Comparison Study of the Pension Policies in China and the U.S.

Lingsong Li

School of Foreign Languages, Beijing Normal University, Zhuhai, Zhuhai, Guangdong Province, 519087, China
*Corresponding author. Email: Vivian.wang@cas-harbour.org

ABSTRACT
Due to the continuous development of medical technology and the improvement of people's living standard, the average life expectancy of people is also increasing. Many developed countries and some developing countries are now facing the increasingly serious problem of population aging, with the elderly taking up an increasing proportion in the population. This paper will compare the pension policy of China and the U.S. from three aspects: pension system, individual pension plan and community service. Through the comparative analysis of the two countries' old-age welfare policies, it can be found that a perfect pension security system must be diversified, which needs the mutual combination and support of the three pillars. Under the condition of the pension provided by the government as the basis, it is also necessary to develop and popularize the employer pension plan of enterprises and improve community services. In addition, voluntary membership groups and other forms of home-based care should also be encouraged.
Keywords: Comparative research, old-age welfare policies, pension system, individual pension, community service.

1. INTRODUCTION

The development of science and technology has brought about an increase in the average life span of human beings. In recent years, more and more developed countries have entered the ranks of aging population including China, especially as its one-child policy has accelerated the ageing process. By 2040, China's population over 65 is expected to make up 20% of the total population. Under such circumstances, the Chinese government has also introduced relevant policies to make up for the shortage of labor force and alleviate the financial pressure brought by the pension problem. For example, increasing the retirement age is the most significant policy introduced in recent years, and it is also a change that has a significant impact on our lives. However, even so, it can not fundamentally solve the pension problem and financial vacancy, which caused by the aging population. The main content of this paper is to find a reliable and perfect pension system by comparing and drawing lessons from the policies and programs of other countries that are facing the same problems as us. For example, what are the disadvantages of China's current pension model? What is the biggest difference between Chinese and American pension systems? How to adjust measures to local conditions according to different national conditions and social systems? If these problems are solved, sufficient plans will be made for the further aging of China's population in the foreseeable future, and the process of socialist modernization will be further advanced.

2. PENSION POLICIES ANALYSIS

This part compares China's and the U.S.' Pension Policies from three aspects：pension system, individual pension plan and community service.

2.1 Pension System

This part discusses the similarities and differences of the basic structure of Chinese and American pension systems, mainly from the aspects of government policies and coverage rate.

China's endowment insurance system consists of three pillars.

The first pillar is the basic endowment insurance, which is legally mandatory and the most important pension system in China. It is mainly maintained by the government. Everyone's salary contains five kinds of insurance, among which the endowment insurance accounts for the highest proportion, with individual's paying 8% and employers paying 19%. Such compulsory insurance amounts to saving part of your salary for retirement.

The second pillar is the employer-sponsored pension plan, which aims to improve the living standard of employees after retirement. However, it only exists in some enterprises and units and has no reference value.

The third pillar is personal savings or commercial endowment insurance investment, belonging to the personal pension plan, which is not discussed in this part.

After decades of exploration and practice, this pension

model of deducting pension from salary has formed a relatively mature pension security system.

However, more serious problems are now being faced.

First of all, the population coverage is narrow, and not everyone can enjoy the pension system. According to China's Ministry of Human Resources and Social Security,

by the end of 2018, 942 million people had participated in the basic old-age insurance. Although the number of people participating in the basic endowment insurance is increasing year by year, there are still nearly 500 million people who are not covered by the insurance.
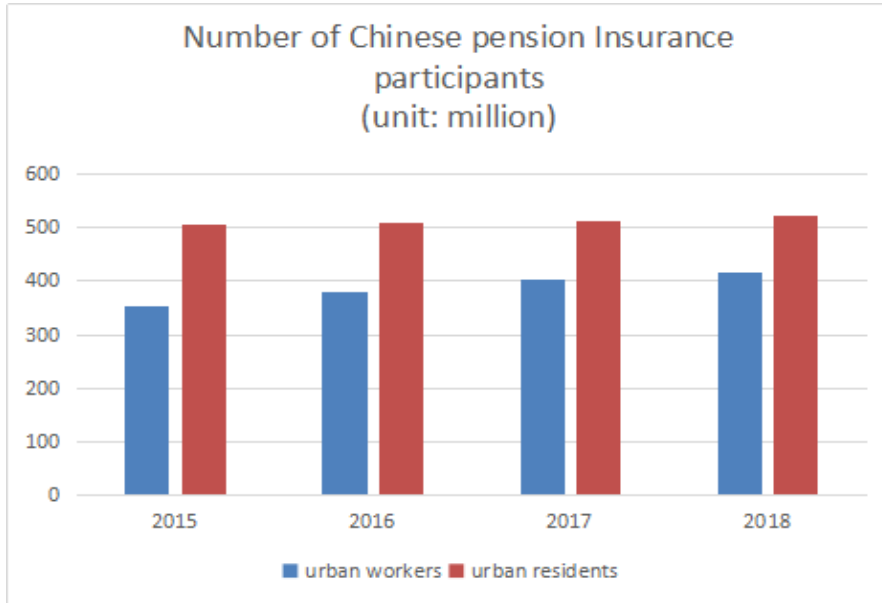

