

The Future of Retirement

The power of planning



Taiwan Report

HSBC 
The world's local bank

Foreword



Taiwan's population keeps getting older, with the ageing index hitting a record high in last year, according to the latest statistics released by the Ministry of the Interior. Taiwan's high savings rate and its ageing population make it a high potential market for insurance and pension fund investment products.

Taiwanese recognize that the bulk of the responsibility for retirement funding is themselves. Interesting though, they seem to be heavily focused on Cash/ Time Deposits to maintain liquidity and have a relatively low expectations to fund from other sources. While Taiwanese ranked high in insurance penetration,

the insurance expenditure was mainly driven by high number of short term guaranteed contracts. It is apparent that many Taiwanese customers seemed to not have clearly stated retirement goals and question their own investment strategies and decisions. The main theme seems just to save as much money as possible. In fact, the research addressed the wide-ranging customer's needs for professional advice to choose the right products. The Future of Retirement survey has enabled HSBC to be focusing on the impact of a fast aging Taiwanese population and tailor our financial solutions to help Taiwanese customers take control

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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 1,024 respondents from Taiwan, explores how households in Taiwan are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to Taiwan unless otherwise indicated. For global and regional comparisons, please refer to the global report.

Key findings

- 69% of Taiwanese say that not having to worry about money is an important component of a happy retirement. 64% share the belief that good financial planning can help ensure that there is less need to worry about money in retirement
- However, two thirds (67%) say they are either very or slightly worried about how they will cope financially in retirement
- Despite these concerns, 60% of Taiwanese see retirement as a time of freedom and 41% equate this period of life with happiness
- Over a fifth of respondents believe that having work they enjoy is an important component of a happy retirement – suggesting the Taiwanese may be waking up to the reality of increasing longevity
- Individuals have felt the impact of the recent global economic crisis, with 44% citing its effects on their investments and savings, 48% noting the low level of interest rates on these savings and 43% concerned about increased job insecurity
- Younger generations are showing increasing levels of concern. They are worried about their own retirement, but also about the costs of looking after dependents, including both paying for their children's education and looking after their parents in their retirement
- 63% of Taiwanese do not feel they have saved enough. Additionally, they are uneasy about the effect of unforeseen events on their savings
- Worryingly, 17% of individuals do not know where the main source of their retirement income will come from
- The Taiwanese show a preference for self-sufficiency in their financial decision making and they are likely to use informal advice channels. Half of respondents speak to family and friends for financial advice and over a third refer to online research and websites to aid them in their decision making
- 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 those 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 National Statistics Office, Republic of China (Taiwan) reports that in the past 30 years there has been a significant change in the age profile of the Taiwanese population, with the percentage of the population aged over 65 more than doubling from just 4.3% in 1980 to 10.6% in 2009. However, by 2050 it is predicted that this figure will more than treble so that 36.9% - over a third - of Taiwan'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 Taiwan has dropped substantially during this period from 32.1% of

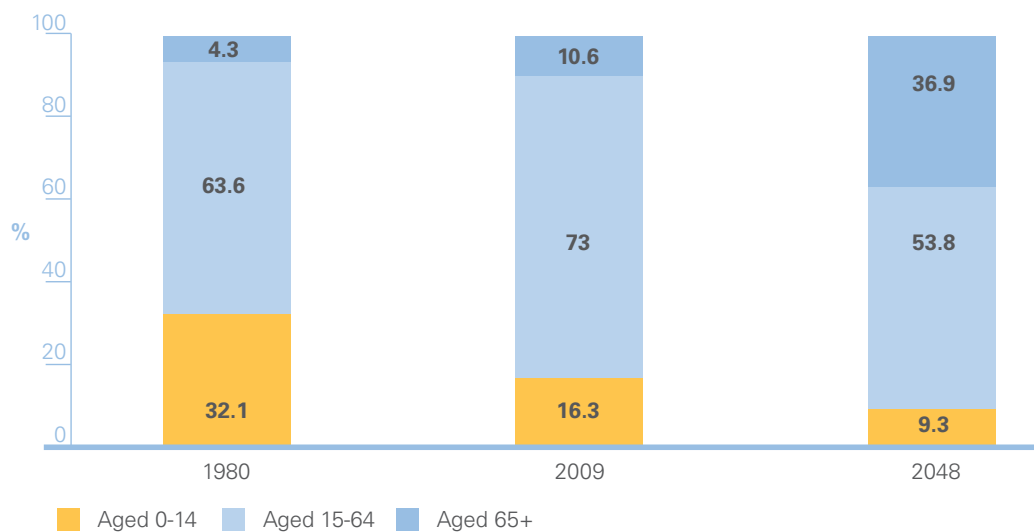
the population to 16.3%. Furthermore it is predicted to drop still further to a low of 9.3% by 2048.

