ISSA • Social Security Coverage Extension in the BRICS
A comparative study on the extension of coverage in Brazil, the Russian Federation, India, China and South Africa

4. Towards universal social security coverage in China

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4. Towards universal social security coverage in China

Summary

China has established a social security system which for many decades has been based on social insurance (for old-age pensions, medical care, unemployment, work injury and maternity), social assistance and social welfare, centred on the basic old-age pension, basic health care and tax-financed minimum subsistence guarantee, and supplemented by charitable support and private insurance. The past few years have witnessed a significant extension of coverage in both contributory and non-contributory schemes. Under the medical insurance programmes alone, the scope of coverage expanded from 567 million people or 43 per cent of the population in 2006 to more than 1.3 billion or over 95 per cent of the population in 2011. This chapter sheds light on the developments over the past few years as well as the implementation challenges faced and the approaches adopted to extend social security coverage.

4.1. Economic and social background

By the end of 2011 mainland China had a population of about 1,347.35 million,1 of whom 690.79 million or 51.27 per cent lived in urban areas and 656.56 million or 48.73 per cent in rural areas (SCIO, 2012). Between 2000 and 2010, average family size decreased from 3.44 to 3.10 people, the percentage of those who had received university education increased from 3.61 to 8.93, and the illiteracy rate dropped from 6.72 to 4.08 per cent. In terms of age composition, in 2010 those aged 0–14 accounted for 16.60 per cent, 15–59 for 70.14 per cent, and 60 and above for 13.26 per cent (including 8.87 per cent for 65 and above). During the same decade, the urban population rose by 13.46 per cent, the share of the population aged 0–14 declined by 6.29 per cent, while those aged 60 and above increased by 2.93 per cent and those aged 65 and above by 1.91 per cent. (NBS, 2011a). Average life expectancy increased from 68.55 in 1990 to 71.40 in 2000 (NBS, 2011b) and 73.50 in 2010 (SFPC, 2011).

Over the past 30 years the country has enjoyed a relatively high youth dependency ratio2 and an economically productive population structure, which is often referred to as the “demographic dividend” that contributes to fast economic growth. However, some Chinese scholars estimate that the country’s total dependency ratio3 will exceed 50 per cent by around 2015, which will kick-start the gradual closing of “the window of population opportunities” (Hu, 2011). According to the Population Society of China, the country will experience its first peak in the growth of the elderly population from 2011 to 2015, during which the number of people aged 60 and above will grow from 178 to 221 million, an average annual increase of 8.6 million (People’s Daily, 2011), posing increasing challenges for the country to provide pension and health care for the elderly generation in the decades to come.

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1. This figure (as well as other figures in this paper) does not include statistics on Hong Kong (pop. 7,097,600), Macau (pop. 552,300) and Taiwan (pop. 23,162,123).
2. The youth dependency ratio is the number of persons aged 0–14 per 100 persons aged 15–64.
3. The total dependency ratio is the number of persons under age 15 plus persons aged 65 or older per 100 persons aged 15–64.
Despite the recent global economic and financial crisis, China’s gross domestic product (GDP) has experienced a double-digit average annual growth rate over the past five years, the highest in the world. By the end of 2010, China’s GDP amounted to 39,798.3 billion Chinese Yuan (CNY)\(^4\) or USD 6,009.20 billion, second only to the United States despite a still low per capita GDP of USD 4,481. And in 2011 mainland China’s GDP reached CNY 47,156.4 billion (USD 7,484.07 billion), an increase of 9.2 per cent over 2010. The per capita GDP rose to USD 5,554.66 (SCIO, 2012). Meanwhile, the country’s foreign currency reserves totalled USD 2,847.3 billion, and its financial revenues CNY 8,308 billion or USD 1,254.44 billion (including USD 1,105.29 billion as tax revenues), providing a sound environment for the Government’s increased expenditure on social security (NBS, 2011c). In tandem with rapid economic growth, however, China is also confronting some widely reported problems such as inflation, rising labour costs and credit and housing bubbles, as well as significant local government debt.

Income gaps remain large, especially between rural and urban areas. In 2010, the annual per capita disposable income of urban households was CNY 19,109 (USD 2,885.30), compared to the annual per capita net income of CNY 5,919 (USD 893.72) for rural households. Household food consumption accounts for 41 per cent of total consumption for rural residents and 35.7 per cent for urban residents. According to the 2010 national rural poverty standard of CNY 1,274 (USD 192.36), the rural population in poverty totalled 26.88 million, a decrease of 9.09 million over the previous year (NBS, 2011c).

In late November 2011 the central Government set a new rural poverty standard of CNY 2,300 annual per capita net income, or about USD 1.00 per day, an increase of 92 per cent over the 2010 standard. As a result, the number of rural people living below the poverty line has increased to 128 million, accounting for 13.4 per cent of the rural population and nearly 10 per cent of the population in mainland China (Xinhuanet, 2011a). While about 23 million urban residents benefited from the urban minimum subsistence guarantee scheme in 2010, there are an estimates 50 million poverty-stricken people in urban areas (Economic Weekly, 2011).

China’s total health expenditure in 2010 amounted to CNY 1,754.2 billion (equivalent to 5.2 per cent of GDP) including 27.5 per cent as government expenditure, 35.1 per cent as social expenditure and 37.5 per cent as personal out-of-pocket expenditure. In the same year, China’s government expenditure for social security and employment amounted to CNY 913.1 billion (including CNY 45 billion from the central Government and 868 billion from local governments), accounting for 10.5 per cent of total government expenditure and 2.3 per cent of GDP (NBS, 2011c).

Despite the high GDP growth rate, however, employment elasticity has been declining steadily over the years (from 0.33 between 1979 and 1990 to 0.226 in 1991, 0.1 in 1995 and 0.068 in 2007) due to a shift from labour-intensive to capital- and technology-intensive production (Hu and Lu, 2011). In 2012, for instance, there will be a total of 25 million urban people including 6.8 million new university graduates searching for jobs, while only 9 million new urban posts are expected to have been created (in addition to around 3 million jobs vacated by retirees). Official figures show an urban registered unemployment rate of 4.1 per cent by the end of 2011, or 9.22 million unemployed people, of whom 1.97 million claimed unemployment insurance benefit.

By the end of 2011 there were 764.20 million employed persons in mainland China, among whom 359.14 million, or 47 per cent, were employed in urban areas (see Table 4.1). The 2011 shares of employed persons registered in primary, secondary and tertiary industry were 34.8, 29.5 and

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4. USD 1 = CNY 6.6227 at end 2010 (CNY 6.3009 on 30 December 2011).
35.7 per cent respectively. Statistics from the Ministry of Human Resources and Social Security (MOHRSS) show that in the country as a whole, urban non-private-sector employees earned an average annual wage of CNY 42,452, an increase of 14.3 per cent over 2010, while the average for urban private-sector employees was only CNY 24,556, in spite of an increase of 18.3 per cent over the previous year (MOHRSS, 2011).

In agriculture, there is a commonly recognized problem of underemployment and thus a need for the surplus labour to transfer to urban areas through both domestic migrant labour and urbanization. By the end of 2011 there was a total of 252.78 million farmer-turned-workers nationwide, of whom 158.63 million or 63 per cent were working in urban or other areas (hereinafter referred to as “rural migrant workers”) (MOHRSS, 2012a).

Table 4.1. China: Economically active population and employed persons in mainland China, 2006–11

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>1,314.48</td>
<td>1,321.29</td>
<td>1,328.02</td>
<td>1,334.74</td>
<td>1,340.91</td>
<td>1,347.35</td>
</tr>
<tr>
<td>Economically active</td>
<td>763.15</td>
<td>765.31</td>
<td>770.46</td>
<td>775.10</td>
<td>783.88</td>
<td>n.a.</td>
</tr>
<tr>
<td>population (millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economically active</td>
<td>58.1</td>
<td>57.9</td>
<td>58</td>
<td>58.1</td>
<td>58.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>population (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed persons (EP)</td>
<td>749.78</td>
<td>753.21</td>
<td>755.64</td>
<td>758.28</td>
<td>761.05</td>
<td>764.20</td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed persons (EP)</td>
<td>57</td>
<td>57</td>
<td>56.9</td>
<td>56.8</td>
<td>56.8</td>
<td>56.72</td>
</tr>
<tr>
<td>(%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban EP (millions)</td>
<td>296.30</td>
<td>309.53</td>
<td>321.03</td>
<td>333.22</td>
<td>346.87</td>
<td>359.14</td>
</tr>
<tr>
<td>Registered urban</td>
<td>8.47</td>
<td>8.30</td>
<td>8.86</td>
<td>9.21</td>
<td>9.08</td>
<td>9.22</td>
</tr>
<tr>
<td>unemployed persons</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered urban</td>
<td>4.1</td>
<td>4.0</td>
<td>4.2</td>
<td>4.3</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>unemployment rate (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: NBS (2011b); MOHRSS (2012a).

4.2. Social security in China: An overview

The current Chinese social security system is based on social insurance (for old-age pensions, medical care, unemployment, employment injury and maternity), social assistance and social welfare, centred on the old-age pension, health care and tax-financed minimum subsistence guarantee, and supplemented by charitable undertakings and private insurance. China has followed a developmental welfare approach, or “developmentalism”, which attaches great importance to economic development and strives to integrate welfare policies within a planned national development process.

