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Research on the Difference Between Chinese and American Endowment Insurance and Pension System

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ABSTRACT

As the global technology and situation continue to develop, people's life expectancy is getting longer and longer, and the slow growth or serious aging of the population has become a "common problem" in many countries. As a developing country, China's population has been continually increasing in recent years. According to the results of the latest population census released by the National Bureau of Statistics of China, the total population of China is now around 1.4 billion [1]. Although the number of people in China is rising, the aging problem is becoming more serious and even appears to be worsening. This issue has also led the national government and society to pay more attention to the seniors. On the other side, The United States entered the aging society earlier than China, and paid attention to the aging problem and acted on it earlier, which made the U.S. pension system develop longer. This paper compares and analyzes the endowment insurance and pension systems in the United States and China to find out the differences between them. The purpose of this paper is to extract the better and more suitable parts of the endowment insurance and pension policy for Chinese society. The results of the study show that the U.S. pension system is more well-developed than China's. Compared to China, U.S. citizens are more aware of retirement savings, and the distribution of pensions is more reasonable and has a better pension structure.

Keywords: *Aging, Endowment insurance, Pension, Public Policy*

1. INTRODUCTION

The U.S. Social Security system was created in 1935. In that year, Congress passed the Social Security Act, which formally established a post-retirement pension system for the U.S. workforce [2]. Since then, the current retirement benefit system has been gradually built up through several additional amendments to the law. In 1983, the U.S. Congress passed legislation that established the current voluntary, progressive and flexible retirement system. The normal retirement age for Americans is now 66, but for those born after 1960, it is 67. To qualify for a pension, one must accumulate "40 points," one point for every $1,130 of earned income, up to a maximum of four points per year, so that one must have worked at least ten years to qualify for a pension [3].

China is now aging because once in the 80s and 90s, China adopted a one-child policy, thus resulting in many of China's post-80s being mostly the only child in their family without siblings. To cope with the aging, China implemented a two-child policy, which has now even evolved into a three-child policy. But with the global economy, many young people are not willing to have children. This has led to the aging problem in China becoming more severe, and enlarged the group of elderly people. Also, it makes the issue of pension and retirement insurance for the elderly become more obvious and draw more and more attention from society.

In the course of the survey research, it was found that there is a lot of literature on pension policy or some aspects of it in the United States, and Chinese scholars also have analyzed the retirement policy in China. However, few scholars have discussed and compared the differences between Chinese and U.S. pension policies. This paper analyzes and compares the endowment insurance and pension systems of the elderly in China and the United States. Through the collection of data and information, the author studies and analyzes the reasons for the formation of different systems, what the differences are, what the impacts of these systems on the lives of the elderly and society are, and what can be learned from each other, thus leading to suggestions for better systems or policies to improve pension insurance in order to maximize the standard of living and wellbeing of the elderly and reduce the pressure on their families.

2. THE PENSION AND ENDOWMENT INSURANCE OF THE UNITED STATES

2.1 Aging background, population, and percentage in the U.S.

On August 12, the U.S. Census Bureau released the results of the latest census. The census results show that the population born in the "baby boom" era after World War II is gradually moving into old age, with more than sixteen percent of the population over the age of 66 [4].

The United States is aging, but because of the fact that it is a large immigrant country, there is an influx of labor from many different countries into the United States. This has led to a constant infusion of fresh blood into the U.S. and a slower aging rate.

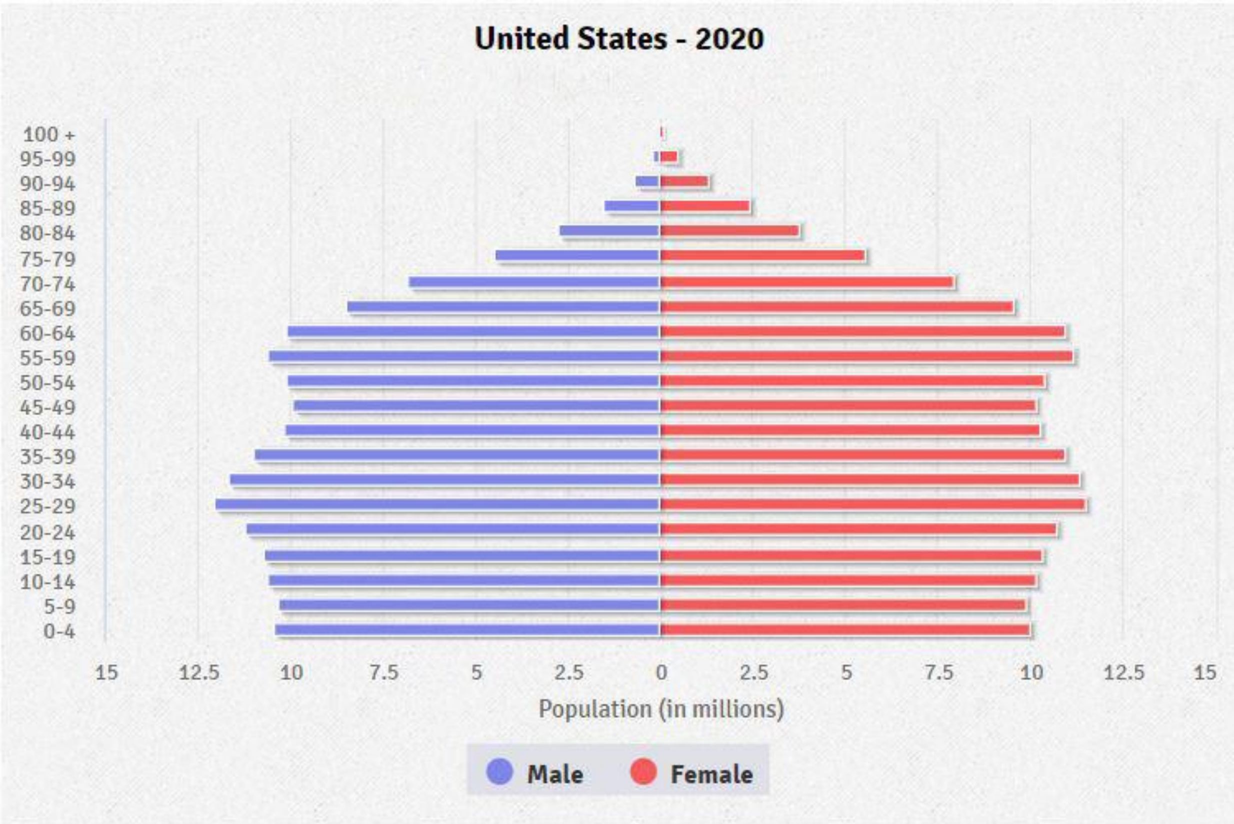

Figure 1 Age distribution of the U.S. population in 2020 [5].

2.2 Components of the U.S. pensions and endowment insurance

For Americans, pensions are just a way to keep the basics going, apart from which they also live on a variety of savings and financial income. For everyone, a pension policy is the most basic retirement security.

There are three levels of retirement policy in the United States. One is early retirement: you can start receiving your pension at age 62, but with a 30% discount, and the discount is less for each month you delay receiving it. Second, normal retirement: depending on the date of birth, the U.S. Social Security Administration has set different normal retirement ages, and those who retire within the normal retirement age can receive a full pension. Third, delayed retirement: those who choose to delay retirement receive an incentive benefit on top of their original pension. This voluntary, progressive and flexible retirement system is designed to allow people to make choices based on their own circumstances, and the graded pension access ratios, especially the incentive benefits for delayed retirement, have encouraged Americans to delay retirement to some extent. Moreover, if the spouse does not work or does not meet the years of service requirement, he or she may also receive a small pension. If the spouse dies, the other spouse (who must be of retirement age) and minor children will also be covered by Social Security, which is not called a pension [6].

The U.S. Social Security pension (federal pension system), through which most people in the U.S. can only get 65% of their pre-retirement salary level due to the U.S. government's attempt to maintain a high replacement rate (post-retirement pension/pre-retirement salary). However, Americans do not only rely on their basic pension to retire, the three pillars of the U.S. pension system are U.S.

Social Security funding, employer-sponsored pension plans, and individual pension plans [7].

3. THE PENSION AND ENDOWMENT INSURANCE OF CHINA

3.1 Aging background, population, and percentage in China

In 1982, the family planning policy was officially written into the constitution [9], “the state promotes family planning to adapt population growth to economic and social development plans, advocating that a couple should have only one child.” After China implemented the one-child policy, the population growth rate decreased, but before that, China's population grew by leaps and bounds, which led to an exceptionally large number of people from the previous generation. They are now in their old age, and the decrease of newborns makes the elderly population a larger percentage of the total population [8].

The results of the seventh national census released on May 11, 2021 show that the population aged 60 and above in China is 264.02 million, accounting for 18.70%, while the population aged 65 and above is 190.64 million, accounting for 13.50% [2]. The data shows that the population aging has further deepened and will continue to face the pressure of long-term balanced population development in the coming period. The reason for this situation is the influence of domestic economic development.

