



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

Workshop Report

NDC Systems and Public Pension Reform: Challenges, Prospects, and EU Experiences

Ministry of Finance, P. R. China

Tuesday, December 15th, 2015

Beijing

Renmin University of China, Qiushi Building

INTRODUCTION

The EU-China Social Protection Reform Project- Component 2 Workshop on 2015 Research Topics—NDC Systems and Public Pension Reform: Challenges, Prospects, and EU Experiences was held on 15 December 2015 to conclude the research under topic 2.2.1—Nominal personal account reform in the basic pension system and topic 2.1.1.—The division of decision power and expenditure responsibilities on social security between central and local government. Some 30 participants, including representatives from Ministry of Finance, Development Research Center of the State Council, Chinese Academy of Social Sciences, Renmin University of China and other Chinese stakeholders, the EU Delegation to China and Mongolia and the project team took part in the discussions.

The agenda and list of participants are attached at the bottom of the document.



Mr. Gong Sen and Mr. Dong Keyong jointly chaired the Workshop.

Mr. Fu Jinling, Director general of the social security department of MoF, and Mr. Stefano Patriarca, EU Resident Expert of Component 2 and Team Leader, give the opening speech, in which they welcome the participants and introduce the Chinese and EU experts attending the event. Mr. Fu Jinling emphasizes the importance of the Workshop as learning from the EU experiences within the topics under discussion is a useful mean to improve the Chinese social security system. Mr. Stefano

Patriarca offers a brief introduction about the EU-China Social Protection Reform Project and a brief summary of the major achievements of the year 2015.



PART ONE

Moderator: Mr. Gong Sen, Director of the Institute of Public Administration and Human Resources, Development Research Center of the State Council

In his opening remarks, Mr. Gong Sen said as the template of China's public pension system, urban employees' basic pension system is a combination of social pooling and individual accounts, in which the accumulation of funded system of individual accounts is to cope with the peak of future population aging, nevertheless, today the individual account is empty. Furthermore, the present urban employees' basic pension system faces challenges of equity and sustainability. How to improve the system's fairness and sustainability is one of the biggest challenges that the Chinese government is now facing. Mr. Gong Sen explained that in the first part of the Workshop two EU experts will introduce some useful EU experiences in the field.

Session 1:



Speaker: Mr. Marano Angelo, Director general in the Ministry of Labour and Social Policies, Member of the Board of Auditors of the National Institute of Social Protection (INPS), Italy.

Title: NDC Nominal Personal Account pension systems. Features, advantages and transition problems in the EU experience.

Mr. Marano presentation mainly focuses on five parts: the definition of NDC; the pros and cons of NDC; NDC in the EU: Italy, Sweden and Poland; the transition to NDC; and financing NDC systems. After a detailed introduction on the NDC systems of Italy, Sweden and Poland, Mr. Marano emphasizes that, in each of the three countries, the NDC system is part of an overall pension system, which also contemplates private pension funds to supplement income, as well as social assistance minimum pensions to guarantee minimum living standards. Following, Mr. Marano points out the rising issues when considering the transition to NDC, such as: To whom to apply the new system? To all cohorts or to the youngest generations only? In full or mixing the old and new regimes? Furthermore, besides the issue of the conversion of pension rights accrued before the new system, one key element to be well managed is financing the NDC system, on this point the expert compares the features of a PAYG system versus

a funded system. Finally, Mr. Marano gives some remarks on the need of a transparent redistribution within NDC.

Session 2:



Speaker: Mr. Stefano Patriarca, EU-China SPRP, C2 Resident Expert and Team Leader.

Title: Computing pensions, adequacy and redistribution management in a NDC system.

In his presentation, Mr. Patriarca emphasizes that, when evaluating pension systems, two main aspects are the adequacy of retirement incomes and the long-term financial sustainability of pensions. Generally speaking, adequacy of retirement incomes is essentially a microeconomic concept: operationalizing it involves assessing individual pension entitlements against a benchmark. Sustainability is a macroeconomic concept: it refers to the finances of the pension system as a whole. The image of adequacy and sustainability as “two sides of the same coin” needs to be understood in the right way to be appropriate: the two are intertwined and one cannot exist or continue without a modicum of the other, therefore adequacy and sustainability concerns in pension policy need to be sufficiently balanced. Mr. Patriarca provides some examples and EU experiences on ways to increase redistribution and fairness within a NDC system; using the case of Italy, he explains some crucial parameters on computing pension; and finally underlines the importance of periodically adjusting the pension age, in line with the increasing of life expectancy.

