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*, a 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 the U.S., is based on research conducted in 15 countries spanning Europe, the Americas, Asia and Australia.

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

When the American retirement system was created early in the 20th century, the average life expectancy in the U.S. was far shorter than it is today. Even as recently as 1960, the life expectancy for the average American was 70 years – close to the median age of retirement at 65 years. 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 79 years as of 2016. With people in the U.S. potentially spending a decade longer in retirement than previous generations, the existing retirement system is increasingly coming under financial strain. As the findings throughout this report illustrate, it is time for a new social contract.

This report focuses on the responses of 1,000 people in the U.S., including 900 workers and 100 retirees. It investigates the stresses and pressures being put on the U.S. retirement system and the roles the government and employers are expected to perform. The report evaluates the retirement readiness of workers themselves and uncovers improvements that can be made to help workers achieve their retirement aspirations they hold for their retirement. It investigates the growing importance of health in the realities of financial planning, and for the first time examines the issue of aging with dignity. With more people in the U.S. reaching their 80s, 90s, and 100s, it is ever more pertinent to examine healthy aging and how we, as a society, can help people age in place.

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2. The World Bank, *Life expectancy at birth, total (years) – U.S.*, 2018
Key Findings:

• The Aegon Retirement Readiness Index (ARRI) measures how well prepared workers around the world feel for their retirement. The U.S. ARRI score has fallen from 6.9 in 2017 to 6.5 in 2018. At the same time the U.S. has fallen from 2nd place to 4th, with China now in 2nd and Brazil remaining in 3rd place. India remains in 1st place.

• Twenty-seven percent of people in the U.S. say that none of the megatrends listed will impact their retirement plans compared to just 14 percent globally. People in the U.S. are less sensitive to the impact that 12 of the 13 listed megatrends will have on their plans for retirement.

• Almost half (46 percent) of people in the U.S. think that future generations of retirees will be worse off in retirement than current retirees, which is broadly in line with the global average (49 percent). Sixteen percent of people in the U.S. think that future generations will be better off, while 27 percent think they will be about the same.

• People in the U.S. expect about two-fifths (42 percent) of their retirement income to come from the government (compared to 46 percent globally). People in the U.S. expect slightly more to come from their employers (29 percent compared to 24 percent globally) and around the same from their own savings and investments (29 percent compared to 30 percent globally).

• When asked what action the government should take to address the growing cost of Social Security, the most common view held by people in the U.S. (30 percent) is that the government should increase overall funding for Social Security through raising taxes without having to reduce the value of individual payments. Fifteen percent of people in the U.S. 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. A quarter (25 percent) of people in the U.S. take the middle ground, saying that governments should take a balanced approach, with some reductions in individual payments and some increases in tax.

• More than half (55 percent) of U.S. workers are saving habitually toward retirement (compared to just 39 percent globally). However, 17 percent are only saving on an occasional basis, 10 percent are not saving now but have done in the past, 12 percent are not currently saving but do intend to in the future and six percent have never saved for retirement and never intend to.

• Three in ten people in the U.S. (31 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. This is in line with the global average (30 percent). People in the U.S. outperform the global average on the risk diversification question but underperform against the global average on the compound interest and inflation questions. Those workers who perform best on the Big Three financial literacy questions (correctly answering all 3) achieve a higher ARRI score (7.1 compared to 6.5 among all workers in the U.S.).

• Many U.S. workers are open to the idea of automatic enrollment – 63 percent find the idea appealing (compared to 57 percent globally). Those with a lower level of education (58 percent) and those with a lower income (57 percent) are less receptive to the idea.

• Only 27 percent of people in the U.S. are confident that they will be able to afford their own healthcare in retirement (compared to 21 percent globally). Women (18 percent), Baby Boomers (17 percent), and those currently in fair health (12 percent) are among those least confident that they will be able to afford their own healthcare in retirement.

Part 1: Megatrends and evidence of a crumbling social contract

Globalization, innovation, advances in science and technology, and other trends are rapidly changing our world. 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.

People in the U.S. are less likely than people in other countries to cite global trends as impacting their plans for retirement. Megatrends that are impacting America’s plans for retirement include: reductions in government retirement benefits (26 percent vs. 38 percent global), increased life expectancy (25 percent vs. 27 percent global) and volatility in financial markets (22 percent vs. 24 percent global). These survey findings suggest that many people in the U.S. may be unaware of and/or underestimate the impact these trends may have on their retirement.

