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A case study on social security coverage extension in China

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Summary

Since the founding of the People's Republic of China in 1949, China has developed a social security system encompassing social insurance (for old-age pension, medical care, unemployment, work injury and maternity), a supplementary programme of employer-sponsored enterprise pensions (the so-called "corporate annuities"), social assistance, and a housing provident fund. In the past few years China has made a singularly massive contribution to the extension of social security coverage worldwide. Under the medical insurance programmes alone, the total number of participants grew from 189.42 million or 14.66 per cent of the population in 2003 to 1.13 billion or 85.33 per cent of the population in 2008, an average annual increase of 188.76 million people.

The paper highlights the latest developments and challenges with a focus on the unique Chinese experiences and lessons in terms of the extension of social security coverage. Various practices, such as increasing academic and social-partner involvement in strategic plans and reforms, the government-managed gradual and sequenced approach to extension, the use of conditional and unconditional cash transfers to extend coverage to vulnerable groups, and the establishment of a non-contributory national strategic reserve fund, might serve as a reference for other developing countries in their efforts to extend social protection.

1. Background

1.1 Population, employment and income

Mainland China has a population of about 1.33 billion, of which around 54.3 per cent live in rural areas and 45.7 per cent in urban areas (NSB, 2009). Since the economic reforms launched in 1978, China has experienced an average annual GDP (gross domestic product) growth rate of about 9.8 per cent, the highest in the world, and total foreign currency reserves grew from US\$167 million to US\$1,950 billion (Zhu, 2009). By the end of 2008, the country's GDP amounted to 30,067 billion (3 trillion) Chinese Yuan (CNY) (US\$1 = 6.8346 Chinese Yuan at end of 2008) with a per capita GDP of US\$3,313, and internal tax revenues (excluding customs revenues, levies for requisition of arable land, contract tax and social insurance contributions) totalled CNY 5,786.2 billion (NSB, 2009), providing an enabling environment for the Government's increased expenditure on social security.

Despite the high GDP growth rate, however, employment elasticity has been declining steadily over the years due to a shift from labour-intensive to capital- and technology-intensive production. In 2009, for instance, there will be a total of 24 million urban people including 6.11 million fresh university graduates searching for jobs while only 9 million new urban posts are expected to be created (in addition to around 3 million jobs vacated by the retirees). Official figures show an urban registered unemployment rate of 4.2 per cent by the end of 2008, or 8.86 million unemployed people (C. Yin, 2009).

By the end of 2008 there were a total of 774.80 million employed persons in mainland China, among which 302.10 million were employed in urban areas (including 121.93 million employed by the urban establishments) (see table 7.1). Urban employed persons earned an average annual wage of CNY 29,229 (CNY 31,005 for state-owned enterprises, CNY 18,338 for collective enterprises and 28,387 for other establishments). In the same year, among a total of 53.04 million retirees nationwide (MoHRSS-NSB, 2009), around 42 million urban enterprise retirees were receiving an average monthly pension of CNY 1,080, which is equivalent to 44.34 per cent of the average urban monthly wage. Annual per capita disposable

income of urban households was CNY 15,781, compared to the annual per capita net income of CNY 4,761 for rural households (NSB, 2009).

In agriculture, there is a commonly recognized problem of underemployment and thus a need for the surplus labour to transfer to urban areas through both domestic migrant labour and urbanization (the latter has been growing at an average annual rate of 1 per cent over the past ten-plus years). By the end of 2008, there were a total of 225.42 million farmer-turned-workers nationwide, of whom 140.41 million or 62.3 per cent were working in urban areas (hereinafter referred to as "rural migrant workers"), and most of them lack appropriate social protection (MoHRSS-NSB, 2009).

Table 7.1 *Population and employed persons in mainland China (2003–2008) (unit: million)*

Year People	2003	2004	2005	2006	2007	2008
Population	1,292.27	1,299.88	1,307.56	1,314.48	1,321.29	1,328.02
Employed persons (EP)	744.32	752.00	758.25	764.00	769.90	774.80
Urban EP	256.39	264.76	273.31	283.10	293.50	302.10

Sources: Population figures come from the *Statistical communiqué on China's national economic and social development (2003–2008)* published by the National Statistical Bureau (NSB), and data on employed persons are based on the *Statistical Bulletins on Development of Labour (Human Resources) and Social Security Undertakings (2003–2008)* published jointly by the Ministry of Human Resources and Social Security (MoHRSS) and the NSB.

1.2 An overview of social security development in China

The development of the Chinese social security system, which was initiated in 1951 on the basis of the Soviet Union model with the promulgation of the Labour Insurance Regulations, can be briefly divided into three stages.

The first is the labour insurance period (1951–1978). The 1951 Labour Insurance Regulations (amended in 1953, 1958 and 1978) covered all the above-mentioned social insurance benefits except for unemployment. However, the scope of coverage until the mid-1980s had been confined to the urban workers, with focus on the state-owned enterprises (SOEs). The basic model of this system was a combination of social insurance and enterprise liability. Enterprises paid 3 per cent of the total payroll to a labour insurance fund that was managed by the All-China Federation of Trade Unions. Pensions and disability benefits were paid from the fund while other benefits were provided by the enterprises according to standards prescribed by the Government. Where an enterprise was unable to pay a benefit, subsidies were provided from the fund. Unfortunately, the system was disrupted during the ten-year (1966–76) domestic turmoil known as the Great Cultural Revolution. As a result, the labour insurance fund was suspended and individual enterprises had to finance their own welfare programmes (Zhu, 2002).

One commendable achievement in the rural areas during this period was the establishment of a community-based health-care system (cooperative health insurance) which used to cover about 90 per cent of the rural population in the mid-1970s and was once touted as an excellent example for developing countries. The system was partly financed by the collective, and partly by pre-payment and co-payment (Hussain, 2000). The rural population received basic medical services from the so-called cooperative medical care clinics, which were staffed by the local "barefoot doctors" that had undergone about one year of training beyond junior high school. The health insurance system in the urban areas consisted of two primary

programmes: the Government Employee Insurance Scheme (GIS) for civil servants and employees of public (cultural, educational and scientific) institutions, and the Labour Insurance Scheme (LIS) for SOE employees, retirees and their dependants. Medical expenditures were reimbursed (initially in full and later by a certain percentage by the employer under both schemes (Zhu, 2002)). During the whole planning period, China basically satisfied the primary health-care service demands of the whole population with only about 3 per cent of its GDP, and the health-care service facilities at all levels were clearly targeted at improving the population's health instead of making a profit (Xinhuanet, 2009a).

The second is the reform period (1978–2002) during which the Government initiated employment-based and contribution-financed social insurance programmes (mainly in urban areas). Unemployment, maternity and work injury insurance schemes were introduced in 1986, 1995 and 1996, respectively. In the mid-1990s, the Government launched medical insurance reform pilot projects, first in the two cities of Jiujiang and Zhenjiang and then in 57 other cities, in an effort to curb the increasing medical expenditure deficit. Major decisions were made in 1998 and 1999 in terms of nationwide implementation of the basic medical insurance and the basic pension insurance for urban employees. Meanwhile, efforts had also been made to pilot social insurance in rural areas and the expansion from employment-based to residence-based schemes through the establishment of a budget-financed minimum livelihood guarantee system and government contribution subsidy to vulnerable social groups. The urban provident fund for housing co-financed by both the employer and employees was first piloted in 1991 and implemented nationwide in 1999.

