



Social Protection - Financial, Actuarial and Statistical Services Branch

ISSUES IN SOCIAL PROTECTION **Discussion paper No. 4**

Extending coverage under basic pension schemes

- General and Chinese considerations -

Review of policy issues

J.-V. Gruat

Review of strategic and technical issues

K. Thompson

Foreword

This discussion paper series was conceived as a market place of ideas. It is a place where social protection professionals can air their views on specific issues in their field. Topics may range from highly technical aspects of quantitative analysis to aspects of social protection planning, governance and politics. Authors may come from within the Organisation or be independent experts, as long as they have "something to tell" concerning social protection and are not afraid to speak their mind. All of them contribute to this series in a personal capacity - not as representatives of the Organisations they belong to. The views expressed here are thus entirely personal, they do not necessarily reflect the views of the ILO or other organisations. The only quality requirements are that the papers either fill a gap in our understanding of the functioning of national social protection or add an interesting aspect to the policy debates.

The ILO believes that the worldwide services for a better design and management of social protection is a permanent process which can only be advanced by a frank exchange of ideas. This discussion paper series is thought to be a contribution to the process of publicizing new ideas or new objectives. It thus, contributes to the promotion of social security which is one of the ILO constitutional core mandates.

The papers reproduced in this volume on the extension of coverage under basic pension schemes were first presented within the framework of a technical cooperation project financed by the

United Nations Development Programme (UNDP) on social security planning and legislation in the People's Republic of China. They were delivered at an international seminar held in Weihai, Shandong Province, in July 1996.

Although aiming primarily at a Chinese audience, the papers address the issue of extension in the scope of coverage from an angle which is wide enough to be of interest to a general readership.

The first paper, dealing with the principles related to the issue of extending coverage through social insurance mechanisms, was written by Mr. J.-V. Gruat, Chief of the Social Security Planning, Development and Standards Branch of the International Labour Office (ILO).

The second one, which deals at a more pragmatic level with issues related to extension, was written by Mr. K. Thompson, ILO Social Security Consultant and Chief Technical Adviser on the aforementioned project.

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Review of policy issues

1. International Labour Standards

The topic of the extension of social protection to the whole of the active population is a long standing preoccupation of the International Labour Organization. As early as in 1944, the International Labour Conference recognized in the Declaration of Philadelphia, which is since then a part of the Organization's Constitution, that economic security should be a right for "all human beings", and that the nations of the world should develop programmes "which will achieve (...) the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care"⁽¹⁾.

Two days later, i.e. on 12 May 1944, the same Conference adopted Recommendation n° 67 concerning income security, which described in more details the possible content of the general commitment it had taken towards the extension of social security measures.

The Recommendation privileged the use of social insurance as the main vehicle for income security schemes, which "should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work of by reason of the death of the breadwinner"⁽²⁾.

Recommendation 67 also recognized, in its preamble, that the guiding principles were to be applied "progressively, as rapidly as national conditions allow".

The Guiding principles further specified (para. 17) that "social insurance should afford protection, in the contingencies to which they are exposed, to all employed and self employed persons, together with their dependants, in respect of whom it is practicable:

- (a) to collect contributions without incurring disproportionate administrative expenditure; and
- (b) to pay benefits with the necessary cooperation of medical and employment services and with due precaution against abuse".

A few years later, in 1952, Convention (n° 102) concerning Minimum Standards of Social Security established (art. 27) that, for old-age benefits, "the persons protected shall comprise

- (a) prescribed⁽³⁾ classes of employees, constituting not less than 50 per cent of all employees, or
- (b) prescribed classes of the economically active population, constituting not less than 20 per cent of all residents; or
- (c) all residents whose means during the contingency do not exceed limits prescribed (...); or

(d) (temporarily) prescribed classes of employees, constituting not less than 50 per cent of all employees in industrial workplaces employing 20 persons or more".

While Convention 102 retains the same definition as above for invalidity and survivors' benefits, the Invalidity, Old-Age and Survivors' Benefits Convention, 1967, stipulates that "the persons protected shall comprise

(a) all employees, including apprentices; or

(b) prescribed classes of the economically active population, constituting not less than 75 per cent of the whole economically active population; or

(c) all residents, or residents whose means during the contingency do not exceed limits prescribed (...)".

However (art. 37), where legislation protects employees, it may exclude from coverage:

"(a) persons whose employment is of a casual nature;

(b) members of the employers' family living in his house, in respect of their work for him;

(c) other categories of employees, which shall not exceed in numbers 10 per cent of all employees (...)"⁽⁴⁾.

Temporarily, according to art. 9.2, protection may be limited to

"(a) prescribed classes of employees, constituting not less than 25 percent of all employees; or

(b) prescribed classes of employees in industrial undertakings, constituting not less than 50 per cent of all employees in industrial undertakings".

The following table summarizes the provisions contained in C.102 and C.128 regarding the personal scope of coverage (pensions).

Basis C.102 C.128

Employees 50% All

Economically active 20% of all residents 75% of whole economically active population

Residents All (means test) All (means test)

Flexibility clauses 50% in all work places Prescribed classes of employees:

Temporary exceptions employing 20 persons -25% of all employees; or

(coverage limited to) or more -50% in industrial undertakings

-Casual workers

Other exceptions Seamen, sea fishermen -Employers' family members

-Other categories (<10% all employees)

-Public servants, seafarers and sea
fishermen if at least equivalent
special scheme

The ILO Committee of Experts on the Application of Conventions and Recommendations noted, in its "General Survey of the Reports relating to the Social Security (Minimum Standards) Conventions (n° 102), 1952, the Invalidity, Old-Age and Survivors' Benefits Conventions (n° 128) and Recommendation (n° 131), 1967, in so far as they apply to old-age benefits"⁽⁵⁾, that (para. 51) "in order to maintain a degree of flexibility, both Convention No. 102 and Convention No. 128 avoid defining persons in term of strictly legal concepts. Rather than define their scope in terms of branches of economic activity and the legal position of persons working in the sectors concerned (...), these instruments largely refer to statistical criteria and offer governments a choice of alternatives".

Although China has not yet ratified Convention No. 102 or Convention No. 128, the above-listed criteria or benchmarks nonetheless provide a useful reference to evaluate plans for possible extension in the scope of coverage of its basic pension scheme, notably for establishing clear rules in this respect, what the ILO international legal instruments call "prescribed conditions".

The considerations which follow will address two main basic issues at the level of principles viz. the reasons for an expansion of the scope of coverage, and the ways and means of achieving this objective.

2. Why extend the scope of coverage?

Beyond simple matters of equity, one may find at least four grounds on which the extension of the scope of coverage appears to be a desirable goal, viz. legal, social, economic and financial grounds.

2.1. Legal requirements

In most States where the rule of law prevails, the Constitution and other basic legal instruments very commonly encompass the following two principles, which represent solemn obligations for the State:

- non-discrimination; and
- relieve want, prevent destitution.

These principles are part of what is more generally described as social justice. It therefore appears as a necessity, when schemes have been designed at a statutory level, which protect under social insurance/social security mechanisms selected categories of the population, to question the validity of the non inclusion of other categories in the same network of protective measures.

Further, it has to be noted that, even in the absence of such positive decisions, it would still remain the responsibility of the state to ensure that the weakest segments of the population benefit from a range of legal provisions which help them satisfy their basic needs. In other words, whatever

social protection is necessary but not provided through collective insurance mechanisms, will have to be achieved through other means, namely family or government assistance.

It therefore appears that, under many national circumstances, the extension of the scope of coverage under social insurance mechanisms is just a logical way for the State to fulfil part of its constitutional obligations vis-à-vis a wider percentage of the population.

The extent to which this extension is desirable has been described above, when detailing the provisions contained in the relevant international labour standards. Suffice to add here that the extension of the scope of coverage is typically a domain where legal approximations should be avoided. The "prescribed rules" should be precise, to avoid evasion and possible conflicts of law, they should be based on criteria, definitions and categories which have a lasting validity, and are not dependent on the administrative versatility of Governments who may decide, for example, that what is rural today may become urban tomorrow, and vice versa.

2.2. Social considerations

Social stability is certainly one of the golden principles on which Governments, throughout the world, aim to base their policies. As a matter of fact, it is all too obvious that such stability (some speak of "social cohesion") becomes threatened, if and when the people, the citizens or groups of them strongly feel that the conditions under which they work and live are or have become socially discriminatory, and hence no more acceptable.

This may well be the case when classes of the workforce remain excluded from forms of social protection they feel are essential to their well-being or to their sheer survival. It may happen that such a recognition of social protection as a fundamental request take a long time to appear. For example, it may surface only when the excluded categories enjoy, through economic development and accompanying societal changes, living and working conditions which bring them close to what prevails for salaried, organized labour.

In such cases, the aspiration to social protection is all the more important, when the categories which remain excluded consider, right or wrongly, that the comparative advantages conceded to the workers in the organized sector constitute a significant part of their global living standards, i.e. that the protection thus granted (or not granted) maintains an excessive gap among the two categories.

