India Country Report

AEGON Center for Longevity and Retirement

A Retirement Wake-Up Call

The Aegon Retirement Readiness Survey 2016

Contents

Introduction

Now in its fifth year, the Aegon Retirement Readiness Survey explores how increasing life expectancy is impacting the ways in which individuals plan for retirement.

Countries around the world are facing unprecedented change, creating both challenges and opportunities. The concept of retirement is evolving; life expectancy continues to increase; pressures on governments and pension systems are intensifying; and, greater responsibility is shifting to the individual.

People are having difficulty keeping up with this rapid pace of change. Too few are adequately saving and planning for retirement. Most need greater access to financial advice and planning tools in order to navigate the future and improve their retirement outlook. Moreover, people's expectations of how they will transition to retirement may be unrealistic unless employment practices change.

This report evaluates the current state of retirement readiness in India and delineates key areas warranting focus and attention, including the need for: sharing the responsibility for retirement preparation, inspiring habitual saving, making retirement plans more inclusive by design, facilitating the new flexible retirement, and promoting active living and healthy aging in retirement.

The conclusion is that, while India achieved the highest Aegon Retirement Readiness Index (ARRI) score among the 15 countries surveyed, there is still work to be done to make sure that Indians are ready for retirement. Solving the retirement challenge must be recognized as a shared responsibility. It requires engaging all stakeholders – governments, the pensions industry, employers, and individuals – to actively take responsibility, and create a dialogue for an inclusive retirement, and implement solutions so that everyone has the opportunity to achieve long term financial security.

Our research finds that while Indian workers have made progress since 2014 in some of their retirement saving behaviour, there is still room for improvement in their retirement preparedness that would enable them to enjoy a comfortable, secure life in retirement.

Key Findings

- **India leads the 2016 Aegon Retirement Readiness Index.** With a score of 7.3 out of 10, India has a medium level of retirement readiness. India has the highest level of retirement readiness of all 15 countries included in the 2016 survey, and is the only country to have achieved a score of over 7.0.

- **Indians have made moderate improvements in their attitudes linked to retirement readiness.** The proportion of Indians that feel personally responsible for ensuring that they will have sufficient income in retirement has risen from 79 percent in 2014 to 83 percent in 2016, the same proportion that say they are aware of the need to plan financially for retirement.

- **Indians have made improvements in the behaviours driving retirement readiness.** The proportion of Indians who say they have a well-developed plan has increased from 64 percent in 2014 to 67 percent in 2016, over the same period the proportion that say that they are prepared for retirement has increased from 60 percent to 64 percent. Indians who expect to achieve 75 percent or more of their needed retirement income has increased significantly from 43 percent in 2014 to 50 percent in 2016.

- **Since 2014, there has been a large increase in the proportion of Indians with written retirement strategies.** The proportion of Indian workers with a retirement strategy has increased from 79 percent in 2014 to 84 percent in 2016, significantly higher in 2016 than among global respondents (58 percent). This was driven by an increase among those with a written plan (from 18 percent to 29 percent during that time period), while the number with an unwritten plan has actually fallen (from 61 percent to 55 percent since 2014). Vulnerable groups – for example, those who are part-time workers or lower income earners - are usually more at risk of not having a retirement strategy. However, in India they are as likely as all Indians to have a plan, it is just less likely that it will be in writing. Women are more likely to have a written plan than men in India and just as likely to have any plan (written or unwritten).

- **Over three-in-five Indians have backup plans in the event they become unable to work and have to leave the workforce earlier than planned.** Of the 15 countries surveyed Indians are the most likely to have a backup plan (63 percent compared to 32 percent globally). However they are also the most likely to say that their savings form part of their backup plan (71 percent compared to 58 percent globally).

- **Indians agree that responsibility for funding retirement should be a shared effort.** Over 80 percent of Indians agree that: the government should encourage employers to automatically enroll their employees into a retirement plan, that employers should provide through retirement plan benefits, and individuals should save for themselves through private pensions and other investments. In fact, 83 percent of Indians agree that a balanced approach should be taken in which individuals, employers, and the government all play an equal role.

- **Indian workers and retirees expect to fund over two-fifths of their income in retirement through their own savings and investments.** Amongst the 15 countries surveyed, Indians expect the lowest proportion of their retirement income to come from government funding (25 percent compared to 46 percent globally). Instead they will rely more heavily on their own savings and investments (44 percent compared to 30 percent globally) and employer workplace retirement plans (31 percent compared to 24 percent globally).

- **Auto-enrollment holds a very strong appeal among Indians.** Globally, the appeal of auto enrollment is high but the appeal of auto-enrollment is even stronger in India where 84 percent say they would find it appealing at either 6 or 8 percent deferral.

- **Almost three-in-five Indians are habitual savers compared with two-in-five globally.** Habitual saving among Indians has shot up from 49 percent in 2014 to 59 percent in 2016.

- **Indian employers offer a wide range of benefits to attract and retain older workers.** Forty-five percent of Indians workers say that their employer offers them phased retirement or programmes providing for a transition into retirement (much above the global average of 28 percent) while 56 percent say that their employer offers them the ability to work past the normal retirement age (again well above the global average at 45 percent).

- **Seven-in-ten workers say that they will continue working to some extent in retirement.** Indians look forward to good health as they age and many want to continue working to some capacity after retirement. Sixty-six percent are driven on by positive reasons such as wanting to keep active and to keep their brain alert.

