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

C2 Newsletter

Summer 2017

FROM THE
RESIDENT EXPERT, COMPONENT 2

The recent Mid-Term Evaluation report contains two important suggestions. The first is that the project team should capitalize in the best possible way the experiences gained through study visits and training programs in Europe; the second that the policy suggestions should be the result of a closer co-operation between EU and Chinese experts, under the guidance of the Resident Expert (RE).

For what relates to the training activities, the C2 team is already working with the MoF in designing a procedure to be adopted in all future training activities. The procedure, which includes a series of actions to be implemented before, during and after the training will be immediately experimented with the training to be held in France next September. In this occasion, C2 will provide each trainees with relevant materials that includes: a) a series of country studies prepared by C1; b) some of last year Training power point presentations related to topics that will be addressed also this year; c) an introduction to the institutional setting of EU and France and to the Institutions the trainees will visit.

At the same time, the officials that will participate to the training will be asked to spell out their expectations that will discussed in a pre-training meeting, in which the training agenda and the cultural events included in the program will be introoduced.

During the training, the Leader of the Chinese delegation and the RE will coordinate, at the end of each thematic section, wrap-up discussions.

A final wrap-up session will summarize the main elements emerged from the training and identify the lesson to be learned. Moreover, all participants will be asked to fill a questionnaire to collect their impressions and indications. Finally, C2 will try to organize with the MoF a workshop to be held, possibly in a Province, to discuss the impact of the training on the central and local government policy design and implementation.

In this issue:

C2 will also introduce some innovations in the procedure followed up to now in drafting policy suggestions so that the policy document will be the result of a closer cooperation between the Chinese experts, the EU experts and the project team.

A meeting between the Chinese and EU experts, MoF officials and the C2 team will be organized the day after each panel discussion. The meeting will have a series of goals: a) to sum up the main findings emerged from the panel discussion, b) to identify which EU experiences seem to be more relevant for China, and c) to outline the work to be done to finalize the papers. The meeting will also be the occasion to clarify and specify the needs and expectations of MoF in terms of policy suggestions. This will represent the starting point for a brainstorming on policy measures.
All Chines and EU experts will then be asked to independently develop a set of well-motivated policy proposals to be sent to the RE one month before the Workshop. The RE will then draft a document of synthesis to be presented, discussed and eventually amended during the Workshop by the experts and the MoF officials. The RE will finalize the policy proposals immediately after the workshop.

Michele Bruni

1. PREPARATION OF C2 UPCOMING ACTIVITIES

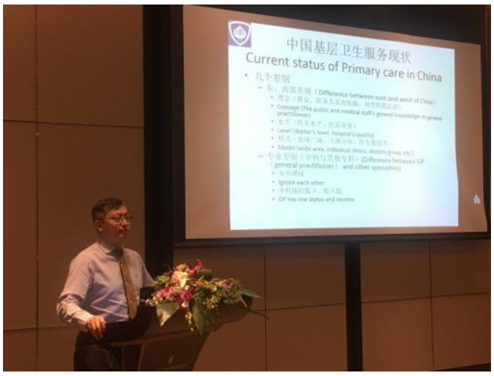
In the last three months C2 has worked in close cooperation with the MoF Dibao Division, Health insurance Division and Veteran Benefits Division in outlining the structure and content of the upcoming two panel discussions, which will address the topics: "Coordination of the social assistance system", and "The Development of Old Age Services and Long-Term Care System".

Meanwhile, in order to provide useful EU practices, C2 has engaged the following EU experts: Mel Cousins (International Policy Expert), Renzo Turatto (International Policy Expert) and Pavel Janeck (Ministry of Labour and Social Affairs, Czech Republic), for the first topic, and Vincenzo Atella (University of Roma "Tor Vergata"), Monika Gabanyi (International Policy Expert), Marcello Morciano (University of East Anglia, UK) and Jean Yives Hocquet (French Ministry for Social Affairs) for the second topic.

In agreement with MoF (Dibao Division) the panel discussion on social assistance coordination will involve for the first time members of provincial governments.

The C2 team had also some meetings at the Italian Embassy with the Healthcare working group to create research synergies. The MoF did also show interest in opening the dialogue with the private sector in the field of services for the elderly and to better define the role of the market.

On 17th May, Ms. Valentina Pignotti, C2 Assistant, attended the Workshop "The new frontier of the healthcare: from hospital centric to patient centric', organized by the Italian Trade Commission in cooperation with the Italian Chamber of Commerce, More than sixty Health care experts and business representatives participated in the Workshop, held during the China International Medical Equipment Fair. During the workshop, speakers from both Italy and China shared opinions and studies on the healthcare outlook from different perspectives, including the role and prospect of general practitioners in China, service to the patients with chronic diseases, the economic models in assessing the comprehensive medical healthcare solutions, the needs of the elder patients, at home care, etc. (http://www.cameraitacina.com/en/events/post-event-17th-may-healthcare-workshop).



