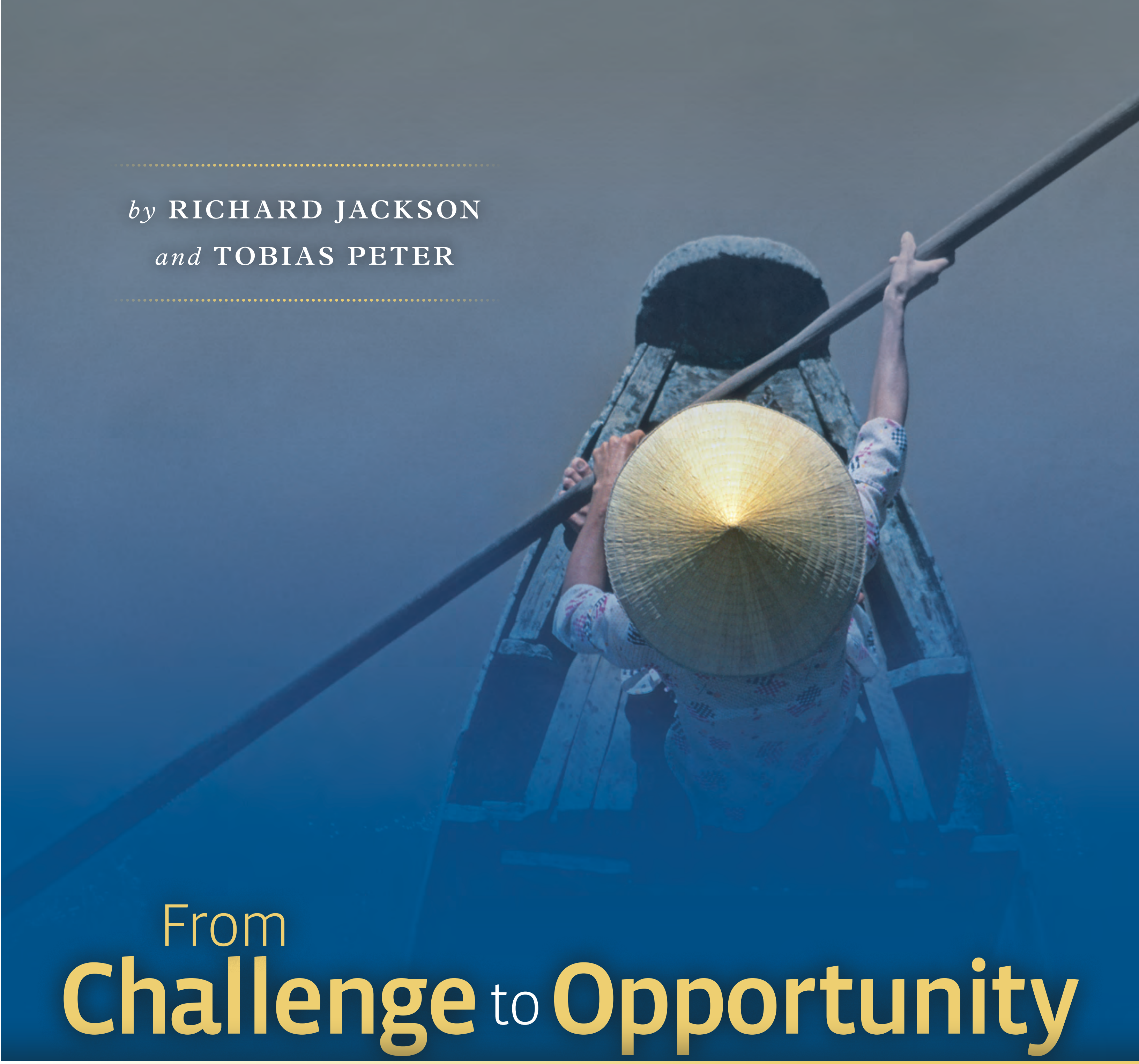

by RICHARD JACKSON
and TOBIAS PETER

From Challenge to Opportunity

WAVE 2 OF THE EAST ASIA RETIREMENT SURVEY

GAI Global Aging Institute

eastspring investments

About the East Asia Retirement Survey

The East Asia Retirement Survey is part of the multiyear Global Aging Preparedness Project, which was launched in 2010 by the Center for Strategic and International Studies (CSIS) with the publication of *The Global Aging Preparedness Index*, a unique new tool for assessing the fiscal sustainability and income adequacy of retirement systems around the world. When project director Richard Jackson left CSIS early in 2014 to found the Global Aging Institute (GAI), the project moved with him and since then has continued under the auspices of GAI. Prudential plc has collaborated with Richard Jackson on the project since 2010 and continues to support the ongoing work on the project being carried out by GAI.

The East Asia Retirement Survey is now in its second wave. The first wave of the survey, which was conducted in the summer of 2011, was administered to representative samples of workers and retirees in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan. The second wave, which was conducted in the summer of 2014, was administered to representative samples of workers and retirees in the six first-wave countries plus Indonesia, the Philippines, Thailand, and Vietnam.*

The results of the first wave of the East Asia Retirement Survey were presented in *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (Washington, DC: CSIS, 2012). In addition to the present report, the results of the second wave are also presented in a series of ten shorter country reports. All of the reports, together with supplemental data, are available on GAI's dedicated project website at **gap.globalaginginstitute.org**. The results of the second wave of the survey are also featured on Prudential's dedicated project website at **www.prudentialcorporation-asia.com/eastasia-retirement-2015**.

** For convenience, the term "country" is sometimes used in this report to refer to all ten distinct territorial and economic entities where the survey was conducted. Use of the term is not meant to imply any judgment about the sovereignty or status of any of the ten entities in international law or practice.*

The Global Aging Institute does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

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Table of Contents

Executive Summary

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 to do than in emerging East Asia, where rapid development is transforming retirement attitudes and behavior. Over the past few decades, the region has been urbanizing and industrializing at a remarkable pace. In most countries, the extended family—the mainstay of retirement security since time immemorial—is under increasing stress from the forces of modernization. Yet most countries have yet to develop adequate government and market substitutes. Meanwhile, 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 are retirees in East Asia coping with the changes? How prepared are workers for their own future retirement? And what type of retirement system would people actually prefer, if given the choice? The East Asia Retirement Survey, now in its second wave, is designed to answer these questions. The first wave of the survey, which was conducted in 2011, was administered to representative samples of workers and retirees in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan. The second wave of the survey, which was conducted in 2014, was administered to representative samples of workers and retirees in the six first-wave countries plus Indonesia, the Philippines, Thailand, and Vietnam.[1]

Survey Findings

Not surprisingly, the survey finds that there are tremendous variations across East Asia in the circumstances of today's retirees, the expectations of today's workers, and views about the ideal shape of the retirement system. Yet to one degree or another, all of the ten countries surveyed have at least five things in common:

* **The traditional role of the family in retirement security is receding.** The survey confirms that the extended family continues to play a far more important role in retirement security in East Asia than it does in the West. Between 23 percent (South Korea) and 80 percent (Vietnam) of today's retirees live in the same household with one or more of their grown children, and in almost every country income transfers within the extended family flow from the young to the old. In most countries, however, the role of the family in retirement security has already shrunk over the past few decades, and the survey reveals a widespread desire to shrink it further. When asked, "who, ideally, should be mostly responsible for providing income to retired people," only a small minor-

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ity of respondents in each country (between 6 and 13 percent) answered "grown children or other family members." Looking ahead to their own future retirement, today's workers do not expect to receive the same level of financial support from the extended family as today's retirees are receiving. Declining family size may be one factor driving this shift. Another factor is the rapid pace of development and the diffusion of more individualistic "western values."

- **For today's retirees, retirement can be a time of considerable insecurity.** In every country except China and Thailand, at least one-fifth of today's retirees report that they receive no government retirement benefits of any kind, including means-tested old-age assistance, and in several countries the share approaches or even exceeds two-fifths. Today's retirees, moreover, often found it difficult to accumulate personal savings early in their careers, and many have been required to retire far too early for those savings to last. Between 14 percent of retirees (in China and Vietnam) and 69 percent (in South Korea) report having "a lot less income" now than before they retired. Large shares also worry about being "poor and in need of money," "a burden on their children," and "in poor health and having no one to care for them." In the absence of mature and universal retirement systems, rapid economic growth has in many countries opened up a yawning gulf between the living standard of the retired elderly and that of more affluent rising generations. Paradoxically, the vulnerability of retirees is often greatest in the high-income countries of East Asia, where development has socially marginalized the elderly, and least in the middle-income countries, where family support networks remain more intact.
- **Although they are brighter, the retirement prospects for today's workers remain uncertain.** Although today's workers in East Asia's high-income countries are much better covered by state pension systems than today's retirees were during their working years, the benefits that most can expect to receive will only replace a small share of their preretirement income. In most of the region's middle-income countries, China and Malaysia being notable exceptions, large gaps in pension coverage will persist in the future. Just 45 percent of Indonesian workers, 49 percent of Vietnamese workers, 59 percent of Thai workers, and 68 percent of Filipino workers expect to receive a state pension benefit when they retire. Despite the growing market-orientation of today's workers, moreover, personal savings may not be sufficient to maintain preretirement living standards. Among midlife adults, asset-to-income ratios are well beneath 1-to-1 in several of the countries surveyed, and except in Hong Kong, Singapore, Taiwan, and South Korea they are beneath 2-to-1, far less than is necessary to fill the likely gap between pension benefits and retirement income needs. Remarkably, the share of today's workers who worry about being "poor and in need of money" in retirement is as large or larger in every country as the share of today's retirees who do.
- **Today's workers are beginning to engage the challenge of preparing for retirement more seriously.** The good news is that anxieties about retirement security are beginning to prompt today's workers to engage the challenge of preparing for retirement more seriously. The share of workers who say that they now plan to retire later than they did three years ago exceeds the share who say that 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.
- **There is widespread public support for constructive retirement reforms.** The survey 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 ben-

efit 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 that it should "require workers to save more for their own retirement." The majorities favoring a savings mandate, moreover, are enormous. In every country, at least 75 percent of respondents support it.

Strategic Implications

The East Asia Retirement Survey thus suggests that along with the enormous challenge facing East Asian societies, there is also an enormous opportunity to build more adequate and more sustainable retirement systems. The survey also clearly suggests that there is a critical role for both government and the financial services industry to play. We believe that eight strategic responses, four by government policymakers and four by financial services providers, will be particularly important.

Implications for Government Policymakers

* **Improve the adequacy of state pension systems.** A state pension system should not only cover the broadest possible cross section of the workforce, but should also provide benefits that are generous enough to ensure at least some basic living standard in retirement. To meet these goals, many East Asian countries will need to extend the reach of their state pension systems, increase contribution rates, and replace lump-sum payments with some form of mandatory annuitization. Those countries with predominantly pay-as-you-go state pension systems should also consider transitioning in whole or in part to funded state pension systems, which will be able to deliver more adequate benefits at an affordable cost as societies age.
* **Encourage or require workers to save more for their own retirement.** As policymakers improve the adequacy of state pension systems, they will also need to increase supplemental retirement savings. This could be done in many ways, including establishing national savings programs, encouraging or requiring employers to sponsor pension programs, and setting up personal pension systems.
* **Establish more robust floors of old-age poverty protection.** Providing for a robust floor of old-age poverty protection is not just a matter of ensuring social adequacy. In rapidly aging societies in which the reach of formal retirement systems is limited and traditional family support networks are weakening, the failure to do so could lead to a social catastrophe.
* **Raise retirement ages and encourage longer work lives.** The early mandatory retirement ages that are enforced in the formal sectors of most of the countries surveyed are becoming a costly anachronism. In rapidly developing economies, firms sometimes favor policies that compel unskilled older workers to retire in order to make room for more skilled younger ones. But as more highly educated and productive younger cohorts climb the age ladder, such practices have not only become unnecessary, but counterproductive.

Implications for Financial Services Providers

* **Educate the public about the critical role of the financial services industry in retirement savings.** The survey reveals that the overall level of trust in the financial services industry is relatively high in most of the countries surveyed. Yet it also reveals that East Asians have a strong preference for individual rather than professional control over retirement savings, and in many countries are reluctant to personally engage with the financial services industry. If long-term savings are to play a greater role in retirement security, much public education will be needed.

* **Help today's workers turn their retirement savings aspirations into retirement realities.** Financial assets play a large and growing role in the retirement plans of today's workers in most of the countries surveyed. Yet in most of the countries, the share of workers who report having actually purchased financial assets is much smaller than the share who say that they expect to receive income from financial assets in retirement. The financial services industry has a vital role to play in helping workers turn their retirement aspirations into retirement realities.
* **Design and market financial products and services for workers who want to assume responsibility for their own retirement security.** As time goes by and younger cohorts with higher levels of educational attainment climb the age ladder, a growing share of the workforce will be increasingly eager for sophisticated financial advice and products. Financial services providers should be aware, however, that younger generations may demand as much or even greater control over investment choices than today's older generations do—and may also be increasingly intolerant of government or industry policies that prevent them from earning a market rate of return on their savings.
* **Satisfy the widespread public demand for financial products that convert household savings and lump-sum pension payments into retirement income streams.** The survey reveals a surprisingly high level of support for converting retirement savings into a monthly income stream. People throughout East Asia appear to understand that lump-sum payments are an atavistic relic of paternalistic employment systems and are inadequate in societies where people retire so early and live so long. Satisfying this demand will be a critical step toward building more adequate and sustainable retirement systems.

Policymakers throughout East Asia are aware of the challenge, and in some countries considerable progress is being made in addressing it. In three of the six countries included in both waves of the East Asia Retirement Survey—China, Malaysia, and Singapore—the share of today's workers who expect to receive a state pension benefit has risen. In Malaysia and Singapore the increase has been significant, and in China it has been dramatic, as concerted government efforts to extend coverage to the informal sector have boosted the expected pension receipt rate from 66 percent in the first wave of the survey to 95 percent in the second wave. Expected rates of private pension receipt are also up significantly in Hong Kong, Malaysia, Singapore, and South Korea. Meanwhile, the share of today's retirees who report receiving means-tested old-age assistance has risen in Hong Kong, Malaysia, and Taiwan. The increase in Malaysia, where the share has leapt from 5 to 24 percent, is especially large, and may be one reason why worries about retirement security in Malaysia are less acute in the second wave of the survey than they were in the first wave.

Yet despite the progress, the fundamental outlook remains unchanged. The combination of weakening family support networks, inadequate pensions, and insufficient savings still leaves a large share of today's and tomorrow's retirees at risk of economic hardship in old age. Among today's retirees, the share who report having "a lot less income" now than when they were working is virtually unchanged since the first wave of the survey, except in South Korea (where it has fallen) and Malaysia (where it has risen). Among today's workers, the share who expect to have "a lot less income" when they retire is unchanged or higher in five of the six countries. The exception is Hong Kong, where it has fallen from 50 percent to an only somewhat less alarming 41 percent.

If these six countries, as well as the four new ones included in the second wave of the survey, are to meet their retirement challenges, government policymakers and financial services providers will have to fashion new policies and new products adapted to East Asia's rapidly evolving retirement realities. A good place to start would be to listen to the preferences and concerns of workers and retirees themselves.

Acknowledgments

The authors have accumulated numerous debts while working on *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey*. They are pleased to be able to acknowledge some of the most important here.

First mention must go to Warren Wright (President, Warren Wright Consulting), who managed the entire survey implementation phase of the project. Without the expertise and dedication that he brought to the job, this report could never have been written. The authors are grateful to Serena Yi-Ying Lin, a consultant with the Global Aging Institute, who corrected the Chinese translations of the survey instrument. They also wish to thank Thomas S. Terry (Chairman, Global Aging Institute) and Neil Howe (Senior Associate, Global Aging Institute) for their helpful advice at crucial junctures.

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While the authors gratefully acknowledge the assistance they have received in preparing the report, they are solely responsible for its content.

1 East Asia at a Crossroads

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 to do than in emerging East Asia, where rapid development is transforming retirement attitudes and behavior. Over the past few decades, countries have been urbanizing and industrializing at a remarkable pace. Throughout most of the region, educational attainment, employment patterns, and levels of income and wealth are undergoing stunning shifts from one generation to the next. In most countries, the extended family—the mainstay of retirement security since time immemorial—is under increasing stress from the forces of modernization. Yet most countries have yet to develop adequate government and market substitutes. Meanwhile, 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 are retirees in East Asia coping with the changes? How prepared are workers for their own future retirement? And what type of retirement system would people in different countries actually prefer, if given the choice?

The East Asia Retirement Survey, now in its second wave, is designed to answer these questions. The first wave of the survey was conducted in the summer of 2011 in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan. The second wave of the survey, on which this report is focused, was conducted in the summer of 2014 in the six first-wave countries plus Indonesia, the Philippines, Thailand, and Vietnam.[2] The survey is based on nationally representative samples of workers and retirees, except that in China, Indonesia, the Philippines, Thailand, and Vietnam the samples were limited to urban areas and exclude

[2] For convenience, the term "country" is sometimes used in this report to refer to all ten distinct territorial and economic entities where the survey was conducted. Use of the term is not meant to imply any judgment about the sovereignty or status of any of the ten entities in international law or practice.

