The Future of Retirement
It's time to prepare

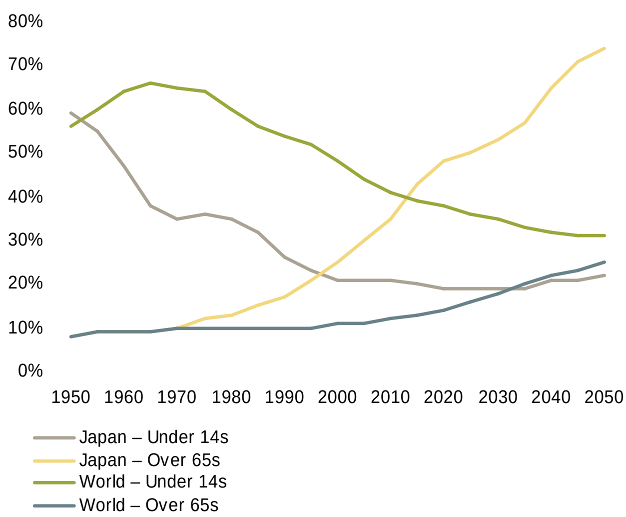
Fact Sheet
Japan

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

Demographic Trends in Japan

Japan – like most countries of the world – is facing the problem of an ageing population. As can be seen from the chart below, the number of dependent adults in Japan has already surpassed the number of dependent children. This places Japan at the forefront of the global ageing process – with a greater proportion of its people living to old age and a far higher age profile compared to other advanced societies.

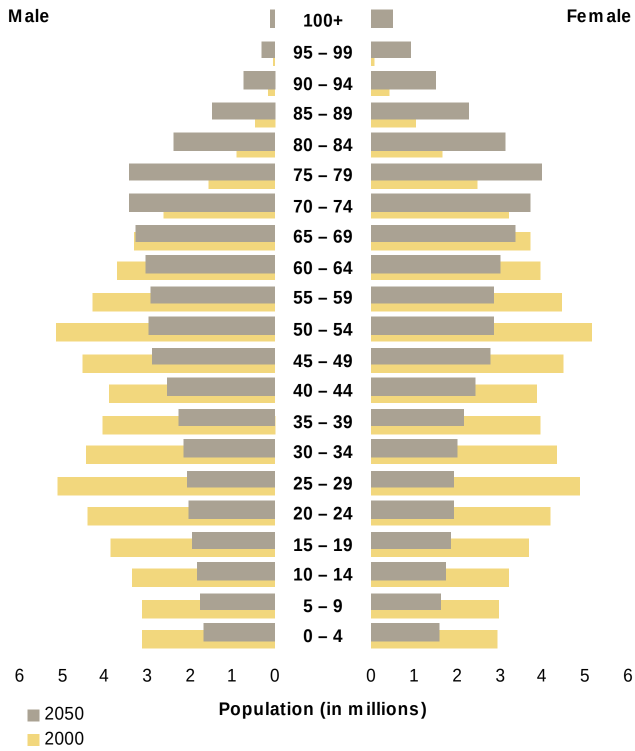
Figure 1 – The ageing Japanese population



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

In Japan'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 **30-50 years**, however, as we fast forward to 2050 (the grey section of the chart) this bulge swells to **age 70** and beyond and the overall population falls rapidly. We see that the number of people aged 20-29 will more than halve by 2050. This growing demographic challenge poses many questions for Governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Japan



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 Japan, the state has traditionally played an important role in pension provision. However, a legacy of high savings rates has given the Japanese an enviable position in global terms in having access to significant household

