



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



FROM THE
RESIDENT EXPERT, COMPONENT 2

The first newsletter of Component 2 for 2017 comes in a revised version. The intention is to provide the reader not only with a presentation of the past and future activities of C2, but also with some information on the general context in which we are called to operate.

1. PUBLICATION OF 2015-2016 RESEARCH PAPERS

The activities conducted in 2015 and 2016 have come to conclusion with the publication of a volume containing the papers produced by Chinese and EU experts on the topics analyzed in that period and the finalization of the related policy suggestions.

The papers written by Chinese experts provide an assessment of the Chinese background in four thematic areas: Division of decision power and expenditure responsibilities on social security between central and local government; Social security coverage on informal employment: methodologies and tools' of analysis and management; Nominal personal account reform in the basic pension insurance system; Models and Methodologies for the Social and Economic sustainability analysis in social protection system. They are paralleled by the papers commissioned to EU experts on the same topics and aimed to enlighten the best practices emerged in EU countries.

The policy suggestions derived from a critical discussion of the Chinese situation and of the measures adopted in EU to face similar problems have been collected in a Report and submitted to the Ministry of Finance for future reference.

GET IN TOUCH

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C2 Newsletter

Spring 2017

Therefore, together with a recap of the first quarter achievements and a presentation of the activities to be performed during the year, in close cooperation with the Ministry of Finance, it provides a compendium of the latest legislative measures on Old Age Services adopted by Chinese institutions, an interview on EU Long Term Care models with one of our experts, Marcello Morciano, and some statistical information on the aging situation in China and EU.

During the last months Giuseppe Conte (Project Leader) and Antonello Crudo (C2 coordinator) have been called to cover new important roles in INPS. I am sure to express the feelings of all the Beijing team in conveying them the deepest thanks and gratitude for the dedication and enthusiasm with which they have worked with us in the last year and, above all, for their extremely important contributions to the project. To them our best wishes of success in their new activities.

At the same time, we warmly welcome Massimo Antichi and Valeria Bonavolontà, the new Project Leader and Component Coordinator. Both of them are not new to the project and will therefore be able to take up their responsibilities with full knowledge of the big challenges the project is facing.

Cari Massimo e Valeria, auguri di cuore,
Michele Bruni.

In this issue:

1. *Publication of 2015-2016 research papers*
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2. 2017 RESEARCH FOCUS

A series of fruitful meetings held with officials of MoF have allowed to define the three topics that will be at the center of C2 activities in 2017. The choice respond to the desire of MoF to better adjust the activities of the component to the goals set by the 13th Five Year Plan and to move the focus of the research from the technical to the policy design level.

The situational analysis of the first topic ***An integrated system for the coordinated management of the social assistance system*** was initiated in the last quarter of 2016 and a first draft has already been presented by Prof. Jiang Zhen. The topic well fit the indication of the 13th Five Year Plan to deepen the reform of the Administrative system and make more transparent, effective, convenient, and easy to access the services provided. The identification of the EU experts in under way; their contribution will be sought mainly in two directions: the evaluation of the performance of social assistance expenditure in EU countries and a comparative analysis of best practices.

The choice of the topic Investment strategies of social funds and risk control methodologies discount the fact that, as an emerging economy, China has not yet accumulated enough pension funds for the newly retired, while for the moment it is not clear whether the Chinese pension system will be sustainable in the long run. Also in this case, EU experiences can provide a relevant benchmark on management strategies and practices that could be implemented by the Chinese government to ensure the sustainability of the pension system. Prof. Hu Jiye is the Chinese expert that will provide the background paper on this topic.



A central role in the research and training activities of C2 will be devoted to the topic Development of Old-age Services and Long Term Care System. The Chinese expert has already been identified in the person of Prof. Tang Jun of the Chinese Academy of Social Sciences. EU experts will be selected to provide an overview of best EU practices on the three topics as well as country reports.

In 2017, the **Training** will be held in France, in the middle of September, with the logistic support of Expertise France and SISPI. The training will cover topics related to Long terms care, the Pension system and Risk management. The component coordinator, and SNA experts are already at work to prepare together with the Beijing team the training Agenda and identify the EU experts that will deliver the seminars.

