

International Retirement Index 2008.

Trends around the globe.



facing
retirement
forum





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Retirement – a global perspective.

Michael Rudge, Managing Director, UK, Hartford Life Limited.

Welcome to the third annual International Retirement Index survey. This annual survey provides a unique insight into retirement trends for people aged 45 and over around the globe. Previously, our research has compared attitudes to retirement between consumers in the UK, Germany, US, Japan, and South Korea. This year we have extended the global reach of our research to include Spain, Taiwan and Australia.

All eight countries included in the survey are experiencing rapid ageing of their populations and a changing economic landscape. But their respective post 45 year old generations have different ideas about retirement and what it means to them. This ranges from the age at which they hope to retire and how they save for retirement, right through to what they envisage their lifestyle in retirement to be like.

This brochure outlines some of the key findings and differences in the international perspectives as well as highlighting a number of particularly interesting retirement trends relating to the UK market. For those wanting additional insight, we've included an expert analysis from Professor Simon Biggs. Professor Biggs is the Director of the Institute of Gerontology at King's College London. King's College London is working with us as part of the Facing Retirement Forum, a new initiative led by The Hartford, that looks specifically at the changing retirement landscape in the UK.

The research was conducted by an independent research agency, Opinauri, in the second half of 2008 and polled more than 6,750 consumers worldwide.

We hope you find it both interesting reading and useful.

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- **A strong credit rating.** Hartford Life Limited's Standard & Poor's rating is AA-.

The results: at a glance.

The Hartford's latest international research has identified global trends in a number of different areas relating to retirement.

Basic retirement needs replace lifestyle aspirations as key concern.

- The most important financial concern in retirement for consumers in the UK (59.3%) and the US (49.7%) is now keeping up with expenses for food and shelter. This shows a stark contrast to last year in both the UK and the US, where the key concern in 2007 was enjoying retirement (UK: 46.5%, US: 43.2%).
- Concerns about making ends meet and affording basic needs were also shared by respondents in Spain (54.1%), Australia (50.3%) and, to a lesser extent in Italy (41%), Taiwan (38.9%), Japan (37.8%) and South Korea (31.5%).

Global consumers don't understand financial planning.

- A high percentage of respondents stated that they were 'somewhat', 'not too' or 'not at all' confident in their knowledge and abilities with financial planning – 96.4% in Japan, 92.2% in South Korea, 85.8% in both Taiwan and Italy, 83.5% in Australia, 81.9% in the UK, 79.4% in the US and 76.7% in Germany.

- Consumers in Spain are the most confident about their awareness of financial planning but even there, over two thirds (67.3%) indicated that they were less than completely confident about their level of knowledge.

Consumers are becoming increasingly risk averse.

- As the global financial crisis deepens, respondents to the survey indicated that they are becoming increasingly averse to risk.
- The country most averse to risk was Germany where 76.1% of respondents fell into the fairly/completely risk averse categories.
- The UK (63.1%) was the third most risk averse nation just behind Germany and Italy (67.4%).

- The percentage of respondents who stated that they were completely averse to risk grew from previous years. In the US, 15.4% said they were completely risk averse compared to 11% in 2006, while in the UK the number jumped from 13.2% two years ago to 22.9% in 2008.

Consumers recognise the need to be self-reliant.

- Increasingly, people around the globe recognise that they will be largely responsible for their own income in retirement. This realisation has grown year-on-year since 2006 in the US (rising from 71.2% in 2006 to 72.3% in 2008), the UK (rising from 62.8% in 2006 to 69.1% in 2008) and Japan (rising from 71.1% in 2006 to 71.5% in 2008).

Knowing where to turn.

- In the UK this year, the number of people unsure of where to seek professional advice is on the increase. 18.1% of respondents said they did not know where to turn for financial advice compared to 15.9% last year and just 12.8% in 2006.

- In Japan, an astounding 54.4% do not know where to seek advice, rising from 43.6% last year and 37.8% in 2006 while in the US the percentage for 2008 was 27.4% compared to 26.9% in 2007 and 19% in 2006.

Growing importance of guarantees.

