



United States Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings and recommendations

- **People view retirement positively but concerns are widespread:** Americans largely choose positive words to describe retirement with 49% associating it with “leisure,” 42% with “freedom” and 41% with “enjoyment.” However, many people question whether such positive outcomes are realistic; half (51%) think that future retirees will be worse off than those currently in retirement.
- **The U.S. ranks fourth (out of 15 countries) in retirement readiness:** U.S. workers score over 6 out of 10 on the Aegon Retirement Readiness Index -- which represents a “medium” level of preparedness. Yet, many workers are still not saving for retirement and many continue to lack access to workplace retirement plans. (Note: none of the 15 countries in the survey scored a “high” level preparedness).
- **Improving household finances will play a key role in improving retirement planning:** One-in three American employees (35%) do not currently have any kind of strategy in place for funding their retirement with three-fifths (58%) citing “a lack of money” as an obstacle to saving. However, only 28% expect any improvement in their financial position over the coming year; 54% expect their financial position to stay the same while 15% expect it to get worse
- **Government must act to make saving more attractive and practical:** A quarter (27%) of workers note that more generous tax relief would encourage them to save more for retirement. With one-third (33%) of employees unsure as to whether they will enjoy a comfortable retirement, governments and employers could help workers by providing them with more concise and clear statements of projected retirement income benefits, as well as tools and information that can be used to determine their personal retirement savings goals. The government could make it more attractive for employers to offer workplace pensions by simplifying the regulatory requirements associated with establishing and maintaining workplace plans, as well as auto-enrollment and other provisions in workplace plans which are designed to increase the participation and savings rates of employees in the plans.
- **The need to embrace active aging and working longer:** Working beyond the traditional retirement age (i.e., age 65) can help individuals bridge gaps in retirement savings by increasing the number of years of saving and reducing the time spent drawing on those funds. Yet currently only one-fifth (21%) of employees say they are offered the option to move from full- to part-time work in later life. Two-fifths (41%) of employees would like employers to offer more information and support when moving into retirement.

The Survey

The findings used in this report are based on the U.S. responses of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research and www.transamericacenter.org. The range of issues covered in the research includes attitudes toward retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In the U.S., 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the U.S. survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in the United States

Pension law reforms and the aftermath of the financial crisis has levied particular funding pressures on defined benefit plans in the United States. Across city, state and federal levels, governments have taken action to restore fiscal imbalances linked to unfunded liabilities of defined benefit pension plans. By increasing contributions by employees, placing more restrictions on age and tenure requirements and reducing salary calculation formulas, future pension liabilities have been reduced to more sustainable levels.¹

At the federal level, many pending congressional bills seek to increase retirement savings in the workplace, including provisions to facilitate the offering of retirement savings plans by small employers, increase the auto-enrollment deferral rate for safe harbor plans, and facilitate the distribution of retirement savings in the form of a guaranteed lifetime income. The Obama Administration is seeking to encourage savings by individuals who don't have access to an employer plan through the creation of MyRA, a retirement savings account backed by the federal government. Over half (51%) of all workers in the U.S. currently do not have access to a retirement savings plan through work, a figure which grows to over two-thirds (70%) for part-time full-year workers.²

Despite these efforts, the prospects for pension reform in the near future are slim as policymakers' attention is diverted to other national priorities. Concurrently, increasing regulation and fiduciary liability are making it more expensive for employers to establish or maintain their current plans. Furthermore, as Congress continues to consider proposals to pay for tax reform and other programs in need of funding, current tax incentives for retirement savings are increasingly at risk.

Nevertheless, the need to increase retirement savings among Americans is both immediate and imperative. Government benefits such as Social Security will not be immune to the pressures of an aging society, in which the size of the working age population is declining relative to those of retirement age. In order to ensure a sustainable aging process, individuals must be encouraged to take greater levels of personal responsibility for funding their future retirement by saving regularly and from an early age. Automatic enrollment has made inroads toward this, yet in many areas regulatory impediments are still an obstacle in making further progress. As will be discussed in this report, by simplifying what is required of employers and workers to facilitate retirement savings, more robust savings habits can be encouraged.

