

# **Civil Service and Military Service Pensions In China**

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## **Executive Summary**

As quoted by Palacios and Whitehouse<sup>1</sup>, there are separate pension schemes for civil servants in about half the world's countries. This includes the People's Republic of China.

In some countries pension costs for public sector employees form a disproportionately large part of the total pension expenditure, and this applies to China. Whereas a considerable volume of material is available on the Chinese national pension systems, there has been far less study of the pension arrangements in place for the civil service, public service employees and military personnel in China. Indeed it has proven particularly difficult to obtain reliable and accurate information as to the pension arrangements for the People's Liberation Army.

Of course pension provision worldwide is attracting a great deal of attention because of its importance at a micro level, i.e. as replacement income for individuals after retirement, and at a macro level, viz. the impact on the overall economy of both funded and unfunded arrangements.

The major pressures affecting the different pension systems in China, and indeed worldwide, include:

- rapidly improving life expectancy;
- changing work patterns, including greater labour mobility;
- the effect of the global financial crisis on pension assets and on government budgets.

This paper will describe the main elements of pension provision in China, i.e.:

- state pension system for urban workers;
- supplementary benefits for urban workers;
- the National Social Security Fund;
- the proposed rural pension system;
- civil service and public servants pensions;

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<sup>1</sup> "Civil Service Pension Schemes around the World" (2006) by Robert Palacios and Edward Whitehouse.

- the military pension system.

A description of certain reforms affecting public servants is given, together with comment on the desirability of further harmonising the various pension arrangements in China.

## **Current Pension Arrangements in China**

Since the founding of the People's Republic of China in 1949 and the establishment of the nation's first pension scheme in 1951, China's pension system has gone through substantial reforms, which reflects the fundamental political, economic and social developments in the country. The reform progress is most evident in the urban enterprise sector. Pension reforms in other sectors, including the civil service, lag considerably behind. Although a number of pilot programmes have been introduced, without real policy support from the government, progress has been severely limited.

China as a society is very large, very complex and very fast changing, with tremendous regional variations. There is no unified pension system in place to cover all citizens in China. In fact, there are separate pension arrangements for urban workers, rural dwellers, civil servants and public servants as well as for the military force. Some similarities exist among those systems in terms of scheme design and funding features; however, limited links and perceptible benefit inequality between the schemes could give rise to social conflict. Hence, it is of utmost necessity to adopt reform measures in the civil service and public service sector pension systems to make them better fit into the market-oriented economy and eventually achieve a "harmonious society".

### **I. Private Sector Pension Systems in China**

#### ***(1) Pension System for Urban Workers***

The reforms in the urban enterprise sector in the past two decades have focused on building a multi-pillar pension system for the urban workers, broadly in line with the World Bank's 5-pillar model<sup>2</sup>. In particular, two important documents issued by the Ministry of Labour and Social Security (MoLSS)<sup>3</sup> - Document 26 in July 1997 and Document 38 in December 2005 - are widely considered as policy landmarks setting the framework for the urban system.

Table 1 below sets out the current urban pension system features with 5 pillars, where it is shown that by making contributions of 8% and 20% of employees' monthly salaries to Pillar Ia and Pillar Ib respectively, these two mandatory state pension components are in theory deemed to provide urban enterprise retirees with 30% and 24%, respectively, of

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<sup>2</sup> A more detailed account of the Chinese pension reforms can be found in *Pension Funds in China: a New Look*, by Stuart Leckie and Yasue Pai, ISI Publications, Hong Kong, 2005.

<sup>3</sup> The Ministry merged with Ministry of Personnel in 2008, which is now named "Ministry of Human Resources and Social Security", or MoHRSS.

the average final monthly salary after a working lifetime of 35 years. The current retirement ages as stipulated by the law are 60 for men and 55 for white collar women, 50 for blue collar women.

