



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

# **Component 2**

## **Workshop Report**

**Alternative policy measures to cope with the impact of ageing on the  
financial sustainability of the social security system**

**Social contribution collections: toward a unified system**

**The role of public finance and enterprise annuities funds in the Chinese  
social security system**

**Ministry of Finance, P. R. China**

Friday, 12 October 2018

**Venue:** JindiyaHotel-second floor conference room

5 Sanlihe N St, Xicheng Qu, Beijing

## INTRODUCTION



On 12<sup>th</sup> October 2018, the EU-China Social Protection Reform Project- Component 2 held a Workshop in cooperation with the Social Security Department of MoF on the three topics tackled by the C2 project during the 2018 work plan, namely: Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system; Social contribution collections: toward a unified system; The role of public finance and enterprise annuities funds in the Chinese social security system.

During the Workshop, organized in three sessions, Chinese and European experts presented the policy suggestions that they have elaborated after the panel discussions held in June 2018. The proposals were discussed by EU and Chinese guests, who contributed with additional insights and personal experiences.

Overall, the Workshop was attended by around 20 participants, including representatives from the Ministry of Finance, the academia, EU Embassies representatives, and the project team.

The policy proposals presented and discussed at the Workshop will be formalized in a document to be submitted to the Ministry of Finance. The agenda and list of participants are attached as annexes.

### **Session 1- The role of enterprise annuities funds in the Chinese social security system**

Prof. Li Zhen, moderator of the morning sessions, opens the Workshop by welcoming all the participants. The Workshop has been organized in the framework of the EU-China SPRP Component 2 in cooperation with the Social Security Department of the Ministry of Finance. The first session is dedicated to the theme of enterprise annuities funds in the social security system; the second session will address the topic of policy measures to cope with the impact of ageing on the financial sustainability of the social security system; and the third session will address the topic of social contribution collection. All these topics have been analyzed by EU and Chinese experts throughout the year 2018 and today the experts will introduce the results of their work, mainly presenting the policy suggestions.

Prof. Li gives the floor to the welcome speeches.

**Welcome speech and Introduction - Mr. Fu Jinling (Director General, Social Security Department, MoF)**



Mr. Fu welcomes all the guests and distinguished participants to the 2018 Workshop of the Component 2 of the EU-China Social Protection Reform Project.

Mr. Fu on behalf of the MoF stresses that the Department of Social Security is very satisfied with the research work carried out by the Component 2 up to now, as well as with the very good work results achieved until now and the very good communication, all the topics have been implemented in a smooth way.

During the economic transition into a “new normal” and the slowdown of economic growth, many Chinese companies experienced financial issues, to solve this problem, the government has been studying how to reduce the costs of the companies, including the social security contribution to lower the burden of Chinese companies and individuals. Currently in China it is very difficult to lower the social security contribution, on one side the burden of different sectors and companies is quite different, on the other, the quota is also different among provinces.

Another issue is that not all the companies have followed their duty in SSC, SOEs in general have been paying the contributions, but if we lower the contribution for SME, which have not followed their duty, there might be no impact, so the actual burden maybe higher than lower. Even if we lower the SSC rate, or only the account to be paid by the employer, or even that of employees, that may also negatively affect the future generations. We should also encourage the development of the third pillar and annuities funds for future pension sustainability, as a matter of fact, without the support of the commercial sector the pension system is hard to be sustained. We would like to learn from the experiences of other countries to develop our system.

### **Welcome speech - Mr. Michele Bruni (EU-China SPRP, Team Leader-C2 Resident Expert)**

Mr. Bruni thanks Director Fu for the policy update because this helps the project direction on the research analysis. Besides, the points addressed by Mr. Fu give relevance to today’s workshop, that will tackle the topics pf contribution collection, public finance and annuity funds.

This is the last Workshop of the Component both for the year 2018 and for the project in general, that is expected to end by mid-November. If the project will be extended, in the following period the Component will work mainly at the provincial level and will after sum up all the work achievements that have been completed and will submit this to MoF as a reference for future policies. The project as a whole will provide a Memorabilia, which is a complete product of all the project work achievements and outputs.

### ***Policy Recommendations and Suggestions- The role of enterprise annuities funds in the Chinese Social Security Speaker: Prof. Zheng Bingwen (Professor, President of the Research Center for World Social Security, Chinese Academy of Social Sciences)***

Prof. Zheng Bingwen introduces ten policy recommendations, yet he believes it will be very difficult to reach all of them, even in a decade.

#### 1) Auto-enrollment



The first policy is Introducing automatic enrollment mechanism. In 2016, when the draft of enterprise annuities was made, I introduced this suggestion, but at that time I was told that the new normal economy era was starting so it is not possible to have automatic enrollment, I believe if that was not the proper time it will never be the proper time to introduce this policy. If we lower the contribution both on employees and employer sides the second pillar and third pillars will also be compromised. The EU countries have not recognized the market economy of China, and the trade war between China and USA makes things even more serious. We can also borrow the reference of Richard Thaler, the recent recipient of the Nobel Prize in economics, which theory focuses on behavioral economics and on how to get people to stash away more money for their futures, clearly this theory can be a reference point also for the Chinese government.

Without the encouragement by the government of the auto-enrollment policy we can see that among 15 people only one is contributing, while in the US one in two people is participating, this means in the future the pension will only rely on the 1st pillar. China could look at the UK Pension Act for successful experiences, yet in Germany they have problems with the auto-enrollment system.

Enterprises should participate in the basic old age insurance by law and need to pay the contributions on time and in full. The collective bargaining mechanism has been established. The enterprise should be profitable. The internal governance of many small and medium-sized enterprises is not perfect.

