

by RICHARD JACKSON
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From Challenge to Opportunity



THE FUTURE OF RETIREMENT IN THE

Philippines

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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

Philippines

Although many Filipino retirees do not have pensions and most do not have personal savings, almost all can count on extensive support from their extended families.¹ As the Philippines develops and modernizes, however, retirement attitudes and expectations are changing. With just one out of ten Filipinos believing that the family should be mostly responsible for providing income to retired people, the importance of pensions and savings is growing. Yet just two-thirds of today's workers expect to receive a state pension benefit when they retire, while just one-tenth expect to receive income from financial assets. Understandably, retirement insecurity is both widespread and growing.

Despite the gaps in retirement provision, the level of support for retirement reform in the Philippines is lower than in most East Asian countries. Only two-fifths of Filipinos would support in-

creasing taxes to strengthen the old-age safety net, while only one-half would support requiring workers to contribute more to the state pension system. The lack of a sense of urgency about reform may be explained in part by Filipinos' optimism about their nation's future economic prospects. It may also be attributable to the fact that the Philippines is now far and away the youngest of the ten countries surveyed and is projected to remain so for the foreseeable future. By 2040, more than 30 percent of the population will be elderly in Hong Kong, Singapore, South Korea, Taiwan, and Thailand. In China, Indonesia, Malaysia, and Vietnam between 15 and 30 percent will be. Meanwhile in the Philippines, the elderly share of the population is projected to rise to just 10 percent.

There is one area, however, where Filipinos agree that reform is needed. Very large majorities would support new government initiatives that encourage or require workers to save more for their own retirement. Although most Filipinos favor government over individual responsibility for retirement

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

Survey Overview

Philippines

TODAY'S RETIREMENT		Realities	
Share of Today's Retirees Who...			
	Retired before Age 60		71
	Live with Their Grown Children ¹		78
	Depend Financially on Their Grown Children ²		40
	Receive Income from the State Pension System ³		55
	Receive Income from Financial Assets ⁴		3
	Receive Income from a Job or Business		57
	Have Received Professional Financial Advice		7
	Have a Lot Less Income Now Than When Working		45
	Worry More About Exhausting Their Savings Than 3 Years Ago		14
TOMORROW'S RETIREMENT		Expectations	
Share of Today's Workers Who...			
	Expect to Retire before Age 60		14
	Expect to Live with Their Grown Children ⁵		82
	Expect to Depend Financially on Their Grown Children ²		10
	Expect Income from the State Pension System ³		68
	Expect Income from Financial Assets ⁴		8
	Expect Income from a Job or Business		85
	Have Received Professional Financial Advice		10
	Expect to Have a Lot Less Income When Retired		16
	Are Saving More for Retirement Than 3 Years Ago		12
VIEWS ABOUT THE RETIREMENT		Challenge	
Share of Respondents Agreeing (+) and Disagreeing (-) That...			
	Supporting the Growing Number of Elderly Will Be a Large Burden for...		
	Tomorrow's Workers and Taxpayers	20	60
	Tomorrow's Families	15	68
	People Can Trust Financial Services Companies to Help Them Prepare for Retirement	45	30
	Government Is Doing Enough to Help Workers Prepare for Retirement	62	20
VIEWS ABOUT RETIREMENT		Reform	
Share of Respondents Saying Government Should...			
	Increase Taxes to Provide a Basic Pension Benefit to Those Elderly Who Are in Financial Need		43
	Increase Worker Contributions to Government Pension Programs		52
	Raise the Retirement Age		23
	Require Workers to Save More for Their Own Retirement		82

¹ Refers to elderly aged 60 and over who have grown children.

² "Depend" means net recipient of income from children.

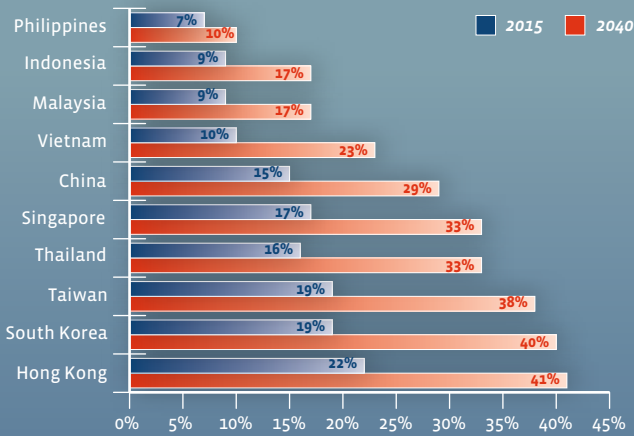
³ State pension system includes the Social Security System, Pag-IBIG Fund, and civil service and military pensions.

