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 Spain, is based on research conducted in 15 countries spanning Europe, the Americas, Asia and Australia.

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

The idea of a “social contract” has been central to the way in which people in Spain plan and prepare for retirement. This contract was established between governments, employers and individual workers, setting forth their respective responsibilities. For many decades, Spain has operated an enduring system of benefits and entitlements that has helped millions of people in the country to achieve a secure and fulfilling retirement.

However, when the Spanish retirement system was created in the 20th century, average life expectancy was far shorter than it is today. Even as recently as 1960, the life expectancy for the average Spaniard was 69 years – close to the age of entitlement at 65. While the full retirement age for Social Security is set to increase to 67 by 2027, it should be noted that life expectancy has dramatically increased to 83 years as of 2016 (behind only Japan in the world rankings). With people in Spain potentially spending well over a decade longer in retirement than previous generations, the existing retirement system is increasingly coming under financial strain – and so the government is implementing a more sustainable model. As the findings throughout this report illustrate, it is time for a new social contract that accommodates these changes.

This report focuses on the responses of 1,000 people in Spain including 900 workers and 100 retirees. It investigates the stresses and pressures put on the Spanish retirement system and the roles the government and employers are expected to perform. The report evaluates the retirement readiness of workers themselves and investigates improvements that can 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 more people in Spain reaching their 80s, 90s, and 100s, issues around healthy aging and financial security are becoming ever more pertinent.

1 World Bank, *Life expectancy at birth*, 2018
Key Findings:

• The Aegon Retirement Readiness Index measures how prepared workers around the world feel for their retirement. Spain’s ARRI score remains at 5.1 (the same as in 2017). Spain remains in 14th place (as per 2017), coming ahead of only Japan.

• Half (49 percent) of people in Spain think that reductions in government retirement benefits will impact on their plans for retirement (compared to 38 percent globally). Increased life expectancy (30 percent) and changes in labor markets (28 percent) also feature high up the list of global trends impacting retirement plans.

• Two-thirds (67 percent) of people in Spain think that future generations of retirees will be worse off in retirement than current retirees, which considerably exceeds the global average (49 percent). Six percent of people in Spain think that future generations will be better off, while 21 percent think it will be about the same.

• Two-thirds (66 percent) of Spanish retirement income is expected to come from the government (46 percent globally). People in Spain expect little from their employers (11 percent; 24 percent globally) and less from their own savings and investments (23 percent) than globally (30 percent).

• Asked what action the government should take to address the growing cost of Social Security, the most commonly-held view by Spanish people (47 percent) is that the government should increase overall funding for Social Security through raising taxes without having to reduce the value of individual payments. Thirteen percent of people in Spain take an opposing view, that the government should reduce the overall cost of Social Security provision by reducing the value of individual pension payments without having to increase tax. One-in-five (21 percent) people in Spain take the middle ground, saying that governments should take a balanced view, with some reductions in individual payments and some increases in tax.

• Over a quarter (27 percent) of workers in Spain are saving habitually for retirement (39 percent globally). Again, 27 percent are only saving on an occasional basis, 15 percent are not saving now but have done in the past and 22 percent are not currently saving but do intend to in the future. Nine percent have never saved for retirement and never intend to.

• A third (32 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 permission², in line with the global average (30 percent). People in Spain answered in line with the global average across three of the Big Three questions. Those that perform best on the Big Three financial literacy questions (correctly answering all 3) achieve a higher ARRI score (5.3 compared to 5.1 among all workers in Spain).

• Just half (49 percent) of Spain’s workers find the idea of auto enrollment appealing. Appeal in Spain is somewhat below the global average (57 percent).

• A third (34 percent) of people in Spain are confident that their own healthcare in retirement will be affordable (compared to 21 percent globally). This falls to just a quarter among Millennials (25 percent) indicating that while the Spanish healthcare system is widely considered one of the best and most inclusive worldwide³, doubt is perhaps creeping in about its long-term sustainability.

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³ The Lancet, Healthcare Access and Quality Index based on mortality from causes amenable to personal health care in 195 countries and territories, 2017
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.

Half (49 percent) of people in Spain think reductions in government retirement benefits will impact on their plans for retirement, considerably higher than the global average (38 percent). Three-in-ten (30 percent) people in Spain expect increased life expectancy to have an impact on their retirement plans – notable as globally only Japan has a higher life expectancy4. Although unemployment is decreasing in Spain, it still stands at a substantial 16.7 percent as at Q1 20185 – and accordingly the Spanish are more sensitive to changes in labor markets than the global average when it comes to impacting their retirement plans (28 percent vs 21 percent).

