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

1.4.3 - TECHNICAL PRINCIPLES

FOR COORDINATING SOCIAL SECURITY LEGISLATIONS

Component 1

China's active population counts some 250 million mobile workers, who typically leave their rural place of origin to work in a more urban environment. Many among this floating population do not settle in a new place of life of which they would become a fully-fledged resident – but move from one temporary residence and workplace to another. In cases where they would contribute to social security, the fragmentation of China social insurance into hundreds of pooling areas make it necessary to provide for specific provisions facilitating the preservation of rights, notably for pensions. The situation is considered particularly difficult to address, because existing vesting provisions in China are limited to the transfer of contributions inscribed in individual accounts – a transfer that may be hampered when individual accounts are virtual, which is frequent -, the basic pension (benefits defined) remaining to be covered by the last place of residence, where contributions may not have been paid. Europe has been confronted to similar situations, and has accumulated experience in multilateral coordination of social security legislation since the years 1970s. The present Note intends to detail how the European experience could be useful to help address the Chinese situation.

- Coordination of social security legislation has been established as a special mechanism to ensure that migrant workers having contributed to different pension schemes at different periods of their professional career do not, at the end of their active life, be left without pension rights because they fail to meet qualifying conditions under individual schemes to which they contributed.
- This is typically what happens in China to domestic migrant workers, because of the non transferability of rights resulting from the pooling of resources within limited geographical settings. The coordination technique may therefore be considered as potentially interesting to overcome existing difficulties without waiting for the future nation-wide unification of the urban pension scheme. Its existence would also free social security institutions from the burden of paying back own contributions every year to sometimes hundreds of thousands of departing workers, would ease the burden on governments having to socially cover the most basic needs of workers on return to their place of origin without benefiting from a pension, and would probably facilitate compliance with established affiliation rules and regulations, since the likelihood of receiving a pension would be greatly increased for the workers.
- Coordination of pension legislation results from agreements passed between interested social security institutions and endorsed by corresponding local governments. Such agreements do not provide for transfer of contributions, but for a sharing of pension entitlements among the various schemes to which a worker will have contributed.
- Such agreements typically include provisions avoiding imposing obligations not matched with previous contributions on any participating scheme, and may be designed in a manner that avoids

that resulting benefits be considered either as too high with regard to living standards at the place of retirement, or unfavourable for the workers concerned in view of their past contribution records.

- The Chinese urban pension system pays benefits associating a basic component – a percentage of average remuneration at the place of retirement – and an individual component – directly derived from workers' own contribution records topped up with a part of contributions paid by the employers on their behalf. While vesting the latter does not seem to create any specific difficulty, the former (basic pension) that is paid out of pooled contributions raises significant financial and equity issues.
- Among those issues, one may quote the impossibility to transfer from one area to the other part of the resources earmarked for paying for current benefits, and the different levels of average wages, i.e. of basic pensions, among the different locations, which would make the transfer of such contributions from one location to the other inappropriate for the subsequent calculation of the basic pension – in other words, the fact that one year contributed in Guangzhou is worth substantially more than one year contributed say in Changsha.
- Coordination of legislation avoids any transfer of contributions among schemes, and corresponds in fact to the payment of benefits by one institution on behalf of another one – which would reimburse the payee on the basis of the contributions previously cashed. Technically, this method is described as "*Totalling insurance periods, Proportioning benefits*".
- If a worker has accomplished 5 years of insurance under each of the schemes A, B and C which have concluded among them coordination agreements, and retires in C after reaching the pensionable age, each scheme will consider that, since in total he/she will have completed the required 15 years of insurance among coordinated schemes, there will be entitlement to a pension benefit from each individual location. Each scheme would calculate the worker's entitlements according to its own legislative provisions as applied to insured persons having completed 5+5+5=15 years of insurance, but recognize those only in proportion of the length of recorded insurance.
- The basic pension of the worker would therefore be of 5/15 Basic Pension A + 5/15 Basic Pension B + 5/15 Basic Pension C, that may be limited to 100% of Basic Pension C after 15 years of insurance. For individual accounts, each scheme would calculate workers' entitlements according to its own legislation.
- The overall responsibility for initiating the process of coordination – i.e. contacting previous schemes to ascertain reality of worker's insurance career and confirming the share of aggregated pension incumbent upon individual schemes – as well as the payment on behalf of coordinated schemes (only one aggregated pension benefit is paid), would normally be incumbent upon the scheme of the place of retirement, subject to subsequent reimbursement or advance payment of their shares by other schemes participating in the agreement.
- If a scheme with which no agreement was passed is part of the workers' career, the corresponding periods are not taken into account in the final appreciation of pension entitlements – which may be revised should, at a later stage, this scheme also enter into the agreement. In other words, if a worker has accomplished 5 years of insurance under each of schemes A, B, C and D where he/she retires, with C not being involved in coordinating agreements, pension benefits would be of 5/15 of basic pension A, B and D within limit of 15/15 basic pension D plus corresponding component for individual account. If subsequently scheme C joins in the coordinating agreement, and provided the worker did not previously ask for reimbursement of his/her contributions with C, the corresponding individual account would become payable, as well as the additional share of the

basic pension provided the total does not exceed 100% of basic pension entitlements corresponding to 20 years of insurance with scheme B.

- The worker may of course retire in a location where he/she has not contributed to pension insurance, or which is not part to the coordination agreement, than the responsible institution for the administrative process would be the last one included in the agreement. Of course, the reality of workers' vesting of pension rights will very much depend on the number and relevance of social security institutions participating into coordination agreements.
- It may be hoped that, in view of the practical usefulness of such agreements for migrant workers, respective local Governments will take all necessary steps for their rapid conclusion, implementation and awareness among concerned workers and employers, making use for initiating the process of existing networks concerning labour mobility between Provinces. Needless to add, such approach would respond to the State Council directive of 28 March according to which "*those migrant workers, who have joined pension fund in urban, should be covered continuously by their employers. And labor departments have to explore solutions on continuations of migrant workers pension if they move to other cities.*"

Jean-Victor Gruat.2007 / 2015