Pension watch

Briefings on social protection in older age

Briefing no. 11

Contents

HelpAge International
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Pension coverage in China and the expansion of the New Rural Social Pension

Key points

- China has achieved unprecedented improvements in its pension coverage in the last five years. Since its introduction in 2009, 89 million people have started receiving pension payments under the New Rural Social Pension Scheme. Combined with those receiving payments under other pension schemes, this means that 125 million people, or 60 per cent of those aged 60 and over, now receive a monthly pension. The proportion of people enrolled in a pension almost doubled between 2009 and 2012, from 30 to 55 per cent.
- The nature of pension policy in China is in transition, moving away from a historical focus on formal-sector workers to having an emphasis on universal coverage of formal and informal workers alike. The pension system is now being seen as central to the country's social and economic policy. Furthermore, it is viewed as an important part of inclusive growth, as well as being essential to China's transition to a consumption-based economy.
- Recent progress is attributable to a number of factors, including a move away from selective schemes to universal approaches, greater investment from central government in financing minimum income security in older age, and the political will demonstrated by the inclusion of coverage targets in national development plans.
- Despite this impressive success, challenges remain. Coverage of the working-age population is still far from universal and inadequate pension benefits, the continuing complexity of the pension system, portability of pension rights and sustainability in the face of a rapidly ageing population remain a concern.

Introduction

The development of China's pension system has never received as much international and national attention as it does today. In just over 60 years, the pension system has changed from a residual policy issue in the shadow of major economic reform, to one that is now intrinsically linked to socio-economic transformation in China and underpins the transition from an export-driven to a consumption-based economy.[1]

This briefing aims to summarise the development of the pension system in China, and hopes to be used both as a resource which takes stock of the phenomenal progress that has been made, and as a case study for countries undergoing pension reform to improve coverage. Emerging economies in Asia share many of the same characteristics as China: economic growth, population ageing and low pension coverage, though China has typically faced them on a much larger scale. From this perspective, lessons can be drawn from the Chinese experience, while an understanding of the contextual factors that surround the pension reform agenda is useful to inform decision making in other countries.

The development of China's pension system is widely and comprehensively documented and the politics and debates on the achievements and challenges of the system are played out on an almost daily basis in national and international news. This briefing attempts to interpret and package some of the most recent evidence and analysis for the lay reader. In particular, it draws on recent texts from the Word Bank[2] and Asian Development Bank[3] as well as new analysis of Chinese pension coverage data provided in a background paper[4] to this briefing (see Box 3 for recommended reading).

Ageing and poverty in China

Poverty rates among older people in China are high relative to national averages and income inequality between older people in rural and urban areas is stark. Although poverty rates of the older population have reduced dramatically, in line with general poverty trends in China, in 2010 poverty rates of older people in rural and urban areas were still higher than average. The poverty rate of people aged 60 and over in urban areas was 4.6 per cent, compared to 3.4 per cent for the general urban population. Meanwhile the rate was as high as 22.3 per cent for older people in rural areas, compared to 7.8 per cent for the rural population as a whole. Older people in rural areas are therefore particularly disadvantaged compared to older people in urban areas, while in both cases old age is correlated with a greater risk of poverty. In 2011 it was estimated that there were more than 18 million poor older people in China, with over 75 per cent of these living in rural areas.[5]

Against the backdrop of rapid economic transition, China is ageing rapidly. Exact figures describing the extent of population ageing in China are a source of significant debate.[6] Nonetheless, it is indisputable that a combination of increasing life expectancy and a declining fertility rate, exacerbated following the introduction of the one-child policy in the 1980s, has led to an acceleration of demographic ageing in China. National statistics from 2011 report that the current absolute number of people aged 60 and over in China is 185 million.[7] It is expected that the population of China will peak in 2037 at 1.4 billion people, before undergoing a smooth decline. The UN projects that the proportion of people aged 65 and over will increase rapidly from around 7.0 per cent in 2000 to 16.5 per cent in 2030, eventually reaching 25.6 per cent in 2050.[8]

Mark Knobil/Flickr

1. www.eastasiaforum.org/2011/08/24/chinese-pension-reform

2. Cai F, et al (eds), *The elderly and old-age support in rural China: challenges and prospects,* Washington, DC, World Bank, 2012

3. Chen Q, Eggleston K, and Ling L, *Demographic change, intergenerational transfers and the challenges for social protection in the People's Republic of China,* Manila, Asian Development Bank, 2011

4. Lu Quan, *Analysing the coverage gap in China,* London, HelpAge International, 2012

5. Lu Quan

6. For a summary of this debate see Cai et al

7. National Bureau of Statistics of China, *China statistical yearbook 2012,* Beijing, National Bureau of Statistics of China, 2012 in Lu Quan

8. Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2010 Revision,* http://esa.un.org/unpd/wpp/index.htm

China's pension system development and achievements in coverage

This section summarises the development of China's pension system from the perspective of its achievements in expanding coverage of current and future populations of older people. To accompany the narrative, a visual timeline is presented on pages 8-9. The timeline aims to give an overview of the trajectory of pension system development and is not entirely based on actual coverage data except where levels of coverage have been indicated. Accurate coverage data is patchy and often refers to geographic coverage, in terms of number of counties covered, rather than individual members of pension schemes or pensioners. Furthermore, coverage data often aggregates individuals contributing to pension schemes and those in receipt of benefits and does not take into account contribution levels and regularity of payment. A further challenge is to interpret the data from administrative sources relating to population data, due to debates over the reliability of different sources.[9] Nevertheless, the trajectory and later stages of development are aligned as closely as possible to the available information (see Box 3 for recommended reading). We divide pension development into three periods: the "Iron Rice Bowl" (1949-1978), formal sector pension reform and rural pension piloting (1978-2001), and a gear change in pension expansion (2003 to the present).

Phase 1 – The "Iron Rice Bowl" (1949-1978)

With the establishment of the new People's Republic of China (PRC) the development of China's pension system began during the "Iron Rice Bowl" period which included a focus on income security for state employees. China's first formal pension scheme, the Basic Old-Age Insurance System for Employees (BOISE) was initiated in 1951, targeting urban employees, shortly after the founding of the PRC in 1949. The introduction of the Basic Old-Age Pension System for Civil Servants (BOPSCS), a pension for civil and military servants, followed in 1952.[10] At this time, it was considered that income security would be provided by state-owned enterprises through the "Iron Rice Bowl" – a Chinese term for guaranteed job security and benefits from birth to death. This implicit guarantee of income security was not, however, a statutory responsibility that extended to those outside state employment.

Coupled with old-age income security for state employees, welfare programmes were introduced for those in the informal sector. However, these programmes only played a minimal role in providing income security in old age – a situation that remains the same today. The Five Guarantees Scheme (FGS) was introduced in 1956, shortly after BOISE and BOPSCS, and provided a safety net for people in rural areas living in poverty, particularly those considered to fall within the "three no's category" – no income, no labour capacity, and no sources of family support.[11] Beyond the FGS, which identifies older people as one target group, there were no statutory benefits specifically targeting older people.[12] This duality between pensions for formal workers and social assistance for the poor, with a large income security gap in old age in between, is a situation still facing many Asian countries today.

