The Future of Retirement

It's time to prepare

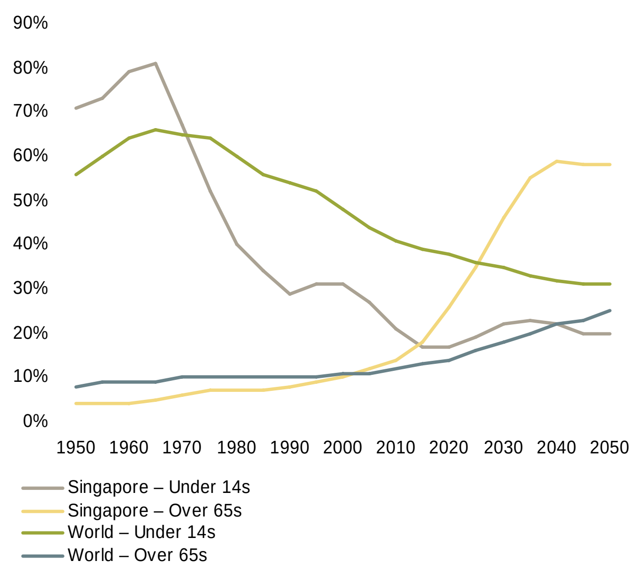
Fact Sheet
Singapore

The fifth annual **HSBC Future of Retirement** Report builds on the previous years' reports where they explained and explored the current attitudes and behaviour towards retirement. Whilst for many in Singapore retirement is viewed as a new age of opportunity, the next issue that needed to be expanded upon was how families in Singapore envisage funding and supporting their retirement years. The report explores how families in Singapore 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 Singapore that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Singapore

Singapore – like most countries of the world – is facing the problem of an ageing population. As can be seen from the chart below, by around 2010 Singapore can expect to see the number of dependent adults surpass the number of dependent children for the first time. This crossover arrives much earlier when compared with emerging economies.

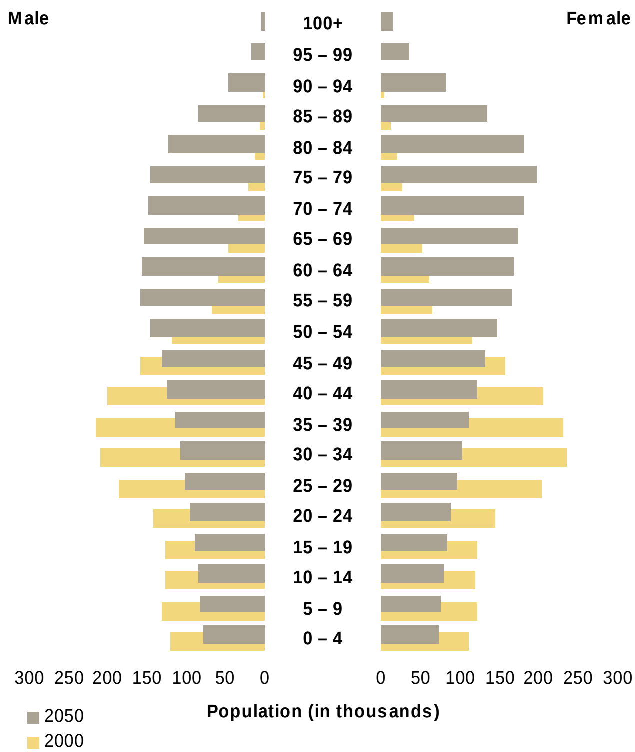
Figure 1 – The ageing Singapore population



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

In Singapore's population pyramid, it is clear that in the year 2000 (the yellow section of the chart), the bulging sections of the population were aged between **35-40 years**, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to **age 65** and beyond. This growing demographic challenge poses many questions for Governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Singapore



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 Singapore, the presence of a well-established mandatory provident scheme has seen efforts concentrated in one pillar. While the contribution rates have risen over time, the membership is ageing quickly, posing questions over future entitlements. As a result, the findings reveal that people in Singapore are not only among the most likely to have embraced the need to save for themselves, but also that retirement is seen as a strong motive to save by 26**%** of people in Singapore (compared with **23%** globally).

