

# Is It Tomorrow, Yet?

## Anxiety and Saving in a Risk Society

(Comments on AVIVA's report "Understanding Consumer Attitudes to Saving")

Ivan Krastev and Ilian Mihov\*

The report prepared by AVIVA and the underlying survey of consumer attitudes to saving are both timely and insightful. The survey of more than 100,000 consumers creates an invaluable database which is stunning in scope and depth. There are many lessons that we can learn from the survey and, indeed, the report provides a useful summary and a very interesting interpretation of the data. The report highlights several key issues:

- Consumers are focused excessively on the short term
- They feel financially vulnerable
- Households in most countries feel anxious about having insufficient funds for retirement
- We observe high level of risk aversion.

In sum, the report indicates that *consumers were paralyzed by uncertainty*. They are anxious, short-term minded and risk averse. In the surveyed period/2004-2008/ anxiety has grown in all societies regardless of divergent political regimes, cultural traditions and economic well-being.

The key conclusion is clear and alarming: The anxiety about sufficient income during retirement is not matched by adequate saving behavior, which presents a social, political, financial, and economic time bomb. We refer to this observed inaction as *anxiety paralysis*. The report is alarming because of the major change in demographic trends around the world over the past 30 years: the composition of the world population is changing with the old-age group rising rapidly in percentage terms. It is now undisputable that the combination of the economic slowdown and aging population will make it very difficult for the developed countries to sustain the standards of living of the retired people in the years to come. It is also evident that many of the premises on which modern welfare states are founded are not relevant any more. The implicit liabilities related to the welfare system in advanced economies are simply staggering. The current economic crisis and the need to find a solution for the pension crisis force us to *re-interpret* the world in which we live. Simply, the world is different. Or, as a popular Indian birth control commercial goes: "the world is not what it used to be".

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In this new intellectual context AVIVA's report gives us a rare opportunity to interpret the recent dynamics in savings, the impact of the global economic crisis and to recommend policy response. Our key argument is that to a large degree, the findings of the report can be rationalized with one significant development in the global economy over the past 20 years – the effect of wealth on consumption and saving. Fundamentally households' saving behavior depends on income (current and future), interest rates (or rates of return), preferences, taxes, financial development and wealth. The internet bubble in the 1990s and the more recent house price bubble in the early 2000s generated a perception among households that they were wealthier. The effect of increased wealth on saving is clear: higher wealth leads people to save less because they feel that they can sell their property or shares in companies in order to provide for their retirement or future consumption. All of this is good unless the bubbles burst and households find themselves with much lower expected future income. Our interpretation of the anxiety paralysis is that households felt that they were preparing for their retirement by investing in real estate, but they also understood that this investment is not the usual type of saving – they were anxious but they also felt that they were doing something.

The report points out explicitly to the presence of a wealth effect on several occasions. In the essay we discuss the wealth effect in the US and other advanced economies, as well as the inverse wealth effect, or the "poverty effect" in the case of China. The wealth effect helps not only understand the past and the consumer attitudes as captured by the survey, but it also helps in the interpretation of the crisis and most importantly it helps in the discussion of future scenarios for consumer behavior.

In our analysis of the data and the report, we emphasize the following issues:

- The wealth effect plays a crucial role in the understanding of consumers' behavior;
- The changing life cycle has generated the desire to feel young longer, which explains the increasing consumption (falling saving);
- The biggest threat to the stability of the system is the short-term behavior of governments. Consumers react to incentives and if the government structures the incentives for saving right, then saving will increase.
- The middle-income countries are most worried about their financial future and their pensions.
- Neither income levels, nor the regret of the current generation of pensioners in a given society, nor consumers' trust in financial institutions are a reliable predictor on the readiness of people to save.
- Somewhat surprisingly, the belief that the government will help in retirement is the best predictor for the emerging patterns of consumers' behavior. In high trust societies, societies where majority of the people are confident that government will help its pensioners, the growth of anxiety results in higher savings and increase in purchases of insurance products. In a low trust societies, societies where majority of people tend to believe that government will not take care for the people in retirement age, paradoxically enough, the growth of anxiety leads to decrease in saving and decrease in buying of insurance products.

