

Comparison of Psychosocial Factors Affecting the Demands for Pension Plans Between American and Chinese Residents

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Abstract

Pension becomes more and more important as people are living longer and pursuing higher living quality after retirement. This paper is to analyze the psychosocial factors that affect people's pension demands in the US as well as in China. As two representative countries that have different pension systems, cultures, value systems, family structures, and age compositions, we identify the commonalities and differences involving in people's pension decisions with a phenomenological qualitative method. American and Chinese residents' experiences in pension selection and management are studied through in-depth interviews. While the existing studies focus on the macrostructure of a country's pension system, we contribute to the literature by recognizing the micro influential factors at the individual level. Our analysis provides constructive suggestions and valuable implications to the policymakers who aim to amend an existing pension system, construct a new pension system, or carry out a pension reform.

Keywords: Psychosocial factor; Phenomenological method; In-depth interview; Pension demand; Pension reform

JEL classification: D6, D7, G2, I3, Z1.

1. Introduction

Pension becomes more and more important as people are living longer and pursuing higher living quality after retirement. The selection and management of pension plans is not only a personal decision affected by various psychological factors, but also a social activity influenced by the human society and social structure. In this study, we analyze the psychosocial factors that comprise both influential aspects. We target the comparison of the two types of pension systems - the commercialized pension system in the United States and the government-oriented pension system in China, to identify the psychosocial factors and study how these factors affect people's pension demands.

Over the last two decades, longevity and population aging have been recognized as worldwide problems. On the one hand, life expectancy made huge gains. As reported by the World Bank, the average life expectancies in the United States and China are now approaching 79 and 76 years of age, respectively. The youngest members of industrialized countries can look forward to living even longer. On the other hand, population aging¹ becomes more and more serious. In both industrialized and emerging countries, in North America and Europe, the percentage of the population aged 60 or older has experienced double-digit growth in the past 25 years.

¹ Population ageing refers to an increasing median age in the population of a region.

In Asia, this cohort has experienced triple-digit growth over the same time frame. Longevity risk² has been recognized as a major threat to pension funds as well as to pensioners.

People living under different pension systems have different pension choices as well as challenges. Pension plans in the United States are generally managed by state governments, employers, or pension companies. As a typical western country, the US has a relatively mature and commercialized pension system. Pensioners have the autonomy to manage their pension funds. Although over the last 10-15 years, the US pension system encountered many new challenges such as the pension crisis, the shift from DB plans to DC plans, pension de-risking strategies, etc., the whole system has been proved to be effective and kept relatively stable.

By contrast, the pension system in China is quite different. Due to bureaucracy issues, all the pension funds are managed by the central or local governments. Chinese residents are not involved in pension investment decisions. The pension payments are not directly connected to the pension funds' investment performance; instead, the payments are decided by the government. The government assumes the contributions from the current workforce to be sufficient to financially support the current retirees, while the current workforce can be fully sponsored by the future workforce when they retire. However, after 40-year of "one-child policy", the shrinking workforce in China are not enough to support the ever-growing retired population, the baby-boom generations born in the 40s and 50s of the last century. As the pension crisis in China becomes more and more serious, the inflexible pension investment system further deteriorates the pension deficit hole. On the one hand, the government pension funds are not efficiently invested due to the unprofessional management; on the other hand, the regulatory rules normally restrict the proportion of funds that can be invested in those high-risk & high-return financial assets. Most of the pension funds are invested in the low-return government bonds. In addition, the financial markets in China, especially the bonds and derivative markets, have not been fully developed. All these factors attribute to the disastrous pension crisis in China, which must be considered when we analyze the psychosocial factors affecting Chinese retirees.

Furthermore, people living in different cultures typically have different investment, saving, and consumption habits. The tax treatments to incomes may also affect people's pension selection and the ways to manage the pension plans. The family structure, kids' responsibilities to parents, retirement ages, and living styles after retirement all influence the pension decision. Besides the country-related and culture-related factors, the cohort-related psychosocial factors, such as people's age, level of education, income level, gender, and personal experiences may also affect pension demands. All these psychosocial factors will be analyzed in the paper.

We study the American and Chinese residents' experiences in pension selection and management with a phenomenological qualitative method. Seven broad themes are emerged from the data as the common psychosocial factors that affect the residents living in both countries: policies, income level, view of life, personal experience, structure of living expenses after retirement, self-supporting retirement life, and feel of unfairness. The pension system, investment channels and saving habits, and family structure are recognized as the themes of differences. While the existing studies focus on the macrostructure of a country's pension system, we contribute to the literature by recognizing the micro influential factors at the individual level. As the first paper that investigates people's pension selection and management activities in America and China through a phenomenological method, we provide valuable foods of thought to the policymakers in both countries. Our analyses and discussions help to identify the critical factors people need to consider when they aim to amend an existing pension system, build a new pension system, or conduct a pension reform.

The paper is organized as follows. Section 2 describes the pension system in the United States. We explain the two major types of retirement plans, i.e., the defined benefit plans and defined contribution plans. We then list the major pension products available in the US and the features of the products. We also analyze the recent problems and threats faced by the US pension companies and how their adjustments affect the pensioners' benefits. Section 3 introduces the pension system in China. In Section 4, we describe the phenomenological method used to investigate the psychosocial factors that affect people's pension demands in the US as well as in China. Specifically, our study is based on a few interviews conducted with the American and Chinese residents. We explain the participants and the investigation procedure. Section 5 analyzes the interview results and provides in-depth discussions.

² Longevity risk is the risk that people will live longer than expected.

We first identify the common factors that influence people's pension decision in both countries. We then recognize the major differences between the two pension systems and how the differences affect people's pension selection. In Section 6, we raise constructive suggestions to those who aim to improve the current pension system or carry out a pension reform. The last Section concludes the paper.

2. Pension System in US

2.1. Social Security System

The US Social Security stands for the federal Old-Age, Survivors, and Disability Insurance (OASDI) program. The original Social Security Act was signed into law by President Franklin Roosevelt in 1935. The Social Security is more than a retirement program. The current amended version of the Act clarifies several social welfare and social insurance programs that provides eligible members with retirement benefits, disable benefits, and death benefits for the surviving spouse.

