The Future of Retirement
It's time to prepare

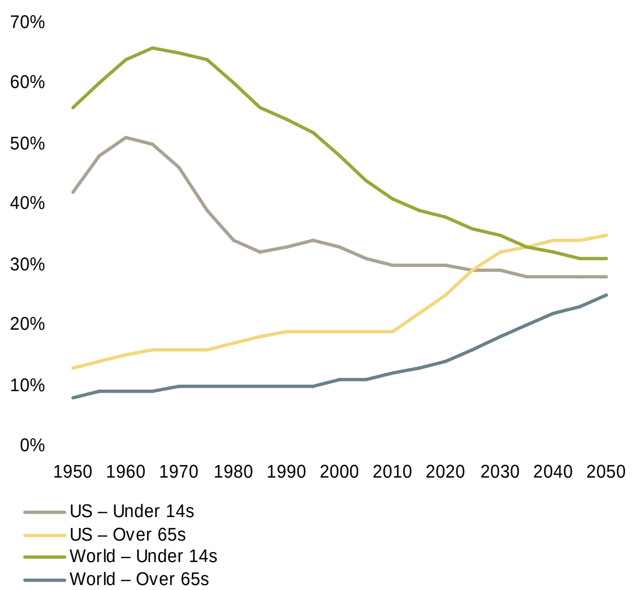
Fact Sheet
United States

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 the US 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 Americans 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 that the vast majority of people in the US that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in the US

The US – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in 2020 the number of dependent adults in the US will surpass the number of dependent children for the first time. This crossover arrives much earlier when compared with emerging economies.

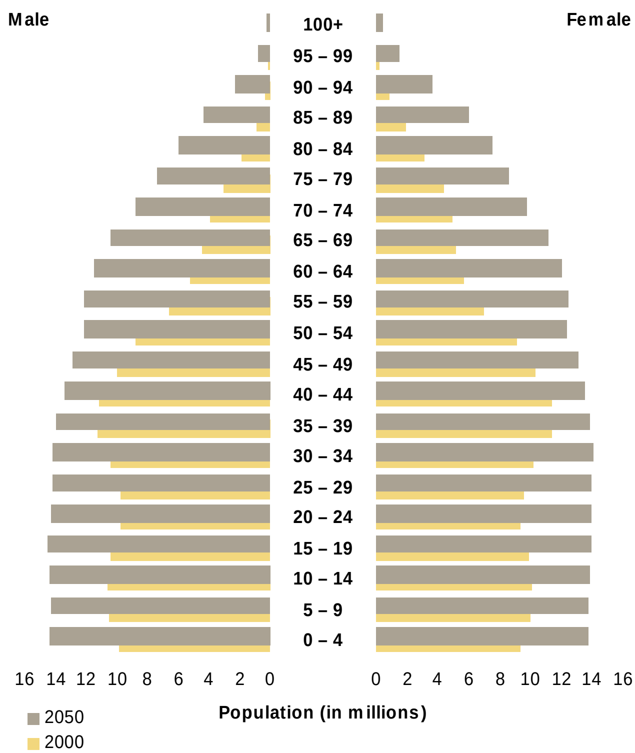
Figure 1 – The ageing US population



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

In America's population pyramid, it is clear that in the year 2000 (the black section of the chart) the bulging section of the population was between 30-40, however, as we fast forward to 2050 (the red section of the chart), we see all age groups swelling with large numbers aged 35+. This signals a future in which the elderly population will be far greater than today, posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of the US



Source: U.S. Census Bureau, Population Division

The Pension Pillars

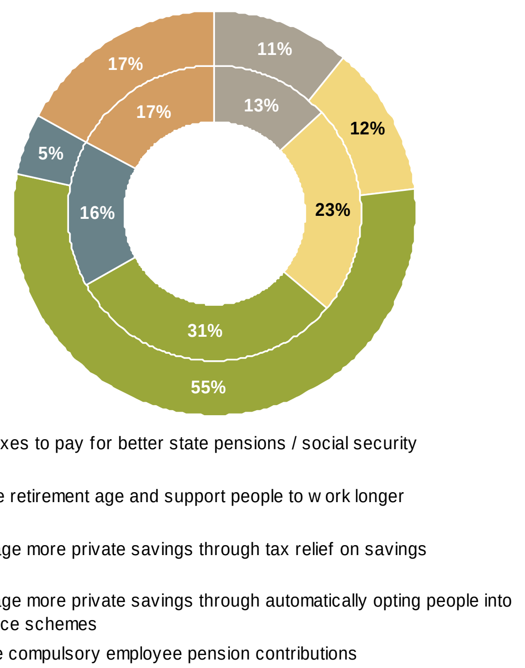
In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In the US, a reliance on the individual has been long-established. However, the current debate on 'entitlement', with possible reductions in occupational provision, could see a further shift towards personal pension products (Pillar 3). The findings reveal that US survey respondents have embraced the need to save. However, saving for retirement is still seen as a less persuasive motive to save (at 18%) compared with 23% globally.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
United States	Social security is limited offering means tested support for those on low incomes.	Mix of DB and DC arrangements in place. Largely funded and benefit from tax relief. Employer sponsored schemes like 401(K) are well established.	Tax incentivized schemes like the Individual Retirement Account (IRA) already provide widespread coverage.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in the US see the voluntary approach as the most popular way to help people fund their retirement. This is in line with responses from across Latin and North America. Over **half (55%)** of those surveyed favoured encouragement to save through further tax relief on savings – higher than anywhere else in the global survey which averaged 31%. This preference for tax relief may reflect the fact that many people in the US have already come to accept that they are responsible for their retirement income and look to the government more as an enabler. The era of greater personal responsibility is already well established.

