

# Aging Populations Around the World Heighten Need for Retirement Planning

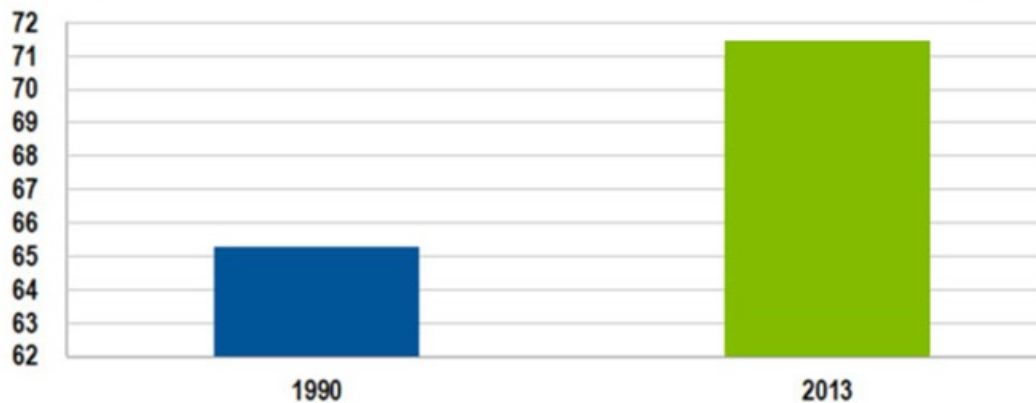
April 6, 2015



An increase in longevity rates around the world is certainly something to be celebrated. Average global life expectancy has increased to 71.5 years in 2013—up from 65.3 years in 1990—due to factors including improvements in health care and a decline in deaths from childhood diseases in developing countries.<sup>1</sup> But in many parts of the world, aging populations have become an economic and a political issue as fewer workers now need to support larger pools of dependents. Nations with more mature populations typically require increased social services, including health care, which can not only dent government budgets but also the budgets of many individuals without financial safety nets and/or adequate personal savings.

The message is two-fold: It's never too early to start saving for retirement, and retirement may mean more than drawing down savings. It means that generating [Income for What's Next™](#) may become paramount after one's working years have ended.

