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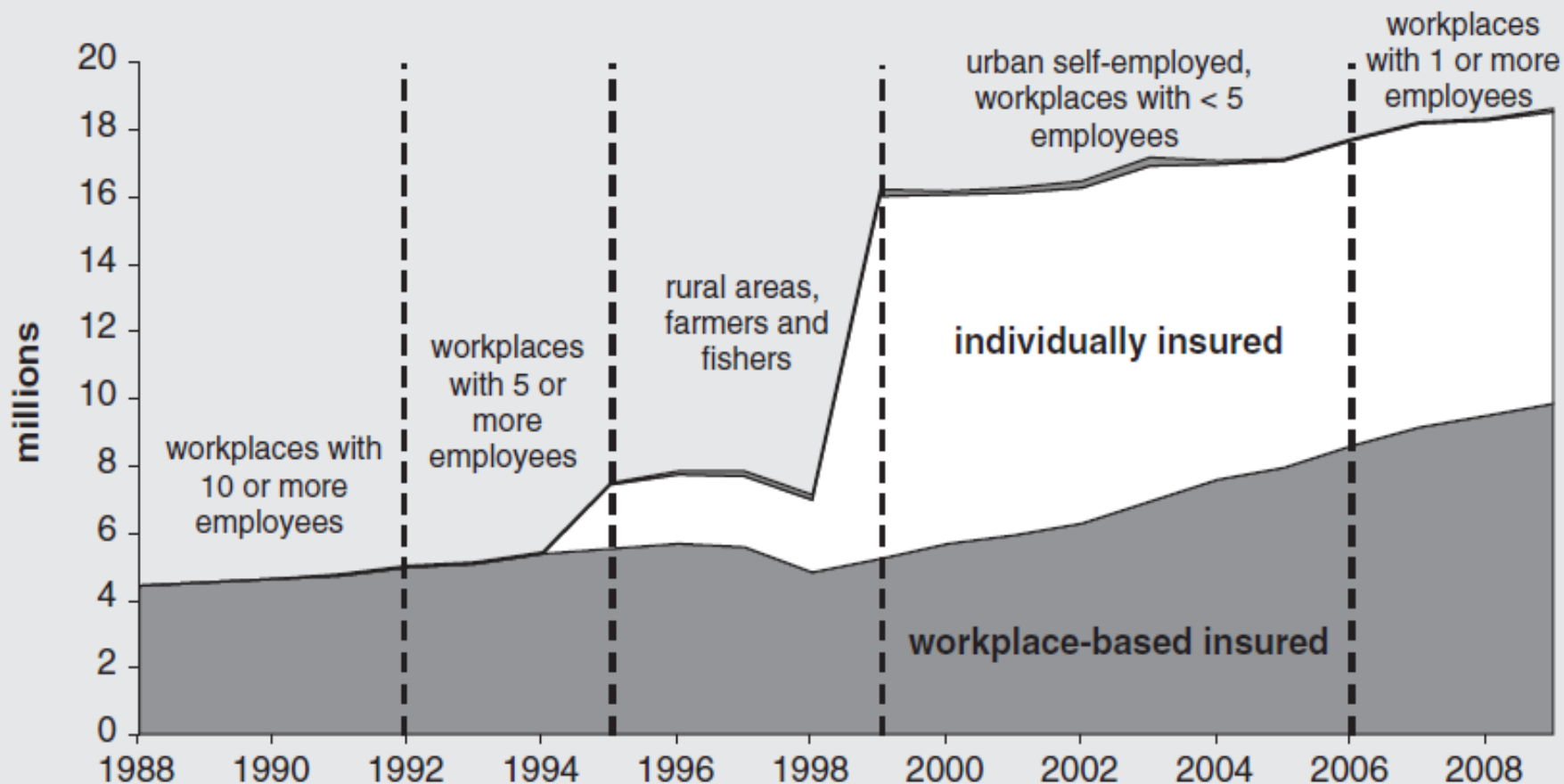
Measures in China and Korea to Provide Social Security for Informal Sector Workers

World Bank Pensions Core Course

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Coverage of Korea's national pension system, 1988–2009



Source: National Pension Service website (<http://english.nps.or.kr>). See Hyungpyo Moon, **Matching Contributions and Compliance in Korea's National Pension Program**, Chapter 8 in **Matching Contributions Pensions**, World Bank, 2013.