Unfortunately, the rural cooperative health-care system collapsed during this period with the introduction of the household responsibility system and market-oriented reforms. By 2003, only about 10 per cent of the rural population remained covered under the rural cooperative medical schemes (Xinhuanet, 2005). As a result, the majority of the rural population was uninsured and had to pay out-of-pocket for health care. The average cost of one hospital admission exceeded the average annual income of the majority of rural households and illness-induced poverty posed a serious challenge in rural China (Yip, 2001). Meanwhile, in the urban areas, the dependants of the employees (such as non-salaried spouses, elderly and children) were no more covered under the new basic urban medical insurance programmes. The 2008 Summary of China's Health Statistics published by the Ministry of Public Health in 2008 shows that the share of the government, communities (including enterprises and other establishments) and individuals in the overall health-care expenditures changed from 36.2 per cent, 42.6 per cent and 21.2 per cent in 1980, respectively, to 18.1 per cent, 32.6 per cent and 49.3 per cent correspondingly in 2006, indicating a rapid increase of the individual residents' expenditure in health care (Xinhuanet, 2009a).

The third stage is the rapid expansion period since 2003, which is characterized by unified planning for both urban and rural areas and enhanced efforts for coverage extension. Inspired by the basic social floors as advocated by the International Labour Organization (ILO) and in response to the call of President Hu Jintao for a harmonious social development, the Chinese Government has attached increasing importance to a coordinated social development in tandem with rapid economic growth and committed itself in a meeting in October 2006 to build up a social security system covering the whole population by 2020.

1.3 Brief descriptions, current coverage figures and recent social policy achievements

1.3.1 Pensions

There are three main kinds of pension schemes: the budget-funded pension scheme for civil servants and employees of public cultural, educational and scientific institutions, the basic pension scheme for urban workers (hereinafter referred to as "the basic pension scheme") and the voluntary rural pension scheme.

Under the basic pension scheme, the contribution rate is around 20 per cent of payroll for the employers (to the basic pooling fund) and 8 per cent of payroll for the individual employee (to the individual account). The self-employed and those in flexible employment in urban areas contribute 12 per cent of the local average wage to the pooling account and 8 per cent to the mandatory individual account. Upon reaching retirement age, which is 60 for males, 55 for female cadres and 50 for female workers, an employee with at least 15 years of contributions is entitled to a two-component pension, one from the pooling fund and another from the individual account. The target replacement rate for a retiree with 35 years of contribution is 58.5 per cent.

The basic pension scheme covered 218.91 million people by the end of 2008, including 165.87 million active employees or 54.91 per cent of the urban employed persons (of which 24.16 million are rural migrant workers) and 53.04 million retirees (see table 7.2 regarding coverage ratios under pension and other social insurance programmes). The annual fund revenues totalled CNY 974 billion including CNY 801.6 as collected contributions. The annual fund expenditures totalled CNY 739 billion and the aggregate fund accumulations over the years reached CNY 993.1 billion (MoHRSS-NSB, 2009).

Table 7.2 *Social insurance coverage by branch (2003–2008)*

Year & growth Branch	2003 (million+ coverage ratios)	2004 (million+ coverage ratios)	2005 (million+ coverage ratios)	2006 (million+ coverage ratios)	2007 (million+ coverage ratios)	2008 (million+ coverage ratios)
Urban basic pension	116.46 45.42%	122.50 46.27%	131.20 48.00%	141.31 49.92%	151.83 51.73%	165.87 54.91%
Urban and rural medical care	189.42 14.66%	231.04 17.77%	317.83 24.31%	567.32 43.16%	953.11 72.13%	1133.22 85.33%
Urban unemployment	103.73 40.46%	105.84 39.98%	106.48 38.96%	111.87 39.52%	116.45 39.98%	124.00 41.05%
Urban work injury	45.75 17.84%	68.45 25.85%	84.78 31.02%	102.68 36.27%	121.73 41.48%	137.87 45.64%
Urban maternity	36.55 14.26%	43.84 16.56%	54.08 19.79%	64.59 22.82%	77.75 26.49%	92.54 30.63%

Source: 2003–2007 figures are based on the annual statistical communiqués published in Chinese on the web site (www.mohrss.gov.cn) of the Chinese Ministry of Human Resources and Social Security (MoHRSS) while 2008 data come from the *Statistical communiqué on China's national economic and social development (2003–2008)*, published by the NSB (NSB, 2009). *Note:* Coverage ratios refer to the percentage of covered people in the total mainland Chinese population (excluding those from Taiwan, Hong Kong and Macau) for medical insurance and that of covered active

workers in total urban employment for the other four schemes. Pension figures do not include those covered under the existing rural pension scheme (participated in by 55.95 million farmers by the end of 2008).

In rural areas, a total of 55.95 million people participated by the end of 2008 in the rural pension schemes, which were implemented in 1991, administered separately by county-level rural social insurance organizations, and financed by voluntary personal contributions supplemented by a collective subsidy, if any. A total of CNY 5.68 billion was disbursed in 2008 as pension benefit to 5.12 million rural pensioners and the aggregate accumulation of fund over the years reached CNY 49.9 billion.

In parallel, by the end of 2008, 1,201 counties from 27 provinces (out of a total of 31 in mainland China) had implemented either basic livelihood security or pension insurance for a total of 13.24 million farmers whose land has been expropriated (MoHRSS-NSB, 2009). The urbanization has reportedly resulted in the loss of farmland for more than 40 million rural people, and the number is growing by around 3 million each year and expected to reach 90 million by 2020 (Zheng, 2008).

Since 2004, the Government has piloted in rural areas to offer incentives and assistance for families who abide by the family planning policy. Under the programme, couples in rural areas with only one child or with two girls will get an average of not less than CNY 600 per person each year from age 60 until death. The cost of payment will be jointly borne by the central and local government (Hua, 2009).

As a second pillar in the Chinese multi-tiered social security system, the corporate annuities (initially referred to as supplementary enterprise old-age insurance) were first piloted in the 1990s, initiated in mid-2004 and covered 33,000 enterprises encompassing 10.38 million people and accumulated CNY 191.10 billion by the end of 2008 (MoHRSS-NSB, 2009).

1.3.2 Medical care

There are basically four kinds of medical care schemes: the urban medical insurance programme which covers all employees in urban areas working in government organizations, enterprises, social groups and non-profit organizations; the Urban Residents Basic Medical Insurance scheme (URBMI) which covers with government subsidies non-salaried people such as the elderly and the children; the New Rural Cooperative Medical Scheme (NRCMS) which covers all rural residents with government subsidies; and the budget-funded medical assistance programmes targeted at needy people in both urban and rural areas (see social assistance, section 1.3.6 below).

Under the urban medical insurance scheme, the contribution rate is in principle 2 per cent of payroll from the employee (to the individual account) and 6 per cent from the employer (to the pooling fund). The individual account is used to pay medical expenses of up to 10 per cent of the local average annual wage income while the pooling fund will reimburse the amount from 10 to 400 per cent of the average annual income according to a certain schedule. Medical treatment in high-grade hospitals should result in a low percentage of reimbursement, and vice versa. Payment beyond 400 per cent rests with private insurance schemes or public-run supplementary schemes, if any.

The central and local government finance 80 per cent of the premiums of the NRCMS (less in well-off provinces) and an average of between 36 per cent and 56 per cent for adult and children under the URBMI (SSPTW, 2008). In 2008 annual contributions to the NRCMS stood at a per capita average of CNY 96.3, and the annual contributions to the URBMI ranged from CNY 150 to 300, with an average of CNY 236 nationwide (Wang, 2008). Unlike the urban medical insurance scheme, the NRCMS and URBMI mainly cover the major diseases

and hospitalization fees with a much lower reimbursement rate, at less than 40 per cent and about 50 per cent, respectively.

