

Joint Research Report
on the Chinese and Japanese Pension Systems

Ministry of Finance,
The People's Republic of China
Ministry of Finance, Japan

August, 2018

TABLE OF CONTENTS

I. INTRODUCTION.....	2
II. OUTLINE OF CHINESE AND JAPANESE PUBLIC PENSION SYSTEMS	3
1. CHINESE PUBLIC PENSION SYSTEM.....	3
1) THE EVOLUTION AND OUTLINE OF CHINESE PUBLIC PENSION SYSTEM.....	3
i) BASIC PENSION SYSTEM FOR EMPLOYEES OF ENTERPRISES	4
ii) BASIC PENSION SYSTEM FOR RURAL AND NON-WORKING URBAN RESIDENTS.....	5
iii) REFORM OF THE RETIREMENT SYSTEM OF GOVERNMENT AGENCIES AND PUBLIC INSTITUTIONS	6
2) ACHIEVEMENTS OF AND CHALLENGES FACING CHINESE PENSION SYSTEM	7
i) ACHIEVEMENTS OF CHINESE PENSION SYSTEM	7
ii) CHALLENGES FACING CHINESE PENSION SYSTEM.....	8
2. JAPANESE PUBLIC PENSION SYSTEM.....	10
1) AN OVERVIEW OF JAPANESE PUBLIC PENSION SYSTEM	10
2) PENSION SYSTEM REFORMS IMPLEMENTED IN JAPAN.....	11
i) EXPANDING THE COVERAGE OF THE PENSION SYSTEM (REALIZATION OF “UNIVERSAL PENSION COVERAGE”)	11
ii) PERIODIC RE-ESTIMATION OF THE LONG-TERM SUSTAINABILITY OF PUBLIC PENSION SYSTEM	13
iii) ADJUSTMENT OF THE PENSION BENEFIT LEVEL	13
iv) ADJUSTMENT OF FINANCIAL SOUNDNESS ACROSS PUBLIC PENSION SYSTEMS	14
v) REFORM TO ADDRESS THE CHALLENGES POSED BY AGING POPULATION	16
III. REFLECTIONS ON JAPAN'S EXPERIENCE.....	22
IV. IMPLICATIONS FOR THE FUTURE POLICY ACTION IN CHINA.....	23
ANNEX : AGENDAS AND ATTENDANCE OF TWO JOINT SEMINARS ..	25

I. Introduction

Following the agreement between Mr. Xiao Jie, the former Minister of Finance of the People's Republic of China, and Mr. Taro Aso, Deputy Prime Minister and Minister of Finance of Japan, on the occasion of the Sixth China-Japan Finance Dialogue on May 6, 2017, both Ministries conducted joint research on the public pension systems of the two countries.

Both countries are aging rapidly, with significant implication for their pension systems and finances. They shared the view that the pension systems should, in a balanced manner, ensure an adequate level of pension benefits for the elderly as well as maintain the long-term fiscal sustainability.

Based on the mutual understanding above, they held the two joint seminars in Beijing in December 2017 and in Tokyo in February 2018.

This report summarizes the discussions in the seminars and policy implications for the future actions with regard to the pension systems in the aging societies. The report was submitted(P) in August, 2018, to both Ministers, Mr. Taro Aso, Deputy Prime Minister and Minister of Finance of Japan, and Mr. Liu Kun, the Minister of Finance of the People's Republic of China.

II. Outline of Chinese and Japanese Public Pension Systems

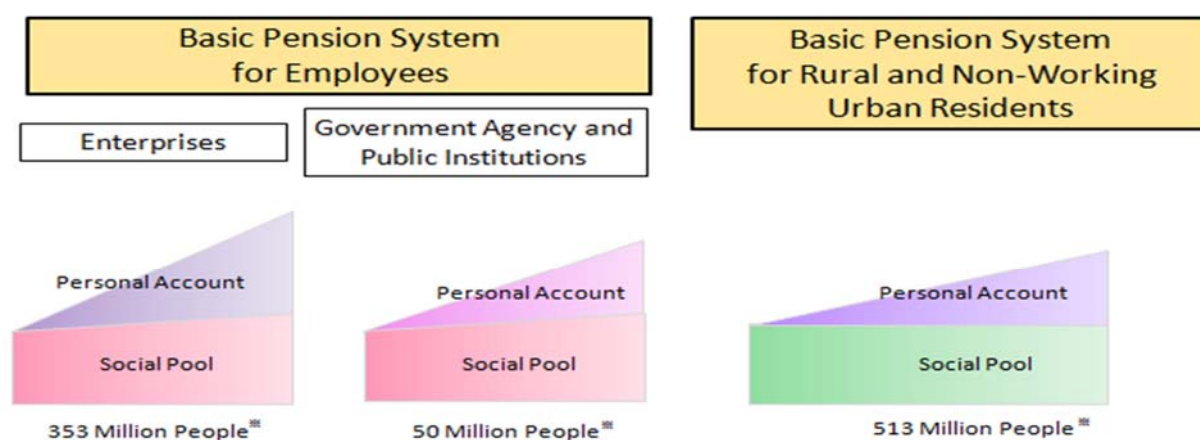
1. Chinese Public Pension System

1) The Evolution and Outline of Chinese Public Pension System

Starting from the mid-1980s, and going through persistent adjustments and improvements, China's pension system for employees of enterprises, with a social-pool-plus-personal-accounts scheme, has taken shape with its basic framework, which was marked by the *Decision on the Improvement of the Basic Pension System for Employees* issued by the State Council in 2005.

To provide better basic old-age living security for rural residents and non-working urban residents, the Chinese government launched a new-type of a rural public pension system for rural residents in 2009 and a public pension system for urban residents in 2011, respectively. The two systems, which achieved full coverage for all targeted residents in 2012, were then integrated into a unified system, namely the basic pension system for rural and non-working urban residents, in 2014. In the same year, the Chinese government started the reform of the retirement system for government agencies and public institutions, and set up the pension system for civil servants and public institutions' employees, following the same model as the basic pension system for employees of enterprises, with an occupational annuity system as a supplement.

(An overview of Chinese public pension system)



※ As of Dec, 2017

(Source) Ministry of Human Resources and Social Securities of the People's Republic of China

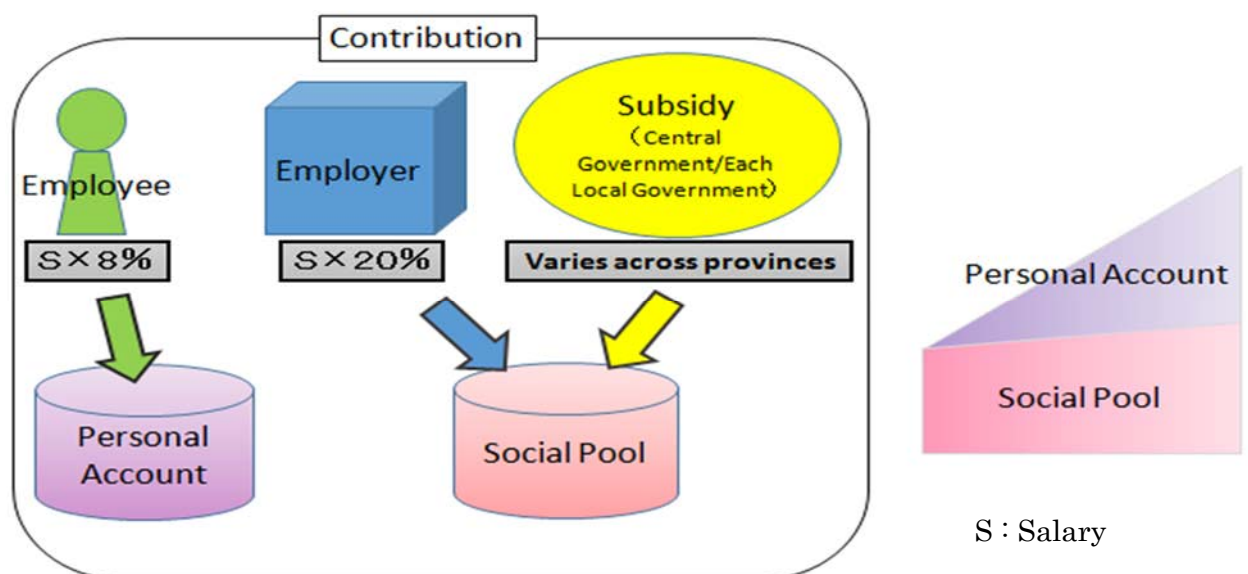
i) Basic Pension System for Employees of Enterprises

