Retirement outlook 2022: The pressure is on

NATIXIS INVESTMENT MANAGERS

When we introduced the Natixis Global Retirement Index in 2012, **global retirement security was already under pressure.** Demographics looked unfavorable as Baby Boomers began to retire. Public debt was high. Interest rates were low. Pension funding gaps were widening. And many wondered if existing retirement models would no longer be sustainable.

Ten years later, **the world is different and the challenge is all the greater.** COVID-19 pandemic and the war in Ukraine have led to surging inflation. Interest rates are rising off record lows. And the global population is getting older. 2022 is not the best year in human history and it certainly isn't a good one for those looking to retire.

Inflation spikes squeeze retirees' wallets

The supply chain disruption as a result of the COVID-19 pandemic prompted the global inflation rate to rise to **4.7%**[1] in 2021 after remaining at a relatively low level from 2012 to 2020.

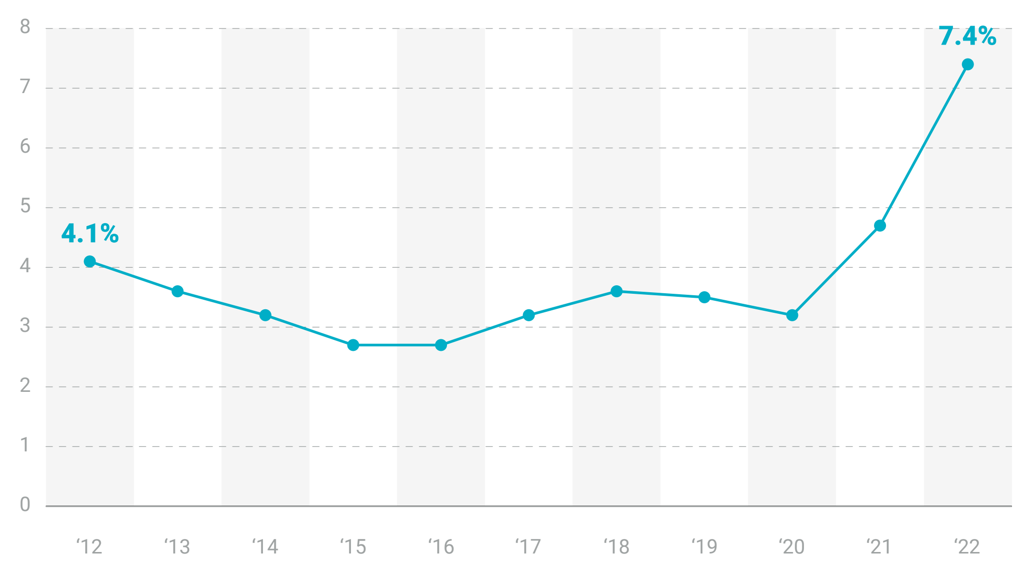
The combination of the Russian invasion of Ukraine and the ongoing COVID-19 crisis led to the **spike in inflation rate**, which amounted to **7.4%** in June 2022.

Inflation has been felt most acutely in rising energy and food prices:

German regional energy supplier Rheinenergie will more than double their price of natural gas from EUR 0.078 to **EUR 0.183 per kWh**[2] from October 2022 onwards.

In the US, food prices surged by **10.9%**[3] in July 2022 compared to a year earlier – the largest increase since 1979.

GLOBAL INFLATION RATE FROM 2012 TO 2022 (%)



