

China's Pension System Reform

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Pension schemes are integral parts of China's social protection system

SP programs	Urban Areas	Rural Areas
Social Insurance	Urban employees: Pension insurance , health insurance, unemployment insurance, work injury insurance and maternity insurance Informal sectors/residents: Basic health insurance Urban resident pension scheme	National Cooperative Medical Scheme (NCMS) Rural Resident Pension Scheme
Social Assistance	Urban Dibao Special and Temporary Assistance	Rural Dibao Special and Temporary Assistance Disaster Relief
Social Welfare	Welfare programs for the elderly children and the disabled Aged care programs	Wubao programs Aged care programs

Pension system reform has followed a gradual paradigm

- The early pension reform focused on urban areas, aiming to reduce SOEs social burden and facilitate economic transition
- The reform process follows a pattern of learning by doing—pilot first and rolling out later—for both mandatory and voluntary pension schemes
- With broad coverage achieved, the focuses of pension reform shift to a full coverage by 2020, portability, equity and financial sustainability
 - “**broad coverage**, basic protection, multi-layer (flexible) and sustainable” – “**Full coverage**, basic protection, multi-layer and sustainable”

At present, there are four major pension schemes

- Urban worker pension scheme
 - A mandatory scheme for urban enterprise employees (equivalent to formal sector workers, but excluding public sector workers)
- Scheme for PSU employees and civil servants
 - Defined-benefit in design with a generous replacement rate financed from government revenues
- Rural and urban resident pension scheme
 - A voluntary scheme for rural residents (including rural migrant workers) and for urban residents with a local hukou who are not covered by the urban employee pension scheme
- Voluntary enterprise and individual pension savings arrangements

Design of the urban worker pension scheme

- It has a multi-pillar framework with two accounts: social pooling account contributed by employers (20%) **Plus** individual account contributed by individuals (8%)
- Pension benefits come from basic pension **Plus** accumulation of individual account
- Eligible conditions are 60 for men and 55 for women
- It is partial pooling at the provincial level, but aims to achieve a full pooling at the national level finally

The urban worker pension scheme has reached over 60 percent coverage, but challenges remain

- The coverage is low for informal employment and rural migrants
- Higher labor tax from higher SI contribution is one of the factors that discourage participation
- “Empty” individual account and tremendous deficit of pension funds in the long term
- It needs both parametric and institutional reform to increase incentives and to achieve financial sustainability
 - For example, reducing employers' contribution rate, indexation mechanism, increasing retirement age, introducing NDC design, ...

Milestones of expanding pension coverage for rural and urban residents

- The old rural pension scheme was introduced in 1992, but largely relied on individual contribution, and the coverage stagnated around 12 percent
- The new rural pension scheme was introduced in 2009 after locally piloting
- Similarly, a national voluntary scheme that mimic the rural one was introduced for urban informal sectors and residents in 2011
- In 2014, rural and urban resident pension schemes are integrated into one system

Top-level political commitment and MDC design are the forces that dramatically increase China's pension coverage...

- Geographic institutional setting up
 - Rural areas: 10% of counties in 2009, 24 % in 2010, 60% in 2011 and 100% in 2012
 - Urban areas: 60% of cities in 2011, and 100% in 2012
- Coverage was the top priority at its initial stage, while the protection level, incentive and fiscal capacity are received attention
- The enrollment of rural and urban resident pension scheme has dramatically increased from 56 million in 2008 to 484 million in 2012, with a coverage rate more than 80 percent in 2012

Design features of the voluntary pension scheme

- It has a flat basic benefits (RMB 55 per month) **Plus** accumulation of individual account
- Individual account matched by local governments; and the contribution base are fixed levels for easy collection
- Basic pension benefits are financed by governments and cost-sharing is clearly defined
- Family binding is introduced to incentivize more contribution
- Pensionable ages are 60 years old for men and women; and vesting period: 15 years

Challenges for the rural and urban resident pension scheme...

- Low target income replacement, largely flat benefits and subsidy
 - 15-year contributions of RMB 100/year (US\$15.4) yields a benefit of 75 yuan/month (US\$11.00), equivalent to 15%

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