The essay starts with some review of population statistics and the unsustainability of the Pay-As-You-Go systems. After setting the context, we describe the wealth effect in the US and China and we point out to evidence of the wealth effect in the report as well as in macro data. Then we proceed with a discussion of the anxiety paralysis, consumer short-termism, and the rise of conspicuous consumption. We finish the essay by introducing the concept of a “risk society” and the role that governments play in understanding consumer behavior. The conclusion summarizes our findings and policy prescriptions.

### *The Future Will Not Be Better Tomorrow: The Economic Consequences of Aging*

The world population is growing and graying. The number of people living today is greater than the number of people that have ever lived on the earth before. The world population was around 270 million in the year 1000. It reached one billion people around 1820. It is around 6.5 billion people today and according to the current UN projections will grow to about 9.2 billion by 2050. The world is also aging. The fertility rate is globally in decline while the life expectancy is growing in most parts of the world. The median age of the world population today is 29 years but it will be 38 years by 2050. And while aging is a global trend, some societies are aging earlier than others. In 2050 the median age in Europe will be 47 years, in China 45 years and in America 41 years. The number of people aged over 60 will reach one billion already by 2020. Population aging is an unprecedented change in the demographic dynamics. It is difficult to overestimate the economic and social impact of this change. The perspective is of overtaxed societies and miserable pensioners. Although most of the developing countries should start to worry about the growing numbers of people in retirement age not earlier than 2030, the problem knocks on their doors too.

The possible solutions to the economic problems of aging are well known but implementing them amounts to nothing less than political and institutional revolution. They fall into five categories: encourage people to have more children; raising the participation in the workforce of people who can work more and longer but don't; raising productivity growth so that those at work contribute more to society and the economy; sustaining or increasing high levels of immigration and finally, paying attention to inadequacy of savings, which, in many countries, threatens to cause financial problems when resources have to be transferred between generations to ensure adequate financial security for today's and tomorrow's retirees.

Historically, policies aimed at increasing fertility rates have failed to deliver. At the same time the IMF has calculated that for the advanced societies to preserve their current ratio of working population as percentage of the total population in 2050, the overall participation rate would have to increase by more than 10 percentage points. For comparison in the period 1960 to 2000 when arguably economic and social conditions were as favorable as they could, the increase of the participation rate was just over 6 percent. When it comes to immigration the projections are even less encouraging. On average, in advanced economies in the four decades to 2000, total immigration as a share of the total population was about 6 percent. By 2050, immigration would have to go as far as 30 percent of the population to keep the relative size of the working population the same as it is today. Politically, this is hardly an option. The hope that productivity growth can compensate for the problems of ageing is also a risky bet.

### *The Greatest Ponzi Scheme of All*

The need for reform is most urgent in countries where Pay-As-You-Go systems are still in place (at least partially). It is evident now that many of the premises on which modern welfare states are founded are not relevant any more. Retirement pensions for example, were designed to allow people to stop working and enjoy their last years in relative comfort while making room for younger workers. The welfare state was a response to the threat of unemployment and was financed by the excessive supply of young labor coming from the baby boomers. In reality, the Pay-As-You-Go pension system is akin to a Ponzi scheme – as long as there is an increasing inflow of workers, benefits could be paid out to the retired out of current contributions. With changing population dynamics the inflow of workers goes down and their contributions become insufficient to pay out the benefits to the retirees.

