

DRAFT REFORM PROPOSALS

- Volume 4 –



EU-CHINA

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

COMPONENT ONE

Macro-activity 1.6

2018 Programme of Activities

UPHOLDING SOCIETAL CHANGES

High Quality Development and Workforce Quality Improvement

Population Movement

Universal coverage

Active Ageing

Income Redistribution

A comprehensive reform proposal for a modern pension system

December 2018

FOREWORD

As part of the EU-China Social protection reform project 2018 Programme of activities, a Panel discussion meeting was held in Beijing on 13 September 2018 to debate the situation analysis produced by Chinese experts on three topics under review that year, also in the light of most relevant European best practices and in that of the provisions included in the relevant chapter of the XIIIth Five-Year plan.

According to the Project Grant application form macro-activity 1.6 the meeting focused on “the first draft of reform proposals related to the topics analyzed”. The present document presents these draft reform proposals as tabled at the meeting, organised according to the results pursued by the project.

Two more reports were produced in the course of the year including retailed reform proposals applicable in China, on respectively the development of an Active ageing index for China, and the structure for the reformed pension system for Urban employees.

The reports containing the integrity of related analysis report, summary of discussions and presentation of most relevant European best practices can be downloaded from the project website <http://euchinasprp.eu> in printable format.

Ms Shi Chuan, Assistant for the project component one, compiled this fourth volume of draft reform proposals submitted by the project to the Chinese Government. The volume focuses on quality-oriented development and capacity building for the labour force, employment and population movement, tools for income distribution, universal pension system in China, Active Ageing Index for China, as well as a comprehensive proposal for a reformed structure of the Chinese pension system for urban employees.

Jean-Victor Gruat,
Resident Expert Component 1
EU-China Social protection reform project,
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PROJECT RESULT 3

NATIONAL POLICY EVALUATION TECHNIQUE IN THE AREA OF SOCIAL PROTECTION

Topic 1.1.3 Quality-Oriented Development & Capacity Building for the Labour Force¹

Policy recommendations

- Focusing on Nutrition Balance for Good Health and Improving Overall Quality of Workforce
 1. Physical and mental quality is the foundation for workforce cultivation. Only with high quality can labor be better educated and trained, so as to create value at work.
 2. *The Outline of Healthy China 2030 Plan* made specific instructions on the basis, targeted groups, major substances, approaches and guarantees, making it the guiding document for China's health cause. On the basis of this document, more specific and targeted health policies are needed for different regions, groups and occupations.
 3. Consolidating Region-based Professional Health Guarantee.
 - 3.1 Improve the quality of food supplied to rural areas, prevent the supply and selling of fake, counterfeited and inferior food, and address excess pesticide and veterinary drug residue. Focus on small food processing workshops, wholesale markets, fairs in townships and towns, rural kindergartens, primary and middle schools and nearby food shops, as well as their canteens by considering the high-risk hours for rural food consumption.
 - 3.2 Satisfy rural residents' nutrition demand, pay special attention to the condition in impoverished rural areas, and consider adding nutrition as another criterion for poverty relief evaluation.
 - 3.3 Improve rural health care. As rural population shrinks, health care resources in neighborhood areas could be integrated by merging health centers in townships and towns, so as to enhance service quality through bigger size and reduce waste of rural health care resources. Yet this must be supported by well-built roads and well-established medical talents.
 - 3.4 Pay attention to the mental health of rural residents. Make great efforts to develop people's awareness of mental health through health survey, education or even intervention conducted by cultural centers in townships and towns.
 4. Health care in industrial clusters must be industry-based and problem-centered, oriented towards problem prevention.
 - 4.1 In terms of physical health, industrial clusters share similar occupational diseases. Taking precautions against certain diseases can make policies and measures more targeted and efficient. For instance, based on the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, government can cooperate deeper with medical institutions where manufacturing businesses concentrates. In key provinces to phase out backward industrial capacity like Hebei and Shanxi, while transforming and upgrading steel and coal industries, more stringent occupational disease precautions could be combined with environmental protection equipment and green technology, so as to be environmentally- and labor-friendly.
 - 4.2 Mental health is most urgently needed in service industry. In service-dominated areas we can consider financial support, i.e., government purchases the service of mental health institutions and encourages service industry employees to take mental health counseling and intervention.

¹ Excerpt from report by Chinese expert Mr. Yang Weiguo.

We can start in provinces with well-developed e-commerce services like Zhejiang and Jiangsu on a trial basis, and offer mental health services to online customer service employees in Hangzhou and Shanghai.

5. Adopting Group-based and Targeted Health Development Policies

5.1 With region-based guarantee measures satisfying regional demand, we can consider supplementary health development policies targeting particular groups to ensure policy coverage. For example, the health of infants and young children mainly concerns basic nutrition, especially the trace elements for those in rural areas. More health development resources can be allocated to rural areas through professional nutrition improvement programs. In poor rural areas where nutrition guarantee is missing, more services can be added to the current “nutrition kit”, allowing professional and non-profit agencies to offer early stage development services to infants and young children through fiscal subsidies and donation.

5.2 In their growth, mental health has critical influence on future mental development². Regarding the mental health of the left-behind children in particular, given bad family relations, we must make migrant workforce aware of children’s mental health education, and arrange more mental counselors in health centers in townships and towns with a big number of left-behind children.

6. Developing Diversified Health Nursing Services

6.1 Industrial clusters must ensure efficient, targeted and fine-tuned health guarantee according to major categories of occupational diseases. For areas without strong suit industries, they can take into account the job mix and the consumption capacity of targeted groups, take advantage of the high momentum of general practitioners program, and provide universal basic health guarantee with wide coverage, diverse fronts and comprehensiveness.

6.2 Specifically, there can be cooperation between local labor unions and health nursing institutions to offer labor diversified and selectable health nursing services. Service agencies need to expand businesses from different perspectives to satisfy demand. Financial support can come from subsidies, labor union fees or mutual assistance by staff themselves.

● Extending the Length of Education for Better Quality and Enhancing Workforce Education System

7. Workforce education not only concerns their self-development, but also serves as one of the decisive factors for socioeconomic and national development. It deserves careful, comprehensive and systemic thinking. Education is a fundamental cause, whose institutional improvement requires guidance in strategic orientation, development targets and philosophies and fit in the socioeconomic dimension. We must start from compulsory education to go through and re-understand the role and significance of policy substance, participants and market mechanism.

8. At Macro Level: The Leading Role of Governments at All Levels

8.1 Education is a macro and general issue of universal benefit. Instead of being solely resolved by a single region, social force and market mechanism, it requires overall consideration at national level and top-down efforts of governments at all levels to implement reform measures and provide problem feedback.

² Fang Fengjuan, Chen Guopeng, Qi Weiyong, Evaluation and Thinking of Young Children’s Mental Health[J]. Psychological Science, 2006, 29(2):493-495.

8.2 The institutional development of compulsory education and higher education must be coordinated at national level. The length of compulsory education can be extended properly, which is possible considering China's overall economic prowess and students' quality. We can start from eligible places like Beijing and Guangdong, or in Shandong, Hebei and Henan Provinces with a big number of students on a trial basis for 2-3 years to accumulate experience, so as to learn the financial condition, infrastructure and faculty. We can lower the minimum age for compulsory education to 4-5 years old to cover part of the pre-schooling. The expense can be partially paid via the financial transfer from pre-schooling. In 2015 Belgium adopted a bill to lower the minimum age to 5 years old and has remained ever since, without incurring too much financial pressure. Another option is to add high school to compulsory education, extending the total duration to 12 years. But this approach is not only financially burdensome, but also faces challenges in school construction and faculty. In poor rural areas where compulsory education is the most fragile, financial incentives are adequate. More support can go to roads, school canteens, security and hygiene. Whether children are left behind or not, they should be granted equal convenience. However, for the sake of family education, left-behind children deserve more spiritual guidance and living care.

8.3 Lower the threshold of higher education gradually and help students to develop skills that are more compatible with labor market demand. The former encourages lifelong learning, which targets graduates from technical colleges and adult higher education, encourages them to further education through diversified assessment standards, better manages self-study exams in higher education in a professional manner, and creates specific channels so that vocational school students and other groups can take the college entrance exam again. For instance, technical college graduates can be admitted based on the evaluation of their professional skills, like the form of admitting students with special talent during the college entrance exam. The latter demonstrates improvement in the substance and standard of higher education. Compatibility with the labor market is more than encouraging students to take internships, it also aims at developing hands-on skills based on actual demand for students who study the majors that are popular in the market. However, it must be noted that theoretical and academic disciplines must be distant from market mechanism, so as to ensure a diversified and multi-layered talent pool.

8.4 Local governments and departments concerned must ensure education fairness, eliminate inequalities in gender, age and regions and strive to ensure equal access to education opportunity and infrastructure. Based on local economic conditions and demand, governments at all levels should build and improve education infrastructure, establish the public service system of digital education resources and provide such services. Particularly when it comes to extending the length of compulsory education, regional education resources must be coordinated effectively, including the size of middle and primary schools, number of enrolled students and faculty. More enrollments can be allocated to rural areas, so as to avoid the concentration of quality education resources in a few schools during compulsory education.

9. At Medium Level: Strengthening the Participation of Different Players

9.1 Make efforts to further consolidate education infrastructure and improve faculty. Develop our teachers and also bring qualified teachers from overseas. There are mandatory requirements for normal university students to work as teachers upon graduation, but more flexible entry mechanism and scientific exit mechanism are needed.

