Barclays Wealth Insights

Volume 12: The Age Illusion
How the Wealthy are Redefining Their Retirement

In co-operation With Ledbury Research

BARCLAYS WEALTH

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About this report

Researched by Ledbury Research and written in conjunction with Barclays Wealth, this 12th volume of *Barclays Wealth Insights* looks at the changing attitudes toward retirement and succession planning amongst the global high net worth community.

It is based on two main strands of research. Firstly, Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had over £1m (or equivalent) in investable assets and 200 with more than £10m. Respondents were drawn from 20 countries around the world, across Europe, North America, South America, the Middle East and Asia-Pacific. The interviews took place during the first half of 2010.

Secondly, Ledbury Research conducted a series of interviews with academics, entrepreneurs and other experts from around the world. Our thanks are due to the interviewees for their time and insight.

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Foreword

Across the world there are many preconceptions held about older people. It is widely thought that age acts as a catalyst for changes in priorities, and that as individuals grow older they re-focus, perhaps changing the pace at which they work, or retiring from work altogether.

These ideas are increasingly being challenged by reality. Older individuals across the world are enjoying better health, which is enabling them to live longer and more active lives. As a result, the pace of life for many older people may not be significantly different to that of their younger years.

For the wealthy, this poses many interesting questions, both for individuals and for businesses. How should people plan for and lead the later stages of their life in a way that fulfils both them and their families? How can businesses make the most of the 'corporate memory' that older workers often retain?

The wealth management industry has long focused on helping individuals prepare for the future. Now that our lives and, in many cases, our working lives, have been extended, how can we help people plan for this, and for possible succession challenges?

The attitudes of wealthy individuals to ageing are explored in this most recent *Insights* report; *The Age Illusion: How the Wealthy are Redefining Their Retirement*. In it, we explore how wealthy individuals' perceptions of their work and lifestyles change as they grow older, and what the implications are for their children and grandchildren.

Working once again in partnership with Ledbury Research, we have surveyed more than 2,000 wealthy individuals across the globe and interviewed a series of experts who have provided their views on the older working wealthy.

From this intelligence we have produced a report that helps us to examine what it means to be wealthy in later life, to challenge preconceptions about this stage of our lives, and to enable us to understand and respond to the needs of this group.

I hope that you enjoy this latest chapter.

Thomas L. Kalaris
Chief Executive
Barclays Wealth

Our Insights Panel

Matthew Brady, Head of Wealth Advisory, Barclays Wealth Americas

Gordon Gibb, Entrepreneur

Dr Sarah Harper, Professor of Gerontology and Director of the Oxford Institute of Ageing at the University of Oxford

John Llewellyn, Llewellyn Consulting

Helen Pitcher, Chair of IDDAS

Dick Pyle, Proprietor of truffle-tree.com

Phil Smith, Head of Financial Planning, Barclays Wealth UK and Ireland Private Bank

Dr. K K Tse, Founding Chairman, Hong Kong Social Entrepreneurship Forum

Steve Vernon, US Author, Columnist and Actuary

The Age Illusion:

How the Wealthy are Redefining Their Retirement

Introduction

The concept of a 'traditional' retirement is a relatively recent phenomenon. When retirement schemes were first introduced at the end of the 19th century, retirees were lucky to live just a few more years after stopping work. But increased life expectancy means that today's retirees are often enjoying 20 to 30 years of leisure at the end of their working lives.

With life expectancy continuing to increase, retirement in its current form has become unsustainable, both for governments and many individuals. This means that the concept of a long, leisurely retirement is likely to change. For the majority of the working population, an expectation that we can stop work at 60 or 65 is therefore unrealistic.

For many, a conventional retirement may not be welcome. More than ever before, we are enjoying good health to an older age and many of us are not only capable of working well beyond retirement age, we also often have the desire to do so. Today's older generation can often be found using their retirement years to start a new career, set up a business or to consult in their specialist field. As a result, the notion that an individual should cease working at a pre-defined age is more of an illusion than a reality.

The wealthy are no exception to this fact. Even those who are financially able to maintain a luxurious lifestyle through an extended period of retirement are often choosing not to do so.

The recent global financial crisis has also caused many wealthy people to doubt whether planning for a sustained period of economic inactivity in retirement is a realistic or sensible option. Worries about the unpredictability of investment returns – as well as personal circumstances – may be encouraging this desire to keep on working.

This report, the 12th volume in the *Barclays Wealth Insights* series, examines the views of wealthy individuals across the globe toward retirement. Based on a survey of more than 2,000 high net worth individuals, this report considers what retirement means to today's wealthy. It draws on insights from wealthy entrepreneurs and leading thinkers to shape a view of what this later stage of life looks like, and the benefits of what a generation of older, working wealthy may bring to society as a whole.

Executive summary

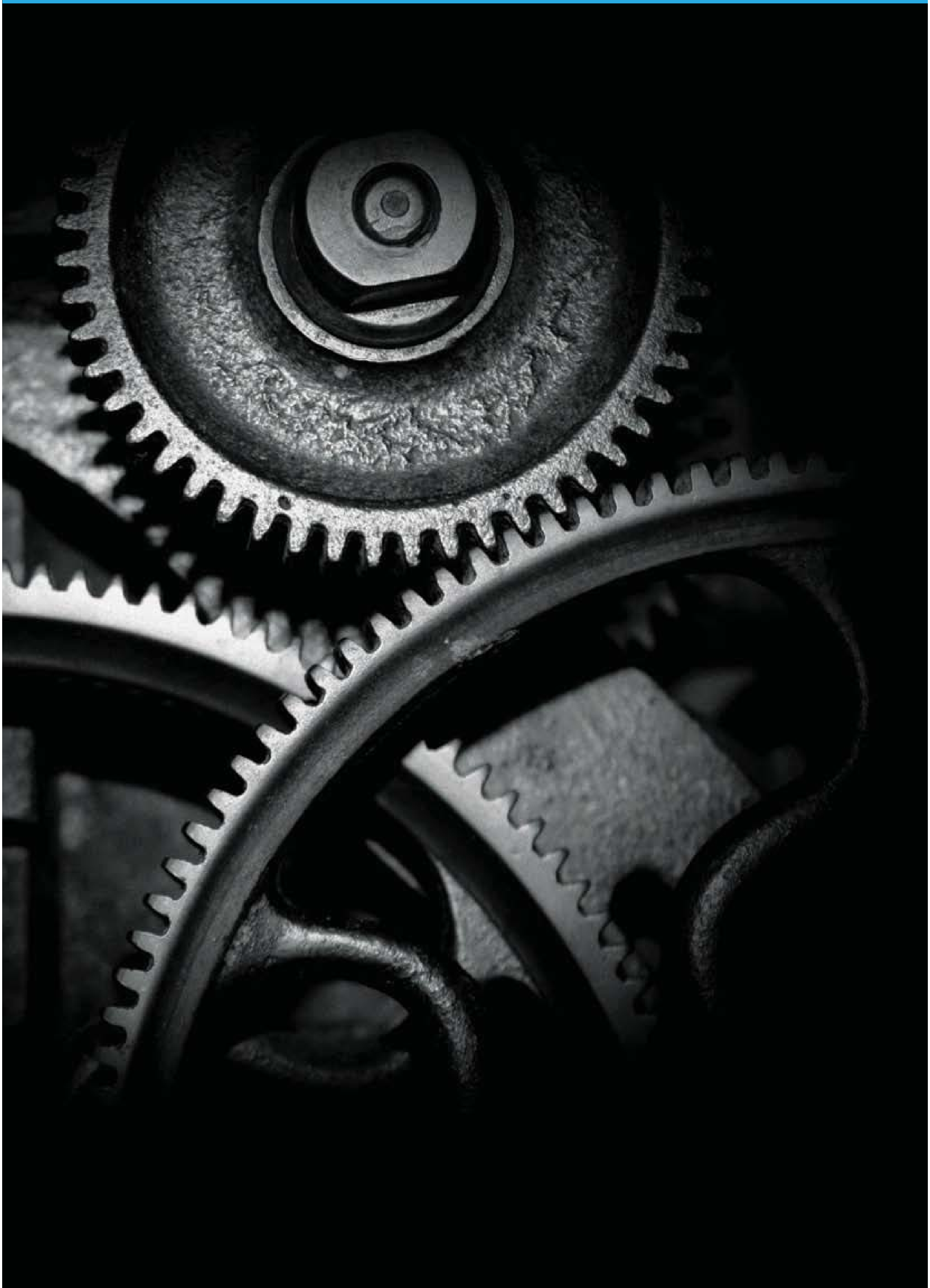
Many wealthy individuals will *never* stop working. Higher life expectancies and financial pressures are prompting a general reassessment of 'traditional' retirement by the population at large. Wealthy individuals' attitudes have already shifted. Most want to keep on working in some form, even if they have little financial need to do so. These 'Nevertirees' are very actively engaged in what we would traditionally regard as their retirement years; continuing to work, starting businesses and taking on new projects. For many, their work is their passion, and to stop would be unthinkable.