Part 1: The state of retirement readiness: 2014 to 2016

The Aegon Retirement Readiness Survey is now in its fifth year. A cornerstone of the research is the Aegon Retirement Readiness Index (ARRI), which was created in 2012 to assess the relative levels of retirement preparedness across participating countries. Individuals are grouped according to whether they achieve a high index score (eight or above out of 10), a medium score (between six and 7.99) or a low score (below six). With a score of 7.3 this year, India ranks the highest in retirement preparedness out of the 15 countries surveyed, reflecting the positive attitudes Indians have towards retirement planning.

Chart 1 *India places first in the 2016 Aegon Retirement Readiness Index*

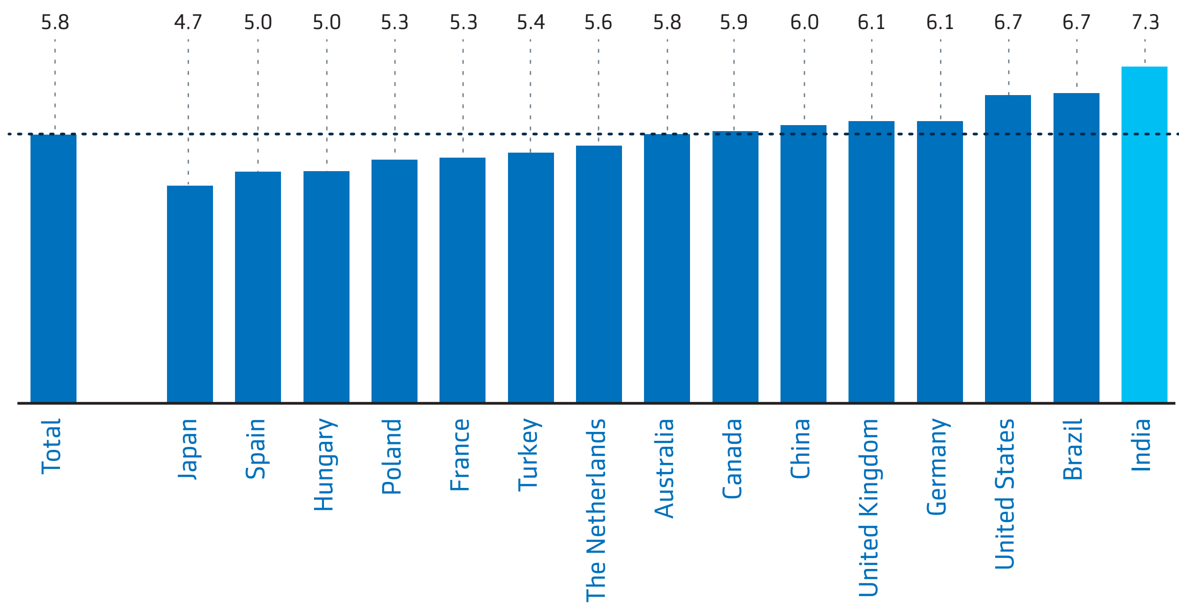
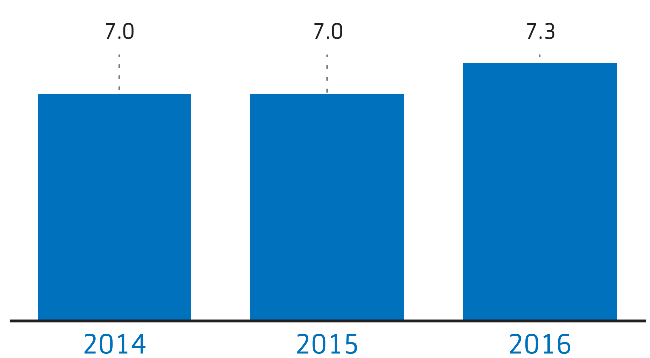


Chart 2 *3-Year trend: India Aegon Retirement Readiness Index*



India has participated in the Aegon Retirement Readiness Survey for three years. In that time India's ARRI score has inched upward from 7.0 in 2014 to 7.3 in 2016, indicating that Indian's are making slow but certain progress in their readiness for retirement.

This may in part be a reflection of Indian's positivity overall. Year-on-year growth in GDP currently stands at 7.9 percent.[1] With one of the world's largest and fastest growing economies confidence in India's economic situation runs high. Two-thirds (66 percent) of Indians think their own financial situation will improve over the next 12 months more than double that of the global average (31 percent). Similarly, three-in-five (62 percent) of Indians think the country's economy will improve over the next 12 months. This positivity is evident in Indian expectations for the future too. Almost half (49 percent) of Indians are very or extremely confident that they will be able to fully retire with a lifestyle they feel is comfortable, compared to 22 percent globally. Indians expect a far brighter picture for future generations too, with 53 percent of Indians believing that future generations will be better off in retirement than those currently in retirement, compared to just 15 percent globally. However questions still remain about how well the Indian pensions system will be able to provide given that in 2015 pensions assets in India represented 4.3 percent of India's GDP compared to over 100 percent in more developed economies (e.g. 121.2 percent in the United States and 111.9 percent in the UK).[2]

Aegon Retirement Readiness Index Components

The ARRI is based on responses to six survey questions, three broadly attitudinal and three broadly behavioural in nature. From 2014 to 2016, these six predictor variables have all trended steadily upward year-on-year. Income replacement is the one variable with the most noticeable increase since 2014, as Indians are feeling more positive in 2016 about achieving 75 percent or more of the income they need to live in retirement.

Chart 3 *What factors shape the ARRI findings?*

Income replacement
Do you think you will achieve the level of income you think you will need in retirement?

Personal responsibility
To what extent do you feel personally responsible for making sure that you will have sufficient income in retirement?

Financial preparedness
Thinking about how much you are putting aside to fund your retirement, are you saving enough?

