European Experience and Best Practices in Pension Reform

SELECTED TECHNICAL NOTES

EU-CHINA
Social Protection Reform Project
中国-欧盟社会保障改革项目

COMPONENT ONE

April 2018 v.4

Component 1

LIST OF TECHNICAL NOTES

TOPICS	NOTES
PENSION REFORM	0 – Selected Pension reforms in Europe
MANAGEMENT REFORM	111-Fraud
	113-Disability Benefit Policies
PENSION SCHEME EVALUATION	122-General principles for pension reform
	122-Social security performance indicators
	122-Evaluation of Social security
AFFORDABILITY OF PENSION SCHEMES	123-State budget financing
GENDER	124-Gender considerations
REFORM FOR PUBLIC SECTORS	131-Reform of public pension schemes
MULTITIER PENSION SYSTEMS	134-Multitier pension systems
PARAMETRIC REFORM	0 – Selected Pension reforms in Europe
	136-Extending working life
	136-Parametric-Minimum standards
	136-Indexation
DEMOGRAPHIC AGEING	137-Demography and social security
	137-Long term care insurance
	137-Retirement Age
NOTIONAL DEFINED CONTRIBUTIONS	139-NDC European Best Practices
	139-NDC self-financing
INDIVIDUAL ACCOUNTS	141-Adjusting for Longevity
	141-Adjusting individual records
	141-Regulations for Funded schemes
VESTING AND PORTABILITY	143-Principles of Coordination (migrant workers)
	143-Social insurance for mobile workers in Europe

FOREWORD

The EU-China Social Protection Reform Project SPRP Component 1 is actively contributing to the on-going reform of the Chinese pension system, in close collaboration with the National Development and Reform Commission – NDRC – and other key national and provincial stakeholders.

Over project life, a number of technical research, exchanges and dialogues have been conducted, addressing a great variety of technical topics, and reporting the wealth of European experience in the various aspects of social protection reform to the Chinese reality and prospects.

While these activities have been duly documented and enshrined in a very rich and detailed series of publications and report available notably from the project website[1] in English and in Chinese languages, it was felt useful to supplement this scientific documentation with a set of short notes, presenting in a concise yet accessible manner the fundamentals of European experience in main pension reform topics, as those might be relevant for the Chinese – and indeed other countries' endeavors to improve upon their respective existing systems.

The following presents 22 such Notes, covering 12 technical topics. Their contents is derived from project works, be it works under the current project or under its predecessor, the EU-China Social security reform project (2006-2010). Most of the Notes are authored by the undersigned, who takes full responsibility for their contents. However, it is a pleasure to hereby acknowledge the kind and very efficient collaboration of Koen Vleminckx, Director of Research and International cooperation, Federal Public Service Social Security, Belgium, who on the occasion of a mission conducted under the auspices of the Project, contributed several Notes in direct response to requests by the Chinese stakeholders.

A Preface has also been included, which draws a lot on project technical works to present the most striking features of the Chinese pension system, which in a sense justifies the choice of the topics to which individual Technical Notes are devoted. Great thanks are due to my colleague Mr. Fang Lianquan from the EU-China SPRP Component 1 and from the Chinese Academy of Social Sciences, who carefully read a first version of this preface, and made a number of very useful suggestion for its improvement.

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April 2018 v.4

[1] http://www.euchinasprp.eu

PREFACE

SOME STRIKING FEATURES OF THE CHINESE PENSION SYSTEM

CONTENTS

LIST OF TABLES, MAPS AND GRAPHS

EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目
Component 1

SOME STRIKING FEATURES OF THE CHINESE PENSION SYSTEM

This document was first drafted in July 2017. I am extremely thankful to my colleague Mr. Fang Lianquan from the Chinese Academy of Social Sciences CASS and the EU-China Social Protection Reform Project for his careful reading of the first draft, and very useful suggestions for amendments, which were included in this revised version.

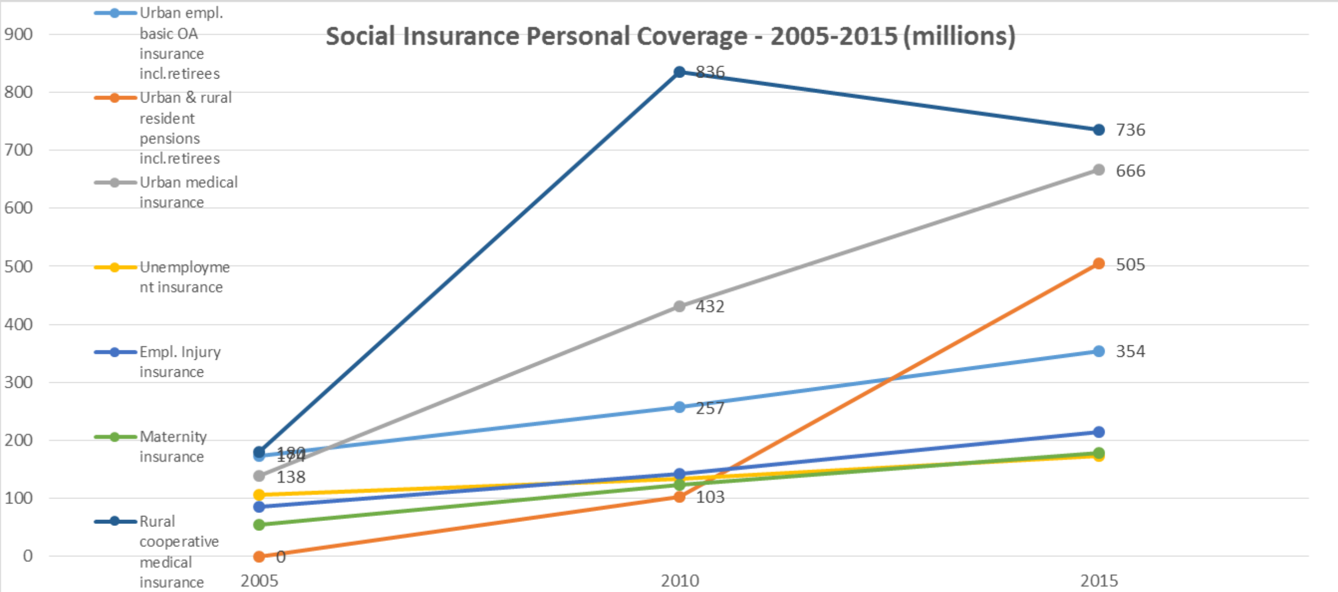
JVG., September 2017

Introduction

The Chinese social security system has achieved remarkable progress over a historically short period of time. In terms of extension of personal protection, the decade 2005-2015 has seen medical coverage in both urban and rural areas become almost universal, with pension coverage increasing from less than 200 million to some 850 million persons, thanks notably to the introduction in 2009 of a new scheme for rural residents not otherwise protected. Progress was also achieved in other branches of protection (unemployment, occupational risks, and maternity protection) although to a less spectacular extent. Data in Table 1 and Graph 1 hereafter illustrate these undisputable achievements.[1]

Table 1 & Graph 1. China – Extension of social security coverage (2005-2015) – millions and %

Item / Nb. Covered	2005	2010	2015
Urban empl. basic OA insurance including retirees	174	257	354
Retirees, urban employees pension scheme	43	63	92
Urban & rural resident pensions including retirees	--	103	505
Basic medical insurance	138	432	666
Unemployment insurance	106	134	173
Employment Injury insurance	85	142	214
Maternity insurance	54	123	178
Rural cooperative medical insurance	180	836	736
% coverage medical insurance schemes	23.5	95	98.9



Concerning pensions, the number of beneficiaries (benefits in payment) in the Urban old-age insurance scheme grew from 32 million in 2000 to 92 million in 2015, i.e. from 1/3 to 2/3 of the population aged 65+. Amounts paid in benefits are also non negligible, since public pensions represented in 2015 50% of the average wage, with an economic replacement rate[2] of 44%, which fares reasonably well compared to most advanced economies.

Table 2. Value of pension benefits in the Urban old-age insurance scheme

Item	**2000**	**2005**	**2010**	**2015**	**Advanced economies 2015**
Nb of pension recipients, million	32	44	63	92	
Pensions as % of GDP	2.10	2.16	2.61	4.07	8.5
Pensions as % of average wage	71	50	47	49	57
Economic replacement rate, pensions	58	46	41	44	33

Sources: NBS, MoHRSS and project calculations. IMF for Advanced economies.

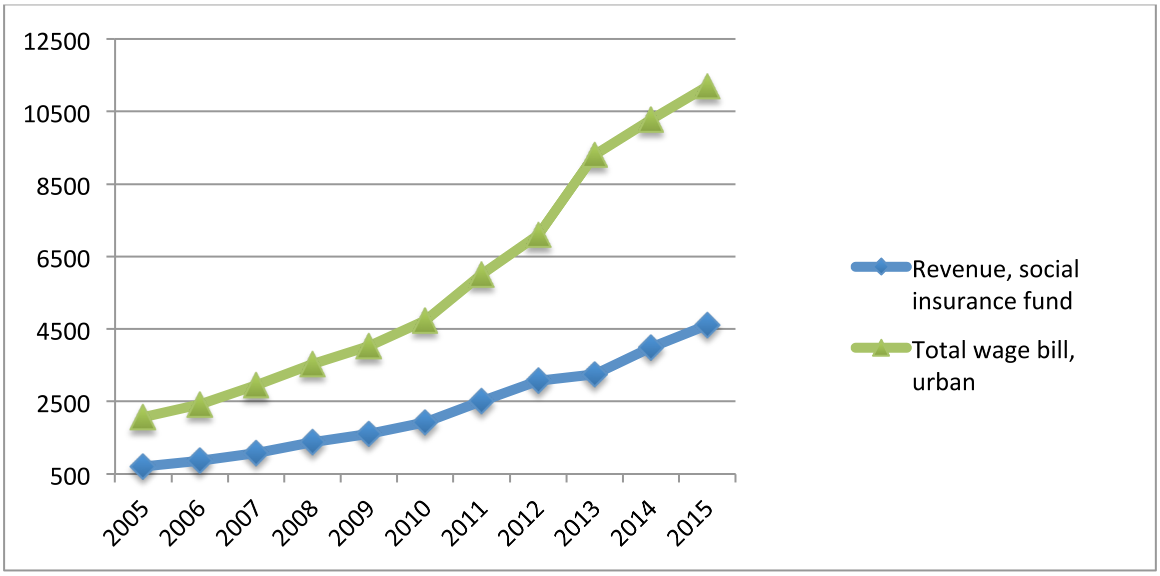
However, some difficulties are to be pointed to, that will affect the future and the viability of the Chinese pension system. Among the most critical points, paragraphs below will address the following: a marginally decreasing attractiveness of the main social insurance scheme; system fragmentation; a still low level of protection; a quite limited redistributive effect; the threat from a rapidly ageing population; a (sometimes) questioned economic affordability, before concluding on the relevance of commitments made in the 13th Five-year Plan to address these difficulties.

Scheme attractiveness

Despite progress made in coverage, the pension scheme for urban employees, which is the flagship of the Chinese pension system, has not reached its full potential, and is not substantially coming closer to it as years pass. Indeed, the coverage rate of approximately 2/3 of urban workers could be considered as already quite high compared to the situation in a number of developing countries. However, while the legislation currently in force provides for the inclusion of all salaried employees into the said scheme, important categories still do not benefit from this protection and are confined into the otherwise voluntary schemes for urban and rural residents, which level of benefits is minimal. In particular, out of an estimated total of 277 million internal migrant workers, over 200 million are still not included in the pension scheme for urban employees. In terms of active contributors, coverage under this scheme after deduction of a rapidly growing number of retirees appears as less spectacular as that of some of the other schemes – which also corresponds to increasingly efficient campaigns to have employers comply with coverage of employees under all social insurance branches, as opposed to a kind of "*à la carte*" registration which had previously prevailed.

According to national statistics from the NBS, progression since 2005 of the revenues of the Social insurance fund – mostly based on contributions assessed against salaries – is progressing at a slower pace than the total wage bill of workers in urban areas – while strict compliance with provisions in force would lead to expect a closer relation between the two series[3].

Graph 2 – Growth in social insurance revenue and urban wage bill, 2005-2015 (billion Yuan)



Source: National ***Bureau of Statistics*** http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm

Reasons for this apparently decreasing attractiveness of the scheme for Urban employees are manifold.

Among those most frequently quoted are:

i. the reluctance of enterprises to have workers join in a scheme they consider as costly, when there is no strong push from workers, since the latter view the corresponding payment of personal contributions as bringing little if any advantage compared to enrolment in other, cheaper, schemes like those launched in big cities for so-called casual workers (contributions assessed upon the lowest possible income level) or the Rural-Urban resident schemes where contributions are very low, but access to medical insurance still is guaranteed, which is the main short term incentive of the system;

ii. the contribution rate of 28% (20% from employer, 8 from employee) being considered as a heavy burden for private sector especially acting as a deterrent for those "informal workers" to join in the pension system[4];

iii. the fragmentation of the scheme which makes it unattractive for a number of mobile workers confronted with still important difficulties when transferring rights in the course of acquisition in particular concerning the pooling part of the basic pension, which largely overweighs that from individual accounts in the final computation of benefits ;

iv. uncertainties concerning the very nature of the scheme, especially its individual accounts component, with personal accounts being either empty or half empty, with funding being more virtual than real in the majority of cases – which does not add to overall trust in the fund's sustainability;

v. and, somehow related to the above, a decreasing level of relative pension benefits expressed in terms of replacement of past income, as shown in graph 3 below. [5]

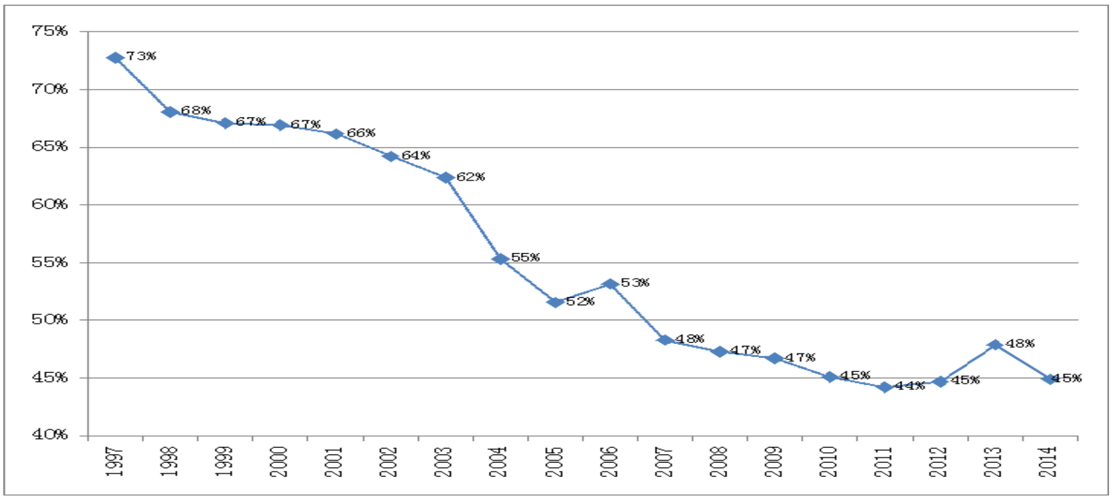
In fact, it seems that the maturing of the scheme, i.e. the growing influence of actually contributed years of activity in the acquisition of pension rights, bears a negative impact on the overall replacement rate – in other words, the more you contribute, the less your benefit is relatively relevant.

This apparent paradox stems from the design of the individual accounts component in the accumulation of rights, for which the relevant portion of contributions paid was until very recently valued at a rate corresponding to the one used by banks for their borrowing operations (bank interest rate for savings) which is very low compared to the growth rate for wages or the GDP.

It is also fair to note that the apparent low level of replacement rate is due to a large extent to the corresponding low level of contributory base. In many instances, contributions are assessed by entreprises only on a portion of the remuneration (base salary without premiums, fringe benefits, irregular payments) with, as a result, the actual contribution rate fluctuating between 9% (Guangdong) and 29 % (Tibet) of the remuneration, instead of the official 28 %[6].

When comparing pension benefits to contributory base, which is done in some Provinces to express replacement rate, the result is indeed far higher then the above – for example reaching 67% in Tianjin.

Graph 3. Replacement rate, Chinese pension system for Urban employees



The table below shows, over a number of years, the respective evolution of key indicators to appreciate the actual value of pension benefits. Over a period of 12 years, amounts accumulated in a workers' individual account for pension would thus have barely maintained their purchasing power value (bank interest rate being slightly above inflation rate on average between 1998 and 2011, which is the period under review[7]) and in fact lost every year almost ten per cent of their value compared to actual wages. This explains why the explicit objective of the pension system in terms of replacement rate of 60% after full insurance career – 30 years – which is 35% out of solidarity pension and 24% out of individual account (Zhen Li 2013) does not appear as a realistic target anymore, even though the calculation of benefits out of individual accounts portion makes use of a very generous coefficient actuarially speaking, namely 190 when retiring at age 50, 175 when retiring at age 55 and 139 when retiring at age 60, while life expectancy at that latter age may well be of 25 to 30 years, i.e. up to 360 months – which indeed corresponds better to the actuarial coefficient used in European schemes converting capital amount in annuities (26.5 actuarial years i.e. 318 month at age 60 in France for annuities served over 30 years).

Table 3. Changes in indicators affecting yield in basic pension (1998-2011)

Year	**GDP growth %**	**Wage growth %**	**Inflation %**	**Bank Interest rate %**
1998	7.8	7.2	-0.8	5.22
1999	7.6	13.1	-1.4	2.25
2000	8.4	11.4	0.4	2.25
2001	8.3	15.2	0.7	2.25
2002	9.1	15.5	-0.8	1.98
2003	10.0	12.0	1.2	1.98
2004	10.1	10.5	3.9	2.25
2005	10.4	12.8	1.8	2.25
2006	11.1	12.7	1.5	2.52
2007	11.4	13.6	4.8	2.79-4.14
2008	8.9	11.3	5.9	2.25-3.87
2009	9.1	12.7	-0.7	2.25
2010	10.3	10.2	3.3	2.75
2011	9.2	8.9	5.4	3.5
Average	**9.41**	**11.93**	**1.8**	**2.65**

The Government is fully aware of the insufficient level of yield from individual accounts to keep its relative value over time and finally ensure a substantial replacement rate to contributors. This is why, in 2017, a joint instruction from Ministry of Finance and Ministry of Human resources and Social security established that the rate of interest on individual accounts should henceforth be somehow linked to increases in average social wage, with as a result a rate of return prescribed at 8.3% for the current year[8].

System Fragmentation

The Chinese pension scheme for Urban employees was conceptualised, tested and implemented at a time when economic and social mobility were not yet the rule for most of the active population. Its core feature, which is the pooled part of the pension benefit, initially expressed the amounts of entitlements in percentage of the average social wage – and the addition at a later stage of a component linked to individual contributions[9] did not fundamentally alter the anchoring of the scheme onto local realities. The prevalent pattern remains that of a kind of minimum pension, established at Provincial level between 40% and 60% of average social wage in the pooling area, provided at least 15 years of contributions were paid and legal retirement age was reached (normally 50 – female workers –55 – female cadres, – 60 male).

THE PENSION FORMULA

Pooled pension = 1% per Contributed Year of (Average local salary + Average individual salary)/2

$$\boxed{0.01*NYC*(ALS+AIS)/2}$$

- Individual account = (Contributions + interest)/Nb of actuarial months (e.g. 139)

Although the State Council has established the rule that pooling – i.e. the area within which contributions are collected, benefits are processed and paid – should be established at the national level with, as a first step, the Provinces becoming the geographical basis for the functioning of the system, there are still a considerable number of instances where, within nationally prevailing legislation and rules, some local parameters and rules are kept starting with contribution rates actually in force in some Provinces. [10, 11]

Binding a substantial portion of the pension to local conditions is a measure protecting best the interests of the weakest segments of the contributing population, since it ensures that a minimum benefit be paid, at a level ensuring that pensioners do not risk falling in a poverty trap. However, in a country like China where differences are very important across regions – and sometimes even within region – in terms of standards of living including salary levels, the question arises of how to cope with such differences within the pension scheme. This is of course one of the strong obstacles to a higher level pooling – beyond the desire of existing local authorities to preserve their autonomy and avoid funds centralization[12].

The table below, based on 2015 data from the NBS, shows variations in average wage among provinces. Around a country average of some 40.000 Yuan/year[13] the lowest provincial average of some 27.000 Yuan is to be found in the North East formerly highly industrialised Provinces (heavy industry), while the highest of some 54 and 58.000 Yuan respectively are in city provinces of Tianjin and Beijing, also in the North of China. In other words, there is a difference of more than 100% between the lowest and the highest average provincial wages – not to mention important variations also to be found at the intra-provincial level.

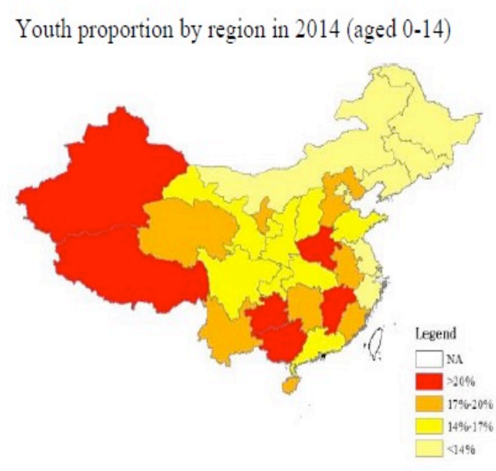
Table 4. Average Provincial wages, 2015 (RMB Yuan)

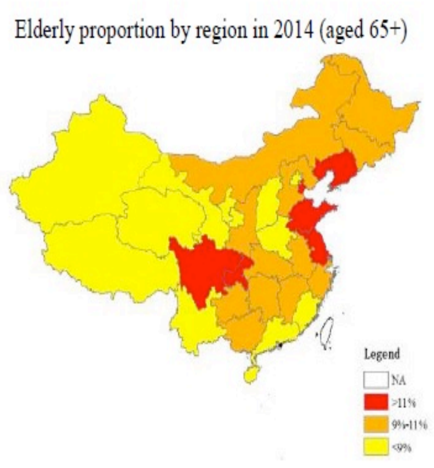
NATIONAL	39589	***NORTH EAST***		Anhui	37148	***SOUTH***		Yunnan	35015
NORTH		Liaoning	33812	Fujian	43385	Guangdong	44838	Tibet	n.a.
Beijing	58689	Jilin	27774	Jiangxi	33329	Guangxi	33519	***NORTH WEST***	
Tianjin	53352	Heilongjiang	28586	Shandong	43608	Hainan	37093	Shaanxi	33220
Hebei	34084	***EAST***		***CENTRAL***		***SOUTH WEST***		Gansu	31031
Shanxi	30195	Shanghai	41762	Henan	30546	Chongqing	44293	Qinghai	32248
InnerMongolia	35512	Jiangsu	43689	Hubei	31051	Sichuan	35127	Ningxia	36322
		Zhejiang	41272	Hunan	33033	Guizhou	36044	Xinjiang	37598

Official census data make it difficult to precisely evaluate the demographic impact of internal migration since migrant workers considered as temporary residents at their place of work are still counted as residents at their place of origin. Even with this proviso, however, the maps below[14] show that provinces in the coastal area are characterized by a low prevalence of young generation (below 14 years of age) without being necessarily affected by demographic ageing (high proportion of elderly population).

It is commonly accepted that, for returning migrant workers, the issue in terms of pension when accepting them back for retirement is linked to the pooling component (akin to a guaranteed minimum pension) for which contributions paid at the place of work are not transferred. This however does not take into account the fact that, to ensure continuity in coverage throughout life time in retirement, it is prescribed that when amounts (theoretical or real) accumulated on individual accounts are exhausted – which may happen as early as at age 72 ½ for workers retiring at age 60 – the payment of the benefit is then secured from the local pooling fund, to which returning migrant workers did not contribute locally.

Maps 1 & 2. Proportion of young and aged people by Province



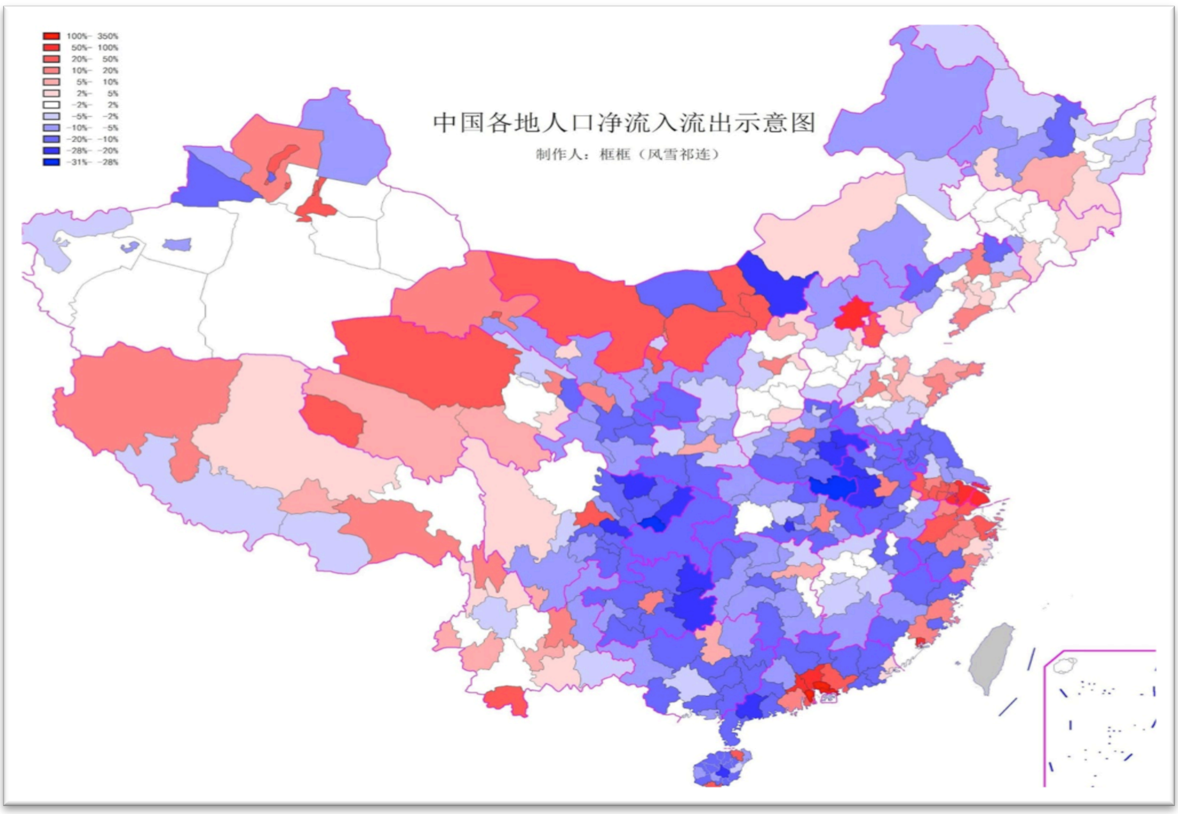


Furthermore, the multiplication of local development centres across the country has made internal migrations become an extremely complex phenomenon, where inter- and intra-provincial flows coexist.

The below map[15] illustrates these flows at the prefecture (sub-provincial) level, with red colour corresponding to net recipient prefectures, and blue to prefectures of net labour emigration. In the absence of a unified pension scheme at the national, or even at the provincial level to allow for the vesting of rights following workers' mobility patterns, there is no surprise when enrolment under pension scheme does not appear as a priority for the most mobile part of the active population.

It should also be noted that, even when mobile population join the urban workers' pension scheme – which in 2015 was already the case for 56 million migrant workers out of a total of 277 million (including 169 million migrating outside their Province of origin)[16], the question remains of vesting of acquired rights under the Rural and Urban Resident Pension scheme – for which very few provinces have actually provided for specific provisions as well as of ensuring continuity in coverage when the workers make use of unemployment insurance benefits between two periods of contributory employment.

Map 3. Internal migrations



Relatively low level of protection

Whereas most of the spectacular increase in personal coverage under the pension system was achieved through the reform in 2009 of the rural savings scheme, extended in 2012 to urban residents and henceforth denominated pension scheme for rural and urban residents, the level of benefits under this scheme is far from representing a real safety net – as is the case with the pooled portion of the basic pension scheme for urban employees. The table below[17] provides nationally averaged data on the pension scheme for residents – for which parameters, notably the level of pension benefits, are under control of local authorities, which may result in quite different, but always relatively low levels. The scheme still requires to be heavily subsidized, with average monthly contributions of 17 yuan a month (average monthly benefit 117 yuan) in 2016.

The minimum legal benefit was established at 55 Yuan a month in 2009, raised to 70 in 2015, and to 105 currently. The advocated goal of the pension scheme for Urban and Rural residents is to ensure that beneficiaries enjoy a decent living after retirement. In terms of replacement rate, this is expressed as a percentage of the average urban or rural disposable income. The benefit represented only, in 2016, an average of 10 to 13% of the latter, depending on the province and on the situation (urban or rural) [18].

To illustrate the very low level of those benefits, one may refer to[19] (year 2014) the level Beijing minimum wage of 1560 yuan/month or that of the Beijing per capita urban "dibao" (social assistance minimum income scheme) standard of 650 yuan/month compared to the (Beijing) average resident monthly pension of 496 yuan. That same year, the average pension for urban employees in Beijing exceeded 3.000 yuan a month.

Table 5. Rural and Urban resident pensions[20]

Year	Number of participants (million)	Number of beneficiaries (million)	Average yearly contribution one person (Yuan)	Average pension benefit per month (Yuan)
2008	56	5	--	--
2009	87	15	--	--
2010	103	28	300	60
2011	326	85	172	58
2012	460	121	168	73
2013	474	128	177	81
2014	501	147	186	89
2015	505	148	196	119
2016	508	153	206	117

As for workers in the Urban employees' pension scheme, from the inception of the reform (gradually from the late seventies) protection was ensured almost exclusively through the public basic pension ("pooled" and individual account components).

In order to enhance this protection, and to allow additional resources to flow into the system, the Government launched in 2004 an Entreprise annuity scheme following upon entreprises experiments dating back from the nineties, which was also to contribute to securing commitment of workers towards the entreprise, at a time when a very rapidly expanding economy coupled with a liberalization of the labour market incited workers to frequently change positions in quest of higher standard of living and better working conditions.

The table and graph below provide information about the development of the Entreprise Annuity scheme over the ten years for which the corresponding data are available. It appears that, although progressing year after year, the coverage under entreprise annuity schemes remains limited – since it has been established in 75.500 entreprises whereas the country counted some 16 million "legal entities" in 2015[21], for the benefit of 23 million workers i.e. some 10% of those actively contributing to the Urban employees' pension scheme.

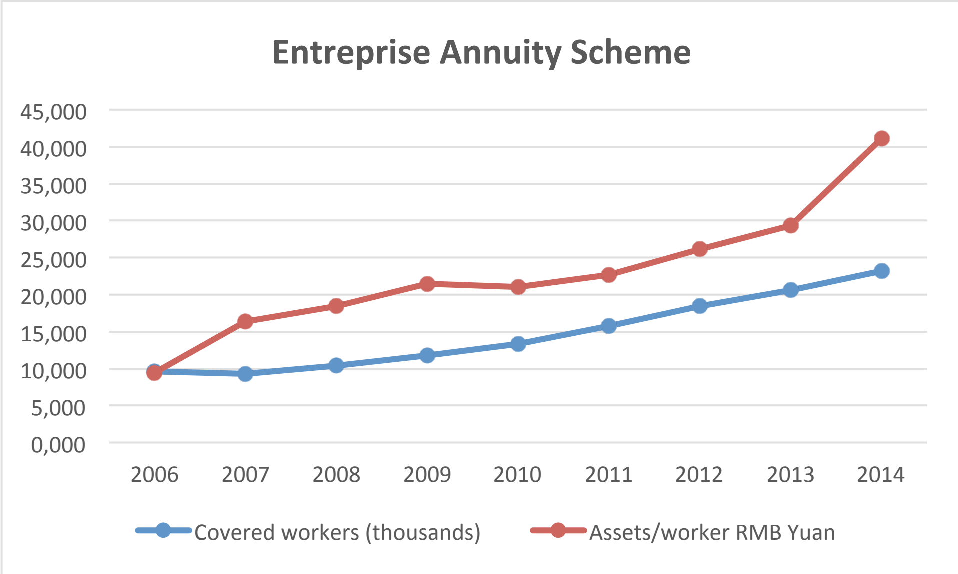
The assets accumulated in the fund for entreprise annuities were multiplied by ten in nominal terms over the decade, and the assets per member of the scheme increased by 4.5 times.

However, in relation with economic parameters of active or retired workers, individual amounts accumulated remain quite modest since, at an average level of 41.000 RMB yuan in 2015, they were equivalent to 8 month of the average salary of urban workers in non-private sector (62029 RMB yuan per year). Considering that these amounts are earmarked for old-age protection, which spreads over some 25 years after retirement, their impact on the standards of living of pensioners would be rather limited.

In fact, entreprises having established annuity schemes are mostly state-owned entreprises. The funds have to be accounted for separately from entreprises general or wages ' accounts. Funds can be invested only in China, through some 20 trustees at the election of the entreprises (investment companies selected by the central government). The average rate of return on funds was recently of 65 per year.

Table 6 and Graph 4. Entreprise Annuity Scheme

Year	Nb entreprises	Nb workers-million	Accumulated assets billion yuan	Assets per worker 1000 yuan
2006	24000	9.640	91.0	9.440
2007	32000	9.290	151.9	16.351
2008	33000	10.380	191.1	18.410
2009	33500	11.790	253.3	21.484
2010	37100	13.350	280.9	21.041
2011	44900	15.770	357.0	22.638
2012	54700	18.470	482.1	26.102
2013	66100	20.560	603.5	29.353
2014	73300	23.160	952.6	41.131



Mention was already made (see Table 3 above) of the insufficient remuneration of amounts inscribed in workers' individual accounts for basic pension, which of course contributes to the overall feeling of insufficient yield to match the economic and individual cost of the system (high cost-benefit ratio), in particular for those whose remuneration is superior to the average social wage – who may question the rational of having to pay high nominal contributions yielding pension results not significantly different from those achieved for the lowest ranges of salaries. This has been addressed through ad hoc measures taken in 2017 to increase interest rate accumulating in individual accounts up to the level of improvement in average social wage.

However, the persistent tendency of not accumulating "real assets" in individual accounts, while the pension fund balance (Urban scheme for employees) continues to grow also contributes to create a feeling of distrust among contributors and even beneficiaries, who wonder about the reality of their rights in course of acquisition or the future of their pension benefits. The table hereafter[22] shows that over the past years the proportion of "real account assets" was of only 12.5% of the total on personal accounts, while the "empty accounts" represented a slightly more important amount than the overall pension fund balance[23].

Table 7. Composition of assets in individual accounts

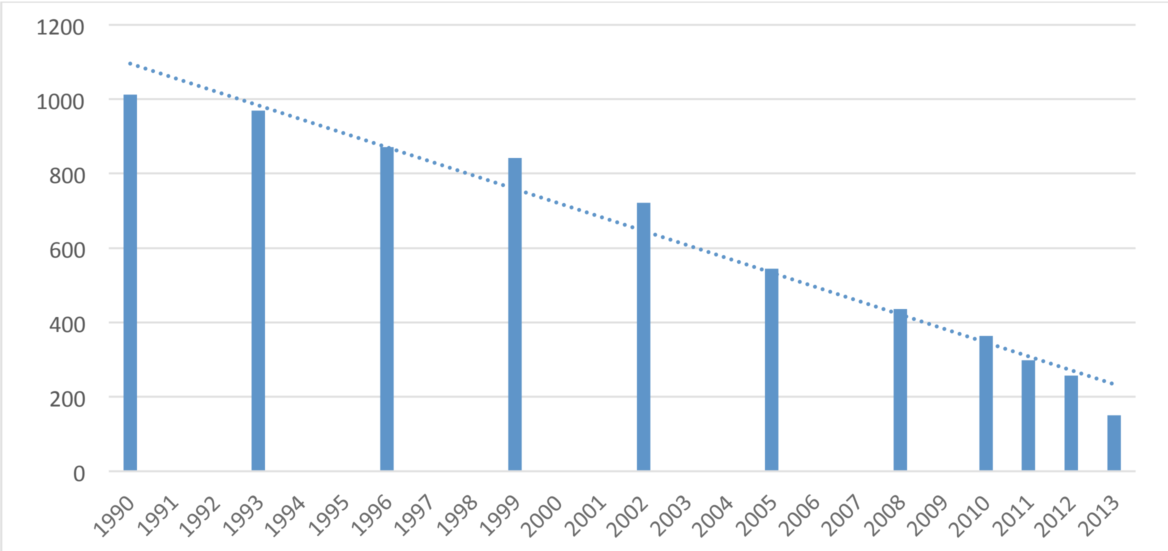
Year	Accounting Balance	Real Account Assets	Empty Account Assets	Pension Fund Balance
	billion	billion	billion	billion
2006	999.4	—	—	548.9
2007	1174.3	78.6	1095.7	739.1
2008	1383.7	110.0	1273.7	993.1
2009	1655.7	156.9	1498.8	1252.6
2010	1959.6	203.9	1755.7	1536.5
2011	2485.9	270.3	2215.6	1949.7
2012	2954.3	349.9	2604.4	2394.1
2013	3510.9	415.4	3095.5	2826.0
2014	4097.4	500.1	3597.3	3180.0

In addition to the feeling of insufficient cost-benefit analysis for old-age pensions, the Urban employees' pension scheme also attracts some criticism because it fails to address hardship situations such as those created by early disability or premature death of the worker for non occupational causes, the scheme having not yet developed specific provisions for disability or survivors' benefits.

Redistributive effect

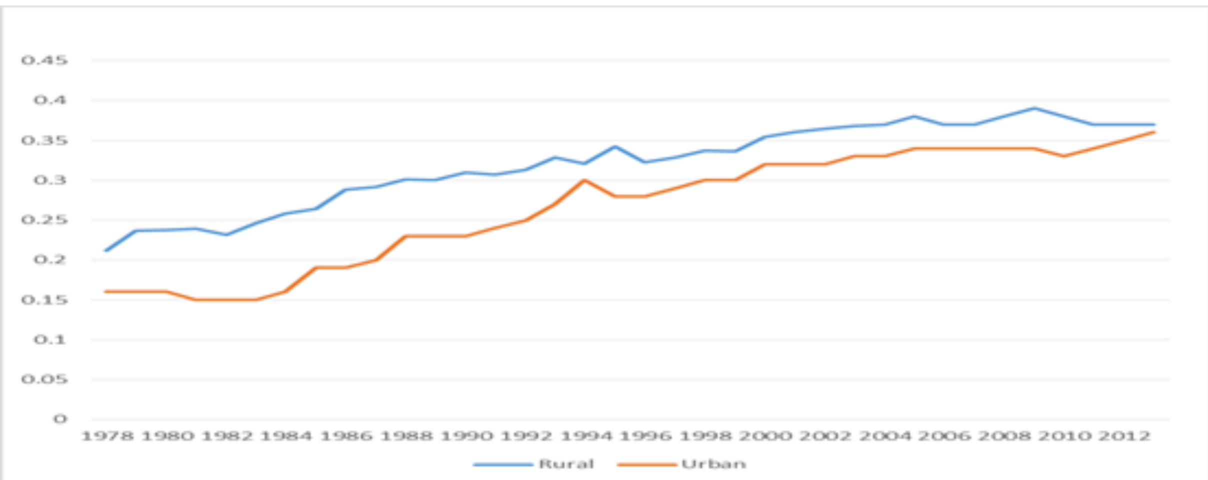
China's efforts in dramatically reducing absolute poverty are unanimously praised. The graph below, based on World Bank data using a quite high threshold of 3.10 $ a day in purchasing power parity PPP for establishing a poverty line [24] leaves little doubt on the ability of the country to eradicate worst forms of poverty among the population well ahead of the official Millennium Development Goals deadline.

Graph 5. Poverty head count, WB estimates



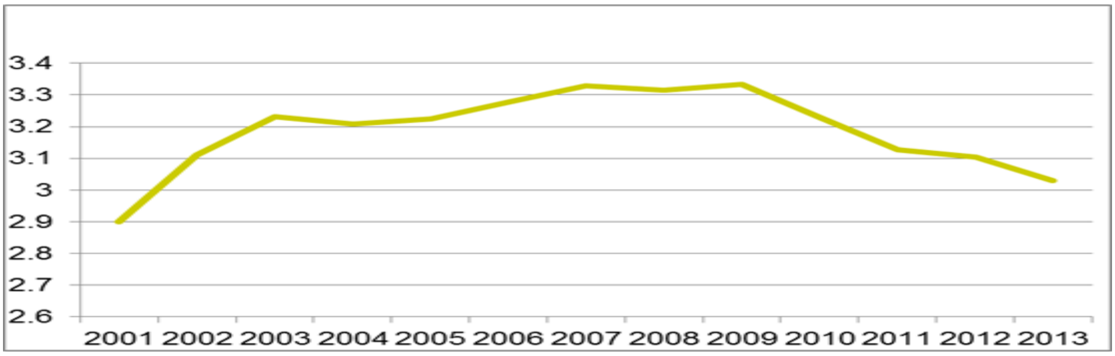
However, this decrease in incidence of poverty did not translate into the narrowing of in-country primary income gap, since economic development went on at an even faster pace than poverty eradication. The graph hereafter[25] shows that, be it in urban or in rural area, the measurement of income inequality through Gini coefficient has shown a consistent path upwards between 1978 and 2008.

Graph 6. Income inequality in urban and rural China (1978-2013)



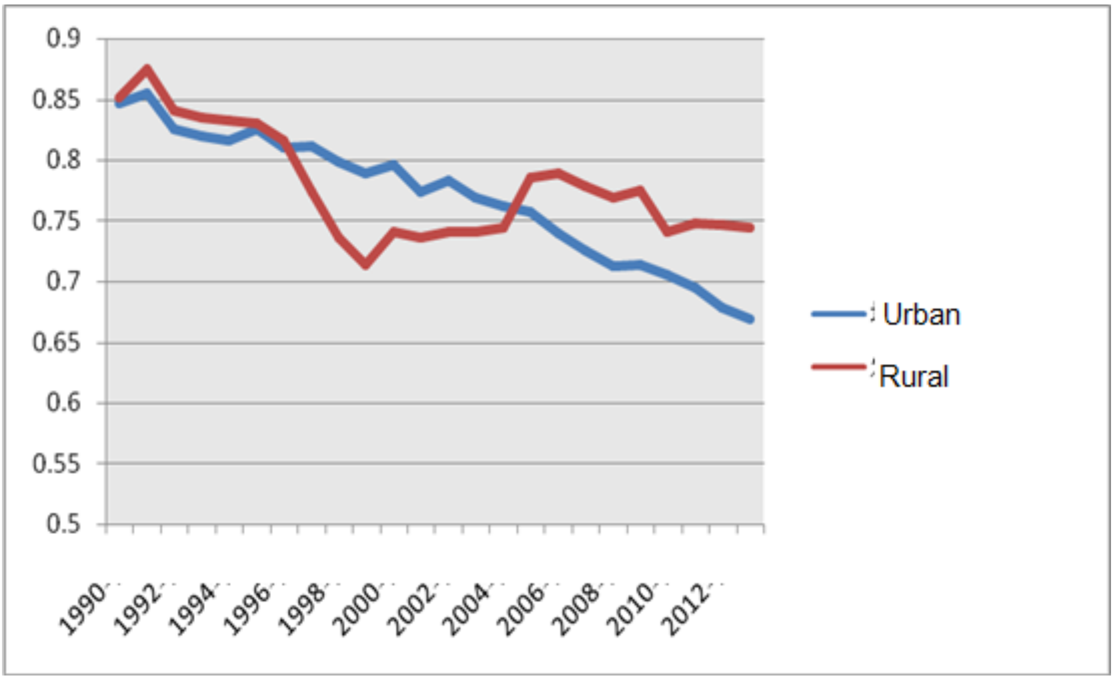
Over recent years, efforts were made by the Government at all levels to better control the situation. The Urban-Rural income gap[25] has shown some clear signs of improvement, as to be seen below, and the overall Gini coefficient had decreased to 0.47 in 2015 after reaching a peak of 0.49 in 2008-2009.

Graph 7. Urban-Rural income gap



There are numerous indicators pointing to the persistence of residual poverty and substantial income inequality in urban and rural areas of China, one of them being the evolution over time of propensity to consume in both groups. The corresponding graph[25] seems to show that, in rural areas, propensity to consume does not decline as much as it did in urban areas at least from the year 2000 – which may be partly attributable to the lack of efficient, high-standard social security protection in rural areas, where in a context of demographic ageing expenses related to health and daily subsistence for the elderly are not always efficiently taken over by collective or family solidarity.

Graph 8. Propensity to consume



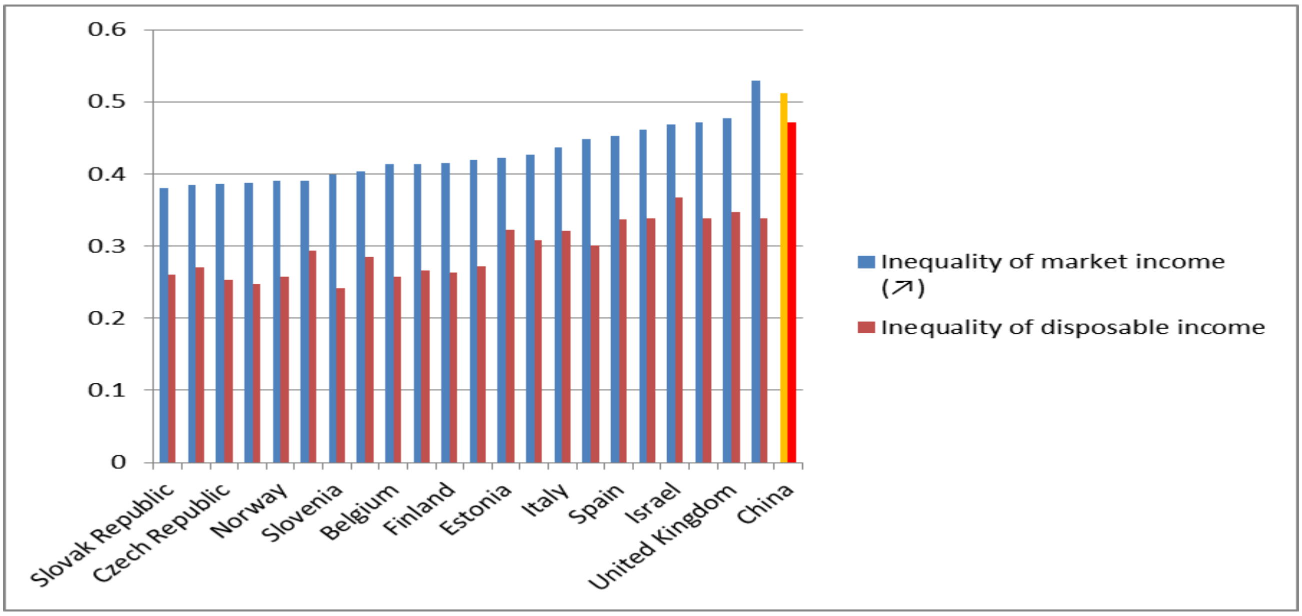
Social security provisions still play a measurable, albeit limited redistribution role in China. The following table[25] details the effect of redistribution through taxes and social security policies, achieving a decrease in income inequality of some 4.5 percentage points (2013 data), with a decrease in Gini coefficient from 0.5174 to 0.47203 (- 9%). The most important contribution to this reduction in inequalities is attributable to the pension system for urban workers, representing 6 out of the total of 9% reduction. This is no doubt due to the pension formula that grants a higher replacement rate for lower range of remunerations through its predominant pooled component.

Table 7. Redistributive effect of transfer income, 2013

	Gini	Change in Gini	%
Market income	0.51740		
+ Public transfers	**0.47203**	**-0.04564**	**-8.82**
+ Urban workers' pension	0.48691	-0.03076	-5.95
+ Urban residents subsidy	0.48366	-0.00325	-0.63
+ Rural residents subsidy	0.48098	-0.00269	-0.52
+ Other pension	0.48040	-0.00058	-0.11
+ Dibao	0.47848	-0.00192	-0.37
+ Social relief	0.47741	-0.00107	-0.21
+ Other relief	0.47657	-0.00084	-0.16
+ Rural medical reimbursement	0.47568	-0.00090	-0.17
+ in-kind subsidies	0.47519	-0.00049	-0.09
+ Various agricultural subsidies	0.47203	-0.00315	-0.61

The relatively limited impact of social security provisions in addressing income inequalities in China is in fact best evidenced through international comparisons. The following graph[26] thus shows that, in regard of a sample of countries from the European region having adopted different types of social security financing and benefits systems, China appears as a country where inequality of market income is almost maximum – second only to the United Kingdom – while the reduction in inequality through social security and other welfare measures is indeed minimal – among OECD countries, comparable only to the situation prevailing in Chile (high inequality, low redistribution).

Graph 9.Redistribution effects of social security and welfare

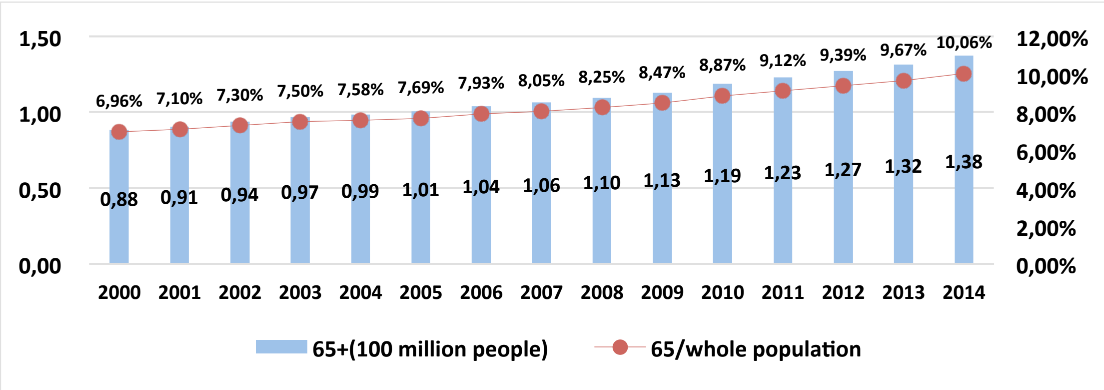


The challenge of ageing

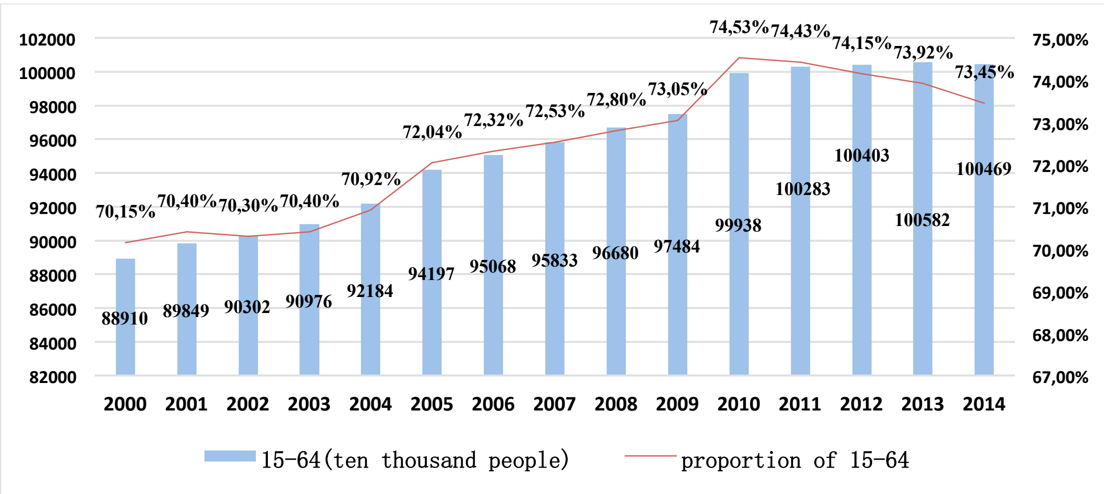
For a number of well-known reasons, combining improvements in life expectancy and decreases in birth rates, the population aged 65 and above in China has experienced a continued and important growth since the year 2000, reaching in 2014 some 140 million persons, i.e. 11% of the population. At the same time, the population in age range between end of compulsory learning and late retirement (15-64) has indeed increased over the same period, but its relative importance appears to be decreasing since 2010[27].

Graph 10. Quantity and proportion of the population (2000-2014)

A. Population aged 65 and above



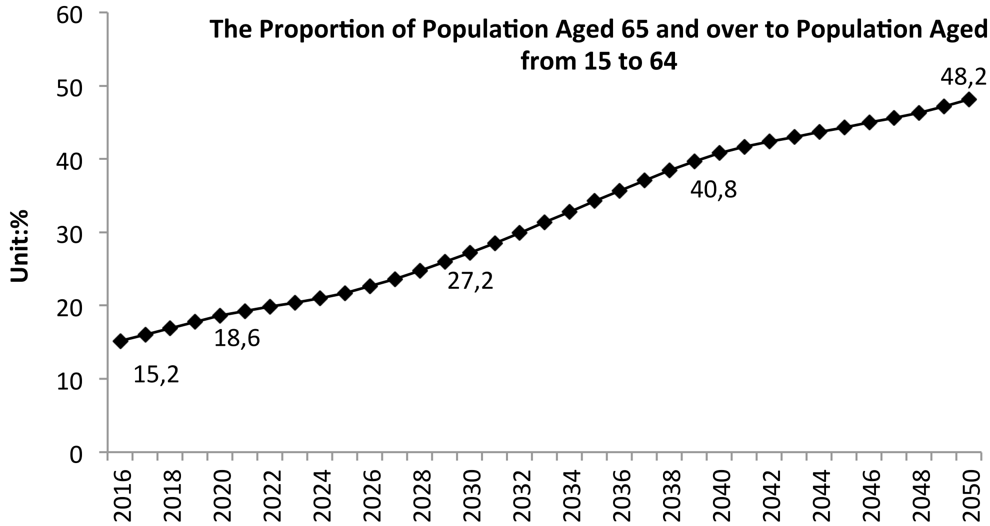
B. Population aged 15-64



When projected into the future[28], this evolution mechanically translates into a steadily deteriorating old-age dependency ratio, i.e. and increase in the population aged 65 and above to the population aged 15 to 64[29]. Hypothesis retained by the National Health and Family Planning Commission thus point to a situation where, in the year 2050, the proportion of persons aged 65 and above will be practically half of those aged 15 to 64. Table and graph below detail figures in this respect.

