



Social Protection Reform Project  
中国欧盟社会保障改革项目

## NOTES ON A PANEL DISCUSSION MEETING

6<sup>th</sup> SEPTEMBER 2016

Baiyun Tower, ICC, NDRC, Beijing

### Component 1



1. In line with the topics to be discussed in the forthcoming High Level Event to be held in Beijing on 28<sup>th</sup> and 29<sup>th</sup> September 2016, C1 held the 2016 panel discussion on 6<sup>th</sup> September 2016, in ICC of NDRC, Beijing. The Panel covered the topics **1.1.3** –Monitoring interaction between employment promotion and social protection policies; **1.2.3** - Sustainability of pension schemes (contributions and government subsidies); **1.3.7** -Ageing population and possible strategy of dealing with this situation; and **1.4.2** -Relationship between social-economic development and the redistribution function of social security. Power points presented by the experts can be found on <http://sprp-cn.eu/reports/3rdPanel6Sept2016/>.
2. The programme and list of participants are attached. Mr. Ha Zengyou, Deputy Director General, Department of Employment and Income Distribution, NDRC, chaired the Panel.
3. Some 20 participants attended the Panel, including representatives of the Department of Employment and Income Distribution of NDRC, the International Cooperation Centre of NDRC, the EU Delegation to China, the team leader and the EU Resident expert for

Component 1 with the C1 team and Chinese Short term Experts as well as members of the SPRP Beijing Project Office.

4. **First Session:** Topic 1.1.3 - Monitoring interaction between employment promotion and social protection policies. Mr. **Zhang Juwei** presented his draft report “Population change, labour market and Reform on Urban basic pension scheme”.

The main contents of Mr. Zhang presentation are: the population change and projection; the change of labour markets; labour markets and the urban basic pension scheme; and the reform on the urban basic pension scheme. Since early 1990s, the TFR has been lower than the replacement rate, and even less than 1.5 since 1996. Since 2010, the TFR has been close to about 1.5. Fertility rate is not affected by the policy change in 2014 or even in 2015. At present, in China there is the trend of low fertility or even super-lower fertility. As a matter of fact the “one child” policy had a relevant impact on the fertility rate.

Looking at the population projection, in 2015 China's population will reach 1.375 billion, in 2020 will reach 1.403 billion, 1.409 billion in 2030, and will drop to 1.3 billion in 2050, hence the working population will keep on declining. Mr. Zhang shows the data and share of population aging in relation to the labor market and illustrates the main critical challenges. In particular, from 1995 to 2014, the economic active population remains high but the participation rates start to decline and then to recover.

Looking at the employment structure by three industries: the first sector, the second and the third sector; from 1995 to 2014, the employment in the agriculture sector is sharply declining, while the employment in the second and third sector is rising. It is also underlined the importance of the change of employment structure, especially the increase of waged workers. The waged workers are workers that get wage every month, at present 50 percent of these workers are waged, the share in total urban and city is 2:3, this factor is important for the contribution to the pension system. The income of urban pension has been increasing; the growth of income and expenditure of pension fund has different impacts in the provinces, in terms of growth rate, the provinces of Heilongjiang and Guaxi show to have negative growth. Currently, there is severe imbalance in some provinces, where the income is high and expenditure is low. In 1990, five people could support one retired person, while now the ratio went down to 3:1.

Looking at the reform on the pension system, without being fully funded individual account, the revenue and expenditure of the fund of the Urban Employee Pension Scheme remains balanced, and the accrued surplus is over RMB 30k per capita. Nevertheless, the disparity among regions is serious. In some provinces, the increase of expenditure is faster than the increase of revenue. The replacement rate of this scheme is lower than 50%, posing pressure on adjustment of pension benefit. Only 52% employees are covered. Considering all the employees are 62% of the labor force, there is still large space for enlarging the coverage.

Generally speaking, if the reform is well conducted, the scheme can be sustained. Finally, some suggestions on the reform are highlighted: first, having clearer regulation; combining social pooling and individual account; promoting PAYG under NDC; second, Social Pooling at National Level for Basic Pension System; third, enlarging coverage: improving contribution collection; fourth financial subsidies should be set as legal income source, and the rate of financial investment should be explicitly defined; fifth reasonably lowering contribution rate.

5. **Second session:** Topic 1.2.3 - Sustainability of pension schemes (contributions and government subsidies). The expert, **Prof. Zheng Bingwen**, presented his report “The Financial Sustainability of Urban Basic Old Age Insurance System in China”.

Generally speaking the pension system is in the period of rising pension benefits and financial subsidies. From 2005 to 2015, the pension growth rate is keeping on 10 percent, which make the average pension growing from 714 Yuan per month in 2005 to 2100 Yuan per month in 2014. Financial subsidies have raised from 54.4 billion Yuan in 2005 to 471.6 billion Yuan in 2015. The Urban basic pension system is under the great pressure of three stacked tasks. The first is the system parameter adjustment: to rise retirement age and to reduce contribution rate of social insurance. The second is structural reform of pension system: how to improve individual accounts, we should increase the income of the people and incentivize them to contribute to the system. The third is the establishment of some sub systems: the normal pension adjustment mechanism and pension fund investment system need to be set up as soon as possible.

The second big issue is the financial sustainability of old age insurance system. One of the factors is the low income ability of pension system: the negative incentive of pension system. For example, actual contribution rate is lower than the statutory contribution rate. The second factor is the absence of automatic balance mechanism to resist aging population: main issues are the absence of automatic adjustment mechanism in the social pooling system; and the pension divisor in the individual account system has not adjusted dynamically with the increasing life expectancy. The third issue is that the sustainability of social pooling is increasingly highlighted. Fourth, the birth defects of individual account; the individual account cannot live without financial transfer. It is difficult to fully fund individual account. Indeed, the empty account has reached 3.09 trillion yuan at the end of 2013, and the real account assets are 415.4 billion yuan. The Fifth issue is the disorder Management System affecting financial capacity. In particular, the coexistence of double collection system leads to insufficient income. Sixth, workers put excessive reliance on the basic old age insurance governed by the government.

Looking at the Financial Sustainability Prediction of Enterprise Employee s’ Basic Pension System, two aspects are highlighted: the revenue and the expenditure. In the calculation period, the fund revenue will keep increasing. Before 2020, the growth rate of fund revenue will keep at 14% and then the growth is slow down. Fund revenue will account for 17% to

24% of fiscal revenue for the same period. The ratio will increase from 21.02% in 2020 to 23.87% in 2035, and then gradually decrease to 22.97% in 2050. Meanwhile, the fund expenditures will account for 13%~24% of fiscal revenue. Before 2030, the ratio increase gradually. And then the dependency ratio is at the high level, the fund expenditures begin to expand and the ration will increase to 24.13% in 2050. It can be concluded that the dependency Ratio of GOPI is higher than enterprises employees' old age insurance.

Looking at the experience of the EU public pension system reform experiences of Sweden, Germany, France and Spain, we can learn that: benefits of DB plan will reduce gradually; we need to raise retirement age, gradually realizing the equal retirement age of men and female; we need to establish the rewards and punishments mechanism linked with legal retirement age; we need to establish financial balance mechanism via introducing the aging population factor; we should enhance the portability of basic old age insurance system, as well as make full use of market mechanism to push the pension system from a single mode to multiple-level pension system.

Finally, the policy proposals on improving Urban Basic pension Insurance System are to: reduce the contribution rate of old age insurance and establish the reasonable contribution base; promote National Pooling as soon as possible to Enhance the Portability of Urban Basic Old Age Insurance System; enhance the Financial Sustainability of Basic Pension System via the principle of Actuarial Balance; reform the system structure and improve individual Accounts; expand the individual account scale and give full use of market mechanism and pay more attention to other pillars.

## 6. Discussion.

J. Victor Gruat expressed his thank to the experts that presented the clear long term development of the pension system and managed to provide figures illustrating the current situation and main challenges. Prof. Zhang showed the dramatic change in the active population; its structure, sector of employment, categories of income which provide support to the family, this make us think if the traditional ways to study these factors are still valid. For example we have a traditional category to see the dependency ratio, results will be different according to the way we measure it. I especially liked that the expert provided us the ground for reasonable optimism in the future. Prof. Zheng Bingwen clearly explained the factors affecting pension scheme: replacement rate, contribution rate, and dependency ratio. He also introduced the negative sides of the current pension system, in particular, in its financing. I liked that he underlined the negative incentives of the pension system lack of adaptation in a changing society. J. Victore also acknowledges the contribution of Mr. Li Shi, which though not present at the meeting, in his report raises the issue that the current pension contribution produces negative result in redistribution and underlines the fragmentation of the pension system. Finally, J. Victor emphasizes the importance of

actuarial studies, which are important part in the sustainability evaluation of the pension system; there are common factors but also differences in the actuarial calculation in social insurance and individual insurance. Every opportunity in studying the actuarial calculation through the SPRP is much welcome and it is also important the presence of Mr. Bruni, which in C2 focuses also on this aspect.