## Global Longevity Rates: 1990-2013

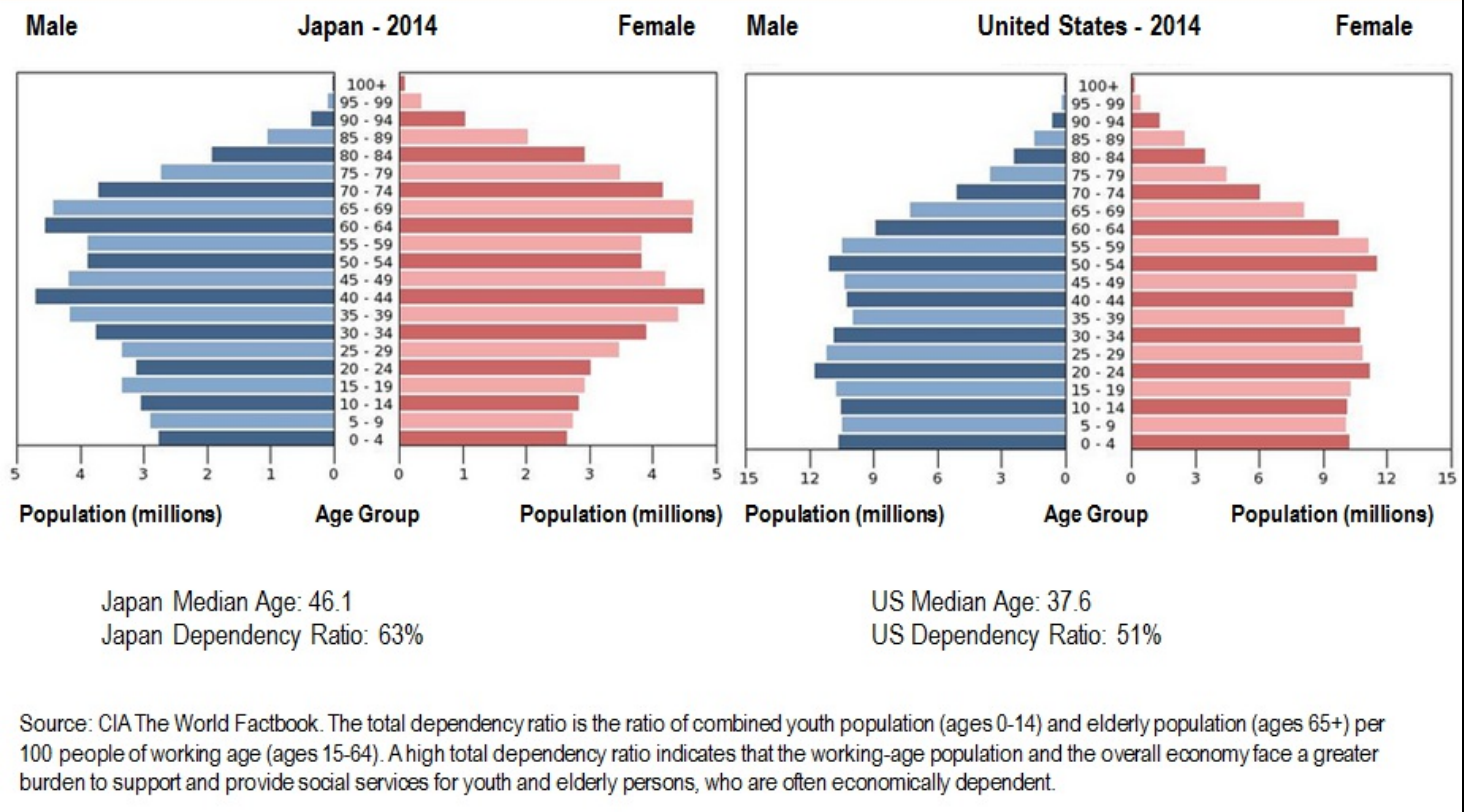


Source: "Global Burden of Disease" 1990 – 2013. Institute of Health Metrics and Evaluation, University of Washington. Funding by Bill and Melinda Gates Foundation.

### Japan—Not the Only Country Graying

The “graying of Japan” and its effects on the country have been well documented, contributing to Japan’s high government debt and years of sluggish economic growth. The elderly (those aged 65 and up) make up a quarter of the population and are expected to make up nearly 40% of the population by 2050.<sup>2</sup> While Japan’s population may be older than that of some other developed countries, similar graying trends are taking place in other parts of the world. The population pyramids below show how the largest clusters of people in Japan, as well as in the United States, are middle-aged or older. Population pyramids show similar dynamics in much of the developed world (including the United Kingdom and Canada), where many societies are experiencing dependency ratios of above 50%. This means fewer working-age individuals are supporting those who are not in the workforce.

# Population Pyramids



## Aging Populations Around the World: North America

Focusing on North America, legions of the post-World War II “baby boom” generation have been entering retirement in the past few years. This generation represents nearly a third of the Canadian and US populations.

Are these individuals (and the generations behind them) feeling prepared to not only leave the workforce, but also to change the lifestyle they’ve been accustomed to?

According to Franklin Templeton’s Retirement Income Strategies and Expectations Surveys (RISE), which separately polled individuals in the United States, the United Kingdom and Canada, the answer for many seems to be “don’t know.” In the [United States](#), 48% of those with a retirement plan at work did not know with a high degree of confidence how much of their current income will be replaced by their retirement plan at work (55% for those age 45-54).<sup>3</sup>

Additionally, our US survey also found that a third (33%) of respondents said they have nothing saved for retirement.<sup>4</sup> We can guess that many of these individuals may plan to rely on Social Security—but for many, Social Security alone may not be enough to pay all of one’s expenses, let alone to pursue hobbies, travel or other goals individuals said they were looking forward to in retirement.

Meanwhile in Canada, where retirees can receive government support through the Old Age Security Pension (OAS) as well as through the Canada Pension Plan (CPP), 82% of our [Canadian RISE](#) respondents of all ages reported concern about meeting expenses in retirement. Yet, 49% of those who expect OAS and CPP benefits don’t know with a high degree of confidence how much of their current income will be replaced with either type of pension.<sup>5</sup>

The solution for many individuals who haven’t saved enough of their own money and/or where government safety nets don’t provide enough to retire comfortably is to keep working longer. The RISE survey revealed 60% of those in Canada and 61% in the United States said they would “retire later (keep working)” if they were unable to retire as planned due to economic reasons. However, health issues or difficulty finding work may make this option unrealistic for many individuals; our RISE survey revealed that in both countries, more than 20% of currently retired individuals were forced to retire due to circumstances beyond their control.

“Many Americans are forced to retire before they plan to, and many also underestimate the potential impact of changes in retirement expenses. We believe it’s never too early to start thinking about saving for retirement, and for those already retired, it’s not too late to think about how to make your assets work harder for you in generating potential income,” said Ed Perks, chief investment officer, Franklin Equity Group®.

### **Aging Populations Around the World: Europe**

In the European Union (EU), populations are likewise aging, and both individuals and governments are coping with the fiscal strain—which could intensify in the coming years. There were four working people (aged 15–64) for each non-working person over the age of 65 in the EU in 2013, but by 2060, the European Statistical Office projects that ratio will

shrink to 2:1.<sup>6</sup> Those aged 65 or older are expected to make up 28% of the population, up from 18% in 2013, while the number of those aged 80 and up is expected to increase to 12% from 5%.<sup>7</sup>

While different countries provide different levels and types of social and financial support for individuals no longer in the workforce, for many, government safety nets may not be enough. Pressure on government budgets where populations are rapidly aging has prompted changes to some state-funded pension schemes. That has meant more people who never had to think much about saving or investing for retirement now do.

Overall, EU populations are growing older, and fertility and migration patterns are creating demographic shifts. The United Kingdom is expected to overtake Germany as the most populous EU country by 2060,<sup>8</sup> making retirement funding an increasing political and personal concern there. According to our [RISE poll of individuals in United Kingdom](#), 70% of respondents didn't feel they are saving enough for retirement.<sup>9</sup> Meanwhile, almost a third (31%) of individuals aged 55–64 in the United Kingdom report that they haven't started saving at all.

Comparable to the United States and Canada, when individuals in the United Kingdom were asked what they would do if they were unable to retire as planned due to financial constraints, “retire later (keep working)” was the response given by 58% of those surveyed.

Ian Wilkins, UK country head at Franklin Templeton Investments, commented: “Given that average life expectancy is on the rise, it is worth investors reviewing the new options available to them through the freedom and choice reforms, in order to ensure that their money works for them and sees them through their lifetime. We encourage savers to consider diversified investment strategies that reduce volatility while providing a source of retirement income and growth.”

### **High Anxiety**

With so many individuals unwilling or unable to keep working, even though they realize their savings are probably inadequate, it's no wonder anxiety about retirement is high. In the United States, 90% of pre-retirees polled expressed concern about meeting expenses

after their working years have ended, and 53% of these pre-retirees were concerned about outliving their assets or making major sacrifices to their retirement lifestyle. Just thinking about retirement savings and investments in general causes stress and anxiety in 67% of individuals polled in the United States, compared with 60% of individuals in the United Kingdom and 68% of individuals in Canada.

Many people around the world are clearly anxious about their ability not only to simply meet their daily expenses and cope with unexpected ones, but also to fund the lifestyle they want after their working years have ended. Government programs and plans for retirees and pensioners are changing, too, and may not provide the same benefits at the same ages as in the past.

