Me, my life, my wallet

Wealth & retirement

KPMG International
Global Customer Insights
Second edition

kpmg.com/knowyourcustomer

Wealth and retirement: Delay and pray, or avoid?

With an increasing number of consumers ill-prepared, will unretirement become the new retirement?

In 2017, a World Economic Forum study reported that the world's six largest pension saving systems — the US, the UK, Japan, the Netherlands, Canada and Australia — and the two countries holding the world's largest populations — China and India — are together forecast to face a savings gap of US$400 trillion by 2050, a sum five times the size of the current global economy.

Add to this our aging population. Life spans lengthening. The reality of the 100-year life. Healthcare costs rising. Fewer defined benefit plans. A shrinking labor pool. Employment disruption through technological advances forecast to displace millions of jobs. Macroeconomic pressures such as increasing inflation and rising interest rates, likely to further squeeze an already pressured consumer wallet.

For a large part of the population, retirement is increasingly at risk of becoming a 20th century phenomenon. Is it time to ask if the math still works?

Anxious yet ambivalent

In our survey of approximately 25,000 consumers in eight markets around the world, we explored attitudes towards wealth and retirement.

And our data reveals a somewhat anxious, yet complacent and ill-prepared, consumer.

On average, 27 percent of respondents expressed high levels of anxiety towards their retirement, lowest among Chinese consumers at 17 percent and highest among the Brazilian population at 40 percent. A third of Gen Xers reported high levels of anxiety — even though retirement is the next significant life stage they'll encounter. And this ambivalent attitude showed little variation by income level.

Only 14 percent of baby boomers and 9 percent of Gen Xers surveyed — those with the closest proximity to the de-accumulation phase of their lives — claimed to have adequate savings to retire. Even more worrying, a little over a third of these two generational cohorts reported to be actively saving, with a significant 25 percent of Gen Xers — only a decade or two from retirement — saying they've not yet started saving for their post-employment years, but plan to soon.

Looking to those already in retirement, an average of 41 percent of consumers told us they had what we call FROOM (fear of running out

of money), highest in France at 53 percent, and lowest in the UK at 20 percent. Looking to future retirees, more than half of millennials have either failed to start saving for their futures, or have put such efforts on hold. And only around a third of this cohort told us they felt they'd be in a financially secure position to retire when that stage of life approached.

Insufficient savings for retirement. Delaying planning for the future. FROOM. Struggling to pay off debt. Extending financial support across generations. A need to earn more in a post-employment life stage.

Is this ignorance, ambivalence, presumption about the role government will play, living for today and putting off thinking about tomorrow — or is there something else going on?

> "I don't have a pension plan, and I don't believe the country's pension plan will be still in place when I retire. It was set up by a different generation ... but knowing that it's depleted, and the generation that's accessing it is larger than my generation, and there's not as many people putting into it, when I retire it won't be in existence, so I'll have to work."

Joanna, 44, Douglas, Canada

Unretirement

It's these issues that are contributing to the emergence of a new life stage, which we term 'unretirement'. Around the world, members of older generations are facing one or both of two new realities: the prospect of living longer, and the need or desire to work longer.

In these contexts, we're witnessing consumers once assumed to be retiring and entering the de-accumulation phase of their lives prolonging (or attempting to) their working lives, sometimes having to compete with more contemporary skills, reinvent themselves with second careers, or take part-time jobs to make ends meet.

In addition, working longer is not necessarily perceived to be a bad thing — some people are staying in the workforce longer because they want to. In our global survey, respondents often replied that they didn't want to retire. They worry that retirement connotes boredom. They preferred to be active and working as long as they possibly could. However, preferably working on something enjoyable rather than out of necessity alone.

As a result, many people aren't necessarily looking to retire in

the same way as the past. And unretirement could play out in unexpected ways.

For those with assets beyond the financial (such as health, time or physical assets), the gig economy opens up new ways both to make money, and to spend time and money — while providing flexibility and control over both time and assets. Need cash? Become a rideshare driver. Rent out your house on Airbnb while you stay with your kids. Good with people, have your health but need cash? Take care of other seniors. Able to help with shopping? Turn to Seamless. Able to help other seniors to age at home? Become a carer through Cera or Honor.

For some, this is a 'top-up' phenomenon — supplementing either the watch (give me something more to fill my time) and/or the wallet (give me a little additional income to help me to live the life I want to). But for others, it's more than a case of topping up — it's about sheer survival. It's about affording rent, the mortgage or simply stocking the fridge in the face of a wallet under profound pressure.

As boomers have gone through other life events, they have changed the face of businesses serving them along the way. And we now expect to see an increasing array of different routes to retirement, including when, where and how they retire. Based on their past, many boomers have the potential to reject the retirement paradigms of the Silent Generation, including the idea of retiring in social communities in sunny places, in an easy living facility, playing games with other seniors. Instead, they are more mobile, more versatile, more active, and shun expectations about

27%

of consumers expressed high levels of anxiety towards their retirement

52%

of millennials have either failed to start saving for their futures, or have put such efforts on hold

"In terms of retiring and doing nothing and just travelling, like, I couldn't do that. I would need to get up in the morning, like do something, like see a cause and an effect that I have created. And then I'd feel comfortable with taking X amount of time off. So I would hope that I would work in some form or another until I die."