**Table 1: Current Pension System for Urban Workers in China**

Pillars (World Bank)		Chinese Terminology	Contributions	Funded Status	Benefits
State	Zero	Zero: Minimum guarantee (Di Bao)	n/a	From Government	Varies
	I	Ia: Mandatory Social Pool Old Age Pension	ER: ~20% of salaries	PAYG	Monthly pension based on average local monthly wage, indexed individual wage and years of employment
	II	Ib: Mandatory Individual Account (IA) Pension	EE: 8% of salary	Should be funded	Monthly pension of 1/139 of IA balance at the time of retirement assuming at least 15 years' contributions
Private	III	II: Voluntary Enterprise Annuity (set up by eligible employers)	ER; EE	Funded	Lump sum or annuity benefit
		III: Other Voluntary Benefits, e.g. Group Insurance Plans	ER; EE	Funded	Lump sum or annuity benefit
Private & State	IV	IV: Family support; subsidised healthcare and housing	n/a	From Government or Family	Varies

Source: Stirling Finance research. ER – employer; EE – employee.

In terms of investment scope, opportunities for the accumulated monies in Pillar Ib (and Pillar Ia if any) are limited to bank deposits and government bonds, which have yielded an average return of only 2% p.a. in the past 10 years. Enterprise Annuity (EA) plans, however, are allowed to invest by allocating up to 50% in domestic bonds and up to 30%

in domestic equities, with at least 20% in cash and cash equivalents. The total size of EA funds has reached RMB 300 billion as of end-2010.

Urban pensions are increased each year, usually by an amount intermediately between price inflation and earnings escalation.

## **(2) National Social Security Fund<sup>4</sup>**

The National Social Security Fund (NSSF), was created by the central government in year 2000 as a “fund of last resort” to help cope with China’s pension challenge in the future. The Fund is stated as being available to help the provinces if they have future pension financing difficulties due to China’s ageing society.

NSSF has been growing significantly in size, stature and influence during the past 10 years since its inception. The total assets of the Fund have quickly increased from the initial RMB 20 billion (USD 2.4 billion) to RMB 800 billion (USD 120 billion) by October 2010, making it by far the biggest institutional investor in China’s pension sector.

As per its investment guidelines, the NSSF must deploy no less than 50% in domestic bank deposits and government bonds via direct investment, but it can also invest in equities, fixed income securities as well as PE funds through external fund managers both domestically and internationally.

NSSF managed to generate an average return of approximately 9.8% p.a. by the end of 2009, which is considerably higher than the average price inflation rate during the same period of time, although still less than the average rate of wage escalation in the country.

The Fund will continue to expand and its asset size is expected to reach USD 225 billion by the end of 2015, though clear instructions are yet to be provided by the government as regards the exact role NSSF will be playing in China’s overall pension system going forward.

## **(3) Pension System for Rural Residents**

China is in fact still classified as an agricultural country as rural residents (i.e. persons holding a rural “hukou” or identity card) account for about 55% of the nation’s total

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<sup>4</sup> Please refer to “A Review of the National Social Security Fund in China” by Stuart Leckie, 2009 for more details about the Fund.

population. Pension reform in the rural sector lagged behind as almost all the attention was directed to urban workers over the past 2 decades. Only in late 2008 did the central government make a promise that the entire rural population will be covered by a viable pension system by 2020.

As per the proposed rules, rural residents aged 16 and above, who are neither students nor currently participating in the state pension system for urban workers, are eligible to join the programme on a voluntary basis, with the promise of basic pension payments starting from the age of 60 irrespective of gender.

Table 2 below sets out the detailed structure of this scheme showing the contribution levels of each layer and benefit amounts as well as funding status.

By the end of 2010, some 23% of all the counties in China have introduced the new rural pension arrangement on a voluntary basis, marking a historic step forward in the development of China's social security system for the rural population.

**Table 2: Newly Established Rural Pension System in China**

<b>Terminology</b>	<b>Contributions</b>	<b>Benefits</b>	<b>Funded Status</b>
<b>Basic Social Pool</b>	100% from government budget.	No less than RMB 55 per month.	Unfunded
<b>Individual Account</b>	<ul style="list-style-type: none"> <li>- Individuals: RMB 100 / 200 / 300 / 400 / 500 per year;</li> <li>- No less than RMB 30 from government each year;</li> <li>- Other sources.</li> </ul>	Monthly pension benefit of 1/139 of IA balance at pension age (i.e., age 60 for both males and females) assuming at least 15 years' contribution; otherwise, lump sum payable.	Funded

Source: Stirling Finance research.

