



EDITION FIVE

The Future of Retirement in China

Perceptions and Concerns



SOCIETY OF
ACTUARIES



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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!



Context

This report examines the retirement concerns across different provinces in China.¹ Coverage by China’s public pension system varies according to an individual’s occupation, and their hukou registration as a rural or urban employee. China’s population is 56 percent urban, though concentrations vary province to province (see Appendix A).

There are approximately 32 areas in China that have provincial-level governmental controls. Our sample includes respondents from 23 out of the 32 areas (pictured below in green).

Local governments often interpret and implement legislation differently, so location has a significant impact on an individual’s retirement perceptions and concerns.



¹ Note: The following provinces had less than 50 respondents: Hainan, Guangxi, Ningxia, Jilin, Hebei, Heilongjiang, Anhui, and Hubei

Expectations for retirement life are low

In general, respondents do not expect to live their desired lifestyle during retirement. For a culture of such strong savings behaviors, this is alarming (Figure 1).

EXPECT TO LIVE DESIRED LIFESTYLE DURING RETIREMENT

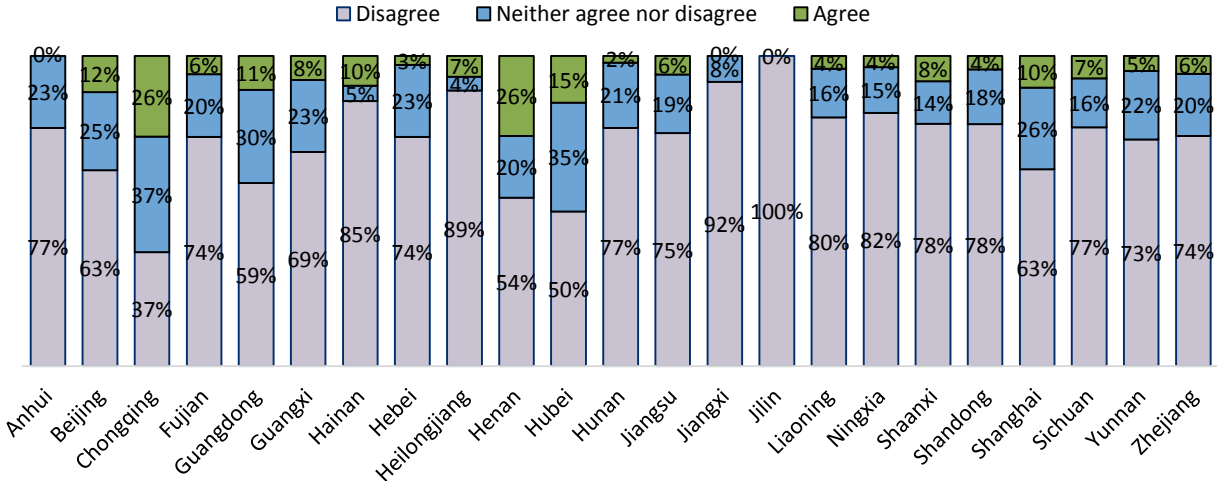


Figure 1

Financial knowledge is low

Only around one in ten consider themselves very knowledgeable about financial products and investments (Figure 2), therefore it makes sense that few anticipate living their ideal retirement lifestyle. Without knowledge of available retirement products and investments, it would be difficult to properly prepare.

FINANCIAL KNOWLEDGE

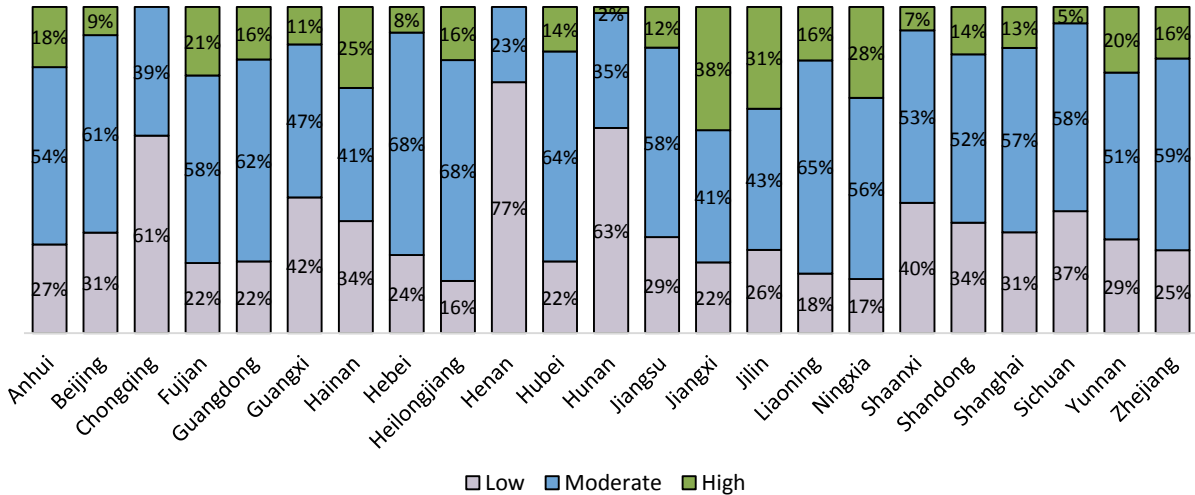


Figure 2



There is some mistrust of financial institutions

Results in this study show that nearly one third of all respondents do not trust financial institutions with their money. Figure 3 shows the level of trust by province. While the vast majority tend to save a significant portion of their working income, they are hesitant to purchase financial products through banks.



“I DO NOT TRUST FINANCIAL INSTITUTIONS WITH MY MONEY.”

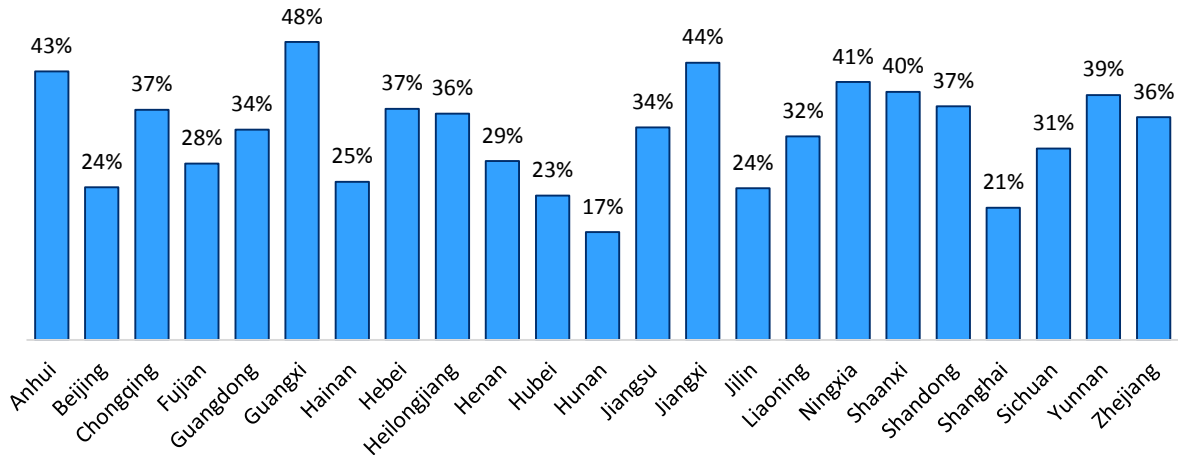


Figure 3

The more knowledgeable individuals are about financial products, the more likely they are to indicate distrust in financial institutions (Figure 4). One of the greatest challenges for China’s retirement market will be increasing transparency so consumers will be more trusting and willing to invest.

DISTRUST OF FINANCIAL INSTITUTIONS BY INDIVIDUAL PRODUCT KNOWLEDGE

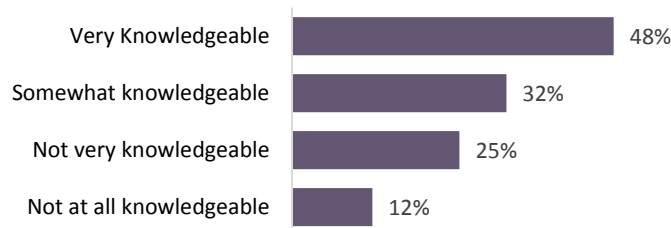


Figure 4





Consumers are becoming increasingly aware of and concerned about the pension deficit and the impact that population aging will have on the benefits available to the elderly during retirement (Figure 5).

