2.1.3 Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system

Policy suggestions on the financial management and supervision of the urban pension system in two provinces

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Abbreviations

ADB	Asian Development Bank
CAF	Central Adjustment Fund (PRC)
EU	European Union
GX	Guanxi
LFS	Labour Force Survey
LTC	Long-term care
LTCI	Long-term care insurance
MIS	Management Information System
MoF	Ministry of Finance (PRC)
MoHRSS	Ministry of Human Resources and Social Security (PRC)
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
TJ	Tianjin
UK	United Kingdom

Introduction

This report forms part of Topic 2.1.3 - ***"Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system".***

As set out in the terms of reference, the expert participated in a study visit related to Topic 2.1.3, as member of a mission by the EU-China project to Tianjin and Guanxi in April 2019. The purpose of this study visit was to analyse the provincial situation on the financial management and supervision of the urban pension system in the two areas.

A detailed report on the findings from the study visit has been prepared by the Chinese expert (Dr. Guo). The current report provides policy suggestions and recommendations to MoF and the local finance bureaus based on the findings of the visit. Thus the report provides a concrete synthesis or 'conclusion', linking the study visits with the relevant policies and legislation

The meetings during the visits focussed on the operation of the urban pension system (described in more detail below) in the respective areas. The detailed findings of the study visit have been set out in the report by Dr Guo and will not be repeated here. As set out in the detailed report, the study visit met extensively with key figures in the local finance and human resources and social security bureaus and visited a range of offices and centres. I would like to thank all those involved in the planning and implementation of that visit for their courtesy and great helpfulness. The recommendations set out in this report are primarily focussed to the Ministry of Finance and the municipal/provincial finance bureaus.

The meaning of the concept of 'financial sustainability' itself is not self-evident. The OECD argues that the 'most logical approach to defining financial sustainability involves some form of long-term actuarial equilibrium'.[1] This would mean that the pension system should be in balance over time: the stream of contributions and other revenues over a suitably long horizon (50-75 years) should be enough to pay for projected benefits over that period. However, this leaves open the question as to whether and to what extent pension should be funded from contributions or other general revenues.

Section 1 of this report provides a short overview of the urban pension system. Section 2 provides some basic socio-economic data on Tianjin and Guanxi. Section 3 provides an overview of the issues identified in the study mission in relation to the operation of the urban pension system in Tianjin and Guanxi. Section 4 sets out policy suggestions and recommendations in relation to the issues identified.

[1] d'Addio, A.C. and E. Whitehouse (2012) "Towards Financial Sustainability of Pension Systems. The Role of Automatic-Adjustment Mechanisms in OECD and EU Countries" Report number 8/12, Federal Social Insurance Office, Switzerland 2012.

1. Overview of urban pension system

Overall structure

The urban pension system is the most important component in the overall Chinese pension system. In 2017, almost 300 million workers were insured under the urban pension scheme and there were over 110 million people in receipt of pension.

The urban scheme includes both a ‘social pension’ and an ‘individual account’. In principle, the employers contribution (20% of earnings until recently) goes to fund the social pension while the employee’s contribution (8%) goes to the individual account. It was originally intended that these individual accounts would be funded but in practice only a minority are and the remainder are ‘notional’ accounts. Until recently the balance in these accounts was indexed in line with bank interest rates (obviously much lower than wage growth).

Normal pension age is 60 years for men, 50 years for blue collar women and 55 years for white collar women. Earlier retirement is possible if the individual engaged in physical work in certain industries or posts.

The social pension pays 1% of the average of the indexed individual wage and the province-wide average earnings for each year of coverage, subject to a minimum of 15 years of contributions. The pension in payment has been indexed to a mix of wages and prices. In the case of the individual account, the accumulated balance in the fund or the notional account is converted into a pension at the time of retirement by dividing the balance by a government-determined annuity factor. For example at age 60, the factor is 139 (months) for both men and women (11.58 years). In fact this is now much lower than the actual longevity at that age (currently 16.1 years at age 65). However, the individual account pension continues in payment even after exhaustion of the account.

Regional variations

Despite the national framework, there is significant variation in how the scheme is implemented in different provinces (and even at sub-provincial level in some cases). In practice, some provinces (such as Guangdong) have charged less than the 20% contribution rate and the government recently allowed provinces to reduce the rate to 19% subject to certain conditions. This year the government has decided to reduce the rate to 16% from April 2019 as part of a package of measures to reduce costs for business.