Figure 1. Number of Chinese pension Insurance participants

Second, the aging of the population has become a serious problem, leading to a huge gap in social security funds, which now accounts for one third of China's GDP. There are only two ways to make up the shortfall, postponing retirement and stating spending. Postponing retirement has become a reality, but there are still problems, for example, empty personal accounts. Although the endowment insurance is a relatively stable source of funds, it will be greatly impacted if the RMB depreciation caused by inflation or other reasons occurs.

Moreover, there are other factors that influence the stability of China's pension system, making policy reforms necessary: "The main rationale for a comprehensive pension reform is that China is in the midst of a demographic and economic transition. This is characterized by declining fertility and a significant increase in longevity that will almost treble the old-age dependency ratio in the next three decades, which requires an efficient labour market with a mobile and stable (if not growing) labour force."[1]

Pension insurance in the U.S. is also called the Federal pension system. However, Americans receive only 65

percent of their pre-retirement wages through the federal pension system. The United States also faces a gaping hole in social security funding, like China. According to the Office of Congress, America's social Security payments need to be replenished at 4.9% of GDP: "At the end of 2016, the US census accounted nearly 4000 state and local pension plans managing a total of US$3.74 trillion on behalf of 25 million members (Vidal, 2017) – just short of 10% of global pension assets. Although growing public pension assets have been shown to present opportunities for governments to compensate investment gaps in local infrastructure, real estate and green technologies , the shadow of growing pension liabilities poses significant fiscal and political threats to state and local sponsors."[2]

Unlike China, where the pension system is largely financed by social Security, Americans are largely dependent on social security. Employer-sponsored pension plans account for the highest proportion of three pillars at 64%, followed by individual pension plans at 24% and social Security funds at 12%. In China, employer-sponsored pension plans are totally just 1.29 trillion yuan, and only less than 1.7 percent of the population have access to these plans.
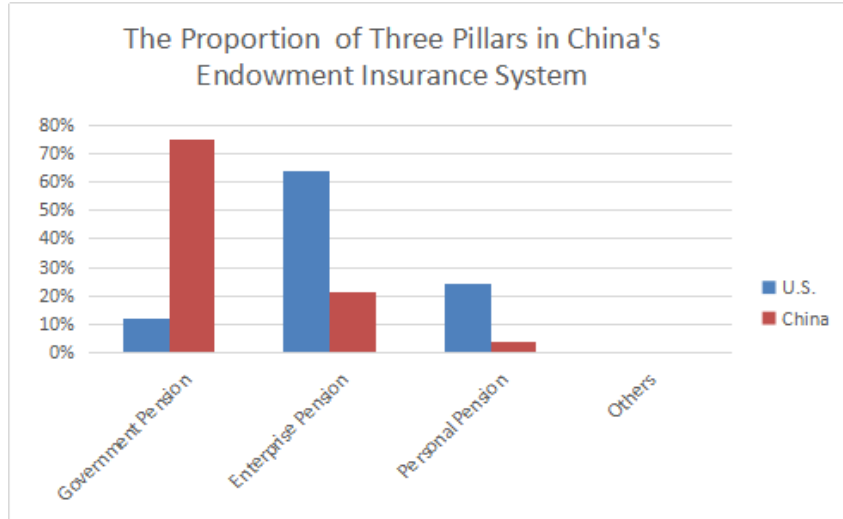
Figure 2. The Proportion of the Three Pillars China's endowment insurance system

Coverage in the U.S. system is also impressive, with 80% of families participating in employer-sponsored pension plans and individual retirement plans. There are various reasons for the huge difference between the two pension systems, such as different social systems, different levels of economic development, and different social security policies. However, a diversified pension system is clearly superior in any case, because it keeps a higher replacement rate, it makes the pension system more stable and secure.

