

Report on the Study Visit to Belgium, Italy and Portugal

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According to the work plan of EU-China Social Protection Reform Project, the Department of Employment, Income Distribution and Consumption of National Development and Reform Commission (NDRC) paid a study visit to Belgium, Italy and Portugal from May 23 to June 1, 2019. During the visit, the delegation had dialogue and meetings with the governmental officials and experts of DG Employment of the European Commission, the Belgium Federal Ministry of Social Affairs, INPS, the Italian Ministry of Economy and Finance, the Portuguese Ministry of Social Security around the topics of “multi-tiered social protection system”, “the equality and sustainability of social protection system”, “adaptation to the challenge of demographic aging”, etc. Overall speaking, the policies and measures of social protection are put in place in the European countries with extensive coverage and high level of protection.

1. Evolution and highlights of the social protection in Belgium, Italy and Portugal.

1.1 The characteristic of the social protection system in Belgium is “high level of benefit and contribution”

As a “welfare state”, Belgium has formed an advanced and improved

social protection system, which is divided into “social insurance” and “social assistance”. The social insurance is made up of pension, unemployment, working injury, occupational disease, family allowance, health and paid leave. The main functions of social protection system include: first, providing people with supplementary income if being unemployed or retired or losing the ability to work; second, providing extra income to the people with “social burdens” such as having children to receive education or paying the medical treatment fees; third, to receive social assistance after losing any type of income.

The financial resource of social protection system in Belgium is: the people with working ability pay social security contribution based on his/her income; all citizens participate in the supplementary social security fund ; trade union, benefit association and employer organization jointly decide the operation model of social protection system.

As a welfare state, citizen enjoying quality life must be based on the government’s high spend to social protection and the high contribution made by employers and employees. The total social security expenditure of Belgium is 150 billion euros, accounting for almost 30% of GDP. Pension, health and disability allowance hold more than 70% of social security expenditure, and this share is increasing gradually. The employers pay social security contribution every quarter. The financial resource of social protection system is the fund contributed by employers

and employees. The employers need to pay 32.44% of the gross income of white collar workers as social security contribution, and 38.44% of the gross income of blue collar workers. While the employees pay 13.07%.

1.2 The sustained development of the three-pillared social protection system in Italy.

The Article 38 of the Constitution of Italy in 1947 regulated that “every worker has the right to obtain adequate security and protection and to receive the assets matching the need of life when he/she is old, disabled, sick, suffered from working accidents or involuntarily unemployed”, and “the country would delegate these responsibilities to the governmental departments and the public institutions set up by the country by authorizing them to set up and operate protection system”. The framework of social protection system comprising three pillars was therefore established.

The first pillar is the compulsory public pension scheme, which is the main part of the pension system in Italy. It includes two tiers: the zero tier is the social assistance for the elders which provides 5,371.65 euros pension benefit to the citizens of Italian nationalities every year who is above 65 and never worked (and later expanded to the EU residents who live in Italy for more than 10 years). This tier is not linked to the contribution.

The second pillar is the supplementary occupational pension plan, which

is the voluntary scheme contributed by employers and employees. According to its nature, the supplementary pension scheme is a contribution based (DC) funded system. The Act No. 124/93 in 1993 regulated the institutional framework for the development of supplementary pension insurance. The current scheme mainly has two types: close-managed occupational industry pension plan and open-managed occupational pension plan. The former covered 2.048 million people and the latter covered 806,000 by the end of June 2009.

In addition, another important part of supplementary pension scheme is TFR, namely, the severance pay. In 1982, the law regulated that the companies must set up TFR, which is a wage payment on deferred terms in essence in that the employers hold 6.91% of the wage of employee for temporary and pay in lump sum upon the termination of labor contract, so as to allow the employee to receive portable protection when quits the job or gets dismissed (while there are certain circumstances where the severance pay could be claimed in advance, such as when the labor contract reaches 8 years, or the employer has serious disease or needs to buy family house). The accumulative appreciation of TFR is 1.5% fixed interest rate plus 75% inflation rate. Among the 230 million working population in Italy, about 5.4 million opts into TFR scheme. The contribution to supplementary pension scheme could enjoy tax

exemption, which is to be deducted before tax with the highest deduction reaching 12% of wage but limiting to 5,000 euros each year.

