

# Research for the Key Factors which Influence the Sustainable Development of Township Workers' Old-age Insurance System in China

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**Abstract** In order to deal with the aging of population in china ,our country has established a relatively timely township workers' old-age insurance system, this system has effectively alleviate the impact from the aging of the population on our society's benign operation in case of "old before getting rich". However, in the process of China's old-age system, there are still a series of problems which make it difficult for keeping the insurance system sustainable, such as the huge invisible debts, the coverage is not big enough and so on. To find out the reason, not only the system itself is not reasonable, with many internal factors, but also the political, economic, law and other external factors. All of these factors are complex, we can not do everything, and less likely solve all of them in a short term, thus to explore one of the most critical factors will be of great significance. As a foothold on the basis of a comprehensive analysis of a variety of factors that develop a conclusion, reasonable legislative and institutional rates are the key obstacles resulting in the bottlenecks of the township workers' old-age insurance system, to solve this problem, not only the other problems will be solved, and the development of township workers' old-age insurance will get continuous power and strong backing, the reform and development of the state social security system will be orderly and steadily.

**Keywords** Township workers' old-age Insurance Sustainable Development Law

## 1. The Current Situation and Problems of Township Workers' Old-age Insurance in China

### 1.1. The Current Situation of Township Workers' Old-age Insurance

The development of China's township workers' old-age insurance system can be roughly divided into four stages, which are state and corporate welfare arranged stage (1951-1982), reform of social pooling stage(1983-1993), combined with social pooling and personal account stage (1994-2005) and the further perfect stage (2006 to now). [1]

Social pooling fund and personal account fund are the two components of China's township workers' old-age insurance fund. Enterprises paid into the social pooling fund, in principle, enterprises paid no more than 20% of the total enterprise wages (but for several regions, such as Shanghai, rate as high as 22%). Employees paid for the personal account fund, rate for personal account is 8% of individual wage.

### 1.2. The Problems of Township Workers' Old-age Insurance

A sound and sustainable development system includes several aspects of the implementation elements: the fairness of the system, the operability and sustainability of the system.

Because the implementation of the social security system was state and corporate welfare arranged in the early establishment of China, there is no accumulation for basic pension, while the problems of population aging is becoming more and more serious, the huge cost of enterprise restructuring, payment for pensions are facing the challenge. The social pooling fund accounted for 20% of total corporate wage payment, it's a heavy burden for enterprises, may lead to staff pension evasion, make it difficult to collect the social pooling fund.

#### 1.2.1. Recessive Debt

The recessive debt refers to in the state and corporate welfare arranged stage, must take the fund payment responsibility for workers and retirees who participated in old-age insurance. The reason is that in the original national security system, workers needn't to pay for themselves, workers did not have individual accumulation fund, pension is only paid by the state. While the individual account system

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carried out during the enterprises transition, those workers who do not have personal accounts, the state must repay their pensions, it is also known as "costs of transition". [2]

Recessive debt is an invisible "bomb" of old-age insurance system, at risk for suddenly break out, so how to solve the problem of recessive debt relates to the operation effect of township workers' old-age insurance system, which will also affects the success or failure of the system.

### 1.2.2. Empty Account in Personal Account

In the influence of aging of population and recessive debt, township workers' old-age insurance system is facing huge pressure of payment, the current individual account in China is not funded, using personal account to pay for retired group caused personal accounts have to run with empty account. Empty account operation for personal accounts will lead to the most serious consequences and sharpest conflicts among all existing problems of township workers' old-age insurance system.

However, in the perspective of debt relations, empty account operation for personal accounts pension is equivalent to retirees borrow from the on-the-job, is overdraft of now to the future. [3] It contains huge financial risks, also increases the risk of system reform, will result in intergenerational conflict between the young generation and the old generation, may lead to reform and reduce the credibility of the new regime, may lead to low credibility of new institution after the reform, and even shake the foundation of new institution.