2.2 Individual Pension Plan

This part is mainly divided into three parts: Comparison of per capita savings rate, the risks of saving for retirement,

and the new home-based care model.

By 2020, China's elderly population has exceeded 200 million, making China the country with the largest number of elderly population in the world. According to the findings of the 2019 China Pension Outlook Report, people are becoming more aware of pension planning than in 2018. Among more than 50,000 respondents, 50 percent of them said they have started saving money for the life after retirement, up 4 percent from last year. The proportion of people about 18 to 34 years old saving money for the life after retirement has also risen from 44 per cent to 48 per cent. China's savings rate, an important part of most people's personal pension plans, has remained stubbornly high.
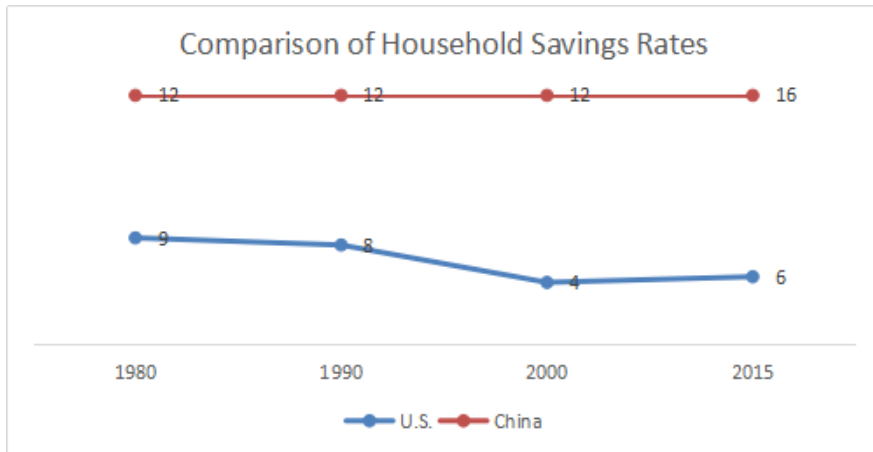

Figure 3. Comparison of Household Savings Rates

From the survey, it is not difficult to see that China's personal pension plan is mainly based on increasing savings. Many people have already made pension savings plan in their middle age, while commercial insurance and nursing home are not in the mainstream.

However, this way of saving for retirement has some

disadvantages.

Firstly, it is not safe. In recent years, there have been many cases of network or telecom fraud, some of which are difficult to guard against.

Secondly, it should be devalued. The deposit interest rate of Banks is very low, while some other financial products

are risky. If there is inflation, my pension will be greatly reduced.

Finally, planning is difficult, not only for saving before retirement, but also for spending after retirement.

So social security has more advantages than old-age pensions: they are more sustainable than planning, and pensions are growing, and China has adjusted them consistently for 15 years since 2005 to keep up with rising prices. The social security endowment is the most secure one of all the endowment methods, but its coverage is still a problem to be solved.

In the U.S., by contrast, about one-third of households now have personal retirement plans. Americans have a low saving rate, but their pension funds are abundant. Most are pension plans for corporate employers and individual investment plans. The individual investment pension plan is very diversified. For example, the U.S. has developed civil society organizations, which have explored various home-based pension models. Such as membership, the first by a group of elderly residents in Boston in the 1990s to explore. In the form of membership requirements elderly residents pay a membership fee annually, and they can enjoy including transportation, shopping, housekeeping, housing maintenance and so on. There are volunteers to provide basic services such as maintenance, as well as some professional institutions to provide home health care and medical services. Similarly, there are other home-based care models that rely heavily on individual choices.

It can also be found that the individual pension plan in the United States has developed more maturely. Membership pension can be taken as a good example. The Chinese government should introduce relevant measures to make this pension model more suitable for China's national conditions.

Hence, the popularization of this strategy and model in all directions is necessary to achieve this purpose. As Luo Jingjing, Yu Ping, Chen Yang et al(2020) argue that: "Firstly, the government's strong support and publicity can effectively improve the social recognition and participants' confidence in the 'membership-based pension'; Secondly, the government should bring the 'membership-based pension' model into the public pension service system and increase financial input. Thirdly, the government needs to introduce relevant laws and regulations on the establishment of the network platform of 'huddling for the aged' in the 5G era, establish a sound dispute resolution mechanism, and provide legal reference for the dispute resolution of the elderly."[3]

After all, due to different national conditions and social systems, Chinese government can only draw more experience from it, so as to make better policies in the future.

