIONS. THE FACT THAT PEOPLE ARE LESS PREPARED FOR RETIREMENT THAN AT ANY TIME IN RECENT HISTORY THEREFORE PRESENTS BOTH A SIGNIFICANT CHALLENGE AND OPPORTUNITY FOR POLICYMAKERS, EMPLOYERS, RETIREMENT SERVICES PROVIDERS, AND THOSE SAME RETIREES OF THE FUTURE.

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FOREWORD AEGON

We are proud to present *The Changing Face of Retirement: The Workplace Perspective*. AEGON cares passionately about the future of financial security in retirement, especially at this time in history, given the aging of the population and the extreme pressures faced by retirement systems in countries around the world. We recognize that the decisions we make today as a global community, comprised of individuals and families, employers, and governments and policymakers, will have a major lasting impact on the well-being of future generations of retirees in the decades to come.

Although different countries have different retirement systems and different government entitlements, it is clear to us that the workplace will continue to play a vital role in helping employees save, plan, and prepare for retirement. This holds true for countries with a strong tradition in workplace retirement benefit provision, but also for countries that have historically relied more on government or individual savings programs. Our view was first shared in the *The Changing Face of Retirement: The AEGON Retirement Readiness Survey 2012*, covering 8,100 employees and 900 retirees in the United States and 8 European countries, which was published earlier this year and can be downloaded on www.aegon.com. Now, our view is even further validated by the results of our in-depth interviews with 12 major employers in different countries, which are highlighted in this report.

The Changing Face of Retirement: The Workplace Perspective illustrates the considerable challenges: an aging workforce, volatile financial markets, pressures on government, business and household budgets and, still too often, a lack of employee interest. Yet, it is very encouraging to see that new and innovative private enterprise approaches and public policies can make a difference. Common themes and keys to success are: a strong focus on employee education, measures to encourage plan participation and new perspectives on the transition from work to retirement. The challenges faced by employers and employees are complicated and will inevitably involve difficult changes; however, we believe that the insights and perspectives from our research can offer solutions to help restore optimism about the future.

While we continue to be deeply concerned about the future of retirement, we have never been so excited about re-envisioning retirement - and how we can work together as a global community to bring about positive change.

From our different perspectives, we both see our role to continuously increase awareness on retirement security issues and to share knowledge and best practices from across the world. We hope that this report makes a contribution to both objectives and we encourage you to read, reflect and share your ideas with us.

Yours sincerely,

Catherine Collinson

President, Transamerica Center for Retirement Studies®

Marc van Weede

Global Head of Sustainability, AEGON NV

FOREWORD CICERO

The *AEGON Retirement Readiness Survey: The Workplace Perspective* sets out a range of detailed findings examining what factors shape the kind of pension provision employers make available, and to what extent their employees value those pensions when considered alongside other occupational benefits such as salary, holiday entitlements, medical and life insurance. To achieve this we undertook detailed research across 8,100 employees in 9 countries and 12 major international employers. The context for this report has been guided by well-established global trends which have come to potentially undermine the role of employers in providing pensions.

Longer life expectancy and more volatile investment markets have seen employer-sponsored pension funds bear greater costs and risks while reforms to accounting standards have brought the scale of employer pension liabilities into sharper focus. The subsequent closure of many defined benefit pension plans to the next generation of employees has brought into question the 'psychological contract' between employers and employees. However, it is not just employers who have come to doubt the benefits of tenure-based pension funds. Employees too now demand more flexible benefits in line with the rise of increasingly flexible labor markets.

Understanding the current trends in occupational pensions will help to shape the twenty-first century solution to ageing societies. The World Bank's three pillar pension model continues to emphasize the importance of governments, employers and employees all working together to share the cost of an ageing society. It is for this reason that we looked to the mature occupational pension markets - such as the Netherlands, UK, US and Germany - in offering potential insights not only in how existing pension fund arrangements will be reformed but also in signposting what kind of pension arrangements might take shape in other countries, in particular as the emerging economies look to develop their own pension systems for the first time.

We see how countries like the Netherlands continue to maintain a mandatory approach, while others like the US look to voluntary schemes. Next year will see the UK adopt soft-compulsion as a hybrid between the two approaches. However, while different countries may adopt different policy responses, all of these countries share a common need to develop new pension arrangements capable of meeting the key tests of sustainability, adequacy and flexibility. Redefining the role of occupational pensions will be critical in this debate. We hope that this report will contribute in shaping that debate.

Mark Twigg

Executive Director, Cicero Group



THE CHANGING FACE OF RETIREMENT



SUMMARY

TOWARD MODERN RETIREMENT

Recent years have seen a sharp increase in life expectancy in most parts of Europe, Asia and the Americas. At the same time, average birth rates are coming down. The result has been a significant ageing of the world population. By 2050 - according to the latest UN estimates - more than 2 billion people will be aged sixty or over¹.

Around the world, pension systems are under enormous pressure. Governments - particularly those in Europe - can no longer afford generous state pensions, and are shifting more responsibility to individuals and to employers.

Employers are also finding they can no longer balance the sums. Many have scrapped plans that promised fixed benefits after retirement, and replaced them with new plans in which employees determine how much to save and, consequently, how much they will receive once they stop work. As a result, it is now employees increasingly who bear most of the risk for retirement - a big change from previous years when most could rely on the employer and the state to guarantee a comfortable old age.

Not surprisingly, given the pace and scale of change, attitudes are shifting. More people are working beyond the usual age for retirement; they are taking up part-time jobs, combining work with leisure, even creating second careers for themselves. For many, it is a Brave New World, the result of one of the 20th century's great triumphs - the extension of human life expectancy. In this report¹, we will be looking at how employers, employees and governments are having to adapt to new realities, and setting out some recommendations for the way ahead.

KEY FINDINGS OF THE WORKPLACE PERSPECTIVE Workplace pensions are becoming increasingly important...

With governments no longer able to afford generous state pensions, employees are increasingly looking to company pension plans to fill the gap. Among the employees we surveyed, more than two-thirds believe such benefits should be a basic part of any worker's pay and conditions.

...But companies are not yet providing employees with the flexibility they need

The majority of employees (58%) expect to work beyond the usual age for retirement, but companies do not yet offer the financial advice, re-skilling or opportunities their employees need to take up part-time working or carve out new careers.

¹ This report is based on a survey of 9,000 people in a total of nine countries (France, Germany, Hungary, the Netherlands, Poland, Spain, Sweden, the United Kingdom, and the United States) and in-depth interviews with employers.

At the same time, employees have not yet adapted to the new realities

Employees have not yet fully understood the implications of recent changes, or the growing importance of company pension plans. In our survey, employees ranked access to an employer retirement plan as less important when choosing a new job than pay, holiday entitlements, health insurance and career prospects.

Over the next few years, a generation of employees will retire with insufficient savings

The first generation of employees with new, defined contribution pension plans will stop work in the next few years - and are discovering they don't have enough money saved for retirement. Our survey found that currently only 15% believe they are on course to achieve the income they want in retirement.

Recommendations

- Increase the number of employees participating in company pension plans by introducing automatic enrollment, with 'opt-out' rather than 'opt-in' provisions.
- Help employees save more by giving them the option of increasing their contribution rates at fixed intervals - for example, every two years.
- Provide greater flexibility - by encouraging employers to offer their employees a choice of different savings plans.
- Offer employees more financial advice and education at work to help them understand the decisions they have to make, and the implications of these decisions on their lives during retirement.
- Where possible, increase incentives for employees to save more for retirement through tax benefits and employer contributions.
- Make available simplified, streamlined plan designs, providing attractive 'starter options' for smaller businesses who do not yet sponsor a retirement plan.
- Make it easier for employees to manage their savings after retirement by including products like private annuities as part of company pension plans.
- Design company pension plan accounts to be more portable so they can accompany employees when they change jobs - to help prevent their cashing out accounts and make it easier for them to save for retirement.
- Promote greater awareness of increasing life expectancy and changing work patterns.
- Provide access to training and vocational health care.

INTRODUCTION

THE GROWTH OF WORKPLACE PENSIONS

Workplace retirement plans are a traditional - and in some countries, mandatory - part of a company's benefits package. Throughout the 1950s and 1960s, advances were made across many countries in extending the scope and generosity of workplace defined benefit (DB) retirement arrangements, particularly in the United Kingdom, the United States, the Netherlands, and Germany.

The advantages were clear. For employees, enrollment into a workplace retirement plan meant that they could afford to save earlier in their working lives enabling them to build up greater security in retirement. For employers, a company's "pension promise" has helped encourage greater loyalty among employees, and has also improved recruitment and retention resultsⁱⁱ. As AEGON reported in its June 2012 survey, *Expatriate Pensions and Employee Commitment*, there is still a "strong correlation between the degree of optimism felt about retirement and the degree of commitment to the companyⁱⁱⁱ." Good workplace retirement plans, positive aspirations for retirement and attachment to one's employer all come together to form a beneficial circle of support.

There was a rapid expansion of such plans by 1960 and in the United States, 41% of all private sector workers were covered by a workplace retirement plan, which mostly consisted of DB plans^{iv}.

However, during the last 20 years the retirement landscape has changed greatly; many employers have been forced to undertake fundamental reforms to employer-funded defined benefit retirement plans. The forces driving these changes were mainly the changing demographic trends; as the post-war baby boomer generation comes to retire, the value of employer-backed retirement liabilities has increased dramatically. At the same time, increasingly volatile investment markets have made it harder to match liabilities and assets. Throughout the past decade, many employers with DB plans have needed to fund increasingly large pension liabilities in

order to deliver on their pensions promise. By 2006 in the United States, the percentage of private sector employees with DB retirement plans had declined to only 20%.

Meanwhile, a new type of workplace retirement plan was becoming more common - the defined contribution (DC) plan. DC plans require increased funding from employees, therefore minimizing the employer's financial risk. In 2006, 43% of US workers were covered by a DC plan^v.

The financial crisis has helped accelerate the pace of change, which has in turn undermined the traditional three pillars of funding retirement (described in Table 1) and is also putting pressure on an emerging fourth pillar - continued working^{vi}.

WORKPLACE RETIREMENT BENEFITS: AN UNCERTAIN FUTURE?

