



AEGON

Center for
Longevity and
Retirement



United States Country Report

Inspiring a World of Habitual Savers

The Aegon Retirement Readiness Survey 2015

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Introduction

The 2015 Aegon Retirement Readiness Survey – now in its fourth year – explores how increasing life expectancy is having a profound impact on the ways in which societies all over the world plan for retirement. It also sets out how this changing financial landscape is shaping people’s expectations and aspirations for later life. In the United States, we find that much progress has been made toward retirement preparedness over the past three years. Optimism is rising and, in the short-term, expectations of personal finances are stabilizing. Yet, a lack of sound financial habits remains a significant obstacle to retirement preparedness. Through the development of the Aegon Retirement Readiness Index (ARRI), our research assesses retirement preparedness of workers across the U.S. Undoubtedly, certain obstacles exist that are out of the hands of individuals. Interest rates around the globe are at historic lows and an aging population ultimately will require changes to Social Security. However the fundamentals remain: saving regularly and starting early are the surest means to becoming more financially secure in retirement.

Key Findings

■ **The U.S. ranks fourth in 2015 Aegon Retirement Readiness Index**

With a score of 6.5 out of 10, the U.S. is assessed as having a medium level of retirement readiness. Globally, the U.S. ranks 4th out of the 15 countries included in our 2015 survey.

■ **Americans have a positive attitude toward retirement and expect their financial situation to remain stable in the short term**

There remains a trepidation regarding the endurance of Social Security, which many rely upon to fully support their “golden years,” particularly among the younger generations. But a renewed confidence in the economy has many Americans looking optimistically toward retirement.

■ **While most in the U.S. understand the need to set aside funds for the future, many still fail to create a formal plan to do so**

There is a divide between reality and actions with regard to retirement planning. Only 21% have a formal written retirement strategy and 44% have a strategy that isn’t written down, while nearly a third (31%) has no retirement strategy at all.

■ **Constructing a savings landscape that encourages successful savings habits is the responsibility of individuals, employers and government**

The key to retirement preparedness is consistent savings from a young age. While individuals need to adopt a savings mindset, employers and governments play a crucial role in encouraging these habits.

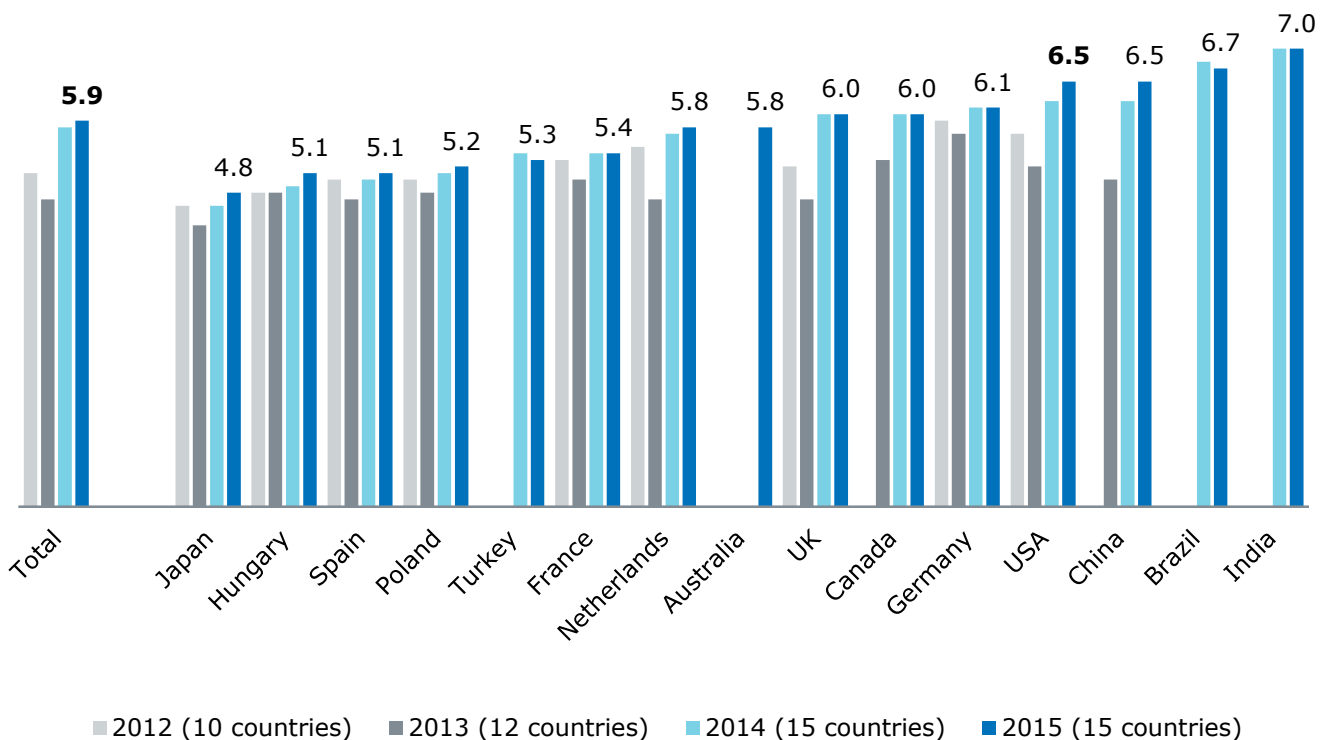
1. The Changing Retirement Landscape

U.S. workers benefit from many favorable conditions that make saving for a comfortable retirement possible. An average American worker's earnings is higher than that of most in OECD countries. Social Security is provided to those who have paid into it, workplace retirement plans are available to many and IRAs offer an additional retirement savings vehicle – all of which will help American workers maintain a comfortable lifestyle in retirement. If an employer does not offer a retirement plan, there are other options available for retirement savings.

The 2015 Aegon Retirement Readiness Index (ARRI) reflects the positive attributes of the U.S. retirement system. The ARRI was created in 2012 to assess the relative levels of retirement preparedness across workers in all countries included in our survey. Individuals are grouped according to whether they achieve a high index score (8 or above out of 10), a medium score (between 6 and 7.99) or a low score (below 6).¹ With a score of 6.5 this year, the U.S. ranks as one of the highest in retirement preparedness out of the 15 countries surveyed.

Chart 1: U.S. places fourth in the 2015 Aegon Retirement Readiness Index

I. Index numbered assigned Base: Not Fully Retired (N=14,400)



¹ In 2015 we surveyed a total of 16,000 people in 15 countries around the world. This included 14,400 people currently in work and a further 1,600 people who are already living in retirement. The index is calculated using a group of questions measuring both behaviour and attitudes of respondents regarding retirement preparation. For further information please see <http://www.aegon.com/index>

Progress in U.S. ARRI score notwithstanding, there still remain hurdles to ensuring that everyone is able to prepare financially for retirement. Savers are being squeezed by low interest rates, a factor common to all economies across Western Europe and North America.

“...nearly half (46%) of Americans believe future generations will be worse off in retirement than current retirees.”

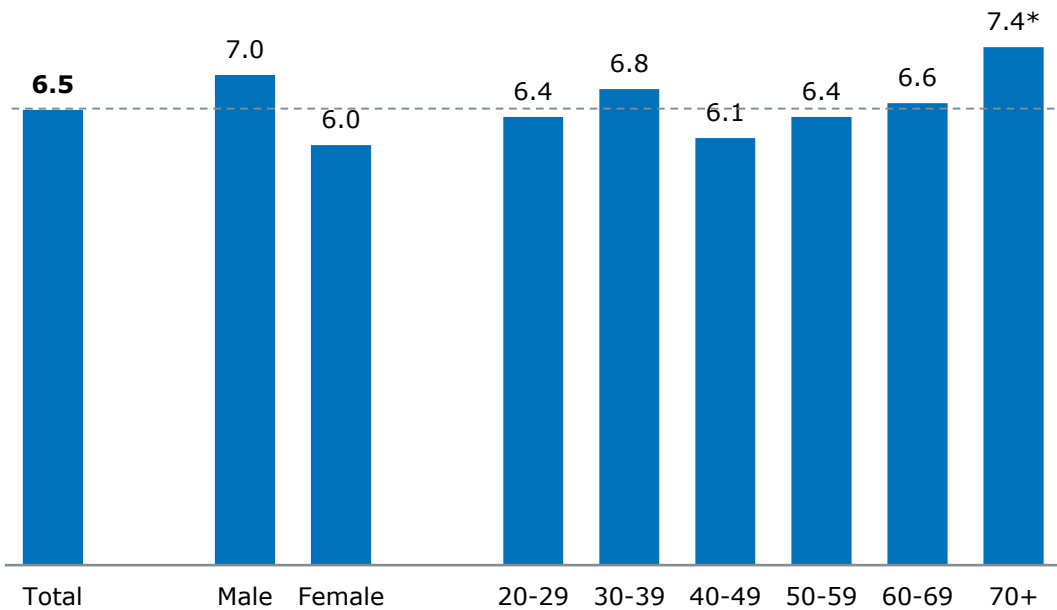
People are concerned about the future of Social Security and the possibility of retirement benefits being reduced. Perhaps most saliently, nearly half (46%) of Americans believe future generations will be

worse off in retirement than current retirees. Interestingly, this view increases with age. Three-fifths (59%) of 55 to 64 year olds and those age 65 and older (58%) feel future generations will be worse off in their retirement. However, this drops to less than one-third of 18 to 24 year olds (30%) and 25 to 34 year olds (29%).

Women may be more “at risk” of being ill prepared for retirement. For women, the need to balance family and career can hinder them from work opportunities that provide the best retirement benefits. Half (49%) of U.S. Women workers score a “low” ARRI ranking (less than 6.0) compared to just one-third (32%) of men. Not surprisingly, with a score of 7.0, men score higher in retirement readiness overall, compared to women’s score of 6.0

Chart 2: Women workers have a lower ARRI score

I. Index numbered assigned Base: Not Fully Retired (N=900)



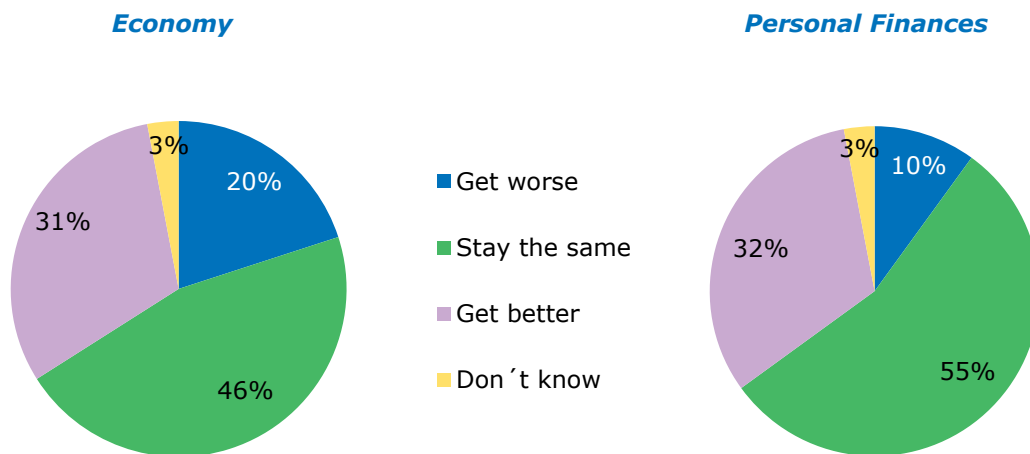
* Small base size

2. Retirement Expectations and Aspirations

After a positive economy in 2014, optimism continues to grow in the U.S. Overall, just below half of Americans expect the economy to remain the same while slightly more feel their own finances will remain unchanged over the coming 12 months (46% and 55%, respectively). A sizable minority expect both the economy and their own personal finances to get better in the next 12 months (31% and 32% respectively). Men, and more specifically those under 35, are most optimistic of improvement in the economy and their personal finances.

