Economic Driven Old-Age Insurance Policies for Migrant Workers in China and Their Structural Consequences

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ABSTRACT

This article examines China’s welfare policy, particularly the old-age insurance policy for migrant workers chronologically including the latest welfare policy under the backdrop of economic development. This article also analyses four typical current models for migrant workers’ welfare and old-age insurance and the encouraging and discouraging factors of these models. Eventually it proposes that there are gaps between the policy and the implementation of old-age insurance policy for migrant workers, which hinder migrant workers to participate in the old-age insurance scheme. The policy on migrant workers’ welfare especially old-age insurance went through dynamic reforms with the economic development.

INTRODUCTION

China has experienced massive rural to urban migration in the last three decades. These migrant workers have drawn public attention and concern, this is because their contribution to China fast growing economy and their lack of social welfare, especially old-age insurance. Through the empirical study of welfare and old-age insurance policies, I found that policy changes have been made to improve migrant workers’ old-age insurance, however, there are still discouraging elements in these polices hindering migrant workers to participate in the old-age insurance.

There are gaps between policy and implementation still need to be bridged. In the earlier period of rural to urban migration, the central government paid little attention to the welfare of migrant workers. There are two main reasons for this policy neglect: one is that to the Chinese government rural to urban migration flow...
was a temporary affair and the migrants would eventually return back home to rural areas. The other reason is that the cost of providing welfare coverage for migrant workers was too high for the government to think of. At the start of economic reform labour intensive industries needed to keep labour cost low and therefore there was very little consideration for the workers. During 1990s, however, the Labour Law enlarge the urban old-age insurance coverage to all the workers, and urban old-age insurance system for urban workers enlarged its coverage, which though legally gave migrant workers’ entitlements to old-age insurance; migrant workers were not included in the system. Thus widening inequality and income gap led to social disorders and instability [1]. Since 2000, the rising problems from economic development, including urban poverty, unemployment, and migrant workers’ social protection, attracted central government’s attention and the social policies were adjusted [2]. At the same time, China’s family planning already led to a lower fertility rate in urban areas. This demographic transition was also a factor for welfare reform. Scholars predict the low fertility rate will inevitably lead to urban labour short again future [3]. There was already a clear trend of labour shortage in the east coastal China from 2004 to 2010 [4], even though the economy is increasingly reliant on migrant workers. Considering the political and economic implications, migrant workers’ social protection finally was taken into consideration and related polices were made in 2006. Pilot welfare reforms tackling with migrant workers’ welfare have been embarked on in different big cities.

MATERIALS AND METHODS

This article uses policy documents text analysis method and policy text comparison method. To be specific, it examines China’s welfare policy, particularly the old-age insurance policy for migrant workers chronologically including the latest welfare policy under the backdrop of economic development. The article also analyses four typical current models for migrant workers’ welfare and old-age insurance and the encouraging and discouraging factors of these models. Through policy documents text analysis and comparison, it proposes that there are gaps between the policy and the implementation of old-age insurance policy for migrant workers, which hinder migrant workers to participate in the old-age insurance scheme.

EVPOLING PHASED SOCIAL WELFARE POLICIES

As previously discussed polices related to migrant workers and their welfare, old-age insurance policy in particular, have evolved since migrant workers emerged in cities in large number. The central government policy left out migrant workers for about twenty years until in 2000s, when there was a growing concern for migrant workers and the direct policy concerning migrant workers was promulgated in 2006.

