

CHINA - AN OVERVIEW OF EMPLOYEE BENEFITS

State and Mandatory Benefits	State benefits are provided from localised funds in urban areas, e.g. Beijing, Shanghai, Guangzhou and Chengdu. Rural employees are not normally covered. From 1 July 2011, citizens will be given a social insurance number which will allow them to pay contributions in one area and draw benefits in another. Foreign employees will also be covered. State retirement age is 60 for men, 55 for professional women and 50 for non-professional women. The state pension is provided from the unified pension system (UPS) and is made up of a basic pension of 1% of average earnings for each year of contributions, a monthly pension from an individual account from 1997, and a transitional pension to cover the period before 1997. Medical care is provided from individual medical accounts and pooled public medical funds. Patients are required to pay the cost of medical treatment which is then reimbursed, subject to deductibles and benefit limits. There are proposals to introduce a universal healthcare system. Different arrangements apply in Hong Kong (see separate summary).
Typical New Pension Plan	Foreign employers typically make additional contributions to individual retirement accounts to supplement the relatively low state benefits with a lump sum or a pension on retirement. They also provide a lump sum death and disablement benefit, typically two to five times earnings and medical insurance, either to cover deductibles and co-payments under state medical care or all medical costs. Group pension plans are in the process of development.
Typical Costs	For state retirement benefits, employers typically pay from 20% to 22.5% of covered earnings to a local social fund and employees 6% to 8% to individual accounts, depending on the area. Covered earnings are monthly earnings between 60% and 300% of local average earnings. For medical care, employers pay 6% to 10% of covered earnings, depending on the area, and employees 2%. Employers also pay premiums for workmen's compensation insurance. Employers and employees would typically each contribute 5% of basic earnings to a private pension plan.
Tax Implications	The tax treatment of contributions and benefits varies according to the province. Generally, contributions for state benefits are tax deductible, but contributions to private plans may be subject to contribution limits, with benefits taxed as income. Employer contributions to private pension plans are subject to contribution limits.
Labour Law Issues	Employee contributions to private pension plans vest immediately. There are no minimum vesting requirements and employer contributions typically vest progressively over five years.
Pooling Potential	Life insurance and long term disability insurance can be included in multinational pooling arrangements.
International Financial Reporting	Listed companies are permitted to use International Financial Reporting Standards or Hong Kong Financial Reporting Standards. Unlisted companies are not permitted to use International Financing Reporting Standards.
Local IBN Contact	Jeffrey Chen, CEO, jchen@insupro.net Carl Doerwald, Director, cdoerwald@insupro.net Insupro Co. Room 206, Beijing Image Tower One Fuchenglu 115, Beijing, 100142 P.R.China Tel: +86 10 88138505 Web site: www.insupro.net , www.onehome.cn