PLAYING THE LONG GAME

What can younger retirement savers learn from those further along their retirement journey? And what can evolving DC systems discover from the successes and challenges of more mature markets?

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Our latest global participant survey—Global Retirement Reality Report—provides some leads. We present an exclusive preview here.

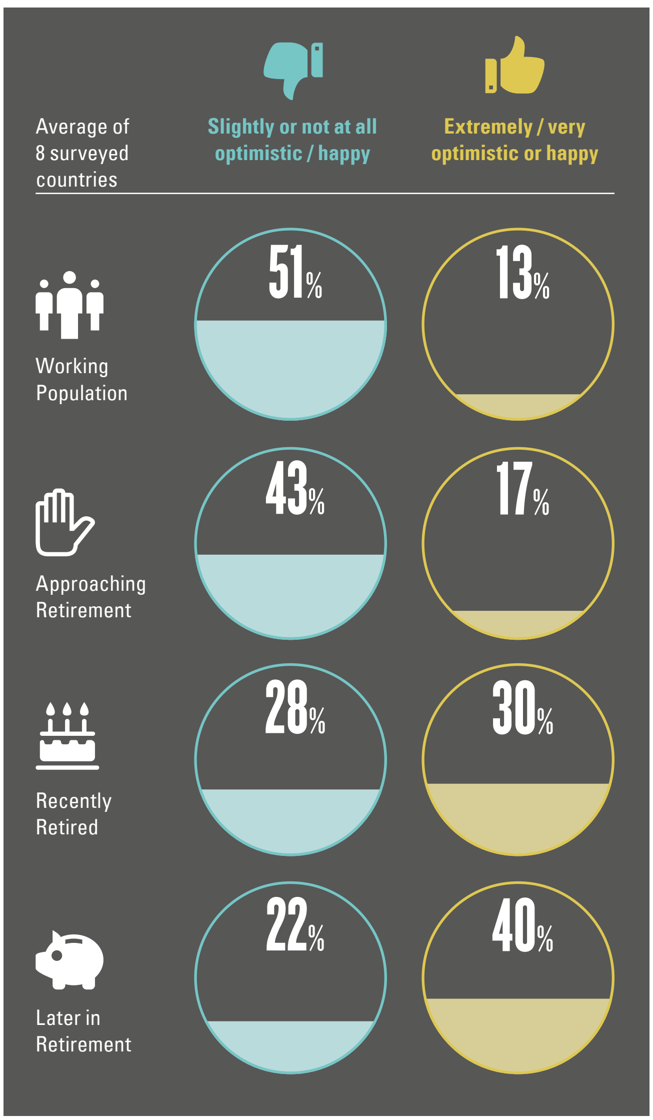
In the spirit of "global perspectives, local delivery" we fielded an 8-country survey to enrich our understanding of the practices and solutions driving participant satisfaction across different markets. With the consumer at the center of everything we do, we structured the survey to follow the journey from early saver to later retiree, in markets at different points along the DC spectrum - from early to mature. We believe governments, regulators and employers can benefit from considering savings solutions by segment, an approach that could ultimately help address the dimension that remains unresolved in so many markets - income in retirement.

OLDER, WISER – AND MORE CONFIDENT

The survey results showed that people generally feel more confident about retirement as they get older, a trend replicated across the range of countries surveyed (see chart below).

The closer to retirement they get, the more likely it becomes that people are more aware of their options, have assessed their likely retirement spending needs against their savings, and are more equipped as they attempt to “solve” the retirement problem. For younger savers, typically less engaged with their retirement plan, the information gap, perhaps unsurprisingly, can act as a drag on confidence.

Optimism about financial situation in retirement

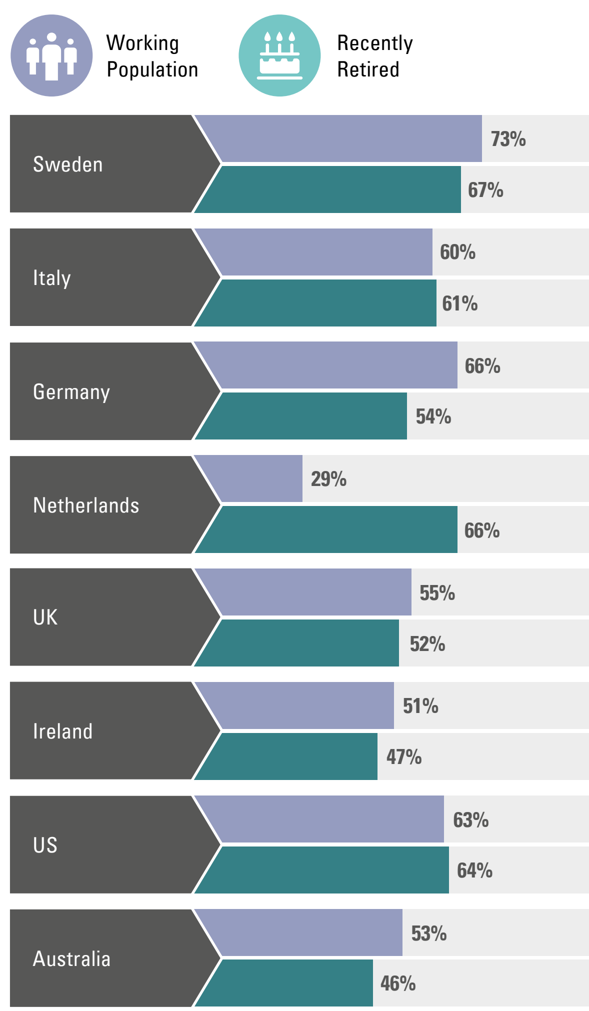


We recognize the possibility that older respondents may be better off in some countries—and so more optimistic—due to more generous DB provisions available to baby boomers. However, retirement income levels do not seem to be the driving factor in this confidence equation.

While retirees are more likely to receive retirement income through DB savings than pre-retirees, the proportion is not markedly different. What’s more, the average stated income replacement rates working people say they expect to receive in retirement are mostly in line with the rates actually achieved by retirees, so they appear to be expecting a fairly similar experience from this perspective (see chart below).

What does this mean for retirement systems across the globe? The more we can do to help people to understand how well prepared they are for retirement, or what they need to do to get on track, the more optimistic they can become. Communications, smart investment defaults and better advice all play a role. This is particularly important for younger savers less likely to be engaged with their retirement plan—but for whom the need to commit to saving sufficiently for retirement is ever-more pressing.

