

A Comparative Analysis
of Australia, the United Kingdom
& the United States

Retirement Readiness

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Retirement Readiness

Agenda

- ❑ Headlines
- ❑ Introduction
- ❑ Data and Methodology
- ❑ Results
- ❑ Summary

Retirement Readiness

Headlines

- ❑ Three countries, three cultures, three approaches – but similar outcomes
- ❑ Starting retirement planning is simple and done by most
- ❑ Developing and following a really good plan is not so simple and done by few



Retirement Readiness

Introduction

Background, comparisons,
fundamental question,
components



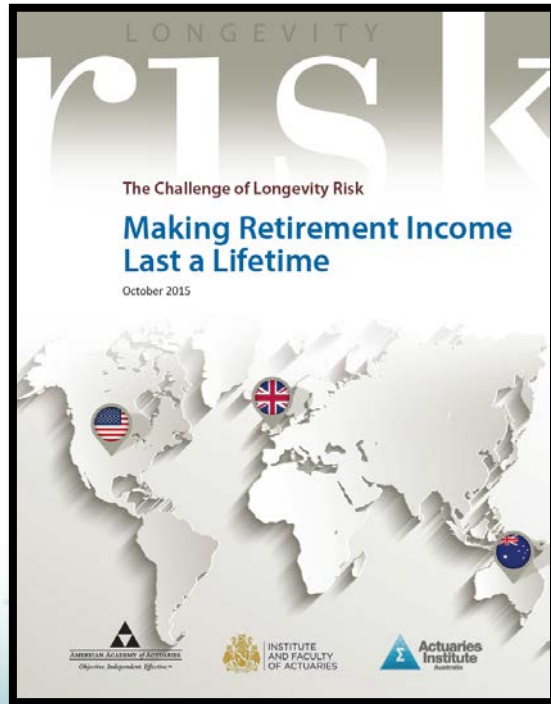
Background

- ❑ The shifting of risks to retirees in recent decades and periods of financial crisis have transformed the retirement context for individuals in Australia, the United Kingdom, and the United States
- ❑ The American Academy of Actuaries, the Institute and Faculty of Actuaries (UK), and the Actuaries Institute (Australia) set out to explore similarities and differences in the retirement readiness in the populations of their respective countries

Retirement Readiness

Making Retirement Income Last a Lifetime

October 2015



See our prior White Paper:
***The Challenge of Longevity Risk:
Making Retirement Income
Last a Lifetime***

www.actuary.org

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Comparative Demographics

	Australia	United Kingdom	United States
Age Dependency	25%	31%	25%
Over-65 Employed	25%	21%	30%
Elderly Benefits (% of GDP)	3.5%	5.6%	6.7%

- Aging populations — UK with highest age dependency ratio compared to AUS and US
- People living longer than they were 20 years ago
- More seniors working in the US with the fewest in the UK
- US spends the most on seniors with AUS spending the least

Retirement Readiness

Comparative Cultures

Features impacting retirement readiness	Australia	United Kingdom	United States
Uncertainty Avoidance	51	35	46
Long-term Orientation	21	51	26

- Australia is the highest on Uncertainty Avoidance, while the UK is lowest
- The UK is the highest on Long-term Orientation, while Australia is the lowest (with the US quite close)

Implications for retirement readiness:

- One with high uncertainty avoidance may avoid asking “how much do I need to save for retirement?”
- One with high long-term orientation may be more apt to adopt programmatic approaches to prepare for the future

Retirement Readiness

Approaches to retirement security

Australia

- **Tier I:** Means-tested social safety net
- **Tier II:** DC with compulsory 9.5% contributions, likely to increase to 12% by 2025
- **Tier III:** Voluntary tax-favored options for personal savings

United Kingdom

- **Tier I:** State pension with flat rate and salary-based progressive formula
- **Tier II:** Compulsory DC with 2% (1% employer/1% employee minimum contributions, with scheduled increases to 8% (3% employer/ 5% employee) by 10/2018
- **Tier III:** Voluntary tax-favored options for personal savings

United States

- **Tier I:** Salary-based progressive formula
- **Tier II:** Voluntary employer-provided retirement (typical is DC plan with employer match)
- **Tier III:** Voluntary tax-favored options for personal savings

Comparative Retirement Security

Net Mandatory Public and Private Replacement Rate

For those earning this percent of national average income	Australia	United Kingdom	United States
50%	89%	52%	54%
100%	58%	29%	45%
150%	46%	20%	39%

Combination of private and public retirement plans provide:

- Higher benefits in AUS, especially for lower-income individuals
- Lower benefits in UK for both middle- and higher-income levels

Retirement Readiness

Fundamental question

Recognizing important differences across the three countries generally, are there profound differences in the perceptions of planning for a secure retirement?