- The demand for a guaranteed income in retirement remains extremely high across the globe. Japan (93.8%), the US (88.7%) and the UK (84.6%) rated guaranteed lifetime income in retirement as 'somewhat', 'very' or 'extremely' important.



Affording retirement.

The Hartford's International Retirement Index 2008 shows a fundamental shift in priorities from just a year ago in the UK and the US where affording retirement, rather than enjoying it, is now the most important financial concern in retirement for people approaching their golden years. 59.3% of UK respondents and 49.7% of US respondents stated that affording daily expenses for food, shelter and other basic needs was their most important financial concern for retirement. A year ago in both the UK and the US, the top concern was 'enjoying my life' – 46.5% in the UK and 43.2% in the US.

Outside of the United Kingdom, where the security offered by the National Health Service clearly comes into play, this trend has been coupled with a significant concern over access to, and the cost of, healthcare.

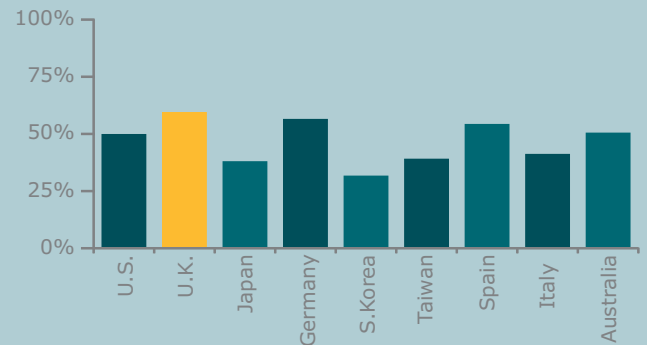
Rising concerns, falling confidence.

For the first time since its inception in 2006, the survey asked consumers about their concerns regarding the ability to afford healthcare in retirement and found that in a number of countries this was a key issue.

In South Korea nearly one quarter (23.1%) stated that this was their number one concern and respondents in other geographies also highlighted this as a key issue (Italy 21.4%, Japan 19.4% and the US 15.9%).

Given this data it is perhaps unsurprising that in the UK and the US, the number of respondents who stated that they were 'not at all confident' that their sources of income would provide sufficient income for retirement increased in the last year from 16.7% to 20.5% in the UK and from 15.9% to 17% in the US.

1. Percentage concerned with keeping up with daily expenses.



Changing attitudes to risk.

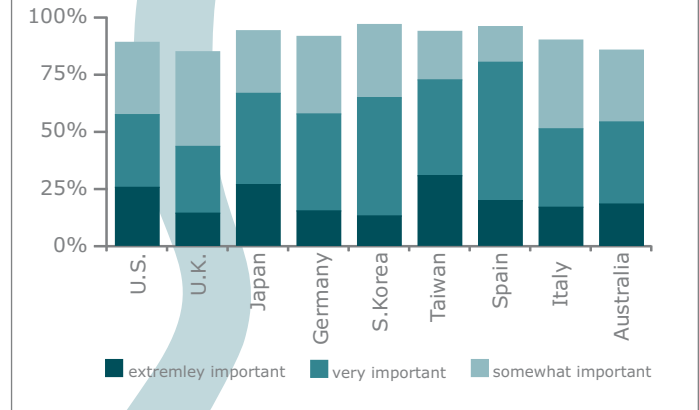
One of the understandable reactions to the global financial crisis among over 45 year olds is a greater level of apprehension towards investment risk. The country whose respondents were most averse to risk (meaning that respondents indicated they were either 'fairly' or 'completely' risk averse) was Germany where 76.1% of respondents fell into these categories. The second most risk averse nation was Italy (67.4%) followed by the UK (63.1%).

The nation whose respondents were prepared to take most risk when choosing investments was the US where 55.5% of consumers indicated they would accept 'some' or 'much' risk if there is potential for financial gain. Other countries whose respondents were prepared to accept 'some' or 'much' risk for financial reward were Taiwan (54.8%) and Australia (47.5%).

The importance of a guaranteed income.

