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Balancing Tradition and Modernity:

# The Future of Retirement in East Asia

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## ABOUT THE REPORT

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# Executive Summary

As the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations. Nowhere is this more difficult to do than in emerging East Asia.

This is a region in the midst of tremendous change. Economies have been modernizing at a breathtaking pace, living standards have been rising rapidly, and birthrates have plummeted, shrinking family size and setting up a dramatic aging of the population. Given East Asia's breathtaking pace of modernization, widening generational fissures now separate the young and the old. Affluence, educational attainment, and familiarity with markets have all been increasing cohort over cohort, and are much higher among young adults—or even among midlife adults—than among the elderly. Yet despite East Asia's remarkable development, the very modern is often yoked together with the very traditional, with dynamic high-tech existing side by side with large informal sectors and underdeveloped welfare states.

The region's retirement institutions, moreover, are still taking shape. Although East Asia's formal retirement systems are maturing, their scope and generosity are still surprisingly limited. To help minimize the state's role, governments in most countries rely on the "Confucian ethic" expectation that families themselves will provide for their own elderly members. Yet the family is already under increasing stress from the forces of modernization. And over the next few decades, massive age waves are due to engulf the region, slowing economic growth, driving up old-age dependency

costs, and heaping large new burdens on governments and families alike.

How are retirees in East Asia now coping with these changes? How are workers now planning for their future retirement? And, from young to old, what type of retirement system would the citizens of the region actually prefer, if given the choice?

To better understand the future of retirement in emerging East Asia from the perspective of the workers and retirees themselves, the Center for Strategic and International Studies (CSIS) conducted a survey in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan.<sup>1</sup> We also conducted the same survey in the UK to provide a point of comparison with a fully developed western economy.

## Survey Findings

### *Decline of Family Support*

The survey confirms that the extended family continues to play a far more important role in retirement security in East Asia than it does in the West. Between 35 and 65 percent of the elderly in the six survey countries live in the same household with one or more of their grown children, and income transfers within the extended family flow from the young to the old. The role of the family has already shrunk over the past few decades, however, and the survey reveals a widespread desire to shrink

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<sup>1</sup> For convenience, the term "country" is used in this report to refer to all six distinct territorial and economic entities where the survey was conducted. This includes Hong Kong SAR, which is a Special Administrative Region of the People's Republic of China. Use of the term country is not meant to imply any judgment about the sovereignty or status of any of the six entities in international law or practice.

it further. When asked “who, ideally, should be mostly responsible for providing income to retired people,” only a small minority of respondents in each country answered “the grown children of retirees or other family members.” Moreover, looking ahead to their own future retirement, current workers do not expect to receive the same level of retirement support from the extended family as current retirees are receiving. Declining family size may be one factor driving this shift. Another is the rapid pace of development and the diffusion of more individualistic “western values.”

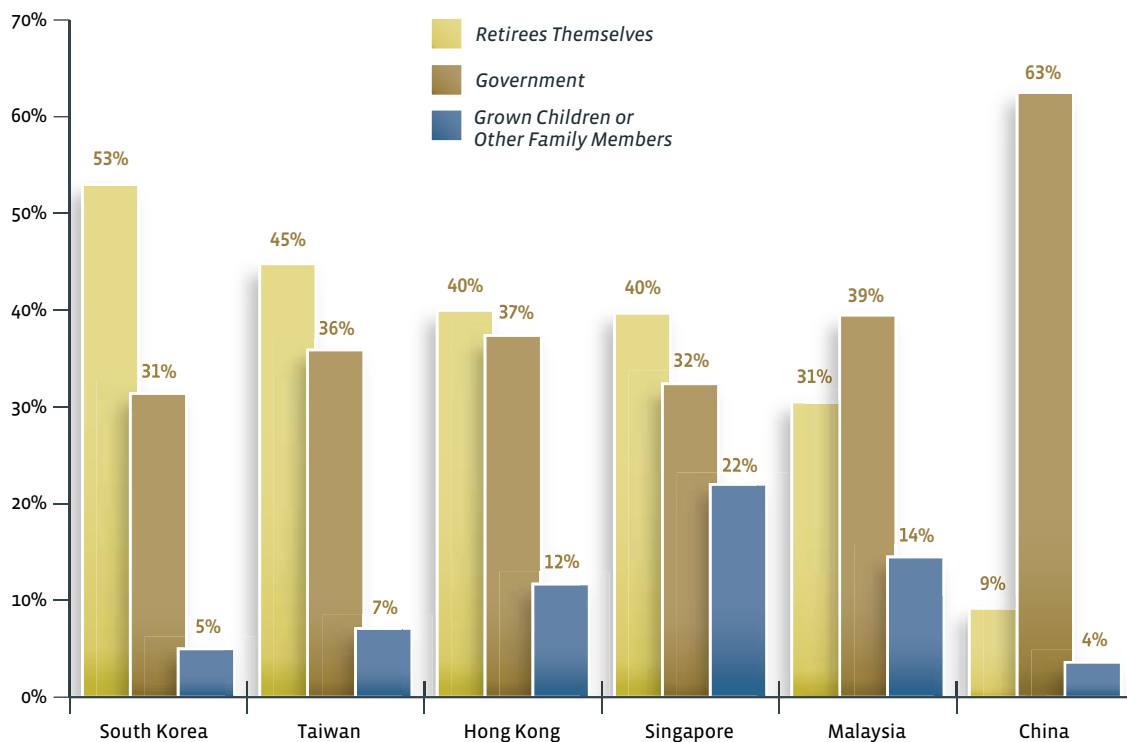
### *Rise of Individual Responsibility*

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? In every country except China and Malaysia, respondents chose individual, savings-based responsibility for retirement provision over government or employer responsibility. The

countries showing the strongest support all have mature capital markets and a long tradition of well-defined property rights. The demographic groups showing the strongest support include high-income and self-employed respondents. When asked to choose between the family and the individual—hypothetically assuming no possibility of government or employer support—respondents in every country chose the individual, and in some countries overwhelming shares of respondents did so: in Taiwan 72 percent and in South Korea 78 percent. Only in China and Singapore did family responsibility come anywhere near to competing with individual responsibility.

### *Today’s Retirement Realities*

People who have retired over the past decade or so have done so at an awkward juncture in the development of their countries. Traditional family support systems are already weakening, yet gov-



▣ *“Who, ideally, should be mostly responsible for providing income to retired people?”*

Share of Respondents Saying “Retirees Themselves, through Their Own Savings” versus Share Saying “Government” or “Grown Children of Retirees or Other Family Members”

ernment and market substitutes are not yet fully developed. Depending on the country, between 15 and 35 percent of today's retirees report receiving no retirement benefits of any kind, including means-tested poverty support. Today's retirees, moreover, often found it difficult to accumulate personal savings early in their careers, and many have been required to retire far too early for those savings to last. Between 13 percent of retirees (in China) and 75 percent (in South Korea) report having "a lot less income" than before they retired. Large shares also worry about being "a burden on their children," "poor and in need of money," and "in ill health and having no one to care for them." In the absence of mature and universal retirement systems, the meteoric pace of economic growth has opened up a yawning gulf between the living standard of the retired elderly and that of more affluent rising generations.

### *The Shape of Things to Come*

Given the huge generational fissures separating the old and young, retirement in East Asia will be entirely transformed over the next several decades as younger generations reach retirement age. The survey points to seven key trends that will shape the expectations and behavior of tomorrow's retirees:

- ▣ **Rising affluence.** Tomorrow's retirees will be increasingly affluent. As East Asia's societies age and economic growth slows, the return on their personal savings will tend to grow faster than the wages of the young, leading to a more western age distribution of income and wealth. In time, this may further diminish the perceived need for income support from the extended family.
- ▣ **Rising educational attainment.** Tomorrow's retirees will be much more likely to have completed a secondary or postsecondary degree. A growing share will be financially literate and actively engaged in retirement planning. A growing share will also have the skills (and desire) to remain in the workforce at older ages.

- ▣ **Greater individual initiative.** Tomorrow's retirees will expect to have much more individual control over their retirement savings. Many more either already own their own business or expect to own one in the future.

- ▣ **Growing market-orientation.** Tomorrow's retirees will be sophisticated investors who will demand sophisticated financial counseling and products. An astonishing share expect to receive income from financial assets: 75 to 90 percent, which is higher than the equivalent share for tomorrow's retirees in the UK.

- ▣ **More flexible attitudes toward work and retirement.** Tomorrow's retirees plan either to retire later than today's retirees did—or else to "retire" early from their first careers, but then transition to second careers or business ownership.

- ▣ **The maturation of national pension systems.** Tomorrow's retirees will be underserved by formal retirement systems even after those systems mature. For the great majority, benefit replacement rates will be low by western standards—and for sizeable minorities, benefits will not be available at all.

- ▣ **A persistent savings gap.** Tomorrow's retirees may not enjoy an adequate living standard in retirement unless they save more consistently and receive a higher return on their savings. Among today's midlife adults, asset-to-income ratios range between 1-to-1 and 2-to-1 in the survey countries, far less than is necessary to fill the likely gap between pension benefits and retirement income needs.

## Strategic Implications

### *Implications for Government Policymakers*

- ▣ **Require workers to save more for their own retirement.** This strategy not only fits well with the cultural preferences revealed in the survey, but also makes economic sense. As East Asia's



workforces grow more slowly or contract and productivity growth converges with developed-world rates, the advantages of funded systems over pay-as-you-go systems will become decisive.

- ✎ **Liberalize financial markets, protect property rights, and shore up the rule of law.** To the extent that retirement provision is savings-based, people must be assured full ownership of their savings. This will require reforming government policies that prevent savers from earning the global rate of return to capital.
- ✎ **Raise formal retirement ages.** The early mandatory retirement ages that are enforced in the formal sectors of most of the survey countries have become a costly anachronism. In rapidly developing economies, businesses may feel compelled to retire unskilled older workers to make room for more skilled younger ones. But as educational attainment and life expectancy rise, cashiering older workers will not only be unnecessary, but counterproductive.
- ✎ **Establish more generous floors of old-age poverty protection.** Providing for a robust floor of old-age poverty protection is not merely a matter of ensuring social adequacy. In rapidly aging societies with persistent gaps in pension coverage, the failure to do so could lead to social unrest—or even political crisis.

### *Implications for Financial Service Providers*

- ✎ **Design and market financial products and services for workers who want to assume responsibility for their own retirement.** The growing emphasis on individual responsibility, combined with the growing familiarity with financial markets among today's workers, suggests that the demand for sophisticated financial products will grow rapidly. Financial service

providers should be aware, however, that younger, more educated, and more market-oriented generations will demand greater control over investment choices and will pay much more attention to whether they are receiving a market rate of return on their savings.

- ✎ **Satisfy the widespread public demand for annuitizing household savings and lump-sum employer payouts.** The survey reveals a surprisingly high level of support for annuitizing retirement income. People appear to understand that lump-sum payouts are an atavistic relic of paternalistic employment systems and are inadequate in societies where people retire so early and live so long.
- ✎ **Design products for more flexible patterns of work and retirement.** As East Asian societies move away from the traditional pattern of lifelong career employment, workers will want to be able to access savings in retirement and insurance products to finance transitions to second careers.
- ✎ **In designing and marketing financial products, be sensitive to attitudes about filial piety.** The implications of the survey are subtle but important. Do not assume that filial piety and financial independence are mutually exclusive. Large shares of respondents both say that they expect to be financially independent in retirement and that they expect to live with their grown children. And do not assume that resistance to the ethic of filial piety will continue to grow among young adults. The survey contains considerable evidence of an incipient Confucian revival in several countries.



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# The CSIS East Asia Retirement Survey

**A**s the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations. Nowhere is this more difficult to do than in emerging East Asia. It is not just that the region is due to age dramatically, but also that rapid development is transforming retirement attitudes and behavior. Over the past few decades, countries have been urbanizing and industrializing at a remarkable pace. Throughout the region, educational attainment, employment patterns, and levels of income and wealth are undergoing stunning shifts from one generation to the next. In most countries, the extended family—the mainstay of retirement security since time immemorial—is under increasing stress from the forces of modernization. Yet most countries have yet to develop adequate government and market substitutes.

To better understand the future of retirement in emerging East Asia, CSIS conducted a survey

in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan.<sup>1</sup> We also conducted the same survey in the UK to provide a point of comparison with a fully developed western economy. Most surveys dealing with retirement-related issues in emerging markets focus exclusively on middle- and upper-income households in the formal sector of the economy. Our survey encompasses a much broader cross section of the population, including the less educated and less affluent, and thus gives a more complete picture of retirement experience and expectations. China is a partial exception. Although our survey casts a wide net here as well, it is limited to urban residents and excludes the much less developed countryside. In all countries, the respondents consisted of current and retired main earners, who are the members of households most likely to be responsible for retire-

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<sup>1</sup> For convenience, the term “country” is used in this report to refer to all six distinct territorial and economic entities where the survey was conducted. This includes Hong Kong SAR, which is a Special Administrative Region of the People's Republic of China. Use of the term country is not meant to imply any judgment about the sovereignty or status of any of the six entities in international law or practice.

ment planning and to have a detailed knowledge of their family's finances.<sup>2</sup>

The survey contained three modules. The first module contained attitudinal or normative questions designed to identify key social and cultural assumptions likely to affect the future direction of retirement behavior and policy. The questions ranged from respondents' views about filial piety and long-term savings to their views about the ideal role of government, individuals, and family in providing for retirement income or caring for the frail elderly. The second module turned to respondents' own personal retirement experience and expectations. Respondents who were already retired were asked about their current circumstances, while those who had not yet retired were asked about their expected circumstances. The questions addressed such matters as the age at which respondents retired or expect to retire; their actual or expected sources of retirement income; and intergenerational relationships within their extended families, including current and expected living arrangements, financial support, and informal caregiving. The third module collected basic demographic and economic data from each respondent, including age, gender, and marital status; family size and composition; employment history and educational attainment; and household income and assets.

The picture that emerges from the survey is one of societies—and retirement systems—in the midst of a breathtaking transformation. The dominant role of the family in retirement provision is receding. In every country except China, there is considerable support, and in some cases a clear preference, for shifting responsibility from the family to individuals, rather than to government. For today's elderly, who have reached old age when the old order is already weakening but the new order has yet to take shape, retirement can often be a time of economic and social marginalization. The retirement prospects of today's working-age adults, who are far more affluent, far

more educated, and far more market-oriented, are generally brighter. Yet many young and midlife adults also worry about their security in old-age, and with good reason. Despite high levels of support for individual responsibility for retirement provision, most people are not accumulating sufficient assets to maintain their standard of living in retirement. Many have high expectations for their retirement years, but without fundamental changes in private behaviors and public policies, many will be disappointed.

The survey on which this report is based offers powerful new insights into the coming transformation of retirement in East Asia. In the first chapter, we frame the discussion by examining the broader economic and social trends that are reshaping East Asia's emerging markets. We then turn to the survey findings themselves. In the second chapter, we explore what the survey tells us about changing attitudes toward retirement, and in particular the role of families, individuals, and government in retirement provision. In the third chapter, we examine the retirement experience of today's generation of retirees, who find themselves caught awkwardly in the crosscurrents of tradition and modernity. In the fourth chapter, we identify likely trends in the retirement behavior and expectations of future generations of retirees by examining a series of cohort shifts, from rising affluence and educational attainment to greater individual initiative and growing market-orientation, that make their life experience very different from that of today's retirees. In the fifth chapter, we then briefly discuss the strategic implications of the survey findings for government policymakers and financial service providers.

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<sup>2</sup> The Technical Note at the end of the report contains additional detail on the survey methodology. Supplemental survey data are available on the GAP Index website at [csis.gapindex.org/asia](http://csis.gapindex.org/asia).

# East Asia at a Crossroads

**L**ike most institutions, retirement is a product of its historical environment. Before turning to the survey findings, it may be helpful to consider the broader economic, social, and cultural trends shaping East Asia's emerging markets. In this chapter, we briefly discuss those we believe will be most important in determining the evolution of retirement behavior and expectations. Along the way, we point out some crucial ways in which the environment in East Asia differs from that in the West.

▣ **East Asia's emerging markets have experienced a long period of extraordinarily rapid living standard growth.** The so-called East Asian Tigers—Hong Kong, Singapore, South Korea, and Taiwan—led the way beginning in the 1960s. Economic growth accelerated somewhat later in Malaysia, often called the Islamic Tiger, and has been somewhat slower. In China, it did not take off until the 1980s, when the country began its transition to a market economy. Since

the mid-1970s, real per capita living standards have risen fourfold to sixfold in the Tigers and more than fifteenfold in China, which started out much poorer. (SEE FIGURE 1.) In no major western economy have they more than doubled over the same period. Economic growth has now slowed in the Tigers as living standards, except in Malaysia, have converged with those of the developed world. In China, living standards are still doubling every seven or eight years. East Asia's unprecedented economic rise has not only led to vast improvements in material welfare, but has also helped to foster a sense of optimism about the future.