Phase 2 – Formal sector pension reforms and rural pension piloting (1978-2001)

With the leadership and economic reforms of Deng Xiaoping (the paramount leader of the PRC, 1978-1992) the BOISE scheme was reformed in line with the new era of modernisation. The market reforms at the time saw a reduced role and decreasing profitability of state-owned enterprises, meaning they played an increasingly limited role in providing pensions to the urban workforce. A key subsequent reform was the pooling of pension funds by industry sector (eg mining, manufacturing, etc) and, in 1991, the State Council's issuance of Document 33 – the "Decision on Establishing a Unified Basic Old-Age Insurance for Enterprise Employees (BOISEE)". BOISEE was introduced in 1995 and then extended to the private sector in 1997.

9. See Box 1.2 in Cai et al, p.21

10. For more information on the civil service and military pension, see Leckie S, *Civil Service and Military Service Pension in China,* Tokyo, Institute of Economic Research, Hitotsubashi University, 2010, www.ier.hit-u.ac.jp/pie/stage2/Japanese/d_p/dp2010/dp505/text.pdf

11. Cai et al, p.97

12. For more on the Five Guarantees Scheme see www.ntu.ac.uk/nbs/document_uploads/109338.pdf

"Efforts should be made to study how to establish a rural pension system, launch and gradually expand pilot schemes in line with economic development."

The Seventh Five-Year Plan (1986-90), State Council 1986, pp.193-94

This took place against the backdrop of the 1982 Constitution, which marked the state's renewed obligation to provide social security within the broader principles of modernisation and stability. Perhaps reflecting the cautious statutory investment in social security at the time, Article 14 of the constitution mandated that: "The State establishes a sound social security system compatible with the level of economic development."[13]

Urban pension reforms since the 1980s have nevertheless struggled to deliver an adequate and sustainable pension system for all and advancements in coverage have been confined to target groups in the formal sector. By 2000 there were 132 million workers contributing to pensions in urban areas (94.7 million to BOISEE and 37.5 million civil servants in BOPSCS). This equated to less than half the population working in target industries at that time (36.7 per cent of the 360.4 million people working in secondary or tertiary industry), although many of these people were rural migrants who would not have been eligible for BOISEE as they did not have an urban registration (known as an urban *hukou*). As a proportion of the 231.5 million people who had an urban *hukou* at that time, the coverage of the urban pension system would have been 57.1 per cent.[14] The proportion of urban older people receiving pensions is not known, however, considering the modest contribution rates it is evident that coverage of older people would be low.

In the meantime, against the backdrop of economic reform and changing labour markets, a period of experimentation with rural pensions took place over several decades. Between 1986 and 1991, through the Ministry of Civil Affairs (MoCA), China took the first steps to introduce county-level pilots in a limited number of provinces, which culminated in the "Basic Scheme of Rural Pensions at the County Level", launched in a major policy document from MoCA in 1992. The basic scheme was characterised by a set of principles that reflected the state's fiscal conservatism (see Box 1). At this stage the broad financing model used three streams of financing: from government, rural collectives and individuals. Most financial responsibility was placed on individuals, who were expected to make regular contributions (like those in the employment-based urban system) as well as to cover the administration costs of the scheme. Local government and rural collectives were also expected to contribute some funds, but the policy to guide this was to be determined at the provincial level.

Box 1: The Basic Scheme of Rural Pensions at the County level

Design principles	Financing principles
• Voluntary participation: administered by local MoCA with some support from rural collectives and government (depending on the specifics of local government policy) • Age of eligibility for pension recipient: 60 years • Contribution rates: between 2 and 20 yuan per month (or between US$0.33 and US$3.25) • Accumulated funds: inheritable by family members in some circumstances.	• Basic scheme based on funded individual accounts (to follow the urban system) • Investment of funds restricted to government bonds and bank deposits • Administrative costs covered by contributions (with a 3 per cent cap).

Source: Adapted from Chapter 5, "The Evolution of the Rural Pension System in China" in Cai et al
Note: using exchange rate of 0.162 (CNY to USD), www.xe.com (13 May 2013)

13. International Constitutional Law Project Information, *China Constitution*, available from www.servat.unibe.ch/icl/ch00000_.html

14. Lu Quan

However the basic scheme suffered from a number of issues that limited achievements in coverage, with wealthier areas demonstrating more potential to participate while poorer ones lagged behind. The basic scheme expanded geographically to cover 31 provinces and 2,123 counties by 1998 (almost 75 per cent of counties). At this peak of coverage, contributors amounted to 80.3 million rural worker participants and there were 600,000 older beneficiaries.[15] Coverage was noticeably imbalanced, with four coastal (and wealthier) provinces making up 45 per cent of participation and 64 per cent of accumulated contributions nationwide. This reflected problems in coverage and financial sustainability of the system as a whole. Against the backdrop of the Asian financial crisis, the effectiveness and sustainability of the programme was questioned due to a number of emerging challenges:

- The system resembled a complex patchwork of schemes, due to variations in pension design that resulted from differences in local government policy.
- Contributions from rural collectives and individuals were overestimated with greater success achieved in richer provinces.
- Contributions from employers benefited certain cadres of workers and not others which introduced ethical questions and disincentives among the smaller employers and lowest-income workers. This is illustrated by the fact that almost all the matched contributions were found in just five of China's richer provinces.
- Privatisation of local-level enterprises during the 1990s undermined contribution rates from employers.
- There was an overestimation of the number of individuals who would contribute to the scheme, with many poorer people unable to make contributions.
- Most individuals were reluctant to contribute to the voluntary scheme at more than the minimum rate and the schemes struggled to offer the necessary incentives to encourage higher contributions.
- The administrative cost placed on the individual was considered inequitable.
- Benefits were often low, or significantly less than expected, due to low investment returns, reflecting limitations in the financial sector which had a knock-on impact on confidence in the system.

In 1999, due to growing concerns about the operational challenges and sustainability of the pension system, the State Council made a u-turn in its ambition for universal pension coverage and declared that China was not yet ready for universal rural pensions. The State Council issued a directive to cease expansion of schemes, address the operation of existing schemes and, where possible, transfer management to commercial insurers. Subsequently, after the peak in 1998, geographical coverage shrank rapidly between 1999 and 2004 by 32.6 per cent to 1,887 counties.[16]

Poverty continued to be tackled separately from social security with the establishment of general welfare schemes for the poorest in parallel to pension reform for formal sector workers. Two new welfare schemes were introduced – the Urban and Rural Minimum Living Standards Schemes (UMLSS and RMLSS)[17] – in 1999 and 1992 respectively. Despite their introduction, they did not replace demand for pension coverage. Recent evidence from 2011 indicates that 5.0 million older people were beneficiaries of the FGS, 3.4 million older people were enrolled in UMLSS and 19.3 million in RMLSS. Older people were over-represented in these schemes, with 14.9 per cent of the older population of China receiving benefits in 2011.[18] Of RMLSS recipients, 36.3 per cent were aged 60 and over, demonstrating high levels of demand for income security and an expanded pension system.

15. Cai et al, p.88

16. Cai et al, p.89

17. These schemes, also known as *dibao*, were initially funded by local governments. Subsequently, however, central government provided subsidies depending on local poverty levels and the fiscal strength of local governments. Households with a per capita income below the locally defined poverty line are eligible to receive assistance under the schemes which target older people, those who are unemployed or on low pay, people living with disabilities and households with children. Benefits vary according to area as well as by household size and make-up.

