

# The new rural social pension insurance programme of Baoji City

**Shaanxi Province, China**

by Zhang Wenjuan & Tang Dan, Gerontology Research Institute of Renmin University



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## Executive Summary

### Overview

Baoji City is located in western Shaanxi, and is the second largest city in the province after Xi'an. It has a population of 3.76 million, 74% of whom live in rural areas. The Baoji government instituted the New Rural Social Pension Insurance Programme in July 2007, one of the first of its kind in China.

Insurance subscribers fall under three categories:

- Those aged 60 and above at the beginning of the programme, who receive pension income monthly, if their family members also pay the required insurance premiums.
- Those aged 45 and over, who must pay insurance premiums regularly and then will receive a monthly pension after they turn 60.
- Those aged below 45, who must pay insurance premiums for more than 15 years to qualify for a monthly pension after turning 60.

Current subscribers aged 60 and above can receive a pension of 60 yuan (RMB) per month (about \$8) on the condition that family members aged 18+ (children and any children-in-law) have subscribed and paid for the insurance.

Initially, the programme has been piloted in two entire counties (Linyou and Taibai) and five villages from each of the other counties in the Baoji area, covering 216 villages overall. As of 30 November 2007, total number of insurance subscribers had reached 191,919, or 61.3% of those eligible to participate. The number of insurance subscribers aged 60+ was 26,000, which represents 93.6% of the eligible older population. In 2008 the programme is to be expanded to all counties in Baoji. Funds for the programme derive from two main sources: personal pension insurance premiums and government subsidies. Of the government subsidy, city-level and county-level revenues each meet half the cost.

### Impact

Although further research is required to understand the impact of the programme in depth, several preliminary conclusions emerged from discussions with older people and Baoji officials:

- **Economic benefits:** Discussions revealed that the average monthly expenditure of local older people is about 200 yuan. Thus, while the pension (60 yuan) helps to raise their income, it is not enough to cover their regular expenses. Pensions are used primarily for purchasing basic necessities (food, medicine, clothing), but also spent on household running costs (such as water and electricity), and items for grandchildren. There is some evidence of a "substitution effect". That is, an older person's receipt of a pension means that children may feel less compelled to provide them with financial support, particularly as family members are required to pay insurance premiums to ensure the older person is provided with the pension.
- **Family relationships:** Since the pension becomes regular income for subscribers aged 60 and over, it increases the economic stability of older people and decreases their dependency on other financial support. It is good news to both the adult children and their older parents that less

financial support is now needed to meet parents' needs. Older subscribers' contributions to household expenses raise their economic position in the extended family, and they therefore win more respect from other family members. Therefore, the pension plays a lubricant role in the older participants' families, and reduces the possibility of conflict between family members caused by the need to provide financial support to older parents

- **Psychological well-being:** Receiving a pension appears to have a positive psychological impact on older people. Access to regular income helps them to feel more secure. They also gain satisfaction from having less economic dependency on their children, being able to contribute to household expenses, and having money for their grandchildren.

## Challenges and Sustainability

- **Lack of legal guarantee:** The implementation of the new pension programme is underpinned by the importance given to it by current city leaders, rather than by law. Therefore, a change of leadership could result in a change of priorities.
- **Binding practice:** The rule that family members must subscribe and pay for insurance to allow older subscribers to receive the subsidy means that their children effectively determine whether an older person benefits from the programme.
- **Lack of mechanism for value preservation:** The pension insurance programme contains no measures to preserve or incrementally increase the value of the pension funds. Therefore, the value of the pension fund will have difficulty keeping up with inflationary pressures.
- **Difficulties of poor subscribers:** If adult children face severe economic pressure and are unable to pay insurance premiums on time, the pension will not be sent to their parents on a monthly basis.
- **Less interest among younger people:** Subscriptions among people aged 18 to 44 is significantly lower than older age groups, reaching only 48.5% of that group in the pilot villages.
- **Sustainability:** Currently, the population involved in the programme comprises less than 16% of the total number who could ultimately be involved in the wider Baoji area. Thus, it is evident that the extension of the programme to the whole city in 2008 could create significant fiscal pressures for government, particularly at county level.

## Chapter I: Background of Social Pension Insurance Systems in Rural China

The social pension insurance programme has come into practice since the 1990s in rural China. However, many difficulties have emerged in the operating process, and the subscription rates in many pilot areas have declined sharply, and the extension work has been almost suspended since 1998. The huge population in rural areas is still unable to get security in old age. Moreover, the people aged 60+, who are deeply impacted by fertility and social transitions, cannot access the benefits of current pension insurance programmes. For this reason, Baoji City introduced a new social pension insurance programme designed to benefit the whole population in rural areas. This report aims to introduce the background, design, administration and operating processes of the new rural social pension insurance programme in Baoji city, explore the challenges of the operating processes, and assess the sustainability of the programme as well as the effects on the rural elderly in pilot areas. The following are the objectives of the report:

- To document the process of how this pension scheme came to be introduced and its political sources of support.
- To document the characteristics and distribution mechanisms of the pension scheme including how different government units coordinate.
- To assess local and wider reaction to the scheme - reaction to its financial sustainability, replicability, and relationship to other plans, programmes and policies related to income security for the older population.

### History of Social Pension Insurance in Rural China

In 1951, the People's Republic of China (PRC) promulgated its first labour insurance regulation (Laodong Baoxian Tiaoli), which created a social security system for state-sector employees. Under this regulation, retired employees of state-owned enterprises enjoy a pension based on their salary before retirement. For the urban collective sector, benefits vary from trade to trade and from locality to locality. However, no social pension programmes existed for the negligible private sector, as well as farmers in rural China. The regulation in 1951 excluded rural areas in the coverage of the formal social pension system. Therefore, for the past 50 years, the social welfare package in the countryside has been a much more restricted system with no social insurance, few subsidised services available to farmers and their families, and little more than a minimal safety net guaranteed for the childless elderly and other vulnerable groups. State subsidies for certain very poor categories of persons and for poor and remote communities are limited to social assistance for the elderly, the disabled, or veterans with no ability to work, no income, and no family support. They are eligible for the "Five Guarantees" of clothing, shelter, medical care and burial expenses, subsidies for social services, and aid for establishing income-generating activities.

The majority of Chinese people live in rural areas, where the traditional family support serves as the predominant social support resource. However, fast economic development and social transition, as well as the changes in population and family structures in China, have hindered the ability of the family to serve as a resource for its older members. The shrinking family size, huge rural-urban migration, and the diminishing "filial piety" of adult children have challenged the traditional

old-age support system in rural China. The less-developed rural security system including the social pension system has become obsolete and is even obstructing the ongoing economic development and urbanisation process in China.

## Reform of Social Pension Insurance in Rural China

As part of its far-reaching reform of the overall social security system, the Chinese government initiated the establishment of a voluntary social pension system in rural areas from 1986. The pilot reform was conducted in 1991 in Shandong, Hubei and Jiangsu Provinces. The government formulated the regulation “Elementary Scheme on the Establishment of Rural Social Pension Insurance System at County Level” in 1992, which instructed the diffusion of reform to many rural areas depending on local socio-economic development. Most of affected areas were coastal provinces with profitable enterprises and favorable fiscal conditions.

Based on the principle that “the premiums are paid mainly by individuals themselves, supplemented by collectively pooled subsidies and supported by government policies”, a social pension insurance system with the accumulation of funds taking the form of personal accounts was established. By the end of 2003, the work of social pension insurance has been carried out to various extents in the rural areas of 1870 counties.

Yet many challenges have emerged, and the establishment of a social pension insurance system in rural areas has mostly stagnated since 1998. The first problem was the shortage of local funds. The 1992 “Elementary Scheme” regulation mentioned above required that the special pension account should be the combination of a social pool and individual accounts in the voluntary system. Yet the proportion to be contributed from public funds was never fixed. Therefore, many local governments have minimised the public fiscal contribution to the social pension insurance programme. As a result, the social pension insurance accounts are almost same as bank saving accounts for participating farmers, except that they cannot withdraw the money freely. Local fiscal revenues were insufficient to fund the social pension insurance system. The programme therefore ran a deficit in some areas and could not even pay benefits for participants aged 60 and over. This situation caused a second problem: participants could not easily be convinced that they would get their benefits in old age, so their willingness to join the system declined. The third problem was the fragmented organisation and administration of the rural social pension insurance system. As a result, farmers migrating or proposing to migrate from their official residence were excluded from coverage.

Despite the problems, the urgent needs led to reform in establishing a social pension insurance system in some areas, including counties in Suzhou (Jiangsu Province), suburban areas of Shanghai, and Baoji (Shaanxi Province). Of all the pilot areas, Baoji is one of the few pilot cities in west China. It is also the only pilot district for the national government’s 2008 reforms in social pension insurance in rural areas. Baoji’s experience with the reform process will provide practical lessons for establishing a new social pension insurance system in less developed rural areas.

## Chapter II: General Context of Baoji

### Social and Economic Context of Baoji

Baoji is located in western Shaanxi Province, also in the western part of the Guan Zhong Plain. Baoji is the second largest city in Shaanxi Province (Xi'an is the largest), serving as a national base for heavy industry and electronics, as well as a provincial base for food industries. It consists of three administrative districts and nine counties. The total population is 3.76 million, with an agricultural population (category of household registration) of more than 73 percent in 2006. The average annual net income of the agricultural population is 2,260 yuan (RMB) for Shaanxi Province and 2,454 yuan for Baoji City<sup>1</sup>.



Fig. 1: Location of Shaanxi in China



Fig. 2: Location of Baoji in Shaanxi

The minimum living allowance programme came into practice in 1998 in the Baoji area, and local families with an average annual income of less than 625 yuan per person are qualified to apply. Some 93,000 farmers received the minimum living allowance in 2006, about 3 percent of the total agricultural population in Baoji. The average allowance per month is about 8.5 yuan<sup>2</sup>, less than 4.2 percent of the average net income per month for whole agricultural population in Baoji. The results of the 1% population sample survey in 2005 indicated that the average income per month in 2005 for people aged 60 and over was about 60 yuan, which was only 20 percent of the income of the working-age population.

There are nine rural counties in Baoji city: Fengxiang, Qishan, Fufeng, Meixian, Longxian, Qianyang, Linyou, Fengxian, and Taibai. Most of the participants in the new rural social pension insurance programme will come from these nine rural counties in the future. Table 1 provides details about the agricultural population size and fiscal revenue of these counties in 2007. Table 1 show that there are great variations in population and in the fiscal condition of the local governments. Taibai and Linyou are the two smallest counties in population size and local fiscal revenue.

<sup>1</sup> Statistical Bureau of Shaanxi Province, *Demographic Yearbook of Shaanxi Province*, 2006.

<sup>2</sup> Report from policy research office of Baoji Government, <http://www.bjic.sn.cn/hgjj/27001.htm>



Table 1: Agricultural population and fiscal revenue in nine rural counties of Baoji in 2007

County	Agricultural population		Fiscal revenue (thousands of RMB)
	Total number	Percentage of total population (%)	
Fengxiang	459,137	90.03	110,000
Qishan	399,900	85.27	101,000
Fufeng	423,117	91.90	37,000
Meixian	288,490	91.30	109,915
Longxian	223,626	88.25	45,010
Qianyang	112,824	87.03	24,300
Linyou	73,208	83.71	16,380
Fengxian	74,433	69.59	92,230
Taibai	42,000	80.77	11,000

Source: Finance Bureau of Baoji government

### Population Ageing in Rural Baoji

Statistics show that the ageing process in Baoji is accelerating and the household size is shrinking. The 1% sample survey data from 2005 indicate that the proportion of the Baoji population aged 0-14, 15-64, and 65+ years old is 20.37 percent, 71.64 percent, and 7.99 percent respectively (table 2). Since 2000, the decrease in the proportion of the population aged 0-14 has been 4.63 percent, and the increase in the percentage of the older people aged 65 and over has been 2.66 percent. The average household size decreased to 3.22 persons in 2005, 0.35 less than in 2000.

Table 2: The population structure in 2005

Age group	Agricultural (%)	Non-agricultural (%)	Total population (%)
0-14	20.62	15.49	20.37
15-64	72.11	75.78	71.64
65+	7.27	8.73	7.99
Total	100	100	100

Source: 1% sample survey data in China in 2005

In the coming four years, the ageing process will accelerate greatly, and the percentage of the oldest-old (80+) will significantly increase. By the end of 2007, the total population size of Baoji had increased to 3.76 million, and 12.5 percent was aged 60+ years old. (Note: Figures in table 1 are for the age group 65+.) By the end of 2010, there will be 615,000 people aged 60 and over, about 16.5 percent of the total population; and there will be 57,000 of the oldest-old, almost 7.4 percent of the total population of older people in the Baoji area. Table 3 shows the age structure of the agricultural population in nine counties of Baoji city in 2007, according to the age categories of the new social pension insurance programme.

