

**Social insurance administration  
systems reform**

**Technical Report**



**By:**

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## Reform of China's Social Insurance Administration Service System

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### Abstract

The reform of social insurance administration system is an integral part in the building of social insurance system in China. Although China has by and large established a social insurance administration service system covering both urban and rural areas of the country, sever problems still remain in terms of the management, service provision, distribution of resources, operation and safety of the system. Therefore, it is important to develop social insurance public service, further coordinate government resources, unify the currently different urban and rural administration and service systems, so as to achieve sustained development of the social security system, precise management, convenient, efficient and safe service, and a fair and sustainable social security system as a whole.

This Report is based upon the writer's in depth studies of social insurance situations in 15 districts in 7 Provinces, Autonomous Regions, and Municipalities directly under the Central Government, namely, Shanghai, Guangdong, Shaanxi, Liaoning, Inner Mongolia, Tibet and Jiangsu. It summons up social insurance theories and the 20-year history of social insurance administration system in China, and analyzes the current situation, problems and challenges of this system, by drawing upon success and failures of foreign systems. In the end, the Report makes policy suggestions concerning the goals and strategies of social insurance administration system reform in China.

Social insurance administration system in China consists 3 parts. First, social insurance policy making system, second, social insurance administration and service system, third, supervision system participating by the government, social groups and professional teams. This Report focuses on the reform of social insurance administration and service system.

Starting from zero, social insurance administration system in China has gradually developed into one that has administration institutions at all levels, covering the majority of citizens, with information technology and the Social Insurance Card of China widely adopted, and supplemented by private social insurance service institutions. Such a system has played an important role in implementing social insurance policies. With the social and economic development and rising demand for better social insurance service, problems of the system began to draw attentions from the general public. Such problems include loopholes in the management system, unbalanced distribution of resources, low quality service at local level, backward technology, shortage of financial and human resources, etc.

The reform of the social insurance administration system should be based upon China's national condition and carried out in accordance with the law. It should protect the rights and interests of both social insurance administration institutions and the citizens. While the government should shoulder the responsibilities of policy making, the whole society should actively participate in the system and the general public should take the supervision role. The basic principle of the reform is to provide efficient, convenient and safe social insurance public service, and the ultimate goal is to achieve a national universal and standardized social insurance administration system with sound internal structure, providing high quality service, adopting advanced information technology.

While currently the Ministry of Human Resources and Social Security and its local Departments are in charge of the administration of social insurance administration, efforts are required to establish a new and specialized Social Security Administration Bureau, as one of the measures of the reform. Thus, government functions in the fields of social security, social welfare and assistance, which are currently scattered in Human Resources and Social Security Departments, Civil Affairs Departments, Health and Family Planning Departments as well as China Disabled Persons' Federation, should be coordinated and merged to be put under the charge of single one government authority. Platforms for information sharing concerning the social insurance accounts of migrant workers, as well as for real-time monitoring of service should be established.

This Reports suggests to better coordinate resources to form a unified administration and operation system. First, the current rural and urban old-age insurance operation systems should be merged; second, the social insurance contributions collecting mechanism should be improved. The local tax authorities' responsibility to collect social insurance contributions should be transferred to commercial banks; third, a new State Administration of Social Security (SASS) should be established under the Ministry of Human Resources and Social Security, and other social welfare items such as old-age subsidies and family planning subsidies currently under the charge of various different government departments should be gradually incorporated into the charge of SASS and its local offices. Categorized management of social insurance workers and legal person governance structure should be gradually adopted. Standardization, professionalization and widely adoption of information technology should be promoted. The current shortage of social insurance workers should be tackled by the use of high technology, which can also improve service quality and efficiency. At the same time, a list of social security service items that could be transferred from government to commercial institutions should be made, and "social insurance service procurement" should be gradually incorporated into the government procurement, and its transparency should be strictly supervised.

It will take a long way to reform the current social insurance administration and operation system, and a two-step strategy is suggested by this Report: first, by 2020, main efforts should be made in reforming and improving the structure and organization of the system, improving service and establishing a universal platform; second, take another 10 years to coordinate resources currently scattered in Human Resources and Social Security, Health and Family Planning, Civil Affairs Departments, streamline structure, and form a national universal social insurance operation system. Special efforts should be made to consolidate social insurance administration and service at grass-root level communities and villages. Cloud computing and big data technology should be promoted. The legislation framework for social insurance management should be improved and a legal person governance structure should be gradually adopted.

## **Chapter 1 Evolution and Current Condition of Social Insurance Administration System in China**

### **I. History and features of each period**

Social insurance administration system in China has been developed together with the Chinese social security system. With a 60-year history, social insurance administration system in China has experienced 4 periods.

1. The first period is from the founding of the People's Republic of China to Reform and Opening Up. In this period, Labor Insurance and public-funded free medical care were adopted in

urban area, while Land Insurance and rural cooperative medical care were the system in rural area. Trade Unions at all levels and employment unities were responsible for the management and operation of insurance within employment unities themselves. Soon after the founding of the People's Republic, Labor Insurance Regulations was enacted. The former Ministry of Labor was in charge of policy making of Labor Insurance, and Trade Unions at various levels established administration and operation agencies for the funding, management and coordination of Labor Insurance. The personnel department and trade union of each enterprise carried out service, including payment of benefits. Government Labor Departments were eliminated and Trade Unions at all levels were suspended from activities (including fund-raising, management and coordination of Labor Insurance funds) due to the Cultural Revolution, during which Labor Insurance was changed into Enterprise Insurance, and personnel department of each enterprise took charge of its internal insurance issues, mainly the management of retirees of the enterprise, calculation and payment of pension. As for medical care, specific departments of hospitals (mainly the Insurance Department) was responsible for the reimbursement of medical expenses of the patients. It should be said that "social insurance" as well as its administration in their real meanings did not exist in China at that time.

2. The second period is from the Reform and Opening up to the early years of this century. In the 1980s, China started a transition from "employment unit-provided insurance" to social security, featured by the reform of SOEs and the establishment of social insurance schemes mainly for the employees. A multi-layered social security system led by the government and participated by various stakeholders including the general public and the market was by and large formed in this period. Therefore, to establish a national social insurance administration system became a must. With the development of market economy and the reform of social insurance system, in 1993, the 3<sup>rd</sup> Plenary Session of the 14<sup>th</sup> CPC Central Committee made the decision of establishing a nationally unified social insurance administration authority, and separating the administrative management of social insurance and the management of social insurance funds. Following this decision, at the end of the same year, the Social Insurance Administration Bureau (its name was later changed into Social Insurance Administration Center) was established under the former Ministry of Labor. The Bureau was given the responsibility of making guiding policies at national level for the administration of social insurance. Under the guidance of the Bureau, social insurance administration institutions were gradually set up at county or above county levels across the whole country. The main features of this period were: first, social insurance administration and operation system was established from national level to local level, in charge of the registration, contributions collection, payment of benefits, management of funds, etc.; second, the management system mechanism was reformed. Responsibilities previously scattered in different government institutions were all put into the Labor and Insurance Departments; third, a professional team of social insurance workers were trained during this period; fourth, the administration and operation of social insurance began to be considered as a public service benefiting the whole life of an individual citizen; fifth, the standardization, computerization and professionalization of social insurance

administration institutions have been greatly improved during this period.

3. The third period is from the 16<sup>th</sup> National Conference of the CPC to the 18<sup>th</sup> National Conference of the CPC. It is a period when the establishment and improvement of social insurance public service was accelerated. After 2002, social insurance public service began to be expanded from counties to grass-root levels. As a result, most streets and communities in urban China had established their local platforms for labor and social security issues. At the 17<sup>th</sup> National Congress of the CPC, a task of establishing a social security network covering all rural and urban areas was set, and as a result, New Rural Cooperative Medical Insurance, Basic Old-Age Insurance and Medical Insurance for Urban Residents were rapidly expanded across the country and by and large covered the whole country by 2012. The management of social insurance transited from simple business operation to public service providing platform for rural and urban citizens. Legislation

framework for social insurance management was greatly improved, and social insurance service quality was improved.

4. The fourth period is after the 18<sup>th</sup> Conference of the CPC. The focus of this period is to optimize the distribution of resources and achieve better legislation framework as well as the standardization of management. The 18<sup>th</sup> Conference of the CPC and the 3<sup>rd</sup> Plenary Session of the 18<sup>th</sup> CPC Central Committee incorporated the improvement of social security administration system and service system into the overall building of a fair and sustainable social security system and the modernization of national governance, and raised the goal of establishing a social security administration and service system that is well-structured and highly efficient. The 4<sup>th</sup> Plenary Session of the 18<sup>th</sup> CPC Central Committee made the improvement of the legislation framework of social insurance management an important content of achieving the rule of law.

Starting from zero, social insurance administration system in China has gradually developed into one that has administration institutions at all levels, covering the majority of citizens, with information technology and the Social Insurance Card of China widely adopted, and supplemented by private social insurance service institutions. Such a system has played an important role in implementing social insurance policies. With the social and economic development and rising demand for better social insurance service, problems of the system began to draw attentions from the general public, and further improvement and reform of the system and service are required.

## II. Major Success and Lessons

### 1. Major Success

(i) Social insurance administration system and relevant institutions have been by and large formed. After 20 years development, by the end of 2013<sup>1</sup>, four levels (national, provincial, municipal and county) of Human Resources and Social Security Departments have established 8,363 administration and operation institutions, among which 1 is at national level, 65 at provincial level, 992 at municipal level and 7306 at county level. 40497 social insurance offices<sup>2</sup> have been established at towns, and 680,000 offices have been set up at communities and villages (among which 589,000 are at villages and 94,620 are at communities). In terms of service, “one-stop” service has been provided at the “service hall” of many institutions. Cities in advanced regions, such as Shenzhen, Xiamen and Qingdao even provide on-line service. 600 million Chinese now hold the “Social Security Card of the People’s Republic of China”. Social insurance consulting could be reached through the free-dial 12333 hotline in 319 cities. Now apart from visiting service halls of social insurance institutions, other multi channels and forms of service, including telephone and on-line service are easily accessible, forming a comparatively efficient and convenient service system<sup>3</sup>. As for the information network, 32 institutions at provincial level have been connected with the social insurance data center at national level, and 323 cities (that is 96.1% of all cities in China) have been connected with social insurance data centers at provincial level. Social Insurance Service Network has reached to 92.5% social insurance administration institutions, and is continued to be expanded to towns and villages. These institutions have been serving as important public service providers at grass-root levels.

(ii) Efficient service have been provided. Firstly, social insurance coverage has been expanding rapidly since the mid-1990s. Urban Basic Old-Age Insurance, Urban Basic Medical Insurance, Unemployment Insurance, Work Injury Insurance and Maternity Insurance have basically

<sup>1</sup> If without further explanation, all data are those by the end of 2013.

<sup>2</sup> Data concerning social insurance institutions at town, village and community level are quoted from 2013 Social Service Development Statistics by the Ministry of Civil Affairs. See the 2014 Statistics Yearbook of the Ministry of Civil Affairs.

