

# Draft Reform Proposals

## - Volume 2 -



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

### COMPONENT ONE

#### Macro-activity 1.6

#### 2016 programme of activities

##### PENSION SYSTEM (SUSTAINABILITY)

Interaction between Employment and Social security policies

Sustainability and financial reform

Demographic ageing

Redistributive effects of social security

## Foreword

As part of the EU-China Social protection reform project 2016 Programme of activities, a Panel discussion meeting was held in Beijing on 6 September 2016 to debate the situation analysis produced by Chinese experts on the four topics under review that year, also in the light of most relevant European best practices and in the light of the provisions included in the relevant chapter of the XIIIth Five-Year plan.

According to the Project Grant application form macro-activity 1.6 the meeting focused on “the first draft of reform proposals related to the topics analyzed”. The present document presents these draft reform proposals as tabled at the meeting, organised according to the results pursued by the project.

The reports containing the integrity of related analysis report, summary of discussions and presentation of most relevant European best practices can be downloaded from the project website <http://euchinasprp.eu> in printable format.

This second volume of draft reform proposals submitted by the project to the Chinese Government focus on the sustainability of pension schemes, from the financial, demographic and economic viewpoints. The First volume of recommendations, published in June 2016, concerned the basic structure and the main characteristics of the pension system in China.

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EU-China Social protection reform project,  
November 2016.

## **CONTENTS**

<b><u>FOREWORD</u></b>	<b>2</b>
<b>PROJECT RESULT 2</b> <b>IMPROVED INTER-AGENCY COOPERATION IN SOCIAL PROTECTION REFORM</b>	
<b>TOPIC 1.1.3 –MONITORING INTERACTION BETWEEN EMPLOYMENT PROMOTION AND SOCIAL PROTECTION POLICIES</b>	<b>5</b>
<b>PROJECT RESULT 3</b> <b>ENHANCED CAPACITY IN POLICY DEVELOPMENT, IMPLEMENTATION AND EVALUATION</b>	
<b>TOPIC 1.2.3 – SUSTAINABILITY OF PENSION SCHEMES (CONTRIBUTIONS AND GOVERNMENT SUBSIDIES)</b>	<b>8</b>
<b>PROJECT RESULT 4</b> <b>NATIONAL POLICY FRAMEWORK FOR A FULL COVERAGE OF OLD-AGE INSURANCE SYSTEM</b>	
<b>TOPIC 1.3.7 - AGEING POPULATION AND POSSIBLE STRATEGY OF DEALING WITH THIS SITUATION</b>	<b>14</b>
<b>PROJECT RESULT 5</b> <b>REFORM EFFORTS IN RESPONSE TO URBANIZATION TRENDS</b>	
<b>TOPIC 1.4.2 - RELATIONSHIP BETWEEN SOCIO-ECONOMIC DEVELOPMENT AND THE REDISTRIBUTION FUNCTION OF SOCIAL SECURITY</b>	<b>20</b>

## **PROJECT RESULT 2**

### **Improved Inter-agency Cooperation in social protection reform**

## Topic 1.1.3 –Monitoring interaction between employment promotion and social protection policies<sup>1</sup>

### **Sustainability of the Pension Insurance System and Suggestions for its Reform**

1. The pension replacement rate should not be too high, or too low; too high will lead to “welfare disease”, affecting social vitality, while too low will be difficult to guarantee the basic livelihood after retirement. In the early 1990s, the social average replacement rate of China’s pension was more than 70%, which was at a relatively high level; but now the replacement rate decreased to less than 60%. From the perspective of international experiences, the current replacement rate is almost the same as that of most countries in the world, which is at a reasonable level; but if further decreases, then the pension replacement rate will be relatively low so that the basic livelihood of the elderly is difficult to guarantee.
2. To achieve the goal that the pension replacement rate does not decrease, simply speaking, there could be several approaches as follows. The first one is to expand coverage, the second one is to raise the contribution rate, and the third one is to find other sources of funding.
3. The expansion of coverage is not only the need of developing the urban employee basic pension insurance system, but also help to stabilize or improve the pension replacement rate. But this is not a final solution of the problem. Because the expansion of coverage means that the increase of the number of pensioners in the future, when the coverage cannot expand, the increasing number of retirees will inevitably lead to the decrease of the replacement rate. Therefore, expanding the coverage is not the fundamental approach to improve or stabilize the pension replacement rate.
4. Is it feasible to raise the contribution rate? The proportion of the added up contribution rate (individual contributions and employee contributions) of China’s current various types of insurance systems to total wages is as high as around 42.5%, which is among the highest in the world. The employer or the enterprise is responsible for about 30% of the total wages, resulting in the increase of labor costs and affecting the competitiveness of enterprises. Thus, to further raise the contribution rate is not only impossible, on the contrary, it seems that now is the time to explore how to reduce the contribution rate.
5. Now there is left only the third approach, which is to find more sources of funding. China’s urban employee basic pension insurance system adopts the funding model of individual and organization’s contributions.
6. The government takes the fallback responsibility of the pension insurance fund, but this responsibility is not clarified in the system. Only in the place where the payment of pension insurance fund has gap, the government will provide some financial subsidies. The government does not provide a stable financial support to the pension insurance fund from the perspective of financing.

