The New Social Contract: a blueprint for retirement in the 21st century

The Aegon Retirement Readiness Survey 2018
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Note: Percentages are shown to zero decimal places. Rounding percentages to the nearest whole number may result in slight differences; for example, the percentages in some charts summing to slightly under or slightly over 100 percent.
Introduction

The Aegon Center for Longevity and Retirement is pleased to present findings from its seventh annual Aegon Retirement Readiness Survey, The New Social Contract: a blueprint for retirement in the 21st century. This survey is the result of collaboration with nonprofits Transamerica Center for Retirement Studies (based in the U.S.) and Instituto de Longevidade Mongeral Aegon (based in Brazil). This report, while specific to Hungary, is based on research conducted in 15 countries spanning Europe, the Americas, Asia and Australia.

Changes taking place in Hungary and around the world are giving rise to new pressures on existing retirement systems forged during the last century. This is forcing all of us to look differently at our plans for achieving good health and financial prosperity in later life.

For many decades, Hungary has worked to create an enduring system of benefits and entitlements to help its citizens achieve a secure and fulfilling retirement. The 1990s saw Hungary overhaul its pension system to a mixed model, with longer working requirements enforced to help curb expenditure on an increasing pensioner base. Moreover in 2010 the Hungarian government made a seismic shift to bring the newly-implemented second-pillar employer-led pension plan back under the public domain.

However, when the first iteration of the Hungarian retirement system was created early in the post-war years, the dependency ratio (that is, the number of those aged 65 and above against those aged 15-64) in 1960 stood at 13.7. In 1990 this stood at 20.3, to 23.3 in 2010 and 27.7 in 2017.1 When combining the 2010 reform to nationalize private pensions in order to fund payments for today’s generation of retirees, Hungary’s increasingly aging population (and in turn fewer workers to support the older generation), and the cap placed on how much individuals can contribute to personal private pension funds, it is clear that the existing retirement system in the country is coming under financial strain. As the findings throughout this report illustrate, the current Hungarian pension system may prove troublesome in the long-term with regards to how responsibility for retirement funding is shared.

This report focuses on the responses of 1,000 people in Hungary, including 900 workers and 100 retirees. It investigates the stresses and pressures being put on the Hungarian retirement system and the roles the government and employers are expected to perform. The report evaluates the retirement readiness of workers themselves and explores improvements that could be made to help workers achieve the aspirations they hold for their retirement. It investigates the growing importance of health in the realities of financial planning, and for the first time the report examines the issue of aging with dignity. With a quarter of people in Hungary predicted to be aged 65 or above by 2040 (a 40 percent rise from the 2015 level)2, issues around healthy aging and financial security are becoming ever more pertinent.

1 World World Bank, Age dependency ratio, old (% of working-age population) - Hungary
2 United Nations, World Population Prospects: The 2017 Revision, 2018 (custom data acquired via website)
Key Findings:

- The Hungarian ARRI score has risen from 5.1 in 2017 to 5.3 in 2018. The Aegon Retirement Readiness Index (ARRI) measures how prepared workers around the world feel for their retirement. Hungary sits in third-from-bottom, moving ahead of Spain (tied second-from-bottom in 2017) with Japan having the lowest ranking.

- Over half (53 percent) of people in Hungary are concerned about reductions in government retirement benefits, making it the biggest-hitting megatrend impacting plans for retirement in the country. A quarter (26 percent) of people in Hungary expect changes in labor markets to impact their plans for retirement.

- Two-thirds (67 percent) of Hungary believe that future generations of retirees will be worse off than those currently in retirement. Amongst those fully-retired – and as such benefiting from the system in the present – this rises to 77 percent.

- Well over half (57 percent) of Hungarian retirement income is expected to come from the government (compared to 46 percent globally). With 2010 pension reform essentially nationalizing all private pension plans, it follows that people in Hungary expect just 15 percent of their retirement income to come from their employer, and 29 percent is predicted to come from individuals’ own savings and investments.

- Asked what action the government should take to address the growing cost of Social Security, the most common view held among people in Hungary (41 percent) is that the value of retirement payments should stay the same and that taxes should be increased to fund this (globally: 34 percent). Just 11 percent take an opposing view, believing instead that the overall cost of Social Security provision should be reduced therefore alleviating the need to increase taxes. A fifth of people in Hungary think that a balanced approach needs to be taken, with some reductions in individual payments but also conceding that there will need to be some increases in tax.