Over the past 50 years, 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 social contracts operate. Continued change is inevitable, reshaping the contours of the retirement landscape in Spain for decades to come and influencing how future generations save, invest, plan and prepare for retirement.

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4 Ibid, World Bank
5 Trading Economics, *Spain Unemployment Rate*, 2018
People in Spain are extremely 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 (compared to 49 percent globally).

Chart 2 – Two-thirds of people in Spain think future generations of retirees will be worse off in retirement

<table>
<thead>
<tr>
<th></th>
<th>Worse off</th>
<th>About the same</th>
<th>Better off</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>67%</td>
<td>21%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Global</td>
<td>49%</td>
<td>24%</td>
<td>18%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Amid concerns about potential reductions in government benefits, increased longevity and changes in employment trends, the current social contract is crumbling. As it stands, the Spanish retirement system represents a social contract that operates on a three-pillar approach that is commonly referred to as a “three-legged stool.” The three pillars – Social Security (Pillar 1), workplace retirement benefits (Pillar 2) and personal savings (Pillar 3) are provided by the partners of the social contract – the government, the employer and the worker, respectively. This contract was developed and proliferated throughout the twentieth century to help ensure that individuals were provided for in their old age.

Currently, Spain operates a generous government pension system managed by the Social Security Institute. Workers contribute 4.7 percent of their income and employers contribute 23.6 percent. Social Security benefits, such as the public retirement pension, are recognized and protected by the Spanish constitution; under the ‘Adequacy of Benefits principle’, the value of benefits must be kept to a sufficient level. The generous nature of Spain’s public pension system means that of all respondents globally, people in Spain expect the greatest proportion of their retirement income to come from the government (66 percent compared to 46 percent globally). People in Spain expect a lower proportion of their retirement income to come from their employer (11 percent) than any of the other countries surveyed (global average: 24 percent). They also expect less than a quarter (23 percent) to come from their own savings and investments (compared to 30 percent globally).

Chart 3 – Two-thirds of Spanish retirement income is expected to come from the government – more than in any other country surveyed

<table>
<thead>
<tr>
<th></th>
<th>Government</th>
<th>Employer</th>
<th>Own savings &amp; investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>66%</td>
<td>11%</td>
<td>23%</td>
</tr>
<tr>
<td>Global</td>
<td>46%</td>
<td>24%</td>
<td>30%</td>
</tr>
</tbody>
</table>

6 Social Security Office of Retirement and Disability Policy, Social Security Programs Throughout the World, Europe – Spain, 2016
7 BBVA, Pensions at a glance: How does the pension system work in Spain, 2018
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. The Spanish system operates under the ‘Allocation principle’, whereby the social security payments of active workers finance the benefits of those currently in retirement. For the system to remain sustainable, the number or workers needs to outweigh the number of people claiming a Social Security pension\(^8\) – and unfortunately the socioeconomic climate in Spain presents manifold imbalances here. Unemployment, for example, reduces the number of active workers contributing to the system: Spain’s unemployment level has been in double-digits for most of the past three decades. The post-financial crisis high of 25 percent witnessed in 2013 may have waned,\(^9\) yet unemployment still stands at 16.7 percent in Spain, the second-highest level in Europe at the time of writing, behind only Greece (20 percent).\(^{10}\) Spain’s aging population also threatens to alter the fine balance in the social security system. Spain has the world’s second-highest life expectancy, and the UN predicts that 42 percent of the country’s population will be aged 60 or above by 2050.\(^{11}\)

The government has measures underway to address the balance between the number of workers and retirees. Wide-ranging pension reforms initiated in 2011 introduced an incremental raise to the age of entitlement from 65 to 67 by 2027, as well as tougher requirements for early retirement and incentives for workers to delay retirement.\(^{12}\) Furthermore, Spain introduced a two-fold overhaul to pensions benefits in 2014: a Sustainability Factor based on the increasing life expectancy of new pensioners; and an Adjustment Index calculated from the number of contributory pensions, the variation of the average pension amount and the revenue-expense balance of the Social Security system.