Level of awareness
How would you rate your level of awareness on the need to plan financially for your retirement?

Retirement planning
Thinking about your own personal retirement planning process, how well developed would you say that your personal retirement plans currently are?

Financial understanding
How able are you to understand financial matters when it comes to planning for your retirement?

[1] *Trading Economics – Ministry of Statistics and Programme Implementation (MOSPI)*

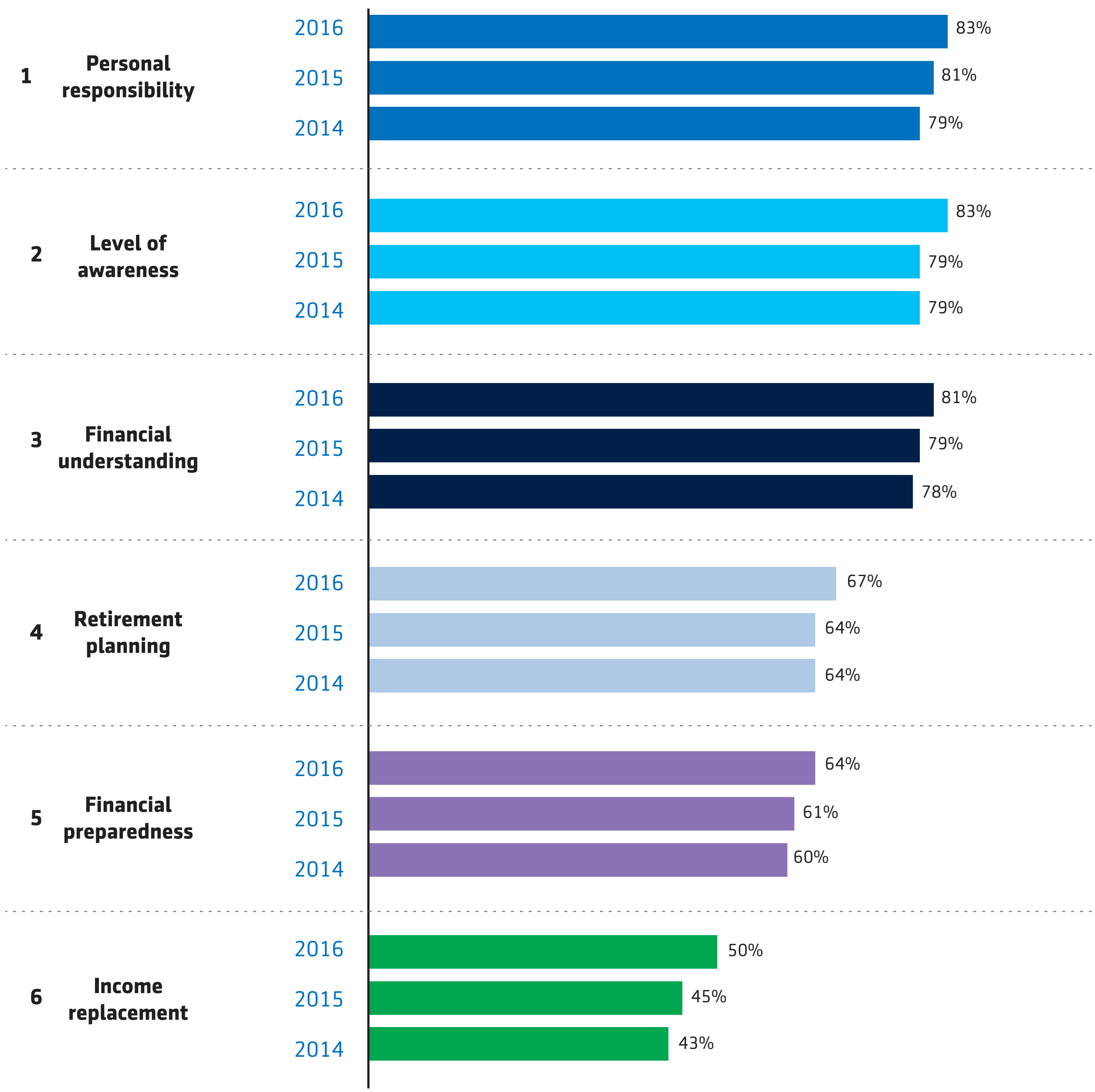
[2] *Willis Towers Watson, Global Pension Assets Study 2016*

Chart 4 *India 3-Year Trend: ARRI components*

The six index questions are answered on a five-point scale. Bars show the proportion of "top two option" (4 and 5) responses between 2014 and 2016.

For the first five questions from top to bottom, workers were asked to rate their level of agreement with a statement, e.g., "To what extent do you feel personally responsible for making sure that you have sufficient income in retirement?" From code 1 "I don't feel responsible at all" through to code 5 "I feel very responsible." Bars represent top-two options (4 and 5), for example, that workers feel "somewhat or very responsible."