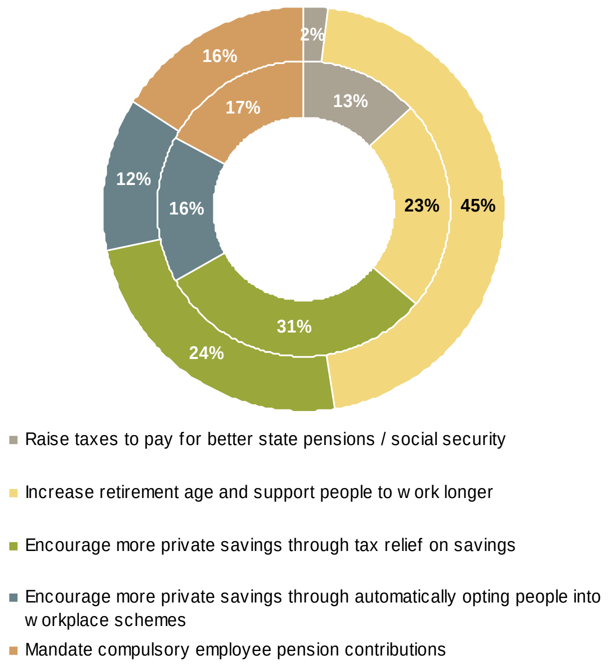
The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Singapore	There are no retirement payments by the state in Singapore.	The mandatory provident scheme provides coverage to 65% of workers though replacement income is low. However, contribution rates have risen over time.	There are no provisions for personal retirement savings in Singapore.

Meeting the Demographic Challenge: The Path to Pensions Reform

To help boost retirement savings, survey respondents in Singapore favour support for people working longer and increasing the retirement age (**45%**). While this preference bucked the global trend, it was in line with many other Asian societies perhaps reflecting the fact that, having enjoyed historically high savings rates, people in Asia are already saving enough.

Just **under a quarter** would choose tax relief on savings, while only **2%** opt for increasing taxes to fund social security.

Figure 3 – What the government should do in supporting and financing an ageing population (Singapore's 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, the research revealed a major preparedness gap in Singapore. This may reflect the shift towards personalised savings and pension provision, which increases the uncertainty around retirement outcomes. The findings reveal that an alarming **91%** of people do not know what their retirement income will look like. Only **9%** of survey respondents in Singapore currently feel well prepared for retirement.