Unpredictability is a fact of life. Wealthy individuals are generally confident they can predict the amount of money needed to maintain their lifestyle in retirement – perhaps wrongly, given how difficult it is for someone to predict how long they will live. However, wealthy individuals are less confident they can predict many other factors, such as their personal health or rates of return on investments. Succession issues add a further level of complexity to planning for later life.

Planning for your later years is challenging but essential. Worries about the difficulties of funding a conventional retirement – and succession – are encouraging many wealthy people to look at the later stages of life in different ways. But whether they plan to keep on working or take a conventional retirement, a clear-headed assessment of financial needs and how to fund them is essential. Whatever the circumstances, the focus is likely to remain on careful planning, rather than a radical change in the way in which we plan for and fund later life.

Attitudes will continue to change. The older, working wealthy are economically productive, paying taxes, creating jobs and growing their wealth: as such, they should be regarded as a valuable resource. But attitudes and expectations toward them may not yet have caught up with reality. The corporate sector will gain from their experience at the board level, but may worry about how to get individuals eventually to step down.

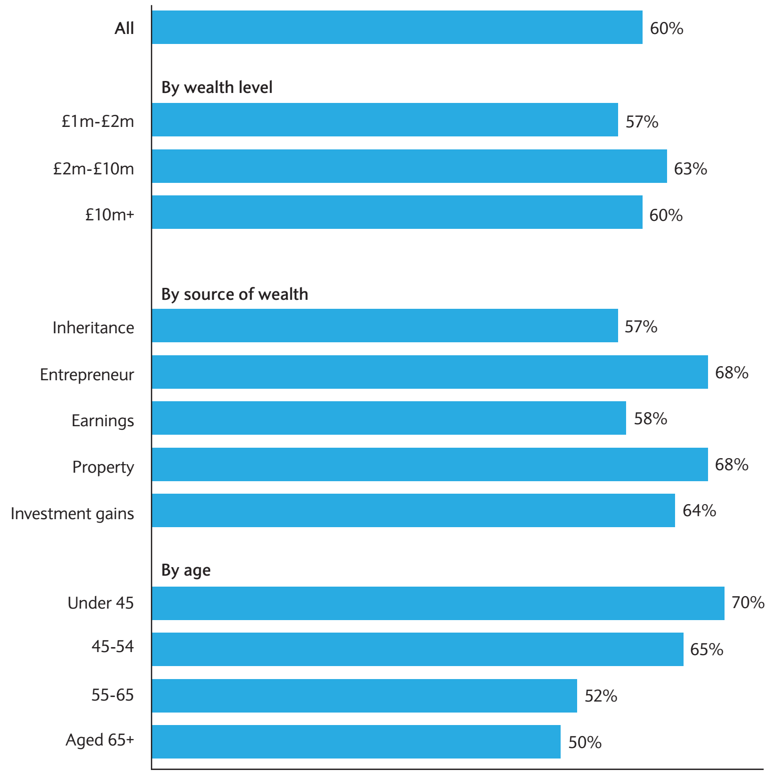
The older, working wealthy are economically productive, paying taxes, creating jobs and growing their wealth.



The 'Nevertirees'

The research has highlighted an interesting and, perhaps, unexpected phenomenon amongst wealthy individuals across the world. Instead of planning a conventional retirement or making plans to retire early, most of our respondents aspire to keep on working in some form – to become a Nevertiree rather than a retiree. Some 60% of respondents say they envision always being involved in commercial or professional work of some kind, whatever their age.

Chart 1 – "No matter what my age, I envision being involved in commercial/professional work of some kind."*



* % of respondents "completely agreeing" or "slightly agreeing" with this proposition.
Source: Ledbury Research

The Nevertiree entrepreneur

Dick Pyle, Proprietor of truffle-tree.com, says at age 67 he "can't really conceive of doing nothing." In his 40s, "retirement hadn't really entered my head." So Mr. Pyle, having moved to south-west France at 60, started two businesses – a truffle farm and a regional wine retailer/wholesaler. This is a solution that combines work with a pleasant lifestyle, and some hard physical labour. For Mr. Pyle, the most important thing about retirement is to have an engaging hobby to which one can devote oneself to, or to continue working.

"I can't really conceive of doing nothing."

Mr. Pyle has no plans to stop, and sees himself working for as long as he can. He also thinks that "attitudes to retirement will have to change." In his mind there is no way that governments and corporations will be able to fund pension provisions in their current stage, pointing out the way in which growing life expectancies now vastly exceed the official retirement age. He suggests linking the official retirement age more directly to average life expectancies, with individuals being given perhaps 15 years of pension-funded retirement.

What is particularly interesting is that this phenomenon is not limited to those who have become wealthy through entrepreneurship. In fact, the source of wealth makes relatively little difference to an individual's desire to keep on working. Those who have inherited their wealth, made gains through investments or property, or who have climbed the corporate ladder through employment also report a strong desire to keep working. As Sarah Harper, Professor of Gerontology and Director of the Oxford Institute of Ageing at the University of Oxford says, "People want to contribute. They want to be doing something. Work gives people status, it gives them the opportunity to network."

Whilst our research shows that the Nevertirees are a global phenomenon, there are some quite marked differences across the world. Of particular note is that in emerging market economies such as Saudi Arabia, United Arab Emirates (UAE) and South Africa, very few wealthy individuals plan to stop working completely, in some cases fewer than 10 percent. Amongst the developed economies, the concept of Nevertirement is also popular, but to a lesser extent. Those most likely to desire a conventional retirement include Switzerland, Spain and Japan.

To some extent, this can be explained by age differentials – 59% of millionaires in the emerging markets are under 45, compared with just 16% in Europe and 21% in the US.

But emerging market respondents' desire to keep on working may also reflect different social attitudes to the concept of retirement itself. Europe has now had five decades or more to adapt to the notion of provisioned-for retirement at around age 65. In contrast, this concept does not have deep roots in many emerging market economies. (Note that Hong Kong and Singapore, toward the bottom of the Nevertiree list, have long-established mandatory retirement savings plans.)

Chart 2 – Top and bottom five Nevertirees*

Top five	
Saudi Arabia	**92%**
UAE	**91%**
Qatar	**89%**
South Africa	**88%**
Latin America	**78%**

Bottom five	
Hong Kong/Singapore	**56%**
US	**54%**
Japan	**46%**
Spain	**44%**
Switzerland	**34%**

* % "completely agreeing" or "slightly agreeing" with the proposition that "No matter what my age, I envision being involved in commercial/professional work of some kind."
Source: Ledbury Research

The desire to become a Nevertiree instead of a retiree is expected to grow over the coming decades. As we adapt to our increasing life expectancy and enjoy better health in later life than ever before, it is likely that increasing numbers of wealthy individuals will choose to keep on working in some form rather than opt for retirement. Our research backs up this hypothesis: Whilst 50% of respondents aged 65 and over say they always want to be involved in work, this figure leaps to over 70% amongst respondents under the age of 45.