The Basic pension system for employees of enterprises is characterized with a combination of social pool and personal accounts. In general, contribution by an enterprise, which goes into the social pool, should not exceed 20% of the total payroll of the enterprise, and contribution by an employee, which goes into the personal account, accounts for 8% of the personal wage subject to contribution. The contribution base of urban individual businesses and the self employed are set at the average wage of local employees from the last year, with the contribution rate set at 20%, of which 8% is kept in personal accounts.

The payment of basic pension is composed of the basic payment and personal account payment, the former of which is calculated on factors such as the average social wage, the level of personal wage and the term of personal contribution, while the latter is calculated on factors including the balance of the personal account, the average social life expectancy and the retirement age. In addition to the basic pension system, enterprises can choose to establish enterprise annuity as a supplement.

At present, the basic pension system for employees in China is pooled at the provincial level, with some provinces unifying contribution and payment, and other provinces conducting transfers among sub-province regions' pools. By the end of 2017, the basic pension system for employees had approximately accepted 353million employees, of whom 94.77 million were retirees, and the average basic level of payment was above 2500 RMB /month.

(Basic pension system for employees of enterprises)



ii) Basic Pension System for Rural and Non-Working Urban Residents

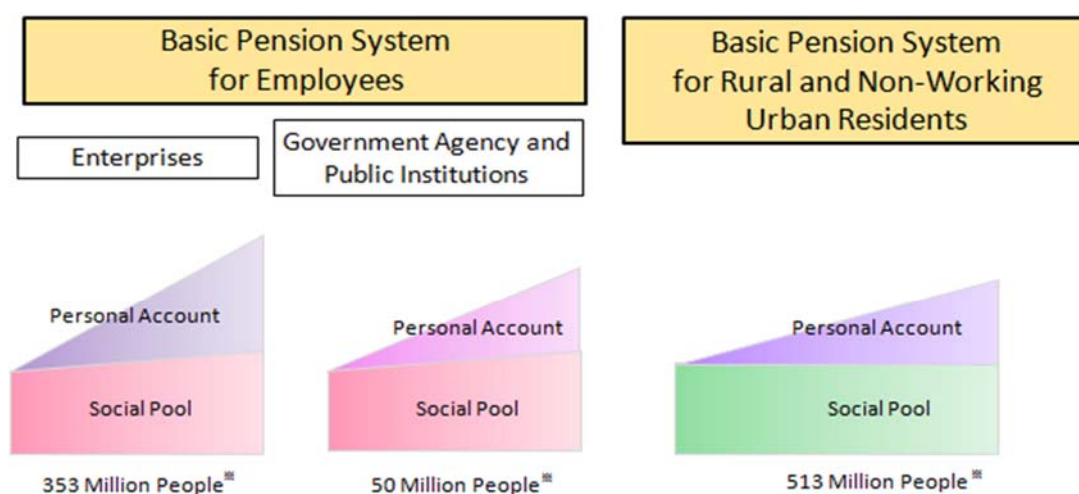
The basic pension system for rural and non-working urban residents also utilizes the social-pool-plus-personal-accounts scheme. The central government gives full subsidy to the central and western provinces in accordance with the basic payment standard set by the central government, while giving 50% subsidy to the eastern provinces.

The basic pension payment standard set by the central government in 2018 was 88 RMB per month, which would be adjusted according to economic situations and price changes. On that basis, local governments can appropriately raise the standard of payment according to local conditions.

Personal contribution standard consists of 12 levels ranging from 100 RMB to 2000 RMB per year, with local governments giving each insured person a subsidy of not less than 30 RMB per year; and for those paying a contribution of 500 RMB and above, the subsidy should not be less than 60 RMB per person per year. For families with severe disabilities and other special difficulties, the government pays all or part of the lowest level of contribution for them.

In 2017, the number of insured persons of the basic pension system for rural and non-working urban residents was approximately 510 million, of which around 290 million actually make contribution for the pension system while around 160 million actually got payment.

(Basic Pension System for Rural and Non-Working Urban Residents)



※ As of Dec, 2017

(Source) Ministry of Human Resources and Social Securities of the People's Republic of China

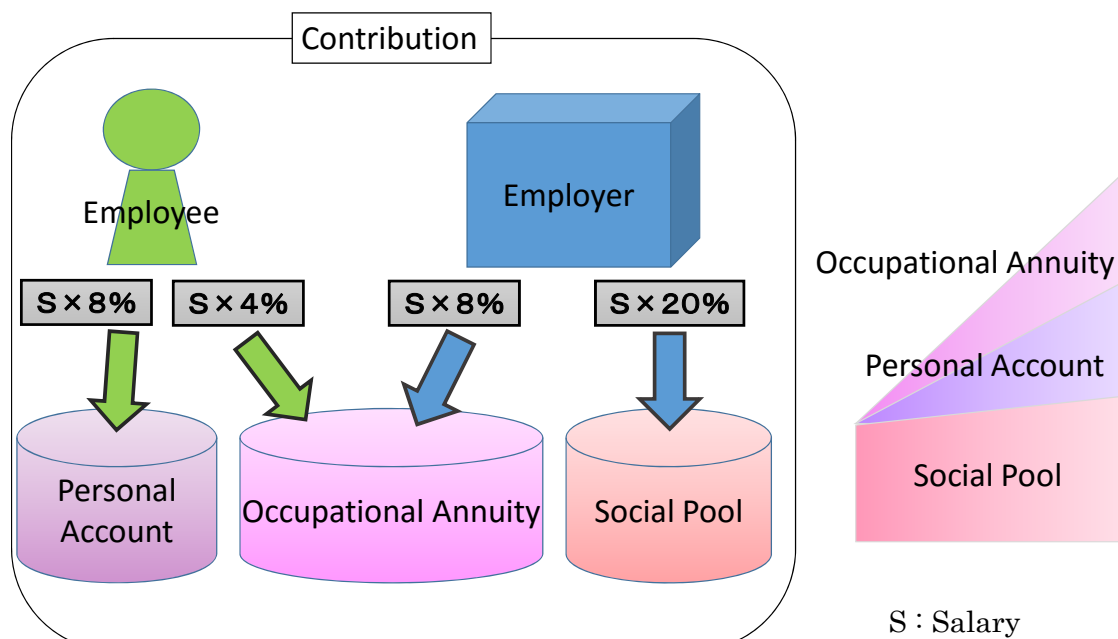
iii) Reform of the Retirement System of Government Agencies and Public Institutions

Since October 1, 2014, China has been conducting the reform of the pension system for government agencies and public institutions, and has established the pension system for civil servants and public institutions' employees, which is basically the same as the basic pension system for employees of enterprises. The government agencies subject to or loosely subject to the civil servant law and the government-affiliated public institutions and their staffs are brought into the pension system for civil servants and public institutions' employees.

Contribution for the pension system is composed of contribution from employers, equal to 20% of their total payroll, and contribution from employees, equal to 8% of their total wage. In addition, a supplementary occupational annuity is launched for all the employees engaging in the reform, with employers paying a contribution of 8% of their total payroll, and employees paying 4% of their total wage.