18. Lu Quan

Phase 3 – A "gear change" in the expansion of pension coverage (2003 to the present)

Between 2003 and 2009 there was a renewed impetus to increase pension coverage which saw the launching of new pilots that reflected a greater emphasis on state financing. In late 2002 the sixteenth Communist Party of China (CPC) Congress resulted in new guidelines from the Ministry of Labour and Social Security, and a wider government commitment to build a "New Socialist Countryside" encouraged a renewed focus on social security in rural areas. In 2007 the plenary meeting of the seventeenth CPC Congress committed government to universal social insurance coverage by 2020. Around this time state support, in the form of either pensions or social assistance schemes, reportedly reached less than 10 per cent of older people in rural areas.[19] The guidelines drove an expansion of new schemes in 25 provinces and 300 counties. Again, variants of the rural pension scheme were implemented to test different combinations of government and individual financing.[20] These would later be merged to become the New Rural Social Pension Scheme (NRSPS) in 2009. A key feature of all the pilot schemes was the increased significance of government subsidies in the financing models. This marked a significant shift from the earlier expansion during the 1980s and 1990s which had struggled to attract voluntary participation and reasonable contribution rates. Instead, these pilot schemes involved either government-subsidised contributions or government-funded (non-contributory) payments, or a mix of both. This reflected a shift in thinking on the part of both local and central government authorities that public financing was necessary to achieve coverage and incentivise participation.

Box 2: The New Rural Social Pension Scheme: basic design

Two component mechanisms designed to provide a minimum level of income security in old age combined with incentivising saving

Social pension design	Contributory pension design
• A basic pension of 55 yuan (US$8.83 or PPP$35.17) per month is payable to older people aged 60 and over whose children participate in the scheme – "family-binding" eligibility criteria. • The level of the benefit may be supplemented by local government revenues at their discretion. The pension value should be maintained through indexation, however guidance is vague. • Central government funding will subsidise the non-contributory element of the scheme in full for central and western regions and 50 per cent for eastern regions.	• Rural residents who are aged 16 and over, not in education and not enrolled in an urban pension scheme are eligible for an individual pension account. Participation is voluntary. • Individual contributions range from 100 to 500 yuan annually (equivalent to between US$1.28 and US$6.24 per month). Local governments are to provide a partial matched contribution of at least 30 yuan (USD$4.81 or PPP$19.50) per year regardless of individual contribution. • Participants aged 45 and over are encouraged to contribute higher amounts to meet the shortfall in contributions over their working lives. • Pensioners who have contributed for 15 years will be eligible for a basic flat rate pension calculated by dividing accumulated contributions at 60 years by 139.

Source: Adapted from Chapter 5,"The Evolution of the Rural Pension System in China" in Cai et al and Lu Quan

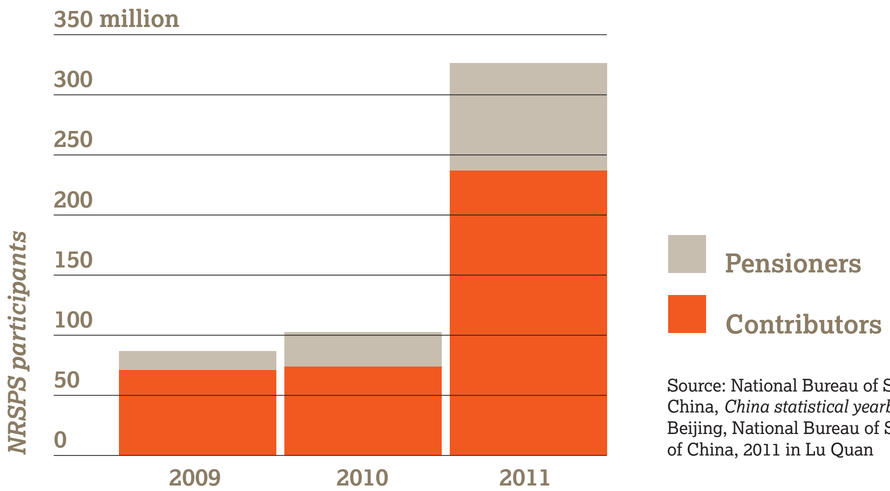
19. The Five Guarantees Scheme and rural pension pilots were reported to cover around 10 per cent of older people in 2007. See, Shen C and Williamson J B, "China's new rural pension scheme: can it be improved?" www.globalaging.org/ruralaging/world/2011/rural.pdf

20. An in-depth case study of just one of these pilots in the context of Baoji City in Shanxi province (Xi'an as provincial capital) gives some insight into its complexity, particularly in terms of split financing arrangements between local and provincial government. See Wenjuan Z and Dan T, *The new rural social pension insurance programme in Baoji City,* London, HelpAge International and Renmin University of China, 2008

Fiscal parameters for spending on the scheme were important both in terms of the level of government spending and government financing mechanisms. The key question was which model would be fiscally sustainable within limits of the Chinese government's allocated spending of between 1.0 and 2.5 per cent of general revenues on the whole pension system.[21] The margin for spending reflected some degree of flexibility but imposed an upper limit that was still low in comparison to international standards (the average aggregate public expenditure on pensions by OECD countries in 2007 was 5.3 per cent).[22] Most funds came from general revenue streams although some financing was bound to specific revenue streams and split financing between central and local revenues was also tested. Greater clarity was needed on the financing responsibilities of sub-national levels of government, given their varying capacities to meet their obligations.

In 2009 the government introduced the NRSPS taking account of the lessons learned from the rural pilots (see Box 2). Since 2009 the pace at which coverage of the NRSPS has increased has been unprecedented – particularly between 2010 and 2011. This rapid extension in coverage was in part motivated by the government's aim to implement the NRSPS in 10 per cent of counties by the end of 2009 and to achieve full geographic coverage of rural areas by 2020. Ambitious targets for coverage were then set by the State Council to achieve full geographic coverage by 2013 but this was accelerated again in 2011 to achieve this by the end of 2012.[23] 57.1 per cent of workers registered in the rural registration system (known as having a rural *hukou*) were contributing to the NRSPS by the end of 2011. In the same year, 48.2 per cent of the older population of China were receiving monthly NRSPS payments. Figure 1 compares coverage rates of working-age contributors and pensioners between 2009 and 2011 and reflects the gear change in efforts to ensure universal income security in old age.

Figure 1: Unprecedented expansion of the New Rural Social Pension Scheme (2009-2011)



Source: National Bureau of Statistics of China, *China statistical yearbook 2011,* Beijing, National Bureau of Statistics of China, 2011 in Lu Quan

The rapid expansion of the NRSPS is explained by three related factors: first, the growing financial strength and political will of the Chinese government; second, uneven geographic coverage that generated demand for the programme in untargeted areas; and finally, presidential elections in 2012 which motivated the government to expand coverage.[24] The scheme has been recognised as a significant improvement on earlier programmes, and follows an international trend in the introduction of a social pension component to provide a minimum basic pension to older people.[25] However, linking the eligibility of older people for the social pension to participation in the contributory component of the scheme is a prominent difference in this approach (see Box 2).