The development of the Chinese social security system, which was initiated in 1951 with the promulgation of the Labour Insurance Regulations (amended in 1953, 1958 and 1978), can be briefly divided into three stages.

The first is the labour insurance period (1951–1978), during which all social insurance benefits except unemployment were introduced, although the scope of coverage was confined to the urban state-owned enterprises (SOEs), while individual enterprises had to finance their own welfare programmes as a result of the disruption of the ten-year (1966–1976) period of domestic turmoil.
known as the Great Cultural Revolution. One commendable achievement in the rural areas during this period was the establishment of a community-based health care system (cooperative health insurance) which in the mid-1970s covered about 90 per cent of the rural population and was once touted as an excellent example for developing countries, but which collapsed in the late 1970s with the introduction of the household responsibility system and market-oriented reforms (Zhu, 2002).

The second stage is the reform period (1978–2002) during which the Government initiated employment-based and contribution-financed social insurance programmes, mainly in urban areas. Unemployment, maternity and employment injury insurance schemes were introduced in 1986, 1995 and 1996 respectively. Major decisions were made in 1998 and 1999 in terms of nationwide implementation of the basic medical and pension insurance for urban employees. In 1998, the Government integrated the previously self-administered industry pension funds (for coal mining, civil aviation, etc.) into provincial or local pooled or solidarity funds. Meanwhile, efforts had also been made to pilot social insurance in rural areas and the expansion from employment-based to residence-based schemes, through the establishment of a budget-financed minimum livelihood guarantee system and a government contribution subsidy to vulnerable social groups. The urban provident fund for housing, co-financed by both the employer and employees, was first piloted in 1991 and implemented nationwide in 1999 (Zhu, 2009).

The third stage is the rapid expansion period since 2003, characterized by unified planning for both urban and rural areas and enhanced efforts for the extension of coverage. Following the principle of “wide coverage, modest benefit, multi-tiered programmes and a sustainable system”, the Chinese Government committed itself in 2006 to building up a comprehensive social security system covering the whole population by 2020, with a focus on basic pension and health insurance as well as the minimum subsistence guarantee system. China’s 12th Five Year National Economic and Social Development Plan (2011–2015) lays great emphasis on the concept of inclusive growth, and seeks to tackle rising inequality and create an environment for more sustainable growth by prioritizing more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social security programmes. Specific recent extension efforts will be discussed in the next section.

Currently, social insurance programmes are supervised by the MOHRSS, while the Ministry of Civil Affairs (MCA) takes charge of the social assistance programmes and the Ministry of Health (MOH) administers the New Rural Cooperative Medical Scheme.

The major challenges confronted by the Chinese social security system include – but are not confined to – ageing of the population, urbanization and diversification of work patterns. Aside from limited coverage, low benefit and rising inequalities, institutional segmentation is also a feature of the system, under which most of the schemes are administered at county or city level by different authorities.

4.3. Recent extension efforts

The period since 2003 has indeed witnessed a most rapid extension of social security coverage in China. The New Rural Cooperative Medical Scheme was launched in 2003; rural and urban medical assistance programmes in 2003 and 2005 respectively; the pilot on urban residents medical insurance and nationwide implementation of the budget-funded and means-tested minimum subsistence income guarantee scheme in 2007; the full-scale implementation of the urban residents medical
insurance system nationwide and the launch of a new type of rural social pension scheme in 2009; and the launch of a new pilot on the urban resident social pension insurance programme in July 2011.

The Social Insurance Law, a milestone piece of legislation for the Chinese social security system, came into force as of July 2011 and set the tone for its future development. Major provisions include the portability of basic pension and health care benefits across different regions in the country; the establishment of a nationwide unified personal social security ID system based on an identity number for each citizen; the gradual realization of a national pooled fund for the basic pension scheme and a provincial pooled fund for each of the other social insurance schemes; the coverage of foreigners working in China; enhanced compliance and enforcement measures with regard to a unified collection of social insurance contributions; privacy protection as regards social security information; prevention of the misappropriation of social insurance funds; and the investment and management of the non-contributory national social security fund as a strategic reserve for the social insurance schemes.

In the 2006–2010 Five Year National Economic and Social Development Plan, the Government included for the first time a compulsory quota for the extension of urban pension insurance coverage and that of the New Rural Cooperative Medical Scheme (NRCMS) (see Table 4.2). Based on the national targets, the relevant ministries also worked out annual and five-year quotas (split among different regions) and supervised their implementation nationwide (Zhu, 2009).

According to a circular issued in early June 2011 by the MOHRSS and MOH, the past five years have witnessed the initial establishment of a social security system framework covering both urban and rural areas and a major breakthrough in the extension of social security coverage.

Table 4.2. China: Realization of major targets set in the Five Year National Economic and Social Development Plan, 2006–2010

<table>
<thead>
<tr>
<th>Item</th>
<th>2005 basis</th>
<th>Five-year targets</th>
<th>Accomplishment by the end of 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of participants covered by urban basic old-age insurance, including retirees (millions)</td>
<td>174</td>
<td>223</td>
<td>257</td>
</tr>
<tr>
<td>No. of participants covered by urban basic medical insurance (millions)</td>
<td>138</td>
<td>300</td>
<td>432&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>No. of participants covered by unemployment insurance (millions)</td>
<td>106</td>
<td>120</td>
<td>134</td>
</tr>
<tr>
<td>No. of participants covered by employment injury insurance (millions)</td>
<td>85</td>
<td>140</td>
<td>162</td>
</tr>
<tr>
<td>No. of participants covered by maternity insurance (millions)</td>
<td>54</td>
<td>80</td>
<td>123</td>
</tr>
<tr>
<td>Coverage of the New Rural Cooperative Medical Scheme (NRCMS) (millions)</td>
<td>180</td>
<td></td>
<td>835&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Coverage of the NRCMS (%)</td>
<td>23.5</td>
<td>80</td>
<td>95</td>
</tr>
</tbody>
</table>

Notes:

1 The figure of 432 million includes participants under both the urban workers’ and the urban residents’ basic medical insurance. The 2005 basis and the five-year target, however, do not include participants in urban residents’ basic medical insurance, which was launched only in 2009.

2 The 2005 basis comes from the Report on Implementation of China’s National Economic and Social Plan for 2006, while the five-year target and accomplishment by the end of 2010 are based on information concerning the 2005–2010 plan for health undertakings development from the website of the Ministry of Health.
The MOHRSS expects to realize basic universal social insurance coverage within the next five years, and sets the major new five-year (2011–2015) targets, as shown in Table 4.3.

### Table 4.3. China: Major targets set in the Five Year National Economic and Social Development Plan, 2011–2015 (millions)

<table>
<thead>
<tr>
<th>Item</th>
<th>2010 basis</th>
<th>2015 target</th>
<th>Type of targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of participants covered by urban basic old-age insurance</td>
<td>257</td>
<td>357</td>
<td>Binding</td>
</tr>
<tr>
<td>(including retirees)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of participants covered by the new rural old-age insurance</td>
<td>100</td>
<td>450</td>
<td>Recommended</td>
</tr>
<tr>
<td>(including retirees)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of participants covered by urban and rural basic medical insurance</td>
<td>1,260</td>
<td>1,320</td>
<td>Binding</td>
</tr>
<tr>
<td>No. of participants covered by unemployment insurance</td>
<td>134</td>
<td>160</td>
<td>Binding</td>
</tr>
<tr>
<td>No. of participants covered by employment injury insurance</td>
<td>162</td>
<td>210</td>
<td>Binding</td>
</tr>
<tr>
<td>No. of participants covered by maternity insurance</td>
<td>123</td>
<td>150</td>
<td>Binding</td>
</tr>
<tr>
<td>No. of social security cards issued</td>
<td>100</td>
<td>800</td>
<td>Recommended</td>
</tr>
</tbody>
</table>

#### 4.3.1. Old-age income security

There are five main kinds of old-age income security scheme:

- the Budget-funded Pension Scheme for civil servants and employees of public cultural, educational and scientific institutions;
- the Basic Pension Scheme for Urban Workers (hereinafter referred to as “the Basic Pension Scheme”);
- the Voluntary Rural Pension Scheme;
- the Voluntary Urban Pension Scheme; and
- the means-tested Minimum Subsistence Income Guarantee Scheme.

**Budget-funded Pension Scheme.** This scheme covers an estimated 40 million people, including about 7 million civil servants as well as over 30 million employees working for various public cultural, educational and scientific institutions. Military personnel have a similar but independent pension scheme. The retirement age is set as 60 for men and 55 for women. Pension benefits, which are based on the individual employee's salary and calculated according to the years of service, range reportedly from 70 to 90 per cent of the pre-retirement salary. In recent years, there has been a move to gradually reduce the Government's financial support to the budget-financed pension of public cultural, educational and scientific institutions and incorporate those that are partly or not at all funded by the Government into the Basic Pension Scheme. Meanwhile, there has been a debate in the media on whether the civil servant pension scheme should also be merged into the Basic Pension Scheme.