PART TWO



Moderator: Mr. Dong Keyong, Professor and Previous Dean of the School of Public Administration and Policy, Renmin University of China.

Mr. Dong Keyong underlines the serious issue of the so called empty accounts in China. By the end of 2014, the empty accounts scale amounts to ¥3597.5 billion, and this amount is expected to rise rapidly in the future. How to deal with this problem is a big challenge for the Chinese society. Despite some experts support it, NDC system is still controversial in China, he himself was against the proposal. But at the same time, he thinks, we can also learn a lot of useful experiences from NDC experience in EU countries. Mr. Dong Keyong explained that in part two, two experts from EU will introduce some useful experience in EU countries and one CN experts, Professor Li Zhen, will give a detailed analysis about individual accounts in China.

Session 3:



Title: Management tools and instruments for a system based on individual accounts: the case of the Italian National Institute of Social Protection.

Speaker: Mr. Roberto Notaris, Analyst of work processes in the field of pension benefits, INPS.

Mr. Roberto Notaris shares some experiences about personal account in Italy. The first is the so called - unified account statement - an instrument that connects the essential information about a single citizen in a unified view, regardless of the archives that contain the analytic information, in order to obtain an organic, immediate and progressive representation of

his or her situation in social protection system. Its main objective is the control of two aspects: the correct payment of contribution, and the possible results of the contribution in terms of the right and measure of pension benefit. The presentation of information should 1) actually allow citizens to have the possibility to check the data of pension position in dynamic career development and 2) allow the Social Protection Institute to have the possibility to provide its services on time (e.g. calculation of pension). For reaching both of these two finalities, the Account Statement must prepare a “descriptive” and an “accounting” presentation. Following, Mr. Notaris provides the example of the “Supply Flow of Information” system (UNIEMENS); shares the initiative of “My Pension”, a proactive and consultant service for the citizens; and finally introduces some experience on the integration of different administrations in Italy, as the construction of a unified database of all the active workers.

Session 4:



Title: International experience on the division of power and expenditure responsibility in the social protection field.

Speaker: Mr. Mel Cousins, International Social Protection Expert.

This session focused on the topic 2.1.1.—The division of decision power and expenditure responsibilities on social security between central and local government. Mr. Mel Cousins shares the experience in this field, mainly focusing on pensions and in particular on the cases of France and Germany, looking at the power of decision, power of implementation,

responsibility of expenditure, and power of supervision. While China presents a decentralized social protection policy, in most EU countries social protection started off at local level and over time planning and administration of social protection moved towards the national level. In the case of France and Germany, social protection policy is quite centralized. In France, decision, implementation, expenditure and supervision are controlled by national government. In Germany, decision, expenditure and supervision are controlled by national government, but the implementation is a business of national and local government. By looking at the relation between EU and Member States, power and responsibility are mainly at Member State level. Mr. Cousins introduces the EU experience of the “open method of coordination” (OMC), used by Member States to support the definition, implementation and evaluation of their social policies and to develop their mutual cooperation. In the EU, relevant to MoF, pensions have become very important under the Stability and Growth Pact ; 50% of country reports in 2015 discussed pensions.

Session 5:

Title: NDC Reform in the Basic Pension System

Speaker: Professor Li Zhen, Director of Social Security Research Institute, Renmin University of China.

Professor Li Zhen’ speech contains five parts: 1) China’s pension system and its features; 2) An analysis of Urban Enterprise Employee’s Basic Old-Age Insurance; 3) Some thoughts on how to make a better Urban Employee’s Basic Old-Age Insurance; 4) Puzzles and options of the individual account for urban enterprise employees; 5) Solutions to improve the old-age income security system.

Professor Li Zhen emphasizes that the puzzles of individual account are at first “theoretical puzzles”: the individual account is not an insurance product; mixing PAYG and individual account does not meet the principle of social insurance. Individual account does not encourage saving, but confuses public goods with private goods. Second, they are “practical puzzles”: 1) If fully fund the accounts as the policy was designed: How to calculate the transition costs? How much is the transition costs? Is the state able to pay? How to ensure it will not be empty again in the future? How to achieve a reasonable rate of return for the pension accumulations? 2) If set up a NDC account as expected by the public opinion: What interest rate should pay? A low interest rate will reduce the level of benefit and harm the participants; while a high interest rate will increase liabilities and harm the economic growth. Third, new challenges of the individual account for urban enterprise employees, such as increase in the number of monthly divisor will further lower the level of benefits, and the redistribution of surplus from individual accounts will further discourage participating.