Such discussions obviously focus both on short-term benefits, such as protection in case of sickness or accident, and on long-term ones, such as protection in case of old-age, disability or death of the breadwinner.

When there is a prominent interest from non-covered categories for this type of protective measures, the Governments may be faced with a difficult situation when trying to explain that alternative forms of social protection are made available through, for example, social assistance schemes. Those in fact provide lower level of benefits, are not of a general nature (means tested) and are not of a contributory nature (no ear-marked financing). Their improvement and generalization would prove to be far too costly for the State budget. There is therefore often no other alternative, to comply with the requirements of the excluded categories (which are often quite numerous and influential) but to expand to them the scope of coverage of existing schemes (or to institute ad hoc equivalent schemes), failing which the social cohesion of the country as a whole may well be put into jeopardy.

2.3. Economic aspects

It is generally accepted that labour mobility is a positive factor for economic development, in the

sense, essentially, that it favours the optimization in the use of human resources, as well as a rational allocation of these resources among sectors and geographical areas. The extension in the scope of coverage of social security is, in turn, one of the elements which may contribute to enhanced labour mobility.

In the field of pensions, it is obvious that workers will be very reluctant to leave the position they currently occupy, if this change is not accompanied by a simultaneous transfer of pension rights in course of acquisition (vesting). The more spread is the exclusion from social coverage through the basic scheme, the more difficult it is to find qualified and experienced workers willing to contribute to economic development by creating small businesses of their own, or joining the staff of mushrooming private, urban or rural enterprises, it this implies a withdrawal from covered employment (old-age, invalidity and survivors' benefits). Even when employment outside the traditional, organized sector is the subject of specific, separate social protection arrangements, this might not play a significant role in encouraging labour mobility, if appropriate coordination mechanisms are not designed and implemented. Further, the absence of expanded coverage may as well run counter the intention of the State to undertake significant changes in ownership, if employment in non-state owned enterprises does not entail membership in what workers consider to be a normal social protection scheme.

2.4. Financial resources

One of the decisive advantages of expanding the scope of coverage of contributory social security schemes is that it brings new cohorts of contributors into the system, with no or very limited rights in course of acquisition. In other words, for a relatively long period of time, new entrants will improve the demographic balance of the fund, and therefore ease the burden on its pay-as-you go component. This advantage is all the more decisive when the very definition of the personal scope of coverage excludes from contributory arrangements the dynamic sectors of the economy, e.g. those established in the suburbs of major cities, which primarily recruit young workers from the rural surplus labour force.

Even in a longer term perspective, it has to be recalled that the widening of the pooling, through the inclusion of new, young sectors, is per se a favourable factor for pension schemes, certainly but not exclusively for those which are not or only partially funded. It is also worth mentioning here that demographic unfavourable ratios equally affect fully funded schemes, and that an expansion in the scope of coverage which eases the demographic burden on the pension schemes is in the end positive, irrespective of the financing mechanism retained.

Progressive unification of rates of contribution in favour of new sectors may be envisaged, without affecting the rights of the workers concerned. This implies implicit subsidies be paid towards meeting the required rates of contribution for newly covered sectors. Someone has obviously to pay for this on the basis of strict calculation: the State, the local Governments, or the general pooling.

3. How to extend the scope of coverage

Any extension in the scope of coverage of basic pension schemes needs to address at least the following three considerations, if it is to be successful:

- need for a stable structure on which to base the scheme;
- need for a well-defined income on which to base contributions and benefits;

- need for adequate provisions for the preservation of pension rights;

Innovative approaches are in all cases required, to meet the specific needs and cope with the specific situation of the new categories to be covered, within the boundaries established by ILS and established principles.

3.1. A stable structure

One of the most contentious issues in the extension of the scope of coverage of social security schemes is that of the administrative difficulties in implementing the reform. These difficulties are real, and become all the more important the furthest one goes from the core of the organized sector. For a social security manager, having to deal individually with a multiplicity of individuals ensured and expected to contribute is a kind of an administrative nightmare, if there is no established intermediary through which the required procedures can be carried out. This is the key-role played by the enterprise in modern social insurance, and the importance of such a role cannot be over-emphasized.

Now, the difficulties which were just acknowledged above should not be overemphasized either, for a number of very valid reasons.

First, social insurance does not necessarily cover all established enterprises. When an extension is considered, this may easily start with the workers in such enterprises since, irrespective of the type of ownership, the managers therein already have to deal with a number of administrative requirements, which should facilitate compliance with specific social security procedures.

Second, non salaried workers (e.g. peasants) are very often part of a structure at the professional and/or the local level which could perfectly act as intermediary with the social security organization, all the more when this structure already deals with administrative matters of interest to the various members of its constituency. A very relevant example in this category is obviously the cooperative movement.

Third, even in the absence of established professional structures, there are always civil (or legal) structures to which the potential insured persons are part, or to which they are known. This is for example the case of local governments, at the village level, which may very well be made responsible for direct contacts with the social security organization on behalf of the concerned citizens. These established authorities will often easily accept to undertake such tasks, provided a modest remuneration (administrative fee) is paid to them, as a recognition for their help, by the social insurance organization.

A stable structure, together with efficient computerization based on a unique social security number (which may well be the national identity number) is also a strong requirement for an efficient monitoring of the system, which includes appropriate control mechanisms concerning compliance.

A comprehensive census and registration of potential intermediaries appears to be in any case an absolute prerequisite for a successful implementation of any social insurance scheme.

3.2. A recognized income

Social insurance schemes, and in particular pension schemes, are financed most of the time out of contributions expressed in percentage of income, and pay benefits also expressed in percentage of previous income. This rule is relatively easy to apply when the basis for computation of contributions and income is a salary. Even when the salary fluctuates over the year, even when part of it is paid in kind and not in cash, there are well-established administrative techniques to

address this type of situation. The criteria here are that an income be paid at regular intervals, and that its amount be certified to the social insurance organization by a third party (the employer).

Things become obviously more difficult when salaries are not paid on a regular basis, and not by one single employer. In this case, and in the absence of sophisticated computerised facilities, one familiar technique in the field of social insurance is the use of stamps, each of them worth a given value which may then be transformed into equivalent salaries for, say, a twelve months period, and hence facilitate the computation of benefits. Stamps are usually purchased in advance by the employers making use of casual workforce. To apply this type of procedure presupposes though that these workers be clearly identified as casual workers by their employers, and treated as such by the social insurance organization. Some problems may arise concerning minimum or maximum contributions (floor, ceiling).

Another technique, which is used mainly when no intermediary is able to certify the amount of the income of the insured (self-employed), is to define contributions, and hence subsequent benefits, with reference to income brackets, which would correspond, through the reverse application of contribution rates, to a given level of salary. These income bands may easily be defined as a percentage (or a multiplier) of a well-known indicator, preferably linked to general salaries, to ensure their automatic adjustment as time passes. Good indicators could be the minimum wage or the average wage. The insurance organization may decide to which category the insured person should be allocated, on the basis of external (e.g. fiscal) evidence, or leave this choice up to the individuals. This solution has to be carefully worked out, to avoid the risk of social security evasion, through the affiliation of "normal" workers to over-generous schemes based on lump-sum contributions⁽⁶⁾. Here again, the clear evidence of the social belonging of the insured person is a key element for compliance and proper implementation of the scheme.

Special consideration has in any case to be devoted to the situation of those workers who approach retirement age when a new scheme is implemented, or when the extension of an existing scheme is decided. In the absence of transitional measures which enable the scheme to pay decent benefits to elder workers retiring with little contribution records, the burden on the state in terms of social assistance payments will remain the same, and it might prove difficult to convince a significant part of the concerned population to contribute without prospects of deriving meaningful benefits. This disaffection may, if becoming vocal, put the whole of the reform into jeopardy. Of course, transitional measures have to be designed carefully, to reconcile social justice and financial viability.

3.3. Preservation of pension rights

Whenever a country developed two or more alternative basic pensions schemes, or when a significant proportion of the active insured population experience gaps in their career in terms of covered employment, it is necessary to design ad hoc mechanisms which ensure that, at the end of their working lives, participants in the scheme(s) fulfil the eligibility conditions for receiving adequate pension benefits. This requirement is usually met through a combination of two techniques, one being the coordination between pension schemes, the other the updating (adjustment) of previous income or contribution records.

The entitlement to a pension presupposes that a few prescribed conditions are met, which may normally be based on the following four criteria: age, cessation of contributory service, length of contributions, density of contributions.

When a worker has been affiliated, depending on the nature of its activity, to several schemes (e.g. a rural and an urban scheme, or various provincial schemes, or a combination of both alternatives) it may happen that, although working and contributing for his or her entire active life, he or she does not meet the criteria set by any of the schemes. This situation, which is not uncommon in the

case of international migrations, is also quite frequent in countries where labour mobility is a reality, and where various basic schemes operate simultaneously.

