

# From Literacy to Financial Planning: Global Retirement Income Adequacy

Renate Finke  
International Pensions

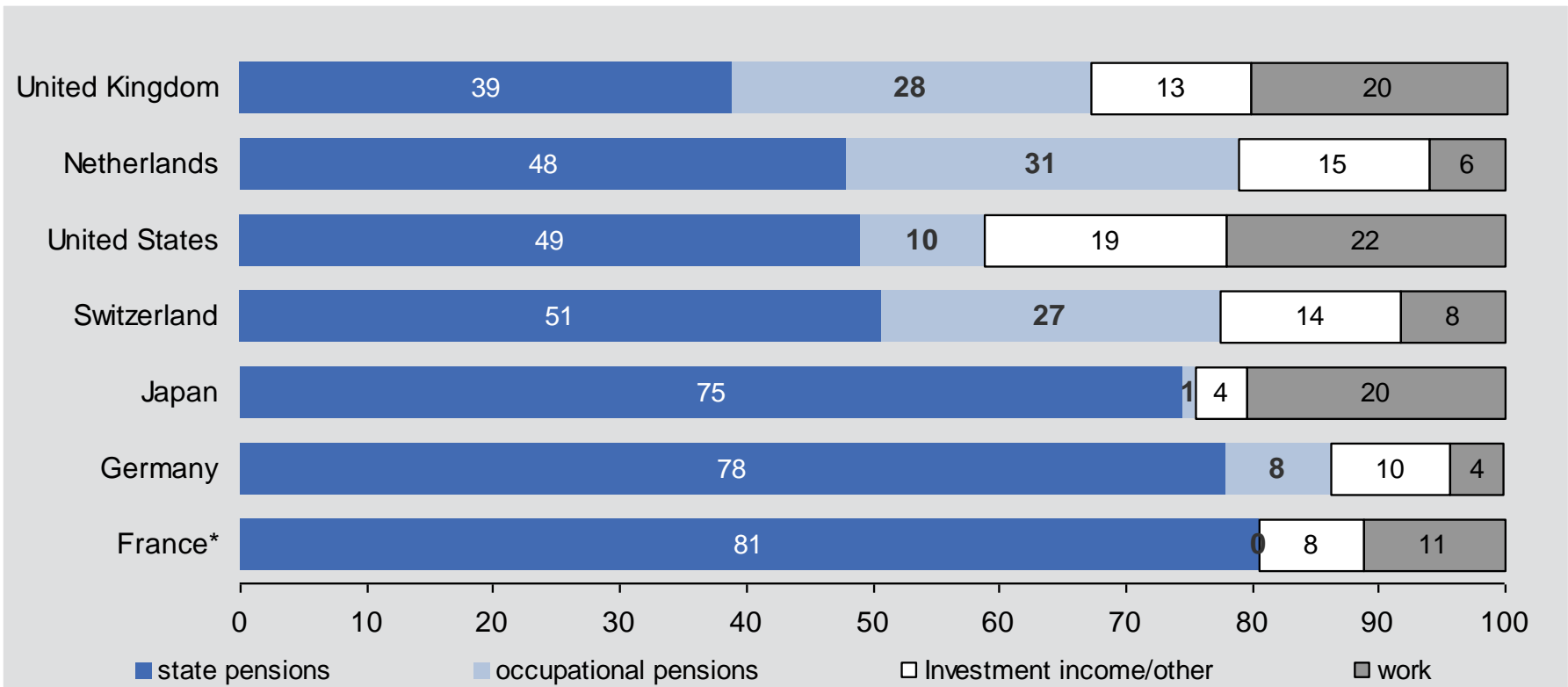
Amsterdam, November 14, 2012

## Overview

- Pension reform processes around the globe .....
- ..... have put more responsibility to the individual
- Retirement planning and financial knowledge are gaining importance
- Results from survey studies:  
Retirement Attitudes and Financial Strategies of the affluent 50+ Generation in the U.S. and selected Asian Countries

# Various Retirement Income Structures due to Broad Range of Pension System Design

Importance of retirement income sources in % of retirement income – around 2000 -

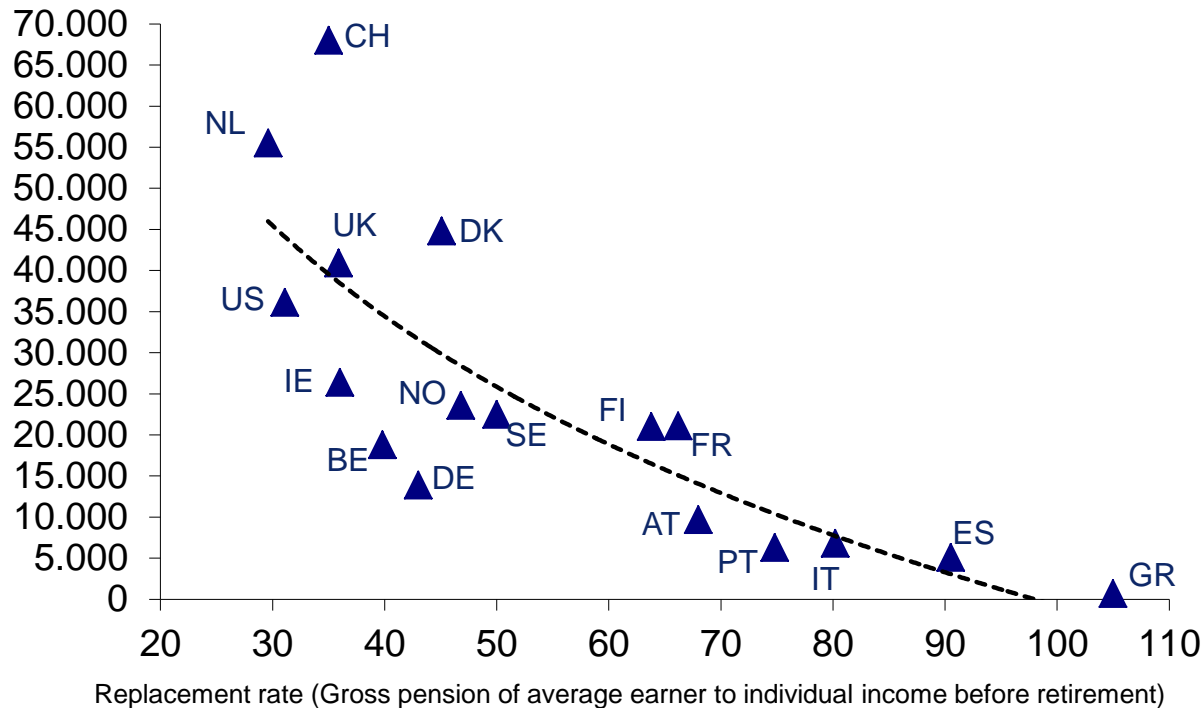


\* first pillar, incl. second-pillar PAYG income.