In the United Kingdom, the government announced that from April 2015 onward, retired people with pension funds will no longer be forced to buy an annuity to provide income and may now do whatever they like with the money. While this may seem liberating, our RISE survey indicates that a majority of individuals didn't know enough about the change to comment whether it will enhance their ability to meet retirement income goals, and 65% of individuals with a pension had no idea what asset classes or funds they even own. Interestingly, 68% of individuals surveyed who know about the pension changes said they have no plans to reconsider their retirement planning strategy in light of this change—we would argue that given they don't even know what their investments are, and the fact that personal responsibility is now a bigger part of the retirement savings equation, maybe they should!

“To be able to achieve their often high expectations for their level of income in retirement, many investors may need to be more savvy and start saving for retirement as early as possible,” said Toby Hayes, portfolio manager, Franklin Templeton Solutions®.

### **The Importance of Planning**

While this all seems a bit dire, our RISE surveys revealed that planning ahead can help ease some stress about retirement, no matter where you live. It seems intuitive that people with the most assets would be more relaxed about retirement and people with tight budgets would feel more stress. To some extent, that may be true. But existing savings is

only one piece of the puzzle. The RISE surveys conducted across three countries all show that people with a written retirement income plan are more likely to feel more knowledgeable, happy and confident about their path to retirement.

Retirement can be an exciting time or a stressful one. For many individuals, creating a written retirement plan can be a key element to prepare for what's next. In Canada, just over half of people *without* a written retirement income plan describe themselves as confident (55%), happy (55%) or knowledgeable (56%) about their retirement income plan. By contrast, a significantly higher percentage of people with a written retirement income plan said they were confident, happy or knowledgeable about their plan (94% in each case). And in the United States, 83% of retirees who currently work with an advisor were able to retire by choice, according to our survey.



Besides developing a plan and working with an advisor, current retirees in the three regions (78% of those in the United States and Canada, and 75% of those in the United Kingdom) also offered this advice for easing retirement stress and anxiety: Save early, save often and save consistently.

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### **What Are the Risks?**

All investments involve risk, including possible loss of principal.

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1. Source: "Global Burden of Disease," 1990–2013. Institute of Health Metrics and Evaluation, University of Washington. Funded by the Bill and Melinda Gates Foundation.

2. Source: Statistical Handbook of Japan 2014. Statistics Bureau, Ministry of Internal Affairs and Communications. [www.stat.go.jp/english/data/handbook/c0117.htm](http://www.stat.go.jp/english/data/handbook/c0117.htm). There is no assurance any forecast will be realized.

3. The 2015 US Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults in the United States comprising 1,001 men and 1,001 women 18 years of age or older. The survey was administered between January 8 and 22, 2015, by ORC International's Online CARAVAN<sup>®</sup>, which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the US Census Bureau. US investors can visit [www.franklintempleton.com/rise](http://www.franklintempleton.com/rise) for more information.

4. Ibid.



5. The 2015 Canada Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,017 adults in Canada comprising 1,011 men and 1,006 women 18 years of age or older. The survey was administered between January 8 and 22, 2015, by ORC International's Online CARAVAN®. Canadian investors can visit [www.franklintempleton.ca/rise](http://www.franklintempleton.ca/rise) for more information.

6. Source: European Commission, "The 2015 Ageing Report."

7. Ibid.

8. Ibid.

9. The 2015 UK Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted among a sample of 2,004 adults in the United Kingdom comprising 1,002 men and 1,002 women 18 years of age and older. The survey was administered between January 8 and January 22, 2015, by ORC International's Online CARAVAN®. Investors in the United Kingdom can visit [http://www.franklintempleton.co.uk/en\\_GB/adviser/company/press-centre](http://www.franklintempleton.co.uk/en_GB/adviser/company/press-centre) for more information.

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