2.3 Community Service

This part discusses the differences between Chinese and American community service programs, as well as their advantages and characteristics.

Community service mainly refers to the life care and life services for the elderly carried out by the government. In China, every community has a party-masses service center, which is directly under the jurisdiction of the sub-district office. In addition to the daily party building, there are also activity rooms, day care centers for the elderly, volunteer service centers and so on. The existence of the Service center of the Party and the masses is to devote to the convenience of the people and provide a voluntary service platform, which has constituted a quite mature and practical system. If there are elderly people who are unattended during the day or who live alone, they can go to a service centre for volunteer care. This kind of care has proved necessary. However, as volunteers may not have relevant medical knowledge, there is still a lack of professionalism in nursing, especially as the elderly demand higher standards of care services: "The research shows that the elderly in the community have higher requirements for rehabilitation services, home beds and community public services. The high demand for rehabilitation services among the elderly is due to the prevalence of chronic diseases among the elderly and the existence of multiple chronic diseases. The elderly with these diseases need to take more than one drug, and there are many contraindications between drugs."[4]

In the United States, the old support policy provided by the federal government is mainly PACE medical care model. PACE is a Program of all-inclusive Care for the Elderly. Since 1997, it has been formally incorporated into the Balanced budget Act of the U.S. federal government. PACE provides essential medical care and assistance, including physical care, prescription medications, nutritional counseling, respite care, and social services, to people over 55 years of age who are physically ill or unable to move. These services and fees are provided by the providers covered by the Medicare and Medicaid Networks. There are many similarities between these two types of community services, both provided and funded by the government. The only question is how well these convenience services are being used: "After years of practice, the PACE model has been constantly developed and improved. Currently, there are about 120 PACE institutions in the United States, serving more than 35,000 elderly people. PACE only serves the elderly aged 55 years and above. If an elderly person has been assessed by the state government and his/her physical condition meets the requirements for long-term residential care, he/she may apply for admission to PAC E at will."[5]

3. CONCLUSION

What is worth learning from is that under the situation of increasingly serious global aging, it is difficult to properly solve the problem of elderly care only by relying on the government or unilateral power. This is also the current drawback of China's pension system. Firstly, the coverage is not wide enough and there are many dead ends.

Secondly, China's pension security industry is too single, poor anti-risk ability, prone to fiscal deficits.

The biggest difference between the Chinese and U.S. pension systems is their different priorities. The U.S. pension system is less dependent on the government and has more diversified pension models.

What China needs to develop is a diversified pension strategy, social security provided by the community government and personal pension investment plans. Combine it to improve the utilization rate of community service centers. At the same time, balance the three major pension pillars to avoid a situation where social security funds are the dominant pension pillar. Adopt the new mode of "combining medical care with nursing care"[6] to provide more specialized services while ensuring universal coverage. Specific measures are as follows: Firstly, integrate the medical insurance of home-based care and the elderly; Secondly, strengthen the construction and professional training of community-based elderly care service institutions; Thirdly, provide diversified elderly care services in the community.

Only in this way can the occurrence of fiscal gaps and personal empty accounts be reduced, and it also reduces a lot of pressure on the government's fiscal expenditures. There is still a long way to go to improve the pension policy.

ACKNOWLEDGMENT

REFERENCES

[1] Hedva Sarfati. Dorfman, Mark C. et al. China's pension system: A vision (Directions in development – Human development), https://doi.org/10.1111/issr.12062.2015:119-121;

[2] Michael A. Urban. Rescaling of American public pension finance: are state and local plans running away from Wall Street. Territory, Politics, Governance, 2020, 8(3):431-450;

[3] Luo Jingjing, YU Ping, Chen Yang, et al. The Construction and Challenge of Network Platform of "Group Pension" in 5G Era. Modern management, 2020, 10(01):95-101;

[4] Liu Chunlin, Xu Yue. Study on the Demand and Influencing Factors of Integrated Services for Medical, Nursing and Health Care for the Elderly in Community. How net, 2019, 2(1);

[5] American medical PACE model reference, Chinese politics and international politics. 2019,59-61;

[6] Zhang Zhonghui. Application of the concept of "Combination of medical care and nursing care" in the Elderly Service -- A case study of the Old Care Center building of Jianghan Petroleum Administration Bureau.How net, 2020, 3(7).