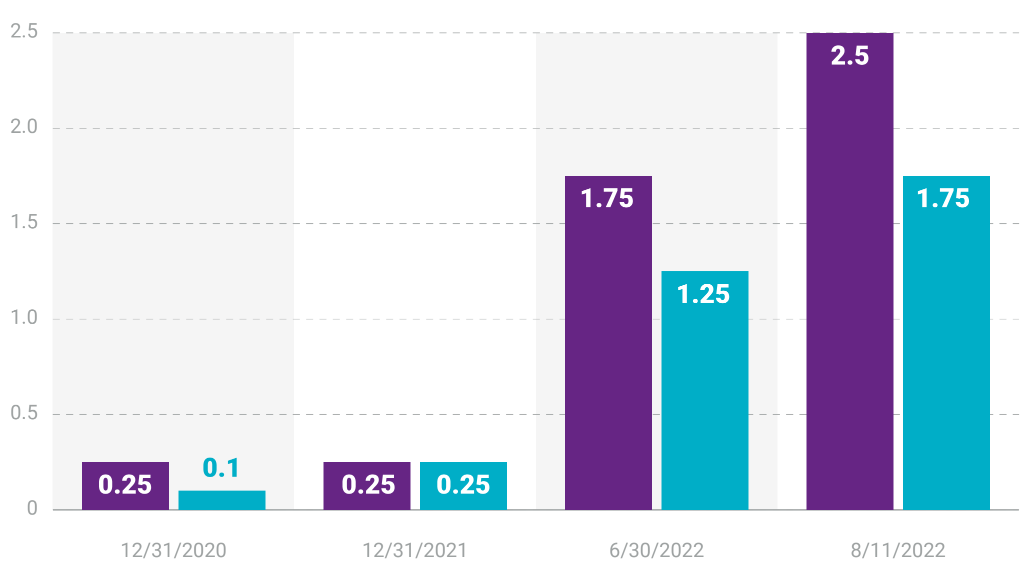
Note: June averages

Higher prices take a bite out of every budget. The bite is even bigger for retirees living on a fixed-income.

Low-rate policy not to be offset immediately

A decade of low or negative interest rates has hurt retirees' ability to generate income from their savings. Rising rates show promise in the long-term but present short term problems.

INTEREST RATES SET BY THE US FEDERAL RESERVE AND THE BANK OF ENGLAND FROM 2020 TO 2022[4] (%)



Given the impact of volatility and added expenses for from inflation **2022** may be one of the worst years to retire in recent memory.

Potential losses coupled with a higher cost of living could mean retiree assets may not last as long as planned.

Central bank policy had brought interest rates near zero, and in some cases into negative territory for much of the past decade.

Responding to inflationary pressures, bankers began a series of rate hikes in **June 2022.** Markets have responded with an uptick in volatility which can lead to potential investment losses for retiree assets.

People are older for longer

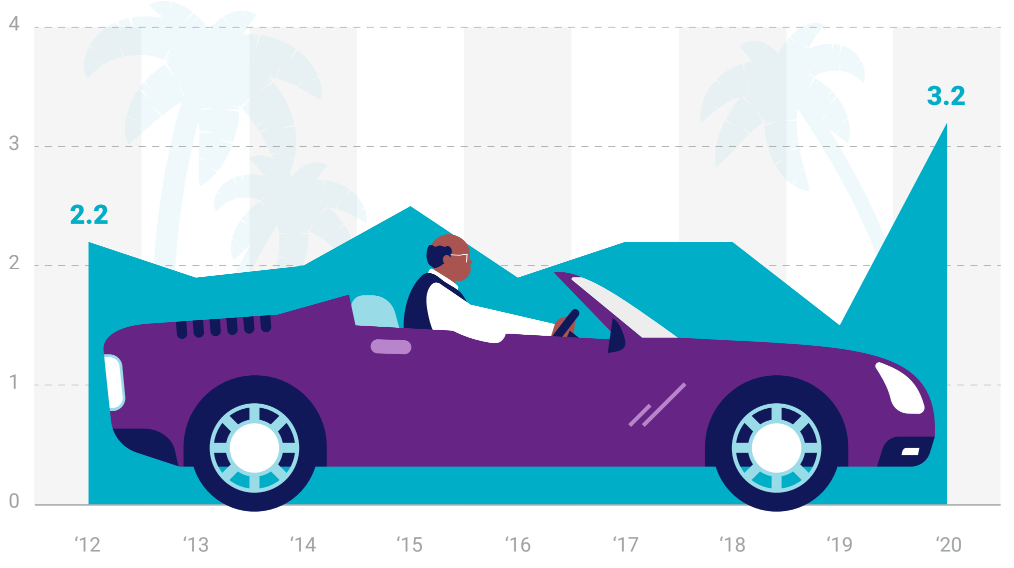
In 2021, **10%**[5] of the world population was aged 65 or above, compared to just 5% 50 years ago.

