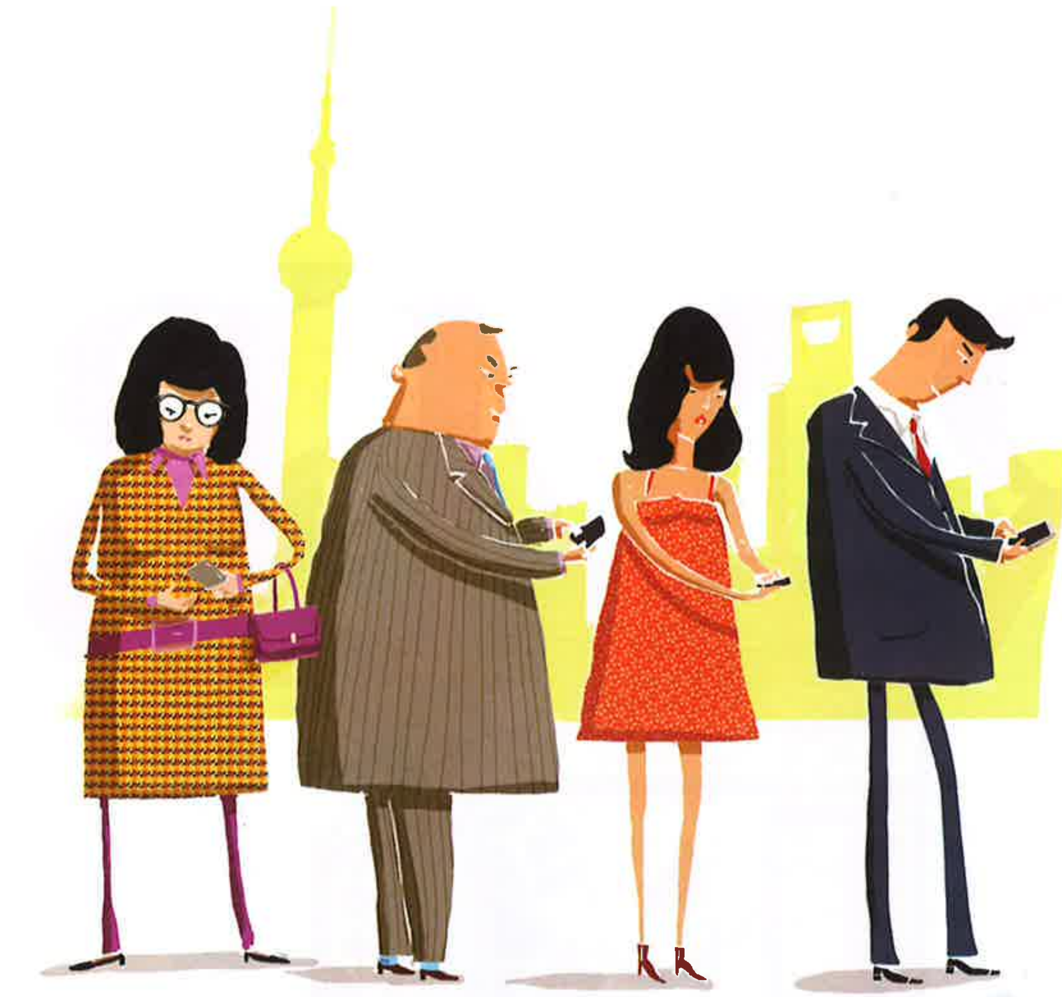
# The future of retirement in East Asia

*Societies understand they can't rely on family support, but there is divergence on where responsibility for protection should lie*

*By Richard Jackson*



As the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations.

Nowhere is this more difficult than in East Asia, where rapid development is transforming traditional retirement attitudes and expectations.

How well are retirees in East Asia coping with changes? How prepared are workers for their own future retirement? And what type of retirement system would people actually prefer, given the choice?

To answer these questions, the Global Aging Institute conducted a survey in China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. The results, some of which are previewed here, will be released in August this year.

The survey finds that views about retirement provision vary tremendously across the region. Some countries favour government responsibility and others individual, savings-based responsibility.

In South Korea, a decisive majority favour individual responsibility for retirement income, while in Hong Kong, Singapore and Taiwan pluralities do.

Malaysia leans somewhat the other way, toward government responsibility. The other five countries – China, Indonesia, the Philippines, Thailand and Vietnam – lean decisively toward government.

Yet all 10 have one thing in common. Overwhelmingly they reject the traditional expectation of family-centred retirement security. When respondents were asked who, ideally, should be mostly responsible for providing income to retired people, the share who answered "grown children or other family members" ranged from a low of 6% in Hong Kong to a high of 13% in Singapore.

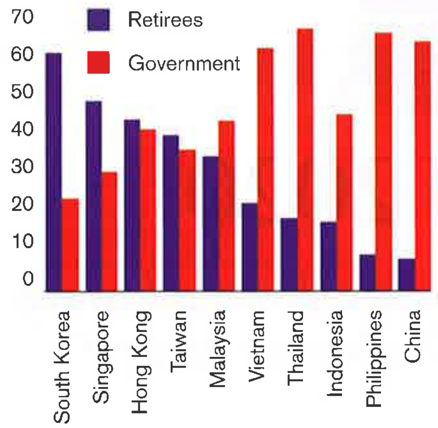
## Growing vulnerability

Current retirees in East Asia find themselves at an awkward juncture in the development of their countries. Traditional family support networks are already weakening, yet adequate government and market substitutes have not yet been put in place.

The result is growing vulnerability. Paradoxically, this vulnerability is often greatest in the high-income countries of East Asia, where rapid development has economically and socially marginalised the elderly, and lowest in the middle-income countries, where family support networks remain more intact.

It is no accident that the ratio of median elderly income to overall household income is lowest in South Korea, where just 23% of the elderly now live with their grown children, and highest in Indonesia, the Philippines, Thailand and Vietnam, where between 65% and 80% do.

**Retirement income responsibility**




*Source: Global Aging Institute survey*

Although the prospects for tomorrow's retirees are brighter, they are uncertain. Pension receipt rates are rising in most countries, but gaps in coverage remain and replacement rates are often very low.

For most current workers, moreover, personal savings will not be sufficient to fill the gap. In China, Malaysia and Vietnam, average asset-to-income ratios at age 50, when workers are approaching retirement, are less than 2-to-1, and in Indonesia, the Philippines and Thailand they are less than 1-to-1.

Only in South Korea is the asset-to-income ratio at age 50 more than 3-to-1. Remarkably, the share of current workers who worry about being "poor and in need of money" when they are retire is in every country as large or larger than the share of current retirees who do.

## Are you listening?

The good news is workers in East Asia are beginning to engage the challenge of preparing for retirement more seriously. The share of workers who say they now plan to retire later than they did three years ago exceeds the share who say they plan to retire earlier in every country.

The share who say that they are saving more for retirement now than they were three years ago exceeds the share who say that they are saving less in every country except Indonesia, the Philippines and Thailand.

The survey also reveals a surprising willingness to support retirement reform, even when doing so might involve personal sacrifice. In every country except Indonesia, the Philippines and Vietnam, a majority of respondents agree that the government should "increase taxes to provide a basic pension benefit to those elderly who are in financial need".

In every country except China, the Philippines, Taiwan and Vietnam, a majority agree that the government should raise the retirement age. And in every country, without exception, a majority not only agree that the government should encourage workers to save more for their own retirement by offering them tax breaks, but also agree it should require workers to save more.

The majorities favouring a savings mandate, moreover, are enormous. In every country, at least 75% of respondents support it.

Over the next few decades, massive age waves are due to engulf East Asia, slowing economic growth, driving up old-age dependency costs, and heaping large new burdens on governments and families alike. How well countries cope with this challenge will depend in large part on whether they have ensured the adequacy and sustainability of their retirement systems. A good place for governments and businesses to start would be to listen to the preferences and concerns of workers and retirees themselves. ■

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