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

Ling Li

Peking University

Qiulin Chen

Chinese Academy of Social Sciences

Xu Wang

Peking University

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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.

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II. Challenges of Old Age Support in China

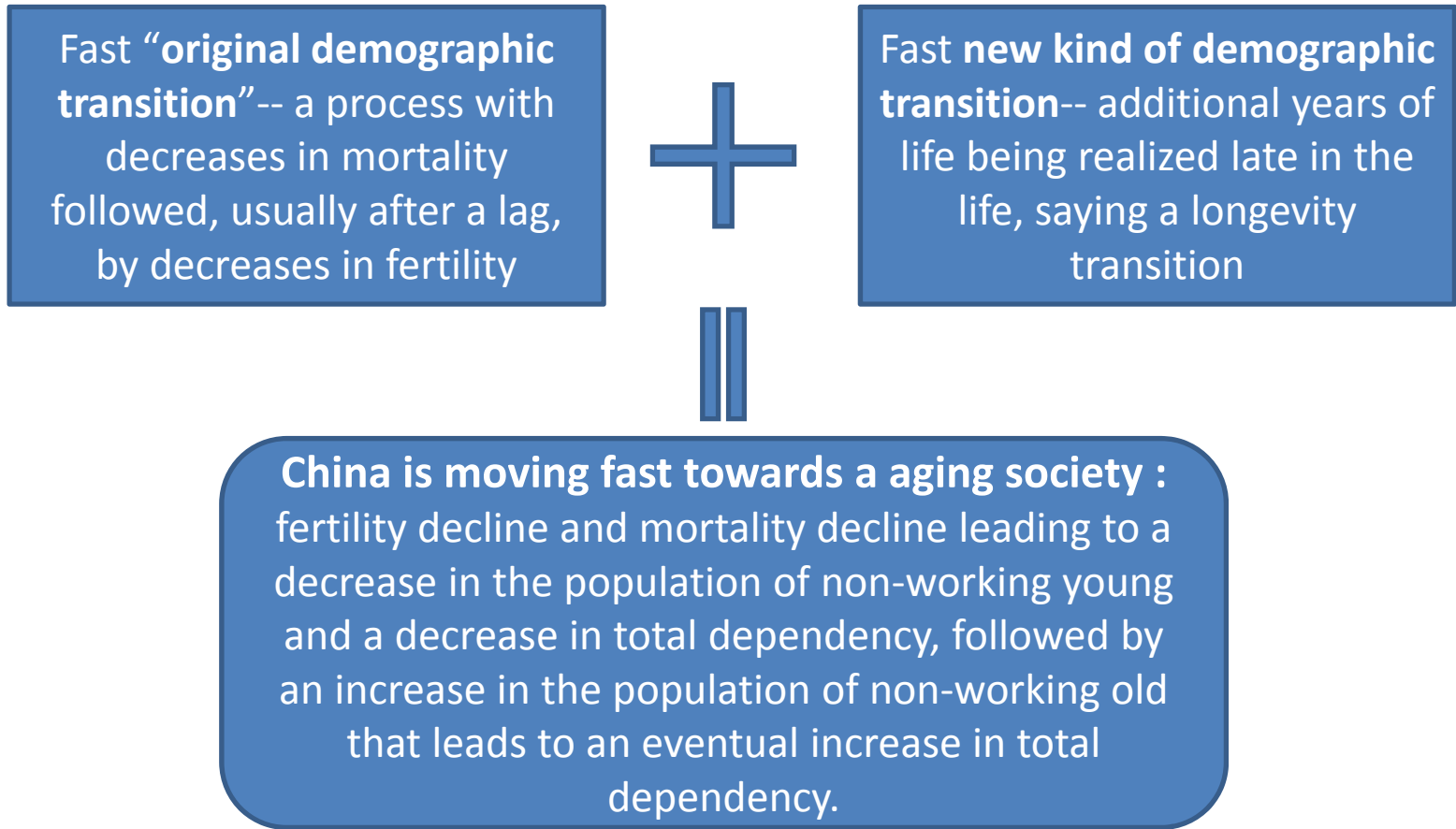
- Sources of Financial Support for the Elderly (65+)
- Decreasing of working life and Economic Retirement age

III. Effects of Extending Retirement Age

IV. Policy Discussion

I. Demographic transition and Economic Challenges in China

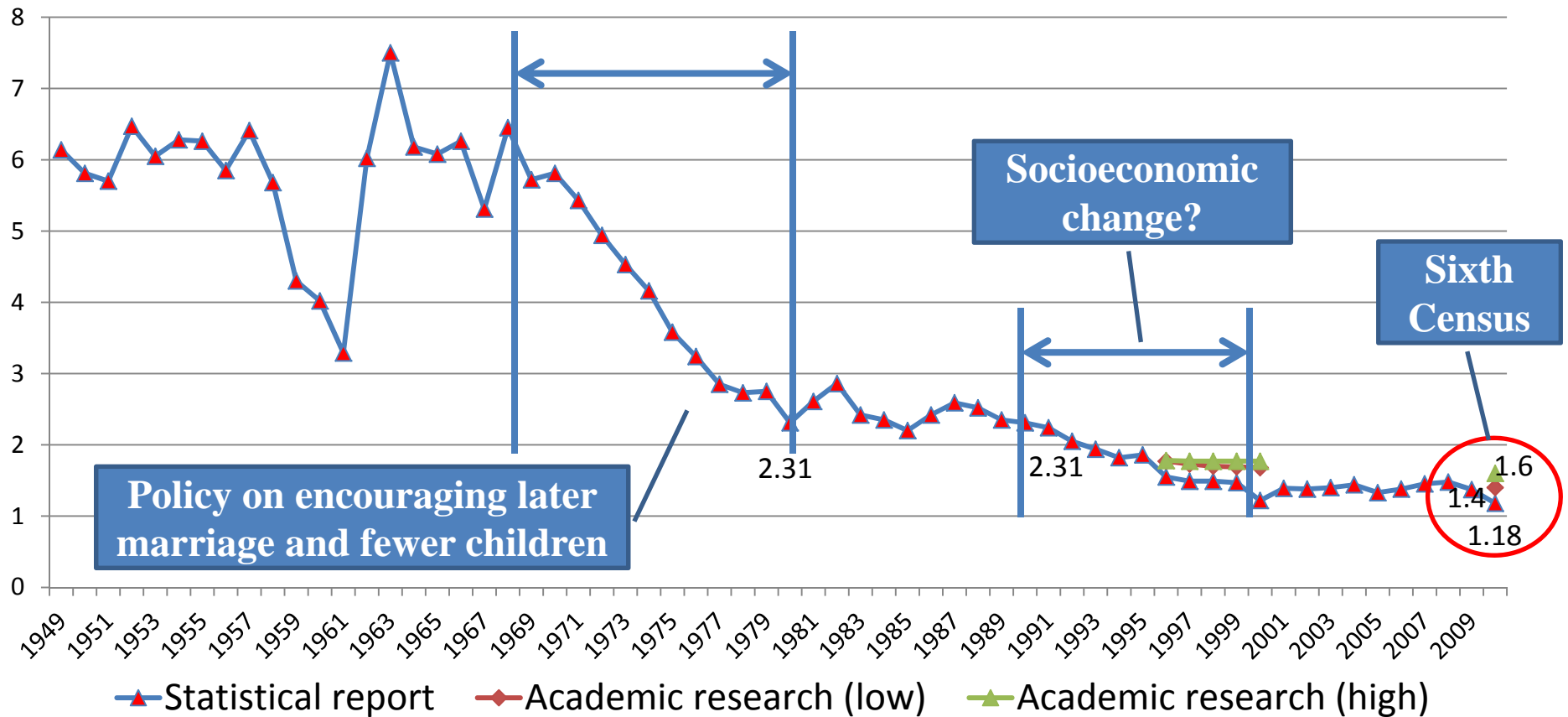
- 1. Demographic transition in China



Source: Karen Eggleston & Victor Fuchs, "The New Demographic Transition: Most Gains in Life Expectancy Now Realized Late in Life", *Journal of Economic Perspectives* summer 2012.