In the short term we see a temporary increase in the size of the working age population in Taiwan. However, as we look to the future, we see a squeeze on this demographic and on the state as they look to provide retirement incomes and healthcare for the ageing population.

Overall, the working age population is not predicted to grow sufficiently in order to support this extra demand from older members of the population. As these demographic trends work to increase reliance on individual retirement savings (with decreasing fertility rates exacerbating the picture), adequate planning and preparation for retirement will become more important than ever.

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 universal challenge of funding an ageing society, individuals in Taiwan remain upbeat in their perception of retirement.

60% see retirement as a time of freedom with 41% also equating this time with happiness.

Despite this, almost a third (31%) see retirement as a time of potential financial hardship and poor health (29%).

When considering what elements contribute to achieving a happy retirement, keeping fit is considered the most important factor with over three quarters (76%) of respondents saying that this is important.

Not having to worry about money in retirement also scores highly as a requirement for a happy retirement in Taiwan with 69% saying that this is important.

With 64% sharing the belief that good financial planning is important, we see a very good understanding that planning can help ensure that there is less need to worry about money in retirement.

Additionally, the Taiwanese appear to act upon their concerns, with 60% having a financial plan in place.

However, despite these encouraging results, two thirds (67%) of respondents are either very or slightly worried about how they will cope financially in retirement – something which is increasingly prevalent amongst women in the younger generations.

Figure 2: How people perceive retirement

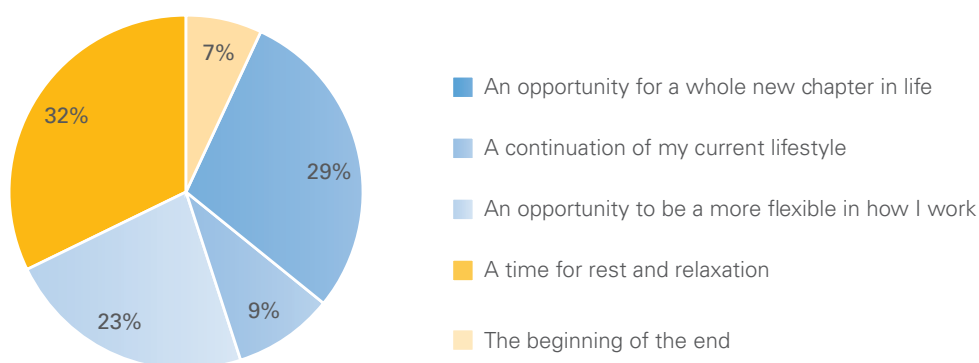
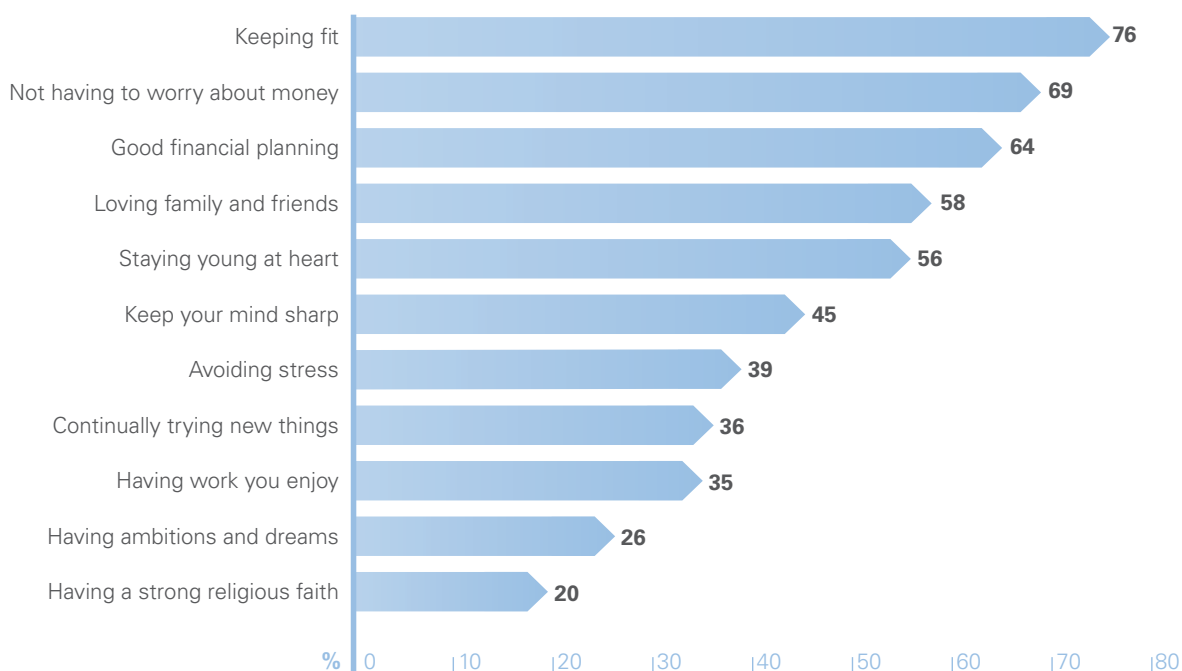