<sup>3</sup> See the Appendix for the main contents of social insurance administration service.

achieved full coverage<sup>4</sup>. This is mainly attributed to the hard work of social insurance administration institutions, which have endeavored to make sure that all eligible participants are covered. Secondly, reform policies have been fully implemented. Social insurance system in China was started in the Planned Economy Era, therefore many difficult problems needs to be solved to make the transition to a modern social insurance system. Such problems include making sure pensions are paid on time and in full, covering laid off workers of bankrupt SOEs, achieving portability of social insurance accounts, etc. Each of these problems require detailed and complex solutions.

(iii) Management and service quality continuously improved during the endeavor to achieve computerization, professionalization and standardization.

In terms of computerization, 1.95 billion people<sup>5</sup> participating in social insurance schemes have been covered by the data base established under the *Golden Insurance Project*. The computer network has been extended to by and large all social insurance administration institutions in counties and even communities in the advanced Eastern regions. A standardized process, from registration to benefits calculation and payment, from service for the retirees to internal supervision system have been formed. New forms of service such as “on-line social insurance service” and “e-social insurance service” are promoting the progress of computerization of social insurance administration. In the beginning, information technology was only used to deal with social insurance service, but now it has been widely used in the supervision of social insurance funds, early warning of possible risks in the management of the funds, and policy making support. The data base collects information including the situation of employers and individuals, the payment of benefits, as well as the microeconomic, demographic and public service situation of the region. Such information will be used to submit regular statistics report to relevant government departments, as well as in analysis for future policy making. Some regions have established social insurance funds supervision and early warning system as well as actuarial system for old-age insurance and medical insurance. The actuarial system, by adopting scientific modules and ways of calculation, provides a reliable way to analyze and predict the earnings and expenses of funds, so that risks could be well prevented.

In terms of professionalization, a team made up of both full time and part time social insurance workers has been trained. By the end of 2013, and above 177430 staff are working at social insurance administration institutions at county level and above. Among them there are 33993 administrators, 65387 clerks, 56953 professionals, and 21907 other workers<sup>6</sup>. 90.6% of them (160819 workers), have bachelor and above degrees; 32.2% of them (57217 workers) have professional certificates; and 79.1% of them (140419 workers) are below the age of 45. Therefore, judging by the age structure, education background and professional level, social insurance workers are of high quality even among all civil servants. At the same time, trainings of social insurance workers have been stressed, and 17 national training sessions for administrators of social insurance administration institutions have been held, training over 1000 people.

In terms of standardization of administration, firstly, national standards, industry standards, local standards, general standards, professional standards, operation standards have been widely adopted. National standards include *Social Insurance Service General Instruction*, *Social Insurance Service Institution Facility Instruction*, *Social Insurance Visual Identity System*, etc. And many local standards are under making. Secondly, social insurance service operation process has also been

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<sup>4</sup> See Appendix 2 for the coverage of each social insurance schemes.

<sup>5</sup> Accumulating all the participates of the five social insurance schemes.

<sup>6</sup> Administrators are director generals of the institution and directors of departments; professionals are financial workers, statistics workers, computer software workers and inspecting workers; clerks are those who deal with

standardized, by adopting scientific business dealing methods. Focus of such process standardization was mainly put on “coverage expansion” and “funds management”. Each step of the process, such as registration, account opening, change of registration information, payment of benefits, funds management, liability, etc., now has its detailed guiding standards.

(iv) A social insurance administration system guided by the government, participated by all walks of life in society and supervised by the general public by and large formed. Now among social insurance administration institutions which are at above county levels, 1 is at Department level, 34 are at Deputy Department level (26 at Provincial level and 8 at Municipality level), 194 at Division level, 622 at Deputy Division level, 1790 at Section level, and 5723 are below Section level. 4388 of these institutions, or 52.5%, are managed in accordance with the *Civil Service Law of the PRC*, among which 56 (86.2%) are at Provincial level, 702 (70.8%) are at Municipality level, 3630 (49.7%) are at County level. The *Social Insurance law of the PRC* stimulates that all social insurance administration institutions are public administration institutions.<sup>7</sup> After 2012, all social insurance administration institutions have become fully publicly financed. At the same time, state-owned commercial banks, some local postal banks and local commercial banks are now participating in the collection of social insurance contributions and the payment of benefits. In recent years, some regions have explored ways of involving commercial insurance companies to deal with some of social insurance business. With social insurance schemes expanded to cover all citizens, participating employers and individuals are more and more aware of and executing their rights to know, and rights to supervise, concerning the collection, payment and management of social insurance funds, thus greatly supports the building of a social insurance administration system guided by the government, participated by all walks of life in society and supervised by the general public.

## 2. Lessons Learned

Years of development and reform in social insurance has made policy makers realized that social insurance administration is in the domain of public administration, and that it is crucial to use limited resources to provide better management and service. The structure, function, staffing and budget of social insurance administration institutions are the foundation for providing better social insurance service. Reviewing the progress made in the 20 years development of social insurance system in China, there are many valuable lessons that are worth to be learnt:

First, social insurance administration should be put in the general picture of national reform. While clear direction should be mapped out, strategies and plans should be strictly implemented. Second, the idea of “putting people first” should be adhered to, and more innovations should be made to improve service. Third, based upon current national condition, at every stage of reform, a focus should be found and efforts should be concentrated on this point. Fourth, foundations of social insurance should be consolidated. Fifth, problems such as shortage of workers and heavy work load should be overcome, and detailed and accurate management should be achieved. Sixth, service quality, in particular, safeguarding social insurance funds and protecting social insurance rights of the citizens.

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<sup>7</sup> Article 72 of the *Social Insurance Law of the PRC* stimulates that “Social insurance institutions shall be established in the overall planning areas. Social insurance institutions may, as needed for their work, establish branches and service outlets in their respective overall planning areas upon approval of the local social insurance administrative departments and institutional staffing administrative organs.”

## Chapter II Major Problems and Challenges

### I. Major problems

Although great progress have been made in social insurance administration, which greatly contributed to building a social security system that covers the majority of Chinese citizens, the current system, in terms of its capacity and quality of service, still lags far behind the demands of the general republic. Now it is a crucial time for the work in the field of social insurance administration, which faces the following problems:

#### 1. Defective management system and unsound resources distribution

Resources distribution, power structure and ways of operation, efficiency and quality are all determined by the institutional frame work of a system. However, for a long time, “how to manage social insurance administration institutions” has been a controversial problem, to which different, even contradictory answers exist:

First, the question of a “super department” or a “small department”.

Those advocating a “super department” call for reorganizing social insurance, social welfare and social assistance into one single department. Currently these issues are under the charge of several different government agencies. The Human Resources and Social Security Departments are responsible for the 5 social insurance schemes, the Civil Affairs Departments are in charge of social welfare and social assistance, and

Health and Family Planning Departments, Trade Unions, Disabled Persons’ Federation, and CPC Committees are responsible for old-age subsidies, supports for difficulties, disabled persons’ welfare, New Rural Cooperative Medical Insurance, family planning subsidies, supports for major diseases, etc. Those who call for a “small department” advocate the establishment of an agency specialized in social insurance administration. But even the coordination among departments in charge of social insurance are currently in disorder. For example, at present, both the Human Resources and Social Security departments and the Health and Family Planning departments are responsible for the New Rural Cooperative Medical Insurance. The overlapping of responsibilities and lack of coordination have caused double charge of contributions, double subsidies, redundant capacity building and waste of resources. Another example is the collection of social insurance contributions. In some regions the social insurance administration institutions collect them, some other regions give this authority to local tax departments, and there are regions where social insurance institutions and local tax departments share responsibilities. Such confusing ways have caused great difficulties in funds management. In most of the regions where collection of contribution and funds management are under separated departments, there exist inconsistency of accounts receivable and funds actually collected. Some regions even encounter difficulties in distinguish between deposits in individual accounts and social pooling funds.

Second, the ambiguous identity of social insurance administration institutions. Organizations in China are usually categorized into government agencies, public institutions, enterprises, etc. However, social insurance administration and operation institutions, which shoulder the responsibility of providing social insurance service, did not have clear identification for a long time. Although the *Social Insurance Law of the PRC* clearly stipulates that governments at all levels

should establish social insurance administration and operation institutions, in practice, there are different opinions concerning the identity of such institutions. Hot discussions centered upon whether these institutions should be “government agencies” or “public institutions” or social organizations. As a result, in some regions social insurance administration and operation institutions are set as institutions managed in accordance with the *Civil Service Law of the PRC* (accounting for 52.5% of the total number of such institutions in 2013), and their staff are also under the charge of the *Civil Service Law* (accounting for 45.5% of the total number of the staff of social insurance administration and operation institutions in 2013); and other regions designate social insurance administration and operation institutions as public institutions. The lack of nationally unified definition of nature for social insurance administration and operation institutions result in disorder in management, as well as difficulties for the country to set remuneration standards for the staff of these institutions.

Third, the lack of standardized internal structure. Some regions set different management and operation institutions for different social insurance schemes, such as institutions responsible for dealing with old-age insurance (Old-Age Insurance Management Bureau/Center), institutions specialized in medical insurance (Medical Insurance Management Bureau/Center), work injury insurance administration and operation institutions (some regions combine them with old age insurance institutions or medical insurance institutions), and unemployment insurance institutions. In some regions, new administration institutions are set up whenever there is a new insurance scheme established by the government. There are also regions which set up different institutions for different groups of participants in a same insurance scheme. To take Old-Age Insurance Scheme as an example, some regions set up Old-Age Insurance Administration and Operation Institution for Government Agency Employees, Old-Age Insurance Administration and Operation Institution for Enterprise Employees, Old-Age Insurance Administration and Operation Institution for Urban and Rural Residents, etc. Also there are regions where “general business” (including registration, contributions collection, and “specialized service” (service of each insurance scheme) are separated in different institutions. According to statistics<sup>8</sup>, in 2013, 5 Provinces, 110 Municipalities and 763 Counties had institutions specialized for managing old-age insurance for government agencies, 5 Provinces, 108 Municipalities and 1397 Counties had institutions for social insurance institution for rural residents (see Appendix 4 for the setting of social insurance in China). Overlapped institution settings and redundant capacities are detrimental to the provision of convenient and efficient service.

Fourth, the lack of standardization in “administrative level” of social insurance institutions. In some Provinces (e.g. Shanxi Province), Basic Old-Age Insurance for Employees are administered at provincial level, and its detailed operation is given to comparatively independent institutions. Business of other social insurance schemes in Shanxi Province are mainly operated at municipality or county level. In the majority of regions, social insurance administration and operation institutions are subsidiaries of the local Human Resources and Social Security Departments at the same levels, but in a few regions, for example, in Wuxi City of Jiangsu Province, the Wuxi Social Insurance Center directly reports to the City Government.

