



Japan Country Report

# The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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# Introduction

## Key findings and recommendations

- **Retirement associations are generally mixed:** Japanese respondents are more likely to associate retirement with negative terms such as 'insecurity' (44%) and 'poverty' (21%) than positive terms such as 'freedom' (38%) and 'opportunity' (13%). Overall, 66% of associations were negative while 53% were positive in Japan. This compares less favourably than the global averages where we find that 51% chose negative words whereas 70% chose positive words. These findings place Japan among the most negative countries in our survey with the exception of those in Eastern Europe (Poland and Hungary).
- **Japan ranks last in retirement readiness:** Japan scores 4.6 out of 10 on the Aegon Retirement Readiness Index and places last out of fifteen in our global rankings. Categorized as a 'low' score, this indicates that the average Japanese worker is generally underprepared for retirement.
- **Improvement is needed in retirement planning:** Reflecting Japan's low retirement readiness score, our survey finds that only 5% of non-retired individuals have a plan for retirement that is written down. A minority (35%) have a plan that is unwritten while the majority (53%) do not have any plan at all.
- **Employers can do more to offer retirement and planning services to their employees:** When asked what services are offered by employers to assist employees with retirement planning, half (49%) of workers claim to be offered none. The most commonly offered resource was webcast seminars about pensions and saving for retirement, available to just 8% of workers. Where offered, digital services were found to be most useful by employees. Two-fifths (42%) of those offered company sponsored blogs to be very or extremely helpful while a similar number (40%) felt the same about digital access to view and manage retirement savings.
- **A flexible transition to retirement will be the new norm:** Just one-fifth (21%) of current workers anticipate immediately transitioning into retirement upon reaching retirement age. One half (48%) expect to continue working in some form (whether part-time or on temporary contracts) for some time. For 6% reaching retirement age will have no impact on their working life, and will continue working as they current do.
- **Greater pension education of younger workers:** As concerns grow over the sustainability of Japan's public pension system, reforms may be needed that decrease benefits while also increasing contribution rates. Younger generations could be left frustrated, feeling the system is unfair. Meanwhile a general lack of knowledge of the pension system by younger workers leads to misconceptions about what to expect in later life. The government should play a role in educating this group about the current pension system as well as how to prepare for the future.
- **More tax incentives are needed to encourage saving:** Declining household savings in Japan is a major obstacle to retirement preparedness. The government should intervene to disrupt this decline by making saving more attractive. Further tax incentives on savings and allowing greater contribution into individual DC plans are key to improving the saving habits of Japanese workers.
- **Automatic rehiring should allow for upward mobility:** Employers automatically rehire employees at the age of 60 until 65, usually at a lower wage and less senior position. Employees should be able to continue working towards better jobs and better salary if they choose.
- **Start saving early:** Traditional retirement benefits, both public and private, allowed for generous income in later life. However in the modern era, this financial security is less guaranteed. To be sufficiently prepared for retirement, individuals must save regularly and from an early age.

## The Survey

The findings used in this report are based on the responses in Japan of a 15 country survey, in which 16,000 people were interviewed. Respondents were interviewed using an online panel survey and interviews were conducted in January and February 2014. The range of issues covered in the research include attitudes to pension preparedness, which are used as the basis of the annual Aegon Retirement Readiness Index, as well as looking at the role of the government and employers in providing retirement benefits.

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 Japanese 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 in Japan

Japan is unique among the group of countries participating in this year's survey. It has the oldest population in the OECD<sup>1</sup> and one of the world's largest funded pensions markets.<sup>2</sup> Public expenditure on old age benefits is high by international standards<sup>3</sup> while increases in life expectancy and negative population growth contribute to further population ageing occur over the coming years.<sup>4</sup> Japan's response to these challenges has presented unique public policies. The government has for example sought to reconcile increased longevity with work via mandatory rehiring of elderly workers- an experiment of significance to those countries that will soon be in a similar demographic situation.

Yet, high levels of public debt and diminishing levels of personal savings threaten to undermine the country's ability to finance the greying population.

