

The Future of Retirement

The power of planning



Saudi Arabia 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 1,042 people from Saudi Arabia, explores how households in Saudi Arabia are likely to respond to the rapidly changing shape of retirement over the coming decades. All data referred to in this country report relate to Saudi Arabia unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- Over half (54%) believe that enjoyable work is a key aspect of a happy retirement, and 9% will be relying on paid employment to provide their main source of retirement income
- Nevertheless, half of our respondents associate retirement with ill-health, even more so in younger generations
- Nearly half (48%) expect to be better off than their parents' generation in their retirement, though 32% feel they will be worse off
- People feel they will be worse off in large part because of a lack of retirement savings and a feeling that jobs are less secure than they once were
- Whilst 29% wish to live with relatives in retirement, 42% want to either stay in their own home or move to an even bigger house
- There is a shortage of asset protection shown by only 30% feeling that their family is very prepared to cope financially should something happen to them
- A fifth of respondents do not know what their main source of retirement income will be; only 10% believe it will be from state benefits
- Respondents are far more likely to state that their primary retirement income will come from property based sources such as rental income (13%) than the global average
- 56% of respondents are planning for their financial future, higher than the global average
- Those with plans are 10% more likely to associate retirement with wealth than non-planners, and 10% less likely to associate it with financial hardship
- The median planner has nearly twice (192%) the retirement savings of the median non-planner
- Globally respondents who supplemented financial planning with professional advice are the best prepared for retirement of all, but in Saudi Arabia households are less responsive to financial advice. Measures may be required to make advice more effective
- 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

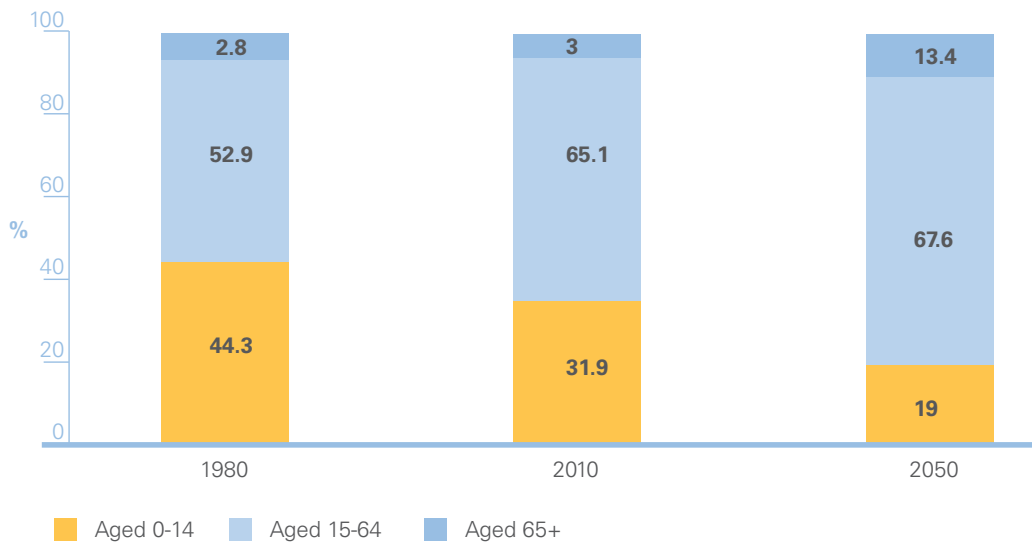
Retirement landscape

Saudi Arabia, amongst the 17 countries surveyed in our report, stands out for the extreme youthfulness of its population. HSBC's World in 2050 report predicts that by then Saudi Arabia will have a working age population of over 30 million, up by over 70% from its current level of about 10 million. The median age is just 23.4, and 6 out of 10 people are under 40. This extraordinary population boom has profound

implications for the future structure of society in Saudi Arabia that both its people and government must take note of. Saudi Arabia may not face the same dramatic population ageing that many countries do, but it instead faces the challenge of ensuring that its expanding working age population is able to find steady employment to build up savings for the future.

Figure 1: A new era of retirement

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



The changing shape of retirement

Faced with the challenge of adapting to demographic change in the 21st Century, respondents in Saudi Arabia are upbeat in their perception of retirement:

Two-fifths see retirement as a new chapter in life, whilst similar numbers associate retirement with freedom.

Positive perceptions of retirement peak in the 50-59 year old age group, suggesting greater uncertainty about retirement provision among younger respondents.

Religion is an extremely important part of retirement for 66% of the population.

15% see retirement as the beginning of the end, one of the highest levels for this answer worldwide.

Half the respondents associate retirement with ill-health, with younger respondents in particular making this connection.

Figure 2: How people perceive retirement

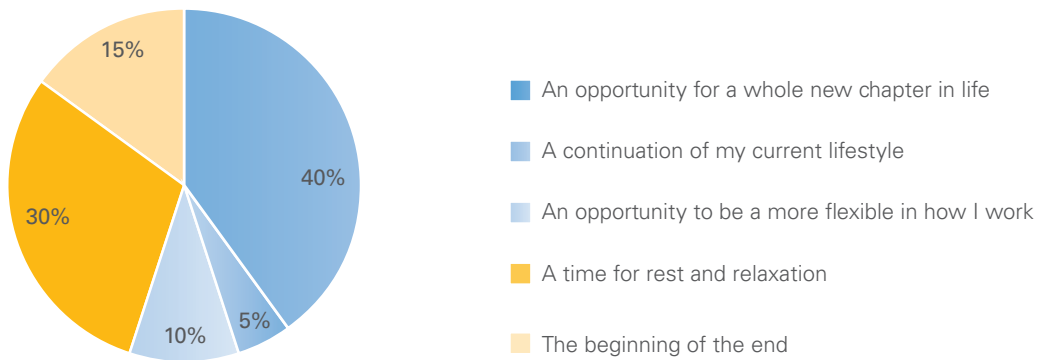
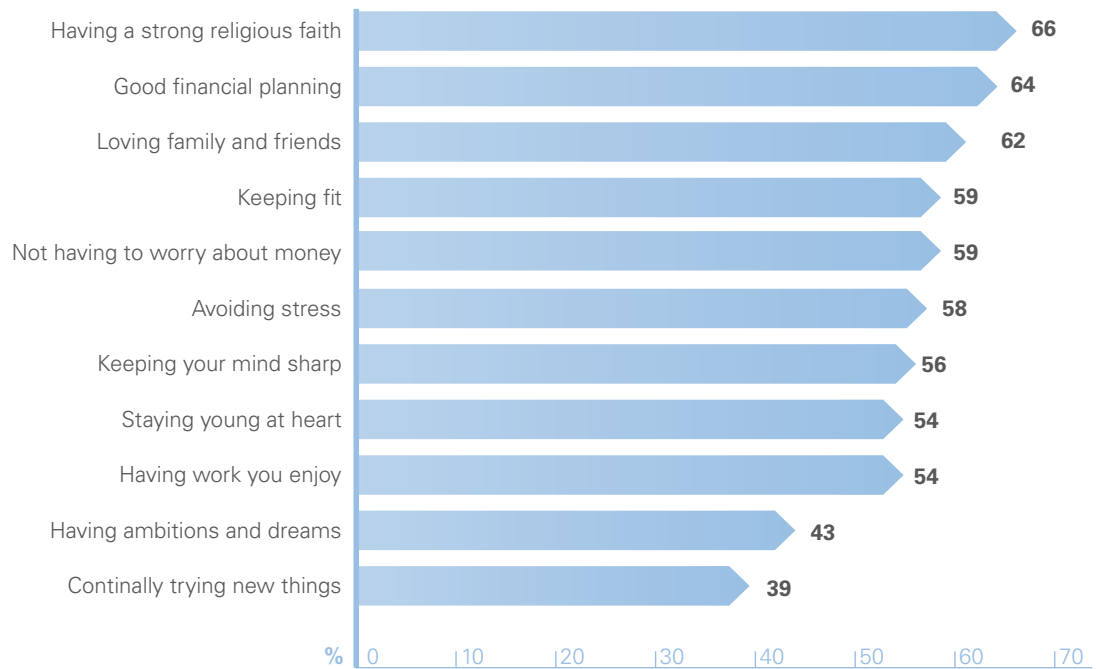


