



China Fact Sheet

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2013



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Introduction

Key Findings

- **The Chinese are optimistic about the economy now and retirement in the future:** Only 9% believe the economy is going to get worse in the next twelve months, 41% believe it will improve. Similarly, only 20% believe that future generations will be worse off in retirement, and 45% think they will be better off.
- **Retirement associations are generally positive:** people are more likely to associate going into retirement with positive characteristics such as leisure (59%) and freedom (47%) more than negative terms such as poverty (5%), though 30% associate retirement with ill-health.
- **China is near the top of AEGON Retirement Readiness Index (ARRI):** China's readiness score is higher than all others except Germany in the twelve country league.
- **The end of 'cliff-edge' retirement:** Whilst 59% of current retirees immediately stopped all paid work upon retirement, only 25% of present day employees expect to do the same.
- **Opposition to a rising pension age:** Only 1% of Chinese respondents think the retirement system can remain affordable without tax increases, but only 15% support allowing retirement age to increase in line with life expectancy.

The Survey

The findings used in this report are based on the China responses of a twelve country study, in which 12,000 people were interviewed. Respondents were interviewed using an online panel survey and fieldwork was conducted in January and February 2013. The questionnaire dealt with a wide range of issues covering attitudes towards retirement preparedness, the role of the state and the employer in providing pensions, and the impact of the financial crisis on attitudes to issues such as investment risk and retirement planning.

In China 900 employees and 100 fully retired people were interviewed to provide a contrast between the responses of current workers and those already in retirement. All findings in this report are based on the China results unless otherwise stated. The survey did not include the unemployed, long-term incapacitated, homemakers, or the self-employed as each of these groups faces specific challenges in planning for retirement which requires specific public policy interventions. Instead, the objective for this survey is to provide a broader perspective based on the mainstream working population.

1. Retirement landscape

Life expectancy in China, given the current trend which shows straight-line growth over the past ten years, is expected to rise again this year. On the other hand, China's ageing population is growing fast, with one-in-three to be over 60 by 2050. This has put heavy pressure on China's pension system which composed by basic pension and individual accounts.

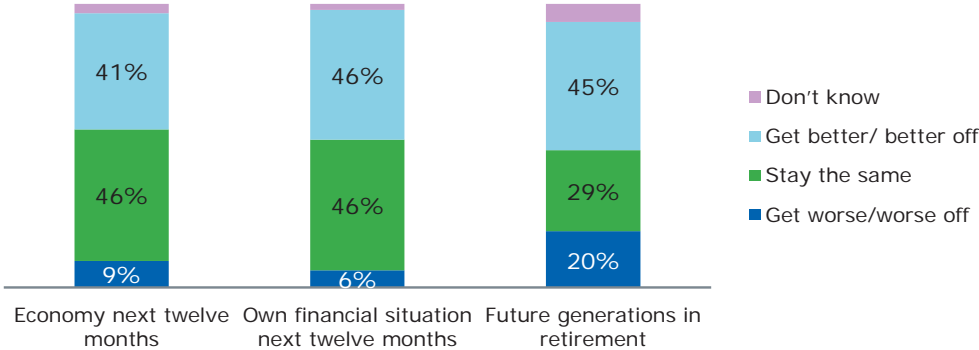
Pension fund is managed at provincial level and fund from individual accounts is often used to pay those aged people who worked before the establishment of the on-going pension system in 1997, creating large deficit with the province's pension fund account. Such a system has been rendered unaffordable. China Pension Report (CPR) 2012, compiled by the Center for International Social Security Studies at the Chinese Academy of Social Sciences notes that the pension fund account in nearly half of the provinces surveyed are in deficit.

To improve the situation, the Chinese government has been looking into a couple of measures. Firstly, a pilot scheme for pension funds to be invested in more diversified products rather than just fixed-income products has been running since last March in Guangdong Province. This aims to raise the investment growth for pension funds. Secondly, the securities market watchdog, the China Securities Regulatory Commission (CSRC) is considering cutting or exempting taxes on the stock investment of long-term investors such as pension fund to further boost its value. Thirdly, regulators have been calling for the development of pension funds products by financial institutions, especially life insurance products. It has also been proposed by some officials to raise the retirement age to 65, but this measure is unpopular with the Chinese public at present.

