The Future of Retirement
It's time to prepare

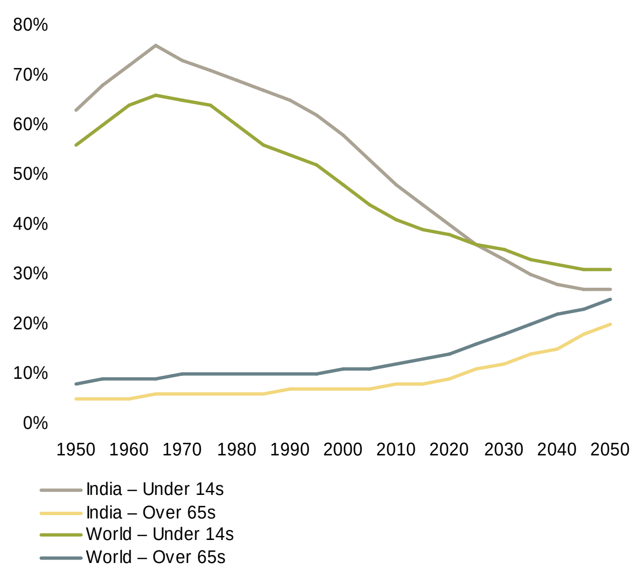
Fact Sheet
India

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 India 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 a small majority of people in India that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in India

India – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in **2050** the number of dependent adults in India will reach the number of dependent children for the first time. This crossover arrives much later when compared with mature countries, and indeed other emerging economies, giving India more time to plan, or what is often called a 'demographic dividend'.

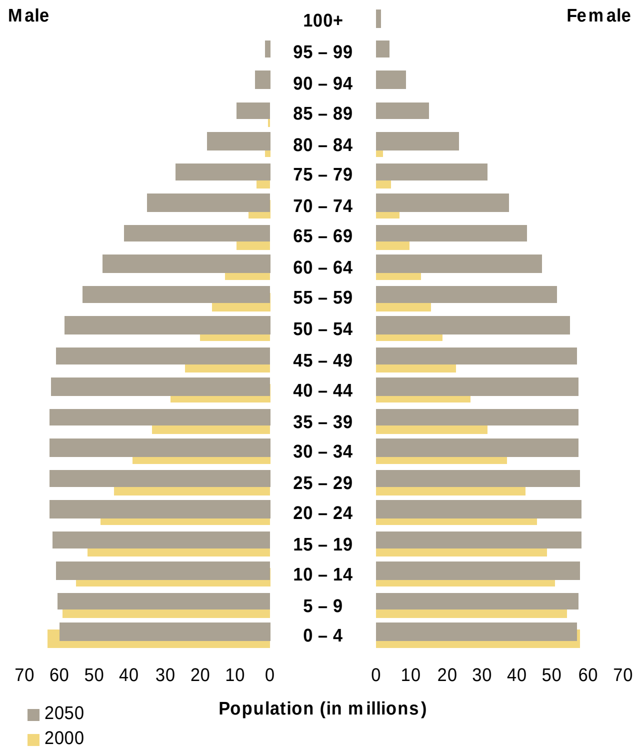
Figure 1 – The ageing Indian population



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

In India'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 **0-14 years**, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to **age 30** and beyond. While India's population profile remains still relatively young by 2050, this trend still 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 India



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 India, a traditional reliance on social provision (Pillar 1) has made the state the main provider. In recent times, the government has sought to develop personal provision

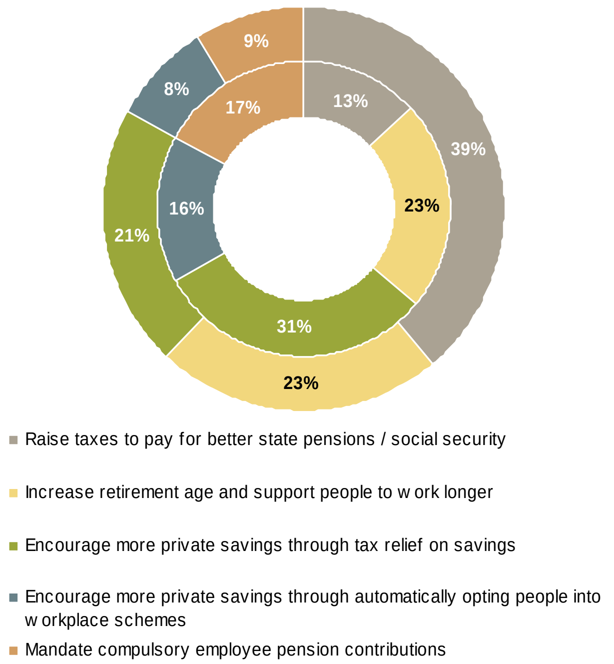
(Pillar 3) and the findings reveal that Indians have embraced the need to save for themselves. However, as with other societies with a youthful population profile – the average age in India is just 26 years – people are more likely to see saving for their children (**35%**) as more important than saving for their retirement (**12%**).