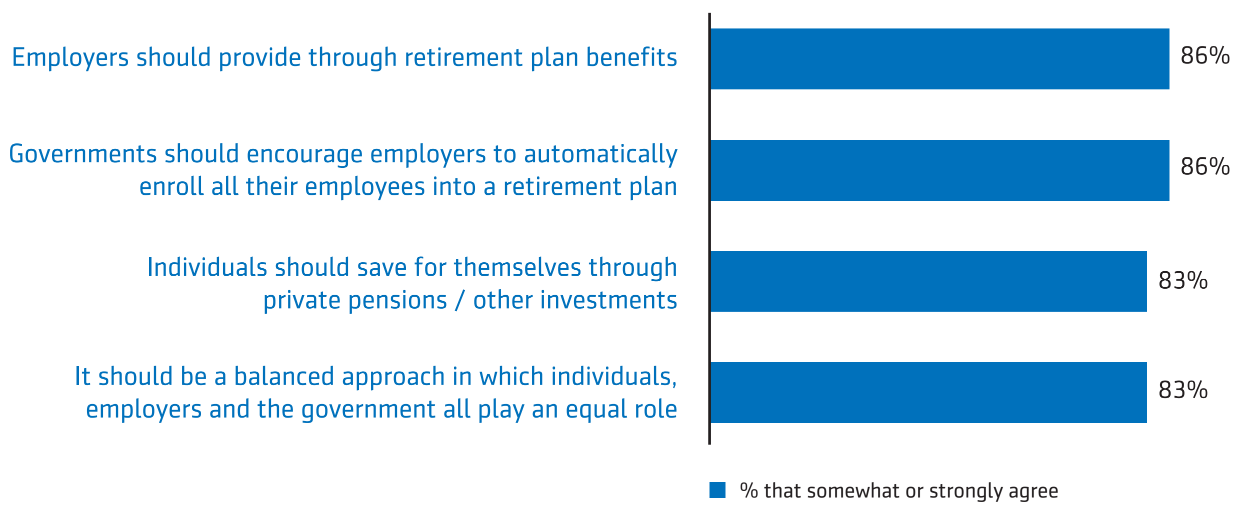
For the sixth question, "income replacement," workers were asked what proportion of their current income they expect to need in retirement, followed by "Do you think you will achieve this income?" This is answered on a scale from code 1 "I don't know if I am on course to achieve my retirement income" through to code 5 "Yes I am on course to achieve my retirement income." The bars represent top-two options (4 and 5), that they are on course to achieve at least 75% of their needed retirement income.



Part 2 - Retirement readiness is a shared responsibility – and it requires a shared solution

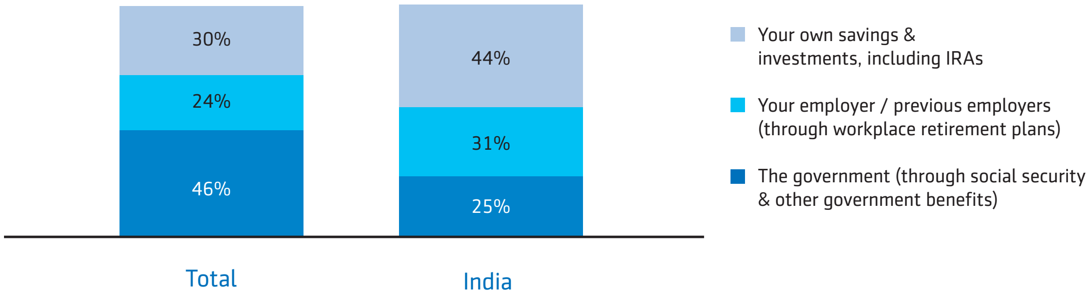
Funding retirement is seen as a shared responsibility by Indians. The majority (86 percent) are in agreement that their employers should take responsibility by providing retirement plan benefits, well above the global response of 72 percent. Indians are also in agreement that the government should encourage employers to automatically enroll all their employees into a retirement plan, which at 86 percent is also much stronger than of the global response of 75 percent. And yet, 83 percent feel that individuals must also do their part by saving through private investments, a view held significantly higher than the global response (62 percent) for individual saving.

Chart 5 *Indian attitudes on how to fund retirement*



Indians realize that they cannot rely solely on the government and expect that the largest proportion of their retirement income (44 percent) will come from their own personal savings and investments. Just a quarter (25 percent) will come from government benefits. This is counter to global findings where the highest proportion of retirement income is expected from government benefits (46 percent) and just 30 percent will come from personal savings and investments. Indians also expect to receive more from employment plans (31 percent) compared to the global average (24 percent). It is interesting to note that these retirement income proportions are viewed similarly across gender and all age groups.

Chart 6 *Proportion of retirement income by three broad sources*



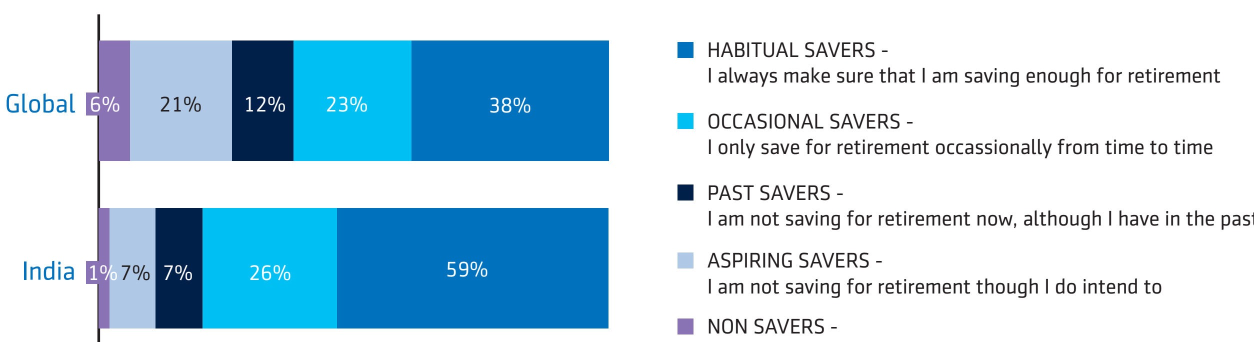
Given that the sustainability of retirement systems across the globe are under strain as a result of aging populations and longer life expectancies, all social partners need to take a more balanced, and realistic approach in which governments, employers and individuals are working together to fund retirement.