There are also certain differences in how the earnings base is calculated and in how the collection of contributions is implemented which lead to a significant regional variations in the extent to which the notional percentage of wages is collected. In practice, in many areas the real contribution rate (contributions as a percentage of earnings) has been much lower than the headline 20%.

There are also variations in the extent to which persons are covered by urban pension insurance in practice. For example, in some areas, migrant workers, informal and flexible workers have low levels of insurance coverage.

In 2015 (most recent data available), the China Labour Statistical Yearbook (Table 1-6) shows that in TJ and GX respectively, there were 4,535,000 and 7,859,000 urban workers respectively. The same source shows that in that year there were 2,814,000 (TJ) and 2,489,000 (GX) persons insured under the urban pension schemes in the two areas. While the two data series are not necessarily fully comparable, this indicates that only 62% (TJ) and 32% (GX) of urban workers are covered by urban insurance.[2]

Analysis of data from the 2011 Migrant Dynamics Monitoring Survey in China found that of all rural-urban migrant workers nationwide, only 16.4% had participated in the urban pension scheme.[3]

In the case of pension payment, there are again significant differences in the level of pension both in real (RMB) terms and as a percentage of previous or average wages (replacement rate). This is in part due to the significant differences in wages between different parts of China but it is also due to differences in implementation from one area to another. In Guanxi, in 2017 the average monthly pension was 2,387 RMB. This represents 49% of the average urban wage in GX.[4] In contrast, the average monthly pension in TJ is significantly higher at 2,912 RMB. However, this is only 37% of the average urban wage in TJ. There seems to be a pattern whereby pensions in the large wealthy urban province-level municipalities (such as Beijing, Shanghai and Tianjin) are lower than average whereas pensions in poorer and more rural provinces are at or above the national average.[5]

Most aspects of the urban pension scheme are implemented by the bureaus of human resources and social security at provincial, municipal and lower levels and their subordinate agencies. However, collection of social insurance contributions is carried out either by the social security authorities or by the tax authorities depending on the provincial arrangements. In both TJ and GX, collection of social security contributions has been carried out to date by the social security authorities.

Other pension schemes

In addition to the urban pension system, which is the focus of this report, there is an urban and rural residents scheme (first introduced in 2009). This is a voluntary scheme which is more in the nature of a subsidised savings scheme combined with a small non-means tested pension than a social insurance scheme. The scope of the scheme is very large but the benefits are much lower

[2] This pattern is broadly in line with that found in earlier research: Lu Quan, *Analysing the coverage gap in China*, HelpAge International, 2012

[3] Min Qin et al., (2015) 'Old age insurance participation among rural-urban migrants in China' *Demographic Research*, 33, 1047-66. For a study of coverage of flexible workers see *Social security coverage on informal employment: methodologies and tools of analysis and management* available at https://www.euchinasprp.eu/images/documents/Component2/Assessment%20Report%202.1.2%20Social%20security%20coverage%20on%20atypical%20employment.pdf

[4] http://www.stats.gov.cn/tjsj/ndsj/2018/indexeh.htm Table 4.13.

[5] J. Lin and A. Dale-Tussing 'Inter-Regional competition in retirement benefit growth – the role of sub-national government in Authoritarian China' *Journal of Contemporary China* (2016) 26, 105, 434-51.

than under the urban scheme.[6] In 2017, there were over 500 million contributors to the scheme and over 150 million in receipt of a pension.

There has also been a separate pension scheme for public servants though these are now brought into line, in a certain way, with the urban scheme. Finally, there is a scheme of enterprise annuities which is voluntary and has a limited coverage (mainly in SoEs and other large employments).[7]

[6] In 2015, the average rural pension was 120 RMB per month.

[7] See the report *The Role of Enterprise Annuity Funds in Chinese Social Security* available at https://www.euchinasprp.eu/images/documents/Component2/2.3.2%20Zheng_Bingwen_the%20role%20of%20enterprise%20annuity%20fund%20in%20Chinese%20Social%20Security%20EN.pdf

2. Overview of Tianjin and Guanxi

This section sets out some background socio-economic information on Tianjin and Guangxi based on the Chinese Statistical Yearbook.[8]

Tianjin is much smaller in terms of population than Guangxi (15.6 million compared to 48.9) but is much more urban and much wealthier. The gross regional product in TJ is over 3 times that of GX (119,000 RMB per annum compared to 38,000RMB). Tianjin has twice the national GDP per capita whereas GX is well below the average.

