

Social security for China's rural aged: a proposal based on a universal non-contributory pension

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Abstract

China's relative lack of social security coverage for rural elders exacerbates the already severe rural-urban economic disparity, slows the rate of rural poverty reduction, and raises social justice concerns. Our analysis draws on evidence from a number of sources including interviews with experts on China, Chinese government documents, Chinese newspaper accounts, and other sources from other countries. Based on our analysis of what has been tried in other countries and the current situation in rural China, we offer some suggestions for Chinese policy makers. We suggest that for rural China a universal non-contributory old-age pension deserves serious consideration, and refer to our proposed model as a Rural Old-Age Social Pension. It will reduce the level of poverty in rural areas and the degree of income inequality between rural and urban areas while simultaneously promoting social and political stability.

Introduction

China's GDP has increased tenfold between 1978 and 2007, an average 9.9 percent a year. While the turmoil in world trade and financial markets that began in 2008 is likely to bring recent rates of growth down in China at least for a few years, there is reason to believe that China will continue to do well relative to many other major economies around the world. It has the third largest economy in the world after the United States and Japan with a nominal GDP of US\$3.42 trillion (*China Daily*, 2008). China's per capita income has grown at an average annual rate of more than 8 percent over the last three decades, drastically reducing poverty, but this rapid growth has been accompanied by rising income inequalities (Asian Development Bank, 2007). One area of inequality lies in old-age social security. China's old-age social security system has long been largely restricted to urban areas, leaving the population living in rural areas with little or no coverage. In 2007, 11 percent of China's population was age 60 or over and made up 21 percent of the world's elderly population (United Nations, 2007a) and over 55 percent of the Chinese population were rural residents (China Statistical Yearbook, 2007). The lack of social security for elderly people in rural areas poses a threat to social stability and raises human rights and social justice concerns. Recently, Chinese policy makers are starting to consider whether something can or should be done in an effort to provide broad pension coverage to the rural population in China (Xinhua Net, 2008). This article represents an effort to shape this debate.

During the 20th century, the defined benefit contributory pensions in developing countries were generally not successful in extending coverage to more than a small segment of the rural population (Barrientos & Liloyd-Sherlock, 2002; Overby, 2005; Willmore, 2007). As the

world's largest developing country, if China can successfully introduce some kind of old-age pension scheme providing widespread coverage to the rural population, it would not only benefit China's elders; there is also a very good chance that it would influence policy makers in many other developing countries around the world and end up indirectly bringing major benefits to millions of elders outside of China. This article will focus on exploring the potential utility of a variant of the universal non-contributory old-age pension model as a way to extend broad coverage to China's rural elderly.

China's current rural public pension system

The reform of China's social security system began in the mid-1980s and the general welfare reforms since the late 1990s have expanded and included unemployment insurance, medical insurance, workers' compensation insurance, and maternity benefits. But all such reforms and policies have targeted the urban population. As a result, only a very small proportion of rural residents are currently collecting old-age pensions or other publicly funded old-age security benefits. Accompanying the central planned economy moving towards a market economy, how China's rapidly aging population is to be supported after retirement in the years ahead has become one of the major social issues facing China (Jutting, 2000; World Bank 1994). There are currently two small-scale public pension schemes in some rural areas of China. One is an old age insurance plan with voluntary contributions. The other is a non-contributory scheme providing county-specific benefits for a very narrowly targeted segment of the rural elderly.

The old age insurance plan was first piloted in one province in the late 1980s and was officially extended to the other provinces in 1992. The participants—including workers of town

and village enterprises—voluntarily contribute and accumulate assets in their individual accounts. In most counties, particularly those in the less developed middle and western regions of China, rural residents are the sole contributors to their accounts. But, in the more affluent eastern counties, some workers receive subsidized contributions from their employers if they work in the town and village enterprises, while those without employers are sometimes sponsored by their village community. In addition, a few provincial governments, such as Beijing and Jiangsu Province, provide additional financial subsidies to the rural participants (China Economy Net, 2007). Starting at age 60, an annuity-based pension is paid with the size of the benefit based on the accumulated sum in the account. The administration, investment, and allocation of these benefits are overseen by the county government. One result is that the structure and implementation of this pension plan varies from one county to another (Ministry of Civil Affairs of the People's Republic of China, 1992). In 2007, there were 52 million contributors to this rural old age insurance plan and 3.9 million pensioners (China Social Security Annual Bulletin, 2007).

