The Future of Retirement

A new reality

Global Report

HSBC

Contents

Foreword by HSBC

At HSBC, our purpose is to help customers fulfill their hopes and dreams and realize their ambitions, for themselves and their families, by enabling them not only to manage their financial affairs today, but also to plan for their long-term financial future.

I am therefore delighted to introduce the latest in HSBC's series of independent global studies into The Future of Retirement. *A new reality* is our eighth report and highlights the significant challenges in planning for and achieving a comfortable retirement.

This report reveals that saving and investing for retirement is a major challenge for most people. The economic downturn is putting added pressure on household incomes, and as a result, many people admit that financially they are not preparing adequately, or at all, for a comfortable retirement.

There are, of course, many obstacles to saving, including the lack of a regular savings habit and the financial impact of unexpected life events. Unfortunately, the impact of saving too little or too late will only become clear in later years, when people find they are retiring without the necessary income to support an active and fulfilling retirement.

The report also highlights the benefits of planning ahead: on average, people who have a plan for retirement not only save more but also save more regularly, resulting in them having over three times the mean value of retirement savings compared with those who don't have a plan in place.

With life expectancy still on the increase, the need to save and plan for retirement is becoming ever more critical. Retirement is one of the five key needs we discuss with our customers, and I hope the insights from this report will encourage everyone to think more about the need to plan and save for their retirement, and to start as early as possible.

Simon Williams
Group Head of Wealth Management, HSBC

Introduction by the author

The world's population is steadily growing older. The prospect of enjoying a retirement lasting 20 to 30 years is already a reality for many. In the 34 countries which make up the OECD (The Organisation for Economic Co-operation and Development), a recent study showed average retirement currently lasts over 18 years. By the middle of this century, it is perfectly reasonable to predict this will become the norm in all developed and emerging markets across the world. In response, all of the countries in this year's Future of Retirement survey will need to develop new approaches in the coming decades to ensure that retirement incomes will be both sustainable and adequate. Against this backdrop, the roles of the state, the employer, the family and the individual are already being redefined; so too is the traditional reliance witnessed in many developed countries on the 'pension' as the main source of retirement income, as the financial risks facing households become more complex.

Retirement planning may no longer consist of simply putting money aside each month. The future of retirement is expected instead to see a fundamental change in people's lifestyles with a growing aspiration to combine work and leisure to help manage the costs of longer life expectancy. Employment already forms part of many people's retirement plans as can be seen in the large gap in many countries between state retirement ages (the age at which people become eligible for any social security entitlements) and the 'effective' retirement age (the age at which people actually stop working). However, we are now witnessing an acknowledgement among those in their 30s and 40s that working in retirement is, and may have to be, part of their formal retirement plans. With employment now seen as part of a flexible retirement plan, it is clear that the labour market will need to adapt and health and long-term care policies need to be developed aimed at promoting more active and healthy life styles among older workers.

Nor will retirement planning in future simply be a matter of generating a retirement income. The impact of the economic downturn shows how protecting incomes and assets against unforeseen life events, such as periods of unemployment and ill-health, should play a fundamental role in protecting people's ability to save for the long-term during their working lives. Protecting household assets against the increasing cost of a frail retirement adds a further financial challenge. As the majority of people in developed countries can now expect to live into their 80s and beyond, many of those people will require additional long-term care provided through the state, families or other private means. Efforts to raise awareness about the risks of retirement income shortfalls need to continue. So too do the fledging efforts to develop effective financial planning tools to help households evaluate that risk.

Mark Twigg
Executive Director, Cicero Consulting

The research

HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world.

The findings are based on a representative online survey covering people of working age (25 and over) and those in retirement. The survey was conducted during July and August 2012, with data collected on both a household and individual basis.

Unless stated otherwise, figures are averaged across the 15 countries and monetary values are expressed in US dollars ($). Figures are rounded to the nearest whole number.

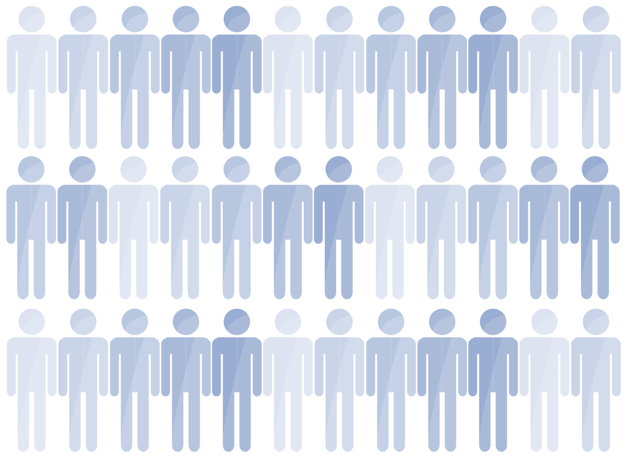
The world's population of over 65s is set to increase from 579 million today[1] to over 1.57 billion by 2050[2], and the need to better understand and help improve the financial consequences of this demographic macro-trend underlines the continuing importance of The Future of Retirement survey. According to the United Nations, the number of people over the age of 60 will match those under the age of 15 by 2050, with retirees making up around 1-in-5 people on the planet[3]. As the working-age population starts to shrink, the elderly dependency ratio (which measures the number of retirees to the number of workers) will double: where at present there are currently four people of working age for every person over 65[4], by 2060 there will be just two people of working-age for every person over 65.

Whilst an ageing population can also be regarded as a major opportunity for individuals to experience a whole new stage in their lives, the huge financial sums involved in meeting people's hopes and needs in retirement means that global ageing ranks as one of the major challenges facing the world during the 21st century.

Since The Future of Retirement programme began in 2005, more than

125,000 people

worldwide have been surveyed.



In this report, we focus on how people of working age are planning and saving for the eventuality of a lengthy retirement and how their behaviour varies through the various life stages. The report is structured into four main parts:

- Part 1 looks at fundamental attitudes to retirement; whether people feel generally positive or negative towards retirement, and what kind of retirement income people will need in order to realise financial security in later life.
- Part 2 focuses on the impact major life events have on people's retirement plans and the other obstacles which prevent people from saving for retirement. This includes looking at how and whether people are prepared to make use of any retirement savings in a financial emergency.
- Part 3 further examines the concept of the 'planning premium' (first explored in our previous report *The power of planning*) and looks at how financial planning – whether undertaken with a professional or self-directed – affects people's preparedness for retirement.
- Part 4 looks at practical steps that individuals can take to start planning for a comfortable retirement.

In addition to this global report, country reports are available highlighting the key findings in each of the 15 countries surveyed.

A further report based on the survey data, looking at how people are living in retirement, will be published in due course.

This report, *A new reality*, is the eighth in the series and represents the views of more than 15,000 people in

15 countries:

Australia, Brazil, Canada, China, Egypt, France, Hong Kong, India, Malaysia, Mexico, Singapore, Taiwan, United Arab Emirates, United Kingdom, United States

Executive summary

Retirement hopes and fears

The Future of Retirement *A new reality* shows how aspirations for retirement are largely consistent across the world: globally, the most important aspirations for a happy retirement centre on spending more time with family and friends (58%) and enjoying frequent holidays (48%). However, the findings also show how the desire to remain in work is an important aspiration for 35% of respondents, which suggests that the traditional view of retirement has already changed for many people. This signals major lifestyle changes in later life with the retirement of the future striking more of a balance between work and leisure; working more as well as saving more will come to define how we pay for longer life expectancy. However, major fears about achieving retirement goals remain: over half of respondents are concerned about experiencing financial hardship (57%) and ill-health (54%) in later life.

48%

have never saved specifically for retirement

Most people are falling short of a comfortable retirement

In order to sustain a comfortable standard of living in retirement, people say they would need 78% of current income; this is far higher than is likely to be achieved. For example, the median annual household income required for a comfortable retirement is $34,380 (global median), which would require a US male to have $505,000 in retirement savings, based on a retirement age of 65. Actual savings behaviour falls well short of this. Currently, 48% of respondents across the 15 countries have never saved towards their retirement, with more non-savers in high-income countries such as the UK, France, Canada and Australia. Meanwhile, nearly one-third (32%) of respondents expect to rely on the state for their main source of retirement income. Over half (56%) acknowledge that they are not preparing adequately to achieve a comfortable retirement.

Too much life, not enough money

People on average expect their retirement to last for 18 years, but their retirement savings to last for only 10 years, running out just over half way through retirement. The second half of retirement often coincides with the point at which health and long-term care costs increase, posing major questions over how people will cope with the additional costs of 'frail' retirement. The impact of retirement income shortfalls are not limited purely to one's finances: for example, 43% of Canadians thought that this shortfall could potentially impact their health, while 62% of Britons thought that they might struggle to pay for food and energy bills.

The impact of the economic downturn on retirement savings

84% of people feel that their ability to save for retirement has been significantly affected as a result of a life event. For more than one-quarter (26%) of all respondents, the current economic downturn has negatively impacted on their ability to save for retirement. Such life events affect men and women equally: on average, each stopped retirement saving for 4 years following their most impactful life event. Based on average monthly retirement savings of $327 for a man (global average), this means that the most impactful life event costs $15,696 in lost retirement savings (assuming all retirement saving stops over the period). Based on average monthly savings of $243 for a woman, this means a loss of retirement savings worth $11,664.

Can't save, won't save: understanding how life events put people off saving for retirement

Many people find that they have to make trade-offs between important financial aspirations. 24% had their retirement savings impacted by the cost of funding their children's education, while 23% had their retirement savings impacted by their aspiration to buy their own home. Even where households are able to save, the importance of saving for retirement can be crowded out by shorter term goals: when asked if for a year they could only afford to save for one option, 43% of respondents said they would be more likely to prioritise saving for a holiday over saving for retirement. There is a distinct difference in savings behaviour across the world: those in Western economies like the UK, Australia and Mexico tend to favour short-term savings goals like holidays whereas those in Asian economies like India, Hong Kong, Singapore and Malaysia are more focused on long-term savings aspirations such as retirement. This suggests that the decision not to save for retirement is also influenced by cultural differences, and rather than simply lacking the financial means to do so, households in some countries attach a lower priority to saving for a comfortable retirement.

Young people lack the financial resilience to deal with unforeseen life events

Younger people are most likely to suffer long-term negative impacts of life events with those aged 25-34 years old being around three times more likely to go into debt and to turn to friends and family for help compared with those aged over 65. Overall, the life events with the greatest impact on household finances are buying a home, becoming unemployed, and an illness/accident preventing people from working. Moreover, getting into debt was a particular problem for people in Canada, the US and the UK. Improving the financial resilience of young people against these specific risks (through insurance products and accessible savings & investments) could play a major role in removing a potential barrier to longer-term retirement saving.

84%

of people feel that their ability to save for retirement has been significantly affected as a result of a life event

Informal financial planning is widespread

Over three-quarters (77%) of respondents have some kind of financial plan in place for retirement, but this often consists of informal methods such as 'my own thoughts' (cited by 40% of respondents), 'my own approximate calculations' (36%) and online planning tools (11%). Overall, people were three times more likely to have an informal financial plan for retirement, rather than a formal plan, for example involving professional financial advice or having a detailed written plan.

People with a financial plan in place are likely to save more for retirement

On average, people start saving for retirement at the age of 26, but do not start financial planning for retirement until four years later, at the age of 30. The latest age that people believe you can start planning for retirement and still maintain a decent standard of living in later life is, on average, 34. On average, those with a financial plan in place are saving the most for retirement. Having taken the decision to start planning, nearly half will go on to save greater amounts: 44% of respondents say that they have saved more, for retirement and other purposes, as a result of having a financial plan in place. This 'planning premium' (for more details please see part 3 of the report) is increased when professional financial advice was taken, with 55% saving more, rising to 59% when the advice included making a written plan. There is a gender gap, with 46% of men saving with a financial plan in place, compared to 40% of women.

People with a formal financial plan save the most for the future

Financial planning and professional advice can play a positive role in saving for the future: on average, those who have taken professional financial advice are saving $409 per month for retirement, while those using online planning tools are saving $377 per month, and those not undertaking any kind of planning are saving only $77 per month. When looking at the total value of retirement savings, a similar picture emerges: on average, people who have not planned for retirement have $45,695 in retirement savings, while those with a written plan prepared by a professional adviser have retirement savings of $203,228.

44%

saved more for retirement as a result of having a financial plan in place

The pathway to a more comfortable retirement

Five practical steps have been identified that individuals can take to improve their financial well-being in later life:

1. Get real about your retirement needs.
2. Put your savings priorities in order.
3. Be aware of how major life events affect saving for retirement.
4. Plan for the future.
5. Use professional advice to improve your savings position.

43%

of respondents would be more likely to prioritise saving for a holiday over saving for retirement

Part 1

Aspirations for a comfortable retirement

Key findings

- The most important aspirations for retirement centre on family (58% want to spend more time with family and friends) and travel (48% aspire to frequent holidays). 35% would like to keep working to some extent, while 26% would like to start a business. The main retirement fears are financial hardship (57%) and poor health (54%).
- The fact that over one third (35%) of respondents aspire to continue working to some extent in later life is significant: any additional income will provide an extra boost towards funding retirement.
- However, even with the additional income provided by working longer, aspirations and expectations about retirement incomes remain unrealistic. The median annual household income people say they need for a comfortable retirement is $34,380. This would require a US male retiring at age 65 to save $505,000 in retirement savings. Actual savings behaviour falls well short of this.
- People on average say they would need 78% of current income once they enter retirement in order to sustain a comfortable lifestyle; this is far higher than is likely to be achieved.
- Over half of non-retirees (56%) acknowledge that financially they are not preparing adequately for a comfortable retirement. This peaks at 72% of respondents in Egypt, 71% in Taiwan and 66% in the UK.
- People on average expect their retirement to last for 18 years, but their retirement savings to last for only 10 years, running out just over half way through retirement. Indians expect their savings to last for 67% of their retirement, while for Britons this figure falls to just 37% of their retirement.
- This poses major questions over how people will fund not only their retirement aspirations during their 'active' retirement but also how they will cope with the potential need to fund health and long-term care costs associated with 'frail' retirement. Over half of respondents in China and India say that they would scale back their aspirations for retirement to compensate.
- The financial impact of retirement income shortfalls is even starker in the West, where 43% of Canadians thought that income shortfalls could impact on their health, while 62% of Britons thought that they might even struggle to pay for food and energy bills.