9.2 Encourage primary and middle schools and institutions of higher learning to innovate their way of teaching, including video teaching and summer camp, so as to realize liberal education.

9.3 Support and regulate private education, establish its information system and encourage the participation and support from businesses and individuals.

9.4 For social participation, except for building schools, other approaches include setting up education fund to provide financial guarantee. The seed money can come from the government or donation from businesses and the society. We must ensure that government money exit timely when the fund can develop in a sustainable manner, so as to prevent red tape and bureaucracy. This could reduce financial pressure from in the midterm financial plan, and ensure the fund to function flexibly and efficiently. At the same time, we need to focus on coordination and regulation through public, legal and sustainable investment rules, regulate the investment of private funds, ensure security and improve operation. Besides, we must strictly limit the profitability of private schools run by society and businesses earned from school sponsorship fees and textbooks (equipment), therefore ensuring charity and fairness in compulsory education. For reasonable profit-seeking of businesses, we can compensate by tax incentives and returns.

10. At Micro Level: Creating the Environment for the Sustainable Development of Education System

10.1 Teachers should be properly oriented when cultivating students. Liberal education must be reflected in what is taught. Make sure all teachings center on students' future development and eliminate the negative impact of teaching to the test and evaluating students only by test scores. Guide teachers to go back to the standards of satisfying students crave for study and knowledge.

10.2 Students are the core of education, and their needs point to the future development of education. Since the college entrance exam holds great sway, it is difficult for students to grow in all dimensions. However, this does not deny the demand for all-round development, and well-targeted cultivation based on ability, interest and reality must not only be written in documents, but also be practiced in classes. Yet it goes beyond the scope of students, schools and even local governments, therefore requiring top-down changes at national level.

10.3 Gradually change parents' mentality for better cooperation between family and school. Education is both the school's obligation and family's responsibility. Guide and encourage parents to be engaged in students' education, organize more parenting activities on moral and ethics teaching. Parents are vital for good family relations.

- Encouraging School-Business Cooperation for Education-Industry Integration and Improving Hands-on Ability

11. Marketization as Main Channel

11.1 The main channel of marketization aims at addressing the incompatibility between education and labor market, skills and market demand, thus forcing schools to change the current mode of internship. In this context, marketization applies to the internship mechanism, including consulting corporate opinions in designing period, strengthening corporate instruction during internship, and enhancing the feedback mechanism of internship performance. These measures can effectively connect discipline setting with industrial demand, teaching with production, diploma with occupation certificates, as required by *Opinion of the Ministry of Education on Modern Apprenticeship on a Trial Basis*. This promotes the integration of student and employee recruitment and deepens the approach of talent development.

11.2 In higher education, we need to deepen the comprehensive reform of postgraduate education with a Master's degree in practical fields by establishing practice centers and deepening the reform in doctoral education pilots. To innovate new modes of education like video, summer camp, flipped classroom, participatory learning, case or research study, action learning, service or work-based learning.

12. Apprenticeship as Priority

12.1 Uphold the principle of “government leadership and coordinated progressing”, balance the development demand of schools students and profit-seeking businesses. There are examples in recent years of schools colluding with businesses to undercut students’ interest. We must set the tone that schools are not just dispatching, students not toiling and businesses not doing philanthropy. We must regulate schools’ internship programs, protect students’ interest during internship and guarantee businesses’ pursuit for profit.

12.2 Advocate “cooperation for win-win and shared responsibility” when implementing the contracts between students and businesses, as well as schools and businesses. The former encourages the integration of student and employee recruitment, and the latter combines the mode of talent development with business demand.

12.3 Combine school cultivation, business demand and regional development plan in a tailor-made and categorical manner, providing talent support for industrial upgrade and further development in different regions.

12.4 Adopt a development-oriented approach to tackle the problems in pilot areas during system design and making key breakthroughs, especially when it comes to student recruitment eligibility, assessment, curriculum design and teaching research, from the long-term perspective of education-industry integration and school-business cooperation.

13. Morality and Skills of Equal Importance

13.1 Establishing and improving the mechanism of morality and hands-on practice education requires a systemic design of morality-oriented approach and deepening reform of basic curriculum. For school-business cooperation and education-industry integration with apprenticeship as priority, it aims at cultivating labor befitting market and business requirements. It is also responsible for enhancing labor’s work ability and skills. However, from the previous experience of vocational education institutes, moral education has not been given adequate attention, and better work and skills may not necessarily bring better mentality and morality. Therefore, we must value moral education in apprenticeship pilots, especially integrity, law-abidingness and spirit of the contract when students enter the market.

- Arranging Curriculum Scientifically to Enhance Skills and Strengthening Labor Training

14. Legislation Coming First to Guarantee Labor’s Training Right

14.1 At national level, add more content on employee training into Labor Law. Make concrete stipulations on the time, category and source of fund of skills training divided by industry or group, especially for the massive dispatched labor. We can learn from Belgium’s legislation on labor training and make the training right a mechanism. Specify the rights and obligations of dispatched labor training through government purchasing and business cooperation, and make clear that the fund comes from government finance (the bigger share) and individual contribution (the smaller share). It should be noticed that the level of marketization in Belgium is different from China, therefore we must be cautious whether to have social partners.

14.2 At local level, make Temporary Approaches to Labor Training or Temporary Bylaws on Labor Training based on previous documents, so as to regulate and instruct labor training in terms of the substance, target and incentives.

15. Diversify the Substance to Expand the Scope of Labor Training

15.1 Adapt to the actual demand of industrial transformation and upgrade. Telling from EU and China’s supply-side structural reform, green and sustainable development is the mega trend for all industries in the future, and the changing mode of production in manufacturing and other industries requires labor to renew their knowledge and hone skills. Like Belgium’s strategy of

Boosting Skills for Greener Jobs, we can adopt national strategies to reform the current training, education and professional qualification system based on green economy and technology. At the same time, we link business' policy sensitivity with government's policy influence, and abandon the outdated mode of "training employees only when government requires". Take the mode of "policy shift--business equipment upgrade--employee skills upgrade", unleash businesses' skills demand after equipment renewal and labor' s training demand for job-seeking, so that green economy could greatly impact labor skills. It must be mentioned that businesses need to help new employees to "learn in practice", accumulate experience and improve skills at work.

15.2 Training must extend from traditional to emerging technological fronts. We should take into account the guiding role of hi-tech on economy, the skills demand on employees from digital economy and artificial intelligence, and labor's career plan. Besides, we need to strengthen automation technology training based on FMS and Seru64 in traditional industries and manufacturing.

16. Changing Models and Innovating the Pattern of Labor Training

16.1 According to foreign experience, the trend of skills training could be understood as a matrix that is led by government, mainly organized by businesses, market-oriented and aims at skill-demand compatibility, with clear direction, strong participants, effective mechanism, comprehensive substance and balanced supply and demand.

16.2 The priority is to accelerate the development of training institutes. We need to gradually change the pattern of government-led training, and instead introduce market mechanism, facilitate eligible businesses to build vocational schools and other types of training institutes. Encourage qualified training institutes to independently organize professional and big-scale training programs, and cooperate properly with vocational schools in operating apprenticeship on a trial basis. Places with multitudes of manufacturing and service employees can learn from the pattern of training institutes, like encouraging the development of some skills training institutes oriented towards market demand and building paradigm vocational training blocs. If market demand is weak, we can first identify the trend of future industries, sectors and technologies and then stimulate training demand by industrial and fiscal incentives.

16.3 Besides, we can learn from European Center for the Development of Vocational Training and establish vocational training centers to improve labor quality and skills, which helps to make and implement vocational training policies in China and monitor the trend of labor market based on China's data on education and training policies.

- Developing Job Market, Improving Employability and Creating More Jobs

17. Creating More Jobs

17.1 Maintaining a stable and prosperous labor market requires more jobs, a stable stock, bigger increase and higher quality. Emerging jobs, charitable positions and volunteer programs are potential areas of growth. Besides, the report of the 19th National Congress of the Communist Party of China identifies railway, road, waterway and airway as infrastructure priorities in the future, which not only drives growth in downstream industries like steel, metallurgy and equipment manufacturing, but also creates more jobs. Unlike previous attempts to create jobs through infrastructure, this report raises higher demand for infrastructure building, particularly for high-speed rail construction, demanding new and better quality and types of steel, therefore must be supported by better equipment, technologies and workforce.

17.2 Besides, the new employment model featuring sharing economy is more flexible than traditional ones and better adapt to market. It creates more flexible jobs via the Internet, therefore should be open to a broader public. According to the *New Jobs, High Quality--Report on the*

Employment Quality of China's New Forms of Employment, which was lately released by China New Forms of Employment Research Center, School of Labor Economics, Capital University of Economics and Business, from June 2017 to June 2018, 30.66 million people earned money from Didi Chuxing (a mobile transportation platform), up by 9.58 million from the previous year. It shows that more people are choosing new forms of employment as an important source of income for livelihood, household and a better life.

17.3 Other than this, we must pay attention to the employment issue of certain groups, particularly university graduates. More policy incentives can be adopted to send graduates to critical regions, projects, programs and fields. Require universities to release the annual report of graduates' employment condition, and gradually form the synergy among employment, student recruitment, talent development, fund appropriation, school arrangement and discipline adjustment.

18. Providing More Convenience for Start-ups

18.1 At current stage, policies and measures to encourage university students to innovate and start business have taken shape. However, incentives are absent for other groups, especially for migrant workforce, who are among the three groups facing the biggest difficulty in job-seeking.

18.2 Based on previous experience, fiscal and tax support is the most effective approach. In the context of a new type of urbanization, migrant workforce is an integral part of broadening the channels to start business and build wealth, which is mentioned in the 13th Five-Year Plan to Promote Employment. More friendly fiscal and tax policies must be provided to returning migrant workforce to start business, i.e., maintaining the current policy to encourage rural workforce emigration, and offering more policy directions for returning migrant workforce to start business, so as to ensure them more choices while maintaining the employment channels for rural workforce.

18.3 On one hand, we should improve institutional support for returning migrant workforce. The rural areas with a multitude of migrant workforce need to offer equal start-up incentives as urban areas, providing a favorable environment regarding entry, public and financial services, fiscal and tax support and collateral guarantee. On the other hand, more fiscal expenditure needs to go to transportation, hydropower, roads, venues and telecommunication in order to consolidate the infrastructure basis. The development of start-ups can be integrated with township and village enterprises to boost the industrialization of agriculture, increase the sustainability of start-up projects and unlock potential job opportunities in rural areas.

19. Covering a Broader Social Spectrum

19.1 The 13th Five-Year Plan to Promote Employment set the targets of "driving employment through diversified demands" and "forging a start-up service platform for all and develop start-up cities". To deliver the targets, we need to extend support from prioritized groups to all eligible individuals, from first-time entrepreneurs to second-time or veteran entrepreneurs, so as to make the resources more open and better utilized.

19.2 Improve the scope and level of employment and start-up skills training. Lower the threshold of eligibility to expand the pool of targeted trainees. Identify start-up training demand to put in place the training system combining classroom education with self-study and hands-on practice with guiding assistance.

19.3 Government could purchase public services to open the technologies and education resources of laboratories, vocational schools and technological parks to the public. This could reduce training cost, increase resource efficiency and improve employment and start-up capacity as a whole.

- Enhancing Infrastructure to Create Incentivize Workforce's Lifelong Learning

20. Making Lifelong Learning Guiding Strategies

20.1 As most lifelong learning policies depend on education and training policies, to deliver the role of lifelong learning mechanism, we need to establish a body to develop and recruit researchers, so as to understand the real scenario of continuing education and vocational training received by workforce, and learn their need for development after exiting the workforce market.

20.2 Establish agencies to for lifelong learning strategy, policy research, supervision and evaluation based on current institutional design, so as to ensure the continuity and efficiency of the strategy. Focus on young people, who are the mainstay of current workforce, cater to their career development demand and make detailed provisions on the basis of national development plans regarding the substance, path, approach, rights and obligations and source of fund. Run pilot programs in areas where large population flows in, focusing on migrant workforce. Grassroot workforce unions could issue education and training coupons to combine migrant workforce' demand to enhance skills, the wide coverage of workforce unions and the marketization approach of government purchasing services.

20.3 As to hands-on practice mechanism, we can consider establishing a lifelong learning national qualification framework based on existing skills training policies. The mechanism includes qualification education from compulsory to high-level academic education and training, as well as general education, vocational education and training, higher education and adult education. All these will help to develop and implement the national qualification framework. We could draw from Denmark's lifelong learning national qualification framework to establish "multi-layered" professional agencies to implement lifelong learning and other policies at national level.

21. Implementing Lifelong Learning Policies

21.1 Except for workforce training, continuing education and adult education must be included as an integral part of lifelong learning strategy.

21.2 As to higher education, efforts can be made based on current adult education policies to further manage the disciplines of continuing education with higher education diploma, and regulate continuing education of universities. Guide university construction and development, accumulate pilot program experience in the authentication and transfer of continuing education, strengthen the management of higher education self-study exam and create special channels to allow vocational school students and other groups to take the college entrance exam again.

21.3 For vocational education, we should guide schools especially vocational schools to conduct continuing education, further enhance migrant workforce' education background and skills, continue to develop the demonstration counties of vocational and adult education at national level. Accelerate the development of a learning society, community education and senior education, build learning cities and organizations.

22. More Incentives for Lifelong Learning.

22.1 Enhance the awareness of lifelong learning through publicity and implementation for the vision of lifelong learning involving all individuals across the social spectrum throughout the life cycle. The awareness campaign should focus particularly on migrant workforce and manufacturing employees.

22.2 Provide lifelong learning incentives like awarding "education coupons" for certificate holders and high fliers, which could be used to acquire further knowledge and education.

22.3 Launch “Reading for All” Campaign to encourage people to read and study, regardless of age, occupation and family condition, helping to foster an environment friendly to lifelong learning policies.

22.4 At infrastructure level: Provide venues and facilities for lifelong learning in addition to current ones. Apart from mobilizing institutions of higher learning, vocational training institutes and privately-sponsored training institutes, we should take advantage of urban community cultural service stations and cultural centers in townships and towns, and continue to develop national level demonstration counties of rural vocational training and adult education. We need to accelerate the growth of a learning society, develop community and senior education, establish learning cities and organizations.

- Market Players Enhancing Policy Dynamics to Ensure Concrete Results

23. Improve workforce health, government should deepen medical and health institutional reform, strengthen a sound financing mechanism and accelerate the transformation of government functions; beef up the talent pool, increase health training and adopt a motivating evaluation for innovative talents; innovate health technologies, establish a system of medical technology innovation for progress.

24. To strengthen the institutional strategies for workforce training, government must enhance the guarantee for sustainable education: Step up the management of education input, supervise governments functioning in education expenditure, further consolidate the guarantee mechanism for compulsory education expenditure, strengthen management and regulate fee collection, and advance the management system reform in universities and businesses. Advance informatized education, make great efforts to ensure education resources are shared by all, set up exemplified informatized classes and promote the use of Internet learning. Strengthen the top-level design of informatized basic education, build and utilize the vocational education resources pool to promote the integration of information technology and education. Maintain campus security, beef up security supervision and make policies and recommendations for control and prevention.

25. Government must improve the guarantee mechanism for making the hands-on practice policies for workforce. Education bodies at all levels must scientifically arrange pilot programs of arranging students’ hands-on practice, and make localized strategies and implementation approaches; Strengthen the organizational guarantee for implementation, arrange staff for supervising, coordinating policies and encouraging cooperation among businesses, industries and schools.

26. Strengthen workforce training. Government should improve the rule of law in labor market, so that companies and market are regulated by law. Make well-established laws to protect the legitimate rights and interests of workforce, improve social security and level of protection. Measures to enhance workforce quality also requires legal guarantee.

27. To guarantee the success of enhancing workforce quality via employment, government should improve employment feedback mechanism and service system, including: collect, analyze and release the employment condition of university graduates, strengthen the mechanism of annual employment quality report and set rational indicators; enhance the employment feedback mechanism of university graduates via tracking; Provide more targeted employment services.

28. Promote lifelong learning mechanism.

28.1 Beef up leadership at organizational level. Governments and bodies of human resources and social security at all levels must follow the instruction of the Central Government to prioritize lifelong learning in supply-side structural reform, formulate long-term plans for lifelong learning based on local visions for socioeconomic development, employment and talent cultivation, and ensure policy implementation.

28.2 Guarantee public finance. Ministries of Human Resources and Social Security, Education, Industry and Information Technology, Civil Affairs and Finance need to have more financial input in lifelong learning, provide subsidies and strengthen supervision and feedback.

28.3 Optimize social environment. The Ministry of Human Resources and Social Security, Ministry of Education, All-China Federation of Trade Unions and the Communist Youth League of China should promote the publicity of lifelong learning in new approaches, so as to improve policy influence and public awareness. Schools and businesses can cooperate in launching skills competition.

PROJECT RESULT 4

NATIONAL POLICY FRAMEWORK FOR A FULL COVERAGE OF OLD-AGE

INSURANCE SYSTEM

Topic 1.3.2 & 1.3.4 Proposal for a Reformed Structure of the Chinese Pension System for Urban Employees³

- Segregating First and Second Pillar Arrangements

1. Reflection towards a comprehensive reform of the pension system for urban employees seems to be inclined towards a more precise delineation between equity (basic protection) and efficiency (link with contributions) considerations in the pension system. More specifically, the simultaneous handling of basic pension and individual accounts appears as questionable, and the advocacy for second and third pillar independent structures is more and more frequent.

2. At the same time, the achievements of the pension system in keeping dozens of millions of former elder workers out of poverty calls for caution in reform, and the preservation of a robust, redistributive basic pension mechanism appears as advisable.

3. A possible scenario for the future might therefore be to keep basic pension arrangements as first pillar, but to transfer the responsibility to handle individual accounts to second-pillar type arrangements via a dramatic extension of enterprise annuities or similar mechanisms. It would be up to individuals to enter into such third pillar arrangements they deem suitable, with or without support from their employers.

4. Otherwise, it seems that the government is inclined to make the individual account in the basic pension system notional (NDC system), since the booking interest has been enhanced in last two years. So, the transfer of the individual account in the first pillar remains hypothetical. One may therefore confront with a situation where two individual accounts are maintained for the same contributors, one notional (basic pension) and one real (enterprise annuity), with different modalities for accruing interest and for computing benefits. This would not a priori be a positive factor towards the simplification, transparency and social acceptability of the system which are otherwise advocated.

5. The transfer of responsibility to collect contributions to Ministry of Finance is expected to dramatically increase compliance, and therefore to generate additional resources making the system more sustainable while lessening the burden on already compliant enterprises. The upgrading of individual accounts into second pillar type arrangements would also, allegedly, enhance the interest of potential contributors for joining the system.

