



United States Country Report



A Retirement Wake-Up Call

The Aegon Retirement Readiness Survey 2016

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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 the United States and delineates key areas warranting focus and attention, including the need for: sharing the responsibility for retirement preparation, inspiring a world of habitual savers, 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 Americans need a retirement wake-up call. Solving the retirement challenge must be recognized as a shared responsibility. It requires engaging all stakeholders – governments, 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 American workers have made progress since 2012 in some of their retirement saving behavior, they are still lagging behind in retirement preparedness that would enable them to enjoy a comfortable, secure life in retirement.



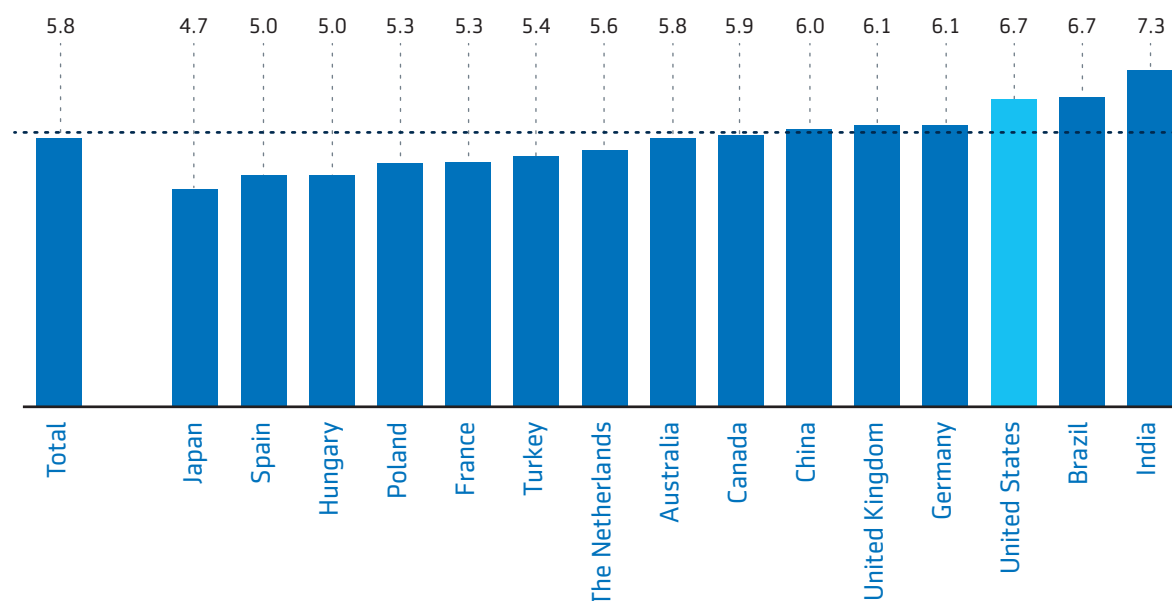
Key Findings

- **The U.S. outranks most countries in the 2016 Aegon Retirement Readiness Index.** With a score of 6.7 out of 10, the U.S. has a medium level of retirement readiness. Globally, the U.S. and Brazil tie for second place out of the 15 countries included in the 2016 research, an improvement for the U.S. from the 2015 survey.
- **American workers' feelings for taking personal responsibility to ensure they will have sufficient income in retirement and their awareness for the need to plan has not changed since 2012.** The majority of Americans know they need to shoulder the responsibility for ensuring they will have sufficient income in retirement and are aware of the need to plan financially for retirement. These feelings have not changed substantially between 2012 and 2016. Yet their ability to understand financial planning has seen a change upward in the same time period.
- **There has been an upward trend in Americans' actions toward retirement planning since 2012.** Perhaps as a result of still feeling the pinch from the recession, Americans have shown a significant increase in retirement planning development and in putting enough into fund their retirement savings.
- **Since 2013, there has been an increase in the number of Americans with written retirement strategies.** The proportion of American workers with written plans for their retirement strategies has nearly doubled since 2013, from 14 percent in 2013 to 26 percent in 2016, well exceeding the overall global response of 13 percent. Vulnerable groups - women, part-timers, lower income and lower education workers - are the least likely to have written plans. But workers between 20 and 29 years of age, often considered a vulnerable group, are the most likely to have a written strategy.
- **Few Americans have backup plans if they become unable to work and have to leave work earlier than planned.** Most of those Americans who do have backup plans will use their personal savings as a backup.
- **Americans are clearly becoming more aware and accepting that they will need to build their own personal retirement plans.** Nearly all Americans are in agreement that individuals should save for retirement themselves, closely followed by the sentiment that employers should provide through retirement benefit plans.
- **American workers and retirees expect their government to fund a good portion of their income in retirement.** Americans will still be largely dependent on government funding, estimating that it will provide 43 percent of their income in retirement. The remainder will break out evenly between an individual's personal savings and employer's/ workplace retirement plans.
- **Auto-enrollment holds a very strong appeal among Americans.** The draw to auto-enrollment at six percent of salary is high among Americans (75 percent), and nearly as strong at eight percent (72 percent)
- **Over half of Americans are habitual savers compared with two-in-five globally.** Habitual saving among Americans has increased from 46 percent to 54 percent since 2012.
- **American employers are negligent in their offering of digital retirement tools to their employees.** Relatively few American workers report having access to online tools to help them prepare for retirement or manage their retirement accounts. The numbers are even lower for retirement modeling tools, access to manage their retirement savings or webinars about saving for retirement.
- **Three-in-five workers say that they will continue working to some extent in retirement.** Americans look forward to good health as they age and want to continue to work in some capacity after retirement, many of whom want to do so to keep active and/or their brain alert.