The financing of the basic social pool pension will come, wholly or partially, from either central, provincial or county government. The intention in respect of the initial very modest social pool pension is for the amount to increase each year in line with the greatest of price inflation, earnings increases and GDP growth.

Of course the greatest challenge in each county will come when the rural pension arrangement becomes compulsory.



## II. Pension Arrangements for Civil Servants and Public Servants

### (1) Background

Aside from state-owned enterprise sector, China's public segment also consists of civil service sector and public service sector, where employees of these two sectors are known as civil servants and public servants.

**Table 3: Size of Civil Service and Public Service Force in China**

		1990	1995	2000	2005	2007
Employment		millions				
	Public Service	23.0	25.3	26.9	27.1	28.7
	Civil Service	9.1	10.1	10.6	10.7	11.3
	Total	32.1	35.4	37.5	37.9	40.0
Wage bill p.a.		RMB, billion				
	Public Service	48.8	139.4	259.1	507.9	741.7
	Civil Service	19.2	55.9	106.4	223.5	325.1
	Total	68.0	195.3	365.4	731.4	1066.8
Civil / public employment relative to total employment (excluding rural workers)		%				
	Public Service	8.9	7.8	7.5	6.5	6.3
	Civil Service	3.5	3.1	2.9	2.6	2.5
	Total	12.4	10.9	10.4	9.0	8.8
Wage bill relative to GDP		%				
	Public Service	2.6	2.3	2.6	2.8	2.9
	Civil Service	1.0	0.9	1.1	1.2	1.3
	Total	3.6	3.2	3.7	4.0	4.1

Source: Hu and Herd (2009).

As stipulated in the Law on Civil Servants in China, "Civil Servants" are "members of the administrative establishment of the State and whose salaries and welfare benefits are paid by the government". In general, the concept applies to all civilian public sector employees working for government departments or agencies at different levels, ranging from State Council to provincial, county, city and town governments.

In recent years, civil servants usually need to be university graduates, and interested candidates have to pass a series of exams for qualification. Statistics show the total number of civil servants in China stood at 11 million as of end-2007.

“Public Servants”, on the other hand, consist of employees working in state-owned institutions, such as employees working for schools, universities, hospitals, fundamental research institutions and TV and radio stations, etc.

By the end of 2007, the total number of public servants in China had reached 29 million, thus accounting for almost 73% of the total workforce that relies on the government budget for salaries and pension benefits.

## **(2) History at a Glance**

The first system for the civil / public service sector in China came into effect in 1955 to cover employees of government units, non-profit units and party organisations, following the issuance by the Ministry of Finance (MoF) of *Temporary Regulations on Retirement of Employees in Government*. The retirement ages then were stated as 60 for men and 55 for women, and benefit levels were clearly linked to length and type of service, final base wage and the inflation rate.

Later, motivated by the economic reforms of 1978, the central government issued Document No. 104, namely, “*Provisional Regulations for Retirement and Early Retirement of Workers*”, covering a set of looser pension eligibility criteria for employees of government units and SOEs. The prevailing retirement ages for civil / public servants were then reaffirmed to be 60 for men and 55 for women, with an additional five-year adjustment so that men and women with special reasons (e.g. medical condition) were permitted to retire at 55 or 50. A more generous replacement ratio relative to the base wage together with a minimum guaranteed pension of RMB 25 (USD 15) per month was also provided.

Document No. 104 remained in effect until the promulgation of Document No. 60 in July 2006 by the Ministry of Personnel<sup>5</sup>, where both pay structure and replacement ratios for civil servants and public servants were brought into line.

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<sup>5</sup> Ministry of Personnel (MoP) is now MoHRSS.

### **(3) Change of Arrangements**

It is important to note that neither civil servants nor public servants pay any contributions towards their pension benefits. It is also understood that wage and pension payments for both civil servants and public servants are currently financed directly by the government budget, i.e. from general taxation. Civil servants in general are entitled to more generous wage pay and pension benefits than public servants, followed by enterprise workers. The replacement ratios for both civil servants and public servants relate to years of service as well as final salary (which consists of different components).