- Only half of people in Hungary are currently saving for retirement, with just three-in-ten (31 percent) Hungarian workers are saving habitually (compared to 39 percent globally). A further 20 percent are saving only on an occasional basis (compared to 24 percent globally). While 13 percent of those in Hungary are not saving for retirement but have done so in the past, nine percent are not saving for retirement and have no intention to do so, and a significant 28 percent intend to start but have not yet done so.

- A quarter of people in Hungary (25 percent) correctly answer all of the ‘Big Three’ Financial Literacy questions developed by Drs. Annamaria Lusardi and Olivia S. Mitchell in 2004 and used in this survey with their permission - below the global average (30 percent). People in Hungary outperformed the global average on the ‘inflation’ question (75 percent vs. 63 percent) but under-performed against the global average on the ‘compound interest’ and ‘risk diversification’ questions. Those that perform best on the Big Three financial literacy questions (correctly answering all three) achieve a higher ARRI score (5.9 compared to 5.3 among all people in Hungary).

- Just two-fifths of Hungarian workers (41 percent) find the idea of automatic enrolment appealing – far shy of the 57 percent supporting it globally. Those in the workplace when Hungary’s private pension system briefly operated are slightly more supportive, with 45 percent of both Baby Boomers and Generation X finding it appealing.

- Just eight percent of people in Hungary are confident that they will be able to afford their own healthcare in retirement (compared to 21 percent globally). This level plummets even further amongst Hungarian women (six percent) and Generation X (four percent), yet a quarter (25 percent) of those currently in excellent health are confident.

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Part 1: Megatrends impacting the current retirement landscape

Globalization, innovation, advances in science and technology. Our world is changing rapidly amid these and other trends. Many of these trends are so impactful that they can be considered megatrends. Changes brought about by megatrends are already shaping societal constructs, how people lead their daily lives, plan for their future, and, ultimately, prepare for their retirement.

In Hungary, there are several global trends of which the impacts are predicted to be felt particularly harshly on retirement preparation. Over half (53 percent) of people in Hungary are concerned about reductions in government retirement benefits: at present it is behind only Poland in terms of the proportion of GDP (over 10 percent) that goes towards public pension spending amongst the EU 27.\footnote{World Bank. \textit{Hungary’s Aging Population: A Challenge as Well as an Opportunity}} With shortages of skilled workers in the country, it is thus reflected that more people in Hungary than the global average (26 percent vs 21 percent) expect changes in labor markets to impact their savings for retirement. The severity of changing demographics is also more harshly felt in Hungary with its aging population: 24 percent expect this to impact their retirement plans, compared to just 14 percent globally. To be sure, the macroeconomic landscape and future outlook are having a notable impact on people in Hungary’s ability to prepare for retirement. Notably, few people in Hungary report volatility in financial markets as impacting their plans for retirement compared to the global average (15 percent vs. 24 percent). With pensions in Hungary under the public domain, individuals may feel less exposed to the financial markets in their own retirement plan than other countries surveyed in the study.

Over the past 50 years, these global megatrends, such as increasing lifespans, changing demographics, and more recently, the prolonged low interest rate environment, have impacted the way governments and corporations manage retirement systems and how pension provisions are managed. Continued change is inevitable, reshaping the contours of the retirement landscape in Hungary for decades to come and influencing how future generations save, invest, plan and prepare for retirement.
People in Hungary are grossly pessimistic about the future of retirement. Two-thirds (67 percent) believe that future generations of retirees will be worse off than those currently in retirement. Amongst those in full retirement – and as such benefiting from the system in the present – this rises to 77 percent.

Chart 2 – Over two-thirds of people in Hungary think future generations will be worse off in retirement

Amid concerns about potential reductions in government benefits, increased longevity, and changes in employment trends, the current pension system in Hungary may prove unsustainable as time goes on. The Hungarian retirement system is in a slow state of flux, but is most easily categorized as being in the dominance of Social Security. Some voluntary supplementary pension plans are used by few workers, but the proliferation of these schemes since their introduction in the early 2000s has been sparse. Rapid changes in demographics, outwards migration and aging will mean that changes such as increased retirement ages and longer working lives may be inevitable in the future. A pension system involving many more social partners – what is now only an aspiration in Hungary – will be necessary.

