Social Security and Welfare System: Problems and Solutions

Jiayu Shen[1,*]

[1]University of California, Irvine, CA 92697

*Corresponding author. Email: Jiayus8@uci.edu

Abstract. Social security is one of a modern country's most critical socio-economic systems. The welfare system is also a crucial index in evaluating the development of a nation and stands as the fundamental pillar for political and social stabilities. However, conventional funding for the welfare system is at risk in an aging society. The widening deficit in labor participation to anticipated retirees posted a foreseen financial gap for most aging nations. China, the largest developing country worldwide, emerged as the second-largest economic body in the early 2000s through the excess human capital and low labor cost, now facing a drastic loss of labor inflow. The rise in consumption level for bearing the offspring, extended average life span, and the birth control policy have accelerated the gap. This paper mainly focuses on the fiscal adjustments to address the sustainability concerns of the current welfare system, and this study also discusses the ongoing changes made by other developed nations. Given that China is still a developing country, and it still has a long way to go before it can have a sophisticated and sustainable welfare system. This is the reason why China still needs to learn from developed countries with more experiences in this regard. There, through introducing successful social security models in other developed countries, this study will shed provide inspirations for improving China's existing social security and social welfare system. Hopefully, this study will also attract more attention to the issue of China's social security system and gather more efforts on this front.

Keywords: welfare system, social security, aging society, fiscal policies

1 Introduction

Rapid population aging is a common phenomenon of population structure changes in all countries—still, this. Still, developing from an "aging society" to an "aging society" varies from country to country. Forty years in Germany, but only 25 years in China, like Japan (24 years). It took Japan, Germany, and Italy 11 years, 36 years, and 19 years to go from an "aged society" to a "super-aged society," respectively, while my country only took about eight years. The rate of population aging is much faster than that of European and American countries, which means that the challenge of population aging in my country is more urgent and severe than in other countries.

© The Author(s) 2022
A. Holl et al. (Eds.): ICHESS 2022, ASSEHR 720, pp. 514–521, 2022.
https://doi.org/10.2991/978-2-494069-89-3_60

The Chinese aging population trend is faster than European and American countries, according to Figure 1, the aging population has outweighed the young people in 2020. To meet the needs of elderly care in an aging society and animation (WHO), the health government recommends building an elderly-friendly environment and developing a sustainable and fair long-term care service system [1]. The diverse needs of the elderly are rapidly growing new service models to promote social integration, encourage social participation, maintain physical and mental health, ensure life safety, and enhance the elderly's sense of well-being and a social service system. The rapid changes in an aging and child-less society have brought about changes in lifestyle and household structure, highlighting the issue of elderly care needs. It is foreseeable that in the future, the number of widowed elderlies, childless, or unable to live with children will increase. Supporting the elderly in a familiar environment, ensuring economic security, living a healthy and independent life, maintaining friendships and other social relationships through social participation, and constructing a comprehensive care service system to assist the elderly in practicing local aging are important policy directions.

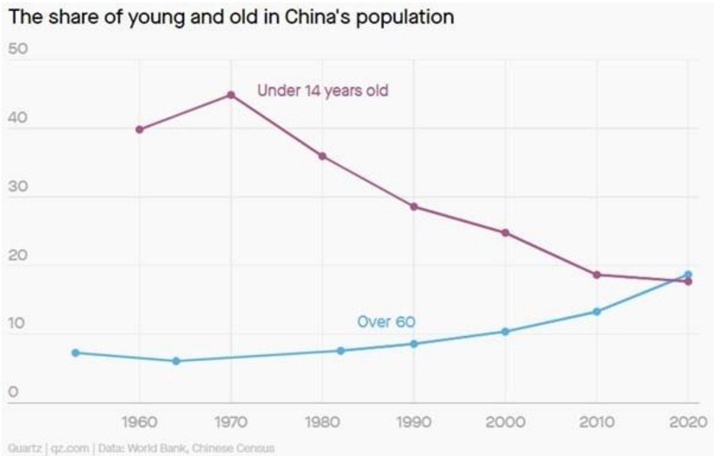

Fig. 1. The population demographics in China between those over 60 years old and under 14 [2]

