

# Reform Proposals



**EU-CHINA**

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

## COMPONENT TWO

### 2017 Programme of activities

**An integrated system for the coordinated management of the social assistance  
system**

**Development of Old-age Services and Long Term Care System**

**Investment strategies of social funds and risk control methodologies**

## Foreword

The present document collects policy suggestions on the three research topics addressed during 2017 by the EU-China Social Protection Reform Project- Component 2 submitted to the Social Security Department of the Chinese Ministry of Finance.

The three topics are:

*2.1.4 An integrated system for the coordinated management of the social assistance system*

*2.1.6 Development of Old-age Services and Long Term Care System*

*2.3.1 Investment strategies of social funds and risk control methodologies*

The assessment reports on the three topics, drafted by the Chinese experts Jiang Zhen, Tang Jun and Hu Jiye, together with the EU best practices introduced by EU experts were presented and debated in two Panel Discussions held on 29<sup>th</sup> August 2016 and 5<sup>th</sup> September 2017. Following, policy proposals on the three topics were presented and debated at a final Workshop, on 26-27<sup>th</sup> February 2018.

## Contents

Foreword..... 2

PROJECT RESULT 6 THE CAPACITY OF MOF FINANCIAL MANAGEMENT AND SUPERVISION OF CENTRAL AND LOCAL MODEL OF SOCIAL SECURITY SYSTEM AND THE EXTENSION OF SOCIAL SECURITY SYSTEM COVERAGE ARE ENHANCED ..... 4

Topic 2.1.4 – Jiang Zhen: Promoting the Construction of Social Assistance Coordination System ..... 5

Topic 2.1.4 - Mel Cousins: An integrated system for the coordinated management of the social assistance system ..... 19

Topic 2.1.4 - Pavel Janeček: An integrated system for the coordinated management of the social assistance system..... 37

Topic 2.1.6 - Tang Jun: Long-term Care: Conceptual Framework, Research Findings and Policy Recommendations. .... 42

Topic 2.1.6 - Zhen Li: A Proposal on Improving the Service System of Elderly Care in China ..... 63

Topic 2.1.6 - Marcello Morciano: Sharing long-term care responsibilities: the role of the individuals, their relatives, the market and the State ..... 84

PROJECT RESULT 8 The capacity of the MoF in the management of social insurance funds, focusing on fiscal support budgeting, account system, investment techniques and adjustment mechanisms for pension benefits is strengthened..... 102

Topic 2.3.1- Jiye Hu: Strategies, Risk Control and Investment Policy of Social Insurance Funds in China103

## **PROJECT RESULT 6**

**THE CAPACITY OF MOF FINANCIAL MANAGEMENT AND SUPERVISION OF CENTRAL AND LOCAL MODEL OF SOCIAL SECURITY SYSTEM AND THE EXTENSION OF SOCIAL SECURITY SYSTEM COVERAGE ARE ENHANCED**

## Topic 2.1.4 – Jiang Zhen: Promoting the Construction of Social Assistance Coordination System<sup>1</sup>

The important connotation of governance is embodied in overall planning, system and coordination, and it is also the same for the social assistance system. In order to achieve the goal of social assistance, we should set up a coordination system to achieve the goal of deepening social assistance system reform. The key to this reform is to effectively reduce information asymmetry between different management, jointly promoting the policy coordination financial coordination cross-sectoral coordination and information coordination

### I. Clarify the functional orientation of various social assistance and promote the social assistance system as a whole

The social assistance system is only a means to serve a certain value goal. An ideal society is an organic integration of vitality and fairness and justice. It is necessary to encourage the members of the society to actively meet the needs of good life through their own labor, and to make the social vulnerable groups enjoy the basic right of survival and development.

Therefore, in the design of the overall framework of the implementation of a Social Assistance Coordination System, we must make clear the function of the system, only to let the vulnerable groups to ensure their basic life, and can give full play to encourage them to maintain enthusiasm of self-reliance.

**First, the policy design must distinguish between different groups: for a group with sufficient labor capacity, we should focus on employment assistance as the core way to cultivate our self-survival and development ability. For the incompetent or disabled groups, the government uses the low insurance to ensure its basic living conditions.**

For a group with sufficient labor capacity, it is necessary to give priority to employment assistance and reduce the dependence of the protected objects on social assistance. It can also combine with the national employment policy, revitalize labor supply through employment assistance system, and establish a management mode of "Dibao, employment assistance and

---

<sup>1</sup> By Jiang Zhen, National Academy of Economic Strategy, Chinese Academy of Social Sciences.

employment". We should carry out professional introduction and vocational training, set up public welfare posts and so on, so that the vulnerable groups can promote their ability to get rid of poverty through their ability of promotion.

For the Dibao groups with the ability to work, through regular check, the relief period decreased year by year, it will reduce welfare dependency and raise their enthusiasm. In the management of Dibao, it is necessary to take "whether to include employment assistance" as a precondition, and to minimize the group with the ability to work to enter the Dibao. It will carry out unified education and training for the object of employment assistance, which is consistent with the direction of employment. For the Dibao groups for a certain age, it will require the relief period, asking them up for only a year or two low premiums and it is stipulated that they can only receive Dibao for one year or two years continuously, then they have to get a job. If he is unemployed again, he can reapply it, but the accumulative time for the Dibao in this age cannot be more than a certain period. We encourage the Dibao target to take the initiative to accept employment assistance and we should establish and improve the mechanism of gradual withdrawal after the employment of Dibao groups, increasing employment incentive factors in Dibao. For example, the Dibao groups can continue to enjoy the Dibao for a period of time after the employment assistance. In addition, some of the origins of poverty are rooted in the unfairness of the starting point of the capacity for development. For example, if a member is full of labor ability, but lives in a remote area, it is difficult to see the "sunshine" of modern civilization. It may be difficult to talk about the ability of self-development. Therefore, we can take the way of employment assistance to encourage them to come out and actively integrate to the modern society to solve the problems of survival and development.

#### **Second, to strengthen the effective link between social assistance and other social security systems.**

Dealing with the functional division of labor between social assistance, social insurance and social welfare. At the same time, we should pay attention to the balance of the three parties in the scope of coverage, the level of security, the transition of cohesion and so on. Social assistance is the social system of poverty relief, the social insurance is the system of anti-poverty, and the social welfare is the system of higher level and the improvement of the quality of the national life. In the social security project priorities, it will format "insurance first, followed by social welfare, and assistance in the end" pattern.

**Third, to combine the comparable and highly similar relief policies, to offer categorized assistance in accordance with specific vulnerability, and eventually to achieve a constantly perfecting social protection system.**

It is meaningful to study on the revision of the relevant administrative regulations, e.g., Interim Measures for Social Assistance, and to virtually disconnect the special reliefs from the subsistence support. Social assistance could be provided with a variation in benefit levels and coverage, rather than merely a surplus on the Dibao benefits. For the inclusion of Dibao groups, on the basis of comprehensive consideration of the level of insurance, assistance, welfare and so on, We integrate all kinds of policies and measures that they can enjoy and increase in support properly. For the group whose per capita income is higher than the standard of Dibao, but belongs to low income family (generally 1.5-2 times the standard of Dibao), we can give them the corresponding special assistance policy measures, according to its actual needs. Pay attention to the aid of the "expenditure type" poor families. The "expenditure type" poor family means the income level is higher than that of the Dibao low-income families. However, due to the serious illness, children's schooling and emergencies, family rigid expenditure is too large, far beyond the capacity of the family, so living standard is lower than the standard of Dibao and cannot be changed in the short term. During this period, the family is often more difficult than the Dibao group, and the ability to resist risk is very weak. For this group, we should take full account of its income and rigid expenditure and take care of it according to the needs and financial resources of the government. In a word, the existing institutional system will convert the "cliff mode" into the "slope mode" instead.

**Fourth, to establish a unified social assistance system in urban and rural areas, and to promote the integration of urban and rural society.**

To eliminate the differences in the level of social assistance to the people in urban and rural areas, and to merge the Dibao funds in urban and rural areas. A unified fund raising, and management method is adopted to achieve the unified unification of urban and rural standard of Dibao, and urban and rural co-ordination and social harmony can be promoted. In addition, in view of the current situation of urbanization and labor force regional mobility, we pay close attention to household registration system reform, land expropriated farmers and migrant workers' requests for social assistance and explore effective assistance measures. We should also pay attention to the co-ordination of the responsibility of social assistance between the

inflow and outflow of labor. Generally speaking, social assistance is a local responsibility, but for the labor input City, the pressure of the migrant workers is large. For the relief of floating population, for example, for the salvation of vagrants and beggars, the central government should shoulder some responsibilities for the expenditure, and the central government increase financial aid to the population floating urban migrants.

**Fifth, to specify the respective functions of social assistance and poverty alleviation programs and to promote the coordination in targeting benefit recipients and setting benefit standards.**

The relief policies also apply to those able-bodied beneficiaries who therefrom will have the capability to get out of poverty; whereas those with no or limited employability will be secured that they can always fall back on Dibao benefits. The departments responsible ought to establish reasonable benefit standards according to the local conditions, ensuring the integration between them and the poverty alleviation standards, and see to it that eligible Dibao beneficiaries are properly filed and entitled to various preferential policies. While providing reliefs, it is advisable to stick to the principle of appropriate assistance, “to save the poor, not the lazy”, and to coordinate the relief arrangements, “blood transfusion”, with the poverty alleviation effort, “hematopoiesis”. For the vulnerable people with or without working abilities, there is variations in the relief they are entitled to. The moderate assistance can give a boost to self-reliance, either self-employed or finding jobs independently.

**Sixth, to clear the function of the government and the society in the field of social assistance.**

It will make full use of the way of government purchasing service to support the social organization to improve its service ability, especially the construction of social organization at the grass-roots level. We should encourage social organizations and social workers to compete under the premise of fairness, openness and impartiality and the government appropriated the amount, quality and performance of the service. We should further refine the government's Guiding Catalogue of purchasing services to social forces, expand the scope of purchase services, standardize the purchase process, increase the intensity of purchase services, guide social forces to provide social assistance services, and participate in social assistance management. The government encourages social organizations to provide social integration,

enhance the ability, psychological counseling, post excavation and other professional services for social assistance object, expand the connotation of social assistance, and actively promotes the transformation of social assistance to the combination of funds and material support, living care services and psychological counseling. In addition, it is necessary to use the market force to supplement the flexible and diverse needs. For example, the loss of single family, widowed elderly. For those, it is biased only by taking income as a measurement standard. For such groups, it is also necessary for the government to encourage social organizations to provide life care, home service, rehabilitation nursing and spiritual comfort.

**Seventh, the division of the responsibility of social assistance and expenditure responsibility should stimulate the enthusiasm of the governments at all levels.**

Social assistance is a national basic public service category and it needs to take family income verification as support and protect people's basic life as the goal. Therefore, the social assistance should belong to the central and local common responsibility, and the local government has a clear information symmetry advantage compared with the central government. For the central government, it should be responsible for the planning of the overall social assistance system and providing guidance for the formulation of the basic standards for social assistance in various regions. The provincial government is responsible for providing the basis for the central government's planning and standard setting. And according to the financial condition of the local area, it should appropriately raise standards on the basic standards. City and county are responsible for the survey of household income and verification. In terms of expenditure responsibility, the central government, the provincial government and the municipal and county governments should be shared by a stable proportion, for example, according to 2:3:5. On this basis, the index evaluation system for the capacity of local finance at all levels is set up, especially the assessment of the financial capacity of the city (county). According to the results of the assessment, it is the basis for the "sharing" of the responsibility of the intergovernmental social assistance expenditure. If city and county governments have difficulty in bearing the basic standards of financial resources, the central and provincial governments can solve them through transfer payments. In addition, the central government can take the subsidy way of "reward instead of subsidy", give rewarding subsidies to the provincial, municipal and county governments which carry out better social assistance work.

**ii. To focus on budget management and to enhance the coordination of social assistance funds.**

The co-ordination of the fund for social assistance is rooted in the decentralization of the functions of the Department. It is difficult for different departments concerned to communicate with other departments in the case of information asymmetry.

**First, the premise of fund planning is to formulate appropriate budget expenditure standards as the basis for the preparation of social assistance budget. In a word, it takes the budget as the basis and pillar of the integration of social assistance functions and the division.**

Behind the co-ordination of funds is the co-ordination of the functions of the government. In the present short term, the social assistance Department is difficult to unify. It is no doubt a more realistic choice to seek the system integration of the social assistance function and to promote the co-ordination of funds accordingly. The establishment of financial support mechanism matching and linking with factors such as economic development and financial revenue, should be based on National People's Congress(NPC), and make overall design of social assistance functions of various departments according to functional objectives. Then the NPC determines the functional orientation and task division of the departments in the overall design and gives the overall design to the financial sector. The financial sector and relevant departments communicate with each other to determine the allocation plan for different sectors. Finally, the financial sector will feedback the evaluation results of performance objectives to the legislature in the way of ex post evaluation, which is the basis for the next stage of fund co-ordination. In the overall design and the allocation of funds, the Central Committee gives guidance to the basic standards in accordance with the requirements of the Intergovernmental division of expenditure. According to the economic and social development level of the region and the actual needs of social assistance, all regions should take full account of the cost of living and set up the standard of expenditure that is suitable for the local financial level. To avoid repeated assistance efforts from different agents, a feature-database is established for benefit claimants, and the relief programs give priority to those factors more significant in value. All these contribute to formulating a standard institutional system to guarantee the fiscal assistance of social security programs.

**Second, to start with coordinating the funds for the vulnerable people's subsistent needs, then to accelerate the overall integration of the social assistance funds, and to gradually expand the scale of social assistance funds coordination and integration.**

Presently, the central government has integrated the minimum living standard guarantee, living support for the extremely poor population, and temporary assistance, and formulated basic livelihood support for the poor and vulnerable; thus, it is unnecessary to distinguish the funds in respect of budget allocation, funds transfer, and relief resources utilization. The central government will motivate the local authorities to coordinate and integrate the three assistance funds for basic living support, adjust and perfect the evaluation norms for the local government's performance in social relief programs. Their contribution to the coordination of assistance resources, for example, relief fund, will be taken as an important indicator in the performance evaluation system. It is a key reference for fund allocation and will be more and more influential. Consequently, it is feasible to gradually coordinate and integrate more social assistance funds. The funds in charge of civil affairs department should be gradually integrated and then allocated to the local authorities. Based on the practical experience from the pilot project about the coordination of agricultural funds, the social assistance funds that are scattered between many departments can be categorized, coordinated and integrated. In the future, when it comes to the adjustment of the standard of Dibao, the above-mentioned contents should be considered as a whole, and the reasonable standards should be determined. Expenditure is fully under the authority of one department and cannot be also managed by other departments.

**Third, to scrutinize overlapped relief in verifying the management of the social assistance budget. It is advisable to set up specified budget management procedures and to establish a mechanism to manage the budgets in accordance with the assistance information categorized on the basis of natural and man-made factors. It's vital to have a thorough check to screen out the relief objects who are entitled to overlapped benefits from different departments.**

Starting from the budget management and taking full advantage of big data and cloud computing techniques of modern information technology, it is possible to conduct a reasonable comparison between the benefit recipients in every department. With the verification, overlapped assistances are to be examined, and the integration process of social assistance

funds will also be accelerated. In addition, the same and similar assistance funds will be used to break the restrictions on the longitudinal strip and carry out a horizontal integrated merge. We should unify the fund-raising management, the establishment of the social assistance fund "the reservoir". According to the distribution, it is drawn from the "reservoir".

**Fourth, to enhance the guiding role of fiscal budgets, and to push forward the coordination of the social assistance funds, since the financial department, as the comprehensive administrative sector, enjoys great privilege in information and resources for budget management and financial coordination.**

Since local financial department provides service to a limited population and has advantageous access to information, it can foster efficient integration between various functional departments, and take a leading role in the coordination of social assistance funds and different programs. The central financial agency may well put forth a new policy to grant rewards instead of offering subsidies. It may also encourage the local government to initiate pilot projects and experiment programs and give priority to those areas more efficient and intensive in the integration process when making decisions about resource allocation.

**Fifth, strengthen the integration and co-ordination of the social assistance transfer payment of the central government.**

It is suggested that the central government first integrate the social assistance funds related to civil affairs, change into the general transfer payment. In the case of mature conditions, other social assistance funds will be integrated.

**Sixth, establish the performance evaluation mechanism according to the mode of financial coordination.**

The first is to set up an overall coordination performance goal. Then it will design evaluation index system according to performance goal. The third-party expert system is introduced to establish the performance evaluation mechanism of social assistance funds as a whole and to evaluate the effect of policy implementation regularly. We will take the evaluation results as an important basis for the construction of the overall social assistance system and link the evaluation results with the allocation.

**iii. To construct a uniform information platform and to enhance the coordination of social assistance information**

The technological revolution has made great changes in the mode and pattern of the social and economic operations, and we have now entered the stage of the intelligent society. The essence of the continuous breakthrough in information technology is to release the flow and use of data. Data become the core production factor of the intelligent society. Conforming to the trend of the intelligent society, constructing the social assistance information platform is the important direction and content of the future reform.

**First, to promote the construction of the hardware and software platform facilities of the large data base of social assistance and build a central level social assistance cloud platform.**

In an intelligent society, the ability to collect, connect, manage and apply the information data supporting intelligent analysis has become an important emerging infrastructure. To see the social assistance information system is not only a matter of social assistance, but it is likely to face this problem in all fields. Moreover, at present, economic and social activities are characterized by mobility, cross regional and multi-channel characteristics. The income identification and property identification of difficult people need to rely on a unified and cross sectoral information sharing mechanism. Therefore, to promote the large data base platform of software and hardware infrastructure, data exchange and circulation channel integration, improve the construction of e-government database, to enhance the administrative data concentration and data quality, realize the sharing of information, strengthening the development and application of large data base, will become the inevitable choice. The function orientation of the central level social assistance cloud platform is to configure and excavate the open data sets of provincial governments and various ministries through investigation, combing and warehousing, to explore the interoperability, interconnection, opening and sharing of data, such as urban and rural planning, employment, social assistance, medical and health, and service for the aged. In depth, data resources are excavated to improve the government efficiency and improve the satisfaction of the masses.

**Second, to establish an information platform of big data that relies on the provincial administrative unit and is unified and inter-related with each other.**

The function of the provincial information platform of big data is to make use of the advantage of the territorial information, to realize the "one interface" of social assistance, and to verify the "one database". It is recommended to formulate a series of regulations which require us to collect and categorize the social assistance information in terms of each benefit claimant, to rely on the ID number to categorize the relevant social assistance information, and to integrate all the information related to the ID number, including data on consumption, assets, family members. We will build an information system for cross interconnected, vertical interworking social assistance services and build an information platform for interconnected, transparent and shared household economic conditions. The management departments ought to integrate and compare the information that involve different departments, keep expanding the big data platform by adding relevant information, and create a mechanism for the evaluation and comparison of the relevance between the social assistance information and the relevant information. First, to build a coordination platform for social assistance to achieve full participation in the all departments. All the contents are covered and the information is fully shared. Second, to achieve all social assistance transactions through a service system approval and realize the all-round network management of social assistance. Third, to build a cross sectoral, multi-level, information sharing application for the family economic situation verification information platform.

**Third, to improve the efficiency in collecting and categorizing the information about the third parties.**

It is desirable to collect the beneficiaries' information concerning the third party. We may enhance timely exchange of all the information that is relevant to ID; i.e. information in the network system concerning financial institutions, industrial and commercial administration, investment, social security, household registration management, property management, civil affairs, health, education, etc. Even the related consumer information of electronic commerce, such as Taobao and Jingdong, can be transferred to the information platform of big data in time. We should establish a hierarchical, multi class, efficient and flexible household income check operation mechanism, and comprehensively carry out the application for family economic status verification.

**Fourth, to enhance uniformity in the cross-sectoral coordination, policy coordination, information coordination and fund coordination on the basis of information concentration.**

In a short term, when we realize the goal to have a cross check of the information about the household economic status of social assistance recipients, it becomes possible to make decisions about relief arrangements through consultation, to communicate with each other regularly, and to manage the relief projects precisely. It is important to discriminate the specific difficulty of each applicant and determine the degree of difficulty, and to formulate a comprehensive relief plan specifically for that individual. Thus, by taking advantage of the information technology, we can provide assistance to meet the needs precisely, complement each other in practice, and coordinate the relief resources. In the long run, we can rely on modern techniques to break the cross-sectoral bulwark and utilize the big data to integrate the data of social resources in the charge of different departments, social organizations, and charity groups. This will enhance the provision of assistance resources and the integration between assistance information and assistance needs, so as to achieve better communication and to avoid repeated assistance or aid missing. In addition, we should pay more attention to the connection and interconnection of the social assistance and the management of the poverty alleviation information system. In the near future, the information system of the Dibao and poverty alleviation is interconnected, and the dynamic management of the two types of objects is strengthened, which is included in the public scope of government information. In the long term, we can explore and apply big data tools to integrate the social assistance and poverty alleviation information data of civil affairs departments and poverty alleviation departments and transform "information island" into "integrated information base".

**Fifth, to combine the conventional approaches and modern techniques in the application of social assistance. The applicant can choose from mailing the application form, applying online, by phone, or on spot. The information will be concentrated and managed by “one window”.**

The integrated information platform serves as the window in this process, and answers for all the issues about the relief work financially supported by the government. This single window stands for “the uniformity in application, approval, distribution and management”.

**Sixth, the social assistance information is incorporated into the social credit mechanism to improve the cost of the noncompliance of the law.**

The relevant laws and regulations should be perfected and the illegal acts such as forgery, false declaration and salvage are recorded in the personal social credit files. Once the credit record has been tainted, the acceptance of education, medical, financial, transportation, and even buying a car will be affected, greatly raising the cost of the law. In this way, the incompatible persons are reluctant to violate the rules, dare not violate the rules and ensure that the resources of social assistance are not occupied.

**Seventh, to strengthen the information Legislative Research on social assistance.**

Information sharing is not only an administrative act of a single department, but also an important measure to guarantee the rights and obligations of civil rights. Therefore, we need to standardize the collection, sharing, flow and utilization of departmental information from a legal point of view, speeding up the construction of the social assistance information system from the legal level.

**iv. To rely on joint conferences or policy integration and to promote coordination among the social assistance departments**

It is of significance to borrow experience of pilot work in some localities, and gradually enhance the establishment of joint conferences or coordinated management mechanism for the social security program. The better advantageous areas should be encouraged in their exploratory effort for function coordination, and they can create an integrated managerial agency for social security work. When the fragmentation between departments comes to an end, it is possible to eventually form joint forces in the utilization of social relief resources. Gradual reforms of institutional system and management mechanism is more advisable since it will contribute to the realization of “uniformity” in social assistance program management as well as the perfection of the mechanism --- “one department’s undertaking and multi-sectoral cooperation”.

**First, based on the "system integration" of social assistance goals and functions, we set up a set of inter departmental coordination mechanisms, namely, target integration, top-down, clear division of labor and effective implementation.**

As is stipulated in *The Interim Measures for Social Assistance*, “governments at or above the county level ought to try their utmost to develop this mechanism to perfection, and to establish

and improve the mechanism for social assistance coordination that highlights the leadership of the government, and in which the civil affairs departments take lead, the relevant sectors cooperate, and various social forces participate in”. The governments at or above the county level should make efforts to improve the mechanism, establish a management mechanism for the civil affairs departments to coordinate the work of other departments. The purpose of interdepartmental management mechanism is not only for horizontal connection, but also for coordinating some social assistance work, but for system integration based on social assistance goals and functions. By establishing a joint conference system of social assistance department, which is composed of several related departments, such as civil affairs, finance, people's Association, Health Planning Commission and other related departments, the central government's leaders will take the lead and regularly hold joint departmental meetings. It should determine the integration objectives, assign tasks, and preside over the performance evaluation of the follow-up work, and actively study the outstanding problems in the social assistance work.

