

Rich me? Poor me?

Why income perception
and disparity matter



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Preface

There is growing evidence and increasing concern about rising income and wealth disparity in Asia. Living standards are improving rapidly, but rising income inequality makes it hard for some people to catch up.

With income inequality set to widen, how do Asians define 'rich' and 'poor' and what is 'middle class'? How do Asians see themselves relative to others in terms of income, now and looking ahead?

Do they perceive themselves as being either richer or poorer than they really are, hence making the wrong financial decisions and taking inappropriate risks? Are they managing their finances correctly to adapt to changes in the income/wealth landscape? How can they better position themselves in this environment? Are they acquiring the right skills?

Fidelity Worldwide Investment conceived and designed a regional survey in ten cities across eight countries in Asia to address these questions. The survey was conducted in March 2012 by the Nielsen Company.

Acknowledgments

We wish to thank Guillermo Cruces (Universidad Nacional de la Plata), Ricardo Perez Truglia (Harvard University) and Martin Tetaz (Universidad Nacional de la Plata) for their advice on survey design. Part of our questionnaire was adapted from their study, *Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment* (April 2011).

Executive summary

Widespread confusion in Asia about income status can lead to investment mistakes

This report reveals the massive scale of confusion that Asian investors have about their own income status. Although most Asians have a clear picture of their own absolute level of income, they find it very difficult to relate this to other people's income. Our survey shows that 86% of Asians are unable to identify their own income rank correctly. Surprisingly, this is regardless of the degree of income inequality in their cities.

These misperceptions about income rank are likely to affect spending, saving and investment decision-making, with significant implications for financial well-being and posing major risks for investors.

Perceived widening of income gap in Asia may prompt policies that impact investment returns

Although being unclear about their own income rank, 76% of Asians think that income inequality will grow over the next ten years. This suggests that Asians believe rising inequality will go hand in hand with continued economic development and rising overall prosperity.

This could lead many governments to adopt policies to reduce the level of inequality. These policies will affect returns from different types of investment and can mean more volatility. Diversification will be more important than ever in investment portfolios.

Asians' faith in education and hard work may prove insufficient to safeguard their futures

Despite the strong belief that income inequality will grow over the next ten years, 90% of Asians believe equally strongly that their children will attain middle or high income status and that this will be the result of education and hard work.

But this traditional belief may not reflect the reality of current and future labour markets. In light of credentials inflation, financial literacy may become the new pillar to secure a better income status. And Asians will need to develop the financial skills to help them manage their savings and investments to the longer-term advantage of themselves and their families.

Asians' inability to define middle income may contribute to speculative losses

About two-thirds of Asians identify themselves as middle income. But they appear to have ambiguous ideas about what that means. Perceptions of low and high income, and by extension middle income, seem arbitrary – and it is likely that their meanings will change with age, education and work experience. Similarly, Asians may have the same difficulty in defining high returns. In the absence of a reasonably defined goal they may engage in speculative investments and suffer losses.

This suggests that investment is not just about selecting the best-performing securities or funds, but entails comprehensive financial planning based on individual circumstances, goal setting and regular reviewing of these conditions and targets. Such a need-based approach can safeguard investors from the relentless and risky pursuit of absolute returns.

Widespread confusion in Asia about income status can lead to investment mistakes

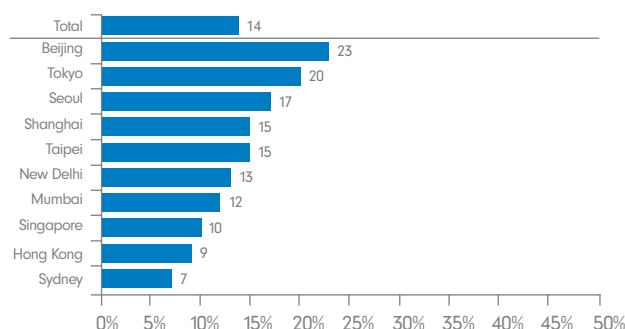
► 86% of Asians are unable to identify their income rank correctly

Misperceptions about income rank are widespread across Asia

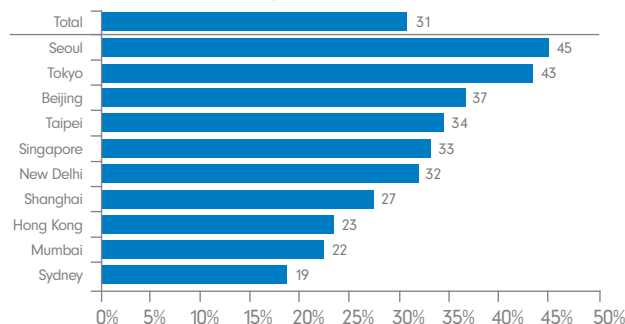
Most Asians have a very accurate picture of their own absolute level of income but, like almost everyone else, they find it very difficult to relate this to other people's income and to assess their relative income position. In our survey of income expectations in ten Asian cities, 86% of respondents are unable to correctly identify their income rank, as defined by their appropriate income decile. Even when this definition was relaxed significantly to include adjacent deciles, 69% of respondents still fail to identify their income position correctly.

Residents of Singapore, Hong Kong and Sydney have the least accurate impression of their income rank on the narrow definition, but Singapore does improve its relative position using the relaxed definition. Respondents in Seoul, Tokyo and Beijing have the most accurate impression of their income rank on both definitions, with an impressive 45% of Seoulites and 43% of Tokyoites identifying their appropriate income rank using the relaxed definition.

Perception of own income decile (correct estimate)



Perception of own income decile (relaxed assumption)



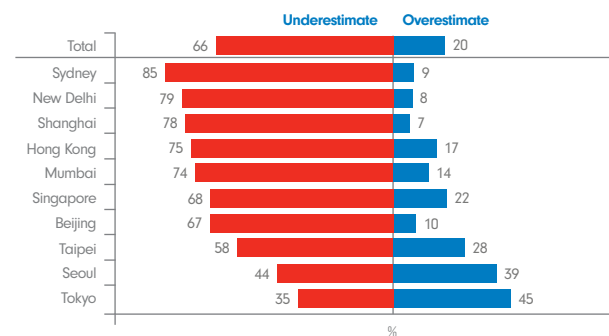
- Many people think that they are either richer or poorer than they actually are.

Underestimation of income rank is most prevalent in the 'High Speed World'

The fact that most Asians find it difficult to identify their income rank correctly suggests that many people think that they are either richer or poorer than they actually are. This could lead to inappropriate spending, saving and investment decisions (see box 'Income misperceptions and their financial implications' on page 12). Our survey shows that 66% of respondents underestimate their income rank, 20% overestimate their rank and only 14% have an accurate assessment.

The city results reveal that, with the exception of Sydney, underestimation is most prevalent in the High Speed World, or emerging markets enjoying rapid growth. Overestimation is most prevalent in the Low Speed World, or developed markets where growth is noticeably moderating. Sydney, New Delhi and Shanghai have the highest degree of underestimation of their income ranking, with over 75% of respondents in all three cities underestimating their income ranking. Tokyo, Seoul and Taipei have the highest degree of overestimation. Overestimation in the Low Speed World could indicate stagnant living standards and unfulfilled aspirations, while underestimation of income rank in the High Speed World could reflect the difficulties of making accurate assessments of relative incomes in rapidly growing economies.

Perception of own income decile

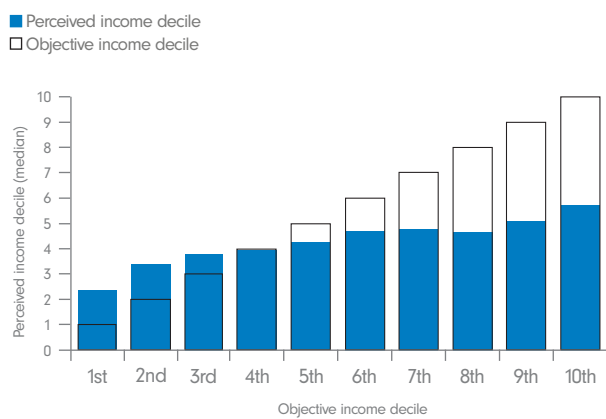


Most Asians think they are middle class

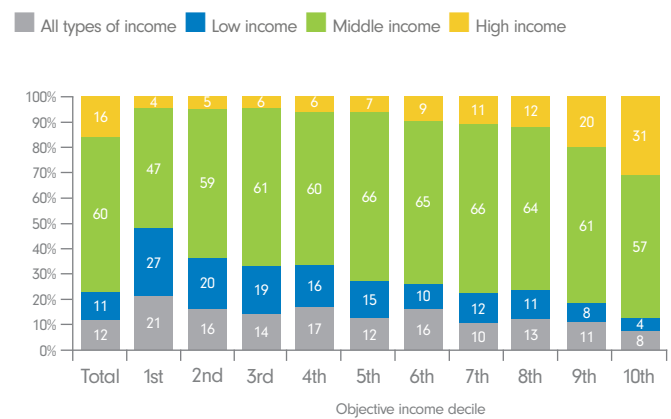
Another notable pattern across most cities in our survey (except Sydney) is that those in low income brackets overestimate their ranking, while those in the higher income brackets underestimate theirs. This reinforces other evidence in our survey and elsewhere that there is a tendency for most people to think that they have a middle income and by extension are middle class. Most Americans, for example, also think they are middle class, even some of those in the top income decile, and this phenomenon is not confined to the US and Asia. Research carried out by the Universidad Nacional de La Plata in Buenos Aires and Harvard University found exactly the same pattern among Argentinians.

- Those in low income brackets overestimate their ranking, while those in the higher income brackets underestimate theirs.

Perceived household income decile by objective decile, all cities



Which income category do most of my friends and co-workers belong to?



The peer effect could explain income misperceptions

One possible reason that so many people misperceive themselves as being middle class is the peer effect. People tend to socialise with peers they think have similar socio-economic status, so most do not feel better off or worse off than those around them. Looking at our survey results in aggregate, 60% of respondents think most of their friends and co-workers have middle incomes, while only 16% of respondents think most of their friends and co-workers have high incomes and 11% of respondents think most of their friends and co-workers have low incomes; 12% of respondents think their friends and co-workers come from all income brackets.

Income misperceptions are widespread across virtually all income ranks

The misperception among respondents from all ten cities that most of their friends and co-workers have middle incomes is evident across nine of the ten income deciles, with the lowest income decile being the exception. In this decile, only 47% of respondents think their friends and co-workers have middle incomes, although this decile also has the highest percentage of respondents (21%) who think their friends and co-workers came from all income brackets. There was a remarkable degree of consistency among the other nine income deciles in terms of the percentage of respondents who think their friends and co-workers have middle incomes, ranging from 59% in the second decile to 66% in the fifth decile.

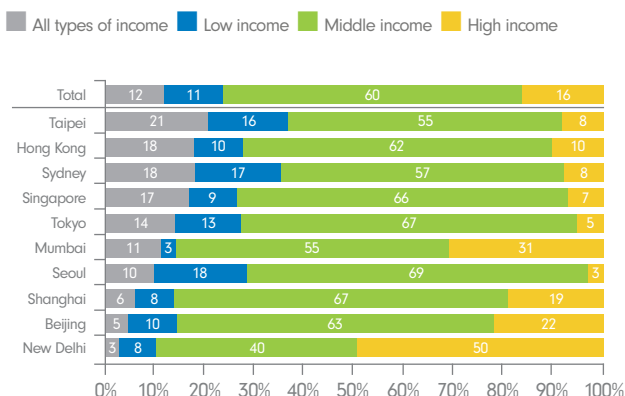
- People tend to socialise with peers they think have similar socio-economic status, so most do not feel better off or worse off than those around them.

India and China have the most exuberant income perceptions for friends and co-workers

Looking at the city results, a majority of respondents in nine of the ten cities surveyed think their friends and co-workers have middle incomes, ranging from 55% in Taipei to 69% in Seoul. Respondents in the six cities outside China and India all have relatively low percentages of respondents who think that their friends and co-workers have high income, ranging from 3% in Seoul to 10% in Hong Kong. Interestingly, these six cities also have more respondents who think their friends and co-workers come from all income groups, ranging from 10% to 21%, compared with a much narrower range of 3% to 11% in China and India. This suggests that countries in the High Speed World have a lower degree of socialisation between the income groups.

New Delhi is the only city where a majority of respondents do not think that their friends and co-workers have middle incomes. Half (50%) of Delhiites instead think that their friends and co-workers have high incomes. The results for Mumbai also show a high percentage (31%) who think their friends and co-workers have high incomes. This could reflect the fact that the vast majority of Indian respondents are from high income groups, and this could skew the results for New Delhi and Mumbai. Beijing and Shanghai also have relatively high percentages of respondents who think their friends and co-workers have high incomes, at 22% and 19%, respectively.

Which income category do most of your friends and co-workers belong to?



Income misperceptions and their financial implications

Misperceptions about income rank are likely to affect spending, saving and investment decision-making, with significant implications for financial well-being and posing major risks for investors.

Overestimating

When individuals overestimate their income ranking, and therefore think that they are richer than they are, they may overspend, and consequently save and invest too little. This could have negative consequences for the pattern of life-cycle savings as individuals fail to save as they get older.