Chart 3: Economy and personal finances not expected to change over coming 12 months

Q. Thinking ahead over the next 12 months, do you expect the economy in the U.S. to...? And thinking ahead over the next 12 months, do you expect your own financial situation to...? Base: All Respondents (n=1,000)



Retirement aspirations are similar to those of previous generations including traveling (55%), spending more time with family and friends (54%), pursuing new hobbies (43%) and doing volunteer work (31%). But work will play a much larger role in the retirement of current workers than for past generations. At the age of retirement, just 29% expect to immediately stop working altogether. Further, recent research has shown that, “Among 65 to 74-year-olds, labor force participation is predicted to hit 32 percent by 2022, up from 20 percent in

2002. At age 75 and up, the rate will jump from 5 percent in 2002 to 11 percent in 2022.”²

With increasing optimism toward finances in the U.S., it is not surprising that most Americans have a positive view of retirement (78%). When asked what words individuals associate with retirement, the most common responses are leisure (50%), freedom (45%) and enjoyment (43%). Very few view retirement negatively, with less than one in 10 associating it with poverty (8%), ill health (8%), dependency on others (7%) or loneliness (7%).

² <http://www.aarp.org/work/working-after-retirement/info-2015/work-over-retirement-happiness.html>

Chart 4: Americans expect an active retirement

Q. Which, if any, of the following are important retirement aspirations for you? Base: All Respondents (n=1,000)

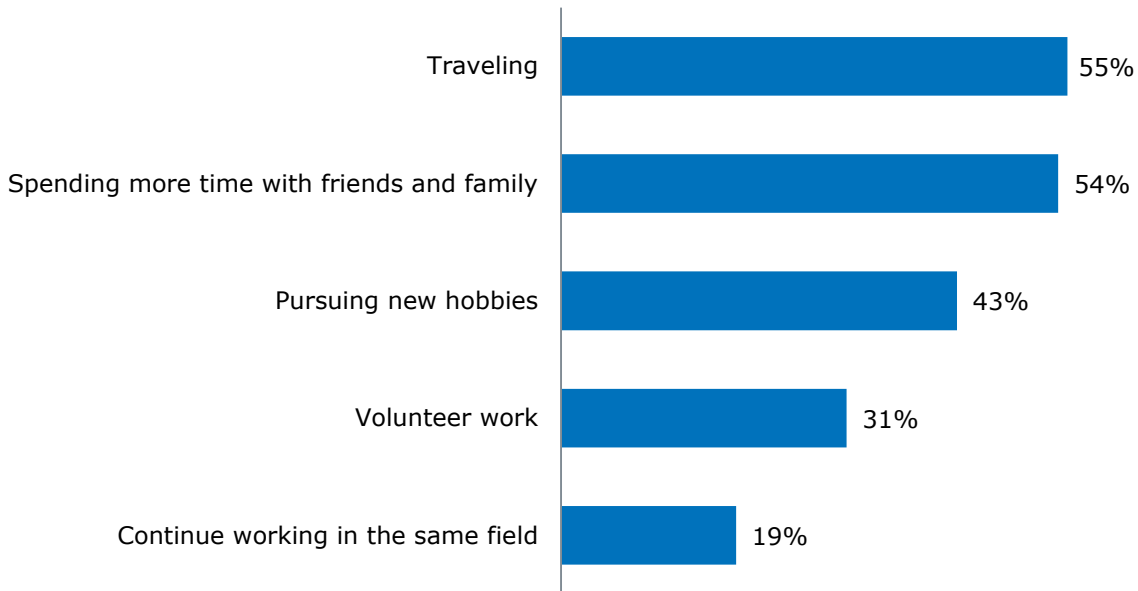
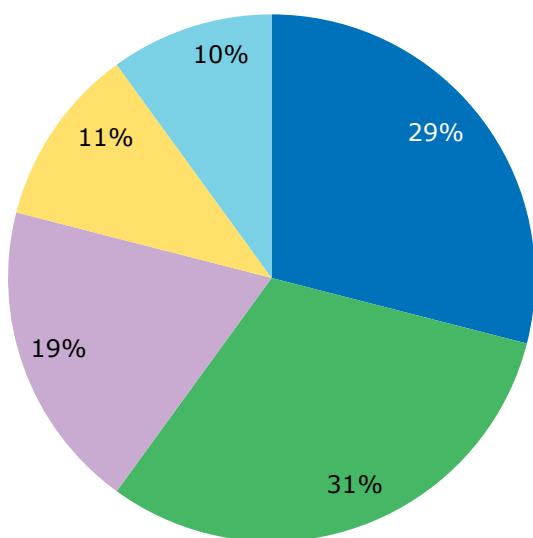


