

# The Future of Retirement

*The power of planning*



**China Report**

**HSBC**   
The world's local bank

## Foreword



It is my pleasure to introduce the China Report of our global studies into the Future of Retirement. *The power of planning* is the sixth report in the series and the most action-oriented to date.

From identifying issues and challenges, a new element in the studies, *The power of planning*, directs thoughts towards action points in achieving a better retirement. One of the key success factors of HSBC's strategy is the ability to understand, anticipate, and act upon macro-trends in the markets we operate. The ageing of population and the increase in longevity are happening in most parts of the world, and China is no exception. The China FoR report reveals the challenges and exploits the opportunities of these, and suggests

that concerted effort by governments, employers, financial institutions and, of course, families and individuals themselves all play their important roles in painting and achieving worry-free retirement lives. HSBC is committed to providing services and products to our customers to meet their long term goals. At HSBC, you will receive professional advice regarding identification of your needs, establishing your plan and the right actions and products to help achieving your goals.

We are pleased to present *The Future of Retirement The power of planning* to help you realise importance of planning and early actions.

**Terry Lo**  
**Chief Executive Officer**  
**HSBC Life Insurance Company Limited**



# Introduction

HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. The 2011 report, *The power of planning*, is the sixth in the series and is based on interviews with more than 17,000 respondents in 17 countries.

This country report, based on the views of 1,019 respondents in China, explores how households in China are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to China unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

## Key findings

- 67% of Chinese respondents see retirement as an age of freedom, and only 17% associate it with financial hardship
- Only 13% of respondents believe they will be worse off than their parents' generation in retirement, though 56% are worried about being able to cope financially in old age
- 60% of those who expect to be worse off blame increased job insecurity
- 45% see retirement as a whole new chapter in life
- Older respondents are less enthusiastic about retirement, and are far more likely to associate it with financial hardship
- 40% believe the state pension will provide their largest source of retirement income
- 76% are undertaking financial planning, far more than the worldwide average of 50%. Of these planners, most also sought professional financial advice
- People who plan their finances are most likely to be young women
- 14% more planners than non-planners associate retirement with wealth, and 16% more associate it with happiness
- Those who both plan and seek financial advice benefit far more than those who only do one or the other, and hold four times the retirement assets of those who have done neither
- Banks and independent financial advisers are the most common sources of professional financial advice
- 46% of respondents have used an online source for retirement planning
- For individuals who want to take action now to improve their financial well-being later in life, there is a simple 5-step checklist based on the research

# Retirement landscape

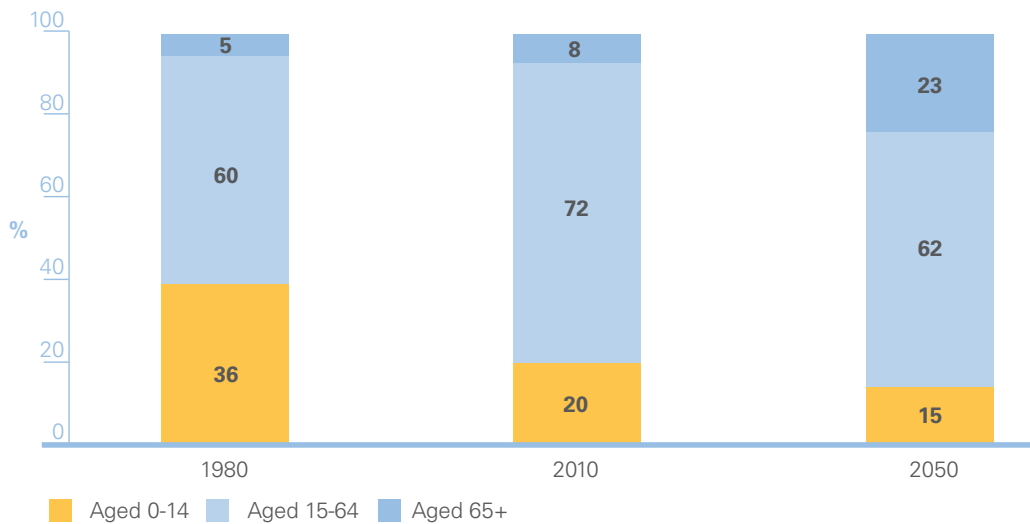
At a meeting of the China National Committee on Ageing in February 2011, Chinese Vice Premier Hui Lianqyu admitted that the Chinese Government must prepare for rapid demographic change in China. China will need to expand their pension system, especially into rural areas, and develop other services for senior citizens.