Prof. Dong Keyong pointed out that Mr. Zhang made a clear presentation giving some basic estimation of the current situation; this is a very important step to understand the real current issues. All the issue Mr. Zhang emphasized are helpful for the decision making process and to understand what should be reformed, hence it is fundamental to find a long-term strategy.

Also Mr. Bruni, C2 RE, highlighted the need to have a long term vision. China is going through a demographic change, this make it essential to understand the demographic trend. In making estimations we should not think that demography is something independent, economists have been discussing if economy and demography have both impact on population structure, demographic trends can have impact on labor market and economics in turns, what is going on in Europe is clear on this issue. On this regard the actuarial study is an essential step, using tools to understand better the current status quo and the impact of policies, on this field Mr. Bruni underlines the possibility of cooperation with C2 of the SPRP.

7. **Third session:** Topic 1.3.7 - Ageing population and possible strategy of dealing with this situation. Prof. **Dong Keyong** delivered his report “Population Aging and Possible Influences on the Economic and Society in China”, which is a “background” research, providing information and data from China and the foreign countries. The presentation is divided into 5 sections, namely: 1)The Situation of Population Aging in China; 2)The Trend of China's Population Ageing; 3)The Influences on the Economics and Society of Population Aging; 4)Experiences of Dealing with Population Aging in Foreign Countries; 5)Possible Strategies Dealing with Population Aging in China.

**Part one.** *The situation of Population ageing in China.* The status quo and characteristics of aging in China are described. In 2000, the number of the population aged 65 and above is 88 million, and the proportion of total population is 6.96%. By the end of 2014, the number of the population aged 65 and above reached 138 million, the proportion of total population is up to 10.06%. Hence, the aging increasing fast and the old-age dependency ratio rises. Meanwhile, the bottom of the population pyramid is shrinking, the structure of population is becoming older and older; the life expectancy is becoming longer, the median age population is rising; and the proportion of advanced ages and disabled elders is increasing. It is also showed that the population aging changes among different areas, the western areas surpass the formers. Owned to the demographic dividend, the economics increased rapidly. At present, the economic growth in China has becoming gradually from rapid growth to

about 6% of middle-high-speed growth especially as the demographic dividend reduce. China's pension system only covers the urban workers and community agencies and institutions before 2009. In 2009, the pilot of the New Rural Pension Insurance System started and fully opened after that, in 2011, the Pension Insurance System for Urban Residents began to build, the pension insurance system has basically realized the goal of full-covered. Nevertheless, the economic development level in China is not only far lower than developed countries, even it had a larger gap with the world's average level when China stepped into an aging population society along with the world overall in 2000. Developed countries are mostly step into the aging society under the condition of basic modernization, their society became old after they had been rich or their society became old when they were wealthy.

**Part Two.** *The trend of china's population ageing.* All scholars predict that the population peak will be in 30s to 40s in the 21st century, and the speed of population ageing will be increased in the following thirty or forty years. Especially in around 2040, the proportion of the population aged 65 and above will be more than 20%, and to 2050, this proportion will continue to increase to be 20% to 24%. The Department of Economic and Social Affairs, United Nations, China's population will reach their peak at around 2030, then the whole population will begin to decline gradually. The population aged 65 and above will be further increased and peaked at around 2060, after that, the quantity of the population aged 65 and above will decline, but its proportion will still increase and remain at a high stage (about 33%) in quite a long period, the year 2060-2100 a plateau of severe aging. According to the prediction of the Department of Economic and Social Affairs, United Nations, in the following 30-40 years, the life expectancy in China will increase from the current 76.5 to 82.5 years in 2050. The scale of the aged population will be widened for the increasing of life expectancy. Overall, the median age in China will also continue to improve, and it will be gradually close to the most serious aging countries in the whole world. The median age in China will be much higher than the median age in the whole world, and population age structure will become much older.

