

The Future of Retirement

The power of planning



France Report

HSBC 
The world's local bank

Foreword



Increasing life expectancy and world population ageing is one of the major challenges the 21st century will have to face. This significant change, which will deeply modify our ways of living, is a trend that will lead to a radical reorganization of social and economic structures.

This issue has a special relevance in France, where the government recently reformed the pension system, and just launched a national debate about long-term care. This context should not rule out the fact that living longer and gaining more years of healthy life are a chance for everyone and for our societies.

This year's edition of the Future of Retirement study highlights a very pessimistic point of view in France - the highest of all countries surveyed - about retirement.

The expertise HSBC has developed about longevity and its issues must now be leverage to serve our customers, to support, inform and guide them in preparing for retirement. Alongside them, our mission is to enable them to tackle with peace of mind the extraordinary opportunity that is the increased life expectancy.

Jean-Pierre Wiedmer
CEO Insurance Continental Europe, HSBC
Chairman, HSBC Assurances



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.

This country report, based on the views of 1,033 France respondents, explores how households in France are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relate to the French sample unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- Respondents believe that fitness and not having to worry about money are the most important ingredients for a happy retirement
- Over two-fifths (42%) associate retirement with financial hardship, and this peaks amongst women and the divorced
- 69% believe that they will be worse off in retirement than their parents' generation, and of these, 57% cite less generous state pensions as the cause
- 3% believe there are no effective measures the government could take to keep employees working later
- The French are less worried about debt than most Western countries surveyed; only 9% of those worried about coping in retirement cited this as the reason why
- 38% could not name where they expect their largest source of retirement income to come from, and 22% expect it to be the state pension
- Over half (53%) of the respondents have neither a financial plan for the future nor have they sought professional financial advice
- Financial planning levels are low in France, across all age and gender groups
- Those with financial plans have 320% of the retirement assets of those who do not
- Banks are by far the most frequent source of financial advice
- 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

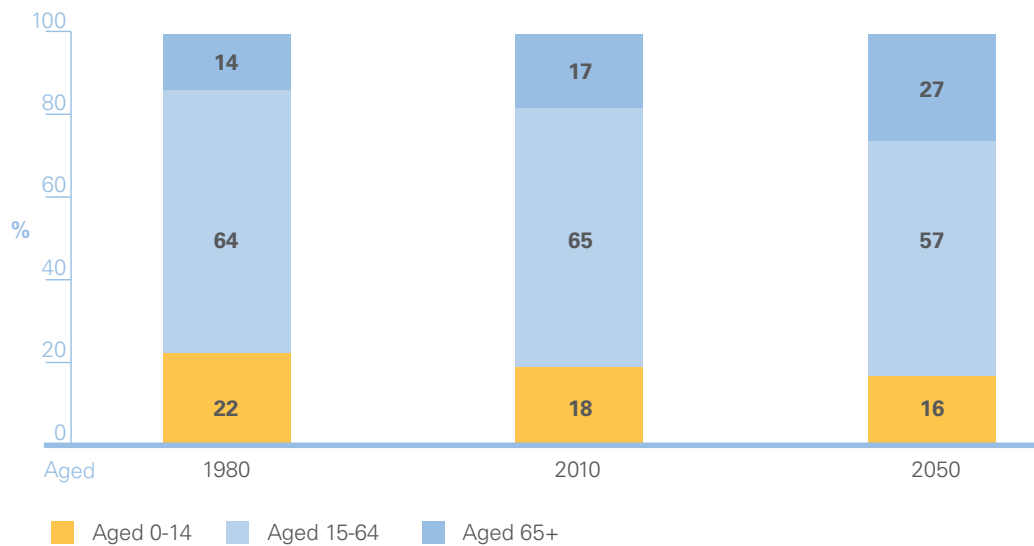
Retirement landscape

The National Institute of Statistics and Economic Studies (INSEE) has published data illustrating the rising levels of life expectancy in France. The figures show an increase in life expectancy for men of almost 14 ½ years, from 63 ½ years in 1950 to 78 years in 2010. The increase in life expectancy for French women has extended at a similar pace with the life expectancy rising by 15 ½ years from 69 years in 1950 to almost 85 years in 2010. By 2050, over 65's will account for 26.9% of the population, up from 17% currently.