GOVERNMENT FUNDING FOR AGING POPULATION

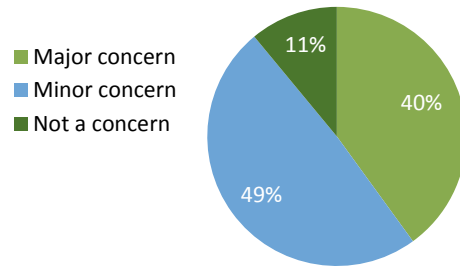


Figure 5

The savings-focused culture in China means the majority of individuals have money in the bank. However, even the most frugal consumers are aware that their savings will not last forever (Figure 6).

“I HAVE ENOUGH SAVINGS TO LAST UNTIL THE END OF MY RETIREMENT”

Percent who disagree

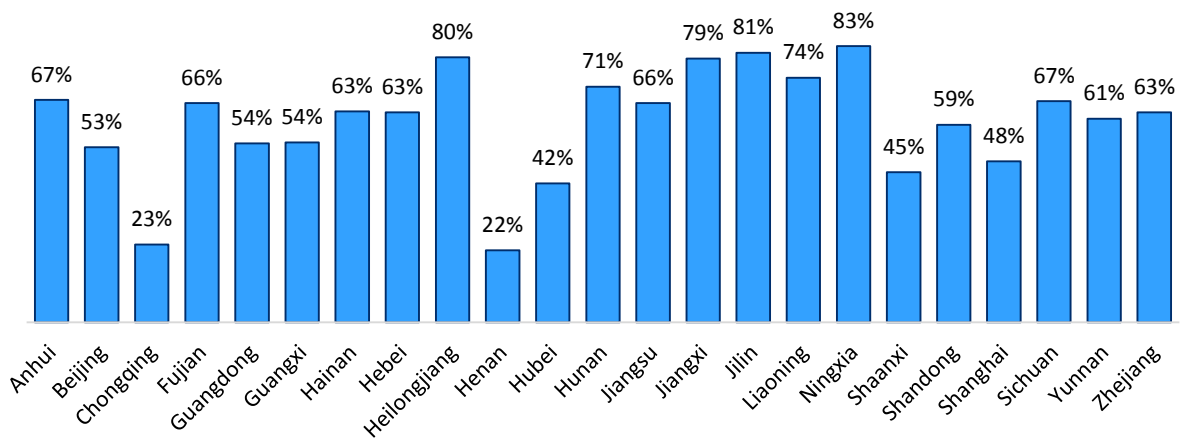


Figure 6

Companies selling guaranteed income products should target the moderate to high savers who have an interest, but may need further education to take an investment risk. Provinces with the largest concentration of high savers were Shanghai, Beijing, and Heilongjiang. See Appendix B for household savings levels stratified by province.





40% think that the value of savings and income is not keeping up with inflation

The average inflation rate in China is currently at 1.8 percent and is expected to climb, reaching 4.5 percent by 2020.² This concern is the highest in the province of Henan (Figure 7). Many individuals in Henan have low income and low savings, and will greatly feel the impact of inflation as the standard of living continues to increase.