Proportion of current income expected/achieved in retirement

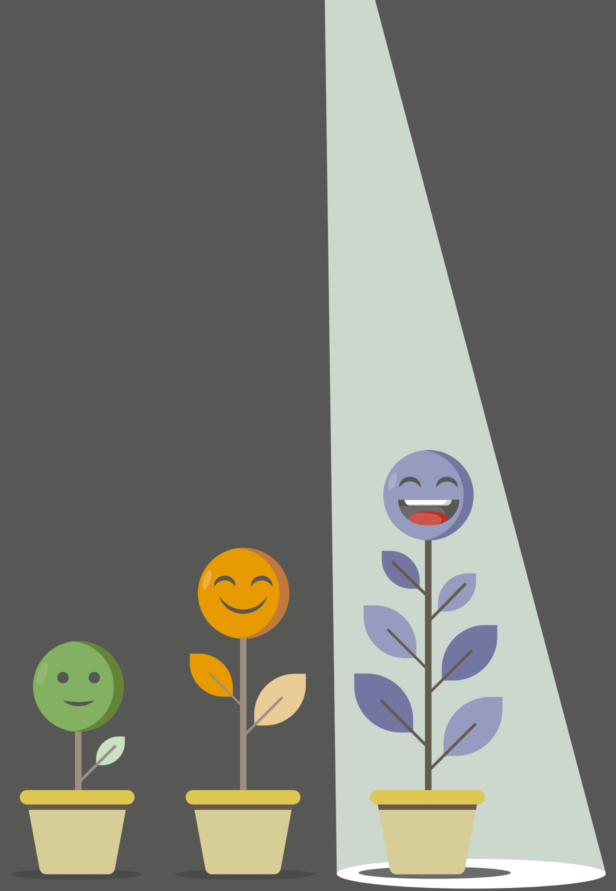


EXPERIENCE MATTERS

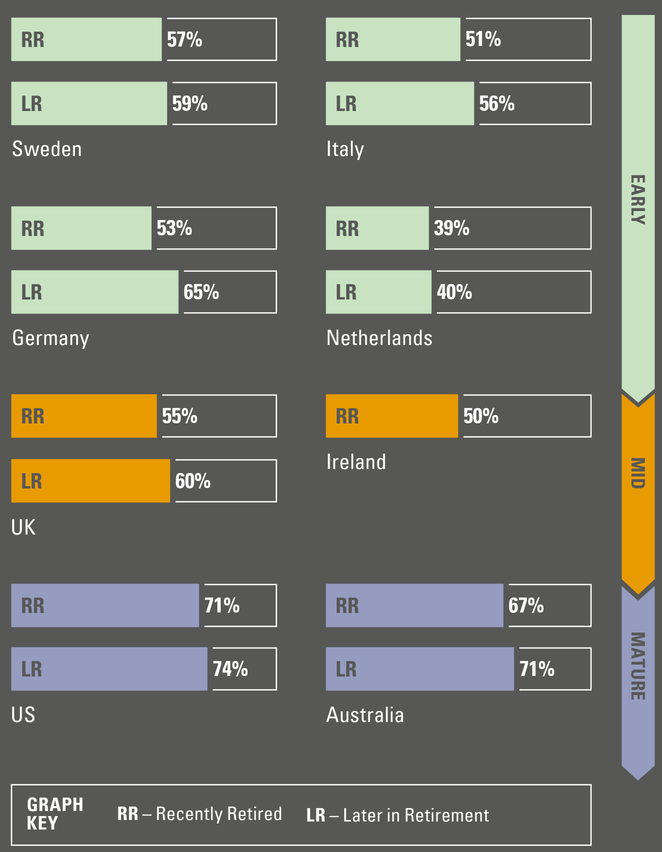
Retirement systems around the globe are at different stages of transition from DB to DC. In a similar vein to the age of the participant, our survey found a correlation between the maturity of DC within the broader retirement system of that country and optimism.

People in more mature DC systems (notably the US and Australia), on the whole, seem to be more content across a range of factors (see charts below). Familiarity and experience with the system could play a role here. Early stage transition (Sweden, Italy, Germany, Netherlands) brings with it new options, changed regulations and, typically, departure from the relative security of DB. People in more mature DC markets have had more time to become accustomed to reforms and a regulatory regime in which they have assumed greater responsibility for their own retirement saving and planning.

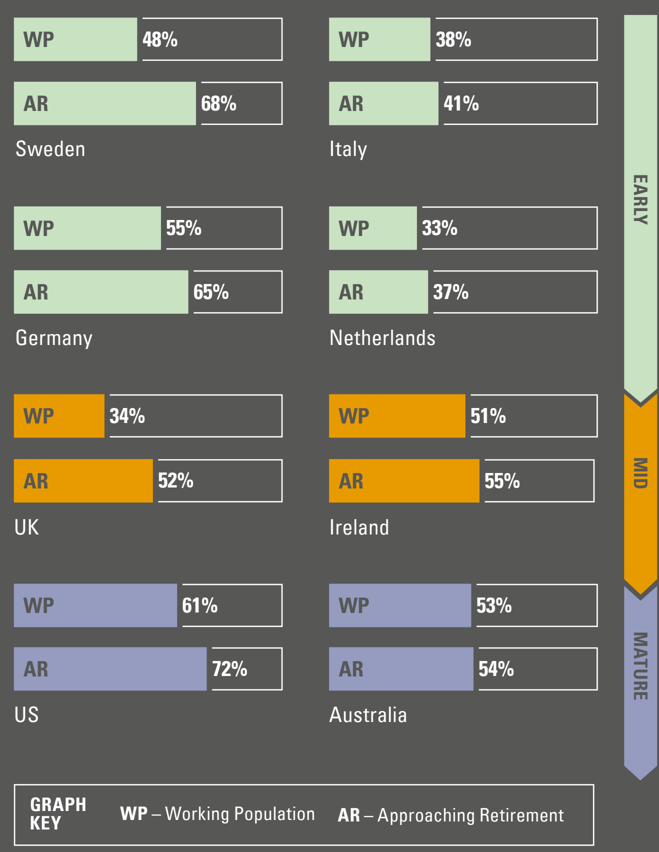
Note that although DC has existed for some time in Sweden and Italy, we have classified these markets as early stage due to the small size of the DC benefit relative to the broader pensions system.



Proportion of retired respondents confident that they will be able to afford desired lifestyle in retirement



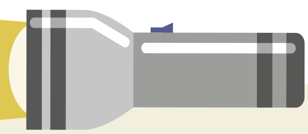
Proportion of working respondents at least somewhat optimistic about their financial situation in retirement



For the US and Australia, higher levels of optimism about the durability of savings in retirement is perhaps somewhat surprising. These are domiciles where annuitization is less frequent, and hence there should be a higher risk of running out of money in retirement.

Although the US and Australia have relatively mature DC systems, they differ markedly in terms of coverage and, therefore, participation. DC provision and participation is voluntary in the US, and the relatively strong confidence data in the US may have some association with the fact that DC participants are typically in better paid jobs, given it is those jobs that tend to provide a retirement savings plan. In Australia, however, DC is a universal mandate and almost all employed citizens are covered. The results there are less likely to be derived by income status or mere participation. While not quantified within this report, cultural bias may also be a factor in responses across the spectrum of confidence indicators.

Lighting a Path in Retirement Design



When designing a retirement system, it's crucial that we find ways to ensure:

1. **People are saving enough, and**
2. **People gain clarity on what they'll need in retirement (and have the opportunity to modify their behavior accordingly).**

Many mature DC systems—US, Australia and increasingly the UK—have embraced measures to help more people save. Australia has gone farthest, by mandating superannuation contributions; the UK has embraced automatic enrollment, obliging employers to enroll all employees in a plan (although they can opt out); and in the US, most employers that offer a plan now automatically enroll participants (although actual access to plans remains an issue).

Participants who are automatically enrolled are typically placed into appropriate investment strategies (gone are the days of cash equivalents as a default, although participants can make their own choices).

Systems transitioning into DC typically introduce automatic or mandated DC plan enrollment, although contribution levels may not always be sufficient.

Importantly, while the most mature DC systems have developed successful approaches for the accumulation phase, none has yet to fully master the solutions needed for the retirement phase. A goal of this survey is to leverage global insights to help us understand how we can help both improve outcomes during the accumulation phase—and build better solutions for the retirement phase.

KNOWLEDGE IS POWER

How can we help to make younger people become more confident about their journey to retirement and equip them with the information they need to enjoy better outcomes? And how can younger DC systems learn from the experiences of mature DC systems help guide people along the way?

THE ADVICE FROM RETIREES IN OUR SURVEY IS CLEAR:

Start saving earlier, engage with your pension planning earlier, and save more.

Don't depend on the government or your employer to save money for you. You have to do it yourself! Start early and set up a financial savings plan that saves at least 10% of your income each year for retirement and don't borrow money from it!

US, Male, 70

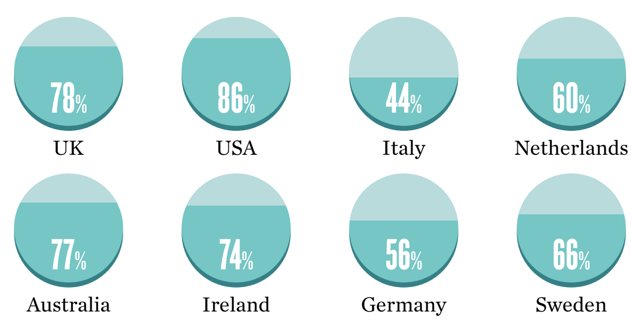
Engage early & often plus salary sacrifice.

Australia, Female, 68

Retirees are happier than those in the accumulation phases. Younger people must contend with the relative uncertainty of not knowing whether they are preparing sufficiently or how much they will need in retirement—they just think they won't have enough.

