Retirement Behavior among China’s Older Workers

In China the rural elderly are often unable to retire—while urban women often drop out of the labor force early

In China as in other countries, developing and developed, population aging raises the prospect that both formal and informal mechanisms for supporting the elderly will come under strain over the next 20 years. Like Indonesia and other developing countries, however, China is experiencing population aging at lower income levels and before the extension of pensions to rural residents and to urban residents in the informal sector. In a sense China has two retirement systems: a formal system, under which urban employees receive generous pensions and face mandatory retirement by age 60, and an informal system, under which rural residents and urban residents in the informal sector rely on family support in old age and have much longer working lives.

The retirement patterns presented in a recent paper by Giles, Wang, and Cai illuminate the employment context for the decisions that China’s policymakers are facing today as they work to extend new pension programs in rural areas and to the urban informal sector. The authors raise several issues that warrant consideration when thinking about employment-related policy for an aging population.

First, as researchers have found in the United States, the United Kingdom, and other OECD economies, there is a strong association between pension eligibility and exit from productive employment in China, Indonesia, and the Republic of Korea. Moreover, in rural areas of China and Indonesia, where work is physically demanding, the authors observe a strong correlation between employment status and physical functioning abilities. In China this raises concerns that the “unceasing toil” characterization of rural elderly lives may remain accurate for a significant share of the rural elderly population. A rural pension allowing retirement for rural residents over age 65 (or even age 70) could help eliminate differences in the labor supply of older residents between rural and urban areas.

Second, the gender disparity in mandatory retirement and pension eligibility ages for formal sector workers creates strong incentives for women to exit productive work at younger ages. While labor force participation rates of women are similar to those of men at younger ages, they fall precipitously after age 40. The evidence presented and reviewed by the authors suggests that the probability that an urban woman is employed is strongly related to pension eligibility, which also corresponds to working in an industry sector where mandatory retirement is enforced.

Changing the age of pension eligibility rapidly may cause hardship for women who are close to the current retirement age and want to retire. But allowing women to retire at the same age as their male counterparts would remove an obstacle that women face relative to men when looking for work later in life. In Indonesia and Korea, where there is no difference in mandatory retirement ages for men and women in the civil service or formal sector, women’s labor force participation declines after age 45, but these declines are not nearly as steep as those observed for urban Chinese women.

Apart from the gender disparity in mandatory retirement ages in the formal sector, retirement ages are quite low for formal sector employees in urban China. Given the rate of population aging, the argument that mandatory retirement is important for providing opportunities for younger workers makes less sense. Indeed, both macroeconomic and fiscal considerations warrant encouraging workers to remain employed until older ages. Eliminating (or raising) mandatory retirement ages will be less problematic than raising the age of pension eligibility, but both are likely to be unpopular because they force changes in expectations and long-term planning.

One politically palatable approach may be to gradually raise the retirement age in three-month increments. If such a reform was started during the 12th Five-Year Plan period, the retirement age for men would reach 65 by 2030, though it would take longer at this pace for full equalization for women. Research conducted in the United States and Europe, however, suggests that incentives could be provided within the pension system to encourage retirement later in life. Moreover, correlations in retirement of spouses, reflecting coordination of retirement planning, raise the prospect that eliminating disincentives for women to remain in the labor force after 50 may encourage delayed retirement of their husbands as well.

The precipitous decline in urban women’s labor force participation after age 40 is likely driven by gender disparities in the mandatory retirement age