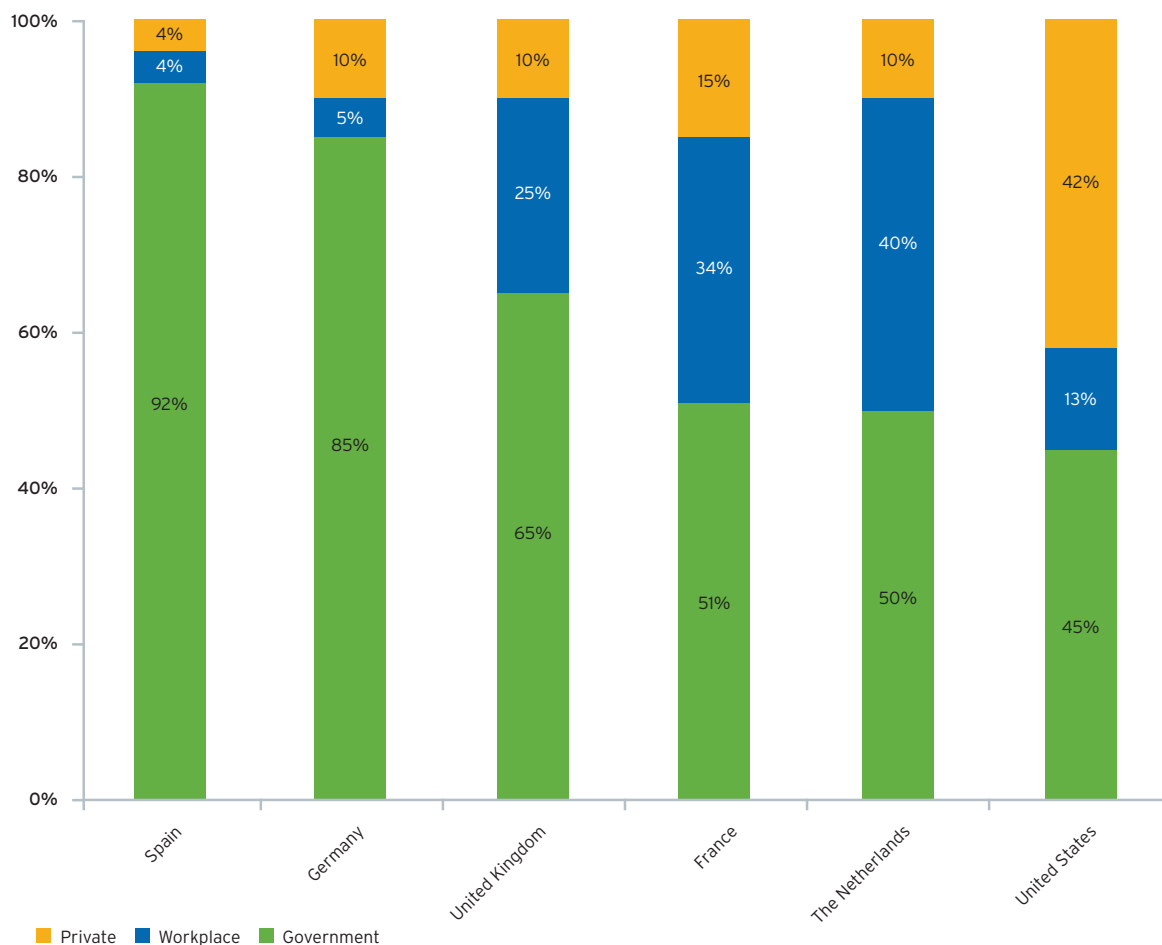
The combination of these trends is creating a general sense of insecurity about old age which has not been felt by previous generations of retirees. 71% believe that future generations will be worse off in retirement. This sentiment is strongest in countries such as Hungary and France, where recent pension reforms have proved unpopular. France appears committed to reversing some of those previous reforms, which raises questions about the long-term sustainability of its pension arrangements.

These trends - albeit negative taken on face value - present opportunities for a new type of retirement system. The closure of final salary plans for new entrants in the United Kingdom and other countries is likely to give rise to newer forms of shared-risk pension arrangements such as DC plans. Exemplifying this trend, the UK Government has announced it is considering the idea of "defined ambition" plans - a defined contribution plan, but with some guarantee in the level of future benefits. This initiative coincides with the introduction of the National Employment Savings Trust (NEST), a new national workplace retirement savings fund, beginning in 2013. At present, countries with the highest levels of workplace pension coverage are those where it is

Table 1: Survey findings per pillar

Pillar 1: Government retirement benefits	Governments are looking to reduce the long-term cost of providing government retirement benefits. 74% of the employees we interviewed believe that government benefits will be reduced in value, perhaps due to the "pay-as-you-go" design of many government retirement systems, coupled with increased longevity.
Pillar 2: Workplace DB plans	Employers are de-risking their balance sheets of long-term, volatile liabilities like final salary plans. 54% of employees surveyed now expect to receive a lower pension from their employer.
Pillar 3: Workplace DC plans and other personal savings	Employees are seeing a tightening of real incomes. While 73% of workers accept that they are more likely to be responsible for their own retirement planning, only 15% believe that they are on course to achieve their retirement goal.
Pillar 4: Continued working	Postponing (full) retirement is increasingly part of the retirement financing solution. Whereas 54% of current retirees stopped working immediately upon reaching retirement age, this will fall to 30% of future generations of retirees. Another 44% are likely to keep working in some capacity, while 15% expressed a desire and/or need to keep working full-time after retirement age.

Chart 1: The three pillars of pension provision as a share of retirement benefits (Source: University of Freiburg, 2012)



mandatory or quasi-mandatory, notably Sweden where 90% of the working-age population is enrolled in a workplace retirement plan^{vii}. A key question in developing an effective retirement system of the future will be in redefining the balance of risk between employee, employer and the government. This report examines attitudes of employers and employees in order to get a sense of how retirement responsibility is likely to evolve in the coming decade.

THE STRUCTURE AND METHODOLOGY OF THIS REPORT

The findings in this report are based on the responses of 9,000 people from nine countries. Respondents were interviewed using an online panel survey and interviews were conducted in their local languages in January and February 2012. The range of issues covered included attitudes towards retirement readiness, as well as the role of the government and employers in providing retirement benefits.

We also conducted a series of 12 in-depth interviews with employers in countries including Germany, the Netherlands, the United Kingdom and the United States. These interviews garnered the opinions of employee benefits directors across

a diverse range of employers offering differing types of retirement plans. Views were sought on the types of plans currently offered, current behavior of employees toward participating in workplace plans, and the types of employer programs designed to build greater employee awareness of retirement issues.

Part 1 addresses the value attached to workplace plans by both employers and employees as well as at the trade-offs that employees are willing to make in terms of continuing the funding for their workplace retirement benefits. Part 2 discusses levels of employee engagement with their workplace retirement plans, including case studies of employers who have sought to improve the level of retirement awareness and engagement among the workforce. Part 3 discusses the different roles and changing responsibilities of the employer and the employee in retirement plans.

The report, while emphasizing the importance of the workplace for pensions, is neutral as to the type of pension provider that may operate there and this was not addressed in the survey.



THE CHANGING FACE OF RETIREMENT



PART 1: THE IMPORTANCE OF RETIREMENT BENEFITS IN WORKPLACE COMPENSATION

68% OF EMPLOYEES BELIEVE THAT WORKPLACE RETIREMENT PLANS ARE A BASIC PART OF TOTAL COMPENSATION, BUT SUCH PLANS ARE STILL NOT SEEN AS A TOP PRIORITY WHEN RANKING THE DIFFERENT WORKPLACE BENEFITS. OUR RESEARCH REVEALS A WORRYING DEGREE OF APATHY AMONG EMPLOYEES REGARDING THEIR RETIREMENT. HERE WE LOOK AT THE VALUE ATTACHED TO WORKPLACE PLANS BY BOTH EMPLOYERS AND EMPLOYEES AS WELL AS THE TRADE-OFFS THAT EMPLOYEES ARE WILLING TO MAKE TO CONTINUE FUNDING THEIR WORKPLACE PLANS.

6 [THE WORKPLACE PLAN] IS A CRITICAL BENEFIT. THAT'S BOTH THE EMPLOYER AND EMPLOYEE VIEW - US EMPLOYER

WORKPLACE RETIREMENT PLANS ARE A VITAL BENEFIT

While employers might not be in a position to offer the more generous contributions enjoyed by previous generations of workers, there is still a clear commitment among employers to contribute to their employees' retirement financial security. Even with the shift to DC pension plans and the efforts to build up personal retirement provisions over the last 20 years, retirement incomes are still largely driven by employers and governments, rather than individuals. Employers in particular provide a mainstay in generating retirement incomes.

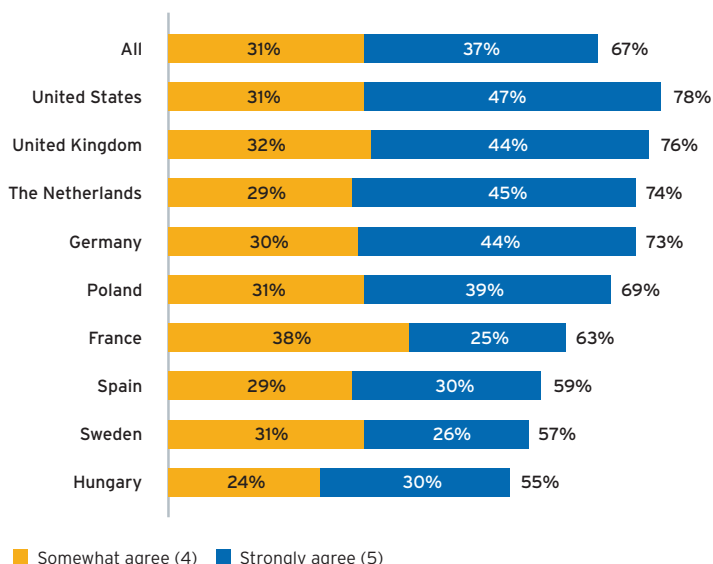
Overall, 70% of the employees surveyed believe that workplace plans are "somewhat" or "extremely" important. 22% expect a DB plan to form the most important means of preparing for their retirement - compared to 21% who give this importance to government retirement benefits.

Only about one-in-ten employees expects other forms of personal plans and long-term savings to provide the majority of their retirement income. It is clear that workplace plans remain a central part of many people's retirement planning: 67% agree with the statement that such plans are "a basic part of any worker's pay." This agreement ranges across countries from highs in the United States (78%), the United Kingdom (76%) and the Netherlands (74%) to lows in countries like France (63%) and Hungary (55%).

Chart 2: Support for retirement benefits as a basic part of remuneration

Q: Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements:

A: Company pensions should be a basic part of any worker's pay and conditions



■ Somewhat agree (4) ■ Strongly agree (5)

Chart 2 illustrates how employees in countries with the most developed workplace retirement benefits are likely to see the greater employee attachment to the concept of workplace plans. Over time, workers in these countries have become accustomed to looking at retirement plans as part of the total compensation package. This remains true even in countries like the United Kingdom and the United States where the proportion of employees covered by DB plans has been in retreat over the past decade^{viii}. In contrast to the enduring reliance upon retirement plans, few employees expect non-retirement plan assets to provide for their older-age income. For example, just 1% of employees expect to use housing equity as their main source of retirement income. For the foreseeable future, retirement plans will remain the mainstay of funding retirement and the employer will retain a critically important role in helping employees finance their retirement.

