

# The Future of Retirement

*The power of planning*



**India Report**

**HSBC**   
The world's local 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 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 1,028 respondents in India, explores how households in India are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relate to India unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

## Key findings

- 33% of Indian respondents see retirement as a whole new chapter of life as well as a time for rest and relaxation. Only 22% associate it with financial hardship
- Just 7% of respondents believe they will be worse off than their parents' generation in retirement, though 51% are worried about being able to cope financially in old age
- Older respondents are less enthusiastic about retirement, and are far more likely to associate it with financial hardship
- 14% think that their personal pensions will provide their largest source of retirement income, while 13% will rely on other forms of saving and investments
- One in ten people in India expect to continue working in later life to provide an income for themselves
- 76% of respondents have financial plans in place - far more than the worldwide average of 50% - while 57% of Indians have also sought professional financial advice
- The internet is emerging as a prominent source of financial information and advice for people in India, with 50% of respondents using official financial websites to guide their decision making
- Independent financial advisers (33%) and banks (21%) are the most common sources of professional financial advice in India
- Those who plan for their financial future have a 'planning premium' over those who do not, with 153% of the retirement assets
- 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

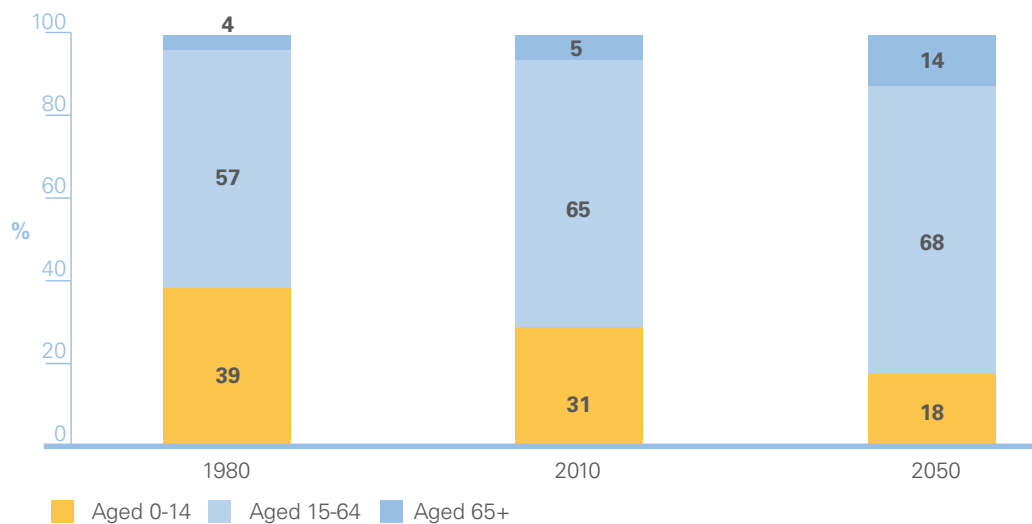
# Retirement landscape

It is often said that India will enjoy a 'demographic dividend' in the medium term, especially when compared to other Asian giants such as China and Japan. India's young population is expected to bring down the 'dependency ratio' over the next 30 years – a higher proportion of the population will be of working age and the average savings rate will therefore increase.

In the long term, though, India is likely to face the same demographic pressures as its peers. When the next generation of workers comes to retire, the dependency ratio is likely to increase and India too will face the challenges of an ageing population. As life expectancy increases, the retirement gap gets larger. The retirement gap is the number of years between the official retirement age and average life expectancy. The larger the retirement gap, the bigger the financial burden retirement becomes on both the individual and the state.

**Figure 1: The baby-boomers enter retirement**

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



## The changing shape of retirement

Despite the universal challenge of funding an ageing society, the Indian population has a very optimistic outlook on their future retirement.

33% see retirement as a new chapter in life, with 55% associating retirement with happiness.

The role of the family remains central for many people in India and 64% see it as necessary for a happy retirement. Good financial planning is regarded as essential by 68% of people, with not having to worry about money at 50%.

Only 22% associate retirement with financial hardship and this level of concern is similar across all age groups and between men and women.

Nearly 50% of respondents cite having work they enjoy as essential to a happy retirement, suggesting a willingness to blur the traditional lines between working age and later life.

Figure 2: How people perceive retirement

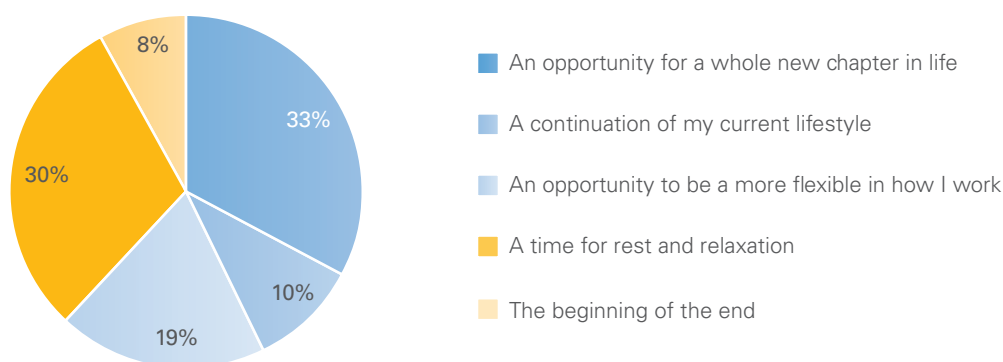
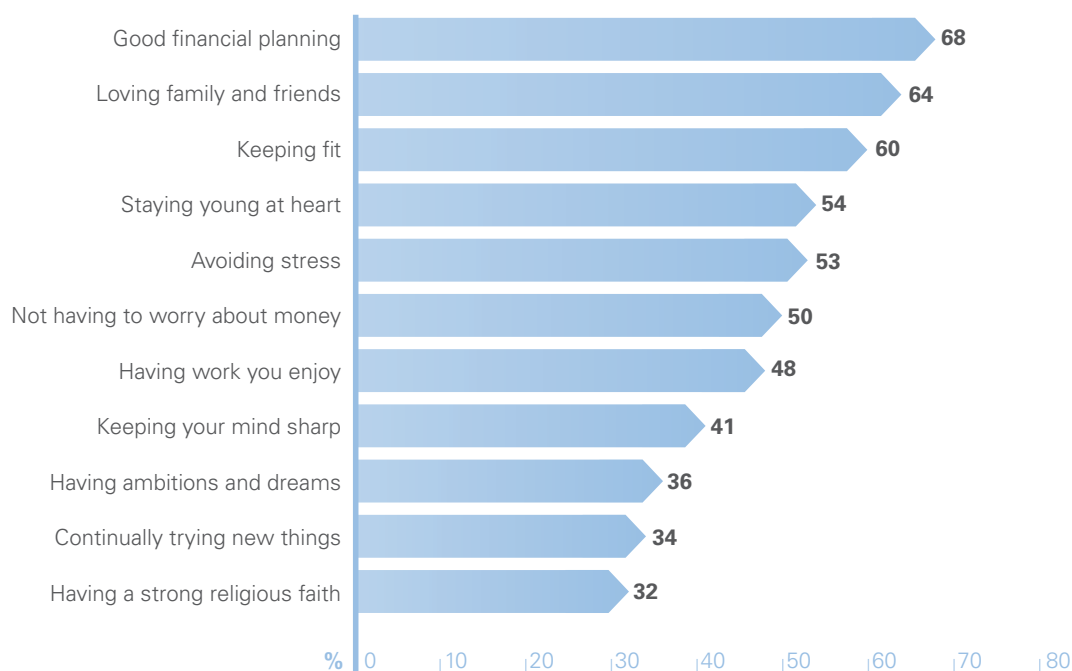


