

Expanding Pension Coverage to Informal Workers: Lessons from China

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Challenge

- Governments in developing countries seek to create programs that ensure adequate living standards in old age
- Difficult to expand social insurance program coverage when much of the economy is unregulated (unorganized sector)
- Design features of employer-provided pension programs can increase informality!



Main Messages

- China has pursued high pension coverage rates through new hybrid programs that combine voluntary contributions and government subsidies, with no role played by employers
- While coverage is now nearly universal, the program faces four challenging issues to successfully achieve program goals



Social Insurance Policy Options

- Mandatory contributory insurance (CI) programs
 - Always been main type of SI
 - Usually financed by employers and workers (usually as a share of wage)
- Voluntary contributory insurance programs
 - Can include matching subsidies by government
- Non-contributory Insurance (NI) programs (social pensions)
 - Funded by sources other than from employers and workers (directly)
 - Often targeted
 - Can be universal (UI) if cover entire population with universal benefit packages

Many developing countries moving away for mandatory contributory Insurance programs (CI) to non-contributory insurance (NI)



Facts about Employment and Pensions in China

- 2018 labor force participation rate 68.7% (World Bank)
- 2019 (Feb) unemployment rate 5.3% (Chinese government surveys)
- 2018 self-employment share of employment 46.9% (ILO)
- By 2018, China has achieved nearly universal pension coverage
- 2018, China had 249 million persons above age 60 (17.5% of the population)



China's Sharing ("Gig") Economy

	Value (US\$ billion)	Annual growth (%)
Transportation	35.9	23.3
Housing	3.8	37.5
Knowledge and skills	34.1	70.3
Personal services	230.3	23.0
Medical services	1.3	57.1
Offices	3.0	87.3
Production ability	119.4	97.5
Total	426.4	41.6

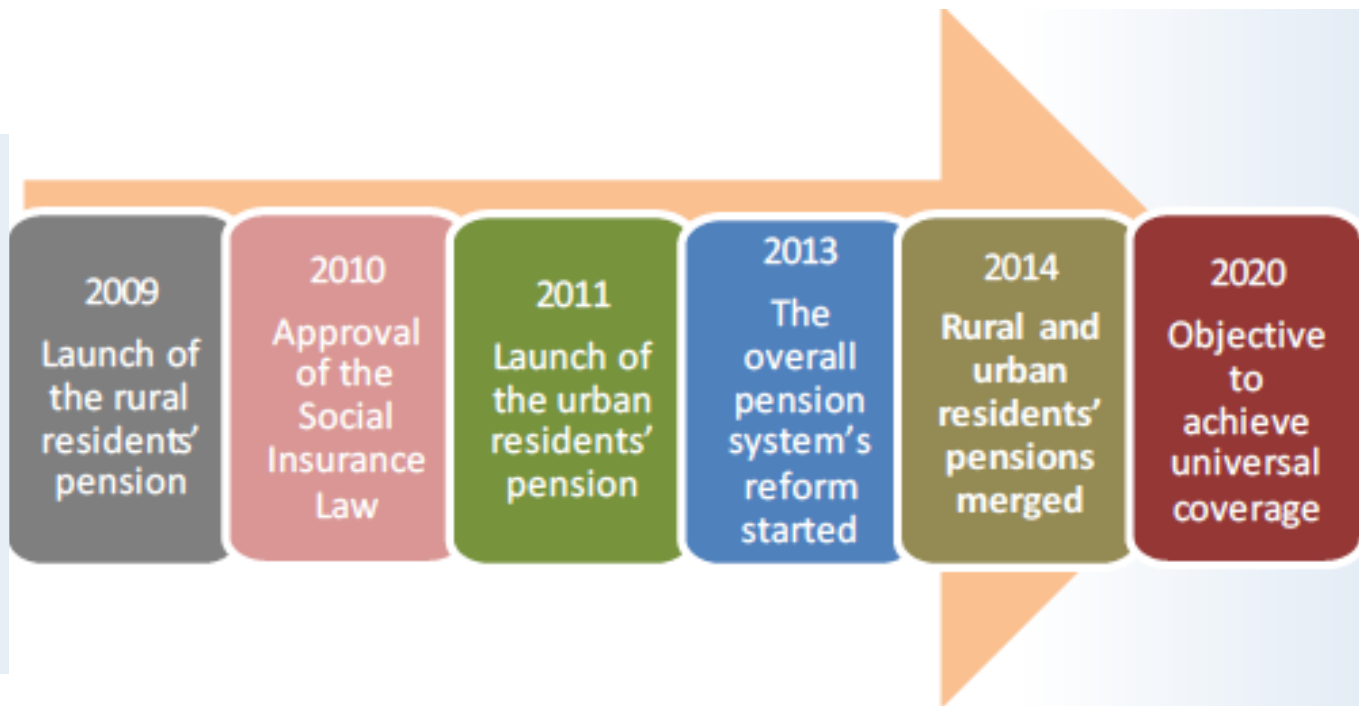
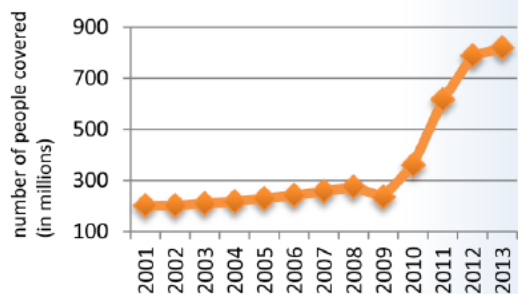
- Employment in sharing economy reached 5.98 million persons in 2018, increasing 7.5% over 2017.