Recent estimates cast doubt over the ability of the Japanese public pension system to maintain benefits at a rate equal to 50% of average working income by 2050.<sup>5</sup> Ballooning costs have not been helped by the government's risk adverse investment strategies which constrain financial returns of public investments.<sup>6</sup> Likewise limited incentives exist to provide a strong private savings base. If Japan stays on its current path, personal ownership of retirement preparation will be key if individuals are to avoid a substantial loss of income in later life. Reforms are in discussion that will affect these issues, however their effects are yet to be seen and there are formidable pressures opposing change. This report sets out the views of employees and retirees as to how the current economic climate affects their level of retirement preparedness.

<sup>1</sup> OECD (2013), *OECD Economic Surveys: Japan 2013*, OECD Publishing

<sup>2</sup> Towers Watson (2013), *Global Pension Assets Study 2013*

<sup>3</sup> OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators*, OECD Publishing.

<sup>4</sup> Bloomberg (2014), *Japan's Population Shrinks for Third Year as Aging Increases*, Bloomberg, 16 April 2014

<sup>5</sup> Nikkei (2014), *Future of Japan's pension commitment in doubt*, Nikkei Asian Review, 4 June 2014

<sup>6</sup> The Economist (2014), *Japan's pension giant: Risk on*, 15 March 2014, Print edition

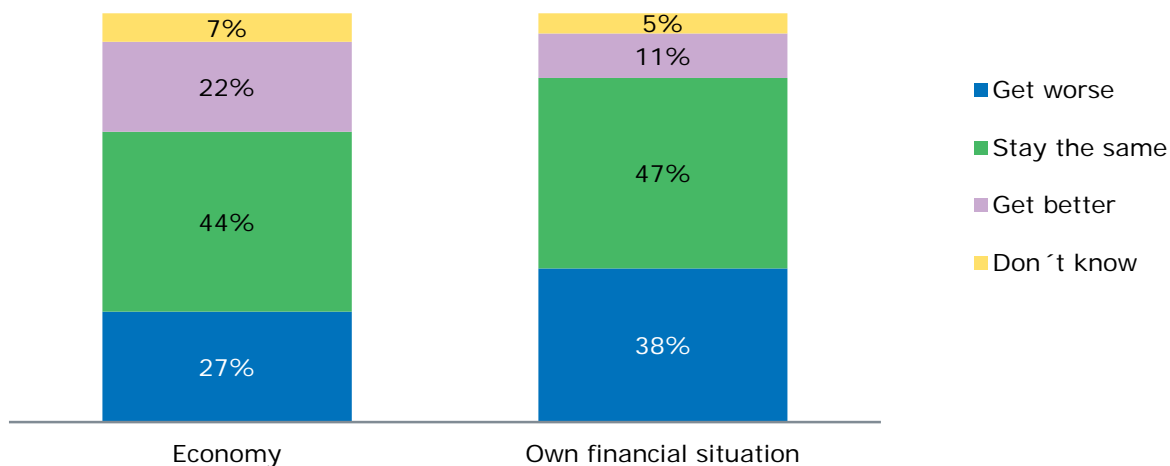


## 2. Retirement aspirations and expectations

Japanese economic performance has been mixed in recent years. Following negative growth in 2009 and 2011, annual GDP has stabilised and is expected to reach 1.4% for the fiscal year starting March 2014.<sup>7</sup> Meanwhile the Japanese stock market has recovered considerably as depreciation of the Yen coincided with a package of monetary easing and fiscal stimulus (known as 'Abenomics'). Respondents' expectations for the future reflect this uncertainty: only one-fifth (22%) expect the economy to improve over the next 12 months, while one-quarter (27%) expect it to worsen. A large minority (44%) anticipate economic performance to remain the same, a number similar to those who expect their own financial situation to not change (47%). Respondents' outlook for their own finances are worse than for the economy overall. One-in-nine (11%) feel their financial situation will improve over the next year while two-fifths (38%) expect it to worsen.