Underestimating

When individuals underestimate their income ranking, there are at least two outcomes depending on the individual's risk appetite. Someone with a conservative attitude to risk could assume less investment risk than they can tolerate, possibly forgoing higher potential returns. Someone with an aggressive attitude to risk could feel not rich enough, and try to catch up with their peers by assuming too much investment risk, potentially hurting returns.

More market volatility?

Income ranking misperceptions could have notable repercussions for a nation if its low income citizens are prone to overspending while its high income citizens may be taking the wrong investment risks. Will this accentuate wealth disparity? Will this mean more speculative behaviour among a subset in the population, exaggerating local market volatility? These are possibilities that investors need to consider.

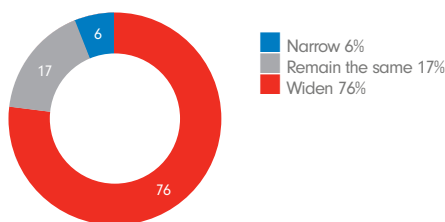
Perceived widening of income gap in Asia may prompt policies that impact investment returns

- ▶ 76% of Asians expect income inequality in their cities to widen in the next ten years

Most Asians expect the gap between rich and poor to widen

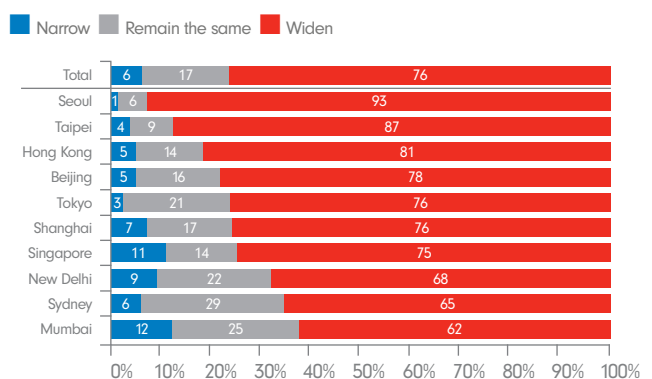
Our survey shows that 76% of respondents expect the income gap between high income and low income groups to widen over the next ten years. Only 17% say they expect the gap between rich and poor to remain the same and a tiny 6% say they expect the gap to narrow. The last statistic is an astonishing result and it suggests that the vast majority of Asians believe that rising inequality will go hand in hand with continued economic development and rising overall prosperity.

In the next ten years, how would you expect the difference between 'high income' and 'low income' in your city to change?



Looking across the ten cities covered in our survey, there are no real exceptions to this expectation. Seoul has the highest percentage of respondents (93%) expecting the income inequality gap to widen and Mumbai has the lowest (62%) – still a sizeable majority view. The remaining eight cities are fairly equally distributed within this range. Nor is there any significant variation in the proportion of respondents who think the income inequality gap will narrow. In eight out of the ten cities, less than 10% of respondents expect the gap between high income and low income groups to narrow over the next ten years.

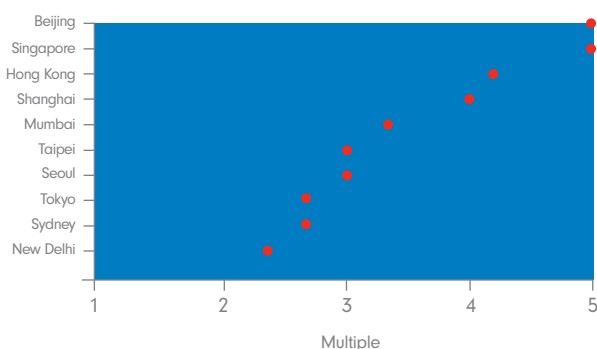
In the next ten years, how would you expect the difference between 'high income' and 'low income' in your city to change?



There is no apparent correlation between expectations about the future path of income inequality and perceptions of current income inequality in the ten cities covered in our survey. Beijing and Singapore have the highest perceived gap between high income and low income in our survey, yet they rank fourth and seventh respectively out of ten in terms of the proportion of respondents expecting widening income gaps in the future. At the other end of the spectrum, New Delhi and Sydney have the lowest perceived gap between high income and low income and respondents in those cities also have almost the lowest expectation of widening income gaps in the future. Seoul and Taipei have moderate perceived gaps between high income and low income, yet respondents there have the highest expectation of widening income gaps in the future.

- ▶ Governments may have to decide whether to prioritise policies to promote growth or policies to reduce inequality.

'High income' as a multiple of 'low income'



Reports show that rising inequality in Asia is caused by its key growth drivers

There have been an increasing number of reports about rising income and wealth disparity around the world, which could have significant implications for government policies (see box 'Policy responses to inequality and their impact on investors' on page 15). One key example is the *Asian Development Outlook 2012*, published by the Asian Development Bank (ADB) in April. It identified three key drivers behind Asia's rapid growth, but said that these also lead to rising inequality:

- **Technological change** favours skilled over unskilled labour. It affects the distribution of income between labour and capital – in capital's favour, since capital incomes accrue to the rich more than the poor.
- **Globalisation** can similarly change relative demand for skilled versus unskilled labour – through the process of trade liberalisation for example. Financial integration can also increase the risk of financial crises that affect the poor more than the rich.

- **Market-oriented reform** can have significant distributional consequences. Labour market reforms will change the power of employees versus employers and affect wage rates. The transition to a market-driven economy can improve efficiency at the expense of displacing inefficiently-utilised labour.

The pursuit of inclusive growth

Income disparity will continue to widen over the next ten years if key growth drivers remain as now. Governments may have to decide whether to prioritise policies to promote growth or policies to reduce inequality. Advocates of growth will argue that although rapid growth has increased inequality, it has also resulted in a decrease in the number of Asians living in poverty. Furthermore, they will point to evidence, some of it in the ADB's report, that although inequality in developing Asia is greater than in OECD countries, it is still lower than in other developing regions of the world.

But those who are concerned about inequality will point to evidence that it has increased more in Asia than in other regions and that emerging Asia's rising inequality over the last 10–20 years contrasts with the 'growth with equity' policies that characterised the emergence of the original Asian 'tigers' – South Korea, Taiwan, Hong Kong and Singapore. The concept of inclusive growth, which increases equality of opportunity, continues to gain traction in some Asian countries – notably China with its Harmonious Society policy and India with its National Rural Employment Guarantee programme.

- It is clear that widening income disparity will generate more policy responses, more volatility and the market will be more event driven. This suggests that diversification in investment portfolios is more important than ever.

Policy responses to inequality and their impact on investors

How will government policies affect investment returns?

Investors should look closely at how government policies respond to the growing income gap because these policies – monetary and fiscal – will affect returns across investment products and sectors.

Low Speed countries are generally fiscally constrained and will tend to rely on monetary stimulus, putting downward pressure on their currencies. Pressure can also build for wealth taxes, more progressive taxation and fewer tax loopholes for the wealthy. The possible increase in money supply and low interest rates will impact valuations across asset classes including bonds, equities and currencies.

High Speed countries are generally in better fiscal positions and will tend to use fiscal spending to reduce income disparity, particularly by improving access to

health and education. Governments may introduce policies to boost the number and quality of jobs or to widen regional participation in economic development by moving activity away from existing clusters of economic activity. These policies may affect relative investment sector returns as spending goes to targeted sectors.

Voter concerns with growing levels of income inequality could lead to more legislative debates and potential political deadlock, creating more financial market volatility.

Growing income inequality could lead to partial rollback of globalisation among some Low Speed countries that may resort to trade protectionism, tighter migration policies and currency manipulation to stay competitive.

Economic reforms will become even more important. Low Speed countries without cost advantages will need to lean on innovation

and technological change to stay competitive. Education and the ability to foster a stimulating environment for ideas and entrepreneurship may distinguish the winners from the losers in this group.

Investment diversification ever more crucial

It is clear that widening income disparity will generate more policy responses, more volatility and the market will be more event driven. This suggests that diversification in investment portfolios is more important than ever. Traditionally, investors combine different asset classes with low correlations, which reduce overall risks, or return volatility, for the portfolio. With the market potentially becoming more event driven due to widening income disparity, the outlook for asset classes becomes ever harder to predict. Thus the need for diversification becomes ever more crucial.

Asians' faith in education and hard work may prove insufficient to safeguard their futures

- Despite concern about rising disparity, 90% of Asians expect their children to earn a middle or high income

Most Asians are optimistic about their future

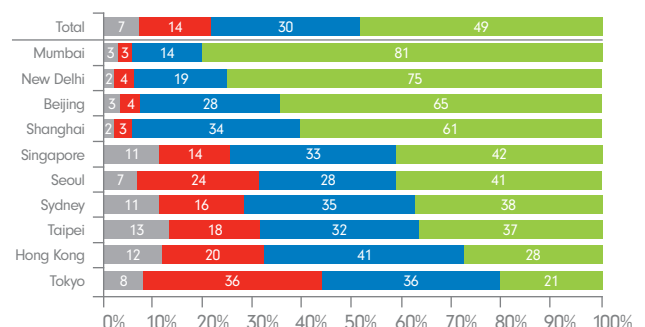
Our survey suggests that Asians are very optimistic about the future path of their own household's income. Despite concerns about rising disparity, 79% of our respondents say they expect their income status to remain the same or improve over the next ten years. Confidence appears especially strong in India and China. Of respondents in Mumbai and New Delhi, 78% say they expect their household's income status to improve over the next ten years and 16% say they expect it to remain the same. Only a tiny 6% say they are unsure or expect their situation to worsen. Even allowing for the fact that many of these respondents are from higher income groups, this is still a remarkable show of confidence. Respondents from Beijing and Shanghai are almost as optimistic, with 63% saying they expect their household's income status to improve and 31% saying they expect it to remain the same. Again, only 6% say they are unsure or expect their situation to worsen.

By contrast, confidence is not as high in Singapore, Seoul, Sydney, Taipei and Hong Kong, but even in these cities an average of over 70% of respondents expect their household income status to improve or remain the same over the next ten years.

However, confidence is severely lacking in Tokyo, with only 21% of respondents saying they expect an improvement in their income status over the next ten years and the majority of respondents equally divided between those who expect to remain the same and those who expect their position to worsen (36% of respondents equally).

In the next ten years, how would you expect your household's income category to change?

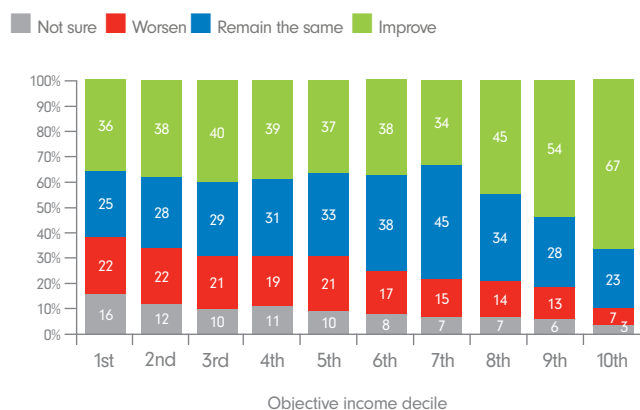
■ Not sure ■ Worsen ■ Remain the same ■ Improve



The rich are the most confident

Strikingly, confidence is especially high among richer respondents. An average of 37% of households who are presently in the first seven income deciles expect their income status to improve over the next ten years, with no significant variation across these seven categories. The proportions rise to 45%, 54% and 67% respectively for the remaining three top deciles. This means that two-thirds of people who are already in the top income decile expect their income status to rise to a higher category.

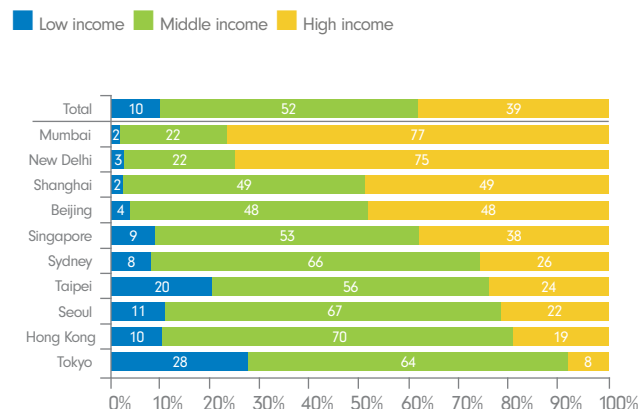
In the next ten years, how would you expect your household's income category to change? (All cities)



Asians are also confident about their children's futures

When asked what income category they expect their children to be in when they reach their 40s, 90% of respondents say middle or high income. Confidence appears especially strong in India and China and lowest in Tokyo, although even there 72% of respondents expect their children to reach middle or high income status. Overall, only 10% of our respondents think their children will be in the low income category when they reach maturity.

Which category would you expect your children to be in when they reach their 40s?