With rising life expectancy and fiscal pressures on the state pension system, adequate planning and preparation for retirement will become more important than ever as these demands on retirement savings grow. The recent protests against the raising of the minimum retirement age from 60 to 62 show how controversial reforming the retirement system for the long term can be.

Figure 1: The baby-boomers enter retirement

Source: United Nations Population Division, World Population Prospects, The 2008 Division



The changing shape of retirement

Faced with the universal challenge of funding an ageing society, the French remain somewhat upbeat in their perception of retirement:

Nearly half (43%) see retirement as a new chapter in life, whilst 53% associate retirement with freedom.

When considering what constitutes a happy retirement, respondents cited fitness (67%) and not having money worries (67%) as the most important factors.

42% associate retirement with financial hardship, and this peaks with 50-59 year old respondents (50%), women (49%) and the divorced (52%).

Men, particularly those in the 30-39 and 40-49 age groups, are much less likely to associate retirement with financial hardship; only 32% do so.

Figure 2: How people perceive retirement

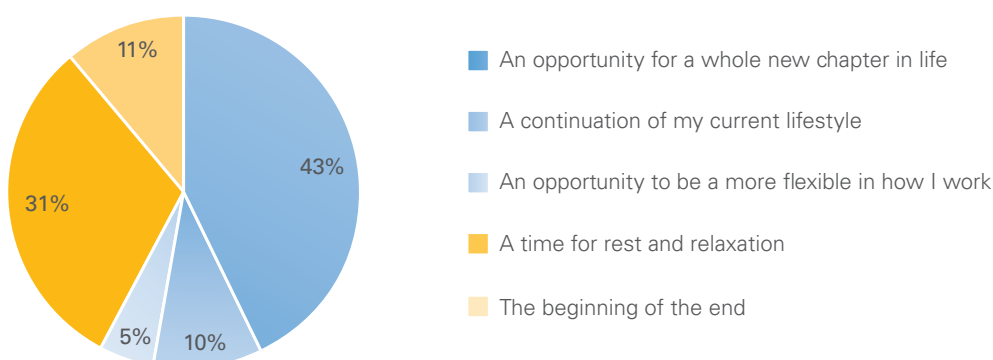
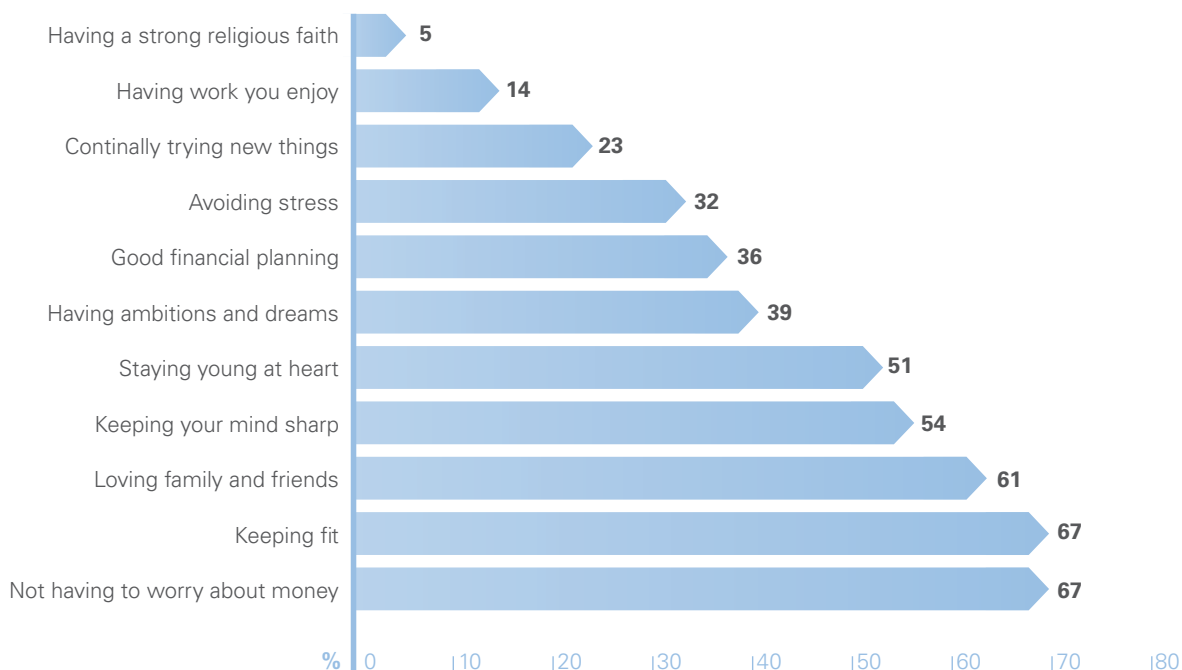