Source: China Sharing Economy Development Yearbook, 2019.



Reform of China's Pension System

Expansion of old-age pension coverage over 2001-2013



Source: Annual statistical bulletins on human resources and social security development (ASB), 2001-2013.

Source: ILO



Pension Program Consolidation

- Rural Pension Program and Urban Resident Pension Program combined into Resident Pension Program (2014)
- Civil Servant Pension Program benefits made to conform with Urban Employee Pension Program (2015)



Urban Employee Pension Program

- Rules: individuals contribute 8% of wages, employers contribute 16% (previously 20%)
- Retirement at age 60 for men and 55 for women (sometimes earlier)
 - Announced intention to increase retirement age
- Defined benefit is 50-60% of final wage, defined contribution is 1/139 of individual contributions
- Pooling of funds at province level



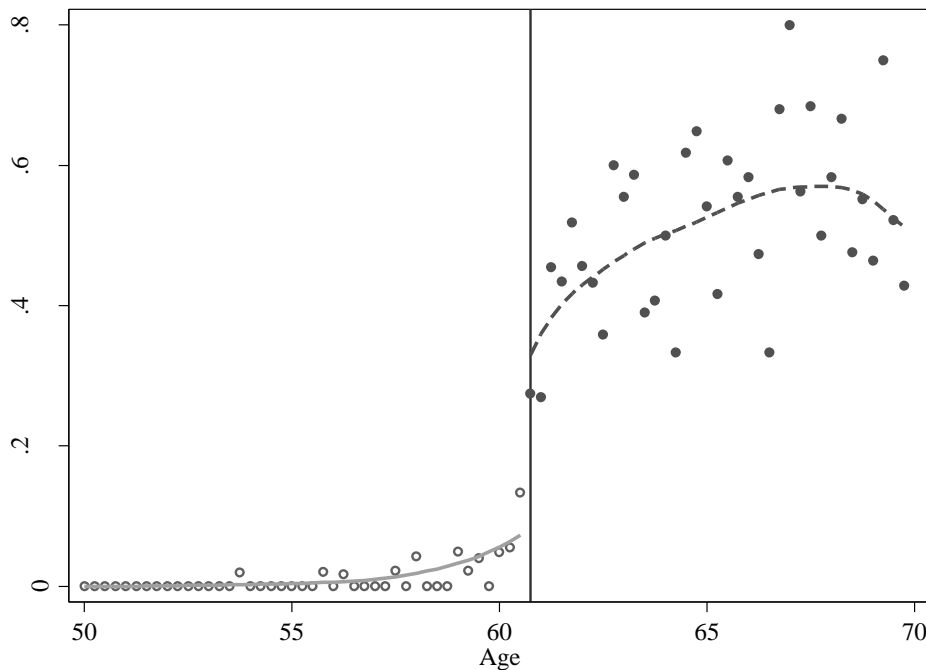
Residents Pension Program

- Most financing from general revenues (>2/3)
- Participation voluntary
 - Contribute at least 100 yuan per year, local government matches 30 yuan
 - Vesting requires 15 years of contributions
- All those above age 60 receive a noncontributory social pension of at least 88 RMB/month (13 US\$)
- Also receive 1/139 of accumulated contributions each month
- Pooling at province level (previously county)



Rural Pension Program Impacts

- Robust benefits for poverty reduction, health, health expenditures, happiness
- Reduced labor supply
- Alters intergenerational relationships: less financial support from children, less investment in education of girls but more in boys (Park and Shan, 2019)



Research method:
regression discontinuity design
Compares those who just turned
60 to those about to turn 60



Key Issues Challenging China's Pension System

- Labor market distortions
- Benefit inadequacy and disparity
- Poor enforcement of social insurance regulations
- Financial sustainability



Issue 1: Labor Market Distortions

- Social pensions reduce work incentives for the elderly
- Multiple pension programs distort incentives to participate in pension programs as well as employment decisions
- Lack of portability of benefits across provinces reduces labor mobility



Issue 2: Benefit Inadequacy and Disparity

- Resident pension benefits about 5% of employee pension benefits, equal to only 10% of mean income per capita
- Rich provinces provide much more generous pensions than poor provinces



Issue 3: Poor Enforcement of Social Insurance Regulations

- China's mandated social insurance contribution rates for employee pensions are very high (about 40% of wage)
- Firms surveys find that actual contribution rates are only 16% (Du et al, 2018)
- Large variation in enforcement across cities, across firms within cities, and for migrants (37% don't participate in employer-provided pension programs)
- Leads to inadequate benefits and unlevel playing field



