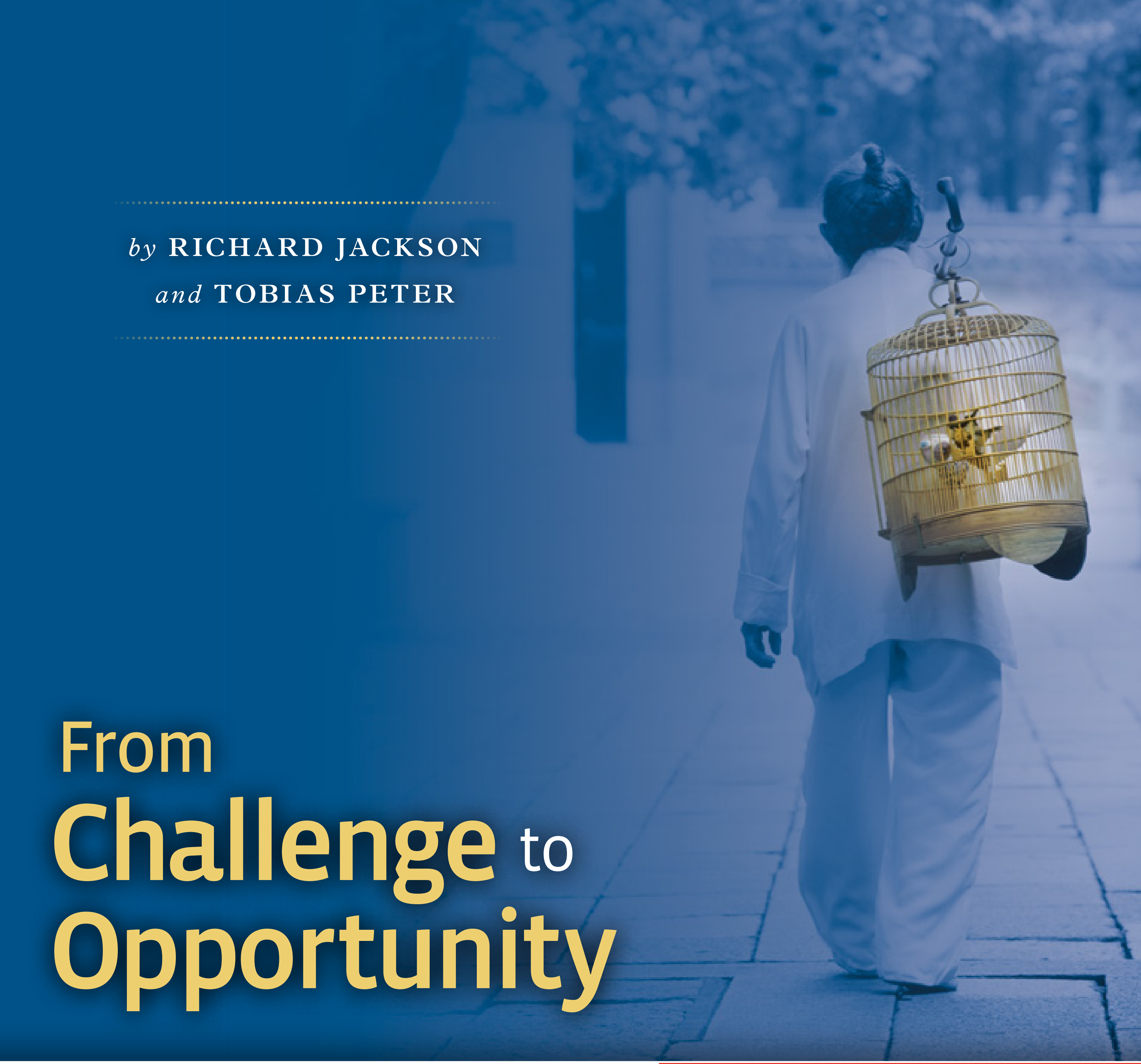

by RICHARD JACKSON
and TOBIAS PETER

From Challenge to Opportunity

THE FUTURE OF RETIREMENT IN China

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.