China's old-age dependency ratio is increasing fast: it is predicted to increase by 375% between 1970

and 2050. This is more than twice the global average estimated rise of 150%. As life expectancy increases, the retirement gap gets larger. The retirement gap is the number of years between the official retirement age and average life expectancy. The larger the retirement gap, the bigger the financial burden retirement becomes on both the individual and the state.

**Figure 1: The baby-boomers enter retirement**

Source: United Nations Population Division, World Population Prospects, The 2008 Division



## The changing shape of retirement

Despite facing the same demographic challenges as other major economies, Chinese respondents are relatively upbeat in their perception of retirement.

45% see retirement as a new chapter in life, whilst 67% associate retirement with freedom.

An overwhelming majority (84%) see fitness as central to a happy retirement.

Financial issues also loom large, with 57% citing good financial planning and 60% seeing not having money worries as important to a happy retirement.

Only 17% associate retirement with financial hardship, though this proportion rises markedly amongst 50-59 year olds (23%), and is at its lowest amongst high income respondents (9%).

A fifth of respondents cite having work they enjoy as essential to a happy retirement, suggesting a willingness to blur the traditional lines between working age and later life.

Figure 2: How people perceive retirement

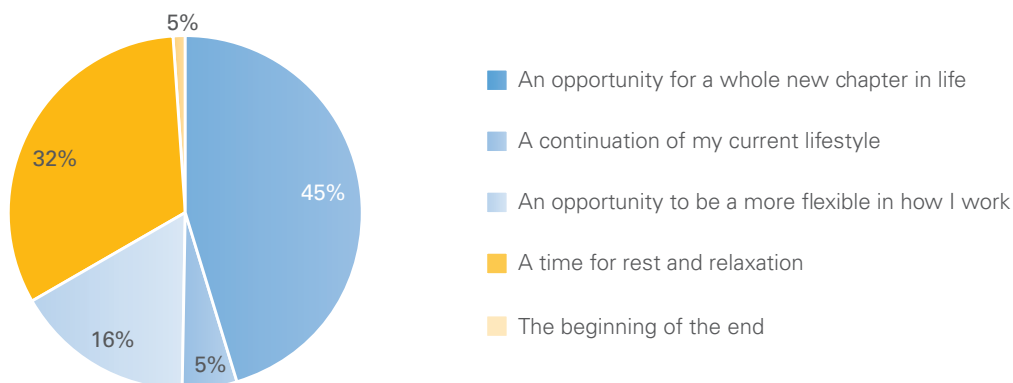
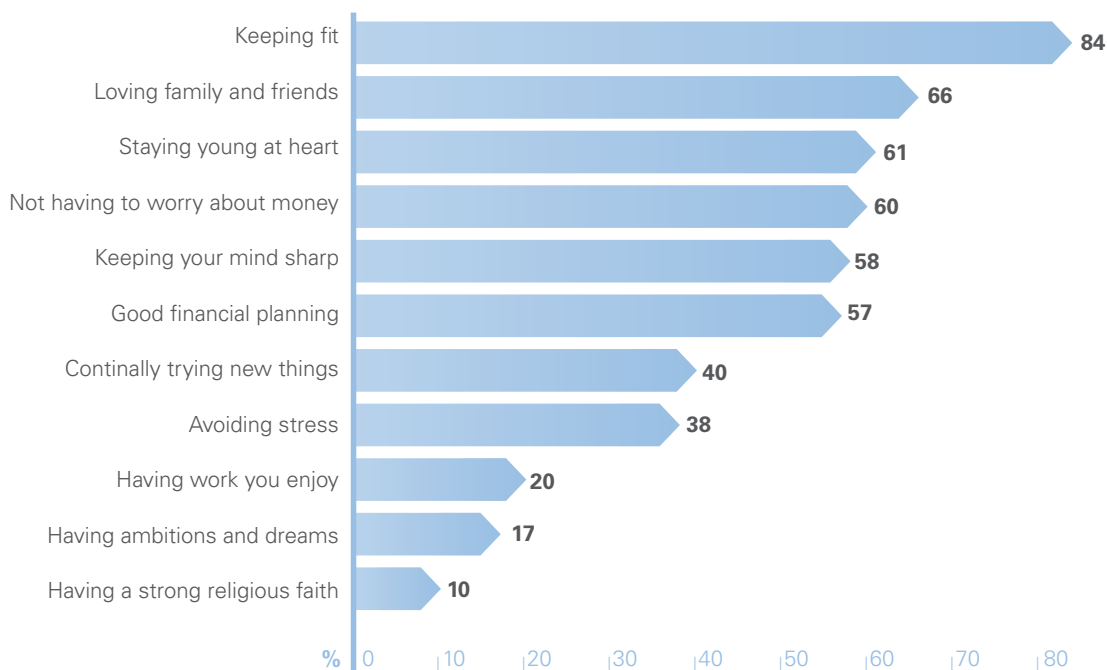