Figure 3: What is extremely important to a happy retirement



Respondents are largely unwilling to accept a vision of retirement in which some form of work plays a significant role. Across all age groups, only 14% believe having work you enjoy is extremely important

to a happy retirement. At present, the heated national debate about the retirement age has not generated a proper reevaluation of the role of work in retirement.

In large part, our respondents are convinced that their retirement will be financially worse than that of their parents. Nearly half (45%) believe it will be much worse, 24% think it will be slightly worse, and the pessimism is highest amongst women.

This 'French pessimism' that our research has identified is deeper than in other developed economies, and this is likely to be linked with the recent government measures to encourage longer working lives, since out of those who believe their retirement will be worse than their parents, 57% cite less generous state pensions as the cause.

When asked directly whether the planned reforms would be sufficient to solve the issues of senior workers and employment, only 8% strongly agreed, and 54% disagreed or strongly disagreed. Moreover,

a full 43% of respondents claimed that they did not believe there are any effective measures that companies can take to retain older workers. This attitude peaks with 40-49 year old men, suggesting those in the middle of their careers have little desire to extend them longer than necessary.

Nevertheless, when asked what measure they would take if the government reduced its retirement funding, 43% admitted that they would work for longer to compensate, 27% said they would take up another remunerated activity and 14% said they would become part-time consultants. This suggests that whilst initially reluctant to face up to the changing shape of retirement, people are being forced to think through the measures that they will take to bolster their financial security in old age.