2. Aspirations and expectations for a changing retirement

Chart 1: The Chinese are optimistic about retirement for future generations

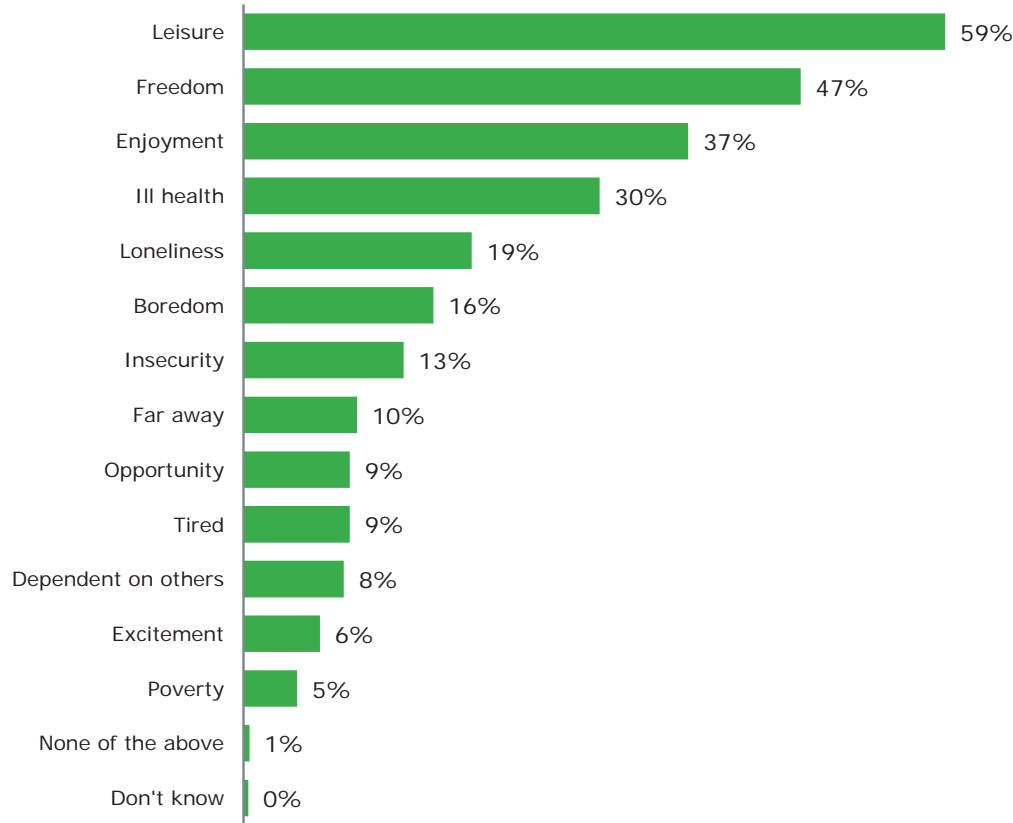
- Q. Thinking ahead over the next 12 months, do you expect the economy in [COUNTRY] to...?
- Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...?
- Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement?



In stark contrast to findings in other countries, the Chinese are generally optimistic about both their current situation and the situation of future generations of retirees. Younger Chinese are the most optimistic: 55% of 25-34 year olds expect to become personally better off in the next twelve months, compared to just 37% of 55-64 year olds.

Chart 2: Retirement has generally positive associations

Q. Which, if any, of the following words do you most associate with retirement? Please tick up to three words.



In China, retirement has generally positive associations, especially leisure and freedom. However, there are also concerns about how ill health can effect old age: 30% associate this with retirement.

China is ranked near the top of the AEGON Retirement Readiness Index (ARRI) in its first year of participation

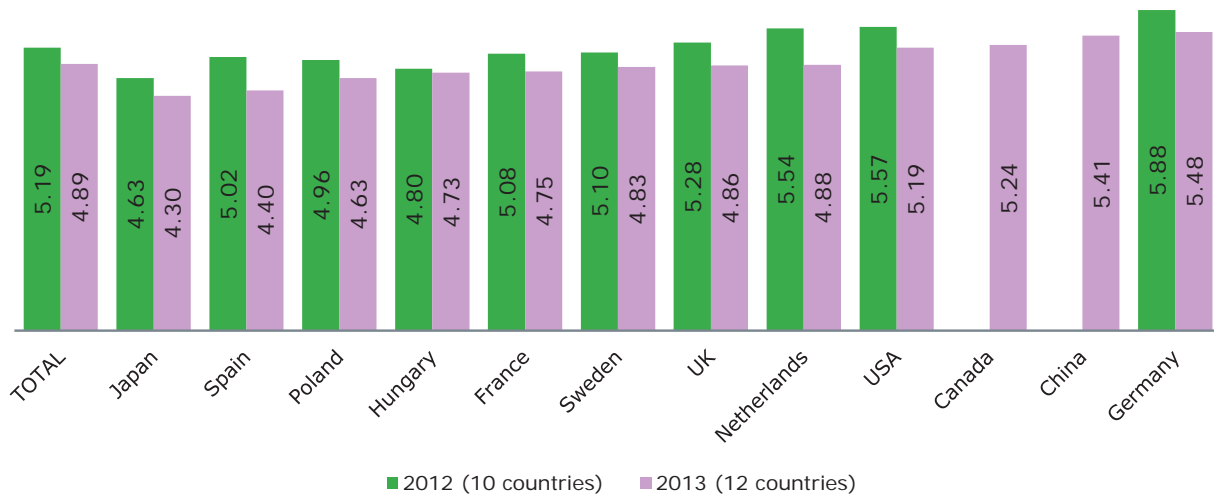
This is the second year that the ARRI has been conducted. The Index is based on answers to a series of questions:

- Three cover **attitudes**: whether employees accept personal responsibility for retirement income, whether they're aware of the need to plan for retirement, and whether they understand financial matters.
- Three cover actual **behaviours**: the extent to which employees have retirement plans in place, whether they are adequately saving for retirement, and whether they are on course to achieve their required retirement income.

Responses are then correlated based on their importance in determining a respondent's saving profile, and each respondent is scored out of ten.

Chart 3: AEGON Retirement Readiness Index (ARRI) by country

Readiness Index created by weighting the responses to six questions related to retirement readiness according to statistical importance

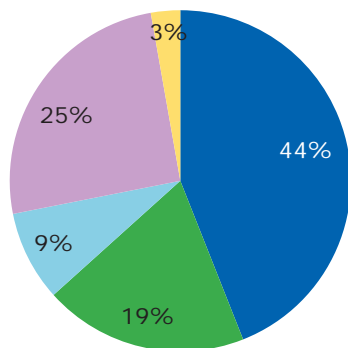


This was the first year China was included in the ARRI research. Respondents there gave some of the most positive responses regarding their retirement readiness, and as such China placed second in the twelve country table. Findings from the questions making up the index include:

- Chinese respondents are more confident than employees elsewhere that they will achieve their desired retirement income: 18% believe they will achieve 75% of this income and 35% think they will achieve 100% of it.
- There are also high levels of awareness of the need to save, with 39% feeling very aware of this – though this falls to just 21% of 18-24 year olds.
- Despite their relatively high level of retirement readiness, only 11% of Chinese employees feel they have a well-developed plan for retirement.

Chart 4: Over two-fifths of respondents make sure to always save for retirement

Q. Which of the following best explains your approach to saving for retirement? This can include money you contribute to any long-term investment including pensions, stocks and shares, investment-linked insurances, property, etc. Please select the option below that is closest to your view.



- I always make sure that I am saving for retirement
- I only save for retirement occasionally from time to time
- I am not saving for retirement now, although I have in the past
- I am not saving for retirement though I do intend to
- I have never saved for retirement and don't intend to

3. Dealing with the readiness shortfall

A fifth retired sooner than they had planned to, for mostly negative reasons

Retiring sooner than planned is generally associated with negative reasons such as poor health or unemployment. In contrast, the global findings show that retiring later is associated with positive factors such as people enjoying their careers and wanting to keep their brains active.

Chart 5: Retiring sooner or later than planned

Q. Would you say that you fully retired from all paid employment sooner or later in life than you had planned, or at the age you had planned to?

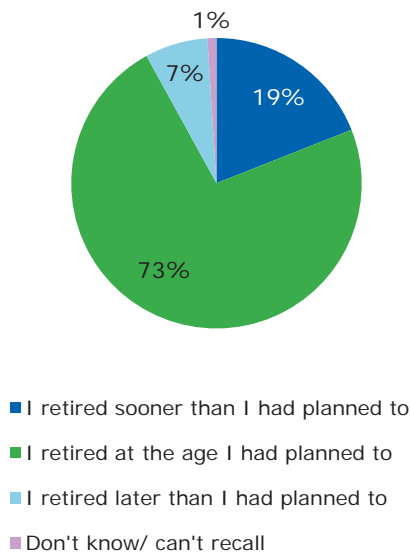


Chart 6: Reasons for early retirement

Q. Which, if any, of the following were important reasons in your retirement from all paid employment sooner than you had planned? Please tick all that apply. (BASE: IF SOONER, n= 19)