⁴ Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.

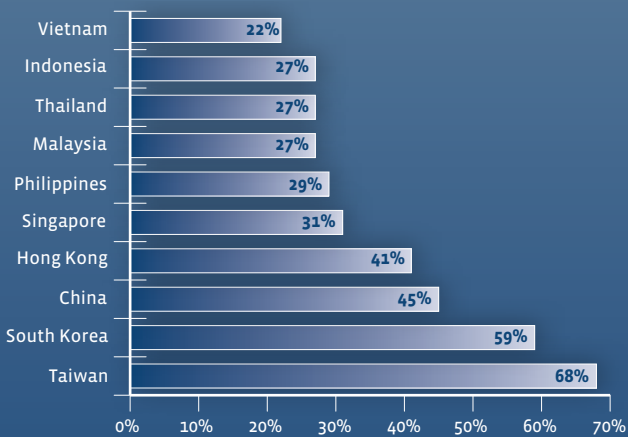
⁵ Refers to workers who have or expect to have children.

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?”

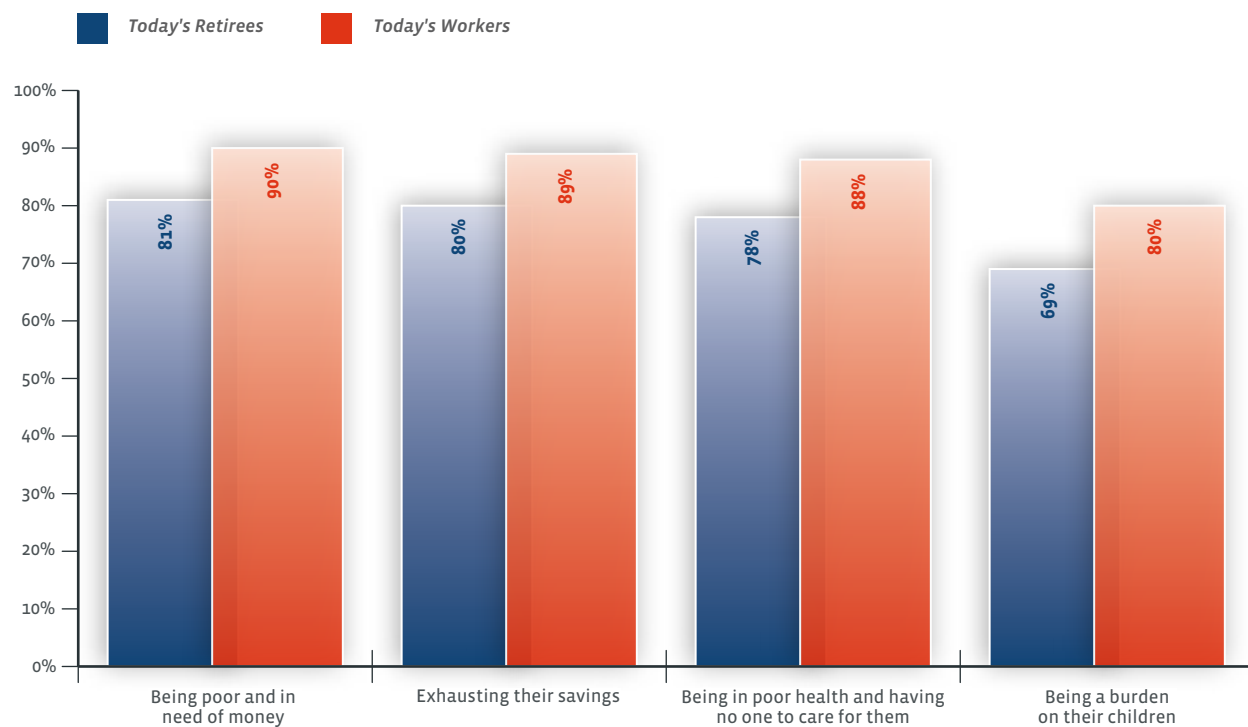
% Response by Country	Government	Retirees Themselves	Grown Children	Former Employers
China	63	9	11	16
Hong Kong	41	44	6	8
Indonesia	45	18	11	25
Malaysia	43	34	8	10
Philippines	66	10	8	17
Singapore	30	48	13	2
South Korea	23	61	10	2
Taiwan	36	40	6	16
Thailand	66	18	10	4
Vietnam	62	22	10	5

