

The Impact of Delayed Retirement on Economic Growth in the Context of Population Ageing: The Case of China

Wanzheng Peng^{1,a,*}

¹*Overseas Chinese College, Capital University of Economics and Business, Beijing, China*
a. 32022140038@cueb.edu.cn

**corresponding author*

Abstract: A phenomenon that is leading to an overall growth in proportion of people over 60 years old in total population of a society is population ageing. It has now become a common challenge to China's and the world's economic growth, and one of the major constraints to economic growth. As life expectancy increases, the traditional retirement policy is gradually failed to meet the needs of social process. This study mainly explores the merits and demerits of raise retirement age policy for China's society and economy against the backdrop of an increasingly aging population. The study analysed that pushing back retirement age policy can have helpful effects on the community's overall economy, such as the replenishment of the labour supply, building human capital, enhancing the spending power of older persons, the optimization of the overall consumption structure, and the reduction of the pressure on and financial burden of pension payments. Apart from the above, although raise retirement age has had a beneficial effect on the economy through a number of coping methods, it also faces challenges such as the difficulty of finding employment for the elderly and the lack of flexibility in the labor market. Therefore, when formulating and implementing the delayed retirement policy, these factors should be fully considered, and targeted measures should be taken to solve them. At the same time, the policy publicity should be strengthened to improve the awareness and acceptance of the delayed retirement policy in society.

Keywords: Aging population, delayed retirement, economic growth.

1. Introduction

Population aging is a global phenomenon that refers to the increasing proportion of older persons in the total population. The United Nations refers to a society in which 10 percent of the population is over 60 years old, or 7 percent of the population is over 65 years old [1]. According to the United Nations' World Population Prospects, nearly one-third of the world's population is expected to be aged 60 and over by 2050.

In China, the trend of population aging is particularly severe. China has entered a "deep aging" society. China's aging population is currently facing multiple challenges, such as a large base, rapid growth, uneven geographical distribution, significant differences between urban and rural areas, and "growing old before getting rich". It is expected to decline in 2045, but its share of the total population continues to rise, and this demographic shift will have far-reaching implications for socio-economic development.

Aging has multiple impacts on the labour market and socio-economy. First, an aging population could lead to a tightening of the labor market. As ageing deepens, an enlarged number of older persons will lead to a relative decline in the number of persons of working age. The lack of labor supply will increase labor costs, thereby increasing the employment costs of enterprises, reducing production efficiency, and then reducing the competitiveness of enterprises in the market.

Secondly, the consumption preferences of older people are dissimilar to those of youths, they are more inclined to the field of elderly care services such as medical health and insurance. Concurrently, elderly also tend to be conservative, and the tendency to save is increased.

Therefore, the demand for public services for the elderly will increase significantly, while the demand in the traditional consumption sector may face a decline in demand, which will indirectly pose a challenge to economic growth.

Besides, construction of public services and expenditure of pensions will increase the financial burden of the government, crowding out the government's investment in education, scientific research, and other important areas.

At present, China is facing the problem of an ageing population, and the delay of the retirement age policy is one of the possible solutions. This paper analyses whether retiring late can help to solve problem of labour shortage in terms of raising the supply of labour and the quantity of labour. What is more, pushing back of the retirement age helps the elderly to continue to accumulate wealth during their work, whether or not the elderly will be able to maintain a certain level of spending power, and then promote consumption upgrading and transformation of consumption structure to a certain extent.

At the same time, has this helped diversify into more economically relevant industries and economic growth? This paper also analyzes whether increasing the labor force participation rate and prolonging the careers of older people can help to ease the bad effects of ageing on economic growth. Article further analyses the implications of raise retirement age on pension. Whether it will lead to a less stressful, in terms of government financial spending, and pressure to reduce the social security system to a certain extent. Otherwise, this article analyzes whether sustainability increases with labour supply in social security systems. In addition, the paper analyses the need for the implementation of this policy to take into account the realities of the labour market. As well as the health status of older persons and the social acceptability of employment for older persons.

