



SOCIETY OF ACTUARIES

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THE SOCIAL INSURANCE LAW OF PEOPLES' REPUBLIC OF CHINA—PART 1

By Wenliang Wang

Editor's Note: This article is a summary of a new, upcoming Social Insurance Law in China. This summary is being published as Part 1 since the details of the new law are still in the works. Part 2, which will focus on those details, will be published in the next newsletter. Part 1 is being presented to heighten your awareness of what's happening in China.

BACKGROUND OF CURRENT SOCIAL INSURANCE SCHEMES IN CHINA

China has a different set of issues to address regarding public medical plans than other countries do. The most pressing issues, among others, include:

1. Imbalanced economic development among areas has led to an unfortunate situation. Most rural areas don't have adequate medical facilities. This affects nearly 60 percent of the Chinese population. Establishment of adequate public medical facilities is a top agenda item for the Chinese government. But the medical facilities in China are primarily operated under a government controlled system. Unfortunately the government system cannot bear all the costs of establishing medical systems in rural areas.
2. In 2005, the central Chinese government launched medical insurance reform committed to extending coverage to all rural populations. The process is still going on. The rural medical plans so far have been pooled and operated at a provincial level—with support from lower levels of government. The central government has provided a significant subsidy to local rural medical plans in addition to the required subsidy from local governments. The local governments also choose to

provide statutory rural medical plans. Because the rural plan was recently established, no meaningful buffer has been established to allow for any adverse experience in the near future, particularly when the rate set for rural plans is quite low, usually RMB 60 per year. An additional challenge is that the rural population hasn't gotten used to any form of public medical plan and they are usually the lowest income group in our society.

3. Concern about cost has been emerging over the last several years for developed economic areas such as Shanghai and Beijing. Currently, the mandatory urban medical plan for retirees is very generous. It doesn't require any payment from retirees once they reach their retirement age, but retirees have an individual account which can receive an annual personal allowance from the public plan. These medical plans are subject to a small deductible and a small co-share, but have a generous ceiling. Unfortunately, this can lead to over-use by those on the public plan. The local government needs to reconsider this policy.
4. The incentive system for current medical plans in China doesn't support cost control. The hospitals are primarily owned and operated by the government. They achieve their budget balance primarily through the collection of service fees and the sale of prescription drugs. The price of drugs is hovering at a high level and over-prescribing is common. No pay-for-service or pay-for-performance system has been established. In absence of an initiative from the government side, the hospital is the dominant stakeholder as investor, owner and sponsor of any public medical plan. Some local governments have decided to try different incentive systems, but face strong resistance from the hospitals and pharmaceutical companies. The Ministry of Health has taken a series of steps to standardize the treatment and prescription

process for the purpose of controlling cost, but the results remain to be seen.

5. The segmentation of medical plans (currently, every type of public medical plan is a pure, local-only plan) has produced a lot of inconvenience for the migrant population. The migrant population can often be covered by two or more medical plans; often one of them is a waste of financial resources for them, while the remaining plan is not fully appropriate for them either.

More information in regard to public pension plans and their general history in China will be discussed in part 2 of this article.

INTRODUCTION OF THE SOCIAL INSURANCE LAW OF PEOPLES' REPUBLIC OF CHINA

The first ever national legislation on social insurance was recently completed in China. The first move to legislation in this area dates back to 1999 after legislation of the Labor Law was completed, and it took almost 11 years to finalize the Social Insurance Law. On Oct. 28, 2010, the Standing Committee of the National People's Congress voted for the Social Insurance Law and ruled that the legislation will come into force on July 1, 2011.

The legislation sets forth a set of basic principles for a social insurance plan in China, including the provision of extensive coverage and basic benefits in a multi-level structure in a sustainable way. In addition, the social insurance level will be kept in line with the social and economic development in China.

The legislation has restated that all five of the current social insurance plans need to be maintained in a framework of multiple funding channels in the future; including basic pension plans, basic medical plans, workers' compensation plans, unemployment plans, and maternity leave plans.



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The basic pension plan has a total of four sub-plans to cover the workforce in urban areas, civil servants and the employees of a public institution (such as schools, colleges and hospitals), the residents in urban areas who are uncovered otherwise, and the farm workers and residents in rural areas. Each sub-pension plan has its own contribution schedule, funding sources and benefit target, and is pooled and operated by itself. All sub-plans are subject to a requirement for progressive integration into a nationwide pool. But the sub-plan for civil servants and employees of a public institution has been explicitly subjected to a different regime at the discretion of the State Council.

The basic medical plan has a total of three sub-plans to cover the workforce in urban areas, the residents in urban areas who are uncovered otherwise, and the farm workers and residents in rural areas.

The worker's compensation (WC) plan has expanded the benefit coverage somewhat and for the first time has allowed experience-based rating and schedule rating to be applied to different employers.

The unemployment benefit level has been unified into a nationwide standard under the unemployment plan. The entitlement and maintenance requirements for a qualified claimant have also been stated and unified in replacement of various treatments in existing local plans.

The maternity leave plan has been expanded to provide coverage for the otherwise uncovered spouse of a covered participant to the extent of medical expenses incurred in maternity treatment.

All WC, unemployment, maternity leave and basic medical plans are currently pooled and operated at lower government levels, usually at a city level. The legislation has established that all those social insurance plans shall be integrated into the provincial pooling level

in a progressive way without any details or timeline given.


The legislation requires that the current gap in funding the cost of social insurance plans be balanced in the governmental budgeting process. A government body, named Social Insurance Supervision Committee, will be established at each level of the government ladder. This government body has been given the authority to supervise, audit and monitor the operation, investment and use of the social insurance fund.

The legislation has not made any decisions on retirement age, which was (and is) an important subject in the Labor Law of Peoples' Republic of China. The legislation has only given a framework to provide, maintain, fund and implement a social insurance plan. Some critical details of the plan, such as contribution rate, calculation of benefit level and method for changing it in the future haven't yet been decided. Nevertheless, the legislation retains the current entitlement requirement of the basic pension plan for the workforce in urban areas, meeting the statutory retirement age (currently 60 for males, 50 for females) and having an accumulative 15 years' of work contribution.

SOCIAL INSURANCE LAW PART 2: DISCUSSION ITEMS

The items listed below will be discussed in the next newsletter in part 2 of this article:

1. Separate treatment of population and its implications in the long-term.
2. Funding issues with regard to historical liabilities.
3. Role of government in funding the Social Insurance plan.
4. Transparency (benefit, contribution, retirement age setting, credit rate with individual retirement account).

5. Funding and contribution decision making process.
6. Affordability (lack in the general principles and the potential unaffordability of the medical plan).
7. Means testing under city residence retirement plan.
8. Integration of national social insurance pool and provincial-level social insurance pools.
9. Participation by the insurance market. 

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