

# **Saving for Old Age around the World: Evidence from the Global FINDEX**

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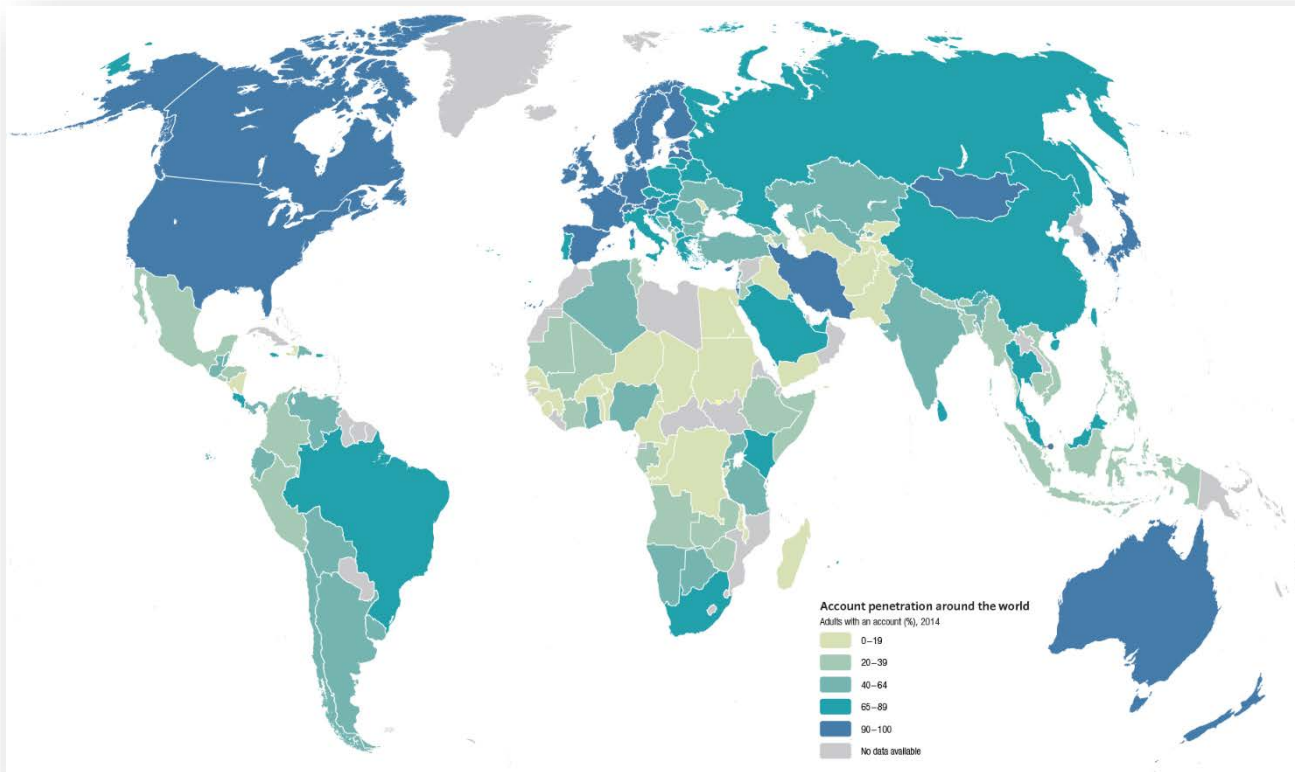
# Why important?

- **Lusardi (2003)**: Very little work has been done in investigating how households make saving plans and how they collect all the relevant information to make savings decisions
  - Almost all models assume that there are no planning costs and, e.g., no differences in how individuals access (and evaluate) information and how they overcome all the difficulties of devising savings plans
  - Empirical results consistent with 2 types of consumer-agents: (a) LC/PI types and (b) “rule of thumb” consumers, that simply consume according to their current income
  - The fraction of “rule of thumb” consumers has been estimated to be 20 - 50% ([Mankiw, 1990](#); [Browning and Lusardi, 1996](#); [Hurst, 2003](#))
- **Bernheim, Skinner, and Weinberg (1997, 2001)**: Consumption exhibits sharp drop at time of retirement and more pronounced decline post-retirement
  - Retirement, and years around it, are associated with decline in individuals’ economic well-being, an outcome which varies according to gender (faster decline for women by year) as well as working status ([Clark and Quinn, 1999](#); [Crystal and Shea, 1990](#); [Sabelhaus and Manchester, 1995](#), JHR: US; [Bardasi \*et al.\*, 2000](#): UK; [Bonsang and Klein, 2011](#): Germany; also opposite views, e.g. [Kerwin, 2002](#): NBER)

# What we do...

- Evidently, the encouragement of Saving for Old Age is a feature of interest when it comes to the discussion of financial planning
  - Very little is known about how households make savings plans
  - Even less is known about patterns on savings for old age
  - Far less about saving for old age at a global scale
  - Policy discussions can be informed from the inspection of the occurrence of old-age savings across different demographic groups around the world
  
- We examine the occurrence of Saving for Old Age
  - Around the World, using a unique novel database
  
- We examine the determinants of the incidence of Saving for Old Age
  - Accounting for a rich set of individual characteristics (e.g. [Chan and Huff, 2004, JPubE](#); [Belloni and Alessie, 2009, LabE](#))
  - Accounting for country macro -level characteristics (e.g. [James and Song, 2001](#))
  - Accounting for pension-system characteristics (e.g. [Crawford and Lilien, 1981: QJE](#); [Gruber and Wise, 1998, AER](#); [Gruber and Wise, 2002, NBER](#); [Engelhardt and Kumar, 2007](#))