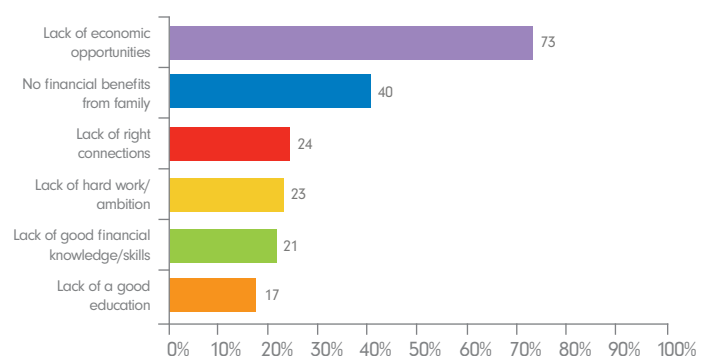
- Despite concerns about rising disparity, 79% of our respondents say they expect their income status to remain the same or improve over the next ten years.

- ▶ The next generation of Asians may need a different set of skills to achieve financial success and middle and high income Asians may need to rethink what constitutes a 'good education'.

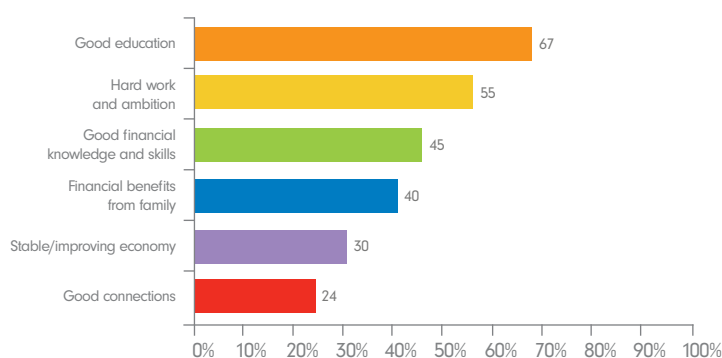
Asians see education, hard work and ambition as the keys to higher income

In our survey, 67% of respondents who think their children will achieve middle or high income status think that this would result from good education; 55% cited hard work and ambition. However, they may need additional skills in the future (see box 'Has credentials inflation arrived in Asia?' on page 19). By contrast, the small minority who think their children would attain only low income status say that the main impediment to their children's advancement would be lack of economic opportunities, together with lack of financial benefits from the family.

Most popular reasons why Asians expect their children to earn a low income



Most popular reasons why Asians expect their children to earn a middle or high income



Has credentials inflation arrived in Asia?

Is education and hard work enough?

Asians are optimistic both about their own futures and those of their children. And they believe strongly in good education and hard work. But this may not deliver the right skills to ensure high income in the future.

In the past, a good degree may well have almost guaranteed a good job and at least a stable middle income. But as the region grows, more young Asians are staying longer in higher education and achieving higher levels of academic attainment. In other words, there is credentials inflation. The experience of other mature economies shows that Asians may face more intense competition for

stable middle or high income jobs in the future. The next generation of Asians may need a different set of skills to achieve financial success and middle and high income. Asians may need to rethink what constitutes a 'good education'.

Financial literacy: a new pillar to secure a better income status

Financial knowledge and skill are not ranked as particularly important by our respondents in determining the future of income status of their children. But it is these skills that could enable Asians to generate and manage a new source of income from their savings and investments. As Asia grows and competition for stable middle

income jobs becomes more intense, this additional income source can help secure a better income status.

It may be increasingly important for Asian investors not only to focus on hard work, but also pay attention to managing the fruits of their labour. Having the financial skills to maintain and grow that 'fruit basket' can benefit them and their children. It is also important for the next generation to understand how to maintain and grow the assets they inherit. Investors may need to consider how and when their children should start to acquire financial skills. Should they learn these from an early age before they are financially independent? And what is the best way for young people to acquire financial skills?

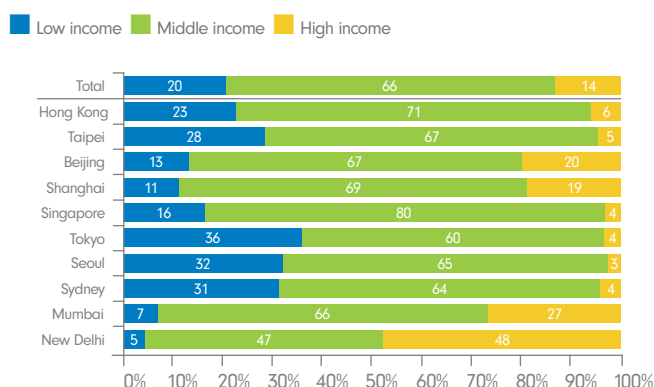
Asians' inability to define middle income may contribute to speculative losses

- ▶ 66% of respondents identify themselves as middle income, yet the cities cannot agree on how to define this term

Most Asians identify themselves as middle income

In our survey, 66% of respondents say that their households are in the middle income category, with only 20% and 14% identifying themselves as either low or high income respectively. This congregation in the centre applies fairly universally across all ten cities surveyed, with only minor variations. The phenomenon is most marked in Singapore, where 80% of respondents identify themselves as middle income, and at its weakest in Tokyo where there is still a strong majority (60%) who identify themselves as middle income. It is only in Tokyo, Seoul and Sydney that a significant number of respondents, averaging 33%, identify themselves as low income. In India and China more respondents identify themselves as high rather than low income, but in all other cities a majority of those who did not identify themselves as middle income opted for low income. In New Delhi, a much higher proportion (48%) identify themselves as high income but that reflects the relatively high income levels of our sample in that city.

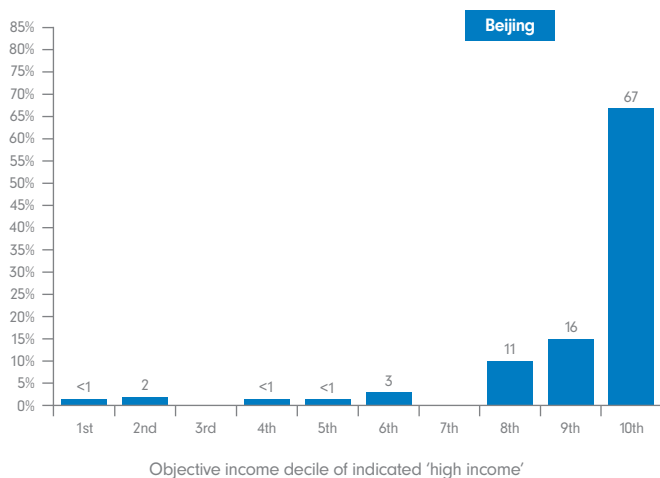
Which income category would you say your household belongs to?



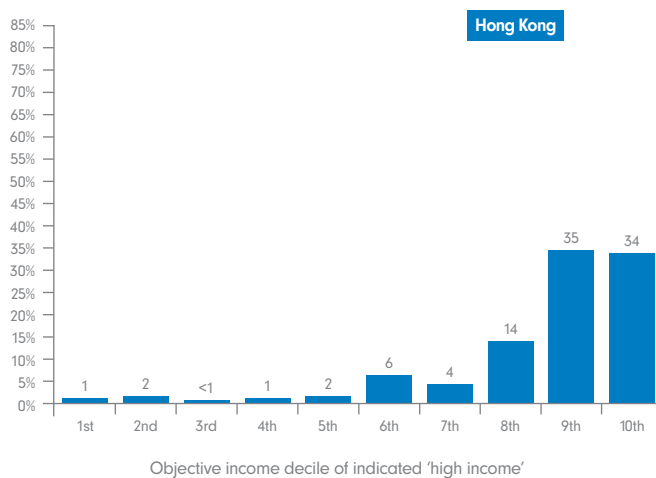
Respondents have no clear view of what qualifies as high or low income

We tried to understand what Asians mean when they identify themselves as middle income by asking them what absolute income they define as being high and low. We then grouped these numbers by local objective deciles. A majority of respondents in six out of the ten cities surveyed define high income as being the tenth income decile. But this apparent consensus is an illusion because the tenth decile covers a very wide range of actual incomes, with no upper limit. Each city's answers are scattered over a broad spectrum showing that respondents actually do not have a clear view on high income.

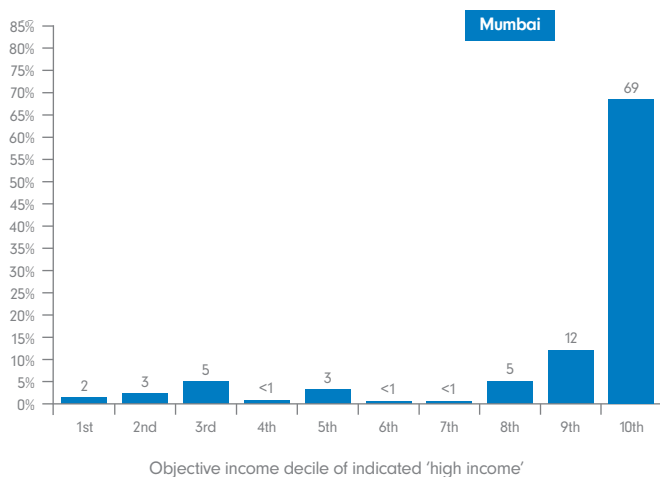
What monthly pre-tax earnings qualify a 'typical' household as 'high income'?



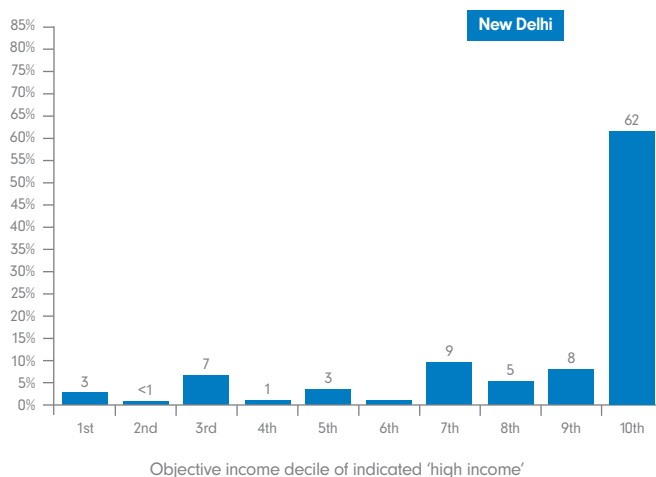
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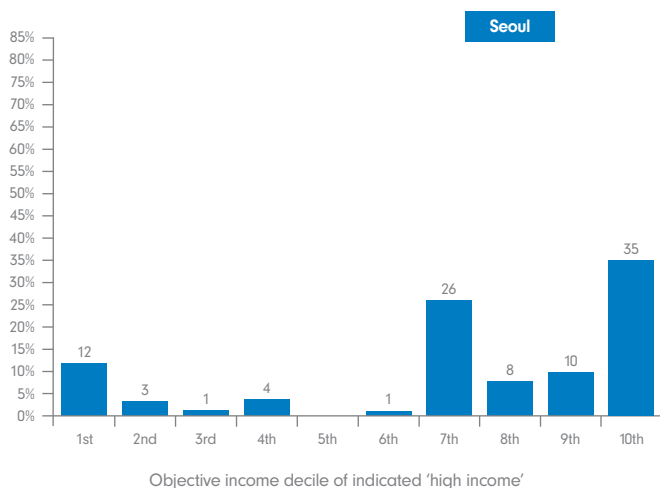
What monthly post-tax earnings qualify a 'typical' household as 'high income'?