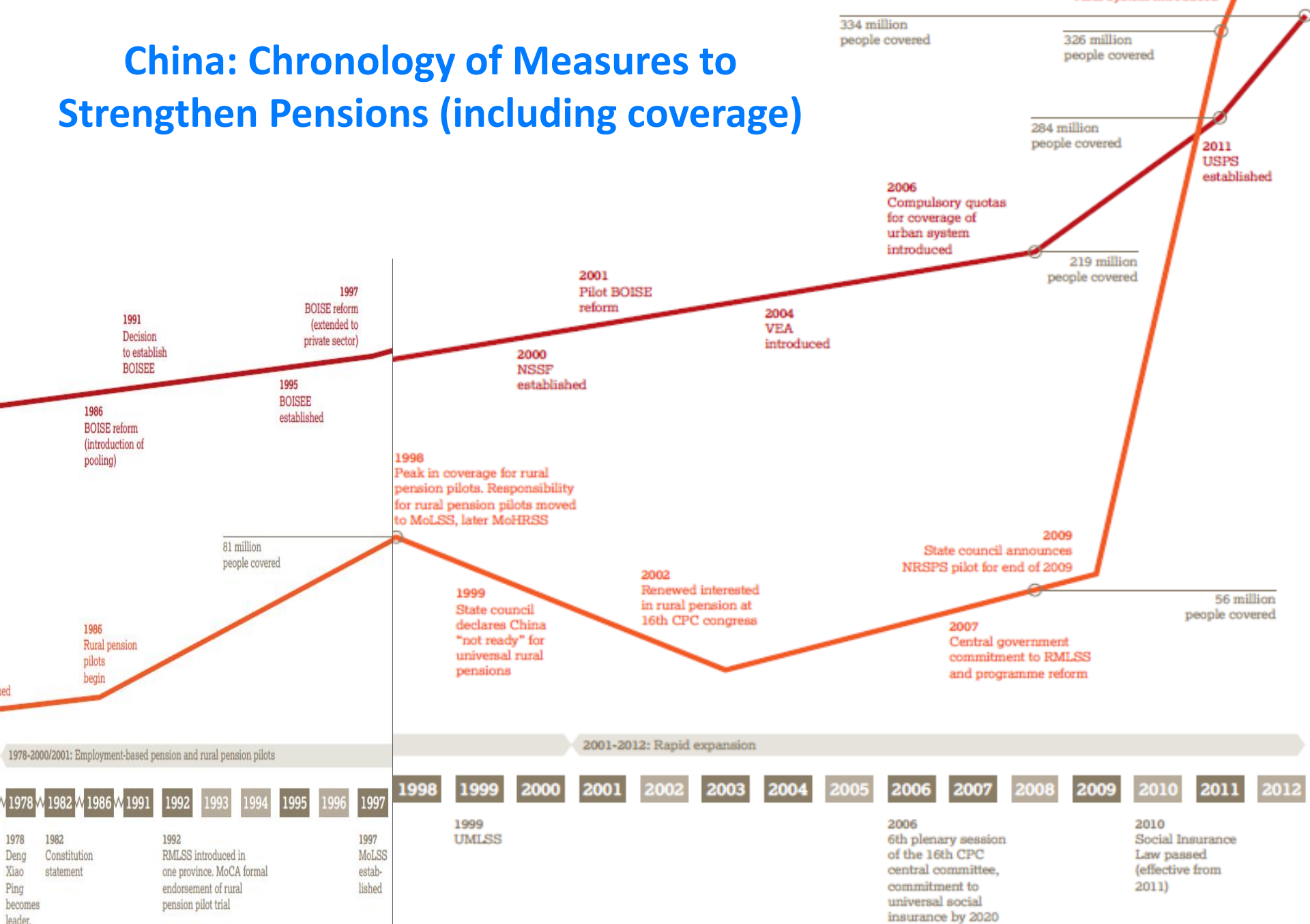
Korea: Coverage expansion through mandatory contributions, contribution subsidies & non-contributory pension

