

People's Republic of China

Review of the urban social security system

Pension insurance, unemployment insurance, health insurance, maternity insurance, employment injury insurance and sickness and invalidity benefit provisions

**Regional Office for Asia and the Pacific
Multidisciplinary and Advisory Team for East Asia
Social Security Department**

2002

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Abbreviations and acronyms

BHIS	Basic Health Insurance System
BSIA	Bureau of Social Insurance Administration
BSIFM	Bureau of Social Insurance Funds Management
BSIM	Bureau of Social Insurance Management
CPI	Consumer price index
CCOCPC	Central Committee of the Communist Party of China
CCP	China Communist Party
CHIS	Cooperative health insurance system
DB	Defined benefit (pension approach)
DC	Defined contribution (pension approach)
DLSS	Department of Labour and Social Security
EII	Employment Injury Insurance
GHIS	Governmental health insurance system
HI	Health insurance
IB	Invalidity benefit
ID	Identification
ILO	International Labour Organization
IMSA	Individual Medical Savings Account
IT	Information Technology
LHIS	Labour health insurance system
MI	Maternity insurance
MOC	Ministry of Construction
MOCA	Ministry of Civil Affairs
MOE	Ministry of Education
MOF	Ministry of Finance
MOLSS	Ministry of Labour and Social Security
MOP	Ministry of Personnel
MOPH	Ministry of Public Health
NaCSSeF	National Council for Social Security Fund
NSSF	National Social Security Fund
OSH	Occupational safety and health
PAYG	Pay-as-you-go
PCs	Personal Computers
PF	Pooling Fund

P.R. China	People's Republic of China
ROSC	Reforming Office of the State Council
RMB	Renminbi yuan
SAR	Special administrative region
SAW	Social average wage
SB	Sickness benefit
SDMB	State Drug Monitoring Bureau
SDPC	State Development and Planning Commission
SETC	State Economic and Trading Commission
SFPC	State Family Planning Commission
SIFAB	Social Insurance Fund Administration Bureau
SIA	Social Insurance Administration
SIF	Social Insurance Fund(s)
SIL	Social Insurance Law
SOE	State-owned enterprise
SS	Social Security
STB	State Taxation Bureau
STCMB	State Traditional Chinese Medicine Bureau
TFR	Total fertility rate
TVE	Township and village enterprise
UCHS	Urban community health services
UI	Unemployment Insurance
USD	United States dollar
WTO	World Trade Organization
WS	Work safety

Currency and exchange rate

As of January 2002, 1 yuan renminbi equals 0.12 USD.

Foreword

This report is part of the *Memorandum of Understanding* concluded between the ILO and the Ministry of Labour and Social Security in 2001. It constitutes a technical review on all social security schemes of the MOLSS in China PR. Its focus at the national level is completed by an explicit review of provincial experiences for Liaoning in the North-East, Guangdong on the central East Coast and Sichuan in the South.

The report has been completed under the supervision of Ms. Anne Drouin, Social Security Specialist, Multidisciplinary Advisory Team for East Asia, ILO, Bangkok. The following international social security specialists have provided inputs to the report: Mr. Lawrence Thompson on policy and institutional aspects, Mr. Pierre Plamondon on pensions, Mr. Mike Whitelaw on administration, Mr. Gylles Binet and Mr. Roland Longchamps on employment injury insurance finance and policy, Mr. Kenichi Hirose on statistics and actuarial aspects, Mr. Jose Nicolas on investments, Mr. Christian Baeza and Ms. Aidi Hu on health insurance and Ms. Anne Drouin on pensions and unemployment insurance. A national team of 13 government experts from various public institutions, coordinated through the National Academy of Social Insurance of the MOLSS and under the supervision of Mr. He Ping, provided a series of national papers published under separate cover.

The report has been translated into Chinese by Mr. Lin Yutong of MOLSS and is available upon request. All relevant technical departments of the MOLSS in Beijing and provincial offices in Liaoning, Guangdong and Sichuan provinces reviewed and commented on the draft. Their comments have been duly reflected.

The Director-General of the ILO wishes to extend his deep gratitude to the Minister of Labour and Social Security of the People's Republic of China for his valuable support extended throughout this project.

Executive summary: Problem identification and priorities

The present study highlighted several areas of concern for developing an efficient and harmonious social insurance system in China. The Executive Summary focuses on priority areas and recommendations for future action.

Extending personal coverage of social security

The legal coverage under the different programmes of social security has significantly extended over the recent years as the enterprise-based administration of social security is shifted to local governments. However, it is still far from universal, and in reality, there is a big gap between the legal coverage and the actual one. The coverage issue can be divided into two categories, each requiring a different strategy.

Extension of the actual coverage of legally insured persons

Limited coverage in this situation may be due to the weak administrative capacity of the social security agencies, including:

- Inadequate social security business processes and public information;
- Inadequate number of staff, their lack of knowledge, experience and training often resulting from insufficient budgetary allocations to the development of human resources; and
- Absence of a national IT information network often resulting from insufficient budgetary allocations to the IT infrastructure at the local level of administration.

Capacity building would be a practical solution to the problem and would ensure an acceptable and sustainable compliance in the long term.

Another issue is the need to mobilize additional financial resources from alternative sources, other than employer/employee contributions, so as to assist better enterprises facing economic hardship, such as state-owned enterprises (SOEs). In this respect current measures such as by way of allowing the payment of lower contribution rates are observed to still remain insufficient. The ILO conventions and international best practices should be investigated.

Business process reviews

The project can help to review the processes used to register employers, collect, store and retrieve information, take benefit claims and process benefit payments. In most branches of social insurance, the current processes were developed at a time when the social insurance agencies dealt almost exclusively with the personnel offices of a limited number of large, SOEs; workers spent their entire careers with one enterprise; records were maintained at the enterprises; and most claims processing tasks were performed by hand. Currently, these processes also vary from one location to another.

The economic reforms have changed the structure of industry and the pattern of employment. It is no longer reasonable to assume that workers will spend their entire careers with one enterprise or that enterprises will assume the responsibility of maintaining employment records and the burdens of reporting data using inefficient

methods. The business processes also must be modernized and standardized if they are to be automated.

Business processes should be standardized, at least across an entire province. ILO should work with the provincial leadership to obtain agreement of all of the agencies in that province to jointly develop and adopt a modern set of business processes. ILO can then work with a team of users from throughout the province to analyse the current needs and develop a new set of business processes. The effort needs to be coordinated with other efforts to modernize administration, particularly to increase the degree of automation and develop standard software.

Infrastructure capacity-building of the HI system is necessary to ensure smooth implementation. It should consist of two components: human resources and the IT information/monitoring network, both of which are weak at present thus restricting the scope of effective coverage under the new HI system. Improving the IT information / monitoring system implies:

- Both regular operational monitoring and policy review depend on current data/information collected through the IT information network. Unfortunately, no regional / national-wide information /data networks exist and each scheme is trying to set up its own network using different standards. This has consumed considerable resources and has constrained the national authorities in analysing requirements for the new HI system.
- As regards technical assistance required by the MOLSS, this should include, redesigning, piloting and standardizing the scope and content of data/information collected via the information networks.

Social security compliance reviews

Compliance problems are the single greatest barrier to extending coverage of pensions and unemployment insurance among urban enterprises, are a major barrier to improving coverage in the other social insurance branches, and undercut the financial condition of all programmes. Compliance issues arise in at least four different areas. First, individuals and employers who are covered under the laws and regulations fail to register, leaving them and their employees completely outside of the systems. Second, employers who are registered fail to report all of the employees that ought to be covered, which apparently is a particular problem with respect to rural migrants. Third, employers do not report earnings and/or contribution liabilities accurately or timely, undercutting the financial basis for each branch of social insurance and the future pensions of affected workers. Fourth, contribution liabilities that are acknowledged are not paid.

Improving compliance requires addressing each of these four different issues. Chinese officials recognize these problems and have initiated actions to address many of them, but serious problems remain. The various procedures now being used to register, audit and enforce the participation requirements therefore should be reviewed to assess their effectiveness and efficiency. In addition, the review should assess the adequacy of public information efforts, the ease with which those who want to comply are able to do so, and any other barriers to voluntary compliance. It should also assess possibilities for forensic auditing, which involves determining whether enterprise reports appear plausible, given other information that can be gathered about the enterprise's operations. In addition, it should examine the collection authorities available to the social insurance and/or tax authorities and their internal processes for using these authorities.

Social security staff training

Each of the social insurance institutions visited identified training as one of its most pressing needs. Topics mentioned by local and provincial officials included: general social insurance principles; general management principles; accounting; planning; personnel management; computer hardware and software usage; policy analysis; international experience; and specific techniques for improving the operation of each branch of social insurance and assistance. Officials responsible for the employment services agencies are interested in training on vocational assessment methods.

The ILO could develop a comprehensive training strategy and assist the provinces in implementing that strategy. The strategy could include the creation of a permanent training capability in each province, both in terms of a physical location and in the creation of a cadre of qualified trainers. General training could be undertaken fairly quickly. Training in specific procedures and techniques should probably be developed in conjunction with the individual process and procedure reviews discussed elsewhere.

Human resources development under the Health Insurance system. As described before, this BHIS is entirely new, and so is the supporting staffing and organizational structure. According to a recent survey conducted by the Social Insurance Institute of the MOLSS, 40 per cent of the staff and 20 per cent of middle and senior managers have only high-school education, and few have any education or experience in health care or health insurance. Since the development of the HI system is both a national priority and a long-term undertaking, an occupational training programme should be established as soon as possible.

A project proposal in this regard was formulated and submitted by the HI Department of the MOLSS in November 2001. This proposed the establishment of a national HI training base, which would carry out short and long-term occupational training/education programmes, and research and international exchange programmes. It is planned that, gradually, all managers and staff would be trained, and that completion of a training programme would be one of the basic conditions for recruitment and promotion in all HI departments and agencies. It is estimated that the project would need three to five years to be completed. Training trainers, developing training materials and programmes, and the construction of the training centre, would form the immediate objectives of the project.

Review of the social security appeals system

The government has just implemented a new system that responds to individual appeals, which disagree with decisions originally made by the social insurance agencies. A different section of the local agency is relied upon by the system to review the dispute and reach an independent assessment.

Officials at the Central Government suggested that a review of the new arrangements – accessing equity, efficiency and client satisfaction – would be helpful to the Government.

Extension of legal coverage to excluded groups of the population

This category can be further divided into urban residents and rural residents. Of those residing in urban areas, employees and retirees of township and village enterprises (TVEs) and the self-employed and their employees are excluded. Dependents of insured people are also generally excluded notably under the Health Insurance system.

Study of coverage of township and village enterprises

Under the social insurance legislation now being developed, provincial-level governments will have the option to extend coverage of each of the social insurance programmes to township and village enterprises. Some provinces, such as Guangdong, have already extended coverage to TVEs whereas other provinces, such as Liaoning, have not. TVEs appear to be quite a heterogeneous set of institutions and information about their financial conditions, wage levels, workforce characteristics and benefit coverage is scarce. There is some disagreement as to whether their workers should obtain pension coverage under the general urban programme, under the voluntary pension programme, or under a new programme designed especially for the TVEs. Similar options are available for health insurance coverage.

It is stipulated in the regulation that it is the discretion of local governments to determine whether or not to insure employees and retirees of TVEs, self-employed and employed workers, on a compulsory basis, in particular for the initial stage of the implementation of the BHIS. In consequence, most local authorities have opted to exclude them. However, an eventual extension to categories should be considered and included in the development strategy on the various programmes of social security.

A study that focused on the coverage needs of the TVEs could help provincial officials decide how best to offer social insurance protection to the TVE employees in their provinces. One useful step is to gather better information on financial conditions, wage levels and workforce characteristics to assess both the social protection needs of the workforce and the financial capacity of both employers and employees. The study may need to develop a system for categorizing TVEs if it becomes obvious that the situation in some is dramatically different than the situation in others. The study could compare the situation in Guangdong and Liaoning Provinces, where different policies are now in effect.

Study of rural voluntary pension programme

The programme for voluntary rural pensions is now at a crossroads. After being launched in the early 1990s and experiencing a period of early growth, it has been stalled by a shift in responsibility from one ministry to another, by concerns about its financial condition, the quality of its administration, its effectiveness in providing income support, and by debate about the wisdom of using alternative arrangements, perhaps involving private insurance companies. There is not very much information currently available about how the current programme is operating, other than some highly aggregated information on financial flows. Nor is there much information about how alternatives might operate.

A study of rural voluntary pensions should focus on one of the provinces where the pension system has been implemented fairly completely, such as Liaoning Province. For a sample of households or localities, it should develop information on the distribution of accounts by size of account, size of projected pension, and the source of the account's contributions. Potential liabilities associated with the operation of the plan in several representative locales should be assessed and compared to the assets available for meeting these liabilities.

The study should also assess the quality of the programme's administration and the potential for the private sector to take over the operation of the programme. It may be that pilot programmes can be designed that would test the scope for improving the administration of the current programme and the likely interest among private sector firms in operating such a programme.

A study should also address the potential linkage between the rural pension and health insurance programme and possible future liabilities under the minimum income guarantee. Are the people likely to be eligible for benefits under the minimum income programme

similar in demographic and economic status to those who participate in the voluntary pension programme? Might some degree of government subsidy to promote voluntary pensions reduce the liability for future minimum income payments?

Some HI programmes exist in rural areas through local initiatives; they are generally excluded from the SHIS as the latter is specifically designed for the urban population. There is a need to investigate the situation in terms of their needs and financing abilities, existing local initiatives and their advantages and disadvantages, which would help formulate and establish a national framework on strategies for HI development for the rural population.

Study of the extension of health insurance for dependants of insured persons and retirees

Protection for dependants of the insured, (particularly children), is not mentioned in any legal documents on the BHIS. In practice, they are excluded and it is argued that they should still get health protection under the old system. But in practice, few are continually insured on this basis. Employer-liability systems are not reliable, and there is no such legal liability imposed on employers. Extending the coverage to children should become a top priority. One option would be to convert the “pupils/students’ health and life insurance programme” run by commercial insurance companies, into the package of the BHIS. Coverage under this type of programme is quite broad or even universal in certain cities.

It is important to review the provisions continuing to provide health insurance coverage to retired insured persons to ensure their adequacy.

Study of coverage of migrant workers in urban areas and small cities and portability of social security

The project should focus on the improvement of legal provisions and actual measures to effectively provide social security coverage to migrant workers from rural to urban areas.

In this vein, the project should investigate the way in which portability of social security entitlements could be improved as workers are no longer expected to work for the same employer throughout their entire working life.

Policy development

Social Insurance policy development

Chinese officials requested technical assistance in encouraging and controlling private programmes that complement and/or supplement the publicly-managed social insurance programme. In particular, assistance was requested in encouraging the development of voluntary occupational pension plans and individual retirement savings programmes and in regulating these plans. There is also a need to analyse the interaction between public medical insurance and the supplemental health insurance programmes that the government is now encouraging. It is important to assure that reimbursement policies are coordinated and risks are managed efficiently.

Need for monitoring and evaluating new HI model

As the BHIS includes an individual medical savings account (IMSA) component, there are theoretical considerations with regard to the efficiency and equity of using this mechanism instead of the full pooling of resources. Nevertheless, this arrangement is

innovative and unique, and it is difficult to make any clear judgement before the full data has been collected. The only similar system is in Singapore and very limited data is available regarding this system, which does not provide an empirical basis for recommending the elimination or substantial modification of the IMSA component. Furthermore, there are significant differences between the two countries, which make comparisons difficult.

The issues of its efficiency and equity, its social and economic implications (especially on the extension of coverage), the adequacy of HI benefits provided, the average and maximum financial burdens imposed on individuals and its cost containment must be addressed. This should be based on the collection of solid and comprehensive data and a quantitative and qualitative analysis. The BHIS would essentially benefit from such an assessment.

The assessment requires additional data/information, and this should be integrated into the overall IT information system so that such an analysis could form part of the monitoring mechanism.

An overview of the public and private health protection system

While the Government is concentrating on the establishment of a public HI system for the urban working population, only limited attention has been paid to other forms of health protection provisions, such as commercial health insurance policies, supplementary schemes conducted by trade unions, industries/enterprises or other social organisations.

However, according to international experience, there should be an interaction between public and private schemes. In particular, the potential impact of commercial insurance in the HI field should be taken account the role of the private sector. This includes the need for a regulatory framework for private health insurance.

In China today, the share that commercial HI schemes have obtained is significant and entrance to the WTO will certainly reinforce this. The formulation of a national HI policy and regulatory framework requires a comprehensive overview, analysis and assessment of all public and private HI schemes as part of the health protection sector. To do this, certain additional data/information would be required.

A related technical assistance proposal has been requested by MOLSS).¹

Review of the social assistance programme under the Ministry of Civil Affairs

The minimum income guarantee programme is a unique commitment among developing countries to addressing poverty directly. It is operated at the lowest level of the Chinese government structure. Officials at provincial level Civil Affairs offices expressed interest in assistance to review how the programme is operating with the objective of improving both programme design and programme management.

Assistance in programme management would include reviewing current procedures for publicizing the programme, taking claims, verifying the accuracy of the information

¹ Reference is made to the *Project proposal on studying the multi-pillar HI system*, MOLSS, Nov. 2001.

submitted by claimants, and reviewing recipients for continuing eligibility. Officials are also interested in any assistance ILO can give in automating the processes used to process claims, track cases, and manage the programme. Officials are also interested in reviewing current procedures for setting benefit levels, factoring asset holdings into eligibility decisions and valuing assets.

Review of the EII system

A policy review of the benefit design and financing provisions of the EII system should be completed in line with an administrative review.

Concerning rehabilitation services, a clear need has been expressed for technical assistance in rehabilitation. The fields of technical assistance that may be proposed:

- How to determine the needs for rehabilitation for an injured worker;
- How to develop the availability of physical rehabilitation services either through specialised centres or through specialised department in hospitals;
- How to provide vocational rehabilitation services to injured workers.

The training of staff at management and operational level (not related to computerization) could include:

- Identify the procedures and practices that need to be clarified;
- Design the appropriate guidelines at the state and provincial levels;
- Develop a training programme for the staff at the operational level.

Review of the management of Social Insurance Funds

The project would provide assistance towards the following:

- Standardize at the provincial level, in accordance with the Central Government directives, the regulations and the administrative processes related to social insurance funds;
- Provide assistance to MOLSS for the review and drafting of the social insurance law, namely on the subject of Social Insurance Funds (SIFs);
- Assist the Central Government on the drafting of legislation on supplementary pensions;
- Review the fund management structures and fund flows (including 2-account system) and provide recommendations for efficient management;
- Review and analyse the impact of the liberalisation of interest rates on government financing of pension shortfall, capital markets and SOE reform;
- Review the supervisory committee structure and operations with a focus on governance, reporting structure and requirements and make recommendations;
- Prepare a feasibility study on the vertical integration of social security using Guangdong province as a case study;
- Review MOLSS, MOF and State council responsibilities for the management of SIF and propose an efficient management, supervision and regulatory structure;

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- Integrate into the “model office” concept, fund management as a way to minimize operation costs and increase operational efficiency;
 - Set up treasury/cash management capabilities and strategies for Social Insurance Administrations (SIAs)/financial bureaus;
 - Review the fund transfer mechanisms between relevant agencies and provide recommendations for increasing management efficiencies and minimize misappropriation risks;
 - Prepare a feasibility study for the segregation of social pooling and individual account using Guangdong province as a case study;
 - Strengthen the solidarity fund redistribution mechanism by reviewing accounting practices and enforcement capabilities;
 - Review and analyse the processes used for the determination of financing of shortfall of social security and evaluate the relevance of adopting a fixed formula for sharing between different level of governments;
 - Establish a fund management infrastructure for individual accounts in Liaoning province and provide appropriate tools and processes for management and investments;
 - Provide technical assistance to Guangdong province for the completion and implementation of the supervisory framework;
 - Review the current and proposed investment policies for SIF, supplementary pensions and NSSF in the context of China’s financial markets;
 - Design and propose a fund drawdown mechanism between MOLSS and MOF for the use of National Council for Social Security Fund (NaCSSEF);
 - Provide technical assistance on financial market reforms and on development of new financial instruments;
 - Develop a strategy to increase pooling level from counties and cities to provincial level;
 - Review the fund management practices and make recommendations on the establish of an integrated and consistent set of standards applicable throughout China;
 - Establish an efficient fund transfer system between tax collectors, financial bureau and social insurance agency;
 - Develop audit and reporting requirements to ensure good governance;
 - Strengthen institutional capabilities for capital market investments and risk management;
 - Strengthen institutional capabilities of regulators and supervisors;
 - Review flow of funds and institute cash management capabilities for financial bureau;
 - Strengthen Government pension management systems;
 - Development of the general accounting and analyses system for social insurance fund, including setting up accounting methods and unifying software developing standards;
 - Strengthen financial management and reporting, and social security accounting.

Strengthening the investment function of Social Insurance Funds

- Build capacity in the area of internal control procedures, Reporting/Disclosure, asset/liability valuation, assumptions, risk management, performance assessment and monitoring methods and procedures, benchmarks;
- Provide research and recommendations on investment and portfolio management strategies and policies, and risk management;
- Organize training sessions, seminars and study tours on fund investments, social insurance budgeting, asset-liabilities management, fund management operations;
- Assist in upgrading of university programmes in finance on relevant subjects;
- Provide assistance to NaCSSef on policymaking for the funds investments and the establishment of a min-max policy of yearly fund withdrawal;
- Provide assistance to NaCSSef on drafting special regulations to react adequately to social security crisis;
- Provide assistance to NaCSSef and to the State Council for support for the formulation of proper regulations for investment, management and supervision of SIF;
- Provide assistance to NaCSSef for the creation of investment products for international institutional clients;
- Review China's investment standards and guidelines for NSSF, SIF and supplementary pension investments;
- Develop appropriate regulatory and supervisory mechanisms for external management;
- Strengthening of governance of investment of social insurance funds, develop guidelines to prevent risk concentration or conflicts of interest;
- Develop strategy to integrate external management in the investment process;
- Design strategies for the development of private pension fund management industry;
- Strengthen the role of trade union and employers' representative in meeting their responsibilities to monitor social security performance. Provide assistance to trade union for policymaking and legislative review;
- Assist the government in developing strategies for the corporatization of SOE by establishing criteria for the selection of SOEs, identifying strategic investors and developing strategies for the sale of SOE share on local and international market.

Strengthen the functions of regulatory and supervision of Social Insurance Funds

- Build capacity for the improvement of supervision at every level of government;
- Setting up of a sound legal, regulatory and supervision framework for social security and insurance
- Provide assistance to Supervision Dept at MOLSS for policymaking and regulatory oversight;
- Provide MOLSS with training programmes on supervision topics (introduction to advanced topics);

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- Establish an information system to share supervisory information between province-Central-government and relevant institutions; set up a unit within the Supervision department for the analysis of information;
 - Review the relevance of establishing a pension supervisory body, independent of the administrative structure of MOLSS, responsible for the regulatory and supervisory aspects of market-based pensions: NaCSSEF, individual accounts and occupational pensions.

Review the overall structure of supplementary pensions

- Review the current state of supplementary pension in China and provide recommendations on the development of supplementary pension industry;
- Build financial assessment capabilities of MOLSS Supervision department;
- Provide assistance to MOLSS for additional regulations for the supervision and operation of supplementary pensions:
- Qualification criteria of investment managers;
- Investment regulations;
- Performance evaluation of investment managers;
- Reporting requirements from investment managers;
- Supplementary pension law and regulations.

Financial planning and governance

Global financial management review

Higher-level officials lack confidence in the financial integrity of some of the lower level social insurance agencies. They have instituted several reforms to address their concerns, including the shifting of responsibility for paying administrative expenses to local financed departments and the creation of the two-account system of handling pension contributions and benefit payments. The former may be a barrier to improving the efficiency and effectiveness of social insurance administration and the latter is cumbersome and not entirely effective.

There is a need for a thorough review of the accounting and financial management systems in the local and regional social insurance agencies. The review should assess the current arrangements in light of international standards for government accounting and financial controls. It should make recommendations for changes that would introduce international best practices while maintaining consistency with Chinese law and the administrative capabilities. The review should also develop recommendations for developing a financial reporting and management information system.

New financial management systems need to be developed and implemented in conjunction with the other information management and business process reforms.

Strengthening social security databases

The ILO can advise on the networking of the various institutions involved in the administration of social security. Appropriate linkages may be proposed between taxation authorities, social insurance agencies, banks, National Statistical Office to ensure an efficient flow of data for quantitative analysis.

To feed in a proper manner the actuarial and social budget models, the ILO can provide standards for the data collection adapted to the needs of the quantitative models. Blueprint of tables and standard procedures may be provided to make the collection and the interpretation of data more efficient. Procedures for data control and validation may be designed for the specific context of the Chinese social security system.

Capacity-building for actuarial modelling and budgeting

The ILO can develop actuarial pension models adapted to the Chinese environment, evaluate the long-term financial sustainability of the system, make sensitivity analysis (on coverage and unemployment levels, for example) and recommend appropriate approaches for the transition.

In addition, the ILO may build social budget models providing short-term financial forecasts of the various social security programmes, integrate them in order to provide the impact of social security programmes on government budgets at different levels. The exercise makes possible the analysis of various reform options, the design of financing options and the financial impact of each option on the government budget at each level.

Those models would be built so that they could easily be delivered to the national quantitative units to be implemented at the provincial and central levels.

Actuarial modelling of the health insurance system

There was a clear need expressed to develop China's actuarial valuation system for its Health Insurance system. The project should assist in the development of a national and then a provincial prototype model. This should be based on a review of the HI statistical reporting and data maintenance system.

The project should then test the HI actuarial model in the selected provinces and cities. Training should be provided for its application.

EII system: Actuarial, financial, rate-setting and statistical support

The project should serve to assist in the organization of a database and template for statistical reports and rate setting by:

- Identify the data to be captured;
- Design the reports needed for occupational safety and health (OSH) and rate setting purposes;
- Implement the processing of data including the quality check process
- Make a training programme for the staff involved in the activity
- The project should provide capacity building for assessing industry rates/ and design and/or monitor the experience rating system;

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- Provide actuarial training to the staff at state level and provincial level on actuarial techniques related to rate setting;
 - Test at the pool level the implementation of methodology with experience data.

The project should assist in the development of a system of valuation of liabilities and template for financial statements by:

- Organize the collection of data;
- Implement a methodology for the modelling and the establishment of assumptions;
- Perform the valuation and make the report;
- Develop the training programme for the technical staff involved in the operation.

***Establishment and capacity-building of quantitative units
in charge of social security financial policy support
and management***

There is a need to establish quantitative units composed of actuaries, economists and statisticians at the provincial and Central level to advise the government on the financial status of the various funds, on financing options and to provide a better view of the short-term and long-term trends in the finances of the various social security programmes.

It will be necessary to define the exact terms of reference of those units, where they will be established and to whom they will provide services.

Depending on their mandate, the next step will be to define the profile of the staff that will compose the quantitative units.

Those resources will have to be trained on the actuarial and social budget models, on the needs of those models in terms of data and on the statistical and performance analysis. Training on ILO actuarial and social budget models may take place in China or at the ILO headquarters under the supervision of ILO staff.

The ILO could also provide technical assistance for the creation of a training centre on social security in China.

1. Macro-economic and social protection content

China's social security system includes social insurance programmes covering old age, work injury, maternity, ill health and unemployment and a programme of cash assistance available to many low-income households. During the 1990s, each of these programmes experienced significant reforms, including changes in programme structure, financing, and coverage. Many of the reforms were necessary to adjust programme structures to the changing structure of the economy; some of them were designed to cut costs; and most of them have not been fully implemented yet. This chapter provides an overview of the Chinese social security system. It discusses the context within which the system currently operates and notes the reforms that are now being implemented.

1.1. Social and economic environment

A series of major economic reforms over the past quarter century have gradually introduced the system of market socialism to China and have produced both rapid economic growth and substantial structural change. Real gross domestic product grew at an average annual rate of over 9 per cent per year between 1980 and 2000.² The structural changes that produced and/or accompanied this growth have had important implications for China's social security system.

1.1.1 Agricultural reform

Reforms were introduced in rural China in the early 1980s that changed the way agriculture was organized and gave farmers more freedom to alter their economic activity. The reforms produced a substantial increase in agricultural productivity; for example, total grain production rose by 50 per cent between the early 1980s and the middle 1990s.³ At the same time, they created new social protection challenges for China.

First, an important element in the restructuring of agriculture was the dismantling of the collective institutions that had previously been the basis for organizing rural economic activity. These same institutions had also provided the mechanism for financing health insurance in rural areas, however, and their disappearance has all but eliminated health insurance coverage for rural residents.

Second, agricultural reforms led to an excess of labour devoted to farming, which led, in turn, to a tremendous increase in non-agricultural employment in rural areas. Employment in township and village enterprises – basically enterprises either owned or sponsored by rural governmental units – grew from 30 million in 1980 to 128 million in 2000. Between 1992 and 2000, employment in privately owned enterprises located in rural areas grew from 1 million to 11 million and the number of self-employed individuals rose from 17 million to 29 million.⁴ By 2000, almost as many people were employed in non-agricultural enterprises in rural areas as were employed in urban enterprises in urban areas. The growth of rural, non-agricultural employment has created a major gap in the social

² *Chinese Statistical Yearbook*, 2001, Tables 3-4.

³ *Ibid*, Tables 12-17.

⁴ *China Labour Statistical Yearbook*, 2001, Tables 7-4 and 7-7.

safety net, however, since the social security programmes generally do not cover most of these rural enterprises.

Third, rising agricultural productivity has fuelled rural to urban migration. The fraction of the Chinese population living in urban areas rose from 26 per cent to 36 per cent between 1990 and 2000. In these years, China's urban population increased by 50 per cent while its rural population declined.⁵ Some employers apparently try to avoid paying contributions for rural migrants under the urban social protection programmes on the assumption that the migrants are only temporary residents of the cities and don't need the protection.

1.1.2 Urban economic reforms

Reforms introduced in the early 1990s changed the structure and location of economic activity in the urban areas. The economy was opened up to allow new private enterprises and joint ventures with foreign partners, and these became the major engine of growth during the 1990s. The combination of competition from these private enterprises and the imposition of more binding budget constraints on the state-owned enterprises (SOEs) have caused many of the older SOEs and collectively-owned enterprises to shut down entirely. Those that survived have had to become more efficient and shed excess employees.

Between 1990 and 2000, aggregate employment in state- and collective-owned enterprises declined by 42 million, some 30 per cent, while employment in private corporations and among the self-employed rose by 38 million.⁶ It is widely expected that China's entry into the World Trade Organization (WTO) will lead to further declines in the state-owned and collective enterprises, which together continued to employ 96 million people in 2000. It may have a similar impact on the township and village enterprises.

The gains from the urban economic reforms have been concentrated in a limited number of provinces along the east coast of China, from Guangdong in the south to Beijing municipality in the north.⁷ Between 1990 and 2000, seven provincial-level jurisdictions along the east coast gained population at twice the rate of the rest of China. In 2000, annual earnings among urban workers in these provinces were some 70 per cent higher than the average in the rest of China.⁸

1.1.3 Implications for social security

At the beginning of the 1990s, the social security system for urban workers in China consisted primarily of a series of benefit mandates applied to government institutions and state- and collective-owned enterprises. The benefits for the workers of each enterprise were provided by that enterprise and financed from its operating funds. Where private sector firms existed at all, their employees were generally not covered. Economic restructuring required that: (1) coverage of the social security programmes be extended to cover the new private sector firms, (2) responsibility for financing social security benefits be pooled, so that benefit payments were no longer tied to the economic health of a

⁵ *China Statistical Yearbook*, 2000, Table 4-1

⁶ *Ibid.* Table 5-4

⁷ In this paper, the term "province" will be used to describe the level of government immediately below the Central Government.

⁸ Beijing, Tianjin and Shanghai municipalities and Jiangsu, Zhejiang, Fujian and Guangdong provinces. *Ibid.*, Tables 4-10 and 5-22.

particular enterprise, that enterprise liabilities were equalized, and that they were limited to a fixed proportion of payroll, and (3) responsibility for most aspects of administering social security benefits be transferred from the enterprises to the Government, using either existing or to newly-created governmental institutions.

The massive shifts in employment patterns also greatly increased the demand for employment services to help dislocated workers and for income support programmes. Income support mechanisms included unemployment benefits and other forms of temporary assistance specifically aimed at dislocated workers. Employment dislocations also put pressure on the pension system to provide early retirement benefits and discouraged any attempt to increase normal retirement ages.

Differences in economic growth and population migration trends led to significant differences among provinces in both the need for different forms of social protection and the individual province's capacity to finance it. Geographical differentials create additional challenges because China generally lacks effective mechanisms for transferring resources from the richer provinces to the poorer provinces.

1.1.4. Demographic changes

The Chinese social security system will also be affected by major demographic changes that will be occurring in the coming years. The adoption of its population control policy in the 1970s has caused a sharp reduction in fertility. The total fertility rate (TFR) fell from 6.1 children per woman in 1965 to 1970, to 3.3 children in 1975 to 1980, and to less than two children in recent years. With the reduction of fertility, the average size of household has also decreased. Smaller households make the family a less effective source of social protection, increasing the need for formal social protection institutions.

On the other hand, mortality has shown continuous improvement over these years. Over the last 30 years, life expectancy at birth has increased by about ten years. It increased from 58.8 years for men and 60.4 years for women in 1965 to 1970 to a level of 67.9 and 72.0 years, respectively, in 1995-2000.

Table 1.1 Main demographic indicators for China, 1953 - 2000

Year	1953	1982	1990	2000
Total population (millions)	594.35	694.58	1008.18	1133.68
Population by age group (as % of total population)				
0-14	36	41	34	28
15-64	60	55	61	66
65 and over	4	4	5	6
Average family size	4.3	4.4	4.0	3.4
Population by residence (as % of total population)				
Urban population	14	0	21	26
Rural population	86	1	79	74

Source: China Statistical Yearbook, 2001.

Taken together, these two developments have produced a significant change in the age structure of the population. The percentage younger than 15 years of age has fallen considerably, while the number over age 65 has grown. The ageing process will accelerate in the next decades. In 2000, the ratio of the population aged 65 and to the population aged 15 through 64 was 0.11. The aged dependency ratio measured in this way is projected to

rise steadily over the next fifty years, reaching 0.36 by 2050. At that time, China's aged dependency ratio will equal the level currently found in major OECD countries.

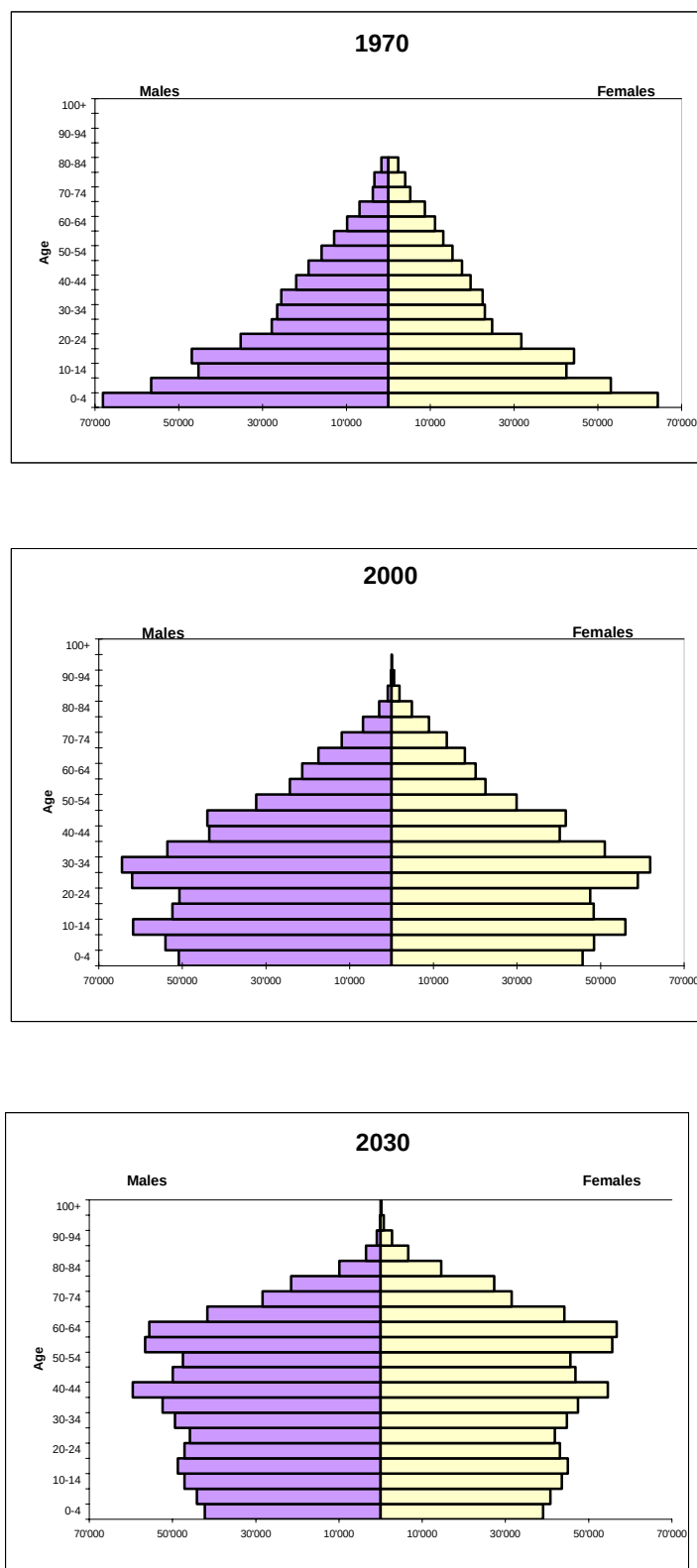
Table 1.2 Estimated main demographic indicators, 2005 - 2050

Year	2005	2020	2050
Total population (millions)	1,321	1,446	1,462
Population by Age Group (as % of total population)			
Age 0-14	21	19	16
Age 15-64	69	69	61
Age 65 and Over	10	12	23
Aged dependency ratio	0.11	0.17	0.36
Life expectancy at birth			
Men	69.1	72.3	76.7
Women	73.5	76.9	81.3

Source: United National World Population Prospects, 2000 Revision.

Other things equal, rising age dependency ratios will increase the cost of pension and health insurance programmes. In each case, the aged population is an increasing portion and the active population is a decreasing portion of the total. In the absence of offsetting changes in retirement ages, coverage rates, or benefit levels, pension and health benefits provided to the aged population will consume an increasing fraction of the output produced by the active population. The comparison of population changes over the last 30 years as opposed to the next 30 years are highlighted through the population pyramids as shown in the Figure 1.2

Figure 1.2 Population pyramids, China, 1970, 2000 and 2030



1.2. Social insurance programmes for urban workers in 2002

1.2.1 Aggregate spending on social insurance

Aggregate spending on major social security programmes in 2000 is shown in Table 1.3. The pension programme is by far the single largest element of the Chinese social protection system, accounting for 89 per cent of all social insurance spending. Medical insurance and unemployment insurance (UI) are next in size, with each accounting for about 5 per cent of total insurance spending. The remaining two programmes, work injury and maternity insurance, together comprise just below one per cent. Reemployment service centres, which were designed to help workers laid off from SOEs (but will soon be phased out), are the second largest object of social protection spending.

Total social insurance spending is rather modest relative to the economy as a whole. Pension spending in 2000 equalled 2.4 per cent of gross domestic product. All social insurance spending combined equalled 2.7 per cent of GDP.

Table 1.3 Expenditures on major social protection programmes, 2000 (millions of yuan)¹

Social insurance programmes	
Pensions	211,548
Medical insurance	12,454
Unemployment insurance (UI)	12,343
Work injury	1,380
Maternity insurance	834
Sub-total, insurance funds	238,559
Other programmes	
Reemployment service centres ²	23,536
Minimum urban living standard subsidy programme ³	6,000
Voluntary rural pensions	716

¹ As of January 2002, 1Yuan Renminbi equalled 0.12 USD.

² Some 4 billion yuan of this was financed from the UI programme. Those expenditures appear in both rows of this table.

³ 2001 spending.

Source: *Minimum urban living standard subsidy* from Ministry of Civil Affairs; *China Labour Statistical Yearbook*, 2001.

1.2.2 Public pensions

Prior to 1990, pensions were the responsibility of the enterprise from which the worker had retired. Reforms introduced in 1991 gradually shifted responsibility for financing pensions to regional insurance pools with revenues coming from wage contributions levied on both enterprises and employees and from subsidies from local, regional and national governments. The financing change also involved creating new government institutions to manage the pension system.

A 1995 reform introduced a two-part benefit structure that is expected to provide future retirees somewhat lower benefits than under the previous system. One part of the new benefit structure is a flat benefit payable in the same amount to all full-career workers in a given province. The other part is an earnings-related benefit that is based on the accumulated pension contributions in each worker's own account.

Reforms of the 1990s also extended coverage to almost all urban employers except for those government institutions financed entirely by the state budget. Each province is given the option of extending pension coverage to the urban self-employed. Pensions are financed largely on a pay-as-you-go (PAYG) basis, although the Government has not abandoned the idea that the earnings-related benefit should be fully or partially advance-funded.

Population ageing will severely strain the Chinese pension system over the next four decades. In the absence of other programme changes, a three-fold increase in the aged dependency ratio will drive pension costs up by a commensurate amount. Although the recent reform is likely to reduce future benefits relative to future wages somewhat, the age of pension eligibility has not been altered and remains fairly low, particularly for women. The employment dislocations caused by state enterprise reforms are cited as an argument against raising the retirement age at this time, but an eventual increase is probably unavoidable.

1.2.3 Health insurance

The health insurance reform was adopted in mid-1998. The reform restructured the health benefit package to reduced costs, reformed the financing mechanism to break the link between the benefit available to individual workers and the financial condition of their enterprise, separated the financing functions from the service delivery functions, and extended the coverage of the system to the private sector. Prior to the reform, the mandatory health insurance system had covered only government employees and employees of the state- and collectively-owned enterprises. The programmes had been entirely financed by employers and had often taken the form of entitlement to services in a clinic operated by the enterprise.

The reform shifted responsibility for financing of basic health insurance to a wage contribution levied on both employers and employees. Part of the employer contribution is to be used to finance major medical expenses, primarily in-patient services. The rest of the employer contribution and all of the employee contribution are deposited in an individual account that each employee can draw on to pay for outpatient services. The package introduces new deductibles and co-payments for in-patient services, it caps annual major medical expense reimbursements at four times the average wage and the system's liabilities for outpatient services at the amount in the employee's individual account. Recognizing that this represents a reduction from the scope of the coverage previously offered, the reform programme authorizes (but does not require) enterprises to offer a supplemental health insurance package. Coverage is to be extended to all urban workers, to retirees from urban enterprises, and to those who have been laid off from SOEs. Provinces have the option of also covering the self-employed.

The health insurance programme is only now being implemented. It is estimated that as of the middle of 2001 the programme covered some 50 million persons out of a potential total covered population of some 160 million. Local officials in Liaoning Province estimate that they had managed to extend coverage to about 40 per cent of the population potentially entitled to benefits by the end of 2001 and that it would take another two to three years to approach 100 per cent.

China is also reforming the structure of its health delivery system. One challenge that it has not yet addressed is the need to develop reimbursement policies that assure an equitable distribution of provider costs between the national health insurance programme and the supplemental health programmes that the Government is encouraging.

1.2.4 Unemployment insurance

The UI programme dates to 1986 when it was established, with the objective of assisting in the job search of those laid off from SOEs. Originally, the programme paid a benefit scaled to the employee's previous wage. In the mid-1990s, the benefit was changed to a flat rate that was set by the Governmental unit responsible for administering benefits. In 1999, coverage was expanded to include all urban private sector employers, the contribution rate was increased and an employee contribution was established. Under the current regulations, employees whose permanent registration is in a rural area do not pay the employee share of the contribution. Provinces have the option of further extending coverage to the self-employed. UI has always been financed through pooled funds financed by wage contributions.

The Chinese UI system features generally low benefits that tend to be available for a long period of time. Benefits must be below the minimum wage level but above the level established as the minimum urban living standard, both of which are also set by the local jurisdiction. Benefits can continue for up to two years, depending on the length of service prior to the unemployment spell. Beneficiaries need to be unemployed and available for work to continue to receive benefits, although these requirements have proven difficult to enforce.

The unemployment system ended 2000 with aggregate reserves equal to 1.6 times that year's benefit payments. As will be noted subsequently, however, the phasing out of the reemployment service centres is likely to increase UI benefit payments significantly. The additional dislocations that may result from China's joining the WTO could further increase the demand for unemployment benefits. It is not clear that these possibilities are being given the consideration they deserve in the financial planning of many local governments.

1.2.5 Employment injury insurance

Employment injury insurance (EII) provides cash and in-kind (medical) benefits in the event of work-related diseases, disabilities and deaths. Reforms adopted in 1996 extended coverage from the state- and collectively-owned enterprises to all urban employees, except for employees of government and public institutions. The reforms also began to convert the financing strategy from self-financing on the part of individual employers to pooled financing by all employers in a given region.

Eventually, employment injury pools are supposed to operate at the city (or prefecture) level, but most are now operating at the lower, county level. Pools are authorized to establish differential rates to correspond to projected benefit experience by different classes of enterprises, although that approach has not been implemented in very many jurisdictions.

The pooled approach to financing employment injury benefits is still being implemented. By the end of 1999 pools had been established in 28 of the 31 provinces and some 2000 of the 2074 counties, and covered just below 40 million workers. The rest of the workers entitled to employment injury protection continue to be covered by self-financed programmes.

1.2.6 Maternity insurance

Maternity insurance covers medical expenses and pays a living allowance to women giving birth in accordance with Chinese population policy. Coverage and financing are similar to that for health insurance. The benefit is being converted from a mandate on individual

employers to an insurance programme financed by pooled contributions from covered employers. The insurance pools operate at the county level. At the end of 1999, some 57 per cent of the counties had created maternity insurance pools. There are no provisions for sharing costs among counties.

1.2.7 Social insurance programme administration

Administration of the social insurance programmes was unified in the late 1990s. All fall under the jurisdiction of the Ministry of Labour and Social Security (MOLSS) in Beijing and provincial capitals and under Labour and Social Security Bureaus in the lower levels of Government. Either the social insurance agency or the local tax authorities (at the option of the province) may collect social insurance contributions. The relevant regulations provide that the contributions for all five social insurance programmes are to be collected together, although in practice they continue to be handled separately in many localities.

These administrative arrangements introduce several issues that affect most or all of these programmes. All programmes suffer from non-compliance with the contribution collection rules. Compliance problems arise as a result of inadequate adjustments in operating procedures to reflect the changes in the general economic structure, lack of employee training, and in some provinces poor coordination between the tax and social insurance agencies. Enterprises in the sectors that been brought into the system more recently are not necessarily registered with the programme, and enterprises that are registered may under report their payrolls and therefore their contribution liability. State enterprises can be a particular challenge as there are few enforcement tools that can be used against a delinquent state-owned entity, particularly one facing serious fiscal difficulties of its own.

Programme administration tends to suffer from inadequate financial controls, inefficient service delivery and weak programme planning capabilities due to inadequate information systems and poorly trained staff. Some administrative problems are to be expected given that many of the institutions were created only recently and/or have recently expanded rapidly. However, the current administrative structure aggravates some of the problems and presents a barrier to addressing them.

The Chinese social insurance system is composed of a very decentralized set of almost autonomous institutions. The social insurance agencies functioning across the country are each organs of the responsible general governmental unit rather than being branches of a unified social insurance institution. Administrative costs are financed from the general-purpose budgets of these governmental units. Officials of the social insurance institutes at higher levels of Government have only limited ability to influence operating policies of lower level units or require them to follow standardized procedures.

The social insurance programmes also tend to suffer from inadequate pooling of resources among localities with different levels of benefit demands or resource availability. Different third-tier governmental units (about 2074) collect most social insurance contributions and pay most benefits. No attempt is made to pool resources among the different jurisdictions in the medical insurance and maternity programmes. Revenues and expenditures are supposed to be pooled at higher levels in the pension, UI, and work injury programmes, but typically are not.⁹ The pension, unemployment and work injury programmes do have solidarity funds, however, through which specified fraction of each local unit's revenue

⁹ Unemployment insurance contributions are supposed to be pooled at the municipal level in the four municipalities that are treated as provinces, and at the city level in the other provinces. Pension contributions are supposed to be pooled at the provincial level in all provinces, but are generally pooled at only county level.

(usually less than 5 per cent) is transferred to higher levels of Government to be reallocated to localities whose programmes are in deficit. Although the pension, unemployment and work injury systems as a whole are collecting more in contributions than they are paying in benefits, inadequate pooling of revenues means that many local, prefecture, and provincial governments must meet deficits in one or more the programmes from general budget resources.

1.2.8 Liaoning pilot reform on social security

The State Council has never said whether it intended the individual account portion of the pension programme to be advance funded or notional. In practice, however, the accounts appear largely to be notional. Aggregate reserves in the pension system at the end of 2000 were 94 billion yuan, just over 40 per cent one year's total spending, and only a fraction of the cumulative balances in the individual accounts.¹⁰ In Guangdong Province, one of the country's richest, aggregate pension reserves at the end of 2000 amounted to 19.5 billion yuan compared to a total of 21.5 billion in accumulated balances in the individual accounts.

At the end of 2000, the State Council initiated a new pilot programme in Liaoning Province aimed at strengthening the social insurance system.¹¹ In the pension area, the pilot introduces four major changes. First, the annual amount to be deposited in the individual account was reduced by three percentage points (from 11 per cent of the worker's wage to 8 per cent), reducing the size of the liabilities against which reserves must be held. Second, the funds to be allocated to the individual account portion of the programme are to be placed in accounts that are separate from the accounts used for the rest of the pension programme, making it more difficult to divert them to pay regular pensions. Third, the funds for the individual account portion are to be managed at the provincial level, rather than the county or city level, further insulating them. Finally, a portion of the unfunded balance in individual accounts that had been accumulated prior to the initiation of the pilot is to be paid off through transfers from Central, provincial, and local governments. The portion of past liabilities to be paid off is that attributable to employee contributions only.

It is not entirely clear what the pension portion of the Liaoning pilot is supposed to demonstrate. Even if it succeeds in ensuring that financial assets will back individual accounts, the particular approach being tested in the pilot is unlikely to have any important economic impact. In 2001, the Central Government contributed 3 billion yuan to help finance pensions in Liaoning, which is the same amount by which aggregate individual account liabilities increased.¹² The financial assets backing the individual accounts must be either government bonds or deposits in the state bank. Thus, advance funding of the individual accounts is largely an exercise in cycling the money from Beijing to Liaoning and back to Beijing.

¹⁰ *China Labour Year Book, 2001*, Tables 8-18.

¹¹ Circular 42, State Council (2000), 25 December 2000. The pilot also envisions close monitoring of the implementation of the rest of the social security reforms, but does not appear to change the basic provisions governing any of the other programmes.

¹² The Central Government is providing 75 per cent of the funds necessary to cover the benefit expenditure in excess of contribution income. The provincial government is supplying 5 per cent and the local governments are supplying the other 20 per cent.

The Liaoning pilot is also to demonstrate the impact of rapid implementation of other elements of social insurance reform in China, particularly the phasing out of the reemployment service centres (discussed subsequently) and the introduction of the new health insurance programme. The pilot does not change the programme parameters in either of these other two areas, however.

1.3 Other social protection programmes

Three additional programmes are important sources of income security in China. One is a programme of general cash assistance to the needy. A second is a voluntary pension programme operated in rural areas. The third is the reemployment service centre strategy adopted to ease the transition for laid off workers. Only the first of these is currently being expanded.

1.3.1 *Minimum urban living standard subsidy*

The Minimum Urban Living Standard Subsidy is a programme of cash social assistance targeted initially on the urban poor, but is gradually being extended into rural areas. It began as a pilot in 1993 and subsequently spread across the country. Concerned about the impact on the urban poor of the economic restructuring and the impact of WTO entry, in 2001 the State Council instructed all provinces to accelerate their implementation of the programme. It is the responsibility of the Ministry of Civil Affairs and is administered by the civil affairs departments in the lowest levels of Government, the districts and communes.

Each locality operating the programme establishes the benefit level that it will guarantee, balancing household needs and available resources. Households with income below the guaranteed minimum receive supplements to bring them up to the minimum. The guarantee must be below the minimum wage. In Liaoning Province, it varies from 156 to 221 yuan per person per month, depending on the locality; the average is 173 yuan per person per month. In Guangdong Province, the guarantee varies from 80 to 320 per month, with an average of 215 in the cities and 165 in rural areas. By comparison, the average pension payment in Guangdong Province is 399 yuan per month.

Some 40 per cent of the total cost of the minimum urban living standard subsidy programme is financed by the Central Government in Beijing. The rest is divided among the provincial and lower levels of Government. The actual allocation of financial responsibility among governmental units varies from one province to another. In 2001, the programme served 12 million people and spent 6 billion yuan. Spending in 2002 is projected to rise to 10 billion yuan, distributed among 15 million people. It is estimated that the programme reached about one-half of the urban poor in 2001.

The programme would be difficult to administer under the best of circumstances. It faces the additional challenge, however, that many of the administering units of Government have insufficient resources to manage it effectively. Staffs running the programme often are not adequately trained. Procedures are not well understood, leading to high error rates. Records are frequently kept by hand. Eligible beneficiaries may not know about the programme or how to apply for it and programme staff in some areas may devote little effort to outreach.

1.3.2 *Voluntary rural pensions*

The Ministry of Civil Affairs launched a series of pilot programmes aimed at providing pensions in rural areas on a voluntary basis in 1992. Responsibility was transferred to the

MOLSS in 1998, and in 1999 the Central Government decided not to encourage further expansion of the programme pending an assessment of how best to organize and administer it. The programme was never instituted in some parts of the country, including most of Guangdong Province.

Under this programme, rural residents could arrange to make voluntary payments into accounts set up by their local governmental units. Local governments and township and village enterprises could also make contributions to these pensions on behalf of their citizens/employees. Account balances earn interest and participants become eligible for a benefit at age 60. The benefit is a life annuity equal to the balance in their account divided by 180 (with a guarantee of at least 120 payments, even if the individual dies before reaching age 70). A fee of around 3 per cent of contributions covered administrative costs.

A major cause of the Central Government's concern with the programme was control over how the account balances were invested. The accounts are supposed to be deposited in a local branch of the state bank, but there is reason to believe that money has been diverted to finance local development projects and may not be fully recoverable. The Central Government may try to turn the programme over to commercial insurance companies to provide better assurance of proper use of the invested funds.

At the end of 2000 there were 62 million accounts and they collectively held 19.6 billion yuan. At the end of 1999, 300,000 persons were drawing pensions under the programme.

1.3.3 Reemployment service centres

Reemployment service centres were first set up in 1994 and spread throughout the country in 1996. By 1998, the State Council required that all SOEs that laid off workers create a reemployment service centre. This policy was reversed two years later, however, and the State Council decided that no new workers should enter the reemployment service centres after the end of 2000. In principle, the reemployment service centres will cease to function at the end of 2003. In practice, workers were still entering the centres at the end of 2001, so the phase out will clearly be slower than originally contemplated. In the future, laid-off workers will go directly to the regular employment service agencies and the UI programme.

Reemployment service centres are essentially mechanisms for providing a monthly income and continuation of social insurance contribution payments to individuals who have been laid off. The monthly income is less than the wage received previously but more than the UI benefit to which the individual would be entitled. Individuals in the reemployment service centres can receive retraining and are available to be hired into a new or restructured enterprise. They can stay in the centre for up to three years, and are eligible for unemployment benefits for up to two additional years after that. At the end of 2000, some 6.1 million workers were in the various reemployment service centres, about twice as many as received UI benefits that year. Reemployment service centres are financed entirely by the enterprise if the enterprise is profitable. If the enterprise is not profitable, the enterprise, the local government and the UI fund each contribute one-third of the cost of running the centre.

The reversal in policy appears to be due to the realization that they were hindering the necessary labour market adjustments. Restructured state enterprises were unlikely to be offering reemployment opportunities to their former workers, and the workers were less likely to seek employment elsewhere while in the centre.

2. Social security institutional and administrative framework

Social insurance in China operates through the cooperative efforts of four different levels of government. This chapter focuses on how the different governmental units establish social insurance policies and administer the programmes. It reviews the current arrangements and discusses institutional and administrative issues they raise.

2.1 Current organization¹³

2.1.1 National level organization

In the People's Republic of China (P.R. China), final legislative authority rests with the National People's Congress. The highest organ of state administration is the State Council. The State Council is headed by the Premier, and assisted by four Vice-premiers, State Councillors, Ministers, the Auditor General and a Secretary General. The Ministry of Labour and Social Security (MOLSS) and the Ministry of Civil Affairs (MOCA) are members of the State Council. The MOLSS is responsible for all of the social insurance programmes and the rural pension programme. The MOCA is responsible for the Minimum Income Guarantee programme. Although a draft social insurance law is now being prepared, none has yet been adopted. The legal authority for the operation of most elements of the social security programme comes from various decrees from the State Council or regulations issued by the respective Ministries.

2.1.2 Sub-national organization

Below the Central Government, China is divided into 22 provinces, four municipalities, and five autonomous regions; in this report, all will be referred to as "provinces".¹⁴ Each province has a Department of Labour and Social Security (DLSS), a Ministry of Civil Affairs, a Department of Finance and a Department of Taxation attached to its own provincial government. Below the provincial level of government are 333 prefectures, and below the prefectures are 2074 counties.¹⁵ Each of the prefectures and each of the country-level governments also have their own departments dealing with social security, taxation, finance, and civil affairs attached to their respective general governmental bodies. Responsibility for administering social security is spread among these various governmental departments in the 2438 different governmental jurisdictions.

¹³ See ILO report RP/ILO/China/R.7 (2002): *Institutional and administrative framework of social security in China*.

¹⁴ China also has two special administrative regions (SAR), one for Hong Kong and the other for Macao. The Chinese social security system does not apply to either of these.

¹⁵ Cities may have the status of provinces, prefectures, or counties. Four (Beijing, Tianjin, Shanghai, and Chongqing) are treated as provinces, 259 are treated as prefectures and 400 are treated as counties. Counties (or cities treated as counties) are divided into districts and communes.

2.1.3 Division of administrative responsibilities

Actual administration of social insurance programmes occurs at the level of the government at which an enterprise is registered. Contributions are collected at that level and the enterprise's employees apply for benefits at that level. Most enterprises are registered with the county-level governments, but some state-owned enterprises (SOEs) are registered with prefecture or provincial level governments.¹⁶

Social security contributions may be collected by either the social insurance agency or by the taxation bureau, at the option of the provincial government. Social security benefit calculations and payments are the responsibility of the social security agency. Pension contributions (but not necessarily the contributions for the other social insurance programmes) are transferred from the account of the agency that collects them to the relevant finance department and held by the finance department until needed to pay benefits. The finance department subsequently transfers back to the social security agency the amount that it believes it needs to cover benefit payments. Other social insurance contribution income is deposited in an account maintained at the country level for the respective programme.

At each level, government authorities control the operating and programme budgets of the social security agency, they usually select the agency's leaders, and they establish personnel and other policies. Though the social security agency at each level is responsible for overseeing the operations of those located below it, it does not directly control that agency's personnel, finances or operating policies.

The Finance Department of the respective governmental units allocate the operating budgets of the social security agencies from the government's general budget. Contribution income is not used to finance administrative expenses. The general budget of the respective governmental unit is also used to cover deficits in the pension and UI programmes and covers all of the costs of the Minimum Income Guarantee programme.

2.1.3.1 National administrative structure

The highest organ of state administration in China at the national level is the State Council, which can be regarded as the cabinet of the Government. The State Council is headed by the Premier, and assisted by four vice-premiers, five State Councillors, and a Secretary General. Included in the State councils are representatives of the various Ministries and Commissions, including:

- Ministry of Agriculture
- Ministry of Education
- Ministry of Finance
- Ministry of Foreign Affairs
- Ministry of Foreign Trade and Economic Co-operation
- Ministry of Information Industry
- Ministry of Justice
- Ministry of Labour and Social Security (MOLSS)
- Ministry of National Defence
- Ministry of Public Health
- Ministry of Public Security

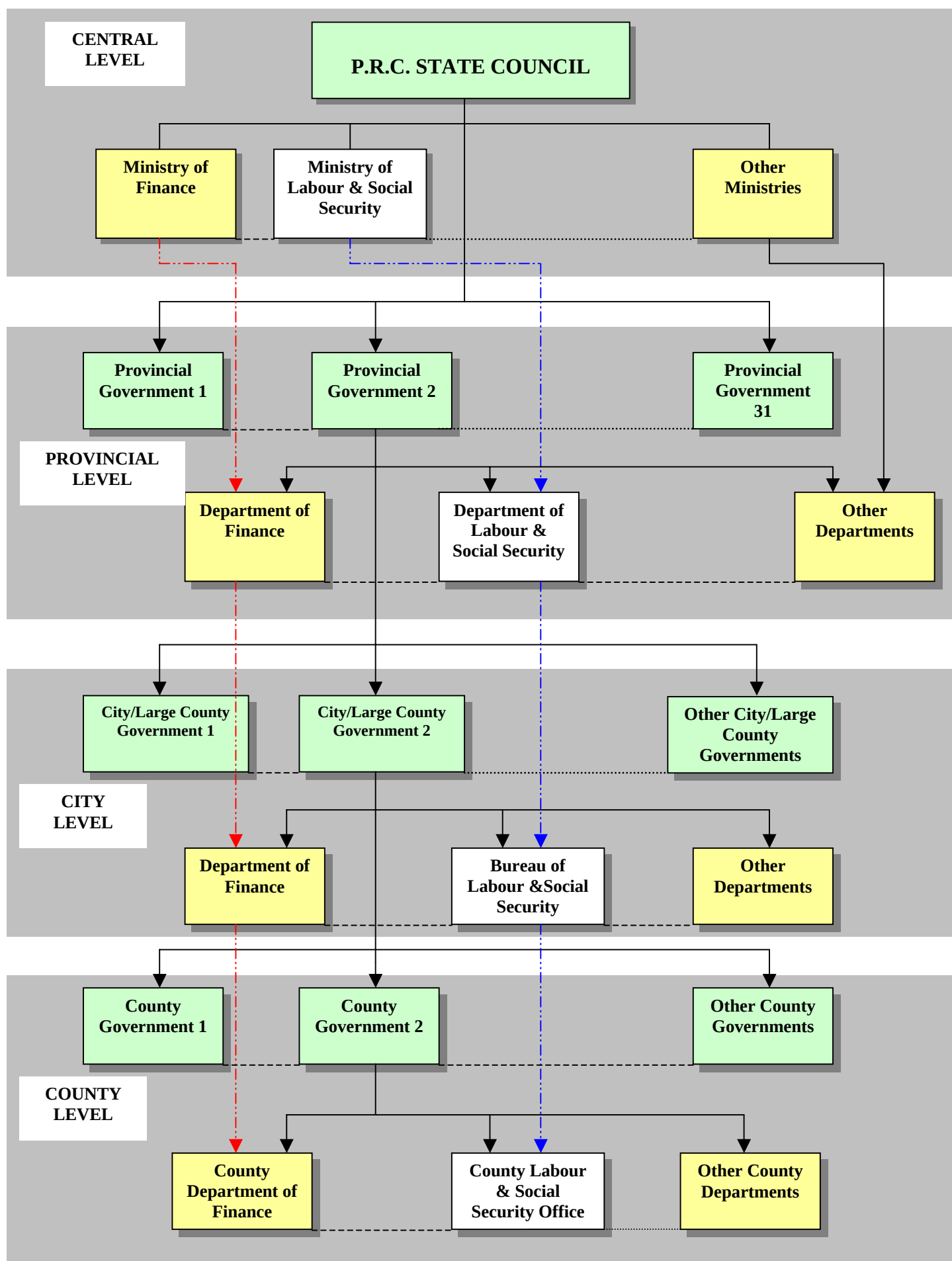
¹⁶ A few are also registered with the national government, although the Central Government apparently has delegated responsibility for dealing with enterprises registered with it to the provincial level governments.

-
- Ministry of State Security
 - State Development & Planning Commission
 - State Economic & Trade Commission
 - State Commission of Science, Technology & Industry for National Defence.

At the second level, China is divided into 22 provinces, five autonomous regions, and four municipalities. The autonomous regions and municipalities are granted the same administrative status as the provinces, so for simplification when this document refers to provincial governments or administrations, it means to include the autonomous regions and municipalities.

Below the provincial (or second) level, administration of the provinces is subdivided into cities, prefectures, counties, townships and villages, and districts. The level immediately below the provincial level (third level) is the city level – however some large counties have been granted the same administrative status as the cities, so again, for the purposes of simplification, this document refers to the third administrative level as the city/large county level. The next level (fourth) is the lowest level of administration for social insurance purposes and is referred to in this document as the “county level”; this includes those townships, etc. that have county level status and have their own social insurance administrations.

Figure 2.1 National administrative structure



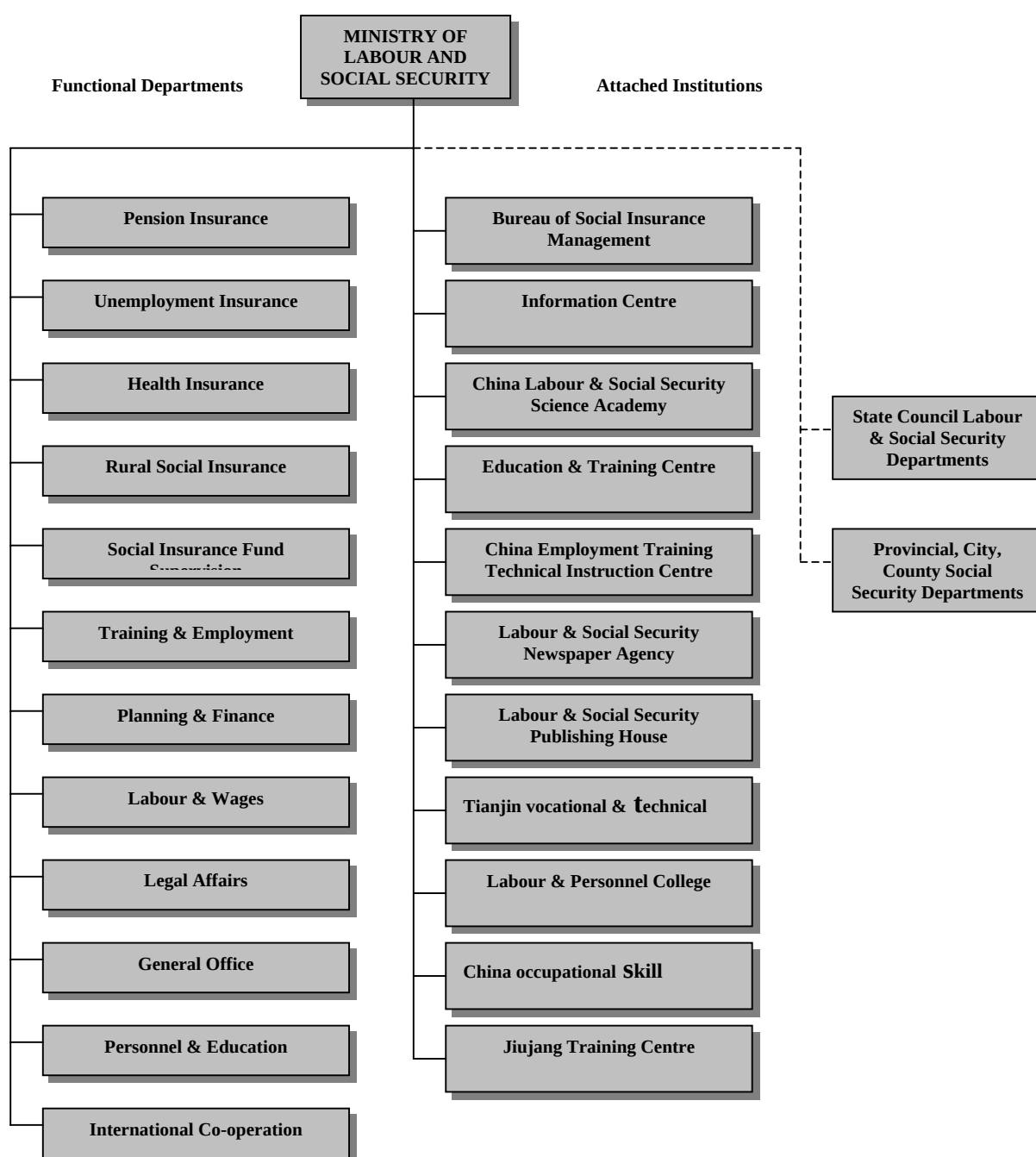
2.1.3.2 Ministry of Labour and Social Security (MOLSS)

Social insurance administration in China is the responsibility of the MOLSS. The responsibilities of this ministry include:

- development of national policies for labour and social security
- labour and social security legislation
- national administration of labour and social insurance schemes
- labour relations
- labour resources management.

In all, the Ministry has 12 administrative Departments and 11 government institutions:

Figure 2.2: Central administration of the MOLSS as of 2002



MOLSS operates at four distinct levels – national, provincial, city, and county. At the national level, MOLSS has essentially a national policy development role; operationally it functions at three levels - the provincial government level, and the city level, and the county level. In some cases the county level is upgraded to city level.

At the provincial level, the DLSS is responsible for the implementation of national policies within the province, and the development of provincial government policies. At the City level, the Department is responsible for the implementation of the provincial government policies within the City, and the development of City policies. At the county level, the operational units are responsible for the implementation of the national, provincial and city policies.

The above organizational structure for the MOLSS Departments is replicated at each of the three operational levels; however not all of the institutions are included at the three operational levels (e.g. Labour and Social Security Newspaper Agency, Jiujiang Training Centre, etc.).

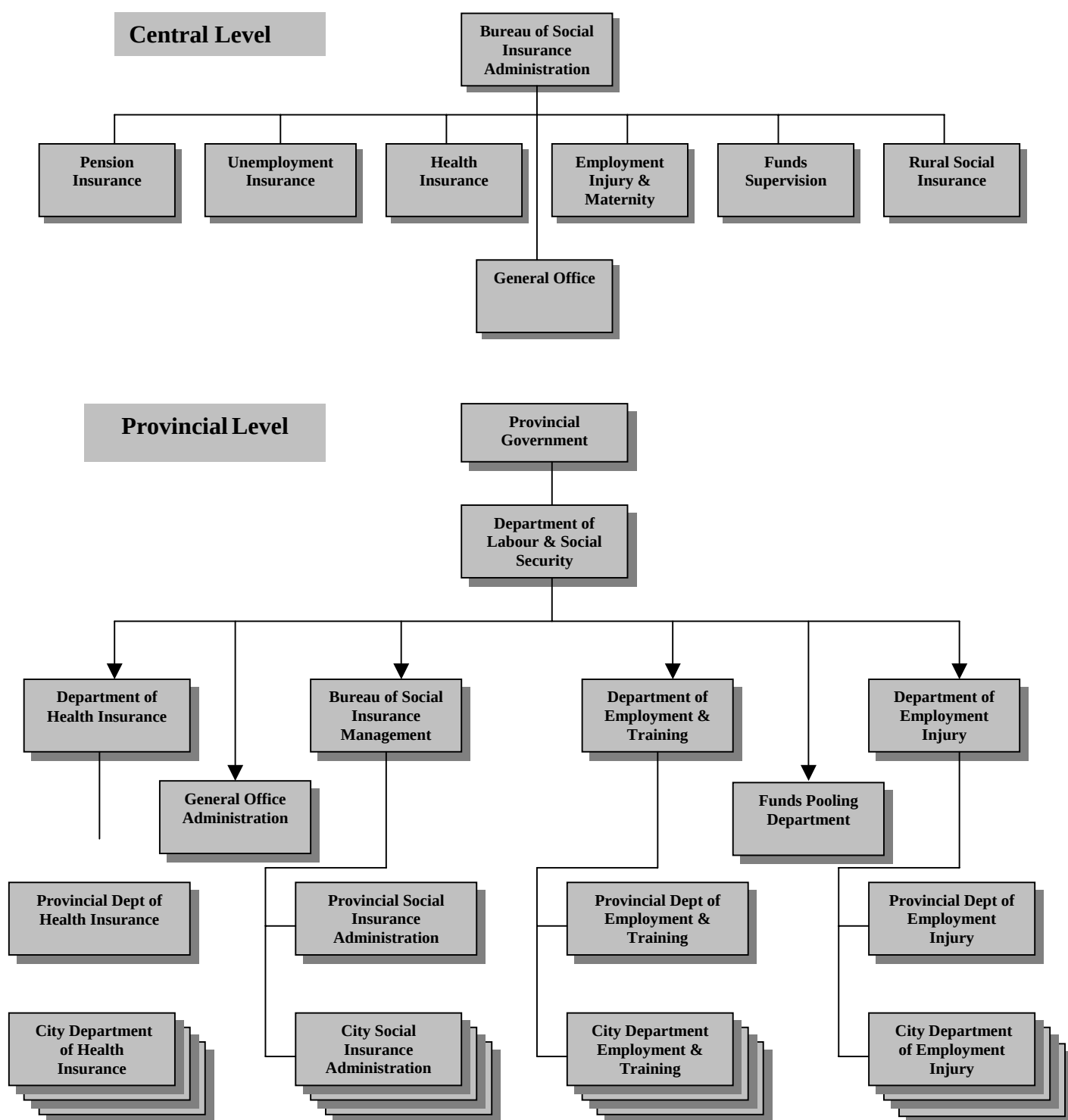
2.1.3.3 MOLSS Bureau of Social Insurance Management

The Bureau of Social Insurance Management (BSIM) operates at all three levels, and is responsible for the implementation and day-to-day administration of the various Social Insurance schemes. At the Central level, the main role of the BSIM is that of policy - there are four departments that are responsible for the development of nation policy regarding the implementation and operations of the five social insurance schemes. Ultimately, the role of the BSIM is to administer the operations of these schemes:

- Pension scheme (includes old-age pension, disability pension, survivors' pension, and supplementary pension)
- HI scheme
- UN scheme
- EII scheme
- Maternity insurance scheme.

However as the new schemes for health, unemployment, and maternity insurance are still in the development or pilot stages, and the current schemes are entirely enterprise based, the principal current concern of the BSIM is the administration of the pension scheme.

Figure 2.3: MOLSS Bureau of Social Insurance Management



At each of the operational levels, the BSIM forms part of the government administration of the level (e.g. at the provincial level, the Bureau is a provincial government Department responsible to the governor of the province; at the city/large county level the bureau is a department of the city government, responsible to the mayor of the city, etc.). As a result of this structure, the BSIM at the national level does not have direct control over the functioning of agencies at the city and county level, seeing their responsibility as being to local governments.

Ultimately, the role of the BSIM is to administer the operations of the various social insurance schemes, including pensions, supplementary benefits, HI, UI, EII and maternity insurance.

The new schemes for health, unemployment and maternity insurance are still in the development or pilot stages, and have not yet been fully implemented. The result is that the major focus of the BSIM is the administration of the pension scheme.

2.1.3.2 Main functions at operational level

The main functions of the operational units at the city and county level are seen to be:

- registration of employers
- registration of employees
- collection and recording of employer contributions
- collection and recording of employee contributions
- processing of claims
- payment of entitlements
- compliance, and fraud prevention and detection
- accounting and audit
- financial management of the funds
- management information and statistics.

Registration

All urban state-owned and private sector enterprises are required to participate in the social insurance schemes. These include:

- enterprises, undertakings
- government organizations
- social organizations
- units of non-enterprise run by local people
- industrial and commercial enterprises owned by individuals in cities and towns
- state-owned enterprises (SOEs)
- collective enterprises
- enterprises with foreign investment
- private enterprises.

The enterprises must register with the appropriate social insurance agency within 30 days of receiving their business license. The business license has a national number, which is the key number for SS registration purposes.

The civil service, the military and State organizations and institutions are exempt from requirement to register.

Enterprise branches that are located away from their headquarters are regarded as independent and register separately. Enterprises must complete the agency registration application forms and provide their business licenses, certificates, etc. When registered, each enterprise is issued with a “certificate of registration” by the respective social insurance agency.

Enterprises must advise the relevant social insurance agency of any changes to registration details (change in name or address, change of bank account, etc.). Where an enterprise terminates its business, e.g. becomes bankrupt, cancelled, merged, etc., it must advise the agency within 30 days.

It would appear that each enterprise must register separately for each scheme, e.g. register with the BSIM for the pension insurance scheme, with the Department of Unemployment for the unemployment scheme, with the Department of Health Insurance for the health insurance scheme, and with the Department of Employment Injury for the work injury and maternity insurance scheme, especially where there is no computer system and manual recording on ledger cards is necessary.

The employer is obliged to register each employee at the time of the employer registration. The relevant agency provides the employer with employee registration forms, which include the employee’s name, national ID number, occupation, monthly wages, etc. The employer completes the forms and returns them to the agency, where they are recorded either on a computer database or manually on ledger cards.

Where there are changes affecting any employee’s registration data, the employer is required to inform the relevant social security agency.

A file is raised for each employee, and the data is used to create a contributions record for each of the employees.

Contribution collection

Contributions are payable monthly by employers and employees. The employer is liable to pay a percentage of the payroll for each of the social insurance schemes – contribution rates differ from province to province as they are set at the provincial government level.

General rules on contribution rates are as follows:

Table 2.1 Social security contribution rates

Insurance Type	Employer Contribution	Employee Contribution
Old-age pension	Determined by the Provincial Governments (normally not more than 20% of payroll)	Determined by the Provincial Governments (expected to maximize at 8% of monthly wages)
Unemployment	2% of payroll	1% of monthly wages
Health insurance	Determined by the Provincial Governments (normally 6% of payroll)	Determined by the Provincial Governments (normally 2% of payroll)
Employment injury	Depends on the province and the enterprise – average about 1% of payroll	No employee contribution
Maternity	Determined by the Provincial Governments (normally not more than 1% of payroll)	No employee contribution

Decree No. 2 of 19 March 1999 outlines the national procedures for the payment of contributions. The employer monthly contribution is based on the payroll of the previous year – this means that the employer pays a fixed amount each month for that year. For employee contributions, the contribution amounts for each of the social insurance schemes is deducted from the monthly wages of each employee by the employer. The deductions are not from “take home pay”, which can include various allowances. As the employee wages (for contribution purposes) do not often vary from month to month, the employer only advises details of those employees whose contribution amount differs from that of the previous month (e.g. where an employee has been awarded a promotion, a new employee joining the enterprise, or an employee leaving the enterprise, etc.).

The employer then prepares a contributions declaration form for each of the social insurance agencies specifying both the employer’s and employees’ total contributions liability. The employer must deliver the contributions form to the respective social insurance agencies by the 5th of each month. Where enterprises have difficulty delivering the forms, by arrangement with the agency the postal service can be used.

Each agency then checks the declaration form for completeness and accuracy, and arranges with the enterprise for any discrepancy to be corrected. Where the form is correct, it is approved and stamped, and if payment is by bank transfer the declaration form is sent to the bank as authorization for the transfer from the employer account to the relevant social insurance agency fund account. Alternatively the employer may pay directly to the social insurance agency in cash or by cheque, which is deposited into the relevant fund account. Employers must pay the contributions within three days of the declaration forms being approved by the respective agency.

Each agency then receives a statement from the bank showing the amounts transferred from the employer accounts to the agency account. In provinces where the taxation agencies are responsible for the collection of contributions, the BSIM must provide the taxation agency with the contribution declaration forms advising amounts payable, and the taxation agencies in turn will advise the BSIM with details of amounts collected from each enterprise.

After this confirmation-of-amounts transferred have been checked, the agency will update the employer and employee contribution records.

For pensions and health insurance, individual accounts are opened for each contributing employee, and these accounts are updated each month. These are not real bank accounts,

but records held within the agency showing the total amount of contributions paid by the employee.

For pensions, a total of 11 per cent of wages must be allocated to the individual accounts. This is made up of the entire individual contribution, plus the difference from the employer contribution to bring it up to the total of 11 per cent (e.g. if the employee is paying the full 8 per cent, then the additional 3 per cent will be paid into the employee account from the employer contribution).

After the individual contribution portions have been deducted from the employer contribution, the remainder goes into the pooling account.

Both employers and employees have the right to enquire about their contribution payments at any time; and the BSIM is required to provide each employee with an annual statement of showing the details of the individual account.

Employers are required to report each year on the payment of social security contributions to the workers' representatives' conference, or to make this information available by public notice. The BSIM must also give public notice on contributions collection every six months.

Compliance

For late, part- or non-payers, the BSIM will prepare a statement of contributions owing, which will be presented to the employer. A daily fine of 0.2 per cent of the amount owing is applied to late payments.

Where enterprises do not lodge their monthly declaration form, the agency can set an amount of 110 per cent of the previous months contribution liability as the amount due.

Inspection of enterprise records is undertaken by social security inspection agencies that are specifically responsible for the supervision of the payment of contributions liability. They are authorized to carry out inspections of company records, investigations and collection of evidence, the determination and application of penalties, and applying for hearings at the People's Court for enforcement of penalties. This authority applies to registration requirements as well as contributions.

In addition to regular annual checks of employer records, the BSIM will provide the inspection agency with monthly information on defaulters and others where inspection is required.

2.1.4 Statistical reporting system

Statistical information is also generated through this decentralized administrative structure. Currently, each provincial social security office is responsible for collecting statistical data and submitting them to the Central level. In practice, each county office collects data from all participating enterprises in the county, completes the forms and reports them to the provincial office. The provincial office then summarises the data of all local offices in the province and reports to the MOLSS.

There are blueprint report forms of statistical data. As of 2000, these forms comprised of 15 tables for the social insurance (including the basic pension, health care, work injury, maternity and others), five tables for the unemployment insurance (UI) two tables for the rural pension. Annex V presents the organisation of these reporting forms in full detail, whilst Table 2.2 outlines the general structure.

Table 2.2 Statistical reporting forms on social security schemes in China

Part A: Social insurance (basic old-age, health, work injury, maternity and others)

No.	Title	Period	Unit	Submitted to	Coverage of data	Deadline
SI.1	Basic old-age insurance: Basic table (Local pooling)	Quarter	Province, Municipality, Autonomous region	Social Insurance Administration, MOLSS	All participating enterprises	Within 20 days of the end of the quarter
		Year				By the end of February of the next year
SI.1bis	Idem (Industry pooling)	idem	idem	idem	idem	idem
SI.2	Basic old-age insurance: Contribution collection (Local pooling)	idem	idem	idem	idem	idem
		idem				idem
SI.2bis	Idem (Industry pooling)	idem	idem	idem	idem	idem
SI.3	Basic old-age insurance: Individual accounts (Local pooling)	Year	idem	idem	idem	By the end of February of the next year
		Year				By the end of February of the next year
SI.3bis	Idem (Industry pooling)	idem	idem	idem	idem	idem
SI.4	Basic HI: Participants and contributions	Quarter	idem	idem	idem	Within 20 days of the end of the quarter
		Year				By the end of February of the next year
SI.5	Basic health insurance: Contribution collection	idem	idem	idem	idem	Idem
		Year				By the end of February of the next year
SI.6	Basic HI: Expenditure	Year	idem	idem	idem	By the end of February of the next year
SI.7	Social pooling fund for serious diseases and retired workers: Basic table	Quarter	idem	idem	idem	Within 20 days of the end of the quarter
		Year				By the end of February of the next year
SI.8	Work injury insurance: Basic table	idem	idem	idem	idem	idem
		Year				By the end of February of the next year
SI.9	Work injury insurance: Statistics by industry	Year	idem	idem	idem	By the end of February of the next year
		Year				By the end of February of the next year
SI.10	Maternity insurance: Participants and contributions	Quarter	idem	idem	idem	Within 20 days of the end of the quarter
		Year				By the end of February of the next year
SI.11	Supplementary old-age insurance and medical subsidies for civil servants	Year	idem	idem	idem	By the end of February of the next year
		Half-year				By 20 July
SI.12	Social insurance (total):	Year	idem	idem	All cities and counties	By the end of February of the next year

No.	Title	Period	Unit	Submitted to	Coverage of data	Deadline
SI.13	Expenditure and cost rates Social insurance agencies: Composition of staff of the social insurance agency	idem	idem	idem	Social insurance agencies	idem
SI.14	Basic old-age insurance: Pension payment for retired workers before 1949	Month	idem	idem	All participating enterprises	By the 5 th of the next month
SI.15	Basic old-age insurance: participants and contributions	idem	idem	idem	idem	By the 10 th of the next month

Part B: Unemployment insurance (UI)

No.	Title	Period	Unit	Submitted to	Coverage of data	Deadline
UI.1	UI: Number of beneficiaries	Month	Social security office in Province, Municipality, Autonomous region	Department of Unemployment Insurance, MOLSS	Number and amount of unemployment benefits	Within 10 days of the end of the month
UI.2	UI: Revenue and expenditure	idem.	idem.	idem.	Unemployment division in social security office	idem.
UI.3	UI: Contribution collection	idem.	Idem (agencies in charge of contribution collection)	Department of UI; Social Insurance Administration, MOLSS	All participating enterprises	idem.
UI.4	UI: Revenue and expenditure of the pooling fund	Year	idem	Department of UI, MOLSS	Unemployment division in social security office	By 10 January of the next year
UI.5	UI: Composition of staff of the UI agency	idem.	idem.	idem.	UI agencies	idem.

Part C: Rural pension insurance

No.	Title	Period	Unit	Submitted to	Coverage of data	Deadline
RP.1	Rural pension insurance: Basic table	Year	Province, Municipality, Autonomous region	Department of Rural Pension, MOLSS	All participating counties	By 31 January of the next year
RP.2	Rural pension insurance: Revenue and expenditure	idem.	idem.	idem.	idem.	idem.

2.2 Major administrative challenges

The social insurance system faces four major problems that are linked directly to administrative weaknesses: Poor compliance, inadequate financial controls, inadequate administrative controls, and inadequate programme information.

2.2.1 Compliance

Chinese social insurance administrators acknowledge inadequate compliance with social insurance contribution rules. Compliance problems include failure to register with the social insurance authorities, underreporting of wage payments, failure to include bonuses and other supplements in wage reports, and contribution payment arrears. Poor compliance weakens the financial condition of the programmes, particularly those in which benefit payments are not guaranteed through government subsidies. Poor compliance also undermines the adequacy of social insurance benefits by limiting the coverage of some workers and reducing the size of pension and health benefits for others.

One indication of the failures to register is the gap between total employment shown in statistical reports and the total number of contributors to the pension or UI systems. For example, in the SOEs, statistical reports show aggregate employment of some 81 million at the end of 2000 but fewer than 65 million contributors to the pension system.¹⁷ The gap between total employment and pension coverage in the various categories of private employment appears to be even larger. Using statistical information on total wage payments, officials in the MOLSS estimate that UI collections in 2000 should have totalled 27 billion yuan, whereas the actual amount collected was only 19 billion yuan. Officials at the Ministry of Finance estimate that full compliance with pension contribution rules would eliminate the deficits in that programme.

Where social insurance contribution liability is acknowledged, local officials do track the fraction that is collected, as this is one of the performance indicators monitored by higher levels of Government. On this measure, collections tended to run between 92 per cent and 96 per cent of acknowledged liabilities in the areas visited for this report. Officials in the agencies visited had not attempted to assess the accuracy of the wage reports that had been filed.

2.2.2 Financial controls

Assuring the proper use of the funds collected by all of the various local governmental units has been a constant problem in China. Over the last decade, a number of institutional reforms have been introduced in an attempt to improve financial controls. While these reforms may have improved the situation, most are not completely effective and several have undesirable side effects.

One such reform is the system of two accounts, introduced for pension contributions by decree of the State Council in 1998. Under this system, contribution income is regularly moved from a collections account of the collecting agency to an account controlled by the local department of finance. The local department of finance is responsible for managing the money until it is needed to make benefit payments, when it is transferred to a payments

¹⁷ *China Statistical Yearbook 2000*, Table 5-4 and *China Labour Statistical Yearbook 2000*, Table 8-16.

account at the social insurance agency. Unfortunately, however, the local finance department has no way of independently verifying the accuracy of the aggregate benefit payments that the social insurance agency reports it will be making. Instead, it simply transfers the amount that the social insurance agency says it will need, which is usually the amount projected in its budget at the beginning of the year.

A second reform was to shift the source of revenues used to cover administrative costs from contribution income to general governmental budgets. This change was introduced in 1997 after the Central and provincial levels of government became concerned that too much was being spent on new facilities for the local social insurance agencies. The change has made upgrading the quality of local administration more difficult, however, as resource constraints can limit staffing, training, and equipment acquisition.

A third reform is the requirement that all excess funds either be deposited in one of the major state banks or held in government bonds. This reform was aimed at curbing financial abuses involving unwise investments undertaken by local social insurance agencies and/or local general governmental units. Unfortunately, however, the rate of return earned on deposits at the state banks is quite low.

A fourth reform was the shift in the responsibility for collecting contributions from social insurance agencies to the local taxation agency, on an optional basis. Where the taxation agency collects, information on aggregate collection liabilities flows through the social insurance agency while the funds flow through the taxation agency, creating a potential internal control through cross checking the sums. Unfortunately, where the taxation agency is used to collect, the shift adds another step to an already cumbersome set of collection procedures. It is not clear, moreover, that any cross checking has been implemented.

A fifth reform involves the creation of supervisory boards to oversee the operation of social insurance agencies at all levels. These boards are to be composed of representatives of the employers, employees and other governmental institutions. Unfortunately, their roles and authorities are unclear and they rarely meet.

Finally, the Liaoning pilot introduced a new financial management procedure in order to insulate the funds that were to flow into the individual accounts within the pension system. Under that procedure, all funds to be allocated to individual accounts are to be shifted to the provincial level and managed by the finance department there. Unfortunately, there is no corresponding data flow. Thus, provincial authorities know how much money has been transferred, but they do not know by how much aggregate balances in the individual accounts in the province have increased.

2.2.3 Administrative controls

Higher-level agencies are not able to exert sufficient administrative control over the lower level agencies to assure implementation of the national programme. For example, under the 1998 pension reform decree of the State Council, pension contributions were to be pooled at the provincial level. This provision has been fully implemented in only three provinces, however. Elsewhere, county-level governments have been reluctant to transfer the sums they collect to higher levels of Government knowing that, if resources are insufficient to cover pension benefit payments, they will have to use their own general-purpose budgets to close the gap. Resistance at lower levels even limits the ability of provincial-level agencies to collect solidarity funds for use in subsidizing deficit regions.

The autonomy of the local agencies makes it difficult to enforce uniform benefit procedures. Faced with a major employment reduction at a local enterprise, local officials may allow displaced workers to claim retirement earlier than the law provides. They may also award higher benefits or index them more rapidly than the law provides.

2.2.4 Policy-making functions

Programme officials and government finance departments have very little information with which to manage the programmes, evaluate their impacts, or project future costs. Programme policies must be developed based on scattered information, professional judgements, and individual impressions, without good information on who will be affected or how much they will cost. Social insurance agencies and government financial departments generally do not project programme activities more than a year or two in advance.

2.3 Administrative issues

The compliance and control weaknesses are the consequence of a variety of problems plaguing administration of the Chinese social insurance system, ranging from inadequate resources to outmoded operating procedures.

2.3.1 Organizational structure

The decentralized organizational structure greatly complicates the task of operating the social insurance programmes. Officials at higher Governmental levels are not able to change the allocation of administrative resources among lower levels or to assure that desirable operating practices and procedures are followed. Local social security offices receive their administrative resources from their local governments and turn to their local governments for subsidies if contribution income is not sufficient to meet benefit payments. In this circumstance, they are likely to be as responsive to the views of local government officials as to those in the social security agencies at higher levels of government.

Insurance programmes in general and social insurance programmes in particular can benefit from substantial economies of scale when they cover large populations. Many of the local administrative units in China are too small to realize these scale economies, leading to needless inefficiencies in programme operations and increasing the overall cost of the social insurance programmes.

The inefficiencies of the current arrangements will probably lead to a gradual evolution toward a more centralized administrative system. In the meantime, it may be desirable to change the way administrative resources are distributed to give provincial-level agencies greater control over the operations of subordinate agencies.

2.3.2 Inadequate information systems

The compliance and financial control problems cannot be resolved without major improvements in information management capabilities. At present, information systems are developed at each independent agency. Each agency's programme and management information systems are designed and constructed more or less independently, leading to incompatible systems produced at higher cost due to duplicated efforts. In general, except by exchanging paper copies of records, data cannot be transferred between agencies. Resources are adequate in some agencies and inadequate in others, leading to the use of more sophisticated approach than are probably needed at some locations while other locations have essentially no automation at all.

All individual records are maintained at either the city or the county level, usually the level at which the finances are pooled. One practical consequence is that persons who worked at

least fifteen years in each of two geographic areas could actually draw two pensions, without either jurisdiction being aware of the pension payment from the other.

The State Council has set as an objective the creation of a uniform information technology system for the whole country by the end of 2003, and the Information Centre at the MOLSS in Beijing is responsible for achieving this. The odds of success within the stated timeframe are slim. Among the obstacles are:

- The provinces, cities and counties do not follow a uniform set of procedures in administering social insurance. They have different policies, use different methods to compute benefits, and so forth.
- Agencies tend to develop separate software applications for each line of insurance. These applications do not interact with each other.
- Although the Information Centre has issued a standard set of data definitions, the provinces don't necessarily use the standard definitions.
- Some agencies have no specific department for information management.
- A shortage of personnel skilled in computer systems development, particularly considering the inefficiencies of such a decentralized approach.
- Inadequate resources and organizational arrangement for maintaining current systems and updating them to reflect policy changes.
- Lack of a reliable unique identification number.

2.3.3 Problems with identification numbers

Problems with the individual identification numbers are a major barrier to developing a regional or national database containing individual level information. The absence of such databases makes it more difficult to control financial flows at lower levels in the social insurance hierarchy and prevent multiple receipt of benefits by those who have worked in more than one jurisdiction.

The state issues each individual a 16-digit identification number based on the date and location of the individual's birth. In principle, the algorithm should produce unique numbers. The process of assigning the numbers appears to be labour-intensive and error-prone, however, with the result that some people have more than one number and some numbers are assigned to more than one person. Officials in most parts of Liaoning Province and several parts of Guangdong Province have decided to issue their own social insurance numbers to avoid the problems associated with the national number. Independent efforts to assign a new set of numbers at the provincial level are unlikely to be an adequate solution to the problem, however, as they aren't likely to allow the creation of a national database without Central leadership of the effort.

2.3.4 Inadequate staff training

The staffs of the social insurance agencies generally lack professional and technical training. Staff at all social insurance agencies at the end of 2000 totalled 74,945. While 60 per cent are college graduates, only 2 per cent have advanced qualification certificates, 21 per cent have middle-level qualification certificates, and 29 per cent have primary-level qualifications. Skills in particularly short supply include computer programmers and managers, auditors, statistical analysts, legal experts and actuaries.

High priority training needs as seen by officials in the agencies visited were general management issues, social insurance principles, current operating procedures, and

computer use. The task of preparing and delivering such training is complicated by the variation in procedures from office to office, which limits the ability to deliver a standard training curriculum based on a standard set of training materials.

2.3.5 Outmoded business processes

Information collection and processing procedures were developed when coverage was limited to a relatively few state- and collectively-owned enterprises. They implicitly assume a well-ordered, planned economy dominated by enterprises with large personnel offices operating without binding budget constraints.

For example, enterprises are supposed to report individual earnings information monthly, but are allowed to report only when some piece of information has changed. The implicit assumption is that wages and hours will rarely vary from one month to another, and the resulting arrangement encourages enterprises to ignore changes that do occur. Reports tend to be on paper and must be filed in person by a representative of the enterprise. Claims for retirement benefits are prepared by the enterprise at which the individual is employed. The enterprise is responsible for gathering the required documentation, including records from previous employers.

2.3.6 Ineffective audit procedures and monitoring

Social insurance agencies are now required to inspect the records of each enterprise at least once a year, but they are not able to do much more than check to see if the numbers in the reports agree with the numbers in enterprise records and were added up correctly. Too many enterprises are being visited with too few staff and the latter are not sufficiently trained in audit techniques, with the result that audit activities appear to have little impact on compliance.

In addition, little effort is made to check the information reported to one government agency against that reported to another agency. For example, enterprises report wage information to social insurance agencies, the tax agency and for the purpose of obtaining housing subsidies. Even when the tax agency collects social insurance contributions, the social insurance declarations are rarely compared to the tax declarations. Problems arise because of differences between the social insurance contribution base and the tax base and in the timing of payments. Officials also admit to having insufficient human and information management resources to allow cross comparisons.

2.3.7 Confusion about roles

The decentralization of the responsibility for managing the system, the variety of approaches available for administering the system, and imprecise directives from higher level institutions have caused confusion about respective roles and responsibilities. As noted previously, the roles, responsibilities and authorities of the Supervisory Boards are unclear, limiting their impact on financial control, customer service, or operational efficiency. Where responsibility for collections has been assigned to the taxation bureau, some officials seem unclear as to which agency is responsible for assuring that enterprises are registered, that payroll reports are accurate, or that payment arrears are tracked.

2.3.8 Legislative authority

There is currently no law specifying how the social insurance programmes are to be operated. Although the Central Government is now developing such a law, it will apparently be another two years before it is finally adopted. In the meantime, the various

social insurance programmes operate under decrees issued by the State Council and the various Ministries in Beijing. In some cases, these decrees are vague, leaving it up to local officials to interpret how the programmes should be implemented. Predictably, interpretations differ from one locality to another. There is also confusion as to the legal status of the directives. Some local officials appear to believe (or act as if they believe) that the directives are advisory and not binding, so that benefit formulas, retirement ages, and the definition of covered earnings or covered employment can vary among localities.

Even where the Province has adopted a particular policy, employers may not be aware of the policy, leading to inadvertent non-compliance. Officials in Guangdong Province suspect that lack of knowledge of the rules explains why some enterprises do not pay unemployment contributions for their migrant workers and some township and village enterprises (TVEs) are not making the social insurance contributions that they should be.

2.3.9 *Inadequate management information and performance monitoring*

Information systems weaknesses and the absence of standardized operating procedures prevent the collection of more than the most basic management information and prevent effective performance monitoring. Information is not available on the distribution of covered employment by wage level or age or on the distribution of beneficiaries by benefit level, location, age, and so forth. Similarly, little information is available on the pace of administrative processes, such as the speed with which claims are processed.

Where information is being tracked, the effort may be counter productive. Collection performance is evaluated based on the fraction of acknowledged contributions that are actually collected. In principle, localities that fail to reach 90 per cent on this measure are not eligible for financial assistance to cover deficits in the pension or UI programmes. The use of this particular measure has the effect, however, of discouraging officials from searching for unreported contribution liabilities unless it is clear that those liabilities can be collected. Otherwise, attempts to increase compliance may lead to deterioration in measured collection performance.

2.3.10 *Inadequate administrative resources*

Officials were not willing to make available figures on local office administrative budgets or staffing. Staff at offices visited consistently complained of staff shortages and officials repeatedly cited limited information technology resources as contributing to administrative difficulties. Even if additional resources could be found, however, it would be difficult to allocate them effectively without reforms in process design and work measurement. It is difficult to evaluate staffing and training needs in the absence of standardized operating procedures and work measurement techniques.

3. Social security legal coverage

3.1 Social insurance provisions

3.1.1 Current provisions

The current legal requirements concerning coverage are outlined in Table 3.1. Under current regulations, all five insurance branches are to cover all enterprises and public institutions located in urban areas. In addition, medical and maternity insurance are to cover government agencies and private non-enterprise units and employment injury insurance (EII) also covers non-enterprise units. Provincial level governments may, at their option, extend coverage of UI to social organizations and private non-enterprise units and coverage of the pension, unemployment and medical systems to the self-employed.¹⁸

Table 3.1 Coverage of Chinese social insurance programmes

	Pensions	Unemployment insurance	Medical insurance	Work injury	Maternity insurance
Urban enterprises					
State-owned enterprises (SOEs)	M	M	M	M	M
Urban collective enterprises	M	M	M	M	M
Foreign & Special administrative region funded enterprises ¹	M	M	M	M	M
Urban private enterprises	M	M	M	M	M
Other urban enterprises	M	M	M	M	M
Public institutions	M	M	M	M	M
Government agencies			M		M
Social organizations		O	M		
Private non-enterprise units		O	M	M	M
Self-employed	O	O	O		

M = Mandated by regulation; O = Provincial option.

¹ Includes enterprises funded from Hong Kong, Macao and Taiwan.

Source: Pensions, unemployment insurance and medical insurance from *Provisional Regulations on Social Insurance Contribution Collection*; work injury and maternity information from ILO background studies completed by the China National Academy of Social Insurance.

Additional provisions further complicate the coverage picture. Arrangements for pooling work injury contributions have not yet been implemented in all counties, and covered employers may elect to self-insure even where pools do exist. Under the regulations now covering unemployment insurance (UI), workers who are legally resident in rural areas but

¹⁸ Coverage among social organizations is limited to full-time employees.

are working in an urban area under an employment contract are exempted from paying the employee contribution, although their employer is not exempt.

3.1.2 Legal changes under consideration

Additional changes are now being discussed in the context of several draft laws and regulations. Some have already been implemented in some provinces. Under draft regulations covering the pension system, workers who are legally residents of urban areas are covered if they are employed at township and village enterprises (TVEs), whether the enterprise is located in an urban area or in a rural area. A draft social insurance law that is being prepared to for consideration by the National People's Congress would extend mandatory coverage under the basic pension programme to government organisations and mandatory coverage under both the pension and UI programmes to social organisations and private non-enterprise units. It would also allow provinces the option of extending coverage of any of the five branches of social insurance to all TVEs, whether they are located in rural areas or in urban areas. Current regulations do not mention TVEs. In the absence of an explicit prohibition, Guangdong Province has extended coverage of all of its social insurance programmes to TVEs. That draft law would also authorize the optional extension of work injury protection to urban self-employed.

Two other changes now being implemented will have the effect of expanding coverage of the various social insurance programmes as a by-product of revisions of the definition of what constitutes an urban area and what constitutes a township and village enterprise. The Government is now reclassifying as urban a number of rural regions that have become urbanised in the last several decades. This step will automatically extend coverage of all five forms of social insurance to any private, collective or state-owned enterprises (SOEs) located in the region. The Government is also redefining township and village enterprises by limiting that designation to enterprises that are located in rural areas. That would automatically extend coverage to all current TVEs located in urban areas, even though they may continue to be owned or sponsored by rural townships or villages. In combination, these two changes could substantially increase the number of workers who are employees of urban enterprises and therefore covered by the social insurance programmes on a mandatory basis.

3.2 Effective coverage in terms of contributors to social insurance

Actual social insurance contributors during 2000 are shown in Tables 3.2 and 3.3. At the end of 2000, total employment in urban enterprises was 128 million. An additional 60 million worked in other urban institutions and 21 million urban residents were self-employed, yielding a total of 213 million employed urban persons. The pension, unemployment and medical care programmes each had just over 100 million contributors. Far fewer workers were covered by social pooling arrangements under the work injury and maternity programmes. The rest of the work force covered by these two programmes worked for employers that self-insured.

Table 3.2 Total number of social insurance contributors, 2000 (in thousands)

Pensions	104,473
UI	103,263
Medical care ¹	101,240
Work injury	43,503
Maternity	30,016

¹ Workers only, excluding retirees.

Source: *China Labour Statistical Yearbook, 2001*.

Published data gives somewhat more detail about those contributing to the pension, unemployment and work injury programmes, allowing a comparison of contributors to total employment by enterprise type, as shown in Table 3.3.¹⁹ This comparison shows coverage rates in excess of 95 per cent among collectively owned enterprises for pensions and UI. Among SOEs coverage rates are lower, running 73 per cent for UI and 80 per cent for pensions. If the breakdown of coverage under the unemployment programme is indicative of the situation in pensions also, the coverage rate for the foreign funded enterprises is only slightly less than that for the SOEs.²⁰ The remaining “other urban enterprises” are mostly private enterprises with domestic owners. Coverage among these enterprises under the UI programme is less than 25 per cent and it is probably only slightly higher under the pension programme.

Table 3.3 Coverage of pension, unemployment and employment injury insurance programmes, 2000 (Employment end of 2000 compared to contributors during 2000)²¹

Sector	Total employment	Pension		Unemployment		Work Injury	
		Contributors	%	Contributors	%	Contributors	%
		(x 1000)		(x 1000)		(x 1000)	
Enterprises							
State-owned	81,020	64,666	80	59,131	73	21,772	33
Collective-owned	14,990	14,669	98	14,454	96	6,700	45
Other enterprises	32,510	11,876	47	10,436	32	6,953	21
Foreign ¹	6,420			4,460	69	3,284	51
Other	26,090			5,976	23	3,669	14
Total, Enterprises	128,520	91,241	71	84,021	65	40,765	32
Non-enterprise	62,860	13,232	16	19,242	31	4,738	8
Total urban	212,740	104,473	49	103,263	49	43,503	20

¹ Includes enterprises funded from Hong Kong, Macao and Taiwan.

Source: *China Statistical Yearbook, 2001* (employment) and *China Labour Statistical Yearbook, 2001* (contributors).

¹⁹ Unpublished data for 2001 suggest that contributors to the work injury programme constitute about 33 per cent of employees of state-owned enterprises, 45 per cent of employees of collective enterprises, and 21 per cent of employees of other enterprises.

²⁰ Foreign-owned includes enterprises owned by residents of Hong Kong, Macao and Taiwan.

²¹ Total contributors may also include an unknown number of rural workers covered in TVEs in provinces that extend coverage to these enterprises.

Coverage rates for work injury run less than half of the rate for unemployment or pensions, except among the foreign funded enterprises. A part of the gap is because pools have not been set up yet in all counties. Most of the gap is because enterprises have not affiliated yet with the pools that have been set up in their locale. To the extent the non-participating enterprises are financially sound, their employees may still have adequate coverage on a self-insurance basis. To the extent that the non-participating enterprises are not financially sound, their employees are at risk.

Taken together then, the pension and UI programmes appear to reach roughly two-thirds of the employees of urban enterprises, even though in principle virtually all of these employees should be covered under current regulations. They reach just under one-half of the total active urban population.²² Coverage under the work injury programme is harder to establish, but is likely less than under the pension and UI programmes.

3.3 Social insurance coverage issues

3.3.1 Urban workers

The major coverage issues affecting urban workers involve coverage for the self employed and better enforcement of the current or likely future provisions. Technically, the regulations already cover the vast majority of urban employees. There are no exemptions for small employers and the few enterprise types not now covered on a mandatory basis would be brought in under the draft law now being debated. Improved coverage for urban employees is primarily a matter of improving compliance with current rules rather than changing the rules.

Improved compliance will require improvements in administrative processes, as noted in the previous chapter. It will also require the authorities to clarify the current coverage rules and better communicate them to employers. Particularly with respect to the SOEs, compliance improvements may also require the political will to force the enterprises to meet their contribution commitments, even in the face of adverse financial conditions.

Assuring adequate coverage for the self-employed is a challenge even in highly developed economies, as it is more difficult to enforce registration rules and to evaluate the accuracy of earnings declarations. For the present, it may be wise to continue the present approach that allows some provinces to test ways to extend coverage to this group without trying to implement a uniform national policy. The regulations already provided that all workers must contribute on an amount equal to at least 60 per cent of the average wage of the province, which would help to limit the loss due to inaccurate declarations among the self-employed.

3.3.2 Gap in coverage of employees of township and village enterprises

Township and village enterprises grew rapidly in the 1980s and continued to grow, if less rapidly, in the 1990s. They have become an important part of the economy. They are a highly diverse set of institutions, however, with wide differences in size, structure, financial condition, location, and workforce, making it difficult to develop an appropriate policy about their coverage under social insurance.

²² Total contributors may also include an unknown number of rural workers covered in TVEs in provinces that extend coverage to these enterprises.

The shifting composition of the TVEs is illustrated in the date in Table 3.4. Whereas they were primarily engaged in agricultural and industrial activities 20 years ago, they have now branched into wholesale and retail trade, tourism, and a variety of other activities. They are not necessarily even located in the townships and village that sponsor them. An unknown fraction of their workforce has severed their connection to farming and now even includes persons registered in urban areas.

Table 3.4 Employment in township and village enterprises (% distribution by industry)

	1980	2000
Distribution of employment (%)		
Agriculture	23	2
Industry	65	58
Construction	9	12
Transport	4	7
Trade		12
Tourism & Catering		7
Others		2
Total employment (x 1000)	26,822	128,193

Proposals to improve pension coverage among TVEs typically focus on one of three strategies: to extend coverage under the current urban pension system to the TVEs, to create a new pension system tailored exclusively to TVEs, or to rely on a rejuvenated system of voluntary rural pensions in order provide pension coverage. Of the three, expansion of the coverage under the urban system appears to be the most likely at this time. At present, the effort to promote voluntary pension protection in rural areas appears to be stalled and there are no concrete proposals for creating a special system for TVEs. One problem with the latter approach is that creating a separate pension system will require developing a mechanism for transferring credits between the TVE system and the urban pension system.

There is little reliable information on current pension coverage patterns among TVEs. Studies find that in some TVEs, many employees are covered through enterprise contributions to rural pensions. In other TVEs, some employees are covered by the urban pension system while others are covered by the rural system. Many TVE workers are not covered at all.²³

Another serious gap is the lack of coverage for health insurance among TVEs. In 1998, only 13 per cent of the rural population had any kind of health insurance coverage. Employees of TVEs were an unknown fraction of this 13 per cent. The rest were farmers or employees of rural private enterprises. Given the low coverage for the rural population has a whole, it is clear that most TVEs do not have arrangements to provide health insurance to their employees.

The size of the TVE coverage problem will be clearer when final decisions are made about reclassification of enterprises and of urbanising areas. The likely outcome of the current coverage debate is that provinces will be encouraged, but not required, to extend

²³ Leisering, Lutz, Sen Gong and Athar Hussain, *Old-age Pensions for Rural China? Challenges and Policy Options*, Report on Small Scale Technical Assistance No. 3607, Policy Support for Social Security Reform under the *Tenth Five-Year Plan*, Asian Development Bank.

coverage of the urban social insurance systems to the TVEs, which is the approach contained in the current draft social insurance law. As Guangdong province has already taken this step, a thorough review of their experience may help other provinces extend coverage.

3.3.3 *Absence of mandatory measures for farmers*

The most critical gap in the social protection system for farmers is the lack of health insurance in rural areas. In 1976, 90 per cent of the rural population participated in a health insurance programme. By 1998, that figure had fallen to 13 per cent. The decline is due largely to the collapse of the rural collectives, which had previously been the mechanism for providing health insurance coverage. The decline in coverage has left the vast majority of rural residents with no health insurance protection at all, leaving them vulnerable to impoverishment if they are confronted with a case of expensive health care.

In 1991, the Ministry of Civil Affairs established on a pilot basis a system of voluntary pensions. Over the next few years, it was gradually extended to all but one of the provinces and the majority of counties in the country. Although rural residents still have this option available, it may also soon wither away.

At least at the national level, the system of voluntary pensions has been controversial. Governmental units at the lowest level of government manage it, with the quality of management varying widely from place to place. A fee levied on contribution collections covers administrative costs. Management quality may be a particular problem in the poorer areas, where such fees will not raise sufficient resources. The programme has been much more popular in the higher income counties, so that participation could surpass 50 per cent of eligible individuals in some parts of the country and be next to nothing in other parts. Other concerns include financial management shortcomings, which have led to concerns about diversion of funds, and reports that some residents have been coerced into participating. Some also question the wisdom of encouraging contributions to pension programmes rather than to acquiring health insurance or covering educational expenses.

Responsibility for the rural pension programme was transferred to the Ministry of Labour and Social Security (MOLSS) in 1998. At about the same time, the State Council called for a pause in the expansion of the rural pension pilot while it considered the appropriateness of encouraging commercial insurance companies to assume responsibility for voluntary pensions. It remains to be seen whether commercial insurance is a realistic option, particularly in the poorer areas where participation has traditionally been low and administrative resources scarce.

The Chinese voluntary pension system is unique in the world. It has promise for extending important social protection to a population that is often ignored. However, it may be wise to conduct a systematic review of its accomplishments and failures before proceeding either to begin emphasising its importance or deciding to phase it out.

3.3.4 *Loopholes in the coverage of migrant labour*

Under the current regulations, rural migrants employed in urban enterprises are covered for all forms of social insurance under the same conditions as urban workers, except for UI. Under that programme, rural migrants are exempt from paying the 1 per cent employee contribution and, when unemployed, receive a lump sum payment in the nature of severance pay rather than a monthly benefit.

In practice, however, rural migrants may not be treated as well. In some cases, employers will try to keep them indefinitely on temporary status by never giving them a labour contract that extends for the minimum three months. Even if the rural migrant does have a

permanent contract, the employer may simply ignore the current regulations and evade contribution payments. Rural migrants are likely to have fewer alternatives when their employer denies them coverage. They may also have a short time horizon and not be as concerned about whether they are covered or not. In either event, the most important step to improve coverage for migrants is likely to be the same as the most important step to improve coverage for urban workers, enhanced compliance.

3.4 Social assistance coverage issues

As noted in Chapter 1, the Ministry of Civil Affairs estimates that the minimum living standard subsidy programme served 12 million people in 2001 and projects that it will serve 15 million in 2002. At that level, total enrolment in the programme begins to approach the estimated number of urban poor. However, the programme is now being extended into the rural areas where both public and private resources are far lower. Median per capita net income among rural households in 2000 was roughly 2400 yuan, or less than one U.S. dollar per day.²⁴

As noted previously, the Central Government is putting pressure on the provinces to extend the minimum income guarantee programme to all urban areas. Its extension to rural areas is more problematic such that it is encouraged to take place only once resources permit.

²⁴ *China Statistical Yearbook, 2001*, Table 10-16

4. Pension insurance

4.1 Basic pension system for urban workers

Reform of the pension system began in 1991 with a decision by the State Council to shift responsibility for providing pensions from individual enterprises to a new set of government institutions. Documents articulated three principles for the new system: (1) pooling of finances by shifting the source of benefit payments from an enterprise operating budget to multi-employer accounts financed through social insurance contributions, (2) sharing the financial burden among employers, employees and government, and (3) partial reserve financing.

In 1995, the State Council decided to change the structure of pension benefits, adopting a two-part benefit formula. The first part was to be a flat benefit scaled to the average earnings level in the province in which the worker retired and the second was to be based on contributions accumulated in an individual account. In July 1997, the contours of the current system were completed with the adoption of *State Council Decision No. 26*. That document defined a new path for social security reform and established the contribution and benefit provisions now in force.²⁵

4.1.1 Coverage

The system covers all urban enterprises and public institutions. At present, government agencies, social organizations and private non-enterprise units are not covered. Provincial-level governments may extend coverage to the self-employed, if they believe that the situation in their province is appropriate. Draft legislation would also authorize provinces to extend coverage if deemed appropriate to township and village enterprises (TVEs). At least one province, Guangdong, has already done this.

4.1.2 Eligibility

Workers must have 15 years of credits to be eligible for benefits. The normal retirement age is 60 years for men, 55 years for female managers, and 50 years for other women. Retirement age is reduced by five years for those working in hazardous occupations and for certain employees of state enterprises that lost their jobs because of the failure of the enterprise.

4.1.3 Benefits

Effective June 1998, the basic benefit was equal to 20 per cent of provincial social average wage (SAW), adjusted annually by the same percentage amount as the SAW itself changes. The monthly benefit from the individual account is the balance in the worker's account at retirement divided by 120. This benefit is to be adjusted annually by 40 per cent to 60 per cent of the increase in the average contributory wage in the city in which the worker lives.

²⁵ It is, however, not clear how uniformly these provisions are followed. Apparently individual county-level governments occasionally adjust actual benefit levels, retirement ages and coverage provisions.

Workers with earnings credits prior to July 1998 who retire after July 1998 are also eligible for a two-part transition benefit. One part is a flat monthly benefit equal to 10 per cent of the provincial 1997 SAW.²⁶ The other part is calculated by multiplying the worker's career average indexed earnings by 1 per cent for each year of service between ten and 15 years and 1.2 per cent for each year of service over 15 years. Only years prior to 1998 are counted as years of service.²⁷ The transition benefit is adjusted annually in the same manner as the individual account benefit.

The balance in the worker's individual account is determined by cumulating those contributions made by or on behalf of that worker that are earmarked for individual accounts. The balance in each worker's account earns interest at a rate set by the provincial government, taking into consideration the rate of interest being paid on government bonds and on deposits at state banks and the rate of growth of provincial contributory wages.

4.1.4 Financing

Employee contribution rates are gradually being increased from 4 per cent in 1998 to 8 per cent. The increase is being implemented using different schedules in different cities. It was fully effective in 2001 in some cities, but will not be fully effective until 2003 in others. Employer contributions vary between localities. They are supposed to be no more than 20 per cent, but in practice may be higher or lower, depending on the financial condition of their pool. Rates above 20 per cent are to be approved by the State Council. The contribution to the individual account portion of the benefit is 11 per cent of wages.

The employee contribution is to be levied on overall earnings (including subsidies and bonuses), except that the total for each employee can be no lower than 60 per cent nor higher than 300 per cent of the SAW. The employer contribution is supposed to be levied on the total payroll. In practice, it may be calculated against the preceding year's, or preceding month's, payroll.

Government contributes to cover deficits in the system. In 2000, the Central Government contributed 33.8 billion yuan to cover deficits in the pension system, thus financing about fifteen per cent of benefit payments. There is no specific formula for how government contributions are to be divided among county, prefecture (city), provincial and national levels. In 2000, 24 of the 31 provinces collected less in pension contributions than they paid in pension benefits.

4.1.5 Social security pooling

The State Council decree called for pooling of pension contributions at the provincial level, although it is in effect in only three provinces. In practice, contributions are typically pooled at the county level, although prefectures and provinces operate solidarity funds that make a portion of the contribution revenue available for redistribution to other localities.

²⁶ Prior to 1998, the basic benefit was 30 per cent of the SAW. This part of the transition provision has the effect of gradually reducing the basic benefit to 20 per cent of the SAW. As prevailing wage levels rise, the 10 per cent element remains fixed in nominal terms.

²⁷ The second part of the transition benefit substitutes for the portion of the individual account that would have existed had the new approach been in effect over the worker's entire career.

4.2 Supplementary pensions

Supplementary pensions play an important role in providing an appropriate level of retirement income in many countries. Accordingly, it is the P.R. China government objective to promote self-reliance in individual savings (with the help of the employer in the case of occupational schemes) to provide for individual retirement.

MOLSS, in co-ordination with the MOF and the People's Bank of China, is responsible for developing the social security regulatory framework, administrative arrangements and guidelines for private pension fund management. The China Insurance Regulatory Commission, on the other hand, regulates individual pensions such as life insurance, annuities or group pension products.

Occupational pension schemes are at a very early stage of development in China. Latest statistics from MOLSS shows that about 10,000 companies cover close to five million employees with a supplementary pension. National accumulated reserves stood at over 30 billion RMB at the end of 2000. More than 3.1 billion RMB have been accumulated in Shanghai alone.

Occupational pension schemes are under the same investments constraints as the social insurance funds, i.e. 80 per cent state bonds, 20 per cent bank deposits.

The notion of supplementary pensions is not totally understood in China. During a visit to an enterprise in Guangdong province, the company's supplementary pension scheme was described to us. The company was basically running a profit-sharing plan where 10 per cent of profits would be shared between all the enterprise's pensioners on a monthly basis. A communication strategy should be developed and implemented in order to increase knowledge and awareness on company pensions. Also, a new taxonomy of supplementary pensions should be established.

The great majority of occupational schemes in existence today are essentially sector-based supplementary pension pools. If a company wishes to establish a supplementary pension scheme it must join one of the existing sector schemes.

The State Council has mandated the SIF Supervision Department of the MOLSS for the development of supplementary pensions (company pensions). However, SIFSD has no or little expertise with the supervision of pension fund investments. It is necessary to provide support for the development of appropriate policy and to build institutional capacity for supervision.

The Government has introduced tax incentives to contribute to the development of occupational pensions. An enterprise may deduct from its taxes up to 4 per cent of employee wages. Likewise, employee contributions of up to 4 per cent of wages are tax deductible. This tax incentive has had little success with employees since most pay no or little taxes. Another factor that restricts development of supplementary pensions is the generous level of public pension benefits under the present system, which overcrowds the private market.

The new Trustee legislation adopted in October 2001 was necessary for the development of supplementary pensions and for the protection of participants. The new laws allow enterprises to appoint a trustee to hold company pension funds thus segregating employee funds from other assets. However, few details are available concerning the supervision of trustees.

We were told that regulations concerning supplementary pensions were circulating but had no additional information on the content or the objectives of them.

It was quite clear from visits and interviews with representatives of supervision departments at different levels that the roles and responsibilities of supervision of supplementary pensions (Central or provincial or local government) have not been established yet. Priority areas include:

- qualification criteria of investment managers;
- investment regulations;
- performance evaluation of investment managers;
- reporting requirements from investment managers;
- supplementary pension law and regulations.

4.3 Pension policy issues

4.3.1 High level of benefits for certain groups

The replacement rate of pensions is presently very high because of generous transitional pensions paid to workers who contributed under the former rules. In addition, certain local authorities adjust the level of benefits by setting their own standards to fit the situation of certain groups. The replacement rate may reach 100 per cent in some cases.

Pensions are calculated on the basis of the average wage in a community and not on the individual earnings of the retiree. This pension determination method puts China in a coverage dilemma – on one hand, there is a need to expand coverage so as to increase the contributory base used for pension financing and to offer old-age income security to all; but on the other hand, if the efforts put on the coverage extension attract mainly workers at the lowest levels of earnings (e.g. workers from TVEs and self-employed), these new contributors will benefit from the average pension while contributing at the minimum level, thus putting additional pressure on the pension system.

The “120 factor” – used for the conversion of individual accounts into annuities – produces overly generous pension amounts considering the actual life expectancy after retirement of Chinese workers. The pools have to support this windfall benefit. For example, in Guangdong, life expectancy is 16 years at age 60 for men and 23 at age 55 for women; rough calculations based on men’s life expectancy reveal that factor should be at least 180.

The indexing mechanisms are not uniform. Different parts of a pension received by an individual (basic vs. transitional vs. individual account) may benefit from different indexing factors (total vs. partial wage indexing; consumer price index [CPI] vs. wage indexing). In addition, the indexing mechanisms vary by province.

4.3.2 Low retirement ages

As noted in Section 4.1.2, the normal retirement age is 60 for men and 50 for women (55 for female managers). These retirement ages are too low considering actual and projected life expectancy. In addition, certain local authorities do not respect benefit conditions and standards of national regulations, and allow lower retirement ages by adopting their own retirement procedures for certain workers.

Early retirement is an unresolved problem. In recent years, the Government has issued policies that encouraged early retirement in specific situations. For example, in “111 trial city”, according to the *Optimization of Capital Structure*, employees of state-owned enterprises (SOEs) in bankruptcy, employees in textile enterprises and in closed mining

enterprises could apply for early retirement. In 1999, 1.67 million employees took early retirement, representing 15.7 per cent of the total number of retirees. In 2000, the number of early retirees was 0.34 million, representing 16.2 per cent of the total number of retirees. In the first half of 2001, the number was 0.18 million, representing 18.6 per cent of the number of retirees.

4.3.3 Limited and inadequacies of survivors' and invalidity benefit provisions

There are no survivors' pensions. Only lump-sums are paid, which do not provide adequate income security to dependants. Before retirement, enterprises are responsible for death grants; after retirement, the pension system has the responsibility.

In case of invalidity, the only benefits paid are for work-related accidents or diseases. The pension system does not provide invalidity pensions for non-work related invalidity.

4.3.4 Possibility of multiple pensions

As previously noted, the number of years of contribution required for eligibility to a pension is 15 years. As mentioned earlier, there are difficulties in issuing and maintaining a unique national social insurance number. When this last factor is combined with the short period for eligibility, the increasing mobility of workers and multiple registration numbers, the result could be that some migrant workers have multiple pensions

4.3.5 Contributory base for employer's contribution

There appears to be variation amongst provinces in the determination of the contributory base for employer contributions. In some provinces, the employer contribution is based on the total payroll while in others (Guangdong is an example) employers contribute on the same base as the one used for employee contributions (between 60 per cent and 300 per cent of the average wage). This gives rise to a problem of equity between employers of different provinces.

4.3.6 Particular situation of rural and migrant workers

Pilot programmes have been introduced in rural areas to provide old-age pensions on a voluntary basis, for which the following factors apply.

- Workers alone pay into an individual account a certain percentage (generally low) of their earnings.
- The individual account is credited with interest at a rate specified centrally.
- The retirement age is 60 for both men and women.
- The amount of the monthly pension is equal to the balance in the account at the time of retirement divided by 180.
- There is a 10-year guarantee attached to the payment of the pension.
- Administrative fees are charged on each new contribution paid.

These schemes attract low levels of contributions and do not represent an appropriate sustainable pension policy for rural workers. Problems will also arise with the mobility of workers from rural to urban areas, having to deal with two different pension approaches.

4.3.7 Low rate of return on individual accounts

The rate of return credited on individual accounts is based on the deposit rate of the Bank of China. The real rate of return (net of inflation) is low (presently around 2 per cent) and could even become negative if inflation was to increase even moderately. At negative real rates of interest, contributors would actually subsidize the pension system and eventually receive pension benefits lower than under a pay-as-you-go (PAYG) system with the same contribution rate.

Since there is an intention to move to real individual accounts, these accounts should be invested in diversified portfolios and not just continue with an interest rate linked to the Central Bank rate. The lack of adequate investment vehicles suitable for individual accounts will probably slow down the intended move to real individual accounts.

4.3.8 Unsustainable pension financing policy

Short-term deficits

Because of the insufficiency of contribution rates for the financing of the basic pooled pension, the assets supposed to be accumulated in the individual accounts have been used to finance current pension payments. So, there is no accumulation in the individual accounts. They are notional.

There is no problem as such with notional accounts. But it must be understood that a system of notional accounts leaves the Government with full responsibility for covering annuities when they come due. The migration of workers between provinces, along with the right to portability of individual account balances, will put additional financial pressure on the pools. In addition, notional accounts with no backing assets do not increase national savings, which may be an objective for setting up individual accounts. Interest rates on notional accounts are subject to political manipulation and may have an effect on future tax burdens.

The move from notional to real individual accounts will be difficult to realize in practice. This will add financial pressure to the pools. The pools will have to support the move from notional to real individual accounts. Since the pools are in deficit in some regions, government subsidies will have to make up the difference.

Pooling is predominantly taking place at the city level of social insurance administration, and even at the county level in some areas. Ideally, pooling would be brought to the provincial level or, at least to the city level as a first step, in order to achieve real pooling.

One cause of short-term deficits in pension pools is the significant number of laid-off employees that decreases the number of contributors, while at the same time the number of retirees increases at a fast rate. The pension pools need subsidies from the Government in many regions. This creates a complex and inefficient system of cross-financing between various levels of government and the pension system.

Long-term sustainability of the system

China will experience fast population ageing in the next decades with projected very high contribution rates. In Liaoning, for example, enterprises must contribute on average 22 per cent of payroll for pensions. The level of contribution rates in that province has reached a critical level.

The projected long-term contribution rates (according to World Bank projections) are over 40 per cent. There is thus a need to envisage reform options such as, for example:

- an increase in the retirement age;
- a review of the pension formula to avoid excessive replacement rates for some groups;
- an increase in the number of years of contribution required to be eligible for a pension;
- a review of the indexing mechanisms.

4.3.9 Need for improved financial planning

The financial situation of the pension system cannot be assessed without comprehensive financial and actuarial analysis, and with projections of revenue and expenditure for several decades in the future. Except in five large cities and in Liaoning, adequate forecasting is nonexistent, and most financial planning is limited to one-year budget forecasts. There is a need to set up quantitative units at least in the most developed provinces and at the Central level.

Pension insurance data

An important input for financial projections is a complete and reliable database on contributors and pensioners. There is at present no centralized database at the provincial or city level. Observed in Liaoning and Guangdong were databases at the county level, with their own standards and with limited breakdown of data by age and sex. The only centralization of data at the provincial level is the annual reporting by counties and cities to the provincial authority of a standard blueprint showing only global figures on contributors and pensioners. There is a lack of uniformity of data for a proper centralization and interpretation of the information.

The absence of effectively structured information systems makes it extremely difficult to build local databases for a real national social insurance information system. There is a need to link taxation authorities, social insurance agencies, banks, National Statistical Office, etc., in order to obtain a complete database and to perform a real validation of data.

Actuarial and social budget models

There is a need to extend and adapt the use of actuarial and social budgeting models to the situation of China. These models must include demographic, labour force and economic modules, as well as specific modules for each social security programme. The models need to be flexible so as to adapt to the situation of each province and must permit the links with government budgets at all levels in order to simulate the present subsidy mechanisms.

More capacities for financial and quantitative management

There is a need to set up quantitative units at the provincial and Central level, including actuaries, economists and statisticians. These professionals need to be trained in the use of actuarial and social budget models.

4.4 Impact on pensions of China's entry into the World Trade Organization

Now that China has joined the WTO, it will be increasing the speed at which it is opening its capital markets to the outside world. Over the next few years, WTO membership should sweep away stringent restrictions on foreign banks, leaving their Chinese counterparts open to competition based on financial expertise and technology. In addition,

WTO entry will help pry open China's rapidly expanding securities market, until now largely sealed off from foreign investment.

The accelerated pace of regulatory reform in 2000 was due in large part to China's expected entry into the WTO at the end of 2001. According to its WTO commitments, China will allow joint ventures to underwrite "A" shares and underwrite and trade "B" and "H" shares, as well as government and corporate debt, within three years of WTO accession. The government will also permit joint ventures with 33 per cent foreign ownership to engage in fund management business upon accession, with the ownership ceiling rising to 49 per cent three years after accession. WTO entry should act as a catalyst for further reforms accelerating China's progress toward a market-based economy.

The development of investment funds and the qualified foreign institutional investor (QFII) programme – as a way of partially liberalizing capital account transactions – will be the focus of the next phase of market liberalisation. Development of institutional investors will greatly contribute to the enhancement of corporate governance of listed companies. In addition, institutional investor participation may help lower volatility and curb over-speculation in the market.

Many believe that the real payoff of WTO membership for China will be competitive capital markets rather than trade flows.

With a history of little more than a decade, the securities industry lacks a depth of expertise in developed markets. Fund management, accounting, law, credit rating, securities analysis and bond trading are areas in need of technical assistance.

5. Social insurance fund management

The present situation with Social Insurance Funds (SIFs) results from a *State Council Decision* (2001), which defines social security reform. The pension system was designed as a multi-tiered system combining social pooling with individual accounts. According to *Document 26*, pooling of funds should be at the provincial level. The intention is that the basic pension system would be financed on a PAYG system and pensions from individual accounts would, in principle, be fully funded.

Full implementation of *Document 26* has not been achieved yet and the system is confronted with many difficulties, with most provinces electing to adopt or adapt directives selectively to best suit their local situation or interests. An explanation many foreign and local experts give is the fact that there is no social insurance law (SIL) in P.R. China.

5.1 Relevant social insurance provisions

The SIL in China is not yet adopted. Almost no provisions exist that apply universally to workers in all regions, without consideration for their occupational status or sectors and by all forms of enterprises.

The MOLSS has been working on the SIL for many years. Every revision submitted to the State Council for approval has been returned with a request that it be modified. The latest draft SIL incorporates basically all the directives concerning social security that have been issued and adopted by the State Council and the MOLSS over the last ten years.

A study of this latest draft submitted to the ILO (and translated by ILO Beijing office), indicates that it still has not dealt sufficiently with fund management, regulation and supervision and that important details and elements have been omitted (voluntarily or not).

The following paragraphs contain some comments relating to the draft SIL. They are not a legal opinion and should not be interpreted as such.

- Article Three established State responsibility for the financial sustainability of the social insurance system. According to the draft, “The State will take various measures and broaden channels of raising social insurance funds to ensure the security and yields of the social insurance funds, and provide financial subsidies to the social insurance funds when they are unable to make ends meet.”. Although the State has been subsidizing the social insurance system in the past and is still doing so today, the Liaoning pilot project is the first occurrence of official support from the Central Government for the financing, through a fixed formula, of social security deficits. (It must be said, however, that pensions are guaranteed under the Chinese State Constitution.)
- Article Twenty-two recognizes the jurisdiction of the provincial government level over the administration of social insurance: “... under the jurisdiction of the province, contribution rate setting, benefit levels, administration standards, pooling and utilization of funds must be uniformed and unified.”. The principle of provincial pooling was first mandated in *Document 26* of 1997. The deadline originally set at the end of 2000 came without any clear documented progress. Although the Central Government favours pooling at the provincial level, disagreement at lower levels of government over contribution level and investment policy stalled any attempt at reforms. Some local governments do not want to join higher-level pools because of large variations in population and industry structure. For example, younger and

more modern regions are reluctant to pool with regions with older populations and ageing industries because of the higher cost of pension provision.

- Article Thirty-two briefly addresses supplementary pensions. The draft mentions: “The State encourages working units to set up supplementary pension schemes. Labour and social security authorities of the State Council make the measures on supplementary pensions.” We conclude that the responsibility for developing policies on supplementary pensions lies with the State Council who in turn delegated it to the Supervision Department of MOLSS.
- Article Fifty-six and Sixty institutionalize the physical independence of social security funds by mandating independent management and accounting for each social security fund. China is certainly amongst a very small number of countries that maintains multiple physical accounts for the management of its social security system. Although independent accounting is a recommended practice from the financial and actuarial standpoint, maintaining independent physical accounts is not warranted. With proper governance, accounting and supervision structures social insurance funds could be managed from a single account.
- Article Sixty-five stipulates that the level of interest to be paid on deposit of social insurance funds is the preferential rate set by the People’s Bank of China. With social insurance funds earning such an arbitrarily set rate, it is certainly a source of low-cost financing for the Government. This practice will bring long-term negative secondary effects such as a larger pension liability and increasing pension subsidies from all level of governments.
- Article Seventy-three codifies the principle of Supervisory Commissions (or Supervisory Boards). Such bodies must be set up at all county, city and provincial levels for the purpose of supervising the operation, management and income and expenditure of social insurance funds. However their power is limited to making recommendations to relevant Social Insurance Administrations (SIAs). Almost no details are provided about the operation of the Commissions. We address the role of supervisory boards in a subsequent section.

5.2 Management of social insurance funds

5.2.1 Social security fund administration structure

According to the present social security administration structure, local governments are responsible for supervising and managing local resource pooling and pension funds. Since mid-1994, local labour bureaus at the city and county level have administered social insurance funds. The bureaus take a variety of forms and tend to perform different tasks. The staffing level varies and is not based on any statistical measure. No Central or provincial directives exist as to the number of staff or description of their duties. Local county governments decide on staffing levels. Although this form of organization of social security results from Central Government directives, vertical integration should be pursued in order to resolve many administrative issues, namely varied administrative standards across counties and cities and unequal supervision. (Guangdong has expressed interest in getting assistance for a feasibility study on the vertical integration of social security functions.)

The State Council has assigned responsibility for the management of social insurance funds to the responsible line ministry, which in turn is responsible for appropriating funds for social security purposes and improving macro control and inspection of fund management. More specifically, main responsible line ministry responsibilities include supervision and regulation of SIFs, the development of a regulatory framework for supplementary pensions, and the implementation of a social security budget.

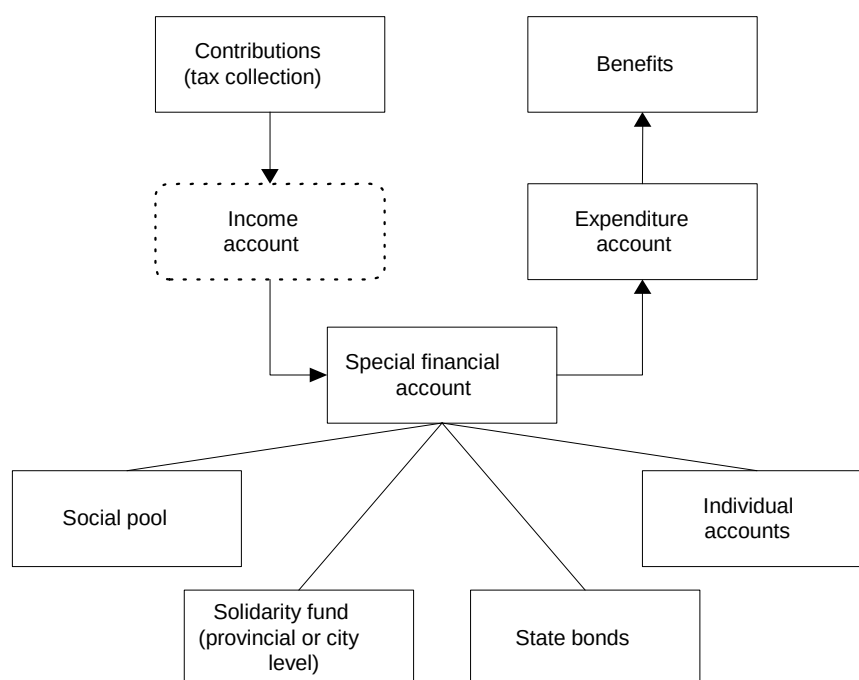
The responsible line ministry established a Social Security Department in 1994 to handle these management functions. Local finance bureaus have replicated this organizational change in the local pools and now manage financial issues and funds related to social insurance programmes.

Before 1997, administration fees for social insurance fund management varied from 0.5 per cent to 5 per cent. In 1997 it was decided to finance “fund management operations” from the operating budget of respective governments in order to protect the value of the funds. Attention should be given to this element for the investment of individual account funds since high administrative costs will reduce the benefit of higher returns.

5.2.2 Understanding cash flow movements under the social insurance system

Figure 5.1 illustrates the flow of funds. Contributions transit through three special accounts (income, special financial and expenditure) before being used to pay social security benefits, invested as reserves or redistributed through social pooling and solidarity funds.

Figure 5.1: Financial flows



The Income Account, under SIA management, is used for the temporary deposit of contributions, solidarity fund disbursements, interest gained on account balance and subsidies.

However, according to regulations issued by the State Council, when the local tax authorities levy contributions, they are transferred immediately to Special Financial Accounts, which are managed and supervised by the MOF and local financial bureaus.

The Special Financial Account system was set up in 1998 in Guangdong. Since January 2001, Guangdong’s employer and employee contributions are paid directly to the local tax bureau. Since mid-2001 Liaoning collects social security contributions through local tax authorities as well. (Notable exceptions in these provinces include the city of Dalian and Shenzhen where contributions are still collected through the respective SIAs).

Under the responsibility of the local finance bureau, the special financial account is used to manage incoming contributions from social security and principal and interest from state bonds and interest income arising from bank deposits. The Solidarity Fund Account is used for purchasing the state bonds according to the Social Insurance Fund (SIF) investment policy. Upon approval of the “payment plan” submitted by the SIA, the local financial bureau transfers the required funds to the Expenditure Account.

Managed by the local social insurance agency, the Expenditure Account is used as the primary account for benefit payment. Monthly requests for payments (payment plan) are made from the social insurance agency to the local financial bureaus. Funds are then transferred from the Special Financial Accounts.

The Expenditure Account is also used to manage the two-month reserve for basic pension benefits. This account bears interest at the bank’s deposit rate.

There are many problems related to the accounting system used for the management of SIF. Although the State Council introduced this system as a means of minimizing the risk of loss and misappropriation of funds, the result has been inefficiencies in the flow of funds while the risk of misappropriation of funds remains.

There are numerous delays in the transfer of funds between the different accounts. The settlement process between the different relevant agencies can explain these delays. The fund management processes should be reviewed in order to minimize the delays that could in turn lead to late disbursement to pensioners.

The timely collection of contributions and the speed of transfer of funds between the tax collector/SIA and the fund managers will become a critical performance factor with the segregated management of individual accounts.

Cash management at the SIA level is considered to be deficient. Funds are often transferred to banks well in advance of the disbursement date, so no interest is gained on the funds. Cash management capabilities and strategies should be developed to maximize the return earned on the funds. A revenue and disbursement projection model should be developed with cash flow projections over 30 days and up to one year on a monthly basis.

According to regulations, SIA must prepare a “benefit payment plan” to be submitted to the local financial bureau in order to initiate the transfer of funds between the Solidarity Fund Account and the Expenditure Account. Because of the inability for the financial bureau to properly assess the fund requirements of SIA, it could overestimate its financial needs by submitting a “padded” benefit payment plan. There is a significant probability of misappropriations because the financial bureau has no means to verify the claim of the SIA. It can only do so after a time lag by verifying that the required funds actually matched the disbursement for a period. However, there doesn’t seem to be a system of systematic follow-up or review. There are no third party assessments either (such assessment could be performed using the disbursement data from the participating banks).

Box 5.1: The main elements of fund income and expenditure management:

1. Fund management (funds budget, funds income account, Special financial account, funds Expenditure Account, accountant system and funds operation);
2. Fund analysis, forecasting and warning (index, statistics, reporting, basic information analysis and forecasting).

According to MOLSS, verifications of Special Financial Accounts from the local financial bureaus are only made once or twice a year.

5.2.3 Social pooling

Social pooling started to appear in the mid-1980s under the leadership of the Central Government as a way to redistribute the costs of pensions among enterprises. One of the two building blocks of the basic pension, social pooling, has the objective of spreading the ageing risks among the population.

In most developed countries, the social pooling of pension contributions is done at provincial or country levels of government. In China, pension pooling is highly fragmented, with relatively small pooling units. Only three provinces have pooling at the provincial level.

Table 5.1 Level of pension pooling in Guangdong and Liaoning provinces

Province	Level of pooling	Comments
Liaoning	City or county	Individual account funds managed by provincial government
Guangdong	City of county and prefecture level, with prefecture and provincial level solidarity funds	System unified in 1998

There are 2,183 counties in China, each of which has on average about half million population. Since the people who are covered by pension schemes are just a fraction of the population, pension pools at the county level tend to be very small (sometimes there is more than one pool in a county or city).

The same can be said about the accumulated reserves, which are relatively high but highly dispersed across counties and cities. According to MOLSS, over 200 billion RMB have been accumulated in hundreds of pools.

In Liaoning province, pension pools have an aggregate of 3.2 billion RMB in reserves. However, 1.4 billion RMB (44 per cent) of the surplus belongs to just one pool, the city of Dalian. The situation in Guangdong is similar to the city of Shenzhen, controlling over 50 per cent of the accumulated reserves. Overall, reserves are concentrated in only 20 per cent of pools. Of note, 62 per cent of the pension surplus for 2000 was concentrated in the seven eastern provinces.

Enterprises in Guangdong contributed between 18 per cent and 20 per cent of wages to basic pensions. This average level was lowered to 16 per cent in 2001 mainly due to political pressure because of a growing surplus and a decrease of the dependency rate (from 27.7 per cent to 16.7 per cent). All enterprise contributions go to social pooling. Employees now contribute 5 per cent of their wages to their individual accounts. Their contribution should rise to 8 per cent within four years.

According to the Guangdong government, at the end of 1999, more than 15 billion RMB of reserves had been accumulated. At the end of 2000, reserves stood at 19.5 billion RMB. Even as accumulated reserves increased, they fell short at the end of 2000 of the accumulated liability in individual accounts that amounted to 20.5 billion RMB. This particular situation arose from the lack of segregation between social pooling and individual accounts. In Guangdong, the individual accounts are notional. There are no firewalls between the two basic pensions, neither in contributions, benefits nor fund management.

Table 5.2 Guangdong Province pension income and expenditure, 2000 (million RMB)

Total Income	17,200
Basic pensions	1,470
Individual accounts	
Interest	78
Subsidies (various levels)	4
Migrants (individual accounts)	20
Central Government	12
Other income	134
Total expenditure	11,400
Basic pension	487
Individual accounts	37
Transitional pension	550
Subsidy to health care	1
Funeral benefits	22
Other expenditure	43
Surplus	5,800

Even with a 5.8 billion RMB surplus in 2000, the social pooling scheme was in a 1.9 billion RMB deficit. The employer contribution was recently lowered despite this situation.

Because their financial situation is viewed positively, Guangdong is not allowed to receive any subsidies for the financial operation of its social security system. The Central Government income line comes from the transfer of responsibility from the Central to the provincial government of sector-based pension schemes. The accounting practices used in Guangdong should be reviewed in order to adjust to the deficit situation in the social pooling.

During our visit to the Guangdong provincial Department of Labour and Social Security (DLSS), it was indicated that the accumulation objective equalled 20 per cent of their pension liabilities. This established a target for the city and county-level governments. However, accurate pension liabilities are not known. In addition, no particular provincial directive, regulation or enforcement system is in place to support such a policy.

There are 21 prefecture level cities and regions and a total of 181 counties in Guangdong. Thirty counties have had a deficit with their social pooling account. In ten counties, the combined contributions from social pooling and individual accounts cannot cover the pension expenditure.

Table 5.3 Foshan City Pool, 2000 (in million RMB)

	Income	Expenditure	Balance	Accumulation
Province	193,120	264,600	-132,680	-38,439
City	54,730	9,180	10,908	32,997
Total	247,850	273,780	-25,930	-5,442

5.2.4 Solidarity basis for the pooling of social security funds

A Solidarity Fund is a social redistribution mechanism with the *raison d'être* of acting as a first line of defence against financing a social security programme shortfall. In the case of pensions, when a county's pool reserves go lower than a pre-set two-month reserve or if there are no reserves, a report is transmitted to the prefecture city pool for redistribution to the deficit pool.

In Guangdong, Solidarity Funds are present at the prefecture city and provincial levels. County level city pools contribute 3 per cent of contributions collected to the higher prefecture level pool and 3 per cent to the provincial level pool. Table 5.4 shows the level of contributions for old-age pensions, employment injury insurance (EII) and unemployment insurance (UI).

In Liaoning, lower level pension pools contribute 5 per cent of collected contributions to the provincial solidarity fund.

Table 5.4 Solidarity Funds transfers – Guangdong province

	Old-age pension	Employment injury insurance	Unemployment insurance
Pooling	3	6	8
Individual accounts	3	9	7
Balance	6	15	10

Here are some of the operational problems that were found with solidarity funds:

- **Accounting deficiencies:** Supervision and assessment were more difficult due to an incomplete provision of information. Although lower pools have to make contributions to the prefecture level pool (3 per cent of collected premiums), the prefecture city of Foshan's solidarity fund reported that no premiums were received for 2000. More transparency with financial operations should exist.
- **Return of excess contributions to lower pooling levels:** Many prefecture city pools returned excess solidarity fund contributions to lower pools, a practice that removed the ability of the solidarity fund to fully exercise its role of accumulating funds to smooth expenditure over time. This practice has to be reviewed.
- **Inability to exercise its "solidarity" mandate:** A very small proportion of funds was being sent to the solidarity funds (3 per cent), thus limiting their effectiveness and the redistributive effect from richer to poorer pools.
- **Enforcement deficiencies:** Lower pools sometimes did not contribute to solidarity funds according to regulations, further weakening the social redistribution mechanism. New directives should be developed and implemented.

It is important to note that the solidarity fund mechanism is a temporary measure. Once the objective of provincial pooling is achieved, the solidarity funds at provincial and local level will be of no use. Until provincial pooling is fully implemented, every effort should be given to increasing the social redistribution capability of the social insurance system.

We conclude from our review that social pooling suffers from many deficiencies. Furthermore, solidarity funds play a very limited role in achieving social redistribution, even in cities within a given province.

5.2.5 *Financing of social security operational deficits*

Although not directly related to the management of SIF, shortfall financing of social security has a direct impact on the operation of social pooling and solidarity funds. During our review there were no formulae for the sharing between the different levels of government of the financing gap. There were no guidelines or formulas for the calculation and distribution of subsidies from and to different levels of government. Adding to the complexity of this situation, the sequence of payments (prefecture level solidarity funds vs. provincial level solidarity fund vs. local budget vs. provincial budget vs. central budget) is established on a case-by-case basis. The subsidy-delivery mechanism must be reviewed with the objective of more transparency. This review is even more important considering that social security system subsidies are expected to increase substantially over the next ten years.

It must be said, however, that as part of the pilot project with Laoning province, the Central Government has established a gap financing formula. The Central Government would cover 75 per cent of any shortfall, province 5 per cent and local city financial resources would cover the remaining 20 per cent. This transparency measure needs to be extended to other provinces as well.

This vague and complex way of resolving deficits further limits the adequate financial planning ability of local governments, and indeed extends to and affects all government levels involved in planning shortfall financing. To resolve the problem, it is necessary to understand the liability structure of present and future social insurance benefit payments, which should be addressed within the context of a cash management/SIF management model.

In terms of financial planning, it must be added that next year's budget is based on current year expenditures. No medium-term financial planning (three-to-five years) is done at the provincial or local level.

5.2.6 *Fund management of individual pensions accounts*

Up to now it has been an accepted practice to manage both social pooling and individual account contributions as a single fund. There are no specific provisions for the management of individual accounts in Guangdong.

As part of the pilot project in Liaoning, the individual account contributions are being segregated from the social pooling fund (PF); the provincial Ministry of Finance manages the contributions. Funds are accumulating at the rate of 3 billion RMB per year.

Liaoning province needs to take steps to ensure an appropriate return on funds while minimizing the probability of loss. A fund management infrastructure must be set up and equipped with appropriate management and investment tools.

5.3 *Supervision of social insurance funds*

The MOLSS is responsible for regulatory oversight, policy development and pension administration of social security for P.R. China. The DLSS at each level of government is in charge of administration and supervision of social security funds within their respective administrative jurisdictions.

Social security fund supervision departments within provincial DLSS are responsible for supervision. They supervise SIA, the management of funds in banks and compliance to investment policy. The MOF, through local financial bureaus, supervises the Social Security Fund accounting system.

The highly fragmented pooling system in P.R. China leads to increased difficulty in supervision activities, which many provinces and the Central Government recognize as a priority area. Guangdong has specifically noted that “completing the supervision system” is the most pressing priority.

As a corollary, the highly decentralized social security system has seen varied and multiple implementations of Central and provincial directives, leading to difficulty in their enforcement. This variety in provincial standards is a challenge to authorities attempting to implement and enforce prudent regulations. A progressive standardization of administrative procedures would alleviate the problem, and is an area where attention is most needed.

Another area of concern is the high number of agencies, often with overlapping responsibilities, involved in the supervision of SIF. Supervision of operations, management and usage of funds is done concurrently by the DLSS and the Departments of Finance and Auditing. The Supervisory Boards are also responsible for the supervision of operations, management and use of the funds.

The disadvantages of overlapping responsibilities may lead to very little enforcement by supervising parties. Moreover, supervising responsibilities are shared at the same level of government with no oversight (or very little) from higher governments. Under such organization, the probability of collusion between departments so as to hide illegal activities or to bend rules is high. The relevance of separating department supervisory policymaking and administrative functions at different levels should be studied.

The adoption and implementation of adequate management and financial control systems are necessary to maximize compliance, detect and penalize fraud and supervise efficiency. Again, the vertical integration of MOLSS and local social administrations would contribute positively to supervisory efficiency.

The structure of the local regulatory agency and insurance bureau, type and extent of supervision and reporting obligations to different level of governments need to be reviewed in the context of provincial pooling, vertical integration, individual accounts segregated management and supplementary pensions.

The Social Security Fund Supervision Department (SSFSD) at MOLSS is responsible for the supervision of the newly created National Council for Social Security Fund (NaCSSeF). However, its role and responsibilities are not clear. What is clear is the lack of tools (both technical and human) for the supervision and regulation of NSSF investments, to which the SSFSD will need to respond. This would mean capacity building in the context of individual account investments in the market, and similarly so it may be warranted in provincial departments.

As of today, there is no structure to regulate and supervise the investment companies.

Because of their notional status, individual accounts are not submitted to different supervision processes.

The State Council has proposed two different ways to minimize risk associated with the management of SIF:

- Supervisory boards (Supervision Committees)

-
- A separate account system

According to the Supervision department of MOLSS, seven provinces have a supervisory board structure in place as required by the State Council. Of the two provinces visited, Guangdong had established a supervisory board; Liaoning had not as yet set one up.

In Guangdong, no more than a skeleton board has been established. The roles and functions of the Supervisory Boards could be strengthened significantly:

- **Reporting structure and governance:** No accountability principles or clear reporting structure had been adopted. The auditing department should report to the board. There were no regular meetings (no one knew exactly when the board met). There was a need for the ability to initiate independent reviews. The board should have independent access to information.
- *Under arrangements in Guangdong, when an incident is reported or discovered by the supervision department, the supervisor is under no obligation to report it to a higher-level authority. In fact, an attempt is made to try to resolve the situation with peers from other departments thus increasing the risk of collusion.*
- **Disclosure requirements:** It is unclear what relevant departments must do with information relating to misuse of social security funds, and they are not required to systematically declare incidents to the supervisory board.
- **No supervision of supervisory boards:** There are no procedures in place to review the work done by local supervisory boards. This should be a function of the Supervision department at MOLSS, and could be a way to promote best practices by sharing the experiences of local supervisory boards.

5.4 Investment of social insurance funds

The State Council first adopted the concept of fund accumulation in 1995.

An important problem affecting the investment of SIF is that pension liabilities are largely unknown. Without meaningful data and financial projections – such as proper cash flow projections in the future – and sensitivity analysis, an adequate asset allocation and investment strategy are not possible. This implies the need for actuarial modelling at the provincial level. With significant different characteristics and population profiles, each province may need a specifically designed investment policy.

5.4.1 Investment policy of social insurance funds

According to current regulations, 80 per cent of reserve funds (the excess over the two-month liquidity reserve) must be invested in government bonds. The remaining 20 per cent of the funds must be deposited with one of the four state-owned banks, namely the Industrial and Commercial Bank of China, the Agriculture Bank of China, the Bank of China and the China Construction Bank, or the postal savings system.

The bonds are special directive bonds designed by the MOF, which have more favourable interest rates as compared with other government bonds, for all of which there is no secondary market. Central government bonds are perceived as a very illiquid form of investment. They are short-term (five years) and must be held to maturity without much possibility of early redemption, which leads to a higher proportion of investment of funds in bank deposits. The MOF must provide more flexibility in terms of structure and encourage secondary market trading to increase liquidity.

Since interest rates, administratively set by the Central Bank of China, have been below inflation rates in recent years, reserves have lost value over time. In fact during the ten years between 1990 and 1999, the bank deposit rate averaged 8.16 per cent and government bonds yielded 10.16 per cent. During the same period the average wage growth rate was 16.32 per cent.

If fully funded on an actuarial basis, accumulated pension reserves have to achieve a rate of return at least equal to the rate of increase in the wage base or such reserves will not grow sufficiently to cover defined-benefit liabilities. Wage indexation adds an additional liability to the defined-benefit portion of the system.

It is important to note that low rates of return on investments imply an implicit tax on contributions and lower future benefits.

The move to market-determined interest rates that remunerate savings is crucial to the success of pension reforms. Investments returns should reflect market prices of instruments and should not be determined by the Government. The current policy of investments earning a pre-determined rate is clearly not sustainable for achieving equilibrium in a partial or fully funded system. The only assurance that the fund will earn competitive market returns comes from the success of ongoing reforms in the financial and enterprise sector, complemented by the strengthening of the portfolio management function. However, the liberalization of interest rate determination will increase the financial costs of governments.

Considering the present regulatory and supervisory situation, the young capital markets, loose reporting and governance, the compulsory asset allocation mandated by the State Council may be warranted as a way to minimize the risk of loss and to eliminate fraud. However this should not be a long-term policy option. The progressive loosening of investment rules should accompany financial market growth and development. Ultimately investments returns should reflect market prices of instruments and should not be determined by the Government.