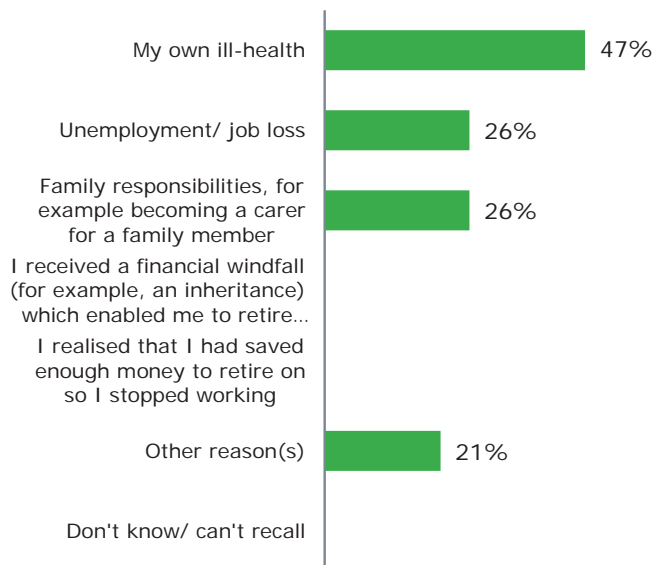
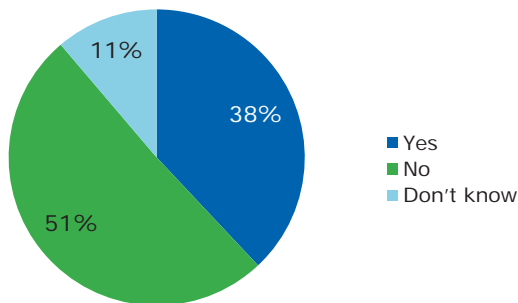


Chart 7: Half have no backup plan for retirement

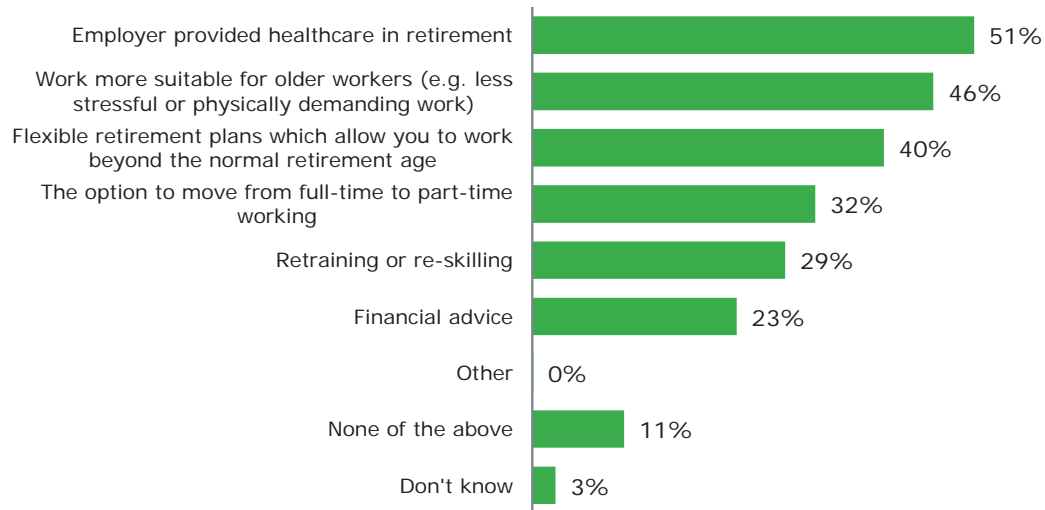
Q. In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'backup plan' to provide you with an income?



This finding is concerning, it suggests a lack of financial knowledge among respondents about what will be required to ensure a comfortable retirement: no backup plan means being exposed to poverty in old age if you find you can no longer work sooner than expected.

Chart 8: Employees name healthcare and age appropriate work as services used to help them transition to retirement

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement?