According to Professor Li Zhen research, to abolish the individual accounts is a better solution, and by separating the individual account and social pooling to strengthen and encourage voluntary personal savings is good for a multi-pillar pension system that targets at all elderly people.

Open Discussion

In China, some economists suggested to move to the NDC direction, but the issue is debated. Lots of experts are against this proposal. Professor Li Zhen, Professor Dong Keyong, Professor Zheng Gongcheng have different opinions with Professor Zheng Bingwen, who supports the NDC system. In this section, Professor Dong Keyong and Professor Wang Xiaojun explained their views on how to improve the Chinese basic pension insurance system and not only solve the individual account issue.

Wrap-up and Conclusion:

Speaker: Mr. Fu Jinling, Director General, Social Security Department, Ministry of Finance, China.

Mr. Fu Jinling gives the final remarks.

First of all, he says that the Third Plenary Session of the 18th Central Committee of the CPC had made it clear that by instituting a fairer and more sustainable social security system, we will adhere to the basic old-age insurance system that combines social pools with individual accounts. About the individual accounts, the Third Plenary Session uses the sentence: “improve the individual accounts system”, which is different from “consolidate the individual account”. How to understand “improve” is the key issue, some experts support NDC system and the MoF agrees with this position. Nevertheless, at the same time, there are lots of experts against this opinion for valid reasons.

Secondly, he points out few problems which need further study: **1)** What interest rate should be paid for individual accounts? **2)** How to deal with the transition cost? On this regard, MoF believes that it is not suitable to let it to the next generation, we must consider how to transfer part of state-owned assets to pension system. **3)** The scale of individual account needs to be adjusted, no matter which road we choose to, fully funded accounts or NDC. **4)** Redistribution of surplus from individual accounts is needed. **5)** The number of monthly divisor needs to be adjusted according to the increase of life expectancy.

The third, He emphasizes that the relationship between the government, enterprises and individuals in social insurance field is very important, as well as the relationship between the central and local governments in social security field.

Finally, he says that we need to take comprehensive measures to realize fairness and sustainability in social security field, the power of markets, such as commercial insurance, is very important.

Summary prepared by Mr. Huang Wanding and Ms. Valentina Pignotti

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AGENDA		
9:00 – 13:00	Moderator: Mr. Gong Sen, Director of the Institute of Public Administration and Human Resources, Development Research Center of the State Council	
9.00 – 9.15	Registration	
9.15 – 9.30	Welcome and Presentation	Mr. Fu Jinling , <i>Director General, Social Security Department, Ministry of Finance, China</i> Mr. Stefano Patriarca , <i>EU Resident Expert Component 2, Team Leader EU-China SPRP</i>
9:30 – 10:30	Session 1*: NDC Nominal Personal Account pension systems. Features, advantages and transition problems in the EU experience	Mr. Marano Angelo , <i>Director general in the Ministry of Labour and Social Policies, Member of the Board of Auditors of the National Institute of Social Protection (INPS), Italy</i>
10:30 – 10:45	Coffee break	
10:45 – 11:45	Session 2: Computing pensions, adequacy and redistribution management in a NDC system	Mr. Stefano Patriarca , <i>EU-China SPRP, C2 Resident Expert and Team Leader</i>
11:45 – 13:00	Lunch break	
13:00 – 17:00	Moderator: Professor Dong Keyong, Previous Dean of School of Public Administration and Policy, Renmin University of China	
13:00 – 14:00	Session 3: Management tools and instruments for a system based on individual accounts: the case of the Italian National Institute of Social Protection	Mr. Roberto Notaris , <i>Analyst of work processes in the field of pension benefits, INPS</i>
14:00 – 15:00	Session 4: International experience on the division of power and expenditure responsibility in the social protection field	Mr. Mel Cousins , <i>International Social Protection Expert</i>
15:00 – 15:15	Coffee break	
15:15 – 16:45	Session 5: NDC Reform in the Basic Pension System Open Discussion about the NDC Reform in China	Professor Li Zhen , <i>Director of Social Security Research Institute, Renmin University of China</i>
16:45 – 17:00	Wrap-up and Conclusion	Mr. Fu Jinling , <i>Director General, Social Security Department, Ministry of Finance, China</i>

*Each keynote lasts 40 minutes and is followed by a Q&A session.