Sources: National Statistics, Central Banks, governmental bodies, Allianz International Pensions 2012

# The less generous the public system, the more developed funded pensions

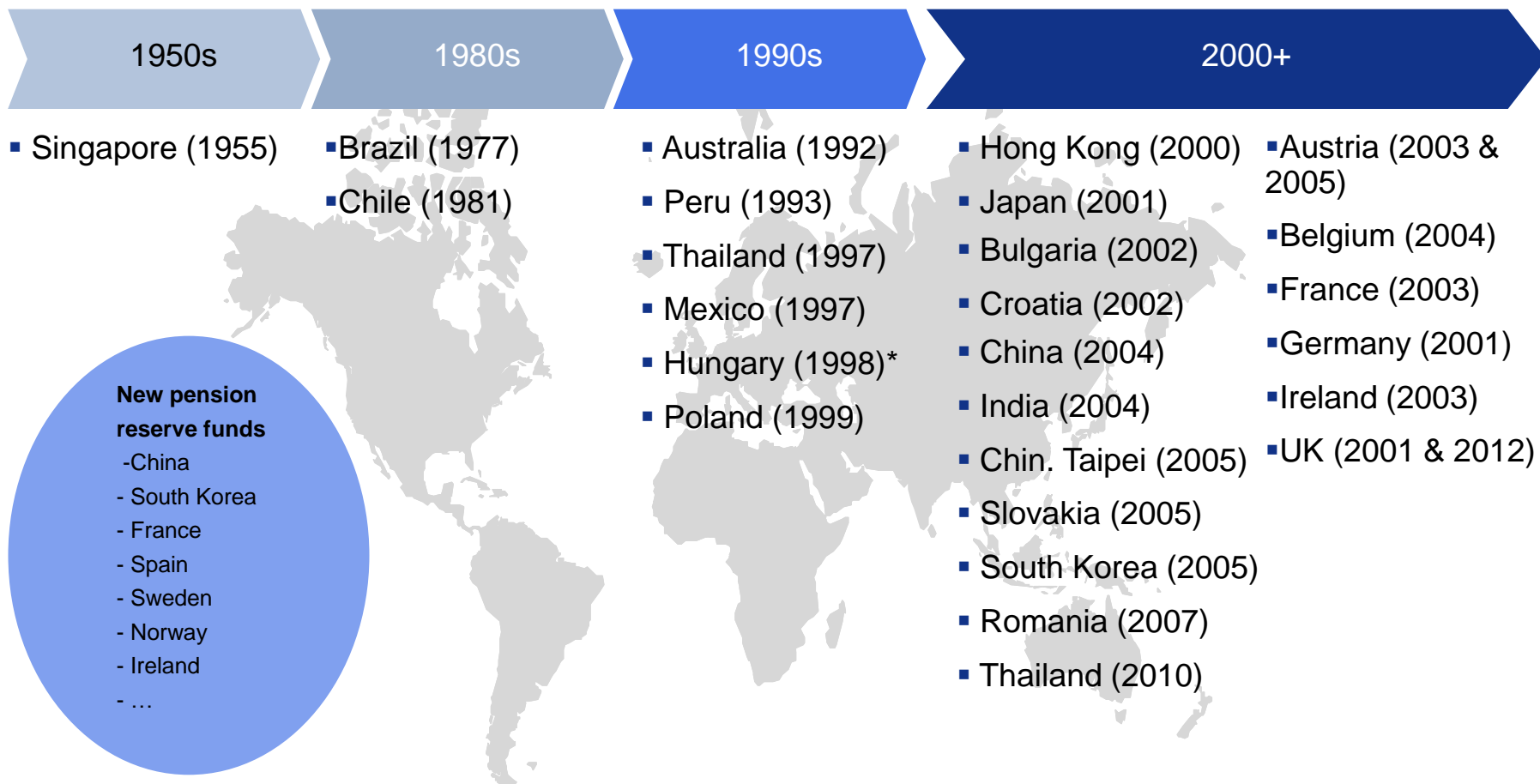
Relation between gross public replacement rate and retirement assets [EUR per capita]



- OECD: an approximate replacement rate of 70% necessary to maintain living standard
- Amount of capital needed depends on expected public pension benefits

\* Reserves held in pension funds and insurances. Source: Central Banks, National Statistical Offices, Eurostat, EU Commission, own calculations, 2010.

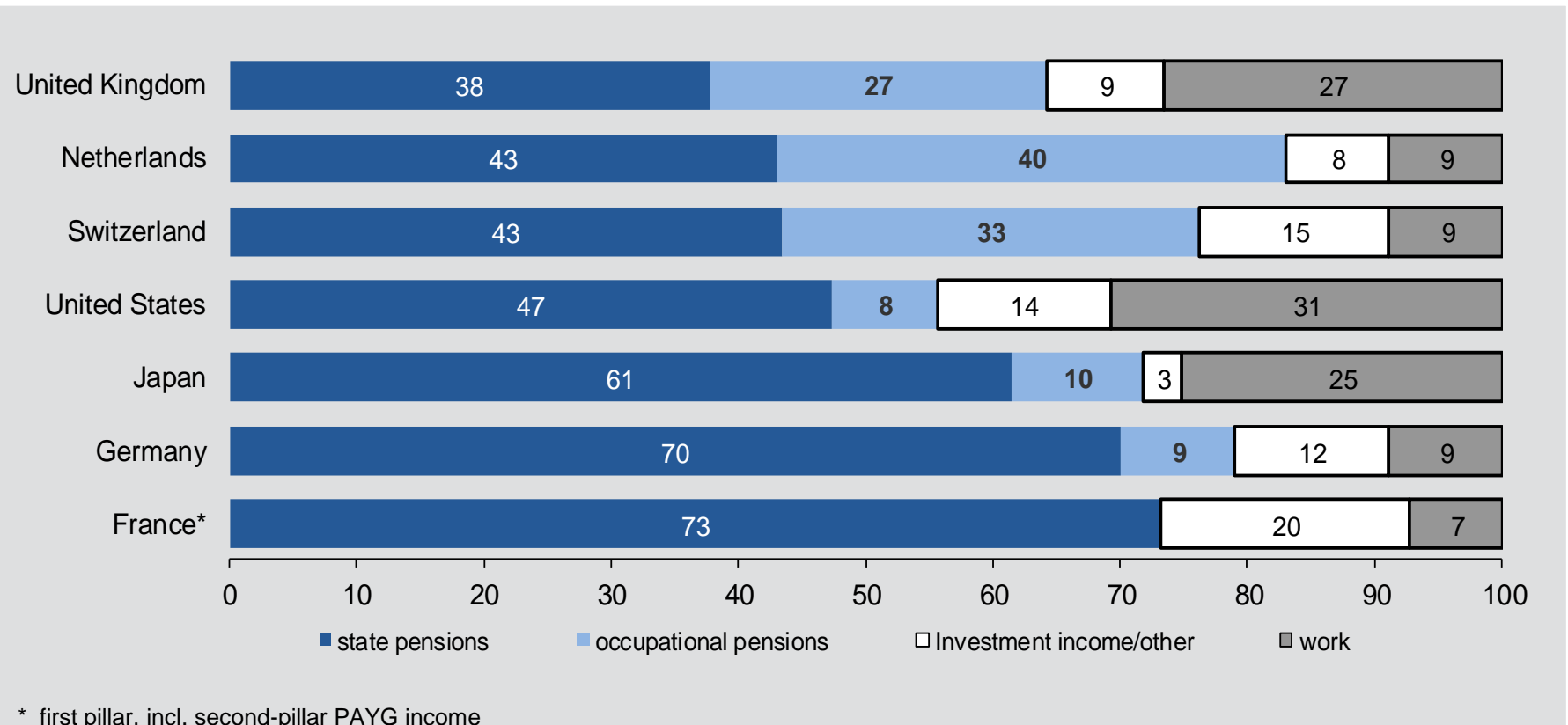
## New funded pension schemes have been introduced worldwide to build more balanced multipillar pension systems



\* Factual nationalization of DC pensions in 2010/ pension contributions are turned into taxes, the bulk of the country's HUF2.7trn (€9.6bn) in second pillar pension assets will be returned to the state treasury

# Smaller Share of State Pensions after Wave of Reforms

Importance of retirement income sources in % of retirement income – around 2010



Sources: National Statistics, Central Banks, governmental bodies, Allianz International Pensions 2012

