

# Chapter 8

## Building a Trinity Pension Security System in China: A Preliminary Framework

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China's pension security system has evolved from the family-supporting stage to the one witnessing the weakening family support and the budding social pension system. At present it is still in the early stage of rapid development. Overall, the Chinese pension security system has made remarkable achievements and played an important role in securing the basic livelihood of the elderly, maintaining social stability and promoting economic development. However, this system, far from perfect, cannot meet the need of an aging population, confronts many problems, and sees prominent contradictions between the various needs of elderly people and insufficient supply. "Getting old before getting rich", changes in family structure, acceleration of urbanization and changes in labor market all bring new challenges to the development of the pension security system.

### 8.1 The History and Status Quo of China's Pension Security System

#### 8.1.1 *The History of China's Pension Security System*

The history of China's pension security system after the founding of People's Republic of China can be roughly divided into the following phases:

The first phase (1949 to early 1980s): Family support played the major role with supplemented government, unit and collective security. Due to economic underdevelopment and tradition, family support was in a dominant place in this

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phase, and especially in the vast rural areas, the vast majority of elderly people relied on their family in their old age. The family provided financial support, life care, health care, mental consolation and other more comprehensive protection for the elderly but on lower levels, so it was difficult to meet the needs of the elderly. Due to the impact of the planned economic system, there were also a number of other forms of pension security provided by the government, unit and collective in addition to the dominant family support. For example, the government and unit provided urban workers with pensions and certain old-age services, and in rural areas, the collective provided financial and in-kind assistance to the elderly.

The second phase (mid-1980s to the late 1990s): Family support was constantly weakened, while social pension system began the exploration. The acceleration of marketization, industrialization, and urbanization on the one hand promoted the rapid development of national economy and provided a certain economic base for the elderly, and on the other hand, it also increased the difficulty in supporting the elderly to a certain extent. Especially against the background of quick population flow, family structure changes and weakening soil security, the traditional family support got continuously weakened. In this period, the country was in the process of rapid economic and social transformation. Although socialized pension began its exploration, it was still in its infancy. The state began to explore and establish the basic pension insurance system for urban workers, but the system for the rest of the population was not fully established. The vast majority of people except government department staff and some urban workers were not integrated into the pension security system, especially in the vast rural area, there was extremely lack of security for the elderly, and rural social pension insurance system stalled. In the context of the growing aging population, how to support the old has become an important topic of great concern to the whole society.

The third phase (after the late 1990s): social support for the old develop into a new era. In the twentyfirst century, the Party and the state pay more attention to the cause of people's livelihood including pension security, take a series of pension security measures, really begin to explore social pension security, and constantly improve the social pension security initiatives against the background of weakening household support and accelerating population aging. In 1997, it established a unified basic pension insurance system for urban employees. To accelerate the development of undertakings for the aged, the National Committee on Aging was established in 1999, serving as the coordinating body of the State Council in charge of the cause of aging, including overall planning and guidance. On August 19, 2000, the CPC Central Committee and the State Council promulgated the "Decision of the CPC Central Committee and State Council on Strengthening the Work for the Aged"; in 2001 and 2006, it promulgated "Planning for the Development of Undertakings for the Aged" for the 10th and 11th Five-Year period; the office of China Committee on Aging and other departments issued "Opinions on Accelerating the Development of Pension Service Industries" (February 2006), "Opinions on Comprehensively Promoting Home Care Services" (January 2008); in November 2010, Ministry of Civil Affairs held a national old-age care service conference in Wuxi in Jiangsu Province. All these initiatives play an important role

in promoting pension security services, especially the cause of social pension. During this period, the various pension and security systems including urban basic pension insurance system, new rural social pension insurance system, and pension allowance system were established and improved one after another.

### ***8.1.2 Achievements of Chinese Pension Security System***

First, pension security regulatory system continues to improve. The “Law of the People’s Republic of China on Protection of the Rights and Interests of the Elderly” passed in 1996 listed comprehensive, specific provisions on pension security and the protection of interests of the elderly, and had a significant impact on the development of pension security. It provides that “the state and society should take measures to improve the social security system for the elderly, gradually improve their life, health and conditions for social development participation, in order to ensure the support, medical care, learning and enjoyment for the elderly”<sup>1</sup> In the security system, the laws and regulations from “Labor Insurance Rules” in the 1951 to “Social Insurance Law” in 2010 indicate the gradual improvement in pension security system. In this process, “Basic Pension Insurance System for Urban Workers” continues to improve; rural social pension insurance system is also constantly exploring and developing; urban and rural pension allowance system will be generally established, and the regulations on pension security services are also constantly improving (see Table 8.1). The coverage of pension security gradually expands along with the gradual improvement of the system. At the end of 2009, the population participating in urban basic pension insurance was 218.91 million, an increase of 17.54 million over the previous year; the rural population participating in basic pension insurance was 24.16 million, an increase of 5.7 million over the previous year; the corporate employees participating in basic pension insurance was 199.51 million, an increase of 17.16 million over the previous year; the population participating in rural pension insurance was 55.95 million, an increase of 4.24 million over the previous year; a total of 5.12 million farmers received pensions that year, 1.2 million more than last year.<sup>2</sup> By the end of 2012, the population participating in urban basic pension insurance was 304.27 million, including 229.81 insured in-service workers and 74.46 insured retirees. The number of migrant workers participating in basic pension insurance was 45.43 million. All county-level administrative regions carried out comprehensive national

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<sup>1</sup>See the “Law of the People’s Republic of China on Protection of the Rights and Interests of the Elderly” (passed in 1996).

<sup>2</sup>See Ministry of Human Resources and Social Security: “Statistical Communique on Human Resources and Social Security Development in 2009”.

