

Reform of Social Security System in China

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1 Introduction

Shortly after the foundation of the People's Republic of China, a comparatively comprehensive social security system including social insurance and social assistance in the urban area was accomplished in the 1950s. The social insurance was mainly composed of labor insurance for enterprise workers and their dependents, and public employee insurance for those working in governmental agency and other non-enterprise working units. Labor insurance provided pensions, free health service, paid sickness leave, maternity benefits, and compensation for injuries at work, disability and death. Under the system, enterprises financed the labor insurance for their employees, with some contributions distributed to a national social pool and some payments made directly by enterprise under the supervision of the All-China Federation Trade Union (ACFTU) and the local labor departments. Workers were not required to pay anything to their pensions and free medical care. The system for the public employee was similar but funded by the state budget. In addition, Three Nos¹ as a kind of social assistance system was also used to provide some urban households with financial aid (Duckett, 2003). In contrast, rural residents were not eligible for benefits derived from labor insurance. Instead, following the formation of the communes in late 1950s, the so-called co-operation health care system and Five Guarantees²

¹ Refers to people who are unable to work (therefore have no workplace), have no source of income, and have no family.

² Five Guarantees is to provide social relief including food, clothing, residence, compulsory education, and funeral cost payment for rural residents who has no work capacity, or no dependents to rely on, or no financial resource, or disabled.

mainly financed by the commune or collective emerged. Assistance was also provided in times of natural disaster and famine (Duckett, 2003).

However, the labor insurance collapsed due to the ten-year lasting Culture Revolution. The Labor Department and ACFTU ceased their work related to social security. And China's social security system transformed into a kind of enterprise-based (or work unit-based) system since 1969, when all state-owned enterprises (SOEs) were given responsibility for paying directly for their own workers' pension, medical treatment costs and other welfare (Duckett, 2003; Kwong and Qiu, 2003; Leung, 2003). Even though, majority of urban residents were covered by various insurance programs because 99.8 per cent of urban employees worked in state or collective enterprise or other institutions, although provisions differed from workplace to work place. In short, China's social insurance was in nature a defined-benefit, pay-as-you-go system primarily financed and provided at the enterprise level (Li, 2000).

China started to relinquish the planned or demand economy with aims to set up a market-oriented economic scheme since the end-up of Culture Revolution. As Duckett (2003: 95) pointed out that "Marketization has profound implications for social security systems because it redistributes resources and re-stratifies society, thereby creating new social welfare needs", China's social security system thereby has been undergoing changes for the past decades. China's current social security system³ is composed of social insurance, social welfare, the special care and placement system, social relief and housing services and so on (State Council, 2004). The paper will focus on pension, health, unemployment insurance and poverty assistance, due to the limited space. The paper is organized as following: Next section goes to the assignment and implementation of the social security system. Section 3 is concentrated on the financing of the present system, and the delivery of the system is presented in Section 4. The evaluation of the present system will be done in Section 5. Section 6 and 7 cover the options and the evaluation of the options to improve the current system, respectively. The conclusions will be delivered in the last section.

³ Kwong and Qiu (2003:189) states that, in China, social security includes social insurance, social services, social assistances, and services for veterans.

2 Assignments and Implementation of the Social Security System

2.1 Economic reforms and the challenge on social security system

The market-oriented economic reforms beginning in 1980s mainly aimed to realize gradual liberalization of the economic structure, and consequently the SOEs' autonomy of production and management has been enlarging, various types of economy in addition to state and collective economy has been emerging (Leung, 2003). As Duckett (2003:95) pointed out that "Marketization has profound implications for social security systems because it redistributes resources and re-stratifies society, thereby creating new social welfare needs", China's social security system has been facing quite many challenges deriving from series of economic reforms.

The relationship between enterprises and governmental agencies essentially differed. SOEs, bearer of all kinds of social insurance benefits as stated in Section 1, could survive under the planned economy because they were finally able to get financial and policy support from the government in case of loss. However, under the market-oriented system, the cushion from the government is removed, and each enterprise has to deal with all risks in operation and strive to maximize profits so that they can survive. However, enterprises' social insurance burden has been increasing rather than decreasing. The number of retirees increased by 42.09 million over the period of 1978 to 2003, at the annual growth rate of 1.6836 million. The average pension expenditure per retiree increased from 714 *yuan* in 1980, to 1 975 *yuan* in 1990, 7 190 *yuan* in 2000, and 9 808 *yuan* in 2004⁴. Employer's contribution rate has been accordingly rising. For example, the rate was 2.8 percent in 1978, mounting to 10.6 per cent in 1985⁵, and currently 20 per cent of the payroll. Therefore, from the point view of strengthening their competitive capability, SOEs expected to drop part of their financial burden deriving from payments to their employees' social insurance benefits. It is also very clear that the financial burden was imbalanced between enterprises with large number of, and those with small number of old employees, due to the social insurance system being enterprise-based. The financial burden shall be balanced among them so that various enterprises could take fair competition in the market.

⁴ National Bureau of Statistics of China (2005 a).

⁵ <http://www.byl.sh.cn/10-pop/forum/paper13.htm>, 2001-11-14

Various non-state economy such as stock company, private economy, foreign-owned economy, and joint ventures has been emerging, thanks to the adoption of reform and open-up policy in late 1970s. As Table 1 shows that employees in SOEs have always been reducing, accompanied by rising number of employees in non-state economy, since 1990s in particular. However, the previous social insurance was confined to employees in urban state economy, having dual impacts at least. On the one hand, the non-state economy has financial advantage in contrast with state economy, resulting in non-fair competition between; on the other hand, employees in non-state economy are not eligible for collection of retirement, health care benefits and the other social insurance benefits. Besides, regional disparity in economic development and living standard make working population change their job among various economic sectors from time to time and move from one place to another. The segmented system had to change to meet these challenges so that a nationally universal social insurance system could be established finally.

Table 1 - Employee Distribution by Economic Sector in Urban Area

Year	Number of Employees (million persons)				Share of Employees by Sector (%)			
	Total	SOEs	Collective	Others	Total	SOEs	Collective	Others
1952	16.03	15.80	0.23		100	98.57	1.43	
1960	59.69	50.44	9.25		100	84.50	15.50	
1970	62.16	47.92	14.24		100	77.09	22.91	
1980	104.44	80.19	24.25		100	76.78	23.22	
1990	140.59	103.46	35.49	1.64	100	73.59	25.24	1.17
2000	112.59	78.78	14.47	19.35	100	69.97	12.85	17.18
2004	105.76	64.38	8.51	32.87	100	60.87	8.05	31.08

Source: National Bureau of Statistics of China (2005b), *China Compendium of Statistics 1949-2004*, 8, China Statistics Press (Beijing, China).

With the introduction of bankruptcy law in 1986, enterprises may become bankrupt in case of big loss. Table 2 tells the unemployment rate is fluctuating for the past years, with the peak value of 5.4 per cent in 1979 and moving around 4 per cent since 2002. In general, the number of population in unemployment surpassed the peak value of 5.676 million in 1979 for the first time in 1997, then has been increasing, and mounted to 8.27 million in 2004, the record-high in China's history. In the consideration of laid-offs in SOEs, the unemployed population would significantly increase. How to guarantee the subsistence level and encourage the unemployed to find new job is one big issue facing the government. The unemployment insurance and the minimum living security have been thereby introduced. Additionally, the retirement and health benefits for retirees working at already announced bankrupt enterprises would inevitably be

influenced in a negative way, if the social insurance remained dependent on enterprises. One can find that the administration and delivery of social insurance benefits currently requires to be independent from the enterprises.

Table 2 Unemployment Population in China's Urban Area

Item	1979	1980	1985	1990	1995	1997	2000	2001	2002	2003	2004
registered unemployment (million persons)	5.68	5.42	2.39	3.83	5.20	5.77	5.95	6.81	7.70	8.00	8.27
unemployment rate (%)	5.4	4.9	1.8	2.5	2.9	3.1	3.1	3.6	4.0	4.3	4.2

Source: National Bureau of Statistics of China (2005b), *China Compendium of Statistics 1949-2004*, 7, China Statistics Press (Beijing, China).

The case in rural China was not encouraging, either. The emergence of house responsibility system (HRS) primarily depressed the economic power of commune. Rural social security system including both co-operation health care and Five Guarantees financially supported by commune and/or collective economy, was basically disrupted. For instance, in contrast with 90 per cent in 1970s, just 5 per cent of the total rural residents were covered by the medical co-operation system in 1987, and most of them are residents living around *Shanghai* and *Jiangsu* Province, thanks to the emerging development of town-village enterprises (Jiang and Chen, 2005). 87.44 per cent of farmers had no other financial resource but paid medical expenditure on their own, according to a survey statistics (Zheng et al., 2002). In reality, the major life risks facing rural and urban residents, has slight difference in current time. One can find in Table 3 that the major four diseases causing death is the same in rural and urban area in 2004. The health condition of rural residents has been deteriorating simply because they cannot afford the increasing medical treatment costs. According to the 3rd National Health Survey in 2003, 75.4 per cent of farmer in sickness who should be treated in hospital selected to stay at home, and more than 1/3 of the poor population was found falling in poverty because of illness and medical expenditure. In particular in the western area, 62 per cent of sick population did not get any medical treatment because of poverty⁶.

Table 3 Death Rate of Major Diseases in Urban and Rural Area in China (2004) unit: %

⁶ http://news.xinhuanet.com/fortune/2006-02/19/content_4198557.htm

Cause of Death	Rural	Urban
Malignant Tumour	23.70	23.92
Cerebrovascular Disease	14.85	19.09
Disease of the Respiratory System	13.30	13.12
Heart Disease	12.54	18.80
Trauma and Toxicosis	6.63	5.89
Diseases of the Digestive System	2.81	3.24
Endocrine, Nutritional & Metabolic	2.52	2.82
Diseases of the Genitourinary System	1.61	1.81
Disease Originating in the Perinatal Period	0.68	0.52
Pulmonary Tuberculosis	0.64	
Disease of the Nervous System		0.86
Total	79.28	90.07

Source: National Bureau of Statistics of China (2005a).

Furthermore, the income inequality has been increasing in China since the adoption of economic reform. According to the World Development Indicator 2005, the Gini Coefficient mounted to 0.447 in 2001, in contrast with 0.16 in 1984 (Zheng et al., 2002).