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

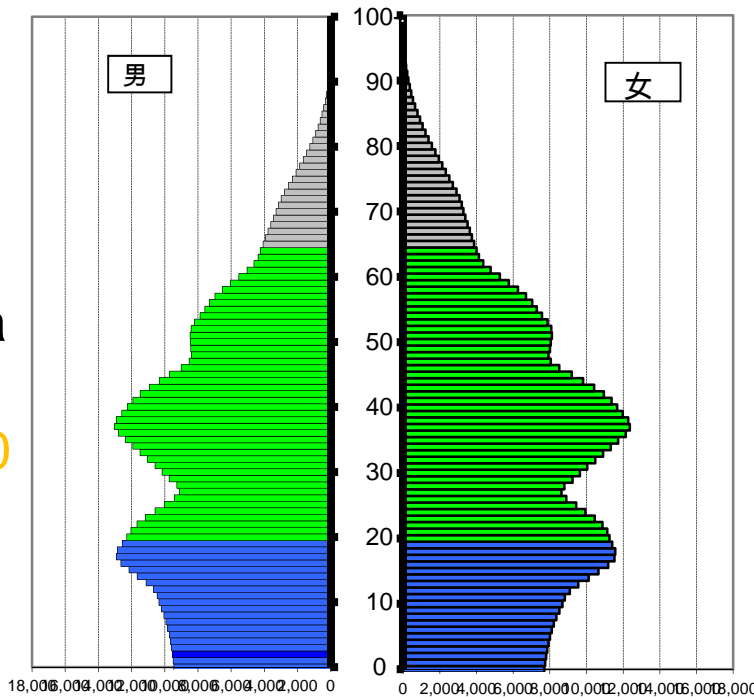
Country	Change in years lived past 65 as a percentage of change in life expectancy at birth, 1990-2010	
	Male	Female
Japan	72.7%	87.0%
South Korea	45.4%	57.1%
China	51.9%	40.6%
Philippines	26.2%	36.0%
Indonesia	26.1%	35.7%
Brazil	34.2%	35.0%
Vietnam	32.5%	34.7%
India	23.6%	25.8%
Bangladesh	20.7%	25.4%

Source: Karen Eggleston & Victor Fuchs, "The New Demographic Transition: Most Gains in Life Expectancy Now Realized Late in Life", *Journal of Economic Perspectives* summer 2012.

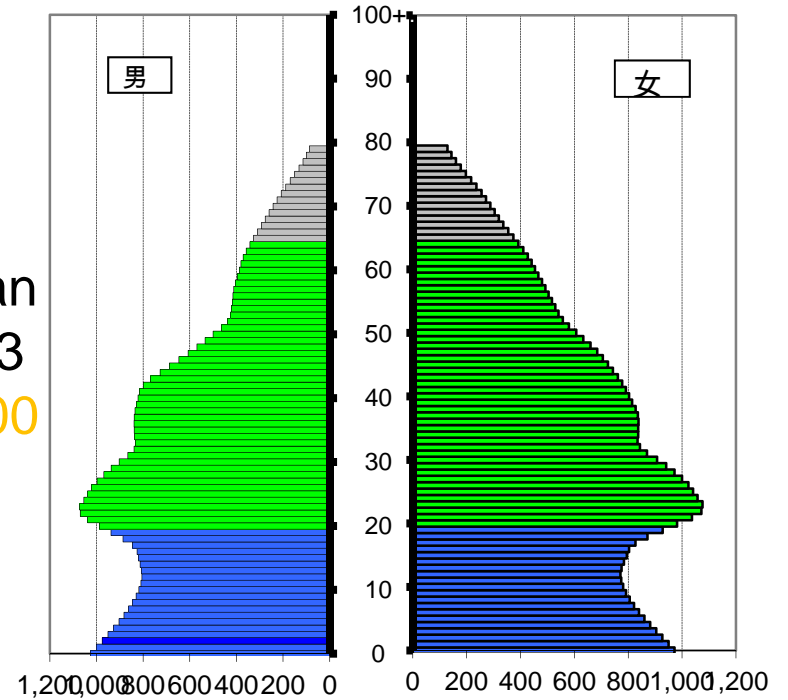
Economic Challenges

“Ageing before wealthy”

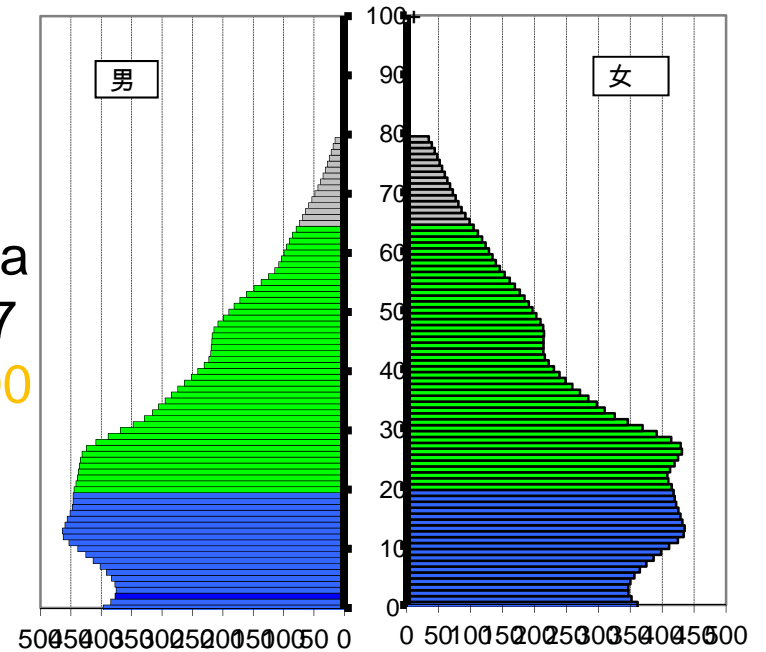
China
2008
\$3000



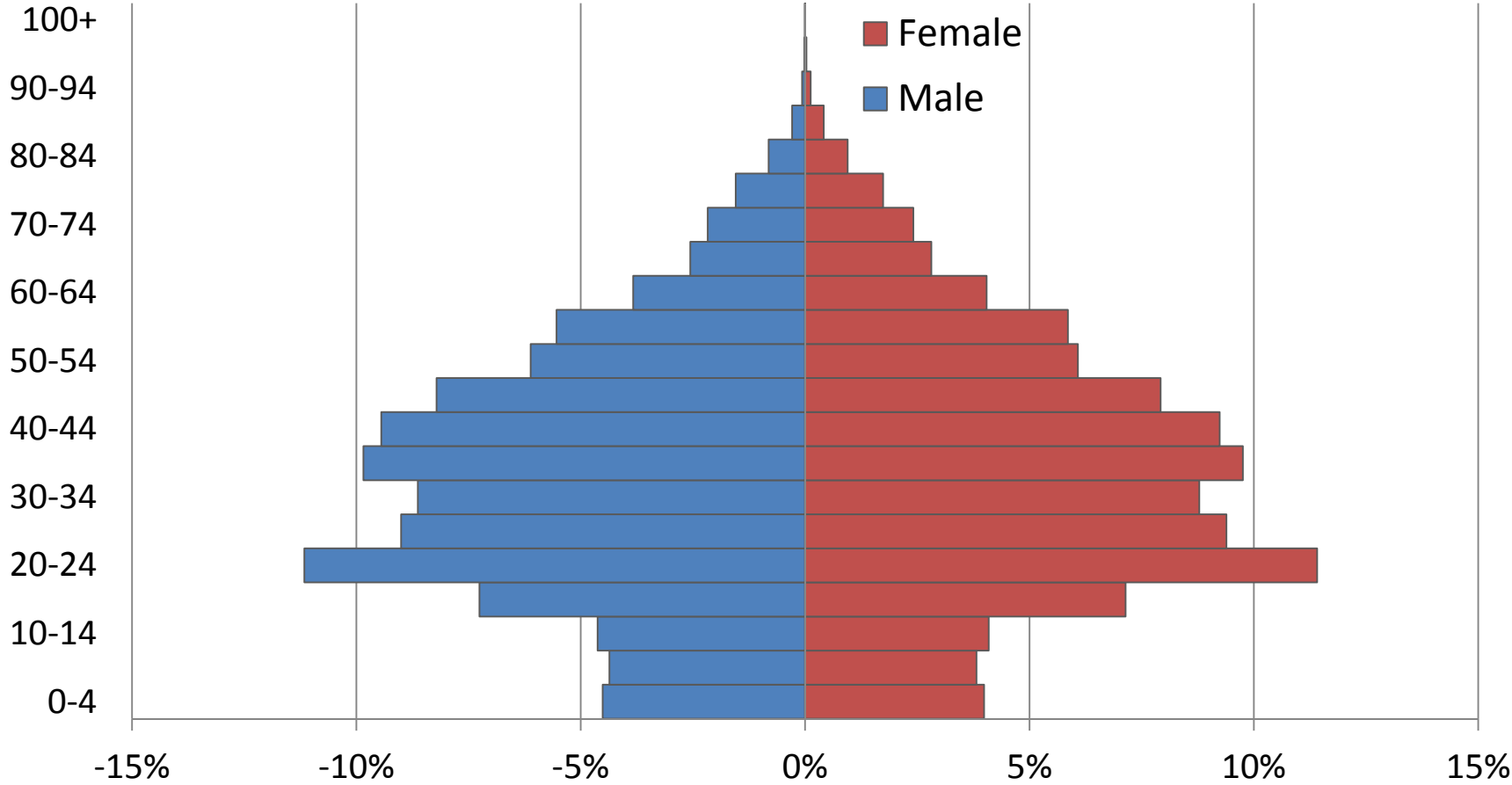
Japan
1973
\$3000



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

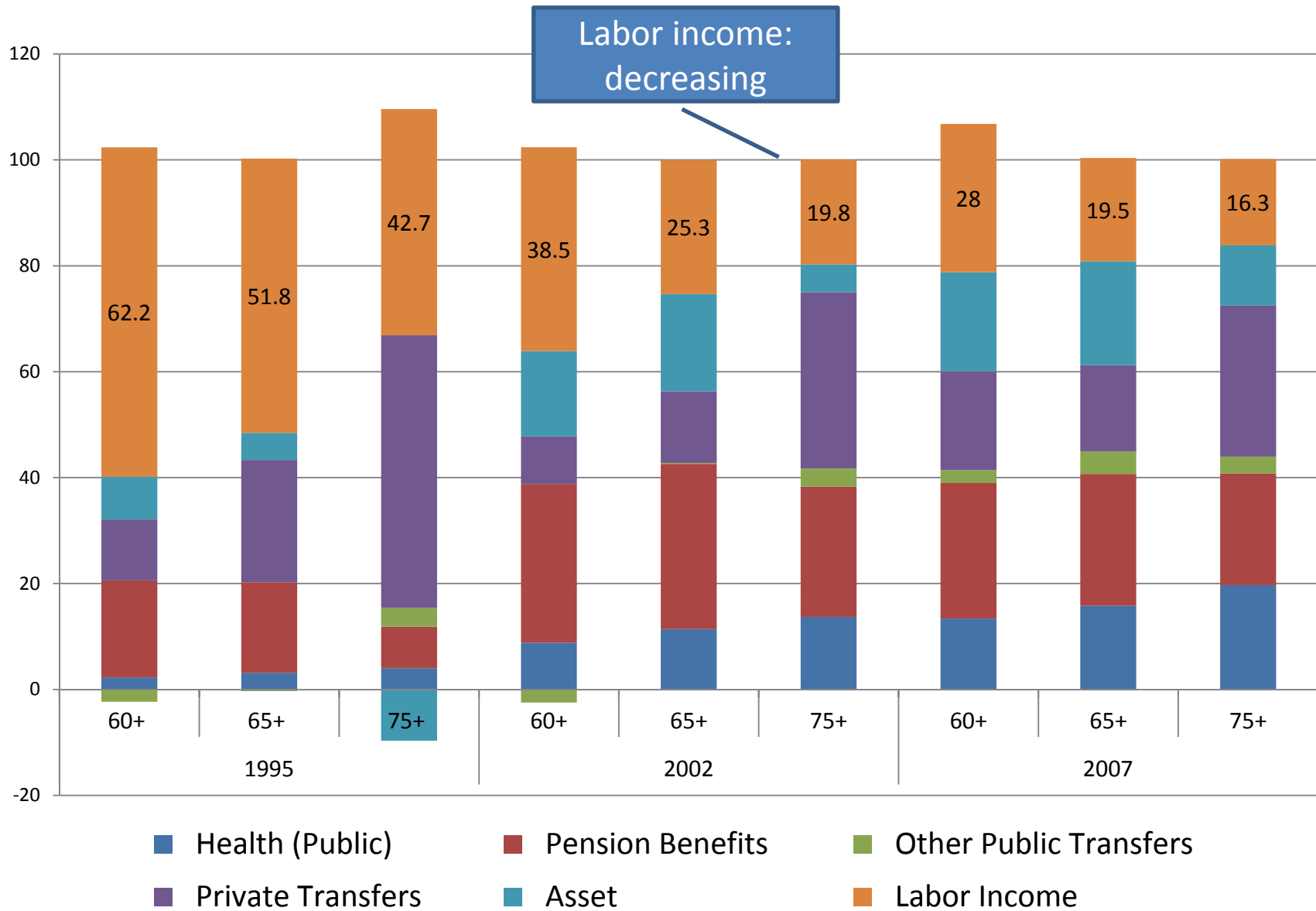
- The MOHRSS announced in June 2012 that it will gradually raise retirement age.
 - the shortage of labor forces and social security funds under ageing.
 - Official retirement age: 60 for men; 55 for female civil servants; 50 for female workers. Real retirement age: 53.
- Proposed by the government officials 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

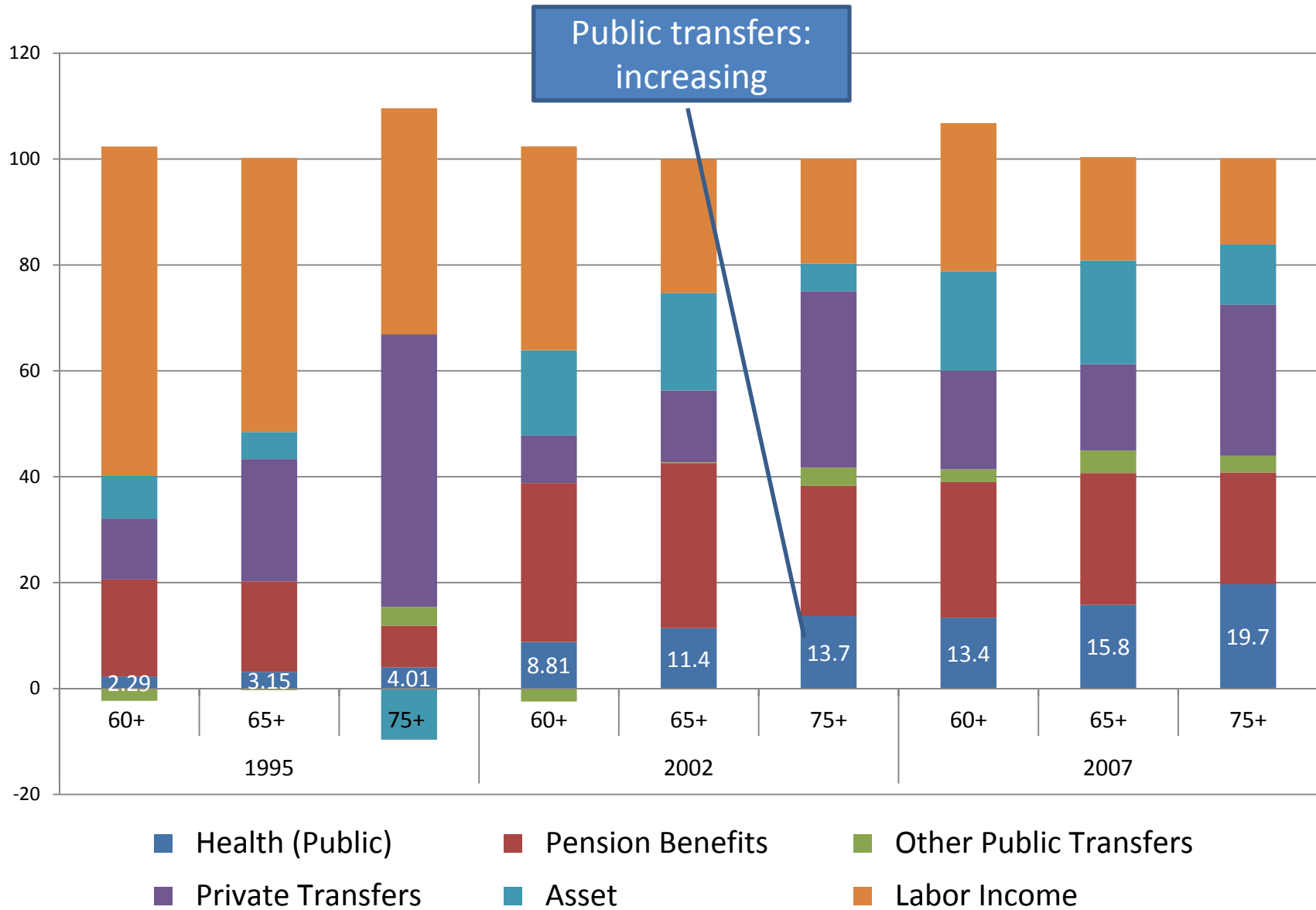
1. Sources of financial support for the elderly (65+)