### 1.2.3. Difficult to Collect Pensions

Since China's city system reform, the state-owned enterprises become independent, self-sustaining economic entities. At the same time in order to cope with the enterprise reform, the basic old-age insurance from the original state and corporate welfare arranged security system, namely enterprises according to the unified national pension policy to pay pension costs for workers, to the combination of social pooling and personal account model. [4] This means that enterprises must pay the employee pension insurance to pension institutions in accordance with the proportion of the total amount of wages. After the restructuring, some of the original system of state-owned enterprises due to various factors, such as production equipment, departments, the economic benefits not as well as before, resulting in troubles in the payment of employee old-age insurance.

Heavy pressure of payment leads to a high contribution rate, making enterprises own development hampered, and even lead to payment evasion, also affect the growth of personal life quality.

### 1.2.4. Insurance System is Less Developed

"Three pillars" of old-age insurance, respectively are basic old-age insurance, enterprise annuity and individual commercial insurance. Because the rate of basic pension insurance is low, enterprise annuity and individual

commercial insurance are as supplementary part of the basic old-age insurance.

Enterprises must pay the basic old-age insurance for employees occupy 20% of total wages, causes slack psychology for paying old-age insurance premiums, enterprise annuity is regarded as the benefit of enterprises and implemented on voluntary assignment, leads to few of none enterprises have actual actions. Whether or not to participate in the individual commercial insurance based on personal wishes and economic condition, the pensions of retired workers is not high, there are some retirees live in difficult life, more can not afford commercial insurance to protect their retirement. Therefore supplementary insurance is exist except in name, it is a obstacle to protect the elderly retired life. The problem that insurance system is less developed is an urgent problem should to be solved.

## 2. Factors which Influence the Sustainable Development of Township Workers' Old-age Insurance

Sustainable development of township workers' old-age insurance system is a crucial problem for continuous improvement and progress of the society. Government's commitment to basic social old-age security system and welfare is stiffness, so explore factors which influence the sustainable development of township workers' old-age insurance is essential, according to background, these factors can be divided into internal factors and external environmental factors.

### 2.1. Internal Factors

Difficult to collect pensions and pension gap are important reasons which make it hard to keep township workers' old-age insurance sustainable development. Factors lead difficult to collect pensions are the rate of the pension system is not reasonable to develop: pension contribution rate is high, retirement age of workers is young compared with other developed countries. Recessive debt causes for pension gap, to fill the personal accounts pension funding gap of "old-people" and "mid-people", government use working-people's personal account to pay for retired people, the existing pension investment is conservative and low benefit. [5]

#### 2.1.1. Unreasonable Enough Rate

High rate of payment of pension.

China's urban workers pension insurance payment rate is the enterprises pay 20% of employees' salaries, individual pay 8% of personal wage. In China, whether it is business or personal, provisions of endowment insurance rates are far higher than most of developed countries. Only contribution rates in Italy as more as China, the payment rates in other countries are far lower than in China. Thus the old-age insurance burden for enterprises is seriously heavy, it is harmful for sustainable development of the enterprises'

development and township workers' old-age insurance.

Existing retirement age is low.

First of all, the statutory retirement age of China is low. The average life expectancy should be the basis of established as a statutory retirement age. The average life expectancy was only 40.8 years old in 1949, while in 2010, China's average life expectancy is 74.83 years old, during 60 years the average life expectancy has increased by 30 years, but the statutory retirement age is almost not changed.

Secondly, there are gender differences in the statutory retirement age. China's female workers retire 10 years earlier than male workers, female cadres retire 5 years earlier than male cadres. Male and female retirement age in countries such as Japan, South Korea and India doesn't have existence of the gap, respectively 65, 60 and 55 years old. In fact, China has the world's largest gap in retirement age for male and female. And this gap in gender and age of retirement will do harm to the supply and demand of labor market, collection and distribution of pension and development in economic.