Survey Overview

Today's Retirement Realities

Share of Today's Retirees Who...	China	Hong Kong	Indonesia	Malaysia	Philippines
Retired before Age 60	72	49	80	92	71
Live with Their Grown Children[1]	46	63	73	48	78
Depend Financially on Their Grown Children[2]	9	37	25	20	40
Receive Income from the State Pension System[3]	83	55	60	79	55
Receive Income from Financial Assets[4]	41	42	11	42	3
Receive Income from a Job or Business	67	29	72	42	57
Have Received Professional Financial Advice	14	11	12	24	7
Have a Lot Less Income Now Than When Working	14	61	15	29	45
Worry More About Exhausting Their Savings Than 3 Years Ago	24	28	18	24	14

Tomorrow's Retirement Expectations

Share of Today's Workers Who...	China	Hong Kong	Indonesia	Malaysia	Philippines
Expect to Retire before Age 60	44	19	35	60	14
Expect to Live with Their Grown Children[5]	37	47	82	58	82
Expect to Depend Financially on Their Grown Children[2]	6	16	12	14	10
Expect Income from the State Pension System[3]	95	91	45	89	68
Expect Income from Financial Assets[4]	63	77	18	68	8
Expect Income from a Job or Business	82	68	84	72	85
Have Received Professional Financial Advice	22	28	21	41	10
Expect to Have a Lot Less Income When Retired	18	41	8	16	16
Are Saving More for Retirement than 3 Years Ago	46	40	25	34	12

Views About the Retirement Challenge

Share of Respondents Agreeing (+) and Disagreeing (−) That...	China +	China −	Hong Kong +	Hong Kong −	Indonesia +	Indonesia −	Malaysia +	Malaysia −	Philippines +	Philippines −
Supporting the Growing Number of Elderly Will Be a Large Burden for...										
Tomorrow's Workers and Taxpayers	39	29	43	20	30	40	27	51	20	60
Tomorrow's Families	45	26	46	19	24	48	26	56	15	68
People Can Trust Financial Services Companies to Help Them Prepare for Retirement	41	27	16	50	59	12	50	29	45	30
Government Is Doing Enough to Help Workers Prepare for Retirement	34	35	9	58	57	16	51	30	62	20

Views About Retirement Reform

Share of Respondents Saying Government Should...	China	Hong Kong	Indonesia	Malaysia	Philippines
Increase Taxes to Provide a Basic Pension Benefit to Those Elderly Who Are in Financial Need	74	69	32	61	43
Increase Worker Contributions to Government Pension Programs	72	68	54	68	52
Raise the Retirement Age	38	68	62	53	23
Require Workers to Save More for Their Own Retirement	77	90	90	90	82

[1] Refers to elderly aged 60 and over who have grown children.
[2] "Depend" means net recipient of income from children.
[3] For China, the state pension system includes the Urban Basic Pension System, Flexible Employment Pension, New Rural Basic Pension System, and civil service pensions; for Hong Kong, it includes the Mandatory Provident Fund, Social Security Allowance, and civil service pensions; for Indonesia, it includes the Old Age Savings Program, National Social Security System, and civil service and military pensions; for Malaysia, it includes the Employees Provident Fund and civil service and military pensions; for the Philippines, it includes the Social Security System, Pag-IBIG Fund, and civil service and military pensions; for Singapore, it includes the Central Provident Fund and civil service and military pensions; for South Korea, it includes the National Pension System and civil service and military pensions; for Taiwan, it includes Labor Insurance and civil service and military pensions; for Thailand, it includes the Social Security Fund, National Savings Fund, and civil service pensions; for Vietnam, it includes the Vietnam Social Security Fund.
[4] Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.
[5] Refers to workers who have or expect to have children.

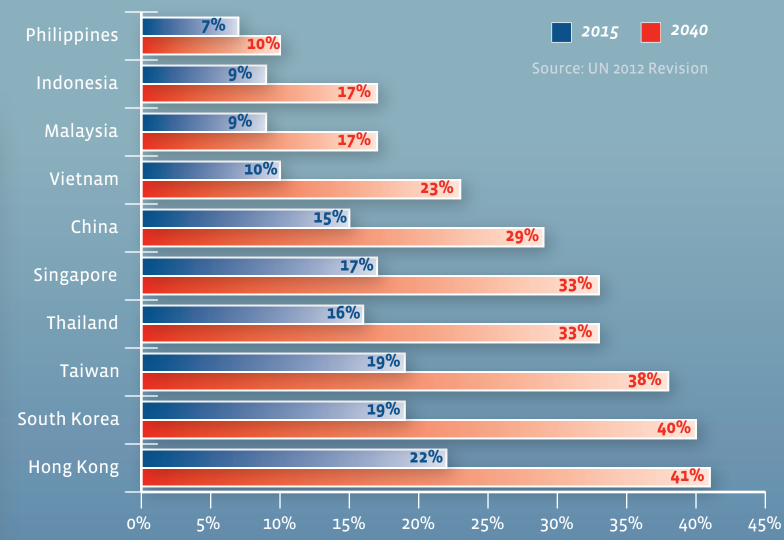
Singapore	South Korea	Taiwan	Thailand	Vietnam
68	66	61	51	86
70	23	61	67	80
29	17	16	32	27
65	54	44	61	68
51	19	50	48	13
48	49	42	60	76
20	26	18	31	17
43	69	47	33	14
35	50	45	19	28
24	18	33	27	33
52	12	41	96	90
12	6	6	14	21
89	86	68	59	49
74	60	73	60	18
78	60	72	64	90
54	39	41	36	26
28	52	37	19	3
37	21	37	28	35

Singapore +	Singapore −	South Korea +	South Korea −	Taiwan +	Taiwan −	Thailand +	Thailand −	Vietnam +	Vietnam −
41	31	68	12	53	19	46	27	32	43
43	32	71	10	65	15	40	32	24	51
42	29	29	32	30	38	63	8	43	19
42	31	10	56	13	61	61	17	44	34

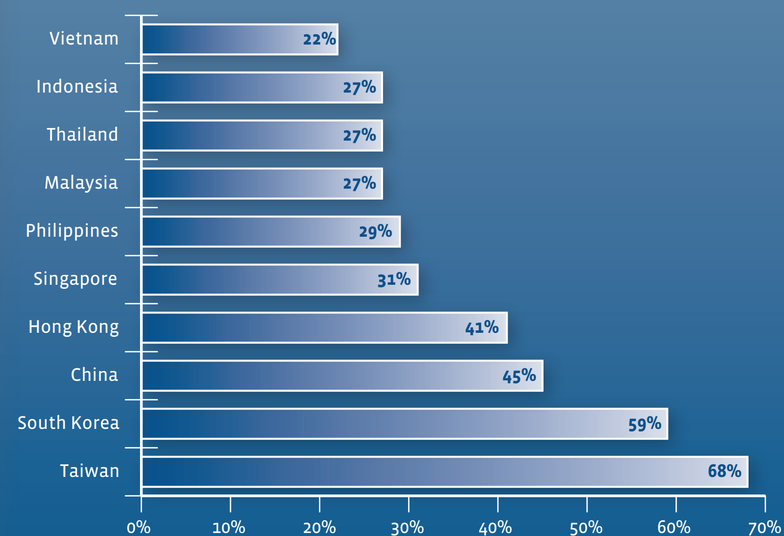
Singapore	South Korea	Taiwan	Thailand	Vietnam
60	75	72	67	27
57	77	64	64	30
54	83	40	60	43
89	85	85	83	88

Notes: All data are from Wave 2 of the East Asia Retirement Survey, except for demographic data, which are from *World Population Prospects: The 2012 Revision* (UN Population Division: New York, 2013). Questions in the "Views about the Retirement Challenge" section used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

Share of the Population Aged 60 & Over



"Both parents and children are generally happier when they are more independent and self-sufficient."



"Who, ideally, should be mostly responsible for providing income to retired people?"

% Response by Country	Government	Retirees Themselves	Grown Children	Former Employers
China	63	9	11	16
Hong Kong	41	44	6	8
Indonesia	45	18	11	25
Malaysia	43	34	8	10
Philippines	66	10	8	17
Singapore	30	48	13	2
South Korea	23	61	10	2
Taiwan	36	40	6	16
Thailand	66	18	10	4
Vietnam	62	22	10	5

the less-developed countryside.[3] Most surveys dealing with retirement-related issues in emerging markets focus exclusively on middle- and upper-income households in the formal sector of the economy. The East Asia Retirement Survey encompasses a much broader cross section of the population, including the less educated and less affluent, and thus gives a more complete picture of retirement experience and expectations.

The Changing Role of the Family

The picture that emerges from the survey is one of societies—and retirement systems—in the midst of a breathtaking transformation. Nowhere is this more true than in attitudes toward responsibility for retirement provision, and especially the role of the family.

As expected, the survey reveals that the family continues to play a much larger role in retirement security in East Asia than it does in the West. In most of the countries surveyed, the majority of today's retirees live with their grown children. In China and Malaysia, nearly 50 percent of those retirees aged 60 and over who have grown children live with them; in Hong Kong, Singapore, Taiwan, and Thailand between 60 and 70 percent do; and in Indonesia, the Philippines, and Vietnam over 70 percent do. Only in South Korea, where the share is just 23 percent, has the rate of multigenerational living fallen to something close to the rate typical of western countries. In most of the countries surveyed, the majority of the frail elderly are also personally cared for by their extended families. Among retired respondents who identify themselves as being in poor health or disabled, at least one-half in every country surveyed report that their grown children or their children's spouses assist them with daily living, and in Indonesia, Malaysia, the Philippines, Thailand, and Vietnam the share exceeds three-quarters. Also in striking contrast to the West, net financial support within families flows from the young to the old. In every country surveyed except China, South Korea, and Taiwan, at least one-fifth of today's retirees report being financially dependent on their grown children, meaning that they receive more income from their children than they provide to them or that they "could not get by at all" without the financial support of their children. In Hong Kong the share approaches two-fifths and in the Philippines it reaches two-fifths. (SEE FIGURE 1.)

Yet if the family still plays a central role in retirement security, that role is beginning to shrink. In some of the high-income countries surveyed, rates of multigenerational living have fallen dramatically over the past few decades. As recently as the mid-1980s, roughly 80 percent of the South Korean elderly lived with their grown children. By the time that the first wave of the survey was conducted in 2011, just 40 percent of elderly retirees reported living with their grown children, a share that has now fallen to 23 percent in the second wave. The rate of multigenerational living has also fallen sharply in China since the first wave of the survey, from 61 to 46 percent. Meanwhile, the share of today's retirees who report being financially dependent on their grown children has also declined significantly since the first wave of the survey in some countries, dropping from 28 to 20 percent in Malaysia and from 39 to 29 percent in Singapore.

The survey reveals that, by overwhelming margins, East Asians would like to see the role of the family in retirement security shrink further. 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 percent in Hong Kong to a high of 13 percent in Singapore. In a few countries, the share of respondents favoring family responsibility for retirement income is higher among the old than the young and among women than men, and in every country it is higher among less-educated respondents

[3] The Technical Note at the end of the report contains additional detail on the survey methodology, as well as definitions of key terms and concepts referenced in the report. Supplemental survey data are available on the Global Aging Preparedness Project website at http://gap.globalaginginstitute.org.

than more-educated ones. But in no country does even close to a majority favor it among any major segment of the population. Not surprisingly, significantly more respondents in all of the countries surveyed believe that grown children or other family members should continue to play the leading role in caring for the elderly when they become sick or disabled or need help with daily living. Still, among the ten countries surveyed there are only two—the Philippines and Vietnam—where a majority of respondents hold this view. (SEE FIGURE 2.)

Although changing attitudes toward the role of the family in retirement security may in part reflect the demographic realities of declining family size, the most important driver is probably the rapid pace of development in East Asia—and the industrialization, urbanization, and diffusion of more individualistic "western values" that have accompanied it. To be sure, many East Asians still profess an unconditional belief in the traditional ethic of filial piety. When asked which view about children's responsibility toward their parents comes closest to theirs, at least one-third of respondents in every country answered that children, even when grown, "should always honor and respect their parents and support them in any way that they can," and in most countries at least two-thirds did. The more significant finding, however, is that many people begged to differ. At least one-fifth of respondents in every country instead answered that "both parents and children are generally happier when they are independent and self-sufficient." In Hong Kong, the share was 41 percent, in China 45 percent, in South Korea 59 percent, and in Taiwan 68 percent. With the exception of China, the countries with the highest level of support for this more western view are high-income countries. This suggests that the level of support may grow in other countries as well as they continue to develop.

Looking to the future, the expectations of today's workers point to a continued erosion of

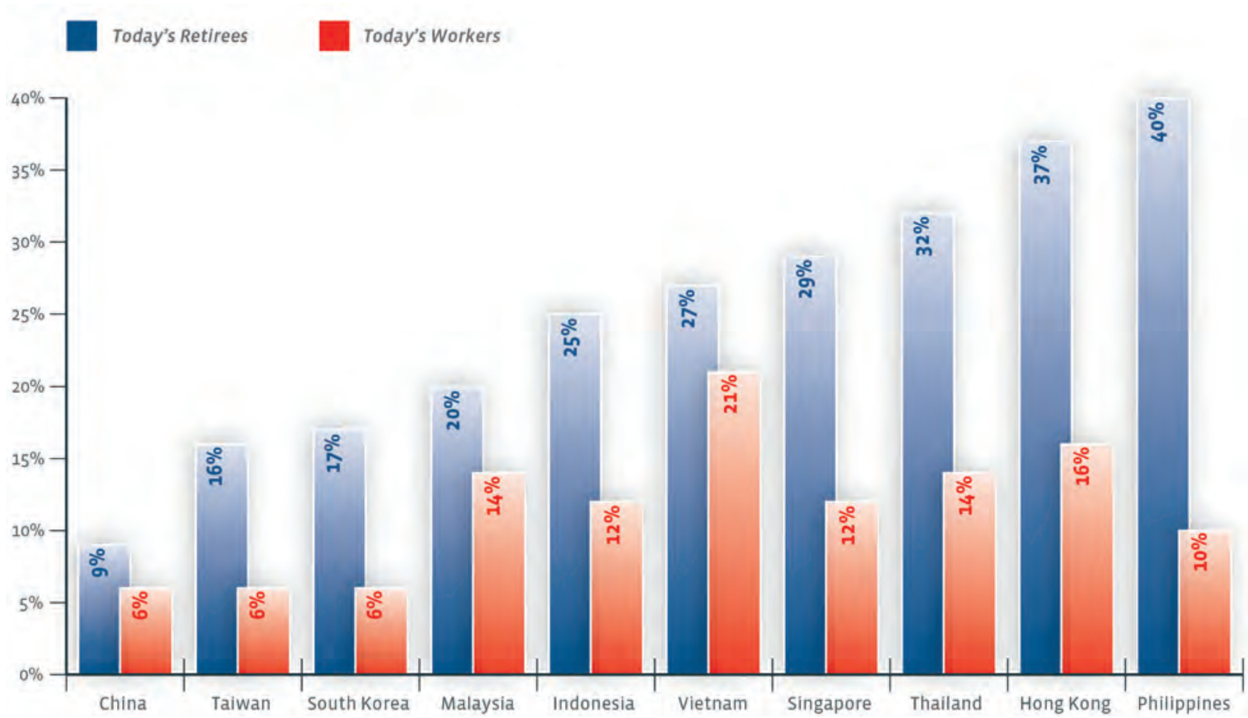


FIGURE 1. *Share of Today's Retirees Who Are and Share of Today's Workers Who Expect to Be Net Recipients of Income from Their Grown Children*

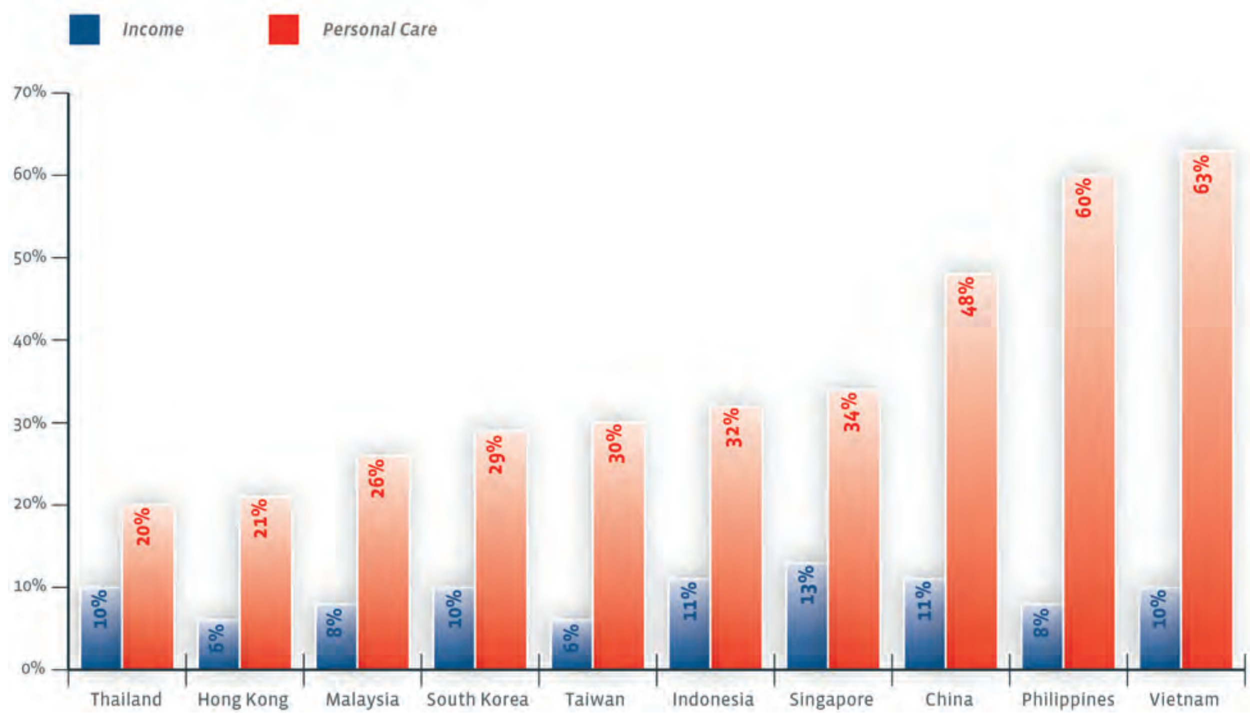


FIGURE 2. *"Who, ideally, should be mostly responsible for providing* ***income*** *to retired people?" and "Who, ideally, should be mostly responsible for providing* ***personal care*** *to retired people?"*

Share of Respondents Saying "Grown Children or Other Family Members"

the extended family's role in retirement security, though the degree of that erosion will vary greatly both by country and by type of support. The expectation that the family will provide personal care to the frail elderly remains high everywhere, perhaps because in most countries there are still few alternatives, whatever people's preferences might be. The expected rate of multigenerational living is lower than the current rate in all of the region's high-income countries, as well as in China, and in some cases dramatically so. In the Philippines there is no significant change, while in Indonesia, Malaysia, Thailand, and Vietnam it actually rises over the current rate. The largest and most consistent shift in expectations about the extended family's role in retirement security involves income support. In every country, the share of today's workers who expect to be financially dependent on their grown children when they are retired is much lower than the share of today's retirees who are financially dependent on them. In some countries, the declines are very large: from 40 to 10 percent in the Philippines, from 37 to 16 percent in Hong Kong, from 32 to 14 percent in Thailand, and from 29 to 12 percent in Singapore.