The second small-scale public pension scheme in China is a non-contributory social assistance program called Rural Five Guarantees. It is intended for the rural elderly who are incapable of working and have neither income, nor assets, nor children. The beneficiaries of Rural Five Guarantees program are supported through either a collective placement in an Elders House or through individual placement with a local family. As of 2007, on average, those in an Elders House receive a government pension of approximately US\$267 per year per person. For those who are contracted-out to local families, the yearly pension averages about US\$196.

There were 5.3 million rural elders who benefited from this social assistance program (China

Civil Affairs Statistical Bulletin, 2007).

Coverage is one of the main indicators for assessing the successfulness of a pension scheme. There is more than one way to assess pension coverage; one alternative is to focus on the proportion of the older population who are receiving pension benefits (Roberts et al., 2004; Rofman, 2005). In addition to the 5.3 million rural elders who benefited from Rural Five Guarantees, there were 3.9 million pensioners drawing benefits from rural old age insurance schemes, bringing the total number of rural elders receiving regular pensions to approximately 9.2 million in 2007 (China Civil Affairs Statistical Bulletin, 2007; China Social Security Annual Bulletin, 2007). However, given a population of 153 million elders, over half of whom live in rural areas, the pension coverage for rural elders is very limited (China National Economy and Social Development Statistical Bulletin, 2007).

A second way of assessing pension scheme coverage is to focus on the fraction of the labor force covered by the program, most of whom will be receiving their benefits at some point in the future (Case & Deaton, 1998; Rofman, 2005). In 2007, there were nearly 476 million people in China's rural labor force (China Social Security Annual Bulletin, 2007). However, in that year only 11 percent of the rural labor force was covered by the rural old age insurance plan and fewer than 52 million workers contributed to this contributory pension scheme (China Social Security Annual Bulletin, 2007). Figure 1 illustrates how the number of contributors to the plan initially increased, peaking in 1998, and since then the number of contributors has gradually decreased. By contrast, during this period, China's GDP per capita continuously increased from US\$ 494 in 1994 to US\$ 2,556 in 2007.

Figure 1 goes about here

The limited coverage of China's current rural pension system means that the vast majority of China's rural elder residents are currently neither contributing to nor eligible for benefits from any form of old age pension. Since China's national economy has grown rapidly after its Opening and Reform from 1978, we believe that a major reason for the low coverage is the bias of pension policy in rural China which relies excessively on contributory schemes. For examples, the Seventeenth National Congress of the Communist Party of China in 2007 and the Eleventh National People's Congress in 2008 both declare that "to achieve universal coverage of social security in urban and rural areas, a new rural old age insurance plan will be implemented in rural region" (Xinhua Net, 2007: 8, 2008: 6). However, as discussed in the next section, the experiences from other developing nations reveal that the contributory old age insurance plan is not successful in extending coverage to a large part of the rural population.

Pension models for rural elders in other developing nations

Most developing countries, particularly the low-income developing nations, share the common characteristic of a largely rural economy based primarily on family agricultural production. In most of these countries, social security programs are financed predominantly on the basis of contributions (McKinnon & Sigg, 2003). As a result, social security programs tend to cover a small segment of the rural population. This contributes to economic disparities between the urban and the rural populations. In many developing countries, including China, government employees and urban full-time workers in stable employment typically benefit from social security schemes, while coverage for workers in the informal sectors and in rural areas is sparse

(Øverbye, 2005). National coverage ranges from less than 10 percent in much of Sub-Saharan Africa and South Asia and less than 30 percent in most of East Asia, to 50 to 60 percent in the middle-income countries of South America (World Bank, 1994). In developing countries, an estimated 342 million older people lack adequate income security. This number will rise to 1.2 billion by 2050 unless coverage expands far beyond what is currently projected (United Nations, 2007b). Most of the excluded elders are those who pursue lifelong agricultural work and live in poor villages.