**Table 8.1** Relevant laws, regulations and planning

Time	Name of laws and regulations (planning)	Promulgated by
December 14, 1994	“The Aging Cause in China Program for Seven Years (1994–2000)”	State Education Commission, Ministry of Civil Affairs, Ministry of Finance, State Development Planning Commission, the Ministry of Labor, Federation of Trade Unions, Ministry of Personnel, Ministry of Health
August 29, 1996	“Law of the People’s Republic of China on Protection of the Rights and Interests of the Elderly”	NPC Standing Committee
February 27, 2000	“Opinions on Speeding up the Realization of Social Welfare”	Ministry of Civil Affairs, the State Planning Commission, State Economic and Trade Commission, Ministry of Education, Ministry of Finance, Ministry of Labor and Social Security, the Ministry of Construction, Ministry of Foreign Trade, Ministry of Health, State Administration of Taxation
August 19, 2000	“Opinion of CPC Central Committee and State Council on Strengthening the Work for the Elderly”	CPC Central Committee and the State Council
July 22, 2001	“The 10th-Five Year Planning for The Aging Cause in China (2001–2005)”	State council
February 20, 2006	“Opinions on Accelerating the Development of Pension Security Service Industries”	Office of the National Committee on Aging, Development and Reform Commission, Ministry of Education, Ministry of Civil Affairs, the Ministry of Labor and Social Security, Ministry of Finance, the Ministry of Construction, Ministry of Health, Population and Family Planning Commission, State Administration of Taxation
August 16, 2006	“The 11th-Five Year Planning for the Aging Cause in China”	National Committee on Aging
January 29, 2008	“Opinions on Comprehensively Promoting Home Services for the Aged”	Office of the National Committee on Aging, National Development and Reform Commission, Ministry of Education, Ministry of Civil Affairs, Ministry of Labor and Social Security, Ministry of Finance, the Ministry of Construction, Ministry of Health, Population and Family Planning Commission, State Administration of Taxation
September 1, 2009	“Opinions on Carrying Out New Rural Social Pension Insurance Pilot”	State Council

(continued)

**Table 8.1** (continued)

Time	Name of laws and regulations (planning)	Promulgated by
February 5, 2009	On Soliciting the Public Comments on “Rules on Migrant Workers’ Participation in Basic Pension Insurance” and “Interim Measures on Transferring and Continuing Pension Insurance for Urban Enterprise Employees”	Ministry of Human Resources and Social Security
October 2010	“Social Insurance Law of People’s Republic of China”	NPC Standing Committee
June 7, 2011	“Guidance on Conducting Social Pension Insurance Pilot for Urban Residents”	State council
September 17, 2011	“The 12th-Five Year Planning for The Aging Cause in China”	State council
December 28, 2012	“Law of the People’s Republic of China on Protection of the Rights and Interests of the Elderly”	NPC Standing Committee
July 30, 2013	“Guiding Opinions on Promoting Old-Age Services Assessment Work”	Ministry of Civil Affairs
December 23, 2013	“Notice on Carrying Out Comprehensive Reform in Old-Age Service Industry”	Ministry of Civil Affairs, the NDRC
February 21, 2014	“Opinions on Establishing A Unified Basic Pension Insurance System for Urban and Rural Residents”	State Council

Source Summarized by the author based on publicly available data

social pension insurance work for urban and rural residents. The insured population was 483.70 million, of which the actual population receiving pension was 130.75 million.<sup>3</sup>

Second, the social pension system has been basically set up. With national economic and social progress, social security system gradually evolves from the traditional state-unit support to social security. In terms of the pension security, the security concept of the urban and rural elderly began to show a diversified trend along with the changes in economic and social environments, breaking the dominance of traditional concept of family support,<sup>4</sup> and the concept of social pension security gradually comes into shape. In addition to the traditional family support, the socialized pension security system has been basically completed. First, the coverage of pension security has expanded. By the end of 2012, the population

<sup>3</sup>See Ministry of Human Resources and Social Security: “Statistical Communique on Human Resources and Social Security Development in 2012”.

<sup>4</sup>Baoan [12].

participating in urban basic pension insurance was 304.27 million, an increase of 20.36 million over the previous year. Among them, there were 229.81 insured in-service workers and 74.46 insured retirees, an increase of 14.16 million and 6.19 million over the previous year respectively. The number of migrant workers participating in basic pension insurance was 45.43 million, an increase of 4.03 million over the previous year. Second, the urban and rural basic pension insurance system has achieved full coverage institutionally. All county-level administrative regions carry out national social pension insurance for urban and rural residents in a comprehensive way. At the year end, the insured population was 483.70 million, an increase of 151.87 million over the previous year, and the actual population receiving pensions was 130.75 million.<sup>5</sup> Third, market-oriented enterprise annuity system and commercial pension insurance system saw the rapid development. By the end of 2012, there were 54,700 enterprises having established enterprise annuity, an increase of 21.8% over the previous year; the number of participating workers was 18.47 million, an increase of 17.1% over the previous year; the accumulated enterprise annuity fund balance at the end was 482.1 billion yuan.<sup>6</sup> Commercial annuity insurance has become one of the fastest growing commercial insurance products, and further enhances the status of insurance funds in the capital market. Finally, the elderly welfare system with old age pension and allowance as representative continues to expand, effectively improving the living standards and quality of life of the elderly. Some wealthy seniors are considering institutional or community care. The concept of social pension helps reduce the burden on families and also provides better security for the elderly.

Third, old-age service system undergoes rapid development. In the process of developing pension security, China has begun to focus on the development of old-age service system to meet various service needs of the elderly. In 2000, the State Council promulgated the “Opinions on Speeding up the Socialization of Social Welfare” which included relevant provisions on the socialization of pension benefits. In November 2010, Ministry of Civil Affairs held a national social elderly care service conference in Wuxi, Jiangsu Province, which is of great significance for promoting the construction of social care service system. In pension services, Beijing, Chengdu, Guangzhou, Shanghai and other cities have carried out several explorations and gained valuable experience.<sup>7</sup> By the end of 2009, the number of various types of elderly welfare institution reached 38,060, an increase of 908 over the previous year. Among them, 5291 urban pension service adopted 323,000 old people at year end; 31,286 rural pension service institutions adopted 1.73 million old people at year end; 1401 homes for disabled veterans adopted 46,000 old people at year end; 47 honorable military rehabilitation hospitals adopted 4000 old people

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<sup>5</sup>See Ministry of Human Resources and Social Security: “Statistical Communique on Human Resources and Social Security Development in 2012”.