Sarah Harper thinks increasing numbers will want to keep on working but not necessarily in the same role. As lead investigator on Oxford's Ageing Workforce Programme, she has recently completed a study on "Extending Late Life Work" and she says, "We do a lot of work around the importance of the age of 50 to 70 – an age when you're incredibly experienced, you've got so much to offer, but maybe want a second career. Maybe you want to do something different, or maybe you want to stay in the same work but in a different role."

Is a retirement age relevant in a Nevertiree world?

Simply reaching the 'normal' retirement age is no longer regarded as an automatic reason to retire. Indeed, as the entrepreneur Gordon Gibb observes, "For most of the people I know and bounce ideas off of, it always has been meaningless."

Sarah Harper agrees, saying, "Over the last decade or so, everybody has started to wake up to the fact that they're not going to retire as our parents or grandparents did, and then have 30 years of fully paid leisure with a high standard of living."

Even for the minority who are still planning a conventional retirement, the concept of a retirement 'age' seems out of date. Out of those survey respondents who have already retired, only 14% believe that simply reaching the normal age to retire was a "very important" reason behind their decision to retire. This lagged behind most other factors, notably having made enough money to do so (deemed very important by 58% of respondents) and ill health (51%). A desire to do something different was also important, as was no longer having an interest in working. The state of the economy, or government and taxation policies at the time, appear to be relatively unimportant factors in most individuals' decisions to retire.

Chart 3 – If you have already stopped working, how important were the following factors in the decision?*

By wealth level	All	£1-2m	£2-10m	>£10m
Made enough money to do so	58%	59%	58%	53%
No longer have an interest in working	30%	27%	33%	34%
No longer physically able to continue working	43%	42%	44%	41%
Desire to do something different	41%	39%	42%	46%
Government and taxation policies at the time	17%	17%	15%	19%
Ill health	51%	51%	51%	49%
State of the economy	20%	23%	17%	24%
Simply reaching the normal age to retire	14%	16%	12%	13%
Pressure from family and friends	9%	8%	8%	13%

* % citing the factor as "very important."
Source: Ledbury Research

Is a ‘traditional’ retirement really that ‘traditional’?

Whilst the majority of survey respondents told us that they plan to keep on working in their ‘retirement’ years, there remains a group of wealthy individuals who are either already enjoying a conventional retirement or are planning to do so. However, what is interesting to note here is that even amongst those respondents who told us they are retired, a great number have found themselves involved in work pursuits on a part-time basis, or are seeking out opportunities to be involved again in the commercial world.

> “It is both scary and thrilling to think of changing your life around and doing something new.”

We asked respondents how they divided up their time now, and how they planned to divide up their time in the future. The results, as the table below shows, were in one sense quite predictable – people wanted to spend more time with family, travelling, pursuing their hobbies and socialising.

What is particularly interesting is that, even amongst those who don’t count themselves as a Nevertiree and are planning a conventional retirement, the share of people wanting to keep on working part time increases as people approach retirement age. Wealthy individuals do manage to translate this aspiration into reality: in retirement, fully 40% of wealthy individuals say they are working part time. For some wealthy people, retirement may prove to be a bit duller than expected – and thus sparks a desire to return to some sort of work. Increasingly, retirement is being viewed as an opportunity to follow dreams and to do something completely different: as US Author, Columnist and Actuary Steve Vernon puts it, “It is both scary and thrilling to think of changing your life around and doing something new.”

Chart 4 – Aspirations for when you’ve stopped working vs. the reality*

	Under 45	45-54	55-65	65+	Over 65
Spending time with family	85%	88%	83%	74%	68%
Travelling	61%	66%	59%	52%	33%
Socialising	59%	63%	55%	51%	46%
Charity work	31%	27%	21%	18%	15%
Actively investing your money	36%	30%	28%	23%	23%
Hobbies	55%	62%	57%	49%	48%
Sports	33%	38%	34%	26%	26%
Politics	10%	7%	7%	7%	8%
Working part time	30%	34%	38%	32%	40%

* % spending more than five hours a week on the following.
Source: Ledbury Research

The social entrepreneur

Dr. K K Tse retired in 2000 and was happy for a few years "relaxing, enjoying myself and travelling a lot." But this lifestyle soon seemed to be missing something. Inspired by "reading and meeting," he embraced a new career in supporting and nurturing social entrepreneurs – becoming the founding Chairman of the Hong Kong Social Entrepreneurship Forum. Acting through a network of wealthy and socially conscious individuals, this forum raises money for investment in self-sustainable social enterprises. (For example, helping reformed drug addicts establish businesses.)

Dr. Tse's enthusiasm for social entrepreneurship was driven by the realisation that, in the words of an old Chinese phrase he learned in primary school, he "had been looking at the world from the bottom of a well." By contrast, social entrepreneurship offers the opportunity to leverage the talent of individuals for large-scale social improvements.

Dr. Tse says he realised that he wanted work that was "meaningful and interesting," conditions that his current activity fulfills. But whilst he helps social enterprises get off the ground, he does not yearn to be an entrepreneur again himself. An entrepreneur, he points out, needs to be totally committed to his or her business; they cannot take time out for travel, something which Dr. Tse still much enjoys.

Dr. Tse thinks that attitudes toward retirement are changing and he wants to keep going for some time. As he says, "Stop counting the years – just make the years count."

In alignment with our research findings, Steve Vernon, US Author, Columnist and Actuary, questions whether what we consider to be a 'traditional' retirement is really that traditional. As he points out, this is the first generation of retirees that can look forward to spending perhaps 30 years in retirement. Fifty years ago, he notes, developed economy workers might spend only a few years in retirement and workers in emerging markets would not have considered stopping work.

Mr Vernon believes that individuals' attitudes toward retirement behaviour have not caught up with reality, either in financial or personal terms. Even for a wealthy person, it may be difficult to comprehend – and raise – the amount of money that is needed to fund 30 years of retirement. The possibility of ill health, and associated costs, casts another shadow.

"Stop counting the years – just make the years count."

He thinks that current attitudes toward retirement may change again, with retirees keener to work. Partly this will be driven by financial concerns, with the financial crisis of the last three years making individuals more worried about whether they can rely on existing investments alone. Partly, it will be encouraged by growing evidence that people continuing with some form of employment will have longer, happier and healthier lives. Mr Vernon says: "One of the most fascinating pieces of evidence I've seen is evidence of people who work later in life actually being healthier and living longer than people who don't work. It's not necessarily working that helps you — it's really engagement with life, having a powerful reason to keep getting up in the morning." Broader economic questions will also increasingly be asked about many developed economies' ability to fund a large proportion of their workforce in retirement.

So Mr. Vernon believes that attitudes toward retirement will change, if slowly. There will be a number of challenges to overcome: for example, the attitude of younger workers who may think they are being denied a job by older workers remaining in the labour force — the so called 'lump of labour' argument. But he argues that these challenges can be overcome.

A case for coaching?

Not all preparations for the later stages of life – however defined – are financial. The wealthy need to think through what they want to do, and to prepare themselves mentally as well. For those who plan to keep on working, it is still important to plan what a work/life balance may look like as age increases – and for those who are planning a conventional retirement, the transition from working life to leisure can be a difficult one.

Helen Pitcher is chair of IDDAS, which provides mentoring, coaching and advisory services to senior executives facing career transitions. Some senior executives are moving up to the board level whilst others are stepping down, in retirement, to become non-executive directors or go into the not-for-profit sector.