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

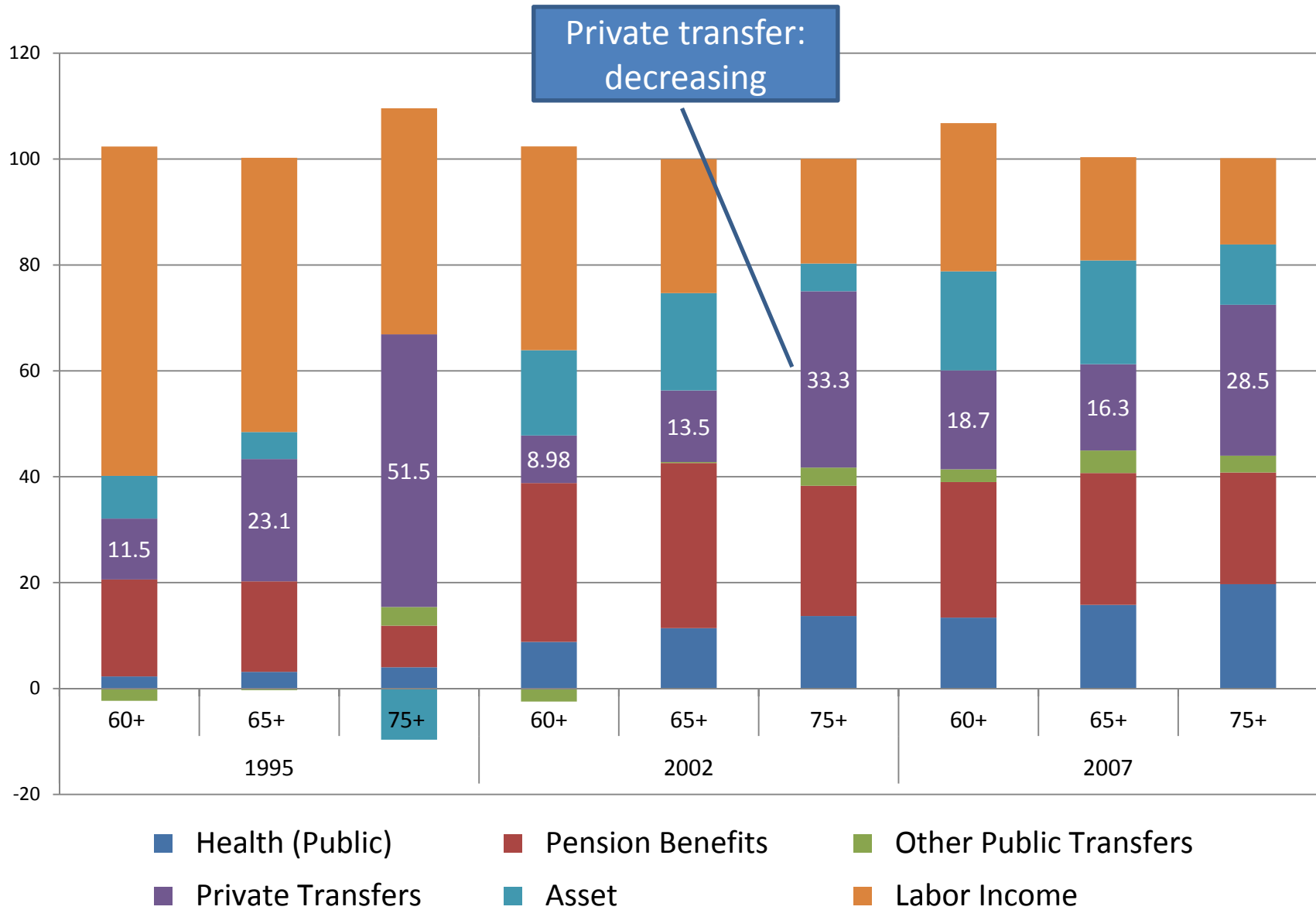
Sources of financial support for the elderly (65+) in China



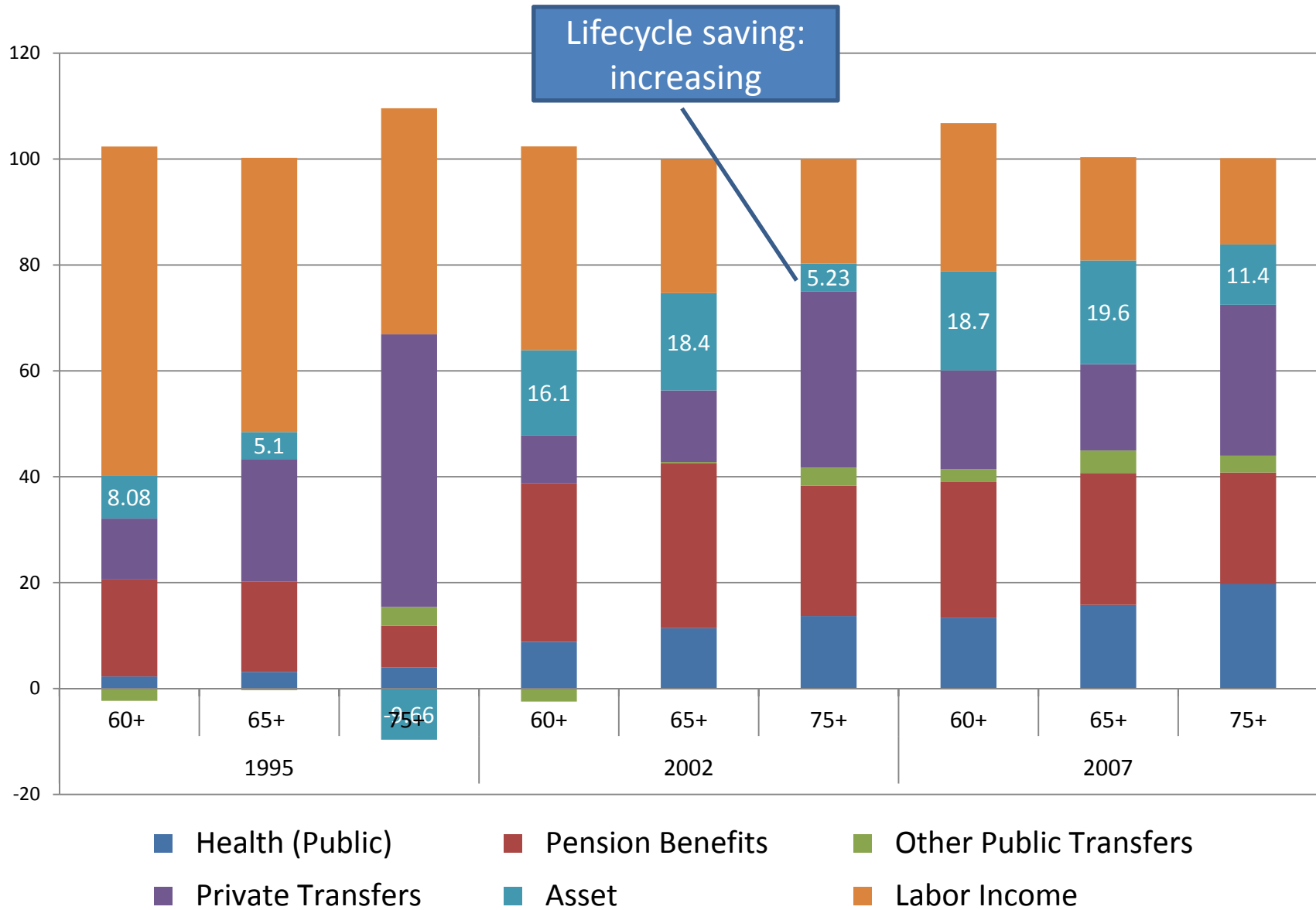
Sources of financial support for the elderly (65+) in China



