Different societies, same solutions? A critical reflection on 'ageing as a burden' in China and the European Union

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Challenges and Opportunities

Policy paper
by
Jin Feng and Traute Meyer

- Policy makers in China and the EU have stated that their ageing societies are a burden for their pension systems and that the retirement age should be increased and costs strictly controlled. But is pension retrenchment the only viable response to societal ageing?

- Despite the large differences between China and the EU, societal ageing in both regions has led to the development of public pension systems, which play an important stabilising role for these societies. Given the high costs of these systems, the near-constant debate about pension-system reform and their financial sustainability is understandable.

- However, the strong focus of policy makers on the extension of working life to contain these costs is misguided: In Europe, many citizens are economically inactive long before retirement age and would benefit more from improved education and employment opportunities. Similarly, in China (where grandmotherly care is important for many parents) simply raising the very low female retirement age without a simultaneous extension of public child care would probably reduce activity rates of younger women, resulting in lower contribution to pension systems.

- Pension systems exist because ageing populations are an integral part of developed economies and policy-makers should embrace the trend. Instead of simply expecting people to work longer, they should address the inequalities and obstacles preventing citizens from rewarding involvement in the economy and thus contributing to pension systems. This study outlines the current challenges of these systems in Europe and China and proposed some new approaches to address them.

REGIONAL PROGRAMME ASIA

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Ageing societies – a global discourse of concern

Population ageing and declining fertility rates require reforms which also need to pre-empt, where possible, adverse social and economic effects of making pension systems more financially sustainable. (OECD 2013: 18).

In OECD countries, the pension landscape has been changing at an astonishing pace over the past few years. After decades of debate … many countries have launched significant pension reforms, including higher retirement ages, changes in the way entitlements are calculated and other measures to introduce savings in their pension systems. (OECD 2013: 9).

China faces a considerable burden. Her remarkable achievements in curbing population growth … have resulted in rapid population ageing. … Despite high rates of economic growth, population ageing presents China with a formidable challenge, not only because of the sheer size of the older population but also because of ongoing developmental changes in Chinese society. (Booth 2013).

Establish a fairer and more sustainable social welfare system. Stipulate policies for gradually prolonging the retirement age of employees. (CPC Central Committee, 2013, No. 45).

Population ageing is recognised as a problem by governments around the world. In the richest countries the belief has become established that longer life expectancy and the decline of fertility rates are driving rising pension costs and governments have decided to cut pension benefits to control costs. In the European context, the assumption that pension expenditure needs to be constrained carefully because of ageing societies has become commonplace and retrenchment of public pension benefits is often seen as an unavoidable solution.

China is still far less wealthy than EU or OECD countries, but its economy has grown more than any other over recent decades. Nevertheless, the statements quoted above suggest that Chinese policymakers are motivated by very similar concerns about societal ageing as those of the governments of the richest countries; those in power appear to worry about its impact on public budgets, the cost of care and the affordability of pensions. In addition, they seem to be considering similar solutions, among them the extension of working life before retirement. Therefore, we are faced with the interesting situation in which two otherwise very different regions of the world seem to have similar problems and prefer similar solutions.

Ageing as a leveller of societal differences? Aims of this study

Our aim is to cast some critical light on the belief that the rising old age dependency ratio is a central problem for pension systems in countries as diverse as the EU28 and China and that to cut costs by increasing the working age is a solution for both regions. Is ageing the big leveller of societal differences? Does it make governments of different economies, societies and political systems resort to the same solutions? Why would this be? These are questions the current study will investigate.

In what follows we will explore the similarities of ageing-related processes in Europe and China but we will also highlight where apparently similar trends and challenges are caused by very different issues and thus require very different solutions. We will start with an overview of population size, dependency rates and economic wealth in Europe and China, followed by an overview of pension systems and pension reform. This first part will demonstrate significant differences. Consequently, pension policies have also developed very differently: in China, benefit expansion was necessary to accommodate rapid societal change; in Europe such change was managed by benefit containment. Against this background we explore the degree to which the extension of working life is a common solution, suitable to address ageing societies in both regions. Thus, in the second part of the study we compare employment participation rates of adults in China and Europe and reasons for inactivity. In the final part of the study we will examine what policies might increase activity in both regions. Overall our study is an appeal to policy-makers not to accept too readily that increased dependency ratios must lead to pension cuts; there is only some evidence to support this view with regard to the EU and very little for China.

Population size, age and wealth in China and Europe

Population size

The populations of China and Europe differ enormously in size. In 1950, already more people lived in China than in Europe, but the gap was much smaller than today. Since then China's population has more than doubled while that of the EU countries has grown only slightly. In 2015 the populations of 27 EU member states (excluding Cyprus) combined were about a third of China's. In contrast to Europe China has experienced rapid growth.

Relative increase of the older population

In order to indicate the proportion of the population that needs a retirement income, in Figure 2 we show the relative increase of the older population as a share of all adults from 15 years of age upwards between 1950 and 2015 in both regions. In China the ageing trend started in 1965, when those above 64 years of age constituted only 6 per cent of the working age population. In Europe the lowest point was 1950, the first year data were gathered (13 per cent). In both regions the proportion of over 64s out of all adults grew rapidly, but in 2015 this share was much higher in the EU27 (minus Cyprus, 28 per cent, not shown) than in China (13 per cent). If we use this so-called old-age dependency rate as a proxy for pension costs, it is clear that EU countries need to spend much more. There are of course regional differences. Within the EU, the largest difference – between the Southern European countries and the new central and eastern European member states – is 5 percentage points. Within China, there are disparities among provinces; the gap between the highest and the lowest is about 9 percentage points (excluding Tibet). The dependency rate is higher in western provinces, from which younger people have migrated to more developed provinces in eastern and

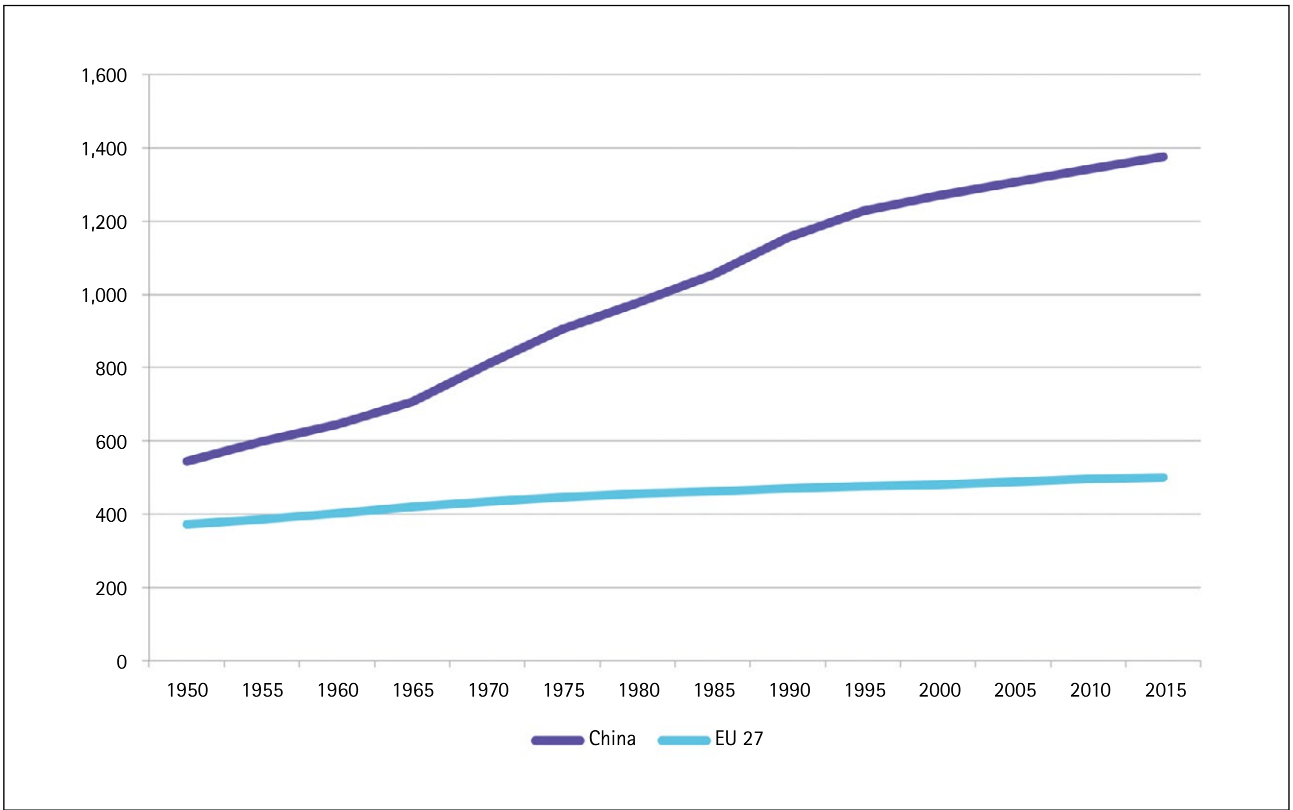

Figure 1. Total population, both sexes combined, as of 1 July (millions) China/EU27.
Source: United Nations (2015).

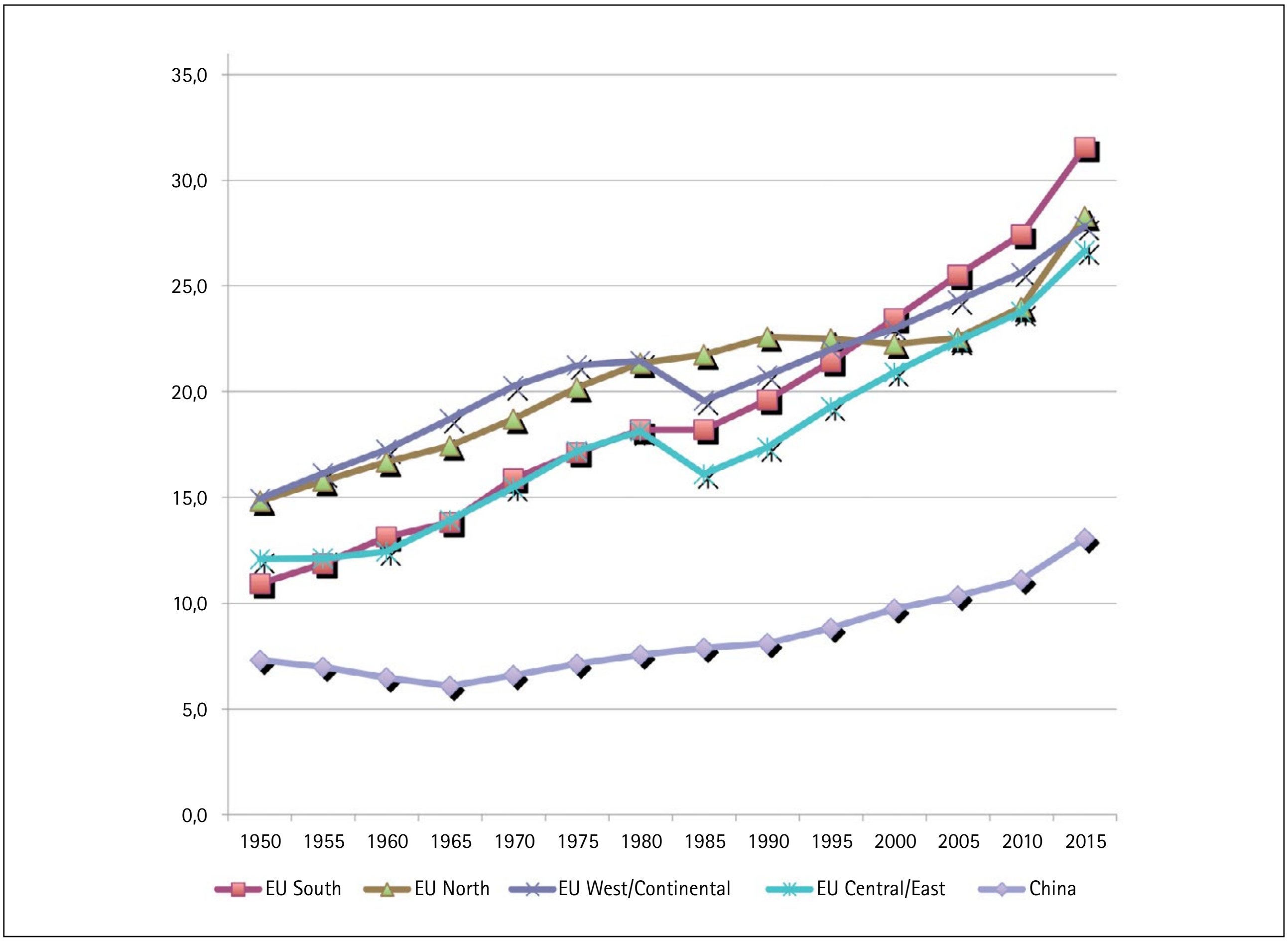

Figure 2. EU27 & China: Ratio of population 65+ and 15-64 years per 100 population.
Source: United Nations (2015).

central China (China Labour Statistical Yearbook, 2010). Seen from a global perspective, however, the differences within Europe and within China are less significant than the difference between the two regions.

Economic development

Since the 1990s no other country has grown anything like as much as China, which has also been more dynamic than other developing regions (Figure 3). In contrast, long-standing EU member states have hardly changed at all; only the central and eastern European new member states have expanded substantially, albeit at below half China's rate. The most dynamic period for many EU member states was between the late 1950s and early 1970s; in contrast, China's growth period only started in 1990 and from a very low level. This is why, despite its dynamic growth, Chinese wealth levels in 2013 still constituted roughly only a third of those in the richest 17 EU member states, as well as those of Japan, Malaysia or South Korea (Figure 4). These 17 EU countries have grown very little in recent times, but they are altogether much wealthier than China.

In summary, we have seen just how large the differences are between China and the 17 richest EU states. Intra-EU economic differences appear less significant compared with the gap between these two regions; only when central and eastern Europe is brought in does greater European diversity appear. China's population and economy have grown very fast since the 1950s and 1990s, respectively, while Europe completed its period of population growth in the 1970s. After 1945 European societies changed significantly. Rapid economic growth brought with it the growth of welfare

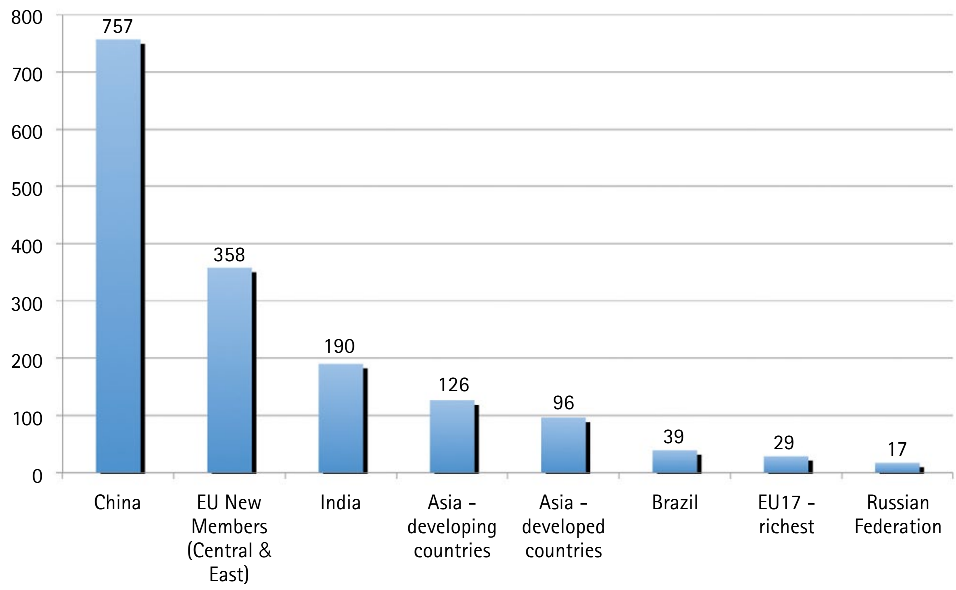

Figure 3. Growth in GDP per capita (PPP, constant 2011 international $) 1990-2013 (%).
Source: UNDP (2014).

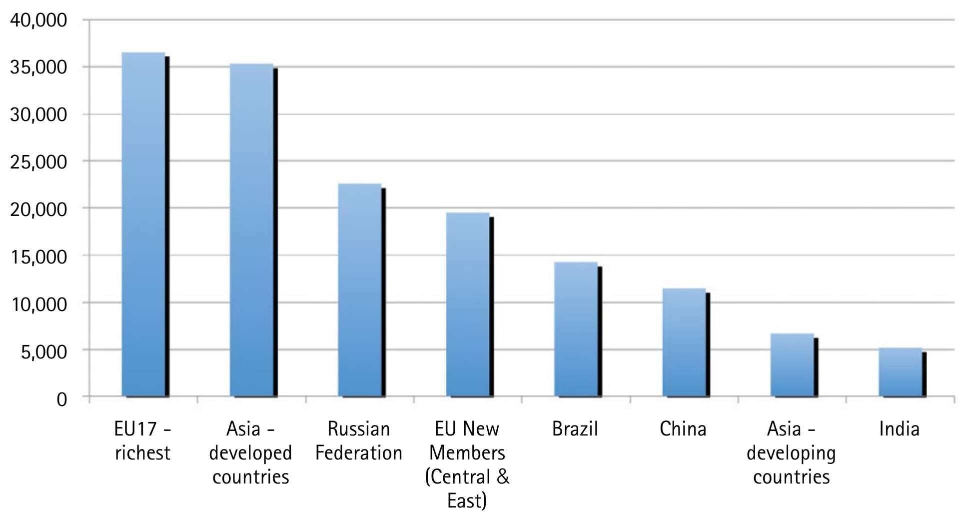

Figure 4. Gross national income per capita 2013 (PPP USD, 2011).
Source: UNDP (2014).

states, with pensions as the most encompassing and most expensive programme everywhere. Modernisation theory suggests that as societies expand economically and become wealthier, social policies also grow because they are needed to stabilise such societies (for example, Wilensky and Lebeaux 1958). Thus, it is not surprising that European pension systems, established first in the nineteenth and early twentieth century, expanded rapidly after the Second World War. Likewise, looking at China we would expect social policy measures to accompany the massive societal changes economic growth has instigated. And indeed, since the beginning of 2000, China has witnessed remarkable expansion in social protection, not only within the urban formal sector but also in the informal sector, both in urban and rural areas (ILO, 2010; ADB, 2010).

Pension policy in China and Europe

We have shown the similarities in public discourse on ageing societies in China and Europe where governments fear the costs of ageing populations. Interestingly, at the time of writing, the pension systems of Europe and China display similarities, too, as we will demonstrate below. However, the paths leading there look very different.

European pension systems and reforms – cost containment

In contrast to that of China, Europe's pension systems must be considered 'mature'. This means that fairly high benefit commitments were made decades ago, on which the older population relies today. Consequently, public pension expenditure in mature systems is far higher than in newly established ones, where future commitments rather than payments dominate. This is one reason why public pension spending is so much higher in the EU than in China or in other rapidly developing countries. In 2010 it comprised 11 per cent of GDP in the richest 17 EU countries, and 10 per cent in the new central and eastern European member states (OECD 2015, authors' calculations). What do these systems look like?

Comparative scholars of the welfare state agree broadly that two main types of pension regime are dominant in Europe today (for example, Ebbinghaus 2011). Both have the same aim, to protect the population against poverty and to secure the standard of living that workers have become accustomed to throughout their lives in retirement. In the first type, the state pension is the dominant player by far. It offers earnings-related benefits at a fairly high replacement rate, privileging those on substantial lifetime earnings and putting at risk of poverty those whose earnings are low. A basic state pension does not exist in this model. This is often labelled the Bismarckian type, named after the German chancellor's path-breaking reforms of the late nineteenth century. The second model comprises universal state pension to which most citizens will be entitled in retirement because it has no or a very low access threshold. Benefits are at a low level, too; it merely prevents individuals from falling into poverty. Many will aspire to a higher standard of living and therefore earnings-related second-tier occupational pensions have been institutionalised; membership in these is mandatory, also to ensure broad coverage. Following the equally path-breaking Beveridge Report of 1942, this is known as the Beveridgean type in the literature.

Let us examine how the EU countries for which we have data fit into these two categories (Table 1). The majority of European countries have institutionalised income-related systems designed to preserve living standards. This is the case for most of the 17 richest EU countries – namely the long-standing member states – and for all of the central and eastern European members for which we have information. The poverty preventing type is rarer, institutionalised only in Scandinavia, the Netherlands and the United Kingdom.

How do citizens fare under these systems and how have reforms changed their entitlements? Table 1 also shows the pension an average wage earner in the EU with a full employment career would receive if they started work in 2015 and the rules did not change during their working life. Such an individual is projected to receive 70 per cent of their last net wage upon retirement, on average. This would lift them above the poverty line of 60 per cent of median earnings. It is also important to note the variation across Europe: the average in the Beveridgean countries is 75 per cent, 7 percentage points above the average in the Bismarckian countries. For example, full-time workers are projected to receive an income close to their last wage in Austria, Hungary, Spain, the Netherlands and Portugal, but only half their previous wage or below in Germany and Ireland. Over time, average entitlements have declined by 4 percentage points compared with 2002. Again, there is diversity; in fact, average waged workers only suffered pension level cuts in eleven of the 18 countries for which data is available, while in seven they enjoyed increases, some of them significant. At the same time state retirement age has increased almost everywhere. In 2014 the average European statutory retirement age for women and for men was 64. Women's retirement age was lower in some central and eastern European countries, as well as in Austria, Finland, Greece and the United Kingdom. Most governments decided to raise the overall level to 67 in the 17 richest EU member states and to 65 in central and eastern Europe, equalising the gender difference. In Portugal, the Czech Republic and Slovakia these increases were tied to growing life expectancy, that is, open-ended (Table 1 and OECD 2015). On average, the retirement age is set to rise to 66 years of age during the 2020s.

In summary, most European pension policy-makers cut benefit levels and increased retirement ages throughout the 2000s. Pension reformers have attempted to keep contributions stable while stretching benefits over a longer period (for a more detailed analysis, see Meyer 2017). Workers in some countries – such as Germany, Greece, Ireland and Poland – have to live with particularly low statutory pension commitments, while workers in Austria, Hungary, Spain, the Netherlands and Portugal receive commitments far above the European average, preserving their living standards.

The Chinese pension system and its reform - expansion

Long standing protection for the privileged: urban and public sector workers

The Chinese pension system was reformed significantly in the mid-1990s, after a long period of stagnation (Feng and Chen, 2016). Since the 1950s established urban workers have had protection similar to European countries. The oldest and most important public pension scheme, the Basic Old Age Insurance (BOAI), was established in 1951 to cover urban employees. Since 1997, the BOAI has been a multi-pillar system. Its first pillar is earnings-related; the level of benefits depends on the amount of contributions; employees have to accrue at least 15 years of contributions before they are entitled to benefits, irregular employees are therefore excluded from the BOAI. For example, at the end of a full working life of 35 years, workers will have a pension worth 35 per cent of their last wage. The second pillar is an individual account, to which the worker contributes 8 per cent of their wage. Taken together, both tiers have a target replacement ratio of 59 per cent for a person who has worked for 35 years on average earnings, with 35 per cent coming from the basic pension, a pooling account, and 24 per cent from the individual account (State Council of China, 2005). In 2015 this target was only 11 percentage points below the projected EU average for a worker on average wages (Table 1), but it was achieved after a shorter working life. The BOAI has been a compulsory scheme for formal employees in urban sectors only and the compliance of some non-state owned companies has been poor. This is why only a small proportion of people have been covered by the BOAI. We will discuss coverage issues later.

The second pension scheme established in the 1950s was the Public Employee Pension (PEP). Founded in 1953 it covered the employees of all public enterprises and it offered a replacement ratio of 80–90 per cent of the last wage, depending on the number of years in employment. In 2015 the PEP was more generous than pensions in most European countries; equally generous replacement rates could be found only in Austria, Hungary, Spain, the Netherlands and Portugal (Table 1). PEP is financed by general fiscal revenue.

BOAI and PEP catered for the privileged urban public and private employees. The systems remained separate until 2015, but have since been merged. The inequality between BOAI and PEP benefits was no longer deemed acceptable. Thus, as part of the merger transitional arrangements were introduced, which are cutting PEP benefits gradually; PEP members have had to accept lower replacement rates (State Council of China, 2015).

The Chinese mandatory retirement age was also set in 1950, at a time when life expectancy at birth was only 40 years for men and 42 years for women. Statutory retirement ages have not been raised in line with life expectancy (Giles, et al., 2011), even though pilot schemes in some regions have begun testing an increase. Nevertheless, in 2017 the statutory retirement age was still 60 years for male workers, 50 years for blue-collar female workers and 55 years for white-collar female workers. When it was introduced the younger age for women followed the Soviet Union's policy at the time. One of the arguments was that it is needed to protect women's health and to help them recover from the burden of childbearing (Giles, et al., 2011).