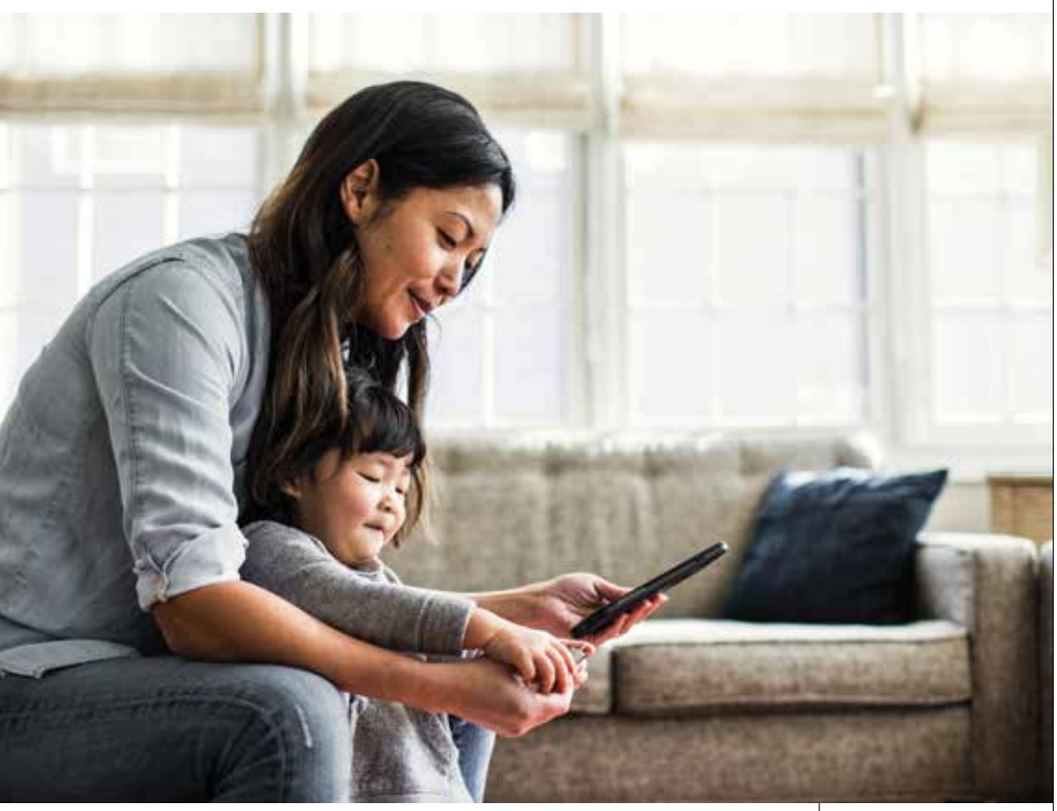
Leela, 26, New Delhi, India

"For me, investment is always thinking about the future. I'm very worried about the age. Here in Brazil, we don't have a great system for people that retire. I'm very worried about the future."

Renata, 31, Rio de Janeiro, Brazil

> I think that probably I would continue at least working part-time basically until I can't work anymore. Because I just really enjoy having something to do every day, and like having a routine. I would hate to be one of those retired people who just sits around and does nothing and deteriorates. And I'm sure, like, even if I wasn't working, I would find something to do in retirement.

Emily, 28, Abilene, TX, USA



what seniors should be or do. And this fragments further still, depending upon whether they have health, wealth or neither.

What's more, for their children, we may need to challenge assumptions about today's projections of intergenerational wealth transfers. Given extended life spans, reduced pensions, FROOM, and rising healthcare costs, will Gen Xers and millennials actually receive their expected inheritances?

Business implications

What could extended employment, second careers or semi-retirement mean for our customers' needs — and where could it create new opportunities? If growing concern about retirement leads to an increased allocation of today's income towards savings or debt repayment, which categories will suffer and which will stand to gain? How might consumers adapt their allocation of spend, and where will they make sacrifices? And equally, if today's customer isn't investing for their future life stages, who will be our 'senior' customer of the future?

While it may appear to be the remit primarily of the financial services industry, consumer attitudes and behaviors about planning for the future have potential implications for all industries — resulting in the need to deepen and broaden our understanding of:

- the totality of our customers' wallets, not just income and spending patterns but also wealth accumulation (or net deficits)
- the interrelationship between consumption today and planning for tomorrow, and how this changes the shape and size of the customer wallet — including what's left in the wallet

- how consumption patterns change across these life stages, and what are the new unmet needs
- the interdependence between generations, and how the financial position of one cohort impacts another, from extending financial support across generations to diminishing wealth transfer as life spans extend and rising healthcare costs erode assets
- the opportunity to play an active part in helping our customers to better plan and prepare for their futures through goal-based planning and the choices they make today.