Additionally, China's population has been aging. The proportion of the aged (60 years old or over) to the total population increased from 7.32 per cent in 1953 to 10.3 percent in 2000. And the latest 1% population sampling survey done in 2005 finds that the total of population at sixty years old or over increased to 14.408 million, 11.03 per cent of the overall population. Of which, population aged sixty-five or over amounted to 7.69 per cent of China's national population (National Bureau of Statistics of China, 2006). That indicates that, if the system had remained enterprise-based and pay-as-you-go (PAYG), there would be no possibility for enterprises to survive.

2.2 Major Reforms

China's social security system has always been in the middle of being reformed so as to meet the challenges stated earlier. Main reforms in the urban area involve social insurance such as pension, health, maternity insurance, unemployment insurance, work injuries, and social assistance. In the rural area, there is yet no any system nationally established, except for the relatively long-history Five Guarantees and the old-age insurance, health insurance system, and the minimum living guarantee system being in trial in more and more regions for recent years. The significant reforms will be discussed in more details hereafter. Our discussion starts from the reforms in the urban

area and then to the rural system.

Pension or old-age insurance was in reality the first to reform. Such reforms as social pooling of pension fund, coverage extension from state to non-state sector, joint financial responsibility of government, employers and employees, the initiation of multi-layered system, and the establishment of partially-funded system have been adopted gradually. Pension contribution from enterprises was experimented pooled together in some selected cities or counties in *Guanggong*, *Jiangsu*, *Liaoning*, *Hubei*, and *Sichuan* Province early in 1984 so that the financial payment of SOEs with different number of retirees could be comparatively balanced. The aim to pool pension funds at provincial level has not yet been achieved so far, even though encouraged by the government. According to the Ministry of Labor and Social Security (MOLSS), the funds pooling has just been achieved in 12 provinces by the end of 2005⁷.

During the process of making pension funds pooled, the pension system has been extending from SOEs to non-state economy with the final aim to set up a pension system covering employees working at all types of economy in China. Retirement benefits targeting contractual workers were proposed for the first time in 1986. The Decision on Unifying the Basic Pension Insurance System of Employees in Enterprises in 1997 made it very clear that employees in various enterprises and the self-employed shall be covered. The latest statistics tells that the total of 174.44 million population were covered by the basic pension system in the urban area, of which 13.082 million are current employees, 63.82 per cent to the total working population of 273.31 million in 2005 (National Bureau of Statistics of China, 2006). Therefore, the coverage extension was recently defined to the focus in the future again.

⁷ MOLSS: <http://www.molss.gov.cn/news/2006/0116b.htm>

More essentially, a multi-layered old-age insurance system financially supported by joint contributions from government, enterprises and employees was clearly stated by the State Council in 1991. According to the design, the old-age benefits are composed of the basic pension provided by the social insurance, the annuity by the employer, and the endowment insurance by individuals. Totally different from the previous system mainly financed by the employer, the employee is required to contribute in the current system. In nature, the first part belongs to compulsory social insurance, and the latter two parts belong to voluntary insurance. As Li (2000) stated, the previous PAYG system was replaced by three-pillar system from 1997. Pillar 1 is a mandatory, defined-benefit social pension deriving from the social pooling account funded by the payroll contribution. Pillar 2 is a mandatory, defined-contribution individual pension from the individual accounts funded by joint contribution from employers and employees. And Pillar 3 belongs to voluntary supplementary pension.

The basic pension insurance is made up of two accounts such as the social account and individual account, according to the Notice Regarding Deepening of the Reform of the Retirement Insurance System of Employees in Enterprises issued in 1995, which was in reality the break-through of the reform of China's social insurance system. The social account is supported by the employer's contribution and used socially to pay pension benefits for the retired for the time being. The social account is therefore a kind of pay-as-you-go system in nature. The individual account is jointly financed by the full contribution of the employee and part of the contribution of his or her employer, and is accumulated for his or her own pension benefits in the future. The individual account, in essence, is a kind of funded system. That indicates that the benefits for the coming retirees are both from the social account and his or her individual account.

One can say that China's current pension system is a combination of PAYG system and accumulation system, or in other words, a partially-funded pension system. The mixed system remained in the lately announced Decision on Perfecting the Basic Pension Insurance System of Employees in Enterprises at the end of 2005, although the financial resource of the individual account is to change. That is, the individual account will be fully financed by the contribution of the employee and the contribution of the employer will never be allocated to it since 2006.

The reform of medical insurance system lagged behind the old-age insurance. Employees in SOEs and public sector and their dependents were not required to pay any contribution but enjoyed free health benefits, according to previous health insurance regulations. National medical expenditure has been increasing at very fast speed. The governmental agency had to find a way out to curb the rapidly expanding medical expenditure. Employees covered by the previous labor medical insurance and free medical insurance system are called for to share part of his or her medical expenditure since 1984, which in reality constitutes the very first step to reform the free medical insurance system. Later in 1994, funds pooling was introduced. Some provinces and cities were selected out to experiment the funds pooling of the medical expenditure of retirees and that of catastrophic illness expenditure of employees.

As the Decision on Establishing the Basic Medical Insurance System of Employees in Urban Area issued by the State Council in 1998 stated, the medical security reform is to set up a system with characteristics of low benefits, extensive coverage, contribution sharing, combination of social pooling and individual accounts. Here low benefits refer to that the medical insurance system is aimed to cover part rather than whole of the actual medical expenditure; extensive coverage means that the medical system shall cover all kinds of employees in urban area;

contribution sharing is to say that the expenditure is required to pay by the employer and the employee. Similar to that of the pension system, the full contribution of the employee is allocated to his (her) individual account, and the employer's contribution is divided into two parts, 30 percent of which is allocated to the employee's individual account and 70 per cent to the social account, which is locally pooled and administrated. The social account is responsible for covering the medical expenditure above the threshold of 10 per cent of and under the ceiling of 4 times of the local annual average wage income. The medical expenditure below the threshold is paid by the individual account, and that over the ceiling has to be financed by means other than the basic medical insurance. One fundamental difference between the old and the new system lies in that the employee's dependents are excluded from the system (Deckett, 2003). According to the National Statistics Bureau of China (2006), by the end of 2005, participants of the basic medical insurance increased to 137.09 million, of which 99.59 million are working employees, 36.44 per cent of the total working labors, and the rest of 37.50 million are retired. In addition, in terms of the amount of expenditure in health, the government is not the most important role ever since. As Table 4 tells that, the government is not the main payer of the health expenditure any more. And 85 per cent or so of the total expenditure has now been paid by social insurance and individuals since 1997, of which about 60 percent was met by the individual.

Table 4 National Health Expenditure unit: 100 million *yuan*

Item	1997	1998	1999	2000	2001	2002	2003
Total Expenditure	3384.9	3776.5	4178.6	4586.6	5025.9	5790.0	6584.1
Government	522.1	587.2	640.9	709.5	800.6	908.5	1116.9
Social	937.7	1006.0	1064.6	1171.9	1211.4	1539.4	1788.5
Individual	1925.1	2183.3	2473.1	2705.2	3013.9	3342.1	3678.7
Percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Government	16.4	16.0	15.8	15.5	15.9	15.7	17.0
Social	30.8	29.1	28.3	25.5	24.1	26.6	27.2
Individual	52.8	54.8	55.9	59.0	60.0	57.7	55.8

Note: Social expenditure here is mainly referred to social medical insurance benefits expenditure.

Source: National Bureau of Statistics of China (2005a).

The Unemployment Insurance System is the new part of China's social security system. A so-called waiting-for-job insurance was called for to set up in accordance with the introduction of work contract and bankruptcy law in 1986. However, it was confined to urban industrial workers in state sector. Employees were eligible to register unemployed only if their enterprise was actually declared bankrupt. The unemployed is eligible to collect the benefit for a maximum period of 24 months, depending on how long he or she worked. Enterprises were required to contribute 1 per cent of their wage bill to establish the unemployment fund.

The day-by-day economic diversification required the insurance system to extend its coverage. Depending on 1999 Regulation on Unemployment Insurance, employees working at non-state economy or non-profit organizations or institutions in urban area are all required to participate in the unemployment insurance. Furthermore, the local government authority is free to decide whether to extend it to all working labors. That is, all working population except civil servants are possibly protected by the unemployment insurance system, making it the most extensive among all China's current social insurance systems. In practice, however, many enterprises, private ones in particular evaded participation (Duckett, 2003). The system covered 106.48 million employees, equal to 38.96 percent of the total working population in the urban area by the end of 2005, according to the National Statistics Bureau of China (2006).

The current unemployment insurance is financed by the combined contribution of the employee, the employer, and the government, and is used to pay the basic living benefits for the eligible unemployed. And the benefit amount depended on his or her standardized wage in advance of unemployment for the first period of the implementation and, since 1992 has changed to pay according to a certain percentage of the amount of social aid defined by local civil affairs departments. What's more, the unemployment insurance funds can be used to provide job-related training from 1994.

However, laid-off workers should not be ignored. For instance, there were still 1.53 million workers in SOEs laid off in 2003⁸. Their enterprises were required to provide "basic living allowance", and pay old-age, health, and unemployment contributions on their behalf. Laid-off

⁸ MOLSS: <http://www.molss.gov.cn>

workers were eligible for the basic living allowance for a maximum of 3 years if they did not find new jobs, and then eligible for the collection of unemployment benefits for further 2 years on the condition that their employers had paid contributions on their behalf (Duckett, 2003).

The recently established Minimum Living Security (MLS) in urban area is also new to China's social security system. With the rising income inequality and unemployment, urban poverty was gradually recognized as a serious issue. A new national system of means-tested minimum living security was then introduced in late 1990s, which was actually in trial in *Shanghai* as early in 1993, and then was implemented in some wealthy region. And in 1999, a national regulation on the system was published. The system provided benefits on the basis of a locally defined minimum subsistence level. Households whose per capita income falls beneath the level are eligible for the financial assistance from the local government (Duckett, 2003:86). The locally defined subsistence level ranged from 160 to 370 *yuan* in 2005⁹.

