

China

China: Pension system in 2016

China has a two-tier pension system, consisting of a basic pension and a mandatory employee contribution to a second-tier plan. This system, which was introduced in 1998, was significantly revised in 2006. It covers urban workers and many of the parameters depend on province-wide (rather than national) average earnings.

Key indicators: China

		China	OECD
Average worker earnings (AW)	CNY	62 029	254 329
	USD	8 932	36 622
Public pension spending	% of GDP		8.2
Life expectancy	at birth	76.5	80.9
	at age 65	16.1	19.7
Population over age 65	% of working- age population	14.5	27.9

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Qualifying conditions

Normal pension age is 60 years for men, 50 years for blue collar women and 55 years for white collar women.

Benefit calculation

Basic

The basic pension pays 1% of the average of the indexed individual wage and the province-wide average earnings for each year of coverage, subject to a minimum of 15 years of contributions. The pension in payment is indexed to a mix of wages and prices, which has been about 10% in recent years. The modelling assumes 50% indexation to wages.

Defined contribution (funded or notional accounts)

The second-tier system comprises individual accounts. In addition to the north-eastern provinces (Liaoning, Jilin and Heilongjiang), a further eight have funded individual account systems. In other cases, the accounts are largely notional and are credited with a notional interest rate.

Employees pay 8% of wages to the individual account system. The accumulated balance in the fund or the notional account is converted into a stream of pension payments at the time of retirement by dividing the balance by a government-determined annuity factor, depending on individual retirement age and average national life expectancy. In all provinces, these annuity factors, for both males and females, (for monthly benefits) are:

Age	40	45	50	55	60	65	70
Factor	233	216	195	170	139	101	56

Variant careers

Early retirement

It is possible to claim a pension benefit from the age of 55 years for men and 50 years for women if the individual engaged in physical work in certain industries or posts.

Late retirement

It is possible to defer pension payments until after normal pension age, but the pension benefit is not valorised.

Personal income tax and social security contributions***Taxation of workers***

There is a standard income-tax allowance of CNY 42 000. Employees are allowed to deduct social insurance and housing fund contributions to calculate taxable income.

Taxation of worker's income

Individual Income Tax Rates (applicable to income from wages and salaries).

Grade	Monthly taxable income	Tax-rate (%)
1	Less than CNY 1 500	3
2	The portion of income in excess of CNY 1 500 to CNY 4 500	10
3	The portion of income in excess of CNY 4 500 to CNY 9 000	20
4	The portion of income in excess of CNY 9 000 to CNY 35 000	25
5	The portion of income in excess of CNY 35 000 to CNY 55 000	30
6	The portion of income in excess of CNY 55 000 to CNY 80 000	35
7	The portion of income in excess of CNY 80 000	45

(Note: "Monthly taxable income" mentioned in this schedule refers to the amount remaining from the gross income in a month after the deduction of CNY 3500.)

Social security contributions payable by workers

Under the revised system, employers contribute a maximum of 20% of earnings to cover the basic pension. The second-tier pension is financed by an 8% contribution from employees. These contributions are capped at three times the local average wage. The social security contributions to individual accounts are exempt from income taxes.

