

One Country, Two Systems: Evidence on Retirement Patterns in China

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Changing Labour Market Transitions in Asia and the Pacific

Introduction

- China is facing the challenge of rapid population aging, which threatens to slow economic growth
- The projected sharp rise in old-age dependency burden can be alleviated if the working life can be extended for high-skilled formal sector workers
- The length of working life depends on many factors, labor supply (health, preferences and wealth), labor demand (mainly firm behavior), and institutions

Intro (cont)

- The roles of institutions and family circumstances
- Nationally representative data and takes a closer look at different features of institutions that cause retirement patterns to diverge
 - Urban worker's retirement policy: “mandatory retirement” under the Urban Employee Pension
 - Health status and family circumstances
 - Long-standing economic and social policies that put rural residents at great disadvantage relative to their urban counterparts

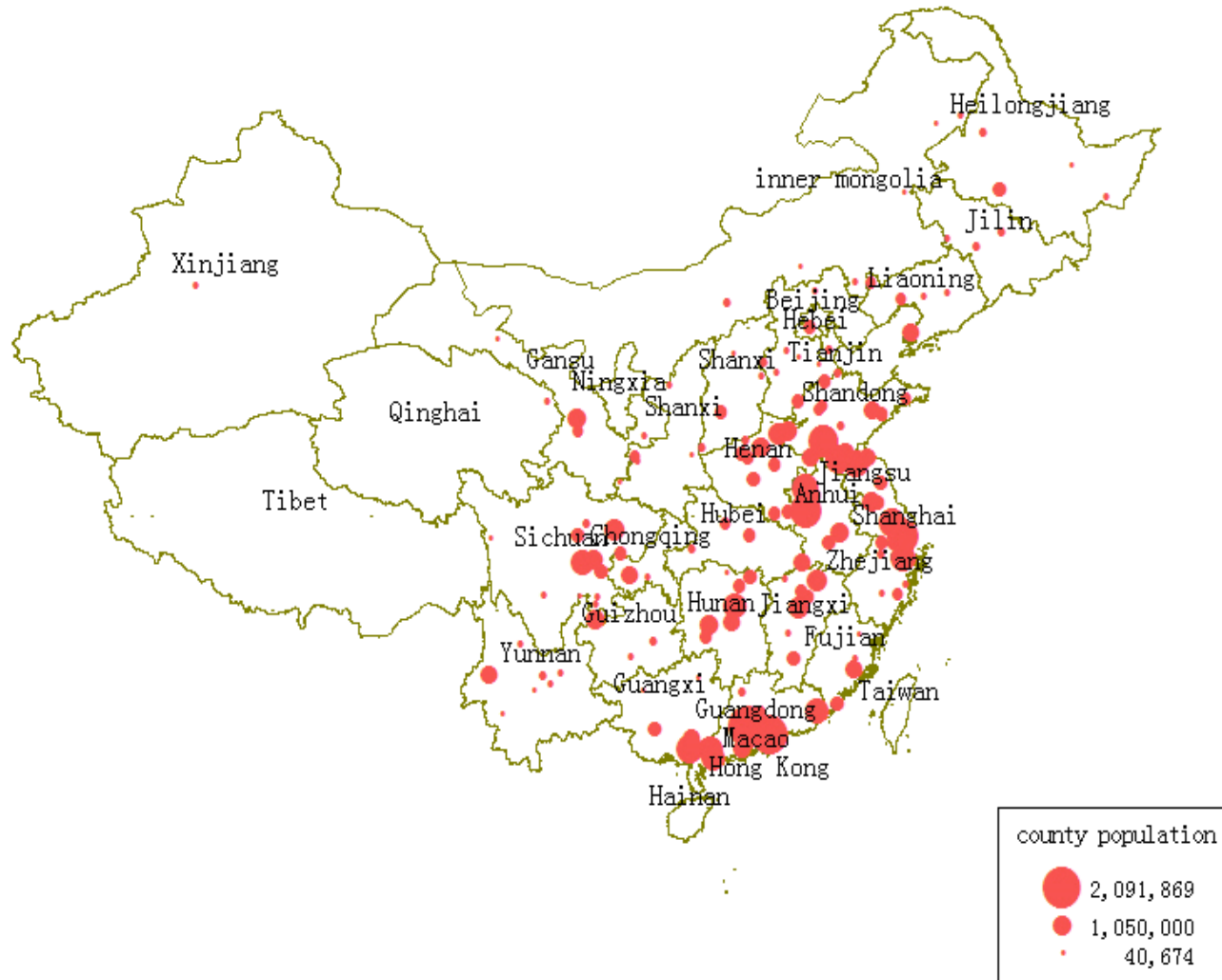
Outline

- Data and description of retirement patterns
- Institutions: retirement policy for urban workers
 - Hazards of retirement
- Institutions: economic resources
 - Pension coverage and generosity
 - Expectations on sources of elderly support
 - Economic divide (discussed in the paper)
 - Wealth gap
 - Children gap

Data: China Health and Retirement Longitudinal Study (CHARLS)

- HRS-type survey
- Biennial/triennial panel: the 2018 wave for this paper
- Nationally representative of population over age 45
- Multi-stage PPS random sampling
 - Counties, Villages, Households, Persons
- Baseline survey in 2011-2012: 10,257 households, 17,708 respondents
 - 150 counties in 28 provinces
 - Tibet, Hongkong, Macau and Taiwan were excluded
 - Hainan and Ningxia had no counties sampled

