



# Ageing Workforce™ 2006 Report

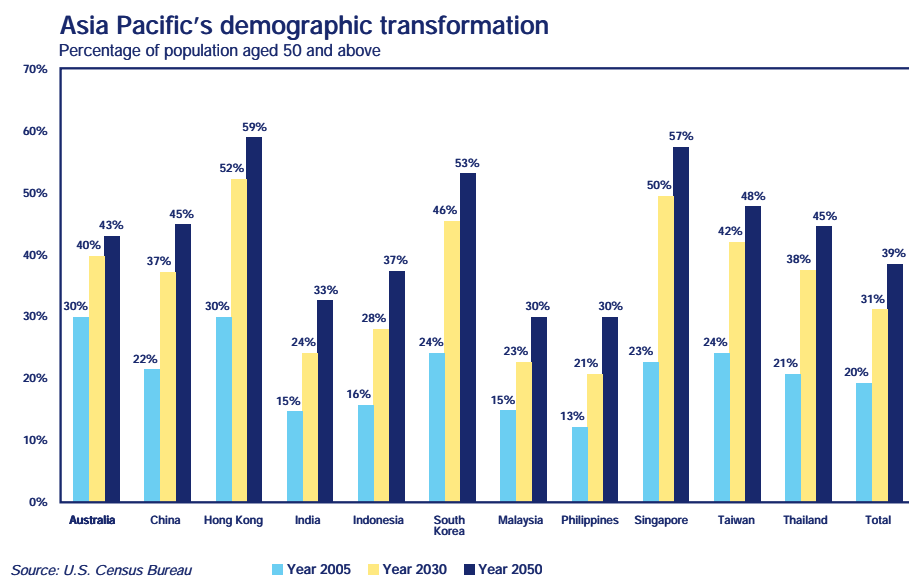
Asia Pacific



# Watson Wyatt Asia Pacific's Ageing Workforce™ study

## Asia Pacific's demographic transformation

By 2050, Asia Pacific will be home to most of the world's elderly people, with 998 million people aged 60 and above. In Asia's most developed countries this phenomenon will be at its most dramatic: for example, in Singapore the proportion of the population over age 50 is set to increase from 23% to 50% over the next 25 years. Many employers in Asia Pacific already experience a shortage of skilled labor, so the implications for the future workforce are serious. Employers will need to focus far more attention on attracting and retaining older workers.



Ageing Workforce™ is the largest ever pan Asia Pacific study of employers' views on the region's changing demographics and the outlook for healthcare and retirement benefits. Our study was conducted from December 2005 to June 2006 with 2,332 major employers participating in Australia, China, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand.

Asia Pacific is growing more affluent as it grows older. Expectations of retirement income and healthcare are increasing. Governments throughout the region have run the numbers and realize that they will not be able to provide comprehensive social security benefits without significant increases in taxation. So will employers pick up the bill for higher pensions and leading edge healthcare? ...They may have to. The older workforces of the future will place a higher value on their retirement and healthcare benefits than is the case today.

The Ageing Workforce™ study provides important information on how Asia Pacific's leading employers view these trends.

## Economic impact

The United Nations has identified global ageing as one of the top three socio-economic issues facing Planet Earth in the 21st century (together with global warming and global terrorism). Our study discovered a high level of employer awareness of the issue: 64% of employers across Asia Pacific believe that ageing will have a serious economic impact.

### Will Ageing Have a Serious Impact?

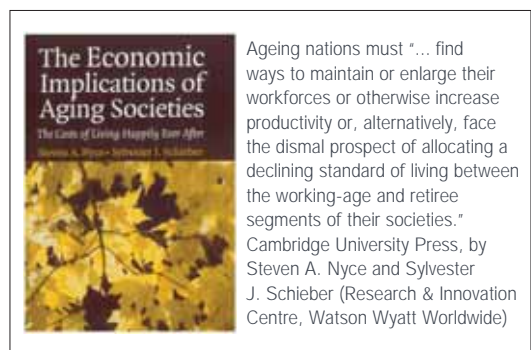
Percentage of respondents who believe that ageing will seriously impact society and the economy

Asia Pacific	64%
Australia	73%
China	51%
Hong Kong	59%
India	69%
Indonesia	84%
Malaysia	50%
Philippines	76%
Singapore	58%
South Korea	70%
Taiwan	68%
Thailand	46%

Source: Watson Wyatt Worldwide

The Ageing Workforce™ study shows that employers are most concerned about labor shortages and escalating social security and employee benefit costs. They believe that the greatest HR challenge of the coming decades will be to enhance workforce productivity as the availability of skilled workers declines. Employers from Asia Pacific's most developed countries believe that the most important actions necessary to adapt to an ageing workforce are enhanced training and development, together with later retirement. In India, which suffers from large-scale unemployment and underemployment, employers believe that increasing the workforce participation rate is the top issue. In China, which is ageing more rapidly than other developing countries and of course has a huge manufacturing sector, employers believe that greater use of technology will be the primary defense against a shortage of skilled workers.

