Demographic Change and Social Security Sustainability in China

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OUTLINE

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- Almost highest contribution rate for the pension program for employees: 28 percent of payroll
- Two guesstimates for Implicit pension debts in 2013 and in 2050: both around 1/3 of GDP at that time

- Total national health expenditures: already equivalent to 6 percent of GDP
2. Direct impacts of demographic change on social security: *rapid ageing*

- number of pensioners increased faster than that active contributors since 2012;
- In 2015: former 6.5% vs latter 2.7%

- Dependency ratio: 1:2.88 in 2015 to 1:1.3 in 2050
2. Direct impacts of demographic change on social security: *rapid urbanisation*

- Share of China’s urban population: less than 20 percent in 1980, almost 50 percent in 2010, around two-thirds by 2030.

- Share of older people 60 and above: one in every three residents in rural China and one of every five in urban China by 2030.
3. Indirect impacts of demographic change through economic growth on social security

◆ Favourable policy environment for capturing the population dividend from those born from 1962 to 1972: well-educated labor for global manufacturing, labour market law, saving and investment
3. Indirect impacts of demographic change through economic growth on social security

◆ Mixed policy environment for mitigating the effects of ageing:

1. *Extended life learning*: more productive potential

2. *More to non-tradable labour-intensive sectors*: robots and taxation?

3. *Reduced supply and rising wages*
   
   positive—flexible labour market;
   
   negative—social security policy, immigration policy, saving and financial market
4. Historical evolution of social security programs and demographic factors

• Financing principle for public pensions: From pay-as-you-go to partial funding

• National Social Security Fund: established for the peak of ageing

• Provident funds in personal medical accounts: established and reserved for late life period
5. A dedicated social security system itself could be a solution to sustainability

- Prioritised and limited promises: which could be manageable, honored and deliverable
- Political trust built up from actual delivery rather than generous promise failed to honor
- Political trust help to maintain sustainability
- Only few Nordic countries could deliver a comprehensive welfare contract because of high political trust
6. Further measures for China to consider

*Policy changes in program parameters*

• Extending productive working lives through labor market and social security policies: raise retirement ages and reverse incentives for early retirement; incentivize workplace adjustments to accommodate older workers

• Raising female labor force participation: phrasing in gender equalization of retirement ages; making child care and elder care available and providing subsidies to make them affordable
6. Further measures for China to consider

*Structural reforms*

The “active welfare society” or “developmental welfare” model:

- Equitable and effective social services that build human capital for a more healthy and productive population;

- A basic but secure social protection system that provides for a moderate level of security for all while respecting fiscal constraints.
Thank You!