Figure 3: What is extremely important to a happy retirement



Over a fifth of respondents believe that having work they enjoy is an important component of a happy retirement. This suggests that the Taiwanese may be waking up to the reality of increasing longevity – a reality where working into later years is not unusual.

People in Asia generally think that they will be better off in retirement compared to their parents' generation, but this view is less strongly held in Taiwan. Whilst just over a third (35%) of respondents feel they will be slightly or much better off, a quarter think they will enjoy a retirement comparable with that of their parents and 39% believe they will in fact be worse off than their parents' generation.

The predominant reason cited for this perceived declining quality of retirement was a lack of savings (56%). People feel they are not saving enough and they understand that increased longevity requires them to save more. The Taiwanese have also felt the impact of the global economic crisis, with 44% citing its impact on their investments and savings. In addition, 48% of respondents are worried about the effect of low interest rates on their savings while 43% are concerned about increased job insecurity.

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

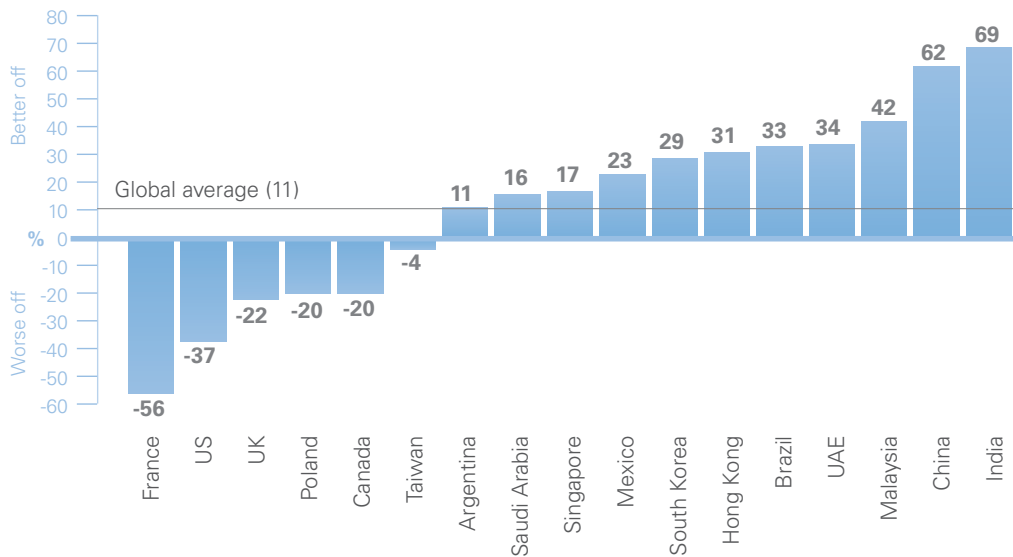
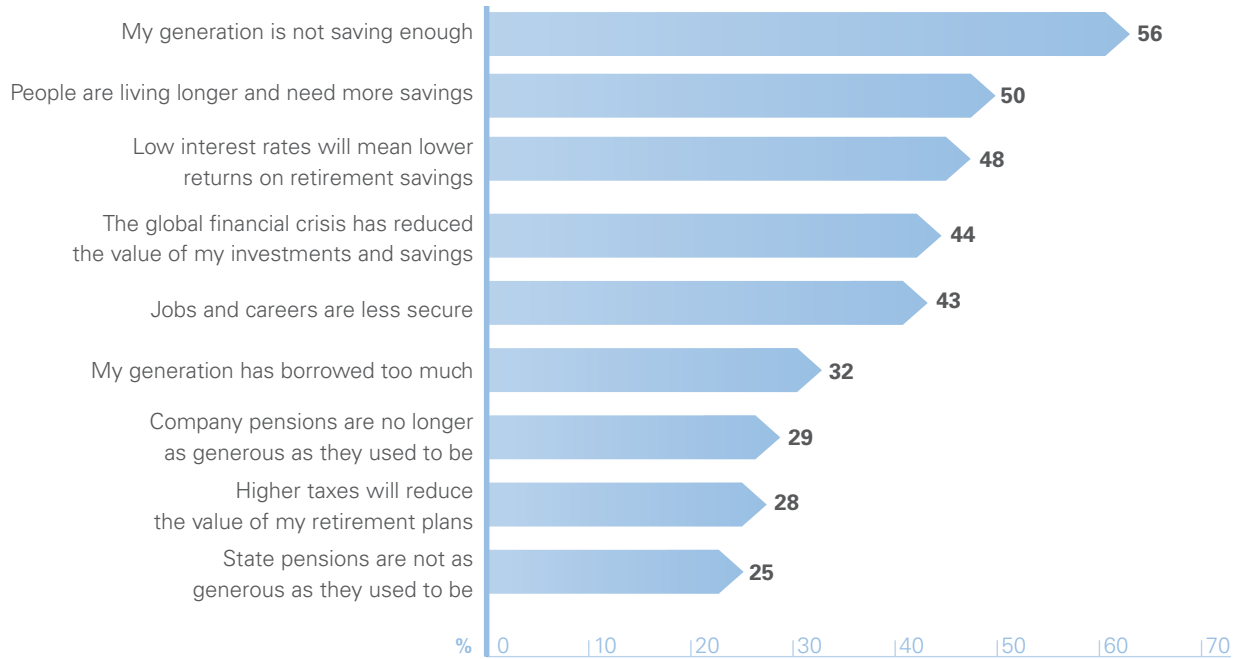


