

by RICHARD JACKSON
and TOBIAS PETER

From Challenge to Opportunity

THE FUTURE OF RETIREMENT IN

Taiwan

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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](http://globalaginginstitute.org).

**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

Taiwan

Retirement institutions in Taiwan are in a period of rapid transition. The traditional expectation that families will support the retired elderly is weakening as society develops and modernizes, yet despite the government's efforts to strengthen formal retirement systems, adequate substitutes for the family are not yet fully developed. As often happens in periods of transition, along with the emerging new realities come new anxieties. Today's retirees worry about exhausting their savings, while today's workers worry that they are not preparing adequately for their own future retirement.

Taiwan's coming demographic transformation complicates the challenge of ensuring future retirement security. With the fertility rate registering just 1.3, far beneath the 2.1 average lifetime births per woman needed to maintain a stable population, Taiwan is due to age dramatically over the next few decades. The Taiwanese are concerned

that the growth in the elderly share of the population, which is on track to double from 19 to 38 percent by 2040, will push up burdens on workers and families alike. They are concerned that the government is not doing enough to help today's workers prepare for retirement. And they are concerned about the security of promised state pension benefits, which will become increasingly difficult to finance as the ratio of contributing workers to retired beneficiaries declines.

Yet in many ways, the Taiwanese are well prepared for the new realities. They have a highly market-oriented culture in which nearly three-quarters of today's workers expect to receive income from financial assets like insurance or annuity products and/or stocks, bonds, or mutual funds when they retire. They have flexible attitudes toward work and retirement that are well aligned with the needs of their aging society. They are also ready to support a wide range of constructive retirement reforms, from strengthening

Survey Overview

Taiwan

TODAY'S RETIREMENT		Realities	
Share of Today's Retirees Who...			
	Retired before Age 60	61	
	Live with Their Grown Children ¹	61	
	Depend Financially on Their Grown Children ²	16	
	Receive Income from the State Pension System ³	44	
	Receive Income from Financial Assets ⁴	50	
	Receive Income from a Job or Business	42	
	Have Received Professional Financial Advice	18	
	Have a Lot Less Income Now Than When Working	47	
	Worry More About Exhausting Their Savings Than 3 Years Ago	45	
TOMORROW'S RETIREMENT		Expectations	
Share of Today's Workers Who...			
	Expect to Retire before Age 60	33	
	Expect to Live with Their Grown Children ⁵	41	
	Expect to Depend Financially on Their Grown Children ²	6	
	Expect Income from the State Pension System ³	68	
	Expect Income from Financial Assets ⁴	73	
	Expect Income from a Job or Business	72	
	Have Received Professional Financial Advice	41	
	Expect to Have a Lot Less Income When Retired	37	
	Are Saving More for Retirement Than 3 Years Ago	37	
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	53	19
	Tomorrow's Families	65	15
	People Can Trust Financial Services Companies to Help Them Prepare for Retirement	30	38
	Government Is Doing Enough to Help Workers Prepare for Retirement	13	61
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	72	
	Increase Worker Contributions to Government Pension Programs	64	
	Raise the Retirement Age	40	
	Require Workers to Save More for Their Own Retirement	85	

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

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

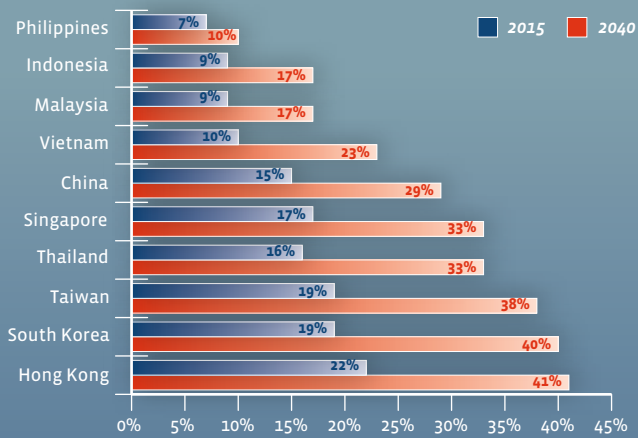
³ State pension system includes Labor Insurance and civil service and military pensions.

