August 2018

Helping Millennials invest for the future

China Retirement Readiness Survey

Fidelity International and Ant Fortune pension initiative partnership

As a global leader in pensions, Fidelity International is committed to introducing its global expertise to help Chinese citizens better prepare for their retirement. We are pleased to partner with Ant Fortune, a comprehensive wealth management platform of Ant Financial, to achieve our vision. Ant Fortune is a leader in China's fast developing eCommerce market, with over 300 million active users in China. By bringing together Fidelity International's expertise in investment and retirement and the breadth and scale of Ant Fortune, we believe we can significantly enhance the overall awareness of pensions and retirement, and in turn help Chinese citizens better prepare for their pre-and-post retirement life. The China Retirement Readiness Survey is only the start of this fruitful partnership. Through Ant Fortune's digital financial service platform, we will provide thought leadership, tools and other relevant content to support our mission.

About Fidelity International

Fidelity International offers world-class investment solutions and pension expertise. As a privately-owned, independent company, investment is its only business. It is driven by the needs of its clients, not by shareholders. Fidelity International's vision is to deliver innovative client solutions for a better future.

Fidelity International is responsible for US$416 billion of client assets, of which US$310 billion is invested globally on behalf of clients in 26 countries and regions across Asia-Pacific, Europe, South America and the Middle East, and US$106 billion is in assets under administration. (As at 30 June 2018).

Fidelity International is a global leader in the pension space, providing investment management and administration services of defined contribution (DC) schemes to employers in Hong Kong, Germany and the UK, as well as multinational corporations.

It also offers retirement-focused investment products to private investors in all its markets. These include a wide range of multi-asset, growth and income mutual funds, along with targeted lifecycle strategies that focus on a retirement date.

About Ant Fortune

Ant Fortune is a comprehensive wealth management platform of Ant Financial that allows users to manage their finances in one place. Users can access wealth management products like Yu'e Bao and funds on the Ant Fortune platform. Ant Fortune has minimal entry requirements and is easy to use. Users can also enjoy services like financial newsfeeds, updates on stock movements, investor community and personalized investment recommendation. At the same time, Ant Fortune is also a leader in leveraging Artificial Intelligence (AI) to allow merchants on their platform to provide better investment solutions, client services and sales and marketing tools tailored to the wealth management needs of individual consumers.

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Daisy Ho

Managing Director

Asia Ex-Japan
Fidelity International

An exciting partnership

Fidelity International is very proud to be partnering with Ant Fortune, a comprehensive wealth management platform of Ant Financial, on the inaugural China Retirement Readiness Survey.

One of the first surveys of its kind in China, it is the latest in a series of pension studies that Fidelity has done around the world.

With Ant Fortune providing the survey platform and user access, the survey covered 28,440 Ant Fortune users over a four-day period, 75 per cent of whom were Millennials (aged 18-35).

Given our experience in retirement planning, this research is part of our commitment to helping China's Millennials better prepare for their retirement.

A positive attitude towards retirement

The key takeaway from the survey was that Chinese Millennials have a positive attitude to retirement, with many seeing themselves retiring at age 57, with at least RMB1,634,000 needed to live comfortably.

However, with their expectation that cash savings will be their primary source of income, the survey also underlined the need for investor education and a wider choice of investment options to help China's Millennial generation prepare for retirement.

Like many countries, China's ageing population will continue to exert pressure on its existing pension system. Having individuals taking more responsibility for their retirement will help to relieve the burden on the existing pillars of China's retirement system: state pension and employment-based pension plans.

As a global leader in pensions, we are keen to share our experiences with the China market that we have gained from running sophisticated pension businesses in Asia and Europe.

Taking a collaborative approach

By combining our experiences in other markets with our observations on this survey, we plan to focus on the following pillars:

- **Education.** Through partnering with government, top think tanks and Ant Fortune, we will look to improve financial literacy and basic pension knowledge in China through ongoing investor education programs. We will continue to undertake research projects around retirement readiness, as well as developing planning tools and calculators to help people understand how much they will have in retirement and the impact that savings plans and different investment options will have.

- **Structure.** We are pleased to see that tax incentives have been incorporated into the third pillar pension scheme, which would encourage more people to build up their retirement savings. Tax incentives have proven successful in other countries, like the US and Australia.

  We would suggest having additional financial subsidies for specific groups, such as low income earners, as well as setting a default investment framework, similar to the US.

- **Solutions.** We will advocate the implementation of retirement products that are relevant and easy to understand, such as target date funds. These funds invest in a diversified portfolio of asset classes, the mix of which changes as the individual moves close to their retirement (or target date).

In line with Fidelity's vision of helping our clients build a better future, we much look forward to working with Ant Fortune over the next few years to help improve the retirement readiness of China's young generation.

Daisy Ho

Daisy Ho

Guoming Zu

Vice President

Wealth Management Business Group, Ant Financial

Creating a brighter future

Planning for old age is always a topic of social debate. It does not only involve individuals, but also families, societies, and ultimately, the whole country. Ant Fortune is dedicated to bringing about small changes that have great benefits and has been making preparations and doing relevant research around China's 3rd pillar pension development.

Alipay is the key business of Ant Fortune, and together with its partners, have around 870 million active users globally, 552 million of which are in China (as at 31 March 2018).

We are determined to deliver exceptional services to these users, so that we can help them to better recognize and cope with the problems involved in planning for old age.

Partnering with Fidelity International

As the world's prominent mutual fund company and pension administrator, Fidelity International has continuously carried out research and analysis on pension schemes in Asia and Europe.

Capitalizing on Fidelity International's extensive pension experience, we believe that we can understand and cater for the needs of our domestic clients in a deeper way, so that we are well-prepared for the third-pillar pension.

By delivering this report, Ant Fortune would look to continue its long-term focus on researching the third pillar pension.

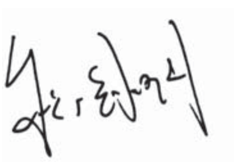
Helping Millennials prepare for retirement

In our busy and complicated society, with all sorts of pressure from family, work and so on, it is often difficult for young people to think deeply in advance about planning for old age, let alone putting it into practice.

Our society is facing the problem of an ageing population, which has become increasingly severe and has created an alert for us to act.

By partnering with Fidelity International, our aim is to change the current situation for the younger generation in terms of old-age planning through a greater understanding their attitudes and level of preparation.

We look forward to making use of this report, which would enable us to come up with tailor-made services, allowing young people to contribute towards society and embrace the brighter future with less pressure.



