

**Attitudes toward the Role of the Family, the Individual,  
and the State in Providing Retirement Income:  
Survey Evidence from Emerging East Asia**

**by**

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## Introduction

As the world's societies age, policymakers are trying to peer into the future and anticipate the retirement needs and preferences of tomorrow's growing elderly populations. Nowhere is this more difficult to do than in emerging East Asia, where rapid development has opened up a widening gap between the experience and expectations of older and younger generations, formal retirement institutions are still maturing, and massive age waves loom over the horizon.

To better understand the changing contours of retirement in emerging East Asia, CSIS conducted a survey in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan.<sup>1</sup> It also conducted the same survey in the UK to provide a point of comparison with a fully developed western economy. The survey was based on nationally representative samples in all countries except China, where the sample was limited to urban areas. The respondents consisted of current and retired main earners, who were presumed to be the household members most likely to be responsible for retirement planning and to have a detailed knowledge of their family's finances. Respondents were asked a series of normative questions designed to identify key social and cultural assumptions likely to affect the future direction of retirement behavior and policy, as well as detailed questions about their own personal retirement experience and expectations.<sup>2</sup>

The overall picture that emerges from the survey is one of societies in the midst of a breathtaking transformation. Affluence, educational attainment, and familiarity with markets have all been increasing steadily cohort over cohort in East Asia, and are now much higher among young adults—or even midlife adults—than among the elderly. Yet despite East Asia's remarkable development, the very modern often confronts the very traditional, with dynamic high-tech sectors and well-developed capital markets existing side by side with large informal sectors and underdeveloped welfare states. For today's elderly, large shares of whom have reached old age without earning a pension benefit of any kind, retirement is often a time of economic and social marginalization.<sup>3</sup> The retirement outlook for today's working-age adults is generally much brighter, though many continue to be underserved by formal retirement systems, are failing to accumulate sufficient long-term savings of their own, and may be unable to fall back on the informal family support networks on which today's elders depend so heavily.

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<sup>1</sup> For convenience, the term "country" is used in this paper to refer to all of the 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 these entities in international law or practice.

<sup>2</sup> For a fuller discussion of both the survey methodology and findings, see *Balancing Tradition and Modernity: The Future of Retirement in Emerging East Asia* (Washington, DC: Center for Strategic and International Studies, 2012). The "topline" results for the survey's normative questions, together with crosstabs by age, gender, educational attainment, and household income, are available at [csis.gapindex.org/asia](http://csis.gapindex.org/asia).

<sup>3</sup> In this paper, "the elderly" are defined as adults aged 60 and over, midlife adults as adults aged 40-59, and young adults as adults aged 20-39. 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."

This paper focuses in particular on the survey's findings about evolving attitudes toward the role of the individual, the family, and the state in retirement provision. Although the survey confirms that the extended family continues to play a far more important role in East Asia than it does in the West, it also reveals an astonishing erosion in the traditional "Confucian ethic" assumption that families themselves should support their own elderly members. Only a small minority of respondents in each country believe that "grown children or other family members" should have primary responsibility for providing income to retired people. Moreover, looking ahead to their own retirement, current workers do not expect to receive the same level of retirement support from the extended family as current retirees receive. In rapidly urbanizing, industrializing, and modernizing societies, one might expect to find a strong desire for the state to step in and substitute for the family. But this is not the case in most of the countries surveyed. Except in China and Malaysia, respondents clearly favor individual, savings-based responsibility for retirement income over government responsibility. This preference for individual responsibility for retirement income is also mirrored by strong preferences, which rise cohort over cohort, for individual control over how retirement savings is invested and for individual choice in deciding when to retire—or indeed, whether to retire at all.

The first and second sections of the paper look more closely at what the survey reveals about respondents' ideal preferences regarding retirement provision. The third section turns to current workers' actual expectations for their own future retirement and examines the extent to which these preferences are reflected in their expectations. The fourth section discusses the strategic implications of the survey findings for policymakers.

### **Attitudes toward Family Responsibility**

At first glance, the survey results seem to suggest that the traditional model of family responsibility for retirement security remains robust. Between 35 and 65 percent of the elderly in the six countries surveyed report living 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 six where the share exceeds 15 percent and only three—Italy, Poland, and Spain—where it exceeds 25 percent.<sup>4</sup> 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, South Korea, and Taiwan, the number of retired elders who are helped financially by their grown children exceeds the number who help their grown children by nearly two-to-one. In Singapore, the ratio is five-to-one, in Hong Kong ten-to-one, and in Malaysia more than fifteen-to-one.

Yet at the same time, the survey reveals considerable tension between the role that the family now plays in retirement security and the role that people would like it to play.

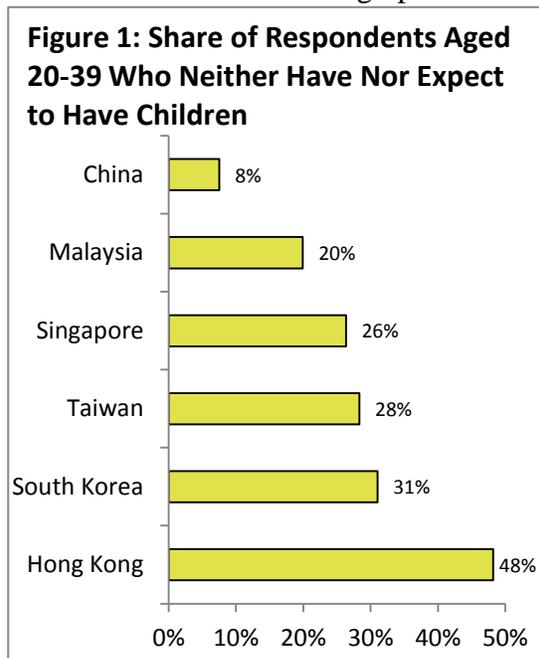
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<sup>4</sup> See Richard Jackson, Neil Howe, and Keisuke Nakashima, *The Global Aging Preparedness Index* (Washington, DC: Center for Strategic and International Studies, 2010), 39.

