



The United States Fact Sheet

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013



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Introduction

Key Findings

- **Retirement associations are positive:**
People are more likely to associate retirement with positive characteristics such as leisure (52%) and freedom (39%) than negative ones such as insecurity (13%) and poverty (9%).
- **A negative economic outlook:**
55% believe that future generations will have worse retirements than those currently retired, down from 67% in the 2012 survey. Only 26% expect the economy to improve in the next 12 months, and only 32% expect to get personally better off.
- **In reality, early retirement is not the aspiration many see it to be:** 53% of retirees surveyed retired sooner than planned, and of these 40% say they did so due to ill-health, 26% due to unemployment.
- **End of the cliff-edge retirement:**
More than in any other country surveyed, respondents in the US are moving away from seeing retirement as a time when work stops completely: only 23% expect to give up all working immediately at retirement.
- **People expect to be financially independent in retirement:** A majority expects to neither provide (53%) nor receive (65%) financial support to or from anyone in their family during retirement.

The Survey

The findings used in this report are based on the USA responses of a 12-country study, in which 12,000 people were interviewed. Respondents were interviewed using an online panel survey and fieldwork was conducted in January and February 2013. The questionnaire dealt with a wide range of issues covering attitudes towards retirement preparedness, the role of the state and the employer in providing pensions, and the impact of the financial crisis on attitudes to issues such as investment risk and retirement planning.

In the US, 900 employees and 100 fully retired people were interviewed to provide a contrast between the responses of current workers and those already in retirement. All findings in this report are based on the US results unless otherwise stated. The survey did not include the unemployed, long-term incapacitated, homemakers, or the self-employed as each of these groups faces specific challenges in planning for retirement which requires specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working population.

1. Retirement landscape

The economic downturn since the 2008 financial crisis, and the resulting unemployment and financial market volatility, have significantly affected Americans' retirement outlook. Declines in the prevalence of traditional employer defined benefit pension plans, and concerns about the sustainability of the US government retirement benefits (Social Security) have led to most Americans, even before

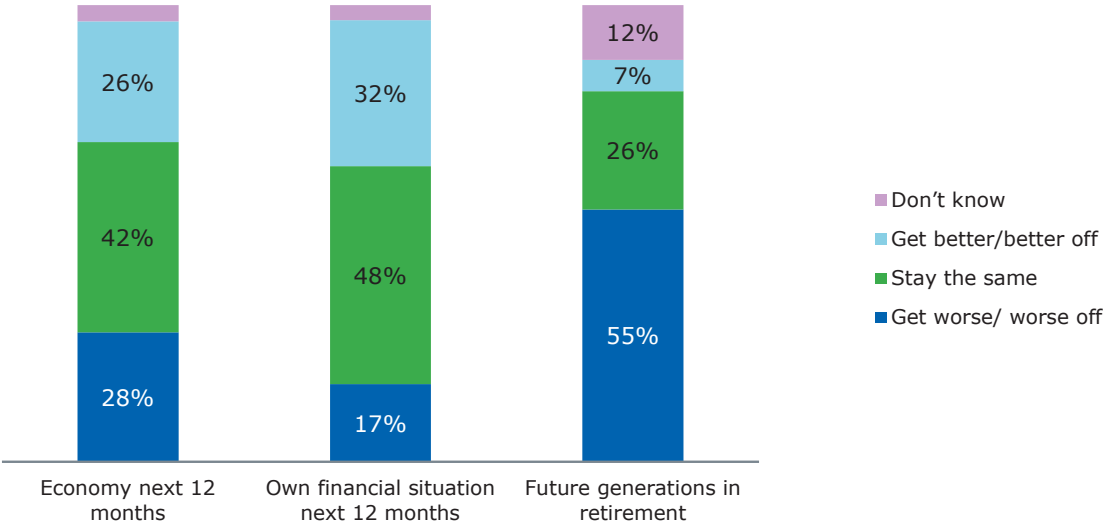
the financial crisis, to plan to rely less on prospects of a government or employer-funded retirement and to rely more heavily on their personal savings and workplace defined contribution (e.g. 401(k)) plans.

The imperative for individuals to save for retirement in the United States, is not lost on Americans.

2. Aspirations and expectations for a changing retirement

Chart 1: Respondents are more optimistic about the present than the future, but still believe their financial situation is getting worse.