Japan **(29%)**, Italy **(24%)**, and Finland **(23%)**[6] are among the countries with the largest 65+ population.

An aging Baby Boom population has driven the level to the **17%** in the US in 2021.

People now also live longer with the average life expectancy worldwide growing by **more than 2 years**[8] **from 2010 to 2020,** despite the 0.1 year drop in 2020 due to the COVID-19 pandemic.

ANNUAL INCREASE IN THE RETIRED US BABY BOOMER POPULATION[7] (IN MILLIONS)



Faced with aging populations and rising public debt, policy makers worldwide have resorted to pension reform measures that counter funding shortfalls.

Pension systems are reformed worldwide

It all adds up to a challenge for policy makers faced with limited choices for how to respond. It often boils down to: raising the retirement age, cutting benefits, or raising taxes.

Here's how some countries have responded over the past decade:

UK

The UK pension reform that went into effect on 6 April 2015 introduced **new pension flexibility rules**[10] that allow those aged 55 and above to access as much of their savings from their Defined Contribution (DC) pension scheme as they want without needing to buy an annuity or put the money into drawdown. A lump sum of up to **25%** of one's retirement pot is tax-free.

GREECE

In November 2012, the legal retirement age in Greece rose from **65 to 67**[9]**.**

All pensions were cut by **15%** due to the abolition of the 13th and 14th months.

FRANCE

In 2019, French president Macron proposed a pension reform that would only allow the full pension to be granted from 64 while keeping the retirement age at 62[11]. The proposal was met with protests and put to a halt due to the COVID-19 pandemic.

Upon his re-election in 2022, President Macron resumed plans to reform the French pension system, proposing to lift the retirement age from **62 to 65**[12]**.**

CHILE

Incepted in 1981, Chile's system of mandatory individual retirement accounts[13] has become a model pension system that inspired many followers: many countries in Latin America and other emerging markets have adopted the **Chilean model.**

The original public pay-as-you-go system (PAYG) was replaced by a system of **privately managed individual accounts**, which led to growing private savings and the development of local financial markets.

However, the system has been troubled by low replacement rates and low contribution density and coverage in recent years[14], and reform is needed.

The situation is further challenged by the measures taken during the COVID-19 crisis, which allowed individuals to withdraw funds from their pension account balance as financial relief. The three withdrawals in 2020 and 2021 amounted to some **$50 billion**[15] in total, accounting for almost 1/4 of the overall fund value.

Find out more in the
2022 GLOBAL RETIREMENT INDEX

[1] Statista and IMF (2022), World Economic Outlook Database April 2022.
[2] Reuters (2022), "Germany's Rheinenergie to double gas prices from October".
[3] CNBC (2022), "Gas is cheaper but groceries are not: How to save as food inflation jumps at the fastest pace since 1979".
[4] Bloomberg (2022).
[5] World Bank (2022), Population ages 65 and above (% of total population).
[6] Statista and Population Reference Bureau (2021), World Population Data Sheet 2021.
[7] Statista and Pew Research Center (2020), "The pace of Boomer retirements has accelerated in the past year".
[8] World Bank (2022), World Development Indicators – Population Indicators.
[9] etui. (2017), "Pension reform in Greece – background summary".
[10] GOV.UK (2015), "Pension changes 2015".
[11] PBS (2019), "French government ups retirement age as strikes grind on".
[12] CNBC (2022), "'Risky but it's a necessity': Macron wants to push back France's retirement age to 65".
[13] The United States Social Security Administration (2008), "Chile's next generation pension reform".
[14] IMF Working Paper (2021), "Assessing Chile's pension system: Challenges and reform options".
[15] Barron's (2021), "Chile lawmakers reject fourth pension withdrawal".

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