Prior to July 2006, for civil servants, "final salary" comprised basic wage, seniority wage, position wage and post wage. Upon retirement, civil servants would enjoy 100% of basic wage and seniority wage and a certain percentage of position wage and post wage depending on years of service as set out in Table 4. In other words, if a civil servant retired after 28 years of service, he / she would be eligible for a monthly pension equivalent to 100% of his / her basic wage and seniority plus 75% of the position wage and post wage at the time of his / her retirement.

For public servants, however, "Final salary" has different components. It is mainly composed of basic wage and post wage with a replacement ratio linked to the retiree's years of service. For example, a public servant who has 28 years of service upon retirement can enjoy a pension of 80% of the total sum of his / her basic wage and post wage in the final year of work.

It is evident that replacement ratios for civil servants and public servants differed significantly. Civil servants in general were entitled to lower replacement ratios than public servants, but given their higher base pay, they still received better pension benefits.

As mentioned above, Document 60 issued in 2006 simplified the pay structure and synchronised replacement ratios linked to length of service for civil servants and public servants as demonstrated in Table 5 below.

In other words, if a civil servant and a public servant both retire after 28 years of service, they will both receive 80% of his / her final salary as post-retirement income. Active civil servants, however, are still better paid than public servants, which means even though the same replacement ratio is achieved on average, civil servants still enjoy higher pensions than public servants.

Pension benefits for retired civil / pension servants are subject to adjustment in proportion to the pay change for those currently active servants.

**Table 4: Pension Arrangements for Civil / Public Servants Prior to July 2006**

	<b>Civil Servants</b>	<b>Public Servants</b>
<b>Final salary</b>	Basic Wage + Seniority Wage + Position Wage + Post Wage	Basic Wage + Post Wage
<b>Replacement Ratio for Basic Wage and Seniority Wage</b>	100%	n/a
<b>Replacement Ratios</b>	Position Wage and Post Wage	Basic Wage and Post Wage
<b>Years of Service</b>		
<b>≤ 10</b>	40%	50%
<b>&gt;10 and ≤ 20</b>	60%	70%
<b>&gt;20 and ≤ 30</b>	75%	80%
<b>&gt;30 and ≤ 35</b>	82%	85%
<b>&gt;35</b>	88%	90%

Source: Stirling Finance research; Birmingham and Cui (2006).

**Table 5: Current Pension Arrangements for Civil / Public Servants**

	<b>Civil Servants</b>	<b>Public Servants</b>
<b>Final salary</b>	Position Wage	Position Wage
<b>Years of Service</b>	<b>Replacement Ratios</b>	
<b>≤ 10</b>	50%	50%
<b>&gt;10 and ≤ 20</b>	70%	70%
<b>&gt;20 and ≤ 30</b>	80%	80%
<b>&gt;30 and ≤ 35</b>	85%	85%
<b>&gt;35</b>	90%	90%

Source: Stirling Finance research.

#### **(4) Transferability of Pension Benefits**

Lack of a unified pension system in place covering all citizens causes various difficulties for employees to transfer pension entitlements when they move between different service sectors. To tackle this problem, Document No. 13 came into effect in 2001 through the joint efforts of four ministries, MoLSS, MoP, MoF and the State Commission Office for Public Sector Reform, and it aims to deal specifically with portability issues of social security entitlement between the civil service sector, public service sector and enterprises.

The Document stipulates that when a civil / public servant moves to an enterprise, he / she will need to join the enterprise pension system and make contributions to his / her individual account in accordance with the enterprise pension system rules. His / her past working years in the civil / public service sector will be credited to the enterprise system in order to determine eligibility for enterprise pension benefits at the time of retirement. A lump sum subsidy based on his / her previous years of service in the civil / public service sector will be transferred to his / her individual account via the local social insurance agency, and a subsidy will be provided by the local finance bureau. The amount of subsidy will be calculated based on the formula below:

*The amount of subsidy = average monthly basic pay in the year before leaving \* years of service in civil / public service \* 36%*

When an enterprise worker moves to the civil / public service sector, he / she will come under coverage of the pension arrangements for civil / public servants. His / her previous years of consecutive service in the enterprise sector will be credited to the civil / public service sector and he will be entitled to pension benefits calculated in accordance with the rules for civil / public servants. His / her existing individual account under the enterprise system will remain under the supervision of the local social insurance agency. Upon retirement, the individual can collect a monthly pension equivalent to 1/139 of the balance of his / her individual account balance at the time of retirement, but this will consequently lead to a reduction of the same amount from his / her civil / public service pension entitlement.

