The Future of Retirement

It's time to prepare

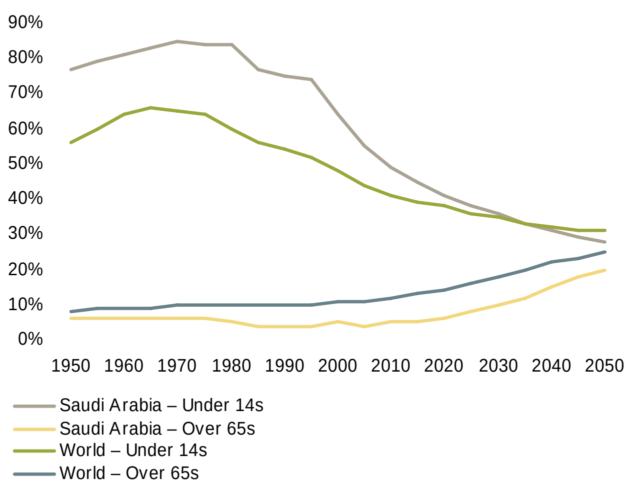
Fact Sheet
Saudi Arabia

The fifth annual **HSBC Future of Retirement** report builds on the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many people in Saudi Arabia retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how families envisage funding and supporting their retirement years. The report explores how people are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current preparedness gap – the feeling shared by the vast majority of people in Saudi Arabia that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Saudi Arabia

Saudi Arabia– like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, by 2050 the number of dependant adults in Saudi Arabia will equal the number of dependant children for the first time. Given this youthful population profile – the average person is currently around 20 years old – this age convergence arrives much later when compared with mature, and indeed other emerging economies. This gives Saudi Arabia more time to plan, what is often called a 'demographic dividend'.

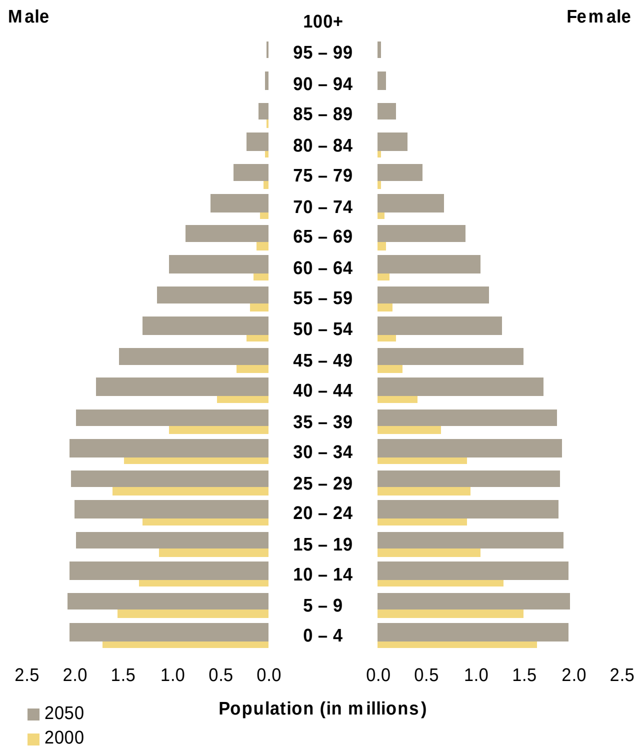
Figure 1 – The ageing Saudi population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In Saudi Arabia's population pyramid, it is clear that in the year 2000 (the yellow section of the chart), the bulging section of the population was aged between **0-15 years**, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to **age 20** and beyond and there is a major increase in the over 40 population. Equally, the over 60s population will be far greater by 2050 when compared with today. This growing demographic challenge poses many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Saudi Arabia



Source: U.S. Census Bureau, Population Division

The Pension Pillars

In looking at the future of retirement, the World Bank has established a model with three pillars of retirement provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In Saudi Arabia, a reliance on social provision (Pillar 1) has made the state the main provider. The survey

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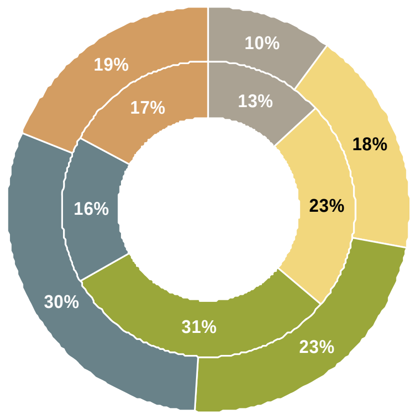
findings reveal that although Saudi Arabia's population has embraced the need to save for themselves, (as with many other emerging markets with young age profiles), people are more likely to cite saving for their children (**32%**) as more important than saving for their retirement (**12%**). For now, youth dependency outweighs elderly dependency. Nevertheless, developing wider access to retirement products will in time become a pressing need as the population's average age profile shifts.