Chart 1 – Reductions in government benefits and increased life expectancy are impacting retirement plans

Acknowledged or not, the world is changing. Over the past 50 years, global megatrends, such as increasing lifespans and changing demographics, as well as a 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 the U.S. for decades to come and influencing how future generations save, invest, plan, and prepare for retirement.
Despite people in the U.S. being less affected by megatrends than seen globally, it appears that the long-term impact of these trends may indeed be felt in how these individuals view retirement for coming generations, the survey finds. People in the U.S. are predominantly pessimistic about the future of retirement. Almost half (46 percent) believe that future generations of retirees will be worse off than those currently in retirement.

**Chart 2 – Almost half of people in the U.S. think future generations 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>United States</td>
<td>46%</td>
<td>27%</td>
<td>16%</td>
<td>12%</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. The U.S. retirement system currently operates on a three-pillar approach. 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.

The United States operates well-developed second and third pillar pension markets consisting of 401(k) plans and Individual Retirement Accounts (IRAs). Subsequently people in the U.S. expect a relatively high proportion of their retirement income to come from their employer (29 percent compared to 24 percent globally) and 29 percent to come from their own savings and investments (compared to 30 percent globally). Although people in the U.S. expect less of their retirement income to come from the government (42 percent) than the global average (46 percent), this still represents the bulk of U.S. retirement income (typically in the shape of Social Security). The question is, given the pressures on the system, how do people in the U.S. expect the government to sustain this level of funding?

**Chart 3 – People in the U.S. expect more than two-fifths of their retirement income to come from the government**

<table>
<thead>
<tr>
<th></th>
<th>Government</th>
<th>Employer</th>
<th>Own savings &amp; investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>42%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Global</td>
<td>46%</td>
<td>24%</td>
<td>30%</td>
</tr>
</tbody>
</table>
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 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 fewer current workers paying into the system. Recent projections from the United States Census Bureau predict that by 2030, one in five residents will be aged over 65, and by 2035, the size of this age group will outnumber under-18s for the first time in the country’s history.

Asked what measures the government should undertake to address the growing cost of government pensions, the overall consensus is that action is necessary (only nine percent of people in the U.S. think that things should stay the same and that the government does not need to do anything). The most common view among people in the U.S. (30 percent) and people globally (34 percent) is that the value of retirement payments should stay the same and that taxes should be increased to fund this. Fifteen percent of people in the U.S. 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 further quarter (25 percent) of people in the U.S. 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.

Chart 4 – Three in ten people in the U.S. think the government should increase Social Security funding via tax increases without reducing the value of individual payments

The Government should increase overall funding available for Social Security through raising taxes without having to reduce the value of individual payments

- United States: 34%
- Global: 30%

The Government should take a balanced approach with some reductions in individual payments and some increases in tax

- United States: 26%
- Global: 25%

The Government should reduce the overall cost of Social Security provision by reducing the value of individual pension payments, without having to increase tax

- United States: 16%
- Global: 15%

The Government should not do anything. Social Security provision will remain perfectly affordable in the future

- United States: 7%
- Global: 9%

Don’t know

- United States: 18%
- Global: 21%
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 led to changing employment arrangements and employer benefit offerings. This has led to a shift in thinking about the role played by employers in helping workers prepare for retirement as the way workers move around the labor market evolves.

It is increasingly common for workers to change employers several times over the course of their careers and possibly become self-employed at one time or another: Baby Boomers born between 1957 and 1964 in the U.S. held an average of 11.7 jobs between the ages of 18 to 48. Traditional defined benefit plans, which were designed to fund the retirement of long-tenured workers at a time of shorter life expectancy, are disappearing from the retirement landscape. Instead, employers are shifting to offering employee-funded defined contribution plans in which the employer may or may not make a contribution. In doing so, employers are not only expecting workers to self-fund a greater portion of their future retirement income, but also to bear more risk in managing the assets.

Employers in the United States offer their workers a wide variety of benefits. However, benefits that can help workers entering retirement are not yet ubiquitous: Two-thirds (66 percent) of workers in the U.S. are offered the ability to work past normal retirement age, compared to fewer than half (47 percent) globally. U.S. workers are also more likely to have retirement plans with employer contributions (57 percent vs 43 percent globally), and a further 28 percent have access to a phased retirement program providing a transition into retirement. U.S. employers have made strides in helping workers prepare for and transition into retirement, but there is still room for further improvement.