Finally, in this three months period the C2 in close cooperation with MoF, INPS, SNA, SISPI and Expertise France has been organizing a 2 weeks training course (September 10-24) for 16 officials of the MoF to France (Paris and Marseille) on the theme of social security policies to tackle the ageing population.

2. UNDERSTANDING MORE ABOUT PENSION FUNDS: an interview with Grayson Clarke

Mr. Grayson Clarke is an English expert in the field of social security. He was the Fund Management expert on the EU-China Social Security Reform Cooperation (EUCSS) Project. Responsible for leading on all financial aspects of individual schemes (pension, medical unemployment and work injury) and on public financial management and governance issues including anti-fraud strategies, budget management and development of actuarial work. Mr. Clarke is currently collaborating with C2 research project.

1. What are pension funds and what they do?

Pension funds are a vehicle for long term saving and income smoothing over your life cycle. Put simply you save part of your income in the most active phases of your working life which is then drawn down in your retirement phase, when you cannot do so much work or do not wish to work at all. if the funds are invested productively so the fund accumulates, you should be able to draw down more income than the contributions made by you and your employer

2. What are the main types of pension funds and in what they differ?

There are two main types of pension fund - Defined Benefit (DB) and Defined Contribution (DC). Defined Benefit schemes are those where your future pension income can be calculated according to a set of rules based on your final or average lifetime salary, your contribution years, and the age at which you retire.

DB schemes can either be funded or be treated on an unfunded pay-as-you-go basis. Pension schemes for most civil servants in most countries are unfunded; benefits as they become due, are paid out of general taxation, and the DB scheme is essentially an accounting exercise. But for other types of public sector workers (for example in China public agencies such as scientific institutes or in Britain local government workers), schemes can be funded so the trustees and managers of the schemes have to ensure the income from contributions and investments is sufficient to pay the pension rights. Pension funds are a vehicle for long term saving and income smoothing over your life cycle. Put simply you save part of your income in the most active phases of your working life which is then drawn down in your retirement phase, when you cannot do so much work or do not wish to work at all. if the funds are invested productively so the fund accumulates, you should be able to draw down more income than the contributions made by you and your employer

The amount of pension in Defined Contribution schemes in contrast is dependent on the amount of fund that has been built up in your working lifetime. You can take your pension fund usually as partly a lump sum and partly as an annuity - an amount of annual pension paid to you based on your expected remaining lifetime at the age you retire and the amount built up in your pension fund (less any lump sums you take of course).

Now of course most workers prefer DB schemes because their pension amount is to a large extent guaranteed. In DC schemes it is highly dependent on the state of the economy and the financial markets. So, somebody retiring in 2007 with a similar contribution and working history to someone retiring in 2009 after the Financial Crisis would have had a much higher pension. In DC schemes, the risk is all with the worker.

3. How are pension funds managed?

A number of different actors are involved in managing pension funds. In Europe, the US and most other countries, the key role is played by the pension trustees. These are independent knowledgeable people who have a legal fiduciary relationship to the members of the pension scheme to ensure that funds are collected and securely and prudently invested and for ensuring that pension rights are paid in full and on time.

Then there are the managers and administrators of the fund. The administrators are responsible for day to day operations, ensuring funds are collected, payments are made, financial statements prepared and information is made available to members on their rights and obligations and so on. Investment managers who can either be in-house (the fund's own staff) or externally contracted advise on the particular financial securities to be bought and sold within each class of asset that the fund invests in (such as stocks and shares, government and corporate bonds). These are known as investment mandates and a significant portion of the costs of running the fund are paid to the investment managers to ensure the best possible returns. The third group are those people tasked with ensuring the security of the fund and its assets. These include the fund's bank responsible for ensuring transfers of money, the custodian who ensures that title to all the fund's assets is securely held and internal auditors who ensure fund operations properly comply with all rules and that opportunities to reduce costs and increase returns are identified. External auditors ensure accounts are prepared to the latest accounting standards.

Finally, the fourth group are advisers. These are mainly investment consultants who advise on the overall (strategic) asset allocation of the fund and the fund's actuaries who prepare regular valuations (usually on a three to five year basis) of the fund's long term assets and liabilities. Actuarial work is growing in China but it is still a fair way from being fully developed. Actuarial work in government is being done partly by the ministry of Finance but mainly by the actuarial unit in the MOHRSS.

