

The Future of Retirement

The power of planning



Hong Kong Report

HSBC 
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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 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 1,077 respondents from Hong Kong, explores how households in Hong Kong are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to Hong Kong unless otherwise indicated. For global and regional comparisons, please refer to the global report.

Key findings

- Many respondents in Hong Kong stated that keeping fit was the most important component to achieving a happy retirement (61%)
- Despite rising prosperity levels, almost a third of people (30%) are concerned about potential financial hardship in retirement, and 71% are either very or slightly worried about how they will cope financially in their later years
- Individuals acknowledge that increasing longevity levels will have an impact on their retirement and cite a lack of sufficient savings as a reason for concern
- Over half of women in their 40s and 50s and men in their 50s are concerned about their ability to cope financially in retirement. This suggests that although many people have made some preparation for these later years, they are not confident this is sufficient
- Almost half of our respondents worry about the potential impact of ill health on their retirement income, and a further 43% about unforeseen events depleting retirement savings
- 45% of individuals in Hong Kong have no financial plan in place suggesting that they are not preparing enough for their financial futures
- Financial planners have 154% of the retirement assets of the Hong Kong average, and almost double the assets of non-planners
- Younger people are more likely than their parents' generation to seek professional financial advice from a bank. However, on the whole, people prefer to make their own financial calculations and to rely on informal advice provided by family and friends
- 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 in Hong Kong, 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 there has been a significant change in the population make up of Hong Kong, with the percentage of the population aged over 65 doubling from just 6.5% in 1980 to 12.9% in 2010. However, by 2050 it is predicted that this figure will almost treble so that 32.6% - almost a third - of Hong Kong's population will be aged 65 or over.

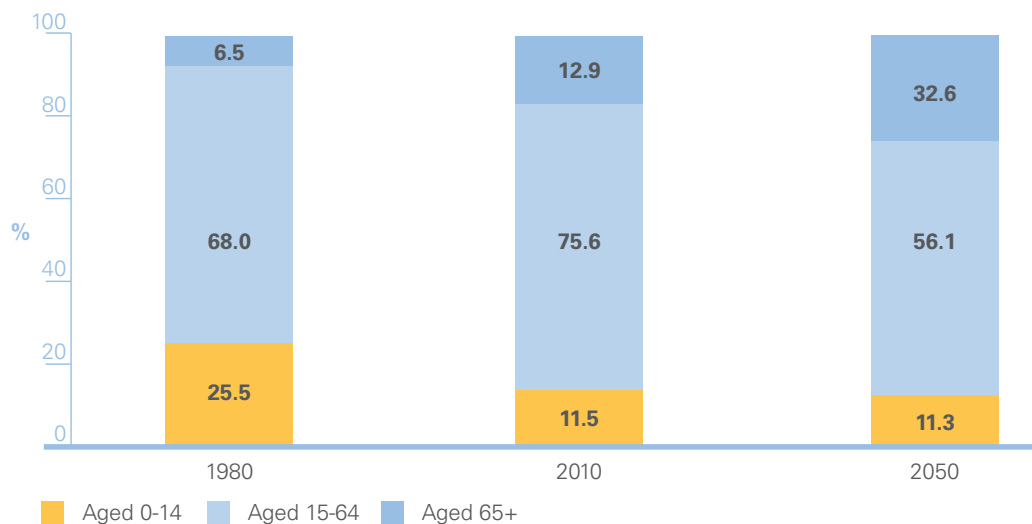
This increase in the number of people over 65 has been accompanied by a substantial fall in the fertility

rate. The number of people aged 0-14 in Hong Kong has more than halved in the past thirty years, although it is not predicted to decrease further by any substantial margin.

These dramatic changes in the demographic profile of the Hong Kong population will place a squeeze on those of working age and on the state, as they shoulder the burden of providing retirement incomes and healthcare for the growing number of retirees. Adequate planning and preparation for retirement will become more important than ever as dependence on individual retirement savings grows. This trend will only become accentuated in light of decreasing fertility rates which means the working age population does not grow sufficiently to support this extra demand from older members of the population.

