REFORMING CHINA'S PENSION PROGRAMS TO COPE WITH AN AGING POPULATION

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Executive Summary

1. A population is considered old when the elderly aged 65 and above constitutes 7% of the total population. China's 6th National Census shows that this proportion reached 8.9% in 2010. According to UN projections, the process of population aging in China will accelerate in the foreseeable future. By 2050, over a quarter of China's population will be older than 65.

2. Simply put, China is getting old before it gets rich as population ageing is taking place at much lower levels of socio-economic development than was the case in the developed countries. China will have less time to adjust to the consequences of population aging.

3. The elderly have multiple needs—financial, physical as well as emotional—after withdrawing from active economic participation. Pension program is therefore an indispensible part of the old age support system in modern times.

4. China's current pension system is limited in coverage and segregated in management, which falls roughly into three major programs: the basic pension insurance system of workers and staff in organized sectors, the pension system of government employees and the new rural social pension insurance system.

5. The programs differ in terms of target population, coverage, management, personal contribution and benefits. The pension level is low in general, but the inter-program gap is large. As the population ages, the current pay-as-you-go system will face similar pension crisis experienced by many in Europe today.

6. China begins to implement its 12th Five-Year Program from 2011. Expanding pension coverage and raising pension rates are listed as one of the ten welfare promoting policies. The goal of the pension reform is to achieve universal coverage of basic pension insurance programs in urban and rural areas during the next five years. Planned targets have been set to facilitate the reform.

7. A number of policy options have been proposed to raise additional funds to increase pension payment level, narrow the inter-program gap and prepare for the possible fund shortage in the future.