

Providing pensions in an ageing society

China, like European countries, has an ageing society. For policy makers the question must be addressed as to how best to provide adequate retirement income for a greater number of retirees who are likely to live and receive their pensions longer than previously.

This paper, *which is an amended version of a paper produced for the 2007 EU-China High Level Round Table in Berlin*, looks at the ways in which a Pensions Commission established by the United Kingdom Government raised issues that need to be considered in this context and how the EU Commission has identified the relevant issues. *The paper considers how the issues raised in the Pensions Commission's Report are relevant to a Chinese context.*

The British Pensions Commission

The Pensions Commission was established by the British Government in 2002 “to keep under review the regime for UK private pensions and long-term savings, and to make recommendations to the [Government] on whether there is a case for moving beyond the current voluntarist approach”. The Commission initially raised a number of questions to be considered by the British Government, but applicable elsewhere, on how to provide adequate pensions in an ageing society. It subsequently provided recommendations applicable to the British situation, but possibly also relevant elsewhere, including China.

The Commission issued three reports, which included a large amount of statistical data:

- ♦ The [First Report](#), issued in October 2004, presented the Commission's analysis of and conclusions on the adequacy of pension provision and saving in the UK, the challenges faced by society and the unavoidable choices that had to be made.
- ♦ The [Second Report](#), published in November 2005, set out the Commission's conclusions on the likely evolution of the UK pension system if existing policy was unchanged and proposed recommendations for a new policy direction.
- ♦ The [Final Report](#), issued in April 2006, commented on issues arising in the pension reform debate following the Second Report.

The Pensions Commission's 1st Report – asking the questions

The First Report looked at the demographic impact. Average male life expectancy at age 65 rose from 12 years in 1950 to 19 years by 2004 and was projected to rise to 21 years by 2030 and 21.7 by 2050, with female life expectancy roughly 3 years greater. However, past projections of life expectancy had understated the rate of increase, so that, if male life expectancy continued to increase in line with the trend of the last 50 years, it would reach 24.4 by 2050, but 27.7, if it rose in line with the last 20 years' trend. Set alongside increasing longevity was a reduction in the fertility rate. Whereas in the early

1960s it peaked at about 3 children per woman, it had dropped to roughly 1.7 children per woman and was projected to level off at 1.75 by 2022. The combined impact of these two factors meant that in the next 50 years the proportion of the population aged 65 and over would increase by 78%, but the increase in the proportion of 20 – 64 year-olds would be negligible. This would result in the ratio of those aged 65+ to those aged 20 – 64 increasing from 27% in 2004 to 48% in 2050 (or 54% if a projected slowdown in longevity increase did not occur). The impact on the dependency ratio would be reduced if there were an increased fertility rate, but that would take roughly 20 years before the additional children would enter the labour market and so take effect. Similarly a high level of net immigration would reduce the dependency ratio, but immigration of 300,000 per year would by 2040 reduce the dependency ratio only from 47.3% to 42.1%, but with immigrants themselves reaching age 65, that level of immigration and/or a higher level of immigrant fertility would be needed to maintain the dependency ratio at that lower level.

For a period the impact of greater longevity on the dependency ratio had been masked by the “baby boomer” generation of a higher birth rate in the late 1940s to the 1960s. This had led to a higher than average increase in the working age cohort from the 1960s to the 2020s, but had also led to a higher than average increase in the retired population during the 25 years from 2010.

The demographic factors identified by the Pensions Commission are similarly applicable to China, albeit that the demographic effect impacts on China slightly later than it does in the United Kingdom. It took 40 years or longer for developed countries to witness their rising ageing ratio from 5% to 10%. While in China, due to its birth control policy and increased life expectancy, the time span for the same is only 20 years. During the period between 2000 and 2005, the annual growth rate of China’s total population was 6.2%. However, the population aged 65 and over and 80 and over were respectively 26.2% and 57.7%. The proportion of the elderly in the total population has been also increasing. In 2000, the proportion of the elderly aged 60 years old in the total population was about 1/10; in 2005, about 1/8; in 2015, it will be about 1/7; in 2020, about 1/6; in 2025, about 1/5; while in 2048, it will be about 1/3.