21. Cai et al, p.94

22. OECD statistics, http://stats.oecd.org

23. State Council Documentation from years 2009 and 2011, as reported in Cai et al

24. Lu Quan

25. Cai et al, p.99

Pension system development in China

Urban pensions

Rural pensions

Levels of coverage (pensioners and working-age population)

Sources:

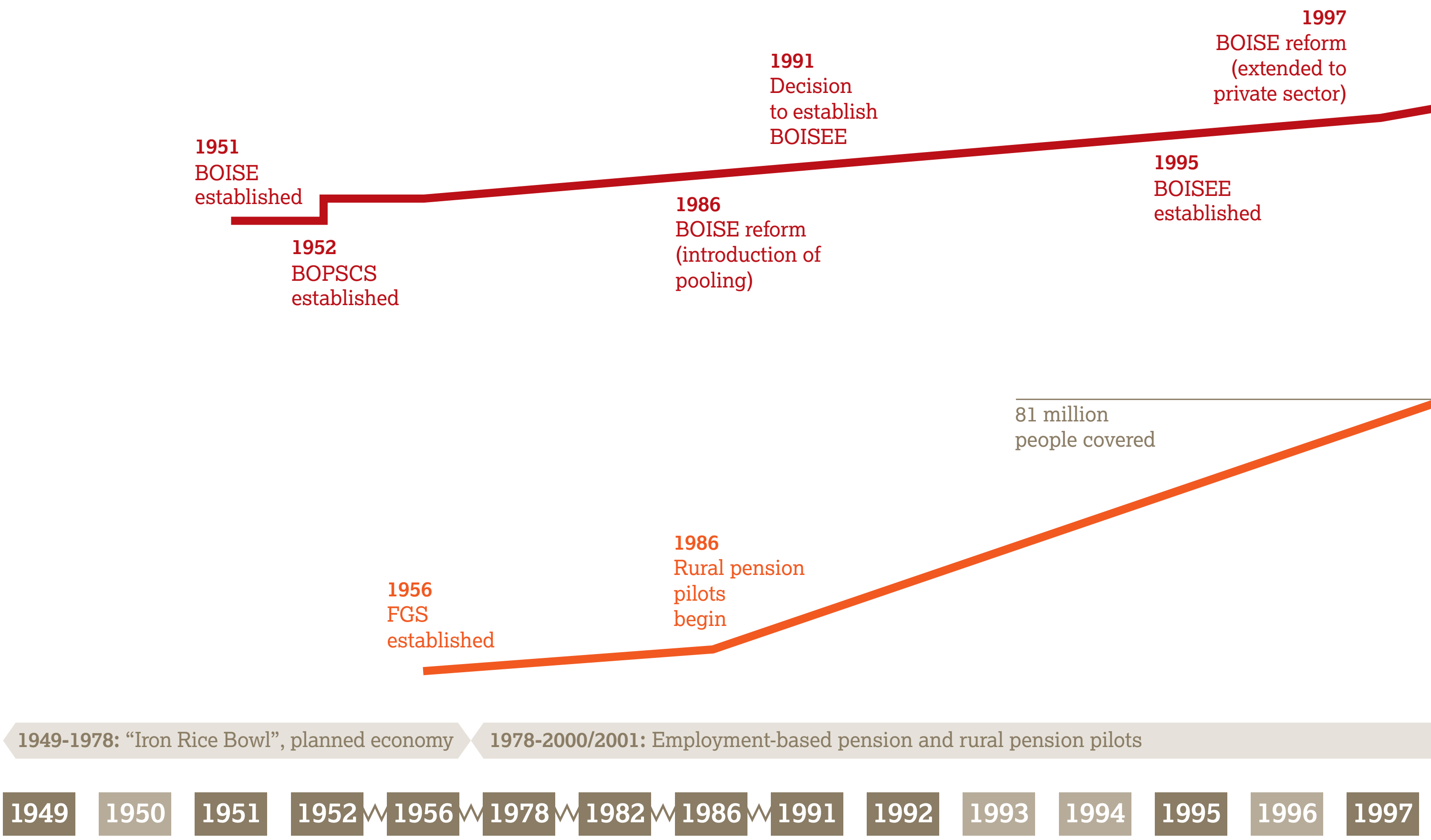
Cai F, et al (eds), *The elderly and old-age support in rural China: challenges and prospects,* Washington, DC, World Bank, 2012

ISSA, *Social security coverage extension in the BRICS: a comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa,* Geneva, ISSA, 2013

Lu Quan, *Analysing the coverage gap in China,* London, HelpAge International, 2012

Abbreviations:

BOISE – Basic Old-Age Insurance Scheme
BOISEE – Basic Old-Age Insurance Scheme for Enterprise Employees
BOPSCS – Basic Old-Age Pension System for Civil Servants
CPC – Communist Party of China
FGS – Five Guarantees Scheme
MoCA – Ministry of Civil Affairs
MoHRSS – Ministry of Human Resources and Social Security
MoLSS – Ministry of Labour and Social Security
NRSPS – New Rural Social Pension Scheme
NSSF – National Social Security Fund
PRC – People's Republic of China
RMLSS – Rural Minimum Living Standards Scheme
UMLSS – Urban Minimum Living Standards Scheme
USPS – Urban Social Pension Scheme
VEA – Voluntary Enterprise Annuity