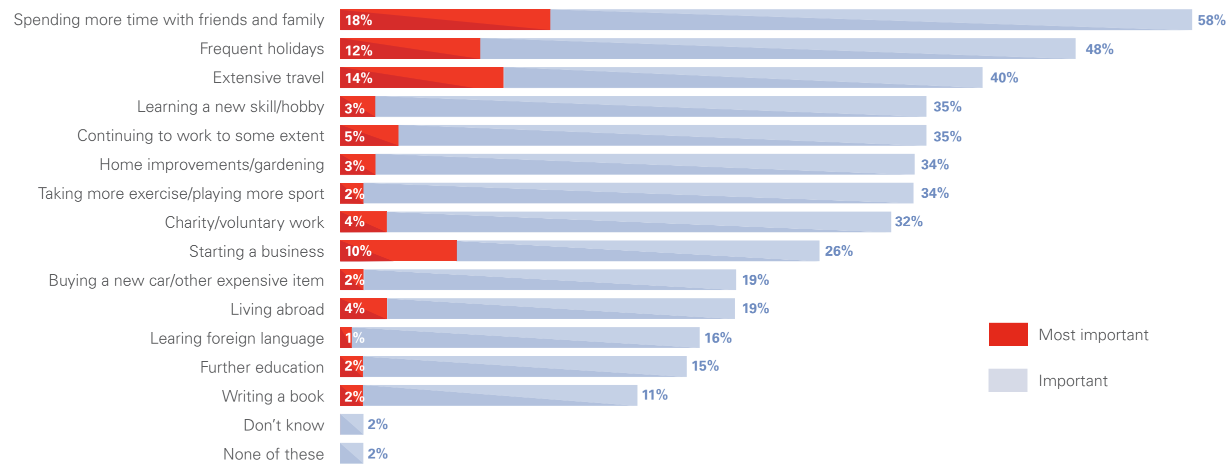
Hopes and fears for retirement

Clearly, retirement means different things to different people. Often these differences are shaped by cultural factors, so while 58% of respondents globally would like to spend more time with friends and family, some societies are more family-orientated, especially in Asia, where this was chosen by 75% in Malaysia, 71% in Singapore, 68% in China and 61% in India. This compares with Latin American countries such as Brazil on 51% and Mexico on 52%. In Egypt, only 37% wanted to spend more time with their family and friends when they retire.

Overall, the most popular aspiration for retirement was the desire to spend more time with friends and family. However, many people also envisage retirement as something which is experienced in foreign lands, with travel-related themes including 'living abroad' (4%), 'extensive travel' (14%) and 'frequent holidays' (12%) contributing to the most important retirement aspirations of nearly one-third (30%) of respondents.

Figure 1: Family and travel are the most important aspirations for retirement

Q: Many people have specific hopes and aspirations for their retirement. Which, if any, of the following are important aspirations for you? Which one do you most want to realise? (Base: All not fully retired)



Financial hardship is a consistent fear across all countries surveyed

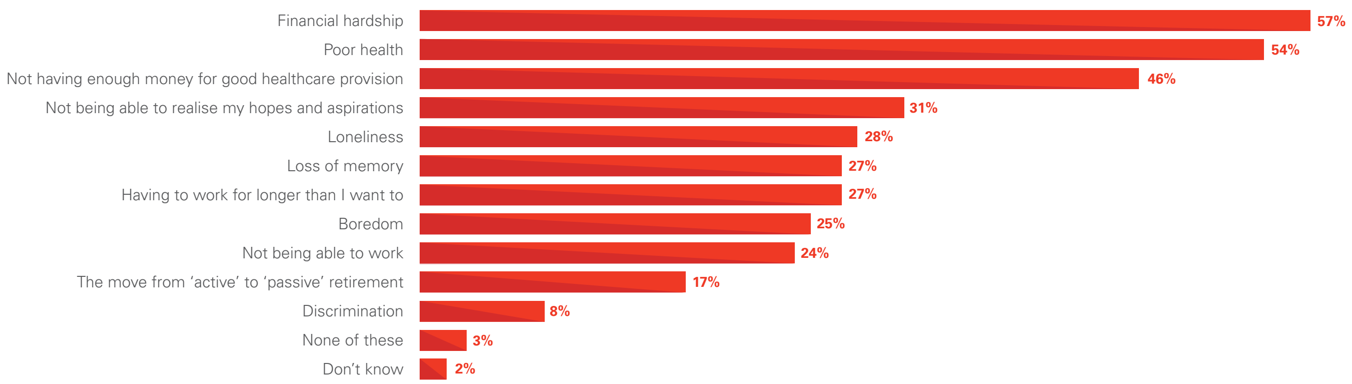
Another major finding is how closely aligned paid work is becoming with retirement aspirations: over one-third (35%) of respondents would like to continue working in some capacity in retirement. This demonstrates that a more flexible attitude is developing to where work ends and retirement begins, which is particularly apparent in the emerging markets of Latin America and Asia. For example, 47% of those in Singapore aspire to carry on working in retirement, compared to just 19% in France. For some, the desire to attempt new challenges extends to entrepreneurship, with just over a quarter (26%) aspiring to start a business in retirement and 10% seeing this as their most important aspiration. The desire to continue working beyond conventional retirement age is significant given that retiring later and earning for longer can play a significant role in boosting retirement incomes. It is therefore important that governments not only undertake efforts to redefine retirement age, which can often be seen as the end of working lives, but also take steps to support employment in later life.

Aspirations for retirement are however accompanied by a number of fears: financial hardship (chosen by 57%), poor health (54%) and a lack of money for good healthcare (46%) are all key concerns. The latter finding is correlated to the presence of generous state-funded healthcare provision in the surveyed country, showing how this can shape household attitudes, so it was lower in the UK (31%) and Canada (34%) than in Malaysia (64%).

Financial hardship is a consistent fear across all countries surveyed, but is more prevalent amongst women (61%) than men (53%). Fear of financial hardship in later life is consistent across age groups, suggesting that although younger people may not be doing as much as they could to prepare for retirement, they are aware of the dangers of poverty in old age. In contrast to those aspiring to continue working in retirement, over a quarter (27%) of respondents are instead concerned about the possibility of having to work for longer than they want to as a result of financial constraints in later life. This fear is highest in countries where reforms to increase the state retirement age are underway, such as the UK (40%), US (40%) and France (34%).

Figure 2: Financial hardship and poor health are the greatest fears for future retirees

Q: Many people also have concerns or fears for their retirement. Which, if any, of the following concerns or fears do you have? (Base: All not fully retired)



56%

say they are not preparing adequately or at all for a comfortable retirement

How much income will people need in retirement?

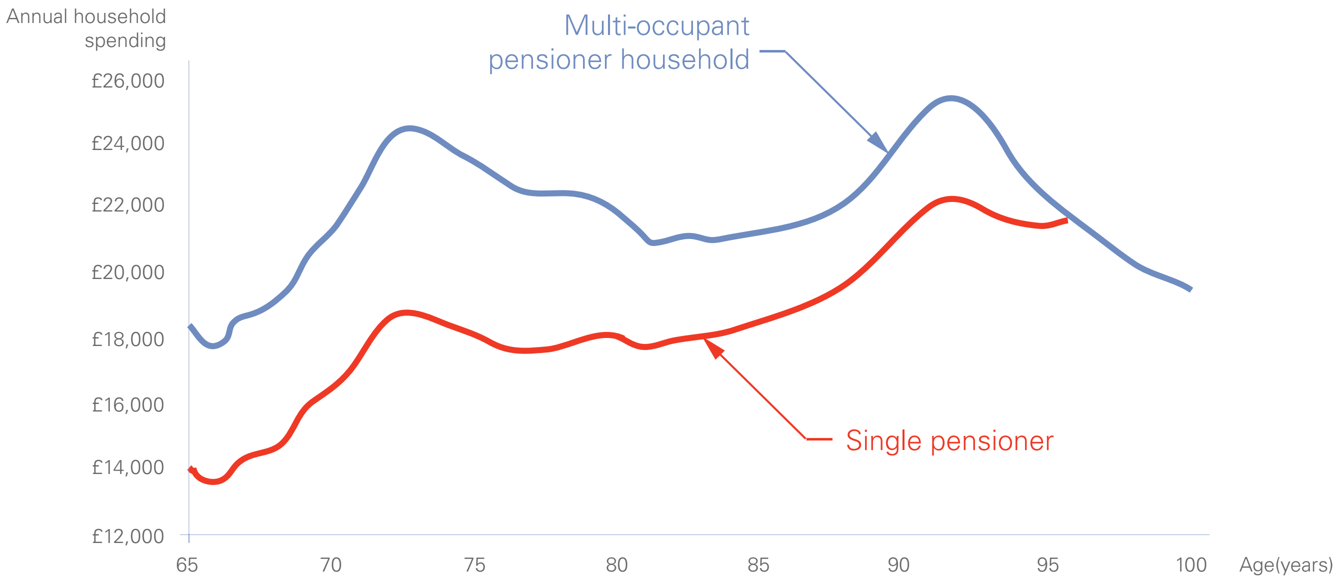
Faced with the fears and aspirations identified above, and the complex retirement provision considerations they encompass, many people simply do not understand their retirement income needs. The median annual household income people said they would need for a comfortable retirement was $34,380 (global median), which would require a US male retiring at 65 to save $505,000 in retirement savings.[5] Inevitably a larger share of this income will have to come from private income sources in the future as all countries, developed and emerging, start to converge on pensions systems which are based on individuals having to make personal contributions into their own retirement fund.

This will require a major step-change in how households undertake their financial planning. Currently, those who think that they are saving enough to provide for a comfortable retirement are saving $451 per month for retirement. Even allowing for investment growth over a normal working life, this is unlikely to be sufficient to achieve retirement savings of $505,000 by the time most people reach retirement age. For example, a 30-year old male retiring at 65 saving $450 per month will typically generate just $20,196 in annual retirement income, an income which represents less than half of an average working-age household income and well below most people's retirement expectations.[6,7]

People also fail to acknowledge that their income needs during retirement are likely to fluctuate and may depend on a number of age-related health issues. In particular, long-term care costs are likely be a significant expense and are set to increase going forward. Figure 3, produced by Life Trust, illustrates how retirement incomes fluctuate over time in the UK, with two separate peaks. The first peak relates to the cost of funding aspirations during the early part of retirement, often termed 'active' retirement, while the second peak relates to the cost of funding long-term care and other health-related costs in the later part, often termed 'frail' retirement. However, households typically only plan for the first half, while the need to fund potential health-related care costs in later life goes largely unheeded.

Figure 3: Pensioner spending is likely to vary during retirement[8]

(Source: Life Trust, cebr (2008) Life Trust Cost of Retirement Report)



The Pensions Policy Institute has argued that 'it is not possible to calculate a single level of income that would be suitable for all pensioners to meet their needs or expectations throughout their whole retirement, though minimum and desired income measures can provide a useful guide'.[9] However The Future of Retirement data provides this: a useful guide to the desired household income level that people need to feel comfortable in retirement. This figure is $34,380 per annum across the countries surveyed, a 'replacement ratio' of 78% of pre-retirement incomes. Figure 4 shows the replacement ratios calculated across all 15 countries surveyed.

Singaporeans and Australians say they need a desired income of only 66% of their current income in order to continue feeling comfortable in retirement. This was the lowest in our survey and contrasts with India, where respondents felt that they would need to have nearly all (98%) of their current income in order to feel comfortable in retirement.

Do people feel on course to achieve a comfortable retirement?

Most individuals acknowledge that they may fall well short of their desired retirement income, with over half (56%) of non-retirees believing that financially they are not preparing adequately for a comfortable retirement. This figure rises to 72% of non-retirees in Egypt, 71% in Taiwan and 66% in the UK.

Feelings of preparedness are not simply a reflection of how confident people are about the value of their retirement savings (which will provide them with an income) but also how they expect to live in retirement and what it will cost to achieve their aspirations. While people generally expect their incomes to fall during retirement, many expect their outgoings to be maintained at current levels or possibly increase in retirement. Across all 15 countries, only 31% thought that their retirement income would stay the same or increase, while 46% thought that their retirement outgoings would stay the same or increase.

Figure 4: People say they would need over three-quarters of current income to remain comfortable in retirement[10]

Q: Being financially 'comfortable' means different things to different people. Thinking about your own current circumstances, what minimum gross annual household income do you think you need to feel 'comfortable'?

Q: Try to imagine yourself five years past the normal full-time retirement age. What is the gross annual household income you would need to feel 'comfortable' (in today's money)?

(Base: All respondents)

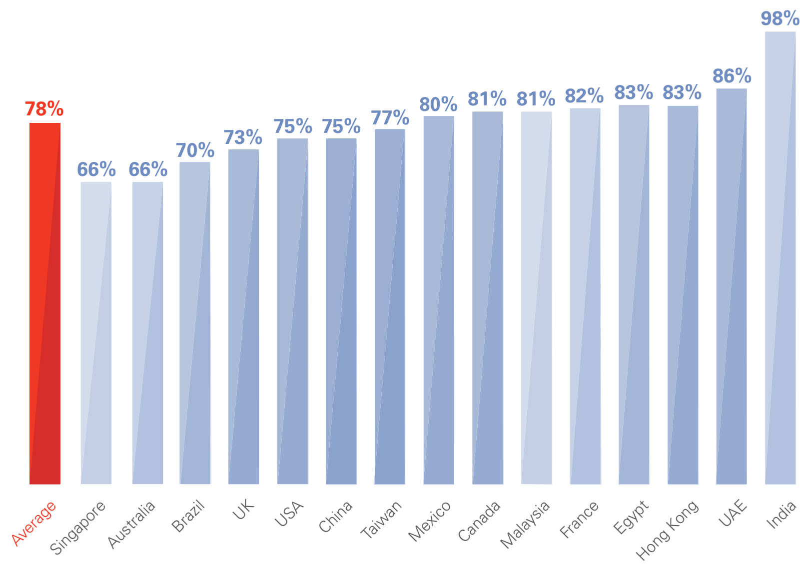
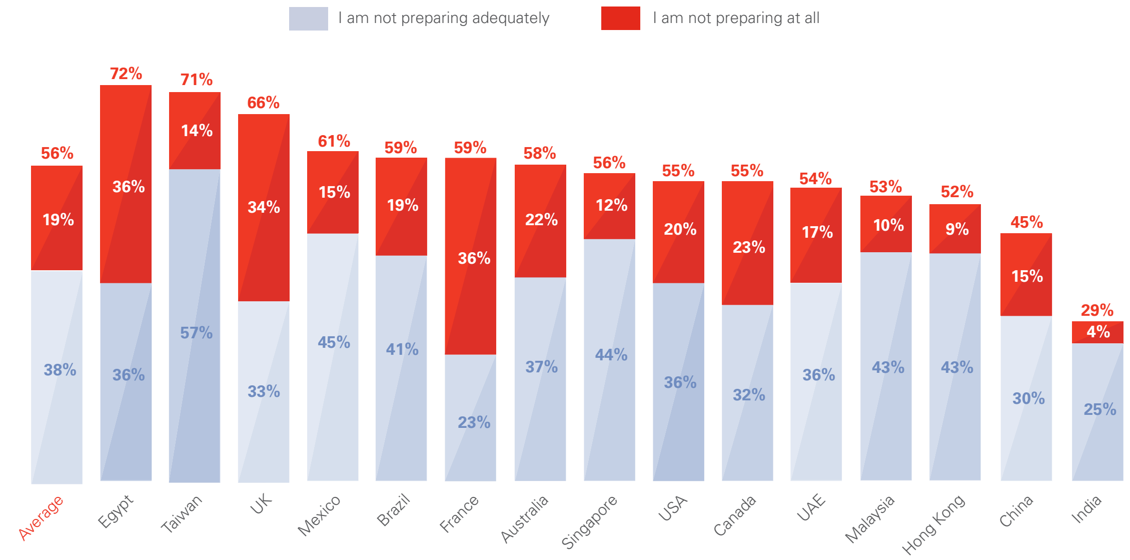


Figure 5: Over half are not preparing adequately for a comfortable retirement

Q: Overall, financially do you think that you are preparing adequately for a comfortable retirement?

(Base: All not fully retired)



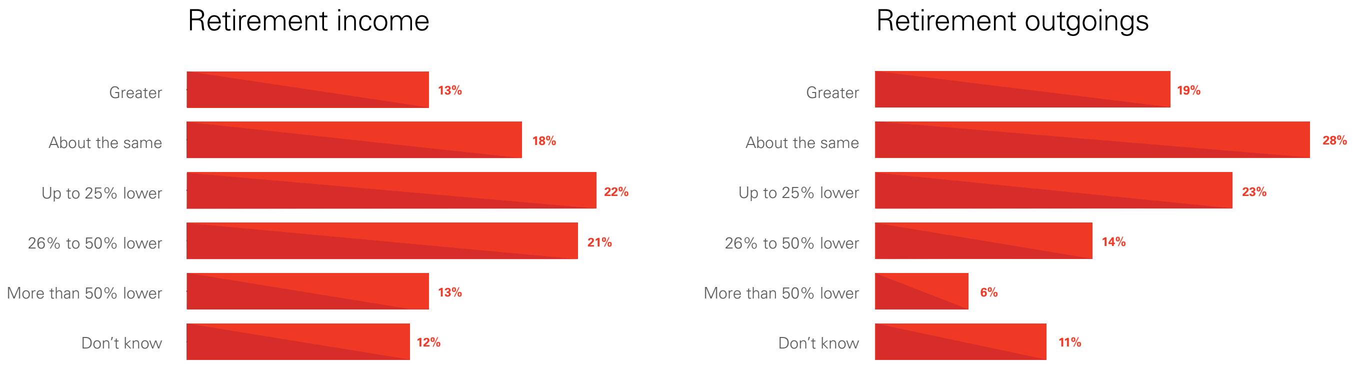
An important factor in this equation between income and outgoings will be the likely safety net provided by extended families in later life. For example, as we found in The Future of Retirement *The power of planning*, 32% of Indians expect to live with relatives in retirement, which is ten times greater than in the UK and the US (3%).[11] This means that Indians are more able to spread the cost of retiring, including long-term care needs, onto other working age family members. People in countries like the US, UK and Australia, where the nuclear family is more prevalent and more people expect to live on their own in retirement, will be faced with the prospect of relying even more on their own retirement savings, running the risk that their savings prove to be insufficient.

Figure 6: Over half expect their income to fall in retirement, but only two-fifths expect their outgoings to fall

Q: Thinking about your likely income in full retirement, how do you expect it to compare with your income immediately before you retire?

Q: Thinking about your likely outgoings in full retirement, how do you expect these to compare with your outgoings immediately before you retire?

(Base: All not fully retired)



Too much life, not enough money

As we can see in Figure 3, the actual course of retirement spending fluctuates during retirement, as the costs of age-related health and long-term care become more of a factor. In order to plan effectively, households will need to earmark some financial assets or protection to meet such costs. Household expectations of life in retirement are remarkably accurate, with people on average expecting to live in retirement for 18 years. In 2010, the OECD average life expectancy past retirement age was 18.5 years on average for men, increasing to 23.3 years for women.[12] However, households expect their retirement savings to last for only 10 years. By calculating the ratio between the number of years people expect their retirement savings to last, and the number of years they expect to live in retirement, we can show which countries expect to have the most 'life at the end of their money'.

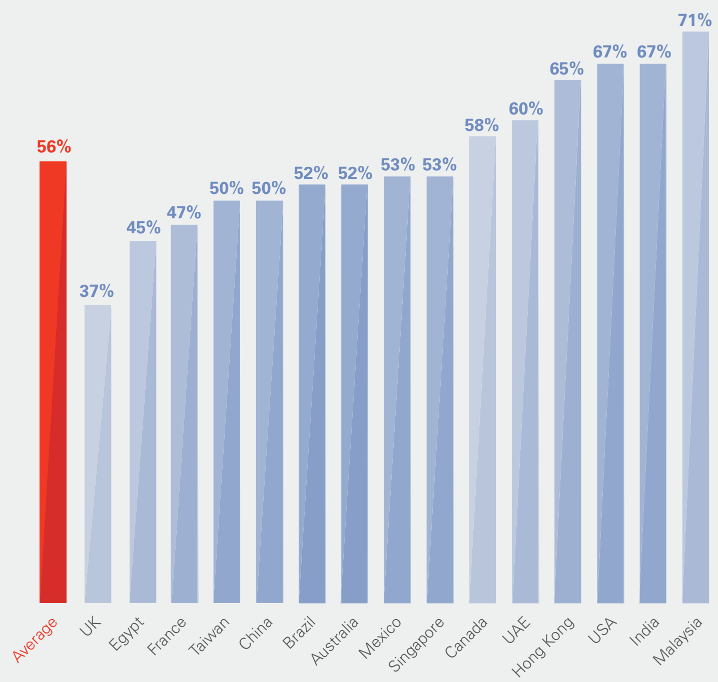
People in the UK expect their retirement savings to last for just 37% of their retirement, leaving them with no retirement savings for the final two-thirds of their retirement. In contrast, respondents in Malaysia expect their retirement savings to last much longer, for 71% of their retirement. On average across the 15 countries, people expect their retirement savings to run out just over half-way (56%) through retirement. This is especially concerning as their retirement savings are expected to run out at about the same time as they can expect to see rising health and long-term care costs with the onset of frail retirement.

Figure 7: People expect their retirement savings to run out just over half way through retirement

Q: Imagine yourself retiring today from all paid employment at the normal retirement age. How many years would you reasonably expect to live for in retirement?

Q: Some people plan or have retirement savings that they expect will last for a certain amount of time in retirement. For how long, if at all, do you expect your savings to last in retirement?

(Base: All not fully retired)



The prospect of households running out of money in retirement may be addressed through insurance-based savings products designed to deal with so-called longevity risk, even where people only have access to small amounts of savings. Many countries have developed annuity products which provide guaranteed income streams throughout retirement. Buying insurance which deals with other age-related risks, such as the need for long-term care, may help households to future-proof their finances against what might prove to be huge additional living expenses. The cost associated with long-term care premiums have been a major concern across a range of countries, given that the risks involved are so unpredictable. There is a need for greater intervention by policymakers to examine what can be done to make this market more cost-effective in sharing the risk between the state, insurers, employers, individuals and their families more effectively.

People expect retirement to last for 18 years, but their savings to last for only 10 years

Funding the cost of long-term care

All 15 countries surveyed are faced with massive increases in the cost of long-term care (LTC), which has been defined as 'care for people needing daily living support over a prolonged period of time'.[13] According to the OECD, people older than 65 years of age, especially those aged over 80 years, have the highest probability of receiving LTC services, and women are more likely to receive these services than men.[14]

- It is estimated that the US alone has 11.4 million people over the age of 80, of which 30-50% require long-term care, at a median annual cost of $81,030.[15,16,17]
- In the UK, the number of over 80s totals 2.7 million, of which surveys suggest a quarter will require long-term care, at an average annual cost of £26,000.[18,19]
- An independent commission in the UK has recently set out proposals in which no elderly citizens will have to pay more than 30% of their assets to meet their later life needs. Under the proposals, people will be liable for the first £35,000 towards the cost of long-term care in nursing homes. The initial cost to the Government would be around £1.7 billion a year, rising to £3.6 billion by 2025.[20]
- In China, the impact of ageing on health and long-term care costs has prompted proposals worth 6 million yuan on training medical workers to deal with age-related mental health (dementia) and 15.4 billion yuan to expand 548 mental health institutions and obtain basic equipment for others.[21] The Chinese Ministry of Health is running a 5-year plan to build a long-term nursing system for the elderly to provide more beds and to promote grassroots medical institutions to provide various health services to people over 65.[22,23]
- In Taiwan, the Financial Supervisory Commission (FSC) has suggested a more market-orientated approach which would mean that insurance companies promote greater investment in the long-term care business.[24] The FSC believes that it would benefit the life insurance industry to invest in elderly communities, health centres and nursing homes while creating jobs and fostering economic development.[25]
- In France, where traditionally there has been more reliance upon the state, there have been discussions on proposals to create a new branch of social security to help those who can no longer look after themselves.[26] It has been estimated that 6.7% of French retirees receive institutional long-term care at an average annual cost of €9,000.[27,28]

Developing solutions which include greater awareness of care costs, and a greater willingness at the household level to plan for it, should now be a priority in all countries.

If you want to compare the currency values above, you can use an online exchange rate calculator together with the publication dates of the referenced publications.

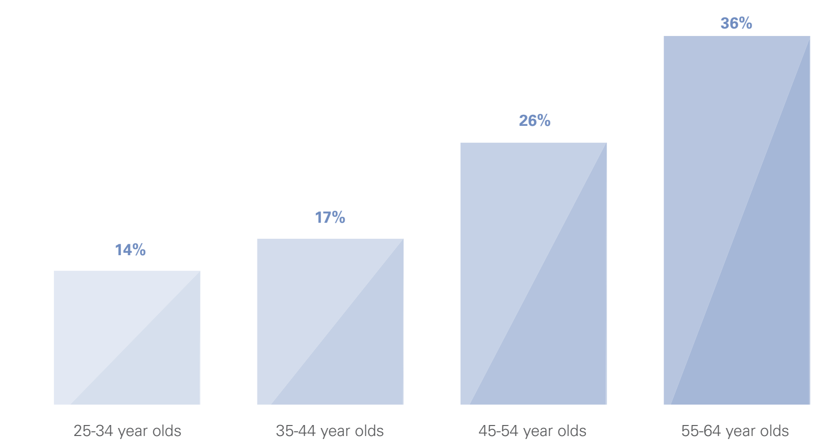
With over half (56%) of respondents prepared to acknowledge that financially they are not doing enough to prepare for a comfortable retirement, it is concerning that a large number of those who are under-prepared don't think that they can make up their current retirement income shortfall. More than 1-in-6 (18%) of those who are under-preparing thought this, and not surprisingly this doubles to 36% of those approaching retirement (aged 55 to 64), but even 1-in-7 (14%) of those aged under 35 thought that they could not make up their current retirement income shortfall, in spite of having over 30 years to go until they are likely to retire.

Figure 8: The proportion of people worried about not being able to make up their retirement savings shortfall rises with age

Q: How, if at all, will you make up any likely shortfall in your retirement preparation?

A: I don't think I can make up my current shortfall.

(Base: All not preparing adequately or at all for retirement)



52%

of people are not regular savers

This retirement preparation shortfall will have a major impact on people's ability to fulfil their lifestyle aspirations in retirement, in different ways. Respondents in Asia are more concerned about the impact on their hopes and aspirations, notably in India (53%) and China (56%) where over half of respondents said this. In the West there are more basic concerns, with respondents in Canada (43%), the US (37%) and Australia (37%) most likely to think that their health might suffer as a result of income shortfalls in retirement, whereas respondents in Britain (62%) and the US (49%) were most concerned about struggling with food and fuel costs and about having to cut down on everyday spending.

Figure 9: Retirement preparation shortfalls will affect aspirations in Asia and more basic needs in the West

Q: What are the main implications of this likely shortfall in your retirement preparation?

(Base: All who do not think they can make up their retirement shortfalls)

The consequences of retirement income shortfalls are clearly understood at the individual level, with large numbers of people, particularly in the West, acknowledging that they may have to make difficult decisions on what items of expenditure to cut out in retirement.