THE VALUE OF SAVINGS AND INCOME MIGHT NOT KEEP UP WITH INFLATION

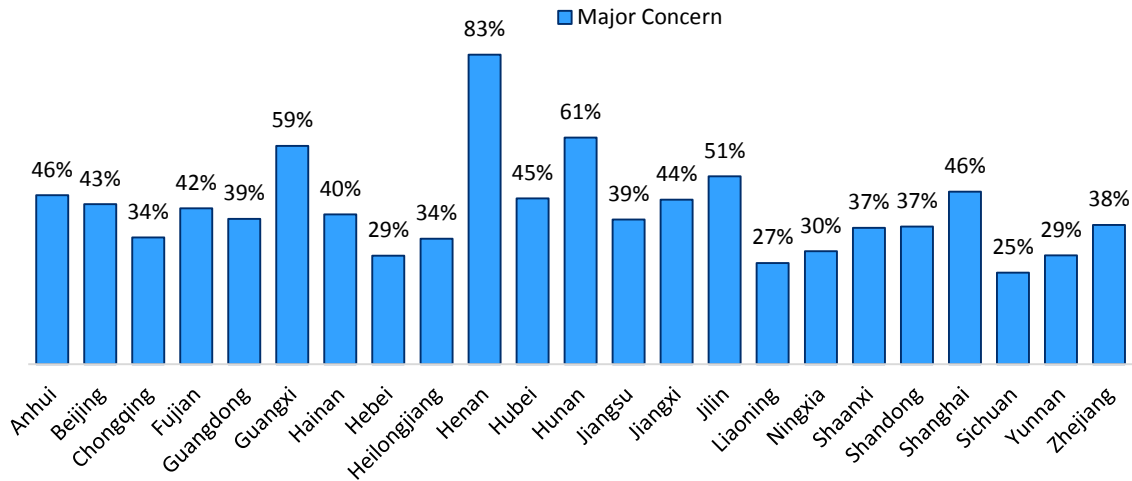


Figure 7

26% of all respondents consider tax increases a major concern

Personal income taxes contribute very little to total tax revenue in many developing countries. As structural, policy, and administrative capabilities improve, this is likely to change. Transparency of tax policies will be essential for eliminating these doubts among individual consumers.

TAX INCREASES

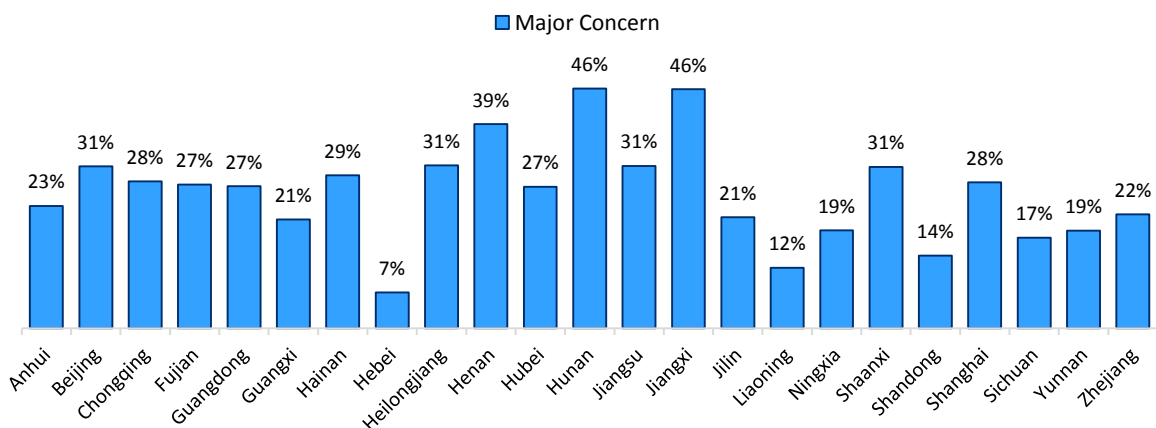


Figure 8

² “China Inflation Rate Forecast 2016-2020”, *Trading Economics*, 2016



43% of all respondents are majorly concerned that the government or their company will reduce social pension



Social pension and personal savings are the top sources of retirement funding for individuals in China. As a result, when one source is lacking in funds, the other is usually relied upon more heavily. Across provinces, social pension was considered a major funding source most frequently among respondents with low or no savings. Those with little or no savings showed the highest concern over the reduction in social pensions. Respondents from Henan had the lowest savings and income in the sample, and the highest reliance on social pension (see Appendix B).

