

## **Mending China's Buckling Social Security**

**By the Economic Observer Online, English Edition Staff**

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Chinese officials are working double to ensure all segments of society are covered by some form of social security, an issue that they admit directly affects social stability. See below for background on the "five haves" and their relationship to the "harmonious society" concept. This is part two of a five-part special.

### Case Study 1: Land for Social Security

The package offered for 400 Shuangxi farmers to give-up their land was: an urban household registry, one-off payment for the land based on the calculation of 8,500 yuan each mu (1 mu is 1/15 hectares), and a life-long pension of 195 yuan per month.

Shuangxi, a village in the Chinese central government administered Chongqing Municipality, was one of the first pilot areas earmarked for reform under a program termed as "Land for Social Security" launched in the middle of 2007, whereupon the land was acquired by the government for redevelopment in light of urbanization. Some of the villagers who had given up their land remained in the village despite being an urban resident on paper. Their farm houses and land were both gone, so some opted for renting another house while others checked into nursing homes.

With some villagers having spent all their one-off land compensation, they have struggled to make ends meet with the 195 yuan monthly pension. A statement by Chongqing vice-mayor Ma Zhengqi offered insight on how the villagers fared after the land for social security program: he said in February this year that the average income of farmers in the municipality had increased by 22% to 3,509 yuan per year. As for the Shuangxi farmers-turned-urbanites, their only income source – the monthly pension - amounted to 2,340 yuan a year.

### Case Study 2: From Public Welfare to the Private Sector

The rapid aging of the Chinese population has created strong demand for elderly care centers. In Shanghai alone, 2.75 million or 20% of local residents were above 60 years old by the end 2006. For the generation born after the one-child policy was launched, juggling between careers and caring for aging parents proved to be challenging. Yet, many Chinese have been reluctant to send aging parents to care centers, partly due to cultural stigma and partly due to the negative perception that welfare-based centers are poor in amenities and services.

As this report went to press, Shanghai had 505 elderly care centers – a combination of state-run welfare institutions, state-community jointly run centers and private operators – with around 60,000 beds. Some centers have been overfilled while others required years of advance

registration, suggesting that more could be built. The high-end market has been underdeveloped and has lately attracted the interest of foreign investors, who have expressed the intention to build luxury centers combining healthcare, entertainment, leisure and learning.

Update: Social Securities at NPC and CPPCC

Chinese Minister of Finance Xie Xuren, at a press conference organized by the 11th NPC session held on March 6, disclosed that this year's central government allocation for social security and employment matters amounted to 276.2 billion yuan, a 24.2% jump when compared to last year's budget. He said over half of the funding would be channeled to increasing the minimum living standard subsidies for rural areas from 30 to 50 yuan a month; and improving pension schemes for workers in SOE's and private businesses. (source: Xinhua)

Yang Chao, a member of the 11th CPPCC session and an insurance group director, called for the standardization of the pension system for migrant workers. He said only 15% of the 200 million migrant workers were covered by various pension schemes, with benefits depending on their localities. Yang presented a proposal at the CPPCC on March 5, calling for provincial governments' institutions to wholly operate the pension fund dedicated to migrant worker. (source: The EO)

Fu Qiping, a member of the 11th NPC session from Zhejiang province, submitted a motion on cross-provincial social security scheme for migrant workers. He said many migrant workers cancelled their social security policies when leaving the city they had worked in because the policy would not be applicable in their home province. To resolve the problem, Fu suggested the central government to set up a cross-provincial database and provide funding to resource-strapped provinces so as to ensure all provinces would have sufficient capital to allow policy holders to draw on their pension funds wherever they were. (source: The Beijing News)

Zhao Zhiqian, a member of the 11th NPC and a pharmaceutical group director, called for accelerating the pace in promoting rural social security scheme. He suggested clear legislation to be introduced, and called for transparency in managing the fund and diversity in raising capital for the fund's sustainability. He made the remarks on March 6 during a deliberation on the government work report. (source: Xinhua)

Interview: Spokesman from the Ministry of Labor and Social Security (MLOSS)

The EO: What in your opinion are the trend and characteristics of Chinese aging society?

MLOSS: In comparison to the western industrialized countries, the Chinese population is aging on a larger scale, at a rapid rate. We are entering the aging process way before our country is fully industrialized, unlike the western countries. It is estimated that by 2015, the population above the age of 60 will be number 200 million, a figure that will peak by 2020 and bring huge bills for elderly welfare and healthcare. As a developing nation, under the conditions of a rapidly

aging population and imbalanced development, securing the elders' rights and benefits has become a challenging task for the government.

The EO: What kinds of progress has been made in developing China's social security system to cope with the aging population when the numbers do peak?

MLOSS: The social security system is a safety net and a stabilizer for our society. Over the past years, our work has focused on four main areas. One is to adjust the pension rate every three years for retired workers from enterprises. According to the government plan this year, the adjustment rate for the next three years will be higher than before. We expect that by 2010, the average monthly pension for retired enterprise workers will be over 1,200 yuan.

