

Insurance Sector Social Dialogue



Presentation to Insurance Sector Social Dialogue Forum on
[Insert Date]

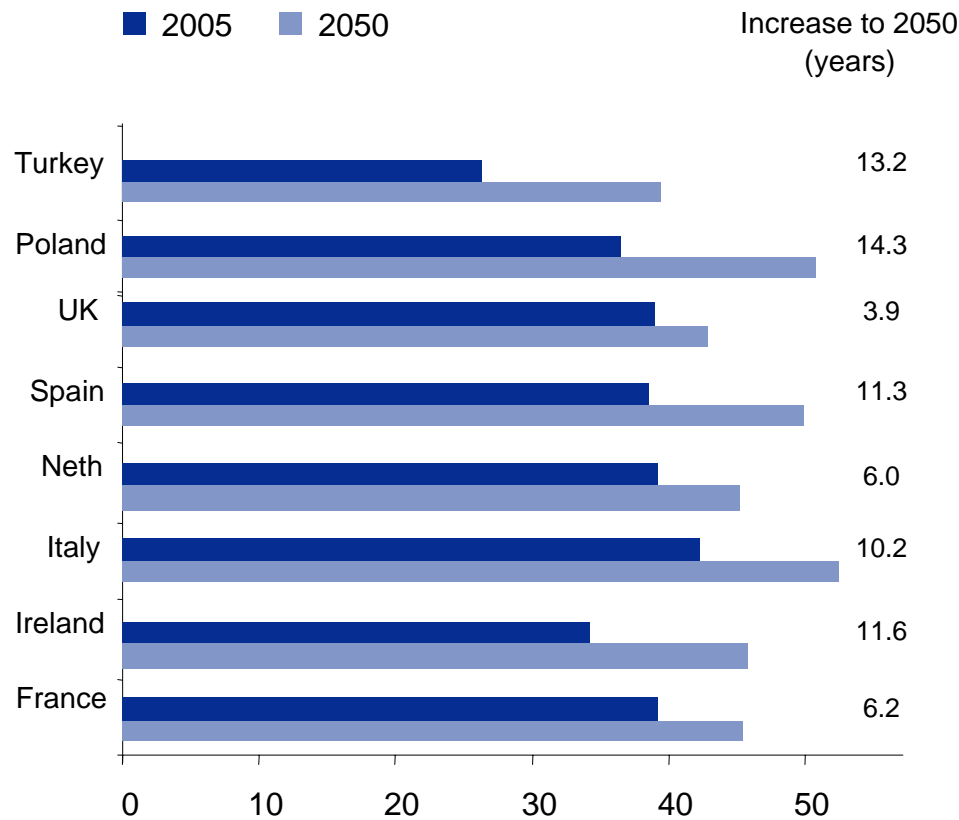


Demographic Changes

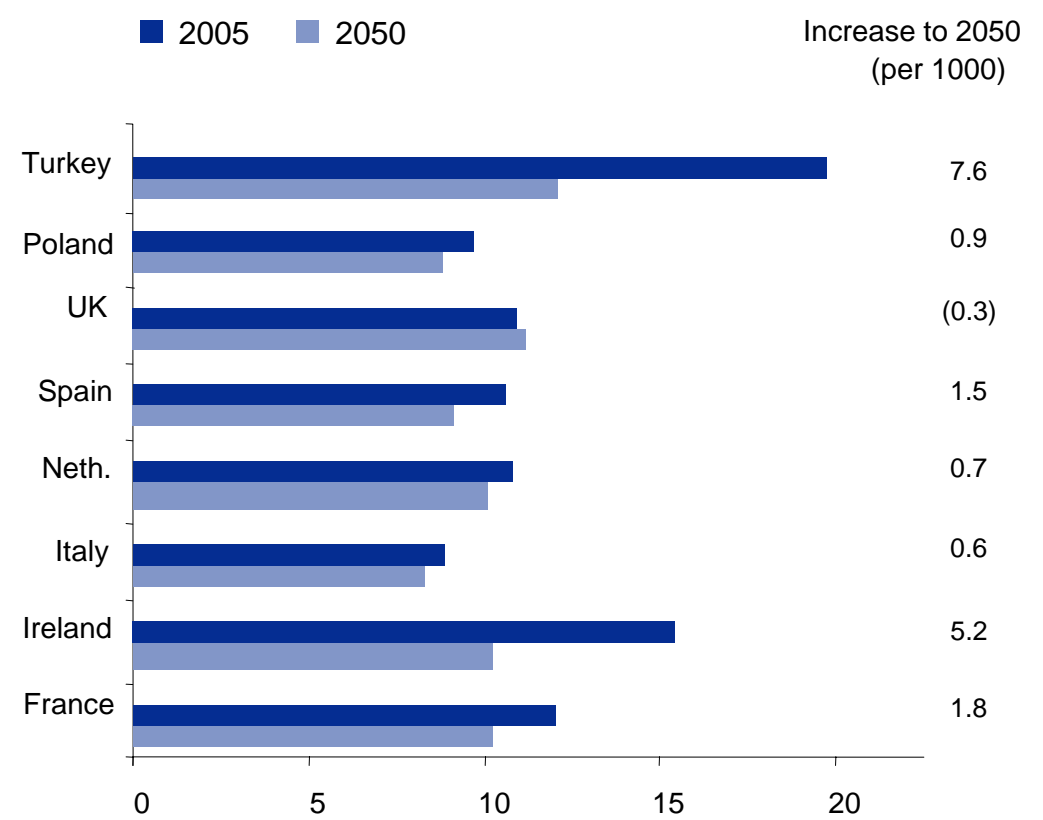


Increased longevity and falling birth rates are dominant trends in most European countries

