

Social Assistance in China: The Minimum Living Standards Guarantee Scheme



Xu Yuebin

**Institute of Social Development and Public Policy
Beijing Normal University
Seminar at ECLAC and IPEA
November, 2007**



A brief account of China's social security reforms

■ Pension reforms

- ⇒ started in the mid-1980s, with the purpose to relieve SOEs of pension burdens through social pooling across SOEs; transformation from PAYG to partially funded schemes since the mid-1990s with social pooling plus individual accounts
- ⇒ individuals contribute 8 percent of the wage into individual accounts, and enterprises 20 percent into social pooling. Benefits consist of a basic pension and an individual account pension, depending on the wage and the accumulated savings in the individual account
- ⇒ covered around 50 percent of urban employees, and over 46 million retirees by 2006

A brief account of China's social security reforms

■ Unemployment insurance reforms

- ⇒ started in the mid-1980s, first as living allowance for laid-off employees from SOEs; extended to all types of enterprises and employees in 1999
- ⇒ employers contributing 2 % and employees 1% of the wage; benefits for a maximum period of 24 months; ranging from 50-75 percent of the wage
- ⇒ covered 40% of urban employees (8.5 million) and 3.3 million benefit recipients in 2006



A brief account of China's social security reforms

- **Reforms of the health care system**

- ⇒ started in the mid-1990s for experiment, limited to employees and retirees from enterprises, extended to all cities since the early 2000s
- ⇒ social pooling plus individual accounts; enterprises contributing 6 percent and individual employees 2 percent of the wage; benefits varying based on years of service and savings in the individual account
- ⇒ covered 41% of the urban working population and 42 million retirees by 2006



The emergence of urban poverty

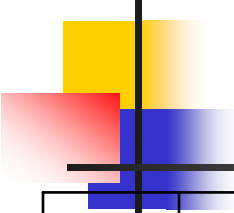
- Causes of urban poverty
 - ⇒ Rapid increases in the size of unemployment and laid-off employees since the early 1990s due to restructuring of SOEs
 - ⇒ Poor economic performance in SOEs
 - ⇒ Limited coverage of social security schemes
- The size estimated to range between 12 to 30 million,; officially identified to be around 20 million
- Social stability was threatened



The implementation of MLSGS

- Initiated in Shanghai in 1993, and extended to all cities in 1999
- Financed by government at different levels (no central transfer before 1999)
- Provides cash assistance for households with per capita incomes falling below local poverty lines
- Supplementary assistance schemes implemented for recipients, including medical care, housing, education for children, and other preferential policies
- Varied markedly across localities in design

The implementation of MLSGS: Coverage



Year	Count (10,000)	Percent of Non- agricultural Population	Profile of MLSGS beneficiaries (%)					
			Low- income Employee	Lay- offs	Retirees	Unemploy ed	Three nos	Others
2001	1170	3.5%	-	-	-	-	-	-
2002	2065	5.86%	9%	27%	5%	17%	4%	38%
2003	2247	6%	8%	23%	4%	18%	4%	43%
2004	2205	5.63%	6%	21%	3%	19%	4%	47%
2005	2234	5.46%	5%	19%	3%	18%	4%	51%
2006	2241		4%	16%	2%	19%	4%	50%
2007	2238							



The implementation of MLSGS: Financing (in 100 million)

Year	Total	Central government	Percent of central transfer
1998	12	0	0
1999	19.7	4	5%
2000	27.2	8	29.6%
2001	42.7	23	53.9%
2002	108.1	46	42.5%
2003	150.5	92	61.1%
2004	172.8	102	59%
2005	191.9	112	58.4%
2006	222	136	61%



The implementation of MLSGS: Eligibility

- household as the unit for assistance; with local non-agricultural household registration status
- All households with a per capita income below the locally defined poverty line
- Sources of incomes taken into account include all members registered in the same household
- Assets are usually not included in the eligibility test, except for owning a car
- Registration at the employment agencies for jobs and retraining; cannot reject job offers for 2-3 times; participation in voluntary community work



The implementation of MLSGS: Assistance and benefit levels

- Poverty lines are locally determined, using mostly the budget standards approach; varied from 140 to 330 Yuan in 2007
- Benefits cover the difference between the poverty line and the total incomes of the household (the local poverty line times the number of persons in the household)
- The lines are adjusted annually, with local discretion over the amount
- Taking into consideration the minimum wage, pensions and unemployment benefits
- Considered household structure or characteristics of members on assistance



The implementation of MLSGS: Assistance and benefit levels

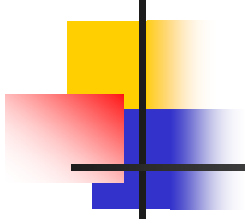
Years	Average poverty lines	Actual benefits received
2003	149	58
2004	152	65
2005	156	72.3
2006	169.2	82.9
2007	179.2	95



The implementation of MLSGS: Administration

- The Ministry of Civil Affairs and its local departments are responsible for designing policies, and Street Office and Residential Committee implement them
- Applicant first applies to the Committee; then the Street Office carry out the means test, and recommend for local civil affairs to approve; and finally Street Office deliver the benefits directly to the applicant
- Annual check is conducted on income and eligibility

The implementation of MLSGS: Problems



- Low benefit rates
- The issue of “welfare dependency” and work disincentives
- The marginal poor
- The application of the means-test method