The economy of both areas are also very different with services dominating in TJ in terms of output but with still a significant level of industry while agriculture remains important in GX and industry and services make a roughly equal contribution to gross regional product.

Table 1: Socio-economic data, Tianjin and Guangxi, 2017

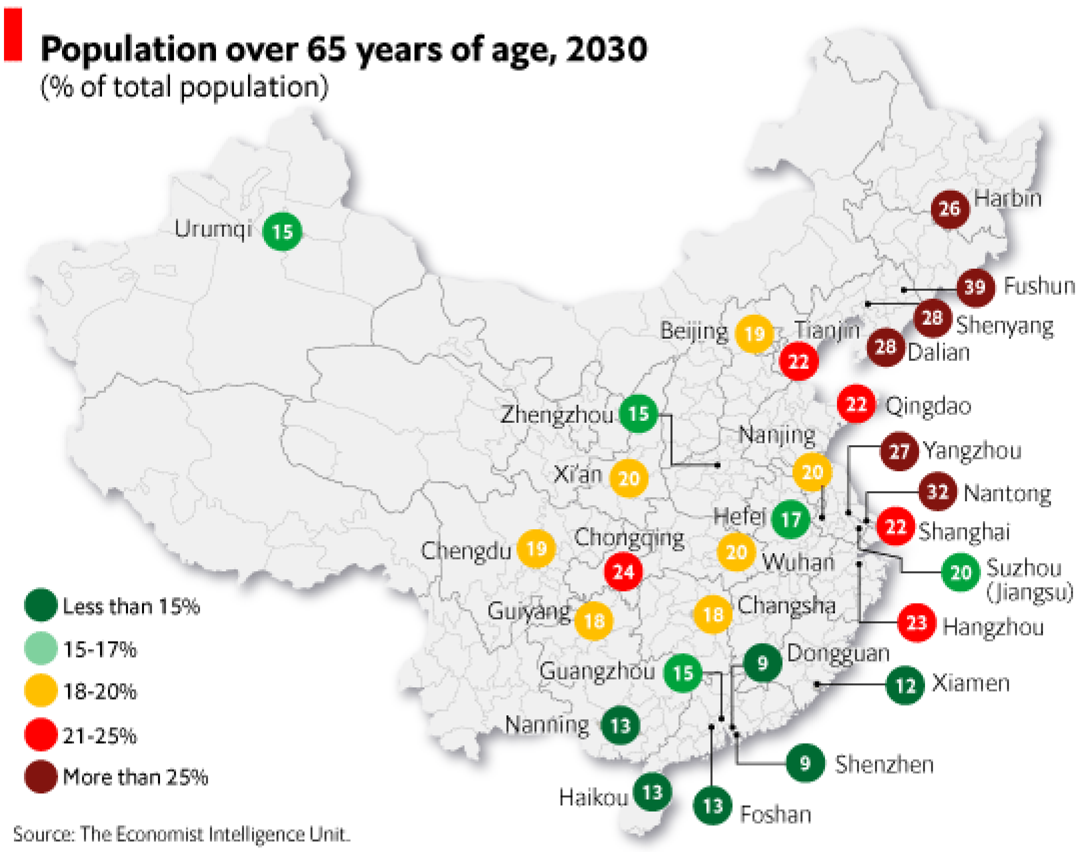
Topic	Tianjin	Guangxi	Unit
Population	1557	4885	10,000
% urban	82.9	49.2	%
% 65 or over	11.3	9.7	%
GDP	18549.19	18523.26	
Agriculture	0.9	15.5	%
Industry	40.9	40.2	%
Services	58.2	44.2	%
Per capita GDP	118944	38102	RMB

The proportion of the population 65 years or age or older is higher in the more urbanised TJ than in GX.

Population projections indicate that, in the future, this proportion will rise significantly and the difference between the provinces is likely to remain (see Map 1).

8 http://www.stats.gov.cn/tjsj/ndsj/2018/indexeh.htm

Map 1: Proportion of population over 65 in major cities, 2030



The Economist Intelligence Unit predict that by 2030, 22% of the TJ population while in Nanning (capital of GX) it is only 13%. Thus TJ is one of the areas (mainly eastern and north-eastern) which will first face pensions pressures from the demand side.

3. Issues identified in urban pensions in Tianjin and Guangxi

In line with the mission ToRs, the mission focussed on three issues in each province:[9]

- Current status and main challenges of the pooling mechanism of the pension system at the provincial level, including good experiences and issues to pay attention to.
- Revenue and expenditure, financial subsidies, balances of the urban pension funds and the operational forecasts for the next few years.
- Analysis of the main factors affecting the operation of the urban pension system.

Pooling mechanism

As discussed in the national report, there are two modes of provincial-level co-ordination in China: the adjustment fund mode and the unified collection and payment mode. Both provinces have systems of co-ordination in place at provincial level. TJ follows the unified approach and effectively has municipal level pooling with issues relating to contribution levels and base, pension calculation and fund management being common across the municipality. TJ also has a comprehensive IT system which covers the entire municipality.

GX adopts the adjustment fund mode and has co-ordination methods at provincial level and some aspects of the urban pensions scheme (such as the contribution level and base) are the same across the province. However, other aspects such as social insurance collection and fund management remain the responsivity of lower level units. GX has established a provincial adjustment fund to support areas which have difficulty in meeting the burden of pension expenditure. GX also has a fragmented IT system with three different systems in operation in the province. This reduces the capacity to manage effectively. Information sharing between the HRSS and Finance bureaus is also subject to technical limitations.

Revenue and expenditure

In both provinces, total revenue currently exceeds expenditure. This is made up as shown in the table below:

[9] For the sake of brevity, the report refers to both areas as province although Tianjin technically is a municipality with the same rank as a province.

Table 2: Urban Pension Revenue and Expenditure in Tianjin and Guanxi, 2018 (Billion RMB)[10]

	TJ		GX	
	Income	Expenditure	Income	Expenditure
Contributions/Pensions	53.9	69.4	49.5	
Subsidies (Central government)	16.8 (15.8)	-	16.4	-
Central Adjustment Fund	4.8	4.2	5.0	3.6
Interest & investment return	2.6	-		-
Inter-provincial transfers				
Total	79.3	74.2	70.9	61.2

Both provinces have a fund balance (51B RMB in TJ; 61B in GX) which means that both are in a position to pay pensions for 8-12 months (this is one of the criteria set by MoF for provinces in the management of urban pensions).

However, as can be seen, current expenditure on pensions significantly exceeds contributions and investment income and it is only due to central government subsidies that revenue exceeds expenditure.

The central adjustment fund, at present, plays a limited role. Although TJ is one of the richer provinces and GX is one of the poorer, TJ only pays out (net) less than 1% of total pension expenditure and GX receives 2.4%.[11]

The fund balance is very small in the context of long-term pension commitments and indicates that the balance is simply a working balance rather than a real investment fund.

In line with MoF requirements, both provinces prepare expenditure estimates for the next three years. Both estimate that revenue in 2021 will exceed expenditure but only by assuming an increase in central government subsidies. Both provinces estimate that the reduction in the rate of social insurance contributions to 16% will lead to a fall in revenue.

[10] Blank cells indicate that the reports provided did not include this data. This is why the columns do not add up to the final total.

[11] The data provided at provincial level is different to the data recently published by MHRSS. However, in both TJ and GX the MHRSS data also shows that the CAF plays a limited role (both provinces are shown as small net beneficiaries).

Key factors affecting urban pensions

The key factors affecting the operation of the urban pensions system identified by respondents included the following:

- Concern about the impact of population ageing
- Difficulty of increasing pension coverage and maximising social insurance collection
- Need for increased level of pooling at national level and for increased financial support for pensions from national government
- Need for further improvements in provincial level pooling
- Concern about reduction in contribution rate and the likely impact on pension revenue
- Proposals to abolish early retirement
- Proposals to improve portability of pension rights between provinces which would incentivise migrant workers to contribute to urban pensions
- Need for a longer-term assessment of pension costs and a more scientific approach to the long-term indexation of pensions and setting of contribution rates and base
- Importance of IT system in the implementation and management of the urban pension system

The two provinces also identified specific issues affecting their own areas. For example, GX is a province of out-migration where young workers often leave to work in neighbouring provinces such as Guangdong. The lack of larger employers in GX and the dominance of SMEs, which often have low levels of profitability and low wages, impacts on the ability to raise contribution revenue. In contrast TJ is an older industrial city with a higher level of pensioners among the population

4. Policy suggestions & recommendations

This section sets out a number of policy suggestions/recommendations to enhance the sustainability of the fund, better protect the level of treatment of the insured, and further improve the urban pension system.