It is then common practice that, through ad hoc bilateral or multilateral agreements or by law periods accomplished under the different schemes be totalled, to ascertain that eligibility criteria are met. The various pensions amounts are then calculated by each scheme in proportion of the benefit which would have been awarded, should all periods have been contributed to this very scheme. Alternatively, there could be a transfer agreement among schemes, whereby the actual value of contributions paid by and for a worker including interests be transferred to the last scheme, which would then compute the benefit according to its own rules. It may be considered to give the workers a choice between these two options.

The mechanism which was just described is more difficult to apply in two cases, viz. when the benefit formula includes a lump sum element (i.e. when the amount is not fully based on the worker's individual records) and when two schemes are based on different "philosophical" techniques (e.g. contributions defined versus benefits defined).

In the first case, when the flat rate component (e.g. 25% of average earnings) is designed as an absolute safety net, corresponding to the estimated situation of the people retiring in the area or from the profession, it will usually be advisable to have the last scheme pay in full the amount corresponding to the flat rate obligations it would have had to meet, had the whole career been conducted with affiliation to this scheme. In such a case, it is also advisable that a mechanism be designed, to ensure that the appropriate share of contributions collected be transferred to this scheme by the other schemes involved (after adjustment). Precise rules in this respect will usually have to be designed by a central authority.

In the second case (contributions defined versus benefits defined), two options are available: one is the separate processing of claims after totalisation of periods for eligibility conditions, which means that each scheme pays its share, and no transfer of moneys take place. This is the simplest solution for the scheme, but, in some cases, a complicated one for the insured person, who has to claim several pensions from various entities.

A second option is to transform the value of accrued rights under one scheme into their actuarial equivalent under the other scheme.

For example, if a worker has contributed, under a contributions defined scheme, an amount of contributions of 600 with a contribution rate of 20% for a given period of 12 months, this would be equivalent, for a benefits defined scheme, to a salary of 3000 and a 12 months period under covered employment.

Reciprocally, if a worker has contributed on the basis of a salary of 3000 for a given 12 months period under a benefits defined scheme, this would be equivalent to the inscription, for this same year, of 600 to his/her individual account (20% contribution rate).

This type of approach obviously requires that all contributions collected be transferred, with interests earned, from one scheme to the other, here again according to prescribed rules.

The case of foreign workers may deserve a special mention. There is no reason why foreign workers should not be affiliated, as their national co-workers, to the social security scheme in force, except when special agreements clearly stipulate this exemption (secondment or detachment, usually for a very limited period of time, one or two years, and for a precise task).

Otherwise, there should as a rule be no discrimination between national and foreign workers concerning affiliation to social protection institutions. This is clearly specified in the relevant

international labour standards⁽⁷⁾.

Similarly, the payment of benefits to foreigners having worked and contributed to the national scheme(s) should not be treated differently from that to nationals, in as much as the beneficiaries still reside in the country⁽⁸⁾.

Upon departure from the country, and in the absence of bilateral agreements, two solutions are acceptable: either to return the amount of contributions paid to the foreign workers (partially or totally, with or without interest), or to keep them in the event (likely or unlikely) that an agreement will be concluded between the country of origin and the country of work, thus permitting the payment of a benefit abroad⁽⁹⁾, or that the worker returns back for spending his/her retirement on the national soil. This second option is obviously the easy and beneficial one for the scheme, if not for the foreign workers. The subject of international migration (or national migration within a country with provincial schemes) is a highly complex one, which certainly deserves an in-depth review of the variety of available technical solutions.

In no case (internal or international migration) can the liquidation of the account upon cessation of affiliation while eligibility conditions for a pension are not met be considered as an acceptable approach, for the workers or for the fund.

4. Some Chinese specificities

The above considerations, worded in very general terms, are applicable in their essence almost irrespective of the national context. They deal with matters of principle or with well-accepted managerial concepts. When one comes to practical issues of choice and implementation however, the national context has obviously to be fully taken into account. For a better understanding of the possible application of some of the "recipes" which were just presented, it was therefore felt appropriate to address in some details what may be called the Chinese specificities in this regard.

The following paragraphs will deal successively with issues such as the legal framework, the rural/urban debate, the role of VTEs, cooperatives and joint-venture enterprises, the basis for computation of contributions and benefits, and the issue of transferability.

4.1. The legal framework

The Chinese Labour Law⁽¹⁰⁾ which entered into force in January 1995 applies (art. 2) to "all enterprises and individual economic organizations within the boundary of the PRC and labourers who form a labour relationship therewith. State organs, institutional organizations and societies as well as labourers who form a labour contract relationship therewith shall follow (it)".

In Chapter IX (Social insurance and welfare), article 70 stipulates that "the State shall develop social insurance undertakings, establish a social insurance system and set up social insurance funds, so that labourers may receive assistance and compensation under such circumstances as old-age, illness, work-related injury, unemployment and child-bearing". Articles 71 to 76 provide some more details⁽¹¹⁾, including the principle that (art. 72) "... an overall pooling of insurance funds from the society shall be introduced step by step."

When read in conjunction with article 2 of the Labour Law, the implications of Chapter IX seem to be remarkably clear. Since the law is applicable to all enterprises and all workers, there should be no exclusion from pension coverage. Further, since the aim is to progressively achieve a national pooling, the protection should be more or less identical for all.

We all know that, as is the case for other new legislative measures of the importance of the first Chinese labour law, things cannot be this simple, or this straightforward. Before considering by virtue of the labour law an automatic extension of social protection, and singularly of pension coverage, to all workers in all enterprises operating in China, one should certainly consider first the key issue of global compliance with the Labour law itself.

This debate, though it falls clearly within the sphere of competence of the ILO, goes well beyond the scope of the present seminar, at least according to the author of these lines.

A solid dose of pragmatism anyway is required, if the general principle embodied in the labour law (universal pension coverage for all labourers) has to be progressively put into force. This aspect will be summarily covered in the paragraphs hereafter.

4.2. The rural/urban debate

One of the well-known specificities of the Chinese context is the prominent distinction between urban and rural categories, in terms of the personal rights and rules attached to this qualification. It would be relatively easy to question the validity of such a hiatus created among categories of citizens which otherwise would seem to enjoy very similar ways of life, if some were not working as urban workers in urban enterprises, while others are considered to remain rural workers in rural (or urban) enterprises. Here again, this report is certainly not the right vehicle for entering into the depth of this kind of debate, which goes far beyond social security technical issues.

What seems important to recall here is that the issue of scope of social security coverage should have to deal far more with the nature of the occupation of potentially affiliated members, than with their administrative or contractual status.

As a matter of fact, developed social insurance schemes very generally cover all type of employed labourers⁽¹²⁾, i.e. workers who work for a third party, abide to the instructions given within legal limits, receive a salary in exchange of the use of their labour, irrespective of the nature and form of the contract, and irrespective of the status, ownership, location and size of the entity constituting the third party in this relationship. Such a general rule entails no exception, except by law, which may specify that special schemes apply to special categories very strictly defined (e.g. civil servants or the military, or one profession as a whole, e.g. mines, energy, civil aviation, etc.).

The reasons for this search for universality is twofold: one is a simple matter of equity; the other is the need to avoid evasion, which would be all too easy if loose legal provisions provided enterprises with alternatives justifying non compliance with programmes they very often consider as being too costly.

It is true though that, in some developing countries, the extension in the scope of coverage is gradual, and based on steps corresponding to branches of activity, the size of the enterprise, its geographical location. Some exceptions may also be considered on the basis of the duration of the labour contract, or of the level of remuneration. The cases known to the ILO Social Security Department where exceptions are made on the basis of the social origin of the worker are all considered by the international community as discriminatory measures, which go against general principles of international law⁽¹³⁾.

The fact that a worker is or is not of urban origin appears to be completely irrelevant for social security protection. The duration of the contract also is, to a certain extent. The type of ownership or the legal status of an enterprise employing salaried workers should not either play a role in the definition of the scope of coverage for basic pension schemes. While the geographical location of the enterprise might be considered an acceptable factor to decide on coverage, it is worth recalling

here that it is in the joint interest of the fund(s) and of the workers that the pooling become as wide as possible as rapidly as possible.

4.3. The role of VTEs, cooperatives and joint-venture enterprises

The above, which clearly advocates for a radical extension in the personal scope of coverage of the basic pension scheme(s) in China should certainly not be taken as meaning that this desirable extension should be implemented instantaneously. This would obviously be an insuperable administrative task, given the sheer magnitude of the masses remaining unprotected today, even considering the urban areas only. The key work to achieve a successful extension is no doubt careful planning.

Planning in this area usually starts with an exhaustive inventory of the real situation, at all levels of pooling, to provide a consolidated picture at the national level. Such inventory basically aims at identifying the gaps in social protection, and at exploring the administrative feasibility of filling these gaps, to finally produce a comprehensive plan for extension, which may (and certainly should) be phased over a relatively long period of time (e.g. 5 years).

It would obviously be presumptuous for the author to pretend to deliver in this short paper a detailed outline of what should be done. It is up to the Chinese authorities, in full consultation with the many other parties involved⁽¹⁴⁾, to make their decisions.

