

CHINA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	30 067
GDP per capita (USD)	3 292
Population (000s)	1 314 517
Labour force (000s)	760 800
Employment rate	97.8
Population over 65 (%)	17.2
Dependency ratio ¹	33.8

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The formal (public) pension system exists in the urban area, while it is effectively absent in the rural area
- For the urban pension system, the state public pension (i.e. pillar 1A) covers all employees in the formal sector, while it's voluntary for self-employed
- Civil servants and other public sector employees are covered by separate schemes

Private pensions: occupational (mandatory)

- It refers to the pillar 1B, which covers all employees in the formal sector and is solely contributed by the employees
- It is a fully funded and individual account
- It is currently managed by the local bureaus of the MoHRSS

Private pensions: occupational (voluntary)

- It mainly covers employees in the formal sector
- It is currently mainly established by the largest state-owned enterprises

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007
Assets							
Total investments (National currency millions)	ND	ND	ND	49,300	68,000	91,000	152,000
Total investments, as a % of GDP	ND	ND	ND	0.31	0.36	0.41	0.59
Of which Assets overseas, as a % of Total investment:							
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)							
• Pension funds	ND	ND	ND	ND	ND	ND	ND
• Book reserves	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND
By pension plan type							
• Occupational assets	ND	ND	ND	ND	ND	ND	ND
• % of DB assets	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	ND
Structure of Assets (as a % of Total investments)							
Cash and Deposits	ND	ND	ND	ND	ND	ND	ND
Fixed Income	ND	ND	ND	ND	ND	ND	ND
Of which:							
• Bills and Bonds issued by the public and private sector	ND	ND	ND	ND	ND	ND	ND
• Loans	ND	ND	ND	ND	ND	ND	ND
Shares	ND	ND	ND	ND	ND	ND	ND
Land and Buildings	ND	ND	ND	ND	ND	ND	ND
Other Investments	ND	ND	ND	ND	ND	ND	ND
Contributions and Benefits							
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹							
Total membership	ND	ND	ND	ND	ND	ND	ND
• % of Active membership	ND	ND	ND	ND	ND	ND	ND
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans							
Total number of funds	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND

Note: Data refer to enterprise annuities assets.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

CHINA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

In China, the public the basic state pension is referred to as pillar 1A, which is solely financed by a contribution of approximately 20% of payroll from employers on a PAYG basis. The retirement age is 60 for men (55 for men workers in the hazardous industries) and 50-55 for women (45 for women workers in the hazardous industries). A minimum of 15 years' (not necessarily continuous) contribution is required to receive this pension benefits, which are calculated as 1% of the average of the individual indexed wage and city average pay, multiplied by number of qualifying years. The target replacement rate is therefore 35% of local average wage after 35 years of service and there is no limit on the maximum replacement rate.

Employees of government and political party organisations and of cultural, educational and scientific institutions (e.g. universities) are covered by a special unfunded pension system.

In 2000, the National Social Security Fund (NSSF) was established as a strategic reserve fund, with the main purpose of helping relieve the financial burden imposed by the ageing population in the future.

Pillar *1B* refers to the mandatory individual accounts that are part of the social security system.

OCCUPATIONAL MANDATORY

Coverage

Coverage is mandatory for employees in urban enterprises. By law the urban self-employed should participate in the urban pension system; however in practice very few of them did so in the past. As of 2005, 136 millions urban employees had individual accounts - implying a 42.4% coverage rate for urban workers.

Contributions

The contribution rate is 8% solely from employees. However, in many provinces the individual amount savings have been applied to pay existing pensioners and as contributions have not been paid, these accounts are often 'notional' – i.e. empty. Consequently the government has, since 2006, been making contributions to individual accounts in some provinces in order to 'backfill' the accounts.

Benefits

All accounts are Defined Contribution until retirement then Defined Benefit. The benefit formula is by dividing the account balance at retirement by an annuity factor.

Taxation

Investment returns and benefits are tax deductible for both employers and employees. Employee contributions are tax-deductible.

OCCUPATIONAL VOLUNTARY

Coverage

Employees in urban enterprises are covered. Most of the 24,000 EAs are 'legacy' (largely unregulated) schemes set up by State Owned Enterprises (SOEs) and large firms before the new Enterprise Annuity Regulations were introduced in 2004. Only 263 schemes have been set up since then, also mostly at large companies. The latest legislation realised in April 2007 specifies that all the old 'legacy' EA assets should be transformed into new EA schemes and comply with the new regulations by 2007, although such deadline for the EA assets managed by the largest SOEs could be postponed to end of 2008.

Contributions

Funding mechanism: trusted plans (for schemes set up since 2004 under the new Enterprise Annuity regime); insurance (for pre-existing schemes).

There is no required contribution level, but there is a maximum limit which is 1/6 of payroll for the new EA schemes.

Benefits

New EA schemes are defined contribution, with fully funded individual accounts. Older EA schemes may be defined benefit.

Taxation

Under new tax practice, employer contributions of 4% (or more) of the payroll are tax deductible, while employees' contributions are not tax deductible. Contributions used to buy insurance contracts are not entitled to tax concessions: The employee should pay tax on the contribution the employer makes for his/her benefit.

PERSONAL

Personal pension saving is allowed in China, but is unregulated and mostly occurs via commercial insurance contracts.

MARKET INFORMATION

Occupational mandatory

Individual account assets are managed by provincial social security office (central government 'backfill' contributions are managed by the NSSF), but may be handed over to private sector fund managers in future. Investment is restricted to bank deposits and government bonds and there is no individual choice.

Occupational voluntary

As of 2006, 9.6 millions urban employees were covered, implying a 3.0% coverage rate.

Data are not available for the number of plans/funds, however, as of 2006, 24,000 enterprises in total managed assets of RMB 91 billion (US\$11.7bn), of which new EA assets accounted for 17.4% of the total, i.e. RMB 15.8 billion (US\$ 2.0 bn)

These new EA assets are subject to strict quantitative investment limits and individual choice is not available. Assets are managed by private sector asset managers who have been granted a license by the Ministry of Labour and Social Security. Plan sponsors must also appoint a licensed administrator and a custodian. Pension Schemes are established on a trust basis and plan sponsors may either appoint an internal trustee board or an external, licensed corporate trustee. Under the new EA regulations, the limit on management fees for trustees and custodians is 0.2% of net value each, 1.2% for asset managers and RMB 5 per month per member for administrators.

POTENTIAL REFORM

- Extension of the ‘Pillar 1B’ pilot scheme to further provinces to fully fund all individual accounts, using central and local government funds to ‘backfill’ empty individual accounts
- Standardisation and harmonisation of tax relief policy and increasing tax benefits on EA contributions
- Strengthening pension regulation and supervisory capability
- Increasing coverage level (i.e. EA coverage for employees in SMEs and social security coverage for migrant workers)
- Liberalising pension fund investment and transferring more assets to private management.

REFERENCE INFORMATION

KEY LEGISLATION

2007: Circular on how to transfer the “legacy EA assets”

http://www.molss.gov.cn/gb/zxwj/2007-04/24/content_175729.htm

2005: State Council Document No. 38 on Strengthening Pension Reform for Enterprise Employees

<http://trs.molss.gov.cn/was40/mainframe.htm>

1997: State Council Document No. 26 Establishment of a Unified Basic Pension System for Enterprise Employees

<http://trs.molss.gov.cn/was40/mainframe.htm>

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Ministry of Human Resources and Social Security (MoHRSS)

<http://www.molss.gov.cn/index/index.htm>

China Insurance Regulatory Commission (CIRC)

<http://www.circ.gov.cn/Portal0/default.htm>