As it stands, well over half (57 percent) of Hungarian retirement income is expected to come from the government (compared to 46 percent globally). With 2010 pension reform essentially nationalizing all private pension plans, it follows that Hungarians people in Hungary expect just 15 percent of their retirement income to come from their employer, and 29 percent is predicted to come from individuals’ own savings and investments. The fact these latter two figures fall far below the global average are indicative of the potential pitfalls people in Hungary could face should the Social Security system prove unsustainable.

Chart 3 – People in Hungary expect over half of their retirement income to come from the government
The role of the government under growing pressure

For years, experts have expressed concerns about the sustainability of pay-as-you-go social security systems. These systems are designed as such that today’s workers are contributing and paying for the benefits of today’s retirees. Due to increases in longevity and lower fertility rates, populations are aging with retirees living longer than this system was initially designed for – compounded with a smaller portion of current workers paying into the system. Projections from the United Nations estimate that by 2040, the amount of people in Hungary aged 65 and over will have account for over 27 percent of the population, swelling phenomenally from 17 percent as at 2017.\(^5\)

With sustainability of future payments a concern within Hungary, the survey finds there is on the whole a call for the government to take some form of action. Asked what measures the government should undertake to address the growing cost of government pensions, the most common view among people in Hungary (41 percent) is that the value of retirement payments should stay the same and that taxes should be increased to fund this (globally: 34 percent). It should be noted that the minimum pension (HUF 28,500 per month) has been constant since 2008.\(^6\) Seemingly a far less popular option, 11 percent of people in Hungary take an opposing view, believing instead that the overall cost of Social Security provision should be reduced therefore alleviating the need to increase taxes. A fifth (20 percent) of people in Hungary think that a balanced approach needs to be taken, with some reductions in individual payments but also conceding that there will need to be some increases in tax. On top of this, a quarter of people in Hungary (24 percent) do not know what actions should be taken, if any – outnumbering the amount unsure globally (18 percent).

**Chart 4 – Four-in-ten people in Hungary think the government should increase Social Security funding without reducing the value of individual payments**

<table>
<thead>
<tr>
<th>Option</th>
<th>Hungary</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Government should reduce the overall cost of Social Security provision by reducing the value of individual pension payments, without having to increase tax</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>The Government should take a balanced approach with some reductions in individual payments and some increases in tax</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>The Government should increase overall funding available for Social Security through raising taxes without having to reduce the value of individual payments</td>
<td>41%</td>
<td>34%</td>
</tr>
<tr>
<td>The Government should not do anything. Social Security provision will remain perfectly affordable in the future</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>24%</td>
<td>18%</td>
</tr>
</tbody>
</table>

\(^5\) Ibid, United Nations

\(^6\) OECD, Pensions at a Glance 2017: Country Profiles – Hungary, 2017
Changes in employment and the impact on employer benefits

As well as creating uncertainty about the future of funding Social Security, many of the megatrends discussed have also led to changing employment arrangements and employer benefit offerings. This then leads to uncertainty about the role played by employers in helping workers prepare for retirement. Despite second pillar private pension funds becoming nationalized, employers in Hungary still offer their workers a wide variety of benefits, as can be seen in the table below. However in Hungary, only a fifth of workers (19 percent) say their employer offers phased retirement, compared to a more considerable 29 percent globally.

Hungarian employers have made strides where possible in helping workers prepare for and transition into retirement, but there is still room for further improvement. Employer benefits however are currently under review of the Hungarian government with potential changes to the system expected to be proposed later in 2018, perhaps likely to impact figures in future editions of this survey.

Aegon Retirement Readiness Index and the role of individuals

The role the individual takes in retirement preparation is gradually increasing, but has further to go. The Aegon Retirement Readiness Survey (now in its seventh year) measures the level of retirement planning workers undertake as responsibility gradually shifts towards the individual. The Aegon Retirement Readiness Index (ARRI) provides an annual score based on responses to six separate questions: three broadly attitudinal (Questions 1, 2, 3) and three broadly behavioral (Questions 4, 5, 6). These questions are illustrated in the diagram below.
What factors shape the ARRI score?

**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?

The ARRI ranks retirement readiness on a scale from 0 to 10. A high index score is between 8 and 10, a medium score between 6 and 7.9, and, a low score being less than 6. (For additional information about the ARRI and its methodology, please see Appendix 1 on page 20.)