Chart 5: Working into retirement will be the new norm

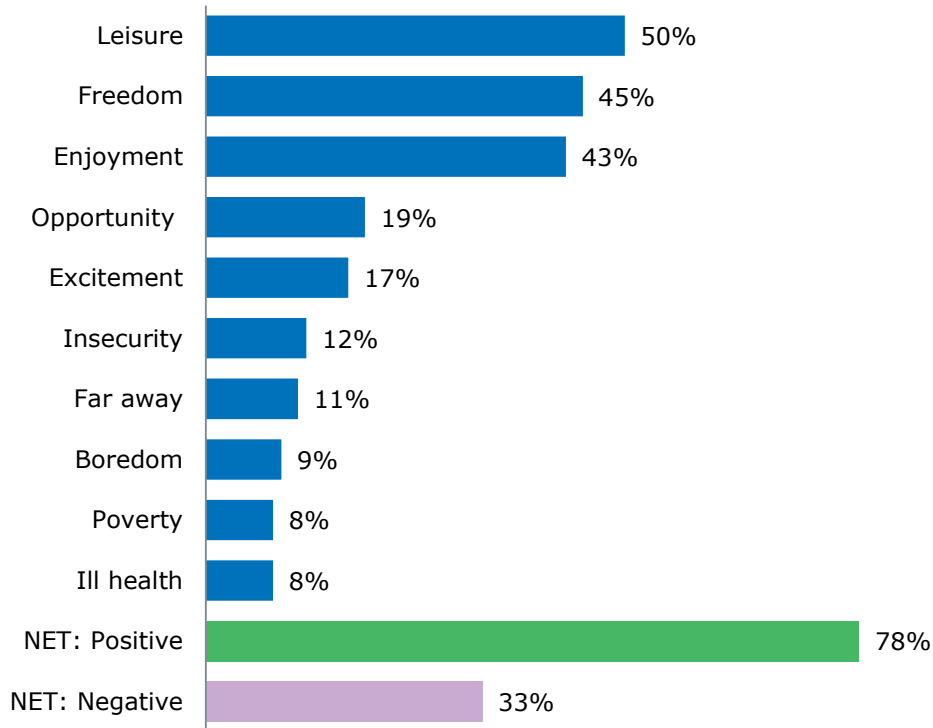
Q. Looking ahead, how do you envision your transition to retirement? Base: Not Fully/Semi-Retired (n=848)



- I will immediately stop working altogether and enter full retirement
- I will change the way I work (e.g. working part-time or on temporary contracts) but only for a while before I eventually give up paid work altogether
- I will change the way I work (e.g. working part-time or on temporary contracts) and I will continue paid work throughout retirement in some capacity
- I will keep working as I currently do. Retirement age won't make a difference to the way I work
- Don't know

Chart 6: Retirement is viewed very positively

Q. Which, if any, of the following words do you most associate with retirement? Base: All Respondents (n=1,000)



While Americans generally view retirement in a very positive light, their attitudes begin to shift when considering the financial aspects of their future. Just one-third (34%) of workers are “very” or “extremely confident” that they will be able to retire with a comfortable lifestyle. Worryingly, a greater number (36%) is only “somewhat confident” and more than a quarter (28%) is “not very” or “not at all” confident. Men are noticeably more confident than women that they will be living out their lives comfortably (42% and 26%, respectively). Younger workers too are more hopeful (46% very or extremely confident among 25 to 34 year olds).

Overall, American women are particularly doubtful that they will be able to attain the comfortable retirement they envision. To a notable extent this is true specifically of women ages 45 to 54, of whom two-fifths (43%) believe that they will not retire with a comfortable lifestyle.

While medical expenses continue to be a significant expense in retirement, only a quarter (26%) of Americans are pessimistic about having enough funds to cover their and their spouse’s medical expenses in retirement. Women are more pessimistic than men (29% versus 22%). Healthcare costs aside, a majority feel optimistic that they will be able to maintain good health in retirement (60%).

Chart 7: Confidence in achieving a comfortable lifestyle in retirement

Q. Overall, how confident are you that you will be able to fully retire with a lifestyle you consider comfortable?
 Base: Not Fully Retired (n=900)

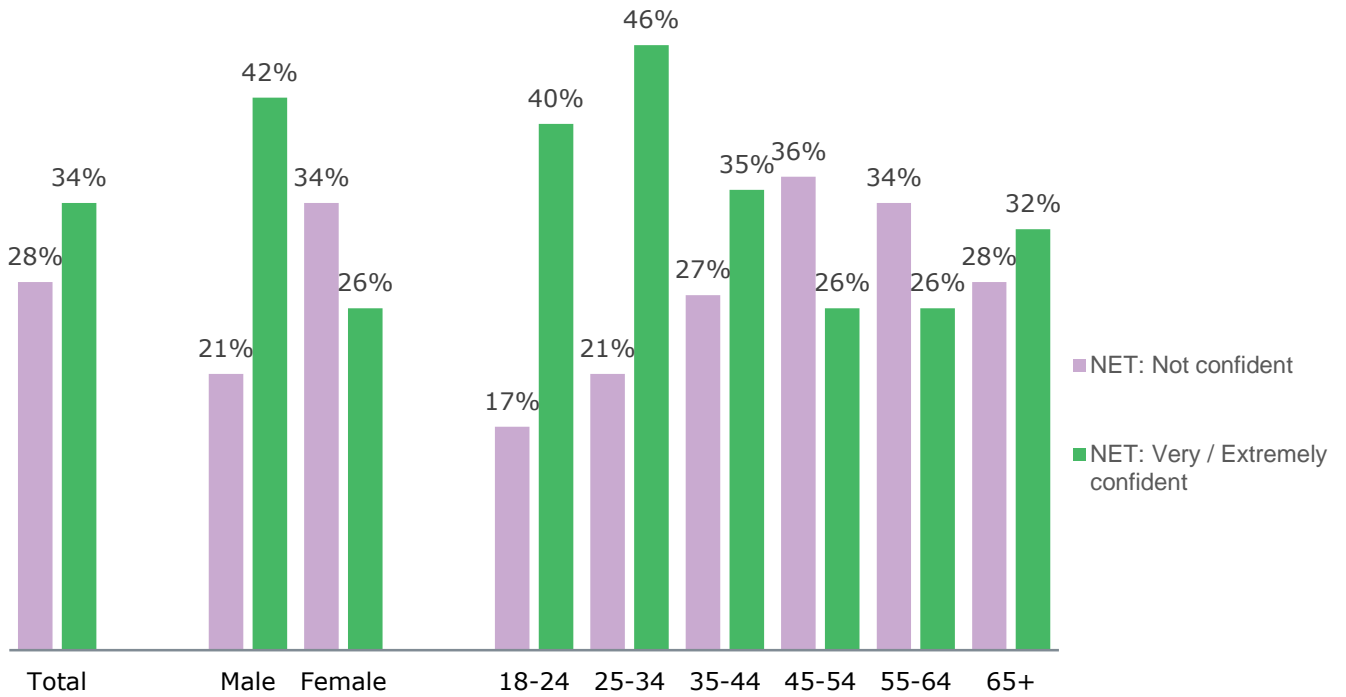
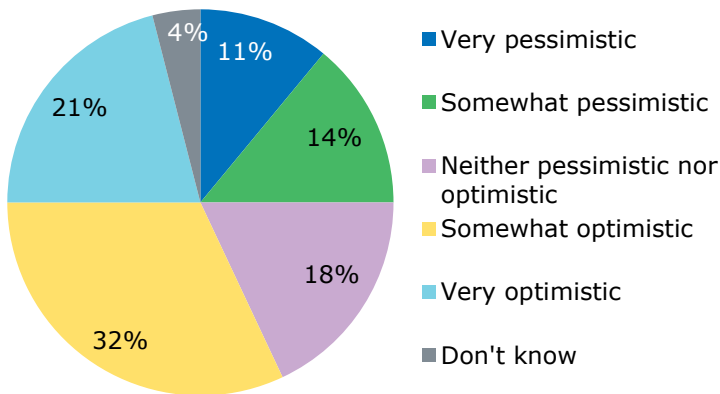