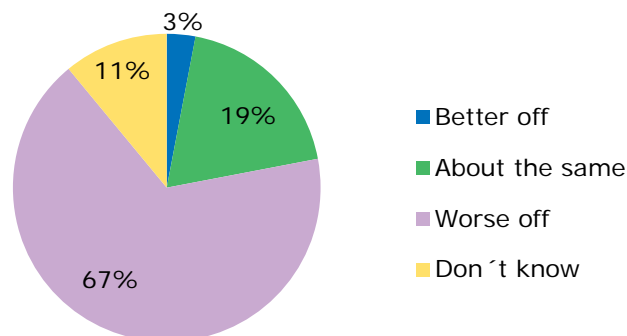
**Chart 1: Expectations for the economy are more positive than for respondents' own financial situations**

Q. Thinking ahead over the next 12 months, do you expect the economy in Japan to...? (Base: All respondents (n=1000))  
 Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?  
 (Base: All respondents (n=1000))



**Chart 2: Future generations of retirees are expected to be worse off**

Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?  
 (Base: All respondents, n=1000)



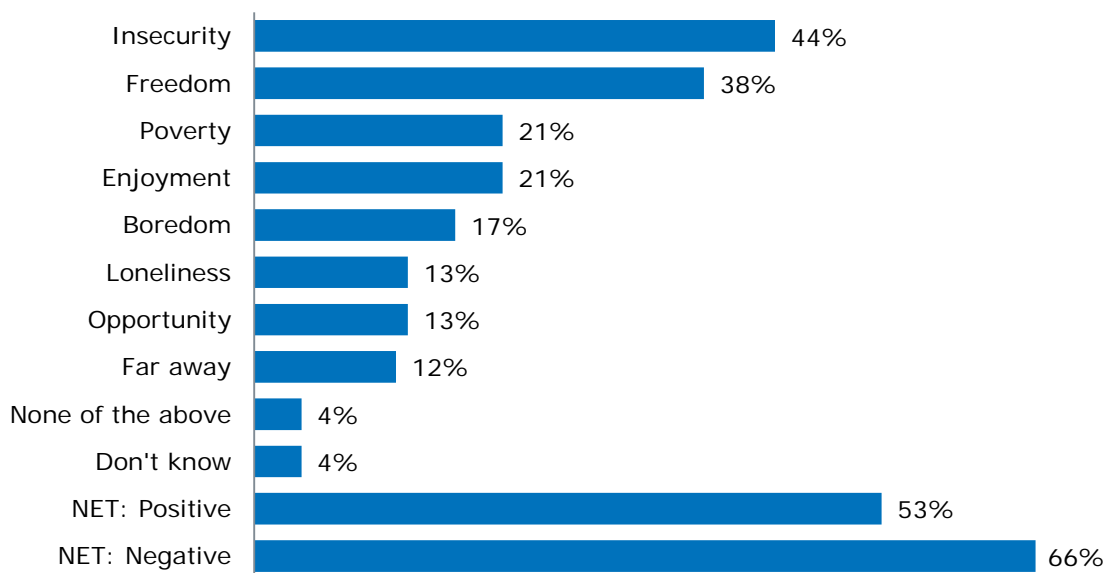
<sup>7</sup> Reuters (2013) Japan forecasts GDP growth of 1.4 percent for fiscal 2014, Reuters, 21 December 2013

Japanese workers have retained a very mixed attitude towards life in retirement. Overall associations are more negative than positive, and contrast the global average which presents a much more positive picture. Whereas globally 70% of associations are positive and 51% negative, in Japan these figures are 53% and 66%, respectively. When Japanese respondents were asked to select from a list of words associated with retirement, over two-fifths (44%) choose 'insecurity' and one-fifth (21%) 'poverty'. Yet associations are not all negative: two-fifths (38%) choose 'freedom' and one-fifth (21%) 'enjoyment'.

It is not surprising that a high proportion (38%) of retirees say that they do not feel financially comfortable in retirement. Current workers expectations of comfort in retirement are not positive. Less than one-in-ten (7%) are very or extremely confident that they will be able to fully retire with a lifestyle they consider comfortable while over half (55%) are not confident that they will be able to do so.