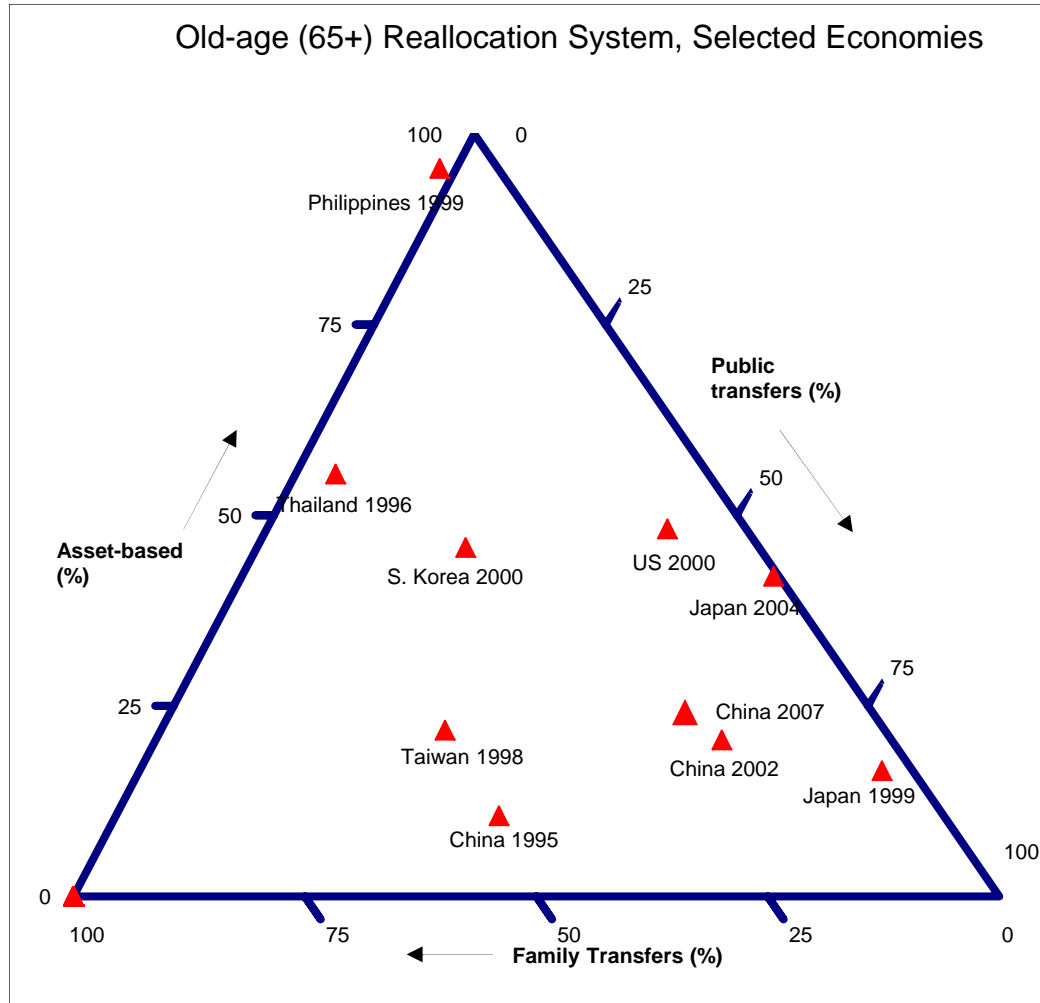
Sources of financial support for the elderly (65+) in China



Sources of financial support for the elderly (65+) in China



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

2. Decreasing of working life and Economic Retirement age (1995-2009)

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

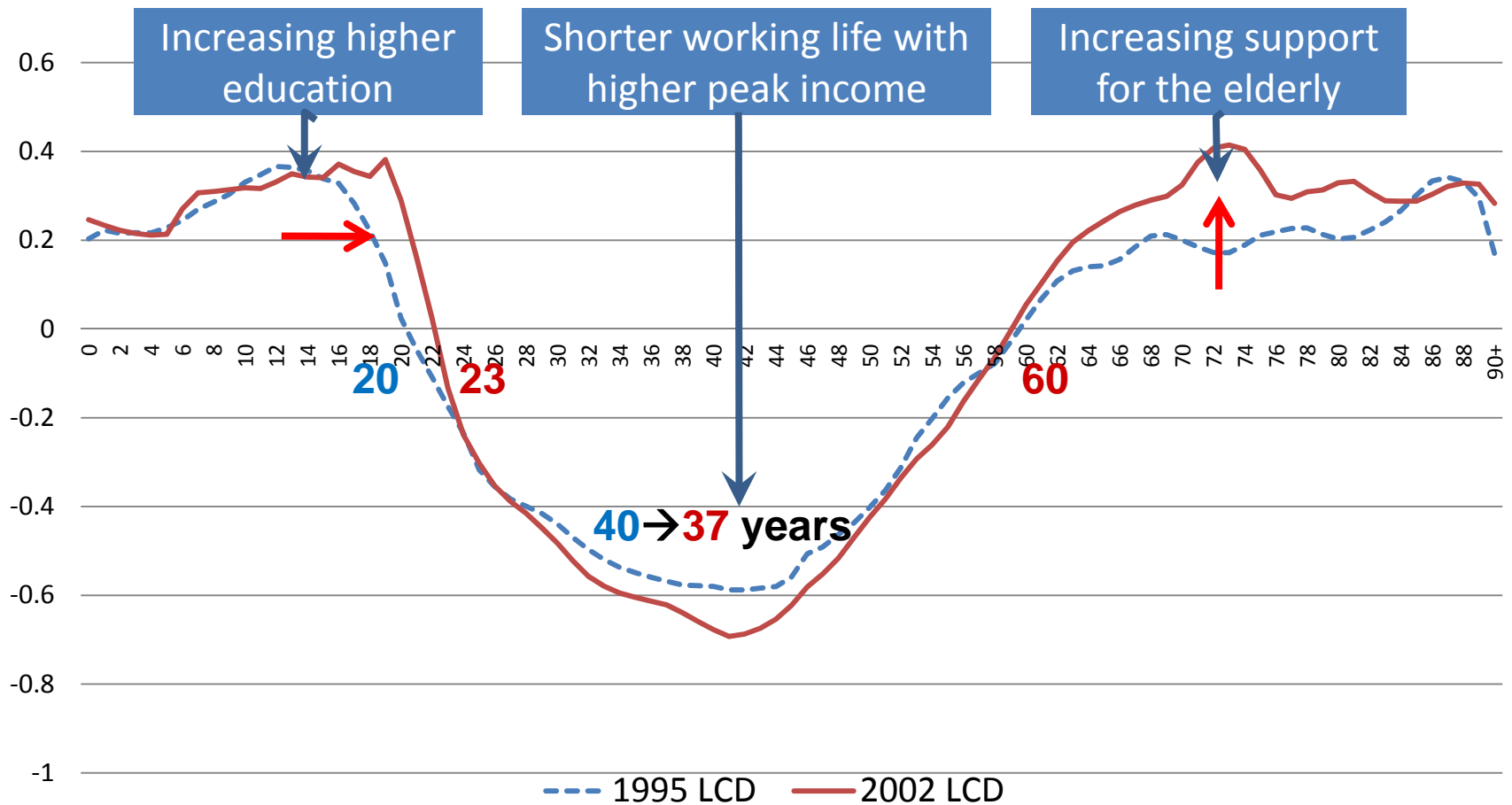
Official retirement age

Real retirement age

Economic retirement age (consumption equals labor income)