When a former civil / public servant rejoins the sector from an enterprise, he / she will lose the subsidy (both principal and interest if any) previously received when he / she left the civil / public service sector. He / she will then enjoy the same level of pension benefits as those new civil / public servants joining from the enterprise sector.

## **(5) Pilot Reform Programme for Public Servants**

The generous benefits for civil servants and public servants coupled with rapidly improving life expectancy have made pensions increasingly expensive for the government. The total cost of civil service and public service pensions has increased by more than 20 times in the past two decades, and such cost relative to the wages bill has more than doubled at the same time.

Fully accepting the importance of revising the various pension arrangements and in order to streamline the scheme features between the systems for public servants and urban workers, the State Council has launched a trial pension reform programme for public servants in five provinces / municipalities, being Chongqing, Guangdong, Shanghai, Shanxi and Zhejiang.

In these five pilot localities, the currently active public servants will no longer enjoy such generous monthly pensions as the civil servants do. Instead, a multi-pillar pension system will be established for this group of employees along the same lines as for urban workers.

Under this new reform programme, both public servants and their employers will be required to make contributions in order to receive the social pool pension as well as the individual account pension.

**Social Pool:** The contribution rate for the employer is stated as 20% of the total wage bill for its public service force. For those provinces or cities which have a comparatively large number of retirees and heavy pension payment burden, they can levy contributions exceeding 20% of the total wage bill, after they apply to the MoHRSS and MoF for approval to do so.

**Individual Account:** Same as required by the urban enterprise system, a public servant has to make contributions to his / her individual account for at least 15 years in order to be eligible for social pool pension benefits after retirement.

Each public servant will also pay pension contributions based on his / her salary capped at a maximum of 300% and a minimum of 60%, of the city average pay in the locale. The contribution rate will initially start from 3% with real money accumulated in each individual account, and gradually increase each year, until it reaches 8% of the public servant's salary. It is hoped that the gradual increase in contributions will help the acceptability of the pension burden by public servants.

Pillar Ib will be administered by the provincial social security bureaus. Special circumstances may arise where Pillar Ib money can be managed at the same government level as under the urban enterprise system.

Contributions are accumulated in IAs earning interest linked to the 1-year bank deposit rate and cannot be accessed until retirement when the account balance is converted to a monthly pension by dividing the account balance by an annuity factor of 139. The same factor is applied for both males and females if they retire at the age of 60. Those who fail to make contributions for 15 years will receive the monies accumulated in the IA as a lump sum at the time of retirement instead of a monthly pension.

In addition to the state pension, a special type of private pension concept named "Occupational Annuities" was also suggested. In fact, state institutions in these pilot provinces / cities were encouraged to set up their own "Occupational Annuities" scheme, on a similar basis to "Enterprise Annuities" under the pension system for urban workers, to provide multi-layered pension benefits for public servants. The MoHRSS and MoF are yet to issue more detailed operation guidelines.

Overall, the implementation of the new pension system has encountered significant resistance from the public service sector as their interests are being affected and their pension benefits are being reduced closer to enterprise worker level. The greatest difficulties in fact come from those retiring in less than 15 years as they will have to make do with a lump sum payment at the time of retirement if there is no change in the rules before then.

### **III. Pension Arrangements for Military Force**

#### **(1) Background**

The military in China refers to the People's Liberation Army (PLA), which is the unified military organisation of all land, sea, strategic missile and air forces in China under the supervision of the top leadership of Central Military Commission. The PLA is the world's largest military force, with approximately 3 million members, and has the world's largest active standing army, with approximately 2.3 million members. All military costs involved are met by the government budget. At one time the PLA was significantly involved in many commercial enterprises in order to earn revenue, but this has largely been stamped out.

