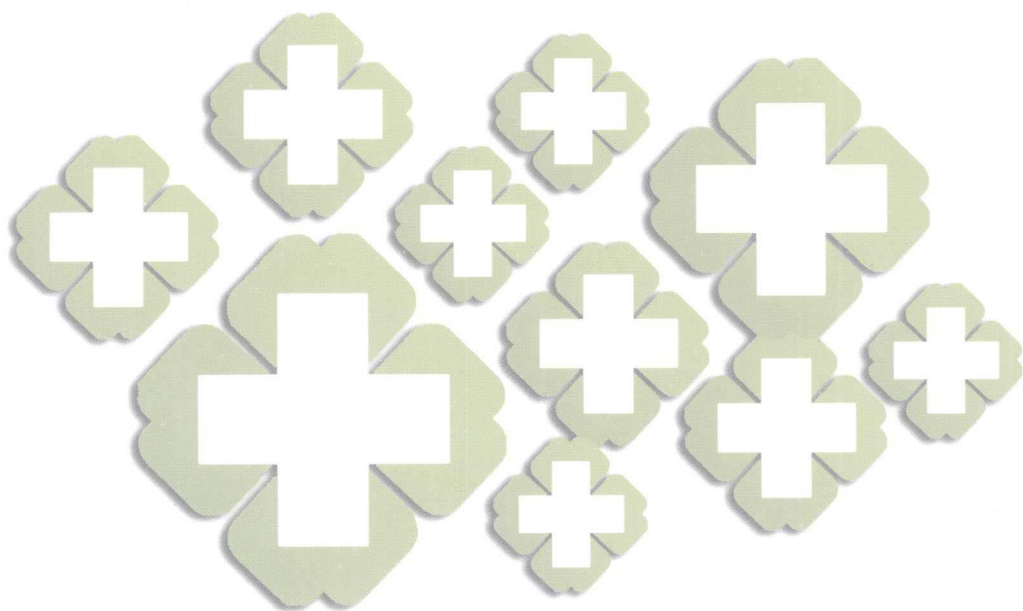


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CHINA'S SOCIAL SECURITY SYSTEM

Chief Editor Tan Chengping



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Chief Editor Tian Chengping

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Contents

Foreword	1
Chapter 1 Establishing and Developing a New Social Security System	3
Section 1 Overview of the Social Security System in China	3
Section 2 Historic Evolution and Development of Social Security in China	20
Section 3 Basic Appraisal of China's Social Security System, and Its Reform and Improvement	35
Chapter 2 Old Age Insurance	49
Section 1 Background	49
Section 2 Challenges Faced by the Old Age Insurance System in China	56
Section 3 Measures for Developing Old Age Insurance	61
Section 4 Old Age Insurance for the Rural Areas	66
Chapter 3 Unemployment Insurance	72
Section 1 Establishment and Development of Unemployment Insurance in China	72
Section 2 Merger of Basic Livelihood Guarantee for Laid-off SOE Employees with Unemployment Insurance	83
Section 3 Further Improvement of the Unemployment Insurance System	86
Chapter 4 Medical Insurance	91
Section 1 Development of Medical Insurance System in China	91
Section 2 Reform of the Basic Medical Insurance System for Urban Employees	96
Section 3 Multi-level Medical Security System	103

Section 4	Achievements and Challenges in the Reform of the Medical Insurance System	106
Section 5	Rural Cooperative Medical Care	115
Chapter 5	Industrial Injury Insurance	123
Section 1	Establishment and Development of China's Industrial Injury Insurance System	123
Section 2	Further Improving China's Industrial Injury Insurance System	134
Chapter 6	Maternity Insurance	140
Section 1	Establishment and Development of China's Maternity Insurance System	140
Section 2	Reform of Maternity Insurance System	146
Chapter 7	Supplementary Insurance	152
Section 1	Establishment and Development of Enterprise Annuities	152
Section 2	Supplementary Medical Insurance	157
Chapter 8	Social Relief and Social Welfare	161
Section 1	Subsistence Allowance System for Urban Residents	161
Section 2	Exploration for Social Relief in Rural Areas	170
Section 3	Special Care to Disadvantaged Groups	181
Chapter 9	Operation and Management of Social Security Funds	190
Section 1	Collection and Management of Social Security Funds	190
Section 2	Social Security Funds Investment	199
Chapter 10	Social Security Management	204
Section 1	Social Security Legal System Construction	204
Section 2	Social Security System Construction	214
Section 3	Building of Social Security Information System	218
Section 4	Socialized Management of Social Security	220
Section 5	Moral Hazards and Anti-fraud in Social Security	224
Postscript		229

Foreword

In October 2006, at the 6th Plenary Session of the 16th Central Committee of the Communist Party of China (CPC), a plan was set forth to establish a social security system in China covering both the urban and the rural areas by 2020. Nevertheless, it was generally acknowledged that it would be no easy task to set up a social security system on a par with those in the developed countries in China, a developing country with a large population. Besides, the country's economic base is weak and development between regions and between the urban and the rural areas is unbalanced.

Statistics from China's Ministry of Labor and Social Security show that, by the end of 2006, the population covered by old age insurance, medical insurance, unemployment insurance, industrial injury insurance and maternity insurance had reached 187.66 million, 157.32 million, 111.87 million, 102.68 million and 64.59 million respectively, and the total revenue of these five types of social insurance funds amounted to RMB862.6 billion and the total expenditure, RMB641.8 billion, with the accumulated total reaching RMB823.9 billion. The social security fund (a reserve fund) financed by financial allocation exceeded RMB200 billion.

The statistics indicate that by the end of 2006 the largest social insurance (old age insurance) scheme in China covered only about 24.56 percent of the 764 million working population. The funds pooled from the contribution are tiny in contrast to the growing demand. Establishing a social security system in China covering both the urban and the rural areas by 2020 implies that

in the coming ten years or so the coverage of the five types of insurance will have to increase manifold. Thus, China will have the largest social security system in the world.

The social security system in China is changing with the change of its economic system, which differs from that of many other market economies. During the decades between the founding of the People's Republic of China in 1949 and 1978, when China adopted the reform and opening-up policies, the country practiced a social security policy corresponding to its planned economy system, providing social security services to its people as best as it could. But since the establishment of the socialist market economy system in the mid-1980s, a series of reforms have been introduced to change the old social security system, and a basic framework for a new social security system has been set up corresponding to the socialist market economy system, with the central and local governments sharing different levels of responsibility.

As the social security system completed the transition from the type suitable to the planned economy to one suited to the new socialist market economy, the attitude of the Chinese people toward social security has also changed accordingly. After many years of exploration and practice, a social security framework with Chinese characteristics has initially taken shape.

At present and in the near future, the task of developing a new type of social security system will remain an arduous one. The aging population will further add pressure to funds for the payment of pensions and health care, while progressive urbanization demands a sounder social security system to bridge the gap between the urban and the rural populations. Diversified patterns of employment require to extend social security to employees, and those in flexible forms of employment. These demand for the smooth operation of the social security system and a long-term mechanism for its sustainable development.

Establishing and Developing a New Social Security System

Section 1 Overview of the Social Security System in China

I. The Social Security System in China

The word “social security” first appeared in the Social Security Act of the United States in 1935. Before this, though there were relevant policies and practices, they had not received a recognized name. In 1944, in the Philadelphia Declaration of the 26th International Labor Conference, the concept of “social security” was officially adopted. Since then, this concept has been recognized and used worldwide. But, countries are different in their economic development level, social system, cultural background and national tradition, and there are differences in the theoretical system that each country relies on. So, each country has developed its own political and economic policies in accordance with its conditions and gradually established its own social security system.

As an outcome of the Industrial Revolution and socialized production, social security over a century development has formed an independent and complete system, and grown into one of the

important pillars of the market economy and one of the important indicators of social progress. Social security is the public policy of a nation for redistribution of income, which guarantees the basic livelihood of its citizens, helps to maintain social stability, promotes the development of the market economy, safeguards fairness in society and enhances the welfare of the people. It is one of the most important social and economic systems for every nation.

China's social security system includes social insurance, social welfare, special care and placement, social relief and housing services. Through painstaking efforts over the past more than two decades of opening-up and reform, a social security framework has been initially established in three main aspects: social insurance for urban employees (old age insurance, unemployment insurance, medical insurance, industrial injury insurance and maternity insurance), a minimum living standard guarantee for urban residents, and social security in the rural areas.

Social security is a necessary method for insuring the basic living rights of each member of the society. The Chinese Constitution makes it clear that "Citizens of the People's Republic of China have the right to material assistance from the state and society when they are aged, ill or disabled."

1. Old Age Insurance

China started the reform of its old age insurance system in the mid-1980s, and this has undergone through several phases of development, including the stage of social pooling of pension cost, the stage of the combination of individual account with social pooling, and unified basic old age insurance system for employees of enterprises. In recent years, China has made great endeavors to ensure the full payment of pension to retirees, handed over sectors running pension schemes to local authorities, expanded coverage of the pension system, improved compliance in funds collection and socialized delivery of pensions. Much progress has

been achieved. A multi-level old age insurance framework has been basically formed, with basic old age insurance as the core and supplemented by enterprise annuity and personal savings for retirement insurance.

