Foreword

Welcome to the sixth Future of Retirement report, researched exclusively for HSBC.

A lifetime of working is likely to create a strong appreciation of the value of time and how important it is to make the most of every moment. For many people retirement is something to look forward to, which they plan in anticipation of having time to do things they’ve dreamed of.

At HSBC, we help people to plan financially for their future, both to realise their dreams and to help them protect against the bad times which sometimes threaten.

We believe it’s important to ask our customers what matters to them and how they feel about the future. This is why we invest in The Future of Retirement, across 17 countries and 17,000 people. The survey findings are the real reflections of people in the UK and across the world.

This report lets you see for yourself what others think and feel about their retirement. I hope it will also encourage some readers to take more control of their own financial future. The ability to shape your retirement is in your own hands with the power of planning.

David Wells
Head of Investments, Savings and Insurance
HSBC Bank

Introduction

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 2011 global report, The power of planning, is the sixth in the series and is based on interviews with more than 17,000 respondents in 17 countries in December 2010.

This country report, based on the views of 1,042 UK respondents, explores how households in the UK are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to the UK unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- 56% of Britons see retirement as an age of freedom. Married couples are the most confident about this.
- UK respondents are concerned about occupational pensions: 57% of those who expect to be worse off than their parents in retirement gave the reason that company pension schemes would be less generous.
- Only 42% had heard of the new National Employment Savings Trust (NEST) which will be introduced from 2012.
- Men and women of all ages associate retirement with freedom, but women are on average 18% more likely to associate it with financial hardship.
- Only 40% of households have planned financially for their future.
- Nearly one in five people do not know what their main source of retirement income will be.
- Those who have plans for their futures are not only better prepared financially for retirement but also feel more positive about their futures.
- UK respondents are less likely than their global peers to have a financial plan, but they are more likely to have taken professional financial advice.
- Those who have financial plans and have taken professional advice are the best prepared of all for the future, with 250% of the UK average level of retirement savings and investments.
- Independent financial advisers are the most popular source of professional advice in the UK with 59% of advice-seekers consulting one; banks were the second-largest.
- Respondents are more active online researchers than the worldwide average, with 46% in the UK using this advice source.
- For individuals who want to take action now to improve their financial well-being later in life, there is a simple 5-step checklist based on the research.
Retirement landscape

The retirement landscape for the ‘baby-boomer’ generation, which is now entering retirement, will be quite different to the one that their parents enjoyed in the past and their grandchildren will experience in the future. The United Nations Population Division reports that in the past 30 years, the process has been relatively stable with the percentage of the population aged 65 and over increasing just slightly from 14.9% in 1980 to 16.6 per cent in 2010. However, this is set to change: by 2050, 22.9% of the population is projected to be aged 65 and over. This represents a squeeze on those of working age, and on the state, to have to provide retirement income and healthcare for the ageing population. Adequate planning and preparation for retirement will become more important than ever as dependence on retirement savings grows.

Figure 1: The baby-boomers enter retirement

The changing shape of retirement

Faced with the universal challenge of funding an ageing society, Britons remain upbeat in their perception of retirement.

Nearly half (48%) see retirement as a new chapter in life, and 56% associate retirement with freedom.

When considering what constitutes a happy retirement, 70% said not having to worry about money and 56% see good financial planning as extremely important.

38% associate retirement with financial hardship, but this peaks with women (49%), singles (40%) and the cohabiting (49%).

Married Britons appear more secure, with only a third (34%) thinking old age will bring financial hardship and 42% seeing it as a time of happiness.

With 29% believing that having work you enjoy is extremely important in a happy retirement, it seems that UK respondents are adapting to the new reality of longer, less secure retirements in their willingness to consider flexible work. The UK has actively sought to encourage longer working lives through increasing the State Pension Age (SPA) from 65 today to 68 by 2043.
Nearly one-quarter of Britons expect to be much worse off than their parents in retirement. This rises to nearly one-third of those without a financial plan. Nearly 58% said that this was because the state pension was not as generous as it used to be, while 63% were concerned that their generation had not saved enough for retirement.

