The Future of Retirement

A new reality

Singapore Report
With a constantly evolving economy and uncertainties in life, it is difficult to predict what is in store for the future. It is critical that one is financially prepared to face these challenges and demands. At HSBC, our purpose is to provide holistic wealth solutions that will help customers face these evolving needs with confidence.

We are therefore delighted to introduce the latest in HSBC’s series of independent global studies into The Future of Retirement. A new reality is our eighth report and highlights the real challenges in planning for and achieving the retirement you want.

This report reveals that saving for retirement is a challenge that most people face in Singapore. Most Singaporeans hope and aspire to a positive retirement filled with family and travel pursuits. However, over half of Singaporeans are inadequately prepared to lead a comfortable retirement life.

Not having enough money to live on in later life, is the top fear that is encouraging Singaporeans towards saving for retirement. Cash remains a big part of Singaporeans’ wealth portfolio. The study found that cash savings and deposits constitute a third of retirement income, followed by investments (including endowments), and property income and assets.

Singaporeans clearly identify the benefits of financial planning and saving more, as the report shows that people who have a financial plan, particularly if they also take professional advice, on average will have more money in retirement than those who do not. The reason is simple – they save more and they save for longer – where globally, people saving on a regular basis amass more than double the retirement savings of those who save only from time to time.

With life expectancy still on the increase, the need to save and plan for your retirement is becoming ever more critical. Retirement is one of the five customer needs all of our financial advisors discuss with our customers, and we hope the insights will encourage everyone to consider their retirement planning carefully, and to start as early as possible. Take this opportunity to review your financial plan today with our wealth planners.

Paul Arrowsmith
Head of Retail Banking and Wealth Management, HSBC Singapore

Walter de Oude
Chief Executive Officer
HSBC Insurance (Singapore)
Key findings

- Over half of Singapore respondents feel their financial preparations for a comfortable retirement are inadequate: 44% feel their preparations are not enough, whilst 12% are not preparing at all.
- People run the risk of living long beyond their retirement savings: on average, Singapore respondents expect their retirement to last for seventeen years, but their retirement savings to last for just nine years.
- Cash savings are an important source of retirement funding in Singapore: 69% expect to use this source, and on average, cash savings is expected to represent 34% of retirement income.
- Respondents understand the importance of preparing for retirement from early on in life: on average, they see the age of 34 as the latest by which people can start planning financially and still expect to maintain their standard of living in retirement.
- When asked to choose between saving for the short term goal of a holiday and for the longer term goal of retirement, over half (54%) of Singapore respondents chose to save for retirement while only 40% chose a holiday, showing they are more focused on the long term than the global average.
- Fear is an important incentive to saving in Singapore: 61% are motivated to save towards retirement by the fear of not having enough money to live on in later life. Similarly, 54% of those planning for retirement were prompted by the desire for a good standard of living in later life.

In Singapore, there is a strong relationship between financial planning and saving more, with nearly half of respondents (46%) saying financial planning led to increased saving for retirement, and only 31% saying they did not save more.

Introduction

HSBC’s The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world.

The 2013 global report, A new reality, is the eighth in the series and is based on a survey of more than 15,000 people in 15 countries in July & August 2012. A further report looking at how people are living in retirement will be published later in the year.

This country report, based on the views of over 1,000 respondents in Singapore, highlights our main findings into what people are looking forward to from their retirement and how they are expecting to pay for these aspirations. The first part explores people’s hopes and fears for retirement. The second part explores savings behaviours and what factors encourage and discourage saving. The third part focuses on how people are currently saving and planning for retirement, and whether they are doing enough. The final part lists some practical actions that people can take to improve their financial wellbeing in later life.

The global report, other country reports and all previous reports are available on www.hsbc.com/retirement

Family and travel are the most important aspirations for retirement
Part One

Getting the retirement you want

Retirement hopes and fears

To understand retirement savings needs in Singapore, there is a need to understand people’s aspirations for later life. The most popular retirement aspirations are to spend more time with friends and family (71%), to take more holidays (63%).

Part One

Getting the retirement you want

Respondents were asked how much money they feel they will need to live comfortably, both now and in retirement. Using these figures, it can be determined the proportion of ‘working age’ income that Singapore respondents believe they need for a comfortable retirement is 66%. This indicates how much savings behaviour will have to change in order for people to achieve their aspirations in later life, especially as 44% of respondents are not adequately preparing for retirement, and 12% are not preparing at all.

