

2018 Global Retirement Reality Report

The
Happiness
Formula
:)

Germany
Italy
Netherlands
Sweden
Ireland
UK
US
Australia

Leading with Reality

We live in a data-rich age, with no lack of studies on the state of retirement.

However, at State Street Global Advisors, we see things differently.

By observing retirement realities through the lens of the individual saver, we are working to truly understand people's experiences with both state-led and institutional structures globally. By doing so, we can offer solutions that are as multidimensional as the needs of the people, plans and policies involved in the retirement savings process.

The Global Retirement Reality Report (GR3) is a reflection of our saver-centric philosophy. This survey, fielded in the first quarter of 2018, spans eight countries and more than 9,400 respondents, all of whom participate(d) in a Defined Contribution (DC) or equivalent savings plan. Respondents ranged from those currently working to those in retirement, offering a unique view into different generations, expectations and experiences.

We were interested in areas of consistency. For example, do workers' expectations of retirement spending match retirees' experiences and do younger workers envision extended and evolved working lives? We were also intrigued by incongruence, particularly when it comes to gaps between objective measures of savings adequacy and subjective measures of expressed satisfaction. Here, we have delved into the idea of what constitutes retirement happiness. As is the case with happiness broadly, there is not one driver, but several elements that, when properly combined and applied, enable a happy and secure retirement.

In this paper we will examine these incongruences and also identify opportunities for solutions in investment strategies, policy approaches and saver engagement. Retirement, like happiness, is not one thing, but the combination of individual and societal objectives. We believe both viewpoints are important to make retirement work.

If you have any questions or would like to discuss the ideas in this paper, we invite you to contact us. To view the full breadth of our survey material, including regional reports highlighting country-specific insights, visit ssga.com/gr3.



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The Formula for Retirement Happiness

Happiness, like retirement, compels and connects us all — as a concept, a state of being and an ultimate destination.

Similar to evolutions in the way retirement is viewed, the notion of happiness is currently being seen differently. It's no longer regarded as an idle state of leisure, but as an indicator of progress.

Increasingly, economists look to proxies of happiness — freedom, health and life expectancy, generosity, social support — in combination with conventional financial factors when examining market drivers. The results, reflected in monitors like the United Nations-sponsored annual World Happiness Report, tell a compelling, if not predictable, story: Happier people (and nations) are more productive, innovative and ultimately more prosperous than their unhappy counterparts. In contrast to the benefits of happiness is the pervasiveness of stress, sadness, anger and pain, as reflected by Gallup's Negative Experience Index, citing 2017 as one of the most emotionally difficult years for people worldwide in over a decade.¹ The world is in emotional upheaval and the sentiment is guiding how we work, live, govern and ultimately approach the future.

Using results from our Global Retirement Reality Report (GR3), we will explore how happiness works as an indicator of and contributor to retirement readiness and satisfaction. We will also offer practical suggestions for redirecting people, plans and policies in the direction of happiness.

To do so, our first step is to define happiness in the context of retirement. Specifically, for those currently working, we want to know whether they are actively engaged with their responsibilities in the savings phase and feel confident that when they reach retirement, they will be prepared to have both a stable and rewarding experience.

For those who are retired, we want to know whether the stability and gratification they sought came to fruition and what insights their experience can offer to those who are earlier in the retirement saving journey.

From these findings, we have arrived at a blueprint for a successful retirement structure that combines effective practices with rewarding experiences, gathered from around the world.

¹ Gallup 2018 Global Emotions Report, https://gallup.com/analytics/241961/gallup-global-emotions-report-2018.aspx?utm_source=link_news9&utm_campaign=item_242117&utm_medium=copy

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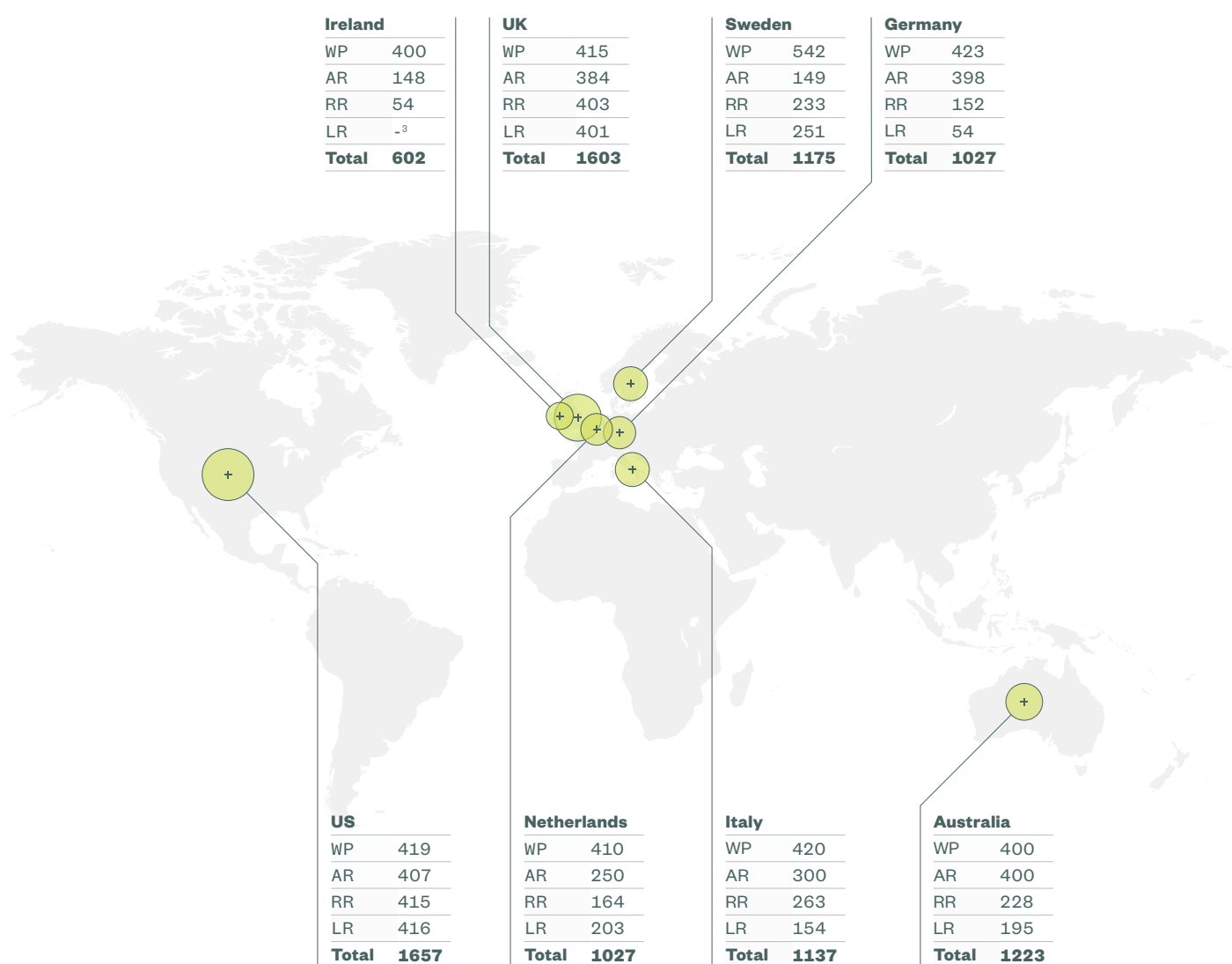
Survey Methodology