Although the whole of Asia Pacific is ageing, it is developed Asia (Japan, South Korea, Australia, Hong Kong, Singapore) that will most immediately experience workforce shortages, unless these economies can become more flexible in keeping their productive older workers in employment. Conversely India, Indonesia, Malaysia and the Philippines will have a demographic advantage over other countries in the region. We expect that offshoring will continue to gain momentum, with the focus shifting from seeking cost savings towards finding talent that is just not available at home.



Whether the relative demographic advantage of developing Asia can be turned into economic advantage is not certain. Significant investment in education will be needed to increase the proportion of the workforce that can be integrated into the global economy.

The Ageing Workforce™ study indicated a degree of pessimism that this can be achieved. For example, in the Philippines most employers believe that population growth is the most significant demographic issue facing their nation; implying that the Philippines' growing population will be a fiscal strain rather than a source of competitive advantage.



## Working longer

Keeping employees in their 60s, 70s and upwards in the workforce may prove to be easier than it appears today. Most of us would like to retire early, but are we sure we can afford to do so? Life expectancy in most of Asia Pacific is already well into the 80s and continues to increase. Medical opinion is divided on the natural limit to human life (some scientists claim it could be as high as 140) but there is consensus that increasing numbers of us will live to be 100 or more. We are going to have to start thinking differently about the way that we plan our lives – accumulating sufficient assets by age 60 to enjoy a comfortable retirement for another 40 years will be very challenging. Smaller families and changing social trends mean that a generation that has supported its own elderly parents may not be able to rely on the financial support of the following generation. The only alternative will be to work longer, interspersed with periods of mid-life education and retraining to maintain employability.

As employees grow older, the implications of living and working longer come into sharper focus. The Ageing Workforce™ study shows very clearly that employers believe retirement benefits will become more important in future. Salaries and other cash compensation will clearly remain very important in attracting the workers of the future just as they do today. But the Ageing Workforce™ study infers that in future the balance between cash and benefits will shift somewhat in Asia Pacific. We already see this in the US, for example, retired workers seeking second careers because of the need to maintain medical insurance coverage.

### Retirement benefits matter more to an ageing workforce

Percentage who believe employees' appreciation of retirement benefits will increase

Asia Pacific	66%
Australia	67%
China	84%
Hong Kong	59%
India	65%
Indonesia	81%
Malaysia	58%
Philippines	77%
Singapore	40%
South Korea	65%
Taiwan	74%
Thailand	56%

Source: Watson Wyatt Worldwide

The first signs of this trend are emerging in respect of executive benefits. In many Asian countries, the cash compensation of senior management has reached global levels but benefits, especially retirement benefits, have not. In much of Asia Pacific, top management talent is in short supply. Since executives are generally older than the workforces they manage, employers that have experienced high turnover at senior levels are looking at the potential for designing retirement benefits that put more accumulated savings at risk so that leaders have more reason to think twice before leaving the company.

## Employers will have to pay more

The Ageing Workforce™ study found that, right across Asia Pacific, employers believe that healthcare is the benefit to which their employees currently attach the greatest importance.

### Which benefits do your employees value most?

Average across all countries

Supplementary healthcare benefits	53%
Supplementary retirement benefits	50%
Financial protection benefits (life/disability insurance, etc)	30%
Post-retirement healthcare benefits	29%
Longer annual leave	23%
Benefits for immediate consumption (such as health club membership, cars)	18%

Source: Watson Wyatt Worldwide

However employers are highly pessimistic about the sustainability of existing publicly financed healthcare systems. It seems unlikely that their employees are going to accept reductions in healthcare benefits and so employers will ultimately have to pick up the bill if they are to retain the workers they need.

