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Aging and Implications for Elderly Care Services in the People's Republic of China

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Abstract

Aging can be harmful to an economy over the long run, as an increase in the share of the elderly population reduces both the labor force and output per adult, and increases the social security burden. Policy changes can partly offset the labor squeeze. Possible measures include increased female participation rates, increased flexibility of migration policies, and improved relevance and quality of technical and vocational training to reduce possible skills mismatch. Moreover, it is crucial to establish an efficient and sustainable elderly care system to meet the rising needs of the elderly. Three key areas for policy actions are (i) reforming the elderly care service subsidy scheme to focus more on services and performance, (ii) establishing a standardized care needs assessment system and clear standards of elderly care services, and (iii) developing human resource development strategies targeting care service managers and providers.

Keywords

China, aging, elderly care services, labor force

Comments

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KEY POINTS

- Increasing female participation rates, increasing flexibility of migration policies, and improving relevance and quality of technical and vocational education and training to reduce skills mismatch could help offset the labor squeeze brought about by an aging population. The establishment of an efficient and sustainable elderly care system is also crucial in meeting the rising needs of the elderly.
- In the policy area, focus should be placed on (i) reforming the elderly care service subsidy scheme, (ii) establishing a standardized care needs assessment and clear standards on elderly care, and (iii) developing a human resources development strategy for care service managers and providers.

Aging and Implications for Elderly Care Services in the People's Republic of China

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Aging can be harmful to an economy over the long run, as an increase in the share of the elderly population reduces both the labor force and output per adult, and increases the social security burden. Policy changes can partly offset the labor squeeze. Possible measures include increased female participation rates, increased flexibility of migration policies, and improved relevance and quality of technical and vocational training to reduce possible skills mismatch. Moreover, it is crucial to establish an efficient and sustainable elderly care system to meet the rising needs of the elderly. Three key areas for policy actions are (i) reforming the elderly care service subsidy scheme to focus more on services and performance, (ii) establishing a standardized care needs assessment system and clear standards of elderly care services, and (iii) developing human resource development strategies targeting care service managers and providers.

OVERVIEW

The People's Republic of China (PRC) has the largest elderly population and is one of the most rapidly aging countries in the world, leading a league of many Asian economies that face the challenge of population aging. The country previously benefited from a favorable age structure—the so-called “demographic dividend”—but slowing population growth and an aging population associated with a declining fertility rate and rising life expectancy are turning this dividend into a burden, both economically and socially.

The PRC's population aged 65 years and above was 142 million in 2016. Its working-age population started to shrink in 2015. The proportion of population aged 65 years and above, an elderly dependency ratio, is expected to exceed 20% or 289 million in 2034, doubling from 10% in 2016. Starting in 2016, all married couples have been allowed to have two children in an aim to reverse the aging trend. Yet, the PRC is unlikely to see an immediate change in the social norm of having a single child. Experiences of other countries in the region such as Japan and Singapore show that as nations become wealthier, more and more of their citizens will delay having children, or decide to have no child at all, focusing instead on careers and other goals.

IMPACTS OF AN AGING POPULATION

Aging can be harmful to an economy over the long run as an increase in the share of the elderly population reduces both labor participation rate and output per adult, while increasing the social security burden. Ample evidence can be found in Japan, the most aged country in the world, where the working-age population started to decline in 1996, and where the elderly had reached 27% of the total population by 2016. Population aging has been cited as a root cause of the declines in savings rate and output since the 1990s in Japan, through a number of channels including a reduction in working-age population and rising demand for less productive services. Studies on the economic impacts of population aging in other Asian economies have been relatively sparse. A few studies confirm a trend similar to Japan, noting that a rise in the elderly dependency ratio has a negative impact on potential growth through reduced labor force and capital accumulation. Erosion of the tax base and reduced labor productivity are noted as typical symptoms of an aging society.

Population aging is expected to lead to a substantial increase in the prevalence of chronic disease, such as diabetes and cardiovascular diseases, which are more common in the elderly. For example, it has been projected that the prevalence rate of cardiovascular diseases is estimated to increase by 40% from 2015 to 2030 in the PRC. Chronic diseases incur not only direct costs of medical treatments, but also substantial indirect socioeconomic costs, such as reduced labor productivity and loss of employment for caregivers. As a result, overall productivity is affected by demographics, particularly as population aging leads to an increase in demand for services that are not highly productive, including public services such as health care or publicly subsidized services such as elderly care.¹

Policy actions can partly offset the impacts of population aging. Measures to increase female participation rates and extend the pensionable age can increase the share of workers in the population. More flexible migration policies, both intra- and international, may also address labor shortages. Relevant and quality technical and vocational training programs and life-long learning opportunities can enable workers to keep up with technological advances and reduce possible skill mismatches. Lastly, it is crucial to establish effective pension, health, and elderly care systems to meet the rising needs of the aging society.