Table 1. Qualifying conditions (EU 2012; China 2015) and benefits (2015) of statutory and obligatory pensions

	Universal non-means-tested minimum available (poverty prevention)	Income-related (living standard preservation)	Basis for rights accrual	Retirement age 2014	Planned increase of retirement age	Projected net pensions as percentage of final wage at the end of working life on average wage		Contributions to public pensions, (% of gross earnings) 2012
Income-related, no independent minimum (Bismarckian)						Working life begins 2015	Change since 2002	
Austria	no	yes	employment, care work	60f./65m.	65f.	91,6	-1,6	22,8
Belgium	no	yes	employment	65	no firm plan	60,9	-2,2	16,4
Czech Republic	no	yes	employment	61f./63m.	f/m equalisation and open-ended increase	63,8	5,6	
Estonia	no	yes	employment, care work	63	65	59,8	(n.a.)	
France	no	yes	employment, care work	61 minimum / 66	62 min./67	67,7	-1,1	16,7
Germany	no	yes	employment, care work	65	67	50,0	-21,8	19,6
Greece	no	yes	employment, care work	62 min. / 67	no firm plan	54,1	-45,8	
Hungary	no	yes	employment, care work	62	65	89,6	-0,9	
Ireland	no	yes	employment, care work	66	68	42,2	5,6	
Italy	no	yes	employment	64f. priv.sector. / 66f. publ.sec. /65m.	67	79,7	-9,1	33
Luxembourg	no	yes	employment, care work	min.57/65	no firm plan	88,6	-21,2	
Poland	no	yes	employment	60f./ 65m.	67	52,8	-16,9	19,5
Slovenia	no	yes	employment	58	60f./60m.	57,4	(n.a.)	
Spain	no	yes	employment, care work	65	65min./67	89,5	1,2	28,3
Income-related, independent minimum (Beveridgean)								
Denmark	yes	yes	residence, 40 yrs in country, employment	65	67	66,4	12,3	private pension contributions only
Finland	yes	yes	residence, 40 yrs in country, employment	min.62/65	no firm plan	63,5	-15,3	22,8
Netherlands	yes	yes	residence	65	67	95,7	11,6	17,9
Portugal	no but low threshold for non-means-tested social pension (at social assistance level)	yes	employment, but no lower limit for contribution yrs	66	depending on gains in life expectancy	89,5	9,7	
Sweden	yes	yes	residence, 40 yrs in country, employment	65	no firm plan	63,6	-4,6	18,4
United Kingdom	no, but low access threshold to full state pension	yes	30 contribution yrs or equivalent: employment, care work (11 yrs per child)	62.5 f./65 m.	65f./67f./m.	71,1	23,5	no separate pension contribution
Average Bismarck						68	-9	21,5
Average Beveridge						75	6	
Average all				64	66	70	-4	
China								28
2015: Basic Old Age Insurance (1951) merged with Public Employee Pension (1953)	no	yes	employment	50f. blue collar, 55f. white collar, 60m.	no firm plan	59% after 35 yrs on average earnings	not available	
2015: New Rural Resident Pension (2009) merged with Urban Resident Pension Scheme (2011)	universal		individual contributions	60	no firm plan	regional variation, 20% of rural per capita net income (average)	not available	

Source: OECD 2015, p. 147, 177; 2013: 169; 2005: 52 (missing: Bulgaria, Cyprus, Latvia, Lithuania, Malta, Romania). UK: Voluntary payments to National Earnings Savings Trust (NEST) are included because employers have to enrol employees who can decide to withdraw (auto-enrolment). Contributions: OECD 2013: 169; China: China Labor Statistics Yearbooks (2009-2011).

Closing the insurance black-hole:
Inclusion of rural and urban residents

With BOAI and PEP as the only statutory pension insurance, only 45 per cent of employees working in sectors other than agriculture were covered in 2000 (China Statistical Yearbook, 2001). The majority of Chinese adults – rural residents and those without employment in urban areas – had no insurance. Hitherto these citizens had relied on their children in old age. However, in the context of the rapid economic and social change described above this situation was no longer tenable. Economic growth and mass migration into the urban centres have led to the separation of families and the break-up of traditional care relations. Older people living in the countryside have become less secure as their children have moved to far-away cities for employment, while migrant urban workers not covered by BOAI and PEP have come to feel insecure about their futures.

Against this background the Central Committee of the CCP decided that a significant expansion of pension insurance was needed. Thus followed fundamental reform in the 2000s. To cover rural residents, the New Rural Resident Pension Scheme (NRP) was established in 2009; to cover urban non-employed residents, the Urban Resident Pension Scheme (URP) followed in 2011. Both are voluntary schemes, made attractive because they are funded by government subsidies; these are put into individual accounts, together with individual contributions. The benefits can be claimed upon reaching the age of 60; they are composed of a basic and an individual account pension. Financing and administration vary by region. The central government provides the basic pension in the middle and western provinces, while in the wealthier eastern provinces, central and local government pay half of the basic pension. Local governments have the autonomy to raise basic pension benefits according to local circumstances and must meet outstanding financial needs. On a nationwide average, the replacement ratio of these schemes is 20 per cent of rural per capita net income. At the beginning of 2014, the State Council of the Chinese government announced that the two schemes would be merged into a uniform Resident Pension Scheme (RP) (State Council of China 2014).

Meanwhile, coverage of the BOAI system has been increasing steadily in recent decades. This was initially because the compliance of non-state owned companies increased, based on the new Labour Code which has been in effect since 2008. Second, more people in informal employment have been covered by the BOAI, although for them participation is voluntary. Third, rural migrant workers working in urban sectors have increasingly been recognised formally as employees and therefore the coverage for them increased. In 2011, the BOAI covered 215 million employees and 68 million retirees, including 35 million rural migrant workers. This amounts to 60 per cent of urban employees (including rural migrant workers) and 14 per cent of rural migrant workers.

The pension fund in the BOAI has maintained an annual surplus for many years. In 2015, the revenue of the BOAI fund was RMB 2.93 trillion, while expenditure was RMB 2.58 trillion (Figure 5). This surplus exists because, first, the system is not yet mature – the steady expansion of coverage far exceeds the increase in the number of retirees. Furthermore, the BOAI receives government subsidies, RMB 195.4 billion in 2010 for instance and RMB 471.6 billion in 2015, representing a fourfold increase over ten years. If government subsidies were discounted, BOAI funds are likely to be in deficit in 14 provinces (including Shanghai, Jiangsu, Hubei and Hunan). In this case, the BOAI accounts would have reported a total deficit, possibly as large as RMB 67.9 billion in 2010 and RMB 118.8 billion in 2014.

Overall, the reforms have had a substantial impact. By the end of 2012, the number of participants in all types of public schemes exceeded 800 million people, about 75 per cent of the adult population over the age of 15 and total public pension expenditure reached 3.4 per cent of GDP (China Statistical Yearbook, 2014). This is still far less than what EU countries spend, but we need to bear in mind that the system is not mature yet and that the share of older people in China is far lower than in European countries.

In summary, the dominant trend in Chinese pension policy throughout the 2000s has been the expansion of benefit coverage. It includes large parts of the adult population, no matter whether formally employed or not. Many of the new members are currently on

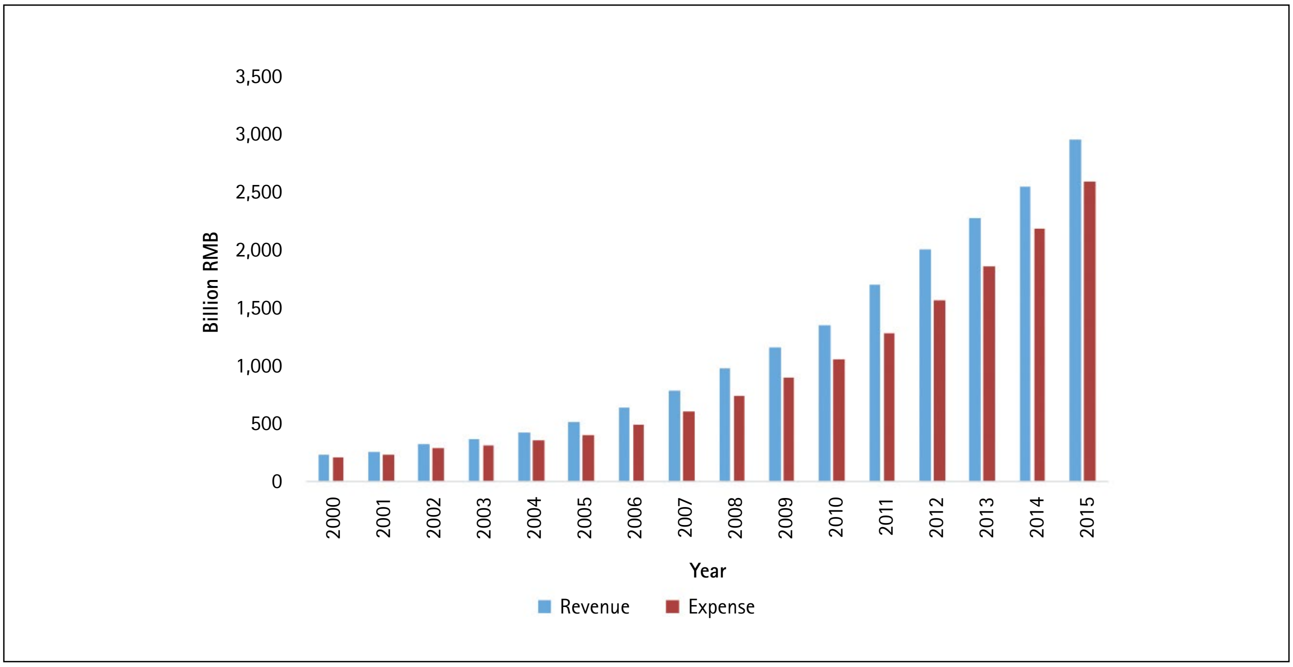

Figure 5. Revenue and expenditure of basic old age insurance (billion RMB).
Source: China Statistics Yearbooks, 2016.