As the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations. Nowhere is this more difficult than in emerging East Asia, where rapid development is transforming traditional retirement attitudes and expectations. The role of the family in retirement security is receding, while the importance of pensions and personal savings is growing. 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 purpose of the East Asia Retirement Survey, now in its second wave, is to help answer these questions. The first wave of the survey, 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, 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.* While the survey finds that there are many important differences across the region, it also reveals that citizens throughout East Asia have at least two important things in common. They are anxious about their retirement prospects and they are eager to improve them.

The results of the first wave of the survey were published in *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (Washington, DC: CSIS, 2012). The results of the second wave of the survey are published in *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey,* the overall project report, as well as in a series of ten shorter country reports, of which this is one. 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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Findings from Wave 2 of the East Asia Retirement Survey

China

Thanks in large part to generous state pensions, most of today's retirees enjoy a secure and independent retirement in China.[1] Looking to the future, moreover, today's workers are highly optimistic about their own retirement prospects. Unfortunately, this optimism may be misplaced. Although the government has made tremendous progress in broadening pension coverage, replacement rates under the Basic Pension System are becoming progressively less generous. In the future, personal retirement savings will thus become all the more important. Yet there is a large and troubling gap between the share of today's workers who say that they expect to receive income from financial assets when they are retired and the share who report having actually purchased them.

The rapid aging of China's population complicates the challenge of ensuring future retirement security. With the elderly share of the population due to double from 15 to 29 percent over the next twenty-five years, the government may be compelled to make further reductions in the generosity of state retirement provision. What makes this especially worrisome is that the Chinese public overwhelmingly believes that government should be primarily responsible for providing income to retired people. If the high retirement expectations of today's workers are disappointed, it could become a major social and political problem.

The Chinese seem to be aware that they may be overestimating their retirement preparedness and are eager to do something about it. Nearly half of today's workers report that they are saving more for retirement now than they were three years ago, a larger share than in any other country surveyed. Moreover, although the Chinese strongly favor government responsibility for retirement provision, large majorities also believe that government should encourage or require workers to save more for their own retirement. While more will need to be done to prepare for China's graying future, in-

[1] The China sample of the East Asia Retirement Survey was limited to urban areas. The discussion in this report thus refers to workers and retirees in China's cities and does not apply to the countryside.

SURVEY Overview

China

TODAY'S RETIREMENT Realities

Share of Today's Retirees Who…	
Retired before Age 60	72
Live with Their Grown Children[1]	46
Depend Financially on Their Grown Children[2]	9
Receive Income from the State Pension System[3]	83
Receive Income from Financial Assets[4]	41
Receive Income from a Job or Business	67
Have Received Professional Financial Advice	14
Have a Lot Less Income Now Than When Working	14
Worry More About Exhausting Their Savings Than 3 Years Ago	24

TOMORROW'S RETIREMENT Expectations

Share of Today's Workers Who…	
Expect to Retire before Age 60	44
Expect to Live with Their Grown Children[5]	37
Expect to Depend Financially on Their Grown Children[2]	6
Expect Income from the State Pension System[3]	95
Expect Income from Financial Assets[4]	63
Expect Income from a Job or Business	82
Have Received Professional Financial Advice	22
Expect to Have a Lot Less Income When Retired	18
Are Saving More for Retirement Than 3 Years Ago	46

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Share of Respondents Agreeing (+) and Disagreeing (−) That…	+	−
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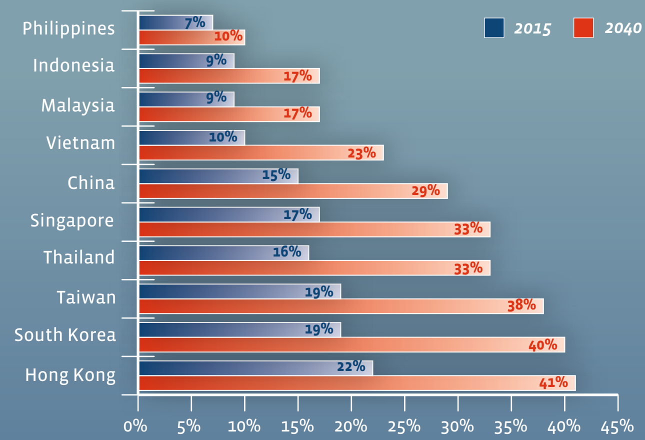
Increase Worker Contributions to Government Pension Programs	72
Raise the Retirement Age	38
Require Workers to Save More for Their Own Retirement	77

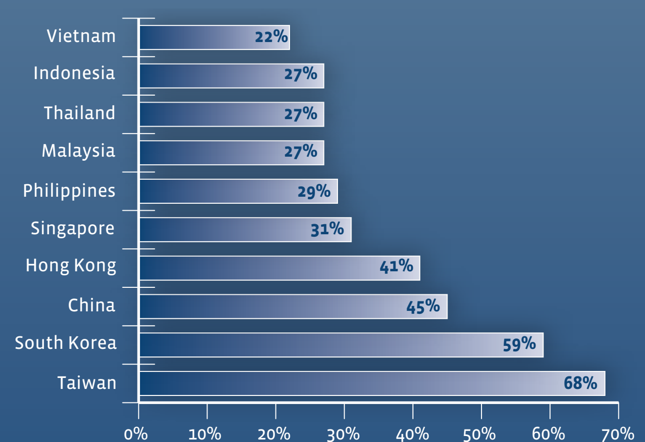
[1] Refers to elderly aged 60 and over who have grown children.
[2] "Depend" means net recipient of income from children.
[3] State pension system includes the Urban Basic Pension System, Flexible Employment Pension, New Rural Basic Pension System, and civil service pensions.
[4] Financial assets include 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.

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

cluding raising China's early retirement ages, the focus on retirement savings is a vital first step.