As part of our global goal to deliver better retirement outcomes, our GR3 research captures a picture of people's hopes, fears, expectations and experiences surrounding retirement.

State Street conducted an online survey,² in conjunction with YouGov, across eight countries representing a range of retirement systems. We queried 9,451 people at every stage of the retirement spectrum, from those new to the workforce to those later in retirement itself, to better understand the milestones and inflection points across the savings journey. All respondents participate(d) at some level in a DC or private savings plan.

Sample Groups

WP Working Population	Working and not planning to retire in the next 5 years
AR Approaching Retirement	Working and planning to retire in the next 5 years
RR Recently Retired	Retired within the last 5 years
LR Later in Retirement	Retired more than 5 years ago



² Survey data fielded between 8 February and 3 April 2018.

³ A significant sample of respondents in later retirement could not be formed for Ireland.

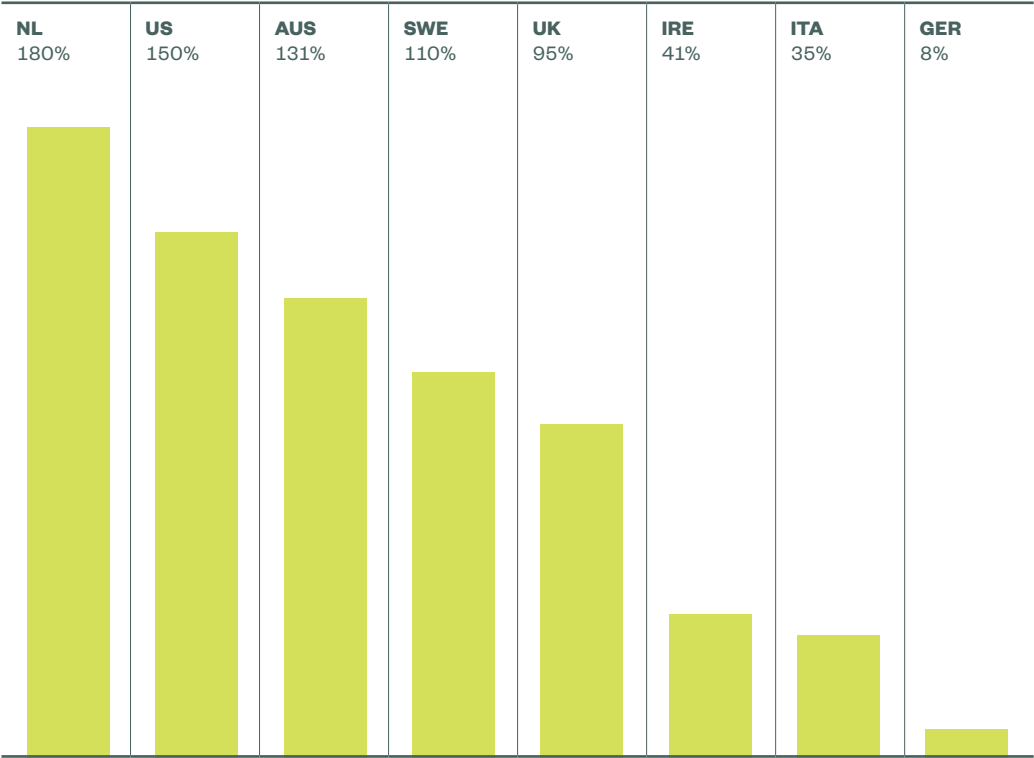
Beginning at the Baseline

From Organisation for Economic Co-operation and Development (OECD) statistics to the Melbourne Mercer Global Pension Index to a host of investment manager retirement monitors, there is extensive available data measuring savings adequacy and retirement system effectiveness. These studies provide a quantitative baseline, one with which many industry watchers are familiar — enabling a common starting point from which we'll begin.

Starting with the formula of total pension assets compared to gross domestic product, the United States, Netherlands and Australia appear to have the strongest retirement savings reserves. Sweden and the UK follow, leaving Ireland, Italy and Germany as the least adequate systems. We note that in addition to retirement savings reserves, pay-as-you-go systems with varying degrees of generosity are also present in all of these countries.

For some countries, total pension reserve assets are not fully represented below, as is the case for Germany and Ireland. In Germany, many assets sit on corporate balance sheets and therefore might not be counted by OECD methodology. In Ireland, data was not available for public pension reserve funds, meaning only privately accrued assets are reflected. In both cases, this may artificially decrease adequacy.

Spectrum of Retirement Savings Adequacy
Defined as total pension reserve assets/GDP, public and private reserve funds



Source: OECD Pensions at a Glance 2017.