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? Here views differ greatly across the countries surveyed. In four of the ten countries, respondents lean toward "retirees themselves"—or in other words, toward individual, savings-based responsibility for retirement income. In South Korea, a decisive majority do (61 percent), in Singapore a decisive plurality do (48 percent), and in Hong Kong and Taiwan smaller pluralities do (44 and 40 percent, respectively). Not coincidentally, the countries that lean toward individual responsibility for retirement income tend to be

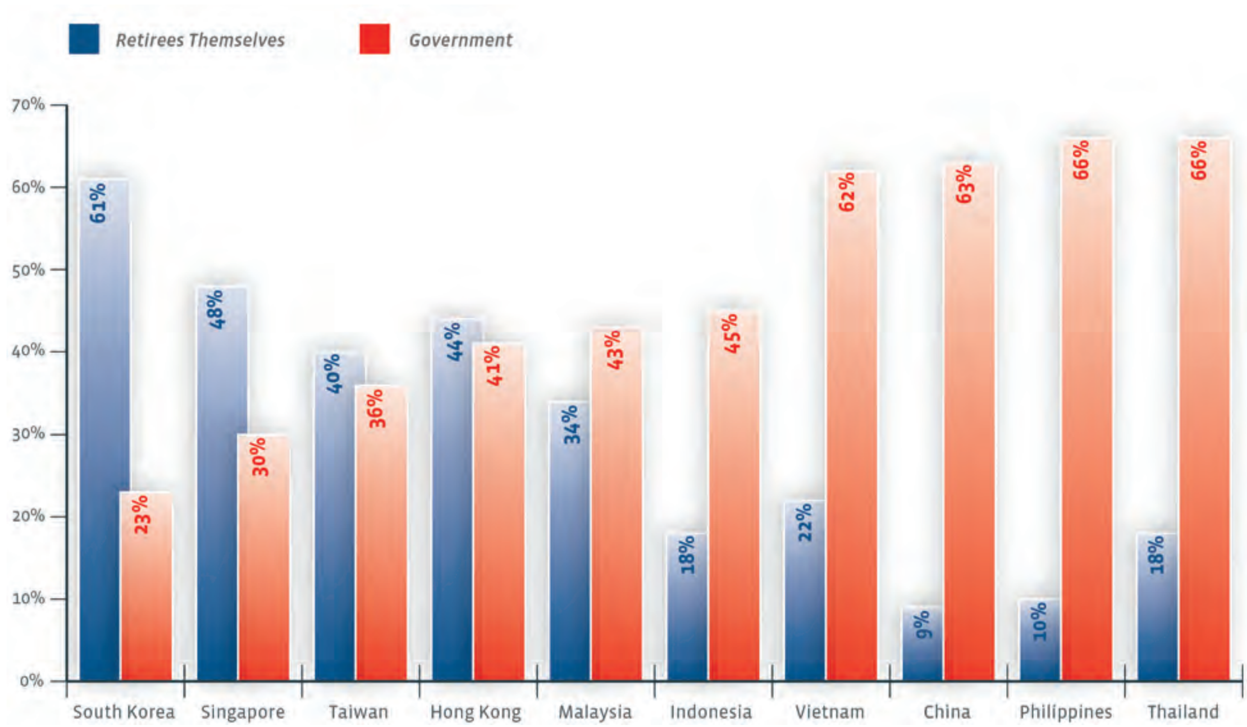


FIGURE 3. *"Who, ideally, should be mostly responsible for providing income to retired people?"*

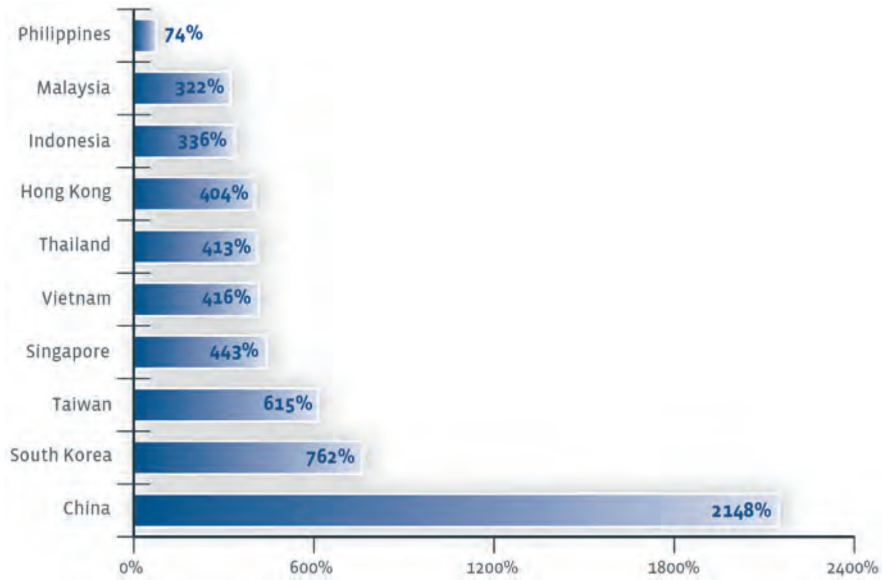
Share of Respondents Saying "Retirees Themselves, through Their Own Savings" versus Share Saying "Government"

the countries with the most developed financial markets and the longest tradition of funded retirement savings. Malaysia leans somewhat toward "government" (43 percent), although a substantial share of respondents (34 percent) favor individual responsibility. All of the other five countries lean strongly toward government. In Vietnam, support for government responsibility outweighs support for individual responsibility by 62 to 22 percent, in Indonesia by 45 to 18 percent, in Thailand by 66 to 18 percent, in the Philippines by 66 to 10 percent, and in China by 63 to 9 percent. (SEE FIGURE 3.)

The desire of people across East Asia to transfer responsibility for retirement provision from the family to the state or to the individual represents a seismic cultural shift with profound implications for the future of retirement in the region. Although the traditional model of family-centered retirement security is already weakening in some of the countries surveyed, up to now governments could assume that the great majority of workers who reached old age without a pension or adequate personal savings would be supported by their grown children. In the future, this assumption can no longer be taken for granted. When today's workers retire, most will have to rely much more heavily on the government or on the financial markets for retirement income. This in turn will require major reforms that extend the reach and improve the adequacy of state pension systems and that help workers save more for retirement on their own.

The Broader Economic and Social Environment

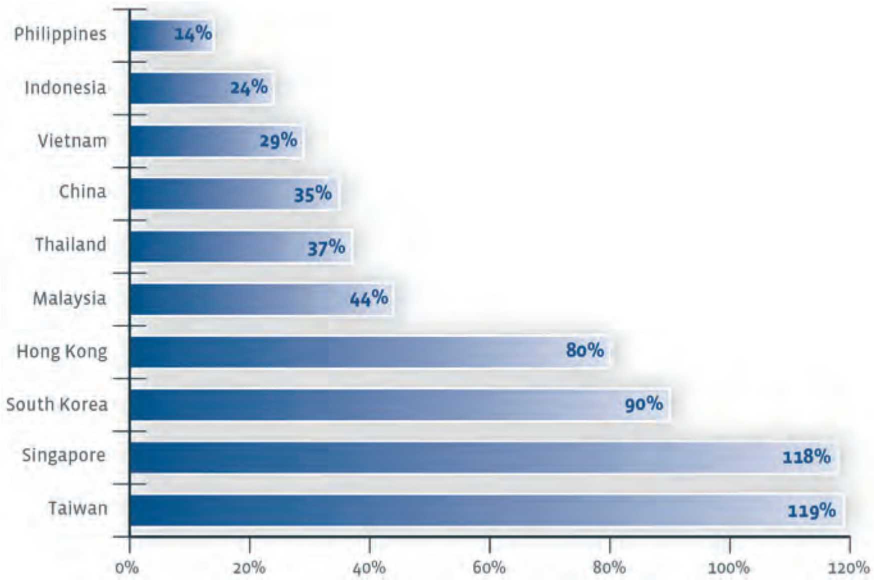
Like most institutions, retirement is a product of its economic and social environment. The evolution of retirement attitudes and expectations in East Asia is being shaped in important ways by the broader currents of change now sweeping the region, from rising living standards, educational attainment, and market orientation to declining family size. To better understand the survey's findings, it may be helpful to step back and consider some of the most important currents of change affecting all East Asian societies, as well as some of the crucial ways in which the ten countries surveyed differ from each other.



SOURCE: World Bank "World Development Indicators Database" and Taiwan's Directorate General of Budget, Accounting, and Statistics

FIGURE 4. *Cumulative Percentage Change in Per Capita GDP, in PPP Dollars, 1975 to 2014*

* **Most of East Asia's emerging markets have experienced a long period of extraordinarily rapid living standard growth.** The so-called East Asian Tigers—Hong Kong, Singapore, South Korea, and Taiwan—led the way beginning in the 1960s. Economic growth accelerated somewhat later in China, Indonesia, Malaysia, and Thailand, beginning in the late 1970s and 1980s, and much later in Vietnam, beginning in the early 1990s. Among the ten countries surveyed, only the Philippines has failed to experience a long period of sustained growth. Since the mid-1970s, real per capita living standards in every country except the Philippines have risen at least fourfold. In Taiwan they have risen sixfold, in South Korea nearly eightfold, and in China, which started out much poorer than the others, more than twentyfold. (SEE FIGURE 4.) In no major western economy have living standards more than doubled over the same period. Although economic growth has now slowed in the Tigers as living standards have converged with those of the developed world, growth prospects remain bright throughout most of the region. East Asia's unprecedented economic rise has not only led to vast improvements in material welfare, but has also helped to foster a sense of optimism about the future.
* **Although living standards have been growing rapidly throughout most of the region, East Asia's emerging markets are at very different stages of economic and social development.** In Hong Kong and South Korea, median household income is now approaching the average for the G-7 countries, and in Taiwan and Singapore it already exceeds it. Living standards in the rest of the region, however, still lag far behind those in the world's most advanced economies. Median household income in Malaysia and Thailand is roughly two-fifths of the G-7 average, and in the other countries it is even lower. (SEE FIGURE 5.) The median income figures cited in this report for China,



* Refers to unweighted average for G-7 countries.
SOURCE: National statistical offices and GAI calculations

FIGURE 5. *Median Annual Household Income as a Percent of the G-7 Average,* in PPP Dollars, in 2014 or the Most Recent Year Available*

Indonesia, the Philippines, Thailand, and Vietnam, moreover, refer to urban households, the segment of the population covered by the survey. If we were to include the vast and underdeveloped countryside in the calculation, the gap between their living standard and that of the G-7 countries would be even wider. These differences in income are mirrored by differences in market development and institutional capacity, which tend to be stronger in the high-income countries. In Singapore, 51 percent of today's retirees report receiving income from financial assets like insurance or annuity products and/or stocks, bonds, or mutual funds, while in the Philippines just 3 percent do.

✱ **The rapid pace of development and modernization has opened up an enormous generation gap between young and old.** When societies undergo extremely rapid development, the elderly often experience relative impoverishment and economic and social marginalization. While political power tends to be concentrated among the old in East Asian societies, economic power over the past few decades has increasingly shifted to the young. In the West, rising generations worry that they will never attain the living standard of their parents, who came of age in an era of more rapid economic growth. In East Asia, older generations marvel at the unprecedented affluence of their children. In China, Hong Kong, Taiwan, and Singapore, the median household income of young adults aged 20–39 exceeds the median household income of elderly adults aged 60 and over by roughly two-to-one. In Malaysia, the income of the young exceeds the income of the old by nearly three-to-one and in South Korea it exceeds it by four-to-one. Although the household income of the old is roughly equal to that of the young in the other four countries, this is mainly because the great majority of elderly live in the same household as their grown children and thus share in their income. Rising generations in East Asia are not only more affluent than older generations, but also more educated. In every country surveyed, the share of young adults with a postsecondary degree exceeds the share of elderly with a postsecondary degree by at least two-to-one. In China, South Korea, Taiwan, and Thailand, the ratio is four-to-one and in Singapore it is six-to-one. (SEE FIGURE 6.) In most of the countries surveyed, the degree of engagement in financial markets also rises steadily cohort over cohort.

✱ **Most East Asian societies have high levels of inequality.** It is well known among development economists that income inequality usually rises in societies experiencing rapid economic growth, and East Asia's emerging markets are no exception. No country in history has lifted more people out of poverty than China has over the past few decades, yet few countries have a higher GINI coefficient, the standard measure of inequality. Inequality is also very high in the other countries surveyed. Indeed, only in South Korea and Taiwan is it clearly within the range that now exists in western economies. Income inequality throughout East Asia is reinforced by the fact that most countries, even the high-income ones, have large informal sectors and underdeveloped welfare states. Many workers lack any social protection and governments redistribute relatively little income.

* **The reach of state pension systems in East Asia's emerging markets is still limited.** There is considerable diversity among the state pension systems in the countries surveyed. The systems in China, Indonesia, the Philippines, South Korea, Thailand, and Vietnam are financed primarily on a pay-as-you-go basis, meaning that the contributions of current workers directly pay for the benefits of current retirees. Malaysia and Singapore fund retirement benefits through centrally managed "provident funds," in which worker contributions are saved and invested by the government. In Hong Kong, the state pension system is also savings-based, but worker contributions are privately invested and managed. Taiwan is transitioning toward a hybrid system in which its first-tier pay-as-you-go state pension system is supplemented by a mandatory second tier consisting of funded employer pensions. What all of the countries have in common is that their state pension systems leave many retirees without benefits, in part because the systems are still maturing and in part because self-employed and informal-sector workers are often excluded from coverage. In China and Malaysia, roughly one-fifth of today's retirees fail to receive a state pension

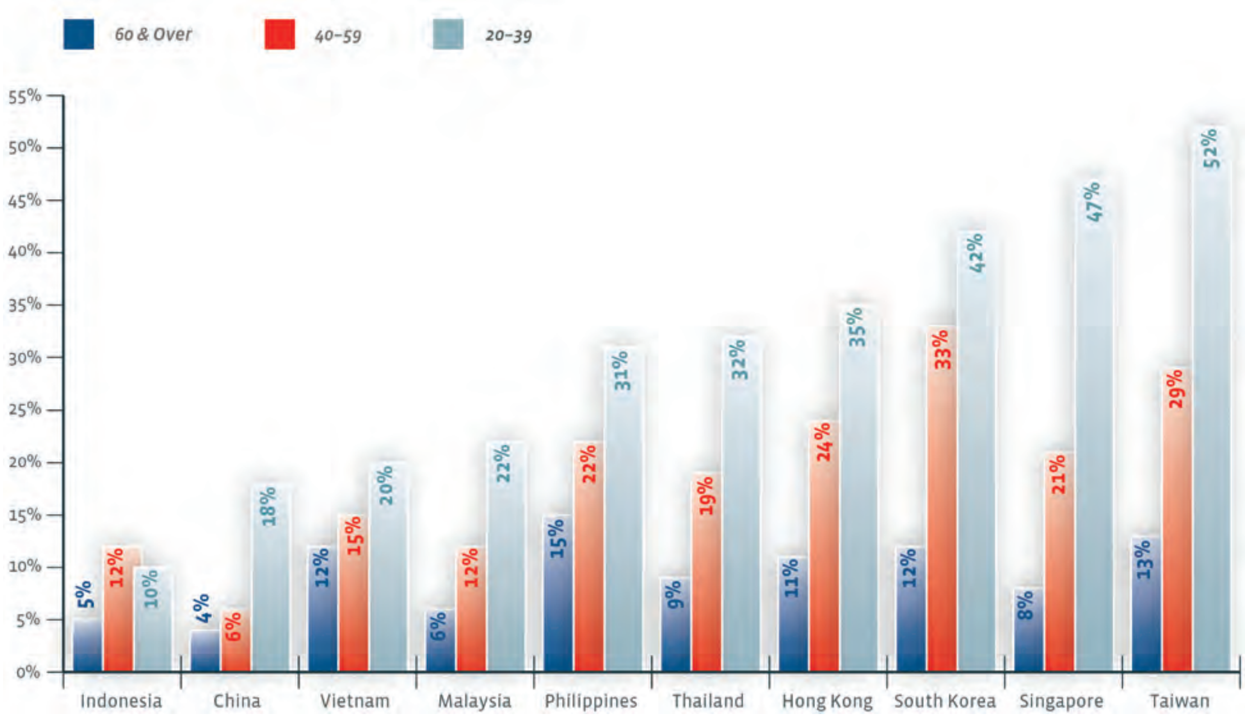


FIGURE 6. *Share of Respondents with a Postsecondary Degree, by Age Group*

TABLE 1. *Total Fertility Rate and Life Expectancy at Birth, 1950–2015*

	Total Fertility Rate				Life Expectancy at Birth			
	1950–1955	1970–1975	1990–1995	2010–2015	1950–1955	1970–1975	1990–1995	2010–2015
China	6.1	4.8	2.1	1.6	45	65	70	75
Hong Kong	4.4	3.3	1.2	1.0	63	73	78	83
Indonesia	5.5	5.3	2.9	2.3	38	54	65	71
Malaysia	6.2	4.6	3.4	2.1	55	65	71	75
Philippines	7.4	6.0	4.1	3.1	55	61	66	69
Singapore	6.6	2.8	1.7	1.3	60	69	77	82
South Korea	5.1	4.3	1.7	1.2	48	63	73	81
Taiwan	5.9	3.4	1.8	1.3	58	69	74	79
Thailand	6.1	5.1	2.0	1.5	52	61	70	74
Vietnam	5.4	6.3	3.2	1.9	54	58	71	76

SOURCE: *World Population Prospects: The 2012 Revision* (UN Population Division: New York, 2013).

benefit—and these are the countries with the highest receipt rates. Among the other countries surveyed, the share ranges from about one-third to nearly three-fifths. Low coverage rates, together with the low replacement rates that most of East Asia's state pension systems offer, mean that the fiscal burden of aging populations may be less than in the West. But they also mean that the burden on individuals—or their extended families—will be greater.