The Commission pointed out that an increased old age dependency ratio put a strain on a pensions system. In a pay-as-you-go system, the current working population had through social insurance contributions and/or taxes to meet the cost of pensions for the retirees. In a funded system, the working generation saves, consuming less than it produces, and so makes available goods and services which pensioners can consume. Pensioners paid for these goods and services with pensions financed by selling their own accumulated assets to the next generation. However, whether PAYG or funded, at the aggregate level pensioners are reliant on output produced by workers.

The Commission concluded that some combination of four things must happen when the ageing of

the population began fully to take effect. There were no alternatives. The four things are:

- i) Future pensioners would be poorer to average net earnings than currently; or
- ii) Taxes and/or social insurance contributions would need to rise to pay for pensions or public spending on other areas would need to be cut to meet the pensions liabilities; or
- iii) Each generation would have to save more and would have to rely on the following generation also choosing to save more and so buying the larger stock of assets accumulated by a previous generation; or
- iv) Average retirement ages would have to rise.

It is probable that, without a change to present arrangements, some combination of these four things are likely to happen in China also.

Without increased taxes or social insurance contributions or a rise in retirement ages, pensioners would on average suffer a 30% reduction in pensions in real terms over the next 30 years. To maintain the current pension level in real terms without any increase in pension ages would mean that the percentage of British GDP transferred to normal pension age retirees would increase from 9.9% to 17.5% by 2050. This would in practice be mitigated by the increase in women's pension age from 60 to 65 between 2010 and 2020 to achieve equalisation with men, thus reducing the increase to 15.1%. To achieve this increase in GDP would require either state spending on pensions to rise from 6.1% to 11.3% of GDP, £57 billion in 2004 terms, or private funded 2nd and 3rd pillar pensions, rising from 2.2% to 7.4% of GDP. It would also require an increase in the age at which workers on average retire from 63.8 for men and 61.6 for women to 69.8.

The Commission examined factors that could reduce the rise in the dependency ratio, including the possibility of later retirement. They felt that the assumption of a standard age of retirement, linked to an age at which pensions became payable, should be dispelled. Thus the age of retirement from work should be flexible, allowing workers to continue working beyond the pension age. However, the key issues in this field were:

- i) Healthy ageing – the feasibility and desirability of individuals working beyond the current effective retirement age depended on whether greater life expectancy was associated with greater health in old age. Evidence in the UK and other countries showed that persons above state pension age were healthier and less likely to suffer from disability than previous generations.

China needs to consider whether, in the light of improved medical and environmental health provisions, workers would be able, not only to live longer, but also to work longer.

- ii) Employment rates before pension age – Dependency ratio was generally calculated on the proportion of those aged over 65 compared with those aged 20 – 64 (or equivalent for countries with a different pension age). However, not all of those of working age were in employment due to sickness, unemployment or other factors. By increasing the proportion of those of working age actually in employment improved the actual dependency ratio. For instance, female employment could be improved with better childcare facilities; anti-age discrimination measures could prevent employers

discriminating against workers in recruitment and Government action on rehabilitation and retraining could assist the unemployed and those suffering from sickness to take up employment.

China already has facilities to enable women to participate in the workforce. However, the question arises whether a pension age of 50 for women continues to be appropriate. This has a considerable effect on the dependency ratio, which in 2006 was 3:1 and is likely to get worse.

- iii) Removing barriers to employment beyond pension age – This would have a marginal effect on the dependency ratio. Age discrimination legislation would enable pensions above pension age to obtain, or continue in, employment.

China might wish to consider whether current legislation enables those who wish to work beyond pension age to do so.

- iv) Many individuals might choose not to continue employment beyond pension age – As many workers might choose not to continue in employment without some incentive, the provision of a higher increment to the pension rate from postponing the claim or a tax incentive might act as an incentive to continue.

Has China considered incentives to encourage workers to continue in employment beyond the statutory state pension age?

- v) Inequalities in life expectancy and health between different socio-economic groups might render increases in retirement ages inequitable and infeasible – in the United Kingdom professionals, eg doctors, accountants and engineers, tended to live 5 years longer than unskilled labourers and cleaners. (Differentials might be smaller elsewhere.) Lower life expectancy tended to be associated with poorer health. Factors leading to worse health, included smoking.

China, like the UK, needs to consider for pension purposes the longer life expectancy of professional socio-economic groups in comparison with the population at large.

Whereas currently British state pensions were increased in line with price inflation, this had the effect of reducing the purchasing power of retirees in comparison with workers, whose wages were likely to increase in line with the higher wage inflation.

A worrying trend in British pension provision was the reduction in the extent to which employers operated 2nd pillar private pension schemes to supplement the state pension scheme, a decision to close such schemes, or close them to new employees, or to move from a defined benefit (DB) scheme to a defined contribution (DC) scheme or to a group 3rd pillar scheme, with lower employer contributions. This had resulted from a reduction in the value of assets due to the fall in the value of securities on the capital markets.

Where 2nd pillar pension provision moved from DB to DC, the investment risk is transferred from the employer to the members.

The role of enterprise annuities and 3rd pillar arrangements in overall retirement income provision are issues for consideration by Chinese policy-makers. How best to encourage their establishment, development and employee participation.

The Commission identified a number of issues for consideration by policy makers. These were:

- i) What is an “adequate” pension and what responsibility should the Government have for ensuring that adequacy? This was a philosophical issue as to whether the state’s role should be to provide only a minimal poverty prevention safety net, leaving it to individuals themselves to choose whether to make any additional provision, or whether the state should try to ensure that individuals make sufficient provision to provide retirement income that they consider adequate. A free market might well result in individuals making insufficient provision, possibly through ignorance or short-sightedness, leaving a large number of dissatisfied future pensioners, likely to be dependent on state assistance.

The same issue arises for China. How do you determine what level of pension is “adequate”? Should the Government be responsible for providing it, whether through pension or social assistance (dibao in China)?

- ii) What income replacement rates are “adequate”? What benchmark should apply for determining adequacy, eg as a percentage of GDP or by international comparison? What account should be given to consumption patterns through life, if, taking account of retirees’ different consumption patterns, high consumption replacement rates could be delivered with significantly lower gross income replacement, eg because of the end of liability for social insurance contributions, less need to save, and the reduction in, or cessation of, some costs, eg travel to work expenses. However these needed to be offset against other possible increased costs due to old age, eg in care needs, or transport costs due to reduced mobility. Furthermore a problem might arise if the price of items that retirees purchase increased at a higher rate than average price inflation. The Commission considered that, although there could be no clear definition of adequacy, a replacement rate of 80% for low earners, 67% for median earners and 50% for high earners should be sufficient.

The same issue arises for China. What replacement rate is “adequate”?

- iii) What do present savings imply for future aggregate retirement income? The current British level of private pension savings was unlikely to produce any significant increase in future funded pensions as a percentage of GDP. What incentives, if any, would encourage an increased level of pension savings?

China currently has a relatively high level of savings. What effect will they have on future retirement income and the standard of living of the elderly?

- iv) What contribution rates were needed to meet an “adequate” pension level? This depended on the individual’s desired replacement rate and intended retirement age, the number of years over which an individual saves and, where invested, the rate of return and future life expectancy and so annuity rates.

The question arises as to the level of contributions needed to provide adequate pensions? However, of greater concern in China is to what extent can low paid workers and farmers afford to pay contributions at the level required?

- v) To what extent would future pension adequacy mean a deficiency for certain groups and an increasingly unequal distribution? The Commission’s research suggested that, although people might start saving for retirement at about age 25 - 35, many groups did not save because of flexible work patterns. However, where there was a couple, one member of the couple might depend on the spouse’s pension. Very low income individuals would become dependent on social assistance and so their savings might have limited value. The Commission concluded that a large proportion of the population were not saving enough towards providing for their retirement. The extent of retirees’ individual income depended to a considerable extent on the extent to which employers contributed to a 2nd or 3rd pillar pension on their behalf. Where they provided a defined benefit (DB) scheme or paid significant contributions to a defined contribution (DC) scheme, the retirees were far more likely to have adequate retirement income than those whose employers did not.
- vi) What is the time factor and to what extent will the situation deteriorate over time? In the short term current provision meant that the problem of pensions’ inadequacy did not significantly arise, but in the medium to longer term when the dependency ratio deteriorated a major problem would develop.
- vii) What would happen if nothing were done now? If nothing were done now, people in middle age or below were likely to face retirement incomes that they considered inadequate.

The problem in China might arise later than in the UK and the rest of Europe, but it could certainly affect a cohort.

The Commission pointed to the existence of non-pension-related sources of retirement income. In particular, the development of home ownership and the recent large increases in property prices had meant that a large cohort had a major capital asset which could be used to provide retirement income. Home ownership removed a retirement expense as there was no need to include rent in outgoings, but house values fluctuated and many homeowners were unwilling to liquidate their asset with the intention of bequeathing it to

later generations. Nevertheless, the value of the home could be wholly or partly realised, for instance, by selling the property and buying a cheaper one, by equity release (borrowing against the property as collateral) or from rental income under a buy for let property.

How far can Chinese retirees take account of income from other sources? In particular, now that many Chinese workers are buying property to let, will their rental income provide them with retirement income? However, the proportion of workers for whom this is relevant will inevitably overall be very small.

In addition, some individuals had taken out life insurance policies or invested in securities. Many of these assets were acquired while the individuals were in their 50s at a time when they had ceased to support children. Those who had operated their own business might at retirement have the proceeds from the sale of their business. Other retirees had inherited income derived from an earlier generation, but this might be used to pay off a mortgage on their property. However, there was a very unequal distribution in non-pension-related assets and those who held such assets were likely also to have good pension provision.

The same question arises as for the previous comment.

The Commission looked at reasons why individuals did not voluntarily participate in supplementary pension schemes. They identified the following reasons:

- i) Many people postponed making any decision until someone came to explain the position to them. (It was noted that, where an employer automatically enrolled employees in a 2nd pillar pension scheme, albeit with the right to opt out, there was a 20% higher participation rate after 4 years than where the employee had to take specific action to join.)
- ii) As pension arrangements were complex, workers did not understand the pension system, nor the level of pension that they were likely to receive, particularly as they did not understand the effect of inflation and indexation.

The two paragraphs above are equally relevant to China.

- iii) The sales arrangements and administrative costs of 3rd pillar pensions acted as barriers to participation, particularly for persons with low or middle income.
- iv) The operation of a social assistance scheme operated as a disincentive to low paid workers from participating in a pension scheme. If they believed that the amount that they would receive from the scheme would be no higher than they could receive from a non-contributory social assistance scheme, they would think it would not benefit them to contribute to the pension scheme. Adjustment of the social assistance scheme might

mitigate the disincentive effect.

It is not clear to what extent the dibao affects individual's decisions in relation to retirement income, savings and pension participation?

- v) A further issue affecting participation was the tax treatment of contributions and pensions. Tax reliefs on contributions by employers and employees acted as an incentive to participate in a voluntary pension scheme. However, lack of such reliefs or a high level of tax imposed on pension payments would act as a disincentive.

Although there are certain tax reliefs on employer contributions to enterprise annuities, there are no comparable tax reliefs or tax credits on employee contributions. Extension of current reliefs might act as an incentive to the establishment of enterprise annuities and workers' participation.

The Commission concluded that to provide adequate retirement income, there needed to be a mixture of one or more of the following:

- i) A revitalisation of the voluntary system, including more employers establishing and contributing to 2nd or 3rd pillar pension schemes, changes to the tax relief system to act as an incentive, reduction in sales and administrative costs, a reduction in the requirement for social assistance to remove disincentives and an increase in public understanding of pensions,
- ii) Significant change to the state social security system;
- iii) Increased compulsion to save or participate in a supplementary scheme.

It is for consideration by Chinese policy-makers whether there needs to be a changes through adopting one or more of these options

The Commission also identified as a particular problem pensions paid to women, considerably lower than those paid to men, as a result of their work patterns, changes in social behaviour, eg marriage breakdown, and the effect on annuity rates of women's greater life expectancy.

The EUCSS project is currently looking at the issue of gender balance in social security. The issue of women's pensions arises in that context.

The Pensions Commission's 2nd Report – Conclusions and recommendations

The Commission concluded that the current combination of state social security and funded private pensions would increasingly provide inadequate pensions and unequal

results. For instance, though those with public service pensions were likely to receive adequate pensions, many workers elsewhere would not. The Government's hope that the state could play a reduced role in pension provision through the growth of 2nd and 3rd pillar provision was misplaced due to a decline in voluntary supplementary participation, as employer's willingness to provide such pensions was declining and individual's willingness to participate was also reducing.

The MoLSS is currently studying the relationship between public service pensions and the state social insurance scheme. It is likely that the situation in China will be shown to be analogous to that in the UK in this regard. The MoLSS is also considering to what extent the encouragement of 2nd pillar enterprise annuities can assist in the provision of adequate retirement income. It is of concern to what extent employers will establish such arrangements and workers will participate.

The problems of inadequate and unequal future pension provision could not be solved by only amending the state social insurance system, nor by incremental measures to increase voluntary 2nd and 3rd pillar provision. The state system could, however, be amended to improve cover for those who had periods out of the labour market while caring for disabled relatives (thereby reducing the cost to the state of hospital or care home treatment). However, reform of the state pension arrangements would not overcome individuals' unwillingness to make long-term savings decisions without encouragement, employers' deduction that good pension provision was no longer a recruitment and retention incentive and the lack of profitability to financial services companies in providing pension provision to the low paid. Set against that was the ambivalent attitude to the imposition of a compulsory obligation to participate in a 2nd or 3rd pillar pension scheme.

If savings to the Chinese health budget could be achieved through relatives and friends acting as carers, the MoLSS may wish to consider to what extent carers should be credited with contributions to wards their pension provision.

Although home or property ownership could make a significant contribution to retirement income for some people, it could never be a sufficient response to the need for adequate pensions for all.

Notwithstanding the current Chinese practice of buying property to let, it is unlikely that this practice will significantly contribute to the provision of adequate retirement income for all but a very small number of retirees.

Long-term pension policy needed a robust approach in the face of rising life expectancy and uncertainty about the rate of increase. The Commission felt that an increase in the pension age was a necessity in line with increased life expectancy so that each generation would face the same proportion of adult life contributing to and receiving a pension.

The issue of pension age must be of prime concern to Chinese policy-makers, whatever final decision is taken.

In the light of the experience of other countries the Commission recommended the introduction of a system of nationally administered funded individual accounts through a National Pensions Savings Scheme (NPSS) with automatic enrolment nationally in pension saving schemes, albeit with the right to opt out. This should overcome current inertia to participate. Except where workers had opted out, employees would have to pay contributions of 3%, but with encouragement of higher voluntary contributions, 1% would come from tax relief and employers would be required to contribute at least 4%. The contributions would be paid into an individual account, which would be invested. There should be a simple contribution collection system, eg through tax collection, and a low annual management charge, possibly with a maximum of 0.3%. (In its brief Final Report, the Commission pointed out that the suggestion that employer contributions should be compulsory was opposed by certain employers' organisations on the grounds of extra costs on business, especially for small employers. However, the Commission concluded that without employer contributions, returns per member would be lower and possibly negative and participation in the proposed NPSS would be significantly reduced.)

The Chinese Government may wish to consider how best to supplement the current state pension scheme and to ensure that individual contributions are made to any supplementary scheme, but also to what extent they can be afforded.

The lowest and highest ages at which pension funds could, or had, to be annuitised should be adjusted in line with increases in average life expectancy.

The issue of annuitisation and its relationship with realistic assumptions of future life expectancy must be an issue on the Chinese pensions policy agenda.

Nevertheless good quality employer-sponsored pension provision should be maintained. Where it existed, employers should be permitted to opt out of the state provision.

The Commission considered that the state social security scheme needed to be more generous to poorer pensioners to avoid the increasing dependence on social assistance, while at the same time being sustainable. The pension system should be a simplified unified system. In particular, indexation of pensions in payment should be in line with wages, rather than prices. In looking at possible options, they assessed in different scenarios whether the impact of any cost would fall on pensioners or taxpayers. They also raised the possibility of individuals over 75 automatically receiving a pension.

A fundamental issue for China, as well as the UK, is how to maintain the value of an individual's pension, its purchasing power and retirees' standard of living in relation to persons of working age over a period of at least 20 years. I suspect that the issue of

providing a non-contributory pension for the very elderly, albeit at a lower level, is unlikely to be relevant to China for the foreseeable future.

This would mean, however, some increase in public expenditure on pensions, even allowing for an increase in the state pension age, which they considered essential. They suggested as a possibility that, after men and women's pension age had been unified in 2020, the pension age should increase by 1 year every 10 years. This would need to be matched by adopting measures to permit and encourage workers to continue working beyond the current retirement age, including legislation against age discrimination, financial incentives for employers and workers to continue employment, improvements in occupational health and training for older workers.

The issue of encouraging workers to work beyond the normal pension age must be an issue for policy consideration in China for pension financing reasons. However, set against that must be the labour market implications of delayed retirement for workers below pension age.

The Commission concluded that there should be evolution towards a flat-rate pay-as-you-go pension together with a funded earnings-related pension through the NPSS. The system should be transparent to ensure that individuals could place their trust in the system. Tax reliefs should be provided to act as an incentive for employers and workers to participate, but in a format that benefits the low paid, including those below the tax threshold, to a comparable extent as to higher paid taxpayers. In effect, the Commission proposed that the state system in the UK should become more generous and less means-tested than it would otherwise have become, but payable from a later age.

The Commission expressed the view that the state should:

- ♦ Ensure that all retirees should be kept out of poverty;
- ♦ Encourage people to achieve an earnings-related pension of at least a minimum specified level; and
- ♦ Enable everyone to save for a pension at low cost.

It is for consideration how much the views of the Pensions Commission about future UK pensions policy objectives are equally relevant to China.

Implementation of the Commission's Report

In the light of the Commission's report, the British Government introduced legislation intended to make provision for adequate and sustainable pensions. The [*Pensions Act 2007*](#) implemented the following provisions:

- i. *The contribution conditions were simplified, so that a full state pension would be payable to men and women after 30 years' contributions, a reduction from the present requirement. This was intended to allow more women to satisfy the conditions for a full*

- state pension, where currently they fail to satisfy the contribution conditions as a result of periods of absence from the labour market due to maternity and caring for children.*
- ii. *Persons unable to pay contributions for periods when they were outside the labour market because of the need to care for disabled relatives or children under 12 would be credited with contributions for those periods.*
 - iii. *To maintain their value in comparison with earnings, pensions in payment would annually be increased in line with average earnings.*
 - iv. *After equalisation of the pension age for men and women at 65 in 2020, the pension age for men and women would increase to 66 by 2026, 67 by 2036 and 68 by 2046.*
 - v. *The earnings-related element of the state pension would gradually be modified to become flat-rate.*
 - vi. *In preparation for a new Pensions Bill in 2008 to establish personal accounts, a new Personal Accounts Delivery Authority was established.*

A further [Pensions Bill](#) was introduced for enactment in 2008. This, if adopted will:

- i. Place a duty on employers to automatically enrol employees into and, to contribute to, a workplace pension scheme that meets statutorily defined standards;*
- ii Introduce the concept of personal accounts which are a low cost pension saving scheme aimed at moderate to low earners who currently do not have access to a workplace pension scheme. Personal accounts would be overseen by the Personal Accounts Delivery Authority;*
- iii Introduce a compliance regime for the new duties imposed on employers*

EU Report on Adequate and Sustainable Pensions

The Commission of the European Union published a [Synthesis Report on adequate and sustainable pensions](#), with an [Annex](#) covering Country Summaries and a [Technical Annex](#).

The Report pointed out that between 1960 and 2000 life expectancy at age 60 had increased on average for the then 25 Member States from 15.8 to 19.3 years for men and from 19.0 to 23.6 years for women. Life expectancy at age 65 was further expected to rise between 2004 and 2050 by 4.4 years for men and 3.9 years for women. However, by 2050 the total population of the EU would have declined. To meet the challenge the EU Commission considered that pension reform needed a long term strategy. The amount that Member States already dedicated to old age provision was significant and was set to grow significantly. Reforms of pensions systems needed to be seen in the context both of ensuring adequate and sustainable retirement provision and of sustainable public finances.

As stated above in a UK context, the issue of demography is fundamental to Chinese pensions policy considerations.

The European Council proposed a three-fold strategy to tackle the budgetary implications of an ageing population that would require Member States to:

- i) reduce public debt levels at a faster pace;
- ii) undertake comprehensive labour market reforms, including of the tax and benefit systems to achieve higher employment rates, especially among women and older workers; and
- iii) undertake appropriate reforms of the pension systems to contain pressure on public finances, to place pension systems on a sound financial footing and to ensure a fair intergenerational balance.

The EU Council's strategy might be relevant to a comparable strategy in China.

The EU Commission considered it necessary to ensure that public spending on pensions did not jeopardise sustainable public finances. Nevertheless a basic social objective was to secure adequate income in old age. As private insurance had great difficulties in dealing with the uncertainties resulting from long-term commitments, the Commission considered that pension schemes based on universal coverage had the largest ability to cover such uncertainties to provide adequate retirement income.

The relationship between the need for adequate retirement income for the elderly and the impact of attempting to provide it on public finances is a fundamental question for consideration in China just as much as in Europe.

The EU Commission identified the practice of most Member States to provide incentives to encourage workers to work longer. The EU has as an objective to encourage workers to retire five years later than currently occurred.

See above re consideration of raising the pension age. In particular, the current women's pension age in China of 50 seems disproportionately low in the light of women's life expectancy.

A major issue relates to the change to flexible, part-time and self-employed work patterns and increased mobility. Member States have needed to amend their pension provisions and the links between contributions and benefit entitlement to accommodate such working arrangements and to ensure that mobile and flexible workers do not lose pension rights as a result of them.

Chinese policy-makers are currently considering how best to bring migrant and flexible workers within the social security arrangements. This issue needs urgently to be resolved.

Certain Member States have introduced a minimum pension level for all residents of pension age, but others are concerned that to do so would affect incentives to participate in state and supplementary pension systems.

Some Member States have taken action to provide incentives to participate in non-state pension schemes to supplement state provision without a charge on the state budget. Whereas the state provisions permits redistribution through social pooling, private provision is more directly linked to the retiree's previous earnings. Establishment of private arrangements requires transparency in operations and disclosure to members with supervision by a regulator.

As stated above, the issue of incentives for 2nd and 3rd pillar pension provision needs to be addressed in China. However, it would be premature to take active steps to incentivise participation until enterprise annuities are subject to an effective regulatory and supervisory regime. Chinese policy-makers have expressed a desire to study European experience in this field.

Details of actions taken by individual Member States to make adequate provision, while maintaining sustainable public financing, may be found in the [Annex](#) covering Country Summaries. A future paper would analyse the pension arrangements and reforms of EU Member States.