Figure 3: What is extremely important to a happy retirement



Over half of our respondents (54%) believe that enjoyable work is extremely important to a happy retirement, suggesting that retirement is not

necessarily seen as a transition from work to rest, but a stage that can combine the two.

Nearly half (48%) of respondents expect to be either much or slightly better off than their parents' generation in retirement, though 32% believe that they will be worse off. Amongst those who felt they would be worse off, 57% said that they felt this way because jobs and careers are less secure than they had been before. Whether people believe retirement will be better or worse, they certainly feel it will be different to that of previous generations. This is reflected in our

findings over what respondents believe will happen to their living arrangements on retirement – whilst 29% subscribe to the traditional family structure of living with relatives, 42% either want to stay in their home or move to an even bigger house. It is the question of whether this new and exciting retirement will be affordable to them, in a time of job uncertainty and worries over unforeseen events that dampen their optimism.

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

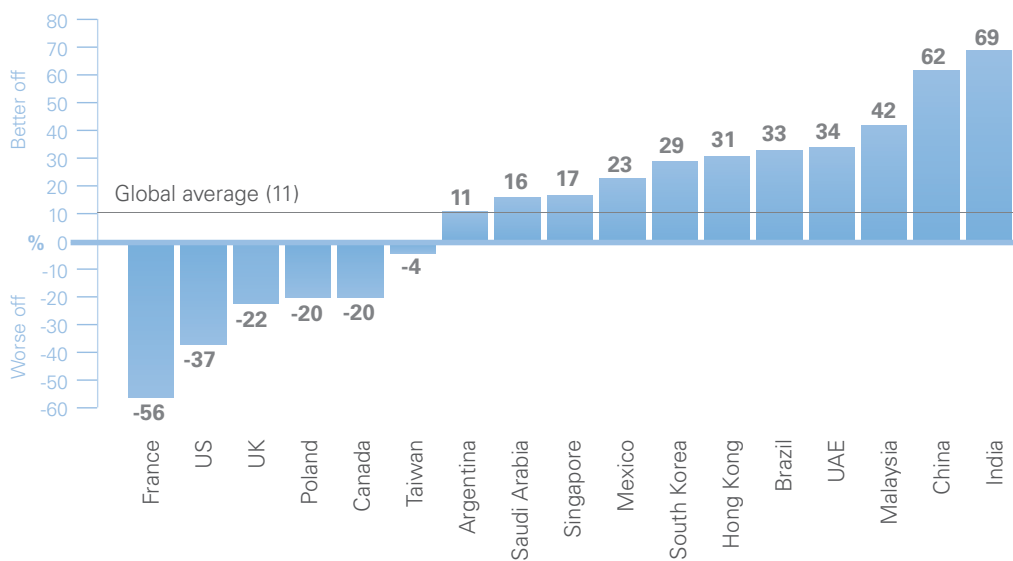
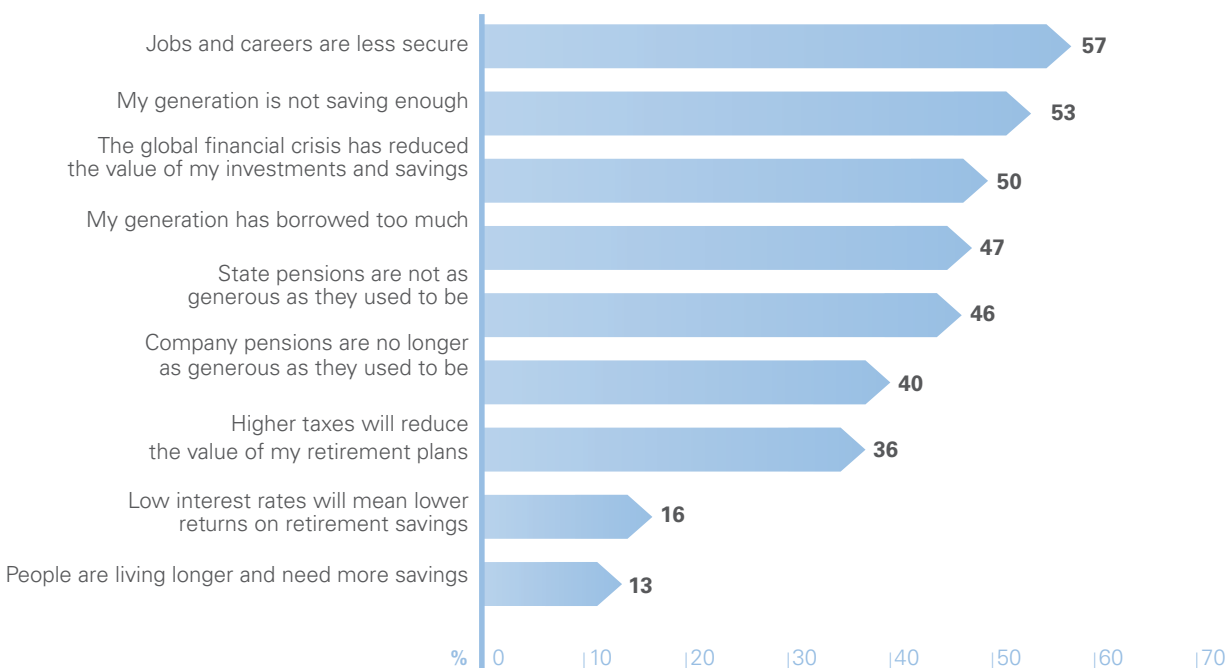


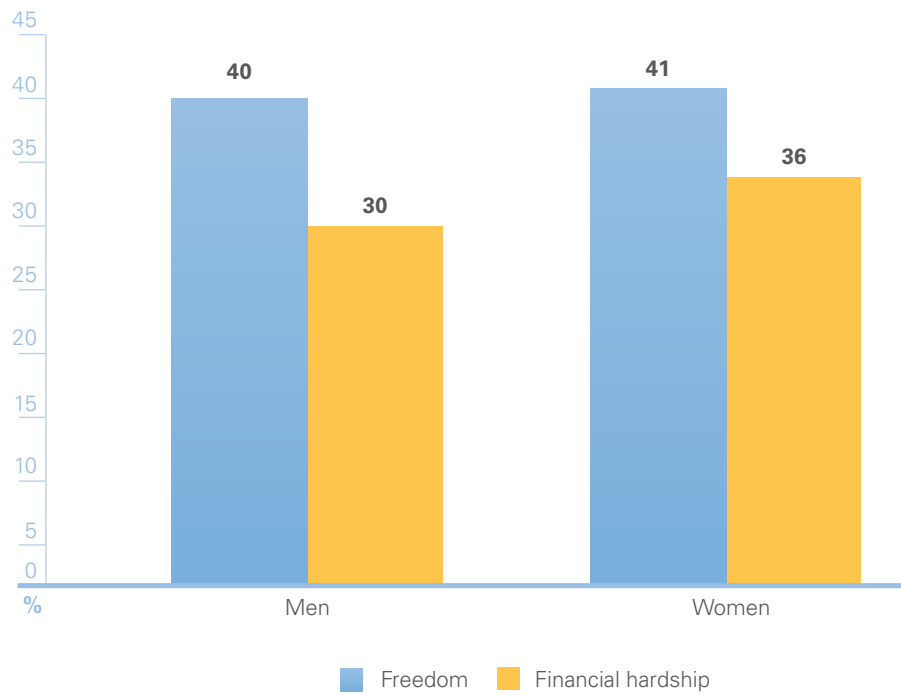
Figure 5: Why will you be worse off in retirement than your parents' generation?