2 An Overview of the Pension Plan

2.1 Classical Theories

Regarding the allocation purpose of retirement funds, it is a traditional and primary linear investment thinking mode to pursue a higher fund investment return rate during the accumulation period to increase the payment protection for participants during the repayment period. However, for the statutory pension system, because of its mandatory provision, it is equivalent to requiring participants to sacrifice their consumption needs during the payment period, whether urgent or not, to prepare for future retirement economic life. In this case, its current necessary financial needs will inevitably be crowded out, especially for the poor participants; what's more, if the participants cannot continue to make pension contributions due to the forced interruption during the work period [3]. Future financial security for retirement will also be less meaningful to them. From the recent global economic crisis caused by the subprime mortgage crisis in the United States and the sudden unemployment in various countries since the middle of 2008, people's financial life before retirement faces a severe threat. It can be seen whether the linear investment thinking mode is still retirement. The only option for a fund's investment decision is a topic worth exploring [4].

2.2 New Theories

The concept of retirement has changed over time. According to Lytle et al., "Retire no longer refers only to the end of one's career or the cessation of work, but rather it has become a phase of career development" [5]. New welfare economists believe that welfare economics should study efficiency rather than research level, and only the issue of economic efficiency is the content of maximum welfare. Lerner, H. Hoteling (1895 ~ 1973) and others discussed the problem of economic efficiency [3]. Economic efficiency refers to the conditions required for the social economy to reach the Pareto optimal state, including the optimal conditions for exchange and the optimal conditions for production. The optimal condition for sale for two traders consuming two commodities is that each pair of things' marginal substitution rates are equal. The marginal rate of substitution refers to the unit quantity of another good that the consumer must reduce for each additional unit quantity of a good to maintain a fixed level of satisfaction. The optimal production condition for the two production resources used to produce two sets of goods is that each combination's marginal rates of technical substitution are equal. The marginal rate of technical substitution refers to the reduction in the input of another production resource for each increase in the information of one production resource while maintaining a fixed output level. The new welfare economics generalizes the optimal conditions for exchanging two commodities between two consumers and the optimal conditions for producing two products by two producers using two production resources for the business and presentation of the whole society, respectively.

2.3 Social Welfare and Social Justice

Both neoclassical and social economics claim to pursue justice, but they have different views of justice due to differences in opinions on the nature of human nature. The idea of human nature in neoclassical classics holds that human existence is a "home economics", that is, the nature of human beings. The social economy is social innovation in the mainstream capitalist economic system, and its innovation lies in introducing the concept of social justice into the production and distribution system. In the current socio-economic literature, emphasis is placed on integrating the values of social justice into economic institutions, such as combating social exclusion, enabling development in disadvantaged areas, activating ties of solidarity in production relations, and redistribution of income and wealth. Based on the 2021 Pension Plan Index by Nation, the current rating of the Chinese pension and welfare system remains on par with the most developed nations; nevertheless, China is facing a more drastic aging population [6,7].

3 The Impact on Changing Retirement Ages and Taxation Policies

Before the aging demographic structure became a pressing issue, governments across the world generally adopted two mechanisms to maintain the functionality of the retirement funds and the welfare system: taxation and legal retirement age. According to Figure 2, the average retirement age has increased by around seven years [4]. As a result, there is an autonomous force driving up the retirement ages. Although there has been no clear sign of a steady tax increase over the past decades, based on the World Bank data, the United States and many developed nations are suffering increasing debt to GDP ratios.

Fig. 2. The Historical Average Retirement Ages for Women, 1962-2010 [4]

4 Retirement Funds Investment

The prolongation of human lifespan, the decline of birth rate, and worldwide political and economic crises occur from time to time. Various countries have implemented reforms in response to the annuity system of national retirement life because these factors may lead to the pressure of making ends meet. The direction of reforms is mainly to move the grace-grant and fixed-benefit systems' annuity systems toward establishing funds and to legislate the definite contribution system of individual, enterprise, and government responsibilities. At the same time, the excellent management of funds is directly related to the stakeholders. The economic security of old age life can be seen from this: under the influence of the longevity crisis, low birthrate, and the rapidly changing political and economic situation, the reform of the pension system is an irreversible and inevitable trend, and the formation of reform consensus must-pass legislation, and the management of funds and the It is also an essential factor in maintaining the long-term stability of the pension system.

