

## Historical Evolution and Financial Function Orientation of Social Pension Insurance System in China

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**Abstract:** Since the early founding of the PRC, the pension insurance system in China developed from scratch. After several stages of development and reform, a system pattern that social pension insurance system based and commercial pension insurance subsidiary formed. Social pension insurance, as the foundation of the pension insurance system in China, plays an important role. The fiscal support on pension insurance major reflected in the social pension insurance expenditure. With the improvement and reform of the social pension insurance system, financial support and efforts are also changing.

### 1. Introduction

According to the different groups of people, social pension insurance can be divided into urban enterprise pension insurance, urban and rural residents pension insurance and institution pension insurance. The urban enterprise pension insurance and institution pension insurance added to the enterprise annuity and occupation pension plan, are to improve the urban enterprises and institutions pension security level. The difference between enterprise annuity and occupation pension is that enterprise annuity is voluntary, however, occupation pension is forced.

### 2. The enterprise pension insurance system for urban employees

As the oldest and longest running pension insurance system in our country, the enterprise insurance system has accumulated a wealth of experience. With the deepening of the reform, it has also been constantly developed and improved.

#### 2.1 The state guarantee stage: the state takes full responsibility

From the time when the new China established to 1968, the enterprise insurance was just established. At that time, the national economy was recovering. Because of the shortage of materials, the basic living needs of people could not be met, so the state had to assume the main responsibility of retired workers' pension insurance. From 1949 to the cultural revolution period, China's pension insurance system implemented fully PAYG mode, its outstanding characteristic was that the enterprise paid the fees and the workers did not need to pay, but after retirement can get the higher level of pension. The pension insurance system for employees in the early was simple and easy to operate, but there were some problems, such as the heavy fiscal burden, the narrow scope, social fairness loses and so on. During this period, the state fully assumed the retirement pension responsibility of some social members.

#### 2.2 Enterprise guarantee stage: the state undertakes partly

From 1969 to 1983, China's pension insurance system transited to the national security enterprise security. During the "Cultural Revolution", the pension insurance system had been damaged, early pension insurance system almost had been completely abolished. Administration, pension collection, management, payment and transfer all forced to stop.

After the "Cultural Revolution", the pension insurance system was a typical pattern of state and enterprise, the government attached great importance to recovery the working order of the social

security system and found criticized lead to inherent defects of its economic and social development in the new period of uncoordinated existing pension insurance system.<sup>1</sup>

After the reform and opening up, the traditional pension insurance system had entered the period of institutional change in the real sense. The economic system reform of our country began from the household contract responsibility system in 80s at the beginning of the last century. Because of the implementation of the system, the urban economic system by state enterprise reform became the core of the reform in the nationwide.

### **2.3 Social integration stage: the state takes the management responsibility**

From 1984 to 1992 is the transition stage, the pension insurance system by the State - enterprise security to the national social security. In order to solve the practical difficulties faced by enterprises and actively promote the reform of state-owned enterprises, the relevant departments of the State Council began to explore ways. In 1986 the government started to promote the reform of the pension insurance system, by the end of 1987, other provinces such as Liaoning province basically realized from collective co-ordination to society as a whole.

Overall, in this period, there were two important changes in the pension insurance system: one was to break the traditional pension insurance system of the closed-end fund management mode and share payments risk. The other was to broaden the pension insurance fund sources, pay by enterprises and workers together, reduce the burden of enterprises. These two reforms made the pressure to release to a certain extent, the country had the final financial guarantee of social overall management of the fund revenue and expenditure gap compensation.

### **2.4 Interconnected stages: country beared reveal responsibility**

Overall social pension insurance system is a reform tends to be perfect, but in practice also exposed various problems, such as financial PAYG can't adapt to the trend of population aging, the phenomenon of refusing to pay and defaulting on the cost of pension insurance has occurred frequently, social pension security level is low, the coverage is narrow, workers' pension insurance consciousness is weak, payment incentive mechanism is lacking.