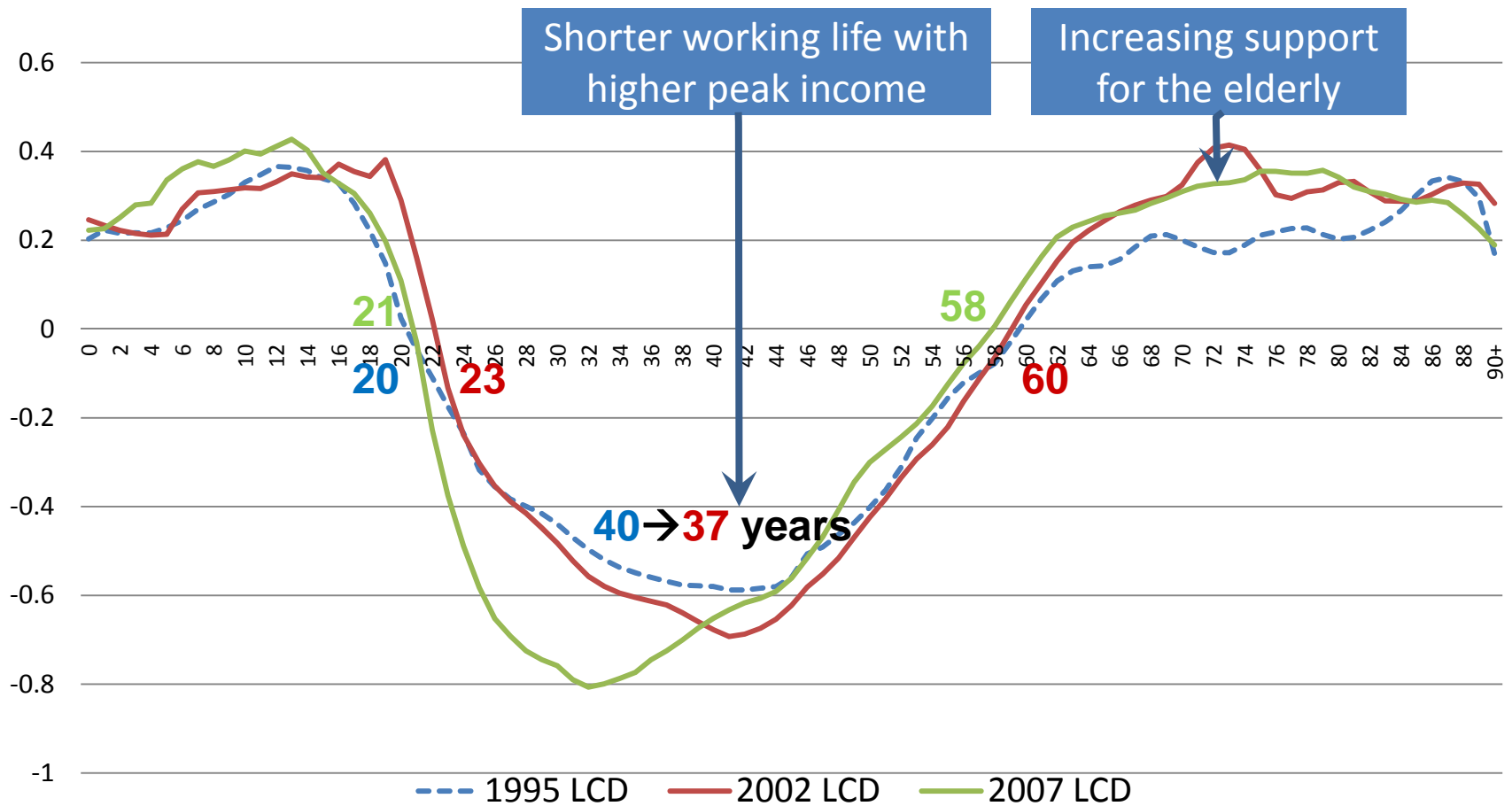
Changes in the Lifecycle Deficit in China

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



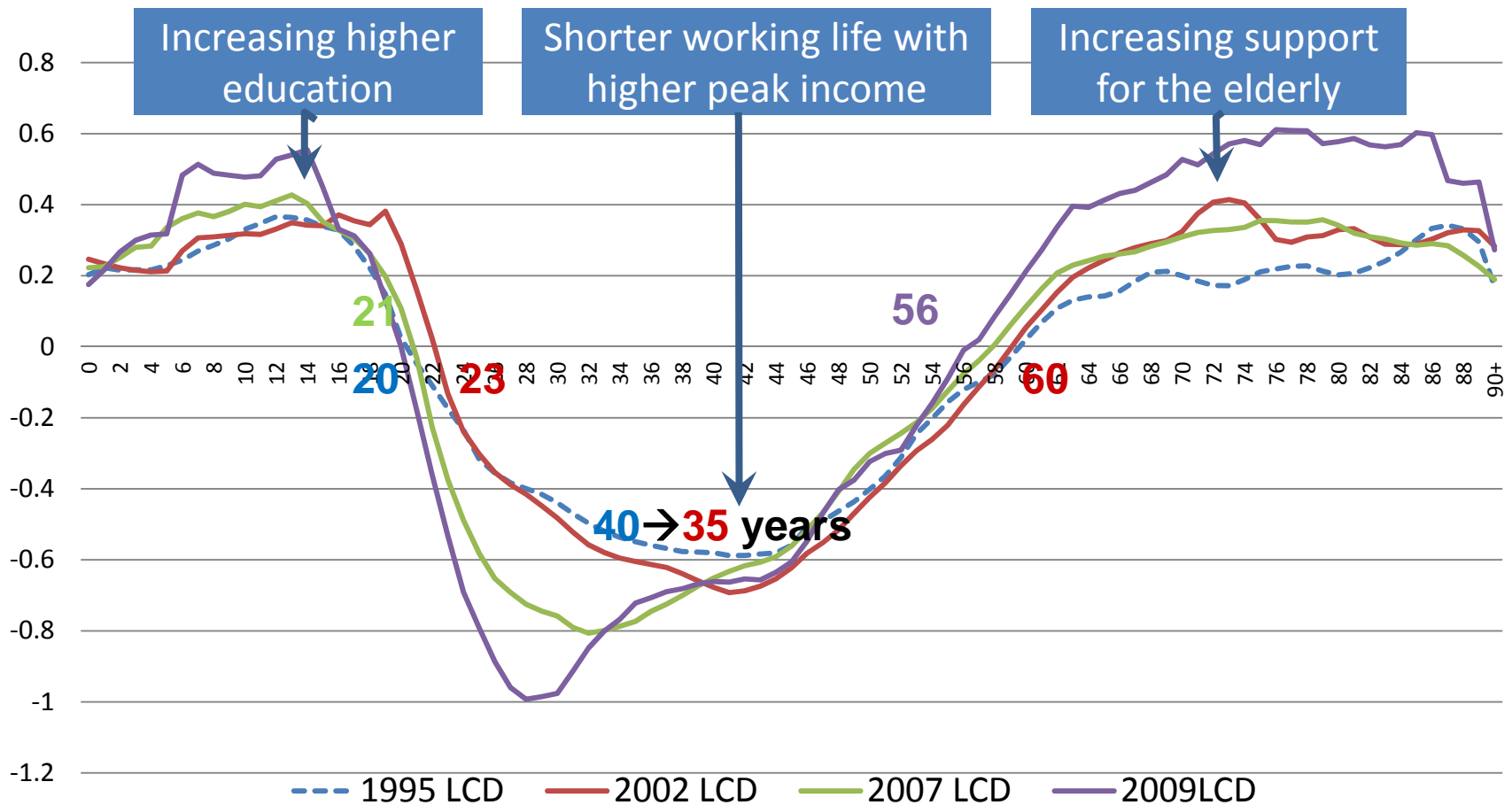
Changes in the Lifecycle Deficit in China

