The New Social Contract: a blueprint for retirement in the 21st century

The Aegon Retirement Readiness Survey 2018
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**Note:** Percentages are shown to zero decimal places. Rounding percentages to the nearest whole number may result in slight differences; for example, the percentages in some charts summing to slightly under or slightly over 100 percent.
The concept of retirement readiness is changing rapidly around the world, and India is no exception. However, the direction of change for India digresses from what we are seeing amongst more developed nations. Retirement readiness can often be epitomised as the collaboration between worker, employer and state to help individuals build adequate savings to live comfortably in retirement. In India, however, this definition is not so clear cut.

Without a state pension forming the backbone of retirement plans, readiness can only be achieved through the nestling away of funds throughout working life, as well as (at least traditionally) greater emphasis on family structures for later-life security.

The rapid – and continuing – industrialisation in India has changed what a typical retirement in the country may look like, particularly between those living in urban and rural areas. First and foremost, India’s growing prosperity and developments in healthcare have led to increased lifespan expectations. Furthermore, the traditional multi-generational family household structures are no longer guaranteed as workers move across the country to chase careers. The elderly in India traditionally may have relied on the support from their children as their retirement plan, however this may be a financial burden that today’s millennial workers may not be able to finance alongside their own family lives. The potential need for greater family support in later life may not be as easily met as once could have been expected.

Accordingly, occupational pensions in India, either for civil servants or for private sector employees, are becoming increasingly pivotal for the retirement readiness of workers in India. Although these provide the benefit of externally-managed funds as well as contributions from employers, this report highlights the longstanding importance in India of the worker in their own retirement plans. As individuals can expect to live longer in retirement, and accordingly finance the extra expense of this, a corpus of self-funded savings set aside over the years is crucial to achieve a comfortable retirement in India.

The survey finds that people in India are self-funding their retirement more than all the other countries included, which will impact the affordability of healthcare costs in older age. The government’s launch of the Aayushman Bharat healthcare insurance scheme for vulnerable families in April 2018 may provide the most financially-strained with affordable care as they get older, but for many, extended lifespans are coupled with rising healthcare costs as the body ages.

While the typical family in India may put much planning into their child’s education and relationships as they grow older, it is not so much the norm for similar efforts to be put into planning life in retirement. The earlier retirement planning is kickstarted, the better: funding robust savings however takes time, in terms of both accumulating sufficient funds and benefitting from compound growth of interest rates and fund return over time.

There is a considerable amount of optimism for the future of retirement in India, and the radical growth and urbanisation in India has no doubt created visions of continued improvement. Of all the countries included in this year’s Aegon Retirement Readiness Survey, Indians are the most positive about their country’s economy over the next 12 months (62 percent expect it to get better; compared to 32 percent globally). This growth in India is inspiring continued confidence for growing older, with Indians among the most positive about how future generations will fare in retirement compared to those currently in retirement (47 percent are positive, compared to 18 percent globally). However, this can only be achieved through engaging a broad group of social partners to help workers in India ensure they achieve a comfortable retirement.

For example, Indian governments over the past several decades have made myriad changes to pension structures in the country to incentivise saving, such as the wider rollout of the NPS (National Pension Scheme). Furthermore, in December 2018 the government announced plans to increase government contributions from 10 to 14 percent of basic salary, as well as the ability to withdraw 60 percent of the pension funds without taxation. The recognition of the need for the collaboration of worker, employer and state here is being well-heeded.
In terms of the wider promotion of retirement saving, India has the ability to put itself ahead of the curve and capitalise on the optimism for the next generation of retirees and the savings-adept nature of Indian workers. With its developing infrastructure, India can leapfrog some of the stumbling blocks more mature markets are currently facing when it comes to retirement readiness. For example, the country has some of the highest usage of mobile banking globally. The wide penetration of mobile and internet over the past two years, alongside almost-free data services, means these emerging digital infrastructures can be utilised in India to create slick, smart savings mechanisms to make it easier for workers to save for retirement on a habitual basis. Alongside the country’s robust economy and the world’s largest youth population, India will continue to see its future brighten as this growing workforce carries forth positive energy and an optimistic drive.

Our survey once again finds that India tops the Aegon Retirement Readiness Index, closely followed by fellow developing markets, China and Brazil. It is clear that urbanised populations are benefitting from the increase of wealth generated within countries, as well as the systems beginning to be put in place to allow for adequate preparation for retirement readiness. Despite this positive spirit, however, in India the traditional structures and ideas of what retirement looks like (ageing in place in the home of the family for a comparatively short spell) will need to be woven in to emerging new archetypes of retirement lifestyles. The social contract between individuals, the family, employers and government will need to be redrawn as lifespans expand, careers are professionalised, and families disperse.

Mr. Vineet Arora
MD & CEO, Aegon Life Insurance Company Limited, India
Introduction

The Aegon Center for Longevity and Retirement is pleased to present findings from its seventh annual Aegon Retirement Readiness Survey, *The New Social Contract: a blueprint for retirement in the 21st century*. This survey is the result of collaboration with nonprofits Transamerica Center for Retirement Studies (based in the U.S.) and Instituto de Longevidade Mongeral Aegon (based in Brazil). This report, while specific to India, is based on research conducted in 15 countries spanning Europe, the Americas, Asia and Australia.

