CHINA'S PENSION REFORM UNDER XI JINPING

ZHAO Litao

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Executive Summary

1. Under Chinese President Xi Jinping's leadership, as one of its key reform areas, pension reform is to "achieve universal coverage, provide basic security, build a multi-tiered system, and ensure long-term sustainability".

2. Xi's predecessors, Hu Jintao and Wen Jiabao, had made remarkable progress in expanding pension coverage and increasing pension benefits. The Xi leadership has to make breakthroughs in strengthening the multi-tiered system and ensuring long-term sustainability.

3. Much can be done to make the pension system more equitable, sustainable and portable. It is widely believed that this would involve deeper and more difficult changes, structurally and institutionally.

4. In 2013, the Ministry of Human Resources and Social Security set up a working group on pension reform, together with other ministries and government agencies. It also invited seven think tanks to conduct parallel studies on the reform roadmap.

5. So far, a number of policies have been rolled out: the integration of pension programmes for rural residents and urban non-working residents, the transfer of pension accounts across programmes and localities, and the introduction of individual income tax exemption to promote enterprise and occupational annuities.

6. In January 2015, the government announced the much expected decision to reform the pension programmes for 40 million employees in party/government organs and public institutions, bringing them under the same rules as enterprise employees. A similar reform on a much smaller scale failed to take off under the previous leadership.

7. More reforms are in the pipeline. A closely watched one is the lift of restrictions on the investment of social security funds. This would turn China's social security funds—totalling over RMB3 trillion—into giant institutional investors.

8. There are also proposals to pool and manage basic pension at the national level, raise the retirement age, and establish a benefits calculation and regular adjustment mechanism based on actuarial mathematics rather than arbitrary administrative decisions.

9. One big concern is the ideology of marketisation embraced by the new leadership. China needs the state to play a strong role in creating an equitable and sustainable pension system. However, marketisation may have the opposite effect of weakening the state.

10. Pension reform is always difficult. It takes vision, political will, proper sequencing and skilful management to move China's pension reform forward.