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



Changes in the Lifecycle Deficit in China

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



Working Life Changing in China and Some Asian Countries

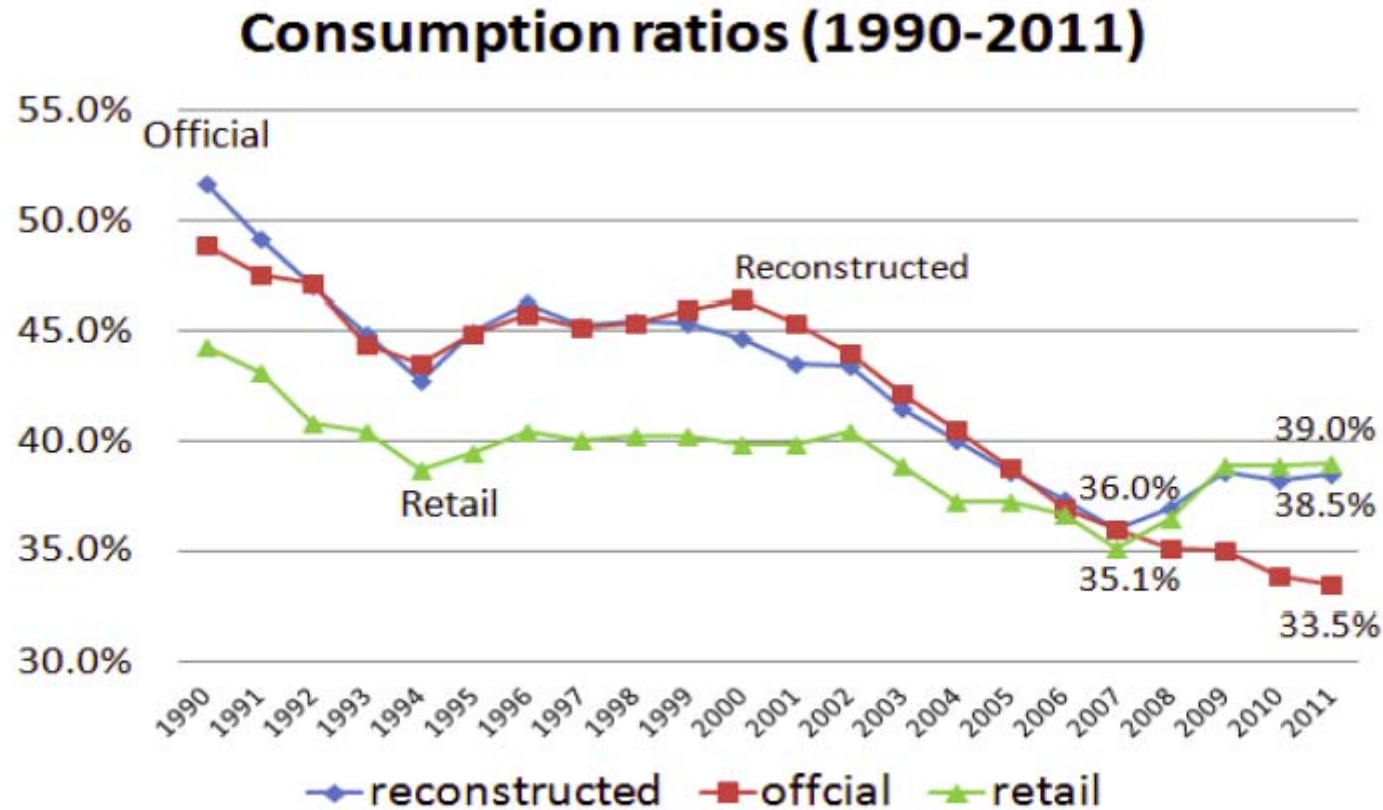
Lifecycle Deficit	Cutting Ages		Working Life	Cutting Ages		Working Life	
1995-2002	20	60	40	23	60	37	3 ↓
2002-2007	23	60	37	21	58	37	
2007-2009	21	58	37	21	56	35	2 ↓

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

Lifecycle Deficit	Cutting ages		Working Life	Lifecycle Deficit	Cutting ages		Working Life
Japan 2004	26	60	34	Thailand 1996	25	59	34
S. Korea 2000	24	56	32	Thailand 2004	26	58	32 ↓
U.S. 2003	26	59	33	Philippines 99	27	60	33
India 1999	27	63	36	Indonesia 99	28	59	31 ↓
India 2004	27	59	32 ↓	Indonesia 05	29	58	29

Source: NTA dataset

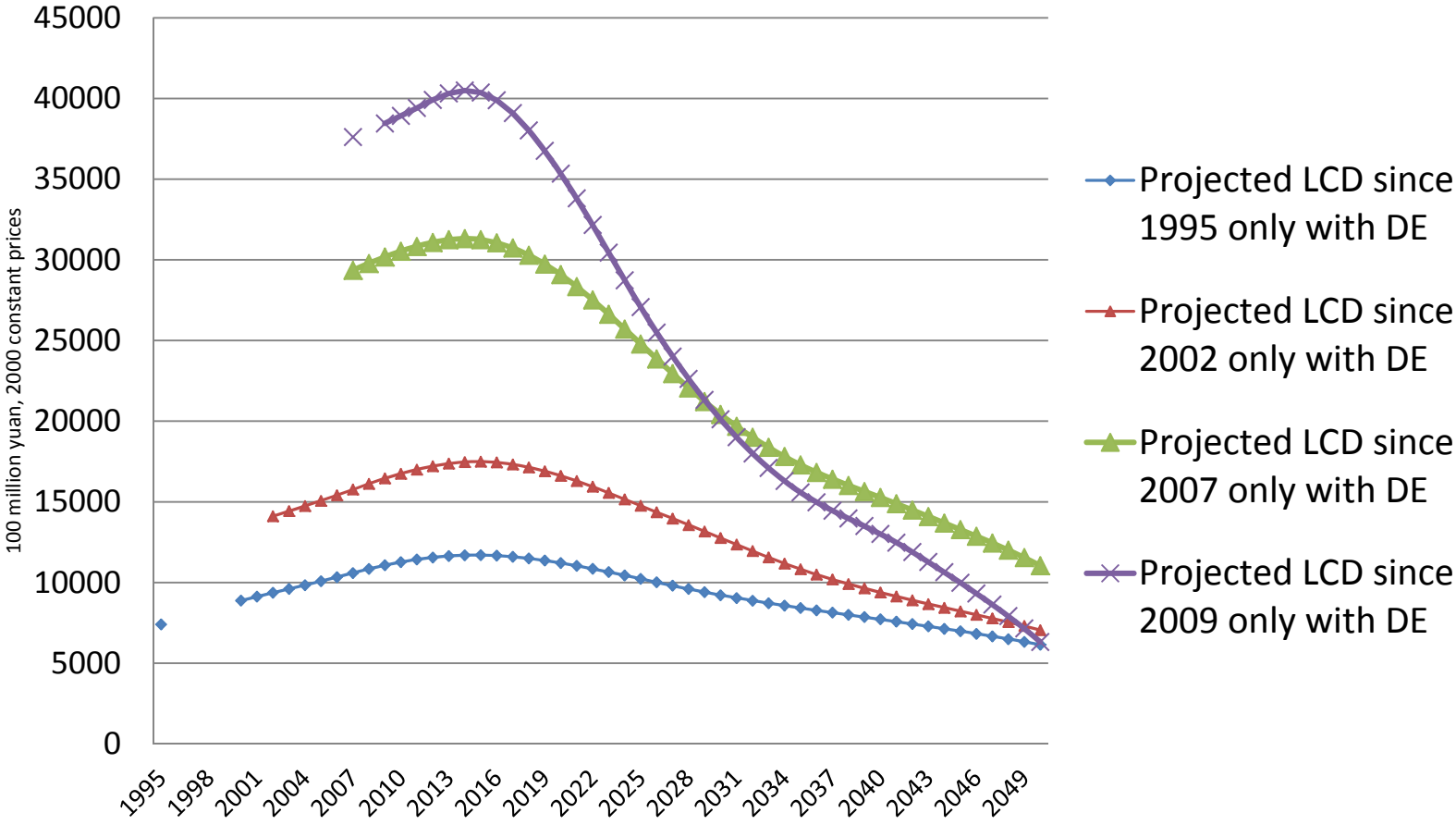
Consumption is under calculated?! Working life is over estimated?