As is well known, China faces a number of challenges to the sustainability of its pension system including the ageing of the population and, conversely, the reduction in the working age population.[12]

The recent *China Pension Actuarial Report 2019-2050* (published by the Chinese Academy of Social Science) has concluded that the current balance of urban pensions will be in deficit by 2028 (i.e. expenditure will exceed revenue) and that the medium to long-term financial sustainability of the urban pension system is a matter of concern.

Faced with the demographic situation, the only options in order to enhance the sustainability of the fund, protect the level of treatment of the insured, and improve the urban pension system are either

- Pay more money into the pension system (more contributions, more subsidies; better return on investment); and/or
- Receive lower levels of pensions; and/or
- Receive pensions for shorter period (e.g. increase pensions age).

EU experience shows that there is no way to address demographic ageing without reforming the existing parameters of the pension scheme which were initially designed in a different demographic context.

A medium and long-term approach

The first issue is the need for a long-term approach to the sustainability of the pension system. In the EU, an Ageing Report is published by the Ageing Working Group of the EU Economic Policy Committee and the European Commission's Directorate-General for Economic and Financial Affairs based on a mandate from the EU Council.[13] The report looks at the long-run economic and fiscal implications of Europe's ageing population (including the public finance implications) and is published every three years. It looks, in particular, at pension, health care and long-term care (LTC) costs for each of the Member States in the period to 2070.

The Ageing Report feeds into a variety of policy debates and processes at EU level, including the overarching Europe 2020 strategy for smart, sustainable and inclusive growth. In particular, it is used in the context of the European Semester to identify policy challenges, among others in setting the medium-term budgetary objectives, in the annual assessment of the sustainability of

[12] See M. Bruni, 2018. "Ageing, the socioeconomic burden, labour market and migration. The Chinese case in an international perspective," GLO Discussion Paper Series 222, Global Labor Organization (GLO).

[13] https://ec.europa.eu/info/news/economy-finance/policy-implications-ageing-examined-new-report-2018-may-25_en

public finances carried out as part of the Stability and Growth Pact, and in the analysis on the impact of ageing populations on the labour market and potential economic growth.

A similar approach might be considered in China based on actuarial data and looking at the very different position of Chinese provinces (including municipalities and autonomous regions). IT system such as Tianjin's could provide real data as to contributions which would help to ensure that actuarial projections reflected the actually-existing pension system. The recent *China Pension Actuarial Report 2019-2050* is an important step towards such an approach.

Similarly, as part of this process, provinces might be encouraged to take a medium-term view of their pension liabilities. The current focus on the short-term (e.g. number of months pensions reserve and three-year projections) only serves to highlight cases where expenditure is already exceeding revenue but does not encourage a longer-term approach.

This long-term costing approach should inform decisions as to the indexation of pensions and on contribution rates and base.

Parametric reforms

There have been many proposals for paradigmatic change to the Chinese pensions system, such as converting the individual accounts into enterprise annuities (a 'real' defined contribution scheme).[14] However, we focus here on more parametric reforms, i.e. changes within (rather than to) the existing basic structure.

Given the increasing longevity, changes to the pension age would appear appropriate and, indeed, have already been considered by the PRC government.[15] Similarly, the current 15 year minimum contribution period for access to pensions is very low in a comparative international context and could be significantly increased. Such changes need to be made at a national level in order to support provinces in addressing the pension burden.

The current Chinese individual account has become in reality a notional defined contribution pension (NDC). However, the parameters of the pension (indexation and level of pension) are not set in line with the appropriate criteria. For example, the notional lump sum at pension age is currently divided by a factor of 139 (at age 60) although expected duration of pension payment is much longer. For example, we heard that, in TJ, the expected pension duration at age 60 is currently 252 months. Pension does not stop after 139 months so, in reality, the 'individual' account' is subsidized from the 'social pension' fund. Consideration should be given to adjusting these criteria in line with the principles of a NDC approach, e.g. by adjusting the disbursement factor in line with actual longevity and by allowing it to fluctuate in line with changes in longevity.