It is widely acknowledged that in addition to historical and economic reasons, poor coverage in rural areas is partly due to recent social security reforms when those reforms have involved at least partial privatization of existing defined benefit public pension schemes. Despite their other merits, even traditional social security schemes—based as they typically are on regular payroll deductions—have not been successful in providing widespread coverage in rural areas of developing countries (Schwarzer & Querino, 2002). James (2000) argues that extending coverage by requiring low-income informal sector and rural workers to contribute to social security would generally not be in the interests of the workers it was intended to help, even if the government had the capacity to enforce such a mandate. Similarly, Willmore (2007) notes that it would be impossible for contributory schemes to cover anything approaching the entire population in most low-income countries. It is simply not realistic to expect the poor to qualify for even a minimum pension through a contributory system, particularly in developing countries.

While a majority of rural residents are de facto excluded from most traditional contributory social security programs in developing countries, some middle-income developing

countries have been successful in covering a substantial fraction of their rural older citizens, countries such as Brazil, Argentina, Costa Rica, South Africa, Mauritius, Namibia, and Zambia. Even some low-income countries, such as Lesotho, Bangladesh, India, Moldova, Vietnam, and Nepal, have implemented successful pension schemes for rural residents with GDP per capita levels of less than US\$1000 (HelpAge International, 2007a). Some of these countries provide promising pension models for other developing nations to learn from.

According to the research of Schwarzer and Querino (2002), the rural elderly in Brazil benefit from two pension schemes: the rural social security system and the social assistance pension program. The rural social security system grants an old-age pension for rural elders aged 60/55(men/women) with a flat-rate benefit of one “official minimum wage.” The most important attribute of this system is that it does not require an individual contribution based on earned income, but instead requires that the first purchaser of rural products pay a contribution of 2.2 percent of the commodity price, and there is an additional 3 percent added to the payroll tax paid by urban employers. The beneficiaries simply need to testify that they have been doing rural work for the required minimum years (15 years in 2007). In 2000, over four million rural elders benefited from this pension scheme. In addition, rural older people can still apply for a non-contributory means-tested pension, which grants a monthly transfer of one minimum wage to people aged 67 and over whose per capita family income does not surpass one-quarter of the legal minimum wage. In 1999, 77 percent of elders in Brazil, including those in rural areas, were covered by one of these pension plans.

Namibia grants a non-contributory old-age pension for citizens aged 60 and over. The benefits are universally granted. In 2002, elders received a flat-rate monthly amount of N\$200

(US\$25), covering over 95 percent of the country's older population (Schleberger, 2002).

Revenues raised from general governmental taxes are allocated to fund this scheme, which costs less than 2 percent of Namibia's GDP. This regular cash income contributes to the improvement of elders' status in the family as it gives them the ability to provide income security for their children and relatives in times of need. In most cases, this old-age pension is the only reliable income in rural households, so the pensioners are increasingly kept in the family and cared for.

India and Nepal have also instituted pension schemes for rural aged people. India grants a means-tested National Old Age Pension for older people above the age of 65. To be eligible, they must live in households that fall below the poverty line. In other words, they must lack a regular means of subsistence, such as a personal source of income or the financial support of family members or other sources. In 2000, the Indian government provided Rs.75 (US\$1.75) per month for 5.1 million largely rural elders (Pellissery, 2005). Nepal, with a GDP per capita of US\$290 in 2006, paid a modest monthly universal pension of about US\$2 to all citizens aged 75 or over, with the coverage rate reaching 86 per cent of the elder population (Rajan, 2003).

To extend social security coverage to the growing number of unprotected older people in the world, international attention no longer focuses solely on pension models that are based merely on an individual's monetary contribution record. In fact, international organizations like the World Bank, the International Labor Organization, and the U.N. Development Program, as well as many academics and advocacy groups recommend the inclusion of a non-contributory pension as part of a public pension system; it is viewed as one way to address the coverage gap in an aging world (McKinnon & Sigg, 2003). Brazil, Namibia, India, and Nepal, which have

done relatively well in providing pensions to rural elders by introducing schemes that include a non-contributory element, demonstrate the potentially positive effects that such a component can have on the effectiveness of a country's overall social security program.