*** East Asia's rapid development has been accompanied by equally rapid demographic change.** The entire region has been moving through the so-called demographic transition, the shift from high fertility and high mortality to low fertility and low mortality that inevitably accompanies development and modernization. Until the mid-1970s, all East Asian countries had high fertility rates, large families, and rapidly growing populations. But since then fertility rates have fallen beneath the 2.1 replacement rate needed to maintain a stable population in every country surveyed except Indonesia and the Philippines, and in Hong Kong, Singapore, South Korea, and Taiwan they have plunged to between 1.0 and 1.3, among the lowest levels in the world. Meanwhile, life expectancy has soared, approaching or even equaling the levels in the world's most developed economies. (SEE TABLE 1.) The West underwent the same demographic transition, but it began much earlier and it unfolded at a much slower pace. Much of East Asia is traversing the entire distance from demographically young and growing to demographically old and declining at a breathtaking rate—not just more rapidly than the West in decades past, but also more rapidly than any other region of the emerging world today.

*** Up to now, demographic trends in East Asia have been leaning strongly with economic growth.** When fertility first falls, it opens up a window of opportunity for economic and social development known as the demographic dividend. As the number of children declines, the ratio of working-age adults to young and old dependents rises rapidly, pushing up per capita incomes. In 1975, the share of the population in the traditional working years ranged from just under 40 percent to just under 50 percent in the ten countries surveyed. Today, it is at least 50 percent in every country and at least 60 percent in every country except Indonesia, Malaysia, and Vietnam. Beyond this simple arithmetic, the dynamics of declining dependency burdens can also enhance economic performance. Labor-force participation rates tend

NOTE: The question used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

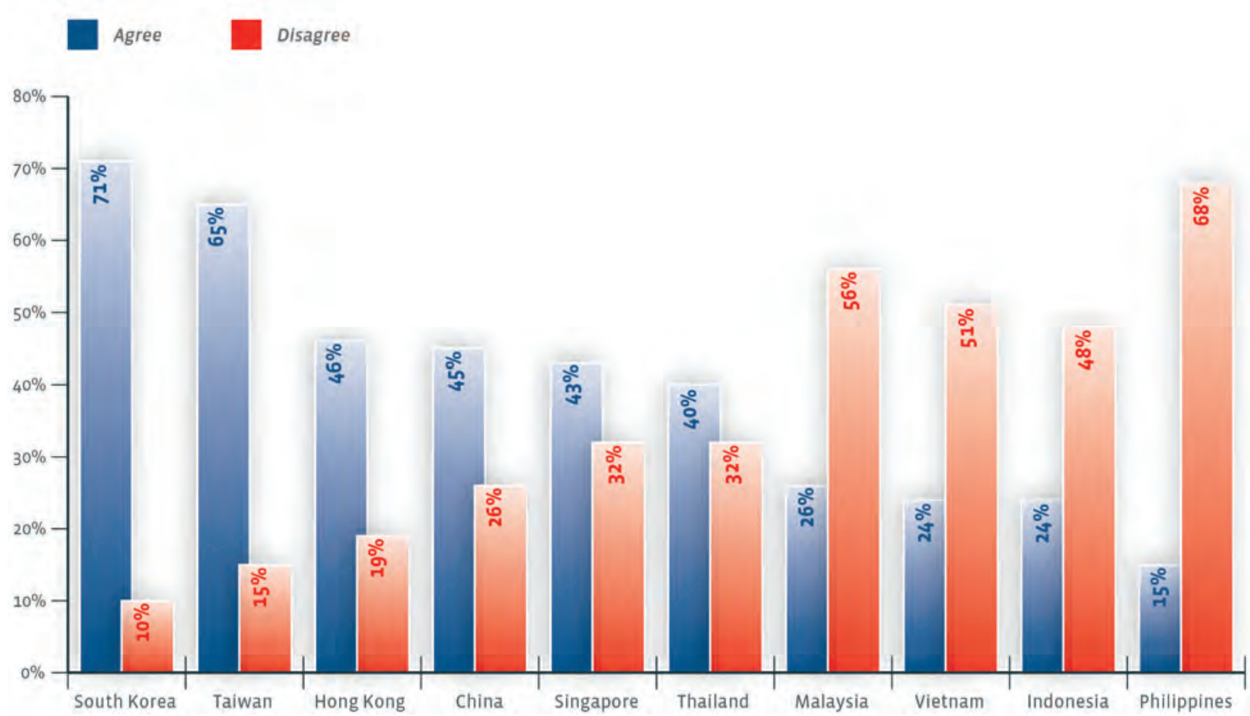
FIGURE 7. *Share of Respondents Agreeing and Disagreeing That "Supporting the Growing Number of Elderly Will Be a Large Burden for Tomorrow's Workers and Taxpayers"*

to increase as the time of working-age adults, and especially women, is freed up for participation in the market economy. Savings rates tend to increase as more of the population ages into the high-saving middle years. And investment in human capital tends to increase as families (and governments) find that they are able to devote greater resources to enhancing the "quality" of each increasingly precious child. According to some estimates, the dramatic shift in East Asia's age structure accounts for between one-third and two-fifths of its living standard growth since the mid-1970s.[4]

✱ Most of East Asia's emerging markets face massive age waves that threaten to slow economic growth and drive up old-age dependency costs.

As the demographic transition unfolds, the relative growth in the number of elderly eventually overtakes the relative decline in the number of children, and demographics begin to lean against economic growth. With the exception of Indonesia, Malaysia, the Philippines, and Vietnam, all of the countries surveyed are already reaching this tipping point. Over the next twenty-five years, the elderly share of the population will ramp up dramatically throughout the region, at least doubling in every country except the Philippines, where the fertility rate remains much higher than in any of the other countries surveyed. By 2040, China, Singapore, and Thailand will have older populations than the United States. Meanwhile, Hong Kong, South Korea, and Taiwan, where the elderly share of the population will by then be approaching or passing 40 percent,

[4] See, for example, David E. Bloom and Jeffrey Williamson, "Demographic Transitions and Economic Miracles in Emerging Asia," *World Bank Economic Review* 12, no. 3 (September 1998); and David E. Bloom, David Canning, and Pia N. Malaney, "Demographic Change and Economic Growth in Asia," CID Working Paper no. 015 (Center for International Development at Harvard University, May 1999).



NOTE: The question used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

FIGURE 8. *Share of Respondents Agreeing and Disagreeing That "Supporting the Growing Number of Elderly Will Be a Large Burden for Tomorrow's Families"*

will be vying with Japan, Germany, and Italy for the title of oldest country on earth.[5] Most of East Asia's emerging markets thus find themselves at a crucial juncture, with only a narrow window to reform retirement policies before their age waves roll in.

Retirement Hopes and Fears

As is often the case in societies experiencing sweeping economic and social change, East Asians are both hopeful and fearful about the future. To be sure, there is little question that the prevailing social mood in most of East Asia is one of buoyant optimism. When respondents were asked whether "each new generation of workers will have a higher living standard than the previous one," those who agreed or strongly agreed outnumbered those who disagreed or strongly disagreed by at least two-to-one in every country surveyed except South Korea. In some of the countries with younger populations and still rapidly developing economies, the margins were enormous: nearly twenty-to-one in Thailand and nearly thirty-to-one in Indonesia and Vietnam. When respondents were asked whether "each new generation of retirees will have a more secure retirement than the previous one," those who agreed or strongly agreed also exceeded those who disagreed or strongly disagreed by at least two-to-one in every country except South Korea. The level of confidence, however, was generally somewhat lower in

[5] All demographic projections in this report are from *World Population Prospects: The 2012 Revision* (UN Population Division: New York, 2013). The projections refer to the UN's "constant fertility variant" projection, except for Indonesia and the Philippines, where they refer to its "medium variant" projection.

most countries, China, Hong Kong, and the Philippines being notable exceptions.

Yet East Asians' optimism about the general arc of economic progress does not mean that they are complacent about the future. Especially in the countries with fast-approaching age waves and more mature and slower-growing economies, people worry a great deal about the impact of the aging of the population. When respondents were asked whether "supporting the growing number of elderly will be a large burden for tomorrow's workers and taxpayers," those who agreed or strongly agreed outnumbered those who disagreed or strongly disagreed in every country except Indonesia, Malaysia, the Philippines, and Vietnam. In Hong Kong and Thailand, the margin was two-to-one, in Taiwan it was three-to-one, and in South Korea it was six-to-one. When asked whether "supporting the growing number of elderly will be a large burden for tomorrow's families," the level of concern was at least as high in most of the region's faster-aging countries. (SEE FIGURES 7 AND 8.)

Nor, in periods of rapid economic and social change, does a general sense of optimism about the future necessarily translate into confidence in one's own retirement prospects. In every country except China, the majority of today's retirees say that they worry about "exhausting their savings," "being poor and in need of money," "becoming a burden on their children," and "being in poor health and having no one to care for them." In Indonesia, the Philippines, South Korea, Thailand, and Vietnam at least two-thirds worry about each of these things happening to them sometime during their retirement. For today's retirees, who have reached old age when the old order is already weakening but the new order has yet to take shape, this high level of anxiety is perhaps not surprising. What is more surprising is that today's workers, who are more affluent, more educated, and more market-oriented, also worry a great deal about their retirement security. In fact, in most countries they worry even more than today's retirees do.

2

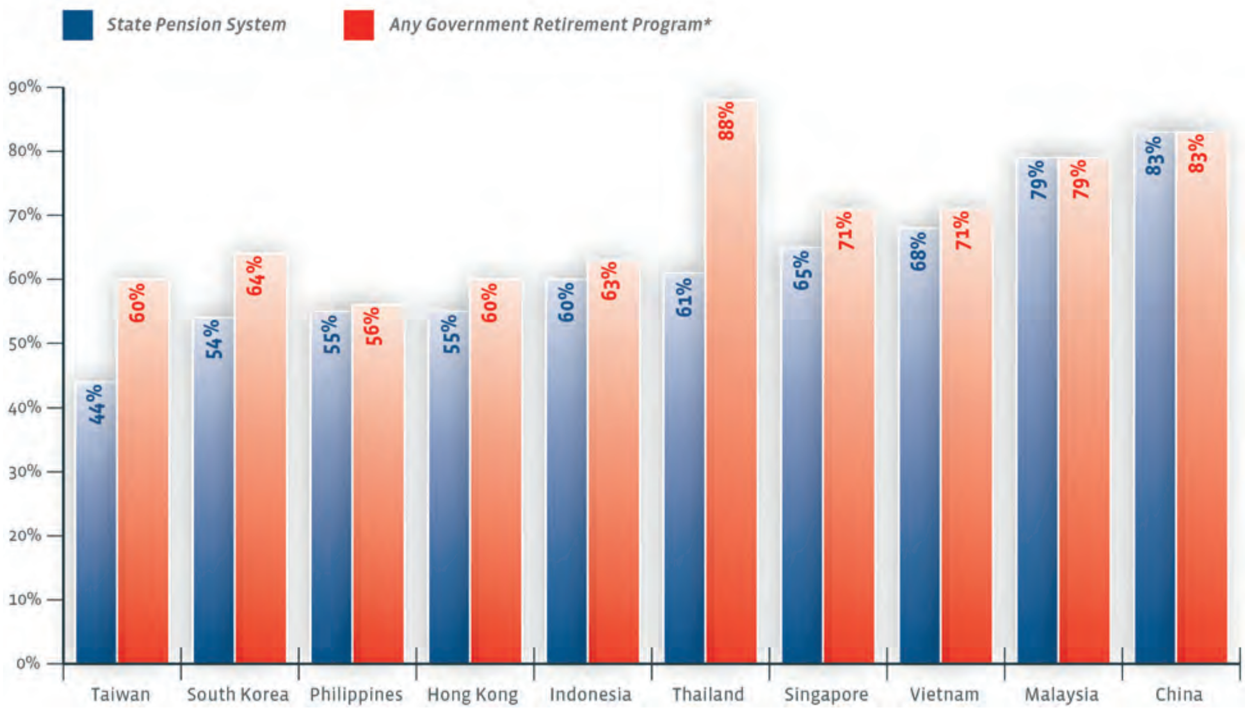
Retirement Today and Tomorrow

In western societies, the retirement years are often referred to as the "golden years"—a time of well-deserved and typically highly subsidized leisure. For a large share of today's retirees in East Asia, however, retirement is anything but golden. People who have retired over the past decade or so have done so at an awkward juncture in the economic and social development of their countries. The traditional model of family-centered retirement security is already weakening, but adequate government and market substitutes are not yet fully developed. Meanwhile, in many countries the meteoric pace of economic growth has opened up an enormous gap between the living standard of the old and that of more affluent rising generations.

The retirement prospects of today's workers are generally brighter. Yet many young and midlife adults also worry about their security in old age, and with good reason. Even though in most countries a rising share of today's workers expect to receive state pension benefits, the benefits are likely to be small. Even though a rising share expect to receive income from financial assets, most are not accumulating sufficient savings to maintain their standard of living in retirement. Many have high expectations for their retirement years, but without fundamental changes in private behaviors and public policies, many will be disappointed.

Today's Retirement Realities

For retirees who cannot rely on the extended family, alternative sources of income support are often limited. To be sure, all of the countries surveyed have state pension systems that are intended to cover the entire workforce, or at least all wage and salary workers in the urban formal

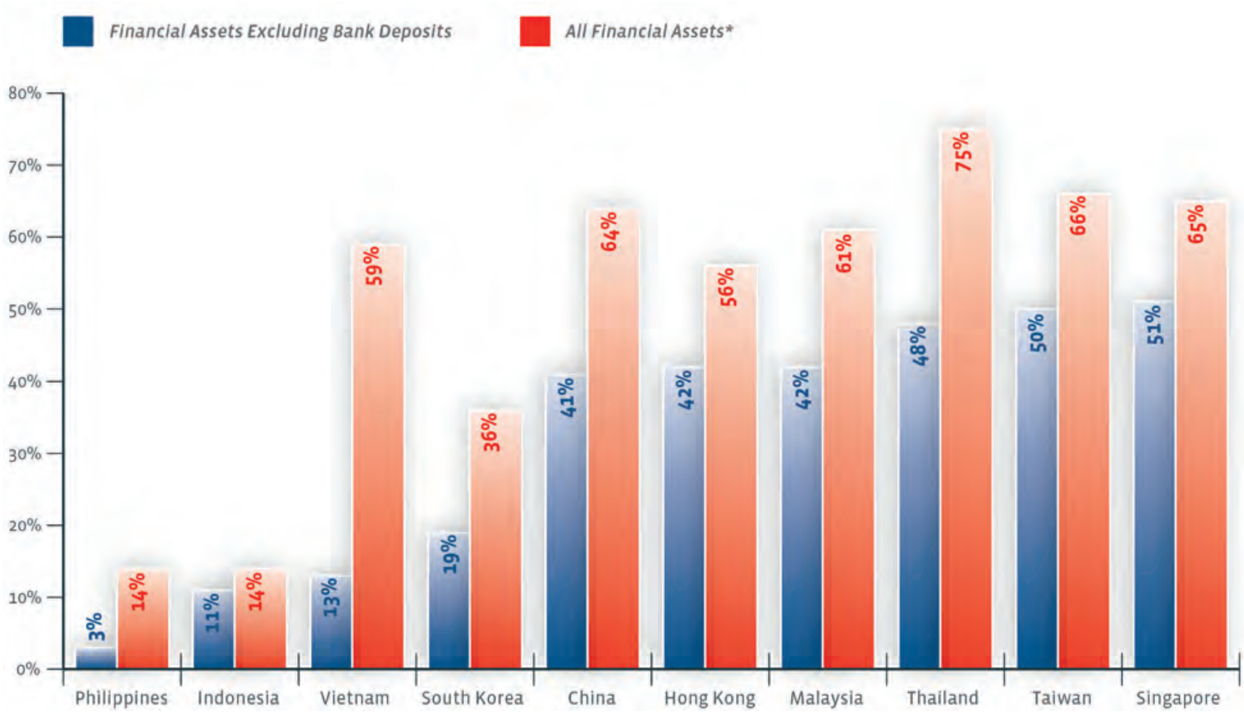


* Includes state pension system and means-tested old-age assistance.

FIGURE 9. *Share of Today's Retirees Receiving Income from Government Retirement Programs, by Type of Program*

sector. Yet pension receipt rates among today's retirees are far from universal, in part because state pension systems in most countries are still maturing, and in part because many retirees were self-employed or worked in the informal sector. In China and Malaysia, roughly one-fifth of today's retirees report that they receive no income from the state pension system—and these are the countries with the highest receipt rates. In the other countries, the share without state pension benefits ranges from just under one-third to just over one-half. In some countries, a substantial number of retirees report receiving private employer pension or severance pay benefits. But in most countries, almost all of them are the same formal-sector retirees who already receive income from state pension systems. Only in Hong Kong and Taiwan would including employer benefits in the total substantially change the picture. Most countries also have special benefit programs for the indigent elderly, but their reach is generally limited. All told, between some 10 and 45 percent of today's retirees report receiving no government retirement benefits of any kind, including means-tested old-age assistance. (SEE FIGURE 9.)