Chart 8: Only one-in-four are pessimistic about funding medical expenses throughout retirement

Q. When thinking about your retirement, how optimistic are you about having enough money to take care of my (and my spouse's/ partner's) medical expenses? Base: All Respondents (n=1,000)



3. Retirement Saving and Planning

There is a serious disconnect between, on one hand, what workers envision their lifestyle in retirement will be and their levels of financial awareness, and on the other hand, their actual savings behavior. Nearly all Americans (87%) feel personally responsible for ensuring they accumulate sufficient savings for retirement and the majority (77%) is aware of the need to plan financially for retirement. Yet they fall short when it comes to their own personal savings habits. Only half (53%) have a retirement plan they consider “developed,” with women being even less likely to have such a plan (45% of women versus 62% of men).

Looking into greater detail, 44% of workers say they have a retirement strategy but that it is not written. Worryingly, just one-fifth (21%) have an actual written retirement strategy, while nearly a third (31%) have none at all.

Chart 9: Most are aware of the need to save for retirement...

Q. How would you rate your level of awareness on the need to plan financially for your retirement?

Base: Not Fully Retired (n=900)

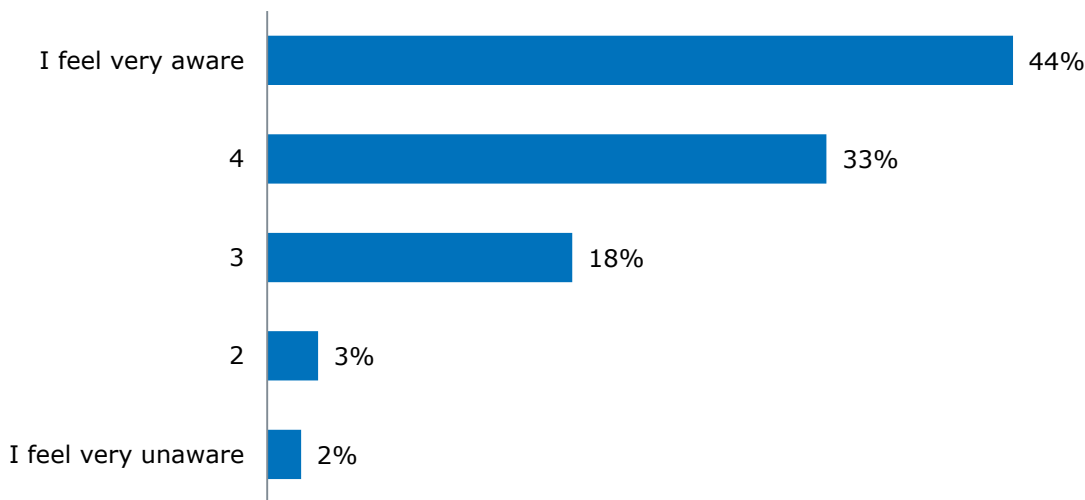
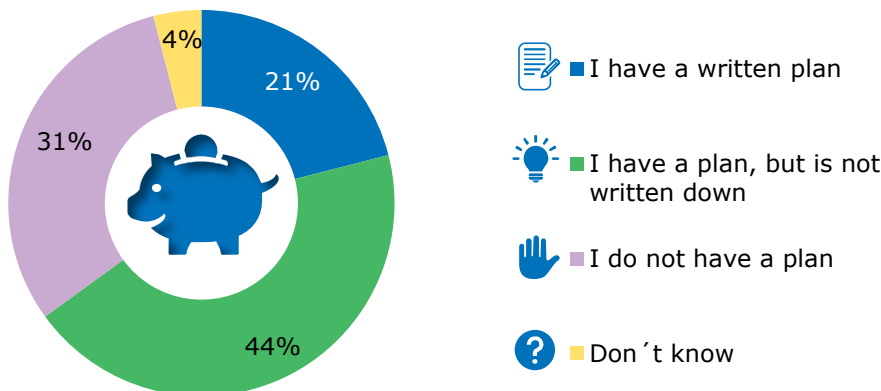


Chart 10: ...Yet few have made formal plans for saving

Q. Which of the following best describes your retirement planning strategy? Base: Not Fully Retired (n=900)



Realistically, retirement planning should go beyond just what is expected after retirement and take account of possible life changes. Future illness or job loss has the potential to derail retirement preparation, so it is important that retirement planning involve a "Plan B." A good number of Americans have done just that, with 40% currently having alternative arrangements in place. But still over half (53%) do not have a contingency plan and the most common

strategy is to dip into accumulated savings (59%). If people are to prevent the potential detrimental impacts of these unexpected events, it is important to get educated on the possible consequences of them, and to identify potential cost-cutting lifestyle changes that could be made and to consider insurance products such as disability and life insurance, in addition to having savings beyond retirement accounts.

