

# Diagnosis & Baseline Data

## Project Component 2

Support to strengthen MoF institutional capacity

for the development and implementation of social protection reforms

(Macro-activity 0.1)



**Social Protection Reform Project**  
**中国-欧盟社会保护改革项目**

Beijing, May 2015

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# Diagnosis & Baseline Report on China's Pension and Health Insurance System

The EU-China Social protection project Grant application form provides that “*After the setting up of the Office in Beijing, the Resident Experts, in collaboration with the three Component Coordinators and the Project Leader, will (...) establish a brief diagnosis of the situation and define the baseline*”. The present document responds to this requirement as far as Component 2 is concerned. The topics to be covered under Component 2 of the project are mainly related to pension and health insurance system – hence the focus on such schemes in the Diagnosis and Baseline hereafter provided.

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## 1. Introduction

With great transformation of China's society and economy since 1980s, China's social security has gradually reformed to a comprehensive system to protect people's basic living standard in case of retirement, disease, unemployment and accident. Currently, China's social security system is mainly composed of three parts: social insurance, social assistance and social welfare. Social insurance, including public pension, health insurance, unemployment insurance, work injury insurance and maternity insurance, is the main part since it covers majority of the people, especially for public pension and health insurance. By the end of 2013, public pension had covered 80% of the total population (820 million people) and health insurance had covered more than 95% of the total population (1.3 billion people). Social Insurance Act issued in October 2010 symbolized the legalization process of China's social security system. Chinese government has launched “National Insurance Registration Program” since July 2014, meaning that it is on the way to the age of “Universal Social Security”. By continuous reform and innovation, China has constructed comprehensive social security system that covers both urban and rural citizens with world renowned progress in terms of complete programs.

However, China's social security system faces challenges in the societal and economic environment. Ageing population has become increasingly severe since the past two decades. The number of people over the age of 60 reached 202 million, constituting 14.8% of the population, and it is projected to enter the peak of ageing period by 2030, when the ageing degree of China will exceed the world's average level. Considering this background, the supporting ratio of working generation to retired generation will decrease from current 3:1 to 1.3:1 in the ageing peak period, which will exert negative impact on pension fund and health insurance fund. Moreover, under “New Normal” situation, contribution of social security is influenced negatively owing to slowdown in economic growth and adjustment of economic structure. Besides, with the rapid development of urbanization, it is very hard for floating population (migrant workers) to get portable and sufficient pension fund or health insurance. Fragmented management also leads to inefficiency and financial cost.

This baseline report will focus on China's pension and health insurance system, describing relevant policies for specified groups and making a brief analysis of the status quo.

## **2. Pension System**

Currently there are two kinds of pension systems for specified groups. For urban employees, they usually have public pension as first pillar and occupational pension as voluntary second pillar; while urban and rural residents only have public pensions supported by finance as their first pillar.

### **2.1 Urban Employees**

#### **2.1.1 History and Latest Reform**

In 1997, the Chinese government established Public Pension Insurance for Urban Employees working in enterprises and then extended it throughout cities and towns nationally. It is a hybrid system, consisting of social pooling and individual account, designed to make a combination of "efficiency" and "equity". In the 1990s, China reflected on "egalitarian" values in the planned economy era, while the values of the German social insurance, Neo-liberalism, the "three pillar scheme" proposal by World Bank as well as the success of the privatization of social security in Chile, and Singapore funded system all had relevant influence on China's policy makers. Since 2005, self-employees and flexible working individuals have been covered by the public system. The other separating pension system in urban area, public pension for civil servants, has merged into the Public Pension Insurance for Urban Employees since January 2015.

Besides policies designed for first pillar pension, urban employees also have occupational pension as their second voluntary pillar. Occupational pension first appeared as "supplementary old-age insurance" for enterprise employees in 1990s and in 2004, regulation for enterprise occupational pension was on trial, and civil servants will have their occupational pension from 2015.

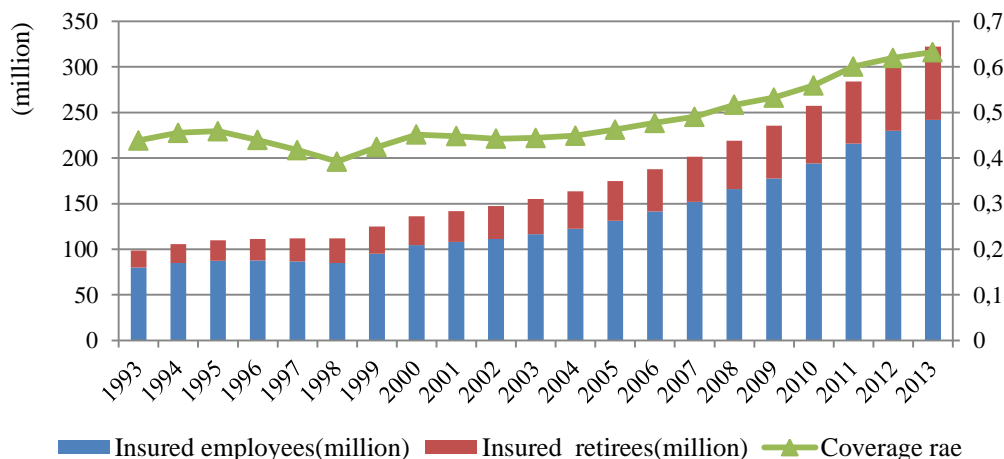
#### **2.1.2 Status quo**

##### **◆ First Pillar Public Pension**

Public pension for urban employees has been playing a very important role in China. First, it has secured multi-ownership of economic structure during great transformation from planned economy to market economy. Second, it has played the role as a social stabilizer during the reforming period of state-owned enterprises. Third, it has created a multi-responsibility sharing mechanism to alleviate financial risk of government. Last but not the least, social insurance has important significance to labor flow. Several indicators are listed as follows to reflect the status quo.

- Coverage mingled with hope and fear

China has achieved great progress towards the goal of "wide coverage". Since 1993, the number of insured employees and retirees has increased dramatically and the coverage rate has ascended from 40% to 63% in 2013. However, the statistical number is overestimated because migrant workers are included in the insured group while excluded from urban citizens because of lack of *hukou*. Besides, there are not a few people participating into the pension with low contribution density which will lead to long-term problems.



**Figure 1. Coverage Rate of Public Pension for Urban Employees (1993-2013)**

Source: Statistical Yearbook of China

- Benefit Level

From 1997 to 2013, the total payment of pension fund increased rapidly from 125 billion to 1847 billion but replacement rate of public pension benefit to social average salary of urban employees dropped gradually from 76% in 1997 to 44% in 2013. Although Chinese government has adjusted benefit level year by year, replacement rate is still too low to sustain basic living standard for some urban employees.

- Pension fund and financial subsidy

In the recent decade, gross revenue of public pension fund, composed of contribution revenue, interest revenue & others, and financial subsidies, increased continuously from 248.9 billion in 2001 to 2268 billion in 2013. Meanwhile, gross expenditure of pension fund grew with high speed of around 20%, exceeding growth rate of revenue in 2009, 2010, 2012 and 2013.