Median Age Projections



Birth rates ¹

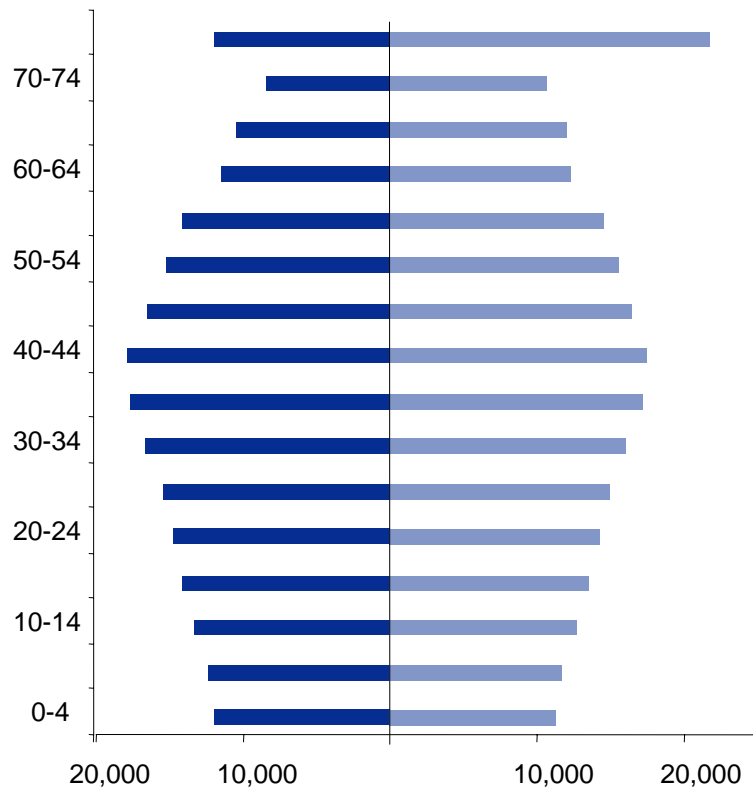


Source: UN

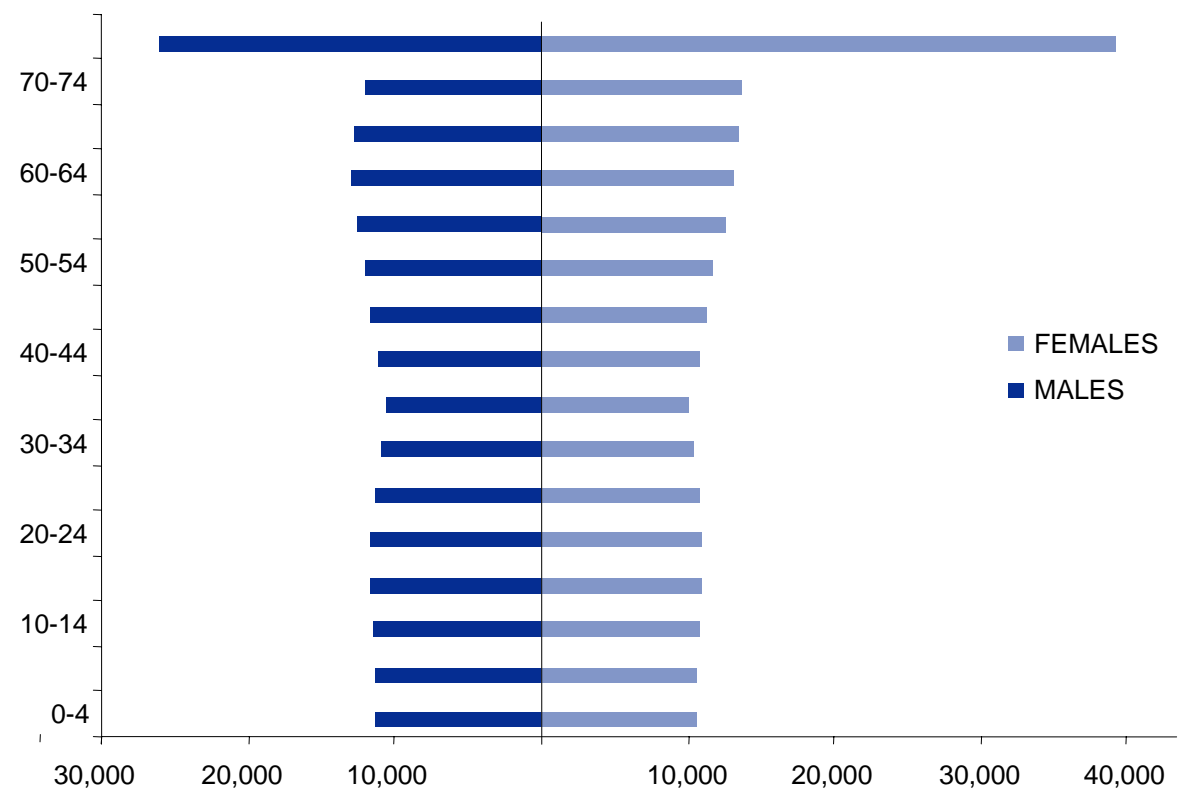
1. Births per 1,000 population, source: UN