# Global Index 2014

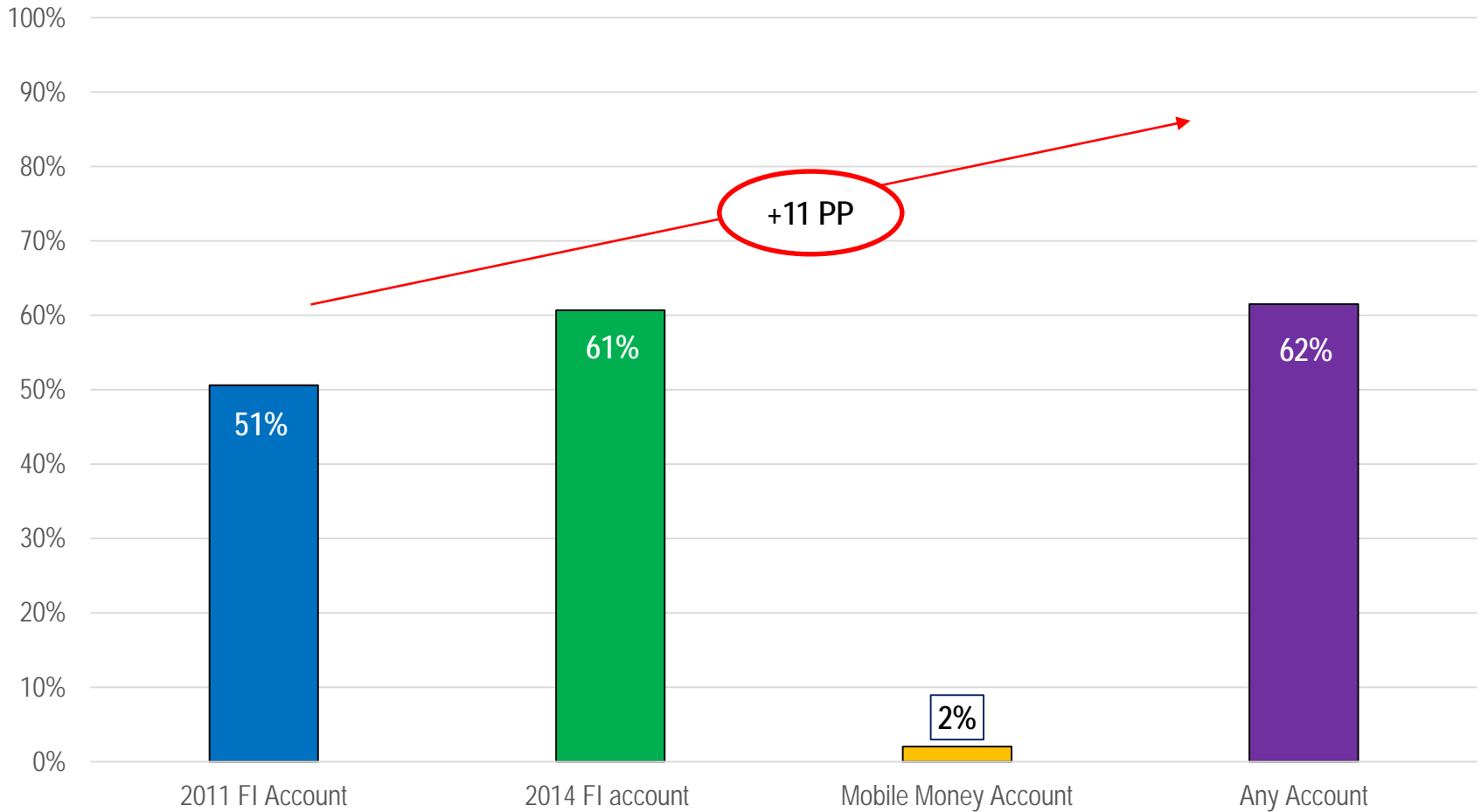


*In 2014, the World Bank – with funding from the Bill & Melinda Gates Foundation and in partnership with Gallup, Inc. – updated and expanded the Global Index dataset, an unprecedented study of financial inclusion based on interviews with almost 150,000 adults in over 140 countries worldwide*