Part 1: The State of Retirement Readiness: 2012 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 15 different 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 6.7 this year, the U.S. ranks as one of the highest in retirement preparedness out of the 15 countries surveyed, reflecting the positive attributes of the U.S. retirement system.

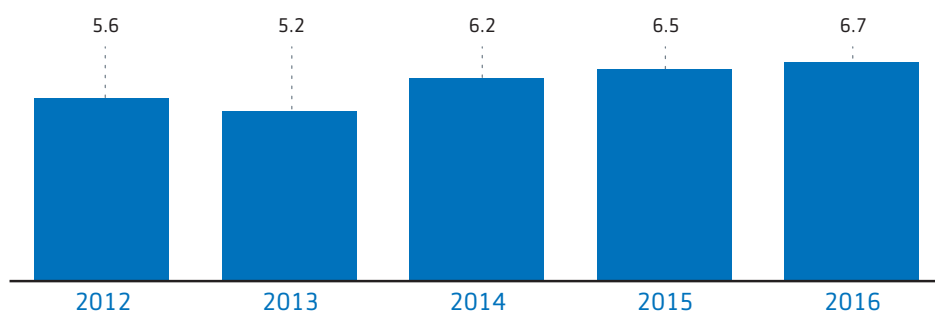
Chart 1 *U.S. ties with Brazil for second in the 2016 Aegon Retirement Readiness Index*



As the responsibility for funding retirement is shifting ever more from employers and the government to the shoulders of the American people, Americans are taking slow but steady steps forward in terms of how they ready for retirement. The U.S. ARRI has steadily improved, shifting upward from 5.6 in 2012 to 6.7 in 2016. This improvement is in line with the country's economic recovery over that time period. A third (34 percent) of Americans feel their own financial situation will improve over the next 12 months which is in line with the global average.

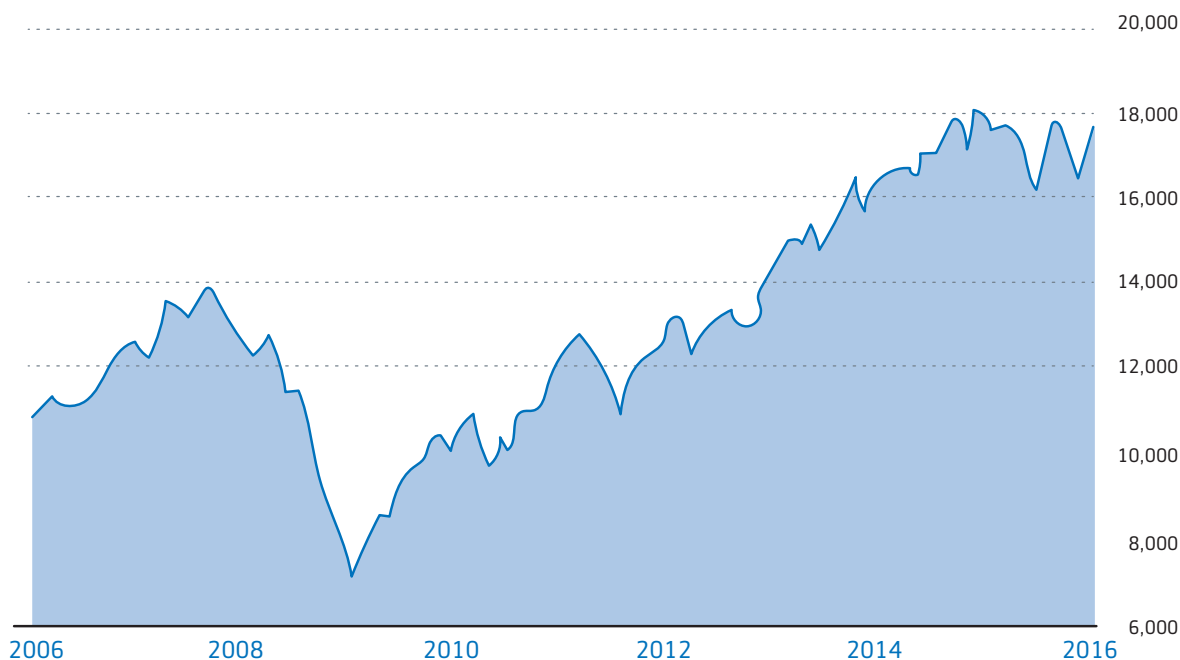
Similarly, the labor market continues to improve and provide both more jobs and more long term opportunities to Americans and a quarter of Americans (25 percent) feel the country's economy will improve over the next 12 months.

Chart 2 U.S. 5-year trend: Aegon Retirement Readiness Index



Investors in the U.S. have also remained positive despite recent volatility in equity markets following last summer's declines. Stock markets remain at historically high levels having experienced a seven-year bull run which has seen share prices more than double since 2009. For those Americans with 401(k) or similar retirement plans this translates into a growing optimism about their future retirement.