income, they also understand that improving their retirement security will require individual initiative. More will be needed to ensure a favorable outcome, especially broadening pension coverage, but increasing the financial independence of future retirees is the obvious place to start.

Today's Retirement Realities

The economic circumstances of today's retirees are far from secure. Just 55 percent report receiving benefits from the state pension system. Very few, moreover, have any personal savings of their own. Just 3 percent report receiving income from financial assets like insurance or annuity products and/or stocks, bonds, or mutual funds, by far the smallest share of any of the countries surveyed. Even including interest on bank deposits, the share with asset income only rises to 14 percent. Nearly three-fifths of today's retirees supplement their income by continuing to work at least part time, mainly in informal-sector jobs. Not surprisingly, dependence on the extended family is high. Seventy-eight percent of elderly retirees live with their grown children, a larger share than anywhere else surveyed except Vietnam. For every elderly retiree who reports providing more income to their grown children than they receive from them, there are sixteen who report receiving more income than they provide, a higher ratio than in any other country.

The considerable support that today's retirees receive from the extended family helps to prop up their incomes. Overall, the median household income of the Filipino elderly is roughly equal to the median income for all households, mainly because so many live with their grown children and thus share in their income. Yet this dependence leaves retirees feeling vulnerable and insecure. Among those fortunate enough to receive a state pension benefit, 80 percent worry that the government will reduce it, a larger share than in any



Filipinos are anxious about their retirement security.

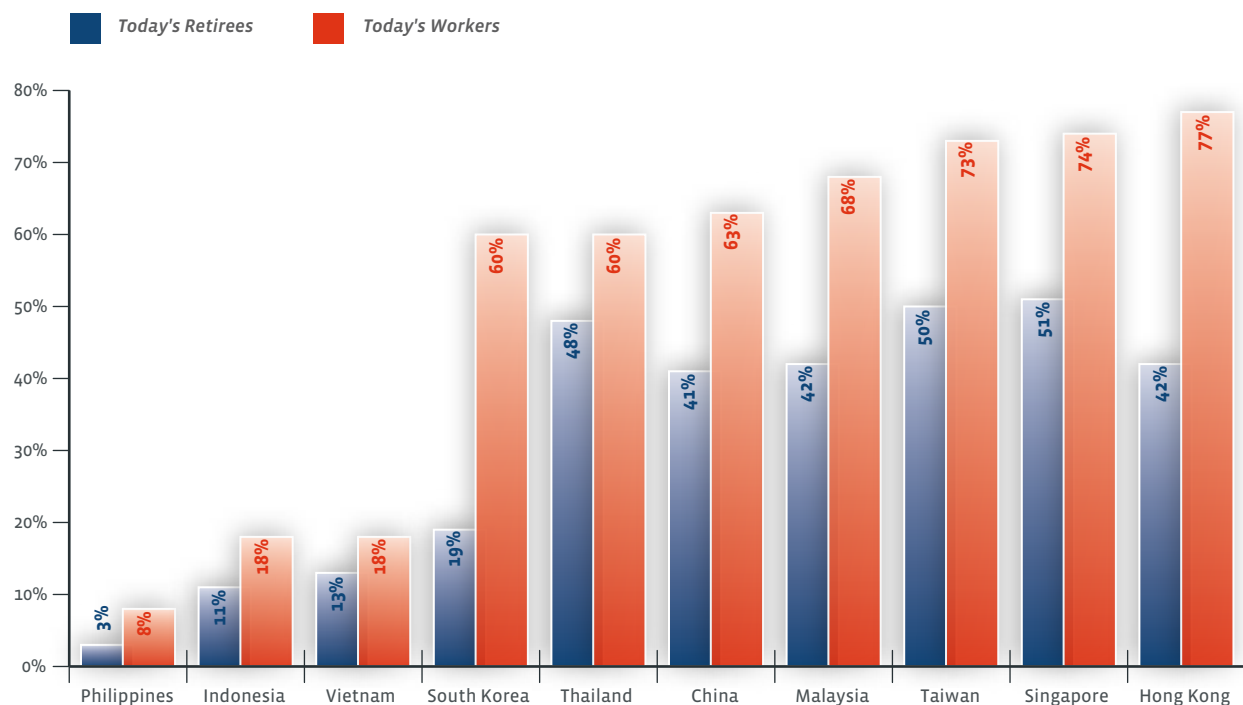
Share of Today's Retirees and Share of Today's Workers in the Philippines Who Worry about Each of the Following Things Happening during Retirement...

