

RETIREMENT READINESS IN THREE COUNTRIES – WHO IS READY TO RETIRE?



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

Retirement Readiness



The Academy

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Agenda

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

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Headlines

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- ❑ 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



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Introduction

Background,
comparisons,
fundamental question,
components



Background

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- ❑ 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

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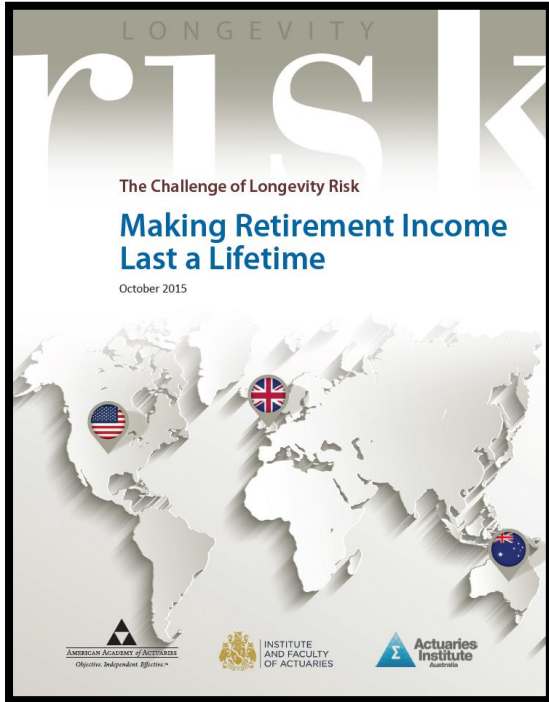
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Making Retirement Income Last a Lifetime

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October 2015



See our prior white paper:
***The Challenge of Longevity
Risk: Making Retirement
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Comparative Demographics

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	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

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Comparative Cultures

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

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

- 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)

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Approaches to retirement security

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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

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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

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Fundamental question

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



Data and Methodology

Survey sample, questions, and categories



Survey sample

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- ❑ 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



Survey questions

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- ❑ 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

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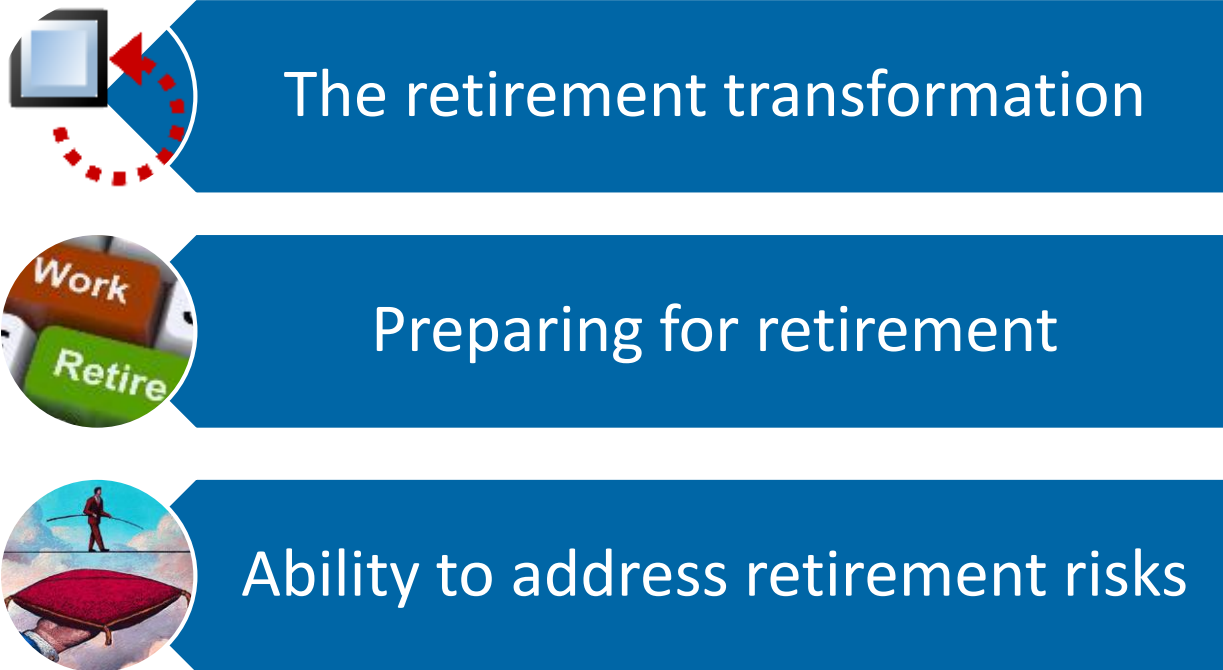
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Questions mapped into three categories of retirement readiness:

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Results

Transformation,
preparedness, risks



Retirement transformation elements



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

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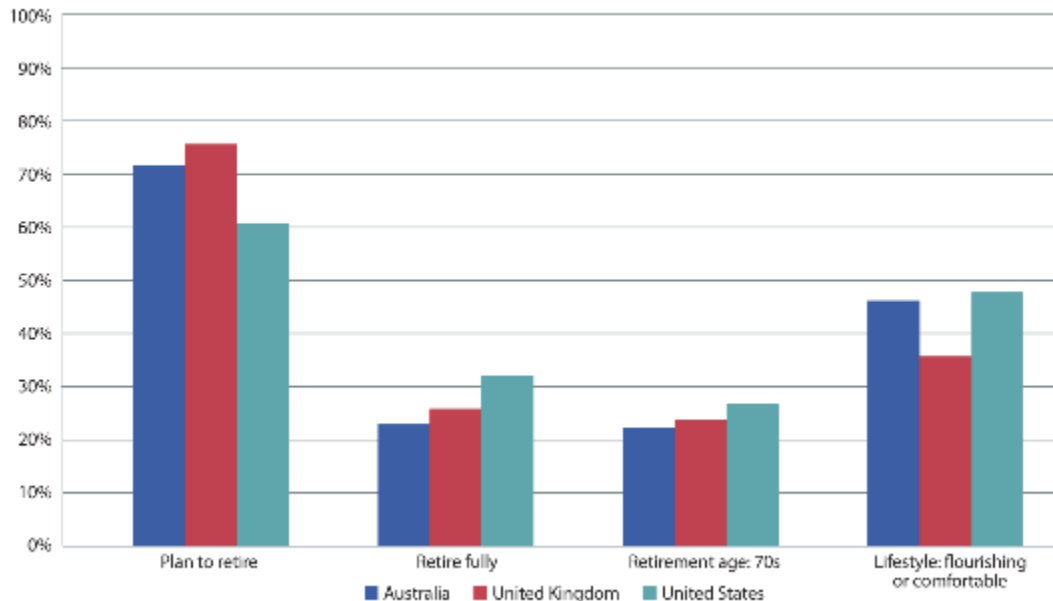
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Retirement transformation results

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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)

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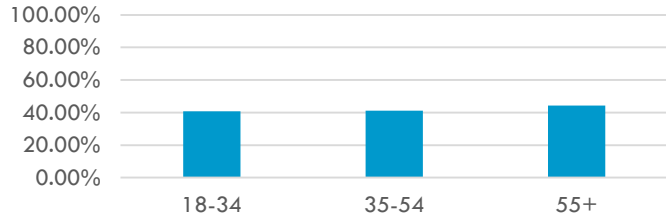
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Retirement transformation results

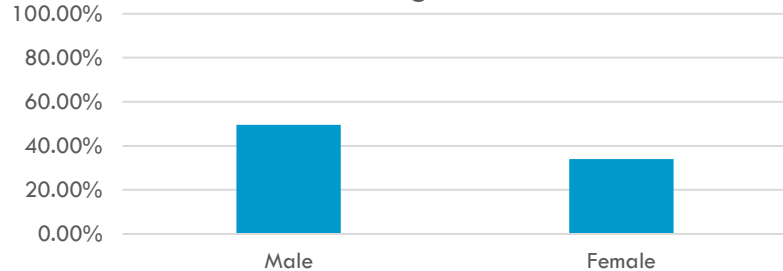
AGE Lifestyle:

Flourishing or Comfortable



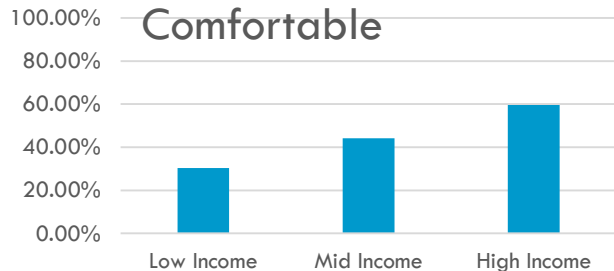
GENDER Lifestyle:

Flourishing or Comfortable



INCOME Lifestyle:

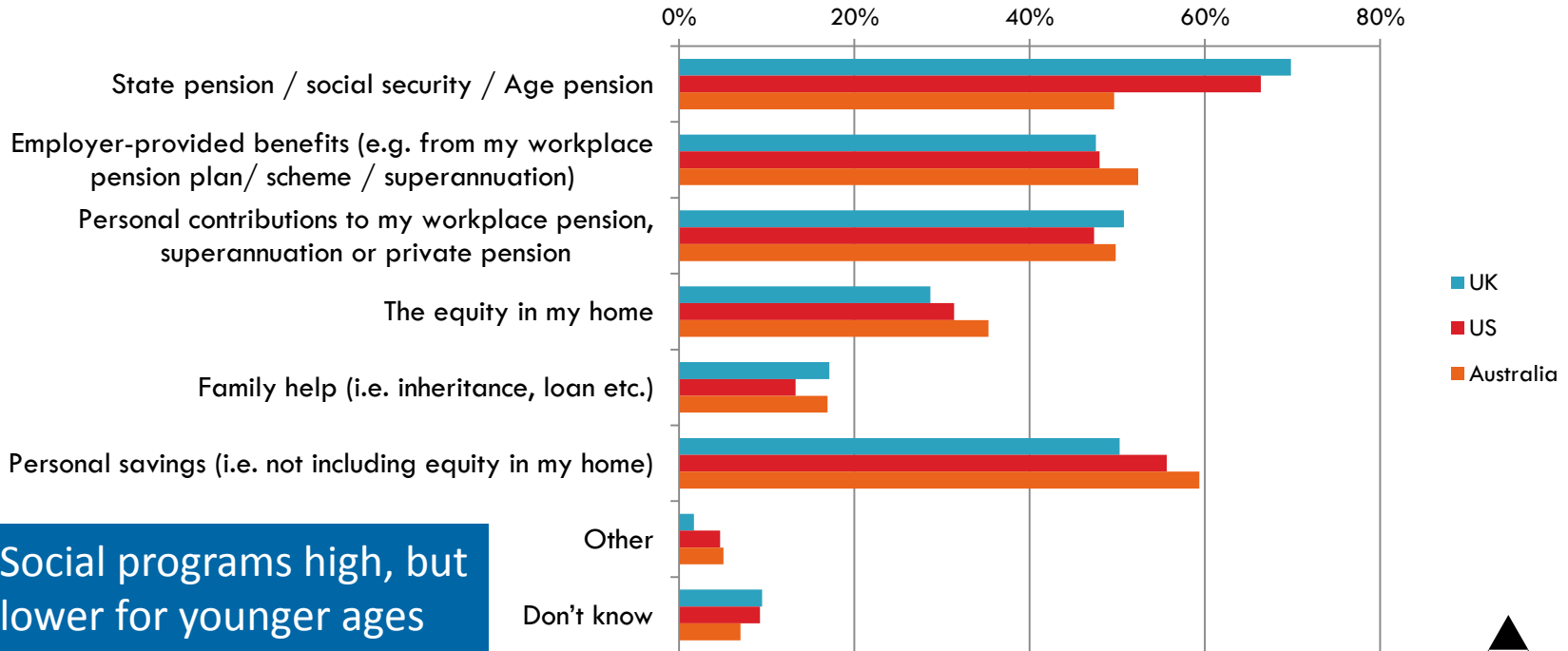
Flourishing or Comfortable



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



Sources of income



Social programs high, but lower for younger ages

Preparing for retirement elements



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- ❑ **Educated** – efforts to educate and inform oneself about retirement
- ❑ **Saved** – actively saving for retirement
- ❑ **Know how much** – aware of how much is needed to meet retirement goals
- ❑ **Stop work** – ready to face an unexpected early retirement