The shape of retirement is changing rapidly, and whilst this financial future is exciting for many, women are decidedly less upbeat than men about their

fiscal futures, and are 6% more likely to associate retirement with financial hardship.

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

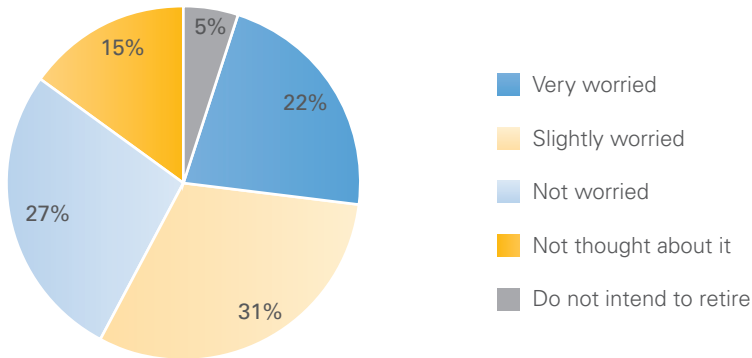


Shortfalls in retirement preparedness

Our findings reveal a 'preparedness gap' amongst respondents. 89% of those we surveyed viewed having enough money to live on in retirement as important, but only 55% said they felt adequately financially prepared. The preparedness gap is further

emphasised by how worried people are about being able to cope financially in retirement: 51% said they are either slightly or very worried, and 5% do not plan to retire at all.

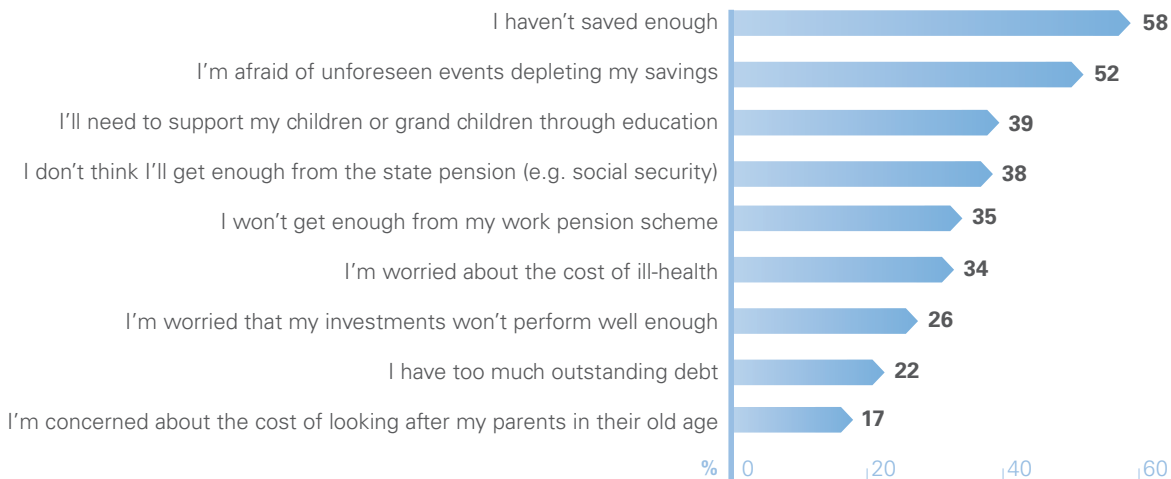
Figure 7: Levels of concern about coping financially in retirement



The biggest reason why people are concerned about funding retirement is a lack of savings, with 58% claiming to have not saved enough for retirement. This concern is almost matched by the 52% of respondents who are afraid of unforeseen events depleting their

life savings in the future, which suggests a lack of life insurance and asset protection. This finding is backed up by the fact that only one in three respondents feel that their family is very prepared should something happen to them.

