Income investing has been in great demand among investors in recent years and we believe this trend is set to continue. Demographic challenges related to the increase in the number of elderly people will pose a great challenge to the public pension and healthcare systems of some major developed countries, especially as the issue of the public debt mountain is still relevant. This could result in a cut in welfare expenditures and as a consequence, individuals may be required to take on more financial responsibility for supporting their retirement needs in the future. When planning for retirement income, a strong focus on risk is relevant. Inflation, for instance, represents an important risk to consider as its impact can be highly relevant when investing in retirement. For income investors willing to mitigate possible inflation risk, we believe real assets are a solution to consider.

Among the secular trends underpinning the increased demand for income, one of the most relevant is related to the demographic challenges that the world will face in the future. According to the United Nations "a significant ageing of the population in the next several decades is projected for most regions of the world". Globally, the number of elderly people (aged 65 or above) is forecast to increase from 610 million in 2015 to over 1.5 trillion in 2050, when elderly people will account for 16% of the world population, double the level of today. The decreasing fertility rate in developed countries in recent decades is also a relevant factor as it translates into a shrinking working population. As a result, for the first time in human history the number of elderly people above 65 years is about to exceed the number of children below 5 and life expectancy continues to rise.

This means that while the number of pensioners is rising, the number of working people to support their retirement is decreasing. In 2050 there should be 3.5 working people per pensioner globally (deteriorating from the 2013 forecast by the United Nations of 4 to1).

**Figure 1. Number of Working Age People (20-64) per Pensionable Person (>65)**

With the world getting older and living longer, there are globally more pensioners and fewer workers to support their retirement: a big issue especially in developed countries.
In many countries pensioners are already sourcing income from work and capital to supplement their pension. We believe that this trend might continue as pension reforms, in many cases, translate into lower retirement income, compared to pre-retirement earnings.

A strong focus on risk is relevant when planning for retirement income. Inflation, for instance, represents an important risk to consider. In fact, should inflation be higher than expected, savers risk running out of funds in retirement.

These demographic trends will pose great challenges to the public pension and healthcare systems of some major developed countries, especially as the issue of the public debt mountain is still relevant. This could result in a cut in welfare expenditures and additional income needs in retirement.

In many countries pensioners are already sourcing income from work and capital to supplement their pension. We believe that this trend might continue as pension reforms, in many cases, translate into lower retirement income, compared to pre-retirement earnings.

In fact, the net replacement rate (defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners) in many countries is already at a low level (as shown in the graph below).

Figure 2. Implication: Pensioners Could Need Additional Sources of Income

<table>
<thead>
<tr>
<th>Net Replacement Rate</th>
<th>Income Sources of People Aged Over 65, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Australia</td>
<td>58%</td>
</tr>
<tr>
<td>France</td>
<td>68%</td>
</tr>
<tr>
<td>Germany</td>
<td>50%</td>
</tr>
<tr>
<td>Italy</td>
<td>80%</td>
</tr>
<tr>
<td>Japan</td>
<td>40%</td>
</tr>
<tr>
<td>Spain</td>
<td>90%</td>
</tr>
<tr>
<td>UK</td>
<td>29%</td>
</tr>
<tr>
<td>US</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: OECD, Pensions at a Glance, 2015. Data as at 2013 or latest available

In the future, individuals may be required to take on more financial responsibility for supporting their retirement needs.

A strong focus on risk is relevant when planning for retirement income. Inflation, for instance, represents an important risk to consider. In fact, should inflation be higher than expected (i.e. 2.5% vs. 1% in the below example), savers risk running out of funds in retirement, as shown in the below example. In the example, in fact, a retiree with a $1 million portfolio at age 65 with an annual withdrawal of $35,000, investing in a portfolio that generates a fixed 2.5% annual income, risks running out of money at age 95, if a 2.5% annual inflation materializes.
In the search for income we believe investors should consider taking a more active approach and exploring a wider range of potentially higher-yielding investment opportunities across different asset classes.

In addition, retirees face the risk of being exposed to higher inflation on their spending. In fact, in the retirement phase the share of expenditure for housing and health care increases (it represents around 50% of US Household Expenditures, when aged above 65\(^1\)).

So what can investors do?
In planning for their retirement income, we believe investors should consider broadening their perspective, taking a more active approach, and exploring a wider range of potentially higher yielding investment opportunities across different asset classes.
For income investors willing to mitigate possible inflation risk, we believe real assets are a solution to consider. Discover more in our new paper “Investing for Income: Why Real Assets?” and in the upcoming papers in the “Investing for Income” series.

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\(^1\) Source: Consumer Expenditure Survey 2015, U.S. Bureau of Labor Statistics
Important Information

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Source: OECD, Pensions at a Glance, 2015. Data as at 2013 or latest available. Note: Income from work includes both earnings (employment income) and income from self-employment. Capital income includes private pensions as well as income from returns on non-pension savings. Transfers include public and occupational transfers. The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings.