10 April 2018

EU-China Social Protection Reform Project

Component 2 macro-activities

EU Short Term Experts

(Annual Work Plan 2018 – Macro-Activities 2.1 to 2.12)

Topic 2.3.2
The role of public finance and enterprise annuities funds in the Chinese social security system

TERMS OF REFERENCE (ToR)

1. Background

1.1 General

The purpose of the EU-China Social protection reform project ("the Project") is to contribute to the improvement and inclusiveness of China's social protection system through strengthening the institutional capability for developing policies, for implementing legal and regulatory frameworks and for supervising systems of social insurances, social assistance and financial management in the area of social security. In particular, the Project's purpose will be pursued through the following three components in relation to which specific Chinese government entities playing the role of partner of the consortium have been identified:

i. Component 1: Consolidation of institutional capacity for social protection policy development and reforms in collaboration with the National Development and Reform Commission ("NDRC");

ii. Component 2: Enhancing of institutional capacity for financial management and supervision concerning social security funds in collaboration with the Ministry of Finance ("MoF"); and

iii. Component 3: Improving of legal framework and policy for social assistance in collaboration with the Ministry of Civil Affairs ("MoCA" and, together with NDRC and MoF, the "Chinese Ministries"),

These ToR fall under Component 2 of the project.

2. Description of the Assignment

2.1. Overall and Specific Objectives

The overall scope of the SPRP project is to further develop social equity and inclusiveness of economic development throughout Chinese society. For the Component 2, the main target is to enhance the institutional capacity for financial management and supervision concerning social security funds.

In 2018, the Component 2 will analyze the following three topics:

2.1.3 - Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system;
2.1.5 - Social contribution collections: toward a unified system;
2.3.2 - The role of public finance and enterprise annuities funds in the Chinese social security system.

This ToR is for the topic 2.3.2

2.2. Specific Objectives

One of the key issues in China's pension reform is how to define the responsibility of public finance's subsidy for social security funds: that is whether the subsidies should be used as contributory payment for the equally-considered period or should be used to cover the expenditure deficit.
Many Countries provide public finance subsidies to social insurance funds, such as the pension fund. Subsidies are used in many ways and in some Countries more than one system is adopted.
The first way consists in using subsidies to fully or partially pay pension contribution for specific groups, such as parents (especially mothers) during paternity/maternity leaves.
The second way consists in using subsidies to pay a given share of employees' contributions. For

example, in Luxembourg, the public finance subsidizes 8% of salary for pension contribution, and the contribution rate of both employer and employee is 8%.
A third method consists in using subsidies to cover a given proportion of social fund’s annual expenditure. For example, in Japan, a certain proportion of National Pension (which corresponds to China’s Pension for Resident) is paid with public subsidies. In 2009, the subsidies accounted for 1/3 of the annual expenditure and later the proportion was increased to 1/2.
A fourth way consists in subsidizing pension fund with a given percentage of tax revenues. For example, in Germany a certain proportion of VAT and of the ecological tax on fossil energy are used to subsidize German pension fund.
The fifth way consists in using subsidies to cover the deficit in social fund’s balance, which means that the public finance takes the responsibility for the balance of the fund.
A sixth way consists in using subsidies to cover the deficit resulting from pre-defined causes. For example, in Poland, there is a Demographic Reserve Fund funded by different channels (private revenues of state-owned enterprises and contributory revenue) aimed to provide subsidies to cover the pension deficit resulting from demographic change (ageing), and to offer zero-interest loans to pension funds for covering deficit caused by short-term lack of liquidity.
A seventh way consists in using subsidies to guarantee minimum pension schemes. For example, some pensioners of low-level pensions can receive subsidies from public finance to supplement their pension income to reach a pre-defined level. This is an institution seen in Chile, Mexico, Hungary, Poland and Sweden.
A eighth way consists in using subsidies to pay transitional costs resulting from transformation of a PAYG system to a Fully Funded system. The Chilean reform in 1980s adopted this approach.
In general, the first four ways are used to pre-subsidizing social fund; the 6th and 5th are post-subsidizing the deficit; the 7th is a direct subsidy to individual pensioner, and the 8th is a special subsidy used during institutional transformations.

For the first step, technical analysis can be made on the subsidizing ways (as well as subsidizing proportions). In fact, some Countries have increased subsidy from normal budget for pension funds. Some of them consider in this way: due to working population reduced by population ageing and increasing flexible employment, specific social contribution (tax) based on salary is not good for increasing contributory (tax) base and controlling contribution (tax) rate. Therefore, labour costs will increase, which is not good for promoting employment. Besides, because in the income composition of low-income group labour income is the major part while property income is a small part, only relying on social contribution (tax) is not a good funding way for adjusting income distribution and promoting equality. Of course, only depending on normal budget to subsidize social funds will cause many problems, such as the correspondence between right and responsibility will be weakened, people’s activeness for employment will be reduced, and reliance on benefit will be increased, etc. In reality, what is the way that a Country chooses and how much subsidy is from the public finance are not only resulted from technical analysis. In most cases, they are results of political considerations and compromises.
The Article 13 of China’s Social Insurance Law provides that before participating in the Basic Old-Age Insurance, for an employee of state-owned enterprise and public institutions, the contribution that should be paid during the equally considered contributory period shall be paid by the government, and when pension fund cannot provide sufficient pension, the government is responsible for subsidizing the insufficient part. In recent years, the amount of subsidy from normal public budget to the Basic

Old-Age Insurance for Enterprise Employees has been increasing, from RMB 242.7 billion in 2012 to RMB 429.1 billion in 2016.

The EU Best Practice report should map the different methods used by selected EU Member States to subsidize pension funds through the public finance; collect time series data on the amount of such subsidies and their relevance, analyse their historical origin and rational, while providing an evaluation of their impacts, relative advantages, and disadvantages. In doing so, the report should also clearly define the relation between public finance and social insurance funds in the selected EU Member States.

2.3. Requested Services

The Expert(s) will submit a draft of the report for comments and suggestions to the project team and a final report that should meet the expectations of the Component 2 coordinator (INPS). He will then present the main results of the research at the dedicated Panel Discussion in June, 2018.

2.3. Outputs

- a report of around 40 pages, in English, that will include an executive summary, a table of contents, and a bibliography
- a power point presentation in English

3. Experts' Profile

Requirements for Experts	Requirement/Asset
Qualifications and skills	
University Degree within the relevant sectors of Demography, Social Protection, Law, Political Science, and Economics	R
Excellent organizational, communication, writing and interpersonal skills	R
Strong analytical and drafting skills	R
Previous experience in execution tasks in other international projects	A
Fluent in English both verbally and writing	A
Ability to develop and maintain good professional relations with stakeholders, particularly counterparts and staff members in an international setting	R
General professional experience	
At least **5 years** of experience working in areas related to Social Protection and/or Employment policies	R
Public servant within one of the Applicant Entities of the Consortium or staff from public institutions cooperating with the Applicant Entities of the Consortium or researcher from the research institution outside Consortium. Public servants and staff from public institutions cooperating with the Applicant Entities who fulfill the requirements take precedence over candidates outside Consortium.	R
Previous working experience in international projects, preferably with EU funded projects	A
Previous working experience in China	A
Specific professional experience-related to action	
Possessing professional experience relevant to the ToR for his/her specific assignment	R
Previous experience in research or previous publications in the area of social sciences	A

3.1 Working Languages

The incumbent should be fluent in English both verbally and in writing.

4. Location & Duration

Location: Experts' countries and Beijing

Timing: April-June 2018. First draft report by 18th May, final document by 10st June 2018. Power point presentation by the Panel Discussion timing.

Working days: 30 w/days

5. How to apply:

Interested Expert(s) are requested to submit three documents:

1. Candidacy – Letter of intents
2. A CV in English (Europass format suggested), pdf format
3. A copy of her/his Identification Document

Applications are to be sent to C2 Resident Expert, Mr. Michele Bruni: Michele.bruni@eucsprp.org and the C2 Coordinator, Ms. Valeria Bonavolontà: valeria.bonavolonta@inps.it **by or before** April 17th, 2018.

6. Personal data protection

INPS – Istituto Nazionale della Previdenza sociale, based in Rome (Italy), Via Ciro il Grande 21, is the Responsible of personal data processing, as EU-China SPR Project Leader and Component 2 Coordinator. INPS informs you that your personal data contained in the application for the present ToR will be processed by the Component 2 Resident Expert of the EU-China SPR Project, his assistant and INPS employees involved in the EU-China SPR Project – Component 2, in compliance with the Italian Legislative Decree no. 196 dated 30/06/2003 on personal data protection, in order to process your application to the selection. Your personal data will be processed also with electronical instruments. Your data will be communicated to other public or private Institutions only in cases provided by the Italian laws. INPS informs you that, in accordance to art. 7 of the above mentioned decree, you are entitled, in particular, to have access to your personal data, to request rectification, updating or deleting of information if data are incomplete or wrong. You should contact INPS at the e-mail address: Comp2.InpsProgettoCina@inps.it to exercise the rights provided in art. 7.