

CHINESE FARMERS' PENSION SCHEME

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Abstract

The elderly people in rural China depend mainly on family support, but that is facing serious challenges. There are different levels of Chinese peasants, and this article intentionally discusses the system design of pension security for professional farmers, because those who work in town and village enterprises, rural workers and land-requisitioned farmers will be covered by the urban social security system. To reduce the old farmers' economic uncertainty, a framework should be established, consisting of formal and informal institutions capable of giving incentives to individual, family, market, society and government. Family support for the aged is a permanent pattern for peasants, which should be strengthened from both economic and moral aspects. Social pension insurance is in a development mode, still evolving. This article introduces recent developments in Beijing and Hutubi of Xinjiang, and puts forward material measures to perfect it. Lastly, to bring supplementary functions into play, we need to activate the social assistance system for the poor aged and develop commercial life insurance in rural areas.

Key words: farmer, family support, social pension insurance, commercial life insurance.

Introduction

China has the largest population, and the largest elderly population, in the world. At the end of 2005, the number of people aged over 60 years in China amounted to nearly 144 million, which accounted for 11% of the total population. As to the level of economic development, China has entered the aging stage ahead of time. Nationwide, nearly 60% of the elderly live in rural areas, and elderly people aged 65 and above account for 7.35% of the whole population in the countryside, which is higher than the aging intensity of cities. Therefore, the focus of Chinese pension insurance should be the rural population.

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Due to many kinds of reasons, the modern social security system is far from mature in rural areas, and provision for the aged peasants mainly depends on the family. On the one hand, the coverage of the social security system in the rural areas is very small, and the system is set up mainly in coastal or developed regions. Most peasants are excluded from the social safety net.

On the other hand, the traditional family old-age security is facing enormous pressure and challenges brought by economic and social transition and the population birthrate. First, the implementation of the system of rural household contract responsibility transfers support for the elderly from the production group to the family. Second, the development of modern medical science has lengthened the life-span of the elderly. Third, the birth-control policy significantly reduces rural families' birth rate. Fourth, the rural young workforce flows into cities and developed areas to look for employment opportunities. Fifth, the fact that housewives can get jobs reduces the support ability within families. Sixth, the modern life style causes young people's traditional values to weaken. Data reveals that the poverty rate of the rural elderly population is up to 39.3%, and 45.3% of the rural old people think that they do not have sufficient guarantees of security.

Development of the Pension Security System for Chinese Peasants

The pension security system, defined in an extensive sense, includes formal and informal system arrangements (social assistance, social insurance, social welfare and giff-gaff security) [giff-gaff security is where it is the norm for people to help each other, a sort of mutual insurance]. As for the rural social security system, this includes family support, rural basic pension insurance, minimal living security system for the rural residents, the five-guarantee system, commercial life insurance, and charities etc.. According to this definition, the development of the pension security system of Chinese farmers can be roughly divided into three periods. First, from the foundation of P.R.C to the early days of people's communes, supported by small-scale peasant economy and filial piety culture, the traditional way of family support remained, and the five-guarantee system was set up. Second, in the collectivization period of people's communes, the collective economy deprived families of their claim to surplus; thus the families' support function deteriorated rapidly, and old peasants lived on the collective security as well as family support; Third, now, in the period of marketisation, family support plays the main role, with pluralistic means. Moreover, the problem of non-agricultural peasants' pension security grows more and more urgent.

At the end of the 1970s, the family-contract responsibility system was set up in rural areas, transferring the main responsibility of supporting the aged from the family to collectivity. At present, the modes of the pension security system of Chinese farmers include the following.

* First, as noted above, family support of the elderly remains the major means, but faces a great deal of challenge.

* Second, the rural five-guarantee system. Since the 1950s, those elderly people who have lost the ability to work, who have no source of income, and who have no legal guardians whatsoever to support them (or their legal guardians do not have the ability to support them), can enjoy the state's 'five guarantees' system, which means that their food, clothing, housing, medical care and burial expenses are taken care of and subsidized by the government. There were nearly 5 million rural old people enjoying this system in 2006.

* Third, community pension security. With the development of town and village enterprise, some developed areas, for instance, southern Jiangsu, Shanghai and Guangdong and other places, have built up the community security system, i.e. raising fund by some means to offer help and offer a kind of system of living security to community members who suffer from illness, pregnancy, unemployment, permanent disability, death and thus economic losses. It includes providing economic support for the aged.

