Social security in the People’s Republic of China

Sustainable development of China’s social security

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The Chinese Government attaches great importance to social security. In the early 1950s, China put into place a social security system compatible with the then current productivity level and economic system. Since the 1980s, China has adopted reforms and open policies. It has experienced rapid and sustained economic growth and profound economic system reform. In addition, the government has made great strides in reforming the social security system, aiming at building a system well-matched to its socialist market economic structure. Entering the twenty-first century, with the objective of building an all-round prosperous society, the Chinese Government has set itself the task of accelerating the improvement of the social security system.

Historic achievements in China's social security reform and development

Despite its brief historical development, the social security system in China has already witnessed profound reforms and rapid advancement. Thus far, a framework for social security has taken shape and has played a significant role in the process of economic system reforms and important economic restructuring. In the last ten years, China's endeavours to reform and improve the social security system have focussed on the following three features.

Addressing the most important problems in the transitional period

In the early 1990s, China set a clear objective to move from a planned economy to a socialist market economy and encountered two important issues in the mid- and late 1990s when the transition entered a critical period. One issue was that tens of millions of workers were laid off from State-owned enterprises during economic restructuring. However, there was not a sound social security system to safeguard the basic living standards of those made redundant, nor was there any assistance for those seeking re-employment. The other issue was how to ensure timely and full pension payments to the tens of millions of retirees who previously had received their benefits directly from their employers and how to guarantee these retirees a comfortable retirement.

Without a sound solution to these problems, the progress of State-owned enterprise reform and economic restructuring would be negatively affected. Furthermore, it might give rise to social conflicts. To address these issues, the Chinese Government made the important political decision in 1998 to adopt the "two guarantees" policy and build the "three security
The "two guarantees" refers to guaranteeing the basic living standards of workers laid off from State-owned enterprises and guaranteeing timely and full pension payments to the enterprises' retirees. The "three security lines" refers to the basic living standard guarantee for laid-off workers from State-owned enterprises, unemployment insurance and a minimum living standard guarantee for urban residents.

The basic living standard guarantee for those laid off from State-owned enterprises mainly includes:

- Upholding the principle of downsizing within the affordability of society, strengthening macro control and regulating the procedures for laying off workers.
- Requiring State-owned enterprises with laid-off workers to set up re-employment centres so that the workers must enter the centre and conclude agreements with the centre concerning their basic living standard guarantee and re-employment. The centres are made responsible for delivering basic living allowances, paying social insurance contributions on the laid-off workers' behalf and organizing re-employment training.
- For profit-making enterprises, the cost of the basic living standard guarantee to be met by the enterprises; for loss-making enterprises, to be equally shared by three parties, i.e. the enterprise, society (which refers to the local social pooling fund) and the government. Where the enterprise concerned and society have difficulties in paying their shares, the government financial departments at the same level are required to provide support.
- Strengthening labour market development, intensifying re-employment training and providing preferential and supportive policies so as to promote re-employment.

The laid-off workers may stay in the re-employment centre for a maximum of three years. If the workers remain unemployed after three years, they may terminate their labour relationship with their enterprises and claim an unemployment insurance benefit as prescribed for a maximum of two years. Then if they remain unemployed after two years, they can claim the minimum living allowance for urban residents. These three security lines constitute an important component of the Chinese social security system.

In recent years, governments at various levels in China have regarded "the two guarantees" and the "three security lines" as top priorities on their social security agenda. A responsibility system among governments at various levels has been formed and, thanks to their concerted efforts, the established targets have been achieved. In the six years from 1998 to 2003, a total of 28 million laid-off workers were laid-off across the country, and an overwhelming majority of them entered the re-employment centres, thus being assured the timely payment of their basic living allowances. The centres also paid social insurance contributions on behalf of the laid-off workers. Moreover, 17 million laid-off workers were successfully re-employed. During the same period, the number of retirees from enterprises increased from 27 million to 36 million, with almost all retirees being paid pensions on time and in full. To fulfil the targets under the "two guarantees" in the six years, the central government provided a total amount of RMB 250.5 billion to the central and western regions through special transfer payments, of which RMB73.7 billion was allocated as subsidies to basic living security and re-employment promotion, while RMB176.8 billion was earmarked as subsidies to the current fund under the pension insurance schemes. The "two guarantees" and the "three security lines", despite their temporary nature in the transitional period, have focused on serious contradictions with strong targeted measures: they have