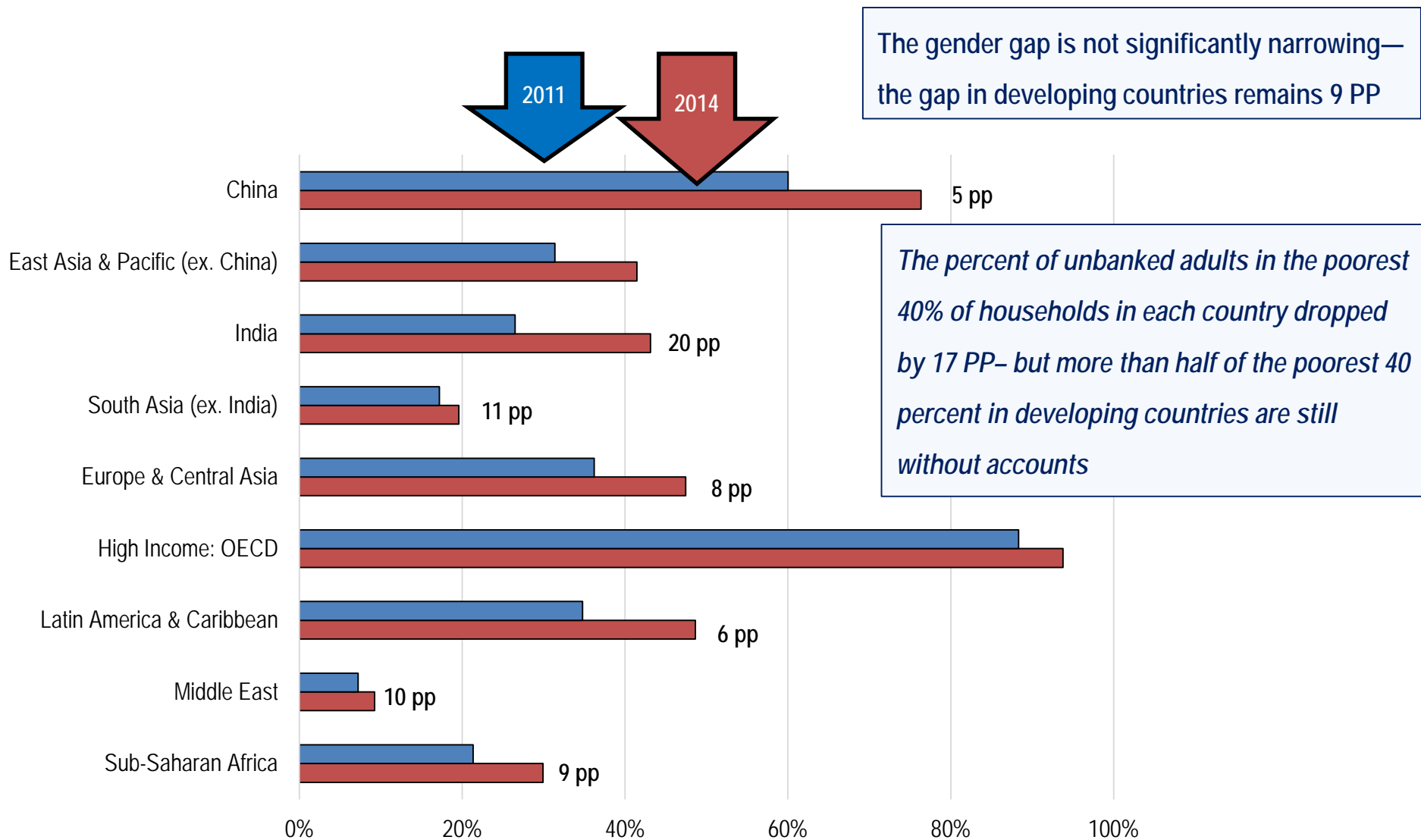
# Global Findex: Account Ownership

## World: Financial Inclusion

Total Percentage of Adults



# Global Findex: Account Ownership by Gender

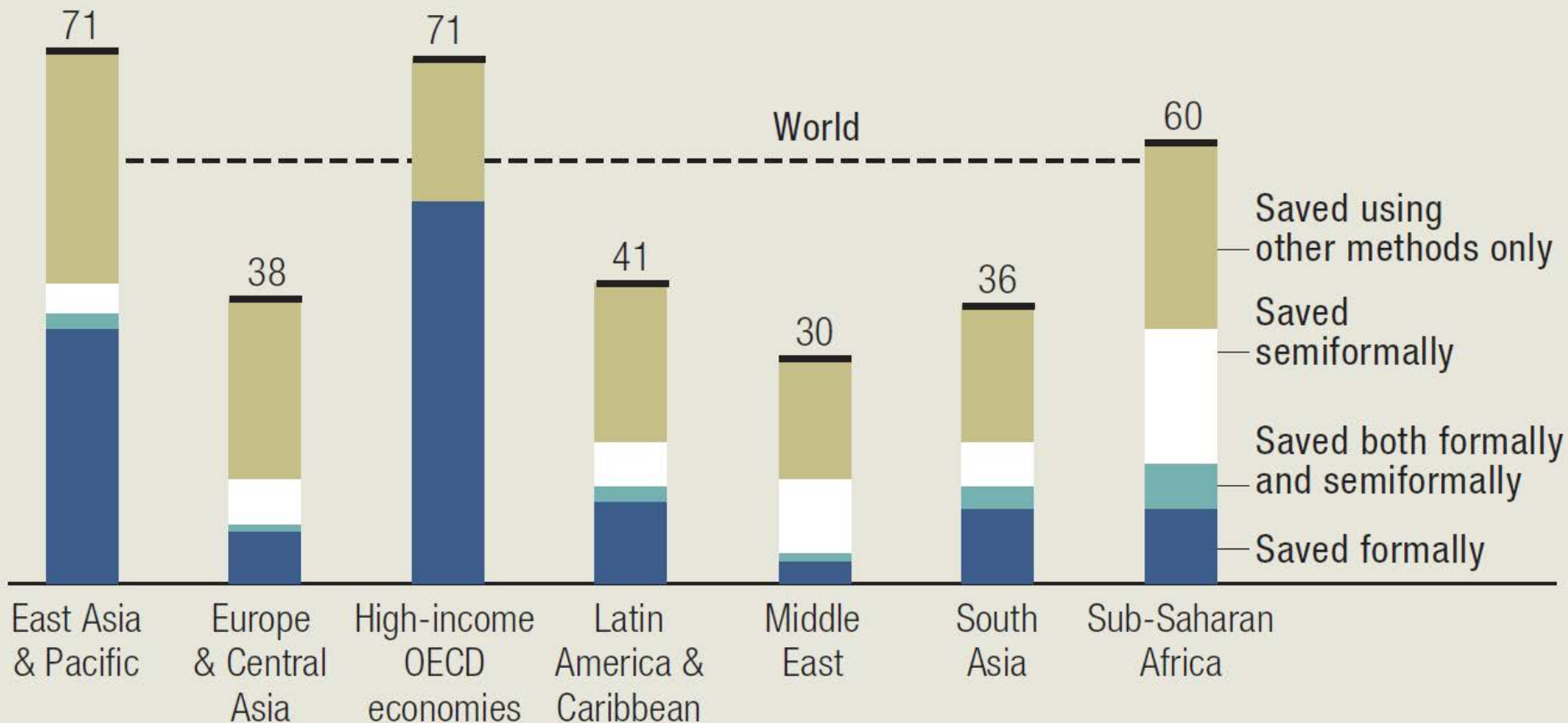


Note: The gender gap between women and men is shown in black.