Would a non-contributory pension scheme make sense for rural China?

A non-contributory pension is also called a "social pension" or a "demogrant" as it is a pure cash transfer rather than a savings or insurance scheme. It is unrelated to a recipient's status as a former contributor or employee (Palacios & Sluchynsky, 2006). Currently, 72 countries have social pension schemes, of which 46 are low- or middle-income countries (HelpAge International, 2007b). In China, urbanization, migration, and industrialization have been undercutting the traditional role of the multigenerational family in providing old-age security, which is one good reason for Chinese pension policy makers to take a close look at the potential benefits of some version of the non-contributory model for rural areas.

In the past several decades, the Chinese government has relied on contributory pension schemes to finance old-age pensions for rural residents although only a small proportion of rural population are currently covered by this schemes as mentioned earlier (Xinhua Net, 2008). Jutting (2000) points to the lack of adequate administrative capacity as a major obstacle to providing broad coverage for rural workers using this approach. Such schemes call for a way to keep accurate records over long periods of time and the means to collect taxes, maintain records, and regulate contributions. Such structures are weak in rural areas in some developing countries and all but absent in many others. In China, for example, the county-level plan usually lacks enough manpower to extend coverage to dispersed villages and is vulnerable to corruption at

the local level. Although accumulated funds are supposed to be invested only in state-owned bank deposits and treasury bills, part of the funds have been known to be illegally invested in certain other projects that have led to heavy losses (Du, 1999). Weak oversight provides opportunities for corruption, nepotism, and other forms of mismanagement. Administratively, contributory pension schemes are unlikely to be a good choice for rural China for many years.

In addition to such administrative limitations, the huge number of migrant workers provides yet another reason that contributory pension schemes do not make sense at this point in time for China, for not only rural workers, but also for rural migrants working in urban areas. As of 2008, there were approximately 210 million migrant workers working in cities and towns (China Population Net, 2008). As specified by the China Household Registration Law (Xinhua Net, 2006), most of them are not allowed to become more than temporary residents of these cities and towns. Usually they return to the rural villages where they grew up when they become disabled or too feeble to work at the often back-breaking jobs available to them in these urban areas. While it is possible that these migrant workers could participate at least for a few years in a rural contributory scheme after they return home, the amount they would be able to accumulate in their individual savings accounts would generally not be enough to support them when they were no longer able to work at all. Unless some major changes are made in social security policy, many of these returned workers will end up destitute in their old age (*China Youth Daily*, 2007). For these migrant-workers, a pension scheme based on the non-contributory model would make a lot more sense.

A third constraint on China's contributory pension plan is the size of China's rural poor population. In 2006, there were 26 million rural residents living below China's official poverty

line which is far below the poverty line accepted by international standards. If the international standard of \$1 per day is taken into account, the number of poor rural residents in China would balloon to 135 million (China Economy Net, 2006). It is likely that these 135 million people would find themselves excluded from the contributory pension scheme due to their inability to contribute to an individual savings account on a regular basis.

As we will show, a well-designed non-contributory pension scheme has a number of advantages over a contributory pension for rural China. Because eligibility is unrelated to a recipient's income level and employment status, the non-contributory pension is more likely to provide adequate protection for low-income and poor rural residents. Furthermore, a non-contributory pension is likely to do a better job in reducing old-age poverty in rural areas. For example, in 2002, Argentina's non-contributory pension program reduced the household poverty rate by 31 percent below what it would have been without that pension and the "extreme" household poverty rate by 67 percent (Bertranou & Grushka, 2002). Similarly, Duran-Valverde (2002) reports that in Costa Rica nearly 15 percent of beneficiaries were able to measurably improve their economic status due to the additional income provided by the country's social pension plan. Based on evidence from other developing countries, Shen & Williamson (2006) have argued that a non-contributory pension plan in China would help alleviate rural poverty, increase the status of older people within the family, and promote political stability.