* Fourth, rural basic pension insurance system. The former Ministry of Civil Affairs started the pilot project of rural basic pension insurance in 1991, issued the rural basic scheme of social pension insurance at county level (trial) formally in 1992, and began to implement it across the country in 1995. More than 80 million peasants took part in this insurance by 1998. The administrative function of this system was transferred to the Ministry of Labor and Social Security newly set up by the Ministry of Civil Affairs in 1998, and influenced by policy of the Central Government. The report of 16th National Congress of the Communist Party of China proposed to "explore the conditions for establishing a rural basic pension system", which signified that the rural basic pension insurance had entered a new stage. At the end of 2005, more than 54 million peasants were included in this insurance, and more than 3 million peasants received the pension.

* Fifth, a social assistance system for the rural elderly poor, which includes a fixed amount of aid regularly, livelihood assistance when the need arises, and a minimal living security system for rural residents. Some rural poor elderly people who are not covered by the 'five guarantees' are also included. The rural minimal living security system, which the civil affairs department has organized since the middle of the 1990s, mainly offers basic life security to rural poor residents whose family's per capita income is lower than the basic living standard. In 2006, nationwide, 15.1 million people in the countryside enjoyed this minimal living security, 7.3 million persons in the rural areas have benefited from it, and about 6.4 million persons have had to get rural temporary assistance.

* Sixth, reward and assistance for some birth-control families, which is dominated by the Population and Family Planning Department. The scheme began in 2004, and was targeted towards rural parents having one child or two daughters. When they reach the age of 60, the central authorities or local special authorities will reward and assist them. In 2006 over 1.3 million people benefited from it.

* Seventh, the number of rich farmers buying commercial life insurance is very small. Since the reform and opening-up, a secondary industry and a tertiary industry have developed rapidly in rural areas, and town and village enterprises have a large demand for workers.

Large numbers of peasants go down-town to work, or have a business there: they are called 'migrant workers'. The acceleration of urbanization means that a lot of peasants lose their land. They are still peasants on the household register, but have left agriculture. Thus, they are different from traditional peasants: their pension security presents a new problem which is worthy of attention, but it is not the focus of this article.

The Principles and Framework of the Pension Security System of Chinese Farmers

The final goal of China's social security system is to cover the total population, realising fairness, justice and equity. As for basic pension security, it should consist of two parts. One is a system covering all the elderly people and the other is a professional pension which covers all employees. As long as one reaches the retirement age, he or she can enjoy the national pension automatically. Under the current conditions, according to the following principles, we put forward the basic framework at this transition stage of the pension security system of Chinese farmers.

First, the principle of constructing a multi-level security system in order to deal with aging. China should learn from the international experience that governments should share the corresponding responsibility together with other institutions. To cope with an aging population, the so-called 'great security' should be seriously considered, and a plural, multi-level mixed type of pension security system be constructed. Make endeavors to motivate families, individuals, the government, society, the market and even the community neighborhood to help each other and to share the corresponding responsibility. The goal is to realize the pluralism of raising funds and support services for the elderly. The scheme should involve economic, service and emotional aspects. As to peasants, family protection, social basic pension insurance, a rural minimum living security system, the five-guarantee system, commercial life insurance and charities should all play supporting roles.

Second, the principle of making countermeasures according to the peasants' differentiation. After nearly 30 years of reform and development, the countryside, agriculture and peasants of China have experienced great differentiation and will continue to do so. This fact should be fully considered while making the policy. Policy making should be suitable for various areas and groups. At present, peasants household which are registered can be divided into 'professional peasants' who live in the countryside, peasants working in town and village enterprises, 'rural migrant workers' and their relatives, and those who lose their land in the urbanization process. Income status and life risks of all kinds of peasants are widely different, and thus differences exist greatly in the demand for a social security system. The real rural social security system should regard the 'professional peasant' as the target, while non-agricultural 'peasants' should be included in the urban social security system progressively. This article probes especially into the question of professional peasants' pension security.

Third, the principle of adopting different modes of pension security according to the current development level of the regional economy. The social assistance projects should occupy the leading position in the social security system in underdeveloped areas. Social assistance and social insurance occupy the same important position in the social security system in mid-districts. Social pension insurance should occupy the leading position in the social security system in the rich areas.

