

China's Gains from UK's Practice in Raising Pension Insurance Fund

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Abstract

Difficulties in raising pension fund interfere our social, economic and political development and stability. Pension insurance practice of United Kingdom (UK) sheds light on China's pension raising. Misunderstandings and few channels of China's social pension insurance make it difficult to get fund raising. Therefore, it is important to gain proper guidance and support from the government and the businesses and to open up pension fund raising channels. System theory is conducive to analyzing this problem.

Keywords

Pension Fund, Pension Scheme, Maintain and Increase the Value, System Theory

1. Introduction

With a large population base, China will reach the peak of aging population roughly in 2010-2020, when the raising and management of basic pension insurance fund are still in its infancy. By 2050, China's population dependency ratio (over 60 years old) will be more than 20%, and the population dependency ratio (over 65 years old) will be more than 27%, with the pressure intensified. In this regard, the insurance industry has gained more attention from the government and businesses. In August 2014, Opinions on Accelerating the Development of Modern Insurance Services, also known as the "National Ten (Provisions)" for insurance industry development, opened the door to new development in the insurance industry and indicated a real road for the management of basic pension insurance fund, thus improving the status of the insurance industry in the country. China's large population and great potential consumption power of the pension insurance market give a certain room for the development of pension insurance.

According to the international standards, when a country's population aged over 60 accounts for more than 10 percent of the national total, or population aged over 65 more than 7%, it enters the aging stage. Since the beginning of the 21st century, the elderly dependency ratio in most countries of the world continues to rise, and many countries are facing a severe test in the basic pension insurance. For example, the United Kingdom is facing a more obvious trend of aging population during the past decade. By 2035, the elderly population will be 17 million in UK, equivalent to 23% of its total population. State pension is increasingly overwhelmed. Britain and other developed countries have adopted a number of ways to solve the problem. Their practice in terms of raising the pension fund can offer an example for China. Pension insurance is an important livelihood security for

the elderly, but many people lack understanding of the importance of insurance. How to increase the pension funding and expand the channel to raise pension fund is the major problem urgently to be solved at present for the basic pension fund management [1].

2. Related Research and Literature Review

UK is the first country attempting to establish social security system and welfare system in the world, with its current (2005) pension system a united one covered under the “three pillars” model. Hu Yunchao points out that the UK pension system is the second pillar and is unique with certain “complexities”. Pension system, the second pillar, covers three parts. First, state-sponsored pension, that is, a plan connected to the national income, which is now generally known as the national supplementary pension; Second, employer-sponsored pension, namely, occupational pension scheme; Third, social business organizations or associations-initiated pension, namely, “accumulation system” programs, such as the individual pension scheme. The “three pillars” and the “complexity” of the second pillar are both formed through the continuous reform in the pension fund system by the British government. As a developed country in the Western, UK is more mature in raising pension fund, and can provide certain reference to China [2]. Li Cong (1989) proposed that in the 1870s, the British Government amended the State Earnings Related Pension Scheme (SERPS) and abolished the national-income-associated-pension system that was conducted by the Labor Party. Social Security Act of 1986 began to try to transfer some welfare responsibilities to the private sector and the community, allowing the insurance companies and other financial institutions to provide “individual pension scheme”. The British Government also conducted tax-relief policies to reduce individual income tax in terms of individual-paid pension, maintaining and increasing fund value and pension benefit scheme, which was conducive to raising pension fund [3].

Liu Min (2008) mentioned that in the 1986 British Social Security Pensions Act, the British government introduced a private pension scheme, which meant that the individuals could refuse to participate in the SERPS and occupational pension scheme and only establish a fully-accumulated private pension account, the fund charged by the pension scheme managers for the investment and operation. To encourage staff to participate in the launched private pension scheme, the British government issued a series of preferential measures. If the business units paid a minimum guaranteed pension, the business units and employees could pay the fees to the National Insurance with certain discount rate [4]. Ding Juanding (2013), who is committed to the research of the pension systems in UK and Western European countries, provided good reference and examples to understand the development of the UK pension system [5]. Liu Changping (2008) proposed that pension system in rural China was still in “institutional vacuum”. Due to the increasing aging rural population and the declining function of family and land security, it is a major task to establish a new sustainable rural pension insurance system [6].

