



## Report on the Study Visit to Spain and France

According to the work plan of EU-China Social Security Reform Project (SPRP), Mr. Huang Huadong, Chief Economist of Guangdong Provincial Development and Reform Commission led a delegation to visit Spain and France from April 21 to 28, 2019 on the theme of social security management and administration. The delegation was sent by the National Development and Reform Commission and under the invitation of the Spanish Ministry of Labour, Migration and Social Security (MLMSS) as well as Expertise France. In Spain, the delegation met and exchanged views with the officials of MLMSS and visited Social Security IT Management Center (GISS). In France, the delegation had in-depth discussion with

French National School for Higher Social Security Studies (EN3S), National Fund for Family Benefit (CNAF), Advisory Committee on Pensions (COR), National Institute for Statistics and Economic Studies and General Complementary Scheme for National Education (MGEN). During the study visit, the delegation gained a general understanding of the history and status quo of the social security system of France and Spain, and their experiences and practices provide reference for the development of social security of Guangdong Province.

## **1. Basic Information, Experiences and Practices of Social Security Development in Spain and France.**

1.1 The comprehensive social security systems were gradually developed. In Spain and France, social security systems went through a relatively long progress of establishment, development and reform. The improved laws and regulations of social security, multi-tiered social security system, well-functioned governance model and high protection level were constructed in a gradual manner.

1.1.1 The building of the social security system of Spain could be traced back to the Social Reform Committee established in 1883, which aimed at protecting the working class and was the beginning of the early social security system. Formulated in 1900, the Working Injury Law was the first piece of social security legislation in the history of Spain, and other relevant laws and regulations were issued later, such as maternity insurance,

family benefit, public health, pension benefit and unemployment insurance, and a decentralized social security system was gradually established. The Basic Law of Social Security and Social Security Law were enacted in 1963 and 1966 respectively, which facilitated the development of a unified and integrated social security system. The new Constitution of Spain was enacted in 1978, which confirmed that social security is the right of all citizens and marked the establishment of the modern social security system. Through continuous reform, the system further improved by including old-age insurance, health insurance, unemployment insurance and social assistance, and its protection level ranks top in the world. Old-age insurance is the core of social security, which is run by MLMSS in pay-as-you-go with the fund managed at central level. There are three major pillars formed: first is the non-contributory pension scheme which is a universal benefit paid based on the income level, and tax revenue is its main financial resource; second is the contributory pension scheme which is compulsory for the self-employed and employees, with the contribution shared by the employers and employees; third is the commercial scheme that includes individual pension and other pension saving plans, and the citizens can opt in according to their own wishes. By 2018, the pension expense in Spain accounted for 10.6% of its GDP, the contributory pension scheme covers about 19.3 million workers, and the replacement rate of pension benefit reached 97%, one of the highest in the EU countries.

1.1.2 The social security in France has a long history tracked back to the

beginning of the 19<sup>th</sup> Century when the clerks, soldiers, seamen and miners who were employed in the public sector started to be protected by social security. The Working Injury Law was enacted in 1898 which started to provide subsidies to those who were injured or wounded in works. Enacted in 1945, the Social Welfare Law marked the establishment of modern social security system. Along with the continuous improvement of relevant laws and regulations, the social security was developed from specific classes to universal coverage, and the modern social security system was established in 1978. The current social security system of France mainly comprises four parts, namely health, pension, working injury and family insurance, among which, the pension system includes basic pension scheme, compulsory complementary scheme and voluntary complementary scheme. The basic pension scheme faces to all workers in pay-as-you-go model with the contribution from employers and employees as the financial resource, which covers 2/3 of labours. Compulsory complementary scheme is an occupational annuity based on the sector which includes AGRIC and ARROCO targeting to managerial staff and all workers respectively. Voluntary complementary scheme is an accumulative fund aiming to increase the pension benefit of retirees and fill the income gap before and after retirement. In addition, family insurance is a unique policy of France which provides various protection measures to the eligible families such as allowances, services and tax reduction. More than 32 million people have joined in this insurance, and the family development and support policies

of France ranks top in the world.

1.2 The active adaptation to the challenges of demographic aging. As most of the developed countries, France and Spain have become an aging society since the middle of last century. In 2018, the population aged above 65 accounts for more than 18% of the total in Spain and France, and both countries adopt active measures to address demographic aging such as extend retirement age, maintain the balance of payments of pension fund, encourage childbirth, etc.

1.2.1 Extend retirement age and contribution period. The legal retirement age of France was 60 years old before 2010. The retirement age was then extended from 60 to 62 and the contribution period was increased from 39 to 42 years due to the impact of globalization, financial crisis and European debt crisis. In 2017, the Spanish parliament amended the Social Security Law which links the retirement with life expectancy, and adopted active labour policies by regulating that the eligible age for receiving pension benefit increased from 61 to 62 yrs old and the minimal contribution period from 15 to 30 years. Spain also encouraged the workers to delay retirement; the average retirement age was 64.2 in 2018, an increase of 0.3 years than in 2011. According to the long-term reform plan, it is estimated that the retirement age of man and woman will be gradually increased to 67 in 2040 in France and Spain.

1.2.2 Foster an enabling environment to support childbirth. The family

insurance in France provides more than 20 kinds of allowances to the families of legal residence including family allowance and housing allowance. For example, the families with child aged below 16 or with dependent child aged below 20 could receive family allowance; the families with child below 21 could receive housing allowance; the spouse who has two and more children could enjoy a special allowance; and the low-incomed spouse who has more than 3 children could claim special allowance as well. France also implements “child nursery initiative” and makes great effort to increase such resource; the families which take their children to the child nurseries would receive an allowance. France also carries out family accompany initiative and delivers such diversified services as providing the facility to receive parents and children and accompanying the children to go the nursery, etc. France introduces the mechanism that giving birth could compensate the months of paying social security contribution, which is, each child the insured of public sector gives birth to accounts to 2 quarters of pension contribution, and each child the insured of private sector gives birth to accounts to 8 quarters of social security contribution. **In 2018, the spending in family polices reached as high as 82 billion euros, making up around 4% of GDP in France; the fertility rate of women in childbearing age reached 1.9; each spouse gave birth to 2.6 children on average; and 83% of women participated in labour markets.** France leads the European countries in such areas and all these measures play active role in terms of improving demographic

structure and promoting employment.

1.3 Make effort to strengthen the scientific decision-making of social security policies. Both Spanish and French governments attach high importance to the evaluation and monitoring of social security reform. Pre-evaluation of policy formulation and post-evaluation of reform implementation as well as the regular and targeted investigation and studies are carried out, so as to ensure the scientific and reasonable decision making.

1.3.1 Attach importance to the pre-evaluation of policy formulation. The relevant governmental organizations of France conduct monthly employment survey that involves 70,000 workers, as well as the annual income survey involving 250,000 and the living condition survey involving 20,000, so as to understand the situation of employment and income timely and precisely, which provide great support to social security reform and social policies formulation. Before the implementation of every social security reform, the French government authorizes relevant organizations to conduct independent and objective evaluation focusing on simulating and studying on the financial burden, numbers of affecting families, groups to be affected, gain and loss of various kinds of families, as well as the influence to the economic and social development by the reform. The evaluation result is submitted when the policies are in discussion or in voting as important advice and reference provided to the decision maker or

the voters of parliament for policy formulation.

#### 1.3.2 Proactively implement post-evaluation and monitoring of the reform.

The National Institute for Statistics and Economic Studies of France evaluates every social welfare reform after one year of its implementation by measuring the actual burden to the government finance, the influence to the public and the actual effect to the improvement of redistribution brought by the reform measure. The evaluation process and result are impartial and objective and are not affected by any governmental organization. The result is released to the public as a way to enhance public awareness of social security and participation in politics. Through such approach, the reform policies are also under public monitor, and the social security policies are therefore to be revised and improved constantly.

1.4 Strive to advance the IT system of social security. Spain meets the trend of IT development and improves its IT system of social security by increasing input in R&D and service. France attaches high importance to the protection of social security data and makes sure the sound and sustainable development.

1.4.1 Improve the IT level of social security. GISS, the organization dedicated to IT management of social security, is set up under MLMSS responsible for the development, operation and management of the whole IT system which has 105 offices at regional level and 820 branches at local level. In 2018, the Spanish government spent 280 million euros in the

development and operation of information system, advancing Spain to lead the world in this respect. Along with the reform and development of information system in recent years, there are three main features emerged. First is the safety; the whole social security system has one master data center and two back-up data centers which ensure the safe operation without interruption. Second is the convenience; Spain required to provide electronic social security service as early as in 2007, and the RED system was then developed in 2015 to deliver convenient services such as contribution calculation, direct payment, information inquiry, etc., and to establish a more improved information base. Third is the accuracy; both the insured and companies could search information in the open system such as contribution record, benefit level, etc., which is helpful to find and correct mistakes on time. Meanwhile, the system introduces external information correction mechanism to prevent and identify fraud practices in social security by comparing with tax and employment information. Fourth is the connectivity; the information system of social security in Spain is connected with EESI of European countries, which enables to verify social security information of migrants.

1.4.2 Reinforce the use and protection of social security data. France attaches high attention and reinforces the protection of social security information, and released the requirement of data protection as one of the earliest countries with Germany and Sweden in the 70s of last century. With the development of modern information technology, there are the risks of

explosive increase and improper use of information data. The GDPR of the European Union was formally effective in 2018 that has strict regulation to the controller and processor of data. The punishment to the company violated the rules of data use is 4% of its total revenue or the highest penalty of 20 million euros. As a main economy of the EU, France focuses on strengthening the regulation and protecting of data use under GDPR framework and promoting the sound and sustainable development of social security in the information era.

1.5 Establish the connection with the social security systems of other European countries. In order to achieve the free movement among the EU, the member states have signed cooperation agreement based on the existed social security systems, and the coordination mechanism has been set up.

1.5.1 Information sharing. The contribution records of the migrant workers who moves across EU member states are reserved until they retire. Their social security entitlements do not transfer and the benefit is paid upon retirement. To improve the management efficiency, the EU sets up electronic mechanism to exchange social security information that facilitates the communication among the 50,000 social security administration agencies of member states. The social security information of the insured are connected in different countries.

1.5.2 Separate payment. For the insured who has made pension contribution in different countries, every country will pay pension benefit

seperately upon his/her retirement. For example, the insured who paid pension in 3 countries would receive 3 pension benefits separately upon retirement.

1.5.3 Respective calculation. The amount of the pension benefit each country pays to the retiree is calculated based on the months of contribution the insured made in this country.

1.5.4 Final summary. When the insured is retired, the final country where he/she works or lives in is responsible for connecting with the administrative agencies of other countries where the insured made contribution previously, and providing a summary of pension benefit including rationale of calculation, whether there are gaps or overlaps between each period of contribution, etc. If the insured does not agree with the summary, he/she could apply for re-check.

## **2. Inspiration and Suggestion.**

Social security system is the core of social policies, the important tool of income redistribution and the basic institution to protect people's livelihood. In the new era, China's social contradiction has transformed to the one between people's growing need for a better life and the imbalanced and inadequate development. The Chinese people have higher requirement and stronger will to social protection. There are many similarities between China and the EU countries such as France and Spain, whose approaches and experiences in constructing a fair and sustainable social security

system are reference for China.

2.1 Strengthen the coordination of social security policy and population policy. The current permanent residents in Guangdong whose household registrations are in other provinces exceed 20 million. The young labour is its main group, and the aging index (share of elders aged 65 and above to the total population) of Guangdong's permanent residents by the end of 2018 was below the national average at 8.62%. As the inflow of migrant workers gradually stabilizes and even decreases since many go back to their hometowns, Guangdong will experience faster speed of demographic aging in the future. It is estimated that the aging index will exceed 20% in 2037 and hit 31% in 2050. Facing the demographic aging, France implements the family support policy and its core is to provide family allowance. The current fertility rate of France reaches 1.9, ranking top in the Western countries. Spain and France also lower the burden of social security by extending retirement age. China's 13<sup>th</sup> Five-year Plan has already explicitly proposed "to extend retirement age in a progressive way", but the fundamental way to adapt to demographic aging is to improve demographic structure. The current fertility rate of the permanent residents of Guangdong is just 1.37, far behind the rate of France of 1.9. We suggest drawing on the French experiences in family allowance policy and combining China's universal two-child policy and other population policies, so as to explore and release the social protection policies at

appropriate time that are tapped with the number of dependent child in the family and are supportive to the birth, care, pre-school education and housing. Such policies are to encourage childbirth, facilitate the link of social security policy and population policy, improve demographic structure through increasing fertility rate, and effectively adapt to aging problem. The Development and Reform Commission is the leading organization for the development of population plan and policy, which should closely follow how the demographic structure evolves in the future, track the population policy as the studies on a long term strategic problem, carry out monitoring and prepare policy tools.

1.2 Strengthen the connection with the social security systems of Hong Kong and Macau. We should give full consideration to the urgent need of the migrants moved across Guangdong, Hong Kong and Macau, and build the social security system with adequate portability from the perspective of protecting labour rights and promoting integrated development of this region. We should also closely follow the progress to issue the Interim Procedure for the Residents of Hong Kong, Macau and Taiwan to Participate in Social Insurance at Mainland China, solve the problem for the people from HK, Macau and Taiwan to pay for workers' pension insurance, formulate the policy for the HK and Macau residents to join in the urban and rural residents pension insurance at Guangdong, enabling them to enjoy equal financial subsidy and social benefit as the mainland

residents. We therefore suggest that Guangdong Province signs the cooperative agreement with HK and Macau by drawing on the practices of the European Countries, **calculates and pays the pension benefit according to the principle of “respective calculation, separate payment and final summary”**. **The insured who moves to work in Guangdong, HK and Macau could receive pension benefit from these three places seperately in accordance with the respective contribution period.**

1.3 Accelerate the speed to construct a multi-tiered social security system. The Report of the 19<sup>th</sup> National Congress of the Communist Party of China puts forward explicit requirement to construct a sustainable multi-tiered social security system that is of universal coverage, integration of urban and rural areas, clear definition of rights and responsibilities and appropriate level of protection. We could draw on EU’s policy framework of international social security cooperation, and construct a more improved social security system in Guangdong Province by enlarging the coverage of annuity in private and public sector and developing complementary medical insurance. By learning the pilot that the government provides tax reduction to the voluntary commercial pension insurance in Shanghai, Guangdong Province could also try to gain the support from the national government to carry out the pilot of providing the insurances of multiple tiers and types. The policy framework of long-term care insurance with operability could be formed by summarizing the result of the pilot in

Guangzhou City.

1.4 Establish a normalized vesting mechanism of social benefit. According to the convention of International Labour Organization, the warning line of the replacement rate of pension benefit is between 40% to 50%. Although the pension benefit has been adjusting for 10 consecutive years, the replacement rate of China's basic pension insurance is still very low, the gap of pension benefit between urban and rural resident pension scheme and enterprise workers pension scheme is big, and the gap in terms of the level of social benefit between China and the EU is even bigger. We suggest trying our best within our capacity to set up pension benefit floor, increase the pension benefit for rural and urban residents and protect the basic living needs. We should establish a normalized vesting mechanism of pension benefit in accordance with economic and social development progress and combined with the indicators of price rising and real wage growth. We should also identify a more reasonable medical benefit, stick to total budget management, advance diagnostic related groupings, and regulate the behavior of excessive medical treatment.

1.5 Broaden the fundraising channel of social security fund. Among the European countries, the social security spending accounts for 30% to 40% of GDP on average. The GDP of Guangdong Province ranks top in China, and the GDP per capita was 13,000 US Dollars in 2018, achieving the level of middle-level developed country. However, the increase of the social

security spending is very slow and below the national average. We should reinforce the government's role in protecting the people in most needs, allocate certain proportions of the newly-increased public revenue to spend in social security, and increase the share of social security spending in public expenditure. The social security fund of China mainly relies on the contribution from the companies and individuals. The fundraising channel is single and the burden of contribution is heavy, we therefore propose to explore other financial resources. The capital gain of SOEs is a part of government revenue which is reasonable and feasible to be used as a financial resource of social security fund. The proportion of the capital gains of SOEs to be transferred to public finance could be gradually increased. Besides, certain shares of land-transferring fees and social welfare lottery could also be allocated to social security fund as a stable financial resource.

1.6 Advance the digitalization of social security system. According to the requirement of building "digital government" by Guangdong Province, we should accelerate the speed of advancing the digitalization of social security system, promoting its connection with the building of "digital government", and realizing to deliver on-line services of administration, policy consultation and benefit inquiry. Meanwhile, we should strengthen the safe management of social security data by learning the practices of the European countries. The convenient social security service could be

delivered through the digitalized system so as to reduce the visits of the citizens to the administration centers. The social security card should be used for multiple purposes across Guangdong Province. The special APP should be used for the mobile service, a transformation from traditional service to modern service. We should enhance the transparency of social security information to the public. Public understanding to social security system is an important factor that influences individual's initiative in participating in social insurance. We therefore recommend using government service network or APP to provide information of social benefit to the public, guarantee public rights to be informed and to monitor, and construct a social security system of joint development and share.