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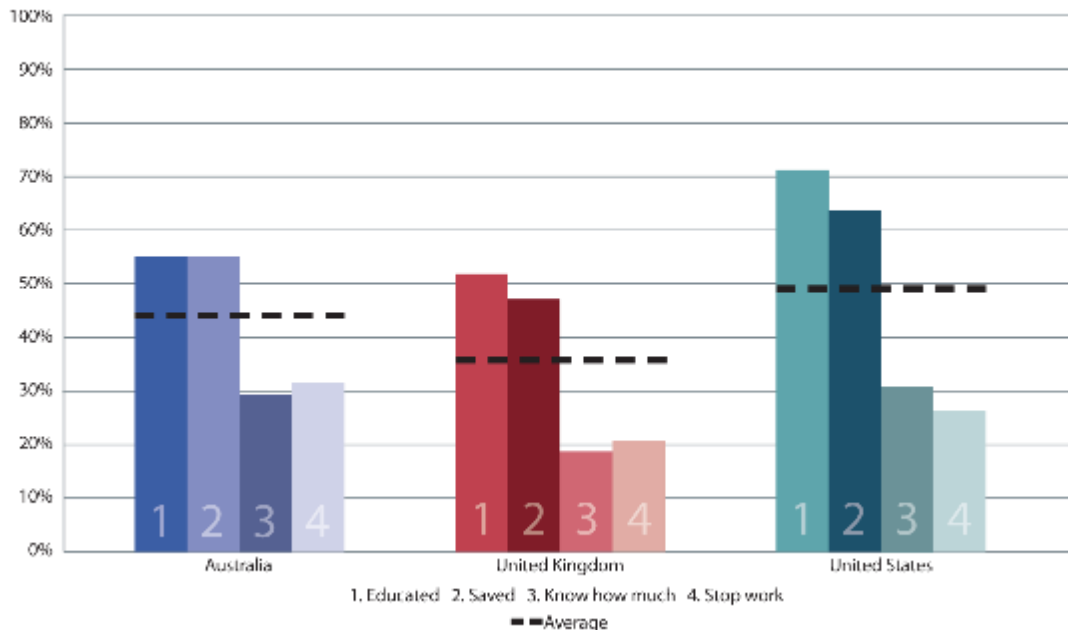
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Preparing for retirement results

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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

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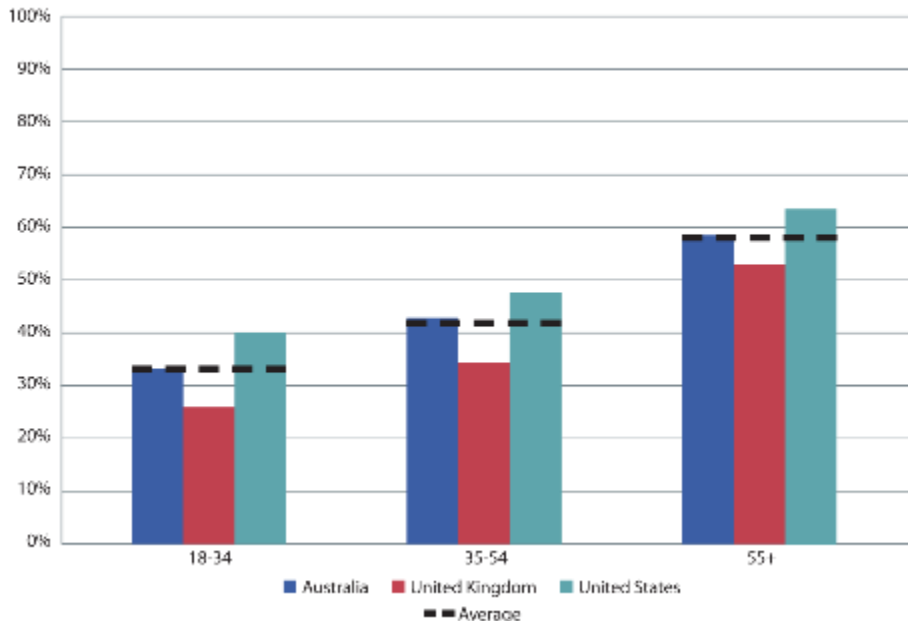
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Preparing for retirement results

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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

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Retirement risk elements



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- ❑ **Know how long** – knowing how long money will last
- ❑ **Plan to withdraw** – having a plan to spend down assets
- ❑ **Longevity** – planning for living longer than expected
- ❑ **Drop in value** – planning for a drop in asset values
- ❑ **Ill health** – planning for chronic ill health