Given the high household savings rates of most East Asian countries, one might suppose that most retirees would at least have personal financial assets to fall back on. But in most of East Asia's high-income countries, the economies in which today's retirees spent the majority of their careers were much less market-oriented than today's economies are, while in most of East Asia's middle-income countries, the degree of market-orientation is still low. Just as in western countries, moreover, asset ownership in East Asian countries is highly skewed by income. In Indonesia, South Korea, and Vietnam fewer than 20 percent of



* Includes bank deposits, insurance and annuity products, and stocks, bonds, and mutual funds.

FIGURE 10. *Share of Today's Retirees Receiving Income from Financial Assets, by Type*

today's retirees report receiving income from financial assets like insurance or annuity products and/or stocks, bonds, or mutual funds, while in the Philippines fewer than 5 percent do. Only in Singapore, Taiwan, and Thailand does the share reach one-half. Even including interest on bank deposits in the total, less than two-fifths of today's retirees have asset income in South Korea and less than one-fifth do in Indonesia and the Philippines. Only in Thailand does the share with asset income exceed two-thirds. (SEE FIGURE 10.)

Financing retirement is challenging enough if it begins at a relatively late age. In East Asia's emerging markets, however, it typically begins at a very early age, increasing the likelihood that retirees will exhaust whatever savings they do have. In Hong Kong and Thailand, one-half of today's retirees report that they retired before reaching their sixtieth birthday. In China, the Philippines, Singapore, South Korea, and Taiwan, between six and seven out of ten report that they did. In Indonesia the share rises to eight out of ten and in Malaysia and Vietnam to nine out of ten. (SEE FIGURE 11.) The decision to retire was often not a matter of choice. When asked whether "reaching the official retirement age and being required to retire" was a reason for retiring, at least one-half of today's retirees said yes in every country except the Philippines, Singapore, South Korea, and Taiwan. In China and Malaysia, three-quarters said yes. When asked whether "wanting to stop working or to work less" was a reason, there were only five countries where more than 50 percent of today's retirees said yes and only one—Thailand—where more than 60 percent said yes.

Although current retirement ages are very early in East Asia's emerging markets, many retirees supplement their income by continuing to work

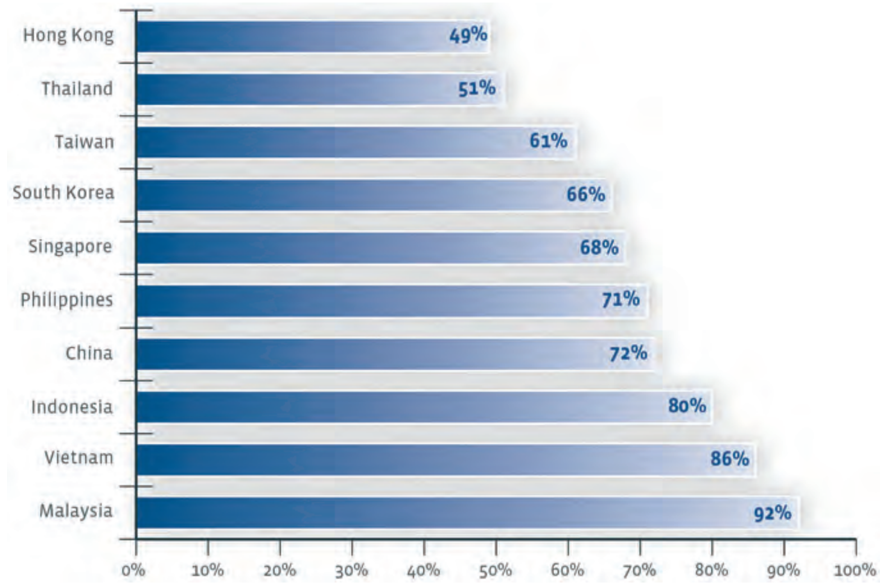


FIGURE 11. *Share of Today's Retirees Who Retired before Age 60*

part time, usually in the informal sector. In fact, at least two-fifths of today's retirees everywhere except Hong Kong report receiving at least some income from a job or a business they own, and in China, Indonesia, the Philippines, Thailand, and Vietnam at least three-fifths do. Moreover, in five of the six countries included in both waves of the survey, the share of today's retirees who report receiving at least some income from work has risen.

For many, retirement is a time of greatly diminished living standards. When asked to compare the income that they have now with their income before retiring, the share of today's retirees who said that they have "a lot less income" exceeded the share who said that they have "more income" in every country except China, and usually by a wide margin. In Malaysia and Thailand, roughly 30 percent of today's retirees reported having a lot less income, while in the Philippines, Singapore, and Taiwan between 40 and 50 percent did. In Hong Kong, the share hovers around 60 percent and in South Korea it approaches 70 percent. (SEE FIGURE 12.) Significantly, the countries where only a small share of retirees report having a lot less income either have unusually high rates of multigenerational living (Indonesia and Vietnam) or an unusually generous state pension system (China).

It may seem paradoxical that the countries where the economic circumstances of retirees appear to be most precarious are for the most part the countries with the highest per capita incomes. Yet there is a straightforward explanation. On the one hand, East Asia's high-income countries have been experiencing rapid development for much longer than its middle-income countries, and the gap in educational attainment, skills, and income between young and old has consequently grown wider. East Asia's high-income countries also tend to be the countries which have experienced the steepest decline in rates of multigenerational living. In the absence of mature welfare states, the relative living standard of the elderly is highly correlated with the share of the elderly who live with their grown children. It is no accident that the median household income of the elderly is between 30 and 60 percent of the median income for all households in Hong Kong, Singapore, and South Korea but between 90 and 100 percent in Indonesia, the Philippines, Thailand, and Vietnam.

Along with economic marginalization, rapid modernization can also lead to social marginalization as the elderly are stripped of their traditional social roles. Respondents were asked which view about the elderly comes closest to theirs: "The elderly make important contributions to society and should be valued for their wisdom and experience" or "the elderly have little to contribute to society and are mostly a burden." Not surprisingly,

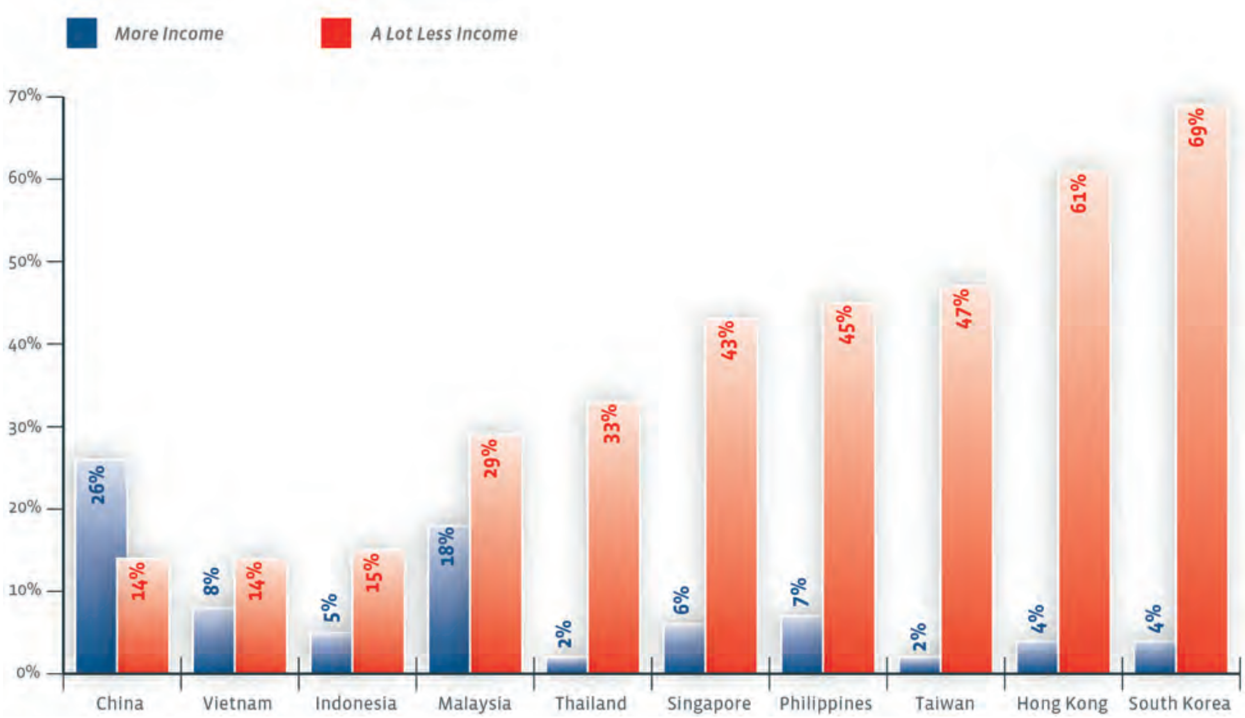


FIGURE 12. *Share of Today's Retirees Who Have "More Income" Now Than When Working versus Share Who Have "a Lot Less Income"*

large majorities of respondents in all countries expressed the first view—no doubt because most believe it, but perhaps also because it is the culturally acceptable view. Overall, the share of respondents who expressed the second negative view ranged from a low of 2 percent in Hong Kong to a high of 15 percent in Malaysia. Yet sadly, there was one age group where the share in most countries was significantly larger: the elderly themselves. The older the elderly are, moreover, the more likely they are to feel this way. Among respondents aged 70 and over, the share saying that the elderly have little to contribute to society and are mostly a burden exceeded 15 percent in China, passed 20 percent in Malaysia, Singapore, and South Korea, and reached 25 percent in Thailand.

Not surprisingly, retirement can be a time of considerable anxiety. In every country surveyed, a large share of today's retirees worry about "exhausting their savings" (41 to 82 percent), becoming "a burden on their children" (48 to 92 percent), being "poor and in need of money" (40 to 92 percent), and being "in poor health and having no one to care for them" (49 to 93 percent). Retirees worry least about each of these things happening to them in China and most about each of these things happening to them in Vietnam. The other countries where the level of concern about retirement security is very high, with at least two-thirds of retirees worrying about each of these things happening to them, are Indonesia, the Philippines, South Korea, and Thailand. Four of the five countries with the highest level of concern are thus middle-income countries where retirees still rely heavily on the extended family. The lesson one must draw is that, while a high level of dependence on the family may help to boost the living standard of the elderly, it does not necessarily translate into a sense of retirement security in eras of rapid economic and social change.

FIGURE 13. *Share of Today's Retirees Who Have "a Lot Less Income" Now Than When Working and Share of Today's Workers Expecting to Have "a Lot Less Income" When Retired*

Tomorrow's Retirement Expectations

At first glance, the retirement prospects of today's workers appear to be considerably brighter than those of today's retirees. In most of the countries surveyed, a larger share of today's workers expect to receive a state pension benefit than is the case for today's retirees, and in every country surveyed a larger share of today's workers expect to receive income from financial assets. At the same time, today's workers expect to retire later than today's retirees did, which should also help to improve the adequacy of their retirement income. These developments help to explain why, in every country surveyed except China, the share of today's workers who expect to have "a lot less income" in retirement than they do now is smaller than the share of today's retirees who report having a lot less income than when working. (SEE FIGURE 13.) Yet the closer one looks, the more uncertain the retirement prospects of today's workers become.

As the role of the family in retirement security recedes, the importance of pensions will grow. In all of the high-income countries surveyed, today's workers are much better covered by state pension systems than today's retirees were during their own working years. As a result, expected rates of state pension receipt are dramatically higher than current rates. In Taiwan, 44 percent of today's retirees report receiving income from the state pension system, while 68 percent of today's workers expect to do so when they retire. In South Korea, the increase is from 54 to 86 percent, in Hong Kong it is from 55 to 91 percent, and in Singapore it is from 65 to 89 percent. (SEE FIGURE 14.) Except in China and Malaysia, where state pension receipt is already high among today's retirees, the

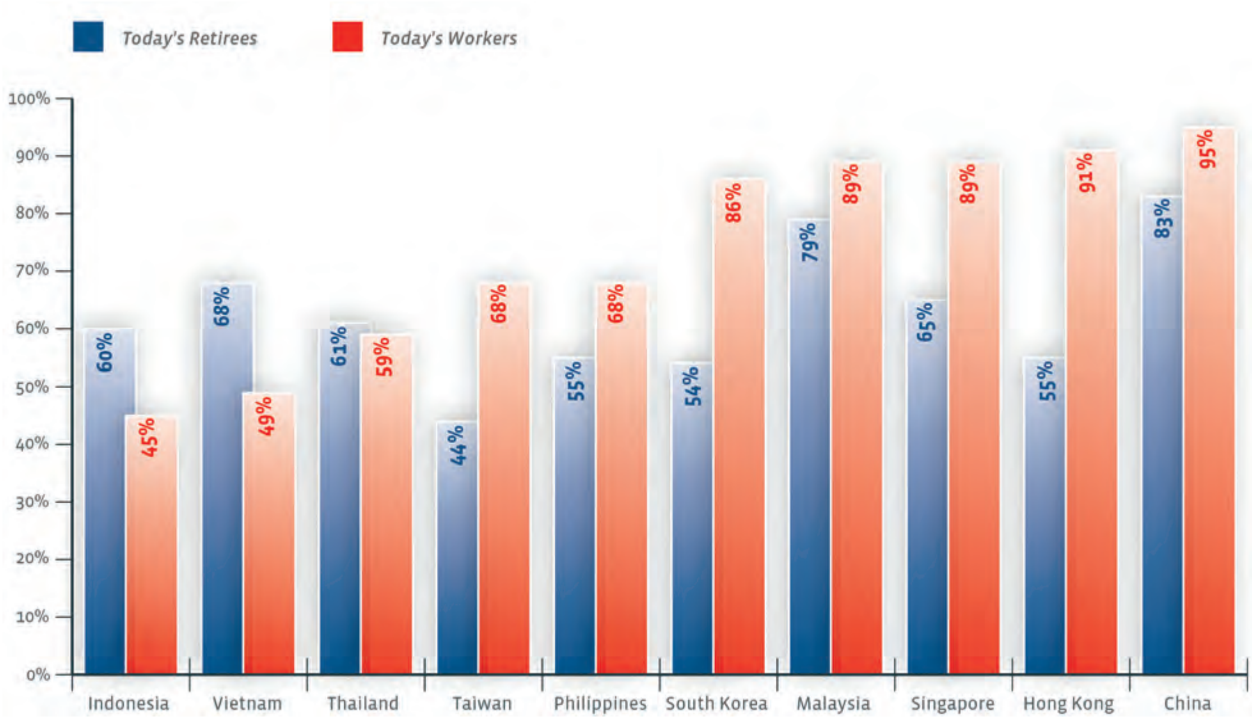


FIGURE 14. *Share of Today's Retirees Receiving and Share of Today's Workers Expecting to Receive Income from the State Pension System*

outlook in the region's middle-income countries is less reassuring. The expected state pension receipt rate rises modestly over today's level in the Philippines, remains essentially unchanged in Thailand, and falls sharply in Indonesia and Vietnam. In Indonesia, the decline appears to be mainly due to structural shifts in the economy, and especially the rapid growth in informal-sector employment. In Vietnam it is due to the rapid shift in employment from the state-owned sector to the private sector, where many businesses fail to contribute to the state pension system on behalf of their employees and the government finds it difficult to enforce compliance.[6]

Along with pensions, today's workers will have to rely more on financial markets. The good news is that in all of the countries surveyed they are more market-oriented than today's retirees are. Nor is it just a question of a larger number owning bank accounts. In every country, the share of today's workers who expect to receive income in retirement from insurance or annuity products and/or stocks, bonds, or mutual funds rises cohort over cohort, with the expected receipt rate sometimes doubling or even tripling over the current rate. The bad news is that, even though today's workers are everywhere more market-oriented than today's retirees, the vast gulf in degree of market-orientation across the region's economies persists. At the low end of the spectrum are the Philippines, Indonesia, and Vietnam, where less than 25 percent of today's workers expect to receive income from insurance or annuity products

[6] For Indonesia, see Makiko Matsumoto and Sher Verick, "Employment Trends in Indonesia over 1996–2009: Casualization of the Labour Market during an Era of Crises, Reforms and Recovery," Employment Working Paper no. 99 (Geneva: ILO, 2011); for Vietnam, see Giang Thanh Long, "Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Directions,* ed. Donghyun Park (Manila: Asian Development Bank, 2011).

