



Social Protection Reform Project
中国-欧盟社会保护改革项目

Component One

Key Social Security Issues
during the 14th Five-Year Plan period

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Social security functions as safety net for people's livelihood and stabilizer of the society. It is closely relevant to the happiness and well-being of the people, and to the long-term development of a country. The realization of a sustainable multi-tier social security system that covers the whole population, and coordinates both urban and rural areas, with clear definition of rights and responsibilities as well as appropriate protection is one of the keys for developing and maintaining an “all-aspect moderately prosperous society” in China that is making efforts on becoming a modernized socialist country and on realizing the Chinese Dream of having great rejuvenation of the Chinese nation. The "14th FYP" period is the initial stage for China to realize its socialist modernization after having built up an all-aspect moderately prosperous society. It is also an important period for China to further advance the modernization of governance system and governance capacity. Yet it represents a key period for China to improve its capacity of preventing and resolving major risks and maintaining overall stability and development for its economy and society. Therefore, it is of great significance to have comprehensive analysis on the situations at home and abroad, and to identify major difficulties in China's social security, and thereby to propose new ideas and suggestions for reform and development in this field.

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1. Evaluation on Social Security Reform in the 13th Five-Year-Plan Period

1.1 Great Development and Breakthrough in Key Aspects of Social Security

In the "13th FYP" period, taking into account the facts that China's overall economy is under the new normal conditions, and the growth of its fiscal revenue has slowed down, the Chinese government conducts in-depth research on key issues in the social security system that runs in a new environment, and has taken significant steps in constructing a long-term institutional system for reaching the objectives and carrying out the tasks of social security proposed by the 3rd, 4th and 5th Plenary Sessions of the 18th CPC Central Committee and emphasized by the 19th CPC National Congress. Multiple social security schemes have been improved and integrated for providing effective protection to the people, while some new programs is under experiment. Efforts have been made on reacting to the new normal economy by releasing potential of the social security system, and reducing overall contribution rate. This way, a virtuous circle for the social security system is formed. In terms of building up better managerial system for social security in long run, significant breakthroughs have been made. Therefore, standardization of management and efficiency of operation of the social security system has been significantly improved.

1.1.1 The Central Adjustment System for the Basic Old-Age Insurance for Urban Employees

Pooling funds for Basic Old-Age Insurance (BOI) at national level (national

pooling) is one of the key approaches for keeping sustainability of the pension system. As the operation and policies of the BOI had been decentralized for 20 years, the State decided to take a step-by-step approach to realize the national pooling. Therefore, the Central Adjustment System (CAS) was chosen to be the first and transitional approach. In June 2018, the State Council issued the "*Circular on Establishing The Central Adjustment System for BOI Funds for Enterprise Employees*", which proposed to establish the CAS on July 1st 2018 for keeping balance of the BOI funds for enterprises employees among all provinces. The CAS is also aimed for realizing sustainability of the BOI system in accordance with decisions of the Party's Central Committee and the State Council, as well as relevant provisions of the "*Social Insurance Law of the People's Republic of China*". In its 1st year, the CAS has been running smoothly. According to CAS provisions, in 2018 the provincial governments must transfer 3% of the revenue of their BOI funds to the Central Adjustment Fund (CAF), and the transferred amount was reported as 246.6 billion yuan, of which 61.2 billion yuan has been paid to underfunded provinces. In 2019, the transfer rate is 3.5%, and it is expected to collect 600 billion yuan from the provinces, of which about 160 billion yuan will be paid to underfunded provinces. 22 provinces in central and western parts of China, including the three northeastern provinces, will benefit from the adjustment funds. The adjustment funds play certain role in poverty alleviation of western provinces like Guizhou, where more state-defined poor counties exist. In this process, the whole country is like a flat chessboard, where egalitarianism among provinces is avoided while rash actions are not taken in solving relevant problems. In this process, developed provinces can receive contributions of migrant workers coming from central and western provinces, while underdeveloped provinces can

receive adjustment funds to guarantee payment of pension benefits. In conclusion, the CAS has really played its role in redistributing pension funds, and the results are produced as expected.

1.1.2 Reduction of Contribution Rate in New Environment

Social contribution rate is directly related to operating costs of enterprises, and it represents economic burden of employees and employers. Reducing contribution rate in the right time is important as it can reduce burdens for enterprises, optimize business environment, and improve the social insurance system. Also, unified contribution rate and contribution base are necessary prerequisites for establishing the CAS. Since May 1st 2019, the "*Comprehensive Plan for Reducing Social Contribution Rate*" issued by the State Council's General Office is officially implemented. Following the plan, the employer's contribution rate of BOI for Urban Employees is reduced to 16%, and some provinces are allowed to use accumulated balance of the BOI fund to cover deficits. At the same time, the period of reduced unemployment insurance premium rate is extended to 30 April 2020. This process is called "double reductions": One is the reduction of contribution rate, and the other is the reduction of contribution base. The weighted average salary of public-sector employees and weighted average salary of private-sector employees are adopted as the upper and lower limits of contribution base. Self-employed individuals and informal (flexible) employees can choose appropriate number as their contribution base. The complete social security fee reduction plan can reduce pension burden for enterprises by more than 150 billion yuan, and can reduce the burden of unemployment insurance and work injury insurance for enterprises by more than 110 billion yuan. The total

premium/contribution reduction of the three schemes is more than 300 billion yuan. The reduction of the “threshold” of social security is useful in encouraging more and more enterprises and employees to participate in the BOI for Urban Employees, and therefore forming a virtuous circle for enterprise development and the pension system.

1.1.3 Smooth Integration of Maternity Insurance and Medical Insurance

In order to combine schemes with common features, reduce duplication among them and improve operational efficiency, in January 2017, the General Office of the State Council issued the *“Pilot Program for the Integration of Maternity Insurance and Basic Medical Insurance for Workers”*. Following the Program and with authorization of the Standing Committee of the National People’s Congress, the State Council conducted pilot activities in 12 cities including Handan of the Hebei Province, where relevant provisions of the *“Social Insurance Law”* were temporarily adjusted, and two pilot work plans for integrating the two schemes were implemented. The general idea of the plan is to retain the two schemes and their benefit standards, but unify their management, and therefore reduce the costs. The integration of funds and management resources of the two schemes allows the two schemes to better assist each other when necessary, and to have higher efficiency by reducing operational costs.

After two years of piloting in certain districts, the piloted cities have received good results. The funds of the two schemes have better capacity of assisting each other and keeping balance among them. More people enroll in the schemes whose management and service capacity have been greatly improved. On March 25, 2019, the General Office of the State Council promulgated the *“Opinions on Fully*

Promoting The Integration of The Maternity Insurance and The Basic Medical Insurance for Workers". Following this, merger of the two schemes are started and will be completed by the end of 2019. After the merger, the two schemes will have synchronic registration, consolidated fund management, and unification of contribution collection, supervision and service.

1.1.4 Progressive Integration of the Medical Insurance for Urban and Rural Residents

As the Basic Medical Insurance for Urban Residents and the New Rural Cooperative Medicare (NRCM) have identical operational models and cover population of the same group, the State Council promulgated the "*Opinions on Integrating the Basic Medical Insurance Schemes for Urban and Rural Residents*" in January 2016 in order to integrate social security in urban and rural areas, improve medical insurance system for all the people, and therefore share equal rights among urban and rural residents. The policy is aimed for having integrated BMI schemes, namely, unifying the coverage, policies, benefits, insurance-covered medicine catalogue, insurance accepting hospitals, and fund management. The policy also requires the public administration to 1) rationalize the management system, 2) integrate administrative agencies, 3) innovate way of the management, and 4) improve service efficiency for the medical insurance schemes.

After three years, the integration gets expected results. Administrative level of pooling funds for the scheme gets higher, and this has strengthened the capacity of mutual support between the two funds. Besides, information systems of the two schemes are also merged, which helps to share information on issues like scheme

participation and medical treatment, and thereby helps to reduce management costs. This has also solved the problem raised from people's repeated or missed participation in the schemes. In conclusion, the integration has played positive role in coordinating the development of urban and rural social security and enhance the sustainability of medical insurance system that would benefit all the people in China.

In 2017, while continuing promoting the integration of the Basic Medical Insurance for urban and rural residents, the Ministry of Civil Affairs and the Ministry of Finance jointly issued the *“Circular on Further Strengthening the Effective Connection between Medical Assistance and Urban and Rural Residents' Disastrous Disease Insurance”*, which was aimed for simplifying the procedures and improving the efficiency of the schemes, and therefore providing timely and better protection to beneficiaries.

1.1.5 Gradual Extension of LTC Pilot

In response to objective needs of a large number of disabled people for long-term care, and in response to the needs of aging society, the long-term care insurance system become a hot issue in China. In 2016, the Ministry of Human Resources and Social Security issued a guidance to launch pilot programs for long-term care insurance in two provinces, Qingdao city and Shanghai. The aim is to explore ways to raise mutual-aid funds and thereby build up a social insurance scheme for covering costs of basic life care and medical care closely related to basic life for insured persons. This action has attracted attention from the society. Subsequently, several provinces and cities such as Beijing and Hebei also launched their pilot programs in

this regard. Now the pilot schemes cover totally 57 million people and have achieved initial results. As the population continues to grow and the aging process continues to accelerate, the number of people with complete and partial disability and other dementia and mental disorders will further increase. For the long-term care of such groups, social needs are growing. Therefore, it is urgent to introduce comprehensive guidance for improving the standardization of relevant schemes or systems.