Whether or not these reforms go far enough or are being enacted fast enough remains to be seen. The Social Security Reserve fund was created in 2000 with the aim of investing current social security surpluses to finance future State Pension shortfalls. The value of this fund peaked in 2011 at €67m but has since decreased dramatically to just €8m.\(^{13}\) Undoubtedly, government will face big challenges if it is to keep the pension system from crumbling.

The study finds the unanimous view among people in Spain is that the government needs to take action to address the growing cost of pensions. Just three percent said that the government should not do anything, believing that Social Security provision will remain perfectly affordable in the future (compared to seven percent globally). Nearly half of people in Spain (47 percent) think that the value of retirement payments should stay the same and that taxes should be increased to fund this – far exceeding the proportion saying this globally (34 percent). Just 13 percent of people in Spain take the opposing view, that the government should reduce the overall cost of Social Security provision without having to increase tax, which increases to 20 percent among Millennials. Twenty-one percent of people in Spain think a balanced approach needs to be taken, with some reductions in individual payments, but also concede that there will need to be some increases in tax.

**Chart 4** – Almost half of people in Spain think that the government should increase funding for Social Security without reducing the value of individual payments

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\(^1\) Ibid, BBVA  
\(^2\) Ibid, Trading Economics  
\(^3\) Trading Economics, *Unemployment Rate in Europe*, 2018  
\(^6\) El Confidencial, *The profitability of the Social Security piggy bank sinks to historical lows*, 2018
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 previously have also led to changing employment arrangements and employer benefit offerings – and consequently uncertainty about the role played by employers in helping workers prepare for retirement.

It is increasingly common for workers to change employers several times over their careers and possibly become self-employed at one time or another and Spain is a prime example of this. There are up to 12 million independent workers in Spain which represents 31 percent of the working age population. That is a higher proportion than in other Western economies, including: France (25 percent); the U.K. (26 percent); the U.S. (27 percent); and Germany (30 percent), in part due to a historic rigid labor market legislation pushing employers to enter more casual or temporary contracts with workers.

Combined, the generosity of the Spanish Social Security pension and the more casual nature of Spain’s employment arrangements, mean employment benefits in the country are less commonplace than often found in Europe.

Less than a quarter (23 percent) of workers in Spain say they are offered a retirement plan with employer contributions (43 percent globally). A further 16 percent of workers in Spain are offered a retirement plan without employer contributions (27 percent globally). Just 30 percent of workers in Spain say they have the ability to work past normal retirement age (47 percent globally) and just a quarter say that they are offered phased retirement (compared to 29 percent globally).

The Aegon Retirement Readiness Index and the role of individuals

Considering the reduced part employers play in preparing workers for retirement in Spain, the role the individual takes is gradually increasing, but has further still 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 overleaf.

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What factors shape the ARRI score?

The Aegon Retirement Readiness Survey 2018 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.)

Spain achieves a low ARRI score of 5.1, making no improvement from 2017. It once again lies in 14th place among the 15 ranked countries. This year, just 9 percent of workers in Spain achieved a high score, down from 12 percent in 2017. Its proportion of workers with a low retirement readiness score (65 percent) holds steady from last year (66 percent).

Chart 6 – Spain places 14th 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>

ARRI score (per country)
People in Spain generally have a positive outlook on retirement. Sixty-two percent associate retirement with positive words like ‘freedom,’ ‘opportunity,’ and ‘leisure’. Yet, almost half (48 percent) associate retirement with negative words such as ‘poverty,’ ‘insecurity,’ and ‘loneliness’.

This positive mindset can be seen in the retirement aspirations held by Spaniards, the most common of which include: wanting to spend their retirement traveling (72 percent), spending more time with friends and family (55 percent), and pursuing new hobbies (47 percent). Working in retirement falls a long way down the list of Spanish retirement aspirations (12 percent) - a long way short of the global average (25 percent).