The survey also demonstrated a continuing strong demand to have a guaranteed lifetime income in retirement. Japan (93.8%), the US (88.7%) and the UK (84.6%) rated guaranteed lifetime income in retirement as 'somewhat', 'very' or 'extremely' important. Japan (2007: 91.3%) and the UK (2007: 79%) both showed increased demand on last year, while the US dipped slightly (2007: 91.6%).

2. The importance of a guaranteed income.



Elsewhere around the world a guaranteed income in retirement was considered 'somewhat', 'very' or 'extremely' important by 96.5% of respondents in South Korea, 95.6% in Spain and 93.5% in Taiwan.

A changing retirement landscape.

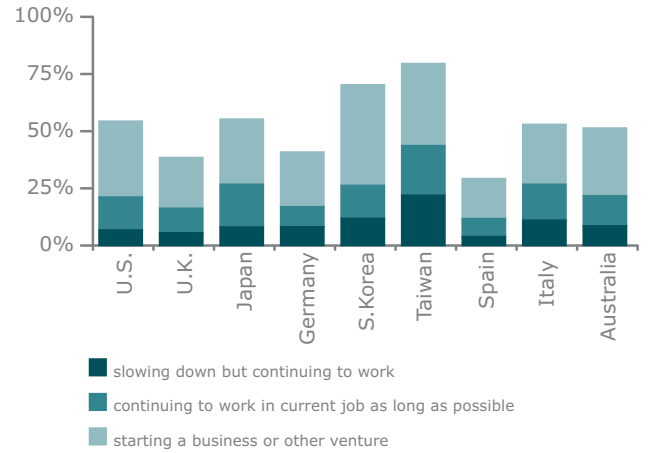
The survey statistics demonstrate that over 45 year olds around the globe have different images of their lifestyle in retirement to previous generations by highlighting two seemingly contradictory themes.

On the one hand, many do not expect to immediately stop working when they reach retirement age. In Taiwan, over three quarters of survey respondents (79.7%) said that they plan to either continue working as normal, keep working but slow down or even start a new business venture in retirement with other Asian, countries, South Korea (70.4%) and Japan (55.4%) reporting the next highest numbers.

Interestingly, it was two of the three European countries surveyed, UK (38.6%), and Spain (29.4%) that demonstrated the lowest percentages of respondents expecting to continue working in some form in their retirement.

The flip-side to the trend of working into retirement is the strong indication from survey respondents that they envisage their retirement to include more leisure and holiday time. People of retirement age no longer necessarily feel that they are 'old-aged' and the statistics show that there is a strong belief among over 45's that they will remain active in retirement. Here, the Europeans lead the way with 74.3% of Spanish, 63.9% of German and 60.9% of UK respondents stating that they expect more leisure and holiday time in retirement.

3. Do you envision working in retirement?

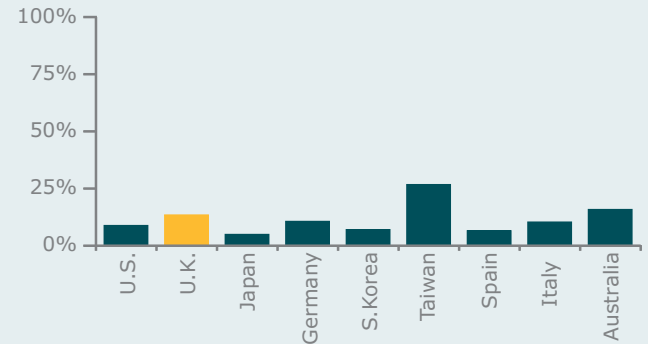


Does life begin at 60?

The Hartford survey also demonstrates that 'retirement age' means different things to people around the world. In Taiwan, 26.8% of respondents believe they will retire before 60. This is compared to 15.9% in Australia and falling to just 5% in Japan. At the other end of the spectrum 29.2% of respondents from the US said that they plan to retire after the age of 70, or not at all. This compares to 19% in Australia and 17.2% in both the UK and Taiwan, in Germany this percentage falls to just 4.6%

A significant number of respondents to the survey also indicated that they envisage dedicating time in retirement to good causes. The most charitable nations, where survey respondents said they would dedicate time to charity in retirement were Taiwan (34.8%), Italy (28.7%) and Germany (22.7%). The least charitable were Japan (6.6%) and South Korea (11.9%) while both the UK (19.2%) and US (21.2%) are in the middle of the pack.

