ESS Extension of Social Security

Perspectives on the social security system of China

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Annex I. Summary legal provisions: Old-age pension insurance

AI.1 Law/Regulations

There is no pension law in force, but the pension system is regulated by a series of decisions of the State Council and of the MOLSS, the principal one being the *Establishment of a Unified Pension Insurance System for Enterprises Employees* (*Decision No. 26* of the State Council).

AI.2 Coverage

Coverage generally limited to enterprise workers and individual workers in urban areas.

AI.3 Contributions

Definition of covered salary

- For the employer: Total payroll of its employees. However in Guangdong, the salary base is the same as the one used for workers (see below).
- For workers: Total cash salary, including overtime, bonus and cash allowances, minimum 60 per cent of the average wage, maximum 300 per cent of the average wage.

Contribution rates

The *Establishment of a Unified Pension Insurance System for Enterprises Employee*s (*Decision No. 26* of the State Council) specified the following contribution rates in 1997:

	Pooling	Individual accounts	Total
Employer	13%	7%	20%
Worker	—	4%	4%
Total	13%	11%	24%

The contribution rates have been modified by the *Trial Arrangement of Completing the Urban Social Security System* (*State Council Document No. 42*) for the Liaoning pilot project, as follows:

	Pooling	Individual accounts	Total
Employer	20%	—	20%
Worker	—	8%	8%
Total	20%	8%	28%

In Guangdong province (varies by pooling unit)

	Pooling	Individual accounts	Total
Employer	11%–12%	5%–6%	16%–18%
Worker	—	5%–8%	5%–8%
Total	11%–12%	11% (fixed)	22%–23%

Generally, the employers' contribution rate is not supposed to exceed 20 per cent of the total payroll. However, autonomous provincial regions and municipal governments may decide specific rates. If the rate is higher than 20 per cent, it is necessary to report to the Ministry of Labour and Social Security (MOLSS) and the Ministry of Finance (MOF) for approval.

AI.4 Benefit eligibility conditions

Contributions are to be paid for at least 15 years (before 1998, it was ten years).

The normal retirement age is 60 years for men and 50 years for women (55 years for managers). However, in certain physically demanding industries and for employees of bankrupt SOEs, the retirement age may be five years earlier.

AI.5 Pension formula

In Guangdong province

For 1994–June 1998

Pension at the time of award	Indexation (July every year)
Basic pension 30% of previous year's Social Average Wage (SAW) of the city	In line with the increase in SAW
Additional pension Career average of indexed contributory wage — *x* number of years of contribution — *x* coefficient (generally less than 1%	Adjusted by 40% to 60% of the increase of the average contributory wage of the city
From individual account Balance in the account divided by 120	Adjusted by 40% to 60% of the increase of the average contributory wage of the city

From June 1998

Pension at the time of award	Indexation (July every year)
Basic pension 20% of previous year's SAW of the city (25% for managers)	In line with the increase in SAW
Transitional pension (for workers who joined before July 1998) Career average of indexed contributory wage *x* number of years of contribution before July 1998 *x* coefficient (1% if contributed for more than 10 years, 1.2% if contributed for more than 15 years; for each year of hazardous work before July 1998, 0.2% is added to the coefficient) + 10% of SAW in 1997 (fixed, devalues over time)	Adjusted by 40% to 60% of the increase of the average contributory wage of the city
From individual account Balance in the account divided by 120	Adjusted by 40% to 60% of the increase of the average contributory wage of the city

Other benefits

- For workers who joined the scheme before July 1998 but contributed for less than 10 years: Lump-sum: Career average of indexed wages x 2 *x* Number of years of contribution before July 1998
- For workers who do not qualify for a pension: Refund of the balance in the individual account
- Funeral grant: 3 times SAW of the previous year
- Survivors' grant: 3 times SAW of the previous year (for pensioners) and 6 times SAW of the previous year (for active workers)
- Assistance for dependants: 6 times SAW of the previous year

Annex IV. Summary legal provisions: Health insurance

The public HI systems were established as early as 1950s, the initial stage of the establishment of the P.R. China. For the urban population, there were two main HI systems in operation: the Labour Health Insurance System for workers and dependants (LHIS) and the Government Health Insurance System for civil servants and public workers (GHIS). For the rural population, the Cooperative Health Insurance System (CHIS) was developed with government subsidies. In addition to the above, limited social assistance programmes as well as specific health programmes targeting on specific privileged groups, such as revolutionary veterans, were available too.

In the early 1980s, the overall coverage under the old public HI systems was remarkably extended, nearly 80 per cent of the population had, to some extent, financing access to health care. However, the coverage dropped dramatically following the economic system restructuring, notably the SOE reform in urban China and the cooperative system reform in rural China, as the old HI systems were basically employer-liabilities. Thus, there is an apparent need for reforming and re-establishing health insurance systems.