ELDERLY CARE SYSTEM IN THE PEOPLE'S REPUBLIC OF CHINA

Present Elderly Care System

Demand for elderly care services is highly age-dependent and rises with longevity, in general. In countries of the Organisation for Economic Co-operation and Development, persons aged 80 and above account for half of elderly care service users. In the PRC, about 24 million were aged 80 and above in 2016, accounting for more than 20% of the elderly population. This number is projected to rise steadily in the coming decades. The present elderly care system is generally underdeveloped to adequately respond to the needs of the elderly, majority of whom need assistance for their daily activities, and who currently receive physical support mostly from their family members.² The number of the elderly living alone will substantially increase in the near future due to fewer number of children, challenging the family-based care system.

Overreliance on family members for care services would aggravate the decline in the labor force as this requires keeping a labor force participant at home, who could otherwise be more productive outside. The elderly who do not have family members and are unattended may suffer from greater loss of productivity, and may incur larger health care costs. These pose a great challenge to the country, and highlight an urgent need for developing an efficient and sustainable elderly care system in the PRC.

To address the rising needs of the elderly care system, the government has taken actions to improve social protection for the elderly. This was already reflected in the Twelfth Five-Year Plan (2011-2015), which intended to develop a three-tier system of elderly care services, i.e., home-, community-, and residential-based care services with a strategy of “home-based care as core support, community care as necessary support, and residential care (e.g., residential nursing homes) as supplementary support.”³ This strategy is in line with international trends in which home-based care is considered to be more responsive to the needs of many of the elderly and more cost-effective than institutional care.

¹ K. Otsu and K. Shibayama. 2016. Population Aging and Potential Growth in Asia. *Asian Development Review*. 33 (2). pp. 56-73.

² For example, more than 80% of the elderly receive help from family members in Hebei Province. Family-based care provides elderly care services from family members. Meanwhile, home-based care delivers elderly care services for the elderly at home, which would enable family members to return to the labor market; or for elderly who do not have family members to stay home to receive needed care services.

³ Home- and community- care services provide day-care services, home-care services, and respite services (short-stay services). Day-care services can also provide rehabilitation care. Home-care services typically cover activities of daily-living (ADL), such as bathing and feeding; and instrumental ADL, such as shopping and managing medications.

Drawbacks and Policy Implications

However, home- and community-based care services are critically underdeveloped in the PRC, while residential care services have been rapidly expanding in recent years. The number of residential facilities was 43,148 in 2012, having increased by 24.5% in 2 years from 2010, though from a low base. The residential-oriented approach is still prioritized in many localities. Broadly speaking, there are three drawbacks in the current system.

First, government subsidies are mainly directed to service providers, primarily, of residential care. These subsidies are typically made on an input basis, such as subsidies for construction of facilities or to increase the number of beds. Meanwhile, the coverage and benefit levels of subsidies to beneficiaries as well as to care services have been generally low. Also, the subsidies do not account for the quality of services. Although those who live below the minimum living standard can receive subsidized care service in public institutions, the rest of the elderly have only limited access to care services from the private sector or nonprofit agencies, many of which do not offer care services to the dependent elderly.

Second, the care services are not necessarily provided based on care needs, and are frequently consumed by the elderly with no care needs. Lack of service standards and a standardized care needs assessment critically hinders providing adequate care services to those in need. It is also difficult to monitor the services provided without those standardized systems. Further, the quality of care services is generally low, particularly in the private care providers, due to various factors such as poor financial capacity and support, poor monitoring of care services, and limited and untrained human resources.

Third, the shortage of skilled workers for elderly care services is a critical constraint in increasing provision and improving quality of care service, particularly for home- and community-based care services. Some 8 million–10 million positions of care workers will be needed assuming about three elderlies are cared for by one worker, as currently observed in Japan. However, less than 300,000 people currently work for elderly

care services in the PRC, mostly at residential-based care facilities. Only a limited number of vocational training schools and universities have integrated elderly care curricula into their programs, and management training for coordination and provision of adequate elderly care services is rarely available. Further, policies to encourage training of family caregivers have been absent.

To address these drawbacks, policy actions are needed. First, the output-basis subsidy system should be strengthened to create better financial incentives. Creating a properly designed financial incentive for service providers is necessary to meet the urgent need to expand the provision of adequate home- and community-based care services. The current subsidy scheme needs to be reformed to focus more on services and performance. Subsidies for people who receive care services, rather than subsidies for beds, would help strengthen financial viability of home- and community-based elderly care operations, which generally are associated with no beds or a small number of beds. Also, subsidies provided for beneficiaries, such as a voucher scheme, is expected to make an improvement in service quality based on market mechanisms. Such financial incentive measures, focusing on home- and community-based care services, have also been strengthened in other countries such as Canada; Hong Kong, China; Japan; and Singapore.

Second, it is also necessary to establish a system covering care needs assessment, clear standards of elderly care services, and performance monitoring of services provided. Establishing relevant regulations is also critical to ensure the adequacy and quality of services provided by either public or private service providers.

Lastly, development of human resources is critical to ensure sustainability in providing adequate elderly care services. Developing specialized vocational and tertiary training programs is important to improve the quality of elderly care services and enhance professionalization of jobs related to elderly care. Financial incentives, such as educational grants and support for clear career development, are also critical to attract trainees and retain quality workers in this sector.

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