

CHINA REFORMS ITS SOCIAL SECURITY SYSTEM

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Executive Summary

1. Established in the 1950s, China's social security system for urban workers features a large unfunded defined-benefit social pooling account and a small funded defined-contribution personal account.
2. China established a rural social security system in 2009. Young farmers contribute a small amount of funds to their personal accounts with some government subsidies, while their parents receive a small amount of retirement benefits financed by general government revenue. In 2011, China established a similar social security system for urban residents.
3. The birth control policy in the early 1970s and the one-child policy in the early 1980s have contributed to severe population ageing in China. China's population aged 65 or over will account for 12.1% of the total population in 2020, 14.2% in 2025, 17.2% in 2030, 24.6% in 2040 (surpassing the United States'), 27.6% in 2050, 32.9% in 2060 and 33.8% in 2100!
4. China's social security contribution rate for urban workers is high. Employers contribute 20% of urban workers' wages to the social pooling account, and an individual contributes 8% of his or her wage to a personal account.
5. The social pooling account for urban workers has already run deficits for many years and funds from individual accounts have been shifted to cover the deficits. Currently, the social security system for rural and urban residents need substantial subsidies from the government and even more in the future.
6. Social security programmes are run by local governments, which block labour mobility and cause high operational costs, a low rate of returns to the accumulated funds and occasional corruption.
7. Social security reforms are crucial. Social security account for urban workers is an independent account, indicating that its revenue is just for social security spending,

with minor subsidies from the government. This account should be balanced and self-sustainable.

8. Increasing the retirement age can increase social security contribution, reduce social security benefits and make the social security account balanced. In China, the current retirement ages were set in 1978 and life expectancy at birth in China has increased by 10 years.
9. Increasing the social security contribution from farmers is imperative. Social security contribution rate is very low for farmers. Basic rural social security is financed by general tax revenue and establishing a special tax for basic rural social security is necessary.
10. A nationwide unified system managed by the central government or its agency should be established to facilitate labour mobility nationwide and improve social security funds management.