The Future of Retirement
It's time to prepare

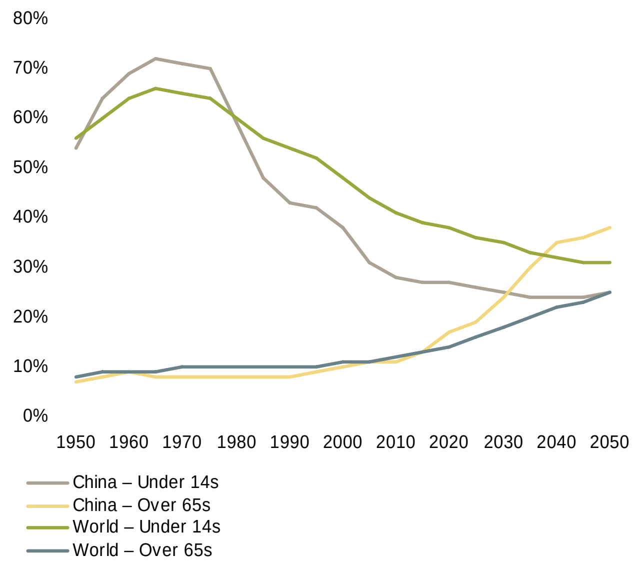
Fact Sheet
China

The fifth annual **HSBC Future of Retirement** report builds on the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many people in China retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how families envisage funding and supporting their retirement years. The report explores how people are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current preparedness gap – the feeling shared by a majority of people in China that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in China

China – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in **2030** the number of dependent adults in China will surpass the number of dependent children for the first time. This crossover arrives much later when compared with mature countries, and indeed some other emerging economies, giving China more time to plan, or what is often called a 'demographic dividend'.

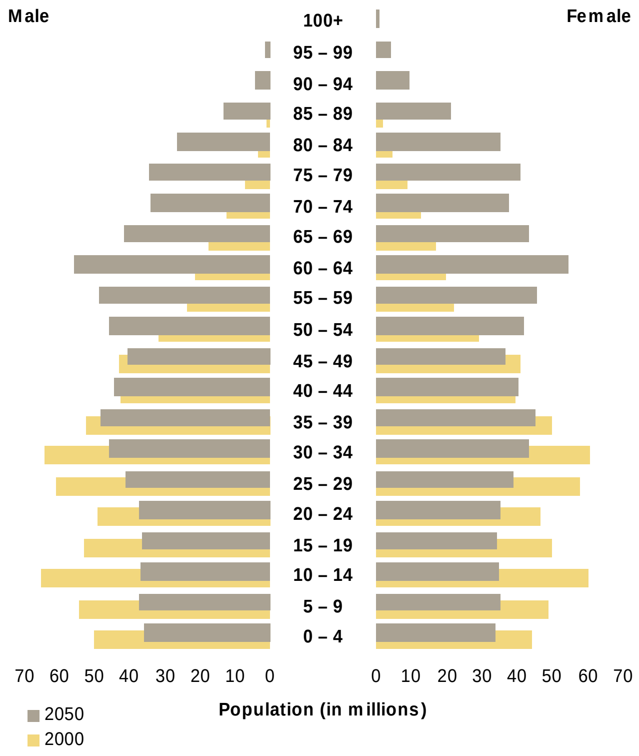
Figure 1 – The ageing Chinese population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In China's population pyramid, it is clear that that in the year 2000 (the yellow section of the chart), the bulging section of the population was aged between **10-30 years**, however, as we fast forward to 2050 (the grey section of the chart), this bulge swells to **age 50** and beyond. This signals a future in which the elderly Chinese population will be far greater than today – with perhaps over 500 million people in retirement – posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of China



Source: U.S. Census Bureau, Population Division

The Pension Pillars

In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In China, a traditional reliance on social provision (Pillar 1) has made the state the main provider, but more recently the government has sought to develop personal provision (Pillar 3). The findings reveal that Chinese

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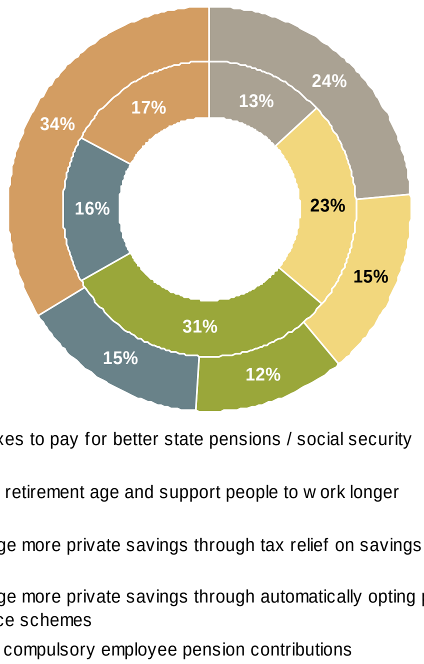
people have embraced the need to save for themselves. However, as with other societies with a youthful age profile, saving for their children (**41%**) is a stronger incentive than saving for retirement (**14%**).

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
China	Unfunded pension assets equalled three times GDP in 2005. Seen a major drive to promote personal and occupational provision.	Reforms to the State Owned Enterprises (SOE) have sought to limit costs by reducing entitlement to pensions.	The introduction of Enterprise Annuities completes China's shift towards a three tier pension system. The EA benefits from tax relief and flexibility at retirement.

Meeting the Demographic Challenge: The Path to Pensions Reform

To boost retirement savings, the most popular means chosen by Chinese survey respondents was compulsory employee pension contributions (**34%**). Another favoured approach amongst the Chinese was raising taxes in order to improve state provision. Both these options highlight the key role that people in China would like to see the Government play in supporting an ageing population. This preference may reflect the fact that people in China realise the need to save but prefer not to make the choices themselves.

Figure 3 – What the government should do in supporting and financing an ageing population (China's results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In spite of the relatively low coverage of the pension system, and a low number of people motivated to save for retirement, those in China feel fairly well prepared, with **59%** having done some retirement planning. However, over **90%** of do not know what their retirement income will look like.

Figure 4 – Levels of preparation

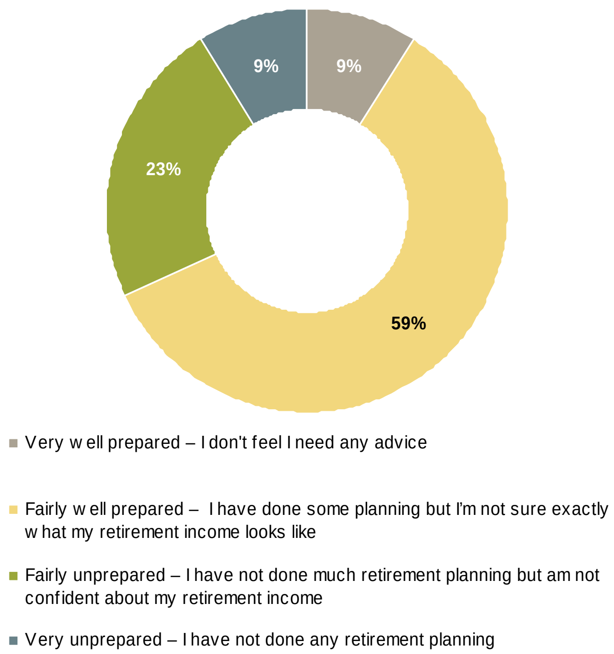


Figure 5 – Understanding of finances

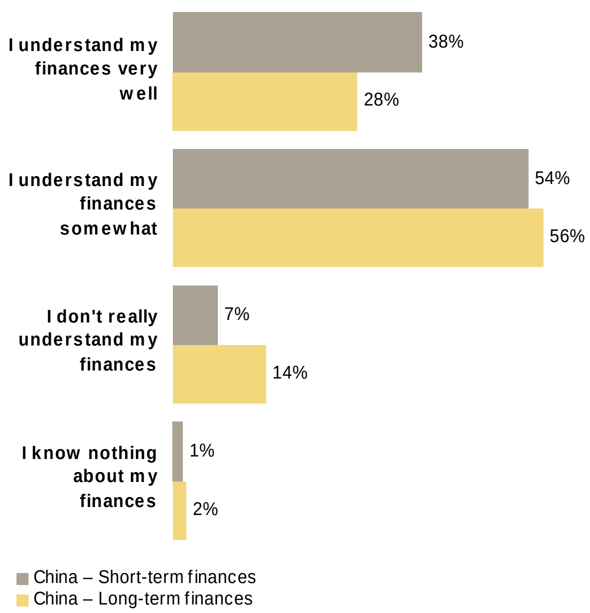
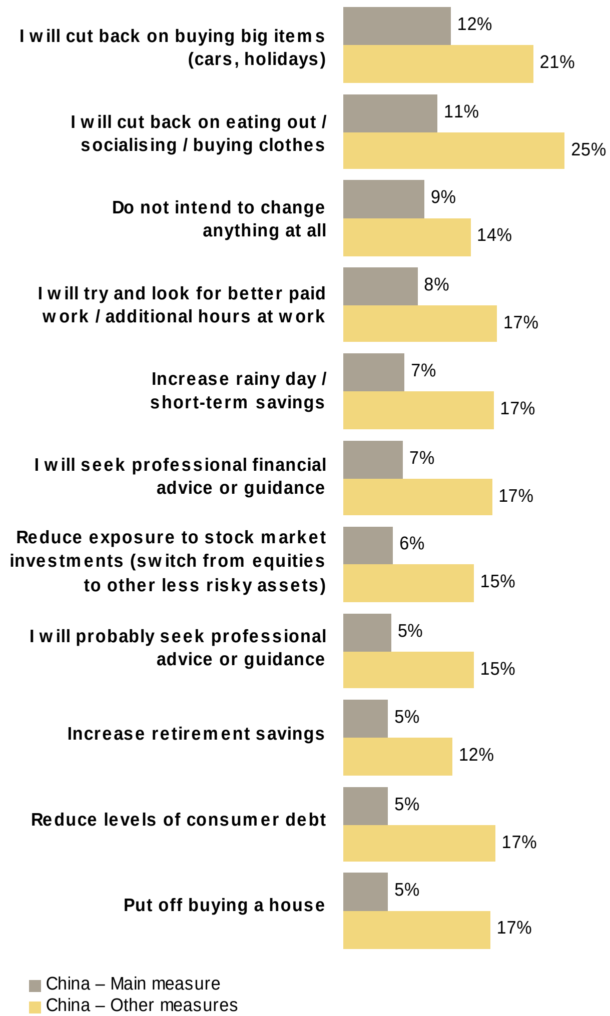


Figure 6 – Coping methods to survive the economic downturn



This feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **38%** of Chinese survey respondents understood their short -term finances very well, only **28**% are as confident about their long-term finances. Nevertheless, this level of understanding was above the global average.

The Preparedness Gap

These levels of understanding of personal finances in China highlight that the 'preparedness gap' is possibly linked to a lack of access to both financial advice and guidance. **19%** of the people surveyed had never accessed any general financial education, whilst **39%** of people have never accessed any form of professional financial advice. Although a greater than the global average balance of respondents in China feel they have had access to financial education, this education may merely focus on informal channels – such as family and the Internet – which may not provide the most comprehensive understanding of one's personal finances.

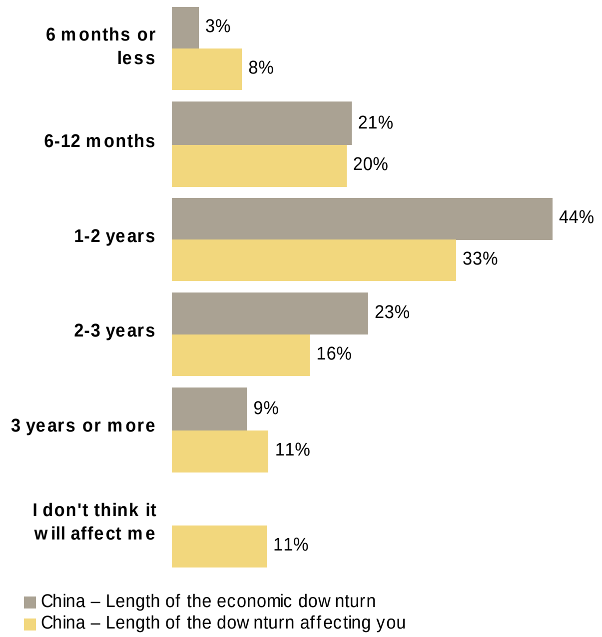
Given the responsibilities people now face in planning for their retirement, this lack of comprehensive financial education and guidance could become a major impediment. In addition, the danger may be that without an adequate understanding, people in China could be complacent in feeling relatively prepared for retirement. The need to develop personal finance education programmes is therefore paramount in order to help people better understand their finances and plan adequately for their retirement.

The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The IMF expects China to post positive growth (6.7%) in 2009, and growth of 8% in 2010. People in China – in line with other emerging economies – are even more optimistic: **24%** of people expect the downturn to last no more than 12 months; globally this increases to **29%**.

Given the more benign impact the economic downturn has had on China's growth, it is not surprising that people have been less inclined to adopt survival strategies to cope with the downturn, and **23%** do not intend to make any major changes as a result of the economic situation. Nevertheless, it is clear that people in China too are reducing expenditure on both large and small purchases to create a 'buffer' of savings. Unlike many other countries, debt was only seen as a major obstacle to saving by a small minority (**12%)** of survey respondents in China (compared with the global figure of **18%**). The findings also reveal that 8% of people in China have either reduced or stopped saving into a pension. A further **24%** say they would like to seek financial advice to help them make sense of the choices facing them.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, China is faced with an ageing society. In line with many emerging economies, its population's age profile is still relatively young and will benefit from the demographic dividend – the window of opportunity afforded to societies which will first see a major population shift from youth dependency into working adulthood. This gives China the time to prepare for retirement before the bulk of its adult population enters their later years. Widening the scope of the long-term savings market will be a critical step if China is to make the most of this opportunity. Despite recent developments in China's personal pensions market, the challenge remains of widening access to financial advice and education in order to enable families to better understand their longer term finances and plan accordingly.

The economic downturn's impact, while more muted in China, has been in the reduction of expenditure, the greater recognition of the need to reduce debts and a fall in the pension savings rates. Although these short term responses to the economic situation are perhaps understandable, there remains a clear need to ensure increasing access to retirement products as well as incentives for people to save and prepare for retirement.