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<sup>1</sup> Excerpt from report by Chinese expert Mr. Zhang Juwei

7. From the perspective of the system design, the urban employee basic pension insurance fund does not seem to need financial investment. However, in reality, the government's financial subsidies always exist. But the subsidy financial funds are always temporary and casual, which is neither normative nor reasonable.
8. More importantly, the other two systems—the new rural pension insurance system and the urban resident pension insurance system—operating with the urban employee basic pension insurance system establish stable financial investment mechanisms. It should be said that the urban employee basic pension insurance system lacking stable financial investment mechanism is not only unfair, but also will bring the difficulties for transfer and continuation of pension insurance rights between systems. In the long term, establishing a stable investment mechanism of the government financing the urban employee basic pension insurance system is not only the need to ensure the sustainability of the system, but also the need to perfect the social security system for old age.
9. As a socialist country, in addition to general fiscal revenue, China's income has two parts belonging to all citizens, but these two parts are not being used reasonably. One part of the income is the income of the state-owned economy; another part is the income of huge foreign exchange reserves.
10. In 2011, the total accumulated profits of state-owned enterprises were 2,255.68 billion yuan and the total accumulated net profits of state-owned enterprises were 1,963.26 billion yuan, of which the net profits belonging to parent company owners were 1,146.08 billion yuan. If using 50% of the net income of state-owned enterprises as the urban employee basic pension insurance fund, then in 2011, it will inject capital of more than 500 billion, which is equivalent to nearly one-third of the contribution income of national urban employee as 1.689 trillion yuan in 2011.
11. Meanwhile, in 2011, China's foreign exchange reserves was 3.18 trillion U.S. dollars. Using the rate of return as 5%, the annual income should be more than 150 billion U.S. dollars, which is equivalent to about 1 trillion yuan. If using half of the annual income as pension insurance fund, then it will increase the fund revenue 500 billion yuan.
12. The income of state-owned enterprises and the income of huge foreign exchange reserves can stably finance 1 trillion for the pension insurance fund. The additional income obtained from these two sources of income by pension insurance fund not only will not increase the burden of organizations and individuals, but also can fundamentally solve the sustainability problem of the urban employee basic pension insurance system. This will promote social equity and play a role in narrowing the income gap. When other countries are facing the difficulty how to finance for the increasingly serious population ageing, the advantage of the unique system can help China to establish a unique pension insurance system in the world.

## **PROJECT RESULT 3**

**Enhanced capacity in policy development, implementation and evaluation**

## Topic 1.2.3 – Sustainability of Pension schemes (contributions and government subsidies) <sup>2</sup>

### Policy proposals on improving Urban Basic pension insurance system

<b>1 REDUCE THE CONTRIBUTION RATE OF OLD AGE INSURANCE AND ESTABLISH THE REASONABLE CONTRIBUTION BASE</b>	<b>9</b>
<b>2 IMPLEMENT THE NATIONAL POOLING AS SOON AS POSSIBLE TO REDUCE FINANCIAL RISKS AND ENHANCE THE PORTABILITY OF THE SYSTEM</b>	<b>9</b>
<b>3 ENHANCE THE FINANCIAL SUSTAINABILITY OF BASIC PENSION SYSTEM VIA ACTUARIAL BALANCE</b>	<b>10</b>
<b>3.1 TAKING LONG-TERM ACTUARIAL TECHNOLOGY AND USE REASONABLE SYSTEM PARAMETERS</b>	<b>10</b>
<b>3.2 ESTABLISH NORMAL PENSION ADJUSTMENT MECHANISM ADAPTING TO CHINA’S NEW NORMAL</b>	<b>10</b>
<b>3.3 DELAY LEGAL RETIREMENT AGE AND CONSTRUCT REWARDS AND PUNISHMENT MECHANISM</b>	<b>11</b>
<b>4 REFORM THE SYSTEM STRUCTURE AND IMPROVE INDIVIDUAL ACCOUNTS</b>	<b>11</b>
<b>5 GIVE FULL USE OF MARKET MECHANISM AND PAY MORE ATTENTION TO OTHER PILLARS</b>	<b>12</b>

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<sup>2</sup> Excerpt from report by Chinese expert Mr. Zheng Bingwen

The overall goal of urban basic pension system in China is to pay more attention to the fairness and financial sustainability. The fairness is embodied in the horizontal and vertical aspects. Horizontal fairness means resolving the problem of privilege system between different groups and departments. The GOPI pension system should be reformed synchronously with the enterprise employees' pension system. The longitudinal fairness requires establishing a normal pension adjustment mechanism. Financial sustainability means that the fund revenue should be matched with fund expenditures. Fund expenditures put emphasis on the self-adjustment mechanism to realize the balance of fund revenue and expenditure. The income ability of the system is directly related to the system parameters. Therefore, the parameter adjustment is an effective way to solve the problem of financial sustainability.

## 1 Reduce the contribution rate of old age insurance and establish the reasonable contribution base

At present, urban basic old age insurance system in China operates in low efficiency, which has fallen into the vicious circle. The higher the contribution rate, the lower the contribution base. Given that the nominal contribution rate is high, it will have great influences on the economic development and labor market. Reducing the contribution rate means that the normal contribution revenues will decrease, it may expand the income gap. Recently, Chinese government has proposed to reduce the contribution rate gradually, which may further reduce the fund revenue under the current pension structure, so the government should provide funds to make up for the temporary gap. Besides, use the actuarial technology to make the contribution base real, which requires the strict audition. At present, social insurance agencies in China have not set up a professional audit department. China should construct a stable and professional audit team equipped with professionals. In the same time, give full play to audit supervision, especially pay more attention to audit the large and advantage enterprises. Moreover, standardize enterprises' contribution behaviors to enhance the sense of contribution, which contributing to ensure the full collection of the contributions. Therefore, reducing the contribution rate and making the contribution rate real is helpful to avoid adverse selection.

## 2 Implement the national pooling as soon as possible to reduce financial risks and enhance the portability of the system

It is provided that if the insured leaves the original work unit, and continues to insure in the new unit, the pension contribution periods can be accumulated; the transfer of pension relationship can be divided into two types: First, flows within the same areas, only transfer pension relationship, without transferring pension funds; second, the overall range of flow between different areas, both transfer pension relationship and fund, with all fund in personal accounts of the basic pension insurance and 12% of the social pooling fund according to actual wages for each year to transfer. According to the operation, local governments, especially those areas of fund deficits, are unwilling to transfer the funds due to the local protectionism and vested interests groups.

Improving the pooling level is still the different task. At present, the dependency ratio, contribution pressure and fund balance are divided in different areas. More than half of the fund surpluses are concentrated in the eastern provinces. Some Midwest provinces need fiscal subsidies from the central governments to ensure the pension payment. Improving the national pooling level helps to expand the regulating range and gradually changes the regional fund balance. The financial conditions and benefits are different all over the country, which restricts pension relationship transfer between provinces. Therefore, we should break the interest barrier to realize the national pooling of basic pension system. Unifying the policies

of basic pension system in the national regions contributes to solve the problem of relationship transfer and rights protection issues. The key to implement national pooling is to divide the financing and payment responsibility between central and local governments. It should allocate the rights and obligations clearly. With the realization of national pooling, it is useful to make pension system adapting to the fairness and labor liquidity, promoting the sustainable development of pension system.

### 3 Enhance the Financial Sustainability of Basic Pension System via Actuarial Balance

Insisting on the principle of actuarial balance is not only an ideological problem, but also a realistic problem. It provides measurement tools to ensure the healthy development of pension system and to cross over the middle income trap. Meanwhile, it will provide a basic principle to evaluate the quality of pension system. Actuarial Balance is a useful tool to measure sustainability.