Hungary achieves a medium ARRI score of 5.3, ranking it third-from-bottom. This represents a minor improvement in terms of its 2017 score of 5.1, however its positioning remains broadly static (in 2017 it came joint second-bottom with Spain). While the proportion of workers in Hungary with a high index score remains unchanged (10 percent in both 2017 and 2018), the proportion of workers with a low Retirement Readiness Index score has fallen from 68 percent in 2017 to 62 percent at present. Workers are doing more to prepare for retirement, but clearly much more action is needed.

**Chart 6 – Hungary third-from-bottom in retirement readiness**

<table>
<thead>
<tr>
<th>Country</th>
<th>ARRI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5.9</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
</tr>
<tr>
<td>Spain</td>
<td>5.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>5.3</td>
</tr>
<tr>
<td>France</td>
<td>5.4</td>
</tr>
<tr>
<td>Poland</td>
<td>5.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>5.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5.7</td>
</tr>
<tr>
<td>Australia</td>
<td>5.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.0</td>
</tr>
<tr>
<td>Canada</td>
<td>6.0</td>
</tr>
<tr>
<td>Germany</td>
<td>6.1</td>
</tr>
<tr>
<td>United States</td>
<td>6.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.6</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
</tr>
<tr>
<td>India</td>
<td>7.3</td>
</tr>
</tbody>
</table>
Part 2 – Improving individual retirement security – the role of financial literacy and auto-enrollment

People in Hungary are equally split between optimism and pessimism when thinking of retirement. An equal amount (62 percent of both) associate retirement with positive words like ‘freedom,’ ‘opportunity,’ and ‘leisure’ (68 percent globally), and negative words such as ‘poverty,’ ‘insecurity,’ and ‘loneliness,’ (50 percent globally).

Despite this, the majority of people in Hungary hold positive retirement aspirations. The most common include 64 percent wanting to spend more time with friends and family, 63 percent aiming to spend their retirement traveling, and 51 percent pursuing new hobbies. Work features further down the list with just 16 percent aspiring to continue working in the same field, even fewer (14 percent) wish to uproot and continue working but in another field.

Chart 7 – Spending more time with friends and family, and traveling top list of retirement aspirations

Over the years, the survey consistently finds that saving on a regular basis is the best route to retirement readiness. However, as can be seen overleaf, just three-in-ten (31 percent) of Hungarian workers are doing so, falling short of the global average, which stands at 39 percent. A further fifth (20 percent) of Hungarian workers save for retirement but only on an occasional basis - meaning just half of workers in Hungary are saving for retirement. Alternatively, 13 percent are not doing so currently, although they had saved in the past; nine percent are not saving for retirement and have no intention to do so, and a significant 28 percent intend to start but have not yet done so. This group yet to action their intention to save shows the appetite amongst Hungarian workers to do so.
A certain amount of planning is required to make sure that aspirations can be fulfilled in retirement. Just under three-fifths (58 percent) of Hungarian workers already have a plan in place for retirement, including a mere seven percent who have committed this plan to writing (13 percent globally). The act of considering one's future finances and committing to a plan to writing formalizes the process thereby increasing the likelihood of success – an area where workers in Hungary are falling behind.

Saving habitually and setting forth a written financial plan for retirement can help Hungarian workers achieve their retirement aspirations. But do they have the knowledge to make what can be very important and detailed financial decisions?

**Equipping individuals with the tools to better plan for retirement**

Pressure on the retirement system means that ever more responsibility is falling into the hands of individuals, and away from the experts. Making a plan for retirement means navigating through many different financial concepts, many of which require a detailed level of understanding.

With their permission, the survey uses a framework developed by Drs. Annamaria Lusardi and Olivia S. Mitchell dating back to 2004, to measure financial literacy. Lusardi and Mitchell created the “Big Three” questions that measure understanding of compounding interest, inflation, and risk diversification. Their questions test the respondents’ actual knowledge of these three topics rather than their self-reported knowledge. The questions along with the correct answers can be found in Appendix 2 (page 21).

People in Hungary fall short of the average global level of financial literacy. Two-thirds (66 percent vs. 75 percent globally) correctly answered the compound interest question and 40 percent correctly answered the risk diversification question (45 percent globally). However, more people in Hungary correctly answered the question centered on inflation (75 percent vs. 63 percent globally). Overall, just a quarter of people in Hungary (25 percent) correctly answered all of the “Big Three” financial literacy questions (global: 30 percent).
Without the requisite level of financial knowledge, it is impossible for people to formulate good retirement plans, or even know what questions to ask of advisors and retirement plan providers when seeking advice. Low financial literacy may also translate into failure to engage in any kind of retirement planning.

