

What Are the Effects of Aging? What Are the Existing Pension Problems in China?

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Abstract: China's elderly population is huge according to the seventh population census in 2020, 18.7% of the population is over 60 years old, of which 13.5% are over 65 years old. China is moving towards a deeply aging society. The main drivers of this result are the implementation of the family planning policy and rapid economic growth. The highlight of this paper is that the influence of aging on the labor market, the financial market, and the quality of life of the elderly as well as the relationship among the three. A decline in the labor force will increase labor costs, which will particularly affect micro, small and medium-sized enterprises. However, rising wages could be offset by rising productivity, and rising wages will provide incentives to increase productivity, so it is not clear whether the reduction of labor force has many effects on labor productivity. Under the background of aging, the economic growth will be affected, and the consumption structure has also changed. At the same time, the mental health of the elderly is the most neglected problem. As for pension problems, this paper mainly studies the unequal distribution of pension resources. The conclusion is that the government and enterprises cooperation mechanism should be used to expand the financial investment of the elderly. Moreover, pay attention to the physical and mental health of the elderly through the establishment of different pension institutions.

Keywords: Aging, Labor Force, Economy, Pension System

1. Introduction

The whole paper takes aging as the background to analyze why aging has an impact on the finance and economy, labor force and health of the elderly (especially mental health), and then discusses the problems existing in the current pension system, such as the distribution of pension resources is uneven, and attention to the physical and mental health of the elderly still needs to be increased. First, The number of the working-age population will continue to decline and be projected to fall to 666 million by 2050, [1] which means the supply of labor force will decrease and then the labor costs will rise, the two influence each other. From the perspective of trade, since China's accession to the WTO, China's economy has gradually tilted toward an export-oriented, which largely benefited from China's demographic dividend and low-cost labor at that time. Now, with an aging population and rising labor costs, China's export share has also been greatly affected. However, the higher labor cost could create incentives to boost labor productivity, the higher labor productivity could accumulate more wealth and create more value, as to whether this is fair to the workers, it is also necessary to

consider the factor of wages received by the workers. Second, this paper takes Japan as an example to demonstrate the impact of aging on financial markets. In Japan, shrinking and aging populations will reduce the potential for sustained economic growth. This paper mainly demonstrates the impact of labor force reduction and aging on labor supply, savings and consumption structure. Promoting the development of pension finance is of great help to the accumulation and preservation of national pension wealth. Third, Society should pay more attention to the empty-nesters, the disabled and other elderly people who cannot take care of themselves. In terms of old-age care, the paper mainly discusses the difficulties of three different ways of old-age care, namely institutional pension, home-based pension and community pension. In the end, the situation of unequal distribution of elderly care resources has always existed, especially between urban and rural areas. This inequality is especially reflected in the different urban and rural old-age insurance systems due to the different income resources of the elderly population and the impact of the household registration system. Research indicates that promoting re-employment of the elderly through the acceleration of pension financial system reform and capital market can strengthen age-appropriate social awareness and boost the development of the silver economy.

2. The Impact of Aging

According to the data from the Organization for Economy Co-operation and Development, it can be seen that the old-age dependency ratio and the elderly population are rising year by year. The traditional old-age dependency ratio (OADR), is the ratio of every 100 people aged 65 and over (the elderly population) to the population aged 15-64 (the working population), which means the number of elderly people who need to be supported per 100 working people. [2] Now the definition of old-age dependency ratio is no longer so simple, researchers add social factors such as education level and health status, and put forward the concept of education-health adjusted old-age dependency ratio (EHA-OADR). [3] By 2024, the old-age dependency ratio will reach 20.6% in China and 54.9% in Japan. However, according to the Population estimates and projections from THE WORLD BANK, in the same years, the ratio was 21.2% in China and 51.7% in Japan. [4] Although there is a slight deviation between the two sets of data, it does not affect the fact that the pressure of raising the elderly in both countries is increasing. This proportion is still growing in the West and it shows that aging is a problem in the world and especially in Asia. This paper analyzes the influence of aging from three aspects: labor market, financial market and the satisfaction of life of the elderly.

