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# EU-China Social Security Reform Co-operation Project for The People's Republic of China

## *An Introduction to Pension Schemes in China*

*BY Bill Birmingham ITAT Expert for Old Age Insurance,  
Professor Cui Shaomin, National Institute for Social Insurance  
Associate Professor, National Institute for Social Insurance*



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## 1. Brief Review of the Current Legal Status of Pensions

The legal source for pension arrangements is the Constitution; then relevant laws passed by the national legislature, and thirdly regulations by the Central Government and its various departments. In addition, local legislatures, i.e. the provincial People's Congress, also have the power to formulate regulations, provided they are not against the constitution, laws and regulations of higher binding power.

There are concise provisions regarding social security in the Constitution of 1982 and its amendment of 2004, which include the content that the government is responsible for establishing a pension system for employees. Chapter 9 of Labour Law of 1994 is dedicated to the principles of social insurance and social welfare, which include pensions.

In addition to the above provisions in the Constitution and relevant law, there is no specific legislation about pension. In China, all major pension policies have been made in the form of documents issued by the State Council. The following are the major documents listed in chronological order.

1. Document No.33 in 1991, ***Decision on Enterprise Employee Pension Insurance System Reform***, which puts forward a multi-layer pension system, social pooling, cost sharing among government, enterprise and employees and a partially funded pattern.
2. Document No.6 in 1995, ***Notification on Deepening Enterprise Employee Pension Insurance Reform***, which sets out to establish individual accounts and to implement the combination of social pooling with individual accounts.
3. Document No.26 in 1997, ***Decision on Establishing a Unified Enterprise Employee Pension Insurance System***, which stipulates the contribution rate for enterprises under 20% in principle, while for employees up to 8%, the size of individual accounts of 11%, as well as a benefit calculation formula.
4. Document No.28 in 1998, ***Notification on Prompting Provincial Pooling of Enterprise Employee Pension Fund and Transferring management of Industrial pension to localities***, which set out to raise pension pooling to the provincial level and to transfer all the 11 industrial pooling funds to localities.
5. Document No.38 in 2005, ***Decision on Improving the Basic Social Insurance System for Enterprise Employee***, which was formulated after pilot programmes had been carried out in the Northeast provinces. Document No.38 further reforms the formula of pension benefits that is characterized by tightening links between contributions and benefits, downsizing the individual account from 11% to 8% while changing pension component from it with an actuarial factor.

These documents record the timetable of the development of the pension system in China. It should be noted that all provinces have issued their own pension documents; some have even stipulated pension regulations by provincial Peoples Congress in line

with documents promulgated by the State Council.

However, what past years have seen is mainly focused on changing the benefit formula, including that the basic pension pays more attention to the link between contributions and benefits, that a large individual account has been established but then reduced in size, the pension calculation factor has been amended from 120 to an actuarial one based on life expectancy and a front-loading return rate, etc. Such changes represent progress toward the objective of sustainability. But other major issues still need to be addressed in the future.

The first one concerns government responsibility, which means government should shoulder the transition cost incurred from moving from PAYG to a partially funded pattern that features the combination of social pooling with individual accounts. The fact that government has not accepted this responsibility brings about a high employer contribution rate, which in turn leads to low compliance on the part of employers, and does harm to employment promotion.

The second concerns the pooling level. In some places, the pension fund is still pooled at county level. The objective of improving pooling to provincial level was proposed a few years ago, even set out in the document of State Council, but slow progress has been made.

The third is about the capacity of the social insurance agencies, including aspects of organisation structure, collection enforcement, staff training, information system, etc. The independent status of the social insurance agency, which means a low level of the agency operated under a higher level of the agency rather than the same level of the Bureau of Labor and Social Security, affects the efficiency of the running and pooling level. There has also long been a debate over which institution, tax administration or social insurance agency, should be authorized to collect contribution. Whichever is chosen, contributions should be collected compulsorily and in a unified manner.

The fourth concerns transfers of pension entitlement between different pension schemes as well as different localities.

The fifth relates to the reform of pension arrangement for state organs and institutions.

The sixth relates to the nature of rural pensions. Should it be based on social pooling, or with a major element based on an individual's accumulation, or with the government financing at least one third or a half?

If these issues are not considered and resolved properly, the prospect of pensions legislation will continue to be delayed, or otherwise, the legislation will only serve to

reflect the current position with many issues outstanding.

It should be noted that though supplementary pension has taken new shape with the stipulation of two documents issued by the Ministry of Labor and Social Security in 2004, there is a long way to go because of the lack of taxation policy as well as the immaturity of China's capital market.

## 2. Enterprise Employees' Pension

### 2.1. Basic Statistics

The following table of *Basic Pension by Region* is cited from the China Labor Yearbook, 2005, which includes basic information as regards active contributors, pensioners, and revenue, expenditure and balance of the pension fund. Unfortunately, there is no breakdown of the pension fund into a pooling fund and an individual accounts fund. In practice, in most localities, the individual accounts fund is "empty" and notional, and has already been emptied to meet pension expenses for current pensioners rather than being saved for current contributors for whom it is intended.

