

## China Scrambles for Stability as Its Workers Age

Howard W. French

When she reached 50, the retirement age for many women here, Chen Rui, a career accountant, immediately did what millions of people of her generation have begun doing: she scrambled to find a new job.

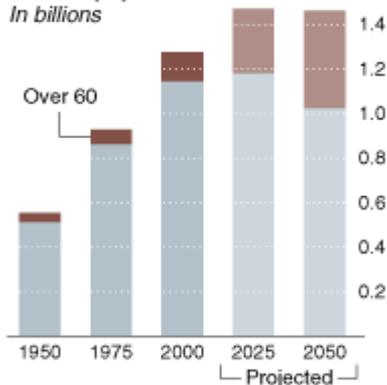


### An Aging China

By mid-century roughly 430 million Chinese, about a third of the population, will be retirees.

#### China's population

In billions



Source: United Nations Department of Economic and Social Affairs

The New York Times

While second careers are common in the West and are often embraced as a chance to satisfy long-held ambitions, for huge numbers of Chinese city dwellers like Mrs. Chen, a widow, eking out another decade or two of paid work is more a matter of survival.

In this sense, Mrs. Chen is anything but alone.

The proportion of people 60 and older is growing faster in China than in any other major country, with the number of retirees set to double between 2005 and 2015, when it is expected to reach 200 million. By midcentury, according to United Nations projections, roughly 430 million people — about a third of the population — will be retirees.

That increase will place enormous demands on the country's finances and could threaten the underpinnings of the Chinese economy, which has thrived for decades on the cheap labor of hundreds of millions of young, uneducated workers from the countryside. Changes in the country's population structure are taking place hand in hand with changes in the structure of the Chinese family. China's one-child policy, which began in 1980, means that, beginning with the current generation of young adults, couples will face the difficult task of caring for four parents through old age.

By the same token, the ratio of workers to retired people will decline from about six to one now to about two to one by 2040.

Under the current two-tiered system, the retirement age for blue-collar urban workers is 50 for women and 55 for men, while for higher-grade professionals and government workers it is 55 for women and 60 for men. Obviously, raising the retirement ages would ease a substantial amount of pressure on the pension system. But there are no plans to do so, and raising the retirement ages would present another set of problems for the government, experts here say.

Last year, for example, 4.13 million young Chinese graduated from universities, and fully 30 percent of them are still unemployed. Unemployment is high among those who are not university graduates, as well. Prolonging employment for older workers would make this predicament worse, possibly with volatile consequences.

Breaking a lifelong promise and abruptly extending the retirement age would create another large class of malcontents. As a result, the government has been unable to reach a consensus on how to handle the problem, which is leaving people like Mrs. Chen in an increasingly difficult position.

Like most women her age, Mrs. Chen is the mother of a single child, a legacy of the nation's stark population control policies, which means that with only a skimpy state pension and one child to help her out, she must fend for herself in her old age.

"I'm saving money for my daughter's dowry and for myself when I get old," said Mrs. Chen, who now works in a small trading company along with several men. "My daughter promised to take care of me after she gets married, but I don't want to burden a young couple. Anyway, it's not easy for two young people to take care of four old parents."

The bind that China finds itself in takes form in an often-posed question: Can the country grow rich before it grows old? Increasingly, experts here say the answer, which also has huge implications for the global economy, appears doubtful.

In its rush to modernize, China has rebuilt its economy, opening up to foreign investment, privatizing state-owned industries and greatly expanding higher education — 70,000 engineers earn graduate degrees each year, for example.

Under China's sweeping pro-market reforms, since the 1990s millions of workers have been laid off from money-losing state enterprises. The state's obligations to these workers for their so-called legacy pensions, together with more recent obligations under the newer, market-oriented retirement system, amount to over \$1.5 trillion, according to the World Bank.

"I think that most people have not realized how tough the situation will become," said Li Shaoguang, director of the Institute of Social Security at the School of Public Administration at Renmin University of China, in Beijing. "We're already aware that the percentage of old people in our population is large and is growing fast, so in order to pool more people in the system to pay for current retirees, the government is trying to include more migrant workers in the system. This could alleviate pressures now, but it also means that you will have larger pressures to face when the migrant workers grow old."

By some estimates, at least half a billion mostly rural Chinese are not covered by the state's fragmentary social security system at all.

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Already, experts say the large financing gap resulting from the early retirement of public sector workers has repeatedly caused the state to improvise to keep the system afloat. Receipts from lottery ticket sales and from foreign initial private offerings of stocks, for example, have been drawn upon to finance the system.

Most troubling to financial experts, the government has used payroll taxes paid by the current generation of workers, who in theory are paying into their individual retirement accounts, to pay pensions for the previous generation.

There have been other kinds of creative tinkering as well, including on-the-fly changes in the formulas used to determine benefits. For example, the government recently altered the complex formula that determines pension benefits to the detriment of female workers, not taking into account their shorter career spans and longer life expectancy.

The government has preferred subtle changes like these, which have not been highly publicized, to more significant but controversial reforms, like raising the retirement age. But some economists say the government will eventually have to confront the issue.

"We need to gradually raise the retirement age for workers," said Gui Shixun, a professor at the Population Research Institute of East China Normal University, in Shanghai. "By 2011, we could raise the retirement age for women to 56 or 57, and by 2015 have them retire at the same age as men. By 2020, male retirement could be raised to 65."

Professor Gui acknowledged that his was a rare voice on this subject, and on an even more controversial change that he supports, a change in the one-child policy, which he says is at the root of both the country's aging problem and the looming pension crisis.

"You can't just treat this just as an aging problem," he said. "You have to trace it back to the origins, which means allowing people to have two children."

For all of the experts' talk of a looming crisis, many Chinese seem only dimly aware of the country's predicament, and many middle-aged people say they have only belatedly begun to prepare for retirement.

Xiao Zhenya, a 57-year-old materials engineer, began making serious preparations for retirement only in the past few years. Now, with retirement less than three years off, he invests as much as half of his monthly income of about \$800 in China's booming but risky stock market. "I figure everything will be O.K. unless you get a major illness," he said. "If that happens to me and I can't take care of myself, I'll just have to end my life."

China's relatively young private life insurance industry is one of the sectors that stands to benefit most from the growing uncertainty over aging and pensions, but even within the industry, analysts express worry.

"If we continue to have sound and healthy development in the economy we might get through this, but what if we cannot?" said Jiang Shihua, a senior official of the Pingan Life Insurance Company, who spoke of a time when China would have 400 to 500 million old people who "only consume and don't produce at all."

He added, "We don't see any clear policies aimed at tackling the issue."

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