The shape of the European population is changing as the “baby boomers” move into retirement

EU 25 Population Pyramid in 2005



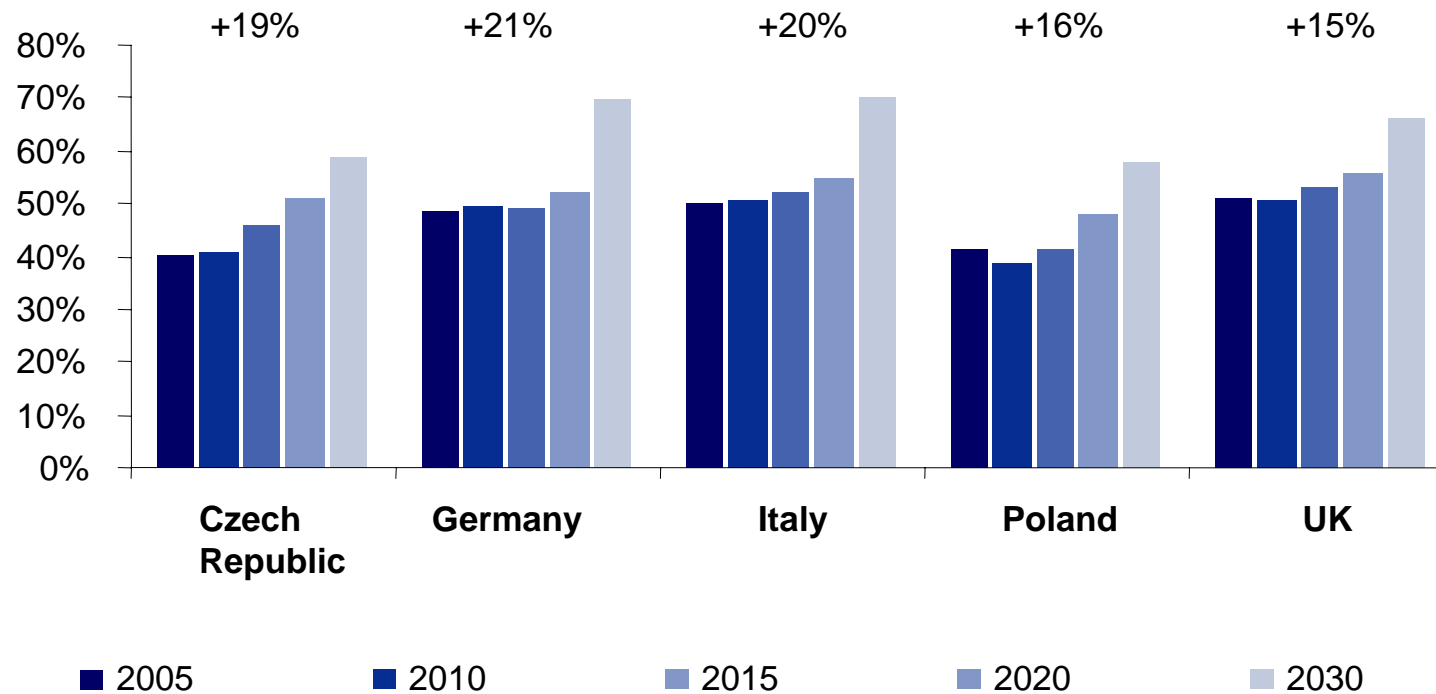
EU 25 Population Pyramid in 2050



Source: World Bank, MOW

Therefore, dependency ratios are increasing across the region

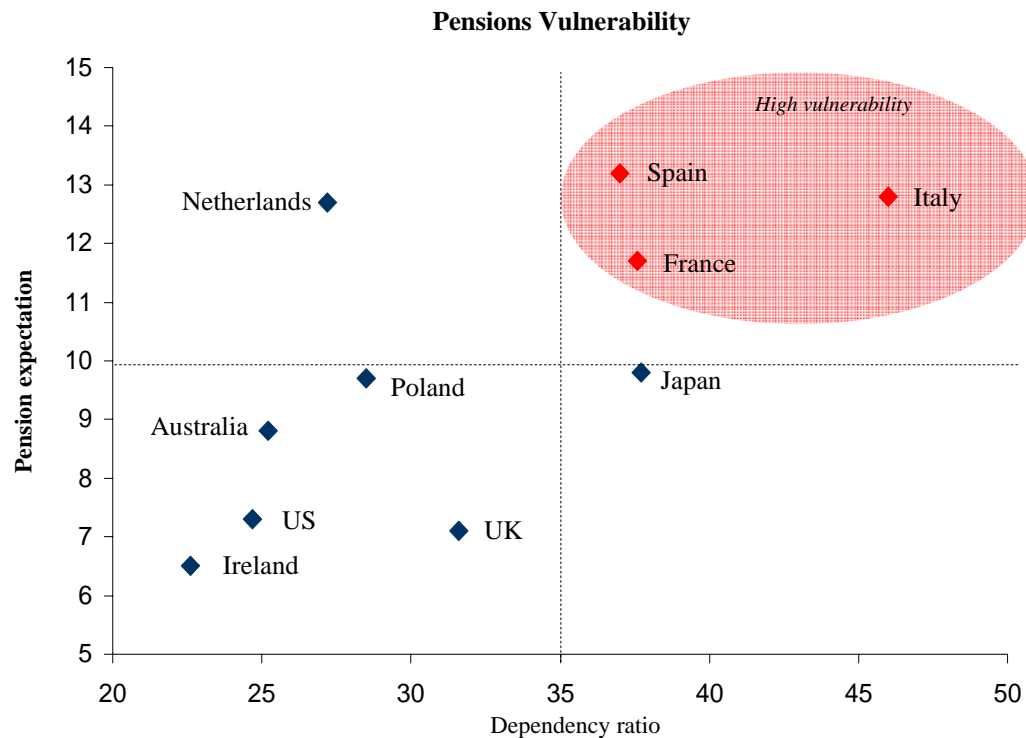
2005-2030 Dependency Ratios¹ for Selected European Countries