As guidelines, one may nonetheless venture the following suggestions:

- priority could be given for extension to those enterprises where workers are usually normally covered (this applies to urban, state or collectively owned enterprises); this should apply first of all to rural contract workers and to casual workers, at least part of them;
- joint venture enterprises could equally be an easy target for extension (national or with foreign investment);
- village and township enterprises where the workforce is reasonably stable throughout the year would also form a successful goal for extension;
- private enterprises employing salaried workers in urban areas should form a priority target for ensuring general compliance with the labour law, including for social insurance;
- members of cooperatives, if they so wish, could easily join the scheme or, better to say, a scheme which suits their peculiarities and possibly managed by themselves⁽¹⁵⁾. Salaried workers of the cooperatives should join the basic scheme for employees.

These phases for extension would be facilitated by the fact that they would concern people working for, or in established structures, which implies (a) that an employer's contribution (or its equivalent) may be collected; and (b) that a structure accustomed to administrative formalities may be used to act as intermediary between the insured persons and the social security institution (s).

The extension of coverage to other categories (mainly self-employed, urban or rural) is far more difficult. Also, it is not at all obvious that pension protection, as normally afforded within social insurance schemes, would meet the needs of these categories, or even would be affordable to them if they were to fully finance their contribution to the pooling. It may therefore be advisable, at least for Ministry of Labour, to defer its intervention in this field until such time when the situation of the other, more simple to deal with, categories appears to be stabilized.

4.4. The basis for computation of contributions and benefits

There should normally be little to add in this chapter and at this stage to what was already described earlier in general terms⁽¹⁶⁾. The following is however worth mentioning, at is of special relevance to the Chinese situation.

The standard wage will become more and more obsolete as a reference for social security purposes, owing to progress made in the individualisation of income according to qualification, seniority and performance. This puts into question the method used until now for contributions payable by and on behalf of workers whose earnings are significantly above normal (e.g. workers in big joint venture enterprises, nationals or foreigners). If it is not felt advisable, for any reason, to have those workers contribute on the basis of their real income, the most practical solution would be to impose a ceiling on the contributable income. This practice is not infrequent in pension schemes, and leaves the door open to supplementary coverage. It is important though not to fix the ceiling at too low a level, in which case pensions would fail to replace past earnings appropriately (which is their role in a social insurance scheme), and to link it to a dynamic and well-known indicator to ensure its perennial value. In this respect, and considering the pension formulae now experimented in China, it might be advisable to fix the ceiling as a multiplier of the provincial average remuneration, e.g. 3, 4, 5 times or more.

Needless to add, careful simulations should be carried out before a final decision is made, to ascertain the effects in terms of actual replacement rates, on the various categories covered.

Given its prominent role in the pension formula, the average provincial wage could also be used to compute contributions and, hence, benefits for categories the remuneration of which cannot be properly assessed. In this case, both fractions and multipliers should be used, e.g. 1/4, 1/3, 1/5, 2/3, 3/4, 1, 1.5, 2, etc.

It would be advisable that the lowest category does not fall below the minimum wage, to avoid the risk of systematic under-declaration, which results in the end in too low level of benefits, and hence in the need for payment of subsidies to the beneficiaries either directly (social assistance) or indirectly (minimum pensions)⁽¹⁷⁾. This approach is clearly relevant for the stamp system which was briefly described above. If a total freedom of choice is not recognised to the beneficiary or the employer for selecting among the classes established for contribution purposes⁽¹⁸⁾, it has further to be noted that the lump sum approach for contributions requires more or less the same controls as the one to be instituted for contributions directly based on salaries.

Other reference points, apart from the average provincial wage, could be, among the various choices available, the minimum wage, the standards wage of one prescribed category, the per capita income, provincial or national, or even a blend of various indicators.

Three key elements would in any case have to be taken into account, which are:

- (i) the desirability of using the same reference for the different categories for which use is made of this technique, for simplicity, comparability and transferability considerations;
- (ii) the need to have a dynamic indicator (automatic adjustment); and
- (iii) the need to conduct in-depth simulations, to ascertain the respective economic and social impacts of the available techniques.

4.5. The issue of transferability

As mentioned earlier⁽¹⁹⁾, the issue of transferability of rights in course of acquisition is one of the most complex features in the operation of pension schemes. China has had, until now, very little experience in this field, either nationally or internationally. However, the very structure of the Chinese pension system as a whole is such, that it turns the issue into a crucial one, notably in a period where (i) labour mobility is increasing; (ii) unemployment and business closure are less uncommon; and (iii) various pensions schemes built according to different philosophies co-exist, not only between categories (e.g. rural/urban) but also within categories (various pension models).

Cases have no doubt already occurred, when a worker was insured under several provincial schemes, or finally retired in a different province from that where he or she was in covered employment. The solutions adopted to settle such cases seem to be, at least to the knowledge of the author, very much ad hoc, and not established according to precise rules and legislations prescribed at a central, authoritative level. It appears that the establishment of such rules should be a top priority issue on the agenda of the Government. Ministry of Labour has certainly to take the lead in this endeavour, and the ILO would be willing to help in a domain where it has accumulated a unique experience through decades of activities⁽²⁰⁾.

Suffice here to recall the items on which technical and political decisions have to be taken, to design an appropriate (i.e. acceptable according to the relevant international labour standards) system of preservation of rights in course of acquisition:

- (a) equality of treatment between nationals and non-nationals, except in very specific cases;
- (b) totalisation of periods under various basic schemes for qualifying conditions;
- (c) preservation of pension rights in course of acquisition in case of interruption in contributory services.

As regards equality of treatment, there is no reason why foreign workers should not contribute to the national scheme when working in China. In cynical terms, one could even say that it is in the interest of the Chinese funds to collect contributions from these workers, with a minimum number of exceptions (detachment), and to keep these contributions when the workers leave the country. It is also, generally speaking, in the interest of the Government to conclude agreements with the countries where a significant number of overseas Chinese work, ensuring the payment of benefits abroad (i.e. also in China).

The experience has showed in fact that such agreements facilitate the return to the originating country of migrant workers, who bring with them in terms of pensions significant purchasing power instruments useful for the national and local economies. Needless to add, these agreements cannot (or should not) make reference to the conditions under which the migration took place, if they are to be of general application.

Totalisation of periods towards meeting eligibility criteria is absolutely necessary even within the basic scheme for established workers, as long as this scheme remains split into a number of provincial or other avatars. This operation should become an easy administrative task, if a unique social security number (or whatever national number used for social security purposes) is adopted by all schemes, and if all schemes keep an updated record of all periods of employment (not only of duration of employment periods). The same applies to schemes which cover different categories, e.g. rural and urban workers.

Once the qualifying conditions are met under various schemes, the question arises of how to compute the corresponding benefits. As mentioned earlier, several options are then available. One may briefly summarize the issues at stake through the following recommendations:

- (i) if the conditions are met under one scheme, compute benefits according to this scheme;
- (ii) if the schemes are a direct function of employment periods (accumulation rates) or of contributions paid, then compute partial benefits according to the schemes' respective rules, subject to (iii) below;
- (iii) if the scheme(s) include(s) a flat-rate component, than have it paid by the scheme of residence, each of the other schemes with similar provision transferring once and for all the corresponding portion of the contributions collected for the concerned worker which have no more matching obligations⁽²¹⁾;
- (iv) if the total rights are below the minimum, the scheme of residence should pay the minimum pension, and the financial provisions under (iii) above should apply.
- (v) each scheme should adjust pensions for inflation according to its own rules, if adjustment is calculated in proportion of the benefit payed. If adjustment is paid as a flat rate payment (expressed in, identical for all or for a whole category), then the procedure in (iii) should apply.

These rules, simple to follow, would permit the design of realistic administrative arrangements facilitating the creation of a comprehensive scheme for the transfer of pension rights. They should however apply only to legal, compulsory basic schemes, which are within the responsibility of the State.

One question remains though, which is worth addressing, viz. taking into account periods of interruption in contributory services. Such interruptions should not affect the level of pension rights, if cessation of coverage under one scheme is followed by coverage under another scheme, and if appropriate coordination (transfer) agreements are in force. More difficult is the case of interruption for reasons of for example sickness or unemployment. It is useful to recall here that, under such circumstances, it is customary to provide that the last (most recent) schemes take the corresponding periods into account, provided a social security benefit is paid during the contingency. The corresponding cost is often covered through the required increase in the general amount of pension contribution (pay as you go), or through ad hoc payments made to the pension scheme by the sickness fund, the unemployment fund or, in some cases, the Government (e.g. in case of military service).

Another issue is that of business closure, which may more frequently affect workers in rural enterprises, deemed to be more vulnerable to economic fluctuations than urban, state or collectively owned enterprises. The solution to this type of problem is the pooling of contributions, which protects rights in course of acquisition. If business closure follows a period where, for financial reasons, the enterprise could not pay its contributions to the pension scheme, this should not affect the workers' rights. Special insurance mechanisms exist in many countries, which cover this type of contingency⁽²²⁾.