Fifth, the lack of standardized naming pattern of social insurance institutions. Now in China these institutions all have very different names, some are named as “Bureaus” while others are named as “Centers” or “Divisions”. For example, in a certain Province, among its 179 Old-Age Insurance

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<sup>8</sup> Source: *Staff and budget of Social Insurance Management and Operation Institutions 2013*

administration and operation institutions, 147 are “Bureaus”, 10 are “Centers”, 14 are “Divisions” and 8 are “Offices”. And in those 147 Bureaus, 40 different names exist, such as “Old-Age Insurance Bureau”, “Old-Age Insurance Administration Bureau”, “Old-Age Insurance Affairs Administration Bureau”, “Social Insurance Administration Bureau”, “Social Old-Age Insurance Administration Bureau”, “Social Labor Insurance Administration Bureau”, “Labor Insurance Affairs Bureau”, “Branch Bureau of .....Labor Insurance Bureau”. Such confusing names have made it very difficult for the country to make a sound and reasonable whole social insurance system.

## 2. Unsound service system with weak link at grass-root levels

First, currently service methods and channels are still quite limited. Most business have to be done at counters in social insurance institutions, which are concentrated in downtown areas. Online service and E-social insurance have not yet played their full roles. At present, self-service machines, Internet, and telephones can only provide simple information search and bills printing service, lagging far behind the demands of the general public. Second, service branch are not easily found in many communities, and many community branches’ business do not cover contributions collection, application evaluation, pension calculation, etc. Many local level information networks are only physically connected to the system, without actual sharing of information. In particular, some towns and villages in mid and western regions even face the situation of “3 nos”: no fixed workplace, no necessary office facilities, and no long-term staff. Such situation in poor and remote areas is even worsened by the scarcity of commercial banks there, making it difficult for people to participate in social insurance schemes, pay their contributions and get payments.

## 3. Underdeveloped information network infrastructure development

First, the current functions of information network are not comprehensive enough. At present the social insurance information network only supports common everyday business, and is unable to support policy making and provide convenient and fast service. The main problems are: data not sufficiently utilized; data only accessible by institutions rather than general public; data unable to be utilized due to lack of proper methods.

Second, social insurance data have become an “information island”. In most regions, social insurance data can only be transferred and shared in the vertical way, but not in the horizontal way, thus unable to serve the needs of transfer of social insurance accounts. Third, the quality of data base urgently needs to be improved. Duplicated data record, data missing and fake data exist in many regions, according to field studies. Fourth, defects exist in information network infrastructure construction and maintenance system. Many regions outsourced key business, such as layout of information network, management of servers, maintenance of data bases, settings of network communication facilities (such as switchboards and routers), to private computer companies, and adopted systems that are still under development. This has made the operation and maintenance of system too much dependent upon the private sector, who then has chance to grasp key information concerning social insurance funds, resulting in serious risks of funds safety. Moreover, the current network platform at local level only has simple functions, such as inquiries and information collection, and is unable to deal with other business. At the same time, there are some network systems that are too complicated for the use of the clerks and the general public.

#### 4. Shortage of financial and human resources, difficult to achieve management with accuracy

Since 1997, participants in social insurance are increasing by an average of 16% annually, reaching 1.95 billion in 2013. The rapid rise of participants resulted in greatly increased workload and complexity for social insurance institutions. At the same time, with the diversity of social background of participants, the work is becoming more complex. Before 2005, participants in social insurance schemes were mainly urban employees, with comparatively stable work and income, and employers (human resources division or financial division of enterprises) were responsible for the operation of their social insurance issues. With large number of rural migrant workers coming to cities and the diversification of employment, there is great increase in people with flexible employment, self-employed people, and others who pay social insurance contributions by themselves, resulting in geometrical rise of workloads for social insurance institutions. According to field studies, workload for dealing with social insurance issues of migrant workers or people with flexible employment is three times the amount of workload concerning people stably employed.

Due to the requirement of approval from the Staffing Quota Department for each increase of social insurance workers, and the general trend of cutting public employees by the country, it is very difficult for the number of social insurance workers to be increased at the same pace with the rapid increase of social insurance work. In recent years, the actual number of social insurance workers were maintained at some 170,000. Faced with the increase of workload, on the one hand, social insurance workers have to work overtime frequently (according to statistics<sup>9</sup>, in 2012, 87% of social insurance administration and operation institutions across the country are still open at public holidays, and 90% of social insurance workers work over 60 hours per week on average, 50% more than national standard working hours); on the other hand, social insurance administration and operation institutions have to hire large amount of temporary workers and assign work at counters to them. These temporary workers are usually untrained and low paid, thus it is hard to safeguard high quality service. On the other hand, due to the lack of incentives, while most social insurance institutions complain about the shortage of workers, there are cases where “formal” workers don’t work on the first line and are unwilling to do difficult jobs while temporary workers shoulder most heavy tasks but are less paid.

Moreover, there is a lack of public financial support for social insurance administration and operation institutions. In most regions, these institutions are publicly financed as public institutions, added by some special funds. The budget they can get from the public finance is calculated based upon “average business expense per civil servant” multiplied by the staff number. In poverty stricken mid and western regions, some social insurance institutions even cannot get enough budget for their daily operation and are at the edge of being shut down. For example, the “average business expense per civil servant” in Zhongwei City and Lingwu City in Ningxia Hui Autonomous Region is less than 2000 RMB. Due to financial difficulties, even petrol, telephone and computer software are unaffordable. Thus they can neither go for field supervision nor use the Internet. They fill in data by hands and make calculation by abacus or calculators.

#### 5. Imperfect social insurance legislation framework

With the increasing complexity of social insurance business and increasing demand, there has been a prominent mismatch between social insurance supply and demand. Facing diversified requests of

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<sup>9</sup> He Ping and Tan Zhonghe, *Survey on the Payment Standards of Medical Insurance*, 2007

different social groups, it is impossible to manage everything with administrative measures. Only by law could fair and sustained social insurance service for everyone achieved, with rights matched with obligations. However, the lack of legislation and the difficulty in law enforcement have become a problem for social insurance work. On the one hand, legal awareness of the general public has strengthened, and any mistake in any process by the workers might result in a law suit. On the other hand, the newly amended Law of Executive Accusation has incorporated social insurance, and the rule of law, administration in accordance with the law and strengthened law enforcement have been highlighted by the current top leadership, making it high time for the improvement of legal framework. However, apart from the *Social Insurance Law of the PRC*, which set some broad principles concerning the administration and operation of social insurance, there has been no specific and detailed law in this regard. In some places there occurred several disputes or even confrontations between customers and social insurance workers, a few of them were serious. Also there are problems such as misbehaviors of social insurance institutions and workers, fraud concerning social insurance funds, etc. Therefore, a special law in the field of social insurance administration and operation is urgently needed so as to protect the legitimate rights and interests of the general public and maintain the order of the social insurance system.

## II. Outlook and challenges

At present and for some time in the future, social insurance administration in China faces challenges from both its own urgent need for development and the national economic and social situation. The rapidly developing science and technology also have influence on this sector.

### 1. Challenge of achieving operation by the law

With the universal coverage of social insurance, different social groups begin to have different demands on social insurance service. The strengthening legal awareness of the general public has made Chinese citizens more active than ever before to participate in the supervision of social insurance administration. It is therefore vitally important for social insurance administration institutions to be operated by the law. The major challenge is to balance the demands of different social groups, provide efficient, safe and standard service, under a bettered legislation framework, against the background of a strengthened legal awareness of the whole society. The current legal framework concerning social insurance administration, however, lags far behind the demands of the general republic as well as the national target of achieving modernization of governance and the rule of law. The current laws and regulations in this sector are not fully reflecting the wish of social insurance institutions and social insurance participants, and are now well-targeted. Problems also exist in law enforcement. These problems are against the principle of the rule of law raised at the 4th Plenary of the 18<sup>th</sup> Session of the CPC, and are detrimental to long term sustainable development of social insurance.

### 2. Challenge of further strengthening capacity to meet the increasing demands

Demands for social insurance service are increasingly diversified and expanded, such as the expansion of the earnings and expenses of funds, increasing workloads and their complexity, the rise in cross-regional migrant workers, transferring of social insurance accounts to other regions, contributions collection problems caused by frequent changes in work status, etc. Yet the current supply of social insurance service still cannot meet these new demands.

### 3. Challenge of achieving balanced development among regions and equal service

For a long time China has been under an urban-rural dual structure. Input from public finance has been focused upon urban development. As a result, in urban areas, public facility and infrastructures are comparatively advanced, with convenient transportation, easy internet access, well-developed commercial banks and postal banks as well as logistic service, which have laid a solid foundation for social insurance work. However, in rural areas, in particular some poor and remote regions, underdeveloped transportation, unstable electricity, no access to the Internet, lack of commercial bank or postal bank branches have made social insurance work very difficult. Moreover, social insurance in China was started in urban areas, so social insurance institutions were first established at counties and above levels. In rural areas, due to the late start, the underdeveloped infrastructure, the overstress of coverage expansion but overlook of administration and service, social insurance administration and service capacity is very weak, difficult to provide rural residents service that is equal to what their urban counterparts have. Our field surveys showed that in some remote regions of Yunnan and Guizhou Provinces, social insurance institutions have no fixed workplace and even no stable electricity for computers. In a remote village in Tongchuan region, Guizhou Province, residents have to go to the town which is 80 km away for their social insurance issues. The round-way trip on rugged mountainous road takes them 2.5 days.

### 4. Challenge of rapid urbanization

Urbanization rate in China will be close to 55% by 2015, and 60% by 2020, and 70% by 2030, with urban population exceeding 1 billion that year. However, the large number of rural migrant workers transferring regularly between rural and urban areas will still exist for quite some time, resulting in strong mobility of population. To be well adapted to mobility is a criteria for high quality social insurance service. Therefore, it is a great challenge for social insurance institutions, in particular those at grass-root levels, to do a good job in coordinating urban and rural social insurance schemes, policy consistency, cross-regional transfer of social insurance accounts. To take Old-Age Insurance Scheme as an example, since future benefit payments will be directly connected with the length and levels of contributions, it is vitally important to record the participant's status no matter where he/she lives and works. It is not an easy job for social insurance institutions to make sure that this person's social insurance rights are not violated by his/her change of work or place of living.

### 5. Challenges from China's profound social and economic changes

China now is at a critical stage of building a well-off society and achieving modernization. On the one hand, this country is stepping into the group of middle income nations with its accelerated industrialization, urbanization, informationization, agricultural modernization and narrowing urban-rural development gap. The strengthening comprehensive national power lays a solid foundation for social insurance work. On the other hand, however, China is at the initial stage of socialization, which means that the mismatch between the general public's demands for better life and underdeveloped productivity will exist for a long time. Such mismatch is also evident in the social insurance sector. At the same time, China's endeavor to achieve the rule of law, market economy and democracy will further accelerate the improvement of legal framework of social insurance. Social insurance administration will become an integral part of national governance. However, with dramatic changes in economic, social, urban and rural, and demographic structures, this period is a time when social conflicts might occur frequently. Thus social insurance administration service is under great challenge and pressure during this period.