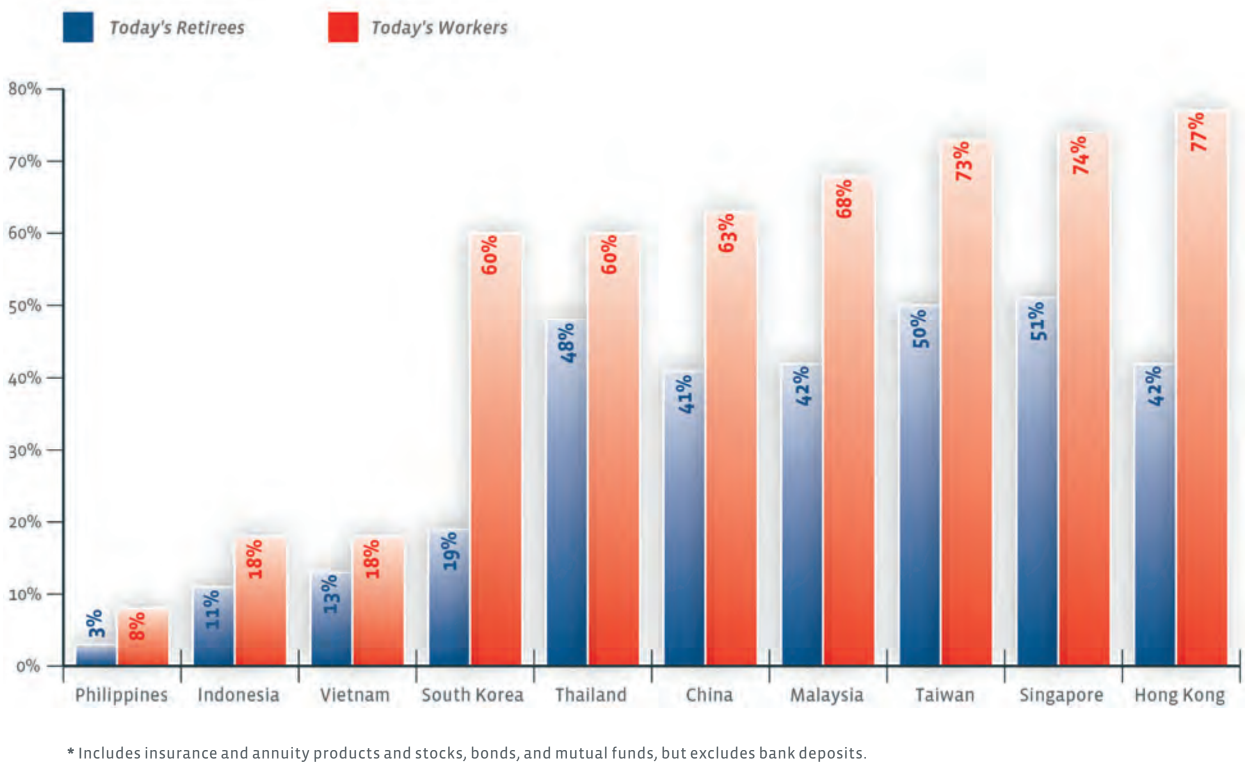


FIGURE 15. *Share of Today's Retirees Receiving Income and Share of Today's Workers Expecting to Receive Income from Financial Assets**

and/or stocks, bonds, or mutual funds when they retire. At the high end are China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan, and Thailand, where between 60 and 80 percent do. (SEE FIGURE 15.)

Today's working generations are also pioneering another shift—this one toward longer and more flexible work lives. While large majorities of today's retirees everywhere except Hong Kong and Thailand report having retired before age 60, today's workers plan to retire at significantly later ages. At least half expect to retire at age 60 or later (or never to retire) in every country except Malaysia. In the Philippines, Singapore, and Thailand the share is two-thirds and in Hong Kong and South Korea it is three-quarters. In some countries, the expected shift in retirement behavior is stunning. In the Philippines, 29 percent of today's retirees report having retired at age 60 or later, while 71 percent of today's workers expect to do so. In South Korea, the shares are 34 versus 76 percent and in Vietnam they are 14 versus 60 percent. (SEE FIGURE 16.)

Compared with today's retirees, larger shares of today's workers also expect to receive at least some income during their retirement years from a job or a business they own. In fact, at least three-fifths do in every country surveyed. Like today's retirees, many of these workers may simply be counting on continued work to make ends meet. But it also appears that the concept of retirement itself is becoming more malleable among members of the rising generation, at least in some countries. In China, Hong Kong, Singapore, and South Korea, young and midlife adults are less likely than the elderly to agree that people should "retire at a fixed age and not work again" or that they should "work as long as they are able"—and more likely to agree that they should "be free to start and stop working whenever they are able and willing." In China and Singapore, the share of young adults

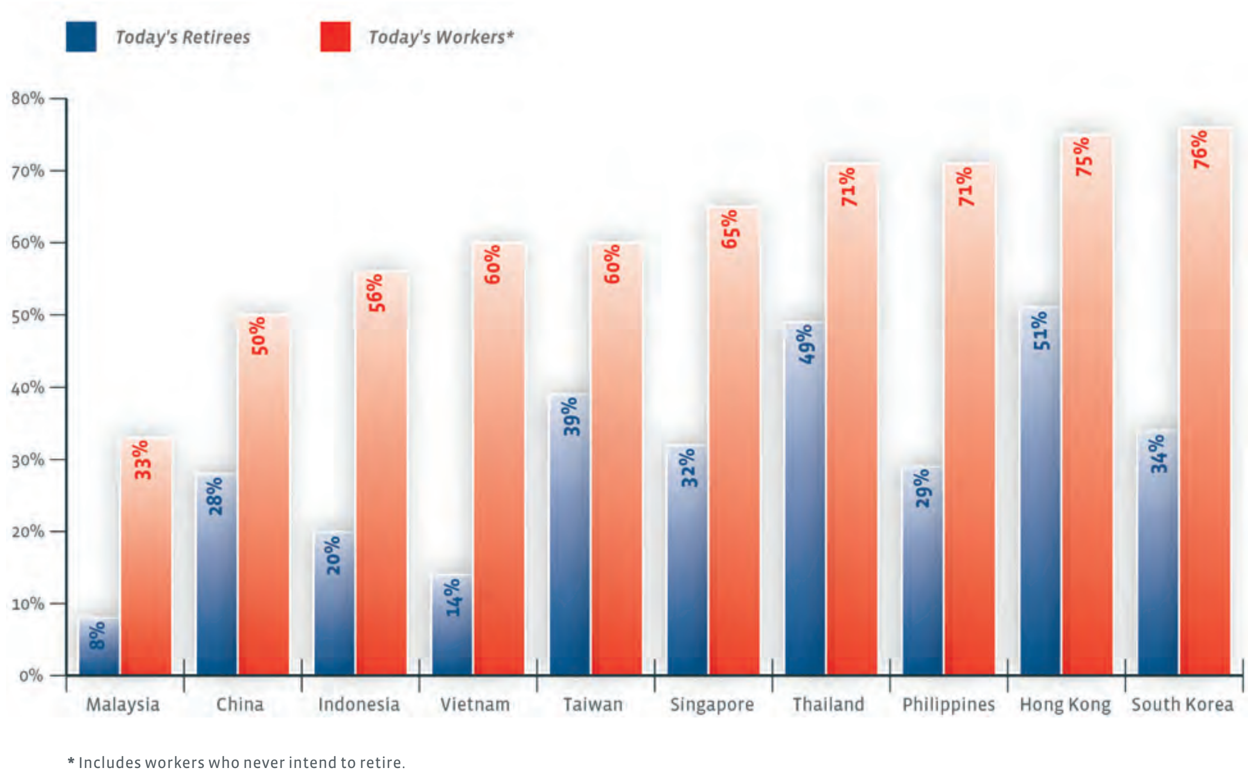


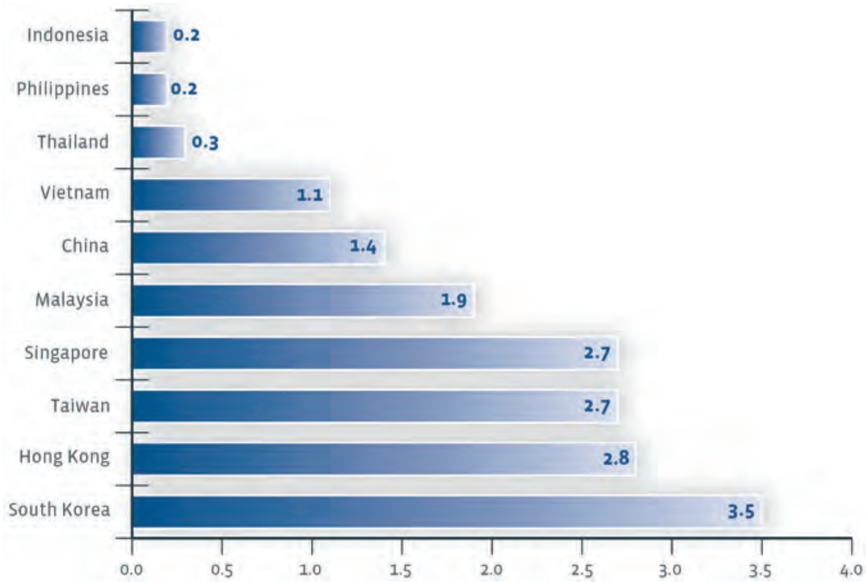
FIGURE 16. *Share of Today's Retirees Who Retired at Age 60 or Later and Share of Today's Workers Expecting to Retire at Age 60 or Later*

aged 20–39 who hold this more flexible view of retirement is twice as large as the share of the elderly who do, and in South Korea it is more than twice as large. Just as in the West, younger workers in East Asia are beginning to question whether the traditional "three-box" lifecycle of education, work, and retirement fits their life plans. What remains to be seen is whether rigid government and employer policies that enforce mandatory retirement ages and lock older workers out of regular formal-sector employment will accommodate this generational shift in attitudes.

Yet however positive these developments may be, they are unlikely to ensure anything close to universal retirement security. To begin with, the maturation of state pension systems will not do as much to improve the retirement income prospects of today's workers as one might suppose—and not only because gaps in coverage persist. The generosity of state pension systems varies considerably across East Asia, but with the exception of the Philippines, Taiwan and Vietnam, no country's system is likely to replace more than half of the preretirement income of average-earning workers, and some will replace much less than this.[7] In Indonesia and Thailand, low projected benefit levels are mainly due to low contribution rates. In Hong Kong, Malaysia, and Singapore, which have funded state pension systems, they are due to both low contribution rates and to low net rates of return on worker savings.[8] In China and South

[7] For comprehensive overviews of East Asia's pension systems, including discussions of contribution rates and replacement rates, see *Pension Systems and Old-Age Income Support in East and Southeast Asia*, ed. Park.

[8] On the net rate of return issue, see Robert Holzmann, Ian W. MacArthur, and Yvonne Sin, "Pension Systems in East Asia and the Pacific: Challenges and Opportunities," Social Protection Discussion Paper no. 0014 (Washington, DC: World Bank, 2000); Augusto Iglesias and Robert J. Palacios, "Managing Public Pension Reserves Part I: Evidence from the International Experience," Social Protection Discussion Paper no. 0003 (Washington, D.C: World Bank, 2000); Mukul G. Asher, "Malaysia: Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and Southeast Asia,* ed. Park; Mukul G. Asher and Amarendu Nandy, "Singapore: Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and Southeast Asia*, ed. Park; and Ernst & Young, *Managing the Changing Landscape of Retirement Savings: Report*



* Includes all classes of household financial assets; ratios are averages for respondents aged 45–54.

FIGURE 17. *Average Net Financial Asset-to-Income Ratio of Survey Respondents at Age 50**

Korea, which have pay-as-you-go state pension systems and rapidly aging populations, they are due to government reforms that have progressively reduced the generosity of state retirement provision.[9] In striking contrast to western countries, where state pensions typically account for the lion's share of retiree income, only small minorities of workers in East Asian countries expect to receive most of their retirement income from the state pension system. In fact, even among 20–39 year olds, there are only four countries where at least 20 percent do and only two—Malaysia and Singapore—where at least 40 percent do. There are none where more than 50 percent do.

To be sure, many of today's workers will be able to supplement the benefits they receive from state pension systems with employer pension benefits. Except in Indonesia, the Philippines, and Vietnam, at least one-third expect to receive some income from an employer pension or severance pay benefit, and in China, Hong Kong, and Taiwan more than one-half do. In the end, however, many if not most of today's workers will have to rely heavily on their own personal savings if they are to maintain their standard of living in retirement.

The problem is that the great majority of today's workers are not accumulating sufficient financial assets to finance more than a small fraction of a retirement that is likely to last twenty years or more. In Indonesia, the Philippines, and Thailand, the survey data show that average financial asset-to-income ratios at age 50, when workers are approaching retirement, are well beneath 1-to-1. In China, Malaysia, and Vietnam, they are between 1-to-1 and 2-to-1. In Hong Kong, Singapore, and Taiwan they are between 2-to-1 and 3-to-1. Only in South Korea is the average financial asset-to-income ratio at age 50 over 3-to-1. (SEE FIGURE 17.) To put these numbers in perspective, an asset-to-income ratio of 1-to-1, even assuming that all of the savings are preserved for retirement, would be sufficient to finance a replacement rate equal to 5 to 7 percent of preretirement income for someone retiring at age 65. Even an asset-to-income ratio of 3-to-1 would only be sufficient to finance a replacement rate equal to roughly 20 percent of preretirement income. If retirement instead begins at age 60, these replacement rates would be even lower.

There are several explanations for why asset-to-income ratios are so low in a region renowned for its high savings rates. A large share of house-

on a Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System (November 2012).

[9] See Neil Howe, Richard Jackson, and Keisuke Nakashima, *The Aging of Korea: Demographics and Retirement Policy in the Land of the Morning Calm* (Washington, DC: CSIS, 2007); and Richard Jackson, Keisuke Nakashima, and Neil Howe, *China's Long March to Retirement Reform: The Graying of the Middle Kingdom Revisited* (Washington, DC: CSIS, 2009).

hold savings in East Asia is invested in real estate, not financial assets. Despite the growing market-orientation of younger generations, moreover, a large share of what is invested in financial assets is still deposited in low-return bank accounts. Historically, government financial policies, such as caps on interest rates and capital export controls, lowered the return to individual savings in many of East Asia's emerging markets. Although these policies have now been eliminated in most of the region's economies, their legacy is still reflected in the low asset-to-income ratios of older workers. Finally, the rapid growth in living standards over the past few decades has itself made it more difficult for people to save for retirement. Although it may seem paradoxical, it is an immutable fact of retirement economics that the faster income is growing the larger is the share of income that needs to be saved each year in order to generate the same replacement rate upon retirement. In the future, as productivity and income growth rates in East Asia converge with developed-world rates, saving for retirement will become easier. Yet even so, most workers will need to save more, earn a higher return on their savings, or both if they are to enjoy a comfortable retirement.

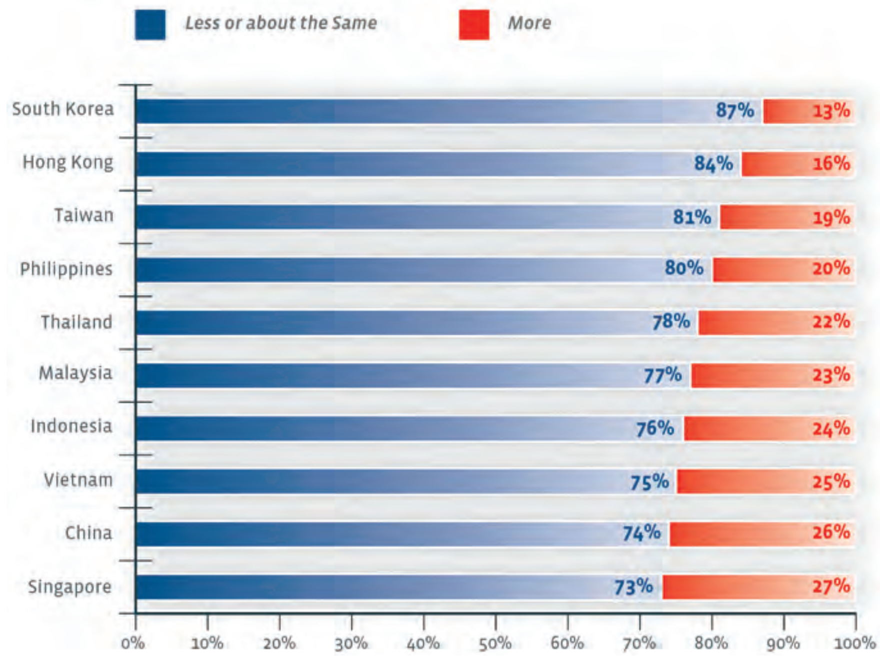


FIGURE 18. *"Are you more confident that you are preparing adequately for retirement than you were three years ago?"*
Share of Today's Workers Saying "More Confident" versus Share Saying "Less Confident" or "About the Same"

The glimpse of the future that the survey provides is thus both hopeful and worrisome. On the hopeful side, most of today's workers are likely to reach retirement better prepared than today's retirees were. Rising educational attainment, growing market-orientation, and broader (if not deeper) pension coverage should leave them less dependent on the family and more self-sufficient. Over time, as younger and more affluent cohorts arrive in old age, the chasm between the living standard of the elderly and the rest of the population that now exists in many countries will progressively narrow.

Yet greater affluence does not necessarily translate into greater retirement security. Today's workers appear to understand this. Far from receding, concerns about retirement security are if anything growing. In almost every country surveyed, the share of today's workers who worry about exhausting their savings during retirement, being poor and in need of money, becoming a burden on their children, and being in poor health and having no one to care for them is at least as great as the share of today's retirees who do. As the income of each successive cohort rises, so do expectations of what constitutes an adequate living standard in retirement. As things stand, the combination of inadequate pensions, insufficient savings, and weakening family support could disappoint the expectations of many workers—and leave a significant share at risk of hardship in old age.

Today's workers appear to understand this as well, and are beginning to engage the challenge of preparing for their own retirement more seriously. The share of today's workers who say that they plan to retire later now than they did three years ago exceeds the share who say that they plan to retire earlier in every country surveyed. The share who say that they are saving more for retirement now than they were three years ago also exceeds the share who say that they are saving less in every country except Indonesia, the Philippines, and Thailand. Yet when today's workers were asked whether they are more confident that they are "preparing adequately for retirement," there was no country where even one out of three said yes. (SEE FIGURE 18.) Today's workers may have begun to engage the retirement challenge, but they will need help from government and the financial services industry if they are to master it.