track to receive pensions below half of average wages and rural and urban non-employed residents will only have benefits below the poverty line. Nevertheless, for the first time they have a formal stake in the social security system. This expansion was needed to stabilise a rapidly growing economy and rapidly changing social relations. So far the new pension systems have many more members than claimants; they are therefore more manageable financially at this point than European programmes. Perhaps this is one reason why the very low Chinese retirement ages have not been changed yet.

Chinese and European pension policies compared

Is ageing the great leveller of societal difference? Does it make different societies choose the same solutions? We have seen so far that China and Europe are at very different stages of economic, social and demographic development. Since the 1950s China's population has been much larger than that of the European Union and it has grown much faster. The population of both regions has become older, but this process has been much more pronounced in Europe. Both regions therefore face very different demographic challenges and they have indeed responded with contrary social policies: to accommodate change European policy-makers have cut benefits while Chinese reformers have expanded programmes. It appears therefore that China and Europe are united in their view of population ageing as a challenge, but the reasons this 'burden' has emerged are quite different and therefore some solutions had to be different as well.

Having established this significant difference we can also acknowledge important similarities. China's economy has grown very fast and it is likely to expand further, if perhaps not quite at the same pace as in previous decades. Based on historical experience with industrialisation processes, it is also likely that the urban population will continue to grow at the expense of the number of rural citizens, while fertility rates will remain low. By expanding their pension programmes massively China's policy-makers have made long-term spending commitments which will turn into benefit claims in the foreseeable future. Thus, the economies, societies and social policies of Europe and China have become more similar. It is not unusual for employees of large companies in the urban centres to accrue pension rights that are comparable to EU standards (Table 1). Moreover, Chinese academics and policy-makers are aware of the challenges faced by mature European pension systems and they expect that ageing will lead to much increased expenses in China as well (Peng 2011). Therefore, even though so far China has not experienced the relative increase in pensioner numbers occurring in European societies, Chinese policy-makers can assume that it is only a matter of time before this will happen in their country as well.

Seen from this perspective, citizens and governments of both regions have good reason to consider how to ensure secure incomes in old age for the long term. Is the increase in the retirement age therefore an effective solution for both? To explore this question it is important to look at labour markets.

Employment (in)activity of 15–64 year olds

Employment rates and non-participation by age, China and Europe

As we showed at the beginning, increasing statutory retirement ages has been a staple feature of European pension reforms and the measure is being debated in China as well, even though to date very low retirement ages – particularly of women – remain unchanged there. In what follows we will assess the effectiveness of this policy by examining labour force participation by age groups. No extension of statutory retirement ages is likely to be effective if many of the over-fifties have no ties to the labour force in the first place. Indeed significant inactivity rates of people below the statutory retirement age are quite common, suggesting that other factors are at play and that other conditions will need to change to integrate these individuals into the labour market.

Figures 6 and 7 show the proportion of the population by age groups actually in employment during working life for 27 EU member states and China in 2010. There are some clear similarities: everywhere male employment rates were higher than female and the activity of both genders was highest between the ages of 30 and 49 and lowest between 60 and 64. These patterns reflect similar gender relationships across both regions, with women more engaged outside the labour market. The figures also show that non-employment before statutory retirement age is universal. Today's retirees can expect to live longer than decades ago, but most people from age 60, ahead of the statutory retirement age, were not economically active. There are also large differences between countries. To discuss them, we will look at men's and women's employment rates separately.

China's male employment rates were higher than those of European males in all age groups. In 2010 more than 90 per cent of Chinese men aged between 25 and 50 were in employment; the rate was lower for older men, but 76 per cent of 55–59 year olds still worked, and 56 per cent of 60–64 year olds were still part of the labour force, working beyond statutory retirement age. In western as well as in central and eastern Europe levels for 30–49-year-old men were almost on a par with China, around 90 per cent were in employment; however, from age 55 western and central and eastern European men were far less likely to be employed than their Chinese counterparts. In southern and northern Europe, rates for 25 to 49-year-olds were lower than in western and central and eastern European countries, but participation of older men was higher. Central and eastern Europe presents a similar pattern with even lower overall employment rates. Across Europe, the employment rate for 60–64-year-olds was significantly below statutory retirement age.

The picture for women is more complex. China remains the overall leader for women aged 20–49, with 76 per cent of women employed before reaching the statutory retirement age for blue-collar female workers. Because of China's very low female retirement age (50/55), female employment rates of people between 49 and 55 years of age were far below those of northern, western as well as central and eastern European women of the same age. They were more similar again past that age, when western and eastern European women were also inactive. In southern Europe we see relatively low employment from the age of 30; in other words, behaviour of labour participation appears to be unrelated to retirement age.

This overview suggests that the largest potential for an increase in employment participation everywhere is among those 49 years of age and above. The scope is biggest in central and eastern and western Europe, where the gap between the rates of 30–49 and 60–64

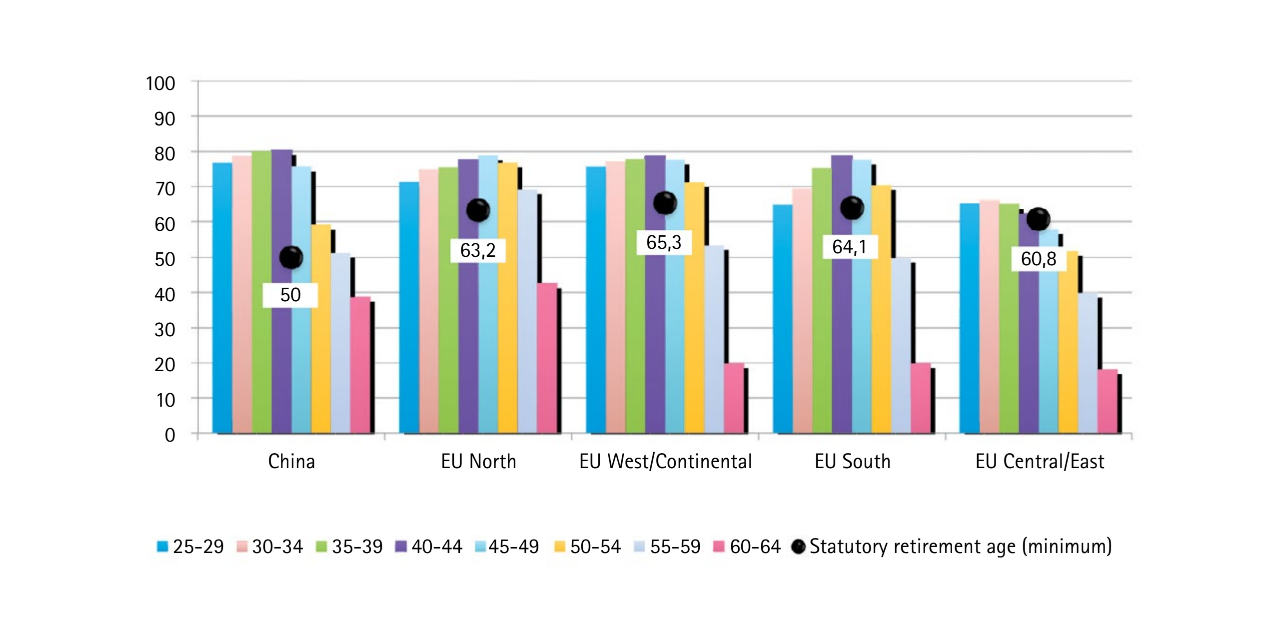

Figure 6. Female employment rates by age (2010) and female statutory retirement age (2014), EU and China.
Source: Eurostat; retirement ages: see Table 1.