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



The Conditions for Realising Successful Retirement Planning

In line with all the countries in the 2009 survey and despite the long tradition of personal pensions, Americans still displayed a major 'preparedness gap'. This may reflect the general shift towards personalised 'money purchase' pension provision, which increases the uncertainty around retirement outcomes. Given this uncertainty – made all the greater as a result of the current economic climate – only 14% of survey respondents in the US currently feel very well prepared for retirement. The findings reveal an alarming 86% of people do not know what their retirement income will look like.

Figure 4 – Levels of preparation

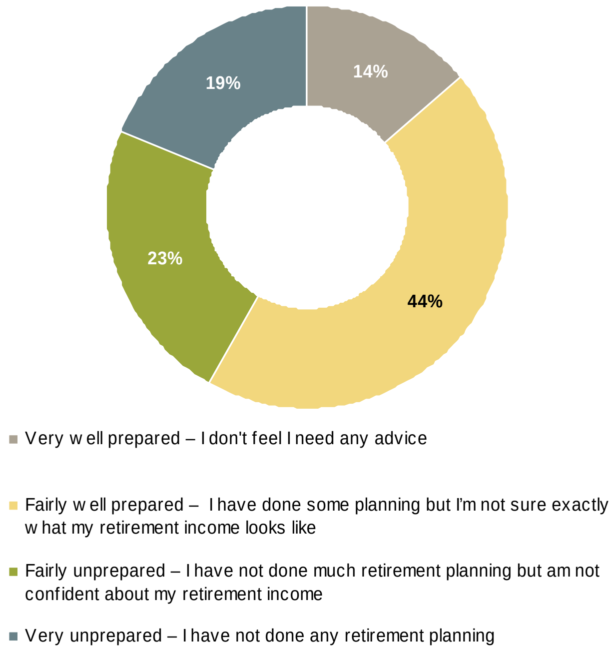
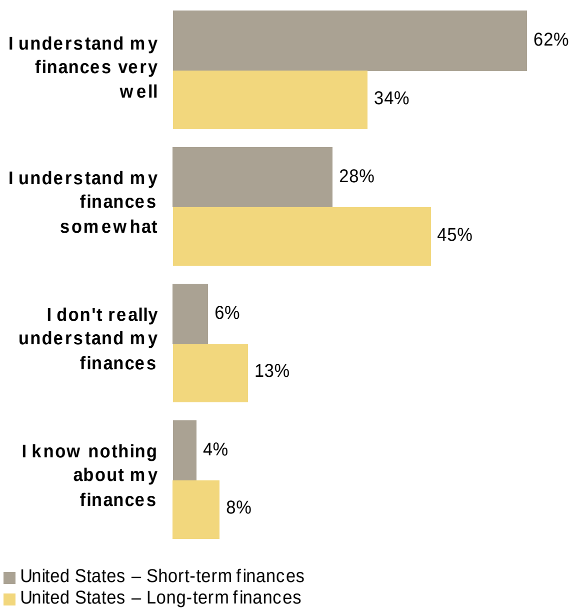
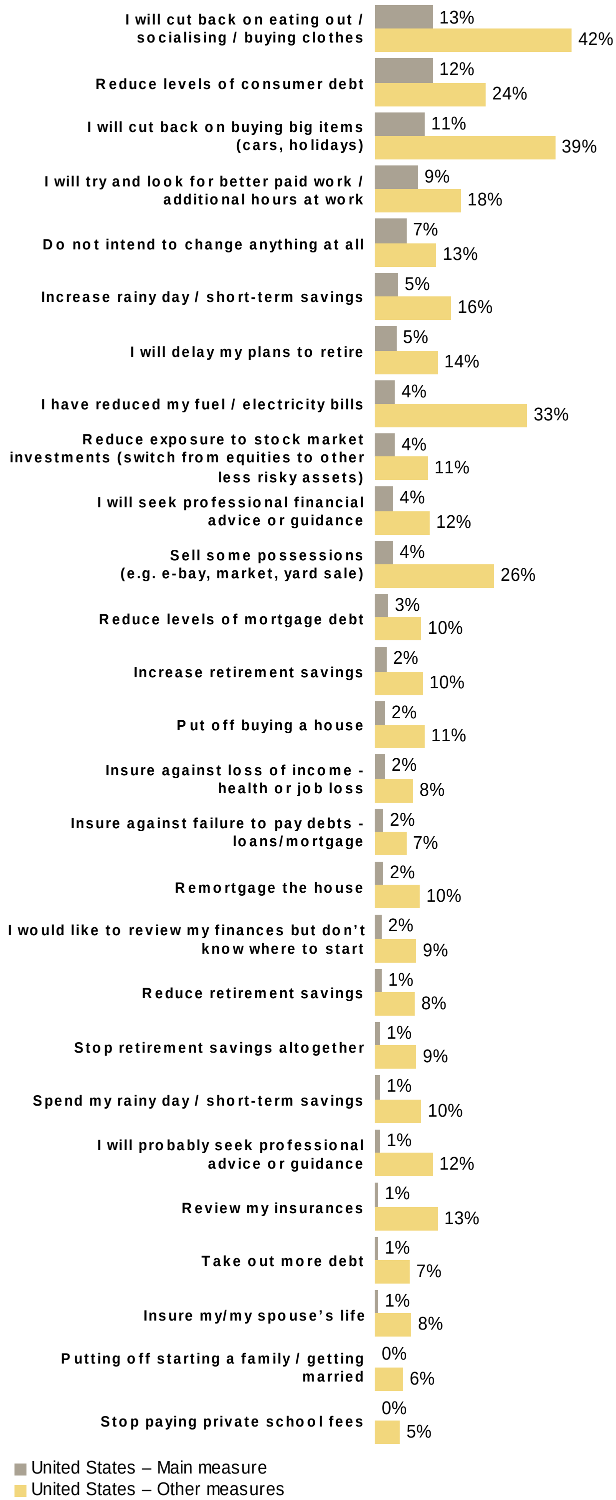


