



Japan Fact Sheet

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013

Contents

Introduction	1
<i>Key Findings</i>	1
<i>The Survey</i>	1
1. Retirement landscape	2
2. Japan country questions findings	2
3. The growing retirement income shortfall	3
<i>Japan is ranked at the bottom of the AEGON Retirement Readiness Index (ARRI), with lower readiness than in 2012.</i>	4
4. Dealing with the readiness shortfall	5
5. Sustainable solutions	9
<i>Government</i>	2
<i>Employers</i>	2
<i>Employees</i>	12

Introduction

Key Findings

- **Mixed feelings about retirement:** The most popular word associated with retirement is 'insecurity' (43%), followed by the more positive 'freedom' (37%) and the negative 'poverty' (22%).
- **Better employer pensions are demanded:** 35% believe that a better pension from their employer would lead them to save more for retirement.
- **Japan remains bottom of the AEGON Retirement Readiness Index:** Japan's score in the annual index has fallen slightly, and the country remains bottom of the twelve-country table.
- **Uncertainty dominates the future for many:** Nearly three-fifths (58%) of employees in Japan do not know if they are on course to achieve their desired retirement income.
- **People expect a bleak retirement in the future:** Over two-thirds (68%) expect future generations to be worse off in retirement than current retirees, and only 3% expect them to be better off.

The Survey

The findings used in this report are based on the Japan responses of a twelve-country study, in which 12,000 people were interviewed. Respondents were interviewed using an online panel survey and fieldwork was conducted in January and February 2013. The questionnaire dealt with a wide range of issues covering attitudes towards retirement preparedness, the role of the state and the employer in providing pensions, and the impact of the financial crisis on attitudes to issues such as investment risk and retirement planning.

In Japan 900 employees and 100 fully retired people were interviewed to provide a contrast between the responses of current workers and those already in retirement. All findings in this report are based on the Japan results unless otherwise stated. The survey did not include the unemployed, long-term incapacitated, homemakers, or the self-employed as each of these groups faces specific challenges in planning for retirement, which requires specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working population.

1. Retirement landscape

All of the countries researched as part of the AEGON Retirement Readiness Survey 2012 are faced with an aging society. Yet, Japan finds itself at the forefront of this demographic trend in experiencing what has been called its “Silver Century”. The country already enjoys the highest life expectancy in the world. Life expectancy at age 65 is currently 20.7 years, compared with an OECD average of 18.1 years. Life expectancy is predicted to exceed 90 years for women by 2050. According to data released in September 2012, Japan now has more than 50,000 centenarians while Japan’s women rank second in the international life expectancy table behind only Hong Kong. This trend towards an AGING society has combined with one of the lowest birth rates. As a result, Japan’s population is not only aging but it is also set to shrink in the coming century.

By 2050, the population is projected to decline from 127 million in 2012 to just 97 million. At the same time, the percentage of persons 65 years and older

will according to The Institute of Population and Social Security Research account for 40% of the total population in 2060. In 2013, the elderly accounted for 24% of the population. The number of persons in the workforce will decline by half from current levels. The Japan Institute of Population and Social Security Research (IPSS) projects that, by 2050, there will be 31 million fewer Japanese between ages 15 and 64, and that this group will shrink from two-thirds of the population today to just over half.

Japan is addressing these demographic problems by developing policies to help extend working lives beyond current retirement ages and efforts to boost fertility rates. Japan is seeking to increase retirement ages from 60 to 65 years in line with other countries. On April 1 2013 the age of eligibility for old-age employees rose, and also a scheme began to ensure that elderly employees are allowed to remain with their firm if they so wish.

2. Japan country questions findings

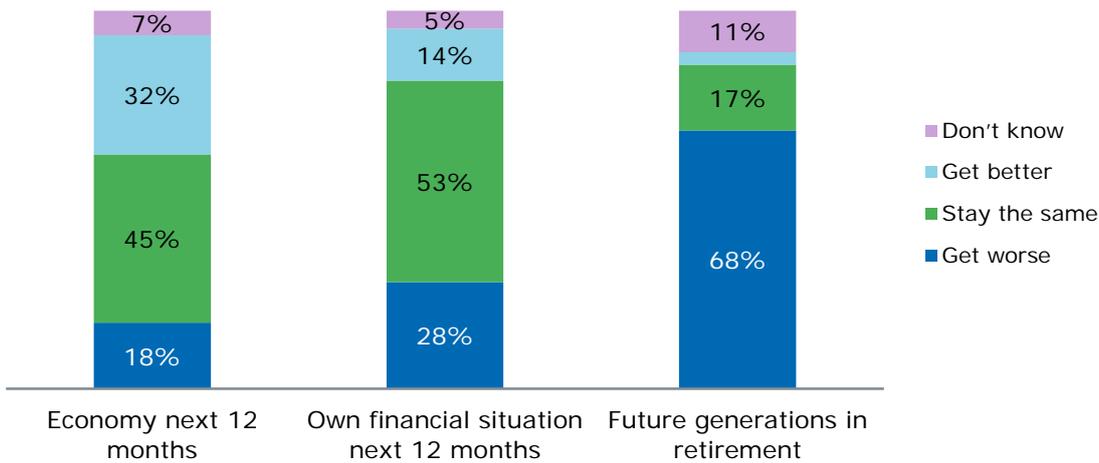
This year, respondents were asked some questions specific to the retirement situation in the Japan which produced some interesting outcomes. The most important results are summarised below:

- When asked how they would like to prepare an additional income to the state pension, most would prefer either an additional private pension or a bank account.
- Current retirees split on what they did with their lump sum of savings on retirement. 25% bought an annuity, 36% kept a bank account, and 33% bought an investment product they manage themselves.