Since 1993, the pension insurance system for employees of enterprises began to implement the social pooling and individual accounts mode. On March 1995 the State Council promulgated the "Notice on deepening the pension insurance system for enterprise employees", the basic pension insurance costs should be defined by the combination of social pooling and individual accounts, and put forward to ensure the establishment of a multi-level pension insurance system.

Because the new system was issued, the old system was not abolished, across the country there had been two sets of very different scenarios in parallel. In July 1997 the State Council promulgated "the decision on the establishment of a unified pension insurance system for enterprise employees" and unified the different parts of the system model of social pooling and individual accounts.

The current pension system framework is mainly decided on "the State Council on improving the basic pension insurance system for enterprise employees" in December 2005 which the core task is to continually improve the basic system of interconnected system.

## **3. The pension insurance system for urban and rural residents**

Although the pension insurance system of urban and rural residents is not the earliest pension insurance system in our country, it is very complex. The establishment of pension insurance system not only relates to the system, and also relates to the system and merge.

### **3.1 The stage of rural social pension insurance at the county level: the self support of the peasants**

From 1949 to 1991, the rural social pension insurance was still blank period, farmers maintained the basic needs by the original pension way. In 1986 the Ministry of Civil Affairs began to explore

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<sup>1</sup> Zheng Gongcheng, From the national unit security system to the national social security system[J].Social Security Studies,2008.

the establishment of rural social pension insurance system, in 1992 according to the successful experience of the pilot accumulation, issued "The basic scheme of rural social pension insurance". The pension insurance fund was to raise individual contributions, collective benefits supplement, the state only gave policy support. In fact, collective allowance is limited. In 1999, the national desperation stopped the scheme.

### **3.2 The new stage of rural social pension insurance: Farmers' payment, government subsidies**

Because there were some problems in the rural endowment insurance before, the government decided to carry out the new rural social pension insurance since 2009 mainly to solve the problem of rural residents.

The new rural insurance fund adopted individual payment, collective subsidy and government subsidy fund raising mode. Individual contributions for 100 yuan, 200 yuan, 300 yuan, 400 yuan, 500 yuan 5 grades, the local government could appropriate grade. The collective subsidy should be determined by the villagers' meeting. Government subsidies were mainly reflected in payment subsidies and pension payments. The payment of funds should be included in individual accounts, Pensions consisted of basic pensions and individual accounts, and were paid for life.

Due to the overall income level of farmers was low, the burden was heavy, they generally chose to pay lower grades, and fiscal revenue in some poor areas of sluggish growth, government subsidies "upside down" situation had occurred, resulting in the new rural pension insurance payment level was low.

### **3.3 Urban residents' pension insurance and new rural pension insurance in parallel: Residents' contributions, government subsidies;**

In order to expand the coverage of pension insurance system, accelerate the construction of pension insurance system for urban and rural residents, the new rural social pension insurance pilot, in 2011 the State Council launched the pension insurance for urban residents in the country

The pension insurance funds came from individual contributions, government subsidies and other economic organizations, social organizations and individuals to support. Urban residents' pension insurance had further expanded the coverage of the pension insurance system in China, and the new rural pension insurance run parallel to 2014, Many aspects of its institutional design had something in common with the new rural pension insurance. Government subsidies for urban residents pension insurance was not only reflected in the individual payment subsidies and also reflected in the basic pension payments, the state financial subsidies mainly undertake the responsibility.

### **3.4 Pension insurance for urban and rural residents: individual contributions, government subsidies**

In February 2014 the State Council decided the merger of urban residents' pension insurance and new rural pension insurance, established a unified basic pension insurance system for urban and rural residents. Pension fund contributions by individuals, collective subsidies and government subsidies. Pensions are made up of basic pensions and individual accounts, and are paid for life.

The pension insurance system for urban and rural residents achieves coverage of the integration, reflects the direction of development of urban and rural areas, the normal personnel between urban and rural areas will not affect the flow, and to a certain extent, integrates the "fragmentation" of the pension insurance system and fully reflects the fairness of the system.