**Basic Pension Scheme.** Under this scheme, which covers mandatorily all kinds of urban enterprises as well as public (cultural, educational and scientific) institutions that are partly or not at all funded by
the government budget, the contribution rate is around 20 per cent of payroll for employers, which goes to the basic pooled fund, and 8 per cent of payroll for the individual employee, which is credited to the individual account. Specific contribution rates are at the discretion of local governments and thus may vary from one region to another. Upon reaching retirement age, which is 60 for males, 55 for female cadres and 50 for female workers, an employee having at least 15 years of contributions is entitled to a pension made up of two elements, one from the pooled fund and another from the individual account. In case of shortfall, subsidies shall be provided by the Government into the Basic Pension fund. The benefit target replacement rate for a retiree with 35 years of contributions is 59.2 per cent, including 35 per cent from the pooled fund and 24.2 per cent from the individual account. Upon the death of the insured member, a lump sum of between 6 and 12 months of the deceased’s last monthly wage is paid, depending on the number of surviving dependants. A lump sum of the balance of the deceased’s contributions, plus interest, is paid to the deceased’s legal heir.

As nearly all state-owned and collective enterprises are covered by the Basic Pension Scheme, the 2005 State Council Decision on Improving the Basic Pension System for Enterprise Employees stipulates that the focus of the future extension of coverage will be on urban non-public enterprises and the self-employed, as well as people engaged in flexible types of employment. A flat contribution rate at 20 per cent of the previous year’s local average wage was set for the self-employed and people engaged in flexible types of employment, with 8 percentage points being deposited in the individual account while the rest (12 per cent instead of 20 per cent) going into the local pooled fund. The contribution basis, at the choice of the insured persons, ranges in some provinces from 40 to 100 per cent of the previous year’s provincial average monthly wage income. Upon reaching retirement age and a minimum of 15 years of contributions, the insured person is entitled to the same two-component pension benefit. In some provinces such as Hebei, the self-employed and those engaged in flexible types of employment have been allowed to choose a contribution basis ranging from 40 to 300 per cent of the previous year’s provincial average employee wage income, and they can choose to contribute every month, quarter, half year or annually (YZDSB, 2011).

Since 2005 the Government has continually increased the average pension benefit of enterprise retirees by about 10 per cent each year so as to narrow the gap compared to the pensions received by retirees from government departments and public institutions that are fully funded via government budgets. As a result, the average monthly pension of urban enterprise retirees increased from CNY 649 in 2005 to CNY 1,362 in 2010 and CNY 1,531 in 2011, an annual increase of 16 per cent, much higher than the consumer price index over the same period. Reportedly, the five-year (2006–2010) budget support for five social insurance programmes from various levels of government totalled CNY 721.9 billion (of which 85 per cent came from the central Government), representing an average annual growth of 19 per cent since 2005 (MOF, 2011). In 2011, the central budget transfers earmarked for pension payments in the less developed central and western regions totalled CNY 184.6 billion, an increase of 28.6 billion, or more than 18 per cent over the previous year (MOHRSS, 2012a).

In December 2010 the State Council decided to extend the scope of coverage of the Basic Pension Scheme to over 5 million previously excluded collective enterprise workers before the end of 2011. Workers in uncovered enterprises who possess an urban household registration and have reached or exceeded retirement age can make a lump-sum payment worth 15 years of pension contributions for participation in the scheme. The specific contribution rates are determined by the local governments, based on individual employees’ means and age, and the enterprises are encouraged to provide appropriate subsidies to the lump-sum contributions. Those who have not yet reached
retirement age should make standard contributions to the fund, and are allowed to continue to contribute upon reaching retirement age if they have less than 15 years of contributions, until they qualify for pension benefit.

By the end of 2011 the Basic Pension Scheme covered 283.91 million people, including 215.66 million active employees and 41.4 million rural migrant workers (see Table 4.4); the annual fund revenues totalled CNY 1,689.5 billion including CNY 1,395.6 billion as collected contributions and CNY 227.2 billion as earmarked subsidies from the budgets of various levels of government; the annual fund expenditures totalled CNY 1,276.5 billion and the aggregate fund accumulations over the years had reached CNY 1,949.7 billion (MOHRSS, 2012a).

Table 4.4. China: Coverage extension of the basic pension scheme, 2005–2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number covered (millions)</th>
<th>Annual growth (%)</th>
<th>Active employees covered (millions)</th>
<th>Annual growth (%)</th>
<th>Retirees covered (millions)</th>
<th>Annual growth (%)</th>
<th>Rural migrant workers covered (millions)</th>
<th>Annual growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>178.47</td>
<td></td>
<td>131.20</td>
<td></td>
<td>43.67</td>
<td></td>
<td>n.a</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>187.66</td>
<td>7.3</td>
<td>141.31</td>
<td>7.7</td>
<td>46.35</td>
<td>7.4</td>
<td>14.17</td>
<td>30.3</td>
</tr>
<tr>
<td>2007</td>
<td>201.37</td>
<td>7.3</td>
<td>151.83</td>
<td>7.4</td>
<td>49.54</td>
<td>9.3</td>
<td>18.46</td>
<td>30.9</td>
</tr>
<tr>
<td>2008</td>
<td>218.91</td>
<td>8.7</td>
<td>165.87</td>
<td>9.3</td>
<td>53.04</td>
<td>9.5</td>
<td>24.16</td>
<td>9.6</td>
</tr>
<tr>
<td>2009</td>
<td>235.50</td>
<td>7.6</td>
<td>177.43</td>
<td>7.6</td>
<td>58.07</td>
<td>8.6</td>
<td>26.47</td>
<td>24.1</td>
</tr>
<tr>
<td>2010</td>
<td>257.07</td>
<td>9.2</td>
<td>194.02</td>
<td>9.4</td>
<td>63.05</td>
<td>8.3</td>
<td>32.84</td>
<td>8.3</td>
</tr>
<tr>
<td>2011</td>
<td>283.91</td>
<td>10.4</td>
<td>215.65</td>
<td></td>
<td>68.26</td>
<td></td>
<td>41.40</td>
<td></td>
</tr>
</tbody>
</table>

n.a. = not available.


Voluntary Rural Pension Scheme. As part of the efforts to bridge rural–urban differences and stimulate domestic consumption in the context of the global economic and financial crisis, the Chinese Government decided in June 2009 to pilot a new Voluntary Rural Pension Scheme, planning to implement it in 10 per cent of counties in 2009 and gradually extend coverage to all rural areas by 2020 (State Council, 2009a).

The new rural pension scheme succeeds the old voluntary one, which was piloted in 1986 and implemented in 1991; its membership had stagnated since the late 1990s due to its reliance on personal contributions and the absence of supporting policies. By the end of 2008, a total of 56 million people participated in the old rural pension scheme, which was administered separately by county-level rural social insurance organizations. The new scheme, which is composed of a government-financed basic pension and an individual account pension, covers all rural residents above 16 years who have not yet participated in the urban basic pension schemes. Individuals can elect to contribute to their individual accounts an amount of contributions from one of the five scales ranging from CNY 100 to CNY 500 (more scales may be set up if local government deem necessary) each year, for which the local government will provide an annual subsidy of at least CNY 30. The minimum personal contributions of vulnerable groups such as those with serious disabilities are to be paid either partially or fully by the local government. For the basic (social) pension, the central Government will provide a 100-per-cent subsidy to the less developed central
and western regions, and 50 per cent to the developed eastern region, with the remainder to be covered by the local government.

Upon reaching the age of 60 with a minimum of 15 years of contributions, a participant will be entitled to both a budget-financed monthly social pension of no less than CNY 55, and a monthly benefit based on accumulated funds in the individual account, which is equivalent to the fund value divided by 139 (the same as the individual pension account benefit under the basic urban pension scheme). In pilot areas, those aged 60 and above who are uncovered do not need to make any personal contribution and can claim the social pension directly, provided that their children who meet the conditions also join the scheme, despite its voluntary nature. Those under age 60 should make annual contributions until that age, and can buy back some years to reach the minimum of 15 years of contributions in order to be entitled to both benefits.

Pensioners under the old rural pension scheme will be entitled to a government-financed basic pension on top of the existing individual account benefit. Such participants who have not yet reached retirement age are required to have their old individual accounts converted into new ones and to continue to pay contributions according to the new standards until reaching 60. The new scheme is also to incorporate the current “land for social security” arrangements for millions of farmers whose land has been expropriated in the course of industrialization and urbanization. The idea is to channel their current pension resources into their individual accounts under the new pension scheme, while the government is to finance their contributions to the basic pension fund. Farmer-turned-domestic migrant workers who do not qualify for the urban basic pension (if they have less than 15 years of contributions, for instance) may have their urban individual account accumulations converted into rural individual accounts and claim pension benefits as per the new rural pension insurance stipulations, after buying back certain years of contributions.

The individual accounts under the new scheme will be administered by the county social insurance agencies as special accounts under the supervision of the finance authorities, with interest credited with reference to the one-year state bank interest rate as announced by the People’s Bank of China, while the basic pension is financed solely through budget allocations on a pay-as-you-go basis. Unlike the old scheme, under which the relevant agencies at county and lower levels charged a fee for administration, all the administrative and operational costs (including staff salaries) for the new scheme will be fully financed by ear-marked allocations from the government budget.