# Global Index: Saving by Method Used

## Saving by method used

Adults saving any money in the past year (%), 2014

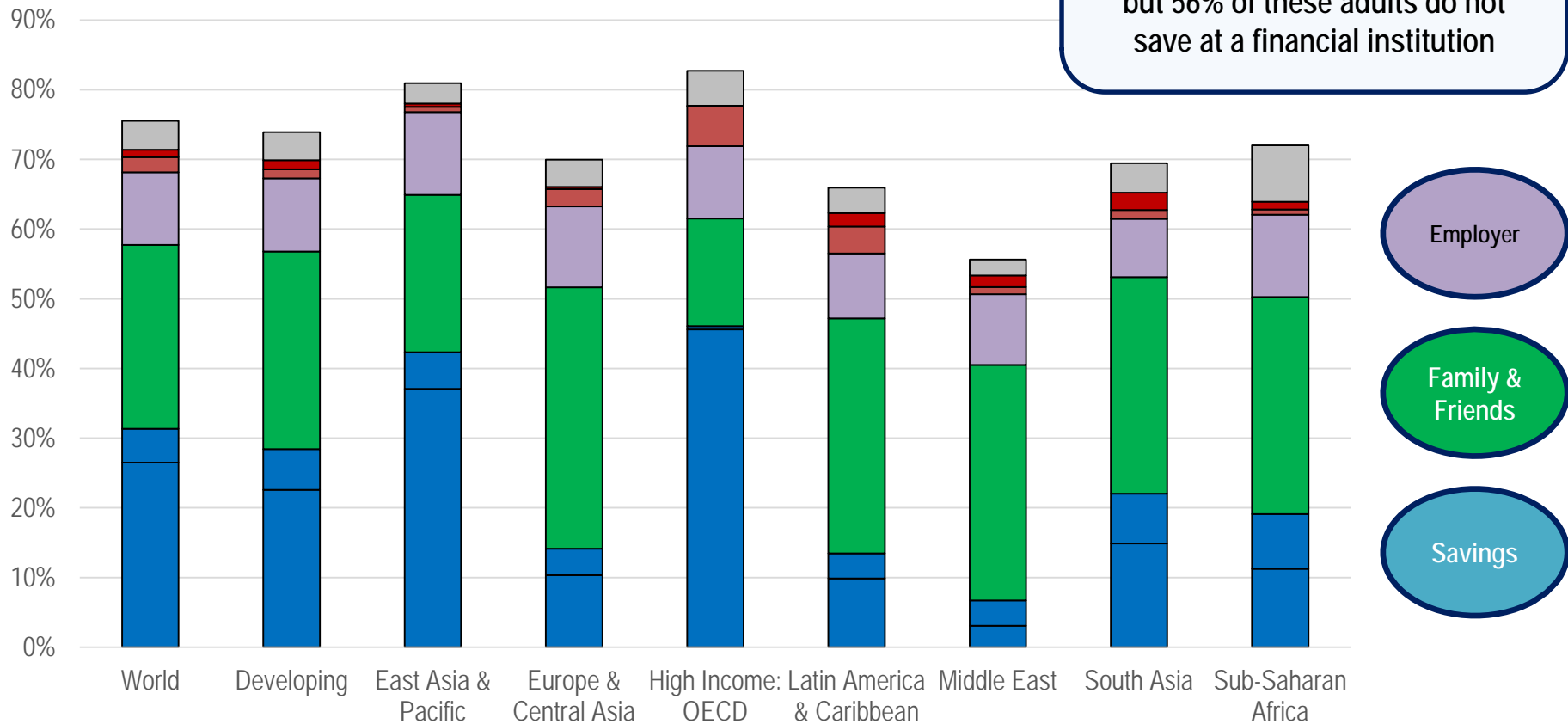


Source: Global Index database.

# Global Index: Financial Resilience

## Financial Resilience: Source of emergency funds

Total Percentage of Adults



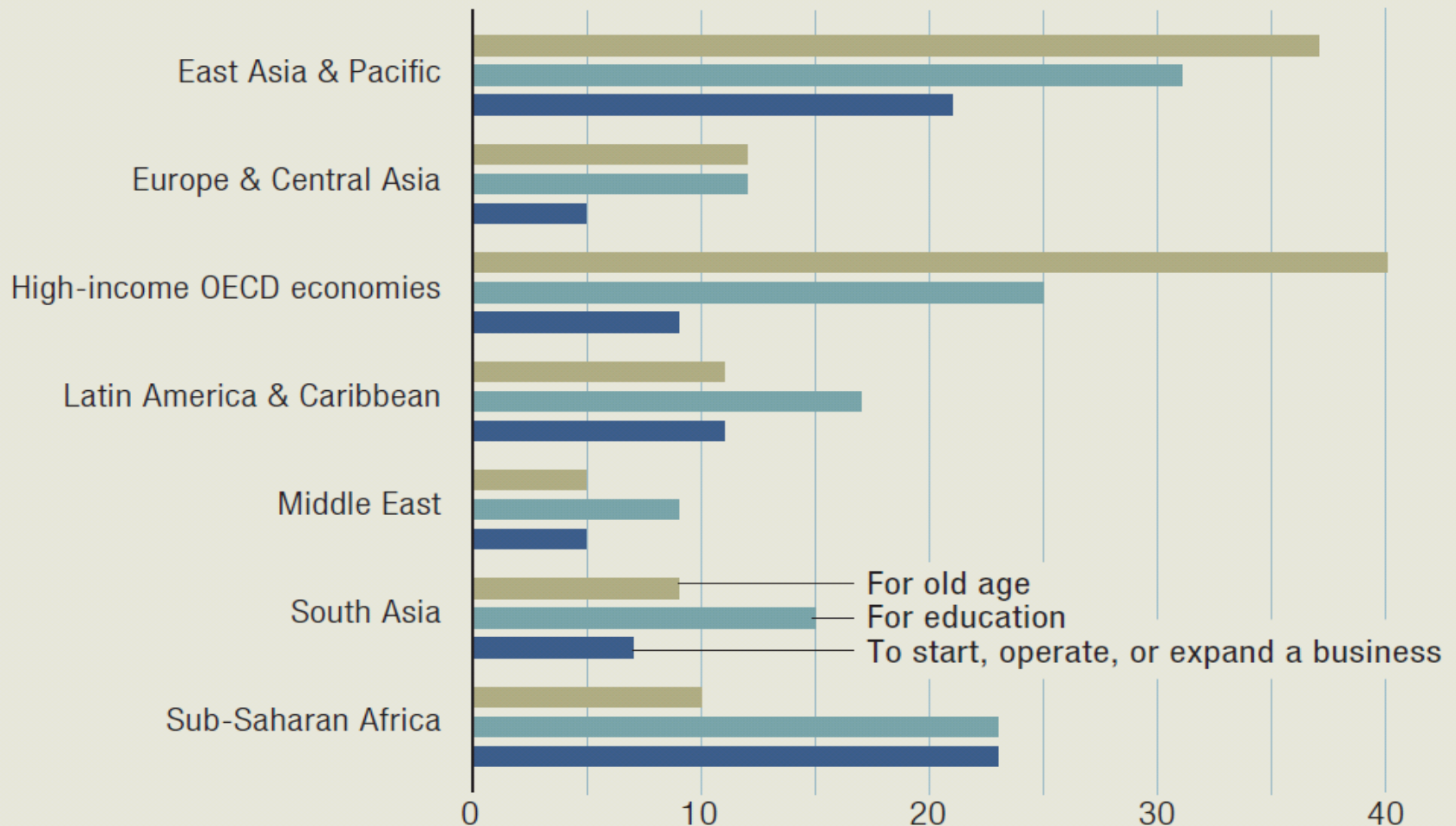
Note: the height of the bar is the percentage of adults that report being able to come up the equivalent of 1/20<sup>th</sup> of GNI in a month.



