

# China's new rural pension scheme: practice and problems\*

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## ■ Abstract:

*The paper first describes the characteristics of the new rural pension scheme and then analyzes some problems emerging in its implementation based on a field in Anhui province's Dangtu County and Jiangsu province's Hongze County in April 2010. Unlike the urban pension system, the new rural pension scheme is of a voluntary nature, and unlike the old rural pension scheme, the government subsidizes participants using fiscal revenue. However, in its implementation there are some problems. The first involves the so-called "bundle scheme" that requires pensioners' children to participate. Evidence from our field study shows that coverage is less than 80%, even with a "bundle scheme." On the country, the "bundle scheme" increases social costs and it should therefore be replaced with legal regulations. Next, the paper explains why a majority of participants choose the minimum contribution level based on observations in the field study. This choice reflects the two-fold information asymmetry between the authority and rural residents. Based on the field study, we suggest that the new rural pension authority listen to village cadres and farmers to increase farmers' awareness.*

## ■ Key Words:

*New rural pension scheme, bundle scheme, minimum contribution level*

The Chinese Government issued The Guidance on Trial-implementing the New Rural Pension Scheme (The Guidance) in September 2009. Its schedule required pilot programs for the new rural pension scheme to be implemented in 10% of the country's counties (cities, districts and banners) in 2009 and to cover all rural pensionable-age residents by 2020. By March 2010, pilot programs had been launched in 320 experimental counties in 27 provinces (and autonomous regions) and in Beijing, Tianjin, Shanghai and Chongqing, reaching a coverage rate of 11.8%; 15.7 million rural residents over the age of 60 in the pilot areas have received the basic pension, and 46.85 million, or more than 50% of local residents,

have participated in the pension system with individual contributions.<sup>1</sup> The new rural pension scheme will provide rural residents with a stable source of income in their old age, thus helping to improve older rural residents' standard of living, reduce the old-age poverty rate in rural areas and promote rural-urban equality.

With the purpose of observing the implementation of the pilot programs, our team conducted research on policy documents issued by the central and local governments about the new type of rural pension system in addition to field studies carried out in Dangtu County, Anhui Province, and Hongze County, Jiangsu Province, during April 2010. First, this research report will provide an overview of the

characteristics of the rural pension system. Second, it will point out the difficulties in achieving full rural residents participation in the scheme. Third, the causes for participants choosing low contribution levels are analyzed.

## I. Characteristics of the new rural pension scheme

In fact, a rural social pension insurance system was once established before the new rural pension scheme. In 1992, the Ministry of Civil Affairs released the Basic Program for County-level Rural Social Pension Insurance (trial edition), aiming to implement a nationwide rural

social pension insurance system (the old rural pension system). The old system mainly necessitated individual pension contributions without defining the government's subsidy responsibilities. Therefore, it turned out to be ineffective and attracted few rural residents (Zeng Qingfen, 2006). In July 1999, the State Council announced that the time was ripe for China to practice a new rural pension scheme nationwide. The State Council was determined to rectify the old rural pension system and encourage a transition to commercial insurance in some areas (Zhang Jing and Jiang Hai, 2007). Afterward, the initiative was under discussion (Qu Dawei, 2007).

In 2007, the task of "exploring and establishing a rural pension insurance system" was officially put forward in the report of the 17th CPC National Congress. However, no definite principle or orientation was given. In October 2008, when the Third Plenary Session of the 17th CPC Central Committee was held, a clear guideline concerning the rural social pension insurance system was proposed in *The Communist Party's Decision on Several Major Issues Concerning the Promotion of Rural Reform and Development*. It said that the new rural pension scheme should feature a combination of individual pension contributions and collective and government subsidies. For the first time, the government's subsidy responsibility was officially raised. In a 2008 government work report, the State Council "encouraged local governments at all levels to carry out pilot programs of rural pension insurance;" in 2009, the government work report explicitly proposed establishing a new rural pension scheme and unveiled a working schedule. On June 24, 2009, the basic principle for establishing and promoting the new pension system was determined in the executive meeting of the State Council; it said

the new rural pension scheme should ensure a moderate pension insurance level, wide coverage, elasticity and sustainability.

