

The Future of Retirement

The power of planning



UAE Report

HSBC 
The world's local bank

Foreword

Across the globe including the UAE, financially educated people are taking a more active interest in structuring their wealth in an efficient way. We are seeing these customers want to receive quality advice that they can trust, empowering them to make the right decisions for the years ahead.

The data gathered has revealed key differences in opinion of UAE residents from the developed world, in terms of their view on retirement. UAE residents are particularly positive on their views of retirement, this being down to living and working in a tax free environment, enabling a large number of residents to save and plan for their financial futures. UAE residents are also part of the developing economies phenomenon where they are much better off than their parents – this is in contrast to the opinions of people from developed Western world.

It is important to note that in today's economy every decision made will have a financial planning component to it. The data also shows that UAE

residents who do financial planning feel a great sense of freedom associated with retirement versus non-planners who see financial hardship as part of retirement.

The data also revealed the channels UAE respondents go to when considering financial planning - family and friends form a key part of their network as well as research conducted on the internet.

At HSBC UAE, we want to be a key part of the customer's financial planning journey, ensuring that our financial advisors are pro-active and engage with their customers. We have to ensure that our advisors provide customers with timely information and advice that they require in order to help them make informed decisions.

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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 1,009 UAE respondents, explores how households in UAE are likely to respond to the rapidly changing shape of retirement over the coming decades. All data referred to in this country report relates to the UAE unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- 37% of people in UAE see retirement as a new chapter in life. For many this new chapter will be about embracing rest and relaxation (31%)
- 70% of respondents felt that good financial planning was essential for a happy retirement, whilst a further 55% thought that not having to worry about money was essential for a happy retirement
- People in the UAE are optimistic about retirement, with 60% of people expecting to be better off in retirement than their parents. Despite this there is a concern amongst some that they are not saving enough for retirement (60%)
- The global financial crisis has had a significant impact on people's outlook on retirement, with 55% of people feeling its effect on job security and 42% saying it has had an impact on their investments
- Nearly one in five people do not know their main source of retirement income
- Those who plan for their financial futures are both better prepared for retirement and feel more positive about their futures
- Respondents are more internet-savvy than the worldwide average, with 45% in the UAE using this advice source
- Older generations in the UAE were more likely to have financial plans and be seeking financial advice compared to younger generations
- Those who financially plan and seek professional financial advice are the best prepared for retirement of all, with over three times (335%) more than the average in retirement savings
- Independent financial advisers are the largest source of advice in the UAE with 38% of advice-seekers consulting one; banks were the second largest
- 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

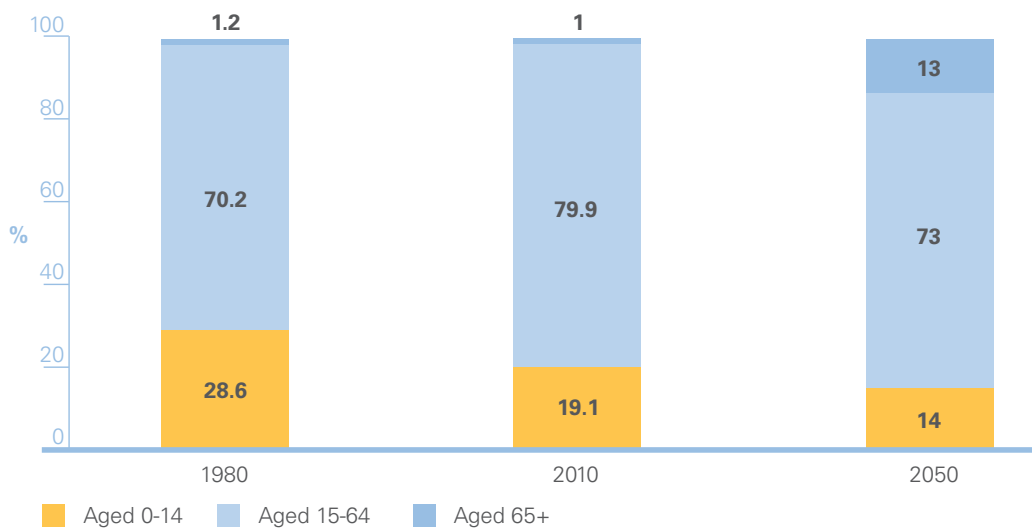
Retirement landscape

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 United Nations World Population Prospects data shows that in the last 30 years, the process has been relatively stable with the percentage of the population aged 65+ actually falling from 1.2% in 1980 to 1% in 2010. However, this is set