# Multipillar pension systems allow for diversification of risks and retirement income sources

| Pension pillars            | Function   | Risks  | Design options   |
|----------------------------|--|--|--|
| <b>Public pillar</b>       | <ul style="list-style-type: none"> <li>▪ Redistribution</li> <li>▪ Insurance</li> </ul>  | <ul style="list-style-type: none"> <li>• Political</li> <li>• Inflation</li> <li>• Demography</li> </ul>   | <ul style="list-style-type: none"> <li>• Pay-as-you-go</li> <li>• Tax-financed</li> </ul>                                    |
| <b>Occupational pillar</b> | <ul style="list-style-type: none"> <li>▪ Accumulation of savings</li> <li>▪ Capital accumulation &amp; financial market development</li> </ul> | <ul style="list-style-type: none"> <li>• Behavioral biases</li> <li>• Inflation</li> <li>• Employer insolvency</li> <li>• Longevity</li> <li>• Investment</li> </ul> | <ul style="list-style-type: none"> <li>• Mandatory/voluntary</li> <li>• Defined Benefit/<br/>Defined Contribution</li> </ul> |
| <b>Personal pillar</b>     | <ul style="list-style-type: none"> <li>▪ Additional savings for financial security</li> </ul>  | <ul style="list-style-type: none"> <li>• Behavioral biases</li> <li>• Inflation</li> <li>• Investment</li> <li>• Longevity</li> </ul>                                | <ul style="list-style-type: none"> <li>• Tax advantages</li> <li>• Guaranteed/not guaranteed products</li> </ul>             |

Total retirement income adequate?

Stable and reliable pension systems need several pillars to balance out risks of the respective and arrive at an acceptable level of overall risk

Pension reform processes around the globe .....

..... have put more responsibility to the individual

 Retirement planning and financial knowledge are gaining importance

Results from survey studies:

Retirement Attitudes and Financial Strategies of the affluent 50+ Generation in the U.S. and selected Asian Countries



Results from the survey on  
Retirement Attitudes and Financial  
Strategies of the affluent 50+ Generation in  
the U.S.

## Study Design

### **Objectives :**

- What are the varying attitudes and plans regarding retirement / retirement finance among the 50-70-year-olds?
- How does this population divide into different groups based on their attitudes and behaviors?
- Special questions on retirement planning and knowledge

### **Universe / sample size:**

- Universe: People aged 50-70 with investable assets estimated at \$250k+, involved in decision making on financial matters
- Sample size: n= 1,506