Figure 3: What is extremely important to a happy retirement

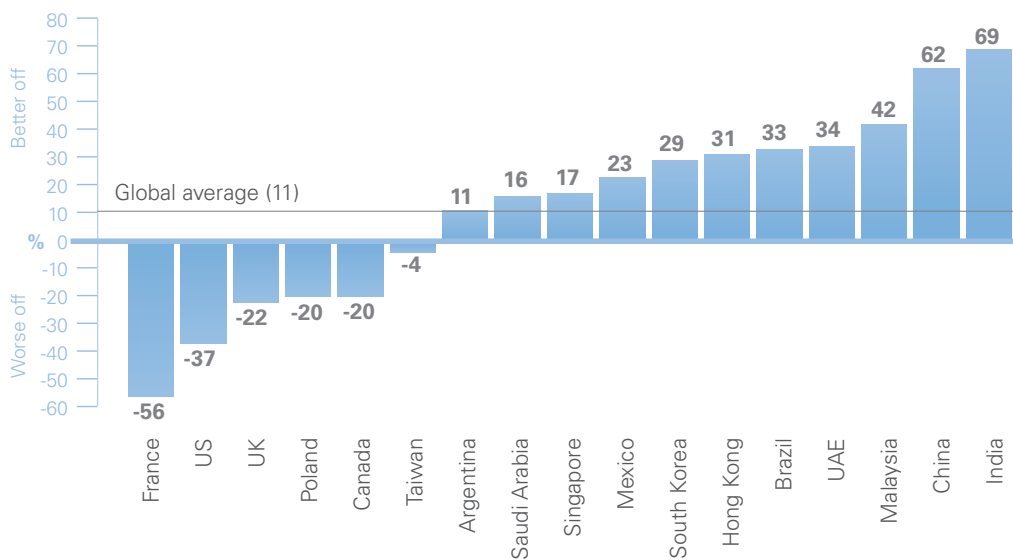


China's remarkable economic growth in the past few decades has created an atmosphere of optimism about retirement in our respondents, who nearly universally see themselves as being better off in later life than their parents' generation.