When asked who, ideally, should have primary responsibility 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.” 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, the preference for family responsibility 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 of the countries surveyed believe that grown children or other family members should continue to play the leading role in providing for this dimension of retirement security than in providing for income support. Yet even here, the share is under one-third in every country except Singapore.

To some extent, the weak support for family responsibility for retirement security doubtless reflects the demographic realities of declining birthrates in East Asia. Virtually

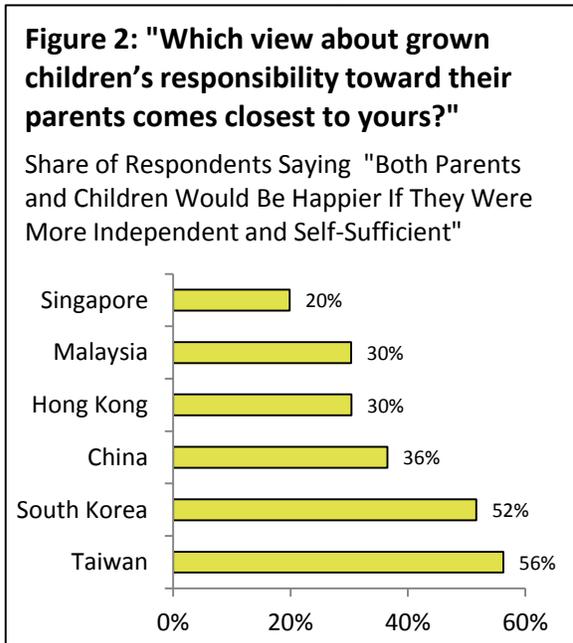


all of today’s elderly in every country surveyed have at least one grown child to whom they can potentially turn for support, and the great majority have two or more children. The outlook for today’s young adults is dramatically different. In all but one of the countries, a large share of 20-39 year-olds report that they 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 1.) China may limit family size through its one-child policy, but virtually everybody still expects to have a family.

Yet if family size were the main determinant of attitudes toward family responsibility, one would expect that respondents who neither have nor expect to have children would be significantly less likely to favor family responsibility than those who do. But this is not the case. The most important explanation for the weak support for family responsibility must lie in broader economic, social, and cultural developments—

and in particular, in East Asia's rapid pace of development and the diffusion of more individualistic "western values" that has accompanied it.

To be sure, many people in East Asia still profess an unconditional belief in the traditional 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 surveyed 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 respondents 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 2.)

Within this overall picture, the survey reveals some interesting differences in attitudes by age. 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—and that support for family responsibility for retirement security would decline linearly with age. This is indeed the pattern in Singapore and South Korea. But in China, Hong Kong, Malaysia, and Taiwan, young adults are actually more likely than midlife adults to believe that grown children or other family members should have primary responsibility for providing income and personal care to retired people—and in some cases, they are as likely or more likely to believe this than the elderly themselves.

The relatively high support of young adults in some countries for family responsibility for retirement security 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 relatively high 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 is a phenomenon familiar to sociologists who have studied the development process around the world. The initial shock of

modernization frequently overwhelms tradition—but afterwards, tradition sometimes experiences a revival among younger generations.<sup>5</sup>

Unless this shift gathers momentum, however, it is doubtful that it will do much to revitalize family-centered retirement security. The share of young adults aged 20-39 who favor family responsibility for retirement income still represents a small minority of all young adults—less than one in six in every country surveyed. And even if the shift does gather momentum, its full effect will not be felt until today’s young adults mature. For at least the next couple of decades, future retirees will have to rely much more heavily on alternative sources of income support than current retirees do.

### **Attitudes toward Individual and Government 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 provision in five of the six countries surveyed, and in some a clear preference for it. Only China 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 China and Malaysia, 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 sample 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.<sup>6</sup> In Singapore, which has a

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<sup>5</sup> For the classic exposition of this thesis, see Anthony Wallace, “Revitalization Movements,” *American Anthropologist* 58 (1956).

<sup>6</sup> For an overview of East Asian pension systems, see, among others, Robert Holzmann, Ian W. MacArthur, and Yvonne Sin, *Pension Systems in East Asia and the Pacific: Challenges and Opportunities* (Washington, DC: The World Bank, 2000); *OECD Pensions at a Glance Asia/Pacific 2011* (Paris: OECD,

“provident fund” based on personal savings and no tradition of government-funded 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 predominantly 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 for retirement income. 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.

**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	Other*
China	20-39	10%	54%	23%	6%	7%
	40-59	10%	65%	17%	2%	5%
	60 & Over	5%	71%	17%	2%	5%
	<b>All</b>	<b>9%</b>	<b>63%</b>	<b>19%</b>	<b>4%</b>	<b>6%</b>
Hong Kong	20-39	42%	36%	2%	16%	3%
	40-59	41%	37%	8%	7%	7%
	60 & Over	36%	40%	3%	17%	4%
	<b>All</b>	<b>40%</b>	<b>37%</b>	<b>5%</b>	<b>12%</b>	<b>5%</b>
Malaysia	20-39	27%	35%	21%	16%	1%
	40-59	37%	40%	9%	11%	3%
	60 & Over	22%	49%	6%	22%	1%
	<b>All</b>	<b>31%</b>	<b>39%</b>	<b>14%</b>	<b>14%</b>	<b>2%</b>
Singapore	20-39	35%	42%	4%	16%	4%
	40-59	40%	31%	3%	22%	4%
	60 & Over	43%	26%	2%	28%	1%
	<b>All</b>	<b>40%</b>	<b>32%</b>	<b>3%</b>	<b>22%</b>	<b>3%</b>
South Korea	20-39	44%	40%	7%	0%	8%
	40-59	60%	27%	5%	3%	5%
	60 & Over	50%	31%	2%	14%	3%
	<b>All</b>	<b>53%</b>	<b>31%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>
Taiwan	20-39	42%	40%	11%	5%	1%
	40-59	48%	34%	11%	4%	4%
	60 & Over	42%	35%	3%	16%	3%
	<b>All</b>	<b>45%</b>	<b>36%</b>	<b>9%</b>	<b>7%</b>	<b>3%</b>

\*Includes "Don't know/Not sure."