By the end of 2008, the number of people covered by the basic urban medical insurance programmes reached 318.22 million, including 118.26 million under URBMI as well as 42.66 million rural migrant workers. The annual fund revenues and expenditures totalled CNY 304 billion and CNY 208.4 billion, respectively, representing an increase of 34.7 per cent and 33.4 per cent over the previous year. Meanwhile, the aggregate fund accumulation over the years reached billion 343.2 including CNY 229 billion from the pooling fund and CNY 114.2 from the individual accounts (MoHRSS-NSB, 2009).

By the end of 2008, the government-subsidized and voluntary NRCMS, which was reinitiated in late 2003, covered all rural areas (a total of 2,729 counties or equivalent districts); 815 million people or 91.5 per cent of the rural population (see table 7.3) participated in this scheme on a family basis. In the same year, a fund of CNY 78.5 billion was raised nationwide and the total annual expenditures stood at CNY 66.2 billion, benefiting 585 million people/times including 51 million for hospitalization costs, 486 million for clinical treatment and 48 million for medical exams, etc. (MoH, 2009).

Table 7.3 *Coverage ratios of the New Rural Cooperative Medical Scheme (2004–2008)*

Year Coverage	2004	2005	2006	2007	2008
Number of covered persons	107 million	180 million	410 million	730 million	815 million
Coverage ratio	11.6%	23.7%	50.7%	86%	91.5%

Source: 2004–2006 figures come from the *Report on implementation of China's national economic and social plan for 2006* while the 2007–2008 data are based on news reports from the web site of the Chinese official Xinhua News Agency (www.xinhuanet.com). Coverage ratios here refer to the percentage of participating rural residents in the rural population. According to the explanation of a senior MoHRSS official, there are about 900 million Chinese residents with rural household register (Hukou), including around 200 million people (mostly rural migrant workers) who have already been counted as urban residents. The NRCMS covers all people with rural household register.

1.3.3 Unemployment

Initially confined to contract workers in SOEs, participation in the scheme is now compulsory for all wage employees in urban areas. The fund is financed by a contribution of 2 per cent of the payroll from the employer and 1 per cent from the employee. Previously linked to wages in employment, the unemployment benefit is now a flat-rate amount ranging from 60 to 70 per cent of the minimum wage, as determined by local governments. The benefit is set by local governments at a level higher than the local public assistance benefit but lower than the local minimum wage. It is paid up to one year with less than five years of coverage, for up to 1.5 years with five or more but less than ten years of coverage, or for up to two years with ten or more years of coverage.

By the end of 2008, a total of 124 million people or 41.05 per cent of the urban employed persons including 15.49 million rural migrant workers participated in the unemployment insurance schemes. In the same year, a total of 2.61 million people received unemployment benefits, and a lump-sum subsistence subsidy was paid to 930,000 rural migrant workers whose labour contracts were either not renewed or terminated in advance. The annual fund

revenues and expenditures stood at CNY 58.5 billion and CNY 25.4 billion, respectively, and the aggregate fund accumulation over the years reached CNY 131 billion (MoHRSS-NSB, 2009).

1.3.4 Work injury

Covering employees in all enterprises and the self-employed in urban areas, with an average contribution rate of 1 per cent of payroll to be contributed solely by the employers, contributions vary accordingly to three categories of industry and the assessed degree of risk. Benefits consist of medical treatment, including rehabilitation, as well as temporary and permanent disability pension. By the end of 2008, a total of 137.87 million people or 45.64 per cent of the urban employed persons including 49.42 million rural migrant workers participated in the work injury insurance scheme, and the number of people under benefit reached 1.18 million. The annual fund revenues and expenditures stood at CNY 21.7 billion and CNY 12.7 billion, respectively, and the aggregate fund accumulation over the years reached CNY 33.5 billion (MoHRSS-NSB, 2009). Civil servants and employees of public cultural, educational and scientific institutions (except for institutions financed off-budget) are covered under special government-funded, employer-administered systems (SSPTW, 2008).

1.3.5 Maternity

The maternity insurance programme covers all employees in urban enterprises, with a contribution rate of up to 1 per cent to be paid solely by the employers. The average monthly wage of the enterprise for the previous year is paid by the maternity social insurance fund for up to 90 days for the birth of a child, 42 days for a pregnancy that lasted at least four months, 15 to 30 days for less than four months, or 42 days for at least four months of gestation before an abortion (SSPTW, 2008).

By the end of 2008, a total of 92.54 million people or 30.63 per cent of the urban employed persons participated in the maternity insurance programme, and a total of 1.4 million people received benefits the same year. Annual fund revenues and expenditures stood at CNY 11.4 billion and CNY 7.1 billion, respectively, and the aggregate fund accumulations over the years reached CNY 16.8 billion (MoHRSS-NSB, 2009).

1.3.6 Social assistance

The budget-funded and means-tested minimum subsistence income guarantee scheme was first piloted in Shanghai in 1993, implemented in all cities in 1997, and covered the whole population in 2007. In 2008, the scheme provided benefits to 23.35 million urban residents and 43.06 million rural residents, with the expenditures totalling CNY 39.34 billion and CNY 22.87 billion respectively. The same year the urban minimum income guarantee benefit stood at CNY 205.3 per month, with each beneficiary receiving CNY 143.7 per month (as a difference between the standard and actual per capita income), compared against the rural figures of CNY 82.3 and CNY 50.4, respectively (MCA, 2009).

In addition, the rural communities also provided 5.22 million so-called five-guarantee households (mostly destitute older people) with food, housing, clothing, medical care and burial expenses, including 1.56 million in a concentrated manner with an average annual per capita expenditure of CNY 2,176.1 or in a scattered way with an average annual per capita expenditure of CNY 1,624.4 (MCA, 2009).

As regards the budget-funded medical assistance programmes, statistics from the Ministry of Civil Affairs (MCA, 2009) show that the 2008 annual expenditures totalled CNY 3.83 billion, including CNY 710 million to finance the participation of 34.32 million people/times in the NRCMS (a per capita average of CNY 20.7) and CNY 2.74 billion for assistance in major diseases involving 7.6 million people/times (a per capita average of CNY 360.3). In urban areas, the annual expenditures totalled CNY 2.97 billion, including CNY 390 million to support the participation of 6.43 million people in the URBMI (a per capita average of CNY 60.5) and CNY 2.14 billion for assistance in major diseases involving 4.44 million people/times (a per capita average of CNY 483.5).