3. The growing retirement income shortfall

Chart 1: Respondents are more optimistic about the present than the future: nearly a third think the economy will improve in the next year

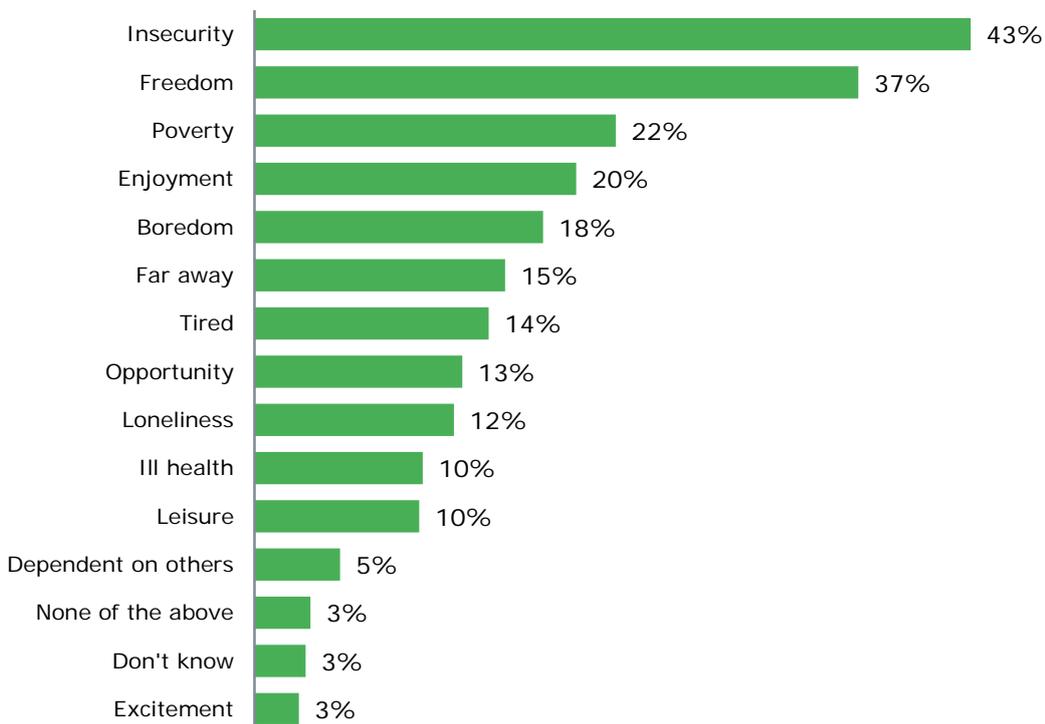
Q. Thinking ahead over the next 12 months, do you expect the economy in Japan to...?
 Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
 Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



In both this year's and last year's survey, a large majority of respondents in Japan believe that retirement is getting worse: 68% say future generations will be worse off in retirement than current retirees. There is more optimism in terms of the present: 32% believe the Japanese economy will improve over the next year.

Chart 2: Retirement is associated with insecurity more than anything else

Q. Which, if any, of the following words do you most associate with retirement? Please tick up to three words.



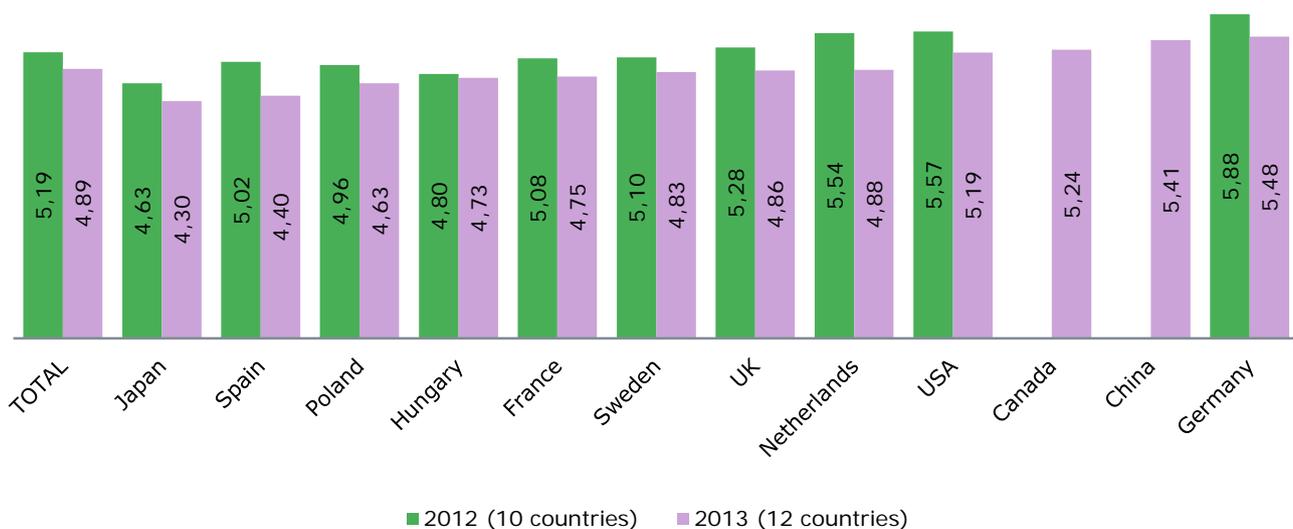
Japan is ranked at the bottom of the AEGON Retirement Readiness Index (ARRI), with lower readiness than in 2012.

This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- Three cover attitudes: whether employees accept personal responsibility for retirement income, whether they're aware of the need to plan for retirement, and whether they understand financial matters
- Three cover actual behaviours: the extent to which employees have retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required retirement income.

Chart 3: Responses are then correlated based on their importance in determining a respondent's saving profile, and each respondent is scored out of ten.

Readiness Index created by weighting the responses to six questions related to retirement readiness according to statistical importance

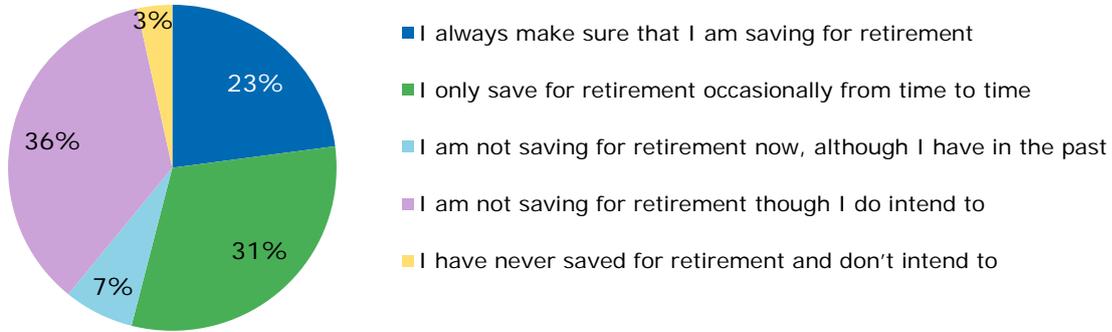


All countries saw their ARRI score fall this year, and Japan was no exception, with a rise in the number of respondents receiving low scores. As such Japan remains at the bottom of the ARRI. Noteworthy Japan findings from the questions comprising the ARRI include:

- Japan's low ARRI score is driven by its extremely high proportion (58%) of respondents who don't know if they can achieve their desired retirement income.
- 37% are hardly saving anything at all towards their retirements, rising to 42% of female respondents and even 24% of 55-64 year olds.
- 31% feel very aware of the need to plan for their retirement, but only 1% believes that their plans for retirement are well developed.

Chart 4: Nearly two-fifths of Japanese employees are regularly saving for retirement

Q. Which of the following best explains your approach to saving for retirement? This can include money you contribute to any long-term investment including pensions, stocks and shares, investment-linked insurances, property, etc. Please select the option below that is closest to your view.



4. Dealing with the readiness shortfall

Nearly two-fifths retired sooner than they had planned to, for mostly negative reasons

Whilst retiring sooner than planned is associated with negative reasons such as ill-health and unemployment, the global findings show that retiring later is associated with positive factors such as people enjoying their careers and wanting to keep their brains active..

Chart 5: Retiring sooner or later than planned

Q. Would you say that you fully retired from all paid employment sooner or later in life than you had planned, or at the age you had planned to?

Q. Which, if any, of the following were important reasons in your retirement from all paid employment sooner than you had planned? Please tick all that apply.

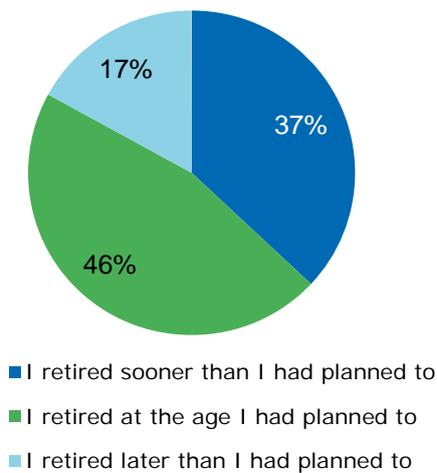
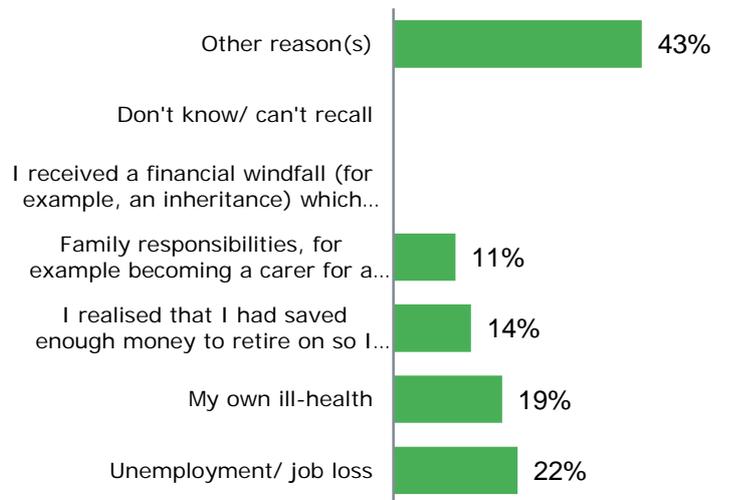