**Chart 7 – Traveling and spending more time with friends and family top the list of retirement aspirations**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Spain</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traveling</td>
<td>63%</td>
<td>72%</td>
</tr>
<tr>
<td>Spending more time with friends and family</td>
<td>55%</td>
<td>57%</td>
</tr>
<tr>
<td>Pursuing new hobbies</td>
<td>47%</td>
<td>50%</td>
</tr>
<tr>
<td>Volunteer work</td>
<td>23%</td>
<td>27%</td>
</tr>
<tr>
<td>Studying</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Continue working in the same field</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Continue working, but in another field</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Living abroad</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>Starting a business</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>NET: Business/ paid work</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
<td>12%</td>
</tr>
<tr>
<td>None of the above</td>
<td>3%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Of course, these desired activities will require financing, and over the years, the survey consistently finds that saving on a regular basis throughout the working life is the best route to retirement readiness. Spain (27 percent) has the lowest proportion of workers saving habitually for retirement than any other country surveyed aside from Poland (21 percent). Just over a quarter of Spanish workers (27 percent) save on an occasional basis, while 15 percent are not currently saving but have saved in the past. A third of workers in Spain (32 percent) have never saved, compared to a quarter globally (25 percent). Among the non-savers in Spain, 22 percent aspire to save in the future, while 9 percent have no intention of ever saving.
A certain amount of planning is required to make sure that aspirations can be fulfilled in retirement. While 58 percent of workers globally have a plan in place for retirement, just 45 percent of people in Spain do so. Yet, 15 percent of workers in Spain are ‘strategists’ (i.e., they have a plan in writing), compared to 13 percent globally. The act of sitting down and considering one’s future finances and committing a plan to writing formalizes the process and means it has more chance of coming into fruition.

A written retirement plan may be the best way to achieve one’s preferred lifestyle in retirement, but do people in Spain 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 social contract means that ever more responsibility is falling into the hands of individuals and away from the experts. People are increasingly asked to navigate 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).

Three-quarters (75 percent) of respondents in Spain correctly answered the compound interest question, 65 percent correctly answered the inflation question and 48 percent correctly answered the risk diversification question. Overall, just under a third of people in Spain (32 percent) correctly answered all ‘Big Three’ financial literacy questions.
Chart 10 – A third of people in Spain correctly answer all ‘Big Three’ financial literacy questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Spain</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>FL1. The compound interest question – % answering correctly</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>FL2. The inflation question - % answering correctly</td>
<td>65%</td>
<td>63%</td>
</tr>
<tr>
<td>FL3. The risk diversification question - % answering correctly</td>
<td>48%</td>
<td>45%</td>
</tr>
<tr>
<td>FL1. + FL2. + FL3. - % answering all three ‘Big Three’ financial literacy questions correctly</td>
<td>32%</td>
<td>30%</td>
</tr>
</tbody>
</table>

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 32 percent of people in Spain correctly answer all three financial literacy questions, this falls to 25 percent among women, 20 percent among Millennials, 23 percent among those educated below undergraduate degree-level and 24 percent among those with a low personal income.

Chart 11 – Fewer women, Millennials, those less than undergraduate degree-educated and those with lower incomes are less likely to answer all ‘Big Three’ financial literacy questions correctly

Among workers who correctly answered all “Big Three” financial literacy questions (thus showing a higher degree of financial literacy) there are improvements across all areas of their retirement planning. They score higher on the ARRI (5.3 compared to 5.1 overall), they are much more likely to be saving habitually for retirement (34 percent compared to 27 percent overall), and they are more likely to have a plan for retirement - either in writing or otherwise (50 percent compared to 45 percent overall). Workers in Spain 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 (59 percent compared to 50 percent overall), and they are much more likely to know the value of their retirement savings (63 percent vs 51 percent overall).
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 retirement benefit providers, among other social institutions.

**Changing infrastructure to make it easier for individuals to save**

The strained social contract is necessitating people fund a greater portion of their retirement. Initially created using the behavioral economics theory of “nudging” as a method to prompt behavioral change, automatic joining features in workplace 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 into a workplace pension to start saving a portion of each paycheck, and they only need to take action if they choose not to save. The survey reveals that 49 percent of workers in Spain find the idea appealing. However, sentiment fades slightly among women (47 percent) and those with a low personal income (46 percent). The difference between these segments is less pronounced in Spain than in other countries but it is still worth noting that these segments are typically more vulnerable to not saving enough for retirement and thus may be more likely to benefit from automatic enrollment.