Chart 5 – Two-thirds of U.S. workers have the ability to work past the normal retirement age and almost six in ten have access to retirement plans with employer contributions

<table>
<thead>
<tr>
<th>Benefit</th>
<th>United States</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>79%</td>
<td>79%</td>
</tr>
<tr>
<td>Convenient location of workplace</td>
<td>73%</td>
<td>67%</td>
</tr>
<tr>
<td>Vacation/ paid time off</td>
<td>70%</td>
<td>77%</td>
</tr>
<tr>
<td>Medical health insurance</td>
<td>70%</td>
<td>57%</td>
</tr>
<tr>
<td>Ability to work past the normal retirement age</td>
<td>66%</td>
<td>47%</td>
</tr>
<tr>
<td>Flexible working hours</td>
<td>59%</td>
<td>49%</td>
</tr>
<tr>
<td>Retirement plan with employer contributions</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>54%</td>
<td>40%</td>
</tr>
<tr>
<td>Overtime and bonus pay</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>Opportunities for career progression</td>
<td>52%</td>
<td>51%</td>
</tr>
<tr>
<td>Access to good training provision</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>Retirement plan without employer contributions</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>Phased retirement or other employer programs</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Stock purchase plan</td>
<td>25%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Aegon Retirement Readiness Index and the role of individuals
The role the individual takes in retirement preparation is gradually increasing, but it has further to go. The Aegon Retirement Readiness Survey (now in its seventh year) measures the level of retirement planning that workers undertake as responsibility gradually shifts toward 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 on the next page.

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What factors shape the ARRI score?

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 less than 6. (For additional information about the ARRI and its methodology, please see appendix 1.)

On average, people in the U.S. achieve a medium ARRI score of 6.5, which puts them in fourth place among countries surveyed. This represents a decline from its 2017 score (6.9), and a slip down the ranking from second place in the process. The proportion of U.S. workers achieving a high index score has slumped from 37 percent in 2017 to 32 percent in 2018, while the proportion getting a low score has increased substantially from 31 percent in 2017 to 40 percent in 2018. Clearly, U.S. workers need to do more to prepare for their own retirement. The proportion of workers in the U.S. who feel personally responsible for making sure that they have sufficient income in retirement has fallen from 92 percent in 2017 to 86 percent in 2018.

Chart 6 – United States places 4th 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)
Part 2 – Improving individual retirement security – the role of financial literacy and auto-enrollment

People in the U.S. generally have a positive outlook on retirement. Seventy-eight percent associate retirement with positive words like “freedom,” “opportunity,” and “leisure,” compared to 68 percent globally. Just 35 percent of people in the U.S. associate retirement with negative words such as “poverty,” “insecurity,” and “loneliness,” compared to 50 percent globally.

This positive mindset can be seen in the retirement aspirations held by people in the U.S., the most common of which are traveling (61 percent), spending more time with friends and family (57 percent) and pursuing new hobbies (45 percent). Work falls further down the list with just 16 percent aspiring to continue working in the same field; even fewer (13 percent) aspire to continue working but in another field.

![Chart 7](image)

Over the years, the survey consistently finds that saving on a regular basis is the best route to retirement readiness. The U.S. (tied with India) holds the highest proportion of workers who are saving for retirement on a habitual basis (55 percent). This is significantly above the global average, which stands at 39 percent. While this is great news, the picture is by no means perfect. Seventeen percent of U.S. workers save for retirement but only on an occasional basis; 10 percent aren’t saving at all, although they had saved in the past; 12 percent aren’t saving but do intend to do so; and six percent are not saving for retirement and have no intention to do so.
A certain amount of planning is required to make sure that aspirations can be fulfilled in retirement. Two-thirds (67 percent) of U.S. workers already have a plan in place for retirement, including 22 percent who are "strategists" - that is, they have committed this plan to writing. These findings exceed the global average of 58 percent who have a plan including 13 percent with a written plan. The act of considering one's future finances and committing a plan to writing formalizes the process and increases the likelihood that the plan will come to fruition.

Saving habitually and creating a written retirement strategy can help people achieve their retirement aspirations. But do they have the knowledge to make crucial financial decisions associated with creating a strategy?

Equipping individuals to better plan for retirement
Pressures on the social contract 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 knowledge.

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 respondents’ actual knowledge of these three topics rather than their self-reported knowledge. The correct answers can be found in Appendix 2 (page 21).

Seventy-four percent of Americans are able to correctly answer the compound interest question (75 percent globally) and 46 percent correctly answer the risk diversification question (45 percent globally). However, fewer people in the U.S. correctly answered the inflation question (55 percent) than globally (63 percent). Overall, just three in 10 people in the U.S. (31 percent) correctly answered all of the "Big Three" financial literacy questions (30 percent globally).
Without a solid 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 overall 31 percent of people in the U.S. correctly answer all three financial literacy questions, this falls to 25 percent among women, 14 percent among Millennials, 22 percent among those without a college degree, and 24 percent among those with a low personal income.