<sup>6</sup>Ministry of Human Resources and Social Security: “Statistical Communique on Human Resources and Social Security Development in 2012”, website of Ministry of Human Resources and Social Security.

<sup>7</sup>See Wang Lianxin: “*Report on Pension Security Service System Research*”.

at year end; 35 sanatoriums for demobilized soldiers adopted 4000 old people at year end.<sup>8</sup>

Fourth, financial investment in pension security is increasing. The state financial investment in pension security is also rising with the growing elderly population. There is a substantial increase in the expenditures for the retired elderly after the 1990s. The expenditure for the retired elderly was only 39.62 billion yuan in 1990, and it rose to 525.32 billion yuan in 2005, an increase of 12 times over 15 years.<sup>9</sup> Financial subsidies to social insurance fund rose from 2.155 billion yuan in 1998 to 177.67 billion yuan in 2009, an increase of 81.44 times, and the subsidies to social insurance fund in 1998–2009 totaled 1.09158 trillion yuan.<sup>10</sup> Most of state financial subsidies to social insurance fund expenditure went to pension expenses.<sup>11</sup> At the same time, a variety of social pension insurance funds have become an important part of the expenditure of public funds. The total revenue of urban basic pension insurance fund was 2.0001 trillion yuan in 2012, an increase by 18.4% over the previous year, of which the collection contributed 1.6467 trillion yuan, an increase by 18.0% over the previous year. The financial subsidies to basic pension insurance funds at all levels totaled 264.8 billion yuan. The total annual expenditure was 1.5562 trillion yuan, an increase of 21.9% over the previous year. Pension security expenditure and pension expenditure accounted for about 20% of the expenditure of public funds.<sup>12</sup> Meanwhile, the benefits from pension security and a variety of social insurance also become an important source of income for rural and urban residents. According to our household survey, 14.5% of urban and rural residents' incomes were from social security in 2012, and most of the incomes for the retired elderly come from pensions.<sup>13</sup> The increasing financial investment in pension security plays an important role in expanding pension coverage and improving the level of pension security.

### ***8.1.3 Major Problems in Chinese Pension Security System***

Chinese pension security system has made some achievements after several years of development and played an important role in guaranteeing and improving the quality of life of elderly people. However, there are still many problems and limitations in Chinese pension security system, and the current supply of pension

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<sup>8</sup>Ministry of Civil Affairs: "Statistical Communique on Civil Affairs in 2009".

<sup>9</sup>Zhu et al. [13].

<sup>10</sup>Wang and Long [14].

<sup>11</sup>Take the data in 2009 for an example, the national fiscal subsidies to social insurance fund were 177.673 billion yuan, of which 143.7 billion went to basic pension insurance fund, accounting for 81%.

<sup>12</sup>Ministry of Human Resources and Social Security: "Statistical Communique on Human Resources and Social Security Development in 2012", website of Ministry of Human Resources and Social Security.

<sup>13</sup>Wang et al. [15].

security can hardly meet the growing demand. The following problems need to be solved in its future development.

First, there are still many difficulties in economic security for the elderly. It is the need and the right of the elderly to get adequate income, maintain basic living and improve the quality of life in later years. Economic security is directly related to the survival and well-being of the elderly. Although the rapid economic growth and constantly growing national income create relevant conditions, economic security for the elderly is still not satisfying. There are differences in incomes of the elderly in rural and urban areas. The annual per capita income of the urban elderly was 12,805 yuan in 2005, slightly higher than the national per capita income of urban residents (11,321 yuan), but significantly lower than the average wage (18,200 yuan) at that point; the per capita annual income of rural elderly people was 2936 yuan in 2005, significantly lower than the per capita income of rural residents (3255 yuan) of the same year.<sup>14</sup> The income sources of the elderly include market income, pension income, public transfer income, household transfer income and other incomes; with the rapid loss of ability to work and innovation of science and technology, the elderly's market income relying labor will continue to get reduced, and they have to rely on other sources of income. According to the survey, less than 20% of those in advanced ages (over 80 years old) enjoy retirement payments, and only about 7% rely on social assistance. However, the remaining 71.4% rely on their children and grandchildren as financial resources, and their socio-economic security rate is 17% lower than the average, with less than 500 yuan per month which is just enough to maintain basic living.<sup>15</sup> Due to the limitations in pension security system, the narrow coverage, the changes in family structure and the growing family burden, it is difficult for the elderly to get incomes from family and government sources; in particular, the majority of the rural elderly find it even more difficult to obtain pension security income from the state. By the end of 2009, the population participating in urban basic pension insurance was 23,550, and the employed population was 77,995. The insured population accounted for only 30.2% of all the employed population, and only less than a third of employees participated in urban basic pension insurance.<sup>16</sup> In rural areas, the exploration of new rural social pension insurance pilot just begins. Only 86.91 million people participate in rural social pension insurance, and the vast majority of rural residents do not. If 52.93 million retirees and 16.414 million people living on minimum subsistence allowances are subtracted from 159 million nationwide aging population, 80 million people are not covered by institutional arrangements of pension insurances. According to the population sampling survey in 2007, the elderly aged 70–79 accounted for 4.57% of national population, amounting to 50 million or

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<sup>14</sup>Data is from the tracking survey on the status of urban and rural elderly population in 2006, see Zhang and Guo [16].

<sup>15</sup>Liu and Chang [17].

<sup>16</sup>The data is from the Ministry of Human Resources and Social Security: "Statistical Communique on Human Resources and Social Security Development in 2009".



more; 1.43% are over 80 years old, amounting to 18 million; even if 20 million or more retirees and people living on minimum subsistence allowances were excluded, there were still about 40 million over-70 people out of the institutional arrangements of pension insurances.<sup>17</sup> The limitation in financial security for the elderly affects the quality of their life and even puts many elderly people into poverty, let alone enable the elderly to share the fruits of economic and social development.

Second, elderly health care is far from satisfying. As mentioned earlier, compared with adults, elderly people face a much higher risk of disease. While the elderly suffers physical and mental pains, the state and government should establish appropriate security mechanisms to reduce the elderly's fear for disease. When current urban and rural medical security system is not well developed nowadays, the health care of the elderly is far from satisfying, and some will plump into poverty in the case of low incomes, which tends to increase the family burden. Currently, the imperfect health care system makes the health care for the elderly far from satisfying, and there is still a long way to go. At present, although China's health care system has achieved remarkable results in coverage, yet many problems still need to be solved before arriving at its real effects. The current health insurance system is not fair enough, lacking appropriate policy support for the elderly and other weak groups. The health care system design, especially compensation mechanism design, still exposes many deficiencies, such as lack of mutual aid role of individual accounts, unreasonable compensation ways, narrow coverage, low reimbursement levels, and excessive reimbursement restrictions.<sup>18</sup> In terms of medical services, the problem is mainly reflected in that primary care services are still weak, medical staff are lack of service awareness and medical prices are too high, making it prominently "expensive and difficult to receive medical treatment". In terms of medical expenses, according to the survey, only 13.8% of senior citizens (over 80 years old) enjoy free medical care, and the rest have to rely on themselves and their families. This situation is more serious in rural areas. Only 4.1% of senior citizens enjoy free medical care, and 95.5% have to rely on themselves and their families. Medical expenses bring great pressures to the elderly and their families and constitute an important reason for the decline in the quality of life of the elderly.<sup>19</sup> In addition, there are many restrictions and inconveniences when the elderly receive medical treatment in other places; more efforts are still needed in the education and chronic disease prevention for the elderly; there is a lack of health promotion and intervention mechanisms for the elderly. How to strengthen future health care for the elderly and improve the quality of their life remains an important task in the development of China's endowment insurance system.

Third, elderly service security still is lagging far behind. Despite the development and progress in elderly service system, there are still many problems and it is

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<sup>17</sup>See Ministry of Civil Affairs: "Report on Strategic Planning for China's Basic Old-Age Service System Construction" (draft).

<sup>18</sup>Wang and Long [18].

<sup>19</sup>Liu and Chang [17].

difficult to meet the service needs of the elderly. Especially in the case of growing demand for elderly services, the contradiction between elderly service security supply and demand has become increasingly prominent. Currently, the problems in elderly service security are mainly reflected in these aspects: First, the development of pension system lacks a systematic planning. Although the state authorities have introduced a number of planning and opinions on this regard in recent years, yet so far, there is no systematic planning for pension security system construction, making the development of pension security system lack of macro guidance. Second, the investment in elderly services is inadequate and there is a lack of fund security mechanism. In the current shortage of social security investment, limited financial fund mostly goes for the construction of pension insurance system, and only a little is used for elderly services. Some planning and opinions just strengthen the improvement of financial investment in principle, but fail to propose any clear financial investment guarantee mechanism. Third, the elderly service institutions are insufficient, causing prominent contradictions between supply and demand. In December 2009, Dou Yupei pointed on the 5th National Nursing Home President Forum that China would be faced with a grim aging population problem for a long period in the future, and the social demand for elderly service institutions and professional care personnel would increase dramatically. But now, China faces a serious shortage of elderly service institutions and personnel, far from meeting the needs. In accordance with the international average 50 beds per thousand old people, it is estimated that a total of 8 million elderly service beds are needed. However, there are only 2.5 million beds nowadays, a shortfall of 5.5 million. There are still many problems in the management and operation of old-age service institutions, such as immature system, unprofessional staff and fund shortage, etc.<sup>20</sup> Fourth, there is a serious lack of elderly service personnel. At present, China's urban disabled and semi-disabled elderly accounts for 14.6% of the total, while it is more than 20% in rural areas. This people require professional care and attention. According to the ratio of 3 old persons to 1 caregiver, China needs about 10 million elderly service nurses. However, there are only 220,000 workers at nursing homes in China, of which only 20,000 have obtained vocational qualifications. The current supply is too little compared with the potentially huge demand of tens of millions disabled elderly, and even cannot meet needs of 2 million people in nursing institutions.<sup>21</sup> The pension security backwardness is more prominent in rural areas. It becomes extremely urgent to strengthen elderly service security system construction in the context of the growing aging population and the weakening family support.

Fourth, there is also an extreme shortage of elderly mental security. Compared with the economic security and service security, mental security for the elderly is in greater need. The elderly needs more spiritual solace compared with adults, and the

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<sup>20</sup>Wu [1].

<sup>21</sup>See Ministry of Civil Affairs: "Report on Strategic Planning for China's Basic Elderly Service System Construction" (draft).

mental security problem of the elderly is even more important along with economic development and constantly improved living standards; if not handled properly, it will affect the quality of their life, and there will be more and more aging-society problems. The absence of elderly mental security is mainly reflected as follows: First is the understanding of the society on mental security. It is believed that the pension security is mainly on material and economy levels, at most, with some life care and service (you can pay others to do this), and that this will meet their needs; it is also believed that spiritual solace is the high-level need and a luxury for the elderly, and it is dispensable based on economic conditions. The mental security of the elderly is likely to be overlooked under the influence of such beliefs. Second, the reality weakens the family's spiritual support for the elderly. With the acceleration of urbanization, the mobility and pace of life also accelerates, and young people are busy all year round and likely to overlook the care and mental comfort for the elderly. Especially some elderly people separate and cannot get care from their children for many years, and will feel very lonely,<sup>22</sup> and even catch some psychological problems. This problem is more prominent especially in the core and small families. Third, the government fails to take effective measures to solve elderly mental security problems. Despite the emphasis on mental security of the elderly in a number of laws and regulations, the government does not take forceful measures to ensure the mental security of the elderly in reality; it does not pay sufficient attention to mental security problems of the elderly and offers no guidance in terms of family and social mental support for the elderly. Thus, some old people have to resort to the court to force their children to go home and see them. The government also fails to fulfill its obligation in directly providing mental security for the elderly, such as constructing entertainment facilities and organizing social activities for the elderly. Fourth, there is a lack of specific standards for elderly mental security and specialized personnel providing mental security services. In addition, the role of social organizations and relevant relative groups in pension security is also worth strengthening.