# Global Findex: Saving for Old Age

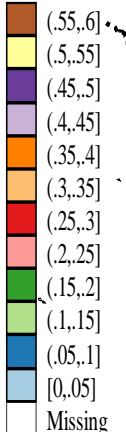
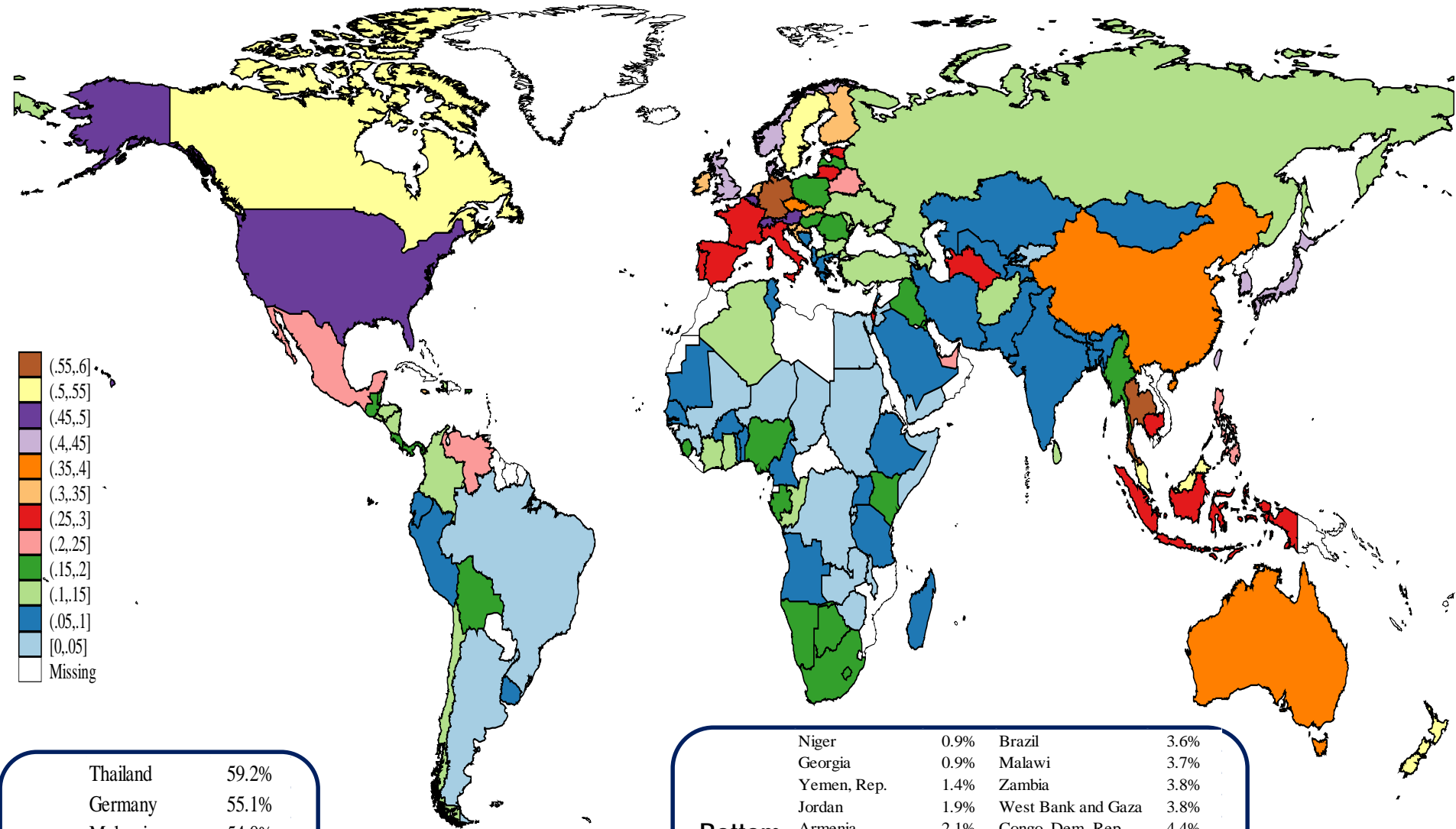
## Reasons for saving reported by savers

Adults saving for specified purpose in the past year (%), 2014



Source: Global Findex database.