\[1 \text{ RMB} = \text{Chinese currency, Renminbi. The current exchange is approximately: USD}1.00 = \text{RMB}8.28 \text{ (August 2004).}\]

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effectively safeguarded basic living standards for those laid off and unemployed, maintained social stability, facilitated realizing the targets of State-owned enterprise reform and economic restructuring, and made available more time for improving the social security system.

Accelerating reform and building the social security system

A sound social security system is both an important component of the socialist market economic system and a major part of the efforts to build an all-round prosperous society. In recent years, China's social security construction efforts have been focused on the following six aspects.

Accelerating the legal framework

The Constitution of the People's Republic of China provides that "citizens in the People's Republic of China have the right to material assistance from the State and society when they are old, ill or disabled. The State develops the social insurance, social relief and medical and health services that are required for citizens to enjoy this right". The 2004 Amendments to the Constitution add that "the State develops and improves a social security system compatible with the economic development level". In accordance with the Constitution, China has formulated the Labour Law, Trade Unions Law, Law on the Protection of Disabled Persons, Law on the Protection of the Rights and Interests of Women and Law on the Protection of the Rights and Interests of Old Persons. The State Council has promulgated a series of administrative regulations and decisions such as Regulations on Unemployment Insurance, Provisional Regulations on the Collection and Payment of Social Insurance Contributions, Regulations on the Minimum Living Standard, Guarantee System for Urban Residents, Regulations on Work Injury Insurance, Decisions on the Establishment of a Unified Basic Old-Age Insurance for Enterprise Workers in Urban Areas, and Decisions on the Establishment of the Basic Medical Insurance for Urban Workers. Along with the legal basis, the State Council has also promoted various social security reforms and thus has initially put in place a legal framework on social security suited to the Chinese situation.

Striving to extend coverage

Under the planned economy, only workers in State-owned enterprises were entitled to social insurance benefits. Since China's reforms and opening up and along with the development of the multiple economic ownerships and diversified forms of employment, the social insurance system has experienced a steady expansion in its coverage. The basic old-age insurance is applicable to all urban enterprises, individual businessmen and people in flexible forms of employment. As of the end of June 2004, the number of participants in the basic old-age insurance was 160 million, of which 40 million were pensioners, making it the biggest pension scheme in the world. In addition, employees and retirees in government organs and institutions were covered by other pension schemes that are funded by the government and the employing units. The applicable coverage of unemployment insurance has been extended from workers in State-owned enterprises to employees in all types of urban enterprises and institutions. By the end of June 2004, the number of participants amounted to 100 million with 4.5 million benefit recipients. The medical insurance reform started in 1998 and covered 116 million employees in government organs, enterprises, and institutions in urban areas by the end of June 2004. Regulations on work injury insurance came into effect this year, and the applicable coverage has been extended from State-owned enterprises to all kinds of enterprises and individual businesses with employees in the urban areas. At present, it has about 50 million participants. The minimum

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living standard guarantee system has been extended from providing social relief to the urban poor without jobs, income or supporting family members to rendering a minimum subsistence guarantee to all urban residents whose family per capita income falls below the prescribed local standard. Currently, all cities have established the minimum living standard guarantee system. In 2003, the beneficiaries of the system were 22 million. The expanded coverage of the social security system has guaranteed the basic subsistence of vulnerable groups such as the old, the unemployed, the sick, the injured and those with low incomes and has enabled them to share the fruits of economic development and, as a result, has promoted social equity, stability and harmony.