1.1.6 Further optimization of social security's management

In March 2018, the first meeting of the National People's Congress of the year deliberated and approved the *Institutional Reform Plan* proposed by the State Council. Among the issues, the public was particularly concerned with the establishment of the National Medical Insurance Bureau, which would then be directly subordinated to the State Council. According to the plan, the Bureau coordinates the BMI for Urban Employees, BMI for Residents and the Maternity Insurance, which was previously managed by the Ministry of Human Resources and Social Security, the New Rural Cooperative Medical Insurance, which was previously managed by the former National Health and Family Planning Commission. It also manages drug and medical service price, which was previously the responsibility of the National Development and Reform Commission, and medical assistance, which was previously the responsibility of the Ministry of Civil Affairs. This marks the end of several years of debate on the responsibility integration of medical insurance schemes. It has fundamentally abandoned the shortcomings of the scattered management of medical insurance schemes, and changed the inefficiency of operation that caused serious waste of resources of social security. This is a breakthrough that removes institutional

obstacles for the schemes. It is significant, because it has promoted the medical protection system to cover the whole population by deepening the integrative reform of the three medical insurance schemes.

Following instruction of the State Council, in August 2018, the State Administration of Taxation, the Ministry of Finance, the Ministry of Human Resources and Social Security, the National Health and Health Commission, and the National Medical Insurance Bureau started transferring the power of collecting social insurance contributions and relevant non-tax revenues to taxation agencies, ending the situation where the taxation and social security agencies divided the power. The process has laid down a good foundation for having better collection of social insurance contributions and higher administrative level of social pooling. This way, a contribution collection system characterized by clearly defined functions, smooth procedures, standardized management and efficient services is realized.

1.1.7 Continued Increase in Social Security Benefits

In 2019, after having raised the basic pension benefit for enterprise retirees for 14 consecutive years, the yearly *Government's Work Report* announced that the State Council had given approval to the Ministry of Human Resources and Social Security and the Ministry of Finance for jointly issuing the *Circular on Adjusting the Basic Pensions for Retired Persons in 2019*. According to the circular, the basic pension benefit of retirees of enterprises and public institutions will be adjusted again since January 1st 2019. The overall adjustment level was fixed as about 5% of the basic pension benefit for retirees in 2018. It is expected that 118 million retirees will benefit

from the adjustment. In 2018, the average monthly benefit of basic pension for enterprise retirees reached 2,600 yuan, with an increase of 15% compared with 2,200 yuan in 2015. In addition, the minimum standard for basic pension benefit for urban and rural residents in the country has been raised to 88 yuan per person per month. The funds needed for raising pension benefit in western provinces are all subsidized by the central government, and for the provinces in the middle part of China the subsidy is 50% of the planned benefit expenditure.

In the case of medical insurance, subsidy for the scheme of urban and rural residents has increased from 450 yuan to 490 yuan per person, and the reimbursement has stabilized at 75% of policy-covered costs. In the case of social assistance, in 2018 the average national standard of the Minimum Livelihood Guarantee (Dibao) for urban areas was 563 yuan/person·month, and for rural area it was 4,583 yuan/person·year. The year-over-year increases of the two benefits were respectively 7.5% and 13.3%.

1.1.8 Benchmarks in the 13th Five Year Plan have all been reached or surpassed

According to the Plan, by the end of the “13th FYP” period, the number of people participating in the BOI for Urban employees should reach 425 million, and the number of people participating in the BOI for Urban & Rural Residents should reach 520 million. In general, the participation rate of the BOI schemes should reach 90% of the whole population. Besides, the participation rate of the Basic Medical Insurance has been stable at over 95% of population. The number of people participating in unemployment insurance is 180 million. The number of workers

participating in work-related injury insurance is 220 million, and the number of people participating in maternity insurance is 200 million. Up to now, the number of participants in the BOI for Urban Employees has reached 418 million, and the number of participants in the BOI for Urban & Rural Residents has reached 523 million, almost reaching the planned benchmarks. Despite of the fact that the integration of medical insurance for urban and rural residents has not been completed, and there could be overlapped statistics on this scheme, the current participation rate of the medical insurance has reached 96% of the whole population. In the cases of unemployment insurance, work injury insurance and maternity insurance, the numbers of participants have all reached the targets set in the plan (respectively 196 million, 238 million and 204 million).

1.2 Uncompleted or Not-started Tasks of Social Security in the 13th Five Year Plan

While seeing achievements, we should also see the challenges: during the 13th FYP" period, as China's economy and society enter the new normal stage, the social security system is faced with a new environment where 1) structural deceleration of the economy is obvious, 2) the downward pressure on fiscal revenue is increased, 3) population aging is becoming more and more severe, 4) new urbanization is accelerating, 5) labor mobility is increasing, and 6) the people's expectations for social security and improvement of livelihood are rising. In such context, some contradictions and problems that have not been properly resolved in the long history of China's social security are more prominent. The key tasks listed in the "13th FYP"

but not implemented or even not initiated should be carried out in the "14th FYP" period.

1.2.1 No Real Improvement of The Individual Account System of Employee's BOI and BMI

China's social security system has been formed, and its developing model has been somehow fixed. People have explored and researched on theoretical and practical ways for its development. For example, in early stage of the system people have discussed the questions on the functions and directions of the Individual Account System of the BOI and BIM schemes, and stakeholders have gained clear understanding of it, especially its function in the combination with social pooling. With further research, reform proposals have also been made with the expectation to improve the system. Among the problems of the IA system, one is derived from the continuous contribution reduction in recent period. After the reduction, the fund ratio of social pooling to individual accounts becomes like 2:1. On the one hand, this has weakened the social security scheme's functions of both social solidarity (mutual aid) and benefit redistribution. On the other hand, the nominal IA system has been running but without clearly defined model. Furthermore, the book-keeping interest rate of IA, whose original purpose is to balance various factors of the system, has posed impact on the pension system. Therefore, it is the time to conduct further study to have new understanding of the structural ratio between social pooling and individual accounts.

Similarly, after many years of running in combination with social pooling, the role of IA of the Medical Insurance is also criticized by people. Rather than only

accumulating idle funds in individual accounts, the medical insurance needs to strengthen its mutual-aid function when risks come, because this is the defined nature of the system and it is also a consensus of the society. Actually, the “13th FYP” for social security has clearly proposed to improve the IA system. However, no actions have been taken in the past few years. So, there is an urgent need to make improvement of the IA in the "14th FYP" in order to increase the effectiveness of social security.

1.2.2 Stagnation of Enterprise Annuity has impact on the development of multi-tier social security system.

The “13th FYP” for social security clearly stated that it is necessary to 1) speed up the development of supplementary old-age insurance scheme, 2) improve the personal income tax deferral policy for enterprise annuity and occupational annuity, and 3) promote the establishment of a multi-tier pension insurance system in China. This is the original intention China's social security system. Though the development direction is fixed and the idea is clear, the reality is not so optimistic. In the past few years, the development of enterprise annuities has been stagnating: Only 87,400 enterprises have established enterprise annuity plans, with 23.88 million employees participating and 1,477.7 billion yuan accumulated in the funds. The continuous increase in basic pension benefits has led people to have higher and higher expectation on pension benefit. Therefore, the space left for the market to enter the field of social security is insufficient. Insured persons and scheme managers become dependent on the old paths because they are accustomed to the old way that the

government increases benefit through uniformed directives. People do not have the motivation to seek higher level of protection by themselves, while they are only comparing the level of existing benefits of basic pensions. Of course, in the context that the government has to reduce contribution burdens on enterprises and individuals to cope with the current economic situation, enterprises and individuals have neither subjective intention nor objective possibility to participate in supplementary insurance schemes. The *Report of the 19th CPC National Congress* has clearly stated that one of the objectives of the party is to establish a multi-tier social security system in China. Therefore, it is necessary to make overall planning for the existing social security system so that supplementary and major schemes can develop in a harmonious and sustainable way.

1.2.3 Progressive postponement of retirement age has not been put in policy

In the early stage of the “13th FYP” period, the state-level design of pension insurance in China has taken into account relevant researches on 1) change of China’s demographic structure, 2) change of employment structure, 3) sustainability of social security system, and 4) incentive’s effect on active labor participation. In response to new changes, the state has proposed a progressive postponement of retirement age. Researchers generally understand that the postponement is a definite trend in the future, and the postponement plan was also drafted on the basis of international experiences and China's real conditions. However, in the past few years, there has not

been real action for putting the plan into place. The mass media has kidnapped the public's opinion as they have led the public into misunderstandings, which in turn has impeded timely formulation of relevant policies. International experiences and the rapid aging process in China have demonstrated that it is really important to put the postponement on agenda. The government must speed up the pace and put it into practice.

1.2.4 Strong obstacles against transferring more proportion of SOE's assets and returns on capital to feed social security

The state has introduced some policies that intend to transfer state-owned assets to feed the social security fund, but actual progress in this regard has been very slow, and there are many obstacles against the policies in the reality. In October 2017, the government made a new policy that requires five state-owned enterprises to transfer their assets to feed the social security fund, and Yunnan and Zhejiang were specified as the two provinces to pilot this decision. In July this year, the State Council's executive meeting decided to implement the transfer policy across the whole country. 10% of state-owned shares of large and medium-sized state-owned and state-controlled enterprises and financial institutions at both national and local levels must be transferred to social security funds and some other relevant local entities. The transferring parties act as financial investors of social security fund, and have the right to receive returns on investment. Following this policy, the Ministry of Finance will transfer state-owned capital of 35 enterprises managed by the central government to social security fund. It is estimated that there will be 59 enterprises at the central level

to transfer around 660 billion yuan to social security fund. In the next step, it is recommended to conduct active and steady asset transfer of other central-level enterprises, financial institutions and eligible local state-owned capital to enrich the income sources of social security fund.