Figure 1: The baby-boomers enter retirement

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



The changing shape of retirement

Despite facing the same demographic challenges as other major economies, Hong Kong respondents are relatively upbeat in their perception of retirement.

Almost half see retirement as a time of freedom (45%).

Individuals also equate their later years with a time of happiness (33%) and wealth (32%).

However, these positive connotations are mixed with some concerns about poor health (37%) and about potential financial hardship (30%).

When considering what elements contribute to achieving a happy retirement, 'keeping fit' is considered the most important factor with 67% of respondents saying that this is important.

'Not having to worry about money' also scores highly as a requirement for a happy retirement in Hong Kong with 61% saying this is important.

With 45% sharing the belief that 'good financial planning' is important, we see a good understanding that planning can help prevent worry about money in retirement.

Despite rising prosperity levels, almost a third of respondents (30%) are concerned about potential financial hardship in retirement and 71% are either very or slightly worried about how they will cope financially in their later years – concern which gains prevalence amongst the younger age groups.

Figure 2: How people perceive retirement

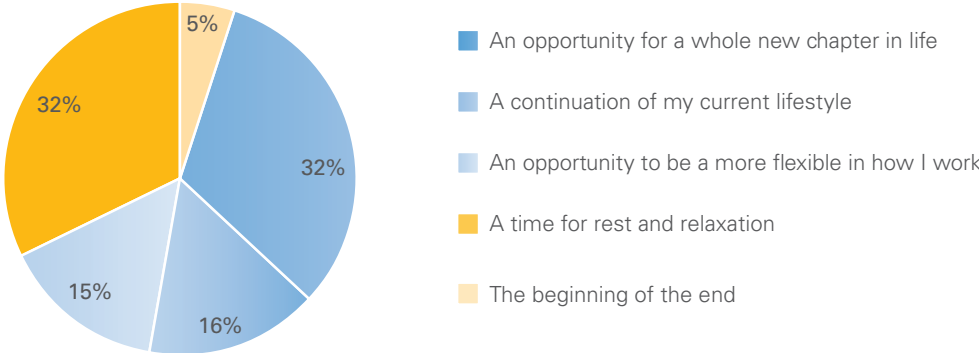
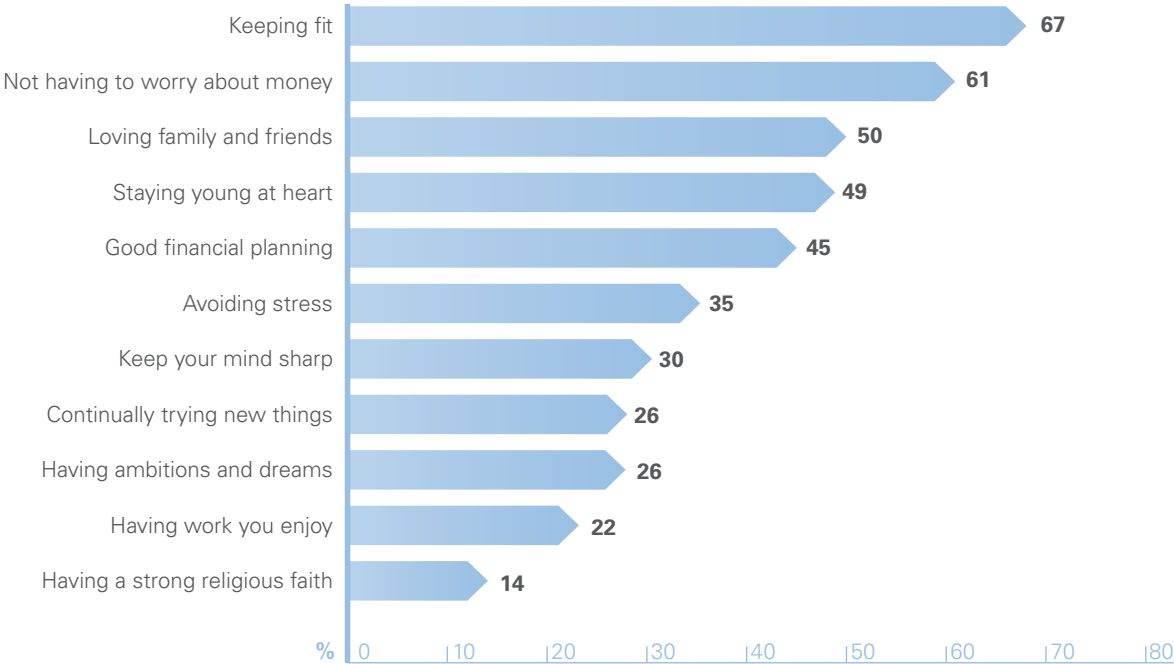


