

International Retirement Security Survey

July 2005

Executive Summary

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Executive Summary

Executive Summary

Background

- Income security during retirement is an increasingly important international issue in light of population aging, shrinking or slowly growing populations of working age, and public pension systems under stress. Life expectancy has been increasing, and, when coupled with early exit from the labor force, is resulting in longer periods of time spent in retirement. This period of retirement brings with it a significant international public policy challenge in ensuring that individuals have sufficient income security to live comfortably throughout their retirement years.
- Retirement income typically comes from three sources, although different countries rely more on some sources than others. One source is public funding, designed to guarantee through governmental transfers a minimum income standard during retirement. Another source consists of employer-provided pensions, while still another consists of private household savings.
- At the same time, the retirement income systems currently in place are impacted by demographic forces such as the sheer number of individuals who will be retiring, the large increases in older-age life expectancy throughout many developed countries, and declining ratios of workers to retirees. They are also impacted by economic forces such as rising health care costs. For individuals, longer retirements mean stretching savings over more years. For society, they also mean that public pension and health benefits must also be paid for more years.

Executive Summary

- To explore the issues central to retirement income security across various countries, AARP designed an International Retirement Security Survey. This survey examines key issues in retirement security across ten developed countries selected especially for their varying emphasis on the three potential sources of retirement income. These sources provide the income that, along with health care benefits and long-term care, foster economic security in old age. With this survey, we examine opinions about retirement security in the United States, Canada, Australia, Japan, Germany, France, Italy, the United Kingdom, Sweden and the Netherlands. Slightly over 4,000 respondents were included in this telephone survey (approximately 400 in each country) which was administered for AARP by Harris Interactive, an international research organization with field offices in each country used in this study.¹
- The primary goal of this study is to improve our understanding of attitudes and behaviors surrounding personal and national retirement issues, and to assess the public's confidence in having sufficient income to retire comfortably, attend to their health and long-term care needs, and live securely after leaving the workforce.

¹ The AARP International Retirement Security Survey used a target audience consisting of the general population age 30 to 65. Fieldwork was conducted from May 9th to June 2nd, 2005. Interviews were completed using computer-assisted telephone interviewing (CATI), and ranged from 18-20 minutes in length.

Executive Summary



Key Results

Guarded optimism, limited thought about retirement issues, a feeling of being less than fully informed about retirement, a lack of confidence in what government can provide in the future, and a belief in shared responsibility for retirement provision characterize attitudes toward retirement among the majority of adults across all ten countries.

Guarded Optimism About Retirement

When respondents were asked about their general optimism about retirement, in the aggregate we found guarded optimism to be the predominant outlook, with only 16% very optimistic, two out of five (41%) at least somewhat optimistic, and two in five (39%) somewhat or very pessimistic. The results, however, varied by the following demographic factors:

- Employment status: Those who are already retired express the most optimism (65% somewhat or very optimistic), followed by those who are employed (56%). Less than half of those who are not working express optimism toward their retirement (49%).
- Income: Respondents with higher incomes are more optimistic toward retirement than those with lower incomes (67% who earn \$40,000 or more per year are optimistic, versus 55% who earn less than \$40,000 being optimistic).
- Age: Respondents ages 45 to 65 are more optimistic than respondents ages 30 to 44 (59% versus 53%).
- Marital status: Those who are married show more optimism about their retirement than those who are not married (60% versus 50%).
- Education: Individuals who have obtained at least a college degree are somewhat more optimistic than those who do not have a college degree (61% versus 55%).

Executive Summary

- Optimism toward retirement also varies quite substantially by country. In the United States, Canada, the United Kingdom, Australia and Japan, at least six in ten are optimistic about their retirement. Australians and Canadians are the most optimistic, with over three in four (77%) saying they are optimistic when they think about their retirement. By contrast, in Germany, France and Italy, only slightly over one-third say they are optimistic about retirement.