On August 18, 2009, deployment arrangements were made for implementing the new rural pension scheme at the working conference for pilot projects of the scheme. On September 1, 2009, the State Council issued *The Guidance on Trial-implementing the New Rural Pension Scheme (The Guidance)* providing a detailed explanation of the new scheme in terms of its basic principle, task objective, coverage, fund-raising, individual account management, pension payments, pension handling and administration. According to the 2010 government work report, the new scheme is intended to cover 23% of all counties this year.

First, unlike urban social insurance, the new scheme is of a voluntary nature. Owing to rural residents' resistance to compulsion, a voluntary system will encourage more residents to participate in the insurance; on the other hand, the free choice of the premium grade can meet different areas' requirements and different income groups.

Second, two parts comprise the new scheme: the basic state pension and the personal account. The government pays the basic state pension following the universal flat-rate principle. In accordance with *The Guidance*, the minimum-standard basic state pension is 55 yuan per month; the central government is responsible for all the minimum-standard basic state pensions for central and western areas and for 50% of those in eastern areas. Local governments at all levels can raise the minimal standard.

Third, unlike the old rural pension system and the basic pension insurance for urban people, government subsidies play a dominant role in the new scheme's funding mechanism. It is

largely to this that the old and the new schemes owe their difference, and it is also why the new scheme can be advanced so quickly (Yang Juan and He Taotao, 2009; Yu Juyun, 2009).

## II. Coverage is less than 80%, even with a "bundle scheme"

Old-age insurance is a new institutional arrangement in China's countryside. For thousands of years, people have raised children, so that they would take care of them in their old age. Although the new rural pension insurance scheme (new rural pension scheme (NRPS)) provides considerable subsidies for people in coverage, implementation of this system is by no means easy. An attempt was made in the 1990s to implement the pension insurance system (old rural pension system). Due to insufficient mobilization and financial support and mismanagement, the old rural old-age insurance scheme ceased to function, except in name. This compromised public confidence in social insurance and made it more difficult to implement the new rural pension scheme. Hence, when various levels of government drafted measures on the trial run of NRPS, the following terms were included to increase pension insurance coverage: "When the new rural insurance scheme is put into effect, those who are 60 years of age and do not have access to the basic pension insurance for urban employees can receive a basic monthly pension without paying for insurance. But their children who are qualified for pension insurance should pay insurance premiums."<sup>2</sup> This arrangement is nicknamed the "bundle insurance scheme" by the rural people.

Positive effects of this arrangement include: 1) the introduction of the retirement

concept into an agrarian society by means of official institutional arrangements; 2) it explicitly declares the benefits for those aged 60 and older; 3) it may strengthen children's awareness to take care of the aged in the family. However, it should be noted from a rural survey conducted during April 2010 that rural people are quite disgruntled with the "bundle scheme." Seniors think that this regulation is unreasonable because it forces them to depend on their children to acquire social benefits. Some middle-aged people and younger people who contribute premiums to the insurance stress that they paid for their parents' benefits, while the real purpose – paying premiums to their own pensions – is neglected. Hence, it is necessary to avoid an emphasis on the "bundle scheme" during the trial run of the new rural insurance pilot program and to cancel this measure during its implementation. It should be replaced by a legally binding force usually contained in well regulated social insurance.

The new rural pension insurance system is significantly different from the old system because the government pays qualified insurants' basic pensions. This actually provides a public pension fund for rural laborers and is therefore welcomed in the countryside. By the end of January 2010, Hongze County, Jiangsu province, began to conduct experiments with the NRPS. There were 166,000 people in the county who were supposed to be covered by the insurance, and actual coverage reached 76.4% by the middle of May. The closer to pension age, the higher the participation rate. For the age group of 50 to 59, pension participation for both men and women reached more than 90%. However, the participation rate is less than 30% for the age group below 30. Considering rural communities'

psychology, local officials stressed that they did not opt for the "bundle scheme" option. Farmers are very happy to receive pension allowances, and this is why the county's social security center chose to print the policies on pink paper, which has auspicious connotations. Filial piety is a basic ethical standard observed by most people in the countryside. The "bundle scheme" seems to imply that "if children do not buy insurance, they are not pious to their parents." Possible connotations of moral judgment are offensive to some.