¹ Bradford, Hazel (2014) Pace of pension reform ebbs after 49 states change laws. *Pensions and Investments*. 14 April. [Online] last accessed 09/05/14 <http://www.pionline.com/article/20140414/PRINT/304149975/pace-of-pension-reform-ebbs-after-49-states-change-laws>

² Gellman, Lindsay (2014). MyRA Plans: New Retirement Savings Option for Some. *The Wall Street Journal*. 13 April. [Online] last accessed 09/05/14 http://online.wsj.com/news/article_email/SB10001424052702303532704579481583623510714-1MyQjAxMTA0MDEwNDExNDQyWj

2. Retirement aspirations and expectations

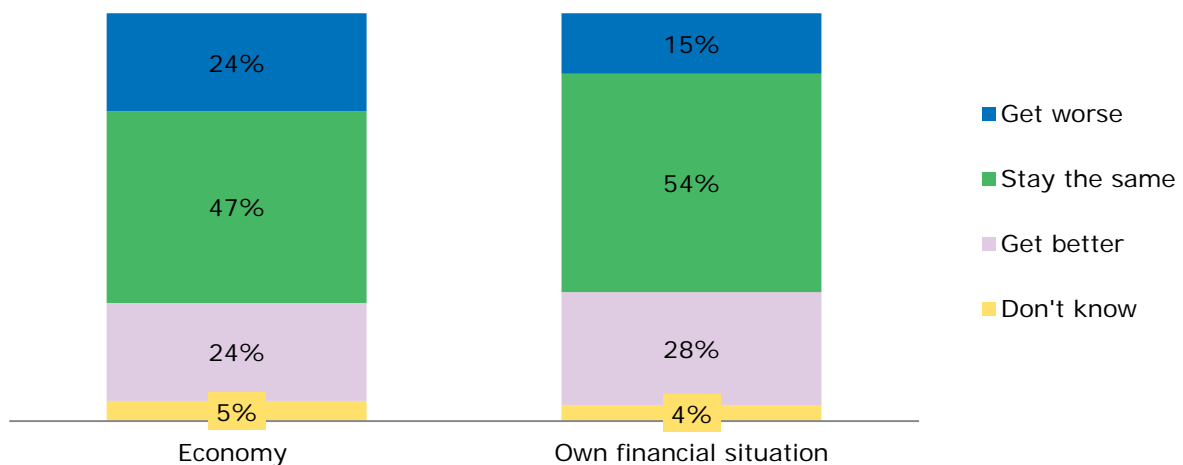
Expectations for the economy remain uncertain in spite of recent positive economic performance. Even though the stock market has doubled over the past five years³ and GDP growth is projected to increase this year compared to last year,⁴ nearly half of respondents (47%) anticipate U.S. economic performance will not change over the next 12 months. Similarly, over half (54%) say that their own financial position will stay the same over the next year, while only 28% believe it will get better.

Chart 1: Expectations of respondents' own financial situations are more optimistic than for the economy

Q. Thinking ahead over the next 12 months, do you expect the economy in the U.S. to...? (Base: All respondents (n=1000))

Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?

(Base: All respondents (n=1000))



Many respondents are concerned about the retirement prospects of future generations. Half (51%) believe that future generations will be worse off in retirement than current retirees. Yet Americans have retained a largely positive attitude toward their own retirement. When asked to select words associated with retirement, nearly half (49%) choose "leisure" while slightly fewer say "freedom" (42%) and "enjoyment" (41%). Retirement aspirations reflect these generally positive attitudes. More than half (58%) of respondents say that traveling is an important goal in retirement, and a similar number (54%) aspire to spend more time with friends and family.

There is, however, some negative sentiment associated with retirement, albeit to a much lesser degree. One-in-eight (13%) associate retirement with "insecurity" while slightly fewer associate it with "poverty" (8%) and "ill health" (7%). One-third (33%) of those not fully retired are not confident that they will be able to retire with a lifestyle that they consider comfortable, and just over one-third (35%) of retirees are not confident that they will maintain a comfortable lifestyle throughout all of retirement.

