The Future of Retirement
It's time to prepare

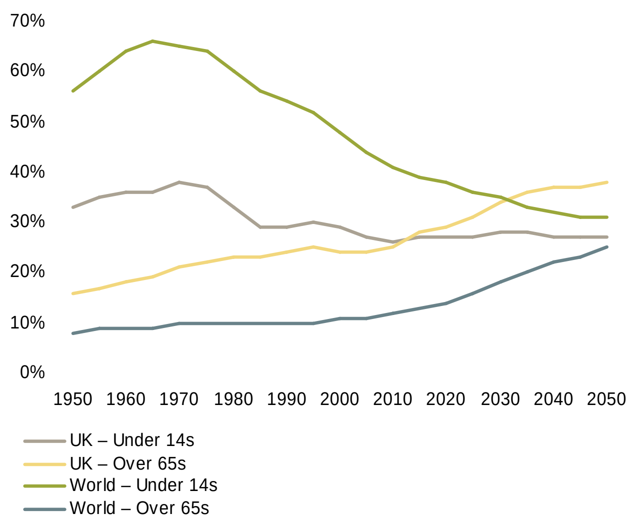
Fact Sheet
United Kingdom

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 in the UK retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how UK families envisage funding and supporting their retirement years. The report explores how UK 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 British people that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in the UK

The UK - like most countries of the world - is facing the problem of an ageing population. This will pose fundamental challenges for the UK, but represents a real opportunity for people to enjoy an extended period of retirement. As can be seen from the chart below, in 2010 the number of dependent adults in the UK will surpass the number of dependent children for the first time. It is notable that this isn't simply a UK phenomenon, with the same trend taking place at different rates across the globe.

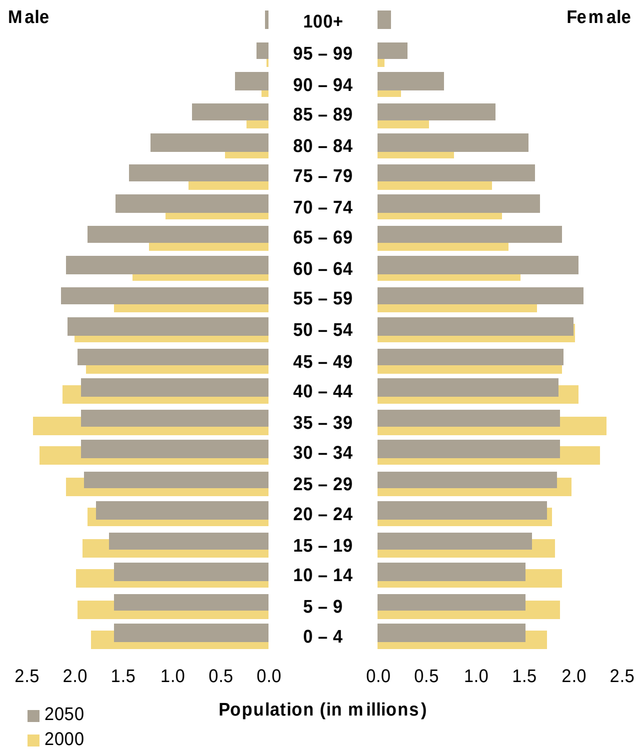
Figure 1 – The ageing UK population



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

In the UK's population pyramid, it is clear that in the year 2000 (the yellow section of the chart) the bulging section of the population was between 30-45, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells at 60 and beyond. This poses many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of the UK



Source: U.S. Census Bureau, Population Division

The Pension Pillars

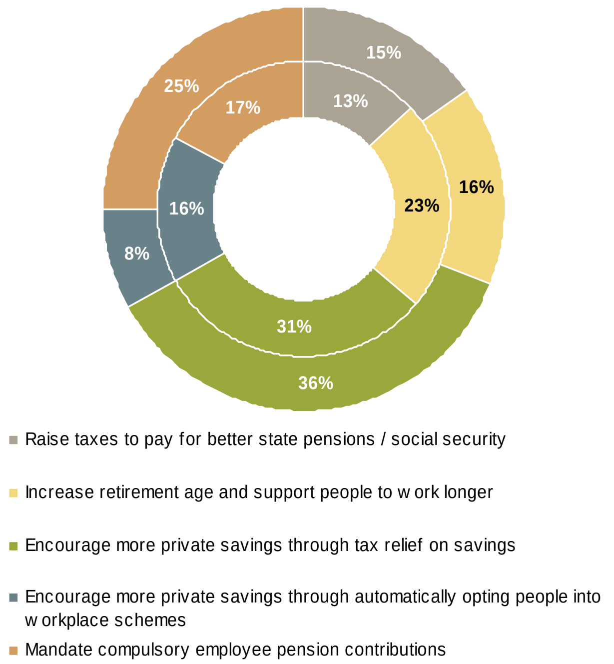
In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In the UK, individuals accept that they hold most responsibility for their own retirement income. This is a relatively recent change and marks the switch from final salary schemes to money purchase schemes

