The Future of Retirement in China

Funding Retirement

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EDITION FOUR

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Methodology

THE PARTNERSHIP	• LIMRA and Society of Actuaries partnered to conduct retirement studies in Asia
2,013 PARTICIPANTS	• 74% workers and 26% retirees ages 35 to 70
DATA COLLECTION	• Data collected in 2015 via online and face-to-face interviews
TERRITORY COVERED	• 23 provinces, municipalities, and regions

**A special thanks to our Project Oversight Group for
their contributions to this study!**

Current Pension Schemes in China

Although the financial burden on government pension systems is a global concern, countries with newer pension systems are highly sensitive to the strain.

Amidst a rapidly aging population, China is trying to catch their pension system up to the development of the rest of the Chinese economy.

China has an estimated 3,000 provincial, territorial, and city pension funds[1]. These funds are managed by local governments who interpret laws according to the economic development of their territory. Pension benefits vary depending on an individual's job and residential status. Unfortunately, this structure has resulted in a sizable gap in the retirement readiness of China's population.

Our results show that universal social security has yet to be accomplished in China, though great strides have been made toward that goal[2]. In China, the tier system is used to classify cities according to economic development. The most developed cities are classified as Tier I cities (e.g. Beijing). China's household registration system determines where individuals receive benefits based on their birthplace (city or town) and the status of the area as either urban or rural. Different pension schemes are in place for urban and rural residents. For these reasons, results in this report may be stratified by tier and landscape (urban versus non-urban).

Rural individuals tend to be underserved by China's social welfare system. Nearly one-third of the non-urban sample are not — or will not — be receiving public pension as an income source during retirement (Figure 1). Figure 2 shows that social pension varies according to household income.

SOCIAL PENSION*

Legend: ■ Not a Source ■ Minor Source ■ Major Source

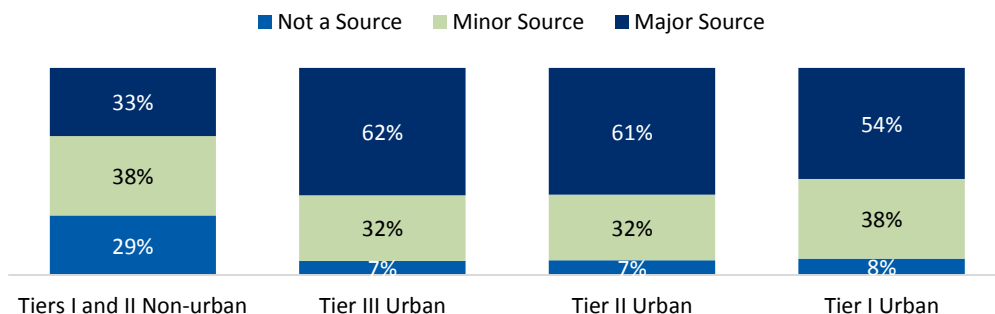|	Tiers I and II Non-urban	Tier III Urban	Tier II Urban	Tier I Urban
Major Source	33%	62%	61%	54%
Minor Source	38%	32%	32%	38%
Not a Source	29%	7%	7%	8%

Figure 1

*Note: Numbers may not add to 100% due to rounding

[1] Bloomberg, 2013

[2] World Bank, 2014

SOCIAL PENSION RECIPIENTS BY HOUSEHOLD INCOME*

Not a Source   Minor Source   Major Source

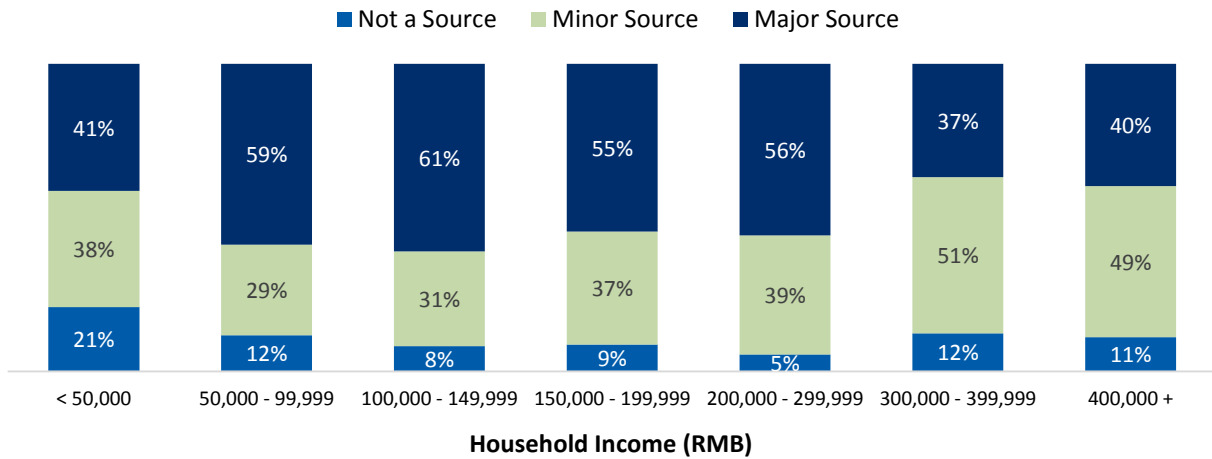| Income	Not a Source	Minor Source	Major Source
< 50,000	21%	38%	41%
50,000 - 99,999	12%	29%	59%
100,000 - 149,999	8%	31%	61%
150,000 - 199,999	9%	37%	55%
200,000 - 299,999	5%	39%	56%
300,000 - 399,999	12%	51%	37%
400,000 +	11%	49%	40%

Household Income (RMB)

Figure 2

*Note: Numbers may not add to 100% due to rounding

Retirement Funding Beyond Social Pension

How do people supplement social security benefits? For many in China, the answer is simply to save more of one's job earnings. Almost half of non-urban respondents consider job earnings a major source of income during retirement (Figure 3). This suggests that they plan to continue working into older age and/or save more of their job earnings early on. Retirees advise workers to save more money for retirement, despite doubting the longevity of their own nest eggs. The concept of retirement planning is still new in China, and awareness is critical in dealing with the pension funding crisis in this country.

JOB EARNINGS*

Not a Source   Minor Source   Major Source

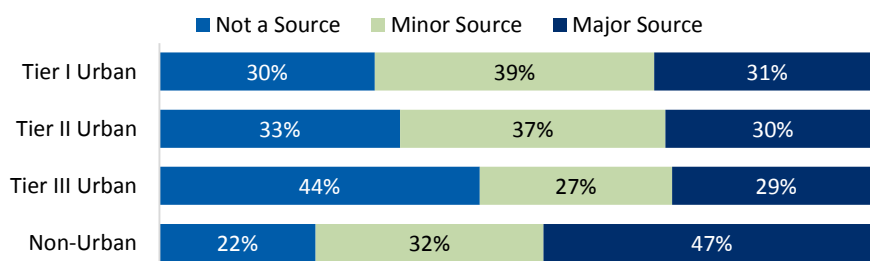|	Not a Source	Minor Source	Major Source
Tier I Urban	30%	39%	31%
Tier II Urban	33%	37%	30%
Tier III Urban	44%	27%	29%
Non-Urban	22%	32%	47%

Figure 3

*Note: Numbers may not add to 100% due to rounding

Enterprise Annuity Plans

Enterprise annuities (EAs) are voluntary plans funded by both employer and employee contributions. As of 2014, all vendors providing enterprise annuity plans were state owned enterprises in China[3]. EAs are managed under a trust model which involves hiring a plan trustee, a record-keeper, a custodian bank, and an investment manager[4]. Fewer than half of workers have EA/defined contribution (DC) retirement plans through their employer (Figure 4 and Table 1).
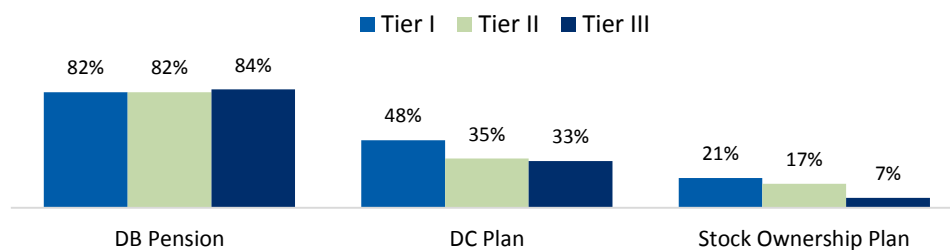
PLANS THROUGH EMPLOYERS

Figure 4
Note: Question asked of urban respondents only

EMPLOYEE CONTRIBUTIONS

	Tier I	Tier II	Tier III
Yes, I am currently contributing	40%	36%	29%
No, I am not currently, but have contributed in the past	10%	8%	9%
No, I am not contributing/have not contributed, though it is available	3%	6%	4%
No, my employer does not offer	47%	51%	59%

Table 1
Note: Question asked of urban respondents only

Among those with DC plans, around half receive 3 to 5 percent of their pay through employer contributions to those plans.
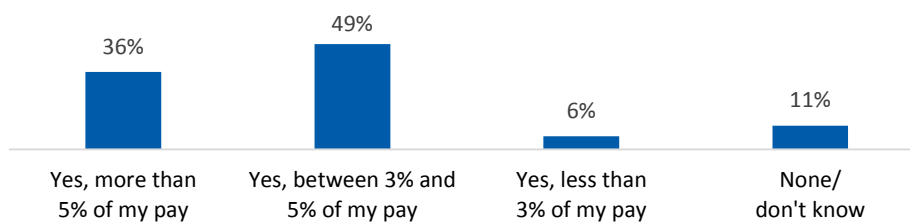
EMPLOYER CONTRIBUTIONS

Figure 5

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[3] AON Hewitt, 2014, New tax efficient pension plans in China, "The Chinese 401(k)?"

[4] AON Hewitt, 2014, New tax efficient pension plans in China, "The Chinese 401(k)?"
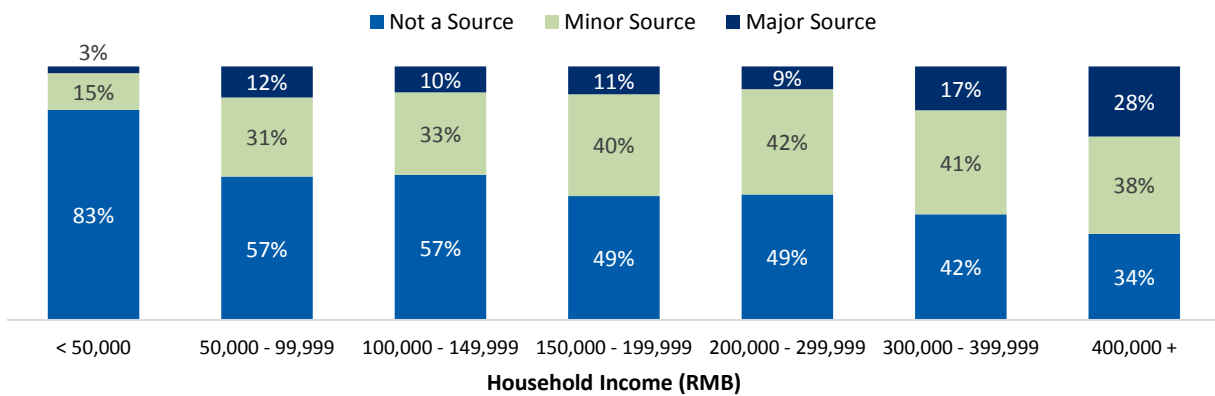
Other Funding Options

Income and public pension are supplemented with other funding sources on a case-by-case basis. Household income is an important determinant of the funding options used by respondents.

Additional funding sources include:

— Rental property income (Figure 6)

— Life insurance (Figure 7)

— Family member assistance (Figure 8)

— Inheritance (Figure 9)

RECIPIENTS OF RENTAL PROPERTY INCOME*

Legend: ■ Not a Source ■ Minor Source ■ Major Source

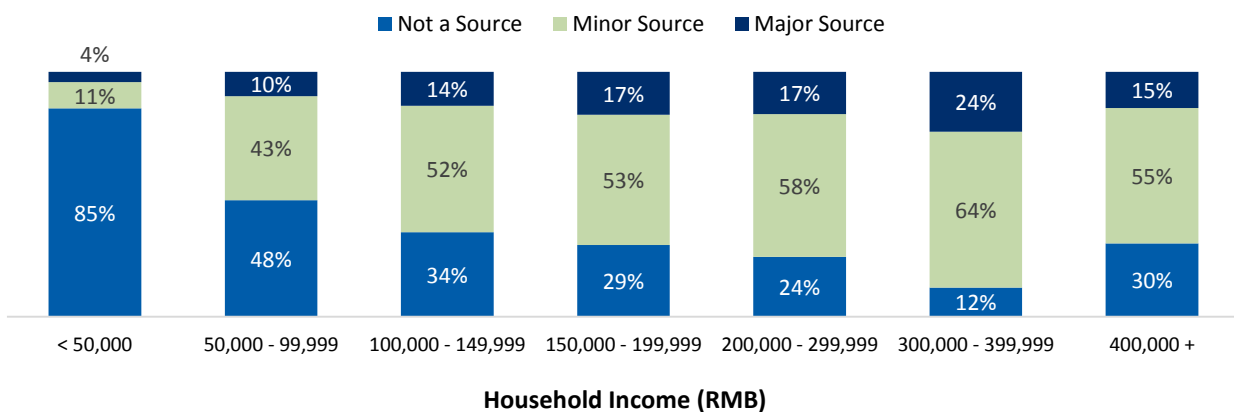| Household Income (RMB)	Not a Source	Minor Source	Major Source
< 50,000	83%	15%	3%
50,000 - 99,999	57%	31%	12%
100,000 - 149,999	57%	33%	10%
150,000 - 199,999	49%	40%	11%
200,000 - 299,999	49%	42%	9%
300,000 - 399,999	42%	41%	17%
400,000 +	34%	38%	28%

Figure 6

*Note: Numbers may not add to 100% due to rounding

Life insurance is regarded as a popular investment choice in many Asian countries and China is no exception. Low-income households are less likely to have life insurance (Figure 7), suggesting a need for more micro-insurance products and innovative distribution methods to better reach all market segments.

RECIPIENTS OF LIFE INSURANCE BY INCOME*

Legend: ■ Not a Source ■ Minor Source ■ Major Source

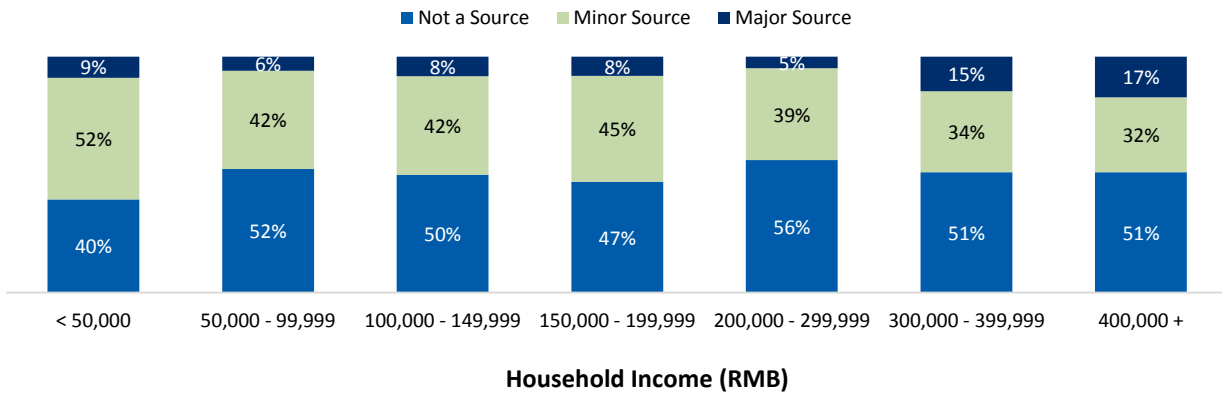| Household Income (RMB)	Not a Source	Minor Source	Major Source
< 50,000	85%	11%	4%
50,000 - 99,999	48%	43%	10%
100,000 - 149,999	34%	52%	14%
150,000 - 199,999	29%	53%	17%
200,000 - 299,999	24%	58%	17%
300,000 - 399,999	12%	64%	24%
400,000 +	30%	55%	15%

Figure 7

*Note: Numbers may not add to 100% due to rounding

Respondents with high annual household income (more than 300,000 RMB) are more likely to cite family member assistance as a *major* income source during retirement (Figure 8). However, it is more consistently used as a *minor* source by individuals with lower income (below 300,000 RMB).

RECIPIENTS OF FAMILY MEMBER ASSISTANCE BY INCOME*

■ Not a Source　■ Minor Source　■ Major Source

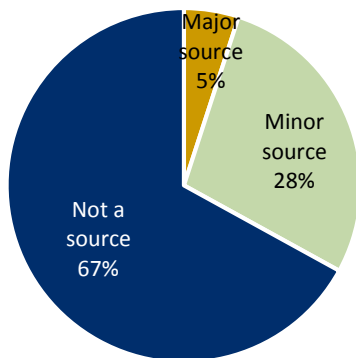| Household Income (RMB)	Major Source	Minor Source	Not a Source
< 50,000	9%	52%	40%
50,000 - 99,999	6%	42%	52%
100,000 - 149,999	8%	42%	50%
150,000 - 199,999	8%	45%	47%
200,000 - 299,999	5%	39%	56%
300,000 - 399,999	15%	34%	51%
400,000 +	17%	32%	51%

Household Income (RMB)

Figure 8

*Note: Numbers may not add to 100% due to rounding

Unlike family assistance, family inheritance occurs similarly across all income groups and tiers. About one-third of respondents are planning to, or are already relying on family inheritance as an income source during retirement (Figure 9).

INHERITANCE

Major source 5%

Minor source 28%

Not a source 67%

Figure 9

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Desirable Product Features

Among the top product features are guaranteed lifetime income, guaranteed returns on investments, and fixed income throughout retirement. Collectively, these represent the Chinese consumers' desire for financial stability with minimal risk.

Though not considered a top product feature, it is still alarming to see that the ability to convert income to a lump sum is desired by almost one-third of respondents. Hopefully, as awareness increases, fewer individuals will elect the lump sum option, and more opting to receive their benefit as an income stream.

RETIREMENT PRODUCT FEATURES CONSIDERED VERY IMPORTANT

Feature	Percent
Income that is guaranteed for life	63%
Guaranteed returns on investments	60%
Income will remain the same throughout retirement	60%
Initial investment amount is preserved or protected	59%
Income has the potential for growth with market	59%
Control over how investments are managed	53%
Income will continue after I die or my spouse dies	48%
Income amount can be changed as needs change	46%
Income that is adjusted for inflation	45%
The ability to withdraw in excess of regular payment	39%
Money for heirs or charities when I die	34%
Income can be converted into a lump sum	30%

Figure 10

Although income that is guaranteed for life is the most desired product feature (Figure 10), there is a disconnect when it comes to considering the purchase of such a product. Companies should consider providing consumers with detailed product information when selling retirement products in the Chinese market.

69% would not be willing to purchase or plan to purchase a financial product that will provide guaranteed lifetime income.

66% would be willing to convert a portion of assets into an annuity product that would provide a lifelong income stream in exchange for a premium payment

Household Savings and Investments

One advantage to overcoming retirement challenges in China lies in the cultural values of minimalism and strong orientation toward saving. In China, individuals tend to save more of their job earnings on a regular basis (Figure 11), and are much less likely to have outstanding debt.
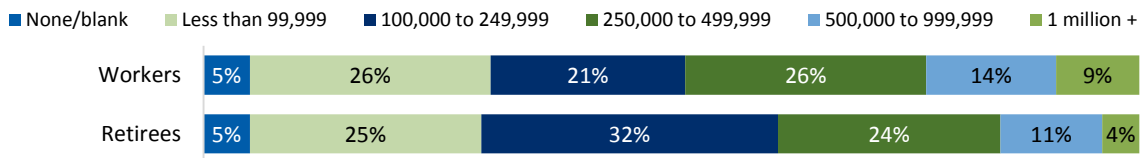
TOTAL AMOUNT (RMB) IN SAVINGS AND INVESTMENTS

■ None/blank ■ Less than 99,999 ■ 100,000 to 249,999 ■ 250,000 to 499,999 ■ 500,000 to 999,999 ■ 1 million +

Workers	5%	26%	21%	26%	14%	9%
Retirees	5%	25%	32%	24%	11%	4%

Figure 11[5]

Close to 70 percent of respondents report that they have no debt.