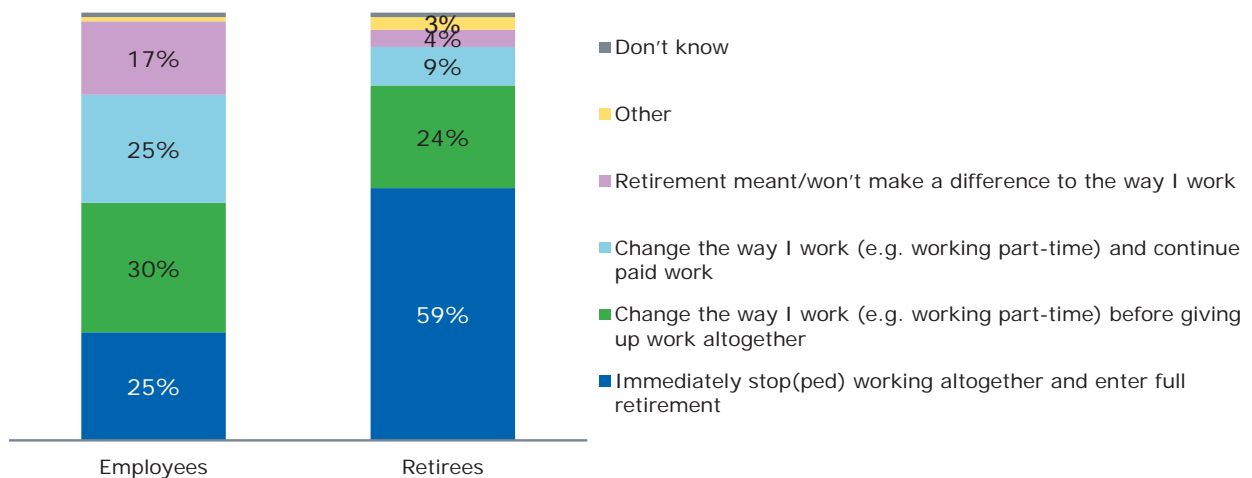


The survey questioned employees and retirees about the services their employers provided to help phase into retirement. China is the only country surveyed where a large proportion did not think these services were provided to them. Instead respondents suggest that their employers offer them better healthcare and more suitable work in order to ease employees into retirement.

Chart 9: There is no longer a retirement 'cliff-edge', employees now prefer a phased retirement

Q. Looking ahead, how do you envisage your transition to retirement?

Q. Looking back, how did your transition to retirement take place? Please select the response closest to your view.



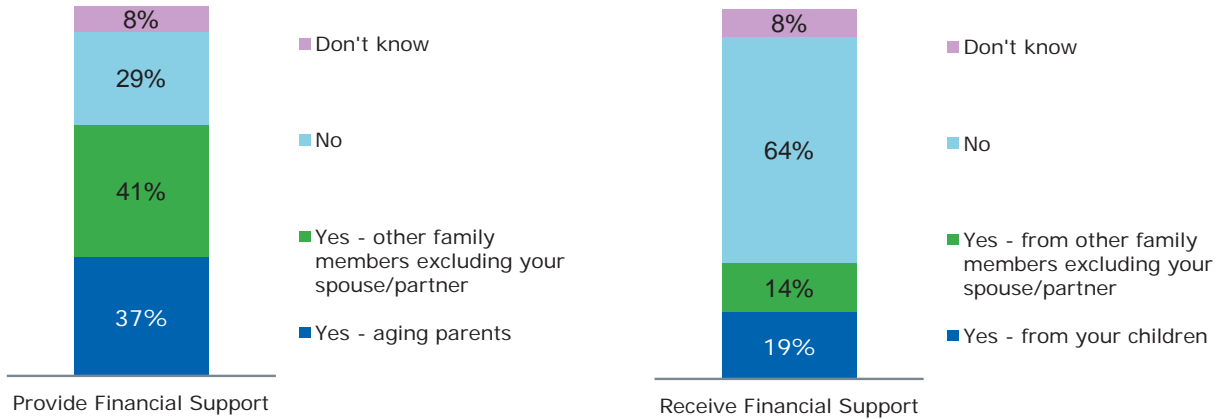
In this year's survey there is a stark contrast in China between current retirees, over half (59%) of whom stopped working completely immediately on retirement, and current employees, only 25% of whom plan to do the same.

Chart 10 & 11: Employees expect to support family in retirement, but do not expect to receive financial support

Q. Do you expect that you will need to provide financial support for your family (other than your spouse/ partner) while you are retired? Please tick all that apply.

Q. Do you expect that you will need to receive financial support from your family while you are retired? Please tick all that apply.

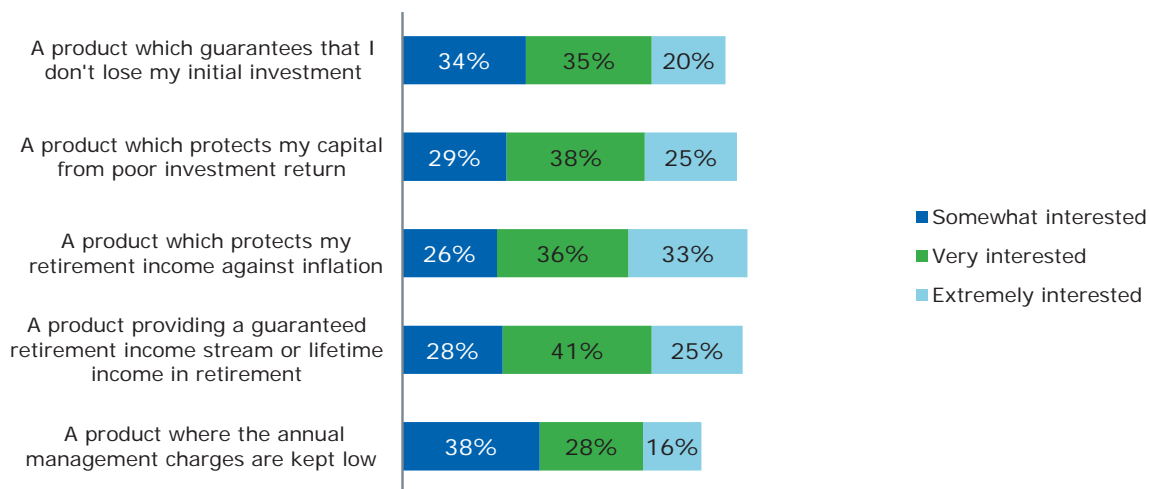
(Percentages may add to over 100 due to more than one response option possible)



Findings show that Chinese respondents expect to financially support either children or ageing parents in retirement, but the large majority are not expecting any financial aid themselves. This impression holds across all age groups, whilst men are more likely to expect to support family members other than parents in retirement than women.

Chart 12: Risk management is a key priority for employees

Q. On a scale of 1 to 5 how interested are you in the following options



Popular financial products in the survey are those which protect against risks such as poor returns or capital loss. Other results also support this finding:

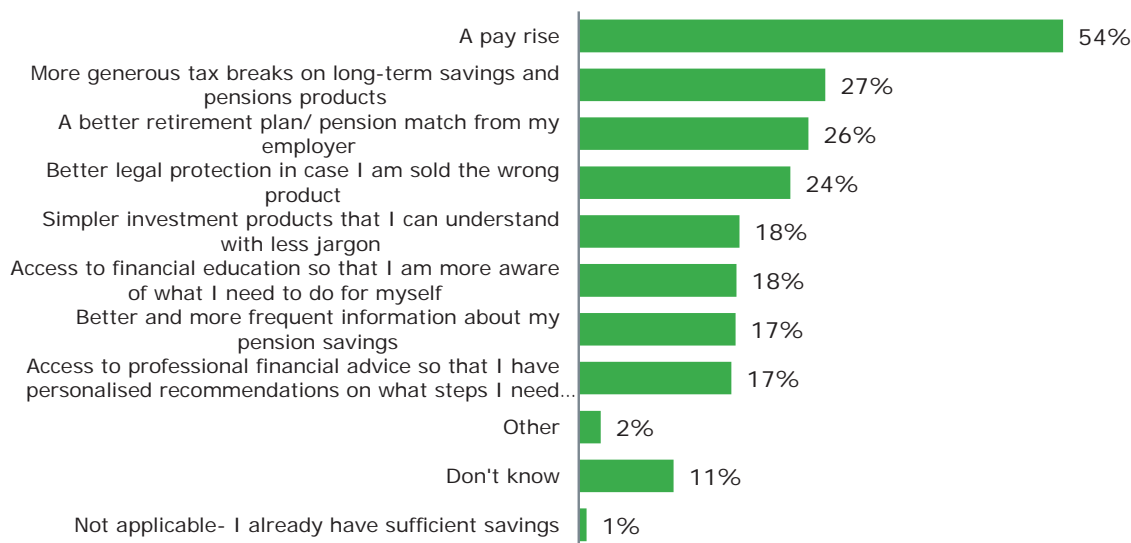
- 73% agree that the financial crisis means they want to take fewer risks with their retirement savings, only 3% disagree.
- A guarantee of a minimum return on investment would encourage 37% towards investing with a particular company.

4. Sustainable solutions

How can retirement systems be made more sustainable in the future? Respondents were asked what can be done to make savings and pensions products more attractive, as well as how to better balance the role of the individual, the state and the employer.