**Part three.** *The influences on the economy and society on population ageing.* Since the proportion of labor force is dropping it will result in lower economic development. The proportion of labor force is dropping and the labor cost will increase. The cost of redistribution is increasing and the economic and social burden will be heavy. The national savings rate will decline and the capital accumulation will be constrained. Specifically, the elderly is consumer population, the proportion expenditure of the economy output that is required for the aged population will continue to increase in the process of population aging. The labor force is becoming aged and the technology progress will be restricted.

By consequence, the influences on the social development of the population aging trend in China are the followings: 1) The family structure is shrinking and the family supporting

function becomes weak; The spending of pension is increasing quickly; 2) the sustainability of the pension fund will be challenged; 3) The demand of health care is expanding and the pressure of medical costs will increase; 4) The demand of nursing service is increasing, professional staff and facilities need to be developed.

**Part four, *experiences of dealing with population aging in foreign countries.*** Many foreign countries faced the same issues as China and China needs to learn from these experiences to enact the right policies. In particular, it is suggested to:

- 1) Postpone retirement age, utilizing the human resource of the elderly.
- 2) Pay attention to the investment of human capital, raising labor productivity.
- 3) Develop the elderly industry to promote the adjustment of economy structure
- 4) Actively encourage birth to supplement the labor supply.
- 5) Absorb international migration, increase the cheap labor resources.

In the level of social policy, it is relevant to reform the pension system and increase life equality of the elderly; improve the services of the medical and health system, reduce the spending of health care; construct the long-term care insurance system to meet the care demand of the elderly; develop aging finance to increase the pension income. In the level of aging service, it is important to attach importance to the social supporting function and innovate the way of supporting; explore the standardization of aging service and promote the quality of aging service; encourage social forces to participate in aging services in order to provide diversified services; pay attention to the family supporting function.

**Part Five, *possible strategies dealing with population in China.*** At present, the strategy dealing with population aging in China still lacks of overall train of thought and the preparation of thought, material and system is insufficient. There is no time left to prepare for the population aging before it reaches the peak at around 2030. Potential strategies of economy development dealing with population aging are the followings: developing human resources of the aged to replenish the labor supply; enhancing the investment on research and development (r&d) to improve the labor productivity; developing the aging industry vigorously to promote the transformation of economy structure; and perfecting the income distribution pattern to increase the effective consumption demand of the elderly. Strategies of social policy reforms are: Postponing the retirement age timely to alleviate the pressure of the pension fund; Reforming the pension system to enhance the risk resistance ability of the elderly; Perfecting the health care service system to realize the goal of healthy aging; Exploring long-term care insurance system and paying attention to the care needs of the elderly. Finally, the strategies of ageing services are also essential, such as: Innovating the way of supporting to meet the demand of aging service; Encouraging social forces to participate in aging services in order to improve the service supply effectively; Attaching great importance to the construction of the human resources for aging services to raise the

professionalization; Constructing better living environment suitable for the elderly to improve the comfort level of the elderly.

## 8. Discussion

Mr. Bruni, who made many studies on labor market trends, demography and migration for years, putting a lot of attention into China, pointed out that there are 70 countries with fertility rate below 2.1 and the situation will extend in the future, so what we are witnessing is a total change, some countries declining population on one side (China the biggest), others having exploding population. The working age population is expected to decline, the number of the elderly will increase. In 2100, Nigeria is expected to have the highest population in the world. Can we believe this or not? According to Bruni, demographic projections are just an exercise done according to certain hypothesis. In the current UN population projection, one factor is not considered, that is migration. Looking at Europe as an example, when working age declined, with economic development, the main response was immigration. To close the gap between supply and demand of labor, migration was the response. Postponing retirement age is an important step in increasing the active labor supply, but this will not increase the sufficient demand of labor, while migrants will be the solution for China retirement problem.