Source: World Bank, MOW

Note: 1. Dependency ratio calculated by dividing population aged 0-14 years and 65+ by the population aged 15-64 years

This, added to high expectations of retirement income, is exerting pressure on pension systems



Source: OECD (2005)

Dependency ratio = Population aged over 65 as a % of labour force

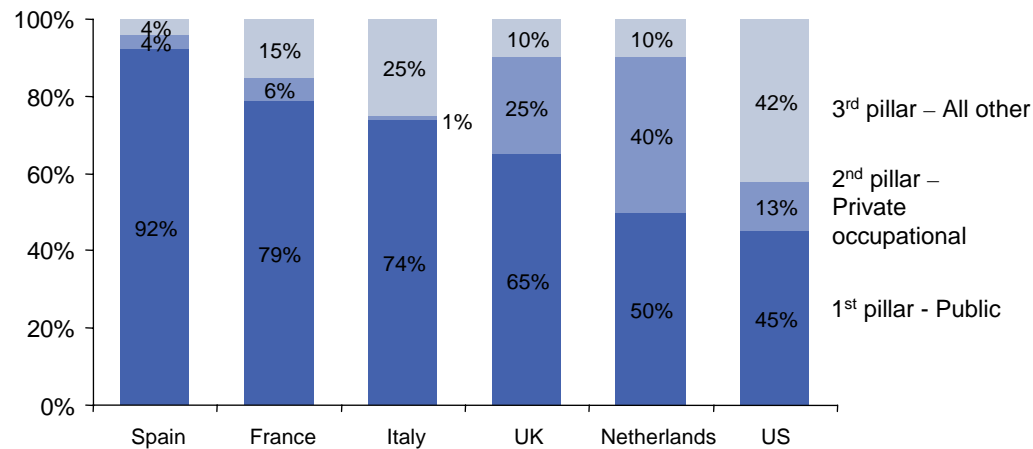
Pension expectation - lump-sum equivalent to total pension income expected

Calculated as present value of future pension payments; considering level of payments, pension eligibility age, life expectancy and adjustments to reflect wage or price growth

- France, Italy and Spain appear the most vulnerable economies
- English speaking economies are in a less vulnerable position
- As expectations for 'life after retirement' increase, replacement rates will need to similarly increase
- In developing countries growth and rising living standards have highlighted the inadequacies of state pension systems

Pension systems are struggling to meet individual needs; presenting opportunities for financial services

Sources of Retirement Income 2004

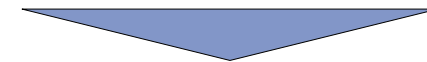


Source: Oxford Economic Policy Group (2004)

Country	Number of companies	Deficit (€bn)	% of Market capitalisation
France	8	17.4	5%
UK	16	39.5	3%
Netherlands	5	12.6	6%
Spain	3	19.8	11%

Source: International Financial Services London

- The provision of retirement income varies significantly between countries
- In Italy and Spain retirement income significantly depends on public financing, whereas in the UK and Netherlands there is also a significant contribution from private occupational pensions
- Italian and Spanish governments are struggling to meet high pensions expectations, while private providers in the UK, US and Netherlands are facing big pension deficits



- As pension systems struggle to meet individual needs; the emphasis on saving for old age is moving to individuals, presenting opportunities for financial services providers

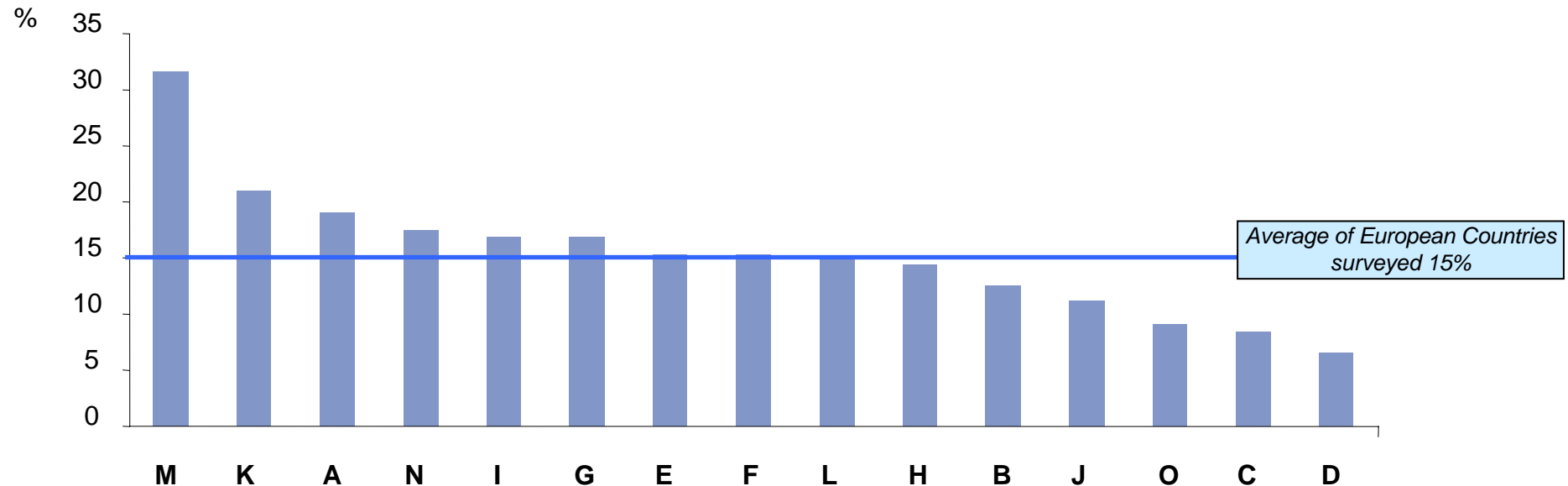
Attitudes towards retirement



Attitudes have changed; pre-retirees no longer believe the state will provide for them in old age

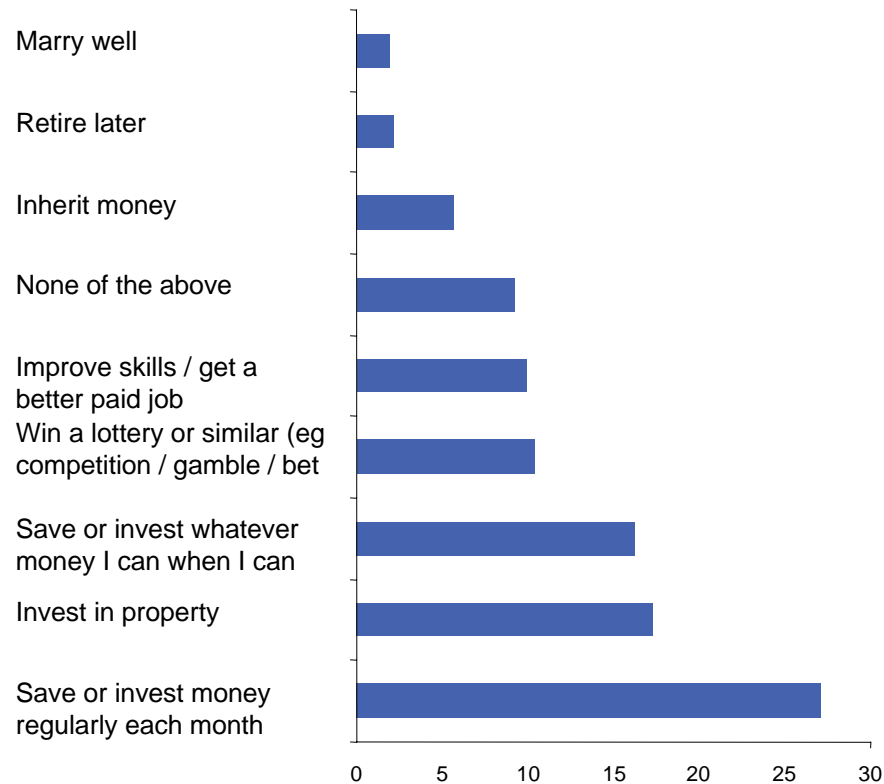
Percentage of pre-retirees agreeing with the statement:

"I think that the Government will provide me with an adequate level of pension / retirement savings for my retirement"
(European Countries)



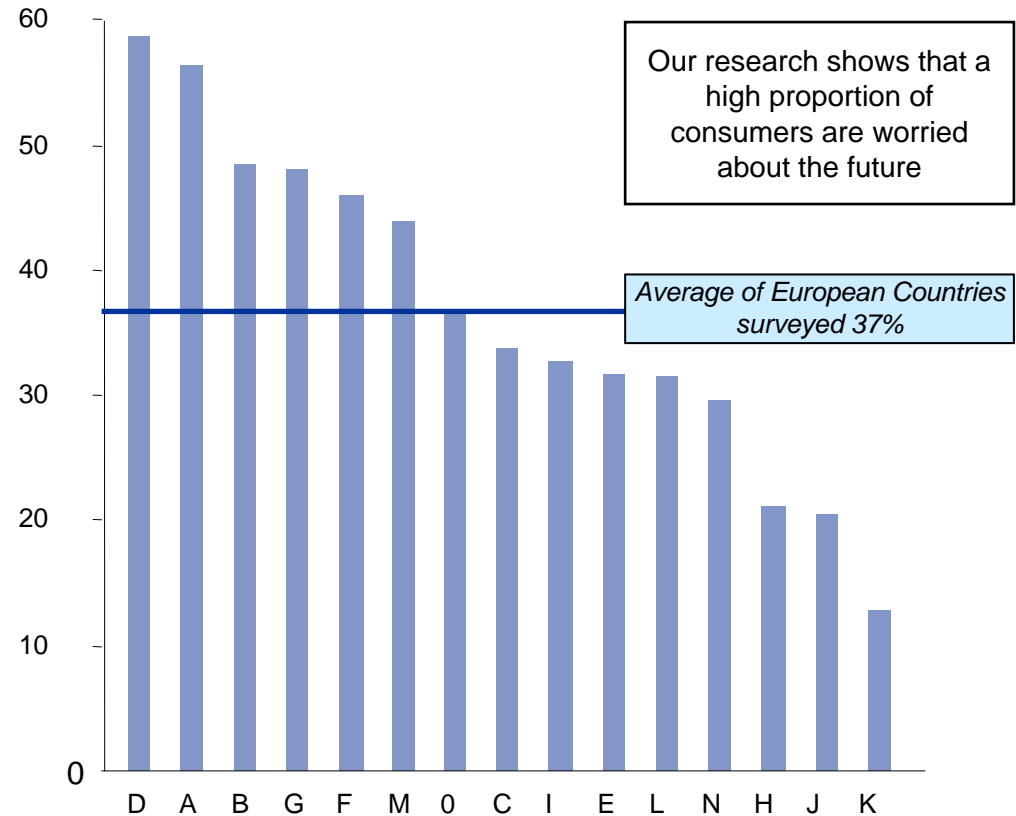
Most think saving is the best way to prepare, yet only 37% save regularly and many are worried for the future

