The Future of Retirement

It's time to prepare

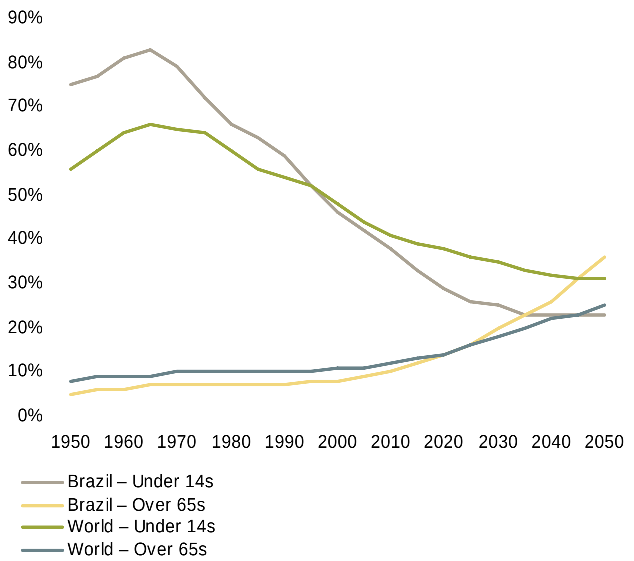
Fact Sheet
Brazil

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 Brazil 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 Brazilian people that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Brazil

Brazil – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in around **2030** the number of dependent adults in Brazil will surpass the number of dependent children for the first time. This crossover arrives much later when compared with mature economies giving Brazil more 'time to plan', often referred to as a 'demographic dividend'.

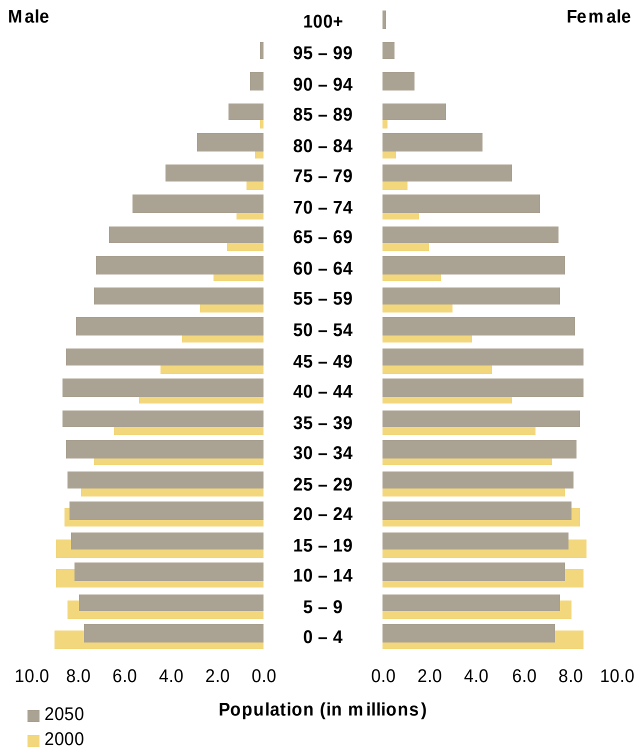
Figure 1 – The ageing Brazillian population



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

In Brazil'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 **30-50** and beyond. 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 Brazil



Source: U.S. Census Bureau, Population Division

The Pension Pillars

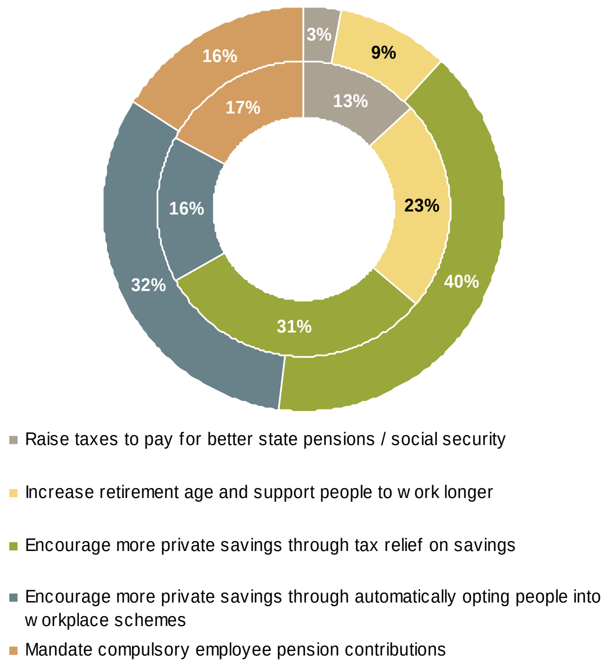
In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In Brazil, the state's traditional pension provision role was reduced as a result of reforms during 1988. This saw a shift towards a three pillar approach with greater focus on new 'personalised' pensions products (Pillar 3). The findings reveal that the people surveyed in Brazil have embraced the need to save. However, saving for retirement is still seen as a less persuasive motive to save (at 22%) when compared with other motives such as saving for one's children (29%).