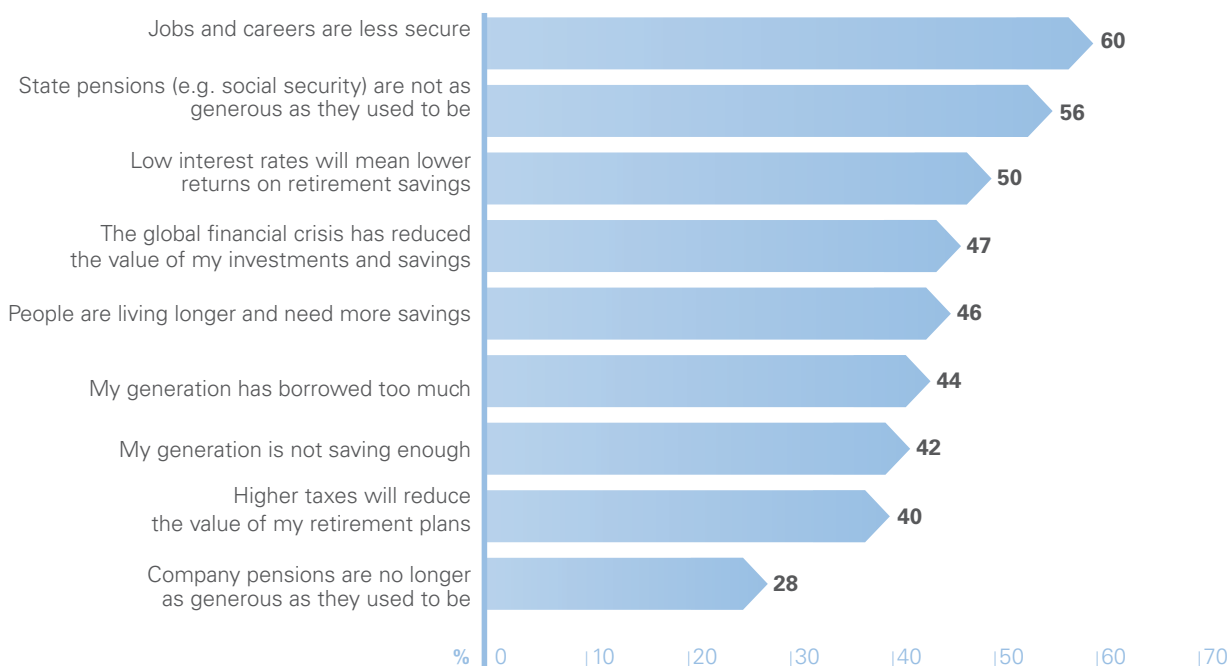
To them, rising prosperity has come at the price of less job security, and they worry that state pension provision will not be sufficient in the future. Many were also negatively affected by the global financial crisis, showing that even China did not emerge unscathed.

Nevertheless, the 13% who felt they would be worse off give us an insight into some of China's potential

**Figure 4: Better or worse off than your parents' generation in retirement? (net score)**



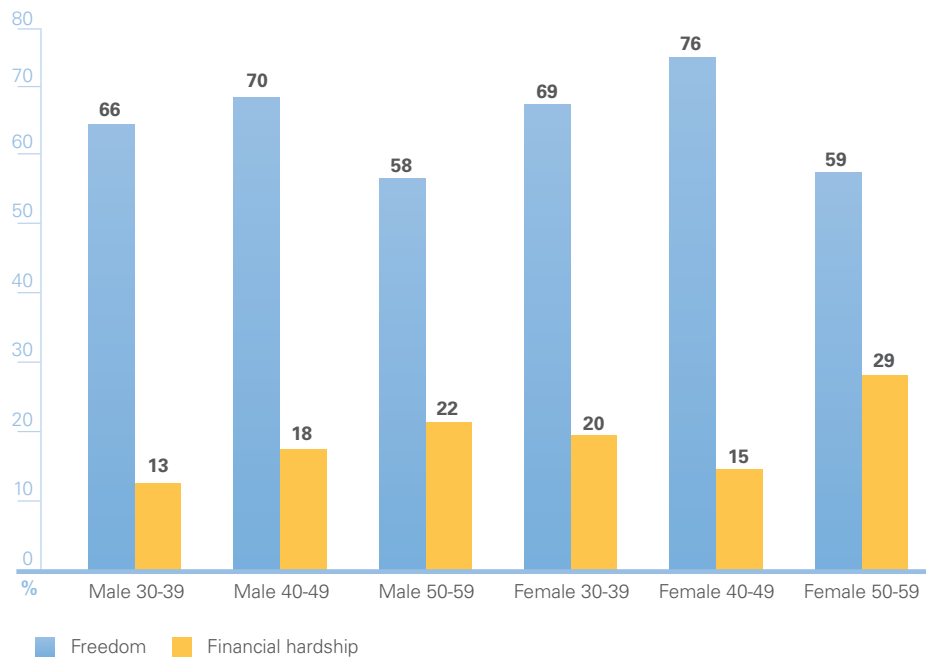
**Figure 5: Why will you be worse off in retirement than your parents' generation?**



As elsewhere in the world, the pattern of retirement is changing in China. A rapidly ageing population is putting increasing pressure on the existing system of state provision and the onus will inevitably need to shift over time towards individual pension provision.