# Global Findex: Saving for Old Age



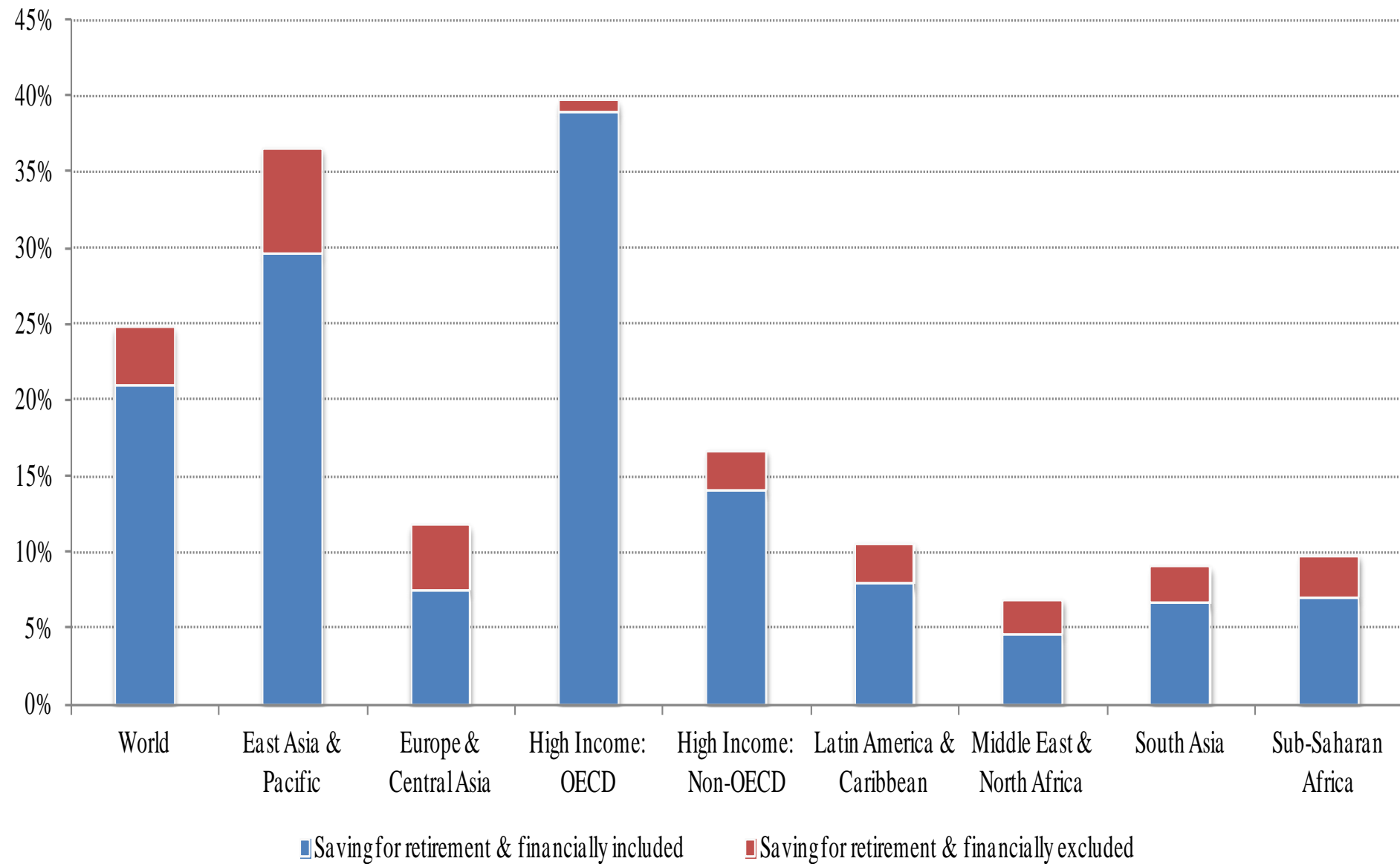
**Top:**

Thailand	59.2%
Germany	55.1%
Malaysia	54.0%
Canada	51.7%
New Zealand	51.5%
Sweden	50.9%
Singapore	50.4%

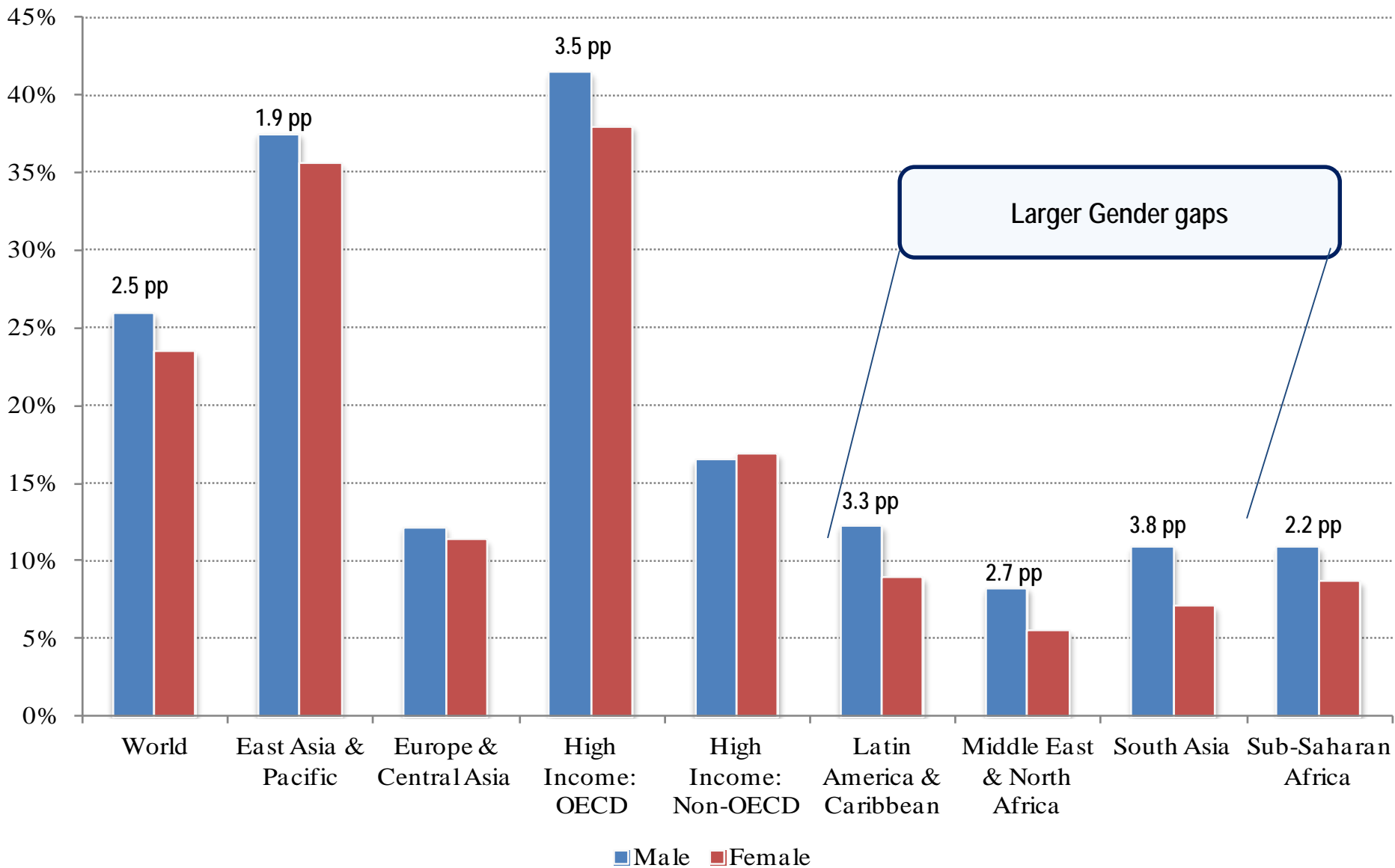
**Bottom:**

Niger	0.9%	Brazil	3.6%
Georgia	0.9%	Malawi	3.7%
Yemen, Rep.	1.4%	Zambia	3.8%
Jordan	1.9%	West Bank and Gaza	3.8%
Armenia	2.1%	Congo, Dem. Rep.	4.4%
Egypt, Arab Rep.	2.1%	Argentina	4.5%
Sudan	2.4%	Mali	4.5%
Chad	2.5%	Kyrgyz Republic	4.6%
Somalia	2.5%	Guinea	4.8%
Zimbabwe	3.2%	Rwanda	4.9%
Burundi	3.2%		