### **Survey method:**

- Online survey within the TNS Online Panel

### **Interview length:**

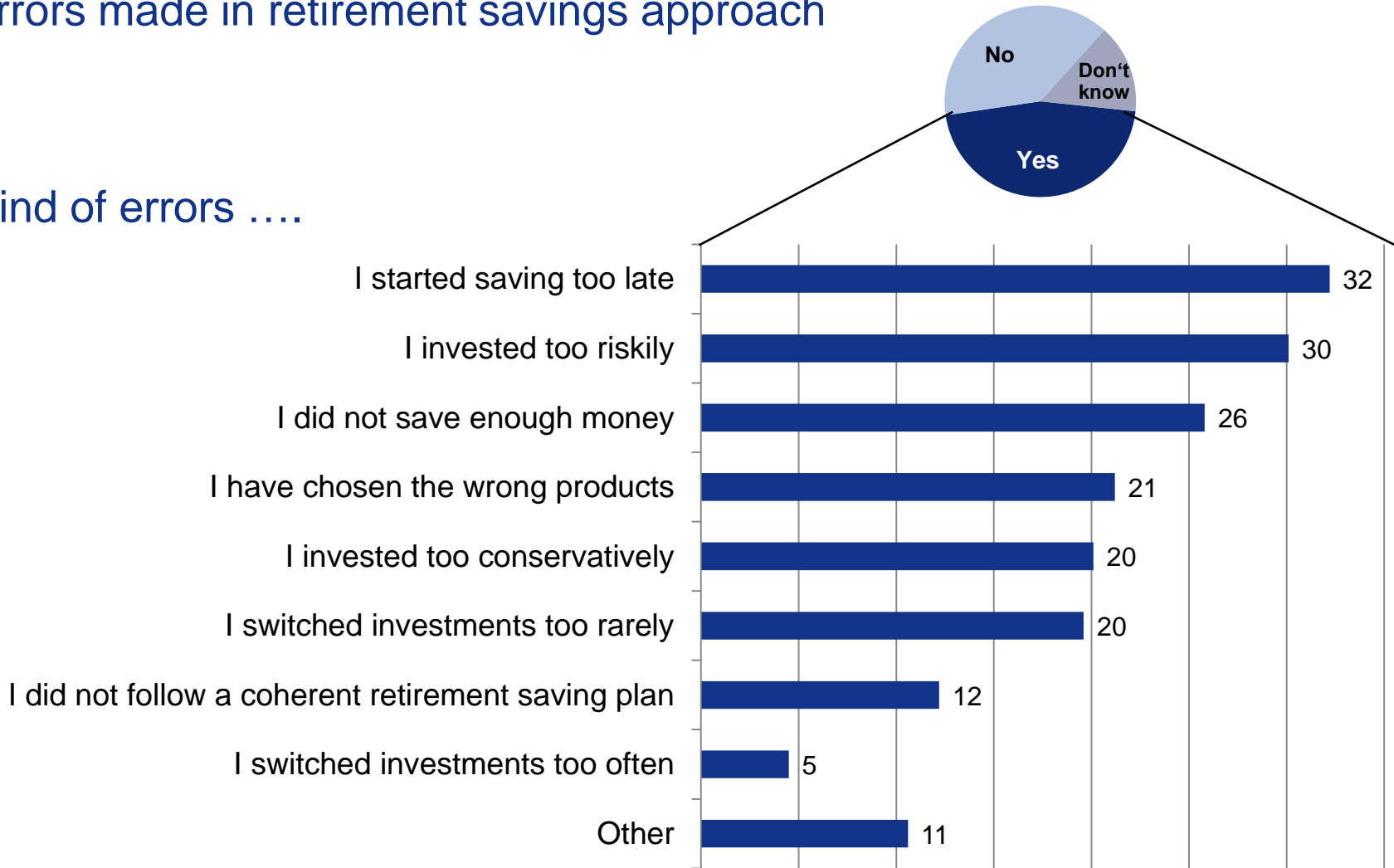
- Approx. 25 minutes

### **Survey period:**

- 8 Sept to 14 Sept 2010

## Errors made in retirement savings approach

### Kind of errors ....

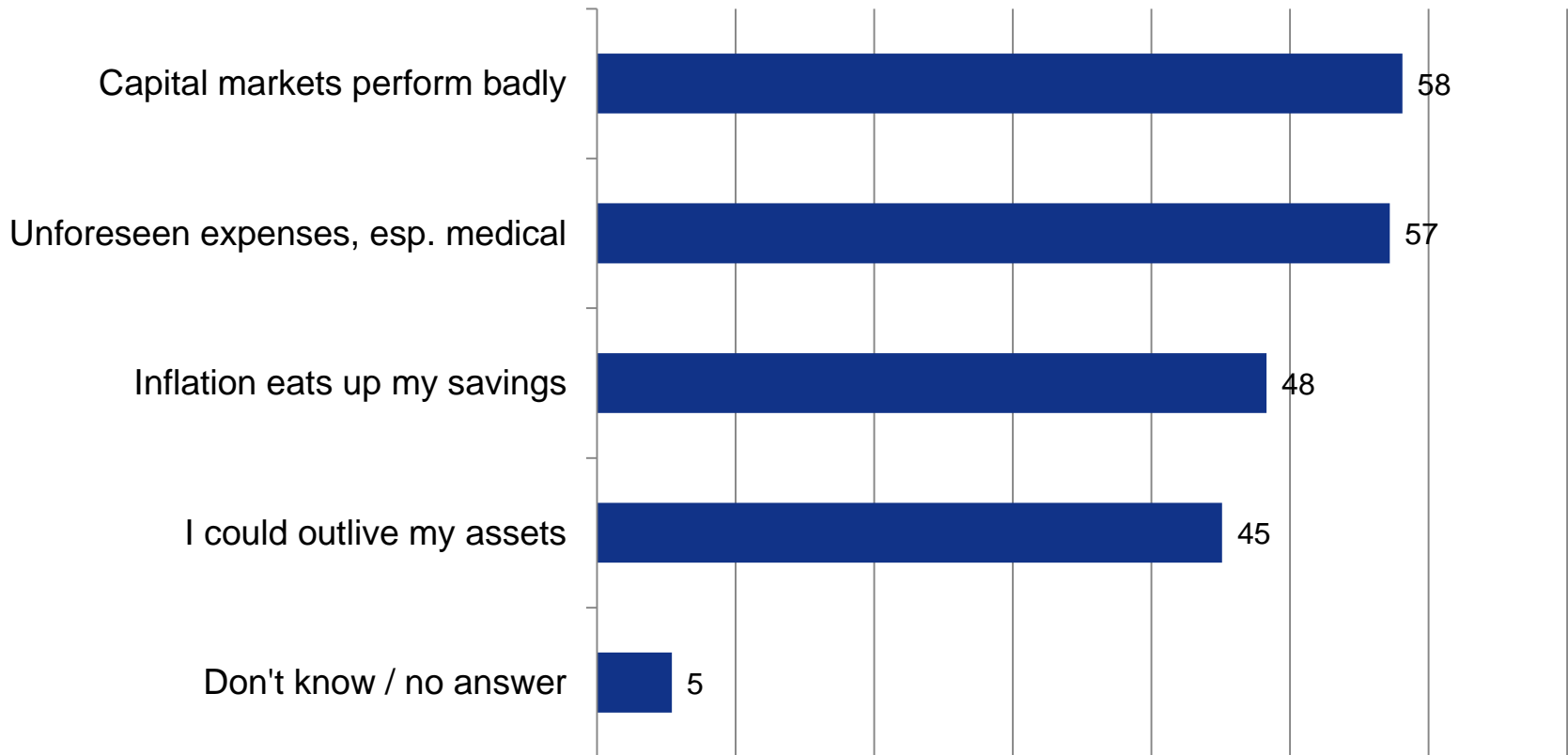


Question: Please indicate which of the following errors you made.

Base: People aged 50-70 with investable assets estimated at \$250k+ who made errors in their retirement savings approach

Figures are % resp. points (average)

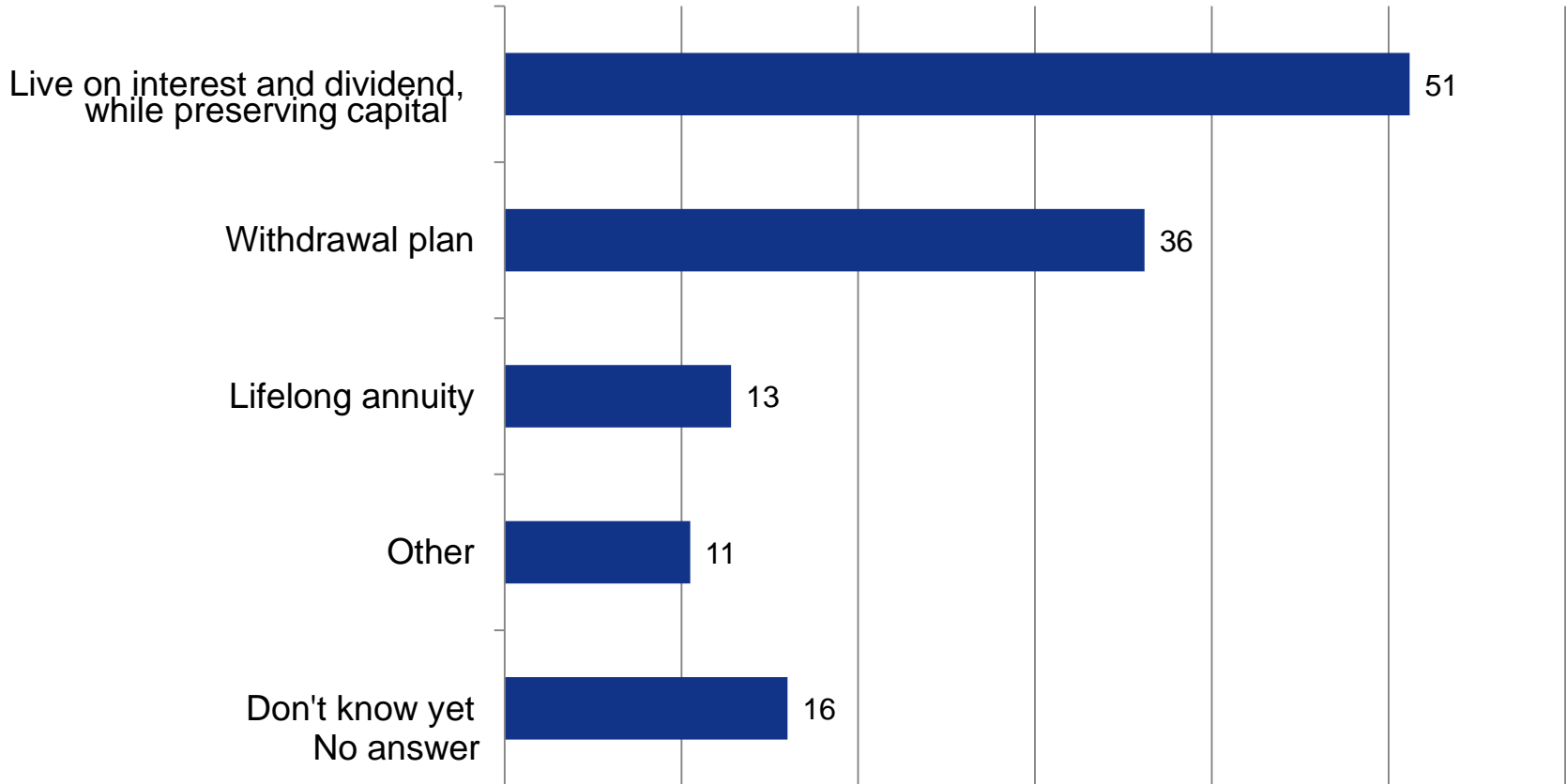
## Main financial risks in retirement phase



Question: What do you think are the main financial risks in your retirement phase?  
Base: People aged 50-70 with investable assets estimated at \$250k+

Figures are % resp. points (average)

## Payout method planned to employ when entering retirement

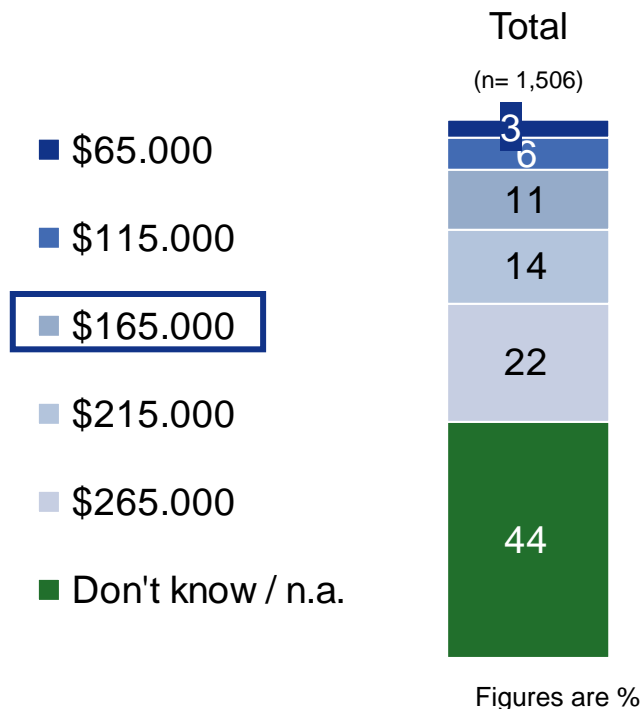


Question: Once you enter retirement you will need to decide how to use your savings and investments to make a living (payout phase). What payout method do you plan to employ when you enter retirement? / When you entered retirement you needed to decide how to use your savings and investments to make a living (payout phase). What payout method did you employ when you entered retirement?