**Second, to create categorical coordination mechanism, to settle the problem of multiple management in social assistance arrangement, and to contribute to the “uniformity” of social assistance efforts between the different government sectors.** Individual managerial department of social assistance programs should establish a categorical mechanism for supervision, so as to overlook the general condition of the routine assistance work, examine the effectiveness of the implementation of categorical assistances, and to incorporate those social assistance programs that have similar functions. It is also responsible to publicize information about assistance legibility, benefit standards, application procedures and the potential recipients, at the same time it accepts the supervision from the general public.

**Third, to reinforce the construction of a comprehensive agency responsible for social relief work and to lay a strong organizational foundation for financial integration.** It is recommended to take advantage of the working platform set in correspondence to “one department’s undertaking and multi-sectoral cooperation” or a window open to the public that offers comprehensive services. Subsequently, a perfectly coordinated organization that offers services as social assistances will be established and improved; the coordination of cross-sectoral social assistance programs will be enhanced; and assistance information and service will be shared and converged. On this basis, it establishes a assistance information system,

opens a assistance service hotline, and sets up an admissible window. It can effectively reduce the repeated cross aid and minimize the overlay relief.

## Topic 2.1.4 - Mel Cousins: An integrated system for the coordinated management of the social assistance system<sup>2</sup>

### Contents

Introduction .....	21
Context and issues .....	21
Our approach .....	22
Recommendations .....	23
Policies .....	23
Services .....	24
Finance .....	29
Information Platform.....	32
Conclusions .....	34
References .....	36

---

<sup>2</sup> By Mel Cousins, Trinity College, Dublin, Ireland

## Acronyms

CPC	Communist Party of China
EU	European Union
EUCSPRP	EU-China Social Protection Reform Project
IT	Information Technology
MHRSS	Ministry of Human Resources and Social Security
MoCA	Ministry of Civil Affairs
MoF	Ministry of Finance
PEM	Public expenditure management
PFM	Public financial management
SSBTEK	Swedish information platform for social assistance
Suwinet	Netherlands information platform for social assistance
ToRs	Terms of Reference
UvW	Employee Insurance Agency (Netherlands)

## Introduction

### Context and issues

As set out in the Terms of Reference (ToRs) for this report, in recent years, the Chinese system of social assistance has progressed rapidly. The promulgation of the Interim Measures on Social Assistance (2014) has represented a fundamental step that has determined better integration of funds and institutions, promoted better coordination among departments and the rapid development of means-test procedures, as well as the identification and check of the beneficiaries. However, a notable level of fragmentation still exists and the 3rd Plenary Session of the 18th CPC Central Committee has stressed the need to pursue and fully realize the modernization of the governance system and the governance capacity of the country.

The Ministry of Finance (MoF) underlined some of the main problems that affect the expenditure performance of the Chinese social assistance system, hence challenging poverty alleviation effectiveness:

1. In the first-place connection and coordination among schemes are insufficient and the resources devoted to social assistance are too scattered, which leads to a sub-optimal articulation between programs and policies, and results in the use of social assistance funds less effectively than desired
2. The management of the system needs improvement
3. The sharing of information and resources among departments is not adequate
4. Multi-departmental, overlapping and missed delivery of benefits co-exist in the system in relation to these problems,

MoF listed the following challenges to be considered as a priority:

1. Optimize institutional design and coordinate social assistance resources
2. Strengthen the integration and coordination of social assistance funds
3. Standardization and scientification of Social Assistance and increase of protection level in line with socio-economic development
4. Establish positive incentive mechanisms
5. Establish mechanism to promote a reasonable balance of responsibilities among the state, society, and individuals
6. Construct information sharing platforms and strengthen the mechanisms to check information

The issues identified in previous studies included the following themes:

- The integration of social assistance schemes and policies



- Coordination of social assistance with other social protection schemes and poverty reduction programs
- Classification of beneficiaries and alternatives methodologies to assess eligibility
- Integration and coordination of funds
- Benefit bundling, benefit traps and incentives to work
- The role of central and local government in: financing social assistance, assessing eligible beneficiaries, and allocating social assistance funds
- Information platforms.

These issues were discussed in detail at a Panel Discussion held on 29 August 2017. In addition to representatives of EUCSPRP and MoF, participants included a number of EU experts and Chinese experts and provincial representatives. Following up the outcomes of the Panel Discussion, the ToRs for this report required the Expert to ‘provide a policy recommendation report on the topic 2.1.4 based on the best practices from the EU’.

On the basis of the discussions at this workshop and subsequently, it was decided to focus the policy recommendations on four main themes: co-ordination of policies, services, finances and information platforms. These issues are discussed in detail below. This is not to say that there are not other important issues for reform in the social assistance system but these areas were identified as those where EU experience would be most relevant in a Chinese context.

### **Our approach**

The ToRs refers to a study of ‘best practice from the EU’. However, development partners have highlighted the importance of adopting a political economy perspective in considering how best to influence the development of national policies. Based on policy work, the World Bank (Fritz et al., 2014) has argued against the idea that similar approaches across a broad range of different environments can simply be replicated based on ‘best practices’. At the same time, the authors accept that there is a considerable resemblance among the political economy challenges encountered across a range of countries and sectors. They argue that there is a need to strike a balance between advising only on ‘international best practices’ and following the preferred institutional solutions of local stakeholders; and that solutions need to be designed to be sufficiently robust to survive political pressures.

Thus, it is proposed that more attention should be given to ‘good fit’ rather than ideal models of ‘best practice’ which may not fit the national context. While the semantics are not important, the basic message is critical in considering how best to apply the international lessons identified in this report to the Chinese context. Accordingly, in this report, we present examples of practice from the EU experience but highlight the need for the Chinese authorities to adopt those practices which represent a ‘best fit’ in the Chinese social, economic and administrative context.

## Recommendations

### 1. Policies

Amongst the issues identified in Chinese national reports (Jiang, 2017; Zhang, 2017) and in discussions at the workshop are:

- Co-ordination with social security policies (safety-net scheme, data-sharing, etc.)
- Co-ordination both within the Chinese social assistance scheme (between different types of social assistance) and between social assistance and other related policies, such as the poverty reduction [functional segmentation]

First, we look at co-ordination with social security policies. This is essential in order to ensure that policies to provide income support to Chinese citizens are coherent (e.g. to ensure that social security policy is not providing incentives for one form of activity while social assistance is providing opposite incentives) and to ensure that implementation can be carried out in a coherent and consistent manner.<sup>3</sup> In the EU, some countries address this issue by having one Ministry responsible for both social security and social assistance policies (e.g. UK, Netherlands). However, others - like China - have separate Ministries responsible for the two policy areas.

In general, in the EU, social assistance schemes act as a residual or ‘safety-net’ scheme for those who do not qualify for the main insurance-based social security schemes. Thus, in EU countries, it is often a requirement of applying for social assistance that a person has already claimed any relevant social security (insurance-based) benefits;<sup>4</sup> and income from social security benefits is generally taken into account as part of the social assistance means test (MISSOC, 2011; 2013).<sup>5</sup> Thus EU countries mainly address the issue of integration with other social security schemes in this manner.

It is suggested that a similar approach could be taken in a Chinese context. This might require specifying in law that persons claiming social assistance should first claim any entitlements to Chinese social security benefits (or other legal entitlements) and to ensure that any social security benefits are taken into account in a consistent and coherent manner in the assessment of entitlement to social assistance.

---

<sup>3</sup> One example of divergence in a Chinese context is a lack of co-ordination between medical assistance and medical insurance (Zhang, 2017, p. 23).

<sup>4</sup> For example, in Ireland the authorities may require a claimant of the basic social assistance payment to make a claim for ‘for any statutory or other benefits or assistance to which the person may be entitled’.

<sup>5</sup> In terms of the means test, according to MISSOC data (MISSOC, 2013) most EU countries take the household/family income into account for the purpose of determining the claimant’s means. The details of this vary from one country to another. “Family members” include the spouse, and, in some countries, the partner under a civil partnership or any cohabiting partner. The income of children of the claimant is also treated in different ways in different countries. Some countries disregard them (e.g. Sweden), while some take them into consideration under certain age criteria (e.g. Netherlands).

In a Chinese context, this would also involve increased co-ordination between MoF, MoCA and MHRSS in relation to the development of social security and social assistance policies to ensure that they form a coherent approach. Equally, such co-ordination needs to take place at all levels of governance both in relation to the development and implementation of policy, for example, within MoF between the departments responsible for social assistance and social security and social assistance, and at local government level between the bureaus of finance, civil affairs and human resources and social security.

In implementation, the development of an IT platform, discussed in more detail below, would allow closer co-operation and a more integrated approach. In the EU, social assistance agencies increasingly share data with other key social security agencies to ensure integrated administration of benefits through systems such as Suwinet (Netherlands) and SSBTEK (Sweden). These information platforms for social assistance are linked to the databases of pensions and social insurance agencies to ensure that data can be exchanged and verified.

**Policy recommendation:** MoF should work with MoCA and MHRSS to ensure close co-ordination of social insurance and social assistance policies, in particular by ensuring that the social assistance operates as a ‘safety net’ scheme where persons are not entitled to social insurance benefits. Information platforms used by social security and social assistance agencies should be integrated as far as possible at all levels of government so that real-time data sharing is possible. In addition, the relationship between rights to social assistance and social security benefits should be specified in legislation.

Co-ordination within the social assistance scheme (between different types of social assistance) and between social assistance and other related policies is a complex issue which requires a detailed knowledge of national and local administrative structures. One approach, which has been developed in EU countries is ‘joint commissioning’ of services. Commissioning is defined as a strategic approach to assessing needs, resources and current services and developing a plan of how best to use available resources to meet these needs. Where a number of different agencies are involved, commissioning is carried out jointly. This can involve, for example, one agency (in China perhaps the bureau of civil affairs) being the lead agency with a pooled budget. This allows a single view of priorities and shared resources but requires mutual trust between the agencies involved (see Bamford, 2001; Dickinson et al; 2013 for the UK experience).

In the context of the general move in China to ‘contract out’ more services to social organizations,<sup>6</sup> joint commissioning could be used as one method to improve the co-ordination of policies between different agencies at a local level.

---

<sup>6</sup> See the joint MoF and MoCA *Guiding Opinion on supporting the promotion and development of social organisations through government purchase of services*, 2016. The issue of Strategies for Involving Social Organizations in Social Assistance is currently being considered by an ADB-funded project working with MoCA: <https://www.adb.org/projects/50033-001/main>



## EU-China Social Protection Reform Project

**Policy recommendation:** MoF should work with MoCA and other relevant ministries, in the context of increased contracting out of social assistance, to develop methods of joint commissioning of social assistance services.

## 2. Services

In terms of co-ordination with other services, one of the key issues identified in the Chinese national reports and at the workshop was the need for greater co-ordination of social assistance with employment services. EU countries have extensive experience in developing welfare-to-work supports and, while there are significant differences in the labour market contexts, China could usefully examine the EU experience in developing its own responses in this area.

Research has shown that well-designed employment programs can reduce claims for social assistance and increase employment. For example, in the UK general evaluations have found a positive impact for employment measures both on reducing inflows to social assistance and in increasing exits to job from social assistance (Riley et al., 2011; Meager et al., 2014).

Nonetheless, the EU experience indicates that linking social assistance and employment is not an easy approach nor one which can be completed in the short-term. It requires the investment of resources (both human resources, IT and appropriate back-to-work measures). It also requires identification of the relevant policies in the national (or regional context) and the development of appropriate solutions. For example, what will work in an EU context may not be appropriate in a Chinese context (and indeed what will be appropriate in one area of China may not be appropriate in another).

A first step is the need to understand both the Chinese social assistance (dibao) population and the local labour market and how to link the two. While it appears that 60% of dibao recipients might be considered to be not incapable of work (i.e. they are not classified as elderly, disabled or students) this does not mean that they have a realistic prospect of being employed. It is first necessary to have a clearer understanding of the 'employability' of the local dibao population.

Employability can be seen as relating to the skills and capacities that allow a person to be employed (or self-employed). It should be seen as a continuum (rather than a dichotomous ranking) ranging from those with high employability who are close to the labour market to those with low employability who are far from it.

In order to assess employability, we also need to understand the needs of the local labour market (and the short-term future needs). What type of employees do local employers need, what type of skills are they looking for, etc? Thus, a combination of characteristics and factors can lead to individual dibao claimants having a greater or lesser employability. These include (1) individual characteristics of claimants, both alterable and unalterable; (2) contextual factors such as family, location, social and institutional; (3) local-level labour demand; and (4) macro-level labour demand.

It is also necessary to understand local practices of getting employment. For example, where many people get employment through local and family contacts (rather than through formal labour market institutions) it is important to factor this into the type of services which are provided. Many EU countries have established labour market institutions which provided 'training' courses or subsidised employment courses for claimants of social benefits which were subsequently found to have had no positive effect on the prospects of getting work in the 'real' labour market. It will be important that China learns from these 'bad' practices as well as the good practises highlighted in the EU national reports.

Some of the good practices which have been identified in EU countries include

- Unified offices for both social assistance and employment services (one-stop-shop),
- Providing appropriate levels of trained staff in order to deal with the needs of claimants;
- Developing an appropriate IT framework so that linkages between social assistance and employment services can be operationalised and monitored effectively;
- The use of ‘social organisations’ to provide contracted services.

Unified offices (co-locating employment and social assistance services) have been established in a number of EU countries including the Czech Republic and the UK. However, to make a real difference such unified offices most go far beyond simple co-location of staff and must also ensure complementary objectives and co-ordinated working methods and IT systems. Studies have indicated that the successful establishment of a unified approach can bring significant benefits. For example, in the UK the agencies responsible for employment services and benefit payment were amalgamated into *Jobcentre Plus* and this has had a positive effect on the labour market (Riley et al., 2011). In the Netherlands also, there is co-ordination between municipalities who administer social assistance and employment services (including a jobseekers centre) and in the Czech Republic, the labour offices are responsible for administering social assistance benefit in addition to providing employment services. These are good examples of what can be achieved through better co-ordination between social assistance and employment services. However, it is important to note that these have been long-term projects over several decades with the investment of significant resources and in a context where services were either managed directly from the national level or where the national government provided financial incentives for the municipalities to achieve employment objectives. In contrast, Thorén (2008) shows how overall objectives can easily be undermined by street-level practices in a context where there is no clear line management or incentives to achieve the national-level objectives.

In some countries, such as the UK, social organizations are often contracted by the public authorities in the provision of employment services (such as jobsearch support, job placement, in-work supports, etc.). The Chinese government is currently encouraging the use of social organisations in the delivery of social services<sup>7</sup> and this could be a very useful option in the area of employment services in order to avoid the costly development of public services and to make use of the expertise of social organisations which are often very well-informed about labour market needs in their local area.

However, as discussed above, it will be important for Chinese policy makers to consider the local context and whether these particular solutions provide a ‘good fit’ in a Chinese context. Given the regional variations in the Chinese labour market and the varying capacities of local governments, it would seem highly appropriate to adopt a pilot approach in this area working with local governments with greater capacity in order to identify what works in different areas (and with different target groups) with a view to, in the longer-term, expanding this type of approach more broadly.

---

<sup>7</sup> See the ADB project mentioned above.



## EU-China Social Protection Reform Project

**Policy recommendation:** MoF should work with MoCA and MHRSS to support the development of pilot projects in different regions which would explore how social assistance can better be linked to employment services. These pilots should be evaluated in order to assess what has worked in different labour market contexts (and what has not).

### 3. Finance

The funding of the Chinese system of social assistance is rather complex. This is due to the multiplicity of schemes which fall under the heading of social assistance; the multiplicity of agencies involved in implementing these schemes; and the multiplicity of funding sources.

First, social assistance is usually described as covering ‘8 + 1’ schemes (dibao, wubao, medical assistance, educational assistance, housing assistance, employment assistance, disaster relief and temporary assistance + disease emergency assistance). Second, while most social assistance schemes fall within the remit of the civil affairs bureaus, others are the responsibility of other agencies (such as the education, housing, and human resources and social security bureaus).<sup>8</sup> Third, funding comes from both central and local governments. In addition, a small part of funding comes from social and market funds, e.g. welfare lottery. This leads to a complex arrangement of funds.

In European countries there has been a tendency to consolidate funds for social assistance under one budget and to ensure that standards of public financial management (PFM) are applied. This is in line with the Chinese approach of ‘multiple channels to bring water; one reservoir to hold water; and one tap to release water’.

In relation to the funds used, the fact that funds come from different sources should not be a major issue as long as resources are lodged in, and accounted for, in one fund. Of course, the scope of the fund is a matter for the Chinese authorities. Whether it is possible (or advisable) to include funds for education or housing assistance as part of the social assistance fund depends on national circumstance and is an issue that is addressed differently in different EU countries. In the UK, for example, the Income Support scheme does not generally include support with education issues and housing support is provided under a separate housing benefit (which is administered by local authorities rather than centrally).<sup>9</sup>

EU countries have then ensured that the relevant rules of PFM apply to social assistance funds in the same way as to other central or local government funding. These include:

- mid-term budgeting (including structured forecasts of expenditure)<sup>10</sup>
- results-based budgeting (i.e. based on policy outcomes (or at least outputs) rather than solely on inputs),
- transparency,
- independent auditing, etc.

---

<sup>8</sup> Disease emergency assistance is the responsibility of the departments of health and family planning.

<sup>9</sup> However, as discussed at the workshop and in the national reports, the UK is currently in the process of unifying Income Support and housing benefit (and other means-tested schemes) into a unified universal credit.

<sup>10</sup> Mid-term budgeting is a tool designed to achieve the optimal social and economic outcomes within the resources available. A mid-term budget framework provides a link between national objectives, a medium term three-year rolling budget and the annual budgeting cycle. The World Bank/DRC (2014) study proposed that such an approach should be adopted in China’s public finances.

Again it is necessary for the Chinese authorities to consider which of these tools represent a good fit for Chinese local governments at this stage of their development. As set out in the Chinese national reports and as discussed at the workshop, there are already good examples of how better co-ordination of funds can be achieved and these now need to be replicated more broadly in a more systematic manner. We understand that MoF and the relevant Chinese authorities have already taken steps to co-ordinate different parts of the social assistance budget into one fund and we recommend that this work should be continued.

In the EU, for example, in Sweden, funding for social assistance comes from a range of sources (local income tax, grants and local charges) but is combined in one fund which forms part of the local authority budget which must be agreed annually to cover the next three years. The Swedish Local Government Act includes a balanced budget requirement which means that the budget of a local authority must, in general, be drawn up so that income exceeds expenditure.<sup>11</sup> The Local Government Act states that local governments shall exercise good financial management in their activities. The state supervises local authorities through government agencies like the National Board of Health and Welfare. Supervision must have both a scrutinising and a supportive element. Government agencies cannot declare local government decisions invalid, but they can in certain cases initiate a judicial review or impose a financial penalty on a municipality.

Every local authority must have at least three auditors who are elected representatives appointed by the assembly. These auditors are assisted by experts, who are professionally qualified auditors. The auditors consider whether activities have lived up to the objectives set up by the assembly, whether they have followed the relevant decisions, legislation and regulations and whether the financial accounts are true and fair.

While there is no direct government funding for Swedish social assistance, funding for local government is based on a comprehensive equalization system and the 'local government financing principle'. Essentially, this principle ensures that if the central government takes decisions that directly affect the operations of the municipalities, for example mandating new responsibilities, these decisions must be accompanied by a corresponding change in the financing grant from the state. The equalization system comprises two major parts: one on the revenues side, which is structured to even out the differences in tax base per capita; and one on the expenditures side, which distributes funds and grants to local governments with adverse cost structures and unfavourable demographic compositions.

The establishment of more unified and better structured budgeting systems in Chinese social assistance - combined with a comprehensive Information Platform as discussed below - would form the basis for addressing other financial issues, such as moving towards a better structured and more equitable approach to the allocation of central government resources to local governments social assistance budgets. In future this might include the development of financial incentives for local governments to achieve policy objectives as in the Netherlands (discussed in more detail in the EU national reports).

---

<sup>11</sup> There are exceptions for 'exceptional reasons' such as a strong financial position or major restructuring actions but the deficit must be paid off in the following years.



**Policy recommendation:** MoF and local finance bureaus should work with MoCA and civil affairs bureaus to continue the unification of funds at local level into one social assistance budget. MoF should also support the further development of best practice in public expenditure management in the social assistance system and should consider which aspects of EU practice represent a ‘best fit’ in Chinese circumstance.

## 4. Information Platform<sup>12</sup>

There was general agreement in the panel discussion on the need to create an “integrated” social assistance information platform, which can guide, manage and incorporate assistance resources, provide information guarantee for overall integration of social assistance system. Information technology provides the possibility

- to improve services to the people (e.g. through faster processing of claims to social assistance);
- to allow better control of the use of social assistance funds through comprehensive verification of claims and monitoring (e.g. data sharing re claimants’ means);
- to facilitate better management and analysis of the national social assistance system;
- to improve co-ordination of policies (e.g. as discussed in relation to more coordinated integration of administration of social security and social assistance);
- to facilitate co-ordination of services; and
- to facilitate the establishment and control of a more unified approach to funding social assistance.

It is important that the information platform should encompass fund management data as well as individual client data. In particular, from the perspective of MoF, the development of IT and MIS (management information systems) provides the possibility of a much more thorough analysis of local social assistance patterns as to levels of types of spending, trends, analysing outcomes against estimates and assessing the effectiveness and efficiency of social assistance expenditure in different area. All of this should enhance MoF’s ability to encourage the best use of resources.

At present, although local governments are now developing their IT systems,<sup>13</sup> it remains the case that IT is not being used to its full potential in the social assistance system. The basic level of IT in operation in the social assistance system is particularly striking when it is compared to the world-leading level of information technology in everyday use in the commercial sector in China (McKinsey, 2014; 2017). Clearly the know-how and technology exist to use IT to a much greater extent in the public sector.

We note that MoCA is in the process of establishing the Jinmin (金民) Project which aims to form an information system with three main features: three level interconnection of business networks, unified application software, and centralized management of data resources, thus promoting the civil affairs department’s administration efficiencies and public service level, to achieve a nationwide network of social assistance information systems, and to form a nation-wide

---

<sup>12</sup> We do not address technical IT issues (e.g. system requirements) but rather the general use of IT to support co-ordination in the management of social assistance.

<sup>13</sup> For example, an increasing number of local governments are establishing income verification centres which check data received in claims for social assistance against data available from other databases. MoCA has also established an income verification centre at a national level which is intended to support data verification between provinces.



comprehensive social assistance information database. This forms an important part of MoCA's overall approach to the development of information platforms within its areas of responsibility.<sup>14</sup>

In establishing its IT platform in line with Chinese conditions and requirements, the Chinese authorities can also draw on the experiences of EU countries. In many cases, IT systems have been established at a national level even if social assistance administration was carried out by local authorities. For example, the Netherlands has developed a special information platform called *Suwinet* to support the implementation of social assistance. *Suwinet* is used by municipalities (and related agencies such as employment agencies) to manage data in the implementation of social assistance and employment services. Public agencies such as the Tax Office, Student Data Authority, Land Registry, National Road Authority and the UWV (unemployment insurance agency which also provides employment services) share personal information with municipalities in relation to the implementation of the Act. The system, which is operated by the UWV is intended to check whether a person is entitled to a benefit or to detect benefit fraud. The social assistance law set out rules in relation to control of data and standards have been developed for the municipalities to ensure data security and address privacy issues.