Thinking About Retirement

- More than half of individuals across all countries (58%) have given retirement at least some thought, and one in four (25%) have given it a great deal of thought. However, nearly one in five (17%) have given *no thought at all* to retirement. Significant differences are also evident by employment status, where only half of those who are currently *not* working have given retirement at least some thought.
- How much someone has thought about retirement also varies dramatically by country, with 44% giving retirement *a lot* of thought in both the US and Germany (73% have given retirement at least *some* thought in these two countries), while only 12% of respondents in Italy and Sweden have thought *a lot* about their retirement (and less than half have given retirement at least *some* thought).

Executive Summary

- Thinking about retirement does not necessarily correlate with expectations. Interestingly, Americans and Canadians have given their retirement more thought and are also relatively optimistic, whereas Germans have also thought about it a great deal yet report significantly lower levels of optimism about their retirement.

Information About Retirement

- On the whole, respondents do not feel very well informed about the things they need for a happy and successful retirement. Only one in four (25%) rate their level of information at an “8” or more on a 10-point scale where 10 represented “extremely well informed” and 0 “not at all informed.” The average rating for how informed people are about what they need for a happy retirement is a lukewarm 5.7. These results vary by employment status: current retirees more often say they feel informed (mean of 6.2) than do the employed (5.7). Those not working are even less likely to feel informed (5.0).
- Perceived information levels vary by country, led by the US, where 40% rate their information level at an “8” or higher on a ten-point scale. Canadians feel nearly as well informed, with 37% rating their information level at an “8” or higher. Residents of Japan, Sweden, France, and Italy report being much less informed about the things they need for a happy and successful retirement, with less than 20% of individuals in these countries providing ratings of “8” or higher. Notably, in Japan, only slightly more than one in ten respondents (11%) provide these high ratings when asked how informed they are about retirement issues.

Executive Summary

Expected Sources of Income in Retirement

- Despite the current and anticipated financial and demographic pressures on public pension systems in many developed countries, and the likelihood that these systems in their current forms may not be financially sustainable, residents of these countries have high expectations regarding the public pensions. The public pension systems are seen as a critical retirement income source, with 42% of the respondents expecting them to be a major source of their retirement income and another 39% expecting them to be a minor source of income. In sum, over four in five individuals (81%) are counting on a public pension as a source of income when they retire.
- After public pensions, employer-provided/occupational pensions (28%), earnings from employment (26%), workplace retirement savings programs (26%) and other personal savings (25%) are most commonly expected to be major retirement income sources.
- Notably, our results show that few believe inheritance (7%) and family support (4%) will be a major income source when they retire.
- Some variations in income sources by country are evident. In four countries (Germany, Italy, Netherlands, and Sweden), public pensions are expected to be the primary retirement income source. In the US, UK, and Australia, however, workplace retirement savings programs are seen as primary by more people. In no country do more than ten percent of the residents see family support as a major source of income, nor is inheritance expected to play a major role.

Executive Summary

- In response to a related question, which asked which source will provide the *largest share* of income in retirement, public pensions were again rated the highest, with 34 percent saying they would. No other option was selected by more than 14 percent of respondents.

Retirement Income Adequacy

- People in the developed countries are living longer than ever before. In the eight European and North American countries surveyed, for example, (France, Germany, Italy, Canada, The United States, The United Kingdom, Sweden, and The Netherlands) the average life expectancy at 65 ranges from 18-21 years for women, and from 14-17 years for men. The fact that these are average life expectancies means that many persons will live well beyond these average life expectancies. It is anticipated that advances in health care and living standards will continue to increase these life expectancies in the future.
- To assure adequate income for retirement, with many people retiring in their early 60s if not earlier, people should thus be planning for living 25 or more years after they retire. How confident are people that they can live comfortably for these years? Our study shows that confidence in the adequacy of retirement income is very limited. More than two in five respondents (43%) are not confident that they will have enough money to live comfortably in retirement for at least 25 years. Conversely, a mere 15% report that they are very confident they will have enough money for a comfortable retirement. These figures match closely those dealing more generally with retirement optimism; as noted above, only 16% report being very optimistic about their retirement.