One of the major concerns commonly voiced about non-contributory pensions as an option for developing countries is that most of them will find it impossible to come up with the revenues needed to fund a scheme promising even very modest pension (Holzmann & Hinz,

2005; James, 2000; Øverbye, 2005; Palacios & Sluchynsky, 2006). This is not a minor issue, and for many policymakers it is grounds for rejecting the model from serious consideration for any low-income developing nation. What many critics of this model fail to mention is that there are a number of low-income developing countries in the world today, including Botswana, Namibia, Nepal, and Bolivia, that are having at least modest success with such schemes (Johnson & Williamson, 2006; Johnson & Williamson, 2008). Furthermore, there are ways to structure such schemes that take into consideration both the resources available today in China and levels that can be projected for one or two decades from today. Such alternatives would involve phasing in a system gradually so as to keep the cost relatively low during the early years while assuming that over time, as China's economy continues to expand, it should be possible to offer larger pensions and expand coverage to include a greater fraction of the rural elderly people (Shen & Williamson, 2006).

Should a non-contributory pension be means-tested?

Non-contributory old-age pensions can be structured to be means-tested (e.g., South Africa, India) or as a universal flat-rate scheme (e.g., Bolivia, Botswana). Universal pensions involve cash income given to all older persons who are age eligible, while means-tested pensions are reserved for the poor whose income is below a designated level, such as the poverty line or minimum wage. The pros and cons of these two alternative models are dependent on factors that will vary from one country to another.

For most low-income developing countries, one major disadvantage of a means-tested pension is that it requires a substantial level of administrative capacity often lacking in rural

areas, including ways to maintain reliable and accurate records of individual income (Van Ginneken, 2003; Overbye, 2005). The means-tested approach is also criticized for its greater vulnerability to corruption, as local level bureaucrats are often able to exercise discretionary power in determining who is deemed eligible to receive the pension. For example, in Brazil in the late 1970s and early 1980s, local politicians often issued documents required for applying for a pension benefit in exchange for votes in the rural areas (Schwarzer & Querino, 2002). Another major complaint against a means-tested pension points to its negative effects on those with incomes close to the cut-off point for eligibility. Evidenced seems to suggest that it tends to discourage them from saving, improving their home, or continuing to work in paid employment, out of fear of losing their pension (Willmore, 2007). In addition, if administrative costs are taken into account in an effort to exclude the few relatively affluent rural elders in these low-income countries, the resources saved are often quite modest (Shen & Williamson, 2006; Heslop, 2002; Johnson & Williamson, 2006).

It is often stressed that a means-tested pension can accurately distribute limited resources to the truly needy population, but empirical support for this assumption is rather limited. Identifying the wrong rural residents as being needy is a common vulnerability of means-tested pensions and one that is reported in nearly all of the countries that institute such a pension system; for example, Duran-Valverde (2002) reports that some 40 percent of Costa Rica's means-tested non-contributory pension recipients belong to households that are classified as "non-poor." Willmore (2003) studied the short-lived means-tested non-contributory pension in Mauritius. He reports that the "pensioners quickly learned to hide their true income for fear of benefit reduction, which made it difficult to assess the true position of those poor people." In

short, in many low-income developing nations, there are serious problems associated with the means-testing alternative often linked to low administrative capacity, corruption, or nepotism.

One concern often mentioned by critics of universal pension schemes is that, with uniform benefits and unequal incomes throughout a country, what may be viewed as a reasonable pension benefit by poor rural workers will seem negligible for more affluent workers, particularly those in urban areas, and this could undercut popular support for the program. In many developing nations, a minority of the population pay the general taxes typically used to finance universal non-contributory pension schemes. As a result, those paying for the program generally do not expect to benefit in any significant way from it, a condition that can threaten its political feasibility (James, 2000).

In many rural areas, China currently lacks the administrative capacity to accurately test the income and assets of potential recipients. For this reason, a universal pension is currently the most realistic choice for extending coverage, as it requires far less administrative capacity than contributory or means-tested pension plans. Moreover, due to the very high prevalence of poverty among elders in many rural areas, it would be hard to justify the added administrative cost of means-testing given how few would end up being excluded from eligibility. The universal pension, which will provide at least a subsistence old-age pension for all the rural elderly, is urgently needed in rural China for at least the next couple of decades. It is possible that by then the administrative infrastructure in rural areas will be much more well developed and then it might make sense to introduce means-testing of the non-contributory pensions that we propose.