▣ **While living standards have been growing rapidly throughout East Asia, its emerging markets are at very different stages of economic and social development.** In Hong Kong and South Korea, median household income is now approaching the average for the G-7 countries, and in Taiwan and Singapore it already exceeds it. On the other hand, living standards

in Malaysia and China, where median household incomes are, respectively, just two-fifths and one-third of the G-7 average, still lag far behind the world's most advanced economies. (SEE FIGURE 2.) The median income figure for China, moreover, refers to urban households. Including the vast and underdeveloped countryside in the average, the gap between China and the G-7 countries is even wider. These differences in income are mirrored by differ-

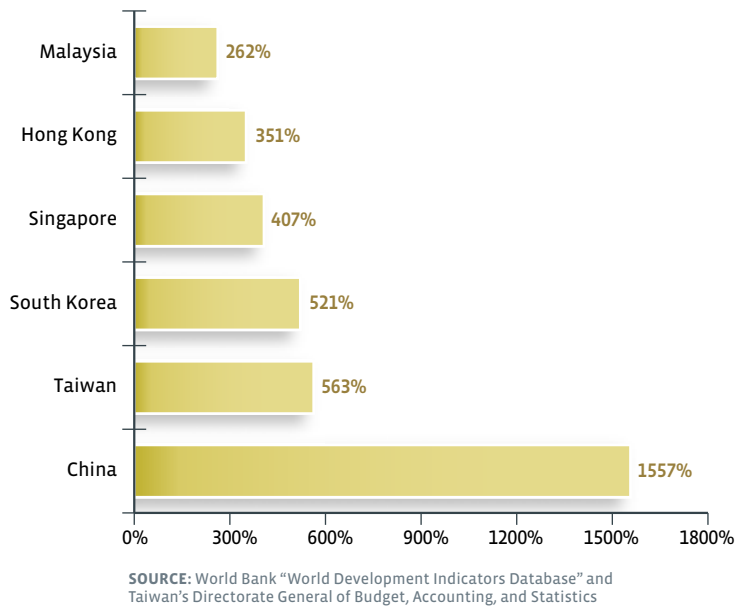


FIGURE 1. *Cumulative Percentage Change in Per Capita GDP, in Constant 2005 PPP Dollars, 1975 to 2010*

ences in market development and institutional capacity, which tend to be stronger in the higher-income countries.

East Asia's rapid development has been accompanied by equally rapid demographic change. The entire region has been moving through the so-called demographic transition—the shift from high fertility and high mortality to low fertility and low mortality that inevitably accompanies development and modernization. Until the mid-1970s, all East Asian countries had high birthrates, large families, and rapidly growing

populations. The elderly, defined throughout this report as adults aged 60 and over, only comprised a tiny fraction of the population—less than 10 percent in every country. But since then fertility rates have plunged beneath the 2.1 replacement level in every country except Malaysia, and in the other Tigers are now among the lowest in the world. Meanwhile, life expectancy has soared. As a result, age structures are shifting inexorably upward. Except

in Malaysia, median ages have already risen to between 35 and 42, up from 18 to 22 in 1975. Due to its higher fertility rate, Malaysia, where the median age is still only 26, is now much younger than the other survey countries and is projected to remain much younger for the foreseeable future. Although the elderly share of the population in East Asian countries is still relatively small, it too has begun to grow rapidly. The West underwent the same demographic transition, but it began much sooner and unfolded at a much slower pace. East Asia is traversing the entire distance from demographically young and growing to demographically old and declining at a breathtaking pace—not just more rapidly than the West in decades

past, but more rapidly than any other region in the emerging world today.

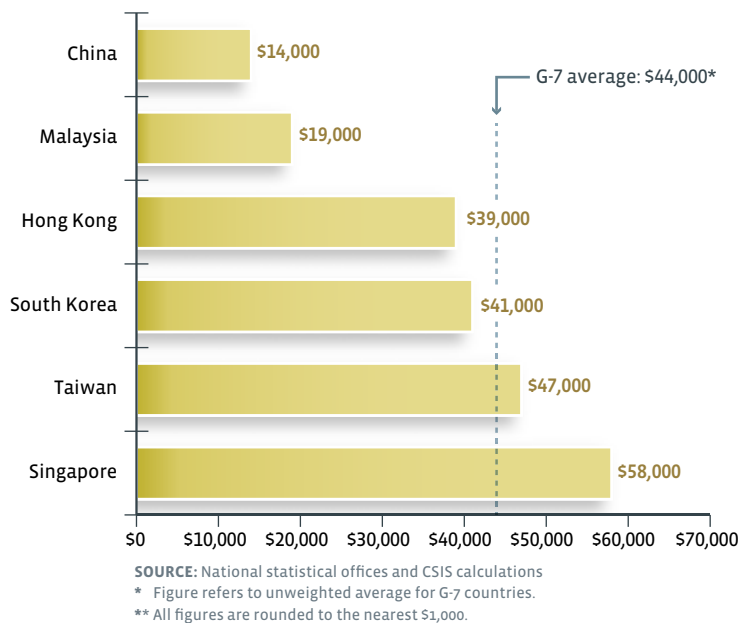
Up to now, demographic trends in East Asia have been leaning strongly with economic growth. When fertility first falls it opens up a window of opportunity for economic and social development known as the demographic dividend. As the number of children declines, the ratio of working-age adults to young and old dependents rises rapidly, pushing up per capita incomes. In 1975, the share of the population in the working years ranged between 41 and 48 percent in the survey countries. Today,

it is at least 60 percent in every country except Malaysia. Beyond this simple arithmetic, the dynamics of declining dependency burdens can also enhance economic performance. Labor-force participation rates tend to increase as the time of women is freed up for participation in the market economy. Savings rates tend to increase as more of the population ages into the high-saving middle years. And investment in human capital tends to increase as families (and governments) find that they are able to devote greater resources to enhancing the “quality” of each increasingly precious child. According to some estimates, the dramatic shift in East Asia’s age structure accounts for between one-third and two-fifths of its living standard growth since the mid-1970s.<sup>3</sup>

▣ **Most East Asian societies have unusually high savings rates.**

National and household savings rates in most of East Asia’s emerging markets tower over those in most western countries. There are several explanations for East Asia’s greater thriftiness. According to the well-known Duesenberry relative income hypothesis, household saving tends to be high in societies experiencing rapid economic growth, since people’s incomes rise faster than their consumption aspirations are able to keep pace. Less-developed consumer credit and mortgage markets and less-developed social safety nets also play a role by increasing the need for precautionary savings. Perhaps the most important explanation, however, lies in

the lifecycle motive for savings—that is, saving for retirement. The motive appears to operate more strongly in East Asia than in the West, in part because the reach of formal retirement systems is still limited and in part because the traditional “Confucian ethic” expectation that children will support their aged parents is weakening. This fact helps to explain the remarkable levels of support for savings-based retirement provision revealed in the survey.



▣ **FIGURE 2. Median Annual Household Income, in PPP Dollars, in 2010 or Most Recent Year Available\*\***

▣ **In striking contrast to the West, the young are generally more affluent than the old.**

When societies undergo extremely rapid development, the elderly often experience relative impoverishment and economic and social marginalization. While political power tends to be concentrated among the old in East Asian societies, economic power over the past few decades has increasingly shifted to the young. In the West, rising generations worry that they will never attain the living standard of their parents, who came of age in an era of more rapid economic growth. In East Asia, older

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



generations marvel at the unprecedented affluence of their children. In Malaysia and Taiwan, the median household income of young adults aged 20–39 exceeds the income of the elderly by two to one; in Hong Kong and South Korea, it exceeds it by three to one.

▣ **More broadly, the rapid pace of development and modernization has opened up an enormous generation gap between young and old.**

Rising generations in East Asia are not only more affluent than older generations, but more educated, more market-oriented, and in many countries more entrepreneurial. Consider South Korea. When retirees now in their seventies came of age, South Korea was still a predominantly agrarian society of illiterate peasant farmers with a living standard far beneath that of most Latin American countries. Today, it has the highest secondary school and university graduation rates in the world—and has become the trendsetter for technological and cultural “cool” in East Asia. Or consider China. When the “Red Guard” generation now in its late fifties and early sixties came of age, China had a per capita income equal to just 2 percent of the developed-world average. Today, after three decades of double-digit growth, it is a global economic and financial powerhouse whose massive foreign exchange reserves prop up slow-growth and debt-ridden economies in the developed world.

▣ **Most East Asian societies have high levels of inequality.**

It is well known among development economists that income inequality usually rises in societies experiencing rapid economic growth—and East Asia’s emerging markets are no exception. No country in history has lifted more people out of poverty than China has over the past few decades, yet few countries have a higher GINI coefficient—the standard measure of inequality. Inequality is also very high in Hong Kong, Malaysia, and Singapore. Only in South Korea and Taiwan is it within the range that exists in today’s western economies. In some of the survey coun-

tries, differences in income are reinforced by deeper social divisions. In China’s cities, there are large income disparities between residents with an official urban residence registration or *hukou* and the “floating population” of rural migrants. In Malaysia, there are large income disparities between the Malay majority and the more market-oriented Chinese minority. While growing inequality is also a concern in some western countries, notably the United States, their GINI coefficients are dwarfed by those in most of East Asia’s emerging markets.

▣ **Despite rapid modernization, East Asian societies remain traditional in important ways—most notably, in their approach to retirement security.**

Most of the survey countries have underdeveloped welfare states and large informal sectors. And all continue to rely much more heavily on the extended family for retirement security than western countries do. Large shares of the elderly live with their grown children, and income transfers within families flow from the young to the old, whereas in the West they flow in the opposite direction. In most of the survey countries, the role of the family is buttressed by the Confucian ethic of filial piety, which requires grown children to support and care for their aged parents. As we will see, however, this ethic is already under stress as more individualistic “western values” gain currency—and it will soon come under intense new demographic pressure as family size declines.

▣ **The reach of national pension systems in East Asia’s emerging markets is still limited.**

There is considerable diversity among the national pension systems of the survey countries. China and South Korea have adopted the “pay-as-you-go” model prevalent in the West, though China’s system also includes a second nominally funded tier of personal accounts. In this model, the tax contributions of current workers directly pay for the benefits of current retirees. Malaysia and Singapore fund retirement benefits through “provident funds,” in which

worker contributions are saved, invested, and managed by government. In Hong Kong, the national pension system is also based on personal savings, but worker contributions are privately invested and managed. Taiwan is transitioning toward a hybrid system that combines a first pay-as-you-go tier with a second genuinely funded personal accounts tier. What all of the survey countries have in common is that their national pension systems leave significant shares of the workforce uncovered, especially self-employed and informal-sector workers. Low coverage rates, in combination with low replacement rates in most countries, mean that the fiscal burden of aging populations may be less than in the West. But it also means that the burden on individuals—or their extended families—will be greater.

East Asia's emerging markets face massive age waves that threaten to slow economic growth and drive up old-age dependency costs. As the demographic transition unfolds, the relative growth in the number of elderly eventually overtakes the relative decline in the number of children—and demographics begin to lean against economic growth. With the exception of Malaysia, all of the survey countries are now reaching this tipping point. Over the next three decades, the elderly share of the population will ramp up

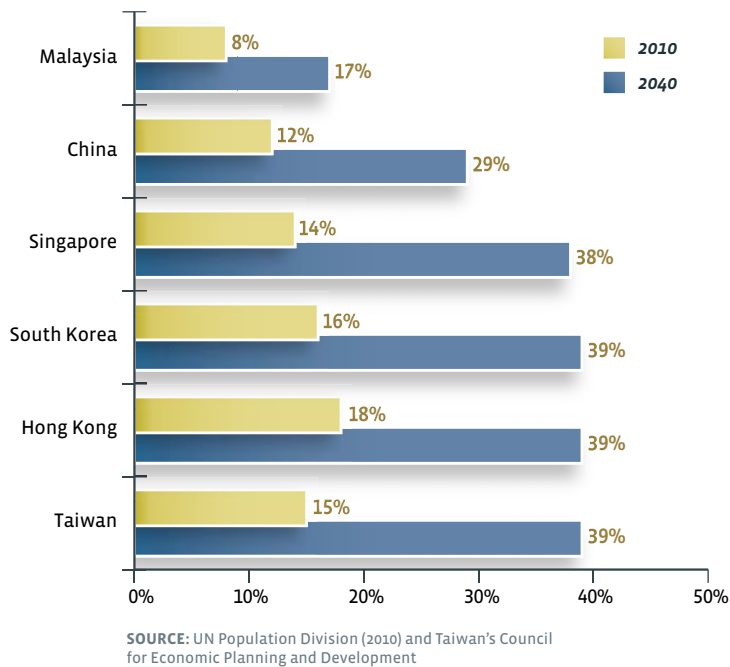


FIGURE 3. *Elderly (Aged 60 & Over), as a Percent of the Population, in 2010 and 2040*

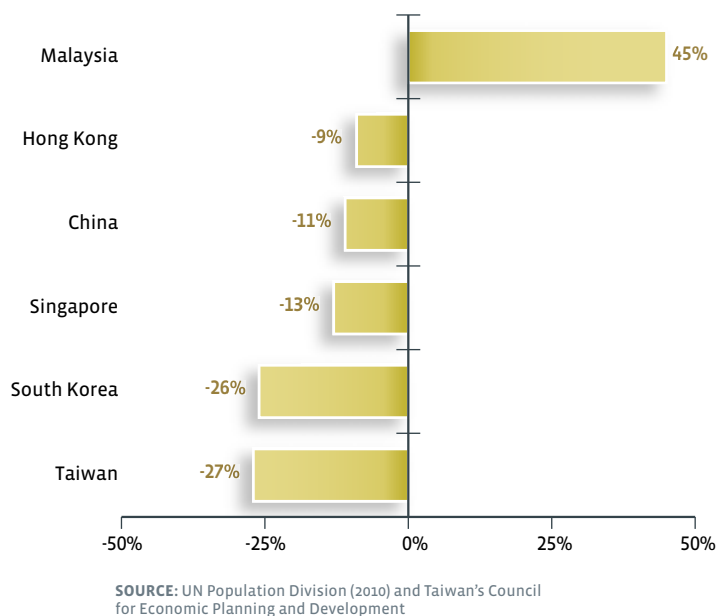


FIGURE 4. *Cumulative Percentage Change in the Working-Age Population (Aged 20–59), 2010 to 2040*

dramatically. By 2040, China will be an older country than the United States. Meanwhile, Hong Kong, Singapore, South Korea, and Taiwan, where the elderly share of the population will by then be closing in on 40 percent, will be vying with Japan, Germany, and Italy for the title of oldest country on earth. (SEE FIGURE 3.) Along with aging populations, all of the survey countries except Malaysia will also have stagnant or contracting populations. By

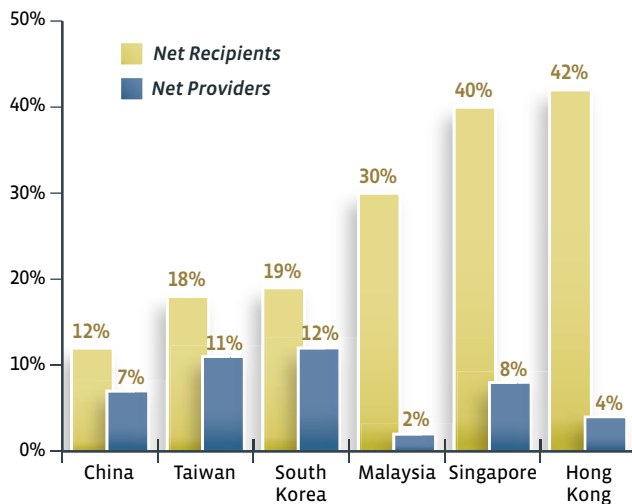
2040, there will be roughly 10 percent fewer working-age Chinese than there are today and roughly 25 percent fewer working-age South Koreans and Taiwanese. (SEE FIGURE 4.) Just as in Japan and the West, old-age dependency burdens will mount and economic growth will slow. East Asia's emerging markets thus find themselves at a crossroads, with only limited time remaining to reform retirement policies before their age waves roll in.

# Survey Findings: Changing Attitudes toward Retirement

While an understanding of broad demographic, economic, and social trends must inform any investigation of the future of retirement, only detailed survey data can yield direct insights into how individual attitudes, behavior, and expectations are actually evolving in response to those trends. We begin our discussion of the survey findings by examining changes in attitudes toward retirement provision. In the first section of this chapter, we focus on the extended family—the role it now plays in retirement security, the role people expect it to play in the future, and the role people would ideally like it to play, which as we will see is not always the same thing. In the second section, we focus on attitudes toward individual responsibility for retirement provision, for which we find a remarkable breadth and depth of support in most of the survey countries.

## Decline of Family Support

By almost any measure, the extended family plays a far more important role in retirement security in East Asia than it does in the West. Between 35 and 65 percent of the elderly in the six survey countries live in the same household with one or more of their grown children, with South Korea at the low end of the spectrum and Singapore at the high end. Among major western countries, there are only five where the share exceeds 15 percent and only two—Italy and Spain—where it exceeds 25 percent. Also in striking contrast to the West, net financial support within families flows from the young to the old. In the UK, there are sixteen retired elders who report giving more financial support to their grown children than they receive from them for every retired elder who reports receiving more than he or she gives. In China, Korea, and Taiwan, the number of retired elders who



➤ **FIGURE 5.** *Share of Retired Respondents Aged 60 & Over Who Are Net Recipients of Financial Support from Their Grown Children versus Share Who Are Net Providers*

are helped financially by their grown children exceeds the number who help their grown children by nearly 2-to-1. In Singapore, the ratio is 5-to-1, in Hong Kong 10-to-1, and in Malaysia more than 15-to-1. (SEE FIGURE 5.)

Yet at the same time, the survey reveals a huge inconsistency between the role that the family now plays in retirement provision and the role that people would like it to play. When asked who, ideally, should be mostly responsible for providing income to retired people—government, former employers, retirees themselves through their own savings, or the grown children of retirees or other family members—only small minorities of respondents answered “the grown children of retirees or other family members.” (SEE FIGURE 6.) Even in Singapore, which exhibits the broadest support for the traditional ethic of filial piety, the share was just 22 percent. In Taiwan the share was 7 percent and in South Korea it was 5 percent. The lowest share of all was in China, where only 4 percent of respondents believe that primary responsibility for providing retirement income should fall to the family—not much more than the 1 percent who believe

this in the UK. In most countries, this belief is higher among the elderly, among women, and among less-educated respondents. But in no country does it constitute even close to a majority view among any major segment of the population.

The extended family can of course provide other types of support to the elderly besides income support, the most important being personal care for the frail elderly. Not surprisingly, significantly more respondents in all countries believe that grown children or other family members should continue to play the leading role in providing for this dimension of retirement security than believe they should in providing for income support. Yet even here, the share is under one-

third in every country except Singapore.

Changing attitudes toward the role of the family in retirement security may in part reflect the demographic realities of declining family size. Virtually all of today’s elderly in every survey country have at least one child to turn to for support, and the great majority have two or more children. The outlook for today’s young adults is dramatically different. In all but one of the countries, a large share of 20–39 year-olds neither have nor expect to have children: roughly one-fifth in Malaysia, between one-quarter and one-third in Singapore, South Korea, and Taiwan, and an astonishing one-half in Hong Kong. The exception is China, where the expectation of parenthood remains nearly universal among the rising generation. (SEE FIGURE 7.) China may limit family size through its one-child policy, but virtually everybody expects to have a family.

The most important driver of change, however, is probably the rapid pace of development—and the industrialization, urbanization, and diffusion of more individualistic western values that have accompanied it. To be sure, many people in East Asia still profess an unconditional belief in the tra-

ditional ethic of filial piety. When asked which view about children’s responsibility toward their parents comes closest to theirs, at least one-third of respondents in every country agreed that children, even when grown, “should always honor and respect their parents and support them in any way that they can.” In Malaysia and Singapore, well over one-half of respondents agreed that they should. The more significant finding, however, is that many people begged to differ. At least 30 percent of respondents in every country except Singapore instead said that “there is too much emphasis on honoring and respecting parents” and that “both parents and children would be happier if they were more independent and self-sufficient.” In South Korea and Taiwan, this was the majority view. (SEE FIGURE 8.)

The shift in cultural assumptions is already affecting current generations of retirees—and shaping the expectations of future ones. Although levels of multi-generational living in East Asia remain very high by western standards, they have in fact been falling for at least two decades in most countries. In South Korea, where the decline has been steepest, the share of the elderly living with their grown children has plunged by half since the mid-1980s, from 78 percent to 37 percent. And though the number of parents who depend on their grown children for financial support far exceeds the number of grown children who depend on their parents, a significant share of the elderly in all countries—and sizeable majorities of them

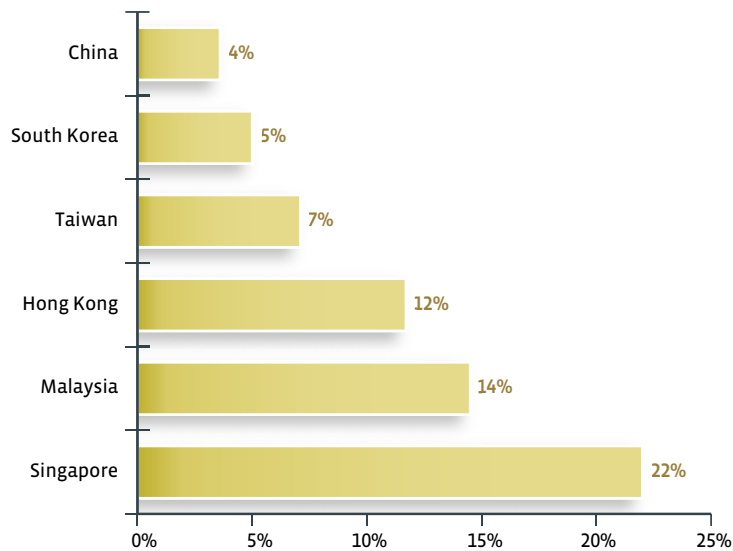


FIGURE 6. “Who, ideally, should be mostly responsible for providing income to retired people?”  
Share of Respondents Saying “Grown Children of Retirees or Other Family Members”

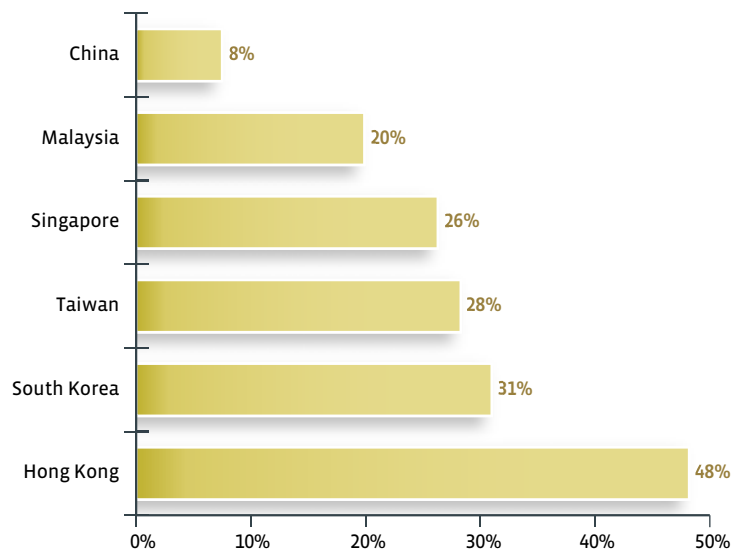
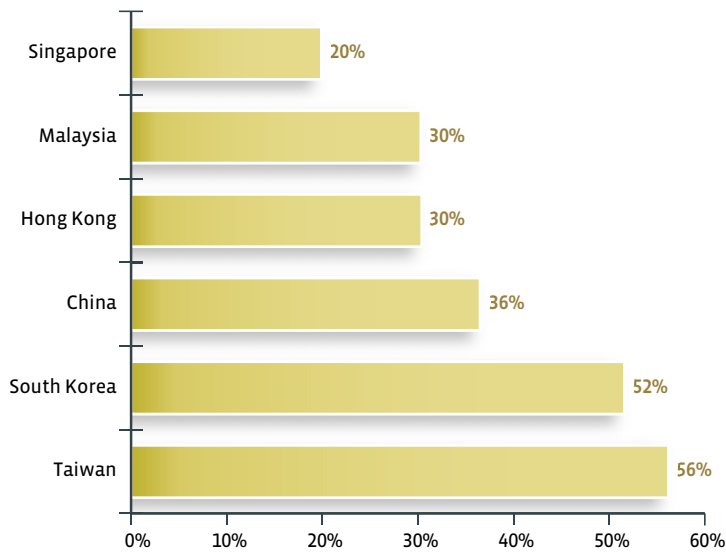


FIGURE 7. Share of Respondents Aged 20–39 Who Neither Have Nor Expect to Have Children

in China and South Korea—report that they and their grown children are “financially independent.”

Looking to the future, expectations among today’s workers suggest that the erosion of the



**FIGURE 8.** *“Which view about grown children’s responsibility toward their parents comes closest to yours?”*

Share of Respondents Saying “Both Parents and Children Would Be Happier If They Were More Independent and Self-Sufficient”

extended family’s role in retirement security is likely to continue, though the degree of that erosion will vary greatly both by country and by type of support. Among those current workers who have or anticipate having children, the share who expect that they will be personally cared for by their grown children if they are sick or disabled remains very high in all countries (despite the fact that most people no longer view this arrangement as ideal). Indeed, except in South Korea, at least two-thirds of current workers expect that their grown children will take care of them. Expected rates of multigenerational living also remain high in China, Malaysia, and Taiwan, though they decline steeply relative to the rates for today’s elderly in Hong Kong, Singapore, and South Korea. The decline in South Korea, where the tradition of family responsibility for retirement security appears to be under more stress than anywhere else, is especially dramatic. Here only 10 percent of

current workers who have or anticipate having children expect to live with them when retired or elderly, just one-fourth the rate of multigenerational living among today’s elderly—and, incredibly, less than the expected rate of multigenerational living among current workers in the UK.

The largest and most consistent shift in expectations about the extended family’s role in retirement provision involves income support. In every country, the share of current workers who expect to be dependent on their grown children for income when they are retired or elderly is much lower than the actual share among today’s elderly. In only one country—Malaysia—do more than twice as many current workers expect to be net recipients of income from their grown children as expect to be net providers. In China, South

Korea, and Taiwan, the expected ratio of net recipients to net providers is less than one to one. In other words, the direction of net income transfers reverses in these countries, with more current workers anticipating that they will be giving financial support to their grown children than receiving it. (SEE FIGURE 9.)

Behind these broad trends there are some important—and surprising—differences in attitudes between age groups. One might expect that young adults, being the most highly educated and westernized members of East Asian societies, would chafe most at the responsibilities of filial piety. But in fact, young adults are at least as likely as midlife adults to believe that grown children or other family members should have primary responsibility for providing income to retired people—and in Taiwan, Hong Kong, and China they are much more likely to believe it. In Taiwan, adults in their twenties are twice as likely as adults in their for-



ties to favor family responsibility for retirement income. In Hong Kong, they are three times as likely and in China they are nearly six times as likely. In China and Hong Kong, moreover, adults in their twenties are even more likely to favor it than adults in their seventies are. (SEE FIGURE 10).

The higher level of support for family responsibility for retirement income among young adults in China, Hong Kong, and Taiwan may be attributable in part to simple lifecycle dynamics. Midlife adults, who are sometimes referred to as the “sandwich generation,” often face the double burden of supporting and caring for their aged parents while still raising and educating their children. Most young adults, on the other hand, have yet to experience the full burden of filial piety. But the higher level of support may also be a leading indicator of a generational shift in values that young people will carry with them as they traverse the lifecycle. This could well be the case in China, where interest in Confucianism is now surging among the young—and the government, which strove to eradicate it during the Cultural Revolution, is now actively cultivating it, even showcasing Confucian philosophy in the opening ceremony of the Beijing Olympics.

Unless the shift gathers momentum, however, it is doubtful that it will do much to slow the decline in family-centered retirement security. Although the age-bracket differences in attitudes toward family responsibility for retirement income are striking, the number of young adults who support it remains small—less than one in six 20–29 year-olds everywhere except Hong Kong, where the share reaches one in four. And even if the shift does gather momentum, its full effect will not be felt until today’s young adults mature. For at least

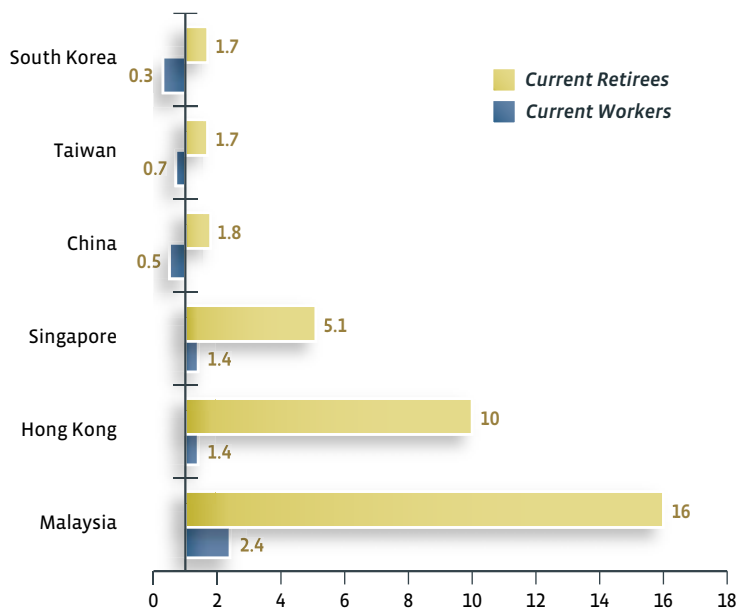
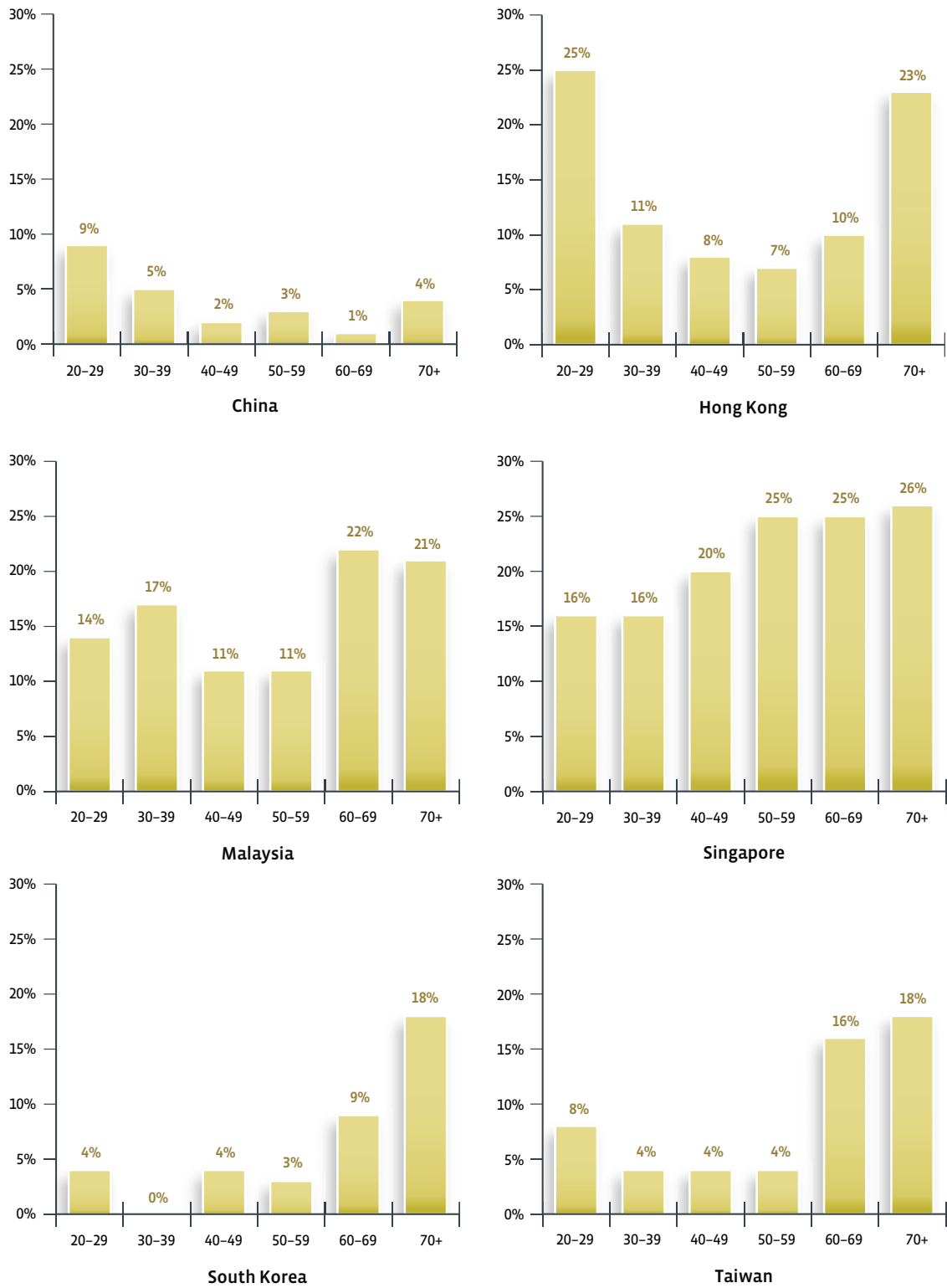


FIGURE 9. Ratio of Respondents Who Are Net Recipients of Financial Support from Their Grown Children to Respondents Who Are Net Providers: Actual Ratio for Current Retirees Aged 60 & Over versus Expected Ratio for Current Workers Aged 20–59

the next couple of decades, future retirees will have to rely more heavily on alternative sources of income support than current retirees do.

## Rise of Individual Responsibility

If not the family, then who, ideally, should be mostly responsible for providing income to retired people—government, former employers, or retirees themselves? While government plays the dominant role in most western countries, the public in most of East Asia’s emerging markets has a different vision. The survey reveals that there is considerable support for individual responsibility for retirement income in five of the six countries, and in some a clear preference for it. Only China



■ FIGURE 10. “Who, ideally, should be mostly responsible for providing income to retired people?”

Share of Respondents Saying “Grown Children of Retirees or Other Family Members,” by Age Group

TABLE 1. “Who, ideally, should be mostly responsible for providing income to retired people?”