Executive Summary

- Confidence about having enough money for retirement varies country. In Canada, fully 71 percent are somewhat (46%) or very (25%) confident that they will have enough money to live for 25 or more years after retirement, followed by the Netherlands (70% somewhat or very confident), the US (at 68%), and Australia (at 64%). In half the countries surveyed, however, (Germany, France, Italy, Sweden, and Japan) those who are confident are in the minority. Italians are the least confident, with only one in three stating that they will have enough money to retire comfortably for 25 years or more.

Current Health Status

- One's overall state of health and access to affordable quality health care are also important factors contributing to confidence about retirement and quality of life in retirement. Many respondents feel good about their health status, with 50% rating it either excellent or very good, and another 31% rating it good. As with the economic indicators, these percentages vary by employment status and by country.
- Employed individuals show significantly higher self-reported ratings of their current health status than the retired and non-working, with nearly nine in ten (87%) rating their health at least "good". At most seven in ten of the retired and non-working say their current health status is at least "good". Age and income are also factors when it comes to self-reported health. One-quarter of the residents ages 45 to 65 in the 10 countries consider themselves to be in "fair" or "poor" health, compared to only 13% of the younger cohort. Additionally, those with higher income (\$40K and over) report that they are in better health than those earning less than \$40K.

Executive Summary

- Comparisons across countries also show differences in self-reported health status, with Australians (83% excellent/very good) providing the highest ratings, followed by Canada (62%), the US (61%), and the UK (56%). Italians (17%), Germans (38%), the Japanese (38%) and the French (39%) are significantly less positive about their health.

Health Care Concerns in Retirement: Paying for Long Term Care

- All ten countries in our study have a national health care insurance system for retirees and all ten share similar concerns about rising health care costs. This is especially noteworthy in the wake of the changing demographics, where people are living longer and thus increasing the probability that they will require health and long-term care in their retirement years.
- In this study, respondents generally express some confidence in having access to quality health care in retirement (64%), being able to pay for medical expenses (70%), being able to pay for prescription drugs (71%), and expecting good health throughout their retirement (65%).
- In comparison, fewer feel they will be able to pay for *long term care* (55%) such as nursing home or home health care should they need it during their retirement. The lack of confidence about having enough money for long term care can be found across all of the countries surveyed. In three countries, in particular, fewer than half of respondents express this confidence: the UK, Germany, and Italy. In fact, in all ten countries, the level of confidence expressed regarding ability to pay for long-term care is the lowest of the five health-related questions presented in this general category.

Executive Summary

Sources of Health Care Financing

- As was the case with retirement income, respondents believe that government-sponsored health care programs will play the primary role in funding their health care costs during retirement. Almost half of all respondents (47%) feel these programs will pay for all or most of their health care in retirement, with only 17% seeing no role for this funding source. Nonetheless, about one in three respondents (35%) believe that most or all of their health care costs during retirement will be paid from their own savings. In line with the previously reported low rating of family as a major income source in retirement, very few believe that their family or a caretaker would pay all (5%) or most (7%) of their health care costs in retirement.
- Italians and Germans are most likely to see government sources paying some or all of their health care costs during retirement (71% and 58%, respectively), whereas few Americans (29%) believe the government will pay most or all of these expenses.
- Surprisingly, nearly one in three Americans (31%) say that government-sponsored health care will pay *none* of their health care costs in retirement, despite the presence of Medicare and Medicaid and the role these programs play in covering current health care costs of older persons in the US.

Executive Summary

Confidence in Government

- Despite the expectation of at least some government support in the areas of retirement income and health care, residents of all of these countries are consistent regarding their lack of confidence in the *ability* of their governments to provide these benefits in the future.
- With regard to health care, there is limited trust in the government's current ability to provide even current retirees with health care benefits. The overall rating of trust in the current system is at an average of 4.5 on a 10 point scale (with 10 representing "total trust" and 0 representing "absolutely no trust"). Trust is even lower when it comes to covering future retirees' health care benefits. This received an average rating of only 3.8 on the 10 point scale.
- Trust in government's current ability to pay the public pensions of current retirees is only slightly higher (an average rating of 5.0), but trust in its ability to pay public pensions in the future declines to an average of only 3.9 (a drop of 1.1 points).
- While there are differences across countries, respondents in every country have less trust that their government will be able to pay retiree health benefits or public pension benefits to future retirees. With regard to public pension benefits, the declines range from .8 (Canada, Japan and Italy) to larger drops in Sweden (1.6), France (1.4), the US (1.3), Australia (1.2), Germany (1.1). The survey also suggests that people who reside in countries that have undergone substantial pension reforms may be less trustful that their government will be able to pay retiree benefits than people in countries that have not experienced such changes.