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

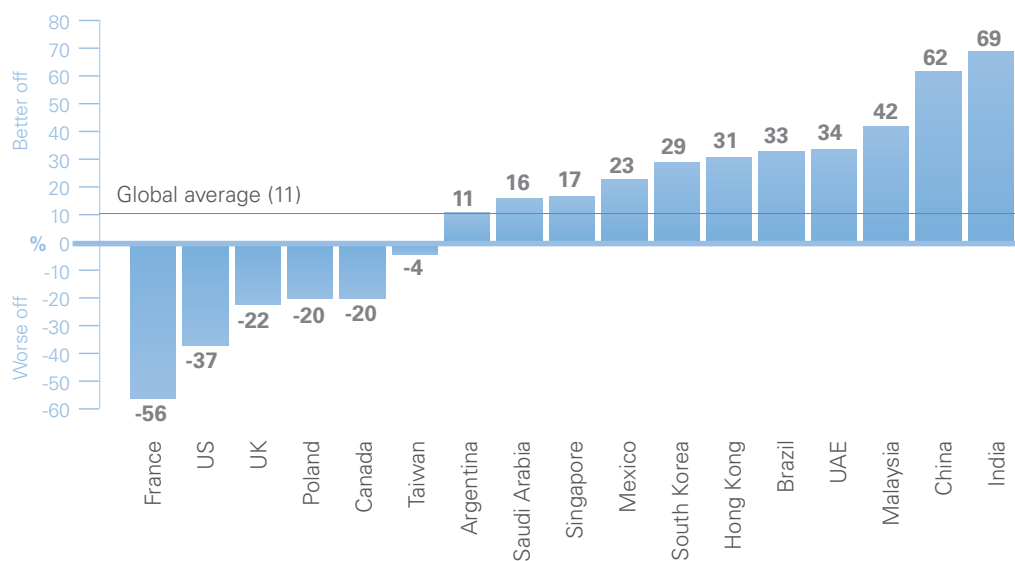
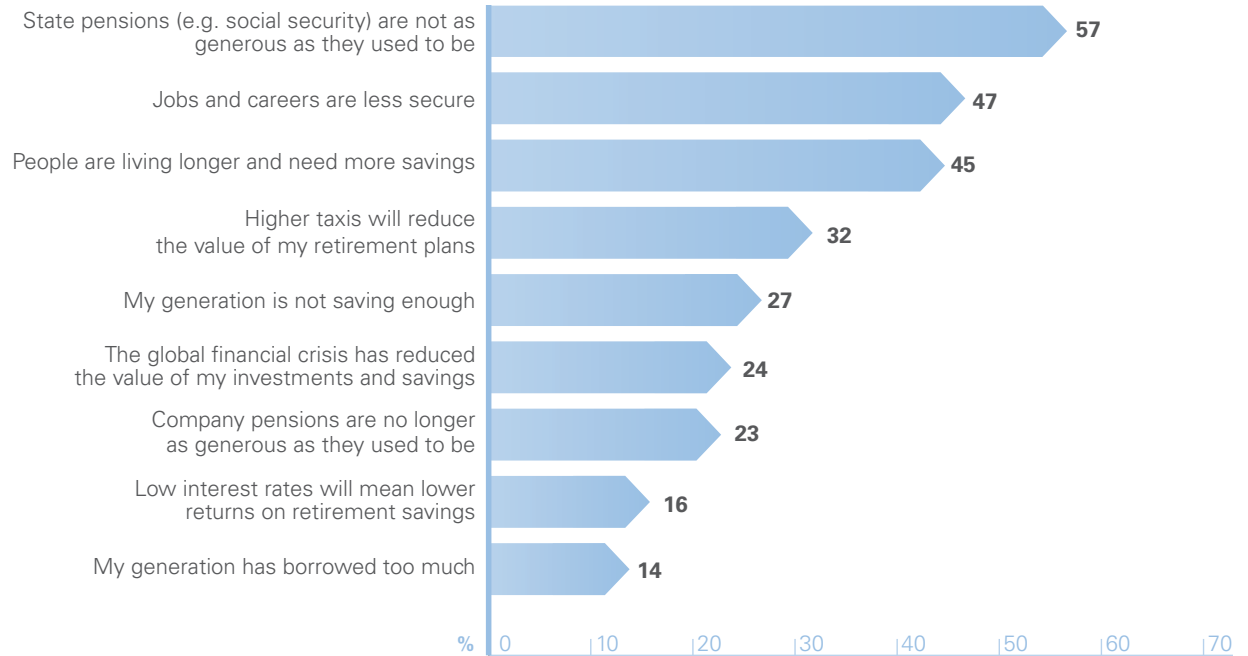


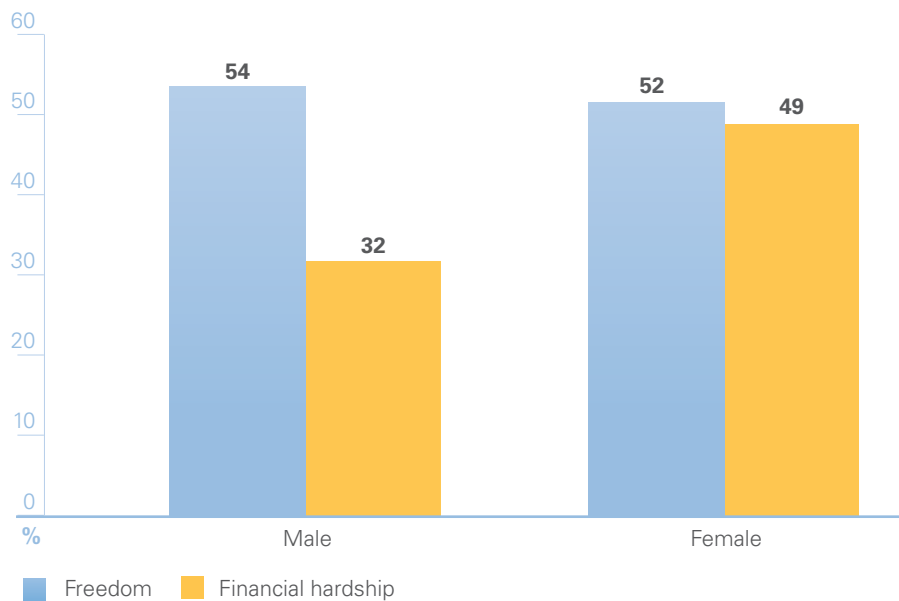
Figure 5: Why will you be worse off in retirement than your parents' generation?