Chart 6: Reasons for early retirement



This finding is concerning since it suggests a lack of financial knowledge among respondents about what will be required to ensure a comfortable retirement: no backup plan means being dangerously exposed to poverty in old age if you find you can no longer work.

Chart 7: Nearly three-quarters have no backup plan for retirement

Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income?

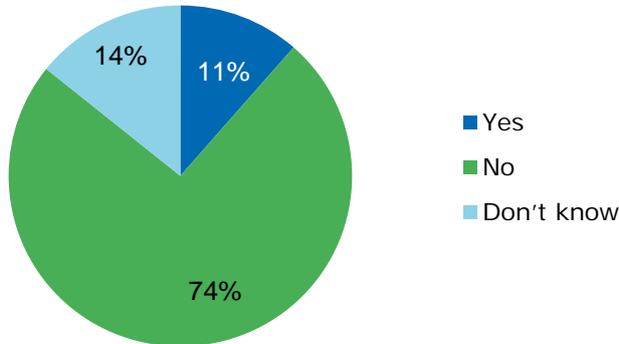
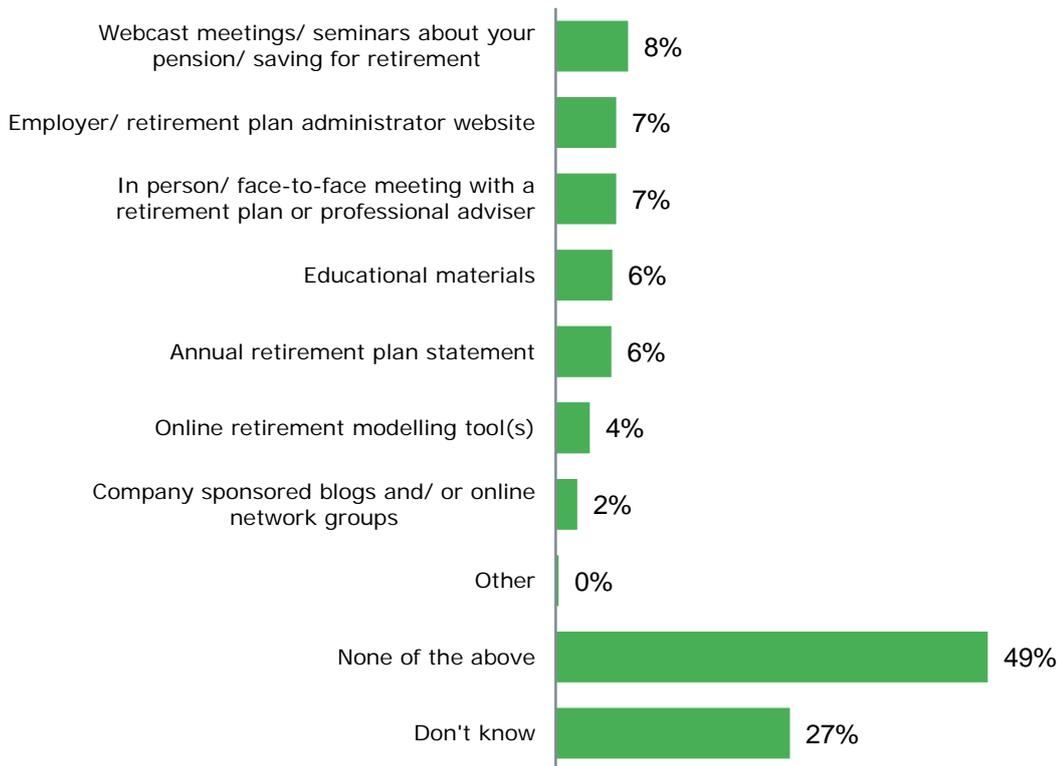