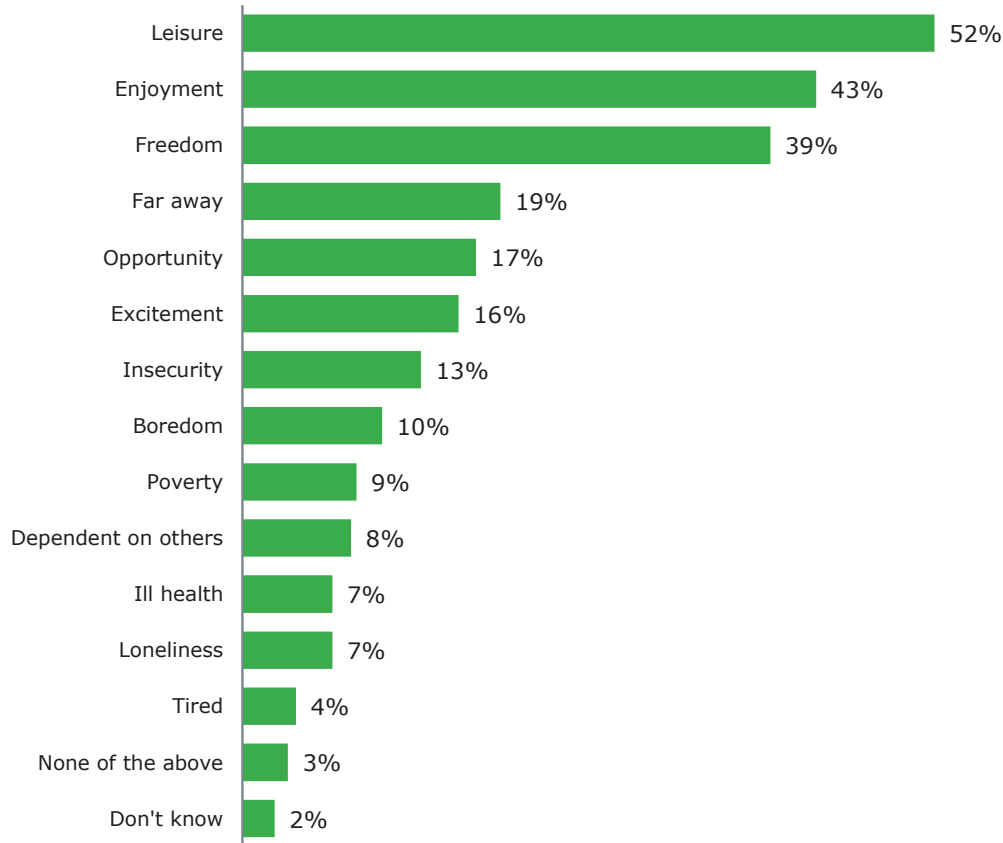
- Q. Thinking ahead over the next 12 months, do you expect the economy in [COUNTRY] to...?
- Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
- Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



In both this year's and last year's survey, a majority of respondents in the US believe that retirement is getting worse: 55% this year say future generations will be worse off in retirement than current retirees, although this is more optimistic than the 67% who said this in 2012. This pessimism may be linked to a sense of stagnation or decline around the present: seven in ten people think the American economy is going to get worse or stay the same in the next year, though about one-third believe they will become personally better off.

Chart 2: Despite the negative outlook, retirement retains positive associations

Q. Which, if any, of the following words do you most associate with retirement? Please select up to three words.



The main associations consumers have with retirement are very positive: 'leisure,' 'enjoyment' and 'freedom' being the most mentioned. However, for some, retirement is also associated with 'insecurity,' 'poverty' and 'ill-health'.

The US is ranked fourth in the Aegon Retirement Readiness Index (ARRI), with lower readiness than in 2012

This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- Three cover **attitudes**: whether employees accept personal responsibility for retirement income, whether they're aware of the need to plan for retirement, and whether they understand financial matters.

Three cover actual **behaviors**: the extent to which employees have retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required retirement income.

Responses are then correlated based on their importance in determining a respondent's saving profile, and each respondent is scored out of ten.

Chart 3: Aegon Retirement Readiness Index (ARRI) by country

The ARRI is created by weighting the responses to six questions related to retirement readiness according to statistical importance and correlated to respondents' savings profile.