**Chart 3: Retirement associations are more negative than positive**

*Q. Which, if any, of the following words do you most associate with retirement? (Base: All respondents, n=1000)*



### 3. Planning for retirement

To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioural questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and 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.<sup>8</sup>

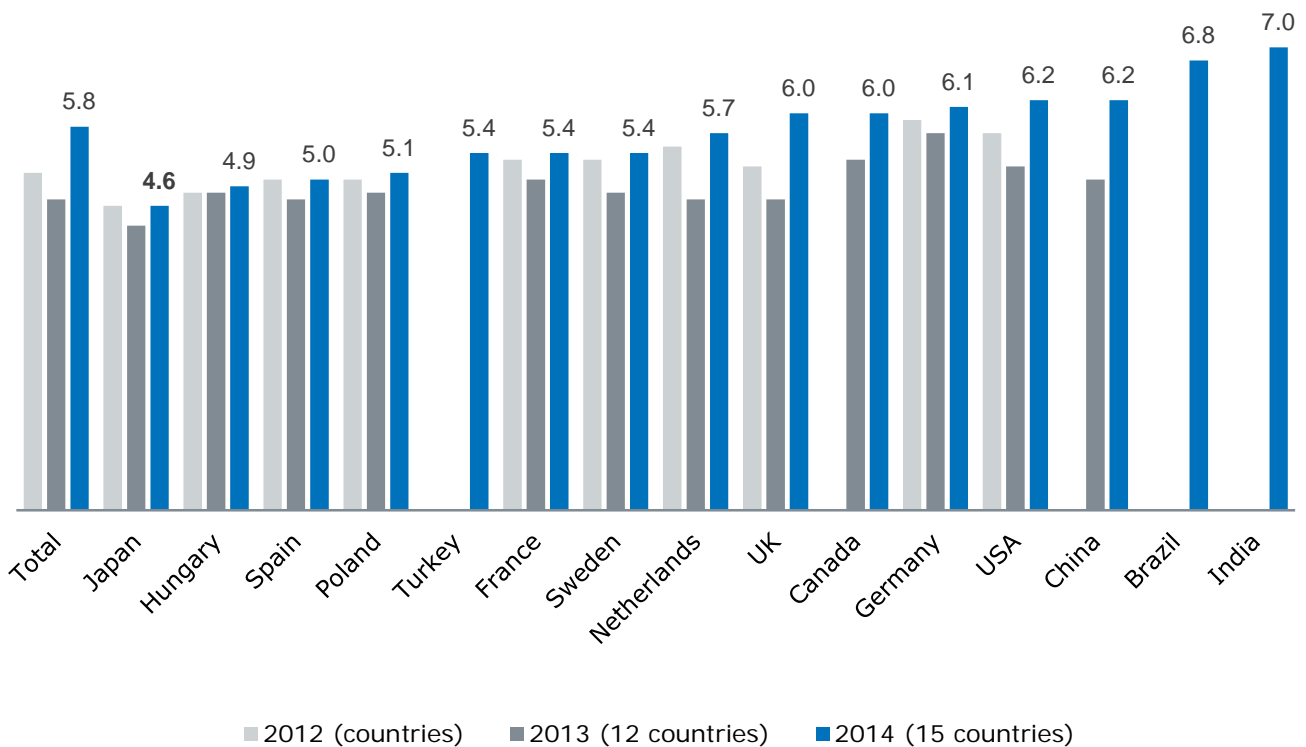
We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

<sup>8</sup> In order to create the index the six attitudinal and behavioral question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions 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.

Chart 4: Retirement Index Scores 2012-2014

Japan Retirement Readiness Index score			
2012	2013	2014	2014 Global Average
4.6	4.3	4.6	5.8

Chart 5: Japan ranks last in the Aegon Retirement Readiness Index in 2014



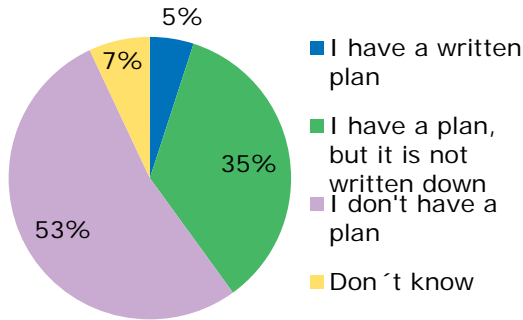
Japan's score of 4.6 out of 10 places it last in our global rankings, immediately behind Hungary and Spain. Brazil and India were introduced this year and now lead the global rankings. There was universal improvement of index scores this year, and Japan was no exception. However the 0.3 point increase was not enough to overtake Hungary for the 14th position.

Only one-fifth (19%) of non-retirees feel that their retirement plans are somewhat or very well developed and one-in-ten (10%) feel that they are fully on course to achieving the level of income they anticipate to need in retirement. Both of these findings negatively impact Japan's retirement readiness score.

