

The Future of Retirement

The power of planning



US Report

HSBC 
The world's local bank

Foreword



Welcome to the Future of Retirement, The power of planning, HSBC's sixth report in a series of global studies exploring how people respond to the challenges of retirement and financial planning.

HSBC is focused on anticipating and understanding changes that impact our customers, society and the world at large. Scientific and medical advances continue to help increase human lifespan and, in general, the world's populations are aging. This presents both opportunities and challenges to nations, corporations and, of course, families and individuals.

Planning for the future means different things to different people, but this report reminds us that key to any successful plan is doing the research and then taking action. HSBC's Future of Retirement report provides the basis for analyzing the effects that shifting global demographics, recent economic developments and life after the financial crises have

had on our customers' efforts to plan and take the necessary actions to create their own sound financial future.

HSBC is proud to provide our customers with this comprehensive study to help them make informed decisions about retirement, savings, insurance, investments and succession planning. The study provides surprising insights that enable HSBC to shape financial solutions to help our customers meet their increasingly complex financial needs.

This research is an invaluable resource establishing HSBC as an authority on the complex financial issues relating to aging and increasing life expectancy. Our goal is to partner with our customers and empower them to improve their finances now and into the future.

Patrick Cozza
CEO and Regional Head,
HSBC North America Insurance



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 1,187 US respondents, explores how households in the US 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 US unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- 54% of Americans see retirement as an age of freedom. Married couples are the most confident of this. Even so, 49% of respondents did not feel financially prepared for retirement
- 64% of respondents are concerned that they have not saved enough for retirement, with 59% expecting to be worse off than their parents in retirement – due to the uncertain labor market and the decline in value of social security
- Women associate retirement with freedom – more so than men – but women are also more likely than men to associate it with financial hardship
- 65% of Americans believe that financial planning is important to a happy retirement – but only 36% are actively planning financially for their retirement
- One in four people do not know what their main source of retirement income will be
- Those who plan for their financial futures are better prepared for retirement and feel more positive about their futures
- Americans are reliant on informal sources of guidance when planning finances, such as online research, speaking with family and friends or reading personal finance media
- Insecurity in the labor market in the US is having a significant impact on how people think about retirement
- US respondents are less likely than their global peers to be financial planners, but they are more likely to take professional financial advice
- Those who financially plan and seek professional financial advice are the best prepared for retirement of all, with three times more in savings than the average US respondent
- Independent financial advisers are the largest source of advice in the US with 44% of advice-seekers consulting one; banks are second most popular
- 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