In order to be eligible for Social Security retirement benefits, people need to earn a total of 40 "credits" over the course of their working lifetime. No benefits can be paid if you do not have enough credits but no one can earn more than 40 credits. A person can earn a maximum of 4 credits per year with every \$1,130 counting as a credit. So for a high-income person, he/she needs at least 10 years to accumulate 40 credits to qualify for the Social Security benefits.

US employees are required to pay Social Security and Medicare taxes in most cases. If you are working for a company, you need to contribute 6.2% while your employer contributes the other 6.2% Social Security taxes. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total. Self-employed individuals must pay 12.4% of their incomes as Social Security taxes and 2.9% for Medicare taxes.

The United States Social Security Administration set different full benefit retirement age based on the following rule:

For those who were born in 1937 or before, the retirement age is 65;

For those who were born in 1943-1954, the retirement age is 66;

For those who were born in 1960 or later, the retirement age is 67.

The early retirement benefits are first available at age 62, with a permanent reduction to 75% of the full benefit amount. To encourage delayed retirement, the US government provide the so-called delayed retirement credits. A person who retires after 70 can receive 132% of the full benefit amount. Per the statistics of the US Department of Labor in 2013, 24% of the US males and 15% of US females older than 65 are still working.

The US progressive retirement policy was initially established in 1983. The policy relieved the pressure of the US government from the lack of social security funds in the 1970s. However, since 2010, Social Security has been running cash deficits -- meaning that the total tax revenue it brings in from the payroll tax and income taxation of benefits has fallen short of benefit payments. This is the reason why the United States also has a debate on whether to "raise the retirement age". The estimate shows if the retirement age is delayed to 68, the Social Security's funding gap will decrease by 18%; if the retirement age is delayed to 70, the Social Security's funding gap will decrease by 40%.

Besides Social Security, the United States also have public pension, which will be discussed in Section 2.2. However, many small companies in US do not provide public pension. In US, only 51 million out of the 156 million workers choose to contribute to the 401(k) or similar pension plans.

As Stated by the New York Times, "currently, 36% of retirees rely on Social Security for 90% or more of their income; over all, 65% of retirees rely on it for more than half of their income." Low-income retirees typically are highly-dependent on Social Security, while middle- and upper-income Americans tend to be less depend on Social Security.

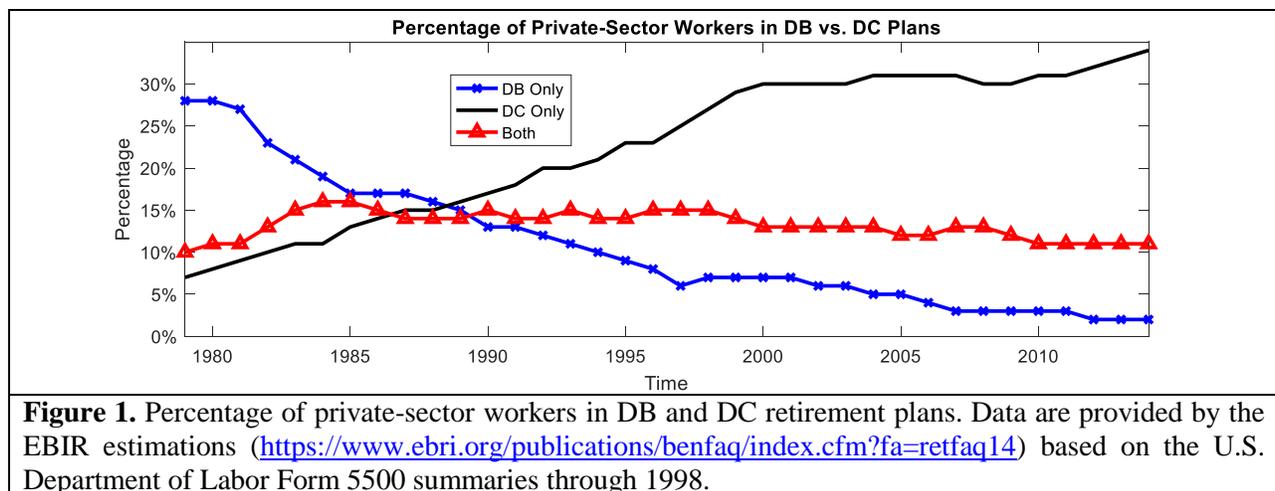
2.2. DB vs DC Pension Plans

US public pension are classified as either defined benefit plans or defined contribution plans, depending on how benefits are determined. In a defined benefit plan, benefits are calculated using a fixed formula that typically factors in final pay and service with an employer, and payments are made from a trust fund specifically dedicated to the plan. Separate accounts for each participant do not exist.

By contrast, in a defined contribution plan, each participant has an account, and the benefit for the participant is dependent upon both the amount of money contributed into the account and the investment performance of the funds. Some types of retirement plans, such as cash balance plans, combine features of both defined benefit and defined contribution schemes.

The 401(k) plan, is a typical defined-contribution plan. In a 401(k) plan, the company does not provide any guaranteed retirement benefits, but rather an opportunity to save on a pretax basis. The employer may or may not make a contribution. Upon retirement, the employee has a lump-sum amount that is dependent on the amount of contributions and the returns on the investment that the employee has made for the contributions.

In a defined-contribution plan, pensioners take all the investment and longevity risks. By contrast, these risks in a defined-contribution plan are taken by the plan providers. The providers typically are also sponsor, service provider, fiduciary agent, and recipient of pension fund investments. With many DB pension providers feeling the burden of the existing DB plans too heavy, the retirement benefit plans in the United States are undergoing a tumultuous change to transfer from DB plans to DC plans or hybrid plans. Till 2013, only 17% companies have persisted with the defined benefit pension plans. Most of them however, restrict this facility only to existing employees up to a particular cutoff date while offer the new hires only DC plans.



2.3. Individual Retirement Account (IRA)

Unlike 401(k) plans that are provided by employers, most Individual Retirement Accounts (IRAs) are opened by the employees, self-employed individuals, or small business owners. As a savings account with big tax breaks, an IRA helps to sock away cash for retirement and serves as a “basket” to keep stocks, bonds, mutual funds and other assets.