Regarding planning, only 5% of workers have a retirement plan that is written down and half (53%) say they have no plan at all. Over two-thirds (71%) claim to not have a back-up in place for retirement savings in the case that they are unable to work prior to reaching retirement age. Yet, two-fifths (39%) of retirees left the workforce earlier than they had planned, a third (31%) of whom did so because of ill-health or job loss. This highlights that planning for the unexpected is an important element of retirement preparation.

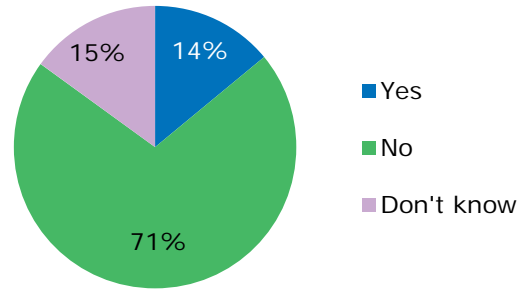
**Chart 6: Over half of workers do not have a retirement plan**

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)



**Chart 7: Almost three quarters of workers do not have a retirement back-up plan**

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? (Base: Not fully retired, n=900)

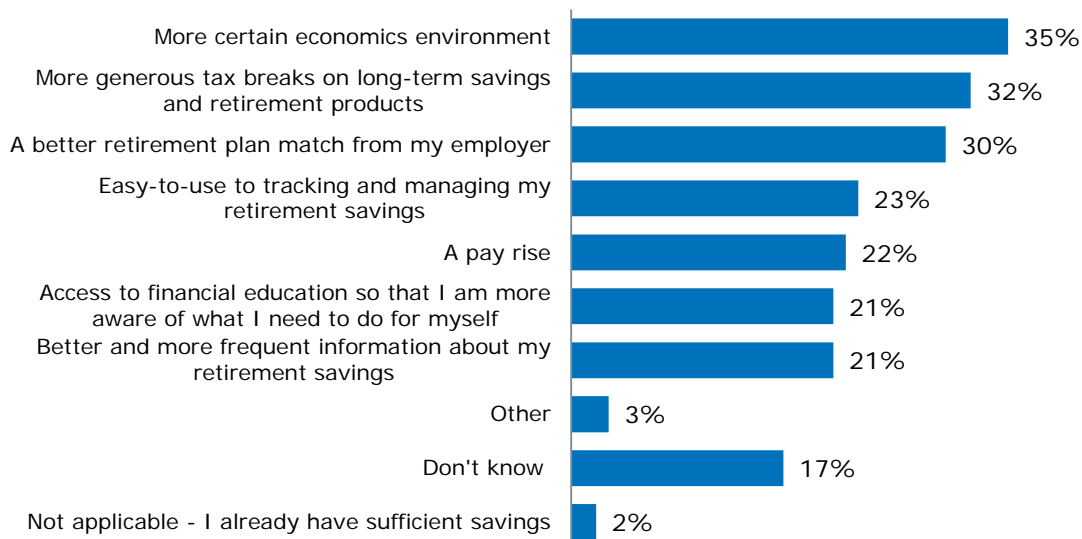


## 4. Making saving easy

Faced with the widespread shortfall in retirement planning, the uncertainty of the Japanese economy appears to be holding back people's ability to save into a pension. Over two-thirds (35%) of workers report that a more certain macroeconomic environment would encourage them to save. Two-fifths (42%) of non-retirees claim that a lack of money is an obstacle to saving and one-fifth (22%) say that a pay raise would encourage them to save for retirement. Other incentives would include more generous tax breaks on long-term savings products (32%), better employer matching in a workplace scheme (30%) and easy to use access to tracking and managing savings (23%).