One should finally make it very clear that it would not be appropriate to authorize workers in such cases to cash back the contributions paid by or for them for pension purposes. Unemployment is a different, usually short-term contingency. It has to be addressed through means other than pension insurance⁽²³⁾.

Review of strategic and technical issues

Introduction

This paper has been prepared for the Seminar on the Extension of Coverage of Basic Pension Schemes held under the UNDP/ILO project CPR 91/461 at Weihai from 25 to 27 July 1996. In particular, the paper focuses mainly on the strategies and methods in order to respond to the specific questions raised by the Ministry of Labour. In this sense, the paper complements the paper by Mr. J.-V. Gruat dealing principally with policy (and some technical) issues (this will be referred to as "Paper 1" hereafter).

An essential point which should be made clear at the outset is that the term "basic pension scheme" is everywhere understood to mean schemes which provide protection in the 3 contingencies of old age, permanent invalidity, and survivorship, and not only old age. These contingencies are inextricably linked in that permanent invalidity often results from premature old age (and makes more acceptable a relatively high pensionable age), and on death before or after retirement the scheme must provide income protection to family members in the form of survivor benefits. This may seem obvious but is mentioned because the draft Social Insurance Law separates the provisions on these contingencies instead of following the normal practice of grouping them as one integrated branch of social insurance. This is relevant to the topic of coverage as the qualifying periods are shorter for invalidity and survivor benefits than for RP and give more meaning to protection on a short-term basis for persons migrating to cities for short spells of work. This type of worker is found in many developing countries, often living and working in difficult conditions, and some may well face risks of serious non-occupational accidents or illnesses for which protection is needed.

The Social Insurance Law stipulates that it applies to all employing units in the country (Article 2). These are defined as all enterprises, undertakings, government institutions, social organisations and private firms. All employees who form a labour relationship therewith are subject to the law. Article 92 specifies that self-employed persons, free professional workers, and employers of private enterprises may participate in old-age, health and unemployment insurance. Article 93 provides that Chinese citizens employed abroad and foreign workers employed in China shall be subject to the law except those coming within the scope of social security agreements between China and the foreign countries concerned. This set of provisions on coverage, when read also with Articles 2 and 70 of the Labour Law, constitute a wide concept of coverage consistent with international labour standards, as advocated by ILO under the current project. There is, therefore, a sound mandate for action in realizing the aims of the legislation and the State Council Decree No. 6/1995 (although some issues arise regarding voluntary insurance under Article 92 as explained under section 4 of this paper).

1. General overview of coverage for pensions protection

The main factors usually considered as determining the extent of coverage in a country are the type of system, its age, the size of the country, and the degree of industrialization. A social insurance scheme, as opposed to a universal scheme applying in principle to the whole population, may be limited to wage and salary earners in the main cities or can be in force throughout the country to these and other categories of economically active persons. Amongst older systems, the origins were frequently schemes for government employees and the Armed Forces which led, usually through separate schemes, to the protection of workers in commerce and industry. In the majority of countries, there are separate schemes for public employees and for the Armed Forces.

Private sector workers were covered gradually according to the administrative and financial feasibility of extending to the smaller economic units.

In this process of evolution of schemes, difficult groups such as the self-employed, domestics, temporary and casual workers were often by-passed. "Difficult" in this context means persons who did not fit readily into the standard pattern of regular employment and the resulting contribution-paying capacity allied to built-in channels for complying with the schemes' administrative procedures, which are also described in Paper 1. By far the largest groups excluded were and remain the rural workforce, whilst rapidly growing informal sectors are also outside the scope of coverage of the general social insurance schemes. More efforts to extend protection to disadvantaged groups have been evident in recent years with, as yet, limited success. Voluntary insurance may be available for some categories of the self-employed as well as for persons who have dropped out of the covered labour force, such as women caring for children; some systems credit periods of insurance for child-care and in certain other circumstances. These are all part of changing policies emphasising the imperative need to extend protection as widely as possible for the reasons given in Paper 1. Furthermore, the economic importance of informal employment is recognised and calls for a response by social insurance schemes.

2. National strategies for coverage of employees

2.1. Regulation of coverage

Except in the smaller countries, the practical problems of registering each employer and worker, issuing identity cards, and setting-up record and contribution collecting systems for all wage and salary earners have led most countries to use one or more methods of regulating a gradual extension of coverage. The main rules used are:

- (a) the size of the enterprise, usually determined as according to the number of workers as defined in the law;
- (b) by geographical areas or regions;
- (c) by economic sectors (eg. textile milling, mining etc); and
- (d) by earnings limits for the inclusion of workers.

The application of this strategy is mostly for administrative convenience and is not related to the needs of workers as the true priorities of the schemes may well be the opposite. It is those who work in the smallest establishments, and possibly also those living in the most remote regions, who tend to have the poorest conditions of service and need protection from a social insurance scheme but who receive it last, if at all. However, there is an argument that contributory schemes should first build up financial reserves from coverage of better paid workers before including those at the other ends of the wage spectrum. Each method is described below.

2.2. Size of enterprise

This is the most common method of regulating coverage either on its own or in conjunction with geographical area. New schemes start with the very large enterprises and gradually work down to the smallest as their administrative competence improves. It should be stressed that determining the scope of coverage is by size and not by type of ownership of enterprises (state-owned, private, joint-ventures etc) or by the origins of workers (rural or urban) and their previous membership of other schemes. In other words, the regulation of coverage is guided by practical considerations

and is not involved with such arbitrary and difficult to apply distinctions. It should be mentioned also that the administration needs to establish an efficient registration and identity card system to ensure that workers moving from place to place are not registered more than once with adverse consequences for their insurance records and for the administration's records system.

The rationale for beginning with the largest enterprises is that their records, stability of the workforce and compliance will be such that administrative problems will be minimal, whereas the reverse is true of the smaller firms. This is brought out by general experience although there are many examples in other countries of serious compliance and other problems with large state, public or private corporations. There are many examples of selective coverage, such as India, Indonesia, Iraq and the Republic of Korea. These are extending step-by-step; for example, Indonesia introduced its scheme in 1977 and applied it progressively from a minimum of 100 employees in 1977 to 25 in 1983 and 10 in 1990, whilst Korea launched its pension scheme in 1988 for employees in establishments with 10 or more workers and lowered the threshold for inclusion to 5 or more in 1992. The social insurance scheme in Malaysia began in 1971 and reached the lowest level of employee coverage of 1 or more worker in 1992 when also policies for wider expansion into rural areas were formulated. Countries such as Philippines and Turkey with more than 40 years of experience, have long completed this stage and moved on to other groups of economically active persons.

Indonesia uses also the value of the monthly payroll so that inclusion in the scheme is determined by the numbers of workers or whether the payroll exceeds the prescribed figure. In practice, this has allowed gradual expansion to smaller enterprises below the 10 employee figure as wage increases gradually undermine the payroll minimum specified in the regulations.

2.3. Geographical area

Numerous countries have implemented schemes on a provincial or regional basis, often in conjunction with rules on the size of enterprises. Current examples are Iran and Venezuela whilst the launching of pilot schemes in various provinces in Vietnam illustrates a common practice of experimenting in different conditions before finalizing the scheme. In some countries, the idea of geographical extension is resisted on economic grounds on the argument that companies of a similar size will be competing on unequal terms if some are paying quite high rate pension contributions and others are not. This could happen when bidding for contracts and in the pricing of products for the same markets. One (unpopular) solution put forward is that companies outside the scheme should make payroll contributions into the social insurance fund at rates which would reduce their competitive advantage, but the objection is best answered by a rapid expansion programme.

2.4. Economic sector

Some countries, including India and Pakistan, have implemented schemes flexibly according to the conditions in economic sectors. This has required the issue of specific definitions or notifications of each sector to be covered. Usually, considerable negotiations are required at each stage of expansion. Again this rule has been combined with size of enterprise and extension on an area basis.

2.5. Earnings limits

Earnings limits for inclusion in pension schemes, which are not to be confused with ceilings on the earnings of employees assessable for the levying of contributions, are in use in certain schemes, including those in Malaysia and India. For example, in Malaysia persons earning more than the current limit of M\$ 2000 per month are excluded from the social insurance scheme. Many experts consider this is an out of date concept from the days when social security was seen as for

manual and low paid workers only. Clearly, problems of maintaining the insurance exist when the earnings limits are not regularly adjusted. Some schemes (such as that in Malaysia) have accepted the principle put forward by ILO that, if earnings limits are to apply, any workers once covered should remain covered even if their earnings later exceed the limits in force; for employees in this category contributions are paid on whichever is the lower of the maximum earnings figure or their actual earnings.