Finally, the component hopes to repeat the success of the training carried out in 2016.

3. DISCUSSING THE THEME OF LONG TERM CARE WITH MOF

The rapid aging process and the deep changes in the values and social norms that have reduced the traditional role of the family in taking care of the elderly amply justify a central role that will be given to the new topic **Development of old age services and long term care system**. The problem has been on the Government agenda since 2006. However, up to now, China does not have a comprehensive structure for the old age services delivery and a consolidated Long Term Care policy. Following the indications of the 13th Five Year Plan, China will strive to establish a multilevel elderly care system based on at home care, supported by communities, and supplemented by the elderly care institutions.



On 17th March 2017, a working meeting was convened with representatives of the Veteran Benefit Division and Medical Insurance Division of the Social Security Department of MoF, Professor Tang Jun and C2 team to better focus the scope of the research and its goals.

Professor Tang Jun presented the current situation of Long Term Care in China and his preliminary suggestions for policy development.



Following the presentation, it was agreed that special attention was to be given to the policy approach for the development of old age service facilities, the standardization of the services, the role of the institutions (government and community) the government incentives needed to foster the participation of the private sector, etc.

The representatives of MoF have shown great appreciation for such dialogue activity and are looking forward to have more opportunities for discussion on the theme of LTC, also involving EU experts.

4. LATEST LEGISLATIVE MEASURES ON OLD AGE SERVICES ADOPTED IN CHINA *December 2016- March 2017*

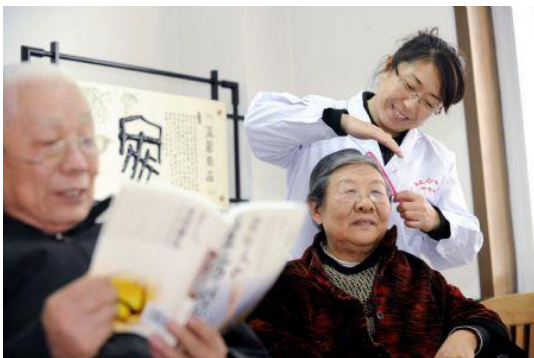
December 23rd, 2016 - The General Office of the State Council issues the *Opinions on Fully Opening the Old-age Service Market and Improving the Old-age Service Quality* (SCO No.91[2016]), which focuses on promoting “**Internet Plus** (互联网+)” old-age service, combining medical and old-age services and seeking to establish a long-term care insurance system;

http://www.gov.cn/zhengce/content/2016-12/23/content_5151747.htm

January 23rd, 2017 - The Ministry of Civil Affairs, the National Development and Reform Commission, the Ministry of Finance, the National Health and Family Plan Commission and the National Aging Commission jointly issue the **Circular on Accelerating the Reform on Simplifying Administration, Optimizing Management and Improving the Old-age Service Industry** (MOCA No.25[2017]), which encourages all social actors to join the development of the old-age service industry:

http://www.gov.cn/xinwen/2017-02/09/content_5166789.htm#1

January 25th, 2017 -The Shanghai Municipality starts the pilot of long-term care insurance in the districts of Putuo, Jinshan and Xuhui. The insurance covers the care services provided at home, as well as by communities, institutions, and hospitals. In the case of the care services provided at home and by the community, 90% of the cost will be paid by the Insurance and 10% by the individuals; in the case of the services provided by institutions 85% of the cost will be paid by the Insurance and 15% by the individuals. It is expected that, after 1 year, the pilot will cover all Shanghai districts of and 4.3 million senior citizens.



February 6th, 2017 -The Ministry of Industry and Information Technology, the Ministry of Civil Affairs and the National Health and Family Plan Commission jointly issue the *Circular on Delivering the Smart and Healthy Old-age Industry Development Plan (2017-2020)*, which states that the Smart and Healthy Old-Age Industry should adopt the new generation of IT products, including the Internet of Things, Cloud Computation, Big Data and Smart Hardware to effectively articulate and allocate the old-age resources of individual, family, community and institutions, and to smartly update the efficiency and quality of old-age services;

http://www.gov.cn/xinwen/2017-02/20/content_5169385.htm#1



March 5th, 2017 -The *Report on Government Work* delivered at the 5th Session of the 13th National People’s Congress indicates that the Chinese government will open the old-age service market, increase the pension of retirees, and promote the reform on the old-age insurance system

http://www.gov.cn/premier/2017-03/16/content_5177940.htm

March 6th, 2017 - The State Council issues the *Circular on Delivering the Old-age System Development Plan for the 13th Five-year Period*, which states that the government aims to build up a better old-age service system based on home services, supported by community services, supplemented by institutional services and combined with medical services. The aims of the old-age service system is to have no more than 50% of government-run old-age service beds and no less than 30% of old-age care beds. At the same time, the government will seek to establish a long-term care insurance system and conduct the “**Internet Plus**” Old-age Program:

http://www.gov.cn/zhengce/content/2017-03/06/content_5173930.htm

March 28th, 2017 -The National Aging Commission, the Ministry of Civil Affairs, the National Development and Reform Commission, the Ministry of Human Resource and Social Security and the National Health and Family Plan Commission held a joint press conference to provide an official of the *Old-age System Development Plan for the 13th Five-year Period*.



5. UNDERSTANDING MORE ABOUT LONG TERM CARE IN THE EU: a short interview to the expert Marcello Morciano



Marcello Morciano is a Research Fellow at the Health Economics Group of the University of East Anglia (UK), member of CAPP (Centro per l'Analisi delle Politiche Pubbliche, Italy) and ISER (Institute for Social & Economic Research, UK). Morciano is currently working for the EU-China SPRP in the EU comparative research on Long-Term Care.

- 1. All EU countries have been affected for already quite some time by a relevant aging process. Different answers to the problem of providing services to an increasing number of elderly citizens have been proposed and different LTC policies have been organized and activated. Is it possible to identify the main models and if so which countries would you include in each model?**

Population aging -the increase of the share of older individuals in a society- is posing major challenges to the foundation of the welfare systems around the globe. Europeans, in particular those born immediately after the end of the second world war, are benefiting from tremendous improvement in their life expectancy. But because chronic and degenerative diseases are more common at older age, the growing number of the very elderly people increases the demand for health and social care and the associated costs. It has been estimated that about 70% of Europeans turning age 65 can expect to use some form of LTC services – the range of services required by persons with reduced degree of physical or cognitive capacity to meet their basic personal needs- during their lives.

With population aging and reductions in family care, utilization of formal LTC for disabled people is growing considerably in Europe. In the last decades, LTC expenditures has been growing at a faster rate than the economy, accounting for an increasing percentage of GDP. In the future, the need of LTC services will become even more pressing, given that there will be more than twice as many old Europeans aged over 80 years old in 2050 than there are now. Higher demand for formal LTC services is emerging also because reduction in the supply of informal care and of people's rising expectations for high-quality care. Besides, the increasing costs we are observing in the (labour intensive) LTC sector in many EU countries is likely to affect considerably the functioning of the three institutions mainly involved in financing and providing LTC: the state, the market and the family.

So far in Europe, there is no a single LTC system. Instead, we have a multitude of LTC models inherently linked with different cultural values, institutional settings and traditional welfare regimes in place in each Member State. More often than not, the LTC system we observe today is the result of accumulated (but often un-coordinated) reforms aiming at facing emerged demographic, economic and political pressures. There is a growing recognition that the common "crisis" in LTC requires common solutions. However, national policy-makers are struggling to find a balanced combination of different strategies to meet the need of a growing number of people in needs while containing the associated costs rather than moving towards a single and integrated European LTC model that, under the same financing mode, provides the same level of coverage to anyone no matter in which European Member State lives.

- 2. Could you briefly list the main characteristics of each model?**

European LTC models differ in many different dimensions and none of these single-dimensions is in fact adequate to understand the complexity of the national LTC systems in place. EU Member States systems use different approaches for financing LTC and have rather different levels of spending for a mixture of formal services/cash benefits, delivered with different degrees of integration and levels of de-centralisation. Some stylized facts, however, can be extracted by looking at the data available.