The Pillars	**Pillar 1: the state**	**Pillar 2: occupational**	**Pillar 3: the individual**
Saudi Arabia	Mandatory pay-as-you-go scheme providing for retirement at age 55 for women and age 60 for men, The state-entitlements are earnings related.	There are no occupational retirement schemes in Saudi Arabia.	

Figure 3 – What the government should do in supporting and financing an ageing population (Saudi Arabia's results are the external ring; global results are the internal ring)



Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Saudi Arabia see the compulsory approach as the most popular way to help people fund their retirement; over **30%** of those surveyed favoured compulsory savings such as opting people into workplace savings schemes – this was much higher than many other countries. This preference may reflect the fact that people in Saudi Arabia realise the need to save but prefer not to make the choices themselves. Less than a quarter – **23% -** supported more encouragement through voluntary savings with tax relief. However, even fewer – only **10%** of respondents in Saudi Arabia – remain wedded to state provision.

The Conditions for Realising Successful Retirement Planning

In spite of the traditional reliance on social welfare, Saudi Arabia displays a major preparedness gap, in line with all the countries in the 2009 survey. The absence of widespread retirement provision inevitably increases the uncertainty around retirement outcomes. Given this uncertainty – made all the greater as a result of the current economic climate – only **16%** of survey respondents in Saudi Arabia currently feel very well prepared for retirement. The findings reveal an alarming **84%** of people do not know what their retirement income will look like. **Nearly half** of people in Saudi Arabia (45%) felt either 'fairly' or 'very' unprepared for retirement.