**Chart 8: A stronger economy, tax breaks, and better employer matching encourage savings**

Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)

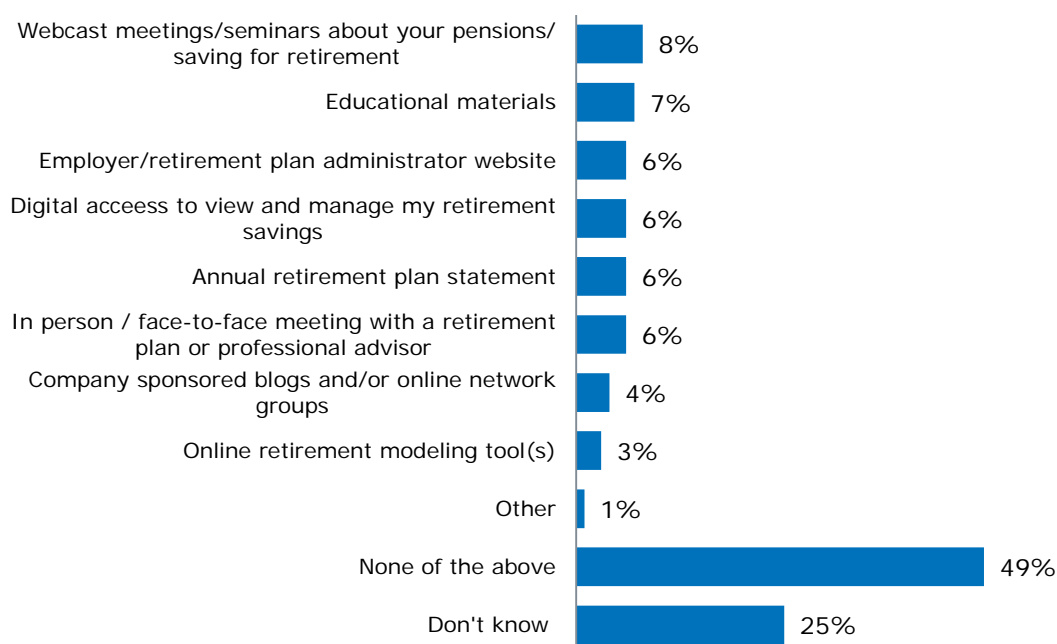




Incentivising workers to save for retirement will involve the help of both governmental and employers. However, most employees in Japan feel that their employer could be doing more or are unaware of what is available. The most commonly offered retirement planning service is webcast seminars, which is claimed to be available to only 8% of workers. Similar numbers of employees say that they are offered educational materials (7%), employer/administrator plan websites (6%), digital access to savings (6%), annual statement plans (6%) and in person meetings with an advisor (6%). Half (49%) of employees claim that they are not offered any services and a quarter (25%) do not know- suggesting potentially low levels of interest or engagement.

**Chart 9: Half of employers offer no retirement planning services**

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? (Base: Not fully retired, n=900)



Traditional work patterns are giving way to a more modern labour force. Changing employers, part-time work and work gaps are becoming more commonplace in Japan. In particular, women are more likely than men to periodically leave the formal labour market to raise children. Yet the obstacles facing women seeking to balance work and family life make saving for retirement difficult. For one, making premium payments for the entire duration of the 40 years' required by the National Pension for full benefits is difficult for many.<sup>9</sup> In this case the woman may receive benefits through the spousal category of their partners' plan, yet achieving pension income independent of their spouse may not be possible. Part-time work is more suitable for those needing to regularly take time away from work for care giving but is excluded from accruing rights to the Employee's Pension.<sup>10</sup> Beyond further cultural barriers, these are areas where the government could lead policy change to improve retirement readiness through a more gender inclusive work environment.

<sup>9</sup> National Institute of Population and Social Security Research (2014), *Social Security in Japan 2014*. <http://www.ipss.go.jp/s-info/e/ssj2014/003.html>

<sup>10</sup> *ibid*

Japan faces a range of obstacles to ensuring adequate retirement preparation for individuals. High public debt threatens to undermine the country's ability to finance benefit payment to the large elderly population. Household saving has been in decline since the 1980's,<sup>11</sup> to the point where now 31% of households have no financial assets.<sup>12</sup> Yet in spite of these challenges, still little is being done to encourage saving. For example, limited tax incentives exist for contributions to retirement savings. Tax incentives are in place on savings up to 5.5 million yen in the worker's property accumulation savings and a tax deduction on the private pension insurance premium of up to 80,000 yen annually. Likewise a risk adverse investment strategy of public funds is claimed to prevent the government from receiving the returns it needs to cover benefits in payment.<sup>13</sup> The Government Pension Investment Fund (GPIF), the largest public-sector investor in the world, has historically focussed on local bonds and other low-risk investments, lacking the freedom awarded to Canadian or Australian pension pots to seek higher return, higher risk investments.<sup>14</sup> Estimates have shown that by 2050, it is doubtful whether the public pension system will be able continue paying benefits of value equal to 50% of average working income.<sup>15</sup> Shinzo Abe's government has sought to break from the bureaucratic constraints imposed on the fund including an overhaul of the structure of the Government Pension Investment Fund. They are determined to remove the limits on holdings of domestic stocks to allow fund managers to manage assets more dynamically. If the country is to foot the bill of upholding the oldest population in the OECD, higher returns on investments are needed.