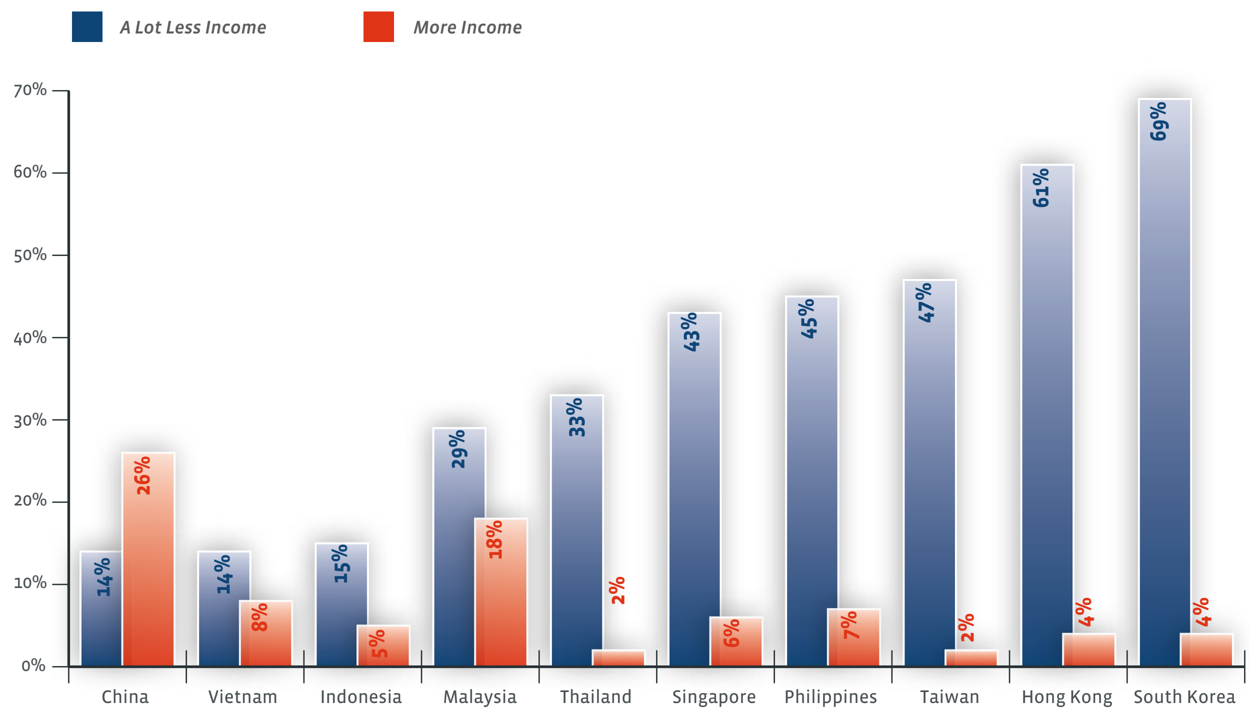
Today's Retirement Realities

By almost any measure, the economic circumstances of today's retirees are quite favorable. Overall, the median income of elderly households is 75 percent of the median income for all households, a surprisingly high relative living standard given how rapidly wage growth has been pushing up the incomes of today's working generations. Twenty-six percent of today's retirees report having more income now than when they were working, more than in any other country surveyed, while just 14 percent report having "a lot less income."

The favorable economic circumstances of today's retirees are due in large part to their high rate of state pension receipt, which at 83 percent exceeds the rate in any other country surveyed. It is also bolstered by a high rate of asset income receipt. Forty-one percent of today's retirees report receiving income from insurance or annuity products and/or stocks, bonds, or mutual funds. While this is smaller than the share in Singapore, Taiwan, and Thailand, it is about on par with the share in Hong Kong and Malaysia and is much larger than the share in the other countries surveyed. When asked how concerned they are about exhausting their savings, becoming a burden on their children, being poor and in need of money, or being in poor health and having no one to care for them, fewer Chinese retirees said that they worry than retirees in any other country.

Tomorrow's Retirement Expectations

At first glance, the retirement prospects for today's workers appear to be even brighter than for today's retirees. Sixty-three percent expect to receive income from insurance or annuity products and/



The current generation of Chinese retirees enjoys a relatively secure retirement.

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

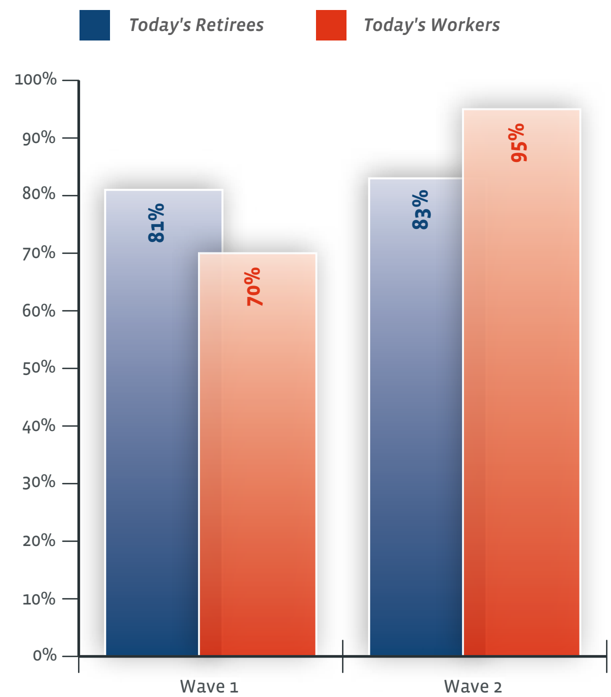
or stocks, bonds, or mutual funds when they are retired, a large increase over the 41 percent of today's retirees who report receiving income from financial assets. Meanwhile, 95 percent of today's workers expect to receive a state pension benefit, more than in any other country surveyed. This last finding represents an impressive turnaround. In the first wave of the survey, which was conducted in 2011, 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 the rapid growth in the number of private-sector employees and rural migrants, who were less likely to participate in the Basic Pension System. As a result of concerted government efforts to expand coverage, including the creation of a new "Flexible Employment Pension," rates of pension receipt are now expected to rise rather than to fall.