Low levels of financial literacy are concentrated among certain groups. While 25 percent of people in Hungary correctly answer all three financial literacy questions, this falls to 19 percent among Millennials and those educated below degree-level, 18 percent among women, and 14 percent among those with a low personal income.

Among those who correctly answered all “Big Three” financial literacy questions (and thus showing a higher degree of financial literacy) there are improvements across all areas of their retirement planning. They score higher on the ARRI (5.9, compared to 5.3 overall in Hungary), they are more likely to be saving habitually for retirement (39 percent vs. 31 percent overall), and a higher proportion hold a plan for retirement either in writing or unwritten (65 percent compared to 58 percent overall). Hungarian workers who correctly answer all “Big Three” financial literacy questions are also more likely to feel that they are able to understand financial matters when it comes to planning for retirement (81 percent vs. 67 percent overall) and they are more likely to know the value of their retirement savings (68 percent vs. 54 percent overall).
Chart 12 – Financial literates are more likely to be habitual savers and say they understand financial planning

<table>
<thead>
<tr>
<th></th>
<th>Hungary Workers</th>
<th>Hungary Financially Literate Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARRI score</td>
<td>5.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Habitual savers</td>
<td>31%</td>
<td>39%</td>
</tr>
<tr>
<td>Have a retirement plan (either written or unwritten)</td>
<td>58%</td>
<td>65%</td>
</tr>
<tr>
<td>Able to understand financial matters when it comes to planning for retirement</td>
<td>67%</td>
<td>81%</td>
</tr>
<tr>
<td>“I have a very good idea of the total value of all my personal retirement savings and investments.”</td>
<td>54%</td>
<td>68%</td>
</tr>
</tbody>
</table>

In a world in which workers are expected to exercise more choice over how much they put aside for retirement, and how those retirement savings are invested, it is imperative to increase financial literacy among adults and to provide more education starting at an early age so that children can gain these vital skills that will serve them throughout their lives. The lack of widespread financial literacy is alarming. Addressing it should be a top priority for policymakers, educators, and employers, as well as other societal institutions.

Changing infrastructure to make it easier for individuals to save

The strained social contract is necessitating people to fund a greater portion of their retirement. Initially created using the behavioral economics theory of ‘nudging’ as a method to prompt behavioral change, automatic features in defined contribution plans are showing great promise in countries where they have been implemented.

Automatic enrollment is a retirement plan feature in which employees are automatically enrolled to start saving a portion of each paycheck, and they only need to take action if they choose not to save. While the Hungarian pension system currently requires employers to pay a social tax based on the percentage of salary to the state for future defined benefit payments, the survey finds that 41 percent of workers say that they find the idea of auto-enrolment appealing. This is far less popular than globally (57 percent), however given the nuanced singular pillar pension system in Hungary, auto-enrollment is indeed quite the change from the status quo. However, some demographic segments within the Hungarian workforce are more likely to support auto-enrollment, notably women, Generation Xers and Baby Boomers (45 percent all find this appealing). Millennials, however, with high unemployment rates relative to historical levels, less secure working contracts and the proliferation of low-paid public work programs (designed to boost employment) are less likely to find it appealing (37 percent). Considering worries around the sustainability of the pension system for the coming generations, this segment is typically more vulnerable to not saving enough for retirement and may be more likely to benefit from it – despite the low (if at all existent) wage base younger individuals must syphon funds from.

Chart 13 – Two-fifths of Hungarian workers find the idea of auto-enrollment appealing

Very or somewhat appealing
Part 3 – Potential health issues loom large as retirement concerns

Although in Part 2 we saw that people in Hungary are broadly similarly optimistic and pessimistic about life in retirement, the survey finds the aging process is a source of a number of specific worries. Declining physical health (57 percent) and running out of money (53 percent) top the list of retirement concerns in Hungary, both surpassing the global average levels of concern (49 percent and 41 percent respectively). For the high level of concern over physical health in particular, this may be indicative of the relatively low number of healthy life years people in Hungary can expect at age 65: Eurostat figures show that in 2016 Hungarian men and women were predicted to only respectively have 6.7 and 6.4 healthy life years at age 65, compared to 9.8 and 10.1 years as an average among the 28 European Union countries.†

Hungarian Baby Boomers are slightly more concerned about declining physical health (62 percent) than Millennials (54 percent), who may somewhat under-estimate the impact aging will have on their physical health. Conversely, Hungarian Millennials (24 percent) are far more likely to be concerned about mental health issues (e.g., depression) in retirement than Baby Boomers (16 percent).

