

The retirement plan of the Chinese elderly

August 8, 2015

Abstract

As a developing country with the largest population in the world and with the implementation of the harsh family-planning policy, China faces a serious aging problem. By the end of 2014, the population aged 60 or over was more than 212.4 million, i.e., 15.5% of the whole population¹. Unlike in most of the developed countries, a fully-covered pension system has not yet been established in China. Many elderly people, especially those in rural China, continue to work even after the mandatory retirement age. Although retirement and old age labor supply attracted great attention in the previous decades (see, for example, [2], [6], [8], [5], [7], and [4].), studies about retirement decision in developing countries with less sophisticated pension systems are still very limited [3] [1].

In this paper, we investigate which factors affect the elderly's retirement plan and we examine the impact of the segmentations in pension programs, in urban and rural areas, and in different household registration status, as given by the so-called *Hukou* status. We

¹Ministry of civil affairs: 2014 Statistic bulletin of social service and development.

address the question what determines whether the elderly want to retire at a certain age or whether they want to work as long as they are physically able to do and what affects their planned retirement age. This is an empirical study based on a two-wave survey data from the China Health and Retirement Longitudinal Study, which covers about 10,000 households and 17,500 individuals aged 45 or older in 150 counties in the years 2011 and 2013. Between the two surveys, a new rural pension program was introduced in most of the rural areas, which provides us with an experiment to investigate the impact of this pension program. Our empirical results show that that individuals engaged in agriculture work, and those with the first *Hukou* status “agriculture *Hukou*” are less likely to have a retirement plan. Individuals with a higher household income, a higher education level, a poorer health status, more financial assets, those who need to take care of grandchildren or elderly parents, and those who are enrolled in the government pension program or social pension program are more likely to get retired at a certain age. However, enrolling in the new rural pension program will not increase the possibility to get retired. As indicated in the previous literature, people’s retirement decision may be correlated with their pension benefits. To deal with the potential endogenous problem, we adopt an instrumental variable approach.

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