Guoming Zu

Pensions are part of Fidelity International's DNA

Hong Kong

- We have been managing defined contribution schemes in Hong Kong **since 1989**.
- With over **300,000 Mandatory Provident Fund** members, we are the largest pure asset manager among the top 10 MPF service providers.
- We are the **largest investment manager of ORSO[1] employee choice schemes** in Hong Kong, which are voluntary retirement schemes offered by employers.

United Kingdom

- Around **1.1m people** trust Fidelity with their savings, either directly or through their employer/adviser, much of which is used for retirement.
- Our DC business services **over 1.2 million individual investors** and administers over **400 employer schemes**.
- We were the first DC pension provider to offer **a guidance and advice service** for annuities at retirement.

Japan

- We have been providing investment products for DC pensions **since the system was introduced** in 2001.
- We are the **largest active fund provider** in the Japanese DC space.
- Over **50%** of all defined contribution plans in Japan offer a Fidelity fund.

Germany

- We started our DB and DC business in **2006**.
- We **pioneered lifecycle strategies** (Target Date Funds) and time value accounts with respected partners.
- We are **among the top-five providers** for DC and time value account solutions[2].

[1] ORSO Scheme: Occupational Retirement Scheme Ordinance, a legacy voluntary retirement system in Hong Kong.
[2] Kommalpha

Executive summary

Everyone has spending priorities, for some it may be funding a child's education, while for others the focus may be on clearing student debt or saving up for a house deposit.

Among these near-term financial challenges is one that tends to be overlooked – retirement.

That's understandable, as planning for old-age can appear so distant, something to think about tomorrow.

The problem is, tomorrow arrives sooner than people think.

Better late than never

The good news is that people are aware of the need to implement some form of pension plan, with the current survey showing that the expected average retirement age across all age groups is 58 years old. Only 11 per cent of those surveyed hope to retire at 65 or older.

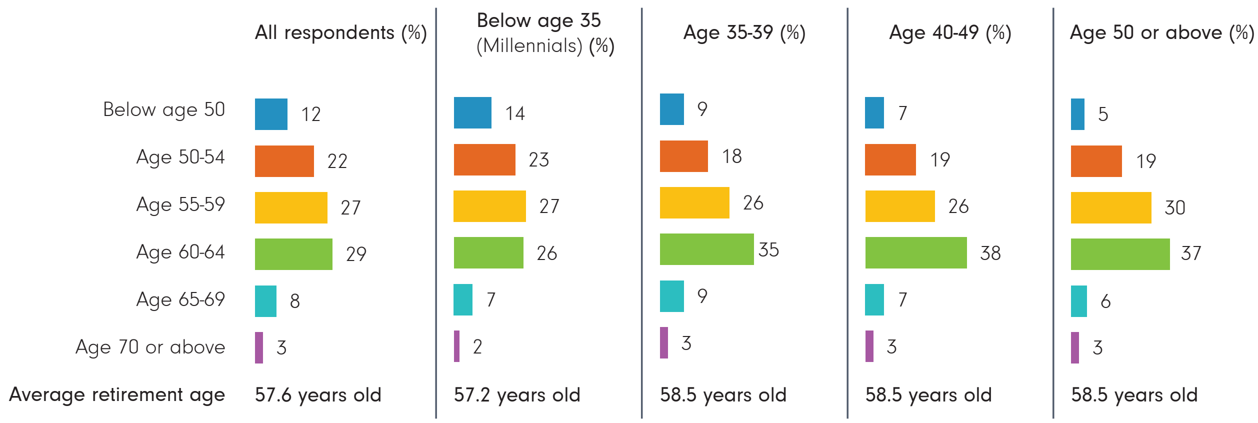
However, there is a gap between thought and practice – 54 per cent admitted that they have not started to save for retirement.

Of this number, 42 per cent are aged between 50-59 years, with the average starting age for pension saving in this group being 45 years.

Among non-saving Millennials, 40 per cent plan to start saving when they turn 40, with 38 per cent saying that they have never thought about saving for retirement.

Most respondents dream of retiring early

Target retirement age



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

Retirement reality

Most of those surveyed believe that they will enjoy a carefree retirement. To this end, all respondents believe that they will need a retirement fund of RMB1.822 million, which will be financed by cash accounts, rather than a portfolio of investments.

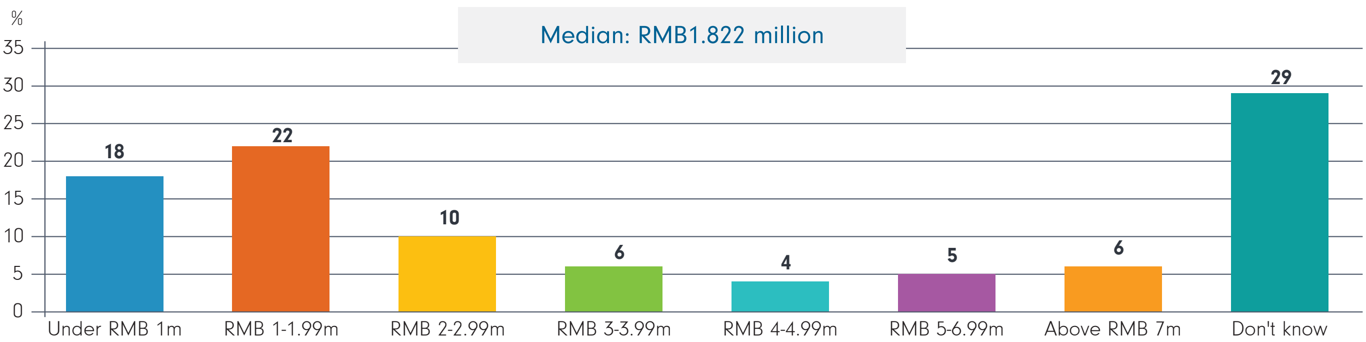
For Millennials, the figure was slightly less at RMB1.634 million in savings, also mainly in cash and not including the impact of inflation.

That's hopeful but unrealistic, as many Chinese Millenials have a limited knowledge of financial planning and investment strategies. Less than a third cited long-term returns as important when choosing a retirement savings product. Even with Millennials saving 21 per cent of their income in cash each month (RMB 1,339), it would still take them almost 60 years* to reach the amount that they believe they will need.

Still, almost half of Millennials (44 per cent) and those aged 35 or above (45 per cent) remain confident that they will have sufficient savings for retirement.

More retirement savings are needed

Target retirement savings from all respondents



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

Knowledge gap

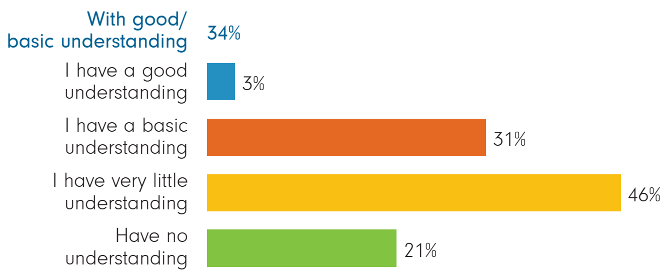
So far, we have identified broadly positive attitudes towards retirement, which are tempered by the need to build a greater awareness of how the pension system works.

Nonetheless, most respondents know that the government alone will not be able to provide them with the means for a comfortable post-work life.

Over half of Chinese Millenials expect that the government pension and cash savings will be their main sources of retirement income.

The understanding of pensions can improve

Understanding of pension by all respondents



Source: Fidelity International and Ant Fortune.

* Assumes monthly savings of RMB 1,339 at 1.75% pa.

The challenge of providing for retirement

China is not immune to the problems facing societies worldwide – more people are living longer, healthier lives, yet the existing pension arrangements of many countries are designed to accommodate much briefer post-retirement lifespans.

The issue is compounded by fewer people joining the workforce, so contributions are failing to keep pace with outgoings.

A recent survey by the National Academy of Economic Strategy in Beijing revealed that if not addressed, the funding gap could top 600 billion yuan in 2018, reaching 890 billion yuan in 2020[3].

China's Government has made a huge effort in making up this shortfall, through many different measures, however individuals still need to take more responsibility for their retirement savings.

A Chinese perspective

Since the start of its reform and opening-up policy in 1978, China's system of guaranteed lifetime employment, the so-called 'iron rice-bowl', has been gradually wound down.

In the face of this diminished welfare protection, workers have been expected to save more. Aided by increasing incomes, the mid-2000s to early 2010s saw domestic savings in China rank among the highest in the world[4].

Economic rebalancing

However, this national nest egg has since been eroded by the post-financial crisis shift to rebalance China from an investment/export-led to a consumption-driven economy. This transformation to a spending culture is leading to higher personal debt levels, with Millennials now more likely to reach for their credit cards.

In fact, the Financial Times reported that online credit is expected to reach 3.4 trillion yuan in 2019[5].

The sandwich generation

It was always assumed that young people in China would look after their parents' retirement needs. This premise was underpinned by the advent of the one-child policy, which has resulted in sibling-free Millennials with no one to share the burden of parental care.

Millennials also suffer as a 'sandwich generation' – they are still expected to look after their parents while financing the education of their own children. With them increasingly prepared to take on debt, Millennials are now saving less, relative to previous generations[6].

[3] https://www.scmp.com/news/china/economy/article/2132236/chinas-ageing-population-creating-new-debt-crisis-beijing-pension
[4] http://www.southmoney.com/touzilicai/yinhang/201610/779204.html
[5] https://www.straitstimes.com/asia/east-asia/buy-now-pay-later-easy-credit-leaving-chinas-millennials-spent
[6] http://www.zaobao.com/forum/letter/others/story20110722-42326

Cultural shifts means less reliance on children

In a parallel move, the parents of Millennials are now lowering their expectations from their children and expect to rely more on their own savings.

According to World Bank data, the proportion of bank savings-to-GDP dropped from 50.5 per cent in 2009 to 45 per cent in 2015[7], indicating that China's traditionally high savings rates are in decline, and that more people are dipping into their savings.

Another growing assumption among Millennials is that their children may not help them in 30-40 years' time.

So although Millennials see what they believe lies ahead, they are not taking the correct courses of action.

Why the survey was conducted

Millennials have important financial decisions to make, so Fidelity International and Ant Fortune wanted to gauge how aware people are of how they are going to fund their retirement.

Specifically, are they familiar with the funding gap and, if so, how do they plan to fill it?

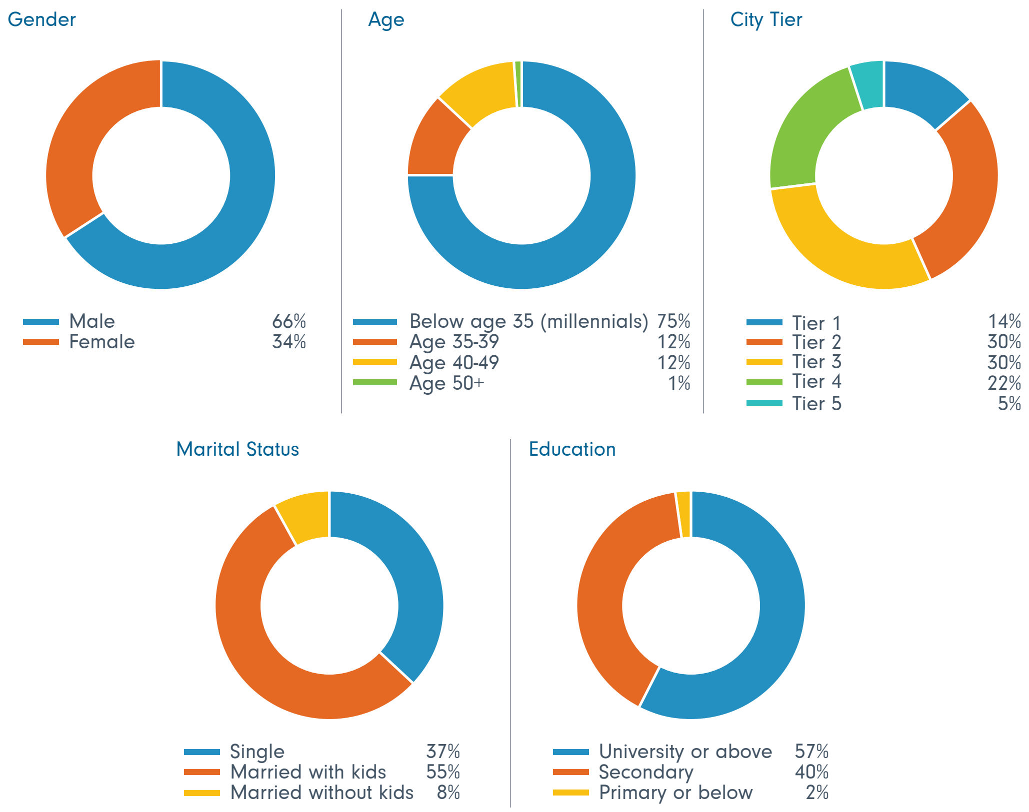
The result of our study will help us to provide guidance now, rather than tailor reactions later.

Survey demographics

The online survey was conducted among over 28,000 members of the Ant Fortune platform, with 95 per cent of respondents coming from Tier 1 to Tier 4 cities.

Respondents polled online typically have higher incomes and higher liquid assets than the general population, a pattern that is consistent with the respondent profiles.

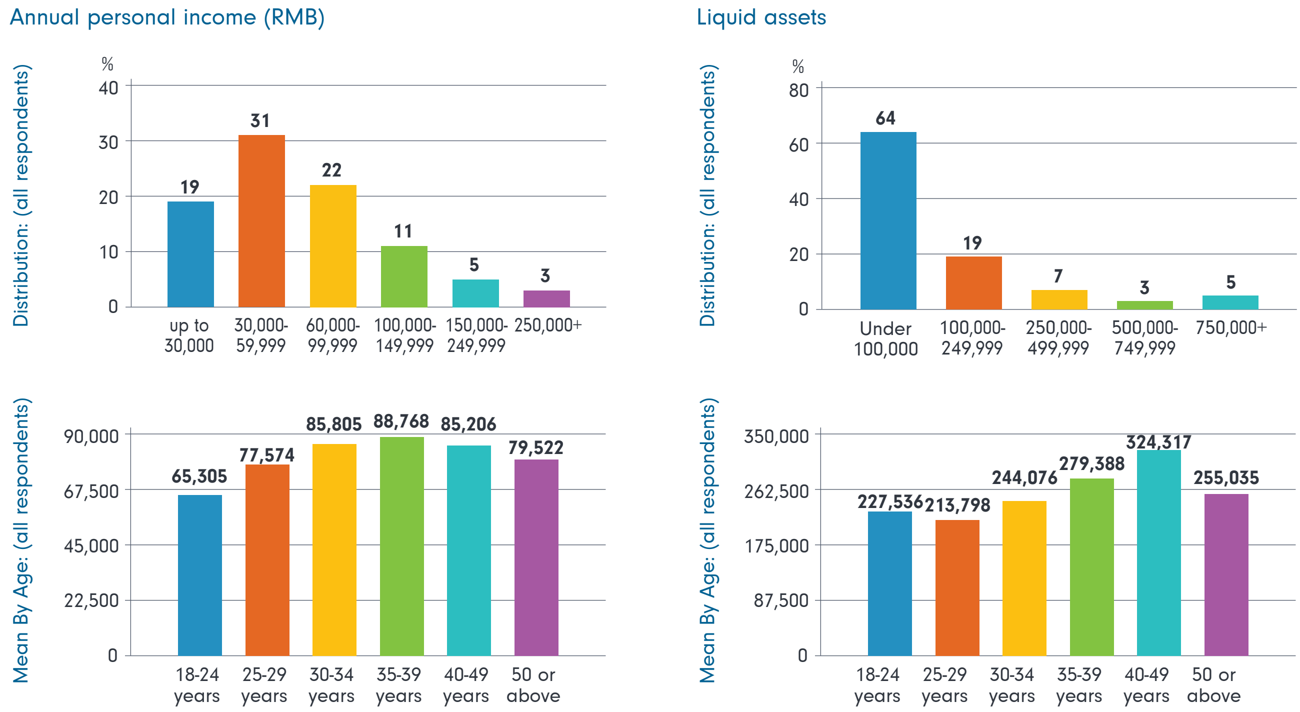
Millennials were the largest responders



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

[7] https://tradingeconomics.com/china/bank-deposits-to-gdp-percent-wb-data.html

High personal incomes and liquid assets



Source: Fidelity International and Ant Fortune. Percentages do not total 100, as some respondents opted not to answer.

> “Millennials also suffer as a ‘sandwich generation’ – they are still expected to look after their parents while financing the education of their own children.”

1 Ready, but not enabled

Chinese Millennials are positive about retirement...

Millennials in China have an overwhelmingly positive attitude towards retirement. Many Millennials see themselves ending their working lives at 57 with at least RMB1,634,000 in savings, mainly in cash, for a comfortable future.

It's an admirable goal.

The problem is that, at current savings rates, it will take them almost 60 years* to get there.

It encapsulates the fundamental contradiction that was found in the Fidelity International/Ant Fortune China Retirement Readiness Survey.

The target retirement age for China's working population across the demographic spread is remarkably consistent.

The average Millennial hopes to stop work at about 57 years old, with that target only increasing to 59 for people aged 35 and above.

Very few people among any age group see themselves working beyond 65 – 9 per cent for Millennials and those over-50.

The differences are more marked between genders. One in two women wish to retire at or before age 55, while the average for men was 58.5.

Government policy may have much to do with this. The official retirement age for men is 60 and the official retirement age for women is 55.

Under proposed reforms, from 2018 the age for men will be raised by one year every six years, and by one year every three years for women[8].

This reflects government estimates that the proportion of over-60s in the Chinese population will rise to almost 40 per cent, from just 15 per cent now[9].

...yet start saving for retirement quite late...

There is also a need to raise awareness of how the government pension system operates. Although understanding does improve slightly with age, there is still an obvious need for more comprehensive financial education.

That said, a quarter of respondents are still confident that the state system will provide for their retirement needs.

23%
were very/quite confident about the pension system

34%
had a good/basic understanding of the pension system

[8] http://www.ecns.cn/cns-wire/2018/03-13/295606.shtml
[9] https://www.reuters.com/article/us-china-labour-retirement/china-will-set-plan-for-raising-retirement-age-next-year-media-idUSKCN0W1077
* Assumes monthly savings of RMB 1,339 at 1.75% pa.

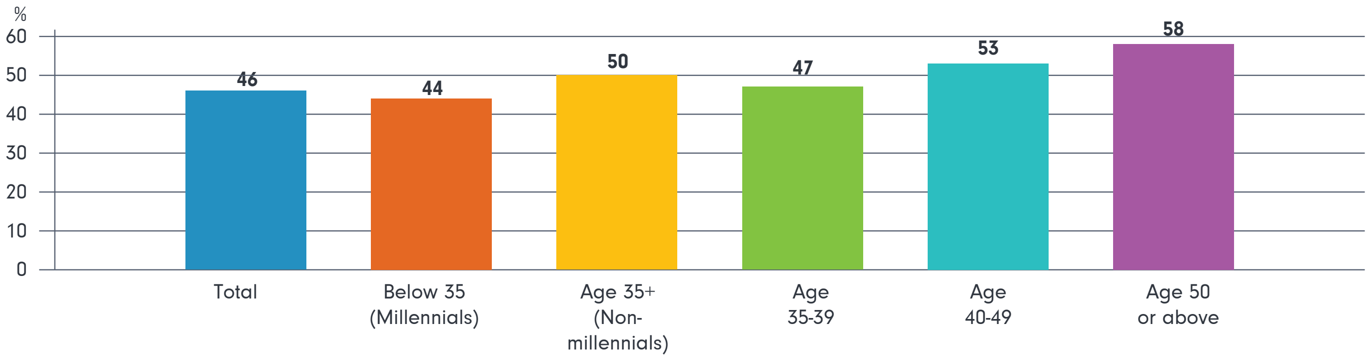
As a likely consequence of this need for more targeted education, people start saving too late. Less than half of all respondents in the survey have not initiated any saving for retirement.