The Melbourne Mercer Global Pension Index, an industry bellwether, builds upon quantitative country profiles by combining adequacy with sustainability and integrity dimensions, capturing a fuller picture of each country's retirement savings system, while also addressing any coverage shortcomings. This more dimensional view is defined by a grading system. None of the countries reviewed currently gets an A:

**Melbourne Mercer
Global Pension
2017 Index**

B+

Netherlands

B+

Australia

B

Ireland

B

Sweden

C+

UK

C+

Germany

C

Italy

C

US

Source: https://mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/mmgpi-2017/au-2017-mmgpi-report.pdf?utm_medium=referral&utm_source=web&utm_campaign=mmgpi

Here we see that the Netherlands, Australia and Sweden, which all have high assets, also score high on the Mercer index. Italy and Germany, with lower assets, have low Mercer index scores. However, the United States is one of the lowest graded countries despite its high levels of retirement assets. This is caused by the low level of retirement plan coverage. Ireland has a relatively high grade and index value caused by its integrity as measured by the role of regulation and governance; however, the study recognises that coverage is low.

Retirement Access, Coverage and Opportunity

The impacts of uneven retirement saving plan access and participation explain some of the global differences and discrepancies we observe. For example, the Netherlands, Australia and Sweden have virtually full coverage, meaning plans are available to the working population.⁴ On the other hand, Ireland and the US have considerably lower coverage ratios. In Italy, voluntary private retirement savings have been introduced quite recently, hence coverage ratios are quite low (employees have typically relied on the relatively generous state pension benefits).

Our GR3 respondents all participate(d) in a DC or similar retirement plan. This means that our survey captures the viewpoints of a population that may have had more savings options available to them than the general workforce. In countries that do not require employers to provide retirement plans, this also implies that our respondents are likely to work for a better company (defined by financial security and benefit robustness), paying a higher wage. For example in the Netherlands, which has virtually universal coverage for employees, the average salary of survey respondents is closely in line with the national average, whereas in the US, where only about 40% of the working age population has access to a workplace retirement plan, our respondents have a salary level that is substantially above the average. The fact that the US data captures the viewpoints of a relatively fortunate sector of the population likely to inform the comparatively high level of confidence that US respondents report in this survey.

Varying Coverage Models Result in Diverse Saver Profiles:

Country	Total coverage of private pension plans (mandatory and voluntary)	OECD average salary (USD)	Average salary of sample (USD)	Salary difference between survey and average population
Australia	76%	49,126	59,443	21%
Germany	70%	47,585	52,085	9%
Ireland	47%	47,653	52,985	11%
Italy	20%	36,658	41,127	12%
Netherlands	88%	52,877	54,036	2%
Sweden	90%	42,393	62,742	48% ⁵
UK	43%	43,732	53,096	21%
US	41%	60,558	103,875	72%

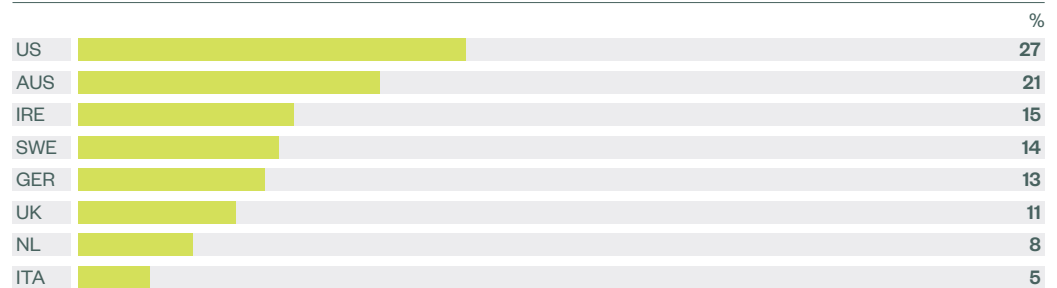
Sources: OECD Pensions at Glance 2017 chart 8.1, State Street Global Advisors 2018 GR3.

⁴ Statistics refer to the working age population, not the working population. Not all of the working age population is employed, explaining why even countries with mandatory coverage have less than 100% of the population covered.

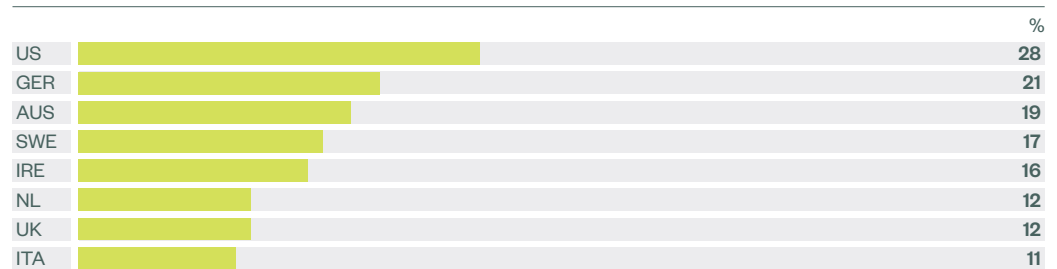
⁵ Given that Sweden offers extensive plan coverage to workers, we speculate that the salary discrepancy shown here may either be the result of currency fluctuation that led to an imperfect conversion to US dollars or our survey simply captured a more affluent sample population.

For our survey, we took a different measure in trying to understand how it feels to prepare for, approach and experience retirement. Of the range of questions we asked, the ones that focused on people's sense of retirement optimism informed our sentiment starting point.

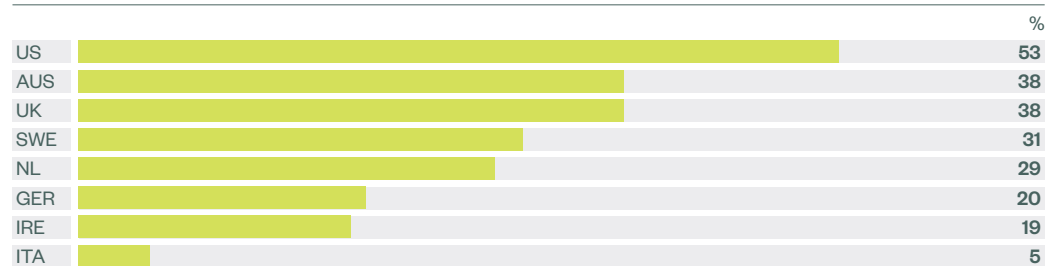
% of respondents who said they were optimistic about their financial situation in retirement
(Average of WP & AR)



% of people who said they were confident that they will be able to afford the lifestyle that they want in retirement
(Average of WP & AR)



% of people who said they were happy in their retirement
(Average of RR & LR)



Source: SSGA

The GR3 optimism ranking reflects the aggregate score of each country on these three dimensions.

