Introduction

Since the mid-1990s, China has undertaken an overhaul of its social security system, which was one of the essential elements in a market-oriented economic reform and social transition process. In the early 1990s, pension reform was primarily confined to urban workers, particularly to those employed in state-owned enterprises (SOEs), leaving a large number of workers in the informal sector and rural areas outside the social protection system. In 2006, central government announced for the first time a goal for social security development – to achieve full coverage in urban and rural areas by 2020. Following on from this, several public pension pilot programmes have been initiated in recent years, including a pension reform pilot for public service units (PSUs) in 2008, a new rural pension plan in 2009 and an urban residents’ pension plan in 2010. As a result, China has constructed a multi-plan framework for old-age protection which has the potential to include all types of groups constituting the labour force. At the end of 2010, it was estimated that about 360 million insured, representing 39 per cent of the labour force, were covered by one of three public pension programmes: (1) the pension scheme for urban workers (236 million, 25.7 per cent); (2) the new rural pension scheme (103 million, 11.1 per cent); and (3) the pension scheme for government workers and those working in PSUs (21 million, 2.3 per cent) (MOHRSS 2011; Ma 2011). While the current public pension system covers only about half of the urban population and less than 20 per cent of the rural population, it is constantly evolving; however, great efforts will be required to achieve the target of “full coverage”. This goal also presents difficulties due to various flaws within the existing system, given that issues such as high contribution burden,
limited portability of accrued benefits, low level of social pooling, poor fund management, etc. have not been fully addressed. At the same time, many new challenges, such as ageing population, rapid urbanization, increased income inequality and urban–rural disparities, increasing informality of the labour force, changes in family structure and the effects of increased globalization, have emerged in the economic transformation process.

To achieve universal coverage, there are two pathways that could be followed in the process of China’s public pension reform – “fragmentation”, which implies following the historic reform pathway under which separate pension schemes for different social groups coexist, which could be modified and patched into an integrated system that allows portability of benefits; and “unification”, which would introduce a unified public pension system, replacing the current programmes. According to this author, the latter is preferable, as can be seen from a variety of international cases of extending social security coverage. Unfortunately, China’s pension policies appear to have followed the “fragmentation” pathway in recent years; on the one hand, this could in part be attributed to policymakers, since it is more easily implemented and expands pension coverage rapidly in the short term without major structural adjustment, and, on the other, it partly results from a lack of awareness about the urgent need to adopt a unified system, and consequently few reform solutions have been put forth in this direction. While various research proposals on China’s pension reform have come up with the idea of an integrated framework, few have examined the feasibility of a unification reform model, especially aiming at integration of the rural and urban resident pension schemes established in 2009/2010 (see Bingwen 2008; Barr and Diamond 2010).1

This chapter will illustrate these two strategic visions of pension reform in China. Based on an analysis of macroeconomic and social conditions, the rationale behind and advantages of the suggested “unification model” will be demonstrated, where the unification model consists of a non-contributory social pension and a contributory public pension designed as a Notional Defined Contribution (NDC) system. Although both the social pension and NDC ideas have emerged many times in the literature, in most cases they are discussed as separate proposals when applied to China’s pension system reform.2

There are four sections in this chapter. The first discusses the social and economic background of pension reform; the second examines the four major pension programmes in China, and explores the difficulties and challenges they are facing; two reform strategies are compared