By the end of 2011, the new rural pension scheme covered a total of 326.43 million people, including 85.25 million pension beneficiaries (see Table 4.5). The annual fund revenues and expenditures totalled CNY 107 billion (including CNY 41.5 billion in individual contributions) and CNY 58.8 billion, respectively. The accumulation over the years reached CNY had 119.9 billion. In June 2011, the Chinese Government decided to accelerate the pace of extension to cover 60 per cent of the rural areas by the end of 2011, and all rural areas by the end of 2012 (Hexun, 2011).
Voluntary Urban Pension Scheme. On 1 June 2011 the Chinese Premier announced a new pilot pension insurance programme for non-employed urban residents, to be implemented as of 1 July 2011. Modelled on the new type of rural pension scheme, it is expected to cover 60 per cent of China by the end of that year and to benefit all uninsured urban residents (around 50 million) by the end of 2012, in parallel with the new Voluntary Rural Pension Scheme.

All urban residents aged 16 and over (excluding school students) who are not engaged in employment and hence do not qualify for enrolment under the basic pension scheme for urban employees can join the urban resident pension insurance programme on a voluntary basis at the place where their households have been registered. Enrolled residents can elect one of the ten scales ranging from CNY 100 to CNY 1,000 as an annual contribution to their individual accounts, for which the Government will provide a subsidy of no less than CNY 30 to each person every year. The scales may differ in different regions. In Hangzhou City, for example, both rural residents and the non-employed can choose from one of the six scales (CNY 100, 300, 600, 900, 1,200 and 1,500) as annual contributions to their individual accounts. Upon reaching the age of 60, an insured person will receive not only a pension benefit based on his or her individual account accumulation, but also a monthly basic (social) pension of no less than CNY 55 which is fully financed by the government budget and adjusted according to economic development and price changes. Those aged 60 and over who meet the prescribed conditions, however, are not required to pay any contribution and can claim the basic social pension each month. For this basic pension, the central Government will provide a 100-per-cent subsidy to the less developed central and western provinces and 50 per cent to the more developed eastern provinces, as it does for the new rural pension scheme.

In some places, the basic pension benefit differs according to the age of the pensioner. In Dunhua City of Jilin Province, for example, the basic pension benefit is CNY 60 for those aged 60–69, CNY 70 for those aged 70–79, and CNY 80 for those aged 80 and above (Xinhuanet, 2011b). In fact, some provinces or equal-level municipalities such as Zhejiang Province, Beijing, Tianjin and Chongqing hand already covered urban residents under the new rural pension scheme from the start (Hexun, 2011). In Beijing, for instance, the municipal government implemented in 2008 an integrated old-age guarantee for urban and rural residents. All Beijing residents aged 60 and above, whether urban or rural, who are not covered by any old-age protection scheme are entitled to a budget-financed and non-means-tested monthly welfare pension of CNY 200 as of 1 January 2008 (increased to CNY 230 in 2011). On top of the monthly benefit based on the resident individual pension account, the local government also provides each beneficiary an additional monthly basic pension of CNY 280

### Table 4.5. China: Coverage extension of the new Voluntary Rural Pension Scheme, 2006–2011

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total coverage (millions)</td>
<td>53.7</td>
<td>51.7</td>
<td>56</td>
<td>86.9</td>
<td>102.8</td>
<td>326.4</td>
</tr>
<tr>
<td>Annual growth (%)</td>
<td>9.9</td>
<td>-3.9</td>
<td>8.2</td>
<td>55.3</td>
<td>18.3</td>
<td>217.5</td>
</tr>
<tr>
<td>No. of pensioners covered (millions)</td>
<td>3.6</td>
<td>3.9</td>
<td>5.1</td>
<td>15.6</td>
<td>28.6</td>
<td>85.3</td>
</tr>
<tr>
<td>Annual fund payment (CNY billions)</td>
<td>3</td>
<td>4</td>
<td>5.7</td>
<td>7.6</td>
<td>20</td>
<td>58.8</td>
</tr>
<tr>
<td>Aggregate fund accumulation (CNY billions)</td>
<td>35.4</td>
<td>41.2</td>
<td>49.9</td>
<td>68.1</td>
<td>42.3</td>
<td>119.9</td>
</tr>
</tbody>
</table>

(increased to CNY 330 in 2011) from the ear-marked local budget. The municipal government also allowed a two-way transfer between the urban basic pension scheme and the residents' individual account pension scheme, the first such arrangement in China (Zhu, 2009). Experts believe that these developments in Beijing represent a positive move towards realizing equity in public services and gradually mitigating the rural–urban gap in the old-age income security system (Xinhuanet, 2011b).

**Minimum Subsistence Income Guarantee Scheme.** This means-tested and budget-funded scheme was first piloted in Shanghai in 1993, implemented in all cities in 1997, and covered the whole population by 2007. In 2011, the scheme benefited 22.77 million urban residents and 53.06 million rural residents, with expenditures totalling CNY 65.99 billion (including 76.1 per cent as central government subsidy) and CNY 66.77 billion (including 75.3 per cent as central government subsidy) respectively. In the same year, the average per capita urban minimum income guarantee benefit standard stood at CNY 287.6 per month, with each beneficiary receiving CNY 240.3 per month (as a difference between the standard and actual per capita income), compared with the rural figures of CNY 143.2 and CNY 106.1 respectively (MCA, 2012).

In addition, the various levels of government allocated in 2011 a total of CNY 12.17 billion to provide 5.3 million so-called “five-guarantee” rural residents (mostly destitute older people) with food, housing, clothing, medical care and burial expenses, including 1.85 million people in a concentrated manner with an average annual per capita expenditure of CNY 3,399.7, and 3.67 million in a more disparate way for an average annual per capita expenditure of CNY 2,470.5 (MCA, 2012).

Official data show that by 1 July 2012, all county-level districts in China had implemented the new Voluntary Rural Pension Scheme and the pension insurance programme for non-employed urban residents, so that full system coverage by pension schemes was basically realized eight years ahead of schedule. By the end of August 2012, the number of people covered by the various pension insurance schemes exceeded 700 million, among whom 432 million are under the above-mentioned two schemes, and included over 180 million pensioners, of whom 118 million are under the above-mentioned two schemes and 70 million under the Basic Pension Scheme (MOHRSS, 2012b).

As a second pillar in the Chinese multi-tiered social security system, the enterprise annuity programme (EA, initially referred to as supplementary enterprise old-age insurance) was first piloted in the 1990s. It was initiated in mid-2004 (Zhu, 2009), covering 44,900 enterprises encompassing 15.77 million people and by the end of 2011 had accumulated CNY 357 billion (MOHRSS, 2012a). The EA scheme is run on a voluntary basis with participation mainly by state-owned enterprises. In 2008, for instance, more than 90 per cent of annuity funds came from large-sized (and often monopoly) state-owned enterprises, while small and medium-sized enterprises (SMEs) represented less than 1 per cent of the total. While the employer contribution up to 5 per cent of payroll is tax deductible, the employee contribution, investment income and benefit pay-out are subject to taxation (Herd, Hu and Koen, 2010).
4.3.2. Health care

There are basically four kinds of health care scheme:

- the Urban Employees Basic Medical Insurance Scheme (UEBMIS) which covers all employees in urban areas working in government organizations, enterprises, social groups, and non-profit organizations;
- the Urban Residents Basic Medical Insurance Scheme (URBMIS) which covers non-salaried people such as the elderly and the children and receives government subsidies;
- the New Rural Cooperative Medical Scheme (NRCMS) which covers all rural residents and receives government subsidies; and
- the budget-funded medical assistance programmes targeted at the needy people in both urban and rural areas.

In April 2009 the Government unveiled a three-year CNY 850 billion medical reform plan, under which two-thirds of the budget is to be spent on consumers (as premium subsidies, etc.) and one-third on service providers with a focus on extending health insurance coverage and improving grass-roots health care facilities and services. The plan aims to provide, by 2011, over 90 per cent of the population with universal access to basic health insurance in parallel with the introduction of an essential drug system, improved primary health care facilities, equitable access to basic public health services and pilot reform of state-run hospitals. The ceiling of reimbursement is to be raised from four to six times annual income under various medical insurance schemes (State Council, 2009b).

**Urban Employees Basic Medical Insurance Scheme.** The UEBMIS is based mainly on the 1999 State Council Decision on Establishing the Basic Medical Insurance System for Urban Workers and Employees and is administered by the social insurance agencies under the local government human resources and social security authorities. The contribution rate is in principle 2 per cent of payroll from the employee (to the individual account) and 6 per cent from the employer (out of which 70 per cent goes to the pooled fund and 30 per cent to the individual account). The individual account is used to pay medical expenses of up to 10 per cent of the local average annual wage income, while the pooled fund reimburses the amount from 10 per cent to 400 per cent (raised to 600 per cent since 2009) of the average annual income according to a certain schedule. Medical treatment in high-grade hospitals should result in a low percentage of reimbursement, and vice versa. Overall, reimbursement of medical expenses (including both inpatient and outpatient care) has been kept at around 75 per cent in recent years (Yao, 2011). Payment above 600 per cent rests with private insurance schemes or public-run supplementary schemes, if any.