Strategic Implications

The survey not only indicates that today's workers are beginning to engage their own personal retirement planning more seriously, but also reveals a remarkable willingness on the part of citizens in East Asia to engage the broader retirement and aging challenges facing their nations, even when doing so might involve personal sacrifice. In every country except Indonesia, the Philippines, and Vietnam, a majority of respondents believe that the government should "raise 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 of respondents believe that the government should raise the retirement age. And in every country, without exception, a majority of respondents not only believe that the government should "encourage workers to save more for their own retirement" by offering them tax breaks, but also that it should "require workers to save more for their own retirement." The majorities favoring a new savings mandate, moreover, are enormous. In every country, at least two-thirds of respondents would support it.

The survey thus suggests that, along with the enormous challenge facing East Asian societies, there is also an enormous opportunity to build more adequate and more sustainable retirement systems. The survey also suggests that there is a critical role for both government and the financial services industry to play. Indeed, the survey underscores many specific steps that governments and businesses can take to help individuals better prepare for their own retirement—and East Asian societies as a whole better prepare for the aging of their populations. We focus here on eight key strategic implications of the survey, four for government policymakers and four for financial services providers. Together, they constitute the pillars of an overall strategy that can turn challenge into opportunity.

Implications for Government Policymakers

Most experts would agree that today's emerging markets, East Asia's included, face two critical retirement policy challenges. The first is ensuring that the great majority of today's workers reach old age with some combination of pension benefits and personal savings that allow them to maintain an adequate living standard without overreliance on their extended families. The second is putting in place a robust floor of old-age poverty protection for those who do not. Some experts might add a third challenge: encouraging longer work lives and maximizing the productive potential of the elderly. The survey points to some useful lessons for East Asian policymakers on all three fronts:

Improve the adequacy of state pension systems.

The place for policymakers to start is to improve the adequacy of state pension systems, and the first step in doing so is to extend their reach so that they cover a broader cross section of the workforce. Although coverage is already on track to rise substantially in East Asia's high-income countries as state pension systems mature, gaps in coverage remain everywhere, and in most of the region's middle-income countries the gaps are very large. Achieving universal coverage may not be a realistic goal for countries with large informal sectors. The experience of China, however, demonstrates that with concerted government efforts enormous progress is possible. In the first wave of the survey, the share of current workers expecting to receive a state pension benefit was dramatically smaller than the share of current retirees who reported receiving one. This worrisome decline in expected pension receipt was driven by large scale rural to urban migration and the rapid growth in informal employment in China's expanding private sector. As a result of ambitious policy reforms, including the creation of a new "Flexible Employment Pension," rates of state pension receipt in the second wave of the survey are now expected to rise rather than fall.

Even as policymakers expand coverage, they will need to ensure that state pension systems provide adequate benefits to those workers who do participate in them. Virtually every expert who has examined the issue agrees that contribution rates in most of East Asia's state pension systems are far too low to achieve this goal. Policymakers may be reluctant to propose raising contribution rates for fear of the adverse political consequences. They should bear in mind, however, that not raising contribution rates will have adverse economic consequences—namely, greater old-age poverty and a more expensive old-age safety net. They should also take heart from the survey, which reveals that there is a surprisingly high level of support in many countries for requiring workers to contribute more to government pension programs. In fact, a majority of respondents would support doing so in every country surveyed except Vietnam, and in China, Hong Kong, Malaysia, South Korea, Taiwan, and Thailand two-thirds or more would.

Another feature of East Asia's state pension systems that undermines their adequacy is the widespread practice of allowing or even requiring that retirees receive lump-sum payments rather than regular monthly benefits. Most pension experts agree that lump-sum payments increase the risk that retirees will squander and/or outlive their retirement savings. To be adequate, any state pension system should require mandatory annuitization, at least up to some minimum benefit threshold. There is of course a long tradition of lump-sum severance pay in most East Asian societies, and policymakers may assume that lump-sum payments are what workers would prefer to receive. The survey, however, suggests otherwise. When today's workers were asked how, if given the choice, they would prefer to receive their pension benefits, the share who said that they would prefer to receive them all in monthly payments exceeded the share who said that they would prefer to receive them in a single lump-sum payment in every country by margins that ranged from two-to-one to eleven-to-one. (SEE FIGURE 19.)

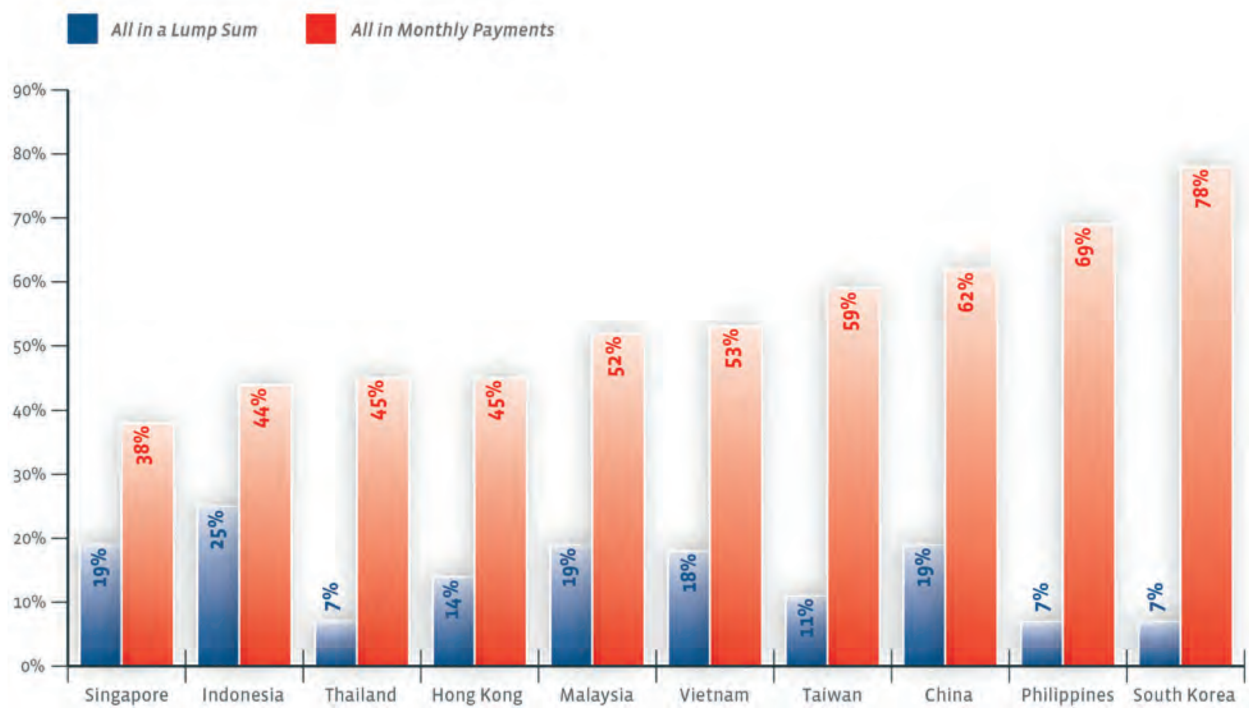


FIGURE 19. *"If you could choose how pension benefits will be paid to you, please indicate which of the following ways you would prefer to receive the benefits."*

Share of Today's Workers Saying "All in Regular Monthly Payments" versus Share Saying "All in a Single Lump Sum"

Countries with funded state pension systems face a special challenge—namely, ensuring that workers earn a market rate of return on their savings. Much scholarship concludes that this is not always the case. In centrally managed systems like Malaysia's Employees Provident Fund and Singapore's Central Provident Fund, worker contributions are channeled disproportionately into government debt and low-return "social overhead" investments. Meanwhile, it is well documented that in Hong Kong's privately managed Mandatory Provident Fund administrative fees are much higher than in comparable "personal accounts" systems in Latin America.[10] By reducing the net return that workers receive on their savings, such policies undermine the primary goal of any pension system, which is maximizing the benefits that the system pays out relative to the contributions that workers pay in.

Countries with pay-as-you-go state pension systems also face a special challenge—namely, that the systems may not be sustainable as populations age. Pay-as-you-go pension systems may seem affordable when contributors greatly outnumber beneficiaries. But as the systems mature and populations age, the contribution rates needed to pay the same benefits rise by leaps and bounds. South Korea and China have already discovered this. Faced with projections showing that the ratio of elderly to working-age adults will be six times higher by 2040 than it was in 1988 when its National Pension System was established, South Korea has already reduced promised benefit levels twice. Yet

[10] See again, Holzmann, MacArthur, and Sin, "Pension Systems in East Asia and the Pacific: Challenges and Opportunities"; Iglesias and Palacios, "Managing Public Pension Reserves Part I: Evidence from the International Experience"; Asher, "Malaysia: Pension System Overview and Reform Directions"; Asher and Nandy, "Singapore: Pension System Overview and Reform Directions"; and Ernst & Young, *Managing the Changing Landscape of Retirement Savings: Report on a Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System.*

with the system still running large long-term deficits, the government may soon have no choice but to enact large additional reductions in benefits or large increases in contributions. In China, which also faces a massive aging challenge, average replacement rates in the Basic Pension System are rapidly falling, in large part because contributions to the second notional accounts tier of the system are by design credited with a rate of return that is far beneath the rate of wage growth.[11] Concerns about the sustainability of its state pension system are also one reason why Taiwan is now transitioning to a hybrid system with a second funded tier of mandatory employer pensions.

Those countries with predominantly pay-as-you-go state pension systems should consider following Taiwan's example by transitioning in whole or in part to a funded state pension system. It is true that, with the exception of South Korea and Taiwan, the public in countries with predominantly pay-as-you-go state pension systems has a strong preference for government responsibility for retirement income, and that this may pose an obstacle to reform. On the other hand, policymakers should bear in mind that public support for the pay-as-you-go state pension model is not the same thing as public confidence in the model. In fact, large numbers of today's workers in most countries with pay-as-you-go state pension systems worry that government will reduce their benefits. In China, the share is 48 percent, in Vietnam 66 percent, in Thailand 68 percent, in Taiwan 73 percent, in South Korea 80 percent, and in the Philippines 87 percent. Only in Indonesia, where the share is just 32 percent, do workers seem relatively unconcerned.

Encourage or require workers to save more for their own retirement.

As they improve the adequacy of state pension systems, policymakers will also need to increase supplemental retirement savings. The survey reveals that there is overwhelming public support for government measures that would encourage or require workers to save more for their own retirement in every country, including those where a majority of respondents believe that government should be mostly responsible for providing income to retirees. While people in these countries may have a cultural preference for a dominant government role in retirement provision, they also understand that individual initiative will be required to meet the retirement challenge. The support for a savings mandate is especially striking. In every country surveyed, at least three-quarters of respondents agree that government should "require workers to save more for their own retirement." In every country, moreover, the share who agree that government should do so exceeds the share who agree that it should "require workers to contribute more to pay for government pension programs." (SEE FIGURE 20.)

Supplemental retirement savings could of course take many forms. The government could establish national savings programs, like the Pag-IBIG Fund in the Philippines and the National Savings Fund in Thailand. It could encourage employers to sponsor pension programs, as China is doing with its Enterprise Annuities and South Korea is doing with its Corporate Pensions—or it could require them to do so, as Taiwan is doing with its New Labor Pension. It could also set up personal pension systems, as Malaysia, Singapore, South Korea, Thailand, and Vietnam have done. Naturally, workers could also be encouraged or required to save more for retirement outside of formal pension arrangements, whether by investing for the long term in financial markets or by purchasing life insurance savings policies.

The experience of countries around the world offers some important lessons for policymakers in East Asia. The most important is that mandatory supplemental retirement savings programs are almost always more successful at improving retirement security than voluntary ones. The experience of other countries also teaches that when retirement savings programs are voluntary, they achieve higher participation rates if, instead of being given the choice to opt in, workers are automatically enrolled with the choice of opting out.

[11] See Howe, Jackson, and Nakashima, *The Aging of Korea*; and Jackson, Nakashima, and Howe, *China's Long March to Retirement Reform.*

FIGURE 20. *"As the population grows older and there are more retired people to support, please tell me whether you think the government should or should not do each of the following."*

Share of Respondents Saying "Require Workers to Contribute More to Pay for Government Pension Programs" versus Share Saying "Require Workers to Save More for Their Own Retirement"

It further teaches that voluntary programs require adequate tax incentives if they are to succeed. Finally, it teaches that, whether a retirement savings program is mandatory or voluntary, ensuring the program's effectiveness requires allowing participants to earn a market rate of return on their savings. Policymakers should bear in mind that the growing role played by financial assets in the retirement plans of today's workers is expectational—and in some countries, in large part aspirational. It is possible that things may not work out as planned if public policies fail to adequately encourage and reward savings.

Establish more robust floors of old-age poverty protection.

The experience of emerging markets in other regions of the world demonstrates that it is next-to-impossible to achieve universal coverage under contributory pension systems in economies with large informal sectors. The survey, which reveals that large gaps in state pension coverage are likely to persist in many countries, confirms that this is the case in East Asia as well. Until recently, governments could assume that the great majority of workers who reached old age without a pension or adequate personal savings would be supported by their grown children. But as the survey also reveals, this can no longer be taken for granted. It is therefore imperative that governments put in place adequate noncontributory old-age safety nets, or what are sometimes called "social pensions." All of the countries surveyed except China now offer at least some kind of tax-financed, means-tested support to the indigent elderly, but the benefits are generally meager and in many countries the reach of the programs is extremely limited. To be sure, there are a few exceptions. One-third of today's retirees report receiving a social pension in South Korea and Taiwan, and in Thailand three-quarters do. At one-quarter, coverage is also relatively high in Malaysia, where it has grown substantially since the first wave of the survey was conducted. Still, in most countries the reality is that a large share of today's retirees receive no government retirement benefits of any kind, including means-tested support. Providing for a robust floor of old-age poverty protection is not just a matter of ensuring social adequacy. In rapidly aging societies in which the reach of formal retirement systems is limited and traditional family support networks are weakening, the failure to do so could lead to a social catastrophe.

Raise retirement ages and encourage longer work lives.

There are numerous reasons to abolish the early mandatory retirement ages that are enforced in the formal sectors of many East Asian countries. As life expectancy rises, early retirement is becoming increasingly expensive to finance, whether on a pay-as-you-go or a funded basis. It also leaves retirees at a growing risk of outliving their savings. As workforces grow more slowly and begin to contract, economies may also face labor shortages that longer work lives could alleviate. At the same time, the higher educational attainment and greater productivity and skills of today's working generations render later retirement ages feasible. In rapidly developing economies, firms sometimes favor policies that compel unskilled older workers to retire in order to make room for more skilled younger ones. But as more highly educated and productive younger cohorts climb the age ladder, such practices are becoming a costly anachronism.

Over the past few years, governments in several countries, including Malaysia, Singapore, South Korea, and Taiwan, have begun to wake up to the new demographic and economic realities and schedule gradual increases in their retirement ages. These reforms represent a step in the right direction—not only because they make economic sense, but also because they ratify the public's wishes. As we have seen, majorities of today's workers in most of the countries surveyed anticipate working longer than today's retirees did. In most countries, moreover, there is substantial public support for raising the retirement age. In western countries, proposals to raise the retirement age typically meet with widespread opposition from unions, senior benefit lobbies, and the public at large. The public in most East Asian countries has a markedly different view. When asked whether government should raise the retirement age, a majority agreed in every country surveyed except China, the Philippines, Taiwan, and Vietnam. In Hong Kong, nearly 70 percent favor raising the retirement age and in South Korea more than 80 percent do. (SEE FIGURE 21.)

There is also a surprisingly high level of public support in most countries for requiring employers to offer more jobs to the elderly. In fact, a majority of respondents in every country surveyed agree that government should mandate this, and in Hong Kong, Singapore, and South Korea the majority reaches nine out of ten. In many western countries, especially in Europe, retirement policy has long been hostage to the belief that there is a zero-sum competition between age groups for a limited number of jobs, and that to make room for the young the old must be convinced to retire early. In East Asia's rapidly growing economies, people seem to grasp intuitively that this view, which economists call the "lump of labor fallacy," rests on a misunderstanding of how economies work.

Implications for Financial Services Providers

Whatever type of pension system countries have, workers across East Asia will in the future need to depend much more heavily on personal savings to finance their retirement. East Asians are of course no strangers to savings. Most of the countries surveyed have very high household savings rates, and several of them are among the most

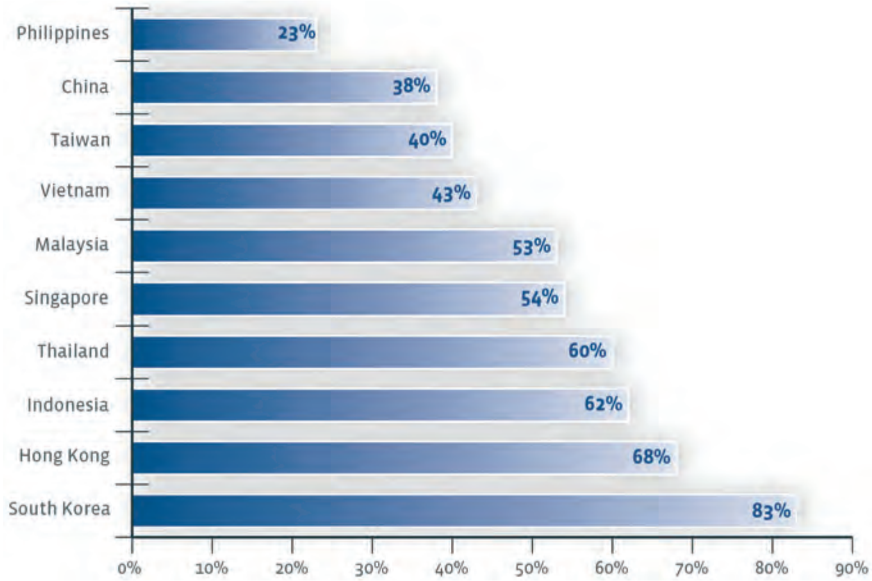


FIGURE 21. *"As the population grows older and there are more retired people to support, please tell me whether you think the government should or should not raise the retirement age."*
Share of Respondents Saying Government Should Raise the Retirement Age

market-oriented societies in the world. What most East Asian countries lack, however, is a long-term investment culture. As the new order takes shape, it will fall to the financial services industry to help nurture and foster its development.

