Research on the Implicit Debt of Basic Endowment Insurance in China

Lirui Dong

School of Economics and Management, Beijing Jiaotong University, Beijing, China
Email: 17120738@bjtu.edu.cn

ABSTRACT

Facing the pressure of population aging, China's basic endowment insurance system has changed from pay-as-you-go system to the partial accumulation system. In the process of transformation, the implicit debt of basic endowment insurance gradually becomes explicit. The problem of paying for the implicit debt is related to whether the basic endowment insurance system can achieve sustainable development and then affects the life of the elderly population. Therefore, it is very important to research on the implicit debt problem. The paper first expounds the concept of implicit debt in China's basic endowment insurance, then analyzes its cause and impact and finally puts forward some suggestions to solve the problem as soon as possible.

Keywords: the basic endowment insurance, implicit debt, explicit

1. CONCEPT

The implicit debt of basic endowment insurance can be understood as a kind of pension commitment that can be quantified. Specifically, since the contributions of employees participating in insurance are not used to deal with their own risk of old age, but are used to pay the pensions of retired employees, the government promises to protect their pension benefits after their retirement. Just like the relationship between creditor and debtor, the insured, as the creditor, lends the pension expenses to the state and naturally has the right to require the state to repay the expenses in accordance with the agreed methods at the time of retirement. At the same time, the state, as the debtor, naturally has the obligation to fulfill its commitments and guarantee the life of the retirees. But in the whole process, the behavior above is implicit in the agreement of both parties. Therefore, the liability is called implicit debt.

2. CAUSE

Implicit debt is the inherent performance of basic endowment insurance under the pay-as-you-go system. If the pension system can achieve sustainable development under the pay-as-you-go system, the pension benefits accumulated by the previous generation can be realized through the contributions of the next generation and the implicit debt can be paid off naturally without special treatment [1]. However, with the aggravation trend of the population aging, the proportion of payers decreases and the proportion of pensioners increases. In addition, due to the rigidity of pension benefits, China's pension payment is under great pressure. It is difficult for the pension system to continue developing under the pay-as-you-go system. Therefore, in the 1990s, after exploration and research, China finally made the decision to implement the partial accumulation system. The system combines the pay-as-you-go system with the full accumulation system. Under the system, every person who participates in the basic endowment insurance generally has two pension accounts which are composed of the social pooling account and the personal account. The former which implements the pay-as-you-go system pays basic pensions while the latter which implements the full accumulation system pays individual account pensions. The sum income from the two accounts constitutes the total pensions of the insured. At the same time, for employees who retired before the implementation of the new system, pensions are still paid and adjusted in accordance with the original regulations. For employees who worked before the implementation of the new system and retired after the implementation, in addition to the basic pensions and personal account pensions, transitional pensions are paid to realize their pension benefits under the pay-as-you-go system. However, the implicit debt problem of basic endowment insurance is also explicit in the process of transformation. The paper holds that the explicit debt is equivalent to the transition cost of the basic endowment insurance system. But scholars have different explanations about the transition cost. The paper holds the view that although the operation mode of basic endowment insurance has changed, the insured accumulated their own pension benefits under the old pay-as-you-go system. In order to realize the transformation of the system successfully, the state needs to fulfill the pension commitment under the old system. Otherwise, it is difficult to implement the new system successfully. Therefore, the paper holds that the transition cost is the cost formed before the establishment of the new system. Specifically, the cost is equivalent to the pension benefits of the insured under the old system. The benefits are implicit under the old pay-as-you-go system, but they are explicit after the system transition. In addition, in the partial accumulation system, the pooling account implements the pay-as-you-go system and still
contains implicit debt. Therefore, the current implicit debt of basic endowment insurance in China includes not only the explicit part due to the system transition, but also the implicit debt contained in the current pooling account.

3. IMPACTS

3.1. Affect the Balance of the Basic Endowment Insurance’s Income and Expenditure

The key to the implicit debt problem is the payment of the debt. Because people have different opinions on the scope and method of calculation, there is no unified calculation result for the amount to be paid. However, by consulting the literature, it is found that the calculation results are relatively large. As a kind of endowment insurance expenditure, the amount of implicit debt is closely related to the balance of the basic endowment insurance’s income and expenditure.