Table 8 and Graph 11. Forecast of China population and structural changes (2016-2050)

Year	**Total Population (million persons)**	**Proportion (%)**		**Proportion (%)**	
		15-59	**15-64**	**Aged over 60**	**Aged over 65**
2016	1382.226	66.7	72.3	16.6	11.0
2017	1391.117	66.2	71.6	16.9	11.5
2018	1399.267	65.6	70.9	17.3	12.0
2019	1406.647	65.1	70.3	17.7	12.5
2020	1411.791	64.6	69.8	18.2	13.0
2025	1422.139	61.8	68.6	21.7	14.9
2030	1417.923	58.8	66.8	26.2	18.2
2035	1404.096	57.3	64.9	29.9	22.2
2040	1382.710	55.9	62.3	31.9	25.4
2045	1352.836	53.9	60.8	33.8	26.9
2050	1313.198	50.2	59.2	37.5	28.5

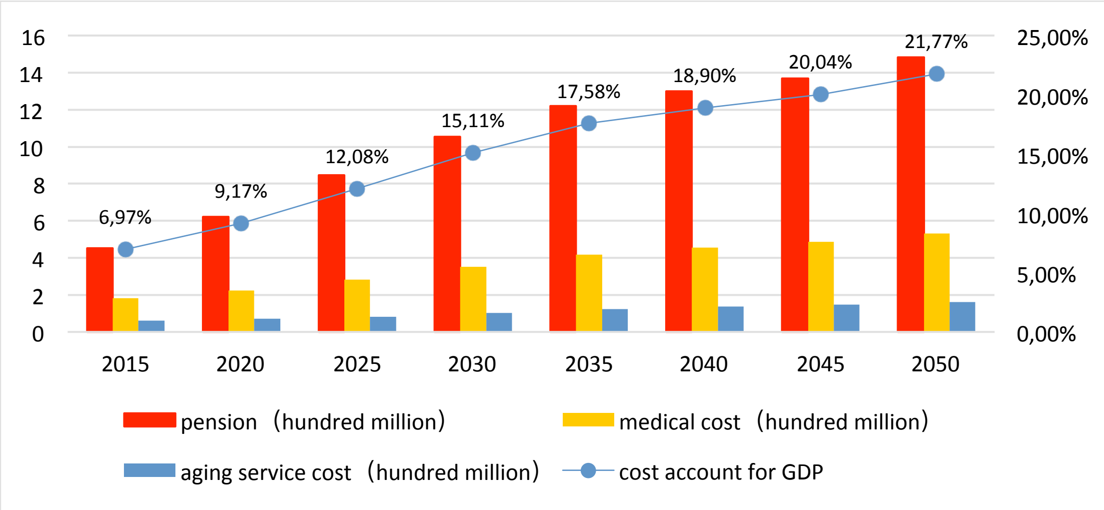


This prospective situation of course raises doubts on the capacity of a pension system mostly based on pay-as-you-go PAYG provisions financed out of income-based contributions supplemented by Government subsidies, to remain viable in the medium if not long term, which will be duly contemplated in the following section of this document.

However, the cost of population ageing is not limited to that of old-age security, as shown in the graph below[27].

According to these predictions, over the next 35 years, the cost for old-age pension, the cost for services to the elderly (including but not exclusively residential care) and the cost for medical care would amount to some 22% of GDP as against just 7% in 2015, thus starting to catch up with lower levels already reached in EU countries[30]. Not surprisingly, pension expenses will represent the bulk of the cost, reaching to almost 15% of GDP in 2050 as against less than 5% currently, but the combined effect of increases in service and health care for the elderly is not negligible, since it will reach to 7 to 8 % of GDP, which is more than the current expenditure for pensions.

Graph 12. Estimate of the cost of population ageing, 2015-2050



The Chinese government is well aware of this latter phenomenon, and special insurance schemes providing for long term care for the elderly are currently being tested across China[31].

It is also to be noted that, in the context of the New Normal Economy[32] where growth is to be more centred on internal demand and the service industry, the perspective opened on the "greying economy" is to be welcomed. As a matter of fact, ensuring a better and higher level of social protection to a growing proportion of an aging population may represent an opportunity for sustainable economic development.

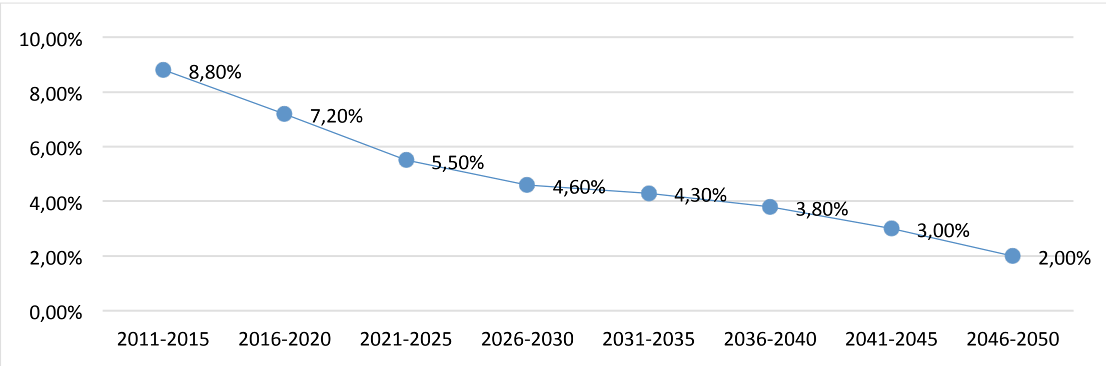
If this path is taken, current predictions according to which prospects for GDP growth would unavoidably deteriorate with – notably – the decrease in labour force (for which replenishment via international migration is not yet considered as an option in national simulations) might prove to be overly pessimistic – with as a consequence the share of the cost of ageing for the economy being over-estimated.

Economic Affordability

Demographic ageing may further affect GDP growth in China, which marginal increase is shrinking over the years due to difficulties in keeping access to foreign markets or accessing new markets, in a context of global competition where national productive costs increase with overall national wealth and standards of living. An ageing population being more inclined towards consumption than savings, resources for investment opportunities may also be shrinking, which may affect further the economic potential for growth. China has established a Strategy research team dealing with population ageing that estimated in 2014 that, while GDP growth would decrease to 4% in 2050 through mechanic factors, it would be further down to 2% if ageing is taken into account.

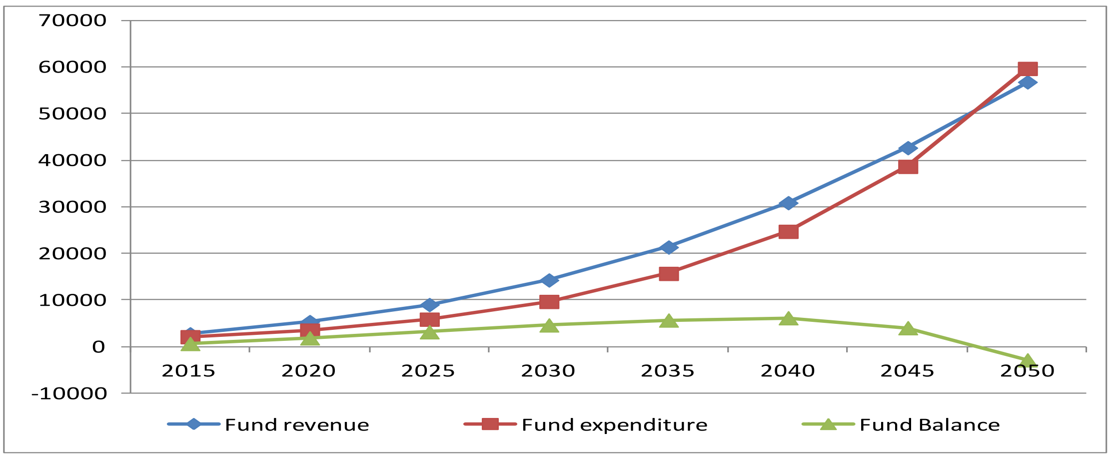
According to these assumptions, the evolution of GDP growth in China over the next 35 years would be as shown in the following graph[27].

Graph 13. Anticipation of GDP annual growth rate (2011-2050)



Under such a scenario, accompanied by an anticipated relative and perhaps absolute decrease in the labour force (see graph 10 B above), forecasts are being elaborated[33] predicting that just before 2050 expenditure will surpass revenue for the basic pension system for urban employees, which sustainability is thus formally questioned.

Graph 14. Revenue and expenditure of the Urban employees' pension scheme (2015-2050)



In fact, if public financial subsidy is not included, currently most of the provinces have undergone deficits in terms of Pension fund balance. In 2015, there were in total 24 provinces where pension expenditure exceeded contribution revenue collected (see table below[34]).

Table 9. Balance of Contributions vs Expenditure in the Pension fund for Urban Employees in Different Provinces (Total Contribution minus Total Expenditure), 2015 (billion ¥)

PROVINCE	BALANCE	PROVINCE	BALANCE	PROVINCE	BALANCE
Guangdong	79.760	Yunnan	- 3.091	Inner Mongolia	-16.253
Beijing	51.331	Anhui	- 3.426	Shaanxi	-17.102
Zhejiang	17.240	Qinghai	- 3.604	Shanghai	-20.362
Jiangsu	11.768	Hainan	- 4.995	Hunan	-21.357
Shandong	3.005	Gansu	- 7.997	Henan	-23.370
Fujian	1.910	Jiangxi	-11.043	Jilin	-23.942
Tibet	0.369	Xinjiang P&C	-11.065	Sichuan	-27.567
China Agricultural Development Bank	0.092	Tianjin	-12.447	Hubei	-32.476
Guizhou	-0.043	Shanxi	-13.296	Hebei	-33.419
Xinjiang	-0.390	Guangxi	-13.666	Heilongjiang	-56.114
Ningxia	-2.705	Chongqing	-16.084	Liaoning	-69.298

It is worth noting that the 2050 "overall deficit" would occur at a time when what is commonly called the "history debt" of the pension fund, i.e. the payment of pensions to workers having retired before the inception of the new system ("old workers") or before it was fully operational ("transition workers") would have disappeared, as shown in the graph below – this dramatic decrease in 'free crediting' of insurance periods being apparently insufficient to secure a sustainable future for the Fund.

This said, the worrying trend thus identified could probably be mitigated if not avoided, through the adoption of a set of measures to improve resources and limit expenditure under the pension funds such as:

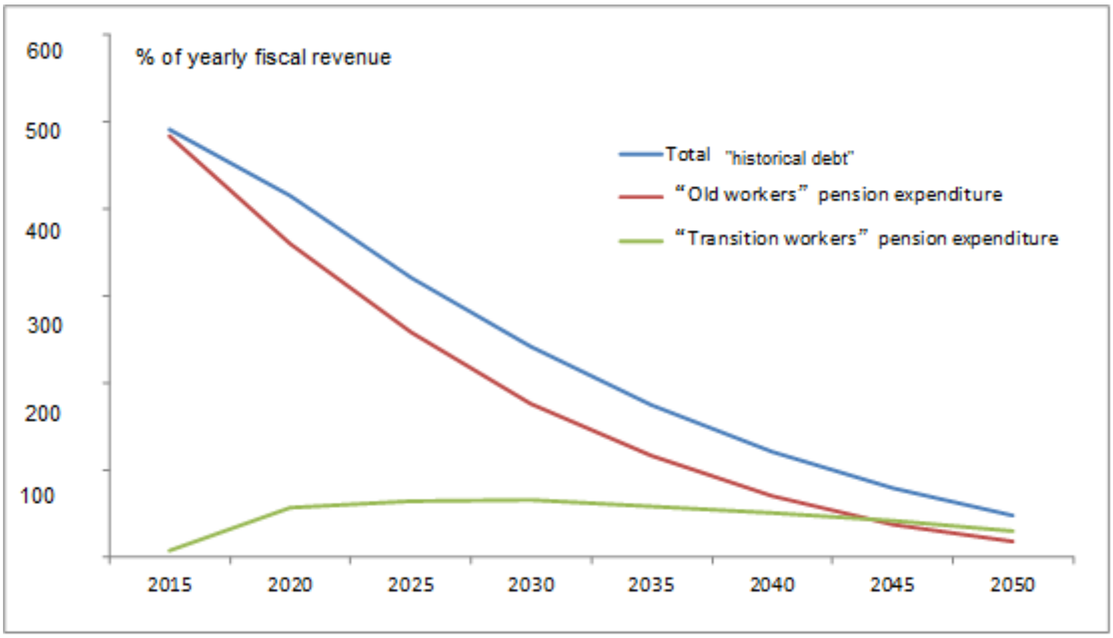
i. identification of alternative sources of financing,
ii. adjustment of pension formula to react to demographic factors,
iii. review of qualifying conditions towards incentives to longer contributory careers[35],
iv. improvement in the scope of personal coverage.

Concerning the first factor, a Government reserve fund is being constituted, representing 10% of the stock exchange value of state owned entreprises – essentially to cope with the cost of the so-called "historic debt" – see graph 15 below - i.e. that of retirement pensions to workers who had started their eligible career before the introduction of contributions. Those workers were mostly employed in State owned entreprises.

The latter factor would correspond to a better enrolment in the urban employees' pension scheme for categories until now insufficiently covered, including through upgrading the capacity of the scheme to attract new contributors[36].

It would also seem reasonable, as indeed advocated by the State Council, to promote the implementation on top of the basic pension scheme of second and third pillar schemes (supplementary pension schemes) that would directly address the needs and expectations of better off workers, to achieve higher replacement rates[37].

Graph 15. Extinction of "history debt" in Urban employees' pension scheme



Conclusion

The 13th Five-year plan for National economic and social development of the People's Republic of China (2016-2020), to which the project contributed[38], fully embodies the critical features that were just detailed in the preceding sections of this document. While the 12th Five-years Plan (2011-2015) allowed for the spectacular expansion of the social security system both for urban and rural resident and employees, it is expected that the current Plan will ensure the consolidation, integration and, when necessary, reforming of the said system.

The table below[39] details the commitments of the Plan for social security reform (chapter 64) in the context of an aging society (chapter 65). It further relates those Commitments to the challenges that were just summarily described, and to the results assigned to the present EU-China Social protection reform project, Component 1.

Table 10. Social insurance commitments of the XIIIth Five-year Plan

XIII^TH FIVE YEAR PLAN COMMITMENTS	CORRESPONDING CHALLENGES	MATCHING PROJECT EXPECTED RESULTS (C.1)
- Ensure complete coverage ○ Universal and effective coverage	SYSTEM FRAGMENTATION	1.4 RURAL-URBAN INTEGRATION & VESTING
- Make the system more attractive ○ Target particular groups (migrant workers, flexible employment) ○ Strengthen development of public service facilities and information platform ○ Take initiatives concerning use of social security cards	SYSTEM ATTRACTIVENESS	1.1. IMPROVED INTER-AGENCY COOPERATION
- Guarantee sustainability ○ Ensure actuarial balance ○ Perfect funding mechanisms ○ Clearly establish respective responsibilities of Government, entreprises, individuals ○ Reduce insurance premium for entreprises ○ Use portion of state assets to replenish social security funds, expand channels for investment, strengthen risk management	ECONOMIC AFFORDABILITY	1.2. POLICY DEVELOPMENT & EVALUATION
- Improve pension benefit levels ○ Enhance basic old-age insurance (social pooling and individual accounts) ○ Establish multi-layer old-age insurance system ○ Place social pooling under unified management ○ Improve individual accounts system, establish incentive/restraints on basic pensions, regularly adjust basic pensions	LOW LEVEL OF PROTECTION	1.3 FULL COVERAGE THROUGH OLD AGE INSURANCE
- Broaden scope of coverage ○ Launch pension schemes that allow for deferred payment of individual income tax ○ Better use Unemployment insurance, Work injury insurance, establish flexible contributions ○ Make transferability easier	REDISTRIBUTIVE EFFECT	1.1. IMPROVED INTER-AGENCY COOPERATION
- Population ageing (chapter 65) ○ Support two-children policy ○ Facilitate employability of elder workers ○ Gradually increase retirement age	THE CHALLENGE OF AGEING	1.2. POLICY DEVELOPMENT & EVALUATION

European social security schemes have accumulated, over the years, substantial experience in related areas. The Project Component 1 has been and will continue being instrumental in allowing access to that experience, and in facilitating high-level dialogue and exchanges between European experts and institutions in all areas of common interest for a successful social security reform in China.

In that respect, the Component 1 Project team prepared a set of technical Notes presenting aspects of particular relevance in the European experience of social security pension schemes and their reforms, which will hopefully help in mutual understanding of respective Chinese and European situations, so as to increase the efficiency of project facilitated bilateral and multilateral cooperation in the realm of pension reform.

Jean-Victor Gruat, 4 September 2017 v.5

[1] Source: National bureau of Statistics NBS, Ministry of Human resources and social security MoHRSS (Annual statistical bulletin)

[2] Economic replacement rate of pension benefits: ratio between amount of benefit and GDP per working capita

[3] Contributions cannot be expected to be strictly proportional to wages, since i. there is a minimum (60% of average wage) and a maximum (300% of the average wage) on the basis for contributions; and, ii. employers are not required to contribute for all workers to all branches of social protection (there are for example exemptions for the construction industry in the area of occupational accidents – special provisions).

[4] Whereas the ceiling on contributions at 300 % of the average social wage may be viewed at limiting the burden on entreprises and individuals, the minimum contributory level at 60% of the said average may conversely be viewed as adding to the costs in those branches where employment of workers with low qualifications is predominant. In any event, the basis for contributions – and hence for individual benefits – includes only the base – or social – salary, whereas premiums, bonuses, fringe benefits may represent a very important proportion of remuneration (cases of 4:1 proportion between full remuneration and base salary are frequently mentioned).

[5] Source: EU-China SPRP project report, Dong Keyong, Sun Bo, Wang Gengyu, Multi-tiered design of pension systems, Beijing 2015.

[6] Source: EU-China SPRP project report, Zheng Gongcheng, Evaluation of Social security policies in China, Beijing 2017 (forthcoming).

[7] Source: Zhen Li, The basic old-age insurance of China: Challenges and countermeasures, paper submitted for the World Pension Summit 2013.

[8] In European notional defined contribution schemes, the total wage bill is usually described by experts as an index preferable to average wages. It has also to be noted that in China amounts on accounts yield no interest after retirement – and that the amount of benefit resulting from the actuarial factor is currently not indexed after its initial calculation.

[9] This is different from the part of the pension linked to the workers' individual accounts. As a matter of fact, the introduction in the "pooling formula" of an element related to the workers' contributions over the last year affected the "purity" of two, until then, very distinct components – that made the Chinese scheme resemble successful experiments in a few highly developed economies (Switzerland, Quebec) where pension benefits are composed of a solidarity, flat rate component combined with a savings component, based on individual contributions.

[10] For example, the "legal" rate of contributions for basic pension – 20% employer, 8% employee – is applied in Beijing, but not in Shanghai – 22+8 – or in Guangzhou – 14+8 . Affluent, coastal regions where a high proportion of workers come from other Provinces, justify lowering the rate of contributions for the "pooled component" of the pension precisely because they would never have to pay this share of the pension to migrant workers retiring back at their place of origin, since the corresponding amount of contributions is not being transferred to those Provinces of origin, to finance the cost attributable to incoming retirees. Individual accounts though are transferrable.

[11] In 2017, China administers 33 provincial-level regions, 334 prefecture-level divisions, and 2,862 county-level divisions. In the EU-China SPRP project report "Reform of China's Social insurance administration service system" (Beijing 2015), Tan Zhonghe mentions that in 2013, 5 Provinces, 108 Municipalities and 1397 Counties had set up specialized entities for managing social insurance independently of other Government activities. Otherwise, there are some 8300 administrative settings performing duties related to social insurance (specialized by risk, local or in entreprise).

[12] During a mission to Guangdong Province conducted by the EU-China SPRP, local authorities noted that "While in theory Guangdong operates on the basis of provincial social pooling, the provincial level intervenes only to collect surplus and make good for deficits at the city level. Thus, there are still some 24 de facto pooling areas, hence a great number of transfers including within the Province." (source: Project internal mission report)
[13] As of 1 July 2017, 100 Yuan RMB were worth approximately 13 Euros.
[14] EU-China SPRP publication, Beijing 2017, Michele Bruni: China in Figures – Economic growth and demographic trends, a Province perspective
[15] From Matthew Hartzell, 2013, Maps for internal China migration http://matthartzell.blogspot.com/2013/09/chinese-domestic-migration-map.html
[16] Source: Ministry of Human Resources and Social Security, Statistical Bulletin, http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201605/t20160530_240967.html
[17] Source: Fang Lianquan Rural Pension Reform in China: Lessons from Latin American Countries, 2016, data updated by the author for recent years based on national and MoHRSS statistics
[18] Source: EU-China SPRP project report, Dong Keyong, Sun Bo, Wang Gengyu, Multi-tiered design of pension systems, Beijing 2015.
[19] Source: EU-China SPRP Project report, Component 3, Gang Shuge & Guo Yu, Experiences on unified standards for calculation of social assistance benefits, Beijing 2015
[20] There are cases of double affiliation (urban employees scheme, rural resident scheme), with migrant workers registered as workers under the Urban employees' pension scheme, and as rural residents under the relevant pension scheme, the latter being a condition for the payment of compensation by the Government in case of deprivation from usage of agricultural land within the framework of urban development projects.
[21] Sources NBS and MoHRSS statistics
[22] Source: EU-China SPRP Project report, Zheng Bingwen, Financial sustainability of pension schemes in China, Beijing 2016.
[23] Discussions are on-going in China on the possible use of State industrial assets' value to "replenish" individual accounts See EU-China SPRP Project report, Song Xiaowu, Evaluation of the combination of social pooling and individual accounts techniques in the pension scheme for urban employees, Beijing 2015.
[24] This corresponds in 2013 to a little bit more than 2000 RMB yuan per month – PPP index 3.545, exchange rate 6.196. For developing economies like that of China, the usual threshold is 1.90 $ a day in PPP. Data from http://povertydata.worldbank.org/poverty/country/CHN and https://data.oecd.org/conversion/purchasing-power-parities-ppp.htm
[25] Source: EU-China SPRP Project report, Li Shi, Redistributive effects of social security system in China, Beijing 2016
[26] Sources: EU-China SPRP Project report, Jean-Yves Hocquet, Relations between Employment and Social security policies in Europe, Paris 2016 and Li Shi (2016)
[27] Source: EU-China SPRP Project report, Dong Keyong, Impact of Demographic ageing on social security policies in China, Beijing 2016
[28] Source: EU-China SPRP Project report, Zhang Juwei, Relations between labour market and pension reform in China, Beijing 2016
[29] The lower age limit of 15 is traditionally taken as starting age to be counted in the active population. However, with progress in instruction and other factors such as difficulties in finding a first suitable employment, the age at which students actually join the labour market is closer to 25 than to 15, which may contribute to a further deterioration of the above-mentioned old-age dependency ratio.
[30] See Hocquet (2016). In 2012, the net social protection expenditure represented on average 25% of GDP in the EU27 countries – ranging between 15 and 35%.
[31] One of these schemes is being tested in Shanghai. See EU-China SPRP Project presentation, Pu Haihong, Counter measures study against aging problem in Shanghai, in Perspective of Employment policy and social security reform 2016-2020: Report of the 2016 High Level Event, vol.I, Beijing 2016.
[32] Chinese President Xi Jinping coined the "new normal" economy for China in February 2015 as "a crucial rebalancing, one in which the country diversifies its economy, embraces a more sustainable level of growth, and distributes the benefits more evenly"- Hu Angang, Foreign Affairs magazine, May-June 2015.
[33] Source: EU-China SPRP Project report, Zheng Bingwen, Financial sustainability of pension schemes in China, Beijing 2016.

[34] Source: China Pension Report 2015, The Centre for International Social Security Studies at Chinese Academy of Social Sciences

[35] These possible “parametric reforms” are currently under review by the SPRP project team and experts.

[36] Among factors of attractiveness one may quote: improving and guaranteeing the proportion of real assets in individual accounts; improving the rate of return on amounts invested in individual accounts; establishing a better linkage between contributions and benefits; providing for bridges between the various schemes and for easier and full vesting among pooling areas; linking contributing to pension schemes with access to more immediate benefits related to health, disability, survivors, family support etc.

[37] See EU-China SPRP project report, Dong Keyong, Sun Bo, Wang Gengyu, Multi-tiered design of pension systems, Beijing 2015.

[38] See EU-China SPRP Project report, Tan Zhonghe, Research Report on Development of China’s Old-age Insurance for the 13th Five Year Plan period, Beijing 2015. NDRC, which is the main Chinese stakeholder for the Project, is also the body responsible for the Plan.

[39] Author’s presentation. The full text of the XIIIth Five-year Plan can be accessed from http://sprp-cn.eu/XIIIFive-YearplanEn.pdf (Chinese version: http://sprp-cn.eu/XIIIFive-YearplanCn.pdf)

SELECTED MAJOR SOCIAL SECURITY PENSION REFORMS IN EUROPE, 1995-2014 *Source: ISSA Databases*

COUNTRY	AREA	YR	SUMMARY OBJECTIVE	POSSIBLE EVALUATION CRITERIA*
United Kingdom	Pensions	2014	Replacing public pensions 2 tiers by flat rate, accelerate increase in raising retirement age, automatic vesting small accounts (DC)	- Actual pension amounts - Cohorts retiring - Activity rates elder workers
Spain	General	2014	New system contributions collection (direct billing)	- Improved revenue
Spain	Pensions	2014	Pension reform (indexations, sustainability factor)	- Level of benefits - Balance of the scheme - Standards of living pensioners
Ireland	Pensions	2014	Early retirement eliminated, increase in retirement age	- Cohorts retiring - Activity rates elder workers
Germany	Pensions	2014	Benefits improved for workers with long careers, pension credits for children	- Cohorts retiring - Average pension benefit - Life expectancy workers arduous occupation
France	Pensions	2014	Pension reform (slight increase contribution rate, longer qualifying period, taxation some benefits, changes in indexation)	- Actual retirement age - Balance pension insurance
Czech republic	Pensions	2013	Change pension indexation method (1/3 of CPI, 1/3 wage growth), create 2nd pillar voluntary individual accounts (private)	- Cost of adjustments - Standards of living pensioned (soc.assistance) - Enrolment rate 2nd pillar - Contributions paid 2nd pillar - Cost of running 2nd pillar programme
The Netherlands	Pensions	2013	Increase retirement age and years of coverage	- Cohorts retiring - Activity rates elder workers
Luxembourg	Pensions	2013	New pension law – long term viability (demographic concerns) (accumulation rate, incitation to extend working life)	- Actual retirement age - Replacement rates - Activity rates elder workers - Financial balance
Lithuania	Pensions	2013	Change in contributions allocation (increase share for 1st pillar) (opting out from 2nd pillar)	- PAYG balance - Contributors 2nd pillar
Greece	Pensions	2013	Measures to reduce expenditure (retirement age, decrease « high » pensions, decrease retirement bonus for low pensions)	- Balance of pension fund
Slovenia	Pensions	2013	Increase retirement age	- Cohorts retiring - Activity rates elder workers
Latvia	Pensions	2012	Raise retirement age, increase qualifying period	- Cohorts retiring - Activity rates elder workers

COUNTRY	AREA	YR	SUMMARY OBJECTIVE	POSSIBLE EVALUATION CRITERIA*
Hungary	Pensions	2012	Early retirement measures eliminated (long career, arduous work)	- Cohorts retiring - Activity rates elder workers - Life expectancy arduous occupations
Switzerland	Disability	2012	New methods for assessing disability	- Less appeals in Court - Average disability rate
Sweden	Pensions	2012	Assessment of fund investment	- Yield, liquidity, safety, managerial costs
Slovakia	Pensions	2012	Contributions to 2nd pillar reduced, possibility to opt out	- Improved PAYG
Romania	Pensions	2012	Guarantee fund for 2nd and 2rd pillars	- Actual pensions in payment
Portugal	Pensions	2012	Early retirement suspended	- Balance pension system - Activity rates elder workers
France	Pensions	2012	Earlier retirement age for certain categories (point system)	- Actual retirement age - Life expectancy arduous occupations
Denmark	Pensions	2012	Scale down Government subsidies to voluntary early retirement programme	- Cohorts early retirement - Activity rates elder workers
Bulgaria	Pensions	2012	Increase in retirement age	- Nb of new OA pension awards - Activity rates older workers
Austria	Pensions	2012	More private voluntary pension options (Pensionskassen)	- Actual number of plans - Vesting
Italy	Pensions	2011	Increase retirement age (also in 2012)	- Cohorts retiring - Activity rates elder workers
Poland	Pensions	2011	Contributions 2nd pillar diverted to 1st pillar	- PAYG balance - Replacement rates
Finland	Pensions	2011	New guaranteed monthly minimum pension	- Number of beneficiaries
Czech Republic	Pensions	2011	Pension reform (2nd pillar, retirement age, benefit formula)	- Cost public pension system - Replacement rates - Activity rates elder workers
Bulgaria	Pensions	2011	Measures to reduce deficit	- Effects on financial imbalance - Effects on scope of coverage
Greece	Pensions	2011	Package of austerity measures	- Financial effects - Effects on elderlies' standards of living - Effect on actual age of retirement - Effect on youth unemployment
Hungary	Pensions	2011	Refinancing public sector through transfer from private funds,	- Effects on public pillar financial balance

COUNTRY	AREA	YR	SUMMARY OBJECTIVE	POSSIBLE EVALUATION CRITERIA*
			separating social care from state pension	- Actual transfer of membership - Situation of social care beneficiaries
Belgium	Pensions	2010	Change employers' contributions for voluntary pre-retirement scheme (flat rate instead of decrease with age)	- Activity rates elder workers
Romania	Pensions	2010	Reform to reduce deficit (special pensions, early retirement, disability assessment)	- Financial balance - Activity rate older workers - Invalidity pensions, number and level
Estonia	Pensions	2010	Increase in retirement age (between 2017 and 2026, up to 65 years)	- Cohorts new retirees - Activity rates elder workers
France	Pensions	2010	Delaying transition from work to retirement	- Effects on actual retirement age - Effects on life expectancy - Effects on elder workers' health status - Financial effects
Switzerland	Disability	2010	Facilitate social and labour reinsertion of disabled in lieu of pension	- Impact on employability - Effects on disabled standards of living - Cost-benefits analysis
UK	Pensions	2010	Qualifying conditions for state pensions: less years, older age	- Actual retirement age - Effects on youth unemployment - Financial impact
Spain	Pensions	2008	More stringent qualifying conditions for full pension	- Effects on actual retirement age - Effects on disability pensions - Effects on youth employment - Financial effects - Impact on elderlies' health status
Malta	Pensions	2008	Increase retirement age, opting out of labour market if early retirement	- Actual retirement age - Activity rates elder workers
Finland	Pensions	2007	Amalgamation of private sector pension plans	- Effects on level of benefits - Managerial costs
UK	Disability	2006	Help sick and disabled people to manage their conditions, move off benefits and return to work.	- Effect on employability - Cost benefits analysis
France	Invalidity	2005	Improve compensation for the disabled, facilities, accessibility,	- Clients' satisfaction

COUNTRY	AREA	YR	SUMMARY OBJECTIVE	POSSIBLE EVALUATION CRITERIA*
			reemployment	- Financial effects – collective and on private income - Effects on employability - Actual accessibility to benefits and structures
Slovakia	Pensions	2005	Introduction of funded mandatory second pillar (savings)	- Financial impact - Enrolment - Effects on labour mobility - Effects on labour cost
Austria	Pensions	2004	All insured with 45 years of insurance and 65 years of age receive 80% of life long earnings	- Effects at the margin - Pre and post retirement poverty status
Denmark	Pensions	2004	Discourage early retirement	- Effects on elder workers' employment - Effects on youth unemployment - Effects on elderly standards of living - Effects on life expectancy
Italy	Pensions	2004	Reduced access to early retirement	- Effects on financial balance - Effects on actual retirement age - Effects on elderlies' standard of living - Effects on youth unemployment
Finland	Pensions	2003	Increase flexibility in retirement, decrease early retirement	- Effects on actual age at retirement - Effects on youth unemployment - Effects on elderly income - Effects on life expectancy - Financial balance
Ireland	Pensions	2002	Introduction of pension retirement savings accounts for all without employers' arrangements	- Effects on pension coverage - Effects on labour mobility - Effects on labour costs
Spain	Pensions	2002	Make retirement a more gradual process	- Impact on labour market - Impact on elderlies' activity rates - Impact on labour costs

COUNTRY	AREA	YR	SUMMARY OBJECTIVE	POSSIBLE EVALUATION CRITERIA*
Belgium	Pensions	2001	Guaranteed income for elderly introduced	- Effect on elderly poverty - Financial monitoring
Belgium	Pensions	2001	Strengthening complementary pension system	- Scope of coverage beyond current 30%
United Kingdom	Pensions	2001	Replace widows' benefits with bereavement benefits	- Effects on poverty levels among widow(er)s - Effects on labour market - Financial effects
Slovenia	Pensions	2000	Disincentive for early retirement, incentives for private pension plans (voluntary)	- Impact on actual retirement age - Effects on youth unemployment - Enrolment
Poland	Pensions	1999	Introduction of mandatory pension funds	- Actual membership - Effects on benefits - Economic effects (investment) - Effects on labour mobility
Italy	Disability	1998	Disability pensions replaced by "minimum livelihood"	- Effects on disabled standards of living - Impact on numbers of beneficiaries - Monitoring and administrative mechanisms - Financial impact
Luxembourg	Pensions	1998	Reduce cost of public sector pensions, convergence with private sector	- Financial effects - Effects on cross-sector labour mobility
Netherlands	Disability	1998	Employers have the possibility to self-insure employees	- Effects on levels of coverage - Effects on numbers of beneficiaries - Effects on labour market - Financial effects
Italy	Pensions	1995	Introduction Notional defined contributions	- Actual replacement rate - Financial balance
France	Governance	1995	Restructuring social security, increasing Parliament's overview, reforming health care access, reforming financing	- Actual implementation - Financial effects - Effects on access to benefits - Effects on democratic management

Author's interpretation *Jean-Victor Gruat, July 2015.*

COMBATTING FRAUD AND PREVENTING ERRORS

IN SOCIAL SECURITY

Component 1

The Chinese social security system growing economic and social importance makes it all the more necessary that no efforts be spared to ensure that public moneys and insured persons' or entreprises contributions invested in social security be duly accounted for, and spent in accordance with legal provisions. Further, to ensure both the sustainability and the public credibility of the system, public authorities need to eb in a position to guarantee that, to the extent possible, all those amounts due to social security by entreprises or individuals are duly collected, and that only those legitimately accrued benefits are actually paid. Over the last decade, specific efforts and measures were made by Chinese social security administration to strengthen fight against fraud and errors under social security. The first EU-China Social security reform project supported these efforts, notably with Beijing municipality. The present Note summarizes some salient features of fight against fraud and error in European social security, which might be used as an inspiration for further improvements in Chinese social security governance.

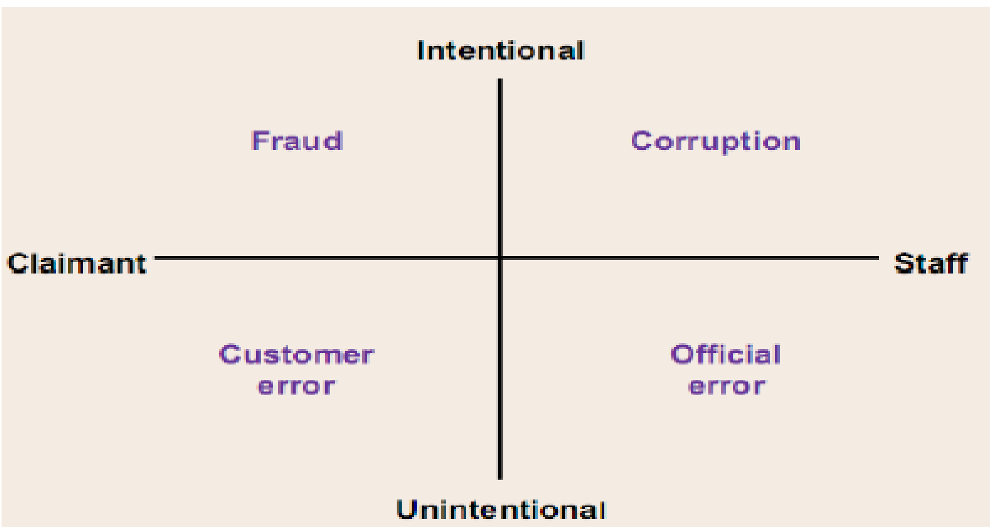
The magnitude of fraud (or errors) and its influence over social security finances (including use of staff time to address consequences) are not to be underestimated. According to a study submitted to the World Bank in 2007 (International Benchmark of Fraud and Error in Social Security Systems, RAND Europe) when data available, rates of fraud and error often range between 2 and 5% of benefit amounts which corresponds to amounts superior to typical management fees.

Although fraud and errors are usually counted jointly for statistical purposes, not all cases are the same – fraud or error may be or not intentional, it may be attributable to client, or to staff.

Taxonomy of fraud and error

Combating fraud takes place either as preventative action, as detecting action, or as deterrent action.

Taxonomy of fraud and error



Prevention

The most efficient preventative actions against fraud include the following, according to international experience:

- Launching Information campaigns
- Prepayment investigations
- Insisting on rights and obligations
- Detection
- Detecting fraud attempts is most efficiently conducted through:
- Gathering information from the public (tip-offs)
- Data-matching which includes crossing references within a scheme or across schemes
- Regular payment checks (controls)
- Risk-based assessments to organise reviews
- Random and time-based reviews
- Inter-agency compliance activities

Deterrence

Deterring tempted individuals – insured persons, beneficiaries, family members, enterprises, staff members – from attempting fraud may be obtained through:

Making punishment more severe, considering fraud or attempted fraud as criminal offence, expanding sanctions from those facilitating fraud to those using it or benefiting from it on equal footing – e.g. imposing same level of sanctions to sellers of fake social security documents and buyers of such documents

Publicizing potential sanctions, and actual sentences.

Tackling errors may be achieved either through upgrading skills levels and staff motivation, or through systemic upgrading.

Actions targeting staff

A powerful tool for limiting the number of errors committed by staff is to reward these staff in case of absence of errors (Results-based management approach)

Proper staff training and training oriented towards early identification and avoidance of errors and mistakes remains however the prominent means of achieving improvements in error limitation. This training or skills upgrading has to be coupled with a managerial organization ensuring that control, coaching and monitoring by higher level of the hierarchy is conducted as a daily operation in the vicinity of front line staff members, while managers themselves are being held responsible for non precociously detected errors or mistakes committed by staff under their supervision.

Systemic upgrading

Proper use of information technology is at the core of all efforts for limiting the occurrence or impact of errors

To be efficient in avoiding errors and mistakes, IT systems should reconcile at least four core characteristics, namely:

- reliability,
- comprehensiveness,
- uniqueness,
- self-detection.

Safeguarding against the risk of corruption

Corruption does not appear usually as a major cause for social security fraud in Europe.

Reasons for this low incidence include:

- Very precise eligibility criteria;
- Separation between assessment and payment;
- Protection of systems processing payments;
- High level of staff training, and high consideration to management;
- Investigators and reviewers not assigned cases where familiarity is suspected;
- Very active internal and external audits.

The Human - Machine Twinning

Combating fraud cannot be a matter of computers only. The use of computer technology in conjunction with human investigation greatly strengthens the latter, and makes it reach unprecedented levels of efficiency in fighting fraud and tackling errors.

The physical inspection notably of enterprises remains extremely efficient, even more efficient with computer support – a visit of an HR Department by someone accustomed to work in that area would usually allow for an immediate, instinctive detection of possible mishaps or misconducts, and this detection might be dramatically improved thanks to efficient customers' support.

Collaborative efforts

To efficiently combat fraud or detect errors, social security agencies should not work in isolation.

Partnership among social security agencies – Here, the intention is to share data concerning registration, the basis for contributions, information on benefit awards … among various social security institutions operating in the same realm, to ascertain that insured persons known to one scheme be known also to others

Partnership with other official bodies – A variety of other Government and official bodies have interest in collaborating with social security Agencies to also find support in their own combat against fraud (tax authorities, social welfare schemes, private insurance agencies, institutions keeping vital records, public security, etc.)

Partnership with enterprises – Automatic exchange of data and information is less costly to enterprises than manual processing, and entails less paper work for the social security institution. Automatic transmission of data also minimizes the risk of involuntary errors, permits to install safeguards in terms of automatic controls and warning signals in case of unlikely evolution over time, and allows for more sophisticated and systematic controls easily performed as desk operation by trained social security staff.

Partnership with other regions – The production of employment certificates from another region to support quick access to benefits, or the receipt and undue accumulation of benefits from various locations, or the declaration of unemployment in one city and that of work in another are all typical circumstances leading to fraud against the social security system as a whole. Exchange of data between Provinces or other pooling levels to better monitor migrant workers claims and records can prove to be a very efficient means of action to combat fraud and ensure early detection of fraudulent attempts.

The European institutional approach

At the European level, an agreement was reached on a format for safe and secure electronic transmission of data with the objective "to ensure that all the information exchanges currently taking place through the use of nearly one hundred paper E (European) forms (nearly 2000 E forms in total when taking account of the various language versions) will be undertaken by electronic means in 2009."

In 1999, a Code of conduct had been adopted for improved cooperation between social security authorities of the Member States concerning the "combating of transnational social security benefit and contribution fraud" and "undeclared work", as well as the "transnational hiring-out of workers".

Member States were to encourage cooperation between their competent bodies in respect of data transmission and requests for information, while protecting the right to privacy in the processing of personal data.

Recent national measures

A number of national measures were taken over the recent years, all aiming at giving force to the provisions embodied in the Code of conduct, and to help fulfilling its objective to combat social security fraud, notably through combating clandestine work.

Country Example 1 – Belgium

A data warehouse – joint data system – created within the framework of anti-fraud project between inspection services of various social security institutions and employment service.
Goal is to facilitate carrying inspection on the basis of indicators of potential fraud.
Joint control brigades established on local basis corresponding to one legal district
Targeting 4 sectors: Agriculture; Bars and Restaurants; Shops; Construction
Sources: http://www.epractice.eu/en/cases/oasis

Country Example 2 - United Kingdom

Four structures cooperate to fight against social security fraud: Benefit Fraud Inspectorate (central); Local Authority Investigation Officers Group; National Antifraud Network (exchange of data); Department for Work and Pensions Fraud Investigation team (undeclared work)

Have online fraud reporting form and 24-hour fraud hotline number

Sources: http://www.gateshead.gov.uk/Benefits%20and%20Council%20Tax/Benefits/Fraud.aspx

Country Example 3 – Bulgaria

Under a MATRA Project (accession countries, financed by Government of the Netherlands) promotion of fraud prevention approach through a triangle Labour, Benefits and Inspection (data sharing; focus on undeclared work)

Also includes a component to promote collaboration between social security agencies, the inspectorate, the police and the judiciary.

Sources: http://www.devco.government.bg/LANGen/public/portal/prj_view.php?id=2095

Country Example 4 - France

A national Committee and a National Delegation for Fraud Fighting (joint public body) were established grouping tax authorities, employment services, social security bodies.

Social security bodies may have direct access to third party information. Working on automatic data crossing within each institution, across institutions, between institutions and other bodies

Tougher penalties, with statutory minimum have been adopted under control of the National Committee on Computerization and Freedom.

Sources: http://www.securite-sociale.fr/institutions/fraudes/fraude.htm

Country Example 5 – Austria

Austrian Employers Federation and Workers' Union agreed that employers should be obliged to register workers with social security before commencement of work (special target: construction industry).

Organized tax and social fraud is considered as criminal offence (imprisonment up to 5 years against employers)

Sources: http://www.eurofound.europa.eu/eiro/2007/05/articles/AT0705019I.htm

Country Example 6 - Germany

Fraud fighting more focused on non declared work. Allegedly, 20% of those in receipt of unemployment benefits work undeclared.

Tools used are: Unemployed have hours were compulsorily at home to make control easier; More frequent home controls; Crossing tax and social security data; Establishing a special inspection body (6.000 inspectors for 3.000.000 unemployed): Controlling bank situation of beneficiaries.

Sources: http://www.cnas-icsw.org/sources/seminaires/synth_se_s_minaire_26.03.09.pdf

Country Example 7 - The Netherlands

Fight against undeclared employment. Private Banks have to supply the tax authorities with information on all savings accounts. Measures taken to legalize cash-at-hand part time work such as domestic workers.
Trade Unions act as partners of the Government in controlling that employers comply with legislation, especially not hiring undeclared workers
Sources:
http://bancadati.italialavoro.it/BDD_WEB/bdd/publishcontents/bin/C_21_Benchmarking_408_documenti_itemName_0_documento.pdf

Whichever its importance, fraud should however not lead to paranoia.

Systematic fighting against fraud should not run counter the fundamental objective of social security, which is to serve clients promptly, efficiently and accurately.

Furthermore, beyond fraud, clerical mistakes are also responsible for losses – and many clients make mistakes, without attempting to defraud the institution.

In that respect, computerization is useful to not only detect fraud, but also help staff apply the rules – and allow for workers as well as employers to better understand and respect those same rules.

Combating fraud is more than an ethical concern – it saves money, restores public confidence in social institution. Further, when conducted including through upgrading of IT systems, combating fraud or preventing errors represents a powerful vehicle for achieving overall improvement in governance records. Fraud affects all social security clients - All have therefore to be associated in anti-fraud programmes and strategies, which is per se positive for overall governance.

JV Gruat, 2010-2017

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1.1.3 Disability Benefit Policies

Component 1

In its Social security (minimum standards) convention, 1952, the International Labour Organisation recognizes invalidity as a social risk *per se*, which it defines as (art.54) the "inability to engage in any gainful activity, to an extent prescribed, which inability is likely to be permanent or persists after the exhaustion of sickness benefit". In China, protection against disability through social insurance – outside protection against occupational risks - is limited to the service of basic pension in case of full inability to work, which is not considered to meet the requirements of reasonably advanced international standards, notably as far as the conjunction of social insurance and universal non-contributory benefits is concerned (see Annex Key messages on Invalidity pensions by the International Labour Office). The following Note therefore submits to decision makers and researchers a summary of advanced contemporary doctrine around protection against disability in advanced economies including in its relation with employment, based on works conducted by the OECD.

Disability and its ambiguous definition

1. Disability is a potentially expansive and problematic category when it comes to definition and measurements. Disability, especially in terms of the granting of social benefits, must be inferred from medically certified impairments with distinct consequences, namely a restriction or incapacity to perform normal work roles; in addition to which, a judgment on the severity or irreversibility of this health condition and its consequence for occupational performance.

2. However, the medical or clinical assessment of disability and its degrees are notoriously unreliable in terms of accuracy and consistency due to a number of factors including the limits of diagnostic procedures, the biases of medical groups, the priorities of public administrators, the shift of public opinions, and the uneven political pressure from disabled applicants themselves, etc.

3. On top of that, the impairment of a certain type of disability can result in different impact on work performance given different workplace scenarios, for example, leg amputation is likely to disable a postman but not a scientist in laboratory. All these factors make the definition and classification of disability an unclear and ambiguous issue to address for public administration.

4. The World Health Organization (WHO) has adopted a broader, more complex and dynamic view regarding disability, distinguishing impairment as loss or abnormality of anatomical, physiological, psychological structure or function, disability as any restriction or lack of ability resulting from an impairment to perform an activity in the manner or within the range considered normal, and handicap as disadvantage resulting from an impairment or disability that limits or prevents the fulfillment of a role.

This technical note was developed on the basis of the book *European Disability Pension Policies. 11 Country Trends 1970-2002 With an Introduction by Bernd Marin*, Prinz, Ch. (Ed.), 2003 and its companion report *Transforming Disability into Ability. Policies to Promote Work and Income Security for Disabled People*, OECD, 2003. A comprehensive approach to disability pensions can be found in Council of Europe "Assessing disability in Europe – Similarities and Differences", 2002 – https://rm.coe.int/16805a2a27

5. As a result of the authoritative prescription on the broadened definitions and practiced assessment procedures of disability, as well as a series of political and intergovernmental activities, a fundamental shift of perspective came about. Instead of being seen as a personal tragedy condemned to a life of individual isolation and constant dependency, the perception of impairment has moved towards those of a more self-determined life assisted by welfare benefits and services tailored for the disabled.

6. Disability is no longer seen as a personal problem in need of professional treatment but rather a social problem to tackle which governments should strive to provide suitable environment to cater the specific needs of the disabled group so that they enjoy equal opportunities in work and social life. To reciprocate, people with impairment would need to rely on their own experience and to act-up collectively into self-help organizations.

Modern welfare policy for the disabled group: success and failure

7. Despite of its ambiguous nature, modern disability welfare policy has been developed remarkably in the last few decades. It is important to acknowledge that the development of such policy schemes entails two sides: the simultaneity of a great and indisputable success in advancing the social rights of people with impairments on the one hand, and an evident failure on the other where deprivation and social exclusion from employment and other social activities grow for the neediest people within the disabled group.

8. In several most advanced countries, disability policies have been a remarkable success with the following features: it is a process of emancipation of people with disabilities, a trend towards integration, normalization, independence and self-determination; integrated schooling and assisted employment allows even severely impaired persons to work together with non-disabled people in the regular labour market; and new forms of housing have helped persons with impairment to move away from nursing homes to single apartments with ambulant care services.

9. Anti-discrimination has become an indispensable key feature of modern disability policy. However, when the need of equal access, opportunities and non-discrimination are advocated for persons with impairment, it has become less likely for them to get automatic support and affirmative action of assistance. The dilemma between the values of integrity, privacy, anonymity and non-discrimination on the one hand and well-targeted help on the other is not easily balanced out.

10. Apart from this inherent inconsistency within modern disability welfare policies, a far more systematical failure emerged as modern disability welfare expanded which entailed three aspects: firstly, the failure to contain the case load and the corresponding fiscal burdens at reasonable level; secondly, the failure to deliver the kind of benefits most needed by needy disabled persons without constraining present or future employment and income opportunities, and thirdly, the failure to focus and target disability benefits on those disabled people most in need of support, instead of wasting them on either non-deserving persons often neither poor nor needy or on persons who are in need but should be helped by other welfare than disability benefits.

An employment-oriented equal opportunity model for disability benefit policy

11. As a follow-up of the modern disability welfare policies, a shift towards a more coherent employment-oriented equal opportunity model has occurred to tackle the issue of fiscal affordability as well as to enhance social effectiveness, fairness and legitimacy, which views the economic independence and full social integration of persons with impairment as core

value. This model is likely to bring 2/3 majority of disability beneficiaries back to the world of work.

12. Two groups currently out of work could be targeted for new employment opportunities: people with a partial disability or a disability not preventing them from doing any productive work at all but from finding work at the prevailing wages and working conditions; and people who are able to find gainful employment at given income but opt for being defined as disabled after certain kind of personal rationalization under specific circumstances.

13. Ideally speaking, in this new model, disability benefit should compensate for additional expenses due to impairment, such as extra costs for medical treatment, personal care services, mobility, or education and training, rather than provide cash benefits normally substituting for work income. And it should be clamped up with other allowances such as tax exemption and benefits to access disability-related services to incentivize people with disabilities to re-enter the world of work.

14. Consequently, this model requires full activation of social agencies to prevent exit from work for people with disabilities including early intervention to prevent pathological conditions from illness or accidents turning into work-prohibiting impairment, tailor-made work assistance and vocational rehabilitation for strengthening offsetting capacities of the disabled people, subsidies to employers who accommodate disabled members as workforce, and above all, effective and anti-discrimination legislation and policy framework to ensure the sustainability of all the efforts institutionally. Within this new social contract between society, disabled people and their employers, every party will have more rights and more obligations at the same time.

15. It is crucial to emphasize that this new model of disability benefit is yet far from realization even in the most developed countries due to many reasons, not to mention the still prevailing underlying stigmatization of people with disability. Thus disability benefits will have to be re-designed by public authorities, policy-makers, legislators and programme administrators in such a way that normalization or mainstreaming of disability is embraced not only by firms and their handicapped employees but by society as a whole.

Disability insurance as part of social welfare policy

16. The existing disability insurance incorporates both public and private sectors in European countries. Public provision of disability insurance is necessary because unregulated, competitive markets fail to provide coverage against disability risks in a form and at a level that is socially adequate. In practice, total compensation of disability insurance is often a combination of government benefits supplemented by private arrangement with variation of relative importance of the two parts across countries depending on the fiscal situation of public schemes.

17. Social disability insurance primarily offers cash earnings replacement but it may also offer services such as vocational rehabilitation and job mediation, and tangible provision in kind, which are more likely in countries with an employment-oriented disability policy.

18. Generally, four separate benefit schemes are found in European countries in relation to disability risk: a sickness benefit scheme covering limited duration (normally a year) of disablement of employees with wage-related entitlement; a work injury programme offering wage-related benefits for employees who suffer work-related accidents and occupational diseases resulting in transitional or permanent disabilities; a general disability contributory programme funded by pay-as-you-go premium rates that covers non-work related incapacity of population at large including employees of firms, the self-employed and those who are

handicapped before entering labour market; and a general disability non-contributory programme financed by general revenue to provide flat transfers to those with no insurance status or the entire population.

19. The basic problem of disability insurance is the verification of the occurrence of the insured risk. Screening errors grow as the coverage of population expands in terms of disability insurance. Two types of error can be distinguished: erroneous denials (exclusion error) commonly found in the regime of public monopoly insurance and erroneous admissions (inclusion error) in private insurance. A balanced disability benefit scheme should minimize the sum of both types of error.

20. A major issue in disability benefit administration is to design and operate assessment procedures that distinguish between the pathological inability to work and the inability to find work due to one's (economical or physical) limitations. Without a sophisticated assessment process, disability benefit schemes are more likely to be misused as substitute for unemployment benefit or early retirement programme. However, the current practice of assessment is yet far from satisfaction in that sense.

An OECD typology on policy of disability benefits

21. When public policies concerning disability benefit scheme in OECD countries are examined, an analytical typology comes into shape in a report on disability and work which entails two dimensions in principle: compensation measures or benefit transfer programmes (passive policies) referring to the main disability benefit schemes and employment or integration measures (active policies) referring to the whole range of employment and rehabilitation measures. Each of the two dimensions is further divided into ten sub-dimensions.

22. The compensation dimension is split into the following ten sub-dimensions: coverage (from total population to selected employees), minimum disability level, disability level for a full benefit, maximum benefit level (in terms of replacement for average earnings with a continuous work record), permanence of benefits (from strictly permanent to strictly temporary), medical assessment (from exclusive responsibility of treating doctors to that of assessing teams of insurance doctors), vocational assessment (from self-assessment to open criterion), sickness benefit level, sickness benefit duration, and unemployment benefit level and duration.

23. The integration dimension is split into the following ten sub-dimensions: coverage consistency (access to different programmes and possibility to combine them), assessment structure, employer responsibility for work retention and accommodation, supported employment program, subsidized employment programme, sheltered employment sector, vocational rehabilitation programme, timing of rehabilitation (from early intervention to late intervention only for disability beneficiaries), benefit suspension regulations and additional work incentives.

24. Based on these twenty sub-dimensions, different policy approaches among OECD countries can be distinguished regarding disability benefit scheme which are reflected by the weighing of both the compensation dimension and the integration dimension.

25. The compensation policy approach (high score on compensation, low score on integration) focuses on adequate benefit and broad eligibility combined with a lack of integration efforts. The integration policy approach (low score on compensation, high score on integration) emphasizes adequate or even mandatory access to employment-related measures with very restricted level of public transfers. In between these two approaches are the intermediate policy types: a weak intermediate policy (low score on both dimensions), an intermediate

policy (intermediate score on both dimensions), and a strong intermediate policy (high score on both dimensions).

Some policy conclusions

26. From the OECD survey of policy for disability benefit schemes, several policy recommendations can be concluded from the comparison in policy outcomes which are seen related to the policy choices different countries have made. Nevertheless, the report stresses that no single country can be said to have a particularly successful policy for disabled people in a broad sense.

27. Firstly, to recognize the status of disability independent of the work and income situation. The term “disabled” should no longer be equated with “unable to work”. Disability as a condition should be one but not the only factor for the distribution of disability benefit; the eligibility and the disabled status should be re-assessed at regular intervals.