2.6. Timing of extensions

What factors underly decisions to extend coverage or launch another phase of coverage? In some instances, timing is specified in the law (Thailand) which has the merit of forcing the issue but may not be ideal since legislators cannot foresee with certainty when the scheme will be ready to carry out each phase. However, many observers, including the author of this paper, consider that the general pace of expansion of coverage in developing countries has been too slow. The excuse of administrative problems and staff shortages is sometimes over-stressed. Sometimes also pressure on the administration to improve the scheme for the current membership takes precedence due in part to the fact that those outside coverage have little chance to influence decisions on this issue. It is, therefore, helpful where the legislation contains clear objectives on expansion of protection and if the tripartite body supervising the scheme contains some members representing the interests of excluded persons. There are few examples of policy statements on this issue such as Zimbabwe's plan for phased extension. The general practice seems to be to allow reasonable intervals between phases for the benefit of the administration and for preparation by the enterprises next in line for coverage. This is the explanation given for Indonesia's choice of 6 and 7 year gaps between phases⁽²⁴⁾.

2.7. Planning and implementation of extensions

The administration must be satisfied that the proposed extension is feasible as regards the contribution liabilities of enterprises and employees and the additional administrative steps of registering, collecting contributions, maintaining records and delivering benefits. This requires sample surveys of the sectors concerned to ascertain the magnitude of the extension and the financial implications for the pensions funds. It can be assumed that as schemes cover more and more lower paid workers the elements of cross-subsidization becomes larger. This may be of immediate importance to health insurance and short-term benefit schemes but with the aid of earnings and demographic data the necessity for minimum contribution levels may be assessed to ensure adequate financing, especially where schemes provide relatively high minimum pensions.

The scheme may meet resistance on the grounds that the contributions will cause hardship to lower paid employees and undermine the viability of small enterprises. The legislation may exempt the lowest paid from contributing but usually the liability is transferred to the employers. The practice in Iran where the Government pays the employers' contribution for the first five employees in small workshops is unusual. Generally, it is assumed that given reasonable time small enterprises will arrange their finances in time to meet the contribution liability.

Many schemes publish Employers' Guides giving clear explanations of procedures and also use inspectors to advise employers so that administrative and compliance problems are avoided. They believe, as the result of experience, that a constructive approach is more effective than one relying only on strict enforcement and the imposition of penalties.

2.8. Treatment of certain special groups

2.8.1 Older workers

In China, Article 18 of the Social Insurance Law prescribes a 15 year qualifying period for OAP

and pensionable ages of 60 for men and 55 or 50 for women. Clearly, persons within 15 years of these ages when they enter the pension scheme will not qualify for periodical payments and only the far less effective lump sum benefit. Unless action is taken this would constitute an obstacle to extension and also delay the impact of the pension scheme on the problems it is designed to alleviate. The widespread practice is to include in the financial system the cost of concessionary reductions in the OAP qualifying period which afford the older workers reasonable chances to qualify for the basic pensions.

2.8.2. Family labour

This is normally excluded because family workers in the typical small establishment receive little or no remuneration and also the uncertainty about the employer-employee relationship which could affect verification of contingences for the receipt of benefit.

2.8.3. Casual workers

There are also numerous countries which specifically exclude casual workers because of the intermittent nature of their employment and limited earnings. However, there may be instances where casual workers are really temporary staff who should be covered where the employment is indefinite. Careful checking is required by inspectors to ensure that workers who are really regular staff are not classified as casual in order to evade labour and social security legislation.

2.8.4. Domestic staff

Problems of covering numerous isolated persons with low paying capacity have deterred most developing countries from including domestic workers, but some have taken action in recent years. There are several examples in Central and South America (including Belize, Brazil and Venezuela) whilst Fiji and Philippines recently devised methods to facilitate the payment of contributions for domestic workers (stamp cards in Fiji and in Philippines employers payments by direct debit arrangements for remittance of contributions). The main issues for social insurance pension schemes are whether minimum contribution requirement should be imposed to avoid or reduce subsidies from other employees, and the administrative difficulties of registering, collecting contributions, and enforcing the law.

2.8.5. Non-nationals

As paper 1 deals fully with the principle of equality of treatment of nationals and non-nationals accepted by China in the new legislation, and how to apply it, little has to be added here. The principle is enshrined in international labour standards essentially to prevent discrimination but another aspect is that, if non-nationals were excluded in practice, this could at some time lead enterprises to replace nationals with cheaper foreign employees who incur no contribution liabilities. However unlikely this may seem now in China, these are the situations which have developed elsewhere as economic cycles occur. The only exceptions, apart from diplomatic personnel, to including foreign workers are where they are seconded from their employment abroad and should in everyone's interest continue their previous insurance (usually, however, for a maximum of 12 months), and persons remaining in their national schemes with equivalent pension rights.

As to points raised by MOL, just as there is no case for refunding pension contributions of Chinese workers from rural areas, non-nationals leaving China should retain their insurance for future use if they return or to receive any benefit entitlements when qualified. Payments of benefits abroad is practised by some countries without the framework of formal social security agreements. However, where countries experience regular labour exchanges normally they should examine possibilities of negotiating agreements which would allow totalization of the pensions

insurance in all countries signing the agreements. (this process can be accelerated in certain regions (such as Europe) where there are possibilities of adhering to multilateral agreements)⁽²⁵⁾. Furthermore, Administrative Agreements can follow providing for mutual assistance and cooperation in claims processing and payments of benefits.

2.9. Stamp system

Paper 1 mentions the stamp system which had a considerable vogue in well-established and new social security schemes. For example, it was used in the UK for decades before computerization took over. India, Malaysia and many small countries in the Caribbean also used stamps whilst operating flat rate or wage class contribution systems. Each contributor is provided with a card containing sufficient spaces for a period of contributions such as six months or one year. Special stamps printed in the current relatively few denominations are purchased by employers (or the insured) from post offices and banks and are affixed to the cards. The cards are submitted to social security offices with claims or are exchanged at the end of validity for the new cards. The number of contributions is then recorded in the employees records. The stamps system has many advocates for the coverage of special groups such as certain self-employed persons including taxi drivers, traders and others.

3. Strategies for coverage of the urban self-employed

As already brought out in MOL's statements and Paper 1, certain questions and problems arise regarding the coverage of the self-employed. These type of problems have long confronted social security planners in many other countries. Whilst generally covered in industrialized countries, either in the main general scheme or in separate schemes, there are also some limitations, including exclusion of lower income self-employed in the USA and optional coverage in the UK for self-employed earning less than the prescribed minimum for compulsory affiliation. Countries may in fact opt as follows:

- (a) include, in principle, all types of the self-employed in the general schemes (Philippines, Algeria, Argentina and Brazil);
- (b) provide selective coverage in the general scheme (Iran, Republic of Korea and Tunisia) or in special schemes (Iraq, Gabon and Turkey);
- (c) opt for the technique of voluntary insurance (Iran, Republic of Korea, Thailand and Chile).

Some points of interest regarding the above are:

- (a) the Philippines opened the general scheme to professional persons in 1980 then in 1992 included farmers and fishermen with different minimum income levels;
- (b) Iran's method of identifying eligible self employed persons from November 1994 is from official licence records, leaving the other self-employed the voluntary option; and,
- (c) the Republic of Korea responded to pressure for coverage from farmers, fishermen and the rural self-employed by extending compulsory pension insurance from July 1995 with subsidies, but deferred similar action on the urban self-employed (who are compulsorily insured for medical care).

Countries considering whether and how to extend pension protection to the self-employed sector face the same dilemmas as when extending schemes for employees in that the easiest categories to

assimilate are those with above average and stable incomes, whilst the most difficult to cover are those in precarious circumstances with intermittent earnings. The major questions to be answered revolve around the financial and administrative feasibility of including particular groups and whether special schemes are necessary.

3.1. Financing

The major issues are paying capacities of the self-employed persons as in the general schemes they should pay the combined rate for employers and employees, and whether government subsidies are needed (for example, the Republic of Korea has subsidised pension (and health) insurance for farmers and fishermen rather than leave this to cross-subsidization by employees). This also leads on to the question of whether separate schemes would be appropriate. Such schemes may be designed where qualifying periods and pension ages are lower than those in the general scheme, and also if government subsidies are targeted to special sectors such as some agricultural schemes in South American countries, including Ecuador.

Different policies prevail on these matters as already indicated. In certain countries, employees in established schemes have objected to the inclusion of self-employed persons able to manipulate their earnings when paying contributions and when claiming earnings-related benefits, unless government subsidised their participation. Others have assimilated self-employed persons without any similar objections. Certain countries (Argentina) have instituted special rules to regulate changes in reported earnings in order to avoid manipulation to secure high pension rates for the lowest possible contributions over the period of membership. For example, several earnings classes can be established from which the self-employed choose on the principle that subsequent changes are restricted to one class per year. Bahrain restricts declared earnings increases to 5% per year. These various rules prevent sudden large increases for the earnings averaging period.