The disparity across the three rankings is immediately evident. Regardless of the direction of the discrepancy — for example, the Netherlands has high proportionate savings and low optimism while the US offers far less coverage, but is most optimistic — the gaps themselves are interesting. If saving levels and outlooks aren't aligned, then what other dimensions inform the happiness formula?



OECD Data	Melbourne Score	GR3 Optimism
Netherlands	Netherlands	US
US	Australia	Australia
Australia	Ireland	Sweden
Sweden	Sweden	Ireland
UK	UK	Germany
Ireland	Germany	Netherlands
Italy	Italy	UK
Germany	US	Italy

Between Savings and Sentiment

To understand what stands between quantifiable dollars and cents and qualitative sentiment, we looked to three dimensions of the retirement savings equation:

1

The **systems** that provide an apparatus for and govern the savings experience

2

The **individuals** who participate in retirement savings, and their understanding of their role within the system

3

Individuals' confidence as an indicator of **retirement readiness**

These dimensions distill down to a three-part formula that endeavors to account for the shift in savings responsibilities from plan providers to individual savers — a central recalibration to savings systems that is currently driving uncertainty.

The Formula for Retirement Happiness

Trust in Savings Systems

Ownership of Retirement Readiness

Preparedness of Retirement Saving and Spending Strategies

Here, a bit of alchemy comes into play, with each dimension of the formula building on itself to transmute more conventional experiences into happiness. In fact, we believe this multi-dimensional view offers better insight into long-term DC scheme success than any single measure. The following pages will examine each formula variable.



trust

preparedness

ownership

Mapping Happiness Scores

- T Trust in Savings Systems
- O Ownership of Retirement Readiness
- P Preparedness of Retirement Saving and Spending Strategies

Sweden
3.9



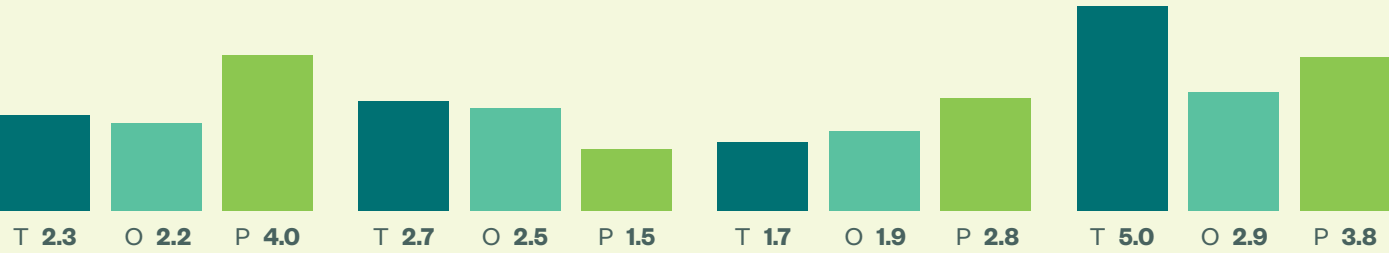
Germany
2.8



Italy
2.2



Netherlands
2.1



GER is on the brink of reform. If implemented well, these reforms are expected to increase both a deeper sense of trust and ownership could help boost happiness further.

ITA has introduced painful reforms to make its pension system sustainable. In the meantime, the country has an adequacy problem due to low assets and low trust in the system. Italy needs to build trust and sense of ownership.

NL has strong assets and a well-developed pension system, but is experiencing a savings model transition that's created a low sense of ownership and a somber outlook. We expect that once reforms are implemented, the Netherlands will more closely resemble Sweden.

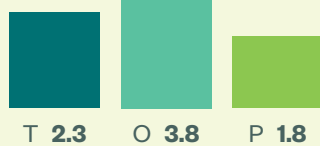
SWE has an established and well-understood system which is sustainable, providing a combination of state and private funding.

DC Dependency Spectrum (From Less to More)



Ireland

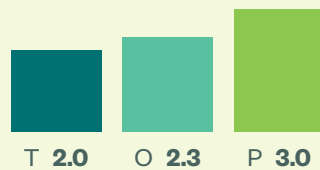
2.6



IRE has lower assets but embraces individual responsibility, making it philosophically closer to the US and Australia.

UK

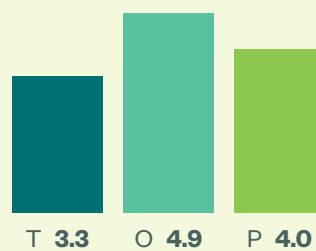
2.4



UK has an increased sense of ownership per the 'Freedom and Choice' reforms that introduced more options in accessing retirement savings. However, the UK still struggles with a lack of trust toward the pension system.

US

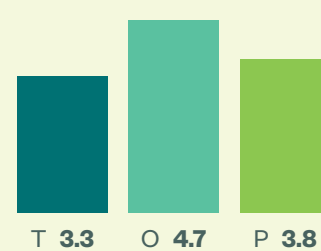
4.1



US survey respondents all have access to a savings plan. This fortunate population (only half of working Americans have plan access) considers the system reasonably stable, has a strong sense of ownership and high aggregate assets.

Australia

3.9



AUS has a comprehensive, well-established system with a strong degree of individual ownership.

Trust

For individuals to trust the retirement system, two conditions must be present. First, the system should follow a set of understood and enforceable rules and second, outcomes should be reasonably predictable.

In the case of retirement savings structures, these conditions translate into savers' confidence that the system works and the expectation that by participating in it, they will receive the promised benefit at retirement.