Chart 14 – Declining physical health and running out of money top the list of Hungarian retirement concerns

Hungarian Baby Boomers are slightly more concerned about declining physical health (62 percent) than Millennials (54 percent), who may somewhat under-estimate the impact aging will have on their physical health. Conversely, Hungarian Millennials (24 percent) are far more likely to be concerned about mental health issues (e.g., depression) in retirement than Baby Boomers (16 percent).

†Eurostat, Healthy life years (from 2004 onwards). 2018 (custom data acquired via website)
People in Hungary are a mildly health-conscious group that take their health seriously in certain areas, although on the whole they fall slightly below global averages in terms of performing health-related activities. Almost three-in-five (58 percent, both in Hungary and globally) avoid harmful behaviors such as drinking too much alcohol or smoking tobacco, and two-in-five people in Hungary (40 percent) take their health seriously, have routine medical check-ups and do regular self-checks (44 percent globally). People in Hungary however lag behind the global average in terms of eating healthily (35 percent versus 56 percent globally) and exercising regularly (28 percent versus 51 percent globally). These behaviors in particular can have a strong impact on long-term health, notably in Hungary where OECD figures cite over 30 percent of Hungarian adults as obese, far above the OECD average of 19.5 percent and sitting in the top four countries in terms of obesity levels.\(^8\)

![Chart 15 – Three-in-ten Hungarian retirees exited workplace sooner than planned](chart)

People in Hungary are a mildly health-conscious group that take their health seriously in certain areas, although on the whole they fall slightly below global averages in terms of performing health-related activities. Almost three-in-five (58 percent, both in Hungary and globally) avoid harmful behaviors such as drinking too much alcohol or smoking tobacco, and two-in-five people in Hungary (40 percent) take their health seriously, have routine medical check-ups and do regular self-checks (44 percent globally). People in Hungary however lag behind the global average in terms of eating healthily (35 percent versus 56 percent globally) and exercising regularly (28 percent versus 51 percent globally). These behaviors in particular can have a strong impact on long-term health, notably in Hungary where OECD figures cite over 30 percent of Hungarian adults as obese, far above the OECD average of 19.5 percent and sitting in the top four countries in terms of obesity levels.\(^8\)

![Chart 16 – Exercise take-up and healthy eating in Hungary at low levels](chart)

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\(^8\) European Foundation for the Improvement of Living and Working Conditions, *Hungary: Early retirement for women and workers in difficult conditions*, 2015

\(^9\) OECD, *Obesity Update 2017*, 2017
Just as forming good financial habits early on in life can help individuals achieve a secure retirement, forming good health habits early can help workers maintain good health into retirement. Employers can play an important role by offering workplace health and wellness programs.

The vast majority (92 percent) of Hungarian workers would be interested in a variety of health and wellness programs. The most popular of these are preventative screenings (46 percent), with interest far above the global average (35 percent). With Hungary having the highest percentage of its population having high blood pressure levels out of the EU-28 nations, and the highest standardized death rates for cancer alongside Croatia and Slovakia, the prevalence of these screenable pathologies are no doubt valued.\textsuperscript{10,11} Forty-four percent of Hungarian workers would be interested in healthy food or snack options at the office (41 percent globally), and there is appetite among 39 percent for exercise programs (40 percent globally). However, considering the prevalence of circulatory disease in the country, just 23 percent would be interested in health risks assessments (30 percent globally) and 14 percent would opt for education on health behaviors (compared to 22 percent globally).

\textbf{Chart 17 – Hungarian workers are keenly receptive to workplace health benefit programs}

10 Eurostat, \textit{Persons reporting a chronic disease, by disease, sex, age and educational attainment level}, 2017
Part 4: Living and aging in good health and with dignity

With health and money topping the list of retirement-related concerns held by people in Hungary, being able to afford healthcare in retirement may be fueling some of the uncertainty. While Hungary has a universal public healthcare system, funding for healthcare in 2015 equated to €1,428 per capita, just under half the EU-wide average of €2,797 – leading to costly out-of-pocket expenditure by individuals on private healthcare to plug the gap. A mere eight percent of people in Hungary are either very or extremely confident that their own healthcare will be affordable in retirement, significantly lower than the 21 percent global average. Perhaps unsurprisingly, the only segment in Hungary with a stronger sense of confidence are those currently in good health (25 percent).

