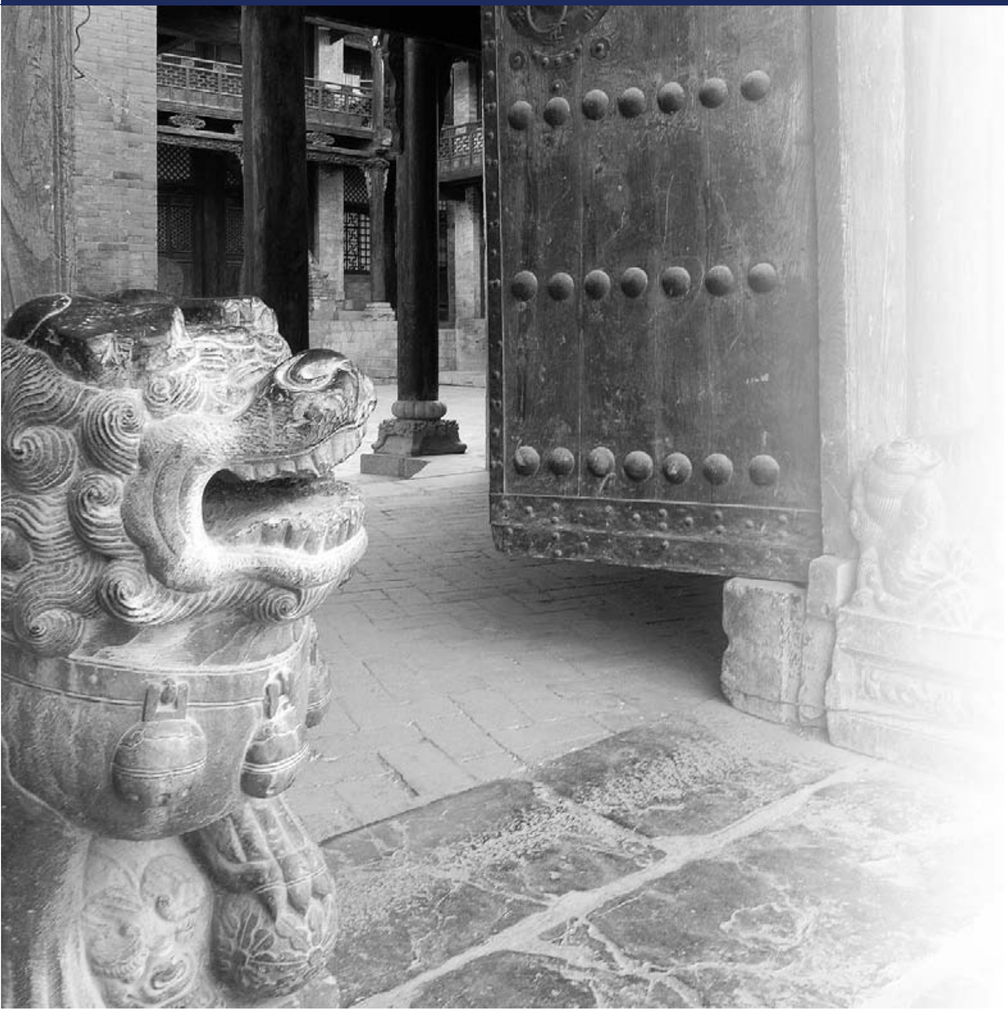
InterChina Insight

Investment Opportunities in China's Eldercare Industry

InterChina Industry White Paper

By **Long Nanyao** | February 21 , 2013



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1 Preface: population ageing

> *"Population aging is unprecedented, without parallel in human history—and the twenty-first century will witness even more rapid ageing than did the century just past."*
>
> *"Population aging is enduring: we will not return to the young populations that our ancestors knew."*
>
> —World Population Ageing: 1950-2050, UN

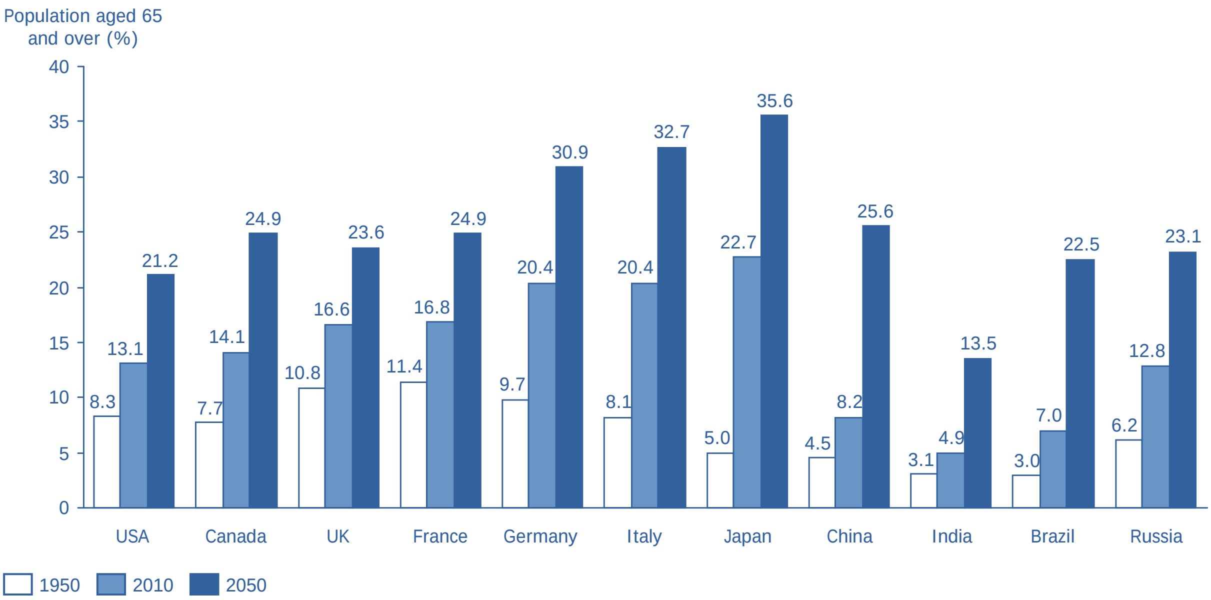
As the country with the largest population in the world, China already had become an "aging society," as defined by the United Nations by the early 2000s. In the first decade of this century the pace of its aging has accelerated. According to the China National Committee on Aging (CNCA), by the end of 2011 the number of Chinese aged 60 and over had reached 185 million, accounting for 13.7% of its 1.35 billion people. There were 123 million aged 65 and over, exceeding the total senior population in all of Europe and accounting for 9.1% of the total.

While the percentage of seniors in China is still lower than in many developed countries (see the graph below), especially Japan, Germany and Italy where it is over 20%, China is quickly catching up, and at an unprecedented pace.

According to the commonly-used UN definition, when the proportion of those aged 65 or over reaches 7%, 14%, or 20%, it is called an "aging society", an "aged society", and a "super-aged society," respectively. France took 115 years to shift from an aging society to an aged society. Germany took 40 years to complete that process, and another 40 years to become a super-aged society. Japan has gone through the fastest transition, taking 24 years to become an aged society and 12 years more to become super-aged.

China is aging at a pace similar to Japan's, partly thanks to strict enforcement of the government's "one child" policy since the 1970s and to growing longevity that are likely to turn it into an aged society by 2026-27. By 2050, the number of Chinese over 80 years old will account for 30% of its aged population, while the ratio of the working population to the elderly will plunge from 10:1 in

Population ageing pace by countries



Source: United Nations, World Population Prospects: The 2010 revision

2000 to 2.8:1 by 2050. This means China is heading for a crisis over how to care for the elderly by 2030~2050.

China is ill prepared, for its people are growing old before getting rich. Most developed countries had already attained high standards of living before they grew older, with GDP per capita usually reaching USD 5,000~10,000. That left them better able to address the challenges of aging populations. However, China had already become an aging society when its GDP per capita was at the relatively low level of US$1,090, in 2003. Meanwhile, China's inefficient social institutions, the lack of an effective government strategy or policies and underdeveloped markets are all hindering its ability to cope.

The lack of competent and decent services for the growing needs of its senior population means that China's eldercare industry offers promising investment opportunities for both domestic and international companies in the long term. Investors face a number of difficulties and challenges, however, and the sector requires time to mature and become sufficiently profitable.

2 Overview: China's eldercare industry

Historical development

The development of China's senior care services can be divided into two phases, with the first the period before economic reforms took off in the 1990s. Then, services for retirees, mainly in urban areas, were handled as a form of welfare based on the country's planned economy, provided by civil affairs branches of the government and by work units. Families took responsibility for daily care of elderly family members, while expenses were covered by the government, work unit, and households, respectively. The services provided were basic and lacking professionalism.

Since the 1990s, China's eldercare industry has shifted from consisting purely of government welfare activities to much wider community and private sector participation. Most large- and medium-sized cities have established a very basic framework for elderly care services, including basic living assistance, health care, entertainment, education, voluntary caregiver arrangements and consulting on protection of seniors' legal rights and interests. In rural areas, however, where living standards are much lower and only about 10% of the population is covered by government-supported pension schemes, senior care programs are much less developed.

As the government and businesses have become aware of the huge pressures from the aging of the population, references to the "eldercare industry" have become increasingly common in the media and in government documents. During the past decade, Chinese and foreign companies have launched many advanced eldercare investment projects in such areas as senior housing, nursing homes, senior hospitals, caregiving services, educational and entertainment programs, caregivers' training institutions, and so on.

While progress has being made, a huge gap remains between the effective supplies and unmet demand; and the gap is widening as the pace of aging quickens.

Current status of the industry

Guidelines from the Ministry of Civil Affairs divide China's eldercare industry into the following categories:

Categories of the eldercare industry in China

	Category	Activity scope
1	Senior services	Various senior service institutions; home-based services, etc.
2	Senior care services	Long-term care; in-home care, etc.
3	Elderly health	Medicines, dietary supplements, health foods, medical and auxiliary equipment for the elderly.
4	Daily necessities for senior people	Various daily necessities, such as clothing, household appliances, etc.
5	Financial & insurance services for seniors	Banking, life insurance, health insurance, pension insurance, etc.
6	Senior real estate	Senior housing, retirement communities, etc.
7	Senior culture & entertainment facilities	Tourism, exercise & fitness, and various entertainment facilities especially designed for the aged.
8	Education programs for the aged	Senior universities; various training programs such as painting, photography, calligraphy, etc.
9	Consulting services for the aged	Advice on psychology, law, marriage, retiree re-employment, etc.
10	Other relevant industries	Including many industries such as barrier-free facilities, food and catering, vehicles, IT, etc.

Source: Speech of an official from Ministry of Civil Affairs; InterChina surveys.

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Geriatric hospital

China has very few hospitals specializing in geriatrics, even in major cities like Beijing, Shanghai, and Guangzhou. A number of major general hospitals were required to set up geriatric departments as subsidiaries. In many cases those subsidiaries previously had been healthcare departments for Communist Party cadres. Generally speaking, most if not all of these geriatric hospitals and senior clinical departments are not effectively adapted to geriatric needs.

Even Beijing, which leads the country in medical resources, has few institutions handling chronic geriatric diseases. Rehabilitation nursing and hospice care lag far behind demand. There are only two municipal-level and 17 district-level hospices in the capital, where the number of registered residents aged 60 or over had already reached 2.46 million in 2011. In fact, the 17 district-level hospitals are general hospitals without sufficient facilities and resources specifically designed for elderly patients.

A study by the China Research Center on Aging (CRCA) in 2011 found that two-thirds of Chinese aged 60 or over are living with illness. About 33 million (to reach 40 million by 2015) seniors are in fully or partially disabled. Media reports and representatives to the National People's Congress have been continuously appealing for improved services and facilities for the elderly.

Eldercare institutions

Official data show China had only about 2.5 million beds in 40,000 eldercare institutions in 2011 to serve the country's 185 million people aged 60 or over. That works out to less than 14 beds per 1,000 people, compared with a ratio of 70 beds to 1,000 in developed countries. Beijing has about 80,000 eldercare beds, according to the Beijing Civil Affairs Bureau, though demand has already reached 120,000~150,000 beds. With the number of elderly increasing by about 10 million a year, this gap is growing.

