Saving and debt behaviors among Chinese seniors: An empirical investigation of the 'cushion hypothesis'

Yi Cai, California State University, Northridge[1]
Allen Martin, California State University, Northridge[2]
Wei Cao, California State University, Northridge[1]

Introduction

In China, sustained low fertility rate, resulting from population control policies and social, economic, and cultural changes, has resulted in the largest older adult population in the world (Du, 2006). With a large gray society emerging in China, the care of seniors is becoming a challenge in this developing nation. Although China began providing retirement benefits before the 20th century, such provisions never became widespread (Du, 2006). The family provision of old-age care therefore remains critical. In fact, the majority of Chinese elders still consider children their best investment for retirement security (Lin, 1994).

China is well known for its Confucian model of respect for seniors. For a long time, the family has been the primary provider of financial security and care for seniors (Sun, 2002). However, there has been wide concern over whether the social transformations will negatively affect elders' well-being and erode the role of family in old-age support (Chen & Silverstein, 2000). With rapid economic growth and demographic and social transformation, more and more young people are living in central cities, separated from aging parents. Not only have these seniors lost financial control over their children, they are also losing their traditional niche in the economy. Becoming older but not much richer signifies the importance of financial perspective of senior care yet the topic has not been explored. The purpose of the study was to investigate saving and debt behavior among Chinese seniors and aimed to contribute to the understanding of their financial preparation for retirement.

Literature Review

The Chinese cultural norm of filial piety, or *xiao*, has long been considered the major cultural force holding together the familiar elder care system in China (Zhan, Feng, & Luo, 2008). In spite of the strong cultural, economic, and social policy forces, the familiar elder care system is facing challenges. The number of older people living in nontraditional households, such as empty-nest households and networking households (living separately but closely), has increased (Chen & Silverstein, 2000). In the mean time, revisions and reformulations of elder support system are ongoing in the context of an emerging market economy, and researchers predicted that the new integrated old-age support system will reflect new market-based patterns (Du, 2006).

Elder care has physical, economic, psychological, and emotional aspects (Chen & Silverstein, 2000). Researchers found that both instrumental (e.g., personal care, household chores, and financial assistance) and emotional forms of elder care had a positive impact on elders' health status and psychological well-being (Krause & Liang, 1993; Liu, Liang, & Gu, 1995). From a resource management perspective, elder care can precipitate a number of resource allocation issues such as time and money arrangement of both seniors and the caregivers. Past research of old-age care in China has focused primarily on family and intergeneration support (Chen & Silverstein, 2000; Li, Feldman, & Jin, 2004; Sun, 2002; Zhan et al., 2008; Zhang, 2004). There is no published research on how seniors manage their own financial matters using a multivariate approach based on a large-scale survey.

Individual and family responses to the support needs of seniors are shaped by the practical opportunities and constraints in contemporary China, but cultural themes may still persist. A theoretical hypothesis that is often used to explain culturally based financial behavior differences is the ''cushion hypothesis.'' Hsee and Weber (1999, p. 172) postulated that people who share a cultural belief in society- and household-based collectivism ''are more likely to receive financial help if they are in need (i.e., they could be ''cushioned'' if they fell),'' and therefore they should have different financial risk preferences compared to people from individualistic cultures. The current study takes a different approach than Hsee and Weber's experimental study by empirically exploring a cultural root of the cushion hypothesis; specifically, the focus is on whether Chinese seniors feel that they can rely financially on their family members and behave accordingly and how other demographic and socioeconomic factors correlate with their saving and debt behaviors.

Data and Methods

The data was based on a national sample of the Chinese senior population, aged 60 and over. The data collection took place from June 1, 2005 to June 1, 2006 in 20 provinces and metropolitan areas. Twenty thousand senior individuals were randomly selected (Probability-Proportional-to-Size sampling was employed) and structured face-to-face interviews with a questionnaire were utilized. There were 19,924 valid questionnaires returned, resulting in a 99.8% response rate. All interviewers had been trained by The China Research Center on Aging. Each interview lasted approximately 45 minutes.

