The Changing of Old Age Support and Retirement-Age Policy Discussion in China

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Motivations

• China is facing a fast ageing as a developing country with largest population.
• Decrease of labor force supply and risk of bankruptcy of Pension are both important factors of China’s sustainable economic development.
• Raising retirement age has come into the public horizon and been a policy choice that Chinese government could choose.
• What is the status quo? Does such a policy will ease the problems? What could be expected if China raise retirement age?
• NTA provides an perspective of economic retirement which is not only about retirement age, but also lifecycle economic support.
I. Backgrounds: Demographic transition and Economic Challenges in China

II. Challenges of Old Age Support in China
   – Sources of Financial Support for the Elderly (65+)
   – Decreasing of working life and Economic Retirement age

III. Effects of Extending Retirement Age

IV. Policy Discussion
I. Demographic transition and Economic Challenges in China

• 1. Demographic transition in China

Fast “original demographic transition” -- a process with decreases in mortality followed, usually after a lag, by decreases in fertility

Fast new kind of demographic transition -- additional years of life being realized late in the life, saying a longevity transition

China is moving fast towards a aging society: fertility decline and mortality decline leading to a decrease in the population of non-working young and a decrease in total dependency, followed by an increase in the population of non-working old that leads to an eventual increase in total dependency.

TFR in China: 1950-2010

TFR fell sharply in early 1990s. It has long kept at very low level.

Sources: Data before 2009 are from Development Planning and Information Division of National population and Family Planning Commission & China POPIN (2010). Data of 2010 is from Chinese Population Census Office of State Council (2012).
## The Longevity Transition in Asia and Select Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Change in years lived past 65 as a percentage of change in life expectancy at birth, 1990-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Male: 72.7% Female: 87.0%</td>
</tr>
<tr>
<td>South Korea</td>
<td>Male: 45.4% Female: 57.1%</td>
</tr>
<tr>
<td>China</td>
<td>Male: 51.9% Female: 40.6%</td>
</tr>
<tr>
<td>Philippines</td>
<td>Male: 26.2% Female: 36.0%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Male: 26.1% Female: 35.7%</td>
</tr>
<tr>
<td>Brazil</td>
<td>Male: 34.2% Female: 35.0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Male: 32.5% Female: 34.7%</td>
</tr>
<tr>
<td>India</td>
<td>Male: 23.6% Female: 25.8%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Male: 20.7% Female: 25.4%</td>
</tr>
</tbody>
</table>

Economic Challenges

“Ageing before wealthy”

Japan
1973
$3000

China
2008
$3000

Korea
1987
$3000
Age structure in China (2010)

Source: The sixth population census
Potential Growth Rate after the First Demographic Dividend

According to Cai Fang’s Research
Debate on Extending Retirement Age in China

• The MOHRSS announced in June 2012 that it will gradually raise retirement age.
  – the shortage of labor forces and social security funds under ageing.

• Proposed by the government officials but against by most of the public.

• Shortly after June, the MOHRSS denied such a policy change. But the debate about retirement age continues.
II. Challenges of Old Age Support in China

1. Sources of financial support for the elderly (65+)

• Support system for the elderly
  - Labor income
  - Public transfers
    • Medical care
  - Familial transfers
  - Lifecycle saving

Source: Andrew Mason
Sources of financial support for the elderly (65+) in China

- 62.2
- 51.8
- 42.7
- 38.5
- 25.3
- 19.8
- 28
- 19.5
- 16.3

Labor income: decreasing

60+ 65+ 75+ 60+ 65+ 75+ 60+ 65+ 75+


- Health (Public)
- Pension Benefits
- Other Public Transfers
- Private Transfers
- Asset
- Labor Income
Sources of financial support for the elderly (65+) in China

Public transfers: increasing

<table>
<thead>
<tr>
<th>Year</th>
<th>60+</th>
<th>65+</th>
<th>75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>2.29</td>
<td>3.15</td>
<td>4.01</td>
</tr>
<tr>
<td>2002</td>
<td>8.81</td>
<td>11.4</td>
<td>13.7</td>
</tr>
<tr>
<td>2007</td>
<td>13.4</td>
<td>15.8</td>
<td>19.7</td>
</tr>
</tbody>
</table>

- Health (Public)
- Pension Benefits
- Other Public Transfers
- Private Transfers
- Asset
- Labor Income
Sources of financial support for the elderly (65+) in China

Private transfer: decreasing
Sources of financial support for the elderly (65+) in China

Lifecycle saving: increasing
Old-Age Support Systems in China and Some Other Asian Economies

- Family support is still a main living source of the elderly.
- But China is moving quickly to a so called modern market economy with Increasing public transfers (with broader social welfare).

Source: data from NTA website
II. Challenges of Old Age Support in China


Increasing higher education, with no increase in retirement age, so shorter working life; increasing support for elderly; resulting in increasing total LCD.

Official retirement age
Real retirement age
Economic retirement age (consumption equals labor income)
Changes in the Lifecycle Deficit in China

Changes in Lifecycle Deficit, 1995 and 2002, China
Normalized to average labor income of 30-49 year olds

- Increasing higher education
- Shorter working life with higher peak income
- Increasing support for the elderly

40 → 37 years

1995 LCD
2002 LCD
Changes in the Lifecycle Deficit in China

Changes in Lifecycle Deficit, 1995 - 2007, China
Normalized to average labor income of 30-49 year olds

- Shorter working life with higher peak income
- Increasing support for the elderly

40 → 37 years
Changes in the Lifecycle Deficit in China

Changes in Lifecycle Deficit, 1995 - 2009, China
Normalized to average labor income of 30-49 year olds

Increasing higher education
Shorter working life with higher peak income
Increasing support for the elderly

40 → 35 years

# Working Life Changing in China and Some Asian Countries

<table>
<thead>
<tr>
<th>Lifecycle Deficit</th>
<th>Cutting Ages</th>
<th>Working Life</th>
<th>Cutting Ages</th>
<th>Working Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-2002</td>
<td>20 60</td>
<td>40</td>
<td>23 60</td>
<td>37</td>
</tr>
<tr>
<td>2002-2007</td>
<td>23 60</td>
<td>37</td>
<td>21 58</td>
<td>37</td>
</tr>
<tr>
<td>2007-2009</td>
<td>21 58</td>
<td>37</td>
<td>21 56</td>
<td>35</td>
</tr>
</tbody>
</table>

The working life was getting shorter as in some other Asian NTA countries, but China’s was still longer than in these other countries.

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<tr>
<th>Lifecycle Deficit</th>
<th>Cutting ages</th>
<th>Working Life</th>
<th>Lifecycle Deficit</th>
<th>Cutting ages</th>
<th>Working Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan 2004</td>
<td>26 60</td>
<td>34</td>
<td>Thailand 1996</td>
<td>25 59</td>
<td>34</td>
</tr>
<tr>
<td>S. Korea 2000</td>
<td>24 56</td>
<td>32</td>
<td>Thailand 2004</td>
<td>26 58</td>
<td>32↓</td>
</tr>
<tr>
<td>U.S. 2003</td>
<td>26 59</td>
<td>33</td>
<td>Philippines 99</td>
<td>27 60</td>
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</tr>
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<td>Indonesia 05</td>
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<td>29</td>
</tr>
</tbody>
</table>

Source: NTA dataset
Consumption is under calculated?! Working life is over estimated?

Source: Li Daokui and Xu Xiang (2012), The Rebalancing of the Chinese Economy
Effects of Extending Retirement Age

Projected LCD with Demographic Change, 1995-2050

Projected LCD since 1995 only with DE
Projected LCD since 2002 only with DE
Projected LCD since 2007 only with DE
Projected LCD since 2009 only with DE
Projected LCD by raising retirement age 1-3 years

- Projected LCD based on 2007 LCD
- Extending 1 year
- Extending 2 year
- Extending 3 year
New jobs needed by raising retirement age

Baseline: labor force participation in 2010.
IV. Discussions

• In short term, raising retirement age do not affect much on lifecycle deficit, because the elderly have lower labor income. The direct effect is to decrease the payment of pension and lower the pension deficit.

• In long-run, raising retirement age is a priority of policy choices to support sustainable development, but it need multiple supporting policies.
  – The older the person is in China, the lower their level of education is. How to create enough job for theme?
  – Easing family planning policy to increase the fertility rate or stop its deceasing is also an urgent policy issue
THANKS!