Nordic countries, such as Denmark and Sweden, devote a high share of their GDP (between 2.5% and 4%) on LTC services. Formal LTC services are financed mainly by general revenue allocated to a network of local public agencies responsible for administering and delivering the services. LTC systems of the Nordic countries have also the highest LTC coverage in terms of number of users and intensity of care provided, with users that face limited out-of-pocket payments. The role of cash-benefits is limited as well as the role of informal care.

The so-called Bismarckian-based systems rely mainly on a public insurance model with mandatory participation with payroll contributions. They may cover LTC risks specifically (see for example the system in place in Germany, the Netherlands and Luxembourg) or be in the form of an integrated health-LTC insurance model (Belgium). These systems are characterized by a high/medium public spending on formal care together with modest cash-benefits used by disabled people to buy services from the private market and to compensate the support provided by informal carers.

Countries such as Austria, England, Finland and France have medium public coverage against LTC risks. They have a mix of universal and means-tested programs but with a more important role played by cash-benefits in lieu of formal services. Disabled people in these countries rely on the help provided by informal care givers who receive moderate public support.

Countries like Italy, Spain, Greece, Poland and Portugal provide modest social insurance against LTC risks. They are low spenders in terms of public formal care financing, generally provided through cash-benefits, and most of the care is purchased in the market. Most of the care is provided informally, with carers that receive little public support. Public expenditure on LTC is significantly below the EU average in the Member States that accessed the EU after 2004. Countries like Cyprus, Malta and those that were part of the former Eastern Bloc (e.g. Estonia, Lithuania, Latvia, etc.) have little social insurance against LTC risks and correspondingly low public spending on formal care. The use of informal care is extremely high and there is little to no informal care support. Additionally, the role of cash-benefits is very modest and with low coverage.

3. Which are the main advantages and disadvantages of each model?

Countries with a strong emphasis on the mandatory social insurance model (e.g. Germany, the Netherlands) provides broad risk-pooling and predictable financing. Expenditures are covered by earmarked social security taxes and therefore entitlements may be more clearly defined and easier to enforce. The drawback is the usual tax distortions on employment associated with contribution-based systems. Also, contributions are levied on a narrower tax base than general revenue, that are likely to increase in view of the rising demand, further increasing the cost of labour. For countries with a social insurance model, however, general revenues are also used to provide a safety-net for those with limited income/assets and the non-employed population.

Nordic countries with universal coverage and high formal care provision have relatively high public LTC expenditure. The relatively high quality standards generally observed create a burden for the long-term sustainability of public finances. Such states are now engaged in setting public budget constraints which can improve the sustainability of the system, but may lead to lower quality and the amount of care provided.

Countries with low LTC expenditure relies heavily on out-of-pocket payments, which could create a problem of sub-optimal consumption for those less able to meet catastrophic costs associated with disability. Disabled people mainly receive support from relatives and friends, reducing carer's employability and creating distress in the short- and long-run.

Means testing enable targeting (often scarce) resources to disabled in financial needs (e.g. with income/assets below a certain threshold).

4. In your opinion, which model(s) could be of more interest to China?

China faces a significant demographic transition process. In 1950 China had a young and fast-growing population, with a median age of around twenty-four. By 2010 the population age structure had shifted upward considerably, to a median age of around thirty-five. By 2050, when the median age will approach fifty, one out of every four Chinese will be sixty-five or older.

In my opinion, there are some "lessons" that China could learn from other countries involved for many years in the process of designing an optimal LTC system, sustainable in the long-run and adequate in meeting the specific needs of a growing disabled population. Building an efficient LTC system can help in moving away from the traditional hospital-centric model. It could therefore be cost-effective and reduce subsequent associated costs, as shown in many European countries. A cost-effective LTC system would support functional independence by delivering a continuum of social and medical services and by promoting – where appropriate- services at home rather than in institutional settings. It is also important to put in place a transparent and comprehensible funding mechanism and a governance that incentivise coordination and co-operation between the LTC users and the provider(s) and among different agents involved in financing and delivering the services. The regulatory framework should incentivise mechanisms that contain the rising cost and/or improve the quality of the care provided.