Employers feel that workplace plans help enhance employee commitment and to build a long-term relationship between employer and employee. The idea of shared responsibility was also found in our employee survey where 75% of respondents agreed with the statement that funding retirement “should be a balanced approach in which individuals, employers and the government all play an equal role.” A majority of employees in all countries agree that employers should continue to provide for employees’ retirement plans. This peaks at 84% of employees in the Netherlands, the United Kingdom and the United States. It is also clear that the vast majority of employees believe that employers should take steps to help them plan for retirement.

The fact that employees remain favorable toward workplace retirement plans in part reflects concern that they cannot afford to fund their retirement without assistance. Many employees (44%) are pessimistic about achieving a comfortable retirement. This pessimism is greatest in France, Hungary and Poland. This pessimism may reflect unrealistic expectations of replacement income in retirement. For example, 41% of Hungarians believe that they will need more than 100% of their working-age income after they retire. It also reflects recent retirement reforms which have proved unpopular with people who are concerned about the removal of once generous benefits: only 16% of French employees are optimistic about their future retirement. Countries in Northern Europe and the United States emerged as the most optimistic. These countries have established a more sustainable and secure retirement system with a blend of all retirement pillars, including strong elements of employer and employee provision.

IT'S A QUESTION OF SHARED RESPONSIBILITY - US EMPLOYER

Chart 3: A majority believes employers should bear responsibility for retirement

Q: To what extent do you agree with the following statements about taking responsibility for funding people’s retirement?
 A: Employers should provide through good workplace pension plans.

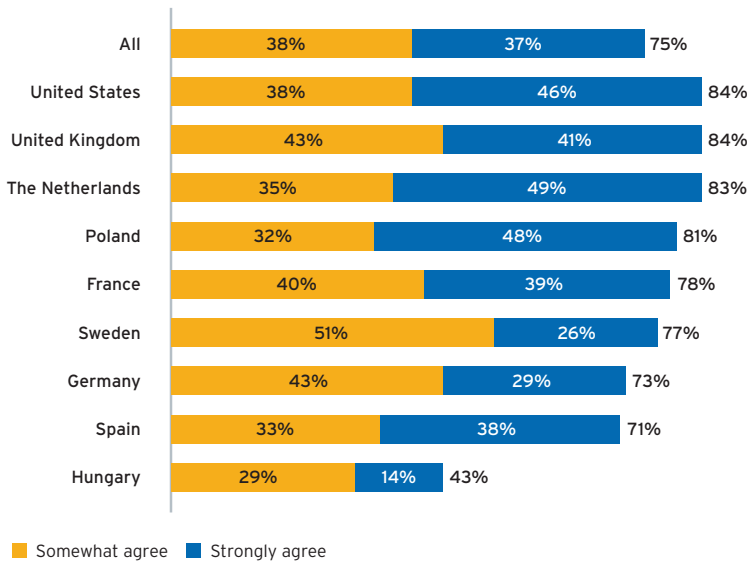
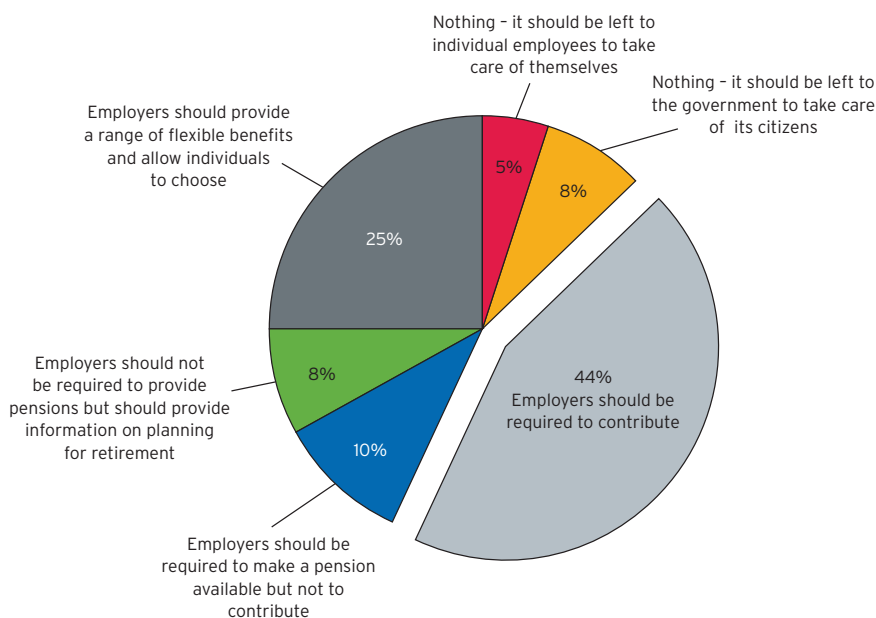


Chart 4: Support for employer pension contributions over other options

Q: What should employers do to help people plan for retirement?



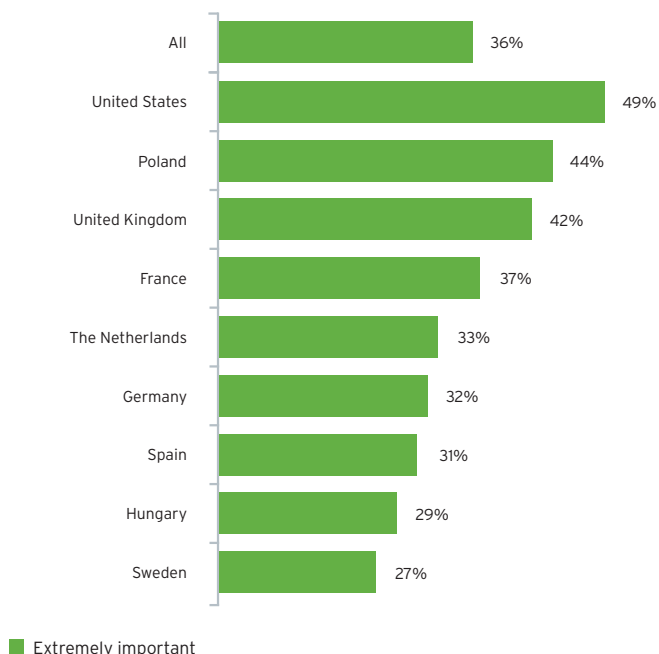
COMPANY PENSION PLANS ARE HIGHLY VALUED AS PART OF A FLEXIBLE BENEFIT PACKAGE

While retirement benefits often rate lower than basic pay as a tool for employee recruitment and retention (69% of employees view salary as extremely important), 36% thought that having access to a workplace retirement plan with employer contributions was “extremely important.” This peaked in the United States at 49% - compared to 44% in Poland, 42% in the United Kingdom and just 27% in Sweden (see chart 5 below).

Chart 5: Workplace retirement plans are seen as most important in the United States

Q: How important to you would the following occupational benefits be if you were choosing your next job?

A: Access to a workplace retirement plan with employer contributions



However, when viewed alongside other non-salary benefits such as life or health insurance, and stock options, company retirement plans were ranked highly. This is less true in the United States where access to public health care is more limited and employees typically look to employers to make some provision towards the high cost of private medical insurance.

One of our case studies also indicated that health care is a more popular benefit than workplace retirement plans, but that it is also three times more expensive to operate when compared with the cost of the employer's retirement contributions.

Charts: 6-10: Workplace retirement plans as a priority compared to other benefits

Chart 6: Importance of occupational benefits (all ages)

Q: How important to you would the following occupational benefits be if you were choosing your next job?