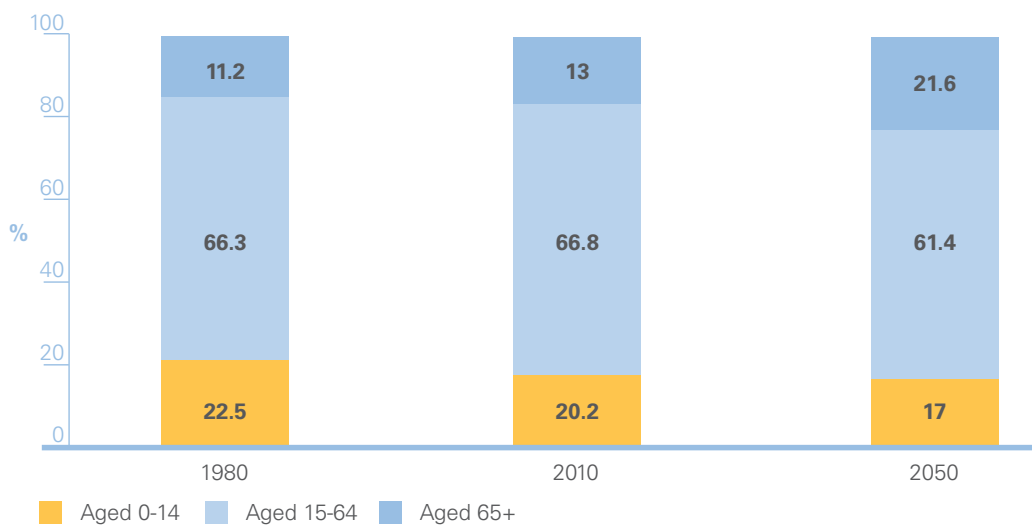
Retirement landscape

The retirement landscape for the baby boomer generation, which is now entering retirement, will be quite different to the one that their parents enjoyed in the past and that their grandchildren will experience in the future. Data from the United Nations shows that in the last 30 years, the demographic profile of the US has been relatively stable, with the percentage of the population aged 65 and over increasing just slightly from 11.2% in 1980 to 13% in 2010.

However, this is set to change: by 2050, 21.6% 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 dependence on individual retirement savings grows.

Figure 1: The baby-boomers enter 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 US remain upbeat in their perception of retirement.

Just under half see retirement as a new chapter in life, whilst 54% associate retirement with freedom and 44% with happiness.

When considering what constitutes a happy retirement, almost three quarters of respondents (73%) said 'not having to worry about money', and 65% see good financial planning as extremely important.

Only 35% associate retirement with financial hardship. However, men aged 40-49 (25%) are more optimistic than women of that age range (39%).

There is very little difference in attitudes between married and single people in the US as to how secure they feel about their finances in retirement. Interestingly, 58% of married couples associate retirement with freedom, compared to 48% of single people.

Figure 2: How people perceive retirement

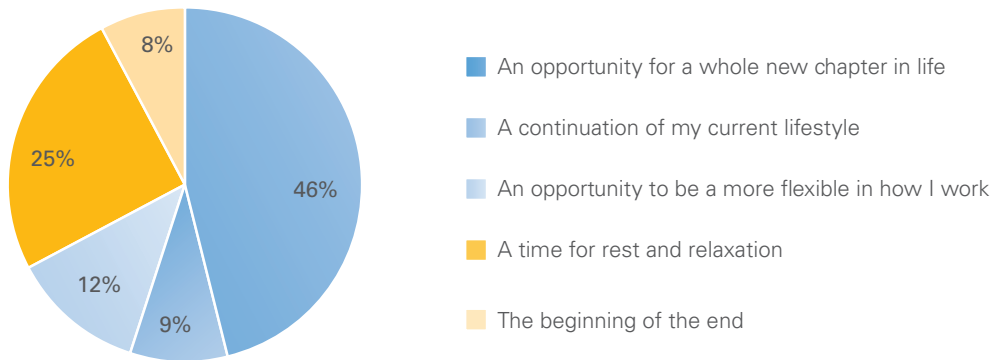
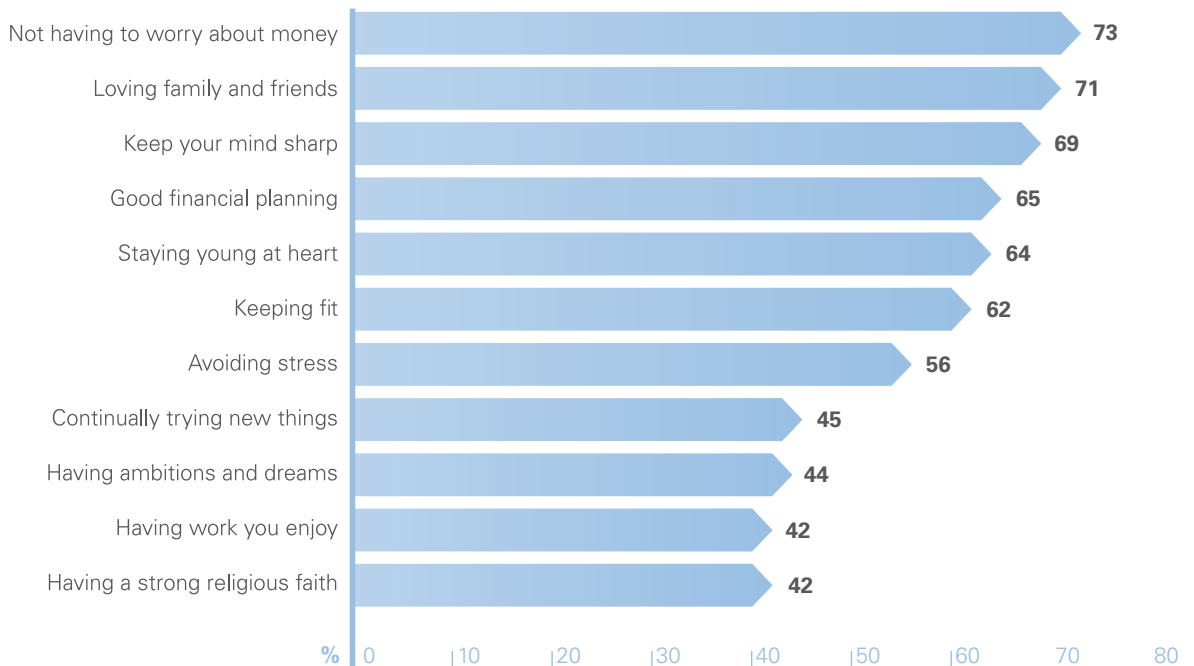


Figure 3: What is extremely important to a happy retirement



Nearly 75% of respondents in the US stated that not having to worry about money is key to having a happy retirement. To make that happen, 42% believe that having work you enjoy is extremely important. This

demonstrates that US respondents are adapting to the new reality of longer, less secure retirement in their willingness to consider flexible work.

One-quarter of Americans expect to be much worse off than their parents in retirement. This rises to 30% amongst those without a financial plan. 60% said that this is because of the uncertainty in the job market, while 53% are concerned that their generation has not saved enough for retirement.

A high number (51%) feel that a decline in social security, combined with less generous company pensions (43%), is a key reason for their generation being worse off in retirement than their parents. The retirees of tomorrow face a more uncertain future; as a result there is a sense that a 'golden age' has passed and that the future will hold greater challenges.

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

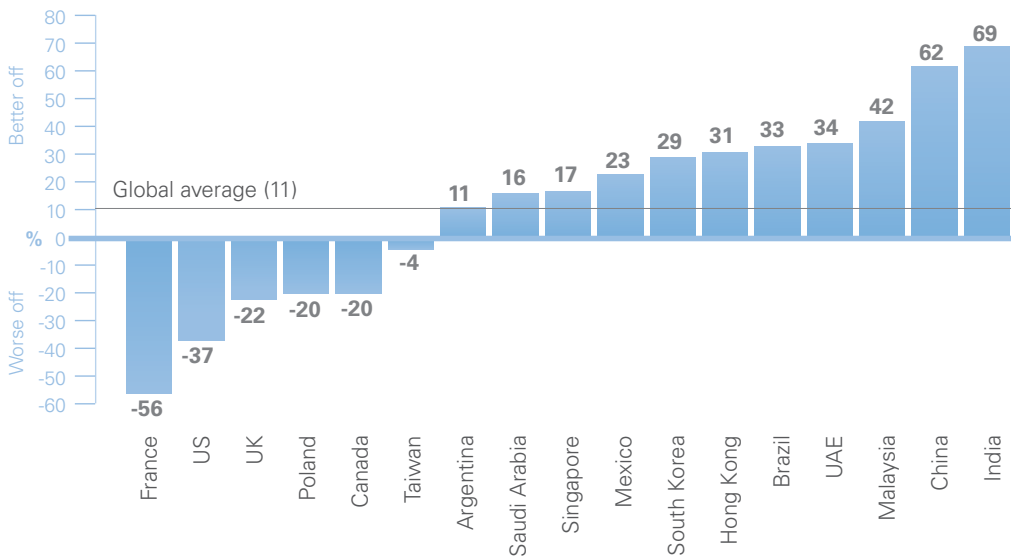
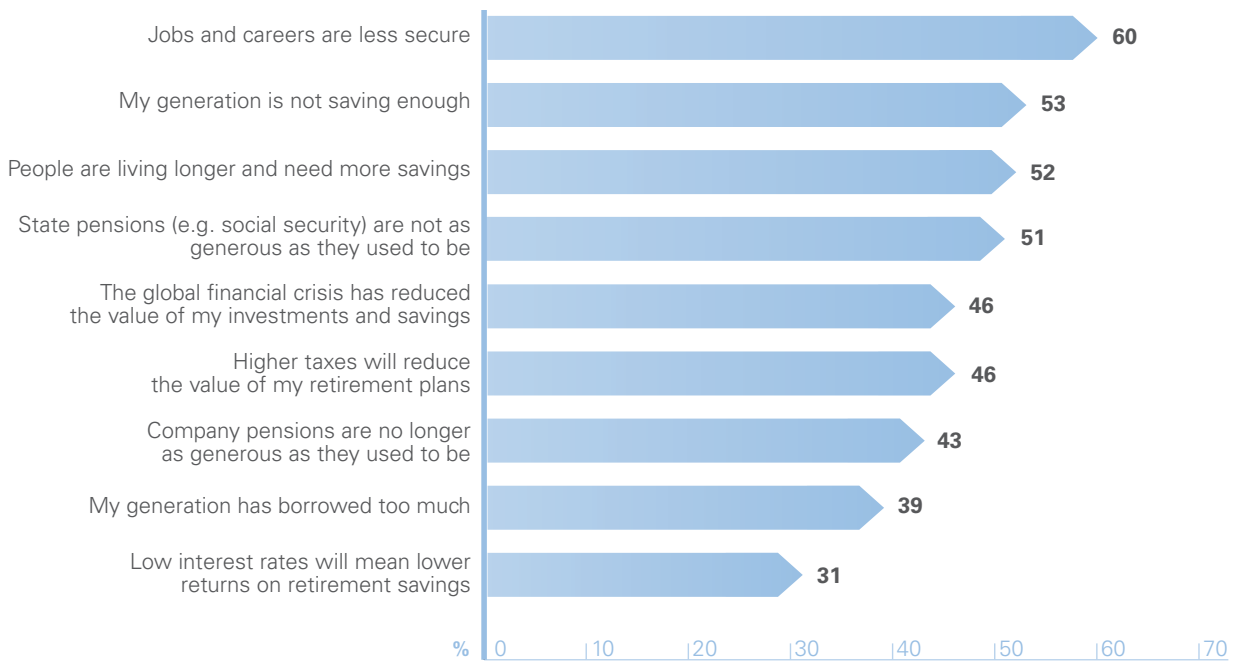


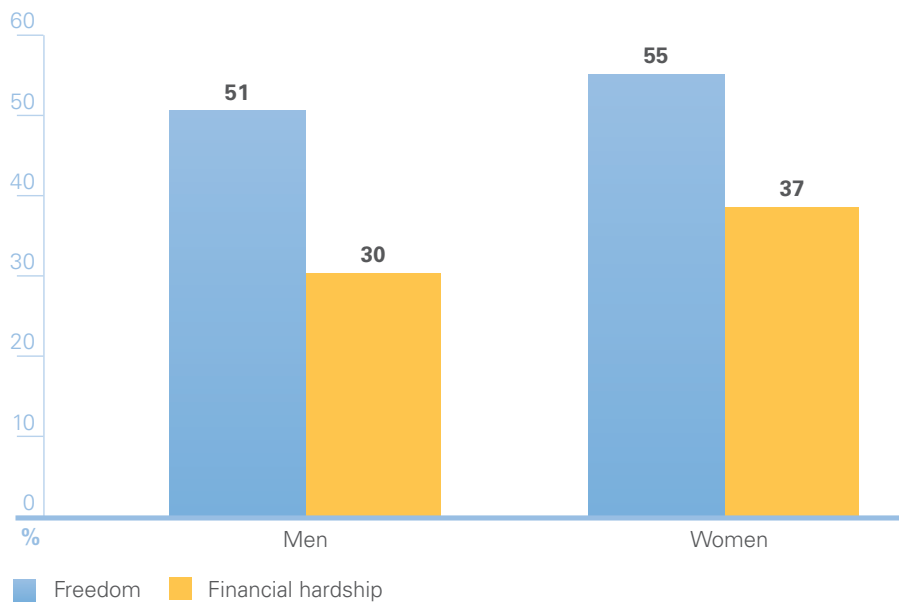
Figure 5: Why will you be worse off in retirement than your parents' generation?



