In a globalised world with rapidly advancing technology, consumers’ and workers’ evolving behaviour has far-reaching implications on things such as lifetime income, consumption, savings and — importantly — the way people retire.

The state of retirement has changed dramatically as fewer and fewer workers are able to take advantage of traditional defined benefit pensions that provide a guaranteed income for life. Meanwhile, we’re facing a low-growth, low-inflation, low-savings world. We need to better understand the connections between demographics, growth and investment returns to respond to these challenges.

In addition to longer life spans, the population of individuals aged 80 years and above is growing far faster than other age groups. Not only does the incidence of age-related cognitive decline rise at this point — the increasing share of much older individuals also means that a growing number of retirees come from more than one generation.

Amlan admits he can be shy at evening cocktail parties with an unfamiliar crowd. But chances are good that he would speak up if the chatter over drinks turned to what’s new in the retirement industry.

In the newly created role of State Street Global Advisors’ Global Chief Retirement Strategist, Amlan keeps tabs on a wide range of retirement issues — from research and product development to public policy work and global retirement trends. I spoke to him about his new role, the impact of demographic shifts on the retirement landscape, and what’s needed to boost outcomes for members around the world.

A, you’re known for your leading research on demographics. What key demographic issues are facing the world today?

The key theme that I have been highlighting is the fact that the rapidly evolving demographic landscape is characterised by changing consumers, workers and retirees. There are 7.55 billion people in the world today, all of them consumers, and nearly 5 billion of them are workers. They have an impact on the finances of every household and every national economy.

In a globalised world with rapidly advancing technology, consumers’ and workers’ evolving behaviour has far-reaching implications on things such as lifetime income, consumption, savings and — importantly — the way people retire.

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How will these issues impact defined contribution (DC) schemes and members?

Increasingly, pension risk is being passed from employer to employee. Members are more responsible than ever for saving appropriately and allocating those savings wisely to create enough income in retirement. It’s important for the DC industry to realise that all members are different. Not only do retirees increasingly come from different generations, but even within the same generation the retirement behaviour of individuals from diverse professional or educational backgrounds can vary. As a result, their financial situations and needs in retirement can differ greatly. We need to develop ways to address multiple needs and influence member behaviours to result in more successful retirements.

Meanwhile, DC plans face strong challenges due to increasing regulation and an environment of low growth, low inflation and low interest rates. The schemes that are most likely to succeed are those that focus on effective scheme design with an emphasis on well-governed default options, and those that employ thoughtful and dynamic communication and engagement with members.

How are shifting demographic trends influencing changes in investing and in the DC industry itself?

In recent years, we’ve seen many types of investments capitalising on changing demographic trends. For instance, investing in pharmaceutical and healthcare companies are potential areas of opportunity as the population gets older and strives to be in better health. In the financial services sector, there is terrific work being done in the DC industry to create innovative approaches to retirement. Examples at SSGA include target retirement funds that combine carefully constructed asset allocation strategies with effective risk management and the automatic purchase of an income annuity.

What recommendations do you have for improving retirement outcomes?

As people live longer, a growing share of retirees will be in the late-life phase, many with an impaired ability to manage their own finances. The generational divide between early and late-stage retirees will increase. This means that it may be necessary to develop investment solutions that evolve to address differing needs in various phases of retirement, rather than just one solution throughout retirement. Scheme members need to think about retirement holistically; they should consider how retirement savings and other wealth sources will combine with post-retirement work, health and family obligations to create the lifestyle they aspire to. They also need to engage in this planning process early enough to be able to develop a sustainable plan for the later stages of retirement.

Creating these solutions will require scheme sponsors, providers and investment managers to work together to provide a combination of well-designed defaults with effective communications and engagement. Collectively, the retirement industry must help members understand the implications of their decisions, communicating clearly the factors that influence one’s ability to generate adequate retirement income. SSGA’s ongoing programme of member research demonstrates our commitment to this collective effort.

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World Population Growth by Age Group
1970 to 2015

<table>
<thead>
<tr>
<th>Age Group</th>
<th>1970</th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 15</td>
<td>35%</td>
<td>128%</td>
<td>198%</td>
</tr>
<tr>
<td>15 – 64</td>
<td>35%</td>
<td>128%</td>
<td>198%</td>
</tr>
<tr>
<td>65 – 79</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>80+</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Rising Population Share of Octogenarians

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>UK</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Ireland</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Holland</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>France</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Germany</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Italy</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>8%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: United Nations Database 2017

Next Steps

Email ukdc@ssga.com to learn more about how to manage the impact of demographic shifts on your DC scheme.
For subscriptions, email us at ukdc@ssga.com or visit ssga.com/ukdc

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