2. Introduction to the Delayed Retirement Age Policy

2.1. Background to the Proposed the Policy

With the accelerated global ageing of the human population, all countries are facing the dual pressure of pension security and labor supply. As the largest developing country in the world, China's aging population is of particular concern. According to United Nations statistics, the proportion of older persons in the total population of China continues on the rise. This not only increases the burden of old age on families and society, but also profoundly affects supply and demand in the labour market, becoming a critical issue for sustainability in economic growth.

An aging population has led to an imbalance between supply and demand in the labor market. With the increase in the elderly population, the effective supply of the labor market is gradually decreasing, which adversely affects the dynamics of economic growth. At the same time, this is no longer compatible with the needs of social development, as life expectancy is increasing, and the traditional retirement age system is no longer appropriate. Therefore, to face this challenge, the policy of pushing back retirement age as a countermeasure has gradually come to be a hot topic of discussion in all walks of life. At present, the policy of deferring retirement has been included in China's 14th Five-Year Plan and the outline of its long-term goals up to 2035. It is implemented in accordance with the principles of 'gradual and flexible adjustment, promotion by category, and overall

consideration'. Making full use of human resources and gradually pushing back the legal retirement age to fully face the ageing of the population.

2.2. Objective

Deferred retirement policy aims to increase the effective supply in the workforce by adjusting the retirement age, alleviating the labor shortage caused by the aging population, as well as ensure the sustainability of the pension system and to some extent make social security more flexible. The specific objectives include the following:

The first is to compensate for the loss of labour due to the increase in the elderly population, by delaying the retirement age so that workers have longer working hours. This will help to overcome some of the problems in the labour market, such as shortages. It will become even more crucial to ease the tightness of the labour pool. As the working-age population is falling, postponing retirement age can be seen as an effective tool to make the job market more labour-intensive.

Second, delaying retirement can improve the sustainability of the pension system, help increase the accumulation of pensions, reduce pension expenditures, and alleviate the pressure on government fiscal expenditures.

Third, the policy of delayed retirement has a positive effect on economic growth, which has a positive impact on economic growth by increasing the labor force participation rate and labor productivity per capita.

2.3. Main Content

Based on China's retirement age system, it coordinates 60 years old for male workers and between 50 and 55 for female workers. Addressing the increasing demographic trends of population ageing, revised implementation of such policy reform will differentiate between different groups, such as region, class, industry, position, and gender, adopt an appropriate pace, and advance steadily and gradually put in place [2].

Given the actual situation of China's aging population, academics and policy makers have put forward a variety of delayed retirement policy schemes. Based on the comprehensive reference of relevant materials, this paper extracts and summarizes the following three main delayed retirement policy schemes.

2.3.1. Progressive Delayed Retirement System

The progressive delayed retirement scheme refers to the progressive extension of age retirement, which is achieved in a phased and step-by-step manner. The advantage of this scheme is that it is non-irritating and operable, which can reduce social resistance in the process of policy implementation.

Specifically, different retirement age adjustment ranges and schedules can be set according to different age groups, and the retirement age can be gradually extended to a reasonable level.

2.3.2. Flexible Retirement System

The pension system will become more flexible, as evidenced by allowing workers to select whether or not to continue working at a certain age and the length of service after reaching the mandatory retiring age, according to their wishes and actual circumstances.

This system can fully respect the wishes and rights of workers and improve the enthusiasm and satisfaction of workers. Moreover, a reasonable incentive mechanism can better encourage the willingness and ability of older workers to continue to contribute to society.

2.3.3.Strengthen Vocational Training and Re-education

To improve the employability and adaptability of older workers, the policy of delayed retirement should also be fully integrated into the content of strengthening vocational training and re-education. By providing targeted vocational training and re-education opportunities for older workers, they will be able to acquire new skills and knowledge and improve their employability and income levels.

