

Future Development of Chinese Silver Economy: Comparison with US and China’s Senior Industries

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ABSTRACT

The aging trend of China’s population seems to increase the economic burden, but it also brings great development potential for the silver economy. However, compared with other countries with mature senior industry, this sector in China is still in very early stage, which needs improvement, development, and innovation in this aspect. By comparing the similarities and differences in the development of China’s senior industry and that of the United States, this paper analyzes the opportunities and challenges of China’s silver economy from the three aspects of assisted living homes, entertainment facilities and pension finance.

Keywords: Silver Economy, aging population, nursing home, pension system

1. INTRODUCTION

Silver economy—a subset of economy which focus on products and services that are expected to improve life expectancy—has emerged in response to population aging. Due to the reversal population pyramid and rising life expectancy, China’s population is aging. According to United nations data, in 2020, China’s population of people aged over 65 accounts for 11.97% of the total population, which reached 169.0 million and it is expected to grow to 17.8% by 2030. The average annual growth rate of population aged 65 years and above is 2.37%, from 3.7% in 1960 to 11.97 in 2020^[1].

Increasing aging population increases the burden on Chinese economy to some extent, the rising old-age dependency neutralized the effects of declining child dependency, which drives Chinese dependency ratio rose from 34.2% in 2010 to 41.5% in 2019. However, according to National Bureau of Statistics of China, the average pension income per capita is approximately RMB38,000 in 2019, it is much greater than the urban inhabitant’s annual consumption expenditure, which is about RMB26,000. It is suggesting that elder people can not only cover basic living expenditure, but also have money remaining for saving and extra spending. This proves that the spending power of the elderly group is nonnegligible but the business sector that fulfills their needs is far from mature.

The daily consumption of the elderly mainly focuses on four aspects: entertainment, disease management, health maintenance and daily living costs. The main expenditure of the elderly is daily living expenses, followed by health maintenance and entertainment and social interaction. According to the White Paper on consumption Habits of China’s elderly, the average annual consumption of the elderly is 22,600 yuan, of which 15,560 yuan is daily living cost, accounting for 69% of the total consumption. The average cost of health care is 2,763 yuan, constituting over 12%, and that of entertainment is 2,585 yuan, accounting for 11% of the total. Then the average cost of disease management is 7%, which is 1665 yuan^[2].

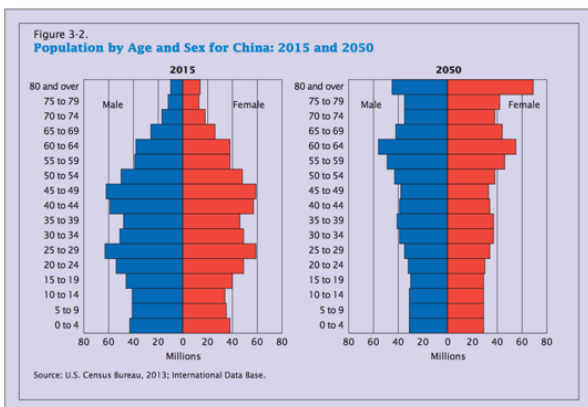


Figure 1 population by age and sex for China: 2015 and 2050.

2. OPPORTUNITIES IN THE CHINESE AGING SOCIETY

2.1. Nursing Home

In China, most of the old people are not willing to go to the nursing home. Firstly, the traditional social stereotype holds that people are happiest when they live together as a family and going to a nursing home represents being "abandoned". The elderly does not want to be seen as "dispossessed" and would rather live alone at home than in a nursing home with their peers. Besides, many news reports of elder abuse in nursing homes have contributed to fear of life in nursing homes, these special cases bring bad reputation for the whole industry.

Secondly, the decoration style of most nursing homes in China is very similar to that of hospitals. The elderly can only move around in the nursing homes and their original living habits are confined by the strictly prescribed schedule which makes their life in nursing home does not like at home but more like in a hospital. As a result, older people become more resistant to this kind of constrained life.