1980s-1990s: From no Policy to a Loosening Policy

From 1979 to 1983, rural migration to urban areas were strictly restricted by the hukou system and only something like 20 million educated youth were allowed to return to the cities from where they were sent. From 1984 to 1987, however, rural
migration flow to urban areas was acquiesced and the restriction was loosened. There were three main reasons for this loosening of migration control. One was that the employment pressure during 1979-1983 was relieved. The second was that much of the emphasis on heavy industry during Plan Economic Period has shifted to light industry and service industry, which provided the demand and opportunities for rural migrant workers to work in urban areas. The third was that there was large surplus of rural labour in rural areas and the agricultural income increased very slowly. During 1988 to 1991, rural migration was restricted again because the huge numbers of internal migration flow brought burdens on urban infrastructure and public security. From 1992 to 1998, China started to establish a more market economy, which demanded free labour market and labour flow. In 1993, the 3rd Session of 14th Party's Congress facilitated this goal by encouraging and guiding rural surplus labour flow to non-agricultural sector and areas [5]. During 1980s to 1990s, the internal migration from rural to urban increased massively; but migrants’ welfare was neglected as the welfare reform was subordinated to overall goal of economic development [6]. For the urban residents the Chinese government abandoned the provision of the permanent employment to urban workers and built up unemployment insurance and basic living standard pension instead, as well as changed the fund raising for old-age insurance for urban workers to three pillars model: shared by employers, individuals, and the state. Migrant workers were considered phenomenal and temporary, and too expensive to take into the system. On the one hand, labour intensive industries under the marketization all try to keep labour at low cost. On the other hand, migrant workers seldom if ever put pressure on government or employers to improve their welfare or infrastructure. These were the combined reason why migrant workers were not covered in old-age insurance and other insurances even though there were legally entitled with rights: the Labour Law in 1995 actually stipulates that labourers should participate in local old-age insurance scheme and other insurance schemes [7]. The Decision on Establishing Unified Employers Employees Basic Old-age Insurance Institutions by the State Council issued in 1997 stipulates that the old-age insurance policy would gradually enlarge its coverage to all the urban labourers [8]. Temporary Social Insurance Contribution Regulations promulgated in 1999 by the State Council also stipulates that the old-age insurance should cover all the employees of foreign invested employers, private employers, and other employers [9]. All these law and polices did not change the situation of migrant workers’ old-age insurance participation in practice.

2000s: Growing Concern on Migrant Workers’ Welfare

During 2000s, there was a growing concern on migrant workers’ welfare and old-age insurance. There are two reasons for this welfare policy change. One significant reason is the neglect on social policy and focus on economic efficiency led to an enlarging income gap and inequality between individuals, which negatively influenced Chinese society orders and stability. Thus, the government has started to adjust the social policies to relieve the problems raised from economic transition, which including urban poverty, unemployment, and as well as migrant workers’ social protection neglected for so long.

Another important reason for the welfare extension to migrant workers is the demographic change and labour shortage followed the transition. Started in 1978 in
urban areas, China has been implementing family plan policy to control population growth from 1982 nationwide. The fertility rate was greatly brought down as the effective policy implementation. Thus expert predicted the labour shortage as the low fertility start to have an effect [10]. During 2004-2010, east coastal China experienced a trend of labour shortage, which made the economic development more reliant on migrant workers [11]. Cai Fang believed that China has arrived at the ‘Lewis turning point’, which means that the time of cheap labour has ended [12]. Thus there was a need to give migrant workers better treatment to attract them to work in cities.

Under these conditions, several polices regarding migrant workers were made. In 2001, Ministry of Labour and Social Security promulgated The Notice about Related Issues of Improving the Basic Old-age Insurance for Urban Workers’ Policy [13] which for the first time stipulated the specific regulations on migrant workers’ participation in old-age insurance.

In 2006, the Chinese government for the first time promulgated specific documents to tackle the issue of migrant workers’ social protection by a document Several Views on Settlement of the Issue of Migrant Workers [14]. This document addressed a comprehensive review of all the migrant workers’ problem and showed government’s concern and committeemen to solve their problems. In this document, the government brought forward the basic principle to migrant workers’ development: explore a scheme for old-age insurance that suits the characteristics of migrant workers, which calls for low contribution rate, broader coverage, transferable account, and can be joined with urban old-age insurance system. This document also demands that migrant workers can be directly included into the urban old-age insurance system if local condition suits. This document showed a clear intention to improve migrant workers’ welfare and old-age insurance. This is a crucial turning point for migrant workers’ welfare policy, since which, migrant workers became a group seen as need policy support, and no longer being excluded from the social security system.

However, the basic old-age insurance for urban workers itself is a complex system in implementation, a system that is difficult for migrant workers to join in.

Andrew Watson elaborates the complexities that create barriers for migrant workers to participate in the old-age insurance scheme. First, the national scheme is not managed as a unified system but run by many parallel local pools. As a consequence, there are now over 2000 parallel provincial pools of funds in urban areas, known as provincial old-age insurance funds, consisting of mixed employee and employer contributions [15]. In practice, methods of pooling vary greatly from place-to-place and the diversity of separate provincial pools is called “fragmentation”. This diversity of both conditions and pooling methods makes the transfer of contributions and benefits between different places problematic even for settled urban residents, but especially, transferring accumulated contributions and benefits between cities and regions is extremely difficult for the migrant workers, who might move between jobs and regions within a single year and certainly do so many times over the course of their working lifetime. Second, the pools also tend to be structured around the employer’s level registration. As a result, the provincial social security bureau only deal with employers registered at provincial level, and the city social security bureau just deal with employers registered at city level. Thus the concept of locality registration has both place and administrative level. Third, participation requires formal employer to register the employee. After registration,
the contribution is calculated by social security department and collected by tax office or social security office. Such complicated system also increases the difficulties for those self-employed and flexible employed migrant workers. Fourth, the contributions of employers and employees go to different accounts. The employer’s contribution goes to common social pool and employee’s contribution goes to individual account separately, and the accounts are recorded separately, thus it is not a pure individual account model, which means that transfer is tricky.