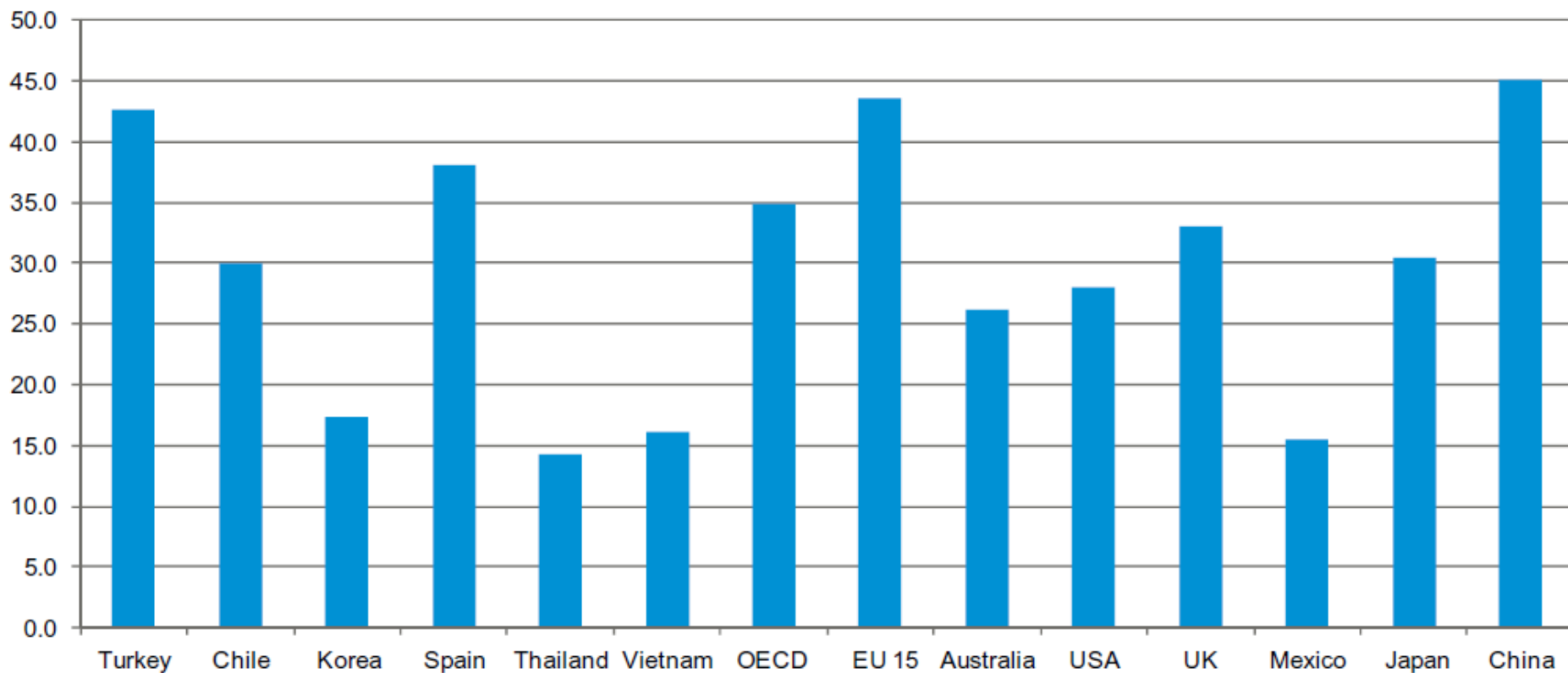
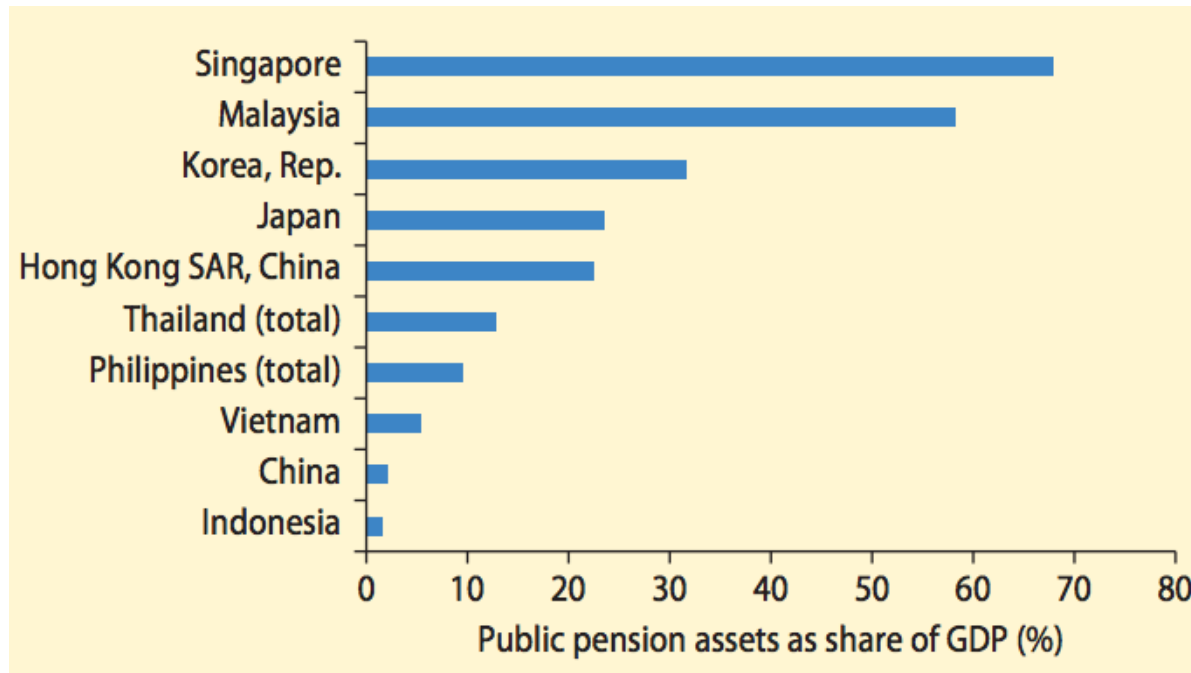


Fig. 5. China's Labor Tax Wedge in Comparative Perspective. Source: OECD (2011). For China, Author Calculation from Aggregate Data.



Issue 4: Financial Sustainability

- Pension assets are insufficient
- Restrictions on investment options reduce returns
- Fund management is decentralized and opaque, encouraging misuse and diversion
- Individual accounts are notional rather than real



Conclusions

- China's reform goals must switch from expanding coverage to increasing and equalizing the benefits of its public pension programs in a way that is financial sustainability
- Pension programs and their **enforcement must** be better integrated and equalized across regions and firms, to further both equity and efficiency goals