Table 3 indicates big differences among the nine counties in the ageing of the population. The proportion of older people is only 8 percent in Linyou County, and its population remains younger than other counties. Yet nearly 16 percent of the total agricultural population is aged 60 and over in Fengxiang County, where the aging process has been more rapid.

Table 3: The age structure of agricultural population in nine counties of Baoji in 2007

County	Age structure (%)				Total number
	Aged 0-17	Aged 18-44	Aged 45-59	Aged 60+	
Fengxiang	23.51	46.9	17.71	11.88	459,137
Qishan	21.46	41.06	27.46	10.03	399,900
Fufeng	22.21	45.93	19.78	12.08	423,117
Meixian	30	32.09	26.00	11.91	288,490
Longxian	28	42.6	19.1	10.31	223,626
Qianyang	22.93	26.22	38.86	11.99	112,824
Linyou	29.13	43.38	19.47	8.02	73,208
Fengxian	13.78	41.83	28.56	15.84	74,433
Taibai	40.76	31.51	15.07	12.66	42,000
Total	23.92	40.41	24.33	11.34	2,096,735

Source: Data provided by the Baoji government

## Chapter III: The Baoji Ageing Policy Context

### **Ageing Policies and Programmes in Baoji**

Faced with rapid aging and resulting social challenges, the Baoji Government has paid increasing attention to the welfare of older people, despite the region's relatively low economic development. Following the Chinese government's policy themes of "the Scientific View of Development" as well as its increasing emphasis on people's welfare and social development, the Baoji Government issued two key documents: "A Suggestion on Speeding Up the Development of the Enterprise for the Elderly Population" (No. 04 Document, 2007 of Baoji People's Government) and "Outline of Development Programme of the Enterprise for the Elderly Population for Baoji". These documents outlined a comprehensive development programme for Baoji and promoted a social pension insurance programme.

In recent years, the amount of government funding for the older population has increased. As of 2006, the Baoji Government has granted 10 million yuan (Special Fund) every year for this purpose. The emphasis is on building rest homes, community care centres, household service teams, the village-level recreation rooms, and community colleges for older people. Meanwhile, all county-level and district-level governments are asked to appropriate special funds for the older population. From 2007, the government increased the number of beneficiaries of favourable policies (such as free public transport in the inner city area and no payment or low payment for public parks, theatres, and libraries and registration at the hospital) by lowering the age of eligibility from 70+ originally to 65+. From January 2002, monthly allowances of 50 and 100 yuan have been given to residents 90-99 and 100+ years old, respectively.

A unique characteristic of these efforts is that Baoji deliberately tries to reach full coverage in social pension insurance. Baoji has issued a series of pension and medical insurance policies (including policies for employees of public and private enterprises, for staff in governmental organisations, and for farmers whose lands have been expropriated) as well as the New Rural Social Pension Insurance Programme. Among them, the New Rural Social Pension Insurance Programme benefits the largest population, and this programme is innovative for Shaanxi Province and China as a whole.

### **Introduction of the Rural Social Pension Insurance Programme**

With "low benefits, wide coverage" as the principle, the social security system of Baoji fills the gaps of the original system of benefits. The Baoji Government has issued a series of social security policies successively, including social pension insurance for farmers ("peasants") whose lands were expropriated, and the New Rural Social Pension Insurance Programme. Later in 2007, the urban residents' pension insurance programme was started. It is specially designed for urban residents who are jobless or do not have any pension insurance. In 2008, the government is expecting to extend the New Rural Social Pension Insurance Programme to the whole rural area in Baoji. By then, full coverage of all people will be reached.

Among all the social pension insurance programmes in Baoji, the New Rural Social Pension Insurance Programme is perhaps the most interesting. For a long time, older people in rural areas, roughly 70 percent of China's older population,

have been largely excluded from social re-distributions and unable to participate fully in the country's rapid social and economic development. Many have been left vulnerable by a reduced ability to do physical work, deterioration of health, lack of regular income, and limited access to medical care. How to provide rural older people with basic pension security has therefore become a prominent issue in China. However, how to collect, operate, and supervise large pension funds has remained an unsolved question; and whether a pension insurance programme can be run sustainably remains a huge for all levels of government in China.

Within this context, the Baoji Government introduced its pilot programme of the New Rural Social Pension Insurance in 2007. The Baoji Government has a history of setting ambitious objectives, illustrated through its policy statements such as "taking the lead in Shaanxi Province", "becoming first-class in the West", "realising a national reputation", "satisfying the people", and "letting every resident enjoy social development achievements". In 2007, Baoji City was authorised by the National Ministry of Labour & Social Insurance and the Shaanxi Provincial Government as a participating city in the National-level New Rural Social Pension Insurance Programme, and a pilot city of Shaanxi's New Rural Social Pension Insurance Programme, respectively. As a result, Baoji is now leading in implementing the Pilot New Rural Social Pension Insurance Programme in China.

## Chapter IV: Overview of the New Rural Social Pension Insurance Programme

### The Basic Policy

#### A. Insurance Subscribers

According to “Measures on the New Rural Social Pension Insurance in Baoji (Trial)”, all people with agricultural household registration (often translated as “peasants”) in Baoji, aged 18 years old and above, uncovered by the social pension insurance programme for landholders whose lands were expropriated, are qualified to participate in the New Rural Social Pension Insurance Programme<sup>3</sup>. The population ultimately eligible to participate the New Rural Social Pension Insurance in Baoji area will around 2 million. As of November 30th 2007, the population in the relevant age groups totalled 1,989,600. Of this total, people aged 18 to 44 amounted to 1,113,500; those aged 45 to 59 amounted to 568,100; and those aged 60 and above amounted to 308,000. (At the time of this report, most of these people were not yet eligible because the programme was still in its pilot phase.)

#### B. Eligibility Criteria

The criteria for eligibility are as follows: anyone who qualifies under any of the following three articles, and whose family members have paid the insurance premiums, can benefit from the New Rural Social Pension Insurance.

- Subscribers aged 60 and above as of the beginning of the programme (July 1st 2007) can receive the pension insurance income monthly.
- Subscribers aged 45 and above who pay insurance premiums annually according to the regulations and will receive the pension monthly after they reach 60 years old.
- Subscribers younger than 45 years old will receive the pension monthly after they reach 60 years old if they pay insurance premiums for more than 15 years before reaching age 60.

#### C. Source of Government Subsidy

Both city-level and county-level are required to appropriate sufficient fiscal subsidies to the accounts of insurance subscribers. Meanwhile, resourceful villages and collective economic organisations are encouraged to contribute additional funds to partially or totally substitute the insurance premiums that should be paid by the insurance subscribers within their locality.