China's economic slowdown makes universal coverage and increasing fund more difficult. Undergoing rapid industrialization and urbanization, China is still at a low level of industrialization and the middle- and lower-end of international industrial chain. Also, national economy is losing speed as a result of uncertainties, such as industrial restructuring, phasing out excessive and outdated production capacity, economic globalization and global financial crisis. All these makes it harder to manage social insurance and speed up expanding coverage and collecting contributions. During economic readjustment, businesses that heavily rely on the consumption of energy and water and produce much pollution will be shut down, the number of laid-off workers will increase. Besides, the number of people putting off paying contributions will go up, so the margin of increase in social insurance fund will be dragged down. It remains an arduous task to realize insurance for all, collect due payment and maintain the balance between expenditure and revenue. China's booming tertiary industry will see more people get insured. However, they are likely to buy insurance as an individual, so it will be more difficult and expensive in collecting contributions, and better management and services will be required

## 6. New technologies such as cloud computing and big data will revolutionize the management model of social insurance

The era of big data<sup>10</sup> makes the government the largest holder of information resources. Now authorities are tasked with innovating social management and service by leveraging the fast-developing big data technology. Big data will bring tremendous changes to the management of social insurance, a public service provided by the government to the public with the richest content, widest coverage and largest influence. Some developed countries have already applied big data to social insurance management. Now, 1.3 billion people in China are covered by social insurance, becoming the largest and most diverse database in the world. Its strategic importance is hard to be replaced. The application of big data will interrupt vested interest, and open the valve of information sharing among government agencies and localities. Existing management model will be transformed, a huge challenge for traditional management service.

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<sup>10 11</sup> First brought up in 1990 by Bill Inmon, then father of database, big data made its official debut in the 2011 EMC World Conference themed on "Cloud computing in big data era". Big data, in its traditional sense, means that the amount of data has become so large for current analytical tools to promptly capture, manage, process and organize into information for users to make a decision. In their book *Big Data: A Revolution That Will Transform How We Live, Work, and Think*, Viktor Mayer-Schönberger and Kenneth Cukier look into the features of big data, and then give an expressive definition. In their view, volume, velocity, variety and value are four major features. Volume means the quantity of data that is generated is very large. Variety means various types of data, including structured, semi-structured and non-structured data. Velocity means the speed of processing should be sufficiently fast. Value means that new knowledge emerging from the analysis and processing of data can generate greater wealth. Scientists put forward big data technology to refer to the technology that helps us to obtain valuable information in various data masses. Technologies fall into eight groups: data collection, data access, infrastructure, data processing, statistical analysis, data mining, model prediction. They can be categorized into three computing models: batch processing, stream processing, and interaction analysis.

## Chapter III Basic Principles and Goals Governing China's Social

### Insurance Administration System

#### I. Basic principles

The management system of social insurance has a direct bearing on the sound operation of social insurance system, the rule of law and the modernization of the country's governance system. It is related to the vital interest of every citizen, and will exert a huge influence on economic and social development. Therefore, following principles must be upheld.

First, law-based management. The rights and interest of all stakeholders should be safeguarded. As social insurance relates to the rights and interests of all parties, so every detail in the process makes a difference, leading to conflicts and disputes, which must be properly addressed in accordance with the law. The introduction, improvement and implementation of related laws and regulations are an integral part of the management and service system of social insurance

Second, government taking charge, social participation and public supervision. China's situation dictates that the management of social insurance will not be handed over to the market in a short time. Instead, government will be responsible for matters that affect people's livelihood by shouldering the major responsibility. This does not mean that government should do all the job, rather, it should introduce market mechanism in a planned and well-organized manner. Favorable environment should be forged for public participation, so that people can fully exercise the right of expression, supervision and participation in social insurance.

Third, providing efficient and accessible public services for employers as well as employees. The priority of the management system and intermediary service system is to offer accessible, safe and efficient services to employers and employees. The gauge on the service capacity and level is whether convenience is provided for the public, whether information is safe and whether service is satisfying.

Fourth, efficiency. The cost and performance must be taken into account in reforming the management system of social insurance institutions and improving the intermediary service system. Blindly starting up projects and overstaff are prohibited. Intermediary services need not to be full-ranged. These makes the principle of efficiency all the more necessary. A performance evaluation, incentive and punishment mechanism should be set up in a scientific and rescannable way to govern the intermediary service of social insurance.

Fifth, a practical and forward-looking management system with integrated design, unified plan, and gradual implementation in accordance with the overall reform of social insurance as well as economic and social development. Social insurance policies in China differ between rural and urban areas and among regions. Due to different levels of development, localities vary in infrastructure, quality of the public, social and cultural traditions. Although a basic framework of social insurance is in place, specifics of implementation and policies still need to be worked out and improved. All these differences and the instrumentality of reform should be fully considered. The government should design, plan and carry out the building of management system and intermediary service system of social insurance. That means no uniform model or mechanism is imposed on the management system of social security, let alone simply apply the model of urban areas to rural areas, that of

developed areas to deprived areas, and that serving the employees to that serving the self-employed and farmers. Besides, different positions, staff with different professions, and different management (such as organization) models are need.

## II. Targets

The overall target is to put in place a unified and standardized management system and intermediary service system of social security through reform, to deliver efficient and convenient service.

Specific goals include: first, scientific design of management system and a unified intermediary service system; second, sound rules and regulations, intermediary services in strict accordance with the law and standardized practice; third, improved service system to deliver convenient, efficient and secure service to the public; fourth, safe and convenient information system and service network -- providing online service based on social security cards and big data for most activities; fifth, popularizing professional management service, exploring diversified service provision and corporate governance structure of social security; sixth, establishing a performance evaluation system, a scientific and complete mechanism to manage fund; seventh, cultivate an intermediary service team with quality, skill and morality that are fully committed to people and can do both whole-time and part-time job.

## Chapter IV Overall Vision for the Improvement of the Social Insurance Administration System

### 1. The overall line of thinking for management system is to gradually put in place a management and service system with “a complete system, two features, three bureaus, and four platforms”.

“A complete system” means to gradually put social security departments in charge of intermediary services, and elevate the “Social Security Bureau” to be directly under the people’s government on the basis of the overall management system. Efforts will be made to integrate scattered social insurance programs among social security departments, social welfare and social relief programs among civil affair departments, social insurance programs among organization departments, departments of public health and family planning, labor union and Disabled Persons Federation. All these scattered programs will be consolidated into the coordinated and unified management of the Social Security Bureau.

“Two features” means to build a unified public platform for management services on the national level. We will follow unified standards of management system, interconnected information platform, storing basic data in the same database, one-card public service and standardized service provision. It should be clearly identified that the management service of social security works for the public.

“Three bureaus” means to integrate internal departments and organizations within the Social Security Bureau. Three interconnected while independent bureaus, namely, “Bureau of Managing Contribution Payment”, “Bureau for Paying Remuneration” and “Bureau for Inspection and

Supervision”, will be built in line with the core businesses and management service of social insurance.

“Four platforms” means to establish and improve an information-sharing platform, a management and service platform for floating population and people who live and go to hospitals not in their hometown, a real-time monitoring platform and an education and training platform for the management staff.

## **2. Overall vision for the reform of service system**

First, it is required to redesign the process of intermediary service with the focus shifting from providing convenience for management to providing easier access to the insured employers and employees. Second, we should speed up setting the bar for social security, so that by the end of the 13th Five-Year Plan (2016-2020), standardized management will be extended to every position, every link and every important operation. Third, we should promote ICT application to online service, so that by the end of the 13th Five-Year Plan, over 90% employers and individuals can access to services through Internet terminals, text messages, Weibo (a counterpart of twitter), self-help machine, and phone calls. Universal service will be provided regardless of localities, time and space within the whole country. Such services include: information registration and alteration, payment base declaring, contribution payment, treatment receiving and consulting. Fourth, full play should be given to commercial banks in providing social security services. For example, we should fully leverage the advantages of People’s Bank of China, such as a secure information network, an efficient network covering both urban and rural areas. We can create a special account at commercial banks for all monetary transactions, including contribution payment and giving out compensation, so as to forge a service network where contributions are paid through banking outlets or online portals (including cellphone), and compensation is distributed by banks. Fifth, neighborhood committees should be in charge of social security in urban communities, and village committees in rural organic unit, where “self-management, self-service and self-supervision” will be carried out. Measures such as policy guiding, legal guarantee, improving information network and rational layout of commercial bank outlets will be taken to solve the problems in social security service at community level.

## **3. Create favorable conditions for a new system of management service**

First, we should speed up improving relevant laws and regulations, and elevate tested codes, standards, and measures to become law, so as to provide sound legal guarantee. Second, we should increase financial support to social security management. On the basis of China’s conditions and international experience, It can be considered to adopt a standard for management fees, usually 2% of the annual fund collection. Fund can come from the fiscal budget or the contribution. Third, following the internal laws governing the social insurance management, we should explore different programs to encourage qualified public organization to participate, and gradually give the market the decisive role in allocating resources.

## Chapter V Suggestions and Measures for Improving Social Insurance Administration System in China

Improving the administration system of social insurance is an integral part of integrating the safety net in rural and urban areas and a basic requirement for realizing fair and sustainable social security. I wish to put forward following suggestions to accelerate improving the management and intermediary service system of social security and achieve abovementioned vision.

### 1. Integrate resources and realize unified management of social security

The management system relates to the interests of government agencies, the stability of social security teams, as well as the vital interest of the public. Practical measures should be taken to gradually integrate the services, and the rush for success should be guarded against.

First, we should finish the integration of the old-age insurance and medical insurance for rural and urban residents as soon as possible. The State Council has made it clear to combine the old-age insurance for urban residents and New Rural Old-Age Insurance into one basic pension scheme that will be managed in a unified way. Public health and family planning agencies should transfer the New Rural Old-Age Insurance to human resource and social security agencies, and build an integrated medical insurance program for unified management, according to the State Council's plan of institution reform and function transformation.

Second, we should integrate the management system of collecting contributions, transfer the payment at local taxation authorities to commercial bank outlets under the management of social security authorities. According to the fund-collecting procedure in China, social security department will be responsible for registration, reporting payment and checking the base. When the evaluation is done, banks will collect the fund, deposit it into separate accounts (consolidating fund account and individual transaction fund account), and then transfer to a special account for social insurance fund.

Currently, commercial bank network for collecting contributions have covered rural and urban areas. It is unnecessary that tax authorities add the fund management and extend the management chain. Besides, tax authorities only collect contribution paid by regular employers. It is social security agencies that collect the contribution of most medium-, small and micro-sized businesses, individually-owned businesses and flexible workers. Tax authorities only collect old-age insurance and medical insurance contributions. As the number of flexible workers, individual insures increases and the Social Security Law demands the combination of five insurances into one, the practice that tax authorities collect contribution can no longer satisfy the development of social security. Regulations should be introduced as soon as possible to transfer the collection duty from tax authorities to social security institutions for unified management, and designate commercial banks to collect the fund.

Third, we should integrate all intermediary service providers set up by all levels of human resource and social security departments into Social Security Bureau for coordinated management of basic old-age insurance, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance. Intermediary service institutions above prefecture level manage and supervise social security affairs. We should gradually abolish the service of specific affairs, which should be undertaken by the public service platform and public institutions (commercial institutions) of the counties, cities, regions and village communities. Now that human resource and social security

departments at prefecture and city level no longer design social security policies, they should be integrated into the Social Security Bureau.