3.2. Administration

Paper 1 mentions the possibility of alternative administrative structures where the administration of self-employed insurance requires some adaptation to the special circumstance of particular groups. Professional associations can play a role (Turkey) and cooperatives are well suited to conduct simple administrative procedures. The innovative Social Guarantee Scheme in Gabon providing pension protection, amongst other benefits, to all types of the self-employed uses decentralized social security offices working with the agricultural cooperatives and taxation licensing records to operate a simplified contribution system⁽²⁶⁾. The Farmers Pension Scheme when introduced in Greece relied on the local government offices for general administration and accepted certificates on occupational status of farmers from local agricultural officials. The pension scheme in the Republic of Korea adopted the flat rate system of contributions and benefits for farmers and fishermen to simplify the otherwise difficult administrative tasks.

However, the question of effective administrative arrangements is related to the basic issue of whether or not the inclusion of these self-employed is fully enforced or is treated in practice as voluntary. The latter is the case in Philippines where it is left to the self-employed whether or not to join and to maintain the insurance. Even where the administration tries to enforce a compulsory system in some sectors there are so many possibilities for evasion that compliance standards are low despite costly administrative efforts. The attitude of the self-employed to the scheme (which normally would be determined before planning the extension) are crucial to the success of extended coverage.

The importance of clear, sustained and well targeted public information programmes on the subject can hardly be over-stated.

3.3. Voluntary insurance

Voluntary insurance enables persons outside compulsory coverage to continue pension protection where this was previously built up during period of covered employment. It is questionable, however, whether voluntary insurance is effective if contribution rates are high and also whether the persons concerned are aware of this option. Another question is whether there is sufficient understanding of the potential risks to the scheme from "adverse selection" where substantial proportions of voluntary contributors join because of high expectations of profiting from this insurance. As voluntary contributors normally must shoulder the combined employer and employee contribution this rules out extensive use of this technique for extending coverage. Furthermore, voluntary insurance is generally considered unsuitable for certain contingencies. For example, in the Philippines, self-employed persons are insured for pensions, health care and sickness benefits, but are excluded from maternity and employment injury protection. It is also normal not to allow voluntary insurance against the risk of unemployment as this poses dangers to the finances of the scheme. Consequently, voluntary insurance may be utilized subject to such conditions as

- (a) a minimum period of compulsory insurance for pensions purposes of five years or more; and
- (b) the regulation of the contributions to ensure minimum levels are maintained and increases are graduated from year to year.

3.4. Possible approaches in China

Self-employed persons are, of course, already covered in varying numbers in different areas of the country. In examining options for the expansion of coverage of self-employed groups in urban areas, the major issues are that many may be in the course of acquiring pension rights due to previous service in SOEs, the authorities may wish to encourage unemployed or surplus workers to enter the self-employed sectors, but that it is clearly difficult to include them on financial and administrative grounds. The issues of affordability and priorities amongst the self-employed are stressed also in Paper 1. In the final analysis, a decision on promoting coverage may result from overriding policy imperatives, rather than the social security aspects alone. Assuming an interest in exploring ways of including some self-employed persons, a possible approach could be evolved from the following elements:

- (a) for persons defined according to occupation and/or minimum levels of income, make participation compulsory for OAP, sickness and maternity protection and health care, and possibly also employment injury insurance, but not for unemployment insurance⁽²⁷⁾;
- (b) alternatively, strongly promote voluntary insurance for a specific period such as two years and evaluate results to determine whether to continue or opt for compulsory coverage;
- (c) design a contributions system under which the self-employed either declare earnings according to a system of bands or pay at fixed rates (as a multiple) on a standard for which the minimum or social average wage are the obvious candidates;
- (d) design a simplified collection system which avoids excessive paper work on both sides involving payments through banks or the use of stamp cards;
- (e) work out rules for coordination of different periods of pensions insurance following the guidelines in Paper 1 page 17; and
- (f) make periodical evaluations of progress according to the numbers of self-employed actually covered compared with the maximum possible, analyse the problems encountered and adopt suitable remedial measures.

An essential step will be to collect a full range of data including the types of occupation, number of hours worked, regularity of work, earnings patterns, details of previous pensions insurance and extent of interest in paying for pensions protection. This should be analysed for the policy issues, especially as regards the compulsory or voluntary options, to assess the extent of previous pensions insurance, and to determine minimum contributions levels and suitable contribution systems. Some pragmatic decisions would be needed on gradual selective approaches in which the aim could be to give first priority to those for whom pension insurance is feasible. This would leave aside the issue of how to protect those for whom the social insurance option is not feasible for the present.

4. Action regarding urban informal sector workers

Reference was made to urban self-employed persons who could not be included in pension insurance schemes because of their extreme lack of paying capacity. These could be persons in very marginal occupations whose incomes are precarious and insufficient even for daily living, leaving no possibility of reducing current consumption in favour of future income security in old age. There are also persons classified as employees in this position such as those working in small informal sector enterprises and homeworkers. Most countries are aware of such groups and concerned to alleviate their situation. Although not perhaps relevant to this planning of extending coverage of basic pension schemes, except in a long-term sense, this section includes a brief overview since the persons whose livelihood is derived from the informal sector constitute a part (perhaps of growing significance in some areas) of the labour force.

In the past in virtually every country, there was a general assumption that all, or almost all, workers outside small-scale agriculture eventually would be employed in the formal organised sector, and thus would join social insurance schemes. Experience in developing countries (and, increasingly, in industrialised countries) shows clearly that trends are quite the contrary with declines in organised sector employment and the growth of the informal sector. By definition, such employment is outside the scope of social security and, indeed, labour and other types of regulatory and protective legislation. Persons are employed without contract in micro enterprises which operate on the fringes of the economy with little or no access to credit from banks and vulnerable to small fluctuations in their income.

It is obvious that lack of social security protection is only one amongst many problems facing these persons and the authorities and organisations seeking to alleviate poverty and hardship. Comprehensive action programmes are needed and should be formulated according to specific conditions in each country. The ILO has proposed that comprehensive strategies for the informal sector should pursue four objectives simultaneously:

- improvement of the productive potential, and therefore of the employment and income-generating capacity of this sector;
- improvement of the welfare of the poorest groups;
- establishment of the appropriate regulatory framework, including appropriate forms of social protection and regulation; and,
- organization of informal sector producers and workers⁽²⁸⁾.

"Social protection" is a broad term embracing not only the organised social security measures but also a range of basic needs, including clean water, sanitation, primary health care, primary

education and others. The ILO is active in developing regions assisting in the implementation of the strategies outlined above. In the sphere of social insurance, the main guidelines are:

- extend the coverage of formal social insurance schemes wherever possible, using innovative methods where necessary, including for example, partial extension for health care if the sole affordable priority, and the use of targeted subsidies for the very poor⁽²⁹⁾.
- build on informal social protection mechanisms, which has been followed in small scale localised schemes for persons in the same occupation (market traders) or organization (cooperatives).

It should be made clear that the old age pensions are not included in the list of first priorities, as health care, death benefits, maternity, sickness and accident insurance are more pressing needs.

More details of social protection for persons in the informal sector can be brought out at the seminar if necessary.

5. Planning of extension programmes in China

5.1. Broad strategies

MOL's estimate that 25 per cent of all urban employees are still outside the scope of pensions insurance indicates both the magnitude of progress in developing unified schemes and of the objectives still to be attained. Furthermore, the importance of protecting self-employed persons at some stage is also recognized. In view of the scale and urgency of the undertaking, careful planning of gradual extension strategies will be needed at policy and technical levels. Presumably, extension so far has been in accordance with social and economic development objectives in such respects as promoting labour mobility and, of course, this should continue. Consultation with all concerned Ministries and Commissions listed in note 14 of paper 1 may clarify priorities and the main focus of action amongst the different types of enterprises outside the scheme. For example, where the re-employment of surplus workers in SOEs is a top priority, the types of enterprises likely to absorb them could be selected for early extension. As stated on pages 12 and 13 of paper 1, equity calls for prompt attention to any gaps in existing coverage amongst the urban SOEs and COEs. This could also accord some priority to inclusion of the self-employed previously insured for pensions, or at least some of the urban categories.

5.2. Policy guidelines

The extension policies should be guided by the principles of equal treatment of all types of enterprises and employees. This means essentially that all should be included over time and this should be on the same systems of contributions and benefits. Under the principle of pooling risks and finances through the mechanism of a social insurance fund, there is no case for charging higher rates to enterprises because of the type of ownership (such as a joint venture) or the numbers of workers entitled to pensions. This fundamental principle should guide policies on the rapid expansion of pooling systems so that risks can be spread as widely as possible. Therefore, a uniform pensions contribution rate should be established for the largest possible pooling entities whilst normally all insured persons should pay identical rates for identical benefits.

It is not known precisely how employee contributions have evolved since the introduction of contributions by contract workers in 1986⁽³⁰⁾, and therefore the prospects for achieving equal standards. Related aspects of the structure of contributions (use of actual earnings and minima and maxima according to a selected standard) are discussed on page 16 of paper 1. Also brought out

are certain key elements, including standardisation to facilitate transfers of rights. The two methods of apportion and integration described in paper 1 are in widespread use under reciprocal agreements elsewhere, and can more readily be applied to the different types of schemes in China if contribution structures are not markedly different.