In contrast, in Sweden there has been a more bottom-up approach. Municipalities are developing a number of innovative approaches including:

- A system known as Digital service for financial aid (*SSBTEK*) which is an electronic service that supports and simplifies the management of cases in financial assistance. More than 220 municipalities now use this service. The Social Insurance Agency is responsible for technical management and operation of the service on behalf of the Swedish Association of Local Authorities and Regions (SKL). Municipalities can get data from a range of agencies including the Social Insurance Agency, tax authorities, student finance agency, etc.
- An integrated query function (*Multifråga*) that streamlines social service work in connection with the handling of cases of social assistance. This is linked to *SSBTEK* and allows a municipality administrator to send an electronic request and get a consolidated and clear response from all agencies.
- A national, web-based email service (*eAnsökan-EkBist*) for individuals seeking continued financial aid including a number of Web-based forms, where the applicant fill in the data needed for the application

The Chinese situation is complex because the local levels of government have considerable autonomy in terms of the development of their individual systems. While there are many advantages to this, it does not facilitate the development of a comprehensive and co-ordinated information platform. One of the priorities for the Chinese authorities should be the need to plan the development of IT architecture in the Chinese social assistance scheme so as to ensure interoperability both within and between provinces and also between a province and MoF. This could draw on the different approaches adopted in EU countries with regional administration of social assistance such as the Netherlands (top down) and Sweden (more bottom-up) and could also draw on the practical issues identified in the Italian experience.

---

<sup>14</sup> <http://www.mca.gov.cn/article/gk/wj/201710/20171000006266.shtml>

At the national level, the authorities - drawing on good practice in the provinces and municipalities - should set the main goals for the IT platform, set the framework, basic standards and methodology, set parameters for IT interoperability and comparability. It would appear that MoCA is the natural agency to act as a lead agency in charge of establishment and co-ordination of the IT platform.

**Policy recommendation:** MoF should support the development by MoCA of a comprehensive information platform. MoF (and local finance bureaus) should also work closely with MOCA (and local civil affairs bureaus) to ensure that IT developments include the need for financial management of the social assistance system and to avoid the development of unintegrated systems and/or systems which focus solely on claim processing.

## Conclusions

The Chinese social assistance system has developed rapidly in recent years and now represents the largest system of social assistance in the world in terms of the number of people covered.<sup>15</sup> As with any system which has grown rapidly, the social assistance faces challenges which have been discussed in detail in the Chinese national reports and at the workshop in August 2017. In addressing these challenges, the role of the project is to provide examples from the EU context as to how similar challenges have been tackled in EU countries and to highlight approaches which may be of assistance to the Chinese authorities.

In these policy recommendations we have focussed on four main themes where EU experience may be of particular relevance: co-ordination of policies, services, finances and information platforms.

First, MoF should work with MoCA and MHRSS to ensure **close co-ordination of social insurance and social assistance policies**, in particular by ensuring that the social assistance operates as a ‘safety net’ scheme where persons are not entitled to social insurance benefits. Information platforms used by social security and social assistance agencies should be integrated as far as possible at all levels of government so that real-time data sharing is possible.

Second, **the relationship between rights to social assistance and social security benefits should be specified in legislation.**

Third, MoF and local finance bureaus should work with MoCA and civil affairs bureaus and other relevant ministries and their local agencies, in the context of increased contracting out of social assistance, to **develop methods of joint commissioning** of social assistance services.

Fourth, MoF should work with MoCA and MHRSS to support the development of pilot projects in different regions which would explore how **social assistance can better be**

---

<sup>15</sup> In the third quarter of 2017, there were over 50 million people in receipt of urban and rural dibao (13.1 million urban and 40.7 million rural (<http://www.mca.gov.cn/article/sj/tjyb/sjsj/1123/201711231548.html>). This compares with only 3.7 million people (1.4 million families) in the USA in receipt of federal TANF (Temporary Assistance for Needy Families) and separate State programs in December 2016.

what **linked to employment services.** These pilots should be evaluated in order to assess what has worked in different labour market contexts (and what has not).

Fifth, MoF and local finance bureaus should work with MoCA and civil affairs bureaus to support **the unification of funds at local level into one social assistance budget.** MoF should also support the further development of best practice in public expenditure management in the social assistance system and should consider which aspects of EU practice represent a ‘best fit’ in Chinese circumstance.

Sixth, MoF should support the development by MoCA of a **comprehensive information platform.** MoF (and local finance bureaus) should also work closely with MOCA (and local civil affairs bureaus) to ensure that IT developments include the need for financial management of the social assistance system and to avoid the development of unintegrated systems and/or systems which focus solely on claim processing.

In all of these areas (co-ordination of policies, services and funds), information technology can play a key role in supporting policy and service co-ordination and in improving financial management. China has now developed global leadership in the use of information technology in the private sector. The opportunity exists to replicate this in the public sector.

A recent consultancy study of China’s new economic model shows how China can continue its development in particular by shifting to a productivity-led economy using the tools of information technology (McKinsey, 2016). Many of these tools are equally relevant to improving public and social services.

Given that the technical know-how and capacity already exist, China could also become a leader in the use of information technology in the public sector and, specifically, in the field of social assistance so as to ensure a better quality of life for all Chinese citizens.

## References

- Bamford, T. (2001) *Commissioning and purchasing*, Routledge
- Dickinson, H. J. Glasby, A. Nicholds, S. Jeffares, S. Robinson, and H. Sullivan (2013) *Joint commissioning in health and social care: an exploration of definitions, processes, services and outcomes*, National Institute for Health Research
- Fritz, V. et al. (eds) (2014) *Problem-Driven Political Economy Analysis: The World Bank's Experience*, World Bank.
- House of Commons Work and Pensions Committee, (2011) *Work Programme: providers and contracting arrangements*, HMSO.
- Jiang, Zhen (2017), *Promoting the Construction of Social Assistance Coordination System: A Study on the Implementation Plan for the Coordination of Social Assistance Resources*, EUCSPRP
- Meager, N, B. Newton and R. Sainsbury (2014) *Work Programme evaluation: the participant experience report*, DWP.
- McKinsey Global Institute, (2014) *China's digital transformation: The Internet's impact on productivity and growth*, McKinsey.
- McKinsey Global Institute, (2016) *China's choice: capturing the \$5 trillion productivity opportunity*, McKinsey.
- McKinsey Global Institute, (2017) *China's digital economy: a leading global force*, McKinsey.
- MISSOC (2011). *Guaranteed Minimum Resources*, MISSOC available at [http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2011/MissocAnalysis2011\\_FINAL\\_EN.pdf](http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2011/MissocAnalysis2011_FINAL_EN.pdf)
- MISSOC (2013). *Overview of Means Testing in MISSOC Countries*, MISSOC available at [http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2013/MISSOC%20Analysis%202013\\_1%20EN.pdf](http://www.missoc.org/INFORMATIONBASE/OTHEROUTPUTS/ANALYSIS/2013/MISSOC%20Analysis%202013_1%20EN.pdf)
- Riley, R., H. Bewley, S. Kirby, A. Rincon-Aznar and A. George (2011) *The introduction of Jobcentre Plus: an evaluation of labour market impacts*, DWP.
- Thorén, K.H. (2008) *Activation Policy in Action: A Street-Level Study of Social Assistance in the Swedish Welfare State*, Växjö University Press, Växjö universitet .
- World Bank; Development Research Center of the State Council, the People's Republic of China. 2014. *Urban China : Toward Efficient, Inclusive, and Sustainable Urbanization*. Washington, DC: World Bank
- Zhang, Haomiao (2017), *Overall coordination of social assistance resources in China*, EUCSPRP [Component 3]

## Topic 2.1.4 - Pavel Janeček: An integrated system for the coordinated management of the social assistance system

### Contents

Document Scope.....	38
2. Current situation in China.....	38
3. EU experience.....	39
4. Recommendations.....	39
4.1. Goals for coordination of social assistance management .....	39
4.2. Recommended approach.....	40
4.3. Recommended First steps .....	41
4.4. Several ideas for the later stage .....	41

## Document Scope

The following report is a written version of a presentation for the workshop within the Component 2 of the EU-China Social Protection Reform Project. The workshop was held in Beijing on 26<sup>th</sup> February, 2018.

It includes the opinion of the author regarding the current situation of social assistance management in China and recommendations for improving its coordination.

## 2. Current situation in China

The Chinese government has made social assistance a priority and launched several initiatives in this area. Once completed, Chinese social protection system will be the biggest social protection system in the world in terms of the number of people covered. The current social assistance grew up from local initiatives as well as from centrally implemented programs. Social assistance system is now fragmented. Many schemes are in place, many different institutions are involved. Social assistance is funded from several sources – the state budget, provincial and local budgets, welfare lottery etc.

Fragmentation of the system results in overlapping schemes while criteria for some benefits remain unclear. Citizens must apply at several authorities and the system is not transparent. This may also have the effect that a person may be provided with more assistance than necessary while another person in need receives no assistance.

Another feature of the current system is that there is a lack of communication between the institutions involved.

The current task is to overcome the current fragmentation of social assistance management to make it better targeted, more effective, more efficient and thus fairer. In some provinces, significant progress has been achieved. In the Panel Discussion which took place in August 2017, three provinces presented their experience with efforts to improve the management of social assistance:

- In Hebei Province, institutional coordination was established and followed by the creation of information platform. Further steps have been made towards the unification of management and funds.
- Shandong Province has unified social assistance administration and merged some of the benefits which had the same purpose. One of the priorities has also been an information platform.
- Anhui Province has unified the management of the 8+1 scheme.

Another examples of unification or coordination of social assistance management have been quoted by Professor Jian Zhen in his report for the August Panel Discussion.

### 3. EU experience

Under the EU-China SPRP, experience of several EU countries has been analysed. At the Panel Discussion in August 2017, social assistance management of five countries has been presented:

- Sweden,
- the Netherlands,
- the United Kingdom,
- the Czech Republic and
- Italy.

Those European countries chose different approaches. Some opted for a decentralised model of social assistance management, other a centralised one. All those models have their strengths and weaknesses. The decision regarding the centralisation or decentralisation usually followed the tradition of general administration (for example, the Czech Republic has a long tradition of rather central administration and social assistance is managed by a central authority under the Ministry of Labour and Social Affairs).

Nevertheless, there are several features common to all countries mentioned regardless the administration model:

- Targets and target groups of social assistance programmes are clearly defined.
- Expenditure is usually based in the volume of benefits and the number of recipients – if there are more, expenditure increases. Social assistance thus serves as macroeconomic stabiliser (it has counter-cyclical effect in times of economic downturn).
- Social assistance has a link with employment/labour market policy. In the UK and on the Czech Republic, social assistance is provided by public employment services bodies.
- All those countries already launched an IT platform for social assistance integrating the relevant organizations (social assistance bodies, social security authorities, tax authorities etc.) or are planning to do so in near future.
- Usually, social insurance benefits are provided by a single authority (a municipality in Sweden and in the Netherlands, a Job Centre in the UK, Labour Office of the Czech Republic).

## 4. Recommendations

### 4.1. Goals for coordination of social assistance management

What goals could China set for improving the management of social assistance? First of all, I would like to emphasise one of the recommendations formulated by Mr Mel Cousins in his paper for the

workshop. Simple adoption of the EU best practices may not bring the expected results. Each practice works in its original context which may have roots in the history and traditions of the country in question. A solution for China must be genuine to fit Chinese specifics.

Second, in case of China, the issue of scale cannot be ignored. Two of the biggest EU countries were covered in the panel discussion (the UK and Italy) but China has 20 times more inhabitants than either of them. What works for 60 million people may not be suitable for 1.4 billion.

With those facts in mind, what could be the goals for China to set? In my opinion, they may include the following:

- Establishment of a one-stop-shop (one window) for the citizens where they can apply for social assistance benefits.
- Clear definition of the schemes and responsibilities of the institutions involved. Instead of overlapping, the schemes should supplement each other – one would fill gaps of another like a series of safety nets (Example: There is a person in need with a disability, low income and he/she has a child. While basic poverty alleviation scheme would provide income support, another scheme would address the disability - perhaps in the form of grants for special aids, services, healthcare, adjustments made to housing – and another would be used to assist with the child, e.g. through education support).
- Coordinated use of funds.
- Sharing of data which would enable for more accurate assessment of the needs and the means and for better targeting of the assistance.
- Establishment of a link with employment policy.

## 4.2. Recommended approach

How to achieve those goals? In my opinion, the top-bottom approach would be more suitable for improving the coordination of social assistance in China. Nevertheless, the provinces would be partners in this effort. Some have already gained good experience with coordination efforts as shown during the August Panel Discussion. I would recommend leaving some flexibility for the provinces to respond to their specific situation. Central government role could be stronger in the area of benefits in cash while the provinces would be in charge of the benefits in kind. In the latter, there is also room for the participation of non-governmental sector.

Regarding the role of the central government, I would recommend that it set the main goals for social assistance and the reform of its management. Furthermore, the framework and basic standards should be set by the central government which would also issue the relevant general methodology. For example, the central government may set the formula set income threshold for some benefits (typical for poverty alleviation schemes) – the formula would say which types of income are calculated, what costs are included in the calculation etc. The exact amounts would be specified on the provincial (or even lower) level.

Concerning the IT platform, the central government could set basic parameters for the IT so that separate IT platforms in the provinces will be still compatible with each other. If the government decides to establish a single information platform, I would recommend allowing for an addition of special modules the provinces may develop for new special schemes set up on the provincial level.

Appointing one agency to take charge may advance further coordination of social assistance management.

### 4.3. Recommended First steps

What could be the first steps? First, the current situation should be analysed to identify gaps, duplicities and bottlenecks in the system. The central government may take stock of existing experience with the coordination of social assistance management gained by the provinces. Different innovations may then be piloted in some of the provinces. For the implementation of a nationwide reform of social assistance management, the central government would set the targets and take steps in the IT (either defining the basic parameters or establishing single information platform). One of the steps could be the appointment of a single authority in charge of the coordination of the other institutions involved. The government may also consider introducing some incentives related to improvements in social assistance management.

### 4.4. Several ideas for the later stage

With regard to further reforms in social assistance area, I would like to mention several points worth attention:

- Benefits in kind, e.g. social services and social work, may play very important role in prevention of negative social phenomena (or their lack may lead to spread of such phenomena in spite of a well-designed schemes of benefits in cash – in the Czech Republic, the poverty-at-risk rate was stable between 2005 and 2015 but the number of socially excluded localities doubled over the same period).
- Social assistance should be linked with employment policy and with other policies (taxation, minimum wage policy). In the EU, many countries have introduced incentives and sanctions in their social assistance schemes related to working activity for the beneficiary (e.g. work-related income is not calculated fully in the income test, benefits can be increased or decreased or even withdrawn completely if the beneficiary does not accept a suitable job). Inactivity traps should be avoided. If a person's earnings from work are on the same level as the benefits he/she may receive, why would that person work? In other words, work must pay. In the EU, income tax reliefs sometimes replace or are coupled with benefits – in the Czech Republic, tax reliefs and bonuses related to children are significantly higher than child allowance (a social assistance benefit). In Hungary, most of family-related social benefits has been replaced by tax reliefs. To widen the gap between social benefits and work income, minimum wage may also be introduced.
- The social and economic conditions may change, and good solutions may lose their positive effect after few years. The administration should constantly monitor the situation and be ready to review and update social assistance to meet the current needs.

## Topic 2.1.6 - Tang Jun: Long-term Care: Conceptual Framework, Research Findings and Policy Recommendations.

In accordance with Xi Jinping's instructions on establishing a long-term care system, and by means of the investigation and study of the subject "long-term care security requirements in China", ten research findings were obtained: viewed from all of demographic, economic and social characteristics of the urban elderly and their families, could not meet the demands of long-term care when they will be disability. As a result, more and more the urban elderly have accepted the long-term care services and insurance for socialization. At the same time, based on the above survey results, this paper puts forward some policy suggestions related to long-term care services and financing.

As early as in 2016, the first year for the 13<sup>th</sup> Five-Year Plan, President Xi Jinping said, effective response to aging is important to China's development and to the welfare of Chinese people, and this must be put on agenda; during the 13<sup>th</sup> Five Year, there must be deployment and implementation for it.<sup>16</sup> In the policy for supporting old-age industry to develop, which President Xi requires the government to carry out, it is emphasized that the state should establish LTC security system that articulates relevant insurances, welfare and social assistance.<sup>17</sup>

Faced with ageing that is getting more and more serious, LTC or LTC insurance becomes two popular and important concepts around the world. However, what President Xi says is the LTC security system. So, how to comprehend this concept? More importantly, what is the way to implement President Xi's instruction? In this paper, the authors try to analyze international definitions on LTC and relevant experiences in this field. A quantitative analysis is also carried out on the basis of data provided by the research program of "China's LTC Needs".

---

<sup>16</sup> 《习近平对加强老龄工作作出重要指示强调：加强顶层设计完善重大政策制度 及时科学综合应对人口老龄化》，北京，《人民日报》2016年2月24日。

<sup>17</sup> 《习近平：推动老龄事业全面协调可持续发展》，北京，《人民日报》2016年5月29日。

## **1. International Definitions and Experiences of LTC**

The LTC security system proposed by President Xi is definitely a Chinese concept. In order to further discuss how to set up this system, it is necessary to understand the connotation and denotation of the concept.

### **1.1 Definition of Old-Age Service and LTC**

Two aspects should be noted when talk about the definition of old-age service and LTC.

#### **1.1.1 LTC Security System is A New Chinese Concept**

The concept of LTC security system, proposed by President Xi, is no doubt a new concept. It should be noticed that Xi has added a long attributive to this concept, making it a LTC security system that articulates relevant insurances, welfare and social assistances. This could be understood in this way: Insurance, welfare and social assistance are three instruments for the LTC security. Insurance and social assistance are mainly used for financing, while welfare mainly means providing services. This is to say, LTC security system should keep balance of financing and service providing, and it is pertinent to the concept of Grand Social Security, which is created and discussed by Chinese scholars.

To be concrete, there could be 4 levels of LTC security: First, instruments for financing, such as insurance and social assistance, and social services should be perfectly articulated and integrated in one framework. Second, financing should be diversified and include social insurances, government subsidies, social assistances, charities and commercial insurances, etc. The objective of financing diversification is to cover all the social groups through diverse ways. Third, for social services, it is proposed to provide “middle-level facilities that are small and economic, and with high-quality professional services”, and the services should be “localized in communities and accessible at home”. Meanwhile, services provided in institution, community and home should be integrated. And finally, authorities like MOF, MOHRSS, MOCA and Commission of Health should work together to establish a win-win system of Grand Security.

#### **1.1.2 Making LTC Policy Becomes International Consensus**

In China, there are too many concepts related to services provided to old people or disabled old people. For the former, the concepts are “Old Age Service”, “Service for Old Age Life”, “Service for Peaceful Old-Age”, and “Service for Old Age”, and for the later, there are concepts of LTC (Service), Long-Term Nursing (Service) and Long-Term Medical Care (Service), etc.

However, only two of them could be corresponding to international concepts: old-age service and LTC. In China, there are five kind of services provided to old people, which are corresponding to the five concepts indicated in the Law on Protecting Rights of Old People: old-age life, old age medical care, old-age activation, old-age study and old-age recreation.<sup>18</sup> LTC, in the other hand, is those provided to disabled old people by government or the society, which includes policy design and institutional arrangement.

The concept of LTC as international consensus is for the first time adopted by WHO in the report of Towards An International Consensus on Policy for LTC of The Ageing, which proposes that LTC is a system of activities of both informal caregivers(families, friends and/or neighbors) and professional caregivers, which is to ensure dependent individual to choose and keep quality of life according his or her priority as much as possible, and to enjoy independence, autonomy, participation, self-fulfillment and human dignity to the most possible extent.<sup>19</sup>

It is worthy noticing that in 2000, the Chinese version of WHO report had translated the concept of Long-Term Care as Changqi Zhaogu, while after 16 years, in the 2016 Chinese version of WHO reports, World report on ageing and health, and China country assessment report on ageing and health, the translation of LTC had been changed to Changqi Zhaohu.<sup>20</sup> From the perspective of Chinese language, this change is significant.

## 1.2 International Experience of LTC

In terms of international experience of LTC, there are four aspects to be understood:

### 1.2.1 LTC system is derived from population ageing.

---

<sup>18</sup> 《老年人权益保护法》，民政部网站（<http://www.mca.gov.cn/article/gk/fg/shflhcssy/201507/20150700848507.shtml>）。

<sup>19</sup> 《建立老年人长期照顾政策的国际共识》，世界卫生组织网站（[http://www.who.int/publications/list/WHO\\_HSC\\_AHE\\_00\\_1/zh/](http://www.who.int/publications/list/WHO_HSC_AHE_00_1/zh/)）。

<sup>20</sup> 《关于老龄化与健康的全球报告》，世界卫生组织网站（[http://apps.who.int/iris/bitstream/10665/186463/9/9789245565048\\_chi.pdf?ua=1](http://apps.who.int/iris/bitstream/10665/186463/9/9789245565048_chi.pdf?ua=1)）。《中国老龄化与健康国家评估报告》世界卫生组织网站（<http://apps.who.int/iris/bitstream/10665/194271/5/9789245509318-chi.pdf>）。

After mid-20<sup>th</sup> century, developed countries entered ageing one by one, with medical insurance and services faced with unprecedented pressure. It is reported that in addition to development of medical technology, the reason of increased medical costs is mainly population ageing.<sup>21</sup> Some international researches found that the medical costs before death had increased dramatically, and the main increase is in the costs of care.<sup>22</sup>

Therefore, since 1980s, developed countries started to focus their policies on LTC in a specific way. The approach is as concrete as this: Firstly, the work originally conducted by medical nurse, basic care, or daily care, was subtracted from medical services. The so-called “non-medical care and rehabilitation service” is not for curing a person, but for slowing down the development of disease for old people and make them maintain their physical functions and psychological health most possibly. The two services are combined as an independent profession, both academically and occupationally, which is LTC.

### **1.2.2 Japanese experiences of LTC is worthy learning.**

Japanese LTC is important for us to learn. In Japan, LTC is called Kaigo (介护), which means both accompanying and care. On one hand, it refers to care for daily activities like dressing, eating, living and walking; and on the other hand, it refers to aid for medical cure, nursing and rehabilitation etc.<sup>23</sup> What should be emphasized is: Kaigo is based on care for daily life and it is provided as an aid/assistance to people with difficulty in autonomy. It means aid for autonomy, realization of normal life, and respect to human dignity and right. The reason for this is: old age disability is not always resulted from disease, while physiological and cognitive obstacles can also impact on old people’s daily life activities.

### **1.2.3 LTC is social service**

According to international convention, LTC is usually categorized as social service. It has two meanings: First, LTC is provided by old-age service institutions in the field of social service; Second, LTC, as a profession, should be separated from medical service and even medical nursing in hospital, and should become an independent one. In the international experiences, professional LTC team is composed of nurse, social worker,

---

<sup>21</sup> 崔玄、李玲和陈秋霖著，《老龄化对医疗卫生体系的挑战》，北京，《中国市场》2011年第16期第56页。

<sup>22</sup> 杨燕绥和于淼著，《人口老龄化对医疗保险基金的影响分析》，北京，《中国社会保险》2014年第10期第12页。

<sup>23</sup> 日本介护工作研究所编写，《日本介护保险》，张天民、刘序坤和吉见弘译，北京，中国劳动社会保障出版社2009年版第212页。

dietitian, rehabilitation trainer and psychological consultant. Those who provide daily care to old people are professional service givers, such as the Kaigo-ists (介护师、介护士) in Japan.

The reason for including LTC into social service is clear: to reduce costs. Medical service is usually regarded as a high-threshold profession. Thus, any service related to medicine in the world would be costly.

#### **1.2.4 Principles for establishing LTC system**

It is historically significant that different countries choose LTC as a system, and this contains deep implication. In early 1980s, Denmark proposed three principles for establishing old-age health and welfare services: First, the life of an old person from its beginning to its end should be complete; Second, residual ability of old people should be used; and third, self-decision made by old people should be respected.<sup>24</sup> Chinese scholars conclude these principles as three words: continuity, autonomy and independence.<sup>25</sup> They correspond to each of the three principles. Continuity correspond to the completeness of a life from beginning to end, which mainly means Ageing in Place: Old people spend their late lives in the residence or community that they used to live for long period. In this regard, what should be emphasized is the social and humanistic environments of old age life. Autonomy corresponds to employment of old people's residual ability, which emphasizes protection, maintenance and employment of old people's ability to live in autonomy. Independence corresponds to the respect paid to the old people's self-decision, which emphasized that choices and decisions made by old people them should should be prioritized, especially in terms of what kind of service is needed, who should be chosen to provide the service, and where should be the place to receive the service, etc. UN proposes the world to have active ageing and healthy ageing, and these are in accordance with the three principles. In designing LTC and LTC insurances, these principles should be attached to.