Executive Summary

- In addition to the lack of trust in the government's ability to pay for current – and especially future – retiree benefits, public pensions are not regarded as providing a very adequate retirement income. This finding is consistent from a public policy perspective, given that in many instances public pensions are designed to serve as only one of the three major sources of retirement income and security. Our study found that a large percentage of individuals (42%) expect public pensions to be a *major* source of their retirement income. Can retirees live comfortably on these pensions? Our results show that only one out of five respondents (20%) feel the public pensions in their countries enable people to live comfortably in retirement. In contrast, over three in four respondents (77%) say that retirees cannot live comfortably on public pensions. Far more feel this way in Japan (90%), and nearly as many do in the United States (85%), Italy (83%), and the UK (81%). These opinions are held regardless of income, age, marital status, or level of education.

Work and Retirement

- While retirement is typically viewed as a time to stop working completely, less than one out of three respondents (31%) across all countries in this study plan to do that. Italians (53%) are the most likely to say they expect to stop working; in fact, Italy is the only country in which a majority plan to stop work completely. The US has the lowest percentage of individuals who plan to stop working completely when retired (14%); the most frequently mentioned retirement activity for US respondents is working part-time (34%). Across all countries, the more frequently mentioned options include working part time (19%), alternating between periods of work and leisure (16%), and volunteering (17%).

Executive Summary

- Why do people wish to continue to work after retirement? Interestingly, money is not the prime motivator, coming in third among four options presented; only four in ten (37%) rate “money” as being “very important” in their post-retirement employment plans. The primary reasons people expect to work after retiring is that they want to stay involved and connected (45%) and they enjoy work (43%). These reasons for working after retirement are of nearly equal value to employed individuals, those who are not currently working, and current retirees.

Policy Solutions to Retirement Challenges: An Emerging Consensus

- A major international political challenge concerns how countries will adapt their current income security and health insurance systems to meet the needs of future retirees. Is saving for retirement an individual responsibility, or is there an essential role for government? Who is responsible for supporting those who are retired? When we asked about this, we found a consensus that there is a shared responsibility for retirement income support between government, employers, and individuals themselves, with government most often seen as having the primary responsibility. More than nine in ten respondents (94%) believe that government programs have at least some responsibility in supporting retirees, with 43% contending government has the primary responsibility, and 51% saying that it has some responsibility. About one in three (34%) say that individuals themselves should bear the primary responsibility for supporting themselves when retired, followed by one in five (19%) who feel that employer-based programs should bear this responsibility.

Executive Summary

- In half of the countries, namely Italy, Sweden, Japan, France and Germany, the prevailing opinion is that government should be primarily responsible, whereas in the remaining countries, respondents are more likely to believe that government should bear some of the responsibility. Nonetheless, government programs receive the highest ratings across all countries.

Policy Solutions

- Re-examining policy options to assure retirement security should involve a national discussion about what people want from their government and how much they are willing to pay. To examine public opinion about various options that would ease the stress on public pension systems, we presented a list of options and asked them to choose which ones they found acceptable, and to what degree they would be acceptable.
- By a substantial margin, raising the taxes of higher paid workers is generally seen as the most acceptable choice for the government to make in order to maintain public pension funds; two out of three respondents (68%) rate this alternative at least “somewhat acceptable”. In the aggregate, moderate acceptability is also found for increasing the size of the labor force by allowing more immigrants into the country to work (49%) and for shifting to private savings accounts (49%). The least acceptable choice is to raise the retirement age required to qualify for public pensions, with only one in three (33%) saying this alternative is at least somewhat acceptable. Significant cross-country differences in support for the options emerged.
- The United States and France are the countries least open to increasing the size of the labor force by allowing more immigrants into the country to work; less than one-third in these countries find this option acceptable (32% in US and 30% in France). Conversely, more than four in five Swedish respondents (78%) say this option acceptable.