Before 2000, most of China's eldercare institutions were run by government organizations, operating as social welfare undertakings. Apart from a few government-invested facilities designed for high-level retired officials and equipped with quite expensive hardware and superior services, in general the government-supported senior care institutions charge low fees but provide poor facilities and services.

Many private or collective investors, encouraged by relevant government policies, have launched eldercare institutions, providing new alternatives in terms of value and quality to the market. These non-government funded nursing homes were usually registered either as "non-profit enterprises," or in rare cases as normal commercial enterprises. A non-profit senior home project is eligible for certain preferential policies in land acquisition, taxation, and utility (water, electricity, and gas) rates. However, all their profits must be reinvested into their facilities, and cannot be distributed as dividends to investors. Commercial senior homes (except for those in Guangdong Province) are not eligible for any preferential policies throughout their operation, and thus are expensive and uncompetitive.

Profit-oriented senior homes also to be encouraged?

Apart from preferential policies for non-profit senior homes, the authorities have announced that "non-government senior nursing institutions should retain their non-profit nature and development direction" (Document 170, MCA 2005). Consequentially, a majority of non-government retirement home projects in China are non-profit entities. For instance, at least until end of 2010, all of Beijing's 176 privately/collectively owned senior homes were registered as non-profit institutions.

But there are alternatives. Authorities in Guangdong province, which pioneered economic reforms in the 1980s, have encouraged privately owned profit-oriented senior home projects. By the end of 2010, it had 58 privately owned commercial eldercare institutions with 11,000 nursing beds, accounting for 30.5% of the aggregate capacity for the province. The profit-oriented commercial nursing homes operate in a relatively high-risk environment with very limited profitability, if any. In most cases, they are loss-making for their first three years of operation. Realizing the strategic importance of these privately owned projects, the province decided in May 2009 (Decree 133 of the Guangdong provincial government) to let them have the same preferential policies that non-profit senior homes enjoy.

China's inefficient policy and legal environment makes it quite difficult for the authorities to distinguish between non-profit and profit-oriented activities. Almost all of Beijing's engage in profit-oriented activities. Private investors will not put money into projects without expecting any profits, and they can always find ways to manipulate accounting to ensure they do so.

Other provinces are likely to follow the Guangdong example, sooner or later, and there is speculation Beijing may lift its limitations on commercial projects to encourage more private sector involvement in nursing homes, which have become an urgent priority for the city.

According to a recent news report, Beijing authorities announced recently that **all** eldercare homes in the city will enjoy the same preferential or subsidized prices of utilities, starting from April 1, 2012. These non-government-run senior homes will also receive certain government subsidies based on the number of eldercare beds they possess. The word "all" here should surely include the commercial (or profit-oriented) senior homes, but few if any eldercare institutions currently operating in Beijing have been registered as commercial enterprises at the Industry and Commerce Administration Bureau (note: all non-profit senior homes should be registered at the Civil Affairs Bureau instead, according to the government regulations).

The current policies discourage private and collective investors from participating in eldercare home projects. Many in China are appealing for the same preferential policies to apply to profit-oriented eldercare institutions. However, there have been no clear and positive responses at the national level.

The rapid growth of China's affluent population in recent decades means that upper-middle and high-end senior home projects are attracting many private and collective investors (local or foreign), since government-funded eldercare institutions do not meet the needs of this high-end segment. Well-known projects in this higher-end segment include Beijing Le Amor and Shanghai Qin He Yuan (Cherish Yearn). Notable foreign investment projects in this segment include Holiday Retirement Corp.'s project in Shanghai, which already has failed; China Senior Care, which recently was set up by American investors in Hangzhou and Fortress Investment's recently reported huge investment plan in China.

Commercial models of higher-end eldercare homes in China

According to industry experts, commercial higher-end senior homes in China now operate according to the following three models:

1. **Rental.** This is the most common model adopted for commercial senior home projects in China, under which different rents are set according to different accommodation conditions. Beijing Le Amor is based on an American concept of nursing homes as its main individual investor used to live in the United States. Le Amor typically charges RMB 2,000~5,000 a month for standard living units (RMB 10,000-plus for the largest and best unit), excluding meals (normally RMB 600 per person/month) and additional services. Le Amor is not the most expensive senior home in Beijing, where some high-end senior homes can charge RMB 50,000~100,000 per annum for a standard unit.

2. **Membership model.** Clients must apply and qualify to be accepted as a member and pay a steep membership fee. One five-star elderly home in Beijing reportedly demands a membership fee of RMB 200,000~400,000, which is actually just a fixed entry fee or buy-in fee. The client then has to pay RMB 4,000~5,000 for lodging, excluding meals and extra care services. Shanghai Qin He Yuan (Cherish Yearn), an indigenous senior home and subsidiary of Qin He Yuan Hospital, adopted a different membership model: when the client pays the membership fee, he or she also obtains the right to use but not sell the apartment or house, and can sign an agreement to transfer the usage right to other individuals. The client also pays an annual fee of RMB 20,000~60,000, and other fees for utilities and additional services.

3. **Part of a real estate project.** A number of real estate companies also build apartments with specific designs to meet senior people's needs. Some of these property developers claim their real estate projects include amenities for seniors so as to secure certain government incentives for public welfare projects. We doubt these real estate developers would genuinely intend to own and operate a senior home, since it would involve a long payback period. In fact, most (if not all) real estate developers in China only want to sell their products as quickly as possible to turn a quick profit.

The major characteristics of China's eldercare institutions are summarised as follows:

- Because of Chinese people's traditionally strong attachment to their families and filial piety to their parents, eldercare at home has been overwhelmingly preferred in China. Consequentially, only less than 1% of senior people in China, many of them involuntarily, go to eldercare institutions (which, of course, are usually very poorly accommodated), as compared to the rate of more than 50% in some developed countries. (However, with economic development and ideological changes in China, there is a clear tendency for younger generation—especially the well-educated and well-off group—to voluntarily accept the institutional eldercare solution.)
- Chinese overwhelmingly prefer home eldercare due to traditions of family attachment and filial piety. Less than 1% of elderly Chinese are in eldercare institutions, most of them against their will, compared to over 50% in some developed countries. However, younger Chinese, especially the well-educated and affluent, favor institutional eldercare
- Generally speaking, China's eldercare institutions are less pleasant than those in the developed world, in terms of both hardware and software. Equipment and facilities are underinvested since few clients can afford to pay high prices, and institutions are understaffed (one caregiver would handle more than 10 senior people). In most cases, facilities provide only basic everyday services, and many lack the capacity to treat even rudimentary geriatric illnesses. A lack of qualified personnel is one of the crucial obstacles hindering the sector's development.

The administrative and legal framework governing China's eldercare institutions needs to be substantially strengthened. Chinese media have carried many reports on elder abuse scandals at senior homes.

- Most of China's eldercare institutions are run by government organisations, mainly under the Ministry of Civil Affairs. Privately and collectively-owned eldercare homes are quite limited in number and scale. However, only such nongovernmental, including foreign-invested entities currently operate in the still very small higher-end segment.
- Up to now, commercial senior homes in China have only operated with low profits and longer payback periods. This is mainly due to generally low income levels and a lack of preferential government policies. This will change over time.

Senior housing properties

Senior housing facilities such as senior apartments and retirement communities are a hot topic for large, local real estate developers, privately/collectively owned enterprises, insurance companies and foreign investors.

Senior apartment

In China, a senior apartment is defined as a living unit specially designed and built to meet the needs of retired or older people, usually commercial models combining in-home care and community services for senior residents. Since they target upper-middle and high-income groups, senior apartment projects do not fall into the category of public welfare, so they are usually financed by commercial entities and must operate in a market-oriented way.

Senior apartment projects are usually located in city suburbs with good scenery and convenient transportation. Apart from basic living facilities like stores, banks, entertainment facilities, post offices, hospitals and restaurants, specific community services such as eldercare services, property services, housekeeping services, medical and health services must be established in a senior-friendly way.

Beijing Sun City is the best-known typical senior apartment project in China. A privately owned project launched in 2001 with initial investment of RMB 62 million, Beijing Sun City pioneered China's senior housing and has grown quite steadily, with total assets surpassing RMB 1 billion in 2011. The Beijing Sun City project occupies 42 ha. of land with 600 employees and its facilities include various types of senior apartments, villas, eldercare service centers, hospitals, housekeeping services, shopping centers, a cultural exhibition center, hotel, swimming pools, exercise & fitness centers, catering services, etc. Beijing Sun City provides complete eldercare services for people in varying conditions, from healthy to completely disabled, and also provides hospice care services. It is planning to expand its senior apartment model to other cities in cooperation with other institutional investors.

Shanghai Qin He Yuan (Cherish Yearn) has invested in a senior apartment project in Shanghai, following a similar model. Aramark of the U.S., through a ServiceMaster licensee it acquired in China and the French catering company Sodexo became strategic partners in 2007. Other major senior apartment projects include Yaoyang International Senior Apartments (Beijing, Yangzhou, and Fuyang), Beijing Oriental Sun City, Guangzhou YouHao, and so on. The formal senior apartment projects are mainly located in Beijing, Shanghai, Guangzhou, Chongqing, Jinan, Qingdao, Weihai, etc., though few are in operation. The market is just beginning to develop.

In many cases, senior apartments are only a small part of an ordinary commercial real estate project. “Family Love Community,” for example, was launched by Aozhou Kangdu, a real estate project in Beijing financed by Chengdu Construction Group. The idea is that elderly parents should live near their children. Busy younger generations also want to see their elderly parents frequently, without being burdened with constant eldercare duties. The community has three different types of living units: condos (accounting for 80% of the total area), senior apartments (10%), and youth apartments (10%), and these different units are built adjacent to each other to suit the kinship needs of an extended family of 3~4 generations. However, this project is not very “elderly-oriented”, since the living units for the aged only account for 10% of the total.

Large-scale retirement community

A retirement community is a housing complex designed for older adults who are generally able to care for themselves; however, assistance from home care agencies is allowed in some communities, and activities and socialization opportunities are often provided.

Questionable retirement community plan of Taikang Life

Taikang Life, a major Chinese life insurer, proposed building a retirement community in 2009. In March 2010, it set up a subsidiary, Taikang Home Investment Co., as its investment arm for this project, with RMB 2.2 billion in registered capital.

Chen Dongsheng, CEO of Taikang Life, plans to invest RMB 4 billion in a modern, full-amenities and high-quality retirement community in Beijing’s suburbs (Wenquan, Xiaotangshan) with 15,000 eldercare beds. Construction of this first pilot project will take about 4 years, and then Taikang will invest in similar retirement community projects on Chongming Island (Shanghai) and in Sanya (Hainan). Taikang has publicized these grand plans as part of its marketing of insurance products. The idea is that only those who buy its “Enjoy New Life” insurance policies will be entitled to live in Taikang Home’s retirement community. As of the end of 2011, however, no construction has been seen. “You can see nothing there yet—such a huge project needs a long time to plan”, said a Taikang insurance salesman to potential customers who proposed taking a look at a project worksite.

On December 13, 2011, the Beijing bureau of the China Insurance Regulatory Commission (CIRC) said Taikang Life Beijing Chang’an Branch had violated the Insurance Law by cheating clients in promoting its insurance products using a nonexistent retirement community. It imposed a fine of RMB 200,000 on Taikang, which seems undaunted: the company recently announced that Cao Yuanzheng, a well-known Chinese economist, had bought an insurance policy and secured the right to live in Taikang Home in the future.

A number of local real estate developers and insurance companies, perhaps having the huge U.S. project of Sun City, Arizona in mind, have announced ambitious investment plans for large-scale retirement communities in China. Vanke, Beijing Capital Land, Poly Real Estate, and China Resources Land, which already have included senior housing elements in their real estate projects, plan ambitious investments in large retirement community projects.

Some companies use the concept of a retirement community as a marketing strategy. These companies know very well that huge investments in such retirement communities are needed. They also know such projects involve long payback periods and uncertainties, so they do not really want to do them. But some may try to mislead or cheat investors under the guise of a “retirement community project,” by circumventing some policy limitations

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and attracting customers. Taikang Life has a huge retirement community project (see the box below). Other major local insurers, including China Life (which claims it has a RMB 100 billion-plus plan to set up modern retirement communities in six Chinese cities); New China Life (NCI) and Union Life, also have plans to invest in retirement community projects.

Implications

The typical "421" family structure in China (one child with two parents and four grandparents) created by China's One Child Policy since 1978 has inevitably resulted in a fast increase of elderly living alone (called "empty-nest" households in China). According to the Ministry of Civil Affairs, the ratio of elderly living alone already accounted for 49.7% of elderly urban Chinese by 2011. This demographic trend, which diverges from traditional family values, suggests good market potential for the senior housing industry.

This does not mean a market boom is imminent. Foreign investors should be aware of the following practical difficulties for the senior housing sector:

- So far the authorities are ill-prepared for guiding the development of the senior property sector. The authorities are supposed to focus more on low-medium-income groups' eldercare solutions than on the higher-income groups who can afford expensive senior housing properties. Consequentially, policies on the sector have not been clear until now.
- In spite of the fact that there are a number of senior property projects in operation now, they are still in the stage of experiments. Until now there are no clear and sound business models of senior housing properties recognized yet as suitable for China's specific conditions, in terms of culture, ideology, income level, and policy/legal frameworks.
- Most senior housing projects have failed to obtain "full property rights" (or Da Chan Quan in Chinese) from the state and have only obtained "limited or collective property rights" (Xiao Chan Quan in Chinese) issued by township or village authorities. The Ministry of Land Resources already has announced that selling commercial residential buildings units with Xiao Chan Quan is not permitted. The ministry is now conducting a clean-up of Xiao Chan Quan houses.
- Some local governments mainly focus on important projects that can more quickly stimulate the local GPD growth and might not actively support senior housing projects, despite having promised to do so.
- Similar to other commercial real estate projects, land acquisition, existing building demolition and resident relocation/compensation are very complicated. Foreign investors must rely heavily on local partners for these tasks.
- In recent years real estate developers have been suffering from severe and persistent restrictive policies on the industry. Many property developers want to evade those policies by claiming a new business strategy of focusing on welfare-related senior housing projects. Since many local companies may not sincerely intend to invest in senior housing, foreign investors should beware.

In spite of all the uncertainties, many foreign investors are showing great interest in China's senior housing sector. In our opinion, companies should make proactive preparations, but not launch huge investment projects in haste until such uncertainties are substantially reduced.

Caregiving services

Community services

China's old-age security system dates back to the 1950s, just after the establishment of the People's Republic of China, and was based on the planned economy model of the former Soviet Union. Under this model, the state and enterprises bore all old-age welfare costs for urban retired workers and government employees. The costs of this Soviet era model became unbearably heavy due to China's market-oriented economic development and demographic changes. Beginning in 1983, China began pilot projects for delegating welfare responsibilities and functions to residential communities. Community senior citizen welfare services have since become popular in Chinese cities. The government recently reaffirmed that "in-home

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Foreign investment in China's senior housing property sector

Long Life, an eldercare facility supplier from Japan, recently set up a joint venture high-end senior apartment with a Chinese partner in Qingdao, Shandong province. The project includes a 27-floor building with 161 rooms, a medical & health-care center and swimming pools. Tenants pay a deposit of over RMB 170,000 for a single-room unit, and about RMB 20,000 monthly. Another Japanese company, Comfort Life, reportedly also will set up a senior apartment project in China by spring 2013, in cooperation with its local partner.

A number of senior apartment property developers and PE funds from the USA, including Emeritus, Life Care Services, and Fortress Investment Group, have set up rep offices in China and started talks with several Chinese real estate developers and government officials for possible investment opportunities. Merrill Gardens, an American family-owned senior community developer, reportedly will open its first facility in Shanghai in 2012. TransGlobal Assets of Nevada entered into a joint venture in February 2011 with a Chinese partner, Shandong Taishan Real Estate, to develop a major retirement home in Shandong. The GM of M3 Capital Partners said M3 was just evaluating China's senior apartment market, and looking for a potential local construction partner. Chris Alberti, a former Morgan Stanley banker, advised his clients that "*In China, there's a lot of money trying to meet a filial obligation, but there's no product*."

Already, there have been failures. A retirement community financed by Holiday Retirement Corp. (now owned by Fortress Investment) in the Shanghai suburbs in 1998 is one example. Because of a lack of interest, the project perished even before beginning operations. Eventually the building was converted into an economy hotel. Another case was a luxury retirement village project announced in 2006, located in the Shanghai International Medical Zone. The joint venture (with a planned total investment of RMB 0.94 billion) between Augustinum Group (Germany) and a Shanghai real estate company failed due to "complications with government policies and difficulties in acquiring land," the local partner explained.

eldercare plus community eldercare services" is the most appropriate solution for its huge population.

In general, the community eldercare service institutions in most Chinese cities typically provide the following three types of services:

Daily life services: This category can be divided into daytime caregiving and visiting care services. Daytime caregiving refers to having an elderly family member visit a community nursing home for temporary stays of several hours to several days (the longest stay could be 2 weeks). Visiting services involves having a visiting nurse go to a senior citizen's home to provide various services such as meal delivery, cooking, room cleaning, clothes washing, haircut/hairdressing, shopping and escorting to hospitals, among other services.

Healthcare services: This includes teaching seniors how to prevent illness and accidental injuries and how to handle first-aid; providing basic medical services and treatment and providing first-aid treatment and taking patients to hospitals for emergencies; visiting senior patients at home; providing in-home nursing, etc.

Mental fitness and entertainment services: To help elders to avoid loneliness and depression, these services include organizing various entertainment activities like painting, calligraphy, music playing, choirs, dancing, chess and card rooms, photography, tourism, etc. Experienced staff visit and chat with the elderly and in some cities volunteers participate in community eldercare services. Some communities also provide psychological counseling and legal advice.

Government-allocated funds are the most important source of financial support for community eldercare services in Chinese cities. Donations from enterprises, various institutions, and individuals provide additional support. In recent decades, the private sector has increased its participation in community eldercare services and facilities, which is part of the government's strategy for mobilizing more social resources for social welfare.

Serious financing shortages are a serious hindrance for developing community nursing services, which provide minimal accommodations and services compared with developed countries. In this sense, the current community eldercare services are less a welfare system than a "salvage system," as one local expert commented.