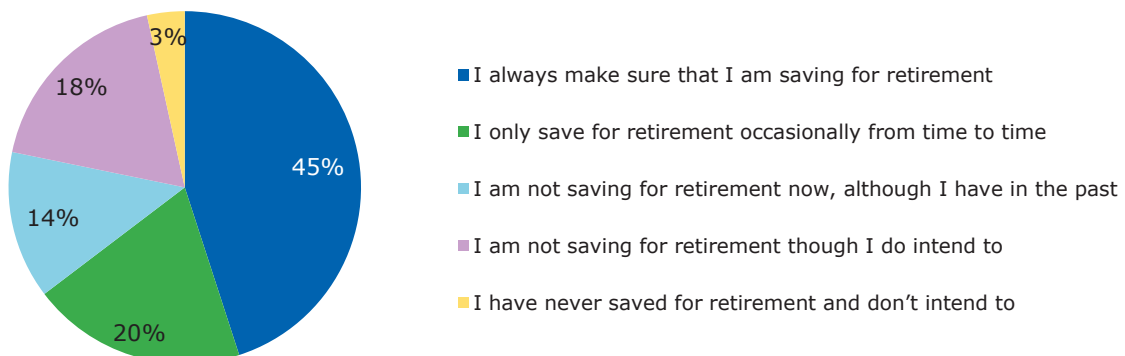


All countries saw their ARRI score fall this year, and the US was no exception, with a rise in the number of respondents receiving low scores. The US is at the top end of the ARRI table overall and has moved into the 4th rank with two new countries, Canada and China, ranked higher than the US. Noteworthy US findings from the questions comprising the ARRI include:

- Nearly half (44%) of respondents do not know if they are on course to achieve the income they estimate they will need in retirement, including 28% of those approaching retirement age (55-64 year olds).
- 66% of respondents are aware of the need to plan for retirement, yet only 12% have 'well developed' plans and 24% of women have no plan at all.
- 65% of Americans are saving for their retirement, though 3% have never saved.

Chart 4: Almost half of US employees are regularly saving for retirement

Q. Which of the following best explains your approach to saving for retirement? This can include money you contribute to any long-term investment including pensions, stocks and shares, investment-linked insurances, property, etc. Please select the option below that is closest to your view.



3. Dealing with the readiness shortfall

Over half retired sooner than they had planned to, for mostly negative reasons

While retiring sooner than planned is associated with negative reasons such as unemployment and ill-health, the global findings show that retiring later is associated with positive factors such as people enjoying their careers and wanting to keep their brains active.

Chart 5: Retiring sooner or later than planned

Q. Would you say that you fully retired from all paid employment sooner or later in life than you had planned, or at the age you had planned to?

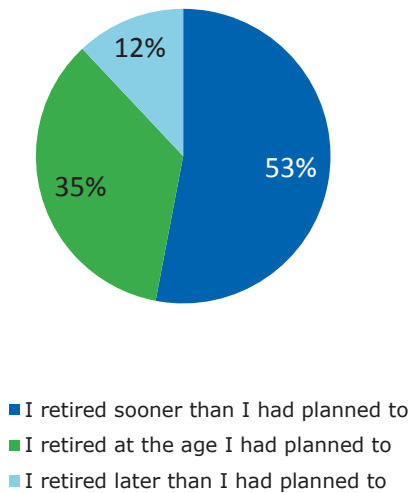


Chart 6: Reasons for early retirement

Q. Which, if any, of the following were important reasons in your retirement from all paid employment sooner than you had planned? Please select all that apply.

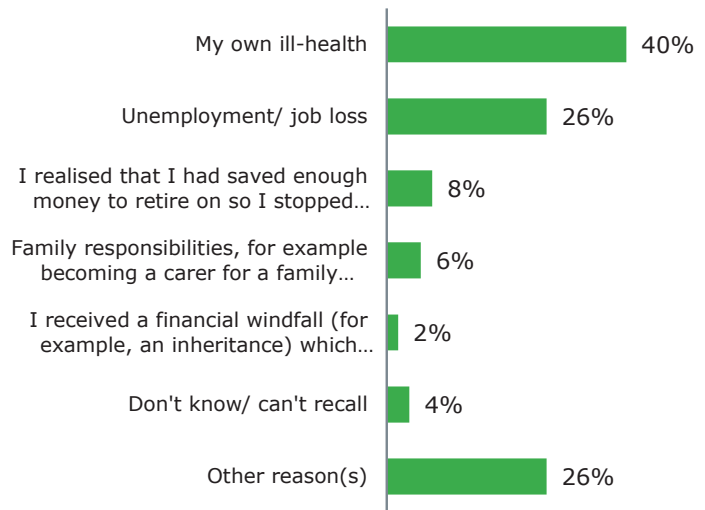
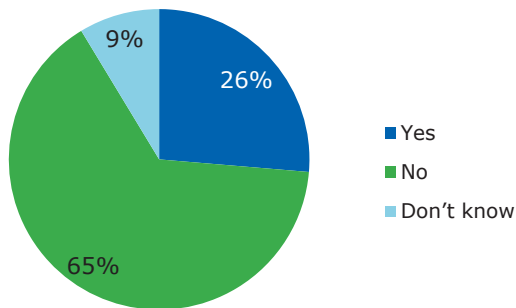


Chart 7: Despite half of people retiring sooner than expected, two-thirds have no backup plan for retirement