The Government has decided to start the reforming from the urban HI systems. A uniform BHIS for all urban working population is going to be established throughout the county. The establishment of the BHIS will last several years, therefore a transition period is foreseen, during which parallel public HI systems, i.e., the new BHIS and the old systems, will coexist, notably in the urban areas. Upon the completion of the establishment of the BHIS, efforts should be given to how to effectively and efficiently provide HI coverage for other people who are not insurable under the BHIS for the moment.

The BHIS consists of two components: a pooling fund based on social insurance principles and individual medical savings accounts (IMSA) without solidarity ingredients, which forms one of the core contents of the HI reform.

AIV.1 Coverage

All employees and retirees of urban establishments, including enterprises irrespective of their nature of ownership, government’s departments and offices of the CCP, non-economic undertakings, etc., are obliged to participated in the BHIS. The compulsory coverage for other urban groups, such as workers of TVEs, the self-employed persons and their employees, is subject to the discretion of local governments.

Senior/cadre retirees, revolutionary veterans and soldiers with an invalidity degree equivalent to Degree II of Category II or higher are exempt. The Government is still directly responsible for these privileged groups.

Military personnel are exempt too from the participation in the BHIS. However, a special health scheme has been separately set up for them. In line with the principles laid down in related regulations, each person undertaking military services has an IMSA under the scheme, regular contributions from the individuals and military authorities are distributed accordingly to each IMSA. No accumulated balances in these accounts can be actually withdrawn until the person in question withdraws from the army. At that time, the overall balance in an IMSA under the special military scheme will be transferred to a person’s IMSA established under a scheme of the BHIS where the person works or lives.

Coverage for dependants, especially for children, is not mentioned in all legal documents, so actually excluded too. The intention is to leave them for the moment to the old systems. Given that, children would face one of the following scenarios: *(a)*, some of them are still insured, fully or partially, under the old systems; *(b)* some have no HI because either the old systems stop functioning or did not have one; and *(c)* some participate in a collectively-arrangement insurance programme which usually provides an overall insurance package for life and health for students of

premier and second schools. The latter one may overlap with the first. No detailed statistics are available at the time of investigation.

AIV.2 Contributions and financing

The schemes are financed by employers' and workers' contributions. Insured retirees are exempt from paying contributions. Contribution rates vary from one scheme to another, but around 8 per cent of the payroll in total, out of them, 2 per cent from workers. Administration costs are fully covered by government budgets. The financing of the BHIS is based on PAYG system.

Contributions collected are distributed between two components. The general rule for distribution is that all workers' contributions are allocated to the IMSAs of respective individuals, the latter are further added by around 30 per cent of the total employer contributions. It should be noted that the distribution is not even among the insured persons, it is normally in line with the ages of workers/retirees. The rest of employers' contributions, i.e. 70 per cent, are then devoted to the HI pooling fund.

Lower contributions can be applied to the following groups: *(a)* laid-off SOE workers. The amount of employer and individual contributions due can be calculated at 60 per cent of the average regional wage of the previous year. They should be entirely paid by respective Re-employment Centres, and *(b)* Workers of SOEs with financing difficulties. Only employers' contributions are required to be paid; the workers can be exempted. Furthermore, the employers' contributions would be calculated at a reduced rate whole diverted to the HI pooling fund. This implies that during this special period, no financing resource will be accordingly allocated to the IMSAs, respectively.

AIV.3 Benefit eligibility conditions

The insured person has already registered with a designated HI agency, with personal contributions and those of the employer having been paid. No waiting period is required.

AIV.4 Benefit package

Benefits available under the BHIS include general practitioner care (community health services), domiciliary visiting, specialist care at hospitals for inpatients and outpatients, and essential pharmaceutical supplies prescribed by doctors. Subject to the reimbursement ceiling for the overall annual medical costs and the stipulated scope of the insurable medical items, the benefits are granted throughout the whole period of contingency.

These benefits are separately available under the two components: IMSAs and PF. In principle, medical costs for non-grave diseases, where normally only outpatient care is required, should be covered by the balance accumulated in a specific IMSA, while that for severe diseases, where usually specialised inpatient care is required, should be met under the PF.

Thus, the savings balance accumulated in an IMSA, if available, shall cover the first 10 per cent of the total annual medical cost occurred by the insured person in question. Only above threshold of this 10 per cent, will the PF assume responsibility and pick up the bills. However, a benefit ceiling is set at four times the average regional annual salary, and thus excessive medical costs will not be reimbursable under the BHIS.

It should be noted that only costs spent on those drugs, medical services and laboratory tests and clearly specified as insurable medical items via the Official Lists are counted and reimbursable under the PF component. The List of Drug groups the insurable medicines into two categories: Category I and Category II. The content of the Category I is exclusively determined by the national authorities, while 15 per cent of the latter be determined by provincial governments. Reimbursement rates are different in that those for Category I are normally higher than those for Category II. In respect of reimbursable medical services and laboratory tests, the National List prescribes which items should not at all be insured and which items should be partially insured. Provincial

governments are authorized to extend the scope of non-insurable medical items and adjust, to some extent, the content of the partially insurable list.

