

IOPS COUNTRY PROFILE: CHINA

DEMOGRAPHICS AND MACROECONOMICS



GDP per capita (USD)	10 177
Population (000 000 s)	1 400
Labour force (000s)	783 194
Employment rate	94.8
Population over 65 (%)	12.6
Dependency ratio ¹	0.22

Data from 2019 or latest available year.

1. Ratio of over 65-year-old / labour force. i

Source: OECD, the World Bank, National Bureau of Statistics of China, various sources.

PENSION SYSTEM IN CHINA

STRUCTURE OF THE PENSION SYSTEM

Public Pensions

- China's public pension entitled the Basic Pension Scheme includes the Urban Employees Pension Scheme and the Rural and Urban Residents Pension Scheme.
- The Urban Employees Pension Scheme is a statutory, tax-exempt, pay-as-you-go system under unified management at the provincial level. The number of participants was 434.82 million in 2019. The Rural and Urban Residents Pension Scheme covers the rest. It is a voluntary scheme with subsidies from local communities and governments. As of 2019, the number of participants was 532.66 million.
- National Social Security Fund was established in 2000 as a national strategic reserve fund in preparation for an ageing society.

Occupational Pension and Enterprise Annuity

- Civil servants and employees in other public sectors are covered by the Occupational Pension Scheme. The number of participants as of May 2019 was 29.7 million.
- Employers and employees in the corporate sector are encouraged to enroll in the Enterprise Annuity Scheme, which is collectively negotiated and voluntarily established by firms. Currently large firms account for the vast majority, while participation from small and medium enterprises and the self-employed is rather low.

Private Pension Annuities

- Private Pension Annuities are supplementary to the Basic Pension Scheme. They are funded by individuals and managed by pension insurance companies.
- The pilot tax-deferred commercial pension insurance scheme was launched in 2018 in three regions.

OVERVIEW

China's three-pillar pension system is comprised of the Basic Pension Scheme, occupational pension/enterprise annuities and private pension annuities.

The Basic Pension Scheme is one component of the Chinese social security system established and operated in accordance with related laws and regulations. The scheme is statutory, and employers and employees are legally obligated to make contributions. The scheme has basically achieved full coverage. The number of participants has reached 950 million. After reaching retirement age or exiting labour force due to certain reasons, employees are entitled to receiving the pension benefits to maintain their basic living standards. The Basic Pension Scheme, which is often referred to as Pillar I, runs as a PAYG plan and managed by the central and local governments. In 2018, the fund scale of the Basic Pension Scheme reached USD 800 billion, with over USD 150 billion entrusted to professional investment institutions. The Basic Pension Scheme is comprised of two parts: the Urban Employees Pension Scheme and the Rural and Urban Residents Pension Scheme. However, there is still a gap between the contribution and benefit levels between the two schemes.

The Occupational Pension Scheme provides supplementary pension benefits for employees in government agencies and other public sectors. It was established after the reform in 2014 and is mandatory.

The Enterprise Annuity Scheme is the supplementary pension plan in addition to the basic pension for employees. The scheme is voluntarily established by firms and collectively negotiated by employers and employees. Currently the majority of the enterprise annuity participants are employees in the State Owned Enterprises (SOEs). The participation rate in SMEs is still rather low.

Individual Retirement Savings Plans and commercial pension insurance comprise the third

pillar of China's pension system. In 2018, a pilot program on tax-deferred commercial pension insurance products was launched in Shanghai, Suzhou Industrial Area and Fujian Province.

URBAN EMPLOYEES PENSION SCHEME

Coverage

Urban employees. The number of participants was 434.82 million as of end 2019.

Contributions

In the contribution stage, the urban employees pension scheme is mandatory and contributed by approximately 20% of wages from employers (contribution rates vary by regions) and 8% of wages from employees. In May 2019, the government allowed employers to reduce their contribution rate from 20% to 16% in order to alleviate corporates' burden.

Currently the scheme runs at the provincial level. Due to demographic and economic reasons, provinces inland and in north-eastern region bear a higher fiscal pressure. In 2018, the central government launched an inter-provincial transfer payment plan to ensure the basic pension benefits are paid in full and on time. Each province needs to turn over a fraction of the pension contribution using a transfer rate, and these funds will be transferred to certain provinces by the central government. In 2020, the transfer rate increases from 3% to 4% of 90% of the average local worker salary multiplied by the number of participants.

Benefits

The benefit payments of the urban employees basic pension scheme are partially contribution-based. The scheme has both a social pooling account (PAYG) and an individual account (fully funded) for each employee. Currently, the retirement age in China is 60 for men (55 for male workers in the hazardous industries) and 50-55 for women (45 for female workers in the hazardous industries). A minimum of 15 years' (not necessarily continuous) contribution is required to receive this pension benefits.

RURAL AND URBAN RESIDENTS PENSION SCHEME

Coverage

The number of participants was 532.66 million in 2019.

Contributions

Residents are free to choose the amount of contribution in the range set yearly by local social security institutions. The amount contributed by the participants and subsidies from the local government are summed and accounted into individual accounts. The upper and lower limits of contributions vary by region, ranging from RMB 100 to several thousand per year.