However, many countries are undergoing significant retirement reforms that introduce confusion and doubt: confusion around how the new systems work and doubt as to whether they do.

In an effort to map the connection between savings system maturity and saver trust, we have plotted where each country surveyed falls on a DC Dependency Spectrum, defined here as the prevalence and tenure of DC schemes within a given market. Ordering countries in this way provides another layer of information on the connection between saver sentiment and DC system type and tenure.

	Less ← ————— DC Dependency Spectrum ————— → More							
	GER ⁶	ITA	NL	SWE	IRE ⁷	UK	US	AUS
Investments in Illiquid Assets		✓	✓	✓				✓
Lifetime Income Guarantee		✓	✓	✓				
Mandated Contribution Minimum		✓	✓	✓		✓		✓
Automatic Enrolment		✓	✓	✓		✓	✓	✓
Active Reforms Rank <i>The high end of the scale indicates a large volume of reform activity.</i>	High Changes on the horizon to contributions, means testing and taxes	High Current changes to benefit payments	High Increase to minimum retirement age plus the introduction of a variable annuity option for DC occupational pension plans in 2016 Lowered fiscal incentives as part of the shift from mandatory guarantees to DC model	Low Increase to minimum retirement age	Medium Upcoming auto-enrolment	Medium Eliminated annuitisation requirement per 2015 Freedom and Choice legislation Introduced Lifetime Individual Savings Account (LISA) in 2017 to boost life event savings	Low Almost no perceivable savings system change over the past four decades	Low Changes to tax concessions and social security entitlements (income and assets test), uncertainty over contributions, new retirement income regulations

✓ Feature of regional plans

✓ May be available/ability to opt out

Source: SSGA

⁶ DC schemes can be introduced in Germany only if they are negotiated as part of a collective bargaining process and they must be managed jointly by the social partners (trade unions and employers' organisations). The details of the scheme will be defined by the social partners. This will include whether to auto-enrol members, mandate contribution rates, etc.

⁷ Policymakers in Ireland have published a Roadmap for Pensions Reform which includes details on a new automatic enrolment savings system. (Source: A Roadmap for Pensions Reform, Government of Ireland, February 2018.)

In countries actively transitioning to a DC model, or those in the throes of reforms, workers' concerns around system stability quickly extend to fears around personal impact, particularly whether they will have to work longer and receive less retirement income than expected.

Top Sentiments Expressed

GER	ITA	NL	SWE	IRE	UK	US	AUS
Good Not good Uncertain	Worried Confident I don't know	Good Uncertain Fine	Good Ok Worried	Worried Good Anxious	Worried Enough Concerned	Good Secure Happy	Good Happy Comfortable

Increase in Future Normal Retirement Ages



Source: OECD Pensions at a Glance 2017, Figure 1.4. The increase is with respect to 2016. The future age refers to the year in which someone is eligible for full retirement benefits from all mandatory components assuming labour market entry at 20. The future year differs by country.

Expected change in public spending on pensions as a percentage of GDP by 2050



Source: OECD Pensions at a Glance 2017

When evaluating the level of trust in the system, we looked at the degree of recent changes and the expected magnitude of future changes. Here, we are suggesting that the dual factors of higher increases in expected future retirement ages (people working much longer than expected) and greater changes in public spending on pensions (requiring government fortification) signal sustainability challenges and the need for ongoing pension reforms. Uncertainty and flux in the savings system erode overall trust.

To that end, we have scored three factors on a scale of 1–5 (with 5 being most positive) using OECD data:

- 1

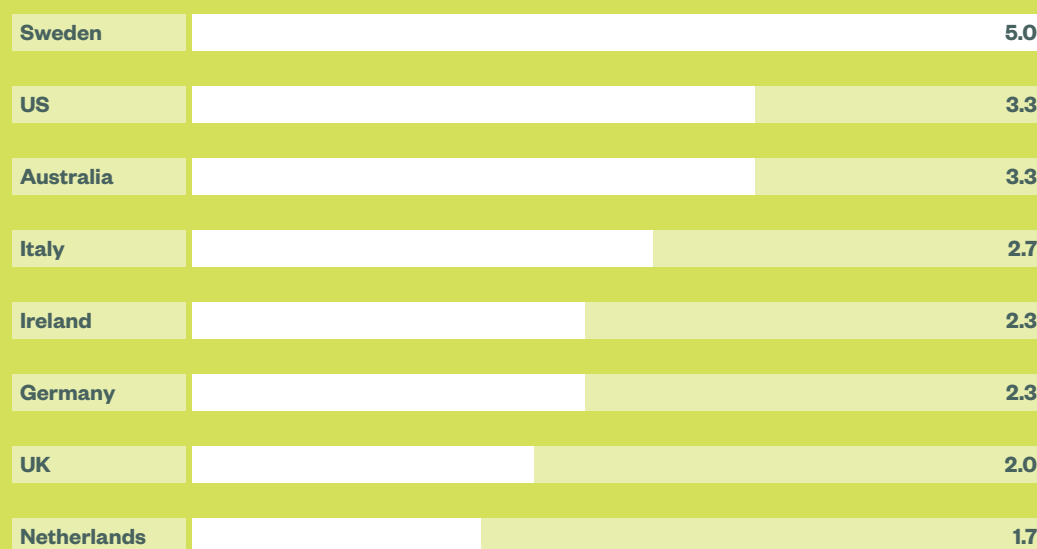
Degree of recent pension reform
- 2

Increase in future retirement ages
- 3

Projected increase in public expenditure on pensions by 2050

Overall Trust Score

By aggregating these measures, we arrived at a combined value between 1 and 5, with 5 being the highest trust score. This score reflects countries' perception of savings systems' certainty and stability.



Rationalising this score against each country, we see alignment. For example, Sweden, reflecting the highest trust score, has stabilised retirement ages and public spending on pensions. The Netherlands, with the lowest score, can expect significant increases in the retirement age and still faces a rising burden on public spending. Italy, scoring in the middle, faces upward pressure on the retirement age but has stabilised the burden on public finances (although at a high level). In this sense, it is more advanced than the Netherlands in the reform process, although the overall health of the Italian system is considerably worse than in the Netherlands.