## **8.2 Preliminary Thoughts on the Construction of Trinity Pension Security System**

### **8.2.1 Major Objectives of Building Chinese Pension Security System**

A clear, scientific and rational development objective is the premise of developing Chinese security system for the aged. In response to the challenges of an aging population, a number of international organizations propose the related concept of aging, including "healthy aging" and "active aging". As for "healthy aging",

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<sup>22</sup>Luo and Peng [2].

the World Health Organization put forward this concept in 1990 and its three criteria as well: First, physical health; second, mental health; and third, a good state to adapt to the society. On “active aging”, the Political Declaration of United Nations Second World Assembly on Aging gave a definition of active aging on April 12, 2002: the process where the old people maximize the benefits of health, participation and security opportunities in order to improve the quality of life. Active aging is based on the recognition of human rights of the elderly and the United Nations’ principle of independence, participation, dignity, care and self-realization. “Positive” stresses the continuing participation in social, economic, cultural and public affairs.<sup>23</sup> These two concepts mainly emphasize the physical and mental health, social participation and rights of the elderly. On this basis, we can also take “happy aging” as the policy target of an aging society, which is a target on a higher level than “active aging” and “healthy aging”. It emphasizes the overall improvement of the elderly’s life quality, so that they could enjoy the joy of the later life based on physical and mental health, social participation and rights. In fact, the “Law of People’s Republic of China on Protecting the Rights and Interest of the Elderly” put more clear and more specific objectives for the pension security system, namely, “they are provided for, have access to necessary medical care, have opportunities for their own pursuits and studies and enjoy themselves”. Based on these, this paper puts forward the four main objectives in developing Chinese future pension security system.

First, relieve the economic worries of the elderly. This is for economic security and serves as the basis in developing the pension security system. Economic security is the fundamental need of the elderly, and the security system should provide basic necessities of life for the elderly to protect their basic economic needs. To relieve the economic worries of the elderly is not just a matter when they really get old, but should be appropriately prepared before and after getting old. Only in this way can it cut the elderly’s worries before getting old and access to economic security after it.

Second, relieve the physical and psychological pains of the elderly. This is mainly for physical and mental security. The elderly is more vulnerable to the risk of mental disorders and diseases. To strengthen the security system for the aged, we should strengthen health education and prevention of chronic diseases for the elderly through the appropriate institutional arrangements and capital investment, and enable them to access adequate health care after catching diseases, thus relieving their sufferings. We should also establish and improve elderly mental security mechanisms to provide effective mental security for the elderly. Only when the physical and psychological pains of the elderly are relieved or eliminated can they have a better mental state.

Third, ensure sufficient service supply for the elderly. This is mainly for elderly service security. Due to the declining body function and self-care ability, the elderly needs more care services. Currently, the elderly service system is still in great

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<sup>23</sup>Wang [3].

shortage in the development of the pension security system, and can hardly meet the growing demand for services among the elderly. The lack of services for the elderly has a serious impact on their lives. The government should take the lead in the future to double the efforts in system planning, personnel and funding, so that the elderly people can receive timely, effective and adequate elderly services.

Fourth, ensure the happiness of the elderly. This is a high-level target in developing the pension security system. The security system should not be just confined to basic livelihood security, but it ought to take into account their economy, health, service, mental state and community involvement, thereby giving the elderly a happy life in the old age. Particularly along with constant economic and social development, pension security should also be constantly improved.

### ***8.2.2 Principles for Building a Trinity Pension Security System***

China should follow the following basic principles in building the pension security system.

First, combine fairness and efficiency. Fairness, justice and sharing are the basic values of the social security system,<sup>24</sup> and the pension security system as an important part of the whole social security system should follow the principle of fairness. The pension security system should cover all the elderly regardless of their census register, gender, ethnicity, region, professional background and other factors, and constantly improve the level of pension security while ensuring their basic economic security, health security, service security and mental security, so that the elderly can share the achievements of reform and development in a fair way with other groups. Efficiency should also be emphasized on the basis of fairness principle. There is no real fairness without efficiency. The development of pension security system needs to introduce market forces to mobilize more resources to improve the efficiency of pension security. In addition, it should also pay attention to the differences and diversity of the needs of the elderly. The pension security system needs always to stick to the fairness and efficiency principal throughout the entire process, and any bias is not desirable.

Second, combine government guidance and social participation. To achieve “a sense of security” and develop a pension security system is the bounden duty of governments at all levels. In developing the pension security system, the government must play a major role in legal improvement, policy development, investment increase, personnel training, supervision and management, organization and coordination and other aspects. The development of pension security system cannot achieve good results and the corresponding results cannot be realized without a strong government leadership. But the total reliance on the government is also not

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<sup>24</sup>Zheng [4].

desirable, for the development of the pension security system needs the participation of a variety of social forces. It needs to take advantage of market mechanisms and social resources and guide the participation of businesses, nonprofit organizations, volunteers and other forces, which will further increase the supply of pension security and improve the quality of pension security. Of course, even when the market and social forces play their parts, we still need the government to play a role in guidance, policy support, supervision and management, etc.

Third, be compatible with the level of economic development. The development of a pension security system must be compatible with the current level of economic development, and the security system excessively lagging behind or ahead of the level of economic development is unsustainable. If it lags far behind economic development, the pension security system will be incomplete and on low levels, and it is hard to achieve the target and difficult for the elderly to share the fruits of economic and social progress, which is contrary to the purpose of economic and social development. At present, the Chinese pension security system is lagging far behind economic development, and the government needs to play the major role in increasing the investment to improve it as soon as possible. Conversely, if the pension security system is over ahead of economic development, it will bring burdens to economic development, which will not only hinder economic development but also affect the sustainable development of the pension security system. Nowadays, when China gets “old before getting rich”, the pension security system still has a long way to go, which requires more investment. But, this should be done appropriately so as to keep pace with economic development.