5.4.2 National Council of the Social Security Fund

The diversion of funds from individual accounts undermines the objective of establishing the multipillared system because the system is still de facto the old PAYG system, which undermines public confidence in government resolve to introduce a fully-funded pension scheme, and reduces incentives to contribute to pension funds. To resolve the issue of, and to recognize the serious risk brought by unfunded liabilities of notional individual accounts, it was recommended that a National Social Security Fund (NSSF) be established.

The NSSF was to be a trust fund administered by NaCSSEF at Central Government level. The NaCSSEF was created in November 2000 as a state agency directly under the State Council, and has been mandated to manage funds raised by the Central Government used to settle social security contingent liabilities.

Members of the Board are composed of one-third government (MOF, MOLSS, trade unions), one-third local representatives²⁸ and one-third high level political figures.

As indicated in Figure 5.2, the four functional departments of NaCSSEF are investment, financial and accounting, regulatory and supervisory, and administration. At full capacity,

²⁸ For example, the Governor of Liaoning province.

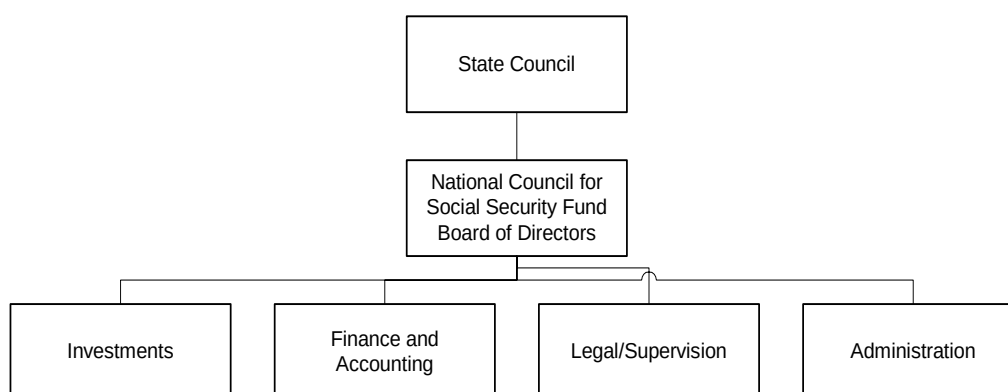
NaCSSEF should be about 30 professionals focusing on investment policy, risk management, financial control, and supervision. It is expected that other functions will be contracted out to external service agencies such as investment managers, custodian banks, external actuaries and external auditors. The People's Bank of China (Central Bank) presently acts as the Fund's custodian.

NSSF receives funding from different revenue sources: Central government budgetary appropriations, privatization of SOE (full or partial) and lottery revenues.

According to Liu Zhongli²⁹, the NSSF chairman, the fund was valued at 61.65 billion RMB (US\$7.42 billion) on 16 December. The fund earned 928 million RMB (US\$111.8 million) from its investments over the last year. MOF has injected a total of 60.73 billion RMB (US\$7.3 billion) since fund inception in November 2000. NSSF investments consist of bank deposits, corporate and treasury bonds and a strategic stake in China Petroleum & Chemical Corp (Sinopec). NSSF secured 300 million of Sinopec's "A" shares on 20 July 2001. It was the first time NSSF participated as an independent legal entity and as an institutional investor.

The NaCSSEF Board will manage investment of the fund's assets, but the board itself only has direct control over the fund's investments in deposits and treasury bonds (internal managers), while designated asset management companies will conduct other types of investment. External managers will be hired according to specific investment mandate (index, corporate bonds, equities, hedge funds, etc.).

Figure 5.2 National Council for Social Security Fund organizational chart



Restrictions on NaCSSEF's investment capabilities have been established. The investment framework was introduced on 20 December 2001. The regulations, drawn up by the MOF and the MOLSS, stipulate that at least 50 per cent of the fund's money must be invested in bank deposits and treasury bonds. At least 10 per cent of the assets must be in bank deposits, while no more than 10 per cent can be invested in corporate and financial bonds. The amount invested in securities funds and shares must not exceed 40 per cent of the fund's total assets. External asset management firms are not allowed to use social security funds to buy more than 5 per cent of the shares or units in a single company or fund. The asset management companies are not allowed to invest over 10 per cent of the social securities funds under their management in a single company or fund. They may charge fees for their services, but these fees must not exceed 1.5 per cent of the value of the social securities funds under their management.

The MOLSS and the MOF are authorized to decide when and how to use the fund.

²⁹ *Cbnet Market news*, China's social security fund reaches US\$7.3 billion, 19 December 2001.

The NSSF is seen as a mid- to long-term solution to the ageing problem and to the liabilities created by notional individual accounts. A secondary objective of the fund is to develop the institutional market in China. The NSSF will be the first institutional investor. In this capacity, the NSSF will play a prominent role in the development of capital markets and in the development of a capable generation of financial specialists.

A key success factor is the proper selection of investment managers in the context of young Chinese capital markets. Enterprises wishing to manage part of the investments of the NSSF will have to have a license in China. Another contributing factor will be the development of the capital markets following WTO.

The ultimate success of NSSF will determine the path to follow in the future with the investment of social security funds. If it proves successful, it may become Central Government policy to have fully funded individual account funds invested with NSSF. Otherwise, the centralization of funds will prove difficult – provincial governments may be more inclined to create their own structures and invest themselves.

However, three situations may impact NSSF success and are totally out of its control:

- The structure of obligations is unknown – MOF and MOLSS are jointly responsible for the expenditure policy. However since the liability structure is unknown, it may lead MOF and MOLSS to withdraw all the assets in a short period of time. There are no controls that would prevent this from happening. Will the government guarantee a minimum level of funding in order to ensure long-term accumulation? How much will Government collect from the sale of SOEs?
- Future funding – Although the MOF has injected 60 billion RMB into NSSF, it is uncertain whether the MOF would inject fresh capital should the level of assets decrease below a preset point. Hence, does the State guarantee a minimum level of funding?
- Sales of State shares – The markets have shown resistance and unwillingness to absorb State shares. A first try was quickly stopped at end-October 2001. It is expected that the process will resume in April 2002. (Liquidity/ability of market to absorb shares – no clear success with this strategy in other reforming countries.)

5.4.3 Investment of individual accounts

Because of social security financing problems, it has been accepted practice to use individual account funds to finance shortfalls in social pooling. At the end of 2000, it was estimated that more 200 billion RMB were missing from individual accounts. Up to now, a notional interest rate equivalent to the bank's deposit rate is paid on account balances.

There is no infrastructure for investment management in Liaoning. This needs to be addressed rapidly since individual accounts are accumulating funds at the rate of 3 billion RMB per year. Liaoning province needs to take steps to ensure an appropriate return on the funds while minimizing the probability of loss. A fund management infrastructure must be set up and equipped with appropriate management and investment tools.

Guangdong province has shown interest in studying the feasibility of segregating individual accounts from social pooling. *Assistance should be provided to prepare a feasibility study and an implementation strategy.*

5.4.4 Reform of financial markets

Weak regulation, limited financial instruments, low liquidity, weak secondary bond markets, inadequate listing requirements, absence of credible rating agencies, lack of transparency and corporate disclosure, as well as improper enforcement are some of the problems facing the Chinese financial markets.

Financial markets in China are very young. The volatility of the domestic stock market raises serious questions of the advisability of investing social insurance funds in the equity market. The stock market may not be mature enough to risk investing any but small amounts in the best companies.

It is clear that pension reform will fail if financial sector reforms do not provide positive real rates of return on pension reserves. If financial sector and capital market reforms do not materialize, the individual account system will not function properly.

5.4.5 Availability of financial instruments

A transformation of household savings is not being achieved due to a lack of long-term financial instruments.

The development of new financial instruments that allow institutional investors to maximize portfolio diversification and match its liabilities is crucial to pension reform and to the development of financial markets.

The offering of financial instruments has been limited so far. The government needs to develop a range of financial instruments, including more long-term (five to ten years) treasury bonds. The secondary market for treasury bills and bonds must be further developed in order to increase liquidity to meet the needs of pension fund investors.

Corporate bonds, IPO, real estate, mortgage bonds are example of sectors that need to be further developed in order to provide diversification benefits to pension fund investments.

6. Unemployment insurance

6.1 Legal provisions and general practice

The UI system was established in 1986 to provide benefits to laid-off employees of the state-owned enterprises (SOEs). From the outset, benefits were financed through pooling of social insurance contributions, although pooling occurred at the level of the counties. Originally, benefits were scaled to previous earnings and financed by a contribution of 1 per cent of earnings covered by the programme. The benefit structure and financing mechanisms were altered in 1993, when benefits were converted to a flat rate and the base for calculating contributions was shifted to the total payroll of the enterprise. Coverage was expanded to its current level and contribution rates were adjusted again in 1999.

6.1.1 Coverage

The unemployment insurance system now covers all employees of all urban enterprises and public institutions. Provinces may, at their option, extend coverage to social organizations, private non-enterprise units and the self-employed. Guangdong Province has extended coverage of the UI to all township and village enterprises (TVEs, whether located in urban or rural portions of the province.

6.1.2 Eligibility

To be eligible for benefits, contributions must have been paid by and on behalf of a worker for at least twelve calendar months, the worker must be involuntarily unemployed, and must be registered at the labour exchange as being able to work. Eligibility ceases if the worker takes a job, refuses suitable employment, or refuses to participate in a suitable training opportunity.

6.1.3 Benefits

UI benefit levels are set by cities (at the prefecture level) under guidelines established by the provincial government, and tend to be rather low. The national regulations require that unemployment benefits be more than the amount established as the minimum income guarantee and less than the minimum wage. Minimum wages and minimum income guarantee amounts are also set by the cities; the minimum wage tends to be around 40 per cent of the average wage. In addition to cash benefits, insured workers are also eligible for subsidies to cover the cost of medical care, vocational training and job matching services. In the event of death while receiving unemployment benefits, dependent spouses and lineal relatives are eligible for survivors' benefits.

In Liaoning Province, unemployment benefits must be between 70 and 80 per cent of the minimum wage. Unemployment benefits in that province vary from 240 to 390 yuan per month, while the minimum income guarantee varies from 156 to 221 yuan per month. In Guangdong Province, benefits must be 80 per cent of the minimum wage. In that province, the minimum wage varies from 270 to 550 yuan per month and the unemployment benefit varies from 216 to 440 yuan per month. The minimum income guarantee in Guangdong varies from 80 to 300 yuan. Since the minimum income guarantee is set on a per capita basis, a household with two or three individuals and no resources other than one member's UI benefit could be eligible for a partial benefit from the minimum income programme, at least in some cities within either province.

Unemployment benefits continue for at least 12 months. Those who have contributed (or whose employer has contributed on their behalf) for at least five years are entitled to 18 months of benefits. Where contributions have been made for at least ten years, benefits can continue for up to 24 months. Because coverage was extended to the private sector only recently, as a practical matter the only workers eligible for benefits for more than 12 months are those who previously worked in the SOEs.

Rural migrants covered by the UI system receive a lump sum payment in lieu of monthly benefits. Their payment is 1 per cent of their wage at the time they lost their job, multiplied by their years of service. Their unemployment benefit is actually a form of severance pay and does not have the usual restrictions about being available for work.

6.1.4 Enforcement of work requirement

As noted, unemployed workers must be registered for work as a condition for receiving benefits. All job vacancies, whether in the public or private sector, are to be registered with the labour exchange. In principle, unemployed workers are required to visit the local labour exchange at least once each month to check for suitable training or employment opportunities. There, they have a voucher stamped which entitles them to an additional months benefit payment.

Officials admit that the system does not work all that well in practice. It is difficult to know if an UI beneficiary gets another job, particularly if it is in the informal sector or in another city. Because benefits are so low, the staff at the labour exchange may not check very closely on the status of each claimant. Additionally, there are no mechanisms for automated data exchanges between the UI system and the employment service offices, leaving ample room for errors.

6.1.5 Revenues

UI is financed by employer and employee contributions. Governments are required to cover deficits in the programme. The contribution rate established nationally is 2 per cent for employers and 1 per cent for employees. The employer rate may be higher or lower than the national norm, depending on the financial condition of the particular pool. In principle, the State Council must approve all deviations from 2 per cent. Rates vary by province and within each province, by city. The employer rate in Beijing is 1.5 per cent; the rate in Foshan City (Guangdong Province) is 1.0 per cent. The rate is assessed against total earnings, in contrast to the arrangement used to calculate the employees' pension contribution. There is no specific formula for how any government contributions are to be divided between local and provincial governments.

6.1.6 Pooling of UI funds

Under the State Council decree, UI funds are to be pooled at the city (prefecture) level, and provincial level governments are to operate solidarity funds. Apparently, pooling does occur at the city level in about half of the cities. In the rest of the cities, it is still at the county level.

6.1.7 Financial condition

As a whole, the UI system ran a substantial surplus in 2000 and holds considerable reserves to help cover future expenditures. The closing of the reemployment service centres could cause the financial situation to change dramatically over the next several years, however. During 2000, UI programme revenue totalled 16 billion yuan and

expenditures totalled 12.3 billion yuan, producing a one-year surplus of 3.7 billion yuan. Total reserves at the end of 2000 were 19.6 billion yuan.

The closing of the reemployment service centres will relieve the UI programme of the burden of helping to finance the centres of bankrupt enterprises, but is also likely to cause a sharp increase in the number of UI beneficiaries. In 2000, about 40 per cent of the total expenses of the UI programme was for support of reemployment service centres. At the same time, the total cash stipends paid to workers in the centres totalled 15 billion yuan, some 2.5 times the total of unemployment benefits paid that year and over three times the amount transferred from the UI programme to the reemployment service centres.³⁰

Although the stipends in the reemployment service centres are higher than monthly UI benefits and the period of eligibility is one year longer, the closing of the centres clearly has the potential to increase unemployment benefit payments by far more than it saves in transfers from the unemployment system. MOLSS projects that the total number collecting unemployment benefits will rise from 2.9 million at the end of 2001 to 4.0 million at the end of 2001.

6.2 UI policy considerations

6.2.1 UI benefit levels

Benefit levels under the Chinese UI system are rather low. Benefits are set at 70 to 80 per cent of the minimum wage in each city. As the minimum wage is some 40 per cent of the average wage, the resulting unemployment benefit runs some 30 per cent of the average wage. This is only about two-thirds of the benefit level contemplated in ILO Convention 102.

In many locations, a household with two or three members that had only UI for support would be eligible for a supplement from the minimum income guarantee programme. This raises questions about the adequacy of the basic UI benefit. What is the purpose of running a contributory social insurance programme if the benefits provided are not much more than is provided by the general social assistance programme?

6.2.2 UI benefit duration

Though monthly benefits are low, many workers remain eligible for benefits for a long period of time. Workers who have been under the system for at least 10 years can draw benefits for up to 24 months, four times the minimums established in Convention 102.

UI is usually thought of as a short-term benefit programme designed to insure workers against the loss of income due to frictional spells of unemployment. It is not usually an adequate response for dealing with major structural unemployment problems. Extended periods of eligibility for unemployment benefits may be justified where general economic conditions are poor or where the characteristics of a particular worker, such as age and skill level, make finding alternative employment more difficult. The length of entitlement to benefits in the Chinese UI programme is not related to either of these attributes, however.

³⁰ Total unemployment insurance benefit payments were 6.0 billion yuan in 2000, including 248 million for medical benefits and 147 million in payments to rural contract labourers. Payments to the reemployment service centres totalled 4.9 billion yuan. *China Labour Statistical Yearbook, 2001*, Table 8-21.

Chinese unemployment regulations restrict access to longer-term unemployment benefits to those who have been covered by the programme for five or ten years. As a practical matter, this means that the only workers who are entitled to benefits for more than 12 months are workers who are laid off from the SOEs. The long-duration UI benefits therefore have aspects of serving as a substitute for severance payments for workers leaving this one kind of enterprise. As such, questions can be raised about the appropriateness of their being financed by a payroll tax levied on all enterprises and about the wisdom of tying the receipt of the severance pay to the worker's actually spending two years being unemployed.

6.2.3 Financial planning

Apparently there is little systematic effort to project further demands on the UI and employment service systems. Officials in the Central Government expect a sharp increase in the number of unemployed workers as a result of China's entrance into World Trade Organization (WTO) and the closing of the reemployment service centres. Officials at one city visited by the team expressed similar concerns about the longer-term financial condition of their unemployment programme. However, officials at other places visited seemed unconcerned about the potential fiscal impact of the closure of the reemployment service centres or further restructuring of the SOEs. Some seem to believe that unemployment had already reached a peak and would be declining in the future.

An unexpected increase in unemployment could cause serious fiscal problems for many local governments, who will have to increase operating budgets of their social insurance and employment service agencies and may face additional liabilities to cover contribution revenue shortfalls. Provincial level officials probably need to devote more attention to carefully reviewing the economic situation, projecting the likely medium-term impacts on the UI programmes within their jurisdiction, and communicating their results to city and county level officials.

6.2.4 Pooling

Under the current regulations, UI contributions are to be pooled at the city level, though pooling remains at the county level in half of the cities. Additional pooling is to be achieved through solidarity funds operating at the provincial level and capable of limited redistribution of contributions from the pools that are running a surplus to the pools that are running a deficit. The effectiveness of the solidarity funds is limited by the relatively small amount that each pool is required to contribute to the fund and to the fact that local governments don't always comply fully with even these modest requirements.

Pooling at even the provincial level has serious consequences for an UI programme operating in a country with wide geographic differences in the pace of economic development. Geographic areas in which industrial facilities are ageing and employment growth is slow, such as Liaoning Province, operate at a permanent disadvantage to geographic areas where employment growth is more rapid. The former are likely to have to deal with higher average unemployment rates, which mean higher average employer contribution rates and a higher fiscal burden on the general budgets of local governments. These make it difficult for more slowly growing regions to compete with the more rapidly growing regions, reinforcing the existing regional disparities.

6.2.5 Enforcement of work requirements

Officials report difficulties in enforcing the rules governing continuing eligibility for benefits under the UI programme. Particular problems involve people who are employed in the informal sector or who have taken a job in another city or county. Problems also

arise in exchanging information about a worker's continuing eligibility between the employment service and the UI agencies owing to the lack of integrated information systems. Transactions are now generally handled by exchange paper documents, which is slow, inefficient and subject to error.

7. Health insurance

The public HI systems with MI and SB components were initially established in the early 1950s during the initial stage of the establishment of the P.R. China. For the urban population, there were two main systems in operation: the Labour Health Insurance System for workers and dependants (LHIS) and the Government Health Insurance System for civil servants and public workers (GHIS). For the rural population, the Cooperative Health Insurance System (CHIS) was developed with government subsidies. In addition to the above, a small programme for privileged groups such as revolutionary veterans and senior Government and Party officials, as well as a social assistance programme based on a means test, were operated. Although the legal provisions were the same across the country, the operation was totally decentralised. Each working unit had to finance and manage its own scheme for its employees and their dependants in line with the legislation. Thus, the old HI systems were based on employer-liability.

The overall coverage under the old public HI systems was well extended by the early 1980s: nearly 80 per cent of the population had, to some extent, access to the financing of health care. However, the coverage has dropped dramatically since the restructuring of the economic system in 1978, which aimed at shifting the economy from one that was centrally planned to one that was market-oriented. In particular, due to the SOE reform and the emergence of the private sector in urban China and the cooperative economic reform in rural China, the original political economic foundation of the old HI systems no longer exists. Apparently, there remains a need to reform and re-establish health insurance systems for the people.

Given the complexity of the restructuring, the diversity in the financing ability of different population groups and the weak administrative capacity of HI agencies, the reform of the HI sector started naturally from the urban formal sector. Beginning in the late 1980s, experimentations on different HI mechanisms were conducted in various regions. But only in 1998, did the State Council finally select the Basic Health Insurance System (BHIS) as the national model for the urban working population. The BHIS comprises two components: the pooling fund (PF) component based on social insurance principles and the individual medical savings accounts (IMSA) component based on individual or family responsibility. Another important feature is that BHIS schemes are institutionalised and totally independent from the economic performance of individual enterprises – one of the immediate objectives of the HI system reform for the Government.

National guidance for designing a locally run BHIS scheme was formulated together with a tight schedule for the establishment of the BHIS throughout the country. It is envisaged that the new BHIS will replace the GHIS and LHIS in two-to-three years. Until then it is envisaged that the new and old HI systems in the urban areas will co-exist.

Compared to its firm determination in pushing forward the HI reform in the urban formal sector, the Government was, until very recently, reluctant to take action to develop an appropriate health protection strategy for the vast majority of excluded people, notably family dependants, informal sector workers in the urban areas and virtually all the rural population. Although the reasons for beginning HI reform in the urban formal sector are understandable, health insurance coverage for excluded people is of such importance that it should not be ignored for too long. Therefore, the ILO will strongly support any government initiatives for formulating a feasible extension strategy for the excluded population.

With regard to MI and SB, it should be noted that the BHIS is a pure health financing mechanism, and does not include provision for MI and SB in its package. In fact, a

separate reform in MI is unfolding. On the other hand, SB is still unchanged, so its provisions are still regulated under the old system.

7.1 The basic health insurance system for urban employees and retirees

The BHIS was launched and implemented, by the end of June 2001, in 88 per cent of the pooling areas,³¹ covering 50.26 million employees and retirees. It was estimated that these figures would be increased to 90 per cent and 80 million respectively by the end of 2001.³² As far as the three selected provinces are concerned, nearly all HI pooling areas had started implementing the new schemes by November to December 2001.

7.1.1 Coverage

Both the draft Social Insurance Law and State Council Decree No. 44 (1998) prescribe that the compulsory coverage of the BHIS should be extended to all urban employees, retirees and laid-off workers³³ of urban working units, including enterprises, government departments, party organisations, non-economic entities and other types of establishments. The question of whether to include township and village enterprise (TVE) workers and the self-employed at the initial step of the implementation is up to local governments to determine. Military personnel and certain privilege groups are exempt. Dependants of insurable persons, including spouses and children are also excluded at this stage.

To facilitate the coverage of two vulnerable groups – laid-off workers and employees of SOEs facing financing difficulties – two special policy measures have been introduced:

- The HI contributions for laid-off workers are paid by the Re-employment Centres, based on a reduced reference salary equal to 60 per cent of the average regional annual salary;
- For workers of SOEs in financial difficulties, employer's contributions can be paid at a reduced rate and entirely allocated to the PF component, whilst workers' contributions can be temporarily exempted and no allocation to their IMSAs.

Given the very short period of implementation, the actual coverage of the new system was very low at the end of 2001: the number of registered persons accounted for about 20 per cent to 30 per cent of the total insurable people in most pooling regions. The highest

³¹ They include four municipalities, i.e. Beijing, Shanghai, Tianjin and Chongqing, and all counties and prefectures provided they run or will run their own independent public HI schemes.

³² Speech delivered by Mr. Wang Dongjin, Vice Minister, MOLSS, at the National Conference on the "Three Reforms", convened by the State Council in July 2001.

³³ According to the official definition, the term of "laid-off workers" usually refers to those who hold a permanent contract, or whose fixed-term contract has not yet expired, but due to economic difficulties, have been sent home by their enterprises – normally SOEs, without officially terminating the contract and without finding job in the labour market.

record may be observed in Liaoning Province, where the coverage reached 40 per cent of the insurable population by the end of 2001.³⁴

7.1.2 Benefits

The contingencies covered include the need for medical care of a curative nature, and under prescribed conditions of a preventive nature, and the need for the financing of such medical care. The insurable medical care comprises general practitioner care, specialist care at hospitals for inpatients and outpatients, the necessary pharmaceutical supplies on prescription by doctors, and hospitalisation where necessary.

However, for reimbursement purposes, two conditions are imposed:

- Health services, prescribed medicaments and laboratory tests have to be on the officially issued Insurable Lists;
- The health provider must hold a contract with the BHIS.

HI benefits are available under two components. In general, medical costs for outpatient care and related pharmaceuticals and laboratory tests should be covered by the IMSA component against the accumulated balance of each account. On the other hand, hospitalisation and related pharmaceuticals and laboratory tests are met under the PF component starting from a prescribed threshold and ending at a pre-determined ceiling.

Compared with the old systems based on employer liability, benefits available under the new schemes are secured, as they are independent from the economic performance of individual enterprises. However they are, to some extent, inferior because of the strictly prescribed scope of insurable medicines and health services and of the imposed ceiling for reimbursement. For example, under the BHIS, the annual reimbursable amount should not exceed 4 times the regional average annual income. Therefore, the need for supplementary schemes is evident.

7.1.3 Financing

The schemes are mainly financed by workers' and employers' contributions under the pay-as-you-go (PAYG) system. Overall contribution rates vary from region to region, ranging from less than 8 per cent of the payroll to more than 11 per cent with 2 per cent fixed for workers. In addition to that, government revenues fund all administration costs.

Most funds in three investigated provinces experienced a surplus in 2001, the first year of implementation. For instance, the overall annual income of Zhaoqing HI scheme at the city pooling level in 2001 is estimated at about 21,000,000 yuans with an expenditure of 14,000,000 yuans, which results in a saving of 7,000,000 yuans (mainly hiding in IMA accounts).³⁵

³⁴ In accordance with *Report on social security reform and piloting in Liaoning Province*, drafted 1/12/2001 by the Labour and Social Security Bureau of the Liaoning Provincial Government, the Central Government set a target of 50 per cent for insurance coverage by the end of 2001, but the estimate of the Labour and Social Security Bureau was only 40 per cent.

³⁵ Reference is made to the *Report on Health Insurance and Employment Injury reforms in Zhaoqing City*, drafted by the Labour and Social Security Bureau of the Zhaoqing City Government, December 2001.

7.1.4 Pooling level

In line with national principles and local situations, local authorities designed individual BHIS schemes. Variations such as coverage, benefit package, financing, information system and administration can be clearly observed from one scheme to another.

Because the funds are pooled and administered at the county level in most localities, the scope for risk and resource sharing is quite limited. In addition, unlike the old-age retirement insurance and unemployment (UI) systems, there are no solidarity funds set up at the provincial level to redistribute part of the financial resources among the individually-run schemes operating within the territory of the province in question.

7.1.5 Health services and provider payment mechanisms

The key question is who provides health services to the population and who charges the BHIS for health services rendered. In China, health service providers consist mainly of medical institutes and pharmacies (the share of independent private doctors in the health services market being considerably small). Medical institutes are mainly public and non-private hospitals and clinics that provide the public with comprehensive medical services, including outpatient and inpatient care, laboratory tests and medicaments. However, private medical institutes have emerged since 1990s at a rapid speed. There is no doubt that China's entrance to the WTO will further strengthen this trend, but for the moment their share of the health market is small.

Pharmacies are relatively recent establishments in the country; derived from three parallel reforms – HI reform, health sector and drug sector reform. There are two different types of pharmaceutical suppliers in the drug market: medical institutes and pharmacies. Prior to these reforms, nearly all prescribed drugs were supplied by hospitals and revenues generated from drug selling could be as high as 70 per cent to 80 per cent of the total income. This is a key cause of the continuous increase in medical costs. As a result, one immediate objective formulated for reform was to separate drug-selling services from hospitals and thus reduce the significance of drug-related revenues on the one hand, while establishing independent pharmacies on the other. Because of these reforming measures, the share of drug generated revenues in total incomes is now less than 50 per cent in many public hospitals, whilst the share of government subsidies also fell, ranging from 20 to 30 per cent of the total revenues for many public hospitals.³⁶

However, as already mentioned, for reimbursement purposes, only those health providers who have successfully obtained a BHIS contract can charge the BHIS for insurable services provided to the insured population. In practice, nearly all qualified public or non-private hospitals and pharmacies have been selected as contracted health providers.

Among others, the Urban Community Health Services (UCHS) normally also serve as contracted health providers. They initially emerged in the mid-1990s based on local government initiatives. They have a number of advantages notably in providing primary health care to the homes of residents, especially those of the elderly, women and children, and strengthening preventive measures and public health education. Therefore the Central Government strongly supports and guides the development of the UCHS by including it in the strategies for HI and health system reforms. For instance, it is stipulated that the UCHS should be classified as a Category I health provider, and that most health services provided by them are not only reimbursable under the BHIS, but also are at preferential

³⁶ In accordance with Mr. Xian Ming of the Public Health Bureau of Sichuan Province.

reimbursement rates.³⁷ It is expected that, stimulated by these policies, the rapid development of the UCHS will have significant consequences on the restructuring of the overall health sector, improving equal access, utility rates and cost containment.

In line with regulations, the costs of medical services, prescribed medicaments and laboratory tests to be reimbursable under the BHIS should, in general, meet three criteria:

- The billed health services should be provided by contracted health providers;
- These services should be on the related insurable Lists;
- For reimbursement under the PF component, the overall annual medical cost of each insured person should also fall within the prescribed scope – higher than 10 per cent but less than 4 times the local average annual salary.

The first two imply that only the costs derived from insurable health services that are provided by contracted health providers can be covered under the BHIS.

The insurable medical services, laboratory tests and medicaments are each divided into two categories: one is reimbursable at normal rates, the other at reduced rates. The full content and price of the first category and the basic content of the second category are determined by the national authorities, whilst local authorities are allowed to modify, (within a specific scope), the content of the second category and the reimbursement rates for all categories. In brief, there are a total of 3,900 medical services on the insurable Medical Services List.

As regards the provider payment mechanisms used under the BHIS for hospitals, these generally are a hybrid of fee-for-services and flat rate payments. Per-case payment is adopted by a few schemes but is not very common. In pharmacies, fee-for-services is the main provider payment mechanism.³⁸

The co-operation and coordination between the HI agencies and health providers have so far gone well. The latter have modified their information systems in line with the specific requirements of the former, and the former in turn can have direct access to related data/information concerning the treatments and costs for the insured patients upon request. However, deliberately hiding essential information from the insurers, or cheating by medical institutions, has been occasionally observed in the three investigated provinces. International experience confirms that it is in fact a common phenomenon in the field of HI, and thus to closely monitor health providers' behaviour would be more effective and cost efficient.

7.1.6 Administration

Since the launch of the new BHIS in 1999, HI branches with about 4,000 staff have been set up within the government structure across the country to supervise the implementation of the new schemes. In addition, by 2001, there were created 1,807 HI agencies, including 1,500 at the county level, with between 30,000 to 40,000 staff.³⁹ With new branches, new agencies and new staff, the general lack of knowledge and experience is apparent.

³⁷ Reference is made to examples given in Table 5, Section 4.2.3.

³⁸ More information can be found in Chapter 4.

³⁹ Reference is made to the *Project proposal on establishing a national HI training base* made by the Department of Health Insurance, MOLSS, submitted to the ILO in November 2001.

Furthermore, compared to the heavy workload, there is still a considerable shortage of staff, both in government departments and in HI agencies. These factors represent considerable constraints for the smooth implementation of the system as well as for effective extension of coverage.

Independent IT systems were established with urgency by individual HI schemes but with little consistency. Thus, the absence of nationwide IT uniformity also inhibits efforts to extend coverage.

Two factors seem to be primarily responsible for these difficulties:

- A lack of financial autonomy in that all administrative costs are met by the local governments which determine the scope and level of expenditure;
- Limited guidance in the initial establishment of the HI agencies and in the training of staff.

7.2 Supplementary HI provisions for urban employees

7.2.1 Provisions for civil servants and retirees

In order to facilitate their integration into the new system, special supplementary provisions were made to maintain the privileged level of health benefits that this group enjoyed under the PHSI. Medical costs of an insured person in this group which either exceed the annual ceiling prescribed under the BHIS, or represent a higher percentage of co-payment within the scope of the ceiling, or were otherwise covered under the old system, will be reimbursed under this special supplementary programme.

Such complementary provisions are fully funded by governments at the corresponding administrative level. It is required that the necessary funds are included in the government budgets and administered separately while the programme itself is managed by social HI agencies.

It should be recognised that financing and maintaining a system like this has important negative equity implications. This has the effect of costing public subsidies, which may otherwise be used for extending coverage to excluded groups, such as dependants of insurable persons, the urban self-employed and their employees, TVE workers and the vast rural population.

7.2.2 Provisions for workers and retirees

Up to 4 per cent of the payroll is permitted to finance voluntary HI programmes to help maintain the benefit level enjoyed by workers prior to the transition.

Interesting and encouraging hybrids of supplementary schemes have been observed in Zhaoqing of Guangdong Province and Liaoning Province. For example in Zhaoqing, if an insured person pays an extra annual premium of 72 yuans, the actual ceiling for reimbursable annual medical costs will be increased from 35,000 yuans under the BHIS to 185,000 yuans for the year 2001. The city government requires the HI agency to collect premiums and to purchase commercial insurance policies for the insured population collectively. Statistics show that in 2001, around 3,000 insured persons were hospitalised,

3 per cent of them spent more than 35,000 yuans, thus benefiting from such a provision, with probably only one insured patient costing more than 185,000 yuans.⁴⁰

The Liaoning Provincial Government has decreed that the multi-pillar HI system to be implemented in the province should consist of the basic HI provisions, special programmes for excessive medical costs, voluntary supplementary schemes and social assistance for the poor. In practice, the second pillar is usually compulsory, thereby largely extending the coverage in terms of both the contingencies and population.⁴¹

Along with a number of social organisations, Trade Unions play an important role in the field of supplementary HI programmes. For instance, the Trade Union of Railway Industry has designed and managed a supplementary HI scheme with almost universal coverage within the industry.

Commercial HI provisions were alternatives to the above arrangements. In 2001, the revenues generated from this component for the Second Hospital of China's Medical University based in Shengyang amounted to 10 per cent of its total income. Given the low benefit available under the BHIS, the potential of the development of complementary schemes is high. In addition, the opening of the insurance market to the world following China's entry to WTO would further stimulate such a development.

The nature and scope of the BHIS determine to a large extent the scale and roles of the supplementary pillar on the one hand, while on the other hand, the latter would also have important impact on the development of the former. Therefore, there is a need for drawing a panorama of the whole "health protection market" to evaluate and monitor such inter-reactions.

7.3 Health insurance provisions for the rural population

The rural population accounts for 63 per cent of the total population in 2001. As yet, no national policy and development strategy on HI for the rural population has been formulated. The State Council recently instructed the MOLSS to look at this important issue and make proposals for feasible and appropriate HI programmes for this group.

In the past, the cooperative medical system was the main type implemented in rural areas. By 1980, 90 per cent of villages had set up a cooperative medical scheme for their inhabitants, which effectively improved the overall health of the rural population, especially by ensuring equal access to preventive services and primary care. The WHO and the WB considered this system as the only successful example of mobilizing financial resources for health in the developing world. Unfortunately, the coverage fell to 5 per cent in 1985 due to the disintegration of the rural collective economy. Since the 1990s, the Government has strengthened efforts to restore the cooperative medical system but with little success. According to the Second State Survey on Health Services conducted in 1998, only 12.56 per cent of the rural population receives some form of health protection,

⁴⁰ According to the *Report on Health Insurance and Employment Insurance reforms in Zhaoqing City*, drafted by the Labour and Social Security Bureau of the Zhaoqing City Government, December 2001; and the explanation given by Mr. Liu Zhaozhong, Deputy DG of the Social Security Agency, Zhaoqing City.

⁴¹ Reference is made to the *Report on social security reform and piloting in Liaoning Province*, drafted by the Labour and Social Security Bureau of Liaoning Provincial Government, 1/12/2001.

and 6.5 per cent of them rely on the cooperative medical system.⁴² Assured access to basic medical services has been repeatedly confirmed to be one of the high priorities of social security for the rural population.

It is apparent that the health care programmes implemented in rural areas vary considerably and include purely commercial insurance, government subsidized programmes, and community-based schemes. All are based on local or individual initiatives, since no national policies, strategies or guidelines have so far been formulated. Mr. Li Lang Qing, Vice Premier, recently instructed the MOLSS to look at this issue; in response the MOLSS initiated a project proposal for studying and piloting HI for the rural population.

⁴² Reference is made to the *Project proposal for a feasibility study on rural Health Insurance*, made by the MOLSS, 2001.

8. Maternity insurance

In accordance with *The Regulation of Labour Insurance of the P.R. China*, issued by the State Council on 2 January 1952, maternity benefits have been available since the 1950s to all insured female employees during the defined contingency period. Like other social insurance schemes, the reform in maternity insurance (MI) has been unfolding throughout the country. For the time being, the old and new MI systems coexist and it is estimated that most female employees in the public sector, SOE and collectively owed enterprises are insured by one of the two MI systems.

8.1 Maternity benefits provided under old system

The Articles dealing with maternity protection in *The Regulation of Labour Insurance of the P.R. China* have been amended and supplemented by a series of administrative regulations. They are notably, *The Regulation of the Labour Protection for Female Employees* issued by the State Council in June 1988, and *the Instruction on Maternity Benefits for Female Employees* issued by the Ministry of Labour in September 1988.

In line with the amended legislation, female employees are protected against any risks associated with pregnancy and confinement and their consequences in addition to a range of other specific protection provisions. The provisions of maternity benefits include three aspects:

- Maternity medical care;
- Maternity leave;
- Periodic payments replacing suspended earnings resulting from pregnancy, confinement and their consequences.

The related costs should be borne entirely by individual employers and there is no requirement for insured persons to make any financial contribution or co-payment.

This is mainly applied to employees of government departments, SOEs and collectively owned enterprises, research and academic institutes and other organizations.

Like other old social insurance systems, due to the nature of its employer-liability, the old MI system had a number of deficiencies, notably:

- A wide diversity in the percentage of female employees in each enterprise (ranging from less than 10 per cent to 70 per cent) causes differences in MI related costs, and thus cannot guarantee them equal competition;
- It is likely that females have more difficulties in finding or keeping a job due to potential costs associated with MI benefits;
- Prescribed maternity benefits cannot be fully secured especially when the enterprise in question is facing financing difficulties or bankruptcy.

Because of these fundamental weaknesses, the restructuring of MI is indispensable.

8.2 Reforms

To better protect MI rights and entitlements of female employees, to equally distribute financial burdens among all working units and to pool related risks and finance resources,

a number of local governments have set up new MI mechanisms in their regions from 1988. In 1994, the Ministry of Labour and Social Security formulated *The Temporary Administrative Regulation on the MI Scheme for Enterprises Workers* with a view to standardizing the provisions.

In line with the above-mentioned administrative regulations, the new MI system is based on social insurance principles instead of employer-liability mechanisms. Each pooling region can set up its own MI scheme for all urban enterprises and their workers. The scheme should be financed exclusively by employer contributions fixed at less than 1 per cent of the payroll of all employees. In reality, the contribution rate for most MI schemes is around 0.6 to 0.8 per cent.⁴³ Maternity benefits available under the new system are in fact similar to those provided by the old system, except that they are paid by the relevant MI fund in question instead of individual employers. MI benefits under both systems have already met the standards prescribed in the International Labour Convention 103.

By the end of 2000, the new MI system had been implemented in 1,393 county-level cities in 27 provinces, municipalities and autonomous regions, covering 30 million women workers.⁴⁴

8.3 Conversion of the employer liability system into maternity insurance

One of the aims of the MI reform is to completely convert the old system based on employer liability into a social insurance system in order to secure the delivery of prescribed maternity benefits.

The Development Strategy for 2001-2010 for Chinese Women, issued by the Chinese Government in May 2001, established a target for such conversion: “expanding the coverage by the MI schemes based on social insurance principles to 90 per cent of female workers by 2010”. However, progress in extending the programme has been slow.