#### 2) Appropriate release of individual investment options

The enterprise annuity adopts a defined contribution system, implementing the unified investment mode. The characteristic is that employees with different age groups are covered by a unified product plan. All the employees enjoy a relatively low rate of return. The products lack diversity and flexibility. In other words, in the absence of individual options, the rate of return can not be distinguished among different age groups.

The limited individual investment options can distinguish different investment periods of enterprise annuity, helping to separate the long-term investment funds. The long-term investment funds will be flown into the capital market, conducive to construct the capital market, reduce the market volatility and to curb the market speculation.

#### 3) Establish qualified default investment alternatives

This recommendation is also related to the previous policy suggestion. The introduction of TDFs can solve some existing problems of Chinese enterprise annuity funds. In this way, the short enterprise annuity fund management periods problem will be solved.

This measure can solve the problems of the frequent change of annuity assets and the imperfect assessment system. The problems that the single asset allocation cannot meet the employees' needs; the too many investment portfolios and inefficient investment can all be solved.

#### 4) Improve the tax incentive policy

Design tax threshold when employees begin to receive the annuity benefits. It is prudent to tax the investment incomes in the stage of receiving benefits. The preferential tax policy should be established when the enterprise annuities are changed into commercial annuity products. Raise the preferential tax rate from 5% to 8%.

#### 5) Cancel or Shorten the vesting period of enterprise contributions

The Measures on Enterprise Annuity issued on December 2017 provided that the employer can agree with the employees that the enterprise contributions and investment returns in the individual accounts belong to the individuals from the beginning, or they belong to individuals with working periods increasing. They completely belong to the individuals not exceeding 8 years.

Cancel or shorten the vesting period of enterprise contributions. If the employers' contributions entered into individual accounts and belong to individuals immediately, it is helpful for employees to participate in the enterprise annuity.

#### 6) Enlarge the investment choices of enterprise annuity funds

Enterprise annuity fund investment choices, such as equity investment and real estate investment, should be expanded. Enterprise annuity funds are allowed to participate in the trading of financial derivatives and form a diversified investment strategy.

It is suggested to increase the cap on equity investment and expand the investment choices of enterprise annuity and introduce overseas investment.

#### 7) Establish a free conversion mechanism between the second and the third pillar.

Building the transfer mechanism between the second and the third pillar contributes to meet the needs of personnel flows.

If employees in the micro and medium enterprises leave the company, they are allowed to change the assets into enterprise annuity accounts. Their account assets are allowed to investment by individuals' decision. The nature of individual account of the enterprise annuity can change with the identity of its holder.

#### 8) The regulatory system of pension management companies needs to be optimized.

China has established the first professional pension management company in 2015. The name is CCB Pension Management Co LTD. The pension management companies should be listed as an independent financial industry. The number of pension management companies should form a certain scale. More professional pension management companies should be established and compete in the market.

The pension management company should be a licensed asset management company.

#### 9) Establish an enterprise annuity IT system platform with Chinese characteristics.

There are three ways to establish a nationwide IT account system platform.

The relevant departments (such as tax institutions) are responsible to construct IT account system and the government provides necessary support for it. The investment and operation subject are partial public welfare institutions. Use the existing related resources to transform slightly with little input. We can make use of the securities registration and settlement system and insurance information technology management system, which have the ready-made platform.

Adopt government purchase method. We can select one IT service platform from existing enterprise annuity account management systems by bidding in the existing market.

10) Establish TEE tax exemption account.

The TEE tax-free account should be based on the tax system reform. The Capital gains tax is required. If the capital gains tax of security investment is absent, the TEE tax account of enterprise annuity and individual commercial old age insurance will be difficult to play the due role.

The transition of indirect tax to direct tax should be taken into consideration. China adopts the indirect tax system at present. The number of tax payers is too small. Therefore, if China implements the direct tax, more people will enjoy the tax preference policy.

It is necessary to promote the tax reform from sub-item income tax to the combination of itemized income tax and comprehensive income tax.

***Policy Recommendations and Suggestions- The role of public finance in the social security system - Speaker: Mr. Mel Cosuins (Social Protection International Expert)***

Looking at the table made by Zheng Bingwen, we can see the level of subsidies and the basic pension in rural and urban area, the level of subsidies has increased over time. The number of provinces have expenditures that are above their revenue. Prof. Dong has highlighted that “The urban pension fund balance mainly came from the sum of fiscal subsidies over the years”.

Furthermore, ‘financial subsidies have accounted for more than 70% of urban & rural residents pension income in the long term’. We can see at present that public subsidies are playing a major role in supporting the pension system. The pressure on pension scheme are going to increase with the population ageing.

As we have seen, China is facing the same demographic challenges as many other countries. In particular the most important issues are: the rising of ageing population and increased longevity; the falling of working population

Without radical changes elsewhere, demand for public subsidies is likely to increase in coming decades.

Approaches to subsidies are: 1) Pre-subsidising social funds (targeted/general); 2) Post-subsidising (targeted/deficit); 3) Subsidising a minimum benefit/pension; 4) Funding transitional costs.

As in EU countries, the main approach appears to be the post-subsidization (including transition costs).

The first recommendation is to develop explicit estimates of cost of pension & social insurance schemes (national & provincial). If we look at the EU, the EU Commission 'Ageing Report' (2018) looks at the long-run economic and fiscal implications of Europe's ageing population

([https://ec.europa.eu/info/publications/economy-finance/2018-ageing-report-economic-and-budgetary-projections-eu-member-states-2016-2070\\_en](https://ec.europa.eu/info/publications/economy-finance/2018-ageing-report-economic-and-budgetary-projections-eu-member-states-2016-2070_en))

The second recommendation is to analyse the full extent of existing subsidies. What is the rationale for the existing subsidies? Are they achieving their objectives in the most cost-effective manner? Are there more cost-effective approaches for the future?

Lessons from international experience: World Bank (2013) study on matching contributions found that directly subsidizing contributions does lead to an increase in participation in pension schemes (e.g. subsidizing contributions for Korean farmers). Studies of subsidisation of social insurance contributions from a labour market perspective - Nordic countries, Turkey, Korea - limited impact and often high deadweight.

For the deficit funding there are no evaluations.

Overall, looking at the EU experiences we found that the pre-subsidization has more positive effects, the post-subsidization, meaning paying the deficits has less advantages on the economic point of view, may reduce disincentives but only indirectly.

The third policy recommendation is to use funds and experiences (good/bad) from Chinese provinces to inform policy and support.

Ageing population will affect different provinces to a different extent. We can learn from the lessons from the Chinese experience: E.g. previous efforts to restore financial sustainability in North-eastern provinces. Noteworthy that all 3 provinces are currently in negative balance.

Looking at the central adjustment fund, Guó fǎ (2018), establishes a central adjustment fund to be funded by provinces. Payments in based on provincial average wage and number of covered employees. Payments out based on number of pensioners in the province. The impact will need to be monitored. It is important to provide positive incentives to provinces.

The fourth policy recommendation is to strengthen financial management expertise. Pension funds are large and expertise is required to manage both funds and deficits. The role of financial management expertise in Europe shows that, for example in the Swedish Pensions Funds: a specific investment fund and the mandate is to provide as high investment return as possible, while not taking undue risk.

According to the OECD review: 'high level of expertise and strong risk-management functions in place'.



## Session 2- Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system

### Policy Recommendations and Suggestions- Population Aging and Fiscal Sustainability of Social Security Speaker: Prof. Dong Keyong Professor, Renmin University P.R. China

Prof. Dong Keyong suggests five measures: Measure 1: Unified Taxes and Fees Collection System; Measure 2: Progressively Raising the Retirement Age; Measure 3: Advancing the Development of the Third Pillar; Measure 4: Reasonable Control of Medical Expenditure; Measure 5: Gradually Relaxing the Family Planning Policy.

Looking at the pension insurance, we can see there is a huge funding gap for the urban employees. In 2016, the number of subsidies reached 651.1 billion yuan. The fund balance (4 trillion yuan) almost came from the sum of fiscal subsidies over the years. Which means the personal accounts has operated in the status of “empty accounts” for a long time. It is predicted that the funding gap will be 7% of GDP and the accumulated funding gap will reach an all-time high of nearly 79% of GDP in 2050.

There is a heavy financial responsibility in the basic pension insurance for the urban and rural residents. The amount of subsidies has increased from 21.7 billion yuan in 2010 to 220.1 billion yuan in 2016, and financial subsidies have accounted for funds more than 70% of income in the long term. According to the calculation, in the worst case, the amount of expenditure that the government should bear for these two basic pension insurance systems will account for 8.19% of GDP, and the accumulated expenditure will exceed the total GDP of that year, accounting for 104% in 2050.

Looking at medical insurance and social assistance, population aging leads to a significant increase in medical expenditures. The total expenditure on medical insurance has been rising steadily year by year, and in 2016, it exceeded 600 billion yuan, accounting for 3.31% of the total financial expenditure. It is notable that the financial expenditure of basic medical insurance for urban and rural residents accounts for more than 70% of the total medical expenditure.

Furthermore, poverty alleviation task leads to an increase in social assistance expenditures. In order to complete the goal of alleviating poverty by 2020, revealed by Budget Department of the Ministry of Finance, the central government's special fund for poverty alleviation reached 86.1 billion yuan, an increase of 30.3% over the previous year. On the basis of the above, following are some policy recommendations.

#### Measure 1: Unified Taxes and Fees Collection System

After the third plenary session of the 19th central committee, the CPC central committee issued the “Plan for Deepening the Reform of the Party and State Organs”, which mentioned the need to combine state and local taxes and collect social security fees from the tax authorities. Then in July, the “Reform Plan of National Tax and Local Tax Collection and Management System” clarified that from January 1, 2019, basic pension insurance fees, basic medical insurance fees, unemployment insurance fees, work injury insurance fees, and maternity insurance fees will be collected by the tax authorities.



Effects: after social insurance fees are collected by the tax authorities and form the unified taxes and fees collection system, the capability of collection and administration will be improved significantly, this is expected to fundamentally solve the two big problems – low compliance rate and unclear payment base.

We analysed the current impact on funding gap (pension insurance for urban employees). According to the adjusted model, after the reform, the balance of pension for urban employees is positive until 2026. And the balance in 2050 is -23.44 trillion yuan, accounting for 5.71% of GDP, which is obvious lower than -29 trillion yuan and 7.07% of GDP before the reform.

We analysed the accumulated Impact on funding gap (pension insurance for urban employees). There is a more obvious impact of the reform on the accumulated balance. The accumulated balance of pension for urban employees is positive until 2032. And the accumulated balance in 2050 is -212 trillion yuan (114 trillion less than that before reform), accounting for 51.58% of GDP (28% lower than that before reform).

#### Measure 2: Progressively Raising the Retirement Age

In 2013, the “Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening Reform” pointed out: Study and formulate the scheme of progressively raising the retirement age. Then, the Ministry of Human Resources and Social Security stated that the scheme of progressively raising the retirement age will be open to the public in 2016 and will be officially launched in 2017. Five years after the launch of the program, it will be implemented gradually. However, due to various factors, the plan has not yet been implemented.

