

Universal Social Protection

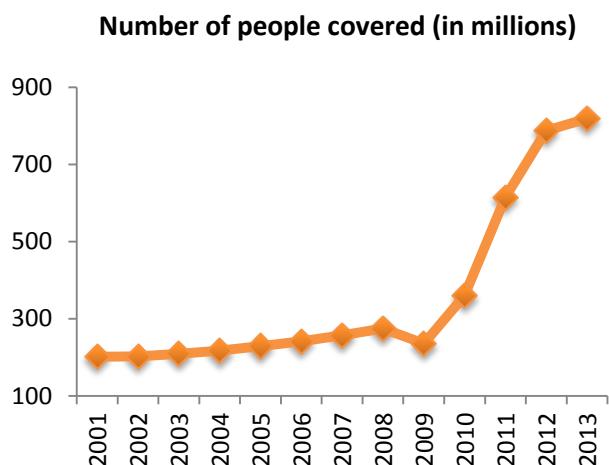
Universal pensions in
China



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Between 2009 and 2013, China tripled the number of people covered by the old-age pension system, making impressive progress in achieving its goal of universal coverage by 2020.

Figure 1. Expansion of old-age pension coverage over 2001-2013



Source: Annual statistical bulletins on human resources and social security development (ASB), 2001-2013.

Main lessons learned

- The Chinese experience shows that universality can be achieved by combining contributory schemes and non-contributory social pensions, in line with the Social Protection Floors Recommendation, 2012 (No. 202).
- Extending pension coverage to all citizens within a very short period is feasible.
- Political will and government commitment is essential. In particular, increasing government expenditure is indispensable for covering vulnerable groups that have no or limited capacity to pay contributions.
- Universal pensions, as part of social protection floors, increase domestic consumption and demand, promote human development and social stability, all of which are fundamental for national development and economic growth.



1. What does the pension system look like?

Overall structure: The current state pension system consists of three schemes:

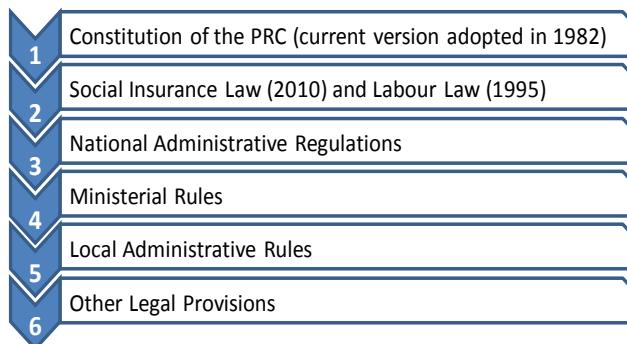
- (1) an urban workers' pension;
- (2) a civil servants' pension; and
- (3) a residents' pension for rural and urban residents not covered under the first two schemes.

Benefits and financing: Upon retirement, urban workers receive a state pension consisting of two components: a solidarity component (SC) financed by employers' contributions (accounts for about 20 per cent of payroll) and an individual pension component (IP) calculated based on a worker's accumulated contributions, where contributions are 8 per cent of a worker's reference income. The urban workers' pension scheme consists of hundreds of sub-schemes run independently by local authorities, with some sub-schemes in surplus and others in deficit. To secure full and on-time payments of current pensions, the Government supplements many of these sub-schemes.

Up until October 2014, retired civil servants received a single state pension based on their pre-retirement salaries and the number of years of service, paid directly out of the government unit budgets. The scheme is currently being converted into a social insurance pension with two components similar to the urban workers' pension: an SC funded by employers' contributions and an IP funded by employees' contributions. It remains to be seen whether it will become a single nationwide scheme.

The residents' pension also consists of two components. The SC is entirely financed by the Government. The IP is financed by contributions of the insured as well as some government subsidies. However, the majority of the current generation of pensioners only receive the SC component as they had already exceeded the pensionable age when the scheme was introduced. Unlike the other two schemes, participation in the residents' pension is voluntary. The scheme is also composed of many independent locally run sub-schemes.

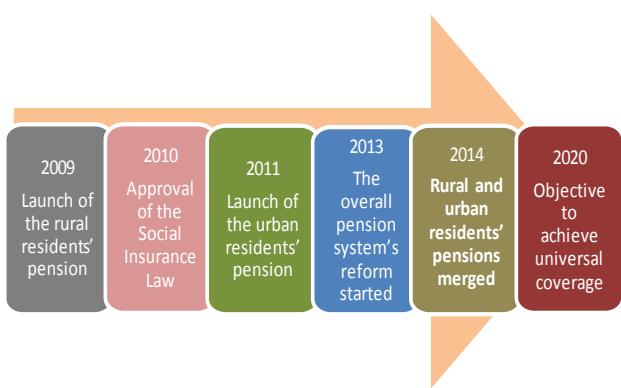
Legal aspects: The legal framework of the pension system can be depicted as follows:



Institutional arrangements for delivery: The pension schemes are managed by local social insurance institutions. Contributions are collected by social insurance agencies or by tax authorities. Pensions are paid directly to beneficiaries' designated bank accounts.

