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# Notes and Brief Reports

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## Recent Social Security Developments in the People's Republic of China\*

Social security programs in the People's Republic of China are in transition due to a series of economic and social experiments introduced by the government since 1978 to promote modernization. These new policies will have immediate and long-term implications not only for state-sector employees, who are currently covered by income-maintenance programs, but also for the majority of aged persons, who have always depended on family members and limited public assistance for financial support.

In recognition of the need to provide effective income-maintenance programs for China's entire working population, both rural and urban, the government announced—in its Seventh Five-Year Plan for National Economic and Social Development (adopted September 1985)—guidelines for reforming existing programs and developing new ones.<sup>1</sup> The plan suggested (1) setting up separate programs to cover different population groups, (2) reducing government subsidies and introducing employee contributions to state-sector social security programs, and (3) inaugurating an unemployment insurance scheme.<sup>2</sup>

These proposed features point to a significant departure

from the Soviet model of income maintenance adopted by China in 1951. The 1985 plan also emphasized a continuing reliance on family and community support in time of need so as not to overburden the government treasury.

This note highlights the major income security issues that have emerged in recent years regarding various segments of the Chinese population.

### Background

Since 1951, China has had three branches of social security, covering approximately 15 percent of the working population: (1) old-age, survivor, and disability insurance (OASDI); (2) cash-sickness and maternity benefits, as well as medical care; and (3) workers' compensation.

These programs cover only employees (excluding short-term contract workers) in state-sector enterprises and in large urban collectives. Workers covered by these programs represent the majority of China's urban labor force, or about 15 percent of the total working population. (The state-sector enterprises and large urban collectives constitute practically the totality of China's modern economy. Their production, profits, and losses are all incorporated into state economic plans.)

There is no central administration for any of the three social security programs for employees in the state-sector and large urban enterprises. At the national level, the Min-

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<sup>1</sup>Shortly after the founding of the People's Republic in 1949, the government adopted the practice of announcing once every 5 years its major economic and social policies and programs in its 5-year plans. The Seventh Five-Year Plan outlines policies and programs for 1986-90.

<sup>2</sup>On July 12, 1986, the State Council (China's cabinet) promulgated four provisional regulations regarding labor practices in state-sector enterprises that provide for: (1) open, competitive employment (instead of assignment) of new workers; (2) dismissals of employees for violations of labor codes; (3) an unemployment insurance program for workers who lose their jobs because of enterprise bankruptcies, etc.; and (4) social insurance programs for contract workers in state enterprises (see also "Recent Developments: the State Sector" below). Unfortunately, these regulations were made public on September 10, 1986, too late to be in-

corporated into this note. Two points should be made, however.

First, these regulations seemed to have made good the promises outlined in the Seventh Five-Year Plan for inaugurating unemployment insurance and also for having employees contribute to social insurance programs. The funding for the contract workers' social insurance programs (including retirement, medical care, survivors' grant, funeral grant, and subsistence grant), for example, will be derived from employers' contributions of 15 percent of the basic total payroll and from employees' contributions of 3 percent of their basic wages. The central government, on the other hand, will only provide subsidies for deficits. The unemployment insurance program will be financed by employers' contributions of 1 percent of total basic payroll, plus subsidies from local governments.

Second, all four provisional regulations were made effective October 1, 1986, with the proviso that the detailed implementing regulations will have to be developed by provincial governments, subject to approval by the Ministry of Labor and Personnel. At this writing, no announcement has been made about a deadline for provincial authorities to implement the regulations.

For complete texts of these four provisional regulations, see **Renmin Ribao** (People's Daily), September 10, 1986, page 2. For comments on these regulations, see **China Daily**, September 3, 1986; Foreign Broadcast Information Service's **China: Daily Report**, September 10, 1986, page K2; and September 12, 1986, pages K23-24.

istry of Labor and Personnel (MLP) establishes the guidelines for income-maintenance programs for state-sector enterprises to be applied nationwide, and the Ministry of Public Health (MPH) supervises all the hospitals and clinics providing medical care to covered employees.

Neither Ministry has the administrative mechanism or staff to ensure program integrity. Individual enterprises administer the programs according to established guidelines, presumably under the supervision and control of local government and party cadres, who enforce the rules and regulations in addition to their other duties and responsibilities.