The mentioned scholars have done studies in the pension insurance system, but more researches remain to be done in terms of raising fund. UK’s pension fund is based on a relatively mature insurance system, and UK people have relatively high awareness of risks. If it is to be applied to China, further improvement needs to be done.

3. Research Methods: System Theory and Its Applications

3.1. Introduction of System Theory

In 1947, the Austrian biologist von Bertalanffy published General System Theory, laying the foundation for system theory. According to system theory, system is an organic whole with a specific function that is composed of several interrelated and mutually-restricted elements. All the things, phenomena and processes in the world are almost all organic wholes, which are systems within themselves and of one another. Each system changes when it exchanges materials, energy and information with its environment. System is collective, relevant and purpose-oriented [7].

3.2. Application of System Theory

3.2.1. System Boundaries

In the process of raising the pension fund, there is also a certain range. Its main elements are: the government, insurance companies, enterprises, institutions, individuals and the capital markets with bank and securities as the core (Figure 1).

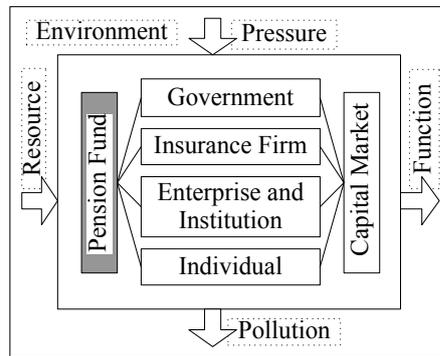


Figure 1. Pension fund raising and its system diagram.

3.2.2. Relations of Internal Elements in the System

System theory believes that there are cooperation, competition and dependence between systems. In raising pension fund, there is a complex relationship of competition and cooperation between the government, insurance companies, enterprises, individuals and other factors. In the pension fund raising process, different factors need to continuously strengthen their cooperation in order to expand the raising channels, increase funds and make sure of effective increasing and maintaining of their values. In the process of raising the pension insurance fund, the government plays a leading and supporting role, and appropriate coercion can be taken when necessary; insurance companies provide solutions for pension funds and offer future life security for the insured; enterprises and institutions provide support and play the transitional role; and individuals are both the payers for personal pension fund and the direct beneficiaries in the future. However, sometimes there can be contradictions between the various elements.

3.3. The Purpose of System Activity

System theory holds that any system activity has a certain “purpose”. The various elements of the system can promote the system activity in a certain way. In raising pension funds, various elements have their own purposes. First, the government introduces favorable policies to strengthen the publicity, aiming to create a good atmosphere that is favorable to pension fundraising; Second, the insurance companies, as the assurers, launch different pension insurance schemes targeted to the needs of different groups, timely issue the insurance dividends, meet reasonable requirements and pay insurance claims in a timely manner to establish an integrate corporate and industry image, so as to expand the sources of pension insurance; Third, enterprises make full payment of insurance for staff in time according to the provisions, so as to provide supervision and management for pension payment; Fourth, the individuals are the main targets of raising pension fund, striving to be the beneficiaries after their retirement.

3.4. Function of System Activity

System theory emphasizes that system provides certain service to the environment, thus having some positive effect, which can be called as “output” or “function” [8]. If there is mutual cooperation between the various elements of the system, the system as a whole can maintain the normal high-speed operation in the long term, making the overall function of the system greater than the sum of its parts, the formula is:

$$\varpi > \sum_i^n p_i (i = 1, 2, 3, \dots, n)$$

In the formula, ϖ represents the overall functionality of the system, namely the overall effect the pension fund raising has brought about; P_i represents the function of the constituent elements of the system, namely the function of each component in pension fund raising. In a stable and efficient system, there must be a clear division of labor and coordination between its various components, in order to make the system successful in converting and distributing substance, information and value. In the pension fund raising process, if government, insurance companies, enterprises and individuals can conduct mutually beneficial cooperation, reasonable cost-sharing and the rational use of pension funds in accordance with the economic development, the gap between employees and

pensioners can be more just and reasonable and a basic balance between funds supply and demand can be reached.