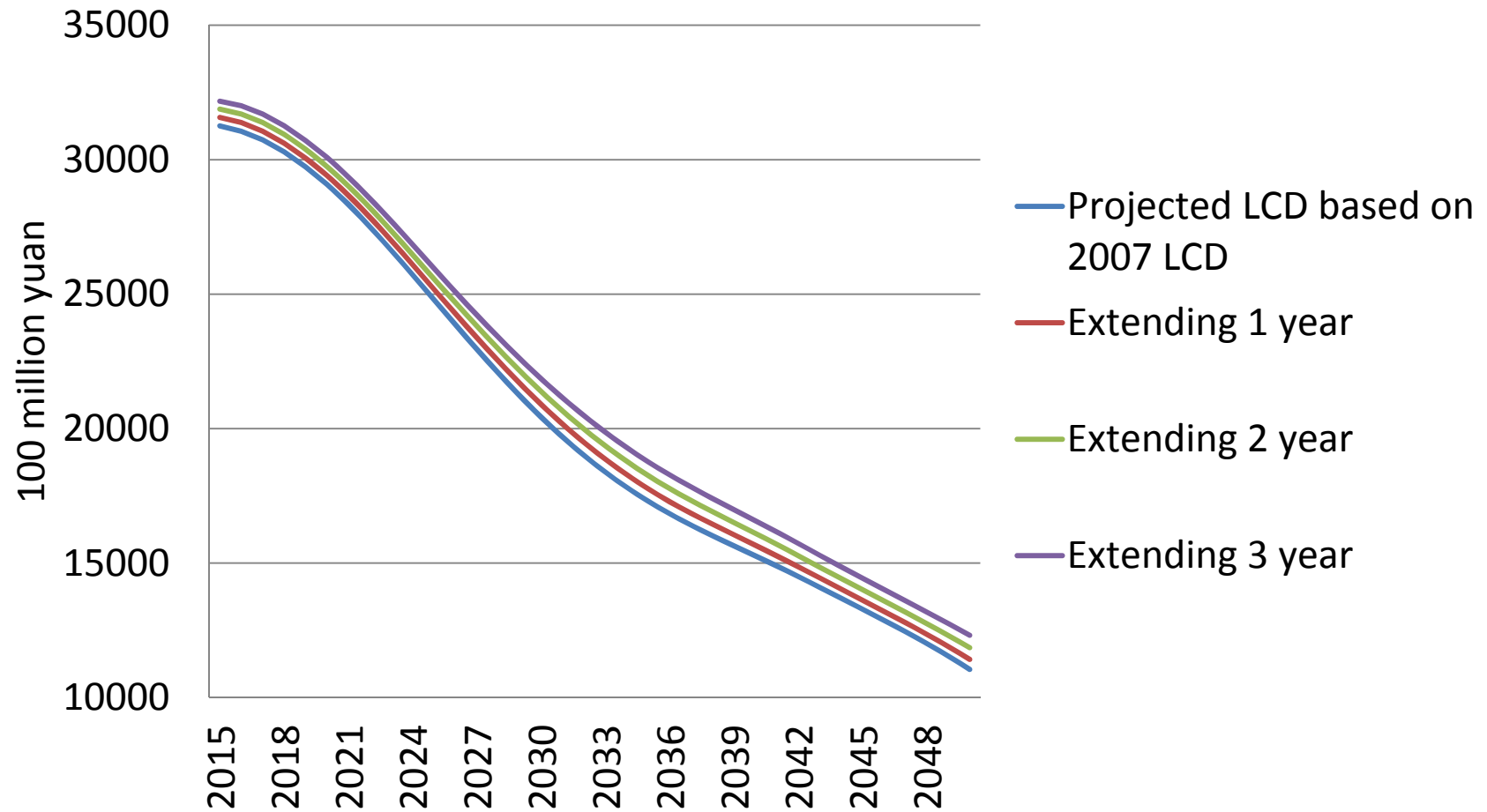
Source: Li Daokui and Xu Xiang (2012), The Rebalancing of the Chinese Economy

Effects of Extending Retirement Age

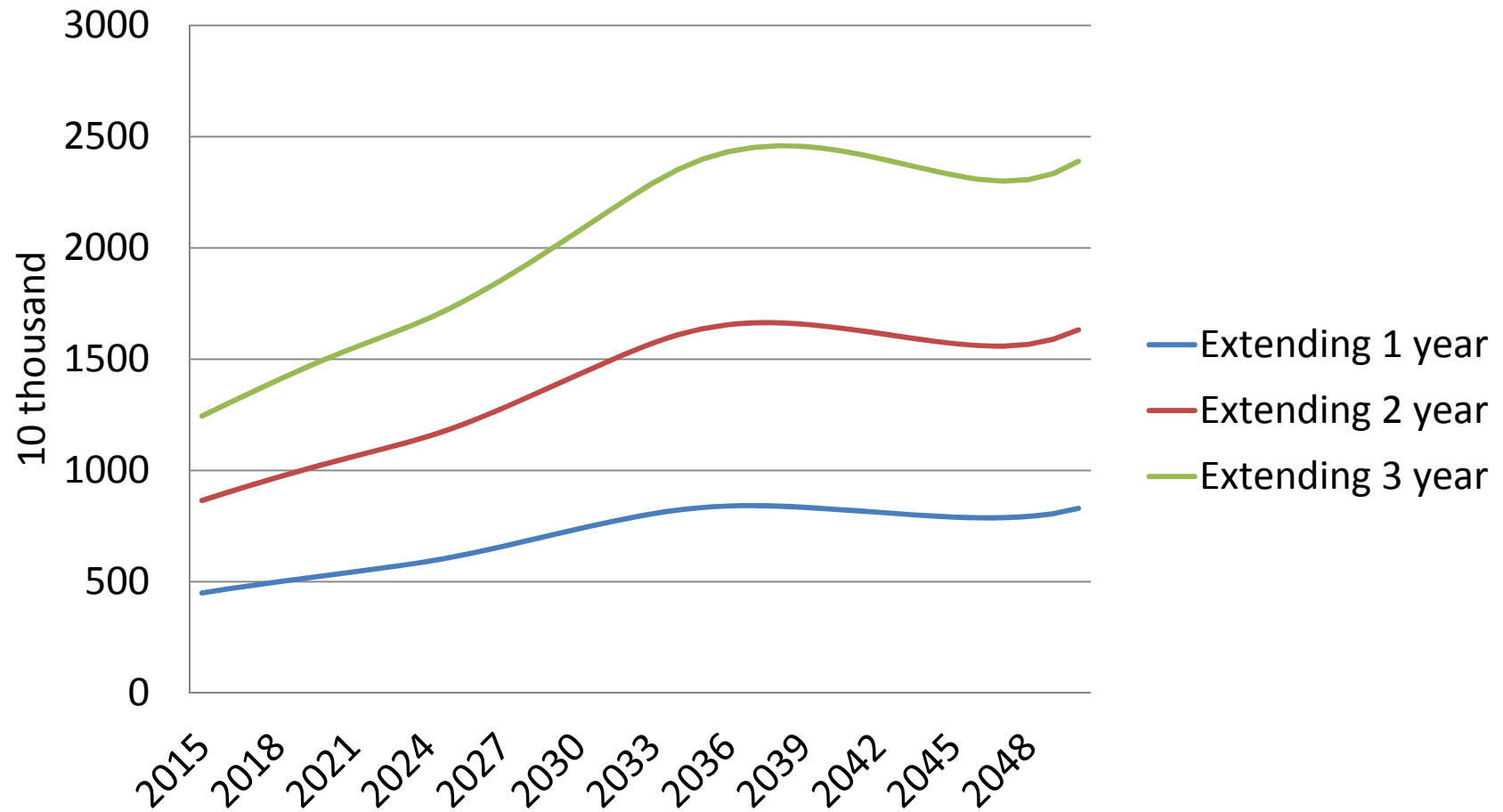
Projected LCD with Demographic Change, 1995-2050



Projected LCD by raising retirement age 1-3 years



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!