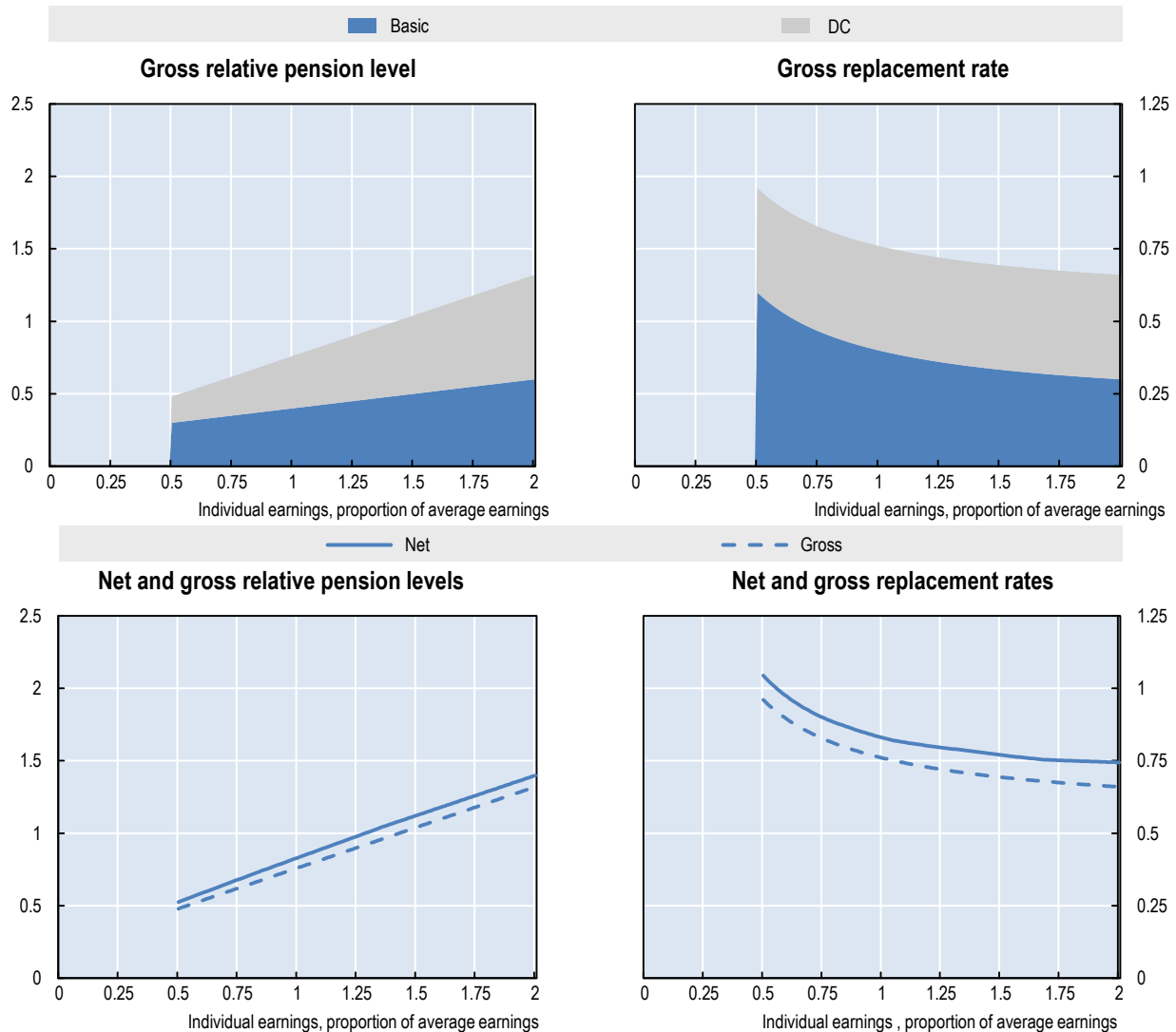
Taxation of pensioners

There is no additional tax relief for pensioners.

Social security contributions payable by pensioners

Pensioners do not pay any social security contributions.

Pension modelling results: China in 2056 retirement at age 60 (men)



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	48.0	62.0	76.0	104.0	132.0	188.1
Net relative pension level (% net average earnings)	52.6	67.9	83.0	112.2	139.9	191.4
Gross replacement rate (% individual gross earnings)	96.0	82.7	76.0	69.4	66.0	62.7
Net replacement rate (% individual net earnings)	104.4	89.9	83.0	77.0	74.4	71.8
Gross pension wealth (multiple of individual gross earnings)	20.4	17.5	16.1	14.7	14.0	13.3
Net pension wealth (multiple of individual net earnings)	22.1	19.1	17.6	16.3	15.8	15.2
	22.8	19.6	18.1	16.8	16.3	15.9

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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