#### *3.1 Taking long-term actuarial technology and use reasonable system parameters*

Recently, with the economy entering into the “new normal”, the situation of fund revenues and expenditures are reserved. During the period of the 11th five-year plan, fund revenues growth rate were 20.9%, 24.5%, 23.4%, 18.9% and 16.5% respectively. The fund revenues growth rate is 25.6% in 2011, and then it decreased from 18% in 2012 to 13.2% in 2013. And it fell into the single digits for the first time in 2014. The growth rate of fund expenditure has decreased a little and the financial subsidies rose slightly from 16.3% in 2011 to 12.5% in 2014<sup>3</sup>. In the above, the financial sustainability of urban basic pension system is directly related to the system parameters. Similar to NDC pension system, the individual account is defined contribution. The pension divisor, accounting rate and the pension adjustment rate have significant impacts on financial sustainability.

Pension insurance actuarial is a relatively mature subject, which has been widely used by the governments. According to the foreign experiences, it should make full use of actuarial technology to determine the reasonable pension calculation formula. At present, the accounting rate is the one-year deposit interest rate, which is only higher than CPI. It will make the actual purchasing power declining. We can establish a guaranteed rate of return. When the market rate of return is lower than the guaranteed rate of return, we adopt the guaranteed rate of return. Moreover, under the current regime, the number of personal accounts of payment months of basic pension insurance is fixed, such as 60-years-old, the count number of months is 139. This means that for people retired at 60-years-old, the amount of personal savings accounts can only be distributed to 71.6 years, thereafter it will be a long-term risk system that individual account pension needs full financial subsidies. It is recommended to use dynamic counting of months, considering changes in demographic trends, the wage growth and changes in market interest rates in the payment number of months.

#### *3.2 Establish Normal Pension Adjustment Mechanism adapting to China's New Normal*

Enterprises employees' pension system in China has adjusted its pension benefit at the rate of 10% for eleven years since 2005, which put great pressure on the pension funds. For the social pooling and individual accounts pension system, using the unified pension adjustment rate makes the actuarial neutral factor of individual account vanished. The link between the contributions and benefits weakens, and the incentive degree has fallen into a minimum level. Many retirees are trying to retire earlier, which erode the fund revenues and expenditures. Besides, the unified benefit adjustment rate has widened the gap between the high income retirees and low income retired. The long-term external intervention adjustment method is a

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<sup>3</sup> Zheng Bingwen, Comprehensive thinking on deepening the old age insurance system, Human Resources Development, March 2016:p.24.

supplementary means, which helps to curb declining pension replacement rate. But it has damaged the credibility of the system and increased the financial pressure. Therefore, this article suggests that given the aging population and the economy entering into the new normal in China, it is urgent to establish automatic adjustment mechanism considering the CPI, wage growth rate, economic growth rate and dependency ratio. Linking the benefit with the change of economy and population structure helps to provide a stable and safe expectation for the public.

### *3.3 Delay Legal Retirement Age and Construct Rewards and Punishment Mechanism*

China has put forward delay legal retirement age policy in the Third Plenary Session of the 18th Central Committee. China should put the policy into practice as soon as possible, gradually adapting to the extension of education periods and life expectancy. The policy of delay retirement age and the abolishment of early retirement require a solid labor market, especially the elderly labor market. It is wise to make the flexible retirement age policy. Besides, the benefit should put more emphasis on the fairness and then set up rewards and punishments mechanism as a supplement. For example, the United States has not stipulated the legal retirement age. Workers can choose to retire from 62 years old to 70 years old. In order to encourage delay retirement, pension benefit will increase 0.25% working for extra one month after 65 years old. When workers choose to retire between 62 years old and 65 years old, pension benefit will reduce by 0.56% for early one month. The legal retirement age stipulated by Czech Republic is 63 years old. If workers choose to retire between 60 and 63, the pension benefit will reduce 5.6% for one year, and if they choose to delay retirement, their benefit will increase by 8.1% for one year<sup>4</sup>. The link between pension benefit and retirement age helps to reduce the distortions of labor market.