Chart 3 Performance of the Dow Jones Industrial Average since 2006¹



¹Dow Jones Industrial Index, 2006-2016

²Bank of International Settlements, 2006-2016

Aegon Retirement Readiness Index Components

The ARRI is based on responses to six survey questions, three broadly attitudinal and three broadly behavioral in nature. From 2012 through to 2016, these six predictor variables have all been trending upwards, with the exception of 2013 when most measures dipped from the previous year but then trended up the following year. The attitudinal measures including “personally responsible” and “awareness” have changed the least over time, whereas “financial understanding” has risen noticeably. Behavioral measures - “planning” and “saving enough for retirement” - have both risen considerably since 2012.

Chart 4 What factors shape the ARRI findings?

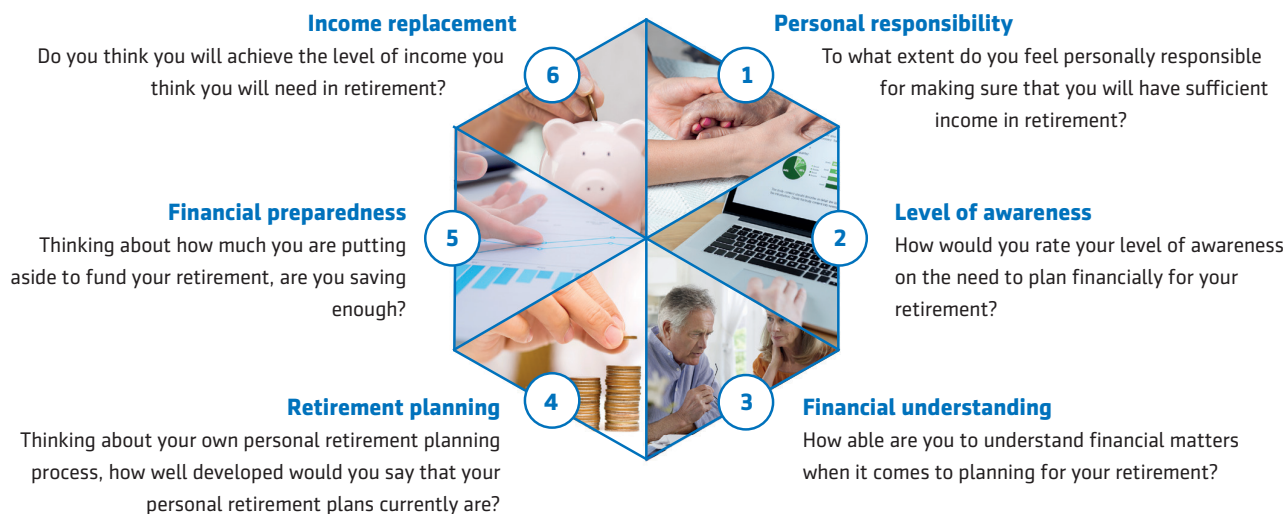
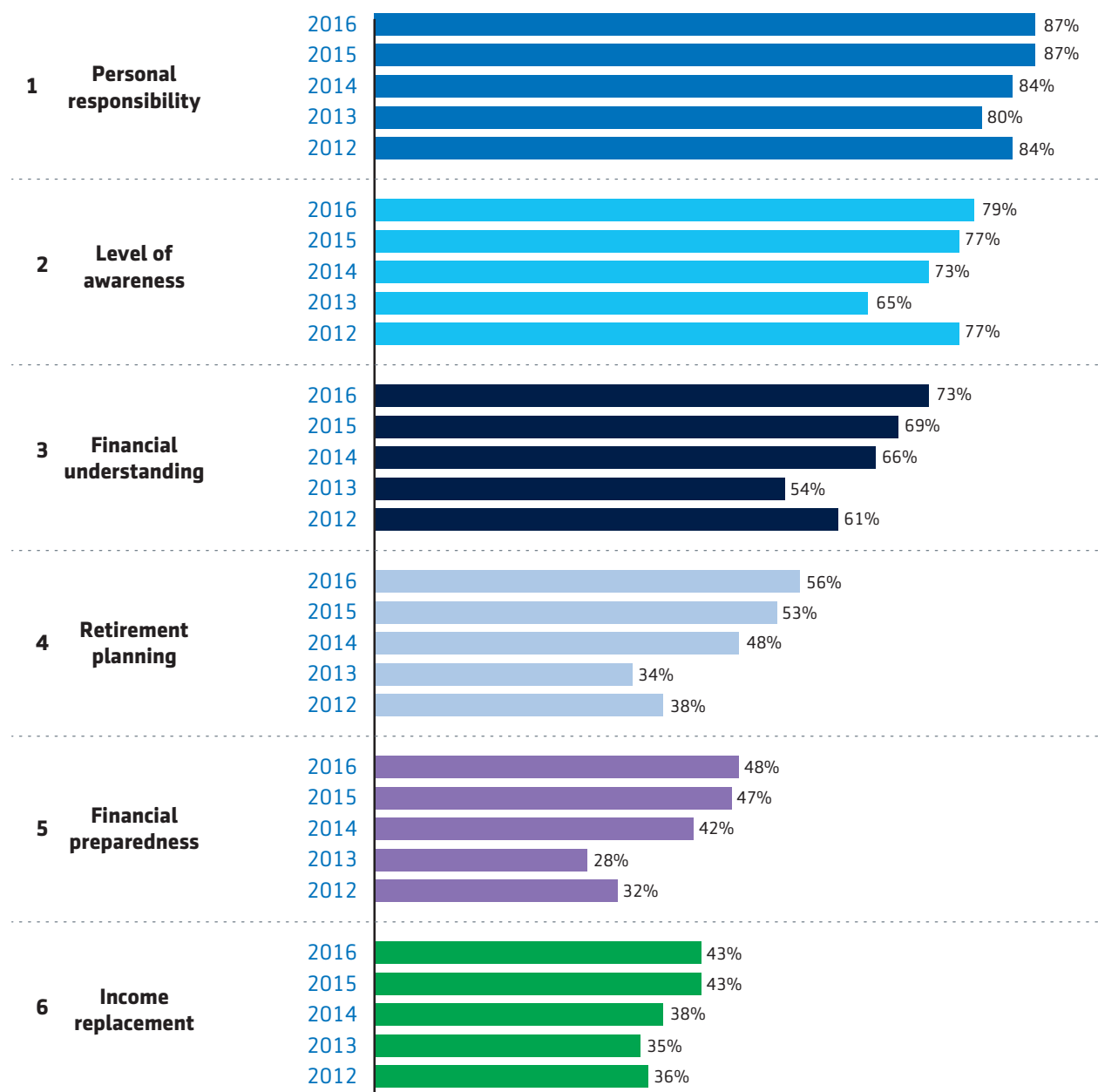


