

# Countermeasures on the Sustainable Development of Urban Endowment Insurance Fund

**Xu Sun**

School of Management  
Shanghai University of Engineering Science  
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China

## Abstract

*The endowment insurance fund is the insurance fund the government provide for the protection for retired worker under certain legal procedures, the basic needs of life of statutory special fund. The pension fund safe and sustainable is the basic support for the healthy development of old-age insurance system. In this paper, by analyzing the current situation and development trend of Chinese urban old-age insurance development, combined with the foreign legislation experience and put forward countermeasures of sustainable development of China's current urban pension insurance fund.*

**Keywords:** old-age insurance; sustainable development; government responsibility

## 1. Introduction

The aging global population is becoming increasingly serious, and with the defects of the system design and management problems, the loophole of pension fund has been a serious problem in many countries. To some extent, developed and developing countries which establish the old-age insurance system all over the world, have the problem of the shortage of the pension fund, some severe population aging countries even cause the financial crisis.

China's aging population situation is serious, some provinces (cities) had been living beyond their means. How to ensure the sustainable development of the endowment insurance fund, is an urgent problem that must be solved, and the heart of the matter for the pension insurance system.

## 2. The Present Situation and Tendency of Urban Endowment Insurance Fund Development

China has entered the aging society since 1999. From 2001 to 2020 is the rapid aging stage for China, under this stage, China is expected to increase 5,960,000 elderly population every year. Accelerating aging of the population is a huge test for pension fund safety test. Since 2001, the system is covering both urban state-owned enterprises and collective enterprises, although the number of insurance increased annually, the number of retired staff members are also increasing annually, the population with insured growth has been lower than the number of retired staff members growth, and pension raise mainly depends on the number of employees to participate in old-age insurance, mostly from the job retired personnel of the pension insurance. [1] According to this trend it is not difficult for us to know, the shortage of pension income situation will still continue, that means that the urban pension insurance fund balance of payments is deficit. At the same time, retired pensioners, due to system design and historical reasons, has little or no pension individual accounts, and the accumulation account is insufficient too, the state had to misappropriation the funds from the the insured individual account in order to pay retirees pensions, which leads to the so-called empty account of individual endowment.

Shanghai's pension fund payments imbalances, is more serious compared with other domestic provinces (cities). Since 1999 Shanghai's pension funds has the budget gap, fiscal fill the pension amount from 1 billion yuan, to 5 billion yuan in 2007, by the time 2009 it exceed 10 billion yuan, financial subsidies is more and more serious. [2] research groups using neural network dynamic population models, system dynamics models, estimates research on 2009~ 2020 Shanghai's urban pension insurance fund revenue and expenditure gap. And it proves that: by 2020, the cash gap will be up to hundreds of billion yuan, it is also unable to maintain the current system, huge debt that will lead to the collapse of the system model. [3]

Therefore, from the pension fund situation, urban pension fund deficit is an indisputable fact; from the development trend, the sustainable development has a huge pressure. Find out the countermeasure is reasonable and feasible, to ensure that the urban pension insurance fund sustainable development is a big topic interests at stake and nursing staff.

### ***3. International Experience of Dealing with the Endowment Insurance Fund Crisis Reference***

The sustainable development of endowment insurance fund is the world difficult problem. With the population aging process, social security coverage to potential financial pressure will gradually appear. Especially after the financial crisis, Europe and the United States and Japan and other developed countries have different extent exposed endowment pressure unbearable. The aging of the population pressure on European social burden, member states are facing serious financial difficulties. The Greek pension maximum pressure, the resulting high debt ratio increased concerns about its economic sustainability. The pension issue has become a social problem, the strike was like epidemics spread in the European Union, dilemma of sustainable development is a pension fund and its behind reflected. [4]Countries to deal with the endowment insurance fund crisis, these efforts can be summarized into the following several experiences.

#### **a) Innovation of Endowment Insurance System**

The main practices include the implementation of full funding system, nominal account system and the development of multi pillar pension mode. The fully funded individual incentive mechanism, namely personal income (treatment) and individual contribution (payment) is proportional. Theoretically, full funded system can prevent the aging of the population risk. In the early 1980s, Chile began the traditional PAYG system to a fully funded system transition, and the endowment insurance fund by the government to the private sector management. Although the Chilean reform to a certain extent, has been successful, but the practice shows that the full funded system will generate a huge implicit pension debt, and the fund investment has a lot of uncertainty. [5]

The multi pillar old-age insurance system is in addition to the basic old-age insurance by the government management, the national compulsory attendance, also created by the market management, the national voluntary or forced to participate in various forms of supplementary pension insurance.

