

Social Security in the P.R. China Exemplified by Urban and Rural Health Insurance

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The People's Republic of China – land of infinite economic possibilities! But what does the other side look like for the people of China? With the beginning of the opening up policy and the rapid economic development since 1978, numerous reforms in the area of social security have been initiated. Due to the reforms in the economic sector which led to more competition between business enterprises, the development of a system of social security independent of the enterprises became necessary. Up until that time the state concerns were obliged to provide social security for their employees and their families, a cost-intensive liability for many state companies. From 1986 on the state companies were able to dismiss their employees and the resulting worker mobility made it necessary to develop a social insurance system detached from the companies. Since then developments have been undertaken in the cities for state social insurance which is meant to cover risks of old age,

Professor Dr. Barbara Darimont, lecturer at the East Asian Institute of Ludwigshafen University, gave this talk at the 14th Annual Academy of the China-Zentrum in Sankt Augustin on April 10, 2014. See also in this issue the contributions of Renée Rentke on “Between Greed for Gain and Altruism – Concrete Examples of Social Security in Rural Areas” and Paul Li on “How the Social Systems Impact the Church (Especially the Priests and Sisters) Using Hongdong Diocese as an Example”.



Podium discussion at the 14th Annual Academy of the China-Zentrum in Sankt Augustin on April 10, 2014 (from left to right): Moderator Katharina Wenzel-Teuber (China-Zentrum), Prof. Dr. Barbara Darimont (lecturer at the East Asian Institute of Ludwigshafen University), Renée Rentke (project officer at Misereor for development cooperation with China, Mongolia and North Korea) and Paul Li Haiyan (priest of Hongdong Diocese/ Shanxi). Photo: China-Zentrum Archives.

sickness, unemployment, industrial injury and motherhood. Alongside the social insurance, other measures, e.g. welfare benefits have been taken by the government. In the rural areas the situation is far more dramatic because there is no plan for comprehensive pension, accident or unemployment insurances. Although preparations for welfare benefits and a comprehensive health insurance are envisaged, it will still be years before they can be concretely implemented in all parts of the country. It is not surprising, therefore, that the People's Republic of China – the Communist country – has one of the highest Gini-coefficients in the world, an index which measures differences in income.¹ Subjectively this disparity in income must affect the Chinese citizens all the more painfully because under Mao Zedong – that is in the 1970s – the P.R. China was one of the countries with the greatest equality with regard to income. At the end of the 2000s, the Chinese government no longer published the coefficient for fear of disturbances and criticism. Since last year it has been made known again and at present it is at 0.47. The Chinese government is endeavoring to counteract these undesirable developments with financial means as, for example, in the rural health insurance.²

Health care is one of the most important topics for the population and in recent years has turned out to be one of the greatest problems, since for many it has become almost unaffordable in cases of serious illness. The Communist Party recognized this problem and last autumn [2013] made health insurance a priority during its Party congress. Until now Premier Li Keqiang has not initiated any reforms so this talk will explain current policy and the projects that permit a look ahead into the future.

1. Introduction to Chinese Social Policy

Chinese social policy is characterized by dualism in the matter of benefits for rural and urban populations. Social benefits are attached to a so-called population registration (*hukou* 戶口). This strict separation of rural and urban populations was necessary under the state-directed economy to enable the distribution of food and other resources. Furthermore the political leadership wanted to control the migration flow from the countryside to the towns. The registration system has been criticized for years but has not been abrogated up till now. Consequently a distinction has to be made in the social policy between rural and urban social welfare.³

a) Urban Social Policy

For the cities there are at least national, uniform guidelines for state social insurance which, however, are implemented very diversely.⁴ Due to the one-child policy, which leads

1 Günther Schucher – Nele Noesselt, "Weichenstellung für Systemerhalt: Reformbeschluss der Kommunistischen Partei Chinas," www.giga-hamburg.de/de/news/chinas-weichenstellung-f%C3%BCr-den-systemerhalt (accessed on Feb. 21, 2014).

2 Barbara Darimont – Liu Dongmei, "Das Gesundheitssystem der V.R. China: Zwischen Privatisierung und öffentlicher Gesundheitsvorsorge," in: *International Social Security Review* 66 (2013) 1, pp. 97ff.

3 Liu Dongmei, *Reformen des Sozialleistungsrechts in der Volksrepublik China*, Baden-Baden 2011, p. 33.

4 Cf. in greater detail: Barbara Darimont, *Sozialversicherungsrecht der V.R. China*, Baden-Baden 2004; Linda Wong, *Marginalization and Social Welfare in China*, London et al. 1998.

to enormous aging in Chinese society, the focus of the reforms is on pension insurance, alongside health insurance. Old people are meant to be supported by the family, state pension insurance or state livelihood benefits. Since the family is still expected to function as a support for the elderly, since autumn 2013 the two-child policy has been indorsed.⁵ Naturally the demographic structure of a nation can change only in the long term, always supposing this change is implemented by the population, since the current costs for one child are so great, as e.g. for kindergarten, school and university studies.

In rural areas the family will remain the financial support of the elderly since up till now no nationwide state pension insurance scheme has been initiated.⁶ The high costs for many families caused by the care are leading to a great extent in the P.R. China to the discrimination of old people. The political leadership has reacted with a law to protect old people, first passed in 1996 and revised in 2012.⁷ The necessity for such a law leads us to suspect a cruel reality. Old persons are discriminated against and maltreated especially in rural areas. This law once again clearly anchors the duty of children as well as capable grandchildren to provide support. Furthermore children must pay fully in case of sickness of their uninsured elderly parents. Their care is also to be taken on by the children, which can mean an enormous financial and psychological burden when the parents need long term care and which has driven some families to ruin.

The state pension for urban employees is organized in a so-called partial capital cover system, i.e. a basic pension is financed by the State and the employer in a pay-as-you-go system. For the second part, employees save their contributions in the course of their working life. When they reach pensionable age this part, which is meant to be organized fully funded, is paid out to them as an individual pension. It was planned that this part would amount to about 50% or 60% while the part from the solidarity fund should comprise approx. 20% of the average local wage. Waste of the capital covered part is an enormous problem. This section of the pension is administered by boards and ministries for human resources and social security. Since a solid capital market and established financial controls are lacking in the P.R. China, these funds were often misused for the building of objects of prestige or other such things.⁸ Consequently large sums are lacking from the state pension fund so that in 2010 the legislative body passed the social insurance law which obliged the State to be the financial guarantor for the payment of pensions.⁹

Together with the pension insurance, insurances for unemployment and work related accidents as well as health insurance were introduced. The unemployment insurance is the branch with the least participation, with only 150 million persons insured. That may be due to the fact that payment of unemployment insurance is barely higher than urban

5 Schucher – Noesselt, *loc. cit.*

6 Barbara Darimont, "Diskussion zum Entwurf des Sozialversicherungsgesetzes der V.R. China," in: *Zeitschrift für Chinesisches Recht* 2009, No. 4, pp. 366f.

7 "Zhonghua Renmin Gongheguo laonianren quanyi baozhang fa" 中华人民共和国老年人权益保障法 of Dec. 28, 2012, source: www.gov.cn/flfg/2012-12/28/content_2305570.htm (accessed on July 22, 2014).

8 China Development Research Foundation (ed.), *Constructing a Social Welfare System for All in China*, London – New York 2012, pp. 78f.

9 "Zhonghua Renmin Gongheguo shehui baoxian fa" 中华人民共和国社会保险法 of Oct. 28, 2010, source: www.china.com.cn/policy/txt/2010-10/29/content_21225907.htm (accessed on July 22, 2014).

welfare benefits. In addition the official number of unemployed in 2012 was only 4.1%.¹⁰ That is, however, a question of targets which did not mirror the actual situation since it concerned only the registered unemployed urban workers. Neither the migrant workers nor the unemployed rural population are included in the statistics. The unofficial numbers vary between an unemployment quota of 10 to 30%.¹¹ The accident insurance was set up according to the German model. Of course there are considerable shortcomings in the implementation with regard to safety and protection at work.¹² Frequently workers who have suffered an accident are compensated with a one-off payment which nowhere near covers the needs of life with a handicap. Since the employees are mostly ignorant of their rights, they agree to that form of compensation, especially since a legal process is mainly unaffordable.