28. Secondly, to introduce a culture of mutual obligations. As most societies have accepted their obligation to support disabled persons, it is less common to expect disabled persons themselves and their employers to contribute to the process as well. This change of paradigm requires a rethinking and restructuring of the legal and institutional framework of disability policy in many countries to achieve which three further recommendations are as followed: i) each disabled person should be able to select an individual work/benefit package from a designed pool of work/benefit related programmes containing vocational training, on-job support, a wide range of forms of employment, and different schemes of benefits both in cash and in kind; ii) given proper medical evaluation of the disability, certain groups of disability benefit receipt should in principle be conditional on participation in employment, vocational rehabilitation and other integration activities; employers should be involved in the process including both financial and legislative means.

29. Thirdly, to promote early intervention. As soon as a person becomes disabled, a process of tailor-made vocational intervention should be initiated, which may include job search, rehabilitation, offset capacity building, etc. Such measures should kick in as early as the person suffers the early-stage symptoms of a certain disability or a chronic health problem.

30. Fourthly, to make cash benefits a flexible policy element. The cash benefit needs to reflect the disabled person’s capacity to work, given he/she has actually been able to find a job. Cash benefits would have to be available with sufficient flexibility to take account both of different cases of remaining work capacity and of the evolution of an individual’s disability status over time. In addition, tax policy and benefit entitlements should be designed so that the disabled employee is not in an unfavorable position in workplace.

31. Fifthly, to reform programme administration. Administrators and caseworkers need to extend their knowledge of the range and variety of available benefits and services for disabled persons. A one-stop approach will help administrators to manage the full menu of available interventions and to promote equal access to all programmes for all people.

32. Lastly, to design disability programmes as active programmes. Emphasizing activation and mutual obligations for both society and the disabled persons expects an active contribution and effort from beneficiaries. There is a need for a consistent strategy in disability policy and unemployment policy so that disability benefit schemes won’t become the substitute for early retirement programmes which leads to self-determined exclusion from labour market.

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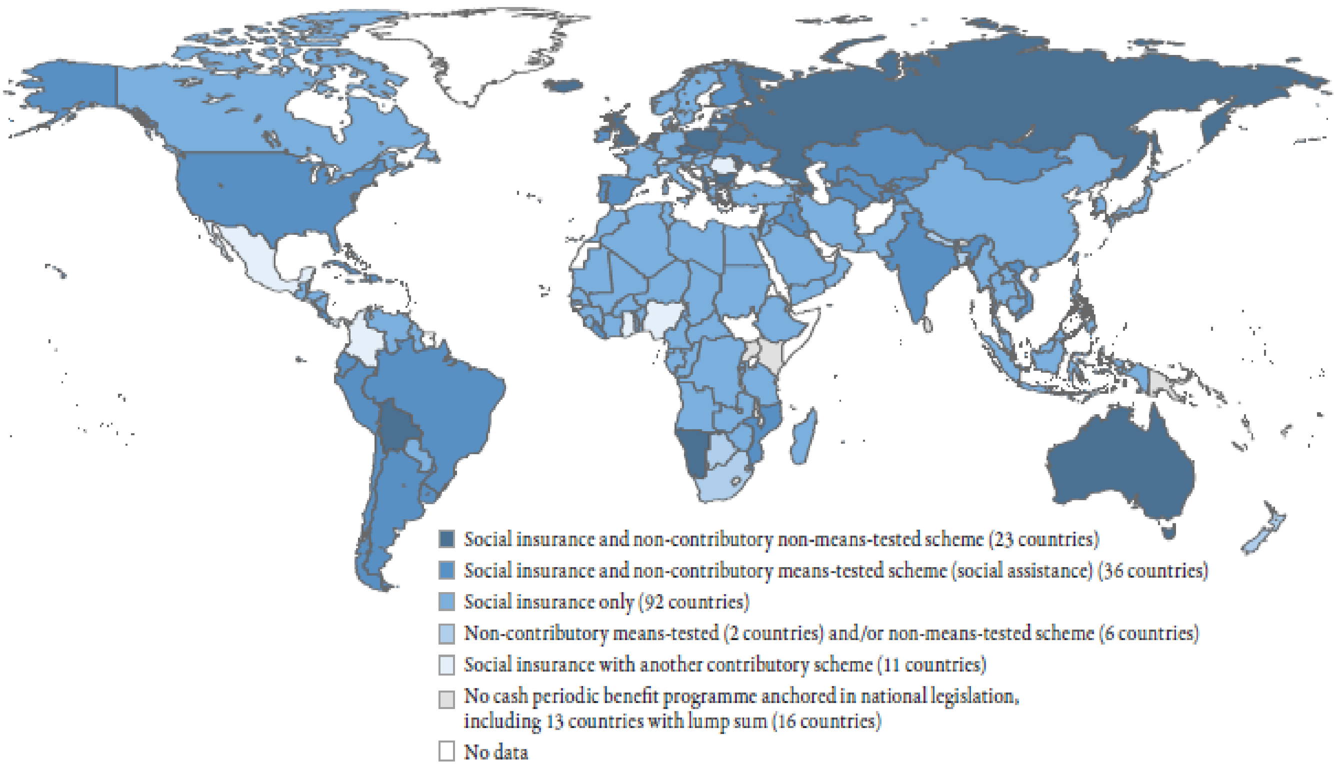
ANNEX – KEY MESSAGES FROM THE INTERNATIONAL LABOUR ORGANISATION

- ✓ Effective social protection measures to protect persons with disabilities and promote independent living and access to decent work are a precondition for achieving the SDGs and human rights.
- ✓ Latest ILO estimates of effective coverage show that 27.8 per cent of persons with severe disabilities worldwide receive a disability benefit, with large regional variation: while coverage in Eastern Europe appears to be almost universal, regional estimates for Asia and the Pacific show an effective coverage rate of only 9.4 per cent.
- ✓ Disability-inclusive social protection systems guarantee effective access to mainstream schemes for persons with disabilities, combined with disability benefits and support services that address their specific needs.
- ✓ Universal social protection for persons with disabilities has been achieved in Brazil, Chile, Mongolia and Uruguay, and other developing countries, such as Kyrgyzstan, Nepal and South Africa, are progressing to extend disability benefits. At the same time, other countries are cutting rights-based universal disability benefits as part of short-term fiscal consolidation policies, narrow-targeting to the poor only and leaving many persons with disabilities without support.
- ✓ Disability benefits should be designed in a way that enables persons with disabilities to actively participate in education, employment and society at large. This can be achieved through ensuring that benefits in cash and in kind cover disability-related costs and enable persons with disabilities to participate in salaried employment.
- ✓ The collection of administrative data disaggregated by disability status is necessary for the effective monitoring of social protection systems, contributing to both the development of evidence-based policies and the implementation of the SDGs.

Types of disability schemes, 2015 or nearest available year



Source: ILO World Social Protection report 2017-2019, Geneva, November 2017

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中国欧盟社会保护改革项目

Component 1

1.2.2. - GENERAL PRINCIPLES APPLICABLE TO EUROPEAN SOCIAL SECURITY SYSTEMS

Social security reforms are sometimes criticized because part of their contents seem to point to parameters or procedures that belong to another quarter of individual protection, that of private insurance handled through profit making companies where the individuals take precedence over the collective. While private supplementary insurance can play a significant role in overall protection of the individuals, notably those from the upper level categories, decision-makers considering reforming social protection systems should always be able to ascertain that proposals being put forward would keep the reformed system within the boundaries shaping the specificities of social protection – by contrast with individual protection. This Note therefore summarizes those social security principles generally commonly accepted in Europe that altogether characterize socially acceptable and efficient public social protection systems.

It may be considered that social security in Europe is organized around the following ten broad principles:
- One country, one system (unicity in protection)
- Continuity in protection (from cradle to coffin)
- Coexistence of basic and multi-tier protection (efficiency and equity)
- Universal coverage (protection also for the weakest and most vulnerable)
- Transparency (strict governance, monitoring and control)
- Democratic management (association of users to management through parliament or through unions)
- Affordability (secured sustainable financing)
- Adequacy (levels of benefits established according to identified needs and objectives)
- Rule of law (all interventions have to be based on a binding legal instrument)
- State responsibility (irrespective of organizational and institutional arrangements).

Each of these ten principles may in turn be declined into sub-categories, pointing to altogether 40 criteria or benchmarks characterizing the main features of European social security in terms of principles applied and core issues.

1. One country, one system

The principle of unicity in protection corresponds to the fact that social security should grant comprehensive protection to its affiliate. Unicity is notably achieved under European social security systems through the following provisions.

1.1 Unique social security number – which corresponds to the fact that a same insured person will be identified via the same number in whichever scheme to which he/she participates. In France the social security number is in fact designed in such a manner that, at birth declaration, the number is already fully composed – and will not change until the demise of the insured person.

1.2 Cross checking among schemes - one single form filled in by employer – this legal provision is not only intended at facilitating the work by enterprises. It also aims at avoiding the risk, through submission of multiple forms, that employers omit to declare their employees under one or the other scheme deemed to be less essential or too expensive.

1.3 Incorporation under one scheme implies incorporation under other schemes – meaning that, except when specifically provided for in the legislation, protection under one scheme against a risk implies that provisions are made, to ensure that protection be also granted (and paid for through contributions) against the other risks. Entitlement to benefits under one scheme entails accrual of rights under other schemes. Under such approach, civil servants would still contribute towards unemployment benefits, even though they are normally not at risk of becoming unemployed, retirees would enjoy health insurance protection, apprentices covered against occupational risks would also contribute to health insurance protection and accumulate already for their retirement.

1.4 Entitlement to benefits under one scheme entails accrual of rights under other schemes – This provision implies for example that unemployed persons continue contributing, during the period in receipt of the benefit, to be subject to health insurance protection, and to accumulate credits towards retirement.

2. Continuity in Protection

This principle of continuity in protection aims at ensuring that social security affiliates may not be at risk of losing access to protection whatever the circumstances of their life evolution.

2.1 Changing profession, changing scheme, vesting rights – Coverage is not interrupted by changes in the profession of insured persons, implying that their insurance coverage moves from one scheme to another one. For example, a civil servant leaving Government employment for the private sector would still keep his/her rights within the former scheme, and may benefit of a pension from both insurance careers when comes time of retirement – or, alternatively, through or without contributions' transfer, the seniority under one scheme may be recognized under the second one (compensation being calculated at the time of retirement in terms of additional pension rights recognized by the second scheme on the basis of insurance periods recognized by the first scheme)

2.2 *Changing country, changing system, vesting rights, paying abroad* – The European Union has established since 1972 the principle according to which periods of employment accomplished under one national scheme would remain valid when the worker changes country within the EU, whichever the total number of moves or of countries implied. At the end of his/her career, the worker having been employed in several member States may therefore request that his/her insurance records in the various countries be accumulated for checking whether the qualifying conditions are met, while the contribution by individual national schemes to covering the cost of the pension is prorated according to respective employment periods under the different schemes.

2.3 *Extended to non-nationals (2003)* – the former provisions, which initially applied only to nationals of EU countries moving within the EU was extended in 2003 to non-EU nationals moving within the EU (e.g. Turkish, North African, Africans from South of the Sahara, eastern European countries non EU member States …). This provision supplemented previously existing bilateral agreements, which had the clear disadvantage of applying only to two countries at the same time, i.e. not taking into account insurance records under third party legislation.

2.4 *Non-contributory periods if involuntarily not covered through contributions* – All national pension schemes and other schemes where insurance length is critical for the evaluation of entitlements to benefits include provisions under which involuntarily non contributed periods are taken into account for the appreciation of length of qualifying insurance. These periods include for example military service, service of disability pension, periods of pregnancy and rearing of very young children, academic or occupational studies, unemployment, etc. In Italy, such provisions are called using the generic term of "citizenship periods".

3. Coexistence of basic and multi-tier protection

Coexistence of basic and multi-tier protection aims at ensuring that schemes be available within the legal compulsory system that cater both at the basic needs of those even most vulnerable groups (social efficiency) and at the expectations of groups with higher income having paid higher contributions (social equity).

3.1 Basic protection as citizen's entitlement – Even in schemes where the basis for protection is contributions paid within specific occupational context, provisions are made to ensure that no resident is left without appropriate, minimum protection. This basic protection approach applies essentially to guaranteed income schemes, and access to medical care. Such approach was embodied already in ILO recommendation n.67 on Income Security, 1944 and in Council of Europe European Social Charter in 1961. 42 Council of Europe member states ratified the European Social Charter (1961 or enhanced revised 1996 version).

3.2 Secondary level protection compulsory, 3rd level optional – France introduced compulsory secondary level coverage as early as in 1972, with retroactive effect. Countries with only one level of compulsory protection for long term cash benefits are less and less, due also to the fact tat first tier legal benefits have become less generous. The European Union adopted in 1998 a directive (98/49/EC) on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community – the corresponding instrument for basic protection (first tier) dates back from 1971.

3.3 *Supplementary benefits may come from law or collective agreements at national, branch or enterprise level* – Legal provisions are often improved upon in European social security via provisions negotiated between the social partners – for example, agreements related to long term unemployment benefits and access to early retirement for ageing unemployed persons are normally concluded at the branch level. In Denmark contributions to the supplementary pension scheme ATP are negotiated by enterprise – as is the case in France and in several other European countries.

3.4 *Qualifying conditions to access secondary level linked to those for first level* – In a multi-tier level architecture, such as is the common case throughout the European Union, the level of protection at the lower, more general level, influences conditions for accessing benefits at the higher level. For example, pension protection at level II may intervene for salary share above the ceiling for contribution purposes at level I. Conversely, not meeting the qualifying conditions for accessing level I benefits may be an obstacle to the intervention of level II protection – when basic qualifying conditions are tightened, and overall legal protection is affected, it is therefore through level III benefits (enhanced optional contributions) that those deficiencies are made good for.

4. Universal coverage

European social security systems have progressively achieved universal coverage, i.e. the protection of virtually all categories of the (active and non-active) population against all social risks, irrespective of their contributory capacities.

4.1 *Convergence of non-contributory and contributory systems* - Whereas European social security was traditionally divided among countries ensuring a universal but low coverage (such as the UK, Switzerland and Nordic countries) and those limiting legal protection to employed persons contributing to the schemes but allowing for higher levels of benefits (such as Germany or France), the distinction between the two types of systems progressively blurred – universal systems enabling compulsory occupational supplementary protection (through public or private schemes) while occupational schemes introduced devices ensuring livelihood guarantees to all their citizens (minimum income, removal of length in insurance conditions to qualify for minimum benefits).

4.2 *Progressive equalization of qualifying conditions and benefits among schemes* – To ensure equality in access to benefits for all residents in any given country, conditions for accessing benefits have been progressively equalized among national schemes, ensuring notably similarity in qualifying conditions for civil servants and for salaried employees. This equalization also makes mobility easier and vesting of individual rights a simple formality.

4.3 *Coverage of nine contingencies, additional contingencies* - Practically, all of the EU member States ensure broad protection – through social security or other means of intervention - against all of the eight contingencies listed in ILO Convention n.102 on Social security – minimum standards, 1952. Those nine basic contingencies are medical care, cash sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family benefits, invalidity benefits, survivors' benefits.

Progressively, other contingencies were included in the legal framework of a rowing number of national social security systems, such as dependency allowance or guaranteed minimum income.

4.4 *Link between social assistance and social insurance* – ILO Recommendation 67 on Income security, 1944, established as a principle that "needs not covered by compulsory social insurance should be made by social assistance". This implies that either social assistance ensures access to social security protection by those in need but not insured, or that social assistance takes over social security protection after exhaustion of entitlements under social security schemes. These different approaches are sometimes formally unified under one broad national social security system, like in Ireland (social welfare system).ILO Recommendation 202 on Social protection floors (2012) fine-tuned this approach.

5. Governance

European social security systems are closely watched upon by government authorities and the public in general which would not accept that their practice does not stick to the principles of good management ("governance") which are commonly accepted throughout Europe as having to preside over the use of common resources.

5.1 Monitor administrative costs – Competition with the private sector and overall concern with proper use of what is generally speaking considered as public moneys has led to widespread benchmarking and monitoring of managerial fees in European social security institutions. Typical – or acceptable – fees would vary depending on individual circumstances of the funds, and be expressed differently depending n the risk covered. For example, PAYG pension schemes would express managerial fees as a percentage of benefits paid, health care schemes as a percentage of contributions assessed and funded schemes as a percentage of amounts invested – related also to the number of individual accounts handled, institutions collecting premiums in percentage of total contributions – account being taken of the number of enterprises assessed, etc. The ILO has conducted over decades (1949-1996) enquiries into the cost of social security that showed that efficient, computerized pension systems a commonly reached target of administrative costs was 3% of benefits paid. Such administrative costs include all elements required for the functioning of the scheme e.g. staff costs, equipment, maintenance, incidentals, rental, utilities, communication and banking fees.

5.2 Internal and external controls – Control over governance of social security schemes are typically conducted both internally – i.e. through administrative units benefiting from a high level of autonomy – and externally – via specialized auditing agencies, bodies instituted by the Government and ad hoc Parliamentary inspections. Internal audit is used as much for providing advice to managers on practices on which improvement may be sought as for identifying weaknesses of not frauds in management and managerial practices. Broad features of both internal and external controls may be specified by law.

5.3 Computerization and public access – Impressing progress made over recent years in computerization including the development of integrated and interconnected databases has enabled European social security systems to progressively implement direct interaction between their clients and the funds information systems. This direct access enhances the credibility of the funds' operations, reduces the risk of errors, while the integration of databases facilitates controls through records cross-checking. Countries like Belgium or Portugal have expanded facilities offered by providing access through one single entry point to a variety of data and services pertaining to the whole range of public services, including social security.

5.4 Government tutelage, Parliament supervision – Even in cases where social security is managed by private entities – which may, or not be profit-making bodies[1] - experience has shown to European authorities that a strict control organized by the Government was necessary. A typical example of close control over operations conducted by private bodies is to be found in the United Kingdom where

[1] Non-profit making social security institutions include those bodies jointly managed by employers and workers' representatives (such as in France, compulsory supplementary pension schemes or unemployment benefits scheme) or by trade union organizations (e.g. in Denmark, unemployment protection).

private occupational or personal pension plans operate within a regulatory framework established by Parliament. Parliament supervision, for example through the yearly adoption of social security financing laws, is also part of the Governance context in all European social security systems.

6. Democratic Management

Democratic management, i.e. managerial practices that comply with the overall requirements of participation in decision making of affected individuals and institutions, and of transparency and justification in the decision making process, has become over the last few decades a high ranking priority for European social security schemes.

6.1 Contributions belong to contributing persons – It is commonly accepted that, when schemes are financed through contributions, those are to be considered as a differed part of workers' salaries. Hence the idea that social security contributions, whichever their denomination (personal contributions, social security taxes, employers' contributions, workers' dues, etc.) cannot be appropriated by the Government or indeed any other authority to serve purposes not directly linked to workers' social security coverage. In many countries, so-called "employers' contributions" therefore appear on workers' payslips, to clearly show the overall social security contribution attached to a given remuneration. Some (mostly new) European Union member countries have abolished so called "employers' contribution" for specific risks (Croatia, old age) or adopted overall financing patterns where workers' contributions are higher than employers' contributions (The Netherlands, Poland, Slovenia).

6.2 Protected persons associated to management – The fact that – as mentioned above – social security contributions are considered as part of workers' salaries (deferred remuneration) combined with the principle of free use of the salary has been used in many European countries to justify that workers' representatives be part of the managerial boards of the funds, in substantial numbers. Management boards are most typically bipartite when established long ago (Germany, Belgium, France, etc.), and thus do not include representatives from the State as voting members. However, State representatives usually take part in Board sessions as representatives of tutelage authority and can make observations when they feel decisions made or proposed are illegal, or entail expenditure for the State. Boards established in new European member states from Eastern and Central Europe are however more frequently tripartite, i.e. including Government representatives as fully fledged members, this being attributable at the influence of the ILO tripartite structure, and at the absence of social dialogue culture between trade union and employers' organizations in countries where the former were established only very recently, the Government acting in that case as a go-between the two. In cases where social security is directly managed by a Government body, the association of protected persons to management is deemed to be ensured through Parliament control. When protection is ensured via private bodies, with right for insured persons to choose the institution to which they contribute, this freedom o choice is deemed to make association of protected persons less necessary – although it may remain obligatory pursuant to ILO and Council of Europe relevant instruments[2].

6.3 Beneficiaries may seat on governing bodies – While the representation of beneficiaries is commonly entrusted to representatives of the contributing insured persons in most schemes protecting against risks such as sickness, maternity or accident injury, this representation has sometimes deemed to be insufficient in the case of unemployment insurance and pension insurance schemes, where beneficiaries (namely unemployed persons and retirees) are not part to the categories currently financing the scheme. Participation of beneficiaries has therefore sometimes been adopted in Europe, and there are a few such examples in the field of pensions among most recent EU member States (Poland, Serbia, Slovakia …)

[2] Notably, Council of Europe European Code of Social Security, art.71 and ILO Social security (minimum standards) Convention, 1952 (n.102) art.72

6.4 Annual and other reports available to the public – Making information available accessible to the general public though websites has become a distinctive feature of social security institutions across Europe. Information first consists of annual reports and statistics, which can be accessed online from the public website of the institutions[3]. Other information than those contained in annual reports is also available from the institutional websites, including concerning data related to individual members (accessible only by the latter). When discussions are held in Parliament concerning social security matters, it is not infrequent that those debates be transmitted live on specialized legal TV channels, thus enhancing access to information by interested parties.

7. Affordability

Together with those related to social efficiency and equity, affordability considerations rank among the top preoccupations among European social security schemes. Social security should indeed be affordable not only for the economy as a whole, but also for individual contributors and insured persons.

7.1 Contributions should not be too high – The level of contributions required for financing the benefits is considered among European member States as a key element in establishing the cost of labour which in turn plays a very important role in determining the relative competitiveness of national economies or branches. Even when social security is mostly if not exclusively financed out of salary-based contributions, the State nonetheless generally intervenes or indeed decides upon applicable contribution rates – risks of financial imbalance being equally addressed through adjustment in benefit levels, formulae or qualifying conditions. Affordability is also to be looked after for individual contributors, and contribution levels may be reduced for certain categories which income is deemed too low, or which employment is to be promoted through decrease in labour costs. In such cases, the Government may compensate the loss incurred by social security institutions. In Germany, for example, the Government takes on board the cost of non-insurance components of the system – e.g. pension credits for studies, for rearing children or for unemployment periods. In the field of health insurance, the Government effects payments to the scheme on behalf of certain categories with limited resources in such countries as the Czech Republic, Estonia, or Romania.

7.2 Financing to be shared employers-employees While relevant international instruments stipulate that, where they exist, social security contributions should be shared between employers and workers in a manner that the latter pay not less than the former, some European countries have, taking argument from the broadening scope of coverage, chosen to supplement financing through contributions by earmarked taxes, affecting the individuals and not the employers. A typical example of this trend is to be found in France where two special taxes/contributions collected from all individuals were installed in the mid 1980s, namely the contribution to offset social debt RDS, and the general social contribution CSG, both being assessed on the basis of all income irrespective of the social status of the tax-payer, provided he/she be eligible for social security coverage – which corresponds to practically 100% of the resident population..

7.3 Government responsible to ensure that legal benefits are paid and financed Even when a compulsory social security scheme results from direct agreement between the social partners, it is up to the Government to ensure that, in cases of difficulties affecting sustainability, the same social partners take appropriate measures to remedy difficulties – otherwise the same Government would unilaterally take measures it deems appropriate that would become compulsory for the social partners (subject to endorsement by Parliament). Major pension reforms promoted by the Government in countries like Italy, Germany or France were explicitly endorsed by (at least some of the major) trade unions before being formally promulgated.

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[3] The International Social Security Association – ISSA – facilitates access to these websites through its own page, at http://www.issa.int/aiss/About-ISSA/ISSA-Members

7.4 Actuarial studies to be conducted periodically and whenever changes considered Actuarial studies are an absolute prerequisite for proposing social security reforms or adjustments in European Union Member States. Most of the national schemes have their own actuarial department, and the Government Actuary's Office, where it exists like in the United Kingdom is a very powerful and respected institutions. The ILO and the ISSA have done a lot to disseminate the actuarial experience of European countries to other of its members, and the tradition of relying on actuarial studies scientifically conducted before proposing any alteration to or confirmation of existing provisions is gaining broader and broader acceptance.

8. Level of benefits

When deciding on the benefit levels to be achieved through their social security system, European countries bear in mind a few fundamental benchmarks such as, through social security, relieving want and preventing destitution, ensuring living conditions not markedly different from those enjoyed during active life, accessing under affordable conditions decent social services, including quality health care. Those are achieved through a variety of provisions.

8.1 Guaranteed replacement rate or absolute level As already mentioned – see above considerations on Coexistence of basic and multi-tier protection and Universal coverage – the distinction has progressively been blurred in Europe between those schemes ensuring legal protection in case of lost income via flat rate payments (anti-poverty) and those guaranteeing income replacement (keeping standards of living) and most European countries now combine the two approaches at least for pensions and, to a large extent, for unemployment benefits. In Spain, for example, Unemployment insurance benefits are based on both the individual calculation basis and the so-called Public Income Rate of Multiple Effects (Indicador Público de Renta de Efectos Múltiples, IPREM – slightly below the national minimum wage, taking into account the number of dependent children.

8.2 Rate to progress with economic development – Indexation of benefits in the course of payment, on the basis of price increases, or increases in wages or a combination of both is widely implemented in European countries as far as the legal, compulsory system is concerned. This progression in benefits according to economic development is however less frequent still when dealing with voluntary, private pension plans, since such indexing provisions are limited to a few countries like Germany, Ireland, Norway or the United Kingdom[4].

8.3 Benefits in kind: related to their social goal In addition to cash benefits replacing lost income, European social security schemes commonly provide so-called " benefits in kind" that correspond to the access to social services or to the direct provision of essential goods or their equivalent in cash. Whereas personal coverage for guaranteed income or medical care has virtually been expanded to practically reach universality, benefits in kind have commonly been targeted to reach only those most in need, following the pattern established in so-called Beveridge schemes (universal, non occupation based protection) even within so-called Bismarck systems (contributory occupation-based schemes). The reason for this narrowed focus in granting access to cash benefits is essentially the overall limited resources affordable to finance the corresponding benefits which would make the extent of protection insufficient if those resources were to be spread among too many beneficiaries. Children benefits transformed into means-tested benefits are for example payable in Finland, France, Germany, Greece, Italy, Poland and Serbia – even though in some cases those benefits are financed out of contributions paid by or on behalf of all workers, eligible or not to benefits.

8.4 Payable throughout the contingency Whereas access to benefits may be subject to prescribed conditions concerning notably payment of contributions, those conditions usually cannot be opposed to insured persons that continue requiring continued support from benefits. For example, alternative benefits are being paid to unemployed persons having exhausted their entitlements to contributory allowances if still in search of employment – or access to health services continues to be guaranteed

[4] See SSPTW – Complementary Pensions, 2005

to workers even after they stop contributing to health insurance finds for reasons independent of their own will – e.g. in case of unemployment, sickness, disability, receipt of old age pension, etc.

9. Rule of Law

The most striking difference in terms of rights an entitlements between social security and other mechanisms such as social welfare, social assistance or enterprise based schemes is the level at which legal prescriptions describe, monitor and shape the structure, contents and practical application of social protection provisions.

9.1 Clearly established and widely disseminated rights and entitlements – Social security has become throughout Europe a very complex area for legal prescriptions. Social security laws and regulations therefore include all required details for a smooth implementation of the system. As a matter of fact, national parliaments often conduct or sponsor comparative studies covering the situation in other European countries whenever they are to consider a possible reform in one area of social security. The French Senate (higher Chamber of Parliament) for example relied on comparative analysis of European legislation6[5] when reviewing Government draft legislation on social protection (1995), universal medical coverage and interconnection of administrative data (1999), benefits for adult disabled persons (2002), organisation of compensation and reemployment for the unemployed (2004), survivors' pensions and benefits for non-nationals (2006), leave in relation with child's birth (2009).

9.2 Justify decisions – As in other areas of administrative law, decisions made under social security legislation which impose sanctions or negate access to a benefit by an insured person have to be fully justified – i.e. they have to mention the legal provisions on which basis the decision was made, as well as the correlative evidence that the required conditions are met. It is generally considered within the European legal systems that decisions made without proper justification, when challenged in court, are declared void and of no value. For example, in Northern Ireland 7[6], "where an outcome decision is notified without a statement of reasons for the decision, the claimant has one month from the day following the date of notification to ask for the written statement". The reason then has to be provided within 14 days following the request.

9.3 Right of appeal, special courts – The European code of social security makes provision (art.69) for appealing against decisions made by social security institutions. The Code makes explicit reference to special courts established to deal with complaints regarding social security decisions. It specifies that, if these complaints are considered by special courts where representatives of the insured persons are seating, it is not compulsory to provide for a right of appeal from such courts. However, this right of appeal is still organised in several countries. In Germany for example, the social security courts – Sozialgerichtsbarkeit - form a three tier system, with first-instance Social Security Courts (SG) and Land Social Security Courts (LSG) as the appeal instance and the Federal Social Security Court (BSG) for appeal on points of law. The individual panels (or chambers) of the SG have one career judge and two lay judges on the bench; the panels (or senates) of the LSG and the BSG have three career judges and two lay judges. No legal costs are payable for proceedings before the social security courts, and the parties are able to represent themselves before the SG and the LSG.

9.4 Advisers for insured persons and beneficiaries – The complexity of European social security law makes it practically impossible to master for the layperson, insured or beneficiary. Since the late 1920s, social workers, who act as advisers to insured persons and beneficiaries in their attempts to fully enjoy legally recognized social security rights, have gathered in a specialized international organization, the International Association of schools of social work. The European chapter of the Association EASSW 8 [7]now covers 34 countries "recognizing that respect for the inalienable rights of the individual is the

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[5] http://www.senat.fr/legcmp/tr25.html

[6] Northern Ireland, Department for Social development, Decision makers Guide, vol.1. § 1130 - http://www.dsdni.gov.uk/index/ssa/information_for_advisors/ssani_adviser_technical_guides/decision_makers_guide.htm

[7] http://www.eassw.org

foundation of freedom, justice and peace. Members of EASSW are united in their obligation to the continued pursuit of social justice and social development."

10 State Responsibility

Even in times when the private sector, be it or not profit making, takes a prominent role in the implementation of social security provisions, the final guarantor and driving force of the system remains the Government, at all possible levels of intervention.

10.1 Rules and regulations also for non government schemes

A significant part of European social security protection is granted through non State run and even non statutory schemes. For a long time Government authorities have deliberately refrained from interfering in the functioning of these schemes especially in countries where they were introduced as a part of an overall ideology promoting market forces and free enterprise. However events such as the bankruptcy of enterprise based pension schemes notably in the United Kingdom have prompted a different attitude, whereby Government authorities have applied a set of rules of compulsory nature, securing financial viability for private social security schemes.

10.2 Government to ensure continuity and performance of the system

International social security instruments widely recognized across Europe, such as the ILO Social security convention (minimum standards) and its Council of Europe avatar, the European Code of social security, clearly establish that (ECSS, art.71.2) the Government has to "accept general responsibility for the proper administration of the institutions and services concerned". This general responsibility does not mean that the Government has for example to make good for any deficit provoked by extravagant management, but it implies that the said Government is morally and practically encouraged and empowered to take any remedial action deemed to be necessary to ensure a proper and sustainable social security management.

10.3 Government to ensure that consultation among social partners takes place

Even though, in cases where the Government is not directly handling social security, the social partners and especially the workers representatives have to be part of management (see ECSS, art.71.1), it may well happen that conflicting interests between notably workers and employers make it extremely difficult for them to agree on much needed social security reforms. In such cases, it is the legitimate role of Government to take initiative in organizing the social dialogue, and to the extent necessary to place the social partners in front of their obligation to take action. Examples of such proactive attitude of Governments can be found in a great number of countries, including Spain (pensions, July 2006 tripartite agreement) and Italy (pensions and flexicurity, July 2007).

10.4 Government to promote preventative measures in case of risk of system insolvency or unsatisfactory results

According to commonly accepted international or European instruments (see for example ECSS, art. 71.3) the Government "shall accept general responsibility for the due provision of the benefits provided in compliance with this Code, and shall take all measures required for this purpose; it shall ensure, where appropriate, that the necessary actuarial studies and calculations concerning financial equilibrium are made periodically and, in any event, prior to any change in benefits, the rate of insurance contributions, or the taxes allocated to covering the contingencies in question." This duty of the Government to ensure that all precautions are taken to avoid to the extent possible risks of disruption in the financial sustainability of the system is enshrined in many countries in high level legal provisions – this is notably the case in France where the adoption of an yearly law on social security financing is a constitutional duty for Parliament or in the United Kingdom where the Government actuary's Department, established in 1917, is a completely independent body compulsorily consulted and publicly reporting on any proposed significant social security change.

JV Gruat, 2010-2017

EU-CHINA

Social Protection Reform Project

中国欧盟社会保护改革项目

Component 1

EVALUATING SOCIAL SECURITY PERFORMANCE

I - List of Typical Social Security Performance Indicators

Indicators		Definition
Personal coverage Indicators		Number of persons insured Number of the insured as contributors Number of benefit recipients Number of persons as targeted population for coverage Number of working-age persons as targeted for coverage Number of persons as targeted potential beneficiaries
Benefits Indicators	**Long-term Cash Benefits**	Relation average benefit and pre-benefit low and high-income groups. Average benefit as a percentage of poverty line.
	Short-term Cash Benefits	Relation average benefit and pre-benefit low and high-income groups. Average benefit as a percentage of minimum wage or poverty line. Average days in which the beneficiary has received benefit payments Proportion of UI beneficiaries having exhausted their entitlement
	Health Care	Real reimbursement rates' comparison (income groups) Real reimbursement rates' comparison (spending groups) Co-payment rates' comparison (income group) Co-payment rates' comparison (spending group) Utilization rates' comparison (income group) Average days of inpatient treatment Average cost of inpatient treatment
Financial Indicators	**Revenue**	Total revenues Contributions as a percentage of the total Subsidies as a percentage of the total Investment incomes as a percentage of the total
	Expenditure	Total expenditure Total expenditure as a percentage of the total revenue Benefit payments as a percentage of the total expenditure Administration costs as a percentage of the total expenditure Marketing costs as a percentage of the administration expenditure
	Balance	Total annual balance Total accumulated reserve Accumulated reserve as a percentage of the current year expenditure
	Investment	Total investment Total investment as a percentage of GDP Total investment as a percentage of domestic capital market Portfolio of investment Average return rate Average return rate as a percentage of the market rate
Management Indicators	**Registration**	Registration rate (employer) Registration rate (worker) Registration rate (self-employed workers)
	Income Collection	Contribution collection rate
	Benefit processing	Ratio of the total claims submitted to that processed Average days from claim submission to the first benefit payment issued
	Enforcement	Detected / registered ratio (employers, workers, independent workers; in number) Detected / registered ration (employers, workers and independent workers; in %) Detected under-declared contributable earnings Detected / recovered contribution Detected / recovered contributions as a percentage of the total contribution Detected / recovered benefit deceit Detected / recovered benefit deceit as a percentage of the total benefit expenditure
	Complains / Appeals	Total complaints / appeals raised Total complaints / appeals settled Average days from submission to settlement
	Public Relation	Consultation ratio
	Staff Capacity	Average clients per staff member Average claims processed per staff member Share of the staff having university or higher degree Share of the staff trained so far Average remuneration as a percentage of that of the public sector

II - Selected Indicators - Clients' Satisfaction

	INDICATOR	CORRELATE WITH
Accessibility	**Nb. of social security offices**	**Distance from clients, public transports access, opening hours**
	Nb. of front desk staff	**Nb. of clients to serve, nb. of social risks (branches) to be addressed**
	Nb. of clients received	**Nb. of clients to serve, per category of client**
	Nb. of communications received	**Nb. of files treated, per type of communication**
Equal Treatment	**Nb. of claims received**	**Nb. of clients, nb. of staff handling claims**
	Nb. of claims treated	**Nb. of claims received, nb. of insured persons for related risk**
	Nb. of claims rejected	**Nb. of claims received – *to be positive, this indicator should show a negative trend***
	Nb. of post benefits requests handled	**Nb. of benefits awarded or in award, nb. of beneficiaries**
Professional Approach	**Nb. of staff trained**	**Total nb. of staff – per job, per level. *Refers to prospective methods for human resources forecast***
	Nb. of staff in contact with clients	**Nb. of clients, per type. Nb. of claims received or treated. Nb. of requests handled. Nb. of communications received**
	Nb. of outside inspections	**Nb. of outlets to visit per type (*hospitals, social care, vocational training, banks, tax authorities, enterprises …*)**
	Nb. of desk audits	**Nb. of departments, sections, offices … to be audited, nb. of complaints received**
Learning processes	**Nb. of quality reviews conducted**	**Nb. of social security offices, nb. of outside contact points for clients, nb. of entreprises**
	Nb. of complaints received	**Nb. of clients, nb. of benefit claims handled, nb. of communications received – *to be positive, this indicator should show a negative trend***
	Nb. of survey questionnaires received	**Nb. of clients, nb. of benefit claims, nb. of questionnaires issued**
	Nb. of public relations campaign launched	**Nb. of outlets for contacting clients, nb. of enterprises registered, nb. of administrative units covered**
	Nb. of statistical indicators monitored	**Types of clients, types of beneficiaries, types of risks covered**

III – Workload indicators

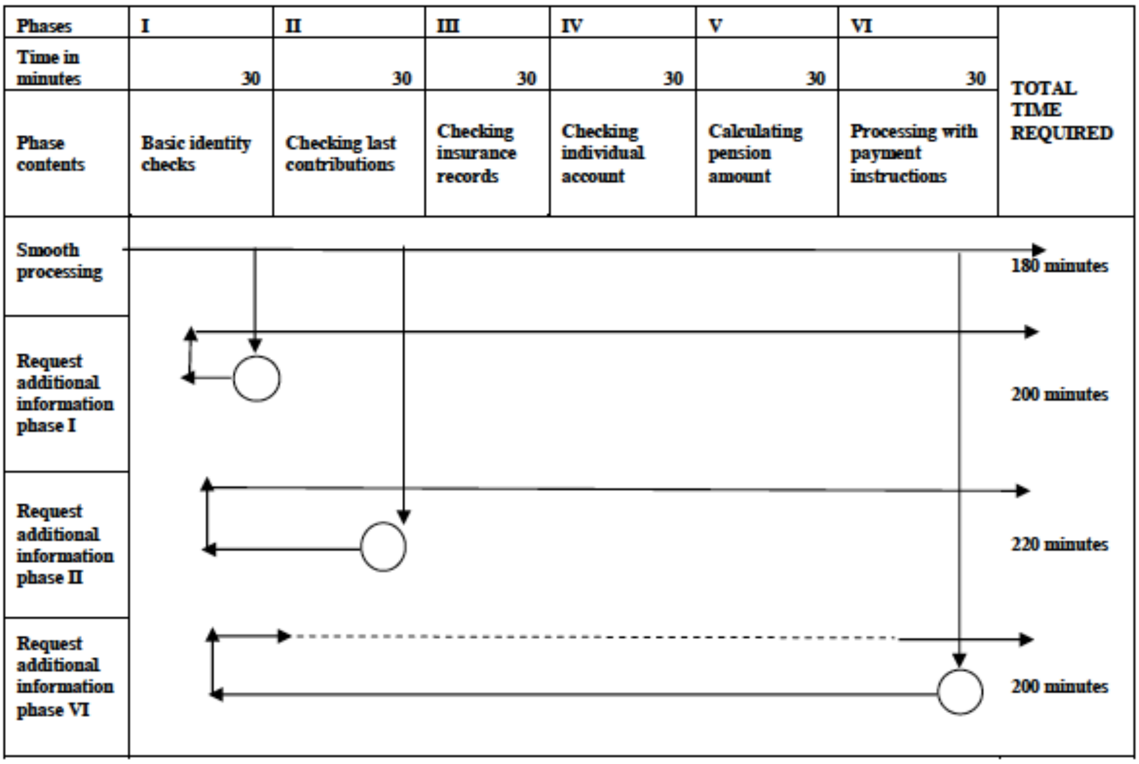
Measuring the (actual, ideal or desired) workload attached to a given position within a social security administrative structure has to be initiated from the quantifiable output attached to this position.
In other words, if the raison d'être of a position is to process benefit claims before payment is made, workload will be estimated in relation with the number of claims treated. If the position is about making accounts, the workload will be measured with reference to the number of items entered in the accounting books. If the position is related to developing or maintaining specialized software, the indicator will be the number of analysis or branches of analysis completed or the number of adjustments made as the case may be. If it has to deal with registering new entrants in the social security system, the workload index will be that of newly insured members or employers or beneficiaries, etc.
Raw numbers, such as residents in the community serviced by a social security Agency or outlet, number of insured persons, number of workers in local entreprises or number of enterprises under the jurisdiction of an agency will seldom represent a useful indicator for workload estimates – inasmuch as not all residents are social security clients, not all insured persons call upon social security services, not all enterprises are liable to inspection over the same period of time, etc.
Performance indicators such as those mentioned under I above, and to large extent clients' satisfaction indicators identified in part II are to be considered as forming the basis for developing meaningful workload indicators for most of social security staff positions.
However, knowing what to measure and how to measure it is obviously not sufficient for establishing the ratio considered as optimal between numbers of staff in charge of a certain task and the magnitude of the said task, i.e. the normal productivity expected from appropriately performing staff members.
In other words, assuming for example that in a given administrations 2,000 new pension benefits are awarded over one given year and that 5 staff members are occupied full time processing such benefits, the resulting ratio of 400 pensions/staff/year – or more or less 2 pensions/staff/working day - maybe nothing but an average reflecting a situation, and not an indicator useful for planning purposes.
Additional data required to achieve a level of information that would actually be an input into scientifically planning for required staffing levels may therefore logically include the average time necessary for the processing of a claim. Assuming this time is estimated at 4 hours of work (half day) for the claims benefit specialist, there would be an overall coherence between the statistical average – 400 pensions/staff/year – and the estimated time needed, viz. 0.5 day x 2,000 new benefits, i.e. 1,000 w/days or roughly speaking 5 w/years (average of 200 working days per year).
This latter figure – that of the time required for processing a claim from the moment it reaches the specialist until that when payment is ready to be made - is indeed one upon which it is highly difficult to decide, especially but not exclusively in a non-computerized environment.
On the one hand, not all claims are of equal complexity[1] and, on the other hand, many claims cannot be fully processed upon first examination of the file, additional documents, information, evidences… having to be requested from the future beneficiary. A lot of valuable working time is lost because of these back-and-forth movements, all the more because staff processing the claims require, whenever they freshly consider an application, some preparation to fully get at grips with the

[1] There is a considerable difference between the time required for processing the pension benefit of a claimant working all his/her career in a large enterprise with a well performing human resources department helping him/her collect all requested documentation, and that to be allotted to reviewing and processing the claim of an insured person with multiple employers and possibly registration with a variety of social insurance funds – case of dozens of millions of workers when vesting of rights will become possible across pooling areas.

contents of the file and the substance of the individual situation.
In other words, if processing of the claim has to be interrupted for requesting additional information, the processing cannot be resumed from the point it had reached. Staff have to come back a step behind in the process, and summarily re-familiarize themselves with the case – all the more when, for rationales of organization, the file once completed does not reach back to the staff who initially dealt with it.
Chart 1 below provides an (hypothetical) illustration of delays that may occur in total time required for desk treatment of a pensions claim when the process needs to be interrupted for collecting additional information.

Chart 1

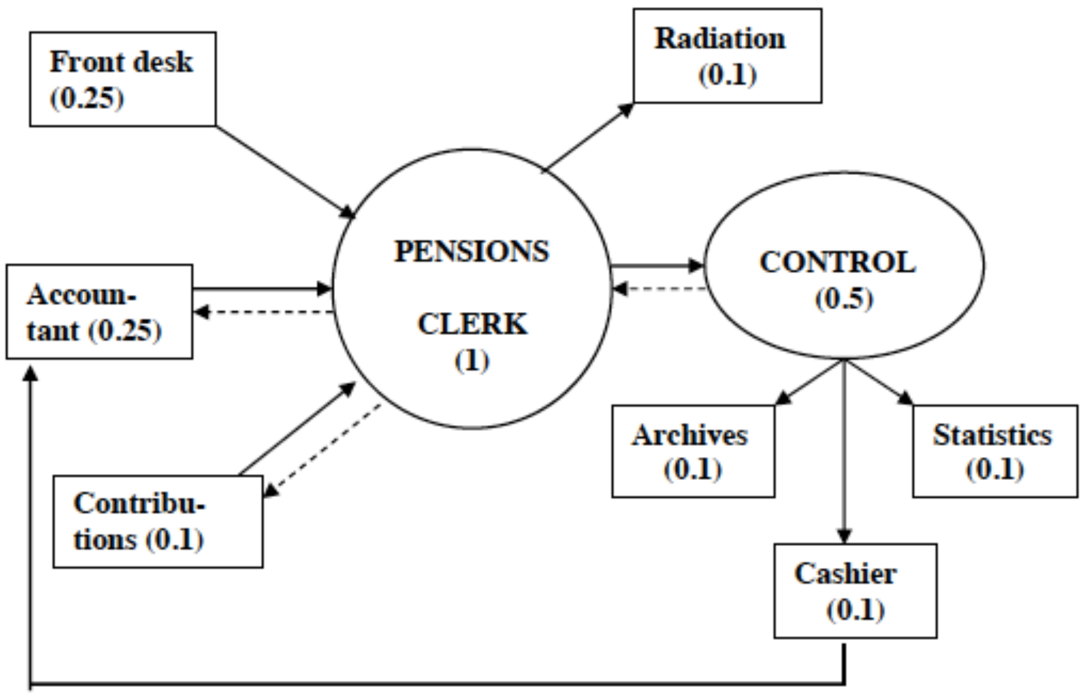
Influence of interruptions in time required for claims processing



I n short, one may expect that in comparison with the time required for the smooth processing of an otherwise straightforward pension claim – or indeed any other cash benefit – may be increased by up to 25 % for each request for additional information – this in case steps already duly completed in the process do not have to be performed again (i.e. assuming work done is not lost, see illustration in chart 1 for the case of additional information requested after completing phases I to V), and account not being taken, of course, of the workload imposed upon other staff whenever a request for additional information originates from the claims processing specialist.
Since the determination of standard workloads for a given position may in fact serve a dual purpose, namely to facilitate forecasting in human resources, but also to allow for a quantifiable approach to staff individual performance, it is extremely important that those workloads:
- be seen by staff as decided upon in a fair and equitable manner, otherwise the overall working climate may be negatively affected; and at the same time that they
- correspond to the reality, otherwise forecasts based on them will rapidly appear as irrelevant and even counter-productive.
It therefore appear as advisable that the definition and measurement of workloads be decided upon in full collaboration with the staff members concerned – for example asking those staff to themselves propose the level they consider adequate, subject to validation by the competent line manager to

ensure that time required be not too much over-estimated.
Workloads have to be first established on an Agency by Agency basis, since standards are heavily influenced by actual working environment (e.g. the degree of computerization, or indeed the intrinsic quality of staff members). The upper level should collect all standards established at the operational level, in order to look after overall consistency and, if warranted, draw the attention of specific Agencies on the questionable level they might have established for the standard workload attached to that or the other position.
In terms of coherence, Agencies establishing workloads for individual positions need to pay attention to the risk of bottlenecks that may affect the smooth functioning of a whole working process.

Chart 2
Workflow – Pensions



The above diagramme, derived from the example already provided above, indicates the risks of bottleneck if, for example, the number of controllers appear as insufficient in comparison of those of pension clerks. In other words, the efficiency in claims processing acquired through the posting of an adequate number of benefits clerk may be jeopardized if not enough controllers are entrusted with validating the proposed pension awards.
Workload evaluation appears to be all the more complex, that the jobs concerned are linked to a higher number of other positions – and become in a sense dependent upon requirements from others.
For example, while one may appreciate how many entries an accountant safely performs over one working day, the total number of entries, i.e. the global workload dependent upon accountants cannot be determined in the absence of an appropriate evaluation of the actual performance in other departments, in terms for example of adjustments to individual accounts, processing of pensions or other benefits, payment of salaries and other allowances, purchases and other financial commitments, etc.

Jean-Victor Gruat, 2011 – rev. Feb.2017

EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

Component 1

1.2.2. Evaluation Techniques

One critical aspect for any meaningful reform in social protection is that if its evaluation. Such evaluation has to enable decision makers to critically review the effects or the potential of a reform or a reform proposal against desirable criteria, such as affordability, well-being of the beneficiaries, proper implementation and governance, cost-analysis compared to possible alternative course of action, public acceptance, interaction with other elements of public policy, contribution to overarching Government of national goals, etc.
While China has experienced over the years in-depth reforms in its social security system, with results that are generally highly praised against specific criteria such as expansion of nominal coverage, poverty alleviation among pensioners, vesting and portability of rights, etc. some voices raise concerns about non achieved or detrimental formal or non formal goals of the reform, in terms for example of actual level of funding, extension of pooling araeas, replacement rate, actual reward from contributions, effects on employment opportunities, etc.
It therefore appeared as useful to summarize in a brief Technical Note what European member States commonly included under the concept of Social security Evaluation, using also as a reference those tools and international comparisons developed in Europe for a number of decades.

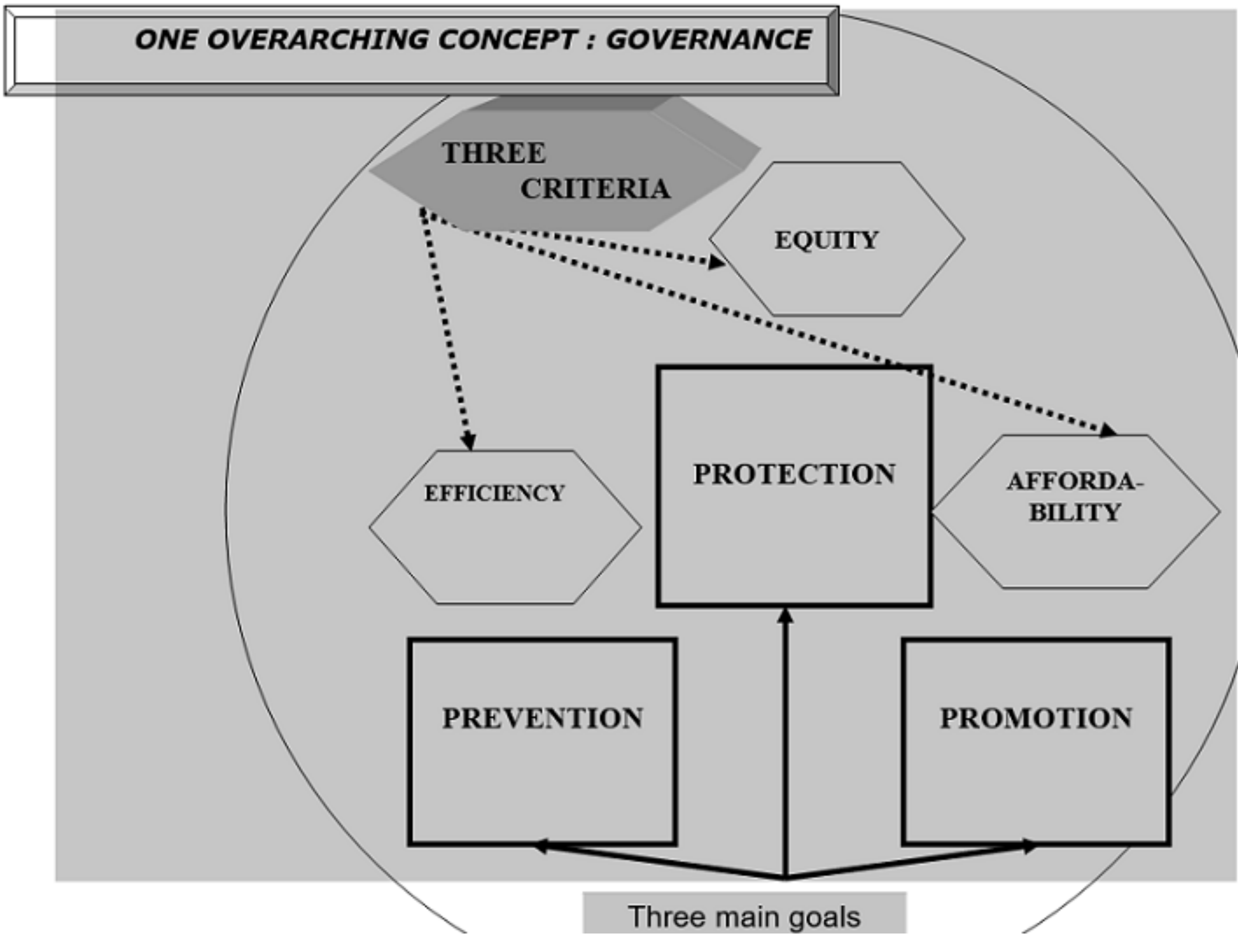
I - Evaluation in Social Insurance Legislation:

European experience and practice

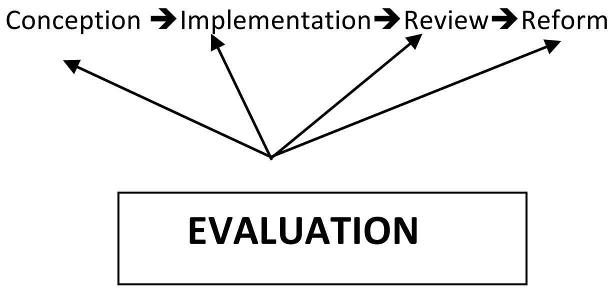
- Evaluate on what basis ?
- Evaluation varies
- Practical examples

Evaluation is Related to Objectives

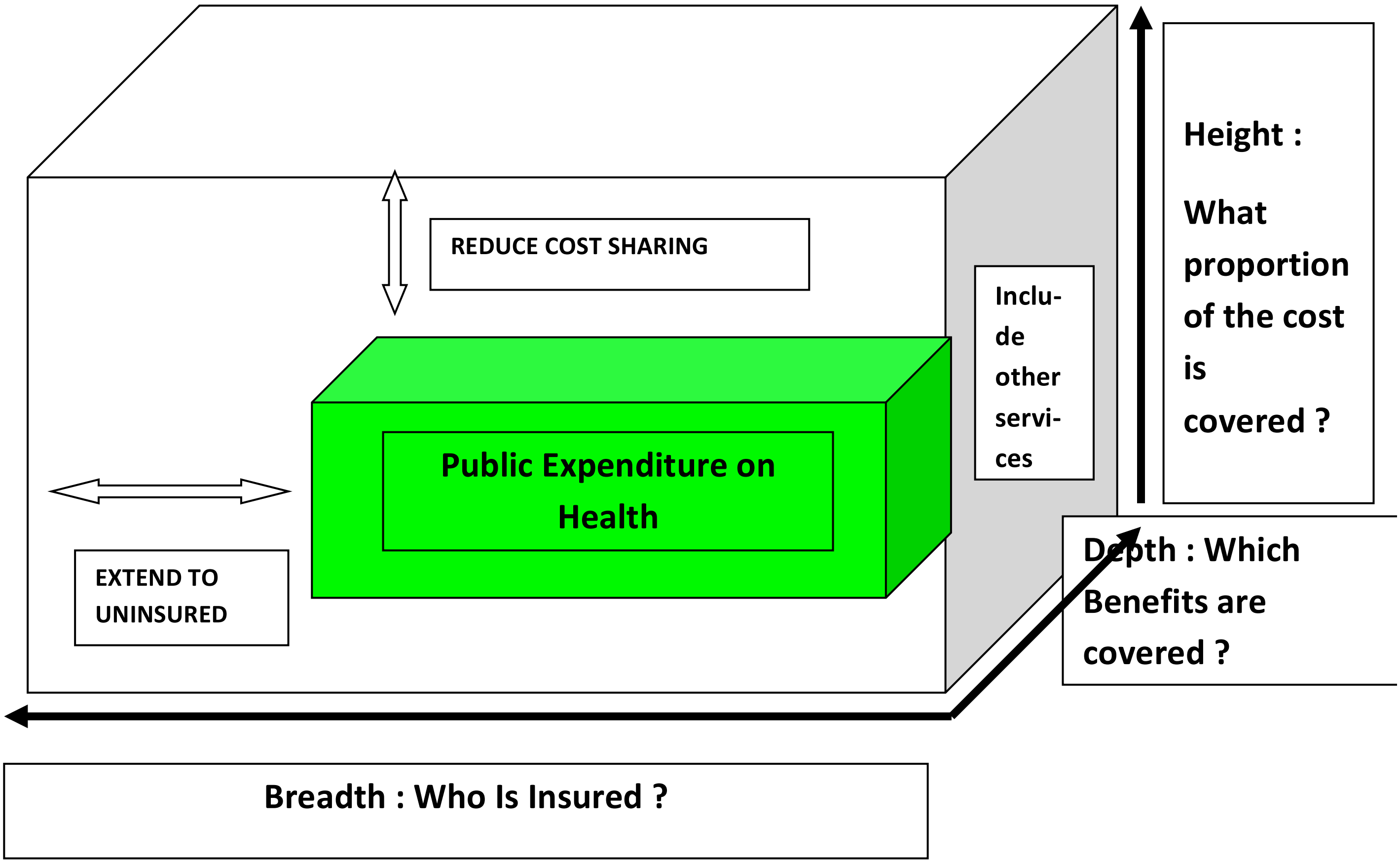
Three main goals: Protection, Promotion, Prevention
Three main criteria: Equity, efficiency, affordability
One overarching concern: Governance



Evaluation intervenes at all stages of social security reform



TRI-DIMENSIONAL EVALUATION TOWARDS UNIVERSAL COVERAGE (WHO 2008)



CONCERNING GOALS

Does legislation embody these aspects ?