### **1.3 International experience of LTC financing**

International experiences of LTC financing contains four aspects, as follows:

#### **1.3.1 Financing models of LTC**

---

<sup>24</sup> 日本介护工作研究所编写,《日本介护保险》,张天民、刘序坤和吉见弘译,北京,中国劳动社会保障出版社 2009 年版第 5 页。

<sup>25</sup> 茆长保著,《丹麦的老年福利和养老服务及其对中国的启示》,北京,中国社会报 2014 年 3 月 3 日。

Funds are needed to provide LTC to disabled old people. After several decades, different financing models for LTC insurance had been formed in different countries. Some researches use Denmark, US, Germany and Japan to be examples of different models of LTC system. Depending on funding sources, LTC financing is classified as insurance-based and welfare-based. Among these four countries, Denmark makes its LTC system a welfare-based one, of which funding source is tax revenue and services are provided by government agencies. In US, LTC is based on commercial insurance and funded by premium, with operation of insurance businesses. In Germany, LTC is social insurance funded by contribution, and social institutions authorized by government operate the schemes.

Japanese model is the one to which we should pay more attention. After comparing advantages and disadvantages of different models, Japan invented a new model, called insurance-welfare system, which is funded by both contribution and tax revenue, and the administration is conducted by local or grassroots government (township, street and village). By now, only Japan has established an independent LTC system, while LTC systems of other three countries are deeply characterized by medical insurance. The German way of LTC insurance is basically a supplement to medical insurance, the Danish LTC is a part to health service system, and the US medical insurance is always commercial, which influences the model of LTC.<sup>26</sup>

### 1.3.2 Target Groups of LTC

Some researches have analyzed LTC target groups and care model, for which a matrix is created to show the difference. In the horizontal line of the matrix, there are three care indicators: care for life, care for health, and care for both; and there are two target indicators on the vertical line: only for old people, and for the whole population. Then, 6 models could be obtained. Learning from Japanese experiences and looking at Chinese reality, the Chinese LTC should be designed only for old people and provides care for both life and health.<sup>27</sup>

### 1.3.3 We should learn from Japanese LTC

In conclusion, for China, Japanese LTC is most worthy learning. The first reason for this is that the target group of Japanese LTC is clearly defined as old people, while people in other age groups are excluded even they are in need of care. The second reason is that the financing model of Japanese LTC is that of Insurance + Welfare, which means the spending is partially covered by the government's tax revenue and partially covered by social contribution. Citizens start contributing to LTC when they get 40 years old. And the third

---

<sup>26</sup> 日本介护工作研究所编写，《日本介护保险》，张天民、刘序坤和吉见弘译，北京，中国劳动社会保障出版社 2009 年版第 171—172 页。

<sup>27</sup> 唐钧著，《长期照护保险：国际经验和模式选择》，北京，2016 年第 5 期第 46—47 页。

reason is that in Japanese LTC benefit of services are old people qualified after assessment and cash are paid to service providers. In case of in-home care, cash could also be paid to informal caregivers as subsidy, which is much lower than that paid to institutional providers. The residual part of the payment is given to professional institutions providing social services. The fourth reason is that the LTC services in Japan are mainly provided by NGO, including in-home and institutional services.

## **2. Findings from The Research on LTC Needs of Disabled Old Persons**

In 2016, after President Xi made instruction on establishing a LTC security system, MOHRSS issued its Guiding Opinion on Conduction of LTC Insurance Pilot Programs. In the beginning of the same year, Beijing Yide Social Work Development Center had been entrusted by China Medical Insurance Research Association to conduct the investigation and research on LTC Needs in China, a sub-topic of the research on Chinese LTC System. In mid-2016, the research team had chosen Beijing, Guangzhou, Ningbo, Qingdao, Changchun, Chongqing and Lanzhou as sampled cities, from which 3513 old persons from 21 districts, 42 streets and 168 communities had responded to questionnaire in their homes. Then, the team had analyzed the data collected, using software, and obtained 10 findings on the basis of quantitative analysis, as follows:

### **2.1 Old Age in Family is not compatible with the changed family structure**

The investigation found that small family as a structure and living pattern had been a prominent trait in urban China. In fact, among the 60+ people, the total of single-person families, two-person families and three-person families accounted for about 60%, while no-child families and single-child families totally accounted for 50%. This would be related to marriage status of the old persons, since 1/4 of them had lost their spouses (death), divorced from their spouses or had never been married.

It is also found that about 50% of the old persons still had the will to live with their children for long period. However, 1/3 of them did not. Interestingly, 1/2 of them would do nothing if their children were in need of help. The traditional support pattern that different children take turn to care parents was objected by more than 90% of the investigated persons. Children of more than 10% of these old persons were living in a different province. About 65% of those children could go back home to visit their parents 2-3 times per year, while 10% of them could not even visit their parents once a year.



The result of the investigation shows that for important family affairs, more than 40% of the old persons would make decision with all their family members, while there were also another 40% would make it by themselves. This would be relevant to whether they were living with their children.

However large was the change in family structure and relationship, there were still 80% of the old people think that their children were loving them. This shows that parents' comments on their children had been not so relevant to whether the children carry out concrete care of them, and it would be less and less relevant.

All these information tell us that the move of labor, diminishing of family and conceptual change in family and old age support had made old age in family, which is traditional, more and more unrealistic.

### **2.2 Individual and family incomes of the old persons were still at middle or low level.**

The investigation shows that in today's urban China more than 50% of old people were retirees of public sector (government and institutions), while more than 20% of them were retirees of non-public sector or those without job. Pension was the major economic resources of more than 80% of the old persons, while more than 10% of them got support from their children. The average of their individual income was 2567 RMB and the medium value was 2400 RMB.

The average of their family income was 1648 RMB and the medium value was 1500 RMB. The average family spending was 1004 RMB and the medium value was 1000 RMB. The average and the medium value of their family spending were about 2/3 of the average and medium value of their family income.

About 60% of the old persons believed their families had economic balance between income and spending. More than 20% of them believed their families were relatively rich, and about 15% of them believed their family couldn't afford their spending. More than 50% of them believed their families were at the middle level in the context of local economy, while less than 10% believed their families were rich. In addition, 10% of them believed their families were at upper-middle level of local economy and 30% of them believed their families were at lower-middle level. Those believed their families were poor accounted for about 10%. Therefore, 40% of the old persons were worried about poverty in the future.

These data show that the majority of the old persons had low income, and their purchase power were limited, which makes their demands on old-age services only potential ones instead of effective ones.

### **2.3 Old people felt the medical services were costly.**



## EU-China Social Protection Reform Project

The investigation shows us poor situation of old people's health. Among them, 99% were suffering different chronic diseases. The major disease was hypertension, which more than 30% of them were suffering. More than 20% of them were suffering cardiovascular or arthritic diseases. More than 10% of them were suffering diabetes and cataract. 30% of them had been stay in hospital for medical cure during the previous year.

Fortunately, China's medical insurance coverage as many as 97% of old people. 40% of the old people were participants of the Medical Insurance for Urban Employees, while 45% of them were participants of the Medical Insurance for Urban and Rural Residents. Those could receive public reimbursement for medical services accounted for more than 7%, while those bought commercial insurance only accounted for 2%.

Anyway, in the previous year, 80% of the old persons in the investigation had partially or fully paid the medical costs by themselves. The average of both fully and partially medical payment of these old people was 4438 RMB, and the medium value was 2000 RMB. Among them, those whose payment were 500-3000 RMB accounted for about 40%, those whose payment were 3000-10000 accounted for more than 20% and those whose payment were over 10000 accounted for 7%.

Therefore, about 80% of the old persons believed that both partially and fully self-payments for medical services constituted burden on them. 20%-25% of them believed the burden had been relatively heavy but bearable, while 5% of them believed the burden had been too heavy to bear. Therefore, among them, those who were worried about disease in the future accounted for more than 70%.

These data show that thought the coverage of medical insurance was relatively large, the level of protection was still low, constituting obvious pressure on most old persons, especially from the part that they must fully or partially pay by themselves.

### **2.4 LTC is needed by old persons with moving ability damaged**

In terms of physiological daily life activities, the investigation shows that 1% of the old persons could not take bath themselves; 0.3-0.5% of them could not use toilet, or wear clothes, or move in and out of bed, or move indoor by themselves; and 0.2% of them could not eat by themselves.

In terms of instrumental daily life activities, 2% of the old persons could not take bus by themselves, and those could not go shopping, wash clothes, cook, clean room, manage finance, or make phone call respectively accounted for more than 1%. 0.5% of them could not take medicine themselves.

Today, care for old persons are still carried out by their spouses. This case accounted for 60% of those responded to the investigation. 40% of them took care of themselves, and about 35% of them got care from

their children. About 50% of the old persons had the will to receive care from their children, while more than 40% of them preferred care by their spouses.

60% of the old persons believed the greatest impact of LTC for old persons on family was the economic costs. About 50% of them worried about human and spiritual costs, which is not a small number. 30% of them thought the greatest impact of LTC had been on lifestyle of their families and 15% of them believed it had been on work of family members. This is why we see that 30% of the old persons worried about lack of caregiver when they are in need.

The investigation shows 4% of the old persons responded with “Yes” when being asked about whether they had received care in daily life when they needed it. Less than 1.5% - 2% of them were in need of psychological consolation, care against chronic disease and care for rehabilitation and they had received them. Less than 1% of them needed LTC out of staying in hospital for medical cure. About 20% of them responded with “No” when being asked about whether they had received care in daily life when they needed it. Less than 1% of them needed LTC out of staying in hospital but didn’t receive it. For the needs of psychological consolation, care against chronic disease and care for rehabilitation, respectively more than 1% of the old persons had received the cares.

These data tell us, today, in most families, care for old person is still given by spouses and children. However, considering the changes in modern family, this pattern of care would be more and more unrealistic.

## **2.5 Old persons recognize the value of socialized LTC.**

The investigation shows that more than 50% of the old persons were willing to receive institutional services when they loss autonomy in daily life, while about 30% of them didn’t want to enter old-age service institutions, and 20% of them had never thought about this issue. Among those willing to enter institutions, about 70% cared about quality of services, 65% cared about price, and 30% cared about the distance between their homes and the institutions. Among those without intention to enter institutions, more than 60% didn’t want to leave their homes, and about 35% were afraid of high price. Those who were afraid of social critics on their families, worried about bad reputation of old-age service institution and had no knowledge about the institutions respectively accounted for about 10%.

The investigation shows many old persons were willing to accept in-home services when they loss autonomy in daily life. Those who didn’t accept in-home services and hadn’t thought about it respectively accounted for more than 20%. 45% of those who didn’t accept in-home services were afraid of the possible high price.



More than 20% worried about quality of services, and also more than 20% worried about safety issue. Near but less than 20% of them worried that their children would not agree on buying in-home services.

It shows that more than 50% of the old persons were willing to receive daily care from daytime center in their communities when they loss autonomy in daily life, while 20% said they would not accept that services. Another 20%, instead, had never thought about that issue.

These data show that to the three services, in-home, community-based and institutional, old persons didn't show preference. Those who had the will to enjoy the services were all about 50% or a bit more, while those who hadn't the will were all about 25%.

### **2.6 Old persons can accept paying for LTC services.**

The investigation shows that about 45% of the old persons accepted to pay for LTC services, while 55% of them didn't. For those who accepted to pay, the expected price averaged at 1734 RMB and the expected medium price was 1500 RMB. To be detailed, more than 35% of them chose to pay 1001-2000 RMB, and near but less than 30% chose to pay 501-1000 RMB. Less than 15% of them chose to pay less than 500 RMB, and also less than 15% of them chose to pay 2001-3000 RMB. Only 5% of them chose to pay more than 3000 RMB.

For the question who should pay for LTC services: government, employer, legally major supporter or oneself, 3/4 of the old persons hoped the government could pay for that. More than 40% of them chose to pay by themselves, and 20% of them preferred their major supporter to pay the services, while less than 10% of them believed their employers could pay for LTC.

Which should be the way that government pays for LTC services: social assistance, social subsidy or social insurance? 30% of the old persons chose the first, 30% chose the second and 40% chose the third.

This shows that most old persons had psychological preparation for paying LTC services, but they wanted the government to help them in critical moment.

### **2.7 Old people accept LTC insurance and its contribution.**

The research shows that 45% of the old persons accepted to participate in and pay contribution to social LTC insurance, 35% of them didn't accept the system and 20% of them didn't know about the system.



For those accepting to pay for LTC insurance, 864 RMB per year was the average value that they would like to pay as contribution, and 500 RMB per year was the medium value. To be detailed, about 40% of them accepted to pay contribution of less than 300 RMB per year, 20% of them accepted to pay 301-800 RMB per year, 25% of them accepted to pay 901-1500 RMB per year, and 15% of them accepted to pay over 1500 RMB per year. In general, the two extremities, those who chose less than 300 RMB per year and more than 901 RMB a year, both accounted for more than 40%.

The major reason why some old persons didn't want participate in LTC insurance scheme is they could not bear the economic burden, and this group of old persons accounted for more than 50%. 25% of old persons still preferred their children to take care of them, and about 30% of them said they hadn't been aware of relevant policies.

There were more than 30% of old persons willing to buy commercial LTC insurance, while about 50% were those didn't. 20% of old persons were not aware of about commercial LTC insurances.

The real reasons for this are, firstly, 45% of old persons didn't trust in commercial insurances, more than 40% of them could not afford to the contribution, more than 15% of them were supported by their children, and 5% of them could live with their own savings.

This shows that if insurance were chosen as the way for LTC system in China, most old people would choose social insurance instead of commercial insurance.

### **2.8 11% of old people were disabled, and they need to be classified by more detailed standard.**

According to the investigation and analysis, there must be about 11% of old people were disabled.

The research shows that according to the degree of disability, disabled old persons can be classified as those physiologically disabled and those socially disabled. The first group contains about 5% of old people while the second contains about 6%.

The research shows that under the group of physiological disabled old persons there were two sub-group: those partially disabled and those fully disabled. About 2.5% of old persons were in the former, and also about 2.5% of them were in the second.

If we calculate the number on the basis of 231 million, the total number of old people in China, according to public statistics in 2016, the rate of 11% means 25.41 million old persons were disabled. Further, 6% were those



instrumentally disabled, which were 13.86 million, 5% were those disabled, 11.55 million. 2.5%, as the rate of partially or fully disabled old persons, means 5.77 million.

For designing policy, it is suggested to assume 13% (30 million) as the rate of disabled old persons in China, which would be more prudent. Then, 7% (16.17 million) could be assumed as the rate of instrumentally disabled old persons, and 6% (13.86 million) could be assumed as the rate of physiologically disabled old person. Further 3% (6.93 million) could be assumed as the number of partially or fully disabled old persons.

The data mean that disabled old persons were actually not as many as what people had been saying. It was only 11%, and among the disabled old persons, only those fully disabled, accounting for only 3%, were those we should pay more attention to.

### **2.9 Traits of disabled old persons and their families were different from the general traits of all old persons and their families.**

Further analysis on the disabled group, the ratio of male to female was 1:2. In detail, 15% of them were aged 60-69 years, 30% of them were aged 70-79 years old, and those over 80 years old accounted for more than 50%.

Of families of disabled old persons, more than 75% were those with several children, less than 20% were those with single child, and only 5% were without child. Meanwhile, 60% of the families were single-person, two-person and three-person families, while 40% were families with four or more persons.

Among the disabled old persons, near but less than 50% were participants of Medical Insurance for Urban Employees, while more than 40% were participants of Medical Insurance for Urban and Rural Residents. Those who could enjoy public reimbursement of medical costs accounted for about 5%, which was also the rate of those not insured. For partially or fully self-payment for medical costs, more than 30% spent 501-300 RMB per year, and another 30% spent 3001-10000 RMB per year. Those spent less than 500 RMB per year and those spent over 10000 RMB per years both accounted for more than 10%.

In terms of individual income of the disabled old persons, the average was 2638 RMB per month, while the medium value was 2700 RMB per month. The average value of the partially or fully medical payment was 9079 RMB per year, accounting for 17.05% of their yearly individual income; and the medium value was 3000 RMB per year, accounting for 12.50% of their yearly individual income.

These data show that the traits of disabled old persons and their families are different from those of all old persons and their families. Differences in demographic and sociological features were even larger. The reason for this is the high age of the disabled old persons, which also constitute a different life for them in the history.

### **2.10 The willingness of disabled old persons for LTC insurance was similar to that of all old people.**

The investigation shows that about 45% of disabled old persons were willing to participate in social LTC insurance, while those were not willing to do so accounted for near 35%. Those who were not clear about this issue accounted for more than 25%.

Among those willing to participate in LTC insurance, 1/3 were able to pay less than 300 RMB per year, 1/4 were able to pay 901-1500 RMB per year, 20% were able to pay 301-900 RMB per year, and 15% were able to pay 1500 RMB per year.

Among those not willing to participate LTC insurance, about 50% were not able to pay the contribution, about 30% were expecting receiving care from children and also about 30% were not aware of relevant policies.

Among disabled old persons, 35% were willing to buy commercial LTC insurance, more than 40% were not, and more than 20% were not aware of this kind of insurance.

Among those not willing to buy commercial LTC insurance, near 50% didn't trust in commercial insurance, 40% were not able to pay premium, 20% were supported by their children, and 4% could live by their own savings.

These data show that disabled old persons' choice of social and commercial LTC insurances were not quite different from the choice of other old persons.

## **3. Conclusion of The Research**

From the 10 findings we draw two conclusions, which would be useful:

### **3.1 Urban old age families' capacity is not sufficient to meet their LTC needs.**

Theoretically, there are generally three factors result in loss of autonomy: First, chronic disease; second, physical vulnerability; and third, cognitive decline. These factors make the LTC for disabled old persons living in the urban areas a very urgent need. This was well explored in the finding 3, 4 and 8.

However, following the industrialization, urbanization and modernization of Chinese society, the rapid change of urban old age families and new traits resulted, including those demographic (findings 1 and 9), sociological

(finding 2, 3 and 9), all show us a trend that the LTC needs could not be satisfied in a good way, and this situation would not be easily changed in a short period.

Therefore, we see that the LTC needs of old persons are more and more urgent, while the traditional way of family support are being weakened due to the change of modern family structure. Thus the tension between the LTC needs and the capacity of urban old age family gets stronger.

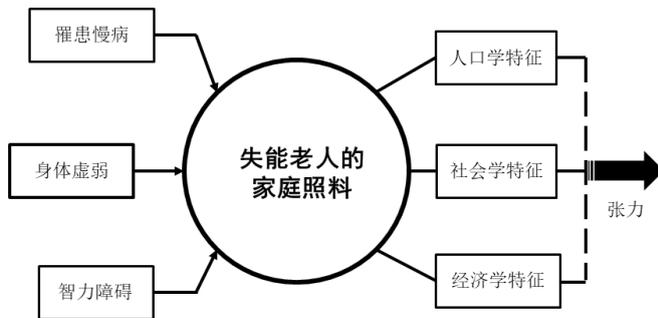


Fig 1: Tension between Needs and Capacity

For releasing or even eliminating such social tension, the only feasible way is to adopt a socialized way or approach in LTC for old people’s daily life, which is following the socialization of production and life pattern. This means, the LTC should go the quasi-market way, which operates the system in model of social services.

**3.2 People voting for, voting against and having no idea about LTC contribution/payment are equally distributed.**

Social services are also called social welfare services. In Chinese society, when you talk about welfare, some public officials and scholars would get allergic. Actually, the modern conception of welfare is far different from the understanding in 1950s, which meant free lunch or free pie. The quasi-market social services/ welfare services are the right connotation of the concept in today’s context.

What does “quasi-market” mean? It means price competition is weakened and quality competition is strengthened. A pure market way usually cannot fully cover every member of the society. In a large consumer market like China, a product or service that receive recognition from just 1/3 or 1/2 of the consumers can earn huge profits. If market coverage were extended, the distribution of profit would be smaller. Therefore, it is usually not a rational market choice to cover all social members. However, social services are different from

normal products or services, because in the fields of medicine, education, housing and old age service, the needs are rigid, and no way to retreat. In order to meet needs of every social member, government is necessary to intervene. Therefore, a quasi-market would be formed.

There are six traits for quasi-market: (1) It is based on the market; (2) Prices in a quasi-market are limited or monitored by government or the society; (3) Competition in a quasi market is on quality of services; (4) On the basis of reasonable price, government subsidize social members not capable of purchasing services in need; (5) Subsidy/allowance is delivered directly to service provider; and (6) Service providers earn reasonable profit with high quality that wins users.

This theory or value orientation was incorporated in the investigation, which asked about values of old persons and their idea about the quasi-market. On the basis of the statistics we find that in terms of the socialized LTC services (finding 5), payment for socialized LTC services (finding 6) and LTC insurance, including attitude toward social or commercial ways, the number of old people that vote for, vote against and have no idea about it are equally distributed into three groups.

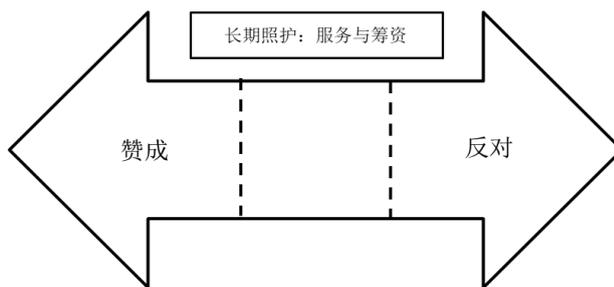


Fig 2, Attitude towards LTC payment

The investigation was conducted in mid-2016, when some experiments of LTC for disabled old persons were being implemented in some regions, but without systematic services and the public didn't know much about the programs. At the same time, LTC insurance was waiting for its birth, because in that period, the general office of MOHRSS had issued the Guiding Opinion on LTC Insurance Pilot Programs.<sup>28</sup> However, since the programs were just put in practice, the public could not fully understand every aspect of the system.

---

<sup>28</sup> 《关于开展长期护理保险制度试点的指导意见》，中国政府网（[http://www.gov.cn/xinwen/2016-07/08/content\\_5089283.htm](http://www.gov.cn/xinwen/2016-07/08/content_5089283.htm)）

Therefore, we should understand that when being asked about the LTC or LTC insurance, which was merely a concept without any clear policy design or institutional arrangement, the old persons who responded to the investigation were making their answers without good knowledge about the issue. Imagine that after a while when government had a fixed institutional arrangement and practical program for LTC, urban old people, including disabled old person, would hold a more positive attitude towards it.

## 4 Policy Suggestion on LTC System for Disabled Old People

With analysis on definitions and international experiences of LTC, and data collected from investigation, we try to provide our policy suggestions to LTC for disabled old people. Following are our suggestions for service provision and financing model of LTC in China:

### 4.1 Model of LTC services

According to the conclusion of the investigation and the analysis on LTC definitions, there should be 6 aspects contained in LTC service provision.

#### 4.1.1 In-home, community and institutional services are an organism.

The Law on Protecting Old People's Rights states that the state should establish and perfect an social old-age service system on the basis of in-home services, supported by community services and supplemented by institutional services.<sup>29</sup> In LTC services, and according to international experiences, in-home, community and institutional services should be coupling with each other in terms of functions. Only this way can we have an integrated effect larger than that of 1+1.

Currently, in real work, there is a misunderstanding idea that makes institutional services un-naturally separated from community and in-home services. In a restrict sense, there are only two ways of LTC services: in-home and institutional. Community services are semi-home and semi-institutional ones, which combines institutional services provided by daytime center and evening services at home. Theoretically, the first meaning of in-home care is ageing in place, which is an international consensus. The implication is that old people should live their final period of their life in families and communities that they had been accustomed to and they should not be

---

<sup>29</sup> 《老年人权益保护法》，民政部网站（<http://www.mca.gov.cn/article/gk/fg/shflhcasy/201507/20150700848507.shtml>）。

forced to leave the social and humanistic environments with which they are familiar. The second meaning of in-home service is that the services should be supported by social and community services, while the expression of in-home service by itself is not complete. Social supports to in-home services are not possible to be subtracted.

#### **4.1.2 The best choice for fully disabled old peoples is institutional services.**

When old people lost their functional ability seriously or fully, the rational choice is receiving service in institutions. As mentioned above, residents in cities where single-child families, no-child families, and single-person families dominate should choose this way. In institutions where services are provided in an organized way, old people can receive more professional and safe LTC services. However, it should be emphasized that old-age service institution must not concentrate in suburban areas. Instead, they should be built near urban centers or communities where residents live together. Experiences show us that small and medium institutions with 50-400 beds are better choices. This way, old people can receive professional care while live with their families. This is the idea of basing institutional services in community.

#### **4.1.3 Formal and informal cares should be balanced in in-home services.**

In classification made by WHO, LTC for old people includes those formal and informal. Some seriously or fully disabled old people who don't want to enter old-age service insurance become recipients of in-home services. However, they need long-period or even 24-hour accompaniment by specific person. Therefore, for their in-home service, there should be a specified informal caregiver, e.g. his or her family member, friends or volunteer from social or community organizations. In addition, there should also be professional caregiver to provide supporting services. There are two aspects included in supporting services: First, professional training provided to informal caregivers, which helps them to manage basic care skills for old people; and second, technical care and rehabilitation that informal caregivers cannot provide, and cooperation with informal caregivers in health management for old people. The in-home services that we usually see today are actually only focused on a part of the ideal way, missing the later two aspects. The policy makers should consider it carefully: Why there are only several services provided to disabled old people every week.

#### **4.1.4 Community service should be continuity of ageing in place.**

There is another model for community-based LTC service, which is providing daytime care from community center, called Old People Care House in China. The major recipients of this service are partially disabled old persons, and the major objective is to continue the ageing in place as more as possible. As mentioned, such a semi-institutional and semi-home services means a family entrusts old person to service center in the daytime and care old person at home in the evening. Community service can also provide service for relaxing family



caregiver. When family members are tired of caring old persons for a long period, or they need to trip for business or tourism, old person could be cared by community center.

### **4.1.5 Choosing of in-home, community and institutional services should be based on the degree of disability.**

When a person gets 60 years old and called old person, he or she doesn't necessarily need special care from the society and government. However, when an old person gets older, he or she would gradually lose autonomy in life due to disease, function reduction and cognitive disability. For old people, there is a general process from losing social functions to losing physiological functions. Therefore, choosing of in-home, community and institutional services should be based on the degree of disability. As mentioned before, 3% of old people are fully disabled, who cannot get off beds and recognize their families. This group should receive institutional services for whole day. If they don't want to leave home, formal and informal cares should be combined for caring them. There are also 3% of old people are fully disabled and are not able to take bath and walk outdoor. It is suggested to mainly adopt combination of formal and informal services. Daytime services by community center are also suggested. There are still 7% of old people are socially disabled. They cannot take bus, go shopping and cook. For them, in-home care supported by social and community services are suggested.

### **4.1.6 Provider should integrate in-home, community and institutional services.**

Thinking from the perspective of LTC provider, the best choice is to integrate in-home, community and institutional services into a unified framework. Firstly, there should be a flagship institution with 200-400 beds set up in an area to provide service to fully disabled old people. Secondly, professional force of institutions should be extended for building community centers, which provides daytime care for partially disabled old persons, and it should also be extended for providing in-home services for families. Because LTC institutions are actually doing neighborhood business, comprehensive operation can make all old people around the institutions be potential clients. It is also needed to mention that community and in-home services that are fighting by themselves are not possible to continue.

## 4.2 Models of LTC financing

On the basis of the investigation and LTC definitions, we have 5 points to be proposed for LTC financing, as follows:

### **4.2.1 The objective of LTC is to activate effective demand.**

Obviously LTC needs the funding, but a fact must be clarified: as mentioned before, even for retired employees that receive old-age insurance benefits, after the 12 times of continuous pension increase, the pension is only 2400 RMB per month. Today, in the first-line cities, LTC institution usually charge 5000-6000 RMB per month as the fee for services, and in second- or third-line cities, the fees are not less than 300 RMB per month. This data show that about 1/2 to 1/3 old people have only potential demand of LTC. Therefore, for disabled old people, it is necessary to provide a guaranteed income for paying for LTC services. Only this way can the potential demands be transformed into effective demands.

#### **4.2.2 Establishing LTC insurance is for reducing pressure on medical insurance.**

Ageing's greatest impact on social spending is the increase in medical costs. If include the LTC costs of old people into medical insurance, the funds for medical insurance would not be sustainable. China's medical insurance system is weak, because according to the Social Insurance Law, the pension system is jointly contributed by employees and employers, together with government's subsidy, while the funds of medical insurance is not subsidized by the state.<sup>30</sup> Therefore, there is no government's guarantee for medical insurance. In fact, the future of medical insurance is not optimistic. Researches conducted by relevant authorities indicate that in 2019 the fund of the Basic Medical Insurance for Urban Employees would be in deficit and in 2034 its accumulative balance would be negative.<sup>31</sup> For this and in accordance with President Xi's instruction on establishing LTC security system, a separated financing approach for an independent LTC services is a necessary choice for the country.

#### **4.2.3 LTC insurance should start from services for fully disabled old persons.**

If without classification of disability degrees, it is difficult to cover all the disabled old persons with LTC insurance at once. If we firstly covers the 3% of old people who are fully disabled in every aspect, and then extend the coverage to another 3% of old people who are partially having physiological disability, it is fully possible to establish a LTC system in China. Perhaps, we should bear it clearly in mind that the coverage of LTC should always limited within 6% of old people, so that the LTC system can be sustainable. Recent information

---

<sup>30</sup> 《社会保险法》，人社部网站（[http://www.mohrss.gov.cn/gjhzs/GJHZzhengcewenjian/201506/t20150625\\_212402.htm](http://www.mohrss.gov.cn/gjhzs/GJHZzhengcewenjian/201506/t20150625_212402.htm)）。

<sup>31</sup> 《医保基金增幅“收不抵支”藏风险》，经济参考网（[http://jjckb.xinhuanet.com/2016-02/05/c\\_135076100.htm](http://jjckb.xinhuanet.com/2016-02/05/c_135076100.htm)）。



shows that there are problems in financial sustainability of Japanese and German LTC systems. The reason might be that the coverage of these systems are too broad in terms of recipients and services.

As mentioned before, in 2016, 60+ people in China were over 231 million. According to investigation, 3% of them were fully disabled, which are about 6.93 million. If we make full payment to this group through LTC insurance, which means 3000 RMB per month (plus pension of these people), it needs totally 20.8 billion RMB. For financing, if each old person contributes 100 RMB per month to the system, then 231 million old people can accumulate 231 million RMB per month. This is optimistic for the system.

#### **4.2.4 The channels for financing should be diversified.**

According to the calculation made in the previous paragraph, the system doesn't require old persons to pay for all the contribution. The diversified way that we propose for LTC financing can be called cocktail financing. Firstly, it means old people should pay contribution, as urban old persons pay 25 RMB per month, which accumulates to 300 RMB per year, while rural old persons pay 10 RMB per month, which accumulates to 120 RMB per year. This standard is affordable to most old persons. A small part of Dibao recipients can pay the contribution through poverty reduction program or charities. The rest of the contribution, 75RMB per month, as social pooling, could be paid by pension insurance, which can be dug in annual increase of the fund, and medical insurance, which is reduction of medical costs, housing credit, which is the part accumulating after retirement, disability pension, since over 50% of people with disability are old, and lottery revenue for public welfare, of which 50% are regulated to be used for old-age affairs. In conclusion, the general objective of this financing model is to collect 75 RMB per month (900 RMB per year) from urban old people and 90 RMB per month (1080 RMB per year) from rural old people, and this way, the financing level could be same as the level we mentioned in the previous text.

#### **4.1.5 Mix of Social and Commercial Insurances**

Insurance system can adopt mix of social and commercial approaches. This means relevant public authorities are responsible for planning, collecting contribution and monitoring the administration, while the management of funds and payment of contribution are in charge of commercial insurance companies. Generally, fully disabled and eligible old persons are suggested to receive institutional services and insurance companies sign contract with LTC institutions chosen by the recipients, with 3000 RMB per month being paid to the institutions automatically. If old people do not want to enter institutions and choose to stay home, a part of care fee should be paid to qualified informal caregiver, while another part should be reserved for supporting social services.

## Bibliography

- 1 《关于老龄化与健康的全球报告》，世界卫生组织网站 ([http://apps.who.int/iris/bitstream/10665/186463/9/9789245565048\\_chi.pdf?ua=1](http://apps.who.int/iris/bitstream/10665/186463/9/9789245565048_chi.pdf?ua=1))。
- 2 《建立老年人长期照顾政策的国际共识》，世界卫生组织网站 ([http://www.who.int/publications/list/WHO\\_HSC\\_AHE\\_00\\_1/zh/](http://www.who.int/publications/list/WHO_HSC_AHE_00_1/zh/))。
- 3 《习近平对加强老龄工作作出重要指示强调：加强顶层设计完善重大政策制度 及时科学综合应对人口老龄化》，北京，《人民日报》2016年2月24日。
- 4 《习近平：推动老龄事业全面协调可持续发展》，北京，《人民日报》2016年5月29日。
- 5 《医保基金增幅“收不抵支”藏风险》，经济参考网 ([http://jjckb.xinhuanet.com/2016-02/05/c\\_135076100.htm](http://jjckb.xinhuanet.com/2016-02/05/c_135076100.htm))。
- 6 《中国老龄化与健康国家评估报告》世界卫生组织网站 (<http://apps.who.int/iris/bitstream/10665/194271/5/9789245509318-chi.pdf>)。
- 7 崔玄、李玲和陈秋霖著，《老龄化对医疗卫生体系的挑战》，北京，《中国市场》2011年第16期。
- 8 茆长保著，《丹麦的老年福利和养老服务及其对中国的启示》，北京，中国社会报2014年3月3日。
- 9 日本介护工作研究所编写，《日本介护保险》，张天民、刘序坤和吉见弘译，北京，中国劳动社会保障出版社2009年版。
- 10 唐钧著，《长期照护保险：国际经验和模式选择》，北京，2016年第5期。
- 11 杨燕绥和于淼著，《人口老龄化对医疗保险基金的影响分析》，北京，《中国社会保险》2014年第10期。

## Topic 2.1.6 - Zhen Li<sup>32</sup>: A Proposal on Improving the Service System of Elderly Care in China

### 1. Introduction

---

<sup>32</sup> Zhen Li, Professor of Renmin University of China, email address : lizhen1113@vip.sina.com.

As China entered the aging society in 2000, with the extension of the people's life expectancy, the long term care for the elderly has drawn wide concern. According to “*the Fourth Sample Survey of Living Conditions of the Elderly in Urban and Rural Areas of China*”<sup>33</sup> (hereinafter referred to as “the Fourth Survey”), the number of disabled<sup>34</sup> elderly constitutes 4.2% of people above 60-year-old, among which the severely-disabled elderly constitutes 1.3%, the moderately-disabled elderly 0.5%, and the mildly-disabled elderly constitutes 2.3%. In 2017, the total population of China was around 1.39 billion, and the number of people aged 60 and above was 240 million. If the fourth survey could be representative, then there were about 1 million disabled elderly in total, within which 0.43 million are severely and moderately-disabled in 2017. Fully aware of these statistics, the Chinese government was far-sighted in launching the construction of elderly care in the early 1990s, and giving full consideration to the construction of long term care delivery system for the elderly in 2006. After the construction for more than a decade, a comprehensive welfare system, which is based on family unit and community, supported by related institutions, and combines treatment with convalesce, has been established.

With the extension of the people's life expectancy, the demand for long term care will continue to grow. In addition, the demand for long term care for the elderly is not met within the family due to the family planning policy, family miniaturization and the specialization of medical care. Therefore this demand will spill over into social demand and require elderly care from the society. Besides, the long term care, involving huge time and economic costs, can be very costly even if it is provided by the family. As we know, the elderly care provided by the society can directly address the concerns about economic costs, and a well-established financing system would be very helpful in providing better elderly care. As a result, we should take the financing system into account while we discuss about the long term care delivery.

Having drawn on practical experience of countries and regions with high income, we find that the way of raising funds depends on many factors: the economic development, the family system, the

---

<sup>33</sup> *The Fourth Sample Survey of Living Conditions of the Elderly in Urban and Rural Areas of China* is a large-scale data survey conducted by the National Committee of Aging in 2015. The survey is based on 222179 individual samples from 31 provincial-level units nationwide, which includes 22,158 long-form samples and 7,087 community samples, 1871 township samples and 460 samples in counties and cities.

<sup>34</sup> The disabled here is defined as: For six items of the ADL scale, eating, dressing, going to the toilet, walking in the room, going to bed and getting out of bed, and taking a bath, if one is unable to execute any one of the items, he or she is defined as “disabled”. However, if one can execute all of items effortlessly, he or she is defined as “able to take care of oneself”. In addition, one unable to conduct 1-2 ADL items is defined as “mildly- disabled”; one unable to conduct 3-4 ADL items is defined as “moderately-disabled”; one unable to conduct 5-6 ADL items is defined as “severely disabled”.

attribution of responsibility in long term care, and people's perception of the role of government. Singapore and Hong Kong focus on the role of the family, and they, as well as its overall social system, takes major responsibility for vulnerable groups; the Nordic countries aim to establish a top-notch and universal welfare system for long term care in line with their overall welfare system; the UK attaches great importance to the role of family and the community, and it provides a subsidy system for household budget survey, which contradicts their title as "welfare state" and the national medical care system; countries such as the Netherlands, Germany and Japan raise funds through the social insurance system, and the cost varies according to how much their citizens depend on the family and the institution. Therefore, we also find that the more the family relies on care delivery from the institution, the higher the cost will be and the family will seek more help from outside regardless of the funding system. That is to say, the demand generates the supply, and the expansion of supply, in turn, will promote or stimulate demand.

At present, the concern about long term care starts to gain momentum in China. During the discussion about the construction of long term care delivery system, the interaction between financing model and delivery model should also be taken into account.

## **2. Development of China's elderly care and the exploration of long term care financing system**

### **2.1 Evolution of China's policy on elderly care delivery system**

Before 1994, elderly care was provided only by family members in China. After the founding of New China, the rural areas were the underdeveloped places where more than 80% of the population lived. To address this issue, the Chinese government, driven by collective economy, established a "Rural Five Guarantees" system for the elderly and kids who have no family and no income to rely on, and provided centralized elderly care for the disabled, and subsidized the children and the "Three Noes"<sup>35</sup>elderly in urban areas with the support of charity house.

After 1994, the policy on elderly care was amended in terms of its major provider. With the home-based care as the foundation, the "social security system for elderly care", including the community-

---

<sup>35</sup> "Three Noes" Refers to the elderly in urban areas who have no income, no support and are unable to work. ——译者注



and institution-based care, had been introduced, which ushered a new era of diversified elderly care delivery. In 1994, the Chinese government released *the Seven-year Development Plan for the Work on Population Aging (1994-2000)*, proposing “we must adhere to combining the home-based care with social elderly care”, and “spare no efforts to establish and improve the social security system for elderly care by building more welfare facilities and expanding the scope of social elderly care. Meanwhile, we must give full play to the role of family in economic support, life care and spiritual consolation.” In 1996, *the Law of the People’s Republic of China on the Protection of the Rights and Interests of the Elderly* was promulgated. It not only stipulated that “the family should shoulder major responsibility for elderly care”, but also pointed out that “it’s essential to develop community-based care and build up facilities and network so that the elderly can enjoy life care, cultural and sports activities, health care and recovery”. During this period, the government proposed the notion of “social elderly care”, and also gave full play to the role of community in meeting the elderly’ demand for the care, which largely differed in ideology from the home-based care, and paved the way for the following home-based care policy. It was also during this period that institutions for elderly care sponsored by social capital entered the elderly care market.

After 21st century, the policy on elderly care delivery has always been adjusted to promote the allocation of duties and coordination among the family, community and institutions. Besides, the elderly care for the disabled and moderately-disabled is put forward and the construction of long term care system has drawn wide concern. In 2006, the General Office of the State Council released *the Opinions on Promoting the Development of Elderly Care*, which said: “The development of elderly care requires the guidance of policy, government support, sponsorship from the society, and promotion through the market. Therefore, we should take steps to establish a system based on home-based care, supported by social elderly care and assisted by the institution endowment.” The “12th Five-Year Plan” for Population Aging, promulgated in 2011, emphasized the role of the institution, and the policy was amended into “home-based, community-based, and institution-supported”. In the same year, the Ministry of Civil Affairs promulgated *the “12th Five-Year Plan” for Social Elderly Care*, in which the statement: “addressing the elderly care for the disabled and moderately disabled should be given highest priority in strengthening social elderly care system and promoting social stability” was proposed for the first time. With the social capital quickly introduced into elderly care market, the government subsidized the institutions of elderly care in large numbers and resulted in many excessive institutions. Therefore, the “13th Five-Year Plan” for Elderly Care aims to advocate “a home-based, community-based and institution-supported elderly care system that combines health care and elderly

care”. In this way, the major care provider, as is mentioned in the statement of 2006, shall meet the demand of long term care in terms of the contents of the care delivery, and the idea of combining health care and elderly care was brought up.

Since the statement of “addressing the elderly care for the disabled and moderately disabled” was brought up in 2011, the state once again revised and promulgated *the Law of the People's Republic of China on the Protection of the Rights and Interests of the Elderly* at the end of 2012, and it stipulated that “the state would launch the security program for long term care to ensure the elderly can receive sufficient health care.”

## **2.2 Status quo of urban-rural elderly care and long term care system**

After many years of construction, a home-based, community-based and institution-supported elderly care system that combines health care and elderly care has been established.

The family is the major and ideal place to offer long term care. According to the living arrangement for the elderly mentioned in Fourth Survey, 13.3% of the elderly are empty nesters while 86.7% are living with others. In terms of the elderly in urban and rural areas, the proportion of living alone/empty nesters in urban areas is 12.2%, lower than that of rural areas which accounts for 14.5%. The statistics show that 15.22% of the elderly in urban and rural areas really need elderly care, and 14.14% of them live in urban areas and 16.38% in rural areas. Among these elderly in need of care, 91% of them actually received elderly care. To make it more specific, 93.46% of the elderly in need of care in urban areas had been served and the number is 89.43% in rural areas. Only about 10% of elderly people did not have access to the care they need. Family members are still the major providers who can offer elderly care: spouses (43.48%), sons (28.64%), daughter-in-law (10.08%) and daughters (10.35%) account for 93% of the total providers. Similarly, this ratio is 95% in rural areas and 90% in urban areas. As we can see from the care provided outside the family, 5.35% of urban elderly and 0.58% of rural elderly are served by housekeeping workers; 1.32% of urban elderly and 0.62% of rural elderly are served by the staff from the institutions for elderly care; very few people would choose the elderly care provided by community staff or day care center.

Recently, community-based elderly care delivery, especially for special groups such as the disabled & moderately disabled elderly, the elderly with more advanced age, low-income empty nesters, has been in rapid development. Due to the increase in both the financial investment and care staff since 2010, the community-based elderly care system has been in transition to a well-round center that provides



health care & rehabilitation, medical treatment & endowment and emotional care in addition to the basic life care, such as providing meals and cleaning; furthermore, the system has paid more attention to the mental and physical health of the elderly rather than their economic state; besides, the system allows the community to support the home-based care by integrating more resources instead of minding their own business, which offer great help to the special groups and their families. By 2016, there are 35,000 community-based institutions and facilities for elderly care and 76,000 community-based endowment facilities intended for mutual help; among all kinds of beds, there are 3.229 million beds for community accommodation and day care.<sup>36</sup>

Basically, the community-based elderly care platform is well-established owing to the information care system. During the “12th Five-Year Plan” period, the local governments spared no efforts to build the information platform of community and home-based care, and further established a community-based “virtual nursing home” on the platform mainly sponsored by people from all walks of life. Beyond that, the local government also attempted to create an all-round and convenient model for community- and home-based care, including door-to-door care, emergency care and mutual help care, etc. so as to meet all kinds of needs from the elderly.<sup>37</sup>

With a rapid growth in the number of beds in the institutions, long term care, rehabilitation, and hospice care are receiving more and more attention. By the end of 2016, there were 29,000 institutions for elderly care registered with a total of 732,000 beds (31.6 beds per thousand elderly people, including community accommodation and day care beds). According to a survey conducted by Qing Lianbin on 421 institutions for elderly care by the end of 2014 and 2015, 84.6% of the institutions for elderly care set up beds for the disabled elderly, and 91 beds on average, accounting for 42% of the overall beds on average; 61.8% of the institutions for elderly care set up multi-function care beds with an average of 53 beds per institution. Among all the 421 institutions for elderly care, 75.5%, which involves 318 institutions for elderly care, set up rehabilitation therapy rooms with an average area of

---

<sup>36</sup> The data is based on the statistical bulletin of the development of social elderly care in 2016. The web portal of the Ministry of Civil Affairs: <http://www.mca.gov.cn/article/zwgk/mzyw/201708/20170800005382.shtml>.

<sup>37</sup> The Research Group of the Academy of Macroeconomic Research: An analysis and proposal on the investment in the construction of elderly care system during the “13<sup>th</sup> Five-Year Plan” period[J]. *Macroeconomic Research*, 2016(3).

126.7343 square meters; about 276 institutions for elderly care set up 508 hospice rooms in total and 1.84 rooms on average, and up to 26 hospice rooms in each among all institutions.<sup>38</sup>

### 2.3 Major problems of the development of long term care system for the elderly

As an important part of the elderly care system, long term care system must be observed under the big picture of the elderly care system. The major concerns about long term care and the care delivery system for the elderly lie in both the total amount and structural mismatch in supply-demand relationship.

From the perspective of home-based care, there are several issues that need to be addressed: First, the rural elderly are more vulnerable in health and earning less than the urban elderly, and therefore the supply-demand gap of long term care is larger in rural areas than that in urban areas. However, the current policy favors the elderly in urban areas in terms of providing elderly care, making this gap even larger. Another issue that has not drawn much attention is that the first generation of migrant workers from the rural areas is aging, but they have no access to the elderly welfare of the city they work in due to household registration, so it is noteworthy to see how their return to rural areas shape the structure of the population and long term care in rural areas. Secondly, the current policy has benefited the elderly with advanced age, empty nesters, and the elderly with less income, but is yet to take the whole into account. After several generations, some cohabited families might be unable to offer long term care or even afford the elderly care; besides, families with two generations of elderly to provide for (the elderly live with their parents) also find it hard to offer long term care; in addition, the demand for home-based medical care in urban areas is not accessible enough. “The Fourth Survey” indicates that door-to-door care of doctors is widely accepted in home-based care. In rural areas, doctors are allowed to visit their patients while that will be against the rules in urban areas, which reveals the system defect in dealing with supply-demand relation. At present, some local governments started to encourage the

---

<sup>38</sup> QING Lian-bin. A survey and preliminary analysis on the basic conditions of institutions for elderly care in China[J]. Academic Journal of Jinyang, 2017(1). From 2014 to 2015, the Central Public Welfare Lottery Fund have supported elderly care for disabled elderly people in China by funding a total of 525 institutions for elderly care (29 provinces, autonomous regions and municipalities directly under the Central Government, excluding Shanghai, Tibet, Taiwan, Hong Kong and Macao). This article collected the basic data of these institutions for elderly care and made some supplementary investigations on some institutions for elderly care, eliminating the institutions with incomplete data and acquiring the basic information of 421 institutions. However, it should be noted that only the institutions that have met the requirements or standards in qualification and management, facilities, care places, care equipment, the elderly care, the employee forces, and standardized and institutionalized construction are eligible to apply, The institutions that have passed the qualification examination can be funded by the Central Public Welfare Lottery Fund. Therefore, among the tens of thousands of institutions for elderly care across the country, these institutions are generally above the average.



family doctors to visit their patients based on the contract between them. Thirdly, most elderly are not proficient enough in using the Internet. In this information era, many cares, including telemedicine, cleaning, catering, shopping and online payment for utility bills, can be offered through the Internet. Unfortunately, these benefits are not accessible to the elderly due to low penetration degree of home Internet and lack of knowledge in using it.

