The Future of Retirement
It's time to prepare

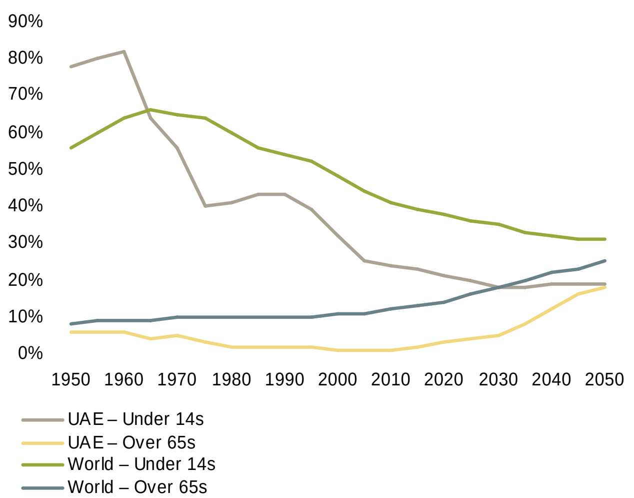
Fact Sheet
United Arab Emirates

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 the UAE 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 people in the UAE that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in the UAE

The UAE– like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, by 2050 the number of dependent adults in the UAE will approach the number of dependent children. Given the UAE's youthful population profile – the average person is currently around 20 years old – this convergence arrives much later when compared with Mature economies giving the UAE more time to plan, or what is often called a 'demographic dividend'.

Figure 1 – The ageing UAE population

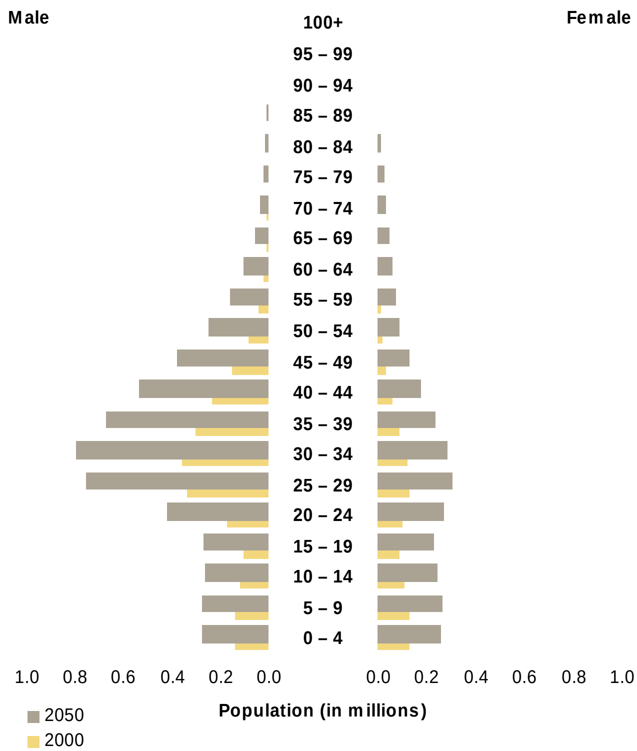


Source: UN World Population Prospects: The 2008 Revision, Population Database

In the UAE'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 **20-30 years**. However, as we fast forward to 2050 (the grey section of the chart), this bulge swells to age **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 the UAE