Chart 8: Retirement planning services are not widely acknowledged

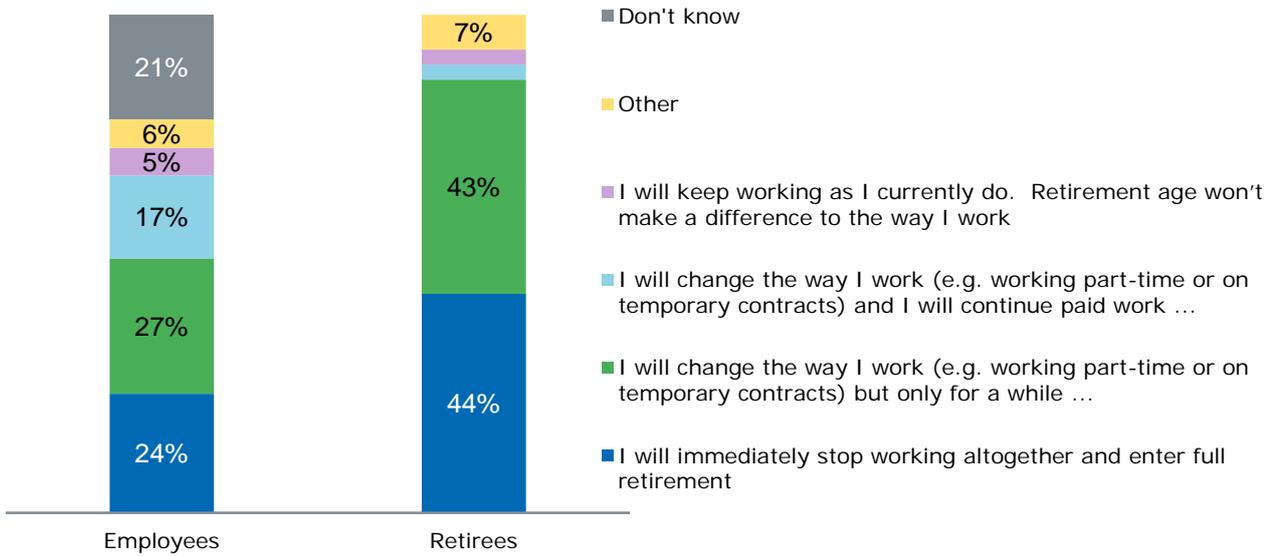
Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer to help you prepare for retirement?



Retirement planning services of any kind do not seem to be prevalent amongst Japanese employees, and over three-quarters are either not receiving such services or do not know about them.

Chart 9: As with last year, the survey shows there is no longer a retirement 'cliff-edge', people prefer a phased retirement

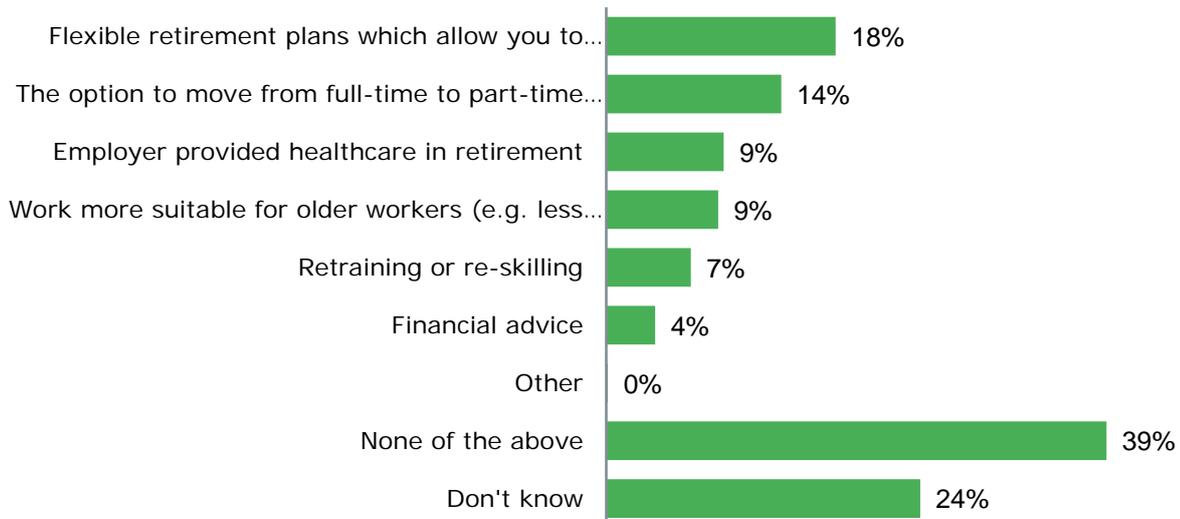
Q. Looking ahead, who do you envisage your transition to retirement?
 Q. Looking back, how did your transition to retirement take place? Please select the response closest to your view.



In this year's survey there is a stark contrast in Japan between current retirees, two-fifths (44%) of whom stopped working completely immediately on retirement, and current employees, only 24% of whom plan to do the same.

Chart 10: Despite enthusiasm from respondents, provision of 'Phasing into' retirement services is not the norm

Q - Which, if any, of the following services does your employer offer to help employees phase into retirement?