Since the end of the 1990s the phenomenon of urban poverty has appeared in the People's Republic, so that a state welfare benefits system had to be developed to ensure a minimum livelihood for the unemployed and those unable to work. Welfare benefits count as social benefit. These include help in catastrophes, support for poor areas and for low-income families, which is mainly given as support for poor, single old persons, the handicapped and orphans. The help is given through service, material or financial provision. In 2013, 20 million people in cities and 53 million rural dwellers received state welfare benefits.¹³ In the cities minimum livelihood benefit is accorded persons who are registered as living in the respective city and where the per capita income of the family unit living together falls below the local standard of the existential minimum. A precondition for benefits is that according to the principle of subsidiarity they have no right to financial support from relatives. The household head of a needy family has to apply to the corresponding board or residents' committee for the minimum livelihood benefit, and he/she is checked regarding the information about his/her personal situation. Personal and societal checks are required by the residents' committee. In these cases there is only limited protection of privacy. Since 2009 a law is being worked out for minimum living benefits but which, however, until the present has not been concluded. There is hope that the right to minimum livelihood support will be fixed.¹⁴

b) Rural Social Policy

In rural areas there are projects for a voluntary pension scheme to which the State will grant state subsidies. Those insured have to pay contributions from their 20th to the end of their 60th year. They receive a pension from their 60th year of life. This pension system

10 Ministry for Human Resources and Social Security. www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/shizhengyaowen/201305/t20130528_103939.htm (accessed on Feb. 26, 2014).

11 Liu Dongmei, *loc. cit.*, pp. 207f.

12 Lutz Leisering – Tao Liu, "Globale Wissensdiffusion in der Sozialpolitik. Die Einführung einer Arbeitsunfallversicherung in der Volksrepublik China," in: *Zeitschrift für Sozialreform* 56 (2010) 2, p. 186.

13 Ministry for civil affairs, <http://files2.mca.gov.cn/cws/201311/20131120114958719.htm> (accessed on Feb. 26, 2014).

14 "The 'social benefit law' is in the work plan of the legislative process" ("Shehui jiuzhu fa' yi liru jin nian lifa gong-zuo jihua" 《社会救助法》已列入今年立法工作计划) of Aug. 5, 2009, www.fjba.org (accessed on Sept. 21, 2010).

works on the basis of a funded scheme method.¹⁵ The problem is that each village sets its own rules and there is no uniform, national regulation. Frequently the funds were misused by local cadres and the insured persons received no compensation from the State.¹⁶

Already in 1956 the family care was supplemented by the Five-Guarantees-System in rural areas, so that people with no relatives would receive benefits for their livelihood. Moreover, since 1986 the government has carried out measures to combat poverty in rural areas,¹⁷ which has considerably reduced the number of poor in the rural population.¹⁸ True enough, the rural security systems that were formerly developed and financed through the collectives were partially done away with due to the economic de-collectivization, as e.g. the health care. For securing livelihood in rural areas two systems have been running parallel since 2006, namely the system of minimum support according to the urban model, which is intended for persons with no income or with only very little income, and the Five-Guarantees-System, and these are separate from the welfare benefits system of the cities. The system of minimum support is, however, not established everywhere in the rural areas. It is possible that both systems are to be brought together in future. The Chinese minimum livelihood support can only conditionally be compared to the German welfare benefits, since in China this form of security concerns mere survival and not integration into society.