Effects: according to the design, women will be delayed by 1 year every 3 years, and men will be extended by 1 year every 6 years, and eventually reach the legal retirement age of 65. This means that for those who retired at the age of 60, their payment period will increase by 5 years while the treatment period will be reduced by 5 years.

We looked at the Current impact on funding gap (pension insurance for urban employees). After the reform, the pension will continue to receive more than it needs to spend by 2029, and then there will be a deficit of 10 trillion yuan in 2050, accounting for 2.47% of GDP in that year. They are far less than 29 trillion yuan and 7.07% of GDP before the reform.

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Looking at the accumulated Impact on funding gap (pension insurance for urban employees), after the reform, the accumulated balance of the fund will be positive by 2038, and then there will be a cumulative deficit, which will reach 71 trillion yuan in 2050, accounting for 17.31% of GDP. They are far less than 326 trillion yuan and 80% of GDP before the retirement reform.

#### Measure 3: Advancing the Development of the Third Pillar

There are three elements for the third pillar, the first is strong tax incentive from the government, the second is institutional design to make clear on the accounts for how much they have accumulated, the third is to have a multi-channel investment that promotes the maintenance and appreciation of the fund.

The pillar three in China has developed very recently, the suggestion is to create a platform where the 1st Pillar maintains base and improve fairness; The 3rd Pillar maintains sustainability and ease the fiscal pressure.

The system model centered on "individual account": set up individual account with unique identification; rely on multiple carriers to increase the coverage of the third pillar personal pension; rely on social security card to establish the 3rd pillar personal account information platform.

Design reasonable tax preference model: reasonably use the tax extension model of EET or TEE; set a reasonable preferential tax rate or quota; consider to open up the 2nd and 3rd pillar tax incentives.

Diversified participation in product and investment channels: consider banks, funds, insurance and other types of pension financial products into the selection range; consider to establish a product access system and default investment vehicle mechanism.

#### Measure 4: Reasonable Control of Medical Expenditure

Looking at the factors that affected the growth of medical expenditure: first one is the profit seeking behavior of hospitals, and the nature of safeguards leads to unreasonable expenditure and low efficiency, and finally the increase of elderly population in the Country.

Four recommendations are proposed:

- 1) Developing commercial medical insurance and establishing a multi-level medical insurance system;
- 2) Make policies and regulations more standardized to make sure the medical care can provide `basic medical services for all the people;
- 3) To establish third-party information platform to strengthen supervision, so we can monitor and analyze all the information we have collected;
- 4) Institutionalizing financial subsidies so they can play an effective role in the long-run.

#### Measure 5: Gradually Relaxing the Family Planning Policy

The two-child policy did not meet the expectations, fertility should be encouraged. The two-child policy was put forward in 2015 in China and implemented officially in 2016. The National bureau of statistics shows that the number of births in 2017 fell by 630,000 from 17.86 million in 2016. The birth rate in 2016 was 12.95 per thousand. It fell to 12.43 per thousand in 2017. Health and family planning commission (2015): "there are about 90 million couples eligible for the policy, and the birth population is expected to exceed 20 million".

Reality: the birth population never exceeded 18 million, lower than the national health and family planning commission's forecast for 2017-2021. Times change: personal choice replaces family responsibility. Pressure of life: High housing prices, high child-care costs, and intense social competition.

The birth policy has a significant lag on the adjustment of China's current population structure. Therefore, it is necessary to completely relax the family planning policy as soon as possible. In addition, we must learn from the practices of some developed countries to encourage fertility.

**Policy Recommendations and Suggestions- Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system: evidence from Europe - Speaker: Ms. Linda Sokačová<sup>1</sup> Director, Department of Family and Ageing Policies, Ministry for Labour and Social Affairs of the Czech Republic**

Ms. Sokačová suggests putting ageing at the core of the social and family policies: leaders and experts understand ageing as a process and priority in policy planning. Ageing has impact on families and institutions - health care services, social services. Ageing is challenge, not just a threat and negative trend. Having a more positive impact is important to increase life expectancy and quality of life together.

1) The first suggestion is to have evidence-based policy: we all think something, but is it based on facts and reality? To prepare quality strategy/ concept on ageing you need to have statistics, case studies, evidence from experts, academics, politicians etc. Prepare quantitative analyses, find data on ageing, on demographic progress; elaborate future probable trends which could affect sustainability of society; prepare qualitative analyses on ageing and case studies.

To prepare more sustainable policies you need to know the structure of core professions in the society. What is the demographical structure of teachers in our country? Do we have enough teachers and how long will we have enough teachers for our children and youngsters? What is the demographical structure of medical stuff and doctors in our country? Do we have enough of them and how long will we have enough of them? What is the demographical structure of people who care for elderly people with disabilities? Do we have enough of them and how long will we have enough of them?

Discuss: What are the most challenging professions in the scope of ageing in our country?

2) The second suggestion is to establish a Network

You need information from national, regional and local level. You need information from different actors: hospitals, universities, public administration etc. The government could set up expert/ working groups to gain data, knowledge and suggestions on activities.

In the Czech Republic there is a special advisory body for the Czech government for the ageing topic, that provides information from national level to regional and local level.

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<sup>1</sup> Ms. Linda Sokačová could not attend the workshop, Mr. Bruni presented her power point PPT.

Study case studies and examples from other countries, you can identify useful tools and activities, adapt them for your environment.

Discuss: Who do you find important to cooperate with? Who you cannot miss?

3) The third recommendation is to start the elaboration of your strategy on ageing. If you have enough information and inputs, start to draft strategy on ageing. Basic points are: 1. What level do you want to address? – national, regional, local. 2. Who do you want to address? – government, regional governments, employers, institutions, citizens? 3. What do you want to achieve? – change in society, change in thinking, change in policies? 4. What period you want to cover? – is it one year or five year strategy?

Start elaboration of your strategy on ageing: Draft main mission/ vision of your strategy. First you need to know, what areas you want to cover: just one or more? Do you want to focus on the healthcare, social policies, transport, education etc. or all of them?

Czech strategy on ageing covers more areas: it starts with social services, health care, education, volunteering, but also human dignity, generation solidarity, provisions for families etc. It is roadmap for the ageing policies in the Czech Republic.

Define main aims and measures: ageing has impact almost on all areas of the society. Healthcare: to stabilize national finance you need to provide healthy life style, prevention and early care. Transportation: elderly people and people with disabilities require accessible transport vehicles and environment. Social policies: to stabilize national finance you need to have in balance family care and social services, financial support (allowances) and services. Education: long-life learning, special education for retired people (universities of the third age). Safety: elderly people are more vulnerable to criminality etc., they feel also less safely than younger generations. Employment: for sustainable society and economy you need to have sustainable and diverse work force covering young employees and employees with experience.

You need to attract enough people and use talent of all members in the society, it means workplace without discrimination and age stereotypes. You need places where more experienced and older workers can transfer their knowledge and experience to younger ones. Younger workers can teach the older ones in new technologies, new procedures etc.

You also need to balance younger and older workers on the labour market by setting the retirement age, as well as the conditions for work in retirement age.

Discuss: Do our society need to set up age in which people need to obligatory leave labour market? Do we have barriers on the labour market for young and for older people?

4) Focus on Health and social care: family care

For sustainable systems you need to focus not only on care, but also on prevention and preventive programmes. Important decisions: do you want to support mainly family care or institutional care and services?

Health and social care are very difficult tasks for families. If you choose to support mostly family care, you need to take into account that it affects their work life. People who care on the daily basis cannot be on the labour market – you need to prepare special allowances (if you want to secure basic economic position and human dignity).

Family care affects in most countries women who are primary responsible for family care. Family care requires professional support from psychologists, medical experts etc. Care is difficult, it can bring problems to people who are cared for and also for informal carers. Psychological support prevents domestic violence. Institutional care and social services: If you choose family type of social care you can make life of family carers easier by combining it with institutional care: state/ regions/ municipalities provide daily/ weekly care centres or field services – social workers support family carers in their natural environment.

Social workers or professional carers can also provide care instead of family members during work week at home or in special centres. People with disabilities can be cared for in special care and senior houses (it is called social services in the Czech Republic and in Europe).

Discuss: what services do we offer for elderly people? Do we provide them financial provisions?

Care allowance: people with disabilities in the Czech Republic who acquire medical certificate are entitled to special care allowance. It differs on the basis of the degree of disability. This money can be used for professional care or for family members who informally care in the household.

People can decide what type of care they want, they are not forced to use institutional care, they can use care allowance or whatever costs they need. It is quite costly allowance, it does not cover health and social insurance for informal/ family carers – they are without any social security. The position of family carers is very important.

Discuss: What will carers do after the care ends? What are consequences for them in the society?

### 5) Focus on education, environment, safety

Longer life means need to learn new things, change work areas and deepen knowledge. Society must focus on lifelong learning programmes on and outside workplace.

Czech universities offer to senior people the so called „universities of the third age“. These programmes target retired people, senior students attend university courses, acquire diploma. They are not entitled to use this diploma on the labour market. It is more preventive and social programme for seniors.

Cities and towns need to adapt on the demographic changes. Investments into accessible environment (transport, public buildings, railway stations etc.) are required. Politicians and public officials need to focus on safety of elderly people. They are more vulnerable to criminality – violence and also thefts.

Their subjective feeling of safety is lower than by younger generations. Older people make more complaints and are more sensitive towards new trends in society which they perceive very often as negative.

In many European countries, criminality affecting senior people is perceived as more serious criminal offence. In the Czech Republic municipalities invest into prevention programmes – special travel trips for senior people for the purpose of socializing, prevention of loneliness.

### **Round Table Discussion**

Prof. Klaus F. Zimmermann: We need also to understand that ageing means that people will work longer, making people living longer in a healthy way is also a good solution (before considering immigration).

Jean Victor Gruat: when we talk about the cost of social security we know that the discussion of the higher cost for enterprise is as old as social security is, we cannot look for savings and make the elderly have less income, we must to know that if the elderly become poor the whole system will collapse. The second point is that we are dealing with people, you may have a very good system, but you have to listen to what people are concerned about, in Europe this is often not the case. One should also be conscious about common ideas, and one of this I believe is increasing actual retirement age, in fact the system should be careful on this regard.

Finally, I suggest China to use and expand the reference, besides UK and USA, for example looking at EU there are reports on of adequacy of pension, occupation, UN joint pension fund, etc.

It is not because the structure exists somewhere that it is right, the more important is why these have been introduced, to what extent are these important, I have produced a report that looks through this point.

We should also look at the active ageing, the project sponsored a research on active ageing Index in China, the report should be finalized in a couple of week and will be available on the project website.

Prof. Li Zhen: 1) I agree with prof Zheng and Dong as their views are in line with the mainstream approach on the development of pension system, but the problem is that the Chinese situation is difficult, the second pillar is the employee pillar, besides the employees there are other groups we should consider. Maybe some people received too many incentives, others are not covered at all.

2) enterprise annuity: we should introduce the auto-enrollment mechanism this would be good to increase participation, yet in this system people will have to contribute more to the social security system and this is opposite of what the government wants to do. In China the enterprise annuities are mainly fully funded DC plan, but we do not have evidence saying DC plans are better than BC plans.

3) we should unify all the parameters of the contribution base, but there will be other problems after the unification of all the parameters for all China, due to regional differences.

Ms. Marzena Breza: The EU is looking at the demographic change linked to ageing, there is no one solution in the raising number of all ageing people, you should look at the different groups and needs. Ageing support very often comes from working age people, the focus should be made on care services for elderly people, so that the working age population, especially women that have the moral obligation for taking care of the elderly and children, we need to include in the issue also the development of elderly care

services, and kindergarten services. Speaking about financial sustainability in term of ageing, the focus should also be human resources, lack of staff, professionalization of staff, skilled workers and professionals can also have a financial impact on sustainability.

### **SESSION 3: Social contribution collections: toward a unified system**

**Policy Recommendations and Suggestions- Social contribution collections: toward a unified system, Speaker: Ms. Liu Baihui, Chinese Academy of Social Sciences, National Academy of Economic Strategy, Associate Research Fellow**

Reform background: the "Deepening the Party and State Institutional Reform Program" ended the controversy that lasted for nearly 20 years. Since 2019, the taxation department will uniformly collect social insurance contributions.

Complex situations: the two reforms, unifying collection of social insurance contributions and merger of the state and local tax bureaus, are intertwined and need to be systematically promoted. It is generally worrying that the reform will bring about an increase in the actual social insurance rate, which will greatly increase the social insurance burden and labor costs, leading to enterprise failure and unemployment.

Specific issues to be resolved in the reform: the taxation department's collection efforts may increase dramatically. How to balance the interests of the enterprise and the interests of the insured in a short period of time and achieve a smooth transition?

The collection of social insurance contribution is closely linked to the provision of social insurance benefits and is special compared with general taxation. How does the taxation department respond? How to coordinate the cooperation between the taxation department and the social security agency?

The social insurance system still has problems such as fragmentation, high contribution rate, etc. How to use this reform to further improve the social security system?

The expert suggests the following policy recommendations.

1. Steadily Promote the Transfer during the transition period: the huge gap between the status quo and the ideal state of the collection and management.

In 2017, fully compliant enterprises accounted for only 24.1%; 22.9% of enterprises paid at the lowest contribution base. If enterprises are required to transit from the current status to the complete "in accordance with the law", the affordability of enterprises should be considered. Follow the Idea of "seek improvement in stability"

Define transitional policies. Avoid excessive increase in enterprise social insurance contribution and stabilize the actual social insurance burden.



Stabilize society's expectations. The efficiency improvement of the collection and management will not lead to a rapid increase in actual burden. Steadily promote the basic works such as integration of social insurance information of enterprises and lay a solid foundation for improving the efficiency of collection and management.

## 2. Determine the Reform Order of Various Social Insurance Programs

Five insurances for urban workers (pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance). Taking province as unit, the areas currently partly collected by the taxation department will be fully transferred in early 2019.

The areas currently fully collected by the social security department can be appropriately delayed to the end of 2019. The areas that have been fully collected by the taxation department should continue to improve the relevant systems, especially strengthen coordination with the social security department.

Social insurance programs that are voluntarily insured or do not involve income screening (Mainly refers to resident pension insurance, resident medical insurance, etc.). Fully collected by taxation department can realize the registration information processing integration of all types of insurances. Facilitate the flow of information between the taxation department and social security agencies.

## 3. Construct Exchange and Cooperation Platform of Departments of Social Security, Taxation, and Public Finance

Advance the establishment of a governance model of "taxation department collect, public finance department coordinate, social security department expend, and public supervision".

The coordination costs between departments are inevitable in public sector, and it is necessary to alleviate it relying on regime and technologies. The internal incentive and restraint mechanism is important, but external regulatory constraints are more important.

Establish negotiation mechanism for major decisions between different departments.

Strengthen the construction of informatization. Based on the taxation department's "Golden Tax Phase III", a comprehensive information platform of provincial, municipal and county levels should be built. Jointly formulate collection methods to promote the streamlined and standardized management of collecting process. On the basis of no technical barriers to information flow, a mechanism for interdepartmental communication and separation of powers should be achieved.

## 4. Strengthen Capacity Building of Taxation Department in Fully Collecting Social Insurance Contribution

Establish collection agency in taxation department responsible for the handling of social insurance policy information and insured information. Carry out social insurance policy learning and training activities in taxation department.

## 5. Formulate Policies to Reduce the Social Insurance Burden

China's social insurance rate is relatively high, and most are born by enterprises. The fully collection by taxation department will promote the expansion of insurance coverage and make the contribution base real, effectively improving the actual collection result. This will substantially increase the burden given the constant contribution rate and contribution base.

Collection and management system changes should be linked with the adjustment of the social insurance contribution policies to balance the interests of the insured, the government's financial pressure and the burden of the enterprise.

On the basis of actuarial balance, the statutory contribution rate of social insurance should be reduced to ensure that the social insurance total income grows normally rather than excessively.

The national unified social insurance contribution base should be gradually realized. Set the lower limit of the contribution base to 60% of the average social wage including of the private sector.

The social insurance participation rate of small-and-medium-sized enterprises is low, and a considerable part of the employees are migrant workers. Special policies may be considered to avoid overburden.

#### 6. Improve Social Insurance Pooling Level and Crack “Fragmentation”

The full collection by taxation department can achieve provincial-level pooling at least in the two key links of income collection and participation information grasping. National pooling can be achieved with the promotion of the merger of state and local tax bureaus.

After the reform, the unification of contribution policies in various regions should be promoted as soon as possible. Finally, pension insurance and work injury insurance for employees should be national pooling, medical insurance (including maternity insurance) and unemployment insurance should realize provincial or municipal pooling.

#### **Policy Recommendations and Suggestions- Social contribution collections: toward a unified system, experiences from the EU - Speaker: Mel Cosuins Social Protection International Expert**

The current approach is a mixed approach – some provinces use tax administration, others social insurance agency. Less than optimal outcomes in terms of SI collection, e.g. collection base not realistic; high nominal rate; less than full coverage, etc.

In 2018, the CPC Central Committee issued an Institutional Reform Plan to increase the efficiency of social insurance collection and administration, all social insurance premiums shall be levied by the tax department.

The Plan has been adopted by the National People's Congress. Tax department should be responsible for the collection of social insurance premiums at provincial level.

The challenge to implement this decision: as we saw in the June workshop, several EU countries (e.g. UK, Netherlands) have moved from collection by social insurance agency to tax administrations. These experiences can help to inform the Chinese situation, as can best practice in other provinces

Integration of collection: the goal of integration should be to achieve the best possible revenue collection performance; commonality of core processes; efficient use of resources/efficiency savings; compliance cost reduction – reduce burden on employers/self-employed; better compliance – reduced evasion.

Looking at the issues and risks of the integration: Readiness of tax administration to implement; Need for political leadership; Implementation timetables; Need for clear understanding by all key partners; Legal harmonization

Integration- key recommendations: integration needs to be supported at different levels: political/government, legislation, finance, human resources, IT.

- Need for cross government approach & political leadership at central & provincial level
- Clear plan with timelines - what needs to be done, who will do it & when
- Clear delineation of roles, both in transfer and in future, e.g. who will deal with decisions as to coverage, appeals, complaints
- Performance standards for tax authority (and SI agency), e.g. deadlines for providing data, transferring money
- Adequate resourcing, both in human resources and IT resources
- While integration will lead to staff savings in the medium term, any reductions need to be clearly planned and reflect needs
- Strong project management & interagency coordination
- IT, electronic exchange of data/data matching, MIS, data mining, etc.
- Active policies to support compliance, e.g. call centres,
- Simplification of collection process, e.g. reducing and simplifying forms
- Risk-based enforcement (linked to IT analysis)

Further reference: ISSA Guidelines – Contribution collection and Compliance

### Round Table Discussion

Prof. Hu Jiye: Thanks to the great presentation by Ms. Liu, and especially for the operational recommendations on how to implement the new policy in the directions proposed by Li Keqiang. I agree with the coordination mechanism suggested by Ms. Liu. Setting up a communication and integration

mechanism among various agencies is very important, with the migration of data and of people, I agree that a consultation mechanism among various agencies should be established. The suggestion of improving the capacity building of the tax authorities is also very necessary. Breaking the fragmentation of SSC is a basic point.

Thanks for Mr. Cousins' contribution, we learned a lot from EU experience. The laws and the regulation related to the SS collection should be the starting point, we may revise the law in the future or have new laws regarding the coordination among the authorities. Finally, the establishment of a platform for SSC collection must also be considered, in particular to better define the role of the various stakeholders involved.

### **Closing remarks by MoF**

Mr. Di closes the Workshop by thanking all the experts for the good presentation and all the participants for their contribution to the success of this event.

On behalf of the Social Security Department of MoF, Mr. Di also extends his thanks to all the guests that have participated to the historic workshops and panel discussions of the Component 2. Secondly, since the kick off of the project in 2015 MoF representatives are very satisfied with the C2 project achievements, this could only be done thanks to the support of Mr. Bruni and the project team. Mr. Di also feels sad for the ending of the project. In the past 3 years of cooperation with the project, MoF has established long lasting friendships with the project members and experts that will go beyond the end of the project.

Finally, Mr. Di wishes that the experts can still contribute to and support the future policy development.



*Prepared by*  
*EU-China SPRP Component 2 Assistant*  
*Valentina Pignotti*



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

## **Component 2**

### **2018 Workshop**

**Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system**

**Social contribution collections: toward a unified system**

**The role of public finance and enterprise annuities funds in the Chinese social security system**

**Ministry of Finance, P. R. China**

中华人民共和国财政部

Friday, 12 October 2018

2018年10月12日, 星期五

**Venue:** Jindiya Hotel-second floor conference room

5 Sanlihe N St, Xicheng Qu, Beijing

地点: 金帝雅宾馆,二楼会议厅长和厅,

北京市西城区三里河月坛南街北边

AGENDA 日程	
<b>9:00-9:30</b>	<b>签到 Registration</b>
<p><b>第一场：企业年金在中国社保制度中的作用</b></p> <p><b>SESSION 1: The role of enterprise annuities funds in the Chinese social security system</b></p> <p>主持人: 李珍 (中国人民大学, 社会保障研究所所长)</p> <p>Moderator: Prof. Li Zhen (Director of Social Security Research Institute, Renmin University of China)</p>	
<b>9:30-9:45</b>	<p>欢迎致辞:</p> <ul style="list-style-type: none"> <li>◆ 符金陵 先生 (财政部社保司巡视员) / 邸东辉 先生 (财政部社保司制度精算处处长)</li> <li>◆ 米凯乐·布鲁尼 先生 (中欧社保改革项目第二部分常驻专家)</li> </ul> <p>Welcome Speeches:</p> <ul style="list-style-type: none"> <li>◆ <b>Mr. Fu Jinling</b> (Director General, Department of Social Security, Ministry of Finance)/<b>Mr. Di Donghui</b> (Division Director, Actuarial Division, Department of Social Security, Ministry of Finance)</li> <li>◆ <b>Mr. Michele Bruni</b> (EU-China SPRP, Team Leader-C2 Resident Expert)</li> </ul>
<b>9:45-10:15</b>	<p><b>主题发言1: 政策建议— 即企业年金在中国社会保障制度中的作用</b></p> <p>发言人: 郑秉文 教授 中国社科院美国研究所教授, 博士生导师, 中国社科院世界社保研究中心主任</p> <p><b>Keynote 1: Policy Recommendations and Suggestions- The role of enterprise annuities funds in the Chinese Social Security</b> Speaker: <b>Prof. Zheng Bingwen</b> (Professor, President of the Research Center for World Social Security, Chinese Academy of Social Sciences)</p>
<b>10:15-10:45</b>	<p><b>主题发言 2: 政策建议—公共财政在社保制度中的作用</b></p> <p>发言人: 梅恪行 先生 国际社保专家</p> <p><b>Keynote 2: Policy Recommendations and Suggestions- The role of public finance in the social security system -</b> Speaker: <b>Mr. Mel Cosuins</b> (Social Protection International Expert)</p>
<b>10:45-11:00</b>	<b>茶歇 Coffee break</b>



<p><b>第二场: 人口老龄化背景下社保制度财务可持续性政策应对办法</b></p> <p><b>SESSION 2: Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system</b></p> <p>主持人: 李珍 (中国人民大学, 社会保障研究所所长)</p> <p>Moderator: Prof. Li Zhen (Director of Social Security Research Institute, Renmin University of China)</p>	
11:00-11:30	<p><b>主题发言3: 政策建议—人口老龄化与社会保障财政可持续性</b></p> <p>发言人: 董克用 教授 中国人民大学教授</p> <p><b>Keynote 3: Policy Recommendations and Suggestions- Population Aging and Fiscal Sustainability of Social Security</b> Speaker: <b>Prof. Dong Keyong</b> Professor, Renmin University P.R. China</p>
11:30-12:00	<p><b>主题发言4: 政策建议—人口老龄化背景下社保制度财务可持续性政策应对办法: 欧洲经验</b></p> <p>发言人: 琳达·索卡科瓦 捷克劳动与社会事务部家庭与老龄化政策司, 主管</p> <p><b>Keynote 4: Policy Recommendations and Suggestions- Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system: evidence from Europe -</b> Speaker: <b>Ms. Linda Sokačová</b> Director, Department of Family and Ageing Policies, Ministry for Labour and Social Affairs of the Czech Republic</p>
12:00-12:30	<b>圆桌讨论 Round Table Discussion</b>
12:30-13:30	<b>午餐 Lunch break</b>
<p><b>第3场: 社保缴费征集的制度统一</b></p> <p><b>SESSION 3: Social contribution collections: toward a unified system</b></p> <p>Moderator: Prof. Hu Jiye (Director, School of Business, Department of Capital Finance, China University of Political Science and Law)</p> <p>主持人: 胡继晔 教授</p> <p>(中国政法大学资本金融系主任)</p>	
13:30-14:00	<b>主题发言 5: 政策建议—社保缴费征集的制度统一</b>

	<p>发言人：刘柏惠 女士 副研究员，中国社科院财经战略研究院</p> <p>Keynote 5: Policy Recommendations and Suggestions- Social contribution collections: toward a unified system, Speaker: Ms. Liu Baihui, Chinese Academy of Social Sciences, National Academy of Economic Strategy, Associate Research Fellow</p>
14:00-14:30	<p>主题发言 6: 政策建议—社保缴费征集的制度统一：欧洲经验</p> <p>发言人：梅恪行 先生 国际社保专家</p> <p>Keynote 6: Policy Recommendations and Suggestions- Social contribution collections: toward a unified system, experiences from the EU - Speaker: Mel Cosuins Social Protection International Expert</p>
14:30-15:00	<p>圆桌讨论 Round Table Discussion</p>
15:00-15:20	<p>财政部总结发言</p> <p>Closing remarks by MoF</p>

**List of participants**  
**EU-China Social Protection Reform Project**  
**Component 2**  
**2018 Workshop**

参会名单  
 中国欧盟社会保障改革项目  
 第二部分  
 2018 年研讨会

No 序号	Name of the participants 姓名	Institution/organization 机构/组织
<b>Ministry of Finance 财政部</b>		
1.	符金陵 Fu Jinling	社会保障司巡视员 Director General, Department of Social Security, Ministry of Finance
2.	邱东辉 Mr. Di Donghui	财政部社会保障司制度精算处处长 Division Director, Actuarial Division, Social Security Department
3.	李岩 Mr. Li Yan	财政部社会保障司制度精算处主任科员 Principal Staff Member, Actuarial Division, Social Security Department
<b>Chinese Experts 中方专家学者</b>		
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5.	李珍教授 Prof. Li Zhen	中国人民大学, 社会保障研究所所长 Director of Social Security Research Institute, Renmin University of China
6.	董克用 教授 Prof. Dong Keyong	中国人民大学教授 Professor, Renmin University of China
7.	刘柏惠 教授 Prof. Liu Baihui	中国社会科学院财金战略研究院副研究员 Associate Research Fellow, Chinese Academy of Social Sciences, National Academy of Economic Strategy
8.	刘桂莲 教授 Prof. Liu Guilian	助理教授, 首都师范大学 Assistant Professor, Capital Normal University

9.	胡继晔 教授 Prof. Hu Jiye	中国政法大学资本金融系主任 Director, School of Business, Department of Capital Finance, China University of Political Science and Law
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10.	Mr. Mel Cousins 梅恪行	International Social Protection Expert 国际社保专家
11.	Prof. Michele Bruni 米凯尔·布鲁尼	EU Resident Expert Component 2/Team Leader, EU-CHINA SPRP 中国—欧盟社会保障改革项目第二部分欧方常驻专家 / 项目领导人
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