For all costs reimbursable under the basic HI system, co-payments by the insured patients are required. The rates of reimbursement vary considerably between different schemes, and within a scheme they depend on a number of factors such as the age of the patient, the classified level of medical services used, etc.

AIV.5 Administration and monitoring

In principle, the HI schemes should be pooled and managed at the prefecture level or above, but it is possible to do so at the county level.

They are locality-based schemes. Employees and retirees should participate in a local scheme where their working units are located or their homes are based. In other words, there should be no basic HI schemes organised on an industry / occupation basis.

Labour and Social Security authorities of the Government have overall responsibility for the administration and monitoring of the basic HI schemes, while their HI agencies are designated for day-to-day management. Meanwhile, the other related government departments, particularly Departments of Finance, Public Health, Drug Monitoring should closely coordinate with the former. A supervision committee for the management of HI funds should be set up with representatives from the government departments, employers' and workers' organisations, health institutions and the others.

Each basic HI scheme should open two fiscal accounts, one for contribution revenues and one for benefit payments. These accounts are under the close supervision of the Finance Department.

The HI agencies are also responsible for the management of supplementary HI programmes for civil servants. Regarding the question of who shall run complementary HI schemes for workers, it is open to the local governments to determine. They can be operated either by the same HI agencies, or by commercial insurance companies, or by social organisations.

AIV.6 Health services provisions

The scopes and standards for the insurable health services, medicines and tests under the basic HI system should be determined and announced by local authorities in line with the national guidelines. Beyond the scopes, medical items are not insurable under the basic HI system.

Health suppliers, including medical institutions and pharmacies, are to be contracted on an equal competition basis. Based on that, each insured person can choose a number of health suppliers at different levels. In certain cities, each insured patient can even go to see any health suppliers who are on the contracting list.

Community health services are encouraged to develop and to be used by the insured patients.

AIV.7 Providers' payment mechanisms

They are not specified in the regulations. In practice, basically, it is fee-for-services, but an average cost per hospital stay per hospital is usually imposed. Studying and even developing a per-case payment mechanism in the future has been planned by a number of schemes' managements.

AIV.8 Health and drug sector reforms

It is considered that without simultaneous and corresponding reforms undertaken in the health and drug sectors, the basic HI system cannot be successfully established.

The State Council convened two national conferences on these three related reforms in the last two years. Mr. Li Lan Qing, Vice Premier, chaired the conferences. The main purposes of these events were to review, monitor, harmonize, guide and push forward the three reforms. All official documents of the latest conference have been seized.

The key contents of the health sector reform include the re-planning, re-allocation and restructuring of regional health resources to improve the utility rate and to ensure everyone an access to basic health services; the reforming of medical institutions to set up a reliable, self-disciplining, competitive and vigorous mechanisms for the operation and human resources development; to rationalise the current income-generating system, separating hospitals' two main income-generating activities: medical services and drug selling; distinguishing two types of medical institutions: profit-makings and non-profit-makings, and formulating corresponding policies for them, including that on tax, price, human resources, investment, etc.

AIV.9 Provisions for supplementary benefits

For medical costs beyond the established reimbursement ceiling under the basic HI schemes, supplementary programmes should take over if available. In terms of the source of financing and the nature of the schemes, three types of systems can be distinguished. One is for civil servants, compulsory, fully funded by the government revenues and run by the public HI agencies. The second is that for workers, voluntary in general, possibly financed by extra contributions not exceeding 4 per cent of pre-contribution payroll. The third is that for the insured persons who are extremely poor, supported by a solidarity fund consisting of contributions from the governments, employers in question and other donors.

Within the above-mentioned second category, the complementary schemes existing in the country are in three types:

- Complementary HI programmes for severe sicknesses designed and run by the public HI agencies. The personal coverage would be as broad as the basic HI scheme as the participation would be, in practice, rather compulsory. As to the financing, they are based on the PAYG system. Annual premiums per person would be around 50-70 yuans, which normally allow an easy extension of the annual insurable ceiling stipulated under the basic HI scheme from 35,000-40,000 yuans to 185,000-190,000 yuans at a reimbursement rate of 60-90 per cent. Premiums are often shared between the employer and the insured person, or fully borne by either of them.
- Solidarity schemes for severe sicknesses of workers designed and run by the trade unions. The participation is voluntary and the scope of coverage is limited to the working population affiliated to the trade unions. These schemes are mainly funded by workers' contributions with some subsidies from employers and trade unions, and based on PAYG principles. The benefits provided are aimed at both the extension of coverage of medical costs exceeding the insurable maximum available under the basic HI scheme and out-of-pocket payments occurred beneath the ceiling.

Commercial complementary HI schemes. It can be arranged between a public HI agency as a media and contribution collector and a selected commercial insurance firm, or directly purchased by individual employers or workers from a commercial company. Deductible contributions for this purpose can be up to 4 per cent of payroll.