The implicit debt consists of two parts. The implicit debt contained in the current social pooling account is due to the implementation of pay-as-you-go system, so the implicit debt should be eliminated through intergenerational payment and income. It can be simply understood as the working generation and the retired generation. As long as the contributions of the employees are enough to pay the pensions of the retirees, the implicit debt can be eliminated naturally and will not have a negative impact. However, under the pressure of population aging, the balance mentioned above is facing greater challenges. At the same time, the explicit debt is also a part of the implicit debt. It can be concluded from the current actual situation that the explicit debt is also mainly paid by the income of social pooling fund. It means that the basic pensions of the elderly who retire after the implementation of the new system come from the income of the social pooling fund and the explicit debt also needs to be paid by the income of the social pooling fund. So the current employees' contributions are not only used to realize the pension benefits accumulated by the previous generation under the pay-as-you-go system, but also to pay for the cost brought by the transition of the endowment insurance system. Therefore, the implicit debt, especially the transition cost, brings great pressure to the endowment insurance contributions of the working generation. With the implementation of a series of measures to reduce the endowment insurance expenses, the pressure on employees to pay the expenses has decreased. But at the same time, if no other effective measures to maintain and increase the value of endowment insurance fund, the pressure of pension payment will increase and the balance of the basic endowment insurance’s income and expenditure will be affected.

In addition, the change of the structure of the insured is also related to the impact of the implicit debt on the fund balance to some extent. Table 1 shows the participation of basic endowment insurance for urban workers in China from 2014 to 2018. From the table data, it can be concluded that the proportion of employees in the total number of insured persons has decreased, while the proportion of retirees in the total number of insured persons has increased. It means that in the same period, the proportion of people who pay the basic endowment insurance expenses has decreased, while the proportion of pensioners has increased. The trend is not conducive to the balance of social pooling account’s income and expenditure. On the whole, the income of basic endowment insurance fund in China is more than the expenditure and the accumulated balance is also increasing. However, if only the collected income without other forms of income is compared with expenditure, the balance of social pooling account’s income and expenditure will be under greater pressure. Moreover, in the future, with the deepening of the population aging, the proportion of people who pay the basic endowment insurance expenses may further decrease and the proportion of the pensioners may further increase. According to the trend, if there are no fiscal subsidies and other forms of income, the situation that retirees' pensions are only paid by the contributions of the next generation of employees will be severely challenged. At the same time, the balance of the basic endowment insurance’s income and expenditure will also face greater pressure.

Table 1 The participation of basic endowment insurance for urban workers in China from 2014 to 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>The number of employees participating in endowment insurance (Unit: ten thousand)</th>
<th>The number of retirees participating in endowment insurance (Unit: ten thousand)</th>
<th>The proportion of employees in the total number of insured persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>25531</td>
<td>8593.4</td>
<td>74.82%</td>
</tr>
<tr>
<td>2015</td>
<td>26219.2</td>
<td>9141.9</td>
<td>74.15%</td>
</tr>
<tr>
<td>2016</td>
<td>27826.3</td>
<td>10103.4</td>
<td>73.36%</td>
</tr>
<tr>
<td>2017</td>
<td>29267.6</td>
<td>11025.7</td>
<td>72.64%</td>
</tr>
<tr>
<td>2018</td>
<td>30104</td>
<td>11797.7</td>
<td>71.84%</td>
</tr>
</tbody>
</table>

Data source: The number of employees participating in endowment insurance and the number of retirees participating in endowment insurance are from the National Bureau of Statistics. The proportion is calculated by the author.

3.2. Affect the Results of Fiscal Subsidies

Fiscal subsidies provide important guarantees for the operation of basic endowment insurance [2]. Therefore, both the central government and the local governments are subsidizing the basic endowment insurance. In theory, if the pension payment gap stems from poor collection by the local governments or misuse of funds, the gap should be the responsibility of the local governments. If the pension payment gap is caused by the existence of implicit debt, the central government and the local governments should be jointly responsible. But in practical work, it is difficult to clearly divide the responsibilities between the central government and the local governments if the causes of
payment gaps can’t be distinguished. However, if the central fiscal subsidies are excessive, it will easily lead to the dependence of local governments on the central government and it will also lead to a decline in the enthusiasm for collecting local expenses of basic endowment insurance. In addition, excessive subsidies will also reduce the fiscal funds that can be used by the central government in other fields and the fiscal expenditure structure is difficult to reach an optimal level. However, if the central fiscal subsidies are not enough to pay for the implicit debt, it will increase the pressure of local governments, affect the local governments’ fiscal expenditure structure and have a certain impact on the local economic and social development.

