Measures in China and Korea to Provide Social Security for Informal Sector Workers
World Bank Pensions Core Course
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The World Bank
Coverage of Korea’s national pension system, 1988–2009

Korea: Coverage expansion through mandatory contributions, contribution subsidies & non-contributory pension

• 1988 Introduction - national pension scheme
• 1995 Extension to rural residents
• 1999 extension - mandatory contributions to all working population (but 1/3 + not contributing -- majority poor or low-income workers with insecure employment, eg. temporary workers, self-employed, small business owners).
• 2005 contribution subsidies for farmers and fishers: 50% of total contribution up to a cap, + fixed amount over that.

Probability of contributing to national pension system > 10% higher among (subsidized) farmers & fishers than nonsubsidized self-employed.

• 2007 reform - introduction of non-contributory Basic Old-Age Pension – about 5% of average income - aged 65+ w/income < income threshold.
China: Chronology of Measures to Strengthen Pensions (including coverage)

Stylistic Illustration – Pension System in 1997

- Contributory Urban Old Age Pension + Civil Servants & Public Institutions
- Supplementary Pension Schemes
- Basic Benefit
- Contributory Urban Old Age Pension + Civil Servants & Public Institutions

Individual Pre-retirement Income as a % of Average

Individual retirement benefit as a % of average retiree income

Social assistance/dibao
Mandatory, contributory scheme for Enterprise Workers (incl. Civil Servants & Public Institutions)

Social assistance – dibao for households &/or elderly.

Urban and Rural Residents Schemes

Enterprise Annuity

Stylistic Illustration of potential pension design from an individual perspective

Pension benefit as a percent of individual pre-retirement wage

Individual pre-retirement wage as a % of the average wage in the economy

Mandatory, contributory scheme for Enterprise Workers (incl. Civil Servants & Public Institutions)
China – Design of National Rural Pension Scheme & Urban Residents Pension Scheme

- Two components:
  - Funded individual accounts w/matching contributions – Acc. balance/139 at age 60.
  - Basic (flat) pension (US$8.85/month) at age 60 for workers contributing 15 years.

- Vesting - 15 years contributions, “family binding” & buyback.

- Financing:
  - *Central subsidies* ex-post for basic pension (100% for central and western regions & 50% for eastern regions)
  - *Individual contributions* – about US$15.90-US$79.00/year - higher in richer areas.
  - *Partial match on by local governments* - at least 30 RMB/year per first 100 RMB.
  - *Collective subsidies* encouraged.

- Fund management - most at county level, some at provincial level.
China: Evaluation of Initial Results

- **Coverage**: Dramatic & ambitious targets met: End-2012 target to offer in 100% of rural & urban areas. Est. 376 million workers covered (end-march 2012) and 107 million receiving benefits (vs. around 55 million covered when the rural scheme started in late 2009).

- **Wide coverage, uniform national framework, but w/low benefits in poorest communities.** Minimum est. benefit about US$11.20/month: (below national rural poverty line, fraction of rural per capita income, etc.)

- **Authorities promoting higher benefits where fiscally affordable.**
  - Fiscal costs & worker affordability. Central govt. subsidy < 0.25% of GDP (2012) & will remain modest. Affordability at county & municipal level less certain.
  - Political authority and institutional support mechanisms were key *(identification, collections, accounting, payments)*
Lessons from Chinese Experience

- **High level commitment (basic protection for all by 2020).** Essential ingredient to national effort with dramatic leap in coverage.

- **Process of subnational piloting.** Local experiments & history of rural pension pilots -- design experimentation essential to accommodate diverse conditions & decentralized environments. Learning by doing helped.

- **Central Government financing** of basic benefit (key difference between old and new rural pension schemes) essential to national credibility.

- **Innovative design linking matching contribution to basic benefit.** Yet design requires comparable conditions and administrative apparatus.

- **Residents schemes financially stable** because they focus on fiscal and worker affordability promising a very modest benefit.

- **Coverage as a core objective in initial phase balanced against limited adequacy of benefits.** Many elderly may still face poverty.
## Appendix: Facts of Pension Schemes in China, 2012

<table>
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<tr>
<th>Items</th>
<th>Urban Worker Pension Scheme</th>
<th>Rural/Urban Resident pension scheme</th>
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</table>
| **Coverage**               | Contributors: 229.8 m (16.2m)  
                           Pensioners: 74.5 m (5.3m)  
                           EA contributors: 18.5 m           | Contributors: 349.9 m  
                           Pensioners: 130.8 m               |
| **Pension Funds**          | Revenue: 2000.1 b RMB  
                           Spending: 1556.2 b RMB, 3.0% of GDP  
                           Balance: 2394.1 b RMB              | Revenue: 182.9 b RMB  
                           Spending: 115.0 b RMB, 0.22% of GDP  
                           Balance: 230.2 b RMB               |
| **Replacement rate**       | Target at the initial reform design: 58%  
                           Actual RR at retirement: ?  
                           Average RR: 44.7%  
                           Projected RR: 45% (Varied at different assumptions) | Target at the design: none  
                           Ratio to rural net income: about 11%  
                           Ratio to rural official poverty line: 34%  
                           Ratio to average rural dibao line: 41%  |