Milestones for pension development

1949 New PRC

1978 Deng Xiao Ping becomes leader. Move towards market-based economy

1982 Constitution statement

1992 RMLSS introduced in one province. MoCA formal endorsement of rural pension pilot trial

1997 MoLSS established

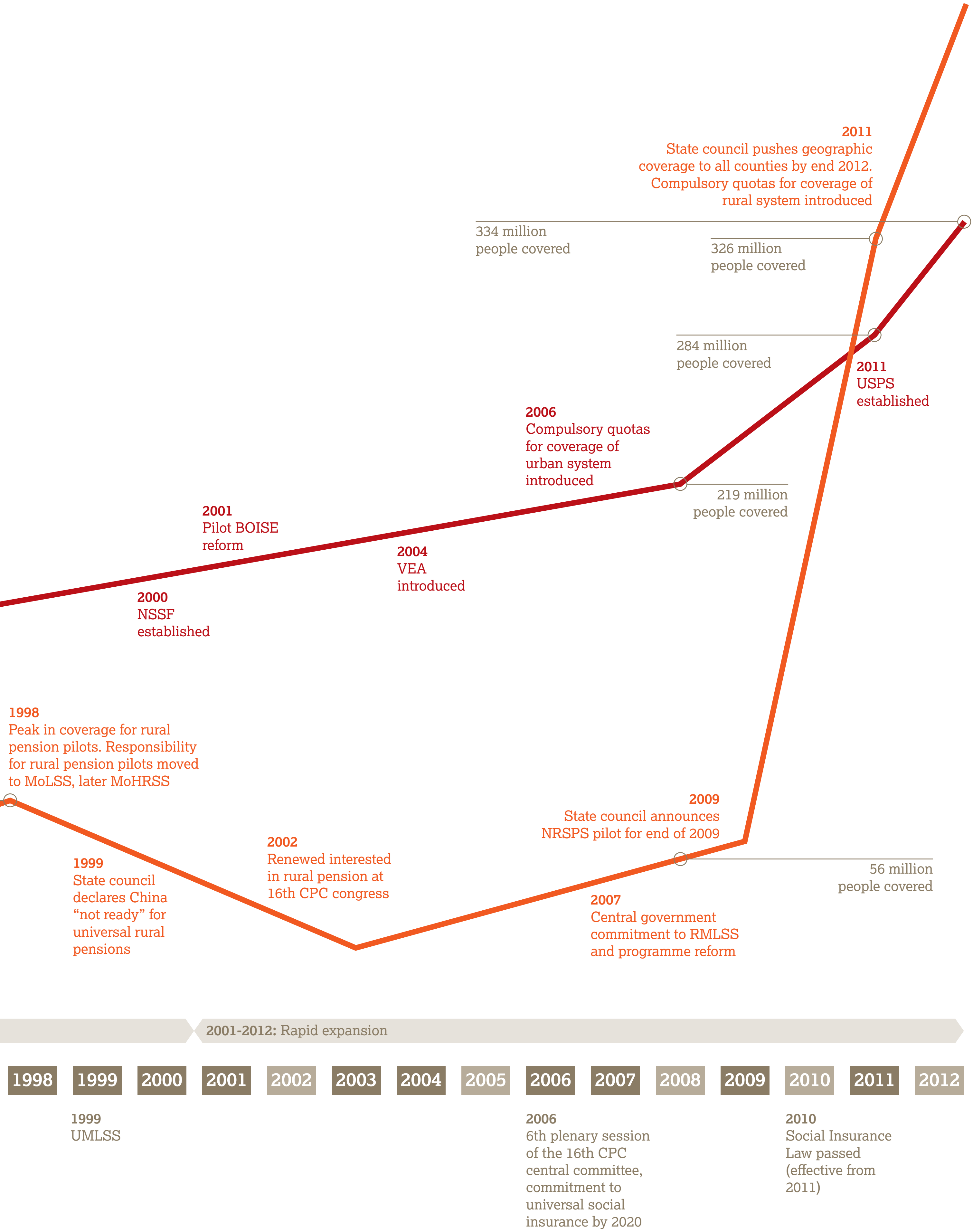
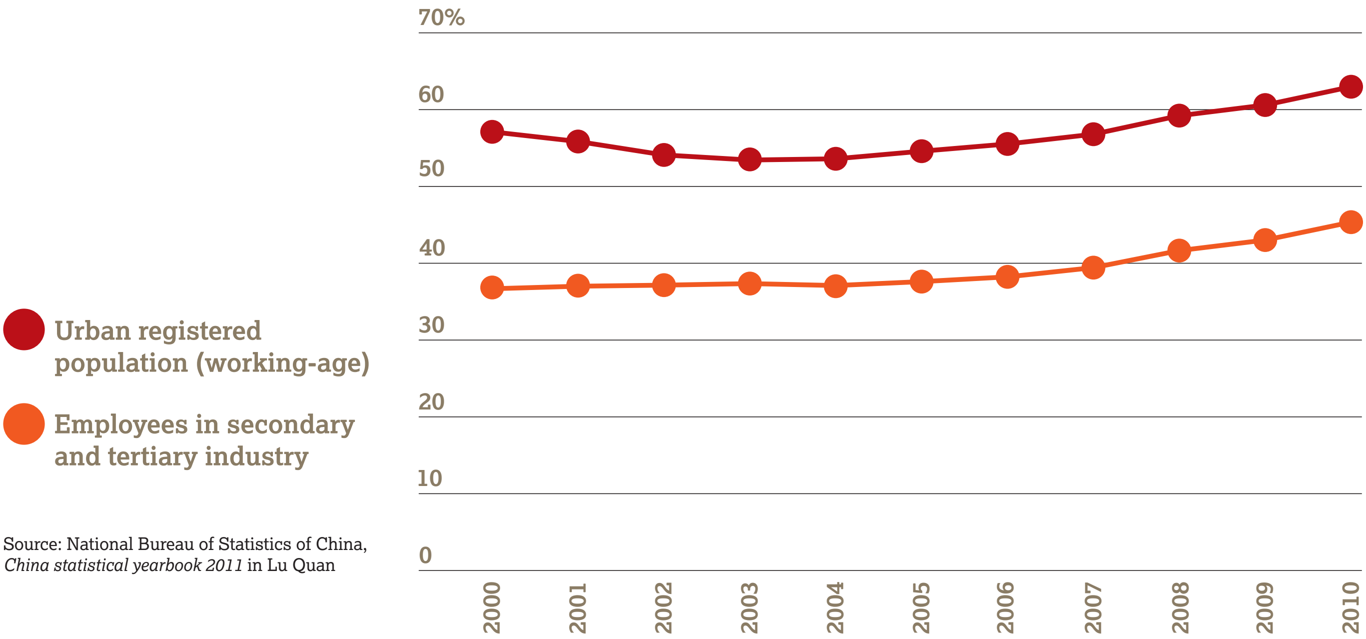

2011
State council pushes geographic coverage to all counties by end 2012. Compulsory quotas for coverage of rural system introduced
334 million people covered
326 million people covered
284 million people covered
2011
USPS established
2006
Compulsory quotas for coverage of urban system introduced
219 million people covered
2001
Pilot BOISE reform
2004
VEA introduced
2000
NSSF established
1998
Peak in coverage for rural pension pilots. Responsibility for rural pension pilots moved to MoLSS, later MoHRSS
2009
State council announces NRSPS pilot for end of 2009
2002
Renewed interested in rural pension at 16th CPC congress
1999
State council declares China “not ready” for universal rural pensions
56 million people covered
2007
Central government commitment to RMLSS and programme reform
2001-2012: Rapid expansion
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
1999
UMLSS
2006
6th plenary session of the 16th CPC central committee, commitment to universal social insurance by 2020
2010
Social Insurance Law passed (effective from 2011)

Figure 2: BOISE coverage trends (2000-2010)



Source: National Bureau of Statistics of China, *China statistical yearbook 2011* in Lu Quan

The introduction of the NRSPS has informed the establishment of an urban version of the scheme to address the pension coverage gap in urban areas. In 2011 the Urban Social Pension Scheme (USPS) was established and rapidly expanded through cities with sufficient fiscal capacity. It is characterised by similar design features to the NRSPS and offers access to make basic pension scheme contributions to urban residents aged 16 and over and not employed in the formal sector, as well as to older people not in receipt of BOISE. The USPS scheme accounted for the additional coverage of 2.8 million working-age people in 2011, with 2.6 million older people aged 60 and over receiving a pension benefit in 2011.[26] Growing urban economies and increased rural to urban migration have almost certainly increased demand for the scheme. At the announcement of the USPS, Wen Jibao, then Premier of the PRC, is reported in the Chinese media to have stressed:

"[to] establish and improve the pension system is to protect and improve people's livelihood, foundation engineering, building a harmonious society is an important means of regulating the distribution of social income. Old-age insurance for urban residents [USPS] and the new farmer's insurance [NRSPS] cover mostly low-income groups, and building through these two systems, public resources can be put to them more inclined to promote the universal sharing of the fruits of development to narrow the income gap and promoting social equity and justice, to ensure that industrialization and urbanization is proceeding smoothly and reduce the various risks in the process of modernization."[27]

The role of the NRSPS within the wider pension system was cemented in 2011 when, for the first time, compulsory coverage quotas for both urban and rural systems were included in the Twelfth Five-Year National and Social Development Plan.[28] While previous plans had included coverage targets for the urban system, the Twelfth Five-Year Plan reflected a significant shift in political prioritisation of pensions for informal workers through rural pensions. Furthermore, it articulated the coming together of the two systems under one aspiration for universal pension coverage.

26. Lu Quan

27. Translated from the original Chinese: Li Taoshe, "Realisation of basic coverage of urban and rural pension insurance", *Xinhua*, 20 June 2011

28. ISSA, *Social security coverage extension in the BRICS: a comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa,* Geneva, ISSA, 2013, p.111

Coverage of BOISE, the employment-based urban system, increased between 2000 and 2010 (see Figure 2), although progress has been more modest than within the rural system. Coverage is derived from data relative to two population groups: the number of working-age people with an urban *hukou*, and the number of people of working age employed in secondary or tertiary industry in urban areas. The discrepancy in the measures of coverage rates indicates that there are more people working in pensionable industries than are registered with an urban *hukou* (482 million and 347 million respectively in 2010) and reflecting significant rural to urban migration.[29] Despite the discrepancy in coverage between the proxies used, Figure 2 demonstrates there has been some modest improvement in coverage between 2000 and 2010. In 2010 BOISE covered a workforce equivalent to 63.0 per cent of urban residents and 45.4 per cent of workers in eligible industries. This was equivalent to an increase of 6 percentage points and 9 percentage points in 10 years respectively.

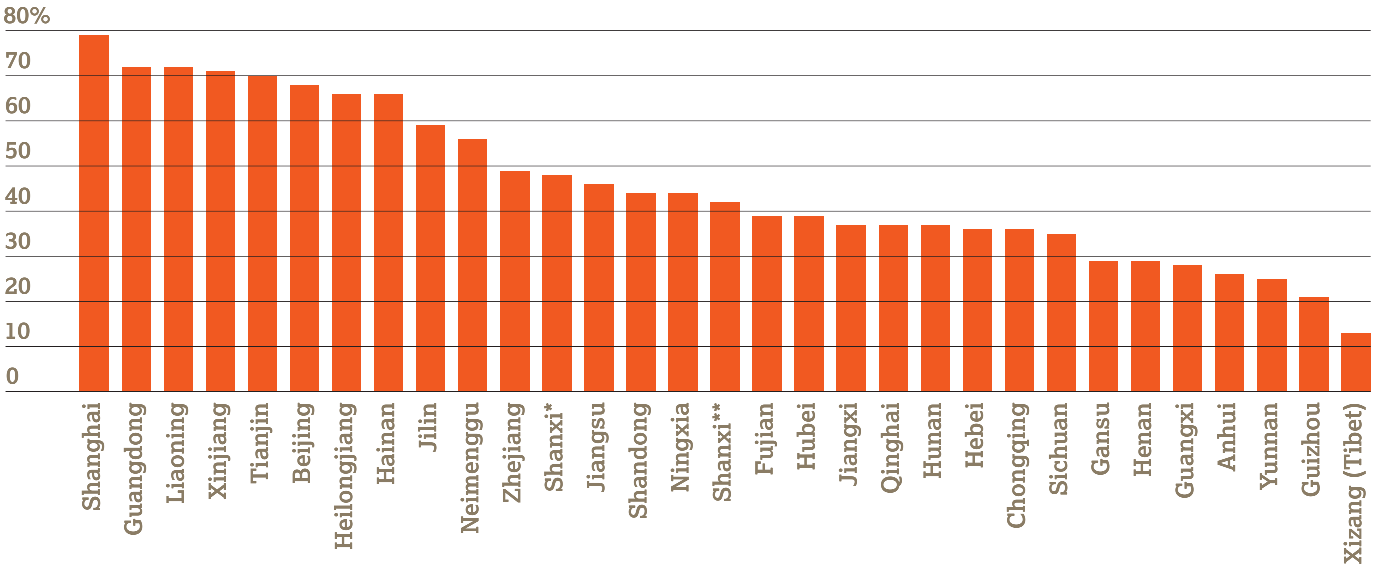
Coverage of the urban pension system has improved, in part due to the increased recognition of the rights of migrants to social security as well as due to progress in reducing administrative barriers. Urban pension system reforms continued to track changes in the labour market throughout the 2000s, especially in recognition of greater labour mobility between areas. A particularly positive development was the recent revisions to the legal rights of internal migrants. In absolute terms, coverage of migrant workers more than doubled between 2006 and 2010 from 14.2 million to 32.8 million.[30] However, coverage of the urban system has been influenced by changing labour markets associated with greater privatisation and the rise in the number of people working in service industries. This has increased the number of self-employed people who are less likely to make contributions to BOISE if the associated costs are too high.

Coverage rates of the urban pension system vary significantly between provinces and regions in China. As demonstrated in Figure 3, coverage of the eligible working population varied from 13.3 per cent in Xizang (Tibet) Province to 79.0 per cent in Shanghai Province in 2010, with an average coverage rate of 46.3 per cent. Regional variation is also significant. South West China has an average coverage rate of 25.9 per cent, while in North East China the coverage rate is 65.5 per cent. Variations in urban coverage gaps indicate significant inequity in the pension system at this time.

29. BOISE provides coverage to individuals with an urban *hukou* working in secondary or tertiary industries. However, given large-scale migration, many urban residents (and employees in secondary and tertiary industry) have a rural *hukou*. Therefore, “nominal coverage” is in effect a proxy for the total number administratively eligible for BOISE while “actual coverage” is a proxy for all those working in the sectors that BOISE is designed to cover.

30. Lu Quan

Figure 3: Coverage rates of BOISE in 31 provinces in China (2010)

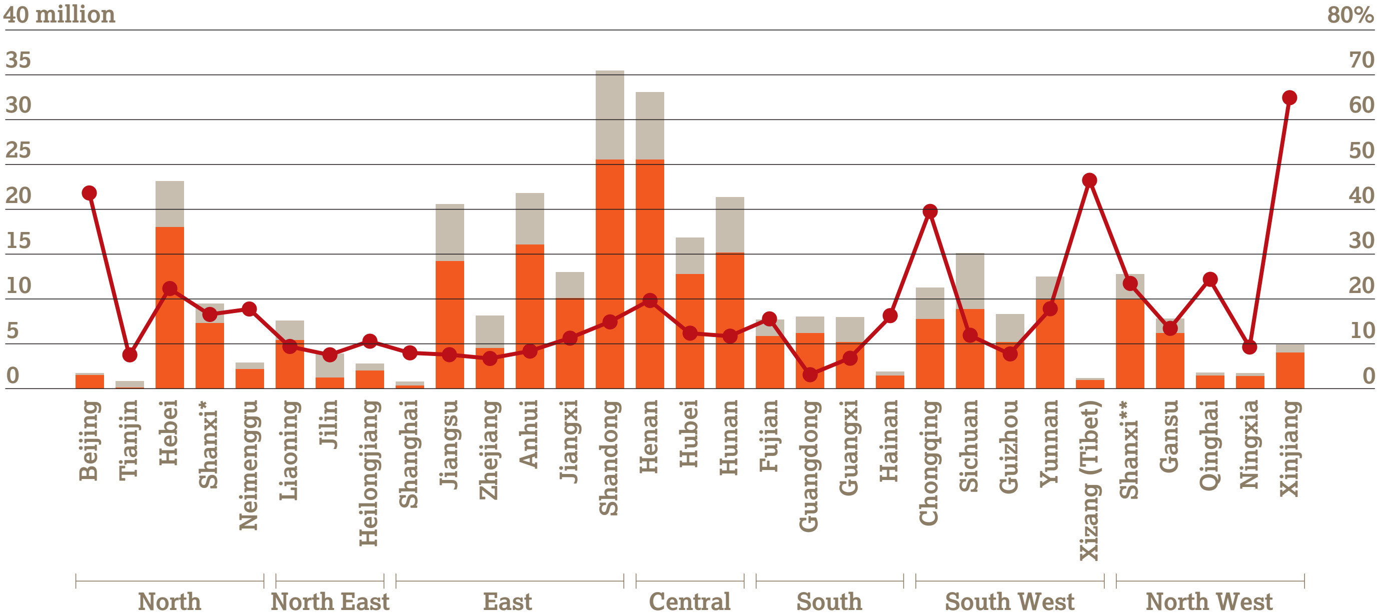


* Taiyuan as provincial capital
** Xi’an as provincial capital

Source: Lu Quan
Note: Coverage rate refers to the coverage rate of urban residents working in secondary and tertiary industry

Analysis of 2010 data suggests that differing levels of urbanisation and industrialisation between provinces do not wholly explain these variations in BOISE coverage rates. Although, at the regional level, economic development correlates positively with urban coverage rates, at the provincial level the picture is more complex. Research conducted by Lu Quan in 2012 compared urban coverage rates by provincial levels of urbanisation and industrialisation, with the expectation that these characteristics would be associated with coverage levels. Findings broadly correlated with this hypothesis, but the link was surprisingly tenuous, especially in the case of urbanisation levels, with significant variation in coverage at both the high and low ends of the scale. Coverage rates varied between 13.2 per cent and 70.9 per cent in the six least urbanised provinces and between 46.1 per cent and 79.0 per cent coverage in the six most urbanised provinces.

