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## Comments on

# Delay the Pension Age or Adjust the Pension Benefit? Implications for Labor Supply and Individual Welfare in PRC (Yuanyuan Deng, Hanming Fang, Katja Hanewald, Shang Wu)

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# 1. The paper

- Investigate the effects of alternative pension reforms on labor supply, welfare, and government budget
  - Different scenarios; i) increase PEA, ii) decrease pension benefit, and iii) increase PEA + increase pension benefit
  - Calibrate using CHARLS and CLHLS; urban males
- Main results
  - Budget: i) and ii) improves the budget, iii) slightly improves
  - Labor supply: i) and ii) improves, iii) slightly decrease
  - Welfare: iii) is best as it increases benefit
  - Results differ by skill type and health status, etc.
  - Interesting, important, some innovations (consider iii, model well designed, approximate the actual BOAI rules although many assumptions)

## 2-1. Option iii) is not common

- Option iii) is creative but not common. Usual reforms include
  - Raising PEA and reducing benefits: many advanced countries (options i) and ii))
  - Increasing the number of years requirement: UK, France, Italy
  - Benefit adjustment (net wage rather than gross wage): Germany, Japan
  - Beginning longevity indexing to introduce self-balancing system: Sweden, Germany
  - Reducing the accrual rate: Japan
  - Recalculating the cost-of-living adjustment: US
  - Designing the benefits for different income group: UK

## 2-2. Option iii) in PRC?

- May exacerbate inequality and not good for fiscal sustainability for PRC
  - PRC has very high social security contribution rate (SSC)
  - SSC is regressive (ceiling at 300%), but not that low.
  - However, the revenue is much lower than other OECD members
    - ➔ the issue is not low SSC or low ceilings. It is low compliance, and low base and high exemption problem (currently more than half of enterprises fail to comply the SSC base in urban PRC).
  - Very high replacement rate for full career urban employees who are fully complied.
  - PEA is very low, population aging is rapid.
    - ➔ It is inequality, high replacement rate, low PEA, and rapid population aging problem.

### 3. Policy implications—other generations’ welfare and long term sustainability

Percentage decline in consumption (relative to labor productivity) as compared with 2010 in Japan

	2040		2070	
	Option ii)	Option i)	Option ii)	Option i)
Age 20	-21.1	-9.1	-25.9	-5.7
Age 45	-17.5	-12.0	-21.3	-8.0
Age 70	-28.6	-11.0	-34.5	-0.5

Note: In both scenarios, size of government is constrained to 35% of GDP and public debt to 90% of GDP.

- Option ii) is cutting benefit, in option i), retirement is postponed by about 1 year per decade.
- Elderly are bearing the cost through harder work, but all are benefitting for option i)
- Source: Andrew Mason et al, 2016, “The Impact of Population Aging on Public and Private Economic Flows”. NTA WP16-04