Sample Distribution

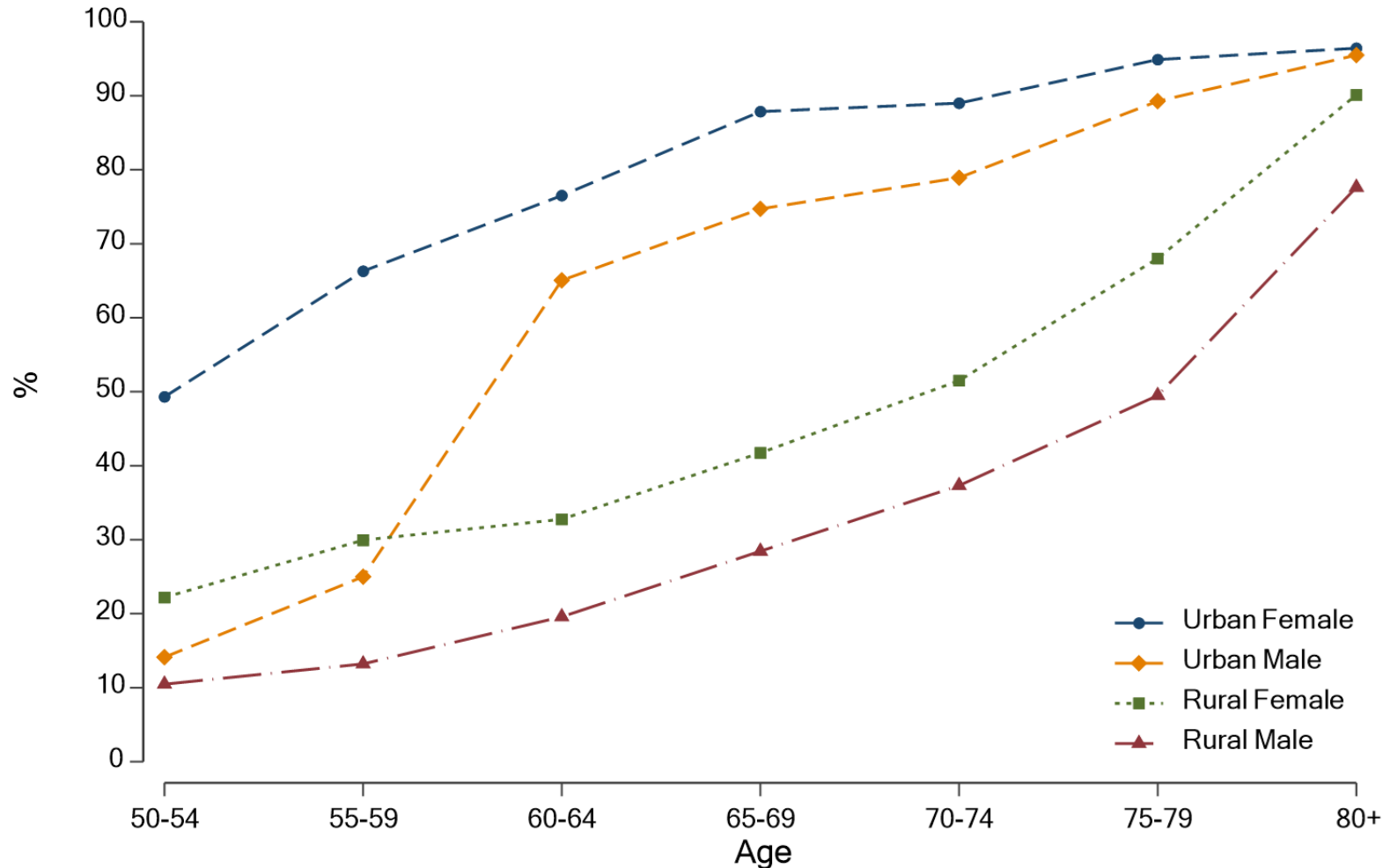


RETIREMENT PATTERNS

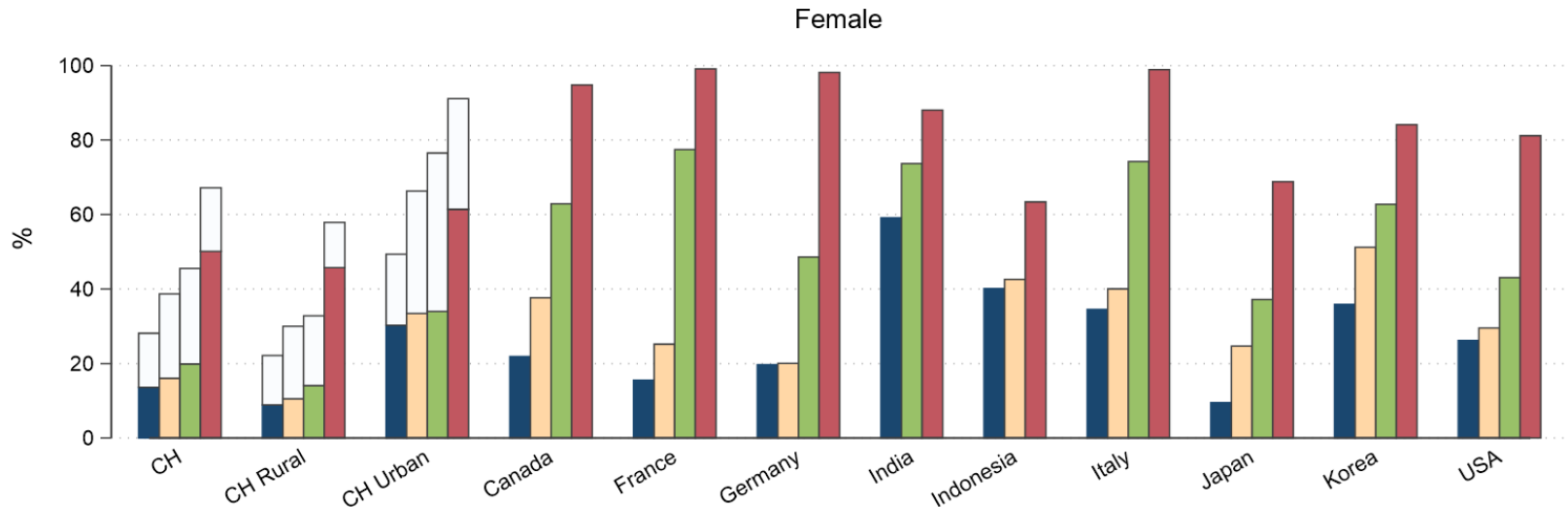
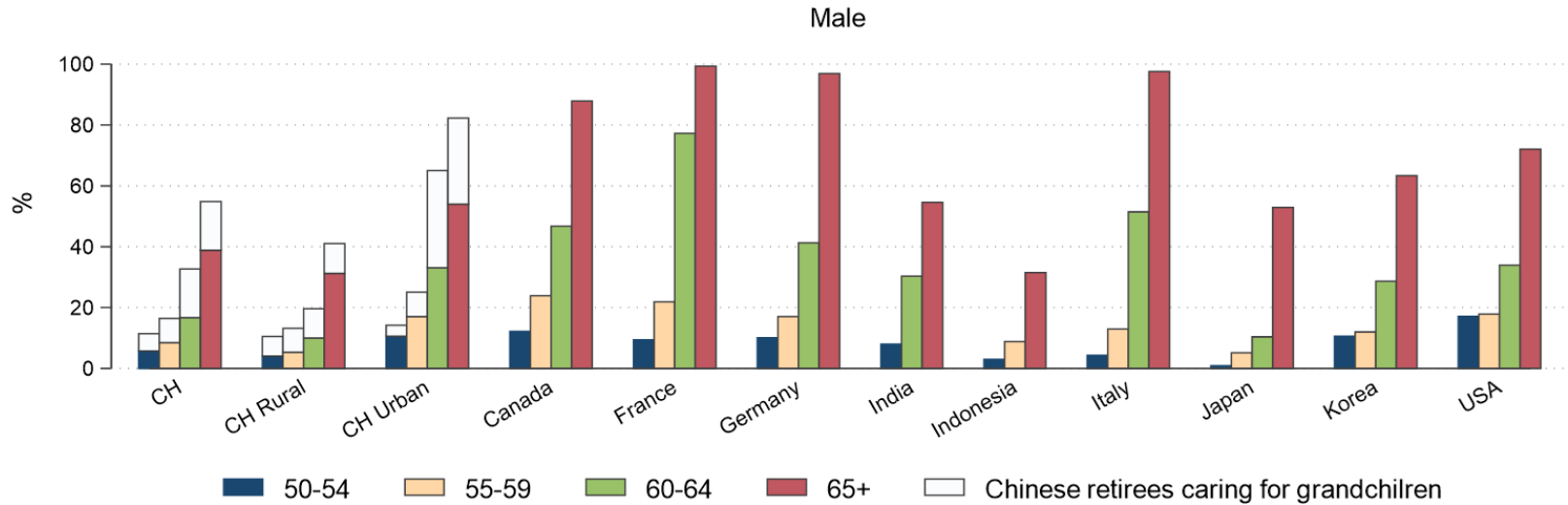
Key Concepts

- Define retirement
 - An individual is **retired** if once worked but is not currently active in any of these economic activities: farming, employed, self-employed and unpaid family business, unemployed, and other employment (includes part-time job).
 - Including the unemployed, though the unemployment rate of older Chinese is lower than 1%
- “Mandatory retirement” age for workers covered under the urban employee pension
 - 60 for men
 - 50 for blue-collar women and 55 for white-collar women