Figure 8: Why people worry about coping financially in retirement



A worrying finding is that a fifth of respondents do not know what their main source of income will be in retirement. Moreover, we find that there is little reliance on standardised retirement products, instead people see their main source of income as being less formal sources such as 'other savings and investments' (14%) or 'rental income' (13%). The trend towards relying on property income is one that we see strongly from respondents in the Middle East far more than any other region. Nearly a tenth of

respondents believe that they will earn their largest portion of retirement income from paid employment, reinforcing the impression that a distinct minority is keen to work on into retirement. The small proportion (10%) of people will be reliant on the state is probably a reflection of Saudi Arabia's large economic migrant community – reflected in the makeup of our survey – who are entitled to no Saudi state benefits and so must make other arrangements.

Figure 9: Expected sources of retirement income



The power of planning: making the most of the planning premium

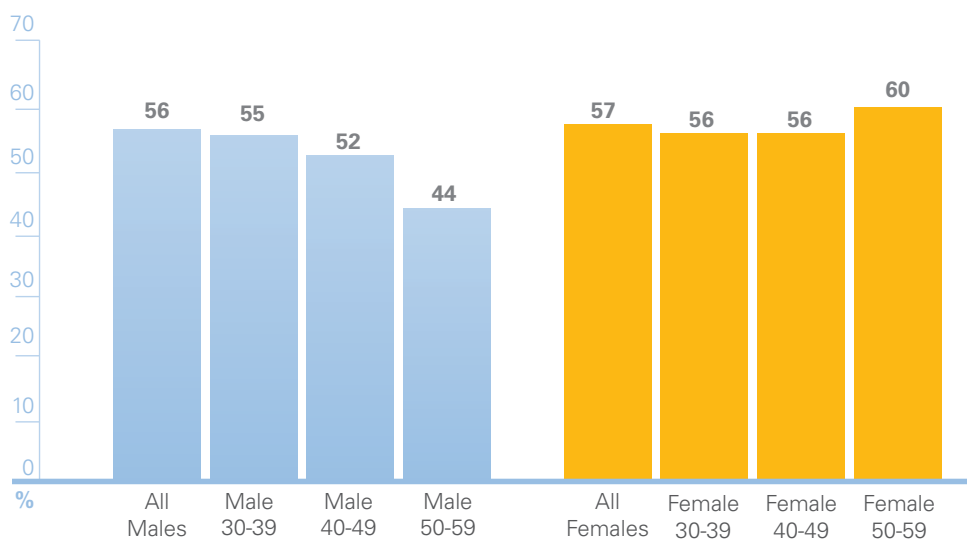
Table 1: The four consumer types

Global (% of global respond- ents)	Saudi Arabia (% of Sausi Arabia re- spondents)	Consumer types
38%	38%	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%	6%	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%	32%	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%	24%	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.

Much greater emphasis will be placed on individual preparations for retirement in the future, but financial planning behaviour in Saudi Arabia is ahead of the global averages: 56% have financial plans. This is significantly larger than the proportion of the population who seek professional financial advice, 30%.

70% of respondents financially plan, and this behaviour is slightly more common amongst women. Interestingly, older women are more likely to be planners than older men.