2. Health Insurance

Under the state-directed economy the health insurance was guaranteed by the State. In the economic reforms it became necessary for that task to be taken over by the business enterprises. In the transitional phase the old health system broke down and many groups of persons no longer received free medical care but had to pay for it themselves. In 1989 only around 5% of the rural population had access to health care.¹⁹ Following this problem, health insurance was introduced in 1998 for those working in towns. According to reports of the Ministry of Health, in 2003 around 50% of the urban and around 80% of the rural population were still not covered for health care.²⁰

15 Cf. detailed description of the situation in rural areas: Lutz Leisering – Sen Gong – Hussein Athar, *People's Republic of China: Old-age Pensions for the Rural Areas: From the Land Reform to Globalization*, Manila: Asian Development Bank 2002.

16 Liu Cuixiao, "Die Alterssicherung der Landwirte in der Volksrepublik China," in: *Zeitschrift für ausländisches und internationales Sozialrecht (ZIAS)* 2000, p. 68; cf. the opinions on the draft of the social insurance law as collected and published by the National People's Congress of Aug. 28, 2008, www.npc.gov.cn (accessed on Jan. 12, 2009).

17 Press office of the State Council, "White Paper on the Development-Oriented Poverty Alleviation Program in Rural China" ("Zhongguo nongcun fupin kaifa baipishu" 中国农村扶贫开发白皮书) of May 14, 2004, www.cpad.gov.cn/data/2006/0303/article_231.htm (accessed on Aug. 15, 2010).

18 Department for Poverty Alleviation and Development of the State Council, "Presentation of the Development-Oriented Poverty Alleviation Program in Rural China" ("Zhongguo nongcun fupin kaifa gaiyao" 中国农村扶贫开发概要) of Sept. 28, 2006, www.cpad.gov.cn/data/2006/1120/article_331600.htm (accessed on Aug. 15, 2010).

19 Wong, *loc. cit.*, p. 194.

20 Liu Dongmei, *loc. cit.*, p. 191.

a) Health Insurance for City Dwellers

The urban health insurance is organized on similar lines to the pension scheme. The contributions of the business enterprises are accumulated in a solidarity fund. The contribution for the enterprises amounts currently to 6% of the total monthly wage payments. The insured receive payments for hospital or outpatient treatment as well as for serious chronic diseases. The contributions of the employees to the amount of 2% of their salary go into a so-called individual account, from which outpatient treatments are financed. It became problematic when the insured person needed an advance payment and it was not always clear which costs would actually be reimbursed. For this reason the principle of benefits in kind was introduced with the social insurance law.²¹ The implementation, however, will still take some years.

After the first reforms it transpired that some groups of persons had absolutely no health coverage, namely those in cities who were not employed, such as students, the handicapped, children, etc. In 2007 a system of voluntary basic health insurance was developed for which the insured persons pay a social insurance contribution. The State subsidizes the system and takes over part, so that according to statistics of the Ministry for Human Resources and Social Security, in 2012 approximately 270 million people participated.²² Since 2009 the basic health insurance has been introduced for all urban dwellers in all cities. The subsidy amounts annually to 120 RMB²³ per head from the central and local financial budget. The provisions cover the costs of hospital treatment and chronic diseases.²⁴

b) Cooperative Medical Care for the Rural Population

Due to the precarious health situation in rural areas, the Chinese government felt obliged to find relief. In 2002 a health care pilot project was introduced which helps the rural population during serious diseases. It concerns a voluntary insurance that in 2008 was implemented throughout the country.

Already by the end of 2009, according to the statistical data of the Ministry for Human Resources and Social Security 0.83 billion farmers were insured via this voluntary health insurance, which meant 94% of the rural population. These numbers are due to high state subsidies, since participation is voluntary. The rural population pays a contribution of 20 RMB per person, per year. The amount of this contribution was fixed in 2008. Since 2010 the central state and local governments add an annual subsidy of 120 RMB per capita. With that the state subsidized support for the insurance of the rural population was brought level with the subsidies for the health insurance of the city dwellers. In the case of hospitalization or outpatient treatment of serious diseases the insured person receives benefits, the amount and level of which are determined by the respective regional

21 “Zhonghua Renmin Gongheguo shehui baoxian fa” 中华人民共和国社会保险法 of Oct. 28, 2011, source: www.china.com.cn/policy/txt/2010-10/29/content_21225907.htm (accessed on July 22, 2014).