In 2009 the central Government set aside CNY 42.9 billion as earmarked subsidies to bring all retirees of state-owned enterprises that had been closed down, merged or bankrupted under the coverage of the UEBMIS, and resolved in a unified way the issue of medical care guarantees for other types of urban residents. As shown in Table 4.6, by the end of 2011 the scheme covered a total of 252.27 million people, including 189.48 million active workers and 62.79 million retirees (who do not pay contributions).
Table 4.6. China: Coverage extension under the Urban Employees Basic Medical Insurance Scheme (UEBMIS), 2006–2011 (millions and percentages)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total coverage (millions)</td>
<td>157.32</td>
<td>180.20</td>
<td>199.96</td>
<td>219.37</td>
<td>237.35</td>
<td>252.27</td>
</tr>
<tr>
<td>Annual growth (%)</td>
<td>14.1</td>
<td>14.5</td>
<td>11.0</td>
<td>9.7</td>
<td>8.2</td>
<td>6.3</td>
</tr>
<tr>
<td>Active employees covered (millions)</td>
<td>115.80</td>
<td>134.20</td>
<td>149.88</td>
<td>164.10</td>
<td>177.91</td>
<td>189.48</td>
</tr>
<tr>
<td>Retirees covered (millions)</td>
<td>41.52</td>
<td>46.00</td>
<td>50.08</td>
<td>55.27</td>
<td>59.44</td>
<td>62.79</td>
</tr>
<tr>
<td>Rural migrant workers covered (millions)</td>
<td>23.67</td>
<td>31.31</td>
<td>42.66</td>
<td>43.35</td>
<td>45.83</td>
<td>46.41</td>
</tr>
</tbody>
</table>

Note: 1 Rural migrant workers covered are included in either covered active employees or covered retirees.

Urban Residents Basic Medical Insurance Scheme. Financed by personal contributions coupled with central and local government subsidies, the URBMIS was launched in July 2007 as a voluntary scheme according to the State Council Guidelines on conducting the pilots for basic medical insurance for urban residents (2007). The guidelines called for an experiment in one or two cities in each province (where appropriate) in 2007 and an expansion in 2008, and envisaged a coverage extension to 80 per cent of cities in 2009 and an implementation in all cities in 2010 so as to benefit 240 million non-salaried urban residents. While the fund is mainly used to cover insured residents’ hospitalization and major disease expenditures, over 80 per cent of the urban areas had implemented the pooling of funds for inpatient expenditures by 2010. The initial annual premium for an adult ranges from CNY 150 to CNY 300 with an average of CNY 236, while that for a child between CNY 50 and CNY 100 with an average of CNY 97 (Wang, 2008). Annual per capita premium subsidy from the Government has grown from CNY 40 in 2007 to CNY 120 in 2010, CNY 200 in 2011 and CNY 240 in 2012. The average reimbursement rate increased from the initial 54 per cent to 60 per cent in 2010 and 70 per cent in 2011 (Yao, 2011).

One important recent development is that the individual health insurance contributions of old, vulnerable and disabled people are being fully covered by the local governments. In Beijing, for instance, starting in 2011 the local government is paying an annual health insurance premium subsidy of CNY 600 for each non-employed and seriously ill urban citizen, CNY 300 for each seriously disabled urban citizen, and CNY 300 for each uncovered urban citizen aged 60 and above and living under the poverty line. The personal contributions of such people are to be fully financed from the budget of the relevant county or district government (Beijing Morning Newspaper, 2011).

As shown in Table 4.7, by the end of 2011 the URBMIS covered 221.16 million people nationwide, an increase of 25.88 million over 2010. For both UEBMIS and URBMIS combined, the joint annual fund revenues and expenditures totalled CNY 553.9 billion and CNY 44.31 billion respectively, and the fund accumulation over the years reached CNY 401.5 billion, including CNY 49.7 billion for URBMIS (MOHRSS, 2012a).

Table 4.7. China: Coverage extension under the Urban Residents Basic Medical Insurance Scheme (URBMIS), 2007–2011

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban residents covered (millions)</td>
<td>42.9</td>
<td>118.3</td>
<td>182.1</td>
<td>195.3</td>
<td>221.2</td>
</tr>
<tr>
<td>Annual growth rate (%)</td>
<td>42.9</td>
<td>175.6</td>
<td>54</td>
<td>7.2</td>
<td>13.3</td>
</tr>
</tbody>
</table>

**New Rural Cooperative Medical Scheme.** The NRCMS was launched in 2003 as a voluntary programme covering all rural residents and administered by the local health authorities. The central and local governments finance around 80 per cent of the premiums (less in well-off provinces) while the rest is covered by individuals. In 2010, the national average per capita annual premium was CNY 156.6, including CNY 120 as per capita government subsidy; from an initial amount of CNY 20 this subsidy rose to CNY 200 in 2011 and 240 in 2012. Participation is based on family units so as to avoid adverse selection and extend the coverage quickly. The average reimbursement rate for hospitalization costs was 60 per cent (70 per cent in 2011) and the average maximum ceiling for reimbursement was CNY 30,000, which rose to no less than CNY 50,000 in 2011 (MOH, 2011). Meanwhile, various regions including 80 per cent of the villages have also implemented the pooling of funds for inpatient care, where costs can be reimbursed up to a certain percentage which differs from one place to another. By the end of 2011 the NRCMS covered 832 million participants, an enrolment rate of 97.5 per cent (see Table 4.8).

The total annual fund revenue and payout amounted to CNY 204.76 billion and CNY 171.02 billion respectively, and the number of reimbursements reached 1.32 billion (MOH, 2012).

<table>
<thead>
<tr>
<th>Table 4.8. China: Coverage extension under the New Rural Cooperative Medical Scheme (NRCMS), 2004–2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>No. of counties implementing the NRCMS</td>
</tr>
<tr>
<td>No. enrolled (millions)</td>
</tr>
<tr>
<td>Annual growth rate (%)</td>
</tr>
<tr>
<td>Enrolment rate (%)</td>
</tr>
<tr>
<td>Annual per capita premium (CNY)</td>
</tr>
<tr>
<td>Annual payout (CNY billion)</td>
</tr>
</tbody>
</table>

Notes:
1 Enrolment rate: number of NRCMS participants per 100 rural residents.
2 This increase is due to the transfer of a number of counties into cities in 2011.

Sources: NBS (2011b); MOH (2012).

**Medical assistance programmes.** The budget-financed and means-tested rural and urban medical assistance programmes were launched in 2003 and 2005 respectively. Recent years have witnessed a continuous improvement of the system, under which the assistance targets have covered all “five-guarantee” rural people and beneficiaries of urban and rural minimum subsistence guarantee schemes, and have been gradually extended to other vulnerable groups. The content of assistance has expanded from hospitalization only to a more comprehensive package which centres on hospitalization but also gives due consideration to other kinds of assistance. Some local governments have simplified procedures by turning “post-treatment assistance” into “assistance during the treatment”. Many local civil affairs authorities have also made full use of the many existing community medical service networks with their low prices and convenient services, by issuing medical assistance cards containing a subsidy ceiling so as to facilitate consultations and purchase of medicines by beneficiaries (Xinhuanet, 2009). In 2011, the urban programmes provided 22.22 million reimbursements, including subsidies for a total of 15.50 million people to join the
urban resident medical insurance scheme through per capita assistance of CNY 67.9, and direct assistance from the civil affairs authorities to 6.72 million urban residents through a per capita amount of CNY 793.6. The total annual budgetary allocation for the urban programmes from the various levels of government was CNY 6.76 billion nationwide, an increase of 36.6 per cent over 2010. In the countryside, the rural programmes provided 62.97 million reimbursements including subsidies for 48.25 million people to join the NRCMS through per capita assistance of CNY 45.6, and direct assistance from the civil affairs authorities to 14.71 million people through a per capita amount of CNY 635.8. The total annual budgetary allocation for the rural programmes from the various level of government was CNY 12 billion nationwide, an increase of 43.7 per cent over 2009 (MCA, 2012).

4.3.3. Unemployment insurance

Initially confined to contract workers in state-owned enterprises (SOEs), participation in the unemployment insurance (UI) scheme is now compulsory for all wage employees in urban areas. The fund is financed by a contribution of 2 per cent of payroll from the employer and 1 per cent from the employee. Previously linked to wages in employment, the unemployment benefit is now a flat-rate amount ranging from 60 to 70 per cent of the minimum wage, as determined by local governments. The benefit is set by local governments at a level higher than the local public assistance benefit but lower than the local minimum wage. It is paid for up to one year for those with less than five years of contributions, for up to 1.5 years for those with five or more but less than ten years of contributions, and for up to two years for those with ten or more years of contributions (Zhu, 2009).

One important UI policy development over the past five years has been the gradual transition from focusing mainly on guaranteeing subsistence to attaching the same importance to unemployment prevention and employment promotion. In accordance with the MOLSS/MOF joint circular of 11 January 2006 on the pilot of adequately extending the scope of expenditure of unemployment insurance funds, seven relatively well-off provinces were mandated to immediately launch pilots on expanding the scope of expenditure of the local unemployment insurance funds to provide subsidies for vocational training, employment service, social insurance premiums and job posting, as well as special loans (Du, 2011). In 2008 MOHRSS began to explore the establishment of dynamic surveillance over unemployment and an unemployment pre-warning system.

To help enterprises adapt to the global economic and financial crisis and stabilize jobs, the central Government adopted in late 2008 special measures such as “deferred contribution payments for five social insurance schemes, phased contribution reduction for four social insurance schemes (except pension), and three subsidies (from the unemployment fund for social insurance contribution or job post, and from the special employment fund for on-job training)” (Du, 2011) From 2009 to 2010, UI funds disbursed CNY 18.5 billion in social insurance contribution subsidies or job-posting allowances for the hardest-hit enterprises, benefiting 52,000 enterprises and encompassing a total of 14.07 million employees; in addition, through a temporary reduction in UI contributions a total of CNY 25.1 billion was waived, benefiting 3.83 million enterprises and 130 million employees; postponed UI contribution payments totalled CNY 940 million, benefiting 10,000 enterprises and 2.18 million employees (Du, 2011).