⁴³ Reference is made to the *Project proposal on MI* made by the MOLSS in January 2002.

⁴⁴ Reference is made to the *Project proposal on MI* made by the MOLSS in January 2002.

9. Employment injury insurance and occupational safety and health

Findings are based on papers related to legislation, the economy and institutional framework of P.R. China from various authors, including the ILO. Discussion of issues remains at general level because unavailability of official translation of all relevant legislation creates room for potential misinterpretation of details.

Preparatory assistance technical project by National Institute of Social Insurance of MOLSS is the main paper that deals with employment injury insurance (EII) and occupational safety and health (OSH).

The major source of input came from the meetings with stakeholders: Labour and Social Security, Social Insurance Fund Administration and Work Safety at state, provincial and city levels in P.R. China, as well as meetings with Public Health Departments, enterprises and trade unions. Guangdong and Liaoning provincial institutions were visited as well as those of a city in both provinces (Zhaoqing in Guangdong and Fushun in Liaoning). A meeting with the municipality of Beijing was held.

Because of the inability to undertake full validation of information as well as to crosscheck statistical data, the assertions made in this report must be prudent. In spite of the care taken to use the information that is considered safe, inaccuracies resulting from misunderstanding still remain possible. Feedback from national counterparts is essential for completion of the report.

The objective of this paper is to review the current experience, identify key issues and potential problems and suggest strategy for future technical assistance.

9.1 Reform context

The transfer of the planned economy environment to a market-based context generates the need to move the workers compensation system from a self-insured basis to an insurance basis (pooling system).

In comparison to other areas of social security such as old-age pensions, unemployment insurance (UI) and health insurance, the EII has not raised major concerns. The daily operations seem to work reasonably well. Registered employers pay contributions and benefits are paid to injured workers.

However, the information system, that will be able to provide adequate data for monitoring, policy analysis, OSH and financial evaluation, needs to be addressed. The financial reporting system should be more clearly defined according to the financing method contemplated. Clarification of the rationale behind the rate setting approach for industries and the experience rating technique applicable to individual employers would contribute to reinforce the credibility of the EII.

Self-insured enterprises exist in the open-market economies. However, this is generally possible for large enterprises only. This device has to be backed by rules ensuring that benefits payments will be made to injured workers if the enterprises cease to exist for different reasons such as bankruptcy. A self-insured employer should have a strong financial incentive to prevention because his costs are almost fully based on his experience. In the current context, the involvement of employers in OSH is a major concern and significant financial arrangements pertaining to self-insurance have been maintained. Overall, the fact that the conversion to the insurance system in China is not

yet fully achieved is not by itself necessarily a nightmare. In theory, basic protection was and still remains available to workers through the court system. This is however often a lure if no sound financial arrangement is in place to guarantee that the injured worker will receive the benefits.

9.2 EII coverage issues

The participation of employers to the pooling system is low at 40 per cent. However, the protection of workers against the financial consequences of work injury is higher. We have been told in Liaoning province that employers of certain sectors of the economy are not interested in joining the pool system because the benefits provided by their current arrangement are higher. Their workers would not appreciate the decrease of benefits. The proportion of covered worker in Guangdong province is high. However, the number of covered workers still remains a bit smaller than for old-age pensions. High migration in that province generates specific problems.

Many reasons have been mentioned regarding the low level of coverage. The level of legislation is too low and a law enacted by the Congress or a regulation enacted by the State Council is necessary to give full power of enforcement. Registration of employers in the EII is not seen as priority in relation to other systems. Many SOEs in Liaoning province have financial difficulties and cannot afford to pay contributions. The management capacity of Social insurance bureau in enforcing full enrolment in the transition period was also mentioned. The design of the insurance mechanisms may not been perceived as a strong incentive to purchase insurance by the small employers. Temporary compensation is paid entirely by the employer. Coinsurance of medically benefits and the provisions regarding the benefits of grades 5 and 6 of disability contribute to reduce the incentive to participate in the pooling system. It is not possible to identify the relative importance of all those factors to the current situation.

Because the factors mentioned above may lose their importance, it is expected that the rate of coverage will increase over time. For example, a new legislation expected in 2002 would provide a more institutional framework. Moreover, provinces will have the power to implement the coverage of workers in rural areas. Provinces will extend the coverage according to the evolution of the situation.

Participation of all employers to the pooling system must be encouraged. Even though they benefit from a protection resulting from the right to sue the employer in case of injury, the workers of small employers are most vulnerable because of the limited ability to pay of their employer. On the other side, if the reluctance of large employers is linked to the desire to remain self-insured, it is possible to eliminate this barrier through refinements of the experience rating system.

A close follow-up of the progress of coverage is desirable and, if the enrolment does not steadily increase towards the ultimate target, investigations should be undertaken to understand the reasons. This would be a prerequisite to take appropriate actions in order to remedy the situation.

Civil servants are covered under a separate scheme. Benefits are paid by the general budget. Questioning this approach is not considered a priority now.

9.4 Reform issues for EII benefit provisions

Attention has been given to the review of benefits. Overall, no major concern regarding the adequacy of benefits has been raised except in the matter of rehabilitation services and the long-term disability pensions. The design of benefits is influenced by many social,

economic and cultural factors. The probability that some of them have been misunderstood in a three-week mission is considered significant. The authors of this report are aware of this caveat and trust that the national users of the report will extract what is useful to them. Their feedback will be of utmost importance to rectify the inaccurate perceptions.

The need to improve the rehabilitation services to injured workers has been raised in all specialized meetings of EII. Vocational rehabilitation is not actually used extensively. The major reason would be the lack of adequate equipment to provide training as well as the specialized staff required for the elaboration and the monitoring of rehabilitation programmes. A modern and fairly well equipped rehabilitation centre has recently started to operate in the City of Guangzhou. The experience of that centre will be useful to extend the rehabilitation services to injured workers.

The definition of work injury includes the injuries suffered in transportation to and from work. The administration of that provision raises some concerns. The eligibility to benefits needs to be clarified by internal policies and guidelines. This process seems to face some difficulties because of the lack of training of the staff involved in that activity. Clarification of the respective roles of automobile insurance and EII is necessary to clarify the policies in this respect.

Indexing of pensions is provided through a general statement in the regulations at the state level. The power of setting the formula is left at lower levels. This may lead to substantial differences. Indexing is mostly important to ensure the adequacy of benefits paid to total permanent disabled workers. Close monitoring of the experience will be necessary at the state level in order to ensure that the objectives are met.

The definition of salaries used for the determination of the pension to permanently disabled injured workers is under the authority of provinces. There are two basic approaches. One of them consists in using the salary of the injured workers and the other one uses the average salary of workers in the province or the city. The rationale behind each of them has its interest. It should be recognized that the second approach generates under-compensation in some cases and overcompensation in other ones. This has an impact on the level of incentives for return to work. Moreover, using the average salary as a basis for compensation would be deterrent to the registration of employers in the sectors of the economy with salaries above average. Enterprises would prefer to continue providing better benefits to their employees and remain individually liable rather than registering at the EII.

Workers may receive salaries and allowances in exchange of their work. Provisions regarding the replacement of earnings do not refer to the replacement of allowances in case of work injury. In previous ILO reports on the EII, concerns have been expressed regarding the adequacy of benefits that do not compensate for the loss of allowances. No statistical data is available to analyse the materiality of allowances in the salary structure of workers. The results of the investigation on this issue are very limited. Somehow, the interviewees have not expressed any major concern. We have been told that allowances would tend to diminish and that the remuneration would become more and more based exclusively on the salary under the new economy. Both the contributions and the pension benefits are calculated according to the basic salary. Financial consistency is then achieved. Proper documentation of the components of pay to workers with appropriate statistical data would be useful to appraise the adequacy of the benefit structure. This is still a grey area.

Partial disability is the greatest challenge in employment injury compensation. Two different approaches coexist. One of them consists in determining the benefit according solely to a medical chart. The benefit is proportional to the percentage of disability

awarded to the injured worker. This is easy to administer, but the benefit may not be proportional to the economic loss suffered by the worker. This is not desirable. The other approach consists in assessing the economic loss suffered by the injured worker by considering both his medical condition and his ability to perform any gainful activity. Administration of this kind of benefit may require specialized managers in vocational rehabilitation. The actual system in China is a mix of both approaches. Partial disability is awarded if the worker has a specific medical condition, but the compensation is not directly linked to the degree of disability. We understand that return to work is strongly encouraged given the options offered to the employer and the worker. These options are the following ones. First, the employer must offer to the injured worker an appropriate job commensurate with his residual abilities. If the employer does not offer a new job, he has to pay a pension to the injured worker of 70 per cent of his salary at the time of accident until the retirement age. If the employer offers a new job, the worker has the choice to take it or not. If the worker does not take the job, he will receive the pension described previously. The employer pays the pension and is not reimbursed by the pool. This puts a lot of pressure on the employer to reinsert the injured worker in the enterprise with a salary higher than 70 per cent of the previous salary. The employer has to pay a significant amount of money in all circumstances (especially if the worker is far from retirement) and he has a strong incentive to integrate the worker in a productive work in exchange of the salary. This system is certainly more convenient for large enterprises than for small ones. Self-insurance may put an excessive financial pressure on the smaller employers and be a deterrent to registration in the transitional phase towards the socialist open market. In the long term, this significant coinsurance provision may be harmful to the overall insurance system. This suggests to monitor very closely this provision and to question the insurance characteristics of the benefit.

Certain elements of the survivors' benefits are under the control of provinces. For examples, age conditions may be required for the payment of a pension to the spouse. Death resulting from work is dramatic in the life of a family. The economic loss resulting from the death of a breadwinner in a family depends upon the respective roles of parents. Consideration should be given to set guidelines at the national level regarding the design of benefits to survivors in order to ensure that principles of adequacy of benefits and equity be applied consistently across the country. Wide differences in the benefits may indicate appropriately tailored benefits according to the circumstances of each region or inconsistency in the application of the law.

9.5 EII financial issues

Pooling of workers compensation funds seems to be a work in progress. The situation has not stabilized yet and pooling at higher levels still remains possible. Major differences exist between Guangdong and Liaoning provinces. In Liaoning, there are 14 pools at the city level. In Guangdong province, the number of pools is above 100 and many of them are very small, but it is believed that the situation will change and that the number of pools will decrease. A major advantage of large pools is their financial stability. The experience is more predictable and the fund can protect against annual fluctuations with a relatively modest reserve.

It cannot be asserted that small pools are absolutely impossible to manage. For example, in Canada, funds of some provinces or territories cover about 20,000 workers. Small funds must protect themselves against fluctuations through various financial arrangements (this is called reinsurance in the world of insurance). Guangdong province has such an arrangement. A percentage of the contributions from each pool is transferred to the city and to the province. The amounts transferred are used to subsidize pools that are in an unfavourable financial position. Reinsurance devices are not cost-free in any environment. Administration is required to manage the process. In a public insurance system, efficiency

would suggest setting the minimum size of pooling at a level that does not require such arrangements or, at least, that minimizes them as much as possible. Any system of reinsurance or subsidies needs to be backed up by a system of monitoring in order to avoid malingering.

When the level of pooling is significant, the financial stability of each fund can be guaranteed over time through an adequate policy of management of surplus and deficit over time. This requires putting in place the proper accounting techniques to do the monitoring. It is understood that it may not be easy to create large pools in the short term given the strong tradition of decentralisation of the control over money. The transition from a self-insured situation to a pooling system may generate, among large enterprises, the feeling of a loss of control of the resources allocated to workers' compensation. This perception could be minimized by an experience rating system that charges to large enterprises the contributions corresponding to their own experience. This can be achieved through the experience rating system. A retrospective approach in rate setting is generally the most responsive answer to this need.

Industry rates may be determined at the pool level. Each pool has the power to determine its own classification structure. In Liaoning province, each pool has its own classification structure. In Guangdong however, the same rates are used all over the province; only three rates are used (0.5 per cent, 1.0 per cent and 1.5 per cent). These are two very different approaches. The principle of rates varying by industry (in opposition to a uniform rate) seems to be well rooted. Such an approach is considered by all parties a prerequisite to ensure proper incentive to prevention. Other reasons, such as the competition between enterprises, also suggest using this approach in developed and rapidly developing economies. In order to play its role, such a system must be monitored adequately and adjusted to the changing reality. This concern does not seem to be strong now, but the market forces pushing to do so are present. All pools are actually building an impressive experience that will be useful in the future. However, the processing of raw data to generate the database required to perform the analysis does not seem to raise major interest. This is natural because the operational aspects must be a priority in the implementation phase of any system. However, policy evaluation, monitoring and financial planning require to give proper attention to information systems. It seems urgent to take the appropriate measures to ensure that the experience data will be manageable for those purposes.

The diversity of rate structure in Liaoning province may result from the differences in the industry mix of each city. The classification structure is designed to handle properly the industries that are prevalent in each pool. If a specialized industry is prevalent in a pool, an effort is made to ensure that that it is clearly identified by a specific code and that the rate will be proportional to the risk. Another employer of the same industry participating to another pool may pay a different rate. This may be justifiable on technical grounds but it may be difficult to accept and it may generate distortions in the economy. This kind of situation should be avoided. A database that would combine the results of employers of the same industry in a province would be useful to the pools for the rate setting.

If all provinces have a comprehensive database, the national level should be in a position to conduct analysis across the country in order to identify the best practices in OSH and the problems that need to be addressed. It is expected that the availability of a database will generate in the long run better consistency among pools in the rate classification structure. This will not lead to uniformity, but will create the conditions to avoid undesirable situations.

The industry rate system is complemented by an experience rating system that adjusts the rate of individual employers according to their own experience. The design of the system is actually left at the discretion of the pool. A new law to be enacted in 2002 would

provide basic principles for its application. In Liaoning province, the system has started to be used recently. In Guangdong province, it is not used yet.

The Guangdong province level has doubts regarding the efficiency of this system on the behaviour of employers towards prevention. This is related to the fact that basic rates are not very high anyway in EII. Consequently, the decreases and increases of the basic rate have a very limited impact on the overall financial results of the employer. This reasoning is understandable given that the insurance feature in the payment of benefits already includes very strong incentives to prevention. Those are: full payment of temporary compensation and partial permanent disability pension by the employer and coinsurance of 30 per cent of medical costs.

On the other hand, it is known from the international experience that well designed experience rating systems may have a positive impact on prevention and return to work. It is considered of prime importance that the experience rating system, called the floating rate, be designed according to generally accepted actuarial principles: the experience of each employer should be considered in proportion to its statistical credibility. The open market economy will create demand in this respect and the workers' compensation system should develop the appropriate tools. They should ensure that large enterprises are not penalized or unduly subsidized by the application of the floating rate. Proper design of experience rating systems is of prime importance for small employers as well. The reaction of their rates to their experience must be tailored properly in order to avoid undue burdens resulting from normal random fluctuations due to their reduced exposure. The current provisions regarding self-insurance need to be monitored particularly among the small employers who may not be able to support the cost of a severe injury. They are vulnerable to bankruptcy and the benefits to the injured workers would then have to be paid from funds. Otherwise the injured worker will be penalized.

The purpose of the rating system is to distribute the cost of injuries among employers according to their risk. However, before determining the part of the total cost that is paid by each employer, it is necessary to make a decision as to how the total cost is determined. In the matter of insurance systems providing long-term benefits such as the EII, a decision has to be made regarding the recognition of costs. This means that the contributions of each year should be set at a level sufficient either to cover the payments made during the year (pay-as-you-go (PAYG)) or the total costs of injuries that occur during the year (full-funded). In the latter case, a reserve has to be set aside to meet the payments to be made in the future years and the present value of future payments must be recognized as a liability. This is made through an actuarial valuation that forecasts the future payments with mathematical formulas and assumptions regarding the timing of cessation of payments based on the experience of the scheme. The amounts of reserve set aside are invested and generate investment earnings that reduce the contributions.

It is not clear whether a choice has been made between the two systems. On one hand, the rate setting system suggests that the full-funded system is the target because it maximises the intergenerational equity between employers, the security of benefits paid to workers and the incentive to prevention. On the other hand, the reporting of the financial results seems to be oriented towards a PAYG approach because no recognition of liabilities is made for the pensions in payment. In fact, no formal financial statement has been submitted to us and the previous assertion is based on oral transmittal of financial results. International standards of practice in accounting and actuarial recommend to report any liability related to the payment of pensions.

In the actual restructuring phase of enterprises in China, an advantage of the full-funded system would be the clear identification of the liabilities related to the pensions in payment resulting from accidents or diseases that happened before registration of employers from those resulting from the current activities of the employers. Subsidies

from higher levels of government could be allocated to this transition cost and the employers could be charged according to their current performance in the matter of OSH at work. Clarification of the financial framework is considered a priority. The full-funded system seems to be the most appropriate one to ensure consistency between the financial framework and the objectives in OSH. It also provides a clear solution to the problems of the transition period. Performing an actuarial valuation of the current liabilities of pensions in payment should be considered as an essential tool for monitoring the financial and planning. This should be undertaken as soon as possible.

Utilization of the full-funded approach will generate the accumulation of a certain amount of assets. In order to maximize its yield, they should be managed at the provincial level through an institution specialized in that area. The funds should be pooled with those of other social security funds. Appropriate accounting mechanisms would ensure that the fund of the EII is properly tracked and there is no transfer between the social security branches. Beijing municipality has expressed a desire of technical assistance in this field.

9.6 EII administrative issues

A division of the Social Insurance Fund Administration Bureau (SIFAB) handles the registration of enterprises for all insurance schemes. The business licence issued by the Department of Trade and Commerce must be submitted by the enterprise for registration. On their business licence, there is a description of the economic activities of the enterprise; this information is used to determine which contribution rate the enterprise will have to pay for EII. However, this information is not always kept in the file of the enterprise, some keep a copy of the business licence, others do not.

The collection of contribution is often made by the Department of Taxation. This practice would insure the highest compliance rate as possible. If the SIFAB had to collect the contribution, it would have to develop techniques similar to those already used for a long time by the Department of Taxation.

The eligibility of a claim is often made on the basis of the joint investigation report made after the disclosure of an accident by the enterprise to the Work Safety. The investigation team is composed of representatives from WS, EII, Trade Union, Public Security and Public Health for occupational disease. This report will give information relating to the accident and to the injury or disease. But for lighter cases, the accident may not be disclosed to WS because enterprises may fear punishment from WS but they still may claim reimbursement from EII; in these cases, EII will make the investigation.

The medical benefits are either paid by the enterprise or reimbursed to the injured workers by the enterprise or, in a few cases, by the SIFAB. Enterprises will at the end claim reimbursement to SIFAB who will pay only 70 per cent of the costs to keep enterprises liable at least in part for the injury even if this practice is not allowed by regulation, some SIFAB still use it as an incentive for WS.

The temporary wage loss replacement benefit is paid to the injured workers by the enterprises and it is not reimbursed by the SIFAB.

The permanent impairment disability benefits and the survivors' benefits are paid by the SIF but the partial permanent impairment disability pensions of 70 per cent of salary for grade 5 and 6 are charged to the enterprises.

There is no particular problem relating to the administration of benefits except that it is often made mention that the SIFAB employees have a heavy caseload and that the computerization is far behind the needs.

Rehabilitation benefits are also said to be far behind the needs and mainly because the facilities or the abilities are not available. The experience of the Guangzhou Industrial Rehabilitation Centre, the first rehabilitation facility in China to provide medical and vocational rehabilitation services to injured workers, is to be analysed and expanded if possible.

9.7 Strengthening occupational safety and health activities of the EII system

Since the implementation of the EII, there is an EII representation in the team that investigates the accident at the enterprise. The investigation report is sent to EII for eligibility to benefits purpose. EII now has an opportunity to understand how accidents occur and also has the description of the accident and of the injury or disease through the investigation report.

Since the implementation of the EII, two important sources of information to produce statistics have become available (it was not available to WS before): the information relating to the consequences of occupational injuries or diseases and the information relating to salaries, the number of employees and the economic activities of the enterprise. But no statistics are produced by EII relating to this information available. Despite the fact that this information is available, no statistics are produced by EII on the basis that WS used to make these; and even if both EII and WS are both saying that the data from EII are more complete and reliable than those from WS.

Two means are used by EII to give enterprises incentives to prevention. The first is the part of the costs that are shared directly by the enterprises without reimbursement by SIFAB; it is considered the most valuable. The second is the floating rate but few SIFAB use it because they don't know really how to design and administer it.

Besides incentives to prevention, the only activity to support OSH that we have noticed in Liaoning province is the amount of 5 per cent to 7 per cent of previous contribution year provided for WS prevention activities. The provision is set according to the rule of the MOLSS and the amount is decided by the city.

Both EII and WS have expressed the need to have closer links and more collaboration with each other. And EII have also expressed the desire to be active in the field of OSH to help reduce the number of occupational injuries and diseases and then to reduce costs.

10. Sickness and invalidity benefits: An enterprise responsibility

In general, this is an un-reformed aspect of the social insurance system reform in China, which is based on employer-liability principles.

There is a close linkage between sickness benefit and invalidity benefit in that the incapacity for work results from a morbid condition where consequent suspension of earnings persists after the exhaustion of sickness benefit. Since the distinction between them is vague in the regulations, this section will discuss both Sickness benefits (SB) as well as Invalidity Benefits (IB), to provide a full picture of the provisions of the SB.

For urban employees, SB and IB are addressed separately in related regulations for different groups, notably workers and civil servants.

10.1 SB and IB provisions for workers

The effective regulations dealing with SB and IB for workers are the “Labour Insurance Regulation of the P.R. China”, issued on 2 February 1952, and the “Temporary Regulation on Old-age Retirement and Early Withdrawal from Employment for Workers”, issued on 2 June 1978.

In line with the “Labour Insurance Regulation of the P.R. China”, cash benefits replacing wages during a morbid contingency period are payable under Clause 13 on Medical Care. The benefits are grouped into three categories:

- Sickness Pay with replacement rates, based on the employment history of individual workers, ranging from 60 to 100 per cent of personal salary prior to the contingency for the first six months of the morbid contingency;
- Sickness Allowance with replacement rates ranging from 40 to 60 per cent, which is payable from the seventh month until the date of his or her re-entry to employment, or death, or the determination of the permanent disability;
- Disability Allowance is payable once the appropriate authorities have determined the status of a person’s permanent and entire disability. Disability Allowance would replace Sickness Pay or Sickness Allowance at the replacement rates ranging from 40 to 50 per cent.

It is further prescribed in the Regulation that the last two benefits should be paid by the Labour Insurance Fund, which ceased to function in later 1970s. It can be seen from the above that there is no clear distinction between short-term SB and long-term IB.

From 1978 when the *Temporary Regulation on Old-age Retirement and Early Withdrawal from Employment for Workers* came into force, life-time pensions for fully disabled workers were separated for the first time from sickness benefits, although the name of the invalidity pension benefits was not stated or used.

However, as no legal or official documents on redefining SB and IB with reference to the above-mentioned three categories can be found, it is not clear as to the nature and scope of SB in operation. Because SB for workers is not included in the current HI reform package, the payment of sickness-related cash benefits in line with the 1952 Regulation is entirely subject to the discretion of each individual enterprise. It is most likely that the delivery of this type of benefit is not fully and timely secured, especially for workers of SOEs with

financial difficulties, and those in the private sector where the old Regulation does not apply.

10.2 SB and IB provisions for civil servants

For civil servants, SB and IB provisions are prescribed by the “Regulation on Income Replacement of Civil Servants During a Morbid Period”, issued on 6 April 1981, and the “Temporary Regulation on the Arrangement for the Placement of Elderly, or Sick, or Disabled Civil Servants”, issued on 2 June 1978 respectively.

In spite of their clear titles, the distinction between SB and IB is vague. For instance, SB would be payable for an unlimited period thus becoming a long-term cash benefit. On comparison of the benefit levels, it is found that the replacement rates under the SB are superior to those of the IB, which would encourage SB beneficiaries not to be transferred into the IB category if possible.

The level of delivery of SBs is relatively high compared to that for workers, as government revenues finance SBs.

10.3 Reform considerations

The SB constitutes another important area for social insurance reform in China. The reform in SB requires harmony and consistency among all related branches, notably among the SB, IB and EI.

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Annexes

- I. Summary legal provisions: Pensions
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Annex I. Summary legal provisions: Pensions

AI.1 Law/Regulations

There is no pension law in force, but the pension system is regulated by a series of decisions of the State Council and of the MOLSS, the principal one being the *Establishment of a Unified Pension Insurance System for Enterprises Employees* (Decision No. 26 of the State Council).

AI.2 Coverage

Coverage generally limited to enterprise workers and individual workers in urban areas.

AI.3 Contributions

Definition of covered salary

- For the employer: Total payroll of its employees. However in Guangdong, the salary base is the same as the one used for workers (see below).
- For workers: Total cash salary, including overtime, bonus and cash allowances, minimum 60 per cent of the average wage, maximum 300 per cent of the average wage.

Contribution rates

The *Establishment of a Unified Pension Insurance System for Enterprises Employees* (Decision No. 26 of the State Council) specified the following contribution rates in 1997:

	Pooling	Individual accounts	Total
Employer	13%	7%	20%
Worker	-	4%	4%
Total	13%	11%	24%

The contribution rates have been modified by the *Trial Arrangement of Completing the Urban Social Security System* (State Council Document No. 42) for the Liaoning pilot project, as follows:

	Pooling	Individual accounts	Total
Employer	20%	-	20%
Worker	-	8%	8%
Total	20%	8%	28%

In Guangdong province (varies by pooling unit)

	Pooling	Individual accounts	Total
Employer	11% - 12%	5% - 6%	16% - 18%
Worker	-	5% - 8%	5% - 8%
Total	11% - 12%	11% (fixed)	22% - 23%

Generally, the employers' contribution rate is not supposed to exceed 20 per cent of the total payroll. However, autonomous provincial regions and municipal governments may decide specific rates. If the rate is higher than 20 per cent, it is necessary to report to the Ministry of Labour and Social Security (MOLSS) and the Ministry of Finance (MOF) for approval.

AI.4 Benefit eligibility conditions

Contributions are to be paid for at least 15 years (before 1998, it was ten years).

The normal retirement age is 60 years for men and 50 years for women (55 years for managers). However, in certain physically demanding industries and for employees of bankrupt SOEs, the retirement age may be five years earlier.

AI.5 Pension formula

In Guangdong province

For 1994 – June 1998

Pension at the time of award	Indexation (July every year)
Basic pension 30% of previous year's Social Average Wage (SAW) of the city	In line with the increase in SAW
Additional pension Career average of indexed contributory wage - x number of years of contribution - x coefficient (generally less than 1%)	Adjusted by 40% to 60% of the increase of the average contributory wage of the city
From individual account Balance in the account divided by 120	Adjusted by 40% to 60% of the increase of the average contributory wage of the city

From June 1998

Pension at the time of award	Indexation (July every year)
Basic pension 20% of previous year's SAW of the city (25% for managers)	In line with the increase in SAW
Transitional pension (for workers who joined before July 1998) Career average of indexed contributory wage x number of years of contribution before July 1998 x coefficient (1% if contributed for more than 10 years, 1.2% if contributed for more than 15 years ; for each year of hazardous work before July 1998, 0.2% is added to the coefficient)	Adjusted by 40% to 60% of the increase of the average contributory wage of the city
+ 10% of SAW in 1997 (fixed, devalues over time)	
From individual account Balance in the account divided by 120	Adjusted by 40% to 60% of the increase of the average contributory wage of the city

Other benefits

- For workers who joined the scheme before July 1998 but contributed for less than 10 years: Lump-sum: Career average of indexed wages x 2 x Number of years of contribution before July 1998
- For workers who do not qualify for a pension: Refund of the balance in the individual account
- Funeral grant: 3 times SAW of the previous year
- Survivors' grant: 3 times SAW of the previous year (for pensioners) and 6 times SAW of the previous year (for active workers)
- Assistance for dependants: 6 times SAW of the previous year

AI.6 Pension financing

Financial pooling is organised at a provincial level to adjust surplus and deficits at local and regional levels. In principle, the Treasury does not subsidise the pension scheme. However, as some provinces have had severe deficits in recent years, the Treasury has been asked to subsidise them.

Liaoning and Guangdong have adopted a "sub-pooling mechanism" (Solidarity Funds). In Guangdong, for example, all pooling units contribute 3 per cent of the collected contributions to the county sub-pooling fund (PF) and 3 per cent to the city sub-PF to cover deficits in poor localities. Guangdong had started this mechanism before the Central Government planned to establish pooling mechanisms at provincial levels. Up to now, Guangdong has received no subsidy from the Treasury.

In most provinces the individual accounts are notional; that is, there is not enough accumulated reserve to cover the full benefit liability under the defined contribution tier. Contributions to the individual accounts are deposited in Banks or invested in Treasury bonds. The interest earned on the individual accounts is reported every year.

AI.7 Benefit portability

In the case of the basic pension, the workers' contribution records are transferred when they move. For a retired worker who contributed to multiple funds, the pension is calculated on the basis of the worker's total contribution period. The pensions, however, are paid by the last scheme to which the worker had contributed.

The individual accounts are transferable. When a worker moves from one fund to another, the accumulated capital is transferred accordingly. Rural migrant workers can liquidate their individual accounts when moving to another location. Given that the individual account is notional in many funds, large-scale migration may cause financial problems.

Annex II. Summary legal provisions: Unemployment insurance

AII.1 Law/regulations

No specific law applies but in 1999 the State Council issued the *Regulations on Unemployment Insurance*. The Labour Law stipulates several obligations, such as the obligation for enterprises to provide unemployment insurance (UI) for their workers.

AII.2 Coverage

All enterprise workers, including those in private enterprises (domestic and foreign capital) are covered. Provincial authorities, autonomous regions, and municipalities directly under the Central Government can extend coverage to other units.

In Guangdong, rural migrant workers, self-employed and enterprise workers in rural areas, in township and village enterprises (TVEs), are covered. As of 2001, civil servants are not covered but coverage may be extended to include them in Guangdong from 2002.

AII.3 Contributions

The base contribution rates are 2 per cent from employers and 1 per cent from workers. However, contributions may vary at the provincial level. Employers contribute on average 1.5 to 2 per cent of total gross wages and workers on average contribute 0.5 to 1 per cent of their gross wages. Rural migrant workers who contracted with urban enterprises do not pay contributions. In the case of Beijing, the contribution rate is 1.5 per cent for employers and 0.5 per cent for workers. In Guangdong, employers pay on average 2 per cent and the workers 1 per cent. In Shenzhen the employers' contribution rate is as low as 0.4 per cent.

The covered wage is defined the same way as for pensions.

AII.4 UI financing

Contributions are paid to local funds. There are more than 1,000 funds. Deficits and surpluses are balanced at the provincial level. The Treasury pays two kinds of subsidies to cover the deficits at the provincial level. The first is a subsidy to the funds from the general reserve, which is used for financing benefits and administrative costs; the second is a direct subsidy to enterprises, which is earmarked for benefit expenditure.

The financing system operates on a pay-as-you-go (PAYG) basis but there is an accumulated reserve of 20 billion yuan at the national level. The surplus, i.e. the part of income in excess of the benefit payment, is deposited in banks and earns interest.

AII.5 Benefit eligibility conditions

To qualify for the unemployed cash benefit, a worker has to have contributed for at least one year. Unemployment has to be involuntary and the applicant should register as unemployed and be willing to and available for work.

All.6 Benefits: Cash compensation and other support services

Benefit levels are set by authorities at the provincial level, or at the level of autonomous regions and municipalities directly under the Central Government, where applicable. The benefit is a fixed rate and is not related to the previously earned wage of the individual worker. The average replacement rate is about 30 per cent. In general, the replacement rate should lie between the local subsistence level (i.e. the local level of social assistance) and the local minimum wage. In Beijing, for example, the minimum wage is 390 yuan per month, the unemployment cash benefit is 373 yuan, and the subsistence level is 270 yuan (for an adult). Nationally, the benefit levels are adjusted on an ad hoc basis to keep pace with inflation and wage increases. In Guangdong the benefit increases are linked to increases of the statutory minimum wage, which is normally adjusted in line with inflation (CPI).

In Guangdong, urban unemployed workers receive benefits on a monthly basis. The benefit level is set at 80 per cent of the statutory minimum wage. (In Guangzhou, the subsistence level is 400 yuan.) However, unemployed workers receive approximately an additional 10 per cent allowance to cover medical expenses (the allowance is a flat-rate). In addition, the scheme reimburses 50 per cent of hospital costs. Rural unemployed workers receive a lump sum equal to the sum of 1 per cent of the total gross wage for each year of past employment. This is equivalent to the refund of half the contributions. The remaining half is used by the scheme for other benefits.

The unemployment benefit terminates when an unemployed worker accepts a job offer. National guidelines specify three categories of maximum benefit duration according to the number of years of contributions: 24 months for workers who have an employment record of ten years and more, 18 months for those with five to ten years of employment and 12 months for those who have a prior employment record of less than five years (but more than one year).

After the expiration of the unemployment benefit, social assistance is paid in case of need. If a breadwinner is unemployed, a claim for additional social assistance benefits may also be made when the unemployment benefit is below the family's subsistence level. The unemployment benefit expires when the unemployed person reaches retirement age and eligible for an old-age pension.

When a beneficiary dies, his/her dependent relatives qualify for survivors' benefit. The level of the survivors' benefit is equivalent to that received by the survivors of workers in SOEs. In the Guangdong, the maximum duration for the survivors' benefit is six months.

The scheme provides allowances for vocational training and the use of employment services by certified private providers (public employment services are free of charge.) The allowance is transferred directly to the re-employment centre. The allowance varies according to the difficulty of individual placements. The assessment of the degree of difficulty different occupational groups is left to the discretion of the local social insurance agencies.

Further to the above benefits, the unemployment insurance scheme pays medical subsidies during the unemployment period and funeral grant and survivors' benefit (to dependent spouses and relatives if an unemployed person in receipt of the unemployment benefit) dies, as well as other expenses such as primarily resources to secure a basic livelihood.

Annex III. Summary legal provisions: Employment injury insurance

AIII.1 Law/regulations

Current provisions of Employment Injury Insurance (EII) are described in *The Interim Regulations on Occupational Injury & Disease Insurance for the Employees in Enterprises (IROIDI)*. They were enacted in 1996 by the MOLSS and came into force in the same year. China is paying close attention to the drafting of complete Regulations on Occupational Injury & Disease Insurance (ROIDIAE); it is expected that the State Council will both enact and implement them in 2002. Current and contemplated regulations do not apply to government employees that are covered under a different system.

Regarding occupational safety and health (OSH) at work, a legislation system has been established over the last 20 years. It is composed of laws, regulations and rules as well as the standards concerning safe and health production at working place.

AIII.2 Coverage

In principle, coverage is compulsory for all urban enterprises. The province has the power to extend the coverage to rural areas. Employers not participating in the pool system may pay directly the benefits to the workers. Workers of employers not participating to the pool may sue their employer before the courts.

AIII.3 Contributions

The EII scheme is funded entirely from contributions of employers. The contributions vary by industry. The structure of classification by industry may vary at the pool level. In Guangdong province, the classification structure is the same for all pools. In Liaoning province, each city has its own set of rates. Existing classification structures show significant variations. For example, there are three rates in Guangdong province (0.5 per cent, 1.0 per cent and 1.5 per cent) while there are 6 rates in Fushun City ranging from 0.3 per cent to 2.8 per cent. Industry rates can be adjusted to consider the experience of individual employers. This mechanism has started to be used in Liaoning province, but Guangdong is reluctant to use it because it has doubts about its impact on the behaviour of employers towards safety and health at work. The national level believes that experience rating is an important tool for prevention. The average contribution rate depends on the industry mix of each pool. Contributions rates do not reflect fully the cost of employment injuries because a significant part of benefits (temporary compensation and permanent partial disability) is paid directly by the employer to the worker. In 1999, the average contribution rate was 0.77 per cent of the payroll.

Contribution rates are applied to the salaries of the previous year in order to ease the administration.

AIII.4 Financing

Contributions are paid to the pool and they are used to pay the benefits. The Government pays administration costs from general revenues. Financing is made on the PAYG basis. The excess of contributions over payments is defined as a surplus. However, long-term pensions are paid to permanently disabled persons or survivors of deceased workers and the corresponding liabilities are not considered in the current appraisal of the financial

situation. Accumulation of appropriate assets to cover the future payments of those pensions is not a concern. Consequently the PAYG basis seems to be the framework. On the other hand, the apparent intention of the experience rating formulas and the provisions dealing with bankruptcies of state-owned enterprises (SOEs) seem to imply the fully-funded approach.

The province level may set up financial arrangements in order to subsidise pools that are in a deficit position. For example, in Guangdong province, 9 per cent of contributions are transferred to the city level and 6 per cent to the provincial level.

At the national level, the total amount of reserve accumulated was 4.2 billion yuans at the end of 1999. The benefit payments in that year were 1.2 billion yuans. No data is available to appraise whether the amount of assets covers the liabilities related to pensions in payment.

AIII.5 Benefit eligibility

In EII, any worker is entitled to benefits as long as he suffers a work related accident or occupational disease. The administrative unit of social insurance has the responsibility to make the decision regarding the eligibility. The definition of work accident includes transportation to and from work, but the amount of benefits in those circumstances may be related to the degree of fault of the worker.

AIII.6 Benefits

The insurance system provides for benefits in kind and in cash. Benefits-in-kind include medical care and rehabilitation services. Benefit in cash includes invalidity pension for temporary and permanent disability and survivors' pension.

Medical care benefits include the cost of hospital service and medical treatment, drugs, travelling expenses to the hospital from another city. The worker is encouraged to accept medical treatment in company's clinic, contracted hospital and local hospital. Whenever it is impossible, approval by the authority is required.

Rehabilitation benefits refer to vocational training and assistance equipment such as artificial limbs, home or vehicle adaptation to the worker's disabling condition. Rehabilitation benefits are generally very limited due to lack of resources. They vary according to the facilities available in the area. In 2001, Guangzhou City started to operate a vocational rehabilitation centre, which has modern and comprehensive equipment and specialized staff. There is a desire to make this kind of facility available all across the country.

Compensation for temporary disability refers to the period when the employee is unable to work because of his physical condition and needs to receive medical treatment. The employer has to pay the salary to the worker for a period of 24 months, 36 months in the case of severe injuries. The average salary of the 12 months preceding the injury is used. The new regulations will reduce those periods respectively to 12 and 24 months. This change would aim at speeding up the medical treatment. Compensation for temporary disability is fully paid by the employer who receives no reimbursement from the insurance system.

If the worker suffers a permanent disability, a committee assesses his impairment. A lump sum ranging from six to 24 months of wages will be awarded according to the disability scale according to the following table.

Table AIII.1 Lump sum for permanent disability

Grade of disability	Months of wages
1	24
2	22
3	20
4	18
5	16
6	14
7	12
8	10
9	8
10	6

A pension is paid to injured workers with grades of disability under 7. Those with grades 1 to 4 are considered totally disabled and are awarded a lifetime pension paid by the insurance fund. The amount of the pension is based either on the individual salary of the worker or the average salary of the workers of a reference group, which could be the workers in the province or the city. The rate of replacement varies with the grade of disability. It ranges from 90 per cent for grade 1 to 75 per cent for grade 4 decreasing by 5 per cent for each grade.

Injured workers with grades 5 and 6 are considered to suffer a partial loss of earnings due to their impairment, which ranges from 33 per cent to 67 per cent. Their employer can offer them a suitable job with the same salary that they had at the time of the accident. The employee may accept or refuse the work. If he refuses the job or is not offered a job by the employer, the disabled worker is entitled to a temporary pension payable until he reaches the normal retirement age. The rate of replacement is 70 per cent. The employer, who gets no reimbursement from the EII fund, pays the pension. This financial arrangement is a strong incentive to reinserting the injured worker into the workplace.

Permanently disabled workers with grades 7 to 10 are not entitled to any pension. In Guangzhou, they are eligible to vocational training at the rehabilitation centre.

Benefits paid to survivors of workers, deceased from an occupational accident or disease, are shown in the following table. Pensions to the spouse are paid for life and cease at remarriage. Pensions to orphans are paid until age 18. The province has the authority to stipulate replacement rates different to these specified benefits.

Table AIII.2 Benefits in case of death from work related injury or disease

Funeral benefit	6 local month average wage
Lump sum	48-60 local month average wage in last year
Survivor's pension	Local month average wage in last year, 40% for spouse, 30% for others, plus 10% for old-age, survivors and orphans

Indexing of disability and survivors' pensions is provided through a general statement in the regulations at the state level. The power of setting the formula is left at lower levels.

AIII.7 Relationship between EII system and OSH activities

The responsibility of safety at work is under the authority of the State Economic and Trade and Commission. Its mandates include the design of regulations and the inspection of workplaces to ensure compliance. The responsibility of occupational health falls under the authority of the Ministry of Public Health. Whenever an injury accident occurs the local bureau should be informed. Depending on the severity of the injury, an investigation will be conducted. There is no formal exchange of statistical data between the EII system and the parties involved in OSH activities. The current institutional framework probably makes difficult the appropriate targeting of industries and employers with bad records in OSH. Circulation of appropriate statistical data may help all parties to increase efficiency in the management of OSH.

Annex IV. Summary legal provisions: Health insurance

The public HI systems were established as early as 1950s, the initial stage of the establishment of the P.R. China. For the urban population, there were two main HI systems in operation: the Labour Health Insurance System for workers and dependants (LHIS) and the Government Health Insurance System for civil servants and public workers (GHIS). For the rural population, the Cooperative Health Insurance System (CHIS) was developed with government subsidies. In addition to the above, limited social assistance programmes as well as specific health programmes targeting on specific privileged groups, such as revolutionary veterans, were available too.

In the early 1980s, the overall coverage under the old public HI systems was remarkably extended, nearly 80 per cent of the population had, to some extent, financing access to health care. However, the coverage dropped dramatically following the economic system restructuring, notably the SOE reform in urban China and the cooperative system reform in rural China, as the old HI systems were basically employer-liabilities. Thus, there is an apparent need for reforming and re-establishing health insurance systems.

The Government has decided to start the reforming from the urban HI systems. A uniform BHIS for all urban working population is going to be established throughout the country. The establishment of the BHIS will last several years, therefore a transition period is foreseen, during which parallel public HI systems, i.e., the new BHIS and the old systems, will coexist, notably in the urban areas. Upon the completion of the establishment of the BHIS, efforts should be given to how to effectively and efficiently provide HI coverage for other people who are not insurable under the BHIS for the moment.

The BHIS consists of two components: a pooling fund based on social insurance principles and individual medical savings accounts (IMSA) without solidarity ingredients, which forms one of the core contents of the HI reform.

AIV.1 Coverage

All employees and retirees of urban establishments, including enterprises irrespective of their nature of ownership, government's departments and offices of the CCP, non-economic undertakings, etc., are obliged to participated in the BHIS. The compulsory coverage for other urban groups, such as workers of TVEs, the self-employed persons and their employees, is subject to the discretion of local governments.

Senior/cadre retirees, revolutionary veterans and soldiers with an invalidity degree equivalent to Degree II of Category II or higher are exempt. The Government is still directly responsible for these privileged groups.

Military personnel are exempt too from the participation in the BHIS. However, a special health scheme has been separately set up for them. In line with the principles laid down in related regulations, each person undertaking military services has an IMSA under the scheme, regular contributions from the individuals and military authorities are distributed accordingly to each IMSA. No accumulated balances in these accounts can be actually withdrawn until the person in question withdraws from the army. At that time, the overall balance in an IMSA under the special military scheme will be transferred to a person's IMSA established under a scheme of the BHIS where the person works or lives.

Coverage for dependants, especially for children, is not mentioned in all legal documents, so actually excluded too. The intention is to leave them for the moment to the old systems.

Given that, children would face one of the following scenarios: a), some of them are still insured, fully or partially, under the old systems; b), some have no HI because either the old systems stop functioning or did not have one; and c), some participate in a collectively-arrangement insurance programme which usually provides an overall insurance package for life and health for students of premier and second schools. The latter one may overlap with the first. No detailed statistics are available at the time of investigation.

AIV.2 Contributions and financing

The schemes are financed by employers' and workers' contributions. Insured retirees are exempt from paying contributions. Contribution rates vary from one scheme to another, but around 8 per cent of the payroll in total, out of them, 2 per cent from workers. Administration costs are fully covered by government budgets. The financing of the BHIS is based on PAYG system.

Contributions collected are distributed between two components. The general rule for distribution is that all workers' contributions are allocated to the IMSAs of respective individuals, the latter are further added by around 30 per cent of the total employer contributions. It should be noted that the distribution is not even among the insured persons, it is normally in line with the ages of workers/retirees. The rest of employers' contributions, i.e. 70 per cent, are then devoted to the HI pooling fund.

Lower contributions can be applied to the following groups: (a) laid-off SOE workers. The amount of employer and individual contributions due can be calculated at 60 per cent of the average regional wage of the previous year. They should be entirely paid by respective Re-employment Centres, and (b) Workers of SOEs with financing difficulties. Only employers' contributions are required to be paid; the workers can be exempted. Furthermore, the employers' contributions would be calculated at a reduced rate whole diverted to the HI pooling fund. This implies that during this special period, no financing resource will be accordingly allocated to the IMSAs, respectively.

AIV.3 Benefit eligibility conditions

The insured person has already registered with a designated HI agency, with personal contributions and those of the employer having been paid. No waiting period is required.

AIV.4 Benefit package

Benefits available under the BHIS include general practitioner care (community health services), domiciliary visiting, specialist care at hospitals for inpatients and outpatients, and essential pharmaceutical supplies prescribed by doctors. Subject to the reimbursement ceiling for the overall annual medical costs and the stipulated scope of the insurable medical items, the benefits are granted throughout the whole period of contingency.

These benefits are separately available under the two components: IMSAs and PF. In principle, medical costs for non-grave diseases, where normally only outpatient care is required, should be covered by the balance accumulated in a specific IMSA, while that for severe diseases, where usually specialised inpatient care is required, should be met under the PF.

Thus, the savings balance accumulated in an IMSA, if available, shall cover the first 10 per cent of the total annual medical cost occurred by the insured person in question. Only above threshold of this 10 per cent, will the PF assume responsibility and pick up the bills.

However, a benefit ceiling is set at four times the average regional annual salary, and thus excessive medical costs will not be reimbursable under the BHIS.

It should be noted that only costs spent on those drugs, medical services and laboratory tests and clearly specified as insurable medical items via the Official Lists are counted and reimbursable under the PF component. The List of Drug groups the insurable medicines into two categories: Category I and Category II. The content of the Category I is exclusively determined by the national authorities, while 15 per cent of the latter be determined by provincial governments. Reimbursement rates are different in that those for Category I are normally higher than those for Category II. In respect of reimbursable medical services and laboratory tests, the National List prescribes which items should not at all be insured and which items should be partially insured. Provincial governments are authorized to extend the scope of non-insurable medical items and adjust, to some extent, the content of the partially insurable list.

For all costs reimbursable under the basic HI system, co-payments by the insured patients are required. The rates of reimbursement vary considerably between different schemes, and within a scheme they depend on a number of factors such as the age of the patient, the classified level of medical services used, etc.

AIV.5 Administration and monitoring

In principle, the HI schemes should be pooled and managed at the prefecture level or above, but it is possible to do so at the county level.

They are locality-based schemes. Employees and retirees should participate in a local scheme where their working units are located or their homes are based. In other words, there should be no basic HI schemes organised on an industry / occupation basis.

Labour and Social Security authorities of the Government have overall responsibility for the administration and monitoring of the basic HI schemes, while their HI agencies are designated for day-to-day management. Meanwhile, the other related government departments, particularly Departments of Finance, Public Health, Drug Monitoring should closely coordinate with the former. A supervision committee for the management of HI funds should be set up with representatives from the government departments, employers' and workers' organisations, health institutions and the others.

Each basic HI scheme should open two fiscal accounts, one for contribution revenues and one for benefit payments. These accounts are under the close supervision of the Finance Department.

The HI agencies are also responsible for the management of supplementary HI programmes for civil servants. Regarding the question of who shall run complementary HI schemes for workers, it is open to the local governments to determine. They can be operated either by the same HI agencies, or by commercial insurance companies, or by social organisations.

AI.4.6 Health services provisions

The scopes and standards for the insurable health services, medicines and tests under the basic HI system should be determined and announced by local authorities in line with the national guidelines. Beyond the scopes, medical items are not insurable under the basic HI system.

Health suppliers, including medical institutions and pharmacies, are to be contracted on an equal competition basis. Based on that, each insured person can choose a number of health suppliers at different levels. In certain cities, each insured patient can even go to see any health suppliers who are on the contracting list.

Community health services are encouraged to develop and to be used by the insured patients.

AIV.7 Providers' payment mechanisms

They are not specified in the regulations. In practice, basically, it is fee-for-services, but an average cost per hospital stay per hospital is usually imposed. Studying and even developing a per-case payment mechanism in the future has been planned by a number of schemes' managements.

AIV.8 Health and drug sector reforms

It is considered that without simultaneous and corresponding reforms undertaken in the health and drug sectors, the basic HI system cannot be successfully established.

The State Council convened two national conferences on these three related reforms in the last two years. Mr. Li Lan Qing, Vice Premier, chaired the conferences. The main purposes of these events were to review, monitor, harmonize, guide and push forward the three reforms. All official documents of the latest conference have been seized.

The key contents of the health sector reform include the re-planning, re-allocation and restructuring of regional health resources to improve the utility rate and to ensure everyone an access to basic health services; the reforming of medical institutions to set up a reliable, self-disciplining, competitive and vigorous mechanisms for the operation and human resources development; to rationalise the current income-generating system, separating hospitals' two main income-generating activities: medical services and drug selling; distinguishing two types of medical institutions: profit-makings and non-profit-makings, and formulating corresponding policies for them, including that on tax, price, human resources, investment, etc.

AIV.9 Provisions for supplementary benefits

For medical costs beyond the established reimbursement ceiling under the basic HI schemes, supplementary programmes should take over if available. In terms of the source of financing and the nature of the schemes, three types of systems can be distinguished. One is for civil servants, compulsory, fully funded by the government revenues and run by the public HI agencies. The second is that for workers, voluntary in general, possibly financed by extra contributions not exceeding 4 per cent of pre-contribution payroll. The third is that for the insured persons who are extremely poor, supported by a solidarity fund consisting of contributions from the governments, employers in question and other donors.

Within the above-mentioned second category, the complementary schemes existing in the country are in three types:

- Complementary HI programmes for severe sicknesses designed and run by the public HI agencies. The personal coverage would be as broad as the basic HI scheme as the participation would be, in practice, rather compulsory. As to the financing, they are based on the PAYG system. Annual premiums per person

would be around 50-70 yuans, which normally allow an easy extension of the annual insurable ceiling stipulated under the basic HI scheme from 35,000-40,000 yuans to 185,000-190,000 yuans at a reimbursement rate of 60-90 per cent. Premiums are often shared between the employer and the insured person, or fully borne by either of them.

- Solidarity schemes for severe sicknesses of workers designed and run by the trade unions. The participation is voluntary and the scope of coverage is limited to the working population affiliated to the trade unions. These schemes are mainly funded by workers' contributions with some subsidies from employers and trade unions, and based on PAYG principles. The benefits provided are aimed at both the extension of coverage of medical costs exceeding the insurable maximum available under the basic HI scheme and out-of-pocket payments occurred beneath the ceiling.
- Commercial complementary HI schemes. It can be arranged between a public HI agency as a media and contribution collector and a selected commercial insurance firm, or directly purchased by individual employers or workers from a commercial company. Deductible contributions for this purpose can be up to 4 per cent of payroll.

AIV.10 Health insurance in Sichuan Province

Compared to other two provinces, Sichuan is characterised by the high share of its agricultural GDP and rural population – 80 per cent are rural. Besides, with a population of 86 million, it is the third most populous province of the municipalities and autonomic regions.⁴⁵

As far as health protection is regarded, two types of health insurance are available for the urban population: the BHIS or old public HI systems, and supplementary schemes. Detailed descriptions will focus on the BHIS and supplementary programmes run by the BHIS agencies.

AIV.10.1 Provisions under the Basic Health Insurance in Sichuan Province

The new BHIS was initially launched in 2000 and by the end of October 2001, all 21 prefectures and cities with prefecture status had established their self-financing BHIS schemes. This represented 144 counties, accounting for 80 per cent of the total, which had their schemes implemented at the same time.

Coverage

The scope of legal coverage is the same as prescribed by national regulation. Out of 7.15 million insurable persons, 3.5 million persons had been covered at the end of October 2001, and this was expected to increase to 4 million by the end of the same year.

⁴⁵ Reference is made to the background paper on Sichuan Social Security, *ILO Preparatory TA on Social Security*, prepared by national consultants.

Contribution and financing

For any BHIS scheme, there are two principal sources of financing: the contributions paid by workers and their employers, and administrative fees earmarked by the local government in question.

In Sichuan Province, contribution rates for the BHIS vary from 7.5 per cent to 9.5 per cent of the payroll, of which 2 per cent is fixed for workers' contribution. For instance, the BHIS scheme of Chengdu City prescribes that the contribution rate for employers is 7.5 per cent and 2 per cent for workers but insured retirees are exempt from payment liability. Once collected, contributions are distributed between two components. Allocation to each IMSA account will be done first, in line with the following formulas determined by Chengdu BHIS authorities; the rest will then be allocated to the PF component.

Table AIV.1 Allocation formulas for the MISA (the BHIS scheme in Chengdu City)

Category	Monthly amount allocated to each individual MISA account
Employees < 49 years old	Monthly salary * (2% + 0.02% * his or her age)
Employees > 50 years old	Monthly salary * (2% + 0.035% * his or her age)
Retirees	Average local monthly salary ⁴⁶ in the previous year * (2% + 0.035% * his or her age).

Not only do contribution rates and distribution and allocation formulas vary from scheme to scheme, but so do earmarked administration fees. The financing abilities of BHIS vary considerably, depending on the regional economies. This is likely to result in inequity between schemes and insured persons, and uncertainty in securing promised health benefits to beneficiaries by certain schemes with financing difficulties, and in the medium to long-term, difficulties for future upward pooling at the prefecture, provincial or even national levels.

The authorities, at all administrative levels, regard the financing of the BHIS as in accordance with PAYG principles. This is true for the PF component but the IMSA component part is at least partially funded.⁴⁷

For the first nine months, contributions collected amount to 1,016 million yuans with a compliance rate reaching 89 per cent.

At this early stage of implementation, a significant surplus has been observed in nearly all BHIS schemes in the province. The trade union has questioned the rationality and required to reduce contribution rates accordingly. But BHIS agencies consider that this mainly resulted from savings accumulated in many IMSA accounts, which actually belong to individual persons.

Benefits

In principle, medical costs derived from outpatient care or medical services for non-severe diseases are insurable under the IMSA component, while expenditures from inpatient care or outpatient care for 15 selected chronic diseases are reimbursable under the PF component. The exact threshold for becoming entitled to PF benefits depends on the

⁴⁶ Personal pension will replace it if the former is higher.

⁴⁷ Reference is made to the estimate made by Zhaoqing BHIS agency.

classified category of the medical institute where the insured patient receives medical treatment. In total, there are three categories. For clinics and hospitals in Category I the said threshold is about 4 per cent to 6 per cent of the average regional annual salary in the previous year, the threshold for those in Category II is around 6 per cent to 8 per cent and for those in Category III it is 10 per cent to 12 per cent. In this way, the utility rates of medical institutes in Category I, (mainly small hospitals providing community health services to residents in the neighbourhood), are expected to rise. The distribution and use of the overall health resources should be improved to secure access to minimum health care for everyone at a reduced cost.

The ceiling for annual benefits available under BHIS schemes in the province is four times the average regional annual salary. This is the same as prescribed in related national laws, the figures of which range from 20,000 yuans in some small towns to 35,000 yuans in Chengdu, the Capital of Sichuan Province.

Health services and payment mechanism

All contracted hospitals and pharmacies must connect their online computer systems with that of the BHIS agency. The cost for modifying their computer systems in line with the requirements of the BHIS scheme is normally fully borne by themselves.

With such connections, the BHIS agency has online access to all information and records on medical treatments and costs for each insured patient. Thus, it is able to closely supervise and assess the accuracy rate of diagnosis and cost level.

Through this same online computer network, a contracted health provider is also able to either bill the insured patient via his or her IMSA opened in the scheme (if there is savings) or bill him or her directly (if no savings are left), for medical items insurable under the scheme. They can also send a monthly bill to the scheme for medical items insurable under the PF component. It is common for an average maximum per hospitalisation or per case payable to a hospital is pre-determined. It varies not only from scheme to scheme, but also from hospital to hospital. For hospitals in Category III, the average maximum is normally higher than that in Categories II and I, but the average has to be maintained – whatever it is – if no special reason can be given. Another cost-containing method used widely by BHIS agencies is to pay hospitals only 90 per cent of the claimed reimbursable expenditures each time, the rest being paid off by the end of the accounting year when criteria has been met. Thus, the provider payment system adopted in the province is a sort of fee-for-services with an average maximum.

Each insured person is automatically issued with a Medicare swipe card, which bears his or her name and national ID number. By using the card and PIN number, they can check the balance in their IMSA or see the transactions recorded against the account. This can be done either at the local agency, hospital or pharmacy. The transactions are made when they attend a contracted hospital for outpatient care or buy prescribed medicine from a contracted pharmacy. At the moment that the hospital or pharmacy swipes the card, the charge is registered on the BHIS computer system if there is savings. The Labour and Social Security Bureau of Sichuan Province estimate that around 40 per cent of the insured persons have a surplus in their IMSA accounts. However, efficient monitoring over millions of IMSA accounts has proved difficult and thus cases of abuse are inevitable such as using balances accumulated in IMSA for purchasing consumer goods rather than medicines.

Potentially high financing burdens on insured persons

The public feels that the BHIS is more costly for insured people, because they now have to pay more, not only in terms of contributions but also in high co-payment rates, with a

low reimbursement ceiling and a limit on insurable medical services and drugs. Some are concerned about their financial capacity once hospitalised due to serious illness.

However, high financing burdens imposed on insured patients not only come from the design of various provisions under the new scheme, but also derive from health providers. For instance,⁴⁸ insurable medicines held by a hospital range from 30 per cent to 70 per cent of the total listed insurable drugs according to a number of surveys. This implies that a large proportion of prescribed medicines is not insurable and patients, though insured, have to bear all costs. Among prescribed insurable medicines, the percentage of Category II drugs is high, which also requires the individuals to pay more due to their relatively high prices and high co-payment. In fact, there are always incentives or financing pressures on hospitals to generate income from prescribing and selling drugs, and providing laboratory tests. Over prescription and even overcharging are common, which is at the expense of insured patients and the BHIS scheme.

Administration:

In Sichuan, the policies, principles and provisions provided under the BHIS are the same within the territory of each of the cities with prefecture status. However, most schemes are financed by pooling and managed at the county level.

AIV.10.2 Complementary health insurance in Sichuan Province

These can be divided into three categories:

- Compulsory supplementary HI programmes for civil servants and public workers fully financed by government revenues and run by public HI agencies at the same administrative level.
- Voluntary supplementary HI programmes for workers financed by additional contributions of up to 4 per cent of the payroll, either shared between workers and employers or exclusively borne by one or the other. They are managed either by the public HI agencies, by trade unions, or by commercial insurance companies at the discretion of the insured.
- Voluntary private supplementary HI policies based on individual workers or enterprise initiatives, run separately from the BHIS.

The following is an example of complementary HI programmes introduced by the Chengdu BHIS agency.⁴⁹ In total, four packages, three for inpatient care and one for outpatient care have been invented:

Package I (Hospitalization):

Premium:

This is 5.5 per cent of the average annual salary in Chengdu in the preceding year per insured person, for any insured establishment with less than 50 persons, and 3.5 per cent for those with more than 50 people, which are increased by additional premiums for people older than 55. They are required to pay an extra 10 yuans per year on top of the

⁴⁸ Reference is made to page 21 of *China Social Security*, 1/2002.

⁴⁹ According to the brochure on the combination of the BHIS with different supplementary health insurance policies, edited by the BHIS agency in Chengdu.

standard premium. However, if an establishment with 200 employees or more fully participates in the programme, this need not be paid. Even if the required premium is paid only once, the entitlement to benefits will be valid provided no claim has been made.

Benefit:

Benefits are payable after a waiting period of 12 months.

The reimbursable amount equals 30 per cent, (the overall hospitalization costs per stay which are insurable under the BHIS scheme minus the average annual salary in Chengdu in the preceding year).

The standard rate of reimbursement at 30 per cent will be augmented by 1 per cent for each additional contribution-paid year until 40 per cent is reached. The maximum amount for reimbursement is 50,000 yuans per insurance policy. Only one insurance policy can be used for reimbursement each time and each policy can be used only once.

Package II (Hospitalization):

Premium.

This is fixed at 1,000 yuans per year per insurance policy with additional premiums added for persons older than 55 years: 20 yuans for each additional year. Once paid, it is valid for life provided no reimbursement claim has been made.

Benefits:

The amount paid equals the overall hospitalisation costs per stay, which are insurable under the BHIS scheme minus three times the average monthly salary in Chengdu in the preceding year. The maximum payable for each insurance policy is:

- 300 yuans if contributions have been paid for less than 3 years;
- 400 yuans if contributions have been paid for less than 6 years;
- 500 yuans if contributions have been paid for less than 9 years;
- 600 yuans if contributions have been paid for 12 years;
- 700 yuans if contributions have been paid for 15 years;
- 2,000 yuans if contributions have been paid for more than 15 years.

Those who have bought more than one insurance policy can use them simultaneously and in such cases, the overall maximum for reimbursement can be as high as 10,000 yuans.

The amount reimbursable under each insurance policy will be reduced by 5 per cent for each additional reimbursement claim, the maximum deduction being 40 per cent.

Package III (Hospitalization):

Premium:

This is fixed at 2.5 per cent of the average annual salary in Chengdu in the preceding year per insured person, for any insured establishment with less than 50 persons and 2 per cent for those employing more than 50.

Benefit:

The reimbursable equals 90 per cent (total costs for inpatient care per stay minus the amount insurable under the BHIS; minus average monthly salary in Chengdu in the preceding year minus expenses not insurable under the BHIS).

Package IV (Outpatient care):

Premium:

The annual payment is calculated as 10 per cent of the average annual salary in Chengdu in the preceding year times the personal age.

Benefit:

The reimbursement amount is calculated as:

a part of the quarterly accumulated medicine costs incurred from outpatient care (which is higher than 5 per cent and lower than 15 per cent of the average annual salary in Chengdu in the preceding year)

times

(50 + the number of contribution years under the BHIS

times 1.5

+ the number of contribution years under Package IV * 1.5) / 100. For the latter, the reimbursement rate should not exceed 90 per cent.

Benefits are payable after a waiting period of 12 months

On the basis of these four packages, six options have been proposed by the Chengdu BHIS agency, which are based on combining the BHIS with one or more supplementary packages described above with the view to reducing or eliminating financing risks derived from unpredicted diseases.

AIV.10.3 Sichuan HI combination: No financing risk from hospitalisation

Combination:

The BHIS and supplementary Package III limit the co-payment for hospitalisation to a level acceptable to most people.

Example:

A worker aged 50 was hospitalised in a Category II hospital in 2000 and spent a total of 8,000 yuans for medical services and medicines insurable under the BHIS. As the average annual salary in Chengdu city in 1999 was 8,084 yuans, the amount he has to pay out of his pocket is calculated as follows:

The amount reimbursed under the BHIS

- $(8,000 - 8,084 * 8 \text{ per cent}) * \{(75 + 50 * 0.2) / 100\} = 6,250 \text{ yuans.}$
- Thus, co-payment under the BHIS is $(8,000 - 6,250)$ or 1,750 yuans.

The amount further reimbursed under supplementary Package III

- $(1,750 - 8,084 / 12) * 90 \text{ per cent} = 968 \text{ yuans.}$
- So, the actual personal payment is $(1,750 - 968)$ or 782 yuans, equivalent to 9.7 per cent of the total cost of 8,000 yuans.

AIV.10.4 Sichuan HI combination: No financing risk from hospitalization with high costs

The BHIS and supplementary Package I limits the co-payment for hospitalisation to a level most people can afford.

Example:

A worker aged 50 was hospitalised in a Category III hospital in 2000 and spent a total of 20,000 yuans for medical services and medicines insurable under the BHIS. The amount he needed to pay out of his pocket is calculated as follows:

The amount reimbursed under the BHIS is calculated as:

- $(20,000 - 8,084 * 12\%) * \{(75 + 50 * 0.2) / 100\} = 16,176$ yuans.
- Thus, co-payment under the BHIS is equivalent to $(20,000 - 16,176)$ or 3,824 yuans.

The amount further reimbursed under supplementary Package I is calculated as:

- $(20,000 - 8,084) * 30$ per cent = 3,574 yuans.
- The actual personal payment is equivalent to $(20,000 - (16,175 + 3,574))$, or 251 yuans, or equal to 1.25 per cent of the total cost of 20,000 yuans.

AIV.10.5 Sichuan HI combination: No payment for high-cost hospitalisation

The BHIS and supplementary Packages I and III can result in the elimination of all financial liability for hospitalisation but at high costs to the insured person.

Example:

A worker aged 50 was hospitalised in a Category III hospital in 2000 and spent a total of 15,000 yuans for medical services and medicines insurable under the BHIS. The amount he needed to pay out of his pocket is calculated as follows:

The amount reimbursed under the BHIS is calculated as:

- $(15,000 - 8,084 * 12 \text{ per cent}) * \{(75 + 50 * 0.2) / 100\} = 11,925$ yuans.
- Thus, co-payment under the BHIS is equivalent to $(15,000 - 11,925)$ or 3,075 yuans.

The amount further reimbursed under supplementary Package I is calculated as:

- $(15,000 - 8,084) * 30$ per cent = 2,074 yuans.
- Whereas reimbursement under Package III is $(3,075 - 8,084/12) * 90$ per cent is 2,161 yuans.

In total, the reimbursement amount

- $11,925 + 2,074 + 2,161 = 16,160$ yuans.
- Thus, not only are all expenses covered, but an additional “award” equal to 1,160 yuans is received by the insured patient.

AIV.10.6 Sichuan HI combination: No payment for low-cost hospitalisation

At lower costs to the insured person, the BHIS and supplementary Packages II (three policies) and III can result in the elimination of all financial liability for hospitalisation.

Example:

A worker aged 50 was hospitalised in a Category II hospital in 2000 and spent a total of 2,300 yuans for medical services and medicines insurable under the BHIS. The worker's out-of-pocket expenses are calculated as follows:

The amount reimbursed under the BHIS is calculated as:

- $(2,300 - 8,084 * 8 \text{ per cent}) * \{(75 + 50 * 0.2) / 100\} = 1,405$ yuans.
- Thus, co-payment under the BHIS is equivalent to $(2,300 - 1,405)$ or 895 yuans.

The amount further reimbursed under supplementary Package II (three policies), on the basis of 400 yuans per policy is calculated as:

- $3 * 400 = 1,200$ yuans.
- Whereas the amount reimbursed under Package III is $(895 - 8,084/12) * 90$ per cent, or 199 yuans.

In total, the reimbursement amount is equivalent to:

- $1,405 + 1,200 + 199 = 2,804$ yuans.
- Thus, all expenses are covered plus an "award" equal to 504 yuans.

AIV.10.7 Sichuan HI combination: Better-off package

The BHIS and supplementary Packages I, II (three policies) and III can result in not only the elimination of all financial liability for hospitalisation but can also make a profit.

Example:

A worker aged 50 was hospitalised in a Category II hospital in 2000. Given that the average annual salary in Chengdu in 1999 was 8,084 yuans and the reimbursement ceiling under the BHIS 32,336 yuans, the situation for reimbursement and profit making can be illustrated in the following table.

Table AIV.2 Simulation of reimbursement in different situations

Insurable costs per hospitalisation	Reimbursed amount under BHIS	Reimbursed amount under Package I	Reimbursed amount under Package II (3 policies, contributions paid for last 4-6 years)	Reimbursed amount under Package III	Actual co-payment by the patient	Profit
2,100	1,235.90	0	1,200.00	171.99	0	517.89
3,000	2,000.90	0	1,200.00	293.49	0	494.39
5,000	3,700.90	0	1,200.00	653.49	0	464.39
8,000	6,250.90	0	1,200.00	968.49	0	419.39
10,000	7,950.90	574.80	1,200.00	1,238.49	0	964.19
20,000	16,450.90	3,574.80	1,200.00	2,588.49	0	3,814.19
30,000	24,950.90	6,574.80	1,200.00	3,938.49	0	6,664.19
50,000	32,336.00	12,574.80	1,200.00	12,591.90	0	8,702.70
100,000	32,336.00	27,574.80	1,200.00	60,291.90	0	21,402.70

AVI.10.8 Sichuan HI combination: No financing risk for outpatient care

The IMSA component of the BHIS and supplementary Packages IV, which would significantly reduce the financing burden of the patient derived from outpatient care.

Example:

A worker aged 50 spends 400 yuans as average per month for outpatient care. He earns 12,000 yuans per year and has paid contributions to both the BHIS and the supplementary Package IV for 14 years, so that he is entitled to a reimbursement rate at 90 per cent under Package IV. In consequence, the amount he needed to pay out of his pocket is calculated as follows:

As the annual allocation to his IMSA account is:

- $12,000 * 2 \text{ per cent} + 12,000 * 0.035\% * 50 = 450 \text{ yuans (or 37.5 yuans per month)}$

The amount reimbursed under supplementary Package IV is:

- $(1,200 - 8,084 * 5 \text{ per cent}) * 90 \text{ per cent} = 716.22 \text{ yuans (or 276.20 yuans per month)}$

The total amount insurable under two schemes is:

- $37.50 + 238.70 = 276.20 \text{ yuans}$

Thus, the final co-payment by the patient is:

- $400 - 267.2 = 123.8 \text{ yuans, which most employees can afford.}$

Premium projection of each of six options (for supplementary packages only) (Calculated on the basis of 8,084 yuans as the average annual salary, and age of the insured person as less than 55 years):

Premium for Option I

- $8,084 * 2 \text{ per cent (at privileged rate)} = 161.68 \text{ yuans}$

Premium for Option II

- $8,084 * 3.5 \text{ per cent (at privileged rate)} = 282.94 \text{ yuans (one time)}$

Premium for Option III

- $161.68 + 282.94 = 444.62 \text{ yuans.}$

This is equivalent to the total payment for the first year. From the second year onward, only the premium for Package III needs to be paid.

Premium for Option IV

- $3,000 + 161.68 = 3,161.68 \text{ yuans.}$

This is the total payment for the first year. From the second year onward, only the premium for Package III needs to be paid.

Premium for Option V

- $282.94 + 3,000 + 161.68 = 3,444.62 \text{ yuans.}$

This is the total payment for the first year. From the second year onward, only the premium for Package III needs to be paid.

Premium for Option VI depends on the age of the insured person:

- for age 20, the premium = $8,084 * 0.1 \text{ per cent} * 20 = 161.68 \text{ yuans}$
- for age 30, the premium = $8,084 * 0.1 \text{ per cent} * 30 = 242.52 \text{ yuans}$
- for age 40, the premium = $8,084 * 0.1 \text{ per cent} * 40 = 323.36 \text{ yuans}$
- for age 50, the premium = $8,084 * 0.1 \text{ per cent} * 50 = 404.20 \text{ yuans}$
- for age 60, the premium = $8,084 * 0.1 \text{ per cent} * 60 = 485.04 \text{ yuans}$
- for age 70, the premium = $8,084 * 0.1 \text{ per cent} * 70 = 565.88 \text{ yuans}$
- for age 80, the premium = $8,084 * 0.1 \text{ per cent} * 80 = 646.72 \text{ yuans}$

AIV.11 Health insurance in Guangdong province

Among three selected provinces, Guangdong is generally characterized by its seacoast location, developed economy and established market environment.⁵⁰

AIV.11.1 Guangdong BHIS schemes

The implementation of the BHIS started from 2000 in Guangdong Province. By the end of 2001, all 22 cities at the prefecture level had launched their BHIS schemes. If it is calculated on the basis of county level, 42 per cent of the counties, (32 counties), have accomplished the launch.

⁵⁰ Reference is made to the background paper on Guangdong Social Security, *ILO Preparatory TA on Social Security*, prepared by national consultants.

Coverage

Compared with the standard scope of compulsory coverage, here this has been extended to TVE workers and self-employed persons and their employees under certain BHIS schemes, such as that in Zhaoqing.

By the end of October 2001, 4.18 million employees and retirees were insured under the BHIS, including 0.84 million civil servants and retirees. This is equal to 44 per cent of the total of 1.9 million civil servants and retirees, and 2.24 million of enterprise employees and retirees, which equals 28 per cent of the total 8 million.

Special programmes have been invented for effectively extending coverage to employees of enterprises with financing difficulties, self-employed persons, immigrated rural workers, and workers of bankrupt enterprises.

Contribution and financing

The overall contribution rates vary considerably, ranging from 7.8 per cent to 10 per cent, of which workers pay 2 per cent.

The contribution income in 2001 for the Province as a whole was about 1,060 million yuans, the compliance rate being as high as 98 per cent. Overall annual expenditure accounts for 558 million yuans, so there is a savings equal to 502 million yuans, which is 47 per cent of the surplus.

The BHIS scheme implemented in Guangzhou Municipality may be taken as an example. The contribution rates are set at 8 per cent for employers and 2 per cent for workers, respectively. Employer contributions account for 1.2 billion yuans while those of workers account for 0.3 billion yuans. Transition payments⁵¹ further enlarge these figures by 0.4 billion yuans, resulting in a total annual income for 2001 of 1.9 billion yuans. From this, about 0.7 million was diverted to the PF component, while around 1.1 billion was allocated to individual IMSA accounts.

According to the BHIS authorities in Guangdong, there are two main reasons for such exceptionally high allocations to the IMSA component. These extra allocations derive from transition payments, which cannot be regarded as regular revenues, and the relative high redistribution rate set up for the IMSA component (36 per cent of employers' contributions in addition to workers' contributions). It is argued that as the costs for outpatient care are very high, accounting for 70 per cent of the total medical expenses in Guangzhou⁵², the financing ability of the IMSA component should be strengthened accordingly. However, under the Zhaoqing scheme, only 25 per cent of employers' contributions are allocated to it.

It is revealed that some establishments have to pay more than under the old HI systems. For instance, contributions paid by the Provincial Government as an employer for its employees and retirees with provincial status are 1 billion yuans more.⁵³

⁵¹ They refer to lump-sum payments to the BHIS scheme made by bankrupt enterprises for their workers, that will secure them a ten-year coverage.

⁵² Reference the *Introductory Speech* by Mr. Zhang, Deputy DG of the BHIS agency, Guangdong Province, 27 November 2001.

⁵³ As the same as the above.

Benefits

In principle, benefits are the same as described under Section 7.1.2. Medical costs can be insurable separately under two components of the BHIS on condition that the corresponding health services, drugs and tests are provided by contracted health providers and included on the insurable lists. Besides, only the part of annual hospitalization costs which fall into the category between 10 per cent and four times the average local annual salary is payable under the PF component. In Zhaoqing, the threshold and ceiling for reimbursement under the PF component are 900 yuans and 35,000 yuans respectively.

It is estimated that excessive costs beyond the reimbursement ceiling account for about 0.5 per cent of the overall medical expenditures occurred by insured persons in Guangdong, that is about 0.3 per cent of insured persons exceed the ceiling.⁵⁴

The target for the benefit level insurable under the BHIS is set at 80 per cent of the total medical expenditures of the provincial authorities, (about 60 per cent at this initial stage of the implementation). The Guangdong authorities also plan to gradually include more old-age related chronic diseases into the PF package, raise the ceiling, reduce the threshold for multi-hospitalisation cases, and decrease co-payments for the treatment of chronic diseases.

Advantageous policies have been invented for vulnerable groups. For instance, in Zhaoqing, it is prescribed that

- Unemployed persons receiving UI are covered by the BHIS, all contributions being paid by the UI scheme, calculated on 8.3 per cent of 60 per cent of the average local monthly salary in the proceeding year.
- Retirees having paid contributions for more than 20 years for women and 25 years for men, (or equivalent years of employment services) can be directly insured under the BHIS scheme with no liability for either employers' or workers' contributions.
- Arrears of HI contributions for employees of bankrupt or closing down enterprises should be cleared as prioritised from arrears of salary. Moreover, lump-sum contributions for workers who will reach prescribed retirement age within five years should be paid by the employer and workers in question, which will secure them continual coverage until retirement.

Health services and provider payment mechanisms

As a whole, the Province possesses 12,588 medical institutes with 157,200 beds, including 1,359 hospitals with county or higher status. There is a total of 327,100 employees in the health sector, of which 265,000 are health workers, including 102,100 doctors and 83,200 nurses. The number of hospitalisations per annum is 3,710,000 with an average stay of 11.8 days, while outpatient consultations are around 380,000,000.⁵⁵

Medical institutes as well as pharmacies have to compete to be a contracted health provider of the BHIS scheme, and insured persons can have access to insurable health services provided by all contracted health providers.

⁵⁴ As the same as the above.

⁵⁵ Reference is made to the introductory speech by Mr. Xu, Deputy Director, Public Health Bureau of Guangdong Province.

The provider payment mechanism used for hospitalisation costs is generally called the “flat-rate payment”, while that for outpatient care is a “fee-for-service”. Zhaoqing BHIS authorities interpret the former as follows: “Overall expenditure control, monthly pre-payment, final annual accounting, award for savings and sharing for overspending”. The BHIS authorities in Zhaoqing pre-determine a maximum payable to each contracted hospital, calculated on the basis of the overall annual contributions the agency can collect over the year, the number of insured patients received by each hospital and the category each of them belong to. In consequence, this maximum varies for different schemes and hospitals. Once the annual maximum is set down, the contracted hospital will be fully reimbursed by the end of the accounting year for all insurable medical costs spent by insured patients, if the actual annual expenditure is within the limit. In this case, a certain percentage of the savings will be awarded to the hospital. However, if the designated amount has been overspent, the excessive cost will be shared between the hospital and the agency if it is less than 10 per cent. Any extra costs over 10 per cent will be charged to the hospital in question.