4. I plan to retire before age 60.



Education, education, education.

Despite unprecedented levels of media attention and focus on financial issues following the 'credit crunch', the survey demonstrates that levels of understanding of financial products and financial planning around the world remain alarmingly low.

A staggeringly high percentage of respondents stated that they were 'somewhat', 'not too' or 'not at all' confident in their knowledge and abilities with financial planning – 96.4% in Japan, 92.2% in South Korea, 85.8% in both Taiwan and Italy, 83.5% in Australia, 81.9% in the UK, 79.4% in the US and 76.7% in Germany.

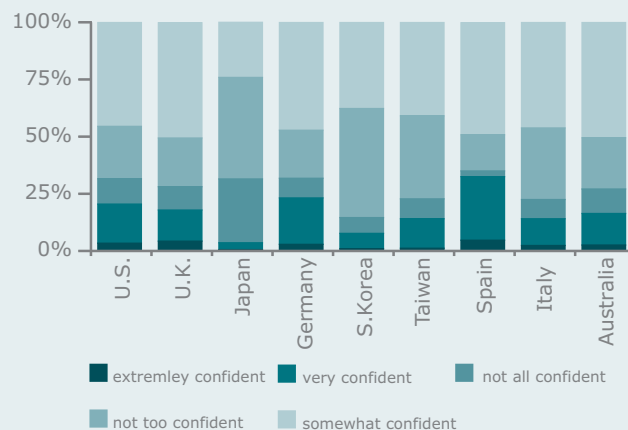
Over the last year, the UK has seen a decline in the number of people who consider themselves 'extremely' or 'very confident' in their knowledge of financial planning, decreasing from 22.4% to just 18%, a trend mirrored in both Japan and Germany.

Knowing where to turn.

Just as concerning as the perceived lack of knowledge of financial planning by the survey respondents is the fact that increasingly, they do not know where to turn for sound advice. In the UK this year, 18.1% of respondents said they did not know where to turn for financial advice compared to 15.9% last year and just 12.8% in 2006. In Japan a staggering 54.4% do not know where to seek advice, rising from 43.6% last year and 37.8% in 2006 while in the US the percentage for 2008 was 27.4% compared to 26.9% in 2007 and 19% in 2006. The only country to buck the trend was South Korea where 19.9% of respondents said they did not know where to turn compared to 35.1% in 2007.

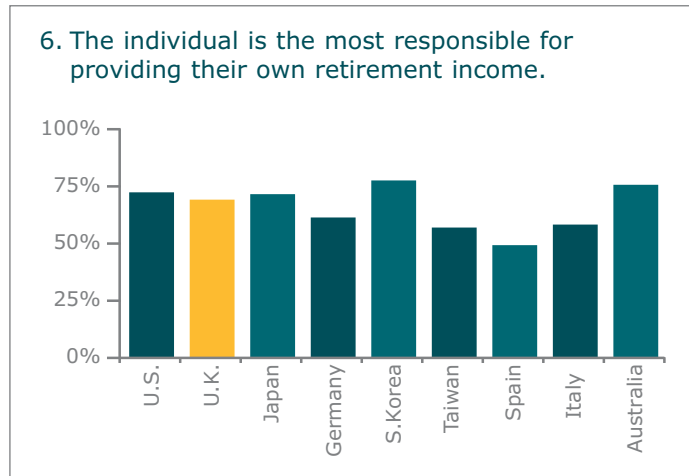
Of the countries surveyed it was respondents from Australia (39.4%) and the UK (37.1%) that said they turn to qualified financial advisers or tax accountants most for advice in planning matters followed by Germany (31.9%) and the US (30.8%). Japan had the lowest percentage of respondents who said they sought professional financial advice (3.7%) but the highest number who relied on the media (30.6%) followed by Taiwan (25.2%) and the UK (23.4%).