to change: by 2050, 13% of the population is projected to be aged 65 and over. This represents a squeeze on those of working age, and on the state, to have to provide retirement incomes and healthcare for the ageing population. Adequate planning and preparation for retirement will become more important than ever as the need to depend on retirement savings grows.

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 universal challenge of funding an ageing society, people in the UAE remain optimistic about their future retirement.

Over one third see retirement as a new chapter in life (37%), whilst 31% associate retirement as a time for rest and relaxation.

When considering what constitutes a happy retirement 70% said good financial planning, and 55% thought that not having to worry about money

is extremely important. Keeping fit and healthy were deemed important amongst people in the UAE for a happy retirement.

Only 20% associate retirement with financial hardship; however, this figure is 24% amongst women compared to just 18% for men.

Married people in the UAE seem less secure, with one in five (21%) thinking old age will bring financial hardship.

Figure 2: How people perceive retirement

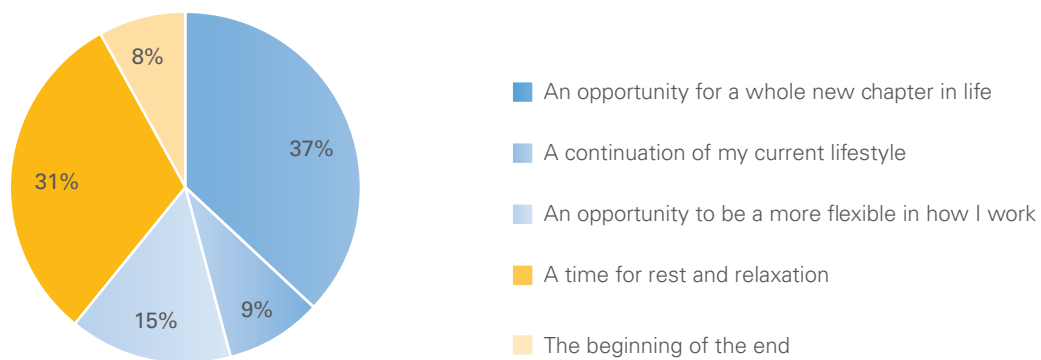
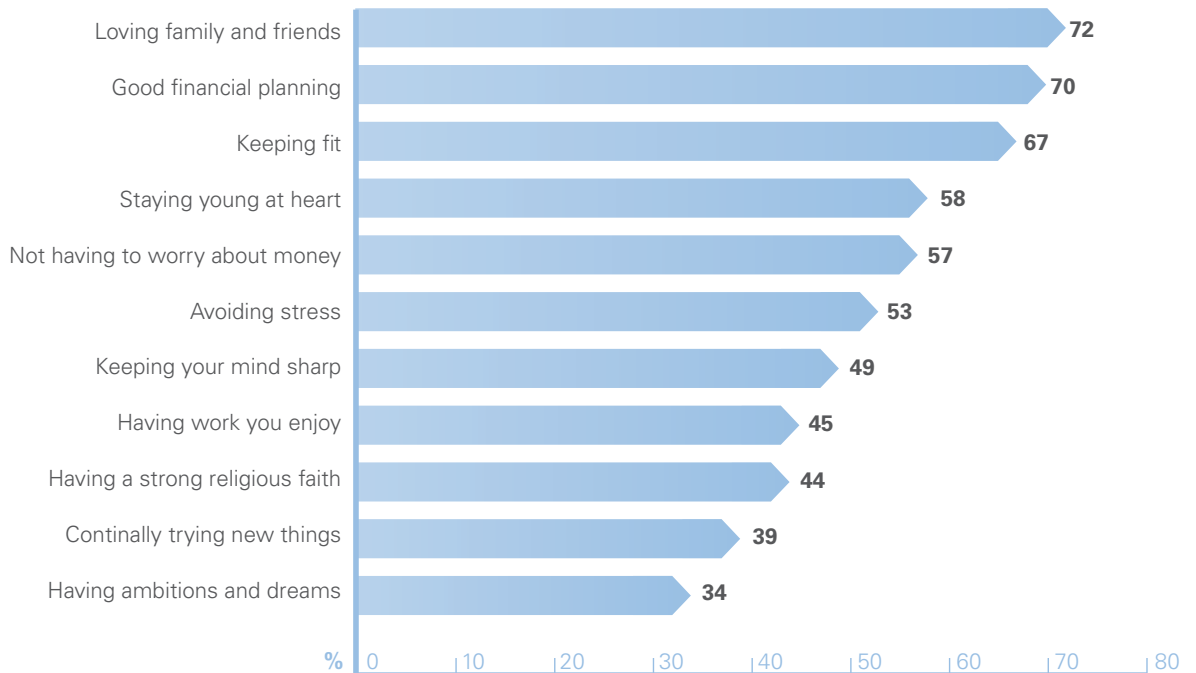