Part 3 – Habitual saving is critical for success

The importance of habitual saving cannot be stressed enough. People who save habitually are in a better position in planning for their retirement, feel more responsible, and have a better understanding of what retirement will mean for them financially.

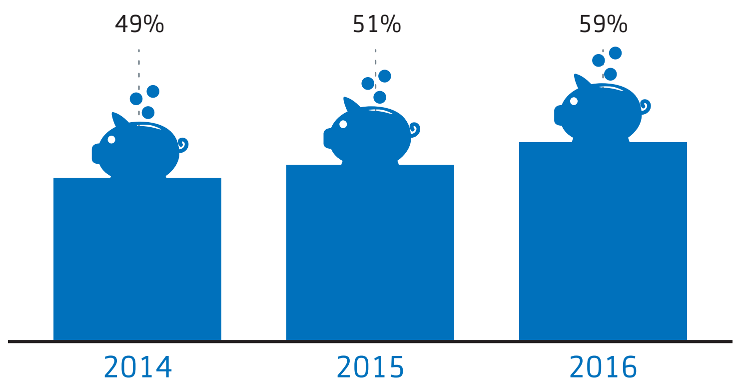
The majority (85 percent) of Indians save at least occasionally. Three-in-five (59 percent) Indians are habitual savers, 21 percentage points higher than globally, and another quarter (26%) are occasional savers. Past, aspiring and non-savers make up 15 percent.

Chart 7 *Approach to saving for retirement*



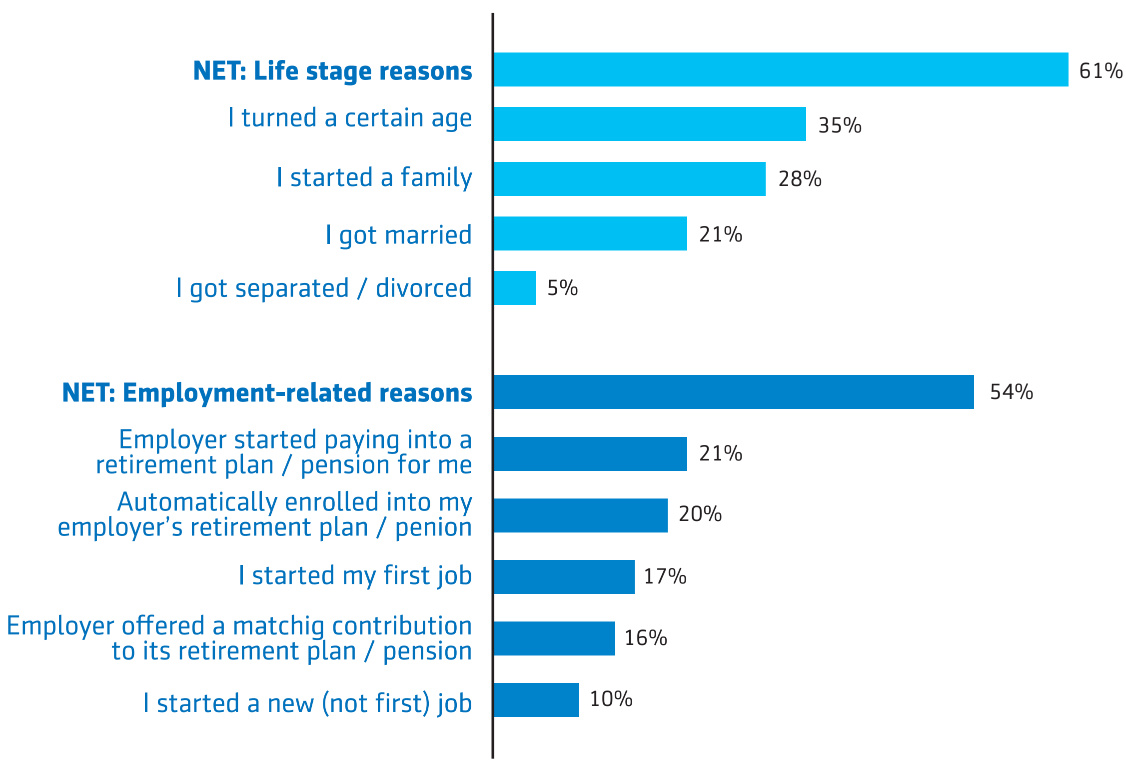
There has been a significant increase in habitual saving among Indians. Between 2014 and 2016 there has been a 10 percentage point increase in habitual saving, and noticeably, the largest increase is seen within the past year, between 2015 and 2016.

Chart 8 *Indian habitual savers: 3-Year trend*



Three-in-five (61 percent) Indian savers and intenders attribute lifestage reasons for kick-starting them into saving for retirement. When 35 percent turned a certain age that provided the stimulus needed to start their retirement savings and for 28 percent the turning point was when they were starting a family. Over half (54 percent) were employer prompted- for example, when their employer started paying into their retirement plan (21 percent), when they were automatically enrolled in their employer's retirement plan (20 percent), or when their employer offered a matching contribution to their retirement plan (16 percent).