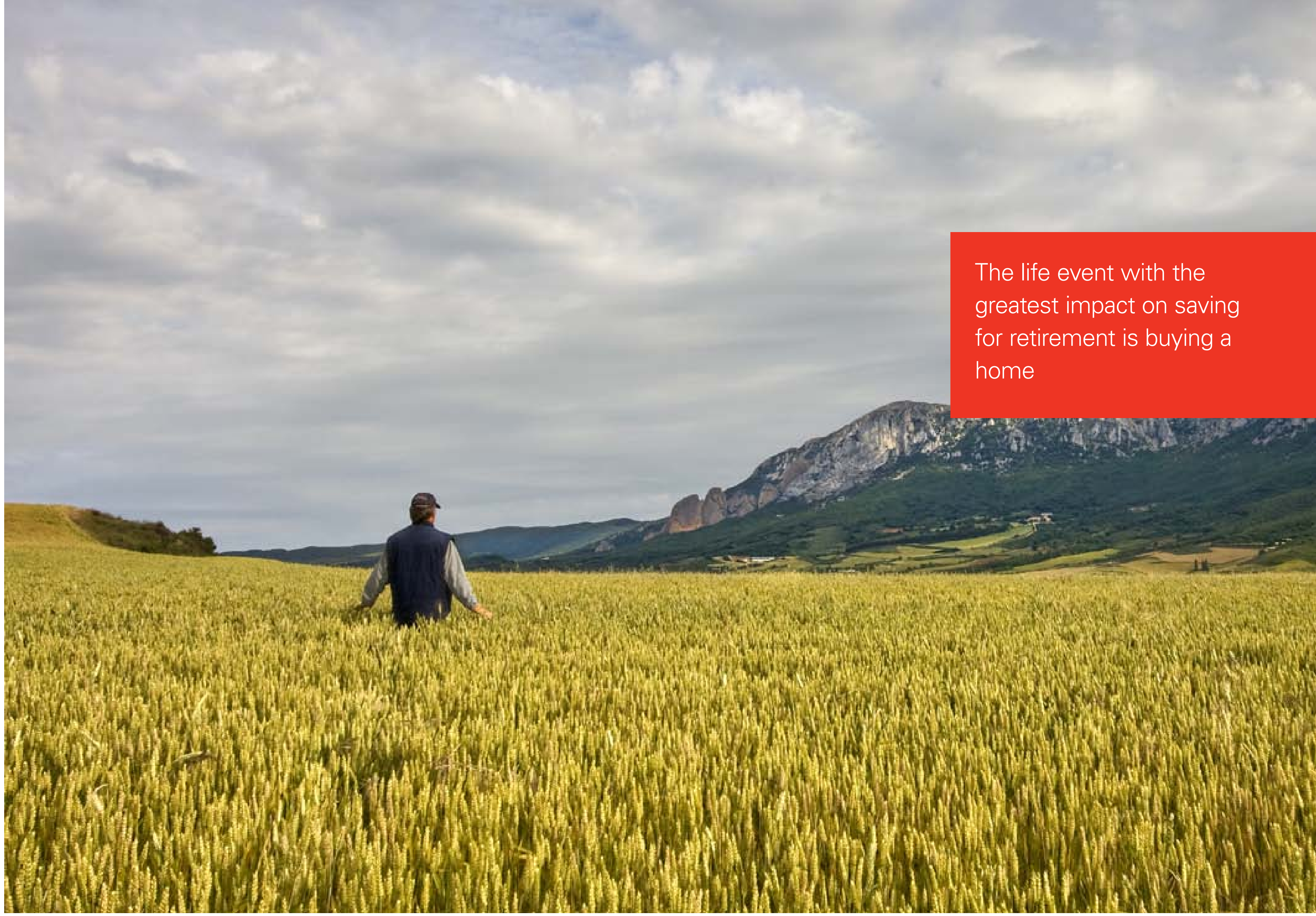
In Part 2, we examine what is stopping people from making the seemingly rational decision to save more for their desired retirement lifestyle.

Part 2

Towards a comfortable retirement: what's stopping us?

Key findings

- Currently, 48% of respondents across all 15 countries have never saved towards their retirement, rising to over half in high-income countries such as the UK, France and Australia. Nearly one-third (32%) of respondents envisage relying on the state as their main source of retirement income.
- 84% of people confirm that their ability to save for retirement has been significantly impacted as a result of a life event. Over a quarter (26%) of all respondents said that the current economic downturn had negatively impacted on their ability to save for retirement
- Many people are being forced to make trade-offs with other important financial aspirations: for example, 24% have reduced their retirement planning in order to fund their children's education, while 23% have stopped saving for retirement in order to buy a home
- Life events affected people's levels of retirement saving for 4 years on average, following their most impactful life event. This impact was felt equally by men and women.
- For men, based on average monthly retirement savings of $327, this means that such a life event costs a total of $15,696 in lost retirement savings. For women, based on average monthly retirement savings of $243, this means a loss of retirement savings totaling $11,664.
- Younger people are more likely to suffer financial hardship from unforeseen life events, with 25-34 year olds being around three times more likely to borrow money and to turn to friends and family for help, compared to those aged over 65.
- The life event with the greatest impact on saving for retirement is buying a home, impacting on 36%, followed by becoming unemployed, illness or accident preventing working and getting into debt. Indebtedness was a particular problem for people in Canada, the US and the UK. Improving the financial resilience of younger people to these unforeseen risks, through insurance products and accessible savings and investments, could remove a significant barrier to retirement saving.
- Even where households are able to save, the motivation to save for retirement is often crowded out by shorter term goals: when asked if for a year they could only afford to save for one option, 43% of respondents said they would be more likely to prioritise saving for a holiday over saving for retirement.
- There is a distinct difference in savings priorities around the world: those in Western economies like the UK, Australia and Mexico appear to favour short-term savings goals like holidays, whereas those in Asian economies like India, Hong Kong, Singapore and Malaysia appear more orientated towards long-term goals such as retirement.



The life event with the greatest impact on saving for retirement is buying a home

Understanding what makes people save for retirement

Saving on a regular basis is most likely to put people on the path to retirement preparedness, and understanding the profile of a typical regular saver should help us to better understand what makes people save.

The findings show that there are very different types of savings behaviour across the various countries, households and socio-economic groups surveyed. Overall, 48% of those who are saving do so on a regular basis and this group is the most prepared for retirement. Regular savers are most likely to be found in Asian countries including Taiwan (67%), India (62%) and Hong Kong (60%). In contrast, countries like the UK (38%) and France (44%) demonstrate a lower level of regular savings which is common to most highly developed economies. The Latin American countries in our survey (Brazil and Mexico) show similar savings behaviours to Europe and North America, although they are emerging economies with household income levels more in common with Asian markets, showing that culture and attitudes play a role in savings behaviour beyond simple economics.

48%

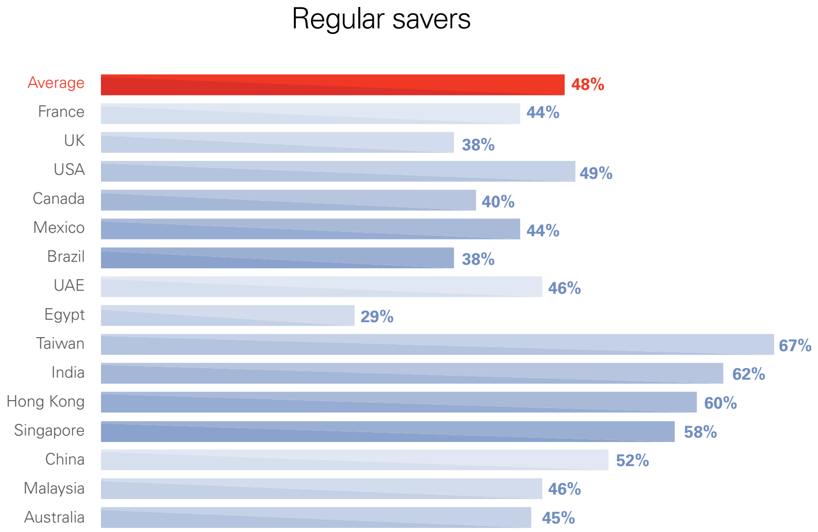
are saving on a regular basis

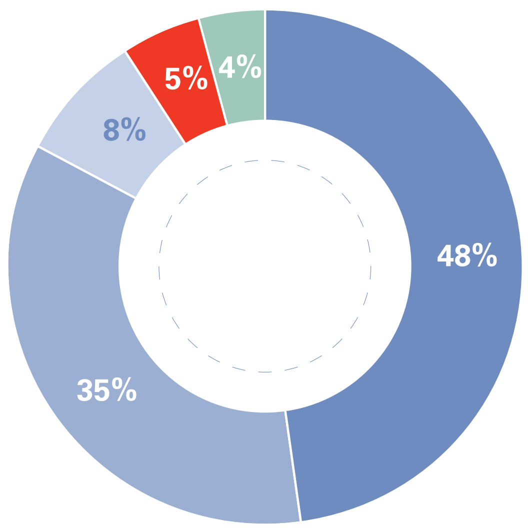
Overall, men are more likely than women to save regularly, though the gender gap is relatively small (50% versus 46%). One underlying reason for this gap is the relative numbers of part-time workers (mostly women) who are more likely to save from time to time. Other key socio-economic characteristics of different types of savers are summarised on the following page.

Figure 10: Nearly half of respondents are regular savers, more commonly found in Asia

Q: Thinking generally about the way you save, would you say you tend to save more on a regular basis or just from time to time?

(Base: All respondents)





Profiles of different saver types

Key socio-economic characteristics when compared to the average saver

Regular saver

- Likely to be male
- Even split across age groups
- Slightly younger
- Much more common amongst high income groups
- Likely to be employed full-time
- Most likely to use professional planning tools
- Most likely to feel adequately prepared for retirement
- Have higher value of retirement savings and a wider range of financial products
- More likely to expect to move to semi-retirement

Occasional saver

- Relatively even gender balance
- Slightly younger
- More common amongst 25-44 year olds
- Much more common amongst average to low income groups
- More likely to be part-time employed
- More likely than average to use informal planning tools
- Likely to feel inadequately prepared for retirement
- Have lower value of retirement savings and a narrower range of financial products
- More worried about retirement income

Past saver

- Relatively even gender balance
- Particularly common amongst over 55 year olds
- Much more common amongst low income groups
- More common than average amongst the semi-retired and fully retired
- Likely to have never planned for retirement
- Likely to feel inadequately prepared for retirement

Non-saver

- Relatively even gender balance
- Even split across age groups
- Much more common amongst low income groups
- Most common amongst long-term sick and unemployed
- More likely to be divorced or widowed
- Likely to have never planned for the future
- Likely to feel inadequately prepared for retirement

Overcoming obstacles to saving

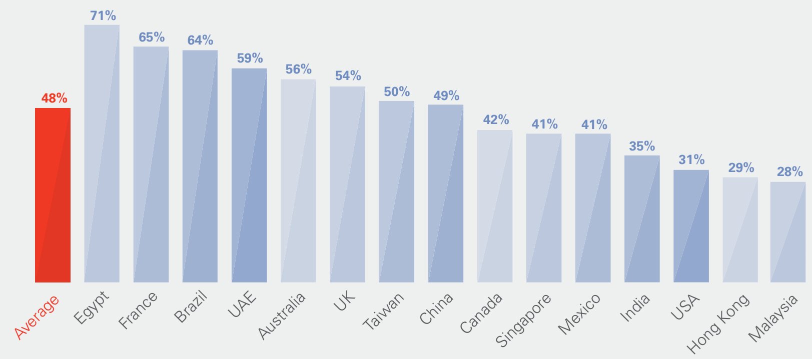
Currently, 48% of respondents have never saved towards their retirement. This peaks in higher-income countries such as France, where 65% of respondents said that they were currently putting aside nothing for their retirement, and compares with 54% in the UK, 56% in Australia and 50% in Taiwan. Addressing this inaction is critical: a separate study in the UK illustrates how deferring savings by ten years from age 30 to age 40 could reduce private pension income for a median earning man expecting to retire in 2055 by nearly one-third (32%).[29]

Figure 11: Nearly half of all respondents have never saved for retirement

Q: At what age did you first start to save specifically for your retirement?

A: I have never saved for retirement

(Base: All respondents)



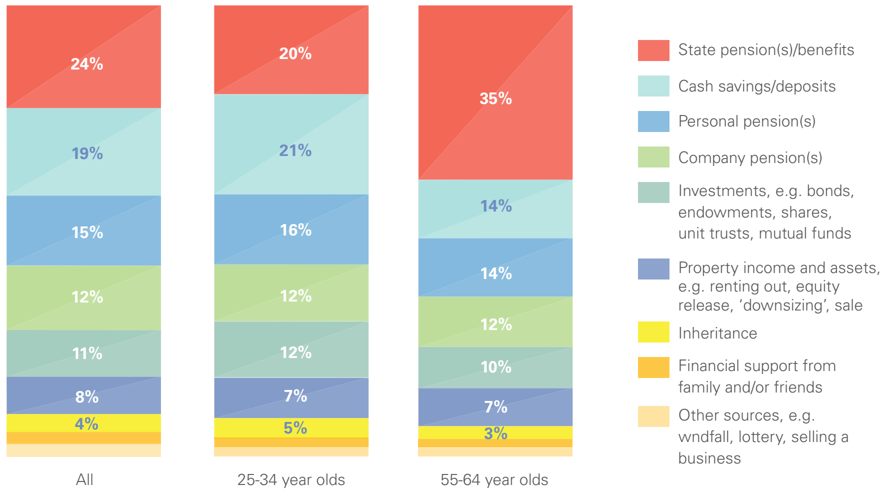
In part, this finding is explained by the fact that wealthier societies tend to have an older age profile where more people have reached the end of their wealth accumulation phase and have moved into retirement, where they now start to spend rather than save. However, Western societies have very high numbers of non-savers across all ages including the young: for example, 61% of 25-34 year olds in the UK have never saved for retirement. Understanding why people do not save for retirement is crucial to identifying the right long-term solutions to fill any future shortfalls in retirement income.

Many respondents believe that the state will continue to provide for people in retirement, which itself can constitute a potent barrier to encouraging people to save for themselves. Overall, people expect 24% of their retirement income to come from the state, whereas personal pensions are expected to account for just 15% of retirement income. Encouragingly, this reliance on the state is less prominent amongst younger respondents, who expect it to constitute just a fifth (20%) of retirement income. However, those near retirement age (55-64 years old), expect over a third (35%) of retirement income to come from the state.

Alongside the impact of state pensions, there are other barriers to overcome. In order to address a lack of interest in retirement planning, mechanisms such as auto-enrolment can be utilised. For people who can't afford to save for retirement, simplified tax incentives can play an important role in making retirement planning more financially attractive. Our findings reveal how various life events can stop people from saving for retirement and suggest how people can plan to minimise the impact of such obstacles.

