

# Saving the future

*Saving rates in Portugal plummeted to historic lows in 2015; today, it is more critical than ever to stress their importance for the future of every individual*



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The three decades of prosperity and strong demographic growth following the Second World War are now a distant memory in Europe. Since the first oil crisis in the early 1970s, Europeans have faced rising unemployment and increasing economic uncertainties, especially in southern countries.

In addition, Europe's ageing population is becoming a real problem. According to recent studies, the European population will reach a peak in approximately 2040, and will then begin to decline. A combination of these two factors – economic uncertainties and an ageing population – leads us to a troubling question: who will pay for the pensions of those who are children today?

## Planning for retirement

Some young Europeans, especially in the Nordic countries, are already putting money aside in an attempt to achieve their desired quality of life when they retire. But wide variations exist between countries, which is most likely a reflection in different living standards, together with cultural factors.

Most experts believe that in 50 years from now, 30 percent of Europeans will be aged 65 or over, compared with 17 percent today. Nowadays, older people are an attractive target market for financial services providers, and that phenomenon will only grow as time goes by.

Though it may indicate that people are genuinely worried about the future, ultimately, put-

ting money aside to prepare for retirement shows prudence and foresight. Indeed, the hallmark of a developed and prosperous country is when the majority of its population has a savings plan of some kind.

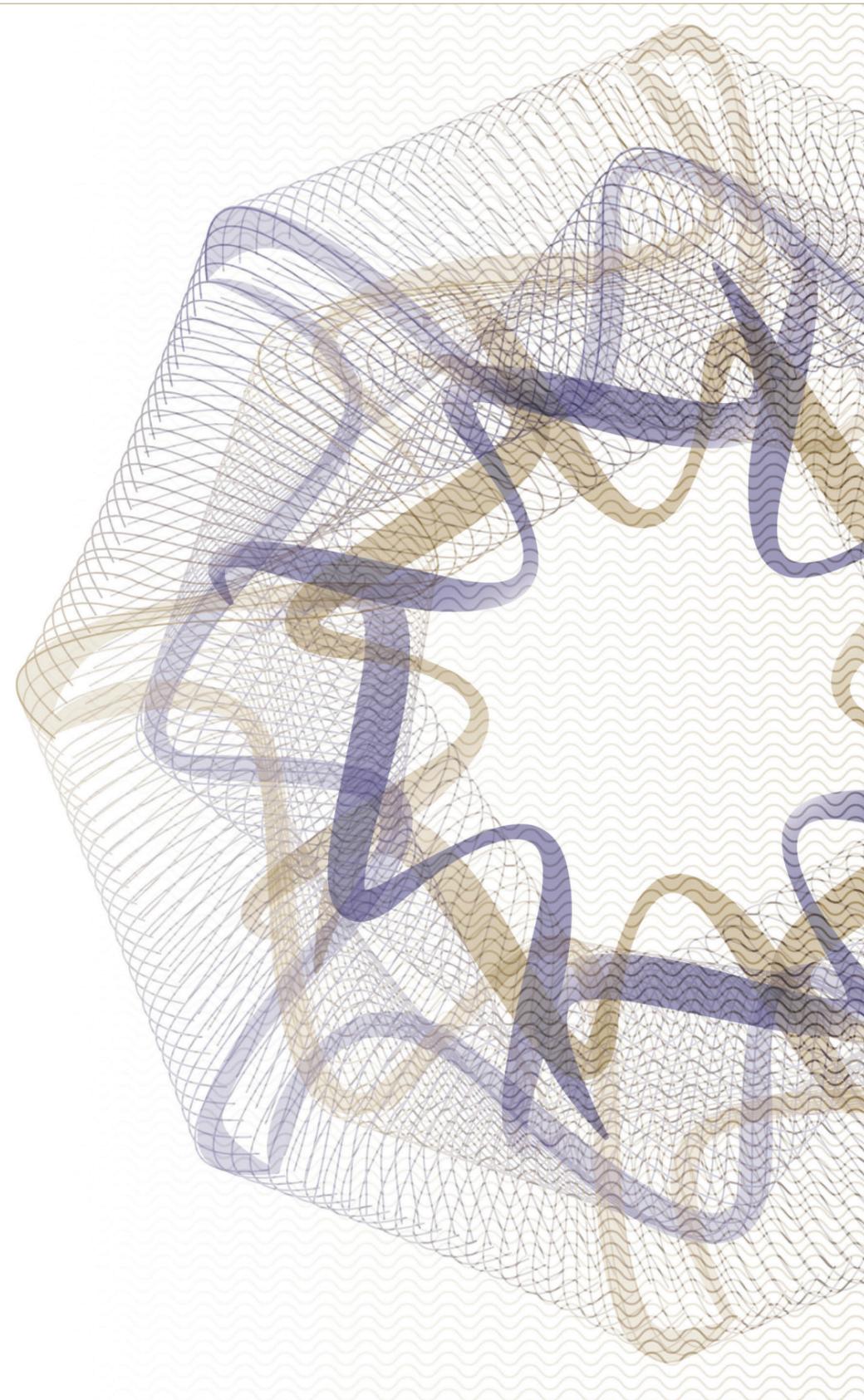
European businesses should therefore adapt their marketing strategies in order to convey the importance of savings to the population. For groups to whom this is particularly pertinent, price might be the most important factor to emphasise when planning product marketing. It would also be beneficial for financial companies to broaden their range of savings products that are dedicated to retirement planning.