Figure 3: What is extremely important to a happy retirement



Although over a fifth of respondents believe that having work they enjoy is an important component of a happy retirement, younger people are not at the forefront of this trend. With an ageing population, it may be necessary for workers to adapt to the new reality - one in which working into later years is not unusual.

Like people in other emerging markets, individuals in Hong Kong are increasingly optimistic about the quality of life they will enjoy in retirement. Over half (54%) of respondents said they expect to be much or slightly better off in retirement than their parents. However, individuals from Hong Kong do not share quite the same level of optimism about the future that is prevalent in China. China's remarkable economic

growth in the past few decades may be at the root of this atmosphere of optimism about retirement while Hong Kong, as an earlier rising 'Asian tiger', has already moved through the period of optimism to a more affluent and ageing population and the financial worries this can bring.

24% of individuals in Hong Kong believe their retirement will be of a similar standard as that enjoyed by their parents' generation and 23% believe they will be worse off. Job insecurity is obviously being felt and is a reason for concern (55%). However, individuals also understand that increasing longevity is a factor (50%) and worry about insufficient levels of saving (53%).

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

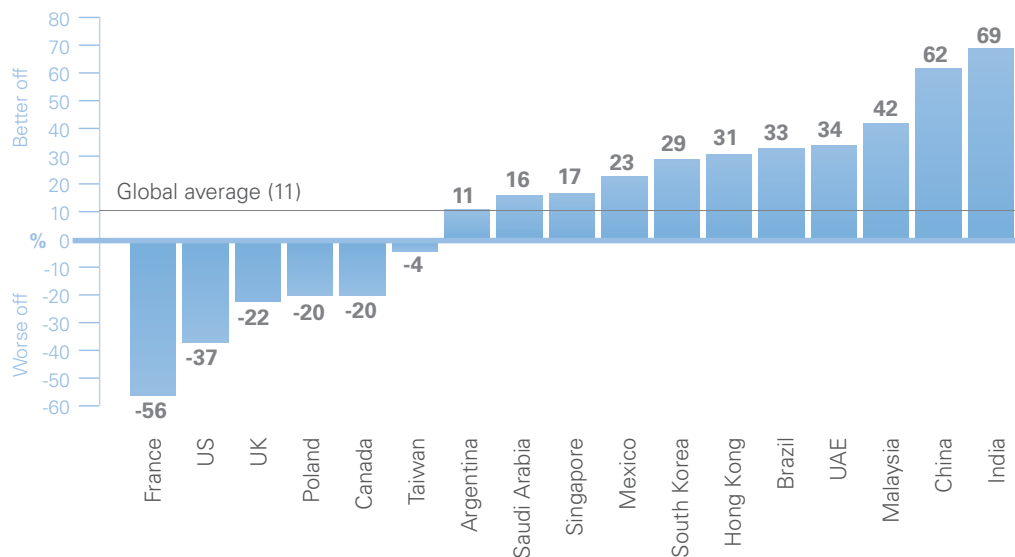
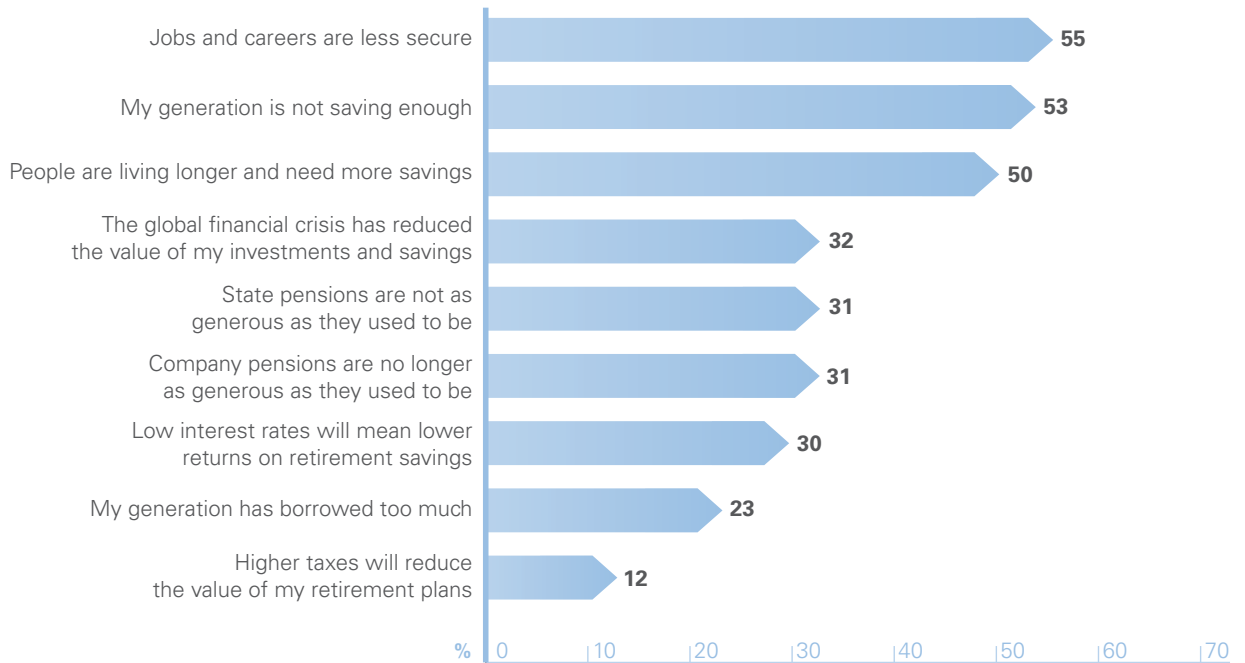


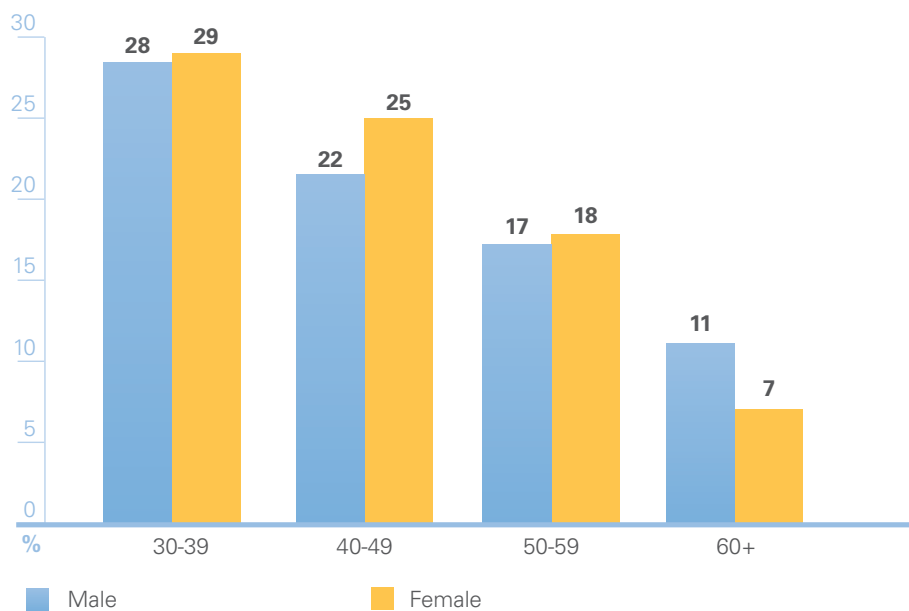
Figure 5: **Why will you be worse off in retirement than your parents' generation?**