**Table1. Revenue and Expenditure of Public Pension Fund for Urban Employees (100 million)**

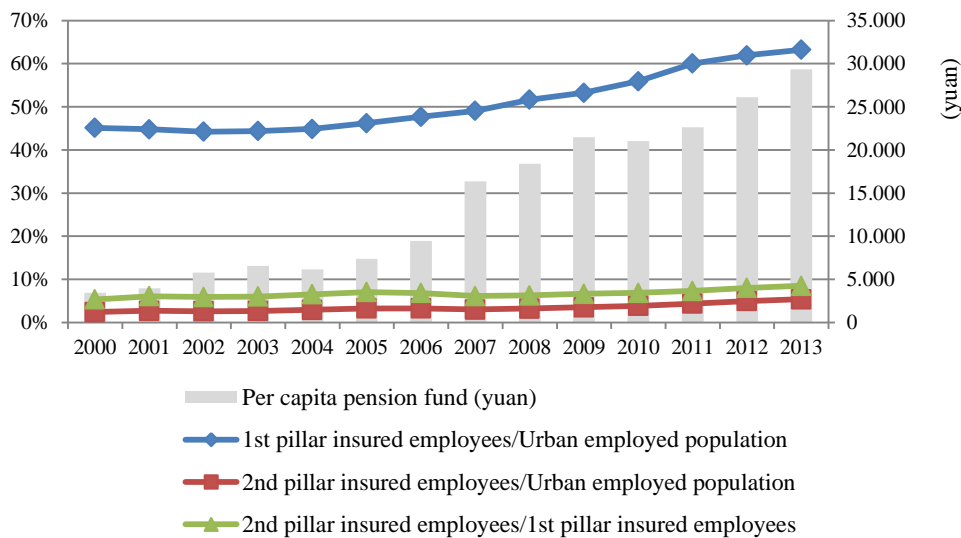
Year	Gross revenue	Growth rate of gross revenue	Contribution revenue	Interest & other revenue	Financial subsidies	Gross expenditure	Growth rate of gross expenditure	Cumulative balances
2001	2489	9.26%	—	—	—	2321	9.74%	1054
2002	3171.5	27.42%	2551.4	211.9	408.2	2842.9	22.49%	1608
2003	3680	16.03%	3044	106	530	3122	9.82%	2207
2004	4258	15.71%	3585	59	614	3502	12.17%	2975
2005	5093	19.61%	4312	130	651	4040	15.36%	4041
2006	6310	23.90%	5215	124	971	4897	21.21%	5489
2007	7834	24.15%	6494	183	1157	5965	21.81%	7391
2008	9740	24.33%	8016	287	1437	7390	23.89%	9931
2009	11491	17.98%	9534	311	1646	8894	20.35%	12526
2010	13420	16.79%	11110	356	1954	10555	18.68%	15365
2011	16895	25.89%	13956	667	2272	12765	20.94%	19497
2012	20001	18.38%	16467	886	2648	15562	21.91%	23941
2013	22680	13.4%	18634	1027	3019	18470	18.69%	28269

Source: Statistical Yearbook of China, MOHRSS Bulletins on Social Security Development

◆ Second Pillar Private Pension



The voluntary second pillar is underdeveloped in China. The participation rate of second pillar voluntary pension (below 10%) was much less than that of first pillar pension (over 60%) in 2013. There were only around 29348 yuan per capita pension fund accumulated and 66120 enterprises involved in the occupational pension system in 2013.



**Figure 2 Participation and Pension Fund Accumulation of Second Pillar Pension in China**  
Source: [http://www.cn pension.net/index\\_lm](http://www.cn pension.net/index_lm)

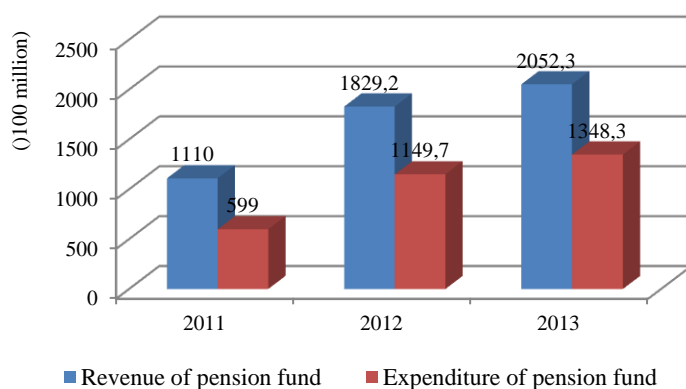
## 2.2 Urban and Rural Residents

### 2.2.1 Background

Public Pension for Rural Residents (established in 2009) and Public Pension for Urban Residents (initiated in 2011) have integrated into a uniform system called “Public Pension for Urban and Rural Residents” since 2014. The structure of the system is nearly the same as urban employees’, with combination of social pooling and individual account, but contribution mainly comes from financial support.

### 2.2.2 Status quo

The number of urban and rural residents involved in the public pension system increased gradually



from 331.8 million in 2011 to 497.5 million (with 137.7million pensioners) in 2013. Both revenue and expenditure of public pension fund for urban and rural residents has kept rising continuously since 2011 but with rather slow growth rate in the recent years (see Figure 3). By the end of 2013, over 300 billion yuan pension fund has been accumulated.