Even if large portions of society are adopting a 'delay and pray' or 'avoid' attitude to their retirement, the businesses serving them need to be prepared for the uncertain future ahead.

53%
of French retirees are worried about running out of money

"I want to retire at 60, but I think I'll actually be able to retire at 70. That's because people are living longer and all the claims are costing a lot."

Pauline, 21, Dijon, France

Customer wallet: life event trajectory

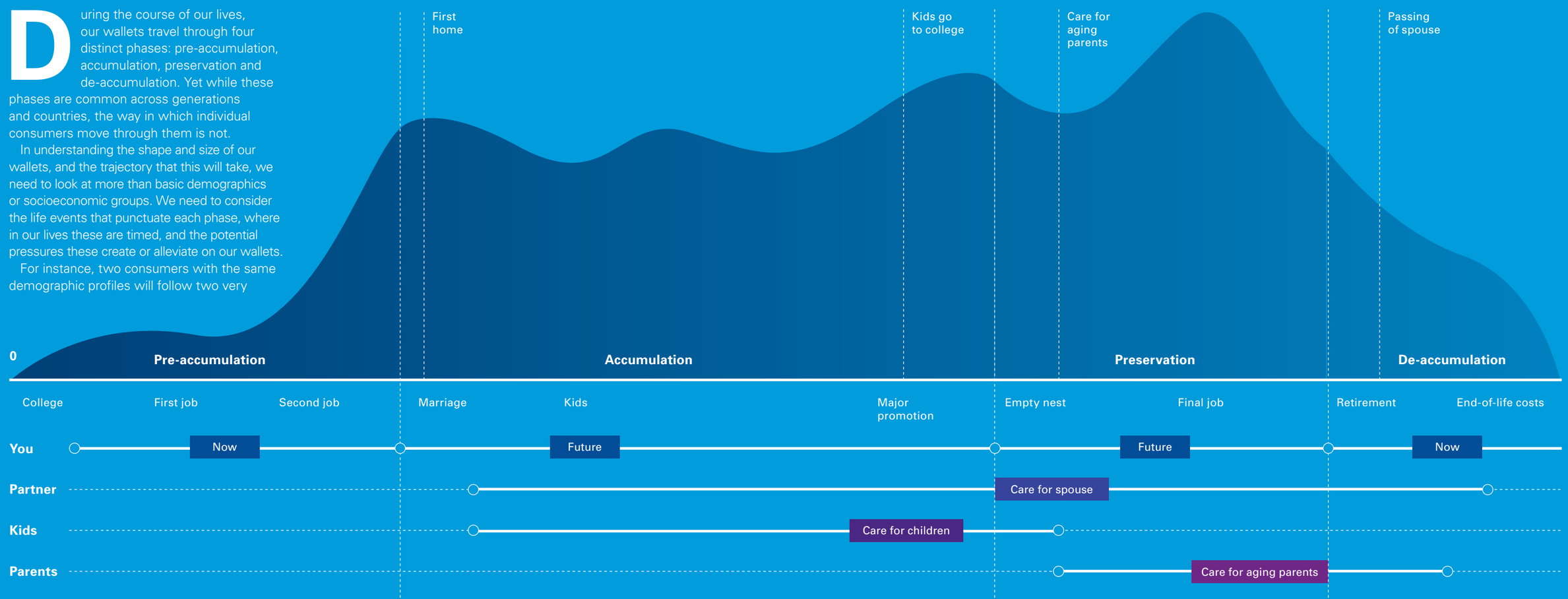
It's the nature and timing of our life events that determines the shape and journey of our wallets — not our demographics

During the course of our lives, our wallets travel through four distinct phases: pre-accumulation, accumulation, preservation and de-accumulation. Yet while these phases are common across generations and countries, the way in which individual consumers move through them is not.

In understanding the shape and size of our wallets, and the trajectory that this will take, we need to look at more than basic demographics or socioeconomic groups. We need to consider the life events that punctuate each phase, where in our lives these are timed, and the potential pressures these create or alleviate on our wallets.

For instance, two consumers with the same demographic profiles will follow two very different trajectories if one begins their financial life with a large student loan to pay down, where the second didn't pursue higher education. If one shuns home ownership in favor of living with parents for longer and then renting, whereas the second reaches for the property ladder as soon as they enter employment. If one pursues marriage and children in their mid-20s, whereas another puts the decision off until their late 30s in favor of traveling and building life experiences.

These factors don't just affect the size of the wallet, i.e. income less consumption and spending, but also where it is likely to be under more or less strain, and therefore what needs might be most prioritized by consumers at a given time. In concert with the Five Mys framework, charting the path of consumers' wallets and taking into account the timing and nature of their key life events can help us to plan and predict at an individual level, rather than an imprecise homogeneous group.



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Published by Raconteur Media Ltd
Publication no 135797-G
Publication date January 2019