Because of the significance of family support in China, at present and in the future, it is a kind of guarantee which must be relied on. Even future peasants' pension security mainly relies on social resources; the spiritual consolation of family is still difficult to be substituted, and is a persistent resort. With socialization of risk, risk avoidance and risk dissolving are also socialized, and supporting the elderly has increasingly become a social problem. Although rural social insurance is developing slowly, it will become the leading mode of peasants' pension security in the future. We should follow this trend, and advance it. Certainly, limited by the economic development level, it can only be put in place mainly in coastal developed areas and large and medium city suburbs, while in underdeveloped areas, this system can be tried. The rural minimal living security system, rural five-guarantee system, charities and commercial life insurance etc., can meet the need of both poor old people and that of the rich ones, forming a supplementary peasants' pension security system.

Family Support for the Aged is a Permanent Pattern for Farmers

An economic analysis of family support for the aged

The unique support mode of China, to return one's parental nurturing to one's parents when in need, may be explained by Hoffman's exchange theory. Hoffman believed that things which a person regards as valuable or important in exchange are not necessarily material, and some immaterial things, such as gratitude and appreciation, can also be regarded as valuable. The parents nurture their the children, expecting support from their children when they are old, while the children gets care and love from their parents, and give support to them as repayment when they grow up. So, we can see that there is an 'exchange' between both parties. It is manifested when: for one part, in the traditional agricultural society, the farmland is a private equity, 'returning nurturing to parents' is seen as the result of transfer of the ownership of land; for another, the young generation, in the modern society, support their parents in order to obtain help for marriage, and this phenomenon appears more and more important.

Family support is still feasible in the economic sense. On the one hand, the decrease in family size does not necessarily reduces families' ability to care for the aged. It is generally believed that the decrease of family scale will weaken the families' support capacity. In fact, with economic development and the improvement in living standards, the risk-resistance method of a farmer family has changed from decreasing the living standard to accumulating assets to resist

risks. The reduction of family scale does not necessarily cause the families' safeguard ability to attenuate. Some scholars pointed out that in China, the present senior citizens as well as the village adults who will become the senior citizens in the next one or two decades years will not be the main issue, because their fertility rate is higher and they generally have more than two children. On the other hand, urbanization has strengthened the risk-resisting ability of countryside families. The labor force shifts, involving a flow of workers from the countryside, has brought back a massive cash backflow to the countryside: this has become an important origin of farmers' income, and it strengthens not only the farmers' consciousness of taking part in insurance but their anti-risk ability as well. According to the data from the National Bureau of Statistics of China for 2002, the farmers' earnings from cities amounted to 527.8 billion Yuan, 62.03% of which, amounting to 327.4 billion Yuan, consisted of backflows to the countryside.

The measures to be adopted to enhance the support capacity of families include the following. First, define 'senior farmer' as the party who has contractual claim to benefit of the land. According to Hoffman's exchange theory, in the 'family exchange' between the two generations, the aged are in an extremely disadvantageous position. In order to have the countryside senior citizen's life safeguarded, we must induce the children through the benefit mechanism to care for the aged on their own initiative. The rural senior farmer is not well aware of land rights, which causes the senior farmer's generally low living standard. Therefore, it must be clarified that each senior farmer is the party who has claim to the contractual benefit of the land. The senior farmers have the right to decide who can cultivate the land and acquire the benefit. If the senior farmers live with their children, the land owned by the former may be used to support them. If the children are not willing to take care of the aged, then the local authority can encourage others to support the old while the land belongs to the supporter.

Second, implement the family aid program. The family aid program is aimed at promoting the development and realisation of family support with pecuniary or material aids. The village collective organization and the civil administration system should give pecuniary or material subsidies to families with old people, which helps to reduce the cost. Family support has unique advantages, and the elderly are willing to live with their family. Therefore it is easy to be put in place. The government subsidies are not only incentives to the young generation but also compensation for its undertaking responsibility to take care of the aged. The subsidies could take the form of daily necessities such as food, salt, vegetable and animal oils instead of pecuniary aid.

An analysis of the moral and cultural element of family support

Traditional family support in China was based on filial piety, the values of families, the family ranking system, as well as consanguinity. But the traditional filial piety culture has been attenuated. Some young people have little ethical consciousness, and thus have no idea of respecting or supporting the elderly. The notion of consanguinity is dying, attenuating the family ethic.

Who should support the elderly has become an outstanding issue, and impingement on the elders' rights of marriage and property is prevalent.