All three programs are financed by the individual enterprise—employer payroll contributions, operating expenses and, more recently, profits, if available. The employee does not contribute. For “essential” or “critical” State enterprises, it is understood that the government indirectly subsidizes the income-maintenance programs through the enterprise budgets whenever enterprise resources prove inadequate. (No information is available about the extent of government subsidies.)

China also has another state-sector income-maintenance system with comparable programs but higher benefits. This system covers workers in government and party organizations, as well as those in cultural, educational, and scientific institutions—all of whom represent about 4 percent of the total working population. This special system also provides medical care coverage to students attending cultural, educational, and scientific institutions.

About four-fifths of China's labor force is not covered by any national or local government income-maintenance program. These groups include members of small urban collectives engaged in light industry, handicrafts, commerce, and various types of services; a growing number of the urban self-employed; and some 354 million agricultural workers. A form of public assistance is available to the destitute through local rural communities, which alone determine the standard for “need” and the level of assistance. A rural cooperative health program provides medical care to members of subscribing communities.

### **Old-Age, Survivor, and Disability Insurance**

The old-age benefit is payable at age 60 to men and at ages 50 and 55 to blue-collar and white-collar female employees, respectively, and is equal to 60 percent of the last month's wage after 10 years of continuous service in the same enterprise.

In addition, a supplement of 5–40 percent of the last month's wages is added to the basic monthly benefit, depending on the length of service, participation in revolutionary (pre-1949) wars, and/or outstanding performance. The total benefit may not exceed 100 percent of preretirement earnings. Pensioners also receive a lump-sum relocation grant of RMB 150 yuan (300 yuan if moving from an

urban to rural area), plus transportation costs.<sup>3</sup>

Since 1978, retirement has been mandatory at age 60 for men and age 55 for women, but the employer has the discretion of keeping some essential personnel on the payroll beyond the statutory retirement age. Pensioners can continue employment outside the state sector, provided that their combined income from earnings and pension does not exceed their preretirement earnings.

A monthly pension for permanent total disability is payable in the same amount as the old-age benefit, if the worker has at least 10 years of continuous service and has reached a specified age (50 for men and 45 for women).

The surviving spouse and dependent children of a covered worker receive a lump-sum grant equal to 6–12 months of the deceased's earnings, based on the number of dependents.

### **Cash Sickness, Maternity, and Medical Care**

The cash-sickness benefit ranges from 60 percent to 100 percent of wages (according to the length of service) for the first 6 months of illness, and from 40 percent to 60 percent of wages thereafter, until recovery or determination of permanent total disability. A cash-maternity benefit of 100 percent of wages is payable by the employer for a total of 56 working days before and after confinement.

Medical care is provided either by the enterprise's own clinic or paid for directly by the employer. Medical services cover general and specialized care, hospitalization, maternity care, and ordinary medications. The patient pays a nominal registration fee for both ambulatory and inpatient care, as well as board, if hospitalized. The insured worker's immediate family is covered for 50 percent of the cost of medical care. Retired workers and their dependents are entitled to the same medical care coverage as active insured workers.

### **Workers' Compensation**

Workers with temporary work-related illnesses and injuries receive 100 percent of earnings, plus subsidies equal to two-thirds of their food expenses, until recovery or determination of permanent disability. In case of permanent partial disability, a monthly benefit of 10–30 percent of predisability wages is payable, depending on the degree of earnings loss due to disability. Compensation for total permanent disability is paid monthly at 80 percent of predisability wages, with an additional 10 percent of wages for constant attendance, if necessary.

Medical benefits are identical to those provided under the general medical care provisions. In addition, workers do not pay registration fees, and they receive free transportation and board, if hospitalized.

The survivors of workers who die from work-related ac-

<sup>3</sup>RMB 1 yuan equaled 27 U.S. cents as of December 29, 1986.

cidents or illnesses receive a monthly pension of 25–50 percent of the deceased's wages, according to the number of dependents.

## Recent Developments

A series of income security issues regarding workers in different sectors has emerged in recent years. A review of these issues is crucial to an understanding of the intent of the authors of "Social Security" in the Seventh Five-Year Plan. These issues are summarized below, by sectors.