Fourth, we should integrate social security programs including old-age entitlement, award and subsidy of family planning and the old-age care for village cadres, change multiple management and eliminate redundant investment. Specific measures includes transferring the old-age entitlement under civil administration to human resource and social security departments, and incorporating it into the old-age care of the rural and urban residents; incorporating the old-age subsidy for veteran village cadres and party members under the civil administration to the old-age care of the rural and urban residents; transferring the subsidy for family planning to human resource and social security departments, the old-age care to the unified management of intermediary service institutions.

Meanwhile, we should sort out subsidies for targeted groups, and these subsidies include social special care, the old-age subsidy for people on the confiscated land, pension for the disabled or for the family of the deceased, subsidy to the family of workers deceased because of non-worked-related reasons, subsidy to the spouse of the retired, so that these programs will be managed in a unified way.

Fifth, we should create conditions to integrate all social security affairs of other departments (such social insurance, social relief and social welfare) into same-level Social Security Bureau, and elevate these bureaus to be directly under the government. The Central Social Security Bureau is directly under the State Council, so it is a ministerial-level agency. Provincial and county-level Social Security Bureau is directly under the provincial and county government. Our goal is to complete the reform at all levels by the year 2030.

## **2. Classified management of staff at intermediary service institutions**

According to China's conditions, all institutions should be of administrative nature in the short term (around 10 years). Classified management of staff will be practiced. Positions within each intermediary service institutions will fall into three groups: administrative, professional and operational. Administrative staff will be incorporated into the management of civil servants, professional staff should be incorporated into the management of technical staff of public institutions, and operational staff should be incorporated into the management of social workers and managed with qualification authentication. In principle, labor contract management will be combined with socialized administration. Management staff accounts for 10%, professional staff account for 30%. Other operational positions can be assigned by other institutions or qualified agencies with bidding competition, regular evaluation and professional management.

Basic principle for determining the operational position should be to consider the factors influencing the staff at intermediary service institutions, and these factors should mainly be the workload that cannot be simply determined by the ratio of staff to consumers. Factors to be considered are as follows. First, the level of economic development of one region. A region with high economic growth, larger population, more advanced transportation and communication has better-quality population, so such regions have more service-receivers. Second, distinguishing downtown area, suburbs and rural areas. This has to do with the public service resources. Population and public service facilities and resources are concentrated in downtown areas, so other things being equal, there should be more service-receivers. In comparison, public service resources are less in suburbs and rural areas. These factors must be taken into account when determining the per capita amount of service. Third, the per capita amount of service should be calculated based on the handling of old-age insurance and medical insurance (including work-related insurance and maternity insurance). As two importance insurances, they are very different in daily operation and compensation payment,

though they are similar in insurance purchase and contribution payment. If they are treated in the same way during institution size determination, their differences will be concealed, leading to uneven distribution of workload and resource waste.

### 3. Take the opportunity of insurance for all and consolidate the foundation of management service

“Registration of insurance for all” is important for the long-term and sustainable development of social insurance system, achieving the fairness in social security and consolidating the foundation of social insurance management. Registration of insurance for all will improve the database of the insured employees by building a database and registering legal persons; establish a database for insured urban and rural residents through the registration at community service center; establish a database for the insured students through school’s record; realize the comparison and exchange of information with public security’s database of household registration. Registration of insurance for all consolidates the basis for social security management, and we should take this opportunity to strengthen basic work. First, guided by the demand of the insured for management service, we should promote unified, ICT-based, and standardized service, accelerate issuing standards, launch online service and issue social security card to make sure all insured has a card and promote its use. Second, we should strengthen the service team by classified management, improved position arrangement, strict discipline and promote work ethics focus on civilized services, so as to deliver careful, dedicated and considerate services. Third, we should optimize the intermediary service model. Models should be transformed from being opened to a specific group to the urban and rural resident, from tax collector system to an integrated tank system, from lobby service to a combination of lobby service and online service, from service network stations concentrating in urban areas to roads, communities, and rural labor platform, from unified management by the intermediary service institutions to the purchase of public services through multiple channels. In this way, we can improve the accessibility of intermediary services.

### 4. Explore the corporate governance structure of social insurance

According to public management theory in the west, the increasing demand for public service requires the government to reform its philosophy, functions and organizational institution, break the existing bureaucracy, and instead build a management system guided by the public need and a service philosophy. New public management theory believes the relationship between the government and citizens is a subject-object relationship with a customer orientation. The social contract theory believes public service institutions belong to the government agencies, and their administrative nature and lack of independence is the source of poor service capacity. The commanding and controlling practice in some places should give way to communicative, consultative and administering model. Public service institutions with capacity to integrate and quickly respond should be built.

At the initial stage of social insurance, it is necessary for intermediary service institutions to rely on administrative measures. However, with universal coverage, the conflicts between demand and supply of such institutions becomes sharper. It is especially true that when China is building a service-oriented and law-based government, administrative measures alone cannot satisfy the public demand for social insurance, and governance mechanism and service manner of public service must

be introduced. In terms of the institution, the service model relying solely on government agencies should be changed into a market mechanism for privately operated services and a governance mechanism with public participation. In terms of the organizational system, we should build a flat system. To put in place a corporate governance system, we should follow the internal laws governing the social insurance management, and explore different programs to encourage qualified public organization to participate, and gradually give the market the decisive role in allocating resources. Then we should identify what services can be provided by intermediary service institutions themselves, what can be outsource, what can be provided through the market. In this way, we can make better use of social resources, improve efficiency and capacity, and prevent disorderly expansion of intermediary service institutions. Some features of social insurance decide that some operational positions can be outsourced. Partial outsourcing, social governance and public participation can offer the insured more choices. This is similar to commercial banks and insurance companies where people can choose a service station as they wish. Only through following the new theory on public governance and public participation can we address the lack of fund and staff as well as improve service quality and level.

The key to the corporate governance structure lies in speeding up the reform of public institutions and social organizations, as they are the major provider of public services. Currently, all intermediary institutions are under the government, they are the supervisors and the service providers. According to corporate structure, gradual reform should be carried out. Following issues should be studied. First, the independent legal person status of intermediary service institutions should be identified through legislation. The goal is that they can independently assume civil legal liabilities. We should accelerate building an independent property system of legal persons, so that they can truly become independent legal persons of institution and major public service providers. Second, we should abolish the administrative nature of the intermediary service institutions when conditions allow, so as to transform them into legal persons in real sense. Third, we should speed up the legislation process and determine the legal process for the quality granting and alteration. Finally, we should accelerate policy and institutional design for letting the public decide the allocation of public security resource, so as to create a level-playing field for public institutions, social organizations and commercial institutions.

## **5. Center on the ICT application and address understaff with technology**

Understaff of intermediary service institutions should be solved by hiring more staff or relying on computers and information technology to improve the efficiency and lower labor costs. The latter is obviously more practical. That's why we should focus on spreading application to deliver more efficient and convenient services. If more than 90% serviced can be delivered through the Internet, text messages, WeChat, Weibo and self-help machines, much human cost can be saved, and understaff can be addressed through high technology. Therefore, we must integrate all sorts of applications based on social security cards and e-cards, and speed up online social security. Currently, we should build standards for card application and online social security. An insurance registration system, a national service system of online inquiry of individual record, a system of hospital settlement and old-age fund management outside of one's hometown should be established. By this means, we can put in place a four-dimensional system, namely an information-sharing platform, a management and service platform for floating population and people who live and go to hospitals not in their hometown, a real-time monitoring platform and an education and training

platform for the management staff. We can thereby supervise the intermediary service institution, so that they can more efficiently manage the fund and safeguard the rights and interests of the insured.

## 6. Speed up designing and implementing standardized social security management and realize precise management

First, we should accelerate designing and implementing the standards for social security management. Standardization is necessary for improving management capacity and the basis for realizing precise management. Three national standards including the General Principles for Social Insurance Services, and three industry standards including the Visual Identity System of Social Security have been issued. We should take these documents as an opportunity to speed up standardizing social security management. Second, we should gradually setting up a monitoring, predicting and warning system, apply scientific method to the management of social security. We value quality management and quantity control. We will replace ambiguous and vague requirements with specific quantified standards, models and calculations, and extend quantified management to every link of the management service. Quantified data is the basis for raising questions, making judgments and evaluation, so as to guide, adjust and control the behaviors of the insured. Then analysis into current and future expenditure, income and certain risks of the expenditure and income will be conducted before putting forward precautionary measures. Third, the top-level management of social insurance should be transformed into matrix and grid management. The information transfer of top-level management is one-way, while matrix and grid management can connect and coordinate dots. The latter can provide service to the insured on any dot within certain scope, and this can solve the fundamental problem of transferring and renewing social insurance relations. Fourth, on the basis of ICT application and the Internet, we should introduce big data, cloud computing and the Internet of Things to the intermediary service of social insurance. Management and services, such as intelligent identification, positioning and monitoring can be realized step-by-step, so that people and people (through PC and non-PC), people and things, things and things can interact with each other, and the Internet of Things will be applied to social insurance management. The intelligent information provided after the interaction can greatly improve the capacity and level of intermediary services.

## 7. Establish a security mechanism of fiscal fund management

First, the calculating method of fiscal budget to social security institutions is different from that to other government agencies, i.e. according to capitation. The method is dictated by the internal demand of the intermediary service. The Social Security Law makes it clear that the government is responsible for the management fees of social insurance, and the central government helps poor regions through transfer payment. The fees can also come from the contributions through legislation. At present, the most pressing issue is to increase the fees. The fees should be 2% of the annual contributions according to international experience and estimates.

## 8. Four-dimensional management service platform

The era of cloud computing and big data is with us, we have to follow the trend and build a four-dimensional management service platform.

### (i) An information-sharing platform

The platform can achieve three purposes. First, government agencies, such as the tax authority, industrial and commercial administration, police security, civil administration, public health department, designated medical institutions and drug stores, can maintain real-time exchange of information with the central database of social insurance. Second, information of the insured can be shared across regions promptly. Third, the data of intermediary service institutions can be shared in a timely manner.

### (ii) A management and service platform for floating population and people who live and go to hospitals not in their hometown

The focus will be on medical care and old-age care outside of one's hometown. The platform consists of three functions. First, it allows the real-time viewing and exchange of information on the insured and policies, and the comparison of the parameter information of social security policies among different regions. Second, it automatically evaluates the reasonability of treatment. Third, it collects the information of medical treatment and old age care provided outside of the recipient's hometown, and can complete the qualification authentication.

### (iii) A real-time monitoring platform

The platform collects information on the operation and financing of the employers, on the employment and income of the employees, on the livelihood of pension receivers, and on the medical service received by patients. Once unusual situations are discovered through off-site data collection and monitoring, on-site inspection can be in place as soon as possible. Meanwhile, a blacklist will be drawn up to include employers, employees and medical institutions that conceal information or that dodge, underpay, evade, and deceive payment. Those listed will be top targets for supervision.

