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Ting CAO
Lingnan University, Hong Kong

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Development of Pension in China from a Historical Perspective

Ting Cao | Translation: Ting Cao, Tony Lai

Traditionally in Chinese society, raising children to get support in old age had been the social norm and ethical value which people complied. Family took the main responsibility for taking care of older parents, and it was only when family could not afford to do so would society provide help. In a society where agriculture was the basis of economy, individuals would continue to work in the field as long as they could so as to earn a living, which is to say, in most cases, people would not stop working because of reaching a certain age, not to mention retirement.

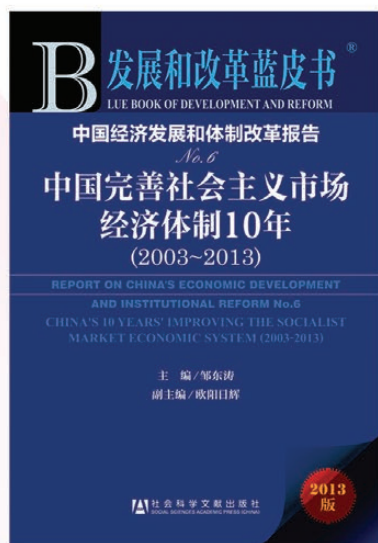
Founding the Chinese pension system

China's retirement system was set up in the 50s. The country had just started its industrialisation, and thus the retirement security system covered mainly the employees of urban enterprises (including state-owned and collective-owned enterprises), government agencies, research institutions, and public utilities. With reference to the former Soviet Union's retirement system, individual welfare-related benefits, such as medical care, retirement, and housing were all borne by public enterprises and organisations. Once a person reached the retirement age (usually 60 for male and 55 for female), he or she could receive a life-long pension calculated according to his or her previous job position, years of service, and salary. In this sense, the retirement system was more like an "enterprise retirement package" than a "social security". The retirement security system at that time only covered urban areas and the level of protection was relative low. Since the state and state-owned enterprises bore the main responsibility, individuals and families were not required to make any financial planning for retirement. Meanwhile, in rural areas, the state only provided "five guarantees" for those who had no one to rely on, were unable to work, had no source of income, were disabled, or aged under 16.

Diversifying risk with multi-partite contribution

However, as the economy transformed, the enterprise-oriented retirement protection system that was built on planned economy faced major challenges. To cope with the situation, since the late 1970s, the Government had been progressively exploring ways in establishing a multi-level old-age security system, which included "National Basic Pension Insurance", "Supplementary Enterprise Annuity", as well as "Individual Saving Account for Old Age". To simplify, pension costs were to be co-funded by the state, enterprises, and employees (individuals). The pension system was designed to cover a broader population.

From the 90s, the key developments in retirement security included the "integration of social pooling and individual accounts" and the "value perseverance and appreciation of social security fund". The new system not only emphasised responsibilities of the Government as well as the state, but also encouraged multipartite contribution in the hope of diversifying funding sources, stratifying





levels of protection, and purposely relieving the financial burden of the Government. All in all, the new retirement system represented the principle of shared responsibility amongst individuals, enterprises, and the state. However, the reform still concentrated only on security problems of urban dwellers.

Narrowing the urban-rural gap

Entering the 21st Century, China's pension reform has become more thorough. In accordance with the "Five-pillar" model as proposed by The World Bank, many provinces have conducted pilot schemes that tailored to their own specific situations. The aim of the reform is not merely to establish a sophisticated retirement protection system covering urban areas, but to lay a foundation for building a "national social security system". Modified upon the previous system, the new old-age protection has now extended its coverage to the rural areas. By such, everyone, wherever they live, are entitled to receiving pension on a monthly basis after his or her reaching the retirement age, provided they have contributed to the fund for a certain number of years. Although the level of protection obtained depends on the amount of contribution by one and one's employer in addition to one's voluntary saving, the current reform in old-age security system achieved is still a milestone from a national perspective.

In general, China's retirement security system has been gradually maturing, when planned economy transited to market economy, and when the burden of retirement protection which was originally borne solely by enterprises is now shared amongst the state, enterprises, and individuals. In terms of system design, the retirement protection has become more comprehensive while having a social security structure with multiple pillars and layers, and has allowed China to better adapt to the current social-economic development by maintaining the sustainability of the operational fund. Obviously, apart from relying on a variety of retirement benefits provided by the Government, individuals and families should also make their own financial planning to meet the challenges as posed by population ageing. A blueprint for the future retirement has been outlined, however, to achieve a more prospective retirement life, we still have a long way to go.