As the population ages, the pattern of retirement is changing in Hong Kong. A rapidly ageing population is putting increasing pressure on the existing system of state provision and the onus will inevitably need to shift over time towards individual pension provision. Given this backdrop, respondents in Hong Kong

worry about the impact of rising longevity and we see rising levels of concern about the ability to cope in retirement in the younger age groups, with a steady increase in the number who are very worried as to how they will cope.

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

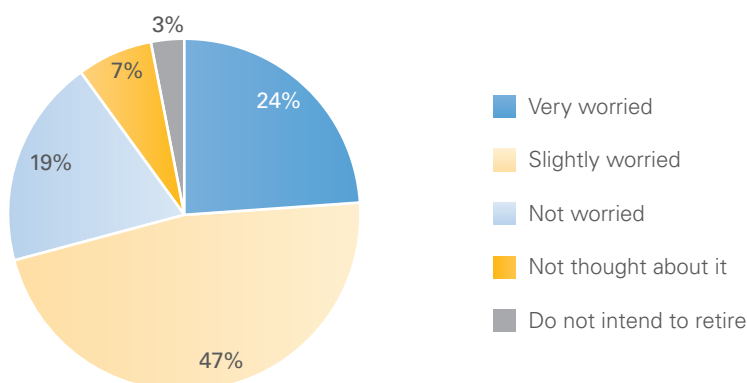


Shortfalls in retirement preparedness

Our findings reveal a significant 'preparedness gap' amongst respondents. 93% of those we surveyed said that having enough money to live on in retirement was important, but only 60% said they felt adequately financially prepared. This leaves a gap of 33% who are not adequately prepared.

The preparedness gap in Hong Kong is further evidenced by how worried people are about being able to cope financially in retirement: 71% said they were either slightly or very worried.

Figure 7: **Levels of concern about coping financially in retirement**

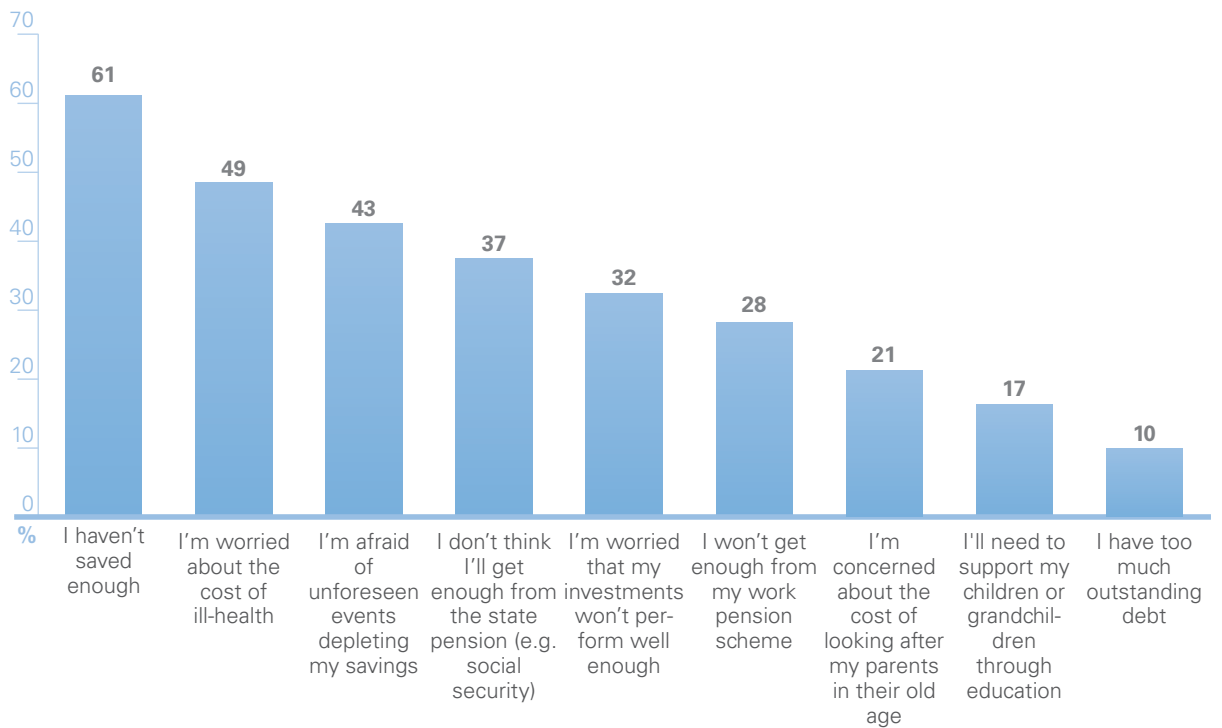


Concern is greatest amongst women in their 40s, with over three quarters (77%) of all respondents in this category either very or slightly worried about their ability to cope financially in retirement. The numbers of those slightly worried about their ability cope are generally high across the age groups, with over 50% of women in their 40s and 50s indicating concern and half of men in their 50s also showing slight concern. This suggests that whilst people may have taken some steps to prepare themselves financially for retirement, they do not feel confident that these steps are sufficient. Indeed, only just over a quarter feel very

prepared for retirement (26%), leaving the majority of our respondents with some concerns regarding this later period in life.

Whilst a high number of respondents in Hong Kong are worried about insufficient levels of savings (61%), fear of the unknown is also a significant factor. Almost half of all individuals (49%) are concerned about the impact of ill health on their finances, while 43% are uneasy about 'unforeseen events' depleting their savings. Better preparedness for retirement will help to alleviate these fears.

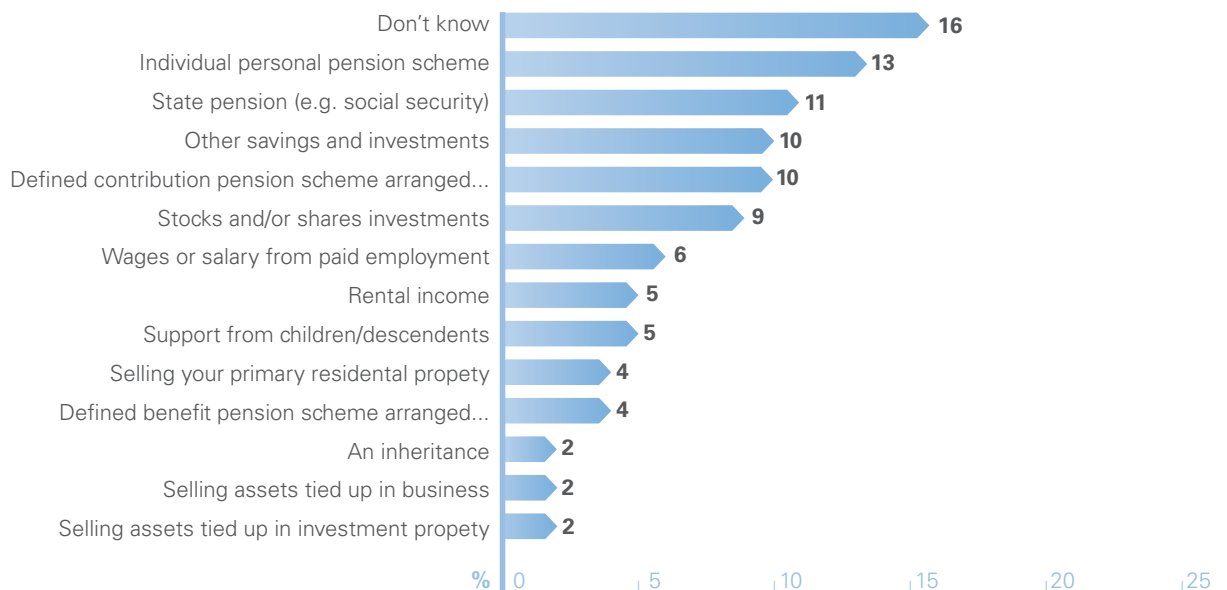
Figure 8: Why people worry about coping financially in retirement