SELF-REPORTED LEVEL AMOUNT OF DEBT (RMB)*

■ None ■ Under 49,999 RMB ■ 50,000 to 99,999 ■ 100,000 to 199,999 ■ 200,000 to 499,999 ■ 500,000 or more

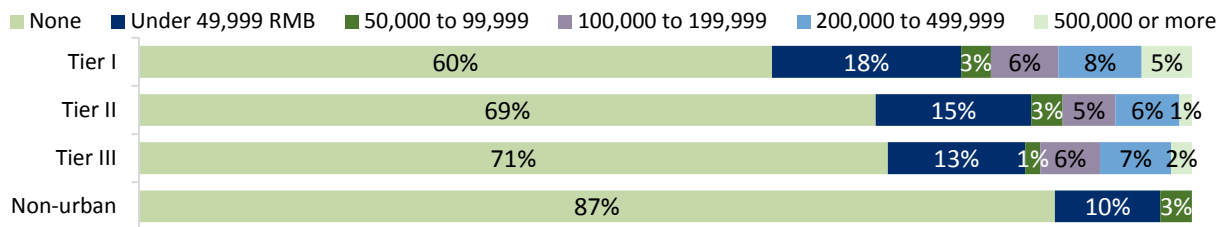|						
Tier I	60%	18%	3%	6%	8%	5%
Tier II	69%	15%	3%	5%	6%	1%
Tier III	71%	13%	1%	6%	7%	2%
Non-urban	87%				10%	3%

Figure 12

*Note: Numbers may not add to 100% due to rounding

The savings culture may be slowly drifting towards debt acceptance, which perpetuates concerns about low financial awareness. Table 2 shows that younger respondents are more likely to take on debt.

DEBT BY AGE

	35-39	40-44	45-49	50-59	60-70
None	**60%**	**62%**	**70%**	**73%**	**79%**
99,999 or less	23%	21%	17%	14%	15%
100,000 to 199,999	6%	6%	3%	5%	3%
200,000 to 299,999	2%	3%	4%	2%	1%
300,000 to 399,999	3%	1%	4%	2%	1%
400,000 to 499,999	2%	2%	1%	1%	1%
500,000 or more	3%	3%	1%	2%	1%
No response	1%	1%		1%	1%

Table 2

*Note: Numbers may not add to 100% due to rounding

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[5] 100,000 Chinese yuan is equivalent to about $15,175 USD (www.xe.com)

Though many lack debt and are good savers, few are planning to use their savings to create income during retirement (Figure 13).

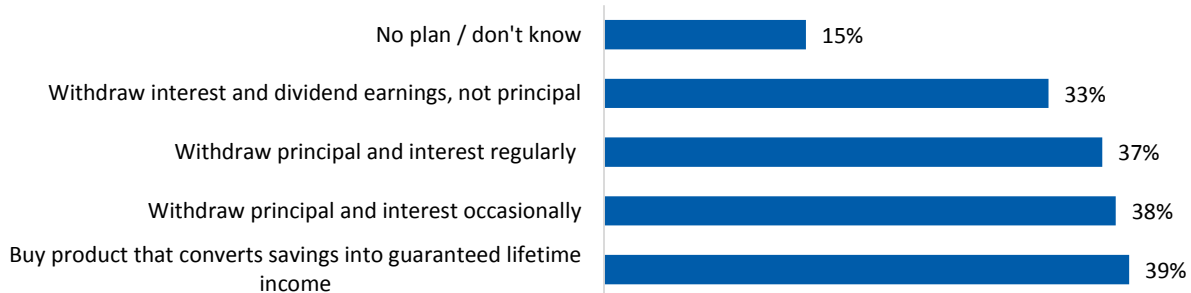**HOW DO RESPONDENTS PLAN TO USE SAVINGS DURING RETIREMENT?**

No plan / don't know	15%
Withdraw interest and dividend earnings, not principal	33%
Withdraw principal and interest regularly	37%
Withdraw principal and interest occasionally	38%
Buy product that converts savings into guaranteed lifetime income	39%

Figure 13

Reform on the Horizon[6]

> China's long-term goal is to achieve a fully unified three pillar system with national level pooling.

> The government intends to increase the retirement age to 65 for urban workers by 2022.

> Equal retirement ages for men and women are being considered for the future.

> The government is starting to back efforts to diversify funds and increase investment risk.

> The government is implementing change to reduce generous benefits given to state workers.

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[6] China Labor Organization, 2016

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