Chart 5 U.S. 5-year trend: ARRI components

The six index questions are answered on a five-point scale. Bars show the proportion of "top two option" (4 and 5) responses between 2012 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.

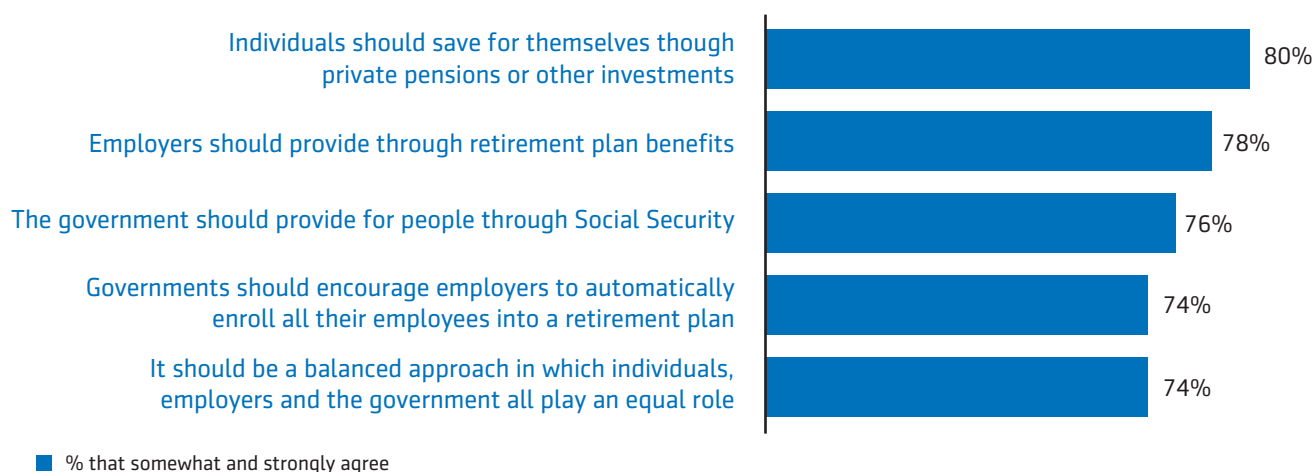


Part 2 - Retirement readiness is a shared responsibility – and a shared solution is needed

With increased longevity, retirement is lasting longer and people are enjoying more time after their working life. Funding this longer retirement rests on three pillars – firstly personal responsibility – individuals must put aside and invest a sufficient proportion of their salary. And start doing so in time. Secondly, governments must provide appropriate vehicles to invest in and guidance on how to do so. Finally, employers must engage with employees on planning their retirement as well as contributing their part financially.

Americans are more accepting of personal responsibility for funding retirement compared to survey respondents globally. Eighty percent agree that individuals should save for themselves, while 76 percent agree that the government should provide for people through Social Security.

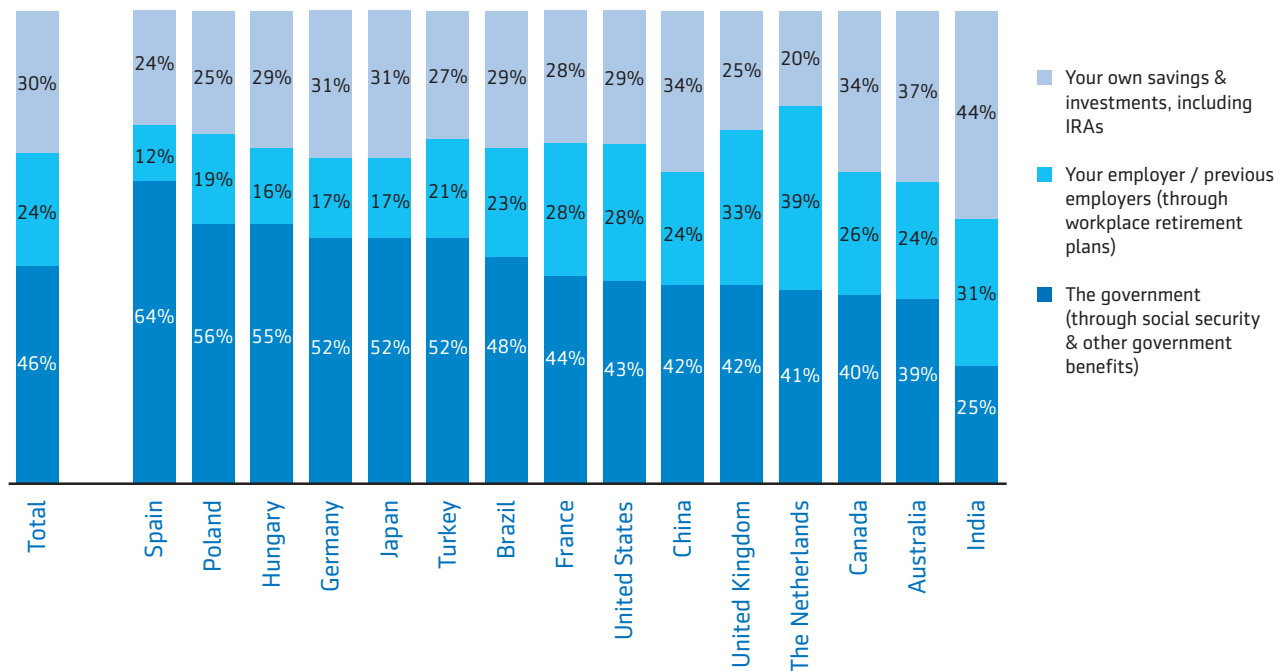
Chart 6 *U.S. attitudes on how to fund retirement*



However, like most of the survey respondents globally, Americans still expect government retirement benefits, such as Social Security, to comprise more than 40 percent of their retirement income. This implies that many people will likely have an income in retirement that is somewhat to much lower than their working incomes.

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

Chart 7 Proportion of retirement income by three broad sources



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. Encouragingly, the proportion of Americans that save habitually is 54 percent of the working population, which is an increase from 46 percent in 2012.

Chart 8 Approach to saving for retirement

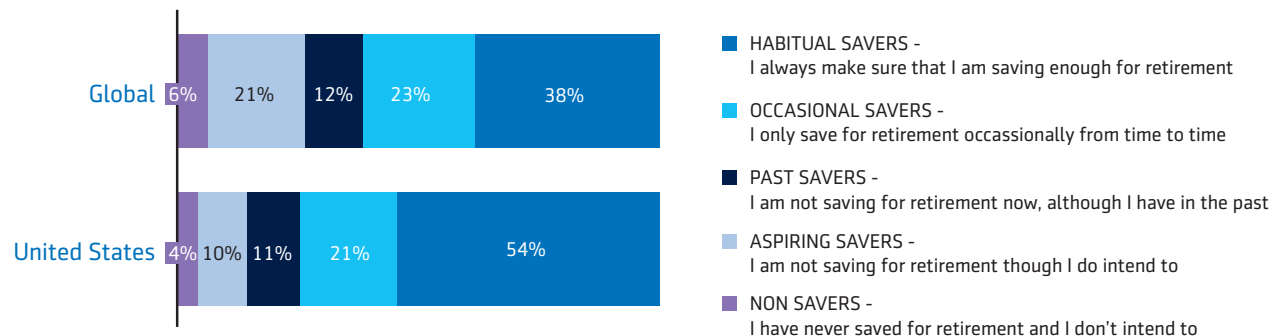
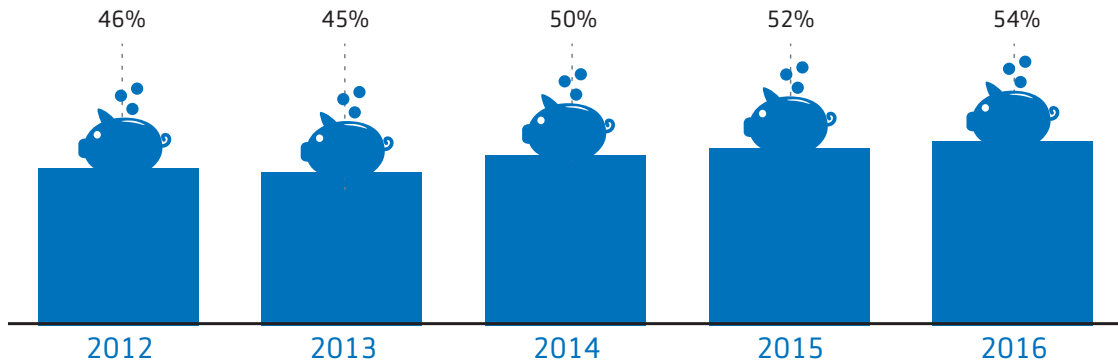