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

2012); and Donghyun Park, ed., *Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Directions* (Manila: Asian Development Bank, 2011).

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 that these conditions are present, individual responsibility 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

**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" or "Grown Children of Retirees or Other Family Members," by Income Bracket\*

		Retirees Themselves	Government	Grown Children or Other Family Members		Retirees Themselves	Government	Grown Children or Other Family Members	
China	< .5	5%	68%	5%	Singapore	< .5	43%	27%	29%
	.5-1	11%	60%	4%		.5-1	37%	36%	22%
	1-2	10%	62%	4%		1-2	50%	27%	23%
	2-5	11%	57%	4%		2-5	44%	28%	12%
	> 5	6%	68%	0%		> 5	75%	25%	0%
	All	9%	63%	4%	All	40%	32%	23%	
Hong Kong	< .5	27%	35%	22%	South Korea	< .5	38%	49%	10%
	.5-1	34%	47%	11%		.5-1	54%	36%	2%
	1-2	43%	37%	10%		1-2	51%	31%	5%
	2-5	48%	30%	8%		2-5	57%	32%	0%
	> 5	68%	19%	0%		> 5	71%	14%	14%
	All	40%	37%	11%	All	53%	31%	4%	
Malaysia	< .5	33%	46%	11%	Taiwan	< .5	37%	36%	18%
	.5-1	33%	40%	12%		.5-1	43%	40%	5%
	1-2	27%	39%	14%		1-2	45%	39%	3%
	2-5	24%	41%	16%		2-5	56%	30%	2%
	> 5	47%	16%	21%		> 5	58%	17%	8%
	All	31%	39%	14%	All	45%	36%	7%	

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

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 strong 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 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 than employed respondents. This may be because a disproportionate share work in the informal sector, are less likely to participate in national pension systems, and must, in any case, rely on their own retirement savings. So are more “market-oriented” respondents, defined here as those who receive (if already retired) or expect to receive (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.

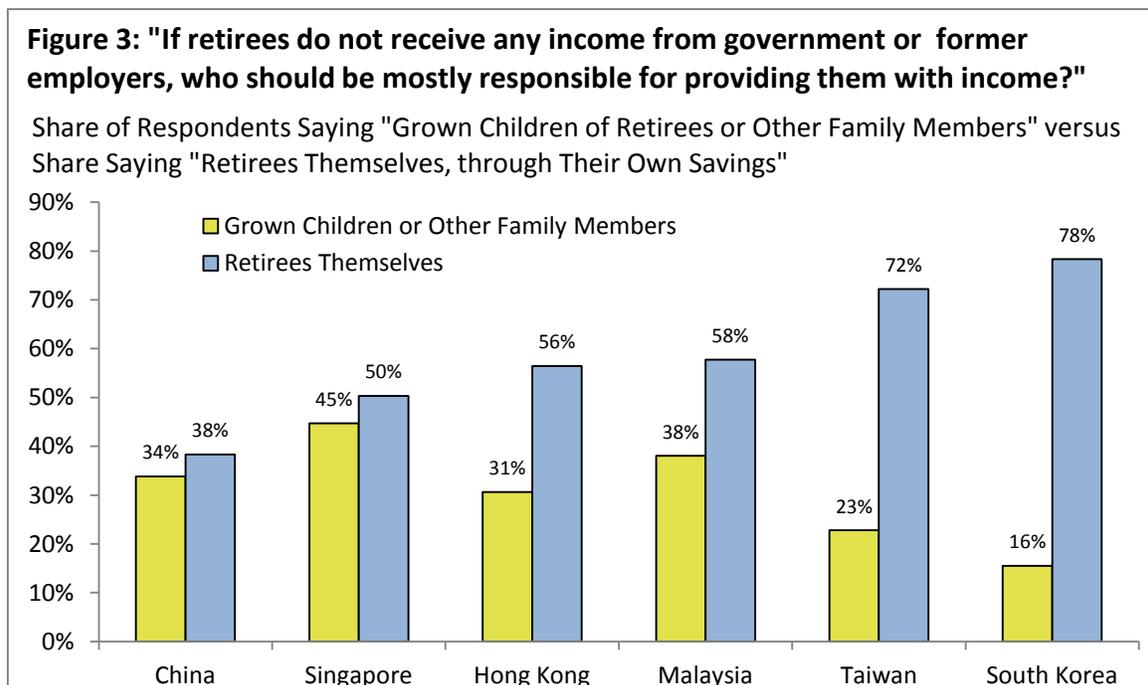
One difference that we expected to find but did not is a clear gender tilt. In western countries, it is well documented that women are generally more risk-averse than men, especially in matters of financial planning—which suggests that they should be more likely to support government responsibility for retirement income than individual responsibility.<sup>7</sup> 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 respondents. But apparently this pattern does not always 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 refine our understanding of attitudes toward retirement provision, respondents were also asked who, ideally, should be mostly responsible for providing income to retired people in the event they cannot expect to receive any income from

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<sup>7</sup> See, for example, Rachel Croson and Uri Gneezy. “Gender Differences in Preferences,” *Journal of Economic Literature* 47 (2009); and Mark Twigg, *The Future of Retirement: Why Family Matters* (London: HSBC, 2011).