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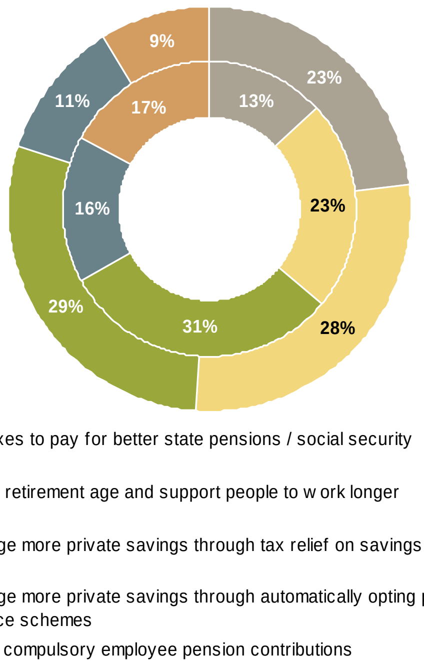
assets to fund retirement. The findings underline that the Japanese remain amongst the most likely to embrace the need to save for themselves. Furthermore, retirement is seen as a very strong motive for saving in Japan: **56%** of Japanese people see approaching retirement as a strong motive: compared with **23%** globally.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Japan	A pay-as-you-go National Pension Programme providing for retirement at age 65.	Five types of voluntary occupational pension schemes to supplement the National Pension Programme are currently operated.	There are no provisions for personal retirement savings in Japan.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Japan did not show strong support for any one particular means to encourage savings. Unlike other Asian societies which strongly favour the need to encourage working longer, Japanese respondents marginally see the voluntary approach as the most popular way to help people fund their retirement, with just under **one-third** (29%) favouring encouragement to save through further tax relief on long-term savings. However, **28%** favoured working longer, possibly a result of the relatively high life expectancy in Japan and the likelihood of a corresponding increase in the retirement age. There are also a relatively high number of survey respondents (**23%**) who support more taxation to fund social provision. Overall, this was the most balanced approach among any of the countries in the survey.

Figure 3 – What the government should do in supporting and financing an ageing population (Japan'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 Japan. This may reflect the major impact of the economic downturn which seems to be affecting household confidence in Japan more so than anywhere else. The findings reveal an alarming 97% of people do not know what their retirement income will look like. Only 3% of Japanese survey respondents currently feel well prepared for retirement.

Figure 4 – Levels of preparation

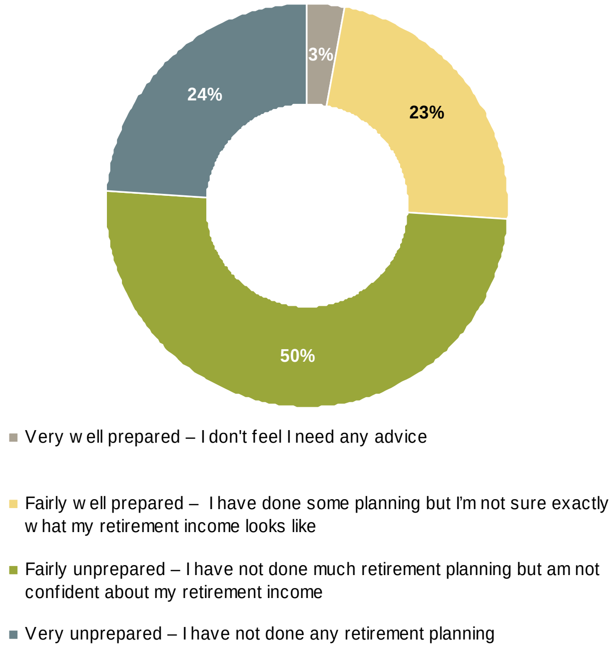


Figure 5 – Understanding of finances

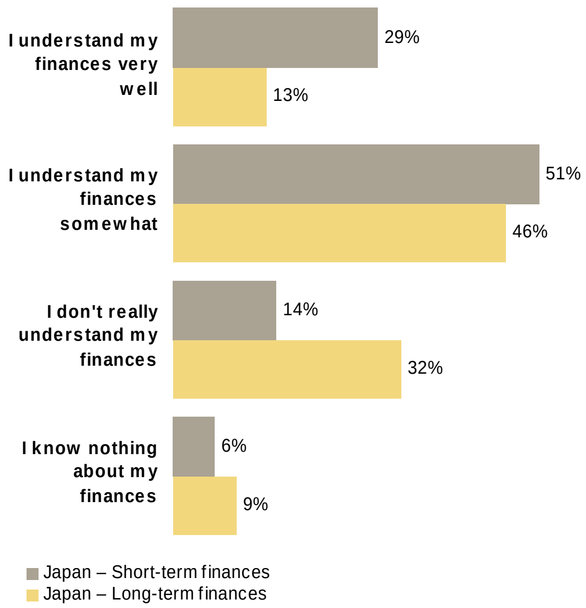
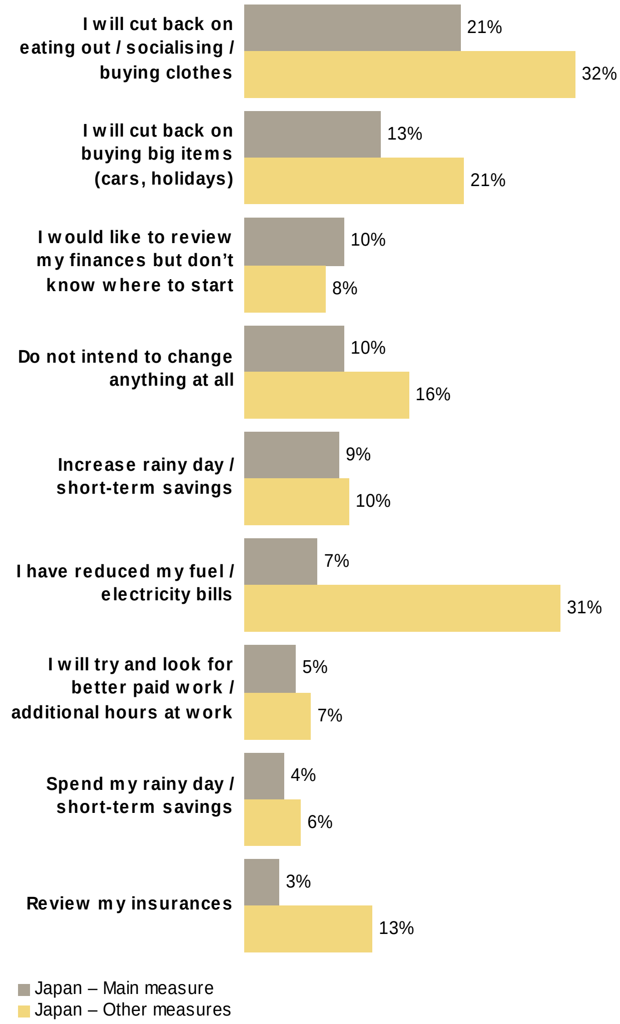