"Most of the people we work with" says Helen Pitcher "resist retirement like mad." She thinks that this has little to do with money, but is rather due to their job providing a sense of self-worth. Men find the process more difficult than women.

> "Most of the people we work with resist retirement like mad."

What factors have driven this distrust of retirement? Helen Pitcher believes these factors include outlook, energy and life expectancy. As she observes "The average 55 year old is a lot younger than the 55 year old from 10 or 15 years ago."

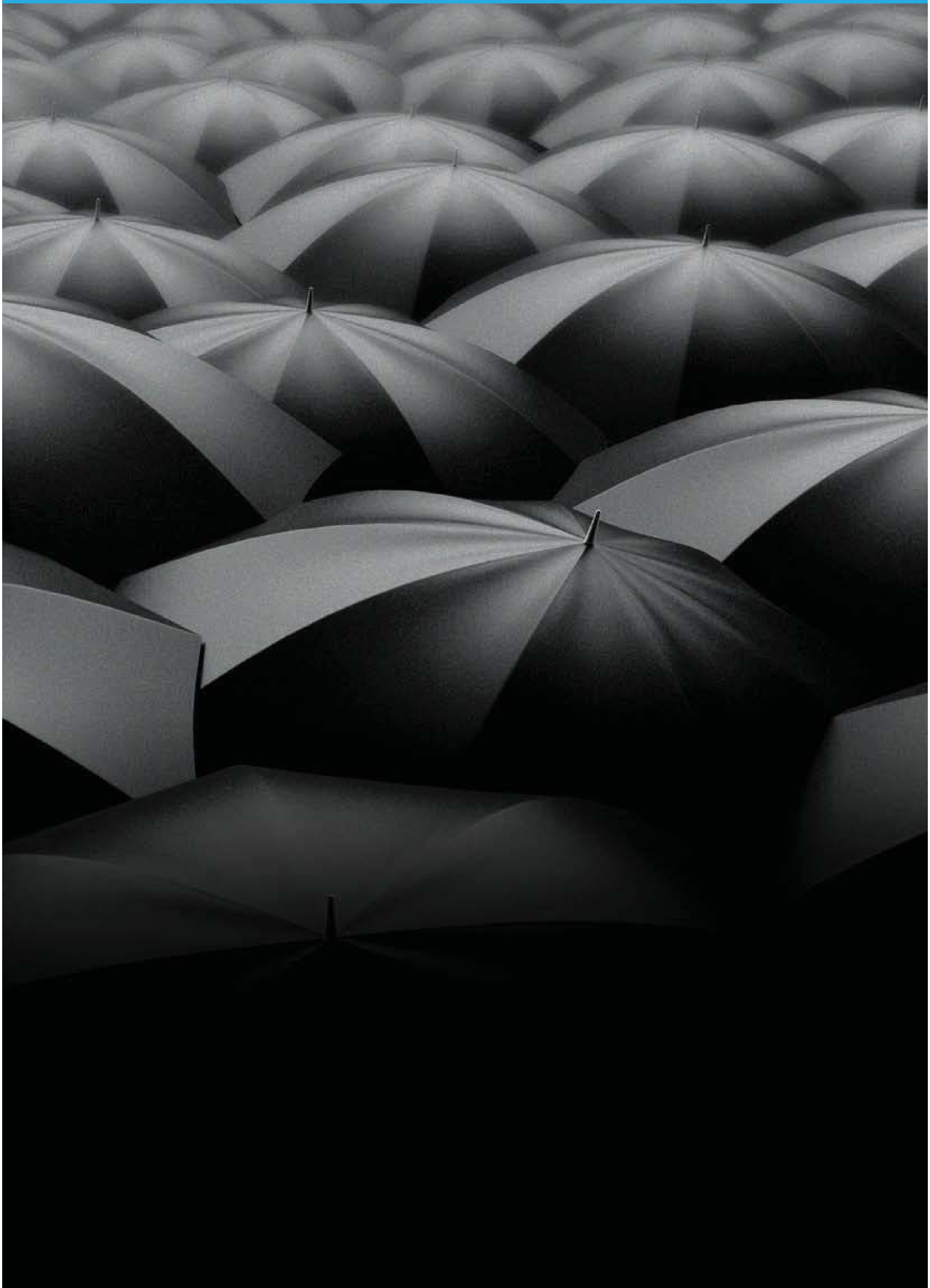
Whilst she thinks that money, at a fundamental level, does not lie behind decisions to keep working – the money still has to be there. Clients who are working to rebuild the value of a stock portfolio that has collapsed in value over the last few years may find themselves resentful of the fact that they 'need' to work – having previously suggested that they 'want' to work.

In addition to jobs providing a sense of purpose and meaning, at a more mundane level they provide a sense of time and structure to the day. The prospect of an empty day after retirement can unsettle. But rather than being panicked into rushing into whatever part-time roles are available, individuals need to think through what they have done with their life – and what they want to do. Some of these wishes, ignored before, may be possible now. She also suggests that individuals take six months off between retirement and going into another role, arguing that they need to 'let go' of their executive persona.

Ms. Pitcher reckons that, after the six months off, about 75% decide that they want to return to work; those that do not have perhaps connected to family or pastimes. Individuals who have retired young – maybe through selling their business and moving abroad – often have second thoughts a year or two down the road.

When individuals retire, they can move from being chief executive to someone at a different point in the command chain. As Helen Pitcher puts it, "The biggest change is to move from execution and control to influence." Often they realise that they have had 'positional' power for many years, meaning that if they simply ask for things to happen, they happen. Now they have to convince people why certain things should happen. Old habits can die hard, and she recommends to "always try to do it with humour." Again, this comes back to a process of self-analysis and she notes that many of the most successful adaptors have started discussing retirement perhaps 18 months before it happened. At a time when boards are being encouraged to be more transparent about succession issues, this process can also be seen as desirable in a corporate context.

Ms. Pitcher believes that there will be a growing acceptance that people will be leaving the workforce later on in life. Retiring in your 50s will be seen as outdated, and there will be more people routinely on boards in their 60s and 70s. The positive side is that companies will be able to draw on the abilities of people who, for example, have experience leading firms through deep recessions. But one negative is that there may not be sufficient space for younger people to step up to the board level, if older people aren't moving over. Currently, Ms. Pitcher believes that this isn't a problem, as she perceives the pool of available people for senior appointments is not that large.



The problem of unpredictability

Life is unpredictable for all age groups. But, for those approaching retirement age, worries about financing their retirement can be compounded by concerns about personal health. The result, as shown in Chart 5, is that belief in the predictability of most factors surrounding retirement in fact declines as individuals age.

Individuals are reasonably confident they can predict the amount of money needed to maintain their lifestyle in retirement (73% thought this was predictable) and the country in which they will want to live (75% of respondents aged under 45; rising to 86% for the 55-65 age band). This belief in the predictability of the amount of money needed may be misplaced, if only because it is impossible to predict the age at which you will die.

Individuals are much less confident they can predict their own personal health, the rate of return received on investments or the rate of tax they will pay (all responses 46%). In the case of health, it's interesting to note that those in some countries are much more likely to view their health as predictable, and the differences can be counterintuitive – respondents in India are nearly three times as likely to think that their health is predictable than those in Switzerland, for example. This may be the confidence of youth, versus the experience of older populations. "One element that can just throw a monkey wrench into all your retirement planning" Steven Vernon points out, "is poor health and particularly the need for long-term care later in life."

Chart 5 – What factors are predictable?*

	Total	<45	45-54	55-65
Amount of money needed for lifestyle	73%	72%	74%	74%
Rate of return received on investments	46%	57%	45%	39%
Health of the economy	36%	41%	39%	29%
Your own health	46%	52%	46%	41%
Rate of tax you pay	46%	50%	47%	41%
Country in which you want to live	81%	75%	80%	86%

* % of respondents under 65 believing that these factors are "quite predictable" or "very predictable" in later life (aged 65+).
Source: Ledbury Research

Investment returns: emerging markets' confidence

Individuals' faith in their ability to predict the future may have been dented by the global financial crisis, which has both directly affected the returns from their investments, and indirectly affected other factors such as likely future tax rates.

