

NOTES ON A PANEL DISCUSSION MEETING
HELD ON 30th AUGUST 2017 IN PEOPLE'S PALACE HOTEL, BEIJING



On 30th August 2017, the EU-China Social protection reform project Component 1 held a peer review - panel discussion meeting in People's Palace hotel, Beijing. The Panel covered the topics: **1.3.6** – Pension systems Parametric reforms; **1.4.2** - Redistribution effect of pension schemes' parametric reforms; **1.2.2** - Evaluation of Social protection policies including both employment and social security policies.

The panel discussion members had before them first draft reports prepared by Chinese experts Ms Zhou Hong – Parametric reform; Mr Li Shi – Redistribution effects; Mr Yue Jinglun – Evaluation of employment policies; and, Mr Zheng Gongcheng – Evaluation of social security policies.

In addition to Chinese national experts and officials, European experts who had prepared national monographs on the situation regarding parametric pension reform in their respective countries, namely Mr Skorpik and Mr Suchomel from the Czech Republic, Mr Steinmeyer from Germany, Mr Mazzaferro from Italy, Mr Birkholz from Sweden, took part in the discussions.

The meeting was opened by Mr. Li Kang, Director General, Employment and Income Distribution department of NDRC, who had a brief courtesy call with the team before the opening ceremony and gave a brief introduction of employment and social security in China.

Ms Zhu Yingjuan, Inspector General with NDRC and Mr. Chang Tiewei, Deputy Director General, chaired technical sessions.

Some 30 participants attended the Panel, including representatives of the Department of Employment and Income Distribution of NDRC, the International Cooperation Centre of NDRC, the delegation of EU experts, the EU Delegation to China, the EU Resident expert for Component 2 and the EU Resident expert for Component 1 with the C1 team and Chinese Short term Experts as well as experts from CASS.

First Session: Topic 1.3.6 – Pension systems parametric reforms - Ms **Zhou Hong** presents her draft report “public pension parametric reform in European countries and implications to China”.

The purpose of this report is in view of the reality of China's public pension reform to find relevant European experience ; according to the reality of European countries to introduce origins, processes, contents and impacts of reforms; try to give some suggestions based on the comparison between China and Europe.

China's public pensions face many problems, which have some similarities with European situation, such as financial sustainability and imbalances. In addition, in several provinces, income of pension scheme could not cover the expenses. Besides, nominal contribution to social insurance is higher than the real one that leads to an apparently heavy burden on enterprises. The determination of adjustment to pension benefits, retirement age and the years of payment also lack scientific basis and feasible strategies. Furthermore, the slow development of the enterprise and personal pillars fail to provide a significant supplement to support public social insurance.

European countries have adopted two main approaches to public pension reform :

- 1) Structural reform. In this kind of reform, parametric reform is the necessary step.
- 2) When structural reform met resistances, parametric reform becomes an important alternative.

The contents of parametric reforms in European countries are the following:

- Delay retirement. There are many ways to delay retirement, such as extend the retirement age directly, link the retirement age with life expectancy, and gender equality in terms of retirement age.
- Restrict early retirement by changing pension calculation and encouraging delayed retirement.
- Increase the required contribution duration and contribution rate. Since the required contribution duration in China is very low; the experiences in European countries could prove to be enlightening.
- Calculation and indexation of pension. The economic and demographic indexation could be introduced into the calculation form.
- Protect the minimum pension and raise the subsistence level guaranteed out of pension.

Prof. Zhou lists the results and impacts of parametric reforms in European countries:

- Reduced the deficit of public pension program, and raised the sustainability of pension. The countries did not to conduct a structural reform, while the parametric reform could achieve the target also.
- The impacts of parametric reform varied in different groups.
- Difficult for low-income and early retirement people.
- Either the employment rate or unemployment rate of the old people are raised.
- Heavier burden for the enterprises.
- Widened space for structural reform of pension system.

By learning the experiences of European countries on how to conduct a parametric reform in China, Prof. Zhou believes that the following aspects could be considered:

- Adjust bases of collection to cover all the income including welfare

- Raise the rate of contribution
- Extend the retirement age.

In the end of her presentation, Prof. Zhou mentions there are some issues that need to be concerned about: Most of the parametric reforms in European countries have met the goal of controlling public debt growth to reduce public deficit. The influence and imitation among the parametric reforms in European countries formed distinctive policies on parametric reform. In the implementation of the reform, China can also consider the use of multi-national experience to form relevant policies suited to its own national conditions. The final goal of the reform is not only to reduce pension expenditure, but also for reducing the poverty to achieve the balanced development of society. In reference to European experience, China cannot ignore the impact of the reform on the society. It can also consider introducing a social equilibrium index, which can reduce pension expenditure, but also narrow the gap between the rich and the poor. Parametric reform could lower the public burden, and expand the space for the market.

As a conclusion, Prof. Zhou points out that China's system is very different from that of Europe. It is impossible to simply draw parallels and copy, but the experiences of European countries have enlightening effects for China. When it comes to reform in China, it is necessary to design and calculate carefully like what the European countries do, rather than relying on political orders.

A general discussion follows the presentation. Based on their country experience, European experts clarify the situation concerning parametric reforms, as regards notably the reasons underlying the need for reform, the process for reforming, the contents of the reform and the analysis of the results. There appears to be a concern common to all national situations, which is that sustainability cannot be the ultimate and only goal for reforms, since pension systems have a fundamental role to play in income security of the populations. Attention is also drawn to the fact that parametric and structural reforms are not exclusive from each other, since the conjunction of the former may lead to a complete reshaping of the pension system, as happened in some European countries over the last decade.

Second session: Topic 1.4.2 - Redistribution effect of pension schemes' parametric reforms - Ms Zhu Mengbing on behalf of Mr. Li Shi, the Short-term expert, presents a report on "Redistributive effects of Old-age insurance system in China ". The presentation is divided into 6 sections, namely: 1) Introduction: The old-age insurance system in China; 2) The pension reform in China; 3) Redistributive effects of the pension system in China; 4) Redistributive effects of the pension system in Urban China; 5) Redistributive effects of the pension system in Rural China; 6) Conclusion and reform suggestion.

Part one. *Introduction: The old-age insurance system in China.* In 2015, the proportion of population aged 65 and over rose to 10.5%, and the aged-dependency ratio is as high as 14.3%. The pension system covers almost the whole population. The old-age insurance system in China mainly adopts the financing method of a combination of pay-as-you-go and funded system, and there are three main schemes for the current old-age insurance: the Old-age Insurance Scheme for Urban; the Old-age Insurance Scheme for Rural and Urban Residents; the new type of Old-age insurance scheme for rural residents. However, the pension system is fragmented and lacks cohesion and coordination between different groups.

Part two. *The pension reform in China.* Pension acts as a regulator, and the function of the regulator can theoretically depend on three aspects: pension contribution; pension benefits; net pension benefit. According to China's economic system, the report mainly examines the Redistributive effects of the pension system from three aspects: In China overall; among retired people; in urban China. Using the

household survey data collected by the China Institute for Income Distribution , the report evaluates the redistributive effect of the pension system in China, and discusses the redistributive effects under different schemes.

Part three. *Redistributive effects of the pension system in China.* There are 3 methodologies that are commonly used: overlapping generation model; insurance actuarial model; estimate the difference between the Gini of market income and the Gini of disposable income after the pension system. By using these methodologies combined with the data from Household income survey data CHIP2013, the report analyzes the redistributive effects on pension system in China, different income groups and different age groups, and draws the following conclusions: pension system has a positive effect in narrowing the income gap; the redistributive effect is more considerable in urban areas; pension system has a larger redistributive effect on low-income group while lower effect on high-income group; pension system improve the income of the elderly significantly.

Part four. *Redistributive effects of the pension system in Urban China.* This session does some Simulation analysis and focuses on 4 indicators: coverage; pension insurance base; contribution rate; pension differences. In addition, 2 kinds of reform are considered, the first one is decreasing contribution rate. In the short run, decreasing contribution rate has a positive effect in narrowing the income gap, however, in the long run, income inequality between generation will expand; and the second reform is extending the age of retirement, along with the extend age, the redistributive effect will decline.

