
ENTERPRISE PENSIONS IN CHINA: HISTORY AND CHALLENGES*

X. Y. Zhang, Institute for Fiscal Research, Ministry of
Finance, Beijing

ABSTRACT

Since the establishment of the People's Republic of China by the Communist Party in 1949, the government has introduced a social welfare system for both urban and rural populations. Before the economic reform and the open door policy that started at the end of the 1970s, enterprises were not concerned about the effect of their payments because their budgets were not completely separated from the government budget. After more than 50 years of changes and reforms to the pension system, the current system in China is still dominated by the public pillar, a largely urban-based, contributory, partially funded and defined contribution system. For the mainstream of the urban working population, the social security system provides the main source of assistance for maternity, medical service, unemployment, work injury and old-age pensions. This paper focuses only on the old-age pension scheme. The evolution of the Chinese insurance-based state pension system is described. As readjustments and restructuring are taking place in politics as well as in the economy, the current pension system faces many challenges, which are also discussed and suggestions are made for further reforms for addressing these challenges.

1. THE STATE PENSION BEFORE THE ECONOMIC REFORM

There were no formal arrangements for retirement in China until after 1 October 1949, when the People's Republic was established. This section describes the evolution

* I thank Professor Bhajan Grewal for valuable suggestions for the improvement of this paper. Comments received from an anonymous referee were also gratefully accepted.