3.2 Components of Chinese pensions and endowment insurance

Formal systems of income security for the elderly in China include national annuities supported by general taxation, and income-linked social pension insurance. Informal systems of income security in old age include mandatory or non-mandatory private annuities, voluntary individual savings or life insurance, intra-household transfers, and labor income from continued employment [10].

The retirement age in China is 50 for female workers, 55 for female management and technical staff, and 60 for males. And there are a series of early retirement policies, such as special types of work and loss of working ability. China's current retirement protection system is basically supported by social insurance and social assistance under the government's responsibility, while the carrying capacity from employers and individual families is still weak. In addition, due to the implementation of the three-child policy and rapid economic development, the sandwich generation is under great pressure to support their parents.

4. A COMPARISON OF CHINESE AND AMERICAN PENSION INSURANCE POLICY

4.1 Retirement age

Both the U.S. and China are facing the issue of aging, but there are many differences in pension insurance and retirement policies. In terms of retirement age, the average retirement age in China is less than 55 years old. In comparison, U.S. president Roosevelt signed the Social Security Act in 1935, which set the retirement age at 65. Since 1983, the U.S. has raised the retirement age from 65 to 67. Americans have a flexible retirement age system that allows them to extend their retirement age to 70 and receive 132% of their standard pensions. In contrast, China's Implementing Regulations of the Labor Contract Law stipulate that when the legal retirement age is reached, the labor contract is terminated, and one cannot extend the retirement age based on the personal desire. Its main purpose is to protect enterprises and solve the employment problem of young people.

4.2 Retirement savings

U.S. citizens are more aware of retirement savings than Chinese citizens. There are three pillars of the U.S. pension system: the U.S. Social Security (OASDI), the Employer-Sponsored Pension Plans which provides pensions at the corporate level, and the Individual Retirement Account (IRA), also known as Individual Retirement Plan. All of them are related to tax exemption and tax deferral, which ensure the motivation of enterprises and citizens to save for their pensions. In China, the proportion of corporate contributions is almost three times higher than that of the United States on the first pillar, resulting in a heavy burden on enterprises, and the second pillar is not highly motivated by enterprises. The third pillar of commercial pension insurance is not popular, and the design is more complex, and not many salespersons nationwide can screen the inherent returns of the products.

Although the U.S. and China have different national conditions and different pension and insurance compositions, still, there are things for the two countries to learn from each other to respond to the aging situation in a timely and positive manner. First, in terms of institutional structure, China currently relies heavily on the government for income sources of the elderly, which puts a lot of pressure on the government. There is a strong need for China to spread the risk of too much concentration of pressure on government social pension insurance as soon as possible. Drawing on the provisions of developed countries, China can appropriately extend the statutory retirement age, and adjust the amount of pension according to the retirement age.

5. CONCLUSION

This paper analyzes the differences between pensions and old-age insurance in China and the United States in terms of the policy. Compared to China, the U.S. citizens are extremely conscious of saving for retirement, 15% of public employees have no worries about retirement, because the retirement pension replacement rate is basically at or above the pre-retirement salary level, and IRAs and corporate employer pension plans benefit more than 60% of households, enough to guarantee retirement income in later years. Additionally, tax exemptions and tax deferrals are associated with all three pillars, ensuring that companies and citizens are motivated to save for their pensions. In China, the proportion of corporate contributions in the first pillar is almost three times that of the United States, resulting in an excessive burden on enterprises. The second pillar is not highly motivated and is developing slowly, only being enjoyed by individual enterprises and all public employees. Moreover, the commercial pension insurance in the third pillar is not popular, and the design is more complicated.

However, there are many other factors that affect the financial situation of the elderly in China. For example, traditional thinking dictates that children must support their parents. Sending them to a nursing home is considered unfilial. This situation also increases the stress of family members and gives the elderly a depressing feeling that they are a burden to the family. The author hopes that by comparing the differences between the Chinese and American pension systems, the strengths and weaknesses can be identified, and the pension policy in China can be improved in the future.

This paper only compares the different pension structures in China and the United States, and while this is one of the factors that influence whether older adults are happy or not, it is not the whole picture. Comparing pensions alone cannot prove whether the overall environment is friendly to the elderly. Future research could focus on nursing homes, caregivers, and public facilities. The living standard and happiness of the elderly in a country can be analyzed from many aspects and perspectives.

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