other country except Vietnam. More generally, 81 percent of today's retirees worry that they will find themselves "poor and in need of money" at some point during retirement, once again a larger share than in any other country except Vietnam. Similarly large shares of today's retirees also worry that they will exhaust their savings, become a burden on their children, or be in poor health and have no one to care for them.

Tomorrow's Retirement Expectations

In the most East Asian countries, the retirement prospects of today's workers are clearly brighter than those of today's retirees. Unfortunately, this is not the case in the Philippines. To be sure, with 68 percent of today's workers expecting to receive

benefits from the Social Security System or another state pension program, they are better covered by formal retirement programs than today's retirees were during their working years. Yet one-third of today's workers still expect to receive no government retirement benefits of any kind, including means-tested old-age assistance. As for asset income, today's workers are not much more market-oriented than today's retirees. A mere 8 percent expect to receive income from insurance or annuity products and/or stocks, bonds or mutual funds in retirement, roughly one-half of the share in Indonesia and Vietnam and between one-seventh and one-tenth of the share in the other countries surveyed. Meanwhile, far fewer of today's workers expect to depend financially on their grown children than is the case for today's retirees, which in turn may explain why far more expect to continue to work in retirement. In fact



Very few Filipinos can count on asset income in retirement.

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

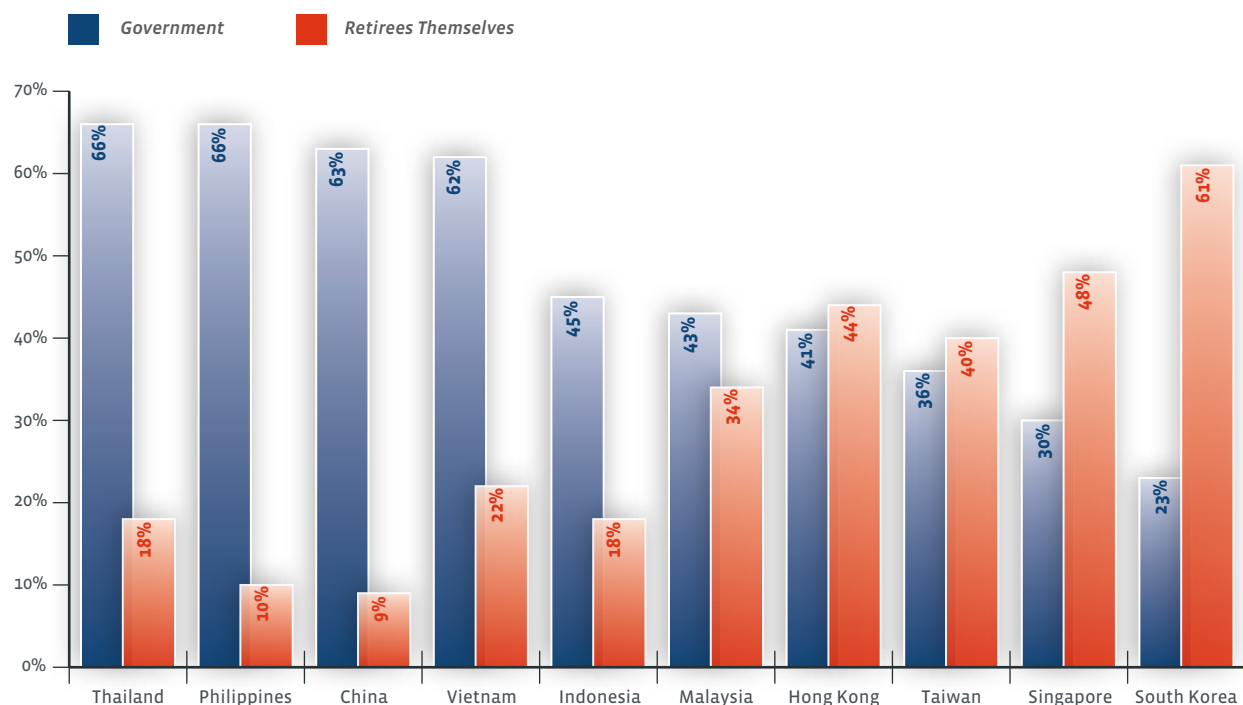
85 percent of today's workers do, more than in any other country except Vietnam.