Figure 4 – Levels of preparation

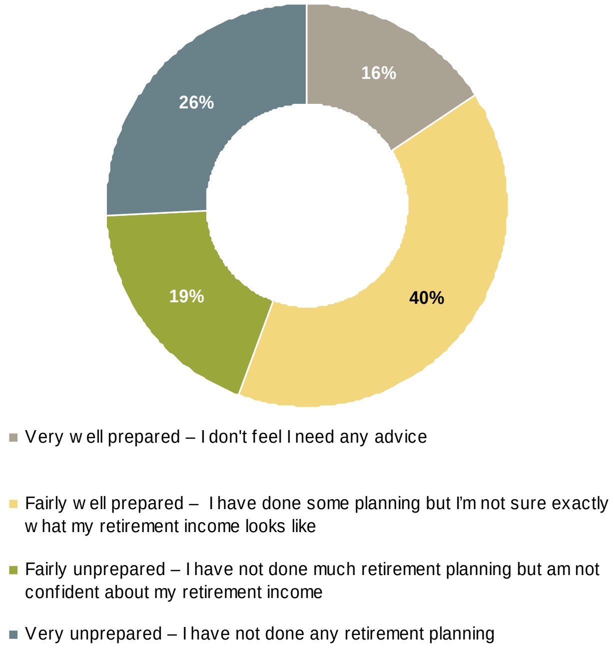


Figure 5 – Understanding of finances

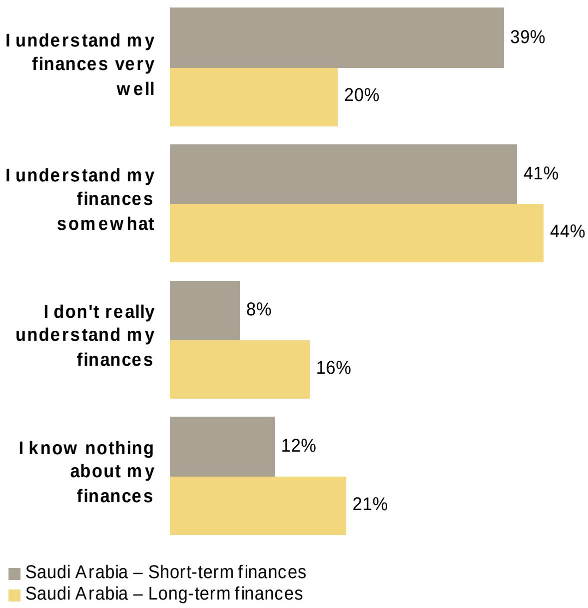
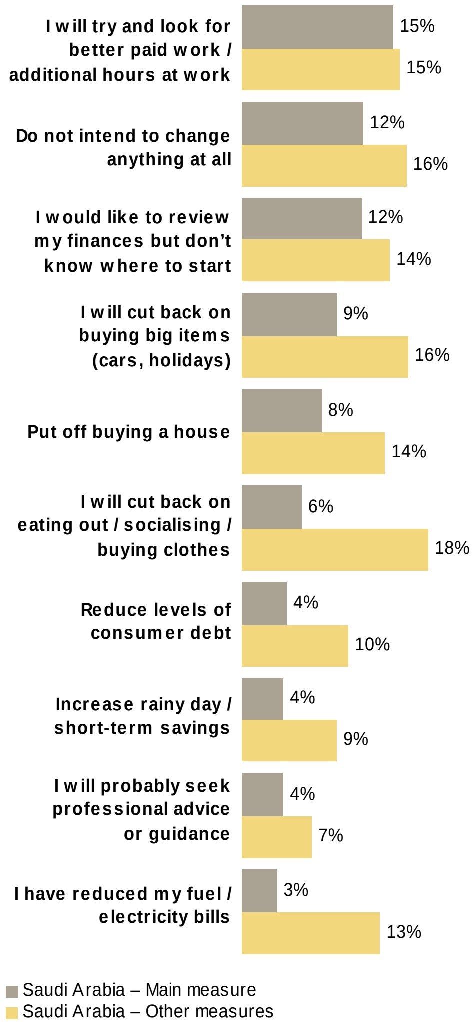


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **39%** of survey participants understood their short -term finances very well, only **20%** are as confident about their long-term finances.

The Preparedness Gap

These low levels of understanding of personal finances in Saudi Arabia highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **54%** of the people surveyed had never accessed any general financial education, whilst **75%** of people have never accessed any form of professional financial advice.

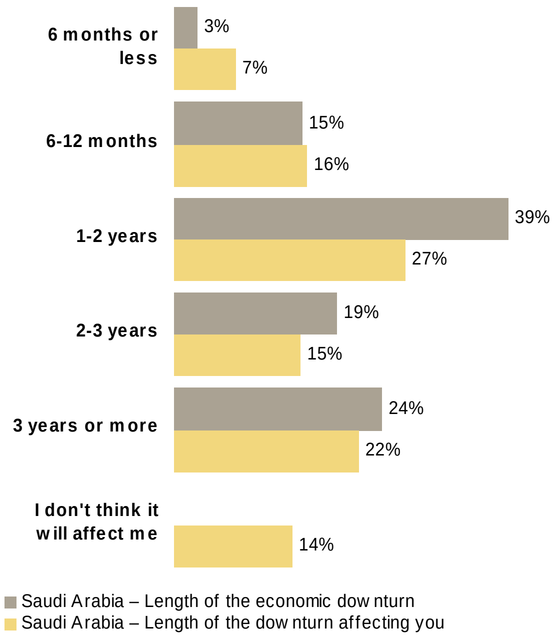
This is one of the highest shortfalls in our survey and given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. Therefore, the need to develop personal finance education programmes is paramount in order to help people better understand their finances and plan adequately for their retirement.

The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The IMF expects Saudi Arabia to maintain positive growth throughout 2009 – falling to 0.8% this year, and growing 3.7% in 2010. However, many in Saudi Arabia survey a more pessimistic view: **43%** of Saudis expect the downturn to last 1-2 years, well above the global average of 31%.

When viewing survival strategies to cope with the downturn in Saudi Arabia, it is clear that people are attempting to become better informed about their finances: they are reviewing their finances and **1-in-10** say they would like to seek financial advice to help them make sense of the choices facing them. They are also attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst paying down debt. Debt was seen as an obstacle to saving by 27**%** of Saudis (in line with the global figure of 18%). The findings also reveal that 1-in-17 people in Saudi Arabia have either reduced or stopped saving into a retirement savings product.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Saudi Arabia is faced with an ageing society. In line with many emerging economies, its society is still relatively young and will benefit from the demographic dividend – that window of opportunity afforded to societies which will first see a major population shift from youth dependency into working adulthood. This gives Saudi Arabia the time to prepare for retirement before the adult population subsequently moves into retirement. It is critical that Saudi Arabia makes the most of this opportunity. The results reveal that Saudis, while relatively enthusiastic about saving for themselves in general, see retirement as a less important incentive to save and have reduced retirement savings as a result of the current economic downturn. There is a clear need to ensure increasing access to retirement products as well as to financial advice and education so that families are better placed to understand their longer term finances and plan accordingly.