**BASIC PENSION INSURANCE BY REGION, 2004**

Region	Active contributors(10 thousand)		Retirees at the Year-end (10 thousand)	Revenue and Expenses (100 million yuan)		
	Number at the Year-end	Enterprises (others)		Revenue	Expenses	Balance at the Year-end
<b>全 国 National</b>	12250.3	10903.9	4102.6	4258.4	3502.1	2975.0
北 京 Beijing	311.1	311.1	148.6	191.4	174.2	55.1
天 津 Tianjin	195.2	187.9	102.9	104.2	94.1	32.2
河 北 Hebei	511.4	415.4	172.0	177.9	139.1	126.0
山 西 Shanxi	283.4	283.4	93.3	109.3	76.1	103.4
内 蒙 古 Inner Mongolia	236.8	209.9	82.0	74.2	64.5	36.7
辽 宁 Liaoning	767.2	695.1	333.8	292.1	245.6	202.3
吉 林 Jilin	315.9	304.4	123.1	120.0	89.2	56.6
黑 龙 江 Heilongjiang	530.8	473.2	207.3	172.0	147.8	97.5
上 海 Shanghai	505.6	442.1	265.3	326.1	319.9	80.5
江 苏 Jiangsu	925.3	839.8	288.8	314.0	271.5	163.6
浙 江 Zhejiang	735.5	670.5	152.4	237.0	164.1	273.6
安 徽 Anhui	345.1	328.6	118.8	98.1	86.9	39.1
福 建 Fujian	293.8	237.8	83.7	85.2	74.4	57.2

江西 Jiangxi	271.8	250.3	99.9	66.1	56.8	40.1
山东 Shandong	986.5	775.9	232.2	300.0	245.1	229.4
河南 Henan	599.9	522.3	181.1	169.6	132.2	134.6
湖北 Hubei	585.1	529.7	195.4	146.4	133.7	66.3
湖南 Hunan	506.3	353.8	185.4	157.8	130.3	103.2
广东 Guangdong	1368.4	1225.5	220.4	373.6	233.5	596.8
广西 Guangxi	209.1	209.1	70.2	59.7	49.7	46.2
海南 Hainan	84.8	65.7	35.2	28.9	25.6	13.9
重庆 Chongqing	187.0	185.7	96.8	65.4	60.8	20.2
四川 Sichuan	465.3	419.0	202.7	188.9	152.7	142.2
贵州 Guizhou	124.8	111.4	50.0	45.5	38.0	39.6
云南 Yunnan	175.9	165.7	79.4	78.2	67.1	56.5
西藏 Tibet	4.5	3.4	3.0	5.1	5.1	
陕西 Shaanxi	266.8	266.8	102.5	87.2	75.8	31.7
甘肃 Gansu	141.1	135.5	53.5	53.8	46.4	27.4
青海 Qinghai	42.1	39.1	16.5	19.1	16.5	3.6
宁夏 Ningxia	47.3	47.3	15.2	19.7	13.1	22.2
新疆 Xinjiang	207.5	198.6	87.3	90.7	71.1	73.5
央行 The People's Bank of China	13.6		3.5			
农发行 Agriculture Development Bank of China	5.3		0.4	1.4	0.8	4.0

Source: China Labor Yearbook, 2005

## 2.2. Social Pooling Arrangements

Municipal data on social pooling arrangements is not fully in the possession of a central agency. It seems that collecting municipal data is not a routine job. In addition, if the central agency has obtained the information for a special purpose, those data are not publicly released, so it is difficult to obtain it.

At present, there are 12 provinces that are practising provincial pooling, which means that each of them has a unified contribution rate within its border. The provinces and rates are Fujian(19% or 18%), Beijing(20%), Chongqing(20%), Shanxi(20%), Gansu(20%), Qinghai(20%), Ningxia(20%), Xinjiang(20%), Shanghai(22%), Tianjin(22%), Yunnan(24% or 22% in this year, and will be reduced to 20% in two years.), Jilin(23%). (Nb: things are changing.). Beijing, Shanghai, Tianjin, and Chongqing are municipalities directly under the Central Government. Fujian, exceptionally is in the prosperous Southeast of China. Interestingly, the next 6 provinces are all in West China. All of them have comparatively poor economic performance and are heavily dependent on transfers and subsidies from Central

Government, which in turn justifies their provincial pooling. The last one, Jilin, is a pilot province of a new pension policy. Shanghai imposes an enterprise contribution rate of 22%, which has been approved by the Central Government.

