

The formula for retirement happiness

✓ Accumulated assets play an important role in determining retirement readiness. But as State Street Global Advisors' recent Global Retirement Reality Report highlights, people in the best-funded systems are not necessarily the happiest. What can retirement plan providers and policy makers learn from this and how can they support workers in feeling more secure about their future retirement?

Earlier this year, we conducted an online survey to ascertain the multi-dimensional drivers of happiness in the context of retirement. Our 9,451 respondents were spread across eight countries and covered every stage of the retirement spectrum, from those new to the workforce to those later in retirement itself.

We were intrigued to find that the familiar, quantitative studies weren't telling the full story, given the gap between savings sufficiency and optimism about one's retirement future. Delving into the factors driving the gap, we identified trust (in the system), ownership (at an individual level) and preparedness (as a measure of retirement readiness confidence) as the key components in the formula for retirement happiness.

Trust in the system

For workers who have lost trust in their retirement savings system due, for example, to opaque information, constant rule changes or lack of conviction that the system can deliver the promised benefits, their overall retirement experience and expectations are negatively impacted.

The Netherlands, for example, which in our survey has the lowest score on trust, can expect significant increases in the retirement age and still faces a rising burden on public spending. In contrast,

Sweden, the highest scoring country on trust, has stabilised retirement ages and public spending on pensions.

To keep trust buoyant, it's critical that policy makers and plan providers support individuals by communicating system changes with sufficient advance notice and maintain messaging on a regular and predictable basis. Providing clear and comprehensible illustrations of the probable impacts of reforms is also essential.

Individual ownership

Our survey highlights that workers who have accepted responsibility for their retirement are happier. Equally, those who feel in control of their retirement plan and understand the choices they can make feel more secure. For example, the high degree of ownership in Ireland raises the country significantly in the happiness rankings despite its relatively low level of trust and accrued pension assets. The opposite is true for the Netherlands, where participants who are used to a collective system are reluctant to embrace individual responsibility for their retirement.

Policymakers and plan providers can foster a sense of ownership among workers by establishing a 'how to' saver narrative, where the steps to success are clear and attainable. Connecting the impact of saver actions to saving outcomes is also a critical element in

promoting ownership. This can be done by illustrating how changing one's savings rate, investment allocation or retirement age can affect overall retirement readiness.

Financial preparedness for retirement

Preparedness describes individuals' assessment of whether they are financially prepared for retirement. The US led the confidence ranking in our survey, with a third of US respondents citing extreme confidence. Half of the respondents in the UK and the Italy reported being 'not at all confident', the lowest responses in the survey.

Industry leaders can leverage trust and ownership to improve employees' level of preparedness by providing savers with regular statements showing accrued assets and translating those savings into a projected monthly income. Providers should also focus on offering competitively priced and thoughtful retirement income solutions that balance flexibility and security in order to provide retirees with liquidity in the early and more adventurous years of retirement and stability when it's needed most.

Above all, combining the three components of the formula for retirement happiness – trust, ownership and preparedness – will improve confidence, empowerment, discipline and accountability across the retirement savings complex, for the benefit not just of individual savers but for societies as a whole.

For more details on our Global Retirement Reality Report, please visit www.ssga.com/gr3 where you'll find additional content, including regional-specific reports on the eight countries surveyed.

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