Figure 3: What is extremely important to a happy retirement

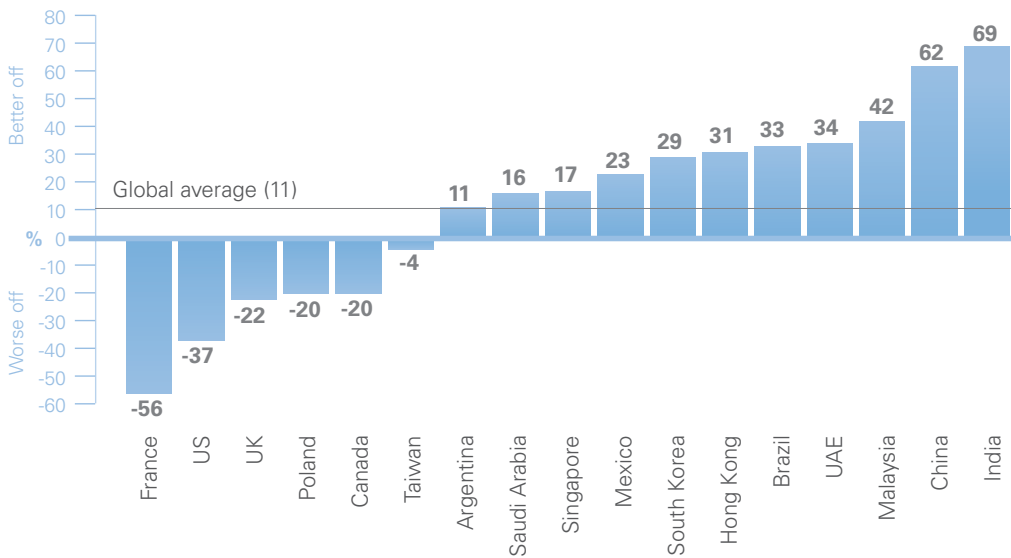


India's impressive economic growth in the past few decades has created an atmosphere of optimism about retirement in our respondents, who nearly universally see themselves as being better off in later life than their parents' generation.

Nevertheless, the 9% who feel they would be worse off give us an insight into some of India's potential

problems. 51% of people in India are worried about coping financially in retirement. To them rising prosperity has come at the price of less job security (57%), and they also worry that company pension provision will not be sufficient in the future. Many of this group were also negatively affected by the global financial crisis, showing that even India did not emerge unscathed.

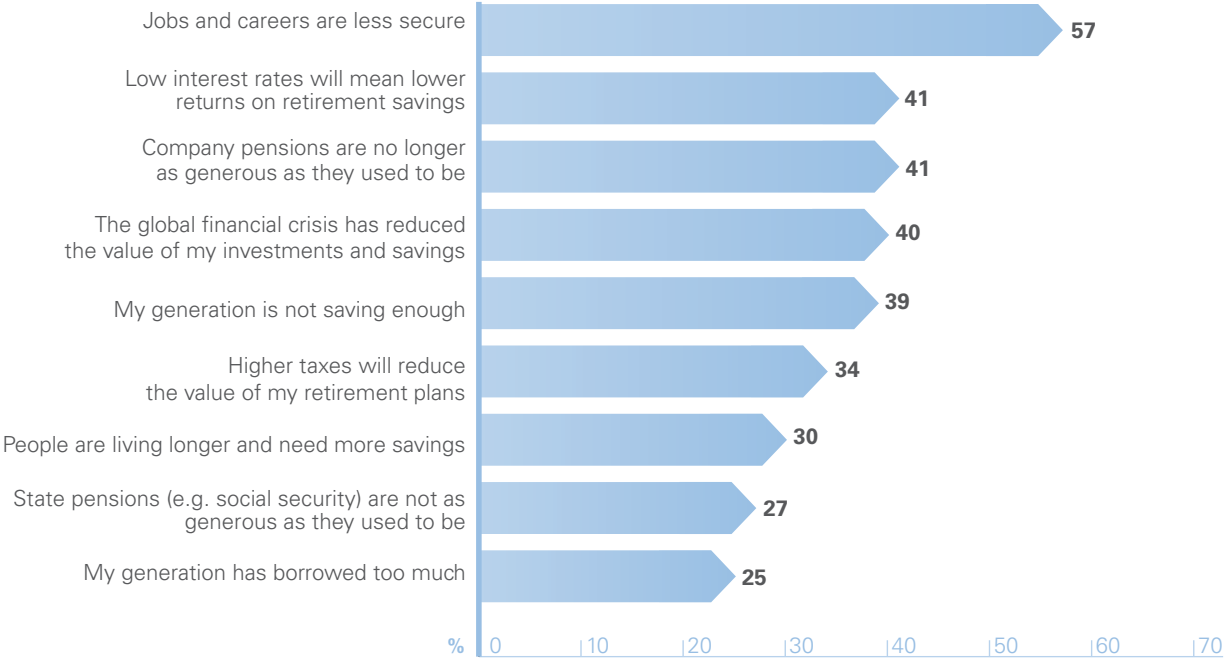
**Figure 4: Better or worse off than your parents' generation in retirement? (net score)**



The pattern of retirement is also changing rapidly in India. As the population gradually ages, the existing system of state provision will require significant

reform, while more pressure will be placed on company pensions and private provision to become more widespread and sophisticated.