Changes taking place in India over several decades have given rise to pressures to evaluate the notion of social contracts, formed before the country’s relatively rapid – and continued – industrialization and urbanization. This is forcing all of us to look differently at our plans for achieving good health and financial prosperity in later life.

The idea of a “social contract” has been central to the way in which people globally plan and prepare for retirement. This contract is typically established between governments, employers and individual workers, setting forth their respective responsibilities. The social contract in India is still relatively nascent in comparison to other countries in the study: although pensions of sorts have been available to government employees and military personnel since the late-1950s, these only formally have been implemented in the private sector in the past 10 years, with widespread proliferation not yet fulfilled.

There are many reasons, however, as to why this social contract requires frequent iterations and updates as the industrial and demographic landscape in the country evolves. When the Indian retirement system was created in the mid-20th century, the average Indian life expectancy was far shorter than it is today. In 1960, the life expectancy for the average Indian was 41.2 years. Since then, it has dramatically increased to 68.6 years as of 2016. With people in India likely living decades longer than previous generations, the Indian pension system is in a state of redevelopment. To address these changes in society, public and private pension systems are undergoing reform.

As the findings throughout this report illustrate, India is in the process of creating a social contract to this extent, as this huge emerging and industrializing powerhouse continues to grow in both prosperity and productivity.

Despite having a heavy cohort of young people (over a third of people in India are aged between 15-35), it is important to note that fertility rates in India are decreasing alongside an aging population: a trend that is set to continue exponentially for some time. While the proportion of the population in India aged over 60 stood at 5.6 percent in 1961, this rose to 8.9 percent in 2015 and is predicted to more than double to 19.4 percent of the population in 2050. With many in these older generations living without formal and widespread retirement savings systems, the affordability of retirement in India is a particularly pertinent issue in terms of where responsibility for citizens lies.

This report focuses on the responses of 1,000 people in India including 900 workers and 100 retirees. The survey itself is conducted online. In India, the sample includes a higher proportion of respondents in urban areas. As a result, the sample in India tends to include more middle- and high-income workers.

The study investigates the stresses and pressures being put on the Indian retirement system and the roles the government and employers are adapting to perform as it evolves. The report evaluates the retirement readiness of workers themselves and investigates improvements that can be made to help workers achieve the aspirations they hold for their retirement. It explores the growing importance of health in the realities of financial planning, and for the first time the report examines the issues of financial literacy and aging with dignity. With typical household structures in India eroding as families disperse across the country for career pursuits, as well as costly out-of-pocket expenditures for healthcare in the country, issues around healthy aging and financial security are becoming ever more pertinent.

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1 The World Bank, *Life expectancy at birth, total (years)* - India, 2018
2 Government of India – Ministry of Statistics and Programme Implementation, *Youth in India*, 2017
Key Findings:

- The Aegon Retirement Readiness Index measures how prepared workers around the world feel for their retirement. India's ARRI score is 7.3. India's score puts the country at the top of the 15 ranked nations, with its fellow advancing BRIC nations China and Brazil falling just behind into second and third, respectively.

- A third (35 percent) of people in India think that reductions in government retirement benefits will impact their plans for retirement (compared to 38 percent globally). Increased life expectancy (33 percent) and the prolonged low interest environment (32 percent) also feature high up the list of global trends impacting retirement plans.

- Almost half (47 percent) of people in India think that future generations of retirees will be better off in retirement than current retirees, which considerably exceeds the global average (18 percent). India's continued growing prosperity and establishment of pension systems is making the country's future outlook brighter.

- Almost half (46 percent) of Indian retirement income is expected to come from their own savings and investments (compared to 30 percent globally). People in India expect 30 percent to come from their employer (vs. 24 percent globally) and expect 24 percent to come from the government (vs. 46 percent globally).

- Over half (55 percent) of workers in India are saving habitually for retirement (compared to 39 percent globally). A quarter (26 percent) are saving on an occasional basis, nine percent are not saving now but have done in the past, nine percent are not currently saving but do intend to in the future, and one percent have never saved for retirement and never intend to.

- A third (33 percent) answer all three of Annamaria Lusardi and Olivia S. Mitchell’s “Big Three” Financial Literacy questions correctly, in line with the global average (30 percent). Those that perform best on the “Big Three” financial literacy questions (correctly answering all 3) achieve a higher ARRI score (7.5 compared to 7.3 among all workers in India).

- Almost three-quarters (73 percent) of India's workers find the idea of auto enrolment appealing. This is significantly higher than the global average (57 percent), perhaps reflective of the current lack of comprehensive and mandatory pension schemes in the private industry.

- Almost half (49 percent) of people in India are confident that their own healthcare in retirement will be affordable (compared to 21 percent globally). Confidence is high across most demographics but we see large differences based on current health and income levels. Just 20 percent of those in fair health and 33 percent with a low income are confident that their own healthcare in retirement will be affordable compared to 82 percent and 70 percent among those currently enjoying excellent health and with high incomes respectively.
Part 1: Megatrends and a developing social contract

Globalization, innovation, advances in science and technology. Our world is changing rapidly amid these and other trends. Many of these trends are so impactful that they can be considered megatrends. Changes brought about by megatrends are already shaping societal constructs, how people lead their daily lives, plan for their future, and, ultimately, prepare for their retirement.