Together, these trends help to explain the high degree of optimism that today's workers express about their retirement prospects. Thirty-one percent expect to have more income in retirement than they do today, a larger share than in any other country except Malaysia. Today's workers also worry less than workers in any other country about exhausting their savings, becoming a burden on their children, being poor and in need of money, and being in poor health and having no one to care for them.

Yet the closer one looks, the more this optimism seems misplaced. Although pension receipt rates are indeed high and rising in China, average replacement rates are projected to fall dramatically due to reforms that have reduced the future rate of growth in Basic Pension System benefits far beneath the rate of wage growth.[2] It is doubtful

[2] See 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).

that most workers are aware of the magnitude of the scheduled reduction in the generosity of state retirement provision. As for asset income, the expectations of today's workers turn out to be largely aspirational. In the other countries surveyed, majorities of workers who expect to receive income from financial assets in retirement also report having actually purchased those assets. But this is not the case in China. While 63 percent of today's workers expect to receive income from insurance or annuity products and/or stocks, bonds, or mutual funds when they retire, just 22 percent report having actually purchased them. Here, at least, Chinese workers seem to be aware that they are overestimating their retirement preparedness. Forty-six percent report that they are saving more for retirement now than they were three years ago, a larger share than in any other country.



Due to recent government reforms, pension receipt rates are rising.

Share of Today's Retirees Receiving Income and Share of Today's Workers Expecting to Receive Income from the State Pension System in China: Wave 1 versus Wave 2

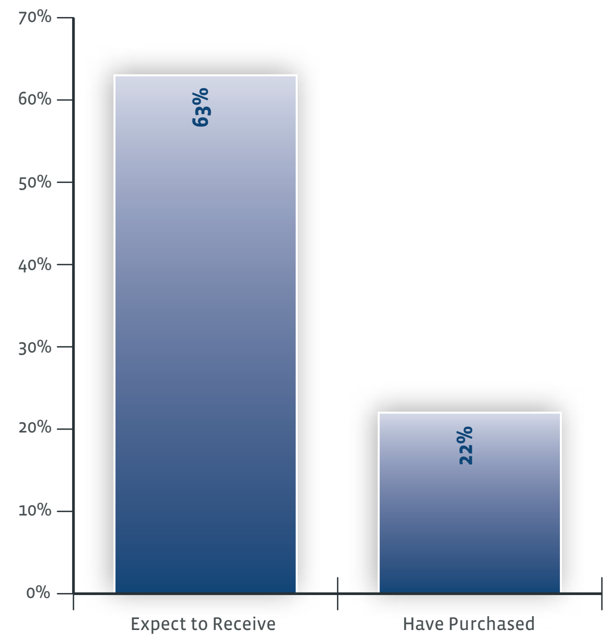
The Changing Role of the Family

The traditional role of the family in retirement security is receding, making adequate pensions and savings all the more important. Just 46 percent of the elderly live with their grown children, fewer than anywhere else surveyed except South Korea. Among today's workers, just 37 percent expect to live with their grown children when they are retired, once again fewer than anywhere else except South Korea. Nor is multigenerational living the only dimension of retirement security where the role of the family is receding. When asked about their financial relationship with their grown children, 91 percent of today's retirees said that they are financially independent, or that they give more financial support to their grown children than their children give to them, or that it is "about even." Just 9 percent said that they receive more financial support from their grown children than they give to them—and only 1 percent said that they "could not get by at all" without the support they receive from their grown children. The one dimension of retirement security where the family continues to play a prominent role is providing care for the frail elderly. Yet even here, just 57 percent of retirees who describe themselves as being in poor health or disabled say that they are personally cared for by their grown children or their children's spouses, fewer than anywhere else except Hong Kong, South Korea, and Taiwan.

At the same time, there are some indications that attitudes toward the role of the family in retirement security may once again be shifting. When asked, "who, ideally, should be mostly responsible for providing income to retired people," just 4 percent of respondents in the first wave of the survey answered "grown children or other family members." In the second wave, that share has nearly tripled to 11 percent—still a very low level of support, but nonetheless a significant increase. When asked, "who, ideally, should be mostly responsible for providing personal care to retired people when they need help with everyday living or are sick or disabled," 48 percent of respondents in the second wave of the survey answered grown children or other family members, up from 29 percent in the first wave of the survey. In the first wave, the share of respondents who said that government should be mostly responsible for caring for the frail elderly exceeded the share who said that the family should be by a significant margin. China is now one of just three countries, the others being the Philippines and Vietnam, where respondents favor family responsibility for caring for the frail elderly over government responsibility.