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



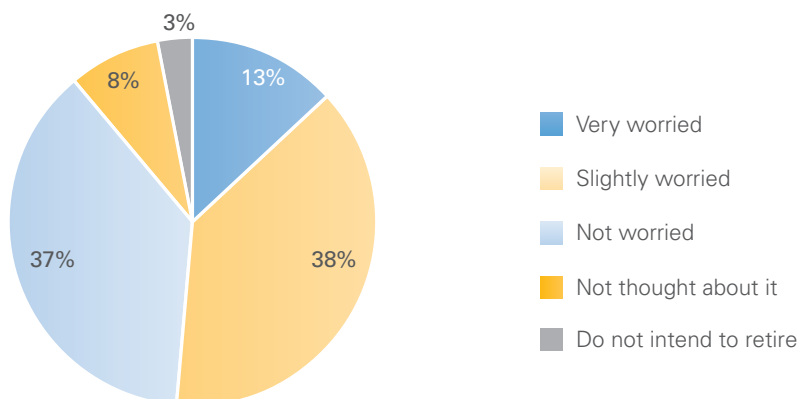
## Shortfalls in retirement preparedness

Our findings reveal a relatively small 'preparedness gap' amongst respondents. 88% of those we surveyed said that having enough money to live on in retirement is important, and, encouragingly, 74% said they feel adequately financially prepared. Whilst India's preparedness levels are higher than what is found in other regions, there is still a gap of 14% who are not

adequately prepared.

The preparedness gap in India is further evidenced by how worried people are about being able to cope financially in retirement: 51% said they are either slightly or very worried.

Figure 6: Levels of concern about coping financially in retirement

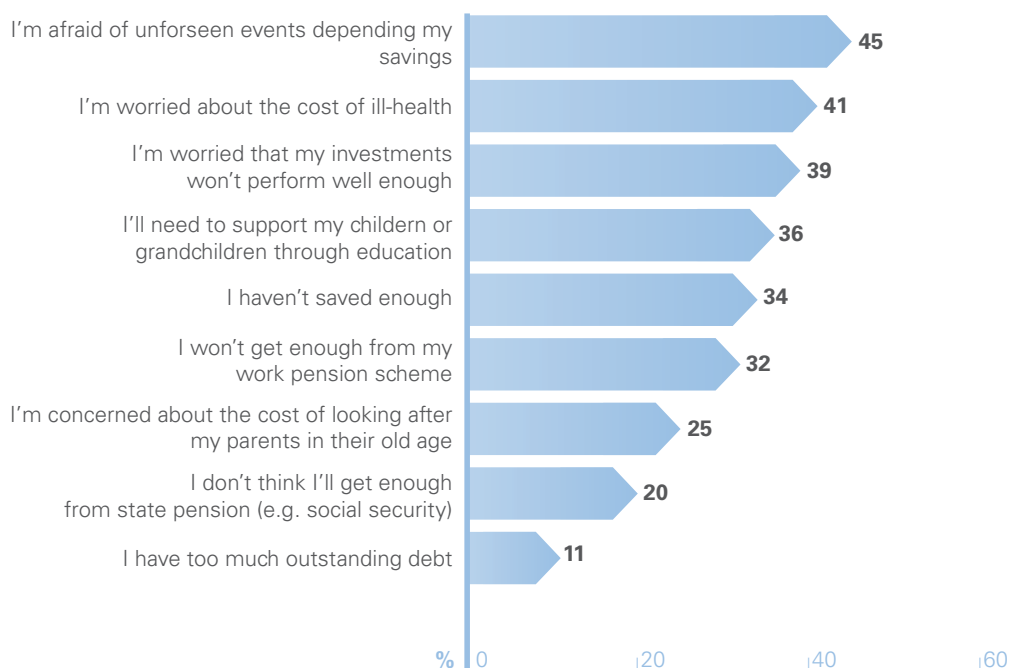


Despite India's rising prosperity, unease about the future naturally continues to concern the majority, and the most prominently cited reasons for this centre on fears about healthcare (41%), unforeseen events (45%) and the lack of performance from their investments (39%). Many people in India also worry that they have not saved enough for retirement (34%). Whilst excited about their increased prosperity and longevity, people in India understand that longer