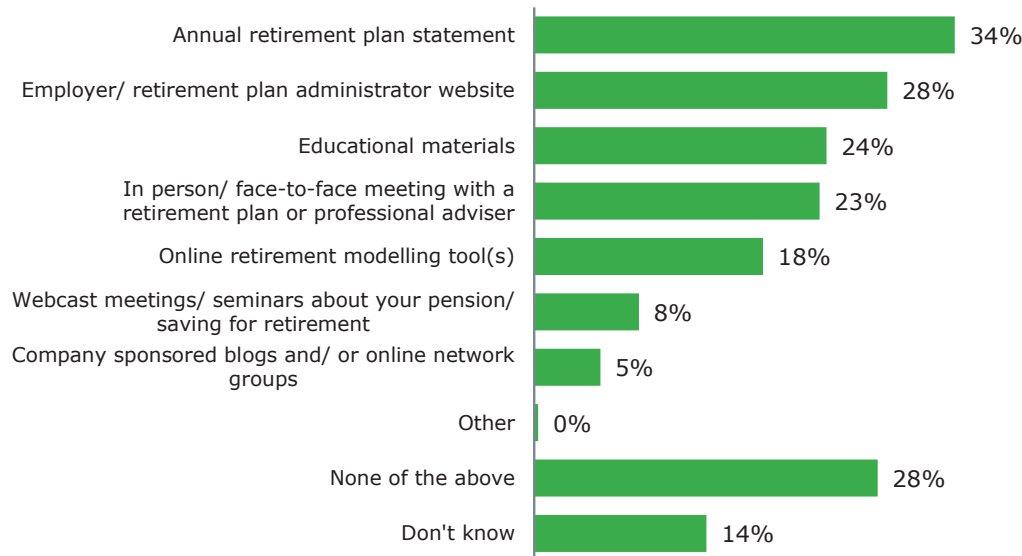
Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income?



This finding is concerning since it suggests a lack of financial knowledge among respondents about what will be required to ensure a comfortable retirement: no backup plan means being dangerously exposed to poverty in old age if one can no longer work.

Chart 8: A large proportion of employees do not know about or think they receive retirement planning services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer to help you prepare for retirement?)

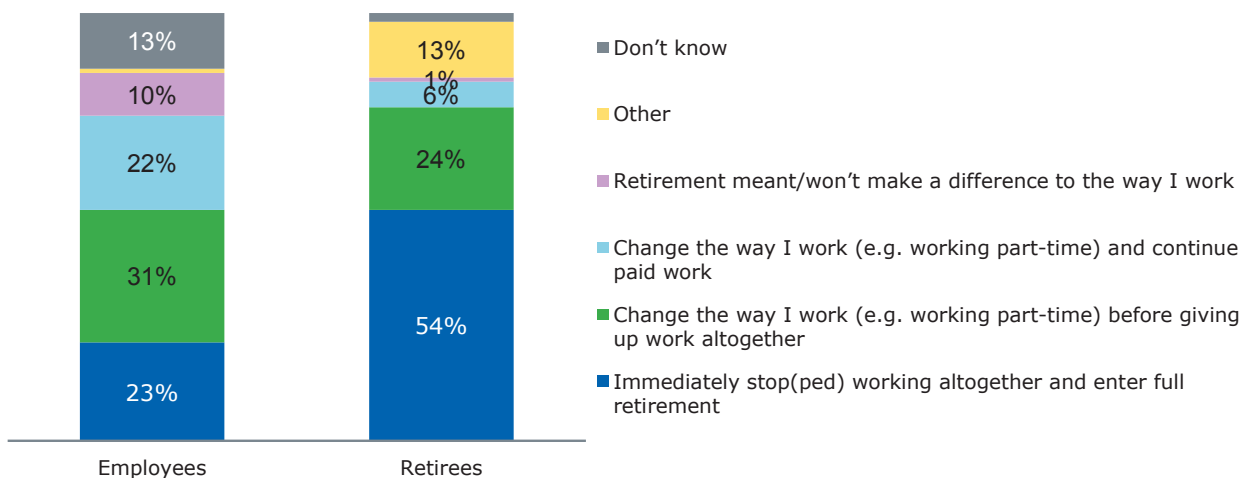


Although statements relating to retirement plans should be the norm for anyone with an occupational pension, only 34% of employees in the US state report that they receive them from their employers.