### Piloting of the New Programme

#### A. Selection of the Pilot Locations

Because of limitations in economic development and the government’s lack of previous experience with such schemes, the new programme was initiated as a pilot in June 2007. The localities were chosen based on their social and economic situation. Linyou County and Taibai County took the lead in carrying out the programme from July 1st 2007, and 5 villages were chosen from each of the remaining seven rural counties. Totally there are 216 pilot villages in Baoji. In 2008, the programme will be expanded to cover all nine rural counties of Baoji City.

The main reason Linyou County and Taibai County were selected to carry out the pilot work throughout the county is their small population. The populations of Linyou and Taibai involved in the programme are 43,880 and 78,700, respectively,

<sup>3</sup> Not all the persons living in rural areas are registered with agricultural household registration, and not all the persons with agricultural household registration are landholders.

only 6 percent of total population of Baoji City that should ultimately be covered. As a result, the funds requested for the pilot work in these two counties is relatively small, and the pilot work is much easier to supervise. Another important reason is the less developed economic status of those two counties. The average net income per capita of agricultural households in Linyou and Taibai in 2006 was 1,697 yuan and 1,608 yuan, respectively, only roughly half of the highest level, in Weibin District (3,109 yuan). The numbers are also far behind the city's average level (2,454 yuan). To some extent, economic development level also reflects the education level of the residents. So the logic of the pilot locality selection is that, if the programme can be carried out smoothly and successfully in less-developed areas, it will be much easier to carry it out in the relatively rich areas.

The selection of pilot villages in the other counties was mainly determined by factors such as the population size and economic development level. In Fengxiang County, for example, the five villages chosen are (1) Zhoujiamenqian Village of Chengguan Township, (2) Sunjianantou Village of Changqing Township, (3) Changqing Village of Changqing Township, (4) Madaokou Village of Changqing Township, and (5) Madaokou Village of Changqing Township. As the director of the Bureau of Labour and Social Insurance in Fengxiang County told us, there are two main qualifications for pilot villages. First, they should have a strong level of economic development. For instance, Zhoujiamenqian Village is a model village in the programme to "Construct New Villages with Socialist Characteristics" and a "National Model Village to Care for the Elderly Population". The other four villages in Changqing Town all have a sound industrial foundation, with income sources resulting from land expropriation, and are relatively rich. Second, the village residents have relatively high education level, so it is easier to carry out the pilot work.

## B. Subscription Ratios

In 2007, the total population of the 216 pilot villages amounted to 413,424. Of that figure, the population eligible to participate in the New Rural Social Pension Insurance Programme in these villages reached 312,962<sup>4</sup>. Of this latter figure, the number of people aged 18 to 44 amounted to 217,363; aged 45 to 59 totalled 67,834; and aged 60 and above totalled 27,765. Up to November 30th 2007, the total number of insurance subscribers had reached 191,919, or 61.3% of those eligible to participate. The number of subscribers aged 18 to 44 years old had reached 105,329, accounting for about 48 percent of that age group; aged from 45 to 59 had reached 60,590, accounting for 89 percent; and the number of subscribers aged 60 and above had reached 26,000, accounting for 94 percent of the age group. See the data in the table 4. The insurance premiums amounted to 15,204,300 yuan, and the fiscal subsidy was 4,292,800 yuan.

Table 4: The distribution of insurance subscribers in 2007

Areas	Subscription ratio (%)			Population eligible to enroll		
	Aged 18-44	Aged 45-59	Aged 60+	Aged 18-44	Aged 45-59	Aged 60+
Taibai	48.36	95.42	95.34	28,253	10,945	4,682
Linyou	56.27	90.87	100.00	51,643	19,445	7,612
All villages	48.46	89.47	93.64	217,363	67,834	27,765

<sup>4</sup> i.e. 312,962 is the total population excluding children below age 18.

The older people aged 60 and above who have not participated in the pension insurance programme can be divided into two categories. First, some are reluctant or think it unnecessary to participate in the programme. Second, others do not meet the qualifications, because their local adult children have not subscribed and paid for the pension insurance. According to officials in Fengxiang County and Linyou County, the number of subscribers aged 60 and above has increased. Many have subscribed recently, and the subscription ratio has been rising consistently since the beginning of the programme. In Zhoujiamenqian Village of Chengguan town in Fengxiang County, for example, the number of older people aged 60+ who do not subscribe fell from 11 in November to 5 in December.

### Overall Process and Structure

The New Rural Social Pension Insurance Programme consists of three stages, namely, fund collection, fund supervision, and pension allocation. The four-level supervision and operating structure is based on the administrative levels of city, county, township, and village. At the city level, the Bureau of Labour and Social Insurance of Baoji is in charge of the programme, and the Department of Rural Social Pension Insurance in the bureau carries out the daily operation. The county-level bureau is in charge of organizing and supervising the Rural Social Pension Insurance system within its jurisdiction. The Center for Rural Social Pension Insurance Supervision, affiliated to the county-level bureau, functions to collect the insurance premiums, allocate the pension, supervise the personal accounts, and operate the pension insurance fund. The township-level government is in charge of carrying out education, communication, and implementation of the New Rural Social Pension Insurance Programme within its administrative territory, and the daily tasks are carried out directly by the township-level Bureau of Labour and Social Insurance. At the village level, Labour and Social Insurance Service Stations are established. These service stations carry out much of the concrete work such as registering insurance subscribers, collecting the insurance premiums, and surveying the insurance population. The bureaus of the city, county, and township levels all belong to Public Welfare Agencies, and special staff were assigned to carry out the New Rural Social Pension Insurance Programme in those institutions. But in villages, it is done by the village cadres. Meanwhile, relevant fiscal agencies are in charge of supervising and supporting the funds. The overall process is shown in Figure 3.