Retirement Readiness

Data and Methodology

Survey sample, questions,
and categories



Survey sample

- ❑ Polled representative samples of working-age (18–64) men and women in AUS, UK, and US
- ❑ Results analyzed by country, age, gender, and income levels

Retirement Readiness

Survey questions

- ❑ Survey consisted of 16 multiple-choice retirement readiness questions, plus demographic questions

Sample question:

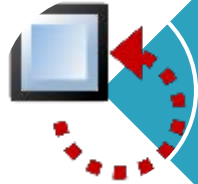
For the following question, please think about what lifestyle you think you would be able to lead based on your total retirement savings that you expect to have when you retire, rather than the lifestyle you would like to have.

(Please select the one closest to your opinion)

- A. Flourishing lifestyle
- B. Comfortable lifestyle
- C. Modest lifestyle
- D. Poor lifestyle
- E. Don't know/unsure

Retirement Readiness

Questions mapped into three categories of retirement readiness:



The retirement transformation



Preparing for retirement



Ability to address retirement risks

Retirement readiness

Results

Transformation,
preparedness, risks



Retirement transformation elements

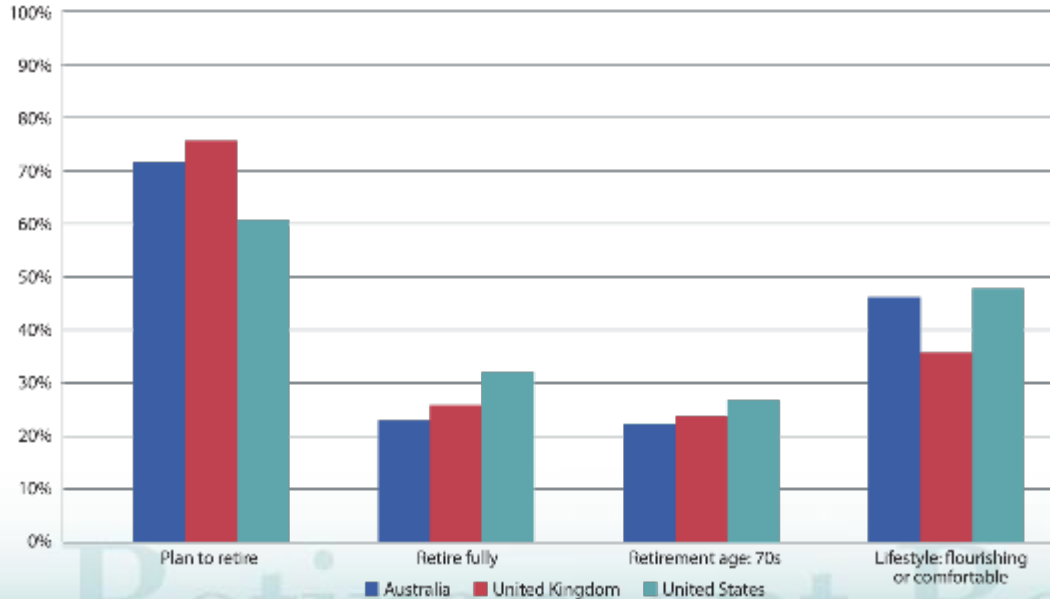
- ❑ **Planning to retire** – keep working or retire at some point in time
- ❑ **Planning to fully retire** – fully versus gradually
- ❑ **Age at retirement** – further analyzed results for those targeting their 70s or later
- ❑ **Lifestyle expectations in retirement** – flourishing, comfortable, modest, or poor
- ❑ **Sources of expected income** – government, employer, personal, home, family, other

Retirement Readiness

Retirement transformation results

People are retiring later, with less confidence, and lower expectations

FIGURE 1.1
Retirement Expectations

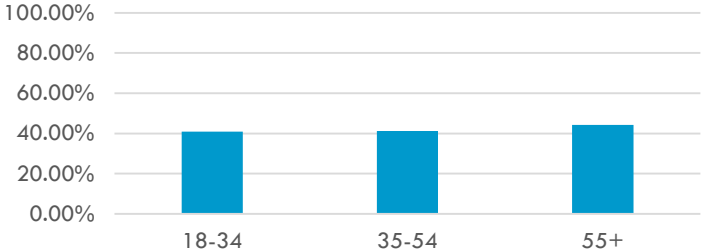


- 30% plan to keep working with no set retirement date
- Of the 70% who plan to retire, 73% plan to retire gradually
- Less than 50% in all three countries expecting a comfortable retirement
- Expectations about government-provided programs are lower for younger respondents (see Figure 1.2a in the October 2017 paper)

Retirement Transformation Results

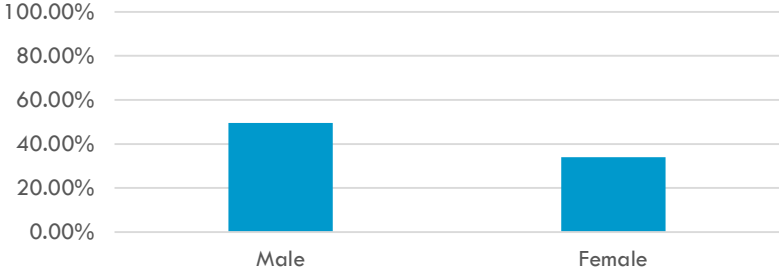
AGE Lifestyle:

Flourishing or Comfortable



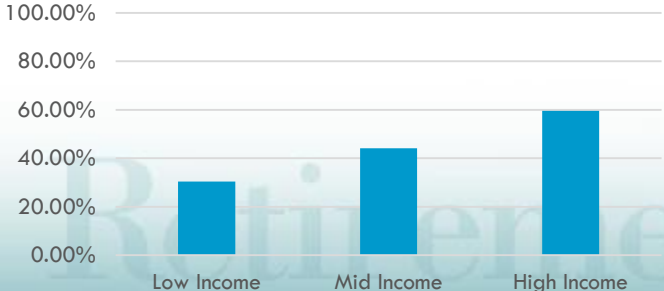
GENDER Lifestyle:

Flourishing or Comfortable



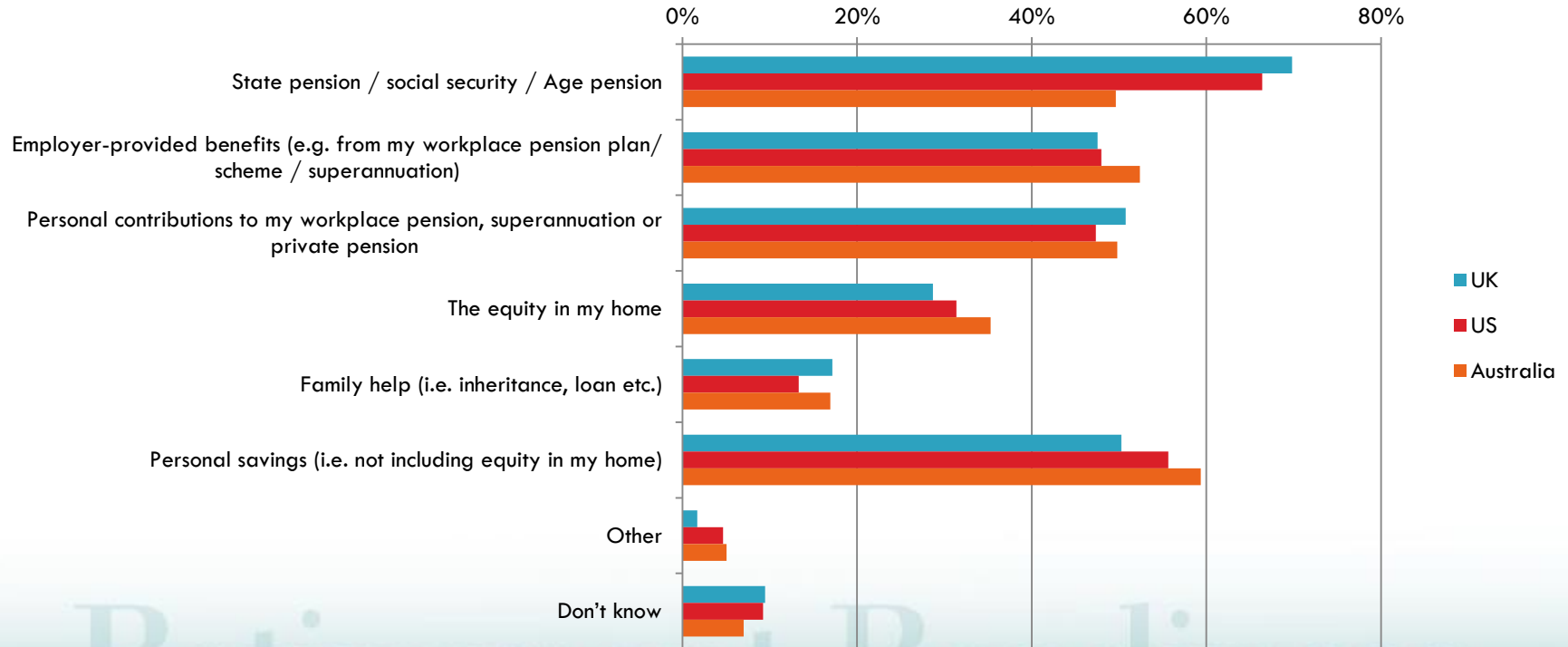
INCOME Lifestyle:

Flourishing or Comfortable



Results are generally similar across age but differ for income and gender

Sources of Income

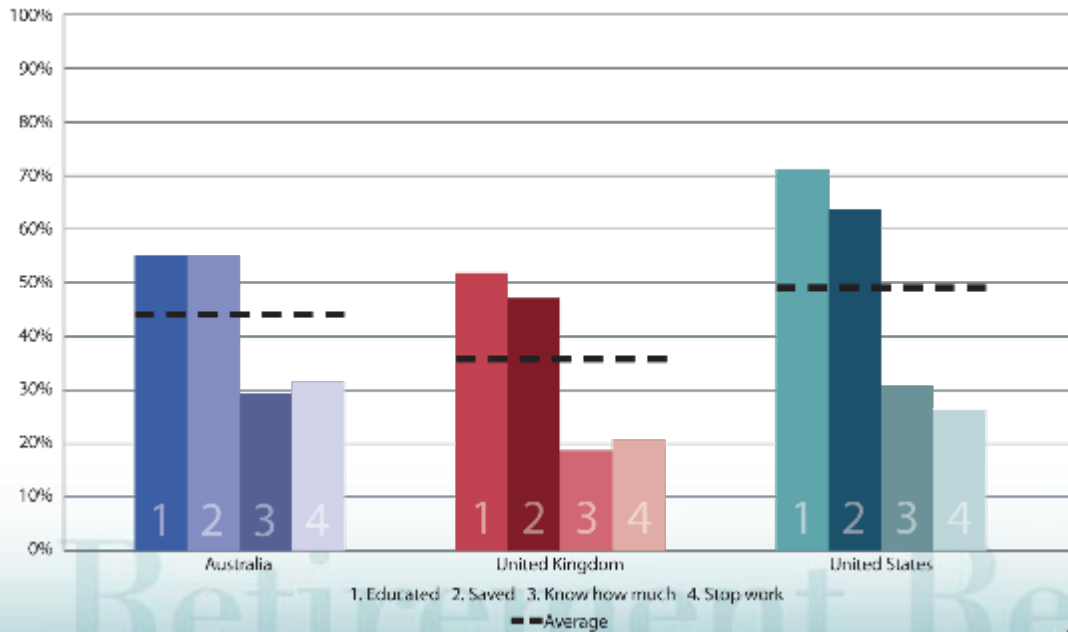


Retirement Readiness

Preparing to retire results

About 40% of all respondents are not preparing adequately for retirement

FIGURE 2.1
Preparing to Retire—By Location

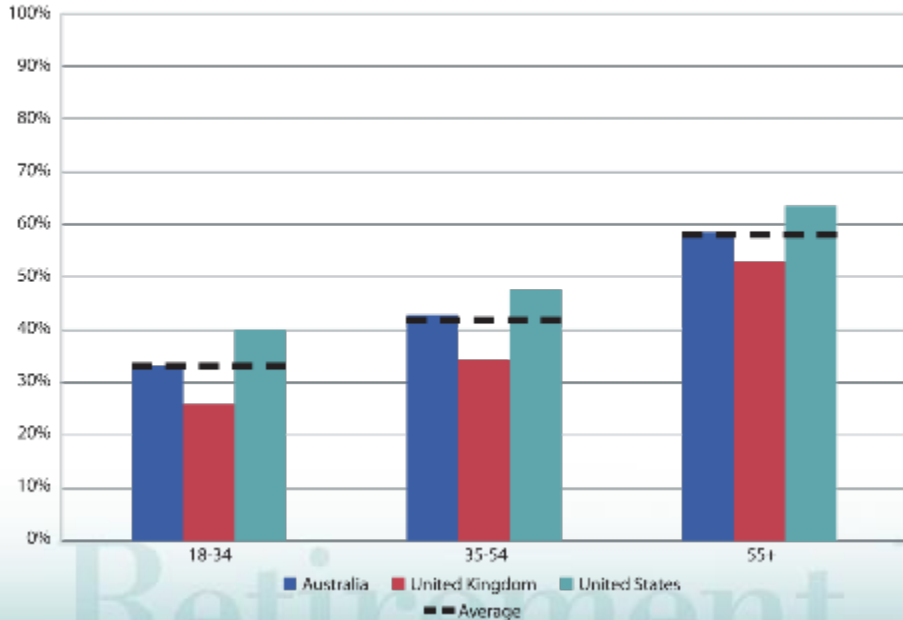


- In every country more than half claim to have done something to learn about saving for retirement
- Results are less favorable when people are asked about how much they should be saving
- There is a sizeable gap between the UK and AUS/US in the area of retirement preparation

Preparing to retire results

Those closest to retirement are more focused on preparations

FIGURE 2.2