4. Which indicators can be used to evaluate the performance of pension funds?

Pension funds are evaluated by means of benchmark indicators for the particular asset classes that the fund are invested in. So, for example in the UK we have the FTSE 100 index for the shares of the 100 publicly traded companies or in the US the Dow Jones. Many of these indices are produced by specialized information agencies for example MSCI Inc an American provider of equity, fixed income, hedge fund stock market indexes, and financial analysis tools.

The aim of the pension funds is to at least match and if possible beat the performance of the benchmark indicators. If a suitable benchmark indicator isn't available, then the fund will aim to achieve a certain % over the indicator for a fairly low risk asset class (such as government gilt edged securities).
Finally, the pension fund will set an overall rate of return for its whole asset portfolio which for DB funds will generally be the rate of return needed to keep the fund's expenditure and income in balance in the long term.

3. LATEST POLICY DEVELOPMENT ON LONG TERM CARE

April 23rd

In Zhejiang province, the first Training for Long Term Care Staff starts in the Zhejiang Hospital. The goal of the training is to enhance the service of contracted family doctors and thereby improve home care for elderly people.
http://www.gov.cn/xinwen/2017-04/24/content_5188498.html

May 19th

China and Spain sign a bilateral agreement on social security, according to which Chinese employees working in Spain and their Chinese employers don't need to contribute Spain social protection schemes. In addition, China has signed similar agreements with France, Germany, and other EU countries.
http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201705/t20170519_271073.html

May 8th

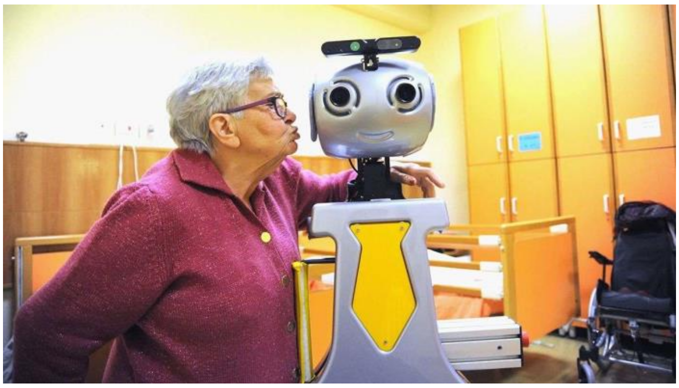
In Jilin province, the pilot of LTC Insurance is expanded to cover more areas. The pilot aims to cover 80% of Jilin province by 2018, and have a full coverage of LTC Insurance by the end of the 13th Five-Year Plan.
http://www.gov.cn/xinwen/2017-05/08/content_5191724.html

May 25th

The number of holders of Chinese Social Security Card exceeds 100 million. The card allows holders to get access to many other services. According to the Internet Plus 2020 Plan of the Ministry of Human Resources and Social Security, the Card will provide even more services in the future.
http://www.gov.cn/xinwen/2017-05/25/content_5196839.html

June 6th

The General Office of the State Council, China, issues the Opinion on Planning and Implementing Old-Age Care and Service Projects, which promotes the combination of medical and care services for old people, and encourages non-government forces to fund service institutions. According to the Opinion, the state also supports pilot project of LTC Insurance and seeks to establish LTC Insurance system, when possible.
http://www.gov.cn/zhengce/content/2017-06/16/content_5203088.html



June 6th
Hubei province releases the Aging Action Plan for The 13th Five Year which intends to establish a LTC system. The goal is to have a system that covers all urban communities and households, and a mutual-care system that covers 60% or rural families by 2020.
http://www.gov.cn/xinwen/2017-06/06/content_5200241.htm

June 29th
The General Office of the State Council issues the Opinions on Accelerating the Development of Commercial Old-Age Insurance, which states that before the end of 2017 the pilot of tax deferral for commercial old-age insurance will be started. It will allow the purchase of an insurance to pay the income tax only when it will withdraw the benefit.
http://www.gov.cn/zhengce/content/2017-07/04/content_5207926.htm