Executive Summary

- Increasing the retirement age required to qualify for public pensions is unacceptable to the majority of respondents in each country surveyed. With fewer than half in any country reporting that this alternative is acceptable. Germans, however, find this to be a more acceptable option (48%) than residents of any other country.
- Italians and the Japanese are the least open to increasing future retirement benefits at a lower rate than currently provided for. Less than a third of people in each of these two countries find this option acceptable, compared to slightly over one half in the US (55%) and the Netherlands (52%).
- Shifting to private savings accounts was rated as at least somewhat acceptable most often by France (61%) and the US (56%), and least often by Australia (35%) and Italy (38%).
- Differences in policy option acceptability are also found by education level, with respondents who have college degrees far more likely to accept allowing more immigrants into the country to work (62% versus 43% in favor). Those with college educations are also more likely to accept raising the retirement age required to receive benefits (40% versus 30%), shifting to private accounts (55% versus 47%), and raising taxes for everyone in the workforce (43% versus 35%).

Executive Summary

The Public Challenge to Policy Makers

- Our results show a disturbing lack of confidence in the government's ability to pay public pensions. While a large percentage of our respondents expect to rely on public pensions as a major source of income during their retirement, the overall level of trust that they have in their government's ability to pay public pensions to current and future retirees is greatly lacking. Overall, only 17% of the total respondents rated their trust in the government's ability to pay benefits to current retirees as an "8" or higher on a ten-point scale. Only seven percent of total respondents rated their trust in their government's ability to pay future pensions as "8" or higher.
- This lack of confidence has been found not only among the general public. A recent AARP study of opinion leaders² in G7 countries found that over half (56%) of the leaders surveyed do not feel their nations' public pensions/retirement benefits will enable the average retiree to live comfortably in retirement. Opinion leaders in Italy, Canada, and the UK were the least confident that retiree's pension benefits would be sufficient for an older person to live comfortably.

Concluding comments

- Global increases in longevity and rising health care costs mean that government spending for retirement and health programs will put increasing pressure on government budgets. The findings of this survey show that people in ten developed countries view their retirement with guarded optimism. A surprising number, however, have given their retirement little or no thought, and a large proportion do not feel very well informed about the things they need for a happy and successful retirement. Many persons polled in the study also expect that public pensions and health care benefits will play a primary role for their retirement security. Yet, they lack confidence that their governments will be able to provide these benefits in the future. Many are therefore not confident that they will have enough money to live comfortably through retirement.

² 2004 International Opinion Leader Study on Global Aging; AARP.

Executive Summary

- The study shows that while attitudes toward retirement differ considerably from country to country, there are some areas of consensus regarding the challenges. While the findings reveal substantial challenges, they also suggest potential remedies. Large percentages of adults in all countries expect some level of work to be a part of their retirement years, so increased opportunities for the employment of older persons could benefit both older persons and the economies in which they work. Respondents also see more taxes from higher income persons to support public pension systems as an acceptable remedy to the fiscal strains these systems face. And finally, the lack of information noted by many respondents represents an opportunity for public education campaigns to help individuals themselves better prepare for their retirement.
- The overall challenge for all governments will be to make a genuine effort to promote greater understanding of retirement security issues, open a real debate, engage their citizens in finding and agreeing to solutions, and to close the gaps between the current situation, the future outlook, and the preferences and expectations of their populations. While the citizens in these countries do not view government as the sole source of support for the elderly, they still expect government to be a significant source of support in their old age. Governments in developed countries need to build confidence that they will meet their future commitments by preparing now for their rapidly growing aging populations.

International Retirement Security Survey

July 2005

Executive Summary

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