Furthermore, the "bundle scheme" effect is not universal. The local government of Dangtu County in Anhui province, for instance, has always followed the "bundle scheme" in implementing the NRPS. There are 429,000 people who qualify for the pension coverage, of whom 19.8% are over 60 years old (85,000 people). If we suppose that those in the 60-70 age group gave birth to children at the age of 25, we can conclude that most of their children are in the 35-45 age group and belong to the "bundled" group. This age group has a population of 113,000, accounting for 32.9% of qualified insurants. The peak insurance coverage rate is also in this group, reaching 90% or so. According to local conventions, pensioners' sons were prioritized in getting "bundled." Reflected in the statistics, the insurance coverage rate for males in this age group is higher than for females of the same age by 4 to 5 percentage points. In the countryside, most people in the 45-59 age group have started to save for their future, and so more than half of them are willing to participate in the NRPS. In fact, the coverage rate for this age group approaches 80%. However, even if pensioners are included, the whole county's insurance rate is still less than 75% (see Table 1). Local officials say it is difficult to further extend pension

coverage because the younger are less willing to pay for the insurance. Most people below age 30 think that the "bundle scheme" only relates to their parents and grandparents and think participation in the old-age insurance is not an urgent matter for them. They will be entitled to receive pension insurance as long as they pay for it for 15 years before the age of 60.

From the comparison of the case of Hongze County with that of Dangtu County, it can be seen that whether the "bundle scheme" is adopted or not does not have a significant impact on the working-age population's overall participation rate. The "bundle scheme" involves no more than one-third of people qualified for paying premiums. Other ways should be worked out to achieve full NRPS coverage.

The social benefits of the NRPS lie mainly in the effects of the scheme in reducing elderly people's poverty, protecting their dignity and increasing social stability and harmony. The social costs include not only the human and material resources the government and rural people devote to establishing and operating this system, but certain negative social effects in the course of the system's implementation as well. The "bundle scheme" has indeed encouraged some middle-aged and young people to buy insurance, but it has also brought about some unexpected additional social costs:

First, there is a misunderstanding of the source and implications of a public pension fund. At the beginning of the implementation of the NRPS, there must be a number of seniors who reach retirement age and are entitled to pension payments without fulfilling obligations in contributing to the insurance fund. The "bundle scheme" gives a false impression that pension recipients' children make investments for their parents' benefit.

Second, it brought rural migrant

workers and urban social insurance institutions an additional workload. According to the policy of integrating rural migrant workers into the social insurance schemes for urban employees, migrant workers do not have to participate in the NRPS. But in order for their parents to receive basic pension benefits, rural migrants working in cities have to request proof documents from social insurance authorities in the cities. Staff at the Suzhou municipal social insurance center say it is not in their scope of work to issue the documents, which have no fixed format yet and usually will not meet the social insurance institutions' requirements in the migrant workers' hometowns. As a result, some migrant workers have to visit social insurance authorities several times to get things right. Of course, these authorities' work volume has multiplied overnight.

Third, government institutions and village committees have to pay more for organization, mobilization and management. The fundamental work of the NRPS, such as awareness promotion, mobilization and personal information registration, all has to start with household interviews conducted by the leaders

of the village committee and villager groups. Currently, most rural families are nuclear families, and young couples usually live separately from their parents. In order to verify the qualifications of seniors with more than two children to receive a pension, village leaders often have to visit several families. There are more interviews and paperwork for village leaders to do than in places where the "bundle scheme" is not required.

Fourth, it increases a sense of injustice among rural residents. Well-educated middle-aged people and younger people use urban pension insurance as a reference. They note that urban residents are not restrained by a "bundle scheme," and conclude that the program is therefore unfair to rural people.

Compared to industrialized societies' pension insurance systems, the "bundle scheme" is an institutional innovation. It may promote the implementation of the NRPS in the short run, but in the long run, it will not help introduce awareness to rural residents about pension insurance consistent with the principles of social insurance.

Developed countries' universal pension insurance systems contain

legally binding terms on the participation in insurance schemes based on the following principles: Assuming individual shortsightedness, there must be national requirements to force individuals to save for basic pensions once they enter the labor market; the governments also must prevent individual opportunist behavior (i.e. adverse selection and moral hazard). Effective implementation of this legally binding requirement is the only premise for full social pension insurance coverage and the only way to ensure a sufficient number of younger insurants who pool the burden of pension schemes.