## 5. A flexible transition to retirement

More obstacles emerge when we explore the aspirations of Japanese workers to transition into retirement. The traditional wage system in Japan operates on a seniority principle where remuneration grows with length of service. Workers' salaries continue to increase throughout their lifetime, however there are concerns over slowing productivity in later life. A mandatory retirement age is in place at 60 to address this wage-productivity gap. As the pension benefit starts at the age of 65, the employer is required by law to release and re-employ the employee at 60 until 65, usually at lower wage. Workers staying in the labour market longer is an important way to ensure that the social security system is sustainable under the pressure of population ageing. Yet preliminary studies have shown the benefits are limited to larger firms and the rehiring does not necessarily involve the worker resuming the same role as held previously. Assuming another position, for less pay, within a subsidiary of the company is a possibility for many older workers.

Most workers in Japan do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is the likely path for half (48%) of workers. Only one fifth (21%) expect an immediate transition into retirement while 6% report that they will continue to work full time after reaching the retirement age. Despite this trend, comprehensive retirement options are not readily available for those wishing to keep working beyond normal retirement age. The option of switching from full- to- part time work is offered to just 17% of employees. Moreover, only 16% say that they are able to work beyond the usual retirement age. One-fifth (22%) are unsure of what options are available, suggesting that where offered, employers would benefit from improving communication around the availability of a flexible retirement transition.

<sup>11</sup> Pyramis (2014), *Japan's Economic Challenges: Potential Sources of Volatility*.  
<http://www.pyramis.com/ecompendium/us/articles/2014/q1/financial-markets/japan-economic-challenges/index.shtml>

<sup>12</sup> *The Japan Times* (2013). 31% of households lack financial assets. 8 November 2013.  
<http://www.japantimes.co.jp/news/2013/11/08/business/economy-business/31-of-households-lack-financial-assets/#.U5WisHJdV1Y>

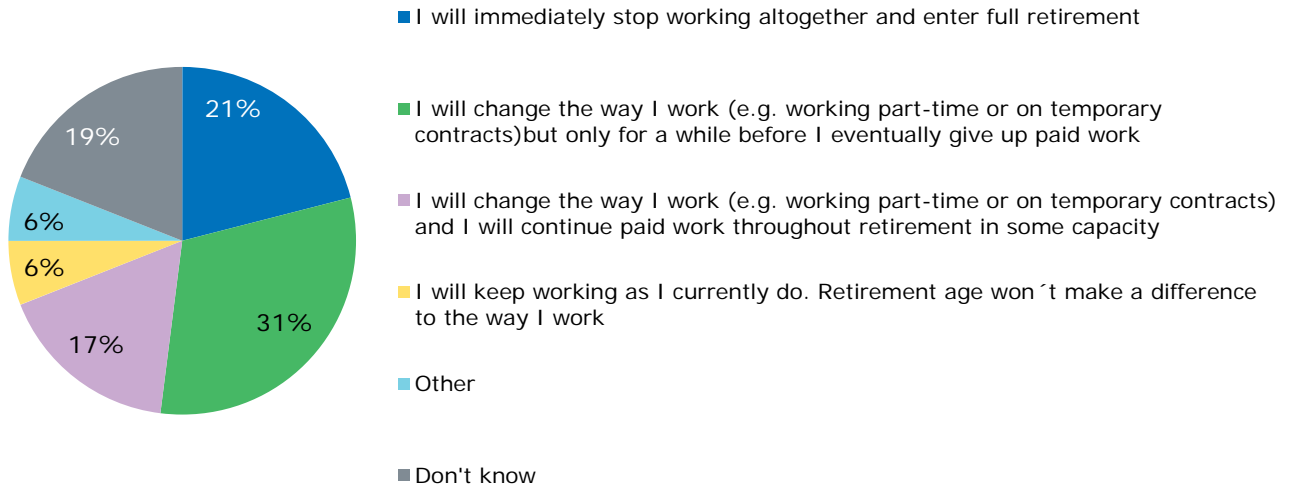
<sup>13</sup> *The Economist* (2014)