Among the over 50s who have put money away, three-quarters started the process at an average age of 45, giving them insufficient time to build their savings.

Millennials are similarly relaxed about the future, with most only planning to start putting money away once they reach 40, giving them a mere 17 years to achieve their retirement goals.

...risking a severe shortfall in their savings goals...

Percentage of respondents who have started saving for retirement



Source: Fidelity International and Ant Fortune.

This gulf remains consistent across genders and throughout the different tiers of cities in China.

Half of all men and nearly two-in-three women haven't started saving for retirement. Across Tier 1 to Tier 4 cities, the total number of non-savers is steady at 53-55 per cent.

Among non-savers, between 36 and 39 per cent of men and women in Tier 1 to Tier 4 cities haven't thought about their retirement.

It is evident, then, that without investment growth the majority of people in China will not get close to their retirement savings goals.

For a generation that's much less certain about being looked after by their own children in old age, this should be more of a concern.

> "Close to half of all respondents in the survey have not initiated any saving for retirement."

...with lack of capital the main barrier to savings.

Despite their apparently contradictory mindset, Millennials are far from unaware of their current financial situation. 44 per cent are not confident that they'll have sufficient savings to last them through their retirement.

Even though they share similar goals as men, women are slightly more pessimistic about their financial future. This may stem from concerns about career pauses if they decide to start a family or choose to work part-time afterwards.

Also, two-thirds of women have not started saving for retirement, which could reflect the fact that they, on average, earn less than men.

Another reason could be the lack of knowledge or understanding of retirement planning, as 36 per cent of women are unsure of how much they should target, compared to 26 per cent for men.

Indeed, the lack of money isn't just a female issue. By far the most common reason cited for the savings shortfall is lack of capital. Two-thirds of those surveyed said they don't have the spare cash to invest.

This brings us back to the sandwich-generation issue.

Millennials are still expected to look after parents while financing the education of their own children, creating financial pressures which have led to higher levels of borrowing and debt, which in turn suppresses savings.

This issue also highlights the importance of retirement planning at an early age, as this will help to alleviate some of these pressures later in life.

61 years

needed for respondents to reach their retirement savings targets*

The importance of investor education for women

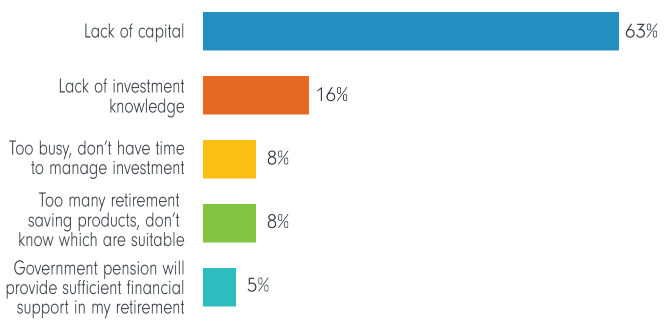
Monthly retirement savings

	Total	Male	Female
Less than 100 RMB	11%	11%	9%
100 - 499 RMB	8%	9%	7%
500 - 999 RMB	8%	9%	7%
1,000 - 1,999 RMB	9%	10%	8%
2,000 - 3,999 RMB	6%	6%	5%
4,000 - 5,999 RMB	2%	3%	1%
6,000 RMB or more	2%	2%	1%
Have not started saving	54%	51%	61%

Source: Fidelity International and Ant Fortune.

Lack of capital is the main barrier to savings

Percentage of all respondents



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

* Assumes monthly savings of RMB 1,389 at 1.75% pa.

2 Saving is important, but the right investment path can make a difference

Chinese workers have an optimistic outlook on retirement...

If retirement savings goals among China's Millennials look ambitious, then perhaps even more surprising is the number of people who have no goals whatsoever.

Almost one-in-three people in the survey said that they didn't know how much they would need, while those who hadn't started saving at all had virtually the same goals as those who had.

Even so, nearly two-thirds of those surveyed said they believed their retirement would be carefree and enjoyable. Millennials, perhaps unsurprisingly, were significantly more optimistic.

Among the over-50s, only half thought they would be "free to do whatever I want".

Similarly, the proportion of respondents who believed that they would remain active and continue to work rises sharply as people age, as do the number of individuals who think they face a "difficult and uncertain" future, with no choice but to continue working. One in ten expects to continue working at least part-time.

China's workers hope to retire young

Target retirement age of all respondents

	Total (%)	Male (%)	Female (%)
Before age 50	12	11	15
Age 50-54	22	17	34
Age 55-59	27	25	31
Age 60-64	29	35	15
Age 65-69	8	9	4
Age 70 or above	3	3	1
Average	**58**	**59**	**56**

Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

...but lack knowledge of long-term investment strategies...

The findings highlight not only an education and knowledge gap in the pension market but the consequences of it, with financial reality steadily dawning among the older generation.

Close to two-in-three Millennials still expect to rely on their government pension and cash savings, and less than one-in-three expect to rely on either annuities, insurance products, rental income, shareholdings or the sale of property.

This is despite the majority of people in the survey saying that they don't fully understand how the government pension system works.

China has long been perceived as a cash society, and it would appear that this is fundamentally still the case.

Perhaps surprisingly in an era that's seeing an explosion in online and mobile retail investment options, 28 per cent of Millennials still think uninvested cash savings will be their primary source of retirement income.

On average, they are saving RMB1,339 a month. Without investment, it would take almost 60 years* to accumulate the RMB1.63 million that Millennials believe they'll need, yet few expect to rely on annuities (16 per cent), rental income (6 per cent) or stocks (1 per cent) once they stop working.

Significantly, a mere 5 per cent expect support from their children in their old age, evidence of a major societal shift in the space of two generations, and only 1 in 100 expect any kind of significant inheritance from their parents.

The Millennial generation expect to go it alone.