Source: U.S. Census Bureau, Population Division

The Pension Pillars

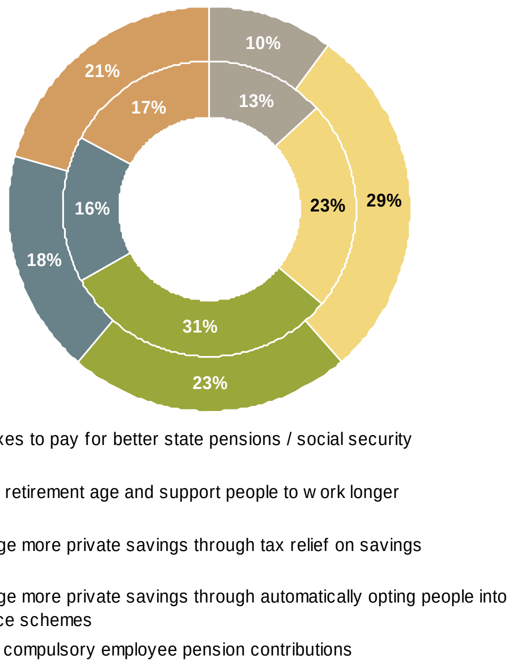
In looking at the future of retirement, the World Bank has established a model with three pillars of retirement provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In the UAE, people have embraced the need to save for themselves, though, as with many other emerging markets with young age profiles, people are more likely to prioritise saving for their children (**33%**) as opposed to saving for their retirement (**13%**). Nevertheless, developing wider access to retirement products will in time become a pressing need as the population's average age profile inevitably shifts.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
United Arab Emirates	There are no retirement payments by the state in UAE.	The occupational Retirement Pension was extended to the private sector in 2003. Providing retirement benefits for women at 55 and for men 60.	There are no provisions for personal retirement savings in UAE.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in the UAE see increasing the retirement age and supporting people to work longer as the most popular way to help people fund their retirement: **29%** of those surveyed favoured support for working later in life – this was much higher than many other countries. As our 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. Few people (**10%**) are wedded to social provision as the main funding route.

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



The Conditions for Realising Successful Retirement Planning

People in the UAE display a major preparedness gap, in line with all the countries in the 2009 survey. The absence of widespread retirement provision helps to increase the uncertainty around retirement outcomes. Given this uncertainty – made greater as a result of the current economic climate – only **13%** respondents in the UAE currently feel very well prepared for retirement. The findings reveal an alarming **87%** of people do not know what their retirement income will look like. Nearly half of people in the UAE (43%) felt either 'fairly' or 'very' unprepared for retirement.