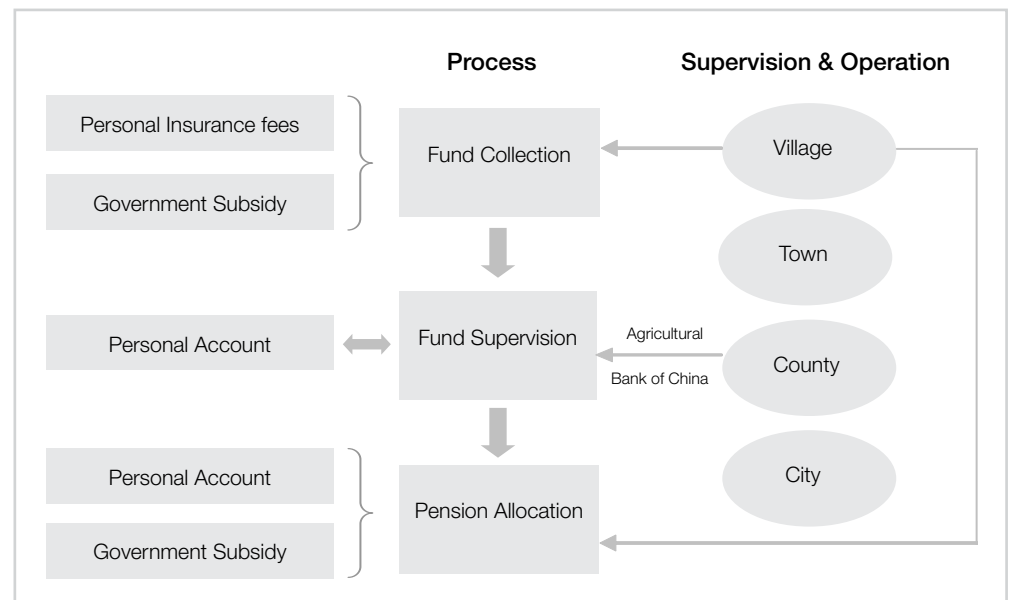


Fig. 3: Schematic diagram of the overall process

## Chapter V: Administration of the Programme

### Fund Collection

#### A. Fund Sources

The funds for the New Rural Social Pension Insurance come mainly from two sources: one is the personal pension insurance premiums and the other is government subsidy.

##### Personal Pension Insurance premiums

The annual premium for subscribers amounts to 10% percent of the average net income of Baoji area. When the economic development and rural incomes increase in the future, the annual fee is to be adjusted accordingly. In 2006, the average rural net income in Baoji was 2,454 yuan. The highest figure within Baoji was 3,109 yuan in Weibin District, and the lowest was 1,608 yuan in Taibai County. So far, the pension insurance premium is 10% of the average net income for all the subscribers. Villages with greater collective wealth may provide supplementary allowances to the subscribers. However, this rarely happens in any of the pilot counties in Baoji now.

##### Government Subsidy

The fiscal revenue at both city level and county level should provide sufficient subsidies to the insurance subscribers. Now the city-level subsidy standard is 15 yuan per capita every year, while the county-level subsidy standard is at least 15 yuan per capita every year. Both subsidies are transferred to the personal pension insurance account. According to the regulations, the fiscal subsidy can either be set aside cumulatively through the government's annual budget, or else be allocated for pension insurance payments as the subscribers reach 60 years old. For subscribers who are under 60 years old, the subsidy standard is 30 yuan per capita annually. This subsidy is provided by both the city-level and county-level fiscal revenue, half and half. The 2007 year subsidy was listed in the fiscal budget, and it has already been transferred to the personal pension insurance account.

Currently, every subscriber can get an annual 30 yuan fiscal subsidy provided by both city level and county level revenue, shared half and half. The reasons that the government provides a fixed amount of subsidy rather than any subsidy by proportion according to the economic status of participants are as follows. First, a fixed subsidy is fairer. If the subsidy was to be provided proportionally, the richer participants would get much higher subsidies than the poorer ones. Second, according to the regulations, the pension for those who reach 71.6 years old will be the total responsibility of the governmental fiscal revenue. If the subsidy is provided out by proportion, the fund base will be relatively large. Hence the burden of the government will definitely increase. Last but not least, it is easier for the participants to understand and accept the fixed method than the proportional method, and a fixed subsidy is simpler and less costly to administer as well.

#### B. Qualifying for the Government Subsidy

Subscribers must pay the insurance premiums on time or in advance if they want to receive the fiscal subsidy. If the insurance premiums are not paid, or paid after the deadline, the subsidy is suspended.



### C. Subscribers' Payment Methods

Payment methods are multiple. The pension insurance premium can be paid monthly, quarterly, annually, or just as a lump-sum payment. The starting day for paying the fees is set every year. The qualified subscribers are supposed to pay the pension insurance premiums within the payment period. For example, October 1st is the deadline in 2007, so all participants above 18 years old must subscribe and pay their fees before this date. The paying period can be adjusted according to the actual situation every year. Considering the rural participants' economic status and income sources, the paying period is usually set in September or October for a week. Currently, the majority of the subscribers pay the premiums annually as a single lump sum. Some choose a lump-sum payment, mainly those whose age approaches 60. Both fee collection and subscriber registration are done by the staff of the Service Station of Labour and Social Insurance in the villages.

## Fund Supervision

### A. The Financial Institution

Special accounts, which are restricted to either withdrawals or deposits, are opened in a state-owned bank, and a special fiscal account is opened by the Finance Bureau in the same bank. Currently the funds are deposited in the Agricultural Bank of China. The insurance premiums collected from the subscribers aged younger than 60 years old are deposited into the depositing account; the pensions for subscribers aged 60+ are transferred from the withdrawing account; and the fiscal subsidies from governments in city level and county level are transferred from the fiscal account to the withdrawing and depositing accounts, respectively, every month.

### B. Personal Accounts

The county-level agencies have the function to open personal accounts, to distribute the Manual for New Rural Social Pension Insurance Subscribers, as well as to establish and update the record files for subscribers. Sources of fund assets can be divided into four parts: the pension insurance premiums and the interest, the village allowances and the interest, the city-level and county-level fiscal subsidies and the interest, and other income and the interest.

## Mechanism of Pension Distribution

### A. The Composition of Pension Insurance

The pension insurance comes from two parts: the fund in subscribers' personal accounts and the government subsidy. According to the national standard, the fund in the subscriber's personal account should be divided by the pension insurance months. The average life expectancy of a Chinese person aged 60 years old is calculated as 139 months (about 11.6 years). This means the amount of pension the subscribers get monthly is equal to the total amount of funds in the personal account divided by 139, plus 60 yuan.

$$\text{Monthly pension} = (\text{Total funds in the personal account} / 139) + 60$$

The government subsidy standard for subscribers above 60 years old is 60 yuan per capita monthly. It is provided by the city-level and county-level fiscal revenue, shared half and half. Depending on situation, the subsidy may be listed in both the city-level and county-level fiscal budget, respectively. See the model of pension insurance treatment in table 1.