22 Ministry for Human Resources and Social Security, www.mohrss.gov.cn/SYrlzyhshbzb/dongtaixinwen/shizhengyaowen/201305/t20130528_103939.htm (accessed on Feb. 26, 2014).

23 As an orientation: according to the exchange rate in mid-October 2014, 1 RMB equals about 0.13 Euro. (Ed.)

24 Darimont – Liu Dongmei, *loc. cit.*, p. 101.

government.²⁵ Whether the idea of voluntary health insurance with state subsidies solves the problem, the future will show. In this measure it is currently unique in the world.

c) Social Medical Assistance

The development of social medical assistance became necessary because the basic health insurance for those working in cities did not cover all groups of people and for city dwellers not in employment it is voluntary. On top of that the provisions in both the basic health insurance for city workers and for city dwellers are very meager and the personal contribution for medical treatment is frequently very great. The social medical assistance, which is a kind of medical benefit, is intended to bridge that gap.²⁶ Eligible for benefit are persons who are already receiving welfare benefits or find themselves otherwise in a situation of need.

Since 2003 there have been experiments with special aid systems for medical care in rural areas. Needy persons who receive help are the Five-Guarantees-Households and poor farming families. This help is provided especially in case of serious illness and is given partially directly in the hospitals. This social medical assistance is financed by the local governments.²⁷

In cities a similar system was established to support the recipients of welfare benefits or people in difficult life situations, i.e. in the case of serious illness. Many of these regulations are, however, formulated very vaguely and the granting of concrete aid is a matter of the interpretation of the competent officials.

d) Consequences of the Reforms in the Health System

Due to rising costs in the health sector, caused by improved technology etc., a reform was introduced in the hospitals to lower the costs for the State. The hospitals received less subsidies and instead, since the 1990s more autonomy whereby they could set their own prices, thus financing themselves through the income. Those who gained from this policy were the large city hospitals, whereas many small medical establishments in rural areas could not maintain themselves and were no longer borne by their respective local governments. These establishments were closed due to lack of finance. In consequence disease increased again because education regarding hygiene was lacking. For acute medical treatment many farming folk had to travel long distances in their sick condition. One who, for example, suffered a heart attack and first had to be transported for hours to a distant hospital had little chance of survival. It was only the SARS epidemic in 2005 that led to rethinking in the political leadership.

In 2009 the Central Committee of the Communist Party decided that responsibility for community health lay with the State and a total privatization of public hospitals was out of the question. This acknowledgement of state responsibility marks a turning point

²⁵ Darimont – Liu Dongmei, *loc. cit.*, p. 102.

²⁶ Liu Dongmei, *loc. cit.*, pp. 157ff.

²⁷ Liu Dongmei, *loc. cit.*, p. 158.

in the Chinese health care system. Up till that point health care for Chinese citizens had deteriorated dramatically due to the constant privatization. The last decision of China's Communist Party envisages basic medical care for everyone. By the year 2020, 90% of the population should be covered by the basic health care. To attain this goal, the State has boosted the financial support enormously.²⁸

e) Reform Projects

To realize this goal of comprehensive security in case of illness, the Chinese government drafted various models that are practiced in different cities and counties. If one of these projects proves practicable, it will be introduced in the entire country. Frequently, however, the project areas retain their old model so that the P.R. China now has a patchwork of the most diverse health care systems. For that reason the health care system is non-transparent for many citizens, especially as they are hardly informed of their rights.

There were thoughts of establishing a free health system in the P.R. China. That idea soon turned out to be utopian, however, as especially the western regions do not have the necessary financial means for that project.²⁹ In the following, two seminal projects will be briefly presented.