Figure 12: The main source of retirement income is expected to be the state

Q: Once you are fully retired, what proportion of your retirement income do you expect will be funded from each of the following sources?
(Base: All not fully retired)



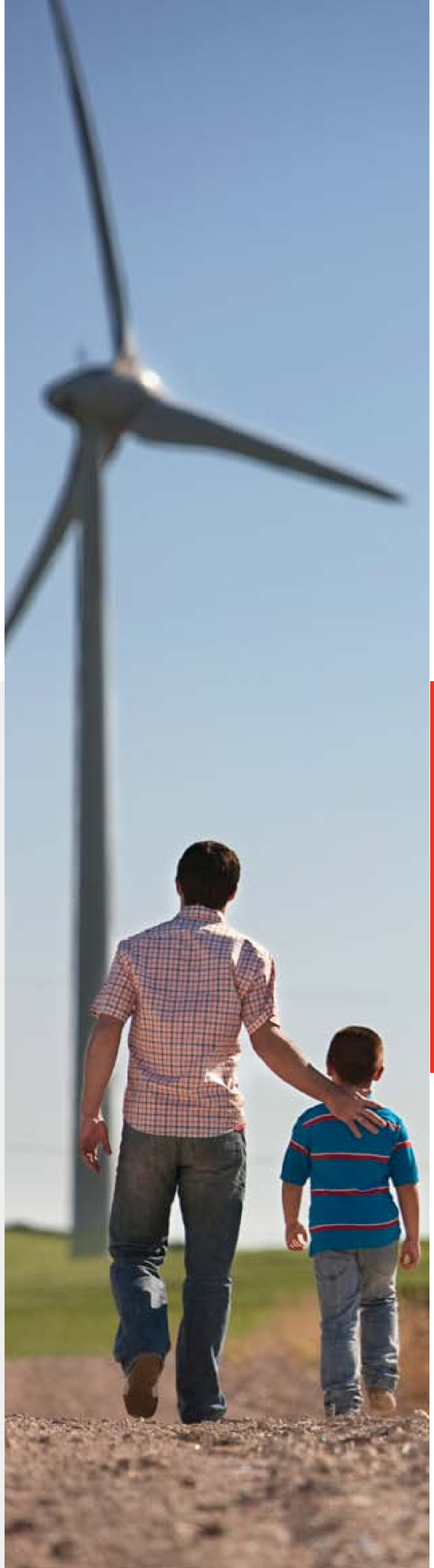
Overcoming obstacles to retirement saving – Pensions auto-enrolment in UK

In 2012, the UK became the second country in the world to introduce auto-enrolment in workplace pensions at the national level, after New Zealand introduced its Kiwi Saver plan in 2007. The experience of New Zealand to date has been highly positive with the membership of the Kiwi Saver plan having increased from 716,637 to 1,766,932 between 2008 and 2011.[30] With the UK displaying one of the highest rates of people not saving for retirement, the introduction of a similar auto-enrolment plan marks a significant attempt to overcome the country's current inactivity towards long-term saving. However, it is worth noting the example of Australia's Superannuation Fund, which in 1992 introduced a mandatory requirement on employers to make contributions on their employee's behalf. This saw member accounts increase to 29.1 million by 2006[31] but Australia still has the second highest number of people in our survey (33%) who claimed to be saving nothing for retirement.

People expect

24%

of their retirement income to come from the state



The impact of live events

While most people have good intentions when it comes to saving for retirement, they can find that real life sometimes gets in the way. While some 'life events' are hugely positive emotionally, such as starting a family or getting married, even so they can still have a negative impact financially on retirement plans: many people have reduced or stopped retirement savings as a result of making trade-offs with other desirable life goals. More negative life events, such as periods of unemployment, have a more direct impact on retirement savings, by making a regular savings habit more difficult.

Impact of positive life events

24%

have seen an impact on their retirement plans in order to fund their children's education

36%

have had their retirement savings affected by buying a home/paying a mortgage

Impact of negative life events

26%

said that the current economic recession had affected their retirement planning

26%

said that becoming unemployed had affected their retirement saving

26%

see the economic downturn as an obstacle to saving for retirement

Only 10% of respondents said that no life event had ever had a significant impact on their ability to save for retirement. While some life events might actually encourage more savings, such as young people getting a promotion at work, most have the opposite effect. If faced with financial hardship due to an unforeseen life event, nearly one-third (29%) said that they would consider using their retirement savings and investments. It is therefore important to understand how these events (positive or negative) impact on retirement planning.

People say that their most impactful life event has affected their level of retirement savings for an average of 4 years following the life event, with men and women equally affected. On average, as men are more likely to save more towards retirement, their retirement savings will be more adversely affected in total. Based on average monthly retirement savings of $327 for a man (global average), this means that their most impactful life event costs $15,696 overall in lost retirement savings. Based on average monthly savings of $243 for a woman, this means a loss of retirement savings totaling $11,664.

In financial terms, it is the older age groups who stand to lose most as a result of financial hardship due to an unexpected life event, because the event is affecting them at the point in their lives when their retirement savings would otherwise be reaching their peak. The event is also more likely to affect their finances for a longer period. Given the average monthly savings of someone aged between 55 and 64 years, we could expect to see them lose around $18,000 retirement savings in total, if they stopped saving altogether for 6 years (see Figure 15).

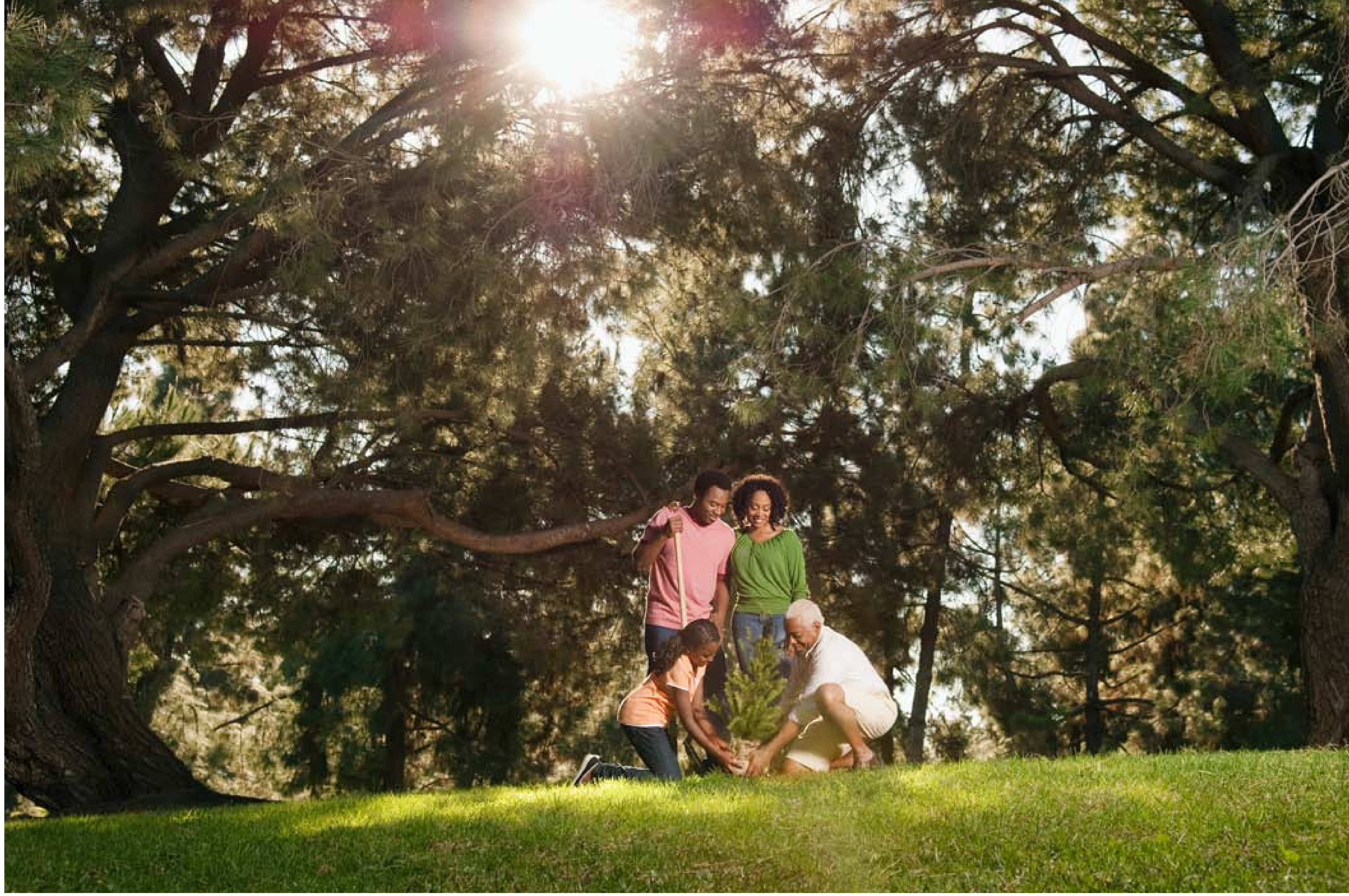


Figure 13: Buying a home and becoming unemployed are the most impactful life events acting as barriers to retirement saving

Q: Some people experience 'life events' which impact significantly on their ability to continue saving for their retirement. Which, if any, of the following 'life events' ever impacted significantly on your own ability to save for retirement? (Base: All not fully retired)

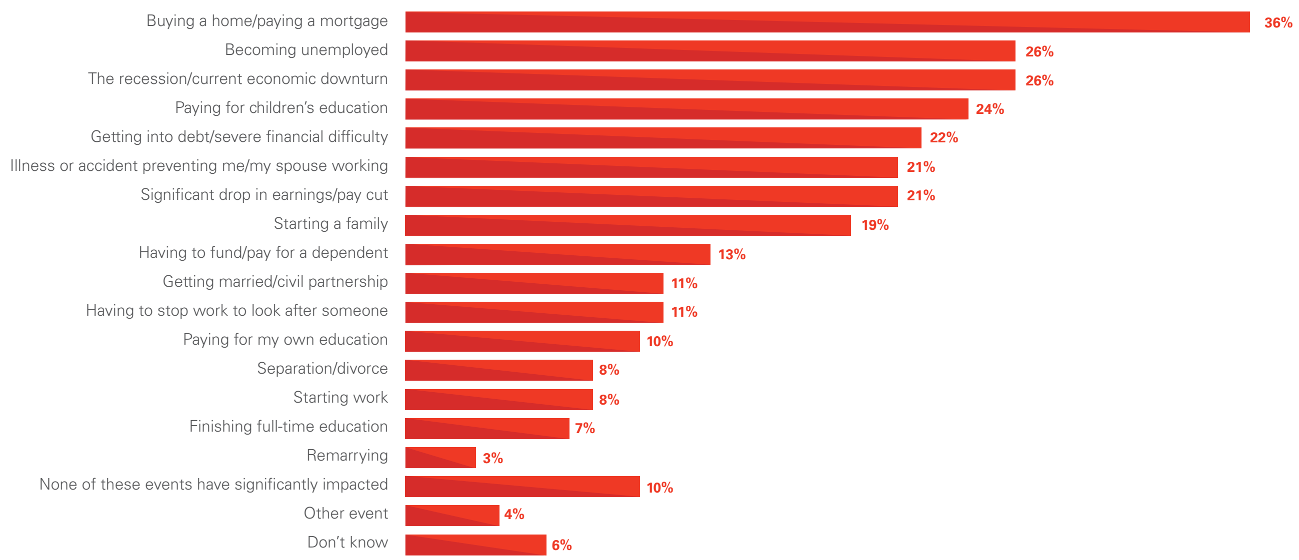
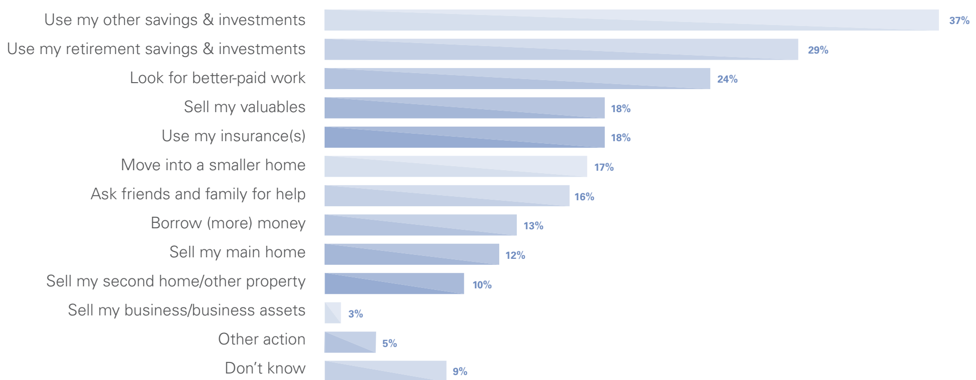


Figure 14: Nearly a third would consider using their retirement assets to deal with an unforeseen financial crisis

Q: Sometimes people experience unforeseen life events which can lead to serious financial hardship. If you were to experience such hardship which, if any, of the following actions would you be most likely to consider? (Base: All not fully retired)



29%

would be most likely to consider using retirement savings when facing financial hardship caused by unforeseen life events

Figure 15: Lost retirement savings – how life events affect different age groups (Base: All not fully retired)

Age group	Average monthly retirement savings	Average number of years affected by most impactful life event	Total lost retirement savings (assuming all monthly savings stopped)
25-34 years	**$242**	3 years	**$11,616**
35-44 years	**$314**	4 years	**$15,072**
45-54 years	**$335**	5 years	**$16,080**
55-64 years	**$377**	6 years	**$18,096**

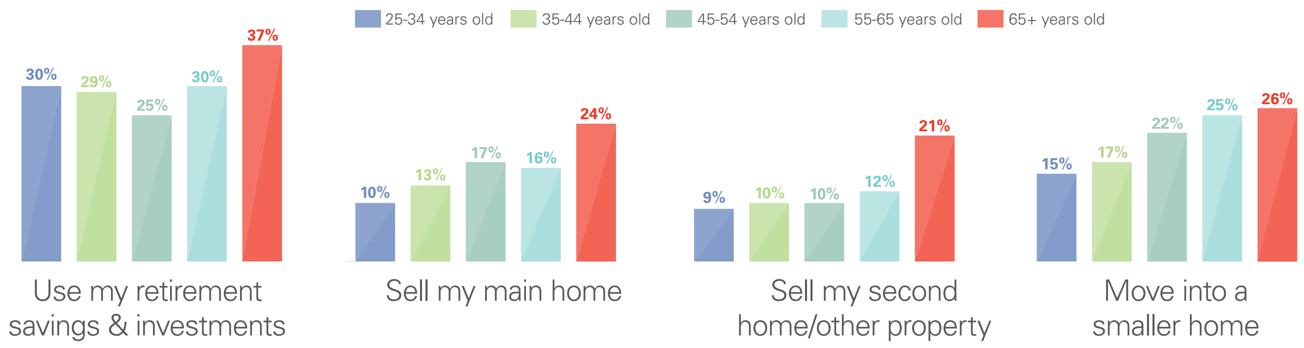
However, by this stage in their lives, older savers should have already amassed greater household wealth and will therefore be more financially resilient in dealing with any unforeseen financial shocks. Other key findings were:

- Those aged 65 and over are two and a half times more likely to consider selling their main home or twice as likely to consider selling a second home, compared with those aged 25-34 years. They are also much more likely to consider moving to a smaller home.
- In contrast, younger savers, who are less likely to have amassed any assets, are more likely to respond to financial shocks by borrowing money or looking to boost their incomes through better-paid work
- Those aged 25-34 years are almost three times as likely to say that they would borrow money and more than three times as likely to ask for help from friends and family, compared to those aged over 65 years.