Chart 9: In line with last year's results, the survey shows there is no longer a retirement 'cliff-edge', people prefer a phased retirement

Q. Looking ahead, how do you envision your transition to retirement?

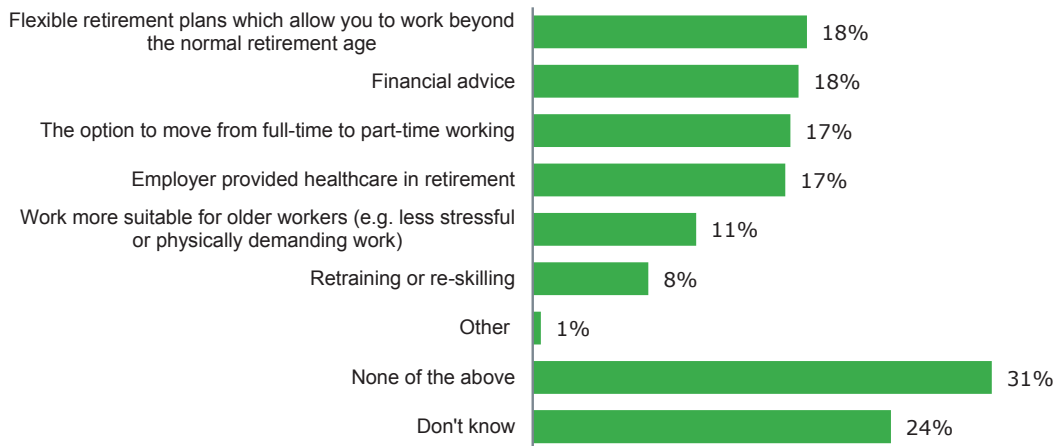
Q. Looking back, how did your transition to retirement take place?



In this year's survey there continues to be a stark contrast in the US between current retirees, the majority (54%) of whom stopped working completely immediately on retirement, down from 63% last year, and current employees, only 23% of whom plan to do the same (down from 30% in last year's survey). This 'phased' retirement idea is especially popular among younger respondents: 64% of 18-24 year olds expect to change the way they work before eventually retiring.

Chart 10: Despite enthusiasm from respondents, services to help employees phase into retirement are not the norm

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?



The survey questioned employees and retirees about the services their employers provided to help phase into retirement. Along with the fact that a large proportion of employees feel they are not provided with any such services or do not know of them, it was found that:

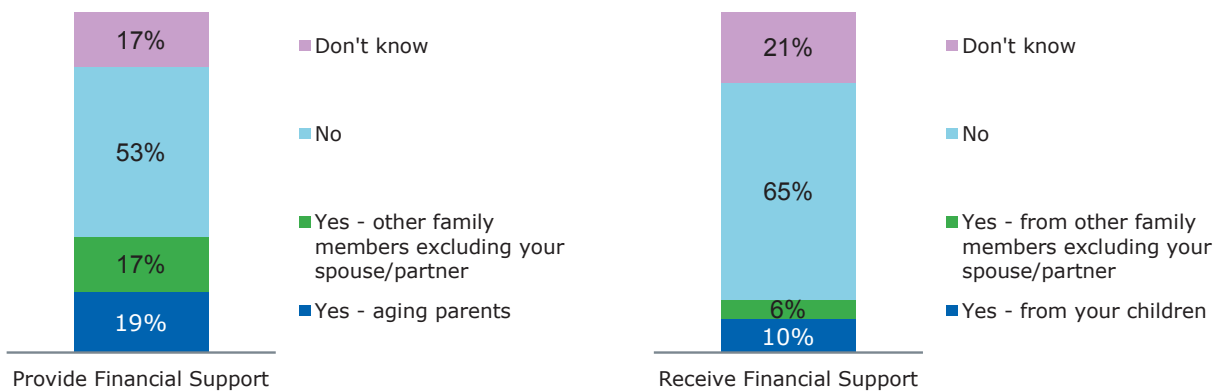
- The most common aids to retirement planning that employees say their employers offer are flexible retirement plans that allow them to work beyond the normal retirement age (18%) and financial advice (18%).
- Where retirement help is provided by employers, employees found these services useful.

Chart 11 & 12: Most people expect neither to give nor receive financial support in retirement

Q. Do you expect that you will need to provide financial support for your family (other than your spouse/ partner) while you are retired? Please select all that apply.

Q. Do you expect that you will need to receive financial support from your family while you are retired? Please select all that apply.