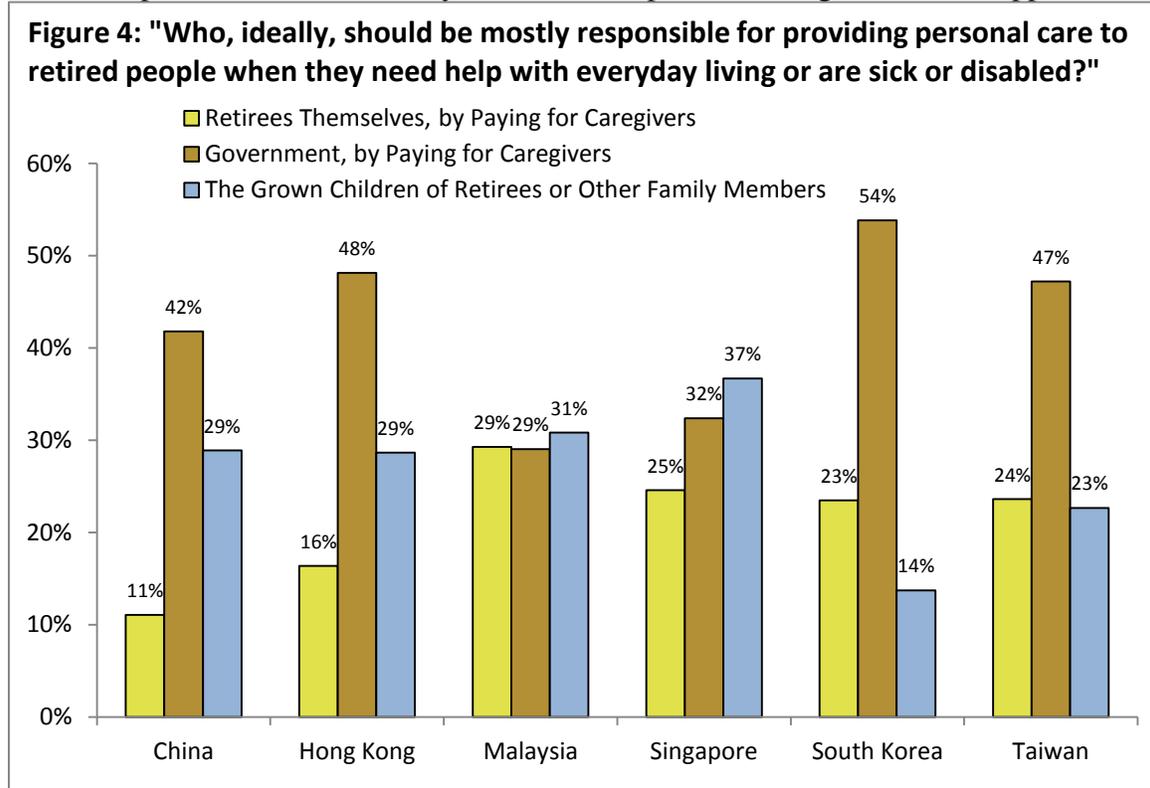
government or their former employers. In effect, respondents were asked to choose between individual and family responsibility. Under these circumstances, the majority of respondents in every country surveyed said that retirees themselves should be responsible. In Taiwan and South Korea, those majorities were enormous: 72 percent 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 for retirement income even comes close to the share saying that retirees should be. (See figure 3.) 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 may 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.



Interestingly, support for individual responsibility for providing retirement income 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.” (See figure 4.) 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 at least two possible explanations. The first is that governments in most of the countries surveyed 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



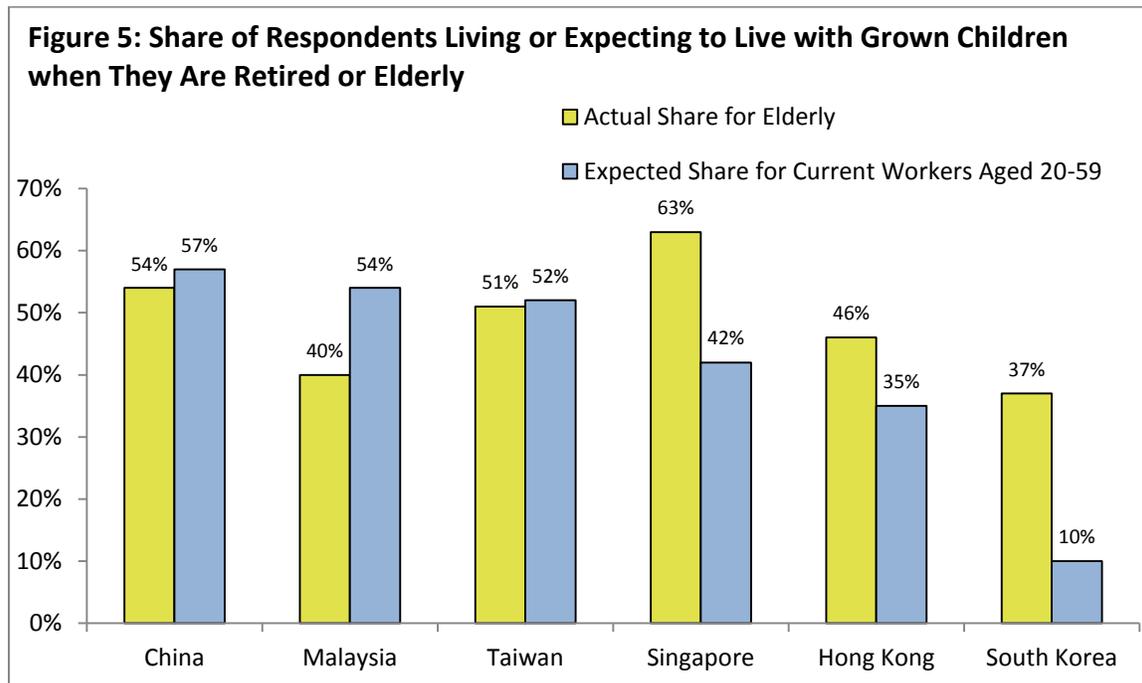
perhaps no coincidence that the share of respondents who favor government responsibility for personal care is highest where government now does the most to finance it (South Korea) and lowest where it now does least (Malaysia). The second explanation is that the economics of financing personal care and retirement income are fundamentally different. The need for personal care is inherently unpredictable, and when 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.

### The Expectations of Future Retirees

Looking to the future, the survey suggests that evolving social and cultural attitudes about responsibility for retirement security will translate into a diminished role for the extended family, though the degree to which the role of the family recedes will vary greatly in different countries and for different types of support.