1.3.7 Housing provident fund

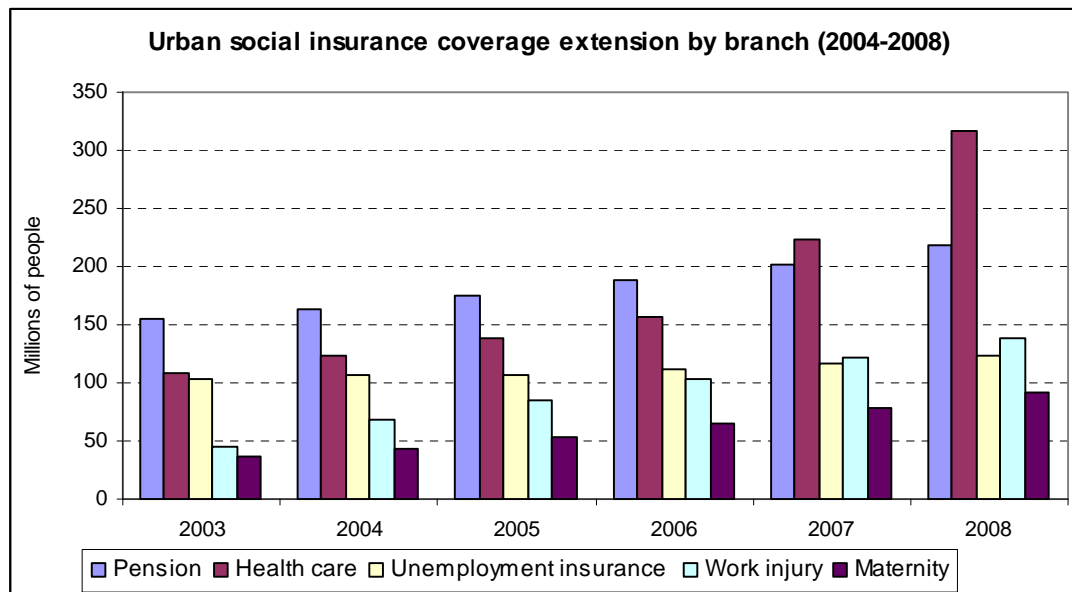
Both employer and employee should contribute each month at least 5 per cent of the employee's previous year's average monthly wage or salary to the municipal housing provident fund (HPF), which is under the supervision of the construction authorities (Ministry of Housing and Urban-Rural Development, or MoHURD, at central level). A separate account is established for each employee, who may apply for a loan from the fund and withdraw the entire balance for purchase, construction, renovation or repair of an apartment or house, or upon retirement, incapacity, migration abroad, etc. In some cities such as Shanghai, a supplementary fund has also been established.

By the end of 2008, the aggregate contributions over the years totalled more than CNY 2 trillion, including about CNY 447 billion collected in the same year, and the aggregate withdrawals over the years totalled around CNY 858 billion or 41.47 per cent of the total contributions. The number of contributing employees stood at 77.45 million by the end of 2008, compared to a total of 111.84 million to be covered by the HPF. Nearly 10 million members availed themselves of more than CNY 1 trillion as loans from the HPF (MoHURD, 2009). The nationwide average living space per citizen had increased from 7.1 square metres in 1991 to about 29 square metres in 2008.

1.3.8 Other public policy achievements

Also among recent noteworthy public policy achievements are the 2006 elimination of agricultural tax which had existed in China for more than 2,600 years, and the exemption of tuition and miscellaneous fees for the compulsory nine-year basic education in rural areas in 2007 and nationwide in 2008. The 2007 implementation of the "Measures on Low-rent Housing Guarantee" played an important role in helping secure an affordable living quarter for low-income urban families. The enhanced enforcement of the minimum wage in recent years has been quite helpful to the mass of rural migrant workers as most of them are low-income earners. The 2008 implementation of the Labour Contract Law and the Employment Promotion Law also contributed significantly to improving social protection for millions of vulnerable workers by obliging the employers to enter into a labour contract (including social security provisions) with all recruited workers and specifying concrete measures to boost employment and extend social security coverage.

Figure 7.1



Sources: 2003–2008 figures are based on the annual statistical bulletins published in Chinese on the official web site (www.mohrss.gov.cn) of the Chinese Ministry of Human Resources and Social Security (MoHRSS).

To date, China does not yet have a national social insurance or social security law (rather, it has regulations and directives). The State Council or Cabinet has certain legislative powers under the Constitution, and various departments under the State Council have the authority to adopt administrative rules. As a consequence, a series of State Council decisions and provisional regulations have been issued, although in an ad hoc and piecemeal fashion, to implement the proposed social security reforms.

Currently, the Ministry of Human Resources and Social Security supervises all the social insurance programmes, while the Ministry of Civil Affairs takes charge of the social assistance programmes and the Ministry of Public Health administers the New Rural Cooperative Medical Care Scheme. The housing provident fund and social housing programmes are managed by the Ministry of Construction. More often, provincial governments formulate detailed rules in accordance with the general principles set by the central Government and in accordance with the local circumstances. Aside from a narrow scope of coverage, low benefit and an urban–rural divide, institutional segmentation is also a feature of the Chinese social security system, under which most of the schemes are administered at county or city level by different authorities.

2. Chinese approaches in social security coverage extension

The rapid expansion of social protection in China is mainly attributed, although not confined, to the following measures adopted by the Chinese Government.

2.1 Increasing academic and social partners' involvement in strategic plans and reforms

While Chinese interpreters and social security professionals had to struggle hard to find proper Chinese equivalents for many social security terms when International Labour Organization (ILO) and International Social Security Association (ISSA) experts first gave

lectures in Beijing in the mid-1980s, universities with social security departments or research centres are mushrooming now in China, totalling more than 100 (from a total of 2,000 plus) as of the end of 2008. Well-known social security professors and experts are often invited by top Chinese leaders and social security authorities to brief and lecture on social security.

One good example is the end-2008 publication of the 313-page *Chinese social security reform and development strategy*, which was edited by Professor Zheng Gongcheng from the People's University in Beijing with the involvement of more than 200 professors as well as 200-plus officials nationwide, and clearly defines the concepts, objectives and action plans for Chinese social security development. In 2008, for instance, the central budget allocation for social security and employment totalled CNY 274.36 billion, representing 7.6 per cent of the Government budget. This is in addition to CNY 82.68 billion as the allocation for health care, which accounted for 2.7 per cent of the central budget (*People's Daily*, 2009). Based on international comparative studies and in view of the Chinese developments and trends, the report proposed that by 2012, 2020 and 2049, China's social security expenditure should account for no less than 7 per cent, 15 per cent and 25 per cent of GDP, respectively, and that the Government's budget allocation for social security expenditure should reach no less than 15 per cent, 20 per cent and 30 per cent of the total budget, respectively (Zheng, 2008).

Before the 2009 health-care reform scenario was unveiled, a number of Chinese universities as well as government think tanks also joined the "bidding", together with international organizations/consultancy firms by submitting their own proposed principles and plans.

In recent years, the Government has duly consulted with the social partners (employers' organizations and trade unions) in the process of drafting social protection legislation and the top legislature would normally release the draft laws on social affairs before they are enacted so as to solicit opinions from various circles, especially that of the social partners and the academics.

2.2 Piloting and gradual expansion

Before introducing any national scheme, the Chinese Government always conducts two- or three-phase pilots based on international good practices and Chinese innovations (sometimes with different pilot scenarios in places with different degrees of development) and only gradually expands the scope of implementation when the relevant experience and lessons are summarized. Such a government-managed, gradual and sequenced approach is well known to the international community as "crossing the river with a stone in hand" (a popular saying of Mr Deng Xiaoping, the former Chinese leader who launched the Chinese economic reforms in 1978).

For instance, the Urban Residents Basic Medical Insurance scheme was first piloted in 88 cities in 2007 and extended in 2008 to 229 cities or more than half of the cities nationwide. Financed with personal contributions coupled with central and local government subsidies, the scheme covered by the end of 2008 a total of 118.26 million people or 49.23 per cent of the target population, reimbursing about 50 per cent of the covered expenditure on hospitalization and major diseases. It is expected to be expanded to 80 per cent of the cities in 2009 and implemented nationwide by 2010, benefiting around 240 million non-salaried urban residents or about 18 per cent of the population.