The dependency ratio defined as the number of old and very young people as percentage of the working population (between 15-64 years old) in most of the world is changing dramatically and the traditional Pay-As-You-Go state pension systems are already under stress. And while the scandalous Madoff Ponzi scheme involved about \$50 billion in assets, in the US alone the present discounted value of the unfunded pension, healthcare and other future liabilities of the US government are in excess of \$50 trillion.<sup>1</sup> To put this in perspective, US federal debt in 2008 was about \$10 trillion. Thus to finance the pension crisis by borrowing will imply that the US debt will have to increase by a factor of 4 or 5 and reach numbers close to 350% of GDP! This is simply not feasible.

Demographic trends and increased lifespan in advanced economies have made the system unsustainable: Pension providers – governments or private companies – have to pay pensions 18 years for men and 23 years for women. Time and age have moved on and in many countries, for the first time ever, there are already more people of pensionable age than there are children under 16 years old - and the imbalance is going to increase over the next 20 to 30 years. It is old age dependency that is growing most dramatically and the calculations show that the cost of sustaining a young man is lower than the cost of sustaining an old man. The financial burdens on societies will mount and the reform of the pension systems in most of the developed countries is just a matter of time.

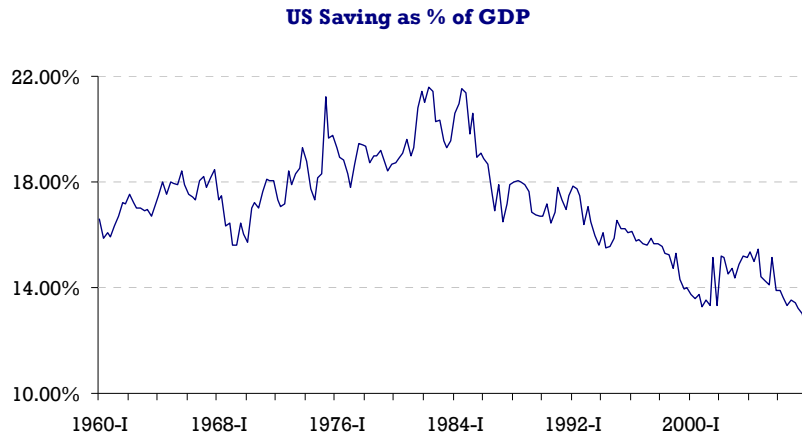
So, George Magnus is right when in his book “The Age of Aging” he asserts that “new forms of social or welfare capitalism will be required to shift to a greyer world-as well as to manage the implications of the climate change, globalization and other social issues.”

### *Why did Americans fail to save? The Wealth Effect*

Private saving in the United States has been fluctuating between 16 to 22% in the years from 1960 to 1995. Since 1995, savings dropped to 13.5% , by year 2000 recovered to 15% and after 2004 there has been a continuous deterioration in savings in the US. Why did the US saving rate plummet so much in recent years?

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<sup>1</sup> This comes from the original calculations of Kent Smetters in his testimony to the Congress.



The main reason for this rapid change is the so-called *wealth effect*. The booming stock market in the late 1990s made more Americans feel richer, so they started spending more money on consumption goods out of their disposable income. As the bubble burst, saving rates recovered, but only temporarily. The boom

on the housing market since 2002 created another wealth effect – many consumers regarded the increase in real estate values as a permanent change in their wealth and they started spending even more money out of their disposable income. Often this spending was financed by a home equity loan – i.e. borrowing against the value of one’s house. The current financial crisis makes US households reassess their consumption patterns, and it is inevitable that the savings rates in the US will have to rise to more sustainable levels.