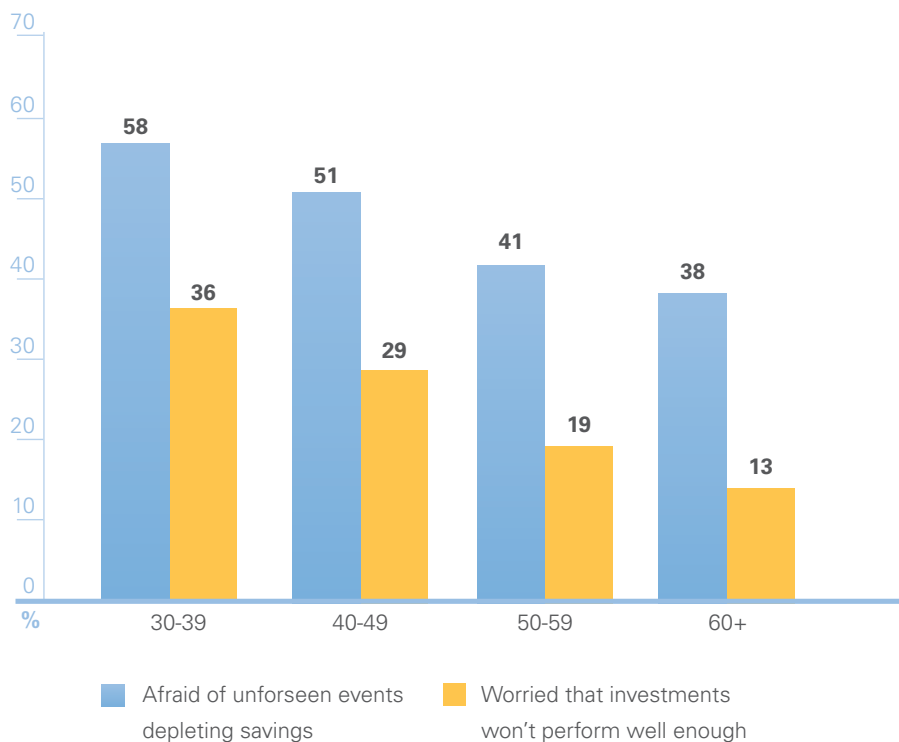
Figure 5: Why will you be worse off in retirement than your parents' generation?



As the population ages, the shape of retirement is changing rapidly in Taiwan. Fortunately, people in Taiwan seem to grasp the ramifications of rising

longevity and the fact that their savings may be insufficient to make up for declining state pensions.

Figure 6: Younger generations are more worried about the effects of unforeseen and uncontrollable events on their limited savings

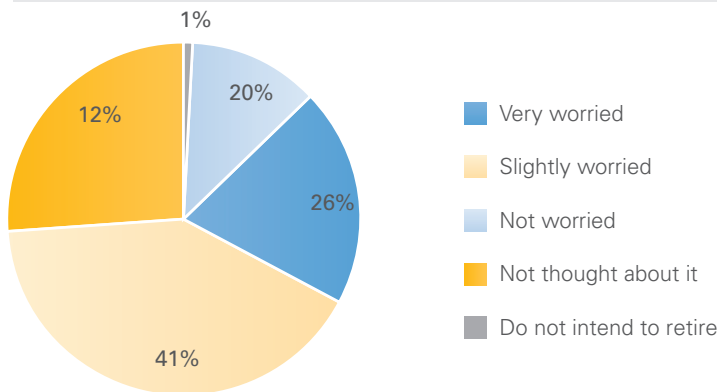


Shortfalls in retirement preparedness

Our findings reveal a significant 'preparedness gap' amongst respondents; 93% believe that having enough money to live on in retirement is important, but only 60% say they feel adequately financially prepared. This leaves a gap of 33% who are not adequately prepared.

The gap in Taiwan is further evidenced by how worried people are about being able to cope financially in retirement: 67% said they are either slightly or very worried.