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

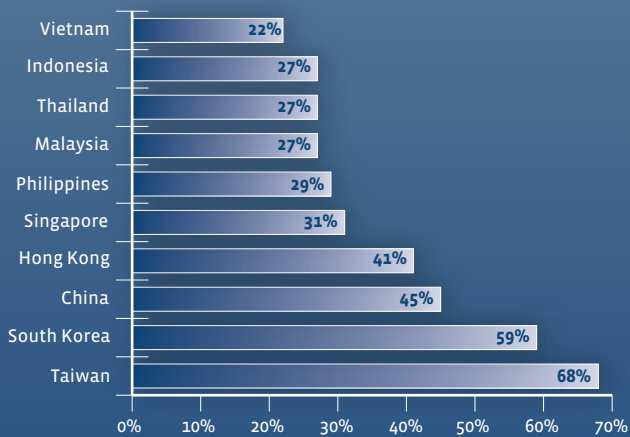
⁵ Refers to workers who have or expect to have children.

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?”

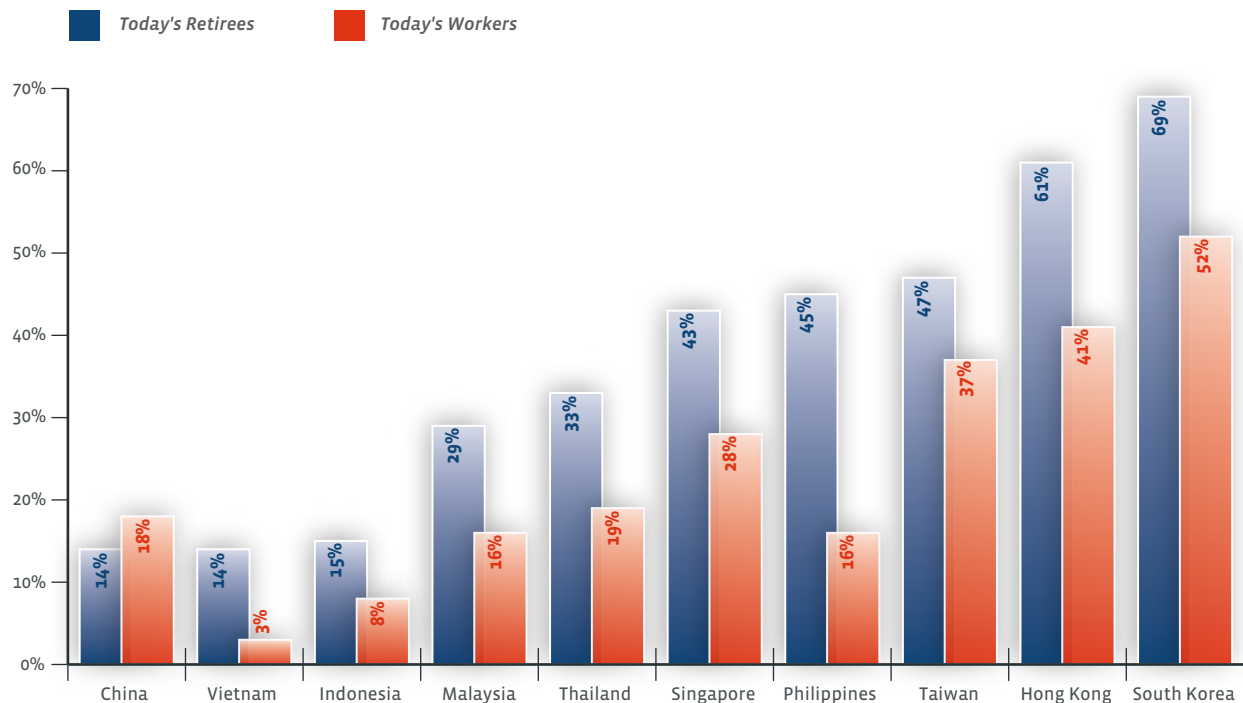
% Response by Country	Government	Retirees Themselves	Grown Children	Former Employers
China	63	9	11	16
Hong Kong	41	44	6	8
Indonesia	45	18	11	25
Malaysia	43	34	8	10
Philippines	66	10	8	17
Singapore	30	48	13	2
South Korea	23	61	10	2
Taiwan	36	40	6	16
Thailand	66	18	10	4
Vietnam	62	22	10	5

the floor of old-age poverty protection to requiring employers to offer more jobs to the elderly. Perhaps most importantly, enormous majorities of Taiwanese would favor new government initiatives that encourage or require workers to save more for their own retirement.