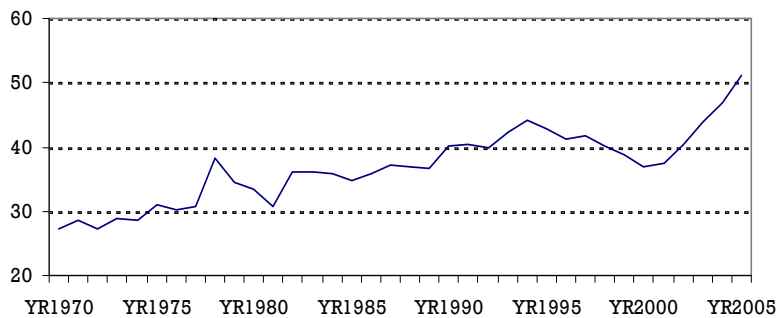
AVIVA survey points to some encouraging trends in the consumers’ attitudes in the US when it comes to the need of reversing the patterns of (dis)saving. The American consumer is less risk averse and more long term minded than the consumers in Asia or Europe. He or she is more ready to trade off risk for profit. The data demonstrate that already before the current crisis a sizable part of American consumers have developed distaste for short-term consumption-oriented credits. It is difficult to predict how the current crisis will affect these attitudes but the end of the wealth effect will most probably push Americans back to saving and, contrary to some opinions, the survey data shows that psychologically American consumers have been already moving in this direction.

But these positive attitudes should not be overestimated. The consumer that was socialized in the culture of credit will find it difficult to change his or her consumption patterns and life style without experiencing it as a personal failure. So, while the survey gives us some optimism that the saving turn can be a possibility in the US, it is easy to predict that the process will be more painful and uncertain than most of the economists believe. The failure of this generation of middle class - middle age consumers to save enough can lead to the emergence of a class of miserable ex-middle class pensioners who can have chilling effect on society either increasing the levels of saving and constraining consumption or widening the disparity between anxiety and the lack of action, something we saw in Central and Eastern Europe. The trust of the American consumers that their government is going to help them in their retirement age is also quite low, so it is interesting to see whether the “Obama effect” will change this perception and create a better environment for saving.

#### *Are Chinese ready to spend more? The Poverty Effect*

In China, we have exactly the opposite development in the past few years. From levels of about 30-35% in the 1980s, gross domestic savings have risen to over 50%. As a result consumption has plunged to less than 35% of income. Savings in China has increased because the government saves <sub>5</sub>

**China: Gross Domestic Savings (% of GDP)**



more, companies save more (through retained earnings), but also households have increased their savings rate by 7 percentage points from 1995 to 2005.

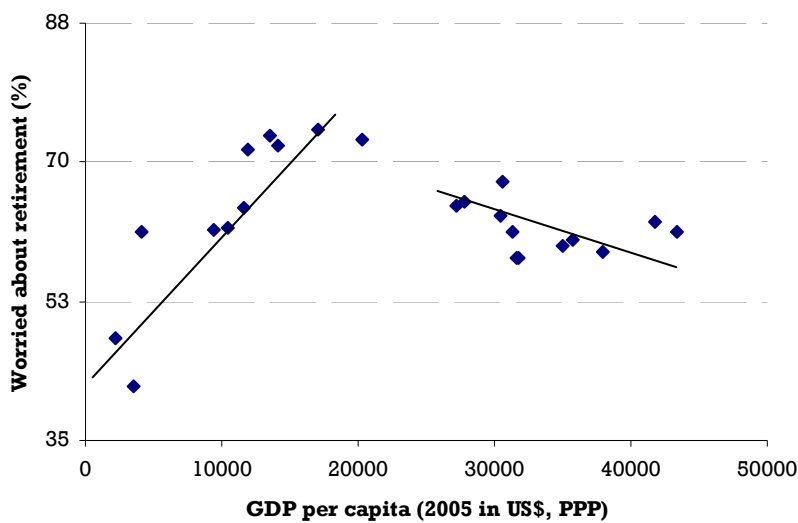
Why is China saving so much? In a recent paper Marcus Chamon and Eswar Prasad (2008) from IMF document the rise in household savings in China and

argue that the most plausible explanation for this rise in savings is the disappearance of the social safety nets and the welfare mechanisms provided by the communist state. They argue that the rising costs of housing, education and health care require Chinese to start saving more. Thus saving in China increases for two fundamental reasons – increases in income in general lead to a rise in saving, but more importantly the realization that households are poorer now because basic services like education, health care and housing become much more expensive – makes them save more for the future.