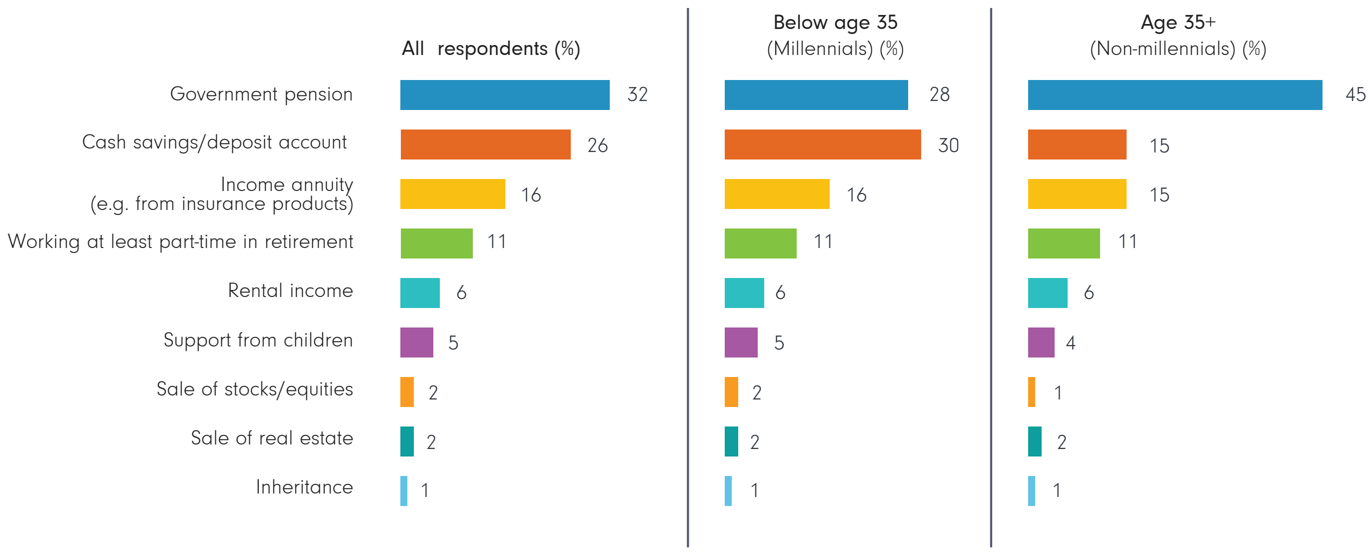
The knowledge gap is also reflected in the habits of those who do save. Less than one-third of Millennials prioritise long-term returns in their retirement savings, with the largest proportion favouring dividends or regular payouts.

About one-third prioritise either principal-guaranteed, fixed-term products or short-term returns.

> “A mere 5 per cent expect support from their children in their old age, evidence of a major societal shift in the space of two generations.”

Few expect to invest to build up savings

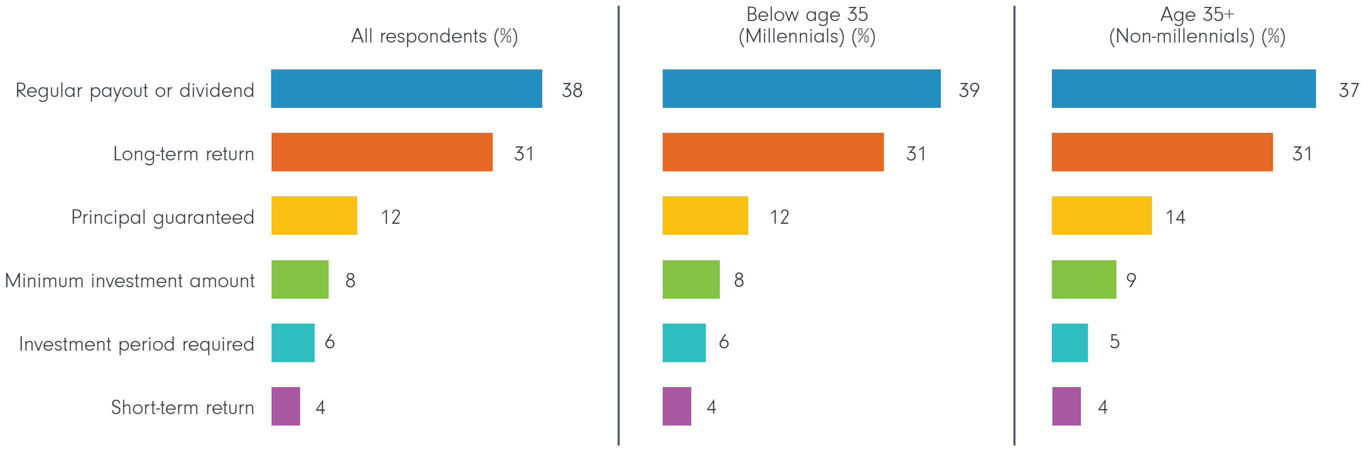
What respondents expect to rely on in retirement



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.
* Assumes monthly savings of RMB 1,339 at 1.75% pa.

Less than one-third prioritise long-term returns

Selection criteria for retirement savings products



Source: Fidelity International and Ant Fortune. Percentages may not add up to 100 due to rounding.

...leading to insufficient savings and investment growth.

The inevitable consequence is that the level of savings is inadequate across age groups, genders, city-types and income levels. Even among the highest earners (those with an annual income of RMB250,000), less than 40 per cent have started saving for retirement.

At current savings rates, all income groups are far behind in reaching their goals. If levels of household debt are factored in, which have reached an all-time high of almost 50 per cent of GDP[10], then the situation starts to look more urgent.

Among the 46 per cent of people who had started putting money away for retirement, the average monthly saving is RMB1,389, equivalent to about a quarter of the average monthly income.

While this proportion in itself is encouraging, it's clear that savers are not putting their money to work in the most effective ways.

There are few differences in attitudes towards retirement

	Millennials (Below age 35)	Non millennials (Age 35 or above)
Monthly saving for retirement (Those who started saving)	Average: RMB1,339	Average: RMB1,517
Target age to start saving for retirement (Those who have not started saving)	40.4 years old	47.6 years old
Annual personal income	Average: RMB77,000	Average:RMB87,000

Source: Fidelity International and Ant Fortune.

[10] https://tradingeconomics.com/china/households-debt-to-gdp

3 What our analysis shows

Lack of retirement-readiness is universal...

The most striking outcome of the survey is certainly the gap between aspiration and reality, but equally notable is how consistently that gap applies throughout different demographics in China.

Whichever way those demographics are sliced, about two-in-three people expect their retirement to be a carefree experience, when they can live freely and do what they want.

There are key differences between groups, but they tend to be slight.

Across geographic locations, residents of Tier 1 cities earn and save more, start saving earlier, and have higher savings goals, but on average they are no more confident of having sufficient money for retirement than their counterparts in other cities.

The differences between cities, again, are slight, and the level of readiness is uniformly low.

Between savers and non-savers there is also a surprisingly small gap in terms of savings and retirement-age targets.