As regards the other 19 provinces whose pension funds are municipally pooled, even county pooled within a province, things are quite different. Though it is difficult to get the rate for each smaller pooling base (for there are several hundred municipalities and cities, and more than two thousand counties), by dividing total enterprise contributions by the total volume of enterprises' payrolls in a province, we can get the rough average rate of that province. It shows that Guangdong province has the lowest enterprise rate with an average of 12%(so low), then Zhejiang with about 18%, while most of other provinces ranging around the standard of 20%.

As regards the enterprise contribution rate for a small pooling base, such as a municipal base, or county base, it is difficult to obtain complete details, but the difference is striking. The lowest rate appears to be 8% in Shenzhen, and 10% in Zhuhai, both within Guangdong province, while the highest rate is 25.5% in Angang and Anshan within Liaoning province. However, it should be noted that these contribution rates are changing. Shenzhen is expected to increase the rate to 10%, while Liaoning is trying to decrease to 20%. However, even then, the highest will still be twice the lowest.

There are two explanations for different enterprise rates in a single municipality, as in Jinan, The first is there is different policy for different kind of contributors. The self employed, usually they have a reduced rate of about 20% (in some places, or in the past, about 18%), lower than the combined rate of employers and employees. The reduced rate for the self-employed is so that they should not be forced to take on the historical debts incurred from the transition from PAYG to a partially funded system, as otherwise the threshold for them would be too high. Another kind of contributor can be institutions, who have participated in the enterprise pension system in some place. Due to a higher ratio of retirees to employees and totally inadequate contributions resulting from later reform and participation, they may be asked to pay a higher contribution rate. For example, in Shenzhen, enterprises pay 8% while institutions are required to pay 14%. The second reason is related to violations of the regulation on contribution collection. It is not uncommon in practice for there to be some informal arrangements on contribution collection. Sometimes an enterprise can negotiate with collection agency to lower contributions, if the enterprise performs excellently economically with a low ratio of retirees to employees.

### **2.3. Contribution Collection Arrangements**

Generally speaking, there is a 50:50 choice by provinces across the country of whether social insurance contributions should be collected by the State Administration

of Taxes or by social insurance agencies. But it is hard to discover the specific collection agency for municipalities within a province, where it fails to authorise a unified agency to collect contributions and so allows 2 agencies to coexist, or where municipalities delay implementation of a decision by the provincial government that only the tax administration should undertake collection. For example, the government of Sha'anxi province designates the tax administration, but in 2005 there were still 6 municipalities depending on the social insurance agency to collect medical insurance contributions, and some even collect pension contributions as well.

There are only four provinces that unify collection of contributions covering the 5 social insurance schemes by social insurance agency. They are Shanghai, Shandong, Guizhou and Xinjiang. Another two provinces, Beijing and Tianjin, unify collection for four schemes. The difference between them is that contributions to medical insurance is collected by the medical insurance agency in Beijing, while contributions to unemployment insurance is collected by the Bureau of Labor in Tianjin. There is unified collection of contribution for three schemes, in Jilin province, where medical insurance agency is responsible for collecting medical, work injury and maternity insurance contributions, while social insurance agency for pension and unemployment contribution.

As for the remaining 8 provinces, from 2 to 5 branch agencies are involved in contribution collection. However, there are exceptions where some municipalities within these provinces enforce unified collection of contribution of 4 or even 5 schemes.

### Contribution collection agency

Provinces	Collection agency (TA stands for Tax Administration: SIA stands for Social Insurance Agency)	3. Note
河北 Hebei	TA: pension and unemployment SIA: medical, work injury, maternity	
内蒙古 Inner Mongolia	TA: all	
辽宁 Liaoning	TA: all	
黑龙江 Heilongjiang	TA: all, except state-owned farming enterprises and foresting industry, which by affiliated-office within enterprises and industry.	
江苏 Jiangsu	TA: all	

浙江 Zhejiang	TA: all	
安徽 Anhui	TA: all	
福建 Fujian	TA: pension and unemployment TA/SIA: The remaining 3 items are determined by the choice of municipalities	For example, Quanzhou, the remaining 3 items for state organs, institutions and societies, private institutions are collected by medical insurance agency. Others all by TA
湖北 Hubei	TA: Pension The remaining 4 items are determined by municipalities	
湖南 Hunan	TA: Social insurance contributions for foreign invested enterprises and private enterprises SIA: separate collection for remaining employers and employees.	But Changde municipality has unified collection for 5 schemes.
广东 Guangdong	TA: all	
海南 Hainan	TA: all, except state-owned farming enterprises	
重庆 Chongqing	TA: all	
云南 Yunnan	TA: all	
陕西 Sha'anxi	TA: all	There are still 6 municipalities that rely on SIA to collect contributions for medical insurance up to 2005 and some for pensions.
甘肃 Gansu	TA: pension and unemployment TA/ SIA: remaining 3 items	
青海 Qinghai	TA: pension and unemployment SIA: remaining 3 items	
北京 Beijing	SIA: unified for 4 schemes, except medical insurance contributions collected by medical insurance centre	
天津 Tianjin	SIA: unified for 4 schemes, except unemployment insurance by Bureau of Labor	
山西 Shanxi	SIA: separate	But Datong municipality enforces unified collection