## The Portuguese case

A 2016 study by Nielsen revealed that only four percent of Portuguese citizens put money aside every month. This is a colossal change from the 30 percent that attested to monthly savings just two or three years ago. What's more, more than half (58 percent) of those quizzed confessed to having difficulties paying bills by the end of every month. The conclusion was that older people (defined as those between 55 and 65) have the greatest difficulties. It is believed that this downward trend began with Portugal's entry into the euro and was only interrupted in the years of crisis.

According to most surveys, the richest save the most in Portugal, while those with lower incomes have low or even non-existent savings levels. This reality indicates that saving can be seen as a luxury good for the Portuguese population.

After the start of the 2008 financial crisis, Portuguese savings rates increased. This was mainly due to the postponement of consumption decisions and the concerns that led families to save during an environment of uncertainty. This uncertainty was borne from the precariousness of employment



at that time, alongside the expectation of smaller governmental reforms in the future.

Fortunately, household consumption has increased in nominal terms since 2010, when the country was in the process of a bailout programme. In the second quarter of 2011, there was a slight increase in the household savings rate at around 0.5 percent GDP, which brought it closer to the historic average of 7.6 percent GDP.

At the beginning of 2015, the economy's financing capacity improved, but the capacity of households declined. Although disposable income improved over the last quarter of 2014, the increase in consumption was slightly higher, which lowered the level of savings in households from the previous quarter. Essentially, families reduced their levels of caution due to recovering confidence levels.

Then, in 2015, an increase was generated in household investment thanks to the evolution of the labour market. Confidence indicators made families more optimistic about their financial situation and the country's economic stability in the long term.

By the end of 2015, savings had dropped to some of the lowest levels ever. Families were spending around 96 percent of their income and consumption via bank credit was on the rise. Interest rate levels impacted savings, consumption and the investment decisions of households and firms alike. Low interest rates, which were induced by the European Central Bank's monetary policy action, acted as a disincentive to save by encouraging short-term consumption. According to data observed during this period, the savings rate represented 4.5 percent of disposable income for the average household – close to the rate of 4.3 percent in 2008.

Contrary to what was happening at a household level, the Portuguese national statistics institute showed that the economy as a whole had improved its capacity in financial markets. Therefore, it was the slight increase in savings in 2016 and 2017 that allowed an improvement at the national level, since the growth of disposable income was marginally higher than that of consumption expenditure, which had also benefitted from an increase in Portugal's GDP.

## Ocidental's culture plan

At present, Ocidental is developing a type of practice called 'capitalisation insurance', which focuses on customers providing savings for the future in a mid-to-long-term plan. They work by delivering a certain amount to the insurer (delivery can be periodic or all at once), after which we provide an immediate investment. At the end of the contract, the customer will receive an extra income, together with the initial amount they entrusted us with. Due to the supervision of these products, a constant follow-up on all phases of the investment process is offered. Without a doubt, these offerings leave the client with little chance of losing the money that was initially invested; it's a safe and low-risk way to plan for retirement.

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The changes in the Portuguese social security system, as well as the importance of maintaining a good standard of living following retirement, have reinforced the need for private retirement savings products. Unlike other financial products, retirement savings plans have been a privileged vehicle for private savings in the medium and long term since their inception, and they play a relevant role in the complementary contribution to social protection.

At Ocidental, we provide retirement savings plans, which are incorporated in an insurance contract linked to investment funds and are qualified as a structured savings collection facility. Each complex financial product consists of four investment funds: an aggressive strategy with a maximum of 55 percent in shares; a moderate strategy with a maximum of 30 percent in shares; and a protection strategy and a preservation fund strategy, with a maximum of 10 percent shares for each. Each investment strategy is associated with an autonomous fund based on deposits, bonds or equities, which are chosen in accordance with the defined investment policy.

These are retirement savings plans directed at people who intend to invest with a medium and long-term risk-tolerant vision.

Together with this, Ocidental's Increased Savings Insurance (Seguro Poupança Crescente) is a medium to long-term capitalisation insurance product with total guaranteed capital invested. Deliveries deducted from the applicable subscription fee are invested in an autonomous fund at the end of each financial year, while the rate of return is obtained by the fund after the deduction of the financial management fee.

Is all of this enough to ensure a culture of savings in a majority of the Portuguese population? Probably not, but it is certainly a big step towards trying to achieve this. As an organisation, we are dedicated to improving savings, and it is our aim to continue developing new and innovative retirement and savings plans. The key is that people are aware of all of the plans on offer; that comes down to how good a job we do.

In Portugal, it was commonly said that times of economic and financial crisis required entrepreneurs and business people to come up with new and bold ideas. Now that better days might be on the horizon, savings and retirement should be looked upon in the same light. ■