It is amongst female respondents that the 'French pessimism' identified by our research is particularly prominent. Whilst similar to men in associating

retirement with positive ideas such as freedom, 49% of women associate it with financial hardship, compared to just 32% of men.

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

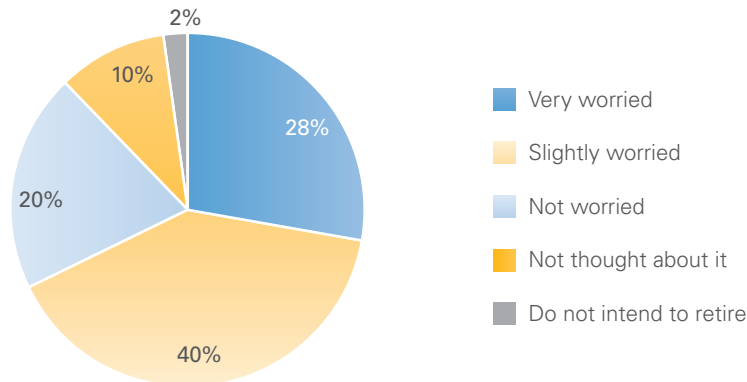


Shortfalls in retirement preparedness

Our findings reveal a 'preparedness gap' amongst respondents. Of those we surveyed, 87% viewed having enough money to live on in retirement as important, but only 50% said they felt adequately

financially prepared. The preparedness gap in France is further emphasised by how worried people are about being able to cope financially in retirement: 68% said they are either slightly or very worried.

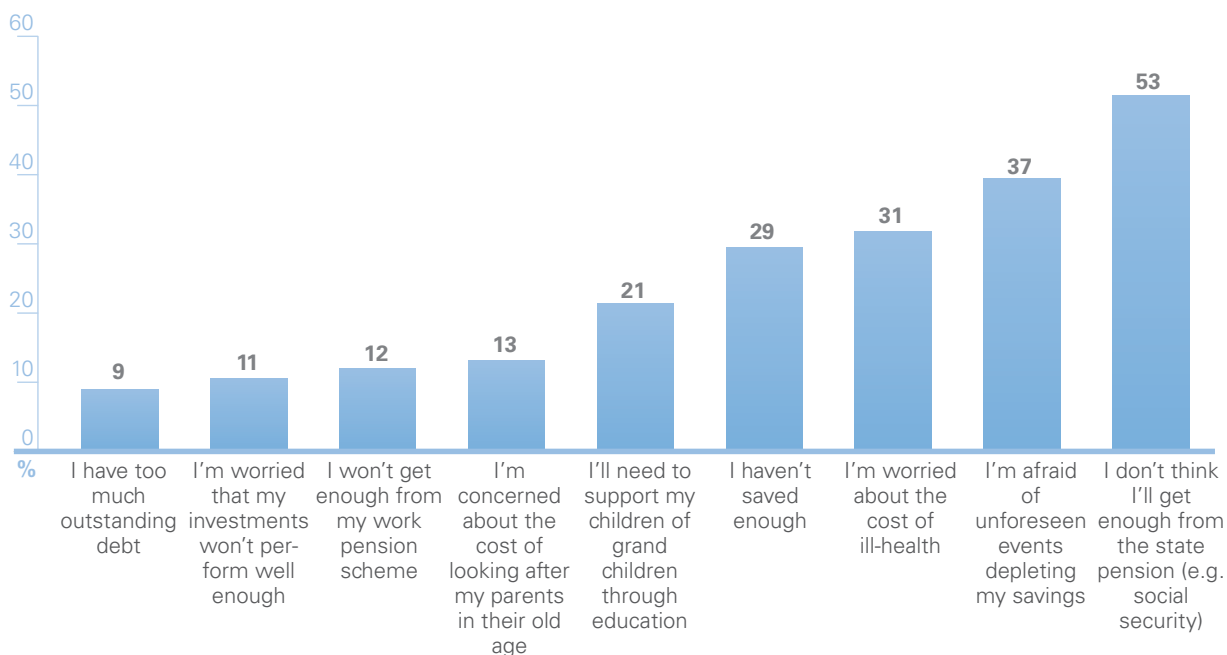
Figure 7: Levels of concern about coping financially in retirement