Figure 4: Coverage rates of the NRSPS in 31 provinces of China: absolute numbers versus proportion of working-age people registered as rural residents (2011)



* Taiyuan as provincial capital
** Xi'an as provincial capital

Pensioners (60+)

Contributors (16-59)

Coverage rate as a percentage of the rural, working-age population

Note: Coverage is the proportion of the working-age population registered with a rural *hukou* contributing to the NRSPS, it does not include pensioners.

Source: National Bureau of Statistics of China, *China statistical yearbook 2011* in Lu Quan

Similarly, research by Lu Quan found that coverage rates of the NRSPS also varied significantly by province. Figure 4 compares the absolute numbers of pensioners and contributors covered by the NRSPS in 2011, as well as the coverage of contributors as a proportion of working-age people registered with a rural *hukou*. Coverage rates varied by region, with higher average rates in Central and West China and the lowest average coverage rate in East China, which still suffers from a considerable enrolment gap.[31]

Analysis of variations between provinces shows no obvious correlation between levels of economic development or fiscal strength of local government and coverage rates of NRSPS.[32] Expansion has apparently been driven by a mix of centralised strategy and local government demand for take up. The higher levels of coverage achieved in some provinces however, does support the notion that the NRSPS has been implemented for reasons of social stability. For example, coverage rates in Xinjiang Province and Xizang Province (Tibet) are relatively high, despite low levels of economic development. In this sense, the socio-political aims of the programme could go some way towards explaining the variation in coverage levels. In contrast to earlier rural pension pilots, where success was associated with more economically developed contexts, coverage of the NRSPS appears not to be implemented along these socio-economic lines. This also demonstrates the role of NRSPS in terms of addressing regional inequity in social and economic policy.

31. Lu Quan

32. Lu Quan

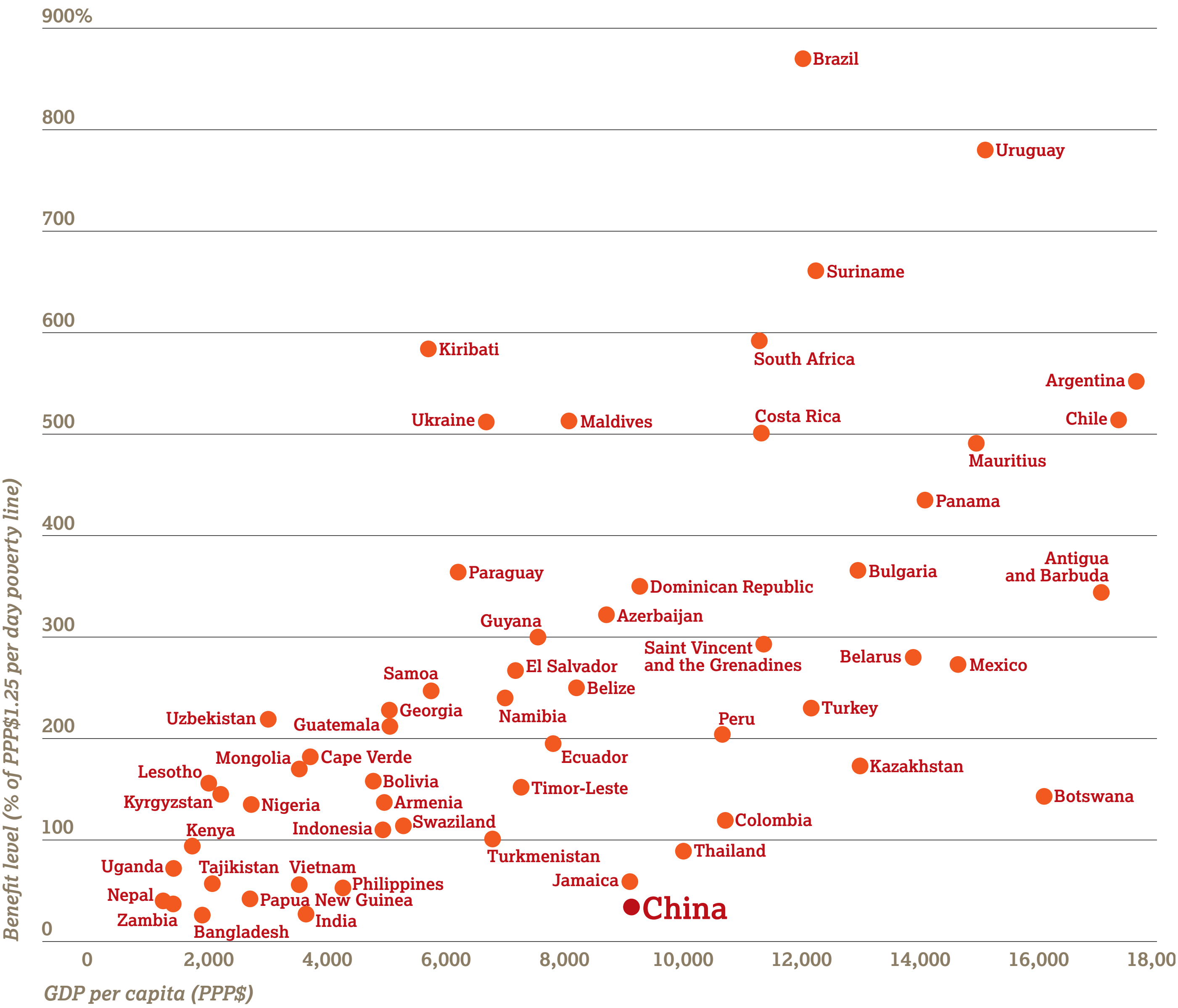
Current debates and prominent issues

Pension reform continues to be a key policy issue under consideration in China and there is cautious optimism about the progress made and direction of travel.

There appears to be scope for expanding the current investment in pensions. Currently pension spending in China is low by upper-middle and high-income country standards. Expenditure on all pensions is 2.3 per cent of GDP in China, while average expenditure on pensions in OECD countries is 6 per cent. However, some national age-focused organisations highlight that a more substantial investment may be required as the social pension benefit level is low and arguably inadequate as a minimum income in older age. The China National Committee on Ageing (CNCA) points out that 55 yuan (PPP$35.17) only represents 14 per cent of the national annual per capita net income for rural workers in 2008, and thus a relatively small amount to support basic needs.[33] This is supported by comparison with social pension schemes in other countries, as highlighted in Figure 5, which shows that the pension benefit is low for a country at China's level of economic development.