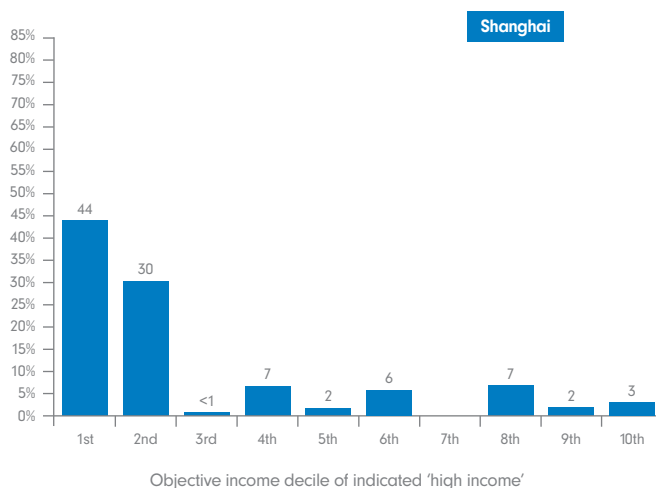
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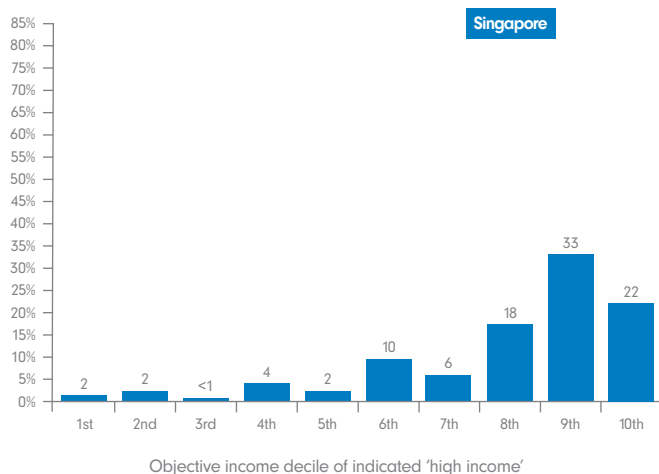
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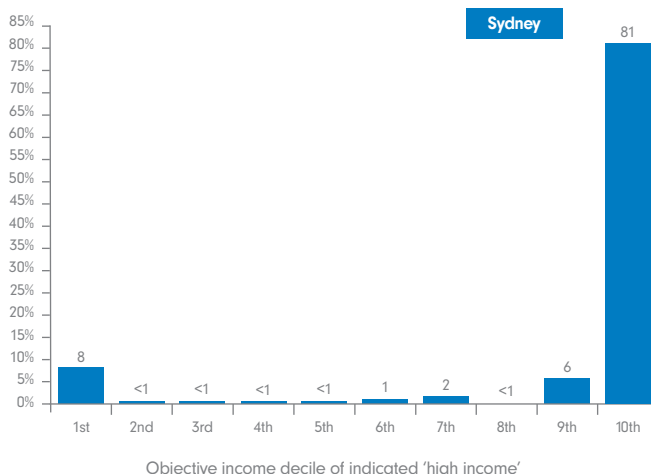
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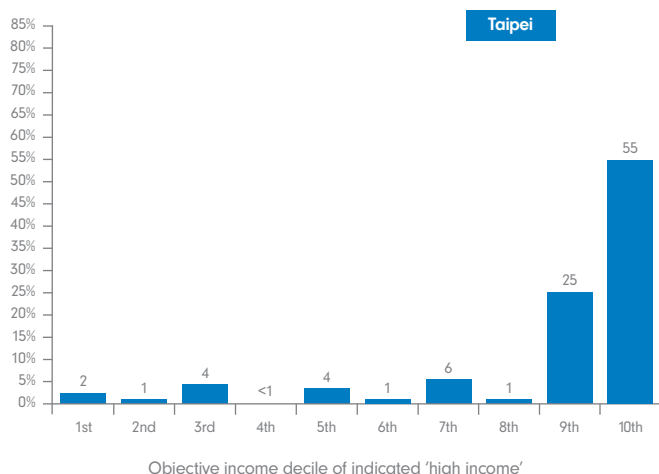
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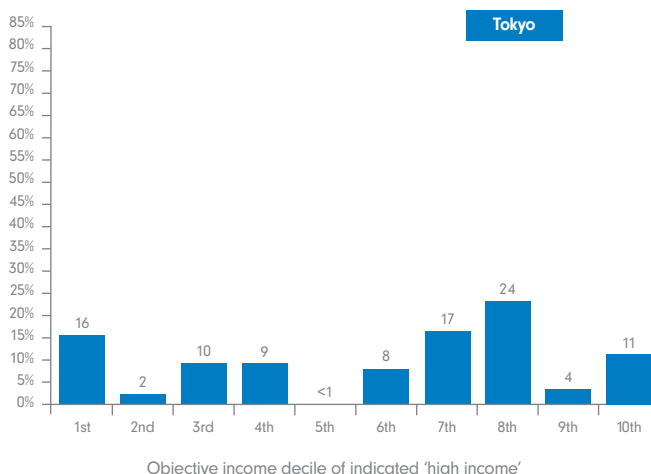
What annual post-tax earnings qualify a 'typical' household as 'high income'?



What monthly pre-tax earnings qualify a 'typical' household as 'high income'?

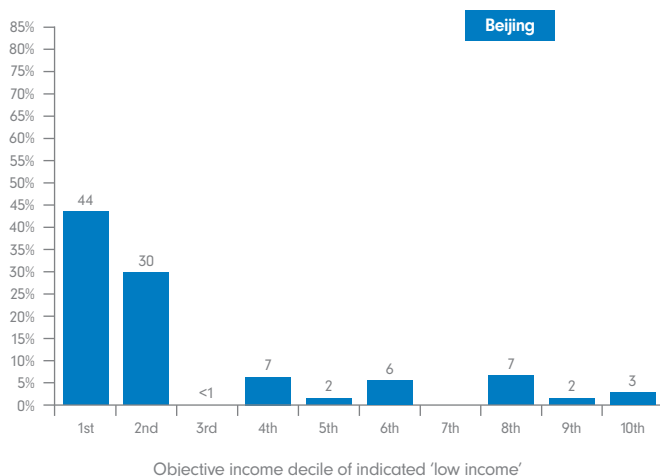


What annual pre-tax earnings qualify a 'typical' household as 'high income'?

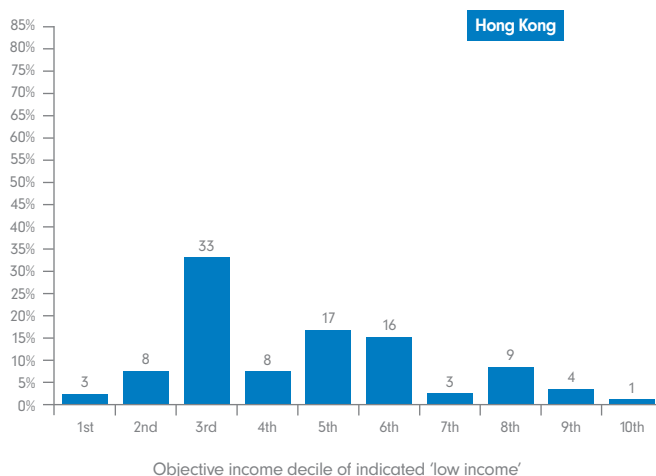


Similarly, there was no consistency when we asked about perceptions of low income. Respondents in just two of the ten cities – Seoul and Tokyo – appear to have a clear and consistent perception of low income (although in absolute numbers the answers are scattered). By contrast, respondents in Sydney, New Delhi and Mumbai appear to have absolutely no idea, with answers spread over virtually all income deciles. In the remaining five cities there is a wide range of responses showing no clear or consistent pattern.

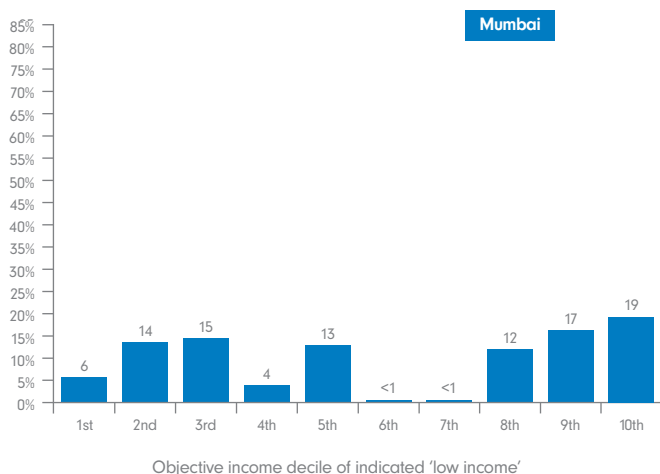
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?



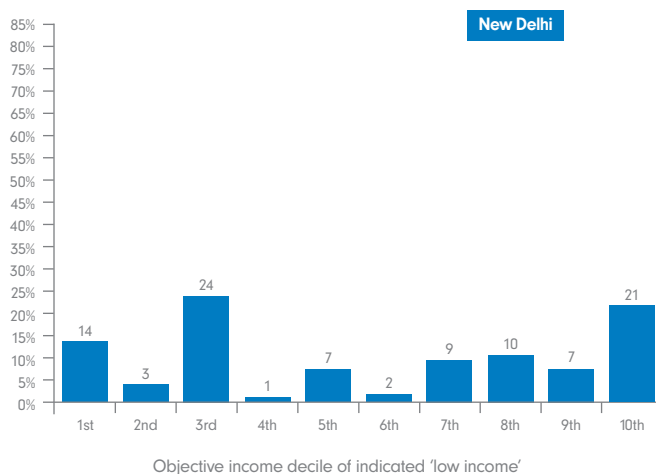
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?



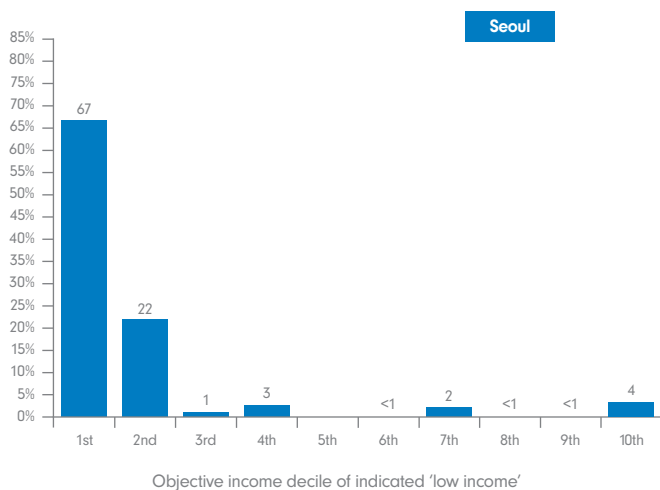
What monthly post-tax earnings qualify a 'typical' household as 'low income'?



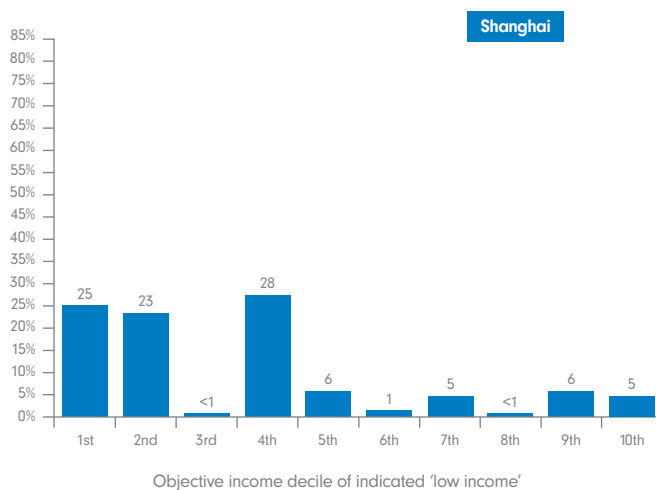
What monthly post-tax earnings qualify a 'typical' household as 'low income'?



What monthly post-tax earnings qualify a 'typical' household as 'low income'?



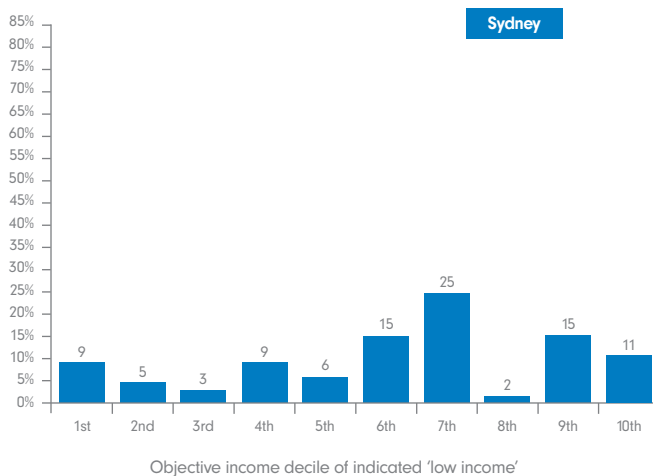
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?



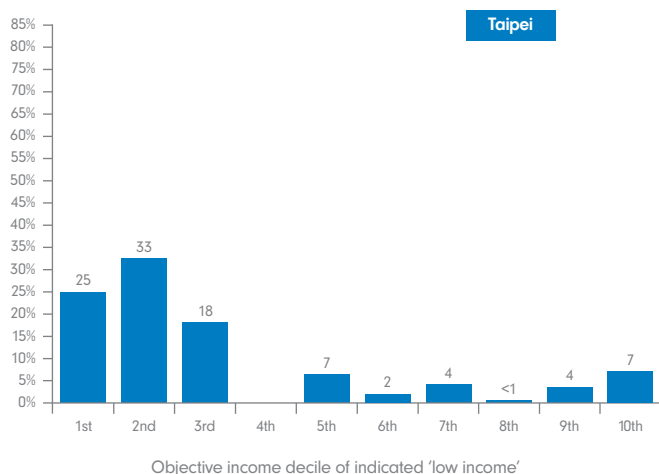
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?



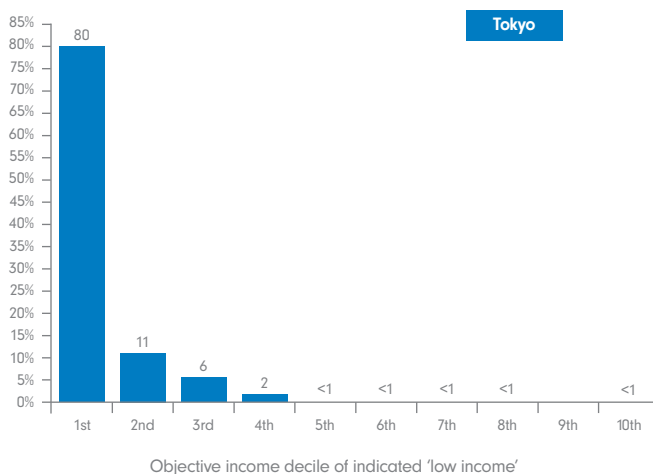
What annual post-tax earnings qualify a 'typical' household as 'low income'?



