



China – an overview of employee benefits

State and Mandatory Benefits	State benefits cover employees in urban areas e.g. Beijing, Shanghai, Guangzhou, Chengdu. Rural employees are not normally covered. State retirement age is 60 for men and 55 for women. The state pension is made up of a basic pension of 20% of average earnings in the local area, a monthly pension based on 1/120 th of an individual account balance, and a transitional pension for older employees to cover the period before individual accounts were introduced in 1992 and calculated according to a local formula. Medical care is provided from individual medical accounts and pooled public medical funds. There are proposals to introduce a universal healthcare system. Different arrangements apply in Hong Kong (see separate summary).
Typical New Private Plan	Foreign employers typically make contributions to defined contribution retirement accounts (Enterprise Annuities or savings plans) 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 benefits, either to cover deductibles under state medical care or all medical costs. Group pension plans are in 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 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 Enterprise Annuities are limited to 8.33% of earnings.
Labour Law Issues	There are no minimum vesting requirements. Employer contributions to private pension plans 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	Accounting standards are aligned to the International Financial Reporting Standards, but with some important differences. Chinese companies listed on the Hong Kong Stock Exchange can use International Financing Reporting Standards or Hong Kong Financial Reporting Standards.
Local IBN Contact	HSBC Insurance Brokers (Asia-Pacific) Limited 20/F, 108 Gloucester Road Hong Kong Contact: Roger Barnett Phone: +852 2598 4937 E-mail: rogerbarnett@hsbc.com.hk Website: www.insurancebrokers.hsbc.com/hsbc/asia_pacific/hong-kong