To judge by the expectations of current workers, we should anticipate little if any weakening in family responsibility for providing personal care to the frail elderly—despite the fact that most people no longer view this arrangement as ideal. In every country surveyed except South Korea, at least two-thirds of those current workers who have or anticipate having children expect to be personally cared for by their children if they become sick or disabled during their retirement. Expected rates of multigenerational living also remain high in China and Taiwan—and actually increase in Malaysia—though

they decline steeply relative to the rates for today’s elderly in Hong Kong, Singapore, and South Korea. (See figure 5.) 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.

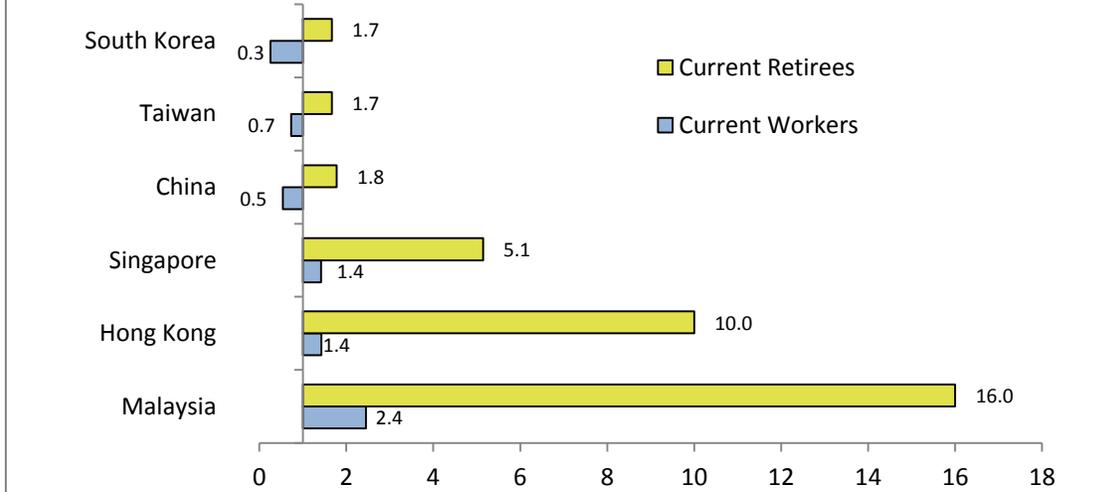


The dimension of retirement security where the role of the extended family recedes most sharply and consistently is income support. In every country, the share of current workers who expect to be dependent on their grown children for income when they are retired or elderly is much lower than the actual 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 expected 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 6.)

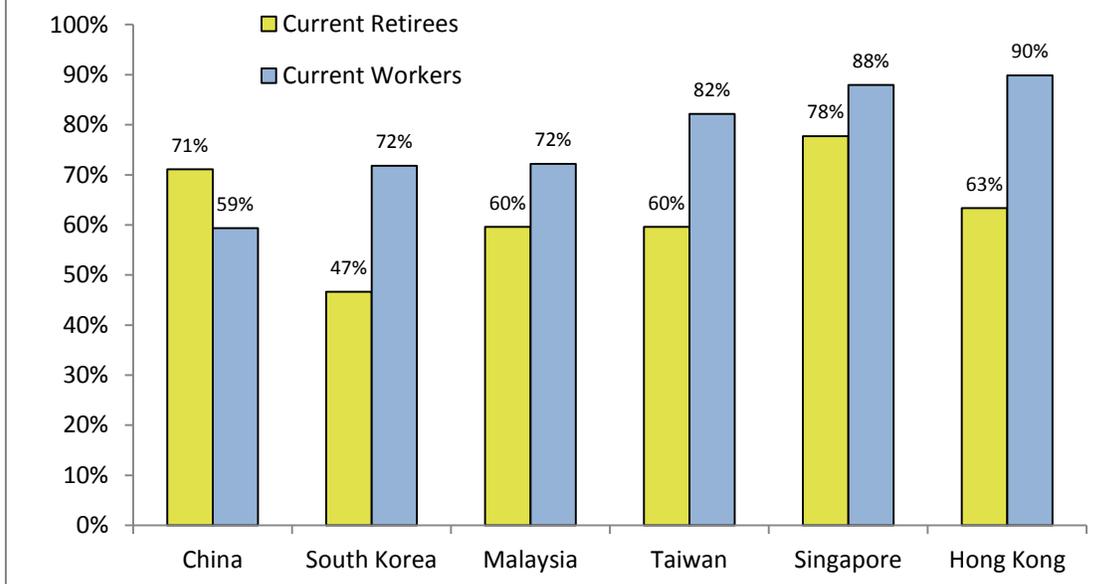
Current workers’ declining expectation of receiving income support from the extended family is in dramatic contrast to their growing expectation of receiving alternative sources of retirement income. In almost every country surveyed, expected rates of pension receipt, both public and private, rise cohort over cohort among future retirees—and in some countries they do so dramatically. In South Korea, the share of respondents who receive or expect to receive income from the country’s 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. The striking exception is China, where the growing number of rural migrants and private-sector employees, who are less likely to participate in the national pension system, has, perhaps uniquely among the world's emerging markets, left today's working-age adults less well-covered by formal retirement arrangements than today's elderly. (See figure 7.)

**Figure 6: 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**



**Figure 7: 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**



Along with rising rates of pension receipt, the survey’s expectational data also point to a dramatic increase among future retirees in rates of income receipt from all classes of financial assets, including bank deposits, annuities and life insurance contracts, and stocks and bonds. (See table 3.) The cohort over cohort increase in the share of respondents who expect to receive retirement income from stocks and bonds is especially striking. 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 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.