Despite of these practice difficulties central government showed growing concern on migrant workers’ welfare and promulgated policy documents on migrant workers’ old-age insurance.

In 2008, the Government Report of State Council pointed out that it is important to enlarge the coverage of migrant workers’ social security, and to design the old-age insurance policy that suits migrant workers’ characteristics. Eventually in 2010, the basic principles of enlarging old-age insurance to private sectors and self-employed workers were incorporated into the Social Insurance Law of China [16] and further policy refinements were made to cover migrant workers into the scheme and to make transfers between pool areas by people with urban household registration easier.

Pilot welfare experiments have been embarked on in several cities and provinces, such as Guangdong province and Shanghai. Based on the lessons of these pilot projects in dealing with the problems emerged, China Ministry of Human Resource and Social Security drafted procedure for migrant workers to join in the basic old-age insurance in 2008 and opened public discussion and comment until July 2009. Meanwhile, in order to address the problem of portability, the Ministry also issued draft procedure for transference of the basic old-age insurance registration, which is Temporary Measures of Urban Employers Workers Basic Old-age Insurance Transfer and Splicing [17]. This proposed scheme basically outlined the following issues: 1) compulsory participation without withdrawals, 2) the reduction of the entry threshold for migrant workers, 3) the maintenance of sealed accounts in local pools when migrants move, 4) the establishment of a national database for migrants records, and 5) a mechanism for pooling lifetime contributions at the place of final residences. An additional negative effect of this process is that provincial governments do not need to pay out the old-age insurance after the migrant workers opt out of their accounts. Before this policy, migrant workers could only withdraw all the money from their individual accounts. However, this Old Age Transfer and Splicing policy set out that from 2010 urban workers are allowed to transfer all the money in their personal old-age insurance account to another pool, and the sum of the transfer is 12 per cent of their total accumulation in their account, including the enterprise contribution. This regulation increases the total money amount migrant workers can get from their old-age insurance.

However, these proposals were met with many practical challenges. Central government gave the guideline to local government to implement these polices, but it is very easy for local government to be liberal about the implementation of the policy, especially when local interests are involved. Besides, the stipulation of fifteen years’ contribution (including five years consecutive contributions in the final years of employment in same local pool) to the account grossly neglects the migrant workers’ situation of high mobility among regions, instability of employment, and informal employment. The regulation also stipulates that migrant
workers can only take their own individual contribution with them when they want to withdraw from the old-age insurance while employers’ employers’ contribution has to be kept in the local pension fund. As a result, it is very difficult for migrant workers to satisfy all those requirements and they have little incentive to join in the schemes. As the separate structure for migrant workers, this proposal is not good for establishing unified national system in the long run.

Another proposal that has made the context even more complicated was the Guidelines from State Council on Launching New Rural Old-age Insurance Projects, [18] which stipulates that central government and local government will pay a monthly fifty-five RMB to rural residents over that age of 60. It is designed a universal scheme to be achieved national coverage by 2020. This proposal raised another issue is migrant workers move from rural to urban frequently and they should choose either of them for retirement. If they decide to retire in rural areas, there will be a new issue of how to change their urban-based insurance to rural system. This new question requires a policy solution.

In 2014, in responding to the transitional problems, the Ministry of Human Resource and Social Security promulgated Temporary Procedure for Urban and Rural Basic Old-age Insurance Transfer[19], which outlined these principles: First, facilitate the free labour migration. Second, introduce the policy to rural residents and workers. Third, facilitate the transfer service. Fourth, establish the information database and build up national information process platform. This is a countermeasure for solving the transitional problems. For the demand of unified labour market, social equity, and social justice, a unified social security system with everyone has access to the basic structure is needed.