There are a few different types of IRAs, including traditional IRAs, Roth IRAs, SEP IRAs, and SIMPLE IRAs. Similar as a DC plan, a traditional IRA is funded by a pre-tax salary reduction. It offers you the benefit of tax-deferred growth, meaning you won't pay taxes on your account until you begin making withdrawals. Roth IRA, on the other hand, is funded by after-tax contribution. So withdrawals from a Roth IRA are always tax-free. In both traditional and Roth IRAs, the interests earned in the accounts are tax free. A SIMPLE IRA is provided by an employer. While a Simplified Employee Pension Individual Retirement Account, or SEP IRA, is a variation of the IRA adopted by business owners to provide retirement benefits for the business owners and their employees.

3. Pension System in China

3.1 Current Pension System

The current social protection system in China consists three pillars: the pension system, the medical care system, and the social assistance system. China's pension system has been experiencing structural reforms in the last three decades. In the 1980s, China's pension system was an urban- and enterprise-based, Pay-as-You-Go (PAYG) system. The system was part of the “iron rice bowl”, an all-encompassing social security system for employees of state-owned enterprises (SOEs). In the 1990s, the pension system restructured the SOEs and detached the lifelong connections between workers and the work unit.

Based on the State Council Document 33 of 1991, the pension system established three layers: a basic benefit, a supplementary benefit, and a benefit based on individual savings. The current system consists three tiers – two tiers for government employees (in government-owned institutions and public institutions) and one tier for non-governmental residents (rural residents and non-salaried urban residents).

The two tiers of government employees are covered by the Urban Worker Basic Pension program (UWBP). Established in 1997, the UWBP program is funded jointly by individuals and enterprises. The current policy requires the employer contributes 20% (kept in the social pooling account) and the individual contributes 8% (kept in an individual account) of the total payroll bill. When the employees retire, their monthly payment consists 20% of the average wages of all workers in the previous year from the social pooling account and 1/120 of the total saving in the individual account.

Before 2012, the non-salaried urban residents were covered by the Urban Residents Pension Program (URPP), while the rural residents were covered by the New Rural Pension Program (NRPP). Due to the similarity of these two population groups and the similarity of the two pension programs, the two programs were merged into one program since 2012 and the rural and non-salaried urban residents were considered as one tier in the pension system. The merged program mainly consists of two parts: individual contributions and subsidies from the government. According to the current policy, the annual contribution is set at multiple levels and participants can choose a level based on their personal willingness. The government subsidizes only those who are 60 or older. The subsidies vary across regions and provinces.

3.2 Challenges to the Pension System

As pointed by Cai and Cheng (2014), “China’s current segmented pension system features regional imbalance, fiscal inefficiency, social inequality and economic unsustainability”. China’s rapid economic growth and 3-decade of “one-child policy” have gradually changed the family structure and demographic distribution. One of the greatest challenges is the fast population ageing. To establish an integrated and sustainable pension system is urgent and socially essential. In the section, we will discuss the major challenges to the China’s pension system.

In 1979, China implemented the “one-child policy” in order to control the booming population. Although the policy was formally phased out in 2015, it leads to a serious problem – the country has too few children to support the rapidly aging population. As of the end of 2015, China had 222 million people aged 60 years or older, accounting for 16.1% of its total population. On the other hand, China’s fertility dropped from a level of six children per women to below replacement in just two decades due to the “one-child policy” inertia and the socioeconomic development. The dramatic fertility decline and improved longevity jointly attribute to the China’s ageing tsunami. As the fertility and mortality in China are expected to continue their current trends in the next a few decades, the aging problem in China will continue to be a serious social problem in the foreseeable future.

Another challenge to the China’s pension system is the change of family structure. Jordan (2017) points out that “family hierarchy was very emphatically symbolized in the concept of ‘Xiao’³, which is usually translated filial piety, but is more accurately rendered filial subordination” - a philosophical tradition of Confucianism. To be “Xiao”, children are responsible to take care of their parents for a lifetime. Therefore, traditionally people in China relied on family to provide care for the elderly. Due to the China’s rapid economic development over the last three decades, the Socialist economy has become more influential than Confucian traditions on people’s beliefs, values, and attitudes. On the other hand, the “one-child policy” contributes to the current four-Grandparents-two-Parents-one-Child family structure. Moving away from the traditional family care towards social security is the natural result of social transformation. This does not mean people need to “desalinate” the family ties, instead, it advocates a more sustainable system for old-age support.

The third challenge is the inequality among socialist hierarchies. The China’s pension system favor those inside the government more than those outside the government, and favors urban residents more than rural residents. It is urgent for the China’s pension system to integrate various resources to fairly cover as many sub-populations as possible.

³ Xiao, also called filial piety, is a virtue of respect for one’s parents, elders, and ancestors.

4. Methodology

4.1 Purpose of Study

Given the limitations in prior studies, we target the following goals in this paper: (1) to gain a better understanding of participants' pension plans and the processes of pension planning; (2) to recognize the major psychosocial factors affecting the demands for pension plans; and (3) to identify the similarities and differences of these factors between American and Chinese residents.

This paper employs the traditional phenomenological method through phenomenological inquiry. As pointed by Creswell (2012), "phenomenological study is a method of gaining the 'universal essence' from the individual experiences". Specifically, we investigate people's experiences in pension selection and management and how they interpret their experiences. We then recognize the major psychosocial factors and identify the similarities and differences of these factors between the residents living in two different cultures.

4.2 Questions in Phenomenological Inquiry

We include the following primary questions⁴ in our phenomenological inquiry:

- (1) What is your current working status?
- (2) Could you share with me your past major working experiences?
- (3) What kinds of pension plan do you have?
- (4) How do you conceptualize the demands for pension?
- (5) How do you think and feel about your current pension plan?
- (6) What psychosocial factors do you think that influence your demand for pension plan?
- (7) How do the factors affect your pension decision?
- (8) What are the major positive and negative influences?

Based on the above primary questions, further exploration on the participants' demands for pension is promoted by a subset of follow-up questions. With gradually deepened questions, participants are encouraged to elaborate how their pension demands influence their lives.