Again, the measures of payment of this pension system are the same as that of the pension system for employees of enterprises.

(Basic pension system for Government Agencies and Public Institutions)

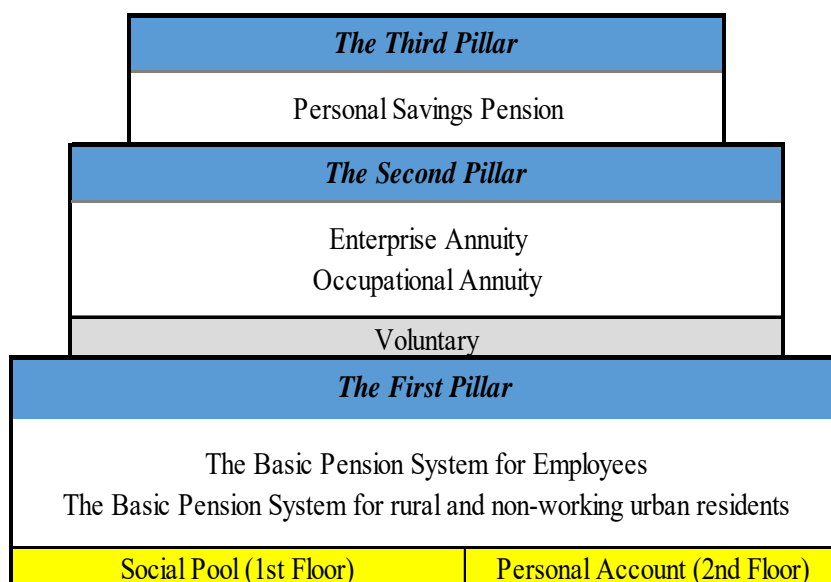


2) Achievements of and Challenges Facing Chinese Pension System

i) Achievements of Chinese Pension System

First, a complete pension framework has been established. The basic pension systems for employees of enterprises, public employees and rural and non-working urban residents can be seen together as the "first pillar" of the Chinese pension system, the enterprise annuity and occupational annuity as the "second pillar", and the personal savings pension as the "third pillar", all of which constitute a complete framework of the Chinese pension system.

Framework of Chinese Pension System

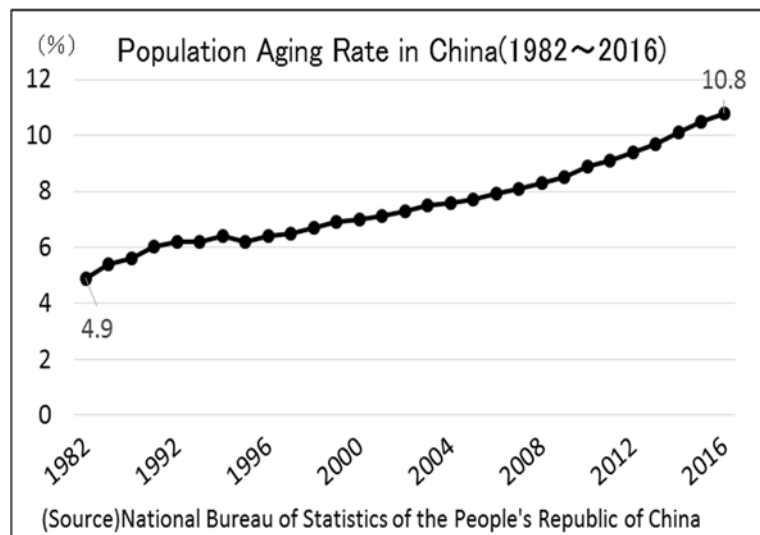


Second, coverage of the pension system has been broadening rapidly. The whole unified basic pension system composed of the one for employees of enterprises, the one for public employees and the one for rural and non-working urban residents covers nearly 900 million persons, which is the largest in the world as a sovereign pension program.

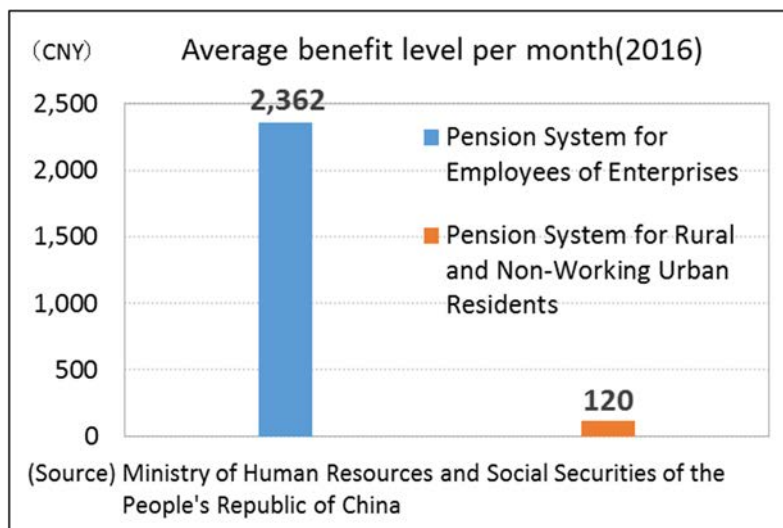
Third, the level of payment from the pension system has been steadily improved. The level of payment from the pension system of employees had been upwardly adjusted for 12 consecutive years, from around 700 RMB in 2005 to more than 2300 RMB in 2016. A reasonable adjustment mechanism of payment has been established for rural and non-working urban residents' basic pension, and the payment will also increase steadily.

ii) Challenges Facing Chinese Pension System

First, aging of the population poses a great challenge. At the end of 2016, with the number of people over the age of 60 soaring to 230 million, accounting for 16.7% of the total population, China was the only country in the world whose elderly population was over two hundred millions. Among the elderly, 150 million are over the age of 65, accounting for 10.8% of the total population. Aging of the population has led to a gradual decline of the dependency ratio in the pension system, causing pension funds in some provinces to fall short.



Second, the level of protection for the rural and non-working residents' pension is low. At present, in the pension system for rural and non-working residents, with contribution from the insured people relatively low and the pension mainly funded by subsidies of governments of different levels, the overall level of protection is not high.



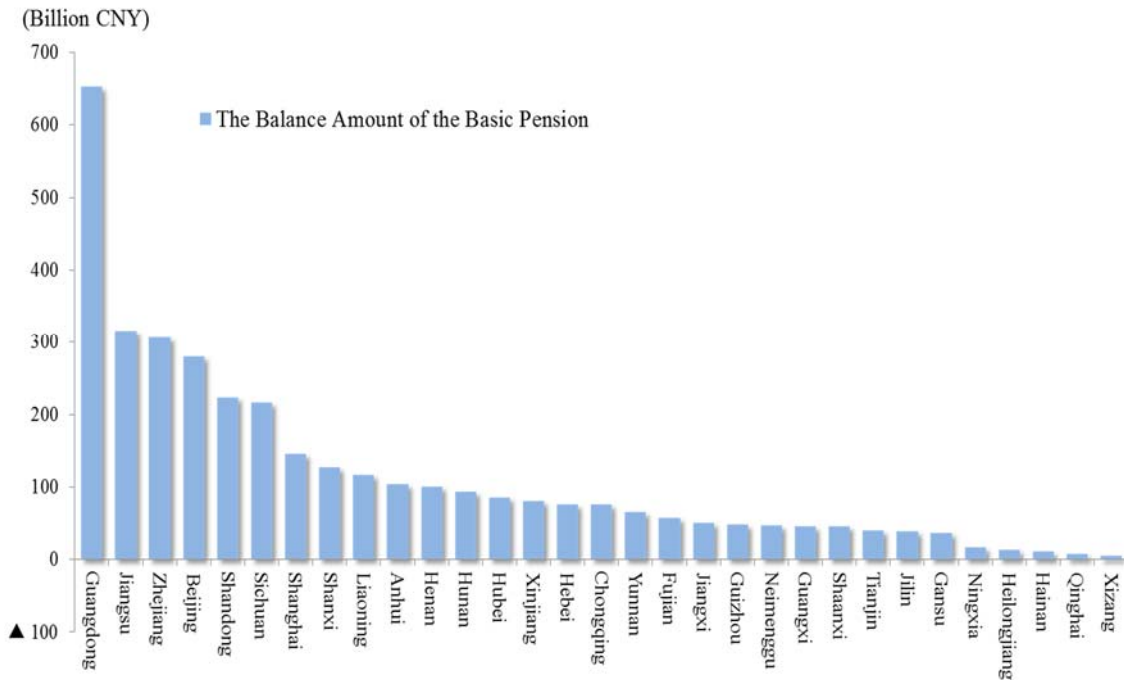
Third, sustainability of the pension system is to be enhanced. Although the employees' pension fund still has a large surplus currently, the pressure of payment is increasing and the sustainability of the system needs to be further strengthened considering the aging effect of the population.