A worrying finding was that 16% of respondents do not know what their main source of income will be in retirement. This was a problem more evident amongst divorcees with over a quarter (26%) of respondents unable to say what this would be.

Interestingly, reliance on the state pension is quite low with just 11% seeing this as their main source of retirement income. Other sources identified were individual personal pension schemes (13%), stocks and shares investments (10%) and wages or salary from paid employment (10%).

Figure 9: Reliance on declining state and company pensions relatively low



The power of planning

Table 1: The four consumer types

Global (% of global respondents)	Hong Kong (% of Hong Kong respondents)	Consumer types
38%	45%	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%	9%	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%	29%	Planners: advice-seekers. These people have a financial plan in place and also take 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 and, unfortunately, Hong Kong falls just short of the global average in terms of financial planning: only 46% have financial plans.

Worryingly, 45% of individuals in Hong Kong have no financial plan, nor have they sought financial advice, suggesting that these individuals are not preparing enough for their financial futures. There is an opportunity for individuals to increase their preparedness through either making a financial plan or seeking professional advice which will go some way to plugging the preparedness gap.

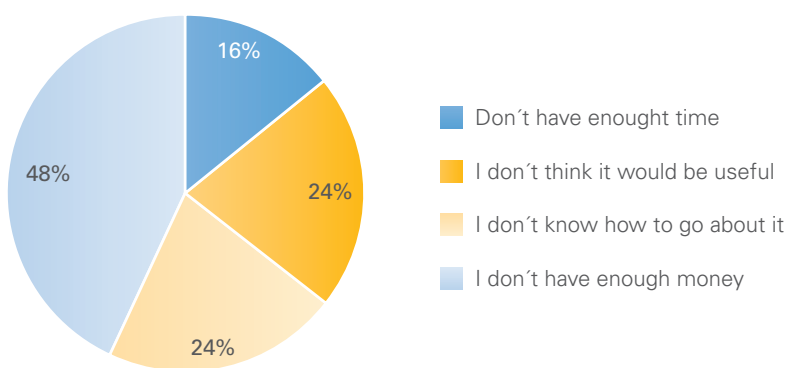
Hong Kong respondents also show a strong preference for retaining ultimate control of their financial decisions. Almost half of respondents said they prefer to

manage their own finances and make all decisions by themselves (44%). A further third of respondents (35%) said they prefer to make decisions themselves after receiving independent financial advice.

For those without a financial plan in place, the reasons cited centre on the belief that they lack sufficient funds to do so (48%) as well as a lack of knowledge about how to go about getting one (24%). The belief that a lack of money is a preventative factor to getting a financial plan is more prevalent amongst women in younger age groups.

Worryingly, almost a quarter of respondents without a financial plan don't believe it would be useful to have one, and they are therefore likely to potentially miss out on the benefits which having a financial plan in place can bring.