#### 2.1.2. The Mode of Pension Fund Capitalization Operation is Conservative

The pension fund in China is still mainly exists in the form of bank deposits and bonds, although the safety of funds obtain the safeguard, but the benefit is low, it is difficult to preserve and increase the value. [7] On the other hand, bonds tend to have time restrictions, particularly the liquidity of long-term bonds is not well, easily lead to the vacuum period and gap of pension fund. Compared with the deposits and government bonds, corporate bonds and financial bonds benefit higher, effect of obviously value-added, but the safety of corporate debt and financial debt is not so satisfactory, enterprises may unable to redeem bonds. [8]

In short, China's pension fund capital operation level is relatively low, although the liquidity of current security investment fund is well. But with the growing gap in the pension fund, the limit investment scale, conservative investment could be the most serious problem.

## 2.2. External Environmental Factors

Exploring the factors affecting the sustainable development of China's township workers' old-age insurance, not only need to find a breakthrough from the system of itself, also cannot ignore the old-age insurance for the external development of socio-economic conditions, so we shall analyze the demographic, economic, political, legal and other aspects, to improve the environment gradually for the development of old-age insurance system, to create more favorable conditions and space for its sustainable development.

#### 2.2.1. Population Environment

Population age structure and population issues directly affect the sustainable development of the old-age insurance

system, in this term we must face and find ways to solve the environmental problem of the population. China's aging population is characterized by the development of high speed and large population size. According to the UN Population Division data, the ratio of the elderly population increasing percentage average every five years became higher than any other developed countries since 1997. The sixth national census (28 April 2011) data indicates that China's population aged 60 and over accounted for 13.26%, rose 2.93% over the 2000 census, the population aged 65 and over which accounted for 8.87%, compared with 2000 population Census rose 1.91%. It shows that China is gradually speeding up the aging process. The number and rate of aging of the elderly population is excess of the level of economic development, the trend will make pension payment already under great pressure, pension income and expenditure can be contradictory to the sustainable development of old-age insurance system. [9]

#### 2.2.2. Economic Environment

The moderate and sustainable economic growth is an important basis for the sustainable development of old-age insurance system. Economic growth creates a strong financial support for the smooth development of old-age insurance system.

Because of the economic growth, enterprises' payment and the level of wages will increase, so the number of collection of old-age insurance and the actual levy amount will increase, and the pension scale will also be expanded. This will be helpful to the balance of pension fund. In addition, continuous economy growth is also the foundation for national fiscal revenue growth, the problem of unbalanced supply and demand of old-age insurance fund can also be ease due to the state finance. So the economic growth can bring more powerful and reliable material support for the old-age insurance system, and maintain sustained economic growth on the old-age insurance system.

#### 2.2.3. Social Environment

The social security system is a secondary allocation in the social environment, the situation of the income distribution have a profound impact on the sustainable development of the old-age insurance system.

Problem of income gap have been long in our society, which impact on the sustainable development of township workers' old-age insurance system are mainly manifested in the following aspects: First, the widening income gap across regions, is not conducive to a unified national pension insurance; second, the income gap between urban residents increased, then it is difficult to satisfy the protection requirements of all income levels.

Narrowing the income gap is a factor of social development to achieve pension system's sustainable development, therefore the middle -income groups should be expanded, reach a "olive" income distribution structure, so as to effectively control the income gap due which brings a

variety of adverse effects to the sustainable development of the old-age insurance system .

#### 2.2.4. Legal Environment

The prerequisite for sustainable development of township workers' old-age insurance is the law. The situation in China is legislation after practice, which resulted in situation of legislative lag, and because of delays in the establishment of pension insurance law, low-level government regulations temporarily replace the law, resulting in large differences in different regions, lead to increase in non-standard behavior. Process of the pension system appeared to pension fund management confusion, individual account pension funds empty operating, increase the difficulty of value increasing, the messy standard treatment benefit and so on, all make the pension system unsustainable development, so China's social pension difficulties caused by the legislation lag.