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
United Kingdom	Complex two-tier system provides benefits from 60 for women and 65 for men. Funded on a pay-as-you-go basis.	Mix of DB and DC arrangements in place. Largely funded and benefit from tax relief. Public sector unfunded liabilities over half of GDP.	Personal Pension arrangements introduced in 1988 with further reforms through Stakeholder schemes to widen scope. The new compulsory Personal Accounts will take effect from 2012.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in the UK see the voluntary approach as the most popular way to help people fund their retirement; over a third of those surveyed favoured being encouraged to save for retirement through further tax relief on savings. This preference for tax relief may reflect the fact that many British people accept that they are now responsible for their retirement income and look to government more as an enabler.

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



The Conditions for Realising Successful Retirement Planning

Our research revealed that although **25%** of the UK survey respondents currently feel well prepared for retirement, an alarming **75%** of people do not know what their retirement income will look like.

Figure 4 – Levels of preparation

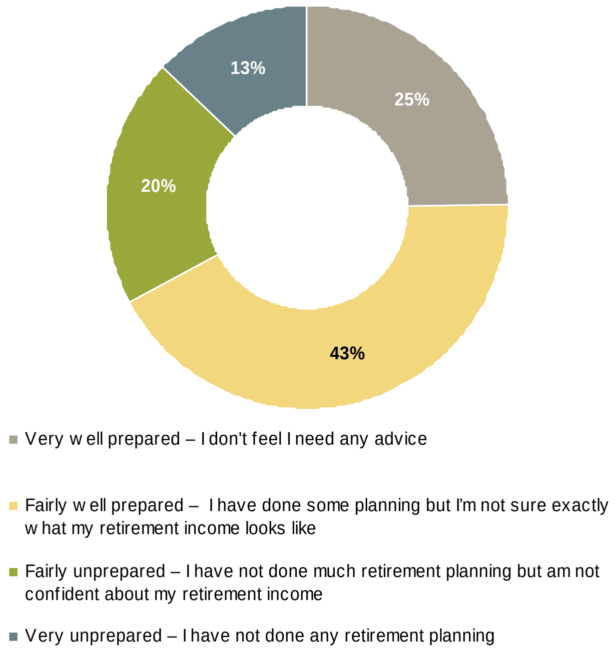


Figure 5 – Understanding of finances

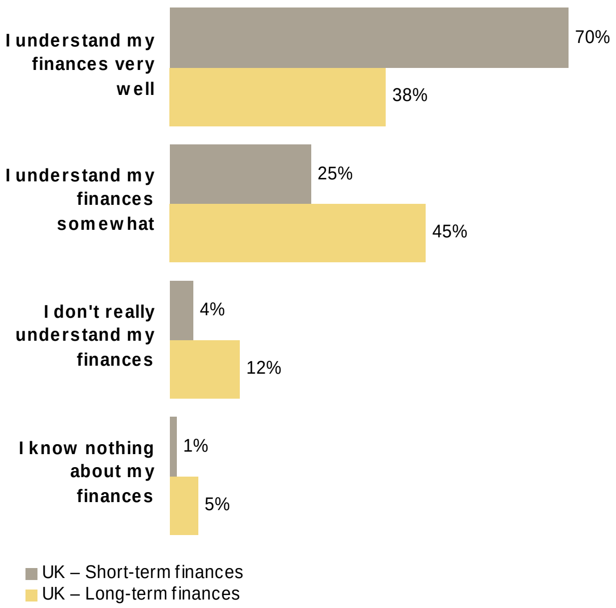
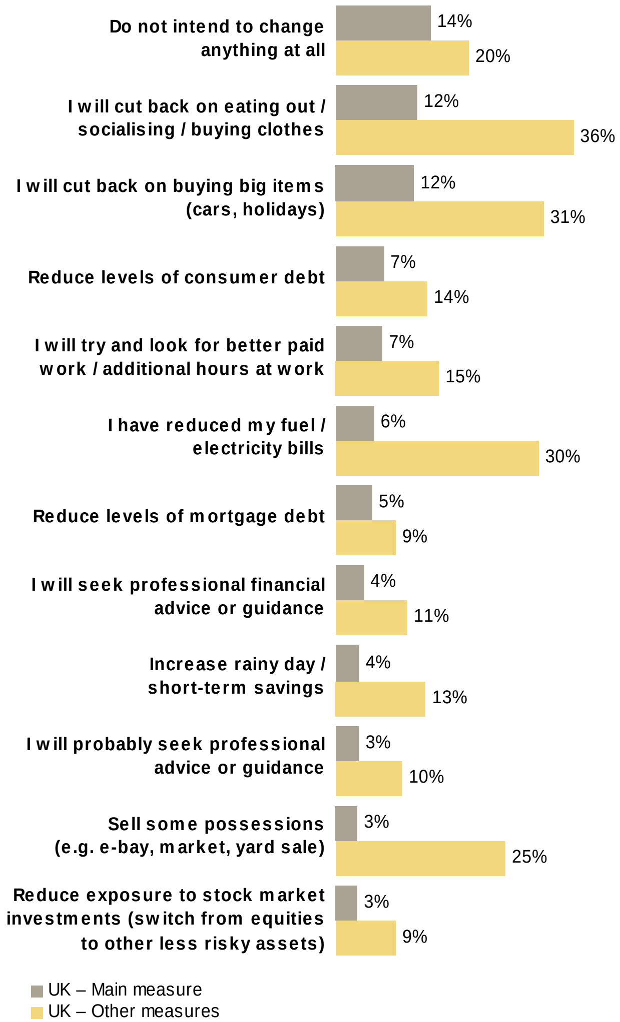


Figure 6 – Coping methods to survive the economic downturn



It would seem that the feeling of being unprepared is in part down to their understanding of longer term finances. Whilst 70% of British survey respondents understand their short -term finances very well, only 38% are as confident about their longer term finances.

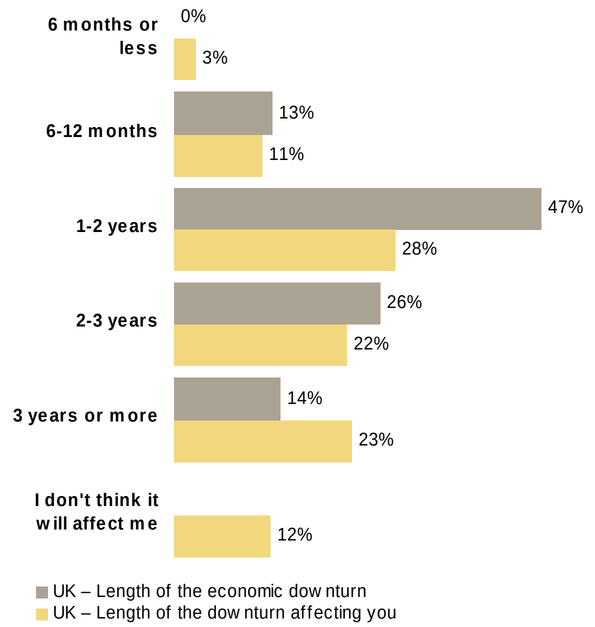
The Preparedness Gap

The low levels of understanding of personal finances in the UK may mean that the 'preparedness gap' is linked to a lack of access to both financial advice and guidance. 56% of British people surveyed have never accessed any general financial education, whilst 37% 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. It is therefore paramount that people 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 UK families' finances and their attitudes. The IMF expects the UK to remain in recession throughout 2009 and most of 2010, and many British respondents agreed with this view. However, a significant proportion was less than optimistic. Many respondents in the UK 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 British 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.

Figure 7 – The length of the downturn



Concluding Remarks

The UK, like many countries across the globe, is at an extremely important juncture with the increasing number of elderly people in society. This trend is set to continue and it represents a real challenge for governments and individuals in terms of how to fund retirement.

Whilst the economic downturn has had a very immediate impact on British people's review of their spending habits, it remains to be seen whether this signals a new longer term trend towards increased savings rates. One of the most important challenges is widening access to financial advice and education so that the UK population better understands their longer term finances and can plan accordingly.