Under the current old age insurance, contributions are shared by both employers and employees. Employers normally pay up to 20 percent of their total payroll; employees 8 percent of their wages, which is deposited in individual accounts. Individual private business owners and people in flexible forms of employment pay about 18 percent of the local average wage. Enterprise employees who have reached retirement age as provided by law (60 for male employees, 55 for female cadres and 50 for female workers) and who have paid their contributions for 15 years or more are entitled to a monthly basic old-age pension after retirement. The basic old-age pension consists of two parts: base pension and pension from individual account. The monthly sum of the base pension is equivalent to about 20 percent of the employees' average monthly wage in their localities in the previous year. The monthly pension from the individual account equals the total accumulated divided by the number of the estimated total months which is decided by the average expectation of life of urban residents and his/her retirement age. The state adjusts the level of the basic old-age pension with reference to the price index of living expenses for urban residents and employees' wage increase.

The basic pension system adopts social pooling combined with individual accounts. For the pooling part, it is mainly a pay as you go, embodying the principle of mutual assistance. For the individual account, it adopts the full funding, which encourages individuals to take part in social insurance and is in line with the world trend of social security reform.

In 2000, a national social security fund was established in China as a strategic reserve for social security. By the end of 2005, the fund had accumulated to more than RMB200 billion.

In addition to the compulsory basic old age insurance system, enterprises with suitable conditions may set up annuities for their employees. Both enterprises and individuals contribute to the annuity scheme which is managed in the form of individual accounts with marketized fund management and operation. In addition, the state also encourages personal savings for old age.

2. Unemployment Insurance

In the mid-1980s, an unemployment insurance system was established by the Chinese government. In 1999, the State Council issued the Regulations on Unemployment Insurance, which stipulates principles and policies of the unemployment insurance system. All enterprises and public institutions in urban areas and their employees are obliged to participate in the unemployment insurance program, under which employers pay 2 percent of their total payroll and individuals pay 1 percent of their personal wages. When revenues of the unemployment insurance funds are not enough to cover expenditures, the shortfall shall be subsidized by local financial budgets. The duration for receiving unemployment insurance allowance is decided by the length of accumulative payment by both the individual and his/her employer during the period of service, and may not exceed two years.

While guaranteeing the basic livelihood of the unemployed, the state actively looks for effective ways to steer unemployment insurance in the direction of promoting re-employment. It has strengthened the link between unemployment insurance services and re-employment services. Through prompt registration of unemployment, active provision of employment information, comprehensive employment guidance and job matching services, as well as skills training, the capabilities for re-employment are strengthened.

The state ensures that laid-off employees from state-owned enterprises receive their basic living allowances in full and on

time. The “three guarantees” system has been put into operation, providing three kinds of guarantees: basic livelihood guarantee for laid-off employees from state-owned enterprises, unemployment insurance for the unemployed and minimum living standard guarantee for urban residents. Since 2001, the basic livelihood guarantee system for laid-off workers has been gradually merged with the unemployment insurance program.

3. Medical Insurance

To reform the traditional medical care system, under which all costs were borne by the state, in 1998, on the basis of experience gained in pilot projects, the Chinese government promulgated the “Decision on Establishing a Basic Medical Insurance System for Urban Employees,” which identified the goals, basic principles and policy framework of the medical insurance system reform, thus laying the foundation for a multi-level medical insurance system.

The basic medical insurance system for urban employees introduces a cost-sharing mechanism by both employers and individual employees for medical care, as well as an individual account mechanism, and implements the mode of combining a social pooling with individual accounts. The basic medical insurance program covers all employers and employees in the urban areas, including employees and retirees of all government offices, public institutions, enterprises, mass organizations and private non-enterprise units as well as people employed in a flexible manner, which is managed locally. The funds for basic medical insurance come mainly from contributions paid by both employers and employees: about 6 percent of the total payroll by employers and 2 percent of his/her wage by the employee. Retirees are exempt from paying the contribution. The individuals’ contribution and 30 percent of the contribution paid by the employers go to the personal accounts, and the remaining 70 percent of the contribution paid by the employers goes to the social

pooling fund. Outpatient treatment fees (smaller amounts) are mainly paid from the individual account, while hospitalization expenses (larger amounts) are paid mainly from the social pooling fund. The minimum and maximum payment levels from the social pooling fund are clearly set out. The minimum payment is, in principle, about 10 percent of the average annual wage of local employees, and the maximum payment is about four times of the local average annual wage. The state simultaneously promotes the reform of the basic medical insurance system, medical and healthcare system, and pharmaceuticals production and circulation system. Catalogues of medications, medical diagnosis and medical services and facilities to be covered by the national basic medical insurance scheme have been made. A management method involving the designation of medical institutions and pharmacies allowed to provide services covered by medical insurance has been put into practice to enable competition and quality services.