This will not only increase the employment opportunities of older workers but it also improves the general quality of the labour force for the community

3. The Influence Mechanism of Raise Retirement Age on Economic Growth

3.1. The Supply Effect of Labor

The most immediate effect of the raise retirement age policy is to increase the supply of labor markets. In the context of aging, the labor market is facing the dual challenges of reduced supply and rising labor costs, which bring greater pressure to the operation of enterprises. The delayed retirement policy increases the supply of the labor market by appropriately extending the careers of workers. This is of great significance for alleviating labor shortages and maintaining sustained economic growth.

In addition, delaying retirement increases the flexibility of the labor market to a certain extent. For some industries, experienced employees are a valuable resource, and their departure often brings great losses to the business. By making full use of the work experience of older people, economic and social output can be improved, economic growth can be promoted, and more jobs can be created to absorb more young people [3]. As the retirement age increases, the elderly population continues to participate in the labor market, increasing the number of workers and alleviating the labor shortage caused by an aging population [4]. The delayed retirement policy enables these veteran employees to continue to maintain their roles in their positions as well as maintain the stable operation of the enterprise.

More importantly, China is in a critical period of economic transformation and upgrading, and the demand for high-quality labor is increasing. However, as the elderly population increases, the supply pressure on the labor market is gradually increasing. The delayed retirement policy provides a new source of supply for the labor market by prolonging the career of workers, to help alleviate labour shortages and ensure sustainable socioeconomic growth in China.. This supply effect helps to maintain the vitality of the labor market and provides the necessary human support for economic growth.

3.2. The Accumulation Effect of Human Capital

Human capital is one of the important drivers of economic growth, and its accumulation and utilization are crucial to national development. While the delayed retirement policy increases the supply of labor, it also affects the accumulation and inheritance of human capital. On the one hand, older workers have accumulated rich experience and skills in their years of work, which are of great significance for improving the productivity and innovation ability of enterprises. The delayed retirement policy enables these elderly workers to continue to play a role in their jobs and contributes to the inheritance and accumulation of human capital [5].

On the otherwise, raise the retirement age can also promote the learning and mastery of new knowledge and skills by older workers. With the continuous progress of science and technology and the continuous upgrading of industrial structure, enterprises have higher and higher requirements for the quality of workers. Through continuous learning and updating of knowledge, elderly workers can keep pace with the times, improve their competitiveness and adaptability, and contribute to the sustainable development of the enterprise.

To a certain extent, raise the retirement age policy has indirectly had a forward-looking impact on the employment of younger people while promoting the employment of the elderly. Older people with rich work experience continue to be active in the labor market and can play a spillover effect on human capital. Young people learn in collaboration with older people and promote their accumulation of human capital. In addition, delaying retirement is conducive to increasing the supply of labor, especially to fill the gap in some skilled and professional jobs, which will help enhance economic vitality and expand aggregate social demand, and young people will also benefit from it, promoting overall economic growth.

3.3. Consumer Demand

Raise the retirement age can boost the level of income of the elderly, thereby enhancing their spending power. The impact of changes in the consumption structure of the elderly population on the overall economy cannot be ignored. Under the traditional retirement system, the elderly mainly rely on pensions to make ends meet after retirement. However, re-employment can lead to higher average levels of income for older people, so their income patterns tend to change. Under the delayed retirement policy, the consumption demand of the elderly will gradually change from basic living needs to higher-level needs, such as medical care, tourism, entertainment, culture and education, etc., however, it is important to note that this may still reduce the demand for high-consumption goods and services, as the spending power of the older population is still limited compared to younger people [6]. The delayed retirement policy enables the elderly to continue to obtain work income after retirement and maintain their consumption level as much as possible, thereby enhancing their spending power and optimizing the overall consumption structure of society.

3.4. Financial Pressures

Raising the retirement age has an important consequence on the sustainability of the pension fund system. With the increasing elderly population, a difficult situation occurs with pension payments is gradually increasing. Raising the retirement age helps to ease the pressure on pension payments through raising the number of years that workers can receive their pensions.

