



国务院发展研究中心
Development Research Center of the State Council

Demographic Change and Social Security Sustainability in China

Centre for International Knowledge on Development

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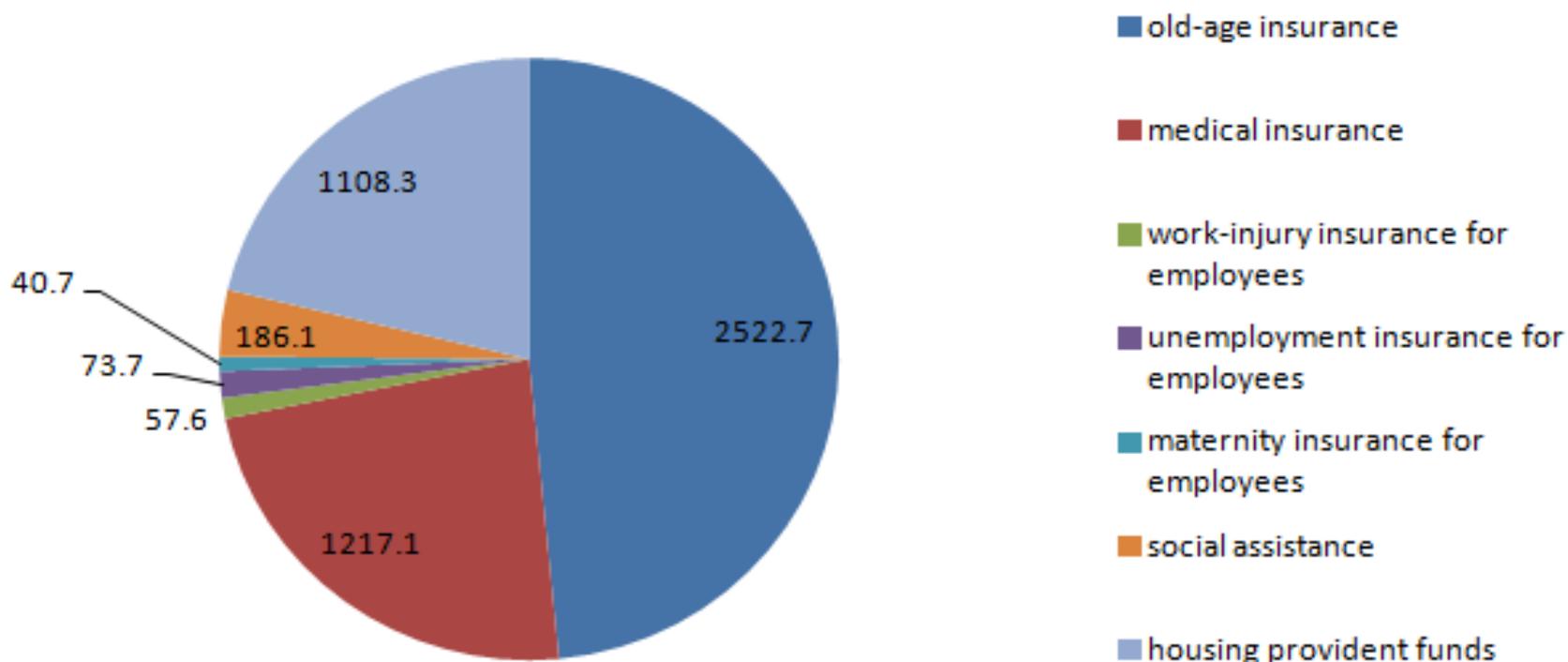
Tokyo, 20 October 2017