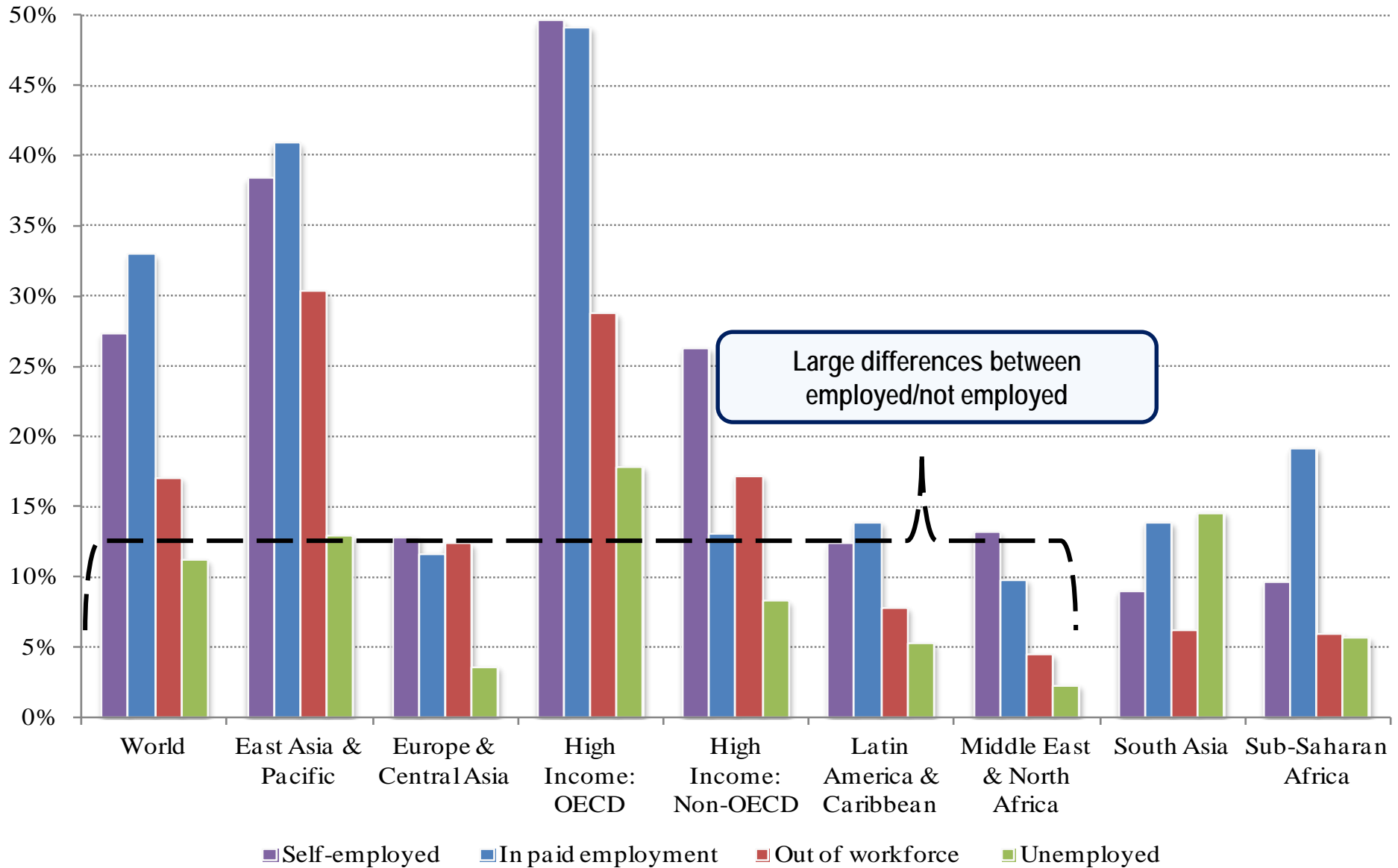
# Global Index: Saving for Old Age



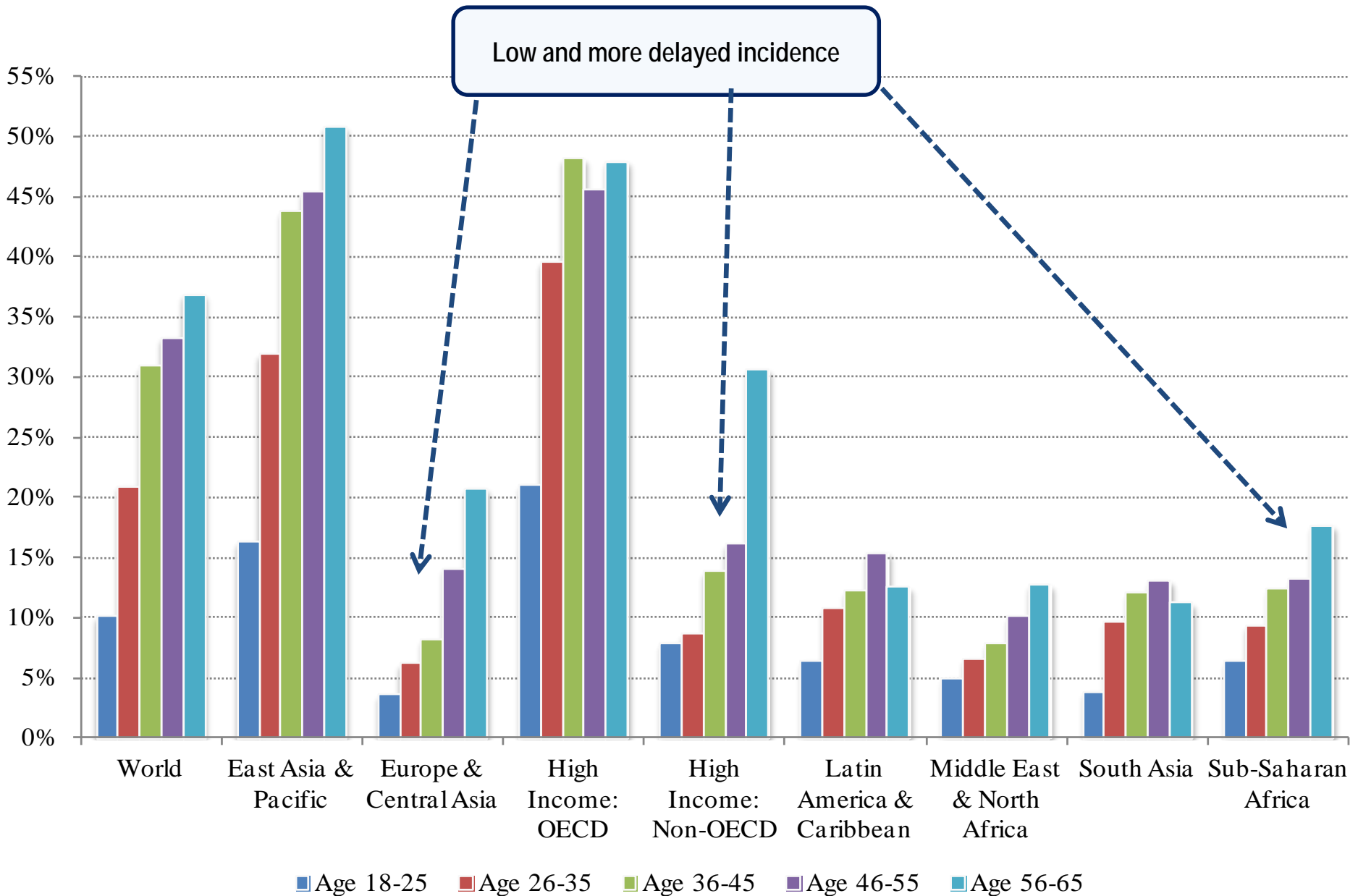
# Global Index: Saving for Old Age, by Gender