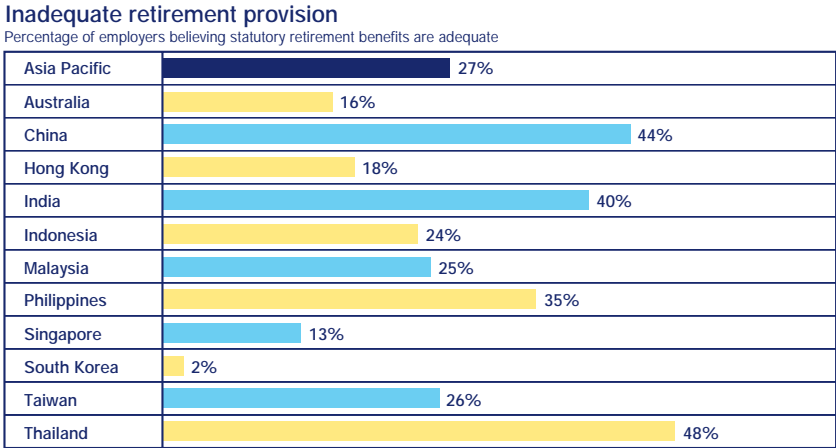
### Unsustainable healthcare benefits?

Percentage of respondents who believe existing statutory healthcare system is unsustainable

Asia Pacific	50%
Australia	61%
China	45%
Hong Kong	58%
India	64%
Indonesia	54%
Malaysia	62%
Philippines	60%
Singapore	34%
South Korea	23%
Taiwan	63%
Thailand	50%

Source: Watson Wyatt Worldwide

The increasing cost of publicly financed retirement benefits is of some concern in Australia, China, Japan and South Korea, although none of these countries has a problem on the scale of many European countries. The bigger issue is that benefits from social security systems (for example China’s social insurance system) and mandatory employer benefits (such as Singapore’s CPF and Hong Kong’s MPF) will not provide the retirement security that people are expecting. The Ageing Workforce™ study shows a very high level of realism from employers: statutory benefits alone will not provide an adequate retirement income for their employees.



Source: Watson Wyatt Worldwide

Recent years have seen a wave of legislation across Asia Pacific starting to address the need for higher retirement savings:

**Australia:** Superannuation Guarantee requires employers to contribute to retirement funds.

**Hong Kong:** Mandatory Provident Fund introduced in 2000.

**China:** Enterprise Annuity legislation of 2004 encourages employers to provide pensions that supplement social security benefits.

**South Korea:** Employee Retirement Benefit Security Act of 2005 allows employers to provide a pension plan on a tax advantaged basis.

**Taiwan:** The Labor Pension Act introduced a mandatory defined contribution plan in 2005.

**Thailand:** A mandatory provident fund is proposed for 2008.



The message is loud and clear: Governments across Asia Pacific believe that additional retirement provision is necessary but employers will have to pay most of the additional cost.

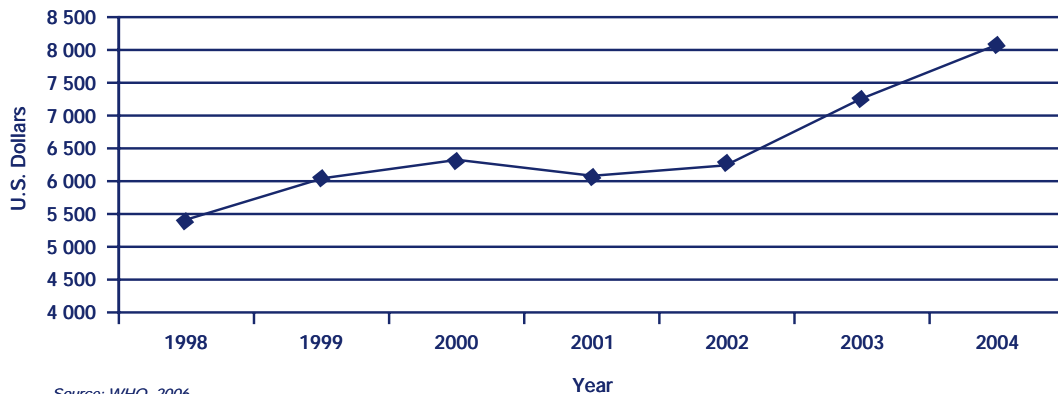
## The rising cost of healthcare

Employers in the US spend a staggering US\$ 500 billion each year on healthcare benefits and insurance premiums. Costs in Asia Pacific are currently more manageable due to public healthcare systems, lower treatment costs and, in some countries, lower expectations of the level of treatment that employers are expected to cover.