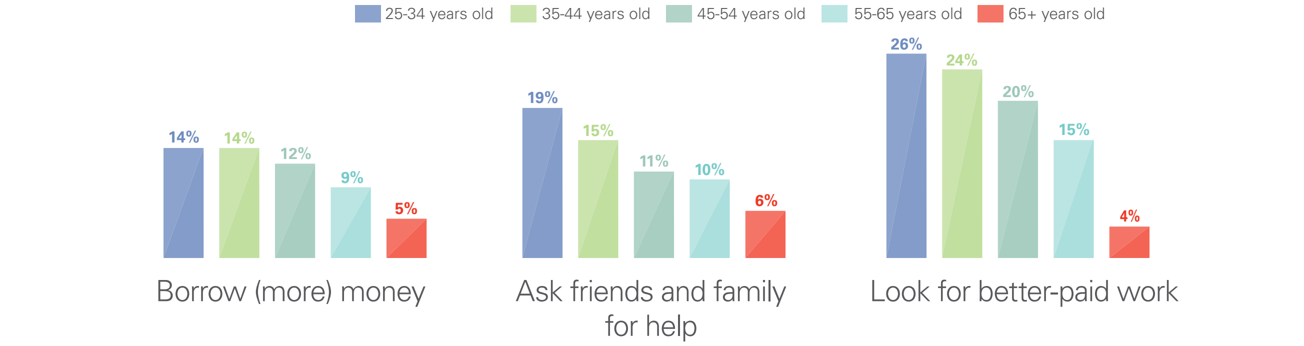
Figure 16: There are significant differences in age group responses to financial hardship caused by unforeseen events

Q: Sometimes people experience unforeseen life events which can lead to serious financial hardship. If you were to experience such hardship which, if any, of the following actions would you be most likely to consider?
(Base: All not fully retired)

Older people more likely to sell their assets



Younger people more likely to seek to earn more or borrow more



Improving financial resilience for younger people

Whereas older people would consider relying on accumulated assets to deal with unforeseen financial shocks, young people are more likely to consider borrowing more money, which could itself become an obstacle to long-term saving in the future. Our findings show that getting into debt is the most important obstacle to retirement planning for 7% of people globally. Efforts from the state, employers, individuals and their families to improve the financial resilience of young families are therefore required to ensure that long-term financial goals like retirement planning are not permanently blown off course.

This resilience may take the form of building up a greater store of short-term savings and investments, although for many young people, insurance may offer a more affordable and cost-effective safety net against dealing with financial shocks. Some of the life events cited as the most important in affecting retirement savings are unemployment (9%) and illness or accident preventing people from working (7%). Such risks could be somewhat mitigated through targeted insurance policies.

Short-term vs. long-term trade-offs in household aspirations

In addition to life events which can have significant impacts on retirement savings, trade-offs between long- and short-term goals can routinely affect not only whether people save but also which savings motives are likely to be the most important. This is highly significant given that when asked in a previous Future of Retirement report, *The power of planning*, 60% of those who were not planning for the future said that they could not afford to.[32] Our findings suggest that many of those who claim that they could not afford to plan for retirement are in fact prioritising current spending and short-term savings goals. This could see long-term savings goals such as having a comfortable retirement being crowded out by short-term savings goals such as having a family holiday. We found that, if for one year they could only afford to save for one option, 43% of people globally would rather save for a holiday than save for retirement.

Globally, respondents favoured the longer-term savings goal of retirement saving by a margin of 7%, although this varied greatly between countries (see Figure 17). In Western and Latin American countries such as the UK, Australia and Mexico, over half of households prioritised saving for a holiday over saving for retirement when given the choice, whereas respondents in Asia were more drawn towards the long-term savings goal. For example, in India, retirement savers numbered 61% compared to 35% holiday savers.

43%

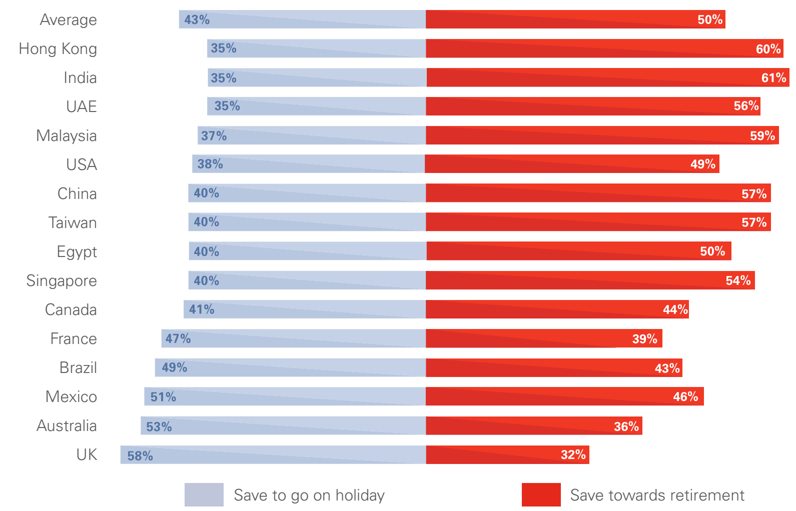
would be more likely to save for a holiday than save for retirement

People in Europe, Latin America and Australia display more of a preference towards short-term savings objectives. In contrast, it is Asian individuals who are most focused on the longer-term.

In Part 3 of this report, we examine what role financial planning can play in helping to overcome some of the obstacles and attitudes revealed in Part 2, as part of an effort to fill the gap between retirement income and retirement need identified in Part 1.

Figure 17: People in most countries would rather save for retirement than for a holiday

Q: If for one year you could only afford to save either to go on holiday or towards your retirement, which would you be more likely to do?
(Base: All not fully retired)

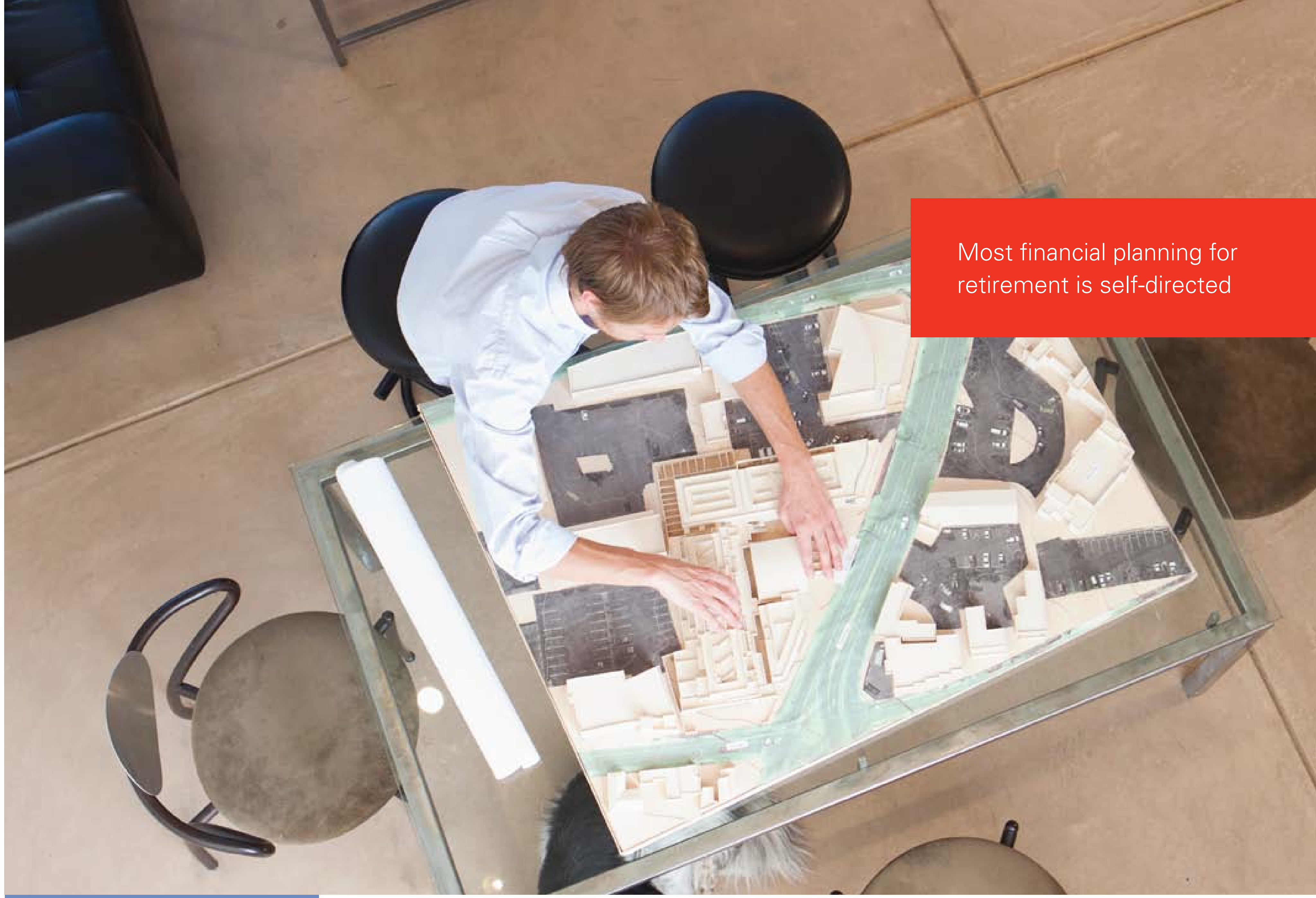


Part 3

Getting ready for retirement: what's the plan?

Key findings

- There is a wide acceptance of the need to plan one's personal finances, with 77% having some kind of financial plan in place.
- Financial planning for retirement can be either formal or informal. Overall, informal planning proved to be more popular: for example, when asked which ways have you ever planned for retirement, 'my own thoughts' was cited by 40% and 'my own approximate calculations' by 36%.
- Informal planning outnumbers formal planning by a ratio of over two to one, highlighting an opportunity for financial services providers to assist with informal planning, as well as offering formal financial planning and professional advice services.
- Those with a financial plan in place are saving the most for retirement. Those who took financial advice from a professional adviser saved on average $409 per month towards retirement. Those using online planning tools are saving $377 per month. Those who did not have a financial plan saved the least for retirement, on average just $77 per month.
- Typically, the decision to start saving for retirement pre-dates the decision to start financial planning for retirement by four years, with saving beginning at the age of 26 and planning beginning at age 30. The latest age that people believe you can start planning for retirement and still maintain a decent standard of living in later life is, on average, 34.
- Having taken the decision to start financial planning for retirement, nearly half (44%) will go on to save greater amounts, confirming the presence of a 'planning premium'. This planning premium is increased when professional financial advice is taken, with 55% saving more for retirement, rising to 59% when the advice included a written plan.
- There is a gender gap, with 46% of men with a financial plan saving more for retirement after they started financial planning compared to 40% of women. However, in monetary terms, the planning premium gained by those who sought professional financial advice is actually greater for women, who on average accrue retirement savings of $175,783, more than double the $75,844 of women who did not use such advice.
- People who do not have a financial plan in place for retirement have an average of $45,695 in retirement savings, whereas those with a written plan prepared by a professional adviser have average retirement savings of $203,228, over four times greater.



Most financial planning for retirement is self-directed

The role of financial planning in funding retirement

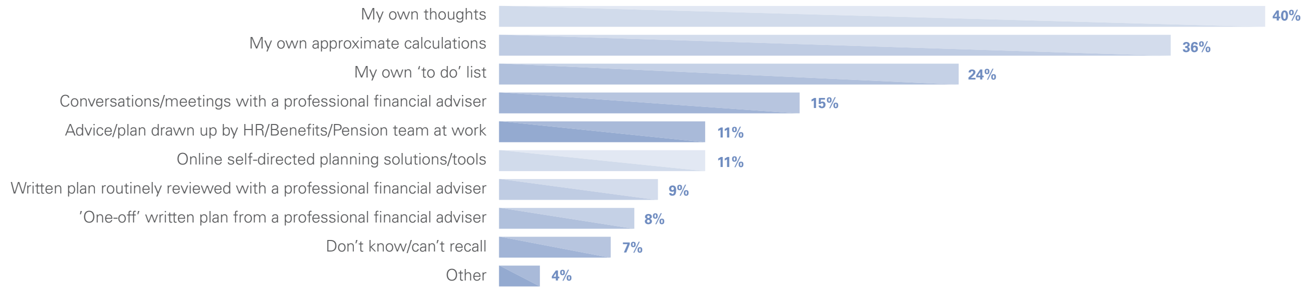
We have established that large numbers (48%) of people have never saved for retirement even though people broadly acknowledge the need to do so. In 2011, The Future of Retirement *The power of planning* revealed that 50% of respondents in the seventeen countries surveyed did not have a financial plan in place. This year the findings reveal that retirement planning among individuals is actually more widespread when we define financial planning in its broadest sense: those with some kind of financial plan increases to 77% when we include both formal and informal methods. Some examples of how individuals defined financial planning are shown in Figure 18.