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

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

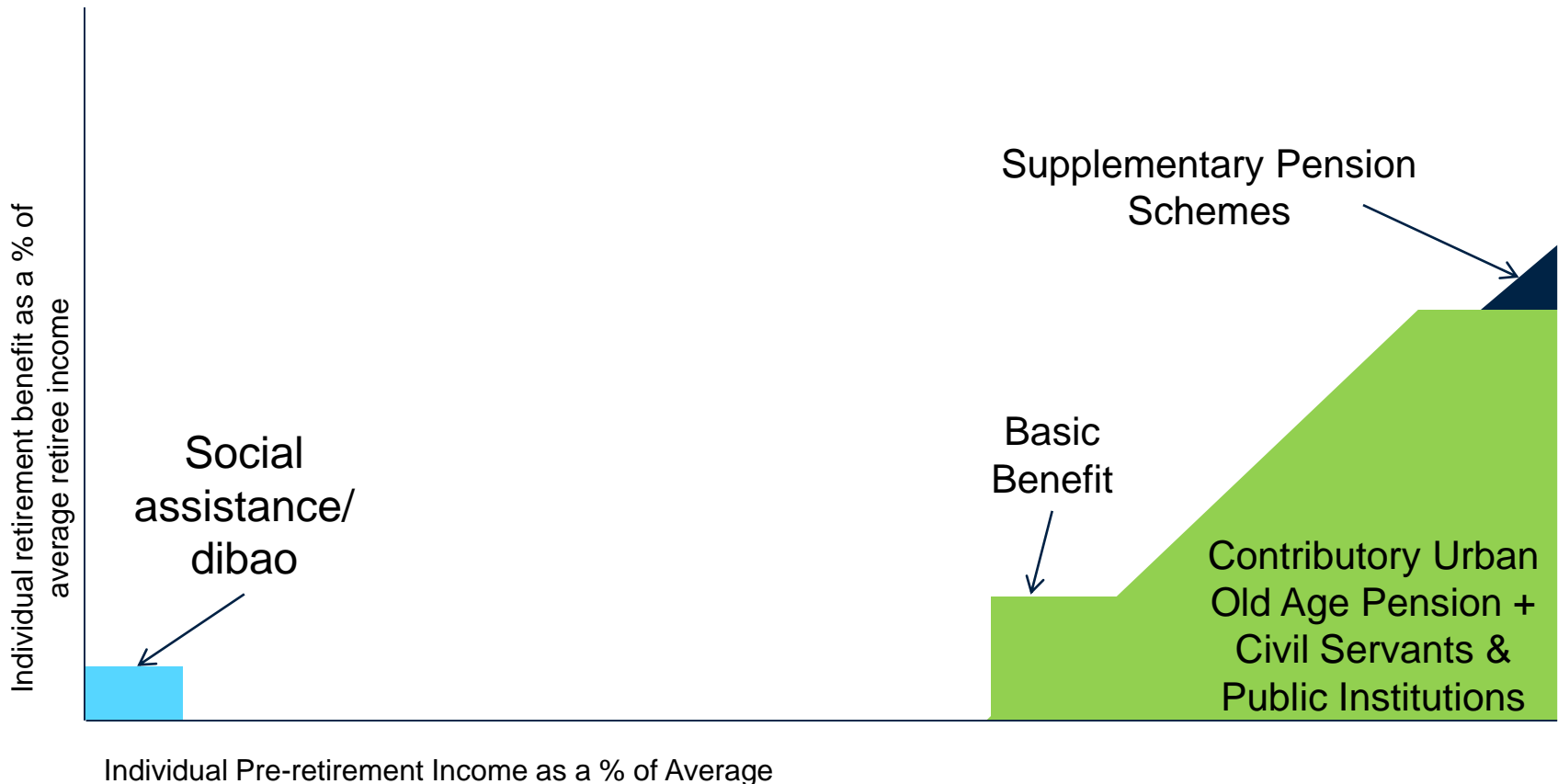
- 2007 reform - introduction of non-contributory **Basic Old-Age Pension** – about 5% of average income - aged 65+ w/income < income threshold.

China: Chronology of Measures to Strengthen Pensions (including coverage)