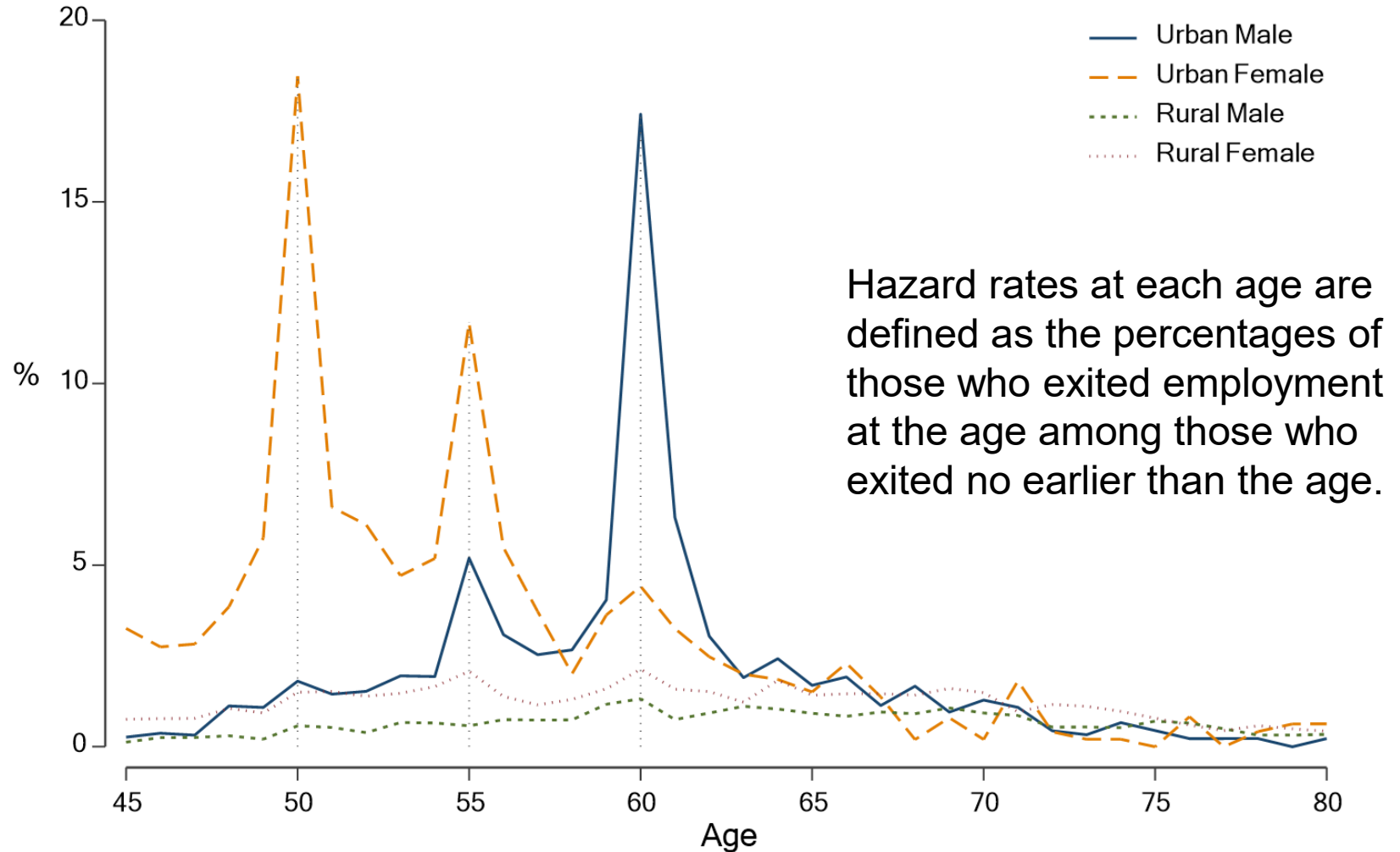
Work Status: Retirement Rates



International Comparison: Retirement Rates



Unconditional Retirement Hazard Rates



Pension Type, Coverage (%) and Monthly Receipt (Yuan): ages above 60

Pension Type	Urban	Rural	Total	Receipt
Employee Pension	78.8	4.8	26.9	2,880
Firm's Pension	59.1	3.5	20.2	2,600
Government or Institutions' Pension	18.5	0.8	6.1	4,000
Resident Pension	20.3	84.3	65.1	95
New Rural Social Pension	2.3	62.4	44.4	90
Urban Residents' Pension	5.3	1.1	2.3	1,000
Urban and Rural Residents' Pension	5.6	17.6	14.0	100
Commercial Pension	5.3	2.4	3.3	500
Other Pension	3.1	3.9	3.7	900
Any Pension	94.4	88.3	90.1	125