These emerging challenges have lead older respondents to be decidedly less enthusiastic about retirement than their younger peers, with older women in particular far more likely than average to associate retirement with financial hardship, and far less likely to associate it with freedom.

**Figure 6: Older women associate retirement with financial hardship more than men**

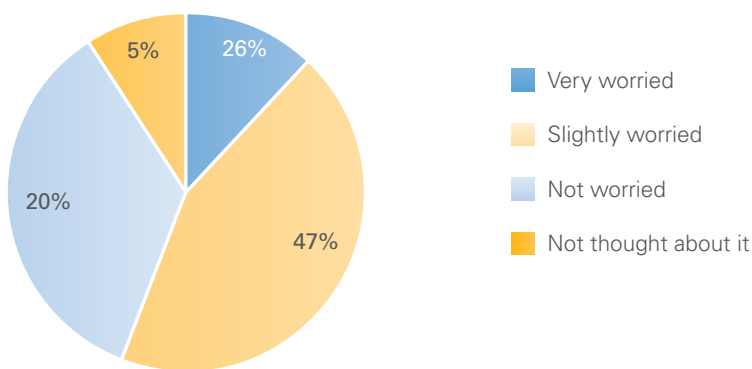


# Shortfalls in retirement preparedness

Our findings reveal a 'preparedness gap' amongst respondents. 95% of those we surveyed said that having enough money to live on in retirement is important, but 78% said they felt adequately financially prepared. Whilst China's preparedness levels are higher than what is found elsewhere, there is still a gap of 17% who are not adequately prepared.

The preparedness gap in China is further evidenced by how worried people are about being able to cope financially in retirement: 73% said they are either slightly or very worried.

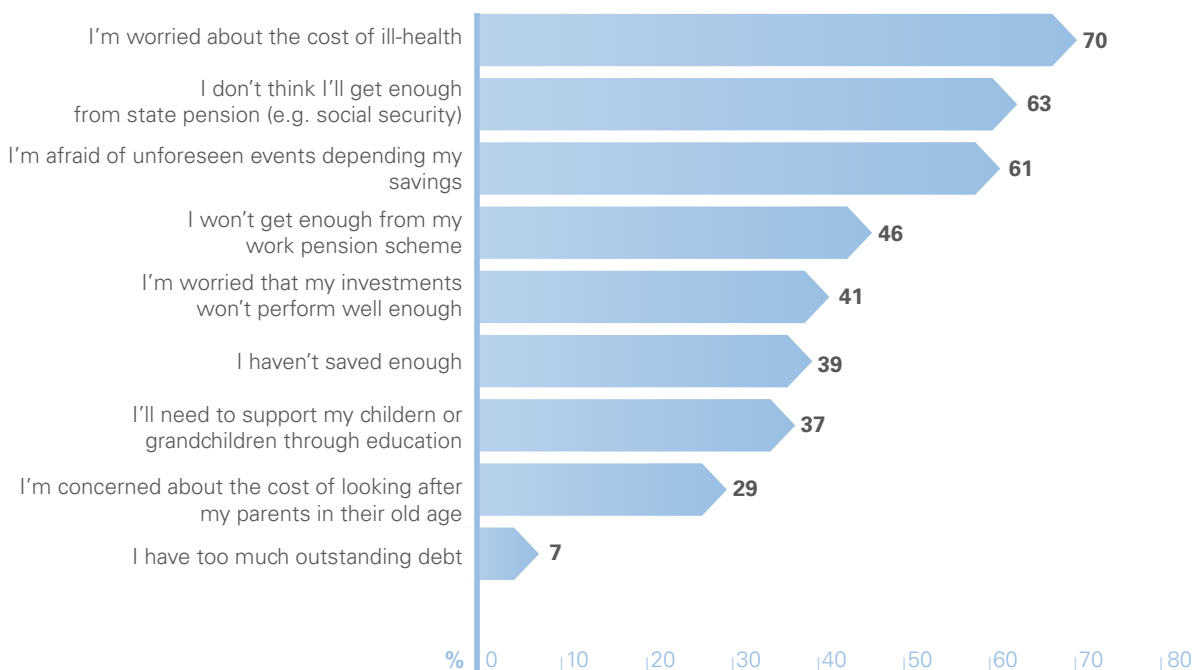
**Figure 7: Levels of concern about coping financially in retirement**