2.3 Strong political will through heavy subsidy from the Government

The Chinese Government has demonstrated enormous political will in extending social security coverage, recognizing that social security plays a vital role in social stability and economic development, and constitutes a powerful tool to fight poverty and inequality. With 80 per cent government subsidies and only 20 per cent personal contributions, the voluntary New Rural Cooperative Medical Scheme was reinstated in 2003 and the coverage extended so quickly that it had basically covered all rural areas by the end of 2008, benefiting around 815 million rural residents. Statistics show that between 2003 and 2008, the central Government allocated a total of CNY 41.6 billion to subsidize the NRCMS, in addition to CNY 6.66 billion for the rural medical assistance programmes. As regards the rural minimum subsistence guarantee system, the central budget subsidy increased from CNY 3 billion in 2007 to CNY 9.36 billion in 2008 covering a total of 42.84 million rural residents (Li, 2009). In 2008, the total subsidies to the URBMI from the central and local government accounted for 36 per cent and 56 per cent respectively for adults and children, and 83 per cent and 85 per cent respectively for adults and children under social relief (Wang, 2008). The Government has also promised to increase annual per capita subsidies to the above-mentioned two schemes to CNY 120 in 2010 (compared to about CNY 80 in 2008 and CNY 100 in 2009), and intends to raise the reimbursement rate under the NRCMS from 30 per cent plus in 2008 to more than 50 per cent by 2010.

According to the 2006–2008 pilots in eight counties from seven provinces, the Government is working on a new type of rural pension scheme, which is to cover all rural residents above 16 years who have not yet participated in the urban basic pension schemes and will be financed by individual contributions, collective subsidies as well as government subsidies. Individual contributions, which range in principle from 4 per cent to 8 per cent (with a ceiling of 15 per cent) of the local county's net per capita income of the previous year, as well as (the bulk of) subsidies from the collective units, if any, are to be credited into the individual accounts. Subsidies from various levels of government are to be paid from the budget to finance the farmers' basic pension on top of the individual account benefit. Based on the minimum contribution of 4 per cent and the minimum of 15 years of contributions, a participant is expected to receive a combined pension equivalent to 25 per cent of the local average per capital net income in the same year upon reaching the retirement age of 60 (the bulk from the basic pension together with a small proportion from the individual account). The level of basic pension is to be decided by the State Council with due consideration to various factors such as the rural minimum subsistence guarantee, the poverty line, family planning incentives and the local farmers' average income (Banyuetan, 2009). The new scheme is to cover 10 per cent of rural areas in 2009 and the coverage rate is expected to reach 50 per cent in 2012 and 80 per cent by 2017 (Sinacom, 2009).

According to the 2009 *Opinions of the CPC (the Communist Party of China) Central Committee and the State Council on deepening the health-care system reform* (CPC and SC, 2009), the Government unveiled in early April 2009 (on top of the CNY 4 trillion economic stimulus package) a three-year CNY 850 billion plan, under which two-thirds of the budget is to be spent for consumers (as premium subsidies, etc.) and one-third for service providers with focus on improving grass-root health-care facilities and services. The plan aims to provide by 2011 more than 90 per cent of the population with universal access to basic health insurance in parallel with the introduction of an essential drug system, improved primary health-care facilities, equitable access to basic public health services and pilot reform of state-run hospitals. The ceiling of reimbursement is to be raised from four times to six times of annual income under different medical insurance schemes (State Council, 2009).

The central Government has also committed to input CNY 293 billion as an earmarked budget for social security appropriation in 2009, an increase of CNY 3.9 billion or 17.62 per cent over 2008.

2.4 Inclusion of coverage extension in national socio-economic development plans

In 2003, newly created urban employment and the control of registered urban unemployment were first included as important indicators in national macroeconomic regulation. In 2005, just one year after the implementation of the Regulations on Work Injury Insurance, the Government incorporated for the first time the extension of work injury insurance in the mandatory targets under the 2005 National Economic and Social Development Plan and committed to bring a total of 75 million people under work injury insurance coverage by the end of the 2005 compared to 68.45 million in 2004.

In the 2006–2010 Five-Year National Economic and Social Development Plan, the Government included for the first time a compulsory quota for the extension of urban pension insurance coverage and that of the NRCMS, i.e. by end-2010, the basic urban pension insurance should cover 223 million people, an average annual growth of 5.1 per cent compared to 2005. The coverage of the NRCMS should exceed 80 per cent compared to 23.7 per cent in 2005. Based on the national targets, the relevant ministries also worked out annual and five-year quotas (split among different regions) and supervised their implementation nationwide.

In China's first National Human Rights Action Plan (2009–2010) released on 13 April 2009, the Government reaffirmed that it would cover by 2010 a total of 223 million people under the urban basic old-age pension insurance, 400 million under the urban basic medical care insurance, 140 million under the work injury insurance, and over 100 million under the maternity insurance.

2.5 Special campaigns for the extension of coverage to targeted groups

One effective tool in extending coverage to priority target groups is to implement well-organized special campaigns. In May 2006, the Ministry of Human Resources and Social Security (MoHRSS) (then known as the Ministry of Labour and Social Security (MoLSS)) launched the three-year national campaign called the Ping An (Peace and Safety) Programme, which aimed to get all rural migrant workers who work in highly risky trades (such as mining and construction) covered under the work injury insurance scheme (WII). The newly enacted Regulations on Safe Production Licence also obliged all enterprises to participate in the WII scheme as one of the prerequisites to obtain or renew the licence. A nationwide phased quota was set and split among different provinces and regions in an effort to steadily expand coverage. The MoHRSS plans to launch the second phase of the Ping An Programme in mid-2009 with a focus on further extending WII coverage to rural migrant workers and upgrading pooling of WII funds from county to prefecture or municipal level nationwide.

2.6 Employment promotion measures and incentives for less-privileged groups

With technical assistance from the ILO and drawing on the experience from developed countries, China has implemented since 2002 an active labour market policy through small

business start-up loans for the unemployed (with part or all of the interest covered by the central budget in certain regions), tax and administrative fee concessions for the unemployed who engage in self-employment through single proprietorship as well as for enterprises recruiting the unemployed, job and social insurance contribution subsidies for senior unemployed persons, reimbursement of university tuition fees for those college graduates who volunteer to work (for a certain period of time) in rural and backward areas, pilots on expanding the scope of expenditure of the local unemployment insurance funds to provide a vocational training subsidy, employment placement subsidy, job subsidy and special loans. In 2006, for instance, the total number of urban employed people in mainland China increased by 11.84 million from 283.10 million in 2005, a 15-year record high, including 5.05 million unemployed people who had been re-employed thanks to various proactive measures.

The 2007 State Council Regulations on Employment of People with Disabilities obliges all enterprises, government departments and institutions to ensure that people with disabilities make up no less than 1.5 per cent of the work-force, a failure of which will result in a financial penalty to be paid to the local fund of employment guarantee for persons with disabilities. As of July 2007, a new and unified tax concession policy has been implemented nationwide. The new policies are expected to further promote employment opportunities for the country's 83 million persons with disabilities. Statistics show that by the end of 2007, the number of employed rural and urban persons with disabilities reached 16.97 million and 43.37 million, respectively. In the same year, nearly 400,000 additional people with disabilities were placed into jobs in the cities, including 119,000 through collective employment, 115,000 through quota schemes and 158,000 through self-employment and different forms of flexible employment (Liu et al., 2009).

In recent years, the Government has clearly identified low-income groups, such as the urban self-employed and those who are engaged in flexible types of work as well as farmers and rural workers, as the main targets for social insurance coverage expansion. Quite a number of flexible measures have been introduced to bring these people under social security coverage. For instance, the self-employed and those in flexible forms of employment in urban areas are required to contribute 20 per cent of the previous year's local average monthly wage, compared to a total of 28 per cent contributions regarding an urban employee. For the new rural cooperative medical schemes, the subsidies from the central and local government account for as much as 80 per cent of the total fund. In some places, local governments have allowed employees such as farmer-turned-workers and the self-employed who have reached retirement age but have not contributed enough years to the pension fund to either continue paying contributions or buy back some years so as to become entitled to a regular pension benefit instead of a lump-sum payment.

2.7 Proactive policies in times of natural disasters and financial crisis

The Government and social security authorities have acted swiftly and proactively in recent years to address the impacts on social protection brought about by natural disasters and the current financial crisis.