Interview questions vary for different working statuses: non-retired participants and retired participants. For those who are working, we ask how they plan for their retired lives and what preparation they make to guarantee such a retired life. For those who have retired, we ask them to evaluate their current retirement plan.

4.3 Participants

Interviewees. Four American and two Chinese conducted the interviews in this research. Among them, there are four men and two women. Their ages range from 39 to 77 years old with the mean age of 60.3 years. Three of them are non-retired and the other three are retired residents. Five of them are married with one or two children. One participant is divorced but still keeps a close relationship with her child. Three of them have grandchildren. The gender, age, educational level, working years, marital status, and income levels are not used as criteria for sampling.

Interviewer. The first author, a 39-year-old Chinese female with a master degree in psychology, is a psychologist at a university in China. She currently is a visiting scholar at a university in the US. She excels in qualitative research. The second author, a 41-year-old Chinese female with a Ph.D. degree in Risk Management and Insurance, is an associate professor of Finance at a university in the US. She has studied the pension risk management for about 10 years with more than ten publications in this field.

4.4 Procedures for Data Collection

IRB approval. The researchers gained the approval from the Institution Review Board (IRB) for Research with Human Subjects. Both the informed consent form and email scripts were initiated in English and then translated into Chinese.

Recruitment of interviewees. The researchers used purposeful sampling in this research with the following criteria: (a) participants are American or Chinese residents in urban areas; (b) participants are available and willing to participate in a 30-to-60-minute audio-recorded interview; (c) those who have dual relationship with the investigators are excluded.

⁴ The interview questions were first initiated in English and then translated into Chinese.

Potential participants were introduced by friends. The researchers sent the informed consent form to the American individuals in English and the Chinese individuals in Chinese who met the above criteria and had interests in participating. Those who agreed to participate in the research then contacted the researchers to set up the interview times and the locations. A suitable sample size for a typical phenomenal study ranges from two to ten (Munhall, 2010; Creswell, 2012). In our study, we interviewed six people.

Interviews. For the Chinese participants, they chose a quiet room without interference and were interviewed in Chinese via QQ or WeChat (a Chinese software like Skype). For the American participants, they were interviewed in English in a private room without interferences where they choose. All the interviews lasted from 40 minutes to 60 minutes. All interviews were audio recorded with agreement.

Transcription. The interviews with American participants were transcribed verbatim in English and those with Chinese participants were transcribed verbatim in Chinese. All interviews were with remarks of nonverbal clues. Each interviewee was assigned a number instead of name. All information that may identify the interviewee was left out of the transcripts. All transcripts were saved and protected with passwords.

4.5 Procedures for Data Analysis

We used a modified phenomenological approach from Colaizzi (1978), Moustakas (1994), and Creswell (2012) to analyze the data collected from the interviews. Specifically, first the researchers read all transcripts several times to form a general understanding about the interviewees' lives and experiences. Then the researchers identified the significant statements of the psychosocial factors affecting the demands for pension plans from each transcript. Third, interpretive meanings and broader units were developed from the significant statements and the researchers rechecked these meanings by comparing the research protocols and the original statements. Fourth, the common themes were emerged based on the clustered meanings. Fifth, an in-depth and exhaustive description of what psychosocial factors were related to pension plans and how these factors affected the participants was integrated in the form of a concise statement. In the final stage, the reduced statements of exhaustive description were presented to the participants to verify the results and the new relevant data were added to the final description.

5. Result Interpretation

This research focuses on the comparison of psychosocial factors affecting the demands for pension plans between the American and Chinese residents. It requires to arrange the clusters from two parts: the common psychosocial factors and the distinct psychosocial factors. Below we illustrate how the six themes on the common factors and three themes on the distinct factors are emerged from the clustered meanings.

5.1 Common Psychosocial Factors

Theme 1 - Policies

No matter which country people are living in, the pension policies always have the greatest impact on people's decision on when to retire and what pension plan to choose. Here are a few cases from these countries to illustrate how a specific policy affect people's retirement and pension decision.

i. An American participant retired when he was 55 years old (after 29-year of working) because his company promised to pay the old employees one-year full-time salary if they quite their work a year earlier. As he stated, "Company X has a policy that an employee who has worked for more than 30 years can retire earlier. I quitted my job in Company X and worked for Company Y for three years. I enjoyed one-year double salary in the first year after I left Company X - collecting my full salary from Company X while at the same time receiving the full salary from Company Y."

ii. A Chinese participant chose to buy basic social pension himself to the highest ratio because, as a veteran, he could choose better type of pension and could gain 100% matching from the government. He noted, "As veterans, after we are 50 years old, the nation can offer half of what we paid. If you pay ¥10,000 during the employment, the nation will match ¥5,000 after you retire. I studied it and knew all my contributions would be returned in the end. So, I decided to pay 100% this year."

iii. Another Chinese participant never considers any pension plan because according to a certain policy, the government pays his pension. As he stated, "As working for a public sector, all our pension benefits are guaranteed by the government and we never bought pension insurance. But since October 2015, the government started to integrate the two pension systems, so (the employees of) the public sectors had to buy pension insurance from then on."

iv. The value of Chinese pensions is subject to devaluation due to the high inflation, while the pensions in the US are majorly immune to the inflation risk as American government has provided cost-of-living adjustments (i.e., the pensions were linked up with the price index) since 1975 (Dong, 2015).

Theme 2 - Income Level

For both countries, income level is another major factor affecting the demands for pension plans. Consistent with the study of Mathew Greenwald (2004), household income influences retirement plan preferences, and the understanding and interpretation of retirement programs. But the influences of income are different in these two countries. Some low-income Americans have to keep working to secure their lives after retirement. One American interviewee chooses to have five jobs and she would continue working if her physical status allows because she needs to save enough to pay the bills after retirement. She explained, “So I feel I am not ready to retire as I have not saved enough to secure my life after retirement. After my retirement, although I can get a few thousand dollars per month from social security, I need to pay the rents, the phone expenses, and all kinds of insurance including health insurance, car insurance, life insurance, etc.”