The data of the survey demonstrates that it is not psychological stereotypes or cultural patterns but governmental policies that prevent Chinese from spending. The officially adopted “one child policy” and physical dispersion of family members as an outcome of the labor migration made it more difficult for the family to act as security provider for the old age. China’s rate of saving is a response in the growing financial insecurity. Now when Chinese exports are declining the government has incentive to stimulate domestic consumption. But if Chamon-Prasad hypothesis is right, it is much more the provision of public services on affordable price than any other policy that can stimulate a major consumer boom in China. So, the spending boom of the Chinese consumers will be most probably less spectacular than economists hope for.

### *Anxiety paralysis*

The economic crisis of 2008 has already shattered the global economy and not a single country has remained outside of its scope. But its impacts will not be limited to the trillions of dollars “burned” and to the millions of jobs lost. The crisis will force us to *re-interpret* the world in which we live. It is now more than ever before that consumers’ attitudes and perceptions will turn into a major social force. It is in this new intellectual context that we try to make sense of AVIVA Report on Saving and Investing. The question the Report is attempting to answer is what are consumers’ attitudes towards saving and investment and how governments can best assist individuals in saving for their retirement. The key finding of the report is unsurprisingly alarming: *consumers today are paralyzed by uncertainty*. The survey reveals highest levels of anxiety among people all over the world. Anxiety is growing in all societies disregarding the divergent political regimes, cultural traditions and economic well-being. Consumers’ anxiety about their financial future is not only high but it has been growing persistently all over the world in the last five years.



It is important to stress that it is the middle-income countries that are most worried about their pensions. The figure shows that over 70% of the respondents in middle-income countries are worried, while in rich countries the numbers vary from 55 to 68%. It turns out that all of the countries in the middle are Eastern European countries, which leads us

to believe that social change is possibly the most significant source of anxiety. Anxiety has turned into a defining characteristic of middle-income countries and of middle classes.

At the same time anxiety was not matched by adequate action. In 2008, whilst nearly two-thirds of the pre-retired people were worried that they wouldn't have enough money when they retire to provide an adequate standard of living, less than half of these people were saving regularly. Among the many and varied barriers for saving the Report emphasized two: **insufficient funds**, namely a lack of affordability, and the **perceived risk** of losing savings or investments in uncertain global financial markets.

The alarming reality is that *the current crisis might additionally strengthen these two barriers for saving*. The crisis will further deprive people of available funds and will make saving even more impossible. The perceived risks and perceived vulnerabilities of financial institutions will sky-rocket. The survey has indicated that before the current crisis, the trust in international banks and multinational insurance companies was quite high. In some parts of the world and particularly in Eastern Europe the trust in the big financial institutions was higher than the trust in the government. Most probably, this trust in financial institutions will be negatively affected by the crisis. So, the question is, will the crisis shatter the consumers and force them to think seriously about their financial insecurity after retirement or will it additionally paralyze the urge for saving?

### *The Death of the Long Term*

The dramatic shortening of the financial planning time horizon of the consumers all over the world is among the most critical findings of the Report. In 2008 more than two thirds (68%) of people said that the short term - within the next five years - was the most important timescale for them when thinking about savings and investments. The year-on-year trend for the eleven original markets of this survey shows that preference for short term investment has been on rise.

Keynes is famously quoted saying that "In the long run we all are dead" but what we can see in the survey is the *death of the long term* in the financial planning horizon. The reasons for the global

eclipse of the long term are complex and vary in different societies but at least some of them are of global nature. In the developed world the cultural revolution of the 1960s, the economic revolution of the 1980s and the democratic revolution of the 1990s all contributed to the eclipse of the long term. The cultural revolution of the 1960s stressed the importance of “now” and emancipated the modern self from the burden of thinking about the future. Triumphant individualism and the new hedonistic ethics shattered the traditional family that was one of the main providers of safety net for the old age and an important time-framer when it comes to saving and investing. The economic revolution of the 1980s and the rise of the supply side economics in a similar way shattered the legitimacy of the welfare state. “Planning” has been turned into a dirty word. The global spread of democracy with its four or five-year electoral cycles additionally stimulated the shrinking of the time horizon.