**B. Qualifying for the Governmental Subsidy**

Subscribers aged 60 years old and above now can get 60 yuan governmental subsidies monthly on the precondition that their family members – those aged 18+ years old and with local household registration – have subscribed and paid the insurance premiums. The family members here specially refer to sons, daughters-in-law, daughters, and the sons-in-law, as long as they live in the pilot area. Those who are younger than 60 years old now must subscribe and pay the insurance premiums to get the government subsidy when they reach 60 years old. And those who pay the insurance premiums after the deadline can still receive the 60 yuan subsidies per month.

**C. The Method of Pension Distribution**

In light of the wide geographic distribution of villages, banks whose agents cover most rural areas are chosen to carrying out the pension distribution. Currently, the Rural Credit Cooperative has been chosen. In the future, Postal Savings may be chosen to carry out this work, when it develops its systems further. A passbook is given to every qualified subscriber, and the pension is transferred to the subscriber's personal account monthly. For those who make a special request, the pension can be given in cash.

The staff in the village service station track and update the list of subscribers qualified to receive the pension every month. The subscribers whose information may need to be altered are mainly newly qualified subscribers (those having just reached 60 years old) and the deceased. The government requests the names of newly qualified subscribers to be made known through a public announcement in the village for one week. Then, the list will be submitted to the township-level agency, if there is no disagreement about eligibility.

## Chapter VI: Effects of the Programme on Rural Older People

Participants who have reached 60 years old are qualified to get at least 60 yuan (about \$8) every month from the pension account. In order to understand to what extent the monthly pension can meet their economic needs and improve the economic stability of rural older people in pilot areas, several focus group discussions with local elderly people and government officers were conducted. Although a full statistical survey was not possible, the aim was to understand more about the basic economic income sources and expenditures in people's daily lives, and thus gather an impression about the effects of the new insurance programme on rural older people.

### **Impact on the Economic Status of Older People**

Based on the information from the focus group discussions with older people in Linyou County and Fengxiang County, their average expenditure is about 200 yuan every month. The benefits of a 60 yuan pension therefore add to the income of the rural elderly population and improve the living conditions and economic stability of the elderly to a certain extent. However, the pension income is insufficient to meet all their economic requests. Based on their answers, the pensions they get every month are spent in the following ways.

First, pensions are spent on purchasing daily necessities such as food, medicine, and clothing. This accounts for most of the expenditure of subscribers and their spouses.

Second, pensions are spent on regular living expenses such as paying for water and electricity, as well as other expenses of the extended family. The subscribers who paid for the running costs of extended families were usually those cohabiting with their offspring, or else taking care of the juvenile children, houses, and fields for their adult children working outside the village.

Third, the pensions are spent on purchasing books, snacks, clothing, and other costs for their juvenile grandchildren. In this situation, the subscribers usually cohabit with, or live very near to, their children and take care of the grandchildren.

The expenditure listed above indicates that the pension benefit is only partly spent on improving the living and medical condition of the subscribers themselves. Hence, the positive effects of the programme on improving the economic status of the older participants have been reduced and transferred to other family members. In addition, as the interviewees said, children give financial aid to their elderly parents irregularly. In other words, most children only give their parents pocket money when their parent's own money has run out. Because the economic status of the majority of rural families is not high, the financial support from adult children can only cover the daily living expenses of the elderly parents. Therefore, to some extent, the 60 yuan pension has a substitution effect on intergenerational financial support. However, older people interviewed found the trade-offs associated with sharing their pension with the family to be acceptable. The binding practice that all qualified family members should subscribe the new insurance programme (i.e. only after they pay their own insurance premiums can their elderly parents receive the pension) makes the substitution effect seem much more reasonable for older subscribers.

Because of the multiple uses of the pension and its substitution effect, further study is needed to assess more accurately to what extent the New Rural Social Pension Insurance scheme can improve the living standards of older people.

### **Impact on Family Relationships**

Since the pension becomes regular income for subscribers aged 60 and over, it increases the economic stability of older people and decreases their dependency on social financial support. In the light of the substitution effect on the financial support for older subscribers, it is good news to both the offspring and their older parents that less financial support is now needed to meet elderly parents' needs. The resulting decrease in economic pressure on adult children means lower or less frequent payments to help to their parents. The decline in either the quantity or the frequency of financial support also reduces the possibility of conflict between children and children-in-law.

As noted above, some older subscribers used their pension for their family's expenditure or the grandchildren's daily expenses. Older subscribers' contributions raise their economic position in the extended family, and they therefore win more respect from other family members. Therefore, the pension plays a lubricant role in the older participants' families, and reduces the possibility of conflict between family members caused by the need to provide financial support to older parents. Furthermore, this positive effect on relationships among family members increases the probability of adult children providing more financial, instrumental, and emotional support to older people to meeting their needs.

### **Impact on the Psychological Well-being of Older People**

For the older participants in the new insurance programme, the pension becomes their regular income and improves their security and life satisfaction to some extent. In the focus group discussions, several interviewees said joyfully that, "We are very excited to get regular income like urban residents, and it was unimaginable before," and "it was good to have money in hand to deal with emergencies; after all, our children couldn't always give money in time."

The pension decreases the economic dependency of the older people on their children. In an interview, one older person said, "I was pretty embarrassed to ask the children for money," and "I feel much better than before, because I have regular income and can buy anything I want." Moreover, the pension money used for the household's daily living expenses helps to enhance the intergenerational and interpersonal relationships in extended families. An older person said that his grandson usually asked him for pocket money after school to buy snacks, but he did not have any money before. Now, he often gave pocket money to the grandson, who was more likely to visit him. Another older person said that she felt very satisfied when giving pocket money to her grandchildren. Therefore, the pension has positive effects on intergenerational relationships, which further improves the psychological well-being of older people.

However, based on the above discussions, it is difficult to declare that the pension may have greater effects on the psychological well-being of older people than on their living conditions, and further analysis should be done to investigate and compare the impact of the programme on the psychological and physical health of older people.

### **Impact on the Health Status of Older People**

To some extent, the pension may improve the purchasing power of the rural elderly for food, medicine, and medical service, which in turn helps to improve and maintain their health status. Moreover, previous studies have indicated that improvements in the life satisfaction of older people have significant effects on their mental and physical health status. But this conclusion is only a subjective judgement in Baoji, and further empirical research should be done to verify this deduction. However, the New Rural Social Pension Insurance Programme has been carried out only for a relatively short period, so few people were available as control cases for comparison in this preliminary cross-sectional study. It is therefore difficult to clearly identify the impact of the pension insurance system on the health status of older subscribers.

