



Capacity Development for Rural Pension Administration and Services in the People's Republic of China

Rural Pensions in the PRC

The People's Republic of China (PRC) has experienced a rapid demographic transition since the 1980s.¹ The elderly population is growing, and it is estimated that, by 2050, the number of people over 60 will rise to 437 million,² accounting for 31.5% of the country's total population.³ A large and growing population, together with increased labor mobility, confronts the PRC with the challenge of supporting the elderly.⁴ Modernization also challenges the Chinese's traditional value, affecting the family system and the status of the elderly. This entails an increased state's responsibility to ensure the welfare of the elderly.⁵

The socioeconomic changes brought on by market-oriented reform have introduced significant changes to the traditional support systems of Chinese society. Some of these changes include (i) shifting from extended to nuclear families due to family planning; (ii) liberalization of the *hukou*⁶ and increased migration of young workers to urban areas; (iii) loosened social security network in rural communities; and (iv) more individualistic social values.⁷ The socioeconomic changes have left many rural elderly in poverty with few means of support. In addition, studies have shown that older people in the rural areas have received less help from the state compared to the urban elderly. Only 7.7% of the rural elderly received any subsidy or community relief from the local government. And only 1% of the rural elderly population is covered by the state's old-age insurance program.⁸

Due to these developments, the PRC is facing a looming pension problem.⁹ With a rapidly ageing population, the PRC's pension system has been seriously underfunded, largely due to the legacy debt from the so-called "iron rice bowl" era that provided a generous retirement pension of 80% of worker's final employment year salary.¹⁰ There are challenges to the PRC's pension system, such as immature capital markets that make finding suitable investments with high returns difficult, and the decentralization that led to fragmentation and ineffective administrative procedures, such as collection of contribution, transferring of accounts, and disbursement of benefits.¹¹

Pension coverage in the PRC is mostly limited to the formal sector, such as state-owned firms in urban areas.¹² Much of the rural population is still not covered by old-age pension. The rural elderly are traditionally protected by social security measures, such as land, support from family, and collective economy. The Government of the PRC has provided the Five-Guarantees Program since the 1950s to support the elderly who have lost the ability to work, have no source of income, and have

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no legal guardians to support them. The support includes food, clothing, medical care, housing, and burial expenses.¹³

Pension Reform and the Provision of Rural Pensions

The PRC's pension system has undergone major reforms. The most important pension reform was initiated in 1995 in several provinces and eventually extended across the country. At the end of 1997, the State Council officially implemented a new pension policy.¹⁴ As part of its far-reaching reform of the overall Chinese social security system, the Government established a voluntary social pension system in rural areas in 1986. By the end of 2003, social pension insurance was extended to 1,870 counties out of more than 2,800 counties. Extending social pension coverage to the rural areas has had its challenges, including shortage of funds, decreased willingness of the participants to pay, fragmented organization, administration of the rural social pension insurance system,¹⁵ and misleading information given to the farmers.¹⁶

Capacity Development for Rural Pensions

The Asian Development Bank (ADB) has contributed to policy dialogue on pensions in the PRC. The Government of the PRC has deepened its relationship with ADB on many fronts, including social security issues.¹⁷ To respond to the need to strengthen institutional capacity in implementing pension reform for rural residents,

ADB provided a technical assistance (TA) for the Capacity Development for Rural Pension Administration and Services on 21 September 2010. The TA is expected to establish a well-functioning rural pension system that provides basic income protection for the rural elderly.¹⁸

The TA supports developing capacity for management and service delivery of rural pensions, including an overview of the historical development, current situation, and problems of rural pension provision in the PRC which include discussions on strategies for its organizational structure, human resources allocation, and operational procedures. A study was conducted to improve internal control mechanism designs, and different management and service delivery models in rural areas. It provides recommendations for policy, legal and regulatory, and administrative reforms in the rural pension system in the PRC.¹⁹

A thematic report on operational steps and business flows of rural pension administration in the PRC will be produced and will consist of four parts: (i) identification of the major activities for each operational stage of the rural pension system and recommendations on standards to improve its implementation; (ii) developing concrete performance indicators for each operational stage and design workflows according to indicators; (iii) developing protocols for efficient transfer of pensioner rights among different rural areas; and (iv) proposing mechanisms for checking fund flows among individual accounts, government subsidies, and collective subsidies, as well as enhancing security of accounts.²⁰

Endnotes

- ¹ Report by the China National Committee on Aging in 2006. Development Trend of China's Population. Quoted in Social Protection in Asia. 2009. The Practice of Old Age Support during a Period of Social Transition: The Case of Rural China. *Working Paper Issue 06*. Available online at www.socialprotectionasia.org
- ² The Social Security and Disability Resource Center. 2008. *China's Elderly Population is Skyrocketing*. Available online at www.ssdrc.com/blog/2008/03/chinas-elderly-population-is.html
- ³ Yuande Zhu and Li-Gang Liu. 2008. *Pension Trends*. BBVA Economic Research Department.
- ⁴ Hyung Ju Lee. 2010. Pension Reform in the People's Republic of China. Paper presented at the Regional Conference on Enhancing Social Protection in Asia and the Pacific. Manila. 21–22 April.
- ⁵ Wei Nazhi. n.d. China's Social Pension System of the Elderly. Id-ees.fr
- ⁶ The People's Republic of China's *hukou* (household registration) system has imposed strict limits on ordinary Chinese citizens changing their permanent place of residence since it was instituted in the 1950s.
- ⁷ Footnote 4.
- ⁸ Xiaomei Pei, Chen Pei, and Hu Yi. 2009. The Practice of Old Age Support during a Period of Social Transition: The Case of Rural China. *Social Protection in Asia Working Papers 2009*.
- ⁹ Footnote 3.
- ¹⁰ Footnote 3.
- ¹¹ Tamara Trinh. 2006. *China Pension System: Caught between Mounting Legacies and Unfavorable Demographics*. Deutsche Bank Research.
- ¹² Footnote 11.
- ¹³ Footnote 4.
- ¹⁴ Jin Feng, Lixin He, and Hiroshi Sato. 2009. Public Pension and Household Saving: Evidence from China. *BOFIT Discussion Paper*. No. 2. Bank of Finland, BOFIT Institute for Economies in Transition.
- ¹⁵ Zhang Wenjuan and Tang Dan. 2008. *The New Rural Social Pension Insurance Programme of Baoji City, Shaanxi Province, China*. Gerontology Research Institute of Renmin University and HelpAge International.
- ¹⁶ L. Leisering, G. Sen, and A. Hussain. 2002. People's Republic of China Old-Age Pension for the Rural Areas: From Land Reform to Globalization. Asian Development Bank. Quoted in Hyung Ju Lee. 2010. Pension Reform in the People's Republic of China. Paper presented at the Regional Conference on Enhancing Social Protection in Asia and the Pacific. Manila. 21–22 April 2010.
- ¹⁷ ADB. 2009. *Asian Development Bank and the People's Republic of China. Fact Sheet*. Available online at www.adb.org/Documents/Fact_Sheets/PRC.pdf
- ¹⁸ ADB. 2010. *Technical Assistance to the People's Republic of China for Capacity Development for Rural Pension Administration and Services*. Manila (TA 7606-PRC, \$500,000, approved on 21 September 2010, TA Special Fund).
- ¹⁹ Footnote 18.
- ²⁰ Footnote 18.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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