The "bundle scheme" actually implies an ethical force. It can be considered a soft constraint as opposed to legal compulsion. Why is ethical force taken instead of the legal one? *The Guidance of the State Council on the Pilot Programs of New Rural Pension Scheme* can answer this question. A principle is shown in the Guidance that "government will take the lead to guide rural residents to participate in the scheme on a voluntary basis." The problem is that the policy of "voluntary participation" contradicts with the experiences and principles of current social insurance. It also brought local governments a dilemma: They must extend insurance coverage rapidly without effective mandatory means. Therefore, the "bundle scheme" is expedient. Furthermore, the principle that "government will take the lead" leaves room for policy maneuvers like the "bundle scheme."

The reason soft restraints are adopted may be to prevent rural people's rights from being damaged by hard constraints. In the second half of the last century, the government took various mandatory measures to intervene in farmers' economic freedom and left a negative impact that cannot be dispelled.

**Table 1: Old-age insurance scheme statistics in Dangtu County**

(At the end of March, 2010)

Age group*	The qualified (person)	Participation rate (%)	Qualified males (person)	Participation rate (%)	Qualified females (person)	Participation rate (%)
16~24	48697	18.87	25480	19.56	23217	18.11
25~29	30489	36.00	15546	32.93	14943	39.19
30~34	36498	71.37	18817	71.23	17681	71.52
35~39	49782	87.09	24907	89.30	24875	84.88
40~44	63522	88.09	31839	90.08	31683	86.09
45~49	50467	80.20	25110	81.29	25357	79.13
50~54	23893	79.05	11857	77.39	12036	80.69
55~59	40969	77.12	20707	81.65	20262	72.49
Sum	344317	68.68	174263	69.39	170054	67.96
60+	85026	96.99	43368	96.79	41658	97.20
Total	429343	74.29	217631	74.85	211712	73.71

Source: Bureau of Human Resource and Social Security in Dangtu County, 2010, "A Briefing on Experiment of New Rural Pension Scheme in Dangtu County," provided to the research team, Institute of Economics, Chinese Academy of Social Sciences on April 1.

\* Students are not included.

This shadow has made decision-making institutions and executing agencies scrupulous when it comes to the implementation of insurance schemes. However, both domestic and international experiences have shown that legal enforcement is essential to the sustainability of a pension insurance system and consistent with the principle of social justice. Otherwise, it will be hard to maintain consistency in insurants' rights and obligations.

Based on the above findings we suggest a formulation of local law on rural old-age insurance in the selected provinces with well developed economies and sound social management and a replacement of the "bundle" requirements with the legal regulations in the pilot counties from these selected provinces.

Second, special studies should be designed to survey younger age groups' needs for pension schemes and their willingness to pay in order to design proper insurance products as responses and also to formulate reward and punishment clauses.

Third, NRPS policies should be rewritten to advocate success over the long run. The practice of the U.S. Social Insurance Administration is worth learning from. It has been 75 years since the United States established its social insurance system, but the administration has never given up the dissemination of policy information. For instance, besides listing social insurance tax rates, tax amounts and entitled benefits, monthly statements issued to insurants in February 2009 attached the most basic social insurance regulations and an open letter issued by the commissioner of Social Insurance Administration. The letter states that the administration will begin paying more in benefits than it collects in taxes in 2017. Without changes, by 2041 the Social Security Trust Fund will be exhausted.

Fourth, knowledge and information about social insurance should be included in the textbooks of higher-level classes in primary schools and in the curriculum of middle schools to build up an awareness of social insurance among all people in China.

### III. Why a majority of participants choose the minimum contribution level

There are five clauses in the *Guidance on the Pilot Programs of New Rural Pension Insurance* as follows:

- Coverage: Participation is voluntary for rural residents above 16 years old (excluding students) who are not covered by urban basic pension insurance.

- Payment standard: There are five standards of annual personal contributions: 100 *yuan*, 200 *yuan*, 300 *yuan*, 400 *yuan* and 500 *yuan*. Local governments may have higher standards but cannot require payments below the minimum standard.

- The government pays the base pension in full for qualified pensioners. This includes an allowance, currently 55 *yuan* per person/year, issued by central finance to central and western regions and a 50% allowance for the eastern region.

- Local governments provide subsidies of no less than 30 *yuan* per person/year.

- When the new rural pension scheme comes into effect, those 60 years old and over not covered by urban basic pension insurance are entitled to monthly base pensions without paying the premiums; their children who meet the criteria should pay for pension insurance for themselves.