The biggest reason why people are concerned about coping financially in retirement is because they do not think they will get enough from the state pension. This concern is greatest among women in their 50s (64%). Despite this belief that the state pension will not provide, only 29% believe that they have not saved enough for retirement personally.

Unforeseen events are also unnerving respondents, and only one-fifth (19%) feel that their family is very prepared if something should happen to them, which suggests a lack of asset protection and life insurance. On a more positive note, debt is seen as much less of an issue than in other Western countries, with only 9% of those worried about retirement citing their outstanding debt as the reason.

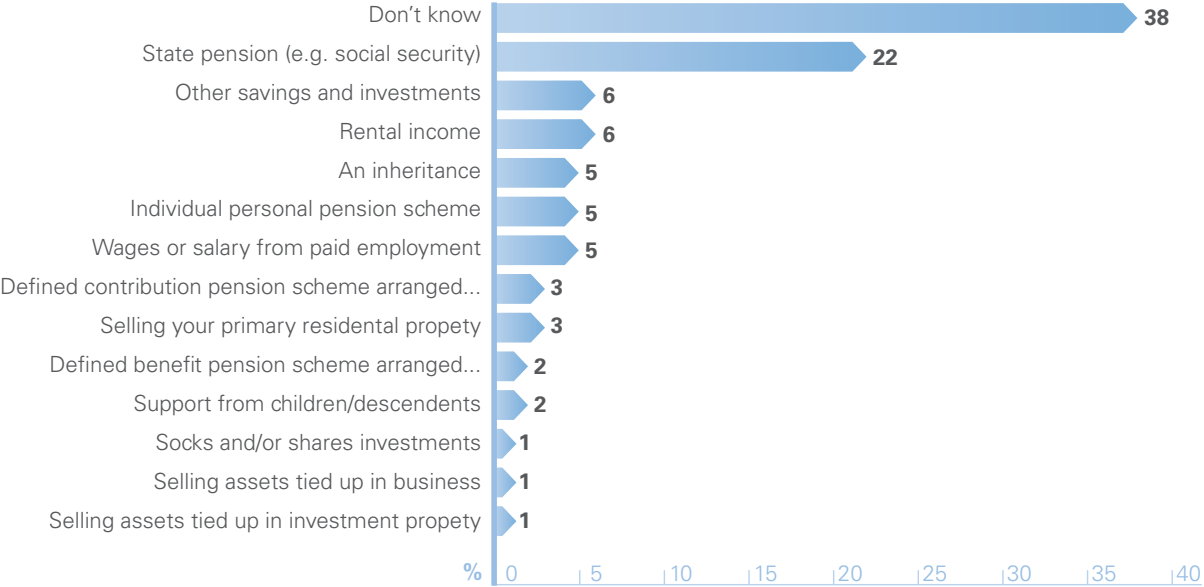
Figure 8: Why people worry about coping financially in retirement



A worrying finding is that 38% of respondents do not know what their main source of income will be in retirement. Furthermore, over a fifth of respondents believe that their biggest source of income will be the state pension. The 5% who will be relying on personal

pensions is a small minority in comparison, and the reality underlying these figures needs to change if France is to become better prepared for the future of retirement.