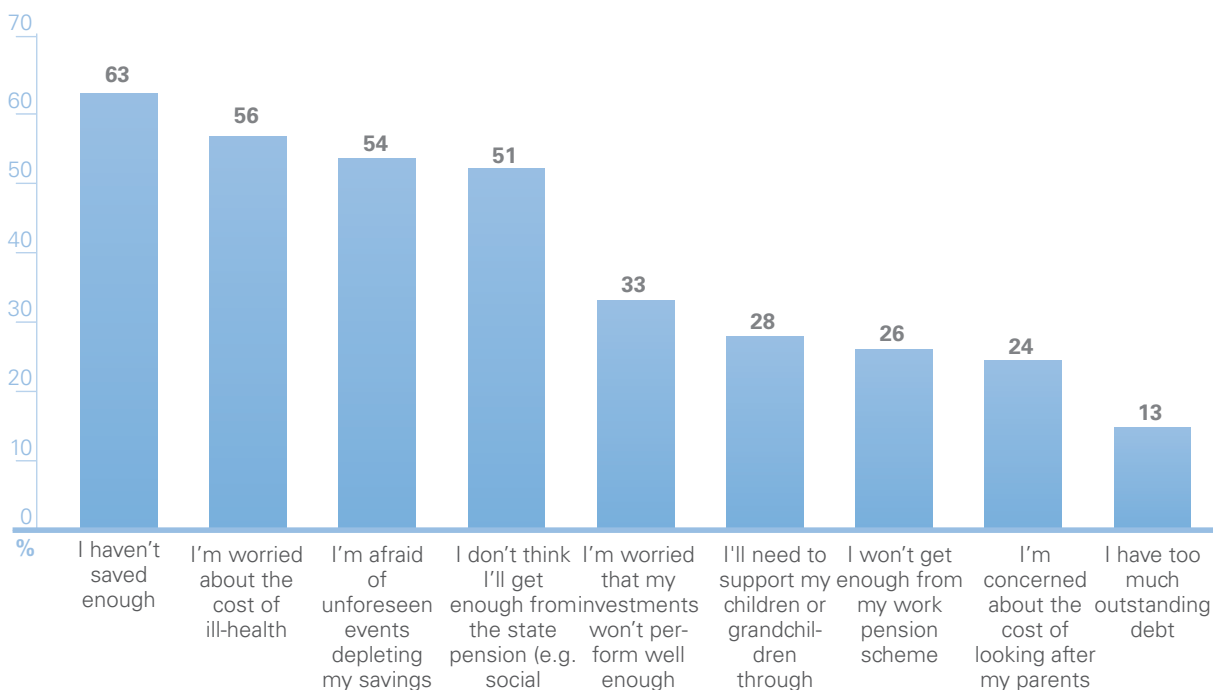
Figure 7: Levels of concern about coping financially in retirement



The younger generations are showing increasing levels of concern. Not only are they cost of looking after dependents, both paying for their children's education (31% of individuals in their 30s) and looking after their own parents in their retirement (26% of those in their 30s).

Additionally, these younger respondents are concerned about the effect that unforeseen events will have on their savings – which in themselves they feel to be insufficient. 63% of Taiwanese individuals feel they have not saved enough. Better preparedness for retirement will help to alleviate these concerns.

Figure 8: Why people worry about coping financially in retirement



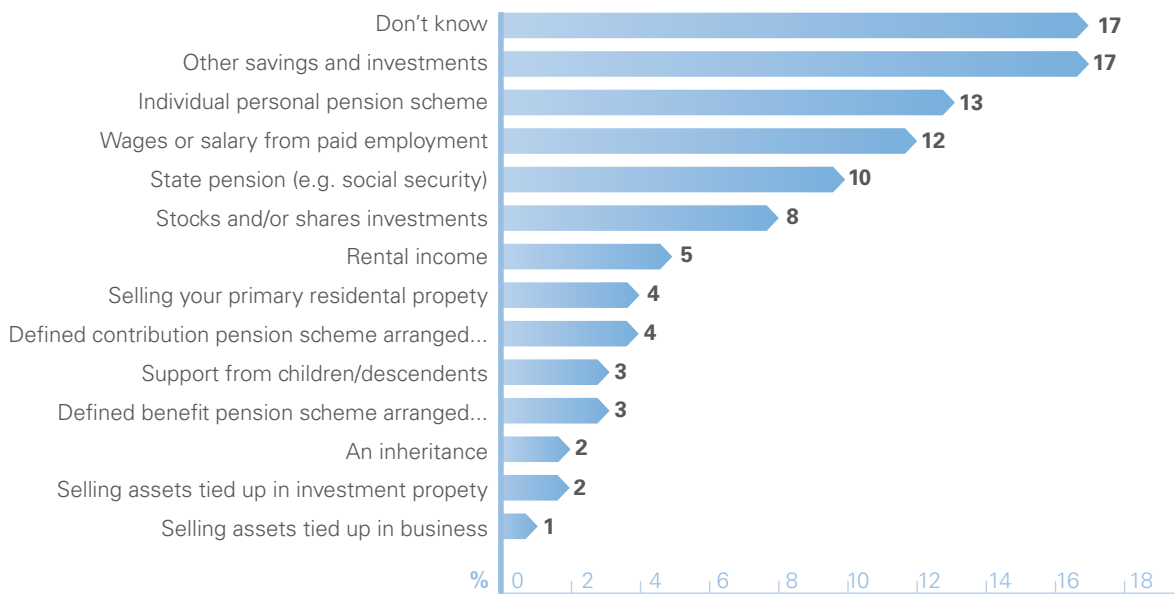
A worrying finding was that 17% of respondents do not know what their main source of income will be in retirement. This is a problem more evident amongst the younger generations with 19% of those in their 30s unsure of where their main source of retirement income will come from compared with 7% of those in their 50s.