Figure 18: Types of financial planning for retirement

Informal planning	Formal planning
My own thoughts	'One-off' written plan from a professional financial adviser
My own 'to do' list	Written plan routinely reviewed with a professional financial adviser
My own approximate calculations	Conversations/meetings with a professional financial adviser
Online self-directed planning tools	Advice/plan drawn up by HR/Benefits/Pension team at work

Figure 19: Informal types of financial planning are the most popular

Q: Planning financially for retirement can take several forms, both formal and informal. In which of the following ways, if any, have you ever planned for your retirement? (Base: All respondents)



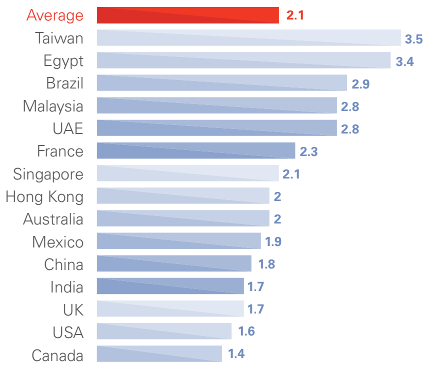
16%

have never planned financialy for retirement

Overall, the informal methods of financial planning, those which are self-directed and least expensive, proved to be the most widespread. 'My own thoughts' and 'My own approximate calculations' were the most popular ways of financial planning for retirement. Figure 20 shows the ratio of informal to formal financial planning for retirement in each country, with informal planning more popular than formal planning by a ratio of just over 2 to 1 overall. Of the 15 countries surveyed, Taiwan has the greatest proportion of individuals using informal financial planning, with 3.5 informal planners for every formal planner. In contrast, the US (1.6) and Canada (1.4) have the lowest ratios of informal to formal planners.

Figure 20: Informal planning is more common than formal planning for retirement

Q: Planning financially for retirement can take several forms, both formal and informal. In which of the following ways, have you ever planned for your retirement? (Base: All respondents)



The findings reveal that while many people may not have a formal financial plan drawn up with a professional financial adviser, people are still thinking about and organising their finances, albeit in a less formal way. Efforts by governments and the financial services industry to encourage greater financial planning should accept and work with this prevailing consumer behaviour to maximise success: for example, by not only providing face-to-face advice (which may be perceived as costly and time consuming), but also by providing alternative self-help tools (such as online calculators and helpful to-do lists), to help people to make their 'own approximate calculations' in a more informed and realistic way.

Typically, people start saving for retirement at the age of 26. However, they don't start to plan financially for retirement until they reach the age of 30. The latest age our respondents believe people can start planning for retirement and still maintain a decent standard of living in later life is, on average, 34.

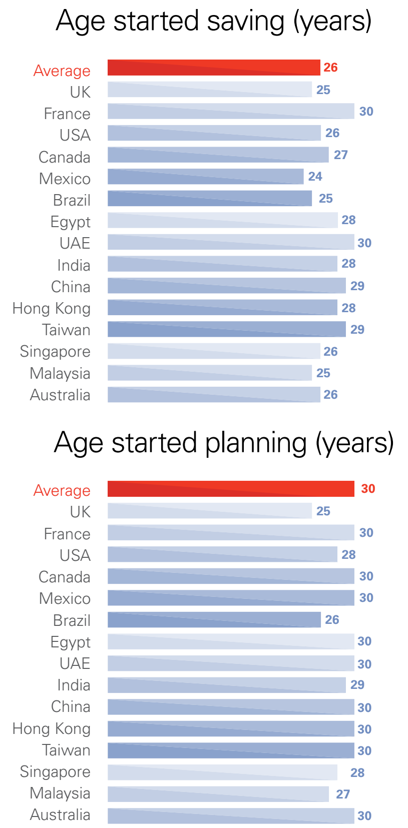
While saving for retirement typically commences before planning financially for retirement, the act of creating a plan will more often than not reinforce savings behaviour in a positive manner.

Figure 21: Planning financially for retirement typically starts later than saving for retirement

Q: At what age did you first start to save specifically for retirement?

Q: At what age did you first start planning financially for retirement?

(Base: All respondents)



As our findings on the planning premium illustrate, the sooner that non-planning savers are converted into active financial planners, through either formal or informal planning processes, the bigger the positive impact will be on their retirement finances.

The planning premium: people save more and they save regularly

In 2011, The Future of Retirement *The power of planning* identified a 'planning premium', by analysing the value of retirement savings and investments held by different consumer types with different financial planning behaviours, and finding that having a financial plan was closely correlated with possessing higher levels of retirement assets.[33]

Our latest findings reinforce the financial benefits of having a financial plan. On average, having a financial plan in place leads to greater retirement (and other) savings and investments. For example, people who used a professional financial adviser on average have nearly double the average retirement savings ($203,228) of those who did not ($98,005). The retirement savings uplift gained by those who have taken professional financial advice is actually greater for women (see Figure 22). While older age groups and those on higher incomes are generally better prepared for retirement, the planning premium is apparent within each age and income group.

44%

saved more for retirement as a result of having a financial plan in place

Figure 22: Those planning for retirement with professional advisers have the most in retirement savings

Q: Thinking now about the total value of all your retirement savings and investments (including any defined benefit, defined contribution, personal, or other pensions schemes, including employer contributions), approximately what is the total value of these savings and investments? If you are unsure of the precise figure, please give an estimate. (Base: All not fully retired)

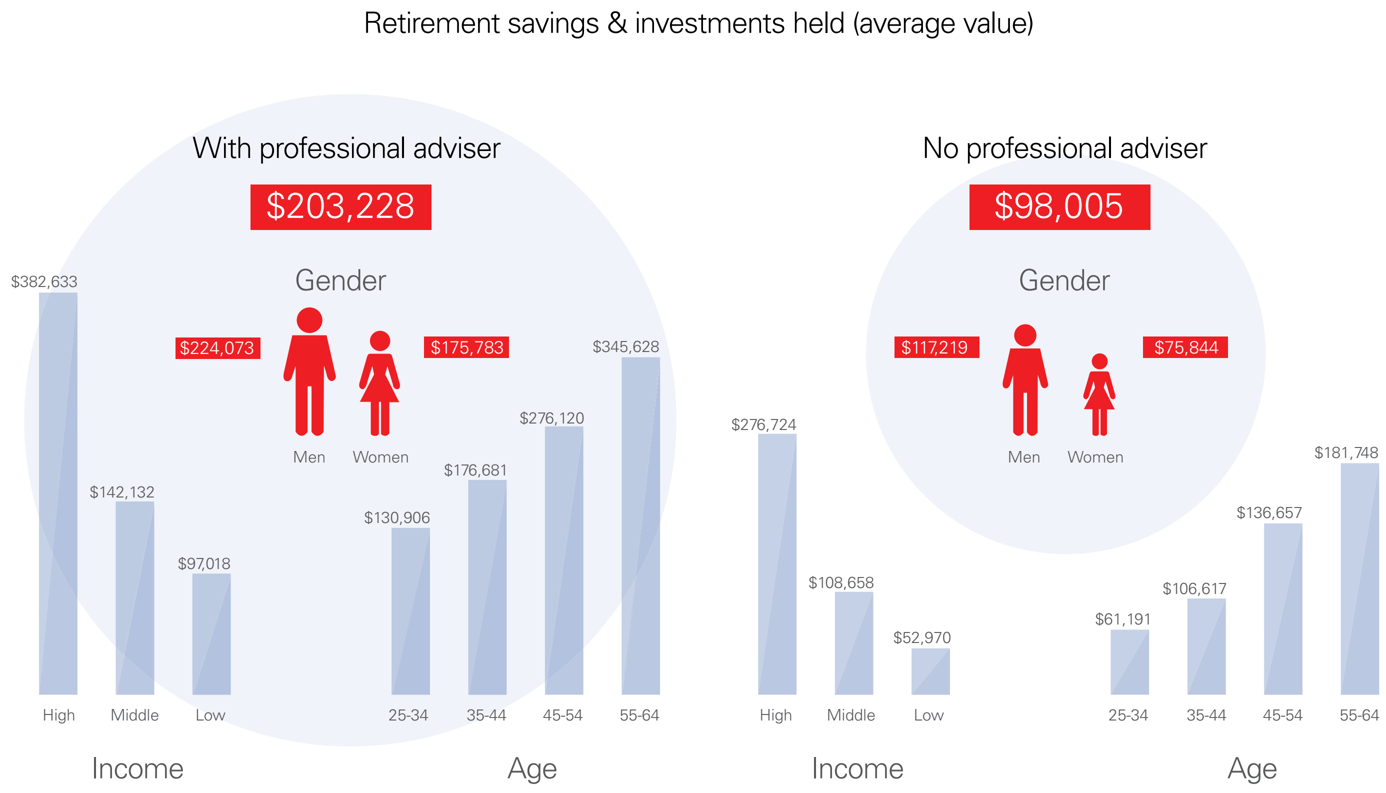


Figure 23: Financial planning and professional advice have a positive effect on retirement assets

Q: Thinking now about the total value of all your retirement savings and investments (including any defined benefit, defined contribution, personal, or other pensions schemes, including employer contributions), approximately what is the total value of these savings and investments?

	Retirement savings & investments held (average value)		
Respondents who	**All respondents**	**Men**	**Women**
Used formal retirement planning	$180,721	$200,228	$155,223
Used informal retirement planning	$140,628	$161,804	$112,389
Did not use any retirement planning	$45,695	$52,947	$39,850
Used a professional financial adviser	$203,228	$224,073	$175,783
Did not use a professional financial adviser	$98,005	$117,219	$75,844
All respondents	$121,407	$189,395	$101,273

Among those who had started to save, the act of putting in place a financial plan encouraged nearly half (44%) of them to increase the amount of their monthly retirement savings as a direct result. While 46% of men with a financial plan responded by saving more, 40% of women did likewise. The full-time employed (who are more likely to be male) also scored 46%, while 37% of those in part-time work with a financial plan also saved more.

Any form of financial planning, whether formal or informal, on average has a positive causal impact on encouraging people to save more for retirement. The planning premium is greater where people undertake more formal types of financial planning, especially involving a professional financial adviser. Where a person's financial plan included seeking professional advice, 55% responded by saving more. This increased to 59% where the advice was backed up with a written plan. However, given the extent to which people rely on informal methods of financial planning, it is encouraging that 56% of those who planned for retirement using an online planning tool (a self-directed channel) say they also saved more for retirement as a result.

In money terms, the findings show that those who use professional financial advice on average save $409 per month towards retirement, which rises slightly to $417 per month when a written plan is also in place. Even those using self-directed online planning tools saved $377 per month towards retirement, compared to those who have never planned financially for retirement, who on average save just $77 towards retirement each month.

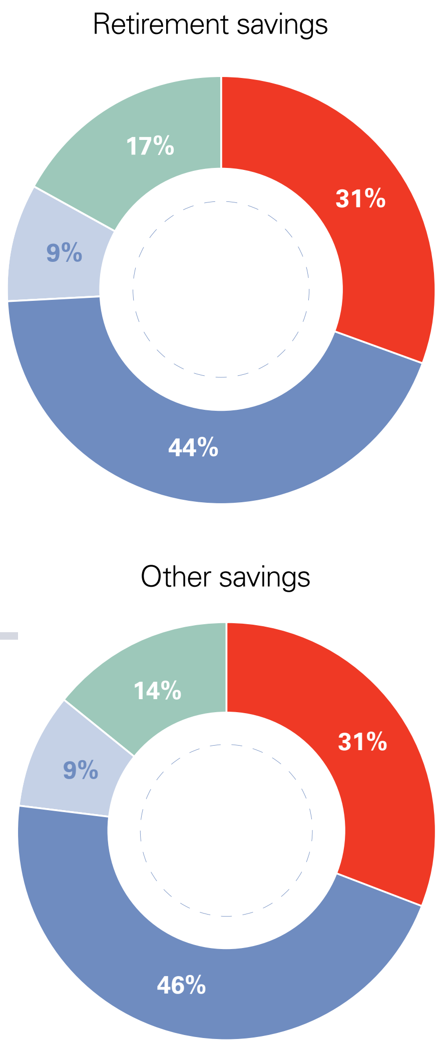


Figure 24: Having a financial plan in place leads nearly half of people to save more

Q: As a result of having a financial plan in place, would you say you have saved more for your retirement?

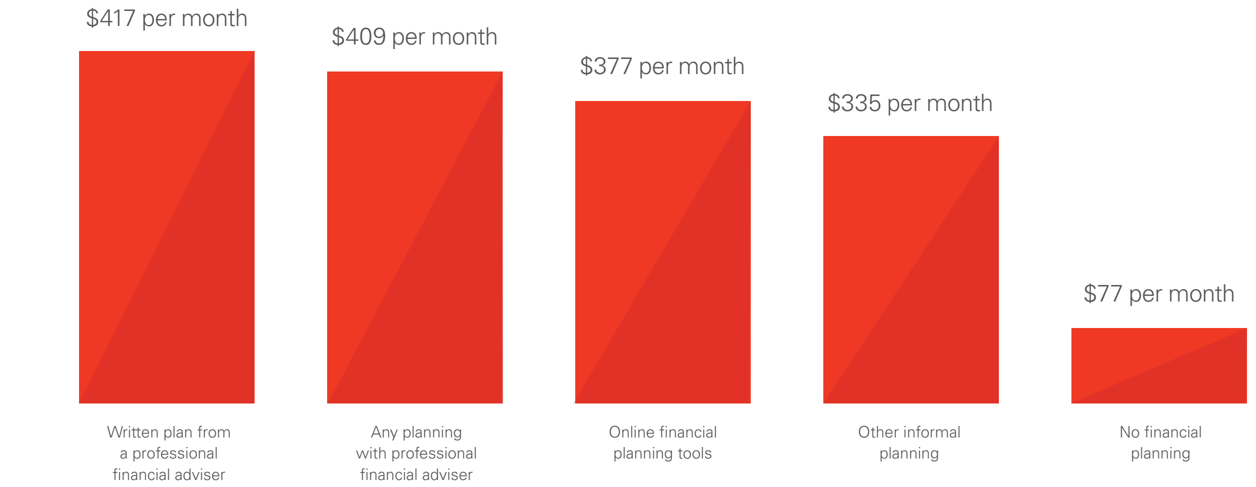
Q: As a result of having a financial plan in place, would you say you have saved more for other purposes?