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is driven in part by people's lack of understanding about their long-term finances. Whilst **29%** of the Japanese understood their short -term finances very well, only **13%** are as confident about their long-term finances. This is much lower than in other countries surveyed.

The Preparedness Gap

These low levels of understanding of finances in Japan highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **60%** of the people surveyed had never accessed any general financial education, whilst **79%** 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. Given Japan's rapidly ageing society, 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. While Japanese people may well have amassed vast household assets, they need more help in understanding how to manage that wealth also during retirement.

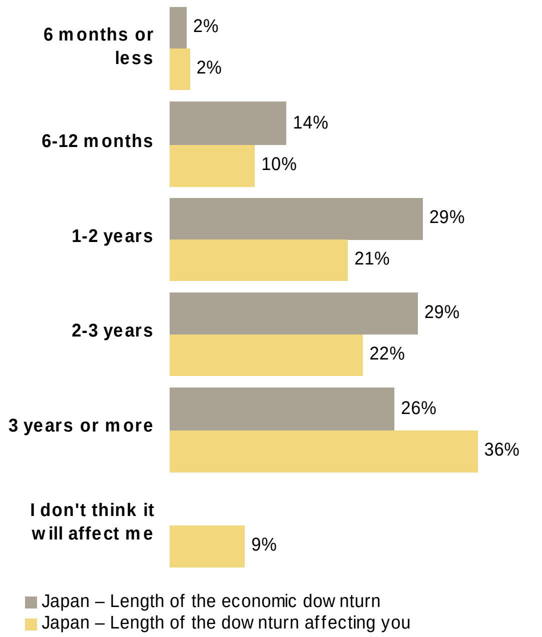
The Economic Downturn

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 Japan to remain in recession throughout 2009 (minus 2.6% growth). However, people in Japan – more so than in other developed economies – are much more pessimistic. Only **16%** of Japanese people think the downturn will last less than 12 months compared to **55%** who think it will last more than 2 years.

Many Japanese 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. Japan's recent history of a prolonged economic slump and deflation has clearly left consumer confidence in a brittle state.

As with other countries, the Japanese are adopting survival strategies to cope with the economic downturn. It is clear from the survey that people are reducing expenditure on both large and small purchases. Nevertheless, pension's contributions have been less affected by the economic downturn than in other countries, and the overall impact on personal finances has been relatively muted. Indeed, only **4%** say they will seek financial advice to help them make sense of the choices facing them at these difficult times.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Japan is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. Notwithstanding Japan's historically high levels of household savings, 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 Japanese – along with their near neighbours the Koreans – have the greatest feeling of unpreparedness in our global survey.

The current economic downturn is forcing households in Japan to develop survival strategies though fewer people are changing their finances compared with other developed economies. In particular, pension contributions appear to be less affected than elsewhere. Most of the coping strategies to date focus on cutting back on spending. While such immediate changes are perhaps natural within the current economic backdrop, the need to give greater consideration to longer-term retirement planning remains.