Despite China's rising prosperity, the majority of respondents remain uneasy about the future, with retirement concerns centering on healthcare, unforeseen events and the adequacy of the state pension. Whilst excited about their increased prosperity and longevity, people are understandably worried that longer retirements will be difficult to fund.

Unforeseen events are a prime concern of respondents; yet only 21% of respondents said they have enough life insurance to cover their family should something happen to them. This suggests that despite high levels of general retirement preparedness in China, specific areas of coverage such as against unforeseen events or ill health is lacking and there is an opportunity for greater product availability and sophistication.

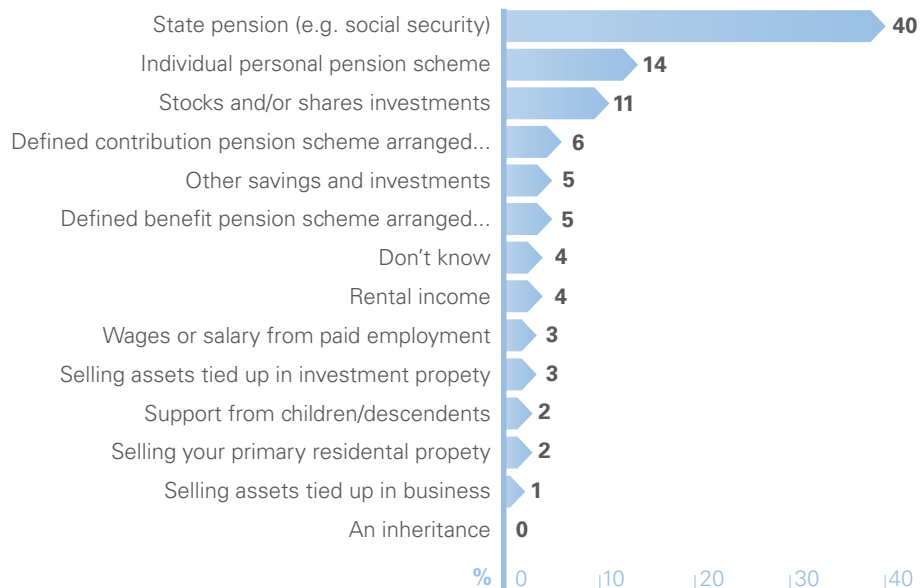
**Figure 8: Why people worry about coping financially in retirement**



Encouragingly, most respondents have a clear sense of what their primary source of retirement will be. However, 40% believe that the state pension will provide their biggest source of retirement income, but the pressures from a large and ageing population

may mean that state provision is insufficient for many. This tendency to believe the state will provide is widespread across age groups, though it is far less prevalent amongst higher-income respondents.

**Figure 9: Over-reliance on declining state pensions**



In a bid to help people recognise their retirement needs and plan for them adequately, the Chinese Government has, in fact, begun to reform pension

provision for the rural population, and going forward, the speed and depth of reforms is likely to accelerate in the years to come.