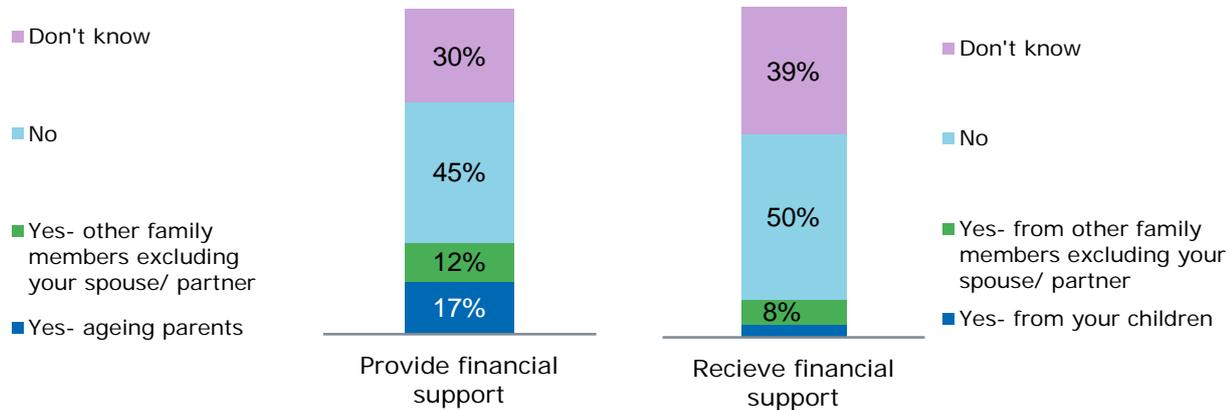


The survey questioned employees and retirees about the services their employers provided to help phase into retirement. A majority of employees feel they are not provided with any such services or do not know of them, though where retirement help is provided by employers, employees find the services useful.

Chart 11 & 12: There is significant uncertainty around the issue of financial support in old age

Q. Do you expect that you will need to provide financial support for your family (other than your spouse/ partner) while you are retired? Please tick all that apply. (BASE: NOT FULLY RETIRED)

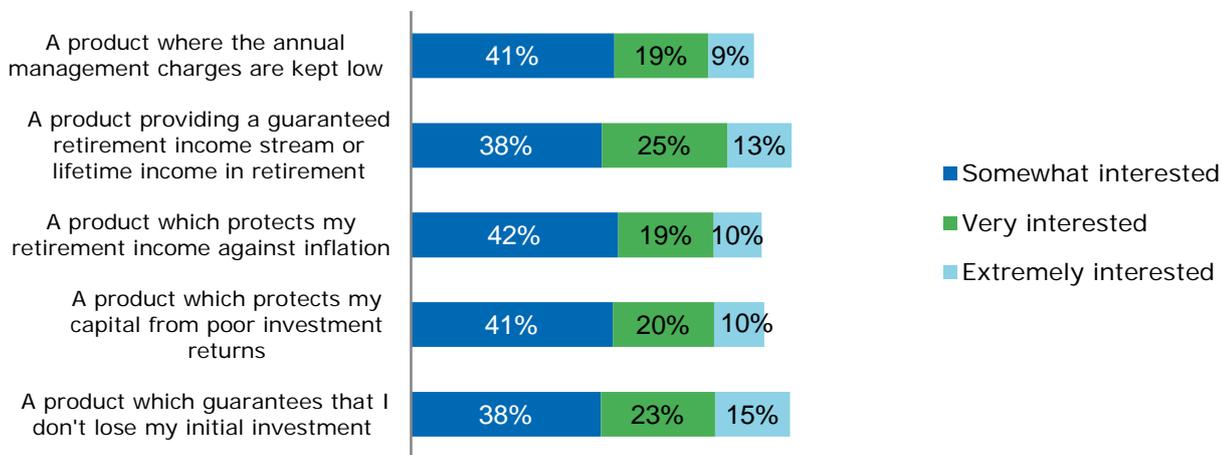
Q. Do you expect that you will need to receive financial support from your family while you are retired? Please tick all that apply. (BASE: NOT FULLY RETIRED)



The findings show retirement is seen in Japan as an independent life stage, with a majority expecting to neither provide nor receive financial support in retirement from family.

Chart 13: Risk management is a top financial priority

Q. On a scale of 1 to 5 how interested are you in the following options



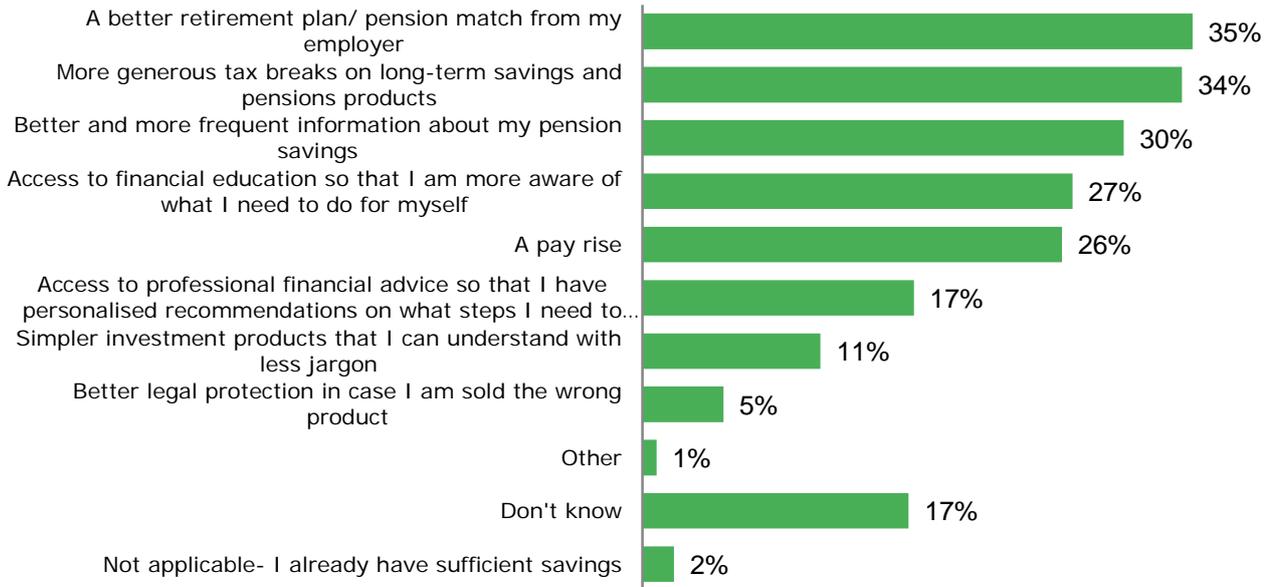
Popular financial products in the survey, both in this year's and last, are those which protect against risks such as inflation, poor returns or capital loss. Other results also support this finding:

- 44% agree that the financial crisis means they want to take fewer risks with their retirement savings, only 9% disagree. Interestingly younger respondents are less likely to agree, suggesting a greater appetite for risk.
- Of those using professional advice, an important service this provides for a quarter is making recommendations around long-term risk.
- How can retirement systems be made more sustainable in the future? The survey asked what can be done to make savings and pensions products more attractive, as well as how to better balance the role of the individual, the state and the employer.

5. Sustainable solutions

Chart 14: People would be motivated to save for retirement by better employer pensions and tax breaks

Q. Which, if any, of the following would encourage you to save for retirement?

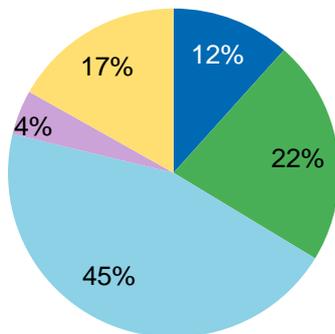


Alongside this finding on the importance of employer pension levels to encouraging saving, the survey also found:

- The uncertain economy is a disincentive to save for 27%.
- A lack of money to invest is putting off 25% from saving.
- Lack of trust in the financial services industry is a disincentive to save for only 4%.

Chart 15: A large majority would accept at least some tax increases to pay for the state pension system

Q. With the cost of government pensions becoming a greater concern as people live longer which, if any, of the following do you think the Government should undertake?

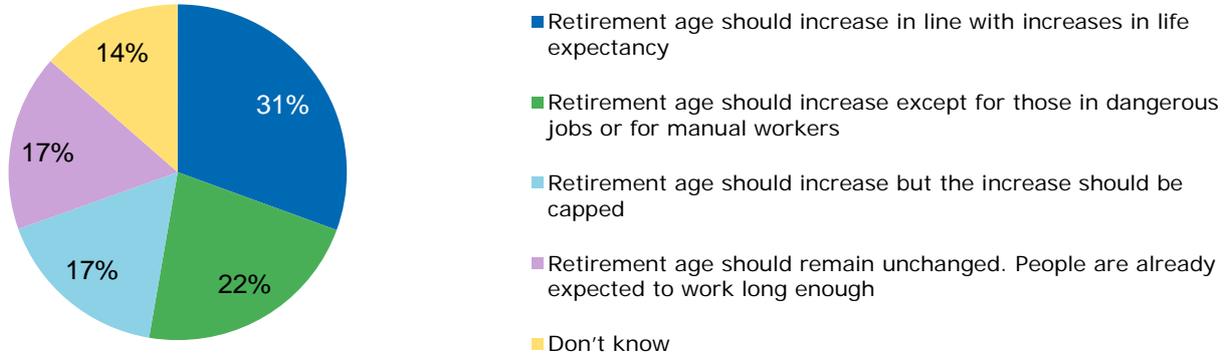


- The Government should reduce the overall cost of state pension provision by reducing the value of individual pension...
- The Government should increase overall funding available for the state pension through raising taxes ...
- The Government should take a balanced approach with some reductions in individual payments and some increases in tax...
- The Government should not do anything. State pension provision will remain perfectly affordable in the future
- Don't know

Difficult decisions are inevitable when it comes to reforming pension systems. Only a tiny minority – only 4% in Japan – believe the state pension will remain affordable, and the largest group (45%) believe a balanced combination of benefit reduction and tax rises are necessary to make the system sustainable.

Chart 16: Nearly a third think retirement age should rise with life expectancy

Q. To what extent do you believe that people should expect to work longer into old age as a way to offset the costs of people living longer?