#### **(2) Current Pension Arrangements**

It is important to note that military personnel do not make any contributions towards their pension benefits. Military members usually receive higher remuneration and pension payments than civil servants of equivalent rank. Both military cadres (including officers, non-ranking officers) and soldiers (excluding volunteers) can retire from the army with entitlement to a monthly military pension after retirement as long as certain criteria are met.

Variations in retirement age exist. For example, Guidelines issued in 1981 stipulate that the official retirement age for military cadres is 55 for males and 50 for females. However, exemptions may also apply to officers including:

- those officers who have reached the age of 50 or have been in service for no less than 30 years;
- those non-ranking officers who have reached the legal retirement age;
- those who cannot continue service due to work-related injuries or disabilities;

and

- others who are close to retirement age and can neither continue service in the army or transfer to other service sectors.



For soldiers (excluding volunteers) who wish to retire from the army, at least one of the following criteria needs to be met:

- aged 55 or above;
- has been in service for over 30 years;
- suffered extraordinary or severe work-related injury;

or

- not able to continue service due to health reasons.

Military personnel can also transfer to the civil / public sectors or enterprises prior to retirement (subject to approval) or opt to leave the army whereupon they receive a certain amount of compensation and can pursue different opportunities themselves.

**a. Military Cadres**

Current pension arrangements for officers are linked to both final pay and years of service and are set out in Table 6 and Table 7 below, with the possible addition of extra benefits as indicated in Table 8.

The total post-retirement monthly income for each retiree, however, is capped at 100% of final salary at the time of his / her retirement. The Ministry of Civil Affairs is responsible for the payment of retirement income to retired officers.

**Table 6: Current Pay Structure for Military Cadres**

	<b>Officers</b>	<b>Non-ranking Officers</b>
<b>Final Salary</b>	Position Wage + Rank Wage + Basic Wage + Years-of-service Wage	Position Wage + Post Wage + Basic Wage + Years-of-service Wage

*Source: Stirling Finance research.*

**Table 7: Current Pension Arrangements for Military Cadres**

<b>Years of Service</b>	<b>Replacement Ratio</b>
<b>≤ 10</b>	65%
<b>&gt;10 and ≤ 15</b>	70%
<b>&gt;15 and ≤ 20</b>	75%
<b>&gt;20 and ≤ 30</b>	80%
<b>&gt;30</b>	85%
<b>Severely injured or disabled because of work</b>	95%

*Source: Stirling Finance research.*

**b. Soldiers (excluding volunteers)**

Soldiers (excluding volunteers) with no more than 20 years' service experience receive 85% of final pay after retirement, and an extra 1% increase will apply for each additional year of service exceeding 20 years. Soldiers with injuries or disabilities due to work will be entitled to 100% of final pay upon retirement.

In addition, both officers and soldiers can enjoy extra pension benefits as long as any of the conditions listed in Table 8 is met.

Soldiers who are conscripts do not receive any pension benefit after their relatively short period of service.

**Table 8: Extra Pension Benefits for Special Cases**

<b>Applicable Group</b>	<b>Extra Benefits (In terms of replacement ratio)</b>
Winner of “Hero” prize, “Role Model” prize, “First-class Contribution” prize, “Extraordinary Contribution” prize and equivalent	15%
Winner of “Second-class Contribution” prize and equivalent	10%
Winner of “Third-class Contribution” prize and equivalent	5%
Members working in extremely critical environment for 10 consecutive years	5%
Members working in extremely critical environment for 15 consecutive years	10%
Members working in extremely critical environment for 20 consecutive years	15%

*Source: Stirling Finance research.*

## **Reform Directions for Civil / Public and Military Pensions**

### ***(1) New Systems and Reforms***

As mentioned above, a priority for central government is to introduce the new rural pension system, initially on a voluntary basis and later on a compulsory basis. The number of rural residents is expected to reduce from about 720 million currently to approximately 300 million by 2050. The gap between the rural pension amount and the average urban worker pension should narrow significantly over the next 40 years. Furthermore in the second half of the century, the rural and the urban systems should converge.

Although the numbers involved are not nearly as great, with the increasing disparity between the systems, there is a strong call to reform pension systems for both civil and public servants. Civil service / public service pension arrangements should be brought into line with the urban system within, say, the next 5 to 10 years. Of course, there should be no effect on pensions already in payment, and for existing civil servants / public servants, all of their accrued pension rights must be protected.