The shape of retirement is changing rapidly in the US: traditional retirement provisions through state and company pensions are becoming leaner, whilst the current economic environment means that, for many, household incomes are becoming stretched and strained. The financial crisis has exacerbated the ageing issue, increasing public debt and government deficits which are in turn leading to cuts in public services.

Women are decidedly less upbeat than men about their fiscal futures: 37% of women associate retirement with financial hardship, compared to 30% of men. Despite this, women are more likely to associate retirement with freedom – likely owing to women no longer having childcare responsibilities in retirement, as the children have flown the nest.

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

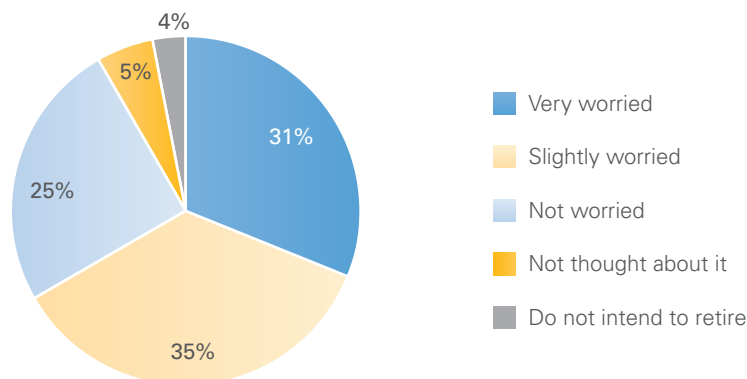


Shortfalls in retirement preparedness

Our findings reveal a significant 'preparedness gap' amongst respondents. 73% of those we surveyed said that having enough money to live on in retirement was important. Only 49% said they are adequately financially prepared for retirement. The preparedness

gap in the US is further evidenced by how worried people are about being able to cope financially in retirement: 66% said they are either slightly or very worried.

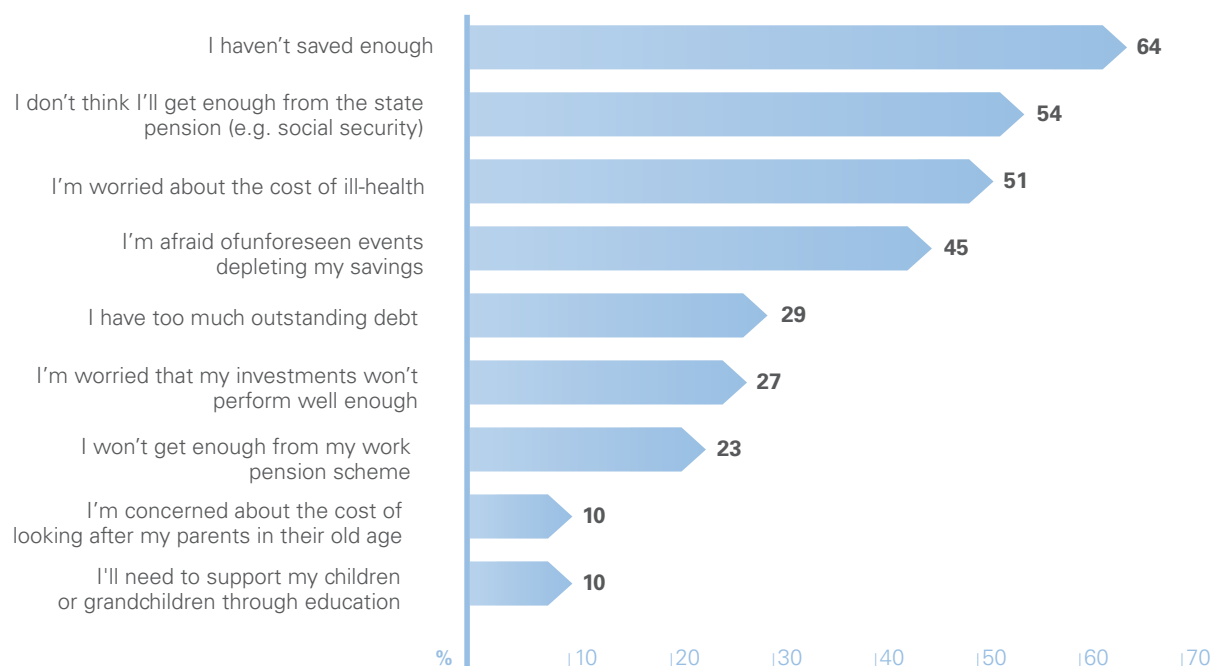
Figure 7: Levels of concern about coping financially in retirement