In order to rebuild the moral foundation of family support, first, we should develop a modern filial piety culture while discarding the traditional one. In the past, Chinese people focused on children's love, while neglecting the parents' love for children. Parents love children, and children support parents by meeting their needs both in the material and emotional sense when they grow up. And parents should also take their children's condition into account. By doing so, emotional communication between the two generations will be promoted. Second, we should draw up legislation and engender legal consciousness in the young generation. Family support is to be legalized, so that moral incentives can be changed into legal responsibility. On the one hand, 'The Law of the People's Republic of China on the Protection of the Rights and Interests of Elderly People' must be strengthened, which is the core of the construction of a legal system. Those who refuse to support their parents are to be fined or even imprisoned. On the other hand, we must strengthen the legal consciousness of children to support their parents, and enhance the self-consciousness of supporting their parents. We must strengthen the legal propaganda, and make the family support village rules. People are required to sign a 'Family Support Agreement'. By doing so, family support will gradually be standardized and legalized.

Social Pension Insurance is in a Development Mode

Although there are some problems in the design and the operation of the rural basic pension insurance system, it is generally claimed that it is still an important solution conforming to China's condition. So we should advance this system further.

The recent development of the rural basic pension insurance system

Government's responsibility for supporting the old peasants is defined in Beijing, and the rural basic pension insurance system is being built up. The major characteristic of the system is that at each step of the system, government's responsibility has been clearly defined. The government's responsibility in fund collection is defined by means of 'government subsidy'. The management institutions are no longer authorized to take out a management fee, and their management cost is to be included in the public budget. This clarifies government responsibility for the management link. Local fiscal departments set up the specific account, and their responsibility of fund management and fund increment has been specified.

In Hutubi County of XinJiang, the insurance card can be pawned when peasants apply for a bank loan. It is considered to be a new method of fund increment. It was a breakthrough in 1998, in which individual accounts are used to promote economic development in the countryside. In order to apply for the so-called insurance-card-pawned loan, peasants who take

part in the insurance can use the insurance card as pawn. And the loan is only allowed for agricultural investment, education and the basic medical service. The main results of this project are: first, more than half of the farmers apply for a loan, and the fund is efficiently utilized; second, the fund runs well because repayment is assured so that the loan is safe and reliable; third, it helps to solve the difficulties in the farmers' life and production. The success of the insurance-card-pawned loan mainly derives from the fact that the global social policy redirects its focus from redistribution and consumption to production and investment so as to make Asset Building the essential element and improve the farmers' future life with the wealth accumulated by the farmer. The so-called Asset Building means that the government leads and helps the poor to accumulate and invest, instead of simply increasing their income and consumption. There are three elements in the success of the insurance-card pawn system. One is to emphasize production and investment. The other is to strengthen peasants' control of individual accounts. The third element is to create a new circle of accumulating family assets and local wealth.

Material measures to perfect rural basic pension insurance

First, clarify the social insurance attribute of the rural basic pension insurance. For on the one hand, the funding part of rural basic pension insurance is a reform aimed at solving the issue of support and is advanced by the government. It shows the justice of social security by absorbing farmers, without safeguard for a long time, into the national security system. Above all, the government's push is the key factor in establishing the system. Furthermore, as the fund of rural social pension insurance is managed and operated by public institutions for the government, it is not-for-profit. On the other hand, according to the International Labor Organization, it is difficult to put independent laborers and self-employed laborers into a social insurance system by force, but it can be solved by letting them participate voluntarily.

Second, raise funds through many ways. The basic character of social insurance is that public expenditure is the last resort. So the structure of public expenditure should be modified, and more fiscal aid be given to the rural basic pension insurance. For the poor farmers, the 'exchange-food-for-security' can be adopted, which is a form of 'changing substance into security'. 'Changing substance into security' is one form of material safety. Agricultural products, land and shares owned by farmers can be changed into an insurance fee. By this means the cost of establishing rural basic pension insurance will decrease.

Third, pluralize investment, and innovate investment management. Reduce restrictions on rural basic pension insurance as soon as possible, allow it to be invested in legal ways. Innovate investment management, carry out an investment agent scheme, and partial funds can be entrusted to special finance organizations, or be managed by superior institutions.

Fourth, coordinate the management of rural basic pension insurance, and consolidate the organization foundation. Fifth, reinforce the legal system construction, and enhance lawmaking

levels. Sixth, organize farmer committees, and enforce farmers' negotiating power. Seventh, community support should be changed into social support.