MY COMPANY OR THE GOVERNMENT WILL REDUCE SOCIAL PENSION

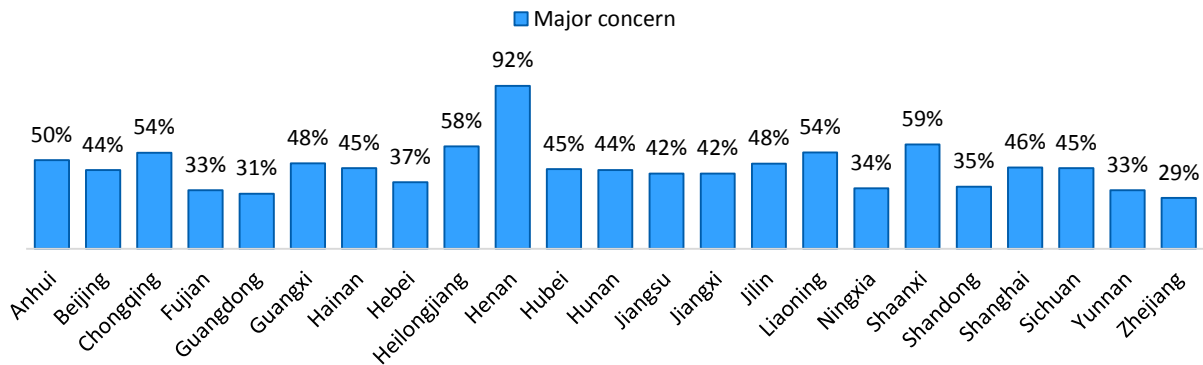


Figure 9

At 47 percent, concerns about paying for healthcare are the highest for all respondents. This is most likely related to a top retirement goal — maintaining health and well-being. The healthcare system in China is currently experiencing many of the same problems affecting the retirement system. There are separate healthcare systems for urban and rural citizens and many migrant workers have no coverage at all.³



FUNDING HEALTHCARE BEYOND SOCIAL INSURANCE MEDICAL SUPPLEMENT

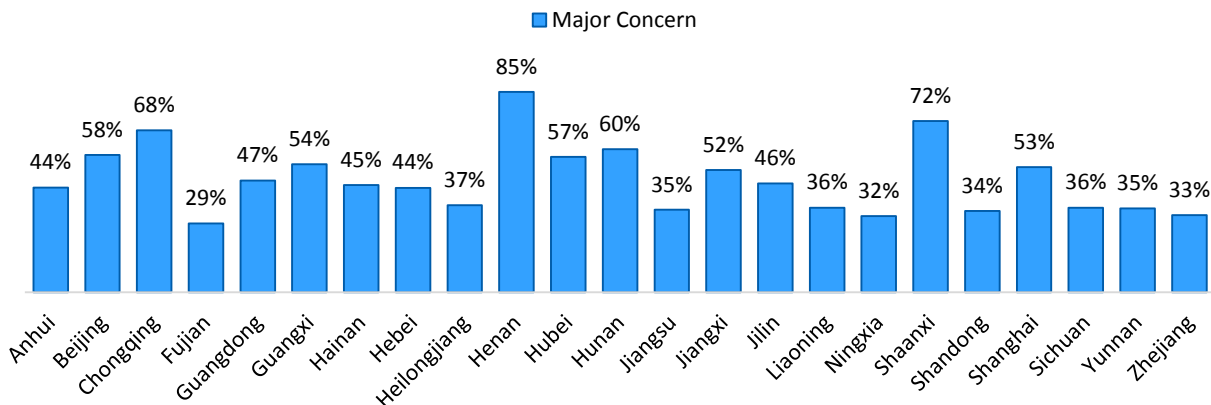


Figure 10

³ “Falling Through the Cracks of China’s Healthcare System”, WSJ, 2015.

Recommendations

- Multinational companies need to use multiple approaches to geographically segment China; a single country-level approach will not be sufficient.
- Government efforts coupled with the expertise of private firms can help raise financial literacy in China.
- Individuals should be encouraged to engage more with their financial professionals to help increase their own personal knowledge.
- Chongqing, Shaanxi, and Henan are the most in need of financial assistance, with fewer than 20 percent of respondents in these provinces interacting with financial professionals. Notably, respondents indicate the most personal involvement and responsibility for their finances in these locations.
- Jiangxi — the province reporting the most engagement with professionals — reported the lowest amount of personal involvement with managing their finances.
- People from Chongqing have low income, low savings, and low levels of pension access and benefit. Interestingly, this province had one of the highest levels of involvement in financial planning, suggesting that there may be a need for micro-insurance products to meet the needs of this market.

As a final examination, the table below shows the provinces that are the most prepared for expansion of the retirement market based on respondents’ savings level and their intent to convert savings to guaranteed income.