Clauses 2, 3 and 4 in the new

rural insurance scheme contain two policy objectives: to achieve extensive coverage at basic levels and to control pension gaps to avoid income gaps among the elderly population in the future. This is a simple but perfect policy design. An interesting question is what the results will be when these policies are carried out in the countryside.

#### (I) Levels of insurance contribution in Dangtu County

Dangtu County is situated on the east shore of the Yangtze River and abuts the city of Nanjing in Jiangsu province to the east. It has a favorable location and a population of 650,000, of whom 80% are farmers. The county's GDP reached 12.5 billion *yuan* in 2009, ranking fifth among counties in Anhui province. Its available financial resources reached 770 million *yuan*, also ranking fifth. Its farmers' per capita net income reached 7,100 *yuan*, ranking first.<sup>3</sup>

The county is in the jurisdiction of Ma'anshan city, which was recently accepted as a member of the Yangtze River Delta Economic Zone. It entered the first tier at the national level for economic and regulatory administration. We assume that it also falls into the first tier of Anhui province. According to the initial information obtained from Dangtu County, most farmers can afford high payment standards according to local per capita income. Thus we added three levels of 600 *yuan*, 700 *yuan* and 800 *yuan* per person/year. After mobilization and awareness efforts, the new rural insurance scheme was well implemented. Participants' personal information was entered into a computer-based information management system, and the whole county's coverage rate reached 74% (Please refer to Figure 1 for the distribution of the eight payment levels). The curve refers

to positive distribution estimated according to actual distribution (corresponding mean value and standard deviation). Commonly, the closer to positive distribution, the more reasonable and stable the payment structure is.

There is a big difference between the columns and curve in Figure 1, which means that (1) actual distribution of payment levels is far from ideal; and (2) the peaks are 100 yuan, 400 yuan and 600 yuan per person/year. Does this suggest that participants are influenced by abnormal factors in selecting payment levels? We first consulted

the Dangtu County Social Security Center for the peaks of 400 yuan and 600 yuan per person/year. Before the pilot program was carried out in Dangtu County in 2009, Ma'anshan city took the initiative to experiment with its own new rural insurance scheme in 2007. At that time, the scheme only included two payment levels: 400 yuan and 600 yuan per person/year. After Dangtu County became a national pilot county, original participants chose to stick with the same payment levels. After this abnormal factor was adjusted for, the simulated distribution is shown in Figure 2.

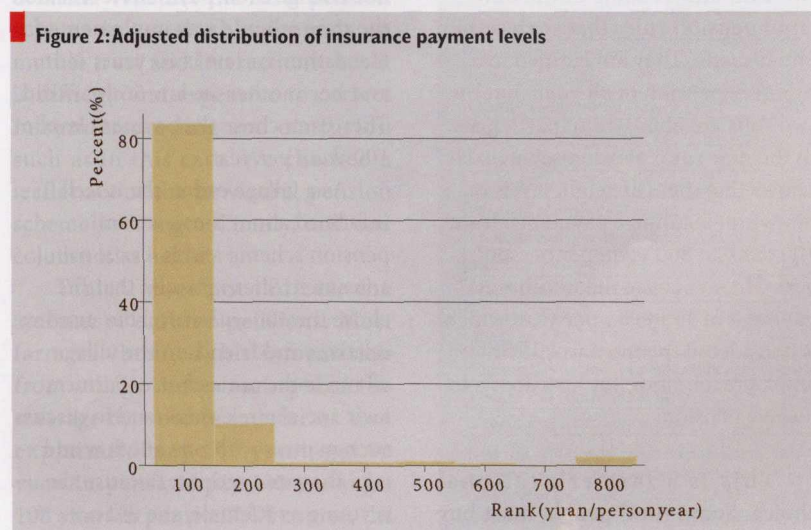
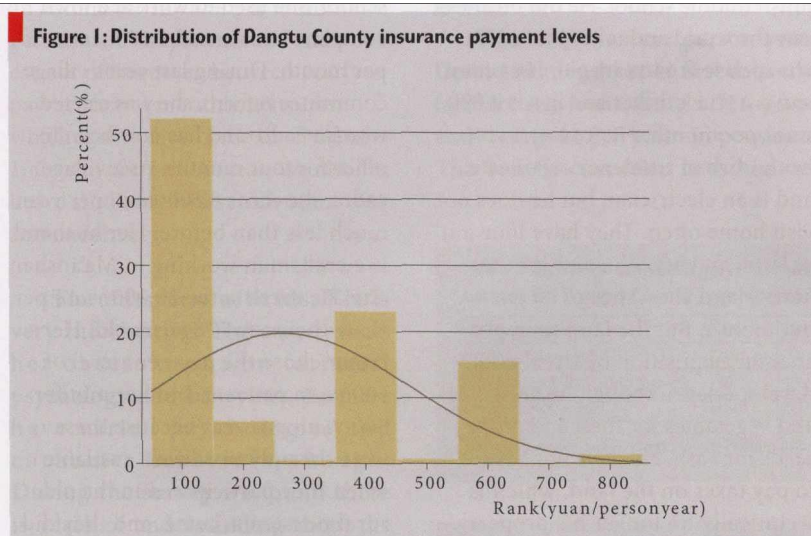
Figure 2 simulates the distribution of an extreme imbalance. More than 80% of participants chose the minimum of 100 yuan per person/year. Such a structure is extremely unfavorable for the policies that aim to increase the pension fund. If the pension fund is restricted, the new rural pension scheme may not be stable or sustainable. One question must be answered: Why have farmers made such a collective choice? We can rule out income as a reason because Dangtu farmers can afford higher pension insurance rates. We discussed the reasons with the social security center. Their explanation is that (1) on many occasions, cadres failed to honor their commitments, and farmers lost trust in the government; and (2) farmers are suspicious about the many adjustments to the new rural insurance policies compared with the old version. They chose the lowest payment level to avoid risks. These explanations seem to make sense. To delve deeper into the question, we visited the cadres and insurants in Huhe Town and Huhe village in Dangtu County.