On the one hand, the retirement age delay allows workers to contribute to the pension system for a longer period. On the other hand, the number and number of years of pension recipients have been reduced, and the pressure on pension payment has been reduced, at the same time, the pension contribution period is extended, which contributes to the financial balance of the pension system [4]. At present, China's basic endowment insurance is still at the provincial level, and the regional characteristics of fund income and expenditure are obvious, so it is of more practical significance to reform at the regional level.

Take China's Jiangsu Province, for example, which entered an aging society as early as 1986. According to the 2015 1% population sample survey, 19.17% of the population aged 60 and above in Jiangsu accounted for 19.17%, 3.02 percentage points higher than the national average [7]. Under different circumstances, the government should actively expand the investment channels of pension insurance funds in areas with serious aging, and improve the return on investment, such as entrusting a certain proportion of the fund balance to the National Council for Social Security Fund investment and operation, etc., to reduce the risk of fund depreciation [8].

The stable functioning of the pension system is also essential for financial security. The delayed retirement policy helps to reduce the financial burden by easing the pressure on pension payments. On the one hand, it reduces the government's subsidy expenditure for the pension system; on the other hand, it improves the sustainability of the pension system and reduces the financial risks that may be faced in the future.

4. Conclusion

In conclusion, delaying retirement has multiple beneficial effects on the overall economic growth of Chinese society. By allowing older persons to remain in employment, the postponed retirement measure can improve the supply of labour. It also helps human capital accumulation; the consumption power of older persons increases as well as the overall economic structuring of society is optimised. The increase in the income level of the elderly promotes progress in the standard of living, and more income means more consumption, which is conducive to the promotion of the overall industrial development of society and the transformation and upgrading of the economy. By allowing older persons to remain in employment, delayed retirement measures can improve labour supply. It also contributes to the accumulation of human capital, increases the spending power of older persons and optimises the overall economic structure of society.

However, some challenges and issues regarding the implementation of delayed retirement are being faced, such as the difficulty of employment for the elderly and the lack of flexibility in the labor market. Therefore, when formulating and implementing a delayed retirement policy, it is necessary to fully consider these factors and take targeted measures to solve them. It is also necessary to strengthen policy publicity and guidance, improve society's awareness and acceptance of pushing back retirement age. As well as create a fantastic social atmosphere which has led to the smooth implementation of the policy. The realistic context of China's phased reduction of pension insurance unit contribution rates must also be taken into account. In the future the policy of pushing back retirement age and transfer of State capital should be implemented promptly in order to filling the Pension Fund gap, which continues to expand.

References

- [1] Zou, W.X., Wang, Y. and Liu, Y.Y. (2024) *The Effects of Demographic Structure, Aging Trend and Delayed Retirement on Economic Growth*. *Journal of Dalian University of Technology (Social Science Edition)*, 45(2), 111-122.
- [2] Xin, L.H. (2021) *Research on the Impact of Delayed Retirement on China's Economic Growth From the Perspective of Labor Resources*. *Economist*, 2021(1): 30-31.
- [3] He, L.D., Xu, L. and Wang, Y.J. (2017) *Delay Retirement, Economic Growth and the Unemployment Rate*. *Economic Issues*, (12): 86-91,123.
- [4] Mu H.Z. (2024) *Population Aging, Postponing Retirement and Economic Growth*. *China Soft Science Magazine*, (5): 70-79.
- [5] Geng, Z.X., Sun, Q.X. (2024) *Delaying Retirement Age, Human Capital Accumulation and Economic Growth*. *Statistical Research*, 41(5): 111-123.
- [6] Lu, B. (2015) *Analyze the Impact of Delayed Retirement Age on Labor Force and Economic Growth*. *China Global Business*, (5): 103-103.
- [7] Wang, H., Du, X. (2021) *Fertility Policy Adjustment, Retirement Age Delay, and Sustainable Development of the Basic Pension System*. *Population and Society*, 37(2): 1-14.
- [8] Gong, H.J., Chen, J. (2017) *Will Delay Retirement Reduce Youth Employment? — From the Angle of View Whether the Old People Participating in the Old-Age Insurance*. *Human Resources Development of China*, (6): 130-136.