- *Protection*: clear definition of the outcome, before and after social security intervention (e.g. Council of Europe Code of Social security)
- *Promotion*: Overcome individual and collective weaknesses, ensure equal opportunities, positive discrimination
- *Prevention*: Avoid occurrence of social risks, ensure peaceful spirit, avoid stress and occurrence of needs

CONCERNING CRITERIA

Is there a monitoring/benchmarking mechanism for each of the three main criteria:

- Equity (comparison across categories in keeping standards of living)
- Efficiency (comparison across social risks to keep out of poverty)
- Affordability (short, medium, long term). Expressed in absolute and relative terms

HOW TO EVALUATE GOVERNANCE

- *Definition of governance*

(procedures)(cost efficiency)(clients' satisfaction)(equal treatment)(rule of law-anti fraud)

- *Responsibility*

(commitments)(guidelines)(charters)(certification)(consequences)

- *Monitoring*

(role of parliament)(democratic management)(internal control)(external audit)(transparency / publicity)

EVALUATION MAY VARY

- Objective – subjective, evolution of positive evaluation criteria over time
- The fact that law is actually applied does not imply necessarily positive evaluation

(target may not be met) (side, non-desired effects, collateral damages)

EVALUATION METHOD VARIES ACCORDING TO EVALUATOR OR TARGET

- respective priority of criteria
- clients' satisfaction concerns
- policy-political considerations

MOST COMMONLY IDENTIFIABLE EVALUATION CRITERIA:

- Effects on employability
- Effects on standards of living (working poor)
- Effects on fertility rates
- Effects on labour market
- Effects on coverage

and of course

- Financial effects
- Cost-benefits analysis

WHAT IS A SUITABLE LEVEL FOR BENEFITS ?

European Code of Social Security – Criteria (benchmarking) for cash benefits

Part	Contingency	"Single	Beneficiary with Dependants %	
III	Sickness	5	Person with spouse and two children	6
IV	Unemployment	5	Person with spouse and two children	6
V	Old–age	5	Person with spouse of a prescribed age	6
VI	Work accidents-diseases a. temporary or initial incapacity for work b. total and permanent loss of earning capacity i. in general ii. where constant attendance is required c. death of the breadwinner – surviving spouse – child	5 50 7 50 2	Person with spouse and two children Person with spouse and two children Surviving spouse with two children	6 65 8 65
VIII	Maternity	5	Woman with spouse and two children	6
IX	Invalidity	5	Person with spouse and two children	6
X	Death of the breadwinner – surviving spouse – child	5 2	Surviving spouse with two children	6

EVALUATING THE LAW, OR ITS IMPLEMENTATION ?

Evaluating a law is different from evaluating how a law is implemented

Special mechanisms have been instituted for legal *and* practical evaluation

– allowing for international comparisons since 1919

Within European framework: Council of Europe most clear example.

COUNCIL OF EUROPE SUPERVISORY PROCEDURE

Applies to the European code of social security, its protocol and the revised code.

Bears a direct relation with the European Social Charter

"A supervisory procedure is established and it demands that the contracting parties prepare reports concerning their compliance with the standards provided within the Code, Protocol and Revised Code. These reports are then assessed by experts who report in turn to the Committee of Ministers of the Council of Europe. The Committee of Ministers determines if the contracting party has fulfilled its obligations. If the contracting party has failed to uphold the standards to which it has committed itself then the Committee of Ministers can make Resolutions inviting the contracting party concerned to rectify the situation and respect its international obligations.

These specialized social security instruments form an essential component of the protection of human rights through the Council of Europe."

ONE SESSION/ European Council of Ministers, 29 Sept. 2010

Questions raised on social security legislation in relation to the European code of Social security (period July 08 to June 09) to:

The Netherlands; Ireland; Belgium; Sweden; France; Denmark; Cyprus; Portugal; the United Kingdom; Estonia; Turkey; Norway; Greece; Spain; Czech Republic; Italy; Germany; Switzerland; Lxembourg; Slovenia

All this is public, and substantiated

MEMBER STATES ARE ANSWERABLE

One example, that of France

"The Committee of Ministers of Council of Europe decides to invite the Government of France:
I. concerning Part II (Medical care), and with reference to its previous resolutions, to continue to report on the TANGIBLE RESULTS of its efforts to place the sickness insurance finances on a sound footing and unify the management of the outpatient, hospital and socio-medical sectors;
II. concerning the GOVERNANCE AND FINANCING of social security during periods of crisis:
a. to give the reasons why, notwithstanding the range of available tax and other measures to encourage economic activity in the country, it continues to opt more for arrangements to relieve companies of social charges, which could contribute to the growing deficit of the general social security scheme. So that it can assess the effectiveness of the new governance rules referred to by the government, the Committee of Ministers also asks the government to include in its next report information on the implementation of these provisions in practice, specifying the amounts actually recovered by social security and giving specific examples during the reference period of instances where:

> *1. the state actually provided full financial compensation for social security schemes subject to the social contribution exemption arrangements for policies aimed at employment, land development or the development of certain economic sectors;*

2. an existing measure for reduction, exemption or lowering of the contributions base has actually been abolished before implementation of a new measure;
3. social contributions have actually been levied on the total amount of a golden handshake granted to an executive upon departure;

b. to continue to report on <u>observance of the objectives and time-bound commitments</u> it has determined for:

1. reestablishing the financial equilibrium of the social security system;
2. stopping the continued growth of the public debt in relation to social security;
3. paying off old debts contracted by the state;
4. envisaging sufficient budgetary allocations to cover the state's future commitments to social security, particularly in relation to the compensation of exemptions or benefits provided on behalf of the state;
5. introducing governance rules to clarify the financial relations between the social security system and the state and to prevent debts from being renewed in future.

EUROPEAN UNION IS LESS "GUIDING"

European Union has opted for a more flexible method with emphasis on Common Objectives
New common objectives from 2006 (framework for the social protection and social inclusion process.)

Translates into so-called open methods of coordination in the fields of social inclusion and pensions, as well as process of co-operation in the field of health and long-term care, brought together under common objectives and simplified reporting procedures.
The overarching objectives of the Open Method of co-ordination for social protection and social inclusion are to promote:

- *social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;*
- *effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy;*
- *good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.*

EVALUATION IS NOT A SIMPLE, STRAIGHTFORWARD PROCESS

Tricky question: Does legislation address all aspects of the problems it is supposed to contribute solving ?

e.g. Demographics and pension reform

(Response to a question raised by the European Union)

"From an ILO point of view a discussion on the demographic challenges societies are facing worldwide should also include the following issues:

- *An integrated and coherent approach to youth employment promotion*
- *Increasing female labour force participation and promoting gender equality*
- *Promoting employment opportunities for people with disabilities*
- *Managing migration*
- *Improving employment opportunities for older people*
- *Investing in employability within a lifelong learning framework*

- *Combating age-related prejudices and discrimination with particular attention to older women*
- *Creating fair and safe working conditions for all workers"*

HOW TO BUILD A CREDIBLE EVALUATION ?

A reliable evaluation requires:

- An objective

- A reference
- A thermometer

and this for all of the multiple facets of the law.

Such complexity has made evaluation and ever growing more and more prominent priority across European social security

JV Gruat, 2011 – rev. March 2017

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1.2.3 - ON THE LEGITIMACY OF STATE BUDGET PARTICIPATION IN SOCIAL INSURANCE FINANCING

Component 1

In China, the income from current contributions to the Urban Employees' pension scheme has become inferior to the expenditure on the same schemes for the first time in 2015. This is due to a conjunction of factors such as the increase in number of retirees, the improvement in pension benefits, the slowdown in employment and wage growth. This led to growing concern among Government and Academic circles that the intervention of Government in financing pension benefits might have to expand to make good for future deficits to an unsustainable level – while employers' contributions are deemed to be already too high. Some hypothesis are therefore being considered, whereby the liability of Government in pension financing would be limited to a minimal level, with more responsibility for securing well-being t old-age being shifted to the workers themselves. The aim of the present Note is to show that, in Europe, Government's role in financing social security is quite substantial, even under systems based on social insurance where contributions assessed on salaries are expected to be the main source of income.

The fact that a Government contributes to the financing of a pension fund otherwise based on PAYG social insurance is not necessarily the result of an imbalance requiring correction.

There are indeed a number of instances where Government subsidies stem from legitimate policy decisions for which financing through national solidarity (revenue) is deemed more appropriate than financing through the insured collective (contributions).

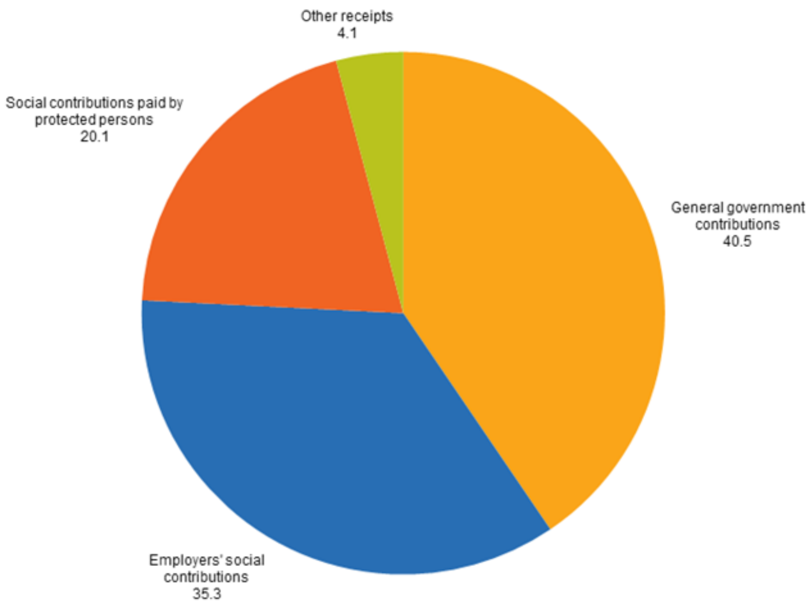
Among those one may identify:

- Crediting for certain non-contributory periods corresponding to service rendered to the nation (military service, studies, child rearing) – citizenship periods
- Compensating for discount on employers/workers contributions as part of schemes to promote employment (lower contributions for certain professions or categories of the population)
- Introducing moratorium on the repayment of employers' contribution debts to alleviate the burden on enterprises
- Ensuring a minimum pension for the weakest segments of the population otherwise to be supported through social assistance mechanisms
- Rewarding pension funds for taking over responsibilities otherwise incumbent over the Government (past systems/credits)
- Remunerating the pension funds for performing certain administrative functions on behalf of the Government (participation in fiscal control over taxable income)

- Repaying to the pension funds amounts previously borrowed by Government from accumulated contributions.

EUROSTAT ANALYSIS

An analysis of social protection receipts across the EU-28 in 2012 shows that the majority of receipts could be attributed to general government contributions (40.5 %) and employers' social contributions (35.3 %), while around one fifth (20.1 %) of social protection receipts in the EU-28 were social contributions paid by protected persons.



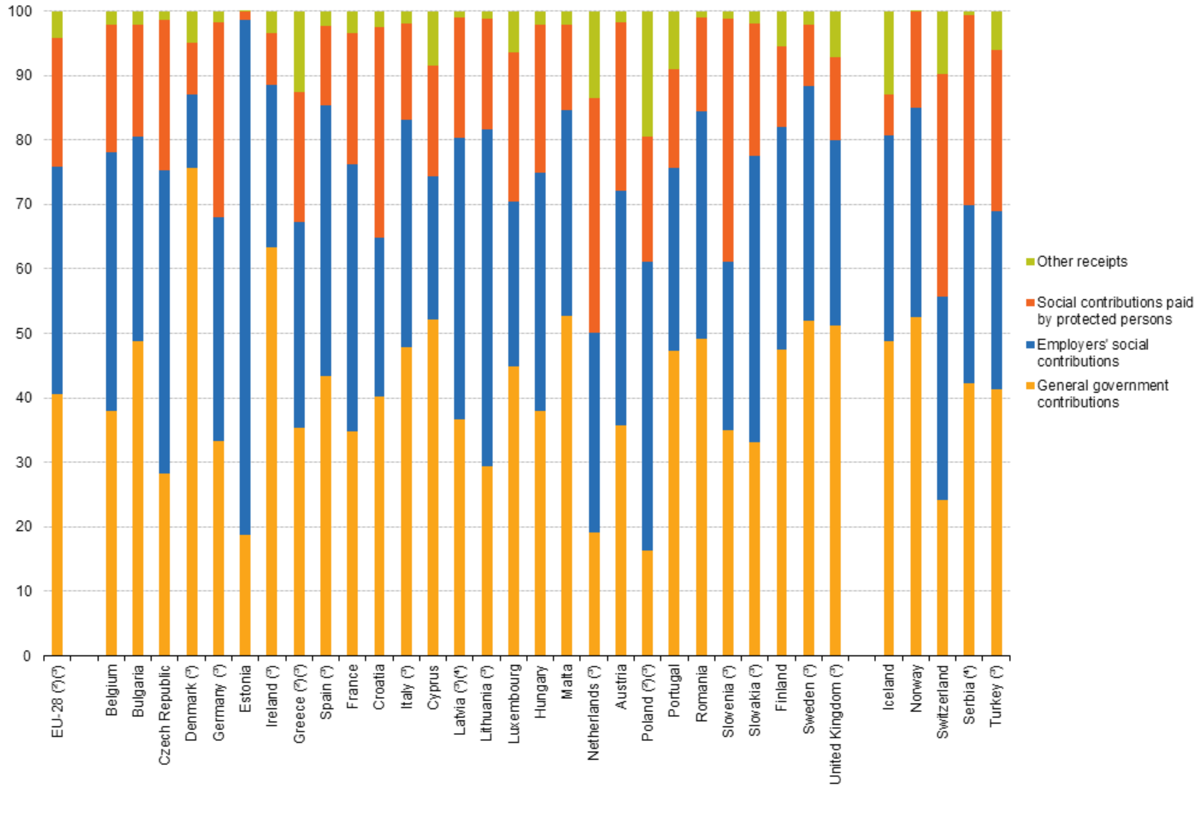
(¹) Provisional. Figures do not sum to 100 % due to rounding.
Source: Eurostat (online data code: spr_rec_sumt)

The structure of receipts used to finance social protection varies: three groups of EU Member States can be identified. A first group covers Member States in which government contributions are the largest component of receipts: Denmark, Ireland, Cyprus, Malta, Portugal, Finland, Sweden and the United Kingdom. In six of these Member States government contributions accounted for half or more of all receipts and they accounted for more than three fifths of receipts in Ireland (63.4 %) and more than three-quarters in Denmark (75.6 %).

In the remaining Member States social contributions — from employers and from the protected persons — represented the largest component of receipts. These can be divided between those where actual or imputed employers' social contributions accounted for two thirds or more of all social contributions: Belgium, the Czech Republic, Estonia, Spain, France, Italy, Latvia, Lithuania, Poland, Romania and Slovakia. In the final group of Member States, employers' social contributions accounted for less than two thirds of all social contributions: Bulgaria, Germany, Greece, Croatia, Hungary, Luxembourg, Austria, the Netherlands and Slovenia.

Note that in most member States other receipts tend to be relatively insignificant: they only contribute more than 10 % of total receipts in Greece, the Netherlands and Poland.

Among non-member countries, government contributions were the largest component of receipts in Iceland and Norway. Social contributions accounted for more than half of receipts in Switzerland, Serbia and Turkey, with employers' social contributions accounting for less than two thirds of social contributions.



(1) Provisional. Figures do not sum to 100 % due to rounding.
(2) 2012.
(3) Provisional.
(4) Estimates.
Source: Eurostat (online data code: spr_rec_sumt)

The annex to this Note, excerpt from the EU MISSOC Comparative tables[1] provides details for each member State on the respective participation of public authorities to the financing of Old-age insurance schemes.

Data therein indicate that many EU member States clearly earmark Government subsidies for the financing of decisions taken by public authorities pursuant to explicit policy goals (e.g. exemption from employers' contribution to promote employment), to broad solidarity concerns (e.g. exemption of contributions for the unemployed or the disabled, raising low pensions up to the subsistence level) or to the desired support to specific professions or categories of the population (military, self-employed, families with children ...).

Other EU member States simply state that the State subsidizes the schemes, or makes good for any deficit, which in terms of Governance – and avoiding open-ended commitments – is less satisfactory.

Jean-Victor Gruat

June 2015 – May 2017

[1] MISSOC : Mututal information system on Social protection
http://www.missoc.org/INFORMATIONBASE/COMPARATIVETABLES/MISSOCDATABASE/comparativeTableSearch.jsp

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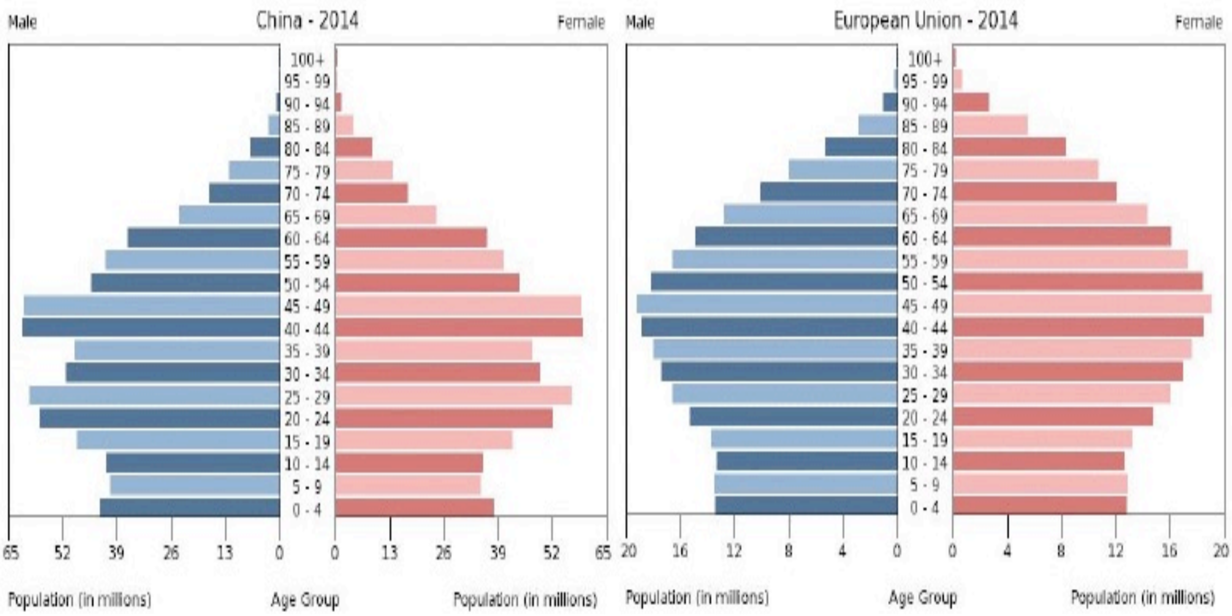
1.2.4 – GENDER ISSUES

IN SOCIAL PROTECTION

Component 1

1. There are no gender discriminated data in Chinese social insurance statistical publications. However, the unique national social security number allows for a distinction to be made between male and female[i] .
2. There are a number of occupational and social insurance legislation features and practices that have non-neutral gender components.



Population – China and EU Age pyramids 2014 (source: project Statistical notes)

3. **Employment** – There are no data publicly available from MoHRSS on gender-disaggregated data on employment and working conditions. C1 once checked with MoHRSS and were told no such data were indeed compiled. A common estimate is of 45% women among salaried employees, 40% among public sector employees (Government organs and public institutions, GOPI). There is a significant proportion of women among the "floating population" – 33% according to the ILO, common estimate floating population 250 million[ii]. Official female

unemployment rate (registered unemployment) is higher than for male – 3.9% as against 3.6%, the World Bank.

4. **Social security coverage** – Protection within the General scheme (urban salaried employees) is organized under 5 branches plus Housing fund. Actual personal coverage is not the same under the different branches. Figures at end 2014 are shown in the table below (source MoHRSS – no significant change since then except incorporation of GOPI staff in general scheme[iii]).

<table>
<tr><th>Branch</th><th colspan="2">Nb insured (incl. beneficiaries) - millions</th></tr>
<tr><td>Pensions Urban workers</td><td>341 (255 active, 86 retirees)</td><td rowspan="2">842</td></tr>
<tr><td>Urban and rural resident pensions</td><td>501 (incl. 143 beneficiaries)</td></tr>
<tr><td>Workers in entreprise annuity plans</td><td colspan="2">23</td></tr>
<tr><td>Medical insurance employees</td><td>283</td><td rowspan="2">817</td></tr>
<tr><td>Basic medical insurance</td><td>598</td></tr>
<tr><td>Unemployment insurance</td><td colspan="2">170 (beneficiaries 2)</td></tr>
<tr><td>Work injury insurance</td><td colspan="2">206</td></tr>
<tr><td>Maternity insurance</td><td colspan="2">170 (beneficiaries 6)</td></tr>
</table>

5. Coverage of **floating population** is uneven – 55 million for employees' pensions; 53 million in Urban basic medical insurance; 41 million in unemployment insurance; 74 million in work injury insurance ; unpublished for maternity insurance.

6. In 2010 (All China Women's Federation ACWF 3rd Survey) 73% of women with urban hukou got pension coverage, as against 31% for women with rural hukou. Medical insurance coverage rate was respectively 87 and 95% (higher rate in rural areas).

7. **Pensions** – Retirement age is often different for men and women in the General scheme for urban salaried employees[iv]. There are indications that plans are being considered to both raise and equalize legal retirement age. Meanwhile, some women tend to take advantage of more liberal provisions contained in a "nonstandard employment" scheme where retirement for women is at age 50 or below. Pension benefits under that scheme are quite low (practically basic pension only since contributions paid at minimum level, 60% average wage) but it secures continued medical insurance protection for women withdrawn from labour market on a voluntary or involuntary basis.

8. Since there is an important **wage differential** between men and women in China[v] it would normally reflect on pension levels. However, those until now are heavily influenced by proportionality with average contributory wage in the pooling area[vi], which flattens pension distribution. The individual account portion – to which women would contribute usually less than men owing to lower salary levels – is of reduced important because of very low accrual interest rate. In 2010 (ACWF Survey) 54% of elderly urban women relied mainly on their pension for living, as against 79% for men. This would seem to point out to an important

discrepancy in pension benefits among men and women. By contrast, 59% of elderly women depended on support by family members other than spouse to make ends meet, as against 39% of men.

9. **Medical insurance** – Medical coverage is individual, not by household. This implies that women hav to secure their own health insurance coverage, which may in some instances be less comprehensive than that of their husband. This would affect mostly couples where one person only is part of floating population with access to urban emloyees insurance. ACWF survey showed that elder women had less access to medical examination than elder men (39% instead of 42%, 65 +).

10. **Accident injury** – The derogatory clause allowing Construction industry not to declare construction site workers under any other branch than accident injury may particularly affect women – including for access to maternity benefits. The analysis conducted recently by the European Trade Union Institute ETUI [vii] could of course be a source of inspiration for China. Women in the service industry may be more affected by occupational risks than men, because of the positions they occupy – less clerical work, and occupations where less attention if often paid to prevention.

11. **Unemployment insurance** – Women are more likely to be affected by unemployent than man. In light industry, women also occupy positions for which their skills may rapidly become obsolete (or they are more likely to be replaced by new technology) while not necessarily enjoying adequate retraining and redeployment opportunities. Women are also less represented than men in the floating population, where they are frequently "left behind"to continue work in rural areas without employment opportunities and career development prospects, or "sent back" to take care of frail family elderly. One-child policy ay of coruse have increased pressure in that direction.

12. However, among women with rural hukou returning home after speding some time in urban environment as "floating population", 38% do non-agricultural work as against 22% for those women who did not leave the rural area (ACWF survey). Employment rate of mothers with child below six (women aged 25-34) is significantly lower than that of toher women (72% as against 82% for women without child). This clear breach in employment probably affects job opportunities and career prospects of mothers as well as their prospective pension benefits' level.

13. **Maternity insurance** – In 2010, 87% of women in urban working units have taken standard maternity leave after delivery. 95% of urban women under age of 35 had undertaken prenatal examination in 2010. Hospital delivery rate was 97%. Figures in rural areas were 90 and 88% respectively.

14. Maternity insurance is considered as a fragile branch of protection – the one most likely to be cut when savngs are being contemplated by entreprises. There are advanced plans within Ministry of Human resources and Social security to merge maternity and health insurance within the same branch to protect the former, not necessarily increasing contribution rates. Health insurance personal coverage being far broader than that of maternity insurance, the

scope of protection would be increased. This approach comes at a time when Health insurance resources are considered being used also for introducing Long term care (dependency) insurance – several pilots are on-going.

15. The merger of health and maternity insurance raises however some concerns, notably concerning the more favourable treatment under the latter, and the conditionality of access to benefits upon some prescribed examinations for pregnant mothers and new born infants (measures proven to be very efficient in reducing risks at birth)[viii]. In some Provinces, Maternity insurance is managed under the same adminsitrative arrangements as occupational risks. The merger with health insurance might be more complicated there, especially for women working on construction sites.

Jean-Victor Gruat,

17 March 2017.

Component 1

1. Maternity protection is one of the most ancient fields of social security protection, second only to occupational accidents. ILO first convention on Maternity protection bears number 3. The current instruments are Convention 183 and Recommendation 191 (2000).

2. At the European level, reference is Council Directive 92/85/EEC of 19 October 1992 on the introduction of measures to encourage improvements in the safety and health at work of pregnant workers and workers who have recently given birth or are breastfeeding

3. Most countries in Europe recognize the specific of maternity protection under social security. However, this protection is managed under cover of another risk, typically Health insurance (or Family allowances). Merging maternity and health contributions is therefore not unusual.

4. However, since maternity protection has to pursue specific objectives which are not common to general health care framework, this branch requires that its specificities be clearly recognized under general health insurance.

5. The first main objective of maternity protection is to avoid discrimination against women workers through the socialization of the coverage for maternity cost, shared indistinctly between male and female workers. In that sense, merging contributions is the step in the right direction since both genders are to be covered under health care provisions.

6. The second main objective is to promote effective access to quality maternal health care before, during and after giving birth, this protection being extended through the mother to the child. A characteristic of access to medical facilities under maternity insurance provisions is the absence of related co-payment by the insured persons. This coverage extends to pre-natal, delivery and post-partum. Consideration should therefore be given to the way of making such distinction under a merged coverage, since high co-payments may dissuade women to take part in the most efficient treatments at all stages of pregnancy and delivery, which would negatively affect their health, and that of their babies – with possible consecutive costs charged to the collective in case of health complications or disability resulting from insufficient health care monitoring during or after pregnancy.

7. A third objective of maternity benefits is to ensure income security for pregnant women and mothers of newborn children during maternity leave, before and after delivery. This is achieved through the payment of cash allowances, as is the case in times of sick leave, though at usually a higher rate (up to 100% of previous net income). Payment of

compensatory allowances may be combined with that of specific allowances conditional upon satisfying to certain pre-natal and post-partum medical checks for the pregnant mother and the newborn child.

8. Since protection offered under maternity insurance is of higher level than the one affordable through general health care, qualifying conditions may also include higher requirements – notably a longer duration of previous contributory services.

9. Maternity protection laws usually include provisions concerning protection from arbitrary dismissal of pregnant women at the workplace, and adaptation of working conditions including after birth (breast feeding). Such laws and regulations also include provisions related to adoption, and to extended maternity/paternity leave.

10. In case of merger in maternity and health insurance protection under social security, attention should be provided to preserving these specific measures related to protection at the workplace.

11. Maternity protection may also extend to non-working mothers under conditions different from protection to dependents under health insurance. Here again, attention should be paid to keeping these entitlements alive.

12. Finally, and since maternity protection has a very specific role to play in ensuring quality reproductive health, attention should be paid to preserving access under new social security administrative arrangements to related services and benefits. Special statistics should also continue to be produced, to monitor the effectiveness of protection provided to women under the new forms taken by maternity protection governance.

Jean-Victor Gruat

8 August 2016

[i] "In the PRC, an ID card is mandatory for all citizens who are over 16 years old. The ID number has 18 digits and is in the format RRRRRRYYYYMMDDSSSC, which is the sole and exclusive identification code for the holder (an old ID card only has 15 digits in the format RRRRRRYYMMDDIII). RRRRRR is a standard code for the administrative division where the holder is born (county or a district of a city), YYYYMMDD is the birth date of the holder, and SSS is a sequential code for distinguishing people with identical birthdates and birthplaces. The sequential code is odd for males and even for females." (Wikipedia)

[ii] Source SSB. Floating population is residing 6 months+ per year in a place other than that of its official registration. In census and other derived statistical reviews, the "floating population" is not counted where they reside and work, but where they come from (where they are registered as citizens under the Hukou system).

[iii] 2015 data:
http://www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/buneiyaowen/201605/t20160530_240967.html
2016 data expected to be released by end May 2017.

[iv] Workers must have 15 years of credit to be eligible for monthly benefits. The normal retirement age is 60 for male and female working in certain professions, 55 for female salaried workers and 50 for other women. Retirement age is reduced by 5 years for those in hazardous occupations and for certain employees of state owned entreprises who lost their job because fo the failure of the entreprise. It is also reduced by 5 years for women and ten years for men who are totally disabled. See Perspectives on the Social security system for China by Anne Drouin and Lawrence H. Thompson, ILO 2006.

[v] In 2010 – 3rd Survey on Chinese women social status, ACWF. Women in urban and rural households earn respectively 67.3 and 56% of men's wages.

[vi] Simplified pension formula: Basic pension = 1% per Contributed Year of (Average local salary + Average individual salary)/2 [0.01*NYC*(ALS+AIS)/2]. Individual account part: (Contributions + interest)/Nb of actuarial months (e.g. 139)

[vii] "His and Hers: occupational hazards, health, justice and prevention actors" , ETUI February 2017, http://www.etui.org/Events/His-and-Hers-occupational-hazards-health-justice-and-prevention-actors

[viii] See appended note on the merging of health and medical insurance produced by the project in August 2016 at the request of Ministry of Human resources and Social security.

EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

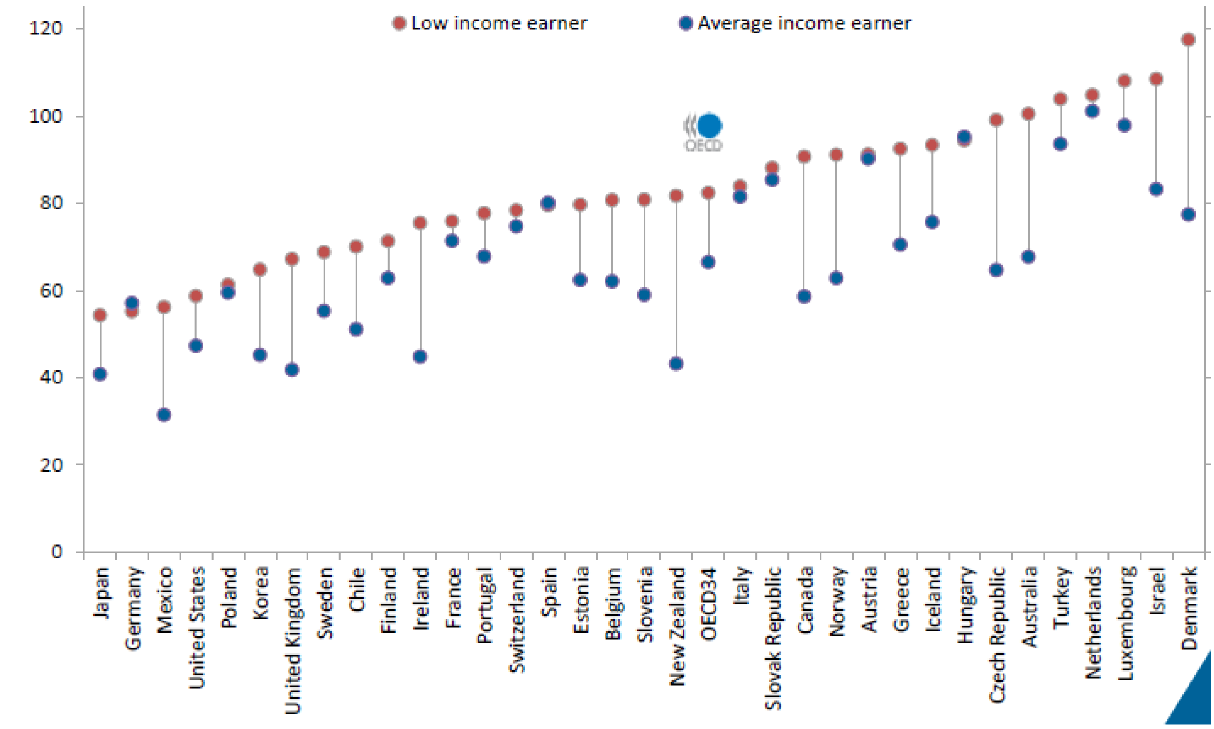
1.3.1 - KEY FEATURES AND RECENT REFORMS OF PUBLIC AND MANDATORY PENSION SYSTEMS IN OECD COUNTRIES

Component 1

The decision recently made in China to integrate civil servants and staff of public organisations in the general scheme for salaried employees has led to adjustments in the pension entitlements of the latter, to avoid a loss in acquired rights. As a matter of fact, public pension schemes in highly industrialised countries – which includes, but is not limited to European countries – have experienced over the recent past several downturns, making the respective public pension schemes less responsive to the needs and expectations of insured persons. This Note, based on a study presented at one of the project events, summarizes recent developments in this field from the view

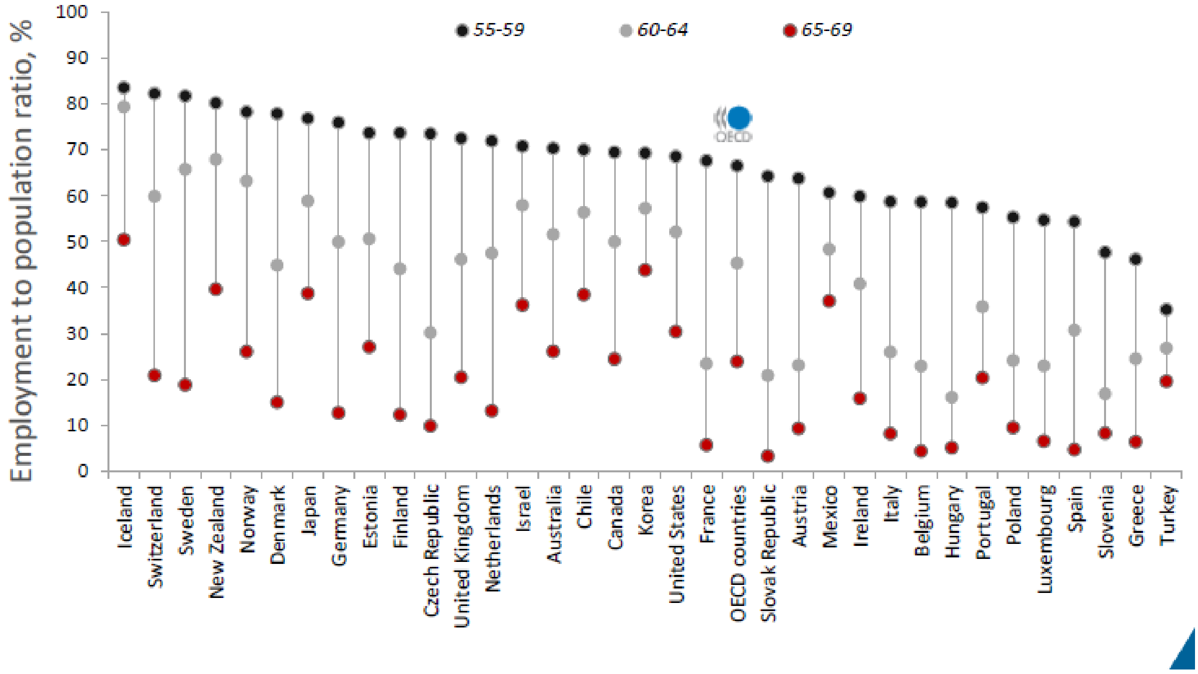
► Net replacement rates vary strongly across countries

The long-term net replacement rate for a person entering the labour market in 2012

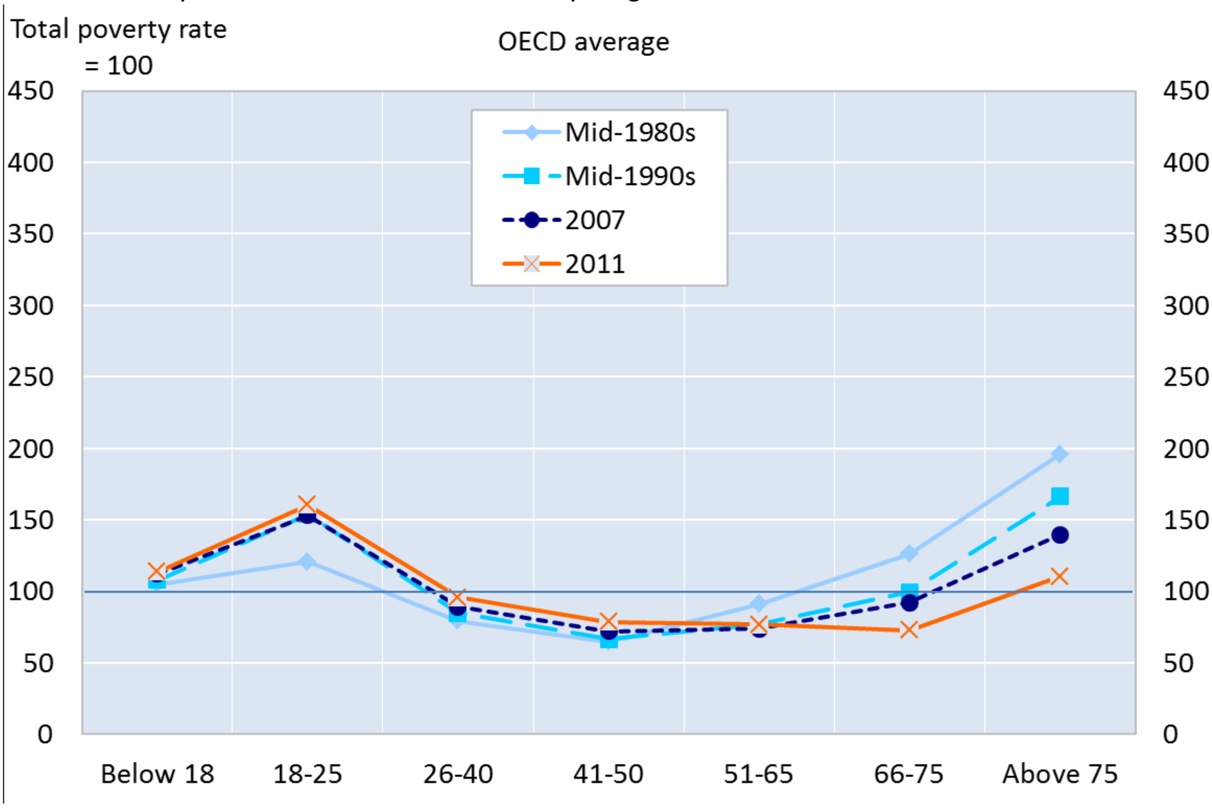


► Employment rates of older workers fall strongly from age 60

Employment rate of older people in 2013



► Poverty has shifted from the old to the young



Policy action 2012-2014

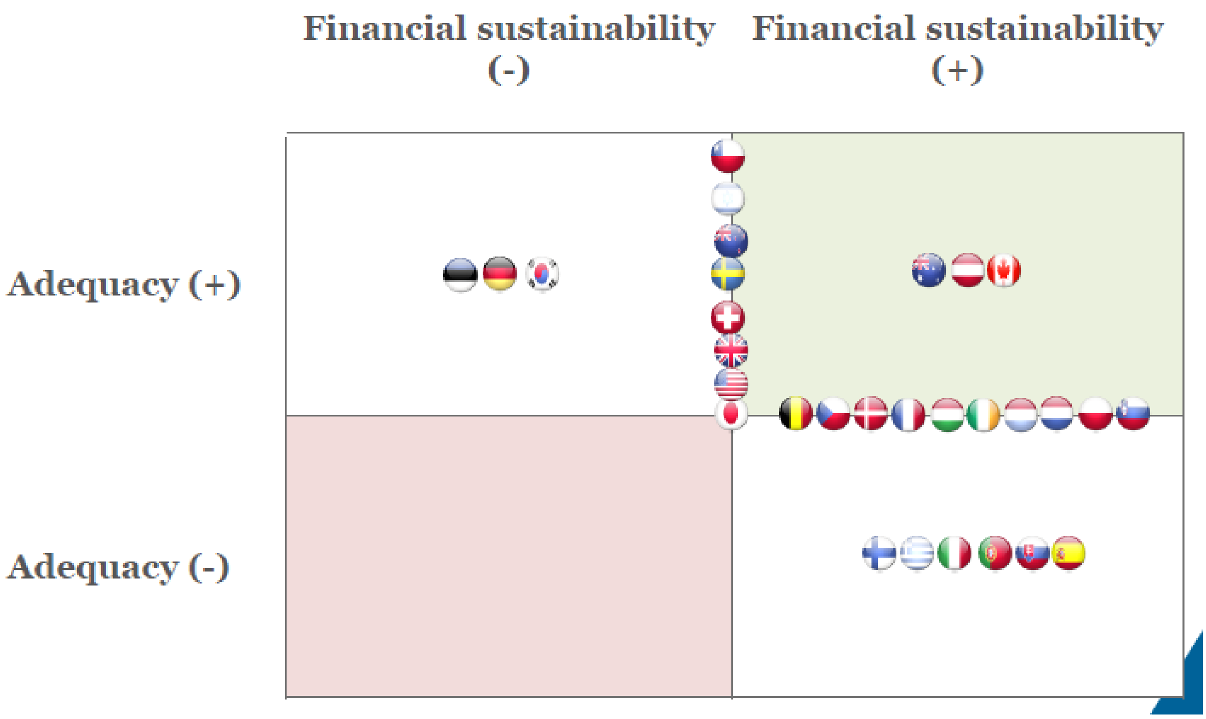
► Difficult times for pension systems

・Fiscal pressure is intense

・Low economic growth, high unemployment, lowvcontributions, low returns translate into
- low internal returns in PAYG schemes, andvfinancial sustainability issues
- low financial returns which generate retirement income adequacy concerns
- loss of confidence in private pensions, mistrust that public pensions will deliver promises
・Population ageing prospects pose a persistent long-term challenge and can amplify these effects

► Recent policy action 2013-2014

- Acceleration of pension reforms
- Future pensions are likely to look very different from those of current retirees
- Financial sustainability of pension systems was improved in the majority of OECD countries
- Pension benefits might be reduced in some as a result. Yet, about half OECD countries introduced measures improving adequacy for certain groups of people
    - Serious challenges remain



► Financial sustainability

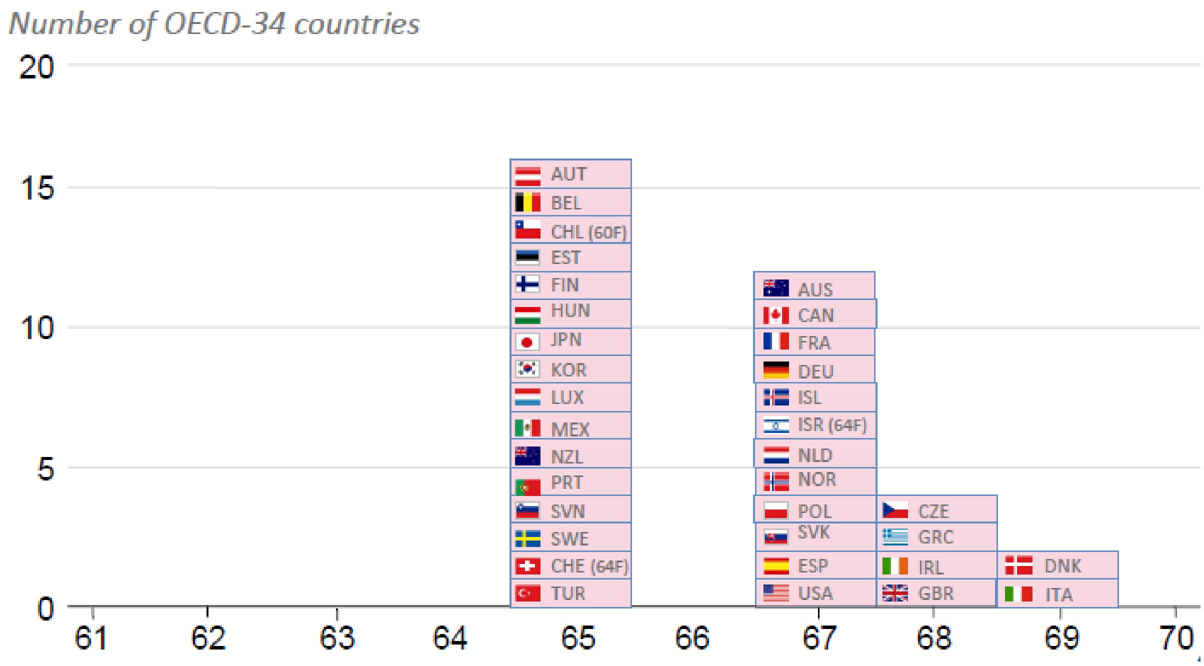
・About two thirds of OECD countries took measures to improve the financial sustainability of their pension system

· The impact is expected to be especially important in countries worst hit by the crisis (Greece, Hungary, Italy and Portugal)
· No nominal cuts in benefits (except in Greece; in Portugal they were ruled out by the Constitutional Court)

▶ Three main types of sustainability measures …

· Less favourable indexation
CZE, ESP, FIN, FRA, GRC, ITA, LUX, POL, HUN,SVK
Example: In Czech Republic, the indexation of pension benefits (old age, survivor and disability) was lowered from full annual inflation adjustments to only 33% of inflation adjustments between 2013-2015.
• Longer working lives (higher retirement age, longer contribution period, tightening of early-retirement, stronger financial incentives)
AUT, AUS, BEL, CAN, DNK, ESP, FIN, FRA, GRC, HUN, IRL, ITA, LUX, NLD, POL, PRT, SVN
Example: In Ireland the pension age increased from 65 to 66 in 2014; and will continue to increase to 67 from 2021 and to 68 from 2028.

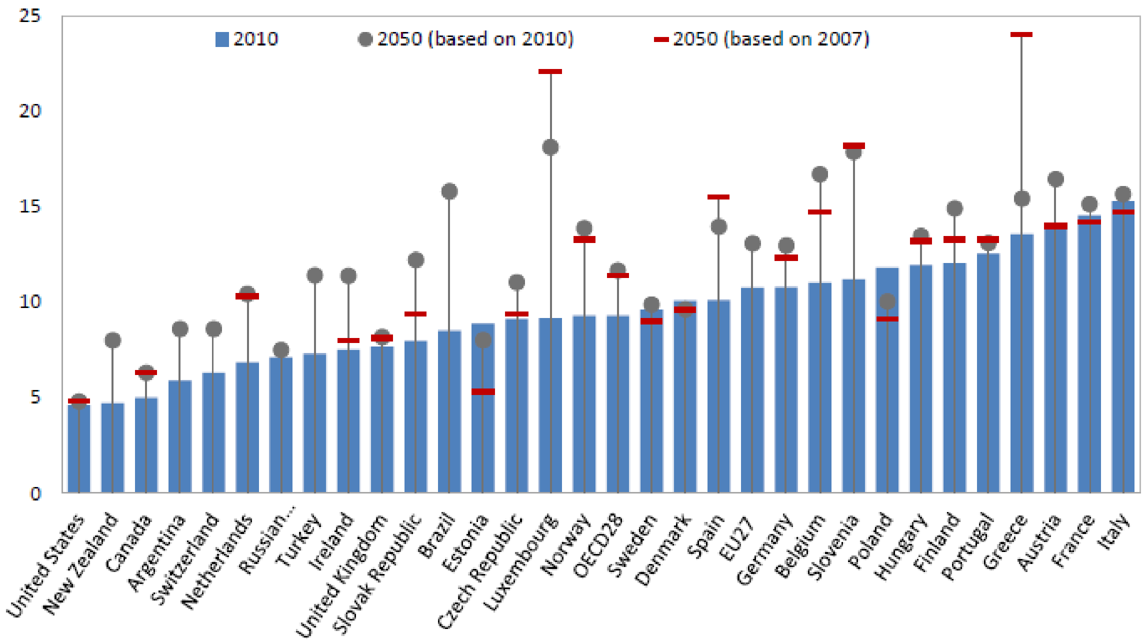
67 will be the new 65



• Increased taxation or contributions in DB schemes
CAN (Quebec), FRA, FIN, HUN, IRL, LUX, NLD

Example: In France the contribution rate will increase by 0.3 percentage points for both employees and employers by 2017.

► Financial sustainability remains a challenge



► Implications for adequacy

・As a result pension benefits will be reduced in some countries, in particular in Greece, Italy, Portugal, but also in Finland, the Slovak Republic and Spain (unclear for CZE, FRA, LUX)

Example:

・Some countries took some action to address adequacy concerns

► Main adequacy measures

・Extended coverage :

- pension credits (DEU, EST, FRA, JPN)
- auto-enrolment/financial incentives (CHL, GBR, LUX, NZL)
- new schemes (AUS, CAN, CZE, KOR)

Example: In Korea a new basic pension was introduced in July 2014.

• Increase in benefits targeting vulnerable groups (IRL, JPN, LUX)

Example: In Luxembourg the basic pension is increasing slightly as a result of the new pension reform (on average by about 0.44% per year) from October 2012.

・Increase in DC contribution rate (GBR, ISR, NZL)

Example: In Israel employees' contribution to the mandatory DC occupational plans increased from 2.5% to 5% in 2013 and employers' contribution increased from 2.5% to 10%.

· Lower taxes for pensioners (JPN, MEX, SWE, USA)
Example: In Sweden the basic pension income tax deduction for people over 65 was increased in 2014. This measure reduced taxation of pension benefits by slightly more than SEK 100 per month.
• Better governance of DC schemes (AUS, CHL, GBR, NZL)
Example: In New Zealand KiwiSavers (DC) providers will be required to post information on their websites regarding performance, fees, returns, portfolio and key staff information on quarterly basis (2013).

► Remaining key challenges

· Ensuring longer effective working lives: both demand and supply issues
· Maintaining income adequacy while concerns arise from labour market, social and financial risks
· Dealing with fiscal pressure on pension systems induced by population ageing
· Better sharing the financial burden across generations
· Addressing inequalities in remaining life expectancy
· Increasing coverage / contributions in private schemes
· Reducing pension administration costs and management fees (including in the provision of annuities ?)