**(II) Guidance by Huhe Town Government**

**CASE 1**

*Introduction of Huhe Town*

Huhe Town has a registered population of 32,000, including 10,000 people working in other places. The town has three industries, metallurgy, clothing and electronics, with an employment of around 1,000 people. In 2009, the town's GDP reached 530 million yuan, fiscal revenue 30 million yuan, available financial resources 16 million yuan, and farmer's net income 7,880 yuan. The town has an agricultural population of 29,000 people, whose pension participation rate is 70.6%.



Huhe Town is well above the mid-level of township economic development in Dangtu County.

County coffers keep all Dangtu County town-level revenues. The county allocates town spending. Huhe Town currently has a debt balance of 21 million *yuan* to county finance.

According to the new rural pension scheme, provincial finance allocates an allowance of 20 *yuan* per person/year. For the contribution level of 100 *yuan* per person/year, county and town levels allocate an allowance of 15 *yuan* per person/year, respectively. For other payment levels, county and town levels allocate an allowance of 20%.

Let's examine the 200 *yuan* level: County and town levels issue an allowance of 20 *yuan* per person/year, which is higher than the level of 100 *yuan* by five *yuan* per person/year. Huhe town has an insured population of 16,000, of whom 5,200 receive base pensions. Thus only 10,800 insurants contribute to the pension fund. Among them, 9,000 people chose 100 *yuan* per person/year and are entitled to a total allowance of 135,000 *yuan*/year at the town level. The 1,800 people who chose other payment levels are entitled to an allowance of 210,000 *yuan*/year at the town level and a total of 345,000 *yuan*/year. If the participation rate increases by 10%, it is estimated that an additional allowance of 50,000 *yuan*/year is needed, and the total allowance is 400,000 *yuan*/year.

For Huhe Town, which is already in fiscal deficit, there would be more allowances and debts if farmers were encouraged to opt for higher insurance payment levels.

It is easy to see from this case that the Huhe Town government will not encourage farmers to buy higher levels of insurance unless special conditions emerge. It is rational for

insurants to choose the level of 100 *yuan*/person. There are many other towns and townships in similar or less developed economic situations than Huhe Town. Considering allowance policies that are onerous to various government levels, township governments may be reluctant to encourage people to buy insurance.

### (III) Another reason for the choice of minimum insurance

## CASE 2

*Interview with Zhu Xigong of Huhe village, Huhe Town*

Mr. Zhu is 67 years old. He didn't finish middle school. He did business, saw the world and is very talkative. His spouse is 64 years old. His oldest son is a truck driver and earns 4,000 *yuan* per month. His younger son has an urban residence certificate and is an electrician, but he does not visit home often. They have four mu of land, and Mr. Zhu and his wife have a land allowance of 80 *yuan* per month. But the land is empty after an acquisition by a real estate developer even though he grew rice and vegetables for food and grape seeds for cash. He does not have to pay taxes on the land, which is technically no longer his property. Mr. Zhu knows some of the new rural pension rules that apply to him and his wife. They are entitled to a monthly pension of 80 *yuan*, but his two sons are obligated to participate in the new rural pension scheme. He knows that there are eight levels of new rural insurance payments, from 100 *yuan* to 800 *yuan* per person/year. His son chose the minimum payment of 100 *yuan* per year, which is considered the most worthwhile and a precondition for his parents to receive pensions.