The 19th National Congress of the Communist Party of China has decided to further deepen the reform of the pension system, putting forward that "We will act on the policy requirements to help those most in need, to build a tightly woven safety net, and to build the necessary institutions, as we work to develop a sustainable multi-tiered social security system that covers the entire population in both urban and rural areas, with clearly defined rights and responsibilities, and support that hits the right level. We will work to see that everyone has access to social security. We will improve the basic pension schemes for urban employees, and for rural and non-working urban residents, and quickly bring pension schemes under national unified management." In accordance with the decision, the Chinese government is further deepening the reform of the pension system, including speeding up national unified management of the pension system, transferring part of state-owned capital to the social security fund, gradually postponing the retirement age and strengthening the incentive and restraint mechanism.

As the State Council published *Circular on Establishing the Central Adjustment Scheme for the Basic Pension Fund of Enterprise Employees* in June, 2018, the Chinese government launched the central adjustment mechanism for the basic pension fund of enterprise of employees and pushed national unified management to take the first step. By the central adjustment scheme, the government transfers pension fund surplus in provinces with sound balance to those with deficit, so as to resolve the risk of shortage of payment in some provinces. Meanwhile, the Chinese government is considering policies including the unification of contribution rates of basic pensions,

promoting actively the establishment of incentive and restraint mechanism in the pension system, strengthening the information construction of social insurance, and clarifying the authority and expenditure responsibility between central and local government, by all the measures, to achieve national unified management of pension as soon as possible.

(The Balance Amount of the Basic Pension across region at the end of 2015)



(Source) Ministry of Human Resources and Social Security of the People's Republic of China

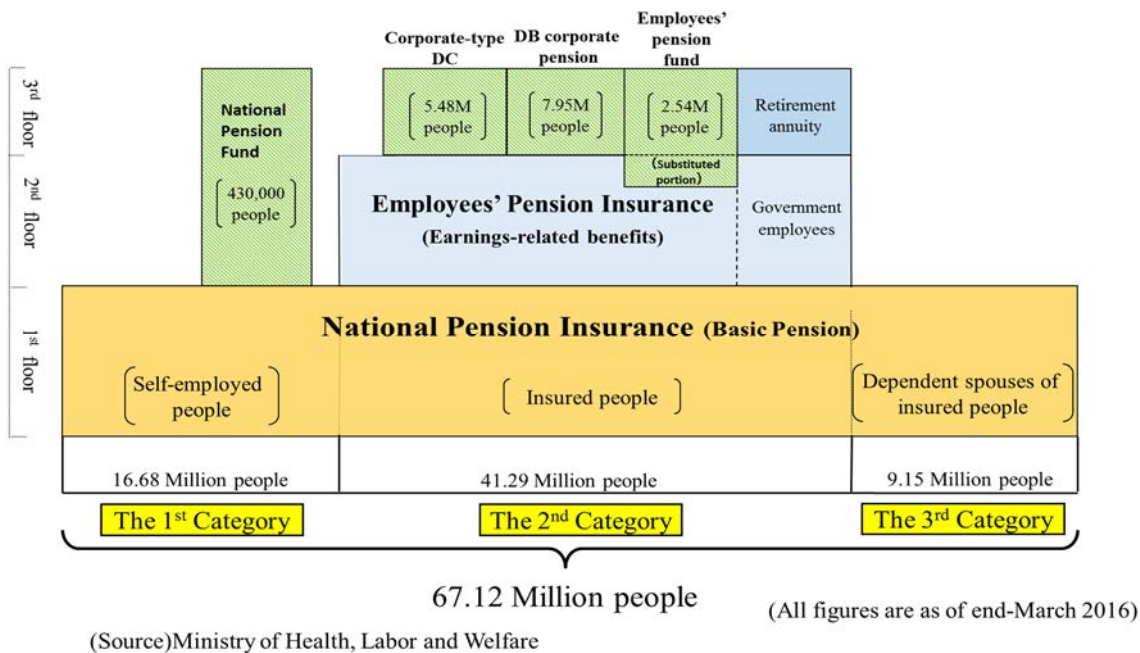
2. Japanese Public Pension System

1) An overview of Japanese Public Pension System

The public old-age pension system in Japan is a social security system for covering a risk of income decrease in the old age, offering benefits linked to the working-age contributions. Japan introduced a universal public pension system in 1961. It is a defined-benefit scheme and runs on a pay-as-you-go basis while the significant amount of financial assets is held by public pension funds (most notably the Government Pension Investment Fund (GPIF).)

The Japanese public pension system has three categories of insured and three floors of contributions and benefits. First, employees are enrolled in Employee's Pension Insurance (EPI), pay contributions broadly in proportion to their earnings, and receive both the Basic Pension (1st floor system) and benefits based on their past contributions (second tier). Second, while dependents of employees are insured under National Pension (NP) but exempt from paying contributions, they are entitled to the basic pension. Third, others (e.g., the self-employed and their spouses, unemployed) are enrolled in NP, pay a fixed amount and receive the basic pension. Finally, voluntary pension schemes provide the third floor of the system, either through employers, insurance companies and public entities.

(Scheme of Japanese Public Pension System)



(The 1st Category) Self-employed under National Pension Insurance

(About 16.68 million people)

(The 2nd Category) Salaried employees under Employee's Pension Insurance

(About 41.29 million people)

(The 3rd Category) Employees' dependent spouses covered by Employee's Pension Insurance

(About 9.15 million people)

Japanese government has continued the efforts to reform the public pension system, improving the function, equity and sustainability, and broadening the coverage of the insured people and adjusting the balance of contributions and benefits in tandem with the economic and social changes.