The biggest cause for concern regarding funding retirement is because they feel they have simply not saved enough. This concern is greatest among women aged 30-50 (69%). 54% of respondents feel that they are unlikely to get enough from social security, with women in their 30s feeling this most deeply (57%). For women there is at least an acceptance that the state will no longer be their main source of income in retirement - despite this, they are not filling this gap with personal savings.

Unforeseen events derailing retirement plans are also unnerving respondents (45%), as these could eat into personal savings. Household debt remains an obstacle to saving in the US, with 29% of people citing concerns of too much debt as a barrier both for the long- and short-term. Over 50% of people in the US have concerns about the cost of ill-health in retirement, and this fear increases with age: 43% of people in their 30s are concerned about this, compared to 60% aged 60+.

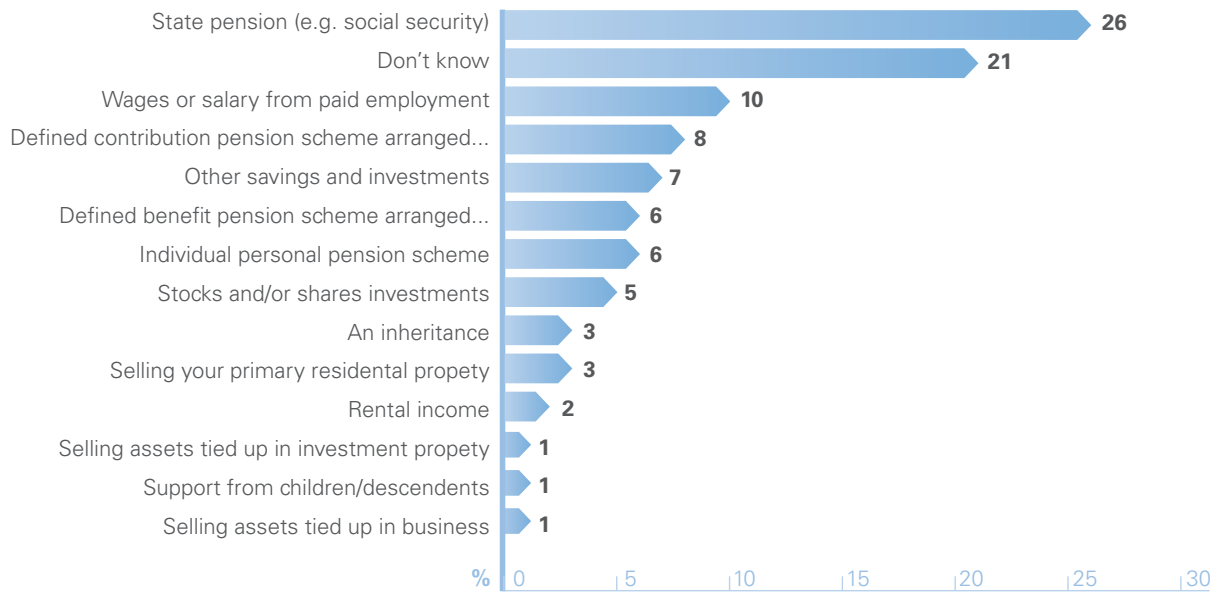
Figure 8: Why people worry about coping financially in retirement