Bring Supplementary Functions into Play

Improve the social assistance system for the aged poor

The five-guarantee system is based on a collective economy, and has not worked well for a long time. In accordance with the development of a socialist market economy and the new condition of countryside tax-fee reform, in January 2006, the State Council published new 'Rules on Five-Guarantees', in which a major change is that government funding is substituted for the traditional support of a collective economy. The five-guarantees are all covered by public finance.

In the beginning of March 2007, central government announced that they will establish a minimum living security system for rural residents, which will be partially funded by the central government. It is good news for the rural poor people, including the aged.

Develop commercial life assurance in rural areas

The object of commercial life assurance is the life and body of human beings. It helps one to get through when suffering from birth, aging, illness, and death. So it is an important part of a social security system.

For one thing, commercial life assurance is underdeveloped in rural areas. For example, life assurance premium income in rural areas accounts for less than 30% percent of life assurance income nationwide. According to Zero Company's investigation, only 12 peasants out of 100 have insurance. For another thing, there are some advantages in developing life assurance in rural areas. Firstly, the farmers' income increases steadily with continuous economic development, which creates a stable foundation for a rural life assurance market. Secondly, the Insurance Supervision Department pays great attention to 'three agricultural insurance', and advocates strongly the development of county rural insurance, which provides a beneficial policy environment for the development of rural life assurance. Thirdly, insurance companies have accumulated some experience through exploring the rural life assurance market.

To develop rural commercial life insurance, there are some issues to be solved. These include: peasants have no idea of the meaning of life insurance; there are not sufficient suppliers; the rural commercial insurance policies are immature; the quality of insurance marketing teams is unsatisfactory, and the rural service is underdeveloped. The following countermeasures should be adopted. Firstly, strengthen policy support. The Insurance Regulator should draw up policies and regulations to create a favorable environment for the development of rural life insurance, and encourage insurance companies to explore the rural life insurance market. Secondly,

strengthen propaganda. Publicize insurance knowledge to encourage the peasants to participate in the insurance voluntarily. Thirdly, in the light of rural social reality, develop suitable insurance products. Lastly, introduce mutual insurance to foster the development of the rural insurance market.

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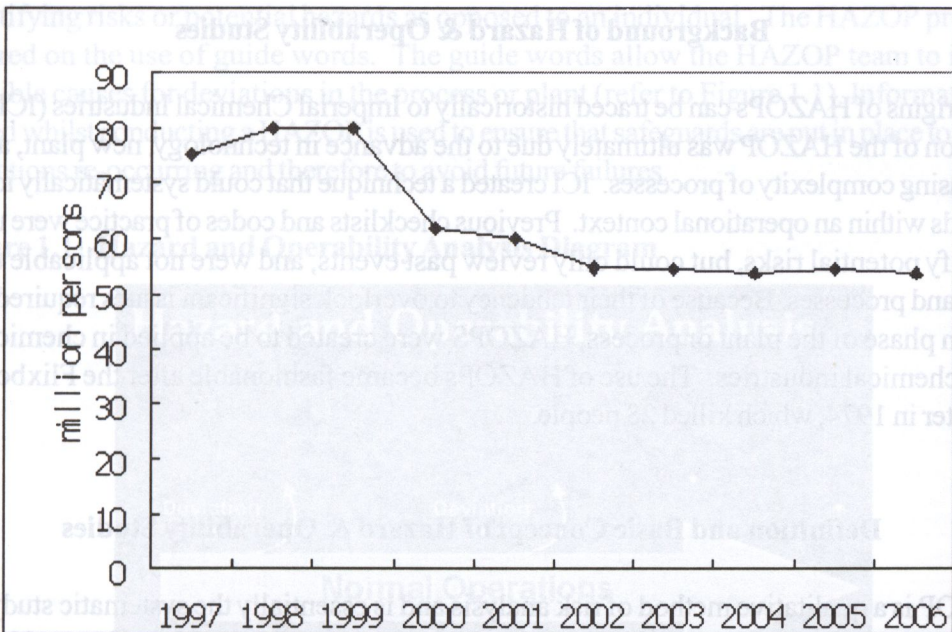
APPENDIX

Table: Chinese rural senior farmers' main source of income (percent)

Main source of income	2000	1994
Income from work	43.15	29.18
Pension	4.76	4.39
Family members' support	48.92	64.23
Others	3.17	2.20
Total	100.00	100.00

Source: Du Peng (2003).

Figure: The coverage of rural basic insurance in China



Source: Statistical Communiqué on Labor and Social Security Undertakings, 1997-2006.