Ownership

Beyond believing that the system works, workers must understand and embrace their role within it to truly gain the value that savings structures have to offer. Calling for saver engagement does not suggest that savers become investment experts who actively manage their own retirement portfolios. Such a position would be both inefficient, given the dedicated investment industry, and ineffective, as individuals have uneven access to and aptitude for financial management. Instead, we are defining ownership of the retirement readiness experience as a willingness to be present and engaged.

Within the GR3 survey, we asked a range of questions to ascertain attitudes regarding ownership, and distilled the results into three distinct dimensions: responsibility, choice and advice.

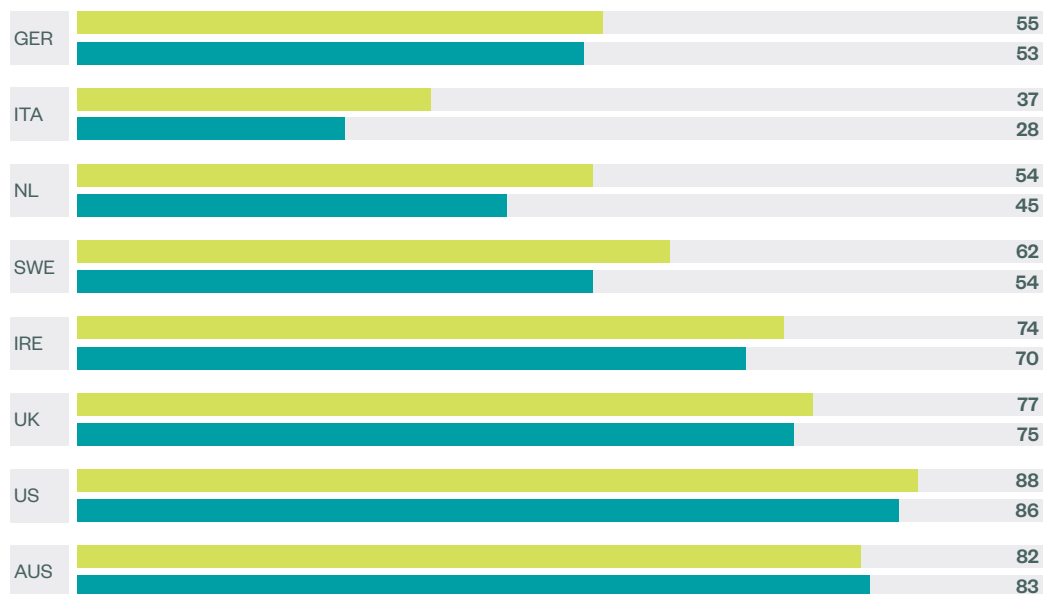
Who is most responsible for retirement readiness?

Individuals in more mature DC systems recognise that they bear a high degree of personal responsibility for their retirement readiness. Respondents in the US, UK, Ireland and Australia are most likely to embrace the concept of personal responsibility for retirement saving.

When split by age, younger workers in countries experiencing significant reform accurately see themselves as more responsible than past generations. The difference is particularly visible in Italy and the Netherlands. This shift in responsibility for retirement saving to the individual may explain the surprisingly low level of confidence and trust in the Netherlands. Sweden and Italy, which have already implemented reforms, show a similar shift in responsibility but higher levels of trust; this indicates that it is the uncertainty and expectation of future reforms which may be particularly painful. Interestingly, Australia, where personal responsibility for retirement saving is broadly accepted, shows a slight decrease in younger workers' sense of responsibility compared to their older counterparts. This generational discrepancy could suggest that the established mandatory retirement saving system has created a level of automaticity that erodes the sense of ownership and personal responsibility.

% of people ranking themselves, over an employer, state or pension provider, as the most responsible for their retirement

■ (Average of WP & AR)
■ (Average of RR & LR)



Source: SSGA

Responsibility isn't only about taking on the task of contributing to a retirement plan; it includes being aware of plan details. This level of awareness is consistent with the degree of DC dependency in each country, with 90% of US and 77% Australian workers knowing their current savings levels vs. 46% of Dutch and 35% of Italian workers. Knowledge of tax benefits and investments also seems to be consistent with how established the DC structure is. When it comes to familiarity with the tax benefits associated with retirement savings, 80% of US vs. 16% of Dutch workers expressed an understanding. With regards to investments, 71% of US vs. 13% of Dutch workers said they are aware of how their retirement portfolio is invested.

This last finding is particularly interesting in the context of environmental, social and governance (ESG) investing principles. The ESG perspective, that investing in companies actively engaged in responsible and sustainable business practices can yield both higher returns and lower risks, is widespread in the investment dialogue in Europe. Given Americans' expressed understanding of their investment portfolios, there is an opportunity to engage in more ESG conversations, particularly as nearly half of Americans surveyed consider ESG in their investment decision-making.

Environmental, Social and Governance

As we see retirement responsibility shifting away from employers, we have observed increased sensitivity to ESG factors when it comes to investment selection, presumably as individuals take more ownership of their portfolios and the assets that comprise them.

Percentage of respondents taking ESG into account:

Country	GR3 Data (%)
Germany	23
Italy	32
Netherlands	34
Sweden	22
Ireland	41
UK	28
US	47
Australia	47

Source: SSGA

% of respondents who feel that it is important that their investments incorporate companies with ethical values
(Average of WP & AR)

How much choice exists in the decisions surrounding retirement?

How much choice have you had when selecting an investment fund, deciding how much money to contribute, how to access funds and the date of your retirement? (Average of WP & AR)

Autonomy is a powerful force in furthering a sense of ownership. Here, respondents reported on the degree of choice they were able to exercise when it came to decisions on investment selection, contribution amount, retirement date and draw down options. These responses were aggregated and scored from 1 to 5, with 5 reflecting the highest degree of choice across those four plan dimensions.



Source: SSGA

However, for some, extreme independence can feel isolating and guidance may be welcomed. We examined the role advice plays in retirement preparation.

For individuals actively seeking advice, who do they look to and what do expect?