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**Chart 12** – Financial literates are more likely to be habitual savers and say they understand financial planning

<table>
<thead>
<tr>
<th>Spain Workers</th>
<th>Spain Financially Literate Workers (Correctly answering all 'Big Three' Financial Literacy questions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARRI score</td>
<td>5.1</td>
</tr>
<tr>
<td>Habitual savers</td>
<td>27%</td>
</tr>
<tr>
<td>Have a retirement plan (either written or unwritten)</td>
<td>45%</td>
</tr>
<tr>
<td>Able to understand financial matters when it comes to planning for retirement</td>
<td>50%</td>
</tr>
<tr>
<td>“I have a very good idea of the total value of all my personal retirement savings and investments.”</td>
<td>51%</td>
</tr>
</tbody>
</table>

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**Chart 13** – Just half of people in Spain find the idea of auto-enrollment appealing

[Chart showing percentages of appeal by demographic groups]
Part 3 – Potential health issues loom large as retirement concerns

People in Spain generally hold positive associations with retirement, but naturally the aging process is not without worries. Declining physical health is the key concern globally (49 percent) and this is felt even more acutely in Spain (58 percent). Globally, running out of money during retirement is the second-biggest concern, however in Spain this falls to fourth place as a litany of health concerns instead fall front-of-mind.

Fifty-three percent of people in Spain are concerned about getting Alzheimer’s or dementia, 20 percentage points above the global average. People in Spain have a heightened level of concern around needing assistance with basic activities including bathing, dressing and meal preparations (46 percent; 28 percent globally). Additionally, they are also more concerned about losing their independence (39 percent; 28 percent globally). A further 33 percent are concerned about facing mental health issues such as depression (just 22 percent globally).

Chart 14 – Declining physical health and getting Alzheimer’s or dementia top the list of Spanish retirement concerns

The above figures highlight common concerns upon entering retirement, however for many in Spain, this transition can occur far earlier than expected. An alarming 55 percent of fully-retired Spaniards exited the workplace sooner than they had planned (compared to just 39 percent globally). Retiring sooner than planned has a two-fold negative effect: the inability to continue saving, and the need to draw down savings for a longer period of time than expected. Among people in Spain who retired sooner than planned, job loss (27 percent) and ill-health (25 percent) are the most common reasons. This highlights the importance maintaining good health for staying in the workforce and in financially preparing for retirement.
Some good news is that people in Spain are a health-conscious group that take their health seriously. Almost three-in-five eat healthily (59 percent), exercise regularly (59 percent) and avoid harmful behaviors such as drinking too much alcohol or smoking tobacco (57 percent). Forty-six percent of people in Spain take their health seriously by having routine medical check-ups and performing regular self-checks, while 42 percent think about their long-term health when making lifestyle choices.

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 their health into retirement. Employers can play an important role by offering workplace health and wellness programs.

The vast majority (90 percent) of workers in Spain would be interested in at least one health and wellness program, if their employer were to offer them. The most popular include exercise programs (40 percent) and healthy food or snack options in the office (37 percent). People in Spain are more receptive to health risk assessments than the average globally (36 percent vs 30 percent respectively) and they are also more receptive to ergonomic workstations (33 percent vs 29 percent respectively).
Chart 17 – Workers in Spain are receptive to workplace health benefit programs

- **Exercise programs** – either on-site or discounts for local gyms
  - Spain: 40%
  - Global: 40%

- **Healthy food or snack options** at the office
  - Spain: 41%
  - Global: 41%

- **Health risk assessment**
  - Spain: 36%
  - Global: 36%

- **Ergonomic workstations** (e.g., standing desks, adjustable workspace furniture)
  - Spain: 33%
  - Global: 33%

- **Preventative screenings and vaccinations**
  - Spain: 34%
  - Global: 34%

- **On-site health clinic available for routine visits**
  - Spain: 34%
  - Global: 34%

- **Financial incentives for focusing on your health and wellness**
  - Spain: 31%
  - Global: 31%

- **Tools to monitor health goals/biometrics** (e.g., BMI/weight loss, cholesterol levels, blood pressure)
  - Spain: 28%
  - Global: 28%

- **Education on healthy behaviors** (e.g., newsletters, e-mail communications, lunchtime lectures)
  - Spain: 23%
  - Global: 23%

- **A wellness coach to offer guidance and encouragement to help you achieve your health-related goals**
  - Spain: 24%
  - Global: 24%

- **Corporate-sponsored events** (e.g., walks, runs, bicycle races)
  - Spain: 27%
  - Global: 27%

- **An app that can help you set wellness goals, measure progress and access information**
  - Spain: 19%
  - Global: 19%

- **Programs, counseling or therapies to help with mental health issues**
  - Spain: 24%
  - Global: 24%

- **Contests and opportunities to win prizes for health-related activities**
  - Spain: 19%
  - Global: 19%