Preparing to Retire—By Age



- Middle aged and younger age respondents are similarly ill-prepared for retirement
- With respect to age and gender, women are less prepared than men, even at younger ages
- Preparing for retirement also increases with income, with more than half in the middle income range not preparing to retire

Retirement risk elements

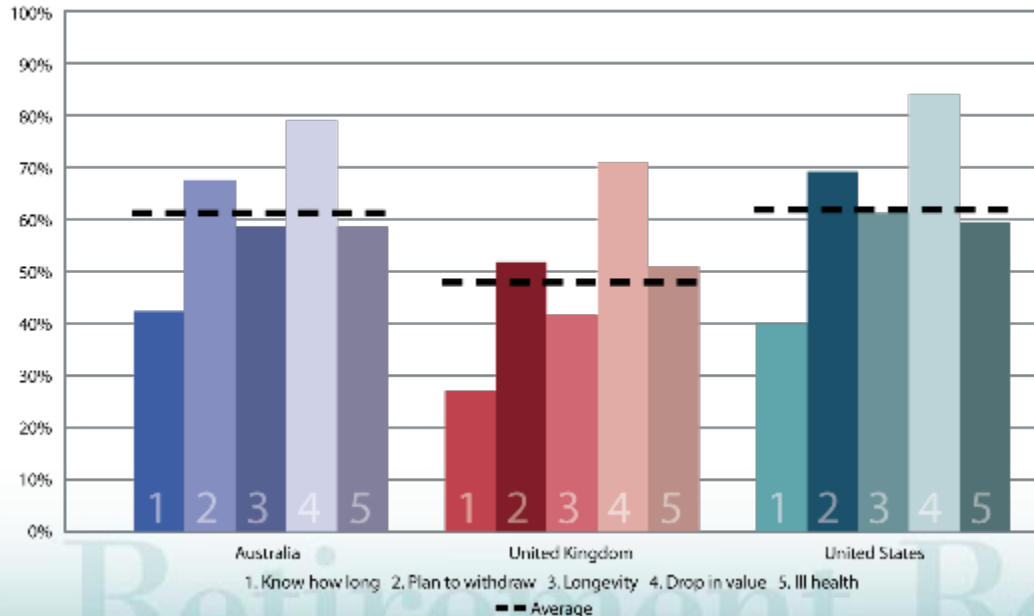
- ❑ **Understanding (know how long) –**
Knowing how long money will last
- ❑ **Preparing (plan to withdraw) –**
Having a plan to spend down assets
- ❑ **Mortality (longevity) –**
Planning for living longer than expected
- ❑ **Investing (drop in value) –**
Planning for a drop in asset values
- ❑ **Morbidity (ill health) –**
Planning for chronic ill health