By the end of 2011 a total of 143.17 million people or 39.86 per cent of the urban employed (including 23.91 million rural migrant workers) participated in unemployment insurance schemes (see Table 4.9). In the same year, a total of 1.97 million people received unemployment benefits, and
a lump-sum subsistence subsidy was paid to 64,400 rural migrant workers whose labour contracts had been either not renewed or terminated in advance. The annual fund revenues and expenditures stood at CNY 92.3 billion and CNY 43.3 billion respectively, and the aggregate fund accumulation over the years reached CNY 224 billion (MOHRSS, 2012a). In 2010 the national average monthly unemployment insurance benefit was about CNY 500, and the average duration of benefit payment about seven months (Du, 2011). That same year expenditure on employment promotion reached CNY 20 billion, accounting for 47 per cent of the unemployment insurance fund balance and representing an increase of 48 per cent over the previous year (MOF, 2011).

Table 4.9. China: Coverage extension of unemployment insurance schemes, 2006–2011

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number covered (millions)</td>
<td>111.9</td>
<td>116.5</td>
<td>124</td>
<td>127.2</td>
<td>133.8</td>
<td>143.2</td>
</tr>
<tr>
<td>Rural migrant workers covered (millions)</td>
<td>n.a.</td>
<td>11.5</td>
<td>15.5</td>
<td>16.4</td>
<td>19.9</td>
<td>23.9</td>
</tr>
<tr>
<td>Benefit recipients (millions)</td>
<td>3.3</td>
<td>2.9</td>
<td>2.6</td>
<td>2.4</td>
<td>2.1</td>
<td>1.97</td>
</tr>
<tr>
<td>Annual fund revenues (CNY billions)</td>
<td>38.5</td>
<td>47.2</td>
<td>58.5</td>
<td>58</td>
<td>65</td>
<td>92.3</td>
</tr>
<tr>
<td>Annual fund expenditures (CNY billions)</td>
<td>19.3</td>
<td>21.8</td>
<td>25.4</td>
<td>36.7</td>
<td>42.3</td>
<td>43.3</td>
</tr>
<tr>
<td>Aggregate fund accumulation (CNY billions)</td>
<td>70.8</td>
<td>97.9</td>
<td>131</td>
<td>152.4</td>
<td>175</td>
<td>224</td>
</tr>
</tbody>
</table>

n.a.= not available.

4.3.4. Employment injury insurance

Covering employees in all enterprises and the self-employed in urban areas, with an average contribution rate of 1 per cent of payroll to be contributed solely by the employers, contributions for employment injury insurance vary according to the three categories of industry and the assessed degree of risk. Benefits consist of medical treatment, including rehabilitation, as well as temporary and permanent disability pensions. The 2004 Regulations on Work Injury Insurance stipulates that the various work injury insurance funds should set aside a certain proportion as reserve funds for benefit payouts in case of major accidents. Specific proportions and methods of utilization are at the discretion of the provincial level governments.

In 2005, just one year after the implementation of the Regulations on Work Injury Insurance, the Government incorporated for the first time the extension of work injury insurance in the mandatory targets under the 2006–2010 National Economic and Social Development Plan and committed itself to bringing a total of 75 million people under work injury insurance coverage by the end of 2005, compared to 68.45 million in 2004. In May 2006, the MOHRSS (then known as the Ministry of Labour and Social Security (MOLSS)) launched the three-year national campaign called the Ping An (Peace and Safety) Programme, which aimed to cover all rural migrant workers who work in highly risky trades such as mining and construction under the work injury insurance scheme. The newly enacted Regulations on Safe Production Licence also obliged all enterprises to participate in the scheme as one of the prerequisites to obtain or renew the licence (Zhu, 2009). To explore effective means of combining compensation with prevention and rehabilitation, in 2007 MOLSS issued Guidelines on Enhancing the Pilot Work on Work Injury Rehabilitation, which was later supplemented by supporting standards and procedures. To promote work injury prevention nationwide, and based on several pilots, MOHRSS is currently in the process of formulating guidelines on utilizing and managing the work injury prevention fund.
The newly revised Regulations on Work Injury Insurance entered into force as of January 2011. The major revisions include the extension of the scope of coverage to public institutions, social groups, non-profit grass-root organizations, foundations, law and accounting firms; the simplification of work injury ascertainment, adjudication and dispute disposal procedures; an increase in lump-sum death compensation and work injury compensation (20 times the national average urban resident’s disposable income in the previous year, instead of 5–6 times the local average annual wage income); and the inclusion of prevention costs as a new item of expenditure.

In January 2011 the State Council decided to allocate a total of CNY 5.6 billion as a central government subsidy to extend coverage before the end of 2011 to about 3.3 million so-called “old work-injured people” who remained excluded either because the injury took place before the scheme was initiated, or their enterprises had been closed down or gone bankrupt, or they had not yet participated in the scheme (Xiang, 2011).

By the end of 2011, a total of 176.96 million people, or 49.3 per cent of the urban employed, and including 68.3 million rural migrant workers, were participating in the work injury insurance scheme, while the number of people receiving benefits had reached 1.63 million (see Table 4.10). The annual fund revenues and expenditures stood at CNY 46.6 billion and CNY 28.6 billion respectively, and the aggregate fund accumulation and reserve fund had reached CNY 64.2 billion and CNY 10.1 billion respectively (MOHRSS, 2012a). Civil servants and employees of public cultural, educational and scientific institutions (except for institutions financed off-budget) are covered under special government-funded, employer-administered systems (SSA and ISSA, 2010).

| Table 4.10. China: Coverage extension under employment injury schemes, 2006–2011 |
|------------------------|----------------|----------------|----------------|----------------|----------------|
|                       | 2006            | 2007           | 2008           | 2009           | 2010           | 2011           |
| Total number covered (millions) | 102.6          | 121.73         | 138.87         | 148.96         | 161.61         | 179.96         |
| Rural migrant workers covered (millions) | 25.37          | 39.80          | 49.42          | 55.87          | 63.00          | 68.28          |
| Benefit recipients (millions) | 0.78           | 0.96           | 1.18           | 1.30           | 1.47           | 1.63           |
| Annual fund revenues (CNY billions) | 1.22           | 1.66           | 2.17           | 2.40           | 2.85           | 46.6           |
| Annual fund expenditures (CNY billions) | 6.85           | 8.8            | 12.7           | 15.6           | 19.2           | 28.6           |
| Aggregate fund accumulation (CNY billions) | 19.3           | 26.2           | 33.5           | 40.4           | 47.9           | 64.2           |
| Aggregate reserve fund accumulation (CNY billions) | 2.4            | 3.3            | 5.0            | 6.5            | 8.2            | 10.1           |


4.3.5. Maternity insurance

The maternity insurance programme covers all employees in urban enterprises, with a contribution rate of up to 1 per cent of payroll paid solely by employers. The average monthly wage of the enterprise for the previous year is paid by the maternity social insurance fund for up to 90 days for the birth of a child, 42 days for a pregnancy that lasted at least several months, and 15 to 30 days for less (SSA and ISSA, 2010).
Among the problems still to be tackled are:

- the low level of legislation – the basis for the current policy remains the provisional methods issued by the former Ministry of Labour in 1994, while there are documents promulgated by the State Council for at least four other social insurance schemes;
- the limited scope of coverage, which has not yet reached rural women, female staff of township and village enterprises, government organizations and public institutions, let alone informal-sector workers and the unemployed;
- uneven development, with coverage rates ranging from 60 to 99 per cent;
- the lack of a nationwide unified policy for the collection of contributions, rate of contributions and eligibility criteria;
- the inadequate scope of fund expenditure, due to a tendency towards increased numbers of caesarean births instead of natural ones, and a need to guarantee and enhance paternity rights.

In November 2011 the State Council’s Legal Office publicized for public scrutiny its draft Regulations on Special Labour Protection for Female Workers, which proposes:

- to extend maternity leave from 90 days to 14 weeks in line with the provisions of the relevant International Labour Conventions; and
- to oblige those employers who have not registered for maternity insurance to cover the wages, maternity benefits and medical costs associated with birth and abortion as far as their female employees are concerned (Xinhuanet, 2011a).

By the end of 2011, a total of 138.92 million people or 38.68 per cent of the urban employed were participating in the maternity insurance programme, and a total of 2.66 million people received benefits the same year. Annual fund revenues and expenditures stood at CNY 22 billion and 13.9 billion, respectively, and the aggregate fund accumulations over the years reached CNY 34.3 billion (MOHRSS, 2012a).

Table 4.11. China: Coverage extension under maternity insurance schemes, 2006–2011

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Total number covered (millions)</td>
<td>64.59</td>
<td>77.75</td>
<td>92.54</td>
<td>108.76</td>
<td>123.36</td>
<td>138.92</td>
</tr>
<tr>
<td>Annual growth (%)</td>
<td>20</td>
<td>19</td>
<td>18</td>
<td>13</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Benefit recipients (millions)</td>
<td>1.08</td>
<td>1.13</td>
<td>1.40</td>
<td>1.74</td>
<td>2.11</td>
<td>2.65</td>
</tr>
<tr>
<td>Annual fund revenues (CNY billions)</td>
<td>6.2</td>
<td>8.4</td>
<td>11.4</td>
<td>13.2</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Annual fund expenditures (CNY billions)</td>
<td>3.7</td>
<td>5.6</td>
<td>7.1</td>
<td>8.8</td>
<td>11</td>
<td>13.9</td>
</tr>
<tr>
<td>Aggregate Fund accumulation (CNY billions)</td>
<td>9.7</td>
<td>12.7</td>
<td>16.8</td>
<td>21.2</td>
<td>26.1</td>
<td>34.3</td>
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4.4. Key challenges and solutions

In spite of the rapid expansion of social security coverage in China, little is known to date about how the Chinese social security agencies have addressed key implementation challenges along the way. Mr Xiaoyi Hu, Chinese Vice-Minister for Human Resources and Social Security and former Director-General of the Chinese Social Insurance Administration, declared at the 2010 World Social Security Forum that the success of the Chinese social security schemes depends 30 per cent on the policy and legislation but 70 per cent on the implementation. This section seeks to present a picture of Chinese practices and innovations in tackling administrative, institutional and organizational challenges, as well as the issue of sustainability.

4.4.1. Administrative issues

*Compliance and collection of contributions.* Compliance and the collection of contributions are of vital importance to all contributory social security schemes. In China, provincial governments have been authorized since 1999 by the Provisional Regulations on Collection of Social Insurance Contributions to decide whether social insurance contributions should be collected by the local social insurance agency (whose administrative expenses are also covered by the government budget) or the tax authorities. As a result, by early 2011 the collection of contributions was carried out exclusively by social insurance agencies in 51.3 per cent of the areas, and by tax authorities in 8.1 per cent of the areas, while in other areas it was carried out by both types of agencies. Article 59 of the Social Insurance Law, which came into effect as of July 2011, stipulates that:

Collection of social insurance contributions shall be carried out in a consolidated way. The steps of implementation and the concrete approaches in this regard shall be regulated by the State Council.

Article 86 provides that the failure of an employer to pay social insurance contributions on time and in full will result in a daily overdue payment fine at the rate of 0.05 per cent. In case of non-payment at the expiry of the prescribed period,

a fine above the overdue amount but less than its triple shall be demanded by the authoritative administrative department.

Furthermore, Article 88 stipulates that:

For any offence of making fraudulent claims for social insurance benefits through cheating, fake documentation or other means, the social insurance administrative department shall order a return of the social insurance benefits defrauded, and levy a fine larger than double but less than five times of the amount defrauded.

In November 2011, MOHRSS publicized a proposed draft Regulations on Collection of Social Insurance Contributions to solicit public opinion. New provisions include the integrated collection of contributions for five social insurance programmes, the option of online declaration, and the extension of the scope of coverage to individual participants under different pension and health insurance schemes. In many regions, contributions to five social insurance programmes have been or are to be collected in an integrated way, and both enterprises and individuals can make their contributions via the bank or post office network, online banking or the collection agency’s front
desks for customer services. Innovative measures in the collection of contributions include data exchange among different authorities, flexible contribution basis and payment schedules (annual, semi-annual, quarterly or monthly payment for some groups), reduced contribution rates for pensions of the self-employed, deferred or reduced payment for hard-hit enterprises during the crisis, bundled participation for the family as a unit for rural pension and rural health care schemes to avoid adverse selection, government contribution subsidies for vulnerable groups, linkage of business licences to social insurance registration and payment of contributions, and online transactions.

**Information and communications technology.** ICT constitutes a key element in enhancing efficiency, extending social security coverage and guaranteeing the safety of social insurance funds. The grass-roots information system has suffered in general from scattered construction and non-unified standards, posing a challenge for the integration of resources. Statistics show that in 2008, an average of only CNY 29,000 was spent on ICT by each social insurance agency (provincial, municipal and county levels) with only CNY 18,100 at the county level; nationwide, there was an average of only 1.14 ICT personnel for each social insurance agency, with 3.13 on average for provincial level agencies (Xu, 2010).

Due to the proliferation of different schemes and different information systems, as well as competition for insurance resources, there has been a common problem of double health insurance coverage for certain groups such as rural migrant workers, rural enterprise workers, and rural students studying in urban areas. Some newspapers reported in 2010 (see for example Beijingtimes, 2010) that this percentage was as high as 10 per cent, which would mean that the Government would have to spend an extra CNY 12 billion that year in double subsidy for urban and rural residents’ health insurance, based on the per capita subsidy of CNY 120. This phenomenon has been curbed with the help of a modern social security card system based on personal identity numbers, and the promulgation of policies banning double coverage of any person for the same social security branch.

With the completion of the first phase of the government-funded e-governance programme titled the “Golden Social Insurance Information System Project”, an information network connecting the central, provincial and municipal governments has already been established, and over 95 per cent of insured persons have realized real time settlement for medical expenditure, under which they pay only their individual share while the rest is to be settled between the social insurance agencies and service providers. A total of 199 million social security cards had been issued nationwide by the end of 2011; the number is scheduled to reach 349 million by the end of 2012 and 800 million by the end of 2015. While mainly used at present for the real time settlement of medical expenses, the new type of multi-purpose social security cards will be loaded with financial functions and allow their holders to complete a variety of tasks, including making social insurance contributions and disbursing social insurance benefits and special employment subsidies, as well as withdrawing money from their bank accounts and transferring money between localities.

**Social insurance agencies.** The rapid extension of coverage from urban to rural areas has put tremendous pressure on social insurance agencies nationwide, especially in terms of delivery of benefits and services. The current structure, based mainly in urban areas and relatively weak in rural areas, can no longer meet the requirement of a system covering both urban and rural areas. Limited staffing size is one of the constraints; social insurance agencies nationwide currently employ only around 150,000 people. Statistics show that, on average, each social insurance agency
staff member was serving 5,767 people by 2010 (and in some cities one staff member has to serve 20,000 to 30,000), far higher than the international average of 1:1,000–2,000. Front-line staff have been plagued by excessive workloads and inadequate training, and service quality is often poor. Some local social insurance agencies also face a shortage of funds in conducting their routine work (Xu, 2010).

In March 2010 the MOHRSS issued a guideline requesting all local authorities to:

i. build an integrated public labour and social security service platform and network at street, village, township and community levels throughout the country by 2012, and establish street and township platforms with a ratio of one staff member per 6,000 people to be served; and

ii. fully implement the social security system nationwide between 2013 and 2015, so as to realize the objectives of standardization, professionalization, digitalization and networking, and enable both urban and rural residents to have easy access to nearby public employment and social security services.

In 2010 the central Government decided to invest a total of CNY 5 billion in a pilot to build employment and social security service facilities in 162 counties in the central and western part of China. In January 2011 two social security standards, one titled “General Provisions on Social Insurance Services” and the other “The Facility and Equipment Requirements of Social Security Service Centres” were examined and technically approved by the National Technical Committee on Social Insurance Standardization. The first stipulates the fundamental principles of the services, together with system, guarantee, delivery and supervision requirements, as well as basic requirements for assessment and improvement; the second sets standards concerning overall construction requirements, selection of sites, scale of construction, internal functions and equipment requirements, among others, for different levels of service centres.

Meanwhile, many social insurance agencies have also devoted much effort to improving online social security services, training their staff in a systematic way and exploring the outsourcing of certain services so as to save administrative resources and enhance service efficiency. Also encouraging is the effort in many places, such as in the cities of Chengdu and Hangzhou, to integrate the various social insurance agencies covering different social groups for the same risk, in order to provide one-stop services.

Management of contributory social insurance funds. The management of contributory social insurance funds remains a hard nut to crack for Chinese social insurance agencies. On one hand, there are a few thousand fragmented schemes administered at provincial, municipal and county levels. Some coastal provinces such as Guangdong have accumulated enormous savings, while less developed areas have to rely on central government subsidies just to ensure the timely payment of pension benefits. On the other hand, social insurance funds have been growing continuously over the past few years. By 2010 the five social insurance funds (excluding the NRCMS) had accumulated total assets of CNY 2,388.6 billion. Unlike the diversified investment profiles of the annuity funds and the non-contributory social security reserve fund, social insurance funds can be deposited only in state-owned banks or used to purchase domestic state bonds, and thus come under pressure to ensure that there is no reduction in fund values in real terms. To solve the problem, the Government has anticipated a national pooling of pension funds by 2015 and plan to gradually put in place
provincial pooling of funds for other branches. New regulations on the investment of contributory social insurance funds are being formulated to allow for diversified investment, with reference to the experience of annuity and non-contributory funds. Reportedly, the State Council approved in March 2012 the proposal of the Guangdong provincial government to entrust investment operations of its CNY 100 billion pension fund surplus to the National Council of Social Security Fund (NCSSF), which is allowed to diversify its investment portfolios and has recorded a much higher investment return over the past ten years. In 2011, for example, the NCSSF managed a total of CNY 54.36 billion of entrusted provincial pension funds (mainly as central government subsidy for recapitalizing the individual accounts), and achieved an investment return of 10.17 per cent, 8 per cent higher than the annual inflation rate. More provinces are expected to follow suit.