There are several megatrends that people in India are far more likely to feel will impact their retirement plans than reported globally. Although reductions in government retirement benefits still top the list for people in India (35 percent; 38 percent globally), a prolonged low interest rate environment (32 percent vs. 20 percent), new technologies and digital transformation (29 percent vs. 12 percent), globalization (29 percent vs. 12 percent) and urbanization (23 percent vs. 8 percent) were all notably more prevalent among people in India than other countries in the survey.

Almost a third of people in India are concerned about a prolonged low interest rate environment. The survey was conducted prior to the Reserve Bank of India’s interest rate rises in June and August 2018, the first time it had done so in over four years of drops and holds. The 25-basis point rise to 6.25 percent in June and 6.5 percent in August sought to curb inflation in the country. However, for many future retirees, this would not have aided the dents already made to finances held in fixed deposits accounts or the Public Provident Fund (PPF), a personal savings instrument, for retirement saving.

With regards to the strength of impact that new technologies and digital transformation has on individuals in India compared to others globally (29 percent vs. 12 percent), it is important to keep in mind the government’s Digital India program and its benefits for retirement savings. The scheme has sped up the process of digitalizing core infrastructure and industries, and private companies in the financial services space are monopolizing on accordingly-uncovered opportunities. Individuals can in turn then access pension-related products and services easier and quicker than ever before. In December 2017, for example, the powerhouse ICICI Bank launched fully-digital enrolment to the National Pension Scheme (NPS) for users via their online banking account, negating for the first time a need to visit a branch to sign the required documentation.5

Globalization (as recognized by 29 percent of people in India) has also enabled flows of finance in India that in turn can be invested into retirement funds. An interconnected world with movements of investment, goods and people has helped improve productivity in the country and boosted GDP over the past half-century: in the 1970s and 1980s growth averaged at 4.4 percent per year, rising to 5.5 percent between the 1990s and early 2000s, with levels over the past decade averaging at a stronger 7.1 percent.6 This acceleration of finance over several decades has contributed in part to the proliferation of urbanization in India, which has also been cited as a megatrend impacting almost a quarter of individuals’ retirement plans in the country. In 1970, just under a fifth (19.8 percent) of the Indian population resided in urban areas, rising to a quarter (25.5 percent) in 1990 to a third (34 percent) in 2018. The UN predicts that by 2030, this will hit 40.1 percent.7 Spurred by industrialization and job opportunities, the migration of workers into more prosperous cities for employment will create more of the capital required to put aside for retirement.

India’s industrial advances have helped increase life expectancy in the country – which is cited as an impact on retirement plans by a third of respondents. From just 41.2 years in 1960 to 68.6 years as of 2016, the affordability of supporting oneself through this extending lifespan will be crucial.

5 ICICI Bank, “ICICI Bank introduces fully paper-less and digital enrolment for National Pension Scheme (NPS)”, 2017
6 World Bank, “India’s remarkably robust and resilient growth story”, 2018
7 United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects: The 2018 Revision, custom data acquired via website. 2018
Over the past 50 years, these global megatrends have impacted the way governments and corporations manage retirement systems and how social contracts operate. Continued change is inevitable, reshaping the contours of the retirement landscape in India for decades to come and influencing how future generations save, invest, plan and prepare for retirement.

People in India hold far more positive visions for the future of retirement in their country than we see in the rest of the countries in the survey. India is on an upwards trajectory in the stages of its growth, expedited by harnessing new technologies and emerging industries. India’s economy is predicted to be third-biggest in the world by 2050 at $7.5tn, overtaking Germany, France and the U.K.\(^8\) It is not surprising that almost half (47 percent) of people in India believe that future generations of retirees will be better off than those currently in retirement, compared to less than a fifth (18 percent) globally: the country’s upwards wealth trajectory is truly felt.

![Chart 1](image1)

![Chart 2](image2)

\(^8\) Japan Center for Economic Research, *World Economic Map in 2050*, 2017
Amid concerns about potential reductions in government benefits, increased longevity, and changes in employment trends, the current social contract is in a state of redefining itself. The Indian retirement system represents a social contract that currently operates on a three-pillar approach that is commonly referred to as a “three-legged stool.” The three pillars – Social Security [Pillar 1], workplace retirement benefits such as the Employees’ Pension Fund Scheme (EPF) and New Pension Scheme (NPS) [Pillar 2] and personal savings such as the Public Provident Fund (PPF) [Pillar 3] are provided by the partners of the social contract – the government, the employer and the worker, respectively. This contract was developed and proliferated in the latter half of the 20th century to help ensure that individuals were provided for in their old age.

People in India expect the greatest proportion of their retirement income to come from their own savings and investments (46 percent, compared to just 30 percent globally). They expect 30 percent to come from their employer (24 percent globally) and they expect 24 percent to come from the government (46 percent globally). The comparatively low levels of income expected from the government in India is representative of the minimal coverage of publicly-provided formal old-age income protection amongst the country’s workforce. Social security is funded solely by the government through the National Social Assistance Programme, however this is only accessible to unemployed, sick or disabled persons in India and coverage is by no means exhaustive. In the government’s 2018-19 Budget, however, the launch of the National Health Protection Scheme was mooted. The intention is to provide retirement benefits and health security to those living below the poverty line in the first instance, and to be rolled out in four phases over the next ten years to eventually provide universal Social Security cover in India. This of course would be a gargantuan effort for the government to instigate and complete, but could greatly reshape how people in India prepare for retirement.