What monthly pre-tax earnings qualify a 'typical' household as 'low income'?



What annual pre-tax earnings qualify a 'typical' household as 'low income'?



► The term middle class or middle income may mean very little, but the perception of being (or not being) part of that group affects consumer and investor behaviour.

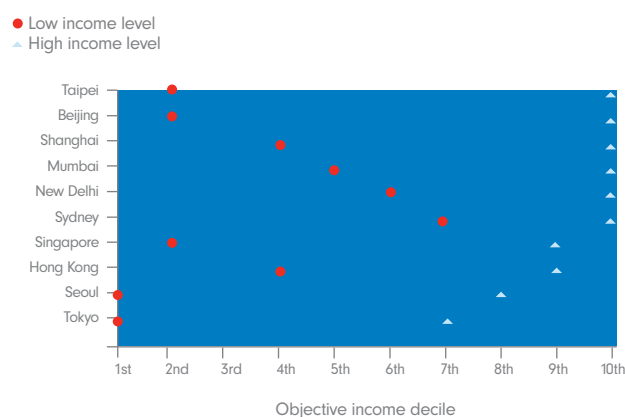
The meaning of middle income is ambiguous

Bringing the two sets of answers together shows the widespread lack of consistency on where respondents think low and high incomes occur. *A priori* it might seem reasonable to expect that low and high incomes could be broadly defined as the bottom and top two or three deciles, with middle income being the ground in between.

But the results were very different from this and are spread across the income range. For example, in Tokyo 85% of respondents describe incomes in the bottom eight deciles as high whereas in Sydney 68% of respondents describe incomes in the top five deciles as low. The gaps between perceptions of low and high incomes in different cities we surveyed are erratic. Respondents appear generally to have no plausible definition of the range between high and low income apart perhaps from Hong Kong, whose distribution was reasonably well balanced. With the meaning of middle income ambiguous and volatile, the term middle class may have little real meaning (see box 'Income perceptions and investment strategy' on page 26).

The term middle class or middle income may mean very little, but the perception of being (or not being) part of that group affects consumer and investor behaviour. The lack of consensus on middle income may complicate the response of policymakers to widening disparity. While a government may use official statistics to draft policies to address income inequality, these may seem inadequate or ineffective if there is a disconnect between the public and the government on what defines the boundaries of middle income.

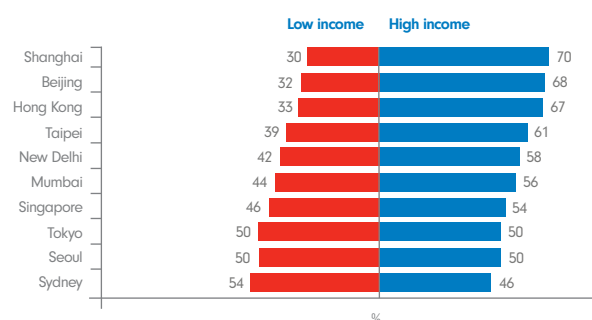
What income qualifies a 'typical' household as 'low income' and 'high income'?



Asians find it especially hard to define high income

We looked further into the difficulty that respondents have in defining high and low income by asking them which is harder to define. Interestingly, 58% of respondents find it harder to define what actually constitutes high income, whereas only 42% find it harder to define low income. There are only two cities

Which is harder to define: 'low income' or 'high income'?



where respondents find it equally hard to define high and low income. These are Tokyo and Seoul, both in developed Asia. And in Sydney, a majority finds it harder to define low income. In the remaining seven cities, 62% of respondents find it harder to define high income.

There is a clear logic here. In a population that largely defines itself as being of middle income status, high income is something remote, something to aspire to but something beyond most people's experience. That

is why defining high income is harder for most Asians, and they could have a similar difficulty defining high returns (see box 'Income perceptions and investment strategy' below). But most Asians actually know what it is to be poor, either through personal experience or that of their families. It is easier to define low income for most people because it is easier to find a floor for their monetary needs. Being poor means not having enough money to meet basic needs and being unable to have an acceptable standard of living.

Income perceptions and investment strategy

Income perceptions are confused

Although most Asians identify themselves as middle income, they appear to have ambiguous ideas about what middle income means. This leads to the conclusions that perceptions of low and high income, and by extension middle income, are arbitrary and that their meanings will continue to change.

Just as Asians find it hard to define high income, they may have the same difficulty in defining high returns, although they definitely aspire to them. Most investors only have a clear idea of the floor beneath which they are not prepared to fall. This might mean avoiding capital losses, or just managing to keep up with inflation. Beyond that, investors may enter the realm of aspiration and risk.

In the absence of a reasonably defined goal they may engage in speculative and risky investments for the sake of higher returns.

Based on our survey, many people define low and high income depending on their own earnings – the higher the earnings, the higher the benchmarks. As income changes with age, education and work experience, definitions of middle income also evolve, and so do expense requirements. In Japan, for example, a Fidelity 2011 survey showed that high living standards achieved during work years would not be easy to reduce after retirement. Consequently even high income earners worry about living expenses. The same survey also found that 50% of respondents regret insufficient asset accumulation.

What does this mean for investing?

Instead of an aspiration-based approach Asian investors may consider a need-based approach. Investment is not just about selecting the best-performing securities or funds, but entails comprehensive financial planning based on individual circumstances, risk attitude, goal setting and regular reviewing of these conditions and targets as they change. Adopting this methodical, need-based approach will safeguard investors from the relentless and risky pursuit of absolute returns.

Questions we leave you with...

Will confusion about income status affect investors' decisions?

- Why are Asians so confused about their relative income rank when they have such a clear idea of their own absolute income level?
- Why do people in India and China, in particular, think their peers have high incomes?
- How are these misperceptions about income rank likely to affect spending, saving and investment decision-taking?
- In terms of investment, will income confusion lead to people not putting enough aside for retirement or taking on inappropriate levels of risk?

How will widening income inequality affect investment portfolios?

- Why are Asians so convinced that income inequality will widen over time when they don't even know their own income rank?
- And why, despite this confusion, do they seem so confident about their own income status in the future?
- What sorts of policies are governments likely to introduce to reduce the level of income inequality?
- And what will be the impact of these policies on returns from different types of asset classes?
- Should diversification within portfolios become an ever higher priority for investors?

What do Asians need to do to realise their aspirations for their children?

- Why do 90% of Asians think their children will attain middle or high income status when they also believe that income inequality will increase in future?
- Has credentials inflation arrived in Asia?
- What kind of financial skills, professional advice and investor education will Asians need to help them manage their savings and investments successfully over the long term?
- What action will be needed to adapt the traditional focus on education and hard work to include development of financial skills?

What impact will changing perceptions of income status have on investment plans?

- Why do Asians define themselves as middle income when they have no clear and consistent perception of the meaning of this term?
- How is this likely to change over time as individual circumstances change?
- How can Asians learn to construct the best investment solutions based on their individual and changing circumstances over time?

The survey and selected country data

Fidelity Worldwide Investment conceived and designed the survey that forms the basis for this report. A total of 5,186 respondents in ten cities across Asia were surveyed. Our selection included two major cities each in the emerging economies of China (Beijing and Shanghai) and India (Mumbai and New Delhi) and one city each in six developed Asian economies – Hong Kong, Taiwan (Taipei), Singapore (nationwide), South Korea (Seoul), Australia (Sydney) and Japan (Tokyo metropolitan). The sample size for each city was tightly controlled: the lowest was 507 and the highest was 529.

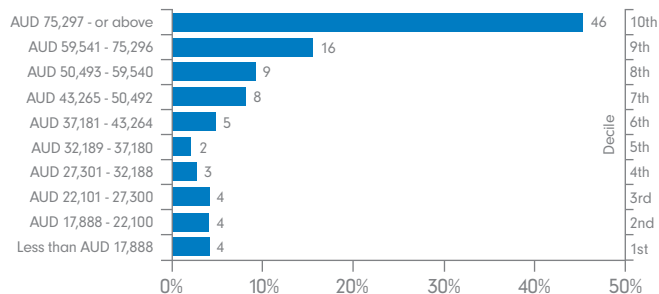
The survey was conducted in March 2012 by the Nielsen Company on behalf of Fidelity Worldwide Investment, and was carried out online to allow for a standardised questionnaire. We recognise that there are some downsides to online surveys, particularly their tendency to screen out lower income groups, especially in India and China, who may not have access to the internet. We advise readers to use the survey results with this bias in mind. We also highlight this issue in the report where it is relevant to the findings being discussed. The age group of the sample is predominantly that of the working population, 25–54 years old. The average gender distribution of respondents is 50.5% male and 49.5% female, excluding Sydney where a disproportionate 64% of respondents were female.

Many of the survey's findings refer to the different income deciles of households. A decile is 10%. The number of households in each city is divided into ten deciles. The first decile represents the 10% of households with the lowest income, while the tenth decile has the highest income. The range of household income for each objective decile is based on the latest government statistics (Hong Kong, Japan and Australia) and the Nielsen Media Index (China, Singapore, Taiwan, South Korea and India).

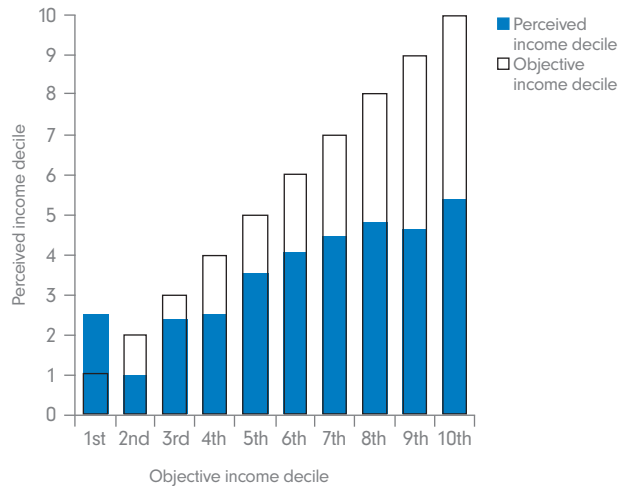
Australia

Respondents by annual post-tax household income

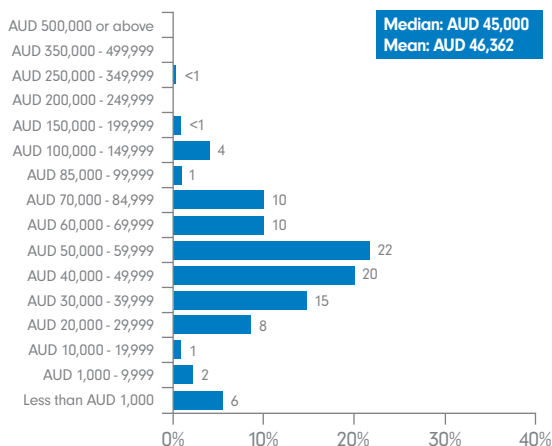
Median: AUD 71,170
Mean: AUD 63,219



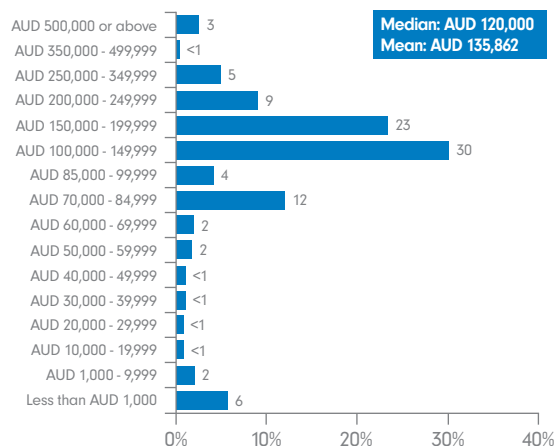
Perceived household income decile by objective decile



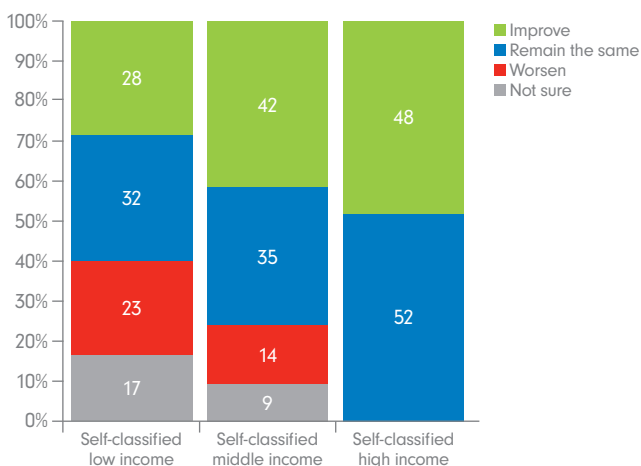
What annual post-tax earnings qualify a 'typical' household as 'low income'?