		for 4 schemes by SIA, while unemployment insurance contributions collected by employment agency
吉林 Jilin	SIA: unified for medical, work injury, maternity insurance by medical insurance agency, while pension and unemployment collected by social insurance agency.	
上海 Shanghai	SIA: unified	
江西 Jiangxi	SIA: separate	Intend to unify in this year
山东 Shandong	SIA: unified	
河南 Henan	SIA: separate	Intended to unify according to the document No2. in 2005 of Henan
广西 Guangxi	SIA: separate	Except Beihai municipality has unified collection of contributions for 5 schemes
四川 Sichuan	SIA: separate	Except 4 municipalities have unified collection of contributions for 4 schemes and one municipality for 5 schemes.
贵州 Guizhou	SIA: unified	
西藏 Xizang	SIA: separate	
宁夏 Ningxia	SIA: separate	
新疆 Xinjiang	SIA: unified	

#### 4. Pensions of State Organs & Institutions

In China, the pension scheme for public employees is different from that for enterprise employees. The latter has undergone reform for two decades while the former has remained unchanged under document No.104 which was promulgated by the Standing Committee of National People's Congress in 1978.

#### 4.1. Features

The pension scheme for public employees has the following features: (1) it is constructed on a pay-as-you-go basis, financed directly by general tax, with no contributions made by individuals. As a result, (2) no individual account has been set up. (3) In most localities, the scheme is administered by working units, just as what used to apply for enterprises that were responsible for delivering pensions for their own pensioners. (4) The benefit level and replacement rate is high, eg a public employee with 30 years' service can get a substitution rate of 82% and above of his/her wages at retirement age. In contrast, the replacement rate for enterprise pensions has been designed gradually to decrease to about 60%.

#### 4.2. Problems

The apparent benefit inequality between the two schemes gives rise to social conflict. Pensioners who retire from state-owned enterprises are especially dissatisfied with such a situation. Another problem relating to the segregation of two schemes is that it is difficult for workers moving between enterprises and state organs & institutions. In order to address this problem, four ministries including the Ministry of Labor and Social Security, the Ministry of Personnel, the Ministry of Finance and the State Commission Office for Public Sector Reform jointly issued the *Notice on dealing with portability of social security entitlement between state organs & institution, and enterprises (No.13 in 2001 by MOLSS)*

**The notice** provides that when a public employee moves to an enterprise, a lump sum subsidy based on his / her public service should be transferred to the social insurance agency, and goes into his/ her individual account under enterprise pension system. The subsidy would be financed by the Department of Finance at the same level, based on following formula:

The transferred amount = monthly average basic wage of last year (the year before leaving) × years of service in state organs & institutions × 0.3% × 120 (months).

When enterprise employees move to state organs & institutions, they enjoy the pension for public employees. Their years of service in enterprises can be credited as in state organs & institutions. Their individual accounts under the previous enterprise employees' pension scheme continue to be kept by social insurance agencies until they retire. They can claim an individual account pension from them, equal to  $\frac{1}{120}$  of the accumulated amount in their account, but an equivalent amount is reduced from their public employees' pension.

(Note: whether this notice has resolved the portability of vested pension benefits between the two schemes needs to be investigated. Obviously, there are some problems in the notice, for example, when a public employee moves to an enterprise, only his individual account is taken into account to transfer to social insurance agency,

while no social pooling component is concerned. Furthermore, for the former public employee, he/she will lose the difference between the public pension, or otherwise, he/she will get more from the public pension.)

#### 4.3. Difference between state organs and institutions

However, public employee is not an accurate term in China. There is always a line drawn between civil servants and employees in institutions. Civil servants refer to public employees working in state organs, and organizations alike. Institutions are mainly concentrated on such areas as education, health, scientific research and so on, but they too are financed out of general taxation. Although the wages of both groups' come from general taxation, their pension replacement rate varies as a result of different wage systems. In recent years, civil servants have enjoyed a greater salary level than employees working for institutions. As a result, the average pension for civil servant is larger than institutions, which is in turn greater than enterprise employees.