The assessment of how to proceed regarding contribution structures would be based on information on current practices. This, in any case, will be relevant for the planning of the pooling systems for eastern, coastal, central and western areas, respectively, by the end of 1997, 1998 and 1999.

Another important principle is that enterprises should not be allowed exemption from the basic pension scheme. This may be requested by companies with occupational pension schemes on the argument that employees are entitled to equivalent or better benefits, possibly at lower cost to them. Changes in the law to allow this should be resisted in the interests of solidarity. It would be equitable to consider evolving rules under which the enterprises concerned could adapt their schemes to become supplementary (the second tier) to the basic pension scheme.

5.3. Technical planning

Social insurance management institutions normally will need to carry out comprehensive and detailed surveys as a basis for overall strategies and for determining the main target groups, and the practical planning of implementation. Usually, rules for phased extension schemes will be required, such as the size of enterprise and the geographical location. Before launching such extension campaigns with the usual publicity and distribution of explanatory literature, procedural instructions for enterprises and sets of official forms, the legal framework should be carefully devised with clear definitions of liable enterprises and employees, and of the contribution systems.

Experience in other countries suggests that problems of evasion can assume serious proportions. This calls for a well-trained and active compliance force, headed by social security inspectors. The possibility that any enterprises seeking to evade registration will reduce their work forces when learning of planned extensions to smaller establishments has led some countries to prescribe in regulations that companies are liable if the minimum number of workers was reached at any time in the 12 months preceding the proposed extension. Furthermore, regulations may provide that, once registered, an enterprise remains covered even when the number of employees falls below the prescribed minimum. Finally, the social insurance institution should have powers to counter other practices such as artificial division of enterprises into allegedly separate trading entities each with a sufficiently small share of the work force to escape the extension, abuses of subcontracting, both designed to allow the employers to continue business as usual without incurring liabilities for contributions to pension schemes. It is difficult to deal with these and similar situations (for example, practices reducing the cash elements in remuneration to minimise the contributions payable) and probably impossible without the legal powers.

5.4 Administration

An important administrative aspect, and a subject in its own right, is the personal social security number system. Undoubtedly, under conditions of increased labour mobility, a national system of unique personal numbers is essential. This is needed whether or not insured persons move between different pension schemes or migrate periodically from rural to urban areas for short-term employment. Obviously, the national identity number meets these requirements and reduces the problem to the design for social security purposes of a similar standardised national system for foreign workers.

The necessity of computerised record systems is well understood in China, but recent research indicates that the actual application of information technology generally has not been systematic

or well developed resulting in deficient records in some instances⁽³¹⁾. The study proposes a standardised National Social Insurance Management Information System. This, although a considerable undertaking and investment, warrants urgent attention as the basis for the expansion of coverage and of pooling. It is encouraging that MOL has undertaken some follow-up action by holding a symposium on *The establishment of the national social insurance management information system* under this project in March 1996. Whilst the proposal is under consideration, it may be advisable in some areas to review the existing computer systems in order to determine whether their capacity should be upgraded in readiness for absorbing increased memberships consolidating records and maintaining pension insurance data throughout the working lives of insured persons.

Much the same could be said of the Insurance Administrative Institutions. There are examples of other countries which have planned ambitious developments of social security without fully considering the equivalent steps to strengthen the organization and management of the scheme inevitably, the outcome has been unsatisfactory. Policy Study 12, already referred to, states that there are about 40,000 Social Insurance Management Institutions at various levels, employing approximately 40,000 officials. One would expect some differences in administrative standards and performance amongst these bodies, and in their readiness for expansion exercises. It is assumed therefore that staffing, training and equipping the Social Insurance Management Institutions will be given sufficient priority at the planning stages.

5.5 Comprehensive rolling plan concept

If experience of coverage policies and strategies in developing countries shows anything, it is that proceeding by ad hoc stages usually defers for far too long the protection of large and deserving groups of employees. Many such persons have no option but to fall back on social assistance for financial support in old age. A programme such as social security relying on the philosophy of national solidarity calls for a comprehensive extension plan for all employees as a minimum. This may be drawn up for short, medium and long-term stages, but for updating and implementation on a "rolling" basis. This should ensure that momentum is maintained and each group or segment is included in the pension scheme as soon as practicable.

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No one should underestimate the challenges ahead or the range of obstacles to be overcome. Close cooperation and coordination amongst all involved will be vital to success. The impressive achievements in developing and extending social security in China give confidence that these new goals will be reached for the benefit of the workers concerned.

1. Declaration concerning the aims and purposes of the International Labour Organization Philadelphia, 10 May 1944, Chapter III.
2. R.67, Guiding Principles, General, para. 1.
3. "The term "prescribed" means "determined by or in virtue of national laws or regulations". C.102, Part I, General Provisions, art. 1.1(a).
4. Recommendation 131, in its para. 2, stipulates that the application of the legislation should be

extended "by stages if necessary" to cover casual employees and all economically active persons.

5. Social Security Protection in Old-Age, International Labour Conference, 76th session, 1989.

6. This phenomenon called "self-employed evasion" is not uncommon even in highly industrialised country.

7. See in particular C.111 on Discrimination/Employment and Occupation, 1958 and C.118, Equality of Treatment (Social Security), 1962.

8. Presumably legally. It may be worth mentioning that the fact that foreigners may have higher salaries than nationals and hence receive higher benefits, is completely irrelevant, since benefits are based on contributions actually paid. Further, if there is a ceiling on contributions and/or benefits, it should apply in the same manner to foreigners and to nationals.

9. Some countries retain the principle of paying benefits abroad, even in the absence of international agreements.

10. When writing this paper, the author was not aware of the precise content of the State Council decree #6/1995 dealing with the extension of pension insurance to the entire workforce. He feels nonetheless that this lacuna does not affect the validity of his comments based on the labour law.

11. Including (art. 73) the fact that "the survivors of the insured labourers shall be entitled to subsidies for survivors in accordance with the law".

12. As apparently foreseen in the Chinese Labour Law.

13. See for example the non-protection of foreign migrant workers, or, formerly, the non-protection of non-white workers in South Africa.

14. Among which we may cite the State Council, the State Planning Commission, the State Reform Commission, the State Economic Commission, the Ministry of Agriculture, the Ministry of Commerce, the Ministry of Civil Affairs, ACFTU, CEDA, etc.

15. This possibility (special scheme) should normally not be opened to the first four groups mentioned (non-covered workers in State or collectively-owned urban enterprises, VTEs, joint-venture enterprises, private sector) where working conditions are in substance not markedly different from those of workers already covered.

16. See in particular point III.2, A recognized income.

17. To favour employment, it may be envisaged that the contributions paid for low-income wage earners be partially paid by the State or the local government. This is a different issue from that of a too low basis for contributions and benefits.

18. This "choice" should obviously not be granted to salaried workers.

19. See in particular point III, 3 above, Preservation of pension rights.

20. The techniques used for the transferability of pension rights are fundamentally the same nationally and internationally. The first Convention concerning the maintenance of social security rights dates back to 1925 (C.19, ratified by China). Other relevant instruments are C.102, 118, 157 and R.167).

21. This requires that general (multilateral) agreements be concluded or a very detailed legislation be passed and that precise actuarial calculations be made. The ILO could help in this exercise, if requested.
22. See in particular Protection of Workers' Claims (Employers' Insolvency) Convention and Recommendation, 1992.
23. Which is not incompatible with the adoption of special rules on early retirement for unemployment workers approaching retirement age.
24. National strategies for the extension of social security to the entire population - the Indonesian experience, by Antionius Mintorogo, Report on ISSA Regional Meeting on The Extension of Social Security to the Entire Population (8-10 June 1992) Manila Philippines
25. ILO, as the leading world authority on the social security protection of migrant workers, having been involved in the field from its earliest days, can suppl. more information and advice on this subject when needed.
26. The extension of social protection in the Baonese Republic: Consolidating the development process. J.-V. Gruat, International Labour Review, No. 4, July-August 1984.
27. This is on the assumption, based on certain national experiences, that a compulsory scheme for a carefully defined group even if not fully enforceable is more effective than a voluntary scheme.
28. ILO: The dilemma of the informal sector, Report of the Director-General (Part 1), International Labour Conference, 78th session, Geneva, 1991.
29. The Social Guarantee Scheme introduced in Gabon in 1982 granted indigents coverage for health care, family allowances and maternity benefits with financing from public funds.
30. The fact that nearly 90 per cent of Chinese workers have signed labour contracts (source: China Daily report of 16 July 1996 of a statement by Labour Minister Li Boyong on progress in implementing the Labour Law) may indicate better prospects of developing employee social insurance contributions.
31. Policy Study 12 under CPR 91/461 "Report on studies of social insurance files and computer database" by Social Insurance Administration, MOL, December 1995.

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For further information, please contact the Financial, Actuarial and Statistical Services Branch
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