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Understanding China's Social Security System

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By [Adam Livermore](#)

Sept. 14 – The social security system in China is based upon guidelines issued by the central government, although the specifics and administration of the system is managed at the local level. This is the only practical method in a country as diverse as China, as any rigid system defining specific contributions to be made and benefits receivable could not be expected to meet the needs of citizens in cities as diverse as Lhasa, Harbin, Shanghai or Zhongshan for instance.

All over urban China social insurance is broken down into five distinct categories. These are:

1. Pension
2. Medical insurance
3. Unemployment insurance
4. Maternity insurance
5. Occupational injury insurance

Let's take a brief look at the function of each of these insurances.

Pension

As in many countries, China has put in place a system to ensure its citizens will be able to maintain some income after their retirement. It operates by receiving contributions on a monthly basis from both the employee and the employer. The portion contributed by the employee goes into a personal fund (the contribution directly accrues to the individual) and after retirement the individual can draw on the funds in this pool directly. In contrast, the contributions made by the employer go into a social pool. Funds in this pool are distributed to all citizens that have made contributions into the system during their working life. In this way even citizens that have used up the personal portion of their pension will have some income on which to support themselves (although it is likely to be only several hundred RMB per month). In terms of the amount of contributions that need to be made each month by both employee and employer, pension is generally the largest component of social insurance.

Medical insurance

By contributing to the medical insurance fund Chinese citizens can defray some of the costs of medical expenses in the event of illness or injury. Both employees and employers are required to make contributions to this fund.

Unlike in some countries where medical treatment is provided for free, in most cities in China the patient is required to bear a certain percentage of the total hospital fee. This can be quite straightforward if the hospital is based in the city in which the medical insurance premiums are being contributed, but it can be complicated if employees are injured or become ill while on holiday or business trips. Reimbursement can still be received for urgent medical treatment received in other cities, but there are certain special requirements which the patient must follow.

In addition, each month individuals receive a small amount of money onto their medical insurance card. The funds can be used to purchase medicine or other goods at pharmacies, or to pay small medical expenses at hospitals.

Unemployment insurance

Employers in all major cities are expected to make a contribution towards unemployment insurance and most cities also require a contribution from the employee. In the event an individual becomes unemployed they will be able to make a claim to receive unemployment benefits on the precondition that contributions have been made for a period of at least one year.

However the amount that can be received will be a fixed amount determined locally, and will be unrelated to the salary received by the individual previously or the amount of accumulated contribution. The benefits can be received for a maximum of 24 months.

Maternity insurance

Contributions to maternity insurance are made by employers only. In the event that an employee becomes pregnant, she will be entitled to receive a lump sum to defray some of the costs of the childbirth. During the period of maternity leave from the company the maternity fund will cover payment of salary.

Note that if the employee is earning more than three times the average salary for the region in which she is located the portion of salary that will be borne by maternity insurance will be capped at this amount. In practice, some companies will continue to pay the balance of the salary during the period of pregnancy if the employee earns more than this amount to ensure that the individual receives the same amount of salary during the maternity leave.

Occupational injury insurance

Contributions to this fund are made only by the employer and the amount of the contribution depends upon the nature of the work being carried out by the employees. The more dangerous the work is deemed to be, the higher the percentage contribution (usually the range is between 0.4 percent to 2 percent of the gross salary). The precise amount of the percentage premium will be made by the local social insurance bureau according to the category of industry the company is deemed to be affiliated to.

In the event that an employee is injured at work, the employer will collect evidence concerning the injury and the associated costs and apply for reimbursement from the occupational insurance fund. Note that the employer will still need to pay the salary to the employee during the recuperation period.

Housing fund

In addition to the five social insurances, employers are also required to pay into a housing fund. The housing fund is fundamentally different from the above insurances in two ways. First of all the contributions made by both employee and employer accrue directly to the employee. Secondly, administration of this fund is handled by the housing fund center separately from social insurance.

The reason behind the Chinese government requiring employees to contribute to a housing fund is to encourage them to save money to purchase a house. Funds accrued in this account can be used to make the initial down-payment as well as to repay mortgages taken out when purchasing a house. Individuals that have sufficient funds accrued in a housing fund account can also apply for a lower mortgage rate compared to a normal commercial loan.

Administration of housing fund differs greatly around the country. In Shenzhen no contribution is required from the employee at all, while the employer is required to pay a fixed rate of 13 percent. In contrast, in Dalian the employer can be required to pay up to 25 percent (although there are some special reduced rates that can be applied) while the employee contributions can be a maximum of 15 percent. The housing fund can be quite a significant additional cost for employers, so it is necessary to understand the system well in the locality where they are employing people before making any offers to new employees.

Together, social insurance and housing fund are commonly referred to as "mandatory benefits." We will use this term when referring to these five insurances and housing fund throughout the

rest of this article.

Employers are usually required to handle the administration of mandatory benefits on behalf of their employees, which means first of all affiliating the employees to the company "accounts" and then calculating and making the contributions (both the employer's and the employee's portion) on a monthly basis. Fortunately for employers, although there are five different types of contribution to be made for social insurance, a lump sum can be paid each month. This is usually made to the social insurance bureau, which will manage the disbursement of the contributions received to the various funds. Another amount should be paid to the housing fund bureau.

Recently in some Chinese cities, the responsibility for collection of social insurance has shifted away from the social insurance bureau to the local tax bureau. The reason for making this transition is to allow the local tax bureau to monitor the social insurance contributions being made as this will affect the amount of individual income tax payable (contributions made to social insurance by individuals are considered tax exempt for individual income tax purposes).

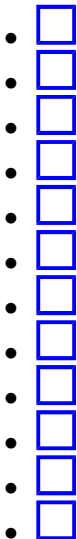
In some cities the administration of mandatory benefits can be managed online, saving a lot of time and effort visiting bureaus and facilitating the provision of such mandatory benefit management services from a remote location. Online services are by no means universal, Beijing being a notable example. In such cities a lot of chopping of documents, running to government bureaus and waiting are still necessary.

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This article was excerpted from the [September issue of China Briefing](#). To purchase a PDF version of the magazine complete with the most recent updates and amounts for social insurance and minimum wages, please visit the [Asia Briefing Bookstore](#). The cities featured include Beijing, Changchun, Chengdu, Dalian, Dongguan, Guangzhou, Hangzhou, Jinan, Kunming, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Xi'an, Zhengzhou and Zhongshan.

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