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Title: Does China' s new rural pension insurance reduce household saving?

Abstract:

This paper uses CFPS data to study the impact of China' s new rural insurance policy on the rural savings rate. After establishing OLS and add year and county fixed effects, we then use instrumental variables to solve endogenous problems.

Motivation

China is known for its high saving rate. According to the data from world bank, china' s gross saving rate was 43.82%, ranked at top 5 all over the world in 2019. Looking at the trend of china' s saving rate for recent years, however, we found that the absolute value was declining. The peak was in 2008, reached 51.79%, and then gradually dropped to 43.82% in 2019. While we check the world' s trend, it just fluctuated for the same time period, indicating that saving rate declining in not the world trend. So, we are interested in how china' s saving rate declining happened.

A general explanation for high saving rate is the underdevelopment of social welfare system. Family needs to save money for the future expense of after retirement life and medical care (Meng, 2003; Chamon & Prasad, 2010). High saving rate means low current expense, which is not good for economic development. Chinese government has been improving its social welfare system for recent decade, one of its measure is the new type of pension insurance for rural residents (Chinese household registration system divide people into urban residents or rural residents, different type of resident has different management system), we call it new type rural pension insurance (NTRPI) for short. This measure was issued and started experiment in 2009, promoted to every county in China in 2012.

Our general question is: does the new type rural pension insurance effect the saving rate of rural family in China?

Literature Review

Before the New Rural Insurance, China's pension insurance was mainly the basic pension insurance for urban employees. The current research on pension insurance's impact on household savings based on Chinese data has focused on this. Lixin He (2010) and Feng et al. (2011) examined the impact of China's annual pension insurance reform for urban employees. They found that the reduction in net pension wealth brought about by this reform significantly increased household savings. Chongen Bai (2012) used urban household data from 2002 to

2009 and found that although participation in urban pension insurance will increase consumption, given the conditions of participation in insurance, the increase in contributions will reduce household consumption. They explained that households are facing credit constraints, and there is a motivation to save. After pension contributions increase, people can only reduce the current period to achieve their savings goals consumption. After the implementation of the New Rural Insurance, some studies have begun to evaluate its policy effects. Huashuai Chen & Yi Zeng (2013) and Lingguo Cheng (2013) used two rounds of CLHLS panel data in 2008, 2011, and 2012 to examine the impact of receiving the new agricultural pension on elderly care model. They found that the new agricultural insurance reduced the senior people's financial resources and dependence on their children and increased the probability that the elderly lives separately. Nevertheless, they did not examine the impact of the new rural insurance on household savings.

Research Design

We are going to establish a linear regression model to test the effect of new type rural pension insurance' s effect on saving rate of rural family in China. Our data is mainly from CFPS (China Family Panel Study), a questionnaire dataset about Chinese household basic information. The dataset covered about 15,000 family from 25 provinces, ranging from 2010 to 2018. In this dataset, it has the information of if one family participate in the new type rural pension insurance, family yearly income and consumption, from which we can calculate saving rate for each family. Besides the dependent variable (family saving rate) and main independent variable (if participate in new type rural pension insurance), we also have control variables from the dataset, e.g., family size, education status etc. We will also add year fixed effect and county fixed effect to our model.

The potential identification problem for our model is that our main independent variable (if participate in new type rural pension insurance) may be correlated with error term (some unmeasurable family characteristic) i.e., endogeneity problem may occur. Our solution is to use instrumental variable.

Outline

Present – 4/15: Clean and processing data, do descriptive analysis

4/16 – 4/20: establish model, analyze and explain results

4/21 – 4/30: write-up