AGEING UNEQUALLY

Monika Queisser,
OECD
February 2015

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中国欧盟社会保护改革项目

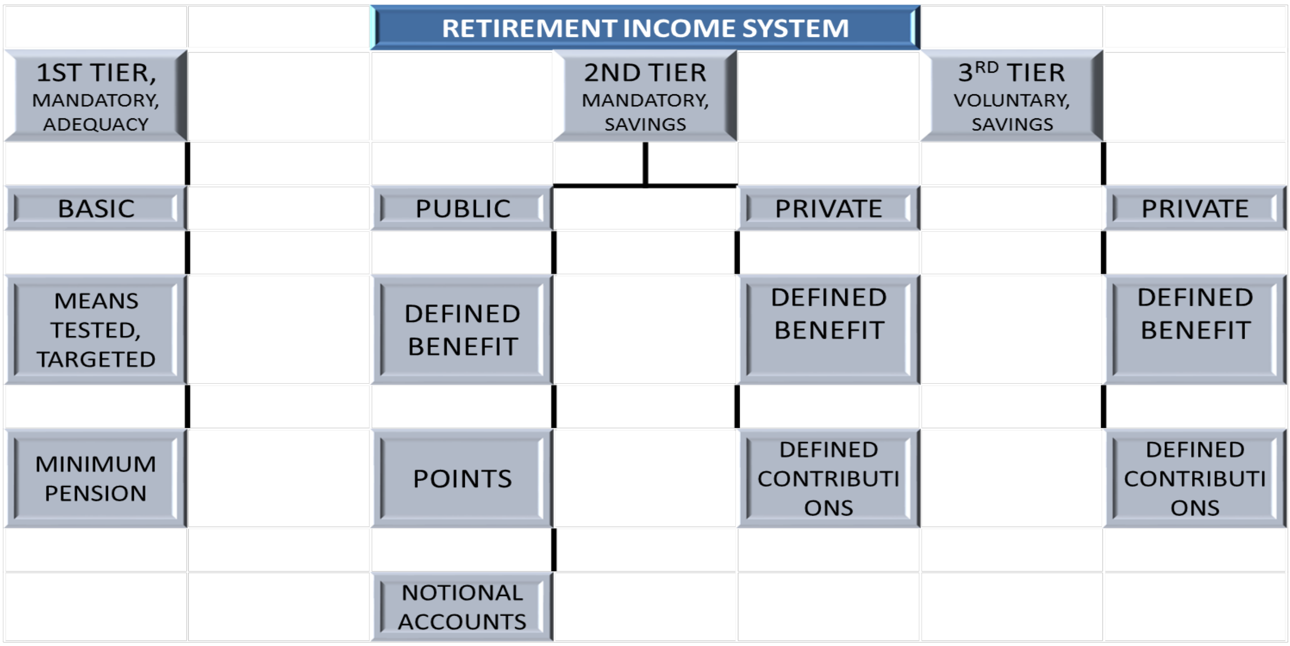
134 - MULTI-TIER PENSION SCHEMES

EUROPEAN OVERVIEW

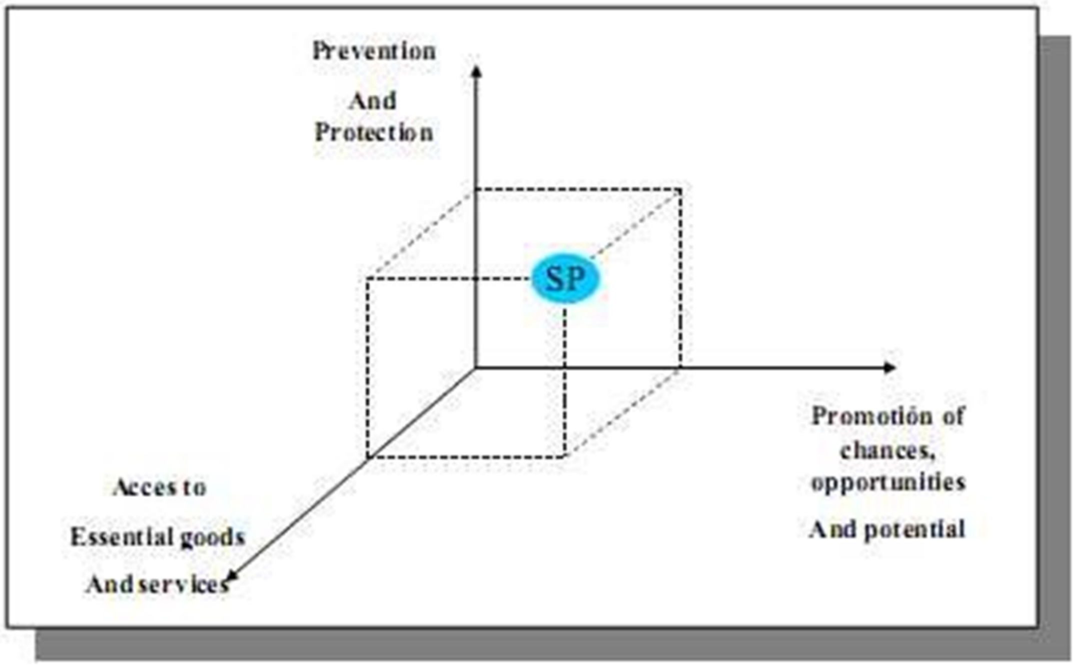
Component 1

The Chinese pension system for salaried employees mostly relies on a two-pronged public pillar, that includes a pay-as-you-go component under which a basic pension more or less proportional to the average salary in the pooling area is paid, and a notional defined contribution component paying benefits directly derived from accumulated nominal pension contributions in individual accounts. Few contributors benefit from entreprise annuity plans (7 to 8% of the stable insured workforce in the modern economy). It is commonly felt in China that the pension system is not diversified enough, and that pension layers corresponding to supplementary compulsory benefits and additional voluntary coverage should top up public pensions. This Note therefore provides some information on the design of multi-tier pension systems in European and OECD

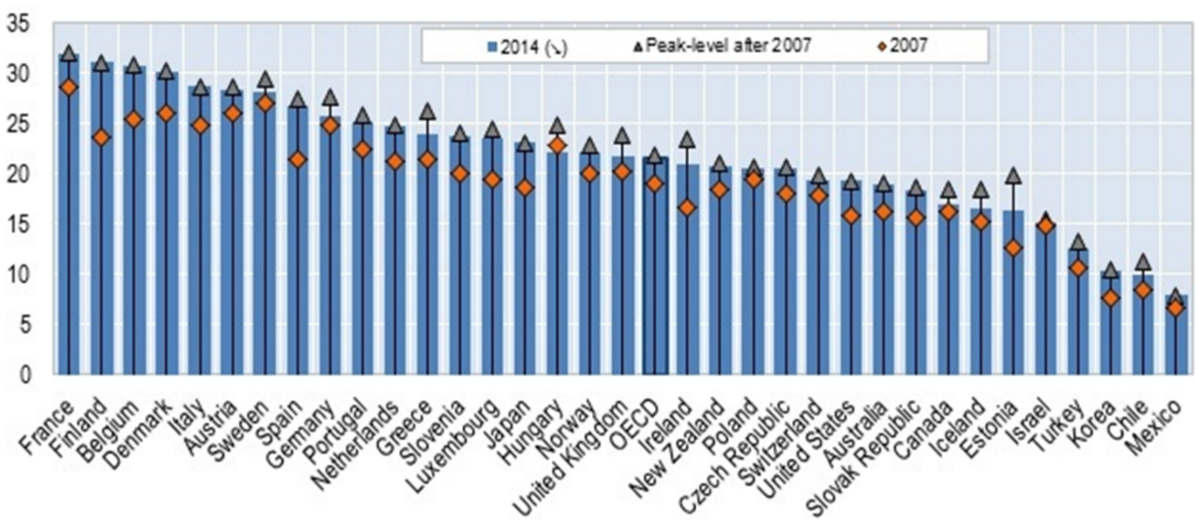
- Social Insurance was introduced in Europe towards the end of the XIXth century
- Two schools of thoughts are considered as representing the two main approaches to social security protection, namely the Bismarck approach and the Beveridge approach
- However, there is a strong convergence over the last few decades among the two systems
- A typical European (pension) (social security) system would be composed of three tiers – or pillars, or levels:
    - A general public scheme covering the widest possible segment of the population with strong anti-poverty component
    - Occupational schemes basing pensions on contributions paid, managed outside public administration
    - Voluntary saving plans to achieve better replacement rates for best paid segments of the population



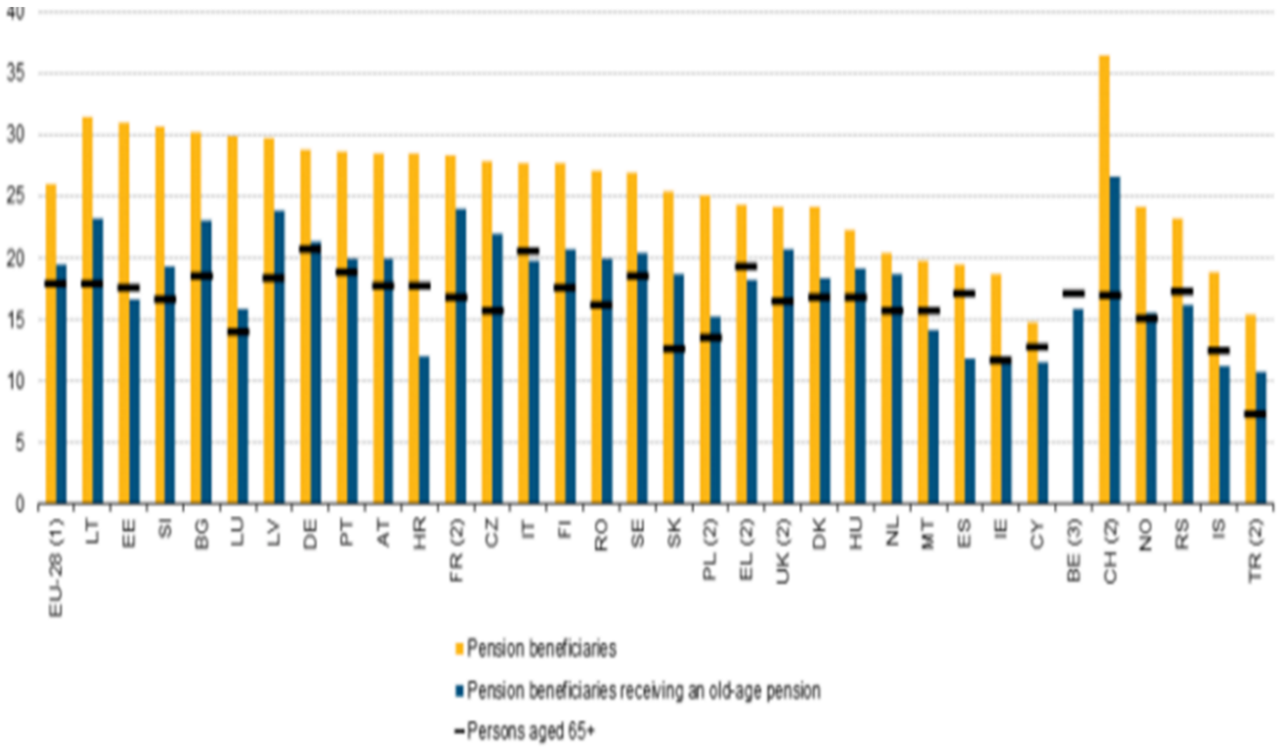
- European social security systems are currently designed in a manner that they simultaneously expand in three directions, namely
  - that of ensuring access to essential goods and services (livelihood guarantees),
  - that of ensuring prevention and protection against the occurrence of social risks (proactive security - replacing lost income, or income mobilized through occurrence or social security risks), and
  - that of promoting the potentials and opportunities of individuals (facilitating access to social services, to education and training, to credit, to preventative measures, etc.).
- Pension systems also relate to these three directions
- They function under the general responsibility of the State, and have universal coverage as their goal



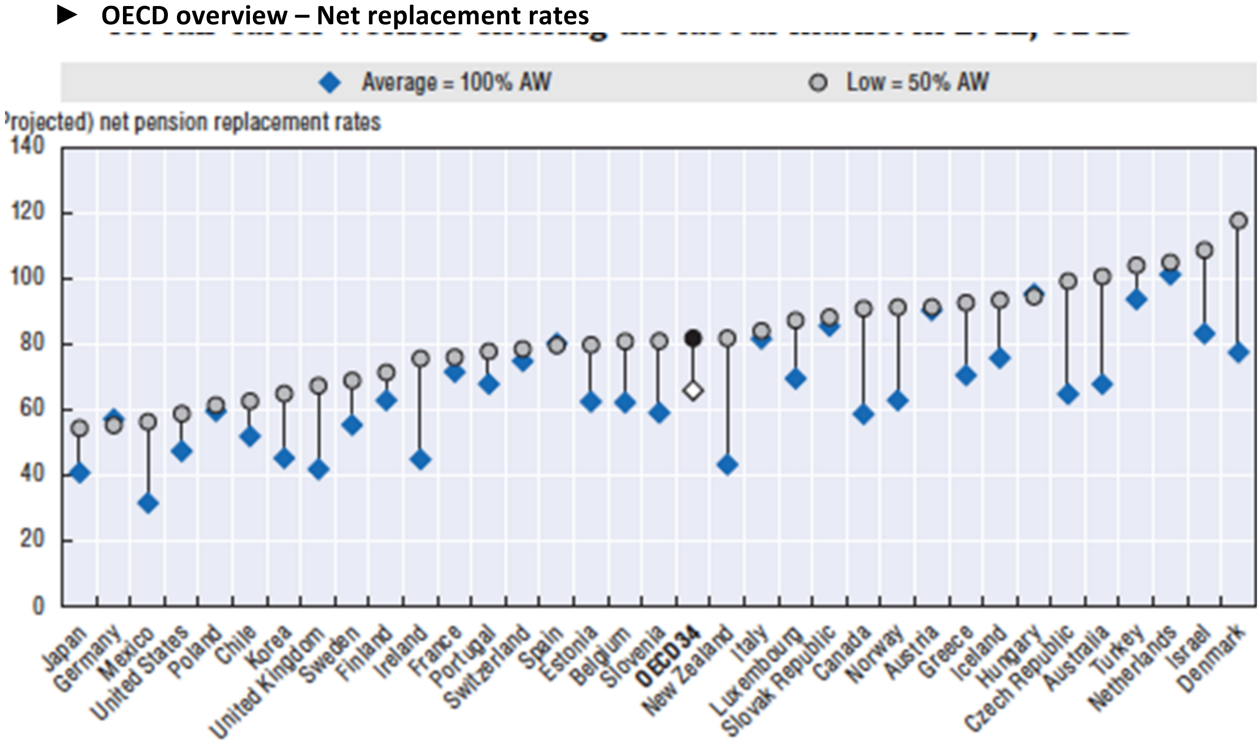
- **OECD overview – Social cost in % of GDP**



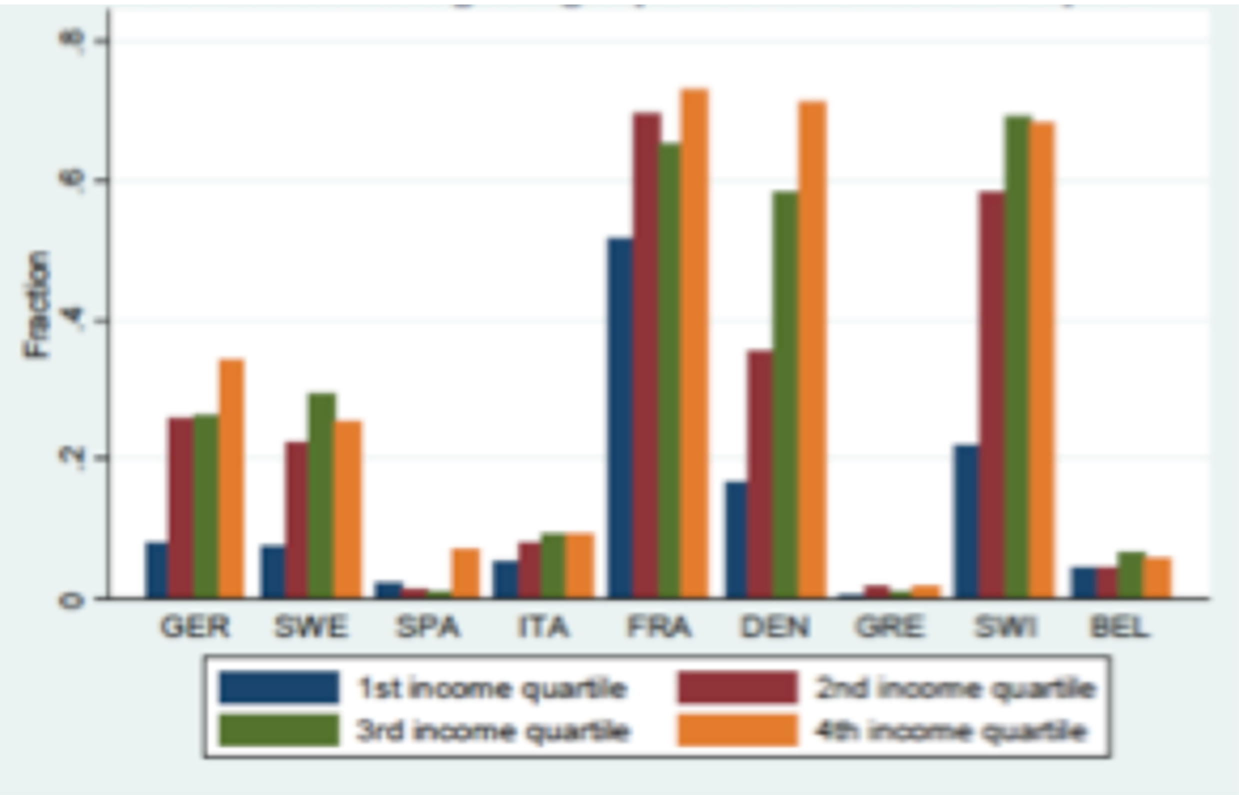
► **European overview – Pension recipients**



► **OECD overview – Net replacement rates**



► **Fraction of retirees getting a pension from 2nd Tier**



► **Fraction of retirees getting a pension from 3rd pillar**

► European overview – Importance of 3 pillars (value)

COMPOSITION OF RETIREMENT INCOME				
COUNTRY	% OF RETIREMENT INCOME FROM			MEDIAN IRA WEALTH *
	1ST PILLAR	2ND PILLAR	3RD PILLAR	
GERMANY	88.1	4.3	5.3	24.281
SWEDEN	76.6	15.1	5.9	14.535
NETHERLANDS	58.3	29.4	11.7	N.A.
SPAIN	94.9	0.0	2.5	13.528
ITALY	90.9	0.0	6.9	15.880
FRANCE	75.4	19.8	3.5	16.803
DENMARK	72.6	17.4	7.8	10.620
GREECE	90.9	0.0	5.7	1.764
Does not add to 100% because of small proportion of employment income				
* IRA: INDIVIDUAL RETIREMENT ACCOUNT. IN Euros, PPP ADJUSTED – ALL PERSONS				

► European overview – Summary of pension types

MEMBER STATES	1ST TIER UNIVERSAL COVERAGE CONTRIBUTIVE	1ST TIER BIS STATUTORY DC_FUNDED PENSIONS	2ND TIER OCCUPATIONAL PENSION SCHEMES
BELGIUM	DB		DC
BULGARIA		NDC	
CZECH REPUBLIC	DB		DC
DENMARK	FLAT RATE+MEANS TESTED		DC
GERMANY	DB		DC
ESTONIA	OLD :DB	NDC	
GREECE	DB		DC
SPAIN	FLAT RATE		DC
FRANCE	DB		DC
IRELAND	FLAT RATE /DB		DC
ITALY	OLD :DB	NDC	DC
CYPRUS			DB
LATVIA	OLD :DB	NDC	
LITHUANIA	OLD :DB	NDC	
LUXEMBURG	DB		DC
HUNGARY	DB	NDC DISCONTINUED	DC
MALTA	DB		
THE NETHERLANDS	FLAT RATE		DB
AUSTRIA	DB		DC
POLAND	DB	NDC DISCONTINUED	DC
PORTUGAL	DB		DC
ROMANIA		NDC	
SLOVENIA	DB		DC
SLOVAKIA	DB	NDC	DC
FINLAND	DB		DC
SWEDEN		NDC	DC
UNITED KINGDOM	FLAT RATE		DC

JV Gruat, juillet 2015

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中国欧盟社会保护改革项目

1.3.6 Extending working life through pension system reform

A compilation courtesy of the Spanish Ministry for Employment and Social Security

Component 1

One of the critical elements in the parameters used for the determination of access to and level of benefits in the Chinese pension system (Urban employees) is the (considered) very low threshold to be entitled to a full pension, viz. 15 years of contributory services – while pension levels for this period of contributions had to be kept sufficiently high to avoid mass poverty among pensioners. Across Europe, countries have, over the recent past, also been considering and implementing measures primarily intended at increasing the duration of active working life on the basis of which duration pension entitlements are established. The present note, shared with the project by the Spanish Ministry of Employment and Social Security, summarizes the main aspects on which measures were recently taken by the various EU Member States.

The problem of the sustainability of pension systems has occupied much of the international agenda of recent decades. As a result of their study, proposals for reform have emerged in order to ensure their long-term survival. In Europe, the most recent reforms started in 2008 and continue today, and involve parametric reforms focused mainly on raising the retirement age, linking the evolution of life expectancy with retirement age and also with the amount of the pension.

Increasingly tight access to early retirement and efforts to increase the employment rates of older workers and the effective age of exit from the labor market have played a prominent role in the reforms of all countries and in The annual country-specific recommendations in the context of the European Semester.

Pension reforms usually have considerable transitional periods before they have a full effect. However, due to the great impact of the crisis on public budgets, in some countries recent reforms have affected not only future pensioners but also current pensioners. In any case, pensioners have been less affected by the crisis than the assets.

Even before the crisis began, it was clear that the magnitude of the aging population would force most Member States to raise the retirement age. To date, 24 Member States have increased or begun the process of raising retirement ages, while seven have introduced a mechanism to link the legal retirement age to life expectancy. In addition, many countries have decided to change the regulation of early retirement.

The table hereafter details the elements of pension reform that aim to improve the sustainability of the system through the extension of working life, which have been adopted in the countries of the European Union during the period 2008- 2014.

RECENT ELEMENTS OF PENSION REFORM WITH THE PURPOSE OF EXTENDING WORKING LIFE

COUNTRY	YEAR	ACCESS TO EARLY RETIREMENT MORE DIFFICULT	INCREASE IN LEGAL AGE FOR EARLY RETIREMENT	INCREASE IN LEGAL RETIREMENT AGE	INCREASE IN CONTRIBU-TORY PERIOD	AUTOMATIC INDEXING TO LIFE EXPECTANCY	COMPATIBILITY BETWEEN WORK AND PENSION RECEIPT
AT	2013	x	x				
BE	2012/2014	x	x				x
BG							
CZ	2011			x	x		
CY	2012					x	
EE	2010			x			
DE	2014			x			
DK	2011	x	x	x		x	x
FI	2012	x					
FR	2010/2011	x		x	x		
EL	2010/2012	x	x	x	x	x	
ES	2012	x	x	x	x		x
HU	2010	x		x			
HR	2013			x			
IE							
IT	2011	x	x	x	x	x	
LV	2011			x	x		
LT	2010			x			
LU	2012	x	x				
NL	2012	x		x		x	
MT							
PL	2008/2010	x		x	x		
PT	2012/2014	x		x		x	
RO	2011			x			
SK	2010/2012					x	x
SI	2012	x		x	x		
SE							
UK	2011/2014			x		x	

Fuente: Estados Miembros

ATAustria; BEBelgium; BGBulgaria; CYCyprus; CZCzech Republic; DEGermany; DKDenmark; EEEstonia; ELGreece; ESSpain; FIFinland; FRFrance; HRCroatia; HUHungary; IEIreland; ITItaly; LTLithuania; LULuxemburg; LVLatvia; MTMalta; NLNetherlands; PLPoland; PTPortugal; RORomania; SESweden; SISlovenia; SKSlovakia; UKUnited Kingdom

May 2017.

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中国欧盟社会保护改革项目

1.3.6. - EUROPEAN BEST PRACTICES

RELATED TO INDEXATION OF PENSION BENEFITS

Component 1

Among the parameters of the pension schemes for which changes are being considered, indexation of pension benefits (benefits in award and rights in course of acquisition) give raise to extended discussion within the various Chinese stakeholders. The present Note, prepared by Mr Koen Vleminckx on the occasion of a mission to China conducted under the auspices of the SPR project. Summarizes recent European experience in this respect.

With regards to the indexation in pension systems, one should make a distinction between:

- indexation mechanism after retirement: The method with which pension benefits are adjusted to take into account changes in the cost of living (e.g. prices and/or earnings.
- revalorization of contributions before retirement

1. Indexation mechanism after retirement

Because pension benefits are paid over a long period, they need to be protected against inflation. Benefits can be protected against price or wage inflation:

Price indexation: pension benefits are adjusted taking into account changes in prices. Usually, the consumer price index (CPI) is used to adjust pensions to the evolution of prices.

Wage indexation: pension benefits are adjusted taking into account changes in wages. Usually, average wage growth is used to adjust pensions to the evolution of prices.

Price indexation is most common in the EU and among the members of the consortium. The Czech Republic uprates benefits with a mix of inflation and wage growth. Some countries have progressive indexation, giving larger increases to low pensions. For instance, in Italy indexation is fully to prices for low pensions, 90% of prices or 75% of prices for higher pension.

During the last decade many countries have reformed pension indexation mechanisms, although the goals and effects of such action vary across countries and income levels. Some new indexation rules move towards less generous benefits, an especially sought-after effect in countries grappling with fiscal problems. For example, the Czech Republic, Hungary and Norway no longer index pensions to wage growth, while Austria, Greece, Portugal and Slovenia have frozen automatic adjustments for all but the lowest earners. In Finland, by contrast, the freezes on pensions and changes in indexation rules were meant to offset the drop in benefit levels that the standard, inflation-based index would have involved.

A switch in indexation from wages to prices leads to the logical conclusion that there is a fall in pension wealth (and the purchasing power of pensioners).

2. Revalorization of contributions before retirement

In DB plans is necessary to protect the value of pension entitlements when benefits are based on earnings over a longer period. More specifically, earnings need to be adjusted to take account of changes in living standards between the time pension rights accrued and the time they are claimed (sometimes called pre-retirement indexation). The notional interest rate notional-accounts systems is the exact corollaries of valorisation in DB plans.

The most common practice is to revalue earlier years' pay with the growth of average earnings. Belgium, France, Greece and Spain, revalue earnings only with price inflation and 25 years enters the benefit formula in the French public scheme compared with lifetime average in Belgium and the French occupational plans. Estonia, Finland and Portugal revalue earlier years' earnings to a mix of price and wage inflation.

Related best practices

In China, the urban basic pension in payment is currently indexed to a mix of wages and prices, which may be between 40% and 60% of average earnings growth. As most EU countries only adjust their pensions in payment to the evolution of prices, one could say that the Chinese indexing mechanism better protects pensioners.

A switch in indexation from a mlix of prices and wages to prices only would lead to a fall in pension wealth (and the purchasing power of pensioners). Among the consortium members, the Czech Republic has made a switch from wage indexation to price indexation.

Koen Vleminckx,
July 2015

1.3.6 Minimum standards - Parameters

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Component 1

China is actively considering the ratification of the Social Security (Minimum Standards) Convention, 1952 of the International Labour Organisation – ILO. This Convention includes a number of references to parameters to be followed by national public pension schemes. The present Note therefore details a selection of those parameters, in order to facilitate the related analysis of parametric reform that might be considered in China. The Chinese text of Convention 102 can be accessed from
http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/normativeinstrument/wcms_c102_zh.pdf

(English text: .
http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312247)

1. Parametric reforms of pension schemes are those reforms affecting, notably but not exclusively, the following parameters:
- Benefit formula,
- Credit periods,
- Basis for contributions,
- Minimum pensions,
- Retirement age,
- Conditions for early retirement,
- Bonuses for deferred retirement,
- Fringe benefits (such as extended health care for pensioners, taxation, pension supplements, access to social services),
- Other qualifying conditions,
- Accumulation of pension benefits and earnings from continued occupation,
- Indexation of past earnings,
- Indexation of benefits in course of payment,
- Periodicity in payment of benefits,
- New financial resources alternative to contributions
- Etc.

2. Convention 102 specifically addresses the following parameters: age for accessing benefits; qualifying period; minimum and maximum benefits; reference earnings; indexation of benefits. It considers in different sections old-age, invalidity and survivors' benefits.

3. Old-age benefits (Part V)

    a. Age – According to art.26, age for entitlement to full benefit cannot exceed 65. A pension should also be awarded depending on the working ability of the insured person.
    b. Accumulation of benefit and remuneration – Art.26: the benefit may be reduced or suspended in case of continued or re-entered gainful activity of the beneficiary
    c. Amount of benefit – Art.28, at least 40 years of previous earnings for 30 years of contributory (or equivalent) period
    d. Qualifying period – Art.29, maximum qualifying period for full benefit is 30 years, reduced benefit if at least 15 years
    e. Transitional period – Art.29, in case of a new scheme, a benefit shall be payable to persons who, because of their age, will not be able to contribute sufficiently long before reaching retirement age.
    f. Duration of benefit – Art.30, benefit shall be payable throughout the contingency, which is survivor beyond a prescribed age.

4. Invalidity benefit (Part IX)

    Qualifying period – Art.57, 15 years maximum qualifying period for full benefit, reduced benefit from 5 years qualifying period.

5. Survivors' benefits (Part X)
    a. Qualifying period – Art.63, 15 years qualifying period for full benefit, reduced benefit from 5 years qualifying period.
    b. Duration of marriage – Art.63, a minimum duration of marriage can be prescribed (childless widows and widowers)

6. Standards for periodical payments (Part XI)
    a. Maximum – Art. 65, when a maximum is prescribed for the benefit, it cannot be less than the benefit level resulting from the wage level of a skilled manual male employee (regional differentiation possible)
    b. Indexation – Art.65, benefits shall be indexed on changes in earnings when those are due to changes in cost of living.

JV Gruat, June 2017.

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1.3.7 - DEMOGRAPHY AND SOCIAL SECURITY
SOME BASIC CONSIDERATIONS

Component 1

China is considered as one of the fastest ageing, if not the fastest ageing country in the world. It has a particularly birth rate (total fertility rate estimated below 1.5) and has experienced rapid improvements in life expectancy (life expectancy at birth doubled since 1950, and is currently above 75 years – "healthy life expectancy" is of 68 years). While 10 years ago the population aged 65 and over was of some 100 million persons, including 30 million 80 and above, the numbers will reach 300 million including 100 million above 80 years of age in 2050. Since the effect of releasing the one-child policy (decision made early in 2016) will take time to be noticeable in terms of dependency ratio, and will anyway be limited – the one child remaining the preferred pattern of many urban households – China will be facing a combination of demographically-linked challenges in the decades to come: finding enough workforce, making work conditions suitable for elder workers, financing pay-as-you-go pension schemes, identifying investment opportunities for growing funded pension schemes, providing residential care for more and more isolated elderly persons, adapting health care provisions to an ageing population, providing social services to elderly in rural areas with very limited if any family support, etc.

1. In a society, demographic ageing may result from a variety of factors: increased life expectancy because of improved living conditions; better access to medical care; early retirement; more financial autonomy of the elderly through decent pension systems; decreased fertility rates not compensated by migratory flows; return of elderly population having spent their active life on different territories, etc.
2. Demographic ageing is a factor common to most European countries – China is still below European levels but may be catching up rapidly.

2010 % of the population	F	Ge	UK	I	Dk	Sp	Nl	PRC
Over 65	16.6	20.7	16.3	20.3	16.1	16.9	15.3	8.2
Over 80	5.2	5.1	4.6	5.8	4.1	4.9	3.9	1.34
Dep.ratio OA	25.81	31.7	24.72	30.99	24.98	24.43	22.82	11.3

3. Change in age structure of the population has important implications for social protection as a whole – not only for pensions financing.
4. There is a strong influence on the Labour market – with a need to adapting the workplace to an ageing population. Require particular scrutiny: working conditions, work place ergonomics, transition from income to retirement.

5. Demographic ageing may cause a particular strain on unemployment schemes, since elder workers are more likely to be unemployed – and less likely to re-enter the labour market (pre-pension arrangements, decreasing hours of work with compensation, transition from activity to retirement)

6. Older workers have more frequent use of disability pension provisions. In some schemes, there is presumption of disability once reached a certain age. Arduous occupation is an important factor (individual hardship account)

7. Occupational accident and diseases can occur more frequently for elder workers, who might be victims of more specific types of accidents linked to ageing – also more likely to incur accidents late in the day hence ad hoc preventative measures. In some professions, there are age limits for safety reasons

8. Social services specially dedicated to the elderly may be in more demand. Conversely, services for families with children may be less required, but this cannot be guaranteed (difference between old age and global dependency).

9. Health care is in more demand by the elderly than by the active population (expenditure per head above 65 can be over 5 times more than in age group 15-44). Also needs can be different. Ageing can have an influence on health care organization and provision of health services. Financing is not easy since even when elderly have earned relatively good pensions, their resources are still less than those of the active population. Deductibles can be less for elderly. Also contribution rates on pensions for HC can be higher than on salaries. Ethical questions if limits on health care for elderly because of cost.

10. Dependency is a critical challenge for old age. It relates to the situation where the elderly person cannot care for him/herself without more or less constant assistance from a third party. Dependency grows in number and severity with age. In some cases it requires specialized assistance, in some cases simple family help is sufficient. Modern trend is to try to avoid institutionalization of old age dependent persons. In some countries cost of support to dependency (financing assistance, compensating family members for loss of income, subsidizing specialized institutions) is ensured through a special insurance part of social security (France, Germany, Spain, the Netherlands, etc.). Other provisions exist within social security: pension supplements for constant care attendance; increase in basic pension passed a certain age.

11. Pension systems may be affected by demographic ageing since pensions are paid longer because of increase in life expectancy. Hence a trend in increasing legal retirement age in line with improvements in life expectancy. Demographic factor may also be included in benefit formula. There is no obvious link however between legal and actual retirement age in Europe – the work efficiency of elder workers may not be very high hence a temptation by employers to make them redundant and taken care of through specific provisions when approaching legal retirement age. There is no equality among workers concerning life expectancy at retirement age – a lot depends on working conditions. Increase in actual retirement age may also affect life expectancy.

12. Financing – The demographic base of contributors maybe shrinking with ageing – hence the need for corrective measures and/or expansion in personal scope of coverage. There is no clear evidence why funding would function better than pay-as-you-go in times of demographic ageing. In fact, funding requires high yields in real terms over a long period to provide good results, and there is no historical evidence of such circumstances.

13. Sources of financing alternative to contributions based on salaries should be explored to address demographic ageing (pre-funding, reserve funds, buffers exist. Also, base contributions on non-labour factors for non-labour intensive industries). The % of GDP spent on pensions and health care is a better indicator for affordability than rough contribution rates. Bear in mind that social security benefits as deferred salaries are part of workers' share in economic output – tendency is towards decrease, not increase (to the detriment of capital remuneration).

14. Supplementary schemes may provide some relief to the burden caused by demographic ageing for social security financing. However these schemes are usually voluntary or not accessible to some vulnerable workers. They cannot therefore be considered as a proper solution for ensuring sustainable decent basic protection. Supplementing pensions by income derived from extended work after retirement is probably also not a sustainable approach.

15. Demographic ageing is not only a cost for social protection. It is also an asset for the society – voluntary work available, investment in future generations by elderly, new customers for service industries not too much exposed to outside competition, etc. These positive factors have to be taken into account when debating the issue of affordability of demographic ageing.

Jean-Victor Gruat,
1 February 2016.

Component 1

1.3.7 - COVERAGE FOR LONG TERM CARE

OF DEPENDENT ELDERLY

One of the objectives of the Government is to establish in China a moderately affluent society where no category will suffer from excessive inequalities. To achieve this goal, it is necessary than parents of single-child family be granted financial and daily autonomy, to avoid an excessive burden on the younger generation. There is a growing concern about the lack of institutional care of a decent level, the difficulty in accessing public transportation or local administrations for ageing persons with decreasing mobility, the growing isolation of elderly persons in urban or rural residential areas.

To take Shanghai as an example, over the past 5 years the number of aged persons above 80 grew by 5.5% annually. In the city, over 1 million aged persons live alone. In the near future, 80% of the aged persons will be parents with only one child – while 13% of those aged 80+ cannot take care of themselves. The Chinese Government is therefore considering as a priority to establish a long term care dependency insurance – for which pilots are on-going in several locations – for which European experience is of great interest and value.

1. Demographic ageing is a factor common to most European countries – China is still below European levels but may be catching up rapidly.

2010 % of the population	F	Ge	UK	I	Dk	Sp	Nl	PRC
Over 65	16.6	20.7	16.3	20.3	16.1	16.9	15.3	8.2
Over 80	5.2	5.1	4.6	5.8	4.1	4.9	3.9	1.34
Dep.ratio OA	25.81	31.7	24.72	30.99	24.98	24.43	22.82	11.3

2. Change in age structure of the population has important implications for social protection as a whole – not only for pensions financing.
3. Notably dependency is a critical challenge for old age. It relates to the situation where the elderly person cannot care for him/herself without more or less constant assistance from a third party. Dependency grows in number and severity with age. In some cases it requires specialized assistance, in some cases simple family help is sufficient. Modern trend is to try to avoid institutionalization of old age dependent persons. In some countries cost of support to dependency (financing assistance, compensating family members for loss of income, subsidizing specialized

institutions) is ensured through a special insurance part of social security (France[1], Germany, Spain, the Netherlands, Belgium Flanders, etc.). Other provisions exist within social security: pension supplements for constant care attendance; increase in basic pension passed a certain age.

4. The Ageing report, which is compiled and published regularly by the European Commission Directorate General for Economic and Financial Affairs submits long-term projections of the budgetary impact of population ageing (currently over the period 2013 – 2060). This report includes a specific section on long-term care. This document is available from http://europa.eu/epc/pdf/ageing_report_2015_en.pdf

5. The European Commission and its Social Protection Committee have published in 2014 a report on Adequate social protection for long-term care needs in an ageing society (http://ec.europa.eu/social/BlobServlet?docId=12808&langId=en) that provides a detailed description of the challenges confronting European countries in this field, and of existing provisions in all of the 28 member states.

6. Long-term care is defined as a range of services required by persons with reduced degree of functional capacity who are consequently dependent for an extended period of time on help with basic and/or instrumental activities of daily living. Basic activities of daily living or personal care services are frequently provided in combination with help with basic medical services. Instrumental activities of daily living are mostly linked to home help.

7. Specific methodologies have been developed to assess the degree of dependency of insured persons for long-term care provision[2]. Long term care public expenditure represent on average 1.10% of GDP in European countries (28 MS). Those expenditure consist of benefits in kind (mostly stays in residential homes) and benefits in cash (mostly help to purchase services with third parties).

Long-term care public expenditure (health and social components), as share of GDP, 2011

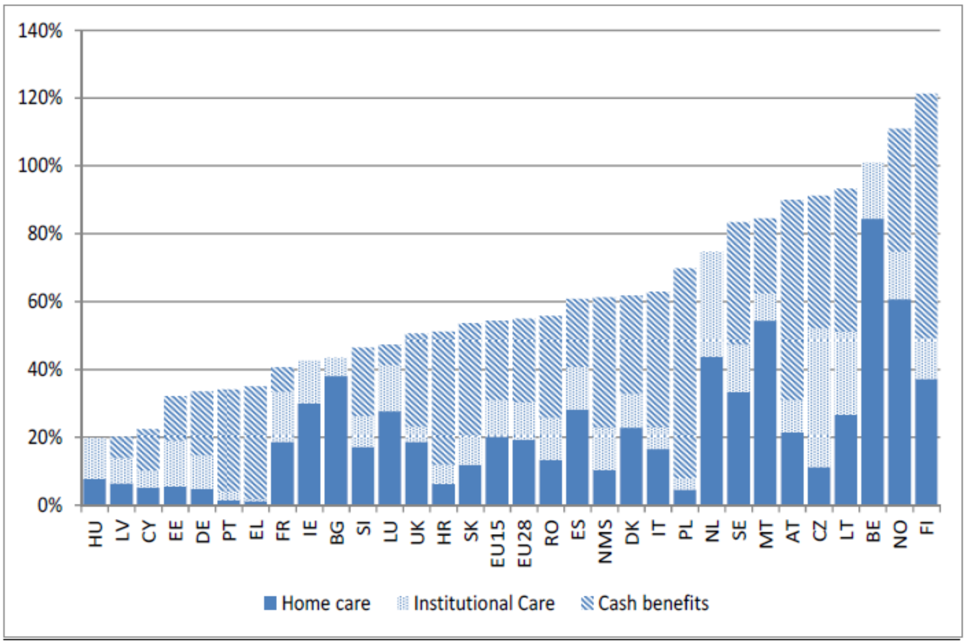
EU M. States	Health LTC	Social LTC	Total
Netherlands	2.7	1.0	3.7
Sweden	0.7	2.9	3.6
Denmark	2.4	:	2.4
Finland	0.7	1.4	2.1
Belgium	2.0	:	2.0
France	1.2	0.5	1.8
Austria	1.2	:	1.2
Luxembourg	1.1	0.1	1.2
Slovenia	0.7	0.2	1.0
Germany	1.0	:	1.0
Spain	0.6	0.1	0.7
Poland	0.4	0.0	0.4
Czech Republic	0.3	:	0.3
Hungary	0.2	:	0.2

[1] The National Solidarity Fund for Autonomy CNSA is in charge of distributing among local Governments subsidies to cover the cost of long term care benefits. Its resources represent a legal

[2] The ANCIEN project (Assessing needs of care in European Nations), concluded in 2012, documented several of these assessment methods. See http://www.ancien-longtermcare.eu/

Estonia	0.2	:	0.2
Portugal	0.2	:	0.2
Greece	0.0	:	0.0
Source: OECD Health at a Glance, ch.8.9			

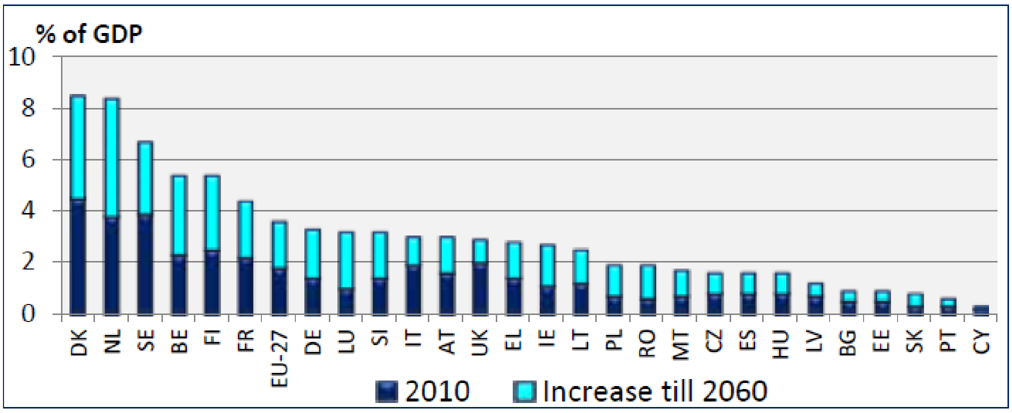
8. Rates of coverage (percentage of persons accessing benefits as a ratio of theoretically eligible population) varies significantly among countries as can be seen from graph below. Usage of benefits depends on a number of factors, like accessibility, quality and affordability of institutions, and eligibility criteria for cash benefits which are often means tested. Ratio can be over 100% since some beneficiaries receive benefits in kind and benefits in cash at different periods of the same reference year – and may therefore be counted twice.



(1) Median coverage rates between 2009-2013 in the EU and Norway; Coverage estimated as ratio between recipients and potentially dependent population; Recipient data, as provided by Member States; Coverage may be above 100%, as some recipients may receive cash benefits and in-kind benefits at the same time, which is not corrected for in this graph. Population of potentially dependent based on EU-SILC data on "self-perceived longstanding limitation in activities because of health problems [for at least the last 6 months]" is used.
Source: European Commission, EPC

8. Projected levels of expenditure (2013-2060) show in a number of countries a marked increase in long term care expenditure expressed as percentage of GDP, the increase appearing as being in a sense sharper when initial expenditures were higher. Sone countries therefore already started considering policies to constrain the cost of their long term care policies since projected expenditure may represent up to 50% of projected expenditure on pension benefits to which they have to be added (the cases of Denmark or of the Netherlands are systematic – where in 2013 public pension programmes represented some 8 and 6% of GDP respectively, with an additional approximately 4% for long term care projected to overcome 8% by the year 2060 (i.e. more than the current share for pensions).

LTC spending as % of GP, 2010 - 2060



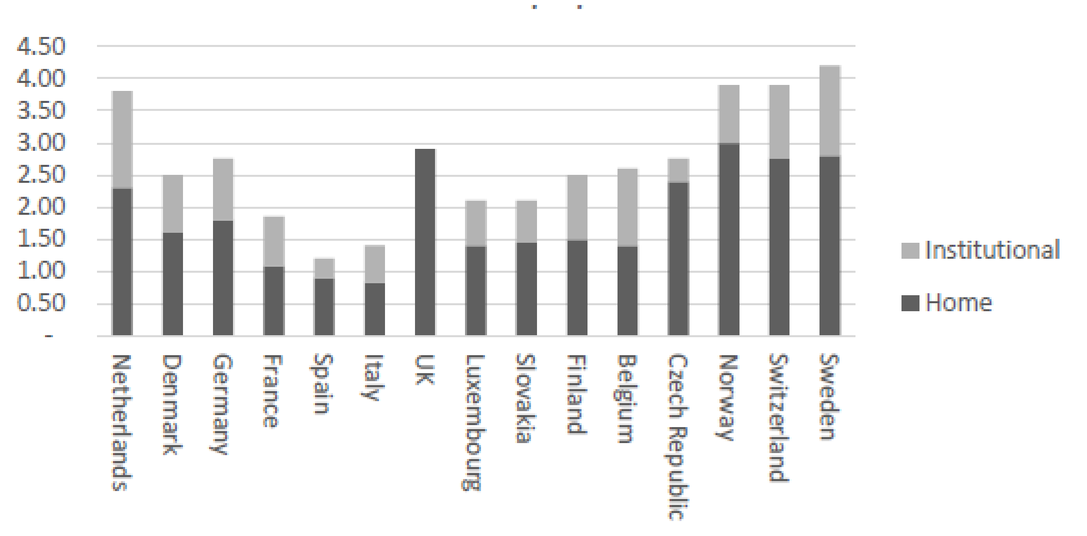
9. Cost containment measures envisaged may affect eligibility provisions, concern overall financial limitations on the programmes (which growth might for example be indexed on price increases only, demographic effects having to be addressed through other means) or result from preventative measures limiting the need for institutional care.
10. Governments and Social security programmes (which are not necessarily dedicated to long term care) in fact represent the most part of financing for LTC measures in European member states. Co-payments or out-of-pocket expenditure may however remain very high which may result in a de facto exclusion of the most vulnerable groups from long term care protection.

Long-term care expenditures by sources of funding, 2007 **(from OECD Health systems accounts, 2012)**

Countries	General gov. (excl. SS)	Social security funds	Private insurance	Out-of-pocket	Other	Non-profit NGOs	Corpora-tions
Portugal	2	51.4	1.1	45.4	0	0	0
Germany	12.5	54.7	1.7	30.4	0.7	0.6	0.1
Spain	61.7	10.2	0	28.1	0	0	0
Slovenia	18.3	57.1	0.5	24	0	0	0
Austria	81.1	0.7	0	17.1	1	1	0
Finland	77.2	7.6	0	14.2	1	1	0
Estonia	48.2	39.3	0.1	12.4	0	0	0
Denmark	89.6	0	0	10.4	0	0	0
Hungary	60.1	30.2	0.9	2.4	6.4	6.4	0
Sweden	99.2	0	0	0.8	0	0	0
France	44.8	54.4	0.4	0.4	0	0	0
Poland	43.1	49.2	0	0.3	7.4	7.4	0
Belgium	31.4	58.7	9.8	0.2	0	0	0
Czech R.	30.5	69.5	0	0	0	0	0
Netherlands	9.5	90.4	0	0	0.1	0	0.1

11. In May 2016, the US based Society of Actuaries published a study on Long term care coverage in Europe [3]which distinguishes three basic institutional models :
   - Long-Term Care Coverage Principally through Public Programs, where Public long-term care coverage is financed either by taxes or through social long-term care insurance schemes (case studies The Netherlands, Denmark, Germany).
   - Long-Term Care Coverage Combined with the Subsidiarity Principle, where the system may be called "hybrid " with several elements supporting a basic income. Benefits are usually capped. Public financing complements the revenues and assets of the dependent elderly (case studies France, Spain, Italy)
   - Long-Term Care Coverage Based on Social Assistance, which corresponds to a means-tested minimum safety net (case study: England – provisions vary according to regions of the United Kingdom).
12. The above-quoted study points to convergence in the following areas among the variety of schemes in force across Europe:

   - Priority to home care contrasting with the spell on institutional care prevailing a few decades ago (see OECD data below, 2010 report of the Commission on European Affairs – the percentage shown are those of the total population either institutionalized, or receiving home care)



   - Development of cash benefits instead of benefits in kind in the form of allocation of hours services, which allows better control by the financing entity (national government, local government and social security) and greater flexibility of use by the beneficiaries, especially for caregivers;

   - A trend toward free choice of providers, even for benefits in kind granted under the auspices of public authorities;

   - A limited role for private insurance.

Jean-Victor Gruat,

6 September 2016.

[3] Edith Bocquaire, https://www.soa.org/Files/Pubs/pub-2016-05-ltc-coverage-europe.pdf

ANNEX - Demographic and other data, European countries

Source: Social Security Programs Throughout the World 2014

Country	Total population (millions)	% 65 or older	Dependency ratio (per-centage) a	Life expectancy at birth (years)		Statutory pensionable age		Early pensionable age b		GDP per capita (US$)
				Men	Women	Men	Women	Men	Women	
Albania	2.77	10.7	45.7	74.4	80.5	65	60	62	57	10,489
Andorra	0.085	14.3	42	80.5	84.9	65	65	c	c	37,200
Austria	8.47	18.4	48.9	78.4	83.6	65	60	64	59	44,168
Belarus	9.47	13.8	41.1	66.6	77.8	60	55	c	c	17,615
Belgium	11.2	18	53.8	77.8	83.1	65	65	61	61	40,338
Bulgaria	7.27	19.3	49.2	70.9	77.9	63.67	60.67	c	c	15,941
Croatia	4.25	18.3	49.6	73.9	80.1	65	60.75	60	56	20,904
Cyprus	1.14	12.3	41.3	77.7	81.7	65	65	63	63	30,489
Czech Republic	10.52	16.7	46.1	75.1	81.2	62.67	61.33	59.67	58.33	27,344
Denmark	5.61	17.9	55	78.1	82.1	65	65	c	c	42,790
Estonia	1.32	18	51.2	71.5	81.6	63	61	60	58	25,049
Finland	5.44	19	55	77.7	83.7	65	65	63	63	38,251
France	66.03	17.9	56.5	79.2	86.1	61.17	61.17	c	c	36,907
Germany	80.62	21.1	52	78.6	83.3	65.25	65.25	63	63	43,332
Greece	11.03	19.7	52.3	78	83.4	67	67	c	c	25,651
Guernsey	0.066	17.9	49.3	79.7	85.2	65	65	c	c	d 44,600
Hungary	9.9	17.2	46.8	71.6	78.7	62.5	62.5	c	c	22,190
Iceland	0.323	12.8	50.4	81.6	84.3	67	67	65	65	39,996
Ireland	4.6	12.1	50.8	78.7	83.2	66	66	c	c	43,304
Isle of Man	0.087	19.1	55.7	79.3	82.8	65	62	c	c	53,800

Italy	59.83	21.1	54.3	80.4	85.6	66.25	62.25	c	c	34,303
Jersey	0.097	15.4	46.4	79.2	84.3	65	65	63	63	d 57,000
Latvia	2.01	18.6	50.2	68.9	78.9	62.25	62.25	60.25	60.25	21,381
Liechtenstein	0.037	15.4	46.5	79.5	84.4	64	64	60	60	89,400
Lithuania	2.96	15.7	44.6	68.4	79.6	63	61	58	56	23,876
Luxembourg	0.543	14.2	46.5	79.1	83.8	65	65	c	c	90,790
Malta	0.423	16.3	44.9	78.6	83	62	62	61	61	28,385
Moldova	3.56	11.4	38.8	64.9	72.7	62	57	c	c	4,669
Monaco	0.031	28.7	70.1	85.7	93.6	65	65	60	60	85,500
Netherlands	16.8	17	51.7	79.3	83	65.17	65.17	c	c	43,404
Norway	5.08	15.8	52.6	79.5	83.5	67	67	62	62	65,461
Poland	38.53	14.4	41.6	72.7	81.1	65	60	60	55	23,275
Portugal	10.46	18.8	50.5	77.3	83.6	66	66	55	55	25,892
Romania	19.96	15.1	43.3	71.1	78.2	64.75	59.75	59.75	54.75	18,635
Russia	143.5	13	40.5	64.9	76.3	60	55	c	c	24,120
San Marino	0.033	18.5	53.4	80.6	85.9	65	65	57	57	55,000
Serbia	7.16	14.3	44	72.6	78	65	60	54.33	53.67	12,374
Slovak Republic	5.41	13	38.9	72.5	79.9	62	62	60	60	25,333
Slovenia	2.06	17.2	46	77.1	83.3	65	65	60	60	27,915
Spain	46.65	17.8	49.5	79.5	85.4	65.17	65.17	61.17	61.17	32,103
Sweden	9.59	19.3	56.8	79.9	83.6	65	65	61	61	43,455
Switzerland	8.08	17.7	48.1	80.6	84.9	65	64	c	c	53,705
Turkey	74.93	7.4	49.3	71.5	78.4	60	58	c	c	18,975
Ukraine	45.49	15.1	41.9	66.1	76	60	55.5	c	c	8,788
United Kingdom	64.1	17.5	54	79.5	83.6	65	62	c	c	36,209

SOURCES: The World Bank, *World Development Indicators*, available at http://data.worldbank.org/data-catalog/world-development-indicators; U.S. Central Intelligence Agency. *The World Factbook, 2013* (Washington D.C.: Central Intelligence Agency, 2013), available at https://www.cia.gov/library/publications/the-world-factbook/index.html.

NOTES: Information on statutory and pensionable ages is taken from the country summaries in this volume.

GDP = gross domestic product.

a. Population aged 14 or younger plus population aged 65 or older, divided by population aged 15–64.

b. General early pensionable age only; excludes early pensionable ages for specific groups of employees.

c. The country has no early pensionable age, has one only for specific groups, information is not available, or the pension is awarded at any age if certain qualifying conditions are met.

d. Data from 2005 or earlier.

EU-CHINA
Social Protection Reform Project
中国-欧盟社会保障改革项目

Component 1

1.3.7 - SOME CONSIDERATIONS ON THE EUROPEAN EXPERIENCE WITH RETIREMENT AGE

With growing uncertainties about the mid to long term sustainability of the pension scheme, and a steady deterioration of the demographic ratio (which is the ratio between pensioners and active contributors) - the latter being due to both the slowdown in employment growth and the improvements in life expectancy - , the raise in legal retirement ae is considered as a necessity by practically all scholars and policy makers in China. Legal retirement age varies between 45 (some women in hazardous occupations or disabled) and 60 years (normal case, men and women) which is considered quite early in view of prevailing international practice. Many if not most of retired persons indeed take over a new job or simply continue working after retirement, which tends to indicate that raise in retirement age might be compatible with the working capacity of most elderly workers. Views diverge however on when these changes should take place, whom they should affect, and the pace at which reforms should be undertaken. Europe has accumulated a lot of experience over the past decade on increasing retirement age, and this Note aims at sharing information on how these programmes were designed, and what their results appear to be

1. When discussing pension matters in Europe, the theme of sustainability is unavoidable, owing notably to demographic ageing. The fact that Europe is confronted with a continued ageing of its population with progress in life expectancy[1] compounding the effect of lower generational replacement ratio, coupled with the high level in GDP reached by social protection expenditure[2] , is systematically put forward, as an empirical, unquestionable evidence that pensionable age should be increased to avoid the collapse of the system – and that allegedly scarce public resources should be better targeted and supplemented by a growing emphasis on supplementary private pension schemes mostly financed by the individuals themselves.

2. The focus on ageing is such that the European Union (under its Economic and Financial Affairs Directorate General, not its sector in charge of Social protection) regularly publishes important studies called Ageing Reports where very detailed analysis and reform proposals for the pension systems are to be found.

3. Interestingly, the 2015 Ageing Report shows that, whichever the scenario retained, labour productivity is by far the most important and almost the only sizeable factor for future GDP

[1] See Annex for some general, mostly demographic, data on European countries and territories.
[2] On average 29% in the EU – with important variations between Latvia, 15%, and France or Denmark, above 33%. By comparison, estimated level for China is 7% of GDP.

growth in the EU – demographic factors playing a really marginal role. It may therefore be seen as somewhat contradictory to promote decisions running against labour productivity through deferring retirement age, thus keeping on the workforce ageing workers whose working capacity may be diminished, who might require more training than other workers and whose remuneration and cost, through accrued rights and workplace adaptation, might be on the high side.