³ Cirilli, Kevin and Zachary Warmbrodt (2014). *State of the Union 2014: Obama touts 'MyRA' retirement savings proposal*. Politico. 28 January. [Online] last accessed 09/05/14 <http://www.politico.com/story/2014/01/state-of-the-union-2014-retirement-savings-proposal-102734.html>

⁴ IMF (2014). *World Economic Outlook Update Is the Tide Rising?* [Online] last accessed 09/05/14 <http://www.imf.org/external/pubs/ft/weo/2014/update/01/>

Chart 2: Future generations of retirees are expected to be worse off

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?
(Base: All respondents, n=1000)

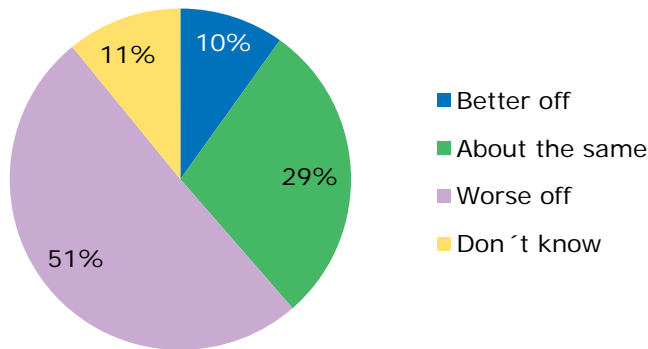
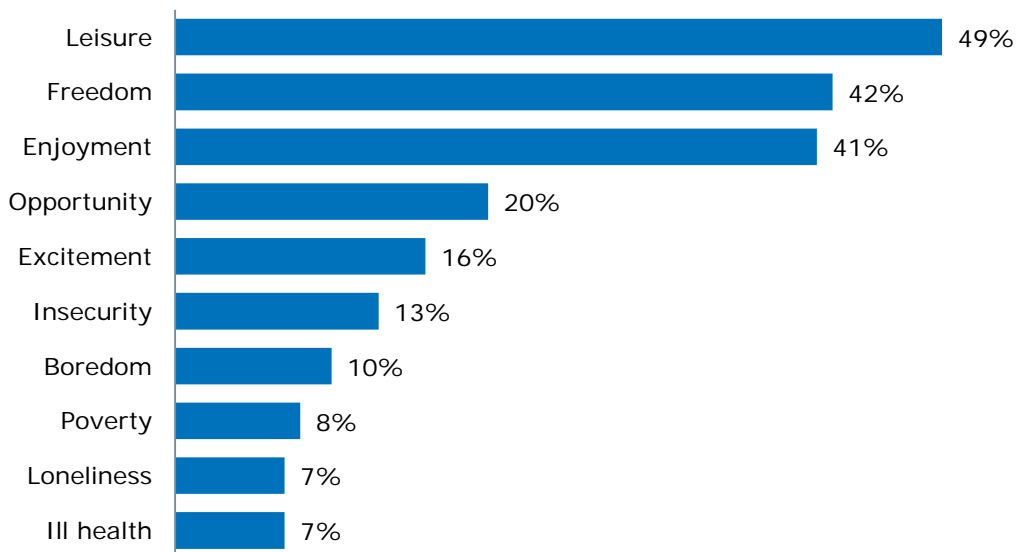


Chart 3: Leisure, freedom and enjoyment most associated with retirement

Q. Which, if any, of the following words do you most associate with retirement? Check all that apply
(Base: All respondents, n=1000)



3. Planning for retirement

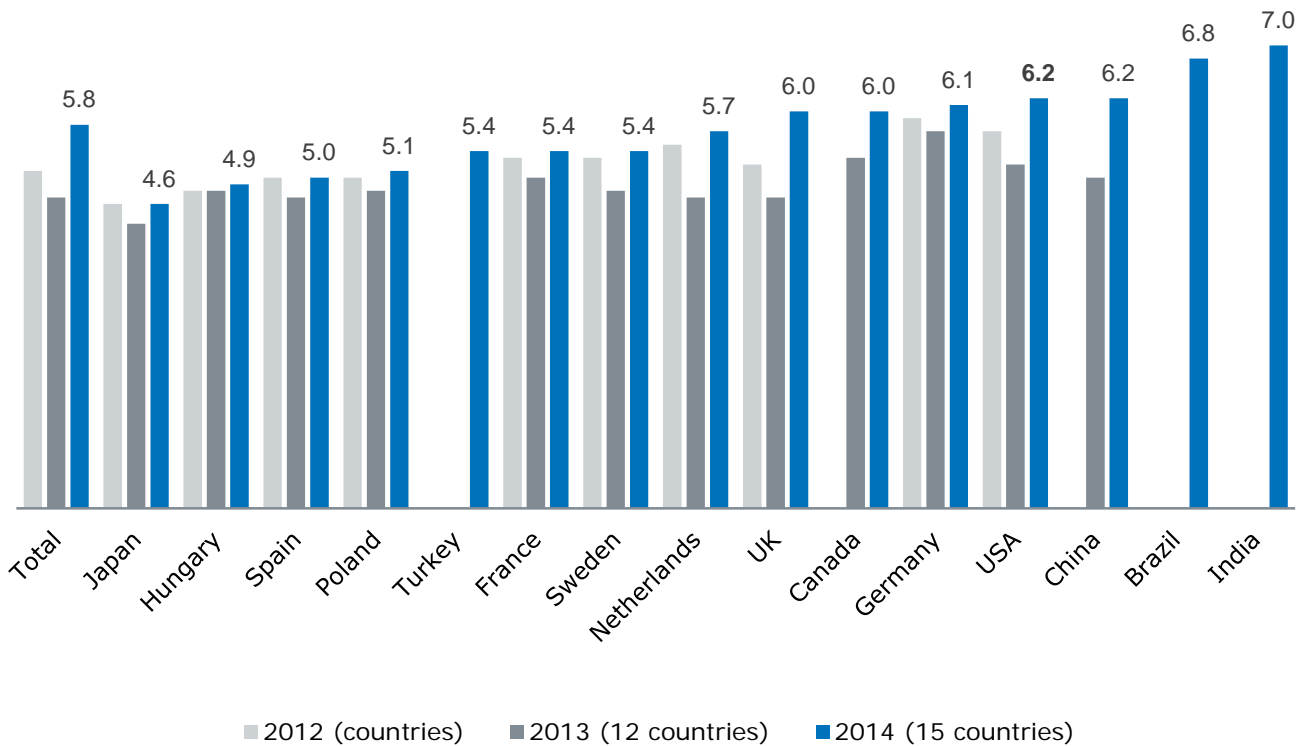
To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three attitudinal and three behavioral questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. By combining the responses to these questions we are able to rate workers' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the Index scores year-on-year and the U.S. is no exception. However, retirement readiness scores remain low overall.

Chart 4: Retirement Index Scores 2012-2014

U.S. Retirement Readiness Index score			
2012	2013	2014	2014 Global Average
5.6	5.2	6.2	5.8

The U.S. Index score of 6.2 leads western economies such as Germany and the UK, which were among the original 10 countries surveyed, but lags behind the economically developing countries in the survey. Brazil and India were introduced to the study this year and lead the global rankings, followed by China. However, the U.S. has experienced a strong improvement as one of only two countries in this year’s survey to have increased its Index score by one whole point since 2013. Improvement can be attributed to an increase in retirement planning and financial preparedness scores, which are weighted relatively heavily in the Index.

Chart 5: The U.S. ranks fourth in the Aegon Retirement Readiness Index in 2014



While retirement planning has improved since last year, there remains room for further progress. For example, only one-in-five (19%) believe that their retirement plans are very developed – a finding that negatively impacts the country’s readiness score. By comparison 25% of workers in India and 30% in Brazil feel their retirement plans are very developed.

Over one-third (35%) of workers in the U.S. say they do not have any retirement strategy at all and only 18% have a strategy that is written down. About a third (32%) have incorporated back-up planning into their retirement strategy if they are unable to work before reaching their planned retirement age. Three-fifths (59%) of workers would be left unprepared in these circumstances.

Chart 6: Over a third of workers do not have a retirement strategy

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

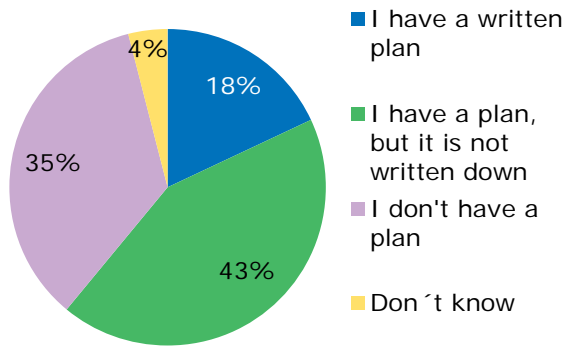
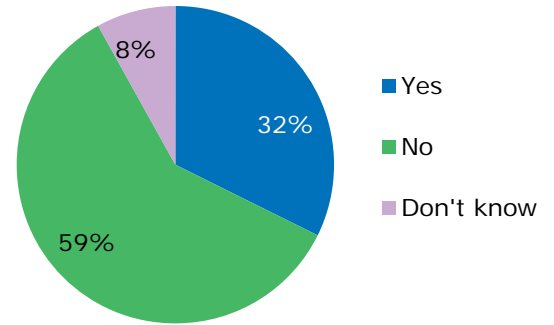


Chart 7: The majority do not have a retirement back-up plan in the event that they are unable to work before their planned retirement age

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? (Base: Not fully retired, n=900)



4. Making saving easy

The majority of American workers (58%) say that a lack of money is an obstacle to saving for retirement. Likewise almost half (49%) claim that a pay raise would encourage them to save more. Other incentives to save include more certain economic conditions (28%) and more generous tax breaks on long-term savings products (27%).

Chart 8: A lack of money is an obstacle to saving

Q: Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

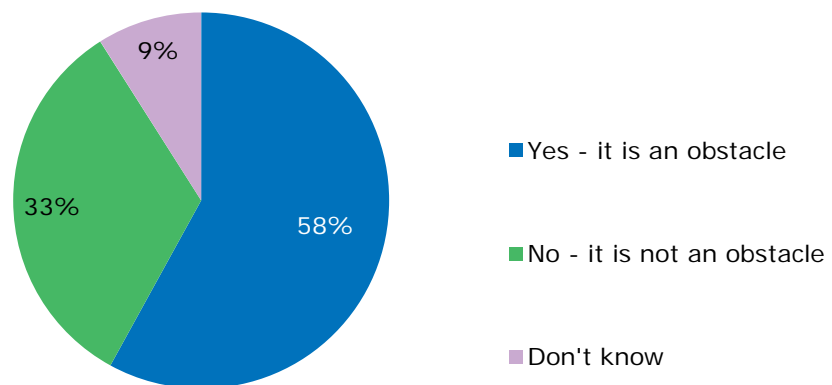
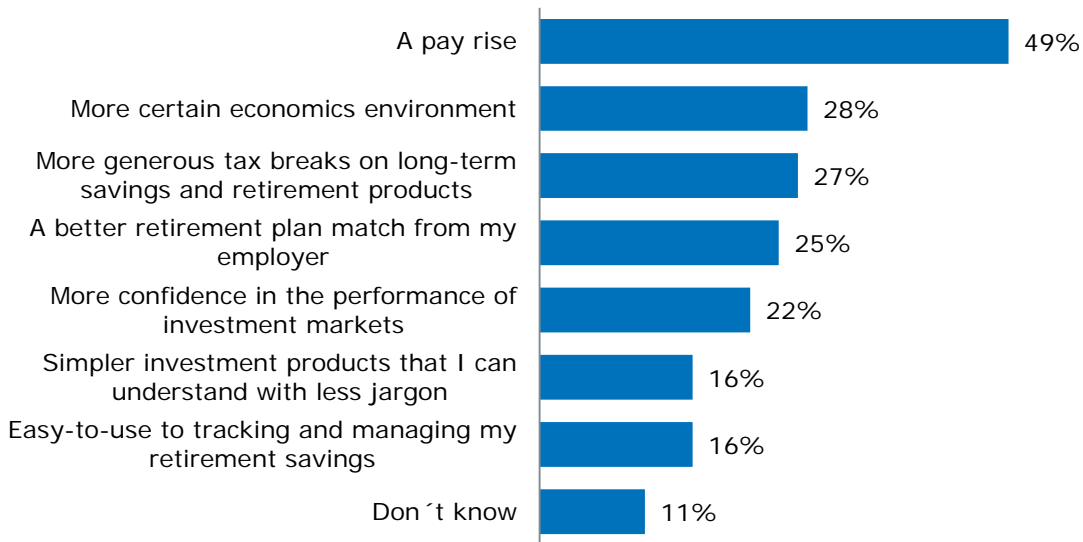


Chart 9: Higher income, a stronger economy and financial incentives encourage savings

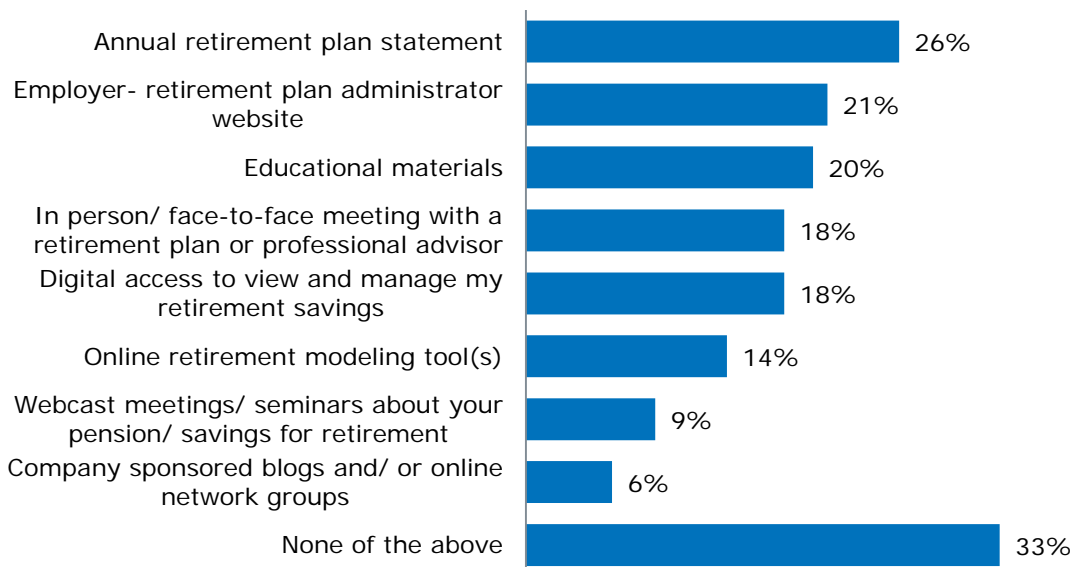
Q. Which, if any, of the following would encourage you to save for retirement? Check all that apply.
 (Base: Not fully retired, n=900)



Incentivizing people to save for retirement will involve a strong role for both the government and employers. Yet most employees feel that their employer could be doing more. When asked whether their employer offers specific retirement planning services, a third (33%) claim not to be offered any. Importantly, where employers do offer retirement planning services, they are found to be very helpful. Two-thirds (64%) of employees who are offered employer or retirement plan administrator websites find them either extremely or very helpful. Likewise, 72% of employees find in-person meetings with professional advisors either very or extremely helpful.

Chart 10: A third of employers do not offer retirement services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? Check all that apply (Base: Not fully retired, n=900)



Automatic enrollment was introduced in the 1990s and later encouraged by the 2006 Pension Protection Act. It has widely been credited with increasing participation among parts of the labor market that otherwise may not participate in an employer-sponsored 401(k) or similar plan.⁵ By the employer deducting a percentage from an employee's salary and contributing it into a savings account, auto-enrollment eliminates important psychological barriers to saving (e.g., procrastination, and lack of awareness of the need to save). When given the choice to opt-out rather than opt-in, workers are more likely to participate.

Yet care must be taken to ensure that employee inertia which makes auto-enrollment a success does not impede savings. For example, a safe harbor status is available where the employer does not have to undertake annual non-discrimination tests that apply to traditional 401(k) plans.⁶ A requirement of the safe harbor status is a three percent match on behalf of the employer, which has resulted in a misguided perception that this level should be default contribution rate. A study by the Center for Retirement Research at Boston College found that for persons who would have participated in a workplace plan without being auto-enrolled in fact ended up saving less due to low default rates.⁷ The safe harbor status is meant to encourage adoption by easing administrative requirements for employers, yet there are still several conditions that must be navigated. This involves technical consulting, custom plan design and filings that deter some employers due to the time and cost required. Furthermore, for some employers a three percent match is unaffordable, and can be a deterrent to adopting auto-enrollment.

We find this regulatory burden impacting other aspects of retirement planning as well. For example, the Department of Labor has noted that employers are reluctant to offer advice through their retirement plan provider out of concern over fiduciary liability.⁸ Here we find that employees are losing out on an important and accessible resource because of the complexities involved in administering a retirement plan.

Under current regulations it is complicated and can be difficult for employers to extend benefits to part-time workers. As a result, many employers limit eligibility to participate in a 401(k) plan to employees who work 1,000 hours per year or more. The recently announced "MyRA" plan is one avenue to facilitate savings by workers without access to an employer plan; however, given the limited amount that can be saved, the MyRA is not intended to be a substitute for a robust retirement plan.

