Session Title: The race for a sustainable pension system: What is at stake?

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One third of China's provinces currently rely on the Chinese central government to fund pensions and social safety nets. Over 14 percent of the population is aged 60 years and above. By 2030, this proportion will double and amount to 360 million people. The impact of these demographic changes is already putting a strain on the Chinese pension system.

The government failed to accurately compute the projected demand for coverage. There are several resulting flaws. In particular, the four systems in place are fragmented, which carries several risks. Bingwen Zheng, Head of the Global Pension Fund Research at the China Academy of Social Sciences, says that there is currently RMB270 billion in individual pension accounts, which leaves more than two trillion RMB for the government to fund. In addition, the returns on the funds currently available are poor. With a deficit of this magnitude, the prospect of comfortable retirement remains elusive for the average Chinese.

Because of the limits of the current system, people who are able to do so turn to private savings. When people do contribute to the public pension scheme, they opt for the minimum annual fee. Employers contributing to the system find that they are less competitive because their cost of labor is increased.

Providing increased financial support to the growing elderly population in China will require a fiscal overhaul, delaying retirement age, and the creation of incentives to contribute to the pension system. In addition, pensions will need to transfer from one province to another more easily. The current administrative difficulties are the reason why migrant workers do not contribute for fear of having to forego their retirement accounts altogether when they leave a province.

The execution of the reforms will be challenging. Intergenerational conflict is a definite possibility according to Yuwei Hu. Delaying the age for retirement will make it more difficult for nearly 7 million young graduates to enter the job market. Elderly people are unwilling to contribute to the pension system for a longer period, and prefer to rely on their offspring to complement their income. Because of the One Child Policy, this will put their children under a great deal of financial pressure.

How can the Chinese government address the issue effectively? Several Western countries also find themselves in challenging situations. In the United States, the pension system is expected to run a deficit of USD2.74 trillion by 2023. In Costa Rica, all the savings should be used up by 2043. Hu stressed that there is a more positive outlook on the multi-pillar system in place in Switzerland. The Swiss pension system is more sustainable because it relies on comparatively greater involvement from the private sector. For Hu, it is essential that the provision of pension services and related liabilities be equally shared among the State, the private sector and civil society. The implementation of a public-private system would be more beneficial to the country's GDP. In addition, it is important for the pension system to provide returns that at least match those of the market.

China should focus on gathering adequate resources to approach the pensions issue holistically. An important effort on an accurate quantification of future needs is required. Funding pensions will imply making cuts to other government-led programs, and even though China has sizeable government reserves, misallocation of resources should be avoided at all costs, Feng highlighted.

Also, it should be a high priority for the Chinese government to factor in the human impact of a pensions system reform, and to formulate an adequate response to the social and public policy urgencies related to job creation, the long-term implications of the One Child Policy, and efficient allocation of capital.