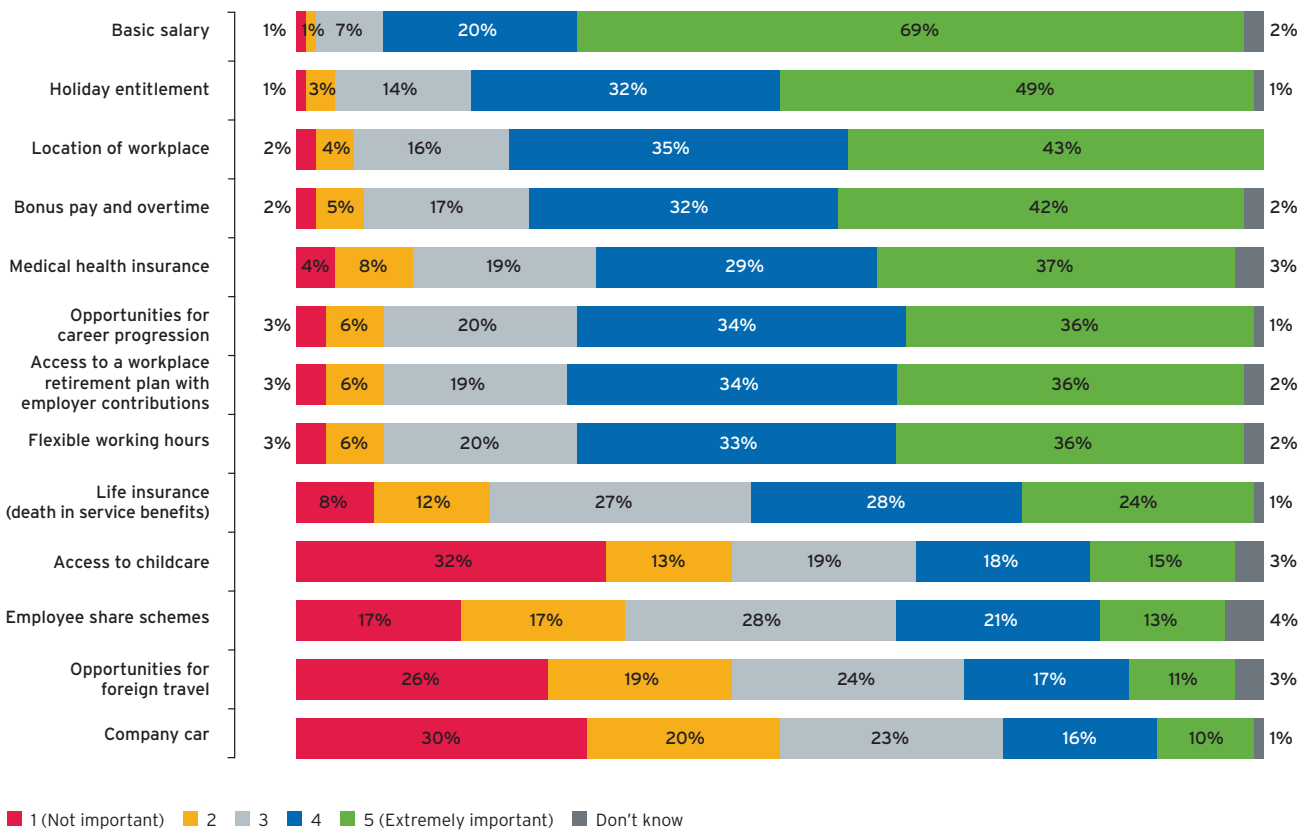


Chart 7: Importance of basic salary by age

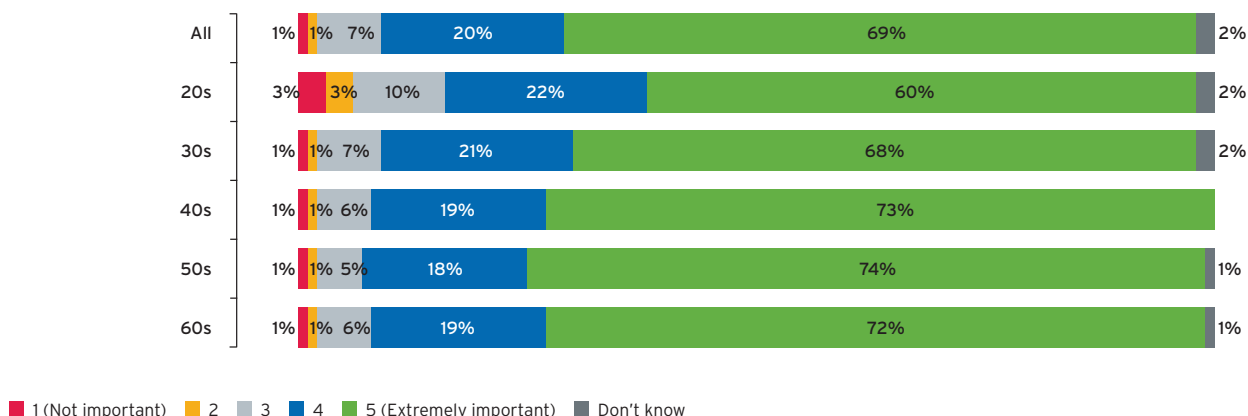


Chart 8: Importance of bonus pay and overtime by age

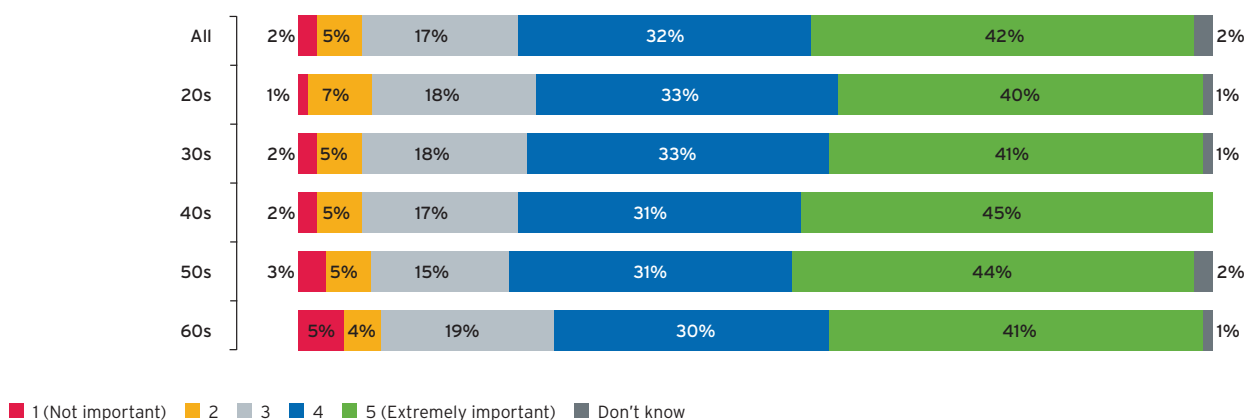


Chart 9: Importance of medical health insurance by age

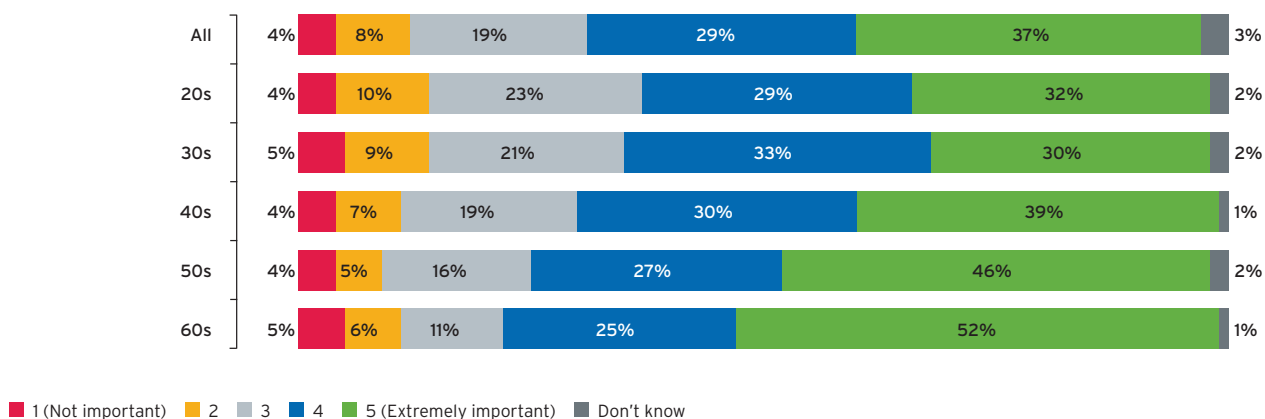
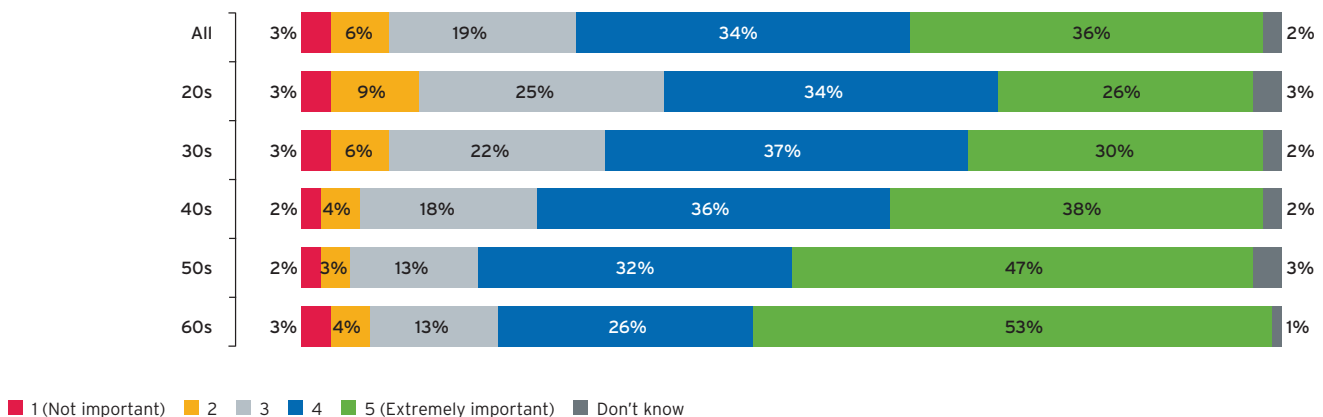


Chart 10: Importance of access to a workplace retirement plan by age



THE UNCERTAINTIES OF DC PLANS

THE PENSION WORLD IS FOLLOWING A MORE ANGLO-SAXON APPROACH. MORE INDIVIDUALISM, TAKE CARE OF YOURSELF, NOT YOUR NEIGHBOR
- EUROPEAN EMPLOYER

The shift to DC plans, which is at various stages in different countries, has created in many employees a degree of uncertainty about the future. Our case studies reveal how companies in the United States have already moved towards DC arrangements and the process is also well under way in the United Kingdom. In both of these Anglo-Saxon economies we see a more laissez-faire approach to providing for retirement. Plans are provided on a voluntary basis with generally lower contributions levels compared to previous DB arrangements. For example, among employers with DC plans in the United Kingdom or United States, employees can typically expect to receive employer matching contributions in a range between 2% of salary at the lower level, up to 6% of salary among the more generous DC plans. In contrast, one employer we spoke

to commented that the employer contributions into its DB company plan are currently worth around 20% of employee salaries, with employees making no additional contributions.

In countries like the Netherlands we see more of an evolution with the switch from final salary to career average plans or the operation of hybrid pension arrangements which mix elements of defined benefit and contribution plans. A common example of such a hybrid plan is where Dutch companies offer employees DB plans based on income, but only up to a certain income band, beyond which benefits switch to a DC basis. The 3,500 Dutch employees of a multinational company we interviewed benefit from employer contributions averaging 15% across the workforce. This figure is age related with a base of 7% offered to those aged 20 and 33% to those aged 60.

This highlights how the costs and risks which were traditionally carried by the employer will shift to employees in a pure DC arrangement. As we see in Part 2, it will be critical that employers seek to build employee engagement through efforts to explain these changes and educate employees about how to deal with the likely financial implications.

IF WE ARE NOT CAREFUL, THIS NEW AGE OF DEFINED CONTRIBUTION, WITH VOLATILITY IN WORLD INVESTMENT MARKETS, MAY WELL SEE A GENERATION OF PEOPLE UNABLE TO RETIRE BECAUSE THEY DON'T HAVE THE PENSIONS OR THE FINANCES TO DO SO...

That is partly down to the demographic issues we face, but also because we have allowed what was a good, solid pension system to deteriorate over the years through legislation and inaction. It's just a ticking time bomb...Once we recognize how poor the Defined Contribution outputs are likely to be, more will need to be done, and we may well find that things come full circle and the Government may put the onus on employers to do more, particularly around the level of the minimum benefit provided. In short, a form of Defined Benefit may need to come back onto the agenda. - UK EMPLOYER

EVIDENCE OF APATHY TOWARD WORKPLACE PLANS

The fact that employees continue to value workplace retirement plans is not always reflected in the views of employers who cite low employee engagement as one reason why employers increasingly choose other means to incentivize their workforce. Some employers believe that workplace plans remain an important tool for employee recruitment and retention. One US employer said of their company plan:

“ IN THE LAST THREE YEARS, THE 401(K) PLAN HAS RANKED FIRST OR SECOND IN EVERYONE’S SELECTION [RANKING OF BENEFITS] (ALONGSIDE PRIVATE HEALTH CARE). IT WAS MORE IMPORTANT THAN PAY, VACATION TIME AND LIFE INSURANCE - PEOPLE WOULD RATHER TAKE LESS PAY AND HAVE A BETTER 401(K) PLAN ”

This employer believed that this response from employees is the result of weakening DB plans and the generally low levels of retirement savings in the United States in recent years. However, this is not a view shared by all employers.