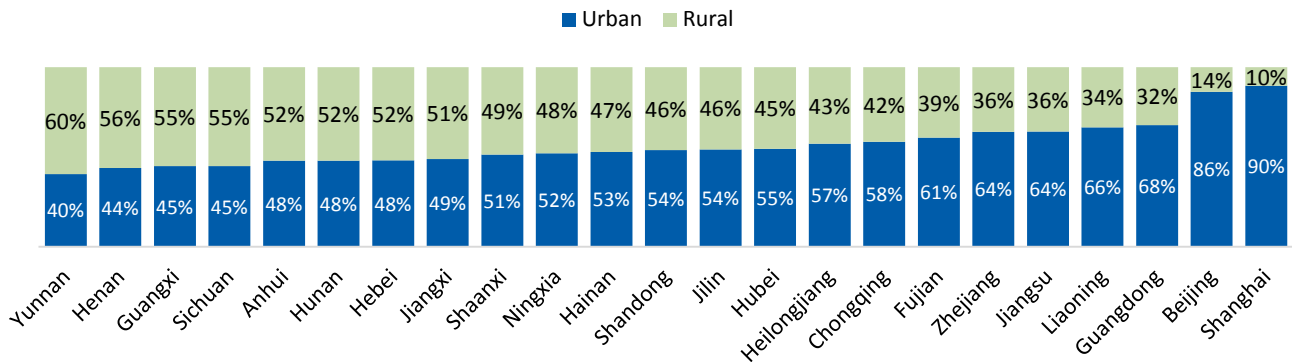
RETIREMENT PREPAREDNESS*

	Low Savings	Moderate Savings	High Savings
High Intent to Convert	Hunan Ningxia Liaoning Shandong	Jiangsu Anhui Fujian Jiangxi Guangdong Guangxi	Beijing Yunnan Heilongjiang Hainan
Low Intent to Convert	Chongqing Shaanxi Henan Hubei	Hebei Shanghai Sichuan	Jilin Zhejiang

*Provinces with moderate to high savings and high intent are the best targets for guaranteed income products.