Establishing a funding mechanism whereby costs are shared by the parties concerned

In the past, funds for social security payments in China were all from either the government or employing units. Since the 1990s, a new funding mechanism under which costs are shared by the State, employing units and individual workers has gradually taken shape. Under the current five social insurance schemes, the total contributions paid by the employing unit are about 30 per cent of the total payroll, while individual workers pay 11 per cent of their wages as follows:

<table>
<thead>
<tr>
<th></th>
<th>Employer %</th>
<th>Worker %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old-age</td>
<td>20.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Medical care</td>
<td>6.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Work injury</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>Maternity</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30.0</strong></td>
<td><strong>11.0</strong></td>
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Moreover, the central and local governments also provide special subsidies to the basic old-age insurance. In 2003, the total revenues from the above three sources under the five insurance schemes were RMB488.2 billion, an 85 per cent increase over the figure of RMB264.5 billion in 2000, or an average annual increase of 23 per cent. In 2004, the total revenues are expected to be RMB550 billion. Furthermore, the State Council set up the National Social Security Fund Council in September 2000, aiming at creating a strategic reserve fund through financial allocations from central government and a partial reduction of revenues from the new listing of State-owned enterprises. Thus far, the fund has accumulated RMB140 billion. The establishment of the multi-party cost-sharing mechanism has opened more channels for funding and has enhanced self-security awareness among workers.

Adopting the social insurance model

Ten years ago, China replaced the pay-as-you-go method under the basic pension scheme with partial funding by combining social pooling with individual accounts. The pension under the pooling component is a proportion of the local average monthly wages, reflecting equity and solidarity. The individual account pension is paid according to the amount accumulated in the account, thus reflecting the difference in the contributions paid and maintaining a close link between rights and obligations. The basic medical insurance also adopted the combination of social pooling with individual accounts. All individual contributions and 30 per cent of the contribution paid by the employers on their behalf are credited into individual accounts for paying outpatient medical costs. The remaining contribution paid by the

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employer is put into a pooled fund for paying inpatient costs and costs for serious diseases. Meanwhile, the government has forged ahead with reforms in the medical service delivery system and the pharmaceutical distribution system and has implemented a system of accrediting hospitals and pharmacies. The reforms have upgraded the quality of medical service and curbed the waste of medical resources. The work injury insurance is a change from the "employer liability" model and enables risk-sharing through a social pooling fund.

**Promoting socialized management and service delivery**

Since 2000, the practice where pensions were disbursed by enterprises has been replaced by one where authorized banks and post offices pay pensions to retirees. Since 2002, greater efforts have been made towards socialized management of the unemployed and the retired. At present, labour and social security agencies have been set up in more than 95 per cent of neighbourhoods, and labour and social security staff have been equipped in over 80 per cent of communities. They provide unemployment insurance and re-employment services to the unemployed and socialized management services to the minimum living allowance recipients and the retired. Socialized service management has reduced the social burden of enterprises and has created conditions enabling beneficiaries to integrate into society.

**Streamlining social security management**

In March 1998, the Ninth People's Congress decided to undertake a reorganization of the State Council, and the Ministry of Labour and Social Security was established on the basis of the previous Ministry of Labour. The social insurance for enterprise workers under the former Ministry of Labour, the social insurance for employees in government organs and institutions under the Ministry of Personnel, the rural social insurance under the Ministry of Civil Affairs, the medical insurance under the Ministry of Health and the social insurance under industry-wide management were all brought under the management of the Ministry of Labour and Social Security, resulting in a unified social security administrative department nationwide. In the same year, the industry-wide basic old-age insurance schemes in eleven industries such as railway, power, post and telecommunications were handed over to local management, involving 14 million workers and 4.2 million retirees. In 2003, old-age insurance for land reclamation and cultivation enterprises under the central government was also handed over to local management, bringing to an end the segmented administration of social security. At the same time, social pooling for old-age insurance was raised from the county level to the provincial or prefecture level.