5. Level of confidence in financial planning.



Funding retirement.

While the survey results demonstrate that there is a broad acceptance that responsibility for providing income in retirement now lies with the individual rather than the state or an employer (72.3% in the US, 69.1% in the UK and 71.5% in Japan), Government or public pensions remain a key source of income that many people say they will depend upon in retirement.



Those who identified the government as a main source of retirement income in Germany totalled 52.6%, while the percentages were also significant in Spain (45.1%), Japan (40%) and Italy (33.2%).

Company pensions or defined benefit plans were also identified as a major source of retirement income. Despite a number of recent changes by UK companies, defined benefit schemes remain a key element of income in retirement for over a third of UK consumers (30.7%) and nearly one in five in Japan (18.7%).

My home is my pension.

Despite a lot of media attention surrounding the size of the UK property market, less than one in 10 UK respondents (9.3%) said that their home would be used as a main source of income for their retirement. This compares to 12.3% in Germany, 12.6% in Spain and a huge 45.2% in South Korea.

However, when polled on the importance of their home in relation to their other retirement assets, 42.8% of UK respondents indicated that their home was the most important compared to just 24.5% in the US and 16.6% in Spain. Some clichés it seems, must be true – an Englishman's home really is his castle.

An expert analysis.

Professor Simon Biggs, Director of the Institute of Gerontology at King's College London.

Findings from this year's international retirement survey show considerable, but perhaps unsurprising, differences when compared to 2007. With financial uncertainties gathering pace, respondents have been far more cautious in their financial behaviour. This caution has taken a number of forms.

Whereas last year there was some evidence of the 45 plus age group thinking ahead towards retirement, there are now indications that this has been superseded by a concentration on more immediate concerns.

In addition, respondents' perceptions of what retirement might be like have changed. The most marked of these changes has been a move away from thinking about retirement as a time of leisure and the pursuit of lifestyle activities. Our 2008 respondents are much more likely to focus on more basic needs such as housing and being able to maintain daily household expenditure.

There is also some evidence that they will be less concerned with the needs of others and more likely to attend to their own and their partner's direct requirements.

Turbulence and uncertainty in the external environment of whatever sort has an effect on people's behaviour. It influences their sense of risk and confidence in how they respond to life's priorities.



Basic instincts.

Reactions can be thought of as being organised around a 'hierarchy of needs', as described by the psychologist Abraham Maslow.

At the most basic level, this hierarchy concerns personal survival and a reaction to deficits in resources needed to ensure that survival. As pressure is relaxed, it becomes easier to concentrate on their broader quality of life, issues of personal meaning and fulfilment, what Maslow called 'being' needs.

So in an economic crisis people would shift their attention away from holidays or recreational pursuits to keeping a roof over their head. But when basic needs are secure, people feel safe enough to move up the hierarchy to satisfy more sophisticated desires. You can think of the hierarchy as progressing from physical sustenance (food, water, heating, shelter) through safety and security, to love and belonging, and ending up with self development. The salience of any one area will vary as external threats increase or decrease.

A ratcheting up of the hierarchy of needs has, for example, contributed to increased anxiety about health care requirements in many parts of the world and is reflected in the 2008 international survey. Not necessarily because the underlying facts on personal health or life expectancy have changed, but because people are more concerned about 'survival issues' and possible threats to their well-being, so have become more vigilant about this form of risk.



Another effect may be seen in perceived responsibilities toward others. If it is true that people are narrowing the circle around relationships to include only themselves and their immediate partner, then this may change the priorities of the 'sandwich generation', as identified in last year's survey. People may be less willing to include the future financial needs of children or older relatives as part of their own priorities.

A reversion to 'bricks and mortar' as a core source of future wealth combines the comforting qualities of traditional wisdom with the reassurance of a basic and concrete survival need. The degree to which such a strategy will be successful, if house values continue to decrease, has yet to be seen.

A timely wake up call.

It's difficult to say how far such fears are real or imagined at present, because of the effects of media coverage and that the current financial turbulence has yet to play itself out. But a tendency to focus on immediate needs, a shift towards health, housing and individual or couple's finances, reflect a short term response to perceived threat.