Chart 13: People would be motivated to save for retirement by higher pay and tax breaks

Q. Which, if any, of the following would encourage you to save for retirement?

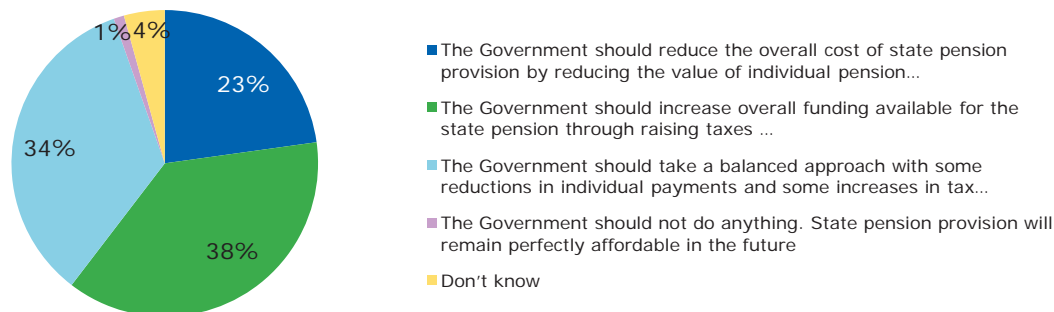


Alongside this finding on the importance of higher pay, the survey also found:

- A quarter (27%) says that the uncertain economy is an obstruction to saving.
- A fifth (20%) of respondents feel that unstable currency conversion levels are putting people off saving.

Chart 14: A large majority would accept at least some tax increases to pay for the state pension system

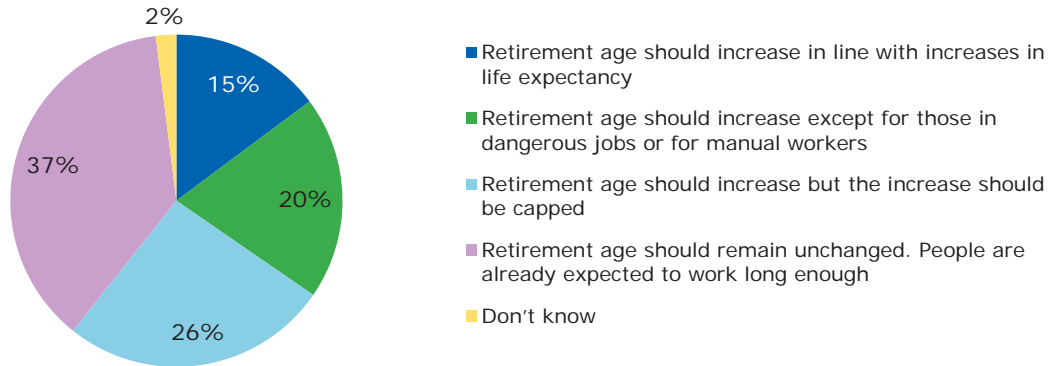
Q. With the cost of government pensions becoming a greater concern as people live longer which, if any, of the following do you think the Government should undertake?



Remarkably given China's recent economic growth, respondents are willing to accept that state pension provision will not simply remain affordable, only 1% of respondents believe this. Instead, there is strong support for raising taxes to cover the cost of pensions.

Chart 15: In China there is strong opposition to the idea of unlimited increases to the pension age

Q. To what extent do you believe that people should expect to work longer into old age as a way to offset the costs of people living longer?