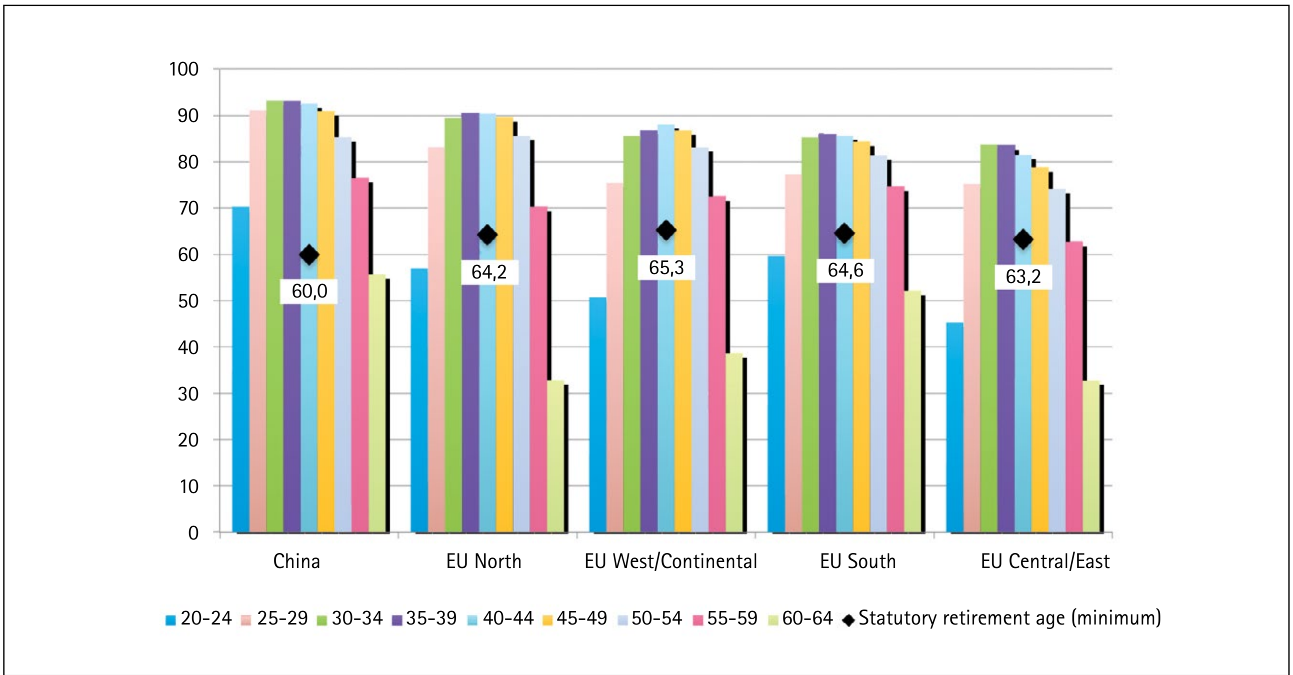

Figure 7. Male employment rates by age (2010) and male statutory retirement age (2014), EU and China.
Source: Eurostat Labour Force Survey; retirement ages: see Table 1.

year olds is particularly large, followed by southern Europe and China. The most balanced activity across all ages exists in northern Europe. However, the overview also illustrates that many are inactive before statutory retirement ages. This is least true for China, but here the female retirement age is very low. Thus, China's greatest potential for increasing the number of future contributors to its pension systems are the large numbers of women aged 55 to 64 who will be retiring in the near future due to an early statutory retirement age. In contrast, across Europe, simply increasing the retirement age appears a very blunt instrument indeed.

Summary

Pension reforms that extend statutory retirement age will curb spending because they reduce the number of claimants. However, the strategy is most effective when it can also effect an increase in the number of contributors. Our analysis shows that the reforms enacted in Europe are less likely to raise the number of contributors because many citizens leave the labour force long before that age anyway. The lowest potential for increased economic activities is in northern Europe, while the highest is for women in southern Europe and for all citizens over 54 years of age in western and southern Europe. Increasing the statutory retirement age is likely to be more effective in raising the number of contributors in China, where the real and the statutory retirement age are much more closely aligned, but such an increase has not taken place there. Moreover, countries wanting to increase the number of contributors would do well to examine the situation of women first. We will come back to this in the policy section below. Before that, we will investigate in more detail why people below retirement age are inactive.

Reasons for inactivity before statutory retirement age: China

To explore why citizens are economically inactive in China before statutory retirement age we rely on data from the Chinese Health and Retirement Longitudinal Study (CHARLS) 2013.[1] CHARLS is a high quality nationally representative sample of Chinese residents aged 45 and above, covering 29 provinces and 150 counties. In 2013 the sample comprised 18,604 individuals. For Table 1 we only included women aged 45–54 and men aged 55–64, that is, a period of five years before and after the statutory retirement age. We ran simple regressions to determine the factors that reduce the likelihood of being in employment for an individual. In the sample, the average employment rate is 77 per cent for women and 78 per cent for men. We tested the impact of age, statutory retirement age, level of education (including literacy and numeracy), marital and health status, range of dependants and place of residence.

The population with a rural citizenship registration (rural *hukou*) had higher levels of economic activity than those with an urban *hukou* because the rules and demands of the rural economy and labour market differ significantly from those in the urban conglomerates. For example, the statutory retirement age is only enforced for urban employees, but not for farmers who always have something to do on their land. We therefore analysed separately the results of individuals with urban and rural *hukou*s (Table 2). We also use dummy variables to identify the effect of the retirement age on the likelihood of being employed for 45–49 year-old women compared with 50–54 year-old ones, as well as that of 55–59 men compared with 60–64 year-old men. Age and retirement age affect the urban and rural sample very differently. In the urban sample, there is no age effect, but a significant retirement age effect. Reaching retirement age and above reduced the likelihood of employment by 14 per cent for women and 25 per cent for men. In contrast, in the rural sample there is a significant age effect but no effect of retirement age. The contrast suggests that with more than half of workers now active in urban sectors, the statutory retirement age is responsible for reduced employment of women above 49 and men older than 49. In rural areas, people seem to carry on working as long as they feel able to.

Education, health and grandchildren also affect employment significantly. Citizens with college education and above were significantly more likely to be in employment after the age of 44 than the illiterate, and the effect was stronger for women than for men. However, below college level education is less relevant for economic activity; those able to write, who went to

[1] There are two questions in CHARLS: (i) Did you engage in agricultural work (including farming, forestry, fishing, and husbandry for your own family or others) for more than 10 days in the past year? (ii) Did you work for at least one hour last week? We consider any of the following activities to be work: earning a wage, running your own business and unpaid family business work, etc. Work does not include doing your own housework or activities without pay, such as voluntary work.

Table 2. Determinants of labour force participation, Chinese men and women, 2013

Variables	Women (aged 45–54)		Men (aged 55–64)	
	Urban	Rural	Urban	Rural
Age	–0.019	–0.011**	–0.019	–0.011**
	(0.013)	(0.005)	(0.012)	(0.005)
Age 50–54 (for women)	–0.137**	0.013	–	–
	(0.067)	(0.028)		
Age 60–64 (for men)	–	–	–0.246***	0.014
			(0.069)	(0.028)
Ability to read and write	0.015	–0.016	–0.094	0.016
	(0.130)	(0.024)	(0.108)	(0.023)
Primary school*	0.190	–0.008	–0.133	0.005
	(0.117)	(0.023)	(0.101)	(0.023)
Middle school*	0.081	–0.007	–0.133	0.004
	(0.109)	(0.022)	(0.099)	(0.024)
High or Vocational*	0.075	0.005	–0.197*	–0.032
	(0.109)	(0.035)	(0.101)	(0.031)
College and Above*	0.324***	0.141	–0.119	–0.097
	(0.120)	(0.221)	(0.109)	(0.125)
Currently married**	0.039	–0.024	0.020	0.085***
	(0.053)	(0.021)	(0.056)	(0.021)
Good health***	0.100**	0.017	0.074**	0.065***
	(0.039)	(0.019)	(0.038)	(0.016)
Having at least one grandchild****	–0.047	–0.050***	0.058	0.019
	(0.044)	(0.017)	(0.039)	(0.021)
Having at least one parent***** (including parents in law)	0.013	0.006	0.007	0.016*
	(0.017)	(0.007)	(0.019)	(0.008)
Province	Controlled	Controlled	Controlled	Controlled
Observations	681	2,570	784	2,500
R-squared	0.171	0.067	0.202	0.062

*Note: Reference groups: * education = "Illiterate". ** married = currently divorced, single or widowed. *** health = health status is fair or bad. **** having at least one grandchild = having no grandchild. ***** having at least one parent = no parents including parents in law. Reference group for women aged 50–54 is women aged 45–49. Reference group for men aged 60–64 is men aged 55–59.*

*Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.*

Sources: Authors' estimation using CHARLS data.

primary, middle or high school or who had vocational training were no more likely than the illiterate to be in employment. With deteriorating health the likelihood of employment declined for men and women. This result does not come as a surprise, considering that bad health makes employment difficult and that with increasing age the statutory retirement age is closer in any case. Finally, one or more grandchildren reduce women's likelihood of being employed, but grandchildren do not affect men in the same way.