A proposed rural old age social pension for China

While the evidence suggests that a universal non-contributory pension holds more promise than other alternatives for rural China, there are some important issues that must be dealt with in the design of such a scheme, including the financial and political feasibility. We refer to our proposed model for China as a Rural Old Age Social Pension that is universal and non-contributory.

Since the age selected for eligibility affects the number of pensioners, it will have major consequences for the cost of the program, which in turn will have implications for its economic feasibility. Given a fixed benefit level, a higher eligibility age reduces the number of recipients and the cost of the program. The benefit level also directly affects the cost of a social pension plan. Keeping eligibility age constant, a more generous pension benefit results in more expenditure and a heavier burden on the provincial or national budget. In international comparisons, the annual benefit level for a pensioner is often expressed as percentage of a country's GDP per capita and the cost of a social pension plan as percentage of GDP spent on it (HelpAge International, 2007a; Palacios & Sluchynsky, 2006; Willmore, 2007). This percentage can be obtained by the following formula:

$$C = P \times B$$

C is the percentage of the cost of a social pension plan to a nation's GDP; P is the percentage of the number of pensioners to a nation's total population; and B is the percentage of the benefit level to a nation's GDP per capita for each pensioner.

To estimate the cost of a social pension program for China, both B and P must first be estimated. In the 72 countries with social pension schemes, 27 have an eligibility age set at 65,

while most of the other countries set it at under 70 (International Social Security Association, 2007). As life expectancy in China was approximately 71 years in 2006 (China Statistical Yearbook, 2007), setting the eligibility age at 65 is reasonable. In 2007, 8 percent of China's population was aged 65 or over (China National Economy and Social Development Statistical Bulletin, 2007), and it was estimated that nearly 5 percent of China's population were rural elders (China National Committee on Aging, 2007). So a reasonable estimate of P is 5 percent.

As the primary aim of a social pension is to prevent poverty and vulnerability among the elderly, the benefit level of China's social pension should at least be above its national rural poverty line, which in 2007 was ¥ 785 (US\$107) per person per year. In the same year, China's GDP per capita was US\$2,556 (China National Economy and Social Development Statistical Bulletin, 2007). Thus, the estimated annual benefit for each pensioner would be just over 4 percent of China's 2007 GDP per capita. So B equals 4 percent. Willmore (2007) summarized the benefit social pension granted as a percentage of GDP per capita in 24 countries, all of which are higher than the rural old-age social pension that we are proposing for China. The highest was Kosovo (50 percent of GDP per capita), while the lowest was India (5 percent of GDP per capita).

Based on above data for China in 2007, P equals 5 percent and B equals 4 percent. So the minimum cost of China's rural old-age social pension would be 0.2 percent of its GDP, if the benefit level equals China's national rural poverty line and if coverage were 100 per cent for the rural population aged 65 or above.

As reported by HelpAge International (2007a) and Willmore (2007) summarized in Table 1 below, in 16 low- and middle-income countries with social pension plans, the total transfer of

income to the aged via a non-contributory pension ranged from 0.01 percent of GDP for India and 0.4 percent for Botswana to 1.43 percent for Lesotho and 2 per cent for Mauritius. China's per capita income is classified as being in the lower middle category by world standards in 2006, according to the International Monetary Fund. Table 1 also shows that many developing nations that have lower levels of GDP per capita than China also have social pension plans, including Bangladesh, Bolivia, India, Lesotho, Moldova, Nepal, Tajikistan, and Vietnam, making it reasonable to suggest that China can afford such a program now.

Table 1 goes about here

We anticipate that due to population aging and improvements in the general living standard of the Chinese people, the cost of the proposed universal social pension scheme will increase in the coming decades. This may call for more government revenue to support the retired rural residents. However, as we all know, China has experienced rapid economic growth for the past three decades and there is every reason to expect that the trend will continue in the years ahead, though not necessarily always at a 9.9 percent annual growth rate in GDP. The Chinese government can adjust the eligibility age, benefit level, and other parameters of the social pension scheme and make it affordable and sustainable with the changes of economic growth rate.