In addition, there is a significant shortage of caregivers working in the market. According to "the development of Chinese seniors" white paper, in accordance with the aging population and the proportion of nursing staff is equipped with 3:1, the 28.3 million senior population don't have enough. In particular, it needs dedicated caregivers of 10 million in total, while at present the national pension institution have only 220,000 employees, among which there are only about 20,000 who obtain professional qualification. This is resulting in a serious contradiction between supply and demand.

Compared with the US where the development of the silver economy is relatively comprehensive, assisted living facilities are more popular across the country, there are approximately 28,900 licensed living communities with nearly 1 million licensed beds in the United States today.

The market valuation for US assisted living facility was USD 87.4 billion at 2021. It is expected to have a compound annual growth rate (CAGR) of 5.3% from 2021 to 2027^[3]. The rapid aging of the population is the main factor that promotes the rapid expansion of the market. In addition, some dominant companies adopt merger & acquisition, joint ventures, and partnerships and other measures to increase market presence. These companies primarily include Atria Senior Living, Inc. Kindred Healthcare, Inc. Brookdale Senior Living Solutions and Integral Senior Living etc.

Take Brookdale as an example, Brookdale provides seven different levels of services in order to satisfy needs from different customers, they provide independent

living which is the first level, the elderly can pursue their passions, such as learning musical instruments, doing morning yoga and join a book club etc. While Level 7 is Hospice, professional staffs serve for seniors who have been diagnosed with a terminal illness and help them cure illness, ease pain, and improve their quality of life.

2.2. Entertainment

Traditional Chinese old people have a strong sense of family. Due to the influence of history and culture, their happiness and satisfaction come from the success and happiness of their descendants. They even invest most of their time and money in their children. Unexpectedly, with the development of China's economy and the change of social attitudes, more and more elderly people are gradually turning their focus from family to themselves and thinking about how to make themselves happier. It has led to rising demand for entertainment and shows that silver economy in China has great potential to grow. However, China lacks recreational facilities specifically for the elderly. Compared with other countries, such as Gambling, cruise and so on, which are specially provided for the elderly in the United States, The elderly in China lack of special entertainment facilities in addition to tourism.

In the United States, there are also numerous entertainment options for the elderly. In addition to popular activities such as travelling, casino and cruise are also popular entertainment options for the elderly. With the casino industry expanding, urban seniors have greater access to the pastime. A 2011 study found that about 75% of American seniors aged 61 to 70 participated in casinos. 62% of seniors over 70 also have the habit of gambling (Welte, Barnes, Tidwell, & Hoffman, 2011). It shows that casino is a major form of entertainment for older Americans. In addition, casinos are widely spread in US, with approximately 2,154 across the country, especially Nevada and New Jersey, which are major locations for casinos^[4]. In addition, there are many casino services, such as hotel, cruise and so on, which can fully meet the entertainment needs of the elderly, such as Boyd Gaming.

Due to the cultural differences and regulatory requirements, not all entertainment options in the United States are suitable for Chinese market. However, it is worth exploring some of the options given the significant demand from the senior population and the limited choices that they have currently.

2.3. Financial Solutions

Insurance and pension plan play a very important role in the silver economy. At present, China's pension allocation is facing great challenges. We can refer to the systems of other countries, such as the US. US has formed a pension system with three pillars: "basic pension insurance", "employer pension insurance" and

"individual savings pension insurance". According to the 2018 survey, employer pension insurance accounts for the highest proportion of about 54.6 percent, and personal savings pension insurance accounts for 25.8 percent, ranking second. It is important to note that pension insurance provided by the state only accounts for 10%, while in China, it constitutes over about 79.19%. This explains the widespread dependence of Chinese elderly on state welfare. However, due to the aging of the population, the state estimates that the dependency rate will double over the next three decades, with one payer supporting one retiree today and expect that one payer will support two retirees by 2050. This will result in a pension deficit in 2028, which is predicted to grow continuously. Therefore, China should accelerate the second pillar, namely employer (commercial) pension insurance, which not only reduces the burden on the state, but also plays a vital role in improving the overall quality of pensions and promoting the development of the silver economy.