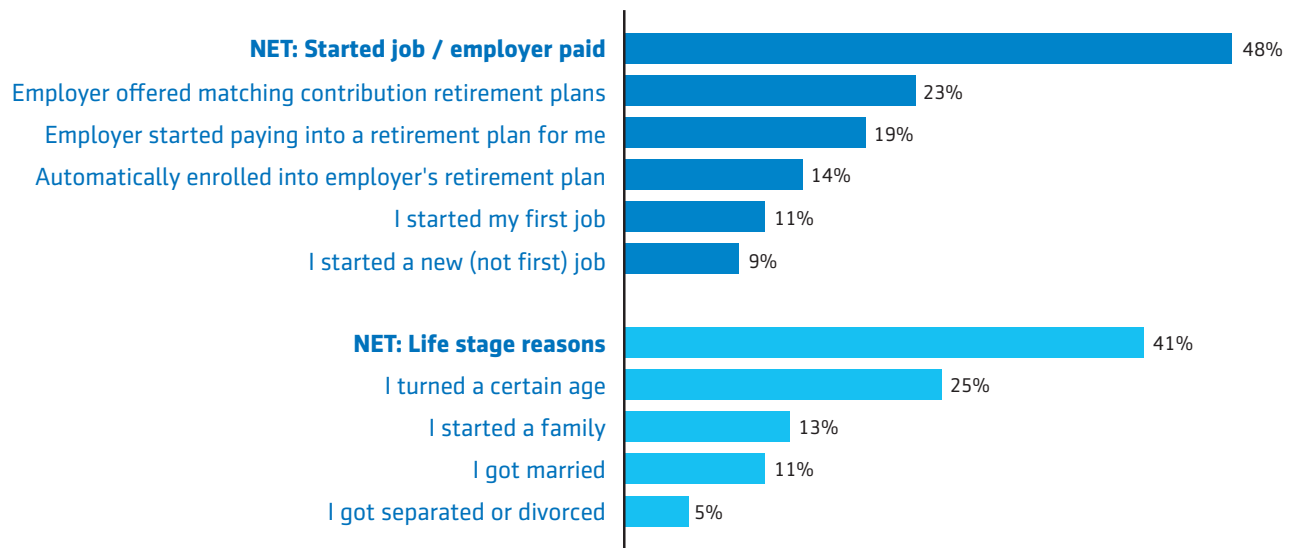
Chart 9 *U.S. habitual savers: 5-year trend*



Triggers for having started to save for retirement can broadly be put in two categories. First, encouragement from employers is clearly vital for people to take the step to start saving for retirement. Second, a change in lifestyle is a catalyst to focus more on retirement, with people recognizing at a certain age that it is time to seriously consider saving for retirement.

Almost half (48 percent) of those already saving for or intending to save for retirement were prompted by their employer, with employer retirement plans with matching contributions providing a key prompt.

Chart 10 *What prompted retirement saving among savers and intenders*



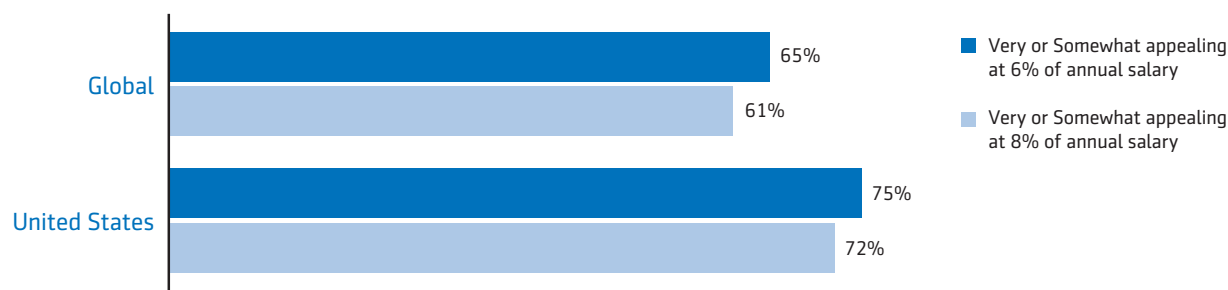
Part 4 – Making retirement saving easier and more inclusive

Workplace retirement plans can provide an impetus 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 401(k) or similar plan, has wide appeal globally. In the United States, it is even more appealing, with almost three-quarters of workers finding automatic enrollment appealing at either six percent or eight percent of their annual salary (75 percent and 72 percent, respectively).

Segments of the population that are vulnerable to not achieving retirement readiness would particularly benefit from more structured arrangements in terms of enrollment in workplace retirement plans. A strong connection to the labor market is perhaps the most important route to access retirement planning and guidance. Often more immediate concerns, such as caring for family members and paying the bills, take precedence over more distant priorities such as retirement planning.

Women, for example, are more likely to take on family responsibilities and consequently only take up paid work on a part time basis. This may account for the strong appeal for auto-enrollment among women, 72 percent of women find six percent of their annual salary slightly more appealing than eight percent (68 percent) but the attraction at either deferral rate is convincing.

Chart11 *The appeal of auto-enrollment*



The role of workplace retirement plans





The workplace is a primary channel for encouraging retirement savings, yet only half (50 percent) of all American workers feel their employers provide enough information and support to help with their retirement planning. Employers fall short in the United States in providing services to help workers prepare for retirement. Few workers say that they receive annual retirement plan statements (29 percent) or educational materials (25 percent), suggesting better information would be an important step forward.

Easy access to clear and concise information is a key component to staying engaged with one's savings and investments – particularly those that are intended to be used in retirement, which is decades away for most savers.

In this digital age, a surprisingly low proportion of American workers have access to online tools to help them with retirement planning – for example only one in ten have access to webcast meetings or seminars about saving for retirement or company sponsored blogs and online network groups (10 percent, respectively). Importantly, when workers are offered such services, a majority find them extremely or very helpful.