Chart 11: Half of Americans have no contingency plan for retirement

Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a "backup plan" to provide you with an income? Base: Not Fully Retired (n=900)

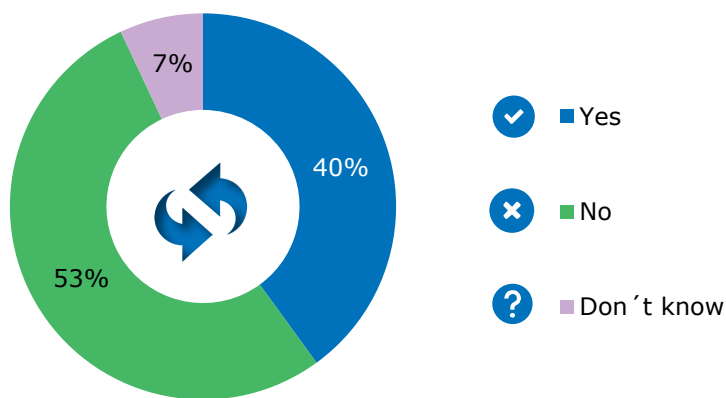
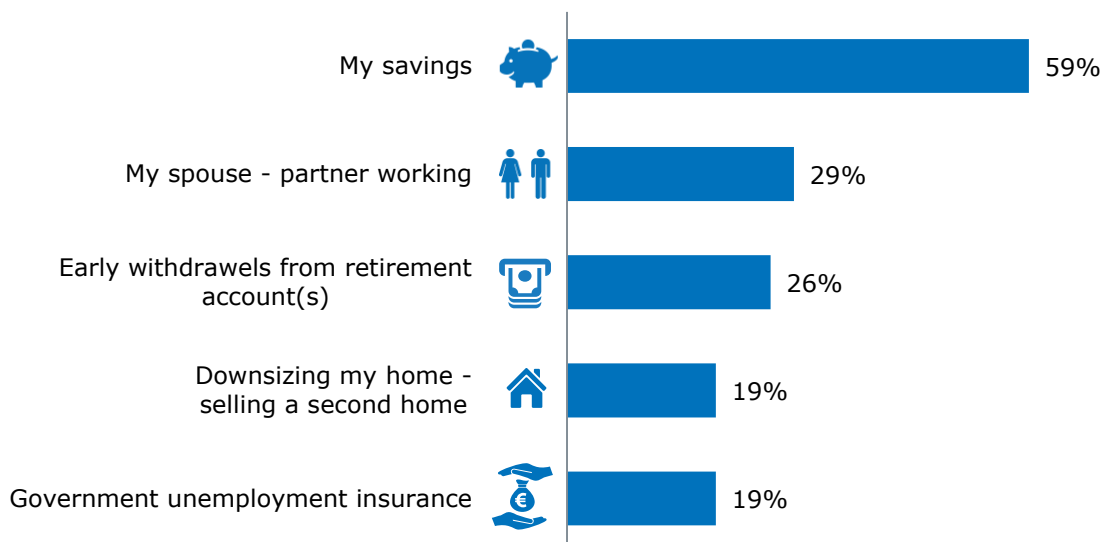


Chart 12: Most often backup plans involve dipping into savings

Q. Which, if any, of the following are part of your "backup plan" for an income in the event that you are unable to continue working due to ill health or job loss? Base: Have "Backup Plan" (n=358)



4. The Retirement Savings Habit

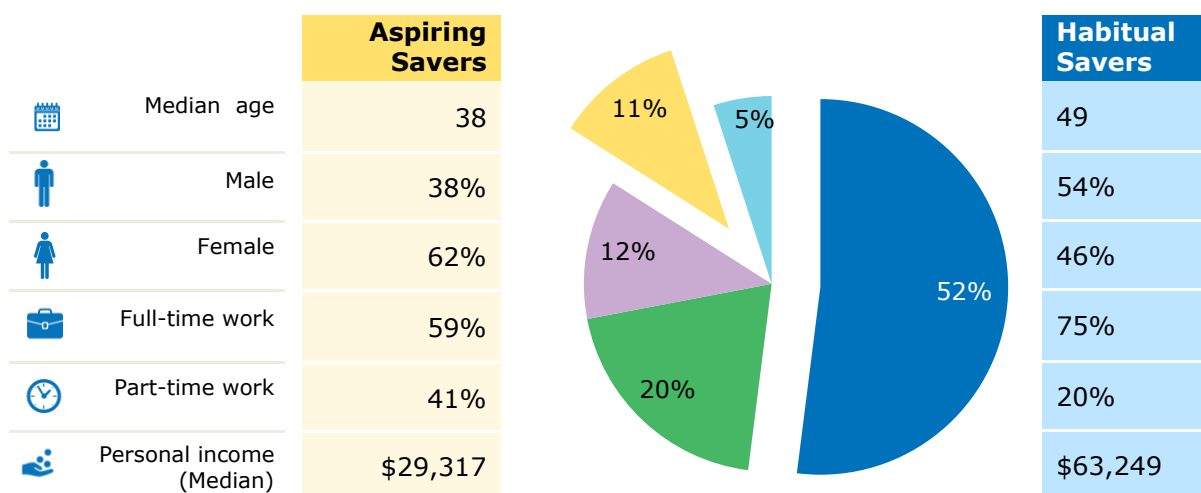
As individuals become increasingly responsible for planning and funding their own retirement, personal savings habits take on an even greater role in overall financial preparedness. Not only do workers need to take steps to start saving, but also to maintain consistent saving over time.

Our research reveals that there is a group of savers, those who save consistently, "Habitual Savers," who

lead the U.S. toward greater retirement readiness. This segment is more likely to have a formal retirement strategy, and feel confident that they are setting aside enough and will enjoy a comfortable lifestyle in retirement. When comparing Habitual Savers with those who save less frequently, the results are clear: saving routinely, even in small amounts, is the best way to improve retirement readiness.