- Transferring Existing Individual Accounts

6. Companies potentially interested in handling second pillar arrangements are notably to be found among those currently handling enterprise annuity funds. Even though amounts are different, be it for number of accounts or for sums involved, the technique basically remains the same.

7. There are however some specific aspects that may render the process less straight forward as it might be expected to be – a few of them being listed below.

³ From report by Resident Expert for Component One Mr. Jean-Victor Guat

- To take over rights in course of acquisition private Fund managers would request a transfer of corresponding amounts. However, a number of individual accounts are in fact notional (“empty”)⁴
- If the Government was to compensate for empty accounts, the cost would be of some 4 trillion RMB yuan which is well above the total fiscal subsidies already paid into the public social insurance pension fund over the last twenty years⁵
- The portion of pension derived from individual accounts is obtained through a division by 139 when retiring at age 60 – while insurance companies would typically apply a divisor of approximately 300⁶. The transfer of individual accounts to Fund managers and private insurance carriers would therefore result in a sharp decline in pension entitlements, whereas replacement rate from individual accounts is already considered as notoriously low.
- Insurance companies or private pension fund managers would have huge difficulties to guarantee a minimum yield to subscribers – all the more when financial instruments available may be extremely volatile. This factor of individual risk may be acceptable to contributors though, if their future pension income from other sources remains substantial, and not likely to be affected by similar uncertainties (Defined benefits).
- The transfer of up to date individual accounts for some 300 million active contributors⁷ will not be an easy operation, given the geographical fragmentation of data and the time needed by host companies to prepare for this transfer.

8. In view of the above, there is a serious risk of delays in implementation of a decided transfer of responsibilities for handling individual accounts to second pillar private institutions, and a possibility of operational difficulties coupled with disappointment from the public in view of amounts actually paid to those retiring after the reform.

9. Under such circumstances, it might be worth considering an alternative course of action which would escape the pitfalls of the above described scenario, while adhering to the core idea of vigorously promoting second and third pillar initiatives thus clearly delineating the mark between PAYG, benefits defined, basic pension and funded, contributions defined, supplementary pensions.

- Analysis of the Current Pension Formula

10. According to the provisions currently in force, the benefits paid by the Chinese pension scheme for urban employees are – for those beneficiaries having contributed to the scheme – composed of two elements, one PAYG and benefits defined, and one representing amounts accumulated in individual accounts (real or fictional). The benefits defined component is accumulated at 1% per validated year of the average between the final contributory wage and the local social (average) contributory wage; the contributions defined component represents monthly a fraction of the amount accumulated on the

⁴ In 2014, when amounts in individual accounts were computed at 4.1 trillion RMB yuan, only 500 billion – 12%- where “real assets” (See Gruat JV (2017), p. 15

⁵ These amounts do not take into account the entitlements of Civil servants and comparable categories (“GOPI”). The total accumulated surplus of the public social insurance fund is of a comparable amount (around 3.5 trillion RMB yuan)

⁶ 318 months in France at age 60 for annuities served over 30 years. In the US, 300 months for annuities served over 25 years – see <https://www.bankrate.com/calculators/investing/annuity-calculator.aspx>

⁷ In 2015, 262 million active urban employees, 38 million GOPI – see Zhang Yinghua (2015)

individual account of the beneficiary (including accrued interests) varying with the age at retirement (1/139 at age 60, 1/175 at age 55, 1/190 at age 50).

11. Contribution rates are normally of 20% (employers' contribution) towards benefits defined component (Pooling area) and 8% (employees' contribution) towards individual accounts. Contributory wage is to be between 60% and 300% of the average social wage⁸. Contributions paid by and on behalf of employees do not necessarily correspond to their actual income from employment (under declaration). In many instances, pooling authorities have established a de facto minimum pension (basic pension plus individual account) at 40% to 60% (depending on the pooling area) of the average social wage after a minimum contributory period of 15 years (subject to reaching the required retirement age).

CURRENT PENSION FORMULA

BASIC PENSION: $0.01 * NYC * (ALS + AIS) / 2$ – NYC number of years of contribution, ALS average local salary, AIS average individual salary (floor 60% of ALS, ceiling 300% of ALS)

INDIVIDUAL ACCOUNTS, MONTHLY : $(CA + AI) / ACTF$ – CA contributed amounts, IA, accrued interest, ACTF, actuarial factor – 139 at age 60

MINIMUM (BASIC + INDIV. ACCOUNTS) from 40 to 60% of ALS depending on regions

12. While the replacement income expected from the scheme was initially of 35% under the basic pension (PAYG, benefits defined) and 25% under the individual account components, the actual replacement rate has been declining over the years and is currently around the 45% mark⁹.

13. Amounts accumulated on individual accounts (or better say amounts contributed by workers towards their individual accounts plus interests) represented some 4 trillion RMB yuan in 2014 (500 billion "real assets", 3.500 billion "empty accounts"). Individual accounts were introduced in 1997 as a nationwide feature of the pension scheme.

14. Interests accrued on individual accounts were until the year 2017 limited to interest rates paid by banks, which is historically far below other relevant indicators, such as GDP or wages growth rates¹⁰. This

⁸ The average social wage is the average wage contributed in the pooling area. Although pension pooling was established at Provincial level years ago, and a national pooling as provided in the XIIIth Five-year Plan starts being implemented, there are still many local areas with specific parameters in handling pension matters within individual Provinces (e.g. 24 in Guangdong Province).

⁹ If one takes as reference the contributory base and not the real salary, the replacement rate is higher – near 60% in Tianjin after 30 years of validated employment. Actual contribution rates for pension may be as low as 9% in Guangdong province (contributory base arbitrarily fixed below real wage by employers). Source: Zheng Gongcheng (2017)

¹⁰ Between 1998 and 2011, amounts on individual accounts accrued an average 2.65% interest rate, while wages increased over the period by an average of 11.93% per year – this means that the amount corresponding to 8% of the salary at the inception of the scheme represented only 2.2 % of the salary 15 years later hence a loss of about 4 times in purchasing power – see Zhen Li, 2013 for data – mentioned in JV Gruat (2017) -, author's calculations in annex 2.

contributes to the relatively low level of pensions paid out of individual accounts, even with an extremely favorable actuarial divisor.

15. The inclusion in the benefits defined formula of an element reflecting the workers own contribution at par with the element reflecting the evolution of the average social wage responded to a perceived need to achieve a better balance between social considerations (equity) and recognition of individual contributions (efficiency) in the basic pension formula.

16. However, the predominance of the relatively high and easy to achieve minimum benefit (qualifying period of 15 years only) and the final relatively low level accumulated on individual accounts resulted in a quasi de facto flat rate pension benefit, achieving good results in terms of redistribution towards the workers with low levels of contributions but delivering poorly in terms of replacement rate for contributors with real income above average.

17. This being said, the existence in the pension formula of two elements related to salary – one being the average local wage and the other the individual contributory wage – could be questioned, since it affects the efficiency of the scheme (benefits as replacement of past income) and could be substituted by the recognition of the entitlement to a minimum pension – as is currently informally practiced (40 or even 60% of the average local (contributory) wage).

18. It has to be noted however that the use of average minimum wage in the benefit formula itself – and not only as an exogenous variable for minimum-type benefits – represents an incentive for contributing at a level corresponding to individual income when higher than average, since under-declaration will directly affect the initial pension level.

19. Initially, only the average local wage appeared in the pension formula for its segment out of resources pooling, thus clearly segregating two components or pillars in the basic pension – one of solidarity based on work (insurance) duration, and one of individual reward of past contribution. This element is therefore a very distinctive feature of the Chinese pension scheme of Urban employees, which has a clear role to play in ensuring solidarity among workers (contributors) within a pooling area, and which abolition may raise strong questions and objections at the level of principles guiding the scheme.

20. What might be considered though, is the feasibility to discontinue or to limit¹¹ the current practice of raising basic pensions non-individual accounts components to substantial levels (40% to 60% of average local wage) which represents in a sense a double protection through which generous flat rate benefits tend to supersede the application of the benefit formula (and hence to act as an incentive towards under-declaration).

- Reconcile Current and Future Provisions

21. The difficulty to transfer to second pillar fund managers the responsibility to honor amounts accumulated on individual accounts does not mean that those amounts should simply be disregarded.

22. It would not however appear as wise either to design new transitional measures for workers having joined the fund after 1997 to keep entitlements based on personal contributions. The co-existence of

¹¹ For example, limiting access to minimum benefits to those having started their career before 1997 and reaching retirement age before 2027 (i.e. those who, physically, cannot reach 30 years of contributory employment within a normal working duration, e.g. male borne 1967 and before).

numerous transitional provisions is indeed likely to generate confusion in public minds, and to run counter the advocated goal of renewed trust in pension provisions and their sustainability.

23. It is therefore proposed that amounts theoretically accumulated on individual accounts be recognized through a modification in the PAYG benefits defined component, which would henceforth represent the totality of the basic pension. This would be achieved through strengthening the portion corresponding to individual contributions in the benefit formula.

24. To avoid leaving the impression that current members may be suffering potential losses via the discontinuation of past individual accounts, it is also proposed to revise the formula to make it appear more generous in terms of replacement income – which should be possible thanks to the improvements in compliance expected from the transfer of the responsibility for contributions collection to Ministry of Finance¹².