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
India	Largely pay-as-you-go social model providing retirement benefits at 60 for women and 65 for men.	DB and DC mixed system providing benefits through an employee provident fund which can be cashed at 58. Allows for lump sum payments to be made.	The New Pension System (NPS) sees the introduction of a DC arrangement with tax relief and flexibility at retirement. Will eventually provide benefits for 87% of Indian workers.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in India are as likely to view working longer as a solution to funding their retirement compared with saving more through tax incentivised products: **23%** supported working longer while **21%** supported encouragement to save through further tax relief on savings. However, the most popular approach was for the Government to increase taxes so as to boost state provision. This preference may reflect the fact that people in India already consider their savings rates to be sufficient. Additionally, as previous reports have shown, people living in countries which historically have not provided wide coverage within the pensions system, tend to accept that they will simply have to keep working to provide for themselves.

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



The Conditions for Realising Successful Retirement Planning

In spite of the relatively low coverage of the pension system, and relatively fewer people seeing saving for retirement as a priority, Indians have the **strongest** feeling of preparedness of all the countries in the 2009 survey. Nevertheless, even here over half of people felt unprepared to some degree. Furthermore, the findings reveal that **58%** of people do not know what their retirement income will look like.

Figure 4 – Levels of preparation

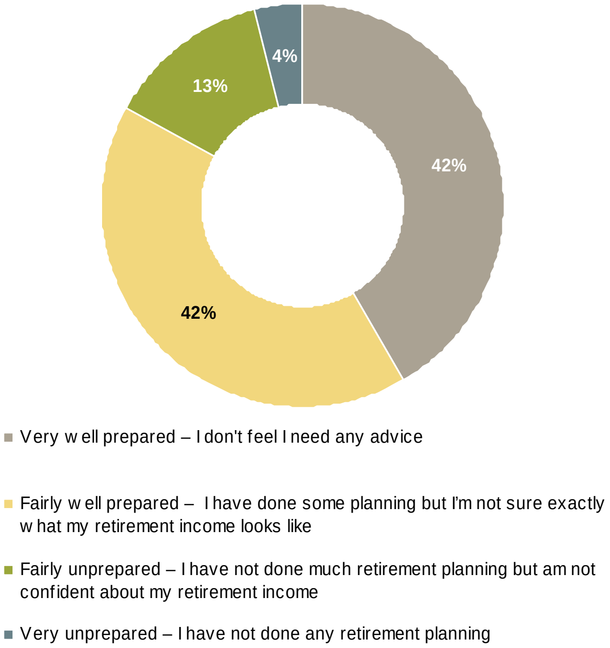


Figure 5 – Understanding of finances

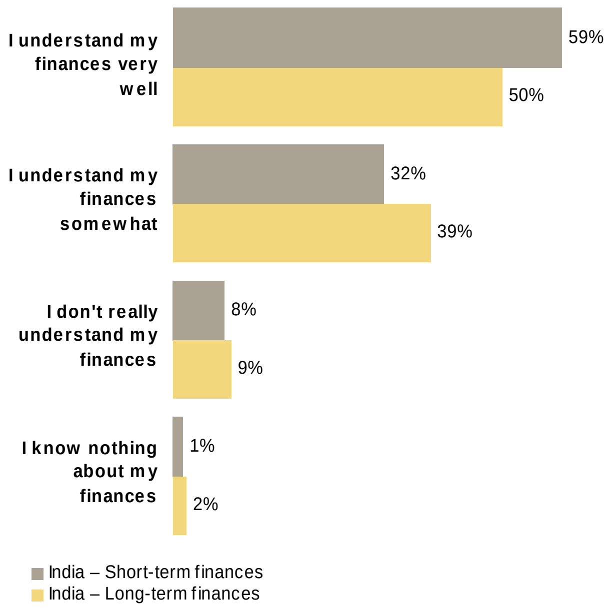
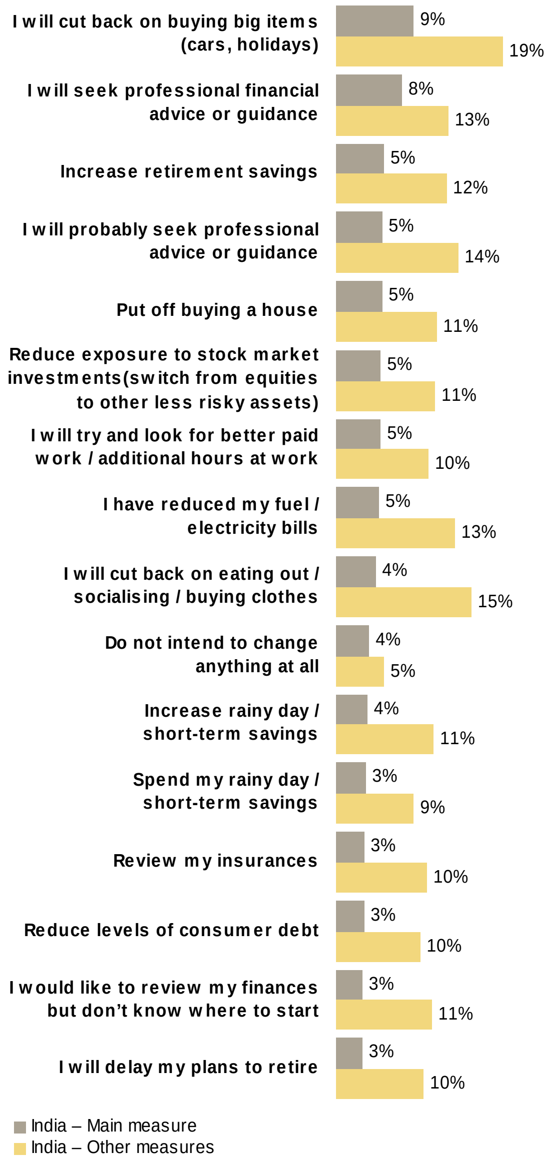