It fits with a year on year increase in recognition that people are responsible for their own retirement income and similar increase in the number of people saying that they are risk-averse. As current trends play themselves out, it will be interesting to see how a new equilibrium emerges. This will probably include elements of long-held aspirations (as reflected in the 2007 study), modified to adapt to new financial realities (emerging in 2008).



The effects of this changed context on immediate versus long-term planning may be quite complex.

There seem to be two trends going on at once as current circumstances begin to interact with plans for the future.

At first it may appear that people are battering down the hatches to get by in the here and now. However, a move away from a consumerist approach to life, also provides a wake up call for future planning.

The longevity gap (between how long someone can expect to live and how long their financial provision will last) may now be addressed, as a revived anxiety about the adequacy of existing provision, when added to a life-course perspective produces a more realistic attitude to future planning. It is as if increased awareness of basic everyday needs in the here and now, has also affected people's perceptions of future needs in a way that they were not thinking about at the time of last year's survey. When life-course concerns are added to a need for security, predictable returns on financial decisions become increasingly important.

Work-life balance.

While UK 45 plussers may be less concerned about paying for healthcare, compared to other parts of the world, this cannot be said for work-life balance. They are as worried as everybody else about how to retain enough money in retirement, reflecting an underlying anxiety that maintaining their current lifestyles may be becoming much more difficult.



This has occasioned a change of focus - so that 'current lifestyle' is now more likely to refer to keeping some form of work or income, rather than focussing exclusively on leisure and consumption.

Levels of concern are at their highest among the 45 – 59 age group who may be at the stage of beginning to think about retirement needs. This group has the highest percentage of people saying they will need to work part-time in later life. So part-time work is even more likely to feature in retirement planning than it has in past years.

It may be becoming a dominant strategy, both for generating income and maintaining identity and dignity in later adulthood. If this is the case, then one might expect individuals to be increasingly concerned with financial products that allow flexibility in terms of continued part-time work as well as retirement income.

A new retirement landscape.

The findings of the 2008 survey are beginning to map out new territory, in which the behaviour of groups such as the 'baby boomers' may be about to change. We currently know little about this new landscape. How far, in what direction and for how long changes might endure, is difficult to predict.

Immediate reactions to changed circumstances are likely to be more cautious than long term behaviours. Over a longer time period, people's views may find a new equilibrium that includes elements of 2007 and 2008 thinking, as a new 'normality' sets in.

That equilibrium may be lower (in terms of aspirations) than the last few years if the credit crunch acts as a reality check on what may now appear to be unrealistic aspirations. In terms of financial products the message would be reliability in terms of guaranteed income, plus flexibility to allow for continued part-time working.

Professor Simon Biggs' research interests centre on the relationship between identity and adult ageing. This has included a broad range of themes including (i) the analysis of international and national social policy, (ii) work on the adult lifecourse and the personal experience of ageing, (iii) research on alternative lifestyles in later life such as retirement communities and the study of the 'baby boomer' generation.

He has published a number of books and papers internationally and has contributed to the United Nations Valencia Forum, and scientific debate in Europe and the United States. In 2002 he was a visiting research fellow at the Department of Social Medicine at Harvard University. He is currently involved in research as part of the World Health Organisation's 'Age Friendly Cities', an ESRC study of Baby Boomers and the first national prevalence study of Elder Abuse in the UK. Simon Biggs is Director of the Institute of Gerontology at King's College London.

Facing Retirement Forum.

As a new generation of retirees reaches retirement age, we must prepare ourselves for the changes that this generation will inevitably bring. As an industry we must better understand their hopes, fears and aspirations so that we can better meet their needs as individuals. This is the aim of the Facing Retirement Forum.

This is an initiative which will provide an ongoing opportunity for market commentators, industry bodies and distributors to contribute to shaping the debate on the future of retirement in the UK.

Going forward The Forum will consist of a series of events, workshops and research reports to help develop a better understanding of current and future needs of retirees.

For more information on the Facing Retirement Forum visit us at www.FacingRetirementForum.co.uk

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