Changes in employment and the impact on employer benefits

As well as uncertainty about the future of funding and distribution of Social Security, many of the megatrends discussed previously on page 8 have also led to changing employment arrangements and employer benefit offerings – and consequently uncertainty about the role played by employers in helping workers prepare for retirement.

In India around half of the population report being self-employed, while it is also increasingly common for workers to change employers several times over their careers. Rapid industrialization and urbanization has meant that the scores of multinational businesses now operating in the country are fighting for talent within a (relatively speaking) small pool of qualified candidates. A KPMG study found that the average annual voluntary attrition rate in India was 13.1 percent in 2017-18, with levels highest among more junior members of staff and management teams. Similarly, Mercer reported a voluntary turnover rate of 15.8 percent in India in 2016, whereas in Europe voluntary turnover stood at a much lower rate, 7.1 percent, and globally it stood at 9.6 percent. Employers have as such found that employees benefits offered past standard salary can be key in both attracting and retaining talent in specialized industries, as well as a method to curb excessive salary inflation.

Chart 3 – Nearing half of Indian retirement income is expected to come from their own savings and investments

Changes in employment and the impact on employer benefits

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9 NSAP, Frequently asked questions, 2018
10 Ministry of Finance, Government of India, Budget 2018-2019 Speech of Arun Jaitley, Minister of Finance, 2018
11 Aegon, Self-Employment in India, 2017
12 KPMG, Share of voluntary staff turnover among companies across India in FY 2018, by industry, April 2018
13 Mercer, Tackling Trends in Turnover, June 2016
Accordingly, reported levels of employer benefit offerings are high in India. Almost two-thirds (64 percent) of workers say they are offered a retirement plan with employer contributions (compared to 43 percent globally). Almost half (46 percent) of workers in India are offered a retirement plan without employer contributions (compared to 27 percent globally). Just 49 percent of workers in India say they have the ability to work past normal retirement age (compared to 47 percent globally) and 46 percent say that they are offered phased retirement (compared to 29 percent globally).

**Chart 4 – Two-in-three (64 percent) workers in India are offered retirement plans with employer contributions**

<table>
<thead>
<tr>
<th>Benefit Offerings</th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>84%</td>
<td>79%</td>
</tr>
<tr>
<td>Medical health insurance</td>
<td>70%</td>
<td>57%</td>
</tr>
<tr>
<td>Opportunities for career progression</td>
<td>65%</td>
<td>51%</td>
</tr>
<tr>
<td>Retirement plan with employer contributions</td>
<td>64%</td>
<td>43%</td>
</tr>
<tr>
<td>Access to good training provision</td>
<td>64%</td>
<td>47%</td>
</tr>
<tr>
<td>Convenient location of workplace</td>
<td>62%</td>
<td>67%</td>
</tr>
<tr>
<td>Flexible working hours</td>
<td>60%</td>
<td>49%</td>
</tr>
<tr>
<td>Vacation/ paid time off</td>
<td>60%</td>
<td>77%</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>59%</td>
<td>40%</td>
</tr>
<tr>
<td>Overtime and bonus pay</td>
<td>58%</td>
<td>54%</td>
</tr>
<tr>
<td>Ability to work past the normal retirement age</td>
<td>58%</td>
<td>47%</td>
</tr>
<tr>
<td>Phased retirement or other employer programs providing for a transition into retirement</td>
<td>46%</td>
<td>29%</td>
</tr>
<tr>
<td>Retirement plan without employer contributions</td>
<td>46%</td>
<td>27%</td>
</tr>
<tr>
<td>Stock purchase plan</td>
<td>38%</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Aegon Retirement Readiness Index and the Role of Individuals**

Globally, the role the individual takes in retirement preparation is gradually increasing, but has further to go. The Aegon Retirement Readiness Survey (now in its seventh year) measures the level of retirement planning workers undertake as responsibility gradually shifts towards the individual. The ARRI provides an annual score based on responses to six separate questions: three broadly attitudinal (Questions 1, 2, 3) and three broadly behavioural (Questions 4, 5, 6). These questions are illustrated in the diagram below.

**What factors shape the ARRI score?**

- **Income replacement**
  Do you think you will achieve the level of income you think you will need in retirement?

- **Financial preparedness**
  Thinking about how much you are putting aside to fund your retirement, are you saving enough?

- **Retirement planning**
  Thinking about your own personal retirement planning process, how well developed would you say that your personal retirement plans currently are?

- **Level of awareness**
  How would you rate your level of awareness on the need to plan financially for your retirement?

- **Financial understanding**
  How able are you to understand financial matters when it comes to planning for your retirement?

- **Personal responsibility**
  To what extent do you feel personally responsible for making sure that you will have sufficient income in retirement?
The Aegon Retirement Readiness Survey 2018

The ARRI ranks retirement readiness on a scale from 0 to 10. A high index score is between 8 and 10, a medium score between 6 and 7.9, and a low score being less than 6. (For additional information about the ARRI and its methodology, please see appendix 1.)

India achieves a medium ARRI score of 7.3, and again leads the survey. This year, 40 percent of workers in India achieved a high score, down from 44 percent in 2017. Meanwhile, its proportion of workers with a low retirement readiness score (24 percent) has risen from last year (19 percent). Joining India at the top of the rankings are its fellow BRIC nations, Brazil and China. These advancing economies are providing citizens with increasing routes for retirement savings, with these growing avenues prompting individuals to do more. It should also be noted that the role of the individual is far more substantial in India compared to that of the state as seen globally, and this onus is leading to ownership of responsibility.