Benefits

A minimum of 15 years' (not necessarily continuous) contribution is required to receive this pension benefits. The payment rule is similar to the urban employees pension scheme, which consists of the basic pension account and individual account.

OCCUPATIONAL PENSION

Coverage

Public sector employees are covered by the occupational pension, in addition to the basic pension. The scheme is designed to be mandatory. As of May 2019, the number of employees enrolled was about 29.7 million.

Contributions

The contribution rate is 8% from employers and 4% from employees. Before the reform in 2014, the basic pension and occupational pension accounts were “notional” in many provinces – i.e. the pension system in the public sector was ran as PAYG. After the reform, the individual accounts under the occupational pension scheme became fully-funded. During the transitional period, employees under the occupational scheme are categorized into three groups based on when they started working and retire so that their benefits are least impacted.

Benefits

Occupational pension is inheritable for employees who are deceased in service. After retirement, employees can choose to receive pension monthly, or they may choose to purchase commercial pension annuity products and receive monthly payments according to the insurance contracts. Changing jobs does not affect benefits. According to relevant policies, the occupational benefit formula is different for those who retired before October 1, 2014, those in service who started before that, and those “new hires” who came into service after that. In essence, those who retired before October 1, 2014 will keep enjoying the notional pension benefits while the others' pension benefits will count on fully-funded individual accounts.

Taxation

The occupational pension enjoys the EET tax treatment, while in the contribution stage the upper limit of tax-deduction for employee is 4% of his/her salary.

Enterprise Annuities

Coverage

Compared to the public sector occupational pension scheme, enterprise annuity plans are voluntarily set up by many large firms. Currently, the scheme is voluntary while the government encourages all firms to establish such plans. As of 2019 Q3, about 90 thousand firms set up their annuity plans, covering 25 million employees. Most of the firms are State Owned Enterprises (SOEs) or large private firms. The enterprise annuities amount to USD 230 billion and are

operated by 22 pension insurance companies or fund management companies. In total, there are 1644 enterprise annuity plans including 57 collective plans.

Contributions

The contributions are from both employers and employees. There is no prescribed minimum contribution level, but a maximum limit is set at 12% of wages in total and 8% of wages from the employers.

Benefits

Compared to the basic pension scheme, the benefit payment of the enterprise annuities is rather flexible. Participants can choose to get the retirement benefits by lump sum, by several times or by monthly payment. They can also use the annuity payments to buy other pension insurance products after retirement.

Taxation

Under current tax rules, employees' contributions of 4% (or less) of wages are tax-deductible, and employers' contributions are included in the tax-deduction items.

INDIVIDUAL SAVINGS PLANS AND COMMERCIAL PENSION ANNUITIES

Individual pension savings (Pillar III) are still in the early stage of development. In 2018, a pilot program of tax-deferred commercial pension insurance products was launched in Shanghai, Suzhou Industrial Area and Fujian Province. This pilot program follows the EET tax treatment. The upper limit for tax deferral is 6% of the wage or RMB1000 per month, whichever is lower.

In 2000, the National Social Security Fund (NSSF) was established as a national strategic reserve fund, with the main purpose of helping relieve the financial burden imposed by the aging population in the future. The NSSF's funds are from four main sources: transfer payment from the central government budget, SOE share listing, fund investment returns, and other fund accumulation channels approved by the State Council. The NSSF is managed and operated by the National Council for Social Security Fund. As of 2018, the NSSF's total assets reached USD 310 billion, with a historical annualized return rate of 7.82%.

POTENTIAL REFORMS

-- The rural and urban residents pension scheme mainly provides for minimal living guarantee. Recently pension experts have been discussing about how to better unify or distinguish this scheme with/from the urban employees pension scheme so as to achieve better old-age security.

-- To provide stronger tax incentive for Pillar II and Pillar III. Currently China does not tax investment returns, therefore individuals are not incentivized as much as the same EET tax treatment does in other countries for pension savings.

-- To strengthen pension regulation and supervision.

- To increase the pension coverage of employees in SMEs, the self-employed.
 - To enhance information transparency in pension markets.
 - To extend the pilot area for tax-deferred commercial pension insurance to the whole nation with a larger tax preference.
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REFERENCE

KEY Policies

2014: The State Council's Opinions on Establishing a Unified Urban-Rural Residents Basic Pension Scheme

http://www.gov.cn/zhengce/content/2014-02/26/content_8656.htm

2015: Measures for Investment and Management of the Basic Pension Funds

http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201508/t20150823_218734.htm

2016: Measures for the Occupational Pensions of the Public Sectors

http://www.gov.cn/zhengce/content/2015-04/06/content_9581.htm

2017: Measures for Enterprise Annuities

http://www.mohrss.gov.cn/SYrlzyhshbzb/zcfg/flfg/gz/201712/t20171221_284783.html

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Ministry of Finance: <http://www.mof.gov.cn/>

Ministry of Human Resources and Social Security (MoHRSS):
<http://www.mohrss.gov.cn>

China Banking and Insurance Regulatory Commission (CBIRC):
<http://www.cbirc.gov.cn>

State Taxation Administration (STA): <http://www.chinatax.gov.cn/>

National Council for Social Security Fund (NCSSF): <http://www.ssf.gov.cn/>