Share of Respondents Choosing Different Options, by Age Group\*

		Retirees Themselves, through Their Own Savings	Government	Former Employers	Grown Children or Other Family Members
China	20–39	10%	54%	23%	6%
	40–59	10%	65%	17%	2%
	60 & Over	5%	71%	17%	2%
	<b>All</b>	<b>9%</b>	<b>63%</b>	<b>19%</b>	<b>4%</b>
Hong Kong	20–39	42%	36%	2%	16%
	40–59	41%	37%	8%	7%
	60 & Over	36%	40%	3%	17%
	<b>All</b>	<b>40%</b>	<b>37%</b>	<b>5%</b>	<b>12%</b>
Malaysia	20–39	27%	35%	21%	16%
	40–59	37%	40%	9%	11%
	60 & Over	22%	49%	6%	22%
	<b>All</b>	<b>31%</b>	<b>39%</b>	<b>14%</b>	<b>14%</b>
Singapore	20–39	35%	42%	4%	16%
	40–59	40%	31%	3%	22%
	60 & Over	43%	26%	2%	28%
	<b>All</b>	<b>40%</b>	<b>32%</b>	<b>3%</b>	<b>22%</b>
South Korea	20–39	44%	40%	7%	0%
	40–59	60%	27%	5%	3%
	60 & Over	50%	31%	2%	14%
	<b>All</b>	<b>53%</b>	<b>31%</b>	<b>5%</b>	<b>5%</b>
Taiwan	20–39	42%	40%	11%	5%
	40–59	48%	34%	11%	4%
	60 & Over	42%	35%	3%	16%
	<b>All</b>	<b>45%</b>	<b>36%</b>	<b>9%</b>	<b>7%</b>

\* Table excludes “Other” and “Don’t know/Not sure” options.

leans decisively the other way, toward government responsibility. Meanwhile former employers, the third possible substitute for family support, barely register on the radar in most countries. Except in Malaysia and China, fewer than one in ten respondents chose this option. (SEE TABLE 1.)

In South Korea, a majority of respondents—53 percent—believe that retirees themselves should be mostly responsible for providing their own retirement income, while just 31 percent believe that

government should be. In Taiwan, respondents favor individual over government responsibility by 45 to 36 percent and in Singapore by 40 to 32 percent—not majorities, but still substantial pluralities. The margin in favor of individual responsibility is narrower in Hong Kong: 40 versus 37 percent. In Malaysia, the survey at first glance seems to suggest that the public favors government responsibility by a comfortable margin of 39 to 31 percent. However, excluding government

employees, who are both overrepresented in the survey and far more likely to favor government responsibility, the balance shifts slightly in favor of individual responsibility. In China, the picture is radically different. Only 9 percent of respondents favor individual responsibility, roughly one-third the share in Malaysia and one-sixth the share in South Korea. Nearly two-thirds—63 percent—believe that government should have primary responsibility for retirement income, while another 19 percent believe that former employers should.

To some extent, these different preferences may simply reflect the types of retirement systems to which respondents are accustomed. In Singapore, which has a “provident fund” based on personal savings and no tradition of government retirement support, respondents lean toward individual responsibility. Hong Kong’s retirement system is also largely based on personal savings, and Taiwan is beginning to move in this direction. China, by contrast, has a largely pay-as-you-go national pension system, a long tradition of employer retirement support dating back to the days of the “iron rice bowl,” little tradition of funded pension savings—and the highest levels of support for government and employer responsibility. But this correlation does not always hold. Malaysia also has a provident fund based on personal savings, but much weaker support for individual responsibility than Singapore. Like China, South Korea has a largely pay-as-you-go national pension system and little tradition of funded pension savings—but it also has the highest level of support for individual responsibility for retirement income of any country in the survey.

Perhaps, then, there is also a deeper dynamic at work—one that reflects differences in each country’s stage of institutional and market development. Broad and deep capital markets, well-defined property rights, and effective government regulatory oversight that ensures market transparency and accountability are all essential prerequisites for a successful savings-based retirement system. To the extent that the public has confidence these conditions are present, individual re-

sponsibility can become an attractive option. To the extent that the public perceives they are absent, individual responsibility becomes a less attractive option. In other words, the more effectively the overall institutional and market environment fosters and safeguards individual savings, the less demand there is for government to provide generous retirement benefits, while the less effectively they accomplish this the more demand there is.

Looking beyond the national averages to differences in attitudes by age, it is possible to discern some potentially important trends. In China, for instance, working-age adults are significantly more likely to favor individual responsibility than the elderly and significantly less likely to favor government responsibility, while in Singapore the age tilt is precisely the opposite. In the first country, the level of comfort with markets is growing, while in the second the level of comfort with government is growing.

Along with age, income can naturally affect attitudes toward retirement provision. In most countries, the level of support for individual responsibility for retirement provision rises along with household income. In Malaysia and Taiwan, respondents with incomes of more than five times the median household income are roughly 50 percent more likely to favor it than respondents with incomes of less than half the median. In South Korea and Singapore they are nearly twice as likely, and in Hong Kong they are nearly three times as likely. The shares of upper-income respondents favoring government responsibility are correspondingly low—less than one-quarter everywhere except China, where even a majority of the affluent support it. (SEE TABLE 2.)

Although support for individual responsibility rises sharply with income in most countries, this does not mean that this support is limited to the affluent. In fact, in all of the countries with a preference for individual responsibility, the survey reveals surprisingly broad support even at low income levels. In Singapore and Taiwan, the share of respondents saying that retirees themselves should have primary responsibility for providing

TABLE 2. “Who, ideally, should be mostly responsible for providing income to retired people?”

Share of Respondents Saying “Retirees Themselves, through Their Own Savings” versus Share Saying “Government,” by Income Bracket\*

		Retirees Themselves	Government		Retirees Themselves	Government	
China	< .5	5%	68%	Singapore	< .5	43%	27%
	.5-1	11%	60%		.5-1	37%	36%
	1-2	10%	62%		1-2	50%	27%
	2-5	11%	57%		2-5	44%	28%
	> 5	6%	68%		> 5	75%	25%
	<b>All</b>	<b>9%</b>	<b>63%</b>		<b>All</b>	<b>40%</b>	<b>32%</b>
Hong Kong	< .5	27%	35%	South Korea	< .5	38%	49%
	.5-1	34%	47%		.5-1	54%	36%
	1-2	43%	37%		1-2	51%	31%
	2-5	48%	30%		2-5	57%	32%
	> 5	68%	19%		> 5	71%	14%
	<b>All</b>	<b>40%</b>	<b>37%</b>		<b>All</b>	<b>53%</b>	<b>31%</b>
Malaysia	< .5	33%	46%	Taiwan	< .5	37%	36%
	.5-1	33%	40%		.5-1	43%	40%
	1-2	27%	39%		1-2	45%	39%
	2-5	24%	41%		2-5	56%	30%
	> 5	47%	16%		> 5	58%	17%
	<b>All</b>	<b>31%</b>	<b>39%</b>		<b>All</b>	<b>45%</b>	<b>36%</b>

\* Income brackets are defined as multiples of the national median household income.

their own retirement income is higher than the share saying that government should at all income levels, even the very lowest. In Hong Kong and South Korea, it is higher for respondents at every income level above the median.

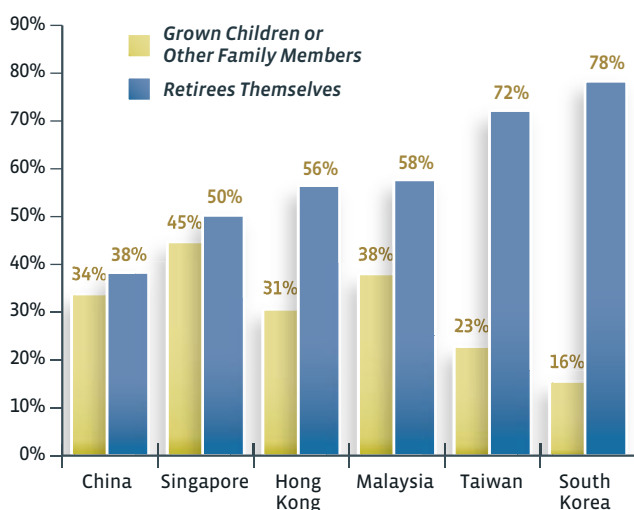
Support for individual responsibility varies among different segments of the population in other ways as well. In every country, self-employed respondents are more likely than average to favor it. This may be because a disproportionate share work in the informal sector, are less likely than average to participate in national pension systems, and must, in any case, rely on their own retirement savings. So are more “market-oriented” respondents, which we define as those who receive (if already retired) or expect to re-

ceive (if still working) at least some of their income from stocks or bonds. In Hong Kong and Singapore, respondents with a postsecondary education are much more likely than average to support individual responsibility, though there is little difference in Malaysia, South Korea, and Taiwan—and in China more-educated respondents tilt the other way. In Malaysia, the country’s more market-oriented Chinese minority is much more likely to support individual responsibility than the Malay majority—in fact, nearly twice as likely. In China, rural migrants are twice as likely to support it as respondents with an urban *hukou*—that is, those who are officially registered as urban residents. Like self-employed workers, migrants disproportionately work in the informal

sector and are much less likely to participate in the national pension system.

One difference that we expected to find but did not is a clear gender tilt. In western countries, it is well documented that men are more likely to support individual responsibility for retirement income, while women are more likely to support government responsibility. This gender tilt is evident in the UK, where 39 percent of male respondents believe that retirees themselves should be mostly responsible for providing their own income, compared with just 28 percent of female ones. But apparently, this pattern does not always

who, ideally, should be mostly responsible for providing income to retired people if they cannot expect to receive any income from government or their former employers. In effect, respondents were asked to choose between individual and family responsibility. In this case, the majority of respondents in every country said that retirees themselves should be responsible. In Taiwan and South Korea, those majorities were enormous: 72 and 78 percent, respectively. Singapore and China are the only countries where the share of respondents saying that grown children or other family members should be responsible even comes close



**FIGURE 11.** *“If retirees do not receive any income from government or former employers, who should be mostly responsible for providing them with income?”*

Share of Respondents Saying “Grown Children of Retirees or Other Family Members” versus Share Saying “Retirees Themselves, through Their Own Savings”

to the share saying that retirees should be. (SEE FIGURE 11.) In the case of Singapore, this would appear to be a testament to the enduring strength of its Confucian culture. In the case of China, it would appear to reflect a broader cultural preference for group over individual responsibility. The great majority of Chinese would prefer government to have the primary responsibility for retirement provision—but if government is not an option, a large share then fall back on the family.

Large numbers of respondents in most countries would not only prefer to assume responsibility for preparing for their own retirement, but also put preparing for retirement ahead of other savings goals. When asked whether people’s first priority in saving for the long term should be sav-

ing for their own retirement, saving for their children, or both equally, many respondents could not decide and answered “both equally.” Among those who chose one priority over the other, however, the share choosing retirement exceeded the share choosing children in all countries—and in most, it exceeded it by a wide margin. The only countries where the margin in favor of retirement

hold in East Asia. In China and South Korea, men are indeed more likely than women to support individual responsibility for retirement income. But in Hong Kong and Singapore there is little difference—and in Malaysia and Taiwan women are actually much more likely to support it than men.

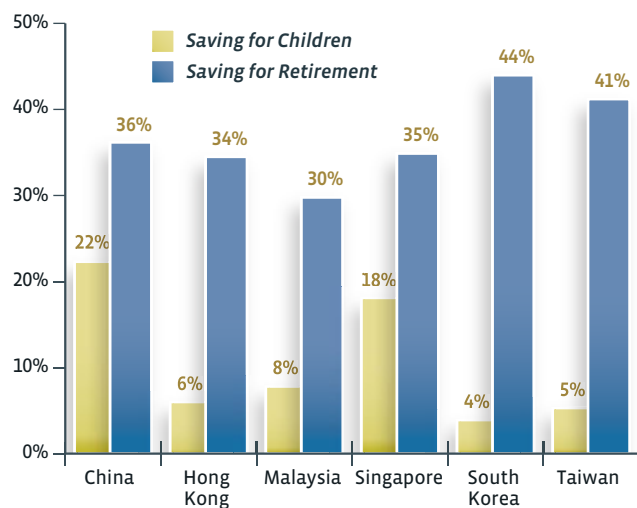
To further gauge the extent of support for individual responsibility, we also asked respondents

was less than 2-to-1 were China and Singapore. In Hong Kong, the margin was 6-to-1, in Taiwan 8-to-1, and in South Korea 11-to-1. (SEE FIGURE 12.) This is not to say that parents in East Asia do not invest in their children’s future, especially through spending on their education. They invest in it massively, and nowhere more so than in South Korea. What seems clear, however, is that the lifecycle motive for savings—preparing for retirement—weighs much more heavily in families’ financial planning than does the bequest motive.

Interestingly, support for individual responsibility in providing for retirement does not extend to personal care. When respondents were asked who, ideally, should be mostly responsible for providing personal care to retired people when they are disabled or need help with everyday living, “retirees themselves, by paying for caregivers” came in a distant second in South Korea and Taiwan and third everywhere else. The most common answer was “government, by paying for caregivers” in every country except Malaysia and Singapore, where it was edged out by the “grown children of retirees or other family members.” South Korea, which has the lowest level of support for government responsibility for retirement income, has the highest level for personal care. Malaysia, which has the second highest level of support for government responsibility for retirement income, has the lowest level for personal care.

How does one account for this apparent paradox? There are two possible explanations. The first

is that governments in most countries already pay for at least some long-term care, and several have recently enacted or are debating major benefit expansions. This naturally creates an expectation of government support. It is no coincidence that the share of respondents who favor government responsibility for personal care is highest where government now does the most to finance it (South Korea) and lowest where it now does least (Malaysia). The second explanation is that the economics of financing personal care and retirement income are fundamentally different. The need for personal care is inherently unpredictable, and when



➤ **FIGURE 12.** “Which view about long-term savings comes closest to yours?”

Share of Respondents Saying “People’s First Priority Should Be Saving for Their Children” versus Share Saying “People’s First Priority Should Be Saving for Their Own Retirement”

it does occur the cost can be large and lumpy. On the other hand, since most people expect to retire someday, it is an event for which they are more willing to plan, prepare, and assume responsibility.



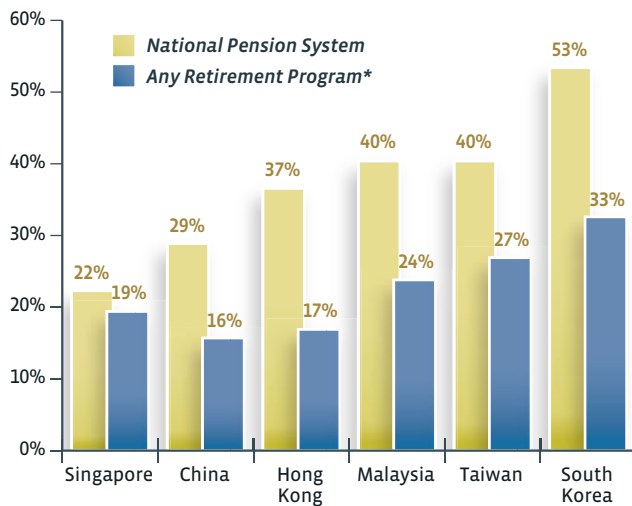


# Survey Findings: Today's Retirement Realities

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

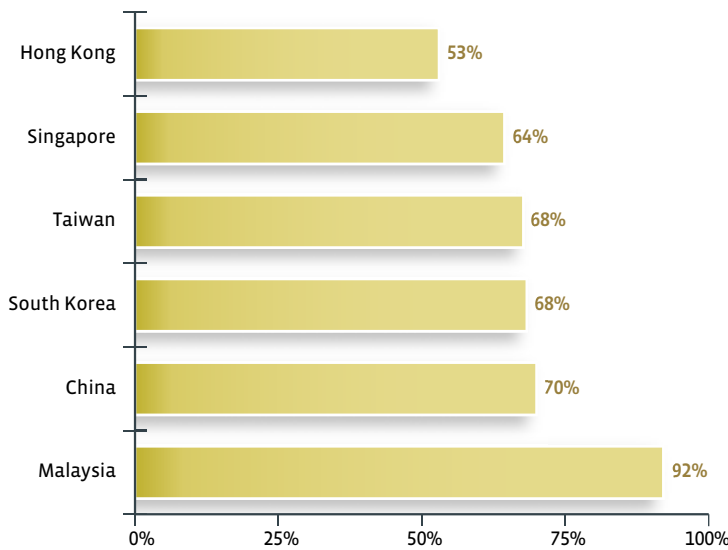
For retirees who cannot rely on the extended family, alternative sources of income support are often limited. To be sure, all of the survey countries have ostensibly universal national retirement systems that are intended to cover the entire work-

force, or at least all wage and salary workers. Yet pension receipt rates among today’s retirees are far from universal, in part because the systems in most countries are still maturing, and in part because many retirees worked in the informal sector or were self-employed. In Singapore just over 20 percent and in China nearly 30 percent of retired respondents report receiving no income at all from the national pension system—and these are the countries with the highest receipt rates. In Hong Kong the share of retired respondents who report receiving no income from the national pension system approaches 40 percent, in Malaysia and Taiwan it reaches 40 percent, and in South Korea it climbs past 50 percent. In some countries, substantial shares of retirees receive income from a private employer or civil service pension, with Singapore (15 percent) at the low end of the spectrum and Taiwan (45 percent) at the high end. But since most of these retirees are the same formal-sector



\* Includes national pension systems, private employer and civil service pensions, and means-tested government cash benefits.