[14] See, for example the proposals from Component 1 of this project at https://www.euchinasprp.eu/images/documents/Component1/2018-assessment-report/Proposal%20for%20a%20reformed%20structure%20of%20the%20Chinese%20pension%20scheme%20for%20Urban%20employees.pdf

[15] For the EU experience see d'Addio, A.C. and Von Nordheim, F. (2014) *Towards an Integrated Agenda to Deliver Effective Higher Retirement Ages: An Issues Note from the Pension Perspective*, Brussels.

Increasing pension coverage

At present the relationship between the number of people contributing to the urban pension system and the number of pensioners is just over 2:1 (2.17:1 in TJ and 2.25:1 in GX). This is low in international comparison. Of course, in the very long-term, increasing those covered by the urban pension system will not address sustainability issues since they will eventually be entitled to pensions. However, in the short to medium term, expanding pension coverage is likely to increase revenue and, assuming that those included are likely to be young, they will not be entitled to pensions for 30-40 year so they will have a positive impact on sustainability in the medium term.

If we look at EU countries, which are in general much 'older' than China, we see that the number of contributors: pensioners is often significantly higher than in the Chinese case.

Table 3: Contributor: pensioner ratio in selected EU countries, 2016 (000)

Country	Ireland	Netherlands	Sweden
Persons insured for pensions (contributors)	2,553	8,892	5,762
Contributory old age pensioners	584	3,397.6	2,093.8
Ratio	4.37:1	2.62:1	2.75:1
% of population over 65	13.2	18.2	19.8
Pension age	66 (increasing to 68 over time)	Increasing to 67 and then linked to longevity	61-67[16] (need not stop working)

This would suggest that the Chinese provincial authorities should attempt to ensure that all urban workers are insured under the urban pensions scheme, including groups such as flexible/informal workers.[17] Detailed recommendations in relation to the collection of social insurance have been set out in previous reports from Component 2.[18]

[16] Currently to be increased over time to 64.

[17] See the study: *Social security coverage on informal employment: methodologies and tools of analysis and management* at https://www.euchinasprp.eu/images/documents/Component2/Assessment%20Report%202.1.2%20Social%20security%20coverage%20on%20atypical%20employment.pdf

[18] See *Social contribution collections: toward a unified system – policy recommendations* available at https://www.euchinasprp.eu/images/documents/Component2/2.1.5%20Mel%20Cosuins_%20Social%20Security%20Contribution%20collection%20POLICY%20report.pdf and

Policy Recommendations and Suggestions on Promoting the Uniform Social contribution collections System in China available at https://www.euchinasprp.eu/images/documents/Component2/2.1.5%20Wang%20Dehua_Policy%20suggestions%20Social%20Contribution%20Collection%20EN%20.pdf

Central government subsidies and central adjustment fund

Central government subsidies play a very important role in the currently solvency of provincial pension systems. In the two provinces, it is estimated that the need for these subsidies will increase further in the next three years. Without significant changes to the way in which the urban pension system operates, the need for such subsidies is likely to increase dramatically in the medium-long term. At present, the basis on which such subsidies is provided is not very clear (at least for external observers). It will be important that the basis on which such subsidies is provided is clearly set out and that the objectives are clear and support a shared effort between central government, provinces and lower level governments to provide a sustainable pension system.

It is recommended that the Chinese authorities should analyse the full extent of existing subsidies. As part of this analysis, the study should identify the rationale for the existing subsidies. It may be that, as in many EU countries, subsidies have been introduced on an *ad hoc* basis and without a very clear policy analysis. Therefore, it would be important to consider whether these objectives are still relevant and whether the subsidies are achieving their objectives in the most cost-effective manner. The study should also look at whether there are there more cost-effective approaches for the future such as more targeted subsidies and/or pre-subsidisation. For example, the implications of moving to a more geographically targeted approach to funding (providing high levels of subsidy to poor areas or areas with high out-migration) might be examined

The central adjustment fund, in contrast, is a recent innovation (Guó fǎ (2018) 18) and involves the transfer of resources from provinces with a current surplus of revenue to those which have higher levels of expenditure. Payments *in* to the CAF are based on provincial average wage and number of covered employees and payments *out* are based on the number of pensioners in the province.

It would appear that, as we predicted last year,[19] in its first year of operation the CAF did not have a major impact on most provinces (except Guangdong which was a large contributor). As we have seen above, TJ was a small net contributor and GX was a small net beneficiary.

It is understandable that the central authorities would want to ‘ease in’ the implementation of the CAF. However, if it is to have a major impact, the level of transfers will need to scale-up over coming years. It will also be important to provide positive incentives to provinces to implement the pension system in the most efficient and effective manner. For example, payments into the fund should be based on what provinces *should* collect rather than any lower actual figure to avoid giving provinces incentives for ineffective collection. However, it should be noted that in the medium to long-term *all* provinces are likely to face sustainability issues so the CAF is only a short to medium term response.

Migration and pensions

China has a very high level of internal labour migration (estimated at over 250 million migrant workers). This can lead to barriers to pension entitlement as migrant workers pay contributions in one (or more) cities away from their home province but may, later, move back to the home province in retirement. Although structures have been put in place in 2011 to support portability of pensions, it does not appear that these have been fully successful. The limited portability tends

[19] Component 2 Report on *The role of public finance in the Chinese social security system: policy recommendations*.

to make pension coverage less attractive for migrant workers and to penalise provinces such as GX with have significant out-migration.

The issue of portability of pensions in the EU and options for China have been addressed in other project reports.[20] Consideration should be given to implementing such proposals so as to support expanded pension coverage and increase pension transfers between provinces.

In addition, we note here that the EU is currently implementing a system of electronic data exchange. This allows rapid data exchange between Member States which, like Chinese provinces, may have incompatible IT systems. This is based on

i) a common secure infrastructure for data exchange through which

ii) structured electronic documents (SEDs) containing the relevant data are exchanged by Member States.[21]

This model would appear to provide a possible approach for China. It is suggested that the national authorities might consider how this approach could be implemented so as to speed up and standardise data exchange between provinces.

Uniform Information system construction

Finally, it is clear that IT/MIS systems can play a key role both in (1) ensuring efficient and effective implementation of urban pensions (both ensuring payment and also supporting contribution collection; and (2) proving factual data (e.g. re contribution levels and durations) which can help to support accurate actuarial projections. The TJ IT system provides an example of what can be achieved and could provide a model for developments in other provinces.

[20] See *Technical Principles for Coordinating Social Security Legislation* available at https://www.euchinasprp.eu/images/documents/Component1/2017-assessment-report/143-CoordinationPrinciples.pdf

[21] See http://ec.europa.eu/social/main.jsp?catId=869

Recommendation summary

This section provides a short summary of the key recommendations, discussed in section 4 of this report, broken down by national and provincial level.

National level

- Take a long-term view of pension costs and develop actuarially based estimates of long-term costs drawing on the EU Ageing Report
- This should inform decisions as to the indexation of pensions and on contribution rates and base
- Consider parametric changes to the urban pension scheme to enhance sustainability (e.g. increasing pension age, abolish early retirement, increase minimum contribution period, revise indexation and calculation of individual accounts)
- Review basis for the provision of central government subsidies to clarify objectives, ensure they are valid, and make sure modalities are in line with objectives
- Scale up CAF transfers and provide positive incentives to provinces to implement the pension system in the most efficient and effective manner, e.g. payments in to the fund should be based on what provinces should collect to avoid giving provinces incentives for ineffective collection
- Implement proposals to enhance portability of pensions and inter-provincial transfer of resources and examine whether the EU approach to data sharing concerning migrant pensioners could be implemented so as to speed up and standardise data exchange between provinces

Tianjin

- TJ should be encouraged to take a medium-term view of its pension liabilities
- Develop further provincial pooling and responsibility mechanisms
- Take steps to improve pension coverage, e.g. develop 5-year action plan with specific targets

Guanxi

- GX should be encouraged to take a medium-term view of its pension liabilities
- Develop further provincial pooling mechanisms and ensure that intra-provincial transfers provide positive incentives to lower level governments to operate the pension system in the most efficient and effective manner
- Implement an integrated IT system across all areas and integrated with the bureau of finance
- Take steps to improve pension coverage, e.g. develop 5-year action plan with specific targets