HSBC Insurance

Figure 4 – Levels of preparation

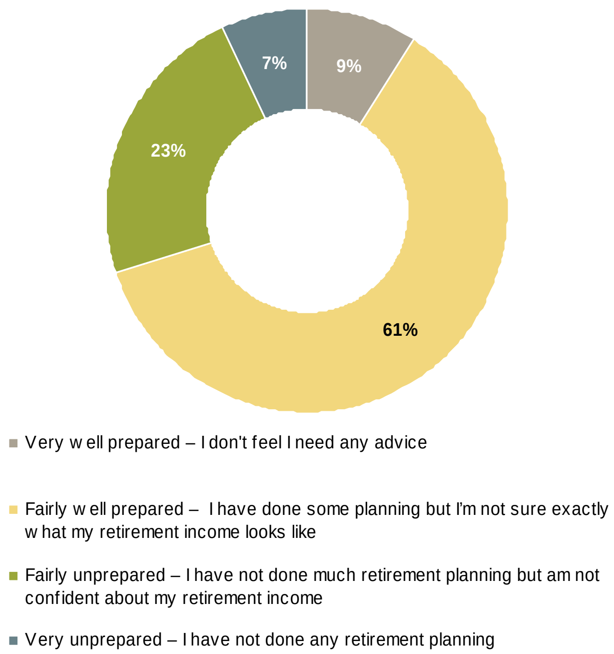


Figure 5 – Understanding of finances

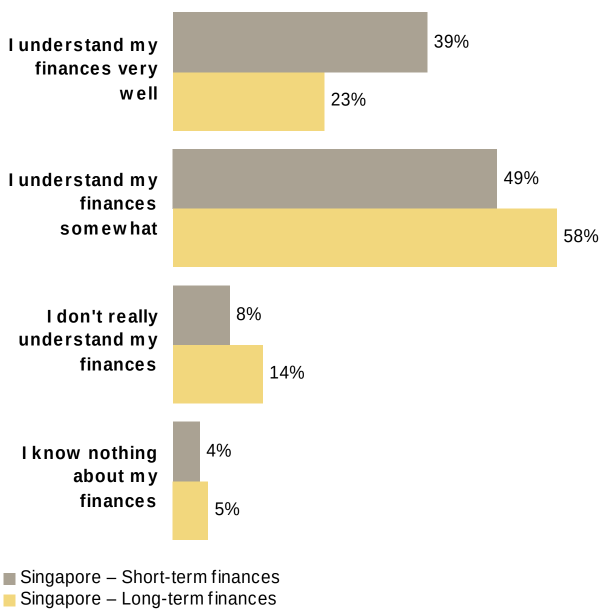
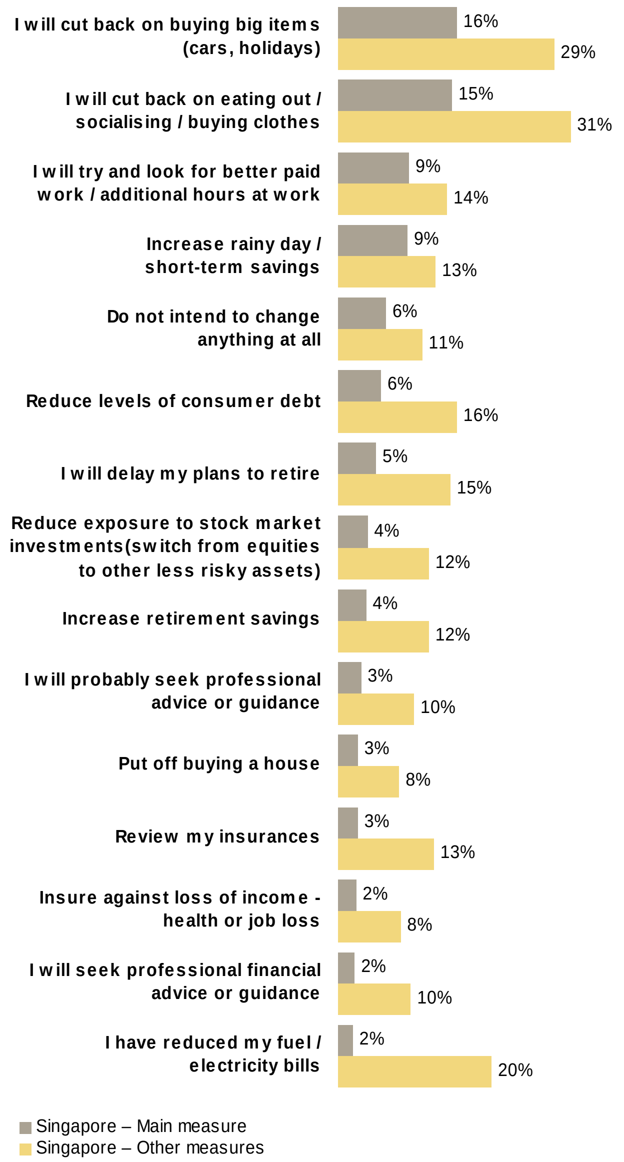


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is driven in part by people's lack of understanding about their long-term finances. Whilst **39%** of people in Singapore understand their short -term finances very well, only **23%** are as confident about their long-term finances.

The Preparedness Gap

These low levels of understanding of finances in Singapore highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. Our research revealed that **34%** of the people surveyed had never accessed any general financial education, whilst **33%** of people have never accessed any form of professional financial advice. Given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. With Singapore's well established provident scheme affording people the capacity to save, 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.

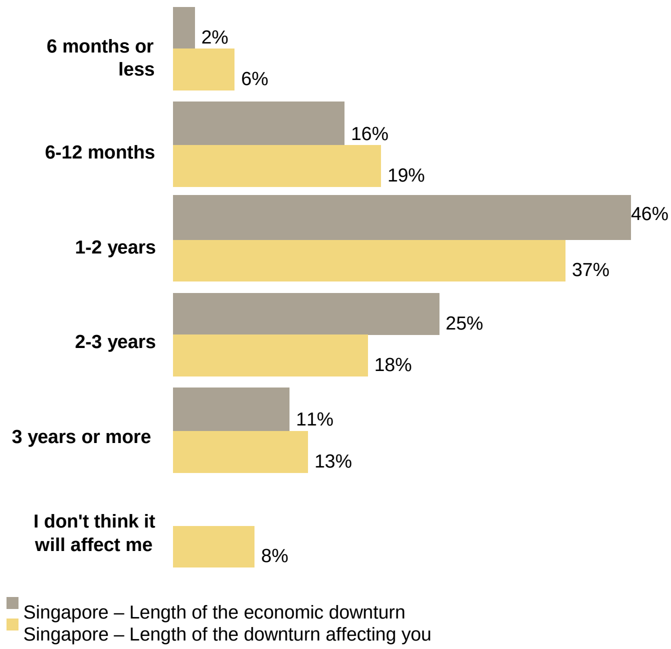
The Economic Downturn

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 Singapore to remain in recession throughout 2009, and many of the survey respondents in Singapore agree with this view. However, people in Singapore – along with other mature economies – are more pessimistic than the global picture. Only 18% of people in Singapore think the downturn will last less than 12 months compared to 36% who think it will last more than 2 years.

Many in Singapore felt that the downturn would 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.

Singaporeans – like almost everywhere in our survey – have adopted survival strategies to cope with the downturn. It is clear from the survey that many people in Singapore are reducing expenditure on both large and small purchases in an attempt to build up short-term savings. Moreover, just over 1 in 10 people say they will seek financial advice to help them make sense of the choices facing them during these difficult times.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Singapore is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. Despite the steps Singapore has taken during recent decades to put the necessary retirement products in place, the challenge of widening access to financial advice and education in order to enable families to better understand their longer term finances and plan accordingly remains.

The current economic downturn is forcing households in Singapore to develop survival strategies. Most of the coping strategies to date reveal that Singapore families are cutting back on spending. Nevertheless, while the current downturn may make long-term planning more difficult, the need to take action to ensure a comfortable retirement will only continue to grow.