Figure 9: **Over-reliance on declining state and company pensions**



The power of planning

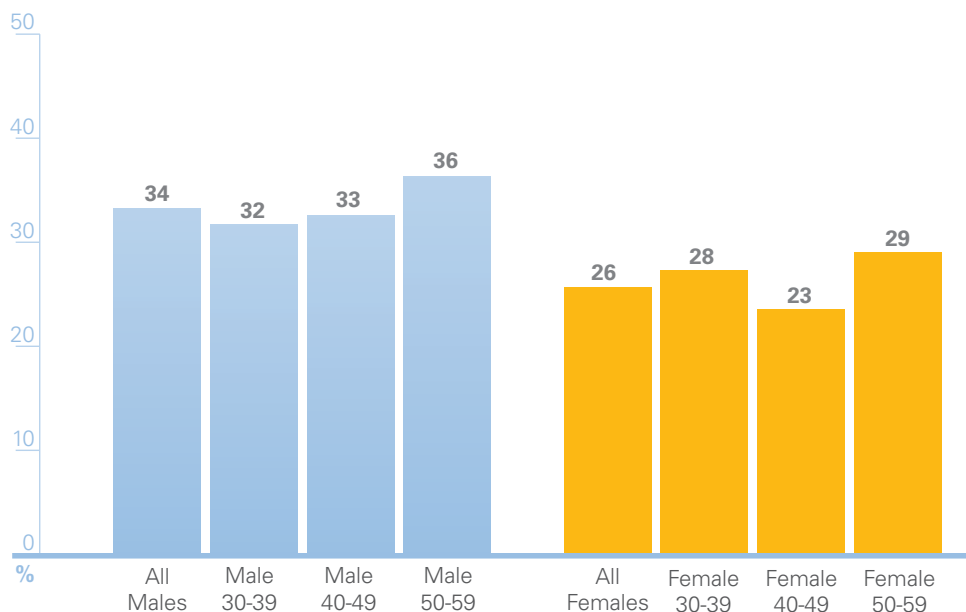
Table 1: The four consumer types

Global (% of global respond- ents)	France (% of France respond- ents)	Consumer types
38%	53%	Non-planners: disengaged. These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	17%	Non-planners: advice-seekers. These people do not have a financial plan, though they do at least take professional financial advice from time to time. They are likely to seek advice around one particular need, rather than take holistic advice.
22%	17%	Planners: active self-guided. These people have a financial plan in place but do not seek professional expertise to help them make sense of their finances. They are likely to be younger, mid-to-high income and internet savvy.
28%	13%	Planners: advice-seekers. These people have a financial plan in place and also seek professional financial advice to help manage their finances. In many respects they are very well prepared for retirement.

As we have seen, a greater onus will be put on individuals to prepare for their own later lives. Currently, financial planning behaviour in France falls short of the global averages, with only 30% of respondents having financial plans in place, compared to 50% on average world-wide. French respondents are also unlikely to seek professional advice, and the largest consumer type is those without either advice or a plan, at 53% of respondents.

This worrying dearth of financial planning in France is visible across all age and gender groups, with financial planning peaking at 36% amongst men aged 50-59. Women are significantly less likely than men to be engaged in financial planning, especially those aged 40-49.

Figure 10: Low levels of financial planning in all age-groups



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 even when controlling for age and income. 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.