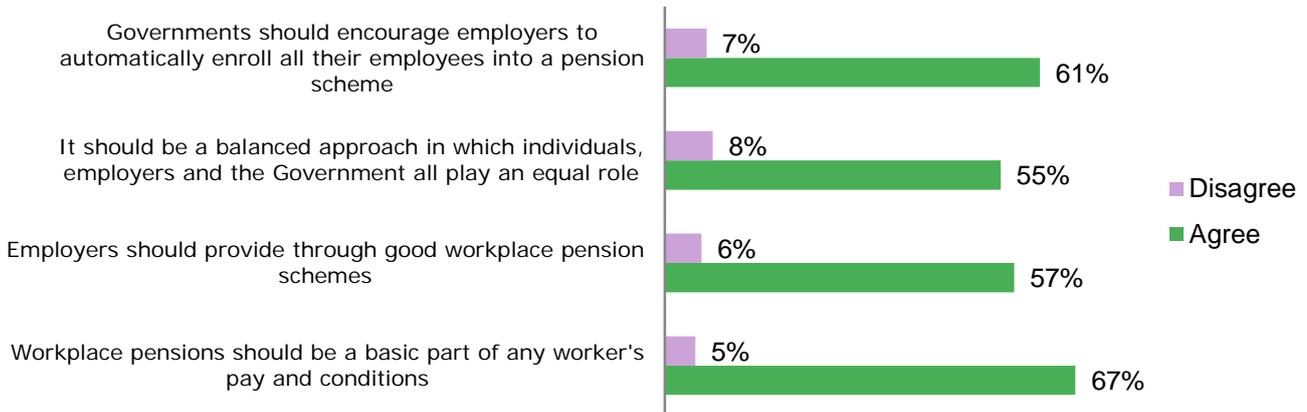


More so than in the other countries surveyed, many (31%) Japanese respondents are supportive of a rising retirement age constrained only by life expectancy. However this support is greatest amongst older respondents, only 24% of 18-24 year olds chose this option.

Chart 17: Respondents show overwhelming support for the role of workplace pensions

Q. To what extent do you agree or disagree with the following statements about taking responsibility for funding people's retirement? Please indicate on a scale from 1 to 5, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: ALL)

Q. Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements about your work, where 1 means you strongly disagree and 5 means you strongly agree. (BASE: NOT FULLY RETIRED)



The findings show that workplace pensions still have the support of the vast majority of respondents, as does the idea of auto-enrolling people into such a scheme. Elsewhere:

- Over three-fifths (64%) are worried that the financial crisis means their employer is likely to cut back on workplace benefits.
- Despite the support shown for workplace pensions, the most important source of retirement income for a plurality (39%) is the state pension.

6. Call to action

Government

Sustainability: Public pensions are still seen as the main source of retirement income, though there is widespread concern about sustainability

- Public pensions represent governments' major contribution to retirement readiness. To keep these pensions sustainable, they may require reforms which, by definition, involve either increase contribution levels (i.e., taxes) and/or reduce benefits (e.g., raising the retirement age for benefit payments, reducing benefit payments.).

Inter-generational fairness: Younger people reveal concerns about their future retirement and the increasing inter-generational burdens

- Pension systems must seek to provide fairness within and between generations. Efforts to relieve inter-generational burdens on the "squeezed generation" who anticipate having to provide financial support to elderly relatives and their children after they have entered retirement could see governments develop shared-risk options of funding new and growing areas of financial risk such as long-term care for elderly relatives.

Awareness: Lack of retirement readiness reflects growing uncertainty and the need for financial education

- With uncertainty driving down the retirement readiness – 39% simply do not know whether they are on course for a comfortable retirement – financial education programmes are required which support all age groups of employees from those young adults who are making important decisions about when and how much to save, to those in the pre-retirement age group thinking about how to turn retirement assets into income.

Employers

Flexible benefits: Employees greatly value workplace benefits; these benefits need to be redefined with a focus on shared risk and flexibility

- Workplace pensions provide a valued occupational benefit but employers could look to develop existing final and average salary pensions, as well as DC pensions, to encompass risk-sharing with employees through new models such as defined ambition. The impact of risk-sharing will need to be fully explained through comprehensive workplace information programmes to the whole workforce. Flexibility could also include more accessible workplace savings options which, as our workplace pensions report in 2012 showed, might prove more attractive to younger employees.

Flexible working: Employees want to consider options for flexible retirement which include working beyond current retirement ages

- Employers should enable and actively encourage employees to work beyond current retirement ages by offering suitable work in order to retain the skills and experience of older employees. Removing the barriers towards a flexible, phased retirement will require the removal of fixed (in some cases mandated) retirement ages, plus additional retirement planning services with training and re-skilling needed to make active ageing a reality.



Employees

Plan ahead: The lack of retirement readiness is a global concern – most employees will not be ready for retirement

- Although systems vary by country, people in all countries need to establish a plan making use of the various sources of advice to establish their long-term savings goals. All people should seek to start saving as soon as possible and do it regularly. Employees should have a back-up plan in case of unemployment or ill-health.

Make best use of the available support: concerns over state and workplace benefits need to be overcome – both will continue to provide important source of retirement income

- Personal responsibility is paramount but employees need to understand that government and employers will remain important sources of retirement support. It is important to work out the value of any government and employer entitlements and make sure that you are maximizing any personal contributions into both of these important sources of retirement income. Also consider what a phased retirement might consider and any practical steps you can take with your employer (such as retraining) to help you stay in work for longer.

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