The third pillar is the voluntary commercial pension plan and private pension plan (PIPs), which are fully funded, invested and managed by financial institutions, and paid to the retirees in capitalized benefits. By June 2009, there was only 777,000 people opted in the commercial pension plan, accounting for less than 3% of total working population.

Italy has currently established a pension system comprising three pillars, namely, the compulsory public pension scheme, supplementary pension scheme, voluntary commercial pension plan and private pension plan. The form of such multi-pillars is the combination of public insurance and supplementary insurance. The advantages of this system include that the fund is partially for basic living, the funded part is used to raise benefit as an adaptation to aging crises, and the diverse profiles are to reduce fund risk. While the disadvantage of this system is its complexity. Italy raised the retirement age of both male and female to 66 years and 7 months since 2018, and under such rule, the previous regulation that women could retire one year earlier was cancelled and are now treated as the same as men.

1.3 Portugal consistently pushes forward the reform to achieve the sustainability.

The financial resource of the social protection system of Portugal is the taxes paid by both employers and employees. The employers pay 23.75% of the total wage bill every month. The tax rate of employees is 11% which is directly deducted from the wage. The Socialist government initiated social protection reform at the beginning of 2007.

First is to punish early retirement and raise the retirement age. In order to strengthen the “sustainable development factors”, the retirement age, calculated based on the average life expectancy of Portugal, is 65 under the new measures plus additional 5 months of “contribution service”. Punishment would be imposed to those who retire before 60 in that 6% of pension benefit will be deducted every year for certain number of years. For the 20 years ahead, the retirees will drop 10% compared with the number in previous measures.

Second is to formulate new standard of pension benefit. The new measures require that the standard of benefit is to be confirmed according to the GDP and inflation rate of the previous year, and the amount of benefit is to be determined based on the contribution period and the length of working years.

Third is to formulate differentiated tax rate of individual income

according to the amount of pension benefit. Those who receive pension benefit above 596 euros every month should pay individual income tax, namely, 0.3% above 600 euors, 8.71% above 1200 euros and 16.44% above 2,000 euros.

Fourth is to raise the social security contribution. The new measure will raise the contribution rate to 21.6% of gross income with employer paying 14.6% and employee paying 7%.

Fifth is to strictly limit the number of persons who receive life long allowance. From 2003 to 2007, the life long allowance to the persons with certain administrative positions reached 34.6 million euros in public expenditure. The new measures also require that the pension benefit could not be further increased if higher than 7,000 euros.

Sixth is to reinforce the monitor of social security fund. The Ministry of Labour and Social Protection strenghtens the collection of social security payment and crack down the behaviour of defaulting contribution. 2.3 hundred million euros was recovered back to the pool of social security, an increase of 84% than the previous year.

Seventh is to lift 300,000 elders out of poverty. Since 2006, the pension benefit of the elders aged above 80 was increased to 300 euros per month.

The Portuguese Prime Minister Coelho announced the latest financial entrenchment plan in September 2012, including to increase the individual social security contribution rate of the employees of public sector and private sector from 11% to 18% and to decrease the contribution rate of employers from 23.75% to 18%, so as to lower the contribution rate of employers, boost the vitalities of companies and increase employment rate.

2. The status quo and problems existed of China's social protection system.

The main trend of social protection reform worldwide is to construct a multi-tiered social protection system. China has currently established a social protection system that is based on social insurance, social assistance and social welfare, focused on public pension, public health and minimum living standard, and supplemented by charity and commercial insurance. The pension system has already achieved full coverage. The universal coverage of health insurance has basically achieved as well. The comprehensive social assistance system taking the minimum living standard as the core has covered both rural and urban areas. The level of social assistance has been improving continuously.

The 19th CPC National Congress explicitly puts forward that

“according to the requirements of providing basic life guarantee to the people living in difficulties, integrating all people into the coverage and establishing relevant institutions and mechanisms, we should construct a multi-tiered social protection system that is sustainable and covers all population, provides adequate protection and has clear definition of rights and responsibilities”. This sets up a basic orientation for all the organizations across China to “comprehensively establish a multi-tiered social protection system” for now and future.

This year marks the 70th anniversary of the founding of People’s Republic China. It is evident that China has made significant progress in social protection development and has already woven the world’s largest social security net. Those who should be protected have been protected. First, the coverage of protection has been constantly improved. By the end of 2018, 9.42 hundred million people were covered by the public pension scheme, the participation rate for eligible workers reached 87%; and more than 1.3 billion were covered by the basic health insurance with the participation rate stabilizing at 97%. Second, the level of benefit has been consistently increasing. In 2018, the average pension benefit for the employees of urban enterprises exceeded 2,600 RMB yuan per month; the subsidies for the urban and rural residents provided by

government budget reached 460 yuan per year; and the minimum living standard for urban and rural residents reached 575 yuan and 396 yuan per month respectively. Third, the supplementary schemes have been rapidly developing. The enterprise annuity scheme operates steadily, the occupational annuity for public sector was initiated formally, and the individual health insurance plan with tax deferment and individual pension plan with tax deferment were under practices through pilot projects so as to accumulate experiences.

However, we also clearly realize that the imbalanced and inadequate development of China's social protection system is still an outstanding problem. Imbalance is mainly embodied in the significant disparities of development level, protection level and demands to protection between different levels, regions and groups. Inadequacy is mainly embodied in some of the regions, groups and social protection projects and in that the protection net is yet to be woven tight and solid.

For present and some time to come, China will innovate and improve the relevant institutions and push forward to establish a multi-tiered social protection system. The importance and significance are: first, to develop a multi-tiered social protection system is the inherent requirement to further improve the social

protection mechanism. The general principles of multi-tiered social protection system are the clear definition of rights and responsibilities, joint development and mutual benefit.

Currently, the rights and responsibilities of social protection between government, employers and individuals are not clear, and the sharing of rights and responsibilities between central and local governments needs to be further clarified. On one hand, it causes the government to keep increasing spending and responsibilities. On the other hand, the sustainability of the system faces great challenges. The key to develop multi-tiered social protection system is to straighten out the responsibilities of government, employers and individuals, and the government should adhere to the principle of “doing the best within its capacities”, solve the existing problems of “doing too much” or “doing too less”, and make the system more equitable and sustainable.

Second, the development of multi-tiered social protection system is the key measure to proactively adapt to demographic aging. The operation of social protection system, to a great extent, is linked with demographic structure. The demographic aging in China sustains aggravated and the dependency ratio keeps falling. The dependency ratio of workers was 6:1 when the system was established and drops to the current 3:1. The pressure to expenditure is increasing and the

public scheme along is not enough to respond to demographic aging. Therefore, it is in urgent need to advance the development of supplementary schemes and form a reasonable structure with multi tiers, so as to spread the risks, co-share the burdens and realize the long-term sustainability of the system.

Furthermore, the development of multi-tiered social protection system is the objective requirement to achieve high quality and more adequate employment. Employment concerns people's livelihood and is the source of wealth. Since the second half of last year, China put the task of stabilizing employment as the top priority (among the ones of stabilizing employment, financial operation, foreign trade, domestic investment and market expectation), and various policies have been rolled out to stabilize and promote employment. The employment-first policy is identified as a macro policy for the first time this year, and the policy dividend helps create an enabling environment for employment. While the employment-first policy and the realization of high quality and more adequate employment press for the development of a social protection system that is matching with the new employment situation. In recent years, the new form of industry and new type of employment sustain development, and the forms of employment and income are more complex. The public scheme that is traditionally underpinned by the

employers could not cover the workers of new types. It is therefore necessary to strengthen the flexibility, construct a multi-tiered social protection system, effectively cover the workers of new types, stabilize and expand employment, and provide support and guarantee to ensure the quality employment.

3. To draw European experiences and improve China's social protection policies.

The European experiences demonstrate that to construct a multi-tiered pension system is a systematic project required continuous improvement, and the positive policy guidance provided by the government would exert extensive and profound social influence. The policies related to retirement age and pension benefit should take the following factors into account: how to balance the working life and fatigue and provide sufficient and sustained measures to support the late retirement; the men and women should have equal access to pension benefit in the area of labour market and pension benefit policy; to facilitate the non-standard workers and self-employed to access to pension benefit. While the policies related to education investment and age management should consider the following factors: investment to early education, enhancement of the capacity of life-long learning, improvement of

health condition, facilitation of active aging and age management in workplace, and delivery of affordable public service with high quality.

In line with China's current development stage, to construct a multi-tiered pension system is urgent and necessary. Below are some of the policy orientations for China to advance a multi-tiered social protection system for present and some time to come.

3.1 To establish an improved public scheme so as to build a solid foundation to develop the multi-tiered social protection system.

The public schemes in the European countries are well developed, and China should also target on establishing a stable, improved and predictable public scheme during the process of constructing the multi-tiered system. First is to improve the public pension scheme. We must unify the calculation and vesting mechanism of benefit, standardize the behaviours of opting in the insurance and making contribution, make contribution base fully funded, reform the calculation and payment methods, roll out the progressive late retirement policies at appropriate time, and advance the contribution collection and benefit payment of old-age insurance at national level. Second is to optimize the basic health insurance. We should enhance the solidarity of basic health insurance system, increase the pooling level of the funds, reform the individual account system of basic

health insurance as well as the major disease insurance, and establish a pooling mechanism of public health insurance for urban and rural residents featuring dynamic adjustment and is matching with the economic growth. Third is to achieve the full coverage. We must make sure that every person with statutory eligibility will be covered, and the special scheme are provided to cover the special groups.

3.2 To support the development of supplementary schemes so as to provide more financial resources to the multi-tiered social protection system.

The supplementary schemes are important parts of multi-tiered system and their development are closely linked with the public scheme. On one hand, the contribution rate of public scheme should be lowered as a way to leave enough room for the development of supplementary schemes. While some measures, such as tax preference, should be adopted to advance the accelerated development of such supplementary schemes as the enterprise annuity, annuity of public sector and supplementary health insurance. We should guide more medium and small enterprises to join in the annuity plan and increase the coverage. On the other hand, we should standardize and guide the organizations in the market to improve their service delivery according to the national policy orientation, and facilitate them to provide more products that are in

line with national strategy and responsive to market needs.

3.3 To clarify the rights and responsibilities so as to push forward the joint development and mutual benefit of multi-tiered social protection system.

The core target of the development of the multi-tiered social protection system is the clarification of government's responsibilities and the full play of market's roles, and the scientific responsibility-sharing mechanism is the most important link. Thus for each tier of the system, we need to further adjust and identify the subject and scope of responsibilities as well as the target, level and scale of protection. The government should do its best within its capacity, the individuals should participate in social security and enjoy the benefit, while the enterprises and social partners should voluntarily undertake the responsibilities in accordance with the law. In addition, the rights and responsibilities in social security of central and local governments should be further straightened out as well.

3.4 To effectively strengthen top-level design so as to promote the development of multi-tiered social protection system in a unified way.

First is to carry out the integrated design of multi-tiered social protection system. The multi-tiered system involves different regions

and sectors and concerns the vital interests of the public. It is important and complex and should have a government department which has comprehensive functions to lead the top-level design. We should scientifically differentiate and position the public scheme and private scheme, coordinate social assistance, insurance and welfare in a unified way, and set up the link between social security and other socioeconomic policies. Second is to enhance the support to the operation of system. According to the requirements of weaving a tight safety net and establishing relevant institutions, we should build up a communication and coordination mechanism of major social security policies, enhance the connection and collaboration of the concerning departments, and jointly study on and improve the key social security policies. Third is to speed up the building of a national social security public service platform that allows the data to be reported from bottom to up and the service to be delivered from up to bottom, so as to achieve an all-in-one pattern that integrates institutions, policies and management.