9. **Topic 1.4.2** Mr. Jean-Victor Gruat illustrated some points about the report on Income redistribution through social security, whose author, Mr. Li Shi, could not take part in the panel discussion. The report includes details about the GINI coefficient for China, which measures the inequality and income distribution. In China, the income distribution is more and more characterized by type of population access to income. The research shows that the gap between urban and rural is decreasing. Income redistribution remains all the more important that poverty still remains a difficult issue, especially in rural China. In that respect Mr. Li also includes a comparison of different official poverty lines and their results. Further more there is a vast population of migrant workers, in sharp increase but marginalized in terms of consumption. Finally there is a trend towards decrease in consumption as a share of national income, while the income is increasing – which no doubt raises issues about income distribution notably at times of a “new normal” economy. The expert put these elements in perspective with the social protection functions, which are to guarantee standards of living, to avoid poverty, to smooth consumption in times of crisis, to promote consumption, to work as a social stabilizer. The author examines the redistributive effect of the social protection system and other public fiscal mechanisms. While contribution collection affects negatively the Gini coefficient the urban pension system itself has most of the positive effect in reducing the income equality. The overall Gini coefficient, being at 0,51 for primary distribution, decreases to 0,47 (- 7%) after redistribution, of which almost all is



attributable to the basic pension benefit (- 6%). Compared to the role of redistribution effect in other EU countries, the effect played by the Chinese social protection system remains yet limited, there are useful comparison in terms of redistribution effect of social protection, the report also contains some policy proposals.

## **10. Wrap-up**

To conclude the Panel Discussion, Mr. J. Victor Gruat and Ms. Tang Ling expressed their full satisfaction with the work accomplished by the experts and the fruitful discussions. The reports will be revised after the panel and be presented at the forthcoming HLE.

Valentina Pignotti  
Jean-Victor Gruat  
8 September 2016

## AGENDA

09: 00 – 09: 05	Welcome speeches - NDRC
<b>CHAIR PERSON AND MODERATOR FOR ALL SESSIONS:</b> Mr. Ha Zengyou, Deputy Director General <b>DEPARTMENT OF EMPLOYMENT AND INCOME DISTRIBUTION, NDRC</b>	
First Session: Topic 1.1.3 - Monitoring interaction between employment promotion and social protection policies	
09.05 – 09.35	Draft report presented by Mr. Zhang Juwei, Short term expert
09.35 – 09.50	Comments submitted by other experts, NDRC, SPRP and general discussion
Second session: Topic 1.2.3 - Sustainability of pension schemes (contributions and government subsidies)	
09.50 – 10.20	Draft report presented by Mr. Zheng Bingwen, Short term expert
10.20– 10.35	Comments submitted by other experts, NDRC, SPRP and general discussion
<i>10.35– 10.45</i>	<i>Coffee – Tea break</i>
Third session: Topic 1.3.7 - Ageing population and possible strategy of dealing with this situation	
10.45 – 11.15	Draft report presented by Mr. Dong Keyong, Short term expert
11.15– 11.30	Comments submitted by other experts, NDRC, SPRP and general discussion
Fourth session: Topic 1.4.2 - Relationship between social-economic development and the redistribution function of social security	
11.30 – 12.00	Draft report presented by Mr. Li Shi, Short term expert
12.00 – 12.15	Comments submitted by other experts, NDRC, SPRP and general discussion
<i>12.15 – 12.20</i>	<i>Wrap-up speech by Mr. Jean-Victor Gruat, C1 Resident Expert of SPRP</i>
	<i>Working Lunch (Venue: Dining Hall on the 2nd floor of Baiyun Tower)</i>

NAME LIST OF PARTICIPANTS

<b>UNIT</b>	<b>NAME</b>	<b>POSITION</b>
The Department of Employment and Income Distribution, NDRC	Ha Zengyou	Deputy Director General
	Tang Ling	C1 Project coordinator
	Jing Chao	Division Director
	Niu Ming	Official
International Cooperation Center, NDRC	Chang Hao	C1 Project coordinator
	Wang Yue	C1 Project assistant
	Wang Yingsi	C1 Project interpreter
The EU Delegation to China	Yi Xiaolin	Programme Official
C1 Chinese short term experts	Zhang Juwei	
	Zheng Bingwen	
	Dong Keyong	
	Li Shi	
SPRP Beijing project office	Jean-Victor Gruat	C1 EU Resident Expert
	Michele Bruni	C2 EU Resident Expert, Team leader
	Fang Lianquan	C1 Main expert (research)
	Valentina Pignotti	Assistant to the team leader
	Lin Guowang	Interpreter