In the supply of drugs, insured patients can purchase prescribed medicines from either a hospital or pharmacy. The retail pharmaceutical industry in the Province is young and owned 65 pharmacies with 2,800 shops by the end of 2001. The lack of qualified pharmacists is one of the main problems constraining the development of this industry.

Administration

In principle, the Labour and Social Security Bureaus of the governments at provincial, prefecture and county levels look after HI policy and legislation issues, while their HI agencies take care of the implementation. By the end of 2001 BHIS had not yet set up agencies in all counties of the Province.

In addition, a social insurance monitoring commission consisting of representatives of all parties involved is usually formed for each scheme, to supervise its performance especially the use of the social insurance funds.

Like other social insurance contributions, tax authorities collect HI contributions in Guangdong. It is one of 15 provinces where the duty for contribution collection is delegated to the Chinese tax authorities.

AIV.11.2 *Guangdong complementary health insurance*

Supplementary HI schemes have been widely created throughout the Province, and the variations in provisions are much larger than that in BHIS schemes. It is interesting to observe that these schemes for workers were usually launched at the same time as the BHIS schemes to fill the insurance gap, and participation in them is sometimes made compulsory.

In Zhaoqing, the BHIS agency serves as a mediator for complementary health insurance: it negotiates the premium and benefit package with commercial insurers on behalf of its insured population, and would intervene if any dispute arises between the company and its insured persons. The annual premium per person for 2001 is 72 yuans, covering an overall annual medical cost, which falls between 35,000 yuans (the maximum payable under the BHIS), and 185,000 yuans at a reimbursement rate of 90 per cent.

AIV.12 Health insurance in Liaoning Province

Liaoning Province is an old industrial base in China with a high proportion of SOEs. Consequently, the numbers of laid-off workers and retirees are proportionally high. By the end of 2000, it had 4,206,000 SOE workers and 1,706,00 collectively owned enterprises workers. The number of people laid off was 1,441,000 and 906,000 respectively, accounting for 34 and 53 per cent of the workforce in question. If the number of retirees is added to this the total will be 5,027,000, about 40 per cent higher than the number of employees in the same category (3,565,000 workers).

The State Council selected the province to pilot social security reform.

AIV.12.1 Liaoning BHIS

By the end of November 2001, the BHIS was launched in all 14 cities with prefecture status.

Coverage

The scope of legal coverage is the same as that of the national authorities. 1,374,000 persons were covered by the end of November 2001.

Contribution and financing

The overall contribution rates vary from 8 per cent to 10 per cent of the payroll in the preceding month, of which, 2 per cent is fixed as workers contributions, but retirees are exempt from contribution liability. Generally, any part of the salary which exceeds three times the average local salary in the preceding year is excluded from the contributory base, while if it is lower than 60 per cent of the average local income, that figure should be used for contribution calculations. Contribution rates are determined on the basis of PAYG system and may be modified if necessary.

Table AIV.3 Contribution rates in Liaoning province

City name	Contribution rate for employer (%)	Contribution rate for worker (%)
Dalian	6/8 ⁵⁶	2
Anshan	7.5	2
Chaoyang	6/7 ⁵⁷	2
Huludao	7	2
Fushun	7	2
Benxi	7	2
Fuxin	6.5	2
Panjin	6.6	2

⁵⁶ Two rates defined for two sub-regions.

⁵⁷ Two rates defined for two sub-regions.

Once contributions have been collected, they will be distributed between the two components. The allocation to the IMSA is made first, leaving the rest for the PF.

Distribution formulas for the IMSA are illustrated in Table AIV.4.

Table AIV.4 Allocations to the IMSA by categories

City name	Allocations by category of insured persons (% personal salary or pension)			
	< 30 years old	< 45 years old	< 46 years old	Retirees ⁵⁸
Dalian		2.8	3.3	6.5
Anshan		2.5	3.3	4.5
Chaoyang		2.9	3.6	4.9
Huludao	2.6	3.0	3.5	5.0 ⁵⁹
Fushun		2.7	3.4	4.8
Benxi		3.0	3.5	4.5
Fuxin		2.5	3.0	4.0
Panjin		3.0	3.5	5.2

Benefits

Benefits available under the two components of the BHIS schemes are similar to BHIS schemes run in other selected provinces.

Medical costs insurable under the BHIS schemes should meet the following criteria:

- They should be paid for health services provided, drugs prescribed or laboratory tests conducted by contracted health providers;
- These medical items are included on the official insurable lists;
- The overall annual cost per insured person must be within the limit of the pre-determined ceiling, otherwise the excess amount is not insurable.

Expenses for outpatient care reimbursable under the IMSA will be automatically debited from the corresponding IMSA account if there is savings. The health provider in question does this by swiping the Medicare card of the insured person concerned.

The provisions for covering costs derived from inpatient outpatient care for defined chronic diseases are illustrated in Table AIV.5.

⁵⁸ When the individual pension is below the average local pension in the preceding year, the average local pension will be used for allocation purpose.

⁵⁹ If the monthly pension is lower than 400 yuans, the allocation will be calculated on the basis of 400 yuans.

Table AIV.5 Medical costs insurable under the PF¹ (by category and by scheme)

City name	Medical costs insurable under the PF				Reimbursement rate by hospital category ² (%)		
	Threshold by hospital category, 2000 (yuans)			Ceiling in 2000 (yuans)			
	III	II	I		III	II	I
Dalian	800	500	300	38,000	85	88	90
Anshan	700	500	300 ³	20,000	80	82	85 ⁴
Chaoyang	600	500	400 ⁵	20,000	80	80	80
Huludao	650	400-450	200	21,000	89% for contribution-paid years > 31 years, 86% for > 21 years, 83% for > 11 years, 80% for < 10 years, and 86% for retirees < 20 years.		
Fushun	700	500	300 ⁶		85 / 90	88 / 92	90 / 94 ⁷
Benxi	600	500	400 ⁸	20,000	85% for workers 90% for retirees		
Fuxin	600	400	300	16,000	76 / 80	80 / 84	84 / 88 ⁹
Panjin	1,000	700	400 ¹⁰	28,900	80 / 85	82 / 87	84 / 89 ¹¹

Notes:

- ¹ Different provisions are usually made for mental illness, uraemia, hospitalization and emergency care taking place in other regions, workers regularly working in other regions, and retirees settling down elsewhere.
- ² It can be observed that under certain schemes outside Liaoning, the ages of insured persons may also be taken into account in determining reimbursement rates.
- ³ From the third hospitalization occurring within the same accounting year, the thresholds can be reduced by 50 per cent.
- ⁴ For retirees, the reimbursement rates will be 85, 87 and 90 per cent respectively.
- ⁵ For every extra hospitalization occurring within the same accounting year, each threshold will be reduced by 200 yuans.
- ⁶ The thresholds will be 100 yuans less for every extra hospitalization from the second inpatient care.
- ⁷ Reimbursement rates for workers and retirees, respectively.
- ⁸ The thresholds will be 100 yuans less for each extra hospitalization starting from the second one.
- ⁹ Reimbursement rates for workers and retirees respectively.
- ¹⁰ The thresholds will be 50 per cent of the initial rates from the second hospitalization occurred in the same year.
- ¹¹ Reimbursement rates for workers and retirees respectively.

AIV.12.2 Liaoning complementary health insurance

In line with the Administrative Decree No. 109 1999], issued by the Labour Bureau of Liaoning Province, one or more types of supplementary schemes, as described below, should be simultaneously set up for workers to cover medical costs beyond the insurable scope of the BHIS. The Labour and Social Security authorities in consultation with the Bureau of Public Finance and the Trade Unions should make the selection.

Supplementary insurance for severe diseases

This is exclusively run by the BHIS agency and all enterprises workers may participate. It is financed by premiums determined on the basis of the PAYG system. The premium may be shared between workers and their employers or borne by either party, ranging from 20 to 50 yuans per person per annum with reimbursement rates between 60 and 90 per cent.

In reality, certain schemes such as that implemented in Fushun City make the participation mandatory, which effectively improves the benefit level and extends contingency coverage.

Mutual insurance for severe diseases

This type of scheme is managed by trade unions and the participation is voluntary. It is funded by workers' contributions with some enterprise subsidies. Although it mainly targets medical costs higher than the prescribed maximum insurable under the BHIS scheme, it can also finance a part of co-payment that occurs below the maximum.

Commercial insurance for severe diseases

This may be arranged through the BHIS agency acting as the representative of all insured persons. In this case, the agency negotiates with the selected commercial insurer about detailed provisions such as benefit packages and premiums, signs the insurance contract for them and collects premiums on behalf of the commercial company. The prescribed premium can be shared between workers and their employers or paid in full by either party.

Enterprises may also directly purchase health insurance policies for their employees from commercial insurers. The nature and number of health insurance policies purchased for each employee could be based on the length of his or her employment, responsibility and contribution made to the enterprise in question. In this case, up to 4 per cent of the total payroll of the enterprise can be used for purchasing HI policies for its workers.

Social assistance for severe diseases

This aims at assisting workers whose incomes are below a defined "poverty line". In principle, the government concerned, the enterprise in question and society share equally the required funding.⁶⁰

⁶⁰ The term "society" is vague, broad and flexible in Chinese. It would refer to the BHIS as the case for financing Re-employment Centers for the layoffs, where a part of funding comes from the UI.

Annex V. Statistical reporting system of China's social security system

This Annex presents in detail the reporting forms of statistical and financial data. The blueprint reporting forms are classified into three series. The first series (hereafter called SI) comprises 15 tables for the social insurance (including the basic pension, health care, work injury, maternity and others). The second series (called unemployment insurance (UI)) comprises five tables for the UI and the third (called RP) comprises two tables for the rural pension insurance. Table 2.2 in Section 2 summarises the main characteristics of these reporting forms.

Each blueprint table is a matrix framed by horizontal headings (or column headings) and vertical headings (or row headings). Each county level office is required to fill the data in this format and submit to the provincial office. The following presents the structure of the blueprint tables by indicating the horizontal and vertical headings of each table.

SI.1. Basic old-age insurance: Basic table (local pooling)

Horizontal headings:

1. Insured workers (end of the period)
2. Idem (average of the period)
3. Actual contributors (end of the period)
4. Idem (average of the period)
5. Number of retirees (before 1949 and early retirement) (end of the period)
6. Idem (normal retirees, end of the period)
7. Idem (early retirees or retired due to illness, end of the period)
8. Idem (average of the period)
9. Number of retired during the period (total)
10. Idem (retirees before 1949)
11. Number of retired due to death
12. Amount of pension due (total)
13. Idem (due this period)
14. Idem (due this period, for the retirees before 1949)
15. Actual pension paid (total)
16. Idem (paid this period)
17. Idem (paid this period, for the retirees before 1949)
18. Number of pensioners receiving through social insurance offices
19. Amount of pension paid through social insurance offices

Vertical headings:

- 1 Total
- 2 Enterprises (Total)
- 3 Idem (of which: Central level)
- 4 Idem (domestic enterprises)
- 5 Idem (state-owned enterprises (SOEs))
- 6 Idem (of which: Reemployment centers)
- 7 Idem (collective enterprises)
- 8 Idem (other enterprises)
- 9 Idem (of which: SOEs are the main shareholders)
- 10 Idem (foreign enterprises - including Hong Kong, Macao and Taiwan)
- 11 Institutions
- 12 Idem (of which: Central level)
- 13 Ministries institutions

-
- 14 Idem (of which: Central level)
 - 15 Others

SI.1bis. Basic old-age insurance: Basic table (industry pooling)

Horizontal headings:

Same as SI.1

Vertical headings:

- 1 Total
- 2 Idem (of which: Reemployment centers)
- 3 Railway
- 4 Mining
- 5 Transport
- 6 Water transport
- 7 Electricity
- 8 Oil
- 9 Metal
- 10 Construction
- 11 Telecommunication
- 12 Aviation
- 13 Finance / Banking
- 14 Idem (industry banks)
- 15 Idem (agricultural banks)
- 16 Idem (transportation banks)
- 17 Idem (construction banks)
- 18 Idem (Bank of China)
- 19 Idem (insurance)

SI.2. Basic old-age insurance: Contribution collection (local pooling)

Horizontal headings:

- 1 Total contributions (by employers)
- 2 Idem (by workers)
- 3 Cumulative unpaid contributions at the beginning of period (employers' part)
- 4 Idem (workers' part)
- 5 Net (difference) payment (contributions due)
- 6 Idem (contributions actually paid)
- 7 Idem (transfer from fund to enterprises due)
- 8 Idem (transfer from fund to enterprises received)
- 9 Idem (amounts paid by enterprises due)
- 10 Full payment (contributions due)
- 11 Idem (contributions actually paid)
- 12 Idem (transfer from fund to enterprises due)
- 13 Idem (transfer from fund to enterprises received)
- 14 Workers' contributions (due)
- 15 Idem (actually paid)
- 16 Uncollected contributions in this period (employers' part)
- 17 Idem (workers' part)
- 18 Cumulative unpaid contributions at the end of period (employers' part)
- 19 Idem (workers' part)

Vertical headings:

Same as SI.1

SI.2bis. Basic old-age insurance: Contribution collection (industry pooling)

Horizontal headings:

Same as SI.2

Vertical headings:

Same as SI.1bis

SI.3. Basic old-age insurance: Individual account (local pooling)

- 1 Number of persons having individual accounts (total)
- 2 Idem (active)
- 3 Idem (retired)
- 4 Idem (others)
- 5 Cumulative balance at the beginning of period
- 6 Income to individual accounts (total)
- 7 Idem (contributions by individuals)
- 8 Idem (contributions by enterprises)
- 9 Idem (interests)
- 10 Idem (others)
- 11 Payment from individual accounts (total)
- 12 Idem (basic pensions)
- 13 Idem (lump sum)
- 14 Idem (others)
- 15 Cumulative balance at the end of period
- 16 Idem (of which: retired workers)

Vertical headings:

Same as SI.1

SI.3bis. Basic old-age insurance: Individual account (industry pooling)

Horizontal headings:

Same as SI.3

Vertical headings:

Same as SI.1bis

SI.4. Basic health insurance: Participants and contributions

Horizontal headings:

- 1 Insured persons (active workers, end of the period)
- 2 Idem (average of the period)

-
- 3 Insured persons (retired workers, end of the period)
 - 4 Idem (average of the period)
 - 5 Total amount of contribution base (enterprises)
 - 6 Idem (workers)
 - 7 Special groups who need medical assistance
 - 8 Retired workers before 1949
 - 9 Disabled workers in special categories

Vertical headings:

- 1 Total
- 2 Enterprises (total)
- 3 Idem (of which: Central level)
- 4 Idem (I. domestic enterprises)
- 5 Idem (1. SOEs)
- 6 Idem (of which: reemployment center)
- 7 Idem (2. collective enterprises)
- 8 Idem (3. other enterprises)
- 9 Idem (of which: SOEs are main shareholders)
- 10 Idem (II. foreign enterprises - including Hong Kong, Macao and Taiwan)
- 11 Institutions
- 12 Idem (of which: Central level)
- 13 Idem (Government institutions)
- 14 Idem (of which: Central level)
- 15 Ministries institutions
- 16 Idem (of which: Central level)
- 17 Others

SI.5. Basic health insurance: Contribution collection

Horizontal headings:

- 1 Health insurance contributions due (total)
- 2 Idem (enterprises)
- 3 Idem (of which: in respect of the previous year)
- 4 Idem (individuals)
- 5 Idem (of which: in respect of the previous year)
- 6 Health insurance contributions actually paid (total)
- 7 Idem (enterprises)
- 8 Idem (of which: in respect of the previous year)
- 9 Idem (individuals)
- 10 Idem (of which: in respect of the previous year)
- 11 Cumulative unpaid contributions (total)
- 12 Idem (enterprises)
- 13 Idem (individuals)

Vertical headings:

Same as SI.4

SI.6. Basic health insurance: Expenditure

Horizontal headings:

- 1 Active workers (outpatient care, total expenditure)
- 2 Idem (of which: medicine)
- 3 Idem (outpatient care, number of patients)

-
- 4 Idem (inpatient care, total expenditure)
 - 5 Idem (of which: medicine)
 - 6 Idem (inpatient care, number of patients)
 - 7 Idem (total sum of hospitalised days)
 - 8 Retired workers (outpatient care, total expenditure)
 - 9 Idem (of which: medicine)
 - 10 Idem (outpatient care, number of patients)
 - 11 Idem (inpatient care, total expenditure)
 - 12 Idem (of which: medicine)
 - 13 Idem (inpatient care, number of patients)
 - 14 Idem (total sum of hospitalised days)
 - 15 Special groups who need medical assistance (outpatient care, total expenditure)
 - 16 Idem (of which: medicine)
 - 17 Idem (inpatient care, total expenditure)
 - 18 Idem (of which: medicine)
 - 19 Retired workers before 1949 (outpatient care, total expenditure)
 - 20 Idem (of which: medicine)
 - 21 Idem (inpatient care, total expenditure)
 - 22 Idem (of which: medicine)
 - 23 Disabled workers in special categories (outpatient care, total expenditure)
 - 24 Idem (of which: medicine)
 - 25 Idem (inpatient care, total expenditure)
 - 26 Idem (of which: medicine)

Vertical headings:

- 1 Total
- 2 Hospital at higher than county level
- 3 Idem (of which: 2nd class)
- 4 Idem (3rd class)
- 5 Grass-root health care providers
- 6 Others

SI.7. Social pooling fund for serious diseases and retired workers: Basic table

Horizontal headings:

- 1 Number of workers
- 2 Number of retirees (both normal and before 1949)
- 3 Total amount of contribution base
- 4 Contributions due
- 5 Idem (in respect of the previous year)
- 6 Income to the fund
- 7 Idem (actual amount)
- 8 Idem (in respect of the previous year)
- 9 Fund expenditure
- 10 Idem (of which: medical cost)
- 11 Surplus at the end of period
- 12 Cumulative unpaid contributions

Vertical headings:

- 1 Total expenditure
- 2 Serious diseases
- 3 Health care for retired workers

SI.8. Employment injury insurance: Basic table

Horizontal headings:

- 1 Number of insured persons
- 2 Total amount of contribution base
- 3 Contributions due
- 4 Idem (in respect of the previous period)
- 5 Contributions actually collected
- 6 Idem (in respect of the previous period)
- 7 Cumulative unpaid contributions at the end of period
- 8 Number of beneficiaries (total)
- 9 Idem (levels 1 - 4)
- 10 Idem (levels 5 - 6)
- 11 Idem (levels 7 - 10)
- 12 Number of deaths at work
- 13 Number of direct relatives
- 14 Number of occupational disease beneficiaries (total)
- 15 Idem (levels 1 - 4)
- 16 Idem (levels 5 - 6)
- 17 Idem (levels 7 - 10)

Vertical headings:

Same as SI.1

SI.9. Employment injury insurance: Statistics by industry

Horizontal headings:

- 1 Number of insured persons
- 2 Total amount of contribution base
- 3 Number of accident cases
- 4 Number of persons in accidents
- 5 Number of death
- 6 Number of persons suffering from occupational disease
- 7 Total number of work injury beneficiaries
- 8 Idem (of which: number of new beneficiaries during reporting period)
- 9 Number of lump sum beneficiaries during reporting period
- 10 Average number of direct relatives
- 11 Number of occupational diseases' beneficiaries
- 12 Cost rate

Vertical headings:

- 1 Total
- 2 Agriculture, forestry, farming, fishery
- 3 Mining
- 4 Manufacturing
- 5 Electricity, gas, water
- 6 Construction
- 7 Geological prospecting and water conservancy
- 8 Transport, storage, post and telecommunications
- 9 Wholesale, retail trade, catering services
- 10 Finance, insurance
- 11 Real estate trade
- 12 Social services
- 13 Health care, sporting, social welfare

-
- 14 Education, culture, art radio film, television
 - 15 Scientific research, polytechnic
 - 16 Government & party agencies, social organizations
 - 17 Others

SI.10. Maternity insurance: Participants and contributions

Horizontal headings:

- 1 Number of insured persons
- 2 Idem (of which: females)
- 3 Total amount of contribution base
- 4 Contributions due
- 5 Idem (in respect of the previous year)
- 6 Contributions actually paid
- 7 Idem (in respect of the previous year)
- 8 Cumulative amount of unpaid contributions
- 9 Number of beneficiaries during this period
- 10 Idem (of which: number of women giving birth during this period)
- 11 Idem (of which: number of women with miscarriage during this period)

Vertical headings:

Same as SI.1

SI.11. Supplementary old-age insurance and medical subsidies for civil servants

Horizontal headings:

- 1 Supplementary pension (active workers, end of the period)
- 2 Idem (average of the period)
- 3 Idem (retired workers - normal and early retirements, end of the period)
- 4 Idem (average of the period)
- 5 Idem (total expenditure)
- 6 Individual savings accounts pension (active workers, end of the period)
- 7 Idem (average of the period)
- 8 Idem (retired workers - normal and early retirements, end of the period)
- 9 Idem (average of the period)
- 10 Idem (total expenditure)
- 11 Supplementary medical insurance by enterprises (insured persons, end of the period)
- 12 Idem (average of the period)
- 13 Idem (number of beneficiaries)
- 14 Idem (total expenditure)
- 15 Subsidy of medical insurance for civil servants (insured persons, end of the period)
- 16 Idem (average of the period)
- 17 Idem (number of beneficiaries)
- 18 Idem (total expenditure)

Vertical headings:

Same as SI.1

SI.12. Social insurance (total): Expenditure and cost rates

Horizontal headings:

- 1 Basic pension insurance (cost rate - employers)
- 2 Idem (workers)
- 3 Idem (total amount of contribution base - employers)
- 4 Idem (workers)
- 5 Basic health insurance (cost rate - employers)
- 6 Idem (workers)
- 7 Idem (total amount of contribution base - employers)
- 8 Idem (workers)
- 9 Maternity insurance (cost rate)
- 10 Idem (total amount of contribution base)
- 11 Employment injury insurance (cost rate)
- 12 Idem (total amount of contribution base)

Vertical headings:

- 1 Total
- 2 Provincial level
- 3 Local pooling
- 4 Industrial pooling
- 5 Idem (train)
- 6 Idem (mining)
- 7 Idem (transport)
- 8 Idem (water)
- 9 Idem (electricity)
- 10 Idem (oil)
- 11 Idem (metal)
- 12 Idem (construction)
- 13 Idem (telecommunications)
- 14 Idem (aviation)
- 15 Idem (finance/bank)
- 16 Idem (1. industry banks)
- 17 Idem (2. agricultural banks)
- 18 Idem (3. transportation banks)
- 19 Idem (4. construction banks)
- 20 Idem (5. Bank of China)
- 21 Idem (6. insurance)
- 22 District level (city level)
- 23 Idem (county level)

SI.13. Social insurance agencies: Composition of staff of social insurance agency

Horizontal headings:

- 1 Number of agencies
- 2 Number of allocated staff
- 3 Number of actual staff
- 4 Category of work (management)
- 5 Idem (finance)
- 6 Idem (statistics)
- 7 Idem (computer)
- 8 Idem (operation)
- 9 Idem (accounting)

-
- 10 Idem (others)
 - 11 Educational level (university or higher)
 - 12 Idem (high school)
 - 13 Idem (junior high school or below)
 - 14 Technical title (high class)
 - 15 Idem (middle class)
 - 16 Idem (elementary class)
 - 17 Idem (others)
 - 18 Age (less than 35)
 - 19 Idem (36 – 45)
 - 20 Idem (46 – 55)
 - 21 Idem (more than 56)

Vertical headings:

- 1 Total
- 2 Idem (of which: females)
- 3 Provincial level
- 4 Idem (number of independent health insurance agencies)
- 5 City level
- 6 Idem (number of independent health insurance agencies)
- 7 Prefectural level (including cities and districts)
- 8 Idem (number of independent health insurance agencies)

Sl.14. Basic old-age insurance: Pension payment for retired workers before 1949

Horizontal headings:

- 1 Payment due in the beginning of period
- 2 Payment in this month (due amount)
- 3 Idem (actual payment)
- 4 Idem (unpaid payment)
- 5 Payment due by the end of period
- 6 Socialized payment (i.e. through social security agencies) (persons)
- 7 Idem (amount)

Vertical headings:

- 1 Total
- 2 Local pooling
- 3 Industrial pooling
- 4 Idem (mining)
- 5 Idem (metal)
- 6 Idem (construction)
- 7 Idem (finance/bank)
- 8 Idem (telecommunications)
- 9 Idem (railway)
- 10 Idem (electricity)
- 11 Idem (transport)
- 12 Idem (oil)
- 13 Idem (water)

SI.15. Basic old-age insurance: Participants and contributions

Horizontal headings:

- 1 Number of insured persons
- 2 Idem (new entrants during the period)
- 3 Contributions due
- 4 Contributions actually collected
- 5 Number of retired persons
- 6 Idem (newly retired workers during the period)

Vertical headings:

- 1 Total
- 2 Enterprises
- 3 Institutions and Ministries
- 4 Others

UI.1. Unemployment insurance: Number of beneficiaries

Horizontal headings:

- 1 Number of UI beneficiaries in the previous period
- 2 Number of UI beneficiaries during this period (total)
- 3 Idem (of which: female)
- 4 Idem (receiving more than consecutive 6 months)
- 5 Number of new UI beneficiaries during this period (total)
- 6 Idem (enterprises)
- 7 Idem (of which: SOEs)
- 8 Idem (of which: laid off workers of SOEs)
- 9 Idem (government institutions)
- 10 Idem (others)
- 11 Number of receivers who ceased the UI benefit (total)
- 12 Idem (reemployed)
- 13 Idem (reaching the end of payment period)
- 14 Idem (others)
- 15 Number of rural migrant workers receiving lump sum payment

Side heading:

- 1 Total

UI.2. Unemployment insurance: Revenue and expenditure

Horizontal headings:

- 1 Reserves at the beginning of the period
- 2 Revenue during this period (total)
- 3 Idem (contributions)
- 4 Idem (interests)
- 5 Idem (government subsidy)
- 6 Idem (others)
- 7 Expenditure during this period (total)
- 8 Idem (unemployment insurance benefit)
- 9 Idem (subsidy for medical expenditure)

-
- 10 Idem (funeral and survivors' payment)
 - 11 Idem (vocational training)
 - 12 Idem (employment service)
 - 13 Idem (reemployment center)
 - 14 Idem (lump sum payment to the rural migrant workers)
 - 15 Idem (others)
 - 16 Surplus in the current period
 - 17 Reserves at the end of the current period

Side heading:

- 1 Total

UI.3. Unemployment insurance: Contribution collection

Horizontal headings:

- 1 Number of insured employees
- 2 Total amount of contribution base (employers)
- 3 Idem (workers)
- 4 Contributions due (total)
- 5 Idem (of which: workers)
- 6 Contributions actually collected (total)
- 7 Idem (of which: workers)
- 8 Cumulative unpaid contributions at the beginning of period
- 9 Contributions in respect of previous periods paid during this period
- 10 Unpaid contributions in respect of this period
- 11 Cumulative unpaid contributions at the end of this period

Vertical headings:

- 1 Total
- 2 Enterprises
- 3 Idem (I. domestic enterprises)
- 11 Idem (1. SOEs)
- 12 Idem (of which: reemployment center)
- 13 Idem (2. collective enterprises)
- 14 Idem (3. other enterprises)
- 15 Idem (II. foreign enterprises – including Hong Kong, Macao and Taiwan)
- 16 Government Institutions
- 17 Others

UI.4. Unemployment insurance: Revenue and expenditure of pooling fund

Horizontal headings:

- 1 Reserve at the beginning of the period
- 2 Income during the period
- 3 Expenditure during the period
- 4 Surplus in the period
- 5 Reserves at the end of the period

Side heading:

- 1 Total

UI.5. Unemployment insurance: Composition of staff of unemployment insurance agency

Horizontal headings:

- 1 Number of agencies
- 2 Number of allocated staff
- 3 Number of actual staff
- 4 Job category (management)
- 5 Idem (accounting)
- 6 Idem (statistics)
- 7 Idem (computer operators)
- 8 Idem (operation)
- 9 Idem (others)
- 10 Education level (university or above)
- 11 Idem (others)
- 12 Technical title (senior)
- 13 Idem (middle)
- 14 Idem (junior)
- 15 Idem (no titles)

Side heading:

- 1 Total

RP.1. Rural pension insurance: Basic table

Horizontal headings:

- 1 Number of localities and organizations (prefecture)
- 2 Idem (county)
- 3 Idem (townships)
- 4 Idem (villages)
- 5 Idem (township and village enterprises)
- 6 Number of insured at year-end (total)
- 7 Idem (new entrants during the year)
- 8 Idem (of which: new entrants in township and village enterprises during the year)
- 9 Number of beneficiaries at year-end (current pension beneficiaries)
- 10 Idem (number of withdrawal of current year due to moving, death, etc.)
- 11 Number of rural pension agencies (provincial level, government agencies)
- 12 Idem (provincial level, public institutions)
- 13 Idem (prefectural level, government agencies)
- 14 Idem (prefectural level, public institutions)
- 15 Idem (county level, government agencies)
- 16 Idem (county level, public institutions)
- 17 Idem (townships)
- 18 Number of staff in pension agencies (total)
- 19 Idem (provincial level, government agencies)
- 20 Idem (provincial level, public institutions)
- 21 Idem (of which: self-financing)
- 22 Idem (prefectural level, government agencies)
- 23 Idem (prefectural level, public institutions)
- 24 Idem (of which: self financing)
- 25 Idem (county level, government agencies)
- 26 Idem (county level, public institutions)
- 27 Idem (of which: self-financing)
- 28 Idem (townships, full time)

-
- 29 Idem (townships, part time)
 - 30 Idem (village operation staff)

Vertical headings:

- 1 Total
- 2 Locality 1
- 3 Locality 2
- 4

RP.2. Rural pension insurance: Revenue and expenditure

Horizontal headings:

- 1 Reserve at the beginning of the year
- 2 Revenue of fund
- 3 Idem (contributions)
- 4 Idem (of which: individual contributions)
- 5 Idem (of which: collective subsidy)
- 6 Idem (fund management gains)
- 7 Expenditure of fund
- 8 Idem (expenditure)
- 9 Idem (of which: pensions)
- 10 Idem (of which: lump sum and funeral payment)
- 11 Idem (administration cost, percentage)
- 12 Idem (amount)
- 13 Reserve at the end of the year (total)
- 14 Idem (of which: reserve for pension liability)
- 15 Idem (of which: others)
- 16 Idem (bank savings)
- 17 Idem (treasury bonds)
- 18 Idem (financial accounts)
- 19 Idem (others)

Vertical headings:

Same as RP.1.

Annex VI. Selected statistics

AVI.1 Demographic data

Table AVI.1 Population by type of residence, 2000

Type of residence	China	Liaoning	Guangdong	Sichuan
Urban	458 440 000	22 990 000	47 530 000	22 230 000
Rural	807 390 000	19 390 000	38 890 000	61 060 000
Total	1 265 830 000	42 380 000	86 420 000	83 290 000

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.2 Age distribution, 2000 (as % of total)

0-14	22.9%
15-64	70.1%
65 and over	7.0%

Source: National Bureau of Statistics, *China Statistical Yearbook 2000*

Table AVI.3 Total fertility rate (China excluding Hong Kong), 1960 - 1995

Year	Total fertility rate
1960-65	5.72
1970-75	4.86
1980-85	2.55
1990-95	1.92

Source: United Nations, *World Population Prospects: The 1998 Revision*

Table AVI.4 Projected dependency ratio (China excluding Hong Kong), 2000 - 2050

Year	Population over age 60 Total population
2000	10.1%
2010	12.2%
2020	16.6%
2030	23.2%
2040	27.2%
2050	29.7%

Source: United Nations, *World Population Prospects: The 1998 Revision*

Table AVI.5 Projected life expectancy (China excluding Hong Kong), 2000 - 2050

Year	Life expectancy at birth	
	Males	Females
2000-2005	69.1	73.5
2010-2015	71.3	75.9
2020-2025	73.3	77.9
2030-2040	75.3	79.9
2040-2050	76.4	81.0

Source: United Nations, *World Population Prospects: The 1998 Revision*

AV.2 Economic and labour market data

Table AVI.6 GDP growth rate

Year	China	Liaoning	Guangdong	Sichuan
1997	8.8%	8.9%	10.6%	9.2%
1998	7.8%	8.3%	10.2%	9.1%
1999	7.1%	8.2%	9.5%	8.4%
2000	8.0%	8.9%	10.8%	9.0%

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.7 GDP per capita, 2000

Region	In Yuan
China	7 078
Liaoning	11 226
Guangdong	12 885
Sichuan	4 784

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.8 Employment by type of working unit, 2000 (in thousand)

	China	Liaoning	Guangdong	Sichuan
Urban employed persons				
State-owned units	81 020	4 180	4 260	3 820
Collective-owned units	14 990	930	1 060	720
Cooperative units	1 550	60	110	50
Joint ownership units	420	10	70	10
Limited liability corporations	6 870	310	360	320
Share-holding corporations	4 570	220	280	300
Private enterprises	12 680	830	1 520	500
Units funds from Hong Kong, Macao and Taiwan	3 100	100	1 030	30
Foreign funded units	3 320	210	430	30
Self-employed individuals	21 360	1 610	1 650	690
Rural employed persons				
Township and Village Enterprises	128 200	4 650	9 280	6 100
Private enterprises	11 390	420	660	320
Self-employed individuals	29 340	1 180	1 440	1 000

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.9 Laid-off workers in enterprises

	China	Liaoning	Guangdong	Sichuan
Total laid-off workers, end 2000	9 417 458	1 189 544	298 680	431 089
Total laid-off workers, end 2001	9 113 104	1 149 300	189 754	482 981
New laid-off workers in 2000	5 122 882	402 456	50 029	422 855

Source: *China Labour Statistical Yearbook, 2001*

Table AVI.10 Unemployment rate

Year	Unemployment rate
2000	3.1%
2001	3.5%

Source: Economic Intelligence Unit, *China Country Report*, December 2001

Table AVI.11 Inflation rates

Year	Annual CPI increase
1997	2.8%
1998	-0.8%
1999	-1.4%
2000	0.4%

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.12 Average wage, 2000

	China	Liaoning	Guangdong	Sichuan
State-owned units	9552	9221	14387	8909
Urban collective-owned units	10005	5721	8615	5749
Other types of ownership	18926	10196	15240	7763
Total	16350	8811	13823	8323

Source: National Bureau of Statistics, *China Statistical Yearbook, 2000*

Table AVI.13 Average annual wage increases (%)

Year	
1997	4.2%
1998	6.6%
1999	11.6%
2000	12.3%

Source: National Bureau of Statistics, *China Statistical Yearbook 2000*

Table AVI.14 Interest rates

PBOC 1-year deposit rate	2.25%
PBOC 1-year lending rate	5.85%

AV.3 Social security data

Table AVI.15 Basic pension insurance: Revenue and expenditure, 2000 (in billion yuan)

	Revenue	Expenditure	Balance at year-end
China	227.8	211.5	94.7
Liaoning	18.1	16.6	2.8
Guangdong	16.9	11.0	19.6
Sichuan	9.2	8.2	3.5

Source: *China Labour Statistical Yearbook, 2001*

Table AVI.16 Basic pension insurance: No. of contributors, 2000

	China	Liaoning	Guangdong	Sichuan
Enterprises				
State-owned enterprises (SOEs)	64 665 589	4 404 304	3 330 657	2 790 718
Collective-owned enterprises	14 699 286	1 604 669	1 047 665	516 456
Other enterprises	6 981 904	172 972	1 653 321	258 016
Institutions and state organs	9 776 410	649 376	1 336 638	210 218
Others	3 456 724	360 622	878 766	304 647
Total	104 474 965	7 489 204	9 983 374	4 121 685

Source: *China Labour Statistical Yearbook, 2001*

Table AVI.17 Number of retirees, end-2000

	Number
China	31 699 347
Liaoning	2 810 337
Guangdong	1 736 975
Sichuan	1 594 904

Table AVI.18 Unemployment insurance: Revenue and expenditure, 2000 (in billion yuan)

	Revenue	Expenditure	Balance at year-end
China	16.0	12.3	19.6
Liaoning	1.0	0.8	0.6
Guangdong	1.3	0.7	1.6
Sichuan	0.6	0.4	0.8

Source: *China Labour Statistical Yearbook, 2001*

Annex VII. Social assistance

In 1993, the Minimum urban living standard subsidy programme (MULSSP) was launched in Shanghai. Then the Ministry of Civil Affairs envisaged in 1994 to gradually establish the MLGS in the whole nation, after summing up the Shanghai experience. By the end of June 1997, 206 cities had established the system in compliance with the requirements of the Ministry. Since the State Council issued the *Provision on Establishing National Minimum Urban Living Standard Subsidy Programme for Urban Residents* in September 1997, governments at various levels put even more importance on the establishment and strengthening of the system. By the end of September 1999, the MLGS has been established in all non-rural areas across the country. In October 1999, the *Regulation on the Minimum urban living standard subsidy programme of Urban Residents*, issued by the State Council, was put into effect, illustrating the standardization and legalization of the system.

AVII.1 Beneficiaries, allowances and financing

As of June 2001, There were 4.6 million MLGS beneficiaries across the nation, among which 11.6 per cent received the standard guarantee, while the other 88.4 per cent were laid-off workers, retired, unemployed, etc. The monthly average allowance is 63 yuan per person. An elderly living alone can get the full amount of Minimum Living Standard in the locality, while other beneficiaries receive an allowance equal to the difference between the per capita family income and the Minimum Living Standard.

The local government stipulates the Minimum Living Standard in accordance with both the cost of necessities in the locality and the capacity of the local government budget to support it. With different levels of economic development among regions in the country, the standard is quite different from one place to the other. At present, the standard for 12 eastern coastal big cities (including Shanghai, Beijing, Tianjin, Guangzhou, Fuzhou, Hangzhou, Ji'Nan and five other cities) is above 200 yuan per month, among which the highest standard is 319 yuan in Shenzhen. For Chongqing and 23 non-coastal provincial capital cities, the standard is between 140 and 200 yuan, while in the smaller cities, the standard is around 130 yuan. In addition, the standard for cities at county level is about 100 yuan, among which the lowest standard is 78 yuan in three counties of the Guizhou Province.

AVII.2 Temporary relief, favourable policy and social assistance

For the poor families and other residents facing disasters or serious illness, temporary relief, favourable policies and social assistance may supplement the MLGS. Temporary relief is paid to certain employees in Liaoning or other provinces who cannot get their salary, minimum wage, laid-off allowances or retirement pension in time or in full amount. Favourable policies are addressed to poor families and take the form of reduced costs of water, electricity and gas, health care and education. A special card may be provided to targeted families to obtain food every month in appointed shops.

AVII.3 Regulation and administration

Different areas made up their own administrative procedures for the delivery of benefits, adapted to the local situation. Generally, the procedure is as follows: the residents hand in a relief application that is received and initially checked by the residents' committee. Then

the sub-district office examined the application and the civil affairs office finally took the decision. When handing in the relief application, residents must provide their identification and declare income so that residents' committees and sub-district offices may examine family income and the situation of the family. After a discussion and publication, the committee and the office make a final comment that will have to be approved by the municipal civil affairs office.