While establishing the basic medical insurance system, the state has established and improved a multi-level medical security system. A medical subsidy system has been established for civil servants, and a system of cost pooling for large medical expenses has been set up to settle medical expenses exceeding the maximum limit of the basic medical insurance payment. The state encourages enterprises to establish supplementary medical insurance for their employees, mainly for settling medical expenses not covered by the enterprise employees' basic medical insurance. In addition, the state is gradually establishing a social medical aid system mainly funded by the government to provide basic medical security for people with special difficulties.

4. Industrial Injury Insurance

In April 2003, the State Council issued the Regulations on Insurance for Industrial Injuries, and the coverage of such insurance has expanded rapidly. The state stipulates that all enterprises

and all individual businesses engaged in industrial and commercial activities with employees must participate in industrial injury insurance, and pay insurance contributions for all their employees, permanent as well as temporary. The individual employees do not pay such contributions. Funds are pooled at city prefecture or above level and contributions are determined by expenditures expected aimed at a sheet balance. The government determines the differential rates in accordance with the degree of risk involved in different sectors, and experienced rates within each sector according to expenditures and frequency of accidents. The industrial injury insurance scheme adopts the principle of “faultless compensation.” The benefit items mainly include medical expenditures for industrial injuries; disability benefit, allowance and nursing fee in accordance with the degree of loss of the ability to work; funeral benefit; survival’s allowance; and a lump-sum death allowance. The state has formulated and promulgated a national standard for the assessment of the degree of industrial injuries and the degree of work ability, as well as a system for prevention of industrial injuries and methods of occupational rehabilitation.

5. Maternity Insurance

In 1988, the state reformed the maternity insurance system in some areas.

The maternity insurance system mainly covers urban enterprises and their employees, and in some places women employees of government offices, public institutions, mass organizations etc. The contributions are paid by the employers participating in the scheme, and should not be more than 1 percent of the total payroll. Individual employees do not pay contributions. Employers not participating in the scheme are still responsible for providing maternity insurance benefits. Childbirth allowance covers 90 days. Women employees who have given birth to babies or had miscar-

riage shall maintain employment relations with their employers, and get reimbursement for their medical expenses in accordance with the related regulations.

6. Minimum Living Standard Guarantee for Urban Residents

The minimum living standard guarantee for urban residents is the last safety net of the social security system in urban China. In 1999, the State Council promulgated the Regulations on Guaranteeing Urban Residents' Minimum Living Standard, which stipulates the basic principles, policies and managerial system for guaranteeing a minimum standard of living for urban residents. At present, all the cities and localities of county-level governments have fully established this system.

Urban residents whose family's per-capita income is lower than the local urban residents' minimum standard of living can receive basic subsistence assistance from the local government. The minimum living standard is decided primarily on the basis of urban residents' average income and consumption level per capita, the consumption price index, the local cost of maintaining the basic standard of livelihood, such as the materials for the basic needs of food, clothing and housing, and the expenditure on compulsory education for the recipient's children. Meanwhile, consideration must also be given to the level of local socio-economic development, the number of people eligible for the minimum living allowance and the local government's fiscal capacity. Funds for this purpose are included in the fiscal budgets of the local governments. For local governments that have very tight budgets, the central government provides financial support. In 2005, there were 22.34 million urbanites nationwide drawing the minimum living allowance. The implementation of the minimum living standard guarantee system serves to support a standardized and institutionalized social relief system.

7. Social Security in the Rural Areas

In China, there is a cultural tradition of mutual support among the extended family or clan. In accordance with the characteristics of rural socio-economic development, the social security measures introduced in the rural areas are different from those practiced in cities.

(1) Experiments for Setting up an Old-age Insurance System in Rural Areas

Old age insurance in China's rural area is centered mostly on families. In the 1990s, China began to try out an old-age insurance system in some of the rural areas in accordance with the actual level of local socio-economic development. In light of the principle that "the contributions are paid mainly by individuals themselves, supplemented by collectively pooled subsidies and supported by government policies," an old-age insurance system was established characterized by individual accounts and full funding. In 2004, the Chinese government began to experiment with a system that supports and rewards households that practice family planning by having only one child or two girls in some of the rural areas. Each spouse may receive a minimum of 600 yuan a year from the age of 60 till the end of his/her life, provided jointly by the central and local governments.

(2) Establishing a New Rural Cooperative Medical Care System

In order to guarantee that farmers' basic medical needs are satisfied, to alleviate their medical burdens and to address the problem of poverty caused by illness, in 2002 the Chinese government began to establish a new rural cooperative medical care system to pool medical cost for serious diseases. Farmers can participate freely in such a cooperative medical system, which is organized, led and supported by the government, with funds coming from the government, collectives and beneficiaries.

(3) Providing Rural Social Relief

The "five guarantees" system was initiated in China in the