This approach however faces higher administrative costs and creates cliff-edge effects, so that public subsidies change markedly following small differences in the user's economic circumstances. For those not eligible, it would force the exhaustion of personal-assets before receiving support or it would potentially create significant unmet needs. Additionally, it could incentivise sub-optimal saving to avoid being above the threshold when in needs.

Mixed models - where LTC coverage is provided through a mix of different universal and/or means-tested programmes and benefits operating alongside- have the advantage of reducing the risk of non-take-up (presence of people that deserves but do not receive any form of support). However, mixed models require high level of co-ordination and cooperation among the different institutions involved in the administration and delivering of the services to avoid waste of resource that occur when the same individual receives different programmes to meet the same need.

Finally, a systematic monitoring is a key component for success. There are many «natural experiments» ongoing in some regions of China and their evaluation might help to define a clear pattern in the design of the LTC system that better conforms to China. For example, the social health insurance model in place in Shanghai is similar the one in place in Belgium; the LTC insurance model in the Qingdao region shares similarity with the system in place in Germany and the Netherlands whereas the means tested model in Nanjing is closely related the one in place in England and in some regions in Italy. In addition, the EU-China social protection reform project play an important role in using experience matured in Europe to shape ideas that could feed the policy debate on how to design an efficient, equitable and sustainable LTC Chinese system.

Ageing in China and in the EU-Some Figures

China has proceeded in an extremely fast way along the path of the demographic transition.

However, its aging process is still in an initial phase. China is also characterized by an extremely low number of elderly per 1,000 employed (186 vs 455 of EU) due to its very share of WAP in Total population and high employment rate.

Aging in China, in EU and in selected EU countries - Total population, number (in thousand) and percentage of elderly; number of elderly per 1,000 workers; 2015

| | Total population | People 65 and above | | People 80 and above | | People 65 and above per 1000 employed |
|----------------|------------------|---------------------|------|---------------------|-----|---------------------------------------|
| | | Abs. Value | % | Abs. Value | % | |
| China | 1,374,620 | 143,860 | 10.5 | 26,164 | 1.9 | 186 |
| EU 28 | 505,150 | 96,899 | 19.2 | 27,003 | 5.3 | 455 |
| Italy | 59,798 | 13,401 | 22.4 | 4,095 | 6.8 | 614 |
| Germany | 80,689 | 17,139 | 21.2 | 4,568 | 5.7 | 440 |
| France | 64,395 | 12,313 | 19.1 | 3,896 | 6.1 | 483 |
| Spain | 46,122 | 8,666 | 18.8 | 2,730 | 5.9 | 504 |
| United Kingdom | 64,716 | 11,494 | 17.8 | 3,038 | 4.7 | 389 |
| Poland | 38,612 | 5,998 | 15.5 | 1,556 | 4.0 | 385 |

Welcome the new Project Members!



Valeria Bonavolontà is director at the Pension Directorate of INPS. She is a lawyer, with specific skills in EU Law and Economics. She has been director in Italian public Institutions since 2005, after two years of training at the Italian School of Public Administration (SNA) in Bologna. She has been working for the EU-China SPRP since June 2016; in April 2017, she was entrusted by INPS with the responsibility as C2 Coordinator.



Massimo Antichi has been a member of the Technical Commission of Public Expenditure for the Italian Ministry of Economy and Finance. For many years, he has been involved in the activity of numerous ministerial commissions in the field of social protection and social insurance appointed by the Italian Ministry of Labour, including the working group to define the policy guidelines for the Italian pension system reform in 1995 and the commission on the macroeconomic aspects of the social expenditure. Mr. Antichi has been Director of the Study and Economic Research Directorate of the Italian Supervisory Authority on Pension Funds (COVIP). He has been Director General of the Pension Institute for workers in the fields of sport and show business until 2012, when this Institution merged in the Italian Institute of Social Protection (INPS), where he has played a key executive role in various projects and since February 2017 has been appointed as central Director of the Study and Research Directorate at INPS. Within the EU-China SPRP he has been CEO of the Secretariat, SISPI, and, since April 2017, he has taken the role of Project Leader.