But the survey also suggests other, perhaps longer-lasting trends. It is clear that individuals' confidence in their ability to predict rates of return declines as they approach retirement age. Partly, this may be the imminence of retirement making respondents in the 55-65 age group more concerned about the rates of return on their investments, particularly in the current economic climate. Younger respondents may assume, perhaps rationally, that rates of return and other important issues will 'even out over time.'

What is also interesting – and unexpected – is that respondents in the emerging markets are much more likely to view investment returns as "quite predictable" or "very predictable" in the context of planning for retirement – despite a general perception of markets in these economies being unpredictable.

Only a quarter of respondents in the UK and Japan – countries with highly developed financial systems – thought that returns were "quite predictable" or "very predictable." By contrast, almost three quarters of respondents in Saudi Arabia, Latin America or India thought they were. This may, of course, be partly a consequence of years of strong growth producing confidence about the future, and also of the relative strength of some of these markets during the financial crisis.

Chart 6 – When planning for your retirement, how predictable is the rate of return on your investments?*

By region	
Europe	**35%**
North America	**41%**
Latin America	**73%**
Asia-Pacific	**51%**
Rest of World	**61%**

By age	
<45	**57%**
45-54	**45%**
55-65	**39%**
65+	**n/a**

Top five	
Saudi Arabia	**76%**
Latin America	**73%**
India	**71%**
Spain	**66%**
South Africa	**63%**

Bottom five	
Monaco	**39%**
Qatar	**33%**
Ireland	**28%**
UK	**27%**
Japan	**26%**

* % of respondents aged up to 65 believing that this is "quite predictable" or "very predictable."
Source: Ledbury Research

Future tax rates: look to the city-states

A rather different division is evident between those who think the rate of tax payable is predictable, and those that think it is not. Respondents in Latin America are, perhaps surprisingly, optimistic; but it is the smaller city-states – Hong Kong, Monaco and Singapore – along with Switzerland that lead the table here. Respondents in the UK, US and Ireland are much more sceptical.

Chart 7 – When planning for retirement, how predictable is the rate of tax that you will have to pay?*

Top five	
Switzerland	**73%**
Hong Kong	**70%**
Monaco	**68%**
Singapore	**65%**
Latin America	**58%**

Bottom five	
Qatar	**35%**
US	**35%**
Saudi Arabia	**34%**
UK	**34%**
Ireland	**30%**

* % of population aged up to 65 believing that this is "quite predictable" or "very predictable."
Source: Ledbury Research

Succession: the baby elephant in the room

Succession – the passing on of wealth to other family members – is an issue that individuals may feel is more directly under control, and less unpredictable. But life can present considerable uncertainties here too. The survey reveals regional variations in attitudes, both toward financial responsibility for one's children, and also in regard to faith in their ability to manage wealth. This issue can prove particularly important for family businesses. "I suspect that most people in my position" reckons the entrepreneur Gordon Gibb, "would say that succession is probably as big an issue – if not more so – than retirement. Obviously, they're intertwined to a certain extent."

Nevertirement does not remove the need for succession planning, however; indeed, in some cases, it may increase it. Retirement has traditionally been a time when individuals try to put their affairs in order, and think clearly about succession and other issues. Nevertirement may provide an excuse to leave such difficult problems unresolved.

According to Phil Smith, Head of Financial Planning at Barclays Wealth UK and Ireland Private Bank, "Even though people may be retiring later this certainly does not mean that they should put off succession planning. It actually means that they should start planning much earlier as their wealth may increase and the situation can become more complex. There can be a tendency for people to shy away from succession planning as they believe it to be difficult, however given that this Nevertiree group may continue to increase their wealth then there is a very strong case here for robust succession planning much earlier on than people expect."

Respondents in some regions were much more likely to feel financially responsible for their children than in others. Nearly 100% of respondents in UAE and Saudi Arabia feel financially responsible for their children, whereas only 38% of respondents in Switzerland do. The research also shows a trend for the very wealthy to feel more financially responsible for their children than other wealth groups.

Chart 8 – "I am financially responsible for my children"*

By wealth level	
£1m-£2m	**55%**
£2m-£10m	**56%**
£10m+	**67%**

Top five	
UAE	**98%**
Saudi Arabia	**95%**
Ireland	**83%**
Qatar	**82%**
South Africa	**80%**

Bottom five	
UK	**51%**
US	**44%**
Japan	**41%**
Australia	**39%**
Switzerland	**38%**

* % of respondents "slightly agreeing" or "completely agreeing" with this statement.
Source: Ledbury Research

Embedded social attitudes will obviously be very important here. However, respondents' views also appear linked to their attitudes about how well wealth can be sustained over generations. Respondents in Saudi Arabia and India were three times more likely than those in Japan or Switzerland to think that the next generation of their family would be wealthier than they are. Respondents in rapidly growing emerging markets are perhaps more inherently confident that GDP – and family wealth – will keep on increasing.

However, the proportion of respondents who believe that the next generation of their family will be wealthier than they are declines sharply in older age groups: a reflection, perhaps, of a growing realisation that wealth can be very difficult to manage across generations.

Phil Smith says, "We are seeing increasing numbers of clients looking to pass on their wealth to their grandchildren. The reasons for this are often that their own children are already independently wealthy and passing on more wealth can actually make their succession planning difficult."

Chart 9 – "The next generation of my family will be wealthier than me"*

By region	
Europe	**33%**
North America	**37%**
Latin America	**57%**
Asia-Pacific	**53%**
Rest of World	**66%**

By age	
<45	**58%**
45-54	**46%**
55-65	**40%**
65+	**37%**

Top five	
Saudi Arabia	**80%**
India	**73%**
Hong Kong	**63%**
Australia	**61%**
Singapore	**60%**

Bottom five	
UK	**35%**
Monaco	**34%**
Spain	**28%**
Switzerland	**26%**
Japan	**25%**

* % of respondents "slightly agreeing" or "completely agreeing" with this statement.
Source: Ledbury Research

We attempted to capture such worries about the ability of the next generation to manage wealth by asking respondents whether they thought their children had a proper understanding of money. The average age of respondents matters here as this will influence the average age of the children – and thus perceptions of their financial 'maturity.' But with the exception of Japan – where parents were most unlikely to believe that their children have a proper understanding of money – respondents in developed economies were not on the whole more sceptical about their children's attitudes to money than those in emerging markets. The very wealthy were more likely to think that their children had a proper understanding of money than other wealth groups.

Chart 10 – I think my children have a proper understanding of money*

By wealth level	
£1m-£2m	**65%**
£2m-£10m	**68%**
£10m+	**74%**

By region	
Europe	**68%**
North America	**70%**
Latin America	**83%**
Asia-Pacific	**65%**
Rest of World	**63%**

By age	
<45	**58%**
45-54	**66%**
55-65	**70%**
65+	**75%**

Top five	
Monaco	**87%**
Latin America	**83%**
Spain	**77%**
Hong Kong	**75%**
Australia	**71%**

Bottom five	
UK	**63%**
South Africa	**61%**
UAE	**55%**
Qatar	**54%**
Japan	**46%**

* % of respondents "slightly agreeing" or "completely agreeing" with this statement.
Source: Ledbury Research

Respondents in emerging markets are, however, much more likely to want to leave a substantial amount to their descendants. Japan again is the outlier here. Only 42% of Japanese respondents want to leave a sizeable amount of their wealth to their family. Next most reluctant were the US, Ireland and UK. But 94% of respondents in Qatar did want to pass on their wealth.