The system is designed to be fully financed by local treasury, administrated by local civil affairs departments, and is targeting to provide minimum living guarantee for urban residents, no matter he or she is employed or not, and he or she has got pension or unemployment benefits. The number of urban population benefited from MLS increased from 0.85 million in 1995 to 22.33 million in 2005 (National Bureau of Statistics of China, 2006).

We now turn to the reforms of the social security system in rural China. The Five Guarantees was previously supported by the collective economy. According to the recent Regulations on the Work of Five Guarantee System in the Rural Area enacted since 1st March 2006, the local treasury is responsible to fund the system, and the income from the collective economy, if available, may be used to aid the living cost for the beneficiaries. According to the National Bureau of Statistics of China (2005a), more than 1.65 rural residents benefited from the Five Guarantees in the year of 2004.

In addition, the social assistance has been delivered by means of poverty reduction programs since 1985 in order to develop local economy. The poor counties or townships with average

⁹ MOLSS: <http://www.molss.gov.cn>

income per capita under the defined poverty line, were provided with poverty-reduction loans and food-for-work programs. But the programs ignored the fact that, even in areas with average income above the poverty line, there were still quite a number of poor families and individuals (Duckett, 2003:86). In this condition, means-tested poverty assistance has been firstly initiated in some rural regions such as *Zhejiang* and *Guangdong*. The total of 4.88 million rural residents were given the minimum living security benefits in 2004, in contrast with slightly more than 3 million in 2000¹⁰.

In 1991, the State Council enacted the Basic Plan for the Social Old-age Insurance System at County in Rural Area, and the Civil Affairs Department was assigned to be responsible for the experiment of the System all over the country. Depending on the original design, the pension funds are mainly financed by farmer's individual contribution with aid from the collective and policy support from the government. Different from two accounts of the pension system for urban employees, there is just individual account for rural old-age insurance. The residents, at and after the age of sixty, can get his or her pension on the basis of the accumulation amount of his or her individual account. By the end of 1998, the total of 80.25 million rural residents, 17.28 percent of the rural labor that year, across 2 123 counties in China were covered in the system, and the funds amounted to 150 billion. However, the system is ordered to stop underwriting new business in the year of 1999. And it was suggested to change the social insurance to private insurance. Participants have been declining ever since. By the end of 2003, about 54.28 million farmers from 1 955 counties took part in, whose funds was accumulated to 233 billion and 1.98 million residents have benefited from the pension delivery (Jiang, 2005). At the same time, the Ministry of Labor and Social Security turned its focus on the pilot programs to set up pension insurance for migrant workers, farmers whose officially allocated land was bought for commercial use, permanent rural-to-urban migrants since the year of 2002. We are happy to see that, also in 2002, to establish social pension insurance system in areas with better economic development was re-proposed.

A kind of new co-operation health system has been introduced in the aid of treasury since the early 2003 so that the financial burden rising from illness is expected to reduce and therefore the

¹⁰ National Bureau of Statistics of China (2005a).

level of farmers' health is possibly to be raised. According to the blueprint, the new co-operation medical system is expected to cover nearly all rural residents by the year of 2010. The finance of the system is based on farmer's contribution of at least 10 *yuan*, with aid from local government. And the Central Treasury is to pay 10 *yuan* for each participant in the West of China since 2003. By the end of September 2005, 177 million rural residents across 671 counties over China were covered by the new system (National Bureau of Statistics of China, 2006). Depending on the latest Notice to Speed up Experiment of New Type of Co-operation Health System in the Rural Area jointly issued by seven departments such as the Ministry of Health, the Ministry of Civil Affairs in the early 2006, the subsidy from the central treasury and local treasury will be doubled to 20 *yuan* each participant since the year of 2006 in order to encourage more farmers to take part in the system. The program is planned to cover 40 per cent of counties across China in 2006, 60 per cent in 2007, and to cover all rural residents in 2010. In addition, a kind of medical aid system has been in trial since 2003, which is financially supported by the local treasury (also by the central treasury in the western area), aiming to provide aid for those who cannot afford health treatment.

2.3 Laws and Policies

Quite many regulations instead of laws concerning social security have been passed ever since, especially for recent years. The first one can be dated back to 1951, when the Regulation on Labor Insurance was promulgated. It defined the framework of China's social insurance system for urban enterprise employees, covering programs such as pension, work injuries, health, maternity insurance. It is known that, however, China's social security system both in urban or in rural area catastrophically suffered during ten-year period of Culture Revolution.

In the event of the introduction of reform and open-up policy since late 1970s, to provide social security benefits has been again paid much attention. The Constitution enacted in 1982 suggests: "The Government carry out the retirement system for the employees in enterprises and in governmental agencies. Chinese citizen is entitled to acquire financial aid from government and society in case of old age, illness, and lose of work capability." Later, the Decision of the Chinese Communist Party's Central Committee on Some Issues Concerning the Establishment of Socialist Market Economic Structure in 1993 states that: The establishment of multi-layered social security

system is of great importance to the deepening of the reform of enterprises and institutions, maintaining social stability and the smooth establishment of socialist market economic structure. We should unify social security policies and legalize their management. ...Private insurance will be developed as supplement to the social insurance (Lieberthal, 1995: 430-431). Labor Law passed in 1994 also tells the frame of China's social insurance system. That is, the government is responsible for the set up of social insurance system and funds so that working population can collect financial help or compensation in case of old-age, sickness, unemployment, job injuries, and maternity. Allowance shall be delivered to his or her survivor when the working person dies. The source of social insurance shall be defined and the social pooling should be realized gradually. Supplementary insurance provided by the employers and the individual's endowment insurance is encouraged. The 1999 Provisional Regulation on the Collection of Social Insurance Contribution is special for the contribution collection of basic old-age insurance, basic health insurance and unemployment, playing significant role in the development of China's social insurance. Work-units who are compulsory to contribute, and agencies who are authorized to collect and manage the social insurance fund are both defined.

Most of the regulations are concerned with pension insurance system since it is the most fundamental part of the social insurance system. The Provisional Regulations on the Adoption of Labor Contract in State-owned Enterprises in 1986 proposed that a retirement insurance system should be established for contractual employees, marking the first step for China's old-age insurance to extend its coverage. The rule of joint contribution among employers, employees, and the government is also set up.

The State Council enacted the Decision on the Reform of Pension Insurance System of Employees in Enterprises in June 1991, which in reality acts as the guideline for later reforms, due to the following reasons: (i) it propose that a multi-layered pension system should be established gradually, made up of state compulsory pension insurance, enterprises' supplementary pension insurance, and private endowment insurance;(ii) it clarifies a sharing contribution system, that is, such three parties as government, employer, and employee are all duty for the contribution of pension funds; (iii) it aims to change the system from PAYG to partially-funded system; (iv) basic pension benefits derived from the pooled funds shall be adjusted according to the consumer

price index and wage increase.

The Notice on Furthering Pension Insurance System of Employees in Enterprises in 1995 states that basic pension insurance be based on the combination of pooled account and individual accounts, and proposes two operational models for provincial and city government to select from. In practice, even about one hundred models were in force¹¹, leading the pension benefits vary from region to region. In the event, the State Council promulgated the Decision on Unifying the Basic Pension Insurance System of Employees in Enterprises in 1997, whose main contents are: (i) compatible with China's socialism market economic system, an old-age insurance system covering all types of employees in urban area, with sharing contribution and multi-layered benefits, and unified administration and delivery, is expected to set up by the end of 20th century; (ii) the ceiling of the employer's and individual's contribution rate are defined to 20 per cent of the payroll and 8 per cent of his/her wage; (iii) the size of individual accounts is nationally unified to 11 per cent of his or her wage; (iv) total benefits for retirees are made up of the so-called basic benefits from the pooled funds and benefits from individual accounts.

However, not as planned, the funds contributed by the employers had been pooled just at county or municipal level for a relatively long time, in addition to the separated 11 national industrial funds¹². Unexpectedly, the institutional reform in 1998 acted as a pushing factor for the realization of funds unification. For example, the administration power of industries such as coal-mining and ferrous industry was transferred to the local government. The State Council, in August 1998, took this opportunity to publish the Notice on the Establishment of Provincial Pooling of Basic Old-age Insurance of Employees in Enterprises and the Transfer of Industrial Pooled Funds to the Local Administration. According to the Notice, the pension funds were required to realize the provincial pooling at the end of 1998. Also industrial pooled pension funds were called for to finish the transfer by the end of 31 August 1998, and the contribution rate and benefits are allowed to adjust in the following three to five years.

The latest regulation is the Decision on Perfecting the Basic Old-Age Insurance of Employees in Enterprises issued in December 2005 and started to implement since the very beginning of 2006,

¹¹ Zheng et al.(2002:30).

¹² The industries such as banking, post office and power industry were allowed to establish their own pension funds in 1990s.

which defines the new direction of China's pension insurance system. The Decision reemphasize the final aim to extend the pension insurance to cover all working population in various types of economy, the separate administration of social account and individual account, and the realization of fund pooling at provincial level so that a united and extensive covered system could be set up. According to the Decision, different from before, the individual account is exclusively financed by the employee's contribution, and the employer's contribution is wholly used to finance the social account.

Much less regulations on rural social pension systems can be found in China. The first one is the 1992 Notice on the Basic Plan Concerning Rural Pension Insurance System at the Level of County enacted by the Ministry of Civil Affairs (MCV), on the basis of trials in some wealthy rural area last year. According to the Notice, the rural social old-age insurance is supposed to be established via the individual account, mainly depending on the participants' contribution, with subsidies from collectives and governmental policy support. In general, rural residents contributing to the system during the period of 20-60 years old are eligible to collect pensions since the age of 60. One year later than the MOLSS replaced the MCV to regulate rural social pension insurance in 1998, this kind of social insurance was ordered to stop, and it was suggested that the old-age benefits in rural area should be met via private insurance. Since then the number of participants has been decreasing. Fortunately, encouraged by the statement announced at the 16th Conference of the Chinese Communist Party that rural social insurance system should be experimented in a positive way in some economy-advanced regions, the social old-age insurance has been reassuming across China. At the same time, various types of pension insurance system special for migrant workers, farmers whose land was bought for commercial use, and parents of single child has been in trial recently. For instance, parents who devoted to the family birth planning are qualified to collect at least 600 *yuan* per person at or after the age of 60, according to the related notice announced in 2004 by the National Population and Family Planning Commission¹³.