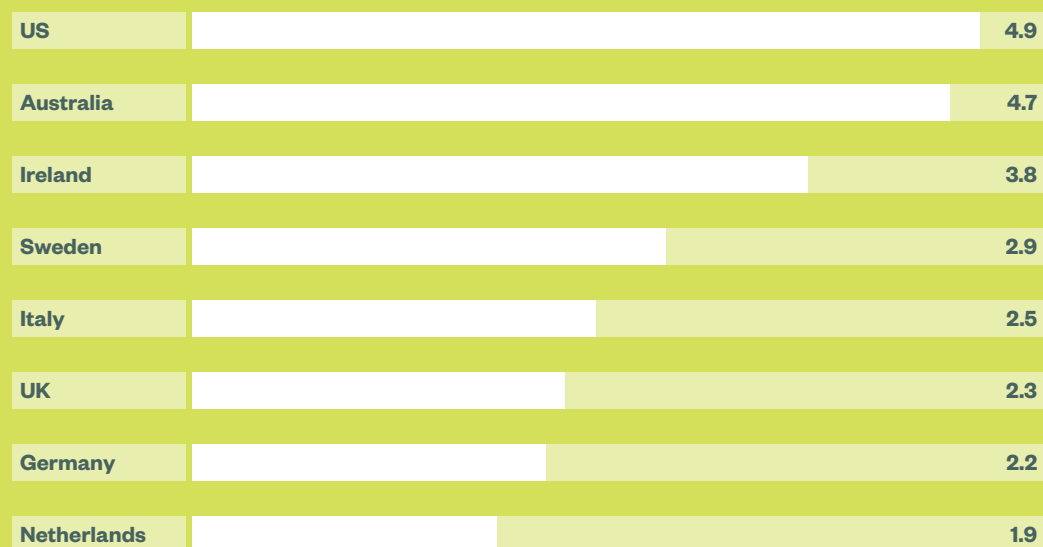
On average, more than a third of working respondents were actively seeking advice regarding their retirement savings. This percentage was fairly consistent across countries, suggesting the trend is more a factor of individual preferences than cultural drivers. However, culture does seem to have an impact when it comes to paying for advice.

Respondents in the US, Australia and Ireland are much more likely to be prepared to pay for advice than those in continental Europe. This may be partly due to the legacy of the more collective, state-based European systems that have traditionally given participants little or no choice versus more individual-centric Anglo-Saxon approaches.

An interesting aside: While Swedes are reluctant to seek advice (and expect such advice to be free, consistent with a continued strong reliance on the state system), they rank highest among the continental countries in terms of accepting individual responsibility for retirement saving.

Overall Ownership Score

Without responsibility, there is detachment. Without choice, there is enforcement. Without advice, there can be opacity. Evaluating each of these concepts on a scale from 1 to 5, with 5 being the highest, we aggregated and averaged these three measures to arrive at an overall ownership score.



In keeping with our findings around plan responsibility and understanding, countries that are more DC-dependent and less exposed to plan reforms express higher levels of ownership.

Preparedness

Assuming two anchors of the formula are in place, a stable and inclusive system and a working population that understands and embraces its role in the savings construct, then the third mooring, preparedness, points to individuals’ assessment of whether they have enough. What constitutes enough can be difficult to evaluate, particularly when comparing across countries, so here we’re using people’s own assessment of their degree of preparedness.

First we asked respondents to rank their sense of financial preparedness for retirement. The US led this ranking, with a third citing extreme confidence. For the remainder of those surveyed, approximately 1 in 5 was extremely confident. Half of the respondents in the UK and Italy reported being not at all confident, the lowest responses in the survey.

% of working population
extremely confident in
being financially prepared
for retirement
(Average of WP & AR)



Source: SSGA

We further tested the degree of preparedness by asking working respondents whether they expected to have to make sacrifices in retirement in order to make savings last. On average, 16% of respondents didn't expect to make any sacrifices, with the highest concentration of responses coming from the Netherlands, Germany, and Sweden, where social services and safety nets are strongest. Ireland and the US showed the lowest responses, pointing to an expectation that respondents in these countries will make more sacrifices in retirement to stay financially afloat. Americans are acutely aware of the looming burden of later life healthcare costs — and how significantly such expenses can alter individuals' spending reality.

% of working population who doesn't expect to make any sacrifices in retirement
(Average of WP & AR)



Source: SSGA

Regarding retirees, we asked respondents whether they believed they would be able to afford the lifestyle they sought in retirement. The answers ranged. In the US and Sweden, over a third had been confident going into retirement, while Italy and the Netherlands showed the lowest levels of confidence, with 8% and 12% respectively.

% of retirees who were confident they would be able to afford the lifestyle that they wanted in retirement
(Average of RR & LR)



Source: SSGA

Finally, when asking retirees if they believe their savings will carry through retirement, confidence increases for some countries. The US, Germany and Australia showed the strongest belief that their life savings will last a lifetime. This sentiment could reflect a degree of overconfidence, particularly where savings levels are well under 10% of salary, suggesting an unsustainable retirement income. In contrast, the Netherlands is significantly less sure. While the Dutch pension system will continue to provide guaranteed income for life, this response may reflect a lack of confidence that the income will be sufficient (as evidenced by the low percentage of respondents who are confident that they will be able to afford their desired lifestyle).