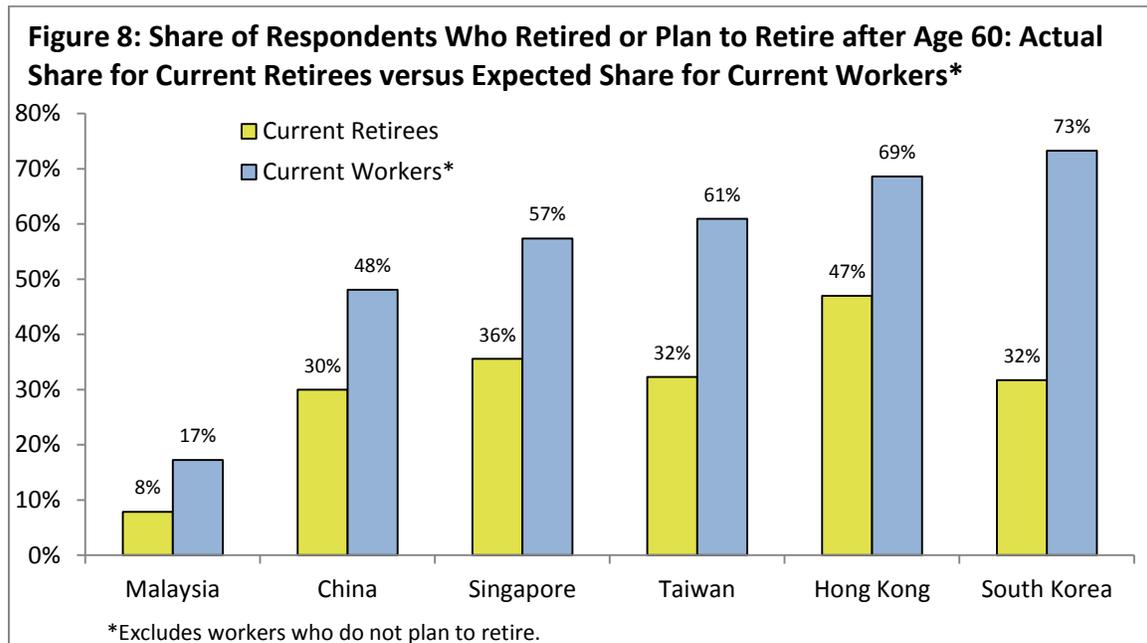
**Table 3: Share of Respondents Who Receive or Expect to Receive at Least Some Income from Financial Assets When They Are Retired or Elderly, by Type of Asset: Actual Share for Current Retirees versus Expected Share for Current Workers Aged 20-59**

	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	
<b>China</b>	66%	65%	38%	60%	48%	18%	32%	19%	4%
<b>Hong Kong</b>	75%	58%	42%	75%	61%	21%	66%	41%	30%
<b>Malaysia</b>	45%	30%	14%	39%	48%	29%	49%	58%	33%
<b>Singapore</b>	72%	77%	67%	86%	77%	53%	65%	52%	30%
<b>South Korea</b>	61%	53%	38%	54%	50%	14%	20%	22%	13%
<b>Taiwan</b>	76%	56%	58%	76%	63%	39%	42%	31%	27%

The growing market-orientation of today’s working generations appears to be part of a broader mindset that stresses the value of individual initiative. This mindset is evident in the importance that younger respondents place on personal control over their 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.

This mindset is also evident in more flexible attitudes toward work and retirement. Midlife and young adults in most of the countries surveyed 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.” 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 half and two-thirds of current

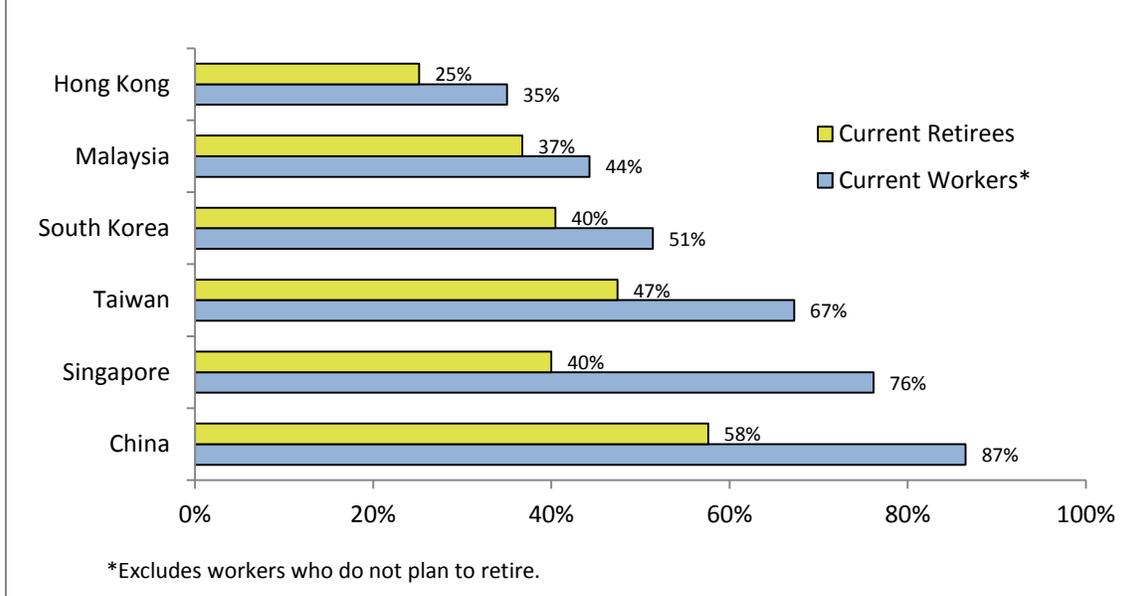
workers in every country except Malaysia expect to retire after age 60. (See figure 8). Yet at the same time, much larger shares of current workers also expect to receive at least some income from work during their retirement years. In fact, at least one-half do in every country except Malaysia and Taiwan. (See figure 9.) Just as in the West, today's working generations in East Asia are beginning to question whether the traditional "three box" lifecycle of education, work, and retirement fits their life plans.



Finally, there is the growing interest in entrepreneurship among young adults in most East Asian countries, where it sometimes seems that almost everyone wants to be their own boss.<sup>8</sup> 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 surveyed 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.