## Chapter VII: Challenges, Sustainability and Recommendations

By the end of 2007, the New Rural Social Pension Insurance Programme of Baoji made considerable progress, which has benefited more than 90 percent of the rural citizens aged 45 and above in pilot villages; a fiscal subsidy proportional with the personal insurance premiums has been transferred to corresponding accounts; and the pension has also been transferred on time to subscribers aged 60 years old and above. However, challenges still exist in the pilot now, and others may arise as the programme is extended in the future.

### Challenges and Recommendations

#### A. The Lack of Legal Guarantee

The New Rural Social Pension Insurance Programme has come into practice largely as a result of the mayor's prominent attention to the development of the social welfare system in Baoji, especially for the rural older population. His attention has guaranteed the devotion of funds from fiscal revenue and boosted the interest of relevant departments at all levels of government in Baoji. The problem is, without the attention of the top leaders, it is difficult to get the fiscal funds and material resources appropriated for the programme and to carry out the grassroots work. This problem becomes an embarrassment faced by almost all levels of government in China: the work is not assured by system (law) but by persons (leaders). Each government has its tenure, and new government officers may have new ideas and a different focus for local development. Once it comes into practice, the New Rural Social Pension Insurance programme needs persistent support, regular appropriation of funds, and continuous professional management of pension accounts. Currently the smooth process has relied mainly on the government's credibility. However, if the programme is ever halted, the credibility of the government will be seriously damaged, and it will be very difficult to restart the scheme. The most important remaining task to ensure the sustainability of the programme is to institutionalise the New Rural Social Pension Insurance Programme in legislation, so that changes in government leadership will not affect the programme's efficient administration.

#### B. The Dilemma of the Binding Practice

In order to increase the subscription ratio in pilot villages, the practice of requiring all family members to participate has been adopted. To some extent, this binding practice reduces the positive effects of resource redistribution in the programme, and decreases the impact of the pension on improving the living quality of older people in rural areas. As prescribed, once they are aged 60 and above, participants are qualified to receive a pension from their account every month on the condition that their family members have participated in the programme and paid annual fees in time. This regulation, to a large extent, grants the offspring the decision-making right of whether the older subscribers can benefit from the programme. Even if the older subscribers do get the benefits, some of the offspring may think it seems reasonable to receive part of the pension money. For those who have several children, this binding practice may even introduce family conflict. Since all the adult children and children-in-law of older people in the same village must pay the insurance premiums, they all consider themselves to have made contributions to their parents' pensions. If the elderly parents then use their pension for the daily living expense of only one child, the other children may see this as inequitable.

Therefore, more efforts should be made to increase the willingness of young adults to participate in the programme and then to suspend the binding practice.

### **C. Value Preservation and Incremental Increase of Funds**

Currently, the personal account in the pension insurance programme is strictly operated and managed by the Agricultural Bank of China. Except for the interest, there is no value preservation or incremental expansion of the funds. Considering inflation pressures every year, the fixed deposit does not meet the requirement of the pension fund for value preservation. In order to attract more participants to the programme and reduce the fiscal pressure faced by local governments, multiple measures should be adopted to preserve and increase the value of the pension insurance fund, reaching a compromise between liquidity and profitability. The government can refer to both domestic and foreign experience in this area.

### **D. The Burden of Subscription Payments on the Poor**

If adult children are facing heavy economic pressure and are unable to pay the insurance premiums in time, the pension will not be sent to their parents on time every month. Local governments have made many efforts to address this problem, for example, they have encouraged their staff to donate on behalf of poor and disabled families. The donations have enabled those families to participate in the programme, and the older persons in those families were able to get the pension monthly in 2007. However, most of the efforts are just temporary measures; an ultimate solution should be found and fixed through legislation. A recommended solution for this problem is to provide a special fund from the fiscal revenue of Baoji city in order to increase the ability of poor families to meet the annual fee, and suspend the binding practice to benefit older people living in poor families.

### **E. The Lower Inclination of Younger People to Subscribe**

The subscription ratio was found to be lower for the target population aged 18 to 44 in the pilot. In 2007, the participation ratio of this age group was roughly 48.5 percent in pilot villages. Those who paid the insurance premiums on time did mostly because of the binding practice. The researchers asked grassroots workers and the rural population about this phenomenon, and they provided some reasons. First, it is difficult to collect the insurance premiums regularly from people in this age group, because most of them are at work during the day or have migrated to work outside the village. Second, most the people in this age group have not begun considering how to support themselves in old age. And last, uncertainty about their future has reduced their willingness to participate. For instance, the people now working outside the village may settle in that new location, and then it may be almost impossible for them to go back regularly to collect their pension. Therefore, providing service for the programme through non-local banks is the fundamental method to increase the subscription ratio of younger residents.

## **The Sustainability of the Programme**

The contribution to subscriber accounts in Taibai County, Linyou County, and all the other pilot villages from city and county fiscal revenues (see table 5) can be calculated based on the size and demographic distribution of subscribers in the pilot villages (see table 4). According to the standards, city-level and county-level fiscal revenues each subsidise 15 yuan respectively to every subscriber every year, and 30 yuan respectively to 60+ old subscribers every month. The cumulative appropriation by both the city-level and county-level fiscal revenue of Baoji city reached roughly 3.27 million yuan in 2007. However, as noted earlier, due to

the relative small population size in Linyou and Taibai Counties, the population eligible to participate in the New Rural Social Pension Insurance pilot from these two counties is only 43,888 and 78,700 respectively. The population currently eligible to participate is less than 16 percent of those who will be eligible in the future, if the other seven counties are added to the programme. It is inferred that the extension of the programme to the whole city in 2008 will face great fiscal pressure.

Table 5: Fiscal fund appropriation in the pilot areas in 2007

Areas	Subscription ratio (%)			Appropriation amount (RMB)			
	Aged 18-44	Aged 45-59	Aged 60+	Aged 18-44	Aged 45-59	Aged 60+	In total
Taibai	48.36	95.42	95.34	204,945	156,660	133,920	495,525
Linyou	56.27	90.87	100.00	435,870	265,050	228,360	929,280
All villages	48.46	89.47	93.64	1579,935	910,350	780,000	3270,285

Source: Report of Finance Bureau of Baoji, 2007

Suppose that the subscription ratios of each age group in the extension process in 2008 remain the same as those in pilot areas, and the demographic structure remains stable. In that case, the cumulative fiscal appropriation in 2008 will be more than 24 million yuan. The fiscal revenues of Baoji in 2006 and in 2007 were 5,230 million and 6,700 million yuan, respectively, and the projection for 2008 is 8,100 million yuan. So the fiscal fund appropriation in 2007 accounts for only 0.36 percent of the fiscal revenue at city level, and 0.7 percent in 2008 by prediction. Therefore, the financial pressure is not so severe for the government at city level. However, the contributions required by the county level represent a much greater financial difficulty. The city-level fiscal revenue mainly comes from the urban areas, where most of the large and medium-size enterprises are registered. By contrast, the nine rural counties under Baoji's jurisdiction are less-developed agricultural counties, and the county-level fiscal revenues are much smaller than those in city urban areas. Hence, the combined 24 million yuan fiscal appropriation per year will be a huge challenge for them. To conclude, the ability of the county-level fiscal revenues to contribute is the key determinant for the sustainability of the New Rural Social Pension Insurance Programme in Baoji.