Table 1 – EU28 – Breakdown in GDP growth factors 2013-2060

Scenario	GDP growth in 2013-2060	Labour productivity (GDP per hour worked)	TFP	Capital deepening	Labour input	Total population	Employment rate	Share of working age population	Change in average hours worked	GDP per capita growth in 2013-2060
	1=2+5	2=3+4	3	4	5=6+7+8+9	6	7	8	9	10=1-6
Baseline	1.4	1.4	0.9	0.5	-0.1	0.1	0.1	-0.2	-0.01	1.3
Lower TFP (risk scenario)	1.2	1.2	0.8	0.4	-0.1	0.1	0.1	-0.2	-0.01	1.1
High life expectancy	1.4	1.4	0.9	0.5	0.0	0.1	0.1	-0.2	-0.01	1.3
Lower migration	1.3	1.4	0.9	0.5	-0.1	0.1	0.1	-0.3	-0.02	1.2
Higher employment rate	1.4	1.4	0.9	0.5	0.0	0.1	0.1	-0.2	0.03	1.4
Higher employment rate older workers	1.5	1.4	0.9	0.5	0.1	0.1	0.1	-0.2	0.08	1.4
Higher labour productivity	1.6	1.6	1.1	0.5	-0.1	0.1	0.1	-0.2	-0.01	1.5
Lower labour productivity	1.2	1.2	0.7	0.5	-0.1	0.1	0.1	-0.2	-0.01	1.1
Policy scenario - Linking retirement age to Life expectancy	1.4	1.4	0.9	0.5	0.0	0.1	0.2	-0.2	0.00	1.4

Source: Commission services, EPC

4. According to OECD data (https://stats.oecd.org/), the share of GDP earmarked for old-age pension benefits by European countries between 1980 and the beginning of the current decade has grown significantly, but at a very uneven path depending on the countries. Table 2 provides the detailed figures for a number of European countries. Here again, the diverging result among countries seems to stem more from overall growth and economic performance, than from the process of ageing or the evolution in retirement age itself.

Table 2 - % of GDP earmarked for old-age public pension programmes, 1980-2011

Year	1980	1985	1990	1995	2000	2005	2009	2010	2011
Austria	10,0	11,0	8,9	10,0	10,4	10,8	12,0	12,1	12,0
Belgium	5,9	6,3	6,5	7,0	6,9	7,1	8,1	8,1	8,3
Czech Republic	..	..	5,0	5,6	6,8	6,6	7,8	8,0	8,4
Denmark	7,0	6,9	7,3	8,4	7,1	7,3	8,3	8,2	8,4
Estonia	..	..	..	..	5,9	5,3	7,9	7,8	6,9
Finland	5,1	7,0	7,0	8,5	7,5	8,5	10,2	10,5	10,6
France	7,6	8,6	9,2	10,6	10,5	10,9	12,2	12,3	12,5
Germany	9,7	9,8	6,6	7,8	8,6	9,1	9,2	8,9	8,6
Greece	4,6	7,2	9,4	9,2	10,2	11,1	10,9	11,5	12,3
Hungary	..	..	..	..	7,0	7,8	9,9	9,1	9,3
Ireland	4,4	4,6	4,1	3,6	2,6	2,9	4,4	4,6	4,7
Italy	7,2	9,0	9,5	10,8	11,3	11,6	13,1	13,3	13,4
Luxembourg	5,9	5,5	7,6	8,2	6,9	5,2	6,1	5,8	5,9
Netherlands	6,1	5,9	6,3	5,5	5,3	5,5	6,0	6,2	6,2
Norway	5,1	5,5	7,1	7,1	6,5	6,3	7,0	7,0	7,1

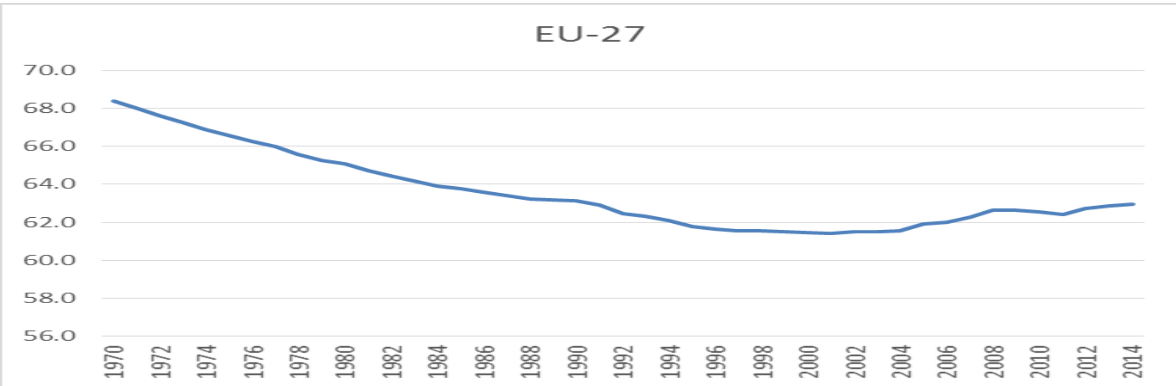
Poland	..	..	4,1	7,6	8,5	9,3	9,4	9,3	9,0
Portugal	3,1	3,3	4,0	6,0	6,6	8,9	10,6	10,8	11,3
Slovak Republic	..	..	..	5,5	5,7	5,7	6,4	6,4	6,4
Slovenia	..	..	..	..	10,1	9,5	9,2	9,6	9,8
Spain	4,6	5,8	7,2	8,3	6,8	6,5	8,1	8,6	8,9
Sweden	7,5	8,1	8,4	9,8	9,1	9,4	10,2	9,6	9,4
United Kingdom	4,2	4,4	4,8	5,4	5,4	5,8	6,4	6,1	6,1

5. There is anyway a substantial difference to be made between *legal retirement age* – usually the age at which insured persons may usually claim for a full retirement pension without reduction or penalty, whatever this means -, *pensionable age* which is the age at which a pension can be drawn with or without penalty, and *actual retirement age* which is a statistical fact corresponding to actual withdrawal from the labour market (or the active population) with or without receiving a retirement pension benefit under social security provisions (not receiving a pension benefit does not mean that the incumbent does not receive a long-term benefit, which could be e.g. an extended unemployment benefit, or a third pillar (employer's sponsored) partial or full pension, which may or may not be transitional).

6. Studies conducted since the mid-seventies have constantly shown that actual retirement age was often lower than legal or statutory retirement age in OECD-type economies[3], and that increases in legal retirement age was of little effect on actual age for withdrawal from the labour market – explanatory factors ranging from substitution company benefits, coverage through extended unemployment benefits, exceptions to the legal retirement age rule for health or family reasons, option for a reduced early retirement benefit or personal choice of the insured persons to withdraw from the labour market at an early age.

7. The graph below shows the trend in actual retirement age in EU-27 countries between 1970 and 2014 (men).

Graph 1 – EU 27, men – Actual retirement age 1970-2014

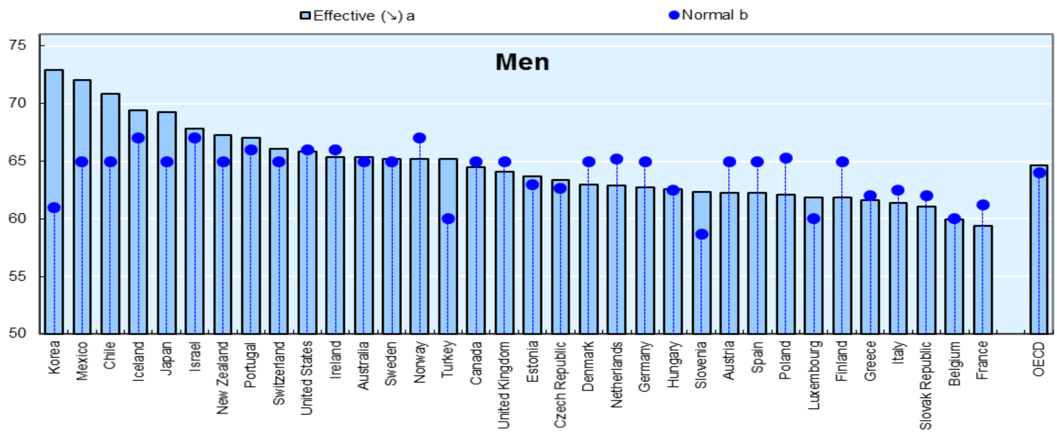


[3] Martin Tracy (ISSA Secretariat then University of Iowa) conducted one of the most convincing studies in that regard, using retirement data between 1960 and 1986. See Martin B. Tracy and Paul Adams, *Age at which pensions are awarded under social security: Patterns in ten industrialised countries, 1960-1986*.

4. The gain in pension years over the first three decades of the period under consideration is indeed important, since actual retirement age lowered by more than six years, while life expectancy at retirement age experienced a (probably correlated) additional increase. Since the beginning of the 21st century, there is however a trend upwards on average for actual retirement age, which probably corresponds to a widespread campaign in the concerned countries against expenditure on pension benefits considered as escalating in a non-sustainable manner.

5. This said, the situation is not homogenous among the countries. The below graph, also relating to the year 2014, shows that in a number of OECD countries, actual retirement age remains lower than the legal retirement age, whichever the latter is.

Graph 2 – OECD, men – Difference between legal and actual retirement age, 2014



6. Table 3 below (source: Elaketurvakeskus, Finnish Center for Pensions) provides data on current and prospective (reforms already passed or proposed by Governments) legal retirement age in European countries as well as in the United States, Canada and Japan.

7. It appears that those countries where actual retirement age is markedly higher than legal retirement age (in Europe only Portugal, Switzerland, Slovenia and Luxembourg fall into this category) are not necessarily those where retirement age or replacement income through pensions are particularly low. Other factors clearly intervene in individual decisions towards electing retirement age – and decisions are not always freely taken[4].

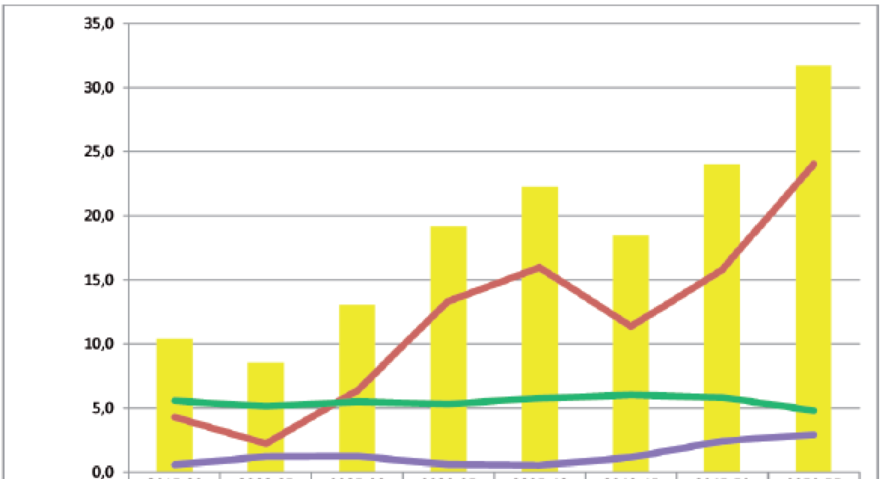
8. However, and in a somewhat surprisingly coherent manner, all but four of the countries listed in Table 1 (exceptions being 3 Scandinavian countries and Luxembourg, reform in Austria dealing only with the alignment of women's retirement age on that applicable to men) anticipate increase in legal retirement age within the next fifteen to twenty years with a typical prospective retirement age of 67 years, instead of the current 65 in the countries surveyed.

[4] Decisions to retire early may be forced upon individual workers through industrial restructuring plans, with or without partial compensation for losses incurred because of premature withdrawal from the labour market.

9. One may therefore wonder why after so many decades of historically decreasing actual retirement age and so many reforms in retirement age already passed over the last decade, Governments seem to still favor further legislating in this area, thus focusing the debate on an issue which, in the end, does not seem to affect too much the overall behavior of most salaried workers vis-à-vis their withdrawal from the active population.

10. It is true that maintaining the level of working age population in a context of demographic ageing – where both life expectancy increases, and total fertility rates decrease - appears as a global challenge of such magnitude, that it requires a manifold approach, including possibly raising retirement age further. There are however other possible responses, as shown in contemporary studies on migratory flows[5]. Graph 3 below shows the need for net migration required to keep working age population at its current level – a global approach which incidentally shows that Europe is not the continent most dramatically in need of workforce over the coming five decades.

Graph 3 – Required migratory surplus – 2015-2055



	2015-20	2020-25	2025-30	2030-35	2035-40	2040-45	2045-50	2050-55
Totale	10,4	8,5	13,1	19,2	22,3	18,5	24,1	31,7
Asia	4,3	2,2	6,4	13,3	16,0	11,4	15,8	24,0
Europa	5,6	5,1	5,5	5,3	5,8	6,0	5,8	4,8
Altri	0,6	1,2	1,2	0,6	0,5	1,1	2,4	2,9

Source: Michele Bruni, op.cit., p. 257

Table 3 - Retirement ages in Europe, the United States, Canada and Japan

Current general retirement age (2015)		Future retirement age	Current general retirement age (2015)		Future retir[t] age
EU	Men/		Lithuania (LT)	63y2m. /	65 (2026)

[5] See for example Michele Bruni, Lesdership economica, transizioni demografiche e migrazionin internazionali – Il caso della Cina, in Quaderni Fondazione G. Brodolini # 53, 2016

	Women			61y4m.	
Austria (AT)	65 / 60	65 (2033)	Luxembourg (LU)	65	–
Belgium (BE)	65	67 (GP 2030)	Malta (MT)	62	65 (2027)
Bulgaria (BG)	64y4m. / 61y4m.	65 (2017) / 63 (2020)	Netherlands (NL)	65y3m.	67+ (2024; GP 2021)
Croatia (HR)	65 / 61y3m.	67 (2038) / 65 (2030); 67 (2038)	Poland (PL)	65y7m. / 60y7m.	67 (2020) / 67 (2040)
Cyprus (CY)	65	65+ (2018)	Portugal (PT)	66	66+ (2016)
Czech (CZ)	62y10m. / 58y-62	67+ (2041)	Romania (RO)	65 / 60	65 (2030)
Denmark (DK)	65 ; 67	67+ (2022; 2030)	Slovakia (SK)	62 / 58y3m.-62	62+ (2017)
Estonia (EE)	63 / 62y6m.	65 (2026) / 63 (2016); 65 (2026)	Slovenia (SI)	64y4m.	65 (2016)
Finland (FI)	63-68 ; 65	65+ (RA 2027)	Spain (ES)	65y3m.	67 (2027)
France (FR)	65	67 (2023)	Sweden (SE)	61-67; 65	–
Germany (DE)	65y3m.	67 (2031)	**Other countries**	**Men / Women**	
United Kingdom (UK)	65 / 62y4m.	67+ (2028), 68 (2046)	Canada (CA)	65	67 (2029)
Greece (EL)	67	67+ (2021)	Iceland (IS)	67	–
Hungary (HU)	62y6m.	65 (2022)	Japan (JP)	61 / 60; 65 / 63	65 (2025) / 65 (2030); 65 (2018)
Ireland (IE)	66	68 (2028)	Norway (NO)	62-75; 67	–
Italy (IT)	66y3m /63y9m.	67+ (2022)	Switzerland (CH)	65 / 64	65 (GP 2020)
Latvia (LV)	62y6m.	65 (2025)	USA (US)	66	67 (2027)

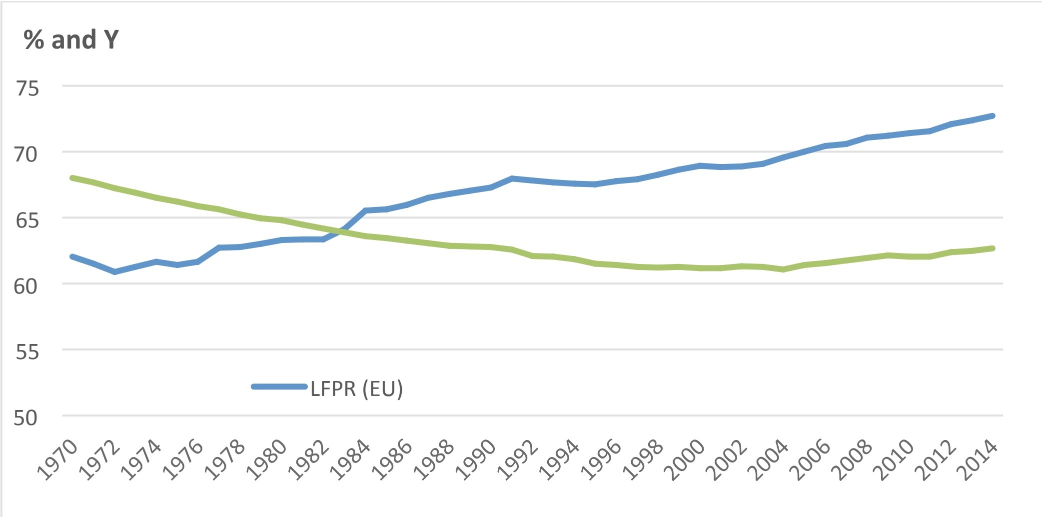
GP: Government proposal or plan of equivalent administrative level, +: Rising retirement age according to life expectancy. RA: Reform agreement by the central labour market organizations and the Government.

9. Elements often debated to question excessive focus on increasing retirement age to try and address difficulties confronting social security pension schemes are well known: increases in retirement age may produce effects only in the long run, since new provisions typically do not affect cohorts approaching retirement age – hence measures often presented as a response to a current crisis might provoke popular unrest without resulting in any improvement in the current financial situation of the fund; increasing retirement age at a time when elder workers have difficulties to be kept in employment while younger workers have even more difficulties to enter employment is seen as a labour market paradox; the fact that life expectancy grows is seen as a result of lower retirement age, while this improvement is uneven depending on the categories of the active population, with blue collar workers still experiencing a lot of premature deaths compared to higher level employees .

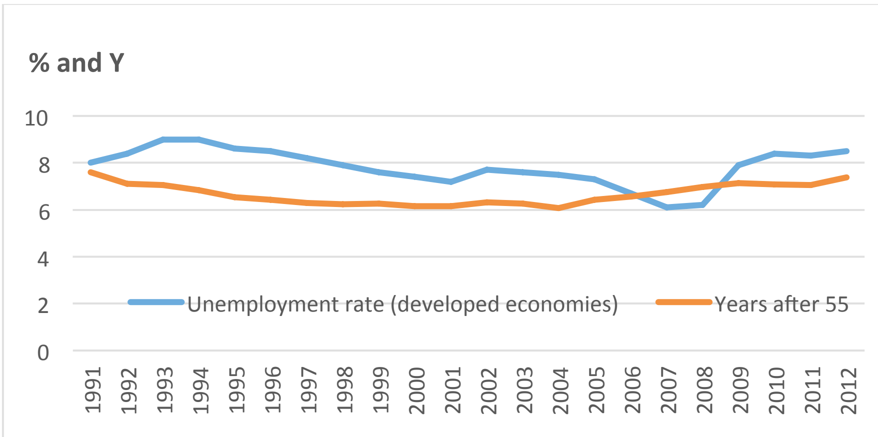
10. While statistical data concerning retirement age expand over a relatively long period of time in Europe it is not easy to find the same series concerning labour market functioning – probably because unemployment is considered as a short term contingency, for which

statistical definitions change relatively frequently. As a result, it is hard to evidence any relation between retirement age and unemployment. The following two graphs tend to show, however, that decreasing retirement age does not historically seem to affect labour force participation rates (Graph 4), and that unemployment rates do not seem to significantly be reduced – perhaps to the contrary – when the number of years spent by elder workers as members of the active population increases (Graph 5).

Graph 4 – Respective Evolution – Labour Force Participation Rate 15-64 and Effective age of retirement (EU member countries)



Graph 5 – Unemployment rate and years worked beyond 55 (effective retirement age)



11. Further, increases in retirement age typically would not be applied in a uniform manner to all categories of the active population. Initially, special provisions concerning retirement age for women were incorporated in a number of pension legislations. This difference, which generally speaking testified to the fact that women, which contributory records suffered from interruptions because of insufficiently covered maternity leave, breaks in career to raise children, lower than average remuneration, should benefit from a kind of compensation through earlier retirement opportunities. This partial compensation against discrimination was at one stage considered as constituting discrimination in itself. This approach, which could have led to a decrease in retirement age for men, resulted in fact in an increase in retirement age for women, preceding or accompanying an overall review of national

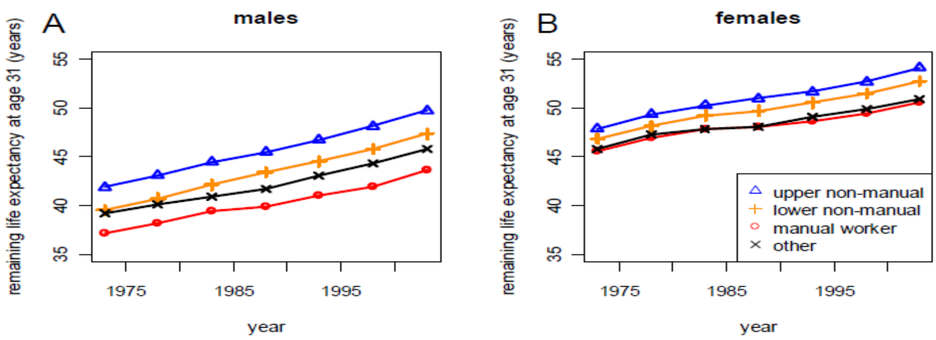
retirement age patterns. It is worth noting that the unfavorable situation of women in active life - for which compensation in terms of early retirement age was abolished - still persists, but that the struggle by women for better social recognition and occupational status has probably contributed to a decrease in fertility rates, now used to justify further increases in legal retirement age.

12. There have almost systematically been other early retirement provisions in social security pension systems, corresponding to the fact that certain occupations have such characteristics in view of which extended working life would cause a risk to the worker's health – or to the safety of the people served. Those issues are usually addressed through special schemes, or through special provisions for arduous or unhealthy occupations within a general scheme.

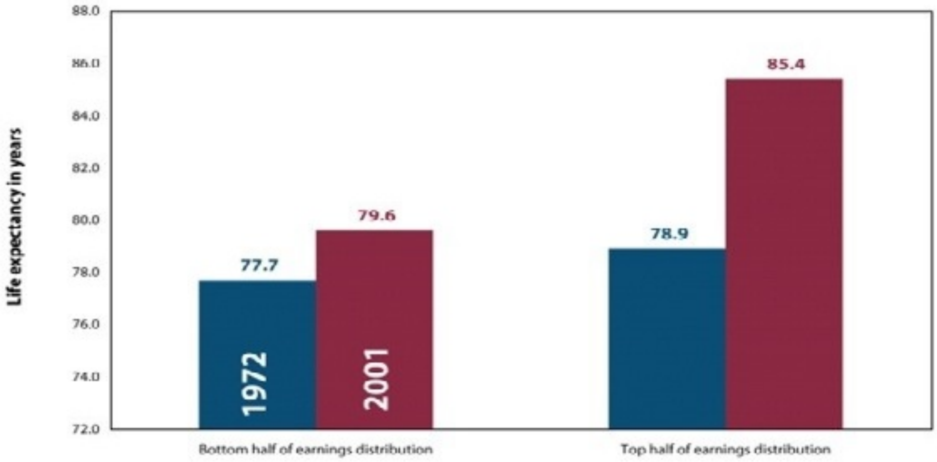
13. Some of these provisions have raised legitimate questions notably when early retirement provisions applied to a whole branch, and not only to workers in arduous occupations. Movement between occupations, and the non-continuity in exposure to working hazards also raised questions concerning the accumulation of entitlements to early retirement. The aspiration by employers successfully lobbying towards the development of simple, as economical as possible general pension schemes has led to a reduction in opportunities for early retirement, while workers most vulnerable and in need of such protection did not often benefit from provisions negotiated at the enterprise or branch levels to offset the decreasing protection available through general provisions to all those in need.

14. A study conducted in the UK has shown that, over a thirty years survey, progress in life expectancy benefitted in fact to those in the highest income bracket far more than to those in the lower bracket. Similarly, a Finnish study published by the Max Planck Institute shows that, between 1970 and 2005, the life expectancy deficit at age 31 for manual workers compared to non-manual workers has deepened by some three to four years. Increasing retirement age for manual workers, who already contribute towards their pension from an earlier age, to align them on the pattern of higher income groups who contribute over a shorter period but enjoy retirement for a longer period despite retiring later therefore appears to be socially questionable.

Graph 6 – Finland, gains in life expectancy at age 31



Graph 7 - UK, Gains in life expectancy according to income, 1972-2001



15. Other elements should intervene in the discussion, which are however not often debated since they sometimes conflict in raising issues seemingly not related to the sustainability of pension schemes. Those are notably the possible lack of empathy by experts promoting reforms while enjoying long careers in rewarding positions with the aspiration by most insured persons to enjoy retirement benefits financed by their contributions allowing for an early release from boring and arduous routine work[6]; the desire in certain circles to favor the expansion of private pension plans building upon the anticipated desire of a substantial part of the insured population to preserve their anticipated retirement age and replacement rate; the untold belief that retirement should remain a privilege and intervene mostly because working capacities have been exhausted.

16. It may also be that discussions around retirement age are used as a scapegoat to avoid addressing other, more fundamental issues related to social security protection, such as the steady decrease in the share of remuneration from work in GDP which directly affects schemes which financing is based on contributions assessed against salaries; the very slow if any progress in identifying for social security financing sources alternative to salary-based contributions[7] ; and, a spreading departure from the fundamental characteristic of deferred salary to be attached to the system, which should have implications both in terms of benefit computation and of overall democratic control.

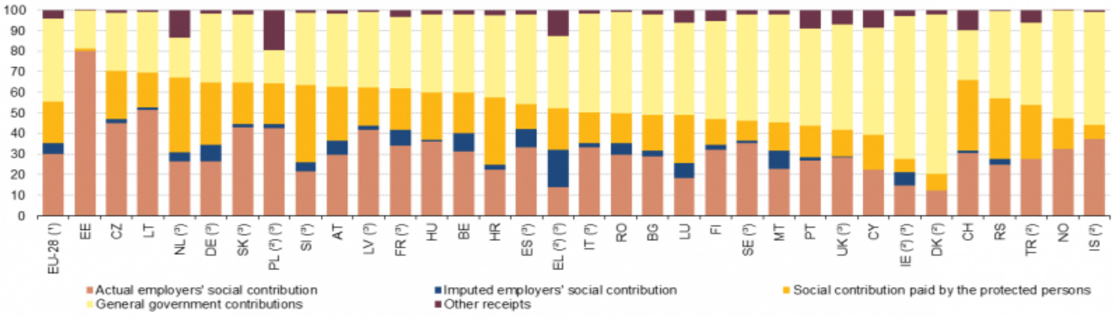
17. Graph 7 below (from EUROSTAT) shows that, across European countries, the share of social security resources that are NOT contributions assessed on salaries or income or general government subsidies remains particularly low – below 5% of the total with a few exceptions (the Netherlands, Poland, Greece, Portugal, the UK, Cyprus, Switzerland, Turkey). Such

[6] At the end of the day, contributions are a part of labour cost as salaries are. Workers do not "cash" immediately that part of the labour cost ("deferred salary") but should nonetheless be the main decision makers on the respective shares of immediate and deferred salaries, total labour cost being part of global social negotiation. See relevant provisions on Democratic management of social security schemes defining as compulsory the presence of workers' representatives on managerial bodies, while the presence of employers' representatives is considered as "desirable" only. When submitted to the International Labour Conference, these provisions were endorsed by workers and employers representatives alike.

[7] Those alternatives to contribution-based resources are necessary be it only to fully justify the extension of social security protection beyond the circle of those able to substantially contribute to the cost of their benefits (the equity – social efficiency – affordability/sustainability debate).

alternative sources of financing may include earmarked taxes, contributions assessed on all incomes, not only occupational ones, co-payment by beneficiaries, etc. The French General Social Tax CSG (coupled with another tax called Reimbursement of social debt RDS) is a typical example of such broadening of the basis for assessing contributions.

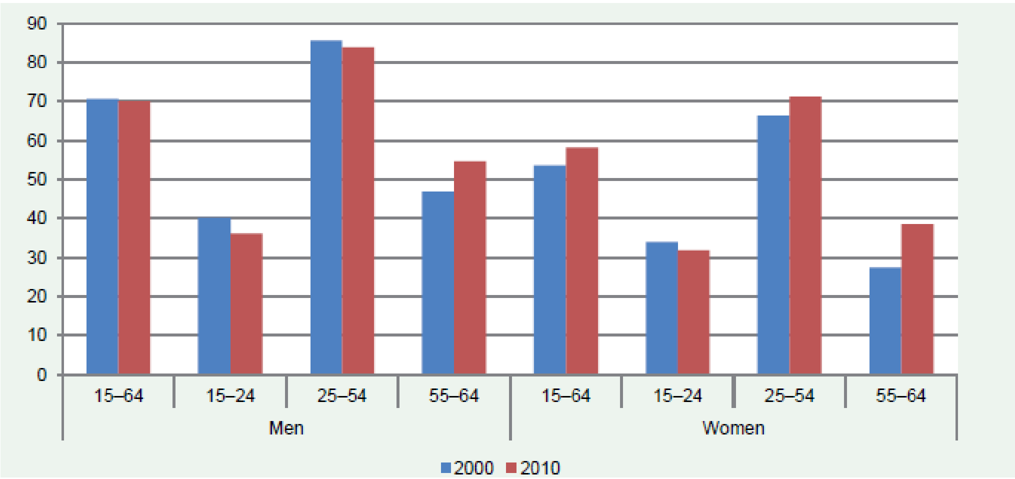
Graph 8 – % share of Social security receipts in Europe (2013)



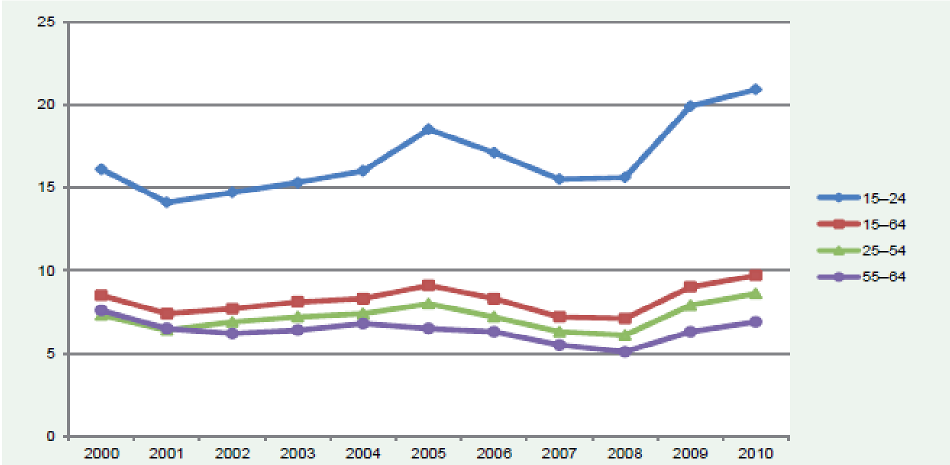
(¹) EU-28 figures are estimated.
(²) Data for DK, IE, EL, PL, IS and TR refer to 2012.
(³) Data for DE, IE, EL, ES, FR, IT, LV, LT, NL, PL, SI, SK, SE and UK are provisional.
Source: Eurostat (online data codes: spr_rec_sumt)

18. Whichever, elder workers do not necessarily need increase in legal retirement age to continue being part to the active population. There has been a marked trend in Europe over the last 15 years towards an increasing proportion of elder workers still being in employment – which does not imply that they do not receive a pension, since rules for accumulation between pensions and salaries are usually flexible, while some elderly occupations go with little or no remuneration. The graphs below illustrate the increase in elder workers' occupation rates, even in times when the overall labour market was shrinking.

Graph 9 – Evolution in employment rates by age and gender, 2000-2010, EU 27

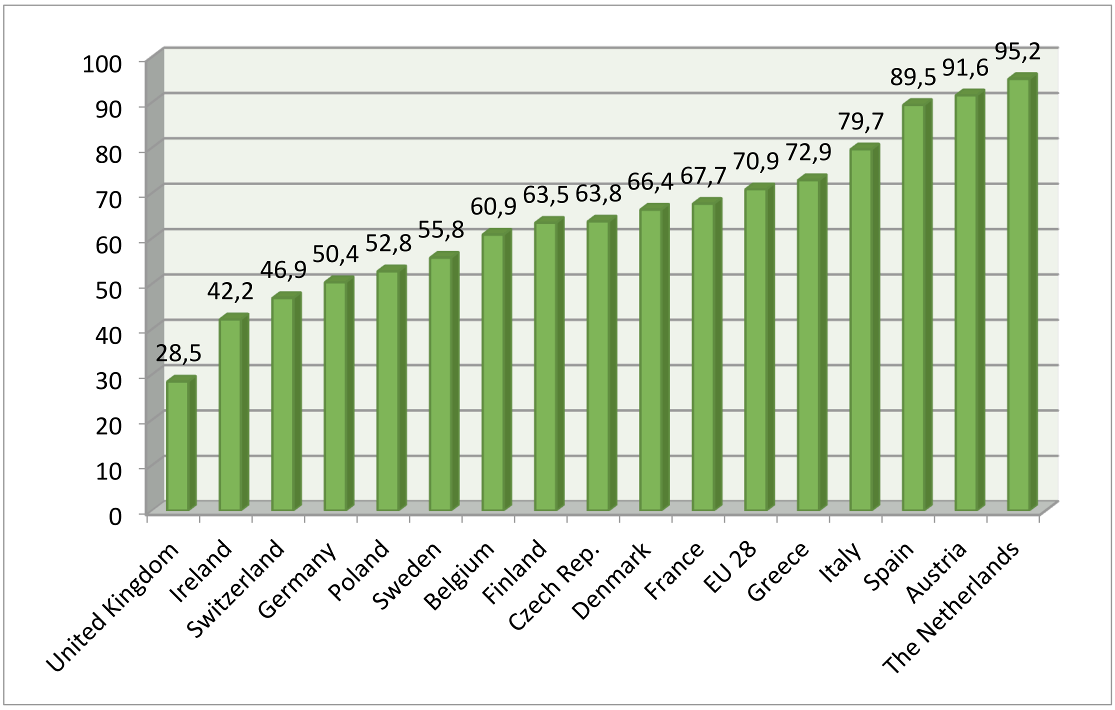


Graph 10 – Unemployment rates by age groups, 2000-2010, EU 27



19. One of the frequently used arguments in favour of increasing retirement age is that, through enhanced contributory periods, pension benefits levels would not too much be affected by other possible spending control measures. According to ECD, the average net[8] replacement rate compared to pre-retirement income in EU countries was slightly above 70% in 2014 with variation ranging from slightly less than 30 % (UK) to almost 100 % (the Netherlands).

Graph 11 – Net replacement rates in Europe, 2014 - % of last income



[8] Net replacement rate takes into account taxation effect, which is lower on retirees than on active persons, notably through mechanical effect of income levels. Gross replacement rate in 2014 for the same countries was estimated at 59%

20. In fact, already in 2006, the European Commission had predicted a significant decrease in replacement rates by the year 2050, because of reforms then being introduced or considered in national legislations. This deterioration sometimes affected lower income beneficiaries more, because of a stronger link between contributions and pension benefits. The EU 2005 predictions appear to have become reality – and new benefit formulae have resulted in the reappearance of a category which progress in pension benefits had almost eradicated from Europe, that of poor pensioners.

21. The 2015 Ageing report provides an even gloomier picture for the period 2013-2060, over which national pension reforms will produce their full effect with, as a result, a decrease by some 7 percentage points of gross replacement rates at retirement (from 42.5% of pre-retirement income to 35.9% for the 28 member countries on average, from 46.3% to 38.6% in the Eurozone).

22. Table 4 provides details for selected countries, showing a dramatic decrease by 30 (thirty) percentage points in Spain, 11 percentage points in France and 7 to 8 points in a number of countries, with relative stability being achieved in Finland and in Belgium only. It is clear that increases in legal retirement age do not yield sufficient additional accrual to offset negative impact on benefit levels resulting from other aspects on pension reforms.

Table 4 – Evolution in Replacement rates at retirement, 2013-2060

%	2013	2060	Δ	%	2013	2060	Δ
Belgium	**39.5**	**38.8**	**- 0.7**	**The Netherlands**	**29.8**	**28.3**	**- 1.6**
Denmark	**39.7**	**32.8**	**- 6.9**	**Finland**	**46.0**	**44.1**	**- 0.6**
Germany	**42.5**	**35.5**	**- 7.0**	**Sweden**	**35.6**	**29.0**	**- 6.7**
Spain	**79.0**	**48.6**	**-30.4**	**Norway**	**43.7**	**36.2**	**- 7.5**
France	**50.6**	**39.2**	**-11.4**	**EU 28**	**42.5**	**35.9**	**- 6.5**
Italy	**59.9**	**51.6**	**- 8.0**	**Eurozone 19**	**46.3**	**38.6**	**- 7.6**

23. It appears, to say the least, as striking that more than 60 years after the adoption of ILO Convention n.102, most countries in Europe appeared as unable to guarantee through public, compulsory schemes a replacement rate in pensions reaching the threshold of 40% of previous income, considered in 1952 as a minimum – not to mention the replacement rate of 65% for pensioners with dependents (50% for pensioners considered as alone) retained in the Council of Europe European Social security code (revised) in 1990.

24. It is true that benefit formulae are becoming less transparent and easy to read by individual insured persons, since the wages taken into consideration for computing so-called benefit defined pensions span over a longer and longer period, in many instances so close to the whole contributory records that one wonders why a distinction is being kept between contributions defined benefits and such "benefits defined" based on lifelong earnings. As a matter of fact, benefits defined pensions have practically disappeared from modern legislation, which makes one question the capacity of resulting formulae to achieve for pensioners "*living conditions non markedly different from those they enjoyed when in activity*".

25. Only through statistical comparisons such as those conducted under the Ageing Reports can one ascertain the actual replacement rate of the average pensioner in comparison with pre-retirement income, which is very different and significantly lower than the rate appearing in accumulation rate or benefit calculation formulae[9].

26. Increase in retirement age should be considered as part of the Adequacy measures for retirement benefits identified by the International Social Security Association (ISSA)[10] and reproduced in table 5 below – inasmuch as these indicators directly address the issue of age at retirement (point 2).

Table 5 – Adequacy measures for retirement benefits

1. Benefit levels
1.1. Prospective replacement rate
1.2. Current replacement rate
1.3. Home ownership rates
1.4. Historic replacement rate
2. Exiting the labour market at the correct age
2.1. Supporting late retirement: Can a pensioner receive a pension and continue to work?
2.2. Are early and normal retirement ages consistent with the labour market exit age?
2.3. Retirement system supports late retirement: Ability for a pensioner to defer pension and the terms on which this can be done
2.4. Retirement system supports retention of working population close to retirement age
3. Administrative adequacy
3.1. Benefits paid on a regular basis
3.2. Can additional contributions be paid to increase benefit levels?
3.3. Information provided to individual to allow old-age planning
3.4. Accessibility of benefit provision and contribution agencies
3.5. Number of documents required to claim the pension
4. Interaction with other retirement provision
4.1. Social security and supplementary pension provision
4.2. Spouse's benefits provided or independent entitlements exist
4.3. Existence of third pillar/individual pension savings vehicle
5. Intergenerational equity (sustainability of benefit adequacy)
5.1. Increase in dependency ratio 2010–2050
5.2. Increase in public pension spending 2010–2050
5.3. Normal retirement age correlated with life expectancy
5.4. Dependency ratio (absolute) at 2010 and 2050
6. Security of adequacy
6.1. Defined benefit provision for all or part of benefit
6.2. Historic variability of average pension
6.3. How benefit is affected if beneficiary misses ten years' service
6.4. Pension amount payable on low income
6.5. Pension or lump sum paid
6.6. Can benefit be reduced depending on external factors (including automatic adjustment mechanisms)?
6.7. Sharing of financing burden
7. Coverage
7.1. Legal coverage of active workers
7.2. Active contributors to a social security old-age benefit (effective coverage)
7.3. Effective coverage of pensioner population
7.4. Coverage of self-employed workers and migrant workers
7.5. Other conditions for eligibility

[9] Assuming a modest increase in real wages at a pace of 2% per year over a 35 years career, a theoretical accumulation rate of 1.5% per year would in fact yield only – after full indexation of past income – 38% of last income, instead of the face promise of 52.5%

[10] Retirement benefit provision – Measuring multivariable adequacy and the implications for social security institutions, ISSA Geneva 2015

27. The approach retained by the ISSA indeed clarifies that retirement age cannot be considered in isolation of other factors typical of a pension scheme, and that all elements have to be taken into account to finally appreciate whether proposed action is, or is not, adequate, with reference of the goal to be pursued by the scheme – individual efficiency, social equity and financial sustainability[11].

28. There is no question however that too early retirement ages are not to be recommended in any pension scheme – "too early" referring to benchmarks where the ageing process – which is the main drive for the existing of retirement pension schemes[12] - is not yet notable, and does in no way affect the worker's ability to continue performing his tasks[13].

29. With very early retirement ages – say, ages fixed before the worker could reasonably have achieved the 30 years contributory period considered as a threshold for full pension in international instruments - the pension based on contributions would be of very modest level, thus failing to meet its ambition of securing a decent income in substitution of the lost occupational income.

30. A system in which pension beneficiaries systematically continue in gainful occupation would indeed hardly qualify for the denomination of awarding "retirement pensions". Adjustments upwards in retirement age are then perfectly legitimate – within certain limits, which are specified in relevant international instruments (for example, the European Code specifies that a pension should be anyway guaranteed to a person reaching the age of 65).

31. Flexibility remains necessary to cope with individual or occupation-specific considerations[14]. Given the high sensitivity with the general public of the question of retirement age, it might be useful for decision makers considering an increase in general or specific thresholds, to couple those measures which others that might be viewed more positively by the insured population – some of which are briefly described in the following paragraphs.

32. Sufficient time should be provided as *transitional period*, so that workers approaching retirement age would not feel deprived at the last moment of a long awaited entitlement. Increases in retirement age often spread over a number of years, and take their full effect after one or even several decades.

33. As previously mentioned, clear indications should be provided on *access to early retirement* for individual – long career, health or unemployment - or occupational reasons – arduous

[11] Gruat, J.-V. 1997. An operational framework for pension reform: Adequacy and social security principles in pension reform - Geneva, International Labour Office.

[12] The contingency (or risk) to be covered by old-age retirement pensions is indeed – Council of Europe, European Code of Social security (revised), art. 23 -"survival beyond a prescribed age".

[13] This type of approach clearly allows for the determination of different levels at which the ageing process may be such that it impairs the insured person capacity to continue its occupation under conditions safe for him/herself or for the public.

[14] As an example of such flexibility, one may refer to the French legislation which, when the retirement age was still fixed at 65 years before the years 1980, established a "presumption of disability" for workers approaching the retirement age, who could therefore benefit from early retirement provisions without having to go through a complicated system for evaluating their residual working capacity.

occupations[15] - including the matching provisions to ensure decent pension levels notably when part of the benefit is assessed against personal accounts.

34. While penalties affecting retirement benefits drawn before attaining legal retirement age, or in case of contributory careers falling short of legal requirements for full pension are quite commonly applied, there are little or any example of *positive reward* (except taking into account at least some of the additional contributions) in case of deferred retirement beyond legal age. This could be envisaged as an accompanying measure when increase in legal retirement age is being considered, based on actuarial calculation (a bonus of 4% per year of deferred retirement might *prima facie* seem reasonable).

35. Instead of considering legal retirement age as an absolute threshold, it might be possible to consider as alternative to age (i.e. a condition allowing for a full pension to be paid irrespective of age conditions) the *accumulation of points* responding to circumstances in individual careers[16].

36. Consideration might be given to the introduction as criterion for eligibility to a full benefit of a *combination of age and length of contributory services*. For example, if normal legal retirement age is 65, and required contributory services for full pension is 35 years (total 65+35 = 100), conditions might be considered as being met as early as age 60, with 40 years of insurance. The inclusion of non-contributory credited years such as higher studies, military service or child rearing might even allow for retirement to still take place earlier, within a context of increased legal age.

37. Several countries have introduced through collective agreement or by law, the possibility for workers to *progressively enter into retirement* – through schemes which entail a scaled reduction in working time as retirement age approaches, with the corresponding decrease in direct remuneration being offset by the payment of a growing proportion of future pension benefits.

38. While this type of provision is often enterprise-based, it may involve the unemployment scheme with elder workers being exempted from the obligation to actively search for employment and being entitled to long-term unemployment benefits even in case of voluntary resignation. Over the recent past, the so-called "progressive retirement"[17] seems to have lost some ground in Europe, in particular because of the very strict attention being paid to limiting public financial commitments. However, these provisions that proved to be very successful with workers and their employers might still be worth considering in other countries, as a corollary to general increase in retirement age.

[15] The introduction in France of "arduousness individual accounts" with effect of July 2016 may represent an interesting example of early retirement provisions better reflecting individual needs than general, occupation or sector based rules previously in force.

[16] Some enterprise based or national systems encourage workers to "save" overtime payment to be used towards the end of working life for financing anticipated pensions. This approach – in France dating back from the years 1960 in major enterprises – of course raises issues concerning the sustainability of the scheme when enterprise-based.

[17] For a description of schemes in force in Europe at the beginning of the years 2000, see http://www.eurofound.europa.eu/print/observatories/eurwork/comparative-information/progressive-retirement-in-europe

39. Finally, consideration might be given to the definition of what could be called an "*integrated risk*" which, in parallel with the existence of usual retirement pensions based on age and contributions, would allow for the payment of a benefit not lower than retirement pensions (acquired rights) in case of inability to perform one's occupation for a justified reason over an extended period.

40. This would include urban or rural self-employed affected by adverse individual or economic factors, long-term unemployment, extended sick leave, absence from work to rear a child or take care of an aged dependent, etc. This temporary pension payment would of course be interrupted when the beneficiary regains an income capacity and is back into gainful employment.

41. Such an approach would, together with other provisions related to early retirement or rewarding deferred retirement, contribute to alleviate the public misperception about increase in retirement age, inasmuch as the latter might be viewed as too drastic, notably for women and more generally for blue-collar workers.

Jean-Victor Gruat, 2016.09.05 (v.2)

EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

Component 1

1.3.9. - EUROPEAN BEST PRACTICES RELATED TO NOTIONAL DEFINED CONTRIBUTIONS (NDC)

The Chinese pension system is currently composed in most cases of two pillars, one being the basic pension, PAYG, Benefits defined, linked to the average remuneration in the pooling area, and one being the individual account, where benefits are derived from contributions paid with a financing in theory derived from full funding technique of investment. It so happen however that constraints resulting from past commitments led to the use of a very significant portion of accumulated funds to be used for paying current benefits, leading to a situation where most individual accounts are void from any physical investment. The Chinese Government is therefore eager to receive further information on the approaches taken by European countries confronted to similar types of situation – one of them being the use of Notional defined contributions – NDC – schemes following upon reforms first conducted in Sweden. This Note about European NDRC schemes has been compiled my Mr. Koen Vleminckx (Belgium) on the occasion of a mission conducted under the EU-China SPRP.

Notional defined contributions NDC are seen by many experts as pragmatic choice, but still controversy. NDC advocates improved sustainability and portability of pension rights, while improving incentives for:

- Increasing coverage
- Contribution years

Some authors question the claims of NDC advocates with regard to improved sustainability and incentives, while questioning the incentive effects. Furthermore, there is no real link between NDC and improved portability and administration costs. NDC does not offer market interest rate, but a legislated rate. NDC weakens the prospect of adequate benefits.

<u>European Experience</u>

In recent years, mandatory funded schemes were introduced in a number of European countries: Estonia, Italy, Poland, Sweden, Norway. Italy and Poland are part of our consortium. The NDC system is strongly promoted by the World Bank, including as a reform proposal for China.

NDC systems are mandatory Pay as You Go (PAYG) System. The pension benefits of current workers are financed by contributions made by current workers.

However, the NDC System *mimics*[1] a Defined Contribution System in order to create room for some (automatic) adjustments and to create some incentives.

Workers contribute[2] and their contributions are *notionally* accumulated. Thus, the accrual is based on a political decision, a rule, rather than the actual returns on any assets. In other words, the state

[1] This is why they are called ‘notional’ defined contribution systems.

'pretends' that there is an accumulation of financial assets. But, as a result, NDC exposes pensioners to less (market) risk than fully-funded individual accounts[3].

Notional interest rate: Each year the government *administratively* attributes to each worker's notional accumulation a notional interest rate (i.e. an accrual rate). In Sweden the notional interest rate (called the Income Index) is calculated as a 3-year moving average of nominal earnings adjusted for inflation plus one year of price inflation Thus contributions during working life are indexed to long-run average earnings, but with faster adjustment to changes in inflation.

However, from the perspective of the worker his or her benefits are strictly related to his or her contributions. Their notionally accumulated contributions are used to determine a balance which at the time of retirement is converted into an annuity.

In Sweden, when a person first draws pension, his notional accumulation is converted into an annuity in a way that *mimics* actuarial principles, inasmuch as the present value of the person's benefits, given (a) his age when he first draws pension and (b) the *estimated remaining life expectancy of his birth cohort*, is equal to the value of his notional accumulation, using a discount rate of 1.6 per cent. The resulting calculation is described in terms of an annuity divisor, D, such that the benefit is equal to the accumulation in the account divided by D. There is a specific divisor for each birth cohort and each age.

An automatic brake mechanism reduces both the accrual rate for workers and the indexation of pensioners' benefits in payment if the actuarial *balance ratio*[4] of the system falls below the threshold level (1). These lower rates of accrual and indexation continue until financial balance is restored.

This situation which can arise for various reasons, notably if contributions grow more slowly than average earnings as measured by the income index.

The advantages of NDC Systems:

- An advantage of the NDC system that the pensions are not at risk in the financial market, but an administratively set rate of return is applied to the individual accounts (under the conditions in China most authors prefer the increase in average wages as the most appropriate rate of return).
- Due to population ageing the parameters of standard DB systems need to be revised, but this is always a difficult process (politically and otherwise). The NDC rules make these required

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[2] Workers pay contributions (7%) up to a ceiling of 8.07 times the income-related base amount. The worker receives a tax credit equal to the 7 per cent contribution for the public pension contributions. Thus, the worker's contribution is in fact financed out of general revenues. Employers pay contributions (10.21%) without limit, but contributions on income above the ceiling do not entitle the worker to any additional pension and are not attributed to the worker's notional account nor included in the income of the pension system, but instead are treated as general government revenue. A self-employed person pays both contributions.

[3] Nicholas Barr says that in Sweden pensions after the economic crisis showed much less volatility than was the case in fully-funded defined-contribution arrangements for people retiring around 2008 (Barr, p. 48)

[4] The so-called balance ratio indicates the long-run sustainability of the system :

BR = Contribution assets / Pension liabilities

The value of a 'contribution asset': is estimated on the basis of the present value of the flow of contributions, based on recent data. The measure of 'pension liabilities' is also based on recent data.

Thus, the balance ratio reflects the actual balance in the PAYG System on a regular basis.

Employment growth is a key driver of this balance ratio since it affects the growth of wages and thus contribution assets.

adjustments automatically, or to be more precise, quasi-automatically. Its main feature to this effect is that the benefits are affected by the longevity increase — the benefits are calculated using the latest available projection for longevity of the beneficiary at the moment of retirement. In principle, the same effect can be attained by modifying the rules of a more traditional DB system by introducing a longevity factor into the determination of the benefits, as has been recently done in some countries (e.g. Germany and Finland).

- The NDC system without assets is fully in financial balance in a steady state and under the conditions that the rate of return on the notional accounts is equal to the rate of growth of the covered wage bill and that this same rate is used for determining the annuity payments. If these conditions are not fulfilled the system deviates from the equilibrium and is no longer in financial balance. This happens in general also if and when the system starts from out of equilibrium or is hit by an unexpected change in its key factors, e.g. a change in longevity while the pensions in payment are not adjusted

The disadvantages of NDC Systems:

- The sustainability risk is removed from the management of the system to present and future pension beneficiaries, which do not have a guaranteed replacement rate and whose pension benefits can be reduced due to economic circumstances or expected longevity of his or her retirement cohort.
- Increased longevity leads to lower benefits. While it is expected that this will provide a strong incentive to future pensioners to delay retirement, it is not sure whether the retirement decision of citizens is entirely rationally determined (N. Barr, 2013). In part, this can be compensated by increasing the early retirement age (N. Barr , 2013) or a recommended retirement age (Swedish Commission of Inquiry, 2013[5]).
- The brake mechanism, as defined in Sweden, could provoke sharp reductions in pension benefits: According to Nicholas Barr, a combination of slow wage growth and a balance ratio below one would have reduced the Swedish NDC Pension by 4.6 per cent in 2010 (Barr, 2013: 33). He suggests different ways to improve the operation of the brake, in order to share the risks of macroeconomic fluctuations among existing participants more fairly (N. Barr, 2013: 114-115).
- The financial balance is only guaranteed in absence of external shocks. This implies that the system is not automatically balanced, but still requires policy intervention when such a shock occurs. In Sweden this was for instance the case in the wake of the financial crisis of 2008.

In a nutshell, the NDC system is a modified DB system where benefits are based on individual contributions and indexed to average wages, retirement age and expected longevity. This improves the sustainability of the PAYG system, but removes the so-called "pension promise", the guarantee of a certain replacement rate when a person has contributed during the required number of years and retires at a legally determined age. Thus, the NDC system gives priority to sustainability over adequacy. Adequacy is at best seen as a task of a 'o pillar', which provides a universal or benefit-tested benefit.

[5] Åtgärder för ett längre arbetsliv. Slutbetänkande av Pensionsåldersutredningen, Stockholm 2013

The impact of the NDC design on the timing of retirement

As Song Xiaowu indicates, the NDC system is often believed to provide an incentive for longer working careers.

The Swedish version of NDC contains a number of characteristics that are supposed to provide an incentive for longer working careers and later retirement:

- The principle of neutrality with respect the individual's choice of retirement age. There is no upper age limit for starting the DC Pension and no upper age limit for continuing to work and make contributions. Thus, the system removes all implicit taxation on continued working after the earliest retirement age.

- The actuarial adjustment of retirement benefits. When a person first draws pension, his notional accumulation is converted into an annuity in a way that mimics actuarial principles, inasmuch as the present value of the person's benefits, given (a) his age when he first draws pension and (b) the estimated remaining life expectancy of his birth cohort, is equal to the value of his notional accumulation, using a discount rate of 1.6 per cent. The resulting calculation is described in terms of an annuity divisor, D, such that the benefit is equal to the accumulation in the account divided by D. There is a specific divisor for each birth cohort and each age.

- The automatic adjustment to changes in life-expectancy. When a person first draws pension, his or her accumulation is multiplied by a life expectancy coefficient, based on the remaining life expectancy at the age of withdrawal of the person's birth cohort. The intention is that if life expectancy increases, the monthly pension at a given age will be actuarially reduced, i.e. adjustment is via the level of pension, not the earliest eligibility age.

All these elements together are supposed to provide an incentive for longer working careers and later retirement.

Yet, there is a lot of uncertainty about the strength of these behavioural responses. Economists generally believe that mere actuarial adjustments are not sufficient to provide a strong incentive for individuals to postpone their age of retirement (Barr, 2013). Furthermore, elements outside the pension system also have an influence on the strength of this behavioural response, for instance the labour market situation for elderly workers, a worker's health etc., etc.. Formal and informal barriers to continued working in the labour market might also cause a weaker response, for instance provisions in the labour law, occupational pension schemes, etc.. Cultural beliefs also pay a role, for instance the belief that older people become healthier, happier and live longer if they stop working early. As a result there is considerable divergence between what economic theory predicts and what we observe in practice.

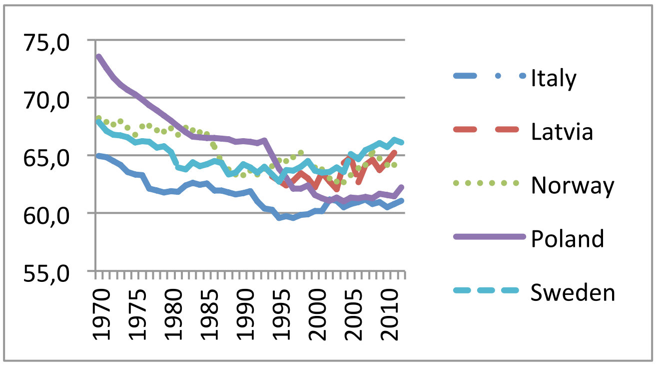
So far, overall changes in the timing of retirement in Sweden have been relatively modest.

