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Comprehensive Reduction of Unemployment Insurance Rate

Last month, China's Ministry of Human Resource and Social Security (MOHRSS), jointly with the Ministry of Finance, published << The Notice Regarding Questions on the Phased Reduction of the Unemployment Insurance Levy Rate >> (renshebufa[2017] No.14, hereinafter called <<The Notice>>). <<The Notice>> stipulates that starting from January 1, 2017, provinces (provincial administrative regions, including autonomous regions and municipalities) that are currently applying a total Unemployment Insurance levy rate of 1.5% can reduce the rate to 1%, effective until April 30, 2018.

Background

Introducing policies for adequate reduction of the social security levy rates is an important measure in the country's established direction to reduce business costs for enterprises and regulating fees and levies. In March and October of 2015, China's State Council had already reduced Unemployment Insurance, Work Injury Insurance as well as Birth Insurance levy rates consecutively. In April last year, the State Council went further to introduce measures to reduce the Retirement and Unemployment Insurance levy rates in a phased manner. However, the statuses and balances of the various funds are under different conditions.

Owing to the aging population and other reasons in China, balancing the incomes and expenditures of the Retirement Fund as well as the Medical Insurance Fund has become an increasing challenge. On the other hand, Work Injury Insurance and Birth Insurance levy rates have already been adjusted to relatively low levels (Birth Insurance and Basic Medical Insurance were merged earlier this year on a trial basis: please refer to Finex <<HR Communique Mar 2017 >> issue). According to statistics of the MOHRSS, the Work Injury Insurance Fund balance at the end of 2016 was about RMB12.2 billion, whereas the Birth Insurance Fund was under minor deficits.

Up to the end of 2016, it was said that the lowering of China's insurance levy rates had already resulted in reduction of costs to enterprises in the order of RMB135

billion. Among others, the major contributor was Unemployment Insurance, totaling about RMB90 billion. Even after two consecutive rate reductions, Unemployment Insurance administration has been relatively stable. The balance of the Unemployment Insurance at the end of 2016 was estimated to be at RMB523.5 billion, seemingly able to afford another rate reduction.

Essence

The “total Unemployment Insurance levy rate” is the sum of the local Unemployment Insurance rates applicable to enterprises and individuals. In China, enterprises and individuals make Unemployment Insurance contributions in accordance with separate rates stipulated by the local government, applying which to the Social Insurance Base Number for the year (which is basically determined by reference to the monthly average employment income of the previous year, but administered differently in different localities).

Unemployment Insurance levy rate started to come down from 3% to 2% in March 2015. In May 2016, the notice << renshobufa [2016] No. 36>> stipulated that Unemployment Insurance levy rate was to be reduced to 1% to 1.5% in a phased manner, and subject to certain conditions. Before the promulgation of <<The Notice>>, 10 provinces in China had already been applying the 1% Unemployment Insurance levy rate.

<<The Notice>>has basically removed the pre-conditions under the 2016 rules, allowing the nationwide application of the 1% rate to the remaining 22 provinces. It is estimated that enterprise costs will be further reduced by about RMB23.4 billion. After<<The Notice>> has become effective, the total cumulative reduction in Unemployment Insurance rate has reached two-thirds in a matter of two years, hence has effectively relieved the costs of enterprises.

In the Unemployment Insurance working session held on March 22 this year, the Unemployment Insurance Division of the MOHRSS has also elaborated on the subject.

It was emphasized by the MOHRSS that the current rate reduction exercise would not lower the benefit standards of unemployment nor the full release of the compensation. Although it is expected that some localities may face potential challenges in incurring deficits in the Unemployment Insurance funds, it is reckoned that the shortages should be covered by surpluses carried forward from previous years and also with provincial adjustment funds. The specific solutions are to be determined by the provincial governments considering their specific local situations, facilitating the smooth operation of the funds.

In order to coordinate with the effective periods under the 2016 phased Unemployment Insurance rate reduction policies as well as to ensure the

sustainability of the Unemployment Insurance fund,<<The Notice>> has also specified that it will be effective till April 30, 2018. It also stipulates that the specific rates applicable to enterprises and individuals should be synchronized, and that the individual rates should not be higher than the enterprise rates.

HR Action

The respective impacts of the reduction of insurance rates to enterprises and individuals would depend on the relative reduction of the enterprise and individual rates by the local government. If the rate reduction can be shared by individuals, it would mean that their take home pay may be slightly enhanced. In any case, the overall rate reduction can relieve enterprise costs and enhance employee income, which is beneficial for enhancement of the business environment. HR personnel should actively communicate the policies with management as well as the employees, helping to establish harmonized employment relationships as well as a better business environment.

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