### (iv) An education and training platform for management staff

The key to improve the service capacity lies in a highly-skilled team, making a long-term training mechanism necessary. Real-time training can be realized through online distance education and an information-sharing platform, which is affordable, advanced and flexible. The platform consists of following parts. First, a central database. A database of service data will be built for distance viewing and searching. Second, distance courseware. Skilled teachers will be hired, and video courses will be made available to learners. Third, an automatic evaluation system. Participants can examine how

well they have mastered the knowledge through online tests. Last, a certificate system. Those who can meet the requirements through learning and examination will be granted a certificate, which can be regarded as a reference for employment and promotion in management service of social security.

## 9. Study on Social Insurance Administration Programs and Projects with the Involvement of Social Organizations and Commercial Institutions

First of all, we shall propose a project list of social insurance services that are open to social organizations and commercial institutions in order to provide regulation and policy references to these entities. Second of all, we have to include public services covered by social security into government procurement, design a detailed implementation plan for government procured service programs, and develop open and transparent procurement processes for social insurance services; in principle, any regular social insurance service must be procured based in principle on a mechanism of competition and by contracting with or entrusting another social organization. Third of all, we have to build a law-based service supervision system for social insurance administration to guarantee the social security rights of the people and to ensure equal and fair competitions among all kinds of service providers. Hence with the supervision system, we shall clearly define the scope, within which social security providers participate, and identify regulation processes and build an effective system composed of administrative, professional and market regulation over various operations including bid-invitation and tendering, inquiry, and entrusting.

We have witnessed some enlightening pilot projects on service procurement in some regions: rural social insurance services at grass-root level has been procured by county/town governments in Hubei Province. Since the reform of social entities at county/town level in 2005, a new administration mechanism called “sponsoring social entities” has been established. The mechanism is led by governments, financially guaranteed, market-oriented, and is based on fair competition, managed according to contracts and supervised by the public. Besides, some services including social security has been outsourced to nongovernmental organizations. In Chongqing, the government has been using a network of commercial insurance institutions covering both urban and rural areas for providing rural social security. After several years of attempt, they have succeeded in offering rural social security with commercial insurance institutions—a new path of multiple-layered administration system of rural social security. Since 2006, Jiangyin City in Jiangsu Province has been entrusting commercial insurance companies to managing new rural cooperative

medical insurance services. All the above trials have laid a foundation for us to build a new legal-person administration structure for social insurance which is “led by the government, maintained by social organizations and supervised by the public”. Resting upon the experience of all regions and the institutional reform of social entities, we will gradually put this structure into practice.

## 10. Improving the Legal System supporting Social Insurance Administration

There is no complete law or regulation on social insurance administration in China at present. Despite special chapters and sections in the Social Insurance Law designating rules for such services, these rules are only in the paper, not operable. Based on Regulations on Collection and Payment of Social Insurance Premiums, Administration Methods for Recordings of Individual Rights Covered by Social Insurance and the relevant administrative rules and regulations, we shall consider developing Regulations on Administering Social Insurance

Services and confirm the rules on each link and process of administering social insurance, how to provide social security services, and the rights and responsibilities of people who enjoy social security services.

## Chapter VI Implementation Steps and Major Moves

### I. A Strategy of Two Steps

**The first step** is consolidating and improving insurance systems from today till 2020. During this period, we have to move faster in building the social insurance administration system and the service system and to lay a solid foundation. There are three major tasks during this period:

#### 1. Defining organizational structure

First, consolidating the institutions in social insurance sector, and gradually building a “social insurance administration bureau” based on social insurance processing agencies under the HR and social security departments at and above county level;

Second, integrating processing agencies dealing with endowment insurance for government organizations and social entities into social insurance administration bureaus at all levels (as their internal bodies) in compliance with the system reform of endowment insurance for government organizations and social entities. It is not recommended to set up independent processing agencies under the HR and social security departments at all levels;

Third, setting up pension administration divisions in the provincial and national social security administration/bureaus at central and provincial level in order to make nation-wide plans of basic pension;

Fourth, combining social insurance policy administration departments and social security administration departments under HR and social security departments at county and municipal level;

Fifth, pulling off a common measure for processing “five major insurances”; transferring administration over the new rural cooperative medical insurance from health and family planning departments to social security ones and transferring the collection of social insurance premiums from social security institutions and local tax authorities to commercial banks; incorporating independent processing departments of medical insurance and unemployment insurance inside social security institutions into social security administration bureaus;

Sixth, determining the internal organization framework for social security administration bureaus at all levels, consolidating existing administration organizations and regrouping all business departments except the Party, political, the League and logistic bodies into three divisions, namely administration division for the collection and payment of social security premiums, administration division for social security treatment, and supervision and inspection division for social security fund.

## 2. Improving the processing and service system

First, accelerating the issuance of social security card and trying to make sure that every resident has a card as of 2020, and opening all the functions of social security card in order to realize that “one card applicable to all scenarios, nationwide”;

Second, streamlining organizations and functionalities of labor insurance agencies in administrative villages of neighborhoods and districts of towns and counties. In every district or administrative village of towns and counties, there should be at least one commercial banking outlet that collects social insurance premiums and administers social distribution businesses on behalf of corresponding bureaus and institutions;

Third, expediting building a nationwide processing information network and realizing the online processing for all social insurance services except review and approval. Multiple channels such as internet, short messages, WeChat, email, self-service machine, and counter, will be available for service administering and search.

## 3. Improving the “four-in-one” social insurance administration platform.

The second step is that based on the first step and around 10 years of efforts, we are going to pull off a common social insurance administration system and a comprehensively modern social insurance governance system.

(i) Building an integrated nationwide social security administration system, with HR, social security, health, civil services, organization department, the trade unions and other resources consolidated, and incorporating businesses related to social insurance, social welfare, and social relief into social security administration bureaus.

(ii) Our preliminary idea is to streamline the hierarchies and institutions of social security administration organizations and remove municipal social security processing bodies. Social security administration bureaus at provincial level will directly take charge of social security bureaus at county level and branch agencies of the latter will be responsible for administering social security businesses. In neighborhoods and administrative villages, social security administration will be conducted in a grid-based manner.

(iii) Social insurance administration bodies under HR and social security departments at municipal and county level will be included in social security administration bureaus at the same level;

(iv) We shall fully apply cloud computing and big data to social security administration. With the prerequisite of information security and fund security, we are going to provide all social security processing services online. In the meantime, we can use the big data technology to conduct social security data surveillance, forecasting, and early warning, especially over the social insurance fund and to assist decision-making as well as provide a holistic search service.

(v) Building a preliminary legal-person system for governing social security. Firstly, we are going to develop a proper portfolio of entrusted social security services and incorporate it into the government procurement list; secondly, social security administration bureau, non-governmental organizations and commercial institutions equally participate in the business processing and administering social security under laws and regulations. Well-established processes and standards of entrusting, pricing, procurement, and inquiry for social security services will be integrated into laws. And thirdly, we would improve the evaluation system of the access, exit and assessment of social security service providers.

(vi) When the legal system of social security administration is in good shape, we shall put forward and implement Regulations on Social Security Administration Services, using laws to clearly define the administrative and financial rights, responsibilities, powers and obligations of governments at all levels concerning providing social security administration services; we also have to specify the

rights, obligations and responsibilities of households, individuals, social organizations, and commercial institutions.

Processing by law must be ensured.

## II. The Execution Roadmap

Reforming and improving the social security administration system is a long-term project. Starting with what we have and a long-term vision, we shall design for the big picture and implement by steps. We are going to strive to do our jobs from today till 2020 (namely the last year of the “12th 5-year-plan period” and the entire “13th 5-year-plan period”), resolve pronounced frictions and issues and pave roads for future reforms. The transformation road map for social insurance administration system of

China from today to 2020 shows as follows:

Table. Transformation of Chinese Social Insurance Administration System

Time	Key Tasks	Purpose
2014 ~ 2020	1 . Proposing and rolling out a mid-and-long-term (2015~2030) plan for social insurance administration system	Setting up national goals, principles, key tasks, execution procedures and measures of the social insurance administration system. Getting all organizations and entities aligned and standardizing institutions.
	2. Consolidating social insurance processing agencies at all levels in to single “XYZ Social Security Administration Bureau” under which there are “XYZ Social Security Premium Collection and Payment Administration Division”, “XYZ Social Security Treatment Administration Division”, and “XYZ Social Security Inspection and Supervision Division”,	Resolving problems such as decentralized organizations, random names of institutions and department settings.

<p>and streamlining businesses according to corresponding institutions.</p>	
<p>3. Regrouping the personnel in social security administration bureaus into three functions: administration, professional, and operational, and managing them accordingly.</p>	<p>Addressing the positioning of the nature of institutions. Administration staff is to be managed as civil servants, professionals managed according to requirements for professional and technical staff in non-profit category I of social entities, and operational staff as professional certification mechanism and social employment required.</p>
<p>4 . The processing of new rural cooperative medical insurance will only be carried out by social security administration bureaus.</p>	<p>The five different social insurances will be administered and processed by consolidated bodies.</p>
<p>5. Transferring the collection and payment business of social insurance premiums conducted by local tax authorizes in some cities and provinces to social security administration bureaus, and entrusting commercial banking outlets to collect social insurance premiums and distributing allowances.</p>	<p>Resolving the issue of uncoordinated premium collection systems for social insurance.</p>

<p>6. Ministry of Human Resources and Social Security, Ministry of Finance and People’s Bank of China are going to issue the execution method for rolling out and establishing</p>	<p>Addressing the inconvenience for urban and rural residents, especially people living in remote areas, who have difficulties in getting</p>
<p>commercial banking outlets in urban neighborhoods and administrative villages.</p>	<p>insured, paying premiums and getting allowances.</p>
<p>7. Distributing 1 billion social security cards, initiating all the functions of the card and completing the 2<sup>nd</sup> stage of the “Golden Insurance Program”. Improving and fully launching the “four platforms”.</p>	<p>Administering 90% of the social security businesses via internet, self-service machine, short messages, WeChat and microblog. Pulling off basic “online social security” and “digital social security”. Resolving the administration problem regarding the insured living in a different city or medical expenses incurred by the insured away from home.</p>