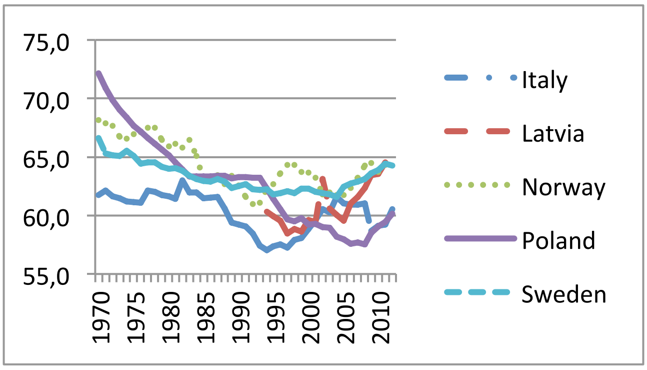
In Sweden, where the NDC system is fully operational, most people still retire at 65 (men: 66.1, women: 64.2), which is below expectations. Part of the explanation is probably that labour market regulations and clauses in collective wage agreements that stipulate retirement at age 65 have not been changed. However, an increasing share are drawing benefits at the earliest age of 61.

Because the effect of the NDC reform remained below target, the Swedish government instructed a Commission of Inquiry to look into the matter. In 2013 this Government Commission for Longer Working Life and Retirement Age stated that *"The pension reform, generous tax rules and major information initiatives, etc. are expected to lead to older people working for longer in pace with an increasing average life expectancy. However, despite some positive tendencies in older people's employment, the changes have been modest. Sweden still has a de facto normal retirement age of 65 years. The number of hours worked is increasing among older people, but far too slowly."* (Åtgärder för ett längre arbetsliv. Slutbetänkande av Pensionsåldersutredningen, Stockholm 2013).

The Commission of Inquiry therefore proposes a package of measures that includes initiatives to improve the working environment, to strengthen opportunities for older people to preserve and develop their skills, increase information, strengthen the financial incentives, combat age discrimination, etc. These initiatives will help to ensure a higher, actual retirement age.

Figure 1. Average effective age of retirement in NDC countries: men (a), women (b)1970-2012.





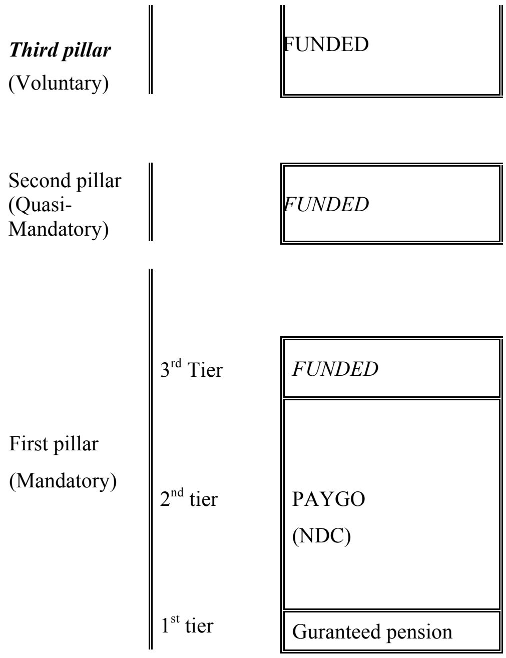
Source: OECD

Related best practices

<u>Sweden</u>

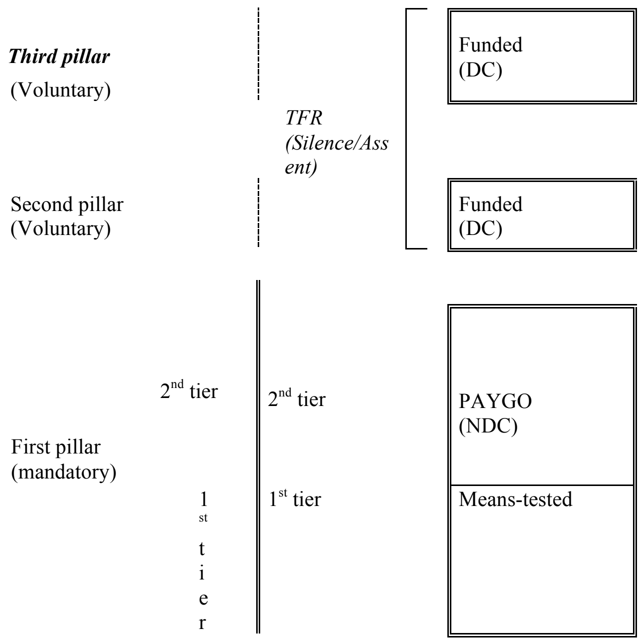
The Swedish NDC was regulated in 1944. Thus, Sweden was the first European country to introduce NDC and, as a result, has had the opportunity to accumulate more experience with this system design. In 2008 the Swedish NDC system had to absorb the consequences of the financial crisis. In 2013 a Commission of inquiry was asked to look into the perceived problem of disappointing increases in retirement age and formulated suggestions for policy adaptation.

In Sweden total contributions are at the level of 18.5% of earnings. While 16% is used to finance the PAYGO tier (2nd tier), 2.5% finances funded schemes managed by private fund managers (the co-called Premium Pension or 3rd tier). A first tier (or'0 pillar') is the Guaranteed Pension is state funded (general revenue). On top of this, Sweden has quasi-mandatory second pillar schemes, and third pillar pension saving and life-insurance plans.



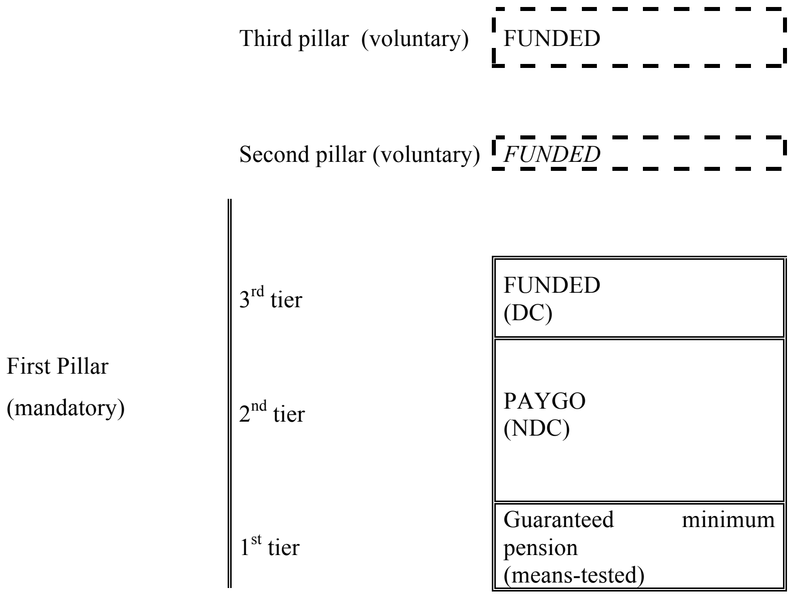
Italy

Italy, which is a member of the consortium, also introduced NDC in its first pillar. Benefits for future pensioners are entirely determined by the total contributions paid to social insurance schemes (with reduced risk-pooling). Indexation has also changed, linking benefits to prices rather than to wages.



Poland

In Poland, which is also a consortium member, the 1st tier is the guaranteed minimum pension that tops up first pillar benefits in case the total pension amount is below the legal minimum old-age pension (Figure 4.1). It is conditional on 25 years of contributions for men and 20 years for women. The 2nd tier provides earnings-related benefits consistent with the PAYGO mechanism but with a ' notional defined-contribution' (NDC) logic as in Italy and Sweden. The level of pension is based on the contributions paid by employees and employers, and average life expectancy at retirement age.



Koen Vleminckx,

July 2015

EU-CHINA
Social Protection Reform Project
中国欧盟社会保护改革项目

Component 1

1.3.9 - IS NDC SELF-FINANCING

IN CONTRAST TO OTHER PAYG SYSTEMS ?

Whereas "classical" pay-as-you-go systems are seen as vulnerable to demographic ageing, in the sense that that would put an increasing burden on smaller, newer generations to honour commitments made towards growing cohorts of retirees, Notional Defined Contributions schemes are seen by some authors as immune from such defect, in the sense that they may include built in mechanisms to limit the magnitude of charges incumbent upon the active population. Since the Chinese pension system is confronted with a situation where existing commitments towards former generations are heavy, thus depleting the investment possibilities on individual accounts, PAYG type approaches with built-in sustainability mechanisms are positively viewed. The present Note therefor describes the European approach and analysis concerning the sustainability advantages that NDC may – or may not – have over more traditional systems. The Note was prepared by Mr Koen Vleminckx (Belgium) while on mission for the EU-China Social protection reform project.

Summary

NDC Systems are Pay As You Go Systems (PAYG). However, fiscal sustainability is built into the strategic design of the NDC system, by shifting the economic and demographic risk to (future and current) pension beneficiaries. Thus, fiscal sustainability of the NDC-Pension has priority over adequacy. The traditional "pension promise" of a PAYG system is weakened by making it conditional on the economic (wages) and demographic (longevity) evolution, as well as the payment of mandatory contributions. Solidarity (both iIntergenerationally and between social groups) is limited to the guaranteed pension.

However, Professor Nicholas Barr made some suggestions in a recent report on the Swedish pension system that could reduce the vulnerability of pensioners in a NDC system, without losing the built-in fiscal sustainability of its NDC system (N. Barr, 2013). Taking his recommendations into account would allow for an improved NDC system.

Traditional PAYG retirement insurance systems are defined benefit systems, which promise a certain pension benefit (usually replacement rates linked to previous wages) in exchange for the payment of mandatory contributions. Pensions benefits vary usually by the height of the wages earned and the number of years contributions were paid. These systems often include socially motivated correction mechanisms, which give additional rights to certain social categories.

In recent years some countries with a PAYG DB System have also weakened their "pension promise " by introducing correction mechanisms. Germany has introduced a point system, mimicking to some extent NDC adjustment mechanisms, while Belgium's Commission for pension reform has also proposed the introduction of a point system, with specifically designed adjustment mechanisms.

Furthermore, traditional PAYG DB systems can politically introduce 'ad hoc' adjustments to correct for economic and demographic trends to achieve sustainabiliy, but these adjustments are more uncertain, less predicatble for citizens, and less transparent in general, than the built-in adjustments of NDC or point systems.

NDC Systems

NDC systems are mandatory Pay as You Go (PAYG) System. The pension benefits of current workers are financed by contributions made by current workers.

However, the NDC System mimics[1] a Defined Contribution System in order to create room for some (automatic) adjustments and to create some incentives.

Workers contribute[2] and their contributions are notionally accumulated. Thus, the accrual is based on a political decision, a rule, rather than the actual returns on any assets. In other words, the state 'pretends' that there is an accumulation of financial assets. But, as a result, NDC exposes pensioners to less (market) risk than fully-funded individual accounts[3].

Notional interest rate: Each year the government attributes to each worker's notional accumulation a notional interest rate (i.e. an accrual rate). The notional interest rate (called the Income Index) is calculated as a 3-year moving average of nominal earnings adjusted for inflation plus one year of price inflation Thus contributions during working life are indexed to long-run average earnings, but with faster adjustment to changes in inflation.

However, from the perspective of the worker his or her benefits are strictly related to his or her contributions. Their notionally accumulated contributions are used to determine a balance which at the time of retirement is converted into an annuity. When a person first draws pension, his notional accumulation is converted into an annuity in a way that mimics actuarial principles, inasmuch as the present value of the person's benefits, given (a) his age when he first draws pension and (b) the estimated remaining life expectancy of his birth cohort, is equal to the value of his notional accumulation, using a discount rate of 1.6 per cent. The resulting calculation is described in terms of

[1] This is why they are called 'notional' defined contribution systems.

[2] Workers pay contributions (7%) up to a ceiling of 8.07 times the income-related base amount. The worker receives a tax credit equal to the 7 per cent contribution for the public pension contributions. Thus, the worker's contribution is in fact financed out of general revenues. Employers pay contributions (10.21%) without limit, but contributions on income above the ceiling do not entitle the worker to any additional pension and are not attributed to the worker's notional account nor included in the income of the pension system, but instead are treated as general government revenue. A self-employed person pays both contributions.

[3] Nicholas Barr says that in Sweden pensions after the economic crisis showed much less volatility than was the case in fully-funded defined-contribution arrangements for people retiring around 2008 (Barr, p. 48)

an annuity divisor, D, such that the benefit is equal to the accumulation in the account divided by D. There is a specific divisor for each birth cohort and each age.

Method of indexation: NDC Pension benefits in payment grow at the notional interest rate minus 1.6 per cent.

Pension benefits in payment are subject to income tax. Where a person draws his or her NDC Pension but continues to work, there is no clawback of the NDC Pension. These earnings are subject to pension contributions and add to the person's pension entitlement.

Fiscal sustainability is built into the strategic design of the NDC system, by shifting the economic and demographic risk to (future and current) pension beneficiaries. Thus, fiscal sustainability of the NDC-Pension has priority over adequacy.

The main instrument for this is the so-called balance ratio, which indicates the long-run sustainability of the system :

BR = Contribution assets / Pension liabilities[4]

The value of a 'contribution asset': is estimated on the basis of the present value of the flow of contributions, based on recent data. The measure of 'pension liabilities' is also based on recent data.

Thus, the balance ratio reflects the actual balance in the PAYG System on a regular basis.

Employment growth is a key driver of this balance ratio since it affects the growth of wages and thus contribution assets.

The rules specify that the system should aim to preserve a Balance Ratio not below 1, with automatic correction via the brake mechanism if it falls below one.

An automatic brake mechanism reduces both the accrual rate for workers and the indexation of pensioners' benefits in payment if the actuarial balance of the system falls below the threshold level (1). These lower rates of accrual and indexation continue until financial balance is restored.

This situation which can arise for various reasons, notably if contributions grow more slowly than average earnings as measured by the income index.

The brake mechanism could provoke sharp reductions in pension benefits: According to Nicholas Barr, a combination of slow wage growth and a balance ratio below one would have reduced the Swedish NDC Pension by 4.6 per cent in 2010 (Barr, 2013: 33).

Nicholas Barr suggests different ways to improve the operation of the brake, in order to share the risks of macroeconomic fluctuations among existing participants more fairly (N. Barr, 2013: 114-115).

[4] As the Swedish system is partially funded, the balance ratio also incorporates the value of the buffer funds (i.e. partial funding) of the system.

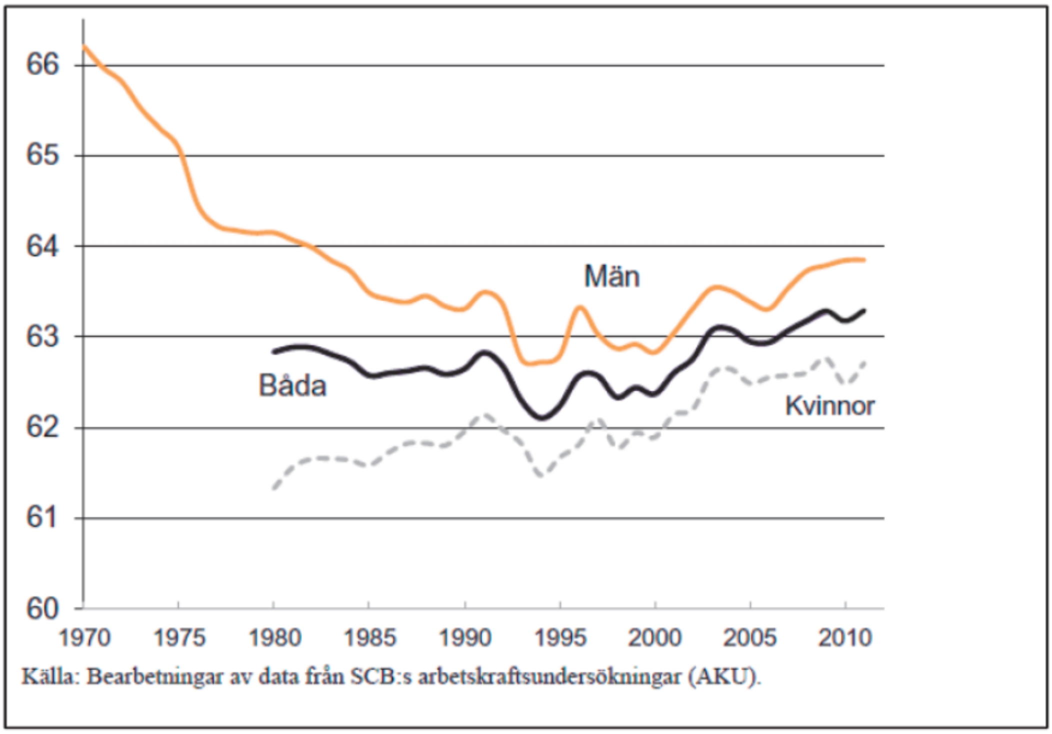
An automatic adjustment to changes in life expectancy by reducing monthly benefits actuarially via the longevity coefficient:

When a person first draws pension, his or her accumulation is multiplied by a life expectancy coefficient, based on the remaining life expectancy at the age of withdrawal of the person's birth cohort. The intention is that if life expectancy increases, the monthly pension at a given age will be actuarially reduced, i.e. adjustment is via the level of pension, not the earliest eligibility age. The estimate of the cohort's remaining life expectancy is based on historic mortality data, rather than projected mortality rates.

In Sweden pensions are adjusted at the age of retirement to rising life expectancy. Thus, it is believed that would provide an incentive for people to postpone their retirement. However, if people continue to retire at broadly the same age as at present, benefits will over time become less adequate. Therefore, Nicholas Barr suggests to introduce an additional correction for life-expectancy into the Swedish NDC Pensionsystem: In addition to a reduction of the monthly pension by the life expectancy coefficient at the moment a person retires, the minimum age for pension eligibility would over time. This in the interest of both sustainability and adequacy.

Although the decline of retirement age in Sweden seems to have been arrested, with a slow increase in recent years, the adjustment of retirement age in Sweden remained below the expectancy of the Swedish government. Therefore, they asked a Commission of inquiry to look into the matter.

Figure 7.1 Average age of expected exit from labour force (individuals who were in the labour force at age 50)



Source: Compilation of data from the Labor Force Survey, Statistics Sweden. The orange line is men, the dotted line women and the black line all.

In 2013, this Commission for Longer Working Life and Retirement Age stated that “The pension reform, generous tax rules and major information initiatives, etc. are expected to lead to older people working for longer in pace with an increasing average life expectancy. However, despite some positive tendencies in older people’s employment, the changes have been modest. Sweden still has a de facto normal retirement age of 65 years. The number of hours worked is increasing among older people, but far too slowly.” (Åtgärder för ett längre arbetsliv. Slutbetänkande av Pensionsåldersutredningen, Stockholm 2013).

The Commission of Inquiry therefore proposes a package of measures that includes initiatives to improve the working environment, to strengthen opportunities for older people to preserve and develop their skills, increase information, strengthen the financial incentives, combat age discrimination, etc. These initiatives will help to ensure a higher, actual retirement age. *“However, several initiatives will only take effect in the long term and others should be expected to have a modest impact.”*

The Commission proposes the introduction of a *recommended retirement age,* which follows the development of average life expectancy. This recommended retirement age is a clear, non-choice alternative for the retirement of older people who wish to achieve an acceptable pension level. The age limits of the public pension system and related systems will be linked to the recommended retirement age. The proposals mean, *inter alia,* the following:

- The 61-year age limit for the earliest age at which people are entitled to draw their old-age pension will be raised to 62 years in 2015, and according to current forecasts, to 63 years in 2019.
- The 65-year age limit for the guarantee pension, sickness compensation and other benefits will be raised to 66 years in 2019, according to current forecasts.
- The age limit referred to in the Employment Protection Act will be raised from 67 to 69 in 2016.
- The 55-year age limit for occupational and private pensions will be raised in 2017 to 62 years.

The legacy cost:

In Sweden the legacy defined-benefit ATP pension, which was replaced by the NDC Pension, continues to be paid to older workers.

Traditional PAYG

Traditionally, PAYG Pension retirement insurance systems are defined benefit systems that promise a certain replacement rate in old-age, conditional upon the number of years a person has contributed to the system. Just like NDC Systems pension benefits of current workers are financed by contributions made by current workers.

Pensions benefits vary usually by the height of the wages earned and the number of years contributions were paid. These systems often include socially motivated correction mechanisms, which give additional rights to certain social categories.

As population ageing ('papy boom' + longevity) increases the dependency ratio, PAYG systems are immediately affected because fewer workers will have to finance the benefits of more recipients.

As a result, some countries have opted to reduce the so-called 'pension promise' (the relative certainty that you will get a certain replacement rate x if you contribute y-years). They no longer guarantee a certain pension benefit, but stress that benefits will be adjusted according to economic and demographic (longevity) circumstances . The main objective of these reforms were to increase the fiscal sustainability of these systems. Some countries have introduced NDC or NDC like corrections measures.

In Germany, the Riester reform in 2001 introduced a multipillar system with subsidized or tax-privileged private pensions in individual accounts or as occupational pensions. It gave the right to employees to require employers putting a share of gross earnings (tax- and contribution-free) into occupational schemes. However, due to revenue losses this is phased out in 2009.

In 2004, following the advice of the Rurüp Commission, future pension liabilities were reduced by introducing an automatic fiscal stabilizer, linking future benefits to a system dependency ratio, similar to the balance ratio used in the Swedish NDC system.

In 2007, Germany decided to gradually increase the mandatory retirement age from 65 to 67 between 2012 to 2023. Thus, the mandatory retirement age for people born after 1963 is 67[5].

<u>Germany's renumeration point system</u>

The benefit calculation formula is a canonical point system, which brings the defined-benefit nature of German public pensions very close to a defined contributions system.

Pension = APV*PP*PF

APV = Actual Pension Value (its amount differs in the western and eastern Länder)
PP = Personal Points.
PF = Pension Factor.

<u>A Personal Point</u> indicates *the proportion of an individual's wage relative to the national average wage*, and the average takes into account the whole working life.

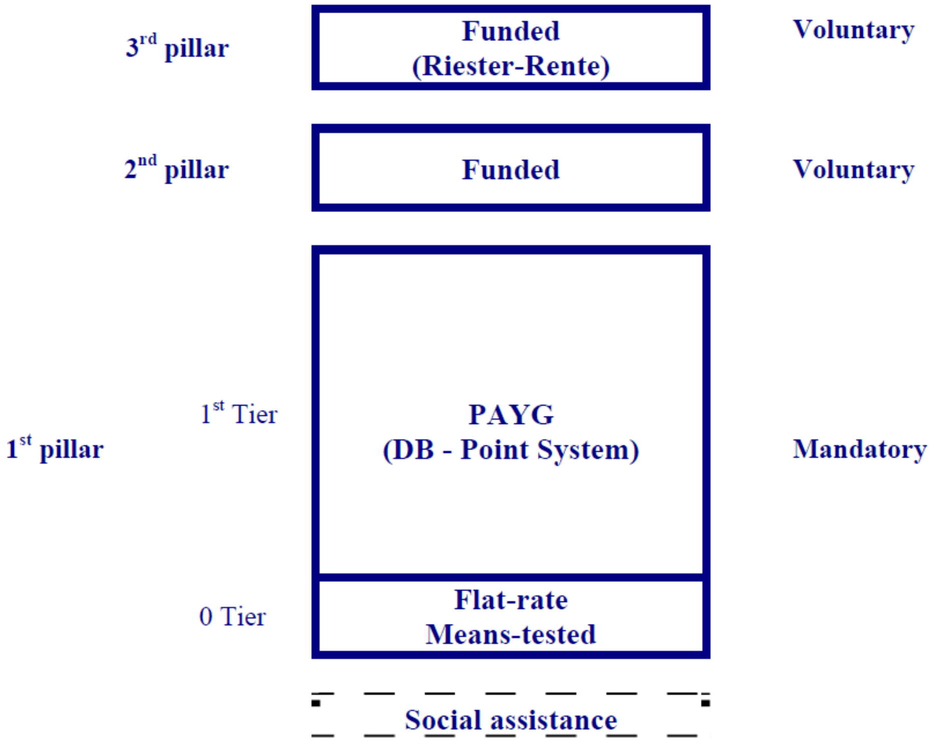
The German pension insurance agency publishes the value of each year`s contribution (remuneration point). This is then multiplied by the number of years contributed and the % of the average salary earned during the person's lifetime.

The Actual Pension Value is valorized/indexed to gross wages, but it also depends on two other factors that are meant to keep the contribution rate under check:

[5] People with an insurance record of at least 45 years of mandatory contributions from employment or care or child-raising periods up to the child's 10th year will still be eligible to claim a pension aged 65.

1) changes of the contribution rates to the statutory pension scheme and to subsidized voluntary occupational and personal pension schemes are taken into account (an increase of contribution rates will reduce the adjustment);
2) sustainability factor, which links the adjustments to changes in the system dependency ratio.

Figure 1 The Main Pillars in the German Pension System



Belgium's renumeration point system

In 2014, Belgium's Commission on Pension Reform 2020-2040 also proposed to introduce a point system into Belgium's pension schemes. Traditionally, Belgium has PAYG defined benefit schemes (social insurance), but they are also under strain because of population ageing and budgetary constraints.

Via value determination of a point a clear link would be provided between the pension calculation at the time of retirement and the average work income of all people active at that time. The point system allows pension system administrators to constantly monitor various objectives, such as: the objective that the average ratio between the incomes of the retired and the incomes of the active are situated within a desirable bandwidth; the objective that the contributions to the work incomes remain within a set bandwidth; the objective that the financial balance must be ensured.

During their active life, people collect points. At the time of their retirement, the points are converted into euros. The number of points a person collects depends on the work income and duration of the career. Everyone can follow the development of their pension over the years via their individual point totals. A point system is considered to be more transparent than the current calculation method, it also creates a greater feeling of ownership than the current system, while people know that certain calculation parameters will evolve over time.

If a worker earns as much in a given year as the average earned by an worker during that year, he or she will get one point on their account for that year. If they earn more than the average, they will receive more, if they earn less, they will receive less: the amount of points earned is the same as the relationship between their earnings and the average earnings during that year. Points are thus not collected based on the social contributions or taxes one has paid, but on the basis of the amount of declared work income.

The connection between the amount of points one has collected and the amount of their pension is determined by various factors:

i. the value of the point at the time of retirement, which is set each year, and guarantees a certain replacement rate for a theoretical reference person, while allowing for adjustments;

ii. actuarial corrections in function of the actual retirement age (a 'normal age' is defined , which is dependent on one’s career);

iii. later adjustments to the price index and to the increase in welfare;

If the reference career is 45 years, the theoretical reference employee would then have collected 45 points. The reference pension for new retirees in a certain starting year is equal to 45 times the value of one point for that starting year.

- Pension benefit = (point) x (value of point)
- Value of a point in the year T ≈ f(average income of active persons in year T)
- Corrections

The Commission also suggest to build corrections or adjustment mechanisms into the system to assure the fiscal sustainability of the Belgian pension system:

- the definition of a *reference career* which can be adjusted in function of life expectancy (longer reference careers would be required if longevity increases, thus increasing the actual retirement age);

- changes with regard to the balance between contributions and pension payments.

According to the Commission objectives and rules of play must be determined in advance, and the automatic adjustment systems must be built into the pension system.

Koen Vleminckx,

July 2015

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1.4.1 - EUROPEAN BEST PRACTICES RELATED TO THE ADJUSTMENT OF BENEFIT FORMULAE FOR CHANGES IN LIFE EXPECTANCY

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中国欧盟社会保护改革项目

Component 1

Making good for the negative effect of improvements in longevity and deteriorating demographic balance on the sustainability of pension funds can be conducted through adjustments in the normal retirement age and/or the benefit formula. While the Chinese pension system has to cope with a strong and lasting ageing phenomenon, the present Note, authored by expert Koen Vleminckx from Belgium, introduces the basic principles shaping reforms recently conducted across European countries in these interrelated areas.

Adjusting pensions to rising life expectancy at the age of retirement can be done by focussing on:

- The level of the pension, by reducing monthly benefits at the earliest eligibility age (i.e. the minimum age at which a person can draw pension); or
- The age at which pension is first payable, by gradually increasing the earliest eligible pension age, with no compensating increase (or a less-than-actuarial increase) in pension; or
- A combination.

International evidence suggests that increases in the earliest eligible pension age have a more robust effect than actuarial incentives.

Thus the system should adjust to rising life expectancy in two ways:

- Applying the longevity coefficient at the age at which a person first takes pension assists sustainability (e.g. NDC Systems or countries that have similar adjsutments in their PAYG systems, such as Germany).
- Increasing the earliest eligibility age broadly in line with life expectancy assists adequacy in the face of potential non-rational behaviour.

1. Adjustment for life expectancy

In general, NDC systems (Sweden, Poland, …) adjust pension benefit amounts to the life expectancy of a retirement cohort. In Sweden: when a person first draws pension, his or her accumulation is multiplied by a life expectancy coefficient, based on the remaining life expectancy at the age of withdrawal of the person's birth cohort. The intention is that if life expectancy increases, the monthly pension at a given age will be actuarially reduced, i.e. adjustment is via the level of pension, not the earliest eligibility age. The estimate of the cohort's remaining life expectancy is based on historic mortality data (see annex 1), rather than projected mortality rates.

The critique on the NDC system's adaptation of benefit amounts to life expectancy is that the retirement decision is not limited to an (economic) rationale, but also by cultural factors. Furthermore, the capacity of an individual depends also on his or her health condition, his or her education or skill level, the preferences of his or her employer, the general condition of the labour market, etc.. If people cannot or will not adapt to the lowering of NDC Pension benefits by prolonging their career, they will end up with a low and in some cases inadequate pension benefit for a prolonged retirement career. In such cases, an increasing share of pensioners might become dependent upon '0-pillar' arrangements.

2. Increasing the mandatory retirement age

Increases in the retirement age are another way to adjust pension systems to increases in longevity. The long-term retirement age in almost half of OECD countries will be 65, and in 15 it will be between 67 and 69. Reforms tend to be phased-in slowly when the retirement age is increased, in order to allow the both citizens and employers to adapt themselves to the prospect of a prolonged career.

In 2007, Germany decided to gradually increase the mandatory retirement age from 65 to 67 between 2012 to 2023. Thus, the mandatory retirement age for people born after 1963 is 67[1]. In 2014 German legislators made a correction to this decision, by allowing people who have worked at least 45 years since the age of 18 to retire at 63 without the reduction of pension rights.

In Italy, the NDC system was introduced in 2011. The normal pension age under the new system will increase gradually for men and women. In 2012, it was 62 for women employed in the private sector; 63 for self-employed women and 66 for men (both employed and self-employed). For women, the reform has established gradual increases in pension age, so as to equal men's at 66 years by 2018. Further increases in line with life expectancy evolution will take place after 2018 to achieve 67 at least in 2021. The 2011 pension reform has however introduced a flexible window of retirement between 62 and 70 years.

In 2013, Spain decided to gradually raise the mandatory retirement age from 65 to 67 over the period 2013-27.

In 2015, Belgium decided to gradually raise its mandatory retirement age from 65 to 66 in 2025 and to 67 in 2030 for both men and women.

Koen Vleminckx,
July 2015

[1] People with an insurance record of at least 45 years of mandatory contributions from employment or care or child-raising periods up to the child's 10th year will still be eligible to claim a pension aged 65.

Annex 1. Life-expectancy and Historical Mortality Data

Historical Mortality data are derived from National Life tables that contain statistics on period life expectancy by age and sex. National life tables are produced annually. They allow for an up-to-date analysis of mortality and life expectancy

National life tables are 'period' life tables. Period life expectancy is the average number of additional years a person would live if he or she experienced the age-specific mortality rates of the given area and time period for the rest of their life.

Life expectancy is the average number of years a person has before death. This is conventionally calculated from birth, but can also be calculated from any specified age. This gives the remaining further number of years a person on average can expect to live given the age they have attained. This means that period life expectancy at birth for a given time period and area is an estimate of the average number of years a new-born baby would survive if he/she experienced the particular area's age-specific mortality rates for that time period throughout his/her life.

Life expectancies that allow for actual or projected changes in mortality during a person's lifetime are known as 'cohort' life expectancies.

The UK's Office for National Statistics published a "Guide to calculating national life tables" on its website:

http://www.ons.gov.uk/ons/guide-method/method-quality/specific/population-and-migration/demography/guide-to-calculating-interim-life-tables/index.html

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1.4.1 - CORRECTIONS IN PAY AS YOU GO SYSTEMS

(BOTH NDC AND TRADITIONAL SOCIAL INSURANCE)

Component 1

There are a number of instances where the theoretical model of pension contributions assessed on salaries and pension benefits derived from insurance records do not apply. Those exceptions are in fact strongly contributing to the difference between insurance and social insurance. Experience has shown however that excessive departure from the basic model – too many exemptions from contributions, too big a proportion of benefits independent from insurance records – may create difficulties affecting the credibility and hence the sustainability of pension scheme. In order to better understand where to strike the balance between reward for contributions and response to specific socio-economic needs, the present Note summarizes the main characteristics of related provisions to be found in European public pension scheme. The Note was prepared by Koen Vleminckx (Belgium), expert with the EU-China Social protection reform project.

Social Insurance schemes contain important corrections within the design of the system, as well on the contribution side, as on the benefit side.
These corrections are possible in both traditional PAYG schemes, as in NDC schemes.
They can be financed by government subsidies, by contributions from other social insurance schemes, or by internal redistribution between groups of contributors/beneficiaries.

1.Contribution side

Citizen credits

Governments can subsidize credits for certain non contributory periods corresponding to services rendered to the nation. Most European systems contain such credits for military service, child rearing, certain kinds of voluntary service, education or training, …

Social credits

Social retirement insurance can be continued on behalf of certain population groups. For instance contribution to retirement insurance could be continued during periods of sickness, unemployment, etc. . In this case the contributions are paid by government revenue or through payments from other social insurance schemes, etc..

Promotion of employment

In order to stimulate certain sectors of the economy or the stimulate the employment of certain groups (young people, low-skilled workers, …), mandatory contributions can be partially lowered. Some categories can even be exempted from the payment of contributions.
Furthermore, enterprises that face economic problems can be allowed to delay the payment of their contributions. In some cases a moratorium on the repayment of employers'

contribution debts could be allowed to alleviate the burden on enterprises. In some cases the contribution payments can be lowered for entire sectors of the economy that face particular problems.

2. Benefit side

Minimum benefits

In some countries, minimum pension rights were built into the PAYG social insurance scheme in order to protect certain vulnerable groups of workers. These minimum right are usually based on a minimum number of contribution years. Thus, low wage workers or workers that are only partially employed could obtain higher benefits through the attribution of these minimum rights. These minimum rights are not to be confused with means-tested social assistance arrangements for the elderly.

Derived rights for spouses:

In countries with strong inequalities in the employment and/or income from employment between men and women, so-called derived rights were introduced. In this case retired women could obtain pension rights on the basis of the contributions paid by their partners. An example is the so-called ‘widows pension’. In some countries women can obtain pension rights obtained on the basis of the contributions paid by their partners after a divorce.

3. Through the tax system

Instead of lowering contributions, one could also allow full or partial tax deductions. In Sweden, for instance, the worker’s contribution to the pension system is fully tax deductible. Thus, his or her NDC contribution is in fact paid from government revenue.

4. Government incentives

Governments can decide to provide specific incentives through the pension system, the tax system, or through direct subsidies.

Examples are:

- Rewards for pension funds that take over responsibilities otherwise incumbent over the Government (past systems/credits).
- Remunerating pension funds or insurers for performing certain administrative functions on behalf of the Government.
- Repaying pension funds amounts previously borrowed by Government from accumulated contributions.

Koen Vleminckx,

July 2015

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1.4.1. - EUROPEAN BEST PRACTICES RELATED TO REGULATIONS FOR FUNDED PENSION INVESTMENT

Component 1

Relevant actuarial methodology shows that the most critical factor for the sustainability of a funded pension scheme Is yield on investment, more specifically the real rate of return. When China is willing to broaden the role of market and that of its funded components in the overall performance of its pension system, it was therefore useful to summarily describe the substance of rules and regulations established and adopted by European pension funds and related Government authorities to secure fairness and lasting efficiency in financial management of the respective pension systems. The following Note was compiled by Koen Vleminckx (Belgium) on the occasion of one of its collaborative missions conducted under the EU-China Social protection Reform project.

Critical points:

- Introduction of market competition operation mechanism and investment
- Strengthen supervision by central government
- Establishment of pension fund risk control system
- The development of investment targets, investment rules and procedures
- Portability strategy

European Experience:

1. **Clearing house model**

An interesting innovation is the organisation of administrative functions along the lines of the so-called 'clearing-house' model. In Sweden's 'clearing house'-model, individual contributions for the funded scheme are still collected by the state, and benefits are still paid by the State. Social insurance institutions collect information on each contribution record and provide annual compounds of both pension contributions and rights. However their investment in the financial markets is handled by private managers. The private funds selected by the insured thus use resources collected by public authorities. Fund managers do not know the identity of those who have sent their contributions.

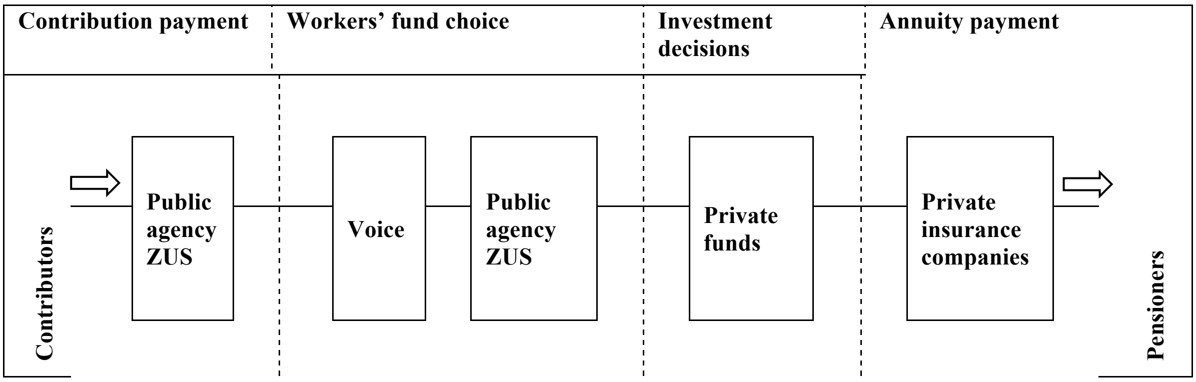
This is expected to provide protection against some of the risks and uncertainties related to financial markets. In the 'clearing house' model, contributions and fund choices are centrally managed by public agencies and this is expected to minimise administrative costs.

It is a particularly promising approach in terms of dealing with both problems of mis-management (of pension funds) and mis-selling (of savings products in the exclusive interest of the fund).

Poland also introduced a 'clearing house' model, but a slightly more reduced role for the central government. Each pension fund is managed by a separate legal entity: the private pension fund company. Yet private pension contributions are still collected by the public Social Insurance

Institution (ZUS). On retirement, savings in pension funds are used by insured persons to purchase an annuity provided by private companies

The 'Clearing House' Structure in Poland:



2. Legal framework

Pension Funds can be profit making commercial entities or non-profit entities. Both need regulation in the public's interest, in particular their members, which are future pensioners.

Less developed financial markets and mandatory systems require more intensive supervision.

Thus, a legal framework is needed, particularly with regard to rules and regulations governing the structure and operation of pension funds.

The main elements of pension regulatory law are:

- Legal Status and Governance of Funds
- Definition and Holding of Assets
- Licensing and Entry Requirements
- Structure and Scope of Regulatory/SupervisoryAuthority
- Rule Making/Interpretive Procedures
- Funding Source for Regulator/Supervisor
- Relationship of Pension Law to Other Laws Controlling Financial Services
- Individual Rights and Dispute Adjudication
- Withdrawal Requirements and Access to Funds
- Liability Structure and Delegations
- Tax Treatment of Pensions
- Reporting, Data and Records
- Conflict of Interest Prohibitions
- Fees and Expenses
- Investment Requirements or Prohibitions
- Penalty and Enforcement Structure

The main aspects of pension fund regulation are:

1. **Structure and organization of pension funds**

- Licensing of Fund Operators
- Governance of Funds
- Capital and Reserves
- Segregation of Assets
- Custody of Assets

2. **Operation of pension funds**

- Investment Guidelines
- External Audit Requirement
- Reporting and Disclosure
- Limits on Fees and Expenses
- Guarantees

3. **Supervision, sanctions, and remedial action**

- Government Agency with Oversight and Regulatory Authority
- Legal Venue and Guidelines for Application of Sanctions
- Rights of Members and Venue for Resolution of Disputes

4. **Portability of funded pensions**

Another important issue for China is the portability of pension rights for citizens who work from one province to another.

The portability of pension rights requires:

• Improvement of the scope for transferring the capitalised value of pension rights between pension schemes;

• Coordination of, and increasing transparency in, actuarial calculation of the pension liability (claim)

Regulatory issues: Directive for a European Institution for Occupational Retirement Provision (IORP)

• Rules for transferring vested pension rights from one pension scheme to another

• Actuarial standards for calculating the capitalised value of pension claims

• Surveillance

Related best practices

Creation of Pension fund regulatory authority. Belgium, Italy, Czech Republic, …

- Licensing:
  - –Pension Companies
  - –Fund Managers and Trustees
  - –Custodians, Actuaries and other Service Providers

- Monitoring: Collection of information and monitoring of system to support review and analysis
  - Financial Reporting and Auditing
  - Actuarial Reviews
  - On-Site Reviews and Investigations
  - Receiving Complaints

Investment regulation of pension funds:

Two Basic Approaches:

- Quantitative Restrictions (results)
- Prudent Person (decision process)

Common elements in quantitative limits:

•Limits on specific asset classes

•Required diversification – limit on proportion of any single issue and share of portfolio

•Currency matching

•Required minimums and Maximums by asset class

•Consider defining concepts/categories in law

•Limits on Foreign Assets

Among the consortium member the Czech Republic, France, Italy and Poland have extensive quantitative limits on investment. They usually vary by type of scheme. Investments in equities, in particular in unlisted equities, are capped in most countries regulating pension funds' investments. Investment in real estate is not allowed in Italy. There are also floors on investments of pension funds in a few countries (e.g. government bonds). Sometimes the legislation on investment regulation also includes specific rules on investments abroad, usually with the exception of other EU and OECD member states (Italy).

Remark: The OECD publishes an Annual Survey of Investment Regulation of Pension Funds which describes the main quantitative investment regulations applied to pension funds in OECD and IOPS[1] countries - http://www.oecd.org/finance/private-pensions/annualsurveyofinvestmentregulationofpensionfunds.htm .

The OECD survey questionnaire covers all types of pension plans financed via pension funds. Where regulations vary depending on the type of plan (occupational, personal, mandatory, voluntary, DB, DC, etc), the tables identify the types of plan that the investment regulations apply to. The information collected concerns all forms of quantitative portfolio restrictions (minima and maxima) applied to pension funds at different legal levels (law, regulation, guidelines, etc.).

Finally, the third pillar consists of voluntary, supplementary pension schemes, which enjoy high tax subsidies in those cases when the combined value of the AOW and occupational schemes' benefits do not guarantee a final replacement rate of 70%.

Koen Vleminckx,

July 2015

[1] IOPS: International organisation of pension supervisors http://www.iopsweb.org/

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1.4.3 - TECHNICAL PRINCIPLES

FOR COORDINATING SOCIAL SECURITY LEGISLATIONS

Component 1

China's active population counts some 250 million mobile workers, who typically leave their rural place of origin to work in a more urban environment. Many among this floating population do not settle in a new place of life of which they would become a fully-fledged resident – but move from one temporary residence and workplace to another. In cases where they would contribute to social security, the fragmentation of China social insurance into hundreds of pooling areas make it necessary to provide for specific provisions facilitating the preservation of rights, notably for pensions. The situation is considered particularly difficult to address, because existing vesting provisions in China are limited to the transfer of contributions inscribed in individual accounts – a transfer that may be hampered when individual accounts are virtual, which is frequent -, the basic pension (benefits defined) remaining to be covered by the last place of residence, where contributions may not have been paid. Europe has been confronted to similar situations, and has accumulated experience in multilateral coordination of social security legislation since the years 1970s. The present Note intends to detail how the European experience could be useful to help address the Chinese situation.

- Coordination of social security legislation has been established as a special mechanism to ensure that migrant workers having contributed to different pension schemes at different periods of their professional career do not, at the end of their active life, be left without pension rights because they fail to meet qualifying conditions under individual schemes to which they contributed.
- This is typically what happens in China to domestic migrant workers, because of the non transferability of rights resulting from the pooling of resources within limited geographical settings. The coordination technique may therefore be considered as potentially interesting to overcome existing difficulties without waiting for the future nation-wide unification of the urban pension scheme. Its existence would also free social security institutions from the burden of paying back own contributions every year to sometimes hundreds of thousands of departing workers, would ease the burden on governments having to socially cover the most basic needs of workers on return to their place of origin without benefiting from a pension, and would probably facilitate compliance with established affiliation rules and regulations, since the likelihood of receiving a pension would be greatly increased for the workers.
- Coordination of pension legislation results from agreements passed between interested social security institutions and endorsed by corresponding local governments. Such agreements do not provide for transfer of contributions, but for a sharing of pension entitlements among the various schemes to which a worker will have contributed.
- Such agreements typically include provisions avoiding imposing obligations not matched with previous contributions on any participating scheme, and may be designed in a manner that avoids

that resulting benefits be considered either as too high with regard to living standards at the place of retirement, or unfavourable for the workers concerned in view of their past contribution records.

- The Chinese urban pension system pays benefits associating a basic component – a percentage of average remuneration at the place of retirement – and an individual component – directly derived from workers' own contribution records topped up with a part of contributions paid by the employers on their behalf. While vesting the latter does not seem to create any specific difficulty, the former (basic pension) that is paid out of pooled contributions raises significant financial and equity issues.
- Among those issues, one may quote the impossibility to transfer from one area to the other part of the resources earmarked for paying for current benefits, and the different levels of average wages, i.e. of basic pensions, among the different locations, which would make the transfer of such contributions from one location to the other inappropriate for the subsequent calculation of the basic pension – in other words, the fact that one year contributed in Guangzhou is worth substantially more than one year contributed say in Changsha.
- Coordination of legislation avoids any transfer of contributions among schemes, and corresponds in fact to the payment of benefits by one institution on behalf of another one – which would reimburse the payee on the basis of the contributions previously cashed. Technically, this method is described as "*Totalling insurance periods, Proportioning benefits*".
- If a worker has accomplished 5 years of insurance under each of the schemes A, B and C which have concluded among them coordination agreements, and retires in C after reaching the pensionable age, each scheme will consider that, since in total he/she will have completed the required 15 years of insurance among coordinated schemes, there will be entitlement to a pension benefit from each individual location. Each scheme would calculate the worker's entitlements according to its own legislative provisions as applied to insured persons having completed 5+5+5=15 years of insurance, but recognize those only in proportion of the length of recorded insurance.
- The basic pension of the worker would therefore be of 5/15 Basic Pension A + 5/15 Basic Pension B + 5/15 Basic Pension C, that may be limited to 100% of Basic Pension C after 15 years of insurance. For individual accounts, each scheme would calculate workers' entitlements according to its own legislation.
- The overall responsibility for initiating the process of coordination – i.e. contacting previous schemes to ascertain reality of worker's insurance career and confirming the share of aggregated pension incumbent upon individual schemes – as well as the payment on behalf of coordinated schemes (only one aggregated pension benefit is paid), would normally be incumbent upon the scheme of the place of retirement, subject to subsequent reimbursement or advance payment of their shares by other schemes participating in the agreement.
- If a scheme with which no agreement was passed is part of the workers' career, the corresponding periods are not taken into account in the final appreciation of pension entitlements – which may be revised should, at a later stage, this scheme also enter into the agreement. In other words, if a worker has accomplished 5 years of insurance under each of schemes A, B, C and D where he/she retires, with C not being involved in coordinating agreements, pension benefits would be of 5/15 of basic pension A, B and D within limit of 15/15 basic pension D plus corresponding component for individual account. If subsequently scheme C joins in the coordinating agreement, and provided the worker did not previously ask for reimbursement of his/her contributions with C, the corresponding individual account would become payable, as well as the additional share of the

basic pension provided the total does not exceed 100% of basic pension entitlements corresponding to 20 years of insurance with scheme B.

- The worker may of course retire in a location where he/she has not contributed to pension insurance, or which is not part to the coordination agreement, than the responsible institution for the administrative process would be the last one included in the agreement. Of course, the reality of workers' vesting of pension rights will very much depend on the number and relevance of social security institutions participating into coordination agreements.
- It may be hoped that, in view of the practical usefulness of such agreements for migrant workers, respective local Governments will take all necessary steps for their rapid conclusion, implementation and awareness among concerned workers and employers, making use for initiating the process of existing networks concerning labour mobility between Provinces. Needless to add, such approach would respond to the State Council directive of 28 March according to which "*those migrant workers, who have joined pension fund in urban, should be covered continuously by their employers. And labor departments have to explore solutions on continuations of migrant workers pension if they move to other cities.*"

Jean-Victor Gruat.2007 / 2015

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Component 1

1.4.3. – SOCIAL INSURANCE

FOR MIGRANT WORKERS

MOVING WITHIN THE EUROPEAN UNION

The European Union, now composed of 28 Member States, was from its inception in the middle of the XXth century designed in a way that would facilitate workers' and personal mobility across member States – while preserving their social security rights and rights in course of acquisition. In fact, Europe as a compendium of States with each their social security specificities – some schemes are contributory, others are not, some are funded, others pay as you go, some are public, others are private, some have basic pensions and individual accounts, others do not, some are benefits' defined, others are contributions' defined, some benefits are means tested, other are not, some are indexed on prices, others on wages, others in an ad hoc or composite manner, some are rich, other far less affluent, some are places of immigration, others of emigration or have floating populations in both directions … – managed to find practical solutions that might be a source of inspiration for China confronted to similar questions regarding mobility across a great number of pooling areas with greatly diversified social and economic conditions.

This Note, based on works accomplished by Mr. Bill Birmingham under the (2006-2011) first EU-China Social Security reform Project details the rules applicable throughout Europe for social security protection of mobile persons, while drawing some useful comparisons with the Chinese situation.

The Treaty of Rome establishing the then European Economic Community, now the European Union, included provision to remove barriers to the free movement of nationals of Member States who seek employment (and self-employment) in another Member State. This provision has been extended to apply to nationals of all acceding States, but Accession Treaties have included transitional provisions to enable existing Member States to postpone the application of the free movement provisions in relation to nationals of accession States for a limited period. Thus certain existing Member States have transitionally not applied the principle of free movement to the ten new Member States, but other States have applied the free movement provisions from the date of their access.
For the purpose of removing barriers to free movement of workers the Treaty of Rome included the following Article:
"The Council shall, acting unanimously on a proposal from the Commission, adopt such measures in the field of social security as are necessary to provide freedom of movement for workers; to this end, it shall make arrangements to secure for migrant workers and their dependents: (a) aggregation, for the purpose of acquiring and retaining the right to benefit and of calculating the amount of benefit, of all periods taken into account under the laws of the several countries; (b) payment of benefits to persons resident in the territories of Member States."
Under this provision, the EEC Council adopted Regulations 1408/71 and 574/72 to co-ordinate the social insurance systems of the respective Member States with the intention of removing implicit barriers to free movement. This paper outlines these provisions of the Regulations, in particular as they apply to the benefits covered by the Chinese social insurance schemes. They apply to migrant workers of all Member States, including those that have placed temporary restrictions on free movement.

Neither the Treaties establishing the European Union, nor the social insurance Regulations, require Member States to harmonise their social insurance systems. The Regulations provide only for co-ordination between the respective regimes.

The contribution rates, the contribution and other conditions for entitlement to pensions and other benefits and the rates of benefit vary considerably between Member States. Each Member State has enacted its own social insurance legislation, conditions of entitlement and rates of benefit. Most Member States have adopted a system of social insurance contributions, but Denmark pays benefits from tax revenue. Nor are Member States required to provide all the benefits to which the Regulations apply – the Netherlands, for instance, does not provide a specific benefit for industrial injuries and occupational diseases – but where a Member State does provide a benefit to which the Regulations apply, the State must apply the Regulations in respect of workers who have been subject to its legislation and that of another Member State.

Coverage of the Regulations

Regulations 1408/71 and 574/72 apply to employed and self-employed persons who have been subject to the social insurance legislation of at least one EU Member State and also to members of their family in respect of medical benefits in kind (i.e. health treatment), survivors' benefits and family benefits. They also apply to the spouses and family members of such workers who have been subject to Member States' social insurance legislation. Persons covered by the Regulations are subject to the same obligations and enjoy the same benefits under a Member State's social insurance legislation as the nationals of that Member State.

Contribution liability and the legislation to which a person is subject

The Regulations provide that an employed or self-employed person is subject to the social insurance legislation of only one Member State. This means that a person who works in a Member State other than the one in which he is permanently resident cannot be required simultaneously to contribute to the social insurance regime of both Member States. It also means, however, that such a person has the right to participate under the legislation of one of those states in order to maintain his contribution record. With limited exceptions, a person employed or self-employed in a Member State is subject to the social insurance legislation of that Member State, even though he may be permanently resident in another Member State or, if he is employed, the registered office or place of business of his employer is in another Member State. Special rules apply if a person works in more than one Member State. Mariners are subject to the legislation of the Member State whose flag the ship carries and civil servants are subject to the legislation of the Member State for which they work.

The major exceptions to the principle that a person is subject to the Member State in which he is employed are the following:

- A person who is employed in one Member State, but who is posted to work in another for a period not exceeding 12 months, remains subject to the legislation of the State from which he is posted, unless he is sent to replace someone else whose posting has finished. This period can be extended for up to a further 12 months, if the work cannot be completed within the original 12 months due to unforeseen circumstances.
- Two or more Member States may come to an agreement that a worker (or category of workers) who works in one of the states may remain subject to the legislation of another state in which he is not employed where it is in his interest to remain subject to that other state's legislation.
- Where a person is subject to the legislation of one Member State because he is employed or self-employed there, he may additionally pay contributions voluntarily to the social insurance regime of another state for the purpose of acquiring entitlement to old age, invalidity or survivor's pensions under that state's legislation.

By analogy, if applied in China, the effect of the regulations would be that a worker, whose hukou was in one province and municipality, but who went to work in another province or municipality, would be subject to, and entitled to participate in, the social insurance system in the place where he worked, but during that employment would not participate in the social security system in the location of his hukou, unless his employment in that other province and municipality was for less than 12 months.

The “Aggregation” Provisions

Benefits under the Regulations are awarded under “aggregation” provisions. For short term benefits, such as sickness and maternity benefits, this means that the social insurance institution of the Member State to whose legislation the worker was last subject must aggregate insurance, employment or residence periods, as appropriate, to determine entitlement to benefits. Only that institution will pay benefit. However, for long-term benefits, such as old age pensions, a system of “aggregation and apportionment” applies. Under this the institutions of each of the Member States to whose legislation the worker has been subject must aggregate those periods to determine a notional benefit entitlement, but then pay to the pensioner at least the proportion of the national benefit that the period under its legislation bears to the aggregate.

Old Age and Survivor’s Pensions

Acquisition of entitlement

Where a person has been an employed or self-employed person subject to the legislation of more than one Member State, his entitlement to old age pension, and after his death the entitlement of his widow or her widower to survivor’s pension, is determined as follows.

If the legislation of a Member State requires a claimant to old age (or widow’s or widower’s) pension to meet prescribed conditions as to length of residence or years or number of contributions, the EU Regulations require that state to take into account, where necessary, contributions or periods of residence that took place in any other Member State. This is to ensure that a migrant worker who has worked in more than one Member State is not deprived of entitlement to the pension because either he has not paid enough contributions in any of those states to meet the minimum necessary for entitlement under its legislation, or he can qualify only for a reduced aggregate entitlement because he meets the requirement in one state but not another, or because the entitlement arising in each state is less than he would have received if he had remained throughout in only one state.

Under the EU Regulations each Member State to whose social insurance legislation the person has been subject (except a state to whose legislation he was subject for not more than 12 months) must calculate the pension payable under its legislation as follows:

1. Each Member State to whose legislation the person was subject must firstly calculate the person’s pension entitlement under its legislation alone.
2. If the entitlement is not the maximum payable under its legislation, each Member State must then aggregate the social insurance (contribution or equivalent) periods the person completed under the legislation of all Member States (whether before or after they became Member States).
3. Each Member State must then calculate what the pension entitlement would have been under its own legislation if the aggregate period had all been completed under its own legislation.
4. Each Member State must then calculate the proportion of the aggregate that was completed under its own legislation and apply that proportion to the notional amount payable under the previous paragraph.
5. Each Member State must then pay the higher of the amount calculated under paragraph 1 or paragraph 4.

Thus a worker who has been employed or self-employed in more than one Member State will normally receive a pension from each of those states at least in proportion to the period under its insurance bears to the notional entitlement that would have arisen if the whole of the working life had been spent under its social insurance legislation. The worker can also receive a pension from a Member State at a rate below the minimum threshold for entitlement under its own legislation alone.

However, if the notional amount calculated at paragraph 3 above is still less than the minimum needed to qualify for a state’s pension entitlement, e.g. because the majority of the person’s working life was spent in a non-EU country, no pension will be payable under that state’s legislation. If the period during which an individual was employed or self-employed in a particular Member State was less than 12 months, the Regulations provide that that state is not required to pay a pension.

Examples A person works and pays contributions for 40% of his working life in Great Britain, 30% in France and 30% in Germany. He would be entitled to 40% of the pension that would be payable in

Great Britain if he had throughout paid contributions in Great Britain, 30% of the pension that would be payable in France if he had throughout paid contributions in France and 30% of the pension that would be payable in Germany if he had throughout paid contributions in Germany.

A person works and pays contributions for 95% of his working life in Great Britain and 5% in Ireland. He would not qualify for any pension under Irish legislation alone. He would be entitled to 100% of the pension payable under the legislation of Great Britain as he satisfies the conditions for a full pension under British legislation and to 5% of the pension that would be payable in Ireland if he had throughout paid contributions in Ireland.

A person works and pays contributions for 10% of his working life in Great Britain, 10% in Ireland and 80% in China. He would not be entitled to a pension under the legislation of either Great Britain or Ireland because the aggregate of his British and Irish contributions would be insufficient to give entitlement to a pension under the legislation of either.

Similar provisions apply to invalidity pensions, except in certain cases where entitlement under a Member State's legislation does not depend on the satisfaction of contribution or residence periods. In such cases, where the individual has been subject to the legislation only of Member States where entitlement does not depend on satisfaction of such conditions, only the Member State in which the incapacity that was followed by the invalidity first occurred is liable to pay invalidity benefit in accordance with its own legislation. Thus, if the worker has been subject only to the legislation of one or more of the Czech Republic, Denmark, Ireland, Cyprus, Netherlands, Poland, Portugal, Sweden and the United Kingdom (and limited categories in France, Hungary and Italy), the state in which the incapacity occurred is liable to pay an invalidity pension. If, however, the worker has at any time been subject to the legislation of any other Member State, the aggregation and apportionment provisions apply as for old age and survivor's pensions.

However, there are restrictions to ensure that beneficiaries do not acquire several benefits of the same kind in respect of the same compulsory insurance period other than under the aggregation and apportionment provisions described above.

By analogy, if applied in China, the effect of the regulations would be that a worker, who had worked and participated in the social insurance scheme throughout his working life, but for 30% of his working life in a municipality in Hebei province, 30% in a municipality in Guangdong province and 40% in Beijing, would be entitled from the Hebei province municipality, from the Guangdong province municipality to 30% of the pension that would have arisen if the whole of his employment had been in that municipality, and from Beijing to 40% of the pension that would have arisen if the whole of his employment had been in that municipality. However, if the system applied in China it is likely that it would apply only to the social pooling element and that the individual account element would apply on the basis of 2nd pillar arrangements in Europe (see below).

Exportability of pensions

Where a person covered by the Regulations is entitled to invalidity, old age or survivor's benefits payable under the legislation of one Member State, whether under its own legislation alone or as a result of the aggregation and apportionment arrangements described above, that benefit is payable to a non-national or a person resident in another Member State at the rate payable to a national of that Member State or to a person resident in that Member State without any reduction due to the person's nationality or place of residence. This provision applies also to indexation increases of benefit.

Examples A person entitled to a pension as a result of contributions paid during employment in Germany moves to, or lives in, Spain at or after retirement. He is entitled to receive his German pension in Spain at the rate in euros (€) that it would be payable if he still lived in Germany.

A person entitled to a pension as a result of contributions paid during employment in Great Britain moves to, or lives in, Ireland at or after retirement.

He is entitled to receive his British pension in Ireland in euros (€) at the rate that it would be payable in UK pounds (£) if he still lived in Great Britain. (This means that the pension payable in euros (€) in Ireland may fluctuate as a result of exchange rate fluctuations between the £ and €.)

See below if a pensioner requires sickness or maternity benefits.

By analogy, if applied in China, the effect of the regulations would be that a retiree, who was entitled to a pension as a result of working and contributing in a municipality in Guangdong province, returned on retirement to live in Hunan province would be entitled to draw the Guangdong pension in Hunan province. This matches the current situation in China.

Unemployment Benefit

Unlike in respect of other benefits, the circumstances in which a migrant worker can benefit from the Regulations to qualify for unemployment benefit in a Member State other than that in which he was last employed are restricted.

A Member State whose legislation makes the acquisition of entitlement to unemployment benefit subject to the completion of periods of insurance or employment must take into account periods of insurance or employment completed as an employed person in another State. However, this applies only where the unemployed person was last employed or insured in the state where he claims unemployment benefit. Thus, a person who leaves employment in one Member State cannot then go to another Member State and claim unemployment benefit there by seeking to require the latter to take account of insurance or employment in the state in which he was previously employed. If the rate of unemployment benefit is based on the individual's previous earnings, the Member State must take account only of earnings received in that state, not in respect of earnings in any other state.

(Exceptionally, if the person's employment in that state was for less than 4 weeks, the benefit must be based on a notional amount that would have been received by someone undertaking the same or similar work.)

There are two exceptions to the restrictions described above.

The first exception applies where a person was resident in a state other than the one in which he was last employed. A frontier worker – i.e. a person who lives in one state, but works in another, returning home daily or at least weekly – may claim unemployment benefit in his home state at its expense as if he had been employed there. A wholly unemployed worker, other than a frontier worker, may claim unemployment benefit under the legislation of the state where he lives at its expense, as if he had last been employed there, except for periods when he is entitled to the unemployment benefit of the state in which he was last employed. However, if the unemployed worker is only partially or intermittently unemployed, he may claim unemployment benefit in the state where he was last employed at that state's expense, as if he were resident there.

The second exception applies where a wholly unemployed person goes to another Member State to seek employment. If that person satisfies the conditions for entitlement to unemployment benefit in the state where he was previously employed, he may continue to receive that state's unemployment benefit for up to 3 months in the state to which he goes to seek employment if he has been in receipt of unemployment benefit for at least four weeks before going to the other state – a Member State may reduce the length of time required – and he registers within 7 days with the employment agency of the state to which he goes and becomes subject to its control provisions. Nevertheless, the individual may make use of this provision only once in each period of unemployment. Thus, he cannot go to seek employment in one Member State, then, having failed to find work, return home and then try to draw unemployment benefit in another state to which he goes to try to find employment.

Where the unemployment benefit of one state is payable by another state under this provision, the first state must reimburse the state that pays the benefit.

By analogy, if applied in China, the effect of the regulations would be that a person, who is entitled to unemployment insurance benefit in a municipality in, for instance, Shanxi province, could continue to draw that unemployment benefit for up to 3 months in Beijing, if he went to Beijing to seek employment.

See below the effect of the regulations if an unemployed person requires sickness or maternity benefits.

Accidents at Work and Industrial Diseases

An employed or (where the state provides benefits for the self-employed) self-employed person who suffers an accident at work or contracts an occupational disease at a time when he is resident in a Member State other than the State to whose social insurance legislation he is subject is entitled to:

- medical benefits (i.e. health treatment) provided by the social insurance institution in the state where he resides on behalf of the institution of the state to whose legislation he is subject (which must reimburse the former); and
- cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other) or
- If he is a frontier worker (see above), benefits provided by the social security institution of the state where the accident occurred or disease was contracted.

If the beneficiary moves temporarily or permanently to the state where the accident occurred or disease was contracted, he becomes entitled to benefits from that state's social insurance institution even he has received benefits before the move.

By analogy, if applied in China, the effect of the regulations would be that a worker, with a hukou in Tianjin who was subject to the work injury insurance system in Beijing and suffered a work injury in Beijing, would be entitled to medical treatment in Tianjin at the expense of the Beijing social insurance agency and entitled to cash benefits payable by the Beijing social insurance agency.

An employed or (if the state provides benefits for the self-employed) self-employed person who has suffered an accident at work or contracted an occupational disease and who:

- is temporarily resident in a state other than that liable to provide benefits; or
- has become entitled to benefits provided by the social insurance institution of a state and is then authorised by the institution either to return to the Member State of his permanent residence or to transfer his place of permanent residence to another Member State (nb Authorisation may be refused only if the movement would be detrimental to the person's health or treatment); or
- is authorised by the institution to go to another Member State to receive treatment for his condition (nb Authorisation may not be refused if the person cannot obtain the appropriate treatment in the state where the institution is situated), will be entitled to:
- medical benefits provided by the social insurance institution in the state where he is temporarily or permanently resident in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and
- cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

If a Member State provides benefits when an accident occurs while a person is travelling, the institution in that state must provide benefits if the accident occurs while travelling in another Member State as if it had occurred in its own state.

Similarly, if a state's legislation provides for the cost of transporting a person to hospital or to his place of residence, it must meet the cost of transporting the person to the equivalent location in the state where the person lives.

Where a worker contracts an industrial disease after having worked in more than one Member State in employment likely to give rise to that disease, any benefits to which he and his survivors become entitled are to be provided only by the social insurance institution in the last such Member State. Where entitlement under a Member State's legislation requires that the worker has been engaged in such an employment for a specified period, or for the condition to have been first diagnosed in that state, the social insurance institution in that state must take into account any equivalent period in any other Member State and a diagnosis determined in another Member State.

Exceptionally, where the disease contracted is sclerogenic pneumoconiosis, instead of the last Member State being liable, the cost of the cash benefits must be divided among the states in which the worker has been employed in such employment on a pro rata basis.
If an industrial disease is aggravated after the worker has been in receipt of benefit for an industrial disease,
• if the worker has not been engaged in employment in another Member State likely to cause or aggravate the disease, the institution of the state where the benefit was awarded must meet the additional cost of benefits resulting from the aggravation; or
• if the worker has been engaged in employment in another Member State likely to cause or aggravate the disease, the institution of the state where the benefit was awarded must continue to meet the cost of benefits resulting from the initial disability, but the institution in the state where the aggravation occurred must meet the cost of the excess.
Sickness and Maternity Benefits
A Member State whose legislation makes the acquisition of entitlement to sickness or maternity benefits benefit subject to the completion of periods of insurance or employment must take into account periods of insurance or employment completed in another Member State. However, this applies only where the person was last employed or insured in the state where he claims benefit.
An employed or self-employed person who resides in a Member State other than the one from which he is entitled to receive benefits because he had last been employed or insured there is entitled to receive in the state where he lives:
• medical benefits provided by the health or social insurance institution in the state in which he is resident as if he were insured with that institution; and
• cash benefits provided by the social insurance institution of the state to whose legislation he was last subject (or, if both institutions agree, by the institution of the place of residence on behalf of the other).
If he is temporarily in the state from which he is entitled to receive benefits or moves to reside there, he will be entitled to receive benefits from the social insurance or health institution there, even if he received benefits in the other state where he was living. Frontier workers may obtain benefits in the state where he was last employed as well as in the state where he resides. These provisions apply also by analogy to members of the worker’s family to the extent that they are entitled to benefits under the legislation of the state where the worker was last employed.
By analogy, if applied in China, the effect of the regulations would be that a worker, who returns to live where his hukou is, but has entitlement to health benefits under the social security institution of Shanghai would be entitled to health benefits under the social insurance agency of the hukou location, but at the expense of the Shanghai social insurance agency.
An employed or self-employed person who meets the conditions of a Member State for sickness or maternity benefits and:
• whose medical condition requires medical benefits while temporarily in another Member State (taking into account the length of stay and nature of the benefits); or
• who has become entitled to benefits provided by the social insurance institution of a state and is then authorised by the institution either to return to the Member State of his permanent residence or to transfer his permanent residence to another Member State (nb Authorisation may be refused only if the movement would be detrimental to the person’s health or treatment); or
• is authorised by the institution to go to another Member State to receive treatment for his condition (nb Authorisation may not be refused if the person cannot obtain the treatment in the state where the institution is situated within an appropriate period), will be entitled to:
• medical benefits provided by the social insurance institution in the state where he is temporarily or permanently resident in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and

• cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

These provisions apply also by analogy to members of the worker’s family.

If a worker’s right to a prosthesis, a major appliance or substantial medical benefits has been accepted by the health or social insurance institution of one Member State before the worker becomes subject to the social insurance legislation of another Member State, the first state must meet the cost.

An unemployed person who was previously employed or self-employed and who is receiving the unemployment benefit of one Member State while seeking work in another and who satisfies the conditions of the first Member State for entitlement to sickness or maternity benefits shall be entitled, but normally only for the period for which unemployment benefit would be payable, to:

• medical benefits that become necessary during his stay in the second state provided by the social insurance institution of the state where in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and

• cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

If, however, an unemployed worker receives unemployment benefits at the expense of the social insurance institution of the Member State in which he resides, instead of from the institution of the state where he was last employed, he will become entitled to the sickness or maternity medical and cash benefits of the state that has been paying the unemployment benefit.

If a pensioner who lives in one Member State is entitled to an old age, survivor’s or invalidity pension from more than one Member State, including the state in which he lives, the health or social insurance institution of that state is liable for sickness and maternity benefits as though the pensioner received his pension only from that state.

If, however, a pensioner who lives in one Member State is entitled to an old age, survivors or invalidity pension from more than one Member State, but not including the state in which he lives, he is entitled to:

• medical benefits provided by the institution of the state where he lives as though he was a pensioner under its legislation, but reimbursed by the liable social insurance institution; and

• cash benefits, where appropriate, provided by the liable social insurance institution.

The liable institution is the institution of the Member State to whose social insurance legislation the pensioner was subject for the longest period. Analogous provisions apply to members of the pensioner‘s family.

Other benefits

The Regulations also make provision for other benefits for which there is no Chinese equivalent, such as death grants and family benefits.

In brief, where a state provides for a death grant, insurance periods completed under all Member States must be aggregated to determine entitlement. In addition a death occurring in another Member State is treated as occurring in the state from which the death grant is payable.

Family benefits, e.g. benefits for children and orphans, are payable under the legislation of the state in which the worker is employed or self-employed. If, however, the worker resides in a different Member State under whose legislation a higher rate would be payable, that state must pay a supplement of the excess over the benefit paid by the state where the worker is employed. Analogous provisions apply where an individual is entitled to a pension from one Member State while resident in another.

Administrative Arrangements

The Regulations introduce standard forms which are designed identically in the language of each EU Member State. These forms are sent between the social insurance institutions of the relevant Member States providing details of an individual’s name, address, insurance record, benefit claim and award

and other relevant information. Thus if the Estonian authorities wished to exchange data about a retiree with the Maltese authorities, the Maltese, who do not speak Estonian, would be able to know what information was being provided as information provided in a particular box on the form would be the same in the Estonian and Maltese versions of the form. This enables each Member State to take account of periods of insurance and benefits received under the legislation of every other Member State to whose legislation an individual has been subject.
It also means that a claimant to a social insurance benefit who has been subject to the legislation of more than one Member State is required to make a claim only to the institution of the state in which he resides or was last employed to receive the appropriate benefits from every state from which he has an entitlement.

Institutions for occupational retirement provision

The EU has adopted two Directives, which Member States must implement in the field of occupational pensions (analogous to enterprise annuities in China, but in many cases the provisions are similar to those applicable to social insurance individual accounts).

Directive 98/49/EC

This Directive is intended to safeguard the supplementary pension (equivalent to enterprise annuity) rights of employed and self-employed persons who move between EU Member States and sets out certain rights and obligations for scheme members.
The principal provisions are as follows:

• A person who leaves a scheme because he moves to another Member State must not be treated differently to a person who leaves the scheme but remains in the Member State, as far as his or her vested rights are concerned. "Vested pension rights" means any entitlement to benefits obtained after fulfilling the conditions required by the rules of a supplementary pension scheme and, where applicable by national legislation.

• Member States must take the necessary measures to ensure that benefits under supplementary pension schemes are paid to members and former members as well as others (e.g. survivors) holding entitlement under such schemes in all Member States.

Examples A worker, who has worked for an employer for at least 2 years for an employer in Great Britain and has been a member of the employer-sponsored pension scheme throughout that period, leaves that employment and goes to work for an employer in Germany. He will be entitled on retirement to the same pension from his former pension scheme as he would have received if he had taken up employment with another employer in Great Britain
A retired former employee who during his employment was a member of a supplementary pension scheme in the Netherlands moves to Spain on retirement.
He will be entitled to the pension from that scheme at the same rate as he would have received if he had stayed in the Netherlands.
By analogy, if applied in China, the effect of the directive would be that a worker, who has an individual account under the social insurance agency in, for example, a municipality in Sichuan province, but moves to work in Chongqing, is entitled to retain the right to the accrued individual account under the Sichuan municipality on the same basis as if he had remained in another employment in the municipality or another municipality in Sichuan province.
The Directive also provides that a worker posted by his employer to work in another Member State should have the right to continue to contribute to the supplementary pension scheme in the state from which he was posted, for as long as he remains subject to that state’s social insurance scheme.
However, the Directive does not provide for aggregation of periods for the purpose of acquiring pension rights nor does it give the right for a person to keep pension entitlements by transferring them to a new scheme in the state to which he has moved to take up employment.

Directive 2003/41/EC

This Directive lays down rules for the operation in Member States of what it calls “institutions for occupational retirement provision”. These are institutions, other than social insurance institutions, that operate on a funded basis and are, and must be, established separately from any sponsoring enterprise or other employer(s) for the purpose of providing retirement benefits (including benefits on death, disability or cessation of employment) in the context of an occupational activity on the basis of an agreement or a contract agreed individually or collectively between the employer(s) and the employee(s) or their respective representatives, or with self-employed persons.

The Directive lays down rules, which Member States must adopt, for the operation of such institutions, including their registration in the state where they are established, a requirement for annual audited accounts and reports and the provision of information to participants and beneficiaries. The institutions must produce (and at least every 3 years review) a statement of investment principles, covering such matters as the investment risk measurement methods, the risk management processes implemented and the strategic asset allocation with respect to the nature and duration of pension liabilities. This must be made available, together with other specified information, including actuarial valuations and reports, to the national pensions regulator and to the participants. The Directive also lays down rules on investment in accordance with the “prudent person” principle. The Directive also makes provision for cross-border activities. Member States must make provision for enterprises and other employers established in one Member State to sponsor an institution for retirement provision in another and vice versa.

However, before this may occur, the pensions regulator in the state where the institution is established must have authorised it to accept sponsorship by an employer in another Member State and require it to apply conditions laid down by the regulator in the state where the sponsoring enterprise is established.

Example An enterprise established in Belgium wishes to sponsor an institution for retirement provision established in the Netherlands. If the institution is authorised by the Dutch pensions regulator, the Belgian employer and employees may pay contributions to the Dutch institution and on retirement acquire pension entitlement from that institution. However, the Dutch institution must satisfy the Belgian social and labour law conditions for the Belgian members and will be subject to supervision by the Dutch pensions regulator.

Protecting pension rights of persons who leave an employer

Although there is no EU-wide requirement for Member States to adopt most of the following provisions, some of the following arrangements apply in most Member States to ensure that a person who changes employer has his pension rights protected:

1. Periods of employment (or self-employment) and payment of contributions in relation to the respective employments count towards the same pension scheme.

This is a standard procedure for state social insurance schemes, but may also apply to enterprise schemes established, not by a single employer, but by a group, for instance, as in Holland where industry-wide occupational pension schemes, e.g. for the textile industry, are common.

2. If another company takes over the former employer or the enterprise is transferred, the new employer may, or in some cases, must, continue to maintain the pension arrangements (excluding social insurance provisions) provided under the former employer. If not, they must provide analogous provisions. Council Directive 2001/23/EC requires EU Member States to adopt legislation to ensure that employees’ rights are maintained on the transfer of an undertaking, business, or part of an undertaking or business to another employer as a result of a legal transfer or merger. Member States may exclude employees' rights to old-age, invalidity or survivors' benefits under supplementary company or inter-company pension schemes from the scope of the implementing legislation. However, if so, they must adopt measures necessary to protect the interests of employees and of persons no longer employed in the transferor's business at the time of the transfer in respect of rights conferring on them immediate or prospective entitlement to old age benefits and survivors' benefits under such schemes.

3. It is possible for a trade union to establish a pension scheme for members and for it to enter an agreement with all employers for whom its members work to contribute to the scheme on behalf of its members. Thus, if a trade union member changes employer, he continues to accrue rights in the trade union’s pension scheme. This system occurs in Spain.

4. An employee may take out a pension contract with an insurance company which will accept contributions not only from the employee to be paid into his individual account, but will also accept contributions from his employer. Thus, both the former and the new employer may pay contributions into the employee's individual account in respect of the respective periods of employment.
5. The rights that have accrued to an employee in a defined benefit scheme for the period until the employee leaves the employment are preserved in that scheme for payment from pension age. To avoid loss in value due to inflation for the period between leaving the employment and the pension coming into payment, the rights may be revalued in line with an inflation index (possibly subject to a ceiling).
Thus, for example, a civil servant, whose pension is based on a percentage of final salary for each year of participation, but who leaves the civil service some time before pension age, would receive a pension based on the percentage of his salary for the year before he leaves the civil service multiplied by the number of years of participation. This amount could be increased until pension age by the revaluation coefficient.
6. The rights that have accrued to an employee in a defined contribution individual account during the period before the employee leaves the employment are preserved in that individual account and continue to be invested and to receive investment income, even though no further contributions are paid. The amount that has accrued by pension age is used to provide a pension or to purchase an annuity.
7. It is possible to transfer the rights accrued in the member's previous scheme or individual account to a new scheme or individual account. How this is accomplished depends on the type of scheme from which the rights are transferred and that to which they are transferred.
a) If the transferring scheme and receiving scheme are both defined contribution schemes with individual accounts, the amount of the individual account in the former can be transferred to an individual account in the latter (possibly subject to the administrative cost of the transfer);
b) If the transferring scheme is a defined benefit scheme, whether funded or pay-as-you-go, and the receiving scheme is a defined contribution scheme, the amount to be transferred is the cash equivalent of the actuarial value of the rights that have been built up until the transfer and that amount is transferred to the individual account of the new scheme.
c) If the transferring scheme is a defined contribution schemes with individual accounts, but the receiving scheme is a defined benefit scheme, the amount of the individual account in the former will be transferred to the latter, but the value of the rights acquired in the receiving scheme by the sum transferred is determined actuarially on the basis of what value would have been acquired from that cash amount.
d) If both schemes are defined benefit schemes, the amount to be transferred is the cash equivalent of the actuarial value of the rights that have been built up until the transfer and the value of the rights acquired in the receiving scheme by the sum transferred is determined actuarially.
By analogy, if applied in China, the effect of the directive would be that a worker with an individual account who moved to work for another employer in possibly another municipality or province would have the right to have that individual account preserved in the former location, with the account continuing to accumulate income, or possibly to have the option of having the individual account transferred to the new location.

Bill Birmingham, 2010

EU-CHINA

Social Protection Reform Project

中国欧盟社会保护改革项目

Component 1

1.4.3. – SOCIAL INSURANCE

FOR MIGRANT WORKERS

MOVING WITHIN THE EUROPEAN UNION

The European Union, now composed of 28 Member States, was from its inception in the middle of the XXth century designed in a way that would facilitate workers' and personal mobility across member States – while preserving their social security rights and rights in course of acquisition. In fact, Europe as a compendium of States with each their social security specificities – some schemes are contributory, others are not, some are funded, others pay as you go, some are public, others are private, some have basic pensions and individual accounts, others do not, some are benefits' defined, others are contributions' defined, some benefits are means tested, other are not, some are indexed on prices, others on wages, others in an ad hoc or composite manner, some are rich, other far less affluent, some are places of immigration, others of emigration or have floating populations in both directions … – managed to find practical solutions that might be a source of inspiration for China confronted to similar questions regarding mobility across a great number of pooling areas with greatly diversified social and economic conditions.

This Note, based on works accomplished by Mr. Bill Birmingham under the (2006-2011) first EU-China Social Security reform Project details the rules applicable throughout Europe for social security protection of mobile persons, while drawing some useful comparisons with the Chinese situation.

The Treaty of Rome establishing the then European Economic Community, now the European Union, included provision to remove barriers to the free movement of nationals of Member States who seek employment (and self-employment) in another Member State. This provision has been extended to apply to nationals of all acceding States, but Accession Treaties have included transitional provisions to enable existing Member States to postpone the application of the free movement provisions in relation to nationals of accession States for a limited period. Thus certain existing Member States have transitionally not applied the principle of free movement to the ten new Member States, but other States have applied the free movement provisions from the date of their access.

For the purpose of removing barriers to free movement of workers the Treaty of Rome included the following Article:

"The Council shall, acting unanimously on a proposal from the Commission, adopt such measures in the field of social security as are necessary to provide freedom of movement for workers; to this end, it shall make arrangements to secure for migrant workers and their dependents: (a) aggregation, for the purpose of acquiring and retaining the right to benefit and of calculating the amount of benefit, of all periods taken into account under the laws of the several countries; (b) payment of benefits to persons resident in the territories of Member States."

Under this provision, the EEC Council adopted Regulations 1408/71 and 574/72 to co-ordinate the social insurance systems of the respective Member States with the intention of removing implicit barriers to free movement. This paper outlines these provisions of the Regulations, in particular as they apply to the benefits covered by the Chinese social insurance schemes. They apply to migrant workers of all Member States, including those that have placed temporary restrictions on free movement.

Neither the Treaties establishing the European Union, nor the social insurance Regulations, require Member States to harmonise their social insurance systems. The Regulations provide only for co-ordination between the respective regimes.

The contribution rates, the contribution and other conditions for entitlement to pensions and other benefits and the rates of benefit vary considerably between Member States. Each Member State has enacted its own social insurance legislation, conditions of entitlement and rates of benefit. Most Member States have adopted a system of social insurance contributions, but Denmark pays benefits from tax revenue. Nor are Member States required to provide all the benefits to which the Regulations apply – the Netherlands, for instance, does not provide a specific benefit for industrial injuries and occupational diseases – but where a Member State does provide a benefit to which the Regulations apply, the State must apply the Regulations in respect of workers who have been subject to its legislation and that of another Member State.

Coverage of the Regulations

Regulations 1408/71 and 574/72 apply to employed and self-employed persons who have been subject to the social insurance legislation of at least one EU Member State and also to members of their family in respect of medical benefits in kind (i.e. health treatment), survivors' benefits and family benefits. They also apply to the spouses and family members of such workers who have been subject to Member States' social insurance legislation. Persons covered by the Regulations are subject to the same obligations and enjoy the same benefits under a Member State's social insurance legislation as the nationals of that Member State.

Contribution liability and the legislation to which a person is subject

The Regulations provide that an employed or self-employed person is subject to the social insurance legislation of only one Member State. This means that a person who works in a Member State other than the one in which he is permanently resident cannot be required simultaneously to contribute to the social insurance regime of both Member States. It also means, however, that such a person has the right to participate under the legislation of one of those states in order to maintain his contribution record. With limited exceptions, a person employed or self-employed in a Member State is subject to the social insurance legislation of that Member State, even though he may be permanently resident in another Member State or, if he is employed, the registered office or place of business of his employer is in another Member State. Special rules apply if a person works in more than one Member State. Mariners are subject to the legislation of the Member State whose flag the ship carries and civil servants are subject to the legislation of the Member State for which they work.

The major exceptions to the principle that a person is subject to the Member State in which he is employed are the following:

· A person who is employed in one Member State, but who is posted to work in another for a period not exceeding 12 months, remains subject to the legislation of the State from which he is posted, unless he is sent to replace someone else whose posting has finished. This period can be extended for up to a further 12 months, if the work cannot be completed within the original 12 months due to unforeseen circumstances.

· Two or more Member States may come to an agreement that a worker (or category of workers) who works in one of the states may remain subject to the legislation of another state in which he is not employed where it is in his interest to remain subject to that other state's legislation.

· Where a person is subject to the legislation of one Member State because he is employed or self-employed there, he may additionally pay contributions voluntarily to the social insurance regime of another state for the purpose of acquiring entitlement to old age, invalidity or survivor's pensions under that state's legislation.

By analogy, if applied in China, the effect of the regulations would be that a worker, whose hukou was in one province and municipality, but who went to work in another province or municipality, would be subject to, and entitled to participate in, the social insurance system in the place where he worked, but during that employment would not participate in the social security system in the location of his hukou, unless his employment in that other province and municipality was for less than 12 months.

The "Aggregation" Provisions

Benefits under the Regulations are awarded under "aggregation" provisions. For short term benefits, such as sickness and maternity benefits, this means that the social insurance institution of the Member State to whose legislation the worker was last subject must aggregate insurance, employment or residence periods, as appropriate, to determine entitlement to benefits. Only that institution will pay benefit. However, for long-term benefits, such as old age pensions, a system of " aggregation and apportionment" applies. Under this the institutions of each of the Member States to whose legislation the worker has been subject must aggregate those periods to determine a notional benefit entitlement, but then pay to the pensioner at least the proportion of the national benefit that the period under its legislation bears to the aggregate.

Old Age and Survivor's Pensions

Acquisition of entitlement

Where a person has been an employed or self-employed person subject to the legislation of more than one Member State, his entitlement to old age pension, and after his death the entitlement of his widow or her widower to survivor's pension, is determined as follows.

If the legislation of a Member State requires a claimant to old age (or widow's or widower's) pension to meet prescribed conditions as to length of residence or years or number of contributions, the EU Regulations require that state to take into account, where necessary, contributions or periods of residence that took place in any other Member State. This is to ensure that a migrant worker who has worked in more than one Member State is not deprived of entitlement to the pension because either he has not paid enough contributions in any of those states to meet the minimum necessary for entitlement under its legislation, or he can qualify only for a reduced aggregate entitlement because he meets the requirement in one state but not another, or because the entitlement arising in each state is less than he would have received if he had remained throughout in only one state.

Under the EU Regulations each Member State to whose social insurance legislation the person has been subject (except a state to whose legislation he was subject for not more than 12 months) must calculate the pension payable under its legislation as follows:

1. Each Member State to whose legislation the person was subject must firstly calculate the person's pension entitlement under its legislation alone.
2. If the entitlement is not the maximum payable under its legislation, each Member State must then aggregate the social insurance (contribution or equivalent) periods the person completed under the legislation of all Member States (whether before or after they became Member States).
3. Each Member State must then calculate what the pension entitlement would have been under its own legislation if the aggregate period had all been completed under its own legislation.
4. Each Member State must then calculate the proportion of the aggregate that was completed under its own legislation and apply that proportion to the notional amount payable under the previous paragraph.
5. Each Member State must then pay the higher of the amount calculated under paragraph 1 or paragraph 4.

Thus a worker who has been employed or self-employed in more than one Member State will normally receive a pension from each of those states at least in proportion to the period under its insurance bears to the notional entitlement that would have arisen if the whole of the working life had been spent under its social insurance legislation. The worker can also receive a pension from a Member State at a rate below the minimum threshold for entitlement under its own legislation alone.

However, if the notional amount calculated at paragraph 3 above is still less than the minimum needed to qualify for a state's pension entitlement, e.g. because the majority of the person's working life was spent in a non-EU country, no pension will be payable under that state's legislation. If the period during which an individual was employed or self-employed in a particular

Member State was less than 12 months, the Regulations provide that that state is not required to pay a pension.

Examples A person works and pays contributions for 40% of his working life in Great Britain, 30% in France and 30% in Germany. He would be entitled to 40% of the pension that would be payable in Great Britain if he had throughout paid contributions in Great Britain, 30% of the pension that would be payable in France if he had throughout paid contributions in France and 30% of the pension that would be payable in Germany if he had throughout paid contributions in Germany.

A person works and pays contributions for 95% of his working life in Great Britain and 5% in Ireland. He would not qualify for any pension under Irish legislation alone. He would be entitled to 100% of the pension payable under the legislation of Great Britain as he satisfies the conditions for a full pension under British legislation and to 5% of the pension that would be payable in Ireland if he had throughout paid contributions in Ireland.

A person works and pays contributions for 10% of his working life in Great Britain, 10% in Ireland and 80% in China. He would not be entitled to a pension under the legislation of either Great Britain or Ireland because the aggregate of his British and Irish contributions would be insufficient to give entitlement to a pension under the legislation of either.

Similar provisions apply to invalidity pensions, except in certain cases where entitlement under a Member State’s legislation does not depend on the satisfaction of contribution or residence periods. In such cases, where the individual has been subject to the legislation only of Member States where entitlement does not depend on satisfaction of such conditions, only the Member State in which the incapacity that was followed by the invalidity first occurred is liable to pay invalidity benefit in accordance with its own legislation. Thus, if the worker has been subject only to the legislation of one or more of the Czech Republic, Denmark, Ireland, Cyprus, Netherlands, Poland, Portugal, Sweden and the United Kingdom (and limited categories in France, Hungary and Italy), the state in which the incapacity occurred is liable to pay an invalidity pension. If, however, the worker has at any time been subject to the legislation of any other Member State, the aggregation and apportionment provisions apply as for old age and survivor’s pensions.

However, there are restrictions to ensure that beneficiaries do not acquire several benefits of the same kind in respect of the same compulsory insurance period other than under the aggregation and apportionment provisions described above.

By analogy, if applied in China, the effect of the regulations would be that a worker, who had worked and participated in the social insurance scheme throughout his working life, but for 30% of his working life in a municipality in Hebei province, 30% in a municipality in Guangdong province and 40% in Beijing, would be entitled from the Hebei province municipality, from the Guangdong province municipality to 30% of the pension that would have arisen if the whole of his employment had been in that municipality, and from Beijing to 40% of the pension that would have arisen if the whole of his employment had been in that municipality. However, if the system applied in China it is likely that it would apply only to the social pooling element and that the individual account element would apply on the basis of 2nd pillar arrangements in Europe (see below).

Exportability of pensions

Where a person covered by the Regulations is entitled to invalidity, old age or survivor’s benefits payable under the legislation of one Member State, whether under its own legislation alone or as a result of the aggregation and apportionment arrangements described above, that benefit is payable to a non-national or a person resident in another Member State at the rate payable to a national of that Member State or to a person resident in that Member State without any reduction due to the person’s nationality or place of residence. This provision applies also to indexation increases of benefit.

Examples A person entitled to a pension as a result of contributions paid during employment in Germany moves to, or lives in, Spain at or after retirement. He is entitled to receive his German pension in Spain at the rate in euros (€) that it would be payable if he still lived in Germany.

A person entitled to a pension as a result of contributions paid during employment in Great Britain moves to, or lives in, Ireland at or after retirement.
He is entitled to receive his British pension in Ireland in euros (€) at the rate that it would be payable in UK pounds (£) if he still lived in Great Britain. (This means that the pension payable in euros (€) in Ireland may fluctuate as a result of exchange rate fluctuations between the £ and €.)
See below if a pensioner requires sickness or maternity benefits.
By analogy, if applied in China, the effect of the regulations would be that a retiree, who was entitled to a pension as a result of working and contributing in a municipality in Guangdong province, returned on retirement to live in Hunan province would be entitled to draw the Guangdong pension in Hunan province. This matches the current situation in China.
Unemployment Benefit
Unlike in respect of other benefits, the circumstances in which a migrant worker can benefit from the Regulations to qualify for unemployment benefit in a Member State other than that in which he was last employed are restricted.
A Member State whose legislation makes the acquisition of entitlement to unemployment benefit subject to the completion of periods of insurance or employment must take into account periods of insurance or employment completed as an employed person in another State. However, this applies only where the unemployed person was last employed or insured in the state where he claims unemployment benefit. Thus, a person who leaves employment in one Member State cannot then go to another Member State and claim unemployment benefit there by seeking to require the latter to take account of insurance or employment in the state in which he was previously employed. If the rate of unemployment benefit is based on the individual's previous earnings, the Member State must take account only of earnings received in that state, not in respect of earnings in any other state.
(Exceptionally, if the person's employment in that state was for less than 4 weeks, the benefit must be based on a notional amount that would have been received by someone undertaking the same or similar work.)
There are two exceptions to the restrictions described above.
The first exception applies where a person was resident in a state other than the one in which he was last employed. A frontier worker – i.e. a person who lives in one state, but works in another, returning home daily or at least weekly – may claim unemployment benefit in his home state at its expense as if he had been employed there. A wholly unemployed worker, other than a frontier worker, may claim
unemployment benefit under the legislation of the state where he lives at its expense, as if he had last been employed there, except for periods when he is entitled to the unemployment benefit of the state in which he was last employed. However, if the unemployed worker is only partially or intermittently unemployed, he may claim unemployment benefit in the state where he was last employed at that state's expense, as if he were resident there.
The second exception applies where a wholly unemployed person goes to another Member State to seek employment. If that person satisfies the conditions for entitlement to unemployment benefit in the state where he was previously employed, he may continue to receive that state's unemployment benefit for up to 3 months in the state to which he goes to seek employment if he has been in receipt of unemployment benefit for at least four weeks before going to the other state – a Member State may reduce the length of time required – and he registers within 7 days with the employment agency of the state to which he goes and becomes subject to its control provisions. Nevertheless, the individual may make use of this provision only once in each period of unemployment. Thus, he cannot go to seek employment in one Member State, then, having failed to find work, return home and then try to draw unemployment benefit in another state to which he goes to try to find employment.
Where the unemployment benefit of one state is payable by another state under this provision, the first state must reimburse the state that pays the benefit.

By analogy, if applied in China, the effect of the regulations would be that a person, who is entitled to unemployment insurance benefit in a municipality in, for instance, Shanxi province, could continue to draw that unemployment benefit for up to 3 months in Beijing, if he went to Beijing to seek employment.
See below the effect of the regulations if an unemployed person requires sickness or maternity benefits.

Accidents at Work and Industrial Diseases

An employed or (where the state provides benefits for the self-employed) self-employed person who suffers an accident at work or contracts an occupational disease at a time when he is resident in a Member State other than the State to whose social insurance legislation he is subject is entitled to:

· medical benefits (i.e. health treatment) provided by the social insurance institution in the state where he resides on behalf of the institution of the state to whose legislation he is subject (which must reimburse the former); and

· cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other) or

· If he is a frontier worker (see above), benefits provided by the social security institution of the state where the accident occurred or disease was contracted.

If the beneficiary moves temporarily or permanently to the state where the accident occurred or disease was contracted, he becomes entitled to benefits from that state’s social insurance institution even he has received benefits before the move.
By analogy, if applied in China, the effect of the regulations would be that a worker, with a hukou in Tianjin who was subject to the work injury insurance system in Beijing and suffered a work injury in Beijing, would be entitled to medical treatment in Tianjin at the expense of the Beijing social insurance agency and entitled to cash benefits payable by the Beijing social insurance agency.
An employed or (if the state provides benefits for the self-employed) self-employed person who has suffered an accident at work or contracted an occupational disease and who:

· is temporarily resident in a state other than that liable to provide benefits; or

· has become entitled to benefits provided by the social insurance institution of a state and is then authorised by the institution either to return to the Member State of his permanent residence or to transfer his place of permanent residence to another Member State (nb Authorisation may be refused only if the movement would be detrimental to the person’s health or treatment); or

· is authorised by the institution to go to another Member State to receive treatment for his condition (nb Authorisation may not be refused if the person cannot obtain the appropriate treatment in the state where the institution is situated), will be entitled to:

· medical benefits provided by the social insurance institution in the state where he is temporarily or permanently resident in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and

· cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

If a Member State provides benefits when an accident occurs while a person is travelling, the institution in that state must provide benefits if the accident occurs while travelling in another Member State as if it had occurred in its own state.
Similarly, if a state’s legislation provides for the cost of transporting a person to hospital or to his place of residence, it must meet the cost of transporting the person to the equivalent location in the state where the person lives.
Where a worker contracts an industrial disease after having worked in more than one Member State in employment likely to give rise to that disease, any benefits to which he and his survivors become entitled are to be provided only by the social insurance institution in the last such Member State.

Where entitlement under a Member State’ s legislation requires that the worker has been engaged in such an employment for a specified period, or for the condition to have been first diagnosed in that state, the social insurance institution in that state must take into account any equivalent period in any other Member State and a diagnosis determined in another Member State.
Exceptionally, where the disease contracted is sclerogenic pneumoconiosis, instead of the last Member State being liable, the cost of the cash benefits must be divided among the states in which the worker has been employed in such employment on a pro rata basis.
If an industrial disease is aggravated after the worker has been in receipt of benefit for an industrial disease,

· if the worker has not been engaged in employment in another Member State likely to cause or aggravate the disease, the institution of the state where the benefit was awarded must meet the additional cost of benefits resulting from the aggravation; or

· if the worker has been engaged in employment in another Member State likely to cause or aggravate the disease, the institution of the state where the benefit was awarded must continue to meet the cost of benefits resulting from the initial disability, but the institution in the state where the aggravation occurred must meet the cost of the excess.

Sickness and Maternity Benefits

A Member State whose legislation makes the acquisition of entitlement to sickness or maternity benefits benefit subject to the completion of periods of insurance or employment must take into account periods of insurance or employment completed in another Member State. However, this applies only where the person was last employed or insured in the state where he claims benefit.
An employed or self-employed person who resides in a Member State other than the one from which he is entitled to receive benefits because he had last been employed or insured there is entitled to receive in the state where he lives:

· medical benefits provided by the health or social insurance institution in the state in which he is resident as if he were insured with that institution; and

· cash benefits provided by the social insurance institution of the state to whose legislation he was last subject (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

If he is temporarily in the state from which he is entitled to receive benefits or moves to reside there, he will be entitled to receive benefits from the social insurance or health institution there, even if he received benefits in the other state where he was living. Frontier workers may obtain benefits in the state where he was last employed as well as in the state where he resides. These provisions apply also by analogy to members of the worker’ s family to the extent that they are entitled to benefits under the legislation of the state where the worker was last employed.
By analogy, if applied in China, the effect of the regulations would be that a worker, who returns to live where his hukou is, but has entitlement to health benefits under the social security institution of Shanghai would be entitled to health benefits under the social insurance agency of the hukou location, but at the expense of the Shanghai social insurance agency.
An employed or self-employed person who meets the conditions of a Member State for sickness or maternity benefits and:

· whose medical condition requires medical benefits while temporarily in another Member State (taking into account the length of stay and nature of the benefits); or

· who has become entitled to benefits provided by the social insurance institution of a state and is then authorised by the institution either to return to the Member State of his permanent residence or to transfer his permanent residence to another Member State (nb Authorisation may be refused only if the movement would be detrimental to the person’ s health or treatment); or

· is authorised by the institution to go to another Member State to receive treatment for his condition (nb Authorisation may not be refused if the person cannot obtain the treatment in the state where the institution is situated within an appropriate period), will be entitled to:

· medical benefits provided by the social insurance institution in the state where he is temporarily or permanently resident in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and

· cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

These provisions apply also by analogy to members of the worker's family.

If a worker's right to a prosthesis, a major appliance or substantial medical benefits has been accepted by the health or social insurance institution of one Member State before the worker becomes subject to the social insurance legislation of another Member State, the first state must meet the cost.

An unemployed person who was previously employed or self-employed and who is receiving the unemployment benefit of one Member State while seeking work in another and who satisfies the conditions of the first Member State for entitlement to sickness or maternity benefits shall be entitled, but normally only for the period for which unemployment benefit would be payable, to:

· medical benefits that become necessary during his stay in the second state provided by the social insurance institution of the state where in accordance with its own legislation as though he had been insured with that institution, but only for the period covered by the legislation of the state from which he was originally entitled to benefit (which must reimburse the former); and

· cash benefits provided by the social insurance institution of the state to whose legislation he was subject at the time of the accident or onset of the disease (or, if both institutions agree, by the institution of the place of residence on behalf of the other).

If, however, an unemployed worker receives unemployment benefits at the expense of the social insurance institution of the Member State in which he resides, instead of from the institution of the state where he was last employed, he will become entitled to the sickness or maternity medical and cash benefits of the state that has been paying the unemployment benefit.

If a pensioner who lives in one Member State is entitled to an old age, survivor's or invalidity pension from more than one Member State, including the state in which he lives, the health or social insurance institution of that state is liable for sickness and maternity benefits as though the pensioner received his pension only from that state.

If, however, a pensioner who lives in one Member State is entitled to an old age, survivors or invalidity pension from more than one Member State, but not including the state in which he lives, he is entitled to:

· medical benefits provided by the institution of the state where he lives as though he was a pensioner under its legislation, but reimbursed by the liable social insurance institution; and

· cash benefits, where appropriate, provided by the liable social insurance institution.

The liable institution is the institution of the Member State to whose social insurance legislation the pensioner was subject for the longest period. Analogous provisions apply to members of the pensioner‘s family.

Other benefits

The Regulations also make provision for other benefits for which there is no Chinese equivalent, such as death grants and family benefits.

In brief, where a state provides for a death grant, insurance periods completed under all Member States must be aggregated to determine entitlement. In addition a death occurring in another Member State is treated as occurring in the state from which the death grant is payable.

Family benefits, e.g. benefits for children and orphans, are payable under the legislation of the state in which the worker is employed or self-employed. If, however, the worker resides in a different Member State under whose legislation a higher rate would be payable, that state must pay a supplement of the excess over the benefit paid by the state where the worker is employed.

Analogous provisions apply where an individual is entitled to a pension from one Member State while resident in another.

Administrative Arrangements

The Regulations introduce standard forms which are designed identically in the language of each EU Member State. These forms are sent between the social insurance institutions of the relevant Member States providing details of an individual' s name, address, insurance record, benefit claim and award and other relevant information. Thus if the Estonian authorities wished to exchange data about a retiree with the Maltese authorities, the Maltese, who do not speak Estonian, would be able to know what information was being provided as information provided in a particular box on the form would be the same in the Estonian and Maltese versions of the form. This enables each Member State to take account of periods of insurance and benefits received under the legislation of every other Member State to whose legislation an individual has been subject.

It also means that a claimant to a social insurance benefit who has been subject to the legislation of more than one Member State is required to make a claim only to the institution of the state in which he resides or was last employed to receive the appropriate benefits from every state from which he has an entitlement.

Institutions for occupational retirement provision

The EU has adopted two Directives, which Member States must implement in the field of occupational pensions (analogous to enterprise annuities in China, but in many cases the provisions are similar to those applicable to social insurance individual accounts).

Directive 98/49/EC

This Directive is intended to safeguard the supplementary pension (equivalent to enterprise annuity) rights of employed and self-employed persons who move between EU Member States and sets out certain rights and obligations for scheme members.

The principal provisions are as follows:

· A person who leaves a scheme because he moves to another Member State must not be treated differently to a person who leaves the scheme but remains in the Member State, as far as his or her vested rights are concerned. "Vested pension rights" means any entitlement to benefits obtained after fulfilling the conditions required by the rules of a supplementary pension scheme and, where applicable by national legislation.

· Member States must take the necessary measures to ensure that benefits under supplementary pension schemes are paid to members and former members as well as others (e.g. survivors) holding entitlement under such schemes in all Member States.

Examples A worker, who has worked for an employer for at least 2 years for an employer in Great Britain and has been a member of the employer-sponsored pension scheme throughout that period, leaves that employment and goes to work for an employer in Germany. He will be entitled on retirement to the same pension from his former pension scheme as he would have received if he had taken up employment with another employer in Great Britain

A retired former employee who during his employment was a member of a supplementary pension scheme in the Netherlands moves to Spain on retirement.

He will be entitled to the pension from that scheme at the same rate as he would have received if he had stayed in the Netherlands.

By analogy, if applied in China, the effect of the directive would be that a worker, who has an individual account under the social insurance agency in, for example, a municipality in Sichuan province, but moves to work in Chongqing, is entitled to retain the right to the accrued individual account under the Sichuan municipality on the same basis as if he had remained in another employment in the municipality or another municipality in Sichuan province.

The Directive also provides that a worker posted by his employer to work in another Member State should have the right to continue to contribute to the supplementary pension scheme in the state from which he was posted, for as long as he remains subject to that state' s social insurance scheme.

However, the Directive does not provide for aggregation of periods for the purpose of acquiring pension rights nor does it give the right for a person to keep pension entitlements by transferring them to a new scheme in the state to which he has moved to take up employment.

Directive 2003/41/EC

This Directive lays down rules for the operation in Member States of what it calls "institutions for occupational retirement provision". These are institutions, other than social insurance institutions, that operate on a funded basis and are, and must be, established separately from any sponsoring enterprise or other employer(s) for the purpose of providing retirement benefits (including benefits on death, disability or cessation of employment) in the context of an occupational activity on the basis of an agreement or a contract agreed individually or collectively between the employer(s) and the employee(s) or their respective representatives, or with self-employed persons.

The Directive lays down rules, which Member States must adopt, for the operation of such institutions, including their registration in the state where they are established, a requirement for annual audited accounts and reports and the provision of information to participants and beneficiaries. The institutions must produce (and at least every 3 years review) a statement of investment principles, covering such matters as the investment risk measurement methods, the risk management processes implemented and the strategic asset allocation with respect to the nature and duration of pension liabilities. This must be made available, together with other specified information, including actuarial valuations and reports, to the national pensions regulator and to the participants. The Directive also lays down rules on investment in accordance with the "prudent person" principle. The Directive also makes provision for cross-border activities. Member States must make provision for enterprises and other employers established in one Member State to sponsor an institution for retirement provision in another and vice versa.

However, before this may occur, the pensions regulator in the state where the institution is established must have authorised it to accept sponsorship by an employer in another Member State and require it to apply conditions laid down by the regulator in the state where the sponsoring enterprise is established.

Example An enterprise established in Belgium wishes to sponsor an institution for retirement provision established in the Netherlands. If the institution is authorised by the Dutch pensions regulator, the Belgian employer and employees may pay contributions to the Dutch institution and on retirement acquire pension entitlement from that institution. However, the Dutch institution must satisfy the Belgian social and labour law conditions for the Belgian members and will be subject to supervision by the Dutch pensions regulator.

Protecting pension rights of persons who leave an employer

Although there is no EU-wide requirement for Member States to adopt most of the following provisions, some of the following arrangements apply in most Member States to ensure that a person who changes employer has his pension rights protected:

1. Periods of employment (or self-employment) and payment of contributions in relation to the respective employments count towards the same pension scheme.

This is a standard procedure for state social insurance schemes, but may also apply to enterprise schemes established, not by a single employer, but by a group, for instance, as in Holland where industry-wide occupational pension schemes, e.g. for the textile industry, are common.

2. If another company takes over the former employer or the enterprise is transferred, the new employer may, or in some cases, must, continue to maintain the pension arrangements (excluding social insurance provisions) provided under the former employer. If not, they must provide analogous provisions. Council Directive 2001/23/EC requires EU Member States to adopt legislation to ensure that employees' rights are maintained on the transfer of an undertaking, business, or part of an undertaking or business to another employer as a result of a legal transfer or merger. Member States may exclude employees' rights to old-age, invalidity or survivors' benefits under supplementary company or inter-company pension schemes from the scope of the implementing legislation. However, if so, they must adopt measures necessary to protect the interests of

employees and of persons no longer employed in the transferor's business at the time of the transfer in respect of rights conferring on them immediate or prospective entitlement to old age benefits and survivors' benefits under such schemes.

3. It is possible for a trade union to establish a pension scheme for members and for it to enter an agreement with all employers for whom its members work to contribute to the scheme on behalf of its members. Thus, if a trade union member changes employer, he continues to accrue rights in the trade union’s pension scheme. This system occurs in Spain.

4. An employee may take out a pension contract with an insurance company which will accept contributions not only from the employee to be paid into his individual account, but will also accept contributions from his employer. Thus, both the former and the new employer may pay contributions into the employee’s individual account in respect of the respective periods of employment.

5. The rights that have accrued to an employee in a defined benefit scheme for the period until the employee leaves the employment are preserved in that scheme for payment from pension age. To avoid loss in value due to inflation for the period between leaving the employment and the pension coming into payment, the rights may be revalued in line with an inflation index (possibly subject to a ceiling).

Thus, for example, a civil servant, whose pension is based on a percentage of final salary for each year of participation, but who leaves the civil service some time before pension age, would receive a pension based on the percentage of his salary for the year before he leaves the civil service multiplied by the number of years of participation. This amount could be increased until pension age by the revaluation coefficient.

6. The rights that have accrued to an employee in a defined contribution individual account during the period before the employee leaves the employment are preserved in that individual account and continue to be invested and to receive investment income, even though no further contributions are paid. The amount that has accrued by pension age is used to provide a pension or to purchase an annuity.

7. It is possible to transfer the rights accrued in the member’s previous scheme or individual account to a new scheme or individual account. How this is accomplished depends on the type of scheme from which the rights are transferred and that to which they are transferred.

a) If the transferring scheme and receiving scheme are both defined contribution schemes with individual accounts, the amount of the individual account in the former can be transferred to an individual account in the latter (possibly subject to the administrative cost of the transfer);

b) If the transferring scheme is a defined benefit scheme, whether funded or pay-as-you-go, and the receiving scheme is a defined contribution scheme, the amount to be transferred is the cash equivalent of the actuarial value of the rights that have been built up until the transfer and that amount is transferred to the individual account of the new scheme.

c) If the transferring scheme is a defined contribution schemes with individual accounts, but the receiving scheme is a defined benefit scheme, the amount of the individual account in the former will be transferred to the latter, but the value of the rights acquired in the receiving scheme by the sum transferred is determined actuarially on the basis of what value would have been acquired from that cash amount.

d) If both schemes are defined benefit schemes, the amount to be transferred is the cash equivalent of the actuarial value of the rights that have been built up until the transfer and the value of the rights acquired in the receiving scheme by the sum transferred is determined actuarially.

By analogy, if applied in China, the effect of the directive would be that a worker with an individual account who moved to work for another employer in possibly another municipality or province would have the right to have that individual account preserved in the former location, with the account continuing to accumulate income, or possibly to have the option of having the individual account transferred to the new location.