Workers in the U.S. who correctly answer all “Big Three” financial literacy questions tend to be more prepared for retirement based on several factors. They score higher on the ARRI (7.1, compared to 6.5 for U.S. overall), they are much more likely to be saving habitually for retirement (67 percent compared to 55 percent overall), and a higher proportion have a plan for retirement either in writing or unwritten (75 percent compared to 67 percent overall). U.S. 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 (76 percent compared to 68 percent overall) and they are much more likely to know the value of their retirement savings (86 percent compared to 74 percent overall).
Chart 12 – Those with greater financial literacy tend to be better prepared for retirement

<table>
<thead>
<tr>
<th>U.S. Workers (Total)</th>
<th>U.S. Financially Literate Workers (Correctly answer all “Big Three” Financial Literacy questions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARRI score</td>
<td>6.5</td>
</tr>
<tr>
<td>Habitual savers</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>67%</td>
</tr>
<tr>
<td>Those with a retirement plan (either written or unwritten)</td>
<td>67%</td>
</tr>
<tr>
<td></td>
<td>75%</td>
</tr>
<tr>
<td>Able to understand financial matters when it comes to planning for retirement</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>76%</td>
</tr>
<tr>
<td>“I have a very good idea of the total value of all my personal retirement savings and investments.”</td>
<td>74%</td>
</tr>
<tr>
<td></td>
<td>86%</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 improve financial literacy among adults. Furthermore, we must provide more education starting at an early age so that youth 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, retirement benefit providers, and others.

**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. Automatic features in defined contribution plans are showing great promise in countries where they have been implemented.

Initially created using the behavioral economics theory of “nudging” as a method to prompt behavioral change, 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. The survey finds that 63 percent of workers find the idea appealing. However, some demographic segments within the U.S. workforce are somewhat less likely to find it appealing, particularly women (61 percent), those without a college degree (58 percent) and those with a low personal income (57 percent). These segments are typically more vulnerable to not saving enough for retirement and may be more likely to benefit from automatic enrollment.

Chart 13 – Auto-enrollment is appealing, although less so among those less than degree educated and with lower personal incomes

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

As seen in Part 2, people in the U.S. generally hold positive associations with retirement, but naturally the aging process is not without worries. Running out of money (52 percent) and declining physical health (44 percent) top the list of retirement concerns in the U.S.

Chart 14 – Running out of money and declining physical health top the list of U.S. retirement concerns

U.S. Baby Boomers are more concerned about declining physical health (49 percent) than Millennials (38 percent), who may somewhat underestimate the impact aging will have on their physical health. Conversely, U.S. Millennials (24 percent) are far more likely to be concerned about mental health issues (e.g., depression) in retirement than Baby Boomers (14 percent). While the older generations may hold more realistic expectations for their physical health, they may be unaware of the impact aging can have on their mental health. The National Council on Aging estimates that one in four older adults experiences a form of mental disorder (e.g., depression, anxiety and dementia), with the number of adults affected expected to double to 15 million by 2030.6

An alarming two-thirds (66 percent) of the U.S. retirees who are fully retired, retired 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 for retirement and the need to draw down on retirement savings for a longer period of time than expected. Among Americans who retired sooner than planned, ill-health and job loss are the most common reasons (both 38 percent). This highlights the importance of maintaining good health for staying in the workforce and in financially preparing for retirement.

6 National Council on Aging, Behavioral Health: Helping seniors address mental health issues, 2017
Some good news is that people in the U.S. are a health-conscious group that take their health seriously, falling in line with global averages in terms of performing health-related activities. Almost three in five (59 percent) avoid harmful behaviors such as drinking too much alcohol or smoking tobacco (58 percent globally). Fifty-seven percent take their health seriously and have routine medical check-ups and do regular self-checks compared to just 44 percent globally, likely to be the result of the standardization of annual medical health checks in the U.S. A further 52 percent eat healthily, slightly shy of the 56 percent who do so globally.

Just as forming good financial habits early on in life can help individuals achieve a secure retirement, forming healthy habits early can help people maintain their health into retirement. Employers can play an important role by offering workplace health and wellness programs.