#### **b) The Financial Investment System**

General country by means of legislation, clear the government, employers and employees to undertake in the social security system of obligation, but the financial input to the old-age insurance, and the only part of national legislation explicitly financial investment ratio.

#### **c) The Introduction of Market Mechanisms**

In order to realize the operation of pension funds to preserve and increase the value, many countries introduce market mechanism and fund investment and operation of private fund management companies, in order to improve management efficiency, to reduce the management cost to realize realization fund revenue maximization. Whether in developed countries with mature financial markets (such as the United States, England), or the developing countries which financial market is not mature (such as the Chilean pension fund), introducing the market mechanism has a successful example.

#### **d) Postpone the Retirement Age**

To postpone the retirement age can not only increase pension income, but also through the pension payment time delay to reduce pension costs, ease the pension payment pressure. But delay the retirement agetake measures. Because of the pension system reform is complex, it will inevitably cause social problems, For the controversial delay retirement age, flexible retirement, classification of some countries adopt delay retirement, piecewise delay retirement plan are worth learning from.

### ***4. Some Policy Suggestions for Sustainable Development of Urban Endowment Insurance Fund***

#### **a) Improve the Multi Pillar Pension System**

With the rapid development of aging population in China, the government treasury pressure increase, promote the construction of multi pillar pension system should be the preferred strategy in line with China's national conditions. The first pillar: strengthen the implementation of the basic endowment insurance, the government, enterprises and individuals of three contribution models, are the enterprise and individual, government subsidies, the PAYG financing.

The second pillar: encourage enterprises to build enterprise annuity insurance for employees, provided by the government preferential policies, the implementation of labor rights and obligations of the principle of combining. [6] the third pillar: the development of commercial life insurance protection use the accumulation mode of financing. With the perfect three pillar systems at the same time, encourage the younger generation of parents to provide care, also care for their own future to create a moral basis for children.

#### **b) Define the Responsibility of Government in the Old-Age Insurance Fund**

The first is to strengthen the legislative. "Social insurance law" has made clear the government responsibility in the endowment insurance fund, law enforcement should establish the public finance system, in order to make the financial system of endowment insurance fund investment.

#### **c) Improve the Flexible Retirement System**

Shanghai introduced flexible delay claim pensions policy of professional and technical personnel of enterprises, the application of this policy can be gradually extended to enterprises and other units, and gradually learn from foreign experience, which will delay the retirement and appropriate to increase the pension linked to form a flexible retirement system, encourages all employees to postpone retirement.

#### **d) Let The State-Owned Assets to Pension Fund**

The existence of implicit debt of endowment insurance system of huge conversion process, it is the elderly, people accumulated in the old system is expected to benefit all pension liabilities. The endowment insurance system reform of quite a long period of time, China's low wage for workers, workers compensation does not contain must be used for old-age insurance, can only cope with the current cost of living, not to fund future pension savings necessary. This part of the workers now have been or will be out of work posts, if they do not make the necessary compensation, the pension needs cannot be satisfied. Under the planned economy system, the profits of the enterprise full turned over to the state treasury. Because of the pay of the laborers are not included in the endowment insurance and other social necessary labor, enterprise profits turned over not only contains the surplus labour of workers, but also includes social necessary labor workers. To implement on the basis of the industrial accumulation is a mandatory accumulation, the accumulation is mandatory for the fixed assets investment of state-owned enterprises. That is to say, the state owned assets in China, it contains not only the accumulation of surplus labor, but also useful labor necessary labor formed part. In order to compensate the transformation cost, labor value must be the return of part of the necessary labor form of state assets to contribute to the.

#### **e) Improve the Market Mechanism of Endowment Insurance Fund and Reverse Mortgage Loan for the Elderly**

Based on the specification of endowment insurance fund operation, by modifying the regulations, market operation principle of the pension fund investment, institutional constraints the reform of pension insurance fund investment. Under the framework of the existing system, the risk can effectively control as the premise, optimization based proportional pension portfolio investment. Allow the old-age insurance fund investment industrial equity and equity securities, pension fund should be a longer investment cycle proceeds stable industrial shares, also can have a certain percentage for stock investment, so as to maximize the fund value and added value, improve the pension insurance fund operation and management efficiency.

Reverse mortgage loan is a new form for personal pension, may wish to actively promote the public to the housing endowment, alleviate the pressure of endowment insurance fund shortage. In the condition of mature towns will be to the housing endowment, into the urban pension insurance system, to standardize the management system and incentive mechanism. [8] the first through the pilot, making housing reverse mortgage loan management rules, norms of housing reverse mortgage loan behavior, obtain the supplementary pension more with their own housing through the housing transaction tax policy to encourage the elderly, the formation of social demonstration effect.

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