Base: People aged 50-70 with investable assets estimated at \$250k+ owning any savings and/or investments

Figures are % resp. points (average)

## Knowledge about Annuities

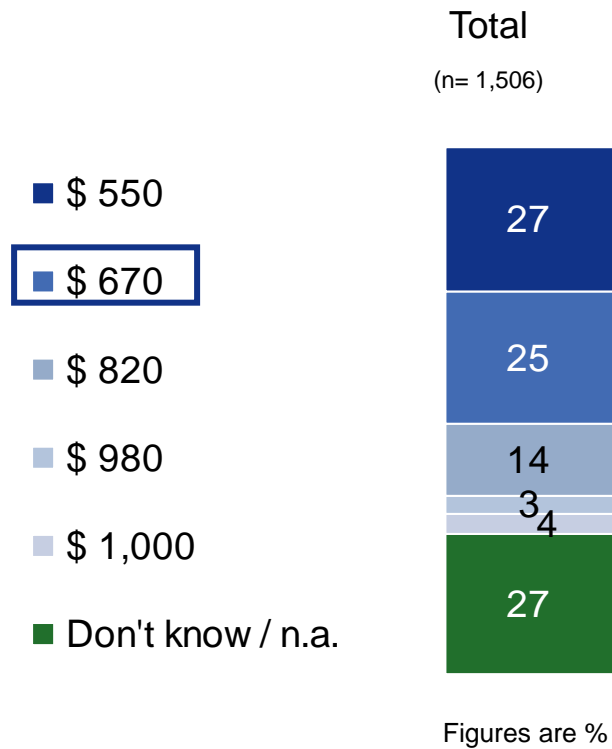


Guess of how much money is needed to buy a lifelong annuity at the age of 65 that pays \$1,000 per month

Question: Now we would like to talk about lifelong annuities: Annuities are a stream of equal payments to an individual, such as to a retiree, that occur at predetermined intervals (e.g. monthly). With lifelong annuities the payments continue for the recipient's lifetime. Please make a guess how much money you will approximately need if you buy a lifelong annuity at the age of 65 that pays you \$1,000 per month.

Base: People aged 50-70 with investable assets estimated at \$250k+

## Knowledge about Inflation



Guess of what \$1,000  
would be worth in real  
terms in 20 years  
assuming a low inflation  
rate of 2%

Question: Now please make a guess what \$1,000 would be worth in real terms in 20 years assuming a low inflation rate of 2%.

Base: People aged 50-70 with investable assets estimated at \$250k+

# Results from the survey on Retirement Attitudes and Financial Strategies of the affluent 50+ Generation in selected Asian Countries



## Study Design

### Objectives :





- What are the varying attitudes and plans regarding retirement among people of the 50+ generation?
- How does this population divide into different groups based on their attitudes, behaviours and demographics?

- Special questions on retirement planning and knowledge

### Universe / sample size:

- Universe: Top 20% of 50-70 year old people regarding investable assets in Hong Kong (US\$ 100k+), Singapore (US\$ 80k+), Taiwan (US\$ 50k+) and South Korea (US\$ 50k+), involved in decision making on banking and financial matters

- Sample size: n= 602

-  Hong Kong: n= 151
-  Singapore: n= 151
-  Taiwan: n= 150
-  South Korea: n= 150

### Survey method:

- F2F/PAPI (Face to Face / Paper and Pencil Interviews)

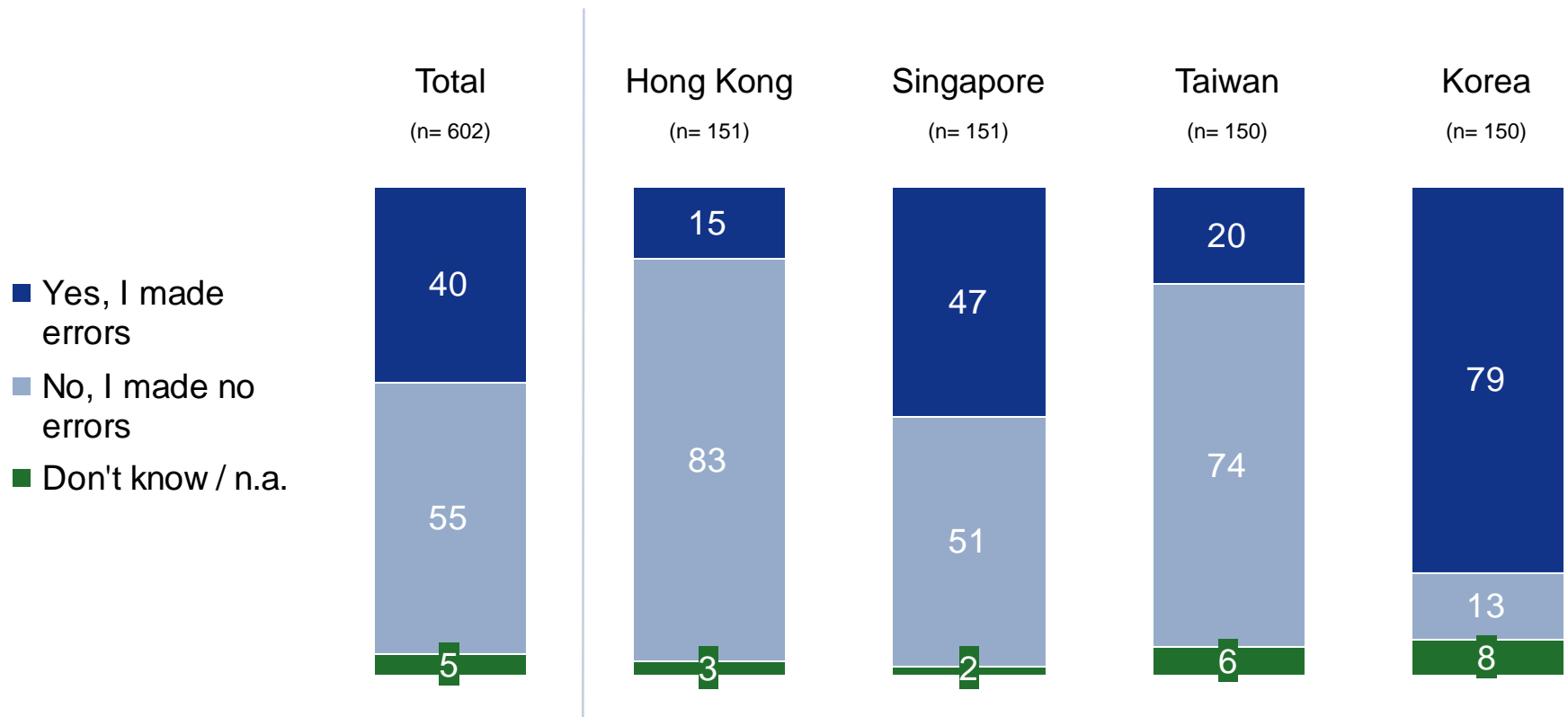
### Interview length:

- Approx. 35 minutes

### Survey period:

- 12 Feb to 18 March 2011

## Errors made in retirement savings approach



Question: Do you feel you have made errors in your retirement savings approach?  
Base: Top 20% of 50-70 year old people regarding investable assets

Figures are %

## Kind of errors made in retirement savings approach

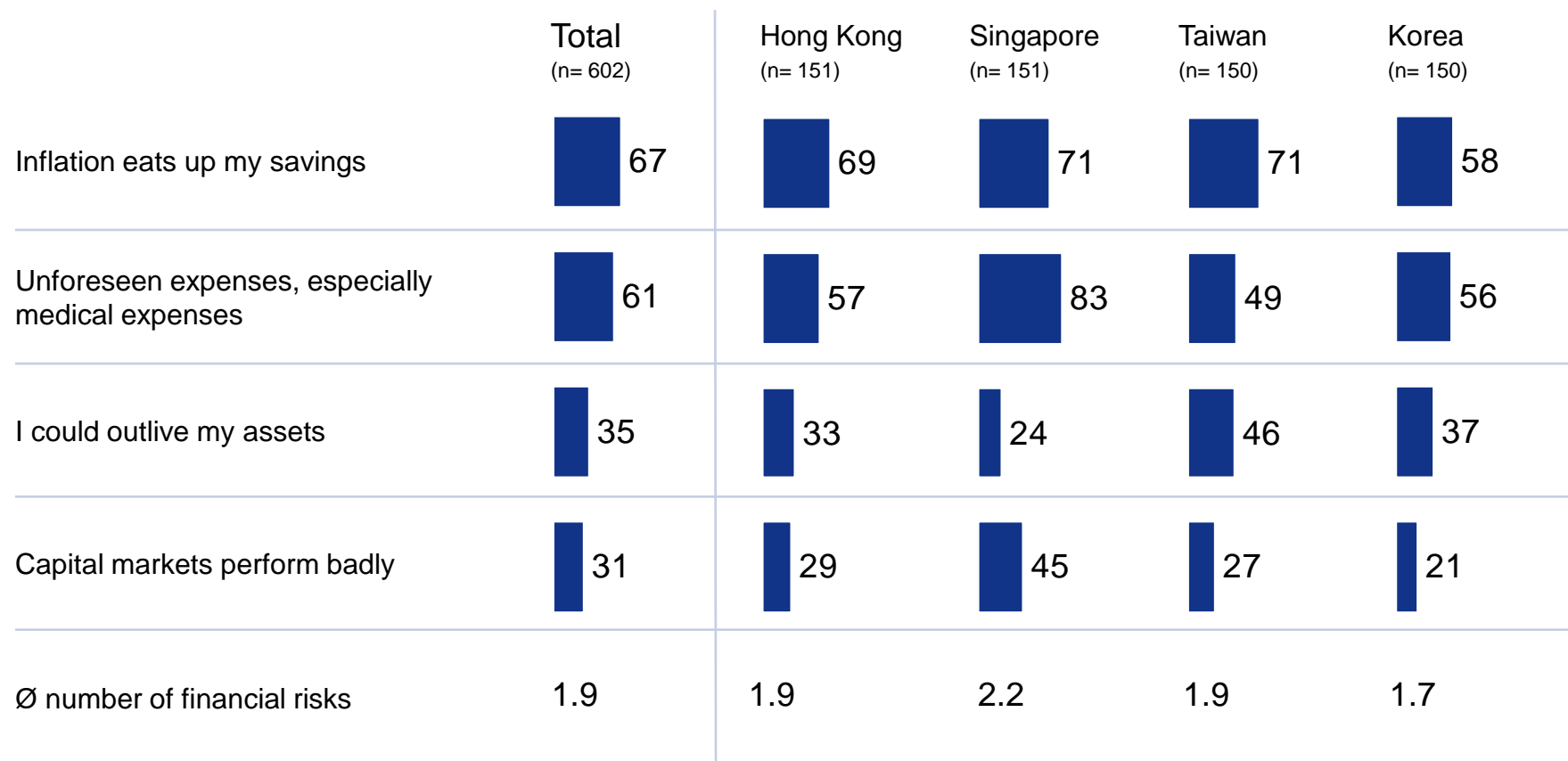
|  | Total<br>(n= 248) | Hong Kong<br>(n*) | Singapore<br>(n= 70) | Taiwan<br>(n*) | Korea<br>(n= 121) |
|--|-------------------|-------------------|----------------------|----------------|-------------------|
| I did not save enough money                        | 46                |                   | 17                   |                | 67                |
| I started saving too late                          | 32                |                   | 30                   |                | 31                |
| I invested too riskily                             | 26                |                   | 52                   |                | 10                |
| I have chosen the wrong products                   | 25                |                   | 50                   |                | 10                |
| I invested too conservatively                      | 22                |                   | 34                   |                | 17                |
| I did not follow a coherent retirement saving plan | 16                |                   | 19                   |                | 19                |
| I switched investments too rarely                  | 8                 |                   | 17                   |                | 4                 |
| I switched investments too often                   | 3                 |                   | 4                    |                | 2                 |
| Other  | 1                 |                   | 4                    |                | 0                 |
| Ø number of errors                                 | 1.8               |                   | 2.3                  |                | 1.6               |

Question: Please indicate which of the following errors you made.

Base: Top 20% of 50-70 year old people regarding investable assets who made errors in their retirement savings approach; \*Base too low

Figures are % resp. points (average)

## Main financial risks in retirement phase



Question: What do you think are the main financial risks in your retirement phase?  
Base: Top 20% of 50-70 year old people regarding investable assets

Figures are % resp. points (average)

## Payout method planned to employ when entering retirement

|   | Total<br>(n= 593) | Hong Kong<br>(n= 151) | Singapore<br>(n= 151) | Taiwan<br>(n= 149) | Korea<br>(n= 142) |
|---|-------------------|-----------------------|-----------------------|--------------------|-------------------|
| Live on interest and dividend, while preserving capital | 70                | 83                    | 63                    | 74                 | 58                |
| Withdrawal plan   | 40                | 60                    | 32                    | 26                 | 44                |
| Lifelong annuity  | 25                | 21                    | 46                    | 13                 | 20                |
| Other   | 6                 | 1                     | 5                     | 2                  | 14                |
| Don't know yet  | 2                 | 1                     | 1                     | 5                  | 3                 |
| Ø number of payout methods                              | 1.4               | 1.7                   | 1.5                   | 1.2                | 1.4               |