## **4 Reform the system structure and improve individual Accounts**

The formulation of improving the individual account is to redefine the pension system of social pooling and individual account. The traditional formulation of trials to fully funded individual account emphasized since 2001 has been replaced, which solved the empty account problems caused by the huge transition cost and low pooling level. Improving individual account means to insist on incentive mechanism of “pay more and gain more”. The key to incentive mechanism is to strengthen the connection between the contributions and benefits. But the problem lies in how to determine the implementation path. In the current system, expanding the individual account scale (at the same time to reduce the social pooling scale) helps to realize the goal. The article suggests that the principle of NDC can be used into the current basic pension system. In order to maintain the policy stability and continuity, it is useful to change the current pension system into hybrid social pooling and individual accounts. The policy implications are as follows.

- First, 8% of employee’s contribution and 20% of enterprises’ contribution are delimited into individual account, which can eliminate the obstacles of improving national pooling. Then it also helps to overcome the unbalanced development among regions and moral hazard.
- Second, in the benefit payment period, improving individual account is based on DC, which embodies actuarial neutral relations by linking the contributions and benefits.
- Third, the central government adopts centralized investment management system to diversify and internationalize the pension funds.

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<sup>4</sup> Monika Queisser and Edward Whitehouse, “Neutral or Fair: Actuarial concepts and Pension-system Design”, OECD Social, Employment and Migration Working Paper No.40, OECD Publishing, 2006:pp.29-33.

- Forth, the accumulated pension fund in the individual account can be converted to a lifetime annuity products after retirement. The funds finances from the current worker's contributions. The actuarial neutral design can really make the enterprises employees' pension system and GOPI unified.

## 5 Give full use of market mechanism and pay more attention to other pillars

According to the EU experiences, urban basic pension system should make full use of market mechanism to cope with the challenge of aging population. According to the current operation, the funds of social pooling and individual account are together used to pay the benefits. The current gap should be covered by the financial subsidies from the central government. In 2015, the total fund balance of enterprise employees' basic pension system has reached 3.53 trillion Yuan<sup>5</sup>. Due to the low pooling level, the central government should fund for the deficit provinces and then the surplus provinces have accumulated some funds balance. Then it will face the problem of fund investment. Second, improve the second and third pillar to move the single system model towards multiple-level pension system. Now the development of the second pillar lags behind. Make full use of preferential tax policy to promote the development of the second and third pillar pension reform. For example, establish specialized pension management companies and reduce the market barriers by providing the integrated trust products. Meanwhile, it is helpful to give the participants some limited investment options and to introduce fund products such as life cycle to improve the rigidity of investment system.

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<sup>5</sup> Ministry of Human Resources and Social Security, Human Resources and Social Security Development Bulletin 2015, 2016.

## **PROJECT RESULT 4**

### **National policy framework for a full coverage of old-age insurance system**

## Topic 1.3.7

Ageing population and possible strategy of dealing with this situation<sup>6</sup>**Possible Strategies to deal with population aging in China****1 THE STRATEGY OF ECONOMY DEVELOPMENT DEALING WITH POPULATION AGING.15**

**1.1 DEVELOPING HUMAN RESOURCES OF THE AGED TO REPLENISH THE LABOR SUPPLY.**

**15**

**1.2 ENHANCING THE INVESTMENT ON RESEARCH AND DEVELOPMENT (R&D) TO IMPROVE THE LABOR PRODUCTIVITY. 15**

**1.3 DEVELOPING THE AGING INDUSTRY VIGOROUSLY TO PROMOTE THE TRANSFORMATION OF ECONOMY STRUCTURE. 15**

**1.4 PERFECTING THE INCOME DISTRIBUTION PATTERN TO INCREASE THE EFFECTIVE CONSUMPTION DEMAND OF THE ELDERLY. 16**

**2 THE STRATEGY OF SOCIAL POLICY REFORM DEALING WITH POPULATION AGING. 16**

**2.1 POSTPONING THE RETIREMENT AGE TIMELY TO ALLEVIATE THE PRESSURE OF THE PENSION FUND. 16**

**2.2 REFORMING THE PENSION SYSTEM TO ENHANCE THE RISK RESISTANCE ABILITY OF THE ELDERLY. 16**

**2.3 PERFECTING THE HEALTH CARE SERVICE SYSTEM TO REALIZE THE GOAL OF HEALTHY AGING. 16**

**2.4 EXPLORING LONG-TERM CARE INSURANCE SYSTEM AND PAYING ATTENTION TO THE CARE NEEDS OF THE ELDERLY. 17**

**3 THE STRATEGY OF AGING SERVICE DEVELOPMENT DEALING WITH POPULATION AGING. 17**

**3.1 INNOVATING THE WAY OF SUPPORTING TO MEET THE DEMAND OF AGING SERVICE. 17**

**3.2 ENCOURAGING SOCIAL FORCES TO PARTICIPATE IN AGING SERVICES IN ORDER TO IMPROVE THE SERVICE SUPPLY EFFECTIVELY. 17**