2.1. A large decrease in the working population and other problems caused by it

Population aging will directly lead to a decrease in the number of working people and a shortage of labor. Some economists put forward that a 10% increase in the old-age dependency ratio leads to a 37.31% decline in the export share. This translates to a reduction of export share by 81.05% (or by 10.2 percentage points on average) with a standard deviation increase in the population aging in China Economic Review. [5] The labor force is the main body of the labor market, which refers to the entire population, including the employed and the unemployed, who are within a certain age (in China, 16 years old and above), who have the ability to work and the requirements for employment, [6] this is followed by an increase in labor costs. Rising labor costs will lead to a decrease in corporate profits, then the demographic structure of the business has changed. In terms of productivity, most studies illustrate that older workers tend to change jobs less frequently and stay longer, but this may lead to the labour market rigidity and reduce firm's ability to innovate. However, for the firms with higher labor force costs, the lack of a labor force will encourage them to find new development directions and use technology and intelligence to replace manual labor. A research documents that a scarcity of younger and middle-age workers triggers the adoption of robots (and other automation technologies),

which subsequently increases aggregate output, notwithstanding the reduced labour input. [7] For large enterprises, aging will not be particularly difficult, but small and medium-sized enterprises will still face certain risks.

2.2. The impact of Aging on Economic Growth - The Case of Japan

Overall, the impact of aging on economic growth manifests itself in diverse ways. An economics expert [8] emphasized that population aging typically affects economic growth via production, consumption, savings, and the labor supply. [9] Furthermore, Other specialists [10] further specified that the impact of population aging on labor productivity primarily occurs through three intermediary channels: technological progress, pure technical efficiency, and economies of scale. They cautioned that the relationship between population aging and labor productivity is not a simple linear one. The aging problem is more acute in developed countries, especially Japan, which has the world's oldest population. This paper analyzes labor supply, savings, consumption, and investment from three perspectives. Firstly, the growth rate of Japan's labor supply has been declining annually. Although there are still numerous workers over 65 years old in Japan, this has not halted the declining trend. Additionally, the elderly are no longer unsuited for jobs requiring new skills and physical strength, which will hinder Japan's economic progress. [11] Secondly, a journal focusing on Japanese and international economics revealed that demographic shifts have altered people's savings behavior, resulting in significant structural changes in regional capital flows. To address this challenge, urgent measures are necessary, including estimating the savings rate of the working-age population, analyzing the relationship between population changes and regional savings rates, assessing the average savings rate, and exploring the effect of aging on the investment-savings balance. [12] Thirdly, a shrinking workforce pushes down real interest rates. A study demonstrated that demographic shifts lead to changes in the low-frequency movements of aggregate labor productivity, per capital consumption, and consequently, real interest rates. [13] Therefore, older individuals who can afford to invest may prefer to invest overseas rather than domestically.

2.3. The Lack of Social Attention to the Physical and Mental health of Older People

The intensification of the aging demographic shift has significant societal implications, including increased pressure on social support systems and heightened employment challenges for younger generations. As a result, the time and resources available for children to provide care and companionship to their aging parents are diminished, leading to a rise in empty-nest households. This phenomenon is particularly pronounced among elderly individuals who have only one child due to family planning policies, which contributes to increased feelings of loneliness and monotony in their daily lives.

3. The Existing Problems of Old-Age Care in China Today

3.1. The Resources of Pension is Unbalanced between Urban and Rural

At present, there is still a large gap between the income of the elderly in urban and rural areas in China. More than 60% of the elderly in rural areas have a monthly income of less than 500 yuan, of which less than 200 yuan accounts for 44.5%, but 71.1% of the elderly in urban areas have a monthly income of more than 2000 yuan.[14] These data reflect the obvious difference between urban and rural pension levels, and the economic pressure of rural pension is greater. This is related to the source of pension income. Elderly people enjoying urban retirement pensions can usually afford the daily expenses of life, but in rural areas, the income of elderly people receiving pension insurance is meager, and some elderly people are not willing to pay too much insurance on their own, so they often receive

a relatively low amount of pension. This difference cannot be completely eliminated. In social development, the gap between towns and villages not only exists in the pension system, but also in many fields, which is an inevitable requirement for social progress. However, the difference between urban and rural pension insurance can be basically eliminated by establishing the integration of urban and rural pension insurance. Specific implementation plans are that both urban and rural areas adopt the method of joint payment of pensions by individuals, the government, and collectives, and the same calculation method is used for pensions.[15]