HelpAge International (2006) claims that social pensions in developing countries are affordable where the political will exists. China's small-scale rural non-contributory pension program, Rural Five Guarantees, has laid a foundation for the introduction of a social pension for all rural elderly people. Such a universal non-contributory pension scheme can be viewed as

an extension of Rural Five Guarantees through the revision of certain key parameters.

Considering the substantial positive effect a non-contributory pension could have on political, economic, and social development, we believe that our proposed program (or a variant of it) could receive widespread social support in China. Shen & Williamson (2006) argue that, as most urban residents in China have rural relatives, they can be counted on to support a program along these lines to alleviate the amount of aid they are providing to their poor rural relatives. Some owners of urban enterprises may also support the idea of a social pension for the rural elderly, as the cash transfer involved should enhance consumption levels among rural residents who will be able to afford more consumer goods being produced in urban areas.

However, we do anticipate that some and possibly many high-income urban workers would be reluctant to support the introduction of a universal non-contributory social pension program for rural areas. They would worry about being asked to pay more taxes, a concern likely shared by many employers with little or no business in rural areas. The government faces a trade-off between old-age pension and other public programs, such as primary education and health services for the young, which may help people to build human capital and reduce reliance on social assistance in the long run.

Some people may be concerned that the universal pension plan might undercut intergenerational transfers and possibly lead to a near total withdrawal of traditional family support for elderly people. We believe that this scheme would substantially reduce the current financial burden on adult children due to their supporting their parents, but we doubt that it would lead to a major breakdown in intergenerational family support systems. As a matter of fact, there are empirical studies supporting the conclusion that the universal non-contributory

pension system tends to have a positive impact, strengthening intergenerational relationship (Palacios & Sluchynsky, 2006). Edmonds, Mammen and Miller (2001) observed a rise in the number of children living in pensioner households in South Africa. In Brazil, the co-residence with the grandchildren for elder-headed households increased after the extension of pension entitlements (Camarano, 2002). In most cases, access to regular pension benefits creates an incentive for younger children to extend the survival of the beneficiary in order to guarantee the continuity of this cash stream, and henceforth improves the status of older people within their household (Barrientos & Lloyd-Sherlock, 2002). So, it is quite likely that the proposed universal non-contributory pension plan will benefit the Chinese rural elders in many ways and even strengthen family relationships rather than the contrary.

In short, our analysis suggests that China can afford a universal social pension for the rural older population. However, what does remain uncertain is whether such a program is politically feasible, as rural residents have relatively little political influence.

Conclusion

In recent years, China has been moving to partially privatize its public pension schemes with the introduction of mandatory funded individual accounts, particularly for urban workers. As we see it, the move to partially privatize the public pension system is probably not a wise decision, at least at this point in time. Considering the low coverage for China's contributory pension schemes and the spotty record in many developing nations in connection with recent reforms that have moved in the direction of greater emphasis on funded personal accounts, Chinese policy makers may want to give more attention to lessons from those developing

nations around the world that have had some success with variants of rural old age social pensions. The importance of non-contributory “zero-pillar” schemes is now even being given increased emphasis by the World Bank and other international financial organizations, particularly for developing nations.

This article proposes a universal non-contributory pension for rural residents aged 65 or over, with an estimated annual benefit level for each pensioner set at 4 percent of its GDP per capita, costing merely 0.2 percent of China’s GDP even if the coverage rate were to get very close to 100 percent, a goal which quite likely would take many years to achieve. Most likely, China can afford this cash transfer program now, and it should certainly be able to afford such a program very soon given the current rate of economic growth. As we view the situation, the most important potential obstacle to a program along the lines of what we have proposed is political resistance. To help minimize political opposition to such a scheme, it may make sense to start with a relatively high age of eligibility (e.g., above 65) and a relatively low benefit level. Then, once the economic feasibility of the scheme had been demonstrated, it would be possible to gradually increase the level of the pension benefit and reduce the age of eligibility. It may also be wise for China to implement this program first in its poorest rural areas, gradually expanding it nationwide with steady economy growth in the years ahead.