In China, if employers don't buy pensions for their employees, some high-income employees can still afford social pension themselves. One participant noted, “Then I am working outside and the income is enough to support me to pay the pension insurance. Except the pension policies, income is another factor. In this company, even though I have to purchase social insurance myself, at least I have a job to guarantee a stable income. Some of my friends indeed want to purchase social pension themselves, but they cannot afford it.”

On the other hand, some low-income employees cannot do extra investment even if their employers buy the basic pensions for them. One participant described, “For those who work for commercial enterprises, since their low income cannot afford pension insurance, their retirement income would be less than half of ours even though we earned the same level of salary while working.”

The same situation exists in the US. One American noted, “We don't have IRA. We've talked about it but we've never done it. It will be our topmost stage. IRA is a good retirement investment, but we do not have extra money to invest in it.”

Theme 3 - View of Life

The view of life is another psychosocial factor that influences people's pension decision. The view of life affects people's living status, consumption habit, and the corresponding financial situation. One of the American interviewees considers saving is important so she doesn't owe any debts. She stated, “OK so, if your job doesn't cover all your expenses, you find an additional job. Well, some people choose to do so while some doesn't. They just let it go. But I don't. I pay my bills. If I don't make enough money, what do I deal with it? Then I work some more. There's hundreds of thousands of jobs out there. You can get one more from them. You can't peek and say 'you don't pay me enough.' Some money is better than no money in my view.”

People who lead frugal lives typically have extra money on savings and investment, which increases the sources of their retirement income. On the contrary, those who believe in consumerism culture may only have the basic pension even they have comparable higher incomes. One American participant said, “If we think it is too expensive we will not do it because we are very frugal people. We are always frugal people but at the end of every quarter, the money in the account has gone up.” But another American interviewee has an opposite view of life. “You know, I should be, realistically investing more in retirement. There's ever a nicer vehicle, or a nicer house. But, I live for now for the most part. Now is the future.”

Similar situation happens on the Chinese participants. “As our old generation, we lead arduous lives. Our cost structure is very simple so we never worry about money. We would never go to expensive restaurants or buy luxury goods, so we feel our salary is enough. Our view of life is quite different from the youth. My apprentice can earn more than ¥10,000 per month and consume most of it. He always empties his pocket every month so he is always complaining that he has no money left.”

Theme 4 - Personal Experience

Personal experience is recognized as the fourth psychosocial factor in our study. The participants always shared their personal experiences when they explained why they chose their current pension plans. An American participant explained why she worked so hard to buy life insurance and save for her children.

“You know, I raised my kids by myself. I divorced at young age. So, it’s harder. I worked a lot and now I am still working a lot, but now I take more time with my kids because I didn’t do so when I was younger.” “I want them to know how hardworking I am. Then, I want my grandkids don’t have to feel the financial pressure that I experienced. They need to be kids first. I really believe they will grow better if they are the kids first.”

A Chinese interviewee explained the reason why he invested in a shop. “I thought about retirement then. I didn’t have a stable job before I was laid-off. Then I saw this shop. I thought it could be a profitable investment. In addition, the shop can financially support my basic life even I cannot find a new job.”

Theme 5 - Structure of Living Expenses after Retirement

The participants from both countries living in urban areas have similar structure of living expenses after retirement, including daily expenses (food, clothes, electricity, communication costs, etc.), traveling expenses, medical expenses, and the costs of nursing home. The costs of housing and education for offspring are typically paid off before their retirement.

An American interviewee explained the reason why he and his wife could save money when they were living aboard. “The major expenses were covered by our mission group, even they didn’t pay us directly. We didn’t own a car. Our group had cars and we could borrow one. We didn’t have to pay for housing. We just need to pay for food, gasoline, house heating, etc.”

A Chinese participant stated, “For our generation, you don’t have to spend most of your money on housing. The expenses for food and clothing are relatively low. The single largest expense for the people around me is traveling aboard.”

Daily expenses are the smallest part, while medical expenses and costs of nursing home count on the biggest portion of the retirement costs. For some people, the major part of the hospitalized costs can be covered by medical insurance, but for some others who do not buy sufficient medical insurance, medical costs can be a big part of their retirement costs. An American interviewee stated, “Medicare will pay the medical expenses but not the costs of nursing home.” A Chinese counterpart noted, “As for the medical cost, if you are hospitalized, most of the cost can be covered by insurance. It would not be a problem as long as you are in the medical system.”

Another American woman complained about the expensive medical costs, “One of my friends needs to take one tablet medicine per day that costs \$50. I understand the research behind that, but anyway my friend still needs to pay \$50 per day. The insurance cannot cover it because the medicine is too expensive. So he has to pay for the medicine out of his own pocket. Well, most people don’t have \$50 per day to pay for the tablet. That’s ridiculous. So I am happy my insurance is better because it covers a lot but I still think it should cover more.” A Chinese interviewee expressed a similar feeling, “But the premise is that there is no serious deterioration of your health condition. You cannot be ill. You cannot have a very heavy disease. You know that although the Chinese medical insurance has been greatly improved, most people are still afraid of being sick.”

One American woman expressed her worry about nursing home. “We have a friend who is living in a nursing home that costs \$7,000 per month. This will quickly drain her budget. Therefore, high cost of nursing home is always our concern. There are quite a few very rich people with lots of money and savings end up with nothing because they stay in the nursing home.” A Chinese man described a similar plan. “We will go to nursing home one day. We have to sell all the properties: apartment, car, etc. Then it’s the time for aging.”

Theme 6 – Self-Supporting Retirement Life

All participants from both countries claimed they financially support themselves and their spouses. They do not financially rely on their adult children after retirement. None of them listed their adult children as a source of pension. Therefore, keeping healthy is their primary concern.

Shang (2014) points out that since “Xiao” was a central value in the traditional Chinese culture, adult children shouldered the responsibility of raising the old. However, such family support tradition tends to be majorly ruined due to the one-child policy. Nowadays, Chinese retirees have to rely on pensions as the American counterparts do. Our results are consistent with Cai and Du (2015). As a Chinese interviewee stated, “I am afraid that I cannot rely on my daughter. She is single. How can she support me? Her stress both inside and outside of work is very high. It is difficult to rely on her. So, I have to rely on myself. I need to try my best to keep healthy and not be ill.”