**FIGURE 13.** *Share of Retired Respondents Who Do Not Receive Income from Retirement Programs, by Type of Program*



**FIGURE 14.** *Share of Retired Respondents Who Retired Before Age 60*

retirees who already receive income from national pension systems, a large “pension gap” remains. Most countries also have special benefit programs

for the indigent elderly, but their reach is generally limited. All told, between one-sixth and one-third of retired respondents report receiving no retirement benefits of any kind, including means-tested poverty support. (SEE FIGURE 13.) In the UK, in contrast, 96 percent of current retirees report receiving benefits from one or more retirement programs—and among retirees aged 60 and over, 99 percent do.

Given the high household savings rates of most East Asian countries, one might suppose that most retirees would at least have personal financial assets to fall back on. But the economies in which most of today’s retirees spent the majority of their careers were much less developed and market-oriented than today’s economies are. Just as in western countries, moreover, asset ownership is highly skewed by income. In China, Hong Kong, and Malaysia, nearly 50 percent of retired respondents report having no income from interest on bank deposits, no income from insurance or annuity policies, and no income from stocks or bonds. In South Korea, the share is slightly over 50 percent. Only in Singapore and Taiwan do substantial majorities of retirees—roughly three-quarters—report having at least some income from financial assets.

Financing retirement is challenging enough if retirement begins at a relatively late age. In East

Asia’s emerging markets, however, it typically begins at a very early age, increasing the likelihood that retirees will exhaust whatever savings they do

have. In Hong Kong, half of retired respondents report that they retired while still in their fifties. In China, South Korea, Singapore, and Taiwan, roughly two-thirds report that they did. In Malaysia, incredibly, nine out of ten retired respondents had already left the workforce by the time they celebrated their sixtieth birthday. (SEE FIGURE 14.) The decision to retire was often not a choice, but rather the result of job loss, poor health or disability, or mandatory retirement rules—with the latter being the most important factor in many countries. When asked whether “reaching the official retirement age and being required to retire” was a reason for retiring, over one-third of respondents in Hong Kong, Singapore, South Korea, and Taiwan said yes. In Malaysia over one-half said yes and in China over two-thirds did. When asked whether “wanting to stop working or to work less” was a reason, at least half of respondents said no in every country except Singapore. In South Korea 81 percent said no and in China 86 percent said no.

While retirement ages are very early in the formal sector of the economy, many of the elderly continue to work, typically in informal-sector jobs. Between one-quarter and one-third of all retired respondents report receiving at least some income from a job or a business that they own. Moreover, substantial shares of the elderly—ranging from just over 15 percent in China to nearly 50 percent in Singapore—report that they are not yet retired at all. Of these, many also indicate that they have no expectation of retiring in the future. Compared with same-aged respondents who have retired, nonretired elders are, in most countries, much less likely to have worked for a large business and much more likely to be self-employed—indeed, nearly twice as likely in Taiwan, four times

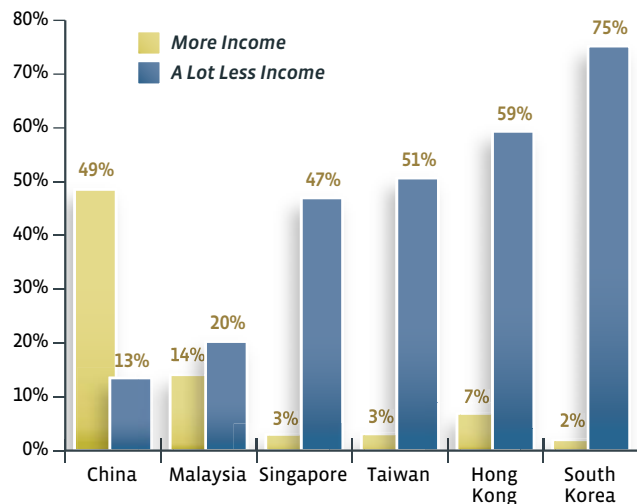
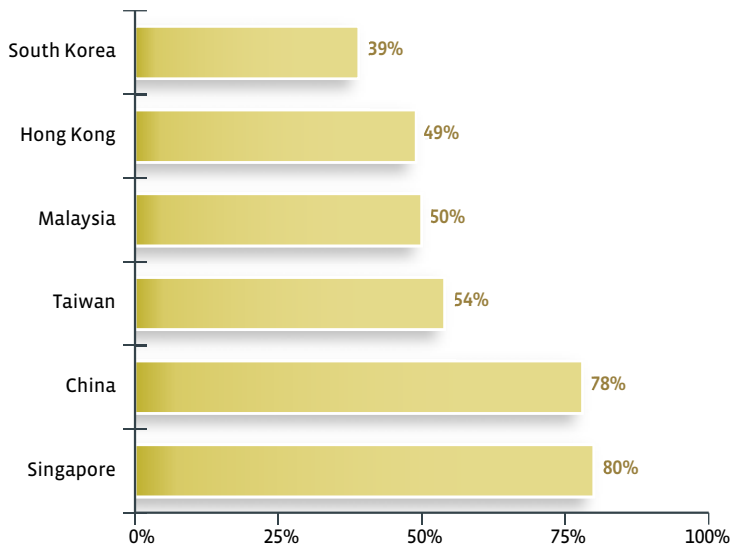


FIGURE 15. “How does the income that you have now that you are retired compare with the income you had before you retired?”

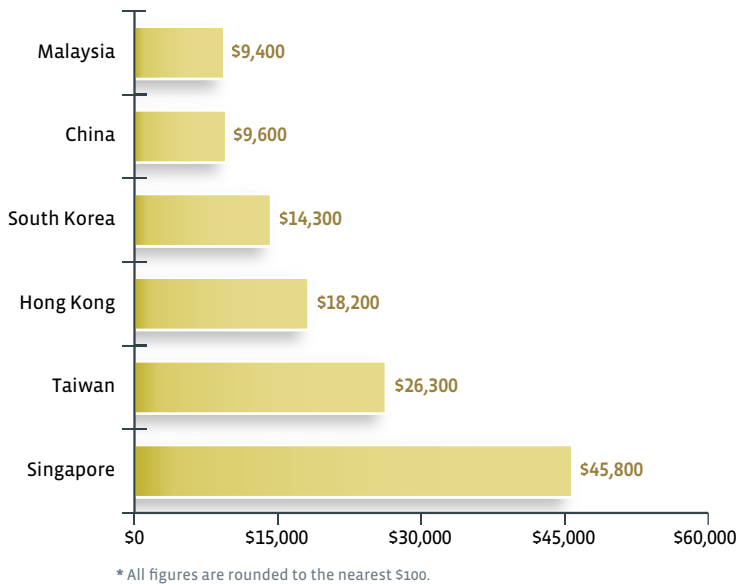
Share of Retired Respondents Saying They Have “More Income Now” versus Share Saying They Have “A Lot Less Income Now”

as likely in Malaysia, and five times as likely in Singapore. Except in China, however, nonretired elders are not more likely to be poor. To the contrary, they are significantly less likely to be poor—precisely because they have not retired.

For many, retirement is a time of greatly diminished living standards. In Malaysia, 20 percent of retired respondents report having “a lot less income” than before they retired. In Singapore and Taiwan, the share hovers around 50 percent, in Hong Kong it approaches 60 percent, and in South Korea it reaches 75 percent. Only small minorities of respondents in these countries report having more income than before they retired—under 15 percent in Malaysia, under 10 percent in Hong Kong, and well under 5 percent in Singapore, South Korea, and Taiwan. The experience of Chinese retirees presents a dramatic contrast: Nearly 50 percent say that they have more income than before they retired, while fewer than 15 percent say that they have a lot less. (SEE FIGURE 15.) Part of the explanation for China’s exceptionalism lies in the unusual generosity of its national pen-



**FIGURE 16.** *Median Income of Elderly Respondents (Aged 60 & Over), as a Percent of Median for All Survey Respondents*



**FIGURE 17.** *Median Income of Elderly Respondents (Aged 60 & Over), in PPP Dollars\**

sion system, which not only has a receipt rate second only to Singapore's, but a replacement rate second to none. Part also lies in the fact that many of today's retirees were so poor as workers in the

days before China's economic boom that even a modest level of retirement income would make them affluent by comparison.

Not surprisingly, retirement can also be a time of considerable anxiety. Large numbers of retirees in most of the countries worry about losing their retirement benefits and losing their savings. More generally, they worry about becoming "a burden on their children" (40 to 85 percent), being "poor and in need of money" (30 to 85 percent), and being "in ill health and having no one to care for them" (50 to 80 percent). In all six of the countries, retirees are 50 to 100 percent more likely to worry about each of these things than are retirees in the UK. Retirees tend to worry the least in Hong Kong, which has relatively strong family support networks and a broad (though less-than-generous) government old-age poverty floor. They tend to worry the most in Malaysia, where retirement ages are unusually early, replacement rates under the national pension system are unusually low, and the old-age poverty floor is virtually nonexistent. All of this helps to explain why unions in Malaysia are now doing something unthinkable in the West—lobbying government and employers to raise retirement ages in order to spare older workers the hardship of overly long retirements.<sup>4</sup>

While these anxieties are subjective, the relative impoverishment of retirees, and more generally of the

<sup>4</sup> "Hot Topic Survey: Minimum Wage and Mandatory Retirement Age for the Private Sector," HR Matters, April 30, 2012, <http://www.hr-matters.info/news2012/Hot-Topic%20SurveyMinimumWageAndMandatoryRetirementAgeForPrivateSector.htm>.

elderly, is not. In Hong Kong, Malaysia, and Taiwan, elderly respondents have a median household income that is roughly 50 percent of the median for all respondents. In South Korea, the median household income of the elderly is even lower: roughly 40 percent of the median for all respondents. The only countries where the living standard of the elderly approaches that of younger adults are China and Singapore, where the median household income of elderly respondents is roughly 80 percent of the median for all respondents. (SEE FIGURE 16.) The unusually high relative living standard of the elderly in Singapore reflects its unique combination of high rates of elderly pension receipt, asset ownership, labor-force participation, and family support. In China, it reflects the unusual generosity of its national pension system. Nearly 50 percent of Chinese retirees report receiving most of their income from the national pension system, while in no other country is that share more than 20 percent.

The relative living standard of the elderly in each country, of course, says nothing about differences in the absolute living standard of the elderly across countries. The fact that the relative income of elders in China is as high as that of elders in Singapore and much higher than that of elders in the other survey countries does not mean that they are as well off or better off. Despite the blistering economic growth of recent decades, China is still far from a high-income country. In absolute (purchasing power parity) dollars the living standard of the Chinese elderly is roughly equal to that of the Malaysian elderly and just a fraction of that of the elderly in the other survey countries—two-thirds of the level in South Korea, one-half of the level in Hong Kong, one-third of the level in Taiwan, and one-quarter of the level in Singapore. (SEE FIGURE 17.) It is also worth recalling that the survey only covers urban China. Although urban residents now make up roughly half of all Chinese,

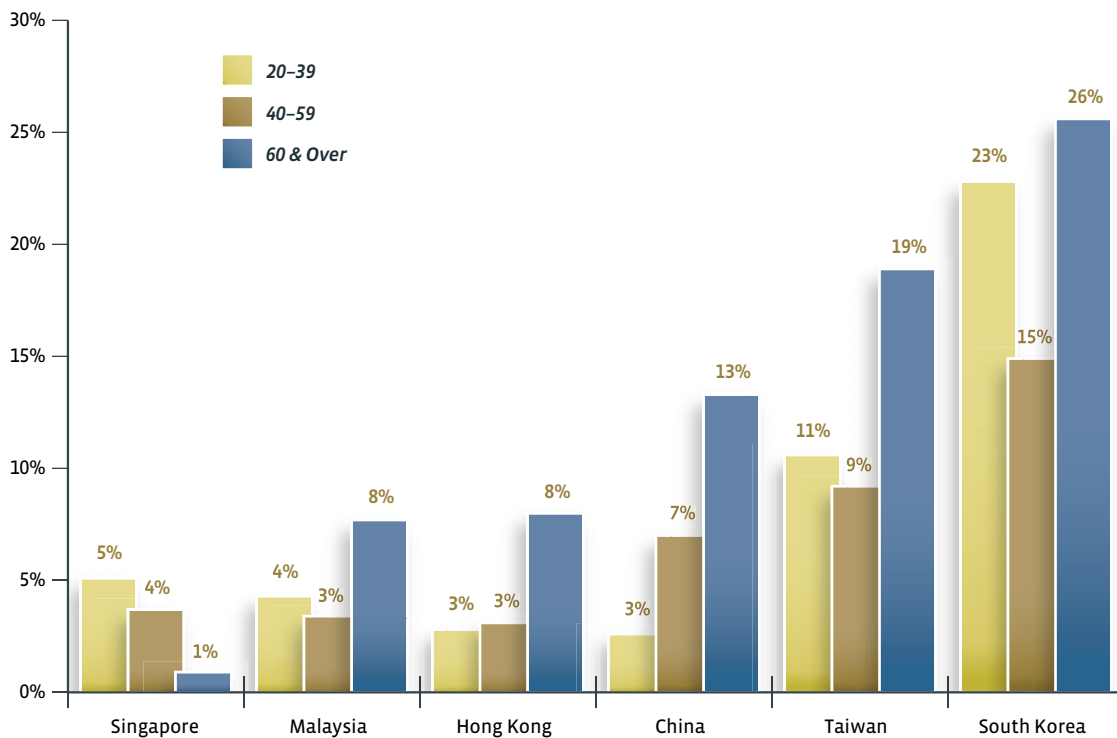


FIGURE 18. “Which view about the elderly comes closest to yours?”

Share of Respondents Saying “The Elderly Have Little to Contribute to Society and Are Mostly a Burden,” by Age Group

China still has a vast rural population that is not covered under the national pension system and whose median per capita income is just one-third of the median income of the urban population.

Along with economic hardship, rapid modernization can sometimes breed a sense of hopelessness among the old. We asked respondents which view about the elderly comes closest to theirs: “The elderly make important contributions to society and should be valued for their wisdom and experience” or “the elderly have little to contribute to society and are mostly a burden.” Not surprisingly, large majorities of respondents in all countries identified with the first view—no doubt because most believe it, but perhaps also because it is the culturally acceptable view. In some countries, however, sizeable minorities of respondents identified with the second negative view. (SEE FIGURE 18.) Contrary to what one might assume, moreover, the elderly in most countries were much more likely to do so than either midlife adults or young adults. In China, respondents aged 60 or older were five times as likely as respondents aged 20–39 to believe that the old have little to contrib-

ute to society and are mostly a burden, in Hong Kong they were three times as likely, and in Malaysia and Taiwan they were twice as likely.

The two exceptions—South Korea and Singapore—are equally revealing. In South Korea, the share of elderly respondents taking a negative view of the old is very high: 26 percent. That share falls sharply among midlife adults, but then shoots back up among young adults—to 23 percent among all young adults aged 20–39 and to an astonishing 33 percent among those in their twenties. In Singapore, the share of elderly respondents taking a negative view of the old is very low: a statistically insignificant 1 percent. That share, however, rises steadily cohort over cohort, to 5 percent among all young adults aged 20–39 and to 7 percent among those in their twenties.

It is a common assumption in East Asia that filial piety translates into harmony among the generations. But apparently, just as rapid modernization can breed a sense of hopelessness among the old, so can conservative Confucian cultures, especially when society is rapidly modernizing, breed a sense of resentment among the young.



# Survey Findings: The Shape of Things to Come

**T**oo often, attempts to forecast future retirement needs assume that tomorrow's elderly will have similar expectations to today's elderly and will behave in much the same way. The assumption of invariant lifecycle behavior is problematic in all societies, since new generations always bring with them into old age new attitudes shaped by their unique life experiences. But the assumption is especially problematic in emerging East Asia, where the generation gap between people in their twenties or thirties and people in their sixties or seventies now yawns wider than anywhere else in the world. To understand the future of retirement in East Asia, it is essential to understand the social and economic forces that are reshaping the behavior and expectations of younger generations.

▣ **Rising affluence.** In today's developed economies, where productivity growth has been slow for decades, the old are generally more affluent

than the young. In the economies of emerging East Asia, where large productivity gains have been pushing up wages and living standards cohort over cohort, the age tilt is just the opposite. The median household income of midlife adults greatly exceeds that of the elderly in every survey country except China and Singapore. In every country except South Korea, moreover, the median household income of young adults exceeds that of midlife adults—and in most countries, it does so by a substantial margin. (SEE FIGURE 19.) Wealth generally peaks at older ages than income, which is hardly surprising since young adults have not had much time to accumulate assets. But in China, the country that has been experiencing the fastest productivity and living standard growth, it too peaks among the young.