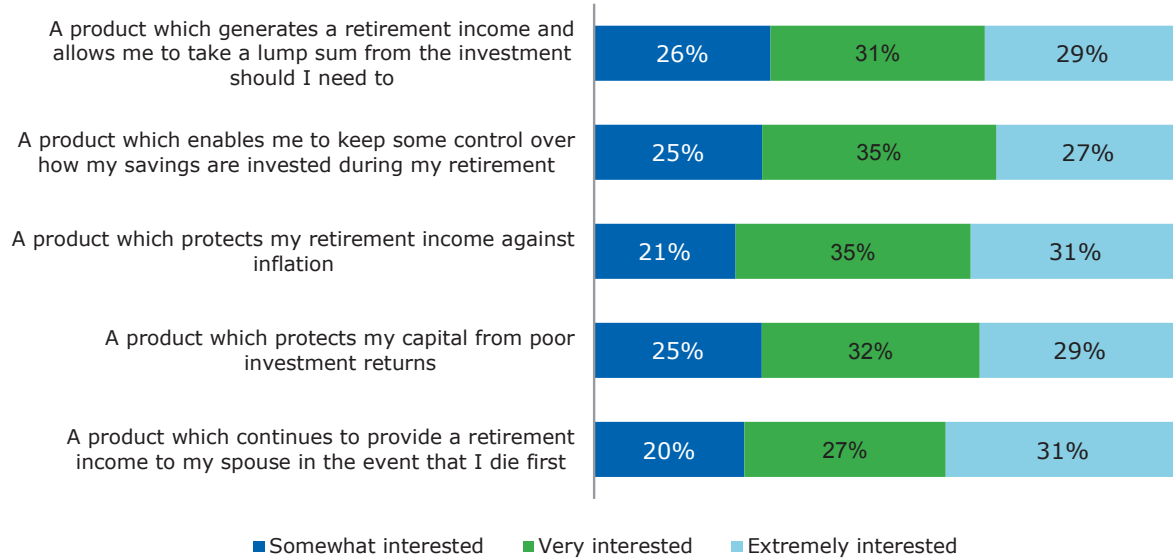
(Percentages may add to over 100 due to more than one response option possible)



The findings show retirement is seen in the US as very much an independent life stage, with a majority expecting to neither provide nor receive financial support in retirement from family. However it is notable that younger respondents (20-29) are more likely to expect to be supporting both parents (33%) and children (20%) in retirement.

Chart 13: Risk management is a top financial priority

Q. On a scale of 1 to 5 how interested are you in the following options



Popular financial products in the survey, both in this year's and last, are those which protect against risks such as inflation, poor returns or capital loss. Other results also support this finding:

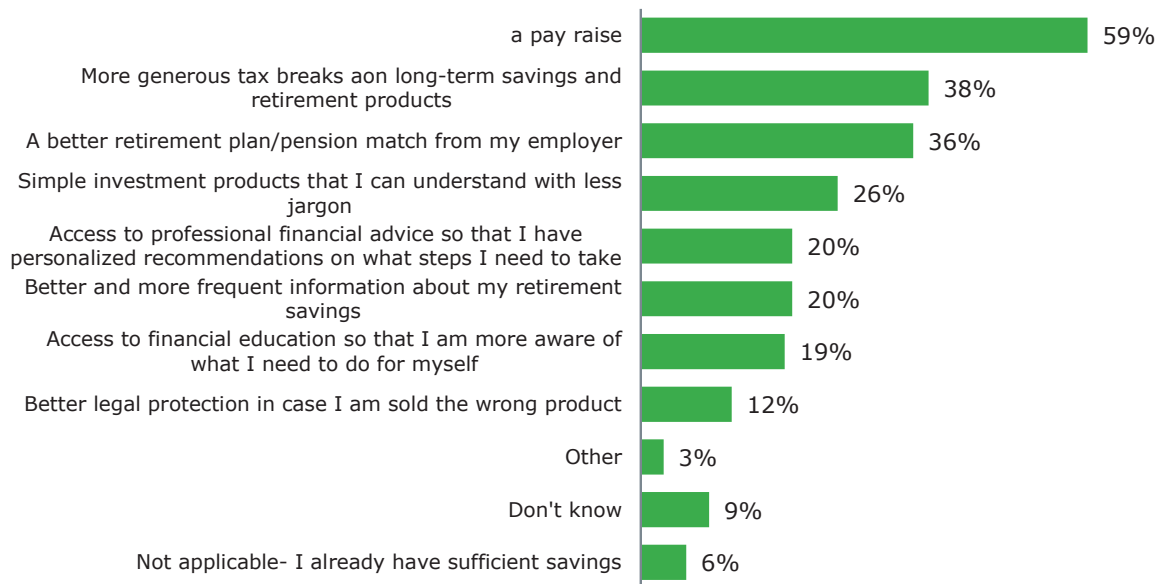
- 60% believe the financial crisis means they want to take fewer risks with their retirement savings.
- Of those using professional advice, 47% use their advisor for making recommendations regarding long-term risk.
- 80% agree that it is important to have many sources of retirement income in order to spread risk.

4. Sustainable solutions

How can retirement systems be made more sustainable in the future? The survey looked into what can be done to make savings and retirement planning products more attractive, as well as how to better balance the role of the individual, the government and the employer.