5. A flexible transition to retirement

Most working Americans do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is the likely path of half (51%) of people not already in full or semi-retirement. Only 24% of workers expect to transition immediately into full retirement. Despite this trend, many employers are failing to provide comprehensive phased retirement options suitable for cutting back work in later life. Only one-fifth (21%) of workers say that their employer allows them to move from full-time to part-time working and only 15% offer work suitable for older workers (e.g. less stressful or physically demanding).

For many, working into their 60s and maintaining the same occupation may not be an option. Those, for example, whose careers require physical labor or high levels of stress may need to change positions or industries to accommodate working in later life. In order to ensure a successful transfer, retraining and obtaining new job skills are important steps. However, we again see a provision gap in employers offering of this assistance. When workers were asked whether their employer offers retraining or re-skilling services, only 8% say that they have this option.

⁵ Butrica, Barbara A. and Nadia S. Karamcheva (2013). *How does 401(k) auto-enrollment relate to the employer match and total compensation?* Center for Retirement Research at Boston College. [Online] last accessed 09/05/14 http://crr.bc.edu/wp-content/uploads/2013/10/IB_13-14.pdf

⁶ IRS (2014). *401(k) Plan Fix-It Guide – 401(k) Plan- Overview*. 22 January. [Online] last accessed 09/05/14 [http://www.irs.gov/RetirementPlans/401\(k\)-Plan-Fix-It-Guide---401\(k\)-Plan---Overview](http://www.irs.gov/RetirementPlans/401(k)-Plan-Fix-It-Guide---401(k)-Plan---Overview)

⁷ Butrica, Barbara A. and Nadia S. Karamcheva (2013)

⁸ 401k helpcenter. *Investment Advice and Fiduciary Liability (Updated)*. [Online] last accessed 09/05/14 http://www.401khelpcenter.com/advise_and_liability.html#.U06A21VdV1Z

It is not surprising then that workers feel more could be done to help them plan for retirement. Two-fifths (41%) of employees feel that their employer does not provide them with enough information and support to help with retirement planning. Unfortunately such assistance does not appear to be increasing. Over half (54%) of workers surveyed say their employer does “about the same” amount of retirement services as three years ago, and only one-in-ten (10%) have seen their employer doing more.

Chart 11: Only one quarter expect to retire immediately

Q. Looking ahead, how do you envision your transition to retirement? (Base: Not fully/semi-retired, n=840)

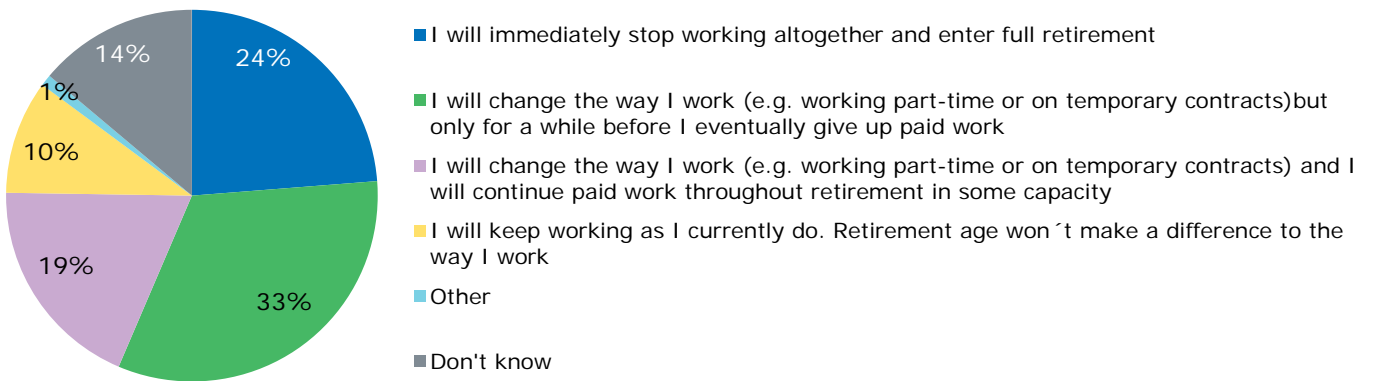


Chart 12: Only one-fifth of employers offer workers to move from full- to part-time work