When considering whether such plans are a valued employee benefit, the age demographics of the workforce in question emerged as a key indicator. Those employers we interviewed which have a younger workforce acknowledge that their younger workers have more immediate financial priorities than saving for retirement. One company director responsible for overseeing compensation and benefits in a young workforce made the following comment on the company’s DB plan:

“ IT IS NOT GIVEN AS MUCH WEIGHT AS IT SHOULD - IT DOES NOT REALLY ATTRACT PEOPLE. MEDICAL BENEFITS ARE MUCH MORE INTERESTING ”

It was acknowledged, however, that this reflected the youthful demographics. A case study in Europe also supported the claim that younger employees are hard to engage.

“ [IT IS] DIFFICULT TO GET ON YOUNG PEOPLE’S PENSION RADAR. WE HAVE A COMMUNICATIONS OBLIGATION BUT PEOPLE DON’T OPEN THE ENVELOPES ”

Whether retirement benefits help recruit and retain staff is open to debate. One case study firm noted:

“ [IT’S THE] MILLION DOLLAR QUESTION. IT’S NOT OUR PREMIUM BENEFIT TO STAFF. MOSTLY OUR STAFF ARE YOUNGER (MEAN AGE 33) AND NOT VERY OCCUPIED WITH PENSIONS ”

In this case study, the workplace retirement plan trailed behind base salary, bonus and company car as the most attractive benefits.

The overall picture we see is that while employees may call workplace plans an important benefit, in many practical examples they are not actively engaging with the workplace plans on offer.



THE CHANGING FACE OF RETIREMENT



PART 2: ENGAGING EMPLOYEES WITH THEIR RETIREMENT PLANS

A NUMBER OF THE COUNTRIES IN OUR STUDY HAVE A LONG TRADITION OF PROVIDING WORKPLACE PLANS. EVEN THOUGH SOME OF THESE COUNTRIES OPERATE RETIREMENT MODELS BASED ON COMPULSORY RETIREMENT PROVISION, THERE ARE STILL MAJOR PROBLEMS IN BUILDING ENGAGEMENT AMONG INDIVIDUAL EMPLOYEES. THIS SECTION DISCUSSES LEVELS OF EMPLOYEE ENGAGEMENT WITH THEIR RETIREMENT PLANS, AND HIGHLIGHTS SOME CASE STUDIES OF EMPLOYERS WHO HAVE SOUGHT TO IMPROVE THE LEVEL OF RETIREMENT AWARENESS AND ENGAGEMENT AMONG THE WORKFORCE.

6 PENSIONS WILL REMAIN A LARGE PART OF RETIREMENT INCOME BUT WE NEED TO DO MORE IN WORKING YEARS... PRIMARILY, THE EMPLOYEE SHOULD BE MORE AWARE, PARTICULARLY IF THEY'RE IN DC
 - DUTCH EMPLOYER

THE NEED FOR GREATER EMPLOYEE ENGAGEMENT

The challenge of switching from a largely DB world, in which employees have some guarantees as to what they can expect to receive in retirement, to a DC world not only involves a transfer of risk, but also greater complexity and the need for greater decision making among individuals. There are many variables to consider regarding investment, inflation and longevity risk. Information can be essential in choosing the best approach:

6 DC IS MORE RISKY AND DIFFICULT TO UNDERSTAND FOR EMPLOYEES. GOVERNMENT AND INSURANCE COMPANIES NEED BROADER COMMUNICATIONS ON WHAT PEOPLE CAN DO TO MINIMIZE THE RISK OF PENSION SHORTFALLS
 - EUROPEAN EMPLOYER

Employers acknowledge that this is easier to achieve where the workforce is well educated and well paid. Building models of workplace plans which can successfully engage employees in small and medium-sized enterprises, or among the low paid, remains a key challenge due to the potentially high costs. However, even in large companies, employee awareness could be higher, as one case study noted, "Most (of our) employees are highly educated, but awareness of individual circumstances is lower than it should be."

EMPLOYEE ENGAGEMENT MAKES A MAJOR DIFFERENCE IN RETIREMENT OUTCOMES

Making the right decisions will have a huge impact on what kind of retirement employees can expect to enjoy. One study in the United Kingdom looked at a range of decisions which can impact retirement incomes¹⁴. The study illustrated that the decisions involving when to start saving, how much to save, and when to retire, all make a major difference. For example:

- *Contributions levels:* saving 12% of earnings, rather than 8%, would increase retirement incomes by 50% for a man reaching the government retirement age in 2055;
- *Early retirement:* Retiring 2 years before government retirement age can reduce income by 18%;
- *Retiring later:* Deferring retirement for 2 years after the base retirement date can increase incomes by 20%.

ENCOURAGING EMPLOYEE ENGAGEMENT THROUGH RETIREMENT PLAN DESIGN

6 IF DESIGNED AND COMMUNICATED EFFECTIVELY, RETIREMENT PLANS CAN BE A POWERFUL TOOL FOR INCREASING EMPLOYEE COMMITMENT
 - AEGON 2012

The design of retirement plans can play a very important role in encouraging employees to make sound decisions. Among employers in our survey, there is a view that employee engagement has been limited in a world of final salary plans where all of the decisions, risks and responsibilities are being carried by the employer. This view was expressed by one case study: "Defined Benefits do not encourage people to think about their retirement." Looking to the future, employers moving to DC plans are already utilizing numerous ways to increase employee participation in, and ownership of, their retirement funds. For example:

- Matching contributions by employers provide a financial incentive for employees to save. One company with a largely youthful workforce (the average age of its employees is early 30s) provides a matching contribution after one-year's service which is worth 50% of the employee's contribution up to a limit of 6% of their earnings. This resulted in 97% of the workforce participating in the company DC plan, and the employer's goal is to get all workers to boost their contributions to 6% in order to maximize the matched contribution.
- The use of "nudge economics" utilizing tools such as automatic enrollment ensures that workers are enrolled in the plan unless they elect not to be. This concept of automatic enrollment has been employed by DC plans in the United States and will also underpin the new national defined contribution retirement plan - National Employment Savings Trust (NEST) - aimed at low-paid workers in the United Kingdom. With a target market of 9 million employees, this could generate a major change in the United Kingdom's workplace retirement market. A similar idea is "auto-escalation," where once enrolled in a contributory plan, the level of contribution automatically increases annually.


Both of these methods have proved to be effective. However, the use of DC default settings can recreate some of the downsides of DB plans by divorcing the individual employee from the retirement decision-making process, or fail to produce adequate retirement incomes. For example, while the United Kingdom's NEST plan may increase participation, particularly among the young and low-paid, there is currently no scope for funding the provision of advice or information, which could result in limited active engagement. This gives rise to the danger that without an engaged workforce, employees rely on decisions made by others, which may not result in an adequate retirement income. Under the United Kingdom's NEST fund it has been calculated that a median-earning woman with a required income replacement rate of 70% could face a shortfall of 18% if she saves throughout her working life at the minimum default contribution level of 8%^x. Whatever plan is put in place, it should always include a program to engage with employees and improve retirement planning awareness.

SUCCESSFUL EFFORTS TO IMPROVE EMPLOYEE ENGAGEMENT

Using retirement plans as a tool for building greater employee engagement can help to generate more immediate benefits for both employers and their workforce, as well as a greater retirement income for employees. All the employers we interviewed are committed to providing financial benefits for their employees after they stop working. Delivering on such retirement benefits can reinforce employees' trust in the organization and generate a bond between employer and employee^{xi}. By seeking to engage the employee through a wider workplace benefits package, employers can help to build a deeper employee commitment to the organization and its values and a greater willingness to help out colleagues, i.e., promoting better organizational citizenship^{xiii}. This can ultimately benefit company performance. It is therefore important that in moving toward DC retirement plans, that changes are properly understood by the workforce. This would help to ensure that the trust between employers and employees is not damaged.

DC retirement plans in the United States are voluntary, and a significant percentage of employers actively encourage their employees to participate in the workplace DC plan. Most companies only provide general information to employees about retirement planning. However, some make a greater effort to raise awareness through educational seminars that discuss issues such as how to diversify their investment risk. Our survey suggested a more proactive role for employers with 45% of employees considering their employer as a source of retirement savings advice. Some employer respondents singled out the way in which financial advice is currently regulated as an obstacle to providing workplace retirement advice.

The potential need for professional advice was highlighted by one employer who signaled that the prevailing investment climate has made it more difficult for employees to understand the benefits of workplace retirement plans. Managing the investment risk across one's working life brings with it some complex decisions. As one employer commented, "Target date funds can help those who want to invest as long as they understand that there is still some risk". On the other hand, employees need to resist the temptation of becoming too conservative to the point where the returns on their retirement fund won't build sufficiently for their future.

6 COMPANIES DO NOT WANT FINANCIAL RISKS ON THE BOOKS IMPACTING ON BUSINESS RESULTS. BUT WE STILL WANT TO BE GOOD [TO OUR WORKFORCE] 
- EUROPEAN EMPLOYER

THE NEED FOR EMPLOYEE EDUCATION AT RETIREMENT

The need to inform employee investment decision making extends to how employees plan their finances when they reach retirement age, especially due to the increasing prominence of DC pension funds.

Our findings show the key areas where employees identified they needed support; funding long-term care costs emerges as the single most important issue - chosen by 36% of respondents - in providing employees with security in retirement. Not far behind we find that employees would like to protect retirement incomes against inflation (33%), while enabling individuals to take a lump sum from their investments (32%) also figured highly. Employees clearly need greater help and guidance in deciding how to make use of their financial assets in retirement. The role of employers could be further encouraged in this area through workplace “at retirement” planning courses. Some of the companies we interviewed already offer education programs to help employees plan how to manage their retirement income throughout their life.

CASE STUDY 1 - UK EMPLOYER

This company, which employs several thousand staff in the UK, recently closed its Defined Benefit pension to new members. Employees are now offered a Defined Contribution plan instead. Nearly 3,000 staff remain in the old Defined Benefit scheme.

Closing the Defined Benefit scheme was not popular, and the company undertook lengthy consultations with employee representatives. It was agreed that future accruals will close in 2015. As a result, however, the company provides a very attractive contribution structure - upper quartile when compared with similar companies. When the company moved to the new plan in 2006 it decided to match employee contributions two-to-one - up to a maximum of 10% of the employee's salary. Despite the generous terms, staff had to 'opt in' and this was responsible, in part, for only about 40% joining the plan.