Today’s Retirement Realities

Today’s generation of retirees find themselves at a crossroads in the development of Taiwan’s retirement system. With just 16 percent reporting that they are financially dependent on their grown children, the family’s traditional role in providing income support to the elderly is already receding. Yet adequate government and market substitutes are not yet fully developed. Just 44 percent of today’s retirees report receiving Labor Insurance or Civil Service Pension Fund benefits, a lower rate of state pension receipt than anywhere else surveyed. Even including benefits from the employer-sponsored Labor Pension and New Labor Pension systems in the total, that share only rises to 64 percent, meaning that one-third of today’s retirees have no formal retirement benefits of any kind. To be sure, the share of today’s retirees with asset income is toward the high end of the East Asian spectrum. Fifty percent report receiving at least some income from insurance or annuity products and/or stocks, bonds, or mutual funds, more than in any other country except Singapore. But most of the retirees who have asset income are the same retirees who have pensions.

In eras of rapid development, the old often find themselves economically marginalized. The relative living standard of the Taiwanese elderly, whose median household income is 71 percent of the median for all households, is not especially low by East Asian standards. Even so, their economic circumstances are often precarious. Forty-seven percent of today’s retirees report that they have “a lot less income” now than when they were



Retirement insecurity is widespread in Taiwan.

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

working, more than anywhere else except Hong Kong and South Korea. Nor, despite the fact that one-third of today's retirees report receiving means-tested old-age assistance, does the outlook appear to be improving. When asked to compare their circumstances now with three years ago, 61 percent of today's retirees said that they have less income, more than anywhere else except Singapore and Thailand, while 45 percent said that they worry more about exhausting their savings, more than anywhere else except South Korea.

Tomorrow's Retirement Expectations

The retirement prospects for today's working generations are considerably brighter. Pension receipt rates are expected to rise sharply, reaching

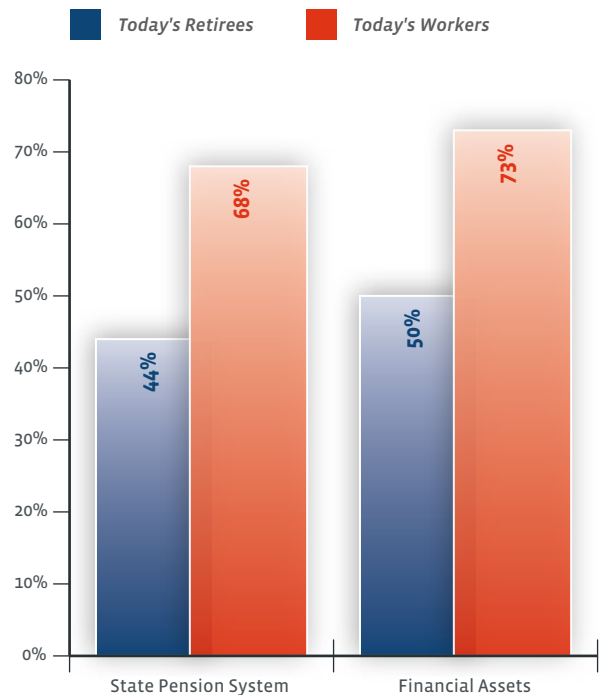
68 percent for the state pension system alone and climbing all the way to 89 percent if the employer-sponsored Labor Pension and New Labor Pension systems are included. Rates of asset income receipt, which are already high for today's retirees, are also expected to increase substantially. Seventy-three percent of today's workers expect to receive income from insurance or annuity products and/or stocks, bonds, or mutual funds when retired, a share only exceeded, and just marginally so, among workers in Hong Kong and Singapore.