An American participant also noted, “The best is that you do not place any additional burden on your children. Actually the young generation are earning less than what we earned because the costs of living are higher. We cannot expect our children to support us after retirement. We hope we can take care of ourselves. We hope to enjoy lives as long as we can and to give the rest to our children or to the charities.”

Theme 7 - Feel of Unfairness

The middle class in both countries expressed their satisfaction with their current pension. People with low income are more likely to feel unfairness. Most unfair feelings result from social comparison. An American interviewee with annual household retirement income of \$130,000 was satisfied with his pension, “Very much so. We are fortunately.” A retired Chinese interviewee with ¥84,000 also expressed his satisfaction, “I get the highest level of pension in my company.”

The American interviewees thought the inequality was caused by the pension plan designs and contribution policies of employment sectors. An American participant thought the tax policies were unfairly designed and made it difficult for her to retire. “Everybody wants the world to be equal but it’s actually impossible to achieve perfect equality. If it is equal, none of us have to work four or five jobs. We don’t get the same amount payment.”

On the contrary, the Chinese interviewees felt the inequality was caused by the fragmental pension policies, including the differences among occupational groups, provinces, regions, between urban and rural. Their knowledge of the current Chinese pension plans is consistent with the academic studies such as Cai and Cheng (2014), West (1999), and Salditt et al. (2007). A Chinese interviewee stated, “My low satisfaction comes from the big gap of benefits offered by government and non-government organizations. The enterprise pension of a non-government entity is generally lower than that of a government organization. I’ve worked more than 40 years and I am now a senior engineer. Why do I get only ¥4,000 after retirement while the government retirees can obtain as high as ¥6,000?”

Even the Chinese participants label the Chinese pension system with the key words of inequality, uncertainty, and frequent changes, they still hold strong trust towards the Chinese government. Living in the incomplete legal environment with immature financial markets, they still trust in the government pension insurance and national bonds instead of the commercial products. They strongly hope that the nation could maintain the regime stability so their regular pension payments can be secured.

5.2 Different Psychosocial Factors

Theme 1 - The Pension System

The participants from both countries mentioned three parts when they talked about the compositions of their pension plans: social pension from the government, savings, and investments. However, there exists differences between the pension systems of the two countries.

i. The elements of pension system

The American participants listed 401(k), social security benefits, savings, IRA, investments, life insurance, rental income, self-owned revenue as the sources of their retirement income. Basic social pension insurance, savings, rental income, and investments are the sources recognized by the Chinese interviewees. The American have a broader choice.

When they were asked for the most important source of pension, the American interviewees’ first response was 401(k), while the basic social pension insurance was the instinct reply by the Chinese counterparts. An American described, “Just 401(k). That’s my retirement plan. That’s all I have. And saving account.” A Chinese interviewee responded, “In China, as you know, people seldom invest in enterprise pension. For our generation, we don’t have this concept. We typically reply on the basic pension, i.e., the guaranteed retirement salary.”

ii. The coverage of pension system

The majority of US residents are eligible for Social Security retirement benefits. While the basic social pension coverage ratio in China is much lower since the coverage ratio for the non-salaried urban residents and rural residents is much lower than that for the government employees (in government-owned institutions and public institutions).

An American woman stated, “In the United State, we’ve paid federal taxes, state taxes, and social security taxes. Social security is for our retirement.” While A Chinese noted, “As an informal private enterprise, my employer does not buy pension for me. You stay if you are willing to do so; you leave if you are really unsatisfied with the non-pension policy.”

iii. The management of pension funds

American participants can manage their 401(k) and IRA account either by themselves or by investment professionals. They are responsible for the investment gain or loss. An American interviewee described how the professional group helped him to maintain the value of his investment, “During the period of 2008 to 2011, the market was weary. Many people lost their houses. Making money was very difficult. My account did go down but I still kept most of my wealth during that period.”

Chinese residents, on the other hand, are not allowed to manage their pension accounts. They rely on the government to manage their pensions. Accordingly, it’s the government who takes the pension investment risks. A Chinese interviewee shared his experience, “The amount in my pension account cannot be predicted. I got ¥5,000 per month when I was retired in 2013 but it increases to ¥7,000 four years later. All changes are attributed to the adjustment of the policy.”

iv. The stability of pension policies

Compared with the American participants, Chinese interviewees are more likely to use the words such as “unstable”, “inconsecutive”, and “unpredictable” when describing the pension policy and pension reform. A Chinese unretired man stated, “I have no idea about how much on earth I can get after retirement (smiling) because the policy has been changing. But it propagandizes to pay me more in the future.”

v. The inequality of pension policies

In Section 5.2, we mentioned the interviewees from both countries are unsatisfied with the unequal pension policies. But the dissatisfaction from the two countries is different: the American interviewees thought the inequality was caused by the tax policies while the Chinese interviewees attributed the inequality to the pension policy itself. The US pension policy is roughly universal across the nation while the China’s pension policy varies across different workplaces and regions.

A Chinese participant noted, “In China, people in different workplaces may receive dramatically different retirement salaries even if they did the same job in the same level of position before retirement. So, various social classes have great dissatisfactions with such inequality.” The inequality is driven by the differences not only in workplace but also in region. Another Chinese interviewee stated, “The regional differences are big. The income at inland can hardly compare with that in Beijing, Shanghai, Guangzhou, Shenzhen, and some other big cities in the east coast. One of my friends who works in a coastal city once asked me, ‘why do you just get a few thousand RMB per year?’ He obtains several ten thousand RMB per year. His salary is several times higher than what I earn even if we are in the same position.”

Theme 2 - The Investment Channels and Saving Habits

Besides the Social Security and DB pension plans, American can have DC pension plans such as 401(k) and even IRA to support their retirement life. While Chinese have less options. In addition to the basic social pension, Chinese may have to rely on some non-pension investment (e.g., rental profit) to satisfy their extra needs such as traveling after retirement.