**Pilot reform project on improving the social security system**

While making efforts to address striking contradictions and to accelerate reform of the current system, the Chinese Government is looking into the future and with the objective of establishing a social security system independent of enterprises, with multiple funding sources, regulated system operations and socialized service management. In accordance with this objective, in 2001 China initiated a pilot reform project to improve the urban social security system in Liaoning Province. The two priorities of the pilot project are: to merge the basic living standard security system for laid-off workers with unemployment insurance, focusing on promoting re-employment; and to make the individual accounts real accounts so as to put in place a long-term and effective mechanism for their sustainability. In Liaoning, about 1.75 million laid-off workers have moved out of the re-employment centres and terminated their labour relationships with the enterprises. Those who remain unemployed have been covered by unemployment insurance. All re-employment centres in Liaoning

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have been closed, with a smooth merger of the two systems. The total accumulation in the individual accounts has correspondingly amounted to RMB11.1 billion. The pilot project has been successful, with the established tasks basically fulfilled. The government has decided, in light of the strategy of revitalizing the old industrial base in the north east, to expand the pilot project to Jilin and Heilongjiang Provinces, thus further experimenting with improving urban social security.

**Challenges and opportunities for China's social security development**

Entering the new century, the Chinese Government has put forward the new scientific development concept of putting people first, focusing on all-round, coordinated and sustainable socio-economic development. According to this concept, China must tackle the long-term and deep-rooted contradictions in its social security system and face serious challenges posed by the following factors.

**An ageing population**

At the end of the last century, China became an ageing society when the population aged 60 plus accounted for more than 10 per cent of the total. Compared to the situation in western developed countries, the ageing of the population in China has advanced rapidly. In western countries, it generally took 40 years or longer for the share of the older population to rise from 5 per cent to 10 per cent, while in China it took only about 20 years as a result of its family planning policies, etc. For western countries, population ageing arrived after modernization, namely "getting rich before being old"; for China, population ageing is arriving earlier in the process of industrialization, that is "being old before getting rich". This accelerated population ageing has resulted in a huge shortage of social security funds. The number of retirees is increasing by three million each year, and the ratio between the employees paying contributions and the pensioners has risen from 10:1 in the 1990s to 3:1 currently. It is projected that China will be hit by a population ageing peak in the 2030s when the urban dependency ratio and medical care costs will rise by a large margin. The next two to three decades will be a critical period for building an all-round prosperous society. These issues, if not well addressed, will affect not only the sound functioning of the social security system but also sustainable socio-economic development.

**The urbanization drive**

Accelerating urbanization is indispensable for building an all-round prosperous society and constitutes an important step for gradually changing the dual urban and rural area economy and addressing issues concerning agriculture, the countryside and farmers. In the next decade, China will witness a one per cent increase each year in its urbanization rate, which has two implications. One is the labour force employment and social security issue. The number of migrant workers in urban areas stands at 100 million, farmers whose lands are taken over for other uses number 40 million and farmers working in village and township enterprises amount to 130 million. These farmers have become an important part of the industrial work force. However, the current social security systems are mainly targeted at the urban population. How to accommodate the needs of the hundreds of millions of rural transfer workers is a major theoretical and practical concern. The other issue is the social security needs of vulnerable rural groups after young persons have moved into the cities. More efforts should be made to establish and improve the rural social security system in accordance with the requirement for coordinated rural-urban development.

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Diversified forms of employment

Along with the change in economic ownership, new employment patterns have taken shape. The non-public economy has become the major source for absorbing labour, and a large number of workers have taken flexible forms of employment. The traditional and enterprise-based social security system fails to keep abreast of new employment patterns featuring decentralized forms and high mobility. A large number of the employees in the non-public economy and in flexible forms of employment are left outside the social security system. How to adapt the system to changes in economic ownership and employment forms and enable it to cover these workers is an important issue to be addressed in the development of China's social security system.