Chart 12 Few American workers are offered digital tools to help them prepare for retirement



	Percentage of workers offered	Percentage who find the service very / extremely helpful (among those offered)
 Online retirement modeling tools	19%	71%
 Digital access to view / manage retirement savings	18%	80%
 webcast meetings/seminars about pensions/saving for retirement	10%	83%
 company-sponsored blogs and/or online network groups	10%	67%

Many American workers receive basic workplace benefits from their employers such as a convenient location of workplace, vacation or paid time off and medical health insurance. Nearly three in five (58 percent) are offered a retirement plan with employer contributions while 36 percent are offered a retirement plan without employer contributions – which enable workers to save for their retirement. However, few are offered a phased retirement by their employer or other employer programs providing for a transition into retirement (32 percent).

Chart 13 *Workplace benefits provided to American Workers*

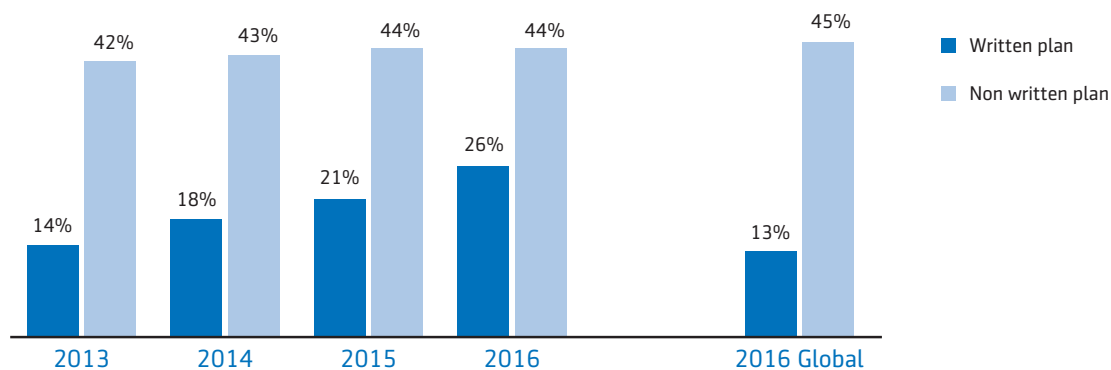
	Percentage of workers wofferedthis service
Convenient location of workplace	74%
Vacation/ paid time off	71%
Medical health insurance	70%
Ability to work past the normal retirement age	65%
Flexible working hours	58%
Retirement plan with employer contributions	58%
Opportunities for career progression	55%
Overtime and bonus pay	54%
Access to good training provision	53%
Life insurance	53%
Retirement plan without employer contributions	36%
Phased retirement or other employer programs providing for a transition into retirement	32%

When asked what financial means workers are currently using to prepare for retirement, or which financial means retirees used to prepare for their retirement, a large majority of Americans cite saving in their company's employee-funded 401(k) or similar retirement plan (85 percent), a four percent increase from 2015 (81 percent). Those contributing contribute a median of 10 percent of their salary and nearly all receive (81 percent) matching contributions from their employers.

Part 5 – The imperative for retirement literacy and planning

A written retirement strategy is not merely a piece of paper but is often an 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 that. Seven in 10 American workers have a retirement strategy, but only 26 percent have a written plan. And while this is low, it represents a 12 percentage point increase since 2013. When compared globally, Americans well exceed the average of just over one in 10 (13 percent) who have something in writing for their retirement strategy. Americans between the ages of 25 and 44 are the most likely to have written retirement strategies in 2016 - just under half (47 percent) of those age 25-34 and over one-third (36 percent) of those 35-44 have written plans.

Chart 14 *U.S. workers having a retirement strategy*



Vulnerable groups, such as people who work part-time, lower income earners and people with low education, are less likely to have had the opportunity to formulate a strategy to prepare financially for retirement - written as well as one that is not written down. For example, only 61 percent of part-time workers compared to 70 percent of all workers have taken the first step toward a more financially secure retirement by having a strategy of some sort. Young people are the most likely of vulnerable groups to have a written strategy. This is encouraging for the future as our research finds that having a written plan is a key step toward improving retirement readiness.

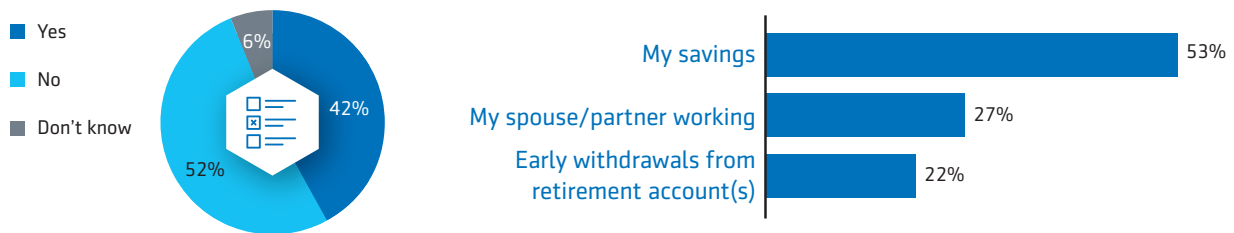
Chart 15 *Americans who are non-savers are the least likely to have a retirement strategy*

	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	26%	24%	37%	15%	15%	16%	2%	8%
I have a plan, but it is not written down	44%	40%	35%	46%	42%	41%	21%	5%
I do not have a plan	28%	34%	27%	36%	40%	41%	74%	81%
Don't know	2%	2%	1%	3%	3%	2%	3%	6%

Only 42 percent of American workers say they have a backup plan to provide them with an income should they be unable to continue working before reaching their planned retirement age.