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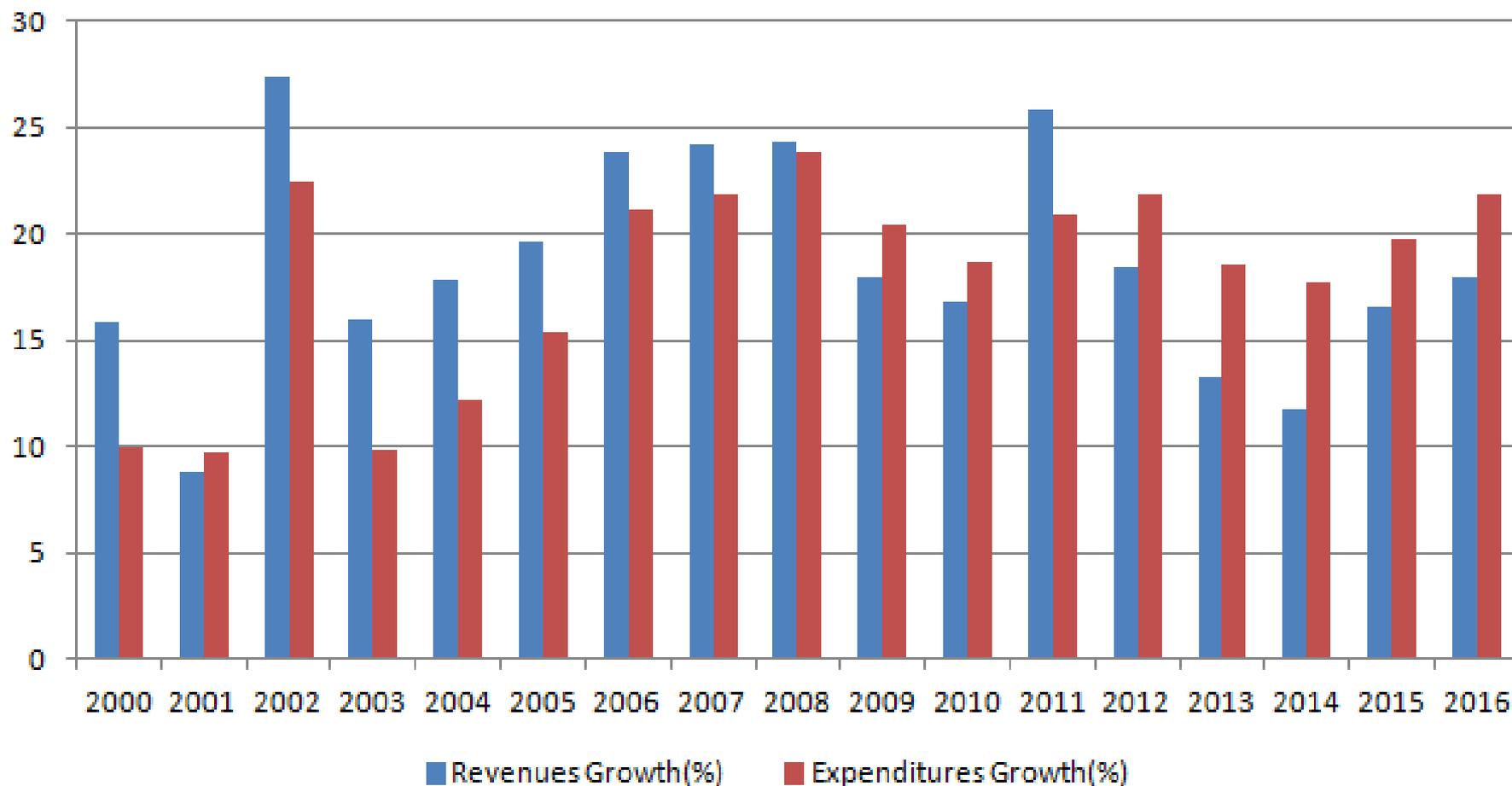
1. Financial situation of social security programs
2. Direct impacts of demographic change on social security
3. Indirect impacts of demographic change through economic growth on social security
4. Historical evolution of social security programs and demographic factors
5. A dedicated social security system itself could be a solution to sustainability
6. Further measures for China to consider

