

# Media advisory

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## **An Emerging Global Crisis: Retirement Unpreparedness *Lack of Financial Literacy Inhibits Understanding of Need and Action***

Results of a new global study conducted by Aegon and the US-based Transamerica Center for Retirement Studies® (a private, non-profit foundation) highlights the growing epidemic of retirement unpreparedness among current workers and retirees in 12 countries throughout Europe, North America and Asia. Of the 12,000 individuals polled, only 12 percent are optimistic that they will have sufficient financial resources in retirement. Moreover, only 20% of respondents claim to have any understanding of financial matters pertaining to effective retirement planning. The Key Findings contained in [The Changing Face of Retirement: the Aegon Retirement Readiness Survey 2013](#) include:

- Lack of retirement readiness is an emerging global crisis confronting governments, employers, and individuals
- Most expect future generations to be worse-off in retirement than current retirees
- Delaying retirement offers an obvious solution, but obstacles remain
- Widespread retirement illiteracy worsens readiness
- Wary of retirement-related risks, individuals seek solutions

“The trends are clear in all twelve countries surveyed – people are living longer than ever before, there are a declining number of working-age populations to pay for those entering or already in retirement, while employers have shifted away from defined benefit to defined contribution plans,” said Alex Wynaendts, CEO of Aegon N.V. “These trends, combined with persistent global economic uncertainty and constrained government budgets, have created greater urgency for individuals and families to take action to provide for their personal retirement security.”

### **Lack of retirement readiness an emerging global crisis**

Retirement systems around the world vary according to government entitlements, employer benefits, and what is needed to augment those sources of retirement income with personal savings. Although sharp differences exist between systems, all face the common challenges of aging populations, longer life expectancies, lower birth rates, and inherent risks involved with investing in today's global financial markets.

The Aegon Retirement Readiness Index (ARRI) was developed to gauge retirement preparedness on six key measures: 1) sense of personal responsibility for income in retirement, 2) level of awareness of need to plan for retirement, 3) financial capability/understanding of financial matters regarding retirement, 4) the stage of development of retirement plans, 5) financial preparedness for retirement, and 6) income replacement assessing the level of projected income replacement.

For the 12 countries, the ARRI yielded a low composite total score of 4.89 on a scale from 0 to 10, which is considered a “low” level of retirement readiness. It is important to note that scores for all twelve countries fell in a relatively narrow range with Germany highest at 5.48 and Japan lowest at 4.30.

“As governments and employers continue to implement measures to de-risk retirement programs, many of the risks and costs of funding retirement have shifted to individuals and families who are not yet equipped to deal with them,” said Wynaendts. “It is essential that governments, employers and financial services companies work together to raise awareness and provide the tools to empower individuals to take greater control over their future retirement.”

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

Nearly two-thirds (65 percent) of survey respondents believe that future generations will be worse off in retirement than current retirees. This expectation was highest in France and Hungary at 80 percent and lowest in urban China at 20 percent.

The global financial crisis has led respondents to expect reductions in benefits. Nearly two out of three employees (64 percent) expect that their government retirement benefits will be less valuable due to government cutbacks. That expectation is highest in the Netherlands (72 percent) and lowest in Sweden (41 percent).

A large portion of employees (44 percent) also expect that their employer or pension fund will reduce workplace pension benefits - highest percent in the Netherlands (55 percent) and lowest in Sweden (26 percent).

Many younger employees expect that it will be necessary during their own retirement to also provide financial support to aging family members. Three in ten (30 percent) employees between the ages of 18 and 24 expect that they will have to provide financial support to aging parents, compared to 16 percent of current employees between 35 and 44 and only 8 percent between 55 and 64.

"The combination of fewer government and employer retirement benefits, rising longevity and inadequate saving for retirement threatens to 'squeeze' younger generations who face the prospect of also having to support their families, including aging parents, in retirement," said Catherine Collinson, president, Transamerica Center for Retirement Studies. "This squeeze further illustrates the urgent need to find the right balance among the roles and responsibilities of governments, employers, and individuals and families in providing for retirement."

### **Delaying retirement offers an obvious solution, but obstacles remain**

An obvious and practical solution for bridging the retirement savings gap is to enable current employees to delay retirement and continue working beyond traditional retirement age. The majority of employees (62 percent) expect to work longer due to the global financial crisis, with the response highest in the Netherlands and France (68 percent) and lowest in China (46 percent).

The fact remains that delaying retirement is not necessarily a reliable option for many. Of the retirees surveyed, nearly half (49 percent) retired sooner than expected. Among them, the majority retired early for reasons such as health issues (42 percent) or job loss (23 percent). Only 7 percent retired sooner because they had saved enough.

"Delaying retirement is an important means of bridging a savings shortfall," said Collinson, "however, life's unforeseen circumstances can derail the best of plans. It's critical to have a backup plan if retirement arrives sooner than expected."

This survey found that many employees (43 percent) would like to transition gradually into retirement by changing work patterns (for example by working part-time, or with less demanding responsibilities).

Employers, however, are ill-prepared to accommodate a phased retirement option. Only 21 percent of employees indicate their employer offers the option to move from full-time to part-time work. The response was highest in China (32 percent) and lowest in Hungary (15 percent). And, only 15 percent indicate their employers would offer more suitable, less demanding work. Finally, only 15 percent state that their employer offers flexible arrangements to work beyond the normal retirement age.

"Governments and employers can help employees achieve retirement readiness while retaining valuable talent by offering transition options for older workers nearing retirement," said Collinson.

### **Widespread retirement illiteracy worsens readiness**

The retirement-related risks faced by employees are increased by widespread financial illiteracy, with only 20 percent of respondents saying they are 'very able' to understand financial matters related to retirement planning.

Other key measures the survey found:

- Only 9 percent of people say their personal retirement planning process is “very well developed”
- Only 9 percent have a written plan for retirement
- 39 percent do not know if they are on course to achieve their retirement income needs.

“Equipping individuals with the right tools to set retirement goals and make informed decisions about how to achieve these goals is critical,” said Wynaendts. “Retirement readiness is more than just saving and investing: it involves setting goals about lifestyle, income needs, and family support, as well as charting a clear path for achieving them.”

### **Wary about investment risks, individuals seek guaranteed solutions**

The global financial crisis has led a growing number of people to resist taking investment risk in their retirement portfolios. More than half of respondents (53 percent) agree that, as a result of the financial crisis, they ‘will take fewer risks when it comes to saving for retirement,’ and 42 percent agree that they are ‘looking for investment products which offer greater protection against volatile markets’.

Respondents are interested in products and services that could help them to mitigate risks. These included both investment and protection products, such as long-term care insurance (52 percent are very or extremely interested) and products to provide a guaranteed income in retirement (58 percent are very or extremely interested).

### **In conclusion**

Although retirement systems vary by country, there is a clear shift globally of responsibility for retirement provisions from governments and companies to the individual. [The Changing Face of Retirement](#) reveals a universal lack of retirement preparedness, examines risks from the employee perspective, and offers recommendations toward addressing those risks based on the more balanced roles of government, employers, and individuals.

“Despite widespread concerns about the magnitude of the challenges faced, it is possible to mitigate the burden which individuals and families must bear for effective retirement planning,” said Wynaendts.

“Through a combination of changes in public policy and employer practices, innovative products and education, a retirement with dignity and peace of mind does not have to be an elusive hope, but can be the reality for those who take the steps to prepare.”

To access all information related to the AEGON Retirement Readiness Survey, go to [aegon.com](http://aegon.com)

### **About the Survey**

The **Aegon Retirement Readiness Survey 2013** is collaboration between the Transamerica Center for Retirement Studies and Aegon. The survey encompasses 12,000 employees and retirees in 12 countries: Canada, China, France, Germany, Hungary, Japan, the Netherlands, Poland, Spain, Sweden, the United Kingdom and the United States. These countries were selected on the basis of their distinctive pension systems, as well as their varying demographic and aging trends.

Cicero Consulting, a leading global research firm, was engaged to conduct the survey. Respondents were interviewed using an online panel survey<sup>1</sup>, and interviews were conducted in their local languages in January and February 2013. The range of issues covered include attitudes toward retirement readiness, the role of the government and employers in providing retirement benefits, and the impact of the financial crisis on attitudes regarding investment risk and retirement planning. 10,800 employees and 1,200 retirees were interviewed to provide a broad perspective of mainstream working populations and some comparison of the outlook of current employees to those already in retirement.

### **About Aegon**

As an international insurance, pensions and asset management company based in The Hague, Aegon has businesses in over twenty markets in the Americas, Europe and Asia. Aegon companies employ approximately 24,000 people and have millions of customers across the globe. Further information: [aegon.com](http://aegon.com).

### **About Transamerica Center for Retirement Studies®**

The Transamerica Center for Retirement Studies® (The Center) is a nonprofit, private foundation dedicated to educating the public on emerging trends surrounding retirement security in the United States. The Center's research emphasizes employer-sponsored retirement plans, issues faced by small to mid-sized companies and their employees, and the implications of legislative and regulatory changes. The Center is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third-parties. [transamericacenter.org](http://transamericacenter.org)

### **About Cicero**

A leading consultancy firm serving the banking, insurance and asset management sector, Cicero specializes in public policy and communications consulting as well as global thought leadership and independent market research. Cicero was established in 2001, and now operates from offices in London, Brussels, Washington and Singapore. As a market leader in pensions and retirement research, Cicero designed and analyzed the research and contributed to the report. [cicero-group.com](http://cicero-group.com)

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<sup>1</sup> As the survey was carried out online, the survey results in China are biased towards people living in urban areas.