33. China National Committee on Ageing, "China's New Type of Social Insurance Program for Old-age Support in Rural Areas" (draft), December 2012, p.9

Figure 5: The Chinese social pension benefit level is low by international standards



Source: Social pensions database (June 2012 edition), www.pension-watch.net/download/510a9aecacb86 (13 May 2013)

There are also a number of key administrative issues to be addressed, such as those relating to compliance and collection of contributions, information communications technology, fund management and quality of customer service. For example, confidence in the pension schemes has been undermined in the past due to reports of diversion of funds from pension accounts. The Centre for International Social Security Studies at the Chinese Academy of Social Sciences reported that "individual accounts held assets worth only 270 billion yuan at the end of 2011, even though 2.5 trillion yuan had been paid into them".[34] The question of sustainability of the schemes has also been raised in a report issued jointly by Deutsche Bank and the Bank of China, which predicted an 18.3 trillion yuan (PPP$11.7 trillion) deficit in the National Pension Fund in 2013, to worsen to 68.2 trillion yuan (PPP$43.6 trillion) by 2033.[35] At the individual level, incentives to make higher contributions remain limited by low interest rates and year-on-year devaluation of overall accumulated pension funds due to historically cautious fund investments. The rapid expansion of the NRSPS and USPS raises questions about capacity to deliver, with each social insurance staff member being responsible for around 6,000 clients in 2010.[36]

Other debates refer to fragmentation and system inconsistency as China moves from a system of schemes targeting specific groups to one that aims to achieve universal income security through a holistic system. Looking ahead, there are questions about how these schemes fit together, and how they will be financed and governed. This includes questions regarding the portability of accumulated funds between schemes (particularly between rural and urban schemes and vice versa), and the eligibility for schemes of migrants registered in other areas. The "family-binding" aspect of the NRSPS, which ties social pension entitlement of the current older cohort to participation of younger family members has been criticised from a rights-based perspective as well as in terms of practicality and long-term feasibility in light of urbanisation and internal migration.[37] Linking social pension entitlements to the participation of younger generations could, on the one hand, create incentives based on family obligations to support older relatives. On the other hand, this approach ties security in old age to a specific category of older people (those with children contributing to the NRSPS) and is not universally available to all older people. With changing family structures, population dynamics and modernisation it is not clear whether these administrative criteria could in some cases undermine access for vulnerable older people.

34. "Fulfilling promises", *Economist,* 11 August 2012, www.economist.com/node/21560274

35. "China's rocketing elderly population prompts a rethink on pensions", *The Guardian,* 1 October 2012, www.guardian.co.uk/global-development/2012/oct/01/china-elderly-population-pensions-rethink

36. In some cities, social insurance staff members were responsible for up to 30,000 clients. ISSA, p.126

37. Lu Quan

The Gonger/Flickr

Conclusion

For the pension system as a whole, advances in coverage have been unprecedented but universal coverage remains a key challenge. Estimates suggest that pension coverage in China almost doubled between 2009 and 2012, from 30 to 55 per cent.[38] Meanwhile, in absolute terms, China's Ministry of Human Resources and Social Security reported in February 2013 that 484 million people were enrolled in one of its pension schemes.[39] Furthermore, 125 million older people (approximately 60 per cent of the total population aged 60 and over in 2012) are reported to be receiving a regular monthly pension.[40] After rapid acceleration in coverage rates was achieved between 2009 and 2012, the Social Insurance Law, passed in 2010, aims to guide future reforms and tackle some of the existing challenges within the system with a focus on strengthening incentives to save and to improve portability of funds between administrative areas.

China's experience to date provides an interesting case study with rapid progress in instituting laws and policies to ensure coverage among its current and future older population, especially in coverage among informal workers. The development of the system historically tracked economic development in urban areas, with an emphasis first on urban workers employed by the state-owned enterprises, then later on employees in the urban formal workforce and very recently on informal urban workers. In this sense, pension reform responded to labour market changes associated with moving from a centrally planned economy to a more market-based economy. Consequently, pensions for the majority of the population – those in rural areas or employed in the informal sector – have developed in parallel, and only relatively recently have they become a central strategic policy vehicle for central government. Nevertheless, policies focusing on income security in old age in China have accelerated progress and even promise to impact on the pension gap in urban areas.

Coverage of the pension system has clearly become a central policy concern of government. In October 2012 Wen Jiabao acknowledged the importance of improving the social security system in China. He underlined its significance in terms of its great importance in maintaining social stability in the country.[41] His commitment has also been reported widely in the media. For example, *China Daily* reported in 2011 that Wen Jiabao stated: "The important thing for now is to ensure full coverage. After that is achieved, we can contribute to improve these programmes and raise insurance standards in line with the country's social and economic development."[42] This marks a distinct transition from focusing on pensions for specific groups to more inclusive goals as well as to an explicit intention to ensure coverage as a priority as opposed to focusing on effectiveness of individual schemes.

China's pension reforms have taken place in the context of rapid economic development, rising inequality, substantial rural to urban migration and rapid demographic transition. Currently the second biggest economy in the world, China is undergoing a period of rapid and extensive socio-economic change. Beginning in the late 1970s, economic reforms supported the transition to a market-based economy after nearly thirty years of centralised economic planning. This transition included reforms to support greater labour mobility, which led to massive migration from rural to urban areas.[43] From an economic perspective, the transition to a market-based economy has enabled strong economic growth in China, particularly in the export-driven sectors. There are lessons here for other countries in recognising the interconnectedness of social security and economic policy and, in particular, ensuring a minimum floor of protection in old age. This has been recommended as part of research recommendations by the Center for Strategic and International Studies in their research on the future of retirement in East Asia.

38. "China's rocketing elderly population prompts a rethink on pensions", *The Guardian,* 1 October 2012

39. "484 mln Chinese covered by pension system", *China Daily,* 27 February 2013, www.chinadaily.com.cn/china/2013-02/27/content_16262204.htm

40. http://news.xinhuanet.com/english/china/2012-11/13/c_131971579.htm

41. http://news.xinhuanet.com/english/china/2012-10/12/c_123817436.htm

42. Jackson R, Nakashima K and Howe N, *China's Long March to Retirement Reform,* Washington, DC Center for Strategic and International Studies, 2009, citing Hu Jintao's Report at the seventeenth CPC congress [in Chinese], 15 October 2007; "Full pension coverage before 2013: Wen", *China Daily,* 20 June 2011, www.chinadaily.com.cn/china/2011-06/20/content_12739284.htm; and Cai et al, pp.86-98, citing State Council of China reports, 2009 and 2011

43. Aspalter C, *Welfare state systems in Japan and China: past changes and future challenges,* 2001

"Establish more generous floors of old-age poverty protection. Providing for a robust floor of old-age poverty protection is not merely a matter of ensuring social adequacy. In rapidly aging societies with persistent gaps in pension coverage, the failure to do so could lead to social unrest – or even political crisis."[44]

44. Jackson R, Howe N, and Tobias P, *Balancing Tradition and Modernity: The Future of Retirement in East Asia,* Washington, DC, Center for Strategic and International Studies, 2012, p.iv

Box 3: Recommended reading

- Cai F et al (eds), *The elderly and old-age support in rural China,* Washington, DC, World Bank, 2012
- Chen Q, Eggleston K, and Ling L, *Demographic change, intergenerational transfers, and the challenges for social protection systems in the People's Republic of China*, Working Paper Series No 291, Asian Development Bank, November 2011
- ISSA, *Social security coverage extension in the BRICS: a comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa,* Geneva, ISSA, 2013
- Lu Quan, *Analysing the coverage gap in China,* London, HelpAge International, 2012

HelpAge International

HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

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