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? Check all that apply (Base: Not fully retired, n=900)

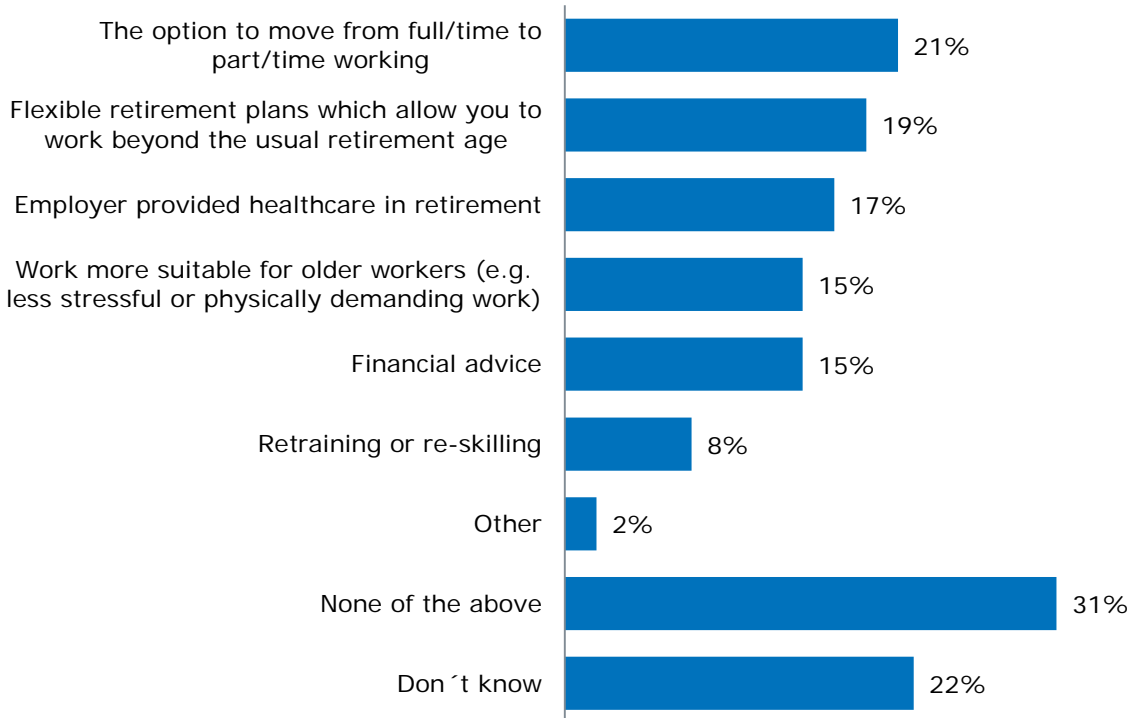
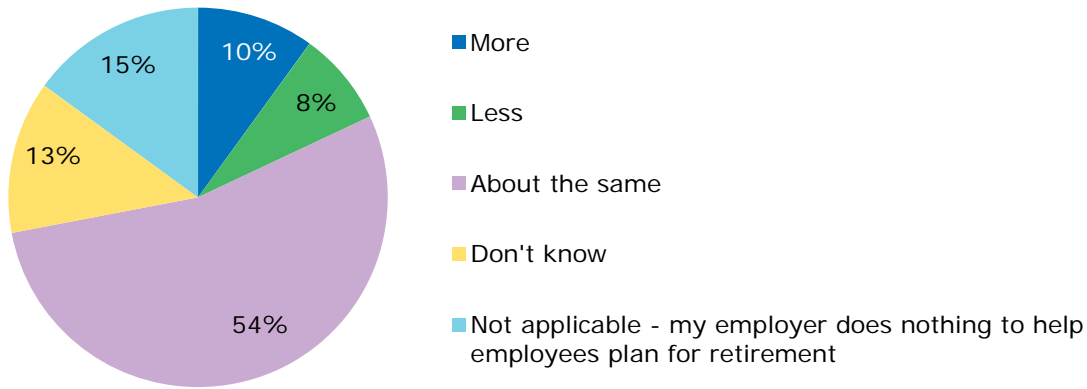


Chart 13: Retirement services offered by employers have not improved over the past three years

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: Not fully retired, n=900)



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