Chart 9 *What prompted retirement saving among savers and intenders*



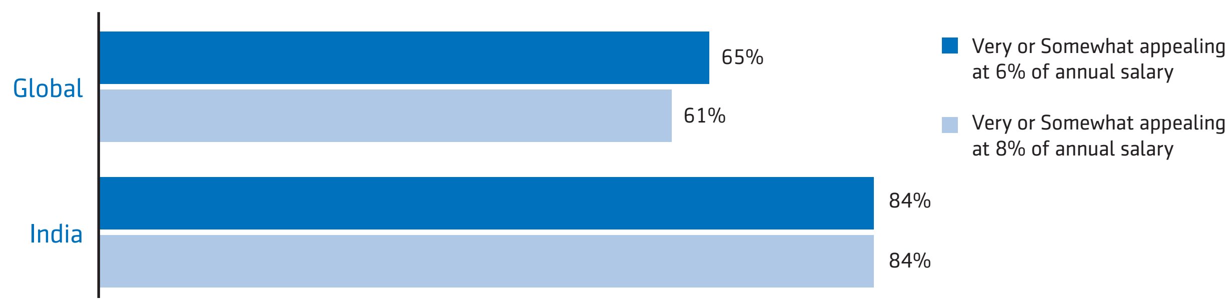
Part 4 – Making it easy and more convenient to save

Workplace retirement plans can provide the impetus needed to start saving for retirement. Automatic enrollment into a workplace retirement plan, whereby workers are automatically enrolled and a set proportion of their salary is invested into a retirement plan, has wide appeal globally and offers a perfect opportunity for those who are less able to save or prepare for their retirement. It is retirement saving made easy - the money is taken out of their wages before the opportunity arises to spend it on other purchases. Workers are less likely to notice the deduction as much as if they have to handle that transaction themselves or manage their retirement plan on their own. In India, auto enrollment is most attractive, with nearly all workers finding automatic enrollment appealing at either six percent or eight percent of their annual salary (84 percent, respectively).

Subgroups in the population that are most vulnerable - women, part-time workers, low income earners, the less educated - and are less able to achieve retirement readiness would particularly benefit from more structured arrangements in terms of enrollment in workplace retirement plans.

Unfortunately for these groups, there are sometimes more immediate concerns such as caring for family members or simply paying the bills which takes precedence over more distant priorities such as retirement planning. Women, for example, are more likely to take on family responsibilities and consequently may only have the opportunity to work on a part-time basis, earning a significantly lower salary than if working full-time. This may account for the strong appeal for auto-enrollment among women, where over four-in-five (84 percent) of Indian women view auto enrollment at eight percent of their annual salary as appealing as six percent (86 percent), the attraction at either deferral rate is convincing.

Chart10 *The appeal of auto-enrollment*



The role of workplace retirement plans

The workplace is a primary channel for encouraging retirement savings. Nearly seven-in-ten (68 percent) of all Indian workers feel their employers provide enough information and support to help with their retirement planning.

Employers offer a wide range of benefits to attract and retain workers and employers in India and do well in offering a wide range of services to help workers prepare for retirement. Seven-in-ten workers say that they receive medical health insurance, opportunities for career progression and access to good training provisions. Sixty-one percent are offered a retirement plan with employer contributions, 56 percent are offered the ability to work past the normal retirement age and 45 percent are offered phased retirement or other employer programmes providing for a transition into retirement.

Chart 11 *Workplace benefits provided to Indian workers*

	Percentage of workers offered this service
Medical health insurance	70%
Opportunities for career progression	70%
Convenient location of workplace	69%
Access to good training provision	68%
Overtime and bonus pay	62%
Retirement plan with employer contributions	61%
Flexible working hours	60%
Life insurance	60%
Vacation/ paid time off	58%
Ability to work past the normal retirement age	56%
Phased retirement or other employer programmes providing for a transition into retirement	45%
Retirement plan without employer contributions	45%

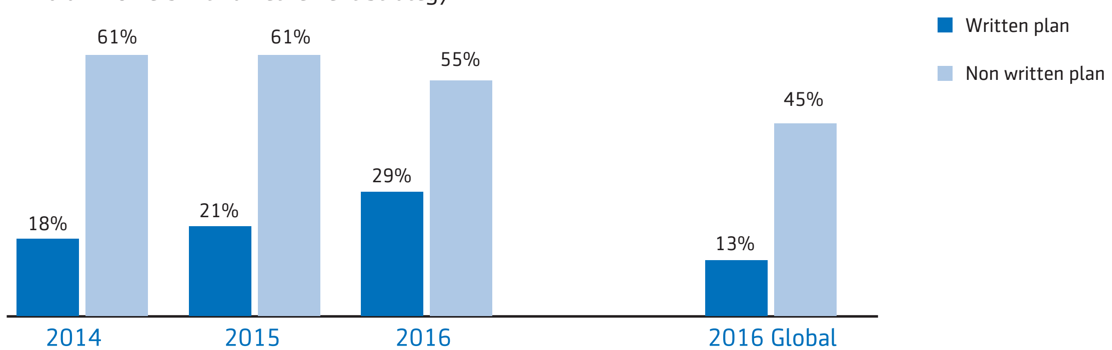
Asked what financial means workers are currently using to prepare for retirement, Indians say that they are mostly using life insurance and fixed deposit accounts (55 percent, respectively). Two-in-five use the Employer's Provident Fund (EPF), the National Pension System (NPS), mutual funds, or property. A majority of Indians view the EPF to be as safe as the National Pension System (NPS) (55 percent) or as safe as bank fixed deposits (50 percent). Over half of Indians prefer their pensions to have a lower return, with a guaranteed pension (56 percent) compared to a higher return with a more uncertain pension (39 percent). Those who prefer a lower return with a guaranteed pension are willing to pay an average of six percent more for that guaranteed pension.

Part 5 – The imperative for retirement literacy and planning

A written retirement strategy is not merely a stack of handwritten notes but is often the outcome of a process where future retirees have taken the time to consider what their post working life can look like and how they can fund it.