4. Systemic Analysis of Pension Fund Raising in China

4.1. System's "Pressure" from Environment

System theory believes that environment constraints, disturbs and "presses" a system to some degree, which is called the "pressure." In the process of raising the pension fund, a number of negative factors can cause some difficulties, that is called "pressure", such as misunderstandings in the society about pension fund raising and so on.

4.1.1. Misunderstandings in the Society about Pension Fund Raising

Pension insurance is an effective means to protect the elderly in their own interests, but there is risk of insufficient funds to meet the payments. In China many people or companies neglect to pay insurance, only focusing on immediate interests, which may lead to a lack of old age supporting money. Main reasons: First, insurance companies and agents mislead and deceive consumers, which affects the credibility of the entire insurance industry. Second, the insured do not have enough understanding of the pension liability, thus do not know how to use the law to protect their insurance benefits. However, a few individual policyholders do not follow the terms and seek the insurance benefits for blind. Third, people have a certain misunderstanding of pension insurance and judge the insurance company to be good or bad only in accordance to the amount of compensation.

4.1.2. The Quality of Pension Fund Employees to Be Raised

With the Chinese economy as a whole reaching the level of moderately developed country, the insurance industry has also got the opportunity of rapid development, thus the community sets higher requirements for the quality of the insurance industry practitioners: First, the overall quality of employees needs to be improved. The employees only pay attention to the quantity rather than the quality of the business, resulting in credibility crisis of the pension insurance industry. Second, lack of senior management personnel. General lack of talent leads to the fact that some senior managers do not have the qualifications. Third, the lack of insurance professional and technical personnel is needed to be fixed. Insurance professional and technical personnel are the backbone of the insurance business management. Lack of risk management personnel, actuarial talents, electronic talents, underwriting talents, funds and human resources professional and technical personnel is not conducive to the development of pension raising.

4.1.3. The Quality of Pension Fund Employees to Be Raised

The number of channels for pension fund raising will directly affect the pension fund raising results. First, the government support to be strengthened. Government support is mainly reflected in the permit of pension insurance. Listing budge before tax and giving temporary subsidies when the pension fund is in deficit cannot form a stable source of funding. Second, China's pension scheme covers mainly state-owned enterprises and urban collective enterprises, thus other forms of business insurance are not enough. Third, the insurance company does not design pension products to meet different customer needs and preferences. Aging of the population leads to urgent need of elderly-related insurance products, including care insurance, medical accident insurance and so on. In the operation of China's insurance industry, elderly-related pension varieties are so few that only people's basic living can be met in the future, causing some difficulties in meeting the needs of consumer policyholders.

4.1.4. Poor Effect in Maintaining and Increasing the Value of Pension Funds

Elderly population increases and pension insurance period extends. Pension funds are mainly managed by insurance companies, which demand the insurance company to have the ability to maintain and increase their value. Security of pension fund determines that it does not have a high degree of risk tolerance, and people think that pension benefits are low and do not want to put spare cash in pension insurance. Thus insurance companies cannot raise more pension funds [9]. According to statistics from Human Resources and Social Security, by December 31, 2013, the total cumulative assets of the National Social Insurance Fund reached 4.77 trillion yuan, accounting for up to 8.3 percent of GDP. However, because the diverse and marketized investment system has

not established, the vast majority of funds are in the bank accounts as deposits. Only 71.1 billion yuan is in government bonds and commissioned investment. As the marketized and professional investment operation is difficult to set up, capability to maintain and increase the value of the fund is in urgent need to improve.

4.2. Environment “Pollution” Brought by System

System theory emphasizes that the constituent elements within a system have some negative effects on the system environment with negative output, resulting in adverse effect that is called “pollution.” In the process of raising pension fund, it might give the government a heavy burden and even serious impact on social equity, development and progress.

4.2.1. Pension Fund Payments Imbalances Affect Political Situation

Payments imbalances in personal pension schemes may cause political turmoil such as demonstrations. With the increasing proportion of the retired population, the British government faced huge financial pressure. In 2011 an unprecedented public sector pension scheme reform was announced and adopted by legislation in 2013. The British Government’s pension scheme reform called for the extension of the retirement age of civil servants to 66 years, increased amount of the monthly pension paid by employees and reduced the final payment of pensions and so on. British trade union believed that it made the civil servants to pay more, work longer, but get less. Soon after the announcement of the reform plan, more than two million public sector employees launched the largest strike ever since 1926. On the same day, the court, border ports, government offices and police departments were seriously affected. Two thirds of the school in the state were closed to protest Cameron government’s radical reform.

4.2.2. Pension Fund Payments Imbalances Cause Government Bankruptcy

With increasingly large elderly population, pressure on pension funds goes on day by day and the urgency to raise pension is self-evident. After World War II, UK implemented economic policies with high welfare to promote economic development and social stability on the basis of economic development. In 2010, the proportion of spending on pensions accounted for more than 40% of total social security expenditure. State pension value fell, leading many elderly people into poverty. Due to long-term high pension spending, the British government could face bankruptcy. For the 2011 Greek sovereign debt crisis, the direct cause was the high welfare model by Greek government, which led to the overburdened private sector and high government deficits and debt. Aging burden accounted for 15.9% of its GDP in Greece, the highest in Europe. The heavy pressure of aging meant that the Greek government needed to pay higher pension expenses.

4.2.3. Adjust the “Resource” Inputs and Improve Policies in Pension Fund Raising “Function”

System theory believes that adjusting “resource” inputs can have beneficial impact on the system to promote the development of the system. It means that increasing confidence in the social pension insurance fund system, improving the quality of employees in pension insurance industry, expanding pension funds raising channels, and maintaining and increasing its value can promote social development. Learn experience from the UK pension fund rising and provide good insurance for people’s future life, so as to improve the “function” of pension fund raising.

5. Increase Social Confidence in Pension Insurance Fund System

This is reflected in two aspects, one is the introduction of laws and regulations with certain mandatory; the other is to guide public opinion and conduct positive media publicity and guidance. Government has to actively guide people to correctly understand the insurance, spread universal knowledge of insurance and construct “national insurance awareness”. Status changes of the insurance industry lie in that it is incorporated into national governance for the first time, and that the development of modern service industry is considered in the overall layout of economic and social work. Development of the insurance industry has shifted from the industrial will to the national level. From the past “insurance needs the government” to the present “government needs insurance”, the status of the insurance industry witnesses significantly enhancement [10]. In the UK, Cameron government announced the public sector pension reform plan in 2011. The goal was nothing more than to make the public sector in line with the private sector in terms of pension scheme, with obvious market orientation. However such reform was so radical that the civil service officials held a large-scale strike. Therefore, the reform has to be a

gradual process.

6. Ways to Improve the Quality of Pension Insurance Employees

The insurance company's experience, attitude and professionalism largely affect the people's choice. One way is to raise entrance benchmark and strengthen the training of highly qualified personnel. Pension insurance companies continue to lower the barriers to entry because of a lack of talent, which has affected the company's overall image. Talent culture is indispensable for insurance companies; second is to improve the attitude of the claims, and establish a customer-centric service philosophy. The principle is that insurance claim responds have to be active, fast, accurate and reasonable. For policyholders, to get accurately paid in a timely manner is their top concern. This requires pension practitioners to strengthen integrity. Third, the insurance marketing strategy should be transferred from trading marketing to relationship marketing. The essence is to improve customer loyalty with good services to retain existing customers and attract new customers. Fourth is to increase types of pension and design more professional products according to customer needs and preferences. For example, as population aging phenomenon intensifies, consumers much-needed insurance products are related with the elderly, including nursing care insurance, accident medical insurance and so on.

7. Explore Pension Fund Raising Channels

7.1. Appropriate Extension of Retirement Age

As people gradually meet the needs of food and clothing, physical enhancement, improved standards of living and considerable progress in healthcare have been achieved. The extended average life expectancy of people results in gradually increasing pension burden. Raising the retirement age for pension funds provides some possible solutions. In a new round of reforms in the United Kingdom, the minimum age to receive government pensions will be gradually increased to 66 years. A direct result of the implementation of this measure is that people have to work longer hours and pay pension for a certain period of time [11]. In China, the current retirement age provision has lagged far behind the status quo of its economic and social development. Globally the retirement age is generally around 63 - 65 years old, and mostly men and women are of the same retirement age [12]. In China, appropriate extension of the retirement age is of certain feasibility and necessity for pension fund raising. Since March 2015, for women cadres at deputy division level and above and female professional and technical personnel with senior titles, the retirement age has been extended to 60 years, indicating that the extension of retirement has officially entered the implementation.

7.2. Appropriate Increase in Direct Government Investment

National government's effort to raise pension funds, such as increasing financial investment, is the most direct way. In order to protect people's future life, there is a need to expand the government pension expenses. For China, the social security spending accounts for 12% of China's fiscal expenditure, far below the 30% -50% ratio in Western countries, and even in some middle-income countries the ratio is more than 20%. Therefore, China still has much space to increase the investment in pension. From 2010 to 2013, the proportion of the basic pension insurance fund expenditure in GDP increased showing an upward trend. On the UK's national conditions, the expansion of fiscal spending and increased investment in pension funds may not be a wise move. However, faced with such a huge deficit, the British government can only achieve relatively tight fiscal policy [13]. Government must measure the current ratio of state pension fund payments and expenditure, and put more appropriate investment for pension on the basis of smooth economic operation.

8. Improve Ability to Increase and Maintain the Value of Pension Funds

Raising pension fund investment is the premise of its operations. Today pension funds not only guard against the risk, but also function as investment. But compared to other funds, pension funds have the characteristics of low risk tolerance. To ensure the safety, the investment is mainly in forms of bank deposits and government bonds, while investment in financial bonds and corporate bonds, stocks, investment funds and mortgage and real estate investment is less, therefore its ability to maintain and increase the value of pension funds is poor. Investment operation model at the expense of investment efficiency can achieve less in terms of economic gains. Pension

fund is featured with large scale, long cycle, and high value-added requirement. Only when income is higher than the inflation rate and with certain purchasing power that real growth, the ability to resist devaluation risk and future ability to pay can be achieved [14]. You can choose to invest in medium and long-term bonds with low risk and relatively high income, or require the person in charge of the various investment vehicles to have sensitivity so as to invest more in high-quality stocks. Use multiple channels to invest, expand investment gains from funds and improve the ability to maintain and increase the value of the pension fund.

9. Conclusions

9.1. Pension Funds Raising Effectiveness in China in Recent Years

With the continuous improvement of people's living standards, more attention to pensions has been attached. In recent years, the amount of raised pension funds have been continuing to rise, with the basic pension insurance fund revenue steadily rising each year from 11490.8 billion in 2009 to 22680.4 billion in 2013, nearly doubled. In addition to direct state investment and timely payment from enterprises, individuals also need to pay attention to future personal pension. Apart from paying the minimum pension guarantee for future life, they can pay more for pension insurance to prepare for the future according to their own conditions. Pension fund raising ways in China should change somehow so that right portion of the increased and the decreased should be made in right field.

9.2. State Pension Fund Raising Trend in the Next 5 - 20 Years

According to recent data, there is a growing trend of pension fund raising, but with a likely slowdown growth. Pension fund raising is not enough, which requires the joint efforts of the government, insurance companies, enterprises, individuals and other sectors in the community to effectively address. Pension fund raising should be analyzed with a system of scientific theory, which helps to grasp problems overall from a macro standing and propose countermeasures. Through appropriate extension of retirement age, national policy guidance, direct government investment, improved ability to maintain and increase the value of the pension fund and other measures, pension fund raising can make certain progress and truly make the expenditure meet with the benefit, so as to offer the retired employees with living guarantees.

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