The supply-demand mismatch in community- and institution-based care:

In some communities, the supply-demand mismatch is mainly reflected in these aspects: Firstly, the lack of beds in the community helps explain the supply-demand mismatch in beds of all institutions. The statistics from “the Fourth Survey” show that the demand for day care in the community was not huge, and only 2.13% of the elderly in urban and rural areas need day care, and only 1.56% of the elderly who can do part of the self- maintenance and 0.54% of those who cannot need day care. Some local governments, on the contrary, spent much on facilities for day care in community recently regardless of the demand. By 2016, more than 3 million beds for community accommodation and day care were set up, causing huge waste of beds. Beijing Municipal Government had invested 300,000-700,000 yuan in day care institutions of each community and more than 2,700 day care centers were built. Currently, less than 700 institutions are actually used for long term care and other institutions are left unused or used for other purposes. Secondly, the mismatch in government’s care delivery through community and all kinds of needs from the elderly. Local governments only purchase elderly care, including cleaning and catering, for the elderly and those who need long term care in community platforms, and are yet to meet the various needs from the elderly. There is no such delivery method that can be universally applicable.

In some institutions, the supply-demand mismatch is mainly reflected in these aspects: First, the mismatch between the aggregate supply and total demand of beds. According to the data released by the National Bureau of Statistics by the end of 2014, there were 34,000 the institutions for elderly care equipped with 5,514,000 beds for accommodation and only 2,887,000 of them were used by the elderly, which marked a vacancy rate of 48% (as is shown in the figure). After this figure caught the media’s attention, the Bureau no longer released the number of occupancy, but the number of beds was growing more rapidly, further expanding the scissors differential between supply and demand. Secondly, there is a supply-demand mismatch in term of the location of many institutions for elderly care. Even if they are willing to live in the institution, the elderly in need of long term care and their families prefer to a well-equipped institution near their home and bustling business streets, while most institutions of that

kind are located in urban areas. Due to the limited space in central urban areas, many large-scale institutions for elderly care are often built in suburban areas, which fail to match the demand of the elderly and families who need long term care. Due to the mismatch in location, the supply of beds is tight in central areas but excessive in remote areas, which helps explain why the total supply of beds exceeds its demand. Thirdly, the mismatch between financial investment and its target. The government has been focusing on the investment in building the facilities for institutions for elderly care which function as the supplier of care. There are several ways of investment from the government in the supply side: (1) works as the investor and manager of the institutions for elderly care or makes them run by the public or private organizations; (2) invests in community-based care facilities; (3) subsidizes private institutions for elderly care according to the scale of investment or beds. This supply-side policy has caused a series of problems: the demand for beds of state-run institutions has exceeded the supply due to its exceptional location, high level of care, and the price advantage, etc. This “Hard-to-get bed” phenomenon sent misleading messages to the market, and the supply-side policy yielded little, encouraging the herd mentality in social capitals. Generally speaking, the government role in long term care should be “ensure the basic supply”. In addition to the elderly care of the “households enjoying the five guarantees” and the “Three Nos”, the government should give the top priority to providing shelters for low-income disabled groups with insufficient family support. However, these people have no access to the benefits from the providers.<sup>39</sup> Recently, as is shown in a new research, the number of disabled elderly and those in need of hospice care in state-run institutions is unexpectedly less than that in private-run institutions<sup>40</sup>, which indicates most financial resources are being used by the healthy elderly with more income and the targeting system of the welfare needs to be recalibrated.

On a macro level, limited resources have been wasted when the total supply of institution-based care exceeded its total demand and a majority of beds were left unused. On a micro level, it was a tough time when 10% of institutions for elderly care gained profits while 25% of them were in a deficit.<sup>41</sup> As some small private-run institutions withdrew from the market and large-sized ones expanded their size,

---

<sup>39</sup> ZHANG Xiang, Lin Teng. Grant subsidy according to “Bricks”, “Beds” or “Heads”: A case study of institute for the aged in X county of Zhejiang Province[J]. Social Security Studies, 2012(04).

<sup>40</sup> QING Lian-bin. A survey and preliminary analysis on the basic conditions of institutions for elderly care in China[J]. Academic Journal of Jinyang, 2017(1).

<sup>41</sup> 2016 Statistical Bulletin of Social Service Development. Ministry of Civil Affairs portal,

<http://www.mca.gov.cn/article/zwgk/mzyw/201708/20170800005382.shtml>

more mismatches might occur in terms of the scale and location of some institutions for elderly care. Besides, some pressure groups may try to affect public policies and stimulate the demand for elderly care and long term care through so-called institutional innovation in order to narrow the supply-demand differential of institutions for elderly care.

## 2.4 Exploration of long term care financing system

With the exploration and development of care delivery system, the Chinese government is playing an active role in researching various financing systems in order to secure the long term care for the elderly.

First, a comprehensive subsidy policy through government supply. After entering the 21st century, some high-income areas attempted to subsidize the elderly by old-age allowance. As the demand for long term care drew attention, the government made the subsidy available to more elderly with low income and high demand. Since the institution-based care was put on the agenda of the “12th Five-Year Plan”, the institutions for elderly care have always been oversupplied and local governments have paid more attention to the demand-side in recent years. A late starter as the long term care subsidy is, it will be sure to benefit more people in the foreseeable future. By the end of August in 2016, 26 provinces (autonomous regions and municipalities) have promulgated the subsidy policy for old-age allowance, 20 provinces (autonomous regions and municipalities) have promulgated the subsidy for elderly care, and 17 provinces (autonomous regions and municipalities) have promulgated the subsidy policy for long term care. In addition, 23.554 million elderly people have enjoyed old-age allowance, which marks an increase of 9.3% over the previous year; 405,000 elderly have enjoyed care subsidies, which marks an increase of 52.8% over the previous year; 2.82 million elderly have enjoyed elderly care subsidies, which marks an increase of 9.7% over the previous year<sup>42</sup>.

Second, the social insurance model. In July 2016, *the Opinions on Piloting Long Term Care Insurance System* was promulgated by the General Office of Human Resources and Social Security, selecting 15 cities for pilot projects to explore the ideal model of the social insurance for long term care. The pilot program pointed out: “we can raise funds in staff’s medical insurance through optimizing the structure of social pooling account and individual account, transferring the fund balance and adjusting the rate of medical insurance”, which can be regarded as the expedients for the current situation. On the one hand, the Law on Social Insurance stipulates that funds should be earmarked and the transfer of medical

---

<sup>42</sup> The data is based on the statistical bulletin of the development of social elderly care in 2016. The web portal of the Ministry of Civil Affairs: <http://www.mca.gov.cn/article/zwgk/mzyw/201708/20170800005382.shtml>.

insurance funds violates the law; on the other hand, the balance of medical insurance funds varies from different places, so the measure mentioned above is not universally applicable. Therefore, the financial support is still an indispensable channel to ensure the long term care insurance in our society.

Third, mutual insurance model. As a risk-dispersion mechanism between social insurance and commercial insurance, mutual insurance is, like social insurance, non-profit in terms of its purpose of business. However, what makes the mutual insurance from other mechanism is that it is voluntary and self-financing. As a typical example of cooperative economy, the mutual insurance has more profound history than commercial insurance, and currently 27% of premium income worldwide comes from mutual insurance, which is still not a familiar concept to Chinese people. Currently, some places started exploring the mutual insurance of long term care, such as Haidian District, Beijing and Wuhou District, Chengdu City, Sichuan Province.

### **3. Consideration and suggestions on improving the long term care delivery system**

We are heading towards the right direction when we try to improve the home-based, community-based, institution-supported elderly care system that combines health care and elderly care. Based on previous analysis of the status quo and problems in elderly care and long term care, we found that (1) home-based care and long term care needs support from the outside; (2) the facilities and beds are oversupplied, and the information work of community should be done according to the demand. In addition, to address the issue of long term care must give priority to establishing funding systems.

#### **3.1 The government role in long term care is to “ensure the basic supply and build a tightly woven safety net”**

Basically, the long term care for the elderly has always been the private affair in which individual and family should take major responsibility. However, some vulnerable groups in our society really need some help from others in handling private affairs. In order to achieve a shared growth by encouraging everyone to fulfill their own duty, the Chinese government must take the initiative to ensure the basic supply and build a tightly woven safety net. Based on the economic and care ability of individual and family in long term care, the government should provide targeted support to vulnerable groups so that they can benefit from the social development. Therefore, to secure the long term care for the elderly requires the effective cooperation among government, individual and families.

3.1.1 The long term care for the elderly has always been the private affair in which individual and family should take major responsibility.

In the report at the 18th and 19th National Congress of the Communist Party of China (CPC), it is clearly mentioned that “clearly defined rights and responsibilities” is of great importance in strengthening the social security system. Therefore, defined rights and responsibilities is the basis of the overall arrangement in building the financing and care delivery system for the long term care of the elderly. At present, many people worldwide have reached consensus on the concept of “welfare pluralism” which indicates the diversification of welfare providers. However, people may share few common grounds due to different cultural and historical background, so it must be a long way to draw the line for each stakeholder and achieve joint development through collaboration. Though originated from the West, the concept of “welfare pluralism” is further developed in its meaning by Chinese people. In terms of providing long term care, “welfare pluralism”, under the western background, refers to the transfer of responsibility from government and society to individual, family and enterprise, but it is exactly going the other way around in China. It is noteworthy that more and more people regard long term care as their private affair which was once seen as part of citizenship in some welfare states<sup>43</sup>. As those welfare states “move to the right”, China should have more discussion on the basic theories before heading leftwards.

There are two issues that need to be addressed in long term care for the elderly: (1) financing and cares related to health care; (2) financing and cares related to day care. The cares related to health care can be purchased<sup>44</sup> through basic medical insurance, so it is unnecessary to establish another type of insurance to cover the medical expenses for the elderly; in addition, from the perspective of economic theory and social ethics, the cares related to day care, just as babysitting or life care for other family members, belong to private affair, which should be provided by individuals who can provide elderly care on their own or purchase long term care through self-pay or transferring insurance, it is up to them to decide.

---

<sup>43</sup> Ellen Grootegoed, European welfare states are cutting back their responsibilities for long-term care, emphasising ‘self-reliance’ and replacing care as an entitlement of citizenship with targeted services.

Journal of Social Policy / Volume 41 / Issue 04 / October 2012, pp 677

<sup>44</sup> The reason why Chinese scholars propose to establish the long term care insurance system is partly because a large amount of medical resources are occupied by the hospitalized elderly, and they also propose to draw on experience from the model of Japan and the Netherlands and other countries. In fact, the Japanese case does not prove that establishing long term care insurance can address the problem of “social hospitalization.” Besides, the reform of the Netherlands in 2015 reintegrated medical care into medical insurance.

To remind people that providing elderly care for family members are private affairs, *the Law on the Protection of the Rights and Interests of the Elderly* and *the Marriage Law of the People's Republic of China* stipulate that all family members, such as couples, parents and their kids, have the right and obligation to take care of each other economically and physically. Furthermore, China has no specific law on the legacy and the elderly usually pass it onto their children, so their children should have the moral obligation to provide for their parents. Apart from the retirement allowance provided by the government, most of individuals and families have certain financial capability. As we can see from the statistics, the stronger financial capability the families have, the higher their saving rate will be. Chinese families have two significant characteristics. The first is high saving rate. About 90% urban residents and 60% rural residents have a saving rate of over 20% (2012). The second is house property. About 94% rural residents and 91% urban residents own houses<sup>45</sup>. Under the circumstance of population aging, savings and housing can provide certain support for the elderly to avoid the risk of disability.

### 3.1.2 Social insurance for long term care is not in line with the national conditions

To cover the costs of long term care for the elderly, the government will never hesitate in providing common products and elderly care (social insurance) or providing public products and elderly care enjoyed by all. Before that, the government needs to conduct all-round surveys on the level of economic development, structure of family system and people's attitudes towards related taxation. By providing common or public products, some welfare states had offered comprehensive long term care for the disabled and the disabled elderly, which caused great losses in national economy afterwards. Having reflected on the past, these welfare states decide to attach more importance to the indispensable role of family in long term care. Therefore, China should learn from the past mistakes: neither social insurance nor financial subsidy should exceed the affordability of national economy.

There are several reasons why it is not the right time to push forward social insurance system under current situation. (1) With a profound history in China, family system has always been regarded as an important part of the social security system, which is completely different from that of welfare state. Besides, filial piety, as one of the codes of ethics in our society, is deeply rooted in Chinese culture and it is a moral obligation for every Chinese to pay more attention to their family and take good care of

---

<sup>45</sup> Li Zhen. The Future Reform of Chinese Housing Provident Fund from the Perspective of Boundaries of the Government's Responsibility. *Chinese Social Security Review*, 2017, 1(4):106-115.

their parents; (2) The social security system in China is centered on the principle of “ensuring the basic security” which aims to protect people from basic risks and ensure the basic level of social security. Since the cost of long term care does not belong to basic risk or even pure risk, China must remain firm in following its own path of development in social security; (3) According to the statistics, the per capita GDP of China is just above average and the per capita disposable income is characterized by skewed distribution. Generally speaking, people with higher income tend to take more advantage of the insurance funds while those with less income tend to use less. In terms of the beneficiaries of the welfare, the social insurance may cause reverse redistribution in the system of critical illness medical care and public reserve funds. (4) Due to the dual economic and employment structure in urban and rural areas, the urbanization rate of household registration is only 41% and about 290 million people participated in the medical insurance for employees, and the rest of the population will be covered by medical insurance for the residents. Although it would be much better to promote long term care insurance among those participated in employee’s medical insurance, people in rural areas, with a greater demand for long term care, are yet to be covered by the insurance. If it is extremely hard to achieve universal coverage of long term care in a short period, how to realize universal coverage for long-term care insurance under the circumstances that the security level of current residents' medical insurance is still insufficient. (5) Under the circumstance of the reform on supply-side, the government urged related departments to reduce corporate taxes and fees and it would be inappropriate to establish another type of insurance.

3.1.3 The government role in long term care is to “ensure the basic supply and build a tightly woven safety net”

As a developing country with 8,100 dollars per capita GDP in 2016, China still has a long way to go to catch up with high-income countries and is yet to provide universal long term care security for the elderly. In order to provide more welfare for the people, the government needs to tax more, for which we have to make cost-benefit analysis between welfare and obligation. Throughout the urbanization process of household registration, the government role is to provide help to the disabled elderly whose family cannot provide long term care or afford those elderly care on their own, which is exactly in line with the principle of “ensure the basic supply and build a tightly woven safety net” mentioned in the report of “the 19<sup>th</sup> CPC National Congress”. Similarly, this principle can be applied to the disabled people of other age groups whose long term care is yet to be put on the agenda. Compared with the

social insurance system, the system mentioned above can be more accurate in redistribution and maximize the wellbeing of people through public expenditure.

Based on the theories mentioned above, this paper proposes to categorize the disabled elderly into four groups characterized by different economic and family capacity of individuals and families rather than their family structure and age: low-income with few family support, low-income with family support, high income with few family support, and high income with family support. Among these four groups, the government would prioritize the security of the first one, especially for the severely disabled elderly in the first group. With the development of national economy, the government support can be extended to the second category, and so on. At present, the current policies have supported the “Five Guarantees” and the “Three Noes” elderly of the first group. In fact, some families, where many disabled people live with their relatives, actually need the support from both the family and the government.

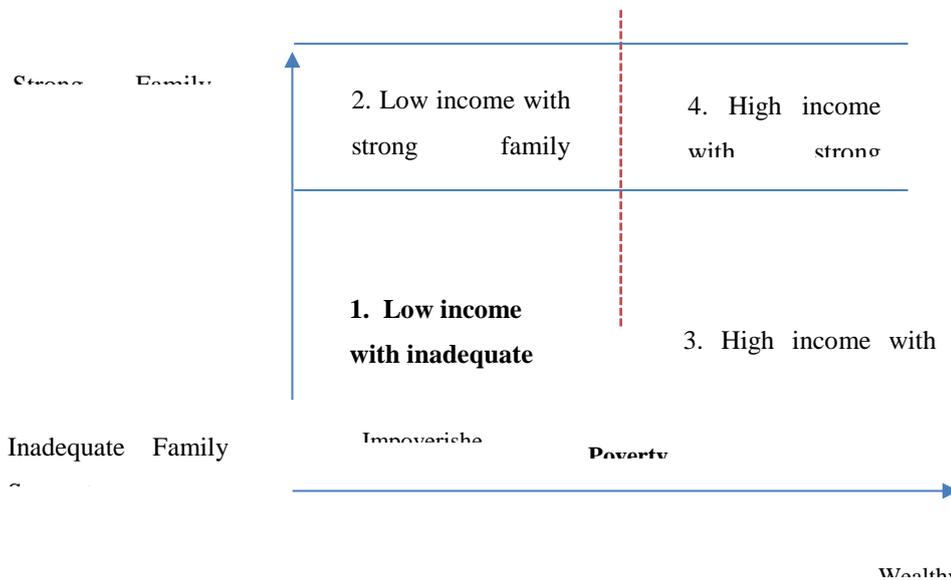


Figure 1: Diagram of Categories for the Demand of the Elderly and Policy Targeting Mechanism

### 3.2 A Proposal on the transformation from targeting the “supply-side” to focusing on the “demand-side” in fiscal expenditure policy

#### 3.2.1 Support the demand-side in long term care for the elderly

During the “12th Five-Year Plan” period, the government has been promoting the development of institutions for elderly care through the supply-side reform, including the pilot program of elderly

care, elderly care through the Internet of Things, the standard construction of institutions for elderly care, subsidies for beds and tax preference. However, many beds are left unused, the institutions suffered great losses and the elderly had no sense of gain, so currently the fiscal expenditure should be put into the demand side to create more supply, which is in line with the principle of “use the money according to the needs of people”. One of the lessons that the welfare states should learn in long term care is the high cost of institution-based care, and therefore we should not follow their path of creating demand from supply.

### 3.2.2 The government should issue the vouchers as subsidies rather than purchase cares

The long term care for the elderly are diversified in forms, and the cares that government purchased, to some extent, cannot effectively even the odds between supply and demand. By using the vouchers issued by the government, the elderly can decide what kind of care they would like to enjoy, which is an effective way of making full use of financial funds. Currently, the elderly can have access to the care provided by the market since the care industry is well-established and abundant in its supply.

## 3.3 Build a policy system of “family supporting<sup>46</sup>”

The report at the 19th CPC National Congress pointed out that “As we respond proactively to population aging, we will adopt policies and foster a social environment in which senior citizens are respected, cared for, and live happily in their later years”, which charts the course for family-based elderly care system. Through formulating related policies on family, the government would give full play to role of family in providing care and spiritual consolation to the elderly. In this respect, it is necessary for us to draw on experience from Singapore with whom we shares similar cultural background. As an upgraded version of the traditional home-based care, the modern home-based care is characterized by the elderly care jointly supported by the government, society and community, which is no longer a private affair.

3.3.1 Connect to the Internet in the families of the elderly by using the existing television network or other resources; community-based institutions can organize related training for the elderly and their family members so that the convenience of the Internet can benefit the elderly, especially those with disability;

---

<sup>46</sup> According to the Law of Singapore



3.3.2 Promote the contract signing of family doctors and incorporate the care of family doctors into long term care, and allow medical staff to visit patients in order to address the most urgent needs in the long term care for each family;

3.3.3 Support the transformation of age-friendly housing. For the time being, with high demand for long term care, most of the elderly are living in the houses which were built in the 1980s and were not equipped with elevators, causing inconvenience for home-based care. Therefore, the housing transformation is a matter of great urgency;

3.3.4 Grant income tax relief for the family members who are responsible for long term care;

3.3.5 Provide respite care or allowances for the family members who are responsible for long term care;

3.3.6 Population aging and family miniaturization should be taken into account before we design the space of housing in urban areas because both the elderly and family members not only need their private space but also want to take care of each other;

3.3.7 Encourage the children to live “a bowl of soup” away from their parents by promoting the tax benefit policy;

3.4 Enhance the policy of healthy and active elderly care in order to reduce the disability rate

To live a long and healthy life is an ideal for all. Although disability may come with ages, we can still find a way to avoid them or keep them to a minimum so as to enhance our expectation of life. At present, the policies for the elderly are advocating the concept of promoting healthy elderly care through active elderly care, which requires the joint efforts coming from the whole society and the positive role of the communities, medical institutions in grassroots, and general practitioners in particular.

3.4.1 Popularize the concept of active elderly care and healthy elderly care. To some extent, aging is a negative concept that has been imposed on the public. Therefore, it is highly necessary for us to popularize the concept of active elderly care through all kinds of media, especially through the platform of community. In addition, we would like to encourage the elderly to participate in social activities to maintain a healthy body and postpone the process of aging. As is mentioned above, the



current policy has done a lot of work, and we still need to enhance the policy in its depth and popularity.

3.4.2 Take active measures to reduce the disability rate. For example, to build more age-friendly houses and communities can help prevent the fractures and strokes caused by unexpected falls; besides, to organize classes for health education and management can help improve the health and prevent chronic diseases.

3.4.3 Strengthen rehabilitation training to reduce the degree of disability.

3.5 Leave some space for family- and community-based care in urban and community planning.

3.6 Open the market for institution-based care, and carry out the supervision during and after the opening process rather than simply conduct the pre-approval. Above all, the supervision standards must be in line with the level of local economic development.

### [References]

- [1] ZHANG Rui. The selection of model and framework design of the long term care insurance in China[J]. Academic Journal of Zhongzhou, 2012(06):99-102.
- [2] LIU De-hao. The family solidarity and national responsibilities in the long term care system---based on the comparative analysis of Some EU countries[J]. Population Journal, 2016, 38(04):36-47.
- [3] LV Xue-jing. Establishing a long term care insurance system applicable for the situation of china[J]. China Health Insurance, 2015(11):8-10.
- [4] ZHENG Gong-cheng. Establishing the long term care system is of great urgency[N]. Economic Information Daily, 2016-03-14(002).
- [5] DENG Da-song, LI Yu-jiao. Long term care insurance under the healthy China strategy: institutional rationality, the plight of supply and demand, and path choice[J]. Journal of Hebei University (Philosophy and Social Science), 2017, 42(05):109-116.



- [6] ZHU Ming-lai, JIA Qing-xian. The analysis of demand for long term care and its insurance system constructing in China[J]. Chinese Journal of Health Policy, 2009, 2(07):32-38.
- [7] LIANG Yan, LIANG Hong, MA Zhi-heng. The selection of model and framework design of the long term care system in China[J]. China Civil Affairs, 2016(17):16-18.
- [8] ZHANG Guang-li, MA Wan-wan. The selection of the model of the long term care for old people in our country[J]. Journal of East China University of Science and Technology(Social Science Edition), 2012, 27(03):33-39.
- [9] ZHONG Ren-yao, SONG Xue-cheng. Framework design of long term care insurance system in China[J]. Journal of Xinjiang Normal University (Edition of Philosophy and Social Sciences), 2017, 38(01):99-107.
- [10] DAI Wei-dong. The ten issues on the construction of China's long term care system[J]. China Soft Science, 2015(01):28-34.
- [11] HE Wen-jiong. Several issues on the construction of China's long term care system[J]. Journal of Zhejiang Party School of CPC, 2017, 33(03):5-11.
- [12] LI Yu-ling. Research on the basic ideas and countermeasures of the development of the elderly care industry in China[J]. Population and Development, 2016, 22(05):75-80.
- [13] JING Tao. The models for establishing long term care insurance suitable for China's specific situation[J]. Insurance Studies, 2010(04):77-82.
- [14] WANG Xin-jun, ZHENG Chao. Empirical analysis of the elderly health and long term care[J]. Journal of Shandong University (Philosophy and Social Sciences), 2014(03):30-41.
- [15] GU Sheng-zu, WU Hua-jun, CAO Dong-mei. Strategic thinking on rationalizing elderly care system in China[J]. Population Research, 2017, 41(01):3-14.
- [16] TANG Jun. The current situation, problems and prospects of the elderly care in China[J]. Journal of Chinese Academy of Governance, 2015(03):75-81.