We think that the wealth effect can explain also the short-term horizon of households. When one sees that it is possible to become rich quickly – through investment in stocks or real estate – the desire to invest for the long-run disappears. It seems as if the financial problems of retirement can be easily solved by leveraging oneself in the housing market. Sharp changes in wealth, up or down, shorten the planning horizon. Given that swings in asset values have become more persistent and bigger in amplitude, it is not clear whether the planning horizon will ever increase.

### *Forever Young*

Many tend to believe that the cultural transformation of capitalism in the 1990s can be compared in its revolutionary nature to Mao’s Cultural Revolution in communist China in the 1960s. The American sociologist Daniel Bell already three decades ago emphasized the fact that the predominance of pre-capitalist culture (family structure, religion, forms of solidarity) is an essential pre-condition for the success and sustainability of capitalist societies. What the 1990s brought was the erosion of the pre-capitalist structures and modes of thinking and the expansion of the logic of the market beyond the economic sphere. The cultural revolution of modern capitalism was at the heart of the making of the modern consumer. The 1990s transformed American middle class from a saving class to a borrowing class. Consumption and the thirst for credits became a defining feature of the new middle class that was born out of rising stock markets, the rapid increase in real estate prices, and the access to cheap credit. It was not simply consumption but competitive consumption that was the defining characteristic of advanced societies in the last two decades. Households were caught in the “keeping up with the Joneses” spiral. American households that used to save about 8 percent of their disposal incomes as far as a decade ago now are dangerously indebted. The shift to conspicuous competitive consumerism also contributed to the “youth effect” that is typical for modern societies. Consumer culture is dominated by images of youth, energy and sex appeal. Research has shown that consumption not only acts as a *social stratification factor* but that *active consumers tend to feel younger*. A side effect of the youth-evoking consumer culture is that retirement starts to be perceived as centuries ahead.

The youth intensity of the consumer culture affected the “life cycle hypothesis” of saving. In line with this hypothesis people borrow in the young age, save in the middle age and stop saving in the old age. The blurred distinction between young age and middle age is one of the explanations for the

cultural change that resulted in saving shortage in the US. Late 20<sup>th</sup> century capitalist society transformed into a risk society.

### *The Risk Society*

According to the German sociologist Ulrich Beck, modern societies have shifted from the logic of wealth distribution in a society of scarcity to *the logic of risk distribution in a society paralyzed by growing uncertainty*. In the risk society the short term is the only term that we can constructively think about. Modern media additionally radicalized this trend. In a risk society, the government starts behaving like an insurance agent – priority is given to minimizing current risks and less to the planning for the future.

Thus, the shortening of the time horizon has one more explanation related not so much to the consumption explosion but to our understanding of risk. When in 1990s sociologists came with the idea of a “risk society” the concept looked more as a sociological fad rather than a useful policy framework. In the last ten years, however, the global economic environment has changed. The notion of a “risk society” captures quite accurately the radical change in the way modern individuals think about the future. The idea of a risk society might suggest a world which has become more hazardous, but this is not necessarily so. Rather, *the risk society is a society increasingly preoccupied with the future as risk*. The dynamics of technological, economic, and social evolution are not well understood by consumers, firms and particularly governments. Innovation across frontiers generates a diversity of possible futures. Furthermore, some of these paths are not only unpredictable but they involve large shifts in the social and economic environment. The current crisis is one example, but the decline of the welfare state and the rise of problems like climate change are more persistent sources of risk and anxiety.

### *Expectations Breakdown: In Government We Trust*

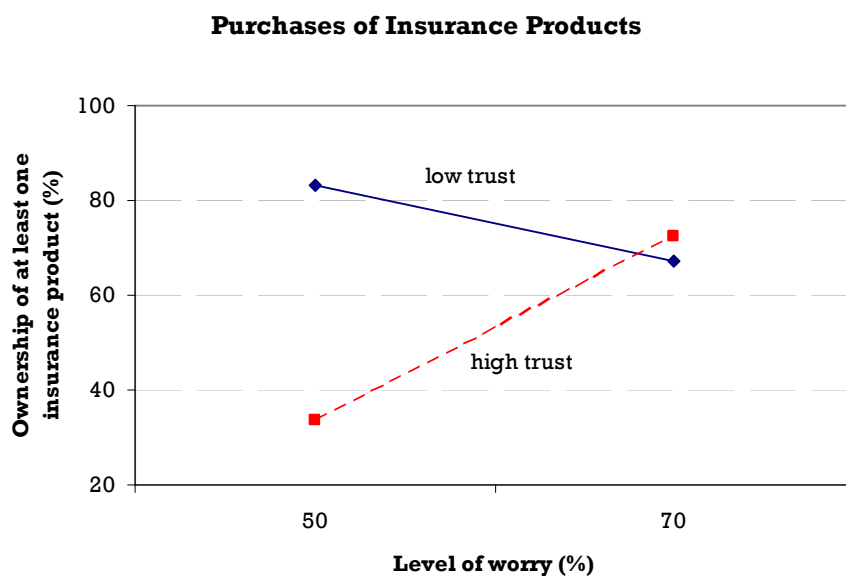
It is difficult to predict how long the current crisis will last and how deep it will hurt the global economy but the collapse of expectations will be one of its long lasting outcomes. We should look at the survey data on Central and Eastern Europe to understand the implosion of expectations. From the survey data Eastern and Central Europe/Poland, Russia, Hungary, Czech Republic, Romania, Lithuania/comes out as a paradigmatic case for a post-traumatic society.

As the report points out, East Europeans are more anxious, more distrustful, risk averse and less ready to save than any other region of the world. The explanation for this state of affairs cannot be reduced to a single factor but the trauma of the early 1990s crisis seems to be the defining one. The collapse of state socialism destroyed the system of certainty and made irrelevant most of the life strategies of the majority of people. Savings were wiped out and the pensioners were hardest hit in the process. Pensioners’ poverty became a distinctive feature of the post-communist transitions. The perception that old people were betrayed by the state is widely shared in post-communist societies.

It is discouraging to observe that although the collapse of communism was welcomed by the majority of the people and that post-communist societies in the last decade enjoyed impressive economic

growth, Central and Eastern Europe is the paradigmatic case of *anxiety paralysis*. The growth of anxiety has not led to the increase of private savings on the contrary the combination of the crisis experience of the 1990s and the growing financial insecurity has produced mistrustful consumer who is reluctant to save.

These countries show that the lack of saving in the face of increasing concern about the future may come from many different sources – past experience (as in the case of Eastern Europe), or conspicuous consumption and wealth perceptions (in advanced economies). Clearly different advertising and different financial instruments will be required to address the needs of households across countries.



It turns out that the trust in the government plays an intermediating role in explaining why anxiety does not lead to higher savings. An increase in the level of concern about the future has a positive effect on buying insurance products in countries where trust in the government is high, but it leads to a negative effect on the

demand for insurance products in countries where the trust in the government is low. The exact definition of trust that we use is whether consumers believe that the government will help them in their retired years. The figure shows that in a low trust society, when the level of concern goes up from 50% to 70%, the purchase of insurance products goes down from 83% to 67%. In contrast, in societies where the government is believed to deliver on its promises, when households get more worried, they do increase their purchase of insurance products from 37% to 74%.

This result is somewhat puzzling – shouldn't government pension provision and insurance be substitutes? They may not be – it is quite possible that the trust in the government represents an overall belief that the system is not going to break down. If this is the case, then it is conceivable that more anxiety will lead to more insurance in high-trust environments.