4. SUGGESTIONS

Although the implicit debt makes the future development of China's endowment insurance face great challenges, it is a kind of national commitment. So the state should find ways to solve the problem of implicit debt rather than avoid facing it. The paper puts forward the following suggestions in order to solve the problem as soon as possible.

4.1. Increase the Income of Social Pooling Account

It can be concluded from the current institutional arrangement that the implicit debt is mainly paid by the income of social pooling account. Therefore, increasing the income of social pooling account is conducive to solving the implicit debt problem. We can increase the income of social pooling account by expanding the source of income. For example, improve the coverage of basic endowment insurance. At present, the coverage rate of basic endowment insurance in China is relatively high, but at the same time, some enterprises and individuals try to avoid or pay fewer basic endowment insurance expenses in order to pursue current benefits. The phenomenon makes the income of basic endowment insurance fund lower than the theoretical level. With the unified collection of social insurance expenses by the taxation department, the above problems should be resolved. Therefore, it is necessary to formulate scientific policies to help local governments complete the transfer of the responsibility for collecting basic endowment insurance expenses. In addition, some employees often choose to withdraw insurance because of the strong mobility and the problem of transfer loss. So they are not completely covered by the basic endowment insurance. Therefore, although the coverage rate of basic endowment insurance in China is relatively high at present, it is still necessary to increase publicity efforts in order to raise people's awareness of the importance of participating in the insurance and increase people's initiative to participate in the insurance. At the same time, it is necessary to improve the regulations related to the transfer of basic endowment insurance relations so as to further increase the coverage rate of China's basic endowment insurance.

In addition, the current investment scope of China's basic endowment insurance fund is relatively narrow and the return rate of the fund is relatively low. With the gradual improvement of China's investment environment, a variety of investment forms can be used to maintain and increase the value of the fund. At the same time, on the principle of security and profitability, determine the optimal portfolio [3].

4.2. Transfer of the State-Owned Assets

China once implemented the policy of low wages, low consumption and high accumulation. And under the above policy, the state concentrated most of the profits handed in by enterprises to invest in state-owned enterprises, so a large proportion of the current state-owned assets are equivalent to the accumulation of employees' pensions at that time [4]. Therefore, it is reasonable to allocate part of state-owned assets to pay for the implicit debt of basic endowment insurance. At the same time, the current state-owned enterprises in China operate well as a whole, so it is feasible to transfer part of the state-owned assets. However, the transfer of state-owned assets is not a short-term process. It is necessary to determine a reasonable allocation ratio, not only to effectively reduce the pressure brought by the implicit debt of basic endowment insurance, but also to ensure the sustainable development of state-owned enterprises.

4.3. Maintain Sound Economic Development

The development of the national economy greatly affects whether the measures to solve the implicit debt problem can be effectively implemented [5]. This is because the sound development of the national economy is conducive to the growth of national fiscal revenue. Therefore, the country has sufficient material foundation to ensure the sustainable development of the basic endowment insurance and pay for the implicit debt in the form of fiscal subsidies. At the same time, the economic development is also conducive to the growth of the income of residents and enterprises and is indirectly conducive to the growth of collection income of the basic endowment insurance. Moreover, the increase of the benefits of state-owned enterprises also means the increase of the amount of state-owned assets transferred under the same conditions. Therefore, the sound development of the economy is conducive to solving the implicit debt problem and it is very important to maintain sound economic development.

5. CONCLUSION

The basic endowment insurance plays an important role in protecting the elderly in their old age. Especially under the background of the aging population, it is more important
and urgent to keep the sustainable operation of the basic endowment insurance. As a kind of basic endowment insurance expenditure, the implicit debt will inevitably have a great impact on the balance of income and expenditure, and further affect the future development of the basic endowment insurance. Therefore, it is necessary and important to solve the problem of implicit debt reasonably and properly. At the same time, through the above analysis, it can be found that the formation of implicit debt has its specific historical reasons and the impacts of implicit debt are also in all aspects. Therefore, it is difficult to solve the problem in a short term or by one way. It needs the joint efforts of all social parties and the coordination of various measures. After analyzing the concept, cause and impact, the article puts forward suggestions from multiple perspectives. Solving the implicit debt problem is conducive to the better development of the endowment insurance and the whole society.

REFERENCES