Part five. *Redistributive effects of the pension system in Rural China.* The development of rural pension system is lagging behind seriously; consequently, the redistributive effect is much lower. Besides, the pension insurance expands the income inequality.

Part six. *Conclusion and reform suggestion.* Generally, the old-age insurance system has a positive impact on narrowing the income gap. Due to the fragmentation of the pension system, the redistribution effect is more obvious in urban areas. The pension benefits enjoyed by the retirees are not equal, indicating high inequality. Because of the pension insurance base, as well as the unified contribution rate, the actual contribution rate for the low-income is higher while lower for the high-income, leading to a reverse redistribution. In the short run, decreasing contribution rate has a positive effect in narrowing the income gap; Delayed retirement declines the redistribution effect. As for the reform suggestions, first, further improve the coverage, and achieve the goal that all the elderly will be looked after properly. Second, the progressivity of pension insurance can effectively improve the redistribution effect of the old-age insurance system. Third, reform the existing fragmentation of the pension system, to establish a unified national pension system as soon as possible. Reducing the differences in pension benefits for different groups of people. In the pension system, the reform of civil servant pension insurance system should be accelerated, merged as soon as possible into the enterprise workers and public institutions staff pension insurance system.

The list of parameters compiled by the project Component 1 team which would be most likely to be considered for pension reform is reproduced in Annex III. During the general discussion that followed the presentation, it was insisted on the fact that redistribution is one of the main characteristics of social insurance pension schemes – what makes them in fact fundamentally different from commercial insurance schemes. The study of redistributive effect of the Chinese pension system and envisaged parametric reform is therefore a very much needed exercise, which was welcomed by the audience.

Third session: Topic 1.2.2 – Evaluation of Social protection policies - This session was divided in two presentations, dealing respectively with the evaluation of social security policy in China, and that of Employment policies.

Prof. **Zheng Gongcheng**, short-term expert, delivers his draft report on “*Evaluation of Social security policies in China*”. The report is divided into 2 sections, namely: 1) Overall evaluation of China’s social security system; 2) Evaluation of China’s old-age pension.

Part one. *Overall evaluation of China’s social security system.* After 3 decades of reform, China’s original social security system that was built under the planned economy has been shifted to a system that suits the market economy with Chinese characteristics. In general, the task of transformation is basically completed, but it is not finished in some areas yet. Prof. Zheng evaluates China’s social security system against five yardsticks:

The institutional framework has taken its initial shape, yet it needs further elaboration. Some basic elements, including its structure and function, multi-layer structure, administrative system, operating mechanism, and legislation, remain to be formulated and consolidated.

Universal coverage has been essentially attained, yet the fairness of the system remains to be promoted.

The responsibility of the government is highlighted, but its boundary is blurring.

The benefit level of Chinese social security is on the rise, but the mechanism for coordinated development and regular increase in benefits is absent.

China’s social security is shifting from long-term experimental reform to a new stage of mature and solid development.

Part two. *Evaluation of China’s old-age pension.* Through the introduction of four indicators, Prof. Zheng elaborates his points on the evaluation of China’s old-age pension.

Coverage rate. In 2016, the number of persons insured by old-age pension schemes was 887 million, among whom, 379 million were covered by the urban employees’ pension scheme, 508 million people were covered by the pension for residents, and the total rate of the insured stood at approximately 85%. In 2015, among active workers, the insurance coverage rate was 64.9%.

Replacement rate. The pension for the retired workers keeps growing, but the average replacement rate is declining. The replacement rates of the rural residents’ scheme range from 10%-13% of rural family income, being relatively low.

Fairness. The replacement rate declined over the past year while the regional gap remained large. The ratio of beneficiaries to contributors in the urban employees’ scheme has been on the rise. The actual contribution rate in the employees’ pension schemes has been declining.

Sustainability. Judging from the fund balance and influencing parameters, China’s pension system should be sustainable. However, the less developed second and third-tier pension schemes would add to the pressure on the basic pension system.

Mr. **Chen Yongjie**, on behalf of Prof. Yue Jinglun, presents the draft report on *Evaluation of employment policies*.