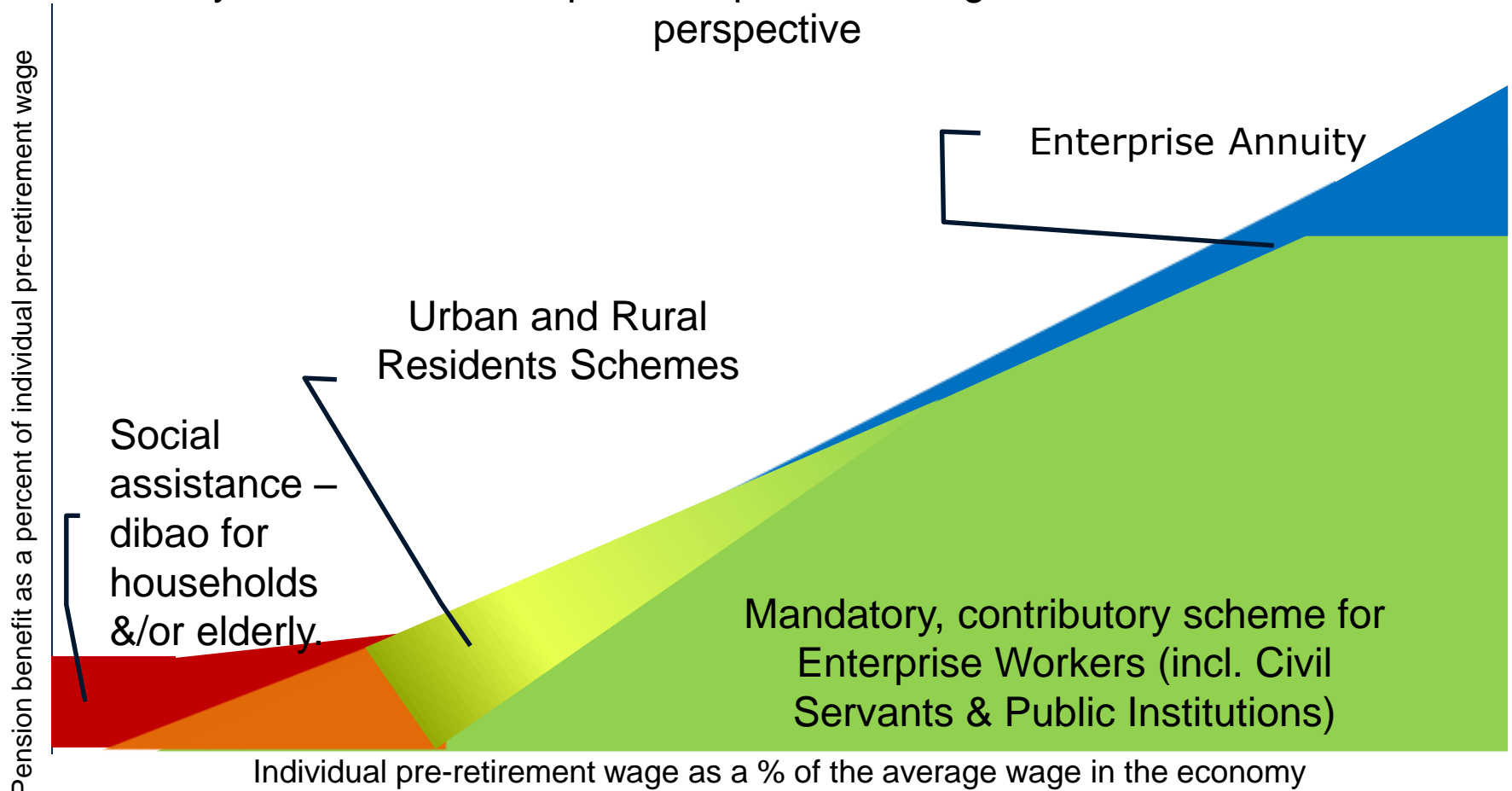
Source: Pension-watch, 2013. Pension Coverage in China and the expansion of the New Rural Social Pension

Stylistic Illustration – Pension System in 1997



Stylistic Illustration of Multi-pillar design

Stylistic Illustration of potential pension design from an individual perspective



China – Design of National Rural Pension Scheme & Urban Residents Pension Scheme

- Two components:
 - Funded individual accounts w/matching contributions – Acc. balance/139 at age 60.
 - Basic (flat) pension (US\$8.85/month) at age 60 for workers contributing 15 years.
- Vesting - 15 years contributions, “family binding” & buyback.
- Financing:
 - *Central subsidies* ex-post for basic pension (100% for central and western regions & 50% for eastern regions)
 - *Individual contributions* – about US\$15.90-US\$79.00/year - higher in richer areas.
 - *Partial match on by local governments* - at least 30 RMB/year per first 100 RMB.
 - *Collective subsidies* encouraged.
- Fund management - most at county level, some at provincial level.

China: Evaluation of Initial Results

- **Coverage: Dramatic & ambitious targets met:** End -2012 target to offer in 100% of rural & urban areas. Est. 376 million workers covered (end-march 2012) and 107 million receiving benefits (vs. around 55 million covered when the rural scheme started in late 2009).
- **Wide coverage, uniform national framework, but w/low benefits in poorest communities.** Minimum est. benefit about US\$11.20/month: (below national rural poverty line, fraction of rural per capita income, etc.)
- **Authorities promoting higher benefits where fiscally affordable.**
- **Fiscal costs & worker affordability.** Central govt. subsidy < 0.25% of GDP (2012) & will remain modest. Affordability at county & municipal level less certain.
- **Political authority and institutional support mechanisms were key** (*identification, collections, accounting, payments*)

Lessons from Chinese Experience

- **High level commitment (basic protection for all by 2020)**. Essential ingredient to national effort with dramatic leap in coverage.
- **Process of subnational piloting**. Local experiments & history of rural pension pilots – design experimentation essential to accommodate diverse conditions & decentralized environments. Learning by doing helped.
- **Central Government financing** of basic benefit (key difference between old and new rural pension schemes) essential to national credibility.
- **Innovative design linking matching contribution to basic benefit**. Yet design requires comparable conditions and administrative apparatus.
- **Residents schemes financially stable** because they focus on fiscal and worker affordability promising a very modest benefit.
- **Coverage as a core objective in initial phase balanced against limited adequacy of benefits**. Many elderly may still face poverty.

Appendix: Facts of Pension Schemes in China, 2012

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