- [17] ZHANG Xiang, LIN Teng. Grant subsidy according to “Bricks”, “Beds” or “Heads”: A case study of institute for the aged in X county of Zhejiang Province[J]. *Social Security Studies*, 2012(04):39-48.
- [18] YANG Yi-yong, WEI Yi-fang. Actively promote the development of elderly care industries[J]. *Macroeconomic Management*, 2016(05):28-30.
- [19] DING Xue-na. A research on the compensation system of private non-profit institutions for elderly care: A case analysis on the private non-profit institutions for elderly care in S City[J]. *Academic Journal of Zhongzhou*, 2012(06):94-98.
- [20] WU Yu-shao, WANG Li-li, KONG Wei, DONG Peng-tao, YANG Xiao-qi. The Chinese institutions for elderly care development research[J]. *Scientific Research on Aging*, 2015, 3(08):13-24.
- [21] China Insurance Association. A report on the research of the long term care of China in 2017[R]. 2017, 12.
- [22] Esther Mot. The Dutch system of long term care. CPB Document, 2010.
- [23] Francesca Bettio and Alina Verashchagina. Long Term Care for the elderly Provisions and providers in 33 European countries, 2012.
- [24] J.A.M. (Hans) Maarsea, P.P. (Patrick) Jeurissen. The policy and politics of the 2015 long-term care reform in the Netherlands. *Health Policy* 120 (2016) 241–245.
- [25] Ellen Grootegoed, European welfare states are cutting back their responsibilities for long-term care, emphasising ‘self-reliance’ and replacing care as an entitlement of citizenship with targeted services.





## Topic 2.1.6 - Marcello Morciano: Sharing long-term care responsibilities: the role of the individuals, their relatives, the market and the State

### Contents

1 Document Scope.....	85
2 Introduction.....	86
3 Risk sharing & the mix of responsibilities .....	88
3.1 <i>The role of the family and the provision of informal care.</i> .....	88
3.2 <i>The role of the individual and the risk of out-of-pocket expenditures.</i> .....	89
3.3 <i>The role of the market and the failure of private LTC insurance.</i> .....	89
3.4 <i>The role of the State and the financial sustainability of LTC programs</i> .....	91
3.5 <i>The difficulties in finding an “optimal” balance</i> .....	91
4 Designing the public intervention in LTC.....	93
4.1 <i>Social insurance or a safety net LTC system?</i> .....	93
4.2 <i>Eligibility: entitlement principle or budget-constrained?</i> .....	96
4.3 <i>Should cash benefits be an option?</i> .....	97
5 Discussion & Conclusions .....	98
6 Implication for the Chinese debate.....	99
References .....	101

## 1 Document Scope

This aim of report is to inform the Chinese debate about the most appropriate way to shape the Long-Term Care (LTC) system, learning from the European experience. Based mainly on the European experiences, the report discusses the degree to which the provision of care is primarily a private or a State responsibility. It also discusses the role of private LTC insurance and critically reviews some of the EU practice and policy-reform options on how best private LTC insurance could complement or supplement the state systems.

The report extends the critical review of EU-LTC policies included in Morciano (2017). It specifically aims at addressing some critical questions including the pros and cons of universal and safety-net LTC systems in terms of the degree of risk sharing responsibilities and level of flexibility the system provides. It also consider a catastrophic social insurance model (as proposed in England) as an approach that is not incompatible with the Chinese government's key LTC strategy based on the "road of Singapore". Namely, to promote an "order of responsibility" that sees the individual and his/her relatives as primarily responsible institutions for the funding and delivery of LTC services.

It is important to clarify the boundaries of this report. Clearly, it presents author's opinion and do not necessarily reflect those of the Consortium nor the Funding Agency. Additionally, it cannot claim to provide a systematic coverage of the subject. This is beyond its scope. Instead, it provides references to a reader interested in an in-deep discussion. Hopefully, this report will lead to a good discussion within the members of the EU-China Social Protection Reform Project and will be a source of inspiration to stimulate research and policy debates in the LTC field for China.

## 2 Introduction

Population aging- the increase of the share of older individuals in a society- is posing major challenges to the foundation of the welfare systems around the globe. It has been estimated<sup>47</sup> that EU citizens aged 65 could expect less than half of their remaining years to be free from conditions affecting their ability to manage daily living activities. As documented in a previous report (Morciano, 2017), the risk of needing expensive Long-Term Care (LTC) assistance rises steeply with age and it is more pronounced in proximity of the end of life, in particular for people living alone. Population ageing, therefore, resulting from rising life expectancy and the ageing of large cohorts of baby-boomers, will greatly expand the number and proportion of people at risk of LTC services over the coming decades not only in Europe but also around the globe.

Such challenge has highlighted concerns about how to finance the ageing population in needs of LTC services. The policy debate, not only in the Europe, has focused on finding a sustainable and equitable balance in sharing the intra- and inter-generational responsibilities around the risks of LTC needs. It has highlighted the need for policy reforms and investments that will allow to pay for the expected needs of a larger elderly population while maintaining (and boosting) productivity growth. Austerity measures imposed in many EU countries have tightened eligibility criteria for LTC services, introduced/increased user co-payments to LTC services, incentivised private savings for LTC, improved market conditions in a sector – the LTC one- subjected to market failures. In summary, many EU countries are reconsidering the balance of the risk-sharing responsibility for caring for an elderly person's LTC needs.

This report aims at addressing the following questions:

- How should responsibility for caring for an elderly person's needs be shared among the individual, the family, the market and the State?
- Should the State support be focussed on those least able to afford LTC costs (safety-net approach), or should the need for LTC alone determine eligibility for publicly funded support (social insurance approach)? Or should public LTC programs provide assistance only after a person's out-of-pocket expenses exceed a threshold (catastrophic social insurance)?
- Should LTC services being financed with general revenues or dedicated taxes and

---

<sup>47</sup> Social Protection Committee-European Commission (2014).



contributions (creating social insurance)? Should eligibility being defined using an entitlement principle or a budget-constrained one?

The report is set as follow. The next section sets up the scene by describing how the LTC design can vary along the sharing of responsibilities among the three institutions involved in the delivery of LTC services: the individuals and their relatives, the market and the State. Section 3 argues that, if a public intervention is planned, it is crucial to define at least three different arrangement dimensions. Section 4 concludes and provides elements that might be useful for the policy debate in China.

### 3 Risk sharing & the mix of responsibilities

Three are the institutions involved in the delivery of LTC services: the family (individuals and their relatives), the market and the State. As highlighted in a previous report (Morciano, 2017), LTC needs are met in many EU countries with a system of different cash-benefits and services provided through a mix of responsibilities shared among these three institutions. The degree to which the provision of care is primarily a private or a state responsibility varies considerably among EU States. The role of the market is lower but it is expanding.

#### 3.1 *The role of the family and the provision of informal care.*

Informal carers provide the main source of social care support for people (family members, relatives or friends) with LTC needs. The most prevalent caregiving relationships involve care between spouses and adult children caring for elderly parents. Caring activities range from help with light daily activities to intensive, around the clock care, for complex care needs. The high fraction of elderly who receive informal (unpaid) assistance in EU (See Morciano 2017) provides one indication that most people in EU believe families have a responsibility to care for ageing relatives who cannot live independently. People in the south of Europe (e.g., Italy, Spain, Greece and Portugal) believe that the family is the primary caregiver for elderly people, with the public sector viewed as a last resort for very poor people and those without family. Legal norms in the Scandinavian countries (e.g., Sweden and Norway) explicitly indicate that children are not economically responsible for their elderly parents. However, the fractions of older people receiving assistance from relatives in these Countries is not far from those observed on average in other EU countries. The German social insurance system is built around the pivotal role of the informal carers, with strong cultural (and legal) expectations that the bulk of the support should be provided by the family<sup>48</sup>.

The belief that individuals and families are responsible for aging relatives has been challenged over the past decades. Even if informal caregiving is often seen as a preferred option to formal care by care recipients, it is far from being optimal a system where the bulk of support is on the shoulders of family caregivers. People with neurological diseases such as Parkinson, Alzheimer etc. often need constant attention and levels of care that a family caregivers cannot provide. Additionally, caring for an older disabled person creates psychological and economic effects on the carers. For example, on the labour market participation of the carer that ultimately affect the economic growth of the Country. Increasing proportions of women are active in the labour force than was the case few decades ago. This raises economic conditions and level of independence of the new generations that are now more likely to live separately from their (old) parents than before. Increasing proportions of young

---

<sup>48</sup> Reliance on caregivers is also reflected in the 0.25% extra insurance contributions required of childless people.

people live today with some physical distance from their (old) parents. As such, multigenerational households have declined dramatically in many developed countries. The increasing old-age dependency ratio and in particular the rising proportion of elderly singles (with no children or spouse that act as caregivers) is producing an increasing number of elderly with unmet LTC needs that raises important equity issues. All these socio-demographic trends partially explain the growing role played by the State in financing and delivering LTC services.

### ***3.2 The role of the individual and the risk of out-of-pocket expenditures.***

Increasing life expectancy is associated with greater numbers of elderly with disability-related needs that require far more than simple care by relatives and can therefore be very expensive. The costs can quickly exceed most people's financial resources, in particular when formal caregivers are involved in the provision of LTC. The financial impact of catastrophic out-of-pocket LTC expenditures appears with alarming frequency in the EU countries. There is strong evidence that average out-of-pocket expenditures are growing over time. It has been estimated<sup>49</sup>, that about ten percent of people in England who reach age 65 were recently estimated to be likely to spend more than \$160,000 out-of-pocket on LTC in their remaining lifetimes.

### ***3.3 The role of the market and the failure of private LTC insurance.***

Given the uncertainty about LTC expenditures, and in particular the very "long tail" of potentially catastrophic financial outcomes, standard economic models suggest that risk averse individuals should place a high value on the ability to insure against LTC risks. Yet the private market for LTC insurance is not very well developed in EU, leaving much LTC expenditure risks uninsured. There is a general agreement in Europe that a social insurance or tax-based LTC system is more efficient than one left entirely to the private initiative. Several member States, however, are considering multiple ways with which the public could support the expansion of an equitable and sustainable private LTC insurance market. As highlighted in a previous report (Morciano, 2017) a fully private LTC insurance market is problematic from both an efficiency and equity point-of-view.

A private insurance market might improve the ability of the elderly to engage in optimal consumption smoothing over the life-cycle. Because of their benefit structure, most LTC policies are far from being

---

<sup>49</sup> Commission on Funding of Care and Support (2011).

comprehensive. They imply a “deductible”, an amount that must be paid out-of-pocket by the policy holder before the insurance provider will pay any expenses or an “elimination period” (often 30-100 days) in which a person must be in care before insurance payments commence. Most policies also specify a maximum “benefit period” (often 1 to 5 years) which caps the length of time that an individual can receive benefits. The lack of comprehensiveness of LTC policies is problematic because it mainly occurs precisely when the financial costs of LTC care are the greatest and for which consumers ought to value insurance the most. Consumer wishing to have a more comprehensive benefit package could purchase a policy with no such clauses. Yet despite the existence of these comprehensive policies, very few consumers purchase them. Such policies suffer from more intense adverse selection problems, being purchased by those who expect to need LTC care. The premium for additional unit of LTC coverage is far more expensive and therefore unaffordable for many people. This is particularly relevant for the poorest segment of the population that is more likely to face LTC needs and less predisposed to buy private insurances (Morciano (2017)).

Another problem the LTC insurance market faces is on the risk pooling. Insurance works as a mechanism for pooling the risks of (catastrophic) costs, so that the risks of all the people insured by the scheme are collectively borne by the insurance scheme. This works only when the LTC costs are predictable so that it can be computed the contribution that should be made by each insured individual, in exchange for the security of coverage of the LTC costs eventually needed. This allows individuals to pool risks, despite some future uncertainties. Long-term nature of the contracts, however, exposes insurance companies to long-term demographic, epidemiological, economic and political risks that cannot be diversified simply by pooling individual risks. The difficulty in diversifying these risks can lead insurers to avoid insuring for certain risks or to exclude a certain group of people. It can also lead to higher prices.

A large body of academic literature<sup>50</sup> that shows that, even if LTC insurance premiums that covered the full costs of LTC were actuarially fair, they would still be unaffordable for large sections of the population. In practice, policies with actuarially fair premiums are unlikely to be offered, especially in LTC market. Evidence in fact suggests that the over-price applied to typical LTC insurance policies is substantially higher than the one applied to other private insurance products.

There are a number of countries where the markets for LTC are more developed than that in others. The two countries with the biggest markets for LTC insurance are the United States and France. In the United States, about 10% of the population aged 60 and over have private LTC insurance. In France the percentage is of about 24% (Comas-Herrera *et al.*, 2012). In Germany, many people were covered by supplementary LTC insurance, which is sold as a supplement (or top-up) to the benefits of the social (mandatory) LTC insurance system in place.

Employer-sponsored insurance policies are the most common form of private insurance, with the State that often incentivises the development of the LTC market, for example by giving employers an incentive to

---

<sup>50</sup> For a review, see Comas-Herrera et al, 2012.

bundle LTC insurance with employee remuneration packages (e.g. in France and in Italy<sup>51</sup>), coupled with tax allowances for LTC premium.

### **3.4 The role of the State and the financial sustainability of LTC programs**

As shown in Morciano (2017), the role of the public in financing, administering, regulating and providing formal LTC services varies considerably among EU Member States. Broadly speaking, many EU states opted for (a different mix of) two main models: a *competitive model* according to which the State provides financial support used for buying care services in a (quasi-)market; and a *direct provision model* according to which the State provides directly formal services to individuals in needs. Most EU countries are moving from a direct provision model towards a competitive (quasi-)market model. The shift in paradigm has pushed forward the debate on how the State should define quality requirements. Up to now, there have been mixed evidence on to what extent quasi-markets have triggered improvements in the quality of LTC services or in lowering the (private/public) costs. Contracting of services has often been based mainly on price, rather than on quality criteria. For-profit providers have therefore the incentive to lower the quality. Scandals and bankruptcies (e.g., in England, Sweden, Austria) in the private for-profit LTC sector have recently shown difficulties in the LTC sector, in particular if regulation and a continuous public assessment of quality are poorly developed. In countries like England, care home chains are developing fast, and the effect on competition, quality and price is not clear yet<sup>52</sup>.

### **3.5 The difficulties in finding an “optimal” balance**

The challenge that many countries faces is to achieve a balance in the shared responsibility. A system solely based on informal care could exist only with a steady-state growing population. It encourages each generation

---

<sup>51</sup> The market for LTC insurance grew quite rapidly in Italy in 2007 and 2008, after a new collective wage agreement for insurance and bank employees that has provided automatic compulsory LTC coverage (funded, totally or partially, by employers). Linking LTC insurance to pensions is another option partially used in other countries.

<sup>52</sup> Morciano et al (2017).

of older people to off-load the burden of care support onto the next generation. This is unsustainable because of the demographic transition process that many countries face.

Every country has concerns about potential moral hazard incentives embedded in the decision to shift responsibility for some services to public social care programs. Shifting responsibility to the society could imply possible over-consumption of economic resources in the healthy part of individuals' life thanks to the existence of disability-related state support at the point of need. Another moral hazard problem is embedded in the possibility that public social care programs could cause families to reduce their willingness to supply such services, increasing the societal costs beyond expectations. Formal and informal care can be substitutes or complements and the relationship between them clearly depends on the policies in force.

The solution that many EU countries are implementing is towards the involvement of the individuals in the cost of care at the time when they needed. Cost-sharing is required in all EU countries, in part to discourage people from seeking public support in place of informal care. In most EU countries, cost-sharing requirements are income/asset based and can be substantial, particularly because of the "hotel costs" connected to services provided in institutional settings (residential and nursing care homes). As the public LTC costs have risen, however, cost-sharing has shifted more costs to those who need assistance. Because an important segment of them were not prepared/able to cover such costs, the State has to play a safety-net role once private financial resources have been depleted.

Additionally, the underlying state-funded system has a major impact on the design and success of any private insurance scheme for LTC. In the Scandinavian countries, where LTC risks are mainly a public concern, out-of-pocket payments are generally low and cannot exceed a certain amount (indexed to inflation). In Germany, half of aggregate LTC costs are currently funded by users' co-payments. Private LTC insurances are meant to protect from such co-payments. This is why a private LTC insurance market co-exists with the state-run one.

When cost-sharing is income based, public LTC authorities might have a perverse incentive to prefer higher-income residents, which might lead to inefficient use of (limited) services and income-related inequities in service utilisation. Some countries create incentives for home-based care versus nursing home by disregarding the value of a person's home when determining cost-sharing amounts for home care only (e.g. England). When the home value is used to determine a person's nursing home co-payments but is ignored when calculating cost-sharing for home-based care, people have an incentive to stay out of nursing homes, which, conditional on the individual's disability status and needs, could be cost-saving for the State.<sup>53</sup> However, the public authority might have the opposite incentive: placing individuals in residential settings to reduce (at least in the short-run) public authority's involvement to the provision of care, at the extensive (assets values above the means test threshold and therefore not eligible for State support) and at the intensive (conditional on eligibility, asking an higher comparticipation to the cost of care) margins.

---

<sup>53</sup> See e.g., Brown & Finkelstein (2009).

## 4 Designing the public intervention in LTC

If a public intervention is planned, it is important to define the most appropriate way to operationalise it, learning from international experience, and in particular from the recent and on-going reforms in the EU countries. Morciano (2017) highlights different dimensions that needs to be taken into account. Following author's understanding of the Chinese debate on LTC, the most relevant features are described in this section.

### 4.1 *Social insurance or a safety net LTC system?*

*Should the system cover the risk of anyone needing care (full social insurance) or just the risk of people needing care who could not otherwise afford to meet care costs themselves (a safety net)? Or should the public provide assistance only to those who face catastrophic LTC costs (catastrophic social insurance)?*

One main decision that needs to be made when regulating access to LTC programmes is on whether access should take account of a person's financial means in determining the level of public support that could receive. In other words, should state support be focussed on those least able to afford LTC costs (safety-net/means testing), or should the need for LTC alone determine eligibility for publicly funded support (universal system)?

LTC can be funded from various sources, including general revenue, local taxes, and social insurance (see Morciano, 2017) and the way is funded is inerently linked with the type of coverage the system would insure. Very often, universal systems are predominantly financed through social insurance contributions.<sup>54</sup> Social insurance systems give service users a right or an 'entitlement' to a pre-defined level of support. Support can be in services or cash, depending on the person's need and choice.

Germany and France have implemented LTC arrangements that are predominantly based on a state-run social insurance LTC. Germany implemented a mandatory social insurance system for LTC in 1995. Outside Europe<sup>55</sup>, the Japanese social LTC system was introduced in 2000; and France reformed its LTC system

---

<sup>54</sup> An important exception is the notorious case of the Scandinavian countries (see Morciano, 2017). They operate universal tax-funded arrangements where public authorities provide care and support to all at the point of need. LTC is funded out of general taxation, with little co- payments from the users.

<sup>55</sup> A reader might be also interested in reading on Taiwan (Nadash & Shih, 2012).

along similar lines in 2002. Major reforms on these lines have been undertaken in Spain and other EU countries. In social insurance systems the people covered are required to pay regular contributions either as taxes or mandatory insurance premiums. For example, The Japanese scheme (Kaigo Hoken) mixes contributions from general national/local taxation and also from specific age-related premiums (Naito 2009). There are two categories of insured people, conditional upon age: persons who are aged 65 or older, known as Category 1 insured; and persons between ages 40 and 64, known as Category 2 insured. The insured people in the second category (40 to 64 years old) pay their premium (in 2005, the contribution rate varies from 0.6% to 1.4%) in addition to their medical insurance premium. Premiums for the insured people in the first category (65 years and older) varies according to revenue and comprises 5 different categories. They are deducted from their pension. The system is financed 50:50, by contributions paid by insured persons (31% cat. II and 19% from cat. I) and subsidies (financed by tax) from local authorities and the State. The German PAYG social insurance system applies a contribution rate of 2.55% of the gross wage (up to a ceiling set at € 52,200 p.y. or € 4,350 p.m. in 2017), shared equally between employers and employees.<sup>56</sup> Childless employees - who are less likely to receive informal care- pay an extra 0.25% on top of their contribution<sup>57</sup>. Since 2004, pensioners pay the whole contribution themselves (Rothgang, 2010). A similar scheme is available in Italy to civil servants only, under the Home Care Premium (HCP). HCP has a mandatory contribution of 0.35% of the gross wage, plus a voluntary contribution of (only) 0,15% from pensioners.

In return to the payment insured people make in a social insurance LTC system, they are covered with services or cash allowances, regardless of their income, at the point of need. It is important to note that state-run social LTC insurance systems generally request a (means-tested) co-payments from the users. In Japan, co-payments are set at about 10% (with reduced rate for poorer people); In Germany, the benefit that an individual receives depends on what care level they fall into, whether they are at home or in an institution, and whether they choose to take cash or care-in-kind<sup>58</sup>.

Mandatory social (state-sponsored) insurance models provide broad risk-pooling and predictable financing. Expenditures are covered by earmarked social security taxes and therefore entitlements may be more clearly defined and easier to enforce.

Universal insurance systems are seen “superior” from an equity point-of-view, so that the risk and consequences of LTC are ‘socialised’. The German and the French systems have embedded this solidarity principle that was the

---

<sup>56</sup> Those whose jobs are not covered by the German social scheme must take out private LTC insurance. This includes civil servants and the self-employed; those with incomes above the social security threshold can choose whether to join the social LTC scheme or have private insurance.

<sup>57</sup> To improve the financial viability of the social LTCI fund, the German government decided that it was necessary for childless people to pay higher contributions, reflecting the fact that they will be less likely to receive informal care when in need.

<sup>58</sup> The cash payment for home care is around half the value of services-in-kind. It is possible to take a combination of cash and care-in-kind.

main rationale for reform. The main drawback is the usual tax distortions on employment associated with contribution-based systems. Also, contributions are levied on a narrower tax base than general revenue. A rising LTC demand therefore is likely to require an increase in the level of contribution, further increasing the cost of labour. As highlighted in Morciano (2017), universal systems are generally more expensive (for the public) and in some countries there are resistances in raising (mandatory) contributions to keep pace of the increasing LTC demand and costs. From an efficiency point-of-view, universal systems might generate over-consumption problems: the lower price that people face for formal support from the public system might result in a 'crowding-out' of their use of informal care. It is widely accepted that a limited generosity of the social insurance system is likely to limit the 'crowding-out' problem. That is the reason behind the limited generosity of the German and the French systems and the use of co-payments.

An alternative to an universal system is a system that provides a safety net, so that people who cannot afford or are otherwise unable to make provision for their own care needs receive publicly-funded support. A safety net system (as the one in force in England, see Morciano (2017)) is generally financed by general revenue. These systems are seen as less expensive than universal systems. From an equity point-of-view, the system provide public support only to disabled in financial needs. Those people who are not eligible for support usually face the full costs of care, which can still be unaffordable for middle income groups of people with care needs. From a "dynamic" point of view, however, as income/wealth of a disabled in LTC needs depletes, the public support kicks-in.

A safety-net system respects the logic where the primary responsibility of LTC is left primarily to the individuals and their relatives. In that respect, a safety net system does not protect individual's savings from catastrophic LTC-related expenditures. Crowding-out effects are marginal, and potentially in force only among those in receipt of LTC support. Co-payments, however, are requested to limit crowding-out effects even further.