The rising affluence of younger generations has already helped to shape today's retirement

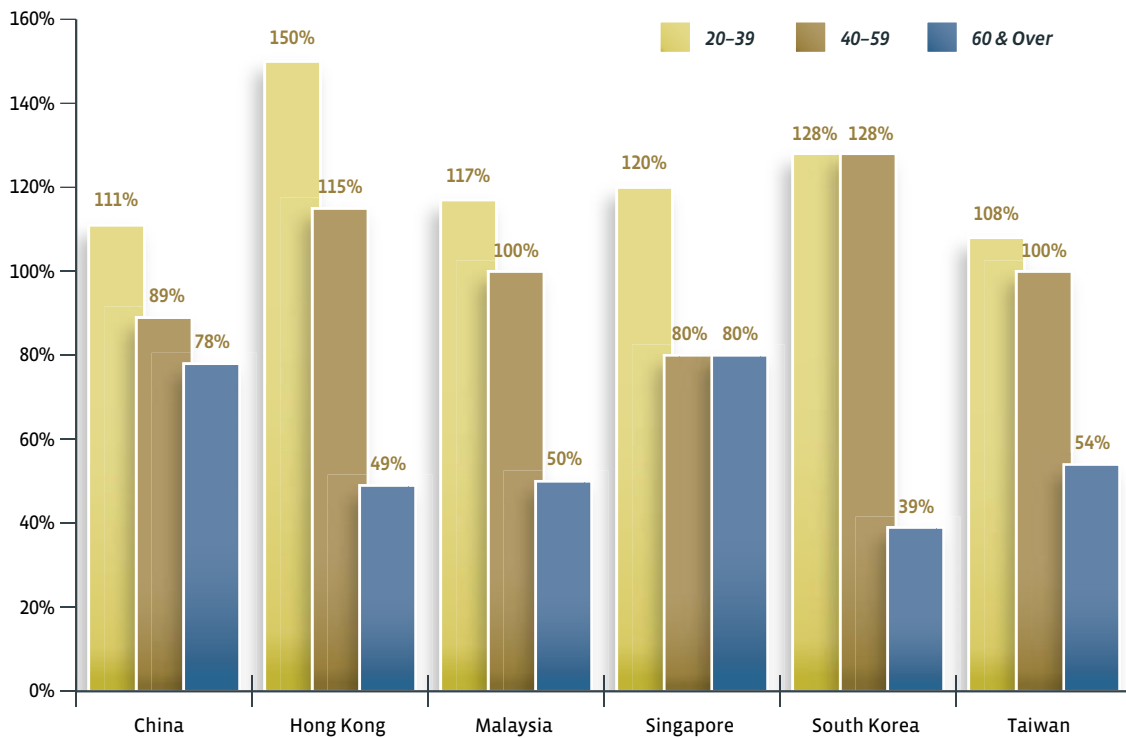


FIGURE 19. Median Income of Respondents by Age Group, as a Percent of Median for All Survey Respondents

realities in important ways, and it promises to reshape tomorrow's even more profoundly. For one thing, rising affluence has helped to shore up traditional habits of filial piety even as the forces of modernization have been working to undermine them. When the old are relatively impoverished, it is only natural that income transfers within families should flow up the age ladder. As younger and more affluent generations arrive in old age, however, and East Asian societies acquire a more western age distribution of income and wealth, these transfers should diminish or even reverse direction. And indeed, as we have seen, this is precisely what younger respondents to the survey expect to happen.

At the same time, the rapid rise in living standards over the past few decades has made it more difficult for people to save for retirement. While this may seem paradoxical, it is an immutable fact of retirement economics that the faster incomes are growing the more peo-

ple need to save in order to replace the same share of their income in retirement. When real incomes are rising at 5 percent per year, a worker who saves 10 percent of income each year will, at the end of a thirty-five year career, have accumulated assets equal to roughly three times his or her preretirement income—enough to finance a pension or annuity that replaces 20 percent of that income. When real incomes are rising at 1 percent per year, that same worker, saving the same share of income, will have accumulated assets equal to roughly six times his or her preretirement income, which is enough to finance a pension or annuity that replaces nearly 40 percent of that income.<sup>5</sup> In the future, as productivity and income growth in East Asia converge with developed-world

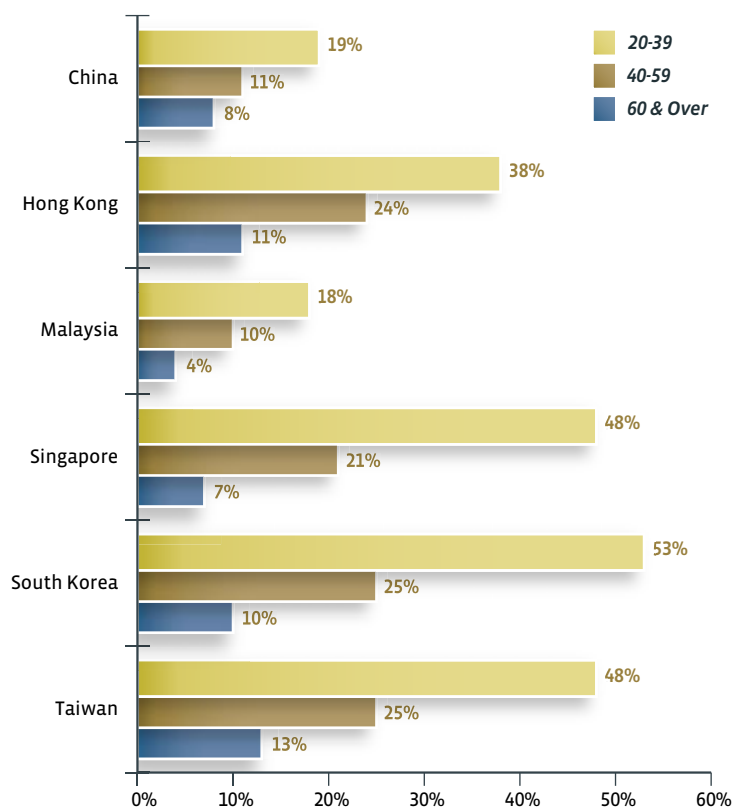
<sup>5</sup> These illustrative calculations assume a globally diversified portfolio of stocks and bonds earning a real rate of return of 4.5 percent, administrative charges equal to 0.5 percent of assets, thirty-five years of contributions, retirement at age 60, and unisex life expectancy.

rates, saving for retirement will thus become easier—and the advantages of funded retirement provision over pay-as-you-go provision will grow.

**▣ Rising educational attainment.**

From the vantage point of today’s East Asia, it is easy to forget that the current generation of elderly grew up in societies that were still in the early stages of economic and social development. Between one-half and two-thirds of elderly respondents in the six survey countries have not even completed a lower-secondary (or “middle school”) degree. Among respondents aged 20–39, more than 90 percent have completed at least a lower-secondary degree—and in Hong Kong, Singapore, South Korea, and Taiwan, more than 95 percent have. Nor is educational attainment only rising at the low end of the spectrum. In China, young adults are twice as likely as the elderly to have a postsecondary (or “higher”) education; in Hong Kong, Malaysia, and Taiwan, they are three to four times as likely; in South Korea they are five times as likely; and in Singapore they are seven times as likely. (SEE FIGURE 20.) In Singapore, South Korea, and Taiwan, fully half of all young adults have a postsecondary degree—greater than the share in most western countries.

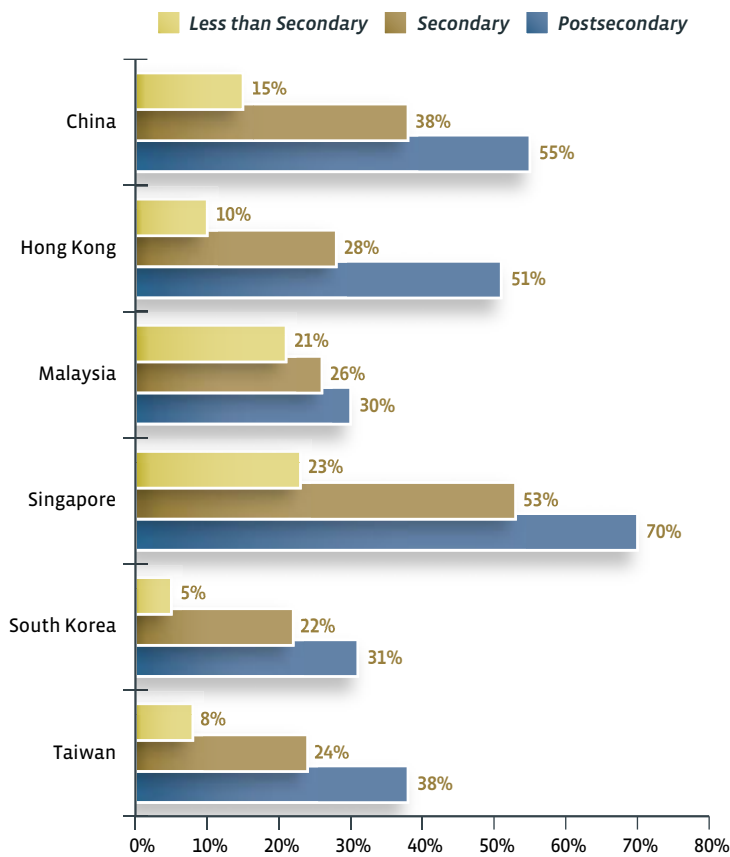
The dramatic increase in educational attainment in East Asia helps to explain the dramatic increase in living standards, since it is one of the main reasons that workforces have become more productive. It also has important implications for how younger generations will prepare for retirement. As a general proposition, the more educated people become the



**▣ FIGURE 20.** *Share of Respondents with a Postsecondary Degree, by Age Group*

more likely they are to plan for the future, to be financially literate, and to own financial assets. This proposition is borne out by the survey. The share of current workers who report that they have received professional financial advice on how to invest their savings rises steeply along with educational attainment. (SEE FIGURE 21.) So does the share of workers who own financial assets. As time goes by and younger cohorts with higher levels of educational attainment climb the age ladder, a growing share of the workforce will be increasingly eager for sophisticated financial advice and products—and increasingly intolerant of government (or financial industry) policies that prevent them from earning a market rate of return.

**▣ Greater individual initiative.** Alongside deference to tradition and authority, there has always been a countercurrent in East Asian cultures



**FIGURE 21.** *“Have you ever received professional financial advice on how to invest your savings?”*  
Share of Respondents Saying “Yes,” by Educational Attainment

that stresses individual initiative—and that countercurrent appears to be gaining strength. This trend manifests itself in a variety of ways. It is reflected in the remarkable degree of support in most countries for individual responsibility for retirement provision over family or government responsibility. More specifically, it is reflected in attitudes toward control over retirement savings. The share of respondents who say that individuals should have some control or complete control over how their retirement savings are invested rises cohort over cohort, while the share who say that “government and employers know best what to do with retirement savings” falls, sinking among 20–39 year-olds to just under 15 percent in China,

to 10 percent in Taiwan, and to under 5 percent everywhere else.

The trend is also reflected in the growing number of young adults starting their own businesses in East Asian countries, where it sometimes seems that almost everyone wants to be their own boss. The survey suggests that today’s rising generations will carry this entrepreneurial bent with them throughout their work lives and into their retirement years. The share of respondents who expect to receive income from a business they own when they are retired or elderly rises cohort over cohort, climbing past one-quarter among 20–39 year-olds in every country except Malaysia and reaching one-half in China and Singapore. In China, remarkably, nearly twice as many young adults expect to receive income from a business they own when they are retired or elderly as expect to receive income from their grown children. In South Korea, three times as many do.

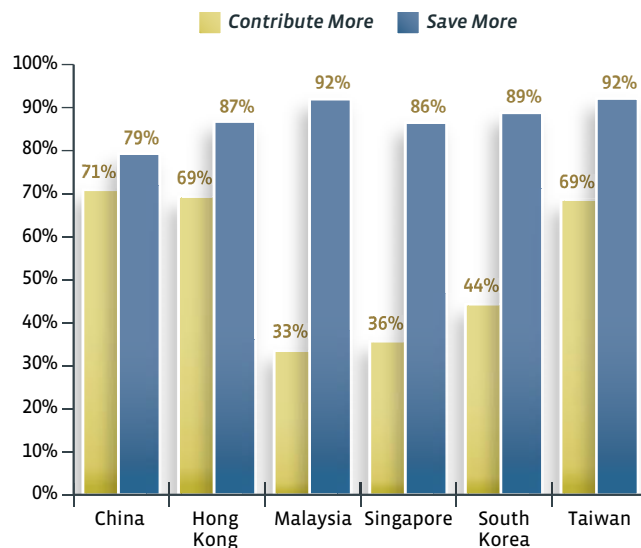
All of this suggests that government or business policies that facilitate individual initiative and responsibility will be met with favor, while those that impede it are likely to receive less support. Significantly, even government compulsion may be viewed favorably if it is perceived as furthering individual initiative. In every country, an overwhelming majority of respondents—at least four in five—say that government should “require workers to save more for their own future retirement.” In every country, moreover, the share saying this exceeds the share saying that government should “require workers to contribute more to pay for government retirement benefits.” In some countries, the margin in favor of forced savings is enormous: 45 percentage points in

South Korea, 51 percentage points in Singapore, and 58 percentage points in Malaysia. (SEE FIGURE 22.)

**▣ Growing market-orientation.**

These three trends—rising affluence, rising educational attainment, and growing individual initiative—are together transforming East Asian countries into the world’s most market-oriented societies. Among current retirees, the share who report receiving at least some income from financial assets hovers around 50 percent in all of the survey countries except Taiwan, where it approaches 75 percent, and Singapore, where it approaches 80 percent. Among current workers, the share who expect to receive at least some income from financial assets when they are retired or elderly approaches or exceeds 80 percent in every country, and in Singapore it reaches 90 percent.

This trend is not merely due to more current workers having bank accounts, but to large expected increases in the receipt of income from all classes of financial assets, from annuities and life insurance contracts to stocks and bonds. (SEE TABLE 3.) The cohort over cohort increase in the share of respondents who expect to receive income from stocks or bonds is especially dramatic. In China, the receipt rate rises from 4 percent among current retirees to an expected 19 percent among current workers aged 40–59 and to an expected 32 percent among current workers aged 20–39. In South Korea, the expected receipt rate among workers aged 20–39 rises to 20 percent, in Taiwan to 42 percent, in Malaysia to 49 percent, in Singapore to 65 percent, and in Hong Kong to 66 percent. By this measure, young adults



**▣ FIGURE 22.** *“As the population grows older and there are more retired people to support, please tell me whether you think the government should or should not do each of the following.”*

Share of Respondents Saying “Require Workers to Contribute More to Pay for Government Retirement Benefits” versus Share Saying “Require Workers to Save More for Their Own Future Retirement”

in most East Asian countries are not only far more market-oriented than today’s retirees, but also far more market-oriented than their peers in the UK, where barely one-third of 20–39 year-olds expect to receive income from stocks or bonds.

The degree of market-orientation among today’s working generations is all the more remarkable if one recalls that, besides simple bank accounts, the investment options available to workers were quite limited in most of the survey countries just a generation ago—and that in China they hardly existed at all. It is worth bearing in mind, however, that the growing role played by financial assets in the retirement plans of current workers is expectational—and in some cases, perhaps merely aspirational. It is possible that things may not work out as planned if public and private policies fail to adequately encourage and reward savings.

TABLE 3. *Share of Respondents Who Receive or Expect to Receive at Least Some Income from Financial Assets When They Are Retired or Elderly, by Type of Asset: Actual Share for Current Retirees versus Expected Share for Current Workers Aged 20–59*

	Bank Deposits			Insurance or Annuity Policies			Stocks or Bonds		
	Current Workers		Current Retirees	Current Workers		Current Retirees	Current Workers		Current Retirees
	20–39	40–59		20–39	40–59		20–39	40–59	
China	66%	65%	38%	60%	48%	18%	32%	19%	4%
Hong Kong	75%	58%	42%	75%	61%	21%	66%	41%	30%
Malaysia	45%	30%	14%	39%	48%	29%	49%	58%	33%
Singapore	72%	77%	67%	86%	77%	53%	65%	52%	30%
South Korea	61%	53%	38%	54%	50%	14%	20%	22%	13%
Taiwan	76%	56%	58%	76%	63%	39%	42%	31%	27%

More flexible attitudes toward work and retirement. Today’s working-age generations are also pioneering another shift—this one toward longer work lives and a more flexible vision of retirement. Compared with today’s retirees, current workers plan to retire at significantly later ages. While majorities of current retirees in every country retired before age 60, between one-half and two-thirds of current workers in all but one country expect to retire after age 60. The exception is Malaysia, where the survey suggests that today’s pattern of premature retirement is likely to persist. (SEE FIGURE 23). Compared with today’s retirees, much larger shares of current workers also expect to receive at least some income from work during their retirement years. In fact, at least one-half do in every country except Malaysia and Taiwan. (SEE FIGURE 24.)

Along with the trend toward later retirement, the survey reveals that a rising share of midlife and young adults in most countries do not expect to retire at all. Among 20–39 year-olds, that share reaches at least one-fifth in every country except Malaysia, which once again bucks the trend toward longer work lives. There is no question that this development in part reflects a persistent—and perhaps a growing—lack of retirement preparedness among significant segments of the population. When

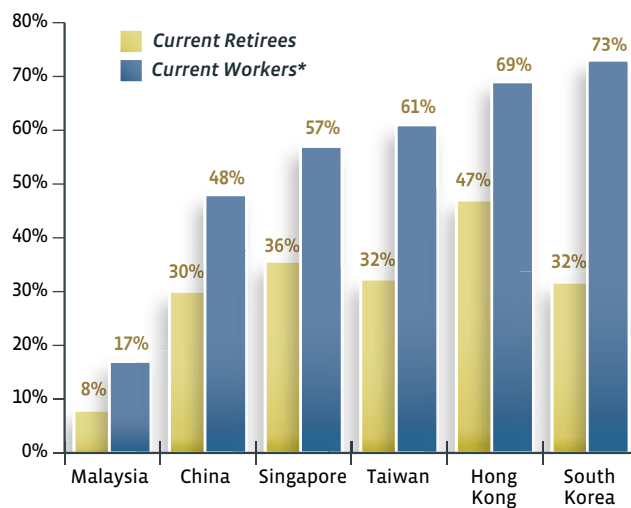
asked what their reasons were for not expecting to retire, large shares of respondents mentioned not being eligible for government or employer pension benefits (30 to 60 percent in all countries except Malaysia and Singapore, where the shares were lower), not having children who are able or willing to support them (25 to 50 percent in all countries), and not having enough savings of their own (40 to 60 percent in all countries). Yet it may also be significant that by far the most common reason, mentioned by at least two-thirds of respondents in every country, was being “happy in your work.” Except in South Korea, at least one-fifth of respondents gave this as their only reason.

Behind this broad story, there is an interesting and revealing twist to the plotline. Although the share of current workers who never intend to retire rises steadily cohort over cohort in most countries, expected retirement ages among workers who intend to retire do not. In fact, the trend toward later retirement ages stalls and partially reverses among young adults. Why would young adults both be more likely than midlife adults to expect never to retire *and* more likely to expect to retire early? The explanation may be that the concept of retirement itself is becoming malleable among members of the rising generation. It turns out that a large share of young adults who expect to



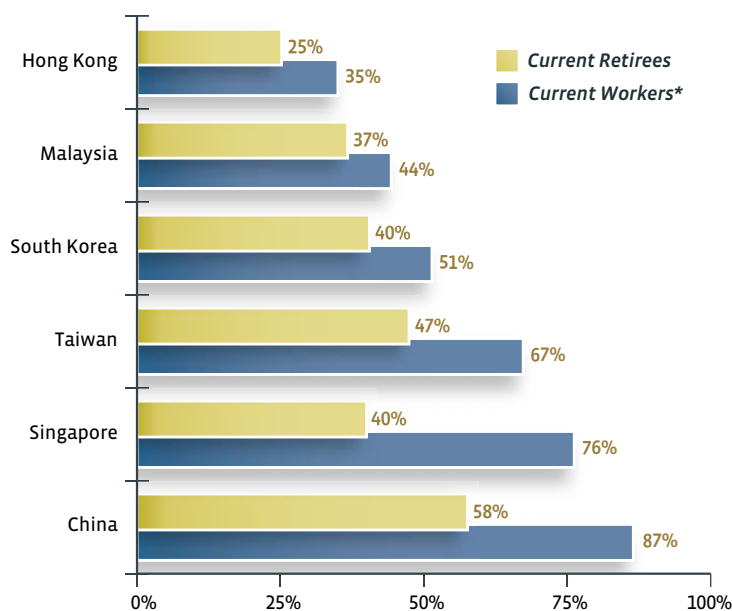
retire early anticipate receiving not just some, but most of their retirement income from a job or a business. In fact, among 20–39 year-olds who expect to retire before age 60, a majority anticipate receiving most of their income from work in every country except Taiwan. Perhaps what these young adults mean by “retire” is something quite different from the conventional definition. Maybe they mean that they intend to leave a first career job in order to pursue other employment opportunities.

This supposition gains some support from the age tilt in general attitudes toward retirement. Midlife and young adults in most countries are less likely than the elderly to say that people should “retire at a fixed age and not work again” or that they should “work as long as they are able”—and more likely to say that they should “be free to start and stop working whenever they are able and willing.” In China and Malaysia, young adults are twice as likely to hold this more flexible view of retirement as the elderly. (SEE FIGURE 25.) Just as in the West, workers in East Asia are beginning to question whether the traditional “three box” lifecycle of education, work, and retirement fits their life plans. What remains to be seen is whether rigid government and employer policies that enforce mandatory retirement ages and lock older workers out of regular formal-sector



\* Excludes workers who do not plan to retire.

FIGURE 23. *Share of Respondents Who Retired or Plan to Retire after Age 60: Actual Share for Current Retirees versus Expected Share for Current Workers\**



\* Excludes workers who do not plan to retire.

FIGURE 24. *Share of Respondents Who Receive or Expect to Receive at Least Some of Their Retirement Income from a Job or a Business They Own: Actual Share for Current Retirees versus Expected Share for Current Workers\**

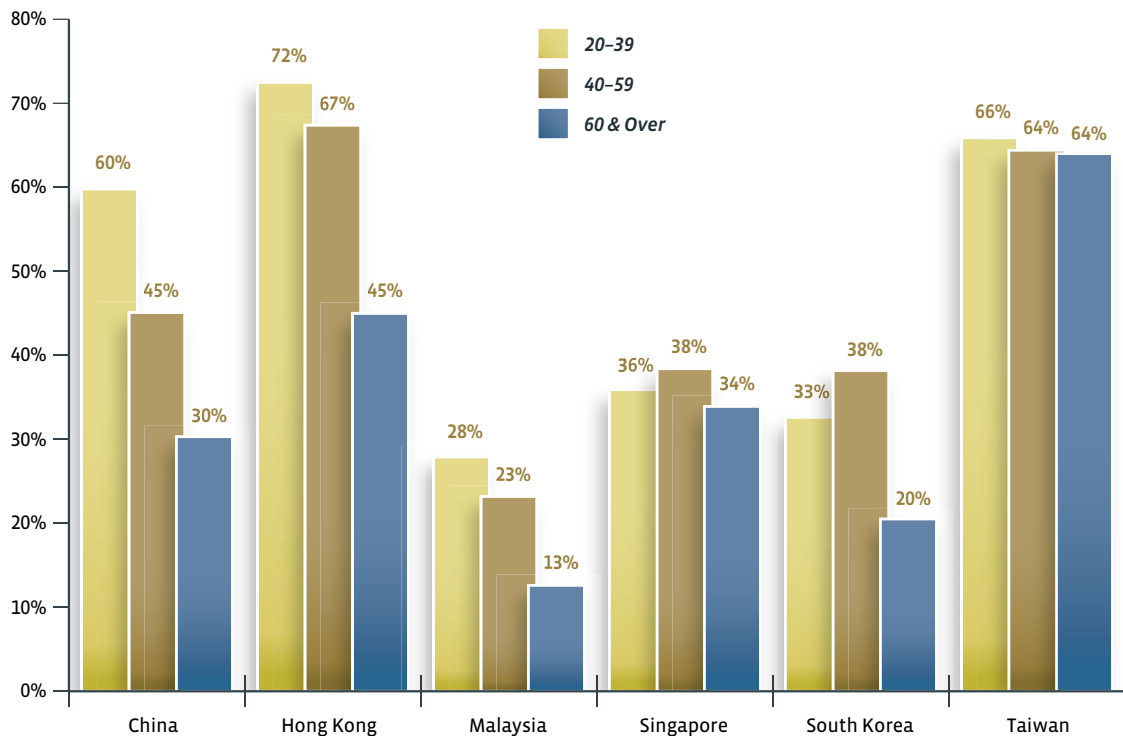


FIGURE 25. “Which view about work and retirement comes closest to yours?”

Share of Respondents Saying “People Should Be Free to Start and Stop Working Whenever They Are Able and Willing,” by Age Group

employment will accommodate this generational shift in attitudes.

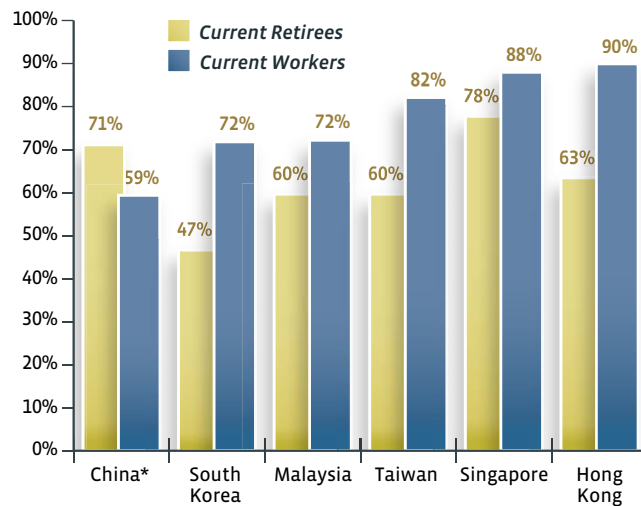
**The maturation of national pension systems.**

In all but one of the survey countries—China is the striking exception—today’s workers are better covered by national pension systems than today’s retirees were during their own working years. As a result, expected rates of pension receipt rise among future retirees everywhere except in China, and in some countries they do so dramatically. In South Korea, the share of respondents who receive or expect to receive income from the national pension system increases from 47 percent among current retirees to 72 percent among future retirees. In Taiwan, it increases from 60 to 82 percent and in Hong Kong from 63 to 90 percent. (SEE FIGURE 26.)

Although the maturation of national pension systems promises to improve the income prospects of future retirees, it will not ensure anything close to universal retirement security. To begin with, even among young adults significant gaps in coverage remain. In Hong Kong, Singapore, and Taiwan, between 10 and 15 percent of respondents aged 20–39 do not expect to receive benefits from the national pension system. That share reaches 24 percent in South Korea, 26 percent in Malaysia, and 40 percent in China. Moreover, even for the majority of workers who do expect to receive benefits, those benefits may fall far short of meeting their retirement income needs. The generosity of national pension systems varies considerably across the survey countries, but with the possible exception of Taiwan’s system, none is likely to replace even half of the pre-retirement income of average-earning workers.



In Singapore's and Malaysia's government-managed provident funds, replacement rates for current retirees are very low compared with the national retirement systems of most developed countries—about 25 and 35 percent, respectively.<sup>6</sup> Although slowing productivity and wage growth may help to boost replacement rates for future retirees, generating adequate benefits will require raising the rate of return on worker contributions, which historically has been well beneath the market rate of return.<sup>7</sup> In Hong Kong's privately managed provident fund, which does earn a market rate of return, the targeted replacement rate is between 30 and 40 percent. In South Korea, the current replacement rate for average earners under its pay-as-you-go national pension system is 50 percent. But the Korean government, which established the system in 1988 just before birthrates collapsed, has already cut promised benefits twice. Among younger workers, the replacement rate, measured on a final salary basis, is due to fall to just 35 percent.<sup>8</sup> In China,



\* Figures refer only to "basic pension system for urban employees."

**FIGURE 26.** *Share of Respondents Who Receive or Expect to Receive at Least Some of Their Retirement Income from a National Pension System: Actual Share for Current Retirees versus Expected Share for Current Workers*

whose national pension system is also becoming progressively less generous, the future replacement rate for average earners is on track to fall to 40 percent—a level that is far beneath the government target, in large part because the nominally funded second tier of the system earns much less than a market return.<sup>9</sup> Taiwan's national pension system, which also combines pay-as-you-go and funded tiers, is supposed to deliver a hefty replacement rate of 70 percent. But like China and South Korea, Taiwan may also come under increasing pressure to scale back pay-as-you-go benefit commitments as its population ages and the ratio of contributors to beneficiaries declines.

The outlook in China is so different from that in the other survey countries that it is worth commenting upon. As a legacy of the iron rice bowl, today's retirees have benefited from both unusually high pension receipt rates

<sup>6</sup> The current replacement rates cited in this paragraph come from a variety of sources. See Donghyun Park, ed., *Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Directions* (Manila: Asian Development Bank, 2011); Pension Funds Online, Wilmington Publishing and Information, <http://www.pensionfundsonline.co.uk/category/country-profiles/>; and Taiwan Labor e-Quarterly no.1, Council of Labor Affairs, [http://twlabor.tier.org.tw/Files\\_E/2010063093916e\\_1.pdf](http://twlabor.tier.org.tw/Files_E/2010063093916e_1.pdf).

<sup>7</sup> The below-market rates of return on Malaysia's Employee Provident Fund and (especially) Singapore's Central Provident Fund, which amount to an implicit tax on worker contributors, are extensively documented. See, for instance, Robert Holzmann, Ian W. MacArthur, and Yvonne Sin, "Pension Systems in East Asia and the Pacific: Challenges and Opportunities," Social Protection Discussion Paper no. 0014 (Washington, DC: World Bank, 2000); Augusto Iglesias and Robert J. Palacios, "Managing Public Pension Reserves Part I: Evidence from the International Experience," Social Protection Discussion Paper no. 0003 (Washington, D.C.: World Bank, 2000); Mukul G. Asher, "Malaysia: Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and Southeast Asia*; and Mukul G. Asher and Amarendu Nandy, "Singapore: Pension System Overview and Reform Directions," in *Pension Systems and Old-Age Income Support in East and Southeast Asia*.

<sup>8</sup> See Richard Jackson, Neil Howe, and Keisuke Nakashima, *The Aging of Korea: Demographics and Retirement Policy in the Land of the Morning Calm* (Washington, DC: Center for Strategic and International Studies, 2007).

<sup>9</sup> See Richard Jackson, Keisuke Nakashima, and Neil Howe, *China's Long March to Retirement Reform: The Graying of the Middle Kingdom Revisited* (Washington, DC: Center for Strategic and International Studies, 2009).

and unusually high replacement rates, which sometimes exceed 75 percent. But replacement rates under the “basic pension system for urban employees” are already declining steeply due to recent reforms. Meanwhile, the rapid growth in the number of private-sector employees and rural migrants, who are less likely to participate in the system, has lowered coverage rates. While 71 percent of current retirees report receiving a benefit under the basic pension system, just 59 percent of current workers expect to receive one. Although the government is trying to reverse the erosion in coverage by introducing new and more flexible pension options, the survey shows that the overall expected receipt rate for all types of government retirement benefits is still likely to decline.

In China, unlike any of the other survey countries, it is thus possible that tomorrow’s retirees will actually be worse off than today’s. The share of current workers who expect to have more income when they are retired or elderly than they do now is just half as large as the share of current retirees who report that they now have more income than when they were working—a huge 25 percentage point decline. China, moreover, is the only survey country where the share of current workers who say that they expect to have “a lot less” income in retirement is actually higher than the share of current retirees who say that they have a lot less income.

Not surprisingly, only a minority of current workers in the survey countries expect to receive most of their retirement income from national pension systems. In fact, no more than two in five expect to do so in any of the countries, and in China, Hong Kong, and South Korea fewer than one in five expect to do so. To be sure, a growing share of workers will be able to supplement the benefits they receive from national pension systems with employer pension benefits, since participation in private pension systems is rising in most countries as well. In the end, however, many if not most of today’s workers will have to rely heavily on

their own savings if they are to maintain their standard of living in retirement.

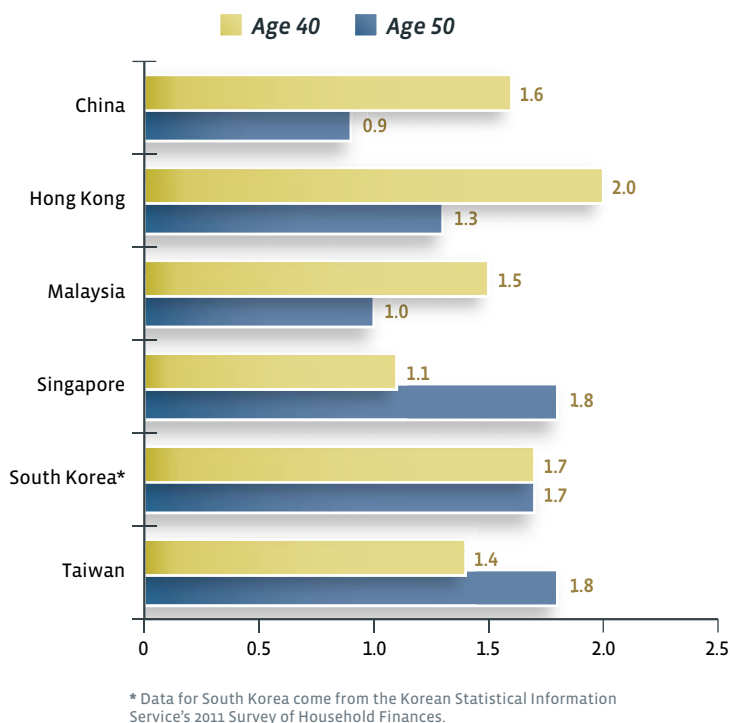
▣ **A persistent savings gap.** Exactly how much savings today’s workers will need of course depends on many factors. But even assuming that workers qualify for benefits under their national pension system, they would, depending on the country, have to find sufficient resources to replace an additional 25 to 50 percent of their preretirement income in order to achieve an overall replacement rate of 75 percent—a minimum target often recommended by financial planners. Unless workers also have a generous pension from their former employer, continue to work in retirement, or have dutiful children who are able and willing to support them, that gap will have to be filled with their own savings.