To further reveal the inadequacy of current savings levels, respondents were asked how long they expected to live in retirement, but also how long they expected their savings to last. The findings reveal that on average Singapore respondents expect their retirement to last for seventeen years, but their retirement savings to last for an average of just nine.

Respondents were also questioned about their fears around retirement. The most common concerns were poor health (70%) and financial hardship (62%). Taken together, these findings suggest many are rightly worried about the growing problem of paying for healthcare and long term care in retirement. According to the UN, by 2050 there will be less than two people aged 15-64 for every person over 65, so this will be a crucial issue affecting millions of families.

How much money will be needed in retirement and where will it come from?

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Section 4: The largest proportion of retirement income will come from cash savings

Q: Once you are fully retired, what proportion of your retirement income do you expect will be funded from each of the following sources? (Base: All not fully retired)

On average, respondents say that they will need a household income of SGD 60,400 per year to feel comfortable in retirement. As Figure 4 shows, respondents expect to use a variety of sources to provide this income, but the biggest chunk will come from cash savings (34%). This is consistent across age groups. Figure 5 reinforces this point, showing that over two thirds (69%) are expecting to use cash savings to help fund their retirement.

Part Two

The obstacles to saving

Why are people not saving for retirement?

Nearly three-fifths (58%) of Singapore respondents are regular savers: this is higher than the global average derived from the fifteen countries surveyed. Of those not saving for retirement, nearly half (47%) are being held back by the cost of day-to-day living, rising to 51% of 35-44 year olds. Nevertheless, Singapore respondents understand the importance of preparing for retirement from early on in life: on average, they see the age of 34 as the latest by which people can start planning financially and still expect to maintain their standard of living in retirement.

Figure 6: Nearly half say they cannot save for retirement due to the cost of day-to-day living

Q: Why have you never saved specifically for retirement? (Base: All not saved for retirement)

17 vs. 9 people expect to spend 17 years in retirement, but their savings to run out after 9 years

41% have never saved specifically for retirement
Figure 7 shows that there are some life events that can derail people’s efforts to save for retirement. The most important of these is the cost of buying a home or paying a mortgage (affecting 38%), followed by unemployment (29%). Life events can have a damaging impact on retirement preparation: 69% of those affected by at least one of the events in Figure 7 said they saved less for retirement as a result. In Singapore, the most impactful life event affects people’s retirement savings behaviour on average for just over three and a half years, below the global average.

Moreover, about three-fifths (62%) of those whose retirement saving was ever impacted by a life event claim they are still being affected by the consequences.

Another obstacle to retirement saving is the appeal of the short-term: immediate and perceived savings needs are more tangible and therefore may be given a higher priority than abstract and far-off goals like retirement. Respondents were asked to choose whether they would save towards the short-term goal of a holiday or the long-term goal of retirement, if they could only afford to save for one in a single year. Encouragingly, Singapore respondents were less likely to choose a holiday than the global average, with 40% choosing this option compared with 54% choosing to save for retirement (see Figure 8).

Short-termism in savings behaviour

Another obstacle to retirement saving is the appeal of the short-term: immediate and perceived savings needs are more tangible and therefore may be given a higher priority than abstract and far-off goals like retirement. Respondents were asked to choose whether they would save towards the short-term goal of a holiday or the long-term goal of retirement, if they could only afford to save for one in a single year. Encouragingly, Singapore respondents were less likely to choose a holiday than the global average, with 40% choosing this option compared with 54% choosing to save for retirement (see Figure 8).

Nevertheless, a significant proportion of Singapore respondents are willing to dig into retirement savings as a means of dealing financially with an unforeseen crisis. As Figure 9 shows, 35% would look to their retirement savings to get through serious financial hardship, though more would use other savings (52%). Taken together, this shows that whilst focusing on the longer term helps to boost savings for retirement, the readiness to draw on long-term savings in an unexpected crisis will act to reduce the value of retirement savings for some Singapore respondents.

Figure 7: More than any other life event, buying a home has affected retirement savings

Q: Some people experience ‘life events’ which impact significantly on their ability to continue saving for their retirement. Which, if any, of the following ‘life events’ have ever impacted significantly on your own ability to save for retirement? (Base: All not fully retired)

- Buying a home/paying a mortgage
- Becoming unemployed
- Paying for children’s education
- Starting a family
- Significant drop in earnings/income
- The recession/current economic downturn
- Illness or accident preventing me/my spouse working
- Getting into debt or financial difficulty
- Having to find work to look after someone
- Having to fund/look after a dependent
- Getting married/partnered
- Paying for my own education
- Starting work
- Finishing full-time education
- Separation/divorce
- Remarrying
- Other event
- None of these events have significantly impacted
- Don’t know

Figure 8: Respondents in Singapore would rather save for retirement than for a holiday

Q: If for one year you could only afford to save EITHER to go on holiday OR towards your retirement, which would you be more likely to do? (Base: All not fully retired)

- Save to go on holiday
- Save towards retirement

Figure 9: Over a third would use their retirement savings to deal with a crisis

Q: Sometimes people experience unforeseen life events which can lead to serious financial hardship. If you were to experience such hardship which, if any, of the following actions would you be most likely to consider? (Base: All not fully retired)

- Use my other savings & investments
- Use my retirement savings & investments
- Use my insurance(s)
- Move into a smaller home
- Look for better-paid work
- Sell my valuable assets
- Sell my main home
- Ask friends and family for help
- Sell my second home/other property
- Borrow (more) money
- Sell my business/business assets
- Other action
- Don’t know

38% say buying a home has affected their ability to save for retirement.
Part Three

The role of saving and planning

When do retirement saving and planning begin?

The findings show that saving (putting money aside for the future) and financial planning (evaluating the current situation, identifying future goals and taking action to achieve them) start at varying and different ages in the countries surveyed. While on average worldwide retirement saving starts four years before planning for retirement starts, in Singapore the ‘gap’ is smaller, with saving beginning on average at 26, and planning at 28. This figure hides the fact that 41% of Singapore respondents have never saved towards retirement at all.

Figure 10: There is a smaller gap between starting to save and planning in Singapore

Q: At what age did you first start to save specifically for retirement? At what age did you first start planning financially for retirement? (Base: All not fully retired, chart shows medians and excludes those who have not started saving or planning)

The drivers of retirement saving and planning

Figure 11 shows there are many different reasons why people begin to save for retirement, though fear of financial hardship in later life is by far the most common motivator, chosen by over three-fifths (61%) of respondents. More positive developments such as starting work (18%), getting married (15%) or paying off the mortgage (14%) are far less important triggers.

Figure 11: Fear of financial shortfalls in retirement is motivating saving

Q: There are many reasons why people start saving for retirement. Which of the following are the main reasons why you started or would start saving for retirement? (Base: All respondents)
How people make financial plans for retirement

As Figure 13 shows, financial planning for retirement can take several forms, both formal and informal. In which of the following ways, if any, have you ever planned for your retirement? (Base: All respondents, chart does not show those who have not planned for retirement)

Figure 12 shows that over half (64%) of Singapore respondents are motivated to start planning for later life by the desire to achieve a good standard of living in retirement. Meanwhile, almost half (47%) see retirement planning as the right or responsible thing to do and over a third (36%) hope planning will help them retire early.

The planning premium

The research looks at the relationship between financial planning and saving money. Globally, there is a positive relationship overall – the ‘planning premium’ – with 44% of respondents saving more for retirement as a result of having a financial plan, compared with only 31% who did not save more. This relationship is also evident in Singapore, with nearly half of respondents (45%) saying financial planning led to increased saving for retirement, and only 31% saying they did not save more.

In Singapore, this relationship is evident when looking at the average retirement savings levels of respondents. Overall, both men and women who undertake either formal or informal planning have more in retirement savings than those who have not planned, while those who use professional financial advice are also better off. However, it is notable that when looking at a group with similar incomes, those who do not use professional financial advice had more retirement saving than those who do.