# The power of planning

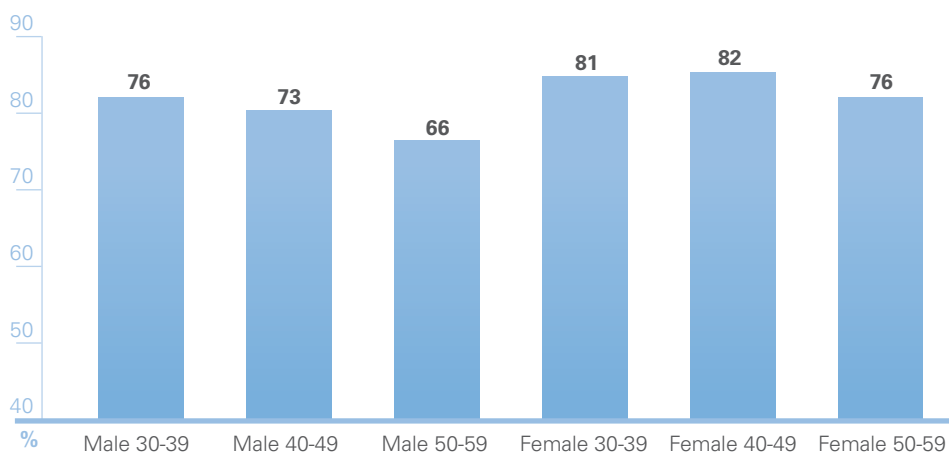
**Table 1: The four consumer types**

Global (% of global respondents)	China (% of China respondents)	Consumer types
38%	20%	<b>Non-planners: disengaged.</b> These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	3%	<b>Non-planners: advice-seekers.</b> These people do not have a financial plan, though they do at least take professional financial advice from time to time. They are likely to seek advice around one particular need, rather than take holistic advice.
22%	28%	<b>Planners: active self-guided.</b> These people have a financial plan in place but do not seek professional expertise to help them make sense of their finances. They are likely to be younger, mid-to-high income and internet savvy.
28%	49%	<b>Planners: advice-seekers.</b> These people have a financial plan in place and also take professional financial advice to help manage their finances. In many respects they are very well prepared for retirement.

As we have seen, a greater onus will be put on individuals to prepare for their own later lives and, fortunately, financial planning behaviour in China is far ahead of the global average, with 76% having some form of financial plan. The most prominent of our four consumer types is the planner who also seeks financial advice, whilst there are very few non-planners who have taken advice. This suggests that professional financial advice is seen as an optional extra to be combined with financial planning, not as a way of outsourcing decisions about your financial future entirely.

Financial planners tend to be young and middle-aged women, whilst men nearing retirement age are the least likely to be planning in China at present. The trend towards greater levels of planning is present amongst younger men and women, suggesting that faced with a long retirement and questionable levels of state support, people are increasingly taking their financial futures into their own hands.

**Figure 10: Younger men and women more likely to have a financial plan**



### The planning premium

Our findings reveal that those with a financial plan for the future enjoy several benefits over those who do not – the ‘planning premium’ - and that these benefits are both ‘hard’ and ‘soft’, including not only greater and more diverse retirement savings, but also a more positive outlook and fewer worries about later life.

Respondents who undertook financial planning were more likely than non-planners to associate retirement

with positive ideas such as freedom and less likely to associate it with negative ones such as financial hardship. Although it is difficult to separate cause and effect, these findings hold true even when controlling for age and income. Whilst these benefits may seem obvious, the extent to which they are present in our findings indicates a significant ‘soft’ benefit of planning for the future today; those with a plan have fewer sources of worry and stress.