Surprisingly, relatively few of today's workers expect to have "a lot less income" in retirement than they do now. While 45 percent of today's retirees report that this is the case, just 16 percent of today's workers expect it to be the case when they themselves retire. Yet today's workers also appear to understand that their income expectations may not be realistic. While today's retirees worry a great deal about facing hardship in old age, the level of concern among today's workers is even more acute. Ninety percent worry that they will be poor and in need of money during their retirement years (73 percent worry a lot); 89 percent worry that they will exhaust their savings (72 percent worry a lot); 80 percent worry that they will become a burden on their children (60 percent worry a lot); and 88 percent worry that they will

be in poor health and have no one to care for them (72 percent worry a lot). Meanwhile, among those workers who expect to receive a state pension benefit, 87 percent worry that the government will reduce it, a larger share than in any other country surveyed. One would hope that the high level of anxiety expressed by today's workers about their future retirement security would spur them to take steps to improve it. Yet just 12 percent report that they are saving more for retirement now than they were three years ago, fewer than in any other country surveyed.

The Changing Role of the Family

Although Filipinos continue to count heavily on the extended family for support in old age, there



Filipinos 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”

are signs that the traditional system of family-centered retirement security may be weakening. To be sure, the great majority of today’s workers still say that they expect to live with their grown children when they retire and to be personally cared for by their children or their children’s spouses if they become sick or disabled or need help with daily living. When it comes to financial support, however, the picture is very different. When asked, “who, ideally, should be mostly responsible for providing income to retired people,” just 8 percent of Filipinos answered “grown children or other family members.” While today there are sixteen elderly retirees who report being net recipients of income from their grown children for every one who reports being a net provider, when today’s workers look ahead to their own future retirement as many expect to be net providers of income to their grown children

as expect to be net recipients. The experience of other East Asian countries teaches that even the most robust old-age family support networks can quickly unravel in periods of rapid development and modernization, and that the first signs of stress usually involve a weakening in the expectation of financial support. This experience also teaches that the failure to provide for adequate government and market substitutes for the family can result in the economic and social marginalization of the elderly.

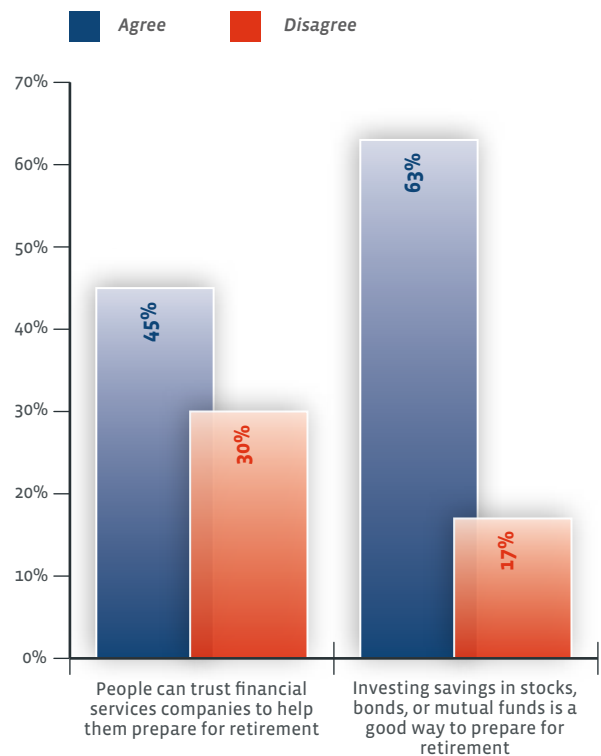
Responsibility for Retirement Provision

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? A large majority of Filipinos believe