## **4. Pension insurance system for staff of agencies and institutions**

Compared with the pension insurance system for urban enterprise workers, agencies and institutions pension insurance reform lags behind. According to the state responsibility, the development of pension insurance system of agencies and institutions can be divided into the following two main stages:

#### **4.1 before the merger of the pension insurance of the agencies and institutions, the financial support is the main factor**

In 1951 "People's Republic of China labor insurance regulations" stipulated that the longer the length of service, the more pensions after retirement. In order to unify the institutions and enterprise pension system, the State Council formally implemented "A worker, interim provisions of the employee retirement treatment" in February 1958. In general, the workers and staff members who met the conditions would receive the equivalent of 40% of his salary to 70% at retirement. At the same time, the provisions of "People's Republic of China labor insurance regulations" on the working age pension had been cancelled.

In June 1978 the State Council issued the "State Council on retirement, resignation of Interim Measures", established basic retirement system of institutions and state-owned enterprises, at the same time the retirement systems of the authorities unit staff and workers were separated again. In June 2006, the former Ministry of personnel, the Ministry of Finance issued "on the issuance of all state organs and institutions retirees pension plan hair from implementation issues" which stipulated the plan for the retirement fee after the retirement of the staff of the agencies and institutions.

Before the agencies and institutions pension insurance system reform, the employees of agencies and institutions didn't need to pay, pensions would be entirely paid by the state treasury or unit, pension calculation was mainly based on the working age, the longer the working years, the higher the pension, up to 90% of his salary even more.

#### **4.2 After the merger of the pension insurance of the agencies and institutions, the units and individuals should take the lead**

In 2008, the State Council issued the "institution staff pension system reform", decided in Shanxi Province, Shanghai City, Zhejiang Province, Guangdong Province, Chongqing city early pilot work. The basic pension insurance cost was composed of unit and individual payment. The basic pension consisted of the basic pension and the personal account pension and gradually achieve at the provincial level. After about six years five provinces pilot reform accumulated experience, laid the foundation for the nationwide reform of pension insurance system in institutions.

Since the launch of the pilot pension insurance for urban residents, China's pension insurance system has covered all members of society except for staff of agencies and institutions. On the basis of the pilot, in January 2015 the State Council issued "the decision of the State Council on the pension insurance system reform in Institutions", thus the "double track" era of China's pension insurance was over.

The institutions pension insurance system reform broke the long-standing "double track", highlighting the reformers' courage, The pension insurance system reform, is a major breakthrough in the construction of pension insurance system in our country and can gradually reduce the enterprises and institutions salary gap.

In the agencies and institutions, organs and units are generally supported by finance, some institutions fully funded by financial contributions, then units are still the essence of the supply of funds, although not directly related to financial subsidies, but the government still bear on the organs and institutions pension insurance expenditure.

In the course of development of pension insurance system in other countries, many countries also experienced by all national financial commitment to the development of model and social sharing. Such as the UK initially established the pension system is free to members of the society, only the provisions of the state to provide pension obligations, no basic personal liability provisions should be fulfilled, the government gradually feel to bear the financial burden, the British pension system began to face the pension payment crisis. After the reform of pension insurance system in 1925, the British established a system of common payment rights and obligations of combining the UK pension system to develop a relatively stable table. There are some of the country's pension insurance system set up in order to relief and rescue. Some countries, such as Sweden, still maintained by the state to bear the main responsibility of the pension insurance fees. As can be seen, due to the

specific conditions of each country, national finance function in the social pension insurance is different.

## **5. Conclusion**

As one of the basic public services, the government has the responsibility to maintain the normal operation of the social pension insurance system. By dividing the development course of China's social pension insurance system, combined with the financial function of each stage, clarify the stage characteristics of the financial support of pension insurance, will gradually improve the pension insurance system and further promote the reform and development of pension insurance system.

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