Second, we are accelerating the work on fine tuning social security insurance systems. We have expanded the scope of pilot projects on individual pension scheme accounts for workers in cities and townships. We have also promoted the enterprise annuity scheme, its value reached 130 billion yuan by end of 2007. Health insurance programs have been implemented in 88 cities and townships. We are standardizing insurance against workplace injuries, promoting workplace safety and injuries rehabilitation. Also to be standardized is the scheme of providing social security to farmers who gave up their land, as we have accumulated some experience from pilot projects in the rural pension schemes.

Third, we have expanded the coverage of social security insurance. By year end 2007, some 200 million people nationwide have participated in five types of insurance schemes – namely the basic pension, basic healthcare, unemployment, workplace injury and childcare schemes. The value of these has crossed the one trillion yuan bar last year.

Fourth, we have set up a monitoring and enforcement framework to check on social security insurance and fund operations. Also in place is a system to disseminate information and do publicity.

The EO: What are the reforms in the pipeline for Chinese social security system?

MLOSS: Our country is at the crucial point of transforming from the old to the new social security system, and in this process, some of the legacies from our past are posing daunting challenges. Some of the major problems include limited coverage, system defects, weak management, pressure on capital, and unreasonable treatment for certain groups. The challenge of using social security system as a tool for income redistributions is enormous.

From now on, problems related to the aged and weak in the rural areas will be amplified. In response, we must establish an efficient system that can bridge the gap between the urban and the rural. The most urgent tasks include expanding the coverage for workers in the private sector, the odd jobs and freelance sector, and the migrant workforce. We must establish a management system that will ensure the returns of investment and add value to the social security funds. To

encourage more people to join various schemes, we need an incentive system too, and we will continue to develop the enterprises' annuity scheme.

Meanwhile, we need to fine tune the basic healthcare coverage in the cities and townships, and explore the ways to combine workplace injuries prevention, rehabilitation and compensation under one scheme. We also need to strengthen the mechanism of collecting social security fees, especially in supervising pension funds to ensure laws are abided to and the funds are sound and intact.

The EO: China's pension scheme at present is limited to certain groups of people, for example, only one tenth of the rural residents are covered. What can be done to ensure our 800 million farmers will be secured in their old age?

MLOSS: Indeed, nearly 60% of the elderly in China reside in rural areas. This is the weakest link in China's social security system. Since the beginning of this century, majority of the villages in China have entered into the aging society. However, the country's basic pension fund was not extended to the villages. Nearly 90% of the aged in the villages are supported by their children or extended family members. The next step is to speed up the establishment of a system that covers both the urban and the rural. To realize this, two major tasks are – putting forth regulations allowing migrant workers to participate in pension scheme, and setting up new village pension funds in eligible regions. This is a gradual process to improve social security coverage in the rural areas.

At present, we are promoting test run projects of new village pension funds in pilot regions. We are trying to set up a subsidy system to help farmers to take part in pension fund. These projects will be extended gradually to other regions.

The EO: The "Land for Social Security" pilot projects have been introduced in Zhejiang, Sichuan and Jilin provinces. The scheme has drawn some supports as well as opposition, what is your opinion on this issue?

MLOSS: The government is highly concerned about social security issues related to farmers whose land has been acquired for redevelopment. The State Council requires local governments of every level to prepare detailed documentation on this matter. Some places have adopted the formula of "land for social security", pooling resources from individuals, collectives, and the local government to raise capital for the compensation scheme. The pension value offered must not be lower than the locality's minimal living standard. Between 70% and 80% of the required capital to cover the scheme comes from individual and collectives while the remaining finding comes from the local government. The scheme must offer the farmers an individual pension fund account and a society-based fund account for receiving payments.

Last May, the MLOSS and the Ministry of Land Resources jointly published a notice ensuring social security for farmers who have their land acquired. The notice has stated clearly the need to ensure sufficient capital and identify funding sources. MLOSS requires detailed statistics and work progress reports on the schemes (land for social security), including capital projections, assurance that the farmers' standards of living will not drop after losing their land, long-term livelihood guarantees and guarantees of the sustainability of the scheme.

One thing worth stressing is that the pension fund for farmers giving up their land is similar to that of other social security funds. That is to say, a special banking account must be created and be closely monitored to prevent abuse of the fund.

### Background

The Chinese government's oft-stated goal of constructing a "harmonious society" has given way to increasing focus on five core issues, or the "five haves", closely tied to the livelihoods of Chinese--that is, universal access to education, employment, housing, social security and healthcare. In the 17th Congress of the Chinese Communist Party, these new focus areas were enshrined by President Hu Jintao's Party report, and are expected to be widely discussed and pursued during the top legislative sessions thereafter.

The two sessions (lianghui or 两会 in Chinese) refer to meetings of the Eleventh National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) from March 3 to 18.

In view of this, the EO published a five-part special focusing on each of the "five haves", including case studies and interviews.

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