Figure 14: Nearly half believe having a financial plan led to greater levels of retirement savings

Q: As a result of having a financial plan in place, would you say you have saved more for your retirement and for other purposes? (Base: All respondents excluding those who have not planned financially for retirement)

**Figure 12: The desire for a good standard of living in later life provides a spur to retirement planning**

**Q: What are the main reasons why you started planning financially for your retirement? (Base: All respondents excluding those who have not planned financially for retirement)**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I want/wanted to realise my hopes and aspirations in retirement</td>
<td>44%</td>
</tr>
<tr>
<td>I want/wanted a good standard of living in retirement</td>
<td>35%</td>
</tr>
<tr>
<td>My spouse/partner suggested that I start planning</td>
<td>11%</td>
</tr>
<tr>
<td>The State will not provide an adequate retirement</td>
<td>8%</td>
</tr>
<tr>
<td>My employer pays/paid into pension for me</td>
<td>7%</td>
</tr>
<tr>
<td>Advice from a professional financial adviser</td>
<td>6%</td>
</tr>
<tr>
<td>It’s the right/responsible thing to do</td>
<td>4%</td>
</tr>
<tr>
<td>I want/wanted to retire early</td>
<td>3%</td>
</tr>
<tr>
<td>I received a pay rise</td>
<td>2%</td>
</tr>
<tr>
<td>Don’t know/can’t recall</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 13: Retirement planning is largely self-directed

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Figure 15: Financial planning and advice have a positive effect on retirement savings levels

Q: Thinking now about the total value of all your retirement savings and investments (including any defined benefit, defined contribution, personal, or other pensions schemes, including employer contributions), approximately what is the total value of these savings and investments? (Base: All respondents)

<table>
<thead>
<tr>
<th>Retirement savings &amp; investments values (mean)</th>
<th>Respondents who</th>
<th>All respondents</th>
<th>Average income respondents*</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used formal retirement planning</td>
<td>SGD 319,937</td>
<td>SGD 137,317</td>
<td>SGD 362,003</td>
<td>SGD 275,582</td>
<td></td>
</tr>
<tr>
<td>Used informal retirement planning</td>
<td>SGD 257,793</td>
<td>SGD 173,109</td>
<td>SGD 299,533</td>
<td>SGD 212,486</td>
<td></td>
</tr>
<tr>
<td>Did not use any retirement planning</td>
<td>SGD 190,744</td>
<td>N/A**</td>
<td>SGD 263,426</td>
<td>SGD 145,363</td>
<td></td>
</tr>
<tr>
<td>Used a professional financial adviser</td>
<td>SGD 324,072</td>
<td>SGD 140,916</td>
<td>SGD 369,774</td>
<td>SGD 278,567</td>
<td></td>
</tr>
<tr>
<td>Did not use a professional financial adviser</td>
<td>SGD 220,383</td>
<td>SGD 177,701</td>
<td>SGD 258,234</td>
<td>SGD 182,901</td>
<td></td>
</tr>
<tr>
<td>All respondents</td>
<td>SGD 258,726</td>
<td>SGD 164,256</td>
<td>SGD 299,553</td>
<td>SGD 218,216</td>
<td></td>
</tr>
</tbody>
</table>

* Income 39,801 SGD to 49,750 SGD
** Sample size too small

Practical actions towards a more comfortable future

Here are some practical steps people can take to improve their financial well-being in later life, based on the key global research findings:

Action 1: Get real about your retirement needs

Globally, respondents believe their savings will run out on average halfway through their retirement. With life expectancy increasing, people need to be aware how long their money will have to last, so that they can take steps to avoid any shortfall.

Action 2: Put your savings priorities in order

Globally, 22% are not currently saving anything for retirement, whilst 43% would choose saving for a holiday over saving for retirement if they could only afford to do one for a year. A proper balance needs to be established between spending on short-term needs and saving for long-term goals such as retirement. Shifting priorities now towards longer-term saving can lead to a more prosperous future.

Action 3: Be aware of how major life events affect saving for retirement

Life events, such as starting a family, impact on retirement saving behaviour for an average of four years. As most people will be affected by these events at some point in their lives, it is important to prepare in advance to minimise the detrimental impact on their retirement savings.

Action 4: Plan for the future

There is a direct link between having a financial plan and saving more: globally, 44% say they saved more for retirement with a financial plan in place, whilst only 31% say they did not save more. Having a financial plan and just saving something, however small to start with, can make a big difference to retirement income in the long run.

Action 5: Use professional advice to improve your savings position

Looking at respondents with average incomes, those who use professional advice when planning their future have the greatest levels of retirement and other savings. Developing a financial plan with a professional adviser can help ensure that all retirement needs are identified, gaps avoided, and eventualities covered.