Chart 14: People would be motivated to save for retirement by higher salaries and lower taxes

Q. Which, if any, of the following would encourage you to save for retirement?

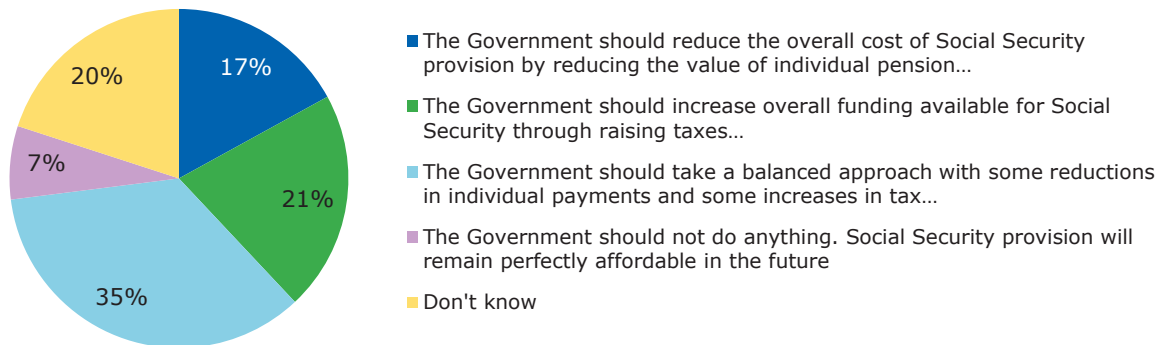


Alongside this finding on the importance of pay to encouraging saving, the survey also found:

- A lack of money to invest is putting off 45% of people from saving.
- The uncertain economy is a disincentive to save for only 15%.

Chart 15: A large proportion of respondents would accept at least some tax increases to pay for Social Security

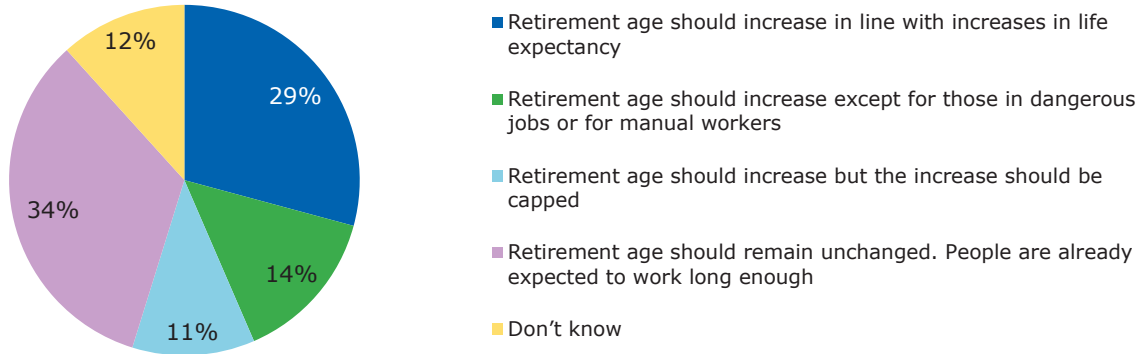
Q. With the cost of government pensions becoming a greater concern as people live longer which, if any, of the following do you think the Government should undertake?



Difficult decisions are inevitable when it comes to reforming retirement systems. Few – only 7% in the US – believe that the government should not take any action because Social Security will remain affordable. The largest group (35%) believe that a balanced combination of benefit reduction and tax increases are necessary to make the system sustainable – though this is down significantly from the 42% who chose this option in 2012 (when there was no 'don't know' option).

Chart 16: Almost a third of people think retirement age should rise with no limits

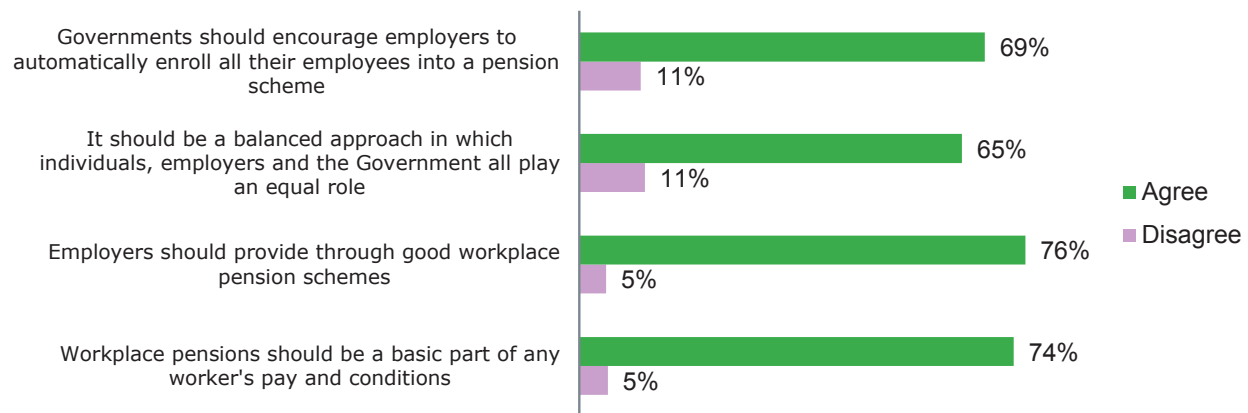
Q. To what extent do you believe that people should expect to work longer into old age as a way to offset the costs of people living longer?