Figure 11: Retirement associations of planners and non-planners

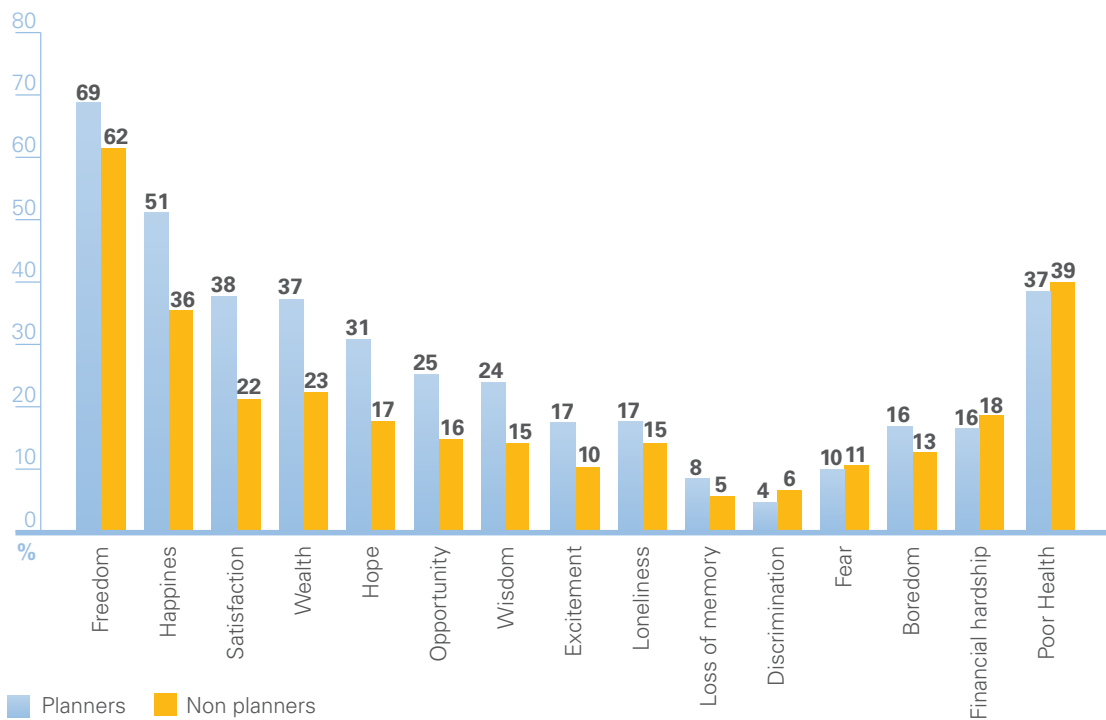


Table 2: Planners have more retirement savings and investments

	China average	Non-planners: disengaged	Non-planners: advice seekers	Planners: active self-guided	Planners: advice-seekers	All non-planners	All planners
Total retirement savings and investments (household median) RMB	250,000	101,000	215,000	200,000	400,000	104,000	320,000
% of global average	100%	41%	86%	80%	160%	42%	128%

These figures are calculated using median data, which can produce the same results in different categories

When we look at the retirement assets of our four consumer types, planners not only hold a wider range of retirement products than non-planners, but also

have on average more than three times (308%) the retirement assets of non-planners.

### The advice advantage

Those who have a financial plan in place and sought professional advice are best off financially, with the largest retirement assets of all four consumer groups. This reveals a further benefit for those who combine financial planning with professional advice – the ‘advice advantage’. Advice-seeking Planners have 160% more retirement assets than the Chinese average and four times the assets of those who have made no preparations at all. Whilst it is difficult to separate cause and effect, these findings also hold true even when controlling for age and income.

In terms of financial advice, individuals in China show a preference for either banks or independent financial advisers, with 32% having last consulted the former and 29% the latter. With large opportunities for expansion in the coming years, these two advice providers, both focusing on holistic solutions, are likely to remain popular. However, they will increasingly face competition from online sources of information and advice, with 46% of respondents having independently consulted official financial websites.

## Conclusion

Respondents in China are optimistic that their generation will be better off in retirement than their parent's generation, but concerns remain about the ability to continue working and the adequacy of the state pension in securing a comfortable retirement. Despite the rapid pace of Chinese economic growth, changing demographics will increase the pressure on China's retirement system. Encouragingly, the majority of Chinese respondents are already planning for the future and seeking professional advice, thereby enjoying the benefits of planning and advice. Looking ahead, key challenges centre on better healthcare provision for an ageing population, as well as encouraging individuals not to solely rely on state benefits.

For individuals and households who want to take action now to improve their financial well-being in later life, we have devised a simple 5-step checklist based on the research:

1. Establish some clear goals, both short and long term
2. Benchmark yourself
3. Establish a comprehensive financial plan
4. Implement the plan
5. Keep your plan under review

Further details on the 5-step process can be found at the end of *The Future of Retirement: The power of planning* global report.



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