



Structural Problems and Reform Measures behind China's Social Pension Payment Crisis

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Abstract

After years of exploration and reform, China's social pension insurance system has played an important role in China's economic development and social stability, but there are still structural problems that lead to serious pension insurance payment crisis. The purpose of this paper is to discuss the structural problems of China's social pension insurance payment crisis and the corresponding reform measures.

Subject Areas

Economic

Keywords

Social Pension Insurance, Payment Crisis, Reform Measures

1. Background and Significance of the Study

With the aging of China's population, pension insurance expenditures have been increasing, while the trend of slowing economic growth and a declining workforce has put enormous pressure on China's social pension insurance payments. In addition, there are certain limitations in the coverage of social pension insurance, and in order to cope with these problems, our government is also actively promoting the improvement of the pension insurance system. It is of great significance to study the issue of factors behind the payment crisis: firstly, social pension insurance is an important system to protect the basic life of the elderly, and the payment crisis is directly related to the welfare benefits of the elderly and social stability. Studying the structural problems behind it can provide a scientific basis for governmental decision-making, improve the operation of the pension insurance system and raise the welfare level. Second, the social pension in-

insurance payment crisis involves the interests of the majority of workers and enterprises, and examining the influencing factors behind it can help all parties understand the operation mechanism of the pension insurance system and where the problems lie, enhance consensus and participation, and promote the implementation of relevant reform measures. Finally, the study of the social pension insurance payment crisis is also of great significance to the international community. With the common phenomenon of population aging worldwide, all countries are facing similar pension insurance payment challenges. Our country's experience in exploring and responding to this issue is of positive significance for international cooperation and the sharing of experiences in sustainable development. To sum up, the study of the social pension insurance payment crisis in China is conducive to providing scientific evidence and policy recommendations, promoting the reform and development of the pension insurance system and realizing the social goal of providing for the elderly and giving them a sense of security.

2. The Concept and Factors Influencing the Pension Payment Crisis

2.1. Definition of the Crisis in the Payment of Social Pension Insurance in Our Country

The pension insurance payment crisis refers to the problems faced by the pension insurance system in terms of expenditures exceeding revenues, increasing fund gaps and limited capacity to pay. Such a crisis may lead to difficulties in paying pensions and pose a threat to the sustainability of the pension security system.

2.2. Causes of Our Social Pension Payment Crisis

1) Population ageing: With the deepening of population ageing, the expenditure pressure on pension payments has increased, while the number of contributing participants has declined in relative terms, leading to a payment crisis in the pension insurance system.

2) Slower economic growth: Slower economic growth means less tax revenue and more difficulty in collecting social security fees, leading to less income for the pension fund, thus making the payment crisis more severe.

3) Inadequate system design: If the pension insurance system is not reasonably designed, such as overly generous pension calculations and a low retirement age, it will increase the pressure on pension expenditures and exacerbate the payment crisis.

3. Analysis of Structural Issues

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3.1. Shortcomings of Our Social Pension Insurance System

With the introduction of the “Reform Plan for Promoting the Pension Insurance System of Institutions” in 2014 and the “Decision of the State Council on the Reform of the Pension Insurance System for Staff of Institutions” in 2015, the “two-track system” of China’s social pension insurance system was declared to have come to an end [1]. Despite the unification of the system, the problem of the “two-track system” of pension benefits has not been completely solved. At this stage, the “parallel system” is only a “system parallel system”, and there is still a long way to go to realize “equal treatment”. First, the pension replacement rate for retired enterprise workers is low, while the pension replacement rate for institutionalized workers is relatively high, which has led to inequitable pension treatment. According to data published in the 2018 Annual Statistical Bulletin on the Development of Human Resources and Social Security, at the end of 2018, China’s employees participating in basic pension insurance for urban workers amounted to 301.04 million, while 23.88 million employees participated in enterprise annuities, accounting for only 7.9%. This inequity not only affects social justice, but also exacerbates the pressure on pension payments.

3.2. Differences in Payment Pressures Due to Urban-Rural Development Imbalances

1) Differences between urban and rural pension insurance systems in China

There are obvious differences between China’s urban and rural pension insurance systems. The social pension insurance system in urban areas is relatively well-developed, while the new rural social pension insurance system is commonly used in rural areas. This difference in systems has led to significant differences in the ability to pay and the level of payment of rural and urban old-age insurance. The social pension insurance system in urban areas is usually funded by a combination of unit and individual contributions, creating a more stable source of funding. The new rural insurance system in rural areas, on the other hand, relies mainly on individual contributions and government subsidies, with the individual contribution portion being relatively low due to the limitations of income levels.

2) Differences in contributory capacity due to the urban-rural income gap

The urban-rural income gap is an important feature of China’s economic and social development. The income level of urban residents is generally higher than that of rural residents, resulting in urban residents having a stronger ability to contribute to pension insurance, with high-income urban residents choosing pension insurance with high pensions and high insurance costs, while rural res-

idents are relatively weaker, choosing “double-low” pension insurance [2]. This difference in contribution capacity further exacerbates the imbalance between urban and rural pension insurance payment pressure.

3.3. Higher Rates under the Current System

At present, the unit contribution rate for pension insurance in China’s institutions, enterprises and public institutions is 20 percent, and the contribution base has been upwardly adjusted year after year. In Hunan Province, for example, according to data released by the Hunan Provincial Taxation Bureau, the benchmark value of the province’s pension insurance contributions has been increasing year by year over the years, with 4764 yuan in 2019, 5145 yuan in 2020, 5460 yuan in 2021, 5977 yuan in 2022 and 6284 yuan in 2023. Compared with the United States and Japan, where population ageing is more serious internationally, their unit contribution rates are only 6.2 percent and 8.65 percent. In addition, the high threshold of China’s enterprise pension insurance contribution rate has increased the burden of labor costs on enterprises. For non-public enterprises with a large proportion of young workers, few are willing to participate in social pension insurance under the current high contribution rate.

3.4. Problems in the Management of the Pension Fund

1) Low rate of return of the Fund

The Annual Report on the Trusted Operation of the Basic Pension Fund of the National Council of Social Security Funds (2022) released by the National Council of Social Security Funds on November 4 shows that in 2022, the basic pension fund’s equity investment return amounted to RMB 5.105 billion, with an investment return rate of 0.33% and an average annual investment return rate of 5.44%; at the end of 2022, the entrusted basic pension fund’s equity totaling 1.62 trillion yuan. These figures show that the rate of return of China’s social pension insurance fund is relatively low. The investment channels of China’s pension insurance fund are relatively limited, with bank deposits and treasury bonds being the main focus. Under China’s current financing mechanism of partial fund accumulation system, the fund’s return can only ensure the fund’s future risk resistance if it exceeds inflation [3]. The pressure of inflation in China since the 1980s has led to the fund’s real return being negative for many years, which is why it is difficult for the pension fund to preserve its value. The long and short-term balance of income and expenditure that has emerged has exacerbated the payment crisis.

2) Imbalance between income and expenditure of the Fund

As a result of the decrease in the number of pension insurance contributors, the decline in the capacity to pay contributions and the increase in the demand for payments, China’s pension insurance fund is facing an imbalance between income and expenditure. In some regions, the pension insurance fund has already suffered

from a shortfall of income over expenditure, leading to a worsening payment crisis.

3.5. Inadequate Social Pension Insurance Coverage

During the Thirteenth Five-Year Plan period, China had basically established a basic pension insurance system covering the entire population, but during the Fourteenth Five-Year Plan period, the goal of full coverage was challenged by the fact that many of the urban working population were not included in the employee insurance system. Taking new industry personnel as an example, this group of people is currently in a difficult situation in terms of social security rights and interests. According to a survey conducted by domestic scholars, only 15% of the 4700 employed people surveyed participated in social insurance [4]. As the economic income of new industry practitioners is low and unstable, if they pay pension insurance individually and the amount of contribution is high, it is not easy to be afforded family pressure, so they have low motivation to participate in the insurance. In addition, XI Heng suggests that the mobility of employees in new industries is high, and the current social insurance mainly belongs to the regional management, so it can not meet the new demand. The traditional employment relationship has been changed in the new industry's demand-oriented approach. At present, pension insurance has not been nationally coordinated, and the transfer procedures across the coordinated areas are complicated, which leads to participants giving up their pension insurance rights and interests due to the inconvenience of the process.

4. Reform Measures to Cope with the Crisis of Social Pension Payments in China

4.1. Strengthening of Legal Administration

The Social Insurance Law provides a strong guarantee of the rule of law for the collection and payment of China's social security fund, and it is essential to implement the practical application of the Social Security Law, so as to ensure that all persons should be insured and all persons should be paid in accordance with the law. First of all, the relevant departments at all levels should do a good job of ensuring all kinds of people at all levels and categories of breakthroughs in accordance with the law. The legislative department should also face up to the problems from the legal level, think about the shortcomings, and actively explore the improvement of the relevant laws to strengthen the legal system of social insurance in China.

4.2. Expanding the Coverage of the Pension System

The primary task in reforming China's social pension insurance system is to expand its coverage and ensure that more members of society can enjoy pension protection. With the deepening of the reform of the system, the target group of pension insurance coverage has gradually expanded from the initial group of institutional and enterprise workers to include urban and rural residents as well as

the group of flexibly employed persons. Differences in insuring capacity caused by income differences between urban and rural residents have made it fundamentally difficult to ensure the implementation of the parallel system [5], so to fundamentally narrow the gap between urban and rural levels of economic development, we need the government to play a role in financial support, increase the government's support for social security subsidies in rural areas, and accelerate the construction of a new socialist countryside, so as to realize the relative fairness of the level of urban and rural security.

4.3. Broadening the Fund's Investment Channels

From the investment situation of the pension insurance fund, the investment return rate is lower than the CPI in the same period, indicating that it is in a state of depreciation. Broadening the investment channels of China's pension insurance fund, and improving the fund's insurance value-added capacity, can effectively ensure the normal operation of China's current pension insurance system. On the one hand, we should follow the law of the market for investment and play the role of market mechanism. On the one hand, the investment channels tend to diversify, in addition to the conventional way, and can also choose some high-efficiency, relatively stable projects for investment. If necessary, a third party can also be introduced, the fund is centralized and entrusted to professional investment institutions to manage and operate, which is conducive to the preservation and appreciation of the value of the fund.

4.4. Promoting the Computerization of the Pension Insurance System

In order to improve the management efficiency and service level of the pension insurance system, China is actively promoting the computerization of the pension insurance system. Through the establishment of a nationally unified pension insurance information system, the interconnection and sharing of pension insurance information has been realized. At the same time, the collection, organization and analysis of pension insurance data have been strengthened, providing strong support for policy formulation and decision-making.

4.5. Realization of National Coordination of Pension Insurance

It is necessary to gradually raise the level of pension insurance coordination and to realize the transfer of pension insurance relations across the country. To break through the protectionism of local interests, and to ensure uniformity in the implementation of the Central Government's requirements across the country in the light of the overall situation, it is possible to start with the establishment of improved provincial-level coordination, which will serve as a basis for the gradual realization of pension insurance coordination in a larger region.

5. Identifying Expert Perspectives

Zheng Bingwen, director of the World Social Security Research Center of the Chinese Academy of Social Sciences, suggests, “Because of the deepening aging, the old-age support rate has been climbing year by year, and the pressure of decreasing the replacement rate of the basic old-age insurance is very great. Young people should start preparing for old age earlier, and the earlier the better.” I think this statement is not entirely correct. China’s pension insurance system was established in a relatively short period of time, there are absences and deficiencies in the system, the contribution rate, the replacement rate, investment and other aspects need to be improved, secondly, the rapid development of the economy triggered by the difficulty of employment and other issues, making it difficult for young people to stabilize the payment of pension insurance, so that the background experts suggest that young people as early as possible to prepare for old-age insurance has a certain degree of reasonableness. But to trace the root of the problem, or because of the social security system for the elderly, compared to the youth worried about the problem of old age, we should be more from the deep level of reflection and reform of the pension insurance system. I do not agree with the experts that “the earlier the better”, young people save for a rainy day, early insurance is reasonable, but not “the earlier the better”, in the affordability of the current economic pressure on the premise to participate in the insurance is a wise choice. The elderly are, after all, the future of things, blindly ignoring their current basic conditions of existence, to care about their own retirement needs after a few decades, it is very likely that they are in state of not being able to make ends meet.

6. Summary and Outlook

China’s social pension insurance payment crisis is severe, and problems such as imperfect system design and limited coverage need to be addressed. The Government should promote reform, improve the system, expand coverage, lower rates and optimize fund management. At the same time, it needs to strengthen management in accordance with the law, narrow the economic differences between urban and rural areas, and realize national coordination. We should continue to pay attention to the operation of the system, adjust and optimize policies and measures in a timely manner to ensure the sustainable development of the pension insurance system and lay a solid foundation for building a fairer and more sustainable social security system.

Conflicts of Interest

The author declares no conflicts of interest.

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