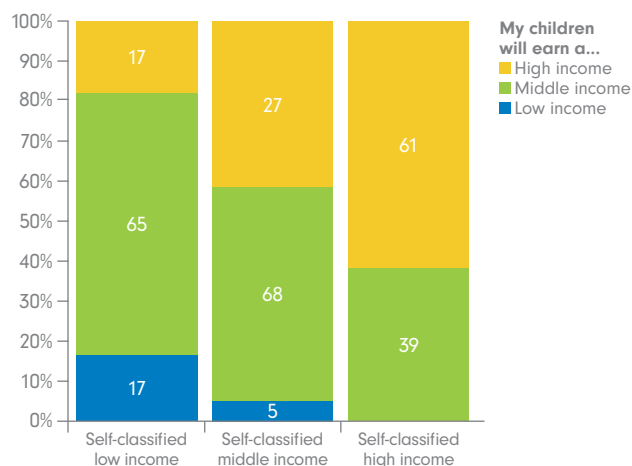
What annual post-tax earnings qualify a 'typical' household as 'high income'?



How do you expect your household income category to change in the next ten years?

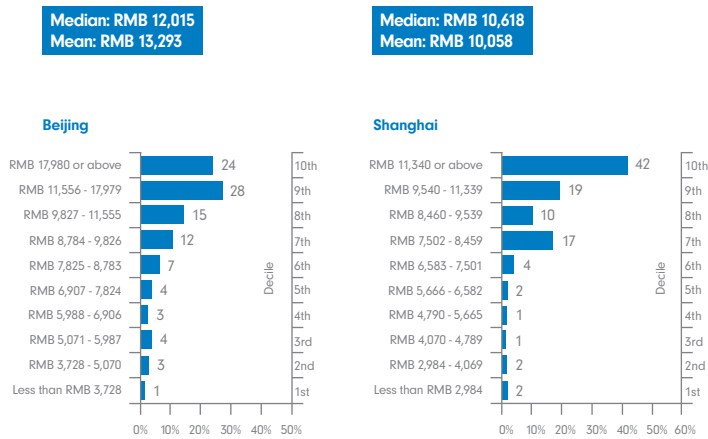


Which category would you expect your children to be in when they reach their 40s?

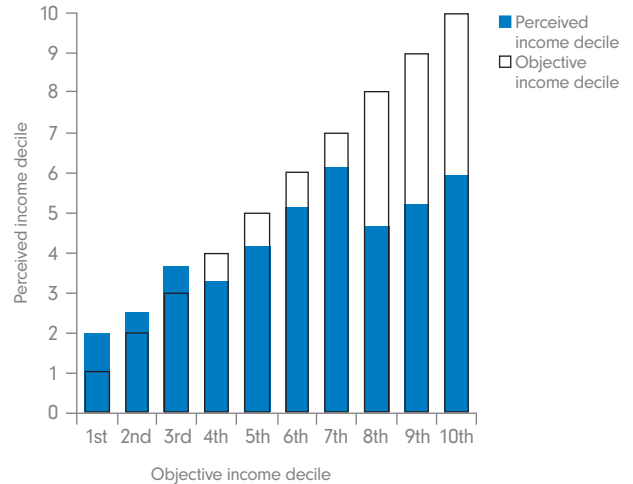


China

Respondents by monthly pre-tax household income

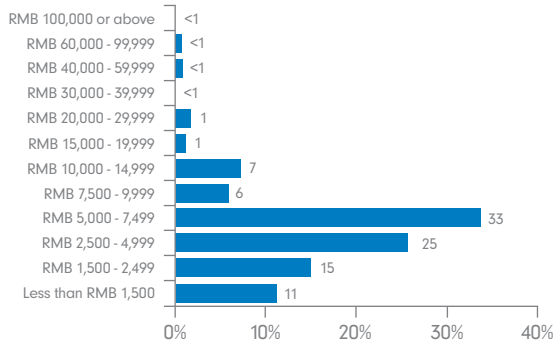


Perceived household income decile by objective decile



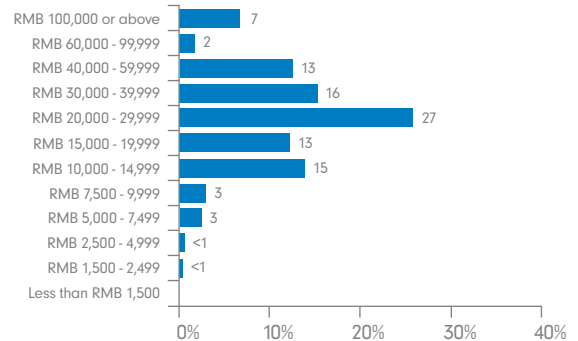
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?

Median: RMB 4,500
Mean: RMB 5,520

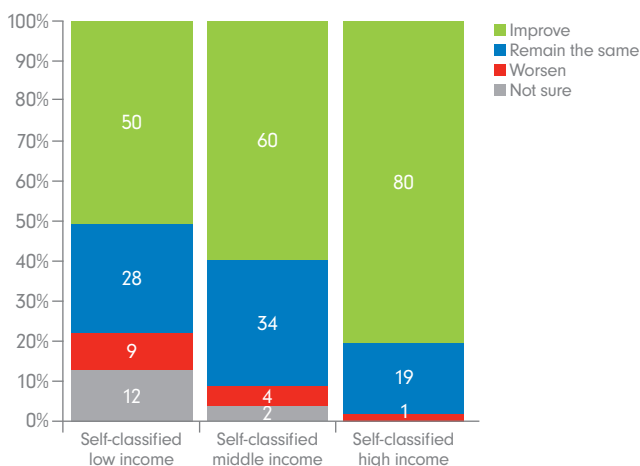


What monthly pre-tax earnings qualify a 'typical' household as 'high income'?

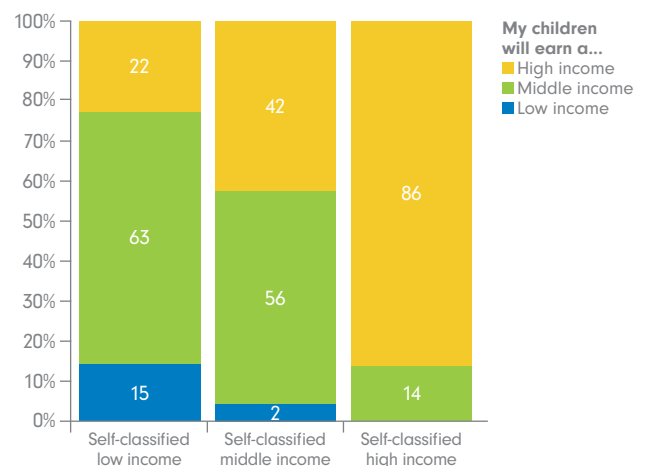
Median: RMB 20,000
Mean: RMB 33,160



How do you expect your household income category to change in the next ten years?



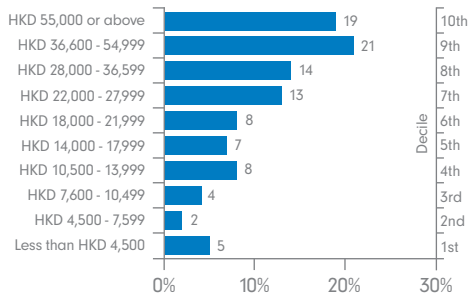
Which category would you expect your children to be in when they reach their 40s?



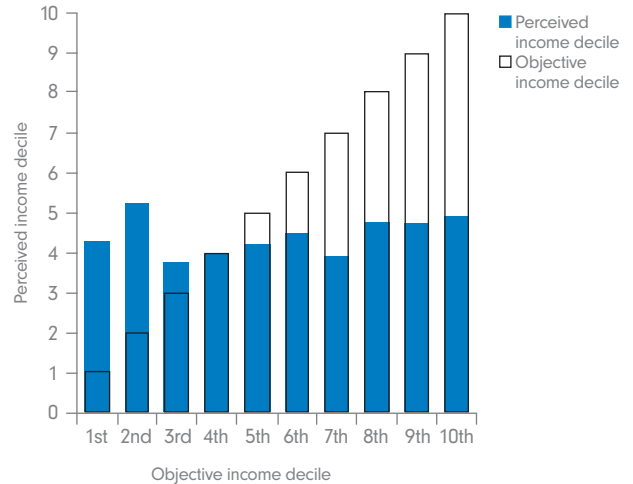
Hong Kong

Respondents by monthly pre-tax household income

Median: HKD 30,448
Mean: HKD 33,778

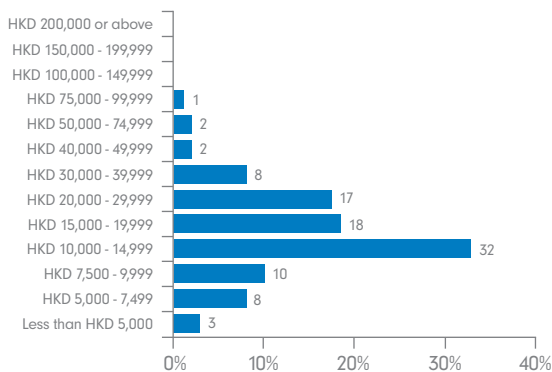


Perceived household income decile by objective decile



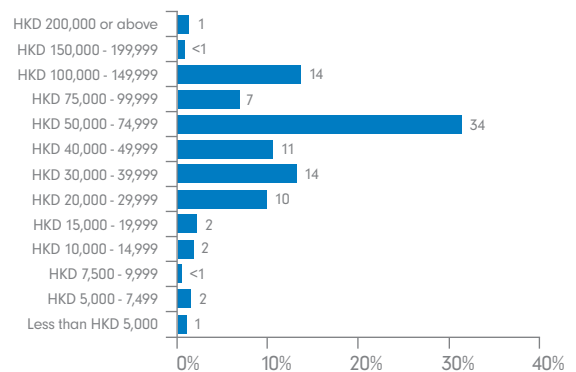
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?

Median: HKD 12,000
Mean: HKD 16,027

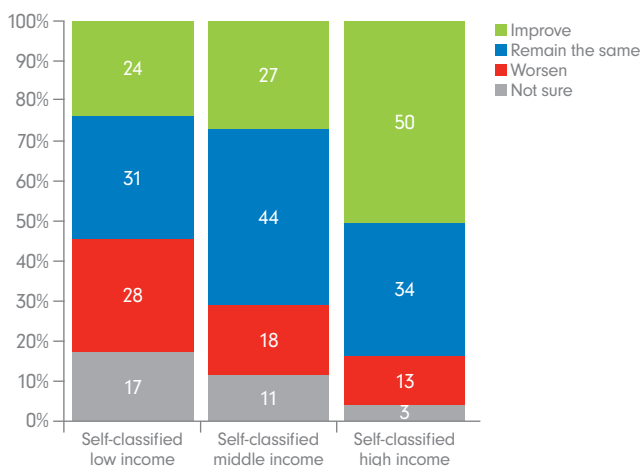


What monthly pre-tax earnings qualify a 'typical' household as 'high income'?

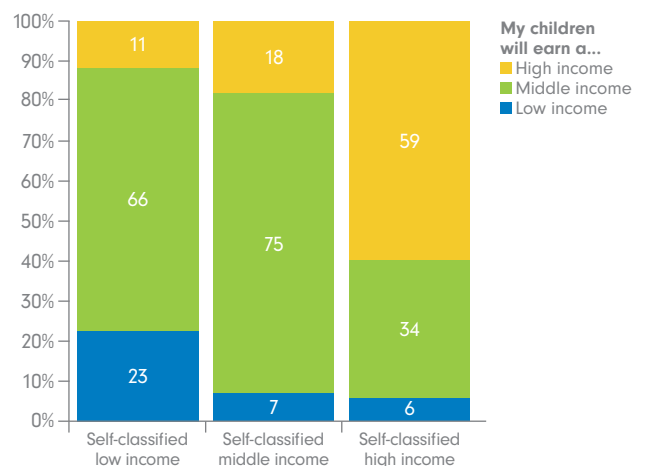
Median: HKD 50,000
Mean: HKD 58,164



How do you expect your household income category to change in the next ten years?

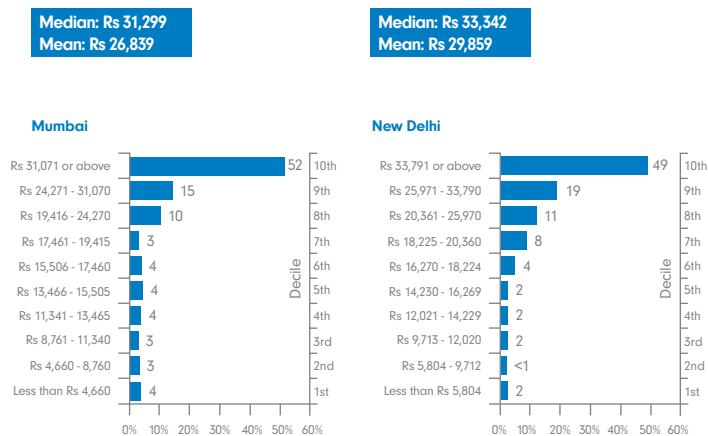


Which category would you expect your children to be in when they reach their 40s?