4.1 The Management of Retirement Funds: A California Case

Short-term operation strategy of pension assets in the past, ignoring the existence of pension assets and liabilities. The issue of time-matching. Suppose the investment plan of pension assets cannot match the duration of pension liabilities (Duration Mismatch). In that case, it is prone to the situation that pension assets are not enough to pay pension liabilities, which further reduces the fund withdrawal ratio. Watson (1994) believes that, at the theoretical level, modern investment theories are based on the efficiency of the capital market to discuss the financial rate of return but ignore the possible externalities, while the economic target investment is a product of inefficient financial markets, and therefore cannot be assessed by the same standards. Accordingly, pension-based participants are active in a country's social and economic environment. Pension fund managers must comprehensively consider positive and negative outcomes such as financial returns on investment, investment multiplier effects, and externalities [8].

The asset allocation of the fund is an important aspect of the management of retirement funds. As for the implementation level, first, to avoid the involvement of improper political power, the economic target investment should quantify the expected social and financial benefits and risks during the evaluation stage to jointly estimate the risk-adjusted investment. The total expected rate of return to not violate the required rate of return conditions in ERISA (Employee Retirement Income Security Act) and adequately evaluate the feasibility of the economic target investment [9]. Secondly, when the definition of the target object of economically targeted investment is more expansive, and the synergy is easily diluted, the attractiveness of targeted financial investment will be weaker. Therefore, the object of targeted financial investment should be defined in the medium to the small population - group or project scope to receive its expected results [9].

4.1.1. California Incentive.

The California Initiative is an economic-targeted investment plan for investing in developing areas that may be where capital gaps are located. However, the developing regions themselves are high-risk investment targets. Based on the theoretical basis of "to take into account the due financial rate of return and the desired social rate of return", it depends on the operation of a sound investment model. Based on the California Initiative's evaluation of the social rate of return, in terms of evaluation indicators, the various social rate of return evaluation indicators is not entirely consistent with the previous reports, which may be based on the difficulty of evaluating the speed of the social rate of return. The accumulation of experience in the system's operation can appropriately modify the evaluation indicators. Still, people will inevitably question whether changing the evaluation indicators is to beautify the performance figures of the operation [10]. In addition, in terms of operational performance, although the California Initiative has achieved some preliminary results in assisting disadvantaged workers and enterprises located in companies that are difficult to obtain legal person equity funds, the system has not been in operation for a long time and the data periods of the relative samples are not easily consistent, which has affected the Long-term performance and objectivity of the California Initiative's social rate of return assessment results. It can be seen from this that the social rate of return not only faces the question of whether it is manipulative in the formulation and revision of evaluation indicators but also requires a more extended period to verify the effectiveness of its operation. There is not necessarily an immediate positive performance, and all of these are the tests that the social rate of return will inevitably face in the processing operation.

Therefore, based on the example of California's pension investment plan, it is suggested that China should adopt a dual system for both state and local to invest the retirement funds. However, the general guidance must aim for the long-term return and controllable risks.

4.2 Private Insurance: A Case from Japan

Based on the empirical analysis, the government funding and the monthly allocated pension would not be sufficient after the adjusted inflations [4]. According to Gupta et al., the study indicated that the cost of living in retirement should be within a tolerable budget range during the pre-retirement period [2]. Besides, there are risks of incurring additional expenses due to the deteriorated health conditions even though most developed nations have a designated healthcare system to care for the elderly; Kwon et al. argued that most of the coverages are minimal, often excluding the cost of daycare and premium treatments [9]. Hence, it is encouraged to purchase third-party private insurance plans.

In Japan, the privatization and marketization of social welfare services have been controversial for a long time. The nursing insurance system implemented in 2000 is the country's first privatization of social welfare services, that is, "services for people". The supply of social welfare services in Japan has changed from the "measures system" to the "nursing care insurance system", which means that care services have become a contractual relationship between users and suppliers. Government departments are not directly related and can avoid direct responsibility. Therefore, the criticized government seems to be Intention to withdraw from care services [2]. However, to achieve the above goals, it is necessary first to remove the control of private operators to enter the welfare or medical field. Since private enterprises pursue profits for the purpose, most countries impose strict rules on the entry of enterprises into welfare or medical fields, so the implementation of the nursing insurance system is to relieve the power of service providers. Because the scale of the nursing care market is claimed to be tens of trillions of yen, the business opportunities seem large, which induces many private enterprises to enter the market. However, after the implementation of the service, the service usage is insufficient, and the business income is far less than expected. Hence, the private business operators must be significantly reduced. The scale of the business affects the rights and interests of users. The latest survey results show that since the implementation of the long-term care insurance system in 2000, there has been a gradual increase in the number of closed private businesses, especially in 2016, the number of bankruptcy cases was 106, which was 1.4 times that of 2015 (76 cases), setting a record for this system [5]. The company has the most significant number of bankruptcy cases since its implementation, with a total debt of 9.46 billion yen [4].