1.2.5 Agricultural citizens have no enthusiasm to participate in the New Rural Social Old-Age Insurance scheme, which lacks instinct vitality

To co-ordinate the development of urban and rural social security, we must solve the problem that agricultural citizens have low enthusiasm to pay contribution to the New Rural Social Old-Age Insurance (NRSOI) scheme, and thereby vitalize the scheme. The NRSOI has been running for ten years, during which the central government has raised the benefit of the basic pension for twice in order to share fruits of social development of the country, but this didn't increase the enthusiasm of agricultural citizens to sustain the scheme. 80% of them still paid the lowest contribution. This makes the protection of NRSOI even lower than the protection of the Dibao assistance. It's actually negative effect of the scheme. The funding model of this scheme is "government subsidy + individual account savings", and the scheme has basically no the function of mutual aid among the participants. Thus, it cannot be viewed as a real social insurance scheme. Furthermore, it is not attractive to young people from rural areas. People only rely on the central government's subsidies to participate in the scheme, and some public media even mislead the participants to make improper comparison of NRSOI benefits with the benefit of the BOI scheme for employees or for residents. This is actually aggravating social conflicts. Since the

current model of NRSOI is prone to social conflicts, it is better to improve the social security system by modifying the design of the BOI for Residents, and therefore covering blind points in of that schemes. With this, China can finally form a BOI system that provides support and dependence to social members in old-age life.

1.2.6 Normalized benefit adjustment mechanism for pension scheme has not been formed, while negative effect of temporary adjustment by public administration is still a problem.

In the “13th FYP” period, several benefit adjustments has been made, and benefit increase structure has been specifically designed in order to ensure fairness and sustainability of the social security system. For making the adjustment, the state has also taken into account expectation of the active participants of the schemes. However, the general situation of the system has not been changed, while it has even resulted in the fact that in some regions, income of retirees is higher than income of workers, and income of early retirees is higher than income of later retirees, which is called “double reverse of income”. This has created negative incentives for active workers and has broken the internal balance of the system. Therefore, further research is needed to know how to establish a normalized adjustment mechanism that takes into account factors like income growth and price changes.

2. New Situation and Challenges of Social Security in the “14th FYP” Period

The "14th FYP" period is the first FYP period after the Chinese socialism enters a new era. In 2018, China's GDP per capita was about 9,700 US dollars, reaching the level of upper-middle income economies. If at the end of the "14th FYP" period the economic growth rate is around 6%, China will pass the threshold of high-income economies. In terms of social security, on the one hand, the development of social security during the "14th FYP" period should ensure social economy to transit smoothly, to cross the "middle income trap", and therefore to lead China to develop from a middle-income economy into a high-income economy; on the other hand, it must adapt itself to the change of demographic structure, to meet the needs of the people's growing expect on better life, and to solve the problem such as inadequacy imbalances in the development.

2.1 Analysis on the speed, volume and structure of China’s economic development

2.1.1 Changes of GDP growth and economic volume and their effects on social expenditure

2.1.1.1 Changes of GDP Growth and Economic Volume, 2008-2018

The period from 2008 to 2018 covers periods of the “11th FYP”, “12th FYP” and “13th Five Year Plan”. Though the total GDP and GDP per capita in this period have kept growing, the growth speed has been declining: During the “11th FYP” period, the

growth rate was between 9% and 10%. During the “12th FYP” period, the growth rate was between 7% and 9%, and during the “13th FYP” period, it fell below 7%. In order to achieve the goal of building up a moderately prosperous society in an all-round way, the annual average GDP growth rate of 2019-2020 must reach 6.15% or more. Only at this rate can China double the GDP in 2020 compared with the GDP in 2010.

Table 1 Total GDP, GDP per capita and their growth

2008-2018

Year	GDP (¥100 Million)	Growth (%)	Per-Capita GDP (¥)	Growth (%)
2008	319516	9.7	24121	9.1
2009	349081	9.4	26222	8.9
2010	413030	10.6	30876	10.1
2011	489301	9.5	36403	9.0
2012	540367	7.9	40007	7.3
2013	595244	7.8	43852	7.2
2014	643974	7.3	47203	6.8
2015	689052	6.9	50251	6.4
2016	743586	6.7	53935	6.1
2017	827122	6.8	59660	6.3
2018	900309	6.6	64644	6.1

2.1.1.2 Changes of Expected Economic Growth and Volume in the 14th FYP Period

During the "13th FYP" period, as China seeks to have so-called “high-quality” development, the supply-side structural reforms is taken as a main-line action for having steady growth, further change, refined structure for China’s economy. It is aslo the main action for preventing potential risks and creating better benefit to the

people's livelihood. The structural reform has generally stabilized the economic development. However, during the "14th FYP" period, we still need to have full understanding of the tasks of domestic reform and trends of international environment. In particular, we should have sufficient assessment of the seriousness and challenges of the new situation; and we must make smart judgment on thus-resulted impact on the macro economy, and conduct appropriate reform as response to it.

The first challenge is that the downturn pressure on the economy gets heavier and heavier as China's economic shift has not yet ended, and structural reform has just started to touch on the essential issues. In such context, the domestic demand is weak while the external demand is sluggish. This may further reduce the economic growth rate during the 14th FYP period. The second challenge is derived from the fact that the general debt level is high, enterprises' profitability is declining, and the space for economic correction gets narrower, although systemic financial risks are generally controllable. In particular, the socio-economic capacity of resisting risks and covering shortcomings is declining. The third challenge is resulted from the increasing uncertainty in the external environment of economic development, where 1) China's export growth rate is declining; 2) China's trade surplus over foreign countries has decreased drastically; 3) the RMB exchange rate gets down; and 4) it's highly probable that export-oriented industries and regional economies may decline. It is expected that in the "14th FYP" period, the economy will maintain stable but with gradual decline. Therefore, goals of economic and social development should be adapted to this situation and appropriate countermeasures should be made.

2.1.1.3 Impact of changed economic growth and volume on social security

Changes of economic growth and volume are definitely correlative with social security revenues and expenditures. The first correlation is positive, which is between the development of major macroeconomic indicators and revenue of social insurance funds. In recent years, the rapid growth of China's social security revenue is the result of the rapid economic growth for so many years. But in the future, economic growth rate will decline, and this will inevitably pose negative impact on contribution collection. The second correlation can be seen from empirical data, which show us that the elasticity of social security revenue has been rising during economic growth. When the economic growth rate falls, we must keep monitoring the elasticity of social security revenue. If then the elasticity also declines, the social security fund will be faced with more stress as the revenue declines. The third correlation is between economic development and fiscal revenues of public administration at all levels. Today subsidies from governments at all levels to social security fund account for 17% of the fund's yearly revenue. In particular, subsidies provided by the central government have exceeded 9% of yearly public expenditures; while subsidies from provincial governments have exceeded 4% of their yearly fiscal revenue. In combination with other expenditure for social security and health issues, the overall social expenditure accounts for 22% of yearly public budget. In the future, it is necessary to have thorough consideration the impact of declining economy on the public revenue, and therefore on the social security system.

2.1.2 Disparity among Provincial GDPs and The State's Need to Coordinate Social Security Funds

2.1.2.1 Changes of Provincial GDPs, 2018 - 2017

Provincial GDP is the main indicator that reflects provincial economic development. In the following table, five provinces with the highest GDP, and five provinces with the lowest GDP are put into comparison.

Table 2 GDP and Growth in some provinces, 2008-2017

Provinces		GDP (¥ 100 Million)		
		2008	2017	Growth (%)
5 provinces with the highest GDP	Guangdong	36397	89879	10.6
	Jiangsu	30982	85901	12.0
	Shandong	30933	72678	10.0
	Zhejiang	21463	51768	10.3
	Henan	18019	44988	10.7
5 provinces with the lowest GDP	Guizhou	3562	13541	16.0
	Gansu	3167	7677	10.3
	Hainan	1503	4463	12.9
	Ningxia	1204	3454	12.4
	Qinghai	1019	2643	11.3

Note: The Autonomous Region of Tibet is excluded.

Statistics shows that economic ranking of the provinces has not changed from 2008 to 2017. In terms of average annual growth rate, only Guizhou experienced significant increase. Among the provinces with higher or lower ranking, there was no big change in the growth rate. Although growth rate of several provinces of which the GDP is the lowest has increased slightly, the absolute gap between them and higher ranking provinces continues widening. While GDP of the major developed provinces has reached 5 to 8 trillion yuan per year, among the lowest ranking provinces, only Guizhou has GDP over 1 trillion, and single GDP of other provinces was less than

one-tenth of single GDP of the developed provinces. To equalize basic services and basic social protection, the economic gap among the provinces must be the first problem to be solved.

2.1.2.2 Economic comparison among Eastern, Middle and Western provinces

In addition to the large GDP gap among the provinces, the gaps of indicators that reflect economic dynamics and efficiency of the provinces are even larger. Taking the eastern provinces as example, their combined GDP accounts for 52% of the national GDP, and their imports and exports account for more than 80% of the total imports and exports of China. At the same time, the *Industrial Profit above Designated Size* in these provinces accounts for nearly 60% of the national one. The following table shows the clear difference among the Eastern, middle and western provinces.