Chart 13: Aspiring and Habitual Savers are key targets for improving retirement readiness

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



- HABITUAL SAVERS - I always make sure that I am saving for retirement
- OCCASSIONAL SAVERS - I only save for retirement occasionally form time to time
- PAST SAVERS - I am not saving for retirement now, although I have in the past
- ASPIRING SAVERS - I am not saving for retirement though I do intend to
- NON-SAVERS - I have never saved for retirement and don't intend to

Chart 14: Retirement outlook and planning – Habitual and Aspiring Savers

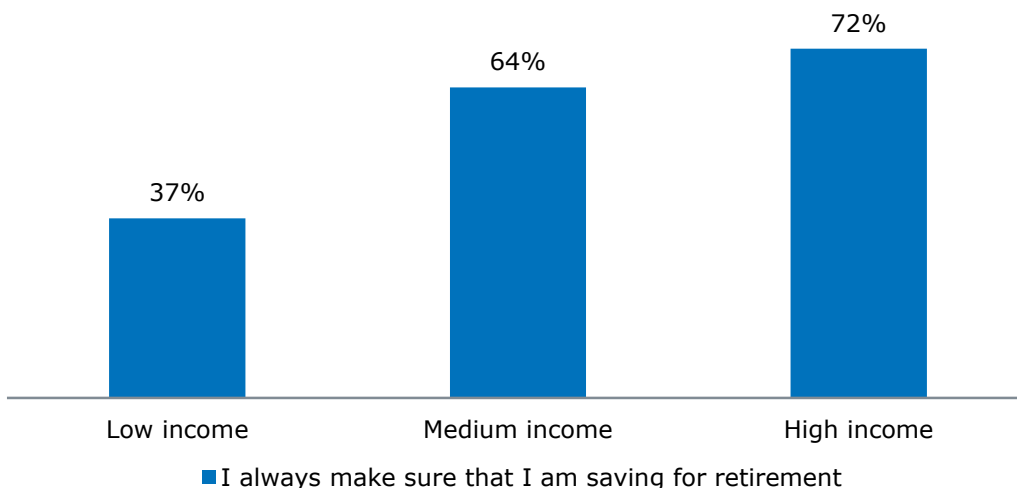
	Aspiring Savers	Habitual Savers
ARRI score	3.8	7.8
Positive associations with retirement	66%	86%
Confident of retiring with a comfortable lifestyle	9%	47%
Optimistic about maintaining good health in retirement	46%	69%
Have written plan for retirement	2%	31%
Have backup plan for retirement	4%	54%

The greatest opportunity lies not with those who have already adopted successful saving habits but with those individuals who are not currently saving but do want to or intend to. Aspiring Savers, and more specifically women and younger individuals, may find saving challenging due to constraints such as lower income or less access to workplace retirement plans. Creating a retirement landscape that helps convert Aspiring Savers into actual savers (as well as Occasional Savers into Habitual Savers) should be a responsibility shared by government, employers, and individuals themselves. The starting point is to understand the needs of these diverse groups and remove the barriers to planning and preparing for retirement.

Our research shows that while income can be an obstacle to saving for retirement, successful savings habits can still be achieved even with modest earnings. Examining the proportion of Habitual Savers across income groups, we find that nearly two-fifths (37%) of lower income earners (defined as up to \$49,999 per year) consistently save for retirement. However, among middle income earners (\$50,000-\$99,999) the proportion of consistent savers increases to nearly two-thirds (64%). What is important is that individuals adopt a savings mind-set – even at higher income levels not all earners are consistently putting aside money for retirement. While a financially comfortable retirement may not require higher level earnings, taking ownership of one’s savings is a crucial step.

Chart 15: Income by Habitual Savers

Q. Which of the following best explains your approach to saving for retirement? Base: Not Fully Retired (n=900)



While 55% of workers list Social Security as a future source of income in retirement, Americans recognize the need to have savings aside from relying on government plans. Nearly all (78%) agree that individuals should save for themselves through 401(k)s, 403(b)s, IRAs and other investments. The means by which individuals are currently preparing for retirement include Social Security (55%), an employee-funded 401(k), 403(b) or similar plan with employer contributions (41%), savings accounts (36%) and IRAs (34%). One-fifth (22%) expect to rely the most on Social Security, and one-quarter (25%) on a 401(k), 403(b) or similar plan (with or without employer contributions).

There are mixed feelings on the role that government should play, whether it should “increase overall funding available for Social Security without having to reduce the value of individual payments” (26%) or that it “should take a balanced approach with some reductions in individual payments and some increases in tax” (27%). In the future, Americans would like for employers to be required to contribute to workers’ retirement plans (30%) and to provide a range of flexible benefits that allows them to choose which suit their needs best (29%).

The catalyst that would stimulate individuals the most to save for retirement is a pay raise (44%). They want

to see more generous tax breaks on long-term savings (30%) and, to a lesser degree, they want better plan matching from their employers (27%). Despite the continued economic recovery in the U.S., some still feel insecure about the overall stability of the economy. Slightly more than one-quarter (27%) say a “more certain economic environment” would be a catalyst to save for retirement. When asked about products that may help provide security in retirement, a majority of Americans are interested in a product that guarantees their initial investment (69%) and one that provides a guaranteed income stream (69%).

American workers are offered a broad range of workplace benefits, including more than half (55%) being offered a retirement plan with an employer contribution and 32% being offered a retirement plan without an employer contribution. The majority (81%) of those who are offered a 401(k), 403(b), or similar retirement plan contribute to the plan. They contribute a median of 8% of their annual salary. Other key benefits offered by employers are medical health insurance (67%) and vacation/paid time off (69%). While many (65%) are offered the opportunity to stay in the workforce past typical retirement age, few are offered a phased or transitional retirement program (27%).