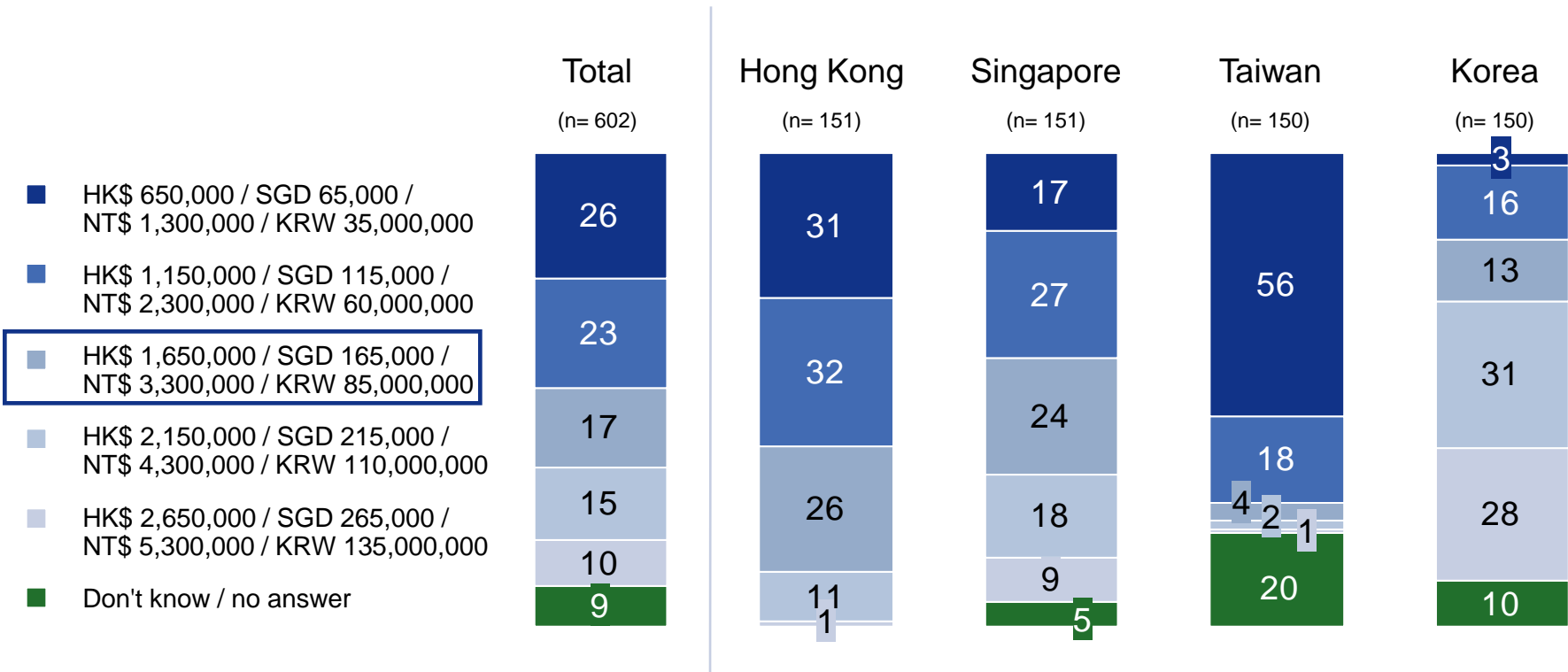
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Base: Top 20% of 50-70 year old people regarding investable assets owning any savings and/or investments

Figures are % resp. points (average)

## Knowledge about Annuities

### Guess of how much money is needed to buy a lifelong annuity



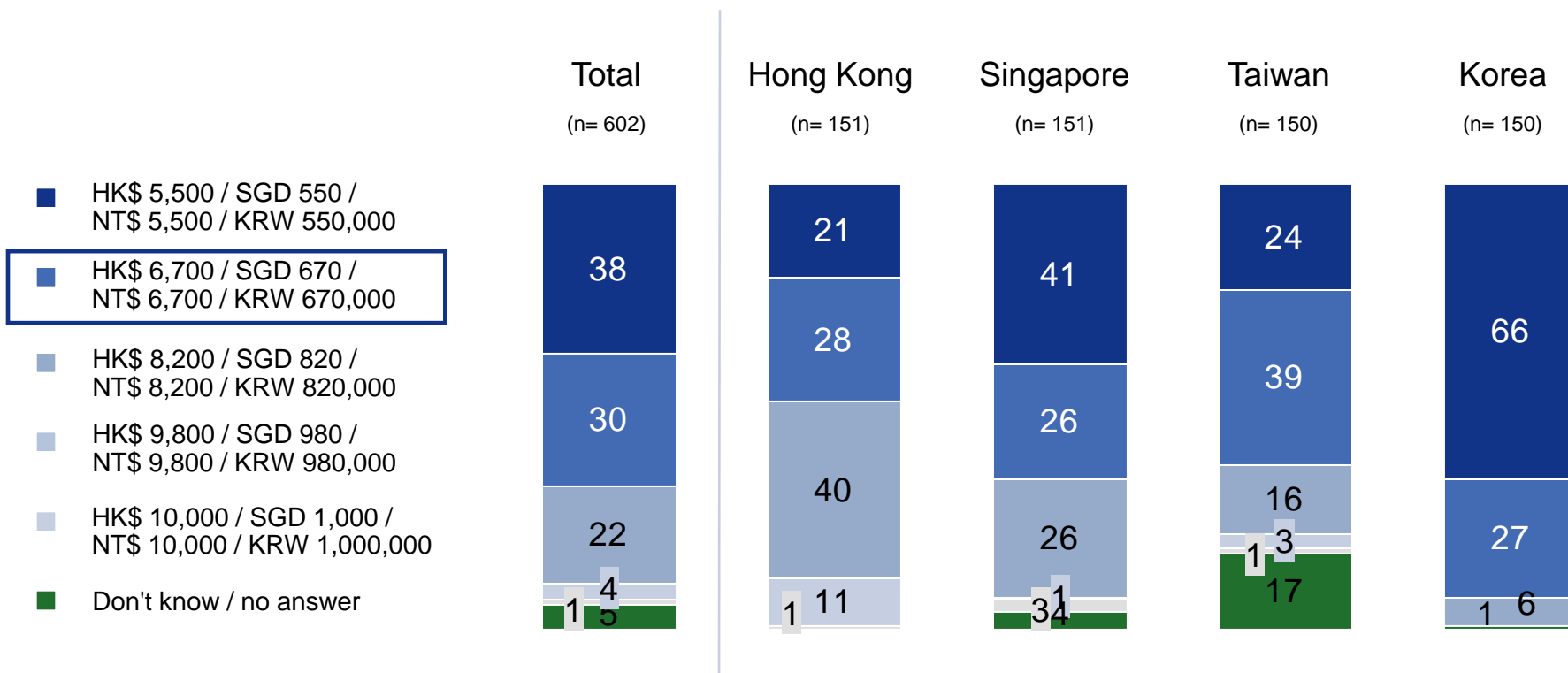
Question: Now we would like to talk about lifelong annuities: Annuities are a stream of equal payments to an individual, such as to a retiree, that occur at predetermined intervals (e.g. monthly). With lifelong annuities the payments continue for the recipient's lifetime. Please make a guess how much money you will approximately need if you buy a lifelong annuity at the age of 65 that pays you HK\$ 10,000 / SGD 1,000 / NT\$ 20,000 / KRW 500,000 per month.