Soon after the devastating Sichuan earthquake in May 2008, the Government conducted two international seminars with the ILO and the United Nations Development Programme (UNDP) on post-disaster reconstruction, and enacted a series of guidelines and measures to provide employment assistance (public welfare jobs, post allowance, transferred placement, etc.) and social insurance policy support (reduced or postponed contributions, contribution subsidies, training subsidies), one province-to-one-county aid from well-off regions and more than CNY 70 billion central budgetary allocation for reconstruction.

With export income accounting for more than 30 per cent of its GDP, the Chinese economy has also been severely affected by the 2008 financial crisis. Beginning from the fourth quarter in 2008, 40 per cent of enterprises witnessed a net decrease of job posts, with a net retrenchment of around 5 per cent or 3 million urban employees nationwide. In parallel, more than 20 million rural migrant workers have lost their urban jobs and returned to rural areas (Lu, 2009). To address the social impacts of the crisis, the Chinese Government has mainly adopted the following four measures.

The first is to expand domestic demand by rolling out a CNY 4 trillion two-year stimulus package plus a CNY 500 billion massive tax concession programme each year with the aim of ensuring an 8 per cent GDP growth and creating 9 million new urban jobs in 2009. Most of the investment will go to government-subsidized housing projects, projects concerning the well-being of rural residents, railway construction and other infrastructural projects, environmental protection projects and post-earthquake reconstruction. For instance, the Ministry of Commerce announced in early February 2009 that 250,000 rural retail stores will be established within two years (150,000 in 2009 and the rest in 2010) so as to create 775,000 jobs for the returned migrant workers. A partial-reimbursement programme has also been launched to encourage the rural households to purchase various kinds of home appliances and vehicles.

The second measure is to revitalize, with an input of CNY 370 billion, ten major industries (such as vehicles and information and communication technology (ITC)) through credit support and tax concession as well as technological upgrading and structural adjustment.

The third is to increase budgetary input in scientific research and technical innovations so as to generate a new focus for economic growth.

Last but not least is the enhancement of the social security system with a focus on promoting employment and improving various types of social security schemes. Specific measures include the employment promotion package, pilot implementation of a new type of pension for farmers with government subsidies, upgrading of social insurance pooling levels, new policies on portability and a pension scheme for rural migrant workers, and the CNY 850 billion three-year plan on top of the CNY 4 trillion stimulus package aimed at building a universal health-care scheme by 2011 (Zhu, 2009). The new rural pension scheme and the new rural cooperative medical scheme, both heavily subsidized by the Government, will play an important role in stimulating economic development in the context of the current economic and financial crisis. Mr Li Xueju, Chinese Minister of Agriculture, declared in April 2009 that each additional rural resident under social security coverage will generate an annual increase of CNY 483 in household consumption (Yuan and Zhang, 2009).

Initial positive signs have already been witnessed as a result of such a combination of measures. In the first quarter of 2009, China's GDP grew at 6.1 per cent compared to the same period in the previous year while the total retail sales of consumer goods increased by 15.9 per cent thanks to various incentives. As of January 2009, the number of the newly increased urban employment posts stopped declining and began to rise again, and the first three months' figures reached 690,000, 930,000 and 1.06 million, respectively (a total of 2.68 million for the first quarter), compared to only 380,000 in December 2008 (Wen, 2009).

3. Major issues, challenges and policy options

3.1 "Silver tsunami" and sustainability

While it took many Western countries 40–50 years for their population above the age of 60 to increase from 5 per cent to 10 per cent, it took China only 18 years to increase from 4.9 per cent in 1982 to 10 per cent in 1999. Contributing factors include the "one-child policy" introduced since the 1970s, a significant improvement in health and living standards, and the large amounts of early retirement cases since the mid-1990s. In contrast to Western countries, which normally entered an ageing society after industrialization, China is "getting old before becoming rich" (Zhu, 2002). The fifth national population survey showed that in 2000, people aged 65 and above totalled 88.11 million, accounting for 6.96 per cent of the whole population. By 2040, people aged 65 and above are expected to account for more than 20 per cent of the whole population; in the meantime, people aged 80 and above are growing at an annual rate of 5 per cent and expected to reach a total of more than 74 million people.

The most significant dilemma that the Government has to face is the huge amount of unfunded pension liability. As early as 2005, the Ministry of Labour and Social Security submitted a report to the State Council, projecting the basic pension funding gap to be CNY 6 trillion-plus over the next 30 years (Yang, 2005). Owing to the disruption of the system and the subsequent transition towards a partly funded one without government funding for middle-aged and already retired people, the current generation has to pay an extremely high contribution rate to support the retired generation while at the same time saving for their own pensions. In Beijing, for instance, if we take into account the five traditional social insurance schemes plus the contributions to the housing provident fund (12 per cent each for the employer and the employee) and enterprise supplementary pension funds or annuities (8.3 per cent each for the employer and the employee), the seven items add up to a total equivalent of 72 per cent of the payroll, constituting a big burden for both enterprises and employees and hence little room for any further increase in contributions.

Over the past ten years, one of the priorities of the central Government has been to ensure the payment of pension benefits on time and at the full rate. In 2000, 24 of the 31 provinces had experienced deficits. As a result, the individual accounts, although designed as a funded defined contribution scheme, have become largely empty because nearly all revenues have been spent to fulfil current pension obligations. By May 2001, for instance, the nationwide deficit in individual accounts amounted to more than CNY 190 billion. Over the years, the central government has had to appropriate billions of CNY from the budget to cover the fund shortage and guarantee the timely payment of pension benefits in the old industrial bases and less developed provinces, and in the meantime helped some of the regions to recapitalize the individual accounts through social transfer payments (Zhu, 2002). As of early 2009, 13 provinces had conducted pilots on recapitalizing individual pension accounts, the accumulation of which totalled CNY 110 billion. In 2004, for example, the total basic pension insurance expenditure reached CNY 350.2 billion, an increase of 65.5 per cent over 2000, and the central Government's subsidy to various local basic pension funds totalled CNY 52.2 billion (Xinhuanet, 2006) compared to CNY 81.9 billion between 1998 and 2000.

To properly address the problem, the Government has taken measures to effectively extend coverage, curb early retirement (the current actual average retirement age is estimated to be 53 only) and is considering introducing the phased plan to extend the retirement age so that the pensionable ages may be gradually aligned for men and women and then raised to 65 (compared to 55 for females and 60 for males now). In recent years, there has been a move to gradually reduce the government's financial support to the budget-financed pensions of public cultural, educational and scientific institutions and incorporate those that are partly or

not at all funded by the Government into the basic pension scheme (with pilots conducted in five provinces or equivalent municipalities since February 2008). Reportedly, there were a total of 1.25 million public cultural, educational and scientific institutions nationwide by the end of 2005, employing 30.35 million employees (4.3 times the number of civil servants) and accounting for 80 per cent of the people financed by the budget. Recently, there has also been a debate in the media on whether the budget-financed civil servant pension scheme should be merged into the basic pension fund. A successful implementation of the reform will without doubt mitigate the financial burden and enhance social fairness.

Furthermore, the Government established in 2001 a strategic reserve fund called the National Social Security Fund, which is non-contributory and financed with central budget appropriations, social welfare lottery income and proceeds of divestiture of state-owned enterprises, etc. The main purpose of this reserve fund is to cover the basic pension funding gap when the ageing of the Chinese population peaks in about 15–20 years. By the end of 2008, the Fund had accumulated total assets of CNY 562.5 billion including CNY 160 billion as aggregate investment returns (NSSF, 2009).