1. Financial situation of social security programs

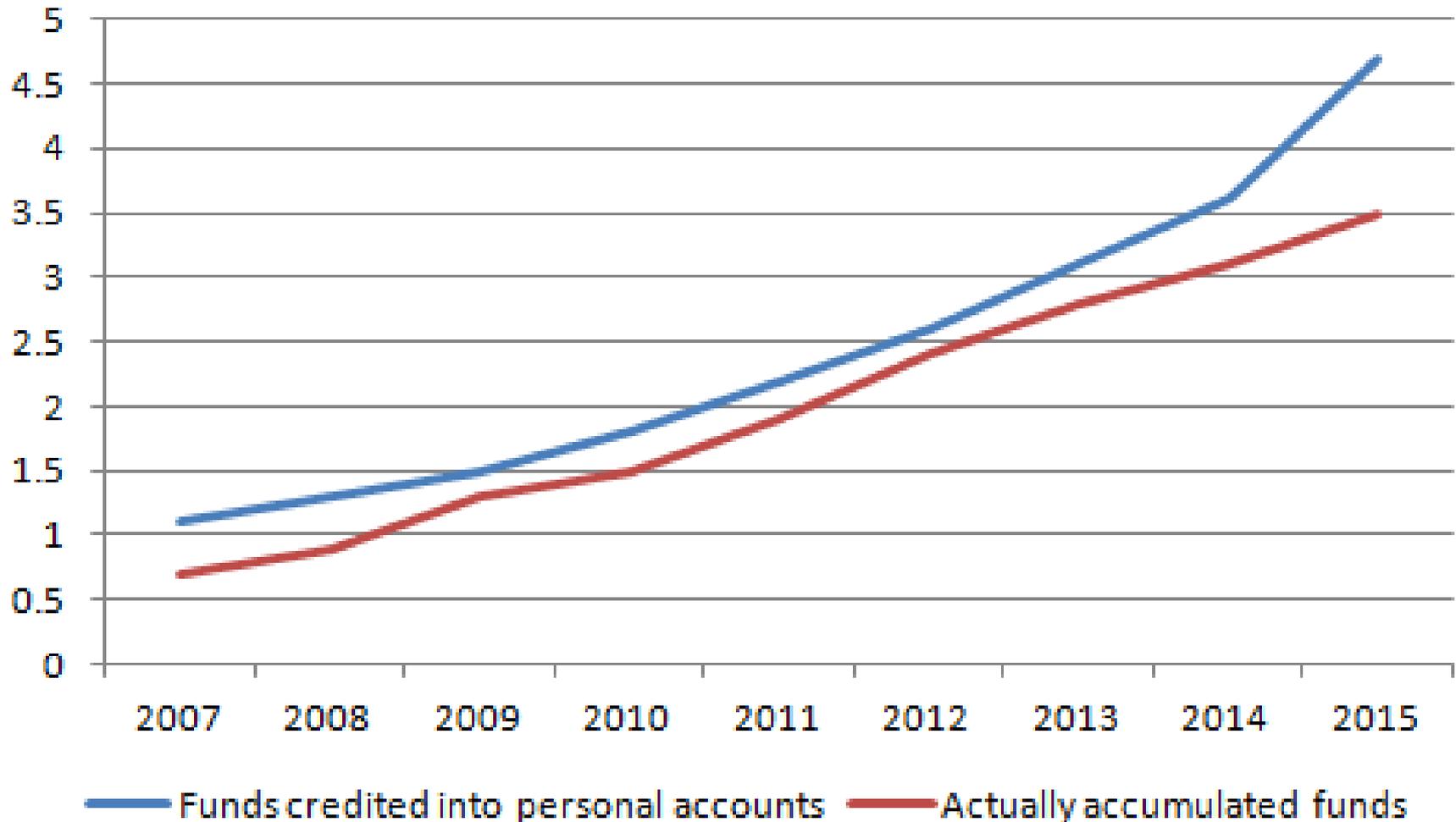
Social Security Expenditures by Program in 2015



1. Financial situation of social security programs



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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!