Indians are way ahead of the global community when it comes to having a retirement strategy, the majority (84 percent) of Indian workers have a retirement strategy (either written or unwritten). Twenty-nine percent have a written plan which is an 11 percentage point increase since 2014. Indians are more than twice as likely to have a plan in writing as the global average. The proportion of Indians with a written retirement plan remains fairly consistent across most of their working lives. Twenty-six percent of Indians in their 20s have a written retirement plan which falls slightly to 22 percent by the time workers reach their 40s, there is then an increase to 28 percent once workers enter their 50s. When workers reach their 60s there is a spike and the proportion with a written plan doubles to 57 percent.

Chart 12 *Indian Workers with a Retirement Strategy*



Vulnerable groups, such as people who work part-time or low personal income earners are normally less likely to have had the opportunity to formulate a strategy to prepare financially for retirement - written as well as not written. But in India part-time workers are just as likely to have a retirement strategy as all workers—they are just less likely to have a more formal plan in writing. Women tend to take on more family commitments such as childcare and as such are more likely to work part time. In most countries women are therefore less likely to have retirement plans but in India more women have a written plan than men and women are just as likely to have a plan of any type (written or non-written) as men.

Chart 13 *Part-time workers and women are just as likely as workers overall to have a retirement strategy*

	Total	Women	Young (age 20-29)	Work part-time	Low income (personal)	Low education (less than undergrad degree)	Aspiring savers	Non-savers
I have a written plan	29%	34%	26%	18%	18%	*	8%	*
I have a plan, but it is not written down	55%	50%	60%	65%	57%	*	34%	*
I do not have a plan	14%	14%	13%	15%	20%	*	50%	*
Don't know	2%	2%	1%	2%	5%	*	8%	*

** Note: Very low base size*

Nearly two-thirds (63 percent) of Indian workers say they have a backup plan to provide them with an income in the event they become unable to continue working before reaching their planned retirement age. The majority will dip into their savings (71 percent) as a backup. Others have planned ahead by purchasing income protection (39 percent) or will rely on their spouse's income (34 percent) to tide them over.

Chart 14 *Three-in-five Indian workers have a backup plan*

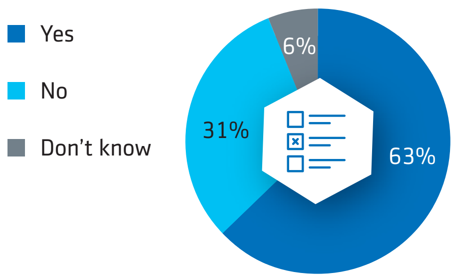


Chart 15 *Their 'backup plan' includes…*

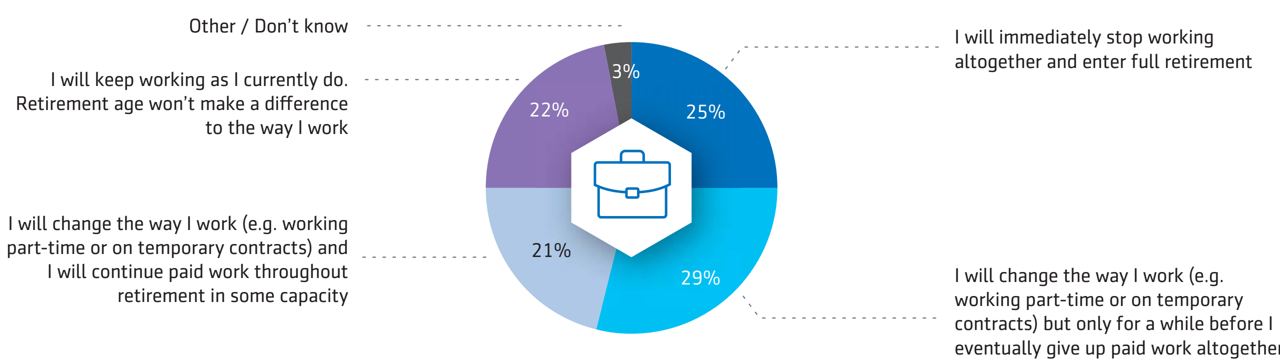
Part 6 – It's personal: Making the case for the new flexible retirement

Indians expect to live for an average of 22 years in retirement, but the reality is that they may live even longer. Increases in longevity may result in individuals needing to work longer in order to adequately fund retirement. Working longer can also promote active living and healthy aging.

Indian workers appear to be aware of this with 72 percent opting to continue working in some capacity which may involve shifting from full-time to part-time work. Over three quarters (77 percent) of workers say the ability to work past normal retirement age is an extremely or very important occupational benefit and 72 percent find phased retirement to be extremely or very important.

Among those who envision or envisioned working in some capacity in retirement, two thirds (66 percent) say that they want to do so to keep active or to keep their brain alert, 61 percent simply enjoy their work, and 28 percent will do so because working will be their primary source of income while transitioning into retirement.

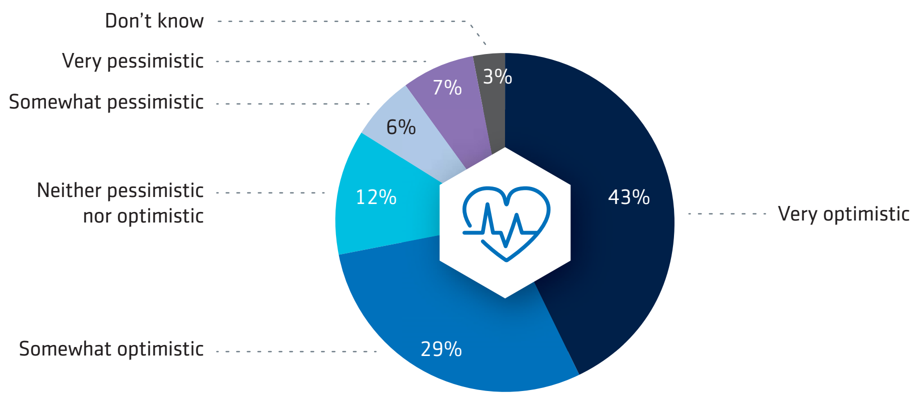
Chart 16 *Working into retirement will be the norm*