The key difference is that non-savers have a far lower level of understanding about the government pension system and are significantly less confident that they will have enough money for retirement.

Non-savers earn on average 15 per cent less than those who have started saving, which may explain why lack of capital is cited as the biggest cause of shortfalls.

Almost one-third of people have no retirement savings goal at all. In this respect, Millennials were surprisingly better prepared than those in the 30-39 age group, but in general, the under-40s on lower incomes and women were the least likely to have a retirement target.

> "Almost one-third of people have no retirement savings goal at all."

There are few differences in attitudes towards retirement

Results from all respondents across Tier 1 – Tier 4 cities

	Tier 1	Tier 2	Tier 3	Tier 4	Others
% who have started saving for retirement	47%	45%	45%	46%	50%
Target retirement savings (RMB)	RMB2,033,000	RMB1,849,000	RMB1,774,000	RMB1,736,000	RMB1,814,000
Average monthly saving for retirement (Those who started saving)	RMB1,572	RMB1,374	RMB1,373	RMB1,328	RMB1,328
Target retirement age	57.3	57.4	57.8	57.6	57.5
% confident for retirement	43%	43%	45%	46%	48%
Average annual personal income (mean)	96,000	81,000	76,009	71,000	77,000

Source: Fidelity International and Ant Fortune.

...with the gender gap is the most significant of all.

Of all the demographic differences, the most significant was between men and women.

Fewer women than men have started saving for retirement, yet despite earning on average 25 per cent less, women have higher retirement savings goals, save less every month and have a lower target retirement age.

The official retirement age for men is 60 and the official retirement age for women is 55.

With an average annual income of RMB65,000, versus RMB85,000 for men, women do comparatively better than men when it comes to saving.

Women who save put away an average of RMB1,270 a month, a slightly higher proportion of their income than men.

However, their retirement targets are significantly higher at RMB1.9 million, compared to about RMB1.79 million for men.

Women have higher retirement targets than men

	Male	Female
% who have started saving for retirement	49%	39%
Target retirement savings	RMB1,788,000	RMB1,902,000
Average monthly saving for retirement (Those who started saving)	RMB1,436	RMB1,270
Target retirement age	58.5	55.5
% confident they will have sufficient for retirement	47%	40%
Average annual personal income	RMB86,000	RMB65,000

Source: Fidelity International and Ant Fortune.

4 What are the solutions?

By combining our experience in other markets, with the findings of the Fidelity International + Ant Fortune China Retirement Readiness Survey, we plan to focus on the following three pillars: Education, Structure and Solutions.

Investor education is crucial

With the country's population ageing and the ratio of workers-to-retirees poised to decrease from 6.9:1 to 2.1:1 by 2050, it is crucial (particularly for the Millennial generation) to understand the benefits of having financial goals, budgeting, starting to save early and having long-term savings targets[11].

On top of better education, consumers also need access to individual savings accounts that will not only widen their investment options but also relieve the burden on the first and second pillars of the retirement system: state pensions and employment-based savings plans.

Realising a comfortable retirement is a process that involves sensible planning and years of persistence, qualities that have driven China's remarkable growth over the past several decades.

The survey has found, however, that many people in China have developed expectations of retirement that the state pension system alone will not meet.

This means education is crucial in helping investors focus on the long-term benefits of investing, such as how investment strategies combining cash savings with annuities, bonds, stocks or property, can be tailored to their risk tolerance in order to reach the goals that they have set for themselves.

Tax incentives to encourage savings

There are already some tax incentives in place for enterprise annuity (voluntary) and occupation annuity (compulsory), as well as the newly-established third pillar pilot of insurance-based pension products.

As part of establishing the 'third pillar' of China's pension system, the government has incorporated a range of new tax incentives, as a way to encourage more people to save for their retirement.

Such tax incentives have proven successful in increasing retirement savings in countries like Australia, where its superannuation system has now grown to almost USD 2 trillion (as at 31 March 2018)[12].

Similarly, the tax-deferred 401(k) retirement savings plans in the US have also helped to raise retirement savings, especially for those people on lower-to-middle incomes[13].

In China, we would suggest widening the financial subsidies within the third pillar for specific groups like low income earners, as a way to help more people benefit from this scheme.

[11] http://www.econdataus.com/workers.html
[12] https://www.superannuation.asn.au/resources/superannuation-statistics
[13] https://www.taxpolicycenter.org/briefing-book/how-does-tax-favored-retirement-saving-affect-national-saving

Having a default investment framework, like in the US, will also protect people from inappropriate investment decisions, while a default product design, like Australia's MySuper system, would ensure that the fees paid for pension products are reasonable.

Making retirement planning easy

We believe that target date funds are one type of product that could help China's population save for their retirement.

Relevant and easy to understand, target date funds are designed for people without specific investment knowledge or the time to manage their pension portfolio.

Target date funds are actively managed and invest in a diversified portfolio of asset classes, the allocation of which changes gradually as the person moves closer to their retirement date (or target date).

During the early stages of a person's working life, these funds focus on growth assets like equities, with the aim of maximizing potential gains.

Then as the target date approaches, the fund switches to more conservative investments (like bonds and cash), as a way to reduce risk and 'lock in' the wealth that has been accumulated.

Having the whole process monitored and managed by a team of investment professionals means that target date funds provide people with an easy way to build up their retirement savings.

Significant progress in Hong Kong

As part of understanding the Hong Kong retirement market, a survey that Fidelity International conducted found the most frequently cited 'life goals' among people were owning a property, funding a stable retirement and being able to afford to travel.

Further, more than half of those surveyed suggested their parents could have improved the value of their retirement savings if they had been more active in the management of their investments.

When asked about mistakes their parents might have made with their own retirement planning, 'they did not plan early enough'; 'they did not save enough' and 'they invested too conservatively' were the top three responses.

So it was clear to Fidelity International from the research that appropriately-structured savings and investments plans were critical for people in Hong Kong to help fund their life goals.

This required us to find innovative ways of connecting with the local population and providing solutions to help people in Hong Kong fulfil their financial needs and achieve their ambitions over the long term.

“Appropriately-structured savings and investments plans are critical for people in Hong Kong to help fund their life goals.”

A focus on engagement and education

Fidelity International's focus in Hong Kong was to engage and educate Hong Kong consumers, especially Millennials, as effectively as possible.

We significantly enhanced our digital presence across our website and the different social media channels to support the ongoing education of investors and members of our Mandatory Provident Fund (MPF), which is part of Hong Kong's compulsory retirement savings scheme.

We developed simpler dashboards for improved website navigation, introduced a simplified online account registration tool and made it easier for investors to switch between investment types with the click of a button.