Educate the public about the critical role of the financial services industry in retirement savings.

When it comes to the financial services industry, East Asians often seem to hold contradictory views. The overall level of trust in the industry is relatively high in most of the countries surveyed. When asked whether "people can trust financial services companies to help them prepare for retirement," the share of respondents who agreed or strongly agreed exceeded the share who disagreed or strongly disagreed everywhere except Hong Kong, South Korea, and Taiwan. (SEE FIGURE 22.) Yet this high level of trust notwithstanding, when respondents were asked whether individuals or investment professionals should be "primarily responsible for making decisions about how retirement savings are invested," the share saying investment professionals was 20 percent or less everywhere except Indonesia, Malaysia, Singapore, and Taiwan. Only in Malaysia did it reach 30 percent. Meanwhile, the great majority of today's workers who have received professional financial advice about how to invest their retirement savings report that they found it useful. In fact, at least 60 percent did in every country and at least 75 percent did in every country except China and South Korea. Yet here too there is a disconnect. Among those workers who have not received professional financial advice, no more than 25 percent in any country would consider seeking it from a stock broker and no more than 40 percent would consider seeking it from an insurance company representative. If long-term savings are to play a greater role in retirement security, clearly much public education is needed.

Help today's workers turn their retirement savings aspirations into retirement realities.

As we have seen, financial assets play a large and growing role in the retirement plans of today's workers in most of the countries surveyed. Yet for many workers, it turns out that these plans are in fact just plans. In most countries, the share of workers who report having actually purchased financial assets like insurance or annuity products and stocks, bonds, or mutual funds is much smaller than the share of workers who say that they expect to receive income from these assets in retirement.

NOTE: This question used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

FIGURE 22. *Share of Respondents Agreeing and Disagreeing That "People Can Trust Financial Services Companies to Help Them Prepare for Retirement"*

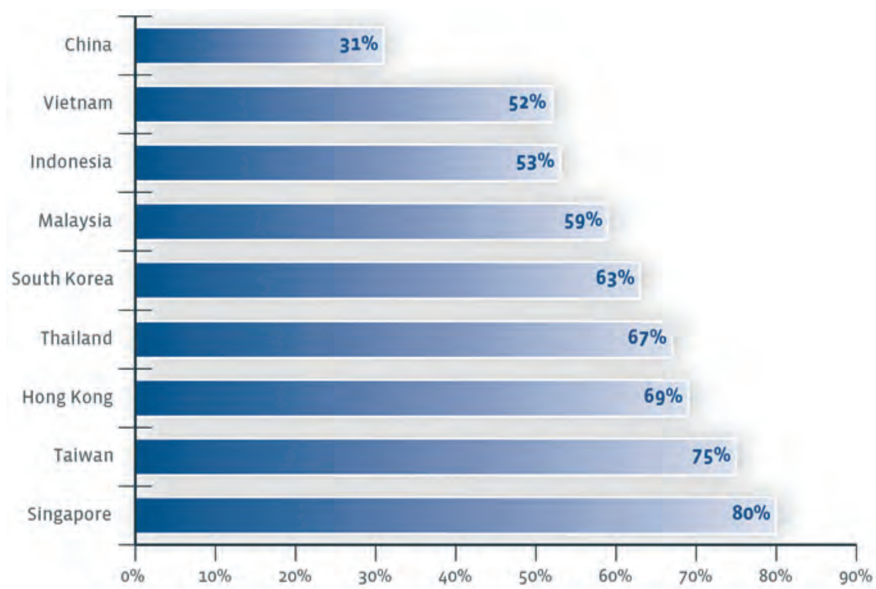
Among workers aged 20–39 in China, just one-third of those who expect to receive income from financial assets have actually purchased them. The share is larger in the other countries, but only reaches two-thirds in Hong Kong, Singapore, Taiwan, and Thailand. (SEE FIGURE 23.) In short, the expectations of many workers are merely aspirations. Here too there is a disconnect that the financial services industry can help to bridge.

Design and market financial products and services for workers who want to assume responsibility for their own retirement security.

The dramatic increase in educational attainment in most of East Asia has important implications for how younger generations will prepare for retirement. As a general proposition, the more educated people become the more likely they are to plan for the future, to be financially literate, and to own financial assets. This proposition is borne out by the survey. The share of today's workers who report that they have received professional financial advice about how to invest their retirement savings rises steeply along with educational attainment in every country except China and Thailand. (SEE FIGURE 24.) Except in Thailand, so does the share of today's workers who expect to receive income from financial assets in retirement. As time goes by and younger cohorts with higher levels of educational attainment climb the age ladder, a growing share of the workforce will be increasingly eager for sophisticated financial advice and products. Financial services providers should be aware, however, that younger generations may demand as much or even greater control over investment choices than today's older generations do—and may also be increasingly intolerant of government or industry policies that prevent them from earning a market rate of return on their savings.

Satisfy the widespread public demand for financial products that convert household savings and lump-sum pension payments into retirement income streams.

As we have seen, the survey reveals a surprisingly high level of support for converting retirement savings into a monthly income stream. Although government and employer policies in many countries have yet to catch up, people appear to understand intuitively that lump-sum payments are an atavistic relic of paternalistic employment systems and are inadequate in societies where people retire so early and live so long. "Annuitization" may also owe some of its appeal to the new movement toward financial independence in retirement, since annuities and annuity-like products minimize the risk of becoming dependent on one's children. Whatever the reasons for the demand, satisfying it will be a critical step toward building more adequate and sustainable retirement systems.



* Includes insurance and annuity products and stocks, bonds, and mutual funds, but excludes bank deposits.
NOTE: The Philippines is excluded from the chart because of insufficient data.

FIGURE 23. *Share of Today's Workers Aged 20–39 Who Have Purchased Financial Assets as a Percent of All Workers Aged 20–39 Who Expect to Receive Income from Financial Assets* in Retirement*

Conclusion

When it comes to retirement, East Asia finds itself at a crossroads. The old order is passing away, but the new order has yet to take shape. Moments of great economic and social transformation such as this one often engender both hopes and fears about the future. Whether the hopes are fulfilled and the fears dispelled will depend to a large extent on the future course of retirement reform. The moment to engage the challenge is now, while the public is ready to embrace constructive reform on so many fronts. If countries delay until their age waves roll in, the challenge will only become more daunting.

Yet even as East Asia embraces the new order, it should strive to preserve the best of the old. The survey seems to suggest that the days of family-centered retirement security are fated to fade away. Yet at the same time, it also hints at cultural crosscurrents that could still change the outcome in unexpected ways. Sociologists who have studied the development process around the world point out that the initial shock of modernization frequently overwhelms tradition, but that afterwards tradition sometimes experiences a revival among younger generations. In four of the six countries that were included in both waves of the survey, the level of support for family responsibility for retirement provision has continued to fall. But in two of them—China and South Korea—it has unexpectedly risen, and it is young adults who are leading the attitudinal shift. It is far too soon to tell whether this development is a leading indicator

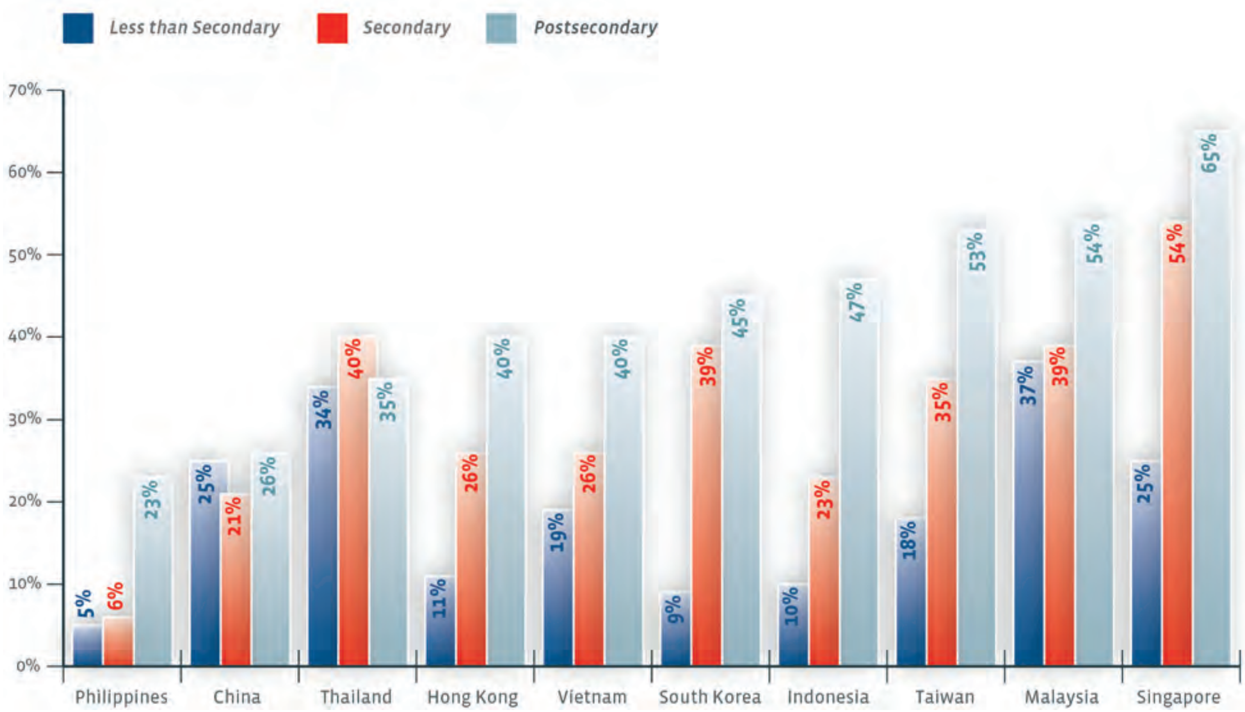


FIGURE 24. *"Have you ever received professional financial advice about how to invest your retirement savings?"*
Share of Today's Workers Saying "Yes," by Educational Attainment

of a generational shift in values that young people will carry with them as they traverse the lifecycle. But whatever happens, what the late Singaporean prime minister Lee Kuan Yew called "Asian family values" are a great cultural asset, and one should hope that the new order will make room for them.

Technical Note

This technical note includes a brief description of the survey methodology, as well as definitions of key terms and concepts referenced in the report.

Survey Methodology

The second wave of the East Asia Retirement Survey was designed by the Global Aging Institute (GAI) and conducted during the summer of 2014 by Ipsos Observer, a globally prominent survey firm. The survey was conducted in China, Hong Kong SAR, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. All survey samples were randomly selected and nationally representative, except that the samples for China, Indonesia, the Philippines, Thailand, and Vietnam were limited to urban areas. The interviews were conducted by telephone, except in the Philippines, Thailand, Indonesia, and Vietnam, where they were conducted in person. The survey universe consisted of household "main earners" aged 20 or older, including both current main earners and retired main earners.

TABLE 2. *Sample Size and Margin of Error*

	Sample Size	Margin of Error (+ or –)*
China	1512	2.5
Hong Kong	749	3.6
Indonesia	1023	3.1
Malaysia	990	3.1
Philippines	997	3.1
Singapore	750	3.6
South Korea	997	3.1
Taiwan	998	3.1
Thailand	1008	3.1
Vietnam	995	3.1

* Margin of error at a 95 percent confidence interval.

GAI weighted the raw survey data by age, gender, and educational attainment using census data and other standard national and international statistical sources. The survey analysis was carried out using SPSS statistical software.

The survey was organized into three modules. The first module contained attitudinal or normative questions designed to identify key social and cultural assumptions likely to affect the future direction of retirement behavior and policy. The second module turned to respondents' own personal retirement experience and expectations. Respondents who were already retired were asked about their current circumstances in retirement, while those who had not yet retired were asked about their expected circumstances in retirement. The third module collected basic demographic and economic data from the respondents, including their age, gender, and marital status; their educational attainment and employment history; and their household income and assets.

The sample size for seven of the ten countries ranged from 990 to 1023. In China, the sample size was 1512, and in Hong Kong and Singapore it was 749 and 750, respectively. The margin of error for the survey at a 95 percent confidence interval ranged from a low of plus or minus 2.5 percentage points in China to a high of plus or minus 3.6 percentage points in Hong Kong and Singapore.

Definitions

* **Age Groups:** Survey respondents are divided into three broad age groups as follows:
  - "Young adults" = persons aged 20–39
  - "Midlife adults" = persons aged 40–59
  - "The elderly" = persons aged 60 & over

* **Asset-to-Income Ratios:** In calculating average net financial asset-to-income ratios, we first took the ratio of total net household financial assets to household income for each respondent, then averaged the ratios.

* **Educational Attainment Levels:** Survey respondents are divided into three broad educational attainment groups as follows:
  - "Less than secondary" = no schooling, some or completed primary school, and some lower-secondary school
  - "Secondary" = completed lower-secondary school and some or completed upper-secondary school
  - "Postsecondary" = anything more than completed secondary school

* **Financial Assets:** Financial assets in this report generally refer to insurance and annuity products and stocks, bonds, and mutual funds. Unless otherwise noted, they exclude bank deposits.

* **Funded Pension Systems:** A funded pension system is a system in which the contributions of current workers are saved and invested and benefits are paid out of the accumulated assets.

* **Household Income:** Household income refers to the income of all household members. For retirees living in multigenerational households, it thus includes the income of their grown children.

* **Pay-As-You-Go Pension Systems:** A pay-as-you-go pension system is a system in which the contributions of current workers are directly used to pay for the benefits of current retirees.

* **Replacement Rates:** Replacement rate refers to the share of a worker's income that pension benefits replace. If benefits are paid as a lump sum rather than in monthly installments, it refers to the share of income they would replace if annuitized.

* **Retirees & Workers:** The division of respondents into "today's retirees" and "today's workers" is based on self-identification by the respondents themselves. Respondents were told that retirement means "no longer working or working less than when you were younger and having no plans to work full-time again." They were then asked whether they are "currently retired."

✱ **State Pension Systems:** The term state pension system in this report refers to all mandatory pension systems or retirement savings systems established by the government, provided that the systems are contributory and are not means-tested. A key to the programs included in each country's state pension system follows:

- *China* = Urban Basic Pension System, Flexible Employment Pension, New Rural Basic Pension System, and civil service pensions
- *Hong Kong* = Mandatory Provident Fund, Social Security Allowance, and civil service pensions
- *Indonesia* = Old Age Savings Program, National Social Security System, and civil service and military pensions
- *Malaysia* = Employees Provident Fund and civil service and military pensions
- *Philippines* = Social Security System, Pag-IBIG Fund, and civil service and military pensions
- *Singapore* = Central Provident Fund and civil service and military pensions
- *South Korea* = National Pension System and civil service and military pensions
- *Taiwan* = Labor Insurance and civil service and military pensions
- *Thailand* = Social Security Fund, National Savings Fund, and civil service pensions
- *Vietnam* = Vietnam Social Security Fund

About the Authors

Richard Jackson is the founder and president of the Global Aging Institute (GAI), a nonprofit research and educational organization dedicated to improving understanding of the economic, social, and geopolitical challenges created by demographic change, and especially population aging, in the United States and around the world. He is also a senior associate at the Center for Strategic and International Studies (CSIS) and a senior advisor to the Concord Coalition. Richard is the author or co-author of numerous policy studies, including *Lessons from Abroad for the U.S. Entitlement Debate* (2014); *The Global Aging Preparedness Index, Second Edition* (2013); *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012); *Global Aging and the Future of Emerging Markets* (2011); and *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century* (2008). Richard regularly speaks on demographic issues and is widely quoted in the media. He holds a Ph.D. in history from Yale University and lives in Alexandria, Virginia, with his wife Perrine and their three children, Benjamin, Brian, and Penelope.

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About the Global Aging Institute

The Global Aging Institute (GAI) is a nonprofit research and educational organization dedicated to improving our understanding of global aging, to informing policymakers and the public about the challenges it poses, and to encouraging timely and constructive policy responses. GAI's agenda is broad, encompassing everything from retirement security to national security, and its horizons are global, extending to aging societies worldwide.

GAI was founded in 2014 and is headquartered in Alexandria, Virginia. Although GAI is new, its mission is not. Before launching the institute, Richard Jackson, GAI's president, directed a research program on global aging at the Center for Strategic and International Studies which, over a span of nearly fifteen years, produced a large body of cutting-edge research and analysis that played a leading role in shaping the debate over what promises to be one of the defining challenges of the twenty-first century. GAI's Board of Directors is chaired by Thomas S. Terry, CEO of the Terry Group and immediate past president of the American Academy of Actuaries. To learn more about the Global Aging Institute, visit www.GlobalAgingInstitute.org.

About Eastspring Investments

Eastspring Investments is a leading asset manager in Asia that manages US $134 billion (as at 30 June 2015) of assets on behalf of institutional and retail clients. Operating in Asia since 1994, Eastspring Investments is the Asian asset management business of Prudential plc, one of the world's largest financial services companies.

We have one of the widest footprints in Asia, with on-the-ground teams of 2,500 employees and more than 250 investment professionals located in 10 major Asian markets as well as offices in the US, Europe, and the United Arab Emirates. Our unparalleled knowledge and local insights allow us to deliver unique and tailored opportunities to our clients. We provide investment solutions across a broad range of asset classes including: equities, fixed income, global asset allocation, mezzanine debt, private equity, and infrastructure.

Eastspring Investments was Asia's largest retail fund manager in 2014 according to an annual survey by Asia Asset Management, and was named the Best Asset Management House in Asia in Asia Asset Management's Best of the Best Awards in 2014.

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