Reasons for inactivity before statutory retirement age: EU

A class and gender gap

As we have already seen, employment activity rates in the EU differ by age group and gender, and a substantial share of women aged 50–54 and men aged 55 and over were already economically inactive, even though they had not reached the statutory retirement age. To understand this better, we will now examine the role of education. In China, employment activity increases only with higher education; in the European Union, the biggest gap is between those with upper secondary and tertiary education and those below this level, who are much less likely to be economically active. This difference is more pronounced among women; female activity rates differ sharply by educational levels for all age cohorts. Among women aged 50–54 the activity gap between the high and low educated amounts to 30 percentage points in the EU (Figure 8). Its size does not correlate with similarity of neighbours or of political systems: the gap is biggest in Romania, Poland, Italy and Ireland, but it is also pronounced in the Netherlands and Sweden. Among men, it is much smaller and it does follow a regional pattern: it is biggest in the central and eastern European countries (Figure 9). As they get older the gap gets bigger for men, too, because highly educated men stay in employment for longest. Against this background, to increase labour force participation, policy-makers should first consider what can be offered to low qualified women in their early fifties and to low qualified men in their late fifties and early sixties.

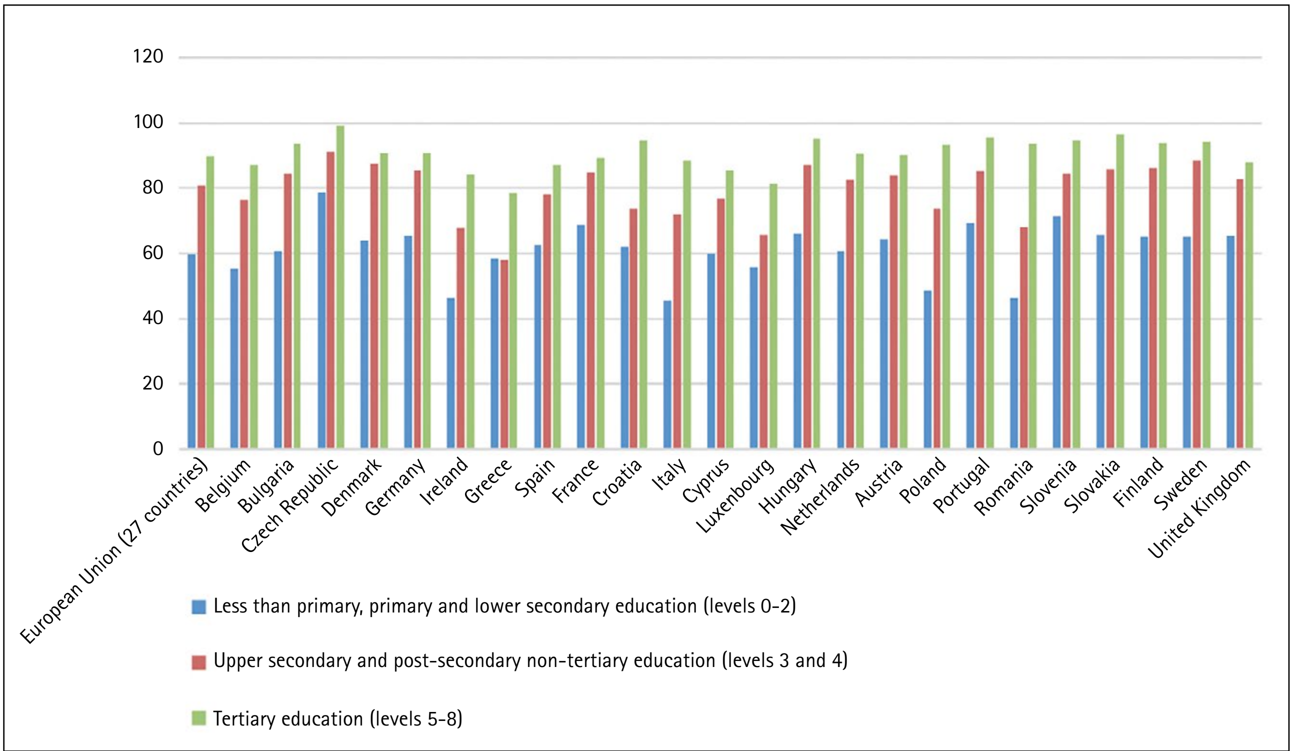

Figure 8. Activity rates by education, women, 50-54 years (EU 2015).
Source: Eurostat Labour Force Survey.

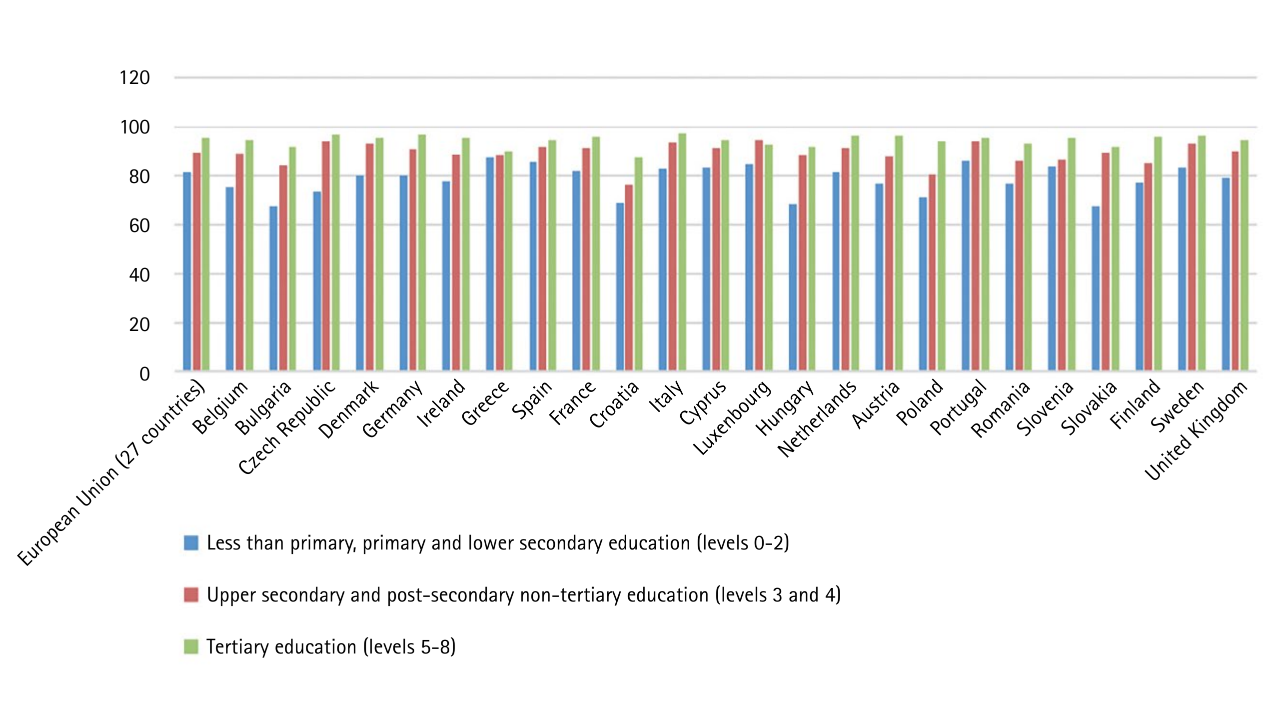

Figure 9. Activity rates by education, men, 50-54 years (EU 2015).
Source: Eurostat Labour Force Survey.

Overall these findings suggest that policies aimed at increasing the number of »contributors to the pension pot« should first and foremost support women with low qualifications. In the long run they must help increase the share of women with tertiary education.

