China’s pension system

1. Overview

At present, China is committed to building and improving the multi-level pension system. As the first pillar of the pension system, the basic old-age insurance (including basic old-age insurance for urban employees and basic old-age insurance for urban and rural residents), its coverage continues to expand, the pension benefits continue to improve, the system and mechanism of fund management and operation is constantly improved, and the funds sustainability is enhanced. The second pillar includes occupational pension, available for all for the government employees, and corporate/enterprise pension, available for enterprise employees. To date, all the staff of government and public institutions have joined the occupational annuity/pension plan, while the number of enterprises and their employees participating in the enterprise annuity/pension plan is also increasing. The annuity fund can better realize the purpose of value maintenance and appreciation. As the third pillar, individual pension system is being tested in Shanghai, Fujian, Suzhou Industrial Park, and the national policy will be introduced soon, which will mark the completion of a multi-level pension system in China till then.

At the end of 2019, 9.64 million people have participated in basic old-age insurance. Among them, 434.88 million people participated in the basic old-age insurance for urban employees, 532.66 million people participate in the basic old-age insurance for urban and rural residents, 160.32 million of whom actually receive benefits. By the end of March 2020, 98100 enterprises in China have built up enterprise annuity, involving 26.12 million employees. The accumulated balance of enterprise annuity fund reached 1.86 trillion yuan. By the end of June 2020, 37.84 million people in government institutions have participated in the occupational annuity, and the accumulated balance of the fund was 1.01 trillion yuan.
2. Basic old-age insurance system

The design of China's basic old-age insurance system can enhance social solidarity and cohesion.

The basic old-age insurance system for urban employees adopts the mode of combination of social pooling and individual account. The social pooling fund adopts pay-as-you-go mode, while the individual account implements full funding model. The basic pension payment realizes the redistribution of pension rights and interests from the high-income group to the low-income group. The contribution to basic old-age insurance for urban employees is jointly paid by enterprises and employees. At present, the contribution by employer to the social pooling account account is 16% of the total payroll, and individual employees pay 8% of their wages to the individual account. The replacement rate of the basic old-age insurance for urban enterprise employees is about 67%, which can meet the basic living needs of retired workers. Every year, the Ministry of Human Resources and Social Security is responsible for adjusting the pension benefit according to the increase of average wages and the rise of prices. In Currently, the subsistence pension is DB mode, and its replacement rate can be expected according to the contribution base and contribution years. However, the individual account pension is DC mode, and its replacement rate should be finally determined according to the contribution and annual book-keeping interest rate.

The basic old-age insurance for urban and rural residents also uses the same system mode as above named as combination of social pooling and individual account. The residents’ personal payment to the individual accounts completely accumulated/fully funded, while the finance is responsible for paying subsistence pension, which also reflects the principle of social solidarity. The urban and rural residents’ contribution goes to the individual account completely, while government gives corresponding subsidy. When residents meet the conditions for receiving pension benefits, individuals can receive monthly subsistence pension provided by the government in addition to the individual account pension. Pension benefit will also be adjusted in time according to price index, economic development and other
The basic old-age insurance system is completely equal between men and women without and gender discrimination.

3. Challenges

At present, in terms of total amount, the annual revenue of the basic old-age insurance fund for urban employees is still greater than the expenditure, and the accumulated balance of the fund continues to increase. In 2019, the income of the basic old-age insurance fund for urban enterprise employees in China is 5291.9 billion yuan, and the fund expenditure is 4922.8 billion yuan. At the end of the year, the accumulated balance of the fund was 5462.3 billion yuan, and the number of static payable months was 13.32 months. Looking from the perspective of structure, due to the implementation of the central adjustment fund system, the surplus and shortage of the funds can be adjusted among provinces to ensure the timely and full payment delivery of pension in difficult provinces. In 2019, the proportion of central adjustment is 3.5%, and the fund adjustment totaled 630.3 billion yuan. In this sense, currently, the basic old-age insurance system for urban employees is sustainable. In the future, with the deepening of population aging, the pressure on fund revenue and expenditure will continue to increase, but the finance will make up for the gap. Therefore, in the medium and long term, the system is also sustainable.

However, it is undeniable that China's aging population is accelerating. By the end of 2019, the total number of elderly people over 60 years old in China has increased to 254 million, accounting for 18.1% of the total population. Among them, the total number of elderly people over 65 years has reached 176 million, accounting for 12.6% of the total population. With the deepening of the aging population, the pressure and burden of China's basic pension system are increasing.

4. Countermeasures

In order to actively respond to the challenges brought by the
aging population, it is necessary to further promote the reform and development of China's pension system, especially to accelerate the construction of multi-level pension system, take strong policy measures to promote the development of enterprise annuity in all kinds of enterprises, and accelerate the formulation and implementation of policies and measures to promote the establishment of the individual pension system.

In order to improve the pension system, the adjustment mechanism of pension benefits should be improved. The system parameters should also be adjusted, such as extend the statutory retirement age, in order to promote the balance of fund revenue and expenditure. The pace of the overall planning of basic old-age insurance for urban enterprise employees should be speeded up, which will help to enhance the fund's ability to resist risks on the whole. To attract enterprises and their employees to participate in the enterprise annuity plans through improving preferential tax policies, increase the rate of return on investment.