This is a farmer's rational choice. Some rural people must buy

insurance in order for their parents to be entitled to pensions, but they do not care much about their own pensions. His son can afford higher payment levels, but he chose to pay only 100 *yuan* per year. This is quite popular among farmers.

### (IV) Why is there a misunderstanding among insurants?

## CASE 3

*Interview with Xia Qiaofeng, woman cadre of Huhe village, Huhe Town*

Xia Qiaofeng and her husband are from the same village. She is 34 years old and graduated from middle school. She used to work at a town company and earned 1,100 *yuan* per month. During last year's village committee reform, she was elected woman cadre and has now been in office for four months. As a village cadre, she earns 8,600 *yuan* per year, much less than before. Her husband is a craftsman working in Ma'anshan city. He earns some 20,000 *yuan* per year. Their son is 8 years old. Her father chose the payment level of 600 *yuan* per year and her mother 400 *yuan* per year because these were the only two levels available when they participated in the old rural pension scheme, and they did not change their payment levels after the new scheme was implemented. Her father-in-law is 60 years old and her mother-in-law 56 years old. They each chose the payment level of 100 *yuan* per year.

As a village cadre, she is well informed about the new rural pension scheme and is a rational consumer. She explained that she chose the 100-*yuan* level because her relatives and friends in the village all made the same choice. Farmers have social circles and tend to discuss such matters with one another and take the same actions. Because she is young and female, she did not



dare to make a different voice and prudently followed others. According to her view, village cadres had a bad reputation among farmers, but now that their job no longer involves collecting taxes and fees but to dispense farming subsidies, there is no reason for farmers to be suspicious of them. Farmers chose to pay 100 yuan because they hold a watch-and-see attitude and will change their minds once the new rural pension scheme proves reliable. She said that 100-yuan annual contributions mean a monthly pension of 96 yuan, and 200 yuan means a monthly pension of 108 yuan. Even if one pays an extra 100 yuan per year, the benefit is only an additional 12 yuan per month. Farmers are simple-minded and cannot differentiate between yearly payments and monthly pensions, which is why they chose the level of 100 yuan per person/year. We also heard similar reasons from other respondents.

The interview with Ms. Xia is very informative. The case reveals her observations on farmers' psychology and behaviors. Farmers have varied psychologies and consumer behaviors, though. During the survey we found there is a lack of understanding about the demand. Whether the rural pension scheme is sustainable depends on mutual trust and interactions, but it is difficult and expensive to correct misunderstanding and confusion such as in this case. We checked a leaflet about the new rural pension scheme in Dangtu County, and one column is as below:

Table 2 does not indicate the amount of entitled pensions. Most farmers obtained this information from village cadres and spread the message by word of mouth. As they explain it, "pay 100 yuan, get 96 yuan in pension; pay 200 yuan, get 108 yuan in pension." Of course, the

first option seems a better choice, which is why farmers selected it. They overlooked one fact: One pays insurance annually but collects pensions on a monthly basis. This wrong message, once settled among the masses, will be difficult to correct.

**(V) Cost-benefit evaluations**

In this section, we evaluate the results based on Table 1, with the assumption that farmers would accept the concept of cost-benefit evaluation. According to Dangtu County's current new rural pension scheme, Table 3 provides a comparison for different payment levels.