<sup>14</sup> *ibid*

<sup>15</sup> *Nikkei* (2014)

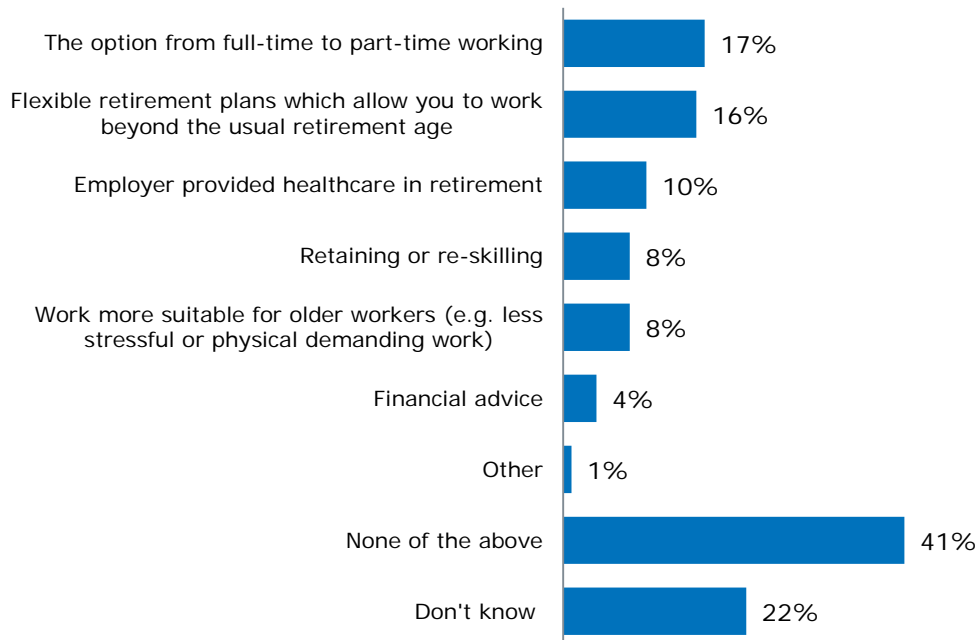
**Chart 10: Only one-fifth expect to retire immediately**

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=840)



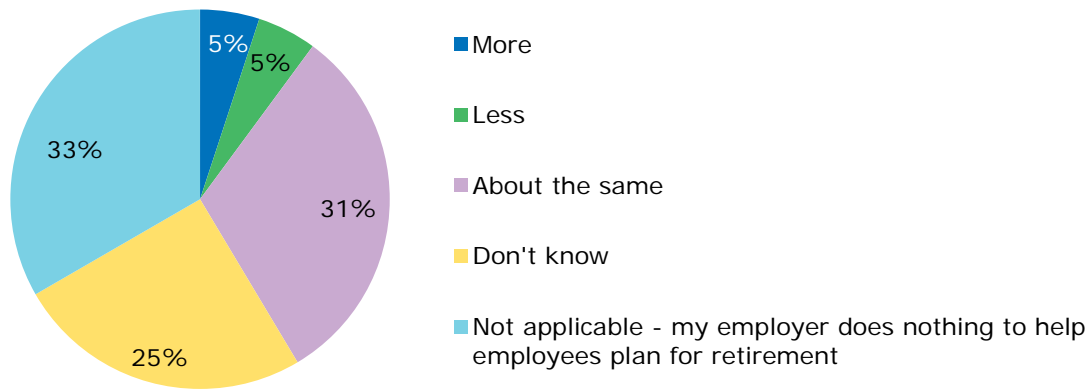
**Chart 11: Less than one fifth of employers offer workers to move from full- to part-time work**

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)



### Chart 12: Retirement services offered by employers have not improved over the past three years

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: Not fully retired, n=900)



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#### Media Relations

Telephone: +31 70 344 8956

Email: gcc-ir@aegon.com