An American participant described the percentage of social security in his retirement income, “It’s about 25~30%. We pay our basic bills from our social security and 401(k). And we can use the rest of money for whatever we want.” A Chinese interviewee estimated his pension to be more than ¥4, 000 after retirement, “Pension insurance is about 40%. Based on the current price level, ¥4, 000 can only guarantee your basic life. There will be a big gap if you want to count on the basic pension for traveling or some extra things you want to do. You need to rely on some other sources. I have some savings and I also do some investments.”

In America, the participants can manage their 401(k) and IRA accounts and decide their investment. The matured investment environment helps to retain values of their property. As an American participant noted, “We don’t have much concern as long as the investment agent maintains our investment principals and earns reasonable profit periodically. We don’t have any concern. We are very satisfied.” On the other hand, Chinese financial markets are lack of reliable investment channels, let alone a trustful investment environment. A Chinese interviewee stated, “Now I only invest storefront and occasionally buy some government bonds. That’s all. I dare not touch stocks. I once lost tremendous amount of money on stocks. The small investors cannot compete with the giant investment companies in China. I’ve stopped investing in stocks for a long while.”

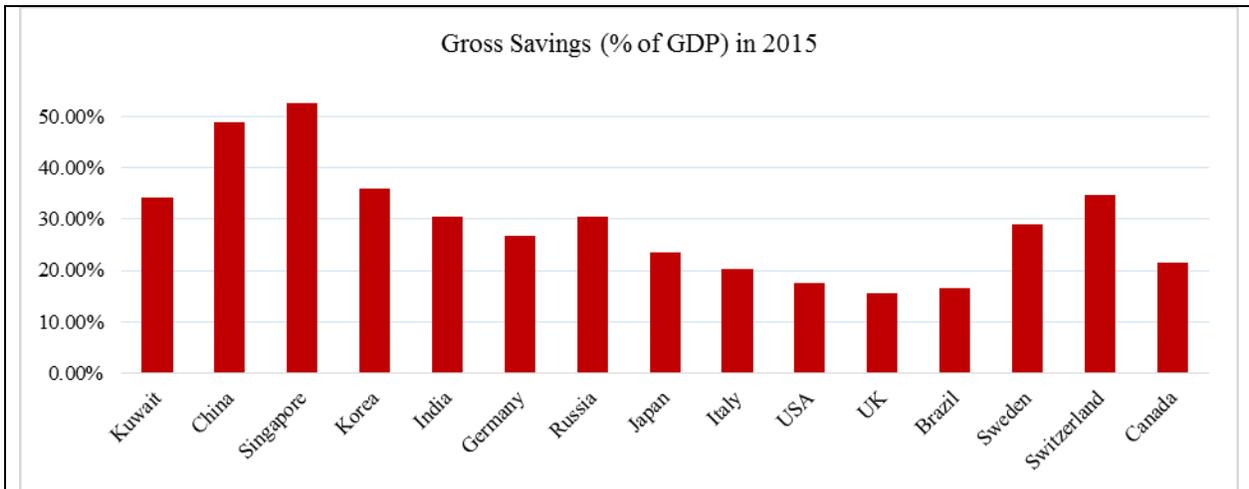


Figure 2. Gross saving as % of GDP in 2015 for the selected countries. Data are downloaded from the World Bank at <http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDS.TOTL.ZS&country=#> on August 22, 2017.

In addition, as pointed out by Shang (2014), one of the largest culture differences between China and the US is people’s saving habits. China has one of the highest national saving rates in the world. The World bank (Figure 2) reported that in 2015 the gross saving as % of GDP in China was 48.9%, while the US only saved 17.5% of its GDP. We provide a trend comparison of the saving rates between the US and China during the period of 1960 to 2015 in Figure 3. It indicates the difference of saving rates between these two countries was even larger in the last decade.

In this study, participants in China expressed they don’t trust in stocks and other risky financial investments as the source of retirement income. They once tried these investment measures but they could hardly keep the values of their properties. They dared not try commercial pension plans and believed the only trustful investment was real estate investment such as housing transaction and renting. The Chinese resident may not truly enjoy putting money on saving accounts, but they could hardly find other trustful investment alternatives. Beland and Yu (2004) draw a similar conclusion in their study. They find that a fully funded pension system can hardly be supported by an inefficient capital market backed by an immature banking system. As a result, the third pillar of the Chinese pension system, the individual saving and investment, was not operated effectively to support the Chinese pension system.

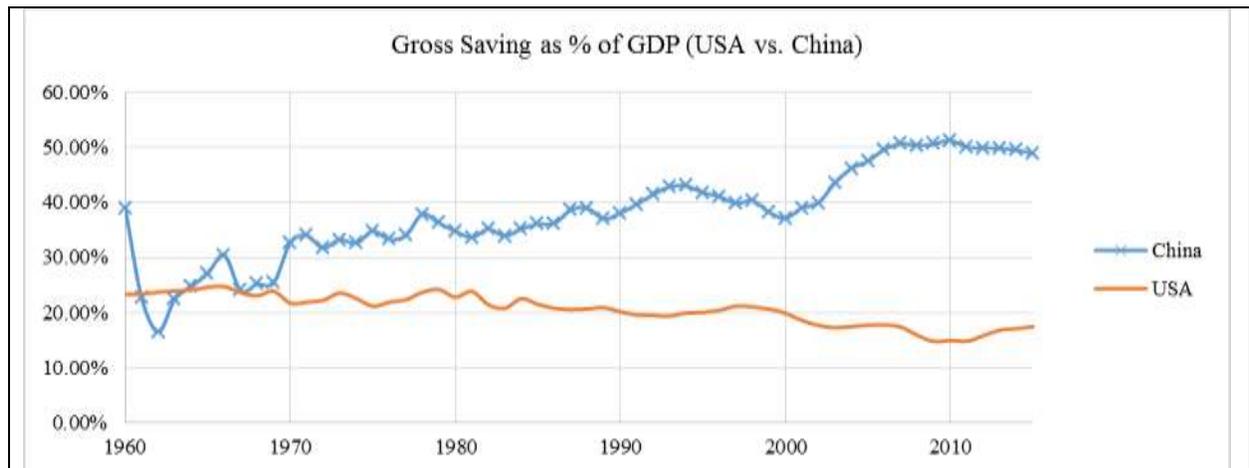


Figure 3. Gross saving as % of GDP in USA and China during the period of 1960 to 2015. Data are downloaded from the World Bank at <http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GDS.TOTL.ZS&country=#> on August 22, 2017.