Figure 10: Men more likely to have a financial 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

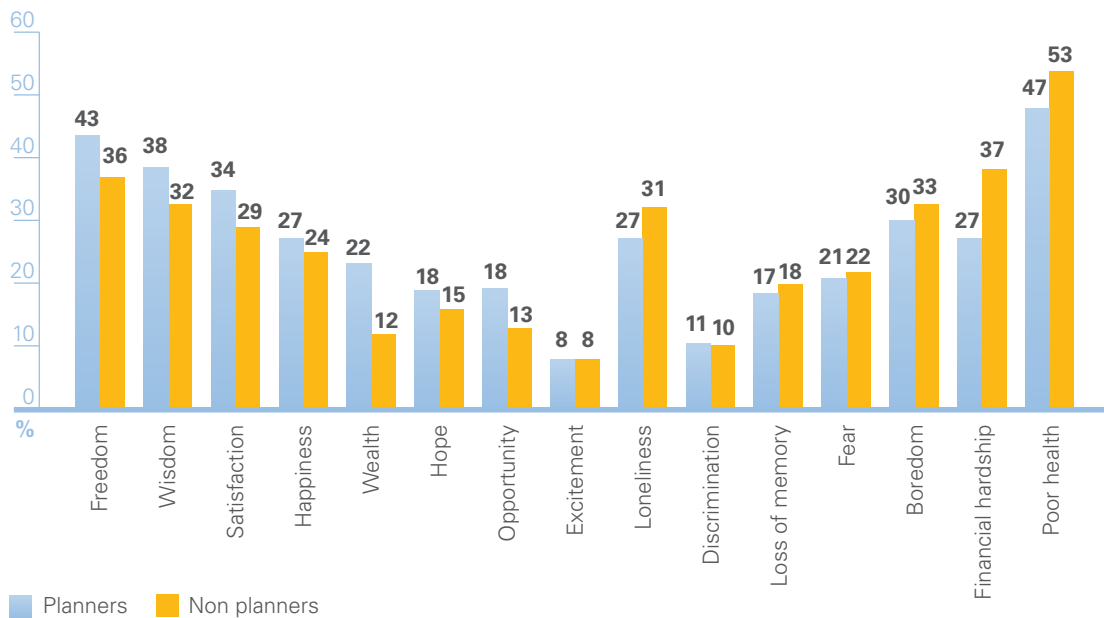


Table 2: Planners have more retirement savings and investments

	Saudi Arabia 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, nearest '000) Saudi Riyal	83,500	50,000	56,000	107,000	100,000	52,000	100,000
% of global average	100%	60%	67%	128%	119%	62%	119%

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 for the future have nearly

twice (192%) the assets of non-planners. This shows that there is a strong planning premium in hard financial terms.

The advice advantage

On a global level, we found that alongside the 'planning premium' there is also an 'advice advantage': people who plan for their financial future and also seek professional financial advice are the best prepared of all for retirement. However, in Saudi Arabia this is not the case: advice-seeking planners hold 119% the average retirement savings, but the median self-guided planner has 128%. Nevertheless, the results show that taking advice is still preferable to doing nothing; non-planners who seek advice have larger retirement savings than the disengaged.

The lack of a strong advice advantage in Saudi Arabia raises questions about the quality of the advice market there, which is going to need to become increasingly more sophisticated over the coming years as the population grows and matures. Our research suggests that the professional advice market may be somewhat disorganised, split between banks, accountants, independent financial advisers and other less official sources, the quality of whose advice is uncertain.

Conclusion

Our results show Saudi Arabia is in transition, and the outcome of the changes remains to be seen. Our respondents are nervous about the future but also have high hopes of retirement. Many people in Saudi Arabia are planners, and therefore do benefit, but the country is nervous about its ability to save, largely down to an insecure jobs market.

This forces younger people to save money purely for the short term, and only turn to retirement savings in their 50s. As few believe that the state pension is enough to rely on as a main source of retirement income, reform is needed if today's large generation of young people in Saudi Arabia is to make sufficient preparations for retirement.

Part of the solution could be in an improved and developed advice market. At present professional financial advice is under-utilised and the results are dubious. Yet our global research shows that in general financial planning combined with advice produces significant boosts to retirement savings.

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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