2. How was this major breakthrough achieved?

Landmarks: The following events mark the extension of pension coverage since 2009:

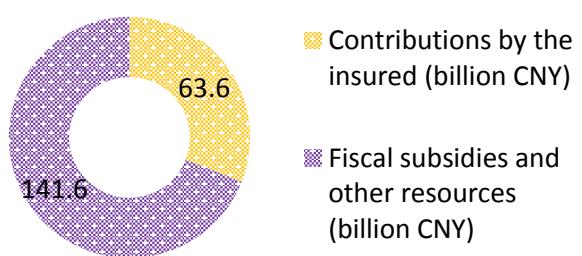


Strong political will: Extending old age pensions to all was driven by a strong commitment to reduce poverty and inequality, and to sustain economic

development. Taking the rural pension as a concrete example, the 16th and 17th National Congress of the Communist Party called for the development of an old-age pension for the rural population in 2002 and 2006, respectively. In 2009 the Government issued a practical Guidance and launched the rural pension with the aim to cover the entire rural population by 2020. It merged with the urban residents' pension in 2014 to form the residents' pension scheme. The other pension systems benefited from similar political support.

Administrative and social support: Progress towards universal coverage has also been the result of strong leadership by the central Government and active development of new programme initiatives by local governments. Effective innovative initiatives were often taken up as national policy and implemented across the country. Also, the All China Federation of Trade Unions played an important role in the extension of pension coverage.

Fiscal support: All three schemes benefit from public subsidies. With regards to the residents' pension, a large proportion of its total pension expenditures is supported by government contributions. Revenue sources for the residents' pension in 2013 are as follows:



Source: ASB 2013

3. What are the main developmental results and impact on people's lives?

To build a harmonious society is one of the core objectives of the Chinese government. The 12th Five Year Plan launched in 2011 also aimed at increasing aggregate demand by a number of measures such as more public spending on social

protection and public services, higher minimum wages and reducing the savings rate of households.

Impact on people's lives: By the end of 2013, about 80 per cent of the population in working age and above, regardless of their employment and contribution histories, were covered under the pension system (MOHRSS, 2013). Civil servants have long enjoyed relatively high benefit levels. The benefits paid under the workers' pension have steadily increased at an annual rate of 10 per cent over the last eleven years, generally ensuring a decent life for these pensioners (Wen, 2014). Although the residents' pension benefit level is still far from adequate, it undoubtedly helps many older people who live in vulnerable conditions and this is particularly the case for older women in agricultural settings.¹

Impact on the economy: The increases in both the pension coverage and benefit levels have enhanced the purchasing power of people in old age. Since pensioners represent a large and growing component of Chinese society, domestic consumption and markets targeting older persons—such as customised foods, clothing, health, medicine, care, and tourism—have rapidly developed and expanded, forming new opportunities for domestic economic development (China Consumers' Association, 2013). Additionally, household precautionary savings are expected to reduce due to income security and health care, supporting demand and thus economic growth.

4. What's next?

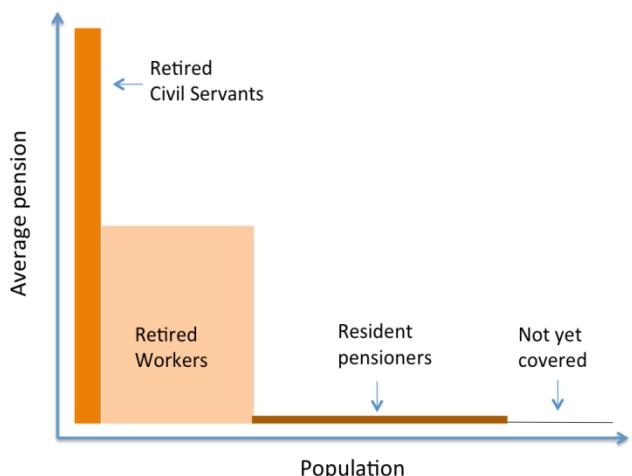
The Government is continuing the expansion of pensions and further improving the system's adequacy, sustainably, and equity.

Benefit adequacy: In particular, there are concerns about the low level of benefits paid to 130.7 million pensioners under the residents' pension. On average, the benefits paid represent less than 11 per cent of average income per capita in rural areas in 2012 (National Bureau of Statistics of People's

Republic of China (NBOS), 2013; MOHRSS, 2012), much lower than the minimum standard set in the Social Security (Minimum Standards) Convention, 1952 (No. 102).

Sustainability: China's economic growth, measured at around 10 per cent annually for three decades, has slowed recently to just over 7 per cent. At the same time, the aging of China's population is accelerating as a consequence of the baby-boom in 1950s and 1960s, the implementation of the one-child policy, and constant improvements in life expectancy. Though China has significant fiscal space for social protection, it is contemplating and developing policy measures to ensure the long-term economic sustainability of the pension system, such as increasing the pensionable age.

Equity: Benefit level disparities exist among and within the three schemes. As illustrated in the figure below, the ratio of average benefits in 2013 was estimated as 100:51:2 for civil servants' pension, workers' pension, and residents' pension, respectively.



Source: Based on ILO estimates and MOHRSS, 2001-2013

Within the workers' pension scheme, there are regional disparities in the pension replacement rates. For instance, in 2012 the average replacement rate was 70.5 per cent in Shandong, but only 43.2 per cent in Chongqing (Zheng, 2013).

Overall, the phenomenal progress in expanding pension coverage is being continued, fast-tracking universal pension coverage by 2020, in line with the

¹ Lei, Shu (2015) A small amount can make a big difference: The effect of the New Rural Social Pension Insurance program on the retirement decision in China. *Netspar*

Social Protection Floors Recommendation, 2012 (No. 202).



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