More than half of all Americans with a backup plan say that their savings will be part of their backup plan if they are unable to continue working full time before reaching their desired retirement age. Worryingly, one in five (22 percent) Americans say that taking early withdrawals from their retirement accounts is part of their backup plan.

Chart 16 *Less than half of all US workers have a backup plan* **Chart 17** *Their 'backup plan' includes...*



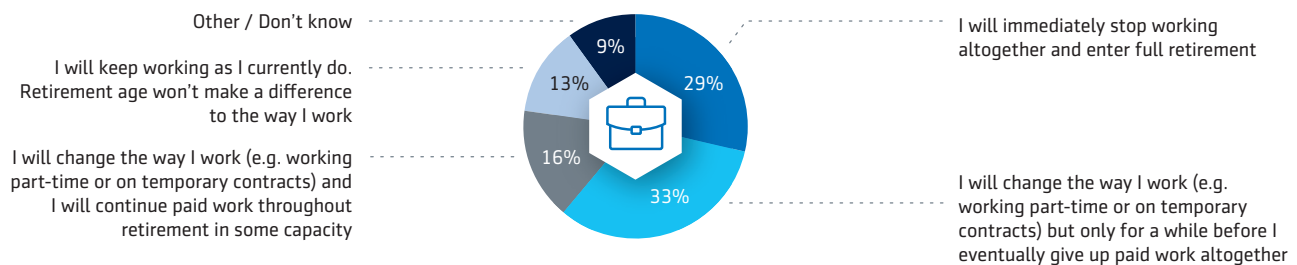
Part 6 – It's personal: Making the case for the new flexible retirement

Many Americans expect to live for 20 years in retirement, but the reality is that they may live even longer. Increases in longevity may require individuals needing to work longer in order to adequately fund retirement. Working longer can also promote active living and healthy aging.

For some American workers, retirement may involve shifting from full-time to part-time work. For others, it may involve working in a different capacity or pursuing an encore career. However, employers are falling short in accommodating workers in extending working lives and transitioning into retirement. Sixty-five percent of American workers find phased retirement to be a very or extremely important occupational benefit, yet only 32 percent say that it is offered to them.

Americans are ambitious and many plan to work into their retirement often through personal choice rather than financial need. Among those who envision working to some extent in retirement, 59 percent want to do so to keep active/keep their brain alert, 46 percent enjoy their work, and 68 percent plan to do so due to a variety of income and savings-related concerns.

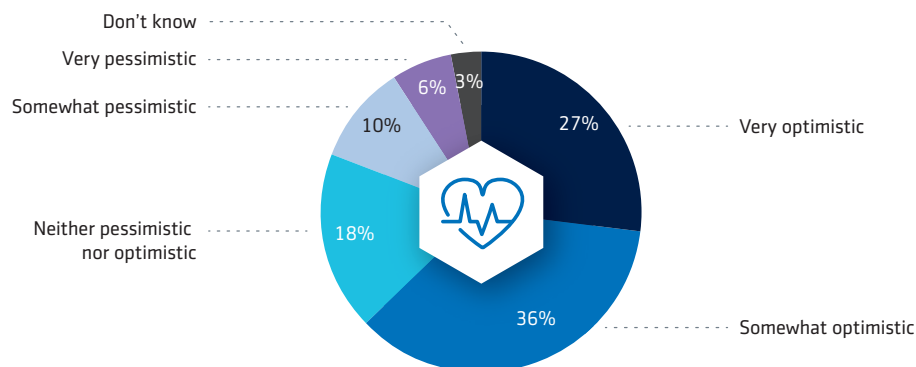
Chart 18 *Working into retirement will become the norm for Americans*



Part 7 – The promise of active living and healthy aging

Improving living standards with better access to education, nutritious food and safer places of work has enabled Americans to lead healthier lives and thus live longer. Eighty-seven percent of Americans feel they are in good or excellent health. Being healthier for longer opens up opportunities to stay active and engaged, travel, and enjoy things considered to be important to them. A majority (63 percent) of Americans are optimistic that they will be able to maintain good health in retirement

Chart 19 *Maintaining good health*



As life is getting longer so must working life extend further than previously has been the case. With an aging population employers will find it an increasingly attractive proposition to accommodate older workers, just as many approaching the legacy retirement age will be tempted to stay active and challenged much longer than their parents did only a few decades ago.

Recommendations

The world is ready for its retirement wake-up call. The fifth annual Aegon Retirement Readiness Survey finds modest improvement in Americans' retirement preparedness since 2012. Around the world, many workers expect to rely heavily on government benefits and are not saving enough to adequately fund their retirement income needs. 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. 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 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 behavior. 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 program
2. Employers and workers should agree on triggers for automatic increased 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. Individuals should create a retirement strategy to fund retirement and manage their retirement savings to last a lifetime. A retirement strategy should be tailored to the individual's plans for retirement (e.g., travel, continued working, etc.), other possible sources of income in retirement, and the individual's health. Individuals should take advantage of any professional financial advice or other tools in modeling their retirement. Online tools and robo advice can help individuals 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 the individuals to pay for unexpected expenses and events. A wide range of insurance products including life, income or critical illness policies, for example, can provide a cost-effective way of helping individuals and their families in the event employment ends prior to expected retirement date because of an illness, disability or death.

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) would likely influence a change in behavior 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 programs 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 programs in the workplace and governments and employers should consider incentives for healthy and active lifestyles.
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