This should be well received by the community at large, as a positive step towards creating a more harmonious society. However, the civil servants / public servants will certainly require guarantees and commitments from central or local government to ease the transition.

Two important elements are within the control of government: the pace of future salary increases, and the rate of future pension increases. Careful consideration by the policymakers should be given to these elements.

### ***(2) Patterns of Reforms***

The broad thrust of pension reforms in China, in the order of timing, should be:

- a. Introduce rural system on a voluntary basis;
- b. Public servants system -> urban enterprise system;
- c. Civil servants system -> urban enterprise system;
- d. Military personnel system -> urban system;

- e. Convert rural system to compulsory basis;
- f. Improve urban system;
- g. Improve rural system;
- h. Resolve pension position of migrant workers;
- i. Specify purpose(s) of NSSF;
- j. Integrate rural and urban systems.

Although the recommendations in this paper are clearly towards civil servants, public servants and military personnel, integrating their pension systems into the urban enterprise system, this is not to say that the urban system is currently perfect. Indeed there are significant improvements that need to be made to both existing urban and rural systems.

#### Urban measures:

- Raise normal retirement age to 60 for both males and females;
- Ensure all individual accounts have real assets;
- Improve return on individual account assets;
- Formalise arrangements for portability of pensions;
- Define protocol for pension increases;
- Improve education and communication to all members and pensioners

#### Rural measures:

- Encourage voluntary participation;
- Give subsidies on a proportionate basis, not a flat amount;
- Enhance return on individual accounts;
- Grant pension increases aggressively;
- Increase pension amount at retirement accordingly;

- Make system compulsory;
- Formalise portability arrangements;
- Integrate rural and urban systems.

### ***(3) Coordination of different ministries***

For better development and long-term integration of the various pension systems in China, first-class coordination must be achieved, between:

- Ministry of Human Resources and Social Security (responsible for urban and rural systems);
- Ministry of Finance (responsible for budget and subsidies);
- Local authorities (responsible for public service pensions);
- Central Military Commission (responsible for military pension arrangements);
- Ministry of Civil Affairs (responsible for “di bao”, civil service pensions and military pension payments).

Undoubtedly, joint efforts between different ministries will be vital as regards to policymaking and issuance of guidelines and documents in the future. It will then be easier to follow and implement relevant policy guidelines for both individuals and their employers, and this will undoubtedly improve utilisation of resources, not only for the members or employers, but also for the government.

### ***(4) Hong Kong Example***

The Hong Kong government operates autonomously in almost all respects from the central government in Beijing.

Historically, Hong Kong provided generous pension benefits to civil servants of about 2/3 of final salary at retirement, with full cost-of-living increases after retirement.

After the handover of Hong Kong to the PRC in 1997, it was decided to bring the civil service pension arrangements more into line with the private sector. By this time the Mandatory Provident Fund (MPF), a compulsory, contributory defined contribution, lump sum arrangement with member choice, had come into effect for the private sector. Hence, in 2001, the Hong Kong government decided that while all pension entitlements for pensioners and the existing civil servants would be protected, all new civil servants would be required to join an enhanced MPF arrangement. This was successfully introduced with minimal difficulty and has operated effectively since 2001.

As a consequence the risks of insufficient retirement moneys, longevity and inflation are all being borne by the new generation of civil servants, because of the lump sum nature of the MPF benefit.

## **Conclusions**

The existing pension arrangements in China are complicated, reflecting the great geographical variety plus complex history of the country.

Hopefully this paper gives a fair description of the existing arrangements for civil servants, public servants and military personnel, and how these compare with the current system for enterprise workers. For completeness mention is also made of the new rural system and the decade-old National Social Security Fund.

In certain localities, pilot experiments are already taking place to transfer the public servants pension arrangements into the urban enterprise system.

However there is a long way to go before the civil servants / public servants / military systems can integrate wholesale into the urban system. Indeed there are significant measures which must take place to improve and rationalise both the existing urban and rural systems.

As to timescale it is now 62 years since the founding of the People's Republic of China, and in this context it may take 40 further years before one uniform pension system covers the totality of China's working population.



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