There are indications that Taiwanese individuals are waking up to the necessity of sourcing retirement incomes from places other than the state or family: 13% of respondents plan to rely on personal pension schemes, while 17% see other savings and investments as providing for their retirement.

Interestingly, even among younger respondents, there is a growing acknowledgment that wages or salary from paid employment will form an important element of retirement income. This suggests that individuals are waking up not only to the need to diversify their retirement income streams, but also to the effects of increasing longevity on retirement ages.

Overall, there is at least recognition amongst our respondents that there is cause for concern and this awareness is the first step on the way to taking action.

Figure 9: Many don't know where their retirement income will come from



The power of planning:

Table 1: The four consumer types

Global (% of global respond- ents)	Taiwan (% of Taiwanese respond- ents)	Consumer types
38%	33%	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%	7%	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%	31%	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 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 and fortunately, financial planning behaviour in Taiwan exceeds the global average with 60% having financial plans.

However, worryingly, 40% of individuals in Taiwan have no financial plan, with a third of all respondents having also not sought financial advice. This suggests that many individuals are not preparing enough for their financial futures. It does however also suggest that there is an opportunity for many individuals to increase their preparedness through making a financial plan or seeking professional advice which will go some way to plugging the preparedness gap.

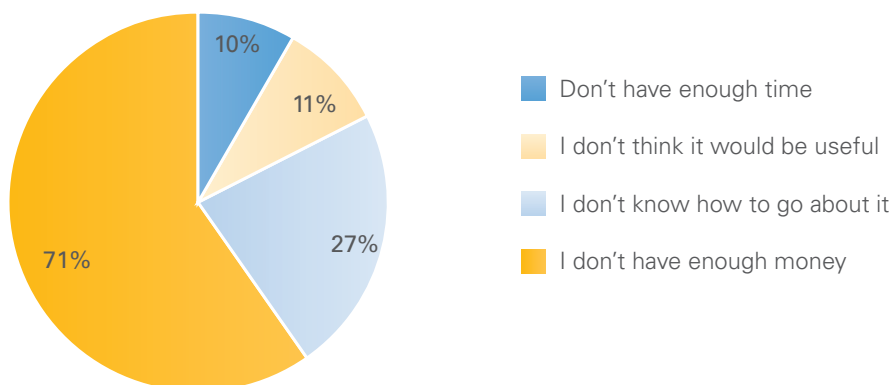
Taiwanese respondents also show a strong preference for retaining ultimate control of their financial

decisions. Over half of respondents said they prefer to manage their own finances and make all decisions by themselves (53%). A further third of respondents (36%) said they prefer to make decisions themselves after receiving independent financial advice.

Despite the encouraging number of individuals with a financial plan in place, 40% of respondents don't have a plan. The overwhelming reason cited for not having one was insufficient money to do so (71%), while over a quarter (27%) said they did not know how to go about making a plan.

Encouragingly, among those that don't have a plan in place, only 11% don't think it would be useful. This suggests that most individuals would take the opportunity of making a plan if they felt able to do so.