However employer healthcare costs in Asia Pacific are growing well in excess of consumer price inflation (15% year-on-year increases on average across the region since 2002). In Asia's developing countries, the distribution of deaths is shifting rapidly from communicable diseases, such as malaria, to non-communicable diseases, such as heart disease and cancer. The latest drugs and new technologies are being introduced globally, not only in the US. The OECD projects that the proportion of GDP represented by healthcare spending will nearly double in the world's developed nations from 6.7% of GDP today to 12.8% by 2050. Public healthcare systems will not be able to finance such increases and so it seems inescapable that healthcare will become a major element of total employment cost in Asia Pacific in future, as it is in the US now.

### Rising healthcare costs in Asia Pacific

Total healthcare expenditure per capita



Source: WHO, 2006

## Supplementary retirement and healthcare trends

The Ageing Workforce™ study shows that most employers in Asia Pacific already provide benefits over and above public healthcare provision (the main exceptions being Australia and Japan which have comprehensive and high quality publicly financed systems).

### Supplemental healthcare

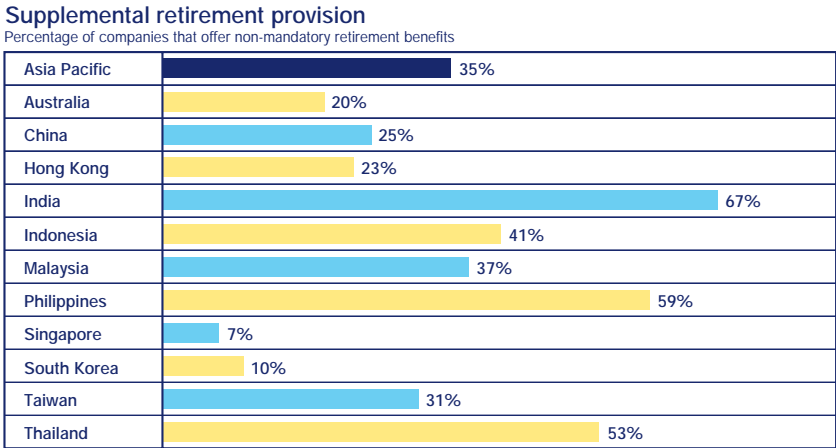
Percentage of companies that offer supplementary healthcare benefits

Asia Pacific	64%
Australia	12%
China	44%
Hong Kong	75%
India	81%
Indonesia	76%
Malaysia	66%
Philippines	82%
Singapore	63%
South Korea	64%
Taiwan	75%
Thailand	66%

Source: Watson Wyatt Worldwide

A highly significant proportion, 40%, of companies are reviewing a proposal to introduce or improve supplementary healthcare benefits. However, concern about escalating costs is also evident, with 30% of employers intending to introduce a program to actively manage healthcare costs (in particular reducing insurance claims with the aim of cutting future premiums) over the next 2 years.

Provision of retirement benefits over and above mandatory levels is less prevalent with only 35% of employers across the region currently doing so. However 23% of employers are actively reviewing their retirement provision.



Source: Watson Wyatt Worldwide

## Ageing and the corporate bottom line

As Asia Pacific grows older, the need for expanding retirement and healthcare provision will become all too evident. The Ageing Workforce™ study shows that employers are highly aware of this and the cost pressures that it will bring. Employers do not generally believe they have a moral obligation to assume full responsibility for their employees: across Asia Pacific only 35% of employers believe they have such an obligation (ranging from only 5% in Singapore to 56% in India and the Philippines). Their primary concern has to be the impact of an ageing workforce on the bottom line – what will motivate older workers most effectively?

Watson Wyatt’s principal conclusion from the Ageing Workforce™ study is that the driver for increasing employer retirement and healthcare provision will be the changing priorities of their employees. Most people in Asia Pacific have insufficient retirement savings and everyone wants the best healthcare that money can buy for their families. As we get older, our focus on these financial realities gets sharper. Watson Wyatt’s research in the US shows that providing benefits that address employees’ fears of under providing for themselves and their families has a measurable impact on reducing attrition. So in an ageing workforce, that’s going to be an increasingly important business advantage to have.

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Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 6,000 associates in 30 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

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The Asia-Pacific Research and Innovation Centre (ARIC) is a dedicated centre set up to serve as Asia-Pacific's focal point for human capital, benefits, investment and financial services research.

Complementing prominent research efforts by other research centres in the USA, Canada and UK, ARIC is committed to supporting research-based consultancy by Watson Wyatt Worldwide through assisting companies create value in their own organisations.

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