Gaps Between the Policy and Implementation

Despite the welfare pilot experiments effort, migrant workers’ participation rate seems still not satisfying. The following form shows the insurance participation rate in 2012 based on the National Statistics Bureau data. Such low participation rate calls a thorough study of the current policies. There are gaps between the government policy and practical participation. Take the first and second models as examples, the two models both emphasise contribution, which is greatly reliant on migrant workers’ financial capability to contribute. After migrant workers have contributed for fifteen years’ contributions with the final five years to

| TABLE1: THE SOCIAL INSURANCE PARTICIPATION RATES OF MIGRANT WORKERS (Unit: per cent). The data was retrieved from China National Statistics Bureau 2013. |
|---------------------------------|-------|-------|-------|-------|-------|
|                                | 2008  | 2009  | 2010  | 2011  | 2012  |
| Old-age insurance              | 9.8%  | 7.6%  | 9.5%  | 13.9% | 14.3% |
| Medical insurance              | 24.1% | 21.8% | 24.1% | 23.6% | 24.0% |
| Unemployment insurance         | 13.1% | 12.2% | 14.3% | 16.7% | 16.9% |
| Industrial injury insurance    | 3.7%  | 3.9%  | 4.9%  | 8.0%  | 8.4%  |
| Maternity insurance            | 2.0%  | 2.4%  | 2.9%  | 5.6%  | 6.1%  |
be in the same location, they are eligible to benefit from a monthly pension that is with a replacement ration about 60 per cent of local average wage. This policy requirement fails to take the high mobility of migrant workers into consideration, which hinders them from meeting the requirements. The fact that migrant workers regularly change their jobs and move across regions makes the continuity difficult. The requirements for continuity of contribution became the discouraging factors for migrant workers to participate in the old-age insurance.

Another reason for the gap is that there is no procedure to regulate employers’ behaviours. Migrant workers’ old-age insurance account depends largely on contributions from employers, but employers are very likely to avoid their responsibilities if they can because they are not willing to increase their labour cost by paying social insurance. If there are no regulations on how to discipline such employers’ incompliance behaviours then the policy cannot be implemented by employers. Without effective supervision, the policy lacks incentive for both migrant workers and employers to participate. As migrant workers lose the employers’ social contribution when they move and employers do not get benefit from contributing for migrant workers’ old-age insurance from the current policy provision either since that is not good enough to keep their employees.

Another reason that leads to this gap between central government policy and local implementation is that local governments are very happy to collect the social contributions made by employers to improve the local fund but reluctant to allow those contributions to be transferred from the local pool when migrant workers withdraw or transfer the accounts. As a result, the local governments can keep most of the social accounts even after the transfer policy was promulgated. Thus migrant workers lose their insurance as local interests get involved.

Most of the models emphasises on the contribution more than the redistribution. Migrant workers are not eligible to participate in the Minimum Standard of Living program in the cities. They have limited formal ways to ask help, and if anything they could only turn to their friends and other networks. This is still an urban-rural division based on hukou system. This is a discouraging factor for migrant workers to enjoy old age care in terms of system equity and social justice.

The last two decades have seen a progressive policy regarding migrant workers’ welfare and old-age insurance and effort have been made to set up the insurance models to deal with migrant workers’ welfare and protection, however, there are huge gaps between policies and implementation, in the case of migrant workers.

CONCLUSION AND DISCUSSION

As the welfare policy has been examined, particularly the old-age insurance policy went through dynamic reforms with the economic development. At the earlier period of rural to urban migration, government paid little attention to migrant workers with their welfare. Since 2000, the rising problems from economic development and the demographic transition led to a welfare reform. As the economy is increasingly reliant on migrant workers, migrant workers’ social protection finally was taken into consideration and related polices were made in 2006 at the central government level. At provincial government level, many pilot welfare reforms that aim to tackle migrant workers’ welfare problems have been embarked on in big cities. Both the central and provincial level governments have shown intention to encourage migrant workers, at least on papers.
Although it has taken more than 20 years for the government eventually began to take measures of providing social protection and reorganisation to migrant workers, migrant workers' low participation still remains. As the social welfare policies and old-age insurance policy for migrant workers are still at an elementary stage, there are still some gaps between migrant workers and the policy provisions.

As indicated previously, migrant workers, employers, and local governments all have their respectively interest considerations in the policy implementation, these different interests considerations of these groups also can became very strong influences in the practical policy implementation.

The policy at central government level encourages migrant workers to participate in the welfare programmes and old-age insurance scheme, however, the policy are more reliant on the implementation and interpretation of local governments. Under these circumstances, when the local governments interest get involved, especially they want to retain the social contribution from employers, it makes harder for migrant workers to keep their legal entitlements. This is also a reason for the low participation despite the encouraging policy at central government level, but discouraging at local level.

There are unequal policy treatments to rural migrant workers and urban residents. For instance the Minimum Standard of Living program in urban China is not open to migrant workers. Some models have lower contribution rate and lower beneficial rates for migrant workers. Migrant workers without formal work and labour contracts are excluded outside the insurance system. These unequal policy divisions are all built up along with the *hukou* system and other macroeconomic development backdrop, which still calls for further research.

REFERENCES