In 2012, the company introduced a new plan on the same terms, but decided to increase the ceiling of total contributions to 22.5%. This time all new employees were automatically enrolled in the plan. The result was a much higher participation rate - over 80%. For new staff, the plan has become “just another deduction”.

There is also a greater understanding of pensions among employees - thanks in part to a popular program of financial education, with initiatives and activities geared to employees at different stages of their careers. This program is something employees need to sign up for, but so far attendance levels have been encouraging. Surgeries, presentations, and Q&A sessions are all used to help explain what is often seen as a “confusing” topic. More work is needed, of course, particularly among employees who are approaching retirement. The company is now looking to introduce new courses in this area - especially given the trend toward a more “phased” retirement.

The switch to Defined Contribution places more responsibility on employees to save for retirement. But at the same time companies and governments also have a role to play: the first in making the right provisions to enable employees to save, and the second in passing legislation that helps companies make those provisions, particularly the tax breaks necessary to encourage saving.

CASE STUDY 2 - A LARGE US EMPLOYER AND ITS RETIREMENT PLAN PARTNER

Even where companies have put measures like automatic enrollment in place, this is not seen as a substitute for encouraging active participation and engagement. In this case, the firm went so far as to run communications campaigns through its retirement plan partner to build greater awareness. The case study firm operates a DC plan with 80% participation without making use of auto-enrollment. This is explained by taking a proactive approach to employee engagement which includes an annual participant statement which illustrates how well individual employees are preparing for their retirement.

All employers acknowledged the importance of pitching the retirement message to the right audience. There was a view that younger workers are generally less receptive to thinking about retirement plans as it simply seems too far away. However, this employer sees the age of around 40 as the ideal age at which interest is sparked - then it becomes easier to engage with the workforce.

CASE STUDY 3 - US EMPLOYER

This company employs a young demographic - the mean age is early 30s - and its retirement plan is not seen as a major factor in attracting new staff. Typically employees think of retirement as something 40 years from now and ask, "why talk to me?" The company's medical plan is "far more interesting" to them. Most staff are satisfied with the company's 401(k) plan, although the respondent pointed out that its "6% plus 3%" match - where an employee contributes 6% of his or her salary to a retirement plan and the employer adds 3% - is likely insufficient to ensure a comfortable retirement.

This company believes that enthrusting "Millennials" to think of retirement is very difficult - they are different from Baby Boomers, many of whom stay with their employer throughout their careers. Millennials may change jobs every three to five years. Today it is important to create portable plans which employees can carry with them and not cash out. Companies need to do more to explain that money in retirement plans is put away, and is not money for when an employee leaves a particular employer. This company's contribution to employees' accounts in the retirement plan is 100% vested when received. Other companies have five-year vesting schedules (20% per year, so that employees lose a portion or sometimes all of the employer's contribution if they leave the company). Having immediate vesting on the company match makes this company's plan more attractive to its younger workforce which the company acknowledges changes jobs frequently.

In the future, companies may need to offer better plans to attract top talent. The balance of contributions may fall more on employers in order to win the "war for talent." Company retirement plans will need to improve, and patterns of work are likely to change - there will be more part-time working.

The company has engaged a third party to offer employees a program of general financial education and advice, and pays for this benefit in full. It has also held a four-week series on financial fitness. Unfortunately, these "lunch and learn" sessions have been poorly attended. It is important to try to engage staff from all angles, including site visits, webinars, websites, mail and social media.

In 2011, the company launched its Custom Communication Campaign aimed at its young workforce. The view was that the generic tone generally used was not effective, and the communications material needed to be edgier. The posters and a custom microsite used were specially branded to maximize impact. The campaign won an award in 2011 from Pensions & Investments magazine, and was regarded as a great communications effort. The phrases used were, "It's time to think of the F Word (Future). No - not that one."

The F-Word initiative helped increase the company's 401(k) plan average employee contribution rate from 5.5% to 5.75%. Further initiatives also helped. In 2011 the company ran a Nostradamus-style event. HR staff wore black t-shirts with the words, "6/6 is coming- are you at 6%?" Dialogue was created and HR staff discussed matters relating to their plan.

 **THE CHANGING FACE OF RETIREMENT**



PART 3: THE EVOLVING EMPLOYER-EMPLOYEE RETIREMENT RELATIONSHIP

WITH DB PLANS IN DECLINE, THE NATURE OF THE EMPLOYER'S RETIREMENT PROMISE IS SET TO CHANGE. CERTAINLY SOME COUNTRIES - SUCH AS THE NETHERLANDS, GERMANY, JAPAN, CANADA AND BRAZIL - ARE MORE TIED TO DB PLANS THAN OTHER COUNTRIES; HOWEVER, THE UNIVERSAL TREND IS TOWARD MORE FLEXIBLE BENEFITS WITH EMPLOYERS INCREASINGLY AT THE CENTER OF EFFORTS TO FACILITATE EMPLOYEES IN UNDERTAKING GREATER PERSONAL RESPONSIBILITY FOR RETIREMENT PLANNING. THIS PROCESS WILL ALSO FEED INTO THE NEED FOR MORE FLEXIBLE LABOR MARKETS AND FOR OLDER EMPLOYEES TO CONTINUE WORKING BEYOND CURRENT RETIREMENT AGES. THIS SECTION DISCUSSES THE RELATIVE IMPORTANCE OF THE EMPLOYER AND THE EMPLOYEE IN TERMS OF RETIREMENT PROVISION.

FLEXIBLE RETIREMENT PLANS FOR A FLEXIBLE WORKFORCE

People often talk about the need to keep working beyond retirement ages, but for many this can - and already is - likely to be combined with taking more leisure time before retirement through career breaks, periods of volunteer work and travelling. Both working and retired lives could see a greater blending of work and leisure. Employers increasingly recognize that workplace plans need to change to keep up with the working patterns of their employees. The challenges posed by greater labor mobility and broken career patterns have moved efforts to improve the portability of pension plans up the order of priorities for public policymakers. Employers' views on what kind of retirement arrangements they should put in place are driven not only by cost considerations, but also by a pragmatic sense that working patterns are rapidly changing. One case study respondent commented that:

“TENURE BASED DEFINED-BENEFIT PLANS DON'T CARRY WEIGHT. WE NEED TO CREATE PORTABLE PLANS WHICH CAN MOVE AROUND WITH EMPLOYEES.”

The issue of flexibility was identified by our research among both employees and employers. Numerous employers cited the importance of an increasingly varied benefits package. Young people in particular are interested in benefits beyond retirement plans, in particular bonuses and medical insurance. While 44% of employees thought that employers should be required to make contributions into employee retirement plans, this is slightly more popular among older employees. When asked to define the role of employers in supporting people with their retirement plans, we found that 25% of respondents said that employers should provide a range of retirement and non-retirement related benefits and allow individuals to choose. Again, we found that this was more popular among younger workers.

“PEOPLE WILL HAVE TO SAVE MORE AND SAVE EARLIER.”

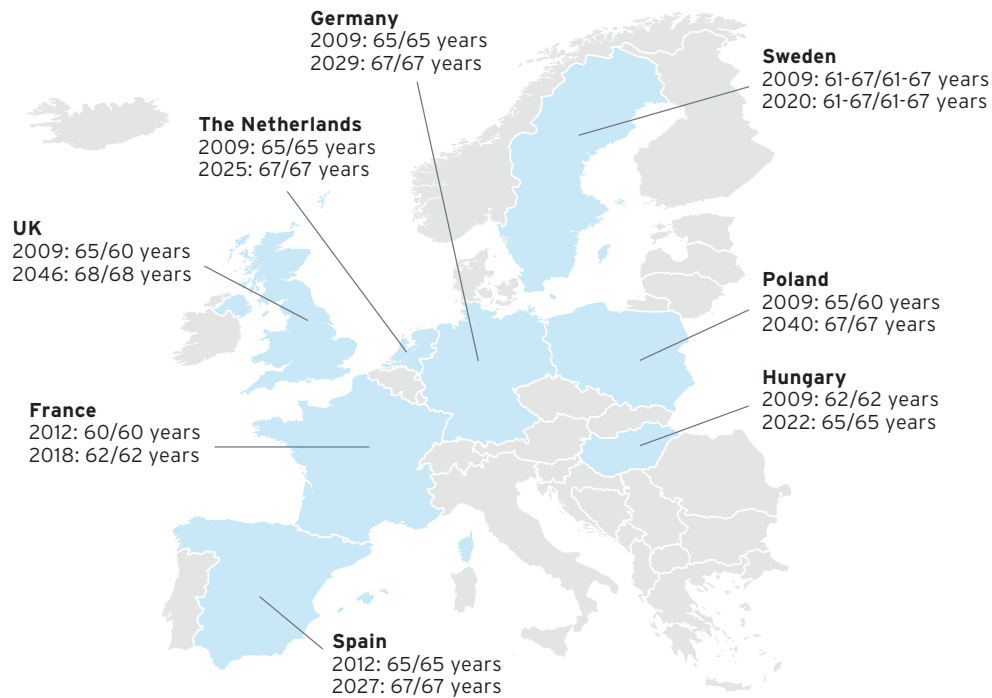
RETIREMENT PLAN FLEXIBILITY AND EXPAT WORKERS

The retirement arrangement for expatriate employees is of growing interest with 45% of international businesses anticipating an increase in international assignments in the coming year^{xiii}. Yet designing the flexible, portable, cross-border retirement plan is still a long way off. As one of our survey companies explained, as a major international company it offers pension plans on a country-by-country basis. The preference is to operate DC arrangements wherever possible. However, the company is hampered by local rules: "We would love one global plan but it's not on the radar." As another firm commented "our global philosophy is to move to DC plans," but firms will find it impossible to create this global philosophy within a single "global retirement system" while plans remain fragmented along national borders with different employment practices and fiscal rules.

Harmonizing these rules - at least within the European Union- is now a policy-maker priority within the context of promoting the free movement of people under the European Single Market.

To help develop policy in this area, AEGON^{xiv} has identified three categories of expat employees: "global nomads", who live for periods in different countries; "permanent movers" who emigrate from one country to another and do not return; and those on limited assignments. Designing appropriate cross-border retirement plans will depend on the type of expat assignment and the "home market" retirement arrangement of the individual employee. These issues are considered in greater detail in our report "Expatriate pensions and employee commitment; designing effective international retirement plans" (AEGON 2012)^{xv}.