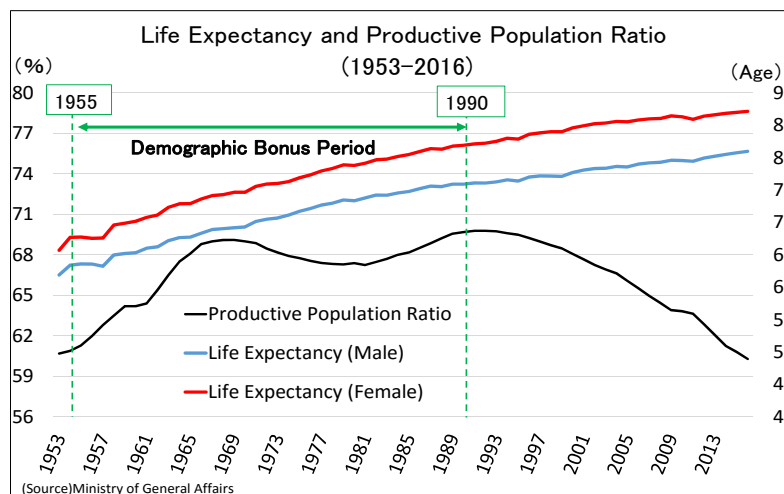
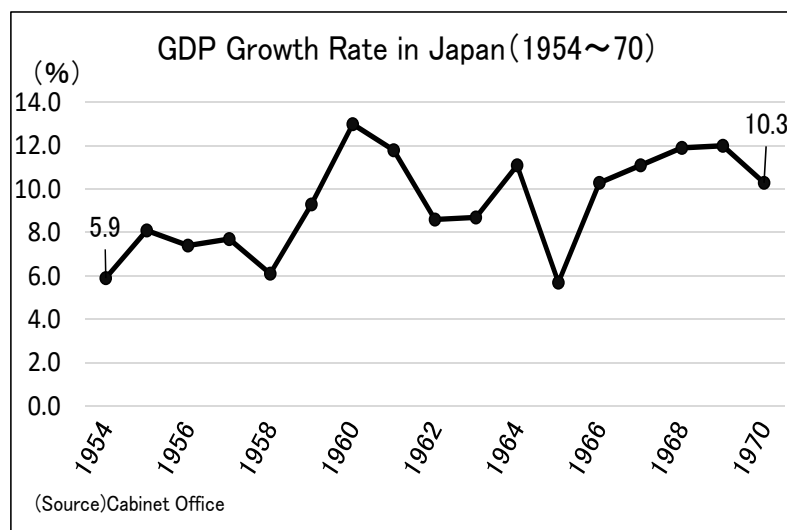
The following section explain 5 major pension system reforms or mechanisms in Japan:

- i) Expanding the coverage of the pension system,
(Realization of "Universal Pension Coverage")
- ii) Periodic re-estimation of the long-term sustainability of public pension system,
- iii) Adjustment of the pension benefit level,
- iv) Adjustment of financial soundness across the public pension systems,
- v) Reform to address the challenges posed by aging population.

2) Pension System Reforms Implemented in Japan

i) Expanding the Coverage of the Public Pension System (Realization of “Universal Pension Coverage”)

The government took several steps over the decades to expand the range of the insured people by adding up different pension systems, each of which was linked to specific occupational categories. It was under the expectation of continued positive economic growth and improving longevity that the government pushed forward the idea of broadening the pension coverage.



*"Demographic Bonus Period" refers to the situation that the productive population (Age 15-64) grows at a faster pace than the total population. In Japan, it is often said that the “Demographic Bonus Period” was roughly from 1955 to 1990.

A pension system for employees started for factory and coal laborers in 1942, which

then broadened the scope of employees in 1944 (EPI: Employees' Pension Insurance). In 1950s, a pension system for government employees including school teachers (MAA: Mutual Aid Association) was also established. A comprehensive pension system (NPI: National Pension Insurance) for the self-employed, farmers, forestry and fisheries, and the unemployed was established in 1961, when the government declared the achievement of "Universal Pension Coverage".

The EPI consisted of two system linked respectively to fixed and earning-related portions of benefit. The fixed benefit was introduced mainly for the purpose of income redistribution. In line with the retirement ages at that time, the beginning age of receiving benefits was originally set at 60 for the male and at 55 for the female, with a minimum 25-year contributory period. NPI adopted a flat rate benefit structure which reflected the length of the contribution period. The simple structure reflects the difficulty in capturing the accurate income of the self-employed, the majority of NPI participants. Based on the assumption that the self-employed did not have a prescribed retirement age, the beginning age of benefits was set at 65 years old.

While the public pension system intended to be self-sustainable as much as possible, the government introduced subsidy in order to improve the sustainability of the system. The level of subsidy varied across different time periods. In EPI, subsidy contributed 10-15% of the total benefit in the initial period. As for NPI, subsidy provided a greater contribution, considering that NPI had a larger number of low-income insured. In 1985, when "Basic Pension" was established, level of subsidy was set at roughly one third of both EPI and NPI benefits.

ii) Periodic Re-estimation of the Long-term Sustainability of the Public Pension System

One of the challenges after the establishment of the pension system is to secure a reliable level of income compensation in the old-age in response to the change and challenge of the socio-economy in Japan, while maintaining the long-term sustainability of the pension system. The government institutionalized a periodical (every 5 years) process to re-estimate long-term sustainability of the pension system over the decades, taking into account the outlook for demography, workforce rate, income, and consumer price etc. ("Actuarial Valuation") Based on the long-term estimation, adjustment between benefit and contribution has been conducted.

iii) Adjustment of the Pension Benefit Level

iii)-1. “Indexation”

In order to function as income compensation in the older ages, the pension system should maintain the level of benefit in real terms, in tandem with the increase in wage and inflation. Therefore, “Indexation”, which periodically adjusts the benefit standard based on the level of wage and consumer price, was introduced in 1973.

iii)-2. Demonstrating the Benchmark of the Benefit Level of the EPI (The Income Replacement Rational Model Household)

Demonstrating the benefit standard in a model household is one of the essential measures to build up public understanding on pension system. In fact, the government introduces a clear benchmark of the benefit level of the EPI.ⁱ The income replacement ratio represents how much pension benefit a model household can receive in a month, compared to the income during the working age. This ratio has played a communication role to convey the overview of the public pension system in terms of the real value of the benefits as well as the policy objective for adjustment.

The minimum benefit level of the income replacement ratio has been around 60% or higher, considering that the elderly do not usually take full-fledged responsibility of child-raising in their life stage. The current floor ratio is set at 50%, reflecting the declining economic growth and aging population. The government is supposed to take necessary actions when the ratio is projected to be below 50%. The most recent ratio, which was developed at the timing of the Actuarial Valuation in 2014, was 62.7%. The estimation shows that the ratio can be maintained at 50%, under the assumption that economic growth continues to a certain level over the future.

The Income Replacement Ratioⁱⁱ(1973-2014)

ⁱ The model household is defined as a family with a husband, wife and two children, and it is assumed that the husband worked as a salaried worker earning the average wage for 40 years and the wife is dependent for the same period.

ⁱⁱThe income replacement ratio in a model household

$$= \frac{\text{Pension benefit paid by Employee's Pension Insurance}}{\text{Average net income (including bonus) of a male of active age}}$$

1973	1976	1980	1984	1989	1994	1999	2004	2009	2014
62%	64%	68%	69%	69%	68%	59%	59%	62.3%	62.7%

(Source)Ministry of Health, Labor and Welfare

iv) Adjustment of Financial Soundness across the Public Pension Systems

iv)-1.Introduction of “Basic Pension”

Building on the positive public acceptance of universal pension coverage, the government took next steps to improve pensioners’ equity by addressing financial gaps across the pension systems, such as NPI, MAA, and EPI. Original structure and conditions such as threshold age, level of contributions and benefits varied across the pension systems due to their different backgrounds. In addition, socio-economic changes such as relative increase in the number of employees compared to that of the self-employed also changed the balance between insured people and pensioners in each pension system and broadened the financial gaps across them, as seen in Pension Dependent Rate below (calculated by dividing the number of contributors with that of pensioners).

(The numbers of contributors and pensioners at the end of FY1985)

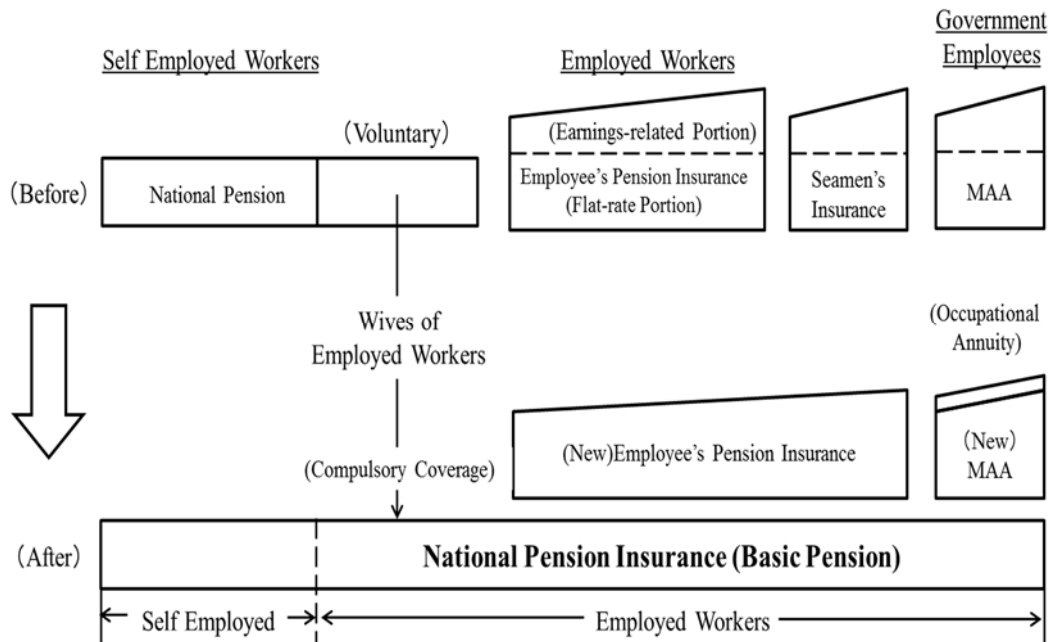
	Contributor(1)	Pensioner (2)	(1)/(2) (Pension Dependent Rate)
NPI	25.09 Million	6.85 Million	3.7
EPI	27.23 Million	3.34 Million	8.1
MAA	5.91 Million	1.77 Million	3.3

(Source)Ministry of Health, Labor and Welfare

The year 1985 is the epoch-making year when the Japanese government established an integrated system, “Basic Pension”, to address the financial gaps. In this new framework, NPI, EPI and MAA transfer part of collected contributions to NPI, which pays out common flat benefits to pensioners in all the three systems. To realize unbiased burden sharing across systems, the relative size of the transfer to NPI is determined in line with the number of the working-age contributors in each system. The modality of government’s subsidy to pension system was also streamlined so that BP receives the subsidy.

In the 1985 reform, the pension status of employee's dependent spouses, who had been only NPI's voluntary participants, was also changed to be EPI's compulsory participants. While it had been originally assumed that the employee's pension can support the living of the elderly dependent spouse, the reform motive came from the emerging necessity to assure minimum income for divorced women.

(An overview of the 1985 pension system reform in Japan)



(Source) Ministry of Health, Labor and Welfare

iv)-2. Integration of Employee's Pension Insurance and Mutual Aid Association

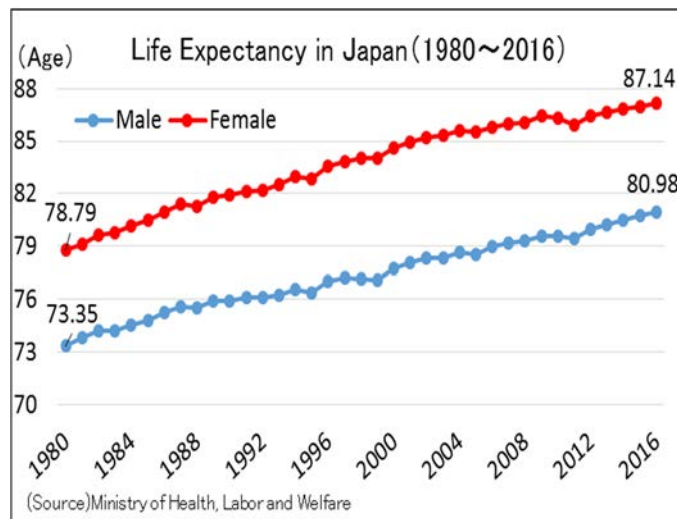
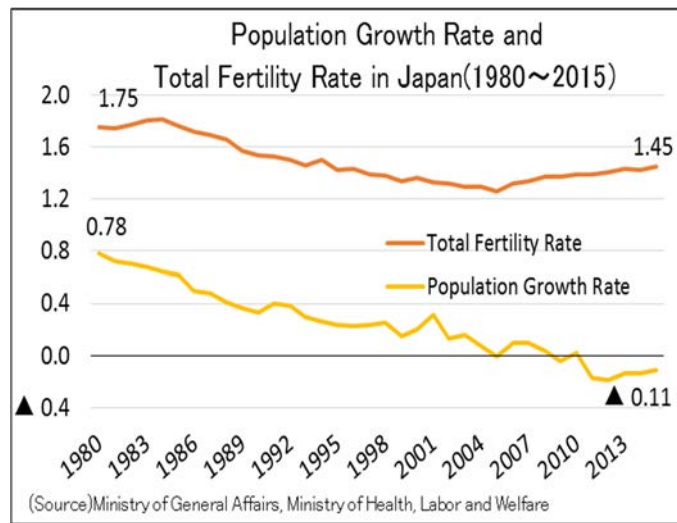
The financial gap between EPI and MAA, both of which had been kept separated after the 1985 reform, expanded as the numerical balance of contributors and pensioners in the two schemes changed. Public voice for equal treatment among employees prompted the government to take remedial actions and the unification of the two systems was completed in 2015.

v) Reform to address the Challenges Posed by Aging Population

Since the 1980s, aging population, improving longevity and declining birth rate have required the government to address the growing challenge of the sustainability of the pension system. Especially, in the 2004 reform, fundamental measures were taken to adjust burden sharing among contributors, pensioners and taxpayers so as to make the pension system "safer and more sustainable for 100 years ahead". The following parts describe each component of the past reforms.

v)-1.Postponemen of the Beginning Age of the Benefits in Employee’s Pension Insurance

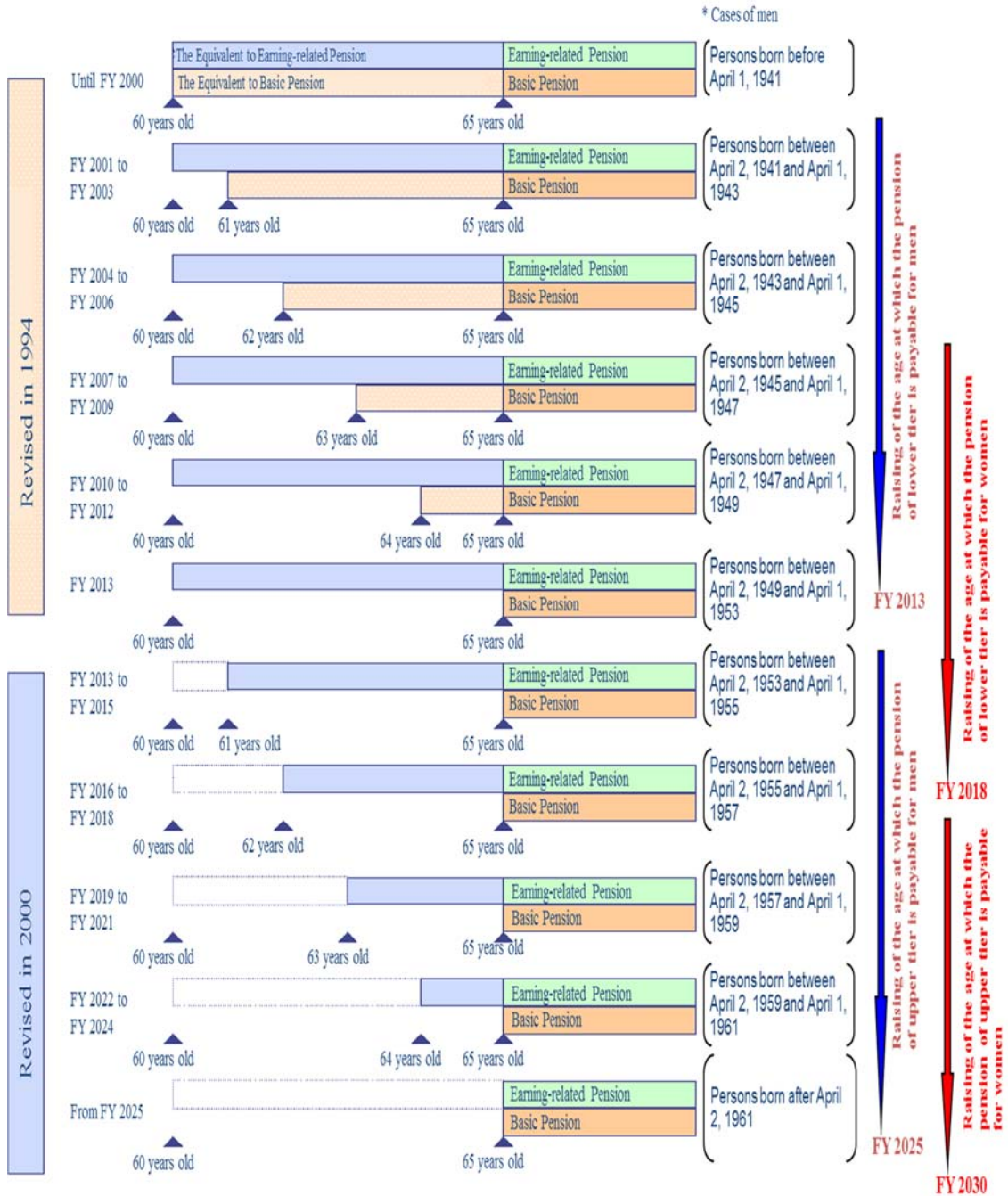
The government has postponed the beginning age of receiving benefits several times over the decades in order to limit the total amount of benefits and to maintain the sustainability of the pension system. Since the beginning age is closely linked with the retirement age of the employees, the changes had been always made in phases over the decades. The difference in retirement age between male and female employees had been taken into account as well.



As a result of the government’s persistent efforts and growing public understanding, in 1994, as the beginning age of the EPI flat-rate portion was lifted from 60 to 65, which was implemented over 13 years stepwise, starting from FY2001 until FY2013 (In case of men). In 2000, the similar reform was also introduced in the EPI

earning-related portion (from 60 to 65 in 13-yearsteps, from FY2013 to FY2025 in case of men). In both cases, the lifting schedule for women was scheduled 5 years behind that for men. As a result of these reforms, the beginning age of benefits will be 65 years old from FY2030 in all pension systems.

(Schedule for postponing the beginning age of benefits)



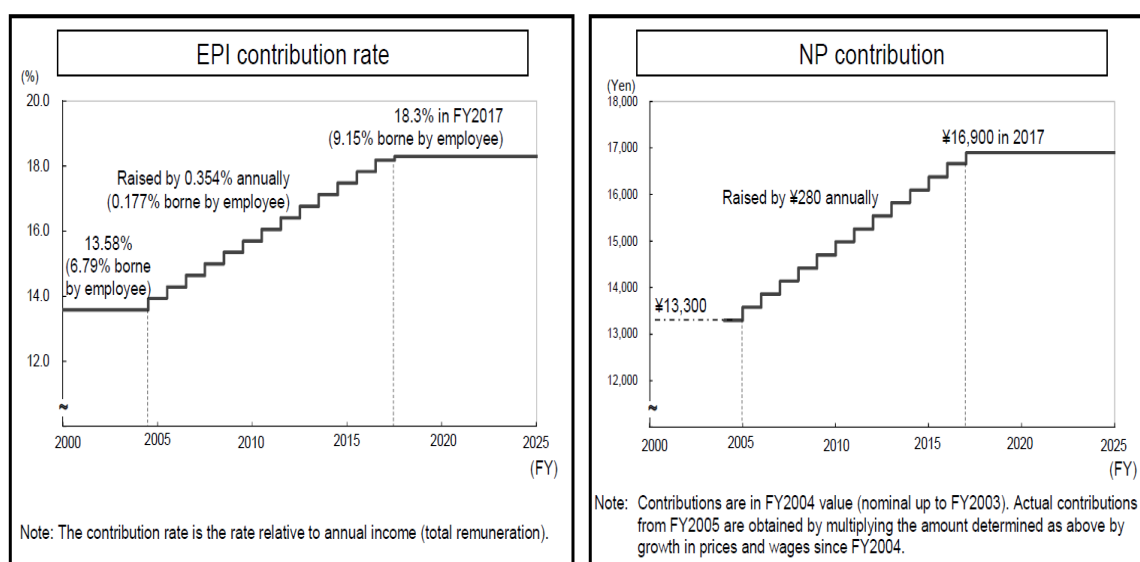
(Source)Ministry of Health, Labor and Welfare

(Note) Adjustment for women are to be carried out with 5-year behind.

v)-2.Fixing the Level of Contribution (Burden on Contributors)

In response to the growing number of pensioners and the declining number of contributors, the level of contributions has been intermittently lifted since the 1980s to cover increasing pay-outs of pension benefits. In the 2004 reforms, in order to secure the sustainability of pension finances amid rapid aging, the government introduced a gradual increase in the contribution level until fiscal year 2017, after which they are fixedⁱⁱⁱ.

(Approach to fixing contribution levels)



(Source)Ministry of Health, Labor and Welfare

v)-3.Introduction of Automatic Adjustment Mechanism (AAM)

(Burden on Pensioners and Contributors)

The 2004 reform also introduced an AAM (“macroeconomic indexing”) to adjust benefit levels in an efficient and gradual manner. Under this framework, pension benefits are automatically adjusted to demographic changes such as size of labor force and longevity.

ⁱⁱⁱAs for the Basic pension, the level was 13,300 JPY in 2004. That was increased by 280 JPY every year, and fixed after 2017 at 16,900 JPY (FY 2004 value). Regarding EPI, the contribution rate in 2004 was 13.58% of salaries, and the rate was raised by 0.354% every year. Finally, that was fixed after 2017 at the rate of 18.3% (9.15% borne respectively by employees and employers).

The macroeconomic indexing intends to allow the pension benefits to be reduced in real terms by keeping increases in benefits slower than that in wage and price until pension sustainability is secured. The extent of adjustment reflects (i) the changes in the average longevity and (ii) in the number of the insured.

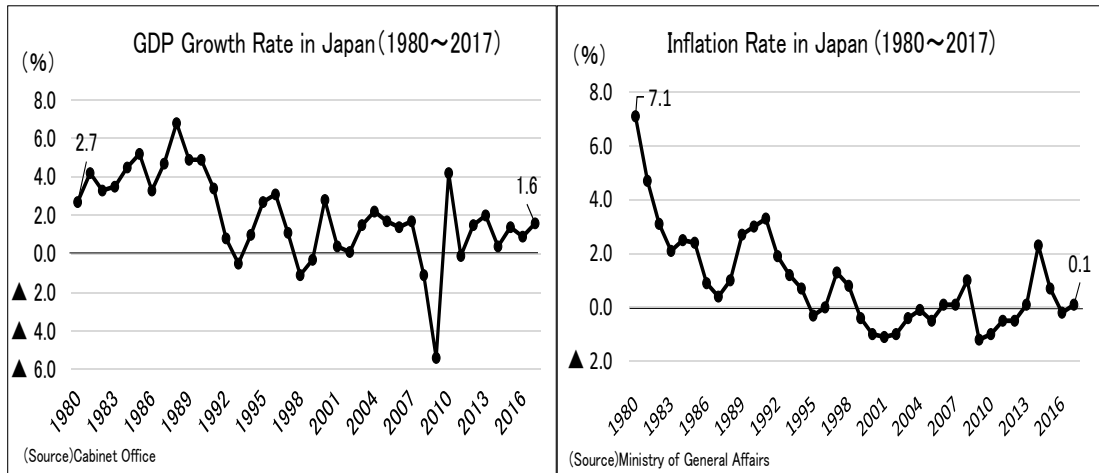
The aim of the scheme is to secure the sustainability of pension finance by gradually adjusting benefit levels based on demographic trend and labor market. It is expected that this framework assures the pension systems to complete the necessary adjustments in a gradual manner to maintain the minimum level of benefit, 50% of the income replacement ratio, as well as long-term sustainability of the pension systems^{iv}. If and when the replacement ratio is expected to go below 50%, additional reform will be called for.

v)-4. Increase of the Level of Subsidy (Support from the Government)

In addition to adjusting burden sharing between contributors and pensioners, the government also decided to increase the amount of subsidy in order to make sure the targeted level of pension benefits would be achieved over the foreseeable future. It was decided that the size of subsidy was increased from one third to half of the total pay-out of benefits. Additional finance for this change is covered by the consumption tax hike.

Especially, in this context, the cooperation between the pension authority (Ministry of Health, Labor and Welfare) and the fiscal authority (Ministry of Finance) was a key to carry out the reform as the sustainability of the pension system was also linked to the size of subsidy. In order to raise public awareness and devise a plausible reform plan, the two ministries, beyond close internal coordination, made full use of each formal consultation process conducted by nominated external experts.

^{iv} As the macroeconomic indexing is not designed to operate under deflation, it took effect only in 2015 since the introduction.



v)-5. Enhancement of the Transparency of the Pension System

After the 2004 pension reforms, in order to improve people’s confidence on sustainability of the public pension system, the government took a measure to improve the transparency of the pension system.

The Japanese government started to inform insured individuals of pension records, such as contributions, the estimated amount of benefit he/she would get, by a letter on a regular basis (“Pension Coverage Regular Notice”).

III. Reflections on Japan's experience

A series of Japan's struggles to improve the pension system gave some reflections to secure an adequate level of pension benefits as well as long-term fiscal sustainability in a balanced manner. Those include:

- Public awareness on the roles of the pension systems is key to carry out reforms. In this context, clear, thorough and persistent communications by the government as well as coordinated actions of the fiscal and pension authorities are essential.
- Remedial policy actions should be based on periodical checks of the long-term soundness of pension finances. Prudent assumptions on key parameters and reasonable scenarios, such as the total fertility rate, longevity, population, labor force participation, wages and prices, should be used, because the credibility of the examination depends on the realism of those assumptions.
- Policy options for adjustment would include:
 - i) Adjustment of the level of pension contributors,
 - ii) Review of the level of subsidy,
 - iii) Adjustment of the pension eligibility age,
 - iv) Adjustment of the level of pension benefits, including review of the benefit formula and indexation. The introduction of Automatic Adjustment Mechanism (AAM) would be helpful for smooth adjustment.
- Establishing the fiscal coordination mechanism, including the introduction of common pooling across the different systems, would be helpful to adjust fiscal disparities across the systems and ensure equity.

IV. Implications for the future policy action in China

Chinese government is committed to further deepen the reform of the pension system, and Japanese practice and reflections in this respect bear important policy implications for China. Those include:

- Essential factors for design and operation of the pension system

A long-term actuarial balance management framework should be implemented on the basis of national unified management. Actuarial balance models should fully consider the factors that affect sustainability of the pension system, such as social factors, economy and population, and indicators and parameter systems in the models should be scientifically designed. The actuarial balance verification would be carried out regularly every several years to comprehensively assess the long-term sustainability of the pension system and to start policy adjustment processes with rules set in advance to restore the sustainability of the pension system according to verification results. Especially, efforts should be focused on introducing a mechanism automatically adjusting the level of pension payment according to the changes of socioeconomic parameters, so as to prevent uncontrolled growth of the level of pension payment.

The responsibility boundary should be clearly defined between public finance and the sustainability of the pension system with rules established in advance. Otherwise, the increase in pension payment would be out of control and the efficiency of the use of the pension system will decrease. The national financial subsidy for the public pensions should avoid the ad-hoc “individual case analysis” mode to prevent fragmentation of allocation of public finance money.

The methods and paths for the adjustment of pension policy should be properly designed. In the process of adjusting pension policy subject to the actuarial balance management framework, the focus and implementation of the policy should be scientifically selected while fully considering and respecting the public sentiment. The policy adjustment should seek to ensure adequate level of pension benefits for the elderly, taking into consideration long-term sustainability as mentioned below.

Established policy measures including transferring part of state-owned capital to the

social security fund and the introduction of the central adjustment mechanism for the basic pension fund should be advanced proactively and steadily, so as to achieve the national unified management as soon as possible and establish a pension system with equity and sustainability.

- Proactive reforms to enhance pension sustainability.

Since pension sustainability is a systematic and long-term issue, the reform of the pension system should fully be advanced with foresight and initiative, and the reform path of “crisis forcing” is surely inappropriate. Specific policy options should be considered and implemented in a proactive manner, especially in case the actuarial balance verification shows a concern over the sustainability of the pension system. “Saving for a rainy day” is far better than “mending the fold after the sheep is lost”. Passive and submissive thinking will cause reform to happen after a problem arises, which will not only lose the best time for reform, but also lead to extra social and economic costs.

- The value of public understanding and government communication for enhancing pension sustainability.

Public understanding is of great significance for the reform to enhance pension sustainability. Government agencies should fully show to the public, in a coordinated manner, the challenges facing the sustainability of the pension system through communication means.

In the first place, the government should reach a broad public consensus on the necessity of the reform, appealing to the public's sense of importance attached to inter-generational equity and welfare of future generations, to obtain understanding and support from the current insured people.

In the second place, for specific reform programs, the government should do a good job explaining in a popular way how to respond to different characteristics of different groups of people on the basis of professional decision-making, especially the explanation of direct influence of the policy adjustment on individuals.

Annex : Agendas and Attendance of Two Joint Seminars

The 1st Joint Seminar in Beijing

(Date and Time)

December 7th, 2017 (Thu) 13:30-17:30

(Attendees)

Japan	China
<ul style="list-style-type: none">● Ministry of Finance, Japan● Embassy of Japan in China● External Experts	<ul style="list-style-type: none">● Ministry of Finance, People's Republic of China● National Council for Social Security Fund● Department of Finance of Jiangsu Province● Department of Finance of Shaanxi Province● China Life Invest Holding Corporation

(Discussed Agenda)

- The Chinese Basic Pension System and Future Reform
- Outlook of China-Japan Economic and Financial Cooperation
- Management and Operation of Basic Pension System in Jiangsu Province
- Management and Operation of Basin Pension System in Shaanxi Province
- Management Framework and Investment of National Social Security Fund
- Current Situation and Development Trends of Commercial Pension Insurance in China

The 2nd Joint Seminar in Tokyo

(Date and Time)

February 1st, 2018 (Thu) 13:30-17:00

(Attendees)

Japan	China
✓ Ministry of Finance, Japan ✓ Ministry of Health, Labour and Welfare, Japan ✓ External Experts	✓ Ministry of Finance, People's Republic of China

(Discussed Agenda)

- Overview and Challenge of the Japanese Public Pension System
- Methods for Long-Term Assumption and Actuarial Valuation
- Implications for the Future Policy Action