While recognizing the important challenges, we are also aware of the historic opportunities facilitating the development of China's social security system.

The government attaches great importance to social security

Strong organization and promotion by the government is critical to the development of social security. In 2003, the new central leadership adopted a scientific development concept highlighting coordinated social and economic development. Employment and re-employment have been put at the top of the government's agenda, and they are regarded as key macro-indicators for national economic growth and social progress. The government has set requirements for the accelerated development of a social security system commensurate with the level of economic development and has formulated a series of policy measures. The functions of the government have been modified, and more inputs have been made on social administration and public services including social security.

The economy continues to grow vigorously

China has experienced an annual average gross domestic product (GDP) growth of 9.4 per cent since its reforms and opening up and has, in a large sense, become a well-off society. The Chinese Government's goal is to build an all-round prosperous society in the first two decades of this century. By the year 2020, China's GDP will quadruple the figure of 2000, reaching USD4,000 billion. Sustained and rapid economic growth will contribute to the expansion of social security coverage, an improvement in compliance rates and benefit levels and increased financial support, thus laying a solid foundation for the development of social security.

The social consensus and high expectations of the public

Through improvements in the system, expansion of coverage and increased benefit levels, the social security schemes have brought tangible benefits to the general public and have won their appreciation and support. Moreover, the public has high expectations for social security development and has actively participated in the effort through such mechanisms as the People's Congress and the Political Consultative Conference at various levels, trade unions, employers' organizations, women's organizations, youth organizations, etc., thus providing a solid social basis for the further development of social security.

International exchange and cooperation is gaining momentum

The industrialized countries have a comparatively long history of social security development. Since the reforms and opening up, particularly after joining the International
Social Security Association (ISSA), China has intensified international exchanges and cooperation through which it will extensively draw on international experience to boost its own development.

Forging ahead for sustainable social security development in China

China is confronted with an arduous task of social security reform and development in the first two decades of the twenty-first century. The guiding ideology for social security development is: under the guidance of the Deng Xiaoping Theory and the important thought of the "three represents", to carry out scientific development, to adhere to the basic principle of developing social security suited to the level of economic development, to uphold reform, to strengthen management with innovations in systems and mechanisms, and to form a long-term and effective mechanism so as to benefit more people and strive to achieve sustainable social security development. More efforts will be made to realize "one expansion, two innovations and three intensifications" in the improvement of the social security system.

"One expansion" refers to the expansion of social security coverage

Coverage of social security is the core of the system and an indicator of the level of social security in a country. As the most populous country in the world, China will prioritize expansion of coverage to enable more people to benefit from social security.

More detailed ideas for moving ahead are to:

- Expand the coverage of social insurance focusing on workers in mixed economic ownerships, the non-public economy and flexible forms of employment in view of the changing patterns in economic ownership and employment.
- Reform the basic old-age insurance for employees in government organs and institutions and connect it with the schemes for enterprise workers so as to enable labour mobility.
- Formulate tailor-made measures for rural migrant workers in cities in light of the urbanization process, with the priority on work injury insurance and insurance against serious diseases.
- Explore the mechanism of compensation for farmers whose lands are taken over for other use and establish a rural old-age protection system, a new medical cooperative system and a rural minimum living security system in the relevant localities.

"Two innovations" refers to innovations in institutions and mechanisms

Innovation is the driving force for social development and social security advancement. In the face of the new situation, new opportunities and new challenges, the development of China's social security should start from its reality, advance with the times, open up new paths through innovations and realize sustainable development.

In terms of institutional innovation, efforts should be made to capitalize the individual accounts under the basic pension scheme. Though China has adopted a policy of combining social pooling with individual accounts to ensure current pension payments, the pooled fund and the individual account fund have been put together without real accumulation in the individual accounts. At present, the total amount of funds due in the (nominal) individual

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accounts amount to RMB600 billion. To meet the challenge of the population ageing peak and to assure the balance of the basic pension funds in the long term, China will gradually turn the individual accounts into funded accounts following the experience of the pilot project in north-eastern China so as to achieve the change from pay-as-you-go to partial funding. The individual account funds will not be used to cover the shortage in the pooled funds. The current shortage of funds under the basic pension schemes will be subsidized by central and local financial allocations as well as by the investment return on the funds. For funds accumulated in individual accounts, ways to ensure the maintenance and appreciation of their value will be explored. As for investment of the funds in the market, the Government will formulate rules and regulations to strengthen control and supervision.

With regard to these mechanisms, China will adopt an active social security policy which will play a more positive role in promoting economic development and social justice while at the same time safeguarding the basic livelihood of vulnerable groups. Emphasis will be placed on improving unemployment insurance, with more input on human resources development, workers' skills development and public employment services so as to reduce unemployment and attain relatively full employment. The formulae for the calculation of pensions will be adjusted to assure a closer link between the pension benefits and the contributions so as to encourage people to work longer. Meanwhile, arrangements to enable self-employed persons and workers in flexible forms of employment to pay social insurance contributions will be set up to avoid any new hidden social security debts to emerge. Differential contribution rates among industries and floating rates for enterprises will be adopted in work injury insurance to encourage enterprises to improve their working conditions so as to protect the safety and health of workers and reduce the occurrence of work accidents and occupational diseases.

"Three intensifications" refers to enhancements in the legal basis, funding and basic management

For the legal basis, China will benefit from proven and effective experiences and seek to improve the legal framework and draft laws and regulations such as the Social Insurance Law, Regulations on Old-age Insurance, Regulations on Social Security Fund Management, etc. Attention will be paid to strict law enforcement through inspection, and to raising social security awareness. This will improve the law enforcement capacity of administrative departments at all levels, the conscientiousness of employers to pay their contributions due and the awareness of the workers to safeguard their rights, thus laying a solid legal foundation for the sustainable development of social security.

Social security funds are the material foundation of the system and are critical to its sustainable development. It is imperative to strengthen contributions collection and fund management. China will strengthen contributions collection through examination and auditing of the contributory wage bases and will establish an enterprise accountability system for paying social insurance contributions so as to achieve full compliance. Efforts will also be made to restructure the expenditures of the government, with particular emphasis on increasing financial inputs from local governments to gradually raise the proportion of expenditure on social security to a total of 15-20 per cent of their budgets and to put in place a well-regulated system of budgeting for social security. Moreover, measures such as allocating some State assets to the social security reserve fund will be adopted.

Sound management is the guarantee for an effective operation of the social security system. The effectiveness of social security relies not only on the right system design and policy options suited to national circumstances, but also on efficient management and high-quality
service. In 2004, there is a total of more than 200,000 staff working in social security agencies throughout the country. China will follow the concept of putting people first, enhancing capacity building of the social insurance agencies, improving relevant rules and regulations and undertaking professional training for the staff so as to improve work efficiency and service quality. The construction of the social security information system (the Golden Social Insurance Project) is under way, and a nationwide computerized network with upgraded management is planned. The system will highlight the people-centred operation and provide support to scientific decision-making. China will strive to further upgrade socialized service management and enhance the social security functions of the urban street, community and rural township organizations to enable the unemployed, the retired, the disabled and hardship groups to enjoy more direct and considerate social security services.

China is the developing country with the largest population, and it has uneven development, with a dual economy between rural and urban areas. This situation will remain for a long time. The construction of China's social security system will be a long-term process with tremendous difficulties and complexities. However, we are fully confident that, with the strong leadership of the Chinese Government and the understanding and support of the general public, we will be able to meet the challenges. We will strive to address the difficulties and problems in developing a social security system by starting from the reality and highlighting the priorities. We will also actively explore the establishment of a long-term and effective mechanism for sustainable social security development in a forward-looking and orderly manner so as to make new and greater contributions to China's reforms and opening up as well as to its socialist modernization drive.

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