Part 7 – The promise of active living and healthy aging

India's improved macroeconomic situation may be the stimulus for Indians' positivity and financial preparedness for their retirement years. Health will also play a role. Currently over three-quarters (77 percent) of Indians feel they are in good or excellent health. Being healthier for longer opens up opportunities to stay active, to continue working or simply to enjoy activities considered to be important to them, and furthermore, just under three-quarters are optimistic that they will be able to maintain good health in retirement.

Chart 17 *When thinking about their retirement, seventy-two percent of Indians are optimistic about maintaining good health*



With increased life expectancies, there is a need for many to extend their working lives and retire at an older age. Doing so can help bridge retirement savings and income needs. It's also an opportunity to stay involved and enjoy more years filled with active living and healthy aging.

Recommendations

The world is ready for its retirement wake-up call. The fifth annual Aegon Retirement Readiness Survey finds modest improvement in Indians' retirement preparedness since 2014.

While around the world many workers expect to rely heavily on government benefits, Indians may have already recognized that they will have to rely less on their government and more heavily on their own personal savings and investments to fund their retirement. The fact still remains that Indians are still not saving enough to adequately fund their retirement income needs, there is still room for improvement in retirement saving behaviour. The reality is that people are living longer than ever before, yet inadequate attention is being given to address the costs and implications associated with increased longevity. And therefore, governments, employers, and individuals must continue to expand upon actions that have proven effective while innovating new solutions for the future.

1. Employers should be encouraged to set up more comprehensive employer retirement savings plans. Policymakers should work to increase incentives to employers, remove barriers to setting up plans, and opening them to all workers. Workers should be encouraged to save on a consistent basis through payroll deduction. Incentives to participate, such as employer or government matching contributions, will help draw attention to the benefits of deferring a portion of salary into an employer-sponsored retirement plan. Incentives, however, may not by themselves be enough to change behaviour. Employers should provide for workers to be automatically enrolled into a workplace plan. Automatic enrollment is an effective nudge to start workers on a consistent long term savings programme.

2. Employers and workers should agree on triggers for automatically increasing savings by payroll deduction (auto-escalation). Depending on when a worker started saving consistently and how long they have before retirement, the automatic enrollment default rate may not be adequate to provide sufficient retirement income. Increases in the amount people save can be made automatically at predetermined times, such as pay raises, or upon attaining a certain age.

3. Employers and governments should continue to promote financial literacy and raise awareness, not only of the need to save for retirement, but also how to invest long term savings, and the benefits of working longer. Governments should consider engaging family and friends in their campaigns to help increase awareness of the benefits of establishing a retirement savings strategy, especially for those not covered by an employer-sponsored retirement plan. No age is too young or old to start. Parents can instill good savings habits in their children by teaching them how to budget and invest. Parents and adult children can begin to discuss topics that are typically sensitive, such as getting one's legal affairs in order, inheritance, caregiving, and other financial matters.

4. In 2016, Indian employers must get serious about instituting digital access to employee retirement savings plans and to use any and all digital tools to keep workers engaged with their retirement savings. This is the easiest and fastest platform for employees to themselves, manage their retirement savings pot. Online tools—such as online retirement modeling tools, digital access to view and manage accounts, webcast meetings/ seminars about pension/ saving for retirement and company sponsored blogs and/ or online network groups --are all means by which employees can enhance their retirement preparedness journey. Additionally, tools like "robo" advice are also useful for individuals to assess the amount they will need to save and how to invest their savings.

5. The retirement plan or strategy should help people to manage retirement savings to last a lifetime. Building up adequate retirement savings is one half of the solution. Individuals should also plan to manage their retirement savings during the decumulation phase to provide them an income for life that includes possible pension income and government benefits. Lifetime income can be achieved through a guaranteed lifetime income product (annuity) or through a combination of other solutions and/or products, without any guarantees.

6. Individual retirement strategies should also include a backup plan to enable individuals to pay for unexpected expenses and events. While Indians are aware of and currently use income protection products as a backup they should also be encouraged to explore other more cost effective plans such as life and critical illness polices.

7. Governments and employers should encourage individuals to work longer or, at a minimum, facilitate their working past normal retirement age. As many individuals and employers tie retirement age to the date of receipt of government retirement benefits, any increase in the age of entitlement (when people can draw on their social security pension) would likely influence a change in behaviour and encourage individuals to work longer. Employers can also facilitate workers remaining in the workforce past their normal retirement date by developing age-friendly workplaces and by implementing phased and flexible retirement options (e.g., flexible work arrangements, reducing hours, working in a different capacity). Employers are encouraged to consider the benefits of retaining older workers in the workforce, such as the experience they bring, their loyalty and understanding of the business. Employers and governments should facilitate continued training to enable individuals to maintain skills to perform their job. Individuals should take advantage of training and phased retirement programmes and consider the benefits of remaining in the workplace (e.g., maintaining an active mind and body, fulfillment, community, increased income).

8. Finally, as individuals consider their preparedness for retirement, actions to keep healthy and active can increase their confidence in their retirement security and their ability to work longer. Employers should be encouraged to promote greater vitality through wellness programmes in the workplace and governments and employers should consider incentives for healthy and active lifestyles.

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