- Parameters for a Reformed Basic Pension

25. One key issue for the reformed formula applied to basic pension is the value to be attached to amounts in individual accounts. As already mentioned, those are currently receiving 8% of the contributory income, and after accruing interests are divided (normally) by 139 to obtain a monthly pension.

26. Assuming that interests accrued are such that the purchasing power of contributions is kept throughout the contributory period until retirement, the amounts accumulated after 30 years of contributions would represent (age 60) $IS \cdot 0,08 \cdot 360 / 139$ i.e. a 20.7 % replacement rate. This – for a contributor whose average wage is equal to the average social wage – would be equal to 2/3 of the amount paid out of the social pooling, with a total replacement rate reaching 50% of the last individual contributory wage. However, in view of the (until now) less favorable accrual of interests on individual accounts, contributors are not expecting this level of replacement rate, which is currently of some 45%.

27. It would therefore not appear as unreasonable to suggest that, in the basic pension formula, the impact of individual accounts be accounted for through both an increase from 1 to 1.5% of the accumulation rate, and the increase in the reference salary of the share of individual contributory base, the social (contributory) average representing only one third of the final income. The formula would then become:

BASIC PENSION (incl. Former Individual accounts): $0.015 \cdot NYC \cdot (ALS + 2 \cdot AIS) / 3$

where NYC is the number of years of contribution, ALS the average (contributory) local salary, AIS the average (contributory) individual salary (floor 60% of ALS, ceiling 300% of ALS)

¹² Improvements may come from both the inclusion of new enterprises in the scheme (known otherwise as tax payers) and the alignment of contributory amounts on real salaries (when also declared for tax purposes)

28. A typical replacement rate for workers contributing at 60% of the average social wage would be (30 years of contribution) of 45% of contributory income, at contribution levels corresponding to the average social wage, of 45% and, for those contributing at the ceiling of 3 times the average, of 35%.

29. When keeping the threshold for maximum contributory levels (60% and 300% of ALS respectively) the formula would ensure that, after 30 years of service, no basic benefit would be less than $30 \times 0,015 \times \text{ALS} \times 2.2/3$ i.e. one third of the average social wage. The established practice of a minimum pension not below 40% (or 60%) of the average social wage could therefore be kept, subject however to two safeguards, one to ensure that no pension reaches levels too close to the average final individual wage – a limit of 75% of AIS could be envisaged -, and the other to limit access to minimum benefits to pensioners with at least 30 years of contributory services or equivalent¹³.

30. Consideration could be paid, on the occasion of the reform, to the introduction of basic disability pensions (non-occupation related) where calculations would be based on the number of years the beneficiary could have accomplished until retirement had he/she not been disabled. Such pensions could be subject to a minimum qualifying period of 5 years of contributory services (see ILO Convention on Social security (minimum standards) n.102, the ratification of which is being actively considered by China).

31. While a threshold of 30 years of service to access minimum benefits is recommended – and is compatible with the contents of relevant international instruments – the fact that the pension benefit formula is proportional to the duration of insurance makes the establishment of a threshold in terms of minimum number of contributory years apparently unnecessary to prevent abuses. A minimum contributory period of 15 years for old-age (5 for disability) could however be considered as per relevant international instruments – and also be applied to workers having interrupted their career before reaching retirement age, and claiming later a deferred retirement benefit.

32. The period to be covered under the average local salary and the individual local salary respectively is open for debate. While the current provisions (basic pension from the pooling funds) retain a short reference period – one year – it may be argued that although this is congruent with the pension scheme objective that benefits should replace last income when it is lost, this opens the way, as far as individual wages are concerned, to complacent salary increases for workers approaching retirement. It might therefore be advisable to calculate the individual salary over a longer period of time, 5 years, 10 years, 25 years, etc. subject to the proper indexation of past earnings (average local salaries could be used as a reference).

33. Benefits in course of payment should of course also be indexed, and the on-going reflection concerning such indexation mechanism is not to be affected by the proposed reform, as far as basic pensions are concerned. Similarly, on-going discussions on raising the retirement age would remain fully valid.

34. It was mentioned at the beginning of this Note that the decision had been made to establish a pooling at the national level – which might be made easier through the transfer to Ministry of Finance of the task to collect and manage pension contributions. This does not however mean that China could be considered as one unified territory in terms of basic pension benefits. As a matter of fact, there are important geographical discrepancies between salary levels among the provinces (the gap being greater than 2:1)

¹³ The expression “or equivalent” notably refers to the case of beneficiaries who started their career before the introduction of the contributory scheme.

as well as within the Provinces. It therefore appears as reasonable to, at least in a medium term perspective, keep existing boundaries (“pooling areas”) for the definition of local parameters.

- Acquired Rights and Rights in Course of Acquisition

35. Coordination mechanisms will still have to be decided upon and implemented as far as urban-rural migrant workers are concerned for the portability and vesting of basic pension rights. The international experience of totalization of periods and apportionment of benefits is now well known of Chinese authorities and could easily be implemented, especially within a system having acquired a certain level of centralization.

36. In practical terms, it might be envisaged that while the qualifying condition to access benefits or minimum payments might be appreciated through totalization of periods of insurance under various pooling arrangements, each responsible local administration would then calculate benefits according to its own legislation – and have them delivered to the beneficiary. Alternatively, the competent organization where the employees lodges his/her final claim could calculate the total benefit under its own regulations (based on local average salary + averaged individual salary wherever paid) and request reimbursement from other concerned agencies on a proportional basis.

37. The centralization of data thanks to Ministry of Finance intervention and the discontinuation of individual accounts would make the cumbersome procedure of transferring contributions whenever a worker changed the pooling area obsolete, and compensation mechanisms among provinces would drastically limit financial exchanges. One may even envisage that a special entity be created centrally, which key mission would be to facilitate portability and vesting operations for migrant workers.

38. This centralization may also help unify the management of GOPI¹⁴ pension entitlements. The reformed pension scheme could immediately apply to those currently contributing - or-having contributed but awaiting for deferred benefit. It might be considered to what extent the revised basic pension formula could affect the supplementary benefit scheme introduced to make good for losses incurred in future pension rights when merging into the Urban employees’ pension scheme, since the new formula is likely to be slightly more favorable than the previous one. However differences are not likely to be very substantive, and it might therefore be advisable to opt for a status quo concerning supplementary pensions for GOPI officials, since too frequent changes in pension provisions affecting this category of staff is not desirable.

39. Otherwise, the proposed reform should not affect pensions in course of payment. Similarly, existing provisions for the recognition of periods of work accomplished before the instauration of the reformed contributory system could remain unchanged.

40. The commitment of the Government towards these non-contributory benefits or part of benefits could be actuarially evaluated – beneficiaries forming what are called a “closed group”, a precise calculation is feasible – while the scheme for those joining in on or after 1997 would be financed out of contributions and financial products. A revised PAYG (scaled premium) contribution rate (contributions to be paid by employers) could then be computed, with employees contributing 8% of their remuneration into an authorized pension fund management company of their choice – or of the choice of their enterprises.

¹⁴ GOPI: Government officials and Public institutions – incorporated in pension scheme for Urban employees from January 2015.

41. An in-depth reflection should be devoted to the future of urban and rural residents pension scheme. Under that scheme, the average contribution paid by insured persons is of about 200 RMB yuan annually, which goes into individual accounts providing minimal supplements to basic flat rate pensions. If individual accounts are being abolished, the scheme might become de facto non-contributory, and its membership will be extremely difficult to trace all the more when responsibility for contributions collection under medical care might become incumbent upon the newly created State Medical Insurance Administration.

42. The proposed reform is therefore purposely limited to the urban employees' pension scheme – to which all rural urban migrant workers should contribute while under salaried employment – and it is recommended that a specific reflection be conducted by the Government on the possible future of the Residents' pension schemes.

● Conclusion

43. When submitting this Proposal to comments of all interested parties, the EU-China SPRP Component One is perfectly aware that a number of details still need to be discussed to reach a stage of operationalization of the reform. In particular, it would be necessary to test the financial requirements attached to the basic pension component (first pillar) expressed in terms of employers' contribution rates for active workers.

44. Actuarial calculations are indeed to be central to any substantial reform and monitoring of pension systems. It is only through such calculations that the value to be attached to core parameters could be confirmed or amended – those core parameters being notably retirement age, indexation of past earnings, indexation of benefits, minimum and maximum for contributions and benefits, share of average local and individual contributory wages in benefit formula, accumulation rates, accrual of interest, commutation factors, qualifying conditions, etc.

45. Annex 1 provides a comparison for each of these core parameters between current and proposed situations. As for annex 2, it draws a table expressing the qualitative differences between the current and the proposed system concerning a number of technical factors, such as reliance on public institutions, efficiency and equity, predictability of results, vesting and portability, etc.

46. Component One of the EU-China Social protection reform project sincerely hopes that, through this proposal, it will contribute to the design of a successful mutation of the Chinese pension system, matching the needs of its development and the expectations of its people.