**Chart 5 – India places 1st in retirement readiness**
Part 2 – Improving individual retirement security – the role of financial literacy and auto-enrollment

People in India have an extremely positive outlook on retirement. Three-quarters (74 percent) associate retirement with positive words like ‘freedom,’ ‘opportunity,’ and ‘leisure’. Half of people in India however (52 percent) associate retirement with negative words such as ‘poverty,’ ‘insecurity,’ and ‘loneliness’.

This positive mindset can be seen in the retirement aspirations held by people in India, the most common of which include: 62 percent wanting to spend more time with friends and family; 59 percent wanting to spend their retirement traveling; and 53 percent wanting to pursue new hobbies. People in India are particularly keen on pursuing voluntary work in retirement (44 percent vs. just 27 percent globally) and starting their own business (31 percent vs. 10 percent globally). On top of this, 22 percent plan to continue working in the same field (15 percent globally) and 21 percent plan to continue working but in another field (11 percent globally).

Chart 6 – Spending more time with friends and family and travelling tops the list of retirement aspirations

Of course, these activities will require financing, and over the years, the survey consistently finds that saving on a regular basis throughout the working life is the best route to retirement readiness. India has the joint-highest proportion of workers saving habitually for retirement (55 percent), along with the United States. Just over a quarter in India (26 percent) save on an occasional basis, while nine percent are not currently saving but have saved in the past. Nine percent are also not saving but aspire to save in the future, while a minute one percent have no intention of ever saving. People in India have long benefitted from high savings rates, and in 2014 the government raised tax-exempt investment limits from Rs. 1 lakh to Rs. 1.5 lakh to encourage further saving.14

A certain amount of planning is required to make sure that aspirations can be fulfilled in retirement. While 58 percent of workers globally have a plan in place for retirement, a substantial 83 percent of workers in India surveyed do so. Almost three-in-ten (28 percent) of workers in India are ‘strategists’ (i.e., they have a plan in writing), compared to 13 percent globally. The act of sitting down and considering one’s future finances and committing a plan to writing formalizes the process, and means it has more chance of coming to fruition.

Chart 7 – More than half of workers in India are habitual savers

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Habitual savers</td>
<td>55%</td>
<td>39%</td>
</tr>
<tr>
<td>Occasional savers</td>
<td>26%</td>
<td>24%</td>
</tr>
<tr>
<td>Past savers</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>Non-savers</td>
<td>1%</td>
<td>6%</td>
</tr>
</tbody>
</table>

A substantial 83 percent of workers in India surveyed do so. Almost three-in-ten (28 percent) of workers in India are ‘strategists’ (i.e., they have a plan in writing), compared to 13 percent globally. The act of sitting down and considering one’s future finances and committing a plan to writing formalizes the process, and means it has more chance of coming to fruition.

Chart 8 – Twenty-eight percent of workers in India are strategists

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have a written plan</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>I have a plan, but it is not written down</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>I do not have a plan</td>
<td>15%</td>
<td>38%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

A certain amount of planning is required to make sure that aspirations can be fulfilled in retirement. While 58 percent of workers globally have a plan in place for retirement, a substantial 83 percent of workers in India surveyed do so. Almost three-in-ten (28 percent) of workers in India are ‘strategists’ (i.e., they have a plan in writing), compared to 13 percent globally. The act of sitting down and considering one’s future finances and committing a plan to writing formalizes the process, and means it has more chance of coming to fruition.

Saving habitually and setting forth a written financial plan can help workers in India achieve their retirement aspirations. But do they have the knowledge to make what can be very important and detailed financial decisions? Equipping individuals with the tools to better plan for retirement

Equipping individuals with the tools to better plan for retirement

The current design of the social contract in India means more responsibility falls into the hands of individuals and away from the experts. People are increasingly asked to navigate through many different financial concepts, many of which require a detailed level of understanding.

With their permission, the survey uses a framework developed by Drs. Annamaria Lusardi and Olivia S. Mitchell dating back to 2004, to measure financial literacy. Lusardi and Mitchell created the “Big Three” questions that measure understanding of compounding interest, inflation, and risk diversification. Their questions test the respondents’ actual knowledge of these three topics rather than their self-reported knowledge. The questions, along with the correct answers can be found in Appendix 2 (page 24).

In the survey, 85 percent of respondents in India correctly answered the compound interest question, 51 percent correctly answered the inflation question and 52 percent correctly answered the risk diversification question. Overall, a third of people in India (33 percent) correctly answered all “Big Three” financial literacy questions. Although financial literacy among the sample in India slightly exceeds the global average (where 30 percent correctly answer all three financial literacy questions), there is still room for improvement in India.
Without the requisite level of financial knowledge, it is impossible for people to formulate good retirement plans, or even know what questions to ask of advisors and retirement plan providers when seeking advice. Low financial literacy may also translate into failure to engage in any kind of retirement planning.

Low levels of financial literacy in India are concentrated among certain groups. While 33 percent of people in India correctly answer all three financial literacy questions, this falls to 22 percent among Millennials, 24 percent among those educated below undergraduate degree-level and 25 percent among those with a low personal income.

**Chart 9** – A third (33 percent) of people in India correctly answer all “Big Three” financial literacy questions

<table>
<thead>
<tr>
<th>FL1. The compound interest question – % answering correctly</th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>FL2. The inflation question - % answering correctly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FL3. Risk diversification question - % answering correctly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FL1. + FL2. + FL3. - % answering all “Big Three” financial literacy questions correctly</td>
<td>33%</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Chart 10** – Millennials, those less than undergraduate degree-educated and those with lower incomes are less likely to correctly answer the “Big Three” financial literacy questions
Among those who correctly answered all “Big Three” financial literacy questions (thus showing a higher degree of financial literacy) there are notable improvements across most areas of their retirement planning. They score higher on the ARRI (7.5 compared to 7.3 overall) and are much more likely to be saving habitually for retirement (63 percent compared to 55 percent). Differences are more muted in terms of the likeliness of having a plan for retirement - either in writing or otherwise (84 percent compared to 83 percent overall). Workers in India who correctly answer all ‘Big Three’ financial literacy questions are more likely to feel that they are able to understand financial matters when it comes to planning for retirement (86 percent compared to 80 percent overall) and are more likely to know the value of their retirement savings (83 percent vs 77 percent overall).

### Chart 11 – Financial literates are more likely to be habitual savers and say they understand financial planning

<table>
<thead>
<tr>
<th>India Workers (Total)</th>
<th>India Financially Literate Workers (Correctly answer all “Big Three” Financial Literacy questions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARRI score</td>
<td>7.3</td>
</tr>
<tr>
<td>Habitual savers</td>
<td>55%</td>
</tr>
<tr>
<td>Those with a retirement plan (either written or unwritten)</td>
<td>83%</td>
</tr>
<tr>
<td>Able to understand financial matters when it comes to planning for retirement</td>
<td>80%</td>
</tr>
<tr>
<td>“I have a very good idea of the total value of all my personal retirement savings and investments.”</td>
<td>77%</td>
</tr>
</tbody>
</table>

In a world in which workers are expected to exercise more choice over how much they put aside for retirement, and how those retirement savings are invested, it is imperative to increase financial literacy among adults and to provide more education starting at an early age so that children can gain these vital skills that will serve them throughout their lives. The lack of widespread financial literacy is alarming. Addressing it should be a top priority for policymakers, educators and retirement benefit providers, among other social institutions.

### Changing infrastructure to make it easier for individuals to save

The shape of the social contract in India necessitates people to fund a significant portion of their retirement income, however more could be done to help across the country here. In recent years the Indian government introduced a number of schemes, measures and campaigns to help incentivize employers (especially those with fewer than 20 employees) enrol their employees into pension schemes, including EPFO’s Employees’ Enrolment Campaign and the Ministry of Labour and Employment’s PMRPY and PMPRPY schemes.  

Initially created using the behavioural economics theory of “nudging” as a method to prompt behavioural change, automatic joining features in workplace defined contribution plans are showing great promise in countries where they have been implemented in getting – and keeping – workers in retirement plans.

Automatic enrolment is a retirement plan feature in which employees are automatically enrolled to start saving a portion of each paycheck, and they only need to take action if they choose not to save. The survey finds that three-quarters (73 percent) of workers in India say that they find the idea appealing, far higher than seen globally (57 percent). Sentiment fades slightly among Millennials (69 percent), those educated to below degree level (53 percent) and those with a low personal income (57 percent). These segments are typically more vulnerable to not saving enough for retirement and may be more likely to benefit from automatic enrolment.

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15 KPMG and FICCI, *Employee pensions in India: Moving towards a pensioned society*, 2017
Chart 12 – Almost three-quarters of people in India find the idea of auto-enrolment appealing

Very or somewhat appealing
Part 3 – Potential health issues loom large as retirement concerns

People in India hold positive associations with retirement, but naturally the aging process is not without worries. Declining physical health is the key concern globally (49 percent) and it also features top of the list in India too (39 percent). Globally, running out of money during retirement is the second-biggest concern, however in India this falls to fourth place, behind not being able to stay active (37 percent) and not having a daily routine (32 percent). The latter is far more prominent among people in India than seen globally (15 percent), alongside concerns over lacking social engagement (29 percent compared to 19 percent). Limited social interaction amongst India’s increasingly-aging population perhaps could be indicative of why more people in India anticipate working in retirement (as seen on page 12) as a way to keep occupied and keep socially active. A 2017 report from the Agewell Foundation, for example, found that 39% of elderly persons interviewed felt there are not enough social interaction opportunities for them in old age.16

The above highlights common concerns upon entering retirement, however for many, this transition can occur far earlier than expected. Almost two-in-five globally fully-retired people globally retired sooner than expected. In India this falls to a still-sizable 19 percent.

Retiring sooner than planned has a two-fold negative effect: the inability to continue saving and the need to draw down savings for a longer period of time than expected. Among people in India who retired sooner than planned, family responsibilities, for example becoming a caregiver, is the main reason given (37 percent), far exceeding the global average (13 percent). The historically and culturally tight-knit nature of Indian families formed in patrilineal multi-generational structures, coupled with lack of widespread formal Social Security for elderly care in the country, means families often step in to provide care for their aging parents.