3.2. The Elderly Care Service System Is Not Sound

The three existing pension modes in China are institution nursing, home-based nursing and community nursing. Farming culture is the foundation on which Chinese families rely for survival. Coupled with the filial piety culture of Confucianism, Chinese people attach great importance to the concept of family. However, with the increasing aging and rapid economic development, some elderly people have to rethink their ways of supporting the elderly and change their willingness to support the elderly. For institutional pension, the government should invest more resources to improve the service equipment for the elderly, and the reform of the institutional elderly care can be realized through the intervention of non-profit organizations. Community pension can be combined with home-based pension, such as by providing professional trained caregivers. At the same time, the government should also take care of special elderly groups, such as empty-nesters, widows and childless elderly. Nationally, 23.81% and 17.72% of the elderly aged 60 and 65 and over in rural areas, a large proportion of widows are elderly, with 39.2% aged 50 and over, and 24.6% aged and over.[16] These special elderly groups will have psychological problems and even affect their physical health because of little social interaction and lack of social and family care.

4. Some Suggestions of Pension Problems

4.1. Solve the Problem Based on the Existing differences between urban and rural pension systems

First, according to the tracking survey on China's elderly society, it can be seen that the willingness of the urban and rural elderly population to support themselves is the most critical factor in their choice of forms of support. Both urban and rural elderly are more inclined to care at home, but the urban elderly population is more willing to choose themselves, children and the government to share the responsibility, and the rural elderly population's dependence on children is more prominent. Therefore, China's policy of "based on home care for the elderly, relying on community care for the elderly, supplemented by institutional care for the elderly" should be accelerated, and promoted in stages and in an orderly manner according to the actual situation of the region.[17] Second, the government should increase support for rural social security, strengthen the rural elderly medical security, housing security and economic security. And the government can strengthen social publicity efforts, so that all sectors of society can understand the needs of these special elderly groups. Third, Through the rural revitalization strategy, the introduction of talents, the development of the rural economy, and the increase of rural elderly sources of income.

4.2. The Silver Economy and Age-appropriate

The government should be encouraged to accelerate the reform of pension finance, strengthen residents' willingness to buy personal pensions and reduce the financing cost of the pension, tilt towards pension and other areas lack of funds. Based on the research of relevant literature, this paper gives the following suggestions. Firstly, the government is supposed to increase the support of the

silver industry, release the consumption vitality of the elderly market, and help economic growth.[18] Secondly, the government can use Internet technology to empower the elderly care industry with digital economy and encourage the elderly to learn to use Internet technology.

5. Conclusion

Grounded in the context of an aging population, a comprehensive understanding of the impacts of demographic shifts on labor markets, economic growth, and the well-being of older adults is essential. While an aging workforce presents challenges, such as labor shortages and increased pressure on social support systems, it also offers opportunities for innovation and reform in various industries. This article examines the multifaceted implication of aging societies, using Japan as a case study illustrate the influence of aging on economic growth in three key dimensions: labor supply, savings and consumption, and investment. Additionally, it identifies several issues within China's pension systems, including urban-rural pension imbalances, challenges faced by special elderly populations, and lagging pension services.

The paper concludes by offering policy recommendations focused on the silver economy and age-appropriate initiatives. Despite its contributions, the article acknowledges its limitations and suggests that further exploration of the role of technology and intergenerational collaboration can contribute to the ongoing discourse on aging and its wide-ranging societal implications.

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