Chart 11 – Passing on wealth to the next generation*

Top five	
Qatar	**94%**
UAE	**91%**
Monaco	**91%**
Saudi Arabia	**86%**
South Africa	**85%**

Bottom five	
Australia	**67%**
UK	**65%**
Ireland	**65%**
US	**62%**
Japan	**42%**

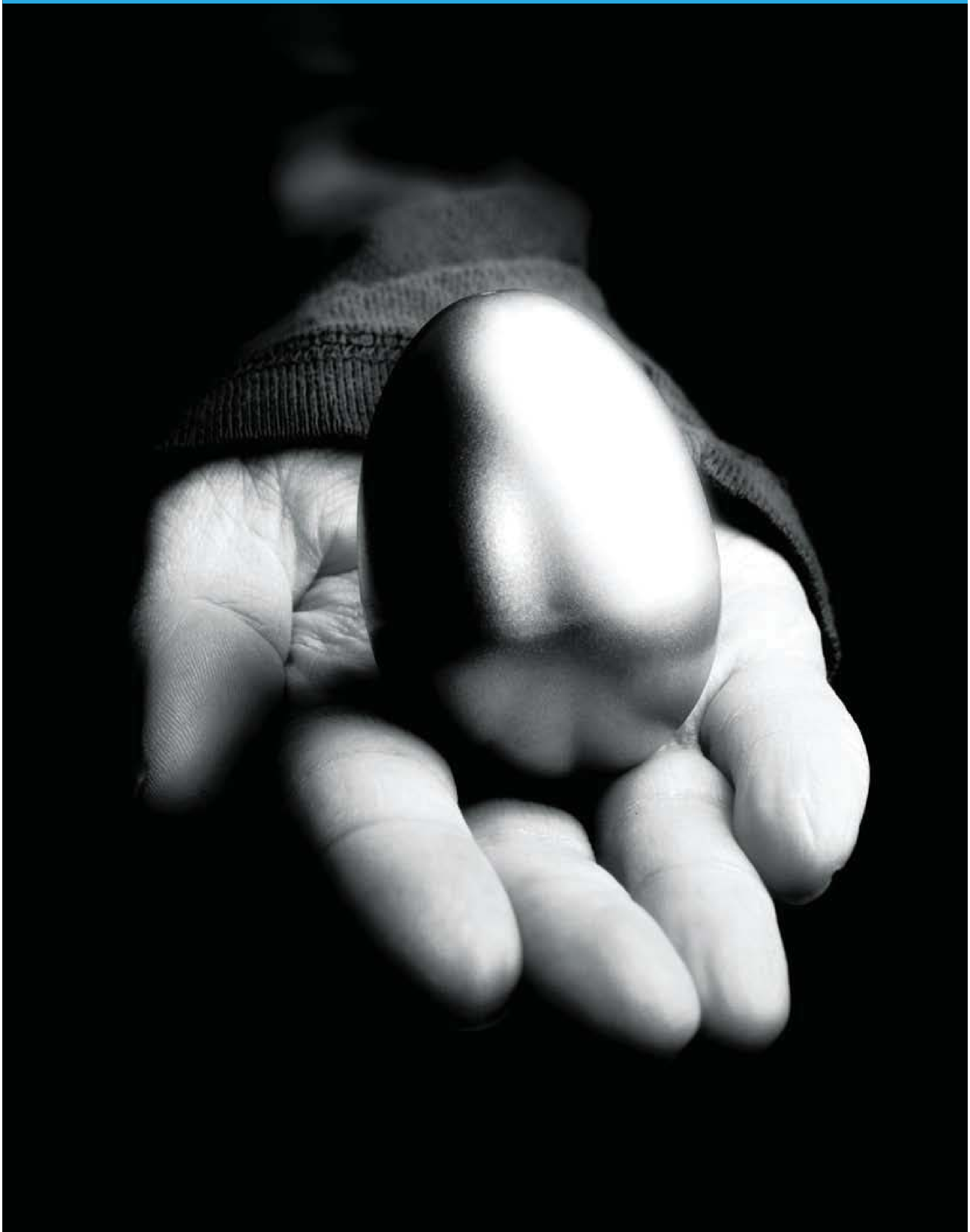
* % of respondents "slightly agreeing" or "completely agreeing" with the statement "When I die, I wish to leave a sizeable amount of my wealth to my children/grandchildren/family."
Source: Ledbury Research

Succession: an entrepreneur's view

Entrepreneur Gordon Gibb, 34, provides a rather different perspective on retirement – or the lack of it. As an entrepreneur, he puts more emphasis on creating new companies, and then moving on to the next one. So, whilst he encourages employees to take out pension plans, and has his own family pension fund, he thinks the entrepreneur should remain focused on making his or her business grow. Pension provisions should not be seen as a safety blanket; wealth will instead be generated by entrepreneurial drive.

Mr. Gibb does, however, place great emphasis on he issue of succession. As he points out, it can often prove much harder to manage wealth successfully over generations, than to create it in the first place. He focuses on two quite distinct issues. One is the management of wealth within families, both within generations and between generations. The problem here can be how to reconcile different beliefs within the family on how the business should progress; businesses are notorious in becoming unstuck in the second generation. Once this is done, there remains the problem of how to incorporate the next generation within the business – or of how to offer them a way to do something different.

A second issue is when an entrepreneur should move on, and leave a firm that he or she has established. It can be very difficult to take an objective view. Mr. Gibb thinks entrepreneurs need to create the sort of culture where it is possible for the rest of their management team to tell them when it is time to move on – and not be afraid of doing so.



Financing the third stage

Even if most people plan to continue to work in some form, investing for the later years of life remains very important. For many, income from work will be reduced – for example, if they work part time, or take on advisory rather than executive roles. Investment income, if any, will have to be used to meet the shortfall, to act as a safety net and to enable wealth transfer to subsequent generations.

As discussed in the previous chapter, unpredictability is a concern for many. Few are confident they can predict investment returns, their health and a number of other factors. Overshadowing all these problems is the issue of life expectancy – rising steadily (and particularly rapidly for the wealthy) – but increasingly difficult to predict for the population as a whole.

Whilst it is possible to set down some basic requirements for the 'ideal' retirement investment – as in the box on page 24 – some of these requirements are inherently contradictory. Varying priorities and needs can also put investors, governments and financial services firms at loggerheads. An investor's desire for tax efficiency, for example, runs counter to a government's desire to raise taxes, particularly on transfers of income. Additionally, an investor's desire for high returns could translate into higher risks and possible investment failure, which could put pressure on a government's desire to keep retirement savers from resorting to welfare after an investment has lost its value. Even if governments legislate for the provision of certain types of savings products, financial sector firms need to be able to provide them at reasonable cost – and without creating a major risk to themselves.

The ‘ideal’ retirement investment: five requirements

Safe. Investments need to be ‘safe’ from financial market collapses. But they also need to provide for an individual living for a long time.

Decent returns. Returns need to be ‘safe,’ but still good enough to make sure the individual does not have to accept a lower standard of living.

Tax efficient. An obvious one – but which some people do not pay enough attention too. There may be choices to be made between the taxation of income and capital.

Flexible. Clearly desirable, if the individual has to meet unexpected expenditures. But flexibility must not preclude the investment’s ability to provide adequate returns over a long period of time.

Inheritable. If the investor dies prematurely, they may want at least some of their investment to be made available to their family. This is a particular problem sometimes with annuities or many forms of pension plans.

Recent policy debates about retirement savings reform have served only to underline the fact there will be no ‘magic’ answer to this problem. All methods of saving for retirement will require some degree of compromise, and will vary greatly according to individual circumstances. Nonetheless, it is possible to identify a number of key priorities for those considering how best to invest for retirement.

