

# Analysis on the Optimization of New Rural Social Endowment Insurance in Changsha, Zhuzhou and Xiangtan

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**Abstract** On the basis of the investigation on the status quo of pilot area of rural endowment insurance in Changsha, Zhuzhou and Xiangtan, farmers' demand on insurance in the new pilot area of rural endowment insurance is expounded from two aspects; farmers' awareness on insurance is increasing gradually; farmers' ability on insuring is increasing. The growing demand of farