Comparison of Problems of Pensions Between China and Japan

Xin Zuo
Graduate student of SEIM (MA in Social Entrepreneurship and Innovation Management) at Lingnan University, China

Abstract: The theme of this study is to compare the pension relationship between China and Japan, and to directly reflect the differences between the two systems through data comparison. This research will be addressed by surveying the current literature, systems and regulations. The results of the study show that the Chinese and Japanese pension systems have their own problems, as well as their respective solutions and solutions.

Keywords: Japan, China, Pension system, Comparison.

1. The Pension Problems in Japan

1.1. Intergenerational burdens and inequitable treatment in the Japanese pension system:

Intergenerational inequality refers to the unequal obligations and incomes of people born at different ages among members of the public pension system. Those who enter the public pension system at an early age pay lower insurance premiums but receive higher pension benefits due to continuous reforms to the system. The younger generation who have just joined the public pension system are concerned that after paying premiums, they will not receive the expected full benefits in their later years due to the small population, aging, and changes in the policies of the public pension system. In recent years, the public pension system in Japan has adopted a strategy of raising the level of premium payments to eliminate the financial hardship of annuity payments. This was done to get rid of the burden of annuity payments. This contradicts the young people’s desire to lighten the burden and exacerbates the unequal conflict between generations.

1.2. The financial crisis of the Japanese pension system has caused unease:

The public pension system in Japan has successfully expanded coverage to include everyone and has undergone several significant adjustments since then. However, after 2004, there were no significant innovations in Japan's public pension system, which conflicted with the reality of accelerated aging and aggravated the crisis of trust in Japan's public pension system. The Department of Economic and Social Affairs of the United Nations (DESA) released an "old-age dependence ratio" statistic in 2019. This number was determined by calculating the proportion of the global population between the ages of 25 and 64 in relation to the number of people who are at least 65 years old. In Japan, the lowest value for 2019 is 1.8, equivalent to 1.8 people supporting an older adult. This reflects that, due to aging, a greater load is being placed on the Japanese working-age population to pay pensions (Ding,2018).

The "old-age support rate" is a numerical value that reflects how many working-age people support each old person. If the value is lower, then the proportion of the working-age population contributing to social security and the public pension system for the elderly is higher. Generally speaking, this figure will decrease with age. According to DESA, declining reliance on the elderly care ratio indicates that the impact of aging on economic activity and fiscal burdens in each country is becoming more pronounced. This makes it more difficult to maintain social security and pension systems for the elderly, which would be more difficult in Japan (wang,2011).

2. The Pension Problems in China

2.1. The pension insurance system lags behind economic development:

The findings of research conducted by the Organization for Economic Cooperation and Development (OECD) indicate that the aggressive development of corporate annuities (the second pillar) is an efficient method for dealing with the effects of an aging population (Wang,2016). On the one hand, corporate annuities are fully funded and can achieve asset appreciation through long-term investment, providing considerable income for the pension security system.

On the other hand, enterprise annuities can also increase employees’ self-pension savings and further enrich the old-age security system. In addition, the development of annuities can help build a multi-level pension security system which can reduce the reliance of retirees on basic pension insurance and thus better protect the life of the elderly after retirement.

2.2. Limited insurance coverage with notable regional and urban-rural inequalities:

Social Security payouts in urban and rural areas differ significantly. In 2006, the average annual pay for old-age insurance in urban regions was 10,325 yuan, more than 15 times the average annual payment in rural areas of 695 yuan per person. From this data, it can be concluded that the level of urban old-age insurance exceeds that of rural old-age insurance, which leads to some differences between urban and rural insured persons in obtaining adequate protection.

3. Solution

3.1. Solution in Japan

3.1.1. Government driving force:

As the leader of the government’s public pension system, it bears the corresponding financial support responsibility. The
public pension system, as a long-term social insurance system arrangement, can ensure the stability of the sources of funds and avoid uncontrollable government financial risks caused by arbitrary financial responsibility. As a result, the system for adjusting pensions must be developed with the financial viability of the government as well as the stability of the ratio of pension revenue to pension expenditures being primary considerations.

3.1.2. Prioritizing Aging Issues:

The government should prioritize planning, laws, and processes as the population ages to effectively deal with the demographic shift. It should also construct a social security system that includes pensions, medical care, and nursing home care, and it should continually improve this system in accordance with the changing circumstances. The changing situation should also establish and continuously improve the social security system for pension, medical care, and nursing care. To solve the intergenerational problem of old-age care, the government should establish a five-pillar social security system that includes pensions, medical care, and nursing care, and it should continually improve this system in accordance with the changing circumstances. The changing demographic shift. It should also construct a social security system of old-age care, medical care, and nursing, which has various types, complete systems, and compulsory coverage.

3.2. Solution in China

3.2.1. Creation of a controlled and reliable pension insurance system by legislation:

The arrival of the aging population peak is the most severe challenge that China's old-age insurance system will face in the next few decades, and it must be considered carefully. Broadening the endowment insurance financing channels further and adjusting the fiscal expenditure structure is necessary. The government should double the amount of money it puts into social security. According to the law, employees and their employers should be required to contribute to insurance premiums. Some state-owned assets should also be transferred to enrich and strengthen the Social Security Strategic Reserve Fund (Chen, 2015). To achieve value preservation and growth, promoting market-oriented and diversified investment and management of pension insurance balance funds based on safety is best. We should adhere to the actuarial balance principle, thoroughly consider the supply and demand of human resources, education level, life expectancy per capita, fund income and expenditure, and other factors, study and formulate a policy of gradually delaying the retirement age, and increase the dependency ratio of old-age insurance. In addition, we should increase the dependency ratio of old-age insurance. It is essential that the oversight of social security funds is beefed up even further and that the budgeting process is made more efficient. At the same time, it should also actively explore effective measures of direct social oversight and promote transparency so that the fund functions under the sun to assure the safety and integrity of "life-support money" belonging to hundreds of millions of people.

3.2.2. Gradually expand the coverage of pension insurance:

In order to raise the level of health literacy among people of retirement age living in both urban and rural regions, there is an urgent need to improve health knowledge promotion and education programs. In addition, the development of geriatrics departments in general hospitals must be improved. It is anticipated that by 2025, the percentage of geriatric medicine practiced in general hospitals above the second level will have increased to more than 60% (Kunieda, 2002). The pilot long-term care insurance system will be steadily promoted. It is expected that local governments would be directed to concentrate on further clarifying the scope of participation and protection, as well as continuously refining the varied funding mechanisms and scientific and acceptable treatment regulations. At the same time, it is hoped that the government will improve the standards and management methods of treatment payment and other related issues and innovate the management and service mechanisms. A more significant amount of effort should also be made to improve existing pilots, and active research should be conducted into the possibility of establishing a long-term care insurance system tailored to our national circumstances (Tokuoka, 2012). By the end of 2025, each county (city, district, and banner) will have constructed a county-level support services institution for the extremely impoverished people. This institution will integrate medical care and nursing care.

4. Conclusion

Despite Japan and China each having unique circumstances, their pension systems share many similarities regarding their challenges. The state cannot be relied on to provide pensions, and the pension system that the state has in place can only provide a minimum guarantee. If people want a decent retirement, they still have to rely on their accumulation, like a snowball; the further people go, the bigger it rolls. Paying an annuity is a person's credit foundation in Japanese society, and it has nothing to do with the amount of pension paid. About 8.87% of the overall population in China comprises persons over the age of 65, and approximately 119 million of them are. We could say that we "grew elderly before becoming wealthy." As a result, the economy's resilience, the security of the pension system, and the capacity of social pensions have all been tested. In addition to the government's leadership and the general public's participation, it is required to maximize the market mechanism's role in meeting the needs for multi-level and diverse care for the elderly in order to find a solution to the problem of senior care. At the same time, rationally develop human resources for the elderly, create jobs suitable for the elderly, and explore a flexible retirement system.

References