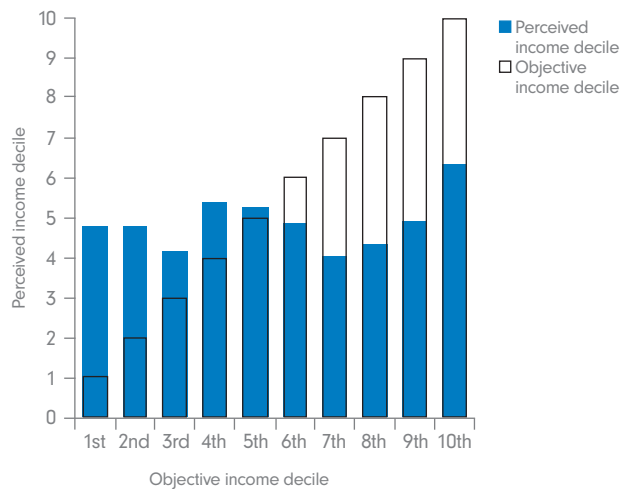


India

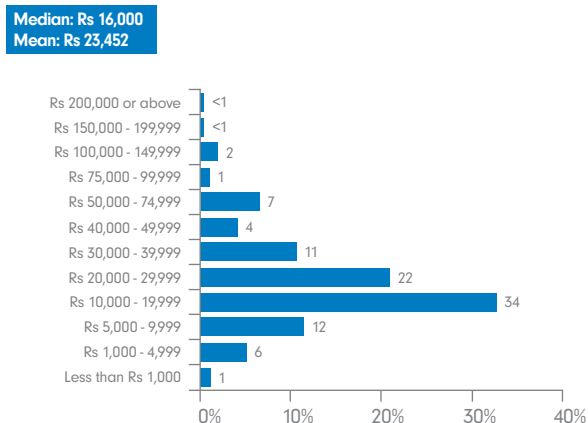
Respondents by monthly post-tax household income



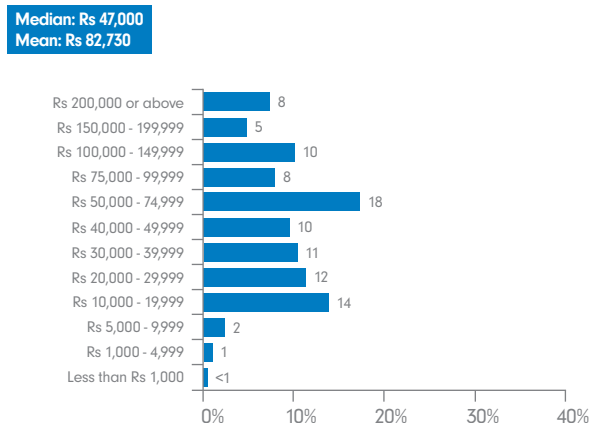
Perceived household income decile by objective decile



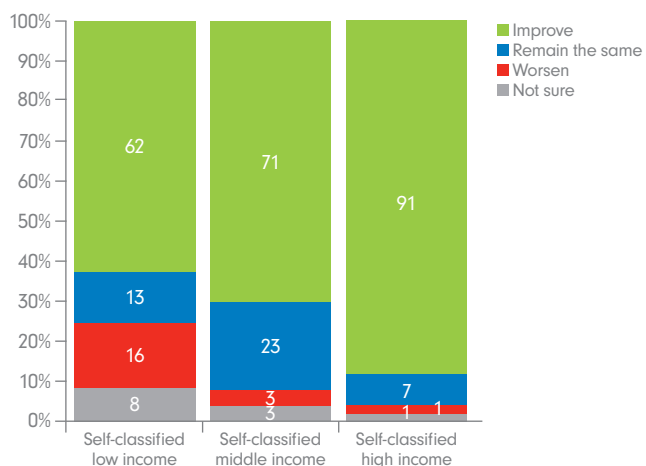
What monthly post-tax earnings qualify a 'typical' household as 'low income'?



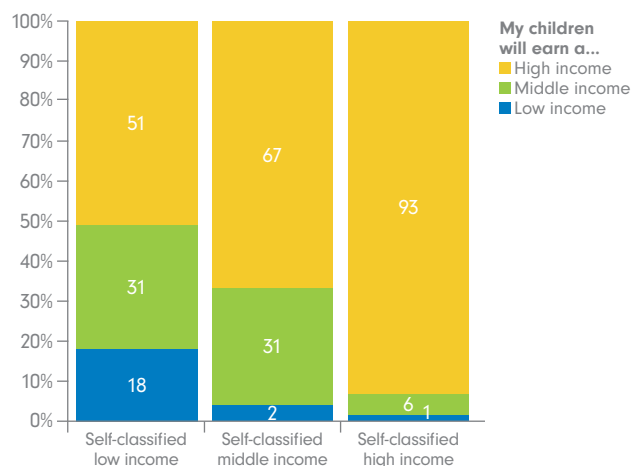
What monthly post-tax earnings qualify a 'typical' household as 'high income'?



How do you expect your household income category to change in the next ten years?



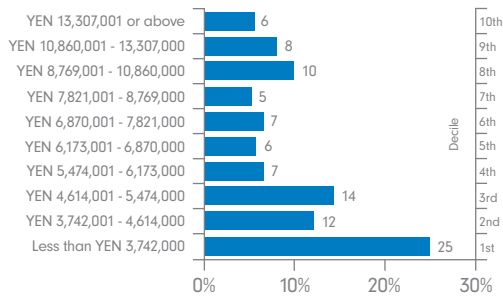
Which category would you expect your children to be in when they reach their 40s?



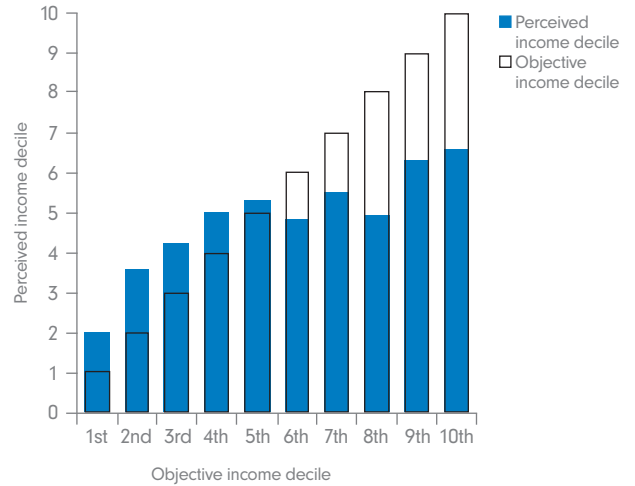
Japan

Respondents by annual pre-tax household income

Median: YEN 5,369,406
Mean: YEN 6,552,580

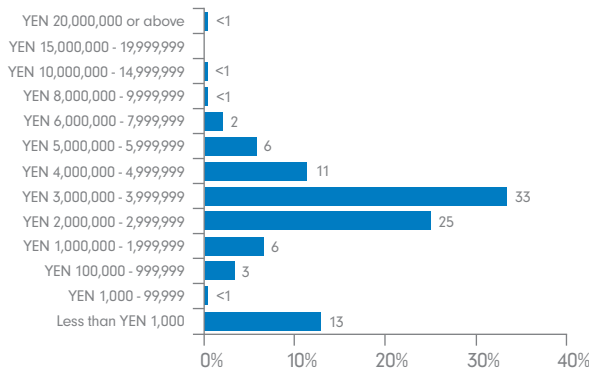


Perceived household income decile by objective decile



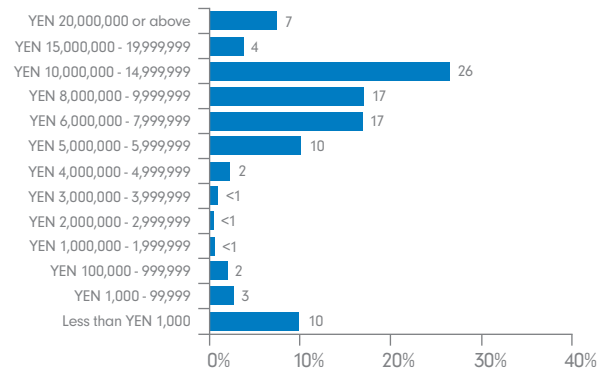
What annual pre-tax earnings qualify a 'typical' household as 'low income'?

Median: YEN 3,000,000
Mean: YEN 2,653,487

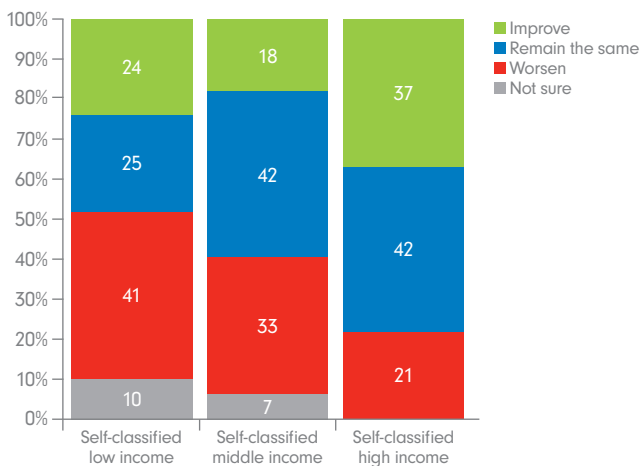


What annual pre-tax earnings qualify a 'typical' household as 'high income'?

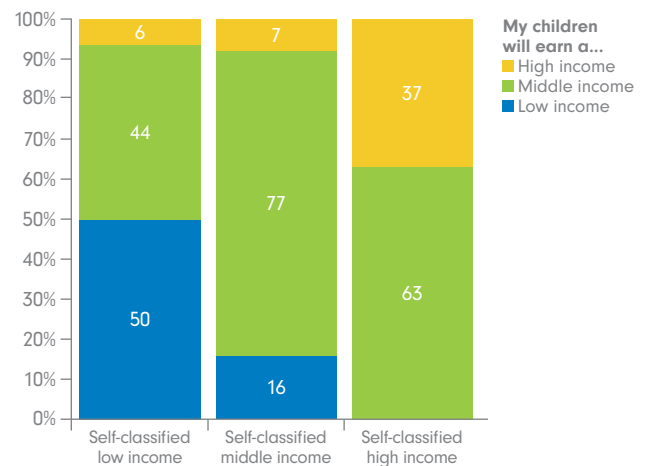
Median: YEN 8,000,000
Mean: YEN 8,904,697



How do you expect your household income category to change in the next ten years?



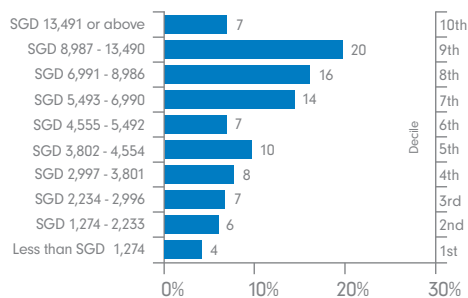
Which category would you expect your children to be in when they reach their 40s?



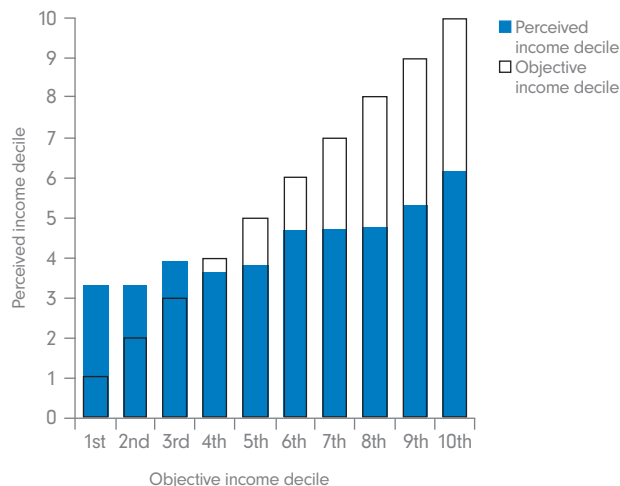
Singapore

Respondents by monthly pre-tax household income

Median: SGD 6,262
Mean: SGD 6,898

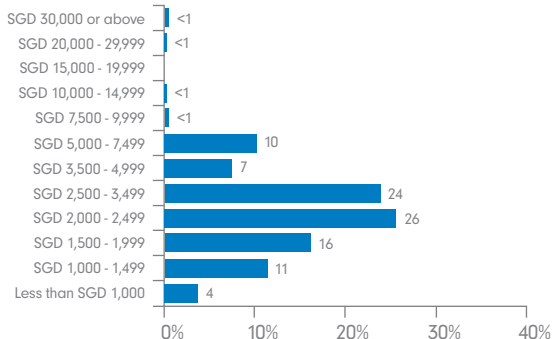


Perceived household income decile by objective decile



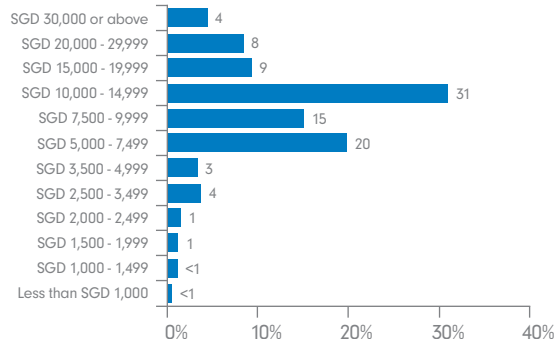
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?