The vast majority (84 percent) of U.S. workers would be interested in at least one health and wellness program offered by their employer. The most popular of these are healthy food or snack options for the office (47 percent), followed by exercise programs (43 percent). People in the U.S. show an interest in monetization: 41 percent of workers say that they would be interested in financial incentives for focusing on their health and well-being, and a further 29 percent of U.S. workers would be interested in contests and opportunities to win prizes for health-related activities.
Chart 17 – U.S. workers are keenly receptive to workplace health benefit programs

- Healthy food or snack options at the office: United States 41%, Global 43%
- Exercise programs – either on-site or discounts for local gyms: United States 40%, Global 41%
- Financial incentives for focusing on your health and wellness: United States 35%, Global 38%
- Preventative screenings and vaccinations: United States 35%, Global 35%
- Contests and opportunities to win prizes for health-related activities: United States 29%, Global 20%
- On-site health clinic available for routine visits: United States 27%, Global 31%
- Health risk assessment: United States 24%, Global 28%
- Tools to monitor health goals/biometrics (e.g., BMI/weight loss, cholesterol levels, blood pressure): United States 23%, Global 26%
- A wellness coach to offer guidance and encouragement to help you achieve your health-related goals: United States 15%, Global 15%
- Ergonomic workstations (e.g., standing desks, adjustable workspace furniture): United States 23%, Global 29%
- Corporate-sponsored events (e.g., walks, runs, bicycle races): United States 22%, Global 27%
- Education on healthy behaviors (e.g., newsletters, e-mail communications, lunchtime lectures): United States 22%, Global 22%
- Programs, counseling or therapies to help with mental health issues: United States 20%, Global 24%
- An app that can help you set wellness goals, measure progress and access information: United States 19%, Global 19%
- Programs to stop smoking: United States 8%, Global 15%
- Programs for substance or alcohol abuse: United States 9%, Global 15%
- Don’t know: United States 4%, Global 4%
- None: United States 12%
Part 4: Living and aging in good health and with dignity

In the U.S., money and health top the list of retirement-related concerns. Only 27 percent of people are either “very” or “extremely” confident that their own healthcare will be affordable in retirement. Among certain demographic segments, confidence is even lower. Women (18 percent) are much less confident than men (37 percent) which may be symptomatic of women typically living longer than men and typically having less in savings and retirement funds. Confidence also decreases with age, from 36 percent of Millennials, to 25 percent of Generation X, and just 17 percent of Baby Boomers. People who are currently in fair health (12 percent) are far less confident than those currently in excellent health (45 percent).

**Chart 18** – Confidence that healthcare will be affordable in retirement varies widely by certain demographic groups in the U.S.

The affordability of healthcare in retirement affects people’s ability 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 important to 92 percent of people both in the U.S. and globally. However, people in the U.S. are far more fervent in their convictions. Remaining in their own home is “extremely” important to 42 percent of people in the U.S., compared to 36 percent globally.

**Chart 19** – The majority of people in the U.S. 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](https://www.aegon.com/2018), 2018
However, the typical American family home may not always be well-suited as individuals grow old and are less able to climb stairs, or keep on top of household chores. Through modifications, and/or the installation of technology-based aids, homes can be made more appropriate for individuals to age in place. People in the U.S. envision making changes to their homes such as installing a home security system (42 percent), making bathroom modifications (39 percent), and adding panic buttons (32 percent) and age-friendly furniture (30 percent). Robots to help with chores (10 percent) and robots to provide company (6 percent) fall to the bottom of the list in the U.S.; however, these are still very much nascent technologies. Perhaps in coming decades, popularity for these innovations will grow.

**Chart 20 – Home security systems and bathroom modifications top the list of features and devices people in the U.S. 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?
In the U.S., as in countries around the world, social contracts for retirement security developed in the 20th century are crumbling. Government pensions and social security programs face funding issues and need reform. Employee-funded defined contribution plans such as 401(k)s are now the main vehicle for saving at the workplace but need to expand coverage to workers of all types of employment status. Individuals are now expected to save, invest, and self-fund an increasing portion of their future retirement income, but many are ill-equipped to handle the added responsibility.

Megatrends, such as increases in longevity, population aging, changing demographics, non-traditional employment arrangements, medical advances, new technologies, and globalization, will continue to be directly or indirectly disruptive in the foreseeable future. At this time in which uncertainty abounds, how can we apply the lessons of experience from the current contract and forge a new social contract that is sustainable, resilient, and adaptable to the changing times?

Who are the partners in the new social contract?
Governments take center stage in orchestrating retirement systems, making sure that everyone, especially at-risk segments of the population, are 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. New social partners like academics, think tanks, industry, charities and non-governmental organizations must be called upon to 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. Financial education and literacy so that individuals are able to 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.

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**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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