In spite of the big contributions made to improve the living standards of the elderly, China's community nursing service system faces the following major problems:

- Insufficient eldercare facilities vs. quickly increasing demand.
- Insufficient funding and very limited financial resource channels.
- Incomplete and insufficient facilities and services.
- Backward management and services.
- A serious shortage of professional staff and inadequate training for most caregivers and other workers.
- An unsound policy framework, lack of industry standards and market discipline, many legal disputes.

High-end caregiving facilities

China's fast growth has generated strong demand for higher-end eldercare services. Existing community eldercare services, designed for medium- and low-income groups, certainly cannot meet the requirements of these higher-income people.

Consequentially, several commercial upper-medium and high-end caregiving facilities have been set up, either by local entrepreneurs or foreign investors.

The most notable indigenous supplier of caregiving services is Pinetree, a privately owned non-profit company set up by Ninie Wang in 2008 in Beijing. Pinetree focuses on providing home-based care via regular visits to its clients' homes. Its business scope includes caregiving after operations, care for various chronic diseases, care for the bedridden (including routine daily care, psychological care, nutrition counseling, rehabilitation nursing, preventive care and treatment for complications), functional training for rehabilitation, geriatric interventions and the daily caregiving training programs for family members. Pinetree has nine caregiving branch stations with more than 300 nursing staff in Beijing.

As a non-profit company, Pinetree demands reasonable fees for its professional nursing services. For instance, for a program of 60-minute nursing services provided three times per week, a family will pay RMB 850 per month.

Very few in-home nursing service providers in China can match the services provided by Pinetree. Other companies could not attain the same levels of managerial and staff professionalism within a short time. But as one expert estimated, China needs 10,000 caregiving companies like Pinetree.

Right at Home International, a leading franchisor of in-home eldercare and assistance, entered the Chinese market in June 2011 through a master franchise license agreement with an entrepreneurial group in Beijing. The CEO of Right at Home Beijing is Yao Li, who is the founder of the well-known BN Vocational School, which provides free vocational education to under-privileged youths in China. The first batch of caregivers (professional hospital nurses, hotel attendants, enterprise managers, etc.) get three weeks of full-time training and go through a simulated family situation before starting work in clients' homes. Their services are similar to Pinetree's.

Right at Home charges high fees. For routine, simple in-home care services like cleaning, shopping, and companionship, the charge is RMB 60 per hour. The company charges RMB 4,000 a month for two-hour visits by a professional nurse twice a week. Round-the-clock care services are much more expensive: RMB 15,000 per month. According to one manager of Right at Home Beijing, visiting nurses are paid a monthly salary of RMB 3,000~4,000 per month.

Right at Home's first establishment in China is in Beijing. The franchise business will be introduced to other cities like Dalian, Wuhan, Shenzhen, and Shanghai and then other cities. In the long term, Right at Home plans to establish 100 franchise branches in China in the coming 15~20 years.

SCA Group (Sweden), the owner of the well-known brand TENA (incontinence care solutions), and a Singaporean healthcare company jointly established Shanghai Yikang SCA Healthcare Management Company in Shanghai in December 2011. Yikang SCA provides modern and professional in-home eldercare services via home visits in the Shanghai area. To get firsthand feedback regarding the most appropriate nursing services, the company conducted a pilot program in more than 200 families in the city in July 2011.

Compared to the senior housing industry, higher-end in-home caregiving services appear to offer more opportunities for foreign investors with fewer uncertainties. This direction is in line with the government's current strategy of prioritizing in-home eldercare supported by community eldercare services. This is in line with Chinese traditions of filial piety and the huge unmet demand already existing in major Chinese cities. Foreign investors should start with the higher-end market, and then, after finding a good business model suitable for China's economic, policy, and cultural environments, they can expand into upper-middle or middle segments, which will present an even vaster market in China.

As mentioned earlier, China is suffering from a severe shortage of eldercare professionals. This is the most serious bottleneck for such projects in China. Educational and training facilities in this field are thus very good opportunities for foreign investors.

3 Policy environment

Pension systems

The purchasing power of China's elderly largely depends on pension systems established by the central government. The current pension system for urban workers and staff (Note: not applicable for the government employees) has been carried out since 1997. It includes basic endowment insurance, enterprise annuities and old-age insurance through personal savings. This model, similar to the pension systems of many industrial countries, was recommended to China by the World Bank.

Basic endowment insurance: This is a compulsory social insurance system set up by the government, consisting of social pooling and personal pension accounts. Under this system, employers and employees are legally required to pay retirement insurance contributions (normally on monthly basis). When a worker reaches retirement or he or she quits for other reasons, social insurance will pay pension and other benefits according to the law, to guarantee his or her basic living standards. The social insurance system includes basic endowment insurance and other social insurances (medical insurance, unemployment insurance, insurance against injury at work and maternity insurance).

Enterprise annuity: Also called "enterprise supplementary insurance," this falls into the category of commercial insurance. Enterprises can provide this supplementary insurance for employees' based on the companies' ability. An enterprise can pay the full expense of such an annuity or require its employees to bear part of the expense (the undertaking ratio for each of the two parties can be decided via negotiations between management and employees).

Old-age insurance by personal savings: Another type of supplementary insurance, encouraged by the state to improve the retirees living standards. The employee buys old-age insurance from commercial insurance companies which have designed different programs for people with different income levels. All the accumulated savings and interests go to the employee's personal bank account, and the employee can withdraw the accumulated savings (at one time or in batches) when he/she reaches retirement age.

In contrast with enterprise employees, government (and also some related institutions) employees do not need to pay insurance fees for their pension schemes. The state will provide all financing for their pensions after retirement. A retired government employee can obtain a pension 300%~500% higher than what a company employee can obtain. This so-called "dual-track" pension system, which has existed for 20 years now, has been widely and vigorously criticized as the most unjust and discriminatory system that has ever existed in P.R. China. But there is no indication of how the government could abolish this dual track pension system or effectively reduce the gap.

Farmers suffer from the most obvious discrimination in China's pension system. Until recently China's rural population did not enjoy any pension scheme benefits from the government. In 2009, the government launched a pilot pension program for farmers that provides a "generalized-preference" pension when they reach 60. However, the state will pay only RMB 55 per month. Subsidies from local governments and villages vary widely but all involve very limited sums.

The biggest problem with China's current pension system is that it pays out much more than it receives, which is widely referred to as "operating on an empty account" in China. According to the expert estimations, the deficit was RMB 1.7 trillion in 2011. The Ministry of Human Resources and Social Security (MHRSS) announced recently that it is considering a plan to adopt a "flexible pension system" so as to delay pension payments.

Government administration

The government administration for China's eldercare industry is somewhat complicated, involving many government entities. The Ministry of Civil Affairs (MCA) is the main government organ responsible for overseeing the eldercare industry, responsible for administering all social welfare (including eldercare) undertakings and development programs in China. MCA subsidiaries have been set up to handle eldercare affairs, while the China National

Committee on Aging (CNCA, directly under the State Council) is also influential and is in a better position to coordinate efforts of all relevant ministries in promoting development of the eldercare industry. The Ministry of Human Resources and Social Security (MHRSS) is responsible for administering pensions and insurance. The relevant organizations under the MCA, CNCA, and MHRSS are presented in the table below:

These ministry and national-level agencies also have local-level departments with local administrative functions. The CNCA has established 410,000 community old-age associations in China's urban and rural areas to encourage retirees to participate in the community eldercare services. According to the government's 12th 5-Year Plan for China's eldercare industry, another 150,000 such community old-age associations will be set up by 2015.

These ministry and national-level administration organizations also have their local-level departments with the local administrative functions. In addition, CNCA has established 410,000 community old-age associations in China's urban and rural areas, in order to encourage the retired people to participate

Policies & objectives

Selected major legal and administrative documents and development plans related to China's eldercare industry are listed below:

Law of the People's Republic of China on the Protection of Rights and Interests of the Aged, promulgated on August 29, 1996. The law specifies that the elderly have rights on political beliefs, personal freedom and dignity, income and pensions, to receive support from their offspring, to own assets, to have marital autonomy, to occupy housing and to education. The law also specifies the responsibilities of children to support their parents according to the law. All Chinese citizens over 60 are included in the category of "aged" referred to under the law.

Tentative Measures for Administration of Social Welfare Institutions, issued by the Ministry of Civil Affairs on 30 December 1999. This document stipulates that foreign wholly owned senior housing property projects are not permitted in China, but they are allowed to set up such real estate projects in the form of an equity or contractual joint venture with a local partner. Though the document does not specify any limitations on foreign equity proportions

Government organizations involved in administration of China's eldercare industry

Organization name	Background
Social Welfare & Charities Promotion Dept.	Under Ministry of Civil Affairs (MCA)
China Social Welfare Center	Under MCA, in parallel to Social Welfare & Charities Promotion Dept.
China Charity Federation	Under MCA
China Social Welfare Foundation (CSWF)	Under MCA
China Association of Social Welfare	Under MCA
ZhongYi Ageing Development Center (ZYAC)	Under MCA (newly set up in 2011)
China National Working Commission on Ageing (CNWCA)	Under State Council, consisting of members from 28 ministries (including MCA, Ministry of Education, Ministry of Finance, NDRC, Ministry of Health, Ministry of Public Security, Ministry of Foreign Affairs, MIIT, Ministry of Justice, Ministry of Human Resources and Social Security, and so on)
China National Committee on Ageing (CNCA)	The secretariat of CNWCA
Gerontological Society of China	Under CNCA
China Silver Industry Association (CSIA)	Under CNCA (established in 2009)
China Eldercare Service System Construction Leading Group	Jointly organized by MCA and CNCA, with participation of other relevant government organizations (set up in 2010)
Pension and Insurance Dept.	Under Ministry of Human Resources and Social Security (MHRSS)
Social Insurance Undertakings Administration Center	Under MHRSS

in a JV project, a foreign majority stake could be problematic for the official approval process.

Standards of Social Welfare Institution for the Elderly, issued by MCA on 6 February 2001. The document defines different types of eldercare service institutions, and stipulates various services standards for the social welfare institutions for senior people. As indicated in the document title, the stipulated service standards are designed for the government-run eldercare institutions, not for privately or collectively owned senior homes. Service standards for the latter vary between regions and cities, since they were worked out and enforced by local governments.

Opinions on Promoting Home-Based Care Services, jointly issued by CNCA, NDRC, MCA, Ministry of Finance, State Administration of Taxation, and other ministries on 29 January 2008. This document reflects the government's intention to prioritize combining home-based eldercare with community support. It reaffirmed supportive policies, including business tax exemptions for all non-government-invested eldercare service entities, and exemptions for building taxes and land use charges for non-profit eldercare service institutions.

MCA Document No.170, 2005, issued by Ministry of Civil Affairs on 16 November 2005. The document reaffirmed the strategic importance of private/collective involvement in China's eldercare industry, but at the same time also stressed that "non-government senior nursing institutions should keep their non-profit nature and development." In ***Social Eldercare Service System Establishment Program 2011-2015***, issued by the State Council on 16 December 2011, the central government reiterated its support for non-profit institutions.

Administrative Regulations on Privately/Collectively Owned Social Welfare Institutions in Guangdong Province (Provincial Government Decree No.133) issued by Guangdong Provincial Government on 10 March 2009. The decree made it clear that **both** non-profit and profit-oriented private eldercare institutions in Guangdong enjoy the **same** provincial preferential policies. (Note that this is only a provincial policy.)

National Self-Discipline Common Measures for Private/Collective Eldercare Service Institutions issued by CNCA on 16 May 2011. This was a draft released for comments. The document urges institutions to observe the good faith doctrine and regulates operations.

The 12th-Five-Year Program of China Old-Age Undertakings Development issued by the State Council on 17 September 2011. The Program contains 4 chapters: 1) Background (Overall Review); 2) Guiding ideology, development objectives and basic principles; 3) Major tasks; and 4) Supporting measures.

Social Eldercare Service System Establishment Program 2011-2015 issued by the State Council on 16 December 2011 focuses on building up a modernized, sound, effective, and sustainable eldercare industry. The document stipulates that the government will depend on market mechanisms for efficient resource allocation and create a fair competitive environment for various economic entities. The government also encourages the non-governmental professional institutions to provide managerial expertise and service guidance to promote professionalism and expansion of eldercare institutions.