<sup>8</sup> Except for Malaysia and Hong Kong, the six countries surveyed generally rank high on most standard measures of entrepreneurial activity. According to the Global Entrepreneurship Monitor, the share of adults aged 18 to 44 who expect to open a business within the next three years averaged 21 percent across all six countries between 2001 and 2008, compared with an OECD average of 15 percent. In China, the share was an astonishing 44 percent. See *Global Entrepreneurship Monitor*, Entrepreneurship Research Association, 2012, <http://www.gemconsortium.org/docs/download/2375>.

**Figure 9: 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\***



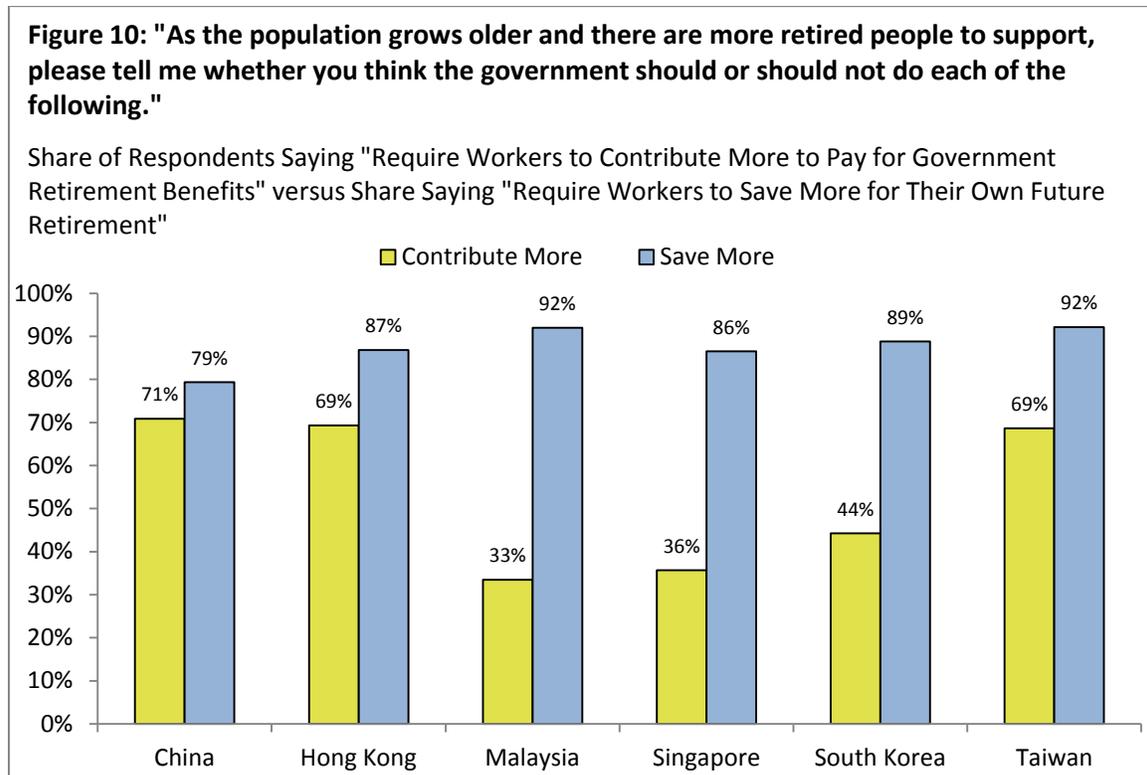
## Lessons for Retirement Policy

The low levels of support for family responsibility for retirement income evident in the survey underscore the critical importance of putting in place adequate formal substitutes for the informal family support networks on which many of today’s elderly now depend. At the same time, the survey reveals that, with the notable exception of China, there is considerable support in all countries for assigning primary responsibility for retirement income to individual savings—and in several of them a clear preference for individual responsibility over government responsibility.

The support for savings-based retirement provision is, in fact, even stronger than the survey questions about “primary responsibility” for retirement income suggest. When asked for their opinion about possible government responses to the challenge of supporting a growing elderly population, overwhelming majorities of respondents in every country, including China, said that government should “require workers to save more for their own future retirement.” In every country, moreover, the share saying this exceeded 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 additional forced savings was enormous: 45 percentage points in South Korea, 51 percentage points in Singapore, and 58 percentage points in Malaysia. (See figure 10.)

The broad public support for savings-based retirement provision should be welcome news to East Asian governments considering how best to ensure the adequacy and sustainability of their retirement systems in the face of dramatic population aging.

The pay-as-you-go model of retirement financing has a clear economic advantage in eras of rapid population and wage growth. But as workforces in East Asia grow more slowly or contract, and as wage growth converges with developed-world rates, the advantage will increasingly shift to the funded model of retirement financing.



Most East Asian countries are institutionally well positioned to expand and strengthen funded retirement provision. Hong Kong, Malaysia, and Singapore already have savings-based national pension systems—and Taiwan, with its fully funded “New Labor Pension,” is moving in this direction. South Korea has a pay-as-you-go national pension system, but the system is not yet mature and the government has accumulated a large trust-fund reserve that, potentially, could help finance a transition to a fully funded system. The challenge will be greatest in China, where the national pension system is not only financed on a predominantly pay-as-you-go basis, but has also accumulated large unfunded liabilities. Yet even here, the national pension system’s second-tier notional personal accounts, as well as the new employer-based system of “Enterprise Annuities,” offer potential vehicles for expanding funded retirement provision.<sup>9</sup>

While funded retirement systems offer a potential economic advantage to East Asia’s rapidly aging societies, that advantage may be vitiated—and the broad public

<sup>9</sup> For a discussion of transition issues in South Korea and China, see Neil Howe, Richard Jackson, 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); and 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, 2008).

support for funded retirement provision undermined—if workers are prevented from earning a market rate of return on their savings. As younger cohorts with higher levels of educational attainment and financial literacy climb the age ladder, they are likely to become increasingly intolerant of government (or financial industry) policies that impose an implicit tax on thrift. The need for reform is undoubtedly greatest in China, 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 far less than a market rate of return.<sup>10</sup>

There is also likely to be considerable demand for new mechanisms for annuitizing retirement savings. Despite the long tradition of lump-sum severance pay in most East Asian countries, the survey reveals a surprisingly 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 it in a single lump-sum payment—and in most countries, it does so by a wide margin. (See figure 11.) 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.