In addition to those on pension insurance, quite a few regulations are related to health and unemployment insurance and the other type of social security programs. The 1998 Decision on

¹³ <http://www.chinapop.gov.cn>

the Establishment of Basic Medical Insurance System of Urban Employees signs the start to set up a national medical insurance system for employees in urban area. The system is designed to cover all working population in the urban area, to be financed by the joint contribution of the employer and the employee, to be made up of two accounts such as social account and individual account, which are specially used to pay medical expenditure at different amount, and is to be managed locally.

The Decision on Strengthening the Health Work in Rural Area by the State Council in 2002 defines the frame of rural health treatment system in current China. Both the so-called new type of co-operation health system mainly targeting to deal with the catastrophic illness treatment and medical aid system are planned to be nationally established by 2010 so that all rural residents can enjoy primary health care treatment. Farmers are voluntary rather than mandatory to participate in the co-operation system, which is financed by farmer's contribution and subsidies from the collective and government. Since 2003, 10 *yuan* from the central treasury and at least 10 *yuan* from the local government will be delivered to each participant as subsidy to the system. According to the latest Notice on Speeding Up the Trial of New Type of Co-operation Health System published by seven departments such as the Ministry of Health and the Commission of Development and Reform, the subsidy from the central and local treasury both will double in 2006. And the system coverage is expected to be 40 per cent this year and 60 per cent in 2007 of counties, and to be basically established across China in 2008.

Other regulations are mainly concerned with the unemployment insurance, the minimum living security system and the administration of national social security fund. The 1999 Unemployment Regulation is the most important legal document to regulate unemployment insurance in China. According to it, the unemployment insurance is financed by the contribution from the employer and the employee, is mainly used to pay unemployment benefits, medical aid during the period of unemployment, and job training. In the same year, the Regulation on the Minimum Living Security for Urban Residents was promulgated by the State Council. The minimum living security is a means-tested system, s financed by the local treasury and administrated by the local government. The Management Method on the Investment of Social Security Funds was later published in 2001.

2.4 Major Statistics on China's Social Security

The coverage, in terms of number of participants (or beneficiaries), of various social security system such as pension insurance, medical insurance, unemployment insurance in the urban area and the minimum living security has all the way been extending to more and more employees or citizens, according to Table 5. Among the three most popularly implemented social insurance programs in urban China, the coverage of old-age insurance is the most popular with participants of 174.44 million by the end of 2005, the medical insurance and unemployment insurance are followed. However, in terms of growth rate, the medial insurance is extending at the fastest space, the pension insurance is in the second position, followed by the unemployment insurance. The number of employees covered by social medical insurance was 137.09 million by the end of 2005, equal to 34.27 times of that in 1994. Besides, more and more population both in urban and rural area in China are benefiting from the minimum living security. For instance, the total of 22.33 million urban residents collected minimum living allowance in 2005, in contrast with just 0.85 million in 1995. Thanks to the implementation of various social security programs in rural area, the number of population falling in poverty has been tremendously reduced for the past years. As Table 5 writes that there were 26.1 million rural residents whose income are under the poverty line in 2004, just 10.44 per cent of the figure in 1978.

Table 5 Statistics on China's social security Coverage

unit: 10 thousand persons

Year	Pension Insurance	Number of Participants	Unemployment Insurance	Number of Beneficiaries	Medical Insurance From Urban MLS	Number of Beneficiaries	MLS From Rural	Rural Population in Poverty
1978								25000
1984								12800
1989	5710							10200
1990	6166							8500
1991	6740							
1992	9456							8000
1993	9848							
1994	10574	7968	400					7000
1995	10979	8238	746					6540
1996	11117	8333	856		85			
1997	11204	7961	1762		88			4962
1998	11203	7928	1878		184			4210

1999	12485	9852	2065	257	3412
2000	13617	10408	3787	403	3209
2001	14183	10355	7286	1171	304.6
2002	14737	10182	9401	65	407.8
2003	15507	10372	10902	2247	367.1
2004	16353	10584	12404	2205	488
2005	17444	10648	13709	2233	2610

Source: Data for the Number of Beneficiaries from Rural MLS is from National Bureau of Statistics of China (2005a); Data for the year of 2005 comes from National Bureau of Statistics of China (2006); Others are from National Bureau of Statistics of China (2005b).

Now let's look into the social insurance expenditure (see Table 6). The total expenditure paid by the three main social insurance programs has been steadily rising for recent years. The amount of expenditure by pension, medical, and unemployment mounted to 462.74 billion *yuan* in 2004, more than 38 times of that in 1989. Among them, the payment delivered by medical insurance increased at the fastest rate, with expenditure in 2004 being 663 times of that in 1993. Over the period of 1989-2004, the payment in unemployment and pension rose by more than 105 and 29 times, respectively. The increasing expenditure from types of social insurance implies that the participants are benefiting much more than before.

From the perspective of structure, the percentage of pension expenditure is declining, and that of medical and unemployment expenditure is proportionally rising. The proportion of expenditure in old-age benefits lowered to 45.68 per cent in 2004, decreasing by nearly 12 per cent in contrast with that in 1993, whereas the percentage of medical insurance benefits climbed from 0.48 to 9.76 per cent for the same period.

Table 6 Expenses of Social Insurance Fund

unit: 100 million *yuan*

Year	Total	Basic Insurance	Pension Insurance	Unemployment Insurance	Medical Insurance
1989	120.9	118.8	2.0		
1990	151.9	149.3	2.5		
1991	176.1	173.1	3.0		
1992	327.1	321.9	5.1		
1993	482.2	470.6	9.3		1.3
1994	680.0	661.1	14.2		2.9
1995	877.1	847.6	18.9		7.3
1996	1082.4	1031.9	27.3		16.2
1997	1339.2	1251.3	36.3		40.5
1998	1636.9	1511.6	56.1		53.3

1999	2108.1	1924.9	91.6	69.1
2000	2385.6	2115.5	123.4	124.5
2001	2748.0	2321.3	156.6	244.1
2002	3471.5	2842.9	186.6	409.4
2003	4016.4	3122.1	199.8	653.9
2004	4627.4	3502.1	211.0	862.2

Source: National Bureau of Statistics of China (2005a).

Different from the steady development of various social security programs in the urban area, the social security targeting rural population has been undergoing up-and-down experience. The development of rural social insurance system is a typical example (see Table 7). The number of participants in the system had been increasing over the period of 1993-1998, and reached its peak value of 80.25 million in 1998. However, the participants has been decreasing since 1999, when the programs stopped to underwrite new business, due to the order from the State Council stated earlier. Table 7 also tells that the benefits expenditure has been rising ever since, in accordance with the increase of the insureds who enter age to collect. What's more, 170 million farmers were covered by the new type of co-operation health system in the rural area at the end of 2005¹⁴.

Table 7 Development of Rural Social Pension Insurance

Year	Number of Participants (10 thousand persons)	Number of Person collecting Benefits (10 thousand persons)	Year Income (100 million yuan)	Premium	Total Expenditure in Benefits (100 million yuan)
1993	3037.3	9.8	6.6		0.29
1994	3477.0	17.2	16.7		0.48
1997	7452.0	61.4	42.2		3.3
1998	8025	50			
1999	6460.79	89.77	24.1		5.6
2000	6172.3	97.8	13.9		6.5
2001	5995.1	108.1	17.1		7.9
2002	5461.8	123.4	25.2		10.0
2003	5378	205			

Source: Data before 2000 comes from MCV, *China Civil Affairs Statistical Yearbook* (various edition), and those after 2000 from National Bureau of Statistics of China, *China Labor Statistics Yearbook* (various edition), China Statistics Press (*Beijing*, China).

2.5 Regional disparity

Among the three main type of social insurance programs in China, the coverage range of the basic pension insurance is the highest, with 46 per cent of current employees' participation in 2004. In contrast, the basic medical insurance covered the smallest number of employees (see

¹⁴ http://news.xinhuanet.com/fortune/2006-02/19/content_4198557.htm

Table 8). Table 8 also tells the difference in the coverage rate of various programs varies among provinces. Generally speaking, the rate reaches much higher in the economy –advanced provinces, especially in the eastern coastal ones, than in the less-developed provinces such as western provinces. For instance, the pension social insurance has now covered nearly all urban employees in *Guangdong* Province, followed by *Shanghai* with coverage rate of 90 per cent, while in *Tibet*, just 15 per cent is covered. The unemployment insurance has extended to 86 per cent of urban employees, the highest coverage rate across China, whereas the lowest coverage happens in Tibet with 23 per cent. The similar situation can be easily found out in medical insurance.

Table 8 Coverage Rate of Various Social Insurance by Province in 2004

unit: 10 thousand persons

Province	Pension Insurance		Unemployment Insurance		Medical Insurance		
	Number of Employees	Coverage rate	Number of Employees	Coverage rate	Number of Employees	Coverage rate	
National	26476	12250.3	0.46	10583.9	0.40	9044.5	0.34
Beijing	723.6	311.1	0.43	308.2	0.43	342.2	0.47
Tianjin	246.2	195.2	0.79	195.1	0.79	158.2	0.64
Hebei	644.4	511.4	0.79	479	0.74	363.6	0.56
Shanxi	453.1	283.4	0.63	286.5	0.63	231.6	0.51
Inner Mongolia	343.4	236.8	0.69	222.3	0.65	196.1	0.57
Liaoning	867.8	767.2	0.88	616.2	0.71	536.4	0.62
Jilin	444.6	315.9	0.71	282.2	0.63	202.4	0.46
Heilongjiang	680	530.8	0.78	475.8	0.70	392.5	0.58
Shanghai	564.3	505.6	0.90	487.8	0.86	453.3	0.80
Jiangsu	1054.9	925.3	0.88	797.1	0.76	715.1	0.68
Zhejiang	839.7	735.5	0.88	428.4	0.51	418.9	0.50
Anhui	542.4	345.1	0.64	371.1	0.68	264.5	0.49
Fujian	506	293.8	0.58	266.4	0.53	216.5	0.43
Jiangxi	434.4	271.8	0.63	226.6	0.52	184.6	0.42
Shandong	1185.5	986.5	0.83	747.5	0.63	618.4	0.52
Henan	869.5	599.9	0.69	681.6	0.78	453.3	0.52

Hubei	711. 5	585. 1	0. 82	391. 3	0.55	334. 4	0. 47
Hunan	648. 1	506. 3	0. 78	380. 5	0.59	343. 1	0. 53
Guangdong	1371. 4	1368. 4	1. 00	1005. 8	0.73	865. 2	0. 63
Guangxi	403. 8	209. 1	0. 52	226. 4	0.56	194. 4	0. 48
Hainan	116. 5	84. 8	0. 73	57. 9	0.50	56. 3	0. 48
Chongqing	327. 9	187	0. 57	193. 4	0.59	130. 2	0. 40
Sichuan	729. 5	465. 3	0. 64	398. 6	0.55	391	0. 54
Guizhou	265. 8	124. 8	0. 47	129. 9	0.49	108. 6	0. 41
Yunnan	371. 4	175. 9	0. 47	173. 2	0.47	212. 8	0. 57
Tibet	29. 1	4. 5	0. 15	6. 7	0.23	4. 3	0. 15
Shanxi	459. 2	266. 8	0. 58	325. 5	0.71	238. 7	0. 52
Gansu	263. 8	141. 1	0. 53	161	0.61	125. 2	0. 47
Qinghai	78. 5	42. 1	0. 54	33. 1	0.42	40. 7	0. 52
Ningxia	88. 2	47. 3	0. 54	36. 4	0.41	41	0. 46
Xinjiang	349. 4	207. 5	0. 59	192. 4	0.55	211. 2	0. 60

Source: National Bureau of Statistics of China (2005a).

As Zheng et al.(2002) states, the contribution rate varies from region to region. We here take the basic pension insurance as an example. According to a survey done in 2001, the employer's contribution rate was 6 per cent in *Shenzhen*, *Beijing* 19 per cent, and 24 per cent in *Wuhan* of its payrolls, respectively. Zheng et al. (2002) believe that the existing regional disparity in contribution rate has accordingly negative effect on establishment of fair competition and the rise of pooling level of the old-age insurance fund.

The regional disparity can also be found in the social security in rural China. The social pension insurance initiated in early 1990s tells the story (see Table 9). No matter in terms of the number of participants, gross premium income, or pre capita premium, the East is always the most developed area, followed by the Middle area and the West. Even more than 51 per cent of participants and 97 per cent of total premium income comes form the eastern provinces. There is

much bigger difference in the average premium expenditure per participant. As Table 9 tells, the per capita premium expenditure of participants in the eastern part of China is equal to more than 3.5 times of that in the Middle provinces, and 434 times of that in the West. The role of collective subsidy also appears different in different regions. More than half of the premium is paid by the collective in the East of China, in big contrast with the proportion being 21.9 and 10.6 per cent in the middle and western area, individually.

Table 9 Development of Rural Social Pension Insurance by Region in 2002

Items	National	East	Middle	West
Number of participants year-end (10 thousand persons)	5461.8	2832.2	1881.7	748.1
Premium Payment (<i>yuan</i>)	252283.6	246145.1	46382.1	1506
Per capita Premium (<i>yuan</i>)	46.2	86.9	24.6	2
Of which:				
Proportion of collective subsidy	54.2	55.1	21.9	10.6

Note: The data for Tibet, *Qinghai*, and *Ningxia* refers to that in 2001.

Source: National Bureau of Statistics of China (2003), *China Labor Statistics Yearbook 2003*, China Statistics Press (*Beijing*, China).

3 FINANCING

3.1 Role of Employers

Enterprises and other work-units are contributing to most of the current social insurance systems. Before the reform of China's social security system, all the funds for pension and medical benefits of employees were due to enterprises. In the series of reforms since 1980s, the enterprises are still one of the main contributors to various social insurance funds. We take the old-age, medical, and unemployment insurance for urban employees as examples. According to the 1997 Decision on Unifying the Basic Pension System of Employees in Enterprises, the contribution rate of the enterprises across China is universally defined to equal to or less than 20 per cent of the payrolls. It remains, though the distribution between the social account and the individual account changed since the very beginning of 2006, depending on the Decision on

Perfecting the Basic Pension System of Employees In Enterprises. As for medical insurance for employees in urban area, the contribution rate of the employer shall be under 6 percent of the payrolls. Enterprises took full responsibility to finance the unemployment insurance before 1998, with the rate of 1 per cent of the payrolls. Since then, the rate increased to 2 per cent, and the employee is also required to contribute 1 percent of his or her wage. In total, the employer has to pay 28 per cent of its payrolls to all social insurance system as designed.

3.2 Role of Employees/beneficiaries

One of the fundamental changes of China's social security system, relatively to the previous one, is that the insured is required to contribute. Early in 1986, contractual workers are required to contribute 3 per cent of his or her wages to the pension system, which is the first time to introduce individual contribution in China's social insurance financing. In the following 1991 Decision on the Reform of Old-age Insurance System of Employees in Enterprises, the principle of individual contribution was set up, and all employees covered under the old-age insurance have to contribute 3 per cent of his or her wages. Individual's contribution rate has changed with time. Depending on the current practice based on the Decision on Perfecting the Basic Pension Insurance System of Employees in Enterprises enacted in December 2005, the individual account will be fully financed by the employees since 1st January 2006, with the rate being fixed at 8 per cent.

In the consideration of medical insurance system, individual sharing have been adopted since the initial reform early in 1984. At first, beneficiaries of the medical system, no matter it is labor insurance or free medical insurance, have to share part of the actual medical treatment expenditure. Then with the establishment of the basic medical insurance system, individuals are required to contribute to the medical insurance funds at a defined rate. According to the Decision on the Establishment of Basic Medical Insurance System of Employees in Enterprise in Urban Area in 1998, 2 per cent of the employee's wage has to be drawn out to his or her individual account. In case of unemployment insurance, the employee is not required to contribute before 1998. As stated earlier, employees covered under the unemployment insurance have to pay 1 per cent of their wages to the funds since then. In total, the employee participating in social insurance is currently contributing 11 per cent of his (her) wage income.

3.3 Role of Government

In principle, contribution sharing among individuals, enterprises, and governments has been stated since the very beginning of the reform of China's social security system. It needs to point out that the government normally makes its devotion to the social insurance in indirect way such as tax-deduction rather than in direct way via paying contribution. For instance, enterprises are legally allowed to draw out their contributions from pre-tax income. But in reality, the treasury often acts as the external financial resource in case of deficits of the social insurance funds. The amount of the central treasury' aid to the urban basic pension program was 2.4, 17.5, 33.8, 34.9, 40.8, 47.4 billion yuan in the year of 1998-2000. And in each year since 2000, about 15 percent of annual payments has been due to the central treasury (Gao, 2005: 60). According to the MOLSS (2005), in the year of 2004, the total of government subsidy amounted to 61.4 billion *yuan*, 52.2 are from the central treasury and 9.2 billion are from the local treasury. Besides, the treasury is often the exclusive payer of various social assistance programs. The minimum living protection in urban area, for example, is completely financed by the treasury.

Different from the sharing contribution enacted in the social insurance in the urban area, farmers are taking most of the financial responsibility for the social insurance currently experimented. The subsidy from the collective varies from region to region, depending on the development of collective economy. Besides, the government is playing important role in the development of rural social security system. As stated earlier, the treasury is taking full responsibility for the social assistance programs such as the minimum living guarantee and the Five Guarantees. And in the current new type of co-operation health system in some selected rural regions in China, the central and local government provided financial aid of at least 10 *yuan* for each rural farmers taking part in the system since 2003, and now are planned to double since 2006.

In addition, the government is also helping the finance of the social insurance system by extending the investment range of various social insurance funds. In the early Decision on the Reform of Pension Insurance System in 1991, the collected pension funds are only used to pay pension benefits, and the extra funds more than reserve for two-month benefits payment is restricted to purchase treasury bonds and banking deposit, and cannot be invested in other means.

It can be allowed to invest in wider range currently. For example, a five-year-mature bond special for social security has been started to issue since 1994, whose rate is defined by the Treasury and the Ministry of Labor and Social Security (Li et al., 2005). Furthermore, the national social security funds was set up in 2001, financed by the cash through reducing state-sharing stocks, appropriation from the central treasury and money from other sources, and managed by the National Social Security Funding Council. The funds were equal to 124.186 billion *yuan* at the end of 2002 (Jiang, 2005), which increased to 201.02 billion at the end of 2005¹⁵. And so far the funds may be invested in banking deposit, treasury bonds, other kinds of bonds and stocks.

4 Delivery of Social Security Benefits

4.1 Delivery of Pension Benefits

To pay financial benefits to the beneficiaries who meet the defined requirements is the fundamental target of various social insurance. The requirements to collect and the amount of benefits, of course, vary from program to program. For instance, the pension benefits differ according to his or her situation involved with when to start to work, time length of contribution, while the retirement age is sixty for male employees, 50 for female worker, and 55 the female worker. Depending on the latest Decision on Perfecting the Basic Pension Insurance System of Employees in Enterprises enacted in December 2005, employees who started to work after the implementation of 1997 Decision on Establishing the Unifying the Basic Pension System of Employees in Enterprises, and will have paid his (her) contribution for 15 accumulated years, be eligible to collect the basic pension benefits composed of benefits from both the social account and his or her individual account at and after he or she retires; those who started to work before and retire after the implementation of the Decision, and will have paid contribution for 15 accumulated years, are qualified to get a kind of transitional pension in addition to the basic benefits. In details, benefits from the social account is equal to some percentage of the average of the current working population's monthly wage and the beneficiary's indexed monthly contributory wage. And the percentage is proportional to the time length of contribution, with 1 percent for one year of contribution. The amount of monthly benefits deriving from the individual account is calculated according to the combined factors such as urban population's average life

¹⁵ <http://cn.biz.yahoo.com/060327/43/gn8x.html>

expectancy in the year of retirement of the beneficiary, the retirement age of the collector, and interest rate.