A worrying finding is that 21% of respondents simply do not know what their main source of retirement income will be. Moreover, despite the question marks surrounding the adequacy of state provision going forward, it remains the most popular primary source of retirement income in Poland.

That 26% of people are reliant on social security for retirement and that a further 21% are unsure altogether, shows that the preparedness gap is very real in the US.

Figure 9: Over-reliance on declining state pensions



Clearly, there is a need to change current patterns of household behavior to ensure a comfortable retirement. 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.

The power of planning

Table 1: The four consumer types

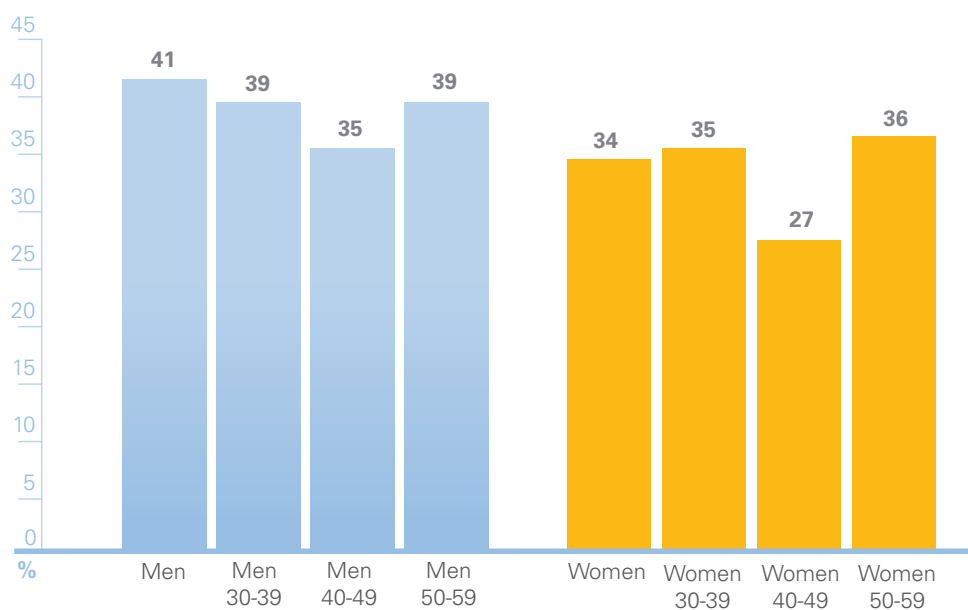
Global (% of global respondents)	US (% of US respondents)	Consumer types
38%	49%	Non-planners: disengaged. These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	15%	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%	14%	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%	22%	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, but financial planning behavior in the US falls short of the global average as only 36% have financial plans. The same percentage of respondents has sought professional financial advice (36%).

Planning is most prevalent amongst those approaching retirement, with 37% of 50-59 year olds having a

financial plan in place, compared to just 29% of those in their 40s. 36% of 30-39 year olds are also actively planning in the US, and that this is more than the generation above them is an encouraging trend for the future. Clearly there is an increasing appetite for planning in the US, and the key to a better future of retirement is encouraging people to plan earlier and more proactively.