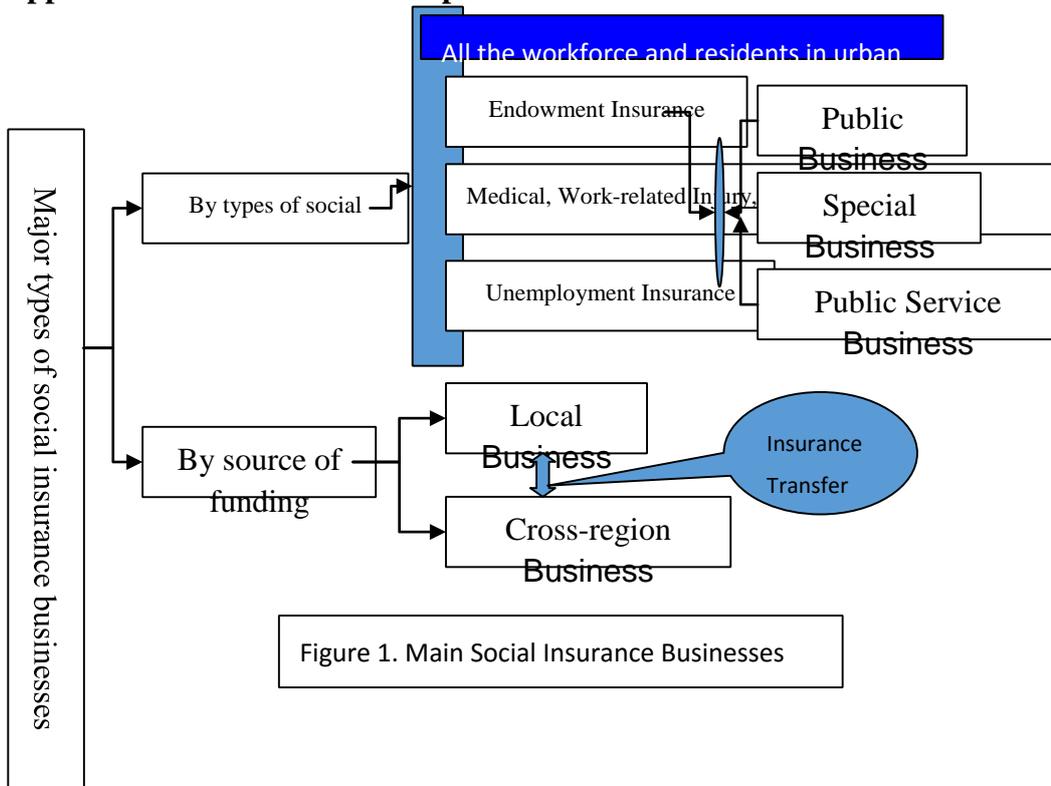
<p>8 . Developing an outsourcing implementation plan for social security service. Formulating a list of social security services and including the list in the <i>Government Procurement Law</i>. Establishing a mechanism of access, exit, and assessment for social organizations and commercial institutions to process and administer social security businesses, and setting up rules and standards of the entrusting, pricing, inquiry, procurement and supervision of social security services.</p>	<p>Involving non-governmental sectors in providing social security services step by step.</p>
<p>9. Launching and executing <i>Interim Measures for Social Security Administration Services</i>.</p>	<p>Administering services by law.</p>
<p>10. Taking 20% of the total revenue and expense of the social security fund in the previous year as the benchmark, developing a financial investment mechanism for social security administration outlay.</p>	<p>Solving the problem of lacking social security administration outlay.</p>
<p>11. Designing 37 social insurance standards during the 12<sup>th</sup> 5-year-plan period and promoting them broadly.</p>	<p>Addressing the key technology issue regarding the standardization of social security administration, and carrying out standardized social security administration.</p>

	12. Completing the social insurance registration of all the citizens.	Promoting all the citizens to participate in social insurance and improving social security administration and public services.
2021 ~ 2030	1 . Separating social security administration bureaus from HR and social security departments and making the former an immediate government affiliate.	Streamlining the social security administration system further.
	2. Transferring businesses in social insurance, social relief, and social welfare managed by departments like civil administration, health and family planning, organization, as well as disabled persons federation to social security bureaus.	Consolidating social security administration resources scattering in various governmental departments.
	3 . Implementing a legal person governance plan for social security administration.	Fulfilling the de-administration of social security services and building a fair competition mechanism for all the social security services.

<p>4. Completing the third phase of “Golden Insurance Program”; making sure that “everyone has a social insurance card, all the services are accessible with one card, and one card is applicable throughout the country”. Social security information can be shared and exchanged among institution including public security, industry, commerce and administration, health and family planning, medical, tax, employment, and income distribution at real time.</p>	<p>Pulling off information-based social security administration.</p>
<p>5. Promulgating <i>Administration Measures for Grassroots Social Security Public Service Platform</i>.</p>	<p>Social security affairs will be “administered, served, and supervised” by neighborhood committees, village committees and local residents in both rural and urban areas.</p>
<p>6. Promulgating <i>Service Regulations on Social Security Administration</i>.</p>	<p>Providing law-based and standardized social security administration services.</p>
<p>7. Applying technologies such as big data, cloud computing and internet of things to social security administration.</p>	<p>Fulfilling exact administration. Having social security affairs widely monitored by employers and residents and fully leveraging social security information.</p>

Appendices:

Appendix 1. Main contents and processes of social insurance businesses



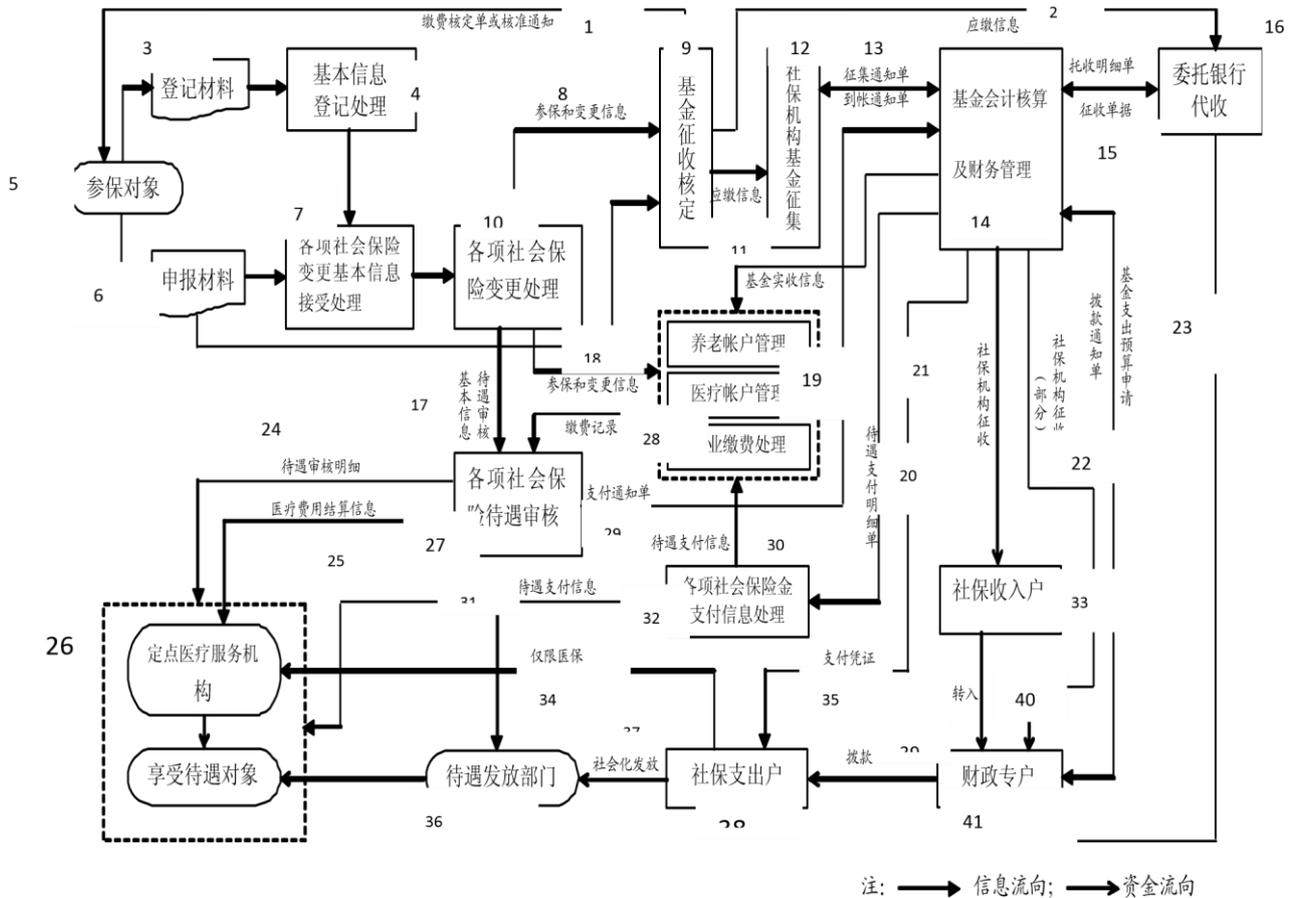


Figure 2. Business Process Flow Chart

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- 1Payment note or ratification notice
- 2Payment information
- 3Registering profile
- 4 Registering and processing basic information
- 5The insured
- 6Reporting profile
- 7Modifications of social insurance information ready to be made
- 8Participating in social insurance and modifying information
- 9Fund collection rectification
- 10 processing modified social insurance information
- 11 payment information
- 12social insurance institutions collecting funds
- 13 collection notice; fund to the account notice
- 14 fund accounting and financial management
- 15entrusted collection specification; collection note
- 16entrusting banks to collect fund
- 17basic information; allowance verification
- 18 Participating in social insurance and modifying information



19 pension account management; medical account management; unemployment payment processing

20 Allowance payment specification 21 collected by social security institutions

22 (part) collected by social security institutions

23 fund allocation notice; fund expense budget application

24 detailed allowance verification 25 medical expense settlement information

26 designated medical service provider; allowance receiver

27 allowance from all social insurances verification

28 payment record 29 payment notice 30 allowance payment information

31 allowance payment information 32 payment information processing of all social insurance

premiums 33 social insurance revenue account 34 only for medical insurance

35 payment proof 36 allowance distributor 37 social distribution 38 social insurance

expense account 39 fund appropriation 40 special financial account

41 Note: information flow; fund flow

**Appendix 2. Number of people participating in social insurances by year from 1997 to 2013**

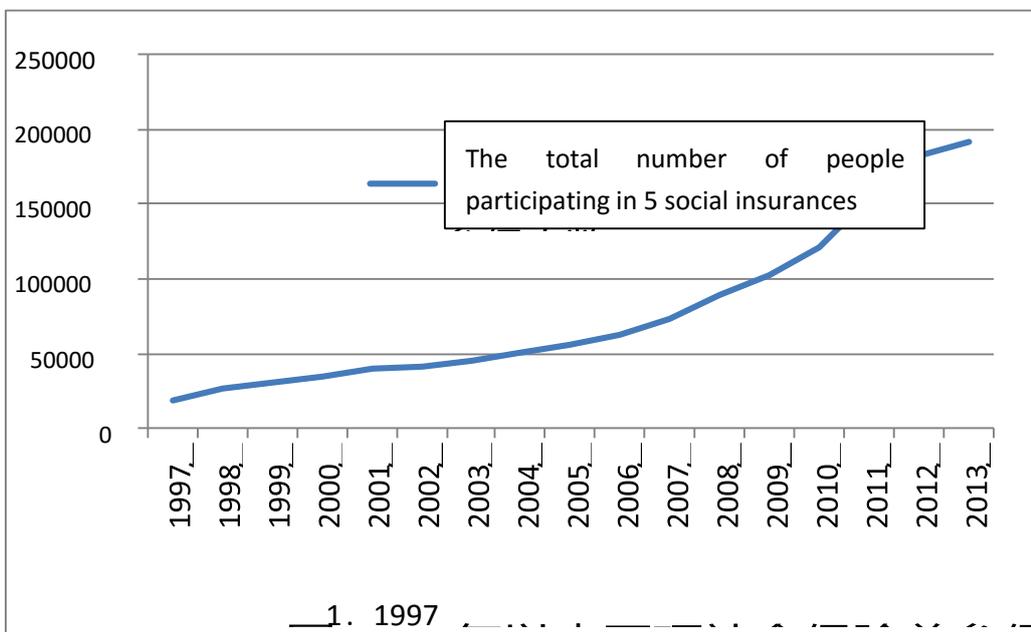
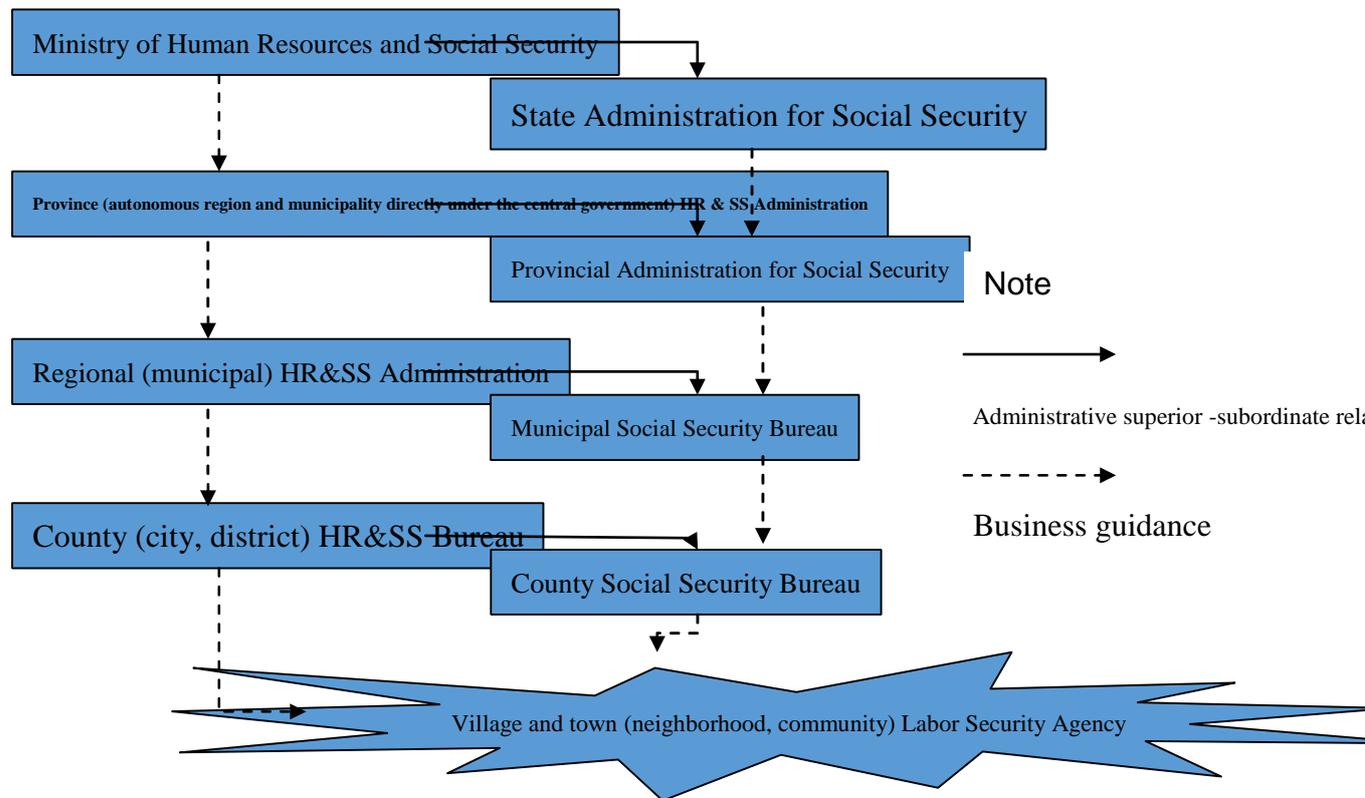
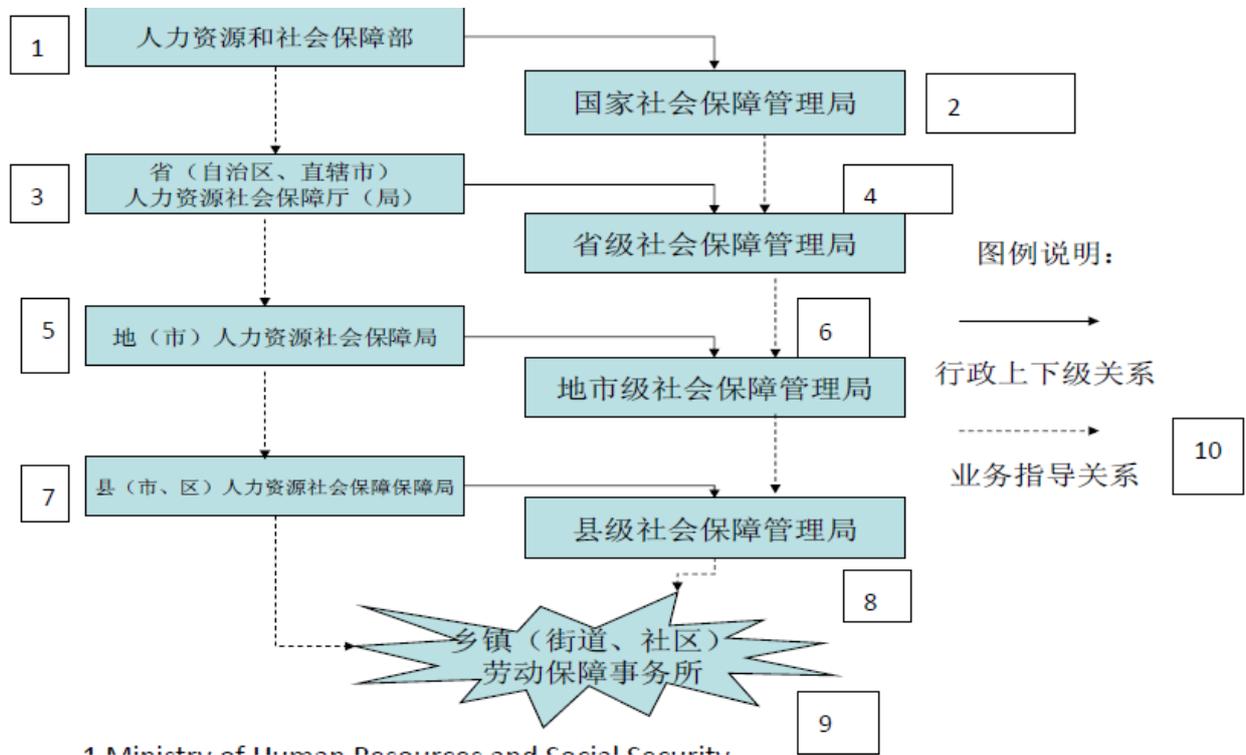


Figure 1. The total population participating in 5 social insurances since 1997

**Appendix 3 Organizational structure of social security administration system (Phase I)**



**Appendix 4 Organizational structure of social security administration system (Phase II)**



- 1 Ministry of Human resources and Social security
- 2 State Administration for Social Security
- 3 Provincial (autonomous region, municipality directly under the central government)  
Human Resources and Social Security (HR&SS) Administration
- 4 Provincial Administration for Social Security
- 5 Regional (municipal) HR &SS Administration
- 6 Municipal Social Security Bureau
- 7 County (city, district) HR&SS Bureau
- 8 County Social Security Bureau
- 9 Village and Town (neighborhood, community) Labor Security Agency
- 10 Note: administrative superior-subordinate relation; business guidance

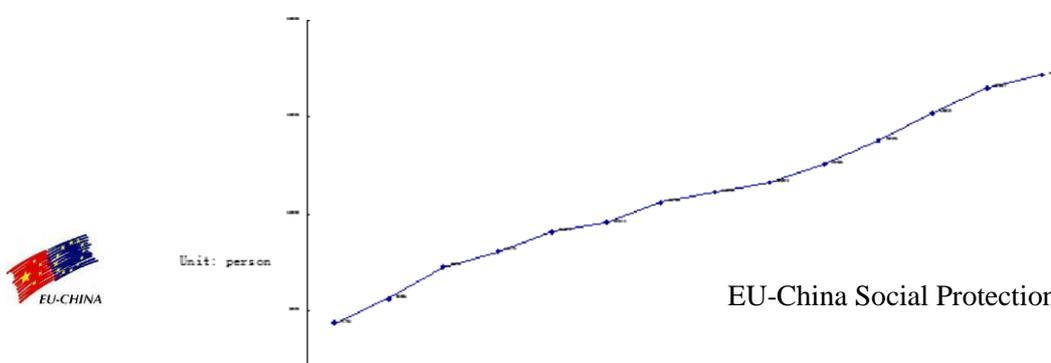
Appendix 5. Social insurance administration settings by region in 2013 Unit: unit

Region	Pension	Medical	Work-related Injury	Residential	Institutional	Settlement	Total
Beijing	18	9		3			30
Tianjin	24						24
Hebei	204	141	28	93	28		494
Shanxi	135	135	68	120	96		554
Inner Mongolia	128	79					207
Liaoning	91	63		25	42		221
Jilin	60	53					113
Heilongjiang	80	97	6		59		242
Shanghai	18	19		9			46
Jiangsu	149	50		59	52		310
Zhejiang	101	29		11			141
Anhui	129	91	5	90	5	1	321
Fujian	89	84		89	82		344
Jiangxi	122	106		116			344
Shandong	185	110	22	110	95		522
Henan	184	167	71	132	107		661
Hubei	112	80		86	39	64	381
Hunan	147	152	112	128	112		651
Guangdong	177	14		4			195
Guangxi	108	54		101	47		310
Hainan	20						20
Chongqing	41	38	7	1	3		90
Sichuan	206	186		74	54		520
Guizhou	102	20		20			142
Yunnan	148	152	1	109		1	411
Xizang	28	7	1	3			39
Shannxi	119	121	22	118	59		439
Gansu	101	40		9	3		153
Qinghai	57	40					97
Ningxia	20	24					44
Xinjiang	102						102
Xinjiang Corps	195						195
<b>Total</b>	<b>3400</b>	<b>2161</b>	<b>343</b>	<b>1510</b>	<b>883</b>	<b>66</b>	<b>8363</b>

**Appendix 6. Ratio of social insurance staff against man-time of insurance participation, 2000-2013**

Year	Staff (person)	Man-time of insurance participation (10 thousand)	Ratio (person)	Compared with previous year± (person)
2000	74945	20663	1:2757	
2001	85056	24073	1:2830	73
2002	98071	25949	1:2646	-184
2003	104494	27851	1:2665	19
2004	112675	32524	1:2887	221
2005	116445	37028	1:3180	293
2006	124736	51225	1:4107	927
2007	129085	62397	1:4834	727
2008	133043	76371	1:5740	907
2009	140656	89445	1:6359	619
2010	150376	97444	1:6480	121
2011	161824	139966	1:8649	2169
2012	172177	166876	1:9692	1043
2013	177430	175351	1:9883	191

**Appendix 7. Number of Staff in nationwide social insurance administration institutions, 2000 -2013**



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