Responsibility for Retirement Provision

If not with the family, then where should responsibility for retirement provision lie? At least when it comes to retirement income, the Chinese overwhelmingly agree that government should play the dominant role. When asked who should be mostly responsible for providing income to retired people, 63 percent of respondents answered government. Although support for government responsibility for retirement income is roughly as high in several of the other countries surveyed, only in the Philippines does it exceed support for individual responsibility by as wide a margin as it does in China. For every Chinese who believes that retirees themselves should be mostly responsible for providing their own retirement income through their savings, there are more than seven who believe that government should be mostly responsible. The level of support for government responsibility in China, moreover, is equally high among respondents at all educational attainment and income levels. This broad support is in part a legacy of the one child policy, whose implicit corollary was that government would henceforth assume the role in retirement security once played by the family. As such, it represents a social consensus that is likely to prove enduring.

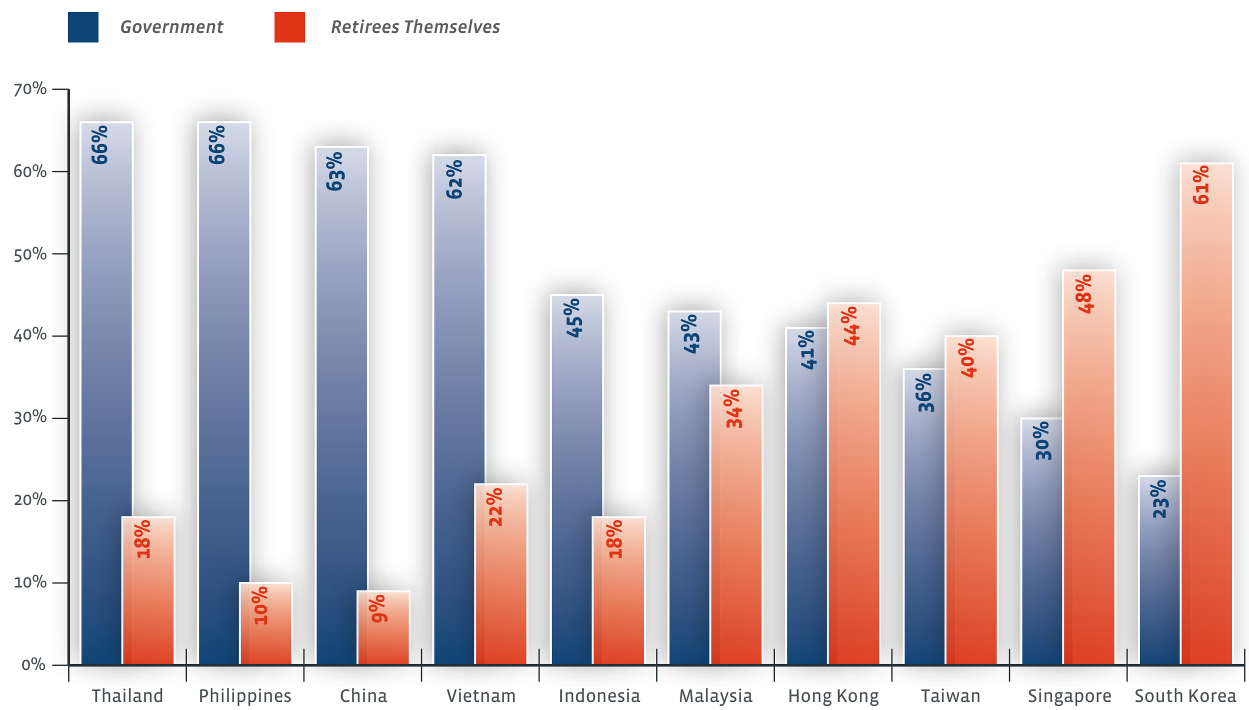


Chinese workers' expectations about asset income receipt are largely aspirational.