The replacement ratio of the pension benefits were originally designed to be about 60 per cent of the beneficiaries' wage income, and 20 per cent are paid by the social account and 40 percent from the individual account. And the pension is allowed to adjust according to the price index and the local wage growth rate (He, 2001; Jiang, 2005). The pension social insurance delivered the amount of 350.2 billion *yuans* in the year of 2004 (MOLSS, 2005). According to Table 10, the actual replacement ratio is still higher than designed, even though the ratio of pension per retired to the average money wage per employee decreased from 93.70 per cent in 1980 to 61.21 percent in 2004. In spite of the higher replacement ratio, large numbers of retirees are in poverty, based on a survey statistics in *Zhejiang* Province (Jiang, 2005).

Year	Comparison of the amount of Wage and Pension			unit: <i>yuan</i>
	Average Money Wage per Employee	Pension Per Retired	Ratio of Pension to Wage (%)	
1980	762	714	93.70	
1985	1148	935	81.46	
1990	2140	1760	82.24	
1995	5500	4335	78.82	
1997	6470	5458	84.36	
1998	7479	5972	79.85	
1999	8346	6614	79.25	
2000	9371	7190	76.73	
2001	10870	7784	71.61	
2002	12422	8881	71.49	
2003	14040	9485	67.56	
2004	16024	9808	61.21	

Source: National Bureau of Statistics of China (2005a).

Currently the social insurance benefits are delivered to the beneficiaries mainly through two channels. The first channel means that the agency authorized by MOLSS to deliver benefits to the work units where the beneficiaries worked and then the work units deliver the benefits to the beneficiaries. The second channel is that the agency other than the beneficiaries' former employer is to deliver benefits to the insured. Such agencies include banking or post office. This kind of delivery is often called socialized delivery because of its independency from employers. The socialized delivery was firstly experimented in 1997 in *Dalian* and has been more and more

popular since then, thanks to the fact that the State Council states that the retirees should be separated from their previous working units and administrated by the community, and the pension benefits should be delivered by such outside institutions as bank or post office. At the end of 2004, the total of 34.3 million retirees in enterprises was socially administrated, increasing by 4.97 million compared with that in 2003. The socialization rate amounted to 93.2 per cent at the end of 2004, rising 8.7 per cent in contrast with last year (MOLSS, 2005).

4.2 Delivery of Unemployment Benefits

According to the Unemployment Regulations in 1999, those: (i) who take part in the unemployment insurance and has paid the contribution for at least one year; (ii) who fall into unemployment out of his own wishes; (iii) who have registered to be unemployed and are active in looking for job, are eligible for the collection of unemployment benefits. The benefit standard has been changing over time. It was originally defined as some percentage of the previous wage of the unemployed. Later in 1993, the benefits changed to 120-150 per cent of the social aid level defined by the civil affairs department. With the implementation of the minimum wage level stated in Labor Law in 1995, the unemployment benefits were adjusted to 70-80 per cent of the local minimum wage since then. In general, the unemployment benefits are less than the local minimum wage and more than the local minimum subsistence level. In practice, the unemployment benefits are generally equal to 30-40 per cent of the local average wage (Chen and Wang, 2004).

In addition to the financial benefits, the unemployment insurance is also used to provide job retraining so that it is possible for the unemployed to find new position in relatively short time. According to the MOLSS (2005), total of 5.3 million population, who are unemployed or laid off, took part in the re-employment training, 0.31 million of which got training on the initiation of business.

4.3 Delivery of Other Social Security Benefits

According to the current system of the social medical insurance targeting to urban employees, the two different accounts are responsible to pay medical expenditure at different amount. The social account is used to cover the expenditure above the threshold of 10 per cent of and under the

ceiling of 4 times of the local average annual wage income. And any expenditure below the threshold is paid by the individual account. That indicates that the employee has to find other means other than the basic medical insurance to deal with the expenditure more than the defined ceiling. The social basic medical insurance paid out more than 86.22 billion *yuans* in the year of 2004 (National Bureau of Statistics of China, 2005a).

The lately established minimum living security is duty for the benefit delivery to the households whose per capita income is under the subsistence level regulated by the local government. According to the National Bureau of Statistics of China (2006), 22.33 million urban population collected subsistence assistance in the year of 2005. The total of 4 880 thousand rural residents benefited from the MLS in 2004 (National Bureau of Statistics of China, 2005a).

5 Advantages and Disadvantages of the Current Social Security System

5.1 Literature review

China's social security reform has got many achievements. China's social security system has accomplished the transition from government-work unit-based to government-social system. The frame of China's social security system has been basically set up, which is mainly composed of basic pension insurance, basic medical insurance, unemployment insurance, work injuries and maternity insurance, and the minimum living security. The administration of social insurance has been united in the hand of MOLSS, and the Ministry of Civil Affairs is duty for the social relief. In practice, the implementation of social security programs significantly reduced the negative influence resulting from the unemployment, bankruptcy, the widening income inequality and so on. In contrast, they point out that the responsibility of the employee or beneficiary has been overemphasized in the current policy, and the establishment of social security system targeting the rural area is seriously ignored (Zheng et al., 2002).

The government abandoned the principle of equity in the provision of social security benefits by introducing multi-layered social security system (Kwong and Qiu, 2003; Zheng et al., 2002). Under the new system, social security has been financed by the tripartite system of government, employers, and employees. Workers are required to contribute to various social insurance except

for work injury insurance, which is exclusively paid by the enterprise (Kwong and Qiu, 2003)

China's social security system is obviously dual, referring to separation between the rural and urban area. In other words, labors in rural area and those working in informal units are excluded by the social insurance system Jiang (2005:142).

In spite of the government's aim to establish a social security system with such characteristics as extensive coverage, independence from enterprises and government offices, diversified source of revenues, a formalized system and socialized management, the current social security system still has the following shortcomings: (i) enterprises' financial burden was not significantly reduced, due to it being the primary source of various insurance programs; (ii) the coverage of the current system has not as expected extended, due to resistance from non-state economy (Dofman,2000; Wang et al., 2001; Ma and Zhai, 2001; Leung, 2003); (iii) the aim to set up a partially-funded system basically failed due to the individual account being notional; (iv) both the existing pension system and the unemployment system cannot meet the mounting future demands (Leung, 2003: 84).

More specifically, Gao(2005:60) analyzed the four issues in front of China's social security reform as follows: (i) the urban pension insurance system is in danger of bankruptcy because the individual accounts are empty and the system is seriously dependent on treasury aid; (ii) the social security programs targeting to civil servants has not been united with those for employees in non-public sector; (iii) There is yet no means to deal with the security demand of migrant workers and farmers whose land was bought for commercial use. The total of 40 million farmers have currently no land any more, the number is estimated to increase by 2 million annually. Migrant workers have been more than 100 million and are expected to increase by 4 million per year later on; and (iv) how to set up a social security system targeting rural population is the fourth issue.

5.2 Discrimination and segmentation

China's social security system was in favor of urban population. As Shang(1999) stated, China's social security system was outset fragmented as a result of the fragmented society. Saunders and Shang (2001) later explained the cause of fragmentation by stating that the comprehensive

benefits from labor insurance and public employee insurance was far beyond China's economic capacity. This fragmentation is reflected in the dual split in a system that is divided into three main institutional types, each dominated by different principles of provision. The first split is between rural and urban population. The second split is within urban population between those belongs to the public sector and those falling outside that (Saunders and Shang, 2001). The dualism of China's social security was also supported by Gao(2005), Leung(2003), Jiang (2005), and Duckett (2003).

In fact, there are much less social security programs in rural than in urban area. And social assistance is actually the core of the whole system. Among them, Five Guarantees is the only one already nationally established. The other programs such as social pension insurance, new type of co-operation health system, and the minimum living guarantee are just in the middle of being in trial in some selected regions. By the end of 2005, 3.285 million rural residents are living on Five Guarantees System across China, with average supporting standard of 989.7 *yuan* per person¹⁶. By the end of September 2005, 177 million farmers in 671 counties, just 23.74 per cent of the total rural residents, were covered by the new co-operation health system (National Bureau of Statistics of China, 2006). By the end of 2004, 53.78 million rural population participated in the social pension insurance, and 2.05 million collected pension benefits (MOLSS, 2005). The average benefit per beneficiary was just 757 *yuans* in 2003 (Jiang, 2005). In contrast, a social security system with relatively comprehensive coverage has been established in the urban area. The Old-age insurance, unemployment insurance, medical insurance, work injuries insurance, maternity insurance and so on have been gradually founded, aiming to provide financial protection for the employees in enterprises in urban area. From the perspective of social assistance, the Minimum Living Security has been in the middle of being made up since 1999. By the end of 2003, there were 22.47 million urbanities nationwide drawing the minimum living allowance, which was an average of 58 *yuan* per person per month. In addition, by the end of 2003 there were 103.73 million people participating in the unemployment insurance scheme, which provided unemployment insurance benefits for different time length for 7.42 million laid-off employees throughout the year.

¹⁶ <http://www.mca.gov.cn/news/content/recent/200632172923.html>

In addition, the government has been paying much more attention and finance to the establishment and reform of the social security system in urban area. The rural social pension insurance, which had been experimented since 1992 and was ordered to stop by stating in 1999 that farmers should seek old-age benefits through private insurance, gives a good example. Furthermore, the treasury aid is in favor of the programs targeting to provide benefits to urban residents. On the other hand, the individual's contribution also differs for urban and rural residents. For instance, farmers participating rural social pension insurance have to pay at least 50 per cent of the total contribution, whereas the employee's contribution rate is just 8 percent of his or her wage.

Even in the urban area, the social security provisions also vary for different professional groups. Pension and medical insurance targeting employees in enterprises and civil servants, for example, remains separated so far. Therefore, one can say that China's social security system is dual in rural and urban area, and also is dual because of the separation among different professionals (Sin, 2005:14). As Sin (2005) writes, there exists three types of government sponsored pension systems in currently operating in China---- a mandatory old-age insurance system for enterprise workers, special occupational schemes for civil servants and employees of state organizations and institutions, and a voluntary pension insurance system for rural workers (Sin, 2005). According to Gao (2005:60), the average pension for civil servants is one times more than that for employees in enterprises.

5.3 Inconsistent administration system

Different social security programs are under the administration of different departments in current China. Various social insurance programs such as pension, health, unemployment, work injury, maternity insurance in the urban area and the old-age social insurance targeting to rural population are since 1998 in the supervision of MOLSS. The Ministry of Civil Affairs is the administrative authority for MLS both in urban and rural area, while the Health Ministry is now playing the core role in the regulation of the new type of co-operation health system, which has been in trial in many counties since 2003.