Chart 11: Proposed changes to male/female government retirement ages across Europe (2009-2046) ^{xviii}



ENCOURAGING LONGER WORKING LIVES

One area where employers can expect to see an increased role in the coming years will be in extending employment opportunities for older workers. Our findings show that whereas 54% of current retirees stopped working immediately upon reaching retirement age, this will fall to 30% of future generations of retirees, of whom 44% are likely to keep working in some capacity, while 15% expressed a desire and/or need to keep working full time^{xvii}. As we have seen in part 2, the decision to defer retirement ages can have a major impact on boosting retirement incomes and in helping to manage the costs associated with an aging population. As chart 11 illustrates, all governments in the European countries in our survey are now committed to undertaking this process, although results of the 2012 presidential elections in France suggest a possible reversal of policy in that country^{xviii}.

6 RETIREMENT WILL NOT BE THE SAME AS OUR GRANDPARENTS' [GENERATION]. THERE'S NO TALK OF RETIREMENT. PEOPLE WILL WORK PART-TIME 9
 - US EMPLOYER

In countries like the United Kingdom, where many employees (69%) appear more prepared to keep working past retirement age, the public response to increasing the retirement age from 65 to 68 years was somewhat muted. This contrasts starkly with countries like France where employees are least open to change (only 44% envision working beyond current retirement age). Regardless of these variations in sentiment, deferring retirement ages will present major challenges in all the countries we surveyed. Employers, along with governments, also have a role to play in providing access to continued employment for those who wish to remain economically active beyond current retirement ages. When looking at retirement aspirations, we found:

- 11% of employees say that they would like to continue working in the same field.
- 25% are interested in some kind of volunteer work.
- 7% said that they would like to start their own business.

Encouraging these aspirations will have a number of implications for employers and government including:

<p>IMPROVED ACCESS TO TRAINING</p>	<p>It will be important to retrain older employees in order to give them the necessary skills to move into more appropriate fields of employment (for example, manual workers may need to switch to less physically testing work by the time they reach their 60s). For others, keeping skills up-to-date will be paramount.</p>
<p>ACCESS TO VOCATIONAL HEALTH CARE</p>	<p>Ensuring that older workers remain fit and active will be a major challenge. While people are living longer, this is being combined with the onset of age-related disabilities which will shape what kind of work the older employee is capable of undertaking. Funding vocational healthcare will be a necessary part of extending working lives, especially as people move beyond 70, though managing the potential costs of such arrangements will also have to be considered.</p>
<p>MORE FLEXIBLE WORKPLACE RETIREMENT SAVINGS ARRANGEMENTS</p>	<p>In some countries, the rigid rules around when employees can draw down their workplace retirement benefits can act as a trigger to entering retirement, even when the employee might prefer to remain in paid employment. The United Kingdom has only recently removed rules which could be used by employers to force employees to retire at age 65.</p>
<p>ACCESS TO PERSONAL FUNDS FOR HARDSHIP OR ENTREPRENEURSHIP</p>	<p>While older workers may have adequately saved for retirement, much of their assets will be tied up in pensions and property. Making benefit payments more flexible to provide the ability to access additional funds for hardship or as otherwise needed could unlock the potential of a generation of silver entrepreneurs. Nevertheless, sufficient safeguards should be put in place to help workers ensure they have sufficient income to last their lifetime.</p>

While the move to longer working lives and in particular a shift to part-time working later in life seems inevitable for many workers, this increasing acceptance is not always shared by employers. In Europe, for example, most of the companies interviewed had few policies or guidelines in place that will allow older staff to continue working past the statutory retirement age. In the United States, it should be said, this is far less of an issue - many people continue to work later in life, often until they feel able to retire with a reasonable amount of retirement savings.

THE NEED FOR A NEW MODEL FOR WORKPLACE RETIREMENT PLANS

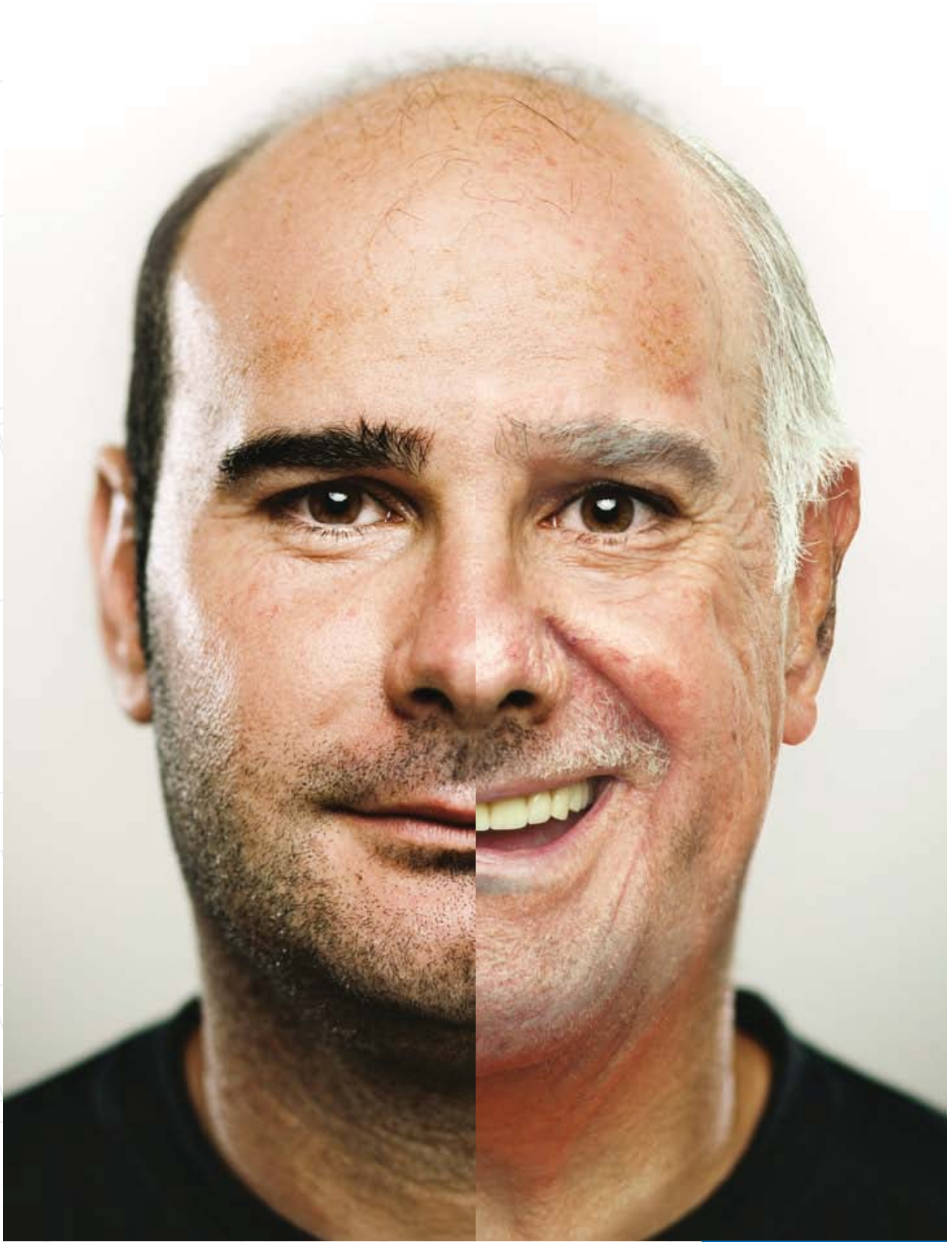
While some governments have sought to make more flexible safety nets for employees - such as the Danish model of “flexicurity” whereby high levels of government welfare benefits are combined with reforms slashing employee protections and obligations to retrain - many of the national models tend to focus on reforming government rather than workplace benefits; as such they also have additional taxpayer costs attached^{xix}. Elsewhere, there is the Swedish model of notional DC plans. Here members and their employers pay contributions calculated on pensionable

earnings, giving some flexibility in choice of retirement age and type of annuity. However, the Swedish DC model took over a decade to create and was partly funded by the former retirement system. Such costs might not prove to be sustainable in the current fiscal conditions, and alternative plans such as the United Kingdom’s NEST may be more appropriate in providing a bedrock workplace retirement benefit for all employees.

What is clear is that greater efforts need to be taken to ensure that workplace retirement plans are reformed to help provide a nimble, cost-effective and valued benefit which can meet today’s changing needs of both employers and employees alike. As employers move increasingly toward DC plans, the overarching desire is to create a more flexible future without losing the certainties of previous pension arrangements. This process needs to be supported by innovations in financial services markets which will help ensure that workers can retire with confidence.



THE CHANGING FACE OF RETIREMENT



RECOMMENDATIONS

Increase the number of employees participating in company pension plans by introducing automatic enrollment, with 'opt-out' rather than 'opt-in' provisions.

In recent years, automatic enrollment has played a very significant role in increasing employee participation in company pension plans - and in helping employees build savings for retirement. To be most effective, we believe employees should be given an 'opt-out' provision only. Research shows this will help younger, lower-income employees in particular. A recent study in the United States found that automatic enrollment among low-income employees would increase retirement savings, as a proportion of final earnings, by more than six-fold. One of the employers we interviewed for this study said introducing automatic enrollment had resulted in 95% of employees participating in his company's retirement plan.

Help employees save more by giving them the option of increasing their contribution rates at fixed intervals - for example, every year.

Employers could help by introducing a special mechanism in their pension plans that triggers an automatic increase in contributions after a fixed period of time. This would help employees build savings gradually - often from a modest base that, in the normal course of events, would not be sufficient for a comfortable income in retirement. Employees could, of course, opt-out of any increase in contributions they felt they were unable to make, and a pre-determined ceiling could be set to limit employee contributions to a certain percentage of their salary.

Employers should provide greater flexibility - by offering employees a choice of different savings plans.

Our first two recommendations, we believe, would help address employees' lack of interest in saving for retirement. But employers should also consider the broader shift in attitudes toward retirement that we are seeing in both the United States and Europe - and introduce as much flexibility as they can into company pension plans to help employees who want to continue working, in some capacity, after their usual retirement age.

Employees should be offered more financial advice and education at work to help them understand the decisions they have to make, and the implications of these decisions on their lives after retirement.

Increasingly, employees are looking to their employers to provide basic information on pensions and long-term savings. Of course, employers must consider the legal ramifications, but we believe more should be done to encourage companies to facilitate financial education and advice to their employees to help them save for older age while they are working, to prepare for changes in their careers or personal lives, and to manage their savings effectively once they've stopped work.

Where possible, increase incentives for employees to save for retirement through tax benefits and employer contributions.

We believe it's imperative governments maintain - or even increase - tax incentives to encourage employees to save for retirement. At a time when public spending is under pressure, the right tax incentives - both for employees and employers - will help to reduce dependence in many countries on state pensions.