**What do you believe is the most practical way to accumulate enough wealth to live comfortably in retirement?
(European Countries)**



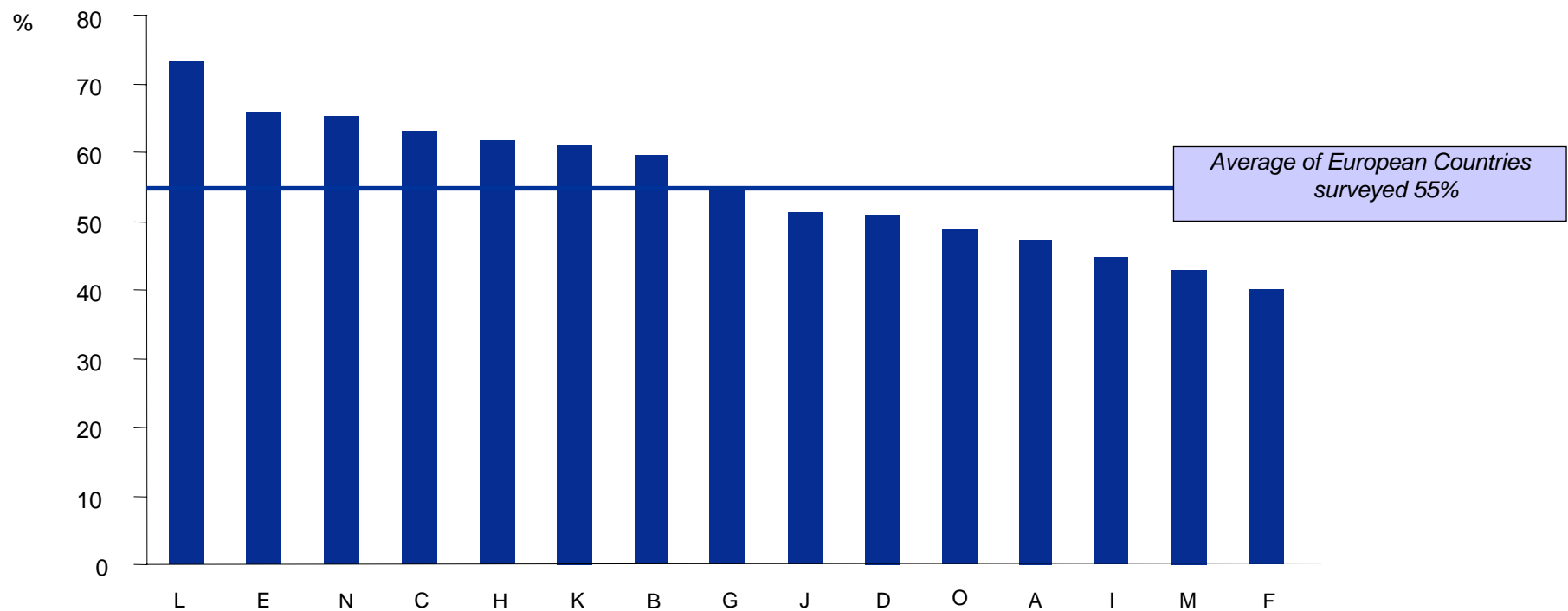
Source: Aviva's Annual Consumer Attitudes to Savings Survey

**I regularly set aside money for use when I retire - all agreeing
(European Countries)**



And Europeans increasingly accept that they will have to work beyond the normal retirement date

Percentage of pre-retirees agreeing with the statement:
"I think I am going to have to work beyond the normal retirement date to fund my retirement"
(European Countries)