Table 3 Major Economic Indicators in Eastern, Middle, Western and Northeastern Provinces, 2017 (¥ 100 million, %)

Indicator	Eastern		Middle		Western		Northeastern	
	¥	%	¥	%	¥	%	¥	%
GDP	449681	52.6	179412	21.0	170955	20.0	55431	6.5
Gross Investment in Fixed Assets	268911	42.3	166140	26.1	169715	26.7	31253	4.9
Gross Imports and Exports	229082	82.4	18615	6.7	20960	7.5	9266	3.3
Industrial Profits above Designated Size	44890	59.8	15459	20.6	12142	16.1	2605	3.5

In terms of market competitiveness for attracting capital and human resources, the economic gaps will definitely pose impact on the provinces. This will finally result in differences of socio-economic environment in the provinces. Then, stress on

employment, social security and related fields in underdeveloped provinces, especially in the Northeastern provinces will be heavier.

2.1.2.3 Economic and fiscal gaps among provinces requires the State to coordinate the development social security

The gap of public revenue among the provinces has been always large. In 2017, public revenue of Guangdong Province reached 1.13 billion yuan, almost 2 times of the revenue in five years ago. In the same period, public revenue of Qinghai Province was only a bit more more than 20 billion yuan, increased by only 30% in comparison with five years ago. Totally, the public revenue of Guangdong is 45 times higher than that of Qinghai. The former has grown at high rate, while the later has grown at low rate, which definitely makes the fiscal gap larger and larger. The following table shows that the fiscal gap among other provinces is also obvious, and the gap has been increasing from 2012-2017.

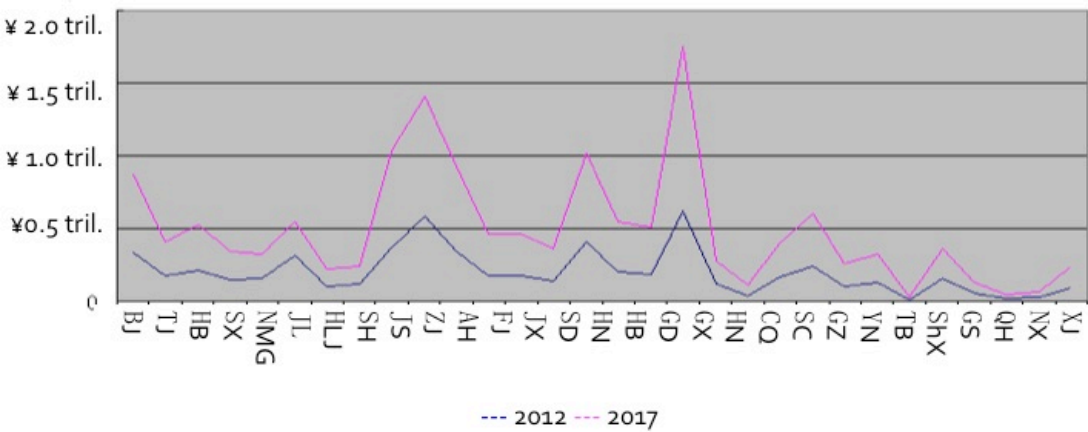


Figure 1 General Public Revenue of Provinces, 2012-2017

Social security expenditure is one important parts of expenditure from general

public budget. The contradiction existing between the reality of large provincial fiscal gap and the requirement of fair social security is actually caused by economic imbalance. During the "14th FYP" period, the state should make efforts on coordinating social security funds for the provinces. This is the basic solution to the problem.

2.2 Income Distribution and Its Relation with Social Security

2.2.1 Social security should narrow the large income gap among residents

2.2.1.1 Change of residents' income gap from 2008 to 2017

The Gini coefficient is a common indicator for measuring income gap of residents. China's Gini coefficient has dropped from 0.491 in 2008 to 0.462 in 2015, and it has risen to 0.467 in 2016 and 2017 in the past two years. This shows that China's task of narrowing the gap between the rich and the poor is a long-term and arduous process. If we do neither change the distribution system that has expanded the income gap, nor strengthen the fairness-oriented adjustment of social security system, the Gini coefficient is easy to reach higher levels. More importantly, it will result in various social contradictions that will disturb China's economic and industrial transformation, and will affect China's economic and social stability as well as the progress of its reform and development.

Figure 2 Gini coefficient in China, 2008-2017

2.2.1.2 The goal of narrowing residents' income gap in the 14th FYP period

The current income gap among residents in China should be changed. This is not only because of the nature of China's socialist system, but also because of the intolerance of the “unfair and non-normative” causes of the income gap. That is to say, this gap often fails in following the principle of “allowing a part of the people to get rich first and then leading more people to get rich”. Instead, wealth is concentrated in the hands of minority who used unfair and non-normative means, which hinders the masses from obtaining and increasing income in legal way. Therefore, there must be restrictions on such inefficient income gap, and illegal income must be resolutely banned. At the same time, adjustment to existing income gap between urban and rural areas, among different industries and provinces should be strengthened, so that the Gini coefficient of residents' income can go on shrinking during the "14th FYP" period.

Foreign market economies also have large income gap after the first income distribution, but they can effectively reduce the income gap through taxation and social security. Most of these countries can reduce the Gini coefficient by more than 25%, thus forming a good redistribution structure for the society. In comparison, the effect of China's redistribution is weaker, less than one-third of the efficiency of market economies. It is worthy learning from these countries in order to improve China's redistribution policy and thereby guarantee fairness for the society.

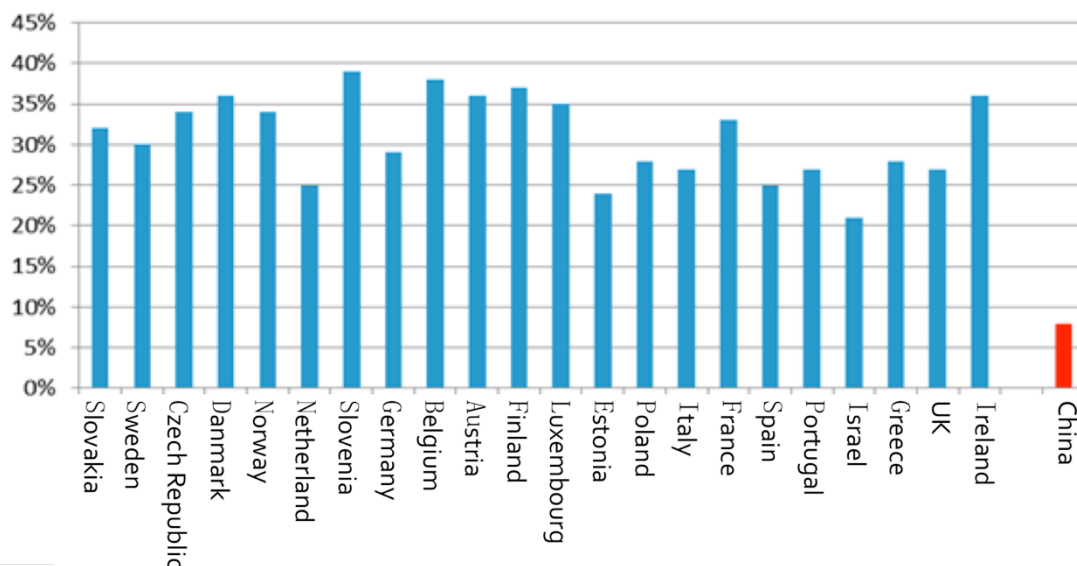


Figure 3 Reducing Gini Coefficient through Social Security: International Comparison

2.2.1.3 Policy in the 14th FYP should reinforce redistribution through social security

During the "14th FYP" period, China will move from middle-income countries to high-income countries, and will develop into a stronger power in terms of social

and economic development in the world. Due to China's large-scale society and economy, and the increasingly complex environment at home and abroad, China must face constant changes, which requires China's social development to take a comprehensive and profound strategic transformation. In the process of transformation, we will realize reform and innovation, resolve contradictions, balance social gaps, and cover shortcomings. We shall solve existing deep-seated problems, break through the institutional shackles, and open a new channel for China to reach a higher level of development. On the basis of new situation in the "14th FYP" period, "fairness" should be defined as one of the fundamental concepts for China's development. That means there should be fair development among provinces, fair opportunities in the society, fair competition in the market, and fair rights of social protection. To this end, we must strengthen fairness and redistribution function of social security. Firstly, following the structural reform, the government should improve the fairness in the social security system, providing protection to workers that shift employment in the reform. Secondly, for meeting needs of economic transformation and upgrading, mechanism of improving fairness and justice of social security should be combined with investment for enhancing quality of labor and human capital. Thirdly, the government should make efforts on creating a harmonious and stable social environment, raising the level of social protection, and expanding middle-income group, in order to have a great transformation of social structure in China.

2.2.2 Low transfer income of residents means large space for improvement of social security.

2.2.2.1 Structure of residents' disposal income in China

From a macro perspective, the formation of residents' disposable income has two stages: initial distribution and redistribution. Initial distribution is the distribution of gross national income among the government, enterprises and residents; while redistribution is frequently carried out among sectors through taxation, government expenditure, social security and other means. Finally disposable income of various sectors including residents is formed. According to income distribution process, the disposable income of residents is composed of four parts: labor compensation, total operating surplus, property income, and current transfer.