There is some ambiguity over the issue of increasing retirement ages: 29% of people believe in letting retirement age increase with life expectancy with no caveats, and 34% want no rises at all. This suggests that although many employees like the idea of carrying on working into old age, large numbers do not necessarily wish to be obligated to do so.

Chart 17: Strong support is registered for the importance of workplace retirement plans

Q. To what extent do you agree or disagree with the following statements about taking responsibility for funding people's retirement? Please indicate on a scale from 1 to 5, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: ALL)/Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements about your work, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: NOT FULLY RETIRED)



The findings show that workplace retirement plans still have the support of the vast majority of respondents, as does the idea of auto-enrolling people into such a plan. Elsewhere:

- Defined benefit pension plans remain the most important source of retirement income for 10% of respondents, defined contribution plans (e.g. 401(k)) are the most important for 29%.
- In contrast to these findings, 39% of respondents agree that there was nothing wrong with relying on the government to provide a retirement income, 41% felt this way about relying on a spouse to provide an income.
- 37% are worried that the financial crisis means their employer is likely to cut back on workplace benefits.

5. Call to action

Lack of retirement readiness is an emerging global crisis for governments, employers, and individuals

- Although retirement systems vary by country, the shift in responsibility for a secure retirement to the individual is consistent among the countries surveyed. Similarly, individuals' lack of adequate preparation for retirement was found across the globe. Governments have a significant role in increasing individuals' awareness of this shift in responsibility and of the amount and nature of the government benefits on which the individual can rely in retirement.

In addition, governments and employers can facilitate the offering of tools and information to educate employees of all ages of the need to save, how to save effectively for major life events and also how to transition those savings into a secure retirement.

Most expect future generations to be worse-off in retirement than current retirees

- Increased longevity has resulted in the likelihood of multiple generations of family members in retirement whose financial security is compromised by cuts in government benefits and the economic downturn. The 'squeezed' generation that is trying to save for retirement is increasingly called upon to support parents and grandparents in retirement while also supporting adult children who may still depend on parental support. Governments, employers and individuals must acknowledge and facilitate efforts to address inter-generational burdens on the 'squeezed generation.' Governments must encourage the use of private sector products and services to address these burdens, and employers can provide or make available retirement planning tools and education to help individuals anticipate and plan to cover inter-generational burdens.

Delaying retirement offers an obvious solution, but obstacles remain

- Governments and employers can help employees by enabling longer working careers, and providing options for phased retirement and explaining what these are. Employees should also have a backup plan if forced into retirement sooner than expected. Governments and employers can increase awareness of the need

for a backup plan and facilitate the offering of products such as disability and life insurance which are designed to provide a continued source of income to families in the event of a family member's death or disability prior to the planned retirement and accumulation of sufficient savings.

Widespread retirement illiteracy worsens readiness

- Individuals are increasingly aware that they will need to bear some personal responsibility for their retirement; however, the amount and complexity of information can be overwhelming. Programs designed to address this inertia can help ensure that employees are automatically covered by their employer's retirement plan.

Governments have a responsibility to clearly communicate the expected government benefits. They must guide individuals to the tools and information to help individuals start saving throughout their careers to supplement the government benefits. Employers can serve as a one-stop source of information, tools and supplemental products to help their employees develop their own retirement plan and transition into retirement. Governments can facilitate and encourage the employer's role in providing or making available retirement planning tools and information to its employees through reduced regulatory burdens, safeguards from liability and tax incentives.

Wary about retirement-related risks, individuals seek solutions

- Providing retirement solutions and advice that help individuals de-risk their retirement can help avoid losses or erosion due to inflation. Financial products and plans may also help individuals in developing and financing a backup plan in the event they leave the workforce prior to their expected retirement date. However, in order to grow savings into something adequate for retirement some controlled risk may be necessary.



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