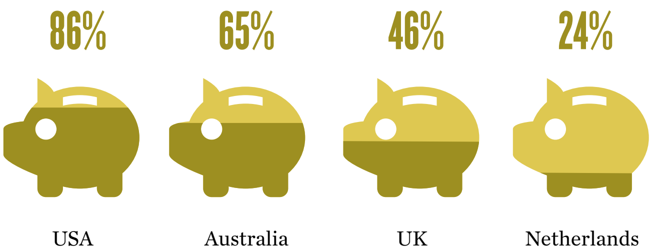
Our survey illustrates how knowledge can empower consumers. Employeesin more mature systems engage more with their pensions and have a more developed sense of ownership. Those in the early stage systems do not appear to have accepted the idea of having responsibility for funding their own retirement. Only about half of respondents in early stage systems see primary responsibility for ensuring adequate income in retirement as resting with them, compared with 80-90% in US and Australia, and 70-80% in UK and Ireland (see below).

Participant has responsibility for ensuring adequate income among working population



Workers in the US and Australia also have higher degrees of awareness of how much money they have saved, where its invested and the potential tax benefits of their pension investments.

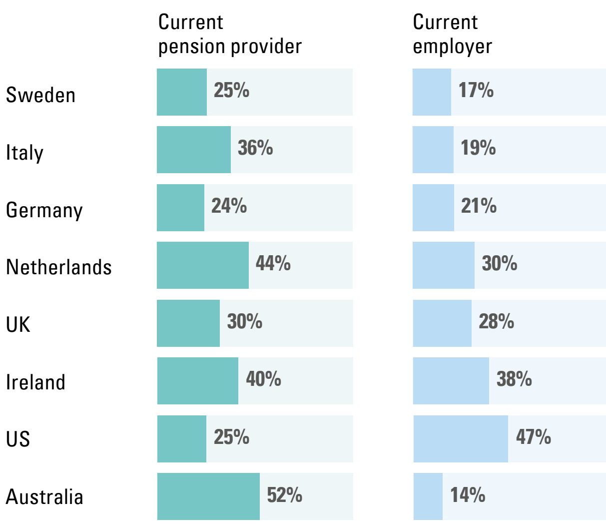
Awareness of amount currently saved for retirement—working population in select countries



Although the method of retirement savings delivery differs by country—with US employers playing a more active role than in most other countries—there is a clear gap across the spectrum in terms of expectations for advice relative to what people are receiving.

In the quest for knowledge, most people in the working years look to their current pension provider, their employer or a government advisory service for advice.

Preferred advice sources for the working population (provider, employer)



The preferred source varies by country—interestingly, in the US, 47% of pre-retirees would use their employer for help but only 1% of retirees found their employer to be a useful source! While many outside the US say they would ask their friends and family for advice, very few found this advice useful.

About half those approaching retirement (five years before) have actively begun seeking advice, particularly in the more mature countries. This compares with just 25 – 30% of the working population. Five years prior to retirement would seem late in the game if there is need to change spending habits or plan to retire later. As younger people express a particular desire for help from employers with retirement planning, this represents a logical touch-point in their early careers.

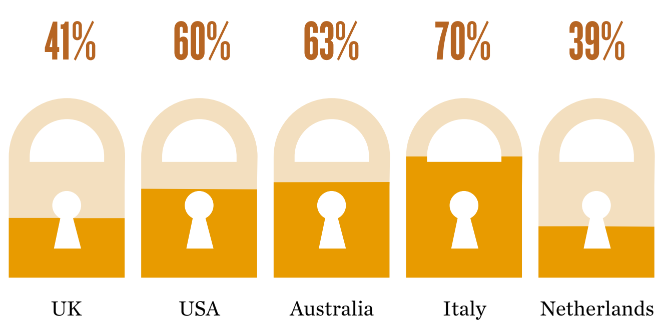
While recognizing it is important to empower employees with information, the right type of information is essential. Rather than educating employees on different investment options or how to invest, education should focus on helping employees to understand whether they are on track with their savings plan and what they should do if they are not.

A COMMON CAUSE—SOLVING FOR RETIREMENT INCOME

A key difference for people adjusting to the transition from DB to DC is that DB provides guaranteed lifelong income in retirement, typically with minimal flexibility for the participant. DC provides the participant with much more flexibility, but no guarantees unless they specifically purchase an annuity.

In practice, very few DC participants purchase an annuity voluntarily. Yet, retirees clearly state that they value regular income—even though they are reluctant to purchase it. The majority of recently retired people in our survey who wish that they had chosen a different option in relation to their retirement savings say that they wanted more security.