**Chart 14 – A fifth of Indian retirees retired sooner than planned**

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>I retired later than I had planned to</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>I retired at the age I had planned to</td>
<td>71%</td>
<td>48%</td>
</tr>
<tr>
<td>I retired sooner than I had planned to</td>
<td>19%</td>
<td>39%</td>
</tr>
<tr>
<td>Don’t know/ can’t recall</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Some good news is that people in India are a health-conscious group that take their health seriously. Three-quarters (76 percent) eat healthily, and almost seven-in-ten exercise regularly (68 percent) and avoid harmful behaviours, such as drinking too much alcohol (69 percent).

**Chart 15 – Three-quarters of people in India eat healthy and seven-in-ten avoid harmful behaviours**

- **I eat healthily (e.g., five-a-day portions of fruit and vegetables)**
  - India: 56%
  - Global: 60%

- **I exercise regularly**
  - India: 54%
  - Global: 54%

- **I avoid harmful behaviors (e.g., drinking too much alcohol or smoking tobacco)**
  - India: 52%
  - Global: 58%

- **I think about my long-term health when making lifestyle choices. For example, I try to avoid stress**
  - India: 43%
  - Global: 45%

- **I take my health seriously (e.g., have routine medical check-ups and do regular self-checks)**
  - India: 44%
  - Global: 44%

- **I practice mindfulness regularly (e.g., meditation and relaxation exercises)**
  - India: 15%
  - Global: 19%

- **Don’t know / prefer not to answer**
  - India: 1%
  - Global: 1%

- **None of the above**
  - India: 7%
  - Global: 6%
Just as forming good financial habits early on in life can help individuals achieve a secure retirement, forming good health habits early can help workers maintain good health into retirement. Employers can play an important role by offering workplace health and wellness programs.

There is almost universal appeal among workers in India for work-based health and wellness programs: 98 percent would be interested in at least one scheme, if their employer were to offer them. The most popular include healthy food or snack options at the office (55 percent), exercise programs (52 percent) and tools to monitor health goals (46 percent) – the latter in particular is far more popular in India than globally (28 percent). Cardiovascular disease is a particularly prominent pathology in India, accounting for over a quarter of all deaths in India in 2015; the fact so many people in India are in favour of tools to help monitor these conditions shows the real benefits workplaces could do in terms of helping staff look after their long-term health effectively – particularly as the World Health Organization reported that over three-fifths of deaths in India were attributed to non-communicable deaths (such as cardiovascular and respiratory diseases) in 2016.

Chart 16 – Workers in India are receptive to workplace health benefit programs

17 The Lancet, Divergent trends in ischaemic heart disease and stroke mortality in India from 2000 to 2015: a nationally representative mortality study, 2018
18 World Health Organization, Noncommunicable Diseases (NCD) Country Profiles – India, 2018
Part 4: Living and aging in good health and with dignity

Four-in-five (80 percent) people in India say that they are currently in either good or excellent health, substantially more than the global average (66 percent). People in India are also more conscious about their long-term health, 64 percent say that their health in older age is a primary concern compared to just 44 percent globally. This health-conscious outlook is evident in the uptake of health-related behaviours that people in India partake in. While 56 percent of people globally say that they eat healthily, this rises to 76 percent among people in India and while 51 percent globally say that they exercise regularly, this rises to 68 percent among people in India. In fact, three-quarters (76 percent) of people India carry out 3 or more health-related behaviours compared to just 53 percent globally.

People in India are deeply engaged in their health and maintaining their health through healthy ageing. Almost half (49 percent) of people in India are confident that they will be able to afford their own healthcare in retirement and this rises to 82 percent among those currently enjoying excellent health. Those with a high income (70 percent) are naturally more likely to say they feel confident they will be able to afford their own healthcare in retirement than those with a low income (33 percent). It is worth noting that the sample collected in India tends to be more urban (with internet connection) and as a result, wealthier. Incidence of catastrophic health expenditure (i.e., out-of-pocket expenditure equalling or exceeding 10 percent of household expenditure) rose more than two-fold between 1995-6 (11.1 percent of the population) and 2014 (24.9 percent). Increases were substantially higher among the poorest quintile of Indian households than measured among the richest, and among households with older people. Although Indian people are taking steps to maintain good health during their lives, they may be underestimating the impact healthcare costs may have on their retirement income.

Feeling confident about the affordability of retirement forms part of the desire to be able to age with a sense of certainty, autonomy and comfort, although for certain segments of the population in India, this confidence may feel far more distant. It can be of particular importance for individuals to remain in their home as they get older. Aging in place is of at least some importance to 92 percent of people globally and 94 percent in India – to 40 percent in India this is extremely important, against 36 percent globally. Subtle cracks however are appearing in the typical historical Indian household structure, where between three-to-four patrilineal generations live in the same house sharing family responsibilities. Urbanization, particularly of younger generations, has meant these structures are not always as commonplace as the family unit disperses.

As younger workers in India migrate away from the rural family home for job opportunities, they are potentially leaving aging parents behind, who then lack this previously-standard help at home. Unfortunately, the typical Indian family home may not always be best suited for individuals as they grow old and the body no longer is able to move around as easily or even keep on top of household chores. The previously assumed dependence on children and in-laws to live under the same roof may no longer be available to those growing old in India, with figures from the International Longevity Centre estimating that 20 percent of the older population live apart from their family. Through D.I.Y. adjustments and/or new technology, homes can be developed, or devices installed to help individuals age in place. Home security system (60 percent), age-friendly furniture (57 percent) bathroom modifications (55 percent) and medical alert systems to warn about changes in health (50 percent) are popular in India, with over half the population interested in these features. All these tools and modifications are designed to help maintain independence for people in India as they grow old. It will be integral however for these to consider affordability of these developments in later life to ensure people in India can remain in place as seamlessly as possible.