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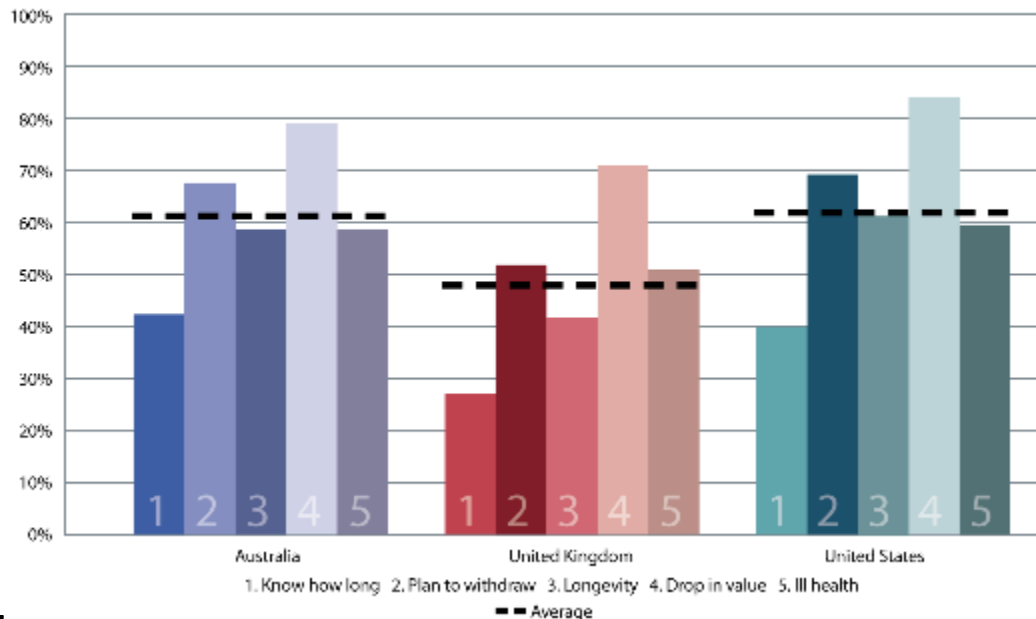
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Retirement risks results

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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)

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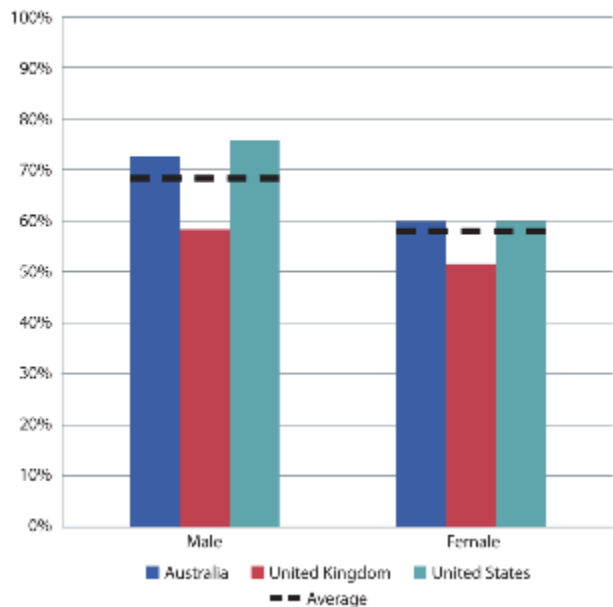
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Retirement risks results

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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)

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Summary

Conclusions,
recommendations

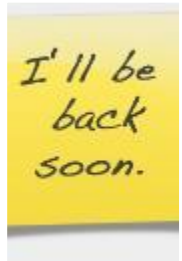


Conclusions

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Low expectations and preparation across all three countries



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



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



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

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Conclusions (continued)

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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

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Recommendations for policy initiatives

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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

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

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- ❑ 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 continue to make changes
- ❑ Progress is possible, necessary, and critical



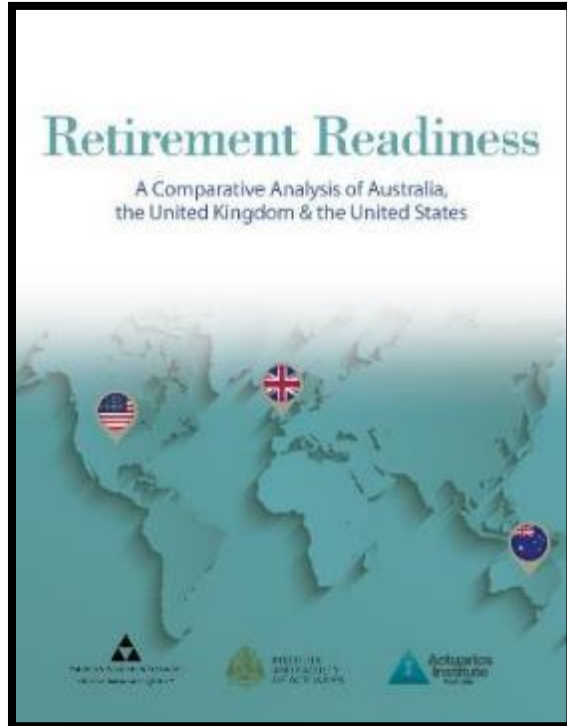
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For the full report...

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[Retirement Readiness](#)

Questions?

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