Figure 3: What is extremely important to a happy retirement



The fact that 72% believe that having loving family and friends is important in retirement suggests that whilst demographic changes continue to shape retirement trends, the role of family and friends remains an important support structure for those in retirement.

Nearly 60% of people in the UAE expect to be better off in retirement than their parents, with only 21% thinking the reverse.

For those who thought that their generation would be worse off, the overwhelming reason for this was due to the fear that people were not saving enough for retirement (60%). The uncertainty of the global financial crisis has also made people in UAE concerned about the security of their careers (55%), whilst also reducing the value of investments 42%.

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

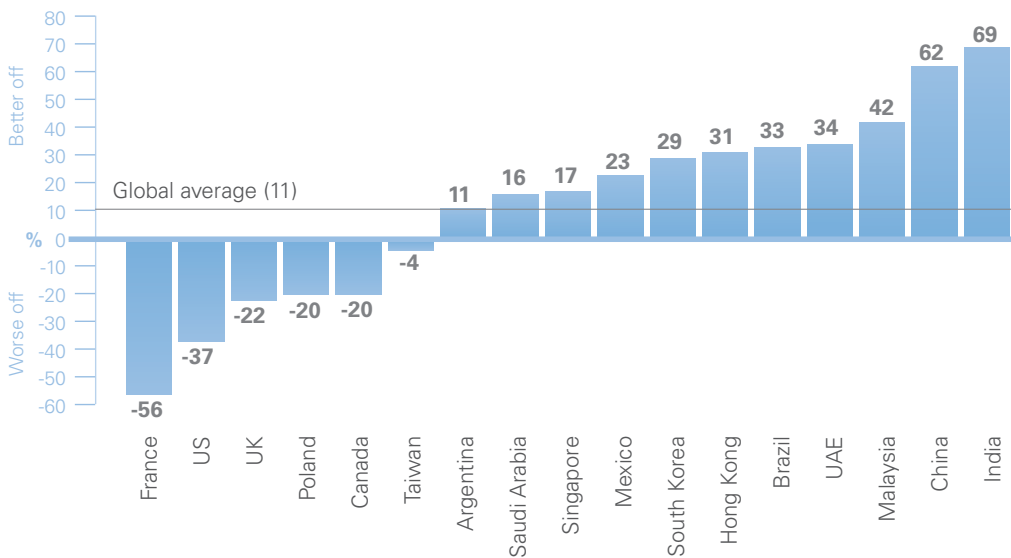
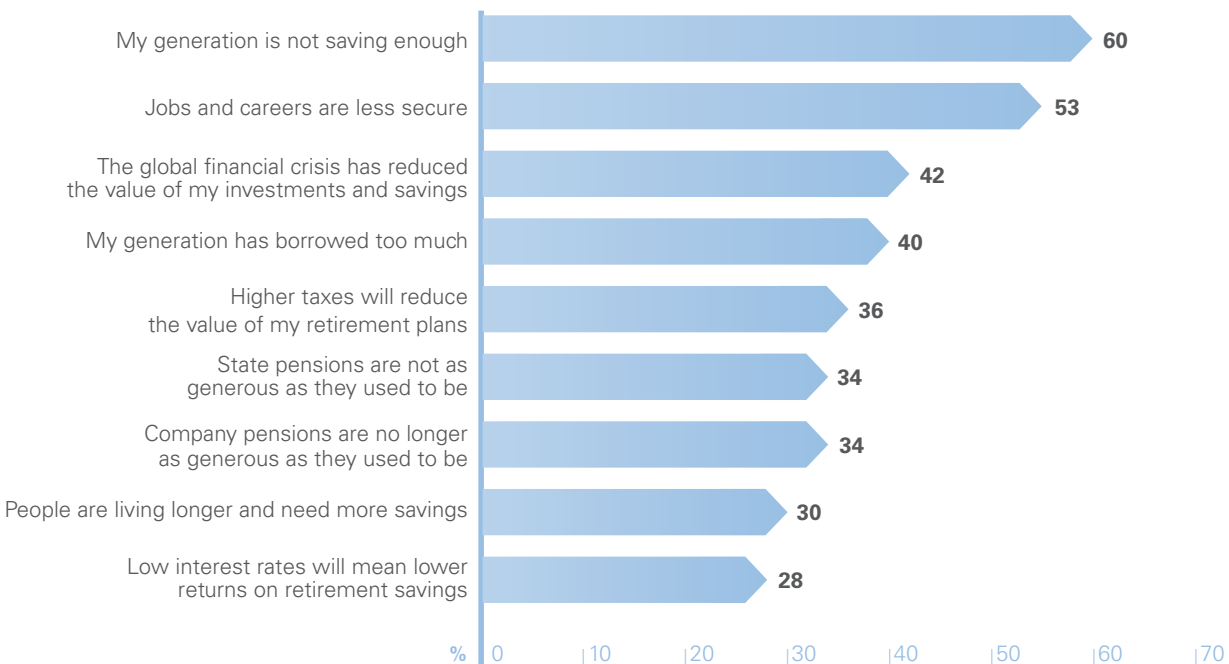


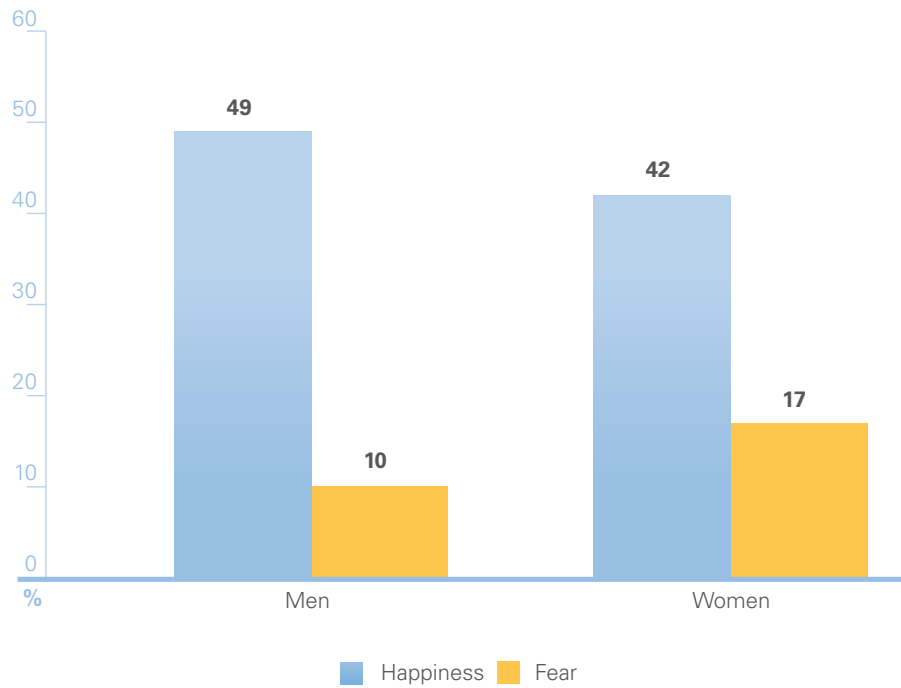
Figure 5: Why will you be worse off in retirement than your parents' generation?