Figure 4 Composition of Residents' Income Sources, 2008-2016

Unit: 100 million RMB, %										
Year	Disposal Income of Residents		Labor Compensation		Operating Surplus		Property Income		Current Transfer	
	Total	%	Total	%	Total	%	Total	%	Total	%
2008	184002.0	100	155013.4	84.2	18618.8	10.1	9799.1	5.3	570.8	0.3
2009	203755.2	100	170231.8	83.5	23477.8	11.5	9241.1	4.5	804.5	0.4
2010	239384.3	100	198410.3	82.9	29322.1	12.2	10313.8	4.3	1338.1	0.6
2011	285192.2	100	235935.4	82.7	34858.6	12.2	12954.9	4.5	1443.2	0.5
2012	320793.2	100	265105.9	82.6	37483.9	11.7	15894.1	5.0	2309.2	0.7
2013	357113.4	100	298966.1	83.7	40625.7	11.4	14168.1	4.0	3353.5	0.9
2014	391110.0	100	328347.4	84.0	43977.1	11.2	15148.7	3.9	3636.8	0.9
2015	422629.2	100	357075.8	84.5	46223.5	10.9	14692.6	3.5	4637.3	1.1
2016	459534.7	100	386563.6	84.1	49986.6	10.9	17291.8	3.8	5692.8	1.2

As we can see from the above table, labor compensation is the most important

source of income for residents, and it usually accounts for more than 80% of the income. Operating surplus is mainly composed of operating profit of farmers and urban self-employed households and depreciation of fixed assets, which generally accounts for about 11% of income. Property income is mainly interest return of savings, usually accounting for about 4%. Current transfer income, which refers to net income of social security benefits minus personal income tax and social security contributions, is the net income after redistribution. This part is only about 1% of residents' whole income.

2.2.2.2 Increase transfer income for residents through enhanced social security

The total amount of current transfer in the income of Chinese residents is not large. It is directly related to the structure of fiscal expenditure. In 2007, the income from current transfer dropped significantly, with the net income of being -17.5 billion yuan. That is, no social security income was transferred to residents through redistribution. Instead, funds continued to be concentrated in the hands of the government, while net transfer income to the sector of residents decreased. Since 2008, public finance has increased expenditure on issues related to people's livelihood, and therefore residents' income has shifted from negative to positive. However, the net income from current transfer finally dropped to 1.2% in 2016. Redistribution is an important means to regulate the income gap among residents, especially a means to ensure that low- and middle-income groups can share the fruits of economic reform and development. However, for a long time, the proportion of residents' transfer

income in disposable income has been low. In conclusion, only by optimizing structure of government expenditure, increasing expenditure for people's livelihood, and raising the level of social benefits can the growth of residents' transfer income realized.

2.3 Total revenue from retailing of consumer goods and residents' consumption

2.3.1 In the GDP by expenditure, residents' consumption level is not high.

2.3.1.1 Change of residents' consumption in the GDP by expenditure

The expenditure approach for calculating GDP is based on the final use of production results by domestic resident units for a certain period of time. As mentioned above, in the past 10 years, China's GDP growth rate has dropped from 9% to 6%.

Table 5 Components of GDP by Expenditure

(GDP by Expenditure =100)

Year	Final Consumption	Included Residents Consumption	Capital Formation	Net Exports of Goods and Services
2008	49.2	36.1	43.2	7.6
2009	49.4	36.2	46.3	4.3
2010	48.5	35.6	47.9	3.7
2011	49.6	36.3	48.0	2.4
2012	50.1	36.7	47.2	2.7
2013	50.3	36.8	47.3	2.4
2014	50.7	37.5	46.8	2.5
2015	51.8	38.0	44.7	3.4
2016	53.6	39.3	44.2	2.2
2017	53.6	39.1	44.4	2.0

In the GDP by expenditure, the proportions of final consumption and total capital

formation have increased in the past nine years, while net exports of goods and services have declined. Resident consumption included in the final consumption has risen by 3 percentage points to 39%. In the 1980s, the ratio of resident consumption has exceeded 50% for many years. This is to say, although the increase in resident's consumption in GDP by expenditure is positive, the consumption does not yet reach a historical high. In recent years, China's total capital formation has been hovering around 45%, which is already a historical high. From 1980s to early 1990s, the ratio of capital formation in China has been always below 40%. In the future when it is not easy for China's net exports of goods to increase significantly, increasing the total capital formation will only make the economic structure more distorted. Therefore, only activating consumption, especially activating residents' consumption, by, for example, implementing social security policies to enhance consumption ability of low- and middle-income residents can be the way to cope with uncertainty at home and abroad, and therefore maintain economic development and reach socialism's production goal.

2.3.1.2 Improving social security by adjusting the relation between investment and consumption

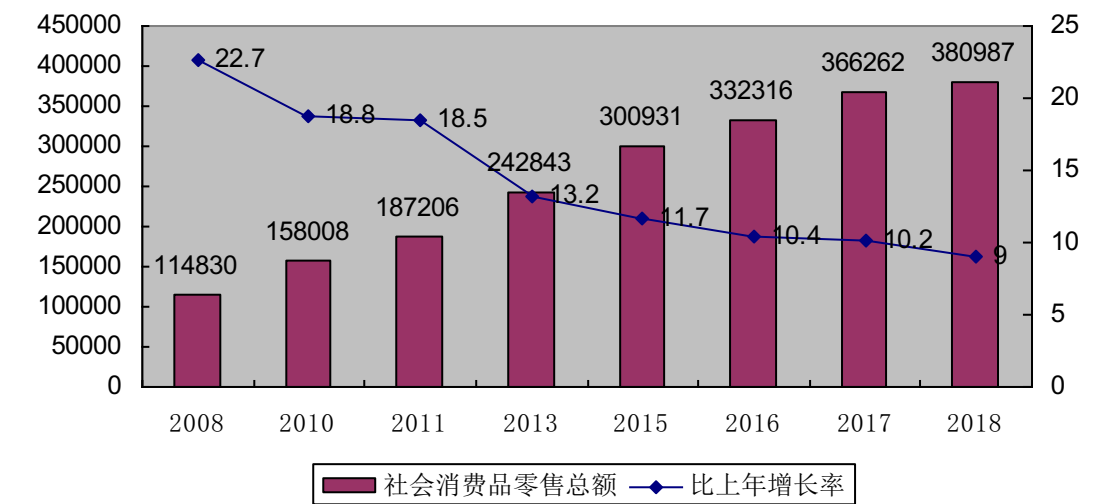
The proportion of final consumption and total capital formation in GDP calculated by expenditure is also called consumption rate and investment rate. In the case of China, the investment rate has kept rising in recent years, and the consumption rate has been increasing slowly. Although it has increased to 53.6% in 2017, the residents' consumption rate is only 39%, while government spending accounts for 14.5%, and has increased in recent years, providing 33% of contribution in the

consumption. At the same time, China's investment rate has been keeping at a historical high. This is resulted from the features of China's economy in the current stage. However, we should also see that investment has dual natures: 1) Current investment can expand the total demand in the current period, while 2) increasing the total supply of the next period. If there is no social distribution policy to support residents' demand, it will lead to over-productivity and ultimately harm the development of economy. Compared with consumption rate of developed market economies, China's resident consumption rate can still increase by 10 percentage points. During the "14th FYP" period, we must conduct deeper reforms for optimizing the relationship between consumption and investment. On the one hand, we should promote the reform of the public administrative system by enlarging the role of democratic and scientific decision-making mechanism. The phenomenon of blindly comparing only GDP growth among provinces or with other countries should be avoided, and low-level and redundant construction programs that waste investment resources should be reduced. On the other hand, we must combine consumption expansion programs with reform of income distribution mechanism, especially the reform of social security system. The government should increase expenditure on issues related to people's livelihood, paying importance to raising income level of low- and middle-income groups, and to expanding the proportion of middle-income people. Efforts should also made on enabling the increased income of low- and middle-income groups to be directly converted into real consumption.

2.3.2 Decline of total retail sales of consumer goods

2.3.2.1 Change of total retail sales of consumer goods, 2008-2018

China has made some achievements in expanding consumption scale, raising consumption levels, and improving consumption structure. Therefore, the consumption rate in 2018 has increased by 2 percentage points compared with 2008. However, we must also see that the current institutional obstacles restricting the expansion and upgrading of consumption are still outstanding. In 2008-2017, the total retail sales of consumer goods in China had increased year by year, while the corresponding growth rate had dropped from 22.7% in 2008 to 9% in 2018.



■ Total retail sales of consumer goods,
--- Year-on-Year Growth Rate

Figure 5 Total retail sales of consumer goods and corresponding growth rate

It is generally accepted that the sluggish consumption in China is mainly resulted from the fact that 1) the consumer market in key areas had failed in effectively meeting diversified consumer demands of urban and rural residents; 2) the regulatory system has not been adapted to the rapid developing new model of consumption;

3)the quality and standard system still lag behind the upgrading of consumption; 4) credit system and consumer rights protection mechanism have not been able to play an effective role; and 5) the consumer policy system cannot effectively support the improvement of residents' purchasing power and expectation. These factors exist, and shortcomings need to be changed as soon as possible. However, the fundamental issue is still the one of purchasing power.

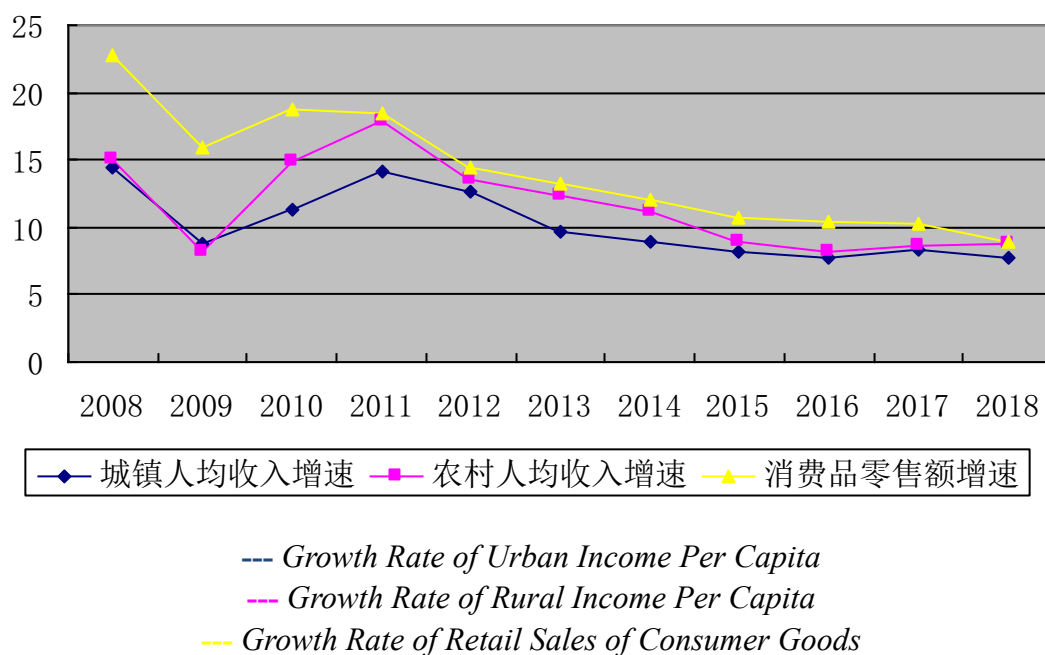


Figure 5 Increase in Income per capita of urban and rural residents, and total retail sales of consumer goods

The above figure shows that the fluctuations in total retail sales of consumer goods are basically following the growth of urban and rural residents' income. The driving force for consumption can be relevant to various institutional mechanisms, but the most direct driving force is the increase in income level of the general public, especially low-income groups.

2.3.2.2 Goals of and polices for increasing residents' consumption in the 14th FYP period.

Consumption is not only the ultimate goal and driver of production, but also direct reflection of the people's demand on better life. Improving institutions to support consumption, and intensifying the role of consumption in economic development help to optimize proportional relation among major factors of national economy such as production and consumption. They also help to build up a model for stable and healthy development of economy that produces long-term strategic interests for China.

For promoting consumption, the first action is building up more mature and segmented consumer market adapted to the diverse consumption demands of residents, including 1) upgrading service consumption, 2) developing elderly and household consumption, 3) promoting education and training, and expanding new growth points of consumption. The second includes 1) fostering new consumption models, 2) supplying better policies, 3) promoting innovations such as sharing economy, 4) cultivating new “hot” goods and service for consumer, 5) narrowing consumption gap between urban and rural areas, 6) modernizing rural circulation network, 7) integrating facilities resources in stock, and 8) reducing circulation costs in rural areas. The third is building up quality standard system and credit system, which helps to create a safe and secure environment for consumers. For this, the government should implement standardization strategy, and improve post-consumption evaluation system. Information on administrative license, penalties, and product test results should be released to the public, while protection of consumer rights and consumer's personal

information must be improved. The fourth is strengthening residents' purchasing power and upgrading their expectations by reforming the income distribution system, increasing income for low-income groups, and expanding middle-income groups. A fair and open market should be established, where discrimination of economic ownership is eliminated and supports are given to suppliers. Fiscal, taxation, financial and land policies should be improved, and tax incentives for life services such as health, elderly care, and housekeeping should be provided. Investment mechanism for infrastructure construction in the consumer sector should be optimized by using public finance to encourage social forces to participate in infrastructure construction in fields like culture, tourism, sports, health, old-age life, housekeeping and education.

2.3.2.3 Social security's task in reversing consumption decline

In China, a very important psychological barrier that restricts residents' consumption is the worry about future security such as children's education fees, large medical expenses, and old-age care expenses. It is necessary for residents to make savings for themselves and their families from time to time. But if this behavior becomes more and more common and it restricts individual's normal consumption and even consumption of the whole society, it becomes a social problem, to which there should be good solution. According to central bank's data, in January 2019, RMB deposits has increased by 3.27 trillion yuan, of which household deposits has increased by 3.86 trillion yuan, with 2.99 trillion yuan more than deposits in the same period of the previous year. The main reason should be that residents deposited their money in order to avoid market and social risks. Therefore, social security's tasks in

this regard is: 1) perfecting the existing schemes and timely improving basic level of protection; 2) on the basis of basic schemes, providing options to individuals to pay contribution to better medicare and old-age care schemes provided by social security administrative agencies; and 3) launching socialized and non-profit schemes corresponding to people's needs in education, housing and care. The improved and expanded social security schemes as mentioned above can be priced at a level affordable to middle-income groups. Meanwhile, the schemes can utilize service network of social security agencies to make mutual assistance among participants. When China's social security network gets better, people can feel free to make consumption, and seek to satisfy their demand of better life. Thus, the society can have a demand-oriented market and realize supply-side structural reforms. It can also drive up economic transformation and upgrading, and thereby promote the “high-quality” development.

3. Reform Suggestions for developing social security in the 14th FYP period

3.1 Realize National pooling as soon as possible

3.1.1 Clear timing for national pooling

In building up the Central Adjustment System, the government has set a goal that in 2020 all social funds should be pooled by provincial administration. This has cleared the basic institutional obstacles and paved the way for national pooling. However, the central adjustment system itself cannot directly realize national pooling by increasing the ratio of funds that provincial administration must contribute to the system. To achieve that goal, it is recommended to conduct appropriate pilots in the “14th FYP” period taking into account the reality of provincial pooling and the running of CAS; and then conduct “cliff-like” reform aimed for national pooling, while terminating the CAS and unifying financial management. After that, we can take another five years to improve the national pooling system and finally unify fundamental policies.

3.1.2 Completely unifying schemes, management and funds

The core of the national pooling system lies in unification of institutional structure and integration of management. It includes not only the unification of institutional framework characterized by unified contribution standard, contribution

structure, calculation method of contribution base, and calculation method of benefit, but also unified fund management with taxation agencies to collect contributions, and unified financial account to form a national pension fund and to pay benefits. Furthermore, it also includes the integration of administration and IT support, for which there should be nationally unified pension insurance service standard. It is also needed to build up a reactive IT platform for pension insurance through the Jinbao III program, and citizens uses their personal ID to access the platform.

3.1.3 Clear division of power and responsibility

After unifying contribution collection and benefit payment, the management and financial responsibilities of central and provincial governments should be redefined. Specifically, the central government should assume the “guarantee” responsibility for the fund, and should be responsible for giving subsidy to cover “contribution gap”. Provincial governments should be responsible for expanding coverage and presetting contribution base. When contribution gap is caused by incomplete number of must-pay contributors, or by mis-calculated contribution base, provincial finance should be responsible for covering the gap. At the same time, there must be strict regulation on the use of provincial funds in stock. The management of provincial funds in stock should still be provincialized, but the use should be only related to basic pension for employees. The priority should be given to paying financial subsidies. The idea is to prevent provincial pension funds from becoming "small treasury" that provides funds for developing local economy.

3.2 Postponement of retirement age

3.2.1 Announcement of the postponement plan

Postponement plan of retirement should be announced as soon as possible, but a long buffer period should be set. Longer buffer period can have more active conduct of the plan, and smaller impact on the society. The buffer period should be at least five years since the announcement to implementation. It's better to make it as long as more than 10 years. Therefore, during the "14th FYP" period, the postponement plan should be introduced at an appropriate time, with announcement of the time for real implementation of the plan, so that insured persons can have time to make preparation in their hearts. Taking into account big issues of China's economy, politics, and social life, it is suggested to announce the plan in the middle or late stage of the 14th FYP period. After introducing the plan, there should be good approach to lead public opinion and good activities for spreading ideas, information, and interpretation of the plan.

3.2.2 Improvement of the postponement plan

On the basis of researches from home and abroad, the basic idea of retirement postponement is generally the same. It is generally agreed that the postponement should be firstly applied to female, and then to male, and finally the increase of retirement age is for both male and female with progressivity and flexibility. As the current retirement age of female workers in China is low, the postponement should be firstly applied to female workers, and in the future to both male and female workers.

Instead of one-step process, postponing retirement age is progressive. The way could be delaying legal retirement age by 2-3 months every year. To encourage workers to postpone their retirement, while taking into account needs of different workers, it is possible to implement a policy that allows workers to choose their own retirement time within a certain age interval. Workers should be allowed to receive pension before or after the normal retirement age, and the benefit should be adjusted according to actuarial principles. To workers who retire after the normal retirement age, there should be economic incentives applied. The concrete incentive plan can be made according to new situation during the “14th FYP” period.

3.2.3 Supporting policy for the postponement plan should be made earlier.

Although the postponement plan will not be implemented during the “14th FYP” period, there should be supporting policies in place in advance. At least the following aspects should be taken into account: 1) The old-age insurance system should be further improved. Retirement postponement should be implemented on the premise that the basic old-age insurance system is complete and fair. Priority should be given to solving the existing unfairness of the system, otherwise retirement postponement will further amplify the unfairness. 2) The labor market system should be refined. Beside the macro-strategy for increasing investment in education and health, the government should promote the adjustment and upgrading of industrial and employment structure. This can provide feasibility to the postponement plan. Besides, more specific and targeted employment policy should be made. 3) More social welfare schemes should be established. What closely related to the elderly are old-age

welfare and child welfare. For postponing retirement, we should develop good welfare system for the elderly.