Fourth, focus on the diversified needs of the elderly. Older age groups show differences, and therefore the demands for pension security also vary. The elderly of different ages (the oldest and younger elderly), genders, education levels, incomes, health statuses, regions and nationalities have different needs for pension security. The pension security system should not be the same for different people, and we should make the pension security more targeted, more efficient, more multi-levelled and more diversified. For the younger elderly, they should be guided to participate in social welfare activities; for some senior citizens, their health care and geriatric services should be strengthened; for the elderly with good health, they can be provided with opportunities for employment; and for the elderly with low incomes, economic security should be strengthened; for empty-nest elderly, economic security, service security and mental security should all be enhanced; for the high-income elderly, they should be encouraged to purchase services available in the market. While paying attention to the different needs, we need to provide a consistent, universal, basic pension security for the elderly, such as establishing a fairly shared pension system and health care system and improving community care service facilities.

Fifth, respect the participating role of the elderly. The elderly is the object of pension security and also one of participants in pension security. While grasping their different needs and providing targeted pension security for them, we should also respect their participating role and reduce their reliance on the state and family. We should encourage some able-bodied younger elderly to get some economic

incomes through appropriate labor; encourage some older people to engage in community welfare activities and cultivate old-age volunteer team; encourage the “younger old” to take care of the “advanced old”; establish and improve older people’s associations to increase their participation in social and sports activities. The respect for the participating role of the elderly is also the inevitable requirement to offer them “opportunities for their own pursuits and enjoy themselves”.

Sixth, carry forward the traditional endowment culture. Old saying goes, “children should not travel afar when living with parents” and “respect others’ parents just as my own parents and love others’ children just like my own children”. Respecting and caring for the elderly is a fine tradition of the Chinese people and has a long history. The concept of filial piety can be traced back to the word on bones or tortoise shells of the Shang Dynasty. According to *Shuo Wen Jie Zi*, “filial piety” is being kind to the elderly.<sup>25</sup> In *Book of Filial Piety*, Confucius regarded the respect for the elderly as the nature of human beings, and he said that “human being is the most important in the world, and the most valuable behavior of human being is filial piety,” “filial piety is the unalterable truth in the cosmos and the foundation of common people.”<sup>26</sup> According to Confucius, the respect for the elderly falls on three levels: “filial piety falls into three types: the greatest is to respect them, followed by not to shame them, and then by just able to support them.” That is, to respect parents is the greatest filial piety, not to let them humiliated is the moderate “filial piety”, and only to support them is “small filial piety.” According to Mencius, “the greatest deed of Yao and Shun is nothing but filial piety,”<sup>27</sup> which reflect the importance of filial piety and respect for the old. The traditional filial piety and endowment culture plays an important role in the economic, service, mental security of the elderly. However, with the development of productive forces and the changes in economic and social environment, especially with the accelerated process of industrialization, the traditional endowment culture begins to weaken,<sup>28</sup> bringing new issues to the development of pension security. When developing pension security system in the future, we still need to stick to our traditional culture of respecting, caring, loving and supporting the elderly to provide them with better security.

### 8.2.3 *Specific Contents of Chinese Pension Security System*

Based on the previous analysis, this paper explains some ideas on building Chinese pension security system. Overall, the pension security system should cover

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<sup>25</sup>Xu [5].

<sup>26</sup>*Book of Filial Piety*, translated and annotated by Wang Shoukuan, Shanghai Ancient Books Publishing House, 2007, pp. 28–40.

<sup>27</sup>Li and Lv [6].

<sup>28</sup>Yao [7].

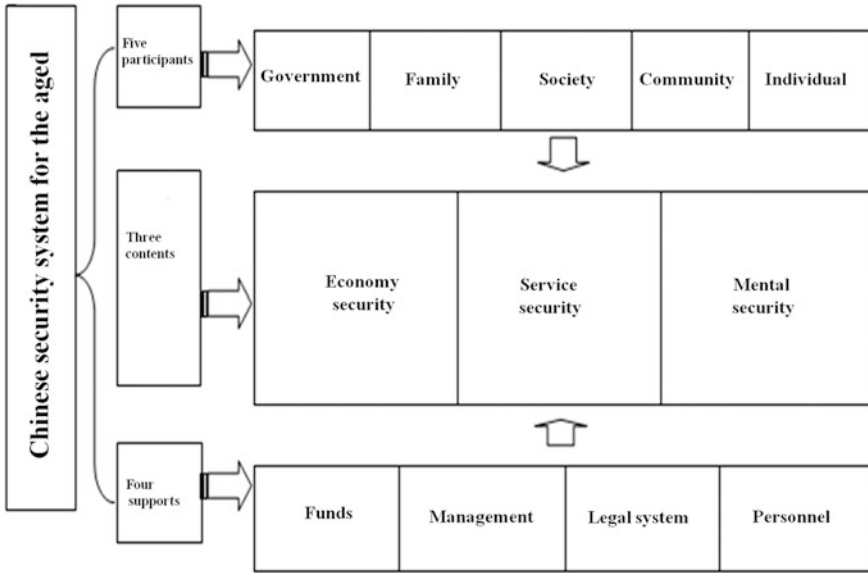


Fig. 8.1 Chinese pension security system

economic security, service security and mental security, which requires funds, institutions, management and talent as support and demands the participation of the government, family, society, communities and individuals (Fig. 8.1). The following will discuss the specific content of building Chinese security system for the aged.

### 8.2.4 Three Contents

Chinese pension security system includes the following three aspects:

One is economic security. Economic demand is the basic needs of the elderly, and lack of income (poverty) is one of the risks for the elderly. Only by ensuring the elderly has no economic worries will they have a happy life in later years. Thus, adequate and reasonable economic security is a prerequisite for a happy life of the elderly. Economic security should be the priority in the process of building the pension security system. We need to establish a scientific economic security mechanism to ensure that the elderly will have a sufficient and stable source of income to sustain life in their later years. The provision of basic economic security for the elderly is one of the government’s responsibilities, and the government must establish and improve various pension security systems and elderly benefits as soon as possible. At the same time, the government also takes some mandatory measures to ensure that the children will provide certain economic security for the elderly. The economic security should be compatible with economic development.