Median: SGD 2,000
Mean: SGD 2,662

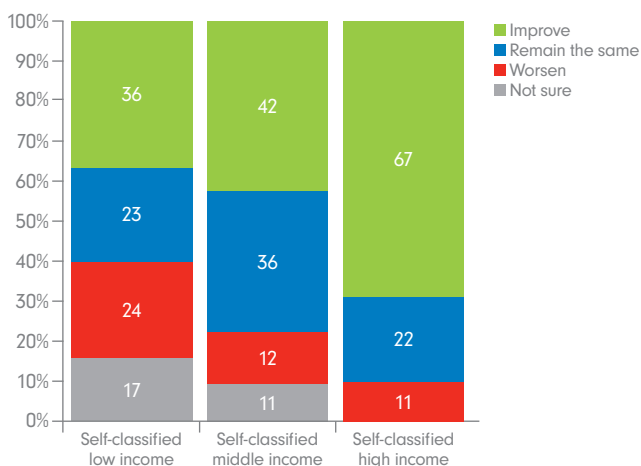


What monthly pre-tax earnings qualify a 'typical' household as 'high income'?

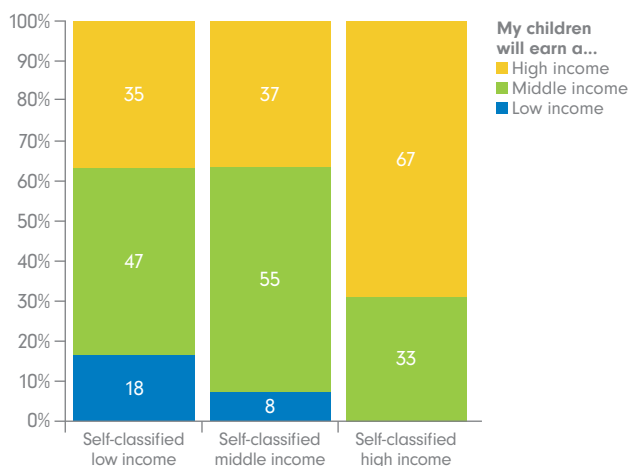
Median: SGD 10,000
Mean: SGD 12,140



How do you expect your household income category to change in the next ten years?



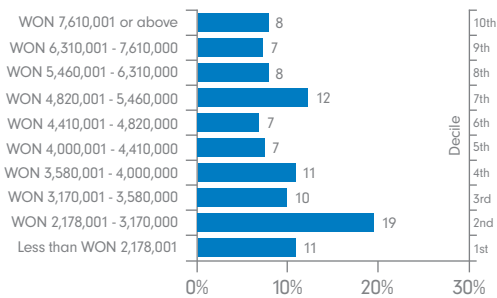
Which category would you expect your children to be in when they reach their 40s?



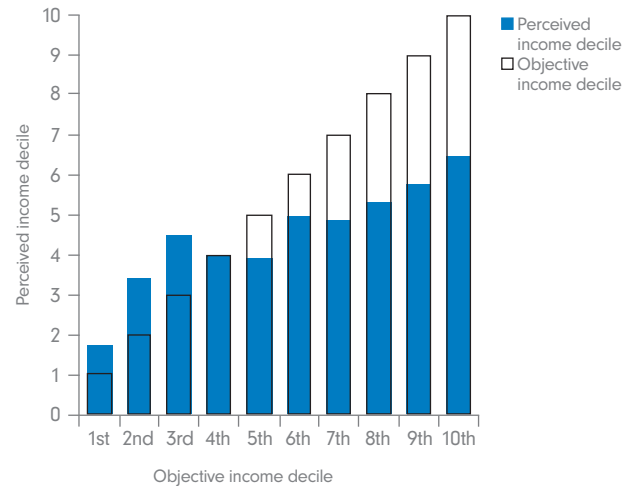
South Korea

Respondents by monthly post-tax household income

Median: WON 3,935,932
Mean: WON 4,268,100

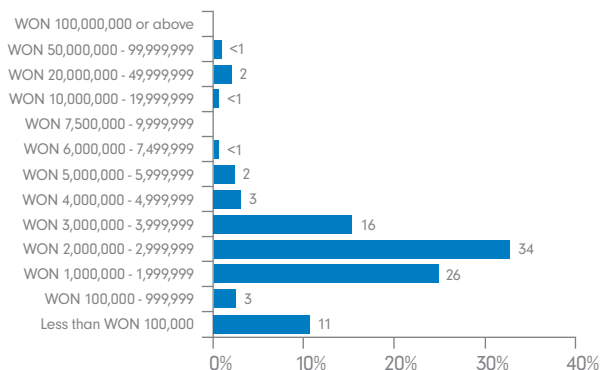


Perceived household income decile by objective decile



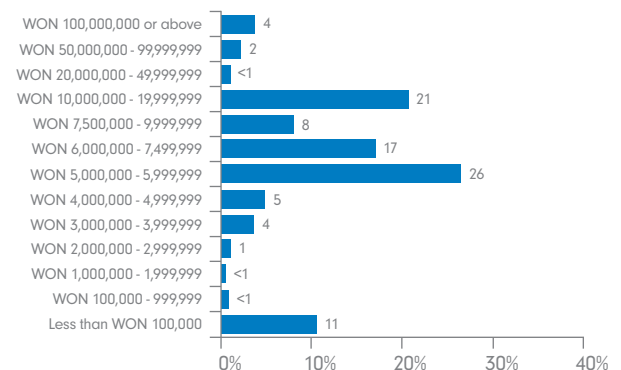
What monthly post-tax earnings qualify a 'typical' household as 'low income'?

Median: WON 2,000,000
Mean: WON 3,045,131

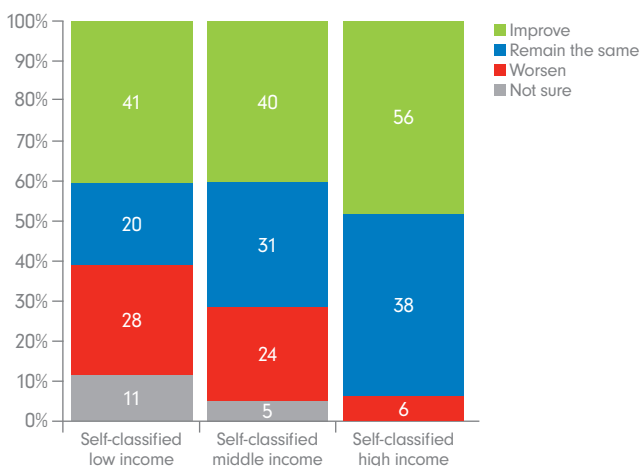


What monthly post-tax earnings qualify a 'typical' household as 'high income'?

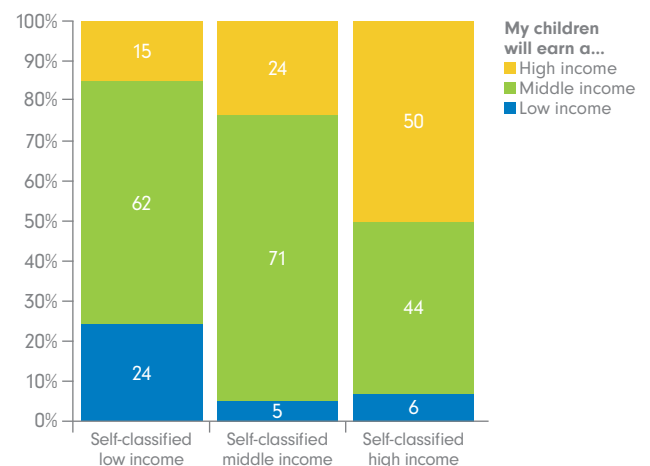
Median: WON 6,000,000
Mean: WON 11,484,088



How do you expect your household income category to change in the next ten years?



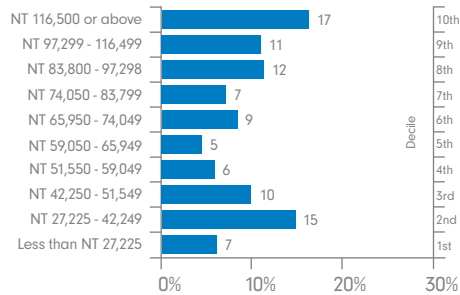
Which category would you expect your children to be in when they reach their 40s?



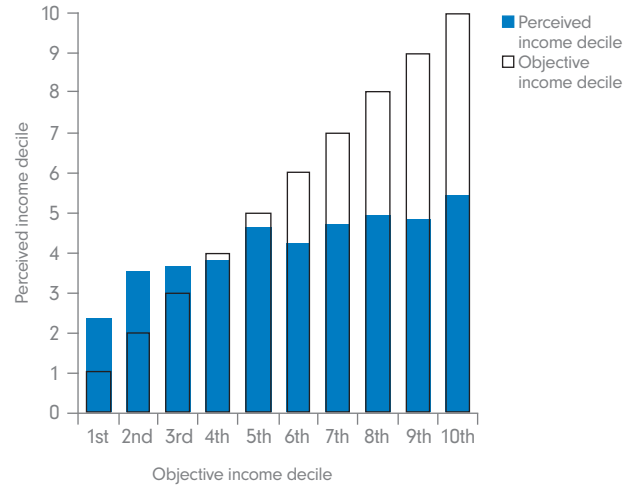
Taiwan

Respondents by monthly pre-tax household income

Median: NT 72,024
Mean: NT 74,479

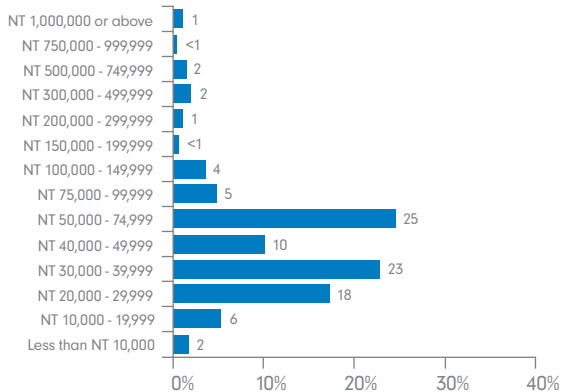


Perceived household income decile by objective decile



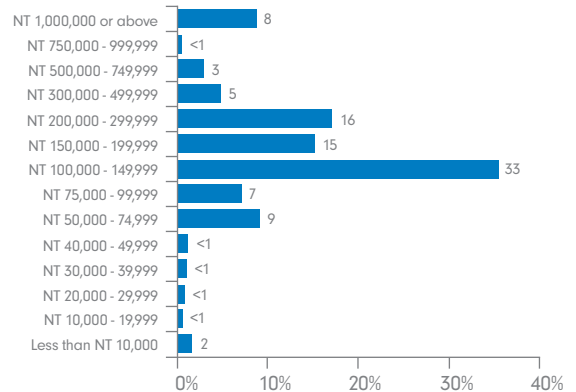
What monthly pre-tax earnings qualify a 'typical' household as 'low income'?

Median: NT 40,000
Mean: NT 71,959

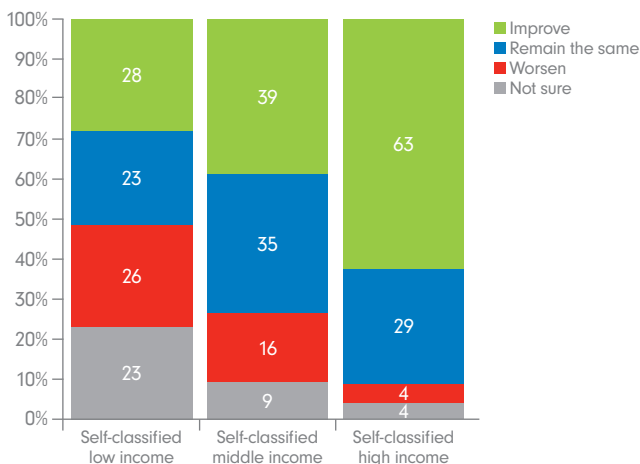


What monthly pre-tax earnings qualify a 'typical' household as 'high income'?

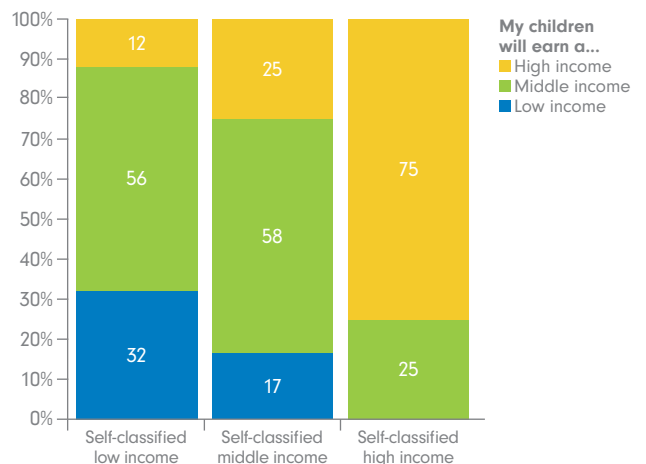
Median: NT 120,000
Mean: NT 270,490



How do you expect your household income category to change in the next ten years?



Which category would you expect your children to be in when they reach their 40s?



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