Share of Chinese Workers Saying They Expect to Receive Income from Financial Assets When They Retire versus Share Who Have Actually Purchased Financial Assets

Attitudes toward Financial Markets and Services

Although the Chinese are highly market-oriented, they have a strong preference for individual control over retirement savings and are ambivalent about the financial services industry. On the one hand, the share of Chinese who agree or strongly agree that "people can trust financial services companies to help them prepare for retirement" (41 percent) exceeds the share who disagree or strongly disagree (27 percent) by a comfortable margin. On the other hand, the Chinese are reluctant to actually engage with the financial services industry. Just 22 percent of today's workers report having received professional financial advice about how to invest their retirement savings, fewer than in any other country surveyed except Indonesia and the Philippines.



The Chinese overwhelmingly support government responsibility for retirement income.

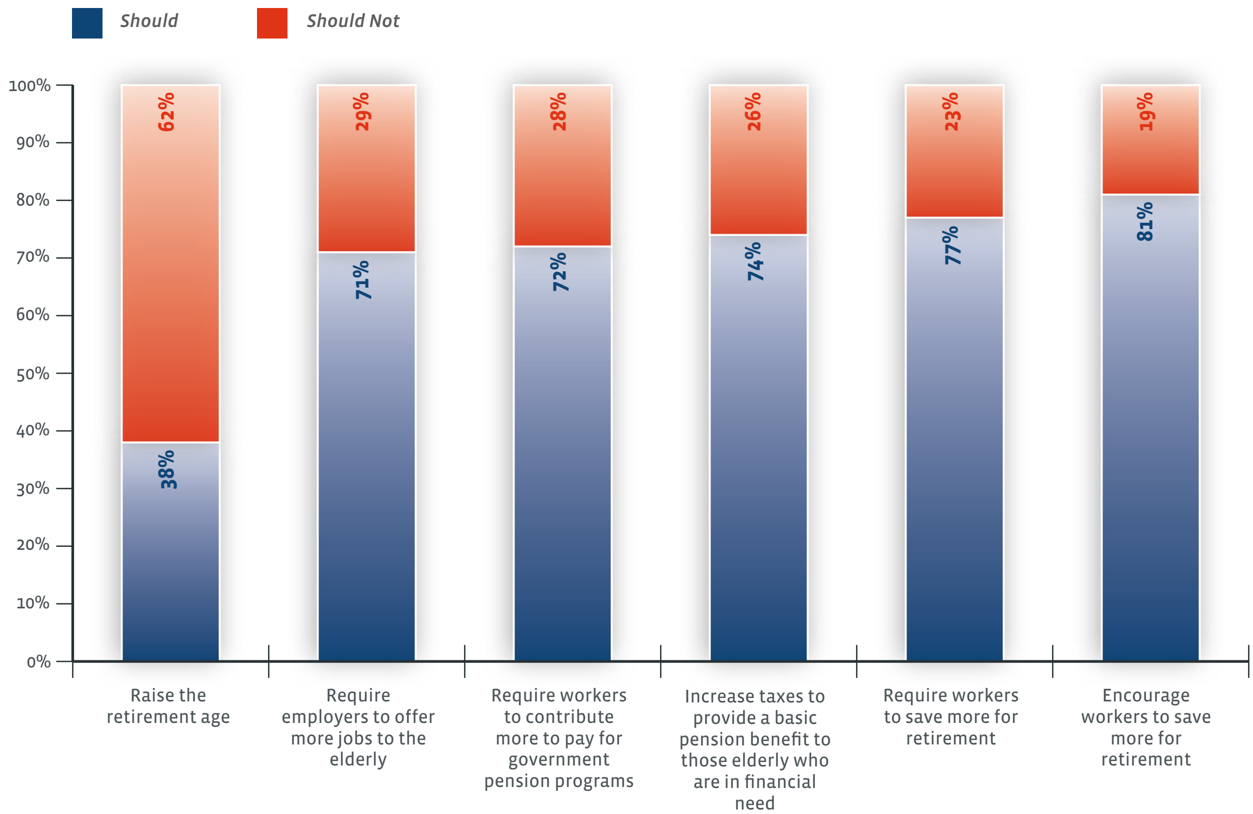
Share of Respondents Saying "Government" Should Be Mostly Responsible for Providing Retirement Income versus Share Saying "Retirees Themselves, through Their Own Savings"