### 3. The Key Factors Affecting the Pension System Sustainable Urban Development

Explore the factors that could have some impact on the sustainable development of township workers' old-age insurance can be analyzed from the internal and external environment of pension insurance system. Internal factors which belong to pension insurance system has unreasonable premium rate regime, low retirement age, pension funds and low investment income; factors belong to the pension system in the external environment are aging population, economic environment, political environment and legislative background. Each factor affecting the sustainable development of township workers' old-age insurance system, but to get rid of every problem in a certain period of time is unrealistic, that will take a lot of manpower and material resources. China is in the ranks of developing countries, so how to use limited resources to achieve maximum sustainable development of township workers' old-age insurance system is worthy of further study and exploration of the issues, which should seize one or several most critical factors within the variety. As a key element should have two conditions: first, the factor should play an important role in sustainable development of old-age insurance system; Second, it will be an effective solution to other factors affecting the pension system solutions for sustainable development. According to these two criteria, the key factors affecting the sustainable development of township workers' old-age insurance system is effective to develop pension laws.

#### 3.1. The Importance and Necessity of Township Workers' Old-age Insurance Legislation

Township workers' old-age insurance system belongs to the public domain of state and government, problems of old-age insurance must be solved by the power of government. From the practice of China's pension legislation,

had developed a number of social security legislation, but in the level of laws is low, resulting in messy standards of old-age insurance. In the pension insurance system and the implementation process, because of lacking of relevant legal norms, contributed to the existence of some localities and units breaches of discipline, there are loopholes in the system implementation and business management issues. These problems are due to the absence of a strong and effective support for targeted old-age insurance laws. Therefore, to establish the relevant township workers' old-age insurance system law for achieving sustainable development of old-age insurance system is decisive and necessity.

#### 3.2. Urban Pension Insurance Legislation to Resolve the Significance of Other Factors

##### 3.2.1. Adjust Retirement Age Effectively

Township workers' old-age insurance legislation on workers' retirement age can be re-estimated and regulations on the basis of life expectancy, and gradually realize effectively extend to the statutory retirement age. This can reduce the burden of pension payments paid, and chieve social justice, sustainable development of township workers' old-age insurance system.

##### 3.2.2. To Establish a Multi-level Old-age Security System

China's old-age insurance system only has basic pension system which established with the support of the national government currently, but as a complementary corporate pension and personal savings are on the slow development of the pension system, the fundamental reason is the lacking of relevant laws and regulations, which could be the necessary foundation and basis for establishing a multi-level old-age security system. [10] Therefore, the development of urban pension insurance laws such as basic pension insurance and annuity law have the effect to determine their security goals, treatment agencies and investment content , it is important for establishing and growing a multi-level old-age security system.

##### 3.2.3. To Strengthen the Collection and Investment of Fund Management

Difficulty stems of China's township workers' old-age insurance system from is the poor part of the collection of pension fund. So we should not only draw on the existing pension system reform and international experiences on the basis of legislative norms of township workers' old-age insurance, but also to develop appropriate legislation to regulate the rules for investment and pension funds, to make pension fund achieve a greater return on investment, at the same time, to improve the basis of preservation. [11]

##### 3.2.4. Establish and Improve the Supervision System of Township Workers' Old-age Insurance system

According to the Social Security Fund 2013 audit report, urban enterprise workers and residents in basic pension

insurance fund audit found violations of discipline in some places and units, basic pension insurance companies are expanding the scope of spending or illegal operations, mainly through death to conceal information, income is not accounted for by means of defrauding pension, audit not stringent enough to not meet the conditions of staff pensions and so on. Capital management and business management in some areas are not standardized, there is a part of the pension fund management and financial accounts through various forms of underpaid evasion case premiums are not included. There are some industries and units run social insurance fund is still closed, some provinces funds for basic old-age insurance has not been implemented at the provincial level and other issues.

These are present problems in the township workers' old-age insurance system, which need to fill the legal loopholes, and the standardization of old-age insurance carriers to make requirements and review of processing requirements clearly. Establish the supervision system of township workers' old-age insurance, according to the law by the government specially departments, the National Audit Office, agencies and enterprises and other employers, workers, citizens and other shared responsibility for oversight of the pension system, to strengthen the supervision of township workers' old-age insurance system.

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