Make available simplified, streamlined plan designs, providing attractive 'starter options' for smaller businesses who do not yet sponsor a retirement plan.

Policymakers, we believe, should look at ways of simplifying pension plans, particularly for smaller businesses that currently do not provide retirement plans for their employees. One good example is NEST (National Employment Savings Trust) in the United Kingdom. Such plans may not offer the benefits and protection of traditional workplace retirement plans, but they would provide a good 'starter option' for small and medium-sized businesses that currently struggle with the cost and complexity of introducing savings plans for their employees.

Make it easier for employees to manage their savings after retirement by including products like private annuities as part of company pension plans.

Once they stop work, most employees receive their savings in a lump sum - and are faced with the daunting prospect of re-investing these savings to generate sufficient income for their retirement. Policymakers, we believe, should make it easier for employees by encouraging more financial products like annuities and variable annuities that will provide a steady income stream in retirement. At the same, employers should make sure they provide the information and education that employees need as they prepare for retirement.

Design company pension plan accounts to be more portable so they can accompany employees when they change jobs- to help prevent their cashing out accounts and make it easier for them to save for retirement.

These days, employees change jobs more frequently than they used to, many working abroad. Further improvements, we believe, are needed to enable employees to move their pension plans more easily from one employer to another, or across national boundaries. These improvements should include a greater choice for employees on when and how they retire.

Promote greater awareness of increasing life expectancy and changing work patterns.

Governments have an important role in raising awareness of aging, particularly the changes aging is bringing to the workplace, and the reforms that will be need to make pension systems more sustainable. That means introducing policies that encourage companies to take on and keep older employees, promote a savings culture among those in work, and provide those preparing for retirement with relevant information.



 **THE CHANGING FACE OF RETIREMENT**



GLOSSARY

- **annuity** - Form of contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant at some future time, usually retirement. All capital in the annuity grows tax-deferred.
- **auto enrollment** - An employer-sponsored retirement plan in which the employer is able to enroll an employee without that employee's express authorization. The employer determines what percentage of the employee's salary or wages is contributed to the plan. The employee is able to change this percentage, and can refuse enrollment in the plan.
- **auto escalation** - a plan which automatically increases the percentage of (retirement) funds saved from salary. This type of plan generally features a default or standard contribution escalation rate.
- **baby boomers** - a term used to refer to people generally born between the end of World War II in 1945 and the mid 1960s. **Silent Generation** - The generation born between 1925 and 1945. **Generation X** - The generation born between 1965 and 1979.
- **career average retirement plan** - a type of **defined benefit plan** that is based on an employee's average **pensionable earnings** over the duration of plan membership.
- **defined benefit (DB) plan** - An employer-sponsored pension plan where the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised. Contrast defined contribution plan.
- **defined contribution (DC) plan** - An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee and employer contributions and earnings and losses on those contributions. See also 401(k) plan and 403(b) plan. Contrast defined benefit plan.
- **diversification** - The practice of investing broadly across a number of different securities, industries, or asset classes to reduce risk. Diversification is a key benefit of investing in mutual funds and other investment companies that have diversified portfolios.
- **European Single Market** - Also referred to as the internal market, is a free trade area within the European Economic Area which enables the free movement of goods and services, people and capital across Europe's borders. Efforts have been made in recent years to encourage cross-border pension funds.
- **401(k) plan** - An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan. See also defined contribution plan.
- **403(b) plan** - An employer-sponsored defined contribution retirement plan that enables employees of universities, public schools, and non-profit organizations to make tax-deferred contributions from their salaries to the plan. See also defined contribution plan.
- **final salary plan** - a type of defined benefit plan in which retirement benefits are based on "final pensionable salary" in the years immediately before retirement benefits are received.
- **flexicurity** - Flexicurity is an integrated strategy for enhancing, at the same time, flexibility and security in the labour market. It attempts to reconcile employers' need for a flexible workforce with workers' need for security - confidence that they will not face long periods of unemployment.
- **individual retirement account (IRA)** - A tax-deferred account set up by or for an individual to hold and invest funds for retirement.

- **Inflation risk** - This is the risk that inflation may undermine the performance of investments and reduce the future real value of any investments after inflation has been taken into consideration.
- **Investment risk** - This is the risk that an investment may not generate the desired returns over time, and may even result in the loss of any initial capital invested.
- **longevity risk** - The risk of outliving one's life expectancy and using up one's retirement savings and income.
- **millennials** - a term used to refer to the people born from about 1980 to 2000, brought up using digital technology. They are often classified as the children of Baby Boomers.
- **mutual fund** - An investment company registered with the SEC that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, where a professional investment adviser creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the adviser seeks to track the performance of a selected benchmark or index.
- **National Employment Savings Trust (NEST)** - NEST is a workplace pension system for UK employers to use for their UK-based workers. It helps enable employers to provide a workplace retirement plans for all of their workers, including those who may not have had access to a pension arrangement before.
- **Nudge economics** - Based on the principles of behavioural finance which makes use of insights from psychology to help understand how individuals make economic decisions. It has been employed by policymakers to help encourage people to save more for the long-term.
- **Qualified Retirement Plan** - An employer-sponsored retirement plan that meets the IRS and Employee Retirement Income Security Act of 1974 (ERISA) requirements to have certain tax advantages for employers and employees. Such plans can be defined benefit plans or defined contribution plans.
- **OECD** - Organization for Economic Co-operation and Development aims to promote policies that will improve the economic and social well-being of people around the world by providing a forum in which governments can work together to share experiences and seek solutions to common problems.
- **portability** - The term 'portability of pensions' refers to the transferability of workplace pension rights and is particularly important in the context of increasing worker mobility, in particular mobility within self-employment.
- **retirement (or pension) plan** - Provides replacement for salary when a person is no longer working due to retirement. In the case of a defined benefit pension plan, the employer or union contributes to the plan, which pays a predetermined benefit for the rest of the employee's life based on length of service and salary. Payments may be made either directly or through an annuity. Pension payments are taxable income to recipients in the year received. The employer or union has fiduciary responsibility to invest the pension funds in stocks, bonds, real estate, and other assets; earn a satisfactory rate of return; and make payments to retired workers. Pension funds holding trillions of dollars are one of the largest investment forces in the stock, bond, and real estate markets. If the employer defaults in the United States, pension plan payments are usually guaranteed by the Pension Benefit Guaranty Corporation (PBGC).
- **Target date fund** - Also known as a life-cycle, dynamic-risk or age-related fund, this is a collective investment scheme such as a mutual fund, which is designed to provide a simple investment solution though a portfolio whose asset mix becomes more conservative as the target date (usually retirement) approaches.
- **VA (variable annuities)** - An insurance contract in which the insurance company guarantees a minimum payment at the end of the accumulation period. The payments may vary depending on the financial performance of the managed portfolio.
- **vesting** - The right an employee gradually acquires by length of service at a company to receive employer-contributed benefits, such as payments from a retirement plan. Some laws provide that employees must be vested 100% after a specified period of years in service.



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AEGON is an international life insurance, pensions and asset management company with businesses in over 20 markets in the Americas, Europe and Asia. AEGON employs over 25,000 people and serves nearly 47 million customers worldwide.

In 2010, AEGON became a founding member of the Global Coalition on Aging, which seeks to raise awareness of aging issues among policymakers and the general public. A major aim of the coalition is to transform the way we think and speak about aging: replacing the familiar rhetoric of “problems” with a more positive discussion of “possibilities” and “opportunities.”

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ACKNOWLEDGEMENTS

WE WOULD LIKE TO THANK THE FOLLOWING COMPANIES FOR PARTICIPATING IN THIS SURVEY AND FOR SHARING THEIR MUCH VALUED INSIGHT.

Arkansas Children's Hospital
Commerzbank
Dutch subsidiary of a global chemicals company
Helukabel
KPMG
PTC
PWC
Red Bull
Severn Trent Water
Software AG
Sumitomo
YKK

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■ GRACE BASILE	■ WENDEL HOFMAN	■ ALEX ROBERTS
■ MICHAL BIEDZKI	■ FRANS VAN DER HORST	■ THURSTAN ROBINSON
■ REBECCA BLAGDON	■ HERMAN KAPPELLE	■ PATTI ROWEY
■ RUEDIGER BLAICH	■ MARCO KEIM	■ STUART ROYSTON
■ LIBBY BUET	■ JAIME KIRKPATRICK	■ JOOST VAN SCHAGEN
■ KENT CALLAHAN	■ BAS KNOL	■ DICK SCHIETHART
■ KEVIN CARTER	■ ROGER KOCH	■ ERIK SCHOUTEN
■ HEIDI CHO	■ MICHAEL KOENE	■ MAUD SCHUILWERVE
■ JEANNE DE CERVENS	■ HUBERT KOSTRZYNSKI	■ KATE SMITH
■ DANA CHEN	■ ALEXANDER KUIPERS	■ MARK STOCKWELL
■ SIMON CLOW	■ DEBORA DE LAAF	■ THOMAS SWANK
■ ROBERT COLLIGNON	■ MARK LOCKE	■ MARTIJN TANS
■ CATHERINE COLLINSON	■ MATT LUNA	■ GREG TUCKER
■ JAN HENDRIK VAN DALEN	■ ED VAN LUXEBURG	■ MARK TWIGG
■ WENDY DANIELS	■ PAUL MIDDLETON	■ MARC VAN WEEDE
■ MICHEL DENIZOT	■ MARK MULLIN	■ SUSAN WILCOCK
■ EDIT DREVENKA	■ JEROEN DE MUNNIK	■ DANIEL WRIGHT
■ JAN DRIESSEN	■ MARCELLE NOLTENIUS	■ ALEX WYNAENDTS
■ TIM GIELES	■ STIG NYBO	■ PÉTER ZATYKÓ
■ ROB VAN DER GRAAF	■ ARIE PERFORS	
■ ADRIAN GRACE	■ CHRISTIAN PIEROTTI	

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This report is illustrated with pictures of men and women in middle age and remastered pictures of what they could look like when they are older. Academic research suggests that people have difficulty imagining themselves in old age, and this affects their ability to plan for the future. A recent experiment indicated that when people interact with old-age versions of themselves they make better retirement planning decisions.^{•xxiv}

This can be tried at home using an iPod or iPad app available from <http://www.piviandco.com/apps/agingbooth/>

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CONTACT INFORMATION

HEADQUARTERS

AEGON N.V.

P.O. Box 85

2501 CB The Hague

Telephone: +31 70 344 32 10

www.aegon.com

MEDIA RELATIONS

Telephone: +31 70 344 89 56

Email: gcc-ir@aegon.com