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **59%** of survey respondents in India understood their short -term finances very well, only **50**% are as confident about their long-term finances. Nevertheless, this level of understanding was above the global average.

The Preparedness Gap

These levels of understanding of personal finances in India highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **13%** of the people surveyed had never accessed any general financial education, whilst **16%** of people have never accessed any form of professional financial advice. Although a greater than the global average balance of respondents in India feel they have had access to financial education, this education may merely focus on informal channels – such as family and the Internet – which may not provide the most comprehensive understanding of one's personal finances.

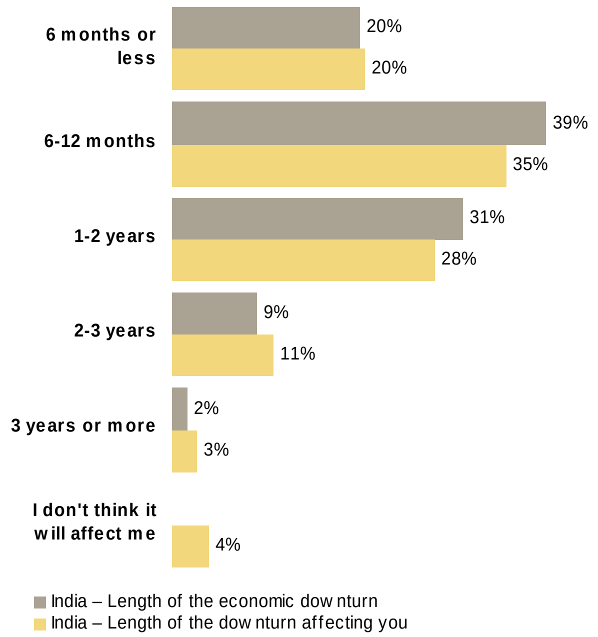
Given the responsibilities people now face in planning for their retirement, this lack of comprehensive financial education and guidance could become a major impediment. In addition, the danger may be that without an adequate understanding, people in India could be complacent in feeling relatively prepared for retirement. The need to develop personal finance education programmes is therefore 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 on their attitudes. The IMF expects India to post positive growth (5.1%) in 2009, and growth of 6.5% in 2010. People in India – in line with other emerging economies – are even more optimistic: **59%** of people expect the downturn to last less than 12 months; globally this falls to just **29%**.

Given the more benign impact the economic downturn has had on India's growth, it is not surprising that people have been less inclined to adopt survival strategies to cope with the downturn. However, it is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases. Debt was seen as a major obstacle to saving by just **11%** of survey respondents in India, (compared with the global figure of **18%**). The findings also revealed that 1-in-8 people in India have either reduced or stopped saving into a pension. A further **18%** say they would like to seek financial advice to help them make sense of the choices facing them.

Figure 7 – The length of the downturn



Concluding Remarks

Due to the demographic profile of India, the country has the chance to benefit from a demographic deficit due to the young age profile of the population. Because of this, India has time to prepare for retirement before the bulk of its adult population enters their later years. Widening the scope of the long-term savings market will be essential for India to make the most of this opportunity.

Many people in India have had access to financial advice and guidance and this is an encouraging trend, however, the sources that they gain advice and guidance from are relatively informal (i.e. family and friends) so a challenge in the future will be for the people in India to seek more professional levels of advice and guidance to ensure that their retirement plans are correctly in place.

The economic downturn's impact in change has been muted in India, with many respondents not feeling the impact too significantly, whilst many do not see it impacting on them for more than a year.

The future of retirement in India looks positive especially if current trends continue.