The pension insurance system for urban employees is typical of inconsistent administration. The old-age insurance is historically administrated by different agencies for a very long time. The Labor Department was duty for the pension system of employees in state-owned enterprises and large collective-owned enterprise later than 1978. The pension system of employees in small collective-owned enterprises was under the administration of the People's Insurance Company of

China (PICC), according to the decision of the State Council in 1984. The Personnel Department is uniformly administrating the retirement system of civil servants and employees in non-profit organizations. The pension system in rural area is managed by the local governmental agency¹⁷ (Jiang, 2005; Leung, 2003). Much worse, some eleven national industries including railway, coal mining, water conservancy, civil aviation, banking, ferrous metals, electric power, transportation, construction, petrol and gas, and postal service were in the control of their own pension funds established over the period of 1987-1993 (Wang, 2001:63). Thanks to the foundation of the Ministry of Labor and Social Security in 1998, the social insurance targeting the urban and rural area has been uniformly administrated under the MOLSS.

Even under the universal administration of the MOLSS, the pension funds collected from local enterprises and employees cannot be used nationally and separately managed by more than 2 000 local social security bureau (Li et al., 2005:310). According to the statistics from MOLSS, just twelve provinces have achieved pension funds pooled at the provincial level¹⁸, whereas most of the funds have just been pooled at municipal or county level.

5.4 Financial constraint

China's social security system, the urban pension insurance in particular, is facing serious issues resulting from financial constraint. The social account has been in seriously short of money to meet the needs of benefits payment. The number of regions where social account are in deficit increased from 5 in 1997 to 21 in 1998 and 25 in 1999¹⁹ (He, 2001; Jiang, 2005; Mo, 2001). The shortage of their social accounts increased from 10 billion in 1998 to 40 billion *yuan* in 2003. It is estimated that the annual average shortage over the period of 2000 to 2025 will be equal to 70 billion *yuan*, 5 percent of the treasury income (Jiang, 2005).

Depending on the initial design of the current pension system, the social account is used to pay pensions for the aged who retired before the implementation of the current system, and used to pay basic pension for the employees who are retiring after 1997. However, social account is not large enough to meet the expenditure, as discussed earlier. According to the statement that the funds accumulated in the individual accounts can be borrowed to pay the retirement benefits in case that the social account is in deficit (Jiang, 2005:183), the individual accounts has actually becoming empty more or less. The amount of empty individual accounts amounted to 103.626 billion *yuan*s in 1998, mounting to 600 billion in the year of 2004 (Jiang, 2005:185). In the event,

¹⁷ Leung (2003) states that the Ministry of Civil affairs administrated pension insurance for employees in township enterprises.

¹⁸ MOLSS <http://www.molss.gov.cn/news/2006/0116b.html>.

¹⁹ According to Wang et al.(2001), there are 22 provinces whose pension social accounts were in deficit in 1999.

Liaoning Pilot²⁰ was started to prevent individual accounts from being empty any longer. In addition, the implicit pension debt (IPD), that is the cost of transition from pay-as-you-go system to funded system, is also a very serious issue in front of China government.

The financial constraint may result from the following reasons: (i) Quite many enterprises including large companies who have enough financial capacity rejected to pay their contributions. For example, the payment rate was 96.3 per cent in 1992, and reduced to 90.24 per cent in 1998 (Li et al., 2005); (ii) The contributory wage is less than the actual wage. It is estimated that about 30 per cent of the total amount of wage is not included in the wage used to pay the contribution to the social insurance system (Li et al., 2005). (iii) The coverage has not been extended as expected. For instance, the basic pension insurance in the urban area is now just covering 46 per cent of employees (see Table 8); (iv) The social insurance funds have been illegally appropriated for other uses. The total of 6.4 billion *yuan* was illegally used in other than social pension insurance, equal to 10 per cent of the pension funds in 1994(Li et al., 2005). Depending on the investigation report from the Auditing Bureau of China, most of the appropriated funds were used to invest in fixed assets, purchasing stocks, and so on, most of which is very hard to get back (Jiang, 2005). As Li et al. (2005) analyzed that the local social security office is under the administration of the local government, it is easy for the local government to use the social insurance funds in fields other than benefits delivery. (v) Large amount of benefits is enjoyed by persons who are not eligible fro the collection of pension. Totally more than 14 million *yuans* pension benefits were collected by 50 790 persons in the name of others over the period of 1998-2002.²¹ The situation is estimated to be even more serious after the pension is delivered by agencies other than their previous work units (Jiang, 2005). (vi) Quite many employees become retired ahead of the legally defined retirement age. For instance, the average retirement age in *Beijing* was just 51.7 years old (Jing et al., 2000), in contrast with the legal retirement age of 60 for male and 55 for female employee, respectively.

²⁰ The reform aiming to raise the employee's contribution rate and independently administrate social account and individual account of pension insurance was introduced as trial in 2001 in *Liaoning* Province.

17 see <http://www.labornet.com.cn>, 2004-11-05

6 Alternatives and Options to improve the Current Social Security System

6.1 Literature review

Li et al. (2005) suggests that social insurance premium should be replaced by insurance tax. They believe that, in doing so, the payment rate would be raised and also the tax office would be the only tax collection agency so that the operation cost would be consequently reduced. Chen (2001) and Wang (2001) hold similar proposal. In contrast, Zheng (2001) believe that the most important thing to guarantee collection of enterprise contribution is law establishment rather than the introduction of social security tax.

Li (2000) suggests that the efficiency of the current three-pillar social insurance system would be improved by restructuring such as to move the pension insurance system to a (mostly-) fully-funded system, and to change the social health insurance to market insurance by mandating employer to buy for its employees. Besides, Gao (2000) proposes that benefits of the health insurance should be paid according to the category of illness not to the amount of medical expenditure.

Gao (2005: 64) put forward his proposal of China's social security system. According to his proposal, the security system is involved with old-age and health, and survivor benefits and disability and injury benefits shall be included in the pension system. Any participants are required to take part in both programs, and not allowed to access only one of them. The system just defines the age eligible for benefit collection (for instance, 65 years old), and the employee is free to decide when to retire. The contribution rate is designed at or below 15 per cent of wage, evenly shared by the employee and the employer. The system is in nature a PAYG system, with funds pooled to use nationally.

In contrast with the whole social security system, the pension insurance has been paid greater attention by both the government and scholars for recent years. Some scholars such as Gao (2000) suggests that remove the difference in pension arrangements between employees in enterprises and civil servants and employees in non-profit institutions so that a real united social insurance system could be set up in China.

Zheng (2000) holds different opinion. In the consideration of the large number of employees in non-state-owned enterprises and rural labors, Zheng (2000) does not think a uniform social pension insurance system is possible to be set up in the pretty far future. He therefore believes that a diversified social insurance system should be remained through one of the following arrangements: (i) All employees, no matter which type of enterprises they work at, should be compulsory to participate in the social pooled section of the pension insurance system, while employees in state-owned enterprises and civil servants have no choice to contribute their individual accounts while employees other than are free to decide whether they take part in the individual account. Of course, the replacement ratio coming from the social pooled account should accordingly be raised to 40 per cent. (ii) The combination of social pooled account and individual account remain, whereas the contribution rate and benefit standard are different for employees working in different type of enterprises. (iii) Different social insurance systems should be set up special for civil servant, for employees in state-owned enterprises, for employees in non-state-owned enterprises, for labors in rural area. Later in 2002, Zheng et al. (2002:47) suggest to establish a combined system composed of national pension insurance and employment annuity, of which the former belongs to PAYG system and the latter is based on individual accounts. In contrast, Mo (2001) does not think the individual account is suitable for current China. Chen (2001) and Wang (2001) also suggest abolishing the individual account, returning to pay-as-you-go system.

The following suggestions have been made in order to fight against the existing issues, the financial constraint in particular.

- (i) To increase the pension funds through various channels. To cash state-owned assets (for instance, Gao, 2000; Zheng, 2000) was among one of the most popular suggestions for a while. But it was ceased due to various reasons in 2002. Gao (2000) states that part of income coming from selling public houses can be allocated to the basic pension funds. Concerning the IPD, Zheng (2000) proposes that government, enterprise, and individuals should share the burden of IPD, 50 per cent of which is due to the government, 20 per cent due to enterprise, and the rest due to the individuals. The government can finance by treasury transfer, selling state property, or issuing special bonds. He (2001) made his proposal that the treasury should fill the deficits of the social accounts of basic pension

system.

- (ii) To raise the funds pooling level in order to meet the challenge of regional disparities in population aging. Li et al. (2005) suggested that social pension funds should be pooled and socially used at provincial level. On the basis, national adjusting funds should also be set aside.
- (iii) To extend the coverage to all employees. Jing et al. (2000) proposes that the basic pension insurance should cover all labors with income, including farmers with cash income. They suggest that the steps similar to the minimum living security should be adopted so that the pension insurance extend from urban residents to farmers constantly residing in urban area, even farmers who do not constantly reside in urban area but would like to pay contributions may also be included.
- (iv) To make wage statistics reflect the actual income and socially clear (Li et al., 2005). Zheng (2001) suggests that family income statistics system should be set up as soon as possible so that the social insurance premium could be calculated on employees' actual wage income. He also suggests that, in the implementation of the minimum living assistance, non-wage income should be included in the family income statistics.
- (v) To extend retirement age so that the pressure of benefit expenditure could be reduced largely. Many scholars, for instance Chen (2001), Li (1997), Dong (1998), Du (2003), Ma and Zhai (2001), Shi (2001), and Wang (2001), depending on the fact that the life expectancy rose by 20 years in contrast with that in 1950s, propose that the retirement age should be raised accordingly. Xiong (2003) make a proposal that the retirement age should be raised since the year of 2006. According to the calculation of Li (2000), the pension payment would reduce by 1/3, if the retirement age would be raised to 65 years for male employees and 60 years for female employees. He (2001) even gave the steps in more details: the first step is to restrict population who do not meet the retirement age to retire in advance; the second is to call for female employees no matter they are cadres or workers to retire at the age of 55; the third step is to require all employees no matter they are female or male to retire at the same age of 60; the fourth step is to raise the retirement age to 65. According to He's proposal, it will individually take five years to realize the first two aims, and 10 years for the latter two aims.