Figure 10: Primary reasons people do not make a plan



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

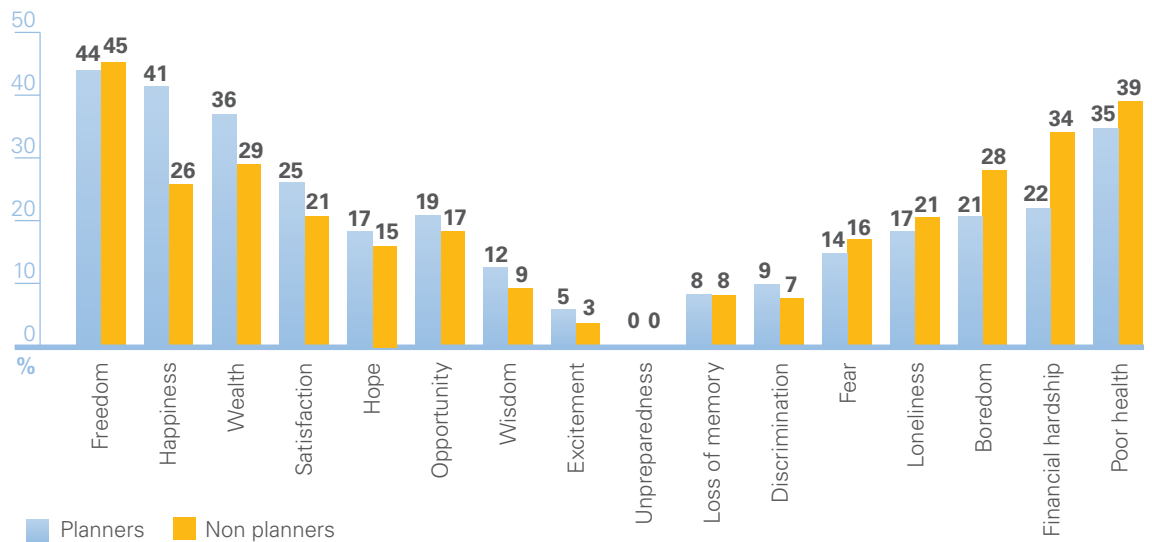


Table 2: Planners have more retirement savings and investments

	Hong Kong 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) HK Dollar, to nearest '000	315,000	230,000	310,000	470,000	490,000	253,000	485,000
% of global average	100%	73%	98%	149%	156%	80%	154%

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

When we look at the retirement assets of our four consumer types, planners not only hold a wider range of retirement products than non-planners but

also have on average 154% as much as the Hong Kong average, and almost double the assets of non-planners.

The advice advantage

Those who have a financial plan in place and sought professional advice are best off financially, with the largest retirement assets of all four consumer groups. This reveals a further benefit for those who combine financial planning with professional advice – the ‘advice advantage’. Advice-seeking planners have 50% more in retirement assets than the Hong Kong average. Whilst it is difficult to separate cause and effect, these findings also hold true across when controlling for age and income.

Currently, those who seek advice show a preference for retaining control of their finances with 40% preferring to rely on their own financial calculations and 45% seeking the informal advice provided by family and friends. However, there is evidence that younger people are more willing to seek professional financial advice from channels such as independent financial advisers and banks than their parents’ generation, with 29% of all respondents consulting the former and 29% the latter.

As is the case globally, we also see a growing willingness to go to newer sources of information amongst the younger age groups, with the numbers conducting online research regarding their finances on the internet growing amongst these age groups.

Given the clear advantages enjoyed by the planners and those who have taken professional advice, many people in Hong Kong would benefit from putting financial plans in place.

Conclusion

In our survey, Hong Kong bucked the trend. Due to the early rising of Hong Kong as an 'Asian tiger', Hong Kong has already moved through a period of optimism when looking towards retirement and must now deal with an ageing and more affluent population and the associated financial constraints this can bring. High income levels in Hong Kong alone cannot secure the future of retirement.

Nevertheless, people in Hong Kong are still, on balance, optimistic about their retirement prospects and the reliance of many of our respondents on an individual pension plan is a good start, but far more needs to be done.

In the under-developed financial advice market lies an opportunity. Hong Kong has the infrastructure in its banking system to provide far more advice than our survey suggests is currently being given, and Hong Kong's low levels of financial planning indicate that there is a population waiting to be shown what to do. Worry about retirement is high, especially about the potential costs of healthcare; banks in Hong Kong can deliver a holistic planning solution to these worries, and demonstrate the tangible benefits of planning for later life.

Our respondents in Hong Kong start from a position of not being over reliant on generous state and company pensions. Instead they need to be shown how to put in place a realistic plan for tomorrow, so that, as the population ages over the next thirty years and health services come under greater pressure, they are better prepared.

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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