

Economics

# Chinese Rage at the Pension System

Civil servants get the best benefits while the rest get much less

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Chinese wait outside an exam site before the annual civil service exam in Hefei, Anhui province, in 2010 *Photograph by Imaginechina via AP Images*

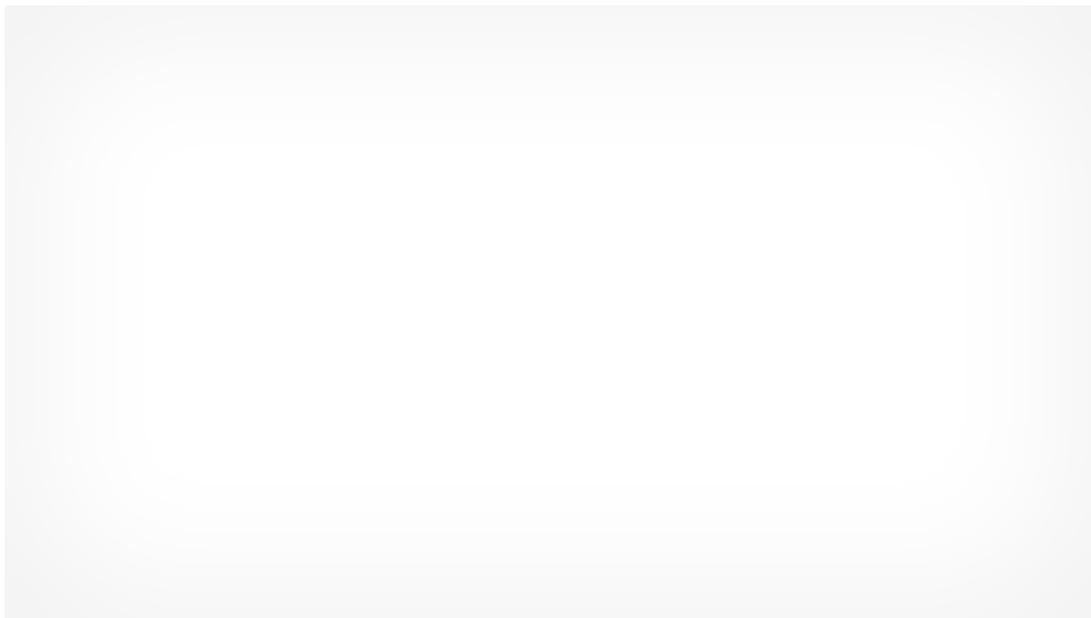
When a Beijing professor recently suggested pushing back the age at which retirees get their pensions, China's bloggers let loose. "You're indeed completely without conscience, a mouth filled with poison and cruelty, your heart that of a beast," wrote one blogger from Shenyang, in Liaoning province, on the online portal Sohu.com, according to ChinaSMACK, a website that translates Chinese Internet content. "The clamor to postpone the retirement age is getting louder, a raging fire burns in my heart," wrote another from Jiangxi province. "Tsinghua University truly has raised a bunch of garbage professors," wrote a blogger from Guangdong, referring to Yang Yansui, director of Tsinghua's employment and social security institute, who raised the idea.

The heated responses reflect the crisis faced by China's pension system. A shrinking workforce must support more than 200 million retirees. The government has moved in the last few years to add farmers, the unemployed, and migrant workers to its pension rolls, which now cover more than four-fifths of those registered in cities and 43 percent of rural Chinese.

## **1.6:1—Expected ratio in 2050 of working-age people supporting 1 retiree, down from 4.9 to 1 today**

When top officials gather in Beijing on Nov. 9 to map out the next set of reforms, solving the pension crisis could well be high on their list. Last year for the first time, the working-age population—those 15 to 59 years old—declined, falling by 3.5 million to 937.3 million. People older than 60 make up 13 percent of the population. By 2050 that number will rise to 34 percent, estimates the World Bank. Today an average 4.9 Chinese of working age support one retiree. That ratio could fall to 1.6 by 2050, estimates Robert Pozen, a senior lecturer at Harvard Business School.

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Already workers' contributions into the retirement system are being siphoned off to support those who are retired, which Chinese media call the "empty accounts" phenomenon. About one-half of China's 31 provinces cannot pay their retiree costs and rely on financial transfers from the central government. Last year, Deutsche Bank and the Bank of China estimated that the

projected shortfall for future pension payments could reach 18.3 trillion yuan (\$3 trillion) in 2013. “There is a lot of anger about this” that could become “politically explosive,” says Pozen, author of *Tackling the Chinese Pension System*, a report published in July by the Chicago-based Paulson Institute.

China’s 10 million civil servants, as well as 30 million doctors, teachers, and researchers at state-affiliated institutions, don’t have to contribute anything to their pensions, which pay as much as 95 percent of their salaries in their retirement. Other workers pitch in 8 percent of their salaries (with employers giving 20 percent) and on average receive only 40 percent to 45 percent of their pay when they finish working, estimates Hu Yuwei, China representative of Spanish bank BBVA. “The general public is very discontented with this fact,” says Hu. (Rural Chinese get a token pension of as little as 700 to 1,200 yuan a year.)

China has as many as 3,000 different pension pools, estimates Hu, and local officials have been caught dipping their hands into them. On its website, the National Audit Office says authorities last year uncovered 132 cases of “illegality and violation of discipline” involving pension and other social security funds.

The number of retirement funds and the difficulty of monitoring them has made pension authorities in Beijing extra cautious when it comes to investing. Today, the majority of China’s pension funds are parked in banks earning an average nominal return of 2 percent. Inflation is running at about 3 percent.

One controversial proposal to strengthen the system is to narrow the gap between public and private employee benefits. Another idea is moving the responsibility of managing pensions from villagers and town residents to officials in provincial capitals. Ideally, all the funds would be managed centrally in Beijing. If the funds were consolidated it would be easier for migrant workers to access their now fragmented pensions. That would encourage labor mobility, says Albert Park, a professor of economics at the Hong Kong University of Science and Technology.

Raising the retirement age is supported by many academics and policymakers. Chinese men stop working at 60, white-collar women retire at 55 and female factory workers at 50, a policy set in the 1950s when the average life expectancy was less than 60, compared with around 75 today. Even in socialist France the retirement age is 62, with some notable exceptions. China must consider “deferred retirement,” Hu Xiaoyi, a vice minister of human resources and social security, told journalists at a seminar in Beijing on Oct. 22. In a recent online poll by the *China Youth Daily* and Sohu, 95 percent of 25,300 respondents opposed a higher retirement age.

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