

Aging and Pension Reform : Extending the Retirement Age

Huang Xi

School of Management
Shanghai University of Engineering and Science
Shanghai 201620
China

Abstract

Nowadays in the background of serious aging problem, double-track system and empty account operation of individual account, if we try to make sure the old-age insurance system endure, we must try our best to explore the new road to solve those problems. Many countries has already achieved the aim of increase revenue and cut expenditures by delayed the retirement age. However, in our country we should take measures of elastic delay the retirement age, accelerate the pace of pension integration and vigorously advance the commercial mode of pension fund to promote the reform of the old-age insurance system, make sure sustainable development of the old-age insurance system.

Key Words: Aging; Delay retirement; Pension; Double-track

In recent years, with the prolongation of human life and the increasing of elderly population, the scale of pension payment is getting larger and larger. All countries try to explore new roads to solve the problem of pension shortage. Many western countries take the measures of delay the retirement age to meet the aim of increase revenue and cut expenditures. In China, for the reasons of life extension and aging problems, empty account phenomenon aggravated the difficulty of the pension insurance further. The debate on delay retirement age becomes more and more bitter. About this question , different people have different attitudes. Many experts think it is of the great urgency to delay retirement age, but the public urged against the adoption of the measure. Why they have contrasting views of this measure?

Delaying retirement age becomes a developing tendency in the world. The retirement age in western countries is above 60. America and Norway have already delayed the retirement age to 67. However, in China, male retirement age is 60, and female retirement age is 50. The current policy not only weigh heavily on pension payment but also waste the human material in the country. With prolong of human life, the aging problem has become noticeable. If we continue to adopt the present retirement system, the rate of support will steady decline, the burden of young generation must be aggravate ,the scale of empty account operation of individual account will become larger and larger.

From the perspective of public, delaying retirement age is a way to throw away the responsibility for government. There are heavy recessive debts in current endowment insurance; the empty account problem is serious at the same time. The government adopts the policy of delay retire is transfer the responsibility to worker. The on-the job workers oppose exceedingly. The main reason is the premium payment term may be prolonged but what they attained less. It is very unfair to them.

The retirement age is not immutable. We can adjust it according to the economic circumstances and demographic transition. Almost all countries in the world have already took the measure of delay retire .For the reason of longer life expectancy the aging problem is outstanding in China , delaying the retirement age is an irresistible trend.

A. The Analysis of the Urgency about Delay the Retirement Age

(a)By the end of 2010, the average life span of population has raised to 74.83 years (male life expectancy is 72.28years, female life expectancy is 77.37 years).

Compared with the Early Days of New China,¹ the average life expectancy has been greatly improved. The proportion of the elderly population continuously rises in the general population. So the retirement age for the corresponding adjustment is very necessary.

(b) China had already become Old Age Society in 2000, basically and it is characterized by the large quantity, the fast aging growth rate, the obvious aging development trend., and moreover, the government was trying to carry out the policy of “family planning” had accelerated the process of demographic transition.. Chinese will face the labor shortage, pension demand surge and worker load overweight problems in the future. These problems will become a stumbling block to the modernization of our country.

(c) Our country has carried out the old Pay As You Go pension policy for many years. Pension is partaking by every on-the-job worker. China begins partial funds system reform in its old-age insurance system, from “cash payment” to “social overall plan and individual account”, As a result, the implicit pension debts (IPD) come into being.

B. Feasibility Analysis of Compulsory Delay Retirement Policy

(a) The main reason of western countries carry out the policy of increase in the retirement age is rather than to make up for labor shortage. However, our country is in the dilemma of employment pressure and fast-aging, if government execute compulsory delay retirement ages, it will cause an increase in unemployment and consequent pressures in employment and brings terribly negative impact on young unemployed. Many of them may lose confidence in themselves. What is worse, some unemployed may be embarking on the road of degeneration and destruction. It seriously threatened human living environment and even country safety.

(b) Most of the staff bitter against the policy of delay retirement. If government persists in implementing the policy without reflecting on the consequences, It must be foster discontent of workers and they may air their grievances in work and make baneful influence on the quality of work and efficiency.