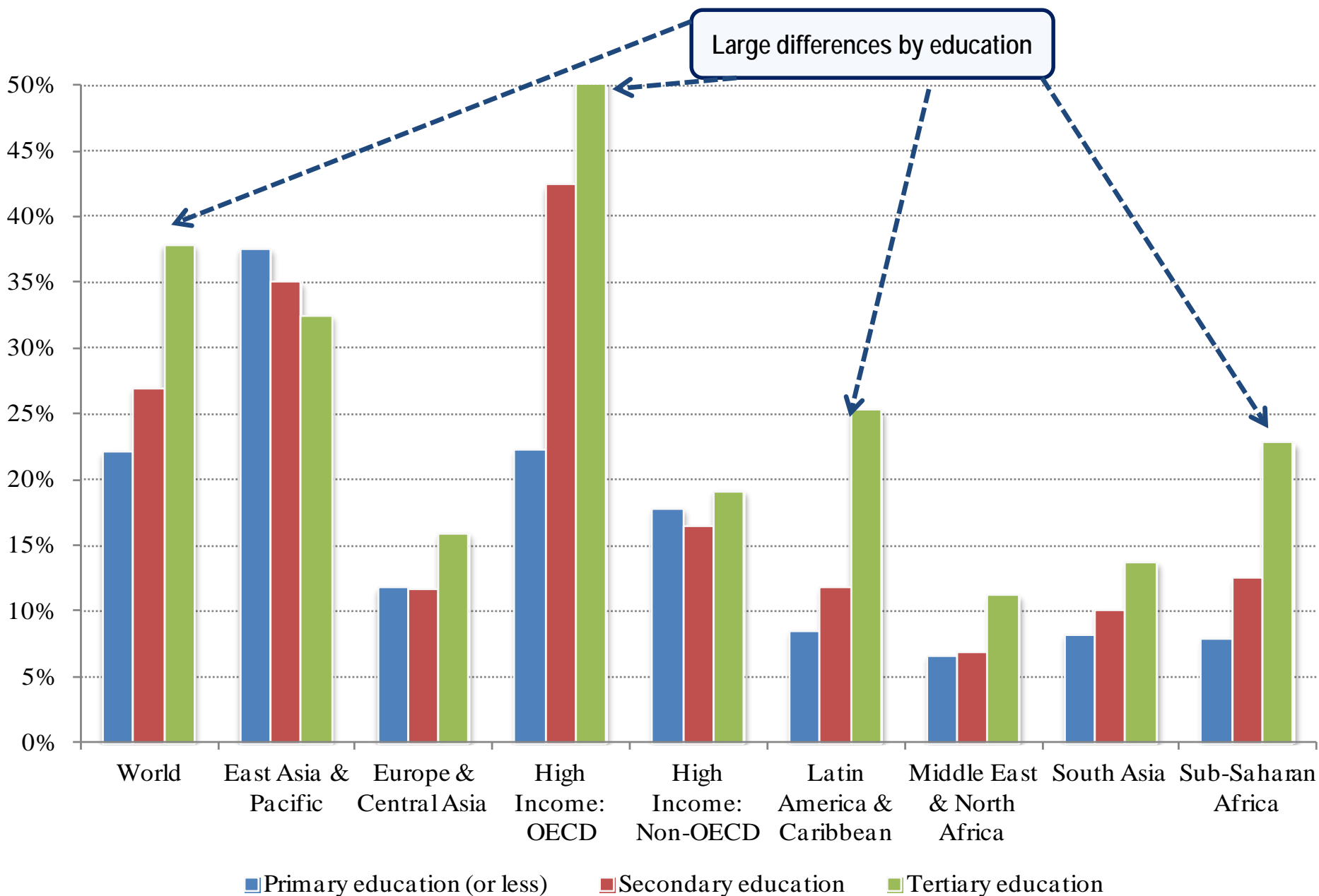
# Global Index: Saving for Old Age, by Employment



# Global Index: Saving for Old Age, by Age



# Global Index: Saving for Old Age, by Education



# Regression Analysis: Saving for Old age

## ➤ Individual characteristics

- Gender, age [5 groups], education [3 groups], marital status [3], young children, urban/rural, Household income per capita centiles, Labour market status [4], Region FE; Country FE
- Financial inclusion ( + financial inclusion country average)
- Generic savings (country average)

## ➤ Macro/Country-level characteristics {+ Individual characteristics}

- Life expectancy
- log per capita GDP (PPP-constant 2011), GDPpc growth
- Real interest rate
- Legal origin ([La Porta, et al. 2008, JEL](#)), WDI legal rights index
- Explicit deposit insurance / Moral hazard index ([Demirguç-Kunt, et al. 2014](#))

## ➤ Pension-system characteristics {+ Individual + macro/country characteristics}

### ❖ Pension Watch/HelpAge's Social Pensions Database, 2014

- Log(Benefit in PPP \$US); Benefit as % of GDP per capita; Benefit as % of the \$1.25 a day poverty line
- % of the population covered
- Cost of pension spending as a % of GDP
- Log(Age of eligibility)

### ❖ World Bank Pensions database (2014): [Pallares-Miralles et al. \(2012\)](#)

- Contribution rate; Employer/employee contribution ratio



# Conclusions

- Individuals are & should be increasingly in charge of their financial well-being
- We examine the occurrence of Saving for Old Age
  - Some 25% around the world save for old age
  - Rates above 35% in High-income OECD and East Asia & Pacific
  - Moderate gender gaps, larger in developing world
  - Large age differences/J-shaped profile, indicating delayed occurrence
  - Large and varying differences by income, education, and employment
- We examine the determinants of the incidence of Saving for Old Age
  - Strong relationship with financial inclusion
  - Strong relationship with country's propensity to save
  - Strong relationship with English legal origin, legal rights and GDP pc