Figure 5 – Understanding of finances



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **62%** of Americans understood their short -term finances very well, only **34**% are as confident about their long-term finances.

Figure 6 – Coping methods to survive the economic downturn



The Preparedness Gap

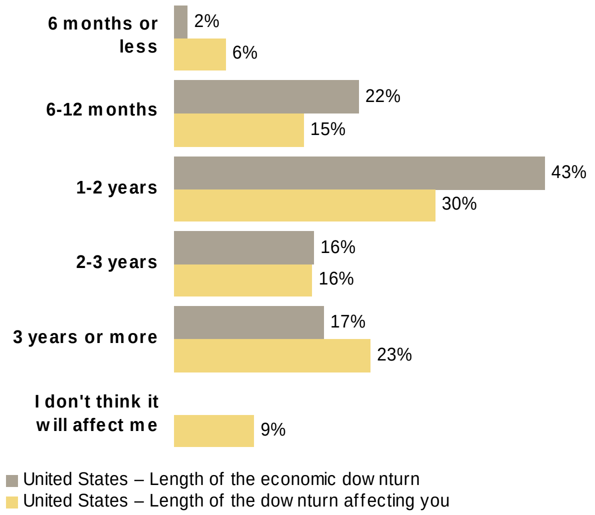
These low levels of understanding of personal finances in the US may mean that the 'preparedness gap' is linked to a lack of access to both financial advice and guidance. In spite of enjoying access to online 401(k) planning tools over many years, **48%** of the people surveyed had never accessed any general financial education, whilst **53%** of people have never accessed any form of professional financial advice. Given the responsibilities people now face in planning for their retirement, not to mention the vast sums currently invested by Americans in their pension funds, this lack of financial education and guidance could become a major impediment. The need to develop personal finance education programmes is paramount in order for people to develop a better understanding of their finances so that they can adequately plan 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 International Monetary Fund (IMF) expects the US to remain in recession throughout 2009 and many US respondents agreed with this view. However, people in the US – along with other mature economies – are generally less optimistic than the overall global picture, with Americans more likely to see an extended downturn. Only **24%** of people in the US expect the downturn to last less than 12 months; globally this rises to **29%**. Many Americans felt that the downturn would also continue to affect them long after their economy emerges from recession. This could reflect concerns over an anticipated lingering impact on job prospects or returns on their savings or investments.

When viewing survival strategies adopted by US families to cope with the downturn, it is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. Debt was seen as a key obstacle to saving by **31%** of US survey respondents (compared to 18% globally). Americans are also among the most likely to be cutting back on expenditure. The findings also reveal that 1-in-7 people in the US have either reduced or stopped saving into a pension. A further **14%** say they would like to seek financial advice to help them make sense of the choices facing them. A disproportionate number of Americans – around 1-in-6 – have also decided to delay the onset of their retirement. This possibly reflects the wider exposure to both money purchase pension arrangements, and a higher exposure to equities, which have not performed well during 2008 hitting the value of pension funds. The net result has been that many in the US have switched from equities to cash.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, the US is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding retirement. However, the US needs to underpin the long-term funding position of its social security and occupational provision. Despite the successful growth in personal pensions, the US still faces the challenge of widening access to financial advice and education in order to enable American families to better understand their longer term finances and plan accordingly.

The results reveal that while the current economic downturn has impacted the US's position as 'consumer of last resort', it has also negatively affected pension savings rates. Households have seen the value of their pensions hit and are limiting their risk exposure and considering working longer as a result. Equally, there is a greater recognition of the need to reduce debts which are seen as a key obstacle to increased savings rates.