Chart 18 – just eight percent of people in Hungary are confident that they will be able to afford their own healthcare in retirement, with Millennials and women among the least confident in the country

Feeling confident about the affordability of retirement forms part of the desire to be able to age with a sense of certainty, autonomy and comfort. It is of particular importance for individuals to remain in their home as they get older.

Aging in place is of at least some importance to 92 percent of people globally, and 94 percent of people in Hungary. Over a third of people in Hungary (36 percent) consider it extremely important to remain in their own home as they get older, and a further 41 percent see it as very important.

Chart 19 – The majority of people in Hungary say it is important to remain in their own home as they get older

12 OECD, *State of Health in the EU: Hungary Country Health Profile*, 2017
However, the typical Hungarian family home may not always be well-suited individuals as they grow old and are less able to climb stairs, or even keep on top of household chores. Through D.I.Y. adjustments and/or new technology, homes can be developed, or devices installed to help individuals age in place. With a higher proportion of those aged 65 and over living alone in Hungary than the EU-28 average (39 percent vs 32 percent)\textsuperscript{13}, the top modifications reported all revolve around security and personal safety measures.

For people in Hungary, installing a home security system (45 percent) tops the list, followed by panic buttons to call emergency services (44 percent) and medical alert systems to warn about changes in health (44 percent). Wheelchair accessibility (11 percent) and robots to keep them company (eight percent) fall to the bottom of the list in Hungary.

\textbf{Chart 20 – Home security systems and panic buttons top the list of features and devices people in Hungary envision having added to their homes as they get old}

<table>
<thead>
<tr>
<th>Feature</th>
<th>Hungary</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home security system</td>
<td>39%</td>
<td>45%</td>
</tr>
<tr>
<td>Panic buttons to call emergency services</td>
<td>37%</td>
<td>44%</td>
</tr>
<tr>
<td>Medical alert system to warn about changes in health (e.g., blood pressure monitors etc.)</td>
<td>33%</td>
<td>44%</td>
</tr>
<tr>
<td>Bathroom modifications</td>
<td>42%</td>
<td>43%</td>
</tr>
<tr>
<td>Age-friendly furniture</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>Kitchen modifications</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>Elevator / stair lift</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Robot to help with chores, medication management, communication, etc.</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Ramps and/or grip bars</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Video monitoring</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Wheelchair accessibility</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Robot to keep me company</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Don’t know / prefer not to answer</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>None of the above</td>
<td>9%</td>
<td>7%</td>
</tr>
</tbody>
</table>

\textsuperscript{13} Eurostat, \textit{A look at the lives of the elderly in the EU today}, 2015
Part 5: Forging a social contract

Why do we need a social contract?
Across the world, the retirement landscape is changing. As megatrends rumble on, affecting economies, political overtones and demographics, the way people live, work, and retire is in a state of evolution. While globally the onus is being shifted more onto the individual, Hungary instead is increasing the role the state plays in funding retirement through nationalisation of the pension fund and reducing the minimum working age. The sustainability of Hungarian pension funds has been questioned, with only three-in-ten habitually saving to supplement Social Security income through either voluntary pension funds, pension insurance or a NYÉSZ account. Hungary is moving ever closer towards these hurdles as the number of retirees rockets in the next 20 years, making the raise in retirement age and keeping the elderly in the labor market almost inevitable.

Before this future arrives, however, it is worth assessing how the balance in responsibility for retirement saving currently lies between the government, employers and individuals. A social contract, that is, an agreement in kind as to who provides what, could help cement the government, employers and individuals to understand financial matters and implement financial solutions. Schools and financial professionals have a role in preparing individuals to understand financial matters and implement financial solutions. The role of partnerships in shaping the social contract and the way people live, work, and retire is in a state of evolution. Achieving success depends on building new collaborative relationships based on common objectives, benefits, and trust.

Who are the partners in a social contract?
As already is the case in Hungary, the cornerstone of this social contract as seen globally is that governments take center stage in orchestrating retirement systems in their countries making sure that everyone, especially at-risk segments of the population, is included. At present, financial measures in place in Hungary discourage employers from providing pension plans to their workers, with the government emphasising the importance of a salary for work.Creating a social contract where employers are enabled to help put finances aside into a separate pension fund in which employees can also invest will help broaden the responsibility for financial savings. Employers could also help by offering workplace retirement savings and other benefits to employees. These benefits include skills training, healthcare and wellness. Individuals could also take on a more proactive role in ‘owning’ their retirement security, either through greater provision of private pension funds or encouragement from the government in terms of either bonus payments or tax-free allowances. And new social partners like academics, think tanks, industry, charities and NGOs will work more closely in public-private collaborations to share expertise, innovate, and implement solutions. Schools and financial professionals have a role in preparing individuals to understand financial matters and implement financial decisions that can enhance their retirement security.