Today's working generations are also likely to become increasingly intolerant of the early mandatory retirement ages that are enforced in the formal sectors of most East Asian countries. In rapidly developing economies, it may make economic sense for firms to cashier unskilled older workers in order to make room for more skilled younger ones. But as more highly educated and productive younger cohorts climb the age ladder—and as life expectancy rises—these policies are becoming a costly anachronism.

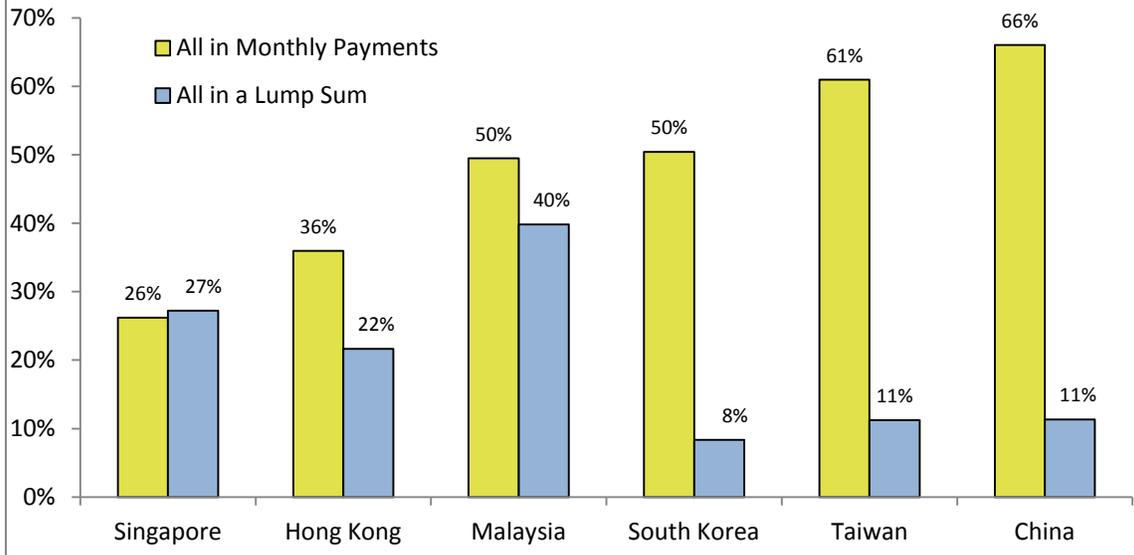
Over the past few years, governments in several countries, including Singapore, South Korea, and Taiwan, have begun to schedule gradual increases in their retirement ages. These reforms represent a step in the right direction—not only because they make economic sense, but also because they ratify the public's wishes. As we have seen, substantial majorities of current workers in most of the countries surveyed already anticipate working longer than today's retirees. When asked whether government should raise the retirement age, moreover, a majority of respondents in four of the six countries surveyed said yes—and a stunning 85 percent did so in South Korea. (See figure 12.)

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<sup>10</sup>The below-market rates of return on Singapore's Central Provident Fund and Malaysia's Employee 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*.

**Figure 11: "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"



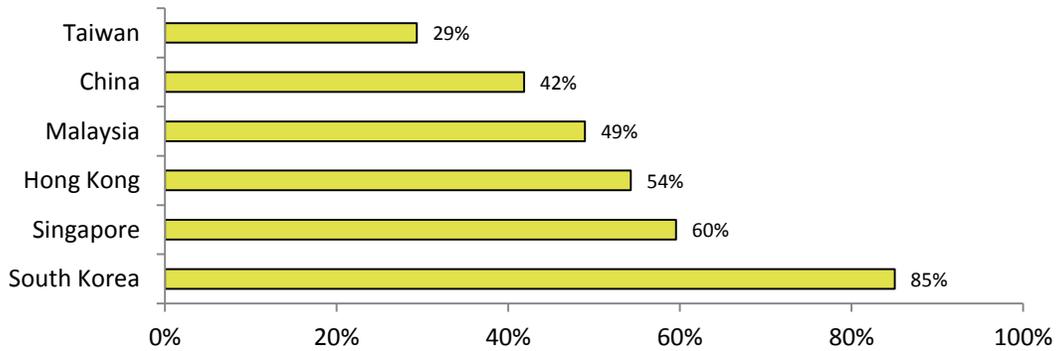
While the survey sketches a picture of the future of retirement in East Asia that is in many respects hopeful, it also raises some real concerns about the vulnerability of retirees to hardship in old age. The relative living standard of today's elderly is generally very low. In the countries surveyed, the median household income of respondents aged 60 and over ranged between a low of 39 percent of the median for all respondents in South Korea and a high of 80 percent of median for all respondents in Singapore. Although this income gap will narrow as younger and more affluent generations arrive in old age, the survey suggests that significant minorities of tomorrow's elderly will still be at risk of poverty. Despite the large increase in expected rates of pension receipt in most countries, 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 rises to 24 percent in South Korea, 26 percent in Malaysia, and 40 percent in China. Not surprisingly, those workers who do not expect to receive a national pension benefit are also less likely than other workers to expect to receive an employer pension benefit or income from financial assets.

Even those workers whose retirement prospects appear solid may not be as well prepared as they seem. It is worth bearing in mind that the growing role played by financial assets in the retirement plans of younger 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 long-term savings. The same can be said of younger workers' embrace of more flexible attitudes toward work and retirement. It remains to be seen whether rigid government and employer

policies that enforce mandatory retirement ages and lock older workers out of regular employment will be reformed in ways that accommodate this generational shift.

**Figure 12: "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"



All of this underscores the need for robust floors of protection against poverty in old age. 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 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 countries surveyed 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 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.