

Disruptive Megatrends Necessitate a New Social Contract for Retirement

New global survey illuminates the critical need for modernization of retirement systems

LOS ANGELES – May 29, 2018 – Almost half of today’s workers and retirees believe that future generations of retirees will be worse off than those currently in retirement (49 percent globally, 46 percent U.S.), according to findings from new global research released today. ***The New Social Contract: A Blueprint for Retirement in the 21st Century*** is based on a 2018 survey of 16,000 workers and retirees in 15 countries spanning the Americas, Europe, Asia, and Australia. It is a collaboration among Aegon Center for Longevity and Retirement (ACLR) and nonprofits Transamerica Center for Retirement Studies® (TCRS) and Instituto de Longevidade Mongeral Aegon.

“Megatrends are disrupting long-standing societal constructs including how people live and work, plan for their future, and, ultimately, prepare for their retirement,” said Catherine Collinson, CEO and president of Transamerica Institute and TCRS, and executive director of ACLR. The survey asked workers and retirees about global trends that are impacting their plans for retirement. Globally, the five most frequently cited trends are:

- Reductions in government benefits (38 percent global, 26 percent U.S.)
- Increased life expectancy (27 percent global, 25 percent U.S.)
- Volatility in financial markets follows (24 percent global, 22 percent U.S.)
- Changes in labor markets (21 percent global, 14 percent U.S.)
- Prolonged low interest rate environment (20 percent global, 14 percent U.S.)

“Many people may be underestimating the full impact of megatrends that are shaping the global economy, local communities, future of work, and everyday life,” said Collinson. Fewer than 20 percent of the survey’s respondents cite changing demographics, new technologies and digital transformation, terrorism, cybersecurity issues, climate change, globalization, urbanization, or international political instability as trends impacting their retirement.

Evidence of the Crumbling Social Contract for Retirement

The idea of a “social contract” is central to retirement systems in many countries and comprises three pillars: governments, employers and individuals. “People are living longer than any time in history and birthrates are declining. This phenomenon known as ‘population aging’ is financially straining government-sponsored retirement benefits. Simultaneously, employers have been replacing traditional defined benefit pension plans with employee-funded defined contribution retirement plans,” said Collinson, “Today, individuals are expected to take on increasing risk and responsibility in self-funding a greater portion of their retirement income.”

The survey findings provide evidence of a crumbling social contract, including:

- Only seven percent of workers and retirees globally feel that the government should do nothing to address the cost of social security, believing it will remain perfectly affordable in the future (9 percent U.S.).
- Employer-sponsored retirement benefits are vital in helping people financially prepare for retirement. However, only 43 percent of workers globally (57 percent U.S.) say their employer offers them a retirement plan that includes an employer contribution.
- Just 39 percent of workers globally are “habitual savers” who always make sure they are saving for retirement (55 percent U.S.).
- Only 25 percent of workers believe that they are on course to achieve their expected retirement income needs (32 percent U.S.).

The New Social Contract: Essential Design Features

“A new social contract for retirement is needed at this time when megatrends are disrupting how people live, work, and prepare for a secure retirement,” said Collinson. “Forging a new social contract brings about exciting opportunities to incorporate cutting-edge innovations that encourage financial security and healthy aging.”

Essential design features include: sustainable social security benefits, universal access to retirement savings arrangements, automatic savings and other applications of behavioral economics, guaranteed lifetime income solutions, financial education and literacy, lifelong learning, longer working lives and flexible retirement, accessible and affordable healthcare, a positive view of aging, and an age-friendly world in which people of all ages can thrive.

Governments must continue to take center stage in orchestrating their countries’ retirement systems, including the provision of retirement income and healthcare. Employers must continue to help their employees save and prepare for retirement, while individuals must take on a more proactive role in “owning” their retirement security. New social partners such as academics, think tanks, industry, charities and non-governmental organizations should be included in public-private collaborations to share their expertise and help implement solutions.

“The new social contract must be flexible and adaptable for our ever-changing times. It must honor the principles of sustainability and solidarity, while providing adequate safety nets that enable people to age with dignity and avoid poverty in old age,” said Collinson.

The New Social Contract: A Blueprint for Retirement in the 21st Century contains in-depth analysis, country comparisons, case studies and detailed recommendations. The report is based on findings from the 7th Annual Aegon Retirement Readiness Survey, which is based on a survey of 14,400 workers and 1,600 retired people in 15 countries: Australia, Brazil, Canada, China, France, Germany, Hungary, India, Japan, the Netherlands, Poland, Spain, Turkey, the U.K., and the U.S. The online survey was conducted in respondents’ native languages between January 29 and February 19, 2018.

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Transamerica Center for Retirement Studies

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