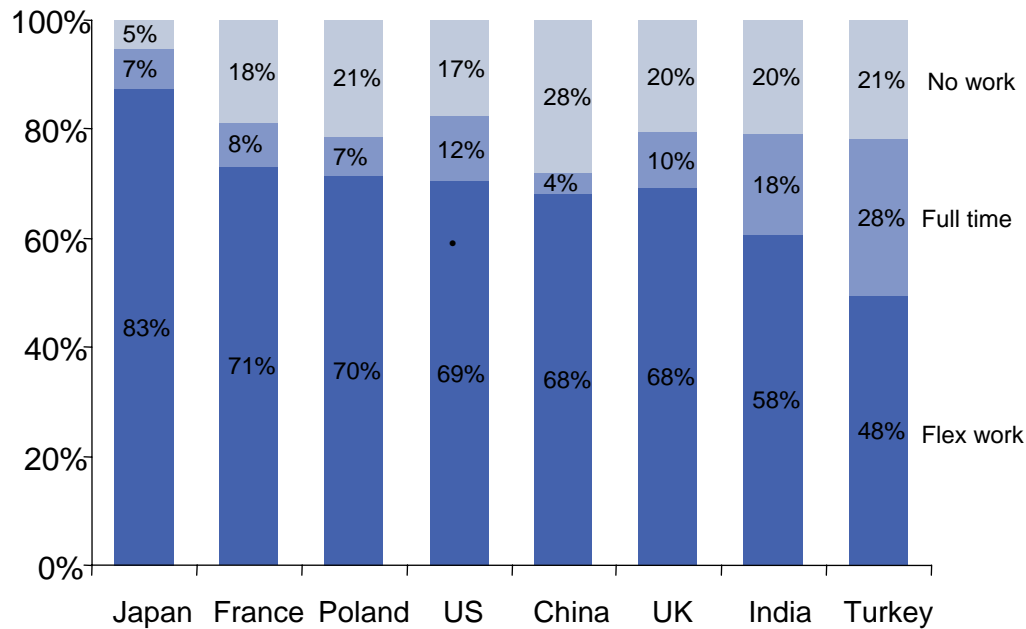


Changing nature of retirement



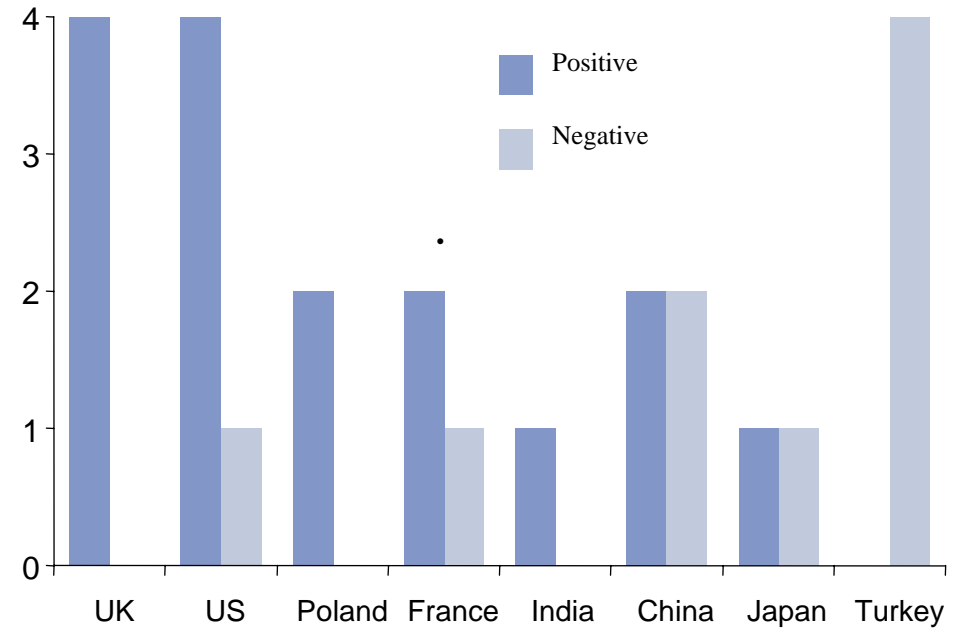
Retirement is changing; flexible working is popular for older workers and employers are positive towards them