(c) Although the average age of our population continues to increase, physical quality of the elderly remains poor. According to statistics, the old aged 60 and above in our country, 2/3 expectation-of-life of them is illness and most required varying degrees of care. 5% of the elderly are in an attempt to enter the nursing home.

To sum up the above arguments, it is not come to maturity for us to carry out the policy of delay retirement forcibly. So we can devise a more flexible retirement system to gradually realize the objective of delay retirement age.

C. Reform Measures of Basic Old-Age Pension System

(a) Defer Female Emeritus Ageis Given a Priority

A recent study has revealed that the life expectancy of male is 72.28 years and the life expectancy of female is 77.37 years. Nevertheless, for men, the age of retirement is sixty, for women, the age of retirement is fifty. This result indicated that female workers can enjoy basic old-age pension 10 years earlier than males. In that case, there is a big space of promotion for female retirement age. We can adjust female retirement age from 50 to 55. In order to avoid attrition and conflict, government can take measure of every three years a one-year extension of retirement, transfer female retirement age to 55 gradually. For female workers whose maternity leave expires, still cannot work because of body reason, after proving through medical affairs branch, are retire ahead of schedule, but shall not be earlier than 50. For male workers, on a voluntary basis, they can choose retire or continue working by themselves, prolong 5 years at most.

(b) Accelerate the Reform of Double Track Pension System

Social guarantee as being a kind of means for allotting again the civil income, it should pay more attention to fairness. However, the existence of the double track system states the distribution of pension is extremely unfair. It irreconcilable with the Chinese proverb--“Inequality rather than want is the cause of trouble”. In the meantime, to legislative extent, rights are inseparable from duties, but for civil servants in China, they can enjoy munificent pension for free when reach emeritus age only. It is not only contrary to the spirit of social security, but also go against the spirit of law. It is grossly unfair to other citizens.

¹ SHEN Shu-guang, WEI Zhen The Challenges and Choices of Chinese Pension System under the Background of the Aging Population[J]. Teaching and Research, 2013(08).

Therefore the first step of basic old-age pension insurance system reform is speed up the tempo of merge in endowment insurance system, strictly control the size of financial personnel. Civil servants, organs and institutions of staff and workers must be unified endowment insurance system. In redistribution, we should pay more attention to fairness and strengthen the function of the government in regulating income distribution to narrow the gap if it is too wide.

(c) Unify Inside Whole Society Limits Raise Money and Regulate Use Fund

Due to the region segmentation operation of society endowment insurance, a great number of problems have arisen. For example, there is a huge gap of pension insurance fund in some areas.

However, in other areas the situation is just the opposite, have formed immense cumulative balance. The root reason for this phenomenon is the fragmentation of the pension insurance system. Make it incapable to unify inside whole society limit raise money and regulate use fund. According to the following table:

Balances of Fundamental Pension Insurance Chinese Provincial Enterprises in 2010 (Units: Billion Yuan)

Province	Surplus	Province	Surplus
Guangdong	40.59	Inner Mongolia	-0.28
Jiangsu	20.88	Qinghai	-0.49
Beijing	16.88	Hainan	-1.51
Shandong	15.30	Jiangxi	-2.60
Zhejiang	14.62	Shanxi	-2.75
Sichuan	6.37	Hunan	-3.06
Shanxi	4.99	Henan	-3.29
Hebei	3.29	Shanghai	-3.50
Guangxi	3.12	XPCC ²	-3.97
Ningxia	2.60	Hubei	-4.32
Xinjiang	2.32	Chongqing	-4.45
Fujian	1.13	Jilin	-5.05
Guizhou	0.50	Tianjin	-6.21
Anhui	0.48	Heilongjiang	-11.72
Gansu	0.31	Liaoning	-14.65
Xizang	0.18	Nation	65.74
Yunnan	0.03		

Data sources: ZHING Bin-wen "China pension development report 2011", Economic management press, Published in 2011 page 31.

From the table we can see the national pension existing balances, if a nationally unified social security system will be put into practice at once, the pension financial situation is good undoubtedly. The so-called pension gap is but a structural gap caused by area segmentation. Therefore, the urgent task on hand is to promote the annuities plan as a whole to change different regional fund surplus and deficiency both embarrassing situation, to improve the ability of whole-budget management of pension.