Base: Top 20% of 50-70 year old people regarding investable assets

Figures are %

## Knowledge about Inflation

Guess of what HK\$ 10,000 / SGD 1,000 / NT\$ 10,000 / KRW 1,000,000 would be worth in real terms in 20 years assuming a low inflation rate of 2%



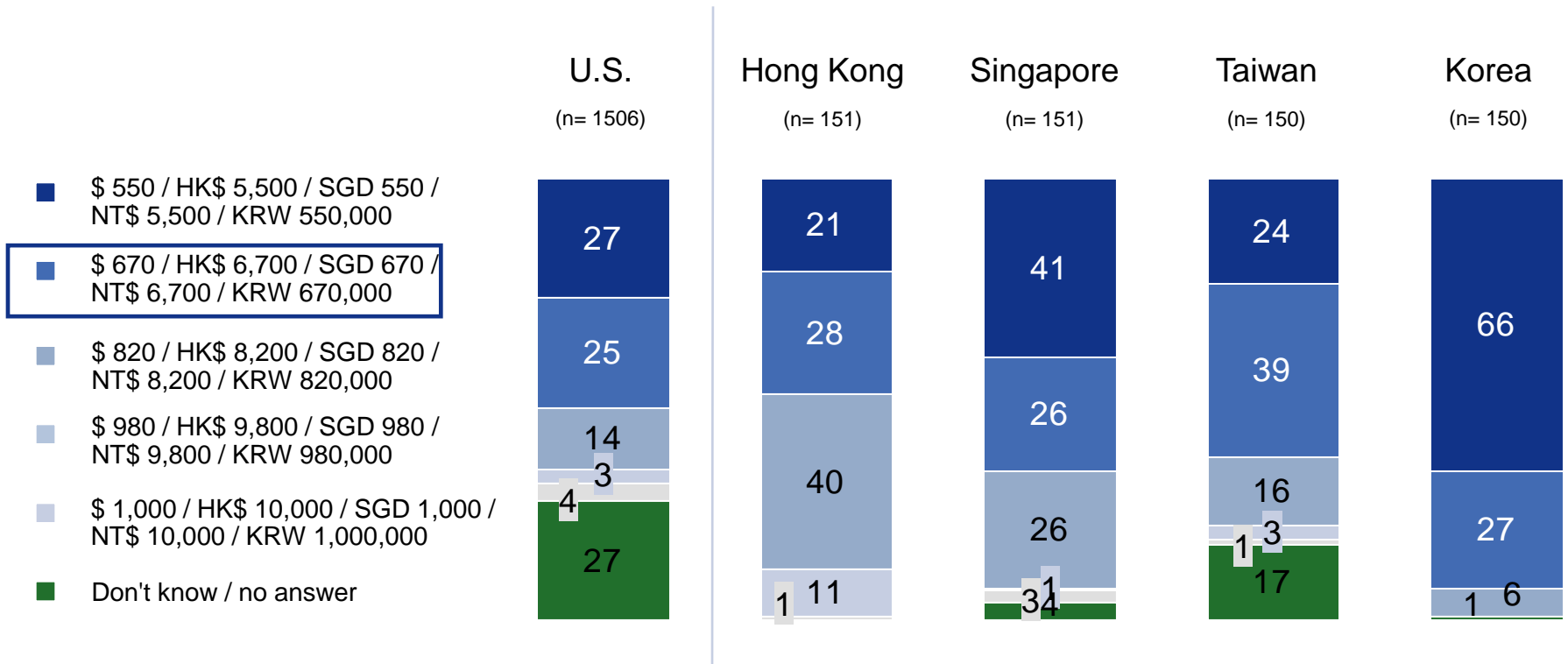
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Base: Top 20% of 50-70 year old people regarding investable assets

Figures are %

## Knowledge about Inflation

Guess of what \$ 1,000 / HK\$ 10,000 / SGD 1,000 / NT\$ 10,000 / KRW 1,000,000 would be worth in real terms in 20 years assuming a low inflation rate of 2%



Question: Now please make a guess what \$ 1,000 / HK\$ 10,000 / SGD 1,000 / NT\$ 10,000 / KRW 1,000,000 would be worth in real terms in 20 years assuming a low inflation rate of 2%.

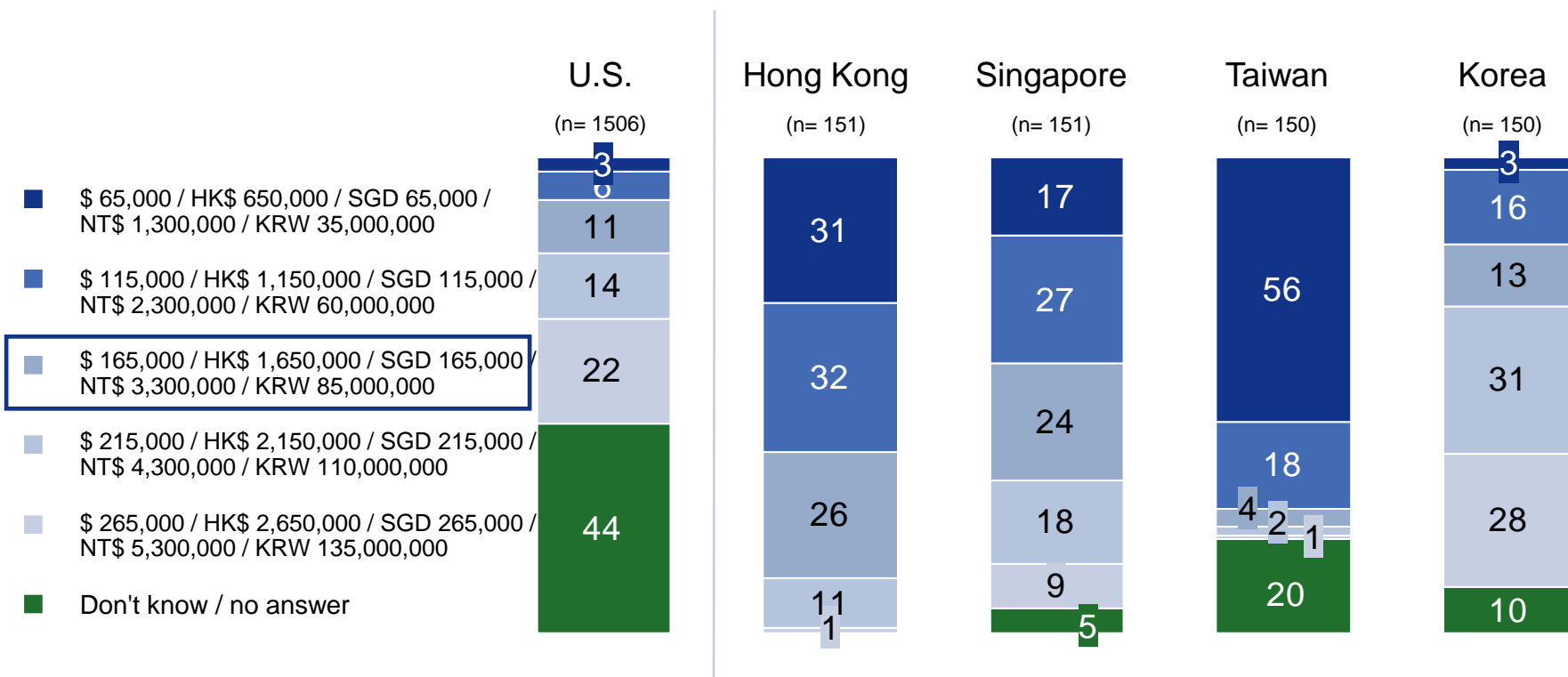
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## Knowledge about Annuities

### Guess of how much money is needed to buy a lifelong annuity



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Figures are %

## Summary

- Wave of reforms has reshaped retirement systems
- More responsibility for retirement saving has been transferred to the individual
- With increased importance of retirement planning, financial literacy has become a hot topic
- Survey results from the U.S. and Asian countries indicate, that even among the more affluent people
  - the effects of inflation - cited as being one of the main concerns for retirement - are not well known.
  - And the understanding about annuities is even more limited
- After focusing on sustainability of pension systems, adequacy of retirement income has become the focus of public discussion
- Besides improvements on the system level the decision making of the individual investor has to be supported

# Thank you

**Renate Finke**

International Pensions

Allianz Asset Management AG

Seidlstr. 24-24a

80335 Munich, Germany

[Renate.Finke@AllianzAM.com](mailto:Renate.Finke@AllianzAM.com)

[www.projectm-online.com](http://www.projectm-online.com)