Figure 4 – Levels of preparation

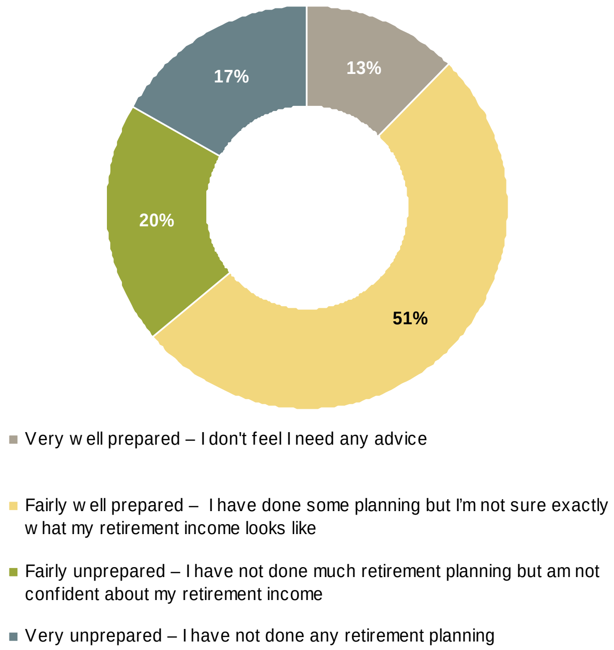


Figure 5 – Understanding of finances

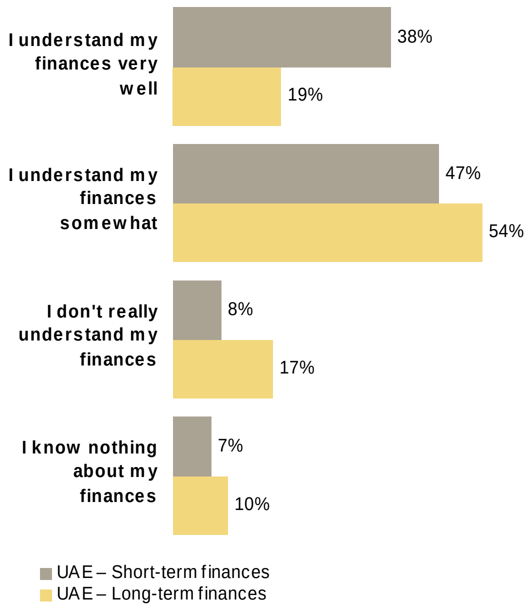
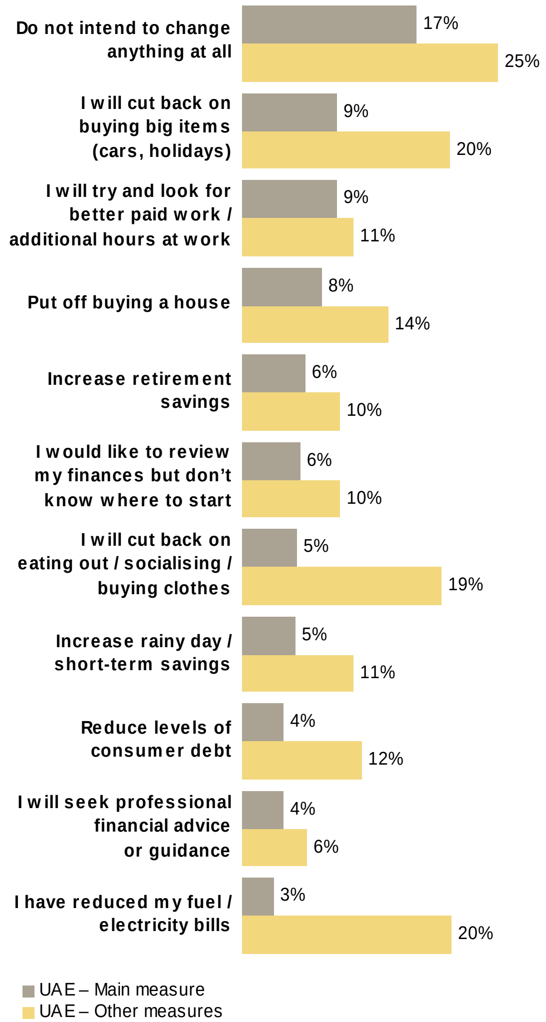


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **38%** of people in the UAE understood their short -term finances very well, only **19%** are as confident about their long-term finances.

The Preparedness Gap

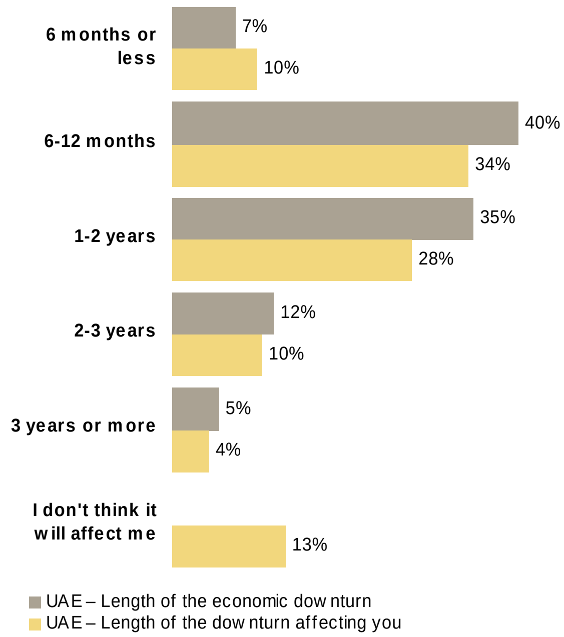
These low levels of understanding of personal finances in the UAE highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **51%** of the people surveyed had never accessed any general financial education, whilst **62%** of people have never accessed any form of professional financial advice. This is one of the highest advice shortfalls across the survey and given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. Therefore, 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. This impact has been less keenly felt in the Middle East. The IMF expects UAE to maintain healthy growth levels – around **6%** in 2009, followed by **5.6%** in 2010. Many of the respondents in UAE agreed with this view and, overall, they were among the most optimistic in the global survey.

When viewing survival strategies adopted to cope with the global economic downturn, it is clear that large numbers in the UAE don't intend to make any changes to their finances. However, those that are adopting coping strategies are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. Relatively few people are cutting back on retirement savings, reflecting the fact that fewer people are saving for retirement to begin with. **10%** 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

Like most countries, UAE is faced with an ageing society. In line with many emerging economies, its population profile is still relatively young and will benefit from the demographic dividend – the window of opportunity afforded to societies which will first see a major population shift from youth dependency into working adulthood. This gives the UAE the time to prepare for retirement, before the adult population subsequently moves into retirement. It is critical that the UAE makes the most of this opportunity. The results reveal that the UAE, while relatively enthusiastic about saving, has relatively fewer people saving for retirement and the current economic downturn, has had a muted impact. There is a clear need to ensure increasing access to retirement products as well as to financial advice and education, so that families are better placed to understand their longer term finances and plan accordingly.