Take 100 yuan per person/year: Upon 139 months after first delivery, farmers will contribute 1,916 yuan and receive 11,838 yuan in pensions. The benefit-cost ratio is as high as

6.18, and the difference is 9,922 yuan. With increasing payment levels, however, the benefit-cost ratio will decline. The ratio is 3.56 for 200 yuan per person/year. Ranked by the differences between contributions and returns, the 100-yuan level ranks third, lower than 600-yuan level by 12 yuan and the 800-yuan level by 42 yuan. Although it is difficult for farmers to do calculations of this complexity, some people will come to the same conclusion and spread the message that the 100-yuan level is the best option. This will make it very hard to restructure and expand rural pension contributions in the future. Hence, we believe the current pension insurance options are flawed. The current system ensures wide coverage and little pension income gaps but cannot help develop a sound contribution

**Table 2: Payment standard, government subsidy and personal account of new pension scheme for Dangtu County (yuan/person/year)**

Payment standard	100	200	300	400	500	600	700	800
Provincial subsidy	20	20	20	20	20	20	20	20
County and Township Subsidy	30	40	60	80	100	120	140	180
Personal account	150	260	380	500	620	740	860	980

Source: Questions and Answers on New Pension Insurance Policies in Dangtu County, February 2010.

**Table 3: Cost-benefit comparisons**

<b>Annual payment</b>								
Personal contribution	100	200	300	400	500	600	700	800
Provincial subsidy	20	20	20	20	20	20	20	20
County and town subsidy	30	40	60	80	100	120	140	160
Personal account balance	150	260	380	500	620	740	860	980
<b>Start receiving pension</b>								
Accumulated amount of personal account	2874	4981	7280	9578	11877	14176	16475	18774
Personal contribution balance	1916	3831	5747	7663	9578	11494	13410	15326
Monthly pension of personal account	21	36	52	69	85	102	119	135
Monthly basic pension	80	80	80	80	80	80	80	80
Monthly pension receiving amount	101	116	132	149	165	182	199	215
<b>Pension delivery 139 months after first delivery</b>								
Cumulative balance of personal benefit	11838	13621	15566	17510	19455	21400	23344	25289
Benefit and contribution ratio	6.18	3.56	2.71	2.28	2.03	1.86	1.74	1.65
Benefit and contribution gap	9922	9789	9818	9847	9876	9906	9934	9964

Note: The unit is yuan except for cost-benefit ratio. Calculations are based on Dangtu County's current new rural pension policies. Other assumptions include: (1) local farmers' identity remains the same (rural residence); (2) contribution levels remain the same; (3) only pays 15 years upon retirement; (4) local policies remain unchanged; (5) annual savings rate remains 3%; and (6) collects 139 months of pension after retirement.



structure.

### (VI) Policy recommendations

First, we attach importance to two-way information exchanges. Currently, the demand side is not well informed despite great communication efforts from the supply side because there is not much survey and understanding about the demand side. Any communication must be based on a deep understanding of insureds' values and habits. But in our survey we found that the supply side has a one-size-fits-all communications approach that constitutes one-way communication without feedback and readjustment. Hence, we

suggest that the new rural pension authority must listen to village cadres and farmers to effectively increase farmers' awareness.

Second, except for a few wealthy regions, town and township governments can be exempted from paying subsidies in the initial stage. Meanwhile, provincial governments should pay bigger shares of pension fund contributions. This would make grassroots cadres encourage farmers to contribute. When the new rural pension scheme is established and pension subsidies need to increase, contributions can be raised at the county and township levels. This is a prudent fiscal subsidy policy.

Third, the personal account aims to establish an income-based contribution system. Those who pay more will be entitled to higher pensions after retirement. However, this system, if not properly designed, will not encourage people to increase their contributions, which are crucial to the security of the pension system. The new rural pension scheme must develop appropriate subsidy ratios for different age and income groups to encourage high-income people to increase their contributions. Pilot programs suggest that inappropriate subsidy ratios will lead to undesirable options. Pilot counties must heed this experience. ■

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### Note:

- \* Wang formulated Part I of the paper, Zhu drafted Part II, and Jiang and Jin wrote the last part.
- 1 The data is from "The Coverage Rate Is Intended to Reach 23% in 2010" on the website, [http://www.cnension.net/index\\_lm/2010-03-31/news1269997614d1105386.html](http://www.cnension.net/index_lm/2010-03-31/news1269997614d1105386.html).
- 2 Refer to the document released by the General Office of the State Council on September 4, 2009: *Guidance of the State Council on the Pilot Programs of New Rural Pension Scheme* (Guofa, 2009, No. 32). Downloaded from [http://www.gov.cn/zwgg/2009-09/04/content\\_1409216.htm](http://www.gov.cn/zwgg/2009-09/04/content_1409216.htm) on May 9, 2010.
- 3 Refer to *Statistical Yearbook of Anhui Province*, 2009.