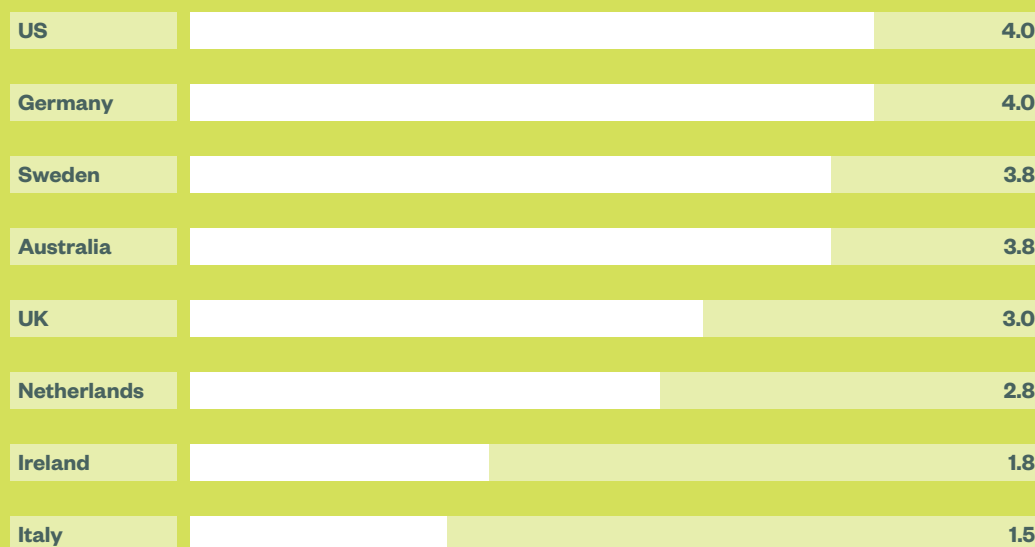
*% of retirees who are
confident their money will
last in retirement
(Average of RR & LR)*



Source: SSGA

Overall Preparedness Score

We developed the inputs for an average preparedness score by aggregating respondents' perceptions of preparedness and grading them 1 through 5, with 5 being the highest.



German respondents showed strong preparedness, despite low levels of pension assets. However, this gap in assets could be accounted for by the fact that some German pension assets are held on company balance sheets and may not be captured in these statistics. Germans may also be relying on the pay-as-you-go state system or other savings to fund retirement.

Ireland and the Italy are among the lowest scores when it comes to preparedness, which could be a result of low pension assets, or in the Netherlands' case, confidence. The Netherlands has the lowest net percentage of people who believe they'll be able to maintain their desired lifestyle in retirement. While all pensions guarantee a lifelong benefit, the lack of trust in the Netherlands is significant enough to erode the meaningfulness of this mandate.

The Alchemy of Happiness: Applying the Formula

Accumulated assets play an important role in determining retirement readiness. But as we can see from the survey results, people in the best-funded systems are not necessarily the happiest. What can retirement plan providers and policymakers learn from this and how can they support workers in feeling more secure about their future retirement?

Trust

Trust, like reputation, is something that builds slowly over time but can be quickly destroyed. Stability and predictability build trust, whereas instability and uncertainty erode it. For workers who have lost trust in their retirement system due to opaque information, constant rule changes or lack of conviction that the system will be able to deliver the promised benefits, their overall retirement experience and expectations are negatively impacted.

Trust becomes an increasingly important factor as the burden of traditional Defined Benefit (DB) systems becomes increasingly unsustainable and postponing reforms implies the need for even larger future reforms. To keep trust buoyant amid the turbulence created by such change, it's critical that policymakers and plan providers support individuals by:

- Communicating system changes with sufficient advance notice and maintaining messaging on a regular and predictable basis
- Providing clear and comprehensible illustrations of the probable impacts of the reforms, both to individuals and to the larger societal body
- Demonstrating a commitment to a simple, stable system that honours the public's expectations (this includes adequately funding a DB plan, if such a construct continues to be part of the retirement savings structure)

Ownership

Based on this survey, workers who have accepted that they have responsibility for their retirement are happier. In addition, those who feel in control of their retirement and understand the choices that they can make feel more secure. For example, the high degree of ownership in Ireland raises the country significantly in the happiness rankings despite its relatively low level of preparedness and trust. The opposite is true for the Netherlands, where participants who are used to a collective system are reluctant to embrace individual responsibility for their retirement.

Building on the best practices for engendering trust, policymakers and plan providers can foster a sense of ownership among workers by:

- Establishing and widely distributing a “how to” saver narrative, in which the steps to success are clear and attainable
- Connecting the impact of saver actions to saving outcomes, such as how changing one's savings rate, investment allocation or retirement age can affect overall retirement readiness
- Providing easy access to online advice tools

Preparedness

It is difficult to gauge what is *enough*, particularly when evaluating savings levels and lifestyles across different populations and regions. Among the countries in our sample, the savings plan contribution rates and requirements differ — as do the generosity of the state pension, the cost of living in retirement and the options for accessing savings once in retirement. Despite so many plan variables, industry leaders can leverage trust and ownership dimensions to improve employees' level of preparedness and help workers achieve their version of *enough* by:

- Providing savers with regular statements showing accrued assets and translating those savings into a projected monthly income to enable people to understand whether they are on track to meet their goals
- Offering competitively priced and thoughtful savings plan solutions that reflect appropriate risk profiles by savers
- Balancing flexibility and security in retirement income solutions that allow retirees liquidity in the early and more adventurous years of retirement and stability when it's needed most

Closing Thoughts

A range of studies from the past decade have declared the world better-educated, healthier, freer, more tolerant; and arguably richer — but not necessarily happier. In fact, while modern life might make us physically safer, its strain on our individual and collective emotional well-being is on the rise, as reflected by the Gallup Negative Experience Index. Believing that happiness is a critical dimension to productivity, progress and prosperity, we should look beyond purely quantitative metrics when evaluating the efficacy of different systems.

Here, we considered the drivers of happiness in the context of retirement. We found that the familiar, quantitative studies weren't telling the full story, given the gap between savings sufficiency and optimism about one's retirement future. Delving into factors driving the gap, we identified the dimensions of trust (in the system), ownership (at an individual level) and preparedness (as a measure of retirement readiness confidence) as the components in a formula for retirement happiness. Putting these components together furthers confidence, empowerment, discipline and accountability across the retirement savings complex, for the benefit of both savers and societies.

At State Street, we are proud to work with retirement systems around the world and share best practices across varying savings structures. It is our mission to support governments, institutions and financial advisors in making retirement work for — not only today but into the fast-changing future.

For more detail on our Global Retirement Reality Report, please visit ssga.com/gr3 where you will find additional content, including regional-specific reports on the eight countries surveyed.

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$2.9 trillion* under our care.

* AUM reflects approximately \$36 billion (as of June 30, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated

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