Theme 3 - Family Structure

Family structure is a crucial factor that affects people's pension decision in both countries. Many American would not choose to financially support their adult children. Only one female interviewee chose to leave savings and life insurance to her children. She has been a single mother for a long time, so she doesn't want her children to lead to a difficult life as she once had. However, besides the general issues that most modern families have to face, Chinese people have a unique concern - a nationwide transformation due to the one child policy. The policy has cut down the Chinese eldership supportive tradition. One Chinese interviewee stated, "As you know, we have only one child owing to the one-child policy. So, it is highly possible that we have to count on some group aging support instead of our own child after retirement." Another Chinese participant also mentioned the change in family structure, "Some of my friends need to provide their parents with financial support because their unemployed parents get only the minimum subsistence allowance (AGI). But fortunately, these people generally have several siblings who could financially support them. While the new generations are facing more severe difficulties (besides the unemployment) because they typically are the only child in the family. They cannot rely on their siblings as there is no siblings in the family."

6. Further Discussions and Suggestions

As noted earlier, since 1991, China has been working on establishing a pension system similar to that in America: the basic old-age insurance system (BOIS), the supplemental pension plan (SPP), and the individual saving accounts. In China, BOIS provides the major retirement support. This "government-managed" system takes the leading responsibility to take care of the elderly people in China. In contrast, the dominant pension plan in American is the 401(k), which transfers the financial risk to the pensioners. Our study obtains similar results as Dong (2015), Zhang (2015), and Cai and Cheng (2014). Zhang (2015) compares the statistic scales and structures of the US and China's pension systems. She finds that 90% of the public pensions in China are operated by the central or local governments, while in the US, the private pensions run by employers account for the largest proportion followed by the IRA. Mathew Greenwald & Associates, Inc (2004) also notes that employers are the major retirement support providers in the United States. Dong (2015) points out the supplemental pension plans in China are nearly absent.

To establish an equal and stable pension system in China is essential and politically urgent. The Chinese government is working on establishing a nationwide social insurance system (including the basic pension and medical insurance) by 2020 to provide the whole population with "basic insurance, promote social equality and ensure sustainability". By recognizing the psychosocial factors affecting people's pension decision, our study provides policymakers, especially the policymakers in China, with useful foods for thought to construct a better pension system that covers more people and better serves them.

Our discussion in Section 5.1 elaborates seven common psychosocial factors that affect people's pension decision. These factors include policies, income level, view of life, personal experience, structure of living expenses after retirement, self-supporting retirement life, and feel of unfairness. Based on the interviews with the participants from both countries, we analyze how the common psychosocial factors influence people's pension selection in similar or opposite ways depending on their personalities, psychological characteristics, as well as family, peer, and other environmental factors. We first recognize the issues (satisfaction, dissatisfaction, struggle dilemma, etc.) and then figure out the factors that influences these issues. Our study highlights the critical factors valuable to both countries' policymakers in pension system amendment and pension reform.

We also recognize the distinct psychosocial factors between the US and China in Section 5.2. With different pension systems, investment channels, and family structures, the China's pension reform cannot simply copy the operation and management strategies of the US pension system. Any type of changes must align with the unique psychosocial factors owned by the system. For example, Chinese pension reform needs to focus on the developments of the supplemental pension plan and the individual saving accounts since these plans make it possible for the employees to manage their own accounts through active investment. With pensioners' involvement, the pension system will be more self-sustainable. It also helps to dramatically reduce the negative shocks to the national economics due to bureaucratic mismanagements.

Besides the psychosocial factors identified in this study through the interviews from the pensioners' perspective, both countries are facing the looming pension crisis at the institutional or country level. The American pension funding hole hit \$3.85 trillion in 2017, while China's pension funding problem is more severe and complicated.

The problem in China is jointly caused by the “government-managed” pension system, most rapidly aging population, and the insufficient pension contribution. Through an actuarial approach, Xu et al. (2017) show that to make the China’s pension system sustainable for the next 75 years, the current contribution rate should be raised “from 20% to 58% for the Pay-as-You-Go (PAYG) system, and 66% for the social security system, including the 8% contribution to the individual account plan”. However, these contribution rates clearly are infeasible. Such pension provider-oriented analysis should be considered cohesively with the pensioner-oriented study to provide a more integrative view.

7. Conclusion

This study analyzes the common and different psychosocial factors that affect the American and Chinese residents’ decision on pension plans. Different from the existing studies that focus on the macrostructure of a country’s pension system, we evaluate the influential factors of pension selection and management activities at the individual level. We compare the feelings and experiences of the residents from both countries towards pension plans through a phenomenological method based on six interviews. At the micro level, we recognize seven common psychosocial factors that influence people’s pension demands. We also identify three themes as differences: the pension system, the investment channels, and family structure. Given the American pension system is more stable and mature, we conclude these differences are attributed to the lack of the mature financial markets and the complete legal environment in China, which dramatically restricts the development of the supplemental pension plan and the individual investment.

According to Munhall (2010) and Creswell (2012), two to ten participants are the suitable sample size for the phenomenological study and the saturation is reached as there is no new theme emerged. However, six participants might not well represent the residents of these two countries. Those people who chose not to participate in the interview or drop off during the process might have different responses.

Another limitation is the participants’ description foci. We sent the informed consent to the interviewees before the interviews. We clarified the interviewees’ current pension plans during the interview in order to better understand their experiences. Such settings may unintentionally “guide” them to focus more on describing their experiences and feelings rather than explaining the fact of their pension plans.

The final limitation is about the methodology. Most studies on the psychosocial factors analysis are based on surveys. In our paper, we employ a qualitative method to explore the subjective responses of the residents to their pension plans. A mixed method that conducts both qualitative and quantitative surveys may be more effective to recognize and explain the psychosocial factors that affect the demands for pension plans. This will be the direction of our future research.

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