Firstly, Mr Chen introduces the challenge for employment in China.

The great number of the working population has been a strong driving force for China's economic development. It has also led to tremendous pressure on employment, which becomes prominent, as the comparative advantage of China in the labor-intensive industries has gradually faded away. "How do the employment policies address the problem?" "What were the goals of recent policies, and were they achieved?" "How could the employment problem be properly solved in the 'new normal', in order to guarantee social stability and economic growth?" These are the major challenges facing China concerning employment policies.

Second, Mr Chen shows some graphs to introduce the employment and labor force in China. Through the analysis of these graphs, he points out that employment structure and work quality is today's dilemma in China. After 1990, the model of "economic growth with job increase" shifted to that of "economic growth with low job increase". Since then, the economy has not actively created jobs. Rather, it is more a process of capital deepening, namely, capital-intensive growth. The future employment in China may face two main problems:

- 1) To adjust the Chinese economy and industrial structure in order to solve the dilemma of "high economic growth, low employment" and increase non-rural jobs by improving the capacity of the second and tertiary industries.
- 2) To change the dominant "high employment, low wages" conditions in the labor-intensive sectors and enable the mass consumption-driven economic growth.

Thirdly, Mr Chen introduces the evolution of employment related goals embodied in five-years economic and social development plans over the years on the following aspects:

- Economic goal : China has achieved rapid GDP growth since the reform.
- A new goal of science, technology and innovation (STI)
- The policy goal: firstly emphasized cities and towns; expanded to both urban and rural areas; and shifted back to urban.

Fourthly, he presents the history of the employment administration system and policy changes.

1) The history of the employment administration system:

Before the reform: centralized allocation of labor under the planned economy.

Since the reform:

- The first stage (1978-1994) - the transition toward marketization
- The second stage (1995-2006) - continuous improvement of the labour market system; centered on the SOE restructuring
- The third stage (2007-2010) – Relatively mature labour laws and institutions; the service sector on rise
- The fourth stage (2011-present) – A new round of industrial restructuring; 'double-creation' (innovation & entrepreneurship)-led employment

2) Policy changes

The system: state-led life-long employment → market-oriented labor contract; central planning → indirect policy guidance.

The number of indicators: Singular → multiple → singular

The focus of employment policies: expansion of employment in general → innovation-driven and entrepreneurship-led employment.

Fifthly, Mr. Chen points out the impact of recent reform policies on employment through the following dimensions:

Business system reform

“Double-creation” Policy (Innovation and Entrepreneurship)

Supply-side reform

Top level design for the pension system

He emphasizes the positive signals: new sectors, new enterprises and new forms of employment have emerged in the short term, while the new pressure – the quality and the sustainability of micro- and small-sized enterprises - remains a question-mark; and the supply-side reform and industrial upgrading may cause risks of employment fluctuation. In this sense, the reform of retirement insurance further improves the social security system and provides certain ‘safety nets’ for workers, which may lead to more reasonable allocation of the labor force

In the end, Mr. Chen makes a conclusion of policy evaluation and formulates some remarks.

Characteristics of the policies over time:

Goals were specifically targeted at key groups and key areas

Employment policies and labor market regulations became better established

The policy tools and forms of employment became diversified and led to good outcomes.

Problems

Urban-rural gap still exists → more attention shall be paid to rural employment

Short-term and long-term plans need to be coordinated

More measures shall be taken in the new industrial restructuring/upgrading

Not just the quantity of jobs, but also the quality of work needs to be highlighted.

Suggestions

At the top, there should be proactive policy design and coordination among different departments at the national level, particularly between economic, industrial and employment policy-makers.

“Seeking for progress while emphasizing stability”

Grand plans at the top, and context-based solutions at the local levels

Statement by EUD Representative - Ms. Yi Xiaolin, representing the EU Delegation for China and Mongolia, addressed the meeting mentioning that this event was the last one in which she participated before her retirement. Ms Yi mentioned she had been involved in China's social security program for more than 10 years and has witnessed the development of social security in China. From the establishment of rural old-age insurance in the 1990s to the consolidation of old-age insurance for urban and rural residents at last, China's social security reform has been rapidly developed. She was very pleased to be able to make contribution to the China's social security reform.