We introduced chat functionality to help us communicate with consumers and MPF members quickly and effectively.

Ongoing quarterly video content, which is hosted on our YouTube channel, helps investors stay abreast of topical and emerging investment trends. These updates have now been viewed **more than 1.2 million times.**

Our quarterly e-newsletter, which is published on our website, is among the most visited areas.

We use Facebook extensively to help engage with younger investors and MPF members. We introduced an MPF Readiness Index quiz to increase awareness about the importance of regular investing and help younger people better understand their own individual investment needs.

Themed games and video content has been developed to improve participation and encourage engagement among individuals and between friends. Our local video content on Facebook has been streamed nearly a million times, with viewer numbers up **more than 40 per cent from 2017**.

Ongoing engagement is vital

Results like these are proof of the enthusiasm and appetite among investors in Hong Kong, especially Millennials, towards investment education and the MPF scheme.

However, younger investors in Hong Kong still need to be doing more to build adequate retirement savings.

The challenge for us is to continue attracting savers early in the accumulation phase and retaining them through the full investment lifecycle, by providing high quality and innovative investment solutions and educational material that is relevant to their evolving circumstances and preferences.

Our ongoing investment in education will also help to ensure investors remain invested in the most appropriate products for their age.

Currently a significant proportion of younger people are invested in low risk/low return assets, for example, where their risk tolerance might allow for investment in higher growth options that are more likely to generate superior returns over the long term.

By continuing to drive member engagement and distributing a range of high quality and innovative investment solutions, Fidelity International aims to help the next generation of Hong Kong consumers to become savers and savers to become investors, so that they can achieve their life goals.

> “Results like these are proof of the enthusiasm and appetite among consumers in Hong Kong, especially Millennials, towards investment education and the MPF scheme.”

Kim Ping Luk
Head of DC Business, Hong Kong

Ongoing success in Japan

We opened our Tokyo office in 1969, a presence that laid the foundation for our on-the-ground expertise in Asia.

Since 2010, we have conducted the Fidelity Investor Education Institute Survey, through which we have been able to monitor the evolving attitudes of Japan's salaried workers towards investing and retirement readiness.

This survey has provided us with valuable insights into current savings trends and, importantly, future investment intentions of Japan's workers.

In the first survey of nearly 11,000 respondents, just 22 per cent had positive sentiment towards the word 'investing'.

This has increased by around 10 percentage points over the past eight years, to **around 32 per cent** today.

The early results were interesting

The results of the first survey may have been partly reflective of the risk aversion following the 2008/09 Global Financial Crisis and a Japanese recession around the same time.

On the whole, amounts set aside for retirement in Japan were low. More worrying still, nearly half of those surveyed suggested that they simply did not have enough money to invest.

These observations had important implications for Japan, which faces unprecedented retirement funding pressures, given its rapidly ageing population.

> “Japan faces unprecedented retirement funding pressures, given its rapidly ageing population.”

Using education to help bridge the gap

Following careful analysis of these survey results, and those surveys that have followed in the years since, Fidelity has worked tirelessly to engage with investors and improve workers' participation in retirement planning.

Marketing messages have been sharpened to better align with future retirees' goals and aspirations, while the variety of media channels where advertising appears has been broadened.

Traditional print advertising has been complemented by a significant and targeted online presence, which is proving particularly effective in engaging Millennials early in the accumulation phase.

Some of our recent successful initiatives include:

The launch of the online *'Investment NAVI'* portal, which provides easy access to investment-related content tailored for the Japanese market.

Recent survey data suggests that Japanese investors are increasingly comfortable sourcing money-related information directly from asset managers' websites.

Formal investment research reports are published on the portal, however weekly columns on topical themes are proving popular, as they provide practical, bite-sized information that most savers can understand and relate to.

The portal can be accessed by individual investors, as well as being used extensively by advisers and distribution partners, who use the content to help educate their clients on the importance of regular investing and proper pension planning.

The ease with which *Investment NAVI* can be accessed has proven a hit, with new users to the site up 83 per cent and a 77 per cent increase in page views (2016 vs 2017), which has helped to lift engagement levels among younger savers.

Our *'Think and Play'* campaign outlines the importance of retirement planning to the mass market.

A *'Walk of Life'* mini-movie has been developed, outlining the different stages of an investor's life cycle and highlighting the critical importance of early retirement planning.

We have created online simulation tools to allow individuals to view their potential income in retirement based on their age, savings, regular investment allocations and various other characteristics.

Online tools like these can be particularly effective in educating potential investors who have not yet had the inclination or confidence to discuss their individual circumstances with a professional financial adviser.

For more sophisticated investors, Fidelity International and its distribution partners run a comprehensive program of free seminars, aimed at educating savers on emerging trends that might affect the value of their retirement savings over time.

These forums provide an opportunity for current and potential investors to hear from professional investment managers, as well as have their questions answered by industry experts.

Awareness of pension planning is improving

Encouragingly, our initiatives appear to be helping overcome reservations that Japanese consumers have about the importance of retirement planning and investing in general.

The latest Fidelity Investor Education Institute Survey, completed in April 2018, revealed some promising changes in investment behaviour, particularly among Millennials.

The percentage of respondents who said they are already investing has risen across all age groups, but the greatest increase has been among Millennials.

This is a particularly welcome development, given the importance of early investing to maximise savings and retirement income, with the number of people making monthly contributions rising steadily.

It also appears that ongoing education around the value of regular savings is helping to change respondents' original belief that they had insufficient funds to invest. The number of people suggesting that they did not have enough money to invest declined from nearly half in 2010, to just over a quarter in 2018.

On the whole, Japanese workers understand that they can generate more sizeable retirement assets to help achieve their lifestyle goals and aspirations by saving smaller amounts more regularly.

A successful approach in Japan

The number of respondents who have a positive view of the word 'investing' has increased by around 10 percentage points over the past eight years, to **around 32 per cent** today.

These trends are encouraging and suggest initiatives such as *Investment NAVI* and *Think and Play* are changing people's attitudes towards investing.

However, there is more work to be done.

Amounts set aside for retirement by people in their 50s remains low. Despite people's increased propensity to save and higher levels of engagement than ever before, the overall gauge of 'retirement readiness' among Japan's workforce is not improving as quickly as required.

This serves as an important reminder for Fidelity and others like us of the importance of finding new and innovative ways of engaging with investors.

Investment management firms and distributors have a critical role to play in educating investors about proper pension planning and convincing savers of the importance of investing more to meet their looming retirement needs.

> “Our initiatives appear to be helping overcome reservations that Japanese consumers have about the importance of retirement planning and investing in general.”

Satoshi Nojiri
Head of Investor Education Institute, Japan

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