Nine proposed design features of a social contract:
1. Sustainable social security benefits that serve as a meaningful source of guaranteed retirement income and avoid risk of poverty among retirees.
2. Universal access to retirement savings arrangements for employed workers and alternative arrangements for the self-employed and those who are not employed due to parenting, caregiving, or other responsibilities.
3. Automatic savings and other applications of behavioral economics that make it easier and more convenient for people to save and invest.
4. Guaranteed lifetime income solutions in addition to social security benefits. Education for individuals to strategically plan how to manage their savings to avoid running out of money, including a knowledge of the options to help them do so. Governments, employers and others should increase awareness of, and encourage individuals to take advantage of, opportunities to have a portion of their retirement savings distributed in the form of guaranteed income, such as an annuity.
5. Financial education and literacy so individuals understand basic concepts and retirement-related products and services. Individuals must be able to ask good questions and make informed decisions. Financial literacy must be integrated into educational curriculums so that young people learn the basics of budgeting, investing and managing their savings – skills that can serve them well for the rest of their lives.
6. Lifelong learning, longer working lives and flexible retirement to help people to stay economically active longer and transition into retirement on their own terms -- with adequate financial protections if they are no longer able to work.
7. Accessible and affordable healthcare to promote healthy aging. Governments play a vital role in sponsoring and/or overseeing healthcare systems. Employers should provide healthy work environments and consider offering workplace wellness programs.
8. A positive view of aging that celebrates the value of older individuals and takes full advantage of the gift of longevity.
9. An age-friendly world in which people can “age in place” in their own homes and live in vibrant communities designed for people of all ages to promote vitality and economic growth.
Appendix 1 –
ARRI methodology

The 2018 ARRI is based on the sample of 14,400 workers, and has been developed to measure attitudes and behaviors surrounding retirement planning. Six survey questions (known as ‘predictor variables’) are used, three broadly attitudinal and three broadly behavioral:

1. **Personal responsibility** for income in retirement
2. **Level of awareness** of need to plan for retirement
3. **Financial capability/understanding** of financial matters regarding plans for retirement
4. **Retirement planning** – level of development of plans
5. **Financial preparedness** for retirement
6. **Income replacement** – level of projected income replacement

As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index score the predictor variables are correlated with the dependent variable to obtain a measure of influence (known as an ‘R’ value). The mean scores of the predictor variables are computed and each mean score is multiplied by its ‘R’ value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

**Note on the effect of increasing the number of survey countries year-on-year**

The first Aegon Retirement Readiness Survey, published in 2012, was based on research conducted in nine countries. A separate survey in Japan was conducted and reported on later that year. Therefore, 2012 is regarded as a 10-country study. In 2013, two new countries (Canada and China) were added bringing the universe to 12. In 2014, a further three countries (Brazil, India and Turkey) were added increasing the universe to 15. In 2015, the overall size of the survey was maintained at 15 countries although with the introduction of Australia and removal of Sweden. In 2018, the countries surveyed remained the same as 2017, 2016 and 2015.
Appendix 2 – Answers to the ‘Big Three’ financial literacy questions

Correct answers to the ‘Big Three’ financial literacy questions are highlighted in green below.

<table>
<thead>
<tr>
<th>Question 1 – Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?</th>
<th>• More than $102 • Exactly $102 • Less than $102 • Do not know • Refuse to answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 2 – Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account?</td>
<td>• More than today • Exactly the same as today • <strong>Less than today</strong> • Do not know • Refuse to answer</td>
</tr>
<tr>
<td>Question 3 – Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.”</td>
<td>• True • <strong>False</strong> • Do not know • Refuse to answer</td>
</tr>
</tbody>
</table>
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Contact information

**Headquarters Aegon N.V.**
Strategy & Sustainability
Mike Mansfield
Program Director – Aegon Center for Longevity and Retirement
Telephone: +31 70 344 8264
Email: mike.mansfield@aegon.com
aegon.com/thecenter

**Media relations**
Telephone: +31 70 344 8344
Email: gcc@aegon.com