- **Programs to stop smoking**
  - Spain: 15%
  - Global: 15%

- **Programs for substance or alcohol abuse**
  - Spain: 7%
  - Global: 7%

- **Don’t know**
  - Spain: 4%
  - Global: 4%

- **None**
  - Spain: 6%
  - Global: 9%
Part 4: Living and aging in good health and with dignity

Health and money feature near the top of the list of Spanish retirement-related concerns; arguably the cost of healthcare in retirement feeds into both of these concerns. The healthcare system in Spain, *el Systema Nacional de Salud*, is consistently ranked among the best in the world; the WHO rates it 7th\(^{15}\) and the Healthcare Access Quality Index ranks it 8th\(^{16}\). While the Spanish constitution requires the state to provide basic medical care, it equally has a strong private healthcare system as a supplement or alternative.

Whereas only one-in-five people (21 percent) globally are confident that their own healthcare will be affordable in retirement, a heftier third (34 percent) of people in Spain feel this way. Yet, among certain demographic segments, confidence is lower. Just a quarter (25 percent) of Millennials are confident they will be able to afford their own healthcare in retirement – almost 20 percentage points below Baby Boomers (44 percent). Spain currently has a robust and open healthcare system, but the cost of healthcare funding around the world is putting the sustainability of public systems around the world under question. In Spain, government spending on the healthcare system doubled between 1970 (3.1 percent) and 1990 (6.1 percent). Data from the OECD shows that by 2006 it had reached 7.8 percent, and the latest figure from 2016 is 9.0 percent of GDP.\(^{17}\) As Spain’s average population ages further, how will the ever-costly healthcare system cope?

**Chart 18** – People in Spain are among the most confident globally that they will be able to afford their own healthcare in retirement, although Millennials in the country are less so

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. On top of this, 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 93 percent in Spain – however to 21 percent in Spain this is extremely important, against a more sizable 36 percent globally.

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

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\(^{16}\) Ibid, The Lancet  
\(^{17}\) OECD, *Health expenditure and financing*, 2018
Unfortunately, the typical Spanish family home may not always be best suited for individuals as they grow old and the body is no longer able to easily climb upstairs 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. Bathroom modifications are the most commonly-cited feature that people globally envision making to their home as they get older, as is the case for almost half (47 percent) of people in Spain. Age-friendly furniture (39 percent) is the second-most sought-after modification, followed by panic buttons (37 percent). People in Spain are far more likely to envision having stair lifts (29 percent vs. 21 percent globally) but are far less likely to envision having home security systems (29 percent vs. 39 percent globally) and kitchen modifications (19 percent vs. 28 percent globally).

All these tools and modifications are designed to help maintain independence for people in Spain as they grow old.

**Chart 20 – Bathroom modifications and age-friendly furniture top the list of features and devices people in Spain envision having added to their homes as they get old**
Part 5: Forging the new social contract

Why do we need a new social contract?
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. The current Spanish social contract, constructed in the early days of the country’s transition to democracy in the latter half of the 20th century, is struggling to hold together despite efforts to adapt. With this agreement on who shoulders the responsibility for funding retirement proving problematic to stay in place, a new social contract must be formed. This new social contract must address the need for a redistribution of responsibility in how people fund and prepare for their retirement, while ensuring that the necessary tools, resources, and infrastructure are provided. It must honor the principles of sustainability and solidarity, while providing adequate safety nets that enable people to age with dignity, avoid poverty in old age, and ensure that vulnerable people are not left behind. Achieving success depends on building new collaborative relationships based on common objectives, benefits, and trust.

Who are the partners in the new social contract?
Governments take center stage in orchestrating retirement systems in their countries making sure that everyone, especially at-risk segments of the population, is included. Employers help by offering workplace retirement savings and other benefits to employees. These benefits include skills training, healthcare and wellness. Individuals must take on a more proactive role in ‘owning’ their retirement security. 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 essential design features of the new social contract are:
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. Promotion of financial education and literacy so individuals understand basic concepts and retirement-related products and services. Individuals must be able to interrogate the range of retirement products on offer 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.

| 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? | • More than $102  
• Exactly $102  
• Less than $102  
• Do not know  
• Refuse to answer |
|---|---|
| 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? | • More than today  
• Exactly the same as today  
• Less than today  
• Do not know  
• Refuse to answer |
| 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.” | • True  
• False  
• Do not know  
• Refuse to answer |
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