Annex 1 – Compared pension parameters, current and proposed schemes

TECHNICAL PENSION PARAMETERS	CURRENT SCHEME	PROPOSED SCHEME
Retirement age	50 – 55 – 60 under revision	Same
Indexation of past earnings	Weak and unstable for individual accounts	Automatic for basic pension. According to Financial company rules for 2 nd pillar
Indexation of benefits	Not systematic – under review	TBD – average wage indexation or other index
Minimum and maximum for contributions and benefits	60% and 300% average social wage	60 and 300% average contributory local wage
Share of average local and individual contributory wages in benefit formula	50 - 50	1/3 – 2/3
Accumulation rates	1% per year max. 30 years	1.5 % per year max. 30 years
Accrual of interest	Bank interest rate, moving to wage growth	Pillar 2 only, following rules by Financial company
Commutation factors	1/139 age 60	Pillar 2 only According to rules Financial company, probably vicinity 1/300 at age 60
Qualifying conditions	15 years for full pension	30 years for full pension, reduced benefit if 15 to 30 years (old age). 15 years for full disability benefit (5 for reduced benefit)
Disability provisions	Early retirement only	To be introduced
Management	Public local social insurance agency	Public pension institution for first pillar, authorized financial institutions for pillars 2 and 3
Financing	De facto PAYG	PAYG first pillar, full funding second and third pillars

Annex 2 – Qualitative differences, current and proposed system

	CURRENT	PROPOSED
Separation first – second pillar	- -	+ +
Redistributive effect	+ +	+
Benefits matching contributions	+	+ +
Indexation of past earnings	+ -	+ +
Stability in replacement rates	- -	+ -
Predictability of pension amounts	-	+
Influence of minimum pension	+ +	+ -
Vesting / Portability	+ -	+ +
Sustainability	-	+

Topic 1.3.3 Universal Pension System: Chinese Situation and Prospects

Proposal for Improving Universal Coverage of the Basic Old-Age Insurance for Urban and Rural Residents (BOIFURR)¹⁵

- Redefining the BOIFURR Scheme

1. The model of BOIFURR is almost the same as the model of BOI for Urban Employees. The only difference is employer in BOI for Urban Employees, who pays contribution for employees, is changed into government in BOIFURR. For the individual account, contributors can voluntarily choose a contribution level suitable to them. Thus the BOIFURR is still based on S-I mix model. But in the practice, the S-I mix model has deviated from its original purpose, because in the BOI for Urban Employees, individual accounts have been “empty accounts” for many years. Though in 2001 the Liaoning province had launched a pilot program for fully funding the accounts, in 2010 Liaoning used money of the funded accounts to provide benefit to pensioners. After that, almost all pilot projects for full funding had ceased to run in China. In fact, the BOI for Urban Employees has devolved into a PAYG scheme. In 2013, the central government made new statement on the reform on individual account, which changed the aims from “fully funding the individual account” to “improving the individual account”. In 2017, the Minister of Human Resource and Social Security announced that the individual account would adopt Book-Keeping Interest Rate for calculation. This marks that individual account is converted into NDC, which is actually a PAYG account.
2. Under the BOIFURR, there are peasants and “flexible” employees or workers for short-term jobs. These people have different residences and different costs of life, since they have different ways of life. But they share some common features: 1) Most of them are low-income persons, or even poor people. 2) Most of them are excluded from formal employment with income changing with high volatility, and their families face huge risks of unexpected expenditure. 3) Their education level is generally low, and therefore they are usually short-sighted in economy. 4) They don’t have enough savings to protect themselves. These common features determine that they have low sensitivity to the incentives. In addition, their income is low, and in their mind short-term effect of money is more important than long-term effect. So, they are not so capable of protecting themselves and have no active response to contribution subsidies. Anyway, their retirement income will heavily rely on government’s transfer. This is a fact that has been proved for many times in the world’s pension history. Therefore, non-contributory pension scheme is what they need for their retirement. This is to say, BOIFURR

¹⁵ From report by Expert Mr. Qi Chuanjun

should be a 100% non-contributory pension scheme, whose nature is a “welfare” system, instead of an “insurance” scheme.

3. Then, the function of BOIFURR should be defined as “to prevent old-age poverty”. Generally speaking, when government makes arrangement for guaranteeing old people’s income, there are two points to be considered: 1) Preventing old-age poverty; 2) Promoting consumption smoothing. Obviously, non-contributory pension scheme should function as a factor to prevent old-age poverty. But if promotion of consumption smoothing is also the goal, when an individual is weak in protecting him- or herself, the government has to provide high benefit to the individual. This would lead to a series of negative effects, such as increase of costs on governmental transfer and impact on financial balance during economic downturn; and it would also force people to retreat from labor market and prevent young people from saving for themselves (even low-income group is weak in saving for themselves).

● Improving Institutional Design of BOIFURR

4. It is suggested to change the function of individual account while keeping the setting of basic pension. Participants should be allowed to stop paying contribution to their individual accounts. If a participant agrees, paid contribution, governmental subsidy and interest generated in the individual account can be returned to the participant (the return of governmental subsidy is helpful in maintaining the public’s trust on the government), or these money can be transferred into the 3rd pillar, commercial old-age insurance with tax deferral for individual contribution. Individuals should be allowed to go on paying contribution to the commercial old-age insurance, and government should go on providing subsidy as it did in the past. This is a 100% commercial activity. Individual choose it voluntarily, while government only encourages individual to participate in commercial schemes but doesn’t interfere into the affair or impose additional conditions on it. When a resident reaches the eligible age for pension, and he or she has no other pension source, this resident can receive the basic pension. In this case, there is no need to see whether his or her contribution in the individual account has been paid over 15 years. The financing of the basic pension is fully from government’s transfer payment every year.

5. Gap of benefit levels should be filled in in order to have equity of outcome. China is a country with large population and territory. The reality is that disparity among regions or unbalance between urban and rural areas is large, and life costs diversify in different regions. But this should not become the rationale for differentiated welfare. In fact, the welfare gap among people should be narrowed through income redistribution, and thereby negative effects of unbalanced economic development could be eliminated. In particular, same level of benefit should be combined with differentiated purchase powers. To people living in undeveloped regions, the effect can be larger. This is actually a compensation for the inequity in the first distribution. The compensation is both for opportunity and outcome. More importantly, to a certain extent, it helps to lead workers to move around the country in a rational way. This way, economy of undeveloped regions can be promoted, and economic disparity among regions can be reduced. It also helps to maintain population of poor regions and regions inhabited by minor ethnic groups, which in turn helps to maintain safety of border regions. To people living in developed regions, the benefit has no relative advantage. But, of course, the benefit they receive should be able to cover their basic life (in undeveloped regions, benefit at the same level is over the costs of their basic life). In

conclusion, as a welfare scheme, the BOIFURR should provide same level of benefit to every participant. For China, effects of this arrangement will last for long term.

6. The benefit should be largely increased in order to really cover the basic life of beneficiaries. Since non-contributory pension scheme is to prevent or stop old-age poverty, its standard of benefit should be same to the standard of Dibao benefit. According to today's reality, the benefit of BOIFURR should be higher than the benefit of rural Dibao but lower than the rural Dibao. That is, it should be between 350 RMB and 550 RMB. This can cover the basic life in developed regions and is higher than costs of basic life in less developed regions. But it is worthy emphasizing that in today's China, even a fully non-contributory pension scheme should not provide over-high benefit. Otherwise, as the population ageing goes on, burden of public finance would be too heavy. In addition, over-high benefit would lead to moral hazard and reverse choice, which means that people would try their best to avoid participating in contributory pension scheme (the BOI for Urban Employees). Thus, the financial situation of the BOI for Urban Employees would be worse.

7. Mechanism of public subsidy should be simplified, and the central government should be the major funder. After the fiscal reform of 1994, fiscal management of the central government is separated from fiscal management of provincial governments. This has helped to develop provincial economy and improved tax collection for the provincial governments. However, aftereffect of this reform becomes more and more evident in that financial and managerial powers of central and provincial governments have twisted together. In some provinces, the fiscal burden is too heavy, with huge public debt (whose reason is not only the fiscal reform). Thus the current system needs to be changed. A more important issue is that the pension scheme for universal welfare should reflect the will of central government. This helps to consolidate the patriotic feeling of Chinese people. It is not suggested to simply adopt the separated fiscal system, which would allow provincial governments to bargain with the central government. It is neither suggested to differentiate the middle and western provinces from the eastern provinces, because the idea or standard of differentiation is usually subjective. Of course, this doesn't mean that provincial governments shouldn't be responsible for improving people's welfare. In fact, on the basis of universal subsidy provided by the central government, provincial governments can provide additional subsidies according to local reality (provincial financial strength and purchase power).

8. Eligible age for pension benefit should be flexible in order to reduce financial risks. There is always a difficulty to non-contributory pension scheme. That is the conflict between the public finance's strength and the coverage and benefit level of the scheme. When the coverage becomes larger and benefit level becomes higher, the public finance would be faced with heavier stress. In the beginning phase of a scheme, the public finance is capable of covering the expenditure. But when economic downturn takes place or population aging gets more serious, public finance would not be able to provide transfer payment due to heavy burden. Of course, we can have another way: If in the institutional design of a welfare scheme, rigidity can be reduced while flexibility can be increased, the problem can be well solved. In this case, an important approach to increase flexibility of welfare is to set flexible age eligible for the benefit, which is not necessarily equal to the eligible age set for the BOI for Urban Employees. Factor of population ageing should be taken into account in the design. By this, it is proposed to increase the eligible

age every 5 years following the development of population ageing. Finally, governmental transfer can be controlled to increase within a certain proportion or at a certain growth rate.

- Some Other Thoughts

9. The negative limitation of Hukou system should be eliminated in the institutional design of the BOIFURR scheme. Hukou system is a special institutional arrangement in China. It had released positive effects in the history. However, in the modern era where people have the right to move freely and labor force needs to move freely for better allocating resources, negative effects of the Hukou system become more and more obvious. Therefore, when a social scheme is being designed, the limitation of Hukou system should be avoided. The institutional design mentioned above can be an example, in which the limitation of the Hukou system is prevented.

