

Wages & Benefits in China
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Today's Agenda

- **Overview of China**
- **Wages**
- **Mandatory Benefits**
- **Executive Compensation**

- Size: 9.6 million km²
- Population: approx. 1.4 billion
- GDP (2012): US\$ 8.5 trillion; Average GDP growth: 9.9% (1978-2012)
- Total labor: 768 million, including 371 million in urban areas
- Registered unemployment rate in urban areas: 4.1% (2013Q2)
- Foreign employees: 246,000; HTM residents: 91,500
 - Shanghai: 84,857
 - Beijing: 32,506

- Salary must be paid on at least monthly for full-time employees and biweekly for part-time employees

- Minimum wage
 - Varies among cities. Highest (\$266/month in Shanghai) and lowest (\$ 111/month in Anhui)
 - Increases very fast: 24% (2010), 22% (2011), 2012 (20%), 2013 (16.7%) on average
 - Gov'ns target: Double wages in the 12th five-year plan (2011-2015)

- Social average wages
 - Varies among cities
 - Highest: \$ 875/month in Beijing
 - Links to social insurance contributions and statutory severance
 - Generally, increases by 10% yearly
- Salary Increase Guidelines (non-compulsory)
 - Published by local government every year

Province	Middle	Upper	Lower
Beijing	12%	16.5%	5%
Shanghai	12%	16%	5%
Guangdong	10.5%	16%	4%

- Three working hours systems in China:
 - Standard working hours system (similar to non-exempt)
 - Flexible working hours system (similar to exempt)
 - Senior managers (not defined under law), Salespersons & Other out of office persons
 - Overtime may be required for overtime on public holidays
 - Comprehensive working hours system

- Gov'n approval is required

- 150% for overtime on workdays
- 200% or compensatory time-offs for overtime on weekends
- 300% for overtime on public holidays

- Statutory deduction: RMB 3,500/month (\$ 573.77)
- Progressive rates

Level	Tax Income (RMB)	Rate(%)
1	<=1,500	3
2	1,500-4,500	10
3	4,500-9,000	20
4	9,000-35,000	25
5	35,000-55,000	30
6	55,000-80,000	35
7	>80,000	45

- Taxpayers: ~30 million

- Base salary (12 months or 13 months)
- Performance/Year-end bonus (special tax treatment)
- Allowances
 - Chinese nationals: Transportation, mobile phone, meals
 - Expatriates: Housing, education, home visit, meals
- Mandatory subsidies:
 - High temperature subsidy, single child subsidy, etc.
- Employee stock option plan (not common)
 - Foreign exchange control issues
 - Alternative: stock-based bonus plan

- Mandatory social insurance programs
 - Pre-1978, borne by enterprises
 - Since 1991, pension insurance and other social insurance began to evolve in each province
 - 2011, PRC social insurance law promulgated
 - Employee social insurance programs
 - Urban and rural residents' social insurance programs
 - Pension insurance: 800 million enrolled, 200 million receiving pension
 - Medical insurance: 460 million covered.
- Mandatory public housing fund
 - Withdrawal upon purchase of housing
 - Cheaper loan

- Contribution base, rates & cost (US \$12,180/year)

Items	Shanghai		Beijing	
	Employer	Employee	Employer	Employee
Pension	22%	8%	20%	8%
Medical Insurance	12%	2%	10%	2% + 3
Work-Related Injury	0.5%	0%	0.2%	0
Unemployment	1.7%	1%	1%	0.2%
Maternity Insurance	0.8%	0%	0.8%	0
Public housing fund	7%	7%	12%	12%
Total	44%	18%	44%	22%
Costs (max.)	\$1,015	\$462	\$1,130	\$565

- Difficult to transfer among cities
- Pension insurance
 - Low benefits: \$420/month (Shanghai & Beijing) on average
 - Population is aging because of one-child policy
 - Delay retirement: China has comparatively younger retirement ages (60 for men and 55/50 for women)
 - Dual systems and unequal benefits : gover'n officials v. workers
 - Govn't eagers to find solutions to increase benefits for old:
 - Supplemental insurance;
 - Annuity
 - Mortgage

- Generally, no restrictions on non-state-owned companies.
- Banking and insurance industries
 - Encourage variable pay: base pay should not exceed 35% of the total compensation
 - Bonus should not exceed 3 times base pay
 - 40%-60% of variable pay should be deferred for 3 years
 - Claw back
 - Not strictly enforced in reality

**New Developments in PRC Labor &
Employment Law
November 16, 2012**

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Speaker Biography



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- **Gordon M. Feng** is an employment lawyer who leads the employment law practice of Paul Hastings' Shanghai office.
- Mr. Feng has been in practice since 1998. He represents employers in a broad range of employment matters, including regulatory compliance, contract formation, hiring, development of handbooks and policies, wage-and-hour compliance, mass layoffs, and terminations. Mr. Feng conducts investigations of harassment, discrimination and other complaints, coordinates IP protection actions, and advises on union issues. He also has extensive experience in commercial and labor arbitration and in litigation. Through his years as legal counsel for Eastman Kodak Company and secondment to the General Electric Company, Mr. Feng has gained a deep understanding of the culture and business operations of multinational companies, as well as valuable insights into the employment law issues that international businesses must address in a practical manner in China and elsewhere. Mr. Feng is fluent in English and Mandarin and conducts training on compliance, employment-related and transactional issues for multinational and local companies.
- In addition to his employment law practice, Mr. Feng is also an experienced corporate lawyer who advises multinational clients on a broad range of activities, including mergers and acquisitions, restructuring, and other corporate and financial transactions. Mr. Feng's experience includes foreign-invested company formation, private placements, and acquisitions and disposition of PRC companies and real estate projects.
- Mr. Feng received his LL.B. from East China University of Political Science and Law in 1998 and his LL.M. from Columbia Law School in 2010. He is admitted to the State Bar of New York. He also passed the bar in China in 1999 but does not hold a current practicing certificate.
- Prior to joining Paul Hastings, Mr. Feng worked as in-house counsel for the Eastman Kodak Company. He also practiced in a leading local law firm in Shanghai for more than five years. While working at Paul Hastings, he was seconded to the Corporate Business Development Department of GE China as M&A counsel.



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