

Analysis of the Impact of Delayed Retirement to the Macroeconomy

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Abstract: With the steady improvement of life expectancy in Chinese society and the intensification of the aging trend of the population, the supply-demand relationship in the labor market is facing unprecedented challenges. The increasingly serious reduction of the labor force and the pressure of the pension system make the current retirement policy gradually show its shortcomings of not adapting to the Chinese labor market. To this end, the government has planned to gradually implement the retirement delay policy and set a long-term goal to 2035. In an in-depth discussion of the current situation of China's labor market, society must focus on the aging of the population, the extension of working life, and the changes in labor demand. In order to better promote the implementation of the delayed retirement policy, this paper makes the following recommendations: protect the legislative rights of workers, strengthen medical services to safeguard the health of the elderly workforce, provide targeted training to adapt to the new work needs, and introduce more flexible working arrangements. These measures aim to ensure that the delayed retirement policy can be effectively implemented while protecting the rights and interests of workers.

Keywords: Delayed retirement, employment, aging population, labor market, labor participation

1. Introduction

In the current years, with the decrease in birth rate and labor force population, a trend of implementing delayed retirement policy is being explored in many countries worldwide. In China, the proportion of the population aged 60 and above in China's total population exceeded 20% by the end of 2021, the aging population is putting pressure on China's pension system. If there is no policy adjustment, it is predicted that in 2050, the contributory support rate will reach 96.3%, which means that almost one employed employee will support one retired employee, with a ratio of nearly 1:1 [1].

However, the current retirement age, which is 60 years old for male workers and 55 years old for females, was set in the early days of the founding of the People's Republic of China and has been used ever since. This means the retirement age is based on the social and economic development level, health condition, and life expectancy in the 1950s. Even though life expectancy has increased significantly from only 47 years old to 77.9 years old, there is no significant adjustment in retirement age. From an international cross-sectional comparison, the average level of the Organization for Economic Cooperation and Development (OECD) countries, is 66.03 years old for male and 65.51 for female workers. China's retirement age is significantly lower than this average [2].

Due to the above reasons, implementing the reform of the retirement age, by adjusting and delaying the retirement age, is one way to reduce the pressure on the pension system and enlarge the labor force. On March 11, 2021, the Fourth Session of the Thirteenth National People's Congress approved the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long Range Objectives for 2035, which clearly stated that "the statutory retirement age will be gradually delayed according to the principles of small step adjustment, flexible implementation, classified promotion, and overall planning."

Therefore, the author would analyze the effectiveness of the policies, by comparing the changes to the macroeconomic statistics and considering people's willingness and attitude towards detention retirement.

2. The Current Circumstances of the Chinese Labor Market

2.1. Aged Tendency of the Population

Since the reform and opening up, the Chinese economy has entered a period of rapid development, mainly due to the demographic dividend brought to our country by the large number of new people born during the "baby boom" of the last century. The first demographic dividend contributed 26.9% to the GDP per capita growth rate [3].

A sufficient young labor force and low population dependency ratio provide essential conditions for the rapid development of my country's economy. However, as the aging of the population continues to deepen, the working-age population has begun to shift from an increase to a decrease, and the population dependency ratio has also increased year by year, the advantages of the first wave of demographic dividend gradually disappeared, resulting in slower economic development.

As the people born in the 1960s "baby boom" generation now step into their sixties, which is close to the current retirement age, the Chinese labor market will face big changes and severe challenges. With the decline in the number of workers in the labor force, many occupations may face a shortage of labor.

A delayed retirement policy can be seen as an opportunity for China's second wave of demographic dividend. Analyzing the impact of delayed retirement policy on China's economy is of great significance to the design of delayed retirement plans.

Although the retirement age is set at 60 years old for male and 55 years old for female workers, there is a trend of preference towards early retirement. 40% of men retire before the age of 60, and some women even retire at the age of 45 according to special regulations or due to illness. The actual average retirement age of urban retirees is only 53.5 years old. Among them, the actual average retirement age for men is 57.8 years old, and the actual average retirement age for women is only 50.6 years old [4]. An increase in the number of retirees, insufficient pensions, labor shortages, and rising labor costs are becoming prominent, which add uncertainty to macroeconomic stability.

If retirement age adjustment is not implied, the retired population is estimated to reach 278 million by 2050, which is almost three times as large as the current retired population. However, if a delayed retirement policy is implemented, the estimated retired population will reach 210 million, which will be 60 million less than the retired population without retired age adjustment [1]. This could reduce the burden of alimony on the employed workers, as well as ensure the sustainable development of the Chinese economy.

Because of the above reasons, delayed retirement seems to be an essential policy to implement, to ease the reduction of the working-age labor force is also an important policy starting point for promoting delayed retirement. According to a statistical investigation using a new Keynesian DSGE model [5], delayed retirement does not have a crowding-out effect on private consumption, is conducive to employment, output, and consumption growth, and helps stabilize inflation and wage

inflation; compared with fiscal policy tools, delayed retirement results in smaller overall social welfare losses. Therefore, in the context of China's increasingly aging population, whether stabilizing macroeconomic considerations or reducing social welfare losses caused by policy implementation, delaying retirement is a better policy choice.

2.2. The Rise in Life Expectancy

According to data released by the Ministry of Human Resources and Social Security, the total number of retired urban workers in China has continued to grow from approximately 32 million in 2000 to approximately 120 million in 2018, and the average life expectancy of the national population has increased from 71.4 years in 2000. By approximately 77.0 years old in 2018, the health status of the elderly continues to improve [3].

Table 1: Life expectancy/Healthy life expectancy at 60 years old in major countries around the world in 2019

Countries	Life expectancy at 60 years	Healthy life expectancy at 60 years	Ratio of healthy life expectancy at age 60(%)
Singapore	25.54	19.95	78.1
Japan	26.35	20.39	77.4
China	21.06	15.92	75.6
India	18.82	13.25	70.4
America	23.13	16.35	70.7
Canada	25.15	18.89	75.1
United kindom	24.13	18.25	75.6
France	25.34	19.70	77.7
Germany	24.41	18.47	75.7
Italy	25.04	18.91	75.5
Australia	25.62	15.92	74.1

As shown in table 1, viewing the proportion of healthy life expectancy of 60 years in China to life expectancy, according to data provided by WHO, China is similar to OECD countries such as the United Kingdom, Germany, and Italy, second only to Japan, Singapore, and even higher than countries such as the United States and Australia. This shows that the healthy life expectancy of China's elderly population is growing faster than the life expectancy, and healthy life expectancy will maintain a sustained growth momentum in the future. Therefore, the retirement age reform should

fully consider the necessary adjustments to the reality of the rapid improvement of the health level of the elderly population mentioned above, and better develop and utilize the health dividend of the population by gradually extending working hours.

3. Weak Ability to Adapt to the Changing Labor Market

There is a lack of demand for labor around their retirement age. The potential unemployment rate generally increases gradually with age. From the perspective of labor demand, the current economic development in China is in a transformation stage from the primary and secondary sectors to tertiary and quaternary sectors. There are structural contradictions in the labor market, manifested in the scarcity of innovative and high-end technical talents in the quaternary sector, and the relative shortage of low-skilled labor mainly in the primary and secondary sectors. At present, most of the retired population entered the labor market before the reform and opening up. They have few opportunities to receive higher education, so therefore have low levels of human capital, and have a weak ability to adapt to the transformation of economic structure and changes in the labor market. This situation explains why early retirement is becoming a more popular choice.

4. The Labor Participation Rate

The decline in the labor force participation rate will intensify the burden of population aging on labor supply. The reduction in the labor participation rate of women workers is mainly responsible for this circumstance.

Reproduction behavior is an important factor affecting female labor supply. Due to China's aging population, the trend of miniaturization of family structure accompanied by large-scale population migration, declining fertility rate, fierce competition in the labor market, and other reasons, women's role between family and job participation has more conflicts. Easing the time and economic costs of women's childbearing to increase the labor participation rate requires the support of better labor market policies [6]

5. The Way to Promote Delayed Retirement

5.1. Set Policies to Protect the Legitimate Rights and Interests of Workers

In current years, the phenomenon of working overtime has become common. The severe competition in the labor market and intensifying work are putting overwhelming pressure on workers. This causes harmful effects in both psychological and physical aspects. A recent epidemiological survey shows that the weighted prevalence of any disorder (excluding dementia) is 16.57% during the participants' entire lifetime among Chinese adults [7] and the stress from work is one of the main reasons. Therefore, laws and regulations to protect the legitimate rights and interests of workers, and avoid any terms of worker exploitation, such as mandatory overtime work, should be implemented.

5.2. Enhance Healthcare Services

Actively intervene in the health status of workers before they enter old age, thereby providing greater possibilities for the elderly to stay in the labor force, or even to be re-employed after retirement. In terms of physical health conditions, providing subsidies to make sure basic healthcare services are affordable for all citizens. The firms should organize employees to conduct regular health examinations to detect abnormalities early and provide early preventive treatment to improve their health.

In terms of mental health conditions, adverse psychological conditions are related to common diseases in the elderly. Maintaining psychological balance and emotional stability can reduce the risk

of acute diseases such as myocardial infarction and cerebral thrombosis [8]. Anxiety and depression are common mental states among the elderly. Therefore, health organizations must pay attention to the mental health needs of the elderly and prevent the occurrence of these negative emotions. This can be done through better community services and more care for the elderly, and providing a channel for the elderly to reach for help with psychological counseling is also necessary.

Provide training courses

At present, China's industrial structure is rapidly changing, which puts forward higher requirements for the human capital level of workers. However, the education level of China's elderly is generally low, and the education and training system for middle-aged and elderly people is not yet complete, which makes structural unemployment a common situation.

The re-employment training for the elderly is not strong enough, and the channels for the elderly to learn new skills are blocked, making it difficult to adapt to the needs of the new technological revolution for human capital, resulting in a large deviation between the supply of human resources for the elderly and the demand of the labor market.

Therefore, more re-employment training for the elderly is required in order to meet the demand of the labor market and make better use of the secondary demographic dividend. This can be done by communities setting up universities for the elderly, or by firms or trade unions to provide training courses.

5.3. Introduce Flexible Working Arrangements to Achieve Work-life Balance

As China is experiencing a fall in birth rate at the same time, encouraging birth and raising of children, as well as maintaining the labor force participation rate, is an essential task. The huge population of women workers, who shoulder the responsibility of giving birth and generally play a more significant role in raising up children should not be ignored.

Subsidizing formal childcare services, reducing unequal treatment of women in the workplace, including wages, and promoting dual-income family policies that promote female employment can all help alleviate the time and economic costs of women's childbearing.

People around the retirement age also take an important role in helping their household. According to research, more than half of the middle-aged and elderly people aged 45 and above provide family care and housework, and the proportion of elderly people in the 60-64 age group who provide housework reaches the second peak among all age groups, which is approximately 70%.[3] As the intergenerational dependency rate increases, a more flexible retirement policy is required, as well as enhancing childcare services to reduce the pressure of child-raising.

6. Conclusion

With the trend of the aging population and significant increase in life expectancy, the demographic dividend is vanishing, and the retirement age set in the 1950s is no longer suitable for the labor market in China in current years. Therefore, a delayed retirement policy is implemented to make full use of secondary demographic dividends and reduce the pressure on the pension system as well.

In the aspect of labor supply, with the problem of decreasing labor participation rate, mainly brought by women's childbearing, how to achieve the balance between labor participation rate and birth rate should be reconsidered. A more flexible working arrangement could be one possible solution. In addition, with a higher intergenerational dependency rate, the elder generation now shoulders the responsibility of child-raising and housework, therefore more flexible retirement policy should be implemented to help them achieve a balance between family and work.

Health condition is also related to the ability to adapt to delayed retirement policy. Firms intervene in workers' health conditions by organizing regular health checkups, and the government provides

subsidies to ensure the affordability of basic healthcare services, and community paying attention and providing help to the mental health condition among the elderly, can ensure a better health condition, and maintain the productivity among elder workers.

In the aspect of labor demand, with a rapid change in the economic structure after the reform and opening, low levels of human capital as a result of low accessibility to higher levels of education among the older generation has led to a weak ability to adapt to the transformation of economic structure and changes in the labor market. Therefore, a retraining program is required.

In conclusion, the delayed retirement policy is one of the best solutions in today's labor market, and the corresponding changes to ensure the effective implementation of the policy is required after thorough consideration.

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