#### 4.4. Pensions for state organs and institutions

Civil servants		Employees in institutions	
Number: 10 million		Number:26 million	
Wage Composition: Basic wage, seniority wage, position wage and post wage		Wage Composition: basic wage and post wage	
Replacement rate: (100% for Basic wage, seniority wage) (below are for position wage and post wage)		Replacement rate: (below are for basic wage and post wage)	
Years of services	Proportion	Years of services	proportion
Less than 10	40%	Less than 10	50%
10-20	60%	10-20	70%
20-30	75%	20-30	80%
30-35	82%	30-35	85%
35 and over	88%	35 and over	90%

#### Wage and pension of enterprises, institutions and state organs in 2003

	Enterprise	Institutions	State organs
Wage per employee (yuan )	13578	14564	15736
Pension per recipient (yuan)	7732	13809	14654
Replacement rate (%)	57%	95%	93%

Sources: China Labor and Social Security Yearbook, 2004

#### **4.5. Debate about the reform of pension system for state organs and institutions**

With the increasing disparity between the two systems, there is a call for reforming pension system for public employees. But how to reform has aroused heated discussion. Some insist that civil servants should remain their generous pension unchanged, while at the same time, the pension system for institutions should be reformed in the way for enterprise employees. Some argue that both state organs and institutions should follow the same pattern as enterprises. In both cases, it is agreed that institutions should be treated as enterprises. However, the debate about pension system for state organs is still in the open.

### **5. Migrant Workers Pension**

#### **5.1. Overall situation about migrant workers**

Some people think that migrant workers are farmer workers who have land in rural areas, but work in urban areas and engage in non-agriculture activities. Others include all the workers who haven't got an identity of local citizenship under registry household system, ie not only farmer workers, but also urban workers moving from one city to another are migrant workers (such as Shanghai), but even in this case, the bulk are farmer workers. It is roughly estimated that China has 120 million migrant workers who come from rural areas. They now constitute an important component of workforce in urban areas with a proportion of above 40%.

As for pension arrangements, some argue that, provided that they are employed under enterprises covered by social insurance, migrant workers are to be included in urban social insurance system, since there are no provisions in the relevant documents against their participation. That is true. But the fact is just a very small number of migrant workers have been covered, but whether they will have been covered till retirement age and receive a pension is a big problem, because many of them want to leave, or have left, the system when they move again. Their low participation can be explained in many ways: (1) Generally speaking, migrant workers lack awareness of social insurance; they prefer cash in hand to a promise of pension in the future. So, they are reluctant to pay contributions for themselves. (2) Even where migrant workers want to get a pension, they earn much less than urban workers, thus making it impossible for them to join current system, which is characterized by a high contribution rate and high threshold. (3) In order to economize expenses, employers try to evade their responsibility to pay contributions for their migrant workers. (4) As for social insurance agencies, they lack necessary means to enforce compliance, for there is not currently a high binding law on social insurance. So it is hard for migrant workers to be covered under current system for urban

employees.

## 5.2. Practices of pension arrangements for migrant workers in localities

Nevertheless, many provinces and cities have tried to establish social insurance schemes for migrant workers. Below are three typical types of pension system for migrant workers.

- Shanghai Pattern

Shanghai was the first locality to launch a comprehensive insurance for migrant workers, which started in September 2002, marked by the document No.123 by the municipal government of Shanghai in 2002. Comprehensive insurance for migrant workers consists of three items: work injury insurance, medical insurance and old age subsidies. The main contents of comprehensive insurance are as follows: (1) the contributions are paid for each migrant worker by his employer, based on 60% of Shanghai's average wages of last year, with a uniform rate of 12.5%, in which 5% will be put into an individual account for old age subsidy. (2) Old age subsidy equals the accumulated amount in individual accounts, paid as a lump sum when a male worker reaches 60 and a female 50. (3) Most of administration of the comprehensive pension for migrant workers has been relegated to commercial insurance companies. (The relevant provisions on the other two insurance items are not included here).

- Chengdu Pattern

On learning of the experiences of Shanghai on comprehensive insurance for migrant workers, Chengdu issued its own relevant document, *Provisional measure of comprehensive insurance for non-urban citizens of Chengdu*. Non-urban citizens here include farmer workers born in Chengdu, which differs from Shanghai, where a parallel system has been established for local farmer workers (known as social security for small towns of Shanghai, which will be referred to later).

Like Shanghai, Chengdu also provides three items including work injury insurance, medical insurance and old age subsidy, but differs in many aspects. Its main provisions are as follows: (1) Contributions can be made on an 8 wage scales, which are 60%, 70%, 80%, 90%, 100%, 120%, 150% and 200% of Chengdu's average wages of last year. The total contribution rate is 20%, with 14.5% paid by employers and 5.5% by employees, of which a rate of 8% (5.5% from employee and 2.5% from employer) is put into individual account for old age subsidy.

(2) Work injury benefits are similar to those for urban employees. But medical benefits are based on contribution years and contributory bases.

(3) As for the urban old age pension, the old age subsidy is paid when a male reaches 60 and female 50, calculated according to a formula as follows:

Lump sum pension = the accumulated amount in individual account + the contributory base  $\times$  contribution years  $\times$  0.6%. Here, the Individual account has a rate of return equivalent to a one-year interest rate in a bank.

(4) The possibility occurs of transferring between an enterprise social insurance and the comprehensive insurance. This means that the years covered by the comprehensive insurance can be credited to those in the enterprise social insurance scheme if the individual later becomes an urban citizen.

(5) The comprehensive insurance can be entrusted to commercial insurance companies to run.