Conclusions - Mr. Jean-Victor Gruat. EU Resident expert for the project Component 1, expresses his thank to the experts for their wonderful presentations and speeches. From Mr. Li Kang’s speech, he points out the situation of employment and social security, and the two directions for future development. First, the creation of employment, not only the quantity, but also the quality; second, ensure that the system of social security is based on the system of rights. Prof. Zhou Hong mentioned the differences between structural reform and parameter reform. She believes that parametric reform is a gradual process that could bring a huge impact. In addition, she reminds us that the contents of reform, the process of reform is very important also. When it comes to redistribution, Ms. Zhu Mengbing mentioned the redistribution to protect vulnerable people. And parametric reform is also referred in her presentation, from the perspective of redistribution, parametric reform is not entirely

benign. For example, changes in some parameters may affect vulnerable groups. There are two other major points in her report: first, the current payment structure is the opposite of redistribution. Second, urban pension insurance has a good effect on urban workers. These points have a significant reference on the future development of reform. Prof. Zheng Gongcheng report on Social security evaluation provided many important views. First, in the social security system, the role of the government cannot be ignored, the market could bring a positive effect, but the government should play an important role in social security rather than being ignored. Second, he argues that the pension system has much space to rise; such as from the perspective of coverage, the protection of the diversification, as well as the long-term care mentioned by many participants, which are the future direction of the development indeed. Third, he proposes a more equitable system to eliminate the gap between urban and rural areas and the differences between employees and residents. Mr. Chen Yongjie, when evaluating Employment policies, suggested that the relationship between employment protection and social security was closely related. In addition, he noted that some innovative employment policies have emerged to adapt to the changing times, which is a challenge and a direction for future development.

Mr. Gruat stresses the usefulness of the format adopted for this peer review exercise, where European experts could physically attend and take an all the more active part in the discussion that their mission to Beijing had already provided them with opportunities to exchange with different interested audiences. He stressed that this exercise was part of a process, and that discussions on notably Parametric reform and redistribution would continue after a couple of weeks on the occasion of international events organised in Paris, with the participation of NDRC leadership, as well as Chinese and European experts. He felt confident that the Component plans for future activities would draw on the works presented at the meeting and continue to deepen the review of interaction between employment and social protection policies, bearing in mind the importance of benchmarking, of ensuring protection for the weakest segments of the population and of associating clear social objectives to the requirements of economic growth under conditions of the new normal economy.

To conclude the Panel Discussion meeting, NDRC leadership as well as experts from both EU and China expressed their full satisfaction with the work accomplished and the fruitful discussions. Experts will now review their draft reports, to incorporate the findings and comments arising from the Panel discussion meeting, and submit revised final versions to NDRC and to the project Component One