Figure 11: Retirement associations of planners and non-planners

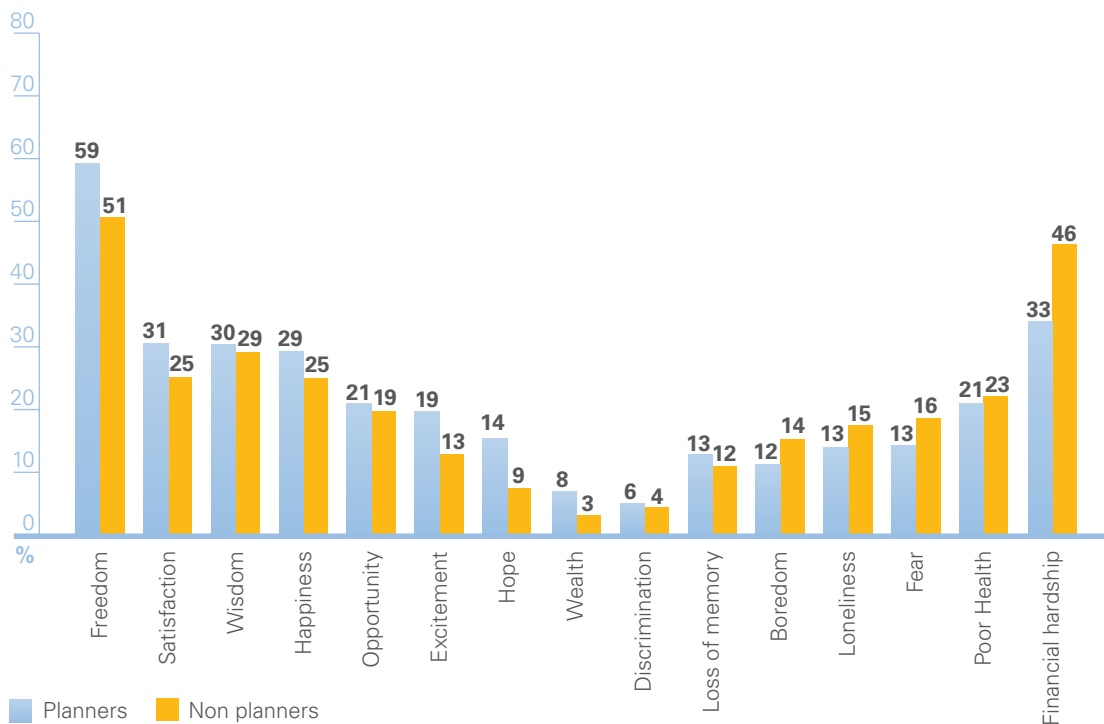


Table 2: Planners have more retirement savings and investments

	France average	Non-planners: disengaged	Non-planners: advice seekers	Planners: active self-guided	Planners: advice-seekers	All non-planners	All planners
Total Retirement savings and investments (household median) €/EUR, to nearest '000	15,000	10,000	41,500	26,500	43,500	10,000	32,000
% of global average	100%	67%	77%	175%	290%	67%	213%

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

When we look at the retirement savings and investment levels of our respondents, we see that those with financial plans have over three times (320%) as much as non-planners. This shows that there is a strong planning premium in France in material financial terms.

The low overall average of retirement savings in France is pulled down by the sheer number of those who fall into the non-planning categories.

The advice advantage

Those who have a financial plan in place and seek 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 over twice (290%) the retirement assets of the average French respondent. This advantage is not merely due to the planning advice-seekers being wealthier or older than the average; when controlling for age and income the advice advantage is still present.

Those who sought professional financial advice showed a preference for banks, with 66% using this

source and no other advice source having a significant share amongst our respondents. Given the current upheavals in retirement provision, this attests that banks are well placed to take advantage of what is likely to be an upswing in financial advice-seeking. However, over a quarter (27%) of respondents are turning to websites for professional advice, suggesting traditional professional advice channels may be challenged by this new, free source of information. The benefits of planning shown by our research, especially when combined with professional advice, suggest that whilst France faces a challenge over the coming decades in funding retirement, a wider culture of financial planning would be beneficial to both individuals and to the economy as a whole.

Conclusion

Our research into retirement and savings has identified a 'French pessimism', with significant resistance to the idea of finding new, more individually focused ways to fund retirement.

There is widespread concern that they will not be able to afford the sort of retirement currently being enjoyed by their parents' generation, a sentiment brought to a head by the recent retirement reforms, which saw angry street protests against the idea of extending the minimum retirement age.

Our respondents recognise that the state's retirement provision is going to become less and less generous, but very few are currently reacting to this by making their own detailed preparations, or acknowledging the need to extend their careers. Our research shows that taking action through financial planning and professional advice makes a material difference to how prepared you are for the future.

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.



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