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Brazil	Reforms in 1988 undermined the fiscal sustainability of the pay-as-you-go scheme. Continued problems with funding deficit though remains committed to social provision. Further reforms likely.	Arrangements have been put in place but take up has been limited.	Experienced a major increase in fully-funded personal pension assets since reforms were put in place during the 1990s.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Brazil see the voluntary approach as the most popular way to help people fund their retirement: **40%** of those surveyed favoured encouragement to save through further tax relief on savings. This is in line with responses from across Latin and North America. This preference for tax relief may highlight the fact that many people in Brazil accept that they are now responsible for their retirement income and look to the government more as an enabler.

Figure 3 – What the government should do in supporting and financing an ageing population (Brazil'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 Brazil. 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 6% of respondents in Brazil currently feel very well prepared for retirement. The findings reveal an alarming **94%** of people do not know what their retirement income will look like. Nearly **two-thirds** (62%) feel 'fairly' or 'very' unprepared for retirement.

Figure 4 – Levels of preparation

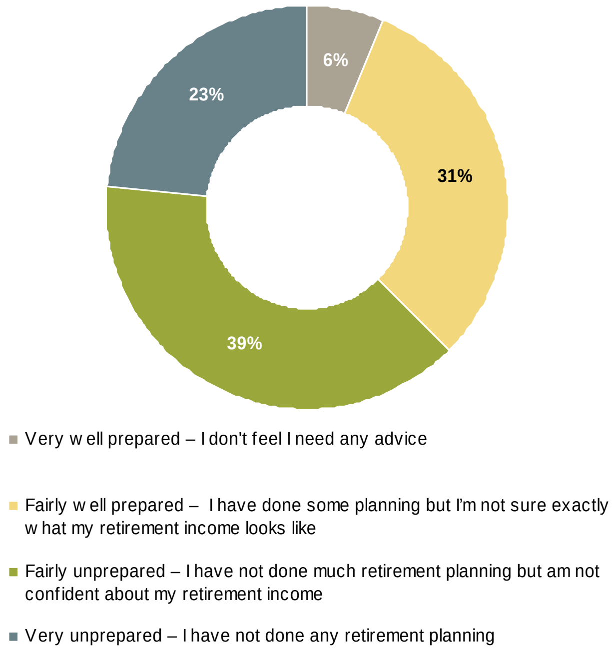


Figure 5 – Understanding of finances

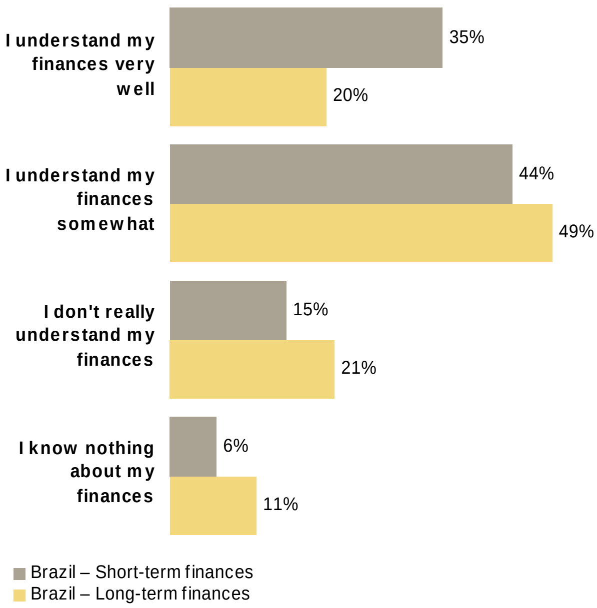
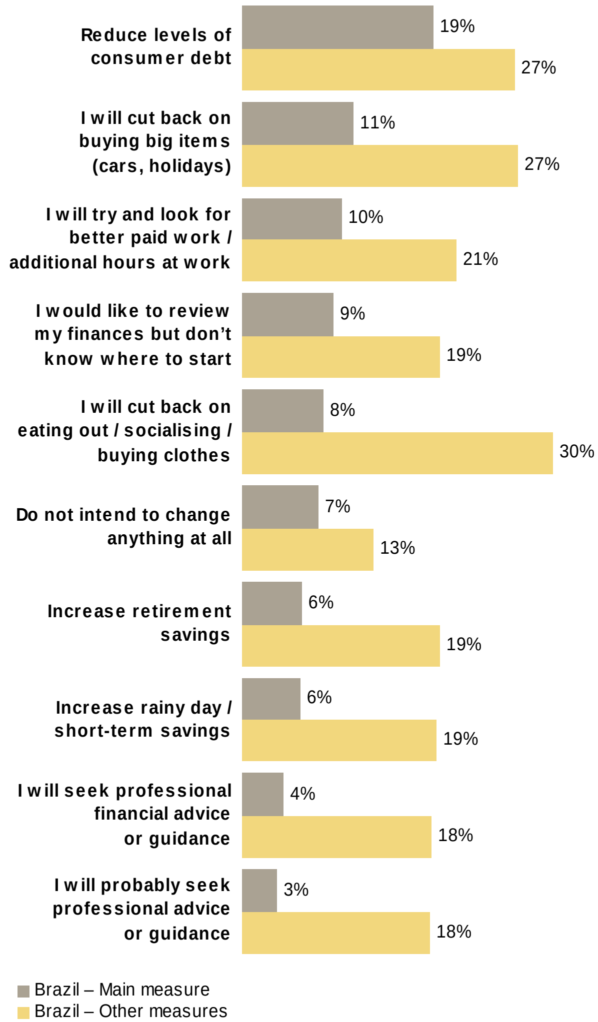