Both patterns of Shanghai and Chengdu are comprehensive insurance for three basic items. Work injury insurance and medical insurance are social pooling items, but the old age insurance adopts funded individual accounts which provide a lump sum, but as there is no social pooling for the risks of longevity and inflation, it is by nature just a saving account. The biggest obstacle for comprehensive insurance is that, as it is confined to a particular locality, when migrant workers move to another locality, it is impossible for them to transfer their fund, because no such comprehensive insurance scheme has been set up across the nation except in a limited number of cities.

- Shenzhen Pattern

Shenzhen is a fast growing city, attracting a huge number of migrants coming from different parts of the country. In Shenzhen, migrant workers are required to participate in the enterprise employee pension system, but they have a different medical insurance scheme which applies a low contribution rate because they are young and have a low incidence of illness. Shenzhen has the lowest contribution rate for enterprise employees pension, under which 8% is paid by employers, 5% by employees (note: Shenzhen will increase the contribution rate to “10%+8%”. While most provinces have the standard contributions rate “20% +8%”; in some localities, the rate is higher, eg, in Shanghai, it is “22%+8”). Even with the low contribution rate, in Shenzhen there exists a large problem for migrant workers to join the system and remain in the system until they retire. Most migrant workers do not have much hope of obtaining local citizenship in Shenzhen and can hardly afford to reside in the city for the rest of their life due to their low pay. They, therefore, have to choose to move away, and so they either return to their home town or move to another city, where no such system for farmer workers has been set up. They will therefore find it difficult to transfer their social insurance record. Hence many migrant workers prefer to refund their individual accounts before retirement. According to statistics, the ratio of those giving up membership in Shenzhen is as high as more than 40%. In such case, individuals get back only their own contributions in their individual account, and lose the vested entitlement in social pooling fund acquired from their employer’s

contributions. Facing this phenomenon, many scholars criticise developed coastal localities that become rich at the expense of the rights of migrant workers. The choice on the part of migrant workers of a refund reveals defects in the system design, mainly reflected in the lack of transferability of pension records and the failure to protect individuals' rights.

### **5.3. New demand**

In the beginning of 2006, the State Council issued Document No.5, *Opinions on addressing problems for migrant workers*, which sets out guidelines for establishing a social insurance system for migrant workers. A pension system ranks the third in the priority order after work injury insurance and medical insurance. The Document states that a pension insurance system for migrant workers should be explored on a basis adapted to the characteristics of migrant workers, ie a low contribution rate, easy access to coverage, portable vested entitlement, and arrangements that can be integrated with current pension system for enterprise employees.

## **6. Rural Pensions**

### **6.1. History of rural pensions**

In 1991, the State Council issued Document No. 33, *Decision on reform of enterprise employees' pension scheme*, which empowered the Ministry of Civil Affairs (MCA) to take charge of a rural pension system. The following year, the Ministry of Civil Affairs issued a document, *Basic scheme for rural pension at county level (tentative)*, which set out principles and measures for a rural pension, including

- (1) It is mainly financed by individual contributions, subsidised by collective finance of towns and villages, and supported by the preferential policies of the government.
- (2) It implements individual accounts. That means that all the contributions, and subsidies, if they exist, are to be put into fully funded individual accounts.
- (3) Pensions are calculated by dividing the accumulated amount in individual accounts by 120 for both male and female farmers at retirement age. If farmers live less than 10 years after retirement, the outstanding amount in their account can be inherited; if they live longer than 10 years, they can continue to enjoy a pension until their death.
- (4) Rural pensions were to be administered by rural pension agencies under the Bureau of Civil Affairs. The administrative expenses are taken from contributions at a rate of 3%.

1998 proved a turning point for rural pension development from climax to decline. First, with the restructuring of state organs, the administration of rural pensions was transferred to the Ministry of Labor and Social Security. Later, the attitude towards rural pensions was changed. In 1999, the State Council stated that it was not the right

time for China to establish pensions for rural population universally, and made a decision to check rural pension funds and stop opening new business, as well as permitting those localities that had proper conditions to transfer their rural pension scheme to commercial insurance. Furthermore, official opinion on rural pension was further expressed in the *Decision on some major issues concerning improving socialist market mechanism*, which passed by the third plenary meeting of 16<sup>th</sup> Congress of CCP in 2003, ie that old age provision in rural areas should rely on family support, community security and state assistance.

These factors imply that previous efforts to establish rural pensions were a failure. The decline of the rural pension system can be illustrated in the following table. It shows that the number of participants of rural pension shrank from 80.25 million in 1998 to 54.62 million in 2002, but then levelled off to 2005, with the pension level rather low, at only 58 yuan per recipient per month in 2005.