Ideal Balance for Later Years



Source: HSBC

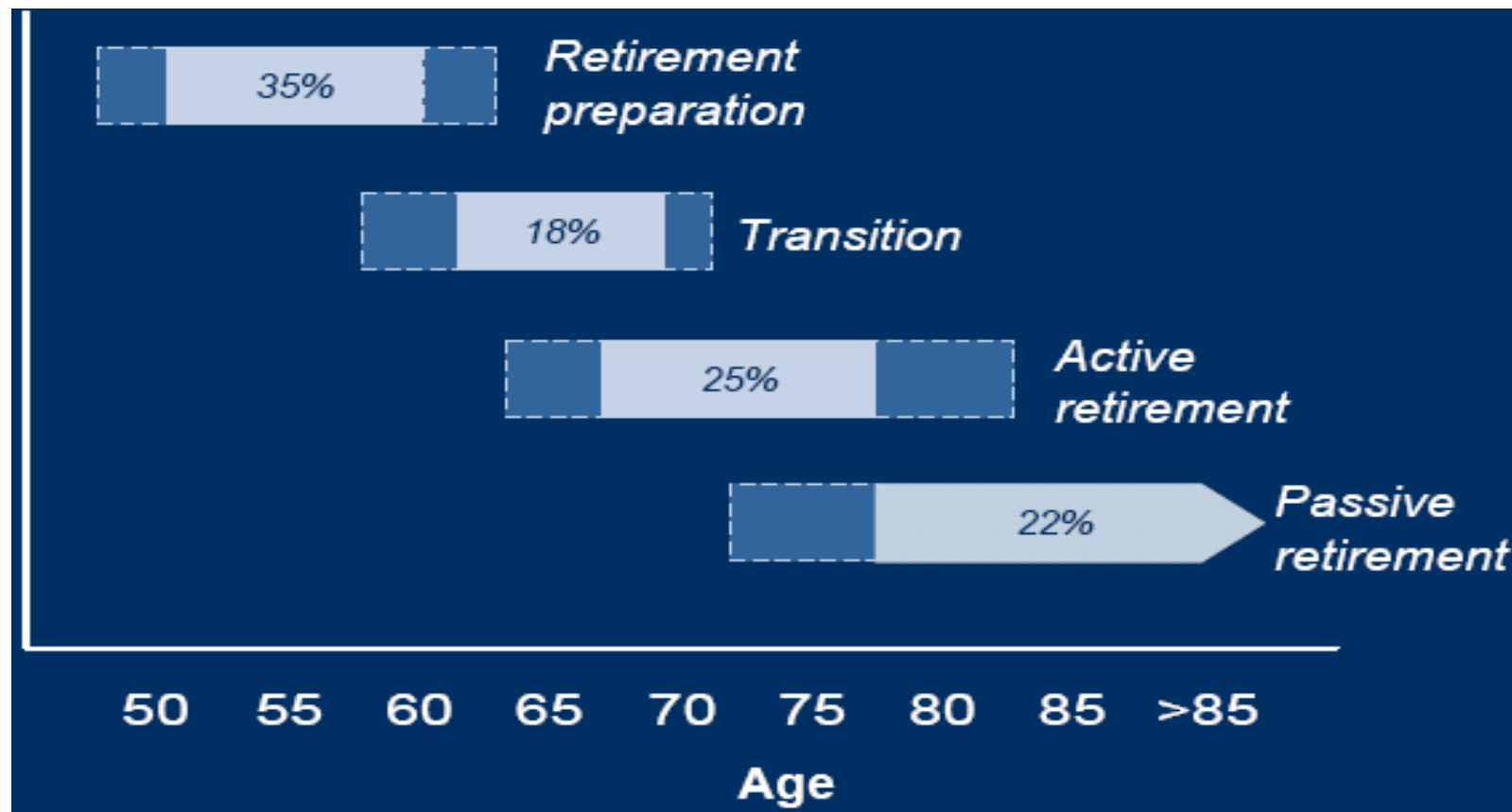
Employer's Attitude to Older Workers



Source: HSBC

People now transition into retirement more gradually; a number of potential stages have been identified

European Model



Financial services players should adapt to meet the different needs of each potential stage

	Description	Financial Considerations	Other Concerns
Retirement Preparation	<ul style="list-style-type: none"> • Planning for retirement • Developing new ambitions and needs 	<ul style="list-style-type: none"> • Peak savings • Shifting to shorter-term horizon 	<ul style="list-style-type: none"> • Increased consideration of future health and care needs
Transition	<ul style="list-style-type: none"> • Gradual shift from full-time employment • Starting to implement retirement lifestyle 	<ul style="list-style-type: none"> • Declining and more variable cash flow 	<ul style="list-style-type: none"> • Re-organising lifestyle
Active Retirement	<ul style="list-style-type: none"> • Active leisure with no significant health issues 	<ul style="list-style-type: none"> • Managing liquidity: spending is volatile and sometimes high, but tailing 	<ul style="list-style-type: none"> • Considering health and longevity risks
Passive Retirement	<ul style="list-style-type: none"> • Increasing health problems • Need for assistance in daily life 	<ul style="list-style-type: none"> • Concerns about inheritance • Increased delegation of decisions to relatives / trusted advisors 	<ul style="list-style-type: none"> • Health care quality and funding

What are the implications for employers and employees?



The challenges for employers and employees

- A number of factors are likely to mean employees will work longer:-
 - Attitudes are changing and more older employees want to continue working beyond “traditional” retirement dates.
 - Reduced/ changing state provision for retirement means employees feel they need more years at work to retire on a reasonable income.
 - The reduced numbers of young people entering the workforce will mean potential skill shortages and employers will wish to retain the skills of older employees for as long as possible.
- Some recent trends in increasing flexibility in the workforce may be reinforced:-
 - Migration, particularly from newer to older EU member states, is likely to continue with both skilled and unskilled/ low skilled jobs filled in older EU states from this source
 - Employers are likely to continue to offshore/ outsource jobs that can be competently delivered and more easily filled in larger, growing economies (eg India, China) where skills are readily available and where there are potential gains through wage arbitrage.

The challenges for employers and employees

- Younger employees will be conscious of, and look for opportunities to develop, those skills that differentiate them in the workplace:-
 - As semi-skilled and unskilled jobs reduce in number and are competed for strongly, younger employees will look to higher skill based jobs
 - They will place higher value on jobs and employers who provide them with opportunities to keep their skills up to date and provide suitable training and development, both formal and informal.
 - In return, employers will expect workers to keep their skills up to date and to invest in their long term employability.
- "Lifetime Learning" and more diverse work/ life patterns will emerge:-
 - "Traditional" life stages of learn/ work/ retire will be replaced by far more fluid life patterns with part time/ flexible working, career breaks, learning at later life stages and later/ more staggered retirement all becoming preferred ways of working. Employers will need to become more skilled at managing employees differing work expectations and requirements.
 - "Lifetime Learning" will become more of a reality, with workers keen to maintain and enhance skills or drop obsolete skills and retrain to find new ones. Individuals valuing their skill base as the key to lifetime employability will increase.