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **35%** of our survey respondents 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 Brazil may mean that the 'preparedness gap' is linked to a lack of access to both financial advice and guidance. **44%** of the people surveyed had never accessed any general financial education, whilst **63%** of people have never accessed any form of professional 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 Brazil having successfully sought to build up personal pensions assets, the need to develop personal finance education programmes is paramount in order to help people quickly develop a better understanding of their finances and plan adequately for their retirement.

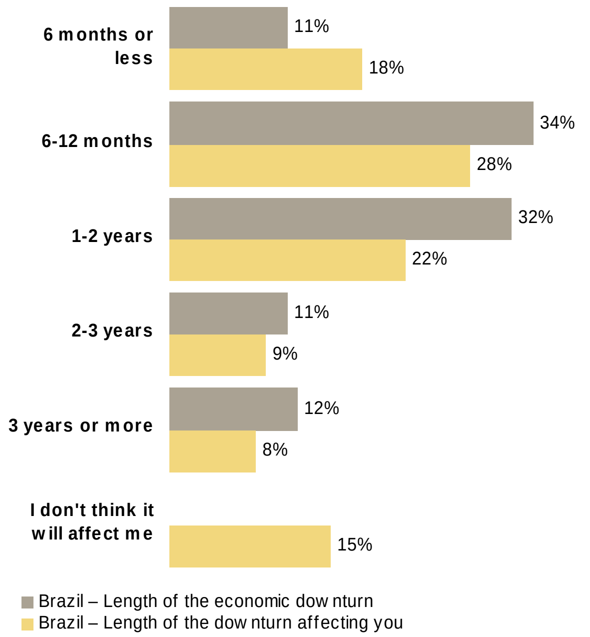
The Economic Downturn

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 Brazil to remain in recession throughout 2009 and many of the survey's respondents agreed with this view. However, people in Brazil – along with other emerging economies – are generally more optimistic than the overall global picture. **45%** of Brazilians expect the downturn to last less than 12 months; globally this falls to just **29%.**

Many Brazilians 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. When viewing survival strategies adopted by Brazilian 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 23% of respondents in Brazil (compared to 18% globally). The findings also reveal that 16% of Brazilians have either reduced or stopped saving into a pension. A further **22%** say they would like to seek financial advice to help them make sense of the choices facing them.

Surprisingly large numbers of Brazilians have switched between cash and equities during the past 12 months. However, as with Mexico, there has not been a clear directional flow with as many people moving into equities (15%) as there are moving out of equities (15%).

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Brazil is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. However, having taken steps to put in place more comprehensive individual pension arrangements, Brazil still faces the challenge of underpinning its state pensions and invigorating occupational schemes. Survival strategies to deal with the current economic climate focus on reducing spending and debt. The impact of this is that Brazil has seen a greater fall in pension savings rates when compared with other countries. The need to review finances arose for nearly one-third of people. Despite the successful growth in personal pensions, there is clearly a continuing need to bolster access to financial advice and education in order to enable families to become better placed to understand their longer term finances and plan accordingly.