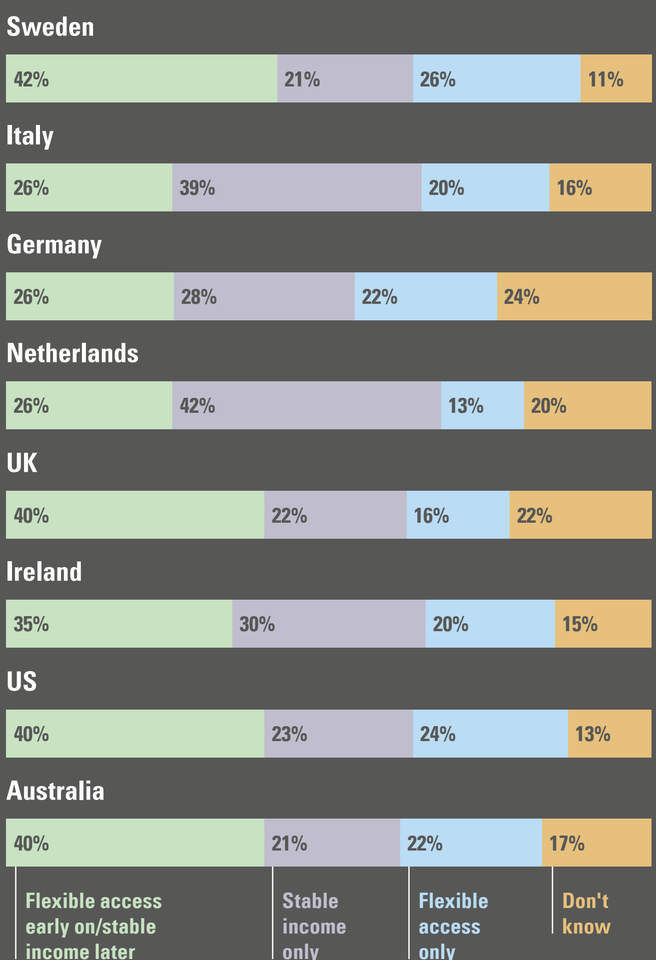
Primary reason recent retirees would prefer a different option for their retirement – more security



Most people in the working population rank a combination of predictable, preferably guaranteed,income in later life and flexible access in early retirement as their preferred choice. Respondents are fairly evenly split between the options of flexible drawdown at the risk of running out of money and stable lifelong income with no flexibility, but overall about three quarters of respondents in all countries prefer an option with some degree of guaranteed income.

People in retirement also favor this combination of flexibility and guaranteed income.

Preferred income in retirement option for working population



In countries that are still in the early stage of transition from DB to DC (Netherlands, Italy) a majority of people would still prefer a stable lifelong income to more flexible options, reflecting the traditional way in which retirement income has been provided in these countries. People in countries that are more advanced in the DC transition are more comfortable with using only part of their assets to provide stable lifelong income.

A LOOK AHEAD

The more we can help people understand what they need to do to prepare for retirement, the more confident they can become. This is particularly important for younger, less engaged, individuals and in countries in the early stage of DC transition where system changes and the perceived burden of retirement saving can create anxiety.

The focus needs to go beyond five years prior to retirement, enabling people to modify their behaviors in time to make an impact—and also so that they can feel more confident in their choices.

At retirement, solutions that offer some element of guaranteed income in retirement are in demand.These could also help to make retirement more real for more people—aligning it to a more manageable and familiar concept (i.e. how to budget based on a monthly paycheck).

Over the coming months, our survey analysis will delve deeper into the retirement income puzzle, including the disparity between income and spending intentions, and the reality for retirees. Stay tuned!

SURVEY METHODOLOGY

Data was drawn from an online survey of 9,451 respondents across 8 countries. The survey was conducted by YouGov plc between February 8 and April 3, 2018.

SAMPLE

Working population
Working and not planning to retire in next 5 years

Approaching retirement
Working and planning to retire in the next 5 years

Recently retired
Recently retired within the last 5 years

Later in retirement
Retired more than 5 years ago

		(%)
UK	1603	17
US	1657	18
Ireland	602	6
Australia	1223	13
Italy	1137	12
Netherlands	1027	11
Sweden	1175	13
Germany	1027	11

ANY QUESTIONS

Contact us at **theparticipant@ssga.com** to submit your questions or to learn more.

The

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