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Table 1. Social pension data for low and middle income countries.

Country	Type	Eligibility age	Monthly benefit ^a (US\$)	Cost ^b (% of GDP)	Per capita GDP in 2006(US\$)
	U: universal				
	M: means-tested				
Argentina	M	70	88	0.23	5,528
Bangladesh	M	62	2	0.03	437
Bolivia	U	65	18	1.3	1,101
Botswana	U	65	27	0.4	4,755
Brazil(Soc S) ^d	M	60(men);55(women)	140	0.7	5,640
Brazil(Soc A) ^d	M	67	140	0.2	5,640
Chile	M	65	75	0.38	8,857
Costa Rica	M	65	26	0.18	5,034
India	M	65	4	0.01	784
Lesotho	U	70	21	1.43	725
Mauritius	U	60	61 ^c	2	5,124
Moldova	M	62(men)/57(women)	5	0.08	876
Namibia	U	60	28	.08	3,084
Nepal	U	75	2	0.1	290
South Africa	M	65(men)/60(women)	109	1.4	5,133
Uruguay	M	70	100	0.62	5,796
Vietnam ^e	M	60	6	0.022	673
Vietnam ^e	U	90	6	0.0005	673

Notes:

a,b: data are from different years (1999–2005).

c: this benefit is for people aged 60–89, the benefit for people aged 90–99 is US\$229 and US\$262 for people aged over 100.

d: Brazil has two schemes for rural workers, the social security pension (Soc S) and the social assistance pension (Soc A).

e: This pension is means tested from age 60 to 89 and is universal after age 90.

Sources: HelpAge International, 2007a; Willmore, 2007; United Nations, 2007c.

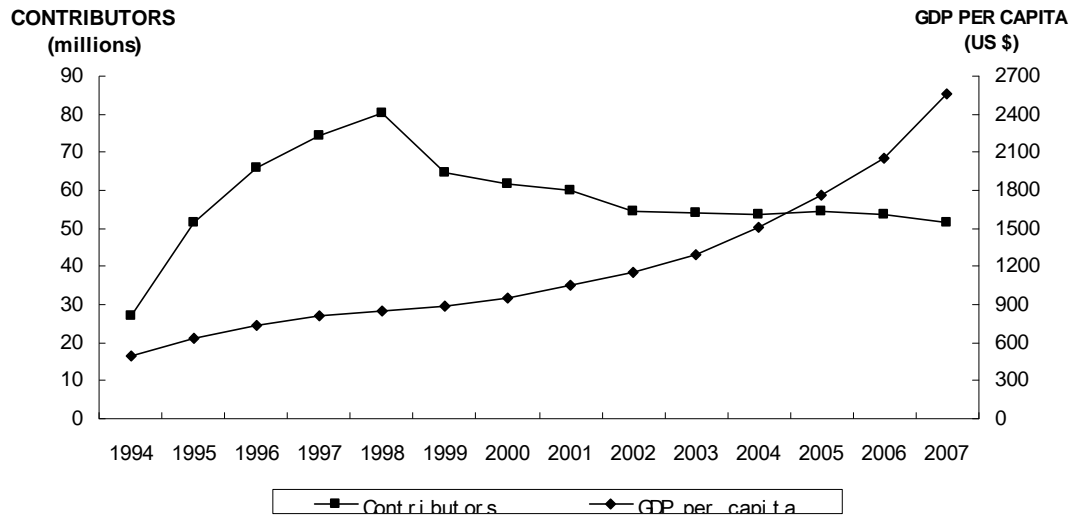


Figure 1. Decreasing contributors of China's rural contributory pension scheme in contrast to its economic growth.

Source: Data on contributors are from China Social Security Annual Bulletin, 1994–2007; data on GDP per capita (1994–2006) are from United Nations, 2007c; data on GDP per capita in 2007 are from China National Economy and Social Development Statistical Bulletin, 2007.