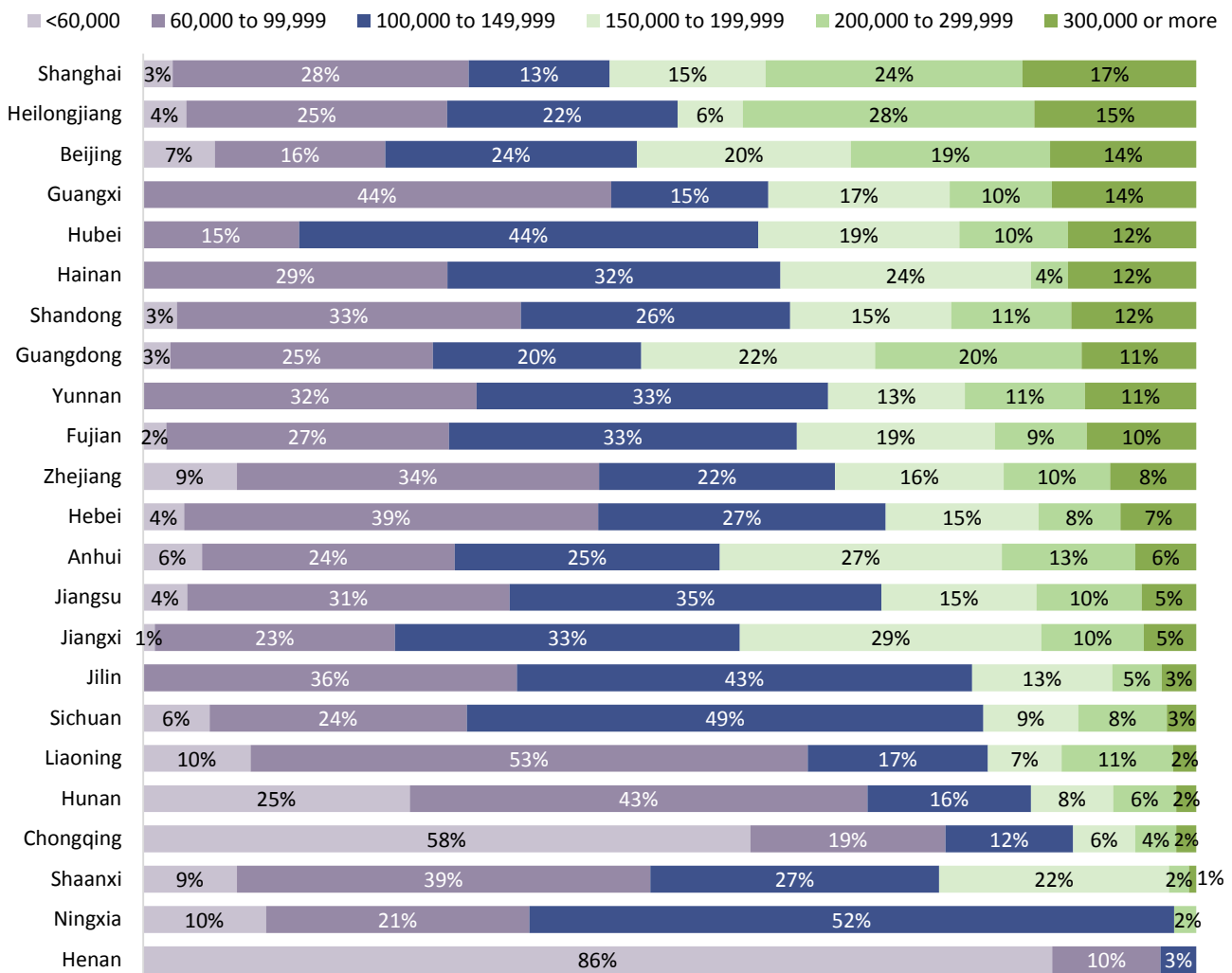
Appendixes

POPULATION AND URBAN DENSITY



APPENDIX A

HOUSEHOLD INCOME BY PROVINCE



APPENDIX B



KEY PLANNING INDICATORS BY PROVINCE

	Calculated assets available to spend during retirement	Determined what income will be during retirement	Estimated how many years assets will last	Work with an advisor	Formal written retirement plan
ANHUI	57%	40%	34%	23%	30%
BEIJING	40%	52%	36%	30%	21%
CHONGQING	28%	51%	20%	18%	4%
FUJIAN	50%	54%	42%	27%	29%
GUANGDONG	48%	60%	50%	32%	24%
GUANGXI	49%	60%	32%	21%	33%
HAINAN	57%	43%	41%	27%	32%
HEBEI	45%	43%	15%	36%	26%
HEILONGJIANG	36%	34%	34%	41%	35%
HENAN	12%	20%	7%	3%	1%
HUBEI	50%	60%	43%	27%	14%
HUNAN	36%	51%	29%	20%	15%
JIANGSU	52%	49%	43%	46%	24%
JIANGXI	42%	50%	36%	57%	44%
JILIN	36%	47%	7%	21%	13%
LIAONING	45%	56%	24%	38%	10%
NINGXIA	35%	32%	19%	33%	18%
SHAANXI	41%	50%	34%	15%	6%
SHANDONG	45%	62%	34%	44%	30%
SHANGHAI	44%	49%	30%	34%	21%
SICHUAN	33%	64%	21%	28%	11%
YUNNAN	53%	53%	37%	38%	36%
ZHEJIANG	53%	51%	33%	26%	25%

APPENDIX C

RETIREMENT — MANDATORY, OFFERED INCENTIVES, OR CHOICE

	Yes totally mandatory	Offered incentives	Choice
Anhui	52%	21%	27%
Beijing	49%	15%	37%
Chongqing	53%	14%	33%
Fujian	55%	19%	26%
Guangdong	38%	19%	43%
Guangxi	58%	19%	23%
Hainan	47%	15%	38%
Hebei	49%	17%	35%
Heilongjiang	62%	19%	19%
Henan	79%	13%	7%
Hubei	50%	15%	36%
Hunan	39%	22%	39%
Jiangsu	60%	18%	23%
Jiangxi	29%	31%	40%
Jilin	31%	23%	46%
Liaoning	75%	7%	19%
Ningxia	37%	39%	25%
Shaanxi	69%	7%	24%
Shandong	35%	30%	35%
Shanghai	47%	23%	31%
Sichuan	54%	18%	28%
Yunnan	49%	24%	27%
Zhejiang	54%	12%	34%

APPENDIX D



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