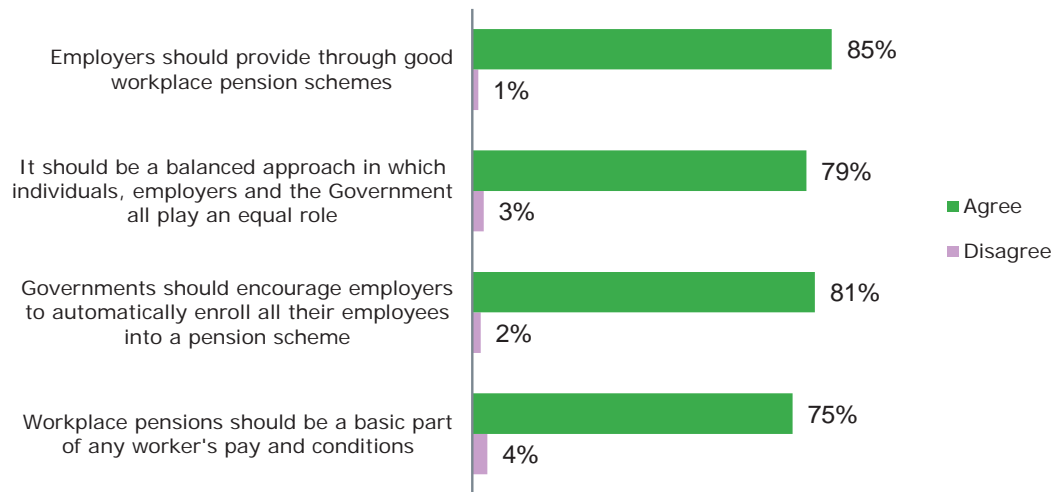


Whilst flexible on the topic of pension reform, Chinese respondents are largely opposed to dramatic changes in the retirement age. 37% want no change at all, and only 15% would accept it going up with no kind of cap.

Chart 16: Respondents show overwhelming support for the role of workplace pensions

Q. To what extent do you agree or disagree with the following statements about taking responsibility for funding people's retirement? Please indicate on a scale from 1 to 5, where 1 means you strongly disagree and 5 means you strongly agree.

Q. Please indicate on a scale from 1 to 5 how strongly you agree or disagree with the following statements about your work, where 1 means you strongly disagree and 5 means you strongly agree.



The findings show that workplace pensions still have the support of the vast majority of respondents, as does the idea of auto-enrolling employees into such a scheme. Elsewhere:

- Nearly half (45%) are worried that the financial crisis means their employer is likely to cut back on workplace pension benefits
- Despite this support for workplace pensions, they are not the most popular forms of retirement provision, these are the state pension (used by 78%) and private pensions (64%).

5. Call to action

Lack of retirement readiness is an emerging global crisis for governments, employers, and individuals

- Although retirement systems vary by country, the shift in responsibility for a secure retirement to the individual is consistent among the countries surveyed. Similarly, individuals' lack of adequate preparation for retirement was found across the globe. Governments have a significant role in increasing individuals' awareness of this shift in responsibility and of the amount and nature of the government benefits on which the individual can rely in retirement.

In addition, governments and employers can facilitate the offering of tools and information to educate employees of all ages of the need to save, how to save effectively for major life events and also how to transition those savings into a secure retirement.

Most expect future generations to be worse-off in retirement than current retirees

- Increased longevity has resulted in the likelihood of multiple generations of family members in retirement whose financial security is compromised by cuts in government benefits and the economic downturn. The 'squeezed' generation that is trying to save for retirement is increasingly called upon to support parents and grandparents in retirement while also supporting adult children who may still depend on parental support. Governments, employers and individuals must acknowledge and facilitate efforts to address inter-generational burdens on the 'squeezed generation.' Governments must encourage the use of private sector products and services to address these burdens, and employers can provide or make available retirement planning tools and education to help individuals anticipate and plan to cover inter-generational burdens.

Delaying retirement offers an obvious solution, but obstacles remain

- Governments and employers can help employees by enabling longer working careers, and providing options for phased retirement and explaining what these are. Employees should also have a backup plan if forced into retirement sooner than expected. Governments and employers can increase awareness of the need

for a backup plan and facilitate the offering of products such as disability and life insurance which are designed to provide a continued source of income to families in the event of a family member's death or disability prior to the planned retirement and accumulation of sufficient savings.

Widespread retirement illiteracy worsens readiness

- Individuals are increasingly aware that they will need to bear some personal responsibility for their retirement; however, the amount and complexity of information can be overwhelming. Programs designed to address this inertia can help ensure that employees are automatically covered by their employer's retirement plan.

Governments have a responsibility to clearly communicate the expected government benefits. They must guide individuals to the tools and information to help individuals start saving throughout their careers to supplement the government benefits. Employers can serve as a one-stop source of information, tools and supplemental products to help their employees develop their own retirement plan and transition into retirement. Governments can facilitate and encourage the employer's role in providing or making available retirement planning tools and information to its employees through reduced regulatory burdens, safeguards from liability and tax incentives.

Wary about retirement-related risks, individuals seek solutions

- Providing retirement solutions and advice that help individuals de-risk their retirement can help avoid losses or erosion due to inflation. Financial products and plans may also help individuals in developing and financing a backup plan in the event they leave the workforce prior to their expected retirement date. However, in order to grow savings into something adequate for retirement some controlled risk may be necessary.



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Media Relations

Telephone: +86 21 3878 4868-8887
Email: EyleenSun@aegon-cnooc.com