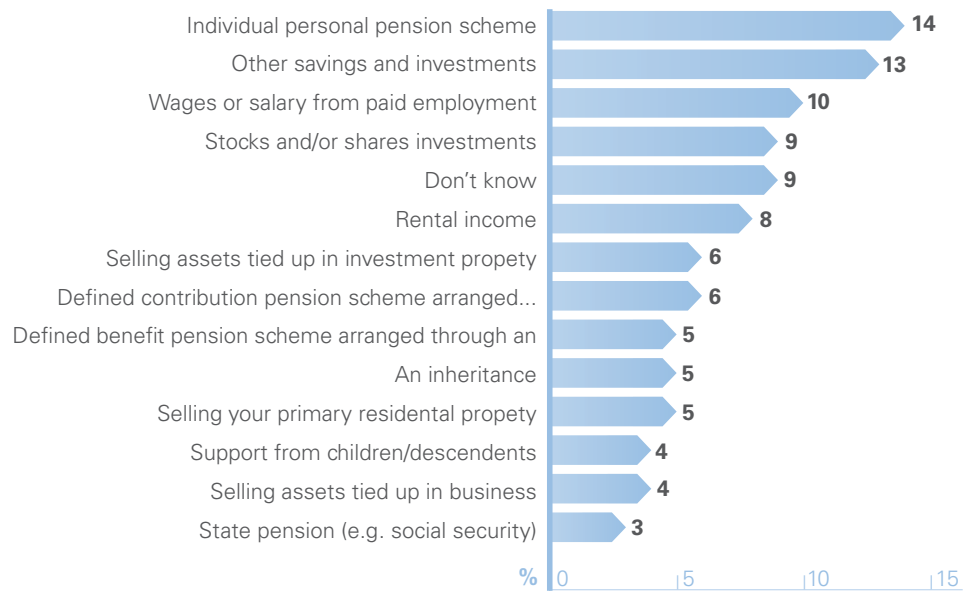
retirements will be more difficult to fund.

Unforeseen events are a prime concern of respondents, yet only 37% of respondents feel very prepared financially if something happens to them. This suggests that despite high levels of general retirement preparedness in India, specific coverage against unforeseen events or ill-health is lacking and greater product availability and sophistication is required.

Figure 7: Why people worry about coping financially in retirement



**Figure 8: People plan to rely on their own savings and working longer to fund retirement**



Whilst the majority of people in India are upbeat about retirement, one in ten people do not know what their main source of income will be in retirement. The most popular source of income in retirement in India is expected to be individual personal pension schemes (14%) and other forms of savings and investments, suggesting that many people in India understand the need to personally prepare for retirement.

In addition, many Indians expect to continue working to fund retirement, with 10% of people expecting income from employment to be a main source of income in later life.

# The power of planning

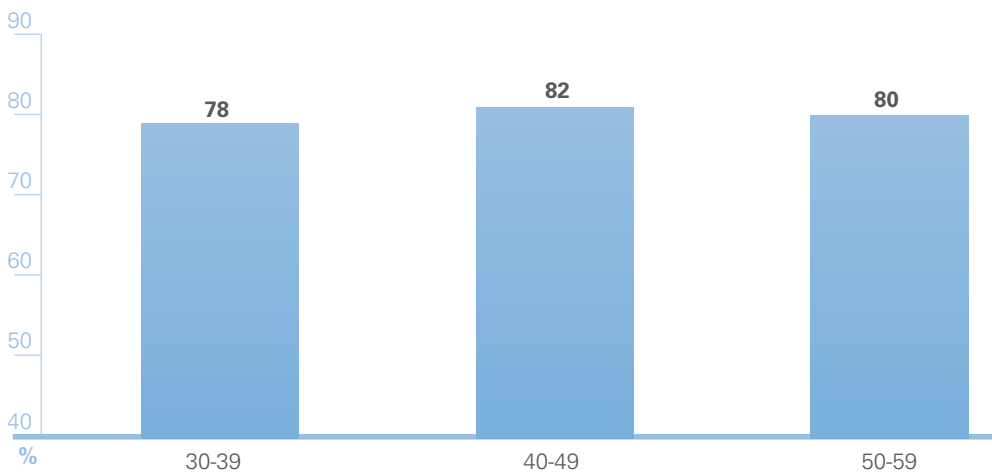
**Table 1: The four consumer types**

Global (% of global respondents)	India (% of India respondents)	Consumer types
38%	17%	<b>Non-planners: disengaged.</b> 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%	7%	<b>Non-planners: advice-seekers.</b> 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%	26%	<b>Planners: active self-guided.</b> 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%	50%	<b>Planners: advice-seekers.</b> 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.

Much greater emphasis will be placed on individual preparations for retirement in the future, and financial planning behaviour in India is far ahead of the global average with 76% having some form of plan. The most prominent of our four consumer types is the planner who also seeks financial advice, whilst there are very few non-planners who have taken financial advice.