(Base: All respondents)

Yes No Don't know Not applicable

Figure 25: The more formal the financial plan, the more people save for retirement

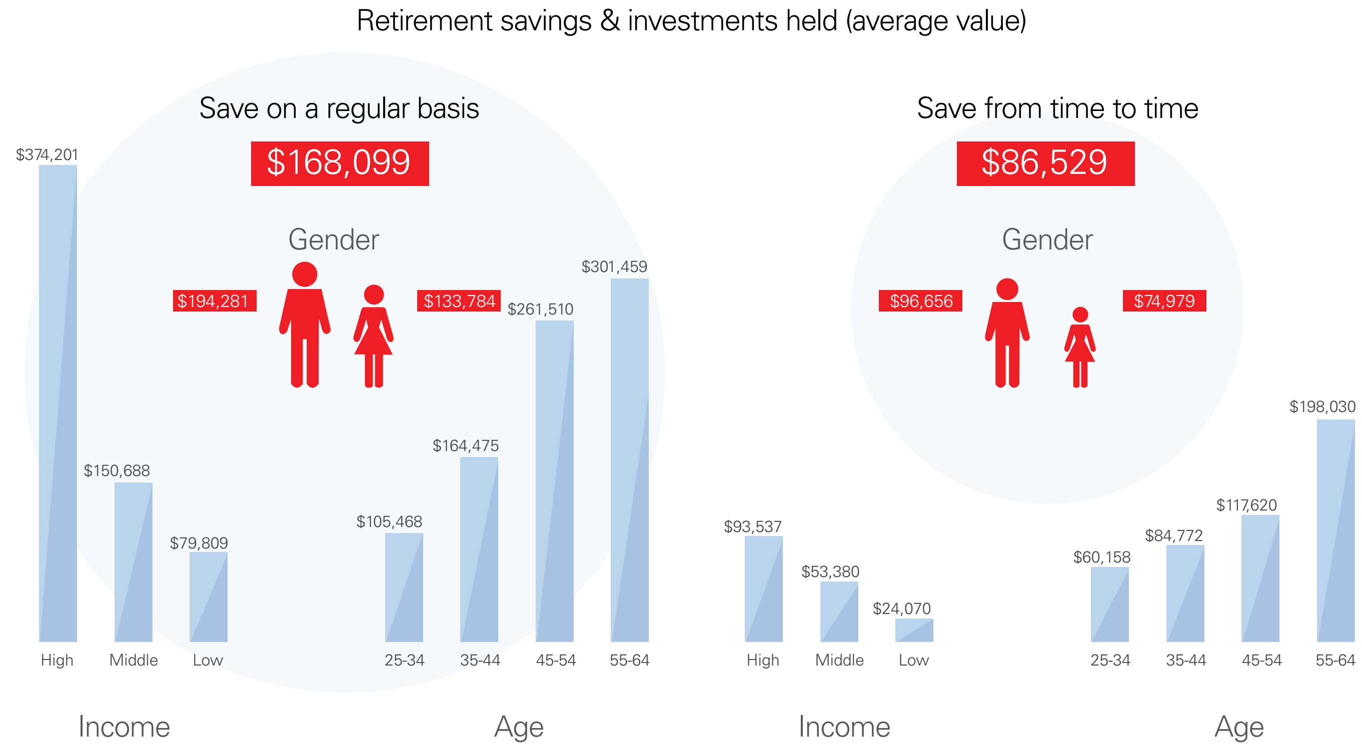
Q: Not including money you invest in your home (e.g. mortgage repayments, home improvements), approximately how much are you currently saving each month for use in your retirement? Please think of any pension contributions that you and/ or your employer are making, and any other savings and investments for use in retirement, including lump sum investments.
(Base: All not fully retired)



Those who are using professional financial advisers are more likely to be regular savers (62%) than those who have not planned for retirement (25%). Regular savers amass more than double the average value of retirement savings ($168,099) compared to those only saving from time to time ($86,529).

Figure 26: Regular savers have greater retirement savings than those who only save from time to time

Q: Thinking now about the total value of all your retirement savings and investments (including any defined benefit, defined contribution, personal, or other pensions schemes, including employer contributions), approximately what is the total value of these savings and investments? If you are unsure of the precise figure, please give an estimate.
(Base: All not fully retired)



Part 4

The pathway to a more comfortable retirement

Here are some practical steps that people can take to improve their financial well-being in later life, based on the global research findings in *A new reality:*

Action 1
Get real about your retirement needs

Faced with increasing life expectancy, people recognize the need to save more for retirement. However, people often fail to take action. On average, respondents expect to spend over 18 years in retirement but think that their retirement savings will run out roughly half-way through their retirement. Crucially, this means that retirement savings may be used up before the possible onset of frail retirement. While 54% of people cited poor health as a concern in retirement, the costs of funding potential medical and long-term care seems to go largely unaddressed in people's plans.

The aspirations of active retirement, such as extensive travel and holidays, and the possibility of having to fund unforeseen costs, such as long-term care, may see overall retirement outgoings increase for many people. People need to recognise these costs, and make a realistic assessment of how much money they will need to live on in retirement.

Action 2
Put your savings priorities in order

Nearly half (48%) of people have never saved for retirement. Affordability is a factor with many individuals claiming that they simply cannot afford to save for retirement and 26% believing that the global economic downturn has had an impact on their ability to save for retirement. However, many individuals do not prioritise retirement savings highly enough against other financial goals: when asked if for one year they could only afford to save for one option, 43% of people would rather save for a holiday than save for retirement.

Households need to work out a realistic budget and make sure that long-term financial planning, including the need to save for retirement, isn't overlooked against what might seem like more pressing financial needs. Ring-fencing even a small amount of monthly income towards retirement planning can help to make a major difference in the future.

Action 3
Be aware of how major life events affect saving for retirement

Nine-in-ten households claimed that life events and unforeseen financial shocks, such as periods of unemployment, had impacted on their ability to save for retirement. This impact is likely to last for around four years, increasing to seven years among those in their 50s. Helping households to maintain retirement savings will involve making them more resilient against financial shocks.

Households need to ensure that they have access to some emergency savings & investments as well as appropriate insurance to deal with periods of unemployment and long-term illness which may stop them working. In the absence of emergency savings and insurance, many households may be required to raid their long-term savings which were intended for retirement.

Action 4
Plan for the future

On average, there is a causal link between having a financial plan in place and saving more for retirement: 44% say they saved more for retirement after they put a financial plan in place. Any type of financial planning for retirement, including informal ways such as using online planning tools, encourages people to save more for retirement.

Developing an informal financial plan, for example writing a 'to do' list or using online financial planning tools, is a good starting point and a valuable stepping stone, especially for younger savers who typically start saving before they start planning financially for retirement. Ideally people should look to draw up a detailed written plan which they review regularly, with input from professional financial advisers, in order to maximise the benefits of financial planning.

Action 5
Use professional advice to improve your savings position

Looking at respondents with average incomes, those who use professional financial advice when planning for their retirement have the greatest levels of retirement and other savings. Those who had put a financial plan in place with a professional adviser had so far accumulated $203,228 in retirement savings compared to $98,005 among those who had not used a financial adviser. 59% of those who had put a financial plan in place with help from a professional adviser found that they had increased the amount they save for retirement as a result.

Developing a financial plan with a professional financial adviser can help to ensure that all retirement needs are identified and that comprehensive financial plans are put in place.

Appendix

The Future of Retirement

HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. Since The Future of Retirement programme began in 2005, more than 125,000 people worldwide have been surveyed.

The research findings help HSBC to understand and meet the needs of its 60 million customers worldwide. The programme has positioned HSBC at the forefront of retirement thought leadership, and raised awareness of HSBC as a global leader in the growing retirement services market.

The Future of Retirement 2011

The power of planning was based on findings from 17,000 people in 17 countries. It focussed on the importance of planning for a happy retirement, and the steps people can take towards building an effective financial plan. Key findings included:

- Nearly 1-in-5 respondents (19%) did not know what their main source of retirement income would be.
- Respondents in the West believe that they will be worse off in retirement than their parents' generation, while in emerging markets, people believe that they will be better off.
- 50% of respondents worldwide did not have a financial plan in place.
- On average, those with financial plans amassed nearly two-and-a-half times more in retirement savings compared to those without financial plans, a 'planning premium'.
- Respondents in Eastern emerging economies are far more proactive with financial planning than those in the West.

A further report, *Why family matters*, focused on the significant role played by the family not only in shaping individuals' financial needs, but also by supporting their efforts to meet those needs. Key findings included:

- 65% of men said that they made all the financial decisions in their home, compared to 53% of women.
- Nearly half of women (47%) stopped saving for retirement when they had children, compared to just 15% of men.
- There are major gaps in financial plans. 37% of those in their 50s, who said that they already have a financial plan in place, did not have retirement savings as part of those plans.
- 60% have never sought professional financial advice, instead choosing to rely on friends and family.

The Future of Retirement 2009

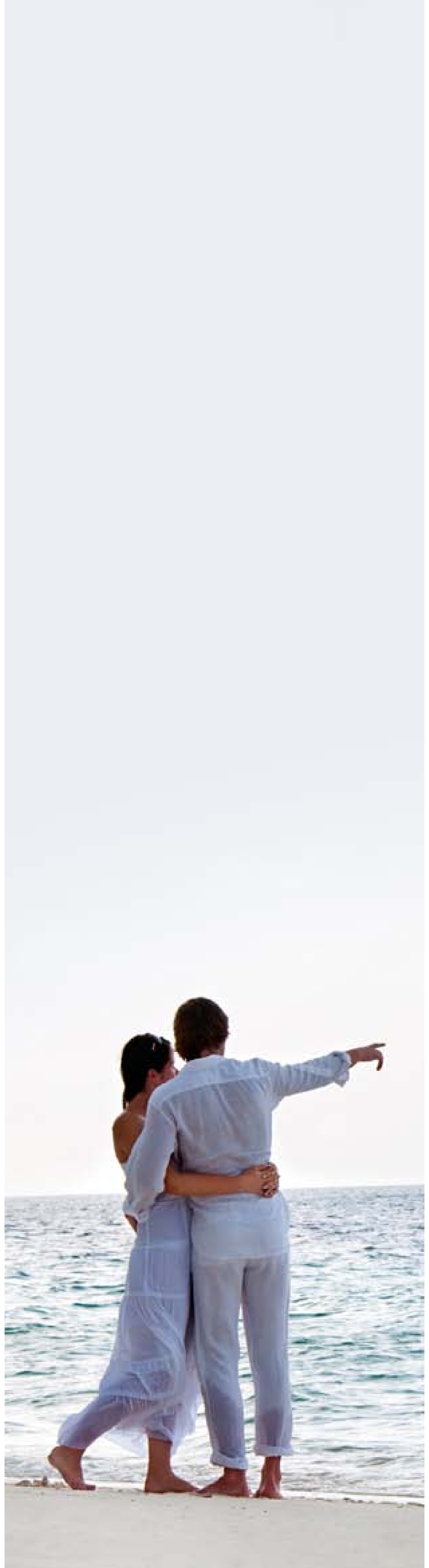
It's time to prepare examined findings from an online questionnaire with 15,000 people in 15 countries. It looked at the growing importance of exercising financial responsibility to prepare for an age of increasing financial independence. Key findings included:

- 75% of respondents cannot afford the retirement they want.
- People's short-term survival strategies in the midst of recession were creating a serious long-term pensions 'downturn deficit'.
- There was a continuing lack of pensions planning, even though people were aware that they were likely to live longer.
- The situation was being exacerbated by poor levels of financial understanding, education and access to advice.

The Future of Retirement 2008

Investing in later life examined data collected from over 21,000 people in 25 countries to investigate how people prepare for what was emerging as the 'second half of their lives'. Key findings included:

- Only 10% in each generation want their heirs to inherit their money.
- Leaving knowledge and a perspective on life was seen as more important than leaving heirs money and material wealth.
- Pre-retirement generations (40-60 years) had high expectations of later life but remained largely ill-prepared for it.
- Enforced savings were seen as the way to fund longer retirement years.



The Future of Retirement 2007

The new old age was based on research amongst 21,000 people across 21 countries. It focused on the rapid rise in the number of frail and dependent elderly people. The report revealed how older people, those in their 60s and 70s, were vitally important to families, communities and workplaces. Key findings included:

- The majority of people had positive aspirations about retirement.
- They rejected age-based restrictions on work and wanted employers to adapt and provide new flexibility in the workplace.
- Older people made enormous contributions as volunteers, workers, and family members.
- Over 60s contribute £50bn a year in the UK alone in unpaid family care.

The Future of Retirement 2006

What the world wants examined findings from interviews with 21,329 individuals and 6,018 private sector employers in 20 countries. The report examined how families, the workplace and the role of government worked to meet people's hopes and dreams. Key findings included:

- Enforced private saving the preferred choice for funding retirement in nearly all countries.
- There was an overwhelming sense of global realism.
- People were aware of the practical limitations on what their governments and employers could do.
- They were resigned to the increased role of the individual in providing for retirement.

The Future of Retirement 2005

In a world of rising life expectancies was the first report and laid the foundations for The Future of Retirement programme. The research found that, worldwide, attitudes to ageing and to older people varied dramatically, with many people having very positive attitudes to older people and to their own later years. Key findings included:

- Retirement was seen as a time of opportunity and reinvention.
- There was a global rejection of a mandatory retirement age.
- The changing role of the family and the breakdown of the traditional family structure.

The first Future of Retirement report (2005) was produced in partnership with Harris Interactive and Age Wave. The 2006-2008 reports were produced in partnership with the Oxford Institute of Ageing. Harris Interactive and Age Wave were also involved in the 2006 report. Since 2009, the reports have been produced in partnership with Cicero Consulting.

All global and country reports are available on **www.hsbc.com/retirement**

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HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 6,900 offices in over 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, and the Middle East and North Africa. With assets of US$2,721bn at 30 September 2012, the HSBC Group is one of the world's largest banking and financial services organisations.

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