**3.3 ATTACHING GREAT IMPORTANCE TO THE CONSTRUCTION OF THE HUMAN RESOURCES FOR AGING SERVICES TO RAISE THE PROFESSIONALIZATION. 17**

**3.4 CONSTRUCTING BETTER LIVING ENVIRONMENT SUITABLE FOR THE ELDERLY TO IMPROVE THE COMFORT LEVEL OF THE ELDERLY. 18**

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<sup>6</sup> Excerpt from the report by Mr. Dong Keyong

The population ageing in China is increasingly severe. There is a warning from UN and some other relevant international organizations: population phenomenon is an event which will last for a long period of time and it must have enough preparation to solve the problem.<sup>7</sup> At present, the strategy dealing with population aging in China still lack of overall train of thought and the preparation of thought, material and system is insufficient. There is no time left to prepare for the population aging before it reaches the peak at around 2030. We must seize every opportunity when the population aging degree is not so serious in the current and do our best to meet the challenges brought by the ageing peak.

## 1 The strategy of economy development dealing with population aging.

### *1.1 Developing human resources of the aged to replenish the labor supply.*

The current retirement age in China is relatively low compared with many other countries in the world. The life expectancy at retirement is 15 to 20 years or even longer at present. Most of these retirees have relatively rich experience in technology and management after decades of accumulation of experiences, they will still in a very healthy state in a long period of time and have the possibility and willing to continue to work in the corresponding field. On the one hand, working after retirement can not only accumulate more wealth before they get older, but also it can reduce the mentality of loneliness and boredom to help it maintain good state of mind and body. On the other hand, the development of human resources of the aged can provide labor resources with rich experiences and improve labor productivity, and also it can help to form the secondary demographic dividend and promote the economy development.

### *1.2 Enhancing the investment on research and development (r&d) to improve the labor productivity.*

The development of modern research and development, makes the economy growth mechanism change a lot and it has greatly raised the labor productivity. At present, the proportion of investment on r&d as a share of GDP in China is far less than many developed countries. According to the data from *The Forecast of Global Research and Development Spending in 2014* jointly issued by the Battelle Memorial Institute and Journal of Research and Development, in 2014, the r&d spending as a share of GDP in Israel reached 4.2%, and the proportion were between 3.4% ~ 3.6% in Japan, South Korea, and Sweden, in the United States of the r&d spending accounted for 2.8%. The data from the National Bureau of Statistics of PRC shows that the China's r&d spending as a share of GDP is 2.05% in 2014, which has a large gap with developed countries. In order to dealing with the challenge of population aging, we must focus on the r&d to substitute and further increase the investment of r&d, in response to the challenges posed by labor shortages.

### *1.3 Developing the aging industry vigorously to promote the transformation of economy structure.*

The population aging brings a series of challenges, but also it brings some corresponding development opportunities. With the rapid increase of the elderly population, the consumer demand especially the aging service is also increasing rapidly, which will drive the development of the tertiary industry, such as aging service, health care, aging finance and living things for the elderly. The development of the aging industry can not only bring benefits to satisfy the needs of the elderly and provide a rich variety of aging products to the elderly, but also it can effectively promote the economy structure transformation and form a new economy growth point.

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<sup>7</sup> Research group of the Party School of the Central Committee of CPC, Xu Zezhou, douyupei. Speed up to establish and perfect our country's aging service system [J]. Journal of the Chinese party and government cadres, BBS, 2011 01:16-19.

#### *1.4 Perfecting the income distribution pattern to increase the effective consumption demand of the elderly.*

Consumption is the important engine to stimulate the economy growth. The aged population is an important consumer group along with the deepening of population aging and the consumption of the elderly has great significance to the development of the economy and society. But it's worth noting that the consumer demand that can promote the economy growth must be effective consumer demand, so we should make sure the consumer demand of the elderly is effective so that they will have the ability to pay for their demand. At present, the disposable personal income of the elderly in China is at a low stage and the payment capacity is limited, so the willingness to consume is not strong, this is not good for the improvement of life and cannot promote the development of the economy. Therefore, we need to reform the income distribution pattern to improve the income of the elderly, such as perfecting the social security system, strengthening the transfer payment of tax and increasing the transfer payment among family internal and so on. Only in this way, the consumption ability of the elderly can be strengthened, the diversified demand can be realized and the development of economy can be stimulated.