**Figure 3. Revenue and expenditure of public pension fund for urban & rural employees (2011-2013)**

### 3. Health Insurance System

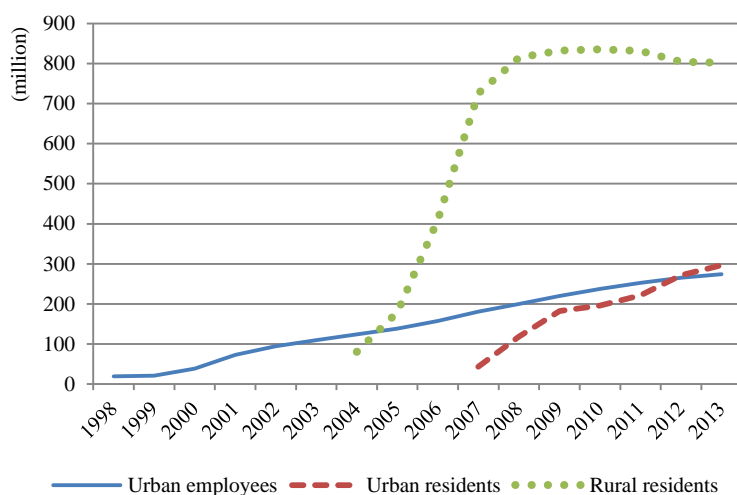
#### 3.1 Background

There are three major kinds of basic health insurance systems in China targeted in specified groups. They are basic health insurance for urban employees established in 1998, new rural cooperative medical system set up in 2003 and basic health insurance for urban residents built in 2007. Public health insurance for civil servants is gradually phased out and becoming merged into basic health insurance for urban employees. For urban employees, individuals and enterprises contribute 2% and 6% of their monthly wages accordingly to health insurance, whereas urban and rural residents will get large amount of financial subsidies from central and local government. All the insured could be covered by service-package within three basic medical lists.

#### 3.2 Status quo

- Coverage

All the three main health insurance systems have experienced rapid development since their foundation. The number of people participating in the health insurance for urban employees



increased from 18.7 million to over 274 million between 1998 and 2013. From 2004 to 2013, the number of insured rural residents increased dramatically from 80 million to 802 million. The number of insured urban residents also grew steadily from 42.9 million in 2007 to 296.3 million in 2013. Up to now, there are more than 95% of the entire populations covered by basic health insurance, excluding repeated insured people.

**Figure 4. Number of participants of the three basic health insurance**

Source: Statistical Yearbook of China

- Funding and reimbursement

With regard to funding, per capita funding level for urban residents and rural residents was 401 yuan and 370.6 yuan respectively in 2013, only constituting 15.6% and 14.4% of urban employees' funding level (2573 yuan). There was a huge gap between urban employees and urban & rural residents in funding level during the past decade (see Figure 5).