Phil Smith, Head of Financial Planning at Barclays Wealth UK and Ireland Private Bank, puts it succinctly:

- First, he argues, start early. Even for a wealthy person, it can prove difficult to accumulate the necessary funds, in the most tax efficient structure, if you leave it too late.
- Second, take advice, particularly in regard to taxes. There are a number of quite complex decisions to be taken. Should you, for example, invest through an offshore bond or other vehicle that may offer no tax relief now, but the ability to compound earnings tax free in the future? Or should you invest through a vehicle that provides immediate tax relief on contributions?[1]
- Third, make sure that your investments are properly diversified.[2] Mr. Smith argues that the financial crisis has underlined the need for a proper asset allocation – the division of assets between different asset classes.

But has the financial crisis also made individuals more sceptical about an individual’s ability to plan rationally for retirement? Are worries about unpredictability, as discussed in the previous chapter, discouraging individuals from thinking ahead?

[1] Barclays Wealth nor its employees renders tax or legal advice and readers should consult with their accountant, tax adviser or lawyer regarding their personal circumstances.
[2] Diversification does not protect against loss.

Matthew Brady, Head of Wealth Advisory at Barclays Wealth Americas, acknowledges that the financial sector crisis – and the resulting fall in asset values and real estate values – has had a profound effect on individuals' attitudes toward investment. But, he has in fact seen an increased interest in long-term estate planning, particularly from individuals in their mid-40s. He believes that individuals still try to make a rational calculation about what they need for retirement but – because of uncertainty – are having to add an extra amount for safety. Health and government policy toward health provisions remain a great uncertainty, and whilst individuals can take insurance against unforeseen health outcomes (i.e. the need for constant long-term care), this remains a source of concern.

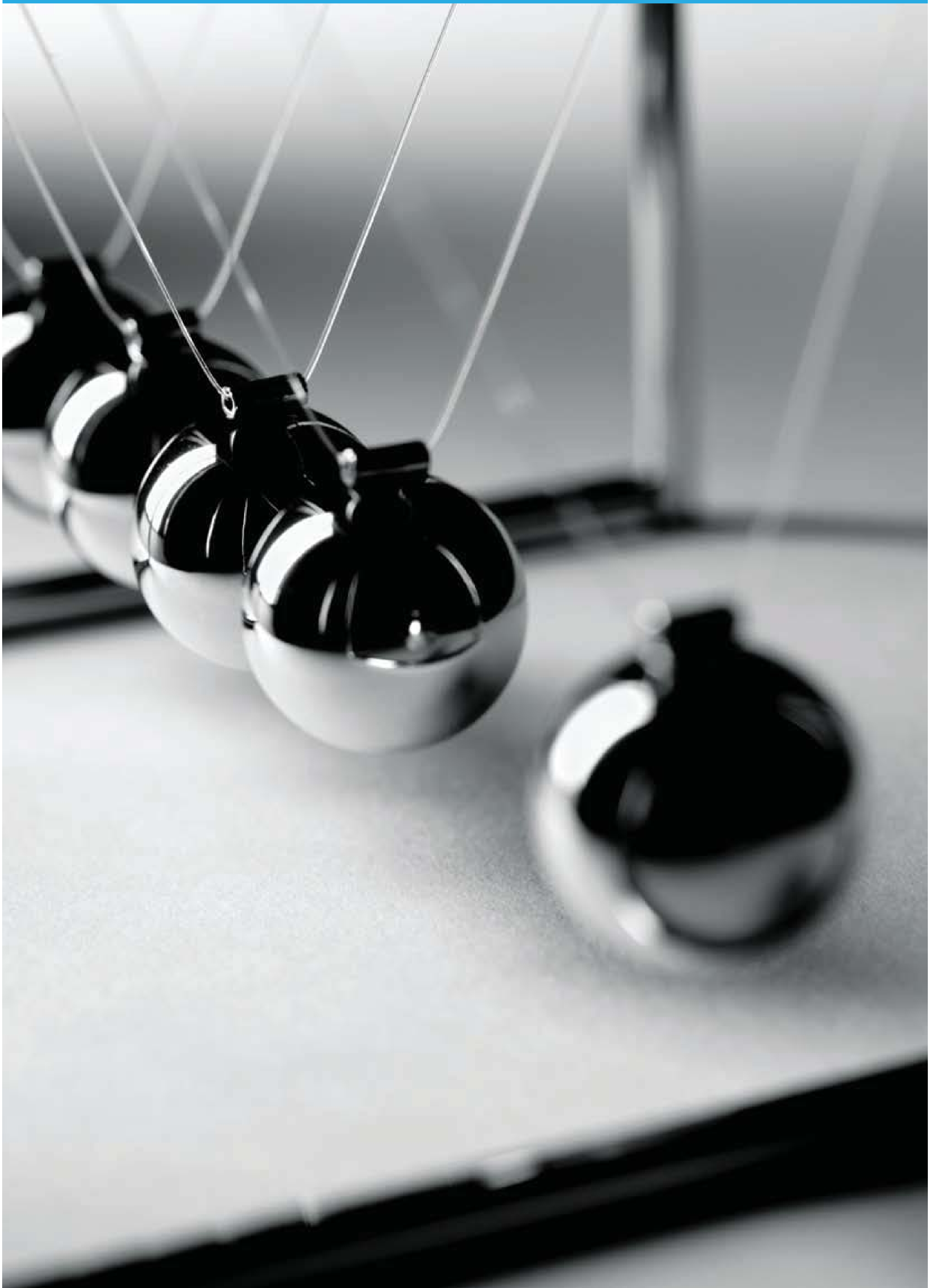
Mr. Brady also highlights the increasing role that taxes are likely to play in retirement planning, particularly if cash-strapped governments are forced into further increases to tax rates in the future. As he points out, the exact extent of such future increases is uncertain everywhere; at present, interest in the US is focused on the increases to tax rates already scheduled to take effect in 2011 and subsequent years.

Raising taxes may encourage a focus on areas to which advisors to the wealthy have sometimes paid little attention. For example, although retirement accounts in the US are exempt from tax, the limitations on contributions have often meant that the account balances are relatively small for a wealthy person. In recent years, tax law changes and growth in such accounts have made them more of a focus for high net worth families. With significant additional income taxes coming into effect, the tax efficiency of such accounts is receiving substantial new focus. Mr. Brady thinks a search for tax-efficiency may also encourage a greater interest in insurance policies that are linked to investment products – for example, hedge funds (for the very wealthy) or mutual funds (for the affluent).

Despite this, Mr. Brady thinks the focus will remain on careful planning and thinking through the implications of retirement, rather than a radical change in the sorts of financial products used to invest for it.

Phil Smith adds: "There is a trend to pass on wealth to the younger generation who have not yet accumulated wealth. Trusts are a popular way to do this as they offer the opportunity to plan how much wealth is distributed — whether it be as a lump sum or regular income stream; whilst also allowing for the grandparent to specify at what age the money is made available and to control how it is used, such as education."[3]

[3] Barclays Wealth nor its employees renders tax or legal advice and readers should consult with their accountant, tax adviser or lawyer regarding their personal circumstances.



Assessing the impact of the wealthy Nevertiree

Attitudes toward the later stages of life have already started to change, as we grow used to greater life expectancy and better health, and will change further in the years to come. There are some very positive outcomes to be enjoyed from having a greater proportion of wealthy older people continuing to work, run businesses and create jobs.

The older generation as a driver of economic growth

There is, perhaps, a preconception amongst some that the older generation is a less valuable resource than the young, particularly in Western countries. However, there is a growing understanding that the older generation can be of great economic value, and according to John Llewellyn of Llewellyn Consulting, "that realisation has further to go."

In his recent paper "*Conditions for Growth*," John Llewellyn argues that increasing the statutory retirement age, and encouraging higher participation rates in the labour force in the years leading up to retirement, will lead to higher rates of GDP growth.