Figure 10: Men more likely to have a plan than women



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

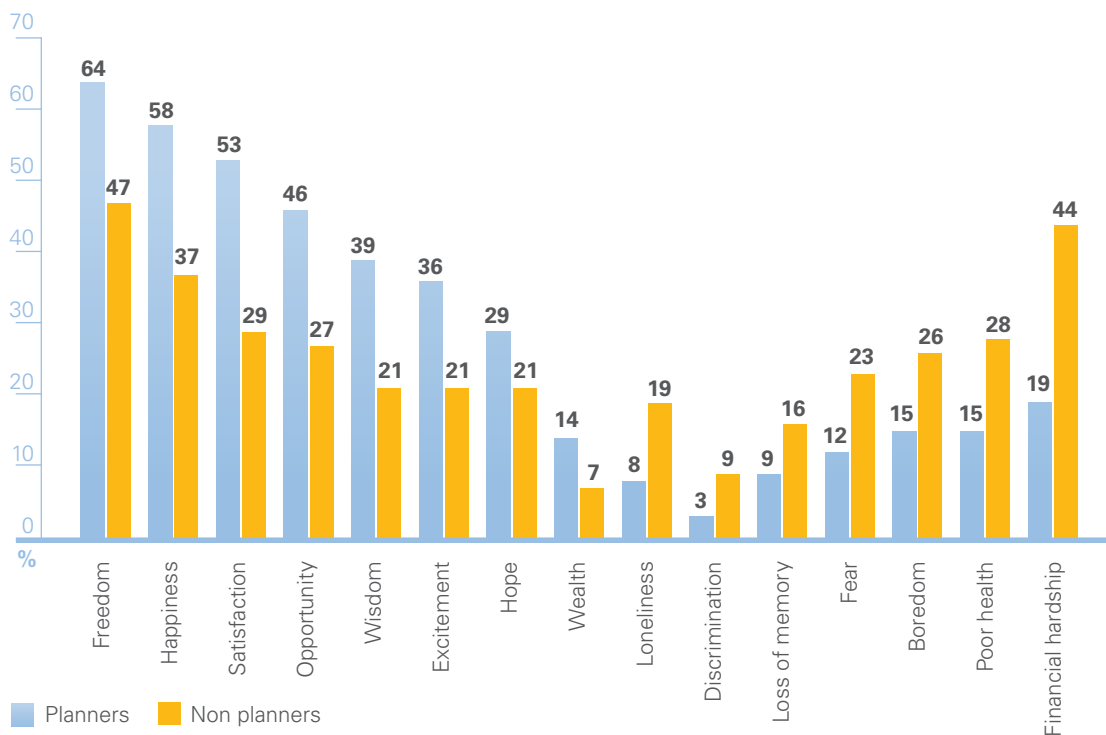


Table 2: Planners have more retirement savings and investments

	UK 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, US\$	56,000	16,000	52,000	73,000	165,000	23,000	127,000
% of global average	100%	29%	93%	130%	294%	41%	227%

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 six

times (552%) as much as non-planners. This shows that there is a strong planning premium 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 has the largest retirement assets out of all our identified consumer types, at three times the US average. 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 nearly three times (294%) the retirement assets of the US average. This advantage is not merely due to planning advice-seekers being wealthier or older than the US 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 with 44% having visited an independent financial adviser. This suggests Americans who take advice prefer a personalized approach; banks are second most popular. Less traditional sources of advice such as the internet, speaking with family and friends, as well as independent research, are used significantly in the US when planning finances. Given the clear advantage enjoyed by planners and those who have taken professional advice, many people in the US would benefit from putting financial plans in place.

Conclusion

Despite the optimism shared by our respondents that retirement can be a new chapter in life, there is not much evidence in our research that ordinary Americans have taken the steps to ensure their hopes and expectations for retirement are met. The insecurity in the labor market is causing many people to worry about how they will fund and prepare for retirement. There is a clear gap in preparedness, which is acknowledged by our American respondents – they recognize that they probably aren't saving enough. They believe they won't get the retirement their parents had. They worry that social security won't pay out enough. However, while 67% are worried that they haven't saved enough, 60% of all respondents still have no plan in place. On the other hand, those who have put a plan in place feel far more confident than those averages. The goal must be to turn those who are not planning for the future into active planners.

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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