(d) Establish the Incentive Mechanism, Improve the Delay Retirement Pension

People's life in the choice, as a rational economic individual, the pursuit of private benefit is sound and appropriate. If we choose postponed retirement we can get more wages than pension, but we will lost a lot of leisure time at the meantime. This part of the loss of leisure time is the opportunity cost of delay retirement. In order to encourage workers to delay retirement voluntarily, only when the benefit over the opportunity cost, that voluntary delay retirement is possible. On one hand, wages of the employees should be raised according to the length of delay retirement and improve the pension treatment after they retired. On the other hand, the employing unit should take the older staff's health condition into account, ensure that older workers have 2 to 3 days a week and work hours not exceed seven hours a day. So delay retirement policy has significant superiority. Only in this way will people be encouraged to delay retirement voluntarily.

²XPCC: Xinjiang Production and Construction Corps of CPLA.

(e) Establish a Fund Supervision and Investment Management System

The pension insurance fund with huge amount, long running period of the characteristics .Investment of endowment insurance fund should not only ensure the safety of fund, but also need to realize the value preserving and appreciation of the fund. Only in this way can guarantee the payment of the growing demand of pension. There is a serious security vulnerability management of endowment insurance fund in China, the risk of funds were embezzled or misappropriated is considerable. Therefore the establishment of security mechanism in the management of endowment insurance fund operation is imminent.

Firstly, quickening the step of legislation and perfecting the executing system. Perfect social security legal system is the precondition. Crack down on the behavior of corruption, misappropriation of endowment insurance fund.

Secondly, established supervisory organs to examine and supervise the collection, management and payment of social insurance funds. They also investigate and punish those who violate the pertinent laws and regulations. Separation of management rights from administration is an important guarantee for the integrity of the pension fund. By the government to provide works' information to the administration fund, establish laborer individual payment records, practice data matching with charge department every month. By the methods of sampling investigation, report, consult the database record to prevent pension fraudulent behavior.

Thirdly, establish commercial, accountable pension operating mechanism. Encouraged eligible enterprises to participate in the bidding actively. On the basis of the security, profitability, liquidity, investment principle of diversity to appraise investment schemes of their submission. And choose several relatively high safeties, high yield schemes. Discriminating investment function from the management; constructing efficient mechanism; Setting up investment benchmark and limitation, evading and manipulating risks; expanding invest channel, to guarantee or increase the value of the social security funds and resolve the operational risks of the security funds so as to safeguard social safety and stability.

At the present time our country is in the dilemma of employment pressure and fast-aging .However, it was not long before the problem of the labor force shortage will arise. Therefore, the reset of retirement age must consider not only the status quo but also the needs of next year and beyond. Making the appropriate system arrangement to reduce the resistance of reform and attain the target retirement age gradually through a smooth transition. Be sure to the individual account fund runs in the model of "full account" and adequate labor supply.

Reference

- ZHING Bin-wen, Sun Yong-yong. "On China's Urban Employees' Basic Endowment Insurance Fund –The Nature, Causes and Solutions for the imbalance of revenue and expenditure of the fund in half of Chinese provinces" journal of shanghai university (Social Sciences) May, 2012 Vol.29 No.3
- SHAO Guo-dong, ZHU Xiao-yu, LIU Wei "Study on the rationality of the retirement age delay based on life cycle theory" [J].Social Sciences in Yunnan.2007 (05)
- ZHEN Gong-chen. "The overall optimization of the old-age insurance system basic meter - Survey on overall status of basic old-age insurance area segmentation of Chinese workers" [J].《GUANGMING DAILY》Jing.2013 (07).
- SHEN Shu-guang, WEI Zhen. The Challenges and Choices of Chinese Pension System under the Background of the Aging Population [J]. Teaching and Research, 2013(08).
- ZHEN Gong-chen.Social Security [M].Higher Education Press.2007.08
- LIU Xiao-mei. "Chinese rural social endowment insurance theory and Practice"[M]. Science Press.2010 (02).
- ZHANG Hong-mei. Research on the mode of operation of rural social endowment insurance commercial China [M]. Science Press, 2012(01).