10. When designing a social scheme, policy maker should take into account the protection on vulnerable group, which represents the moral consciousness of the society. The BOIFURR scheme should be improved in order to enable all the vulnerable people to enjoy pension rights, as every other person does. In addition, as mentioned above, individual account should be converted into tax-deferred commercial old-age insurance (voluntary). But the tax deferral is provided to formal employees, while residents in urban and rural areas can receive governmental subsidies. In this case, government should provide more subsidies to vulnerable groups, such as disabled people losing employability, and to special groups, such as pregnant women and women taking care of new babies.

11. The management of a social scheme should be simplified in order to make the scheme as more effective as possible. An improved BOIFURR scheme should have simplified framework, in which subsidies are from the central government while administration is the charge of provincial/local authorities. The procedure of provincial or local administration should be largely simplified, reducing pressure on local authorities and having a transparent administration. Of course, it is also in need of building up a digitalized system for individual's information in order to reduce moral hazard of administrators to the lowest level.

12. It is also important to optimize BOIFURR's relation with other pension schemes, for which the key is the understanding the trend of socio-economic development. We usually expect to have a single social scheme or policy to solve all the problems. But this is impossible in the modern world. After WWII, when most countries introduced western pension schemes, contributory Bismarck model was chosen as the major component, with the expectation that the whole labor force can be formalized following the development of economy, and therefore the system can cover all the employees. However, the reality is that many developing countries had to return to noncontributory model in the beginning years of the 20th century. Therefore, it is not realistic to integrate the BOIFURR and the BOI for Urban Employees. But this doesn't mean that the two schemes have no any relation with each other. At least the benefit of BOIFURR should not be too high since it is a pure welfare scheme. Otherwise, it would pose impact on the BOI for Urban Employees.

Topic 1.3.7 Active Ageing Index for China¹⁶

Policy implications

1. Older persons in China support their families by providing help with housework and grandparental care to younger generation and care to older adults or other family members (Wang and Zhang 2018). The high rate of grandparental care is related to the tradition of grandparental care, but more importantly, to the lack of childcare infrastructure in China.
2. The higher participation in caring for family members might have led to lower participation in other ways in society, such as, social connectedness and lifelong learning. Participation in social activities is important to older adults' health; research showed that participation in social activities (e.g. included interaction with friends, participating in hobby groups, sports groups, community-related organizations, and doing voluntary work) is positively associated with cognitive function in older populations in China. Therefore, there is need to facilitate social activities that help older people balance their contribution to family duties and participation in social activities.
3. Chinese older persons are physically active and have high shares of healthy life expectancy, which explains their high employment rates at advanced ages (60+) and level of support to other family members (e.g. providing grandparental care). The focus of policy should still be on helping older persons actively involved in the economy by providing flexible retirement plan in which they can continue working if they choose to and be released from labour intensive work and pressures that are not beneficial for maintaining good physical health and well-being.
4. Our results show that Chinese older people have lower level of independent living arrangement than Korea and the EU average, and they feel extremely safe in the community and enjoy very good mental well-being in later life. Therefore, the improvement in the independent, healthy and secure living should be focusing on reducing poverty and material deprivation and promoting lifelong learning.
5. China has made significant progress in building an old-age security system that consists of old-age social insurance, healthcare, and personal care to support families. However, the results show that older people in China fall behind the EU average in the access to health care, no poverty risk or material deprivation, which suggests that health care, financial and material support to older people are the areas to improve. The reformed pension schemes in China might have benefited those with high human capital and family capital and living in more developed regions, which strengthened social stratification in later life. This might mean that the system can meet the minimum living needs of older persons, but more work should be done in reducing inequalities in the coverage of social insurance and health care.
6. Older persons in China have very low rates of using the Internet and lifelong learning, and there is lower educational attainment in Chinese older persons than Korean and EU older persons. Therefore, continuing education and lifelong learning opportunities are very important for maximizing the

¹⁶ From report by EU Expert Mr. Asghar Zaidi

potential of the older population to age actively, which will enable them to integrate with the ever-changing society in China and contribute to the economy and society outside the family.

PROJECT RESULT 5

REFORM EFFORTS IN RESPONSE TO URBANIZATION TRENDS

Topic 1.3.5 Policies and Tools for Redistribution of Primary Income¹⁷

Reform suggestions

1. First, indirect tax system in China is regressive, while personal income tax is progressive. Therefore, indirect taxes have an effect of expanding the national income inequality, whereas personal income tax helps to narrow the income gap. However, since the share of personal income tax in total tax revenue is relatively smaller, the role it plays in narrowing the income gap is very limited. In particular, the results show that the regressive nature of the indirect taxation is more obvious in rural areas, indicating that indirect taxes has a larger effect in expanding income inequality in rural China.

2. Second, social security and welfare program help to narrow the income gap in China. Our findings prove evidence that a variety of social security and welfare programs with public transfer income has a positive effect on narrowing the income gap, which is mainly derived from the redistributive effect of pension insurance system. By contrast, some social security contribution plays a role in increasing the income gap.

3. Compared with other developed countries, the function of redistribution of social security system and tax system in China remains weak. The paper provides the following suggestions for further reform of social security and tax system in China.

3.1 Further reform the personal income tax system to increase its role in income re-distribution.

3.2 Increase the sources (sorts) and proportion of direct taxes. In theory, direct taxes have a more obvious effect on income distribution, whereas the main objective of indirect taxes is to reduce the regressive nature of the tax system. Compared with other developed countries, the share of direct taxes in total tax revenue is relatively smaller. Therefore, the government should further increase the proportion of direct taxes and establish a more equitable tax system to reduce income inequality.

3.3 Thirdly, reform the existing fragmentation of the social security system, and establish a unified national social security system as soon as possible, and reduce the differences in social security benefits for different groups of people.

3.4 In addition, further improve the coverage, and achieve the goal of equally protecting all the disadvantaged people.

3.5 Finally, increase the progressive effect of social security contribution. That is, the social security contribution needs to increase the progressivity of payment and the payment must be linked to their income level.

¹⁷ From report by Experts Mr. Li Shi and Ms Zhu Mengbing.



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Topic 1.3.8 Employment and Social Security Issues under the Background of Population Movement¹⁸

Countermeasure Suggestions for Improvement of Employment and Social Security Policies and Promotion of Smooth Population movement by Reference to the EU's Experience

Under the new conditions, the key of improving China's employment and social security policies for floating population lies in promoting migrant workers' equal entitlement to urban basic public service over time, eliminate discriminatory treatment against floating population step by step, and realizing equal treatment of floating population and native population. Following policy suggestions for improving China's employment and social security policies for floating population are presented according to China's national conditions and by reference to the EU's experience.

- Improving the Macro Policy System in Favor of Floating Population Employment
 1. Improving financial policy. We should motivate local governments fundamentally to absorb population by virtue of fiscal policy. First, we should accelerate the improvement of the current transfer payment system, and reform the current financial and taxation system. With population movement direction being the important basis for determination of fiscal transfer payment direction and taxation, we should enhance inflow places' capacity to gather and absorb population through ensuring they obtain enough financial and tax funds and improving local infrastructure and public service. Second, we should reform the resource price formation system, build up the environmental compensation mechanism and thereby, ensure outflow places can get compensation through financial, price and employment opportunity methods, and form the internal impetus for population movement.
 2. Gradually removing institutional barriers against population movement through implementation of the migration policy of moderate control. We should practice the residence permit system actively. First, we should preferentially assure the "basic education" and the livelihood demands for one or some "basic medical services" for floating population, with the aim to ensure the stability and improvement of future human capital stock and increment in China. Second, we should remove barriers against population movement over time through incorporating floating population in the coverage of public employment service, providing them with accurate and reliable labor market information, preferentially building sound work-related injury insurance, basic medical insurance and old-age insurance systems for migrant workers, and improving the social insurance relations transfer and continuation system of China. At last, as for the migrant workers who have investment or a stable job and income, have bought a house (or stable renting), have a spouse and children working and being schooled and live more than a given period of time (e.g. 5 years) in an inflow place and won't leave the inflow place actually, the local government of the inflow place should provide them with citizenship treatment in a conditioned manner and step by step, such as subsistence allowance, assistance, governmental security housing and household registration, to improve their living conditions and accelerate their inclusion in the society.
 3. Speeding up the reform of the rural property right system. We should vigorously push ahead the confirmation, registration and issue of certificates on the rural property rights, establish a sound property circulation market, improve the powers and functions of property rights, promote

¹⁸ From report by Expert Mr. Jin Weigang

the implementation of the entry into market of collective commercial construction land, the compensated exit of house sites and other reform measures, cope with the land contract right, right to the use of curtilage and collective revenue distribution right of moved rural population, solidify rural rights and interests, transform farmers' contracted land, forest land, rural housing and other resources into leasable, collateral and realizable capital and make them a source of funds through which farmers can live and buy housing in cities, and let farmers taking rights and interests with them to cities and can stay and live in cities. We should clarify as early as possible the policy that land contracting management relations should stay stable and unchanged permanently and the third-round land contracting period. It is helpful for preventing new problems and contradictions arising after the end of the second-round land contracting period on the one hand and on the other hand, makes for the government, collective and farmers to make a choice as early as possible.