### 6.2. Data for rural pension, 1998-2005

Year	Number of participants (million)	Number of recipients (million)	Accumulated amount in Fund (billion)
1998	80.25 (covering 2,123 counties & 65% of towns )		16.62
1999	80 (covering 31 provinces & 76% of towns )		
2000	61.72		19.55
2001	59.95		21.61
2002	54.62		
2003	54.28	1.98 (total ¥ 1.5 billion )	25.93
2004	53.78	2.05	28.5
2005	54.42	3.02 (total ¥ 2.1 billion)	31.0

Source: from bulletins of Ministry of Labor and Social Security from 1998-2005.

### 6.3. Experiments still in process

Though the prospect of a rural pension system is elusive, some localities are continuing to operate their rural pension schemes. At the same time, new types of rural pension are also under experiment. For example, some developed localities, eg Dongguan, Suzhou, Beijing, where farmers engage more in non-agricultural activities, and collective-share economy is comparatively growing have begun to introduce new type of rural pension. The main features of new rural pension are:

- (1) setting up a new financing system, under which “individuals make contributions, village collective and government make subsidy”, ie, financing from the village collective and the local government provide 50%, whereas under the old system, contributions made by individuals were almost the only source.
- (2) implementing a pattern of combination of social pooling and individual account, rather than only an individual account under the old system.
- (3) setting a reasonable contributory base and standard, which ensures that farmers can get a decent pension.
- (4) providing that the new rural pension type can be integrated into the urban pension system, since they adopt the same pattern.

#### **6.4. Government Financing of Rural Pension Scheme**

An issue is whether and the extent to which collectives and municipal governments provide a subsidy to a farmer's individual contribution to a rural pension scheme. This characteristic is can be used to distinguish old rural pension system from new rural pension system.

Qingdao has done well in this aspect. As a municipality, Qingdao has 11 districts (counties) and 137 sub-districts (sub-counties). According to its policy, the aggregate contribution rate should be no less than 16%, of which the contribution paid by individuals is between 6% and 18%, by the collective no less than 6%, by the sub-district( sub-county) and district(county) no less than 4% (note: it is at district (county) pooling rate). In fact, on average, the collective pays 7%, the municipal government (i.e. district (county) government in this case) pays 6% to match individual contribution of 7%.

Besides Qingdao, 5 locations have done well in rural pension system, which represent five different kinds of rural pension system in China. They are Yantai, Suzhou, Beijing, Huoshan in Anhui Province and Hutubi in Xinjiang Province. The first three are developed regions, while the latter two are undeveloped.

1. Yantai. It is the first municipality to pilot rural pension system, which can be dated back to 1991. According to the document No.54 in 2006 issued by the Yantai government, the municipality would reform its financing arrangement under the old rural pension system to a new one, combining individual contribution and collective and government subsidies.
2. Suzhou. Governments at various levels in Suzhou together finance 50% of the rural pension fund, with individual farmer individuals paying the other 50%.
3. Beijing. It has stipulated in 2006, that the municipal government will input 50 million yuan each year to support farmers who participate in the rural pension system. In addition, it requires district (county) government subsidise the rural pension system in line with their capability. For example, the Daxin District government will spend 15 million yuan on the rural pension system each year and

promises to ensure its pension benefit will exceed 120% of the minimum living standard level. Furthermore, if financially able to do so, a sub-county government can allocate part of its budget to rural pension system.

4. Huoshan. It provides that the government pays 2% to the rural pension fund, i.e., on top of individual contribution and interest rate farmers can get in their individual account.
5. Hutubi. It has been carrying out a programme that provides farmers with a small amount of loan on their contribution certificate mortgage. The programme is said to have lasted 8 years without a bad loan.

## **7. Pensions for former farmers whose land has been compulsorily purchased by governments**

It is estimated there are 45 million farmers whose land has been compulsorily purchased by government during past years. This number will continue to grow as a result of accelerated urbanisation in next two decades. There are no formal arrangements for social security for “land compulsorily purchased farmers” (hereafter referred to as LCPFs) though some relevant documents provide that these farmers should be compensated in the way that their current living standard is not lowered and their social security costs are taken into account.

Some provinces and municipalities, such as Beijing, Jilin, Tianjin, Hebei, Inner Mongolia, Shanghai, Jiangsu, Zhejiang, etc., have introduced policies to address social security for LCPFs.

### **7.1. Four types of practices**

- LCPFs can participate in urban social security system

In Beijing, farmers are divided into several groups according to their age and labour ability. For those who are young, one component of their land compensation takes the form of contributions to the urban social insurance system, including pension, medical insurance and unemployment insurance. Those above retirement age are entitled to enjoy minimum living standard guarantee, which is financed by the municipal government revenue and land users.

In Chengdu, for LCPFs of working age total contributions are made on their behalf, on the basis of age and 60% of average wage, in a lump sum to the urban pension and medical insurance system. For males aged over 60 and females 50, full contributions are made, calculated on the minimum pension payment of Chengdu.

- LCPFs are covered by rural pension system

Qingdao provides that LCPFs should participate in rural pension system, which at the same time, has been converted into a new pattern like that for urban employees pension, i.e. it adapts the combination of social pooling and individual account. In 2004, the municipal government of Qingdao issued a relevant document that requests individuals to make contributions to the rural pension scheme of 6% of farmers' average net income of the previous year, with the same amount matched by both the collective finance of the village and the local government. The individual contributions and village subsidy go into an individual account, while government subsidy is put into a social pooling fund. After a record of 15 years' contributions, a participant can at 60 years old for men, 55 for women, get a monthly pension consisting of two components, one equivalent to  $\frac{1}{120}$  of accumulated capital in individual accounts; the other being social pooling pension decided by local government at that time.

- Specific social security system has been established for LCPFs

In December, 2004, Tianjin issued a rule of social security for LCPFs, under which 15 years of contributions, calculated on the basis of 60% of average wages at a rate of 13% or 17%, are made for LCPFs, in exchange of a pension of 16% or 20% of average wage when retirement age is reached. Contributions of 210 yuan or 260 yuan per month are made on behalf of old people for 15 years, then in exchange they receive the same monthly amount for the rest of their life. For all age groups, contributions are deducted from land compensation and government subsidy at a ratio of 4:1.

Jiangsu Province has set up a living standard guarantee system for LCPFs, which not only differs from social insurance systems for rural areas and urban areas, but also from urban minimum living standard guarantees.

- Special systems through commercial insurance

Shanghai stipulates that LCPFs should be covered under social insurance system for small towns, which also targets newly established enterprises and their employees in suburban areas. This is a unique system applied only in Shanghai, which has following features:

(1) No less than 15 years of contributions must be made in a lump sum by the land users to the fund for basic pension and medical insurance of LCPFs. If they work during the subsequent 15 years, contributions for pension and medical insurance can be exempt, so as to lower the threshold for them to be employed. If they continue to pay contributions, new contributions can be merged into the social insurance system for small towns. However, in the long run, the system poses an obstacle for integrating social security system for urban workers with that for rural citizens.

The Chongqing government has since 2000 entrusted part of land compensation of

LCPFs for pension to commercial insurance companies and let them offer an annuity of 175 yuan per month for males aged 50 and above and females 40 and above. At the same time, the government assumes the difference between supposed interest rate of 10% and interest rate of banks. Though simple to practise, the defects are obvious: the annuity is lower than the minimum living standard of Chongqing; and the local government has to take the responsibility to fill up the gap of interest rate.

## **7.2. Summaries and Problems**

Briefly, the arrangement of social security for LCPFs takes various forms in different localities. The following conclusions can be drawn:

- (1) The status of LCPFs in different localities determines the arrangement of social security for them. In places where they become urban citizens, it is natural to cover them under urban social security, but in other places, they are still regarded as rural people and so rural pension arrangements are applied to them.
- (2) It seems that establishing a specific social insurance system for LCPFs has become a major trend, for most localities have made choice to do so. The reason is that it takes into consideration the characteristics of LCPFs, which suits current transition situation.

The problems are obvious.

- (1) There is a lack of a uniform policy to protect LCPFs, and so some local policy and documents fail to meet the demand of these farmers. For example, in some places, only a pension is provided, as medical insurance is ignored.
- (2) The benefit level is somewhat low. This is because farming land has not been adequately and fairly compensated under current policies.

## **7.3. Transferring from the rural pension system to the urban pension system**

In certain circumstances it is possible to transfer individual accounts under the rural pension system to that under urban pension system. Chengdu is permits such portability. In addition, Suzhou within Jiangsu province issued a document in December 2004, specifically about the method of transferring rural pension rights to the urban pension scheme. It provides that, the rural pension agency should take the responsibility to convert the volume of farmer's contributions in each year under the rural pension system into credited contribution years under the urban pension system, which is based on the unified contribution base and combined employer-employee contribution rates of the urban system in that corresponding year. This helps to resolve the portability of pension entitlement during migration both within the municipality and across municipal borders.

Another example is in Beijing. In January 2006, Beijing issued the guidelines for a

rural pension system, part seven of which refers to transferring between the rural and urban pension schemes. It provides that when a farmer becomes an urban citizen, his/her individual accounts under the rural pension system can be preserved, or the capital amount in the individual account can be recalculated as social pooling contributions and individual account contributions under the urban pension system. On the other hand, if a farmer worker (i.e. migrant worker) has participated in the urban pension system and reaches retirement age, he/she can transfer all the contributions under the urban pension system to the rural pension system of his/her residence and enjoy rural pension benefits.

Since transferring is a priority and sensitive issue nowadays, not only the new rural pension system, but also the urban pension system, is beginning to pay more and more attention to address it. But there is not a unified regulation made by the Central Government in this respect. So it is impractical for two localities across the border to coordinate their practice.

Bill, Birmingham  
Professor Cui Shaomin  
Associate Professor WU Yuning

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