Descriptive statistics were used to describe participants' demographics and socioeconomic characteristics. Factor analysis was utilized for participants' financial and social concerns as well as their feelings of happiness or helplessness. Also, logistical regression analysis and Tobit analysis were employed to investigate participants' saving and debt behaviors.

Findings

The average annual family income for the participants was RMB 14,769 ($1≈RMB7) and the median family income was RMB 9,000. Only 18.6% of the participants have saved for their retirement. Among those who have saved, the average amount of savings was RMB 5,708. Only 9% of the participants have debts and the average amount was RMB 963. On average, seniors gave RMB 994 to their children while they also received RMB 1,234 from their children. Although 89% of seniors did not need care from their children at the time of survey, the highest proportion of them (40%) believed that depending on children would be the most reliable way for their retirement, compared to social security (31%), saving by themselves (25%), and commercial retirement solutions (3%).

A factor analysis was performed. Two factors, money concerns and social concerns, were extracted from eight questions regarding their concerns with their lives. Three factors, helplessness, happiness, and inactiveness, were extracted from 15 questions regarding feelings about their lives. The factors were then used in the subsequent logistic regression analysis.

For the participants' likelihood of having savings for retirement, the logistic regression analysis revealed that being older in age, having a higher educational level, being a communist party member (associated with social and economic benefits), still working to earn some form of income, living with a spouse and/or children, having higher family income, giving more money to children, receiving more money from children, having a broader social and community network, feeling happy, or believing self-saving a more reliable way for retirement than the commercial solutions increased the likelihood of having savings for retirement. Whereas, having financial concerns, feeling helpless, or believing children or social security more reliable for retirement than commercial solutions decreased the likelihood of having savings for retirement.

As for the participants' debt status, having higher medical expenses, having financial concerns, feeling helpless, or believing children more reliable for retirement than commercial solutions were associated with a greater likelihood of having debts. Whereas, being a male, being older in age, having higher family income, and feeling happy about their lives were associated with a less likelihood of having debts.

The Tobit analysis revealed a similar pattern as the result of the logistic regression with a focus on the amount of savings and debts. It is worth pointing out that believing depending on children or social security more reliable for retirement than commercial solutions will significantly reduce the respondents' savings and increase their debts.

Conclusion and Discussions

The findings suggest that the Chinese seniors have the 'cushion' feeling with regards to their financial affairs and behave accordingly. Specifically, the more they were inclined to depend financially on their children, the less likely they are to save and the more likely they are to have debt.

The current study shows that only a small portion of seniors had saved for retirement and the savings were significantly less than a significant amount (just over one third of the average annual family income). However, the family and children 'cushion' may not be a reliable measure in the near future as the older population continues to grow and increasing numbers of people are moving out of the workforce. It is foreseeable that the elder care will be inevitably expanded from the gradually weakened family support system to a broader public and social network. Despite the efforts from public and private sectors to strengthen the old-age care system, the current study indicates that seniors are not psychologically and financially ready for the challenge.

In addition to the policies and programs suggested by researchers, such as promoting senior involvement in economic and social activities (Abdel-Gany, 2008), providing better health-care and welfare policies (Sun, 2002), promoting community-based and institutional elder care (Zhang, 2007), the current study suggests that how to educate seniors to prepare themselves for their care is worth special attentions. Financial literacy and education for the seniors in China has been overlooked yet it may play a critical role in senior care. Helping seniors recognize the importance of alternative retirement planning solutions, such as participating in social security and commercial programs along with maintaining adequate savings, may be the first step to help them prepare for retirement.

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[1] Assistant Professor, Department of Family and Consumer Sciences, California State University, Northridge.
[2] Professor, Department of Family and Consumer Sciences, California State University, Northridge