Rural and Urban Residents Differ in Expected Sources of Financial Support

Expected Source of Financial Support Type (%)						
	Total		Men		Women	
Type	Urban	Rural	Urban	Rural	Urban	Rural
Children	12.4	67.6	9.7	64.2	15.4	70.8
Savings	1.8	4.2	2.3	5.6	1.3	2.9
Pension	82.8	20.8	85.6	22.0	79.7	19.6
Other	3.0	7.3	2.5	8.1	3.6	6.7
Observations	3,317	13,023	1,777	6,121	1,540	6,902

Data source: CHARLS survey, 2018. All numbers are weighted.

Monthly Pension Income by Hukou, Gender and Age

Age Group	Total		Male		Female	
	Urban	Rural	Urban	Rural	Urban	Rural
60-64	2,600	97	3,200	100	2,300	92
65-69	2,600	90	3,000	90	2,246	89
70-74	2,800	85	3,000	90	2,100	85
75-79	3,000	90	3,000	92	2,591	85
80+	3,000	90	3,500	100	2,500	90
Total	2,700	90	3,048	95	2,300	90
N	2,246	6,985	1,221	3,315	1,025	3,670

ASSOCIATIONS OF PENSION RECEIPT, HEALTH STATUS AND OTHER CHARACTERISTICS WITH EMPLOYMENT

Labor Supply Among Those Over 50 (Linear Probability Model)

Dependent variable: Working (0/1)

Selected explanatory variables	Urban		Rural	
	Men	Women	Men	Women
Age	-0.066*** (0.021)	-0.038* (0.022)	0.021** (0.010)	-0.001 (0.013)
Age-Squared/100	0.039*** (0.014)	0.020 (0.016)	-0.024*** (0.013)	-0.010 (0.015)
Number of HH members under 6	0.008 (0.037)	-0.060 (0.041)	-0.003 (0.013)	-0.041*** (0.015)
<u>Number of ADL/IADL difficulties</u>	-0.037*** (0.004)	-0.016*** (0.004)	-0.054*** (0.003)	-0.039*** (0.002)
<u>Receiving Employee Pension</u>	-0.190*** (0.040)	-0.206*** (0.031)	-0.058* (0.033)	-0.119*** (0.038)
<u>Receiving Resident Pension</u>	-0.088* (0.050)	-0.068** (0.035)	0.004 (0.020)	0.022 (0.016)
Spousal # of ADL/IADL difficulties	0.006 (0.005)	0.003 (0.005)	0.011*** (0.003)	0.021*** (0.003)

Selected explanatory variables	Urban		Rural	
	Men	Women	Men	Women
Education: Middle School	0.014 (0.025)	-0.021 (0.026)	-0.015 (0.011)	-0.034* (0.018)
Education: High School and Above	0.063** (0.026)	0.055* (0.029)	-0.019 (0.017)	-0.004 (0.029)
Spouse Working	0.290*** (0.028)	0.321*** (0.036)	0.183*** (0.013)	0.285** (0.017)
Average Years of Schooling of Children	-0.003 (0.004)	0.007 (0.004)	-0.003* (0.002)	-0.004** (0.002)
Number of Children	0.004 (0.010)	0.003 (0.010)	-0.016*** (0.005)	-0.004 (0.005)
Observations	1955	1733	6394	6619
R-squared	0.519	0.410	0.333	0.294

Conclusions

- Retirement patterns are very different in urban and rural China
 - Rural elderly “work until dropping”
- Retirement is strongly associated with
 - Mandatory retirement policy for workers covered under the urban employee pension (formal sector workers)
 - Greater coverage and generous pension in urban areas
 - A significant urban-rural gap in economic resources
- Policy implications for an aging China
 - Urban residents should be encouraged to stay on the labor force longer: raising retirement age? facilitating gradual retirement?
 - More generous social pensions for informal workers, allowing the freedom to retire
 - Joint retirement preferences

Thank You!