The case of Japan exemplifies the need for a private insurance sector designated for daycare and chronic illnesses for the elders. However, the failure of Japanese private insurance also indicated the need for government regulations [2]. Therefore, it is suggested that the Chinese government should adopt hybrid private insurance plans.

5 Conclusion

Based on the current welfare funding structure and the expected population structure, it is expected that most of the developed nations have already been dealing with a deteriorating funding source to deal with future welfare expenses. The same situation applies to China, especially under the decade-long One Child policy. The situation becomes more troublesome when the average life span has increased significantly. Based on the data, it suggested that the current relaxation on the number of children giving birth to does not impact much when the cost of raising children has gone up, and the relative disposal income has gone down compared with the price indexes. Therefore, the study would argue that the microeconomic adjustments such as the funding of the provident funds and other associated changes in altering the legal retirement age and the tax rate change would be less impactful.

Meanwhile, at the macro level, the extensive borrowing from the future would only deepen the financial debts and force future Chinese parents to pay off more debts. As most scholarly sources have pointed out, the best resolution to append the widening financial gaps of social welfare is through the agile use of the public funds to share the economic dividends from long-term sustainable investments. The developed nations have widely adopted the practice. Using the fund yields to support the gap would be more realistic and flexible for China, along with other fiscal and legal amendments. Indeed, there are unexpected market risks that could outweigh the anticipated returns. Still, at this point, given all variables fixed, the contributions of the market dividends seem to be the best resolution to fill in the widening welfare gap in China.

Therefore, it is necessary to solve the problem of the shortage of funds for the elderly population and the unsustainable problems of related systems and improve the insurance system: first, pension insurance. A pay-as-you-go system should be established and combined with fund accumulation; the fund operation mode should be determined. The state, enterprises, and individuals should bear the endowment insurance costs jointly. However, the current retirement system arrangements may make pensions unsustainable. Therefore, this study calls for more attention to the conundrums facing Chinese retirees, and also calls for more policy support for the retirees who are troubled by their unsustainable pension. Hopefully, this study would at least provide the existing successful examples in other countries that might be of some use for improving China's social welfare system. Besides, it is also hoped that this study would attract more attention from the academia so that more scholars will also delve into the social issues such as problematic pension system for the elderly. This would be the first step before China can make strides on improving the Chinese social security system.

References

1. Escolano, M., & Gaspar, V. Optimal Debt Policy Under Asymmetric Risk [J] International Monetary Fund, 2016.
2. Gupta, A., & Li, L. Integrating long-term care insurance purchase decisions with saving and investment for retirement [J] Insurance: Mathematics and Economics, 2007, 41(3), 362-381.
3. Jiang, Q., Tai, X., & Wang, L. One-Child Policy and Population Aging in China [M] Encyclopedia of Gerontology and Population Aging, 2021, pp.3657-3662.
4. Hustead, T. Thinking about Funding Federal Retirement Plans [J] The Future of Public Employee Retirement Systems, 2009, pp.105-112.
5. Horneff, V., Maurer, R., & Mitchell, O. S. How Persistent Low Expected Returns Alter Optimal Life Cycle Saving, Investment, and Retirement Behavior [J] Oxford Scholarship Online, 2018.
6. Lytle, M. C., Foley, P. F., & Cotter, E. W. Career and Retirement Theories [J] Journal of Career Development, 2015, 42(3), 185-198.
7. Lam, S. Ranked: The Best and Worst Pension Plans, by Country [J] Visual Capitalist, November 16, 2021. https://www.visualcapitalist.com/ranked-the-best-and-worst-pension-plans-by-country/
8. Mitchell, O. S., & Smetters, K. Securing Public Pension Promises through Funding [M] The Pension Challenge, 2003, pp.116-156.
9. Kwon, S., Ikegami, N., & Yue-Chune, L. Private health insurance in Japan, the Republic of Korea, and Taiwan, China [J] Private Health Insurance, 2020, pp.304-324.
10. Switkes, E. The University of California Voluntary Early Retirement Incentive Programs [J] To Retire or Not? 2001, pp.106-121.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (http://creativecommons.org/licenses/by-nc/4.0/), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.