that government should play the dominant role. In fact, the share of Filipinos who say that government should be mostly responsible for providing income to retired people (66 percent) is larger than in any other country except Thailand, while the share who say that “retirees themselves, through their own savings” should be mostly responsible (10 percent) is smaller than in any other country except China. The strong preference for government responsibility for retirement income over individual, savings-based responsibility doubtless reflects the fact that the Philippines has a pay-as-you-go state pension system and little tradition of funded retirement savings. Yet if most Filipinos are comfortable with the pay-as-you-go state pension model, their very high level of anxiety about possible future benefit reductions suggests that comfort is not at all the same thing as confidence.

Attitudes toward Financial Markets and Services

By almost any measure, the Philippines is the least market-oriented of the ten countries surveyed. Smaller shares of today’s retirees (3 percent) and today’s workers (8 percent) receive or expect to receive income in retirement from insurance or annuity products and/or stocks, bonds, or mutual funds than in any other country. Smaller shares of today’s retirees (7 percent) and today’s workers (10 percent) also report having received professional financial advice about how to invest their retirement savings than in any other country. Yet unlike some much more market-oriented countries, attitudes toward financial markets and the financial services industry are generally positive in the Philippines. When asked whether “people can trust financial services companies to help them prepare for retirement,” 45 percent agreed or strongly agreed while just 30 percent disagreed or strongly disagreed. Although very few Filipinos actually own stocks, bonds, or mutual fund shares, when asked whether investing in them “is a good way to prepare for retirement,” 63 percent



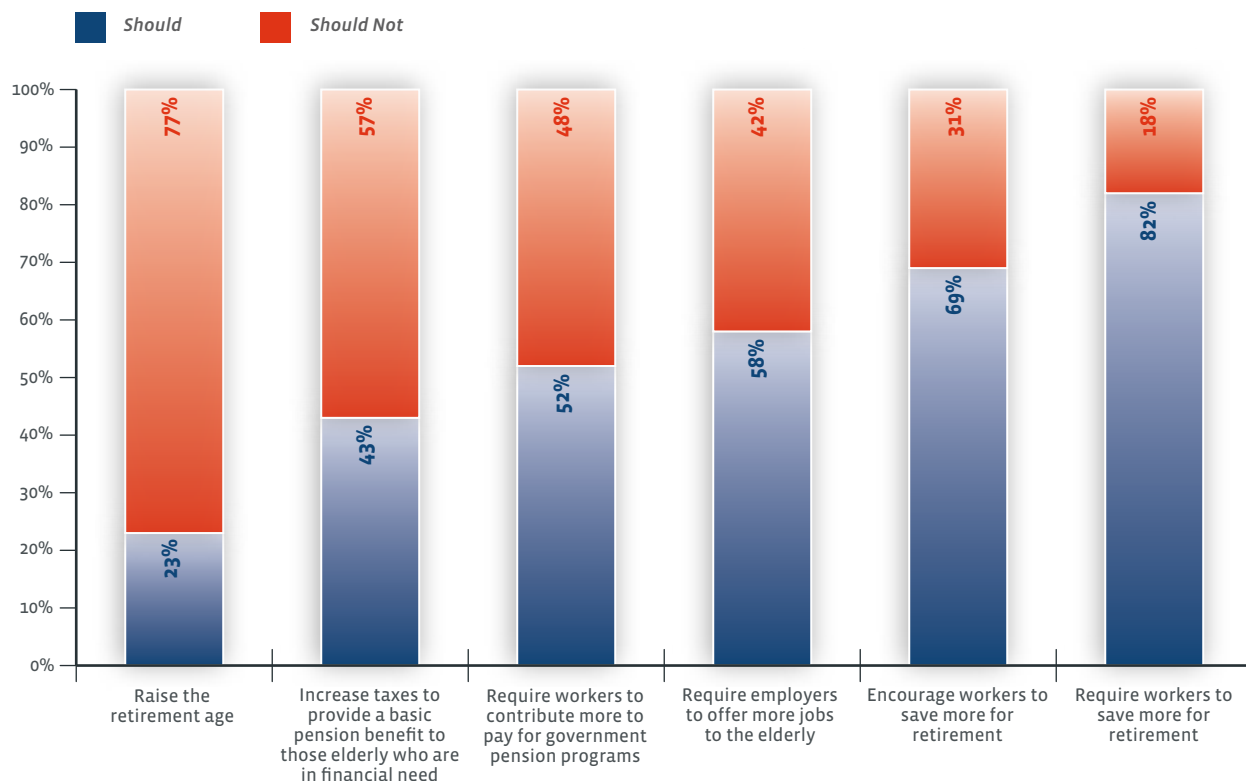
Despite their low level of market engagement, Filipinos have positive attitudes toward financial markets and the financial services industry.