Yet despite these positive trends, today's workers remain anxious about their retirement security. One of their greatest worries is that government will reduce their pension benefits, an understandable concern in a rapidly aging society with a primarily pay-as-you-go state pension system. Seventy-three percent of today's workers say that they worry about this, and 41 percent say

that they worry a lot, more than anywhere else except the Philippines and South Korea, which also have pay-as-you-go state pension systems. Concerns about the sustainability of Taiwan’s state pension system may be one reason why, despite rising rates of expected pension and asset income receipt, 37 percent of today’s workers anticipate having “a lot less income” in retirement than they do today, a larger share than anywhere else except Hong Kong and South Korea. It may also be one reason why 30 percent of today’s workers say that they are less confident they are “preparing adequately for retirement” than they were three years ago, a share only exceeded in Thailand. Significantly, Taiwanese workers are less concerned about possible reductions in employer pension benefits, which, unlike state pension benefits, are fully funded.

The Changing Role of the Family

While the role of the family in retirement security typically recedes as countries develop and modernize, the shift has progressed further in Taiwan than anywhere else in East Asia except South Korea. The share of Taiwanese who believe that grown children “should always honor and respect their parents and should help support them in any way that they can” (30 percent) is smaller than anywhere else, while the share who believe that “both parents and children are generally happier when they are independent and self-sufficient” (68 percent) is larger than anywhere else. At 61 percent, the share of today’s elderly who live with their grown children is still relatively large. But when today’s workers retire just 41 percent expect to live with their grown children, fewer than anywhere else except China and South Korea. Only 48 percent of today’s workers expect to be personally cared for by their grown children if they become disabled or need help with daily living when retired, roughly the same share as in South Korea, but little more than one-half the share anywhere



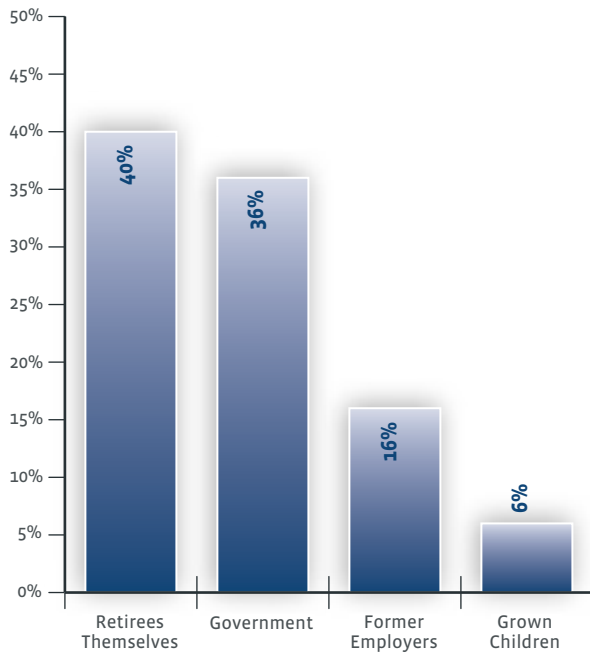
Rates of pension and asset income receipt will rise when today’s workers retire.

Shares of Today’s Retirees Receiving Income and Shares of Today’s Workers Expecting to Receive Income from the State Pension System and Financial Assets in Taiwan

else. As for retirement income, just 6 percent of Taiwanese believe that grown children or other family members should be mostly responsible for providing it. Already today, there are as many retirees who report being net providers of income to their grown children as report being net recipients.

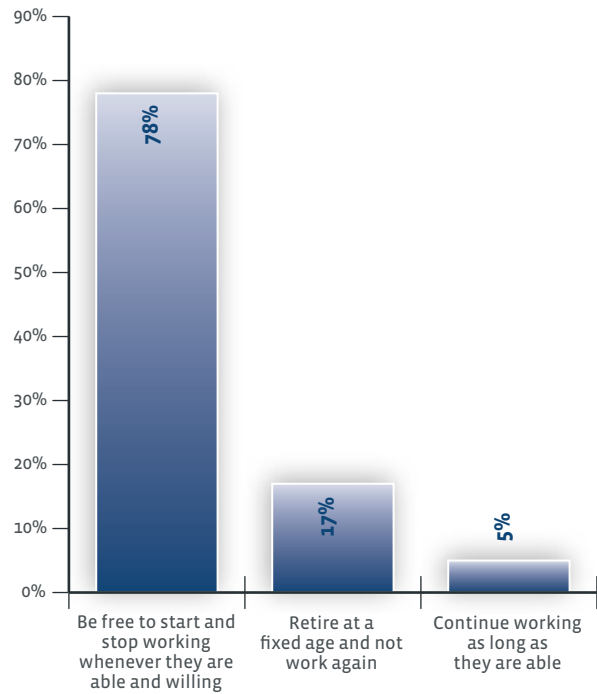
Responsibility for Retirement Provision

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? The Taiwanese are divided about the ideal shape of the retirement system. While a plurality believe that retirees themselves should be mostly responsible for providing retirement income



The Taiwanese are divided about who should be responsible for retirement income.