3.3 Perfection of Multi-tier Social Security System

3.3.1 Better State-Level Design

There should be a Social Security Law to define the role of the multi-tier security system. Based on amended Social Insurance Law, the "Social Security Law" should be formulated in line with China's reality and it should cover provisions on enterprise annuities, occupational annuities, tax-deferred old-age insurance, and other supplementary insurance. It serves as the legal basis of the multi-tier social security system. Vague expressions in current policies should be changed by clarifying borders among the schemes, and defining their functions and targeted groups. It should be clarified that the multi-tier social security system is not a simple supplement to the basic old-age insurance. Instead, it is organic network of various schemes that coordinate with each other for protecting the people. Market and individual should be encouraged to participate in the system to enhance the protection, while pressure on residents' pension expenditure can be thereby reduced.

3.3.2 Optimizing products and services

Hybrid annuity plan, represented by cash balance pension plan, is characterized by high flexibility, low risk, and solidity of payment. It is more applicable to public-sector employees, whose employment is typically with long carrier, stable income, low mobility, and high risk sensitivity. Hybrid occupational annuity plan can

be put into pilot in cities like Beijing and Shanghai where technological strength of pension company is strong, and public entities and institutions are concentrated. In the pilot, public entities, institutions and their employees should be allowed to choose the plans according to local conditions, and thereby obtain more stable retirement benefits. Establishment of individual pension schemes should be accelerated. The scheme should be based on individual investment accounts, allowing individuals to deposit a certain percentage of their income into personal investment accounts, and enjoy corresponding personal income tax incentives. Account holders have the right to allocate funds in their account under prescribed asset portfolio according to their risk-reward preferences. This way, we can form a Chinese-style third pillar for all the people.

3.3.3 Effect demand of multi-tier social security

On the basis of current contribution reduction policy, the policy-makers should explore new space for reducing social security burden. On the basis of the integration of the basic medical insurance and maternity insurance, the work injury insurance should also be integrated, forming a comprehensive social health insurance system oriented to safeguard the health and eliminate risk for residents in both urban and rural areas. The efficiency of using social security funds should be enhanced by ways like concentrating risk management and activating funds in stock. This way, employer's contribution rate of the employee's medical insurance, work injury insurance, and maternity insurance can be 1.25 percentage points lower than the current level. The reform oriented to national pooling should be progressed. On the

basis of this, employer's contribution rate can be 4 percentage points lower. By reduction of the employer and employee's contribution rates can create more space for the market to participate in the development of multi-level security system.

3.4 Strengthening Old-Age Health Service System

3.4.1 Supply-side reform of the old-age health service system

There should be an improved system of laws and regulations for old-age health care services. It is recommended that an *Elderly Services Promotion Law* should be formulated as soon as possible to comprehensively refine existing laws and regulations related to old-age health care services. This Law should change the current situation where the comprehensive provisions are only for macro issues while specific regulations are not systematically complementary to each other. It should make provision for multiple issues of the system such as its nature, development model, source of funds, operation and management, government's functions and legal responsibilities. On this basis, there can be "*Regulation on Administration of Elderly Service Agencies*" and "*Implementation Measure for Elderly Service*" to define specific contents of elderly service and the institutions. The transformation of eligible public elderly service agencies into enterprise or public-private-partnership agencies should be accelerated. The government should make more efforts on developing of public-owned and private-run institutions. The market should be fully liberated to provide elderly care services. Private institutions should receive special support, and government should also think about what kind of policies should be made to support

elderly service enterprises and home-based elderly care centers.

3.4.2 Reinforcing supply of elderly care services

It is recommended to improve the financial investment mechanism for elderly care service. Governments at all levels should act like social manager and public service provider, and regard the elderly care service as one of the focuses of public service system. Financial investment from government in elderly care services should be increased to relevant aspects including infrastructure, equipment and operational subsidies. Government's funds should be used to lead and support the development of this industry. Currently, local governments should be allowed to make financial subsidy policies according to local conditions and needs of elderly care services. Special subsidy policies should be provided for private investment in the elderly care services. In the long run, public subsidies should gradually shift from supporting the supply side to supporting the demand side, and gradually shift from supporting the construction side to supporting the operation side. There can be combination of awards and subsidies as incentives provided to service providers for effect of their services. Support should be given to care-based agencies in urban and rural areas, and they should be encouraged to upgrade functions of beds for care and rehabilitation. Gap of elderly health care resources between urban and rural areas should be narrowed in an appropriate way.

3.4.3 Balanced development of elderly health care service

It is recommended to promote the development of community- and home-based

elderly care service and to promote equalization of community-based elderly care service in urban area. For this, the government should have plan for constructing community service facilities, making full use of existing public facilities, and sharing resources among communities. Health care service facilities in old communities should be renewed, rebuilt or re-purchased to ensure that all public services cover the community residents. It is also recommended to develop embedded-in elderly services in the community by breaking the borders between home and community services. Thus community services can be greater force to support home service and the mis-connection between home and community can be changed. The pilots of contracted family doctor services and family care bed should still be conducted. Development of institutional health care services should be promoted. In the future connection between medical and health cares in institutions will be closer and the combination of medical and health services will become the main stream of institutional services.

3.4.4 Better institutions and mechanisms for elderly care service

It is recommended to enrich operational modes of elderly care service. The recommended models include “public construction with private operation”, and “public assistance to private investment”. A certain proportion of health care services should still be public, while we should also encourage moderate development of pure private health care services aimed for high-end groups.

Public-private partnership (PPP) mechanism for investment in health care services should be improved. It is recommended to refine and concretize the existing

PPP policies, which should clearly define important issues such as cooperation models, rights and responsibilities, asset ownership, management structure, profit space and exit mechanism, so that local authorities know how to conduct their work in concrete way. Operational and managerial mechanism of health care services should be standardized, and government should transform its functions for having real separation of public administration and health care services. Health care service agencies should be encouraged or guided to form their industrial associations, which plays role in networking the industry, sharing resources, conducting self-discipline and professional training.

3.4.5 Participation of social forces in supplying elderly care services

It is recommended to standardize existing incentive policies to form an effective incentive mechanism, and implement taxation, toll, land, and financing policies that facilitate the development of elderly care services. Financial subsidy policy should be further improved and there should not be discrimination in providing subsidies to service providers due to their ownership. Instead, difference of subsidies should be based on content of services provided and categories of service objects. This means public and private agencies should be treated equally. Operating space rental subsidies should be provided to private agencies that need to rent the space for operating their services. For this, there should be a separate plan for land use of elderly care services in order to effectively increase supply of land and house for elderly care facilities. Man-made barriers to the conversion of eligible housing resources should be eliminated, and enterprises should be encouraged to use stocked or idle houses to

build up elderly care service facilities.

3.4.6 Guaranteeing human resources for elderly services

It is recommended to gradually develop employment access system for elderly services, and develop professional and operational standards. More public-interest jobs should be provided for the elderly care service industry. Authorities of health, the civil affairs and human resources should co-operate to provide public interest jobs for home-based and institutional elderly services, and make efforts on enhancing stability of work staff in private institutions. Connection and cooperation between health care service agencies and nursing schools should also be strengthened.

3.5 Build up a moderate and universal child welfare system

3.5.1 Better legal system for child welfare System

The purpose of legislation for child welfare is to legalize the formulation, recognition and change of social norms of child welfare, and to enable child welfare to run on legal track. At present, China has enacted a number of laws such as the *Law on Child Protection* and the *Adoption Law*. China has also joined the *UN Convention on the Rights of the Child*, but no special child welfare law has been enacted in China. Therefore, it is necessary to strengthen the top-level design and study for finally formulating a “*Child Welfare Law*”. For the legislation of the *Child Welfare Law*, the first thing is to define the role of this law in the legal system for children issues. This law should also be relatively independent from laws outside the legal system for

children issues. The distinction between child welfare law and child protection law should be maintained, while articulation between child welfare law and children-related provisions in the Criminal Law, Civil Law, and Criminal Procedure Law should be ensured. In the Child Welfare Law, the border between the state, family and the society should be clearly defined. Welfare of children in special groups should be put under focus. Welfare of all children should be respected and children's right to access to welfare should be guaranteed. On the basis of Child Welfare Law and taking into account children's development, the state should formulate a series of specific law for protecting children and their welfare.

3.5.2 Guaranteeing funds for child welfare

As an important part of public services, child welfare should receive more financial input. Funds for child welfare should be included in public budget, and mechanisms should be established to guarantee sources for funds of child welfare. At the same time, it is necessary to encourage enterprises and private capital to enter the field of child welfare, and private capital's enthusiasm of participating in developing child welfare should be activated through tax incentives. 6 ministries including the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission, the Ministry of Civil Affairs have issued the *"Announcement on Applying Tax and Charge Incentive Policies to Community and Family Services such as Elderly Care, Child care and Housekeeping, etc."*, which is for applying tax reduction or exemption incentives to enterprises and institutions that earn income from providing the mentioned services. In addition, it is in need of

fostering social service organizations and volunteer teams for children, families, and communities. They are all important force in developing child welfare.

3.5.3 Better management system for child welfare

There should be a management institution for child welfare that fits into China's reality and is operated on the basis of various institutions and mechanisms. This institution should cover all children's needs of welfare and should be responsible for specific work of child welfare work, including making child welfare policy, formulating law and regulatory framework. It should keep effective linkage with relevant competent agencies. In different administrative regions, there should be agencies for managing child welfare. In communities, there should be child welfare centers. Thus, China can have an administrative system for managing child welfare across the country.