Share of Filipino Respondents Agreeing and Disagreeing That...

agreed or strongly agreed while just 17 percent disagreed or strongly disagreed—a nearly four-to-one margin that is wider than in any other country except Thailand. At the same time, while only a small minority of today’s workers have received professional financial advice about how to invest their retirement savings, the share who say that they would consider seeking it is larger than in most other countries.

Attitudes toward Work and Retirement

The strong work ethic of Filipinos may help to offset their weak market-orientation and shore



What Filipinos Think about Retirement Reform

Share of Filipino Respondents Saying That Government Should or Should Not...

up their retirement prospects. When respondents were asked about their attitudes toward work and retirement, 51 percent agreed that “people should continue working as long as they are able,” more than in any other country except Indonesia, South Korea, and Thailand, while just 24 percent agreed that “people should retire at a fixed age and not work again.” Although 71 percent of today’s retirees report that they retired before reaching their sixtieth birthday, just 14 percent of today’s workers expect to retire that early, a larger shift in retirement behavior than in any other country surveyed. Of course, with 85 percent of today’s workers reporting that they expect to receive at least some income in retirement from a job or a business they own, it is difficult to say what retirement really means to the typical Filipino.

From Challenge to Opportunity

Filipinos tend to be optimistic about the future of their nation. Fifty-nine percent agree or strongly agree that “each new generation of workers will have a higher living standard than the previous one,” while just 16 percent disagree or strongly disagree, a margin of four-to-one. By a margin of five-to-one, they also agree that “each new generation of retirees will have a more secure retirement than the previous one.” As for the aging of the population, it barely registers as a challenge. When asked whether “supporting the growing number of elderly will be a large burden for tomorrow’s workers and taxpayers,” just 20 percent of respondents agreed or strongly agreed. When

asked whether it will be “a large burden for tomorrow’s families,” just 15 percent did.

Although this optimism may be understandable in a demographically youthful nation that is beginning to take off economically, it could become an obstacle to needed retirement reforms. Despite the large and persistent gap in state pension coverage, Filipinos agree by three-to-one that “the government is doing enough to help workers prepare for retirement.” Just 43 percent agree that the government should “increase taxes to provide a basic pension benefit to those elderly who are in financial need,” a lower level of support than anywhere else except Indonesia and Vietnam, while just 52 percent agree that it should “require workers to contribute more to pay for government pension programs,” a lower level of support than anywhere else except Vietnam. Despite the strong work ethic of Filipinos, moreover, the level of support for raising the retirement age is also very low. In fact, just 23 percent of respondents would support it, far fewer than in any other country surveyed.

The one policy area where almost all Filipinos are open to new government initiatives is retirement savings. Despite their preference for government responsibility for retirement income, very large majorities would favor reforms that either encourage workers to save more for their own retirement (69 percent) or that require them to do so (82 percent). This at least is good news, since most workers will indeed need to save more if they are to enjoy a secure old age.

Filipinos are right to be anxious about their retirement prospects, and without significant reforms the reasons for concern will only grow. But their high level of support for a savings mandate, together with their positive attitudes toward financial markets and the financial services industry, give reason to hope that the low level of retirement preparedness in the Philippines may over time improve.

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.

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 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.

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 contri-

butions 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 System: 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 the Philippines, the state pension system includes the Social Security System, the Pag-IBIG Fund, and civil service and military 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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