There is no gender split in terms of attitudes to planning with both men and women in India having a financial plan in place. However, people in their 40s are more inclined to be planners compared to people in their 30s.

**Figure 9: High levels of planning across 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 10: Retirement associations of planners and non-planners

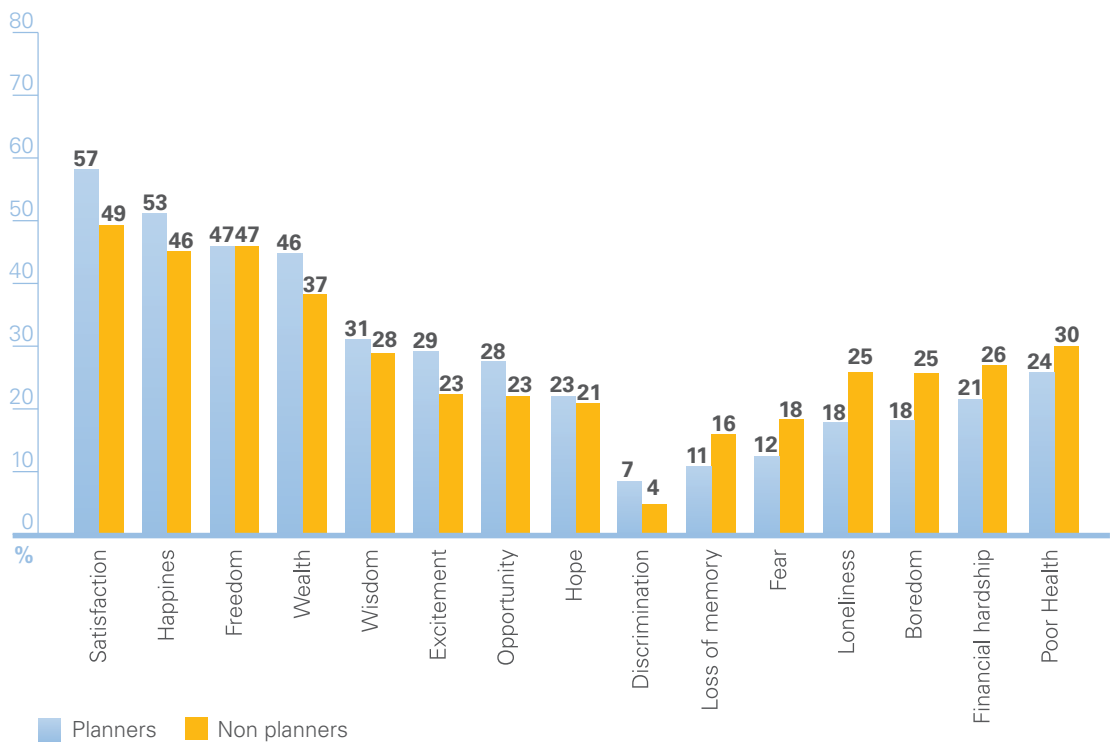


Table 2: Planners have more retirement savings and investments

	India average	All non-planners	All planners
Total Retirement savings and investments (household median, in '000s) Indian Rupees	700,000	500,000	767,000
% of global average	100%	71%	110%

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 153% as much as non-

planners. This shows that there is a strong planning premium in India in material financial terms.

### **The advice advantage**

Currently, those who seek advice show a preference for independent financial advisers (33%). However, banks (21%) and insurance companies (18%) remain popular sources of advice. With large opportunities for expansion in the coming years, these two advice

providers, both focusing on holistic solutions, are likely to remain popular. However, they will increasingly face competition from online sources of information and advice, with 46% of respondents having independently consulted official financial websites.

## Conclusion

India currently enjoys the fortunate position of relatively high savings rates, with the overwhelming majority of our respondents expecting to be better off in retirement than their parent's generation. In addition, India does not face the pressing demographic challenges of most of its peers. However, its 'demographic dividend' is unlikely to last and Indians will eventually face the same challenges of how to provide for an ageing society.

Many Indians are concerned that their savings will not be sufficient, with 10% of respondents actually expecting to be worse off in retirement than their parent's generation, mainly due to rising job insecurity and to the impact of the global financial crisis on savings.

The general optimism towards retirement must not therefore lead to complacency and whilst many people in India have made adequate provision for retirement, it is essential that people continue to prepare and plan for an extended period of later life as increases in longevity continue.

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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