Mr. Llewellyn points out that the number of older men in the UK labour force has in fact fallen sharply in the last 50 years. In 1960, around 90% of men aged between 60 and 64 worked. By 2000, that share had fallen to 50% (due to early retirement policies and the perverse effect of final salary pension schemes). The proportion of men aged 60–64 working has increased only slightly to 60% since then: "This is a trend in the right direction but it could usefully go further." The case for women is rather different: The proportion of women aged 55-59 working was around 46% in the mid 1960s, but had increased to 65% in 2008. "This trend will almost certainly continue" says Mr. Llewellyn.

Allowing both male and female participation rates in the job market to increase to 75%, combined with raising the UK's statutory retirement by five years by 2018 would, Mr. Llewellyn reckons, boost the labour force by around 0.5% each year and — perhaps — GDP by a similar amount. Mr. Llewellyn insists "allowing" is the right concept, because in many cases people would be keen to work longer. "The concept of a *blessed* retirement used to be relevant, when the body was exhausted from physical labour. But it is not the case anymore for many people; not everyone wants to be told they have to leave work and play golf." He adds, "Also, there is evidence that people who work longer live longer. Trade unions say it is not fair to force people to retire after 65, but I would reply to them 'what right do you have to shorten my life?'"

Raising older workers' participation rate may cause some stresses, however. Younger workers, particularly in a time of high unemployment, may feel that this is depriving them of jobs, or the opportunity of moving up the career ladder. Mr. Llewellyn thinks it is bad thinking on several levels. First, he says, young people should be pleased to see older people working because they are continuing to pay taxes and are not drawing from their pensions. Secondly, the idea that older workers would deprive younger workers of jobs is a fallacy according to Mr. Llewellyn, except in the very short term: "Supply creates its own demand. If it weren't true, then all the countries that have had a growing population would have seen unemployment rise continually." But many people think they should focus instead on the point that no-one is riding on the back of others. "I think we will get back to the concept of retirement and productivity" says US Author, Columnist and Actuary Steve Vernon, "where you are working, productive and contributing to society in some way, shape or form as long as you can." On older workers' productivity, John Llewellyn says that it is often assumed that productivity declines with age: "There are two reasons to question this. First, whilst some cognitive abilities do decline with age, others improve with experience. Secondly, the cognitive consequences of ageing can apparently be offset in significant part by appropriate training or re-training."

“I think we will get back to the concept of retirement and productivity where you are working, productive and contributing to society in some way, shape or form as long as you can.”

Steve Vernon, US Author, Columnist and Actuary

Corporate gains, but risks too

Quantifying the impact of wealthy older workers on GDP is probably impossible. But they will have a visible, if immeasurable, impact on the corporate scene.

Corporate attitudes toward ageing are complex, and will continue to evolve over time. There are gains to be had here – in terms of a greater active pool of board members, and the ability to retain a 'corporate memory' of how to deal with events such as recessions. But there are risks too in remaining within a corporate structure – if the de facto age for stepping down from board appointments becomes 75 or even 80, then many will not be able to stay the course. These tensions may become particularly difficult to handle in private, family-run firms. So even if automatic retirement ends, the need for an exit strategy for senior older workers remains. As entrepreneur Gordon Gibb puts it, "I think the hardest demon to wrestle with, if you are a key person in a business, is accepting when it's the right time for you to go."

> "The hardest demon to wrestle with… is accepting when it's the right time for you to go."

Succession issues become more complex

If wealthy individuals work longer, then, in overall financial terms, their families should gain. But continued work is by no means a panacea for the problems associated with wealth transfer within families.

It is possible to argue that, if an individual is confident that they will be able to work during their 70s and 80s, then they will not feel obliged to accumulate so much during the 'core period' of their working life. But, in practice, an individual's worries about their health, together with financial and other uncertainties, means the rate of accumulation is unlikely to be scaled back.

But it is likely that attitudes toward transferring wealth – rather than simply accumulating wealth – will be changed by individuals working longer and later. One obvious question is whether there will be an increasing move away from transferring the bulk of your wealth at death. A simple example suggests why this is so. If you die at 70, the average age of the next generation might be perhaps 40 – a time in their lives when they are likely to have pressing spending needs, but not necessarily the resources to meet them. In other words, they might be seen as a worthy target for inheritance. But, if an individual dies at 90, then the average age of the next generation might be perhaps 60 – a time when they are likely to be financially more secure and, perhaps, have lower expenditures.

This may, perhaps, encourage the use of family trusts or similar arrangements amongst more segments of the wealthy population. But it may also encourage more profound thinking about what exactly inheritance is for.

Government: a wolf in the wings?

Government attitudes toward the working wealthy are worth keeping under review.

On the one hand, governments will benefit directly from increased taxes from the wealthy, if they continue to work, and there will also be some indirect benefits to the economy from their extended presence in the labour force, as outlined earlier.

On the other hand, with many governments facing large budget deficits in the coming years, the pressure to find additional sources of revenue may become intense. With less well-off sections of the population particularly impacted by government spending cuts, governments are likely to come under pressure to target wealthier sections of the population too. Tax relief may be an early casualty of this – note the quick recent reversal of the new UK government's plans to reduce inheritance tax thresholds.

"Gulliver's Travels" — a cautionary tale

A well-known 18th century piece of fiction provides a good example of older people being seen as a liability (or, at best, a source of funds) rather than as a resource.

After cutting himself free of the Lilliputians, Jonathan Swift's Gulliver then travelled on to other strange lands. He was particularly struck by the fate of the Struldbrugs, who lived forever. To his surprise, they were not to be envied. At 40, they were already difficult creatures, with their envy directed "at the vices of the younger sort and the deaths of the old." At the age of 80, they were looked on as "dead-in-law" and were stripped of all wealth, with their heirs succeeding their estates. They then became dependent on a small handout from the state.

Readers of the work have tended to focus on the miserable – and indefinite – mental state of the Struldbrugs. But Swift also repeatedly makes an economic point: The long-lived, if permitted to accumulate wealth indefinitely, could become "proprietors of the whole nation" and this "must end in the ruin of the public" – hence, the desire to deprive the Struldbrugs of all wealth.

We, unlike the Struldbrugs, will not live forever, so any extra accumulation of wealth will be limited. But it may be noticeable, particularly since the accumulators are more likely to be in the public eye than previously; to be working rather than on the golf course. So all of this begs the question whether they will become targets of those concerned with a continuing concentration of wealth – pursued either by their families, or by governments seeking sources of additional revenue?

Conclusion

For wealthy individuals, increased life expectancy, better health and a sense of financial uncertainty are driving a wholesale re-evaluation of retirement, particularly in emerging markets.

Even if a stabilisation of financial markets allows the wealthy to rebuild portfolios and regain confidence in the predictability of investment returns in the future, total confidence in the system will take time to return. It is also difficult to see any of the other factors noted above (longer life or better health) going into reverse.

For many, retirement age has become irrelevant. Most will keep on working in some form, and the rise of the Nevertiree will have a number of benefits for the economy and the corporate sector. As well as contributing both directly and indirectly to GDP, boards and businesses in the corporate and not-for-profit sector will benefit from the wealth of experience remaining in circulation.

But, whilst working longer may make many wealthy individuals feel financially more secure and more personally fulfilled, it also raises a number of challenges for individuals, their families and society as a whole.

The critical issue for wealthy individuals who choose to decline a traditional retirement is that they do not defer the process of assessing finances, business interests and succession planning that would traditionally have taken place approaching retirement age. Ongoing discussion, both within families and with advisers, is critical.

Those who choose to work longer must still consider whether there is an optimum time for them to relinquish their business interests, or a need to change further the framework of their working lives. They must also consider the timing of and rationale for transfers of wealth within their families.

Whilst there is no universal, optimum solution for saving and succession by the older, working wealthy, there is no substitute for thinking hard about how best to approach these issues. Even if old age is still out of sight, it should not be out of mind.

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