Pension's Impact to the Subjective Well-being of Retirees

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Abstract. The aging population is a growing concern of many countries worldwide. The change in population structure has forced governments of these countries to actively deal with this problem. Many countries' governments are taking measures to the aging population problem, and the pension system is one important way to ensure old people's welfare by transfer payment from other parties of the society. This paper aims to conclude and discuss the mechanism about how pension affects the subjective well-being of retirees. It is important to fully understand the implications behind pension's impact for policy makers to make wise decisions. Researchers found that pension mainly contributes to financial security and health situation, which are two important factors affecting subjective well-being of retirees. Financial security is enhanced by increased income, so that retirees can transfer payment to other family member and increase their own consume costs. The positive impact of pension to health situation are only significant for poor population.

Keywords: Subjective well-being, retiree, pension system.

1. Introduction

The problem of aging population has attracted wide concerns by policy makers and scholars in related fields. Many countries' governments are taking active measures to deal with the aging problem, and the pension system is one important way to ensure old people's welfare by transfer payment [1, 2]. The pension system is not only concerned by developed countries. Some typical less developed countries such as Brazil and China are trying to expand and improve their pension programs to aged people who are currently excluded from pension system or are receiving little from their pensions [3]. The function of pension systems is to transfer payment to retirees and/or ensure retirees' welfare after they lose the stable financial income [4]. It is obvious that pension will increase one's financial capability by receiving transferred income from other parts of the society. However, some further questions is raised by scholars. How pension system contributes to the subjective well-being of retirees? How pension's impact varies? It is important for the policy makers and the society to fully understand the implications behind pension systems. Because the well-being of the retired old people is part of the welfare of the whole society, and the relevant measures to address the problem of ageing need to be coupled with a quality retirement life to enhance the overall confidence of the whole society in the relevant policies. This paper aims to conclude and discuss researches related to pension's impact to retirees' subjective well-being.

Existing studies have shown many factors that affect the subjective well-being of the old people, and among these factors, financial independence/security and physical health are the most valued by the elderly [1, 5]. The impact of pension to retirees also vary depends on individual situations of retirees, including cultures, financial situations and type of the pension they receive [5-7]. Pension allows retirees, especially those poor retirees, to have higher financial security. This is proxied by increased consumer spending and increased intra-family transfer payments [7, 8]. The impact of pension to retirees' health situation varies depend on their financial situations. Health situation of retirees with poorer financial situations seems more affected by the pension they receive [9-11].

The existing researches related to the pension hardly mention and discuss about the mechanism of pension's impact to subjective well-being of retirees. This paper will compare statements from different views about pension's impact and discuss the mechanism of pension's impact to retirees subjective well-being to fulfill the knowledge gap.

2. Impact of Pension to Subjective Well-being of Retirees

2.1. Contributors to Subjective Well-being of Retirees

Previous researches have concluded several factors that will contribute to the subjective well-being of retired elderly. These factors include mental and physical health situation, financial security and family situation etc. Generally, the contributors to subjective well-being of retirees can be divided into physical/material part and mental part. Old people usually value physical/material conditions like physical health condition, financial security and life expectancy. The mental contributors like family companion, mental health, independence and social function are also valued by retirees, sometimes valued more than physical/material condition. The impact of each contributor to the subjective well-being of retirees are not constant. Their impacts are affected by multiple dimensions [1]. The factors contribute to the subjective well-being of retired elderly can be complicated and sometimes correlated. Previous researches indicated that higher income and economic independence are positively correlated with better health condition. Meanwhile, both the income and health condition are positively related to better subjective well-being of retired aged people. A possible explanation is that old people with higher income will have better access to medical services and more secured financial situation, thus having better health condition and higher subjective well-being [12]. Moreover, these factors and their impacts varies based on different demographic characteristics. Different circumstances will cause retirees to react differently to each contributor. For example, older people with East Asia traditional cultures value family situation more than older people with other cultures. These old people enjoy the connection between their family and themselves. They perceive bigger families with more kids as happy family and they prefer to live with the big family. Living with their younger generations in the family allows them to feel more social-functional and more secured in terms of financial security [5].

Generally, researches in the field of pension indicate that pension contributes to the subjective well-being of retired old people positively. However, there are still debates about what factors, which can boost the subjective well-being of older people, are affected by the pension.

2.2. Pension's Impact to Financial Security

It is widely agreed by researchers that pension plays a positive role in enhancement of financial security (or similar paraphrase like financial satisfaction) of retired old people. Previous researches indicate that the increase of income can contribute to higher subjective well-being. Increase in pension will improve retired old people's financial security and allows them to increase their level of consumption or level of intra-household transfer payments [7, 8]. However, the impact caused by increased income vary on external environments. For example the positive relationship between the increase of income and subjective well-being is weaker in developed countries than other countries. The related research imply that financial situation contributes less to the satisfaction of life in developed countries than other factors. Because investigated population in developed countries tend to value spiritual enjoyment rather than material enjoyment. Moreover, people's expectations and relative income compared to others can have impact on the subjective well-being [6,13]. The impact of pension to subjective well-being can also vary based on individuals' situations. Scholars found that retired people receive less subjective well-being on defined contribution pension than defined benefit pension, and retired people's subjective well-being will receive strong negative impact if the retirement is involuntary. Defined contribution pension, which vary depends on the market performance of investment portfolio, faces higher risk than defined benefit pension. So, risk-averse retirees, which are common in the studied sample, receive less well-being due to the uncertainty of defined contribution pension [7].

2.3. Pension's Impact to Health Condition

The positive impact of pension to retirees' financial security has been widely agreed, but there are still debates about the pension's impact to retirees' health situation. One side of the debate argues that

higher pension will contribute to the better health condition of old people, because increased income can be used to improve the access to medical services and allows old people put more time on enjoyment [9-11]. Scholars who support this view found evidences about the positive correlation between pension and health situation, especially in under-developed regions or rural areas. The increase of pension is positively correlated with health investment and medical care. This impact is significant among retirees who are facing to economic difficulties [9]. Those old people might have to find opportunities for re-employment after retirement due to the lack of financial security. Previous researches showed that the amount of pension is negatively correlated with the possibility of re-employment after retirement, thus having more time on enjoyments to improve both physical and mental health [11]. Also, scholars studied the correlation between health situation and pension by using nutrition as the proxy of health level. The results imply that level of pension is positively associated with level of nutrition. Researchers in the related field also studied opposite examples about the impact of decrease in pension. The results showed that the death rate, drug use, and nutritional intake of retirees were all significantly reduced by the cessation of pension [10]. Another side of the debate argues that the pension's help is limited in financial security of retirees, because the pension's impact to health condition is indirect and sometimes negative [2, 8,14]. Scholars who hold this view found that the increase of pension and income of old people is negatively correlated with inter-generational cohabitation. Related researches showed that inter-generational cohabitation is good for retirees' mental health and it boost retirees' well-being, especially in cultures that value family. The increase of pension may encourage adult children to live apart from their parents [2, 14]. Moreover, the amount of a pension in some cases has too little impact on an individual's income to affect health [8].

2.4. Factors that Makes Chinese Pension System Special

Chinese pension system consists of three sectors, which are public sector, employer-sponsored sector and household saving sector. Employer-sponsored sector and household saving sector are limited on coverage and small in scale, so scholars usually focus on public sector, which have most significant status and more different from other kinds of pension systems. China's public pension system differs from the pension systems of other countries in that China's public pension system has the characteristics of both defined benefit pension and defined contribution pension. Urban residents and rural residents have different pension systems in China due to historical reasons. In this sector, people must pay a certain percentage of their wages and pay for 15 years to qualify for the pension. After retirement, the pension is paid in proportion to their wages. The percentage vary depends on length of work, the work unit and the local average wage [2, 4]. There is a huge gap between urban and rural areas in the economic situation of retired old people in China. The aged people in rural areas have a low income and a low savings rate. They rely heavily on family transfer payments, so the old people in rural areas are often considered to be in greater need of a comprehensive pension system. Due to the outflow of rural young labor force and the systemic poverty in rural areas, the pensions for the aged people in rural areas are mainly non-contributory pensions and contributory pensions subsidized by the central government [4, 15].

To sum up the China's pension system's impact to retirees' subjective well-being, there are many unique impacts caused by differences between China's pension system and other pension systems. The first difference is that China's pension system mainly relies on a special government oriented model that combines defined contribution pension and defined profit pension. Retired old people with risk-adverse characteristic will receive more subjective well-being under this market risk insensitive model. The second difference is that China's pension system and economy are systematically divided between urban and rural areas. Citizens in urban areas have higher income than people who live in rural areas, and their subjective well-being after retirement is less affected by their pension. People in rural areas of China have less income than citizens in urban areas. The pension they receive will occupy higher percentage in their income, thus making huger difference on their life. This is also part of the reason why more scholars choose to focus on pensions in rural areas of China when studying

the topic of pensions in China. The third difference is that pension's impact to Chinese retirees' subjective well-being might be more complicated in under-developed areas. While pensions increase the income and subjective well-being of retirees, financial transfers from the children of retirees may also decrease due to the decrease of retirees' financial stress. Moreover, children of retirees in under-developed areas might choose to work in developed areas due to less family care cost eased by the pension. This may lead to a decrease in inter-generational interaction and, in turn, a decrease in the subjective well-being of the retirees due to the decrease of family companion.

3. Discussion

Among the numerous literature reviewed in this paper, the impact of pensions on the poor population is the most frequently discussed topic by scholars from various countries. The reason for this phenomenon might be that pensions' benefit to the poor is more significant than the other population groups, because the amount of pension varies little and it occupies higher share of the total income in terms of poor population. When the target population is expanded, the effect of pensions on retirees' subjective well-being is less significant than focusing on the poor population. Meanwhile, the contradictions of scholars on the impact of pension on the health of retirees are mainly due to the different research samples. Similar to the effect of pension to subjective well-being, the effect of pensions on the health of the retirees is also more significant in some groups of the whole population. When the investigated samples are concentrated in the poor or low-income groups, the pension has a significant impact on the health status of retirees. This finding is mainly reflected in the change of nutrient intake of retirees based on changes in pension.. However, the pension's impact is insignificant to both subjective well-being and health status of retirees in developed countries. These evidences support the view that the effect of pension on subjective well-being of retirees is influenced by demographic information of investigated population. At the same time, the empirical evidence with different results indicates that the pension system or pension policies corresponding to population groups with different demographic information should also vary correspondingly.

However, it is worth noting that the heterogeneity of the impact of different pension types on the subjective well-being of retirees has not received extensive attention. Most of the related literature focus on non-contributory pension rather than contributory pension, because non-contributory pensions often target the poor population, which will be more affected by the pension they receive. The lack of discussion on contributory pension may cause the research results to be limited in practical application and policy recommendations. In most countries, contributory pension is the main part of the pension system or the two forms of pension are complementary to each other. The lack of research on contributory pensions means that policymakers are missing a key aspect of academic support. Moreover, recent researches about pension's impact to subjective well-being of retirees hardly include population from less developed regions and minority cultures. Cultural and regional differences are also important factors affecting retirees' subjective well-being. To fulfill the knowledge gap mentioned above, future studies can focus on different aspects to view the impact of pension to retirees' subjective well-being and/or focus on the robustness of related theories based on the enhancement of variety.

4. Conclusion

It starts with the discussion of contributors to the subjective well-being of retirees, and then discusses what contributors are affected by the pension and how Chinese pension system is special. There are a lot of factors that can affect the subjective well-being of retirees, and these factors' impacts vary depend on demographic information of investigated retirees population groups . Scholars in recent research suggest that pension mainly contribute to two factors, which are financial security and health situation. Retirees with increased pension will have higher financial security. The impact of pension to financial security usually proxied by increased spending on consumer goods or

increased intra-household transfers . The impact of pension to health situation is significant in poor population, and it is proxied by nutrient intakes . The heterogeneity of pension's impact is particularly prominent in China's pension system . Because In Chinese culture, the elderly pay more attention to the companionship of children and inter-generational transfer payments, and China's pension system differs significantly between urban and rural areas.

In the current pension literature, there is little discussion on the pension's impact to minority culture groups and the heterogeneity of different pension types. Future studies can focus on how pension's impacts differs in people from different cultures, especially minority cultures. Because cultural differences can cause people to value different things or spirits. The differences among different pension systems or differences between contributory pension and non-contributory pension are also worth to be noticed by future researches.

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