## **2 The strategy of social policy reform dealing with population aging.**

### *2.1 Postponing the retirement age timely to alleviate the pressure of the pension fund.*

Under the background of the deepening of population aging, the pensionary is increasing gradually but the population pay for the pension is becoming less and less, which will lead to severe pressure of the pension fund in China. Postponing the retirement age is an important measure dealing with population aging and alleviating the pressure of the pension in many developed countries. At present, the retirement age or the pensionable age are low in China compared with the international development experience and the status quo of China's economy and society development and it is necessary and urgent for China to delay the retirement age. Although the policy is facing many disputes, it still represents the general trend and it is a necessary path to deal with population ageing. Of course, it is important to note that this process must be carefully designed, walk step by step and balance the relationship among parties.

### *2.2 Reforming the pension system to enhance the risk resistance ability of the elderly.*

The risk of unsustainable pension system is a challenge in China under the background of the population aging. This problem forces us to strengthen the systematic reform of the pension system. On the one hand, the pension age can be delayed to constrain the growth of the pension cost, and actuarial relationship between treatment and pay of pension can be strengthened to better realize the balance of the pension system; On the other hand, we should take some structural reform of the pension system. In China, the existing pension system mainly depends on the first pillar, we should draw lessons from international experience to construct the multi-pillar pension system with Chinese characteristics: establish the PAYG first pillar with social pooling accounts; refill and separate the personal accounts, to constitute the second pillar with enterprise annuity and occupation pension; develop the third pillars pensions with implementation of preferential tax policies as soon as possible, in addition, improve the zero pillar of the national pension, develop the fourth pillar of internal transfers among families and so on. Only the risks are shared by the multi-pillar pension system and the role of the different main body is full played, the anti-risk ability of elderly group can be better improved.

### *2.3 Perfecting the health care service system to realize the goal of healthy aging.*

The rapid development of population aging brings the increasing of the financial burden of disease and the cost of health care, which impact the medical and health service system of China and it must be effectively answered. Firstly, we must implement the strategy of healthy aging. At present we face with the problem of "unhealthy" longevity in the elderly, it is related to the ignorance of preventive but only pay attention to the

treatment of disease to some extent. We must turn the treatment of passive to prevention of positive in order to improve the health level of old age; Secondly, most old people suffering from chronic diseases, the chronic care determines the quality of the elderly life to a certain degree, so we must take good care of the chronic through perfecting the community health services and family doctor; Thirdly, the multi-level medical security system should be built to meet the diversified demand of the medical and health care.

#### *2.4 Exploring long-term care insurance system and paying attention to the care needs of the elderly.*

The proportion of disability and dementia will continue to increase with the deepening of population aging, and the care needs will also increase. The satisfaction of this need not only rely on the professional nursing personnel and facilities, but also the payment capacity. In order to solve these problems, developed countries like America, Japan and Germany have established a relatively perfect long-term care insurance system to meet the demand of the elderly who need long-term care. They successfully address these issues achieve good results. We will face a lot of care needs along with the aging and disability in China, try to build a long-term care insurance system as a long-term planning and timely to explore may also help to solve the problems of the long-term care services.

### 3 The strategy of aging service development dealing with population aging.

#### *3.1 Innovating the way of supporting to meet the demand of aging service.*

Social supporting has become the option of the elderly to improve the quality of elderly life along with the weakening of the family supporting function. Diversified supporting ways must match the economy development, the living habits of elderly and traditional culture. At present family supporting, community supporting and institution supporting are the main supporting ways for the elderly in China, which accord with the diverse demand of the aged. However, the position of the diversified supporting ways in China at present is not clear and it must be improved. First, the main body of the family and community supporting should be confirmed and the supporting facilities should be strengthened. Second, the institution supporting should be positioned accurately and the service quality need to be improved. Besides, the other supporting ways like reverse mortgage loan and mutual supporting can also be explored to meet the demand of diversified aging services.