July

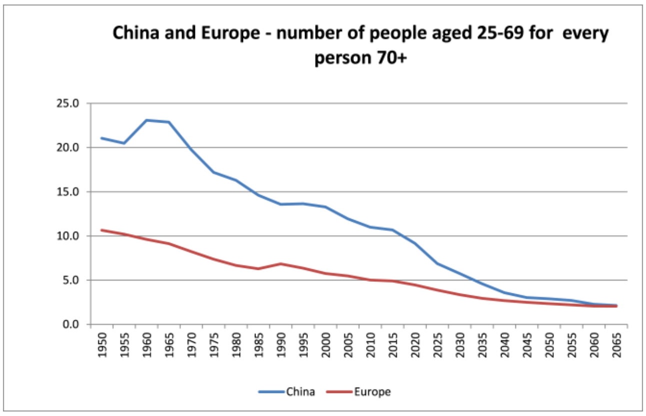
China to further promote commercial pension insurance. The State Council released a guideline to speed up the development of commercial pension insurance. According to the guideline, commercial pension insurance, provided by commercial insurance institutions, is defined as insurance products and services that mainly serve an older age group with major functions, including pension risk control and old pension fund management.
http://english.gov.cn/policies/policywatch/

4. THE STATISTICS CORNER: Are robots the solution for LTC?

It is well-known that LTC is a labor-intensive sector. It is also already evident that the availability of family members and workers for this sector is going to steadily decline to unprecedented levels.

In 1960-65, in China for every person aged 70 and more (the elderly) there were 23 people between 25 and 69 (the potential caregivers). By now, the percentage is down to 12, it will decline to 3 by 2045 and in 2060 it will converge to the European value of 2. It is therefore evident that neither in China nor in Europe local human resources will be available for LTC if people in working age will have to continue to carry on the production of good and services not connected with the elderly. As a matter of fact, they will be largely insufficient also for this task.

But how many elderly are we talking about? In China at the turn of the century only 54 million Chinese were 70 or above and still now they are only 83 million, but their number is expected to double in the next 15 years and then double again in the following thirty years, so that by 2060 they will be in excess of 300 million. In the same period in Europe the number of the elderly will increase from 74 to 156 million.



A simple inspection of articles in Internet suggests that everybody seems already sure that Robots are the future of LTC and that this sector will turn from labor intensive to robot intensive.

As a SF fan, I deeply understand the fascination of developing robots with AI. However, we are still very far from having the capability of building multi-task robots incorporating Asimov three laws and able to substitute a human being in providing general assistance to elderly people. It implies that we would probably need let's say at least 2 robots per elderly. Therefore, only China would have to build at least 600 million robots before 2060.

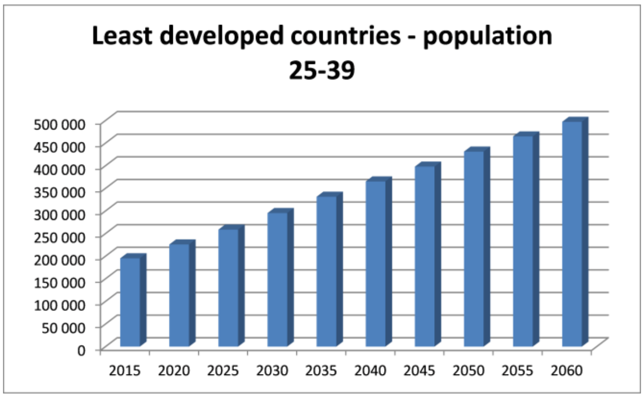
This raises a few questions. How many natural resources will be needed? How much energy would the robots consume? What will be the ecological impact of disposing of them? But the most important economic question is: does a viable, economically superior alternative exist?

China and Europe - people 70 and above (millions)

	China	Europe
2000	53.5	73.7
2005	63.7	79.1
2010	73.8	88.1
2015	82.8	91.8
2020	100.1	99.8
2025	132.4	110.8
2030	156.1	122.8
2035	190.5	134.5
2040	234.2	142.3
2045	264.4	147.9
2050	269.4	151.7
2055	276.2	154.6
2060	304.7	156.4

As soon as we move our attention away from aging countries, we find that the world has a large, almost unlimited supply of potential caregivers, people who would be eager to acquire the necessary competencies and do this job. Limiting ourselves to the least developed countries, the people in the 25-39 age bracket are now 195 million and, in absence of emigration, they will be around half a billion in 2060.

The use of foreign caregivers (to be properly trained in departure countries) would not deplete natural resources, would not require additional energy and would have very limited disposal costs. It would also have a series of positive effects both in departure and arrival countries. It could foster development through foreign training and remittances, while reducing the fertility rate and therefore population growth and poverty. If the process were successful, China would also promote its image and its products. In China, the process would help to reduce the labor market pressure and slow down the aging process.



Demographic forecasts leave no doubts that China will have to face a massive shortage of labor not only in the LTC sector. In this specific case, it will be up to the policy makers to decide if the LTC sector will become a robot-intensive sector or a foreign-labor-intensive sector. However, a positive attitude toward providing training and jobs to people in underdeveloped countries would seem to perfectly fit in the spirit of the One Belt, One Road initiative.

Michele Bruni