Chart 16: Access to retirement-related workplace benefits

Q. And which of the following does your current employer offer you? Base: Not Fully Retired (n=900)

Basic salary	79%
Convenient location of workspace	76%
Vacation / paid time off	69%
Medical health insurance	67%
Ability to work past the normal retirement age	65%
Flexible working hours	60%
Retirement plan with employer contributions	55%
Life insurance	53%
Access to good training provision	50%
Opportunities for career progression	49%
Overtime and bonus pay	49%
Retirement plan without employer contributions	32%
Phased retirement or other employer programs providing for a transition into retirement	27%

Recommendations

In today's U.S. retirement landscape, achieving financial security in retirement is a shared responsibility among individuals, employers, and policymakers. American workers are depending on the often-called "three-legged" stool comprised of Social Security, employer-sponsored retirement benefits, and personal savings – and many are creating a fourth leg: working. Increasing retirement security in the U.S. requires improving the retirement system. In addition there is a need for the government to undertake reforms to Social Security to help ensure its long-term sustainability, much can be done by individuals, employers, and policymakers to strengthen other aspects of the retirement system.

How Individuals Can Improve Their Retirement Outlook?

As the retirement landscape continues to evolve, all workers will likely face different challenges and opportunities as they age and their circumstances inevitably change. However, the proactive tactics to help prepare for retirement are fundamentally common to all. Here are seven tips toward achieving retirement readiness:

1. **Save for retirement.** Start saving as early as possible and save consistently over time. Avoid taking loans and early withdrawals from retirement accounts.
2. **Consider retirement benefits as part of total compensation.** Ask an employer for a plan if they don't offer one.
3. **Participate in employer-sponsored retirement plans, if available.** Take full advantage of matching employer contributions, and defer as much as possible.
4. **Calculate retirement savings needs, develop a retirement strategy, and write it down.** Factor in living expenses, healthcare needs, government benefits and long-term care. Envision future retirement and have a backup plan in case retirement comes early due to an unforeseen circumstance. Seek assistance from a professional financial advisor, if needed.
5. **Get educated about retirement investing.** Whether relying on the expertise of professional advisors or taking a more do-it-yourself approach, gain the knowledge to ask questions and make informed decisions. Also learn about Social Security and government benefits.
6. **Take advantage of the Saver's Credit.** Make Catch-up Contributions, if available and you are eligible.
7. **Enlist trusted loved ones and start a dialogue about retirement.** Have frank conversations with family and close friends about retirement dreams, fears, and financial matters to help ensure a common understanding.

How Employers Can Help Their Employees

Employers can play a crucial role in helping Americans save for retirement. Working with their retirement plan advisors and providers, employers can help improve their employees' retirement outlook through these opportunities:

1. **Offer a retirement plan along with other health and welfare benefits if not already in place.** Take advantage of the tax credit available for starting a plan.
2. **For employers who offer a plan, extend eligibility to part-time workers.** Seek expertise of retirement specialists familiar with plan design on how to best accomplish this.
3. **Proactively encourage participation in existing retirement plans.** Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates.
4. **Discourage loans and withdrawals from retirement accounts.** Limit the number of loans available in the plan. Ensure participants are educated about the ramifications of taking loans and early withdrawals. Allow for an extended loan repayment time for terminated participants.
5. **Consider structuring matching contribution formulas to promote higher salary deferrals.** For example, instead of matching 100 percent of the first three percent of deferrals, change the match to 50 percent of the first six percent of deferrals or even 25 percent of the first 12 percent of deferrals.
6. **Ensure educational offerings are easy-to-understand and meet the needs of employees.** Provide education on calculating a retirement savings goal, principles of saving and investing, and, for those nearing retirement, ways to generate retirement income and savings to last throughout their lifetimes.
7. **Offer pre-retirees greater levels of assistance in planning their transition into retirement** – including education about distribution options, retirement income strategies, and the need for a backup plan if forced into retirement sooner than expected (e.g. health issues, job loss, family obligations).
8. **Create opportunities for workers to phase into retirement** by allowing for a transition from full-time to part-time and/or working in different capacities.
9. **Promote incentives to save, including the Saver's Credit and Catch-Up Contributions.**

What Policymakers Can Do to Strengthen the Retirement System

Workplace retirement benefits play a vital role in helping workers save for retirement. The workplace retirement savings system has succeeded in serving as the preferred method of saving for retirement for millions of workers. However, more can and should be done to improve the current system. Recommendations for policymakers include:

1. **Preserve existing incentives for workers to save for retirement** including tax-deferred savings, existing contribution limits to qualified retirement plans and IRAs, and the Saver's Credit.
2. **Expand retirement plan coverage for all workers including part-time workers by:**
 - a. Expanding the tax credit for employers to start a plan and facilitating the opportunity for employers to participate in existing plans by implementing reforms to multiple employer plans.
 - b. Additional safe harbors for 401(k) and similar plans for purposes of non-discrimination testing.
3. **Increase default contribution rates in plans using automatic enrollment.** The current minimum default contribution rate in the safe harbor, which ranges from three percent to six percent, sends a misleading message to plan participants that saving at those levels is sufficient to ensure a secure retirement. A new auto enrollment safe harbor, under which employees are enrolled at six percent (increasing to eight percent, then 10 percent), which also provides a tax credit for adopting it, can drive up plan sponsor adoption rates and participant savings rates.
4. **Reduce leakage from retirement accounts** by extending the 401(k) loan repayment period for terminated plan participants and eliminating the six-month suspension period following hardship withdrawals.
5. **Illustrate savings as retirement income on retirement plan account statements.** Require retirement plan statements to state participant account balances in terms of lifetime income as well as a lump sum to help educate about savings needs.
6. **Facilitate retirement savings to last a lifetime.** Proposals that help participants both manage their investment risk and ensure their retirement savings will last their lifetime are encouraged, including facilitating the offering of in-plan annuities and annuities as a distribution option.
7. **Expand the Saver's Credit** by making it refundable and/or raising the income eligibility requirements so that more tax filers are eligible.

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