4.4.2. Implementation and organizational issues

Recent years have witnessed marked progress in tackling institutional fragmentation, the issue of portability, and coordination among various schemes covering the same or multiple social security branches.

Under the traditional social security administrative structure, officials working at county, municipal and provincial social insurance agencies are professionally guided by a higher level of authority but are appointed by the same level government. Article 72 of the Social Insurance Law stipulates, however, that:

A social insurance agency may, given its workload, set up branches and service network units within the pooling district with approval from the local social insurance administrative department and the local public sector reform commission. Personnel expenses of a social insurance agency, its essential operational costs and administrative expenses shall be appropriated from the government at the same administrative level as the agency in accordance with national provisions.

Aside from the previously mentioned planned upgrading of social insurance fund pooling levels, some provincial and municipal social insurance agencies (such as in Tianjin) have also implemented pilots on vertical management structure under which the provincial/municipal social insurance agency directly appoints the staff at different levels, administers all funds and collect all contributions in an integrated way. In other places, such as the provinces of Shaanxi, Heilongjiang and Jilin, a provincial vertical structure has already been put in place in terms of basic old-age insurance management. Such a development is conducive to the anticipated national pooling of the basic pension fund and may eventually lead to a vertically-structured national social insurance administration in the years to come.

While the Ministry of Health is responsible for the rural health insurance scheme and the rest lies with the MOHRSS via social insurance agencies, the management functions for rural health insurance in many places (such as Ninxia, Wenzhou and Kunming) have been transferred to the social insurance agencies so as to enhance efficiency and provide integrated services. In Hangzhou city, the functions of the New Rural Cooperative Medical Scheme and the medical assistance programmes (formerly managed by the health and civil affairs authorities) were transferred in January 2011 to the Municipal Medical Insurance Centre, which has been exercising an integrated management of all medical care programmes according to the principle of the same treatment for people in the same city. The so-called “five-ones” (one information network, one-stop service, one social security card, one display screen and one promotion board) provided by the Centre have greatly relieved
the medical burdens of the municipal residents. The municipal government provides each year a subsidy equivalent to 0.5 per cent of the contributable basis to the urban basic medical insurance fund; government subsidies account for over 60 per cent of the annual per capita premium for the non-employed residents’ medical insurance programme. The medical insurance contributions of the prescribed vulnerable groups are fully financed by the government, such municipal budget subsidies totalling CNY 350 million in 2010 (Wang, 2011).

The Social Insurance Law has made clear-cut stipulations on the portability of pension and medical care benefits. For people who have worked across different pooling districts, the basic old-age and health care insurance relationship shall transfer together with the insured persons, and their lengths of contribution payment shall be cumulative. In the case of pension, the benefit shall be calculated in separate tranches corresponding to the phases of contribution payments, and paid in integrally as an aggregate. In 2010, the MOHRSS provided guidance on the portability of social insurance benefits through the following documents:

- The methods of transferring and continuing the relationship for the basic old-age pension of urban enterprise workers;
- The provisional measures on transferring and continuing the relationship for the basic medical security of mobile people engaged in employment; and
- Opinions on interregional medical settlement service concerning the basic medical insurance.

The second document bans double participation in medical insurance schemes and double claims of medical insurance benefits. In 2011, social insurance agencies nationwide processed 780,000 cases of basic pension transfers and 440,000 cases of health insurance transfers across the provinces. Twenty-five provinces conducted interprovincial direct settlement of medical expenditure claims.

4.4.3. Sustainability issues

The Chinese social insurance system is facing a multitude of sustainability challenges. First is the huge amount of unfunded basic pension liability, estimated by the former Ministry of Labour and Social Security in 2005 to be as much as CNY 6 trillion over the next 30 years. This has been mainly caused by the rapid ageing of population, the disruption of the system and the subsequent transition towards a partly funded system without government funding for the middle aged and those already in retirement. Consequently, the current generation has to pay an extremely high contribution rate to support the retired generation while at the same time saving for their own pensions. In some places the individual pension accounts, although designed as a funded defined contribution scheme, remain largely empty because nearly all revenues have been spent to fulfil current pension obligations. According to a newspaper report (Guangzhou Daily, 2012), among the CNY 1.9 trillion total individual account value nationwide, only 203.9 billion had been recapitalized by the end of 2010, representing a funding gap of CNY 1.7 trillion; a World Bank report estimated the Chinese pension fund gap between 2001 and 2075 to be as high as CNY 9.15 trillion; the first 10-year pilot to recapitalize individual accounts in Liaoning Province proved a failure; and the Chinese pension system calls for a second round of reforms.

A second challenge for sustainability is the fragmentation of social insurance schemes according to urban and rural household registers, the public and non-public nature of establishments and areas of administrative jurisdiction, which tends to result in little pooling of risk, limited redistributive
impact and high administrative costs, as well as barriers which prevent people from moving from one place to another and between different schemes. A rising problem is the increasingly heavy financial burden on local governments in the course of welfare competition among different localities to expand coverage and improve benefit adequacy via excessively high government subsidies.

A third challenge is the issues of moral hazard and adverse selection in the voluntary insurance schemes, including the new rural and cooperative medical schemes and the urban residents’ pension and health insurance schemes.

Last but not the least is the drastic need to formulate effective measures to guarantee the maintenance and increment of the value of the contributory social insurance funds.

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To tackle these issues, the Chinese Government has taken the following steps:

1. In 2001 it established the National Council of Social Security Fund (NCSSF) to manage a strategic reserve fund called the National Social Security Fund (NSSF), which is non contributory and financed through central budget appropriations, social welfare lottery income and the proceeds of divestiture of state-owned enterprises, among others. The main purpose of the reserve fund is to cover the basic pension funding gap when the ageing of the Chinese population peaks in about 15 years time. By the end of 2010, the NCSSF operated a CNY 856.69 billion fund (including 58.10 per cent in direct investment and 41 per cent as an investment asset mainly entrusted by the provincial governments), and reported a 9.17 per cent annual average capital gain over the past ten years (NCSSF, 2011).

2. It plans to build a national basic pension pooling fund by 2015 and gradually realize the provincial pooling of funds for other schemes and the integration of both urban and rural schemes.

3. It has enhanced portability of pension and medical insurance benefits through the promulgation of a series of new rules and stipulations.

4. It has increased social transfers to less developed regions: in 2010, the social transfers from the central budget accounted for 56 per cent of the total and amounted to CNY 2.73 trillion, which is 11.45 times of the figure in 1994 (Xinhuanet, 2011c).

5. It has actively explored the feasibility of increasing the retirement age. In 2010 Shanghai, the city with the highest old-age dependency ratio in China, piloted a flexible retirement age to allow options for urban males to work until 65 and females until 60. Experts estimate that an increase of one year in the retirement age will result nationwide in an extra CNY 4 billion of annual revenues and a saving of CNY 16 billion as pension expenditure. Due to the heavy pressure on the existing job market for young people, however, such a pilot has not yet been implemented elsewhere (Lin, 2011).

6. It has striven to maintain and increase the value of contributory social insurance funds (see Management of contributory social insurance funds above).
4.5. Conclusions

In the context of a trend towards integrated and coherent social security policies, the scope of social security coverage has expanded from urban to rural areas, from state-owned enterprises to all types of establishments, and from salaried workers to people engaged in flexible types of employment and non-employed urban and rural residents. By the end of 2011, non-contributory social assistance programmes including the minimum subsistence guarantee programme and the medical assistance programme had been implemented nationwide; pension programmes covered about 50 per cent of the population and medical insurance programmes over 95 per cent.

Among recent improvements in benefit adequacy and service quality are the introduction of unified social security cards; a more than doubling of the basic pension benefit in six years; and an increase in the medical reimbursement ceiling from 4 to 6 times of the previous year’s average income under the different medical insurance schemes.

The recent evidence of developments and achievements in the extension of social security coverage in China can be attributed mainly to the following enablers, which may prove useful and inspiring to other developing countries in their own extension efforts:

- an accelerated pace of social security legislation to deal with system absence for excluded groups and move from selective schemes to inclusive and universal programmes;
- active fiscal and labour market policies;
- piloting and gradual expansion in line with prudent planning and evidence-based research;
- a strong political will demonstrated through special campaigns and the inclusion of coverage extension in national socio-economic plans;
- increasing social transfers from the central budget and subsidies from the government for vulnerable groups;
- enhanced efforts to tackle fragmentation of schemes and improve adequacy and portability of social insurance benefits;
- the increasing application of ICT and other administrative innovations;
- the constant pursuit of good governance and improved administrative performance of social security organizations.

In spite of these marked achievements, however, tremendous challenges remain ahead for the Chinese social security system in terms of upgrading levels of pooling, integrating fragmented schemes, strengthening grass-roots service networks, enhancing the portability and adequacy of social insurance benefits, resolving the issue of long-term sustainability in the context of the rapid ageing of the population, urbanization and diversification of employment patterns, and extending social security coverage to the whole population. Programmes targeted to disability, survivor and family benefits, and long-term care are yet to be fully developed. In view of the low per capita GDP and the gaps between different regions and social groups, improvements in benefit adequacy and service quality must take national circumstances into account and be implemented in a phased manner. While government-led social insurance and social assistance programmes have developed rapidly, due attention should be given to sustainability and proper linkages among the different programmes (especially those covering the same social risk), and much is yet to be achieved in terms of the development of other pillars.
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