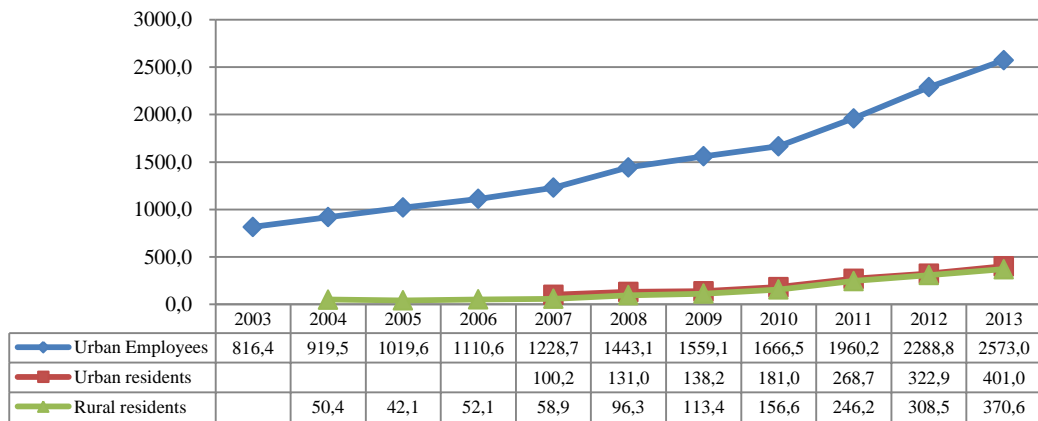


Figure 5. Per capita funding of basic health insurance systems

A substantial proportion of health insurance fund for urban and rural residents come from financial subsidies. In 2014, there was 302.5 billion health insurance fund for rural residents collected in total, among which 245.3 billion (81%) came from financial subsidies, only 53.5 billion (17%) came from personal contribution (Figure 6). Financial subsidies to health insurance for urban residents grew steadily year by year (Figure 7). In 2013, subsidies from central government increased to 26.7 billion and that of local government reached 59.4 billion yuan.

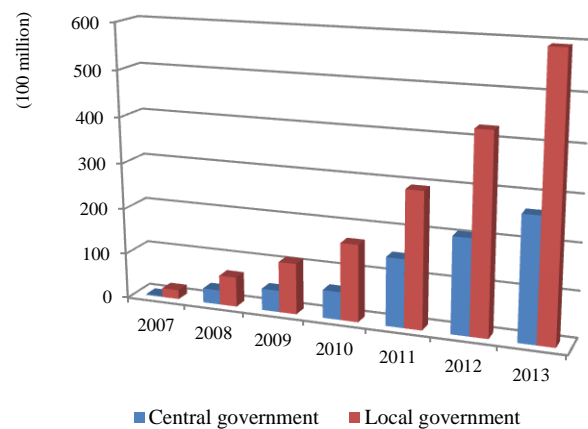
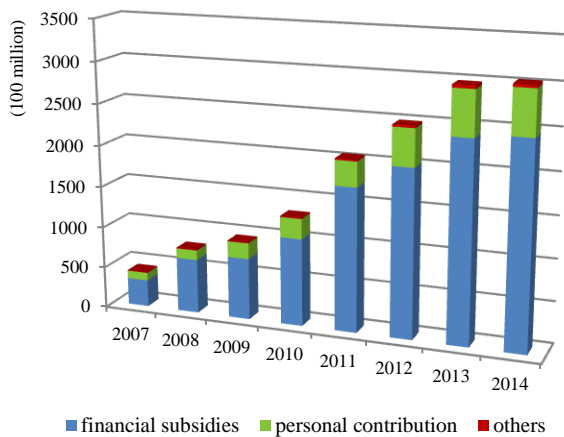


Figure 6. Revenue of health insurance fund for rural residents

Figure 7. Financial subsidies to urban health insurance fund

Concerning reimbursement, health-service package for rural residents is usually smaller than that of urban employees and residents. Moreover, hospital reimbursement rate was 64.1%, 52.2% and 49.2% for urban employees, urban residents and rural residents respectively according to the Audit Commission in 2012, which means that urban and rural residents have to pay almost half of the hospital fee even with basic health insurance.

### 3.3 Achievements and Challenges

Health insurance system in China has achieved great success in the recent decade. The biggest medical network has been established within three parallel health insurance systems, covering nearly 1/4 of the world's population. The health insurance system becomes more accessible to people living in both urban and rural areas, which is beneficial to citizens' health status in the long run.



However, there is still space for improvement of China's health insurance in the following aspects. Firstly, system overlay coexists with loop wholes within health insurance system. Repeated insurances take place especially for migrant workers coming from rural areas. It is estimated that about 5% citizens do not have any kind of health insurance and they are more likely to fall behind poverty level when facing catastrophic medical expenditure. Secondly, it is difficult for floating population to get reimbursement between systems because of *hukou* and other obstacles. Thirdly, there is a huge gap among the three health insurance systems in per capita funding level as well as reimbursement, impeding the formation of a unified and equal national health care system. Lastly, the individual account in health insurance for urban employees does not function as disease-risk-sharing mechanism because it is frequently misused and wasted in reality.

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