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2015 Social Insurance Base Standards in China Adjusted Still Higher

Introduction

Similar to previous years, new monthly base standards (hereinafter referred to as the 'Base Standards') for contributions into the Chinese social insurance system by employers and employees are being set for the year by the local authorities of the relevant provinces and autonomous cities. Again, for this year, the trend of adjustment is generally upwards.

For example, in Shanghai, it has recently announced that for the period from April 2015 to March 2016, the monthly Base Standard for employer and employee social insurance contribution will be adjusted upwards by 8%, from RMB 3022 to RMB 3271 per month.

This means that starting from April this year, and for those employees whose monthly wages are less than the Base Standard amount, their social insurance payments will be increased by a maximum of 8%, for both employers and employees.

Although these adjustments in the Chinese social insurance system are perceived as necessary to ensure its smooth administration, nevertheless the continuous elevation of the Base Standards in consecutive years have posted heavier burdens to enterprises in China on employment costs, especially those who employ more junior staff or unskilled labor. It should be noted that the current overall Chinese social security contribution rates are already high compared with other countries in the world.

Background

In general, the various components of the social insurance contributions are payable by both the employers and employees according to specific rates applied to the Base Standards. The Base Standards, contribution rates and bases are generally set locally according to the specific circumstances. The Base Standards are generally adjusted every year, with reference to the average wage rates in the region for the previous year.

The Base Standard is used as a threshold for minimum contribution of social insurance payments. In Shanghai, the Base Standard is set at 60% of the average wage rate in the region for the previous year. Since the average wage for 2014 is said to be RMB5451,

therefore the Base Standard for 2015 is RMB3271. This means that if an employee's actual monthly wage for the relevant period is less than this threshold amount, social insurance contribution payments will have to be made based on this Base Standard.

There is also a cap on the maximum social insurance contribution payable. In Shanghai, and generally in other regions, it is set at three times the local average wage rate for the previous year. If the actual monthly income of the employee is more than this capped amount, contributions will be capped at this level.

Other provinces and cities work on similar bases, except that the specific Base Standard may be calculated differently on the previous year's average wage rate, or contribution rates may be different.

For example, for employees in Beijing, there are two Base Standards, one set at 40% and the other at 60% of the average wage rate of the previous year. Basic pension and unemployment insurance are payable at the lower Base Standard whereas the other three social insurance components are payable at the higher Base Standard. Beijing also adjusted the Base Standard for the year upwards earlier this year.

Essence

Again, taking the example of Shanghai, social insurance contributions are payable with reference to the Base Standard for all components according to the specific rates applicable. Other contributions in the social security system are also shown as follows:

2015 Social Security Contributions- Shanghai	Employer Contribution		Employee Contribution	
	Percentage	RMB	Percentage	RMB
1. Social Insurance	<i>Percentage applied on social insurance Base Standard</i>			
Pension Basic	21%	687.0	8%	261.7
Medical Basic	9%	294.4	2%	65.5
Medical Local Surcharge	2%	65.5	-	-
Work Injury	0.5%	16.4	-	-
Unemployment	1.5%	49.1	0.5%	16.4
Maternity	1%	32.8	-	-
Sub-total	35%	1145.2	10.5%	343.6
2. Housing Fund (Base to be adjusted)	7% of Housing Fund Base	114.0	7% of Housing Fund Base	114.0
3. Handicapped Protection (Base to be adjusted)	1.6% on old Base Standard	48.4	-	-
Total		1307.6		457.6

Table: 2015 Monthly Social Security contribution rates and fees in Shanghai

Overall an employer's monthly social insurance contribution payments add up to 35% of the monthly wages of an individual employee. On the other hand, an employee's contribution amounts to 10.5% of his monthly wages.

There are also other contributions to be made in China's social security system. These include the housing fund, handicapped protection fund and other local elements, each may have their own levy rates and specific basis, which may also be adjusted periodically.

In Shanghai, all the social security obligations of both the employer and employee may total above 50% of the monthly salary of the employee, a level certainly considered high.

Moreover, since sometimes an employee's concern is only the monthly net take home pay, for better employee retention, some employers may also pay all or part of their employees' contributions, therefore taking up even heavier employment costs.

Outlook

As China's wages have been rising continuously in the past, the Base Standards have also been adjusted upwards accordingly. The overall social insurance contributions by both employers and employees have therefore remained relatively high and on a rising trend.

The Chinese authorities have expressed recognition of the relatively high level of social insurance contribution requirements, but people are not optimistic on the expectation that the contribution rates will be lowered very soon.

This is because currently payments out of the funds are said to be around 50% faster than contributions going into the system. Also, disparities among local administrations in terms of contribution rates and contribution bases are not only affecting the efficiencies in the administration, but also hindering the mobility of labor forces among the regions. Together with the aging population in China, balancing the inputs and outputs of the system will remain to be challenging for some time.

Nevertheless, the MOHRSS (Ministry of Human Resources and Social Security) in China has set directions for improvement efforts on unifying levy rates and cross nation coordination. Other measures to improve the system include centralization of the social security funds and better deployment of government funding. Hopefully, some room for reduction of the rates may be created over the longer term.

HR Action

HR management should ensure proper reporting and discharge of both employer and employee responsibilities in accordance with the existing laws and regulations under the Chinese social security systems.

HR management should also regularly review and ensure proper structuring of their employees' compensation packages, therefore helping their staff to better enjoy the benefits under the system.

With improved coordination of administration across regions, Chinese employees are increasingly inclined to contribute and rely on the social security system for their future plans. It will remain to be an important element for HR policies on employee retention.

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