Retirement Readiness

Retirement risks results

Similar pattern across all three countries—few prepared for retirement risks

FIGURE 3.1
Preparing for Retirement Risks

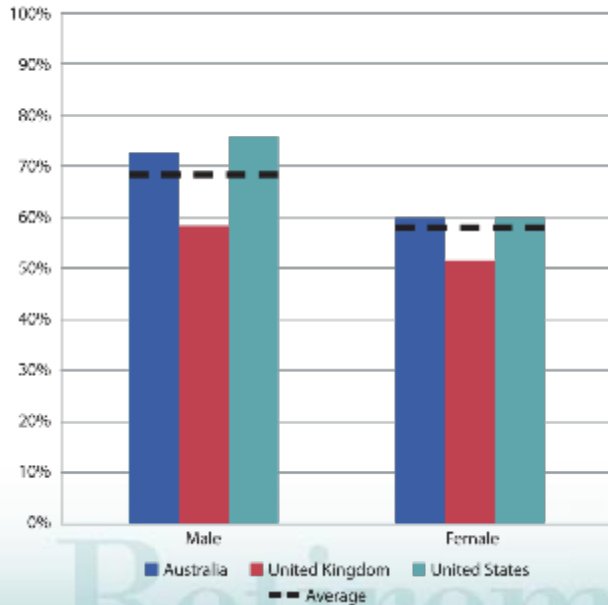


- Higher percentages in AUS and US show evidence of greater preparedness than the UK
- Many understand the implications of a drop in asset values, but expect to return to work as a solution (which may not be an option)

Retirement risks results

In all three countries, women indicated they were less prepared for retirement risks than men

FIGURE 3.4
Preparing for Retirement Risks—By Gender



- Question – are women less prepared or are gender roles shaping both male and female responses?
- This gender difference (men better prepared than women) was evident even for the 18-34 age groups (see Figure 3.5 in the October 2017 paper)
- With respect to age, there was little variation in retirement preparedness (see Figure 3.2 in the October 2017 paper)

Summary

Conclusions, recommendations



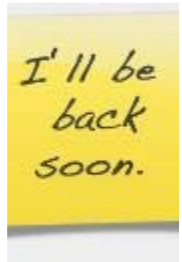
Conclusions



Low expectations and preparation across all three countries



Most plan to retire gradually, not fully, & few expect a comfortable lifestyle in retirement



Best results relate to saving, acquiring information, and planning to return to work



Largest deficiency in knowing how much is needed, how long it will last, and preparing for risks

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Conclusions (continued)



Middle-aged and middle-income respondents feel less prepared



All three countries show a lack of retirement readiness



Women less ready than men?



Are some groups more candid?



Changes have been made; the jury is out

Retirement Readiness

Recommendations for policy initiatives

Default/nudge options –

to reflect behavioral drivers, align with recent program developments (emerging priority – lifetime income solutions)

Public pension/social insurance –


continually update, review, and refresh the adequacy and sustainability

Financial education –

targeted approaches based on age, gender, and income

Retirement Readiness

Optimal area of focus for policy efforts

High Income (top 20%)	In general, the higher income group has more resources to address retirement readiness		
Middle Income (middle 40%)			
Lower Income (lowest 40%)	In general, the lower income group will rely more on social programs and safety nets		
	Young (18-34)	Middle Age (35-54)	Older (55-64)

Younger population has more time to figure it out
(but the sooner, the better)

The older population does not have much time to make up for the lack of preparedness

Retirement Readiness

Country-specific lens...



- ❑ Least likely to be putting away personal savings for retirement
- ❑ Most likely to be relying on the State
- ❑ Expectations of occupational pensions was similar in all three countries

Policy suggests the State wants UK citizens to take greater responsibility – is there a way for occupational schemes to play a pivotal role?

Retirement Readiness

Country-specific lens...



- ❑ Social Security program projected to run short by 2034
- ❑ Tax reform currently underway – possible impact on retirement?
- ❑ Acknowledgment of access issues
- ❑ Automatic features continue to evolve

Concern about disjointed and piecemeal policy decisions being made without a clear roadmap

Retirement “crisis” or retirement “challenge” – is retirement security on the horizon?

- ❑ 3 countries, 3 cultures, 3 approaches — but similar outcomes
- ❑ Strongest common link is that we are all subject to the same human behaviors that influence retirement planning
- ❑ Solutions must reflect existing frameworks
- ❑ Policymakers and employers can play important roles
- ❑ All three countries have made changes
- ❑ Progress is possible, necessary, and critical

Retirement Readiness

A Comparative Analysis of Australia,
the United Kingdom & the United States



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Questions?

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