“Who, ideally, should be mostly responsible for providing income to retired people?” Share of Taiwanese Respondents Saying...



The attitudes of Taiwanese toward work and retirement are well aligned with the needs of their aging society.

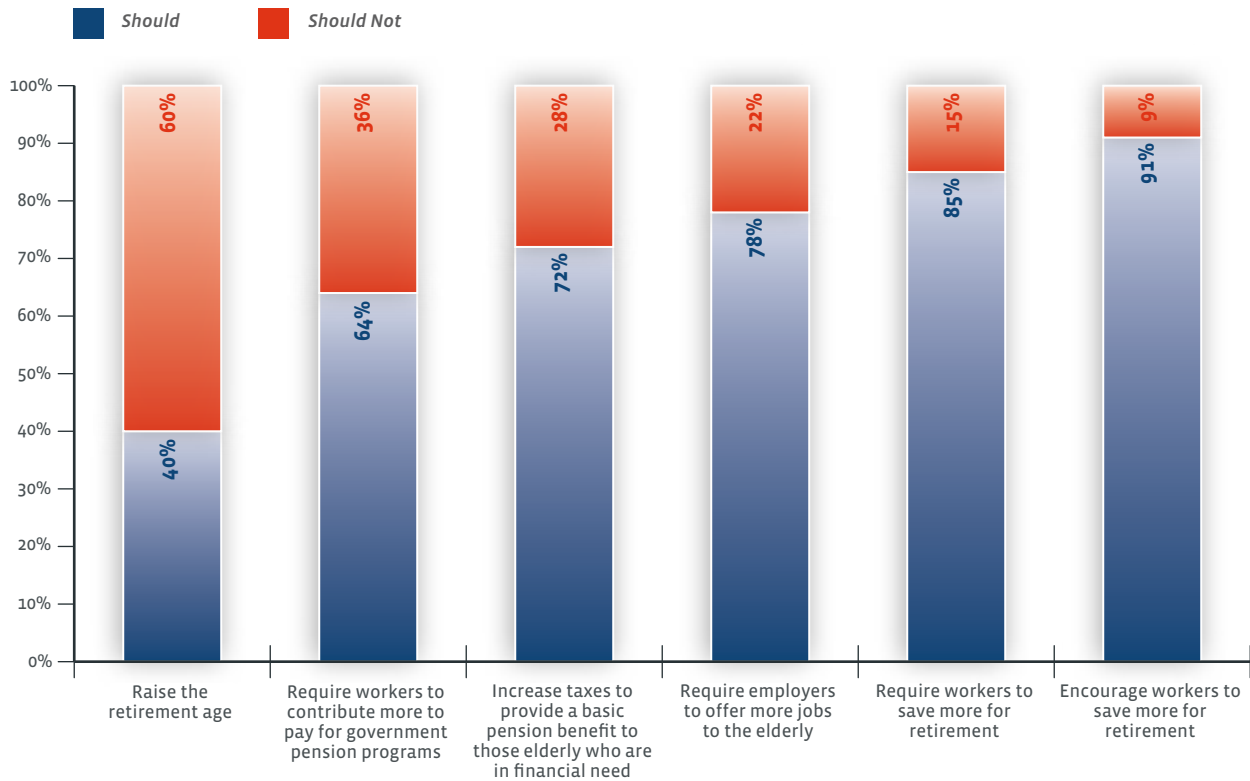
“Which view about work and retirement comes closest to your view?” Share of Taiwanese Respondents Saying That People Should...

through their own savings (40 percent), there is also substantial support for government responsibility (36 percent) and employer responsibility (16 percent). Support for government responsibility is much higher among older adults, while support for employer responsibility is much higher among younger adults. Although support for individual responsibility does not vary as consistently by age, it is much higher among more affluent and better-educated respondents, which suggests that it may grow over time.