A high number (57%) are concerned that company pensions are not as generous as they once were. This is certainly true, given that final salary schemes, which were common 30 years ago are now largely extinct.

The retirees of tomorrow face a more uncertain future; as a result there is a sense that a golden age has passed and that the future will hold greater challenges.

The shape of retirement is changing rapidly in the UK, as the population ages and the previously generous state and company benefit schemes become leaner. The financial crisis has exacerbated the ageing issue, increasing public debt and large government deficits leading to cuts in public services. Women are decidedly less upbeat than men about their fiscal futures, they are 18% more likely to associate retirement with financial hardship.

**Figure 4:** Better or worse off than your parents’ generation in retirement? (net score)

- France: -56
- US: -44
- UK: -37
- Poland: -37
- Canada: -36
- Taiwan: -29
- Saudi Arabia: -28
- Singapore: -23
- Mexico: -22
- South Korea: -20
- Brazil: -17
- UAE: -16
- Malaysia: -16
- China: -15
- India: -11

**Global average:** 11

**Figure 5:** Why will you be worse off in retirement than your parents’ generation?

- People are living longer and need more savings: 63%
- State pensions are not as generous as they used to be: 58%
- Company pensions are no longer as generous as they used to be: 57%
- My generation is not saving enough: 51%
- Jobs and careers are less secure: 49%
- Law interest rates will mean lower returns on retirement savings: 48%
- The global financial crisis has reduced the value of my investments and savings: 46%
- Higher taxes will reduce the value of my retirement plans: 44%
- My generation has borrowed too much: 42%

**Figure 6:** Women associate retirement with financial hardship more than men

- Male: 57%
- Female: 58%

Women are 18% more likely to associate retirement with financial hardship.
Shortfalls in retirement preparedness

Our findings reveal a ‘preparedness gap’ amongst respondents. 93% of those we surveyed claimed having enough money to live on in retirement as important, but only 60% said they felt adequately financially prepared. The preparedness gap in the UK is further emphasised by how worried people are about being able to cope financially in retirement: 62% said they were either slightly or very worried.

The biggest reason why people are concerned about coping financially in retirement is because they don’t think they will get enough from the state pension. Those admitting that they hadn’t saved enough constitute 48% of respondents, and concern is greatest among women in their 30s and 40s, at 57%, suggesting that younger generations may be coming to accept the shift in responsibility from state to the individual.

Unforeseen events are also unnerving respondents, yet only one-fifth of Britons (21%) feel that their family is very prepared if something should happen to them, suggesting a lack of asset protection and life insurance. Debt is an issue for many in the UK too, and high levels of household debt and the high cost of servicing repayments are a barrier to higher savings both for the long and short-term.

Clearly, there is a need to change current patterns of household behaviour to ensure a comfortable retirement. The new National Employment Savings Trust (NEST) may help to achieve this, but 57% are not aware of its existence, despite its planned introduction in October 2012. Whatever impact the scheme has on UK households, millions of people could benefit further from having a financial plan and seeking professional advice.

A worrying finding is that 17% of respondents do not know what their main source of income will be in retirement. Furthermore, 21% of respondents believe that their biggest source of income will be the state pension. The 9% who will be relying on personal pensions is a small minority in comparison, and these figures need to change if the UK is to be truly prepared for the future of retirement.
The power of planning

Table 1: The four consumer types

<table>
<thead>
<tr>
<th>Consumer types</th>
<th>Global (% of global respondents)</th>
<th>UK (% of UK respondents)</th>
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<tbody>
<tr>
<td>Non-planners: disengaged</td>
<td>38%</td>
<td>36%</td>
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<tr>
<td>Non-planners: advice-seekers</td>
<td>12%</td>
<td>25%</td>
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<tr>
<td>Planners: active self-guided</td>
<td>22%</td>
<td>13%</td>
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<td>Planners: advice-seekers</td>
<td>28%</td>
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Table 2: Planners have more retirement savings and investments