In addition, America's pension system offers more diverse services, and these approaches have proven to be feasible over time. For example, the 401K system. Different from ordinary pension savings, the 401K system is also an investment. The 401K system enables employees to invest on a pre-tax basis, with a wide range of financial instruments to choose from, such as mutual funds, bonds and other investment assets. The employees can then choose the investment method by themselves. The money in the 401K is like an investment fund, managed by a third party, and the investment risks need to be undertaken by the employees themselves. However, due to the nature of investment saving, the time horizon of such investments is usually long enough to bear major fluctuations in the markets. Of course, America's mature capital markets allow pensions to invest for the long term, contributing to the stability of the system.

Nowadays, the elderly in China mainly prepares for retirement by buying houses, saving and other low-risk ways. However, in order to encourage the development of pension system, pension funds into the China's capital market are one of the important steps. In China, it is regulated that provision of investment shares, stock funds, hybrid funds, equity pension products, the proportion of the total no more than 30% of pension fund asset net value, although the rules suppress a certain risk, but still need to develop capital market, therefore, avoiding market chaos.

3. CONCLUSION

The article focuses on the challenges and opportunities of China's silver economy. It takes the United States, where the silver industry is highly developed, as an example to show the areas where China can continue to develop from the three aspects of nursing home, entertainment and financial solutions.

According to above analysis, due to the problem of China's aging population has become increasingly apparent and the increase in people's living standard, the elderly consumer demand is rapidly rising, whereas the supply cannot satisfy their needs and wants, it means that China's silver economy need further development. Specifically, it needs diversification, specialization and targeted marketing. The diversification mentioned here not only refers to make the elder's entertainment diversified, but also increase the number of financial products available in the market; Specialization refers to the professionalization of the industry chain and services for the elderly, such as professional training for caregivers. Targeted marketing here aims to make the market play its role better and make service providers truly understand consumers, namely the needs of the elderly and their families. By concentrating on these three aspects, we expect tremendous growth potential in this sector, which will not only benefit the senior population but also counter the negative impacts that are brought by the shift in age distribution of the overall population.

Some recommendations could be made based on the conducted analysis. Firstly, China needs to improve the quality and quantity of pension services to solve the problem of polarization -- the price of high-end pension projects is too high for most families to afford, and at the other end of the spectrum is that the service quality of common pension institutions is not high enough to meet the needs of most seniors. Traditionally, such service centers are operated by private businesses and it would be a great opportunity for state-owned companies and investments to enter this market. An top-down approach for standardizing regulation, policy and service principles is also worth exploring.

Secondly, it is necessary to improve the quality and diversity of entertaining facilities in order to meet the needs of the elderly for recreational activities. This is inseparable from the government spending, which also proves that China needs to adjust the structure of the old-age safety-net system. Instead of just relying on the first pillar——public pension scheme, we need to let the government invest money into aspects with higher returns. Therefore, China needs to strengthen the second and third pillars, which are occupational pension schemes sponsored by companies and individual pension schemes respectively. The entertainment industry for seniors is a great sector that pension investment can be utilized. Currently there are multiple experimental investing project that the state-owned pension scheme is participating across the country, investing in entertainment business is also a good option. Offering more high-quality entertainment products and services to the seniors while creating higher profit would create a win-win situation for both the pension scheme and the senior population.

Last but not least, the pension schemes should be refined and improved, and shift the industry's focus from the state to the capital market to accelerate the development of silver economy. I believe it is very necessary to dynamically adjust the proportion of asset allocation. With the increase of income, the ability to resist risks will increase. Therefore, when people are young, it is relatively reasonable to allocate more high-risk and high-return products. In the middle age, the spirit of adventure converges, the ratio of risky products and risk-free products is balanced, and finally when people getting older and older, the risk products are compressed to the minimum and put emphasis on low-risk products. At the core, personal savings and investment should be encouraged and incentivized, possibly by the means of tax deduction, lower investment fees or professional money managers for the mass population. Compared to the 401K system in the US, we could establish a similar mechanism to offer long-term, hassle-free investing opportunities. It would also contribute to the development of the Chinese financial market.

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