Part 5: Forging the new social contract

Why do we need a new social contract?
The retirement landscape is changing. As megatrends rumble on, affecting economies, political overtones and demographics, the way people live, work, and retire is in a state of evolution. The current Indian social contract, constructed in the early days of the country’s independence in the mid-20th century, is struggling to hold together despite efforts to evolve. With this agreement on who shoulders the responsibility for funding retirement struggling to stay in place, a new social contract must be formed. This new social contract must address the need for a redistribution of responsibility in how people fund and prepare for their retirement, while ensuring that the necessary tools, resources, and infrastructure are provided. It must honour the principles of sustainability and solidarity, while providing adequate safety nets that enable people to age with dignity, avoid poverty in old age, and ensure that vulnerable people are not left behind. Achieving success depends on building new collaborative relationships based on common objectives, benefits, and trust.

Who are the partners in the new social contract?
Governments take centre stage in orchestrating retirement systems in their countries making sure that everyone, especially at-risk segments of the population, is included. The Indian government is making headways here, and its recent schemes such as the National Pension Scheme and Ayushman Bharat. Employers help by offering workplace retirement savings and other benefits to employees. These benefits include skills training, healthcare and wellness. Individuals must take on a more proactive role in ‘owning’ their retirement security by assessing their own financial literacy and engagement with financial products. And new social partners like academics, think tanks, industry, charities and NGOs will work more closely in public-private collaborations to share expertise, innovate, and implement solutions. Schools and financial professionals have a role in preparing individuals to understand financial matters and implement financial decisions that can enhance their retirement security.

Nine essential design features of the new social contract are:
1. Sustainable social security benefits that serve as a meaningful source of guaranteed retirement income and avoid risk of poverty among retirees.
2. Universal access to retirement savings arrangements for employed workers and alternative arrangements for the self-employed and those who are not employed due to parenting, caregiving, or other responsibilities.
3. Automatic savings and other applications of behavioural economics that make it easier and more convenient for people to save and invest.
4. Guaranteed lifetime income solutions in addition to social security benefits. Education for individuals to strategically plan how to manage their savings to avoid running out of money, including a knowledge of the options to help them do so. Governments, employers and others should increase awareness of, and encourage individuals to take advantage of, opportunities to have a portion of their retirement savings distributed in the form of guaranteed income, such as an annuity.
5. Financial education and literacy so individuals understand basic concepts and retirement-related products and services. Individuals must be able to ask good questions and make informed decisions. Financial literacy must be integrated into educational curriculums so that young people learn the basics of budgeting, investing and managing their savings – skills that can serve them well for the rest of their lives.
6. Lifelong learning, longer working lives and flexible retirement to help people to stay economically active longer and transition into retirement on their own terms -- with adequate financial protections if they are no longer able to work.
7. Accessible and affordable healthcare to promote healthy aging. Governments play a vital role in sponsoring and/or overseeing healthcare systems. Employers should provide healthy work environments and consider offering workplace wellness programs.
8. A positive view of aging that celebrates the value of older individuals and takes full advantage of the gift of longevity.
9. An age-friendly world in which people can “age in place” in their own homes and live in vibrant communities designed for people of all ages to promote vitality and economic growth.
Appendix 1 – ARRI methodology

The 2018 ARRI is based on the sample of 14,400 workers, and has been developed to measure attitudes and behaviors surrounding retirement planning. Six survey questions (known as “predictor variables”) are used, three broadly attitudinal and three broadly behavioral:

1. **Personal responsibility** for income in retirement
2. **Level of awareness** of need to plan for retirement
3. **Financial capability/understanding** of financial matters regarding plans for retirement
4. **Retirement planning** – level of development of plans
5. **Financial preparedness** for retirement
6. **Income replacement** – level of projected income replacement

As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index score, the predictor variables are correlated with the dependent variable to obtain a measure of influence (known as an “R” value). The mean scores of the predictor variables are computed and each mean score is multiplied by its “R” value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

**Note on the effect of increasing the number of survey countries year-on-year**

The first Aegon Retirement Readiness Survey, published in 2012, was based on research conducted in nine countries. A separate survey in Japan was conducted and reported on later that year. Therefore, 2012 is regarded as a 10-country study. In 2013, two new countries (Canada and China) were added, bringing the universe to 12. In 2014, a further three countries (Brazil, India and Turkey) were added, increasing the universe to 15. In 2015, the overall size of the survey was maintained at 15 countries, although with the introduction of Australia and removal of Sweden. In 2018, the countries surveyed remained the same as 2017, 2016 and 2015.
Appendix 2 – Answers to the “Big Three” financial literacy questions

Correct answers to the “Big Three” financial literacy questions are highlighted in green below.

| Question 1 – Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow? | • More than $102  
• Exactly $102  
• Less than $102  
• Do not know  
• Refuse to answer |
|---|---|
| Question 2 – Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account? | • More than today  
• Exactly the same as today  
• Less than today  
• Do not know  
• Refuse to answer |
| Question 3 – Do you think that the following statement is true or false? “Buying a single company stock usually provides a safer return than a stock mutual fund.” | • True  
• False  
• Do not know  
• Refuse to answer |
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