The finding that trust in the system is an important mediator between anxiety and demand for insurance products makes us rethink the cooperation between insurance companies and the government, so that future pension reforms raise the trust in the government.

### *The Future Has Arrived (concluding remarks)*

The economic crisis of 2008 is a logical consequence of the global imbalances that started in late 1990s and early 2000s. The most visible part of the imbalance was the increasing US trade deficit. But the fundamental force behind this deficit was the excessive consumption in the US – households demanded more goods than the US economy could produce and hence the country had to import a big portion of the consumption goods (which generated the trade deficit). On the other side of the imbalance were the high savings rate in emerging markets – most notably China and other Asian economies. These imbalances were unsustainable – after all, consumption financed by borrowing cannot go on forever. In fact, the global financial crisis is the resolution of these global imbalances. Consumption in the US has to go down to more sustainable levels and consumption in developing countries will have to rise.

The current financial crisis will have profound effects on the savings patterns of household around the world. The coming years will only reinforce peoples' anxieties. The anxiety paralysis-the inability or unwillingness of the consumers to save more while they are aware of the financial insecurity they are facing after retirement, is a major policy challenge. AVIVA Report gives us a clear picture of the emergency of the problem. However, *the current financial crisis* – with all of its devastating effects and multi-trillion dollar losses – *pales in comparison to the instability* that may result from the collapse of the pension schemes in both developed and developing countries.

The biggest problem is governments' short-termism. The four- or five-year electoral cycle reduces the incentives of any government to tackle the long-term problems of the welfare state. There are exceptions like the government of Singapore where the system is not only well-funded but there is continuous effort to introduce incentives for long-term savings. As recently as November 2008 the government introduced another scheme, which allows individuals to increase their pension fund with tax-deductible contributions. Unfortunately, other governments are putting more emphasis on short-term needs and they delay unpopular measures that require either increases in taxes, or cuts in spending, or an increase in the retirement age.

One possible way around the stalemate was offered by France in 2008: Instead of forcing people to work longer, the government changed the law by giving workers the "right" to work until the age of 70. This change has been interpreted as an example of policies advocated by Cass Sunstein and Richard Thaler's in their book *Nudge* (see *Financial Times*, November 21, 2008, "The 'right' to work until 70"). In the book, the two authors argue that the *framing* of choices has a powerful effect on what individuals actually choose. They cite extreme examples, where enrolment in savings programs fully financed by the company was 51% when the workers had to submit an application to sign up! Only 51% of workers participated in the scheme even though the program was fully financed by the company. In another example they show that if the default is that workers are enrolled in a savings program automatically and they can opt out only if they submit a letter of withdrawal, the enrolment rates jumped to 90%!

Richard Thaler (with co-authors) has developed also a scheme called Save for Tomorrow. In this scheme, participants are asked to commit a certain percentage of their future salary increases to savings plans. By framing the choice in this way, many individuals agree to participate because they do not see a decrease in their take-home check. It might be interesting and instructive to include in future installments of Aviva's survey a question that asks whether participants will be willing to

commit half of their next wage increase to savings. The answers might suggest in which countries such schemes are most likely to work.

The crisis will boost publics' demand for governmental action. Survey results show that citizens expect more from the state. We find however, that saving (or purchases of insurance products) increases when people get worried only in countries where the public has relatively high confidence that the government will also help out in the retirement years.

What will happen next? Due to the disappearance of the wealth effect coming from the real estate bubble, saving in developed countries will eventually increase. It may take a year or two before this happens because the crisis also lowers incomes, which has a negative effect on saving. The role of insurance companies is two-fold: First, there is an urgent need to understand how the crisis has reshaped consumers' attitudes towards saving and risk. Second, given that their interests are aligned with the public interest of funding the future pension liabilities, financial institutions must not only "nudge" the public, but also be an advocate and educator for what governments should do. The future has arrived: governments, companies and individuals have to act today to avoid the biggest financial calamity in economic history.