China and Europe compared

Since the 1980s, due to enormous socio-economic change in China, the economies, societies and social policies of Europe and China have become more similar. With regard to pensions, Chinese policy-makers have responded to change by expanding radically the scope of pension insurance, including many rural and urban citizens for the first time and bringing coverage and benefit commitments closer to European levels. The common concern of European and Chinese policy-makers about ageing populations as drivers of spending commitments is understandable against this background, but we must remember that this concern is about longer term developments for China, while it is acute in the mature European systems. Acknowledging these differences and similarities, this study has investigated the degree to which the increase in the statutory retirement age adopted by all European governments and considered by the State Council of China can indeed be an effective solution everywhere. To assess this question we have compared the current retirement ages with employment participation of women and men of different age groups and with different qualification levels. Our analysis has shown that the effectiveness of the European reforms is badly hampered by the fact that many citizens leave the labour force long before the statutory retirement age anyway. This is particularly true of those with only a low level of education and for women; the largest employment gaps can be found between the highest and the lowest qualified individuals. In China, statutory retirement ages and employment participation are aligned much better for urban employees, suggesting that raising the retirement age would have a greater effect there than in Europe. For rural workers the effect is likely to be less strong, because they work as long as they are physically able. However, so far the State Council of China has not increased retirement ages, perhaps because the current system is still in its infancy and expenditure is relatively low.

How to make pensions sustainable: policies to combat labour market exclusion and inequality

Our analysis has shown that in Europe the much-favoured policy measure of raising retirement ages to curb pension costs is of limited value as long as large parts of the population are not even in the labour market before even reaching statutory retirement age. Especially for those with a low level of education, particularly women, these reforms will mean simply that they must wait longer before being able to draw their retirement incomes, which for most will be small in any case (Table 1). Thus, while extending the pension age will cut expenditure because it will postpone further the point at which people can draw benefits, it will not increase the number of contributors greatly and it will not help inactive adults below retirement age to obtain incomes and bolster their entitlements.

Against this background European pension reformers should take a broader view when searching for solutions to the cost increases ageing societies bring. High on their agenda should be the question of what opportunities low educated women in their early fifties and low qualified men in their late fifties and early sixties would need in order to join the labour market. Moreover, much more needs to be done to improve the employment opportunities and therefore long-term security of those with lower education and especially for women with little formal education. To achieve this, education needs to become much more broadly accessible throughout people's lives, but to make this work for women support with childcare is also essential.

Not all of this is new, of course. Policy-makers have been keen to increase the labour force participation of hitherto excluded or poorly represented groups and scholars have been discussing »activation« policies and approaches in various European countries for more than a decade now (for example, Gilbert and Besharov 2011; van Berkel 2010; van Keesbergen and Hemerijk 2012). However, in pension policy reform discussions such labour market issues have been neglected and that must not continue.

With regard to China our results suggest that higher statutory retirement ages could be a much more effective way of increasing the number of contributors to the »pension pot« and thus to address the cost increases that come with a rising old age dependency ratio. However, so far the Chinese government has been reluctant to do this. We can only speculate here why this is, given that Chinese policy-making is less public, but our analysis has shown clearly that the pressure is not immediate, given the surplus in the Basic Old Age Pension Insurance. Moreover, currently grandmothers are an important resource for young families, who rely on them for the care of their children. This is why our household survey data analysis showed that women with grandchildren are less likely to be employed than those without. If grandmothers had to work longer, they would not simply leave their grandchild without care, but instead this would increase the pressure on parents and reduce employment among them. In short, grandparents' care provision supports young parents' labour force participation (for example, Compton and Pollak 2014; Maureer-Fazio, Connelly, Lan and Tang 2011). Thus, raising the female retirement age must go hand in hand with renewed expansion of public and affordable child care. Services were more extensive in the state-owned economy of the 1980s, but in the wake of the privatisation of public enterprises, in the 1990s government subsidy to these companies was cut dramatically and a significant part of employer child care services disappeared. Central government also abolished the subsidy for child care for children below two years of age. For local governments, boosting GDP growth became the main aim in the 1990s and thus public finance was used to support economic activities directly; child care was not recognised as productivity-enhancing and therefore funds were withdrawn (Du and Dong 2013). Overall, in recent years, government expenditure on state-run pre-school education made up only one-sixth of the total spending on child care; the remainder has been shouldered by families. This should change.

Integrating rural migrant workers into the urban pension system by expanding the coverage of the Basic Old Age Pension Insurance would be another way to increase the long-term sustainability of the pension system. In 2014 only about 60 per cent of the urban employed population and less than 20 per cent of migrant workers in urban areas were covered by the BOAI, leaving vast numbers of rural migrant workers in cities protected only by the rudimentary new resident pension schemes (Table 1). The worker/retiree ratio of the BOAI could be improved for a long time by bringing these migrants into the system. Moreover, with continuing urbanisation more rural residents will take up jobs in non-agricultural sectors. Protecting the rights of rural migrant workers and incorporating them in the social insurance system is a basic necessity for achieving social justice.

Thirdly, improved compliance would make the Chinese system more sustainable. According to a suggestion from the International Labour Organization (ILO) (Bailey and Turner, 2001), reducing contribution rates is the most effective way to solve poor compliance with regard to social insurance contributions. China's contribution rate of 28 per cent in 2015 is higher than that of EU countries with generous pension levels, such as Austria, France or the Netherlands, and they are certainly above the average of 22 per cent for ten EU countries (Table 1). Some are concerned that reducing contributions could threaten the solvency of the pension fund, but it is also possible that lower contributions attract more enterprises and individuals, and increased coverage would improve the pension funds' revenue and help maintain a balance for some time. A lower contribution rate would be likely to translate into lower benefits, however, which might cause problems, but once the system is more broadly embedded, contributions and benefits could increase again.

Fourthly, training programmes could increase skills and raise the quality of employment. The educational level of China's labour force has been rising anyway. According to the 1964 census workers received an average of only 2.3 years of schooling. This figure had risen to nine years by 2010. Enrolment in higher education had increased from 46 per 10,000 people in 1995 to 219 in 2010 (China Statistical Yearbook, 2011). Faced with an ageing population, increased investment in human capital is likely to be an effective strategy to raise employment.

Different societies, similar solutions. Why China has to extend pensions and Europe's retrenchment will be limited

Any attempt to broach the topic of ageing populations in popular discourse is likely to give rise to concerns, as they are seen as a burden for social protection systems. Pension retrenchment appears inevitable in such discussions, which often leave little space for societal context and nuance. Outsiders listening to such debates could be forgiven for believing that pension reforms in China and Europe have to involve retrenchment, because ageing forces them to. The aim of our study has been to explore societal context in order to show that pension reformers have alternatives to cost containment and cuts.

First, by comparing countries as diverse as China and those of the European Union we have thrown into sharp relief the significance pension systems have for societal stability in developed and developing societies. For this reason the overarching purpose for Chinese and European pension reformers has been substantially different during the past two decades. Chinese policy-makers have been concerned about ageing, but they have been far more alarmed that the many citizens who have left the agricultural economy and joined urban labour markets may be without income or support in kind after retirement; that rural citizens whose families could no longer look after them in old age would be without help. Their main challenge has been to introduce »retirement« as an institution to the many new migrants and to build a system that could cover the population adequately. In contrast the concerns about ageing of many European governments have indeed led predominantly to cuts in benefits. However, substance remains; in most countries today's pared-down pension guarantees are still projected to replace at least two-thirds of the last income for full-time workers (Table 1). Thus, our comparison suggests that public pension systems are part of the bedrock of fairly diverse market societies. Because they are expensive they will be the object of intense debate and constant reform, but their significant role in preserving societal stability is likely to remain.

Secondly, because societies are ageing in Europe and China the extension of statutory retirement ages would reduce costs, all else being equal. Chinese and European policy makers are right in considering this policy, among others. For the rather older European systems, however, the need for change has been more immediate than for the rather younger Chinese one, but the trend is there for both regions.

However, thirdly, our research also shows that policy-makers who focus predominantly on the extension of working life as a solution to pension finance are misguided. Extending the retirement age will reduce the total number of claimant years, but the measure does not address the needs of citizens with weaker ties to the labour market. Our study has shown that in Europe many citizens, especially women and those with lower education levels, are economically inactive long before statutory retirement age. To integrate them better from the beginning of their adult lives, education and employment opportunities are needed. But there also needs to be a better understanding of how care work is organised in different societies and what norms underpin its organisation. Simply raising the very early female retirement age in China, for instance, in a societal context in which grandmotherly care is culturally institutionalised and important for parents' household economies, will only create new pressures and unhappiness and would probably reduce activity rates of younger women. Instead, such a reform would need to be accompanied by an extension of public child care at least.

Concluding our critical reflection on the ageing societies of China and Europe, above all else, pension systems provide stability in countries based on market economies. They are needed because ageing populations are an integral part of such economies. Instead of labelling this fact as a social problem, and with it a substantial proportion of the population, policy-makers would do better to embrace the trend. They should not simply make people work longer, but address the inequalities and obstacles that prevent citizens from rewarding involvement in the economy in the first place.

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