Attitudes toward Work and Retirement

In some ways, the Chinese subscribe to a very traditional view of work and retirement. The share of respondents who agree that people should "retire at a fixed age and not work again" (36 percent) is larger than anywhere else surveyed, while the share who agree that people should "continue working as long as they are able" (13 percent) is smaller than anywhere else except Taiwan. Retirement ages in China's formal sector are also very early, even by East Asian standards. Seventy-two percent of today's retirees report that they retired before age 60. Among today's workers, 44 percent expect to do so, a larger share than anywhere else except Malaysia. Yet just as in many other East Asian countries, retirement in China is a highly malleable concept. Sixty-seven percent of today's retirees report receiving at least some income from a job or a business they own, while among today's workers 82 percent expect to do so.

From Challenge to Opportunity

The Chinese are not only optimistic about their personal retirement prospects, but also about the future of their nation. Although many worry that the aging of the population will be a large burden for tomorrow's workers and families, very few doubt that the future will be one of rising living standards. When asked whether "each new generation of workers will have a higher living standard than the previous one," 59 percent of respondents agreed or strongly agreed while just 14 percent disagreed or strongly disagreed, a margin of four-to-



What the Chinese Think about Retirement Reform

Share of Chinese Respondents Saying That Government Should or Should Not…

one. When asked whether "each new generation of retirees will have a more secure retirement than the previous one," 65 percent agreed or strongly agreed while just 14 percent disagreed or strongly disagreed, an even wider margin of five-to-one.

While this optimism is understandable in a nation whose economy is growing as rapidly as China's, major reforms may nonetheless be required to ensure a favorable outcome. The good news is that substantial majorities of Chinese would support constructive reform measures on a variety of fronts. Roughly three-quarters would support increasing taxes to provide a basic pension benefit to those elderly who are in financial need, something that China now lacks. Roughly three-quarters would also support requiring workers to contribute more to pay for government pension programs, though here the young are less enthusiastic than the old. Similarly large majorities would also support encouraging or requiring workers to save more for their own retirement. The one reform that most Chinese oppose is raising the retirement age. Just 38 percent favor it, a lower level of support than in any other country except the Philippines.

Although the strong preference of the Chinese for the pay-as-you-go state pension model in which today's workers finance the benefits of today's retirees is problematic for an aging society, their willingness to embrace constructive reforms, and especially their willingness to save more for retirement, should help them meet the challenge ahead.

Technical Note

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. 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 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.

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.

Glossary

Elderly: The elderly in this report are defined as adults aged 60 and over.

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.

Market-Oriented: Market-oriented refers to degree of engagement in financial markets. A market-oriented country or society is one in which a large and/or rapidly growing share of the population invests in financial markets and owns financial assets.

Means-Tested Programs: Means-tested programs are social assistance programs in which eligibility for benefits is limited to persons with income or assets beneath certain thresholds.

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. In China, the state pension system includes the Urban Basic Pension System, the Flexible Employment Pension, the New Rural Basic Pension System, and civil service pensions.

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.

Tobias Peter is a research associate at the Global Aging Institute. Prior to beginning his graduate studies, he worked with Richard Jackson on global aging issues at the Center for Strategic and International Studies, where he was successively an intern, research assistant, and program coordinator. Tobias is the co-author of several policy studies, including *U.S. Development Policy in an Aging World: New Challenges and New Priorities for a New Demographic Era* (2013); *The Global Aging Preparedness Index, Second Edition* (2013); and *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012). He holds a B.A. in history and applied economics from the College of St. Scholastica and a Master of Public Policy degree from Harvard's John F. Kennedy School of Government.

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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