3.2 Growing income gap and the issue of benefit adequacy

In China, for various reasons, there is an undisputed big income gap between the urban and rural areas, and across different regions and sectors, just as described in the saying that "the coastal areas look like Europe while the western part resembles Africa". In general, the average income of an urban resident is about three times that of a rural resident and a sharp contrast also exists for social security benefits in terms of standards and adequacy. According to a recent survey conducted by the Agricultural and Rural Affairs Committee under the National People's Congress, only 10 million among the nearly 60 million farmers covered under the existing voluntary rural pension schemes have access to local government subsidy (without any subsidy from the central Government). On average, the per capita monthly rural pension benefit amounts to CNY 80, which is less than 10 per cent compared to the urban scheme (Yuan and Zhang, 2009). In 2008, the average per capita monthly subsidy under the rural minimum subsistence guarantee schemes was only CNY 50.4 for a total of 43.06 million beneficiaries compared to the average of CNY 143.7 for a total of 23.35 million beneficiaries in urban areas (MCA, 2009).

In 2008, the per capita average monthly pension for an enterprise retiree ranged from around CNY 900 in Hunan Province to CNY 1,580 in Beijing. While pensions for retired civil servants and public sector employees rise in step with the wage increase of current employees, retired enterprise employees have their pensions adjusted as a proportion of the average wage level when appropriate, and in fact the basis pensions for urban enterprise employees lack an institutionalized adjustment mechanism. As a result, the once similar benefits the two schemes offered before reform have now become increasingly different. Two people of the same age with the same qualifications may have joined work at the same time and used to be colleagues at one establishment, but when they retire from two different systems, the one who retires from an enterprise will find out that he or she is only receiving a pension equivalent to about one-half or even less of that of the former colleague who has retired from the government organizations or non-administrative public institutions. This has given rise to a large number of mass petition incidents (Hua, 2009).

The *World Health Statistics 2009* show that average life expectancy at birth for the Chinese population was 74 years in 2007, with females (75) living three years longer than males (WHO, 2009). While it may be regarded as gender discrimination for a male employee to retire a few years later, the female employee tends to receive a much lower pension than a male colleague because of her shorter period of work as benefits from both the basic pooling

scheme and the individual account are increasingly tied to seniority. In terms of annuities, more than 90 per cent of annuity funds come from large-sized (and often monopoly) state-owned enterprises while small and medium enterprises occupy less than 1 per cent of the total. Among those who are covered by annuities, there is a strong bias in favour of the management, since the managers receive on average an income of 4.6 times that of the employees and the annuity gap can be as much as three to five times (*Workers' Daily*, 2008).

While an urban employee can expect to have 70–80 per cent of his or her medical bills paid by the medical insurance fund, those under the urban residents medical insurance scheme and the new rural cooperative medical schemes are mainly covered for expenditures concerning hospitalization and major diseases with an reimbursement rate of around 50 per cent and more than 30 per cent only. In 2003 China was ranked by the United Nations as 61st in health performance among the 192 UN countries, and considered by the World Health Organization (WHO) to have one of the most unfair health-care systems in the world. A report titled *Evaluation and recommendation concerning Chinese health-care structural reform* published in 2005 by a group of experts from the Chinese State Council's Development Research Centre also concluded that the market-oriented Chinese health-care reform since the late 1990s is basically a failure (ISSA, 2009).

To tackle this issue, the Government has increased its social transfers to the backward regions and subsidies to low-income groups in recent years. The average pension of the enterprise retirees has been raised continuously each year since 2005, and increased by 10 per cent to around CNY 1,200 per month in 2009. In the new blueprint for health-care reforms over the next decade, the Government declared that the core principle of the reform is to provide basic health care as a "public service" to the people, and to provide by 2020 the world's biggest population with a basic health-care system that can provide "safe, effective, convenient and affordable" health services to both urban and rural residents. An ambitious plan has been announced to rebuild a complete network of rural health facilities and upgrade the skills of thousands of rural doctors with huge government subsidies. In Tianjin City, a neighbour of the Chinese capital, the municipal government enacted in May 2009 new stipulations to integrate systems and build unified pension and medical insurance schemes covering both urban and rural areas (Xinhuanet, 2009b).

3.3 Fragmentation of schemes

As most social insurance schemes are pooled and administered separately at county or municipal level and the contribution rate and benefit level could differ among different provinces and even within the same province, there exist in fact several thousand kinds of schemes. Such piecemeal and separate contributory schemes run by different agencies tend to result in a fragmentation of the system with little pooling of risk, a limited redistributive impact, a high administrative cost as well as barriers which prevent people moving from one place to another and between different schemes. For example, there are three different medical insurance schemes for the urban employees, non-salaried urban residents and the farmers, respectively. The first two are managed by social security authorities while the third is managed by the health authorities. Each scheme has its own designated hospitals, pharmacy list and computerized network. There is a sharp contrast among different schemes in contributions and benefits as well as overlapping of the targets to be covered. Although the Government has put forward a clear target for provincial pooling of basic pension funds, the remaining four social insurance schemes are still administered at county or city level in most places. Nationwide, there are a total of 7,450 social insurance agencies of various kinds at different levels (CNSS, 2009).

To address the problem, the Government has been trying to upgrade the pooling level for pension and other schemes. By the end of 2008, 17 out of the 31 mainland provinces had realized provincial pooling of pension funds and the Government is striving to realize provincial pooling in all provinces by the end of 2009 and eyeing a national pooling by 2012. Recently, the Government has also published draft regulations on both the portability of pension benefits and the pension insurance for rural migrant workers, which have taken due account of the linkage between, and integration of, different pension schemes. In Beijing, the municipal government implemented in 2008 an integrated old-age guarantee for urban and rural residents. All Beijing residents aged 60 and above, either urban or rural who are not covered by any old-age protection scheme (a total of more than half a million), are entitled to a budget-financed and non-means-tested monthly welfare pension of CNY 200 as of 1 January 2008. On top of the monthly benefit based on the farmers' individual pension account, the local government also provides each beneficiary an additional monthly basic pension of CNY 280 from the earmarked local budget. The municipal government also allowed for the first time in China for the urban basic pension scheme and the farmers' individual account pension scheme to have a two-way transfer (ISSA, 2009). In the draft "Social Insurance Law" released for public opinions between 28 December 2008 and 15 February 2009, article 24 states that "Governments of the provinces, autonomous regions and municipalities directly under the central government will, in accordance with the practical circumstances, unify the standards and implement in an integrated way the urban employees medical insurance schemes, the (non-salaried) urban residents medical insurance schemes and the new rural cooperative medical schemes." Once enacted, it will lay a solid foundation for the merger of different schemes and contribute positively to a universal national health-care scheme.

3.4 Portability and social protection for farmer-turned-migrant workers

The massive flow of rural migrant workers in search of higher wages and better opportunities is actually the result of two things: the rural household responsibility system initiated in the late 1970s, which released millions of redundant rural labourers; and the rapid process of industrialization and urbanization, which needs and attracts a growing number of domestic migrant workers. With an abundant supply of domestic migrant workers at a relatively low cost, China has, to a certain extent, avoided the social problems associated with foreign migrant workers in some European Union countries.

Due to the urban bias of the existing schemes and a clear urban-rural divide through the household register (Hukou) system, however, many domestic migrant workers have to engage in "3D" (dirty, dangerous and difficult) jobs such as mining and construction work with a much lower remuneration than their urban counterparts and have been left outside the scope of social protection. The current social security arrangements for domestic migrant workers, if any, are characterized by low standards of access and benefits as well as barriers in portability and aggregation of benefits for interregional transfer (D'Haene, 2006).