Li Lingxi
JV Gruat
30.09.2017

**EU – CHINA SOCIAL PROTECTION REFORM PROJECT SPRP COMPONENT 1
PANEL DISCUSSION MEETING ON TOPICS 1.3.6, 1.4.2, 1.2.2**

BEIJING 30 AUGUST 2017

People's Palace Hotel

No. 1 Zhen Wu Miao Road, Fu Xing Men Wai Street, Xicheng District, Beijing

中国职工之家酒店

中国北京市西城区复兴门外大街真武庙路1号

TENTATIVE AGENDA

08.30 – 09.00	Courtesy meeting with Mr. Li Kang, Director General, Department of Employment and Income Distribution, NDRC
09.00 – 09.15	Welcome Speech by Mr. Li Kang, Director General, Department of Employment and Income Distribution, NDRC
First Session: Topic 1.3.6 - Pension Systems Parametric Reforms Chaired by Mrs. Zhu Yingjuan, Director General, Department of Employment and Income Distribution, NDRC	
09.15 – 09.45	Draft report on the situation in China presented by Ms.Zhou Hong, Short term expert
09.45 – 10.15	Comments submitted by EU experts
10.15 – 10.45	Comments submitted by other experts, NDRC, SPRP and general discussion
10.45 – 11.00	<i>Coffee – Tea break</i>
Second session: Topic 1.4.2 - Redistribution Effect of Pension Schemes' Parametric Reforms Chaired by Mrs. Zhu Yingjuan, Director General, Department of Employment and Income Distribution, NDRC	
10.45 – 11.15	Draft report on the situation in China presented by Ms Zhu Mengbing on behalf of Mr. Li Shi, Short term expert
11.15 – 12.15	Comments submitted by other experts, NDRC, SPRP and general discussion
12.15 – 13.30	<i>Lunch break</i>
Third session: Topic 1.2.2 - Evaluation of Social protection policies Chaired by Mr. Chang Tiewei, Deputy Director General, Department of Employment and Income Distribution, NDRC	
13.30 – 14.00	Draft report on Evaluation of Employment policies presented by Mr. Ngok Kinglun (aka Yue Jinglun), Short term expert
14.00 – 14.45	Comments submitted by other experts, NDRC, SPRP and general discussion
14.45 – 15.00	<i>Coffee – Tea break</i>
15.00 – 15.30	Draft report on Evaluation of Social security policies presented by Mr. Zheng Gongcheng, Short term expert
15.30 – 16.15	Comments submitted by other experts, NDRC, SPRP and general discussion
16.15 – 16.30	Wrap-up Speeches by: Mr. Jean-Victor Gruat, SPRP C1 Resident Expert Mr. Chang Tiewei, Deputy Director General, NDRC

The Name-list

Chinese participants		
1	Zheng Gongcheng	Member of the Standing Committee of the National People 's Congress, Professor of Renmin University of China
2	Zhou Hong	Member of Academic Board, Deputy Chair of Academic Division for International Studies, Chinese Academy of Social Sciences
3	Ngok Kinglun (aka Yue Jinglun)	Associate Dean, School of Politics and Public Affairs, Sun Yat-Sen University
4	Zhu Mengbing	China Institute for Income Distribution, Beijing Normal University
5	Li Kang	Director General, NDRC
6	Ha Zhengyou	Deputy Director General, NDRC
7	Chang Tiewei	Deputy Director General, NDRC
8	Zhu Yingjuan	Inspector General, NDRC
9	Jing Chao	Deputy Inspector General, NDRC
10	Zheng Jinhua	Deputy Division Director, NDRC
11	Tong Siyun	Senior Official, NDRC
12	Liu Qiang	Senior Official, NDRC
13	Zhang Xia	Senior Official, NDRC
14	Sun Zhongzhen	Division Director, NDRC
15	Chen Lin	Senior Official, NDRC
16	Che Song	Official, NDRC
17	Chen Jun	Division Director, NDRC
18	Li Xiaoliang	Senior Official, NDRC
19	Han Feichi	Official, NDRC
20	Zhang Xinmei	Division Director, NDRC
21	Tang Ling	Division Director, NDRC
22	Niu Ming	Senior Official, NDRC
23	Chang Hao	Division Director, ICC-NDRC
24	Li Xiaojuan	Senior Official, ICC-NDRC
25	Dai Bowen	Project officer, ICC-NDRC

European participants		
1	Heinz-Dietrich Steinmeyer	Professor, University of Münster, Germany
2	Jin Yuxi	Assistant to Prof. Steinmeyer
3	Karl Birkholz	Senior Analyst, Swedish Pension Agency
4	Jan Škorpík	Head of the Actuarial unit, Ministry of Labour and Social Affairs of the Czech Republic
5	Marek Suchomel	Actuarial unit, Ministry of Labour and Social Affairs of the Czech Republic
6	Carlo Mazzaferro	Associate Professor, Università degli Studi di Bologna, Italy
7	Jean Victor Gruat	EU Resident Expert, EU-China SPRP C1
8	Marzena Breza	EU Resident Expert, EU-China SPRP C3
9	Fang Lianquan	Main Expert (Research), EU-China SPRP C1
10	Zhang Guoqing	Main Expert (Operations), EU-China SPRP C1
11	Li Lingxi	Component Assistant , EU-China SPRP C1