6.2 Reforms and proposals for the whole system

First of all, laws to regulate various social security programs are in urgent need, as many scholars point out. Zheng et al.(2002), for instance, propose to issue a comparatively complete legal system including law on social security, on social insurance, and regulations on pension, health, unemployment insurance and so on. The laws related will be involved with the basic law on China's social security system, which defines the composition, the coverage, the financial resource, the administration, the responsibility of all related parties and the like, and laws special for social insurance including pension, health, unemployment, maternity, work injuries insurance, for social assistance programs such as the minimum living security, and for social welfare.

Secondly, various social security programs had better be under the universal administration of one governmental agency, simply because various social security programs have similar aims to provide financial and non-financial benefits to residents across China and different programs are mutually supplemental. However, at least three departments such as the Ministry of Labor and Social Security, the Ministry of Civil Affairs, and the Health Ministry are currently having in hand in the social security programs. In addition, the segmented administration will have negative influence on the establishment of united social security system in China. For instance, the urban medical insurance is under the supervision of the MOLSS, whereas the new type of co-operation health system in the rural area is in the hand of the Ministry of Health. If the inconsistent administration remained, the universal social insurance system would be very difficult to set up. Besides, participants and the operational agency of rural social security systems have to deal with personnel from three different departments so that the operational costs will be much higher than in the administration of one agency.

Thirdly, supporting policy to encourage the development of supplementary insurance such as enterprise annuity, private insurance concerning old-age and health should be adopted by the government as soon as possible so that the multi-layered security system may be realized.

As for the pension system, the author proposes to establish a mandatory system to provide retirement benefits for all Chinese citizens with floor income protection. That is, all citizens are

eligible for the pension benefits, no matter where he or she lives and which kind of job he/she takes. Our proposal is based on the fact that the big difference in more and more serious aging situation and the very narrow coverage of the current system. In 2004, for instance, among all of the population at the age of 60 or over, just 26 per cent of the aged population (60 years old or over) lived on pension, according to a sampling survey by the National Bureau of Statistics of China (2005a: 110). This may be due to the fact that most of the aged living in the rural area, where there is yet no national social old-age insurance. In addition, the policy-maker has to take the challenge from demand other than finance such as long-term care. A sampling survey done by the National Bureau of Statistics of China (2005a: 112) indicates that 8.8 per cent of the aged 60 or over are not able to take care of his or her daily life and need to others' help. The situation is even more serious among the senior aged (75 years old or over), nearly 30 percent of which needs caring. Regarding the pooling level, the social pension insurance fund has to be pooled to use nationally soon so that the regional inequality in financial burden could be balanced. In 2004, the nation aged dependency ratio was 11.87, while the highest of 20.31 in *Shanghai*, *Chongqing* 16.92, and the lowest of 8.28 and 8.32 in *Ningxia* and *Qinghai*, respectively (National Bureau of Statistics of China, 2005a:102).

Following Zheng et al. (2002), China shall set up a health insurance system to provide basic health treatment for all national citizens. Depending on Ru et al. (2005), 65.7 per cent of Chinese citizens do not enjoy any type of medical insurance, and about one quarter of persons in sickness give up medical treatment simply because of no sufficient finance to pay treatment cost. As we stated in the earlier section, the health situation is more serious in rural area. Therefore, the establishment of health insurance system is in more urgent need than the unemployment and the like security programs simply because the to get basic health treatment is one of the primary rights for the development of human being. The author agrees with Fu (2005) that the individual accounts should be given up and the PAYG system should be adopted.

In the consideration of the unemployment insurance, the system should pay much more attention to help the unemployed to find job, according to Zheng et al. (2002). And the period of benefit collection shall be cut significantly so that the unemployed are likely to be active to look for new job.

7 Evaluations of the alternatives and options

7.1 Relevance from a theoretical and/or applicable point of view

The legal regulation on social security is possibly to be set up, at least because of the following facts. China's social security system has been in the middle of reform for more than twenty years since the early 1980s, and the basic framework has appeared. The relatively long-time experience drawing from dealing with various problems in transition makes the government recognize the importance of establishing a comprehensive and rational social security system, especially in the transition to market economy. In addition, the State Council and the other related departments including the Ministry of Labor and Social Security, the Ministry of Civil Affairs, and Ministry of Health have accomplished a large number of rules in the name of governmental decisions, notices, and regulations.

An exclusive authority responsible for all types of social security programs can also be realized in the near future. The foundation of Ministry of Labor and Social Security in 1998 implies the significance of a united authority. Additionally, China has achieved transferring the segmented administration in quite a few departments including the Labor Department, the Ministry of Civil Affairs, and PICC, to then newly established MOLSS. The successful transfer of rural social pension insurance proved the practical possibility in unifying the administration of urban and rural business.

It is not suitable for the time being to extend the retirement age, though many scholars suggest so. One of the most critical reasons is related to the unemployment situation. It is well known that the mounting number of unemployment has been among the most serious issues facing the government for recent years. There were 8.27 million urban work-age population falling into unemployment at the end of 2004 (National Bureau of Statistics of China, 2005a). If taking the rural surplus labors and the laid-off into consideration, the situation would be more serious. In next five years, 9 million of rural labor surplus will move to the urban area per year, on the basis of 120 million migrant workers so far. There are about 4.6 million employed laid off by SOEs and collective-owned enterprises, and in the following three years, 3.6 million laid-offs are in need of re-employment, according to the National Development and Reform Commission of

China²². In addition, as Jiang (2005) explained, the extension of Chinese average life expectancy is mainly due to the significant decrease of baby death rate, and the current retirement age is compatible with Chinese average healthy life expectancy of 62.3 years.

Instead of extending retirement age in the direct way, the government tried to realize the aim of lowering pension benefits through changing the methods to calculate benefit. Previously the monthly basic pension benefits from the social account was fixed at 20 per cent of the average monthly wage the year before collection, with those from the individual account equal to the accumulated amount divided by 120. But since 1st January 2006, benefits paid by the social account is changing to some percentage of the average of the current working population's monthly wage and the beneficiary's indexed monthly contributory wage. And the percentage is proportional to the time length of contribution, with 1 percent for one year of contribution. The amount of monthly benefits from the individual account is calculated according to such factors as urban population's average life expectancy in the year of retirement of the beneficiary, the retirement age of the collector, and interest rate. One can find that the current pension benefit amount is not fixed at more but adjusting.

The social insurance tax will be likely adopted in the near future. We believe that many problems such as extension to all employees in urban area and contribution collection rate are expected to be relatively easier to be solved on the condition that the social security law would be published and implemented nationally. Therefore, the most urgent thing is to publish series of laws on social security rather than to replace premium with social security tax.

Realistically, as Zheng (2000) states, the nationally untied social insurance system is not possible to be set up in the near future, due to the regional disparity in economic development and the separation of rural and urban area. In addition, the existing segmented social security systems with different provisions for different type of participants are very difficult to be united soon.

7.2 Suggestions for future developments

Related laws concerning social security are of great importance. Lawful regulations will be

²² <http://www.xinhuanet.com>

required all enterprises, no matter they belong to which type of economy, to pay contribute to the social security funds. Otherwise, they would be legally penalized. One can say that, many issues such as the low coverage of social insurance programs is able to be dealt with only if laws on social security were published.

Policy shall be made for the long term not just for dealing with currently faced problems. The chaos of pension insurance across China in 1990s tells the importance of designing the social security system for all parties possibly involved. The aim of the reform of social security reform is to set up a system compatible with the market economy not just to support the reform targeting SOEs.

Policy shall remain stable for a relatively long time. Parties would be impossibly to make financial arrangements in case of frequent change of governmental policy. For instance, the change in financial source of individual accounts and that in benefit calculation recently published by the government will influence the interests of quite large number of retirees.

The socialized administration of various social insurance shall be kept all the way. Employees therefore can be independent from his or her former employer, and the financial and non-financial burden on work units are likely to be reduced.

The independent administration of social account and individual account recently announced by the government shall be done in reality. China's adopted partially-funded system indicates that the employee's retirement benefits are and will be influence by both the social account and the individual account. The realization of real accumulation of individual accounts is fundamental to the retiree's well-being. The social insurance fund shall be pooled at provincial level at least so that the funds is possibly to be used in wider range, with the final aim to pool nationally.

In addition, the social security benefits should be open to all citizens. And the difference between rural and urban residents and that between employees in enterprises and in public sector should be removed day by day.

8 Conclusion

China's social security has been undergoing reforms since the early 1980s. And the series of reforms concerning social insurance such as pension, health, maternity insurance, unemployment insurance, work injuries, and social assistance and social assistance including the minimum living security in the urban area have got many outstanding achievements. Thanks to the adoption of quite a few reforms, the coverage of social insurance is extending to cover all employees in various sectors, the joint contribution of the employee, the employer and the government is set up, a kind of multi-layered security system is encouraged and so forth. In the rural area, the old-age insurance, health insurance system, and the minimum living security programs have been in trial in more and more regions, in addition to the relatively long-history Five Guarantees.

In contrast, there are still quite many issues facing the development of China's social security system. China's social security is in favor of urban population while rural residents are in inferiority. That is, separation between rural and urban area remains in current China. Even in urban area, employees taking different professions are enjoying different social security benefits. And just half of current employees are covered by the social insurance system. Various programs are facing serious financial constraints, and therefore, quite a few scholars propose to give up individual account scheme and go back to the pay-as-you-go system.

China will of course keep reforming to realize the final aim to establish a social security system compatible with market economy. In doing so, a universal system accessible to all national citizens, no matter whether she or he lives in city or countryside, whether he or she works in enterprise in which kind of economic sector or in governmental agencies or other non-profit organizations, shall be achieved finally, even though it may take a relatively long time. However, in the near future, the segmented situation between rural and urban area and between different professional groups will exist for a while. But the government has to pay much attention to the establishment of rural social security system and to give sufficient financial aid. In the urban area, the authority has to push the publication of laws related to social security so that the coverage extension and contribution collection of various social insurance programs are easier to realize. Currently, schemes targeting civil servants and employees in non-profitable organizations shall be

united first.

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