An alternative that has been suggested in England as a possible replacement of its safety net system, is a system that caps the cost of LTC. The "Dilnot Commission" proposed a combined contribution system from both the users of care services (first) and the state (later). The users' contributions to their LTC costs would be 'capped', at a given point from where the State will pay the remainder costs above and beyond that level. The main purpose of the cap is to protect a larger proportion of users' assets from what is currently an unlimited liability. Importantly, the cap is likely to introduce a degree of predictability and certainty in a person's potential cost liability, that might spark the creation of financial LTC-related products, including LTC insurance policies but also annuity-type arrangements (that can give people an income stream from their assets to meet LTC costs). This is because, the catastrophic costs are covered by the State, so that the private insurances have to cover the risk of incurring in a "capped" cost. Setting the cap is therefore of paramount importance in a Dilnot's style LTC system: a cap too high would protect mainly the richest segment of the population. Setting the cap too low would make the public coverage more "universal".



## **4.2 Eligibility: entitlement principle or budget-constrained?**

Under an entitlement principle, anyone who fulfils the eligibility criteria has the legal right to receive public support even if this puts the whole system into deficit. In general, mandatory social insurance systems works under the entitlement principle. Examples include Japan, France

and Germany, although there are some differences in the exact design. By contrast, in a budget- constrained system, public authorities can change the criteria at any time in order to balance the books.

Safety net systems are generally budget constrained: the extent of the safety net – in terms of who is eligible and how much support is offered – is adjusted according to the available resources.

Catastrophic insurance systems could adopt both a budget or an entitlement principle. However, if a policy reform's goal is to boost an affordable private insurance market, an eligibility criteria approach would be preferable. This is because it tends to protect insurance companies from long- and medium- term economic and political risks.

### ***4.3 Should cash benefits be an option?***

In many EU countries, LTC is delivered using a dual system that provides services in kind and cash- benefits. The existence of cash benefits supports the possibility for individual freedom and choice. It also improves the opportunity to choose among different settings of care (e.g. either to buy formal care services or to support informal care-giving). But individual freedom could be also provided in a sole service in-kind system, for example by defining personal budgets, that allow the user to choose the service that suits best his/her needs and the provider.

Many countries in the EU are moving towards a LTC set-up where individuals have the freedom to choose between (subsidised) in-kind services or cash-benefits. The latter are generally less generous than the value of the formal care option. In the EU, there are mixed evidence on the preference of the individual around the option of cash-for-care or services. It seems that very severe disabled people that cannot rely on informal care opt for services. The remaining group of LTC user seems to prefer cash-benefits.

## 5 Discussion & Conclusions

The policy debate on LTC systems in Europe has been dominated by concerns about the sustainability and the ability to deliver services and goods that match the rising expectations of the populations. So far, most of the efforts to slow LTC spending have involved **reshaping responsibilities around the role of the individual, the family, the market and the State.**

State responsibility in LTC implies some form of collective funding arrangements and also mechanisms for defining how publicly-funded support will be allocated to individuals in needs. The public cost share - the part of LTC costs financed by the public social protection system- varies considerably from little users' co-payments to about the totality of LTC services financed via out-of-pocket payments by the users and/or their relatives.

State responsibility also involves some inter- and intra-generational re-distribution when the amount of public support they receive is not directly linked to the financial contributions they have made. Therefore, wealthier people and those people who do not end up needing much care will subsidise poorer people and those who are less fortunate that develop substantial LTC needs. Additionally, younger generations may end up supporting heavily older generations, with a possible "free-meal" that the elderly get from the youngest during the phase-in of a new LTC program.

Countries with good LTC public coverage (universal systems) have implemented reforms aiming at freezing the services covered, restricting care to those deemed in greatest need, and increasing level of co-payments from the LTC users. These actions have caused costs of care to be shifted to individuals and their relatives as well as to other programs, notably social assistance programmes.

Countries with low public LTC expenditures relies heavily on (private) out-of-pocket payments and informal care. Systems that require high out-of-pocket payments are socially and economically sustainable only if country's private saving is considerably high. Private saving depletion, however, could create problems to the country's long-term growth and might raise social and economic inequality, when disability risks and consequences are not equally shared among the population. Leaving LTC responsibility to the individual is likely to face high prevalence of un-met LTC costs, creating problems of unaffordability, sub-optimal consumption and catastrophic costs. A LTC system that leave most of the LTC responsibilities on the shoulders of relatives is likely to generate negative effects on the labour market participation of the carer and un-met needs among those disabled with no relatives nearby. EU countries with low public LTC

expenditures are therefore facing the different challenges of modernising the system by expanding and improving formal care services in response to the present and future demographic, epidemiological and socio-economic pressures.

Countries with a safety-net system, where means-testing is widely applied, provide an amount of public support that is dependent on people's assessed level of need but also for their economic condition. As a budget-constrained system, the level of support provided (who is eligible and how much public support is provided) is adjusted according to the available resources. However, in countries like England, there is a debate for extending coverage to protect people that are currently off the system. Of course, any reform that would extend the coverage must imply higher collective/public expenditure. Providing a safety net for those who cannot pay for care is seen an essential part of the public intervention in LTC. But many feel the State should also protect those who fall outside the means test criteria, with an intense debate around a state intervention towards introducing a more comprehensive (universal) system. They are also considering a shift of paradigm by increasing the public protection against the catastrophic costs that disabled people might face. It is within this policy landscape that the Dilnot commission proposed a system where users' contributions to their LTC costs are 'capped'. The main purpose of the cap is to protect individuals' savings, to provide more responsibilities to the individual and the family but also to boost the development of an insurance market for LTC.

## 6 Implication for the Chinese debate

As many Mediterranean and East Asian countries, China has a strong cultural norm of filial piety according to which relatives (children) have a strong duty to support their old-members (parents). Additionally, the Chinese government's key strategy for LTC provision has been to promote a model based on the pivotal role of the individuals and the relatives in the financing and delivery of LTC services. Therefore, private coverage and informal provision of LTC is embedded in the Chinese social norms and rules.

The stark decline in fertility translates into one younger person, mostly female, that has sometimes care responsibilities for two to four (or more) older relatives or in-laws. China's rapid socio-economic modernization and urbanization have resulted in greater mobility of the younger workforce towards the cities, with an increasing number of older persons living alone in rural area without family care. Significant differences across regions, and between rural and urban areas, makes the LTC risks and costs unevenly distributed across the Nation.

China is also functioning as a natural laboratory of new policy approaches to LTC provision and financing. As a result, there is significant local variation in the approach to LTC provision and financing: while Qingdao, for example, is experimenting a LTC social insurance system, Shanghai embedded LTC through its health insurance schemes, whereas Nanjing provides means-tested vouchers for LTC services.

A variety of LTC systems are in place in the EU countries, as Morciano (2017) has highlighted. More recently, EU Member States have agreed common objectives at European level in the framework of the open method of coordination in the field of social inclusion and social protection in general, and in LTC sector more specifically. This has encouraged the processes of monitoring progress and highlighting useful recommendations that might be relevant for non- EU countries too.

The LTC social insurance systems in Germany and France (but also in Japan) have gained popularity as a way to improve coverage, equity and to reduce out-of-pocket LTC-related expenditure. As this report has highlighted, the French and German systems cover only part of the cost of care, with a significant role still played by the individual, relatives and the market. These systems have seen costs increasing at a faster rate than expected such that a number of responsive policy adjustments had to be made to limit cost growth. Cost control interventions are more difficult in entitlement-based systems than in systems which are explicitly budget- constrained. An important decision to make is therefore on the level of desired *flexibility* of the system, bearing in mind that universal entitlement systems are less elastic to changes in the medium/long run than budget-constrained systems.

It is also important to note the increasing role of the contributions to these LTC systems levied from older people. From an inter-generational fairness and sustainability point of view, age- related contributions and contributions from pensioners help to mitigate problems associated with increasing dependency ratio that many economies, including China, will expect in the coming decades.

A LTC system that imposes co-payments (or more in general, forms of users' participation in the funding of care costs) is the most advocated in EU. This is to ensure enough incentive to discourage over-consumption of LTC services and to avoid crowding-out problems. But it has also been seen as a (public) cost containment practice in order to satisfy financial targets.

**Boosting the private LTC insurance market is not a simple task due to market failure.** In an universal system, there is room for a private market to cover LTC needs not covered by the public system. In a safety net system, people not covered are the higher-income/wealth groups who are -theoretically- better able to afford care or care insurance privately than those who are eligible. But market failures due to information and structural problems can influence the risk- pooling and could generate a sub-optimal market too. A Dilnot-style LTC system could be an option to consider, given its theoretical capacity to

protect individuals' savings; to “nudge” the individual and the family to cover LTC needs; but also to boost the development of a more efficient (and sustainable) insurance LTC markets.

Looking ahead, China is functioning as a laboratory of new policy approaches to LTC provision and financing. It could thereby develop policy innovations that might be emulated by other countries. A possible way to push this project forward is to assess the effect of reform proposals through static and dynamic microsimulation techniques, tools used for making ex-ante policy evaluation commonly employed in Europe.

## References

- Brown, J. R., & Finkelstein, A. (2009). The Private Market for Long-Term Care Insurance in the U.S.: A Review of the Evidence. *The Journal of Risk and Insurance*, 76(1), 5–29. <http://doi.org/10.1111/j.1539-6975.2009.01286.x>
- Comas-Herrera, A., Butterfield, R., Fernández, J.-L., Wittenberg, R., & Wiener, J. M. (2012). *Barriers and Opportunities for Private Long-Term Care Insurance in England: What Can We Learn from Other Countries?* : Edward Elgar.
- Commission on Funding of Care and Support (2011). *Fairer Care Funding: The Report of the Commission on Funding of Care and Support*. London. [http://www.ilis.co.uk/uploaded\\_files/dilnott\\_report\\_the\\_future\\_of\\_funding\\_social\\_care\\_july\\_2011.pdf](http://www.ilis.co.uk/uploaded_files/dilnott_report_the_future_of_funding_social_care_july_2011.pdf)
- Morciano (2017) *Long-term care in Europe A review and synthesis of the most recent evidence*, EU-China Social Protection Reform Project, Beijing.
- Nadash, P., & Shih, Y. C. (2013). Introducing social insurance for long-term care in Taiwan: Key issues. *International Journal of Social Welfare*, 22(1), 69-79.
- Naïto, K. (2009). Health care insurance in Japan: Beyond a binary vision of State and family. *International Social Security Review*, 62(3), 49-77.
- Rothgang, H. (2010). Social Insurance for Long-term Care: An Evaluation of the German Model. *Social Policy & Administration*, 44(4), 436-460.
- Social Protection Committee-European Commission. (2014). *Adequate Social Protection for Long-Term Care Needs in an Ageing Society*. Luxembourg: European Union. <http://ec.europa.eu/social/BlobServlet?docId=12808&langId=en>.

## **PROJECT RESULT 8**

**The capacity of the MoF in the management of social insurance funds, focusing on fiscal support budgeting, account system, investment techniques and adjustment mechanisms for pension benefits is strengthened.**

## Topic 2.3.1- Jiye Hu<sup>59</sup>: Strategies, Risk Control and Investment Policy of Social Insurance Funds in China

### I. The Pension investment policy suggestions

Based on the experience of the US, the UK and other countries, as China has not long history in pension investment, the following are proposed suggestions for the investment and risk control methodologies of the pension investment of China.

#### 6.1 Establish the trustees' fiduciary duty in legislation

Almost all the non-systemic risks are related to the investment managers' violating of fiduciary duty. In November 2017, the People's bank and other financial regulators jointly issued the document named "Guiding opinions on regulating the asset management business of financial institutions (draft)", require all asset management institutions include banks, trust companies, securities, mutual funds, futures, insurance companies, asset management institutions and other financial institutions, all the investment managers must fulfil the management duties in accordance with the principle of diligence, more embodies the basic principles of trust law; the asset management business' supervision will play an instructive role. After the document's formal implementation in the future, China's asset management industry will usher in a unified regulatory standard, and one of its cores is that these financial institutions must fulfil their fiduciary duties as trustees. As pension investment is a typical asset management, the formal document will be a necessary guidance.

Based on liquidity financial assets, pension funds should be managed flexibly according to the rapid changes in the financial market. Therefore, pension contributors as a client entrust the assets managers with enough discretions to trade, and the assets managers must be bound by the fiduciary duty. The obligation of legal concept is mandatory and non-arbitrary. The obligor who has obligations has no choice but to deny or ignore it directly. The fiduciary duty was divided into

---

<sup>59</sup> By Hu Jiye, Business School, China University of Political Sciences and Law.

the duty of loyalty and the duty of care; if the trustee violates the fiduciary duty, the client has the right to require the trustee for damages to compensate for the loss, or compensation for the trustee breach of fiduciary duty and loss of revenue of course, can also ask the trustee to return all the benefits obtained by violating the fiduciary duty.

The duty of loyalty represents the prohibitive side of fiduciary duty. It requires the trustee to realize the best interests of the beneficiary, only to act as a "sole interest" of the beneficiary, so as to solve the potential conflicts of interest between the trustee and the beneficiary. The duty of loyalty principle prohibits all trustee self-transaction, the trustee cannot profit for himself or any third people; even if the client agrees to such transactions, also must satisfy the requirements of the protection of certain procedures and entities, including the provisions of the trustee of the transaction for a full and fair disclosure obligations.

The positive connotation of the obligation of fiduciary duty is reflected by the duty of care, which measures the degree of attention of the trustee by setting a reasonable or prudent standard. The standard is objective and is determined according to the practice of the industry and the practice. If a trustee has professional skills related to the entrusted business, the duty of care is based on a rational and cautious businessman who possesses his professional skill.

Due to the lack of the legal tradition of trust law in China, the study of trustee's duty of loyalty is not systematic in the legal transplantation of trust law. In reality, a large number of trustees failed to fulfill their duty of loyalty in the judicial practice of financial asset management. The related laws and regulations of pension management is the "trust law", the pension contributors have entrusted to the property assets managers shall bear fiduciary duty in accordance with the law, which is entrusted by the pension contributors, the fundamental value of faithful. The section 148 and 149 of China's company law stipulated that the board directors, supervisors and senior management personnel of the company bears the duty of loyalty and diligence, in violation of the duty of loyalty to the company act of income shall belong to the company, to the company made losses shall be liable for compensation.

As trustee, the pension managers will face the temptation to manipulate the market and get potential benefits when he is in management, which is contrary to his duty of loyalty to get the best

interests of the beneficiary. If there is no compulsory duty of loyalty to supervise and restrain the behavior of the pension manager, the possibility of beneficiary's interests will be greatly improved. From the point of view of protecting investors, the policy maker should further improve the supervision and restriction mechanism for pension managers. With the continuous progress of information technology industry, regulators are more sensitive to pension managers' behavior monitoring and faster reaction. The application of big data system and public opinion analysis system will reduce the regulatory cost.

There is an old saying in China: Try one's best to do what was entrusted to him by others, which is very near to the fiduciary duty. The industry of assets management is young in China, so one of the most important tasks is establish the fiduciary duty concept or philosophy of the whole industry. So the policy suggestions are the amendments to the existing securities law and trust law, proposed all parties in the trust relationship framework of pension management. The truly implement the trustee's breach of fiduciary duty caused losses to investors, shall be liable for compensation to investors in accordance with the law. Pension managers act as trustee, their fiduciary duty is the first step, as well as the most important basement in their whole professional career.

## **6.2 Setting up the strategy of the index investment of pension**

What kind of strategy the pension investment chooses has played a decisive role in the value and value of the pension, so it is very important to study the investment strategy.

Some scholars' research indicates that pension fund returns cannot exceed market returns, for example by Beebower and Bergstrom (1977), who studied the portfolios of 148 pension funds in the United States from 1966-1975. They used the CAPM model to calculate the sample's Jensen alpha and found that the pension funds' returns were lower than the S&P 500 by 144 percentage points.<sup>60</sup> Similarly, Brinson, Hood and Beebower (1986) analyzed 91 US pension funds and found that their return was lower than the S&P 500 by 1.1 percent; on average, 93.6 percent of the variation of actual quarterly total returns from 1974 to 1983 of a sample of 91 large corporate

---

<sup>60</sup> Beebower, G. and G. Bergstrom, 1977, A Performance Analysis of Pension and Profit Sharing Portfolios: 1966- 1975, *Financial Analysts Journal* 33 (3), 31-42.

pension plans could be explained by using proxy return series.<sup>61</sup> 20 years later, the problem remains: why the institutional pension clients spent so much time and effort in manager searches but so little time in reviewing their asset allocation policies? It was not as if all the clients had identical risk tolerances, liability streams, and funding policies. Pension clients should carefully consider what goal they are trying to achieve, how much risk they are willing to tolerate in pursuing it. Then, create a policy portfolio that reflects that goal and their risk tolerance for the probable outcomes.<sup>62</sup>

The above scholars' research shows that human managed investment funds cannot defeat the stock market index for a long time. This conclusion is a summary of the experience of a large number of fund managers in the United States and other countries, and is also a consistent conclusion of the empirical research in the financial field for decades. The investment strategy has many advantages, which will be best in the long run and completely eliminate speculative stock selection. Therefore, passive index investment should be one of the best choices for pension funds. It is an investment strategy which has been proven effective for a long time, and its transaction cost and management cost are the lowest. Some people think that index investment may not be suitable for China, because there are few listed companies worth investing in China. But if the pension has to invest in the stock market, there should be no choice but to invest in the listed companies in China. It was also suggested that we should invest in the index representing the blue chip stocks, such as a Chinese top 100 stock index, rather than invest in the weighted composite index representing all the listed companies. But who is sure that these companies don't have a problem? Today's performance and financial situation represent only the past performance of listed companies. In investment history, a stock often falls to no one's need. Later, it will be the best investment entry point if we look back later. So, although we all want to be able to judge the good and bad of each stock based on the performance and data we see today, history proves that it is difficult.

---

<sup>61</sup> Brinson, G., L. Hood, and G. Beebower, 1986, "Determinants of Portfolio Performance", *Financial Analysts Journal*, 47 (3), 231-262.

<sup>62</sup> Hood, L.R., Determinants of Portfolio Performance: 20 Years Later, *Financial Analysts Journal*, 2005, 61 (5): 6-8.



Therefore, the strategy of pension investment policy recommendations is: to avoid the short-term effect, should treat investment from a longer perspective; avoid the fund manager recommended the so-called "value investment", not to judge what company is investing in blue chip or bad performance, but the weighted composite index includes all listed companies. The past long performance of China's economy has been one of the best in the world; reflecting the macro-economic index of comprehensive weighted index, it can become an important target of pension investment. Because of the large amount of pension, only the investment in the index funds has the smallest impact on the stock market, which is conducive to the stability of the capital market.

### 6.3 Give the pension managers longer contract

Pensions are a form of savings, allowing individuals to smooth their income over time in their whole life; rational individuals might calculate the optimal consumption and savings. According to Diamond (1977), the need for a public pension policy associated with the risk of a varying length of working life.<sup>63</sup> So the pension investment managers must meet the long-time needs of pensioners.

According to Interim Measures for Enterprise Annuity issued by the Ministry of Human Resources and Social Security in 2004, and the amended Enterprise Annuity Measures began the implementation on 1 February 2018, when the enterprise annuity plan is formulated, it must be collective negotiated and submitted to the staff congress. The enterprise annuity Council is composed of enterprise representatives, staff representatives and external experts, but the representatives of employees cannot be less than 1/3. The enterprise annuity plan needs the staff representatives to decide, even within one year, the staff representatives cannot endure the enterprise annuity losses even in a single year, the short-term management of pension managers is unavoidable, that is, more investment in treasury bonds and other "safe" products. Therefore, compared with other investment products, the investment style of the enterprise annuity investment

---

<sup>63</sup> Diamond, P. (1977) "A Framework for Social Security Analysis," *Journal of Public Economics*, 8, 275-298. Bodie, Z. (1990) "Pensions as Retirement Income Insurance", *Journal of Economic Literature*, vol. 28, March 28-49.

manager has been relatively conservative, and the scale of its investment stock has not reached the upper limit of 30%.

In the future pension management, one of the most important risk control methods is the risk attitude. The risk control policy is based on the general behaviour of the pension investment manager. How to guide the risk neutral of managers is one of the important goals of venture investment. Risk preference and risk aversion are not suitable for pension investment. Because security is the foundation of pension investment, almost all pension managers are unwilling to take risks, because their adventure activities cannot get extra incentives. But excessive risk aversion is more common in the real world. Only long-term investment, the enterprise annuity can overcome the short-term market price fluctuations. Pension is characterized by a long-term investment that can last for 30-40 years. Short term risk aversion is a long-term high risk. Therefore, the policy proposal is to give the pension investment managers a long-term contract to make up the gap between the low income and the short term.

#### **6.4 Suggestions of Earning-risk of the pension investment portfolios**

The portfolios theory of Markowitz (1952) described that the investment risks can be reduced when different varieties of investment instruments are pooled together. However, as price changes of Chinese stocks have a high volatility, it is less important to “select equities”, for it is difficult to scatter risks only to pool together different stocks.

Hu (2014) calculated the portfolio investment combinations of the three investment instruments, namely equity, Treasury bond, and bank deposit in Chinese capital market, almost fit completely the capital asset pricing model (CAPM). We know that the equity itself indicates intrinsic risk; on another hand, as a new stock market, China has fluctuations much acute than those of mature markets by a standard deviation of yield over 40%. After the global financial crisis, investing pension funds into equity is a reasonable behavior, which is necessary for the principle of profitability, but which means having to face certain risks. The equities represented by Shanghai Composite Index (SCI) Fund have the highest yield among those three investment instruments, in the meantime SCI Fund has the highest risk (measured by standard deviation of yield), far higher than that of Treasury bond and bank deposit. If the pension funds want get more earning, approximately 0.4% increase of expected yield will be acquired when the standard deviation as risk

measurement increases by 1%; i.e. an increase in expected earnings per 1% means a 2.5% increase in risk.<sup>64</sup>

Due to the high volatility of Chinese stocks, the portfolio selection is not so important, passive investment strategy is a better choice; pension funds could invest into Shanghai and Shenzhen 300 index funds. So the policy suggestion to the pension managers is that: the capped of investment of equity is 30% according to the basic pension insurance fund investment management approach; if exceed 30%, the pension managers must focus on the risk-earning issues. According to Hu (2014), Therefore, the equity investment will not exceed 40%.

### 6.5 How Pension invests overseas to eliminate “Home Bias”?

As an emerging market economy, China is at the beginning of its reform and opening to the world on its domestic capital market. The speedy development has made China an economy with the world’s largest foreign currency reserve, and an investor with increasing ability to invest overseas. Therefore, although now no program of overseas investment is available for pension funds (except the National Social Security Fund, NSSF), such issue of overseas investment shall be probed into to eliminate “Home Bias” and to diversify the risks intrinsic to investment confined in the domestic capital market. Free flows of capital across borders promote a more efficient allocation of world resources by allowing savings to find their most productive use beyond their national borders. China’s currency, Renminbi, is also facing pressure of appreciation in the international financial market, Significant outward investment of pension and other exchange funds will help offset surpluses on the trade account, although investment returns will need to take account of the negative impact of likely currency appreciation.

When pension invest overseas, S&P500 is one of the best choice, one reason is that it has a low relevancy factor with SCI, lower than FT100, HK Hang Seng. So we can use S&P500 as a reference index for overseas investment which will minimize the risks intrinsic to investment

---

<sup>64</sup> Hu, Jiye, “An empirical approach on regulating China’s pension investment”, *European Journal of Law and Economics*, Volume 37, Issue 3, 2014.

constrained in the Chinese domestic stock market, and the best choice for eliminating “Home Bias”. Another reason to select S&P 500 is that the United States is the largest economy in the world; its capital market is big enough to bear the large amount of China’s pension funds.

So the pension investment policy suggestions on overseas is that: China could attempt to invest some foreign markets like the relatively mature S&P500 of the US, HANG SENG of HK, and FTSE 100 of the UK as the target indices. From this point of view, international investment can be an option when in the future Chinese pension funds are allowed to invest in the capital market to reduce the risks arising from investment, which is limited to the domestic market. Some degree of removal of “Home Bias” means a reduction of single country risks.