The survey reveals that the great majority of workers are nowhere near on track to meet such ambitious savings goals—even assuming, implausibly, that all of the savings they have accumulated to date will be preserved for retirement. At age forty, the average net financial asset-to-income ratio of the survey respondents ranges between a low of 1.1-to-1 in Singapore and a high of 2.0-to-1 in Hong Kong. Even at age fifty, the ratio fails to exceed 2-to-1 in any country. (SEE FIGURE 27.) Incredibly, these asset-to-income ratios are no higher than those among survey respondents in a low-saving developed country like the UK: 1.8-to-1 at both age forty and age fifty. To put these numbers in perspective, an asset-to-income ratio of 2-to-1 would be sufficient to finance a replacement rate equal to roughly 15 percent of preretirement income for someone retiring at age sixty-five. If retirement instead begins at age sixty, the replacement rate would be even lower.

There are several explanations for why asset-to-income ratios are so low in countries renowned for their high savings rates. A large share of household savings in East Asia is invested in real estate, not financial assets. Despite the growing market-orientation of

younger generations, moreover, a large share of what is invested in financial assets is still deposited in low-return bank accounts—and in China, an enormous two-thirds is. Then there is the issue of government policies, such as caps on interest rates and capital export controls, that once systematically lowered the return to individual savings in East Asia’s emerging markets. Although these have now been eliminated in most of the region’s economies, their legacy is still reflected in the low asset-to-income ratios of older workers. Finally, as we have seen, high rates of real income growth mean that families must save massively simply to keep asset-to-income ratios from falling. This will change as economic growth slows. But even so, most workers, including more educated and market-oriented workers, will need to save more, earn a higher

return on their savings, or both if they are to enjoy a comfortable retirement.



**FIGURE 27.** *Average Net Financial Asset-to-Income Ratio of Survey Respondents, by Age*

The glimpse of the future that the survey provides is thus both hopeful and worrisome. On the hopeful side, most of today’s workers are likely to reach retirement better prepared than today’s elderly were. Rising educational attainment, greater individual initiative, and growing market-orientation should leave them less dependent on either the family or government. Over time, as younger and more affluent cohorts arrive in old age, the chasm between the living standards of the elderly and the rest of the population that now exists in most countries will progressively narrow.

Yet greater affluence does not necessarily translate into greater retirement security. Today’s workers appear to understand this. A great many worry

about their retirement prospects. In fact, today’s workers worry even more than today’s retirees. In every country, larger shares of current workers are concerned that government or their former employers will reduce their retirement benefits. More generally, larger shares of current workers are concerned that they will be “poor and in need of money” during their retirement years. As the income of each successive cohort rises, so do expectations of what constitutes an adequate living standard in retirement. As things stand, the combination of inadequate pensions, insufficient savings, and weakening family support could disappoint the expectations of many workers—and leave a significant share at risk of hardship in old age.



# Strategic Implications for Government and Business

**T**he survey suggests many ways in which governments and businesses can help individuals better prepare for their own retirement—and East Asian societies as a whole better prepare for the imminent aging of their populations. We focus here on eight strategic responses, four for government policymakers and four for financial service providers. Together, they constitute the pillars of an overall strategy that will allow East Asia’s retirement systems to successfully complete the journey from tradition to modernity.

## Implications for Government Policymakers

▣ **Require workers to save more for their own retirement.** Expanding savings-based retirement provision is a sound strategy for aging

societies everywhere in the world. But it is also a strategy that is particularly well suited to institutional realities and cultural preferences in East Asia’s emerging markets. In contrast to most western countries, most of the survey countries already have national retirement systems that are based in whole or in part on personal savings. More importantly, the survey reveals that there is a remarkably high level of support in most countries for individual responsibility for retirement income, as well as a remarkable willingness to support additional savings mandates.

There is a compelling economic rationale for East Asia’s aging societies to lean more heavily on funded retirement savings. In periods of exceptionally rapid workforce and productivity growth, the rate of return to a pay-as-you-go retirement system, which is equal to the growth in worker payroll, typically exceeds the rate of return to a funded retirement system.

Benefits in the pay-as-you-go system can be paid out of the higher incomes of rising generations, in effect allowing elders to cash in on the economic progress of their children, while benefits in the funded system struggle to keep pace with income growth. But if East Asian societies may have been better served by the pay-as-you-go paradigm in the past, this will not be the case in the future. As workforces grow more slowly or contract and productivity growth converges with developed-world levels, the advantages of funded systems over pay-as-you-go systems will become decisive.

Those East Asian countries with funded pension systems should seek to strengthen and expand them, while those with pay-as-you-go systems should begin to transition toward funded ones. This may be relatively easy for a country like South Korea, which has a very high level of support for individual responsibility for retirement income—as well as a large surplus in its national pension system to help ease the transition. It will be much more difficult for a country like China, where the expectation of government support is very high and the national pension system has accumulated large unfunded liabilities. Yet as difficult as reform may be, it is essential. On its current course, China could face a retirement crisis come the 2020s, when the public's expectations will collide with the demographic and fiscal realities of a sharply rising old-age dependency burden.

▣ **Liberalize financial markets, protect property rights, and shore up the rule of law.** To the extent that retirement provision is savings-based, people must be assured full ownership of their savings. This will in turn require reforming government policies that prevent them from earning the global rate of return to capital. The need for such reform of course varies greatly across the six survey countries. It may be greatest in China, whose product markets and labor markets have long since been liberalized, but whose financial markets are still subject to systematic government controls that

lower the return to individual savings. Yet even in a country like Singapore, which has among the freest financial markets and most secure property rights in the world, contributors to its government-managed provident fund earn less than a market rate of return.

▣ **Raise formal retirement ages.** The early mandatory retirement ages that are enforced in the formal sectors of most of the survey countries have become a costly anachronism and must be raised. There are many reasons to do so. As life expectancy in East Asian countries rises, early retirement is becoming increasingly expensive to finance, whether on a pay-as-you-go or a funded basis. As East Asia's workforces grow more slowly and begin to contract, its economies will also face growing labor shortages. At the same time, the higher educational attainment and productivity of current working generations makes later retirement ages feasible. In rapidly developing economies, businesses may feel compelled to retire unskilled older workers to make room for more skilled younger ones. But in the future, older workers will no longer need to be cashiered.

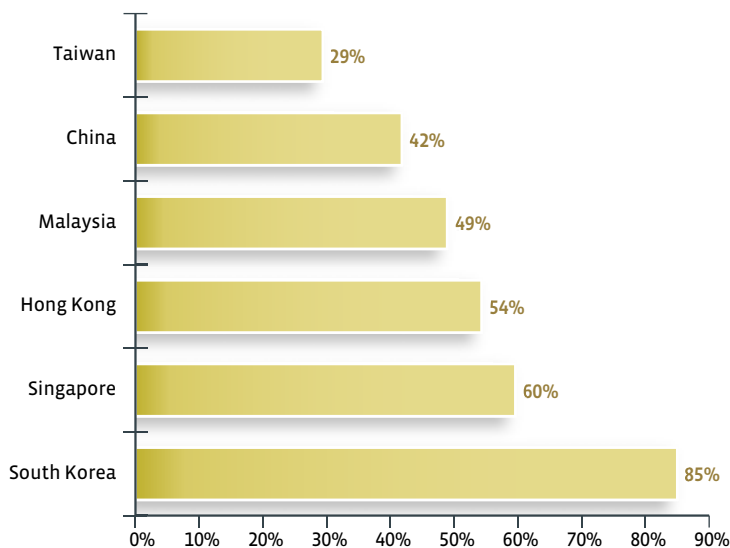
Over the past few years, governments in several of the survey countries, including Singapore, South Korea, and Taiwan, have begun to wake up to the new demographic and economic realities and schedule gradual increases in their retirement ages. These reforms represent a step in the right direction—not only because they make economic sense, but also because they ratify the public's wishes. As we have seen, substantial majorities of midlife and younger adults in most of the survey countries already anticipate working longer than today's retirees. When asked whether government should raise the retirement age, moreover, large shares of respondents in almost every country said yes. In western countries, proposals to raise the retirement age typically meet with widespread opposition from unions, senior benefit lobbies, and the public at large. In Hong Kong, Malaysia, and Singapore, raising the retirement age

was supported by at least half of the survey respondents—and in South Korea, it was supported by a stunning 85 percent. At two-fifths of respondents, support was somewhat weaker in China. Only in Taiwan, however, did the public exhibit anything close to the negative response typical of western countries. (SEE FIGURE 28.)

✎ **Establish more generous floors of old-age poverty protection.** The experience of emerging markets in other regions of the world demonstrates that it is virtually impossible to achieve universal coverage under contributory pension systems in economies with large informal sectors. The survey, which reveals that a significant minority of current workers in most countries expect to receive no formal retirement benefits of any kind, confirms that this is the case in East Asia as well. Until recently, governments could assume that the great majority of workers who reached old age without a pension or adequate personal savings would be supported by their grown children. But as the survey also reveals, this can no longer be taken for granted. It is therefore imperative that governments put in place adequate noncontributory old-age safety nets—or what are sometimes called “social pensions.” All of the survey countries now offer at least some kind of tax-financed, means-tested support to the indigent elderly, but the benefits are generally meager and in some countries, notably China and Malaysia, the reach of the programs is extremely limited. Providing for a robust floor of old-age poverty protection is not just a matter of ensuring social adequacy. In rapidly aging societies, the failure to do so could lead to social unrest—or even political crisis.

## Implications for Financial Service Providers

✎ **Design and market financial products and services for workers who want to assume responsibility for their own retirement.** As the survey shows, large shares of working-age adults in most countries are eager to assume responsibility for their own retirement security. As the survey also shows, most people are worried that they are not saving enough. These two facts, combined with the growing familiarity with financial markets among midlife and especially young adults, suggest that the demand for sophisticated financial products will grow rapidly in coming years. Financial service providers should be aware, however, that younger, more educated, and more market-oriented generations will demand greater control over investment choices and will pay much more attention to whether they are receiving a market rate of return on their savings.



✎ **FIGURE 28.** “As the population grows older and there are more retired people to support, please tell me whether you think the government should or should not do each of the following.”

Share of Respondents Saying “Government Should Raise the Retirement Age”

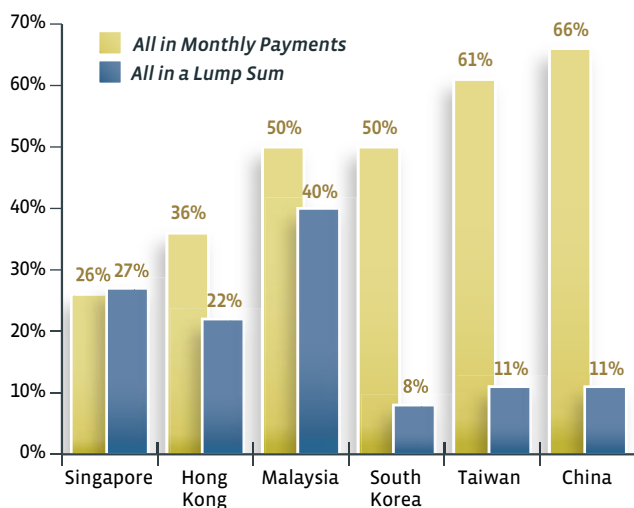


▣ **Satisfy the widespread public demand for annuitizing household savings and lump-sum employer payouts.** There is a long tradition of lump-sum severance pay in most East Asian countries. Yet surprisingly, the survey reveals a high level of support for annuitizing retirement income. In every country except Singapore, the share of respondents saying that, if given the choice, they would prefer to receive all of their retirement benefits in monthly payments exceeds the share saying that they would prefer to receive all of them in a single lump-sum payment—and in most countries, it does so by a wide margin. (SEE FIGURE 29.) People appear to understand intuitively that lump-sum payouts are an atavistic relic of paternalistic employment systems and are inadequate in societies where people retire so early and live so long. Annuitization may also owe some of its appeal to the new movement toward individual responsibility and financial independence, since annuities minimize the risk of becoming dependent on one’s children

▣ **Design products for more flexible patterns of work and retirement.** East Asian societies are moving away from the traditional pattern of lifelong career employment. While many younger workers plan to retire later, a growing number also plan to “retire” early from regular careers, but then move on to casual employment or business ownership. They will want to be able to access savings in retirement and insurance products to finance these transitions.

▣ **In designing and marketing financial products, be sensitive to attitudes about filial piety.** In South Korea and Taiwan, for instance, it may be helpful to stress the potential of retirement and insurance products to substitute for family support. In China, by contrast, the stress should be on their potential to substitute for government support. In Singapore, where traditional Confucian culture is more deeply entrenched, the stress should be on multigenerational burden sharing. The survey also suggests some other useful lessons. Do not assume that multigenerational living and financial

independence in retirement are mutually exclusive. Large shares of respondents both say that they expect to be financially independent *and* that they expect to live with their grown children. And do not assume that resistance to the ethic of filial piety will continue to grow among young adults. To the contrary, the survey contains considerable evidence of an incipient Confucian revival among the young in several countries. This is a pattern familiar to sociologists who have studied the development process around the world. The initial shock of modernization frequently overwhelms tradition—but afterwards, tradition often experiences a revival among younger generations.



▣ **FIGURE 29.** *“If you could choose how retirement benefits will be paid to you when you retire, please indicate which of the following ways you would prefer to receive the benefits.”*

Share of Nonretired Respondents Saying “All in Monthly Payments throughout Your Retirement” versus Share Saying “All in a Single Lump Sum When You Retire”



# Technical Note

This technical note includes a brief description of the methodology used in the CSIS East Asia Retirement Survey, as well as definitions of key terms and concepts referenced in the report.

## Survey Methodology

The CSIS East Asia Retirement Survey was conducted by Ipsos, a globally prominent survey firm. The surveys for Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan were carried out during the summer of 2011; the survey for China was carried out in two waves, the first during the summer of 2011 and the second during the winter of 2012. Ipsos also conducted the same survey for CSIS in the UK. The UK survey, which provides a point of comparison with a fully developed western economy, was carried out in the fall of 2011.

All survey samples were randomly selected and nationally representative, except that the China survey was limited to urban areas. The interviews were conducted by telephone. The survey universe consisted of main earners aged 20 or older, including both current main earners and retired main earners. Respondents were screened by the interviewers, and those who did not meet these criteria were excluded from the sample. CSIS

weighted the survey results by age, gender, and educational attainment using census data and other standard national and international statistical sources. The survey was analyzed by CSIS using SPSS statistical software.

The sample size for Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan, as well as for the UK, ranged between 748 and 953; the sample size for China was 2,826. The margin of error for the survey at a 95 percent confidence interval ranged between plus or minus 3.2 and plus or minus 3.6 percentage points for all of the countries except China, where it was plus or minus 1.8 percentage points. (See the accompanying table.)

### ▾ *Sample Size and Margin of Error*

	Sample Size	Margin of Error (+ or -)*
China	2826	1.8
Hong Kong	803	3.5
Malaysia	842	3.4
Singapore	931	3.2
South Korea	748	3.6
Taiwan	953	3.2
UK	944	3.2

\* Margin of error at a 95 percent confidence interval.

## Definitions

- ▣ **Age groups.** Survey respondents are divided into three broad age groups as follows:
  - ▶ “Young adults” = persons aged 20–39
  - ▶ “Midlife adults” = persons aged 40–59
  - ▶ “The elderly” = persons aged 60 & over
- ▣ **Educational attainment groups.** Survey respondents are divided into three broad educational attainment groups as follows:
  - ▶ “Less than secondary” = no schooling, some or completed primary school, and some lower-secondary school
  - ▶ “Secondary” = completed lower-secondary school and some or completed upper-secondary school
  - ▶ “Postsecondary” = anything more than completed secondary school
- ▣ **Household income.** Household income includes the income of the survey respondent as well as any income earned by other household members. Income groups are defined relative to the national median household income, rather than to the survey median.
- ▣ **Asset-to-income ratios.** In calculating average net financial asset-to-income ratios, we first took the ratio of net household financial assets to household income for each respondent, then averaged the ratios. The results were consistent with published data on net financial assets for all countries except South Korea. Here we substituted data from the Korean Statistical Information Service’s 2011 Survey of Household Finances.
- ▣ **Retirees and current workers.** The division of respondents into retirees and current 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.”

# About the Authors

**Richard Jackson** is a senior fellow at CSIS, where he directs the Global Aging Initiative, a research program that explores the economic, social, and geopolitical implications of demographic trends in the United States and around the world. He is also a senior adviser to the Concord Coalition. Jackson is the author or co-author of numerous policy studies, including *Global Aging and the Future of Emerging Markets* (2011); *The Global Aging Preparedness Index* (2010); and *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century* (2008). Jackson regularly speaks on long-term demographic and economic issues and is widely quoted in the media. He holds a Ph.D. in history from Yale University and a B.A. in classics from SUNY at Albany. He lives in Alexandria, Virginia, with his wife Perrine and three children, Benjamin, Brian, and Penelope.

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