#### *3.2 Encouraging social forces to participate in aging services in order to improve the service supply effectively.*

The demand of aging services of increasing along with the economy and society development. Compared with the rapid growth of the aging service demand, the aging facilities and services are not enough in China and it has a big gap with the diversified aging service demand. As we all know, the supply only from a single channel of the government will not match the aging service, kinds of forces participate in different ways will be a better way. In China, we should first perfect the supply of the aging service from the government, also we need to strengthen the social forces to participate in diversified aging service supply through a series of preferential policies. Only in this way can we realize the diversification of aging service supply upgrade the quality of the aging services continuously.

#### *3.3 Attaching great importance to the construction of the human resources for aging services to raise the professionalization.*

The demand of the older caregivers is increasing in China with the deepening on the advance age and disability. However, the older caregivers in China is in a serious shortage. Based on the international standard of 3 disabled old man with 1 caregiver, in China we need about 10 million older caregivers. According to a

survey data, the older caregivers in China are less than 1 million and the ones who have certification are less.<sup>8</sup> In order to improve the specialization aging service, we must pay attention to the construction of the human resources for aging services and improve the quality of the aging services through developing the vocational education reserve forces and strengthening personnel training of the caregivers.

### *3.4 Constructing better living environment suitable for the elderly to improve the comfort level of the elderly.*

Good living environment suitable for the elderly is very important to improve the quality of the elderly. At present, the convenience of the living environment and the integrity of the service facilities for the aged in China are facing with a series of problems. The hardware and software of the elderly living environment should be further strengthened. In the aspect of hardware, it is necessary to strengthen the construction of public infrastructure services for the elderly, including the reformation of elderly-Oriented housing, the construction of community aging facilities, the supply of community aging service and the construction of barrier-free environment and so on; On the software side, we should continuously strengthen the construction of aging culture, promote the respect for the elderly, form the social atmosphere of harmony, so that the elderly are able to enjoy a good social environment in physical and psychological.

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<sup>8</sup> China news, the aging industry in China is facing with a shortage of talents, urgently short of caregivers [DB/OL]. <http://www.chinanews.com/jk/2014/12-15/6875330.shtml>

## **PROJECT RESULT 5**

### **Reform efforts in response to Urbanization trends**

## Topic 1.4.2

### Relationship between socio-economic development and the redistribution function of social security<sup>9</sup>

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<sup>9</sup> Excerpt from the report by Mr. Li Shi

(1) In the past forty years of reform and opening up, China made great achievements in terms of economic growth, but social security and welfare system did not play an effective role in narrowing income inequality. China is facing a series of social and economic problems, such as the widening income gap and large scale of poverty population, economic slowdown brought the pressure of unemployment, massive rural migrant population, the lack of consumption demand and the increasingly serious aging.

(2) China has initially established a social security and welfare system covering the whole population, especially the pension and health care system covering the whole population. However, since the current social security system is fragmented, the system implements different systems for people with different employment status within a city, lack of cohesion and coordination between different groups.

(3) The results of this study show that the social security and welfare system, especially the endowment insurance system, has a positive impact on narrowing the income gap, but the impact is not very significant. In particular, the personal income tax and social security contribution to the income distribution is negative, that is, the role of increasing income gap. A variety of social security and welfare programs with public transfer income has played a role in narrowing income gap, which is mainly derived from the role of pension insurance system.

(4) The EU countries have greatly reduced income inequality through social security and welfare systems. In addition, the EU's public service equalization level is high, but also to reduce the inequality of income distribution. In this regard, China has a lot to learn from the experiences of the EU countries.

Hence the following recommendations for further reform of social security system in China.

In the future reform of social security and welfare system, China should pay more attention to its role in reducing income inequality.

First of all, the social security contribution needs to increase the progressivity of payment and the payment must be linked to their income level. In the pension system, the reform of civil servant pension insurance system should be accelerated, merged as soon as possible into the enterprise workers and public institutions staff pension insurance system.

Secondly, to reform the existing fragmentation of the social security system, to establish a unified national social security system as soon as possible. Reducing the differences in social security benefits for different groups of people. The current dibao program needs to improve targeting, also needs to improve its low premium level.

In addition, increase the number of welfare programs for poor people and low-income groups, such as subsidies for children from low-income families.

Finally, the simulation analysis of social security and welfare system should be encouraged, especially the effect of income redistribution is simulated and analyzed, which provides scientific basis for policy making.