Catalogue of Industries for Guiding Foreign Investment (Revised in 2011) issued by NDRC and Ministry of Commerce on 24 December 2011 lists business activities where foreign investment is encouraged, including service institutions for the elderly (under the title of Hygiene, Social Security and Social Welfare). Foreign investors are allowed to participate in any type of project: technology cooperation with local partners, equity joint ventures with local partners, acquisition of local companies, or wholly foreign-owned enterprises. Apart from services, most manufacturing business activities and vocational training projects related to the retirement market are also included. However, senior housing projects, regarded as real estate projects, fall into the "restricted category" for foreign investors, and wholly foreign owned enterprises are not permitted.

The many government documents on policies related to China's eldercare articulate the authorities' recognition of the importance of encouraging development of the eldercare sector rather than outlining concrete actions the government intends to provide commercial operators.

The documents do not present clear-cut policies for foreign investors. Until now foreign investment in eldercare institutions in China has remained a grey zone. Although no government policies clearly restrict foreign participation, some officials are concerned that foreign involvement in eldercare services, subsidized by the government as social welfare undertakings, could result in the possible leakage of public benefits into foreigner's wallets.

However, the MCA recently said the government has designed a series of preferential policies for land use, utilities and taxation and is "further perfecting" them to attract overseas investment in the eldercare industry. In June 2012 the Shanghai Industry and Commerce Administrative Bureau clearly declared its support for foreign participation in high-end eldercare services in Shanghai. It is now encouraging registration of both local and foreign commercial eldercare services in Pudong. Several foreign companies have expressed interest, and hopefully the first foreign eldercare institution will be legally registered in Pudong by the end of 2012.

4 Outlook

Market potential

China's elderly population is growing by more than 3% annually. While its GDP per capita and personal wealth remain low compared with developed countries, China's growth has been high and people's incomes are rapidly rising. In 2011, the disposable income per capita of China's urban residents reached RMB 21,810, with real growth of 8.4% over 2010.

The concentration of wealth in China is very high. According to BCG, the number of rich Chinese households with investable assets over USD 1 million reached 1 million in 2010, ranking No.3 in the world (behind the USA and Japan). For a comparison, the number of such rich families in China was 124,000 in 2001 and 310,000 in 2006. A 2010 World Bank report said about 1% of China's households retain 41.4% of the country's total wealth. These rich households present a good market potential for foreign investors in China.

The future development trends of China's eldercare industry are summarized as follows:

Consumption power of the aged. According to the recent data released by CNCA, the current annual consumption needs of China's elderly have surpassed RMB 1 trillion in total, while supply is less than RMB 100 billion a year. CNCA forecasts that elderly consumption needs will reach RMB 5 trillion a year by 2050, suggesting a huge deficit.

Growing income and wealth in large cities requires more high-end services and products. China's GDP per capita was USD 5,414 in 2011, while the figure in Beijing reached USD 12,447 (based on permanent residents), close to the level of the high-income economies as defined by the World Bank. Research shows that most wealthy Chinese are aged 45~55. Five years from now a new wave of demand for higher-end senior products and services will emerge in China, especially in large, rich cities like Beijing, Shanghai, Guangzhou, and Shenzhen.

Urgent need for professional training. China very urgently needs to build up professional training capacities. This is also a good opportunity for foreign investors in China.

Opportunities and uncertainties with the senior housing property sector. There are certain opportunities in this sector, in consideration of the needs of wealthy Chinese. However, we believe that many uncertainties exist in this sector, considering the government's strict controls on investment in the real estate industry and restrictions on foreign investors.

Vast middle-class segment. Although the middle-class segment of China's eldercare industry is not a desirable target for foreign investors in the near term, it may be so in the longer term, especially after foreign investors successfully enter the high-end segment and established successful business models. The middle segment in China is so huge that foreign investors certainly will not overlook it. The government should welcome foreign participation (or planned participation) in providing professional services at affordable prices for middle-income retirees, especially via joint ventures or non-equity cooperative projects with Chinese partners.

Related industries

The eldercare industry can include many other industries serving the needs of seniors in states of health. These can include insurance, barrier-free facility design and manufacturing, home medical equipment and facilities, medicine and health foods, assistive and rehabilitation equipment, furniture, IT products, robots, vehicles, tourism, education and training, various daily needs and electronic products designed for the "silver segment," various entertainment products and services, etc.

Chinese industries have long focused on making products for the younger generation, neglecting elderly consumers' needs and tastes. Although the situation is improving and some enterprises have begun exploring market opportunities for the "silver segment," a big gap remains between demand and supply. The elderly in future decades will be very different than those today. Many will be very experienced users of modern IT products and will have very different attitudes toward life. Foreign companies with more mature marketing strategies and practical experience with the "silver segment" should have very good business prospects in China.

A new trend may have caught the attention of some foreign companies interested in entering China's market for the elderly. This is "xiaofei yanglao," or "consuming by pensions." Under this model, when a consumer buys products, the latter will treat the purchase as an investment and will return a certain portion of its profit at intervals, so that the consumer can accumulate through daily consumption a considerable sum of money to supplement his or her pension. Several experts have backed this innovative concept and appealed for feasibility studies.

Major issues

For foreign investors, the current major issues with China's eldercare sector are:

- Despite its huge aged population, China's per capita disposable wealth is still low. Modern and western-style eldercare projects are not affordable yet for most Chinese.
- Chinese traditions favoring having elderly parents live with their children will hinder use of some western-style eldercare projects in China, at least in the coming two or three decades.
- Until now, no business models for foreign investors have been sufficiently tested in China.
- There is a severe shortage of qualified professionals for the modern eldercare industry.
- Government policies and regulations are unclear, e.g. regarding preferential policies for commercial eldercare service companies and entry of foreign investors in the senior housing sector.
- Although the authorities have shown a positive attitude toward foreign investment in China's eldercare industry, uncertainties remain regarding policy guidelines for foreign investors both in terms of document contents and timing.

Conclusions

The dire lack of adequate facilities and services for China's fast growing elderly population means there is huge market potential. We believe the government, sooner or later, will have to open China's eldercare industry more widely to private and foreign investors.

We also believe that the fiscally overburdened government will increasingly concentrate on providing low-end eldercare services and facilities as pure social welfare for lower-income groups, while allowing commercial entities to cater to increasing upper-middle and high-end demand.

Foreign eldercare companies and related industries should proactively prepare themselves to benefit from the vast market opportunities in China as part of their global development strategies.

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