The issue of portability and so-called double exploitation of the rural migrant workers has been one of the hottest topics in the media in recent years. On the one hand, these workers receive in general a lower remuneration by doing 3D work compared to their urban counterparts. On the other hand, as social security, especially pension benefits, are not portable between different regions (sometimes even within the same province), they can hardly fulfil the minimum requirement of 15 years of contributions in one place and have to opt for a withdrawal of their accumulated funds in the individual account while the contributions paid to the pooling fund by their employers on their behalf are taken by the local social security funds. A news release of MoHRSS dated 31 March 2009 shows that by

end February 2009, a total of 970,000 rural migrant workers had withdrawn their accumulated funds in the individual accounts and thus left the pension coverage. Meanwhile, people covered by the basic medical insurance and employment injury insurance also decreased by 1.67 million and 1.4 million, respectively, compared to the end of 2008.

It is quite encouraging to note that the issues concerning agriculture, rural areas and farmers have been accorded high priority by the Government in recent years. Quite a few central guidelines on the protection of migrant workers have been enacted. As early as 2006, the State Council put forward in its "Opinions on addressing the issues concerning farmer-turned-workers" a principle of "low premium, wide coverage, portability and potential to be linked to the current basic pension schemes". In February 2009, the MoHRSS published the draft of "Measures on participation of farmer-turned-workers in the basic pension scheme" to solicit public opinions. Under the draft, the employer is required to contribute 12 per cent (instead of the current 20 per cent) to the local pooling fund while the individual can opt to contribute between 4 and 8 per cent of the payroll into the individual account. When a rural migrant worker leaves one place of work, he or she is in principle not allowed to opt out by withdrawing the accumulated funds in his or her individual account. The social insurance agencies in two different places will help the individual go through the formalities for the transfer of entitlements and the vested rights will be calculated in a continuous way. For those who discontinue contributions, the entitlement record and individual account will be sealed (with interest to be accredited to the account as per state stipulations). The new document also proposed to convert the personal identity card into a permanent social security card and establish a nationwide pension insurance enquiry system. In the meantime, the MoHRSS has also published a draft on portability of basic pension entitlements for urban enterprise employees. The two documents are expected to be implemented before the end of 2009 and will contribute to a free movement of labour between different regions. Nevertheless, much remains to be done to safeguard the legitimate rights and interests of rural migrant workers.

3.5 The issue of investment and value maintenance for contributory social insurance funds

By the end of 2008, the five social insurance schemes nationwide (the New Rural Cooperative Medical Schemes excluded) collected CNY 1.38 trillion as revenues and paid out CNY 1.03 trillion the same year as various benefits (the administrative costs for all social insurance schemes are covered under the Government budgets). The aggregate accumulation for the five funds over the years reached a total of CNY 1.41 trillion, in addition to CNY 180 billion of annuity funds and a central non-contributory social security reserve fund of over CNY 500 billion. The major investment challenges are with the basic pension scheme as the other four schemes more or less define the income as per the expenditure.

In early years, corporate funds used to be managed by either the enterprises/trades themselves or the agencies attached to the local social security authorities. In 2004, the Chinese Ministry of Labour and Social Security (MoLSS, renamed MoHRSS in 2008) promulgated the "Trial Measures on Corporate Annuity" and the "Trial Measures on Corporate Annuity Fund Management" to promote market-oriented development. In 2005, the Government accredited 37 financial institutions, including insurers, securities and trust companies, as annuity fund custodians, asset managers and bookkeepers. By the end of 2007, all corporate annuity funds had been transferred to professional investment managers. The fund reached CNY 150 billion in 2007 and CNY 180 billion in 2008 compared to CNY 20 billion in 2001, CNY 68 billion in 2005 and CNY 91 billion in 2006. A World Bank forecast estimates that China will become the third largest annuity market by 2030 with a value of US\$1,800 billion. The underdeveloped domestic capital market and the lack of a legal framework, a sound information release and a uniform policy on tax incentives, however, pose major challenges

for China's corporate annuities, and there is a drastic need to strengthen the Government's supervisory role.

The non-contributory National Social Security Fund managed by the ministry-level National Social Security Fund Board seems to be doing a better job. Since its establishment more than eight years ago, the Fund has earned an aggregate investment return of CNY 160 billion, with the overall annual return rate reaching 8.98 per cent (compared to an aggregate annual average inflation rate of 2.35 per cent). In terms of investment portfolios, the 2001 Interim Measures on Investment Management of the National Social Security Fund stipulate that the total of bank deposits and state bonds should not be less than 50 per cent, that the corporate bonds and financial bonds should not exceed 10 per cent and investment in securities and equities no more than 40 per cent. As of May 2006, the Fund has been allowed to use up to one-fifth of its total assets for overseas investments as per a provisional stipulation jointly issued by the Ministry of Finance and the Ministry of Labour and Social Security.

Between 2003 and 2008, the total annual revenues under the five traditional social insurance schemes rose from CNY 48.82 billion to CNY 1.38 trillion. Due to the low level of pooling and administration, absence of a complete set of compulsory legislation and understaffing of the supervision body, there still exists the problem of embezzlement and illegal diversion of social insurance funds for local construction projects. Compared to the diversified investment channels of the annuity funds and the non-contributory reserve fund, however, the social insurance funds are only allowed, under the current stipulations, to be deposited in state-owned banks or to purchase domestic state bonds, thus facing a great pressure of fund devaluation. It was disclosed at the 2008 National Social Security Forum (held in November 2008 in Beijing) that the annual rate of return for the five social insurance funds was less than 2 per cent. In view of 5.9 per cent rise in the consumer price index (CPI) in 2008, this would translate into around CNY 60 billion loss in the real value of the funds in the same year (Wong, 2009).

Mr Chen Liang, MoHRSS Director-General for Supervision of Social Insurance Funds, reported at a meeting in Beijing in mid-April 2009 that the Ministry was in the process of drafting new regulations on supervision of social insurance funds, measures on the investment operations of social insurance funds, regulations on corporate annuity as well as measures on coping with violations concerning the corporate annuities (CNSS, 2009).

4. Conclusions

The Chinese case clearly shows that the extension of social security coverage is doable in developing countries, and government commitment through prudent planning, phased implementation, social transfer and earmarked subsidies has acted as the main driver for a rapid expansion. Although there is no "one size fits all" strategy to extend social security coverage, the Chinese approaches have the potential to inform and catalyze developments in other parts of the world, and both the ILO and ISSA may play an important role in maximizing such a potential.

In spite of remarkable achievements, however, China still has a long way to go in establishing a sound and universal social security system for the most populous nation in the world. On the one hand, it has to tackle a series of issues such as lagged-behind legislation, the narrow scope of social security coverage, fragmentation of schemes, uneven urban and rural development, weak management facilities and increasing financial pressures; much remains to be done to fully develop disability, survivors' and family benefit programmes, and to further extend the coverage of different social insurance schemes. On the other hand, it must

face up to the challenges posed by the rapid ageing of population, diversification of the forms of employment, accelerating urbanization and uneven distribution of social income.

Apparently, the Chinese Government would not have had to spend so much to rebuild the system and pay large amounts of subsidies had the old rural cooperative medical schemes not been disrupted and the dependants remained covered in the urban medical schemes in the course of the market-oriented reforms. Among the lessons which might be drawn by other developing countries from the Chinese experience, the key is to restrain from abandoning or reforming any social security system before conducting a thorough and in-depth study and getting prepared to meet the cost of change. The Chinese developments also reveal that the commercialization of social security has its own limits, and the state must maintain an adequate budget input and design a set of sound regulations to avoid social divide and system fragmentation, to enhance the portability of social security benefits and coordination or integration of different schemes so as to protect the public interests in perpetuity.

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