A very promising project is being carried out in the County of Lanshan 藍山 which belongs to the administrative area of the prefecture-level City of Yongzhou in the south of the Chinese Province of Hunan. 350,000 residents are involved in that project. It is called the "10+100" model. That is, for every visit to the doctor, the insured person pays 10 RMB and the remainder is processed through the health insurance in which the person participates and is subsidized by the State. Admittedly the subsidy is limited to 30 RMB per visit. If the insured person needs to go to hospital, a fixed sum of 100 RMB has to be paid and the remaining amount for the costs of treatment is also taken over by the health insurance. The model is like the consultation fee in Germany. Of course, this project first has to prove its worth in practice.³⁰ In that way especially the cost of treatment is meant to be covered. Partial cost of the treatment is already supposedly lowered by 50%.³¹

Another model is the "Free health insurance for all citizens" in the district of Guandu 官渡 in Kunming City in the Province of Yunnan in the south of China. Every insured person has 75% of his/her medical costs reimbursed. Everyone who has a registration certificate³² as living in the Guandu district of Kunming City is insured. Therefore this model is not to be confused with free treatment for every citizen, as ultimately the insured

28 Darimont – Liu Dongmei, *loc. cit.*, p. 111.

29 Darimont – Liu Dongmei, *loc. cit.*, pp. 106ff.

30 "Lanshan xian 2011 nian xin nonghezijin yunxing ji '10+100' buchang gaige moshi qingkuang" 藍山县2011年新农合资金运行及“10+100”补偿改革模式情况, source: www.gov.cn/flfg/2012-12/28/content_2305570.htm (accessed on July 22, 2014).

31 "Hunan yigai tuicun 'Lanshan moshi'" 湖南医改推荐“藍山模式,” source: www.21hospital.com/wsbs/csyw/zcfg_1755/csgz_2230/shyywstzgg/gdjyjl/201206/t20120629_23090.html (accessed on July 22, 2014).

32 A *hukou* 户口 is a confirmation of registration. This system is relatively strict. People born in a rural area normally do not get a town *hukou*. The *hukou* system was introduced in the 1950s to organize the distribution of food etc. in the planned economy. Currently it serves to control urbanization, at least minimally.

persons have to pay 25% of their health costs themselves.³³ In this project the respective government subsidizes the cost of treatment to a large extent. On average the state subsidy for medical treatment amounts to 292 RMB per person per year, while the person receiving treatment pays approximately 70 RMB per year. Which of these models will be practiced in the future in the P.R. China is an open question. Possibly many other models will be tested in projects and ultimately a mixture of various practices will be selected.

3. Future Prospects

The Chinese government has realized that reforms and a systematic policy are necessary in the area of health care in order to counteract possible discontent in the population. They cannot follow a model from another country in this area of social security, since the historical, geographical and political factors in China are unique in the world. The experimental legislation that the Chinese government is carrying out – in this as in many other areas – is resulting in complexity. Those who suffer are the people who do not know what rights they have. In addition persons who have no registration certificate are not covered by the health care system. Yet precisely these people are often the most needy because, for instance, due to the one-child policy they were not registered by their parents. For example handicapped children who urgently need medical help are often not registered, so that the parents can have a second child.

Whether a health care system will come about in the People's Republic of China that really leads to relief for medical costs remains to be seen. It is already clear, however, that a very interesting development is taking place, since China is testing various models which could perhaps serve as a model in future for other developing countries.

Looking at the reality in the P.R. China, it is astonishing that this political system is still in power, given the immense social problems which the P.R. China has. Among other things, the development of the health care system will be decisive for the legitimacy of the Chinese Communist Party. Sickness touches almost everyone in life – at least indirectly; if there is no functioning health care system, it can lead to great resentment. For that reason health care will remain a challenge for the Chinese government and a cornerstone of social stability.

33 “Kunming guanduqu tui mianfei yibao geren bu jiao qian, caizheng shi fou cheng de liao?” 昆明官渡区推免费医保个人不缴钱, 财政是否撑得了?, www.guancha.cn/society/2013_10_31_182396.shtml (accessed on July 22, 2014).