Chinese Participants List

No	Name of the participants	Institution/organization
1	符金陵 Mr Fu Jinling	中华人民共和国财政部，社会保障司副司长 Director general of social security department, Ministry of Finance, China
2	李珍 Prof.Li Zhen	中国人民大学，社会保障研究所所长 Director of social security research institute, Renmin University of China
3	董克用 Prof.Dong Keyong	中国人民大学，公共管理学院教授 Professor of school of public administration and policy, Renmin University of China
4	贡森 Mr Gong Sen	国务院发展研究中心，公共管理与人力资源研究所 所长 Director of Institute of Public Administration and Human Resources, Development Research Center of the State Council
5	王晓军 Prof.Wang Xiaojun	中国人民大学，统计学院副院长 Vice Dean of Department of Statistics, Renmin University of China
6	赵福昌 Mr Zhao Fuchang	财政部财政科学研究所，财政与国家治理研究中心 主任 Director of the research center of Finance and national governance, Research Institute for Fiscal Science, Ministry of Finance
7	张盈华 Ms Zhang Yinghua	中国社会科学院，世界社保研究中心执行研究员 Researcher, The world social security research center, Chinese Academy of Social Sciences
8	郭瑜 Ms Guo Yu	中国人民大学，劳动人事学院社保系系主任 Head of social security department, School of Labour and Human Resources, Renmin University of China
9	陈泰昌 Mr Chen Taichang	中国人民大学，社会保障研究所 Social security research institute, Renmin University of China
10	邸东辉 Mr Di Donghui	财政部，社会保障司处长 Division director, Social Security Department, Ministry of Finance, China
11	胡鹏 Mr Hu Peng	财政部，社会保障司调研员 Division director level officer, Social Security Department, Ministry of Finance, China
12	黄耀冬 Mr Huang Yaodong	财政部，社会保障司调研员 Division director level officer, Social Security Department, Ministry of Finance, China
13	桂雄 Mr Gui Xiong	财政部，社会保障司副处长 Division vice director, Social Security

		Department, Ministry of Finance, China
14	岳林 Mr Yue Lin	财政部，社会保障司主任科员 Principal staff member, Social Security Department, Ministry of Finance, China
15	张思聪 Ms Zhang Sicong	财政部，社会保障司主任科员 Principal staff member, Social Security Department, Ministry of Finance, China
16	宋云鹏 Song Yunpeng	中国人民大学，社会保障研究所 Social security research institute, Renmin University of China
17	张彦生 Zhang Yansheng	中国人民大学，社会保障研究所 Social security research institute, Renmin University of China
18	单戈 Shan Ge	中国人民大学，统计学院 Department of Statistics, Renmin University of China
19	姜增明 Jiang Zengming	中国人民大学，统计学院 Department of Statistics, Renmin University of China

EU Participants List

20	斯岱法诺·帕特礼雅尔卡 Mr Stefano Patriarca	中国欧盟社会保障改革项目，第二部分欧盟常驻专家/项目组组长 EU Resident Expert Comp 2 and Team Leader
21	法必奥·安哲洛·马拉诺 Mr Fabio Marano Angelo	意大利劳动与社会保障部长官， 意大利国家社会保障署审计委员会成员 Director general in the Ministry of Labour and Social Policies, Member of the Board of Auditors of the National Institute of Social Protection (INPS), Italy
22	安哲拉·黎纪倪 Ms Angela Legini	意大利国家社会保障署，统计精算司长官 Statistician and Actuary- Staff of General Director of the National Institute of Social Protection (INPS), Italy
23	罗伯德·诺达礼思 Mr Roberto Notaris	意大利国家社会保障署，社保福利领域过程分析师 Analyst of work processes in the field of pension benefits, the Italian National Institute of Social Protection (INPS), Italy
24	梅格行 Mr Mel Cousins	国际社会保障专家 International Social Protection Expert
25	圭亚 Mr Jean-Victor Gruat	中国欧盟社会保障改革项目，第一组欧盟常驻专家

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		EU Resident Expert Comp 1
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27	易小琳 Ms Yi Xiaolin	欧盟驻华代表团，项目官员 Project Officer, EUD
28	毕若华 Ms Valentina Pignotti	中国欧盟社会保障改革项目，项目组长助理 Research Assistant
29	黄万丁 Mr Huang Wanding	中国欧盟社会保障改革项目，第二组执行专家 CN Expert Operations
30	林国旺 Mr Giovanni Lin	中国欧盟社会保障改革项目，翻译 Interpreter