Attitudes toward Financial Markets and Services

Attitudes toward financial markets and the financial services industry in Taiwan are in the

midst of a generational shift, with younger adults much more likely to have positive attitudes than older ones. When asked whether “investing savings in stocks, bonds, or mutual funds is a good way for people to prepare for retirement,” twice as many Taiwanese disagreed as agreed, a wider margin than anywhere else surveyed. Yet among younger adults aged 20-39, as many agreed that it was a good way to prepare for retirement as disagreed. When asked whether “financial services companies can be trusted to help people prepare for retirement,” the share of younger adults who agreed was nearly twice as large as the share of older adults who agreed. As in all East Asian societies, the Taiwanese overwhelmingly believe that individuals, rather than investment professionals, should be primarily responsible for making decisions about how retirement savings are invested.



What Taiwanese Think about Retirement Reform

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

Yet 41 percent of today’s workers report having received professional financial advice about how to invest their retirement savings, compared with just 18 percent of today’s retirees. All of this suggests that the balance of opinion about financial markets and the financial services industry may shift steadily in a positive direction over time.

Attitudes toward Work and Retirement

The attitudes of the Taiwanese toward work and retirement are well aligned with the needs of their aging society. The overwhelming majority of Taiwanese believe that “people should be free to start and stop working whenever they are able and willing” (78 percent), more than anywhere

else surveyed, while only small minorities believe that people should “retire at a fixed age and not work again” (17 percent) or “continue working as long as they are able” (5 percent). The share of respondents who favor a flexible view of work and retirement, moreover, has grown significantly since the first wave of the survey was conducted in 2011. Although retirement ages in Taiwan are now relatively low, with 61 percent of today’s retirees reporting that they retired before their sixtieth birthday, they are due to rise for today’s workers, just 33 percent of whom expect to retire that early. In keeping with the increasingly flexible attitudes of the Taiwanese toward work and retirement, a much larger share of today’s workers also expect to receive at least some income in retirement from a job or a business they own (72 percent) than is the case for today’s retirees (42 percent).

From Challenge to Opportunity

The Taiwanese are highly concerned about the impact of the aging of their population. When asked whether “supporting the growing number of elderly will be a large burden for tomorrow’s workers and taxpayers,” 53 percent agreed or strongly agreed while just 19 percent disagreed or strongly disagreed, a three-to-one margin that is wider than anywhere else except South Korea. When asked whether doing so will be “a large burden for tomorrow’s families,” 65 percent agreed or strongly agreed while just 15 percent disagreed or strongly disagreed, a four-to-one margin that, once again, is wider than anywhere else except South Korea.

The Taiwanese are also very concerned that current government policies are failing to prepare society to meet the retirement challenge. When asked whether “government is doing enough to help today’s workers prepare for retirement,” 61 percent disagreed or strongly disagreed, while only 13 percent agreed or strongly agreed. Elsewhere in East Asia, only Hong Kongers and South Koreans expressed anything approaching the same level of concern. It may be no coincidence that only Hong Kong and South Korea have populations that are due to age as much as Taiwan’s.

The good news is that the Taiwanese are eager to engage the retirement challenge and are ready to embrace a wide range of constructive reforms, even if they involve personal sacrifice. Most Taiwanese would support increasing taxes to provide a basic pension benefit to those elderly who are in financial need (72 percent), as well as requiring workers to contribute more to pay for government pension programs (64 percent). Meanwhile, though support for raising the retirement age is relatively low in Taiwan (40 percent), support for requiring employers to offer more jobs to the elderly is relatively high (78 percent). Perhaps most importantly, enormous majorities of Taiwanese would not only support new government initiatives that encourage workers to save more for their own retirement (91 percent), but would also support new initiatives that require them to do so (85 percent). The support for a new savings mandate, moreover, is equally high among all age groups and at all levels of income and educational attainment.

The challenge facing Taiwan may be daunting. But the Taiwanese people’s flexible attitudes toward work and retirement, their high and growing level of market-orientation, and their willingness to embrace retirement reform all bode well for the future.

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

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.

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 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 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 Taiwan, the state pension system includes Labor Insurance 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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