Analysis on the Supplementary Pension Insurance Policy of Chinese Enterprises

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Abstract. The enterprise supplementary pension insurance is an additional insurance specially established for the employees of the enterprise after the basic pension insurance formulated by the enterprise in accordance with its own economic strength and after fulfilling the obligation to pay the basic old-age insurance premium. The enterprise supplementary pension insurance is at the second level in China's multi-level endowment insurance system, which is the supplement and improvement of the enterprise's basic endowment insurance for the enterprise employees. However, the development of supplementary pension insurance for Chinese enterprises has been slow, and the government's policy is undoubtedly an important reason. This paper attempts to explore the policy status of China's enterprises supplementing pension insurance, analyze the policy factors that restrict its development, and propose the basic ideas and policy recommendations for strengthening the supplementary pension system of Chinese enterprises.

1. Introduction

Enterprise supplementary pension insurance is also called enterprise annuity, which refers to the supplementary endowment insurance system voluntarily established by enterprises and their employees on the basis of participating in basic endowment insurance according to law. In the past, Chinese pension insurance was a single national insurance. Although national insurance can guarantee that retirees have a better retirement life, the government bears an excessive burden. Since the mid-1980s, the reform of the endowment insurance system in China has decomposed a single national insurance in the past, and it has been shared by the state, enterprises and individuals: the state bears the responsibility of organizing mandatory basic endowment insurance and guarantees the basic life of the elderly. Enterprises and individuals establish supplementary pension insurance and personal savings pension insurance on a voluntary basis to supplement the basic pension insurance. Although enterprise supplementary pension insurance is established by enterprise resources, as the replacement rate of basic old-age insurance will continue to decline, objectively requiring enterprises to supplement their pension insurance to play an increasingly complementary role, it is necessary for the state to formulate relevant policies as soon as possible to encourage, guide and standardize the establishment and development of enterprise supplementary pension insurance.

In developed countries, more than 40% of companies provide enterprise annuity plans. In 1991, China first proposed that “the state promotes and encourages enterprises to implement supplementary endowment insurance”. By the year 2000, the State Council promulgated the “Pilot Program for
Improving the Urban Social Security System”, and officially renamed the enterprise supplementary pension insurance to “enterprise annuity”, and proposed that enterprises with conditions can establish enterprise annuities for employees and implement market-oriented operations and management. Chinese “Enterprise Annuity Trial Measures” was adopted on December 30, 2003 by the 7th Ministerial Meeting of the Ministry of Labor and Social Security, and would take effect on May 1, 2004.

2. The Status Quo of Supplementary Pension Insurance Policy for Chinese Enterprises

The development of supplementary pension insurance for Chinese enterprises dates back to the concept that the State Council used enterprise supplementary pension insurance for the first time in 1991. However, as a supplementary pension insurance system, its development is inseparable from the development of Chinese social pension insurance system. Therefore, it is necessary to discuss the development process of enterprise supplementary pension insurance from the beginning of the establishment of Chinese social endowment insurance system, in order to understand the historical necessity of the emergence and development of supplementary pension insurance for Chinese enterprises.

In China, enterprise supplementary pension insurance began trials in some enterprises in the 1980s. In 1991, the State Council promulgated the “Decision on the Reform of Enterprise Employees’ Endowment Insurance System”, which first proposed the enterprise's supplementary endowment insurance, stipulating that the enterprise's supplementary endowment insurance was established by the enterprise according to its own economic ability, and the required expenses were from the enterprise's own Incentives in funds and withdrawals from welfare funds. In 1995, the former Ministry of Labor issued the “Opinions on Establishing a Supplementary Endowment Insurance System for Enterprises”, which carried out preliminary policy norms for enterprise supplementary pension insurance. By the end of 1999, there were 1.73 million employees participating in supplementary pension insurance for enterprises managed by social insurance institutions, equivalent to 1.4% of employees participating in basic pension insurance (9502). In addition, there are supplementary pensions established by a small number of industries and large enterprises. It can be seen that the coverage of supplementary pension insurance for Chinese enterprises is too small, and it is difficult to form a strong supplement to the basic old-age insurance.

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3. The Significance of Establishing Enterprise Supplementary Pension Insurance

3.1. The Enterprise Supplementary Pension Insurance System is a Necessary Supplement and Basic Guarantee for the Smooth Implementation of Chinese Basic Endowment Insurance System

At this stage, compared with the developed countries, the social pension insurance system in China is far behind. With the further deepening of Chinese reform and opening up and the further development of economic structure diversification, the shortcomings of Chinese social pension insurance system are gradually exposed. Chinese endowment insurance system was established late, and the basic endowment insurance accumulated insufficient funds. In recent years, the income and expenditure gap has expanded
year by year. The misappropriation of personal account funds to distribute pensions has resulted in the operation of individual accounts. Coupled with the high pension replacement rate, the country is still unable to afford such heavy pension payment pressure. Therefore, the state will continue to adhere to the basic principles of social security of “low level, wide coverage and multiple levels”, gradually reduce the basic pension replacement rate and reduce the financial burden. At the same time, vigorously develop enterprise annuities, improve the social security system, make up for the shortcomings caused by the reduction of basic replacement rate, improve the overall pension replacement rate of the society, and effectively supplement the basic old-age insurance.

The international organizations represented by the World Bank and economists advocate the establishment of a multi-pillar pension system, which is the statutory basic pension insurance organized by the state is called the first pillar, the supplementary pension insurance organized by enterprises is called the second pillar, and personal savings pension insurance is called the third pillar. For this kind of effective and universally accepted practice in the international arena, our country has adopted good practices and has adopted it. Due to the aging of the population, the basic old-age insurance system established by most governments is experiencing or will face a serious financial crisis, which forces countries to reflect on the pension insurance system and proposes to reduce the role of the government in pension insurance. Reform measures such as increasing the role of enterprises and giving play to the functions of the market, and summarizing basic pension insurance sponsored by the state, enterprise annuity and personal savings insurance established by enterprises as the three pillars of the pension insurance system. In OECD countries, the target replacement rate of enterprise annuities is generally 20% to 30%, and the national basic pension insurance can reach 60% to 70%, which can meet the normal living needs of the elderly. Therefore, the enterprise annuity system disperses the risk of old-age income to a certain extent and improves the insurance function.

3.2. Supplementary Pension Insurance for Enterprises is Conducive to Diversifying Insurance Liabilities and Adapting to the Needs of the Rapid Development of Chinese Aging Society

The aging of the population is the trend of demographic changes in countries around the world today. It is predicted that by 2050, the number of elderly people over the age of 60 will be as high as 1.2 billion, accounting for about 14% of the global population, and the rate of population aging will be much higher than the rate of population growth. The direct consequence of an aging population is the huge expenditure on pension funds, which will put tremendous pressure on the government and society. Therefore, the basic old-age insurance of the country alone has not been able to meet the retirement and retirement of the employees, and it has also caused increasing pressure on the state finances. In this way, the supplementary pension function of the enterprise supplementing the pension insurance can be fully exerted, and the financial pressure is also alleviated. According to the results of the fifth national census conducted at the end of 2000, China has entered an aging society. Compared with other countries, Chinese aging has five characteristics: the speed is very strong, the absolute number of elderly people is large, the dependency ratio of old people is obviously large, the age is not rich, and the degree of aging between regions is large. The rapid aging of the population will inevitably lead to an increase in the dependency ratio of the elderly.

According to statistics, Chinese elderly people have maintained below 13% until the mid-1980s, rising from the end of the 20th century, 15.97% in 2000, 34.79% in 2030, and 37.90% in 2040. It can be seen that the number of elderly people receiving pensions is increasing, and the number of employed people paying pension plans is relatively small. If the basic pension insurance still maintains the current replacement rate of 80%-90%, the corporate and national finances will be overwhelmed, and the result will be the collapse of the old-age security system. Therefore, before the pension payment crisis caused by the aging population trend, the relevant state administrative departments should formulate and issue corresponding policies and regulations in a timely manner to guide and encourage enterprises to establish enterprise annuities, so as to reduce the excessive replacement rate of basic old-age insurance. Make enterprise annuity an effective supplement to basic pension insurance.
3.3. Enterprise Supplementary Pension Insurance is an important Means to Improve Labor Productivity and Increase Corporate Cohesion

In pursuit of the company's long-term sustainable and healthy development strategy, we must rely on the long-term, sustained, stable and active contribution of the company's key personnel to contribute value to the enterprise. Enterprise supplementary pension insurance is a long-term welfare system. With the participation of employees for life, it can effectively support the long-term development strategy of the company. The company's performance goals and human resources goals can be promoted through the design of the enterprise's supplementary pension plan to promote the company's strategic goals. Enterprise supplementary pension insurance is also conducive to stabilizing the workforce, attracting outstanding talents and maintaining the competitiveness of the company. In the market economy, talents are the key factor in the development of enterprises. However, due to the cancellation of the system of state-owned enterprise welfare housing and the monetization of various invisible benefits, the attraction of talents has gradually been lost. With the deepening of reform and opening up, the competition for talents will be more intense, and many outstanding talents have gone to more competitive foreign and private enterprises. How to solve the stability problem of the team has become a major event for all enterprises. Establishing enterprise supplementary pension insurance is an effective means. It gives employees a sense of belonging and security, can encourage employees to work hard, and focus on attracting talents in the long run, thereby enhancing the cohesiveness and competitiveness of enterprises. However, enterprises that have not established enterprise supplementary pension insurance will inevitably be inferior to salary incentives in the same industry and enterprises in the same region that have established enterprise supplementary pension insurance, and the attraction to talents is at a disadvantage. It is a factor that companies are passive and inferior in competition.

3.4. Enterprise Supplementary Pension Insurance Can Promote the Development of Capital Market

The enterprise supplementary pension insurance adopts the fully accumulative fund system model, and its value preservation and value-added has become the fundamental purpose. Under the premise of maintaining value, it is natural to pursue the maximum investment income. Therefore, it is an inevitable choice to enter the capital market for investment operation. The annual enterprise annuity accumulated is huge. For example, in 2000, the United States participated in the 401(K) program with more than 42 million employees and an asset size of US$1.7 trillion. In the same year, Canada's life insurance premiums totaled 44.4 billion Canadian dollars. The annuity ratio is 53% and the amount is $25.3 billion. The investment in large-scale enterprise annuities has increased capital supply, coupled with a longer waiting period for payment, and is therefore a powerful tool for promoting capital market development and financial innovation. US corporate annuity investments are mainly invested in stocks, accounting for more than half of all 401 (K) planned assets. It can be said that the huge amount of enterprise annuity assets is one of the main factors that promote the development of capital markets in developed countries such as the United States and enhance their international financial competitiveness.

As a contractual financial institution with long-term stable sources of funds, enterprise supplementary pension insurance can effectively increase the capital supply in the capital market and promote the expansion of the capital market. As one of the most important institutional investors in the capital market, it can greatly improve the investor structure of the capital market. The enterprise annuity can effectively allocate capital resources, promote the formation of effective capital, and stimulate economic growth. In this sense, enterprise annuities have risen to a higher level of contribution to national economic development under the premise of ensuring their own value preservation and appreciation, which is in line with the development trend of modern market economy.

4. Conclusion

Enterprise supplementary pension insurance is an auxiliary endowment insurance established by enterprises based on their own economic ability. It is an important level in the employee pension insurance system, and it is an important means for enterprises to give full play to their economic strength and implement endowment insurance for employees. It plays an important
complementary role to the statutory basic social endowment insurance. It will play an active role in safeguarding the life of employees after retirement, enhancing the cohesiveness of employees to enterprises and maintaining social stability. With the aging of the population, the slowdown of economic growth and the problems of the basic pension insurance system itself, the reform of the basic old-age insurance system has become a common international trend. It is a rational choice to establish a multi-pillar pension insurance system including enterprise supplementary pension insurance (enterprise annuity plan) and reduce the current replacement rate of basic old-age insurance.

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