3.5.4 Better evaluation system for child welfare

Effective monitoring and evaluation is an important measure to prevent children from involving in social problems and protect child welfare. China needs to establish a normalized and professional monitoring and evaluation system for child welfare. Following "China Children's Development Program", China has established an annual and medium-term monitoring and reporting system for child welfare. The next step is to establish a normalized monitoring and evaluation network that covers the government, the society, communities, and schools.

3.5.5 Strengthening family's protection of child welfare

For children's growth, family resources are natural, free, and irreplaceable. Traditional Chinese culture has always attached importance to families, and family plays an important role in children's growth and education. According to China's reality and cultural traditions, to improve China's child welfare system, “family” should be put in the central place, and we should enhance family's ability to protect child welfare by giving family help and support. In particular, for children living in normal households, the financial burden of the family should be alleviated by providing the family with supportive child welfare methods such as medical insurance, childcare, and basic education public services; while for children living in poor families, on the basis of supportive child welfare, more ways to supplement child welfare such as child living allowances should be provided to cover basic needs of the children. For the overall design of the child welfare system, we must take into account the important functions of social security provided to family. Thus family services should be included in the system.

3.5.6 Professional teams for child welfare

Professional teams play an important role in the work of child welfare. As child welfare is developing further, this role gets more and more prominent. Compared with developed countries, China's child welfare occupation system develops later, and professionalization of workers in this field is low. It is necessary to introduce top-level

policy from the state, which adds social work professionals for child welfare in national occupational catalogue. We should build up a training system for child welfare professional that covers protection of children's physical health and mental health. Thereby, we can have professional teams with sufficient number of workers that match children's population and their needs, which helps to promote healthy development of children.

3.6 Coordinating social security for both urban and rural areas

3.6.1 Better design of institutions and mechanisms

Effective coordination of urban and rural social security system cannot be realized without optimization of institutions and mechanisms of social security system. For the basic old-age insurance system, it is necessary to have national pooling and financial adjustment system. Its individual account system should be improved, and retirement age should be progressively postponed. Furthermore, portability of the system should be improved. For the medical insurance system, it is necessary to heighten the level of contribution pooling, and to increase the proportion of insurance-covered reimbursement. Besides, mechanisms like three-party coordination for medical expenses and acceptance of non-local patient should be improved. For Dibao scheme, it is necessary to 1) standardize the benefits, 2) establish a normal benefit growth mechanism, and 3) improve the income survey system. Finally, we must improve the investment management of the pension fund should also be improved by offering bids to investment managers, and by broadening investment

scope.

3.6.2 Division of government's function and responsibility

In promoting social security's legislation, the government should pay special attention to the coordinated development of urban and rural social security systems. In formulating development plan of social security, integration of urban and rural social security should be taken as a key strategic goal. Relevant social resources should be mobilized to ensure the realization of this goal. It is also necessary to strengthen monitoring of the development of social security, which helps to identify and solve problems arising in the coordination or integration of social security schemes. In addition, the government should provide the public with consultancy service about social security laws and regulations. When adjustment and new policy are made, the public should be informed as soon as possible, and government should provide them with reasons for the adjustment. This is to protect people's right of awareness.

3.6.3 Stronger legal system for social security

The social security system is relevant to long-term stability of a country. Most countries in the world make compulsory arrangements of social security by legislation. China should introduce legislation on social security as soon as possible, so that social security system can run in legalized way. As different schemes of the social security system are developed in different periods at different speed and levels, legislation for them should also be made in different times according to the real situation. For social

insurance, the "Social Insurance Law" has been promulgated. It is recommended that the State Council formulates "*Regulation on Old-age Insurance*" and "*Regulation on Medical Insurance*", of which the contents include regulation on coverage, financing methods, benefit models and adjustment mechanisms, fund investment and supervision, illegal economic and social activities and responsibilities. For Dibao, there is the *Regulations on Dibao Urban Residents*. It is recommended to introduce a national Dibao Law as legal basis for regulating both urban and rural Dibao schemes. The focus of the law should be on the defining responsibilities of government agencies at different levels, standardizing the ways of determining and adjusting Dibao benefits, and concretize supervision method for the scheme.

3.6.4 The public's awareness and participation

The public's familiarity with the laws and regulations of social security is an important factor affecting their enthusiasm to participate in the system. Therefore, efforts should be made to reinforce the public's awareness of system. Actually, residents in both urban and rural areas have very limited understanding of the importance of the social security system. They are usually passive in paying contribution to the schemes. This is not good for them to know and understand social security, and not helpful to let them accept and support the policies. The lack of knowledge about the social insurance system also affects the expansion of coverage. Expanding coverage through compulsory ways is far less effective than active participation of the public. In recent years, the frequent adjustment of social insurance schemes and irregular management and operation of the administration have shaken

the public's confidence in the social insurance system, and it has made it more difficult to heighten the administrative level of social pooling, expand the coverage and increase compliance rate of contribution. Actually, the public should take initiative to learn about and get familiar with the social security system, especially the provisions related to individual rights and obligations, so that they can have right understanding of the system.

3.6.5 Increasing Investment from Public Finance

The coordination of urban and rural social security relies on support of public finance. For managing public finance in this regard, the first thing is to rationally define administrative powers and financial powers of public finance agencies in the field of social security, with clear definition of their responsibilities. It is recommended that the central government is mainly responsible for the formulation of national laws, regulations and plans for the social security, and the supervision of financial investment and management. It should strengthen its leading role in social security through regulating the transfer payment system. The local government should be mainly responsible for the implementation and daily affairs of local social security, guaranteeing financial support to social security. The second thing is to increase the proportion of social security expenditures in public budget at all levels, in order to increase the power of social security. Benefit adjustment mechanism for social security should be formed. At local level, the adjustment must be compatible with local economy. The key direction is to increase subsidies for the BOI and the BMI for Urban and Rural Residents, and increase benefit of Dibao scheme. Finally, the

budgeting mechanism for social security budget should be enhanced by consolidating power and stability of fiscal expenditure on social security. There should be separate social security budgets in the central and provincial governments, and social security expenditures should be put down as one of the key items in public finance. Furthermore, income from contribution/tax, public subsidies, private donation, transferred state-owned assets, and public-interest lottery should be included in the social security budget, so that social security revenue and expenditure activities can be subject to strict budgetary supervision.

3.7 Reforming Housing Security

3.7.1 Improving the provident fund system

It is recommended to deepen the reform of the provident fund system, by transforming its management under public administration to management by policy-based financial enterprises, laying a solid market-oriented foundation for building up financial institutes managing the provident fund. In particular, the first action should be allowing people to voluntarily pay contribution to the provident fund and making this way as a principle. To newcomers, new rules should be applied, while to old contributors old rules should be applied. This way, provinces with sufficient conditions can include groups like agricultural migrants, non-public-owned enterprises and freelance workers into the provident fund system. With appropriate way, the system can attract more people by changing the compulsory monthly contribution and allowing people to contribute at their discretion. The second action

should be having strict rule in use proceeds of the provident fund, in order to have better protection of the income for depositors. The value-added returns on the fund managed by local authorities should be gradually retreated from the authorities and transferred to be subsidies given to deposit interest of depositors or loan interest of house buyers. It is recommended to increase the interest rate of deposit and decrease the interest rate of housing loan. The third action should be pooling the fund at higher administrative level. Provincial governments should be encouraged to pool the funds, and these funds could be used by provincial governments for balancing provident fund revenue in different regions within a same province.

3.7.2 Pilot for policy-supported savings bank for housing loan

It is recommended to select eligible regions to carry out pilot projects for establishing policy-supported financial institutions for housing loan. The pilot can explore the way for developing financial institutions of mixed ownership to attract private capital, and to improve internal governance and efficiency. For this, the first action should be defining role and functions of the financial institutions. The policy-supported financial institution for housing should be defined as credit institutions that collect low-interest-rate deposits from clients and use the deposits to issue housing loans to house buyers. These institutions provide long-term and stable low-interest-rate loans to old and new urban residents who want to buy houses or improving housing conditions. Old spreads of provident fund accumulated in commercial banks should be also used to assist the residents in buying houses. The second action should be defining the eligibility of potential pilot areas. The priority

should be given to areas with 1) positive net population inflows, 2) insufficient housing supply, 3) prominent housing price conflicts, and 4) strong demand for provident fund loans. Conditions like whether local policy allows people to voluntarily pay contribution to the fund and what the administrative level for pooling the fund is could also be taken into account. The third action should be fixing the direction of policy. Policy makers should think about 1) how to use some parts of risk reserves for provident fund loans as well as development funds to form the capital; 2) whether it is possible to exempt tax on depositors' interest income exempt from income tax; 3) how to establish supportive mechanisms like guarantee mechanism; and 4) how to reinforce sustainability of the financial institutions. The fourth action should be explore the way for establishing a policy-supported housing financial institution of mixed ownership. A Policy-supported housing financial institutions should not necessarily be state-owned institutions. In addition to government, financial institutions, powerful enterprises, provident fund managers and depositors can all be shareholders. Mixed ownership is conducive to amplifying the function of state-owned capital and vitalizing private capital to participate in this field. The fifth action should be conducting pilot of assets securitization, such as REITs, for eligible housing provident fund loans. This is a way to accumulate experience in asset securitization business for other housing loans. Under the premise of controlling risks, some high-quality provident fund loans can be selected for the securitization pilots (REITs). This way is not only helpful to enrich the variety of assets available for investment, and broaden the investment channels for depositors, but also helpful to provide sustainable and market-oriented support to people to meet their basic housing and social security needs.