Figure 10: Lack of money and time are reasons behind not having 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

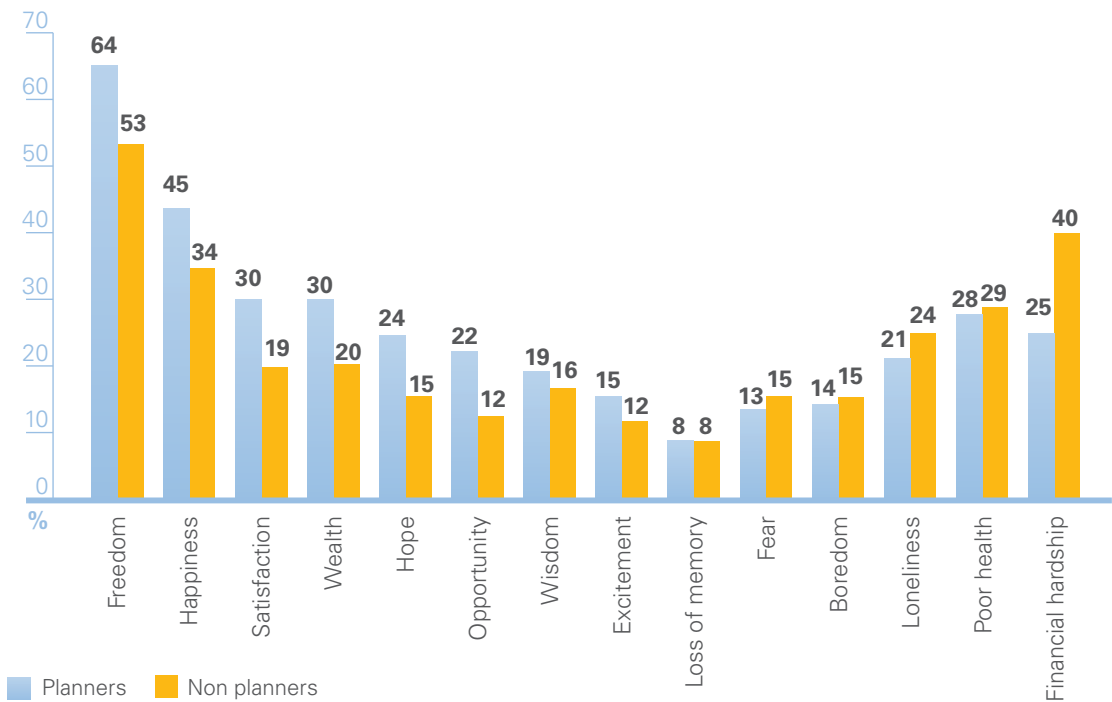


Table 2: Planners have more retirement savings and investments

	Taiwan 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) Taiwan Dollar	900,000	550,000	479,000	1,000,001	1,170,001	542,000	1,045,000
% of global average	100%	61%	53%	111%	130%	60%	117%

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

Planners not only hold a wider range of retirement product holdings than non-planners but also have on average 117% of the retirement assets of the average

individual in Taiwan, and almost double the assets of non-planners.

The advice advantage

Those who have a financial plan in place and have 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’. Whilst it is difficult to separate cause and effect, these findings also hold true even when controlling for age and income.

Currently we see a preference in Taiwan for self-sufficiency in retirement income planning with over half of respondents preferring to manage their own finances and to make independent decisions (53%). However, over a third of individuals (36%) consult a financial adviser before making their own financial decisions.

When making financial decisions, individuals utilise a range of sources for information and guidance: over half use informal channels of advice such as speaking to family and friends (51%) and over a third (36%) refer to online financial research and websites.

Given the benefits enjoyed by planners and those who have taken professional advice, and faced with declining state and employer pensions, many people in Taiwan would benefit financially later in life from putting financial plans in place.

Conclusion

As with many countries studied in *The Future of Retirement*, Taiwan is faced with a rapidly ageing population and this demographic profile is reflected in the attitudes of its population towards retirement. Many people can see that it is increasingly unlikely that state pension schemes will be able to adequately meet their retirement needs.

Taiwan is a country which appears in line with Western countries in terms of the attitudes of its population towards retirement. Some individuals look to the future with favourable expectations of a more comfortable future than that enjoyed by their parents, but concerns exist for many around a lack of preparation for increased longevity.

Individuals recognise that they will not be able to rely solely on the state pension. However there are concerns that the alternatives available will not provide the level of retirement income desired. Most of the respondents highlighted a concern of not having enough savings, and more than half of those surveyed had not sought any financial advice at all.

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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