A too low security level can hardly achieve desired effects, while a too high security level will be burden on the government and the family and not conducive to its sustainable development. Economic security should show certain urban-rural, regional and occupational (before the old age) differences on the basis of the basic economic security.

Second, service security. Service security is essential to helping the elderly get through the old age with improved quality of life. We should, under the guidance of the government, establish appropriate regulatory systems and service agencies, to provide comprehensive, specialized, multi-level service security for the elderly with the participation of governments, families and communities. Service security needs to focus on the life care and medical care for the elderly in advanced ages. It should combine paid and unpaid patterns. For the “five guarantees” or the elderly with no family or in poverty, we should offer some basic free services; for a number of relatively high-income elderly, we encourage market purchases (especially some non-essential care services), but the government needs to strengthen market supervision and provide some policy support. Compared to economic security, service security has higher requirements, is more specialized, and needs certain services techniques and a large number of professional service personnel.

Third, mental security. Mental need is one of the essential needs of each normal person. Compared with adults, the elderly needs more mental security, and the mental emptiness and loneliness easily lead to senile mental illness and social problems. But in reality, people tend to focus on economic security while ignoring the mental security of the elderly, and believe that mental security is a high-level need and a luxury that can be ignored rather than the basic need of the elderly. This is a wrong perception. Just as the other securities, mental security is also important for the elderly and directly related to the quality of life of the elderly. Mental security may come from formal and informal channels. The formal mental security channel mainly refers to the government. The government at all levels should play a role in the mental security for the elderly by introducing appropriate laws and regulations, strengthening mental security investment and personnel training, and vigorously promoting the attention to mental security for the elderly. Meanwhile, mental security from family, relatives, society and other informal channels is also very important, of which family is a particularly important source of mental security and its role in mental security needs to be particularly strengthened.

Economic security, service security and mental security are indispensable to the pension security system. They interact with and influence each other and also show a certain hierarchy. Economic security is the foundation and has an impact on service security and mental security. Economic security has a direct impact on the quality of service security. A better economic security can enhance the availability and quality of service security; economic security is also directly related to the quality of mental security, and the elderly without economic security can hardly be regarded as happy. Service security is the carrier of pension security and closely linked with the lives of the elderly; if there is just economic security without necessary service security, the life of the elderly will meet some trouble, affecting their quality of life; service security is also directly related to the mental life of the

elderly. Mental security is on a relatively high level but also an integral part of pension security. Mental security includes a part of economic security and service security, and the quality of economic security and service security is directly related to that of mental security.

### **8.2.5 Four Supports**

Whether it is economic security, service security or mental security, the following four supports are needed in order to truly meet the needs of the elderly and guarantee a satisfying effect.

First, appropriate funds. You can never make bricks without straw. Adequate funding is a fundamental prerequisite for building pension security system. Insufficient investment is an important bottleneck restricting our pension security system, and the future development of the pension security system needs to raise funds from multiple channels. The government plays the major role and needs to increase financial investment and take pension security system building as an important part of people's livelihood and economic transformation. Meanwhile, it needs to absorb social investment and encourages social forces to participate in the construction of pension security system. It also needs to establish reasonable burden-sharing mechanism, and the elderly pays certain fees at work. It should be noted that fund raising and investment should always be compatible with economic development, and that a too low or too high investment is not conducive to the sustainable development of the security system.

Second, an improved legal system. An improved legal system is an important guarantee for the sustainable development of the pension security system. Despite some progress, the legal system for China's security system is still lagging behind, which calls for further strengthening. Legal construction for pension security includes: establishing and improving universally-covered and fairly-shared pension system; establishing and improving old-age benefits system to enable the elderly to share the results of economic and social development; establishing and improving elderly services system to ensure the fairness, efficiency and standardization of the services for the elderly; establishing elderly mental security system, which is a new requirement of economic and social development for security system building. If conditions permit, we can consider developing a comprehensive "Pension Security Law" to specify economic security, health security, service security, mental security for the elderly.

Third, efficient management. That is, to establish a scientific, rational, and efficient pension security management system and mechanism so as to ensure the good organization and management of the pension security system and improve its fairness and efficiency. Currently, pension security management confronts certain problems such as department separation, vaguely defined responsibilities, inadequate operational mechanisms and inefficient management. In the case of growing pension security demand and constantly improved market economy system,

we need to further strengthen pension security management system construction in the future, further clarify the specific responsibilities of administrative management, financial management, operational management and service management, and establish a pension security management system with clear responsibilities, scientific management, efficient operation and strict supervision.

Fourth, professional personnel. The fund-raising and management of pension security as well as the provision of service security and mental security all need professional talents. It can be said that the quality and efficiency of the pension security is directly related to the quality of people. From a practical point of view, there is still a shortage of all kinds of professional talents for pension security, and there is an urgent need to strengthen the training of professional pension security personnel. The security personnel mainly include agency personnel, health care personnel, social workers, service institution management personnel. The institutions of higher education need to offer relevant majors to strengthen the cultivation of pension security professionals, or carry out short-term training on a regular basis to combine theory with practice and enhance the practical abilities of various professionals.

### **8.2.6 Five Participants**

The development of pension security system needs the participation of government, family, society, community and individual.

Government. The government is the most important participant in the pension security system, and its attention paid to the security system directly influences the development of the latter; the government's overall planning directly determines the direction of the latter; the government's financial investment directly determines the level of the latter; the government's supervision and management directly determines the sustainable operation of the latter. Government is the planner, organizer, manager and supervisor of the security system for the aged. The development of security system always needs the government to play a leading role and guide other forces to provide adequate human, material and financial resources for its development.

Family. Family support has been the dominant way to support the elderly, and it is still an important participant in modern pension social security system. Family is where the elderly spends their life and the best place for solace, which can hardly be substituted by other participants. The family still remains an important force to provide financial security for the elderly, and especially in rural areas where the pension security system is not mature, the elderly's (especially those in advanced ages) income mainly comes from their children. Family is also an important service provider for the elderly, and the elderly service provided by families will have better results than that by other institutions or personnel, prone to a sense of intimacy and spiritual solace. Therefore, the role of the family should be consolidated while socializing the pension security system.