Since the aging process in Baoji is accelerating dramatically, the size of the required appropriation at city level and county level will continue to increase greatly in the years to come. As projected by the Finance Bureau of Baoji, the total population of Baoji will reach its peak in 2033. If the subsidy standard stays unchanged, the estimate of the annual subsidies appropriated by the city and county levels will reach nearly 200 million yuan each. Considering the rising life expectancy of the population and the growth of average income, the number of participants and the quantity of governmental subsidies will increase greatly. No doubt, the roughly 400 million yuan fiscal subsidy is a very conservative estimate, and it will cause a huge fiscal crunch for the nine county governments. Therefore, finding other fiscal resources to partially subsidise the funds at county level is the key element of the sustainability of the New Rural Social Pension Insurance Programme. Currently, both the National Ministry of Labour and Social Insurance and the Shaanxi provincial government have promised to provide certain financial support to Baoji city for this programme in 2008, as the National Pilot City of the New Rural Social Pension Insurance Programme. However, whether the aid can ultimately alleviate the county-level fiscal challenge still needs further investigation.



Table 6: Estimate of fiscal appropriations for whole rural area

Age	Total eligible population	Subscription rate (%)	Predicted participating population	City/County fiscal subsidy (yuan)
From 18 to 44	1,113,500	48.46	539,576	8,093,639
From 45 to 59	568,100	89.47	508,270	7,624,050
60+	308,000	93.64	288,421	8,652,620
Total	1,989,600			24,370,309

*Source:* Report of Finance Bureau of Baoji, 2007

## Appendixes

### Methodology of the Study

Following collection of data and a desk review, the researchers conducted interviews with officials in Baoji, as noted below. During those interviews, the original design, practice and challenges of the programme were introduced, and the possibilities of further spread and sustainable development were discussed. Two focus group discussions with older participants have been done to assess the effects of programme on their lives, as well as to verify the information provided by the government officials. Another focus group discussion was conducted with the urban older people to get more information about the effects of the work of local Older People's Associations on their lives.

#### A. Interviews with Officials at City Level

- On December 24, researchers interviewed with officials from the Retired Cadres Bureau of Baoji, the Bureau of Labour & Social Insurance of Baoji, and Finance Bureau of Baoji to discuss the New Rural Social Pension Insurance Programme in Baoji
- On December 25, researchers interviewed the officials in charge of the Department for the Elderly from the Retired Cadres Bureau of Baoji. The responsibilities of the Department for the Elderly Population were introduced; the potential relationship of the programme with OPAs and the visit schedule in coming two days was discussed.

#### B. Focus Group Discussion with Urban Older People

On December 25, researchers conducted one focus group discussion with older people in the Community Care Center for the Elderly in the urban area, and talked about their living conditions and activities.

#### Group Activity: The researchers divided into two groups

##### Group 1

On December 26, Group 1 interview with the key leaders of Linyou County, and officials from the Finance Bureau, the Bureau of Labour & Social Insurance, and the Office for the Work of the Elderly Population. Detailed information about the processes of the New Rural Social Pension Insurance Programme in Linyou County was introduced; challenges and difficulties were discussed.

On December 26, Group 1 discussed with town cadres from Jiuchenggong Town and village cadres from Jiuchenggong Village. The process of the programme in township level and village level was introduced and discussed.

On December 27, Group 1 conducted a focus group discussion with 5 elderly people in Jiangjiabao Village, talked about the influence of the programme on their lives.

##### Group 2

On December 26, Group 2 met the Governor of Fengxiang County, and officials from the Finance Bureau, the Bureau of Labour & Social Insurance, and the Office for the Work of the Elderly Population; they discussed the process of the New Rural Social Pension Insurance Programme in Fengxiang County.

On December 26, Group 2 discussed with village cadres from Zhoujiamenqian Village; they talked about the work of the New Rural Social Pension Insurance Programme.

On December 27, Group 2 interviewed 2 older people in Zhoujiamenqian Village to investigate the impact of the New Rural Social Pension Insurance on their daily lives.

*Note:* The investigation team did not interview Major of Baoji, because his schedule was always full.

## **Relationship to Current Programmes and Institutions**

### **A. Relationship with Other Rural Social Security Programmes**

Currently, the social security programmes in Baoji City include the pension and insurance programmes for enterprise employees, staff in governmental organisations, farmers whose land was expropriated, and the New Rural Social Pension Insurance Programme. The New Rural Social Pension Insurance Programme is the newest and most important one of these programmes. Other small programmes to improve the welfare of citizen are also implemented, such as Subsidy Programmes for one-child and two-daughter families in rural villages, for impoverished families and disabled persons, and so on. However, all the other programmes mentioned above are carried out in parallel to the New Rural Social Pension Insurance Programme. According to the regulations of Baoji government, any action that appropriates the special subsidies from other programmes to the New Rural Social Pension Insurance Programme is prohibited.

Of the rural older population, the older people registered to receive the “Five Guarantees” are excluded from rural social security programmes. Their daily living expenses are covered unconditionally by governments, and they are taken care of in local rest homes when losing their ability to perform activities of daily living. Therefore, no pension insurance is needed for them.

### **B. Older People’s Associations and the Programme**

Currently, the New Rural Social Pension Insurance Programme of Baoji City is in the charge of the systems of the Bureau of Labour and Social Insurance, and the Finance Bureau of Baoji. The Bureau of Labour and Social Insurance of Baoji, and the institutions affiliated to it at the county level and township level, mainly provide and confirm the lists of qualified candidates. The system of the Finance Bureau of Baoji functions to draft the fiscal budget, appropriate funds to the personal pension insurance account on a regular basis, and supervise the personal pension insurance account with the Agricultural Bank of China. OPAs serve to coordinate the implementation of the programme, to help the staff of the Bureau of Labour and Social Insurance in collecting and confirming the list, and to collect the fees and distribute the pension.

**The new rural social pension insurance  
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