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<tr>
<td>Total retirement savings and investments (household median) £GBBP, to nearest £000</td>
<td>53,000</td>
<td>14,000</td>
<td>42,000</td>
<td>123,000</td>
<td>132,000</td>
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<td>% of global average</td>
<td>100%</td>
<td>26%</td>
<td>79%</td>
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Figure 10: Younger men more likely to have a financial plan

As we have seen, a greater onus will be put on individuals to prepare for their own later lives. Currently, financial planning behaviour in the UK falls short of the global averages, with only 39% of UK respondents having financial plans in place, compared to 50% on average worldwide. However UK respondents are more likely to opt for professional financial advice instead, with Britons twice as likely as the global average to take financial advice without a plan. This finding suggests a tendency for the British to shift responsibility for their financial concerns about the future to professionals.

The group who most embraced financial planning are young men (aged 30-39), 46% of whom did so. This suggests, amongst men at least, a generational shift in attitudes towards planning, as younger people see responsibility for their financial concerns about the future to professionals.

Figure 11: Retirement associations of planners and non-planners

The planning premium

Our findings reveal that those with a financial plan for the future enjoy several benefits over those who do not – the ‘planning premium’ - and that these benefits are both ‘hard’ and ‘soft’, including not only greater and more diverse retirement savings, but also a more positive outlook and fewer worries about later life.

Respondents who undertook financial planning were more likely than non-planners to associate retirement with positive ideas such as freedom and less likely to associate it with negative ones such as financial hardship. Although it is difficult to separate cause and effect, these findings hold true across all age and income ranges. Whilst these benefits may seem obvious, the extent to which they are present in our findings indicates a significant ‘soft’ benefit of planning for the future today; those with a plan have fewer sources of worry and stress.

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These figures are calculated using median data, which can produce the same results in different categories.
The advice advantage

Those who have a financial plan in place and sought professional advice are the best off financially, with the largest retirement assets of all four consumer types. This reveals a further benefit for those who combine financial planning with professional advice—the ‘advice advantage’. Advice-seeking planners have nearly two-and-a-half times (249%) more retirement assets than the UK average. Whilst it is difficult to separate cause and effect, these findings also hold true when controlling for age and income.

Those who sought professional financial advice showed a preference for independent advice channels with 59% having visited an independent financial adviser, with banks the second most popular source of advice. Newer sources of advice such as online research are used significantly more in the UK than elsewhere globally.

The benefits of planning, especially when combined with professional advice, that our research has shown suggests that whilst the UK faces a challenge over the coming decades in funding retirement, a wider culture of financial planning would be beneficial to both individuals and the economy as a whole.

Britons are on the whole relatively upbeat about retirement, particularly married couples and those on higher incomes, whereas women and those closest to retirement find themselves feeling most apprehensive.

At the same time there is widespread concern that they will not be able to afford the sort of retirement currently being enjoyed by their parents’ generation. Such fears have been brought to a head by the impact of the financial crisis, which is forcing the UK to come to terms with structural problems in its pensions system. The government is embarking on reforms that will raise pension ages more rapidly than previously planned with the state pension age for men set to increase from 65 to 68 years as soon as 2016.

Large numbers of Britons are doing nothing about the shortfalls in provision to come, though the possible introduction of a universal state pension by the coalition government should make the state pension easier to understand. This could make it simpler to convince UK households to take steps towards saving for their own retirement.

Conclusion

For individuals and households who want to take action now to improve their financial well-being in later life, we have devised a simple 5-step checklist based on the research:

1. Establish some clear goals, both short and long term
2. Benchmark yourself
3. Establish a comprehensive financial plan
4. Implement the plan
5. Keep your plan under review

Further details on the 5-step process can be found at the end of The Future of Retirement The power of planning global report.