**Society.** As a member of the society, the elderly should get corresponding social support and help. The development of pension security system needs social forces under the guidance of the government which can mobilize social resources to provide more and better security, including financial support, elderly service, and mental solace. We need to nurture and mobilize some non-profit organizations and voluntary organizations to offer their help, encourage members of society to provide assistance for the elderly, and can even encourage some for-profit organizations to provide services for the elderly thus increasing the diversity of pension security offers.

**Community.** The community refers to the living community in a certain geographical area for a number of inherently interacted residents. The community is closely related to people's lives and offers a variety of convenience for their lives. Similarly, community is an important provider of services and mental solace for the elderly. Community can provide for the elderly various convenient and friendly services, and it is easier for older people to participate in interactive activities in the community and thus enhance their sense of participation in society. To enable the elderly to participate in community outreach activities and sports activities within their capacity is also an important way to give them "opportunities for their own pursuits and enjoy themselves".

**Individual.** The individual here mainly refers to the elderly themselves. Although the elderly is the object of old-age security, but they are not entirely negative and passive, but should take the initiative to do something in their own ability in order to reduce the burden on the government, family and society as far as possible. In particular, some "young elderly" still having certain ability to work should work appropriately to obtain some incomes. This is the requirement of old-age security and also the need to make full use of human resources.

### **8.3 Giving Full Play to the Role of Government in Building a Trinity Pension Security System**

To develop security system for the aged and provide comprehensive, all-round and high-quality pension security for the elderly is an important task in China's social security reform and developing people's livelihood, and also the requirement of building of a harmonious society and transforming economic development patterns. Government is the most important participant in developing the pension security system, and both the property of pension security system and the function of the government demand that the government should play its role in the pension security system.

The pension security system is of prominent public nature. If seen from the definition of public goods, the US economist Paul Samuelson issued in 1954 "The Pure Theory of Public Expenditure" where the pure public goods or services are defined as: any person's consumption of such goods or services will not reduce the

other's consumption of such goods or services.<sup>29,30</sup> Thus, it is known that public goods have two characteristics, namely the "non-exclusive" and "non-competitive." But Samuelson's definition mainly refers to pure public goods, and in reality, there are still a large number of products ranging between pure public goods and private goods. In *Public Finance in Democratic Process*, Buchanan argued that "any goods or services that the group or social group decides to be provided by collective organization for any reason are defined as public"; "this broad category includes the so-called 'pure public' goods by Samuelson and others, and also other goods and services with public degree ranging from 0 to 100%."<sup>31</sup> In other words, there are a number of non-exclusive and non-competitive products in varying degrees.

As can be seen from the above definition, the vast majority of contents of pension security system are of prominent public nature, and are pure public goods or quasi-public goods. Due to the complexity of the security system for the aged, it is difficult to make a precise definition. If unbundled, the basic pension security is public goods or quasi-public goods, such as basic elderly economic security, basic old-age health care, basic elderly services and basic mental security. However, non-basic pension security shows quasi-public or non-public nature (private nature), such as supplementary pension insurance, annuity, commercial pension insurance, and home elderly services. On the whole, the public nature of pension security system is greater than its non-public nature, and the development of pension security system is of great social and public nature. Even the contents of private nature in the pension security system also need government support and supervision in order to ensure security quality and efficiency. Especially when the current market economy in China is not well developed nowadays, the government is more needed to play a role in the pension security system.

Not only does the nature of pension security require the government to play a role, but the function of the government its own demands it should establish and improve the pension security system.

In the studies of government functions, Keynes elaborates his state intervention ideas in *The General Theory of Employment Interest and Money*. He believes that the market alone cannot solve the problem of lack of effective demand, and thus the active state intervention is demanded to stimulate effective needs in order to achieve full employment and promote economic growth. In the specific policy, he advocates high progressive tax policy to help the unemployed and the poor through fiscal transfer payments and to redistribute the income to increase the propensity to consume; he advocates the socialization of investment and direct investment by the state; the state should create jobs and solve the unemployment problem through public projects to increase consumption.<sup>32</sup> Keynes' theory of government function is a direct reflection of the role of government in old-age security system, and it

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<sup>29</sup>Paul [8].

<sup>30</sup>Samuelson [9].

<sup>31</sup>James [10].

<sup>32</sup>John [11].

plays an important role in establishing and improving pension security systems in many countries.

A market economy needs to give play to the basic role of the market in allocating resources and also needs the government to strengthen market regulation and macro-control to prevent “market failure”. Especially for some products that the market is unwilling to provide, have low economic efficiency but are closely related to the interests of people, the state should directly provide or purchase them. In improving the socialist market economic system, China puts forward the goal of transforming government functions to establish a service-oriented government and give full play to the role of government in economic regulation, market supervision, social management and public services. Those functions of government are closely related to the development of the pension security system, and it is an important task of the government’ economic regulation and transformation to establish and improve the security system for the aged; the market provision of pension security and allocation of pension security resources need the government to strengthen market supervision; it is an important part of strengthening social management and building a harmonious society to establish and improve the pension security system; it is an important part of government’s public service function to establish a fairly shared pension security system. Thus, the establishment and improvement of pension security system is an important duty of the government, and we should give full play to the role of government in this process.

Currently, there are still some limitations in the government’s development of pension security system, which is an important cause of inadequate security system development and supply-demand contradiction. The limitations are as follows: vague positioning and responsibilities; absence of role in overall planning and coordination; absence of role in legal system construction and policy development; absence of role in financial investment; absence of role in organization, implementation and supervision.

The future development of pension security system must give correct and full play to the leading role of the government in order to provide quality, efficient and available security for the elderly. The government needs to strengthen the publicity, guidance and overall planning of the security system, further improve related regulations and policies, improve its financial input mechanisms, and give full play to the role in implementation, management and supervision.

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