The emerging picture is therefore one of a sense of opportunity for retirement, but also a realisation that things are not quite what they used to be. Demographics are inexorably changing the shape of retirement, and the impact of the financial crisis has

brought matters to a head perhaps sooner than they would have otherwise. For men in the UAE, there is much more optimism about retirement than for women, who are more likely to associate retirement with fear.

Figure 6: **Men more optimistic about retirement than women**

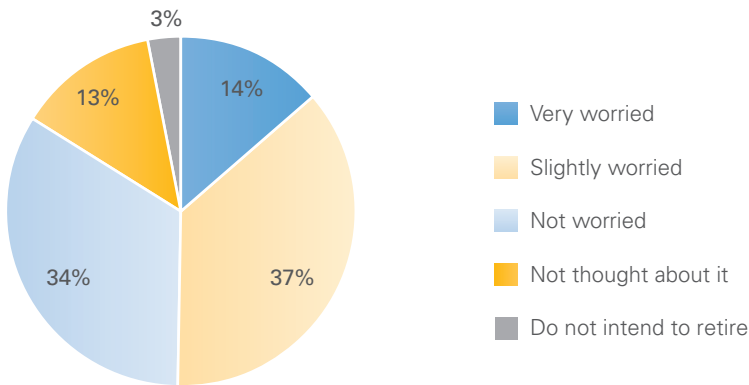


Shortfalls in retirement preparedness

Our findings reveal a 'preparedness gap' amongst respondents. 91% of those we surveyed viewed having enough money to live on in retirement as important or very important, but only 40% said they felt adequately financially prepared for retirement. The

preparedness gap in the UAE is further emphasised by how worried people are about being able to cope financially in retirement: 51% said they were either slightly or very worried.

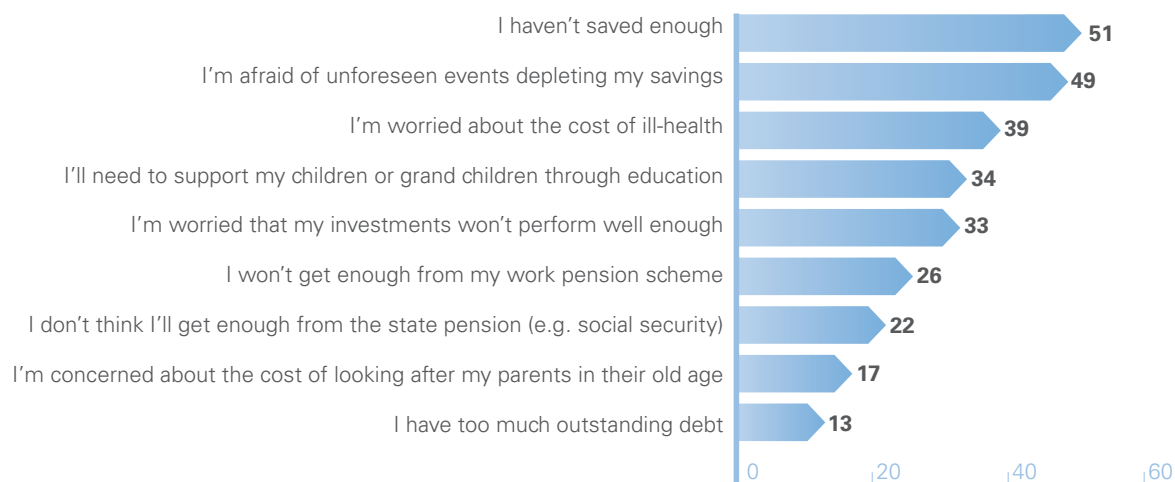
Figure 7: Levels of concern about coping financially in retirement