### The State Sector

**Rapidly increasing old-age benefits and health-care costs in the state sector.** As a result of a 1978 directive to trim personnel in the state sector by enforcing mandatory retirement, the number of pensioners in both the government and enterprise components has increased rapidly (from 3 million in 1978 to 14.6 million in 1984) as have social security expenditures (from 6.7 billion yuan in 1978 to 21.0 billion yuan in 1984).

**Financing problems in state-run enterprises.** The growth in the number of pensioners since 1978 has caused serious financing problems in older, "noncritical" enterprises (such as the textile industry) where active workers must bear the old-age benefit costs of a disproportionately large number of older workers. Local governments' efforts to encourage resource pooling among enterprises have had only limited results because newly established enterprises with mostly young workers have resisted taking part.<sup>4</sup>

**Noncompliance with labor insurance regulations.** As the government makes more enterprises responsible for their own profits and losses, and as more enterprises finance part of the social security benefits from profits, some enterprises have resorted to cutbacks or even non-payment of certain social security benefits when enterprise profits are low or nonexistent.

**Absence of a national income-security guideline for contract workers.** A 1982 government initiative to employ workers for a fixed term in some state-run enterprises (in contrast with standard lifetime employment) has created a new category of state-enterprise employees whose income security is protected only by individual enterprise policies, wherever applicable, but not by any government regulations.<sup>5</sup>

**Labor-service corporations to help ease unemployment.** Many local governments have organized labor-service corporations to provide services in training and

placement to the urban unemployed.

In recent years, the Chinese government has estimated an urban unemployment rate of about 5 percent, or 26 million persons. Western scholars' estimates place the urban unemployment rate at double or triple the government rate. Unemployment is not likely to diminish for two reasons: (1) as the government encourages state-run enterprises to be responsible for their own profits and losses, some may trim their personnel while others may declare bankruptcy; and (2) as the population continues to grow, the number of new entrants to the job market also increases. The government faces the need to create some half billion new jobs by the early 21st century in order to maintain what it considers to be an acceptable unemployment rate (below 5 percent).

### Urban Collectives and the Private Sector

**Availability of voluntary group and individual insurance plans.** Workers in small urban collectives and in the private sector (primarily the self-employed) are not covered by any government income-maintenance program. Their numbers have increased rapidly—from 0.15 million to 3.4 million during the 1978–84 period—as the government has encouraged unemployed youth to seek work in these sectors. Some provincial and municipal branches of the government's insurance corporation (the only one in China) have offered voluntary group coverage (usually with employee contributions) and individual pension and health plans. The terms and extent of such coverage vary, and they do not compare favorably with those offered by the state-run enterprises.

### Agricultural Workers

**Provision of old-age benefits by certain rural collectives.** The introduction of the "economic responsibility" system in agriculture (whereby peasants can retain profits over and above a predetermined production quota) has greatly improved the economic conditions of a limited number of rural communities to the point where they can now offer pensions to retired workers. However, such programs are available only in the well-off communities.

**Public assistance to rural population in jeopardy.** In some communities, however, the adoption of the economic responsibility system in agriculture has led to setbacks in public assistance programs and in the cooperative medical care system. Some rural residents are now reluctant to contribute to local public welfare funds that finance public assistance to the rural indigent and the rural cooperative medical care system. The latter program also suffers from staffing problems because many former health and medical workers have opted for more lucrative pursuits in farming and rural light industry.

**Family support to the rural aged called into question by the "one child per family" birth control policy.**

<sup>4</sup>A recent example of measures to help alleviate this problem was announced by the Ministry of Water Resources and Electric Power. This Ministry adopted a resource pooling program in pension funds for all the Ministry's workers. See *China Daily*, September 3, 1986, and Foreign Broadcast Information Service's *China: Daily Report*, September 8, 1986, pages K7–8.

<sup>5</sup>See footnote 2, item 4.

Older agricultural workers in China depend on their adult children as their primary source of old-age support. Limited public assistance is available only to the destitute with no offspring. The 1979 initiative of implementing the "one couple, one child" family planning program throughout China by the year 2000 is designed to ease the burden of overpopulation. It has, however, exposed the need for public or community income-security programs for the mass of the rural aged who had previously depended on their offspring for support in old age. On the other hand, it is generally agreed that the prospect of developing such programs for older farmers is slim due to administrative and financial difficulties in rural China.

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