4. Improving the floating population decision-making management service mechanism. We should effectively push ahead the social inclusion of floating population in all places through the open coordination scheme and the progressive strategy by reference to the EU's experience. We should ensure common goals will be obtained through stepping up country-level coordination management. We should develop methods to monitor and evaluate the citizenship development of migrant workers in all places to monitor the social inclusion status of floating population, and release every year a joint report on policy implementation and relatively excellent practice of all places to promote the citizenship development of migrant workers.

- Improving the Floating Population Employment Policy

5. Advancing the equal access to public employment services and the equality in rights and obligations for permanent resident population in the principles of fairness and justice.

5.1 Public finance and public service systems should be based on permanent resident population. The Central Government should take the economically active permanent resident population corresponding to city planning goals as the basis for employment allowance and provincial-level and municipal-level supporting fund, and also for public employment service capacity building. We should use all employment policies and employment allowances for permanent resident population of migrant workers in an equal way. We should improve specific measures and procedures for permanent resident migrant worker population's entitlement to inclusive employment policy and all-round public employment service. We should also speed up the information technology-based development of employment service so as to make it convenient for basic-level employment service platforms to provide convenient, efficient and precision service to migrant workers and also for migrant workers to receive efficient, convenient and targeted service.

5.2. We should improve the information collection and sharing of migrant workers, establish a public employment service comprehensive information network with "community-based centralized acquisition, digital uniform management, and authority category-based inquiry", and connect all municipalities (counties), districts, sub-districts (towns) and communities (villages) vertically. We should incorporate floating population management into local employment management and service.

6. Improving the migrant workers' rights and interests guarantee mechanism. We should accelerate local legal construction so as to improve the legal mechanism for the protection of migrant workers' rights and interests. We should urge employers to implement the *Labor Law*, *Labor Contract Law*, *Law on the Promotion of Employment*, *Social Insurance Law*, *Trade Union Law* and other laws and regulations in force for the time being, and accelerate the development of local law, regulation and policy systems applicable to all labor groups in the principles of equality, justice and sharing. We should intensify labor security supervision and law enforcement,

strictly crack down on illegal behaviors with infringement on migrant workers' rights and interests, firmly prevent employers from using child laborers illegally, delaying or deducting wage viciously, commanding production against regulation and blindly and escaping social duties. We should enhance the supervision of the use of migrant workers in micro, small and medium-sized enterprises, provide migrant workers with labor protection, social insurance and corresponding welfare and treatment, implement labor time, labor remuneration and other labor standards strictly, and reduce wage arrears of migrant workers continuously, with the aim to improve employment quality of migrant workers. We should establish a long-term mechanism for safeguarding legal rights of migrant workers, unblock their appeal channels, provide more legal assistance to them, and give full play to the important function of governments at all levels and social organizations in this respect.

7. Strengthening the skill training of migrant workers. We should assist employment and entrepreneurship of migrant workers through increasing government financial investment on the education and training of migrant workers, carrying out precision training based on industry, work type and group and exerting efforts to cultivate professional skills. With regard to the skill training of migrant workers, we should intensify trainings of industrial associations and enterprises, give full play to enterprises, establish sound modern apprenticeships, promote training through production and green hands through old hands, realize employment upon graduation, and avoid separation of study from practice and secondary training. We should intensify the entrepreneurship training of migrant workers, and help them to realize employment and entrepreneurship and to return home to start a business.

8. Realizing the overall planning of urban and rural employments and the integrated development of urban and rural labor markets over time ultimately. We should give play to the guidance of government performance assessment with the focus on employment policy. Governments of inflow places should increase indicators for assessment of employment quality of migrant workers, with the emphasis on the social duties, except for economic growth, of government departments; governments of outflow places should stress government departments' obligation on the professional skill training of floating population, and increase assessment indicators encouraging population output.

9. Paying key attention to the new generation of migrant workers. The great majority of the new generation of migrant workers is determined not to return to the countryside upon the day when they step out of the countryside. If they cannot be included in cities or take an ideal position in cities for a long time, they will have the risk of being marginalized by the society and will impose serious influence on social stability. In addition to being concerned about migrant workers' economic benefit, we should care for their spiritual and cultural needs, social status equality and democratic and political power from the perspective of social fairness and justice, and enable them to have the right to vote and the right to be voted and to be elected people's representatives and enter management of government organs and communicates in cities where they live; we should also improve the corresponding people's group systems so that they can finally be really included in urban society and realize the goal of being new urbanites through joining trade union and other organizations and taking an active part in democratic management.

- Improving the Social Security Policy of Floating Population

10. Further specifying and improving relevant policies. The EU rationally continues the pension, medical, unemployment and other social security relations of most floating persons and their families through "aggregate calculation", "separate payment", "ultimate take-over" and other approaches, and "continuity" is realized really through the simple method. At present, China has further detailed the policy for the transfer and continuation of old-age insurance, but regulations on the urban employees' medical insurance system are to be improved further. The continuous contribution time (suspension cannot exceed 3 months) of medical insurance upon retirement of

employees is 25 years for male employees and 20 years for female employees. In practice, however, it's usually requested the continuous payment period be realized in one region, which is to the disadvantage of floating population. Therefore, we may also accumulatively calculate the contribution time in different pooling regions by reference to this method, according to which a person can enjoy the medical insurance benefit for retirees at the last place where he joins the medical insurance as long as his contribution time in different regions accumulatively reaches the statutory time for enjoying medical insurance benefit no matter how long he pays the medical insurance premium at the last place. But a problem is the ethical risk of retirement at richer places, which means employees may choose to work in developed regions years before retirement, then developed regions must bear the medical insurance fund payment pressure. We can set a "transfer-in threshold" of about 10 years before retirement by reference to the promulgated policy for the transfer and continuation of old-age insurance relations.

11. Strengthening overall planning, coordination and policy integration. The key of solving the social security continuation problem in China is taking into account the benefits of laborers, enterprises and pooling regions. The EU develops social security coordination plans at a higher level and establishes the ACSSMW, which is more helpful for the overall planning, coordination and management of policies. It is worth referring to.

11.1 On the one hand, with regard to medical insurance, similar with the EU, we have established the platform for settlement of medical expenses incurred by the insured away from home at state level, which plays a positive role in coordinating and promoting the management service for access to medical service in a place other than the resident place and achieves good effect. The transfer and continuation of medical insurance relations remains impeded, with barriers in the recognition of contribution time. It's advisable that we should enable the smooth nationwide transfer of the insurance benefits accumulated by the insured, establish national medical insurance benefit transfer center and adjustment fund system, allow the trans-regional transfer of accumulated insurance benefits in case of the trans-regional movement of the insured, and use the national adjustment fund to balance the risk incurred by the transfer of the benefits of the insured among different regions, with the aim to remove the worry that some places restrict the continuation of medical insurance relations of inflow persons in view of their pressure of paying medical benefits and thereby, to balance regional benefits. In relation to equal access to medical service, we should increase government subsidy standard steadily and also individual funding level, exert great efforts to implement the two-way referral system and graded diagnosis and treatment system, and enable urban and rural residents' equal access to medical facilities and equipment and incorporate all of them into the uniform health and disease control system.

11.2 On the other hand, we should coordinate the relations between the old-age insurance, medical insurance and unemployment insurance. We should develop uniform policies in harmony with old-age insurance relations transfer so as to ensure the transfer of other insurances along with the old-age insurance transfer. For a person who resides in another place after retirement, his pension should be still paid by the place where he retired, and the approach to access medical service in a place other than the resident place can be applied to the access to medical service of the retirees who reside in another place.

11.3 Third, we should incorporate all eligible migrant workers in cities into the old-age insurance, unemployment insurance, occupational injury insurance and maternity insurance systems for enterprise employees.

12. Further improving the management of social security service for floating population. First, it's advisable that the service procedures be optimized further. We should simplify the transfer procedures as much as possible, shorten the handling period, reach the convenient, fast and effective standard, and continuously improve the service level. We should improve service quality

and efficiency through strengthening the training of service staff and having them being familiar with service knowledge and procedures for old-age insurance transfer and continuation. Second, we should coordinate service contact and information exchange between provinces through establishing a national social insurance relations transfer coordination agency. Third, we should step up the assessment and supervision of local governments in the implementation of transfer and continuation policies.

13. Further strengthening the construction of the national social security information system. First, we should place emphasis on the complete, accurate and normative construction of basic data and information and the improvement of the transfer and continuation platform. We should assure the integrity, accuracy and uniformity of information by regulating social insurance benefit recording. Second, we should improve the information network system so as to improve the transfer efficiency. Emphasis should be placed on the construction of basic-level (sub-district, village) networks, and realize real-time networking and interconnectivity at state, provincial, municipal, county and township (sub-district) levels. We should make it more convenient for the insured through establishing the basic standard of “electronic social security” service and improving the registration system for universal participation in social insurance and the national system for online inquiry of personal benefit records of social insurance.

14. Further improving external support conditions adapted to social insurance transfer and continuation. First, accelerating the improvement of social insurance pooling is the fundamental approach to trans-regional movement. It’s advisable that nationwide planning of basic pension be accelerated on the basis of the smooth operation of the adjustment fund system. We should probe into promoting the provincial-level planning of basic medical insurance. Second, we should step up information sharing between departments, such as the exchange and sharing of old-age insurance information, employment information and income distribution information. Third, we should strengthen the construction of the credit system for the whole society so as to prevent ethical risks in the transfer and continuation of social insurance relations. Fourth, we should make efforts in social assistance. In the event that migrant workers encounter living and other difficulties in cities, we should provide social assistance, subsistence allowance for urban residents, temporary assistance and urban medical assistance in accordance with regulations.