The biggest reason why people are concerned about funding retirement is because they don't think that they are saving enough for retirement (51%). This concern is greatest among people in their 30s (54%), suggesting that younger age groups understand the need for personal responsibility, encouragingly 53% of people in their 30s have a financial plan in place. Whilst 92% of women felt that it was important having

financial protection to guard against unexpected events, only 22% felt very prepared for such eventualities. In fact, over half of them (53%) raised concerns about unforeseen events depleting their savings in retirement, suggesting that many still do not feel adequately prepared, confirming this finding still further.

Figure 8: Why people worry about coping financially in retirement



A worrying finding was that 18% of respondents do not know what their main source of income will be in retirement. 16% of people will be reliant on other savings and investments rather than pensions in retirement. In addition to this many in the UAE envisage working into retirement to support themselves and their family as 12% expect income from paid employment to be their main source of retirement income. A further 12% expect income

from a rental property to support them in retirement, which is the highest level across all countries surveyed.

The 'preparedness gap' is real. However, 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: Uncertainty over retirement income



The power of planning

Table 1: The four consumer types

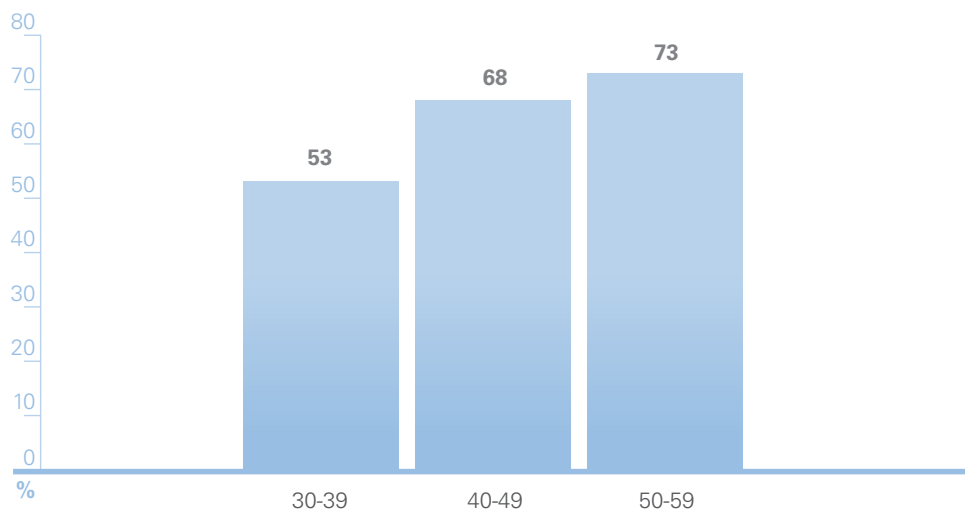
Global (% of global respondents)	UAE (% of UAE respondents)	Consumer types
38%	36%	Non-planners: disengaged. These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	13%	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%	25%	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%	26%	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.

Much greater emphasis will be placed on individual preparations for retirement in the future, and encouragingly, financial planning behaviour in the UAE is above the global average, as 57% have financial plans. Older generations in the UAE were more likely to have a financial plan, 73% of people in their 50s have a financial plan compared to 57% of people in their 30s. However, only 39% of people in the UAE have sought

professional financial advice. Like financial planning, older generations are more likely to have sought advice than younger people in UAE.

Given that younger generations will have to support themselves for a longer period in retirement and due to increasing life expectancy, it is important that they plan for their retirement like the older generations are doing.

Figure 10: Older generations 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

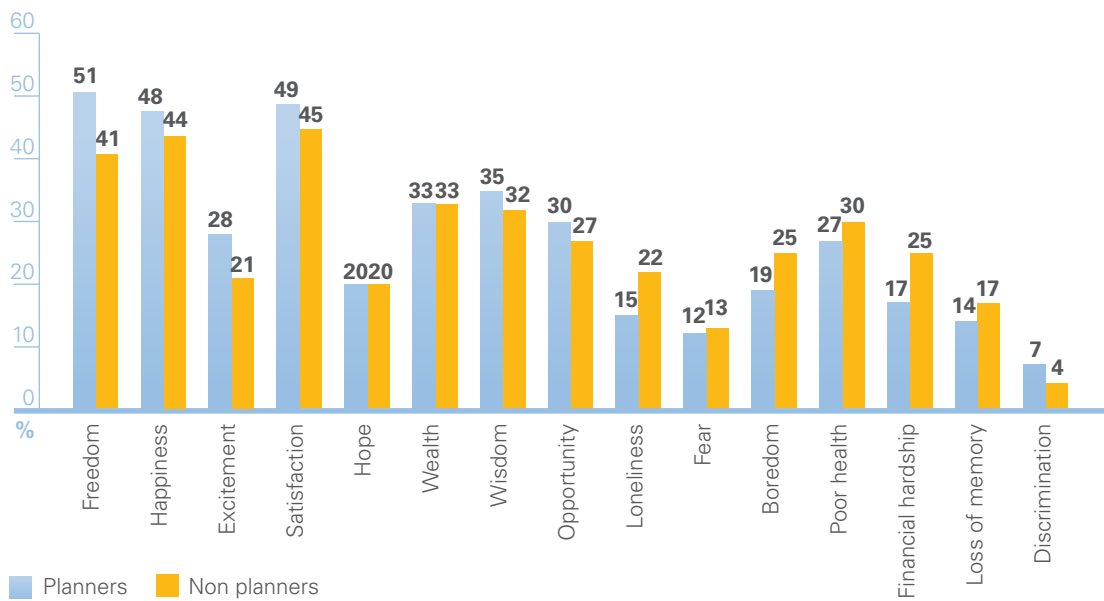


Table 2: Planners have more retirement savings and investments

	UAE 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 UAE dirham	310,000	100,000	600,000	197,500	1,040,000	150,000	600,000
% of global average	100%	32%	194%	64%	335%	48%	194%

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

The retirement savings of respondents in the UAE demonstrate the ‘planning premium’. Once we control for income, planners hold nearly twice (194%) of the average retirement holdings, whilst non-planners have

less than half (48%). This shows that there is a strong planning premium in the UAE in material financial terms.

The advice advantage

Alongside the planning premium, we also find that those who have a financial plan in place *and* seek professional advice are the best off financially. This group have the largest retirement assets out of all our identified consumer types. This demonstrates that along with the planning premium there is a further benefit for those who combine planning with professional advice – the advice advantage. Advice-seeking planners have over three times (335%) the average retirement assets. This advantage is not merely due to planning advice-seekers being wealthier or older than the UAE average – when controlling for age and income the advice advantage is still present.

Currently, those who seek advice show a preference for independent advice channels; 38% have visited an independent financial adviser. Banks are the second most popular source of advice. An increasing trend is the emergence of informal sources of advice such as the internet (47%) and speaking with friends and family (56%) when planning personal finances. Given the clear advantage enjoyed by the planners and those who have sought professional advice, many people in the UAE would benefit from having a clear route map to putting financial plans in place.

Conclusion

The UAE began the 21st century in a wave of optimism. High oil prices and a fast developing financial services sector meant it became one of the richest countries per capita in the Middle East and in the world. The Emirates have great wealth but do not necessarily have large social safety nets, and it is up to individuals to plan for their own futures. The Dubai debt crisis showed that the unforeseen events feared by our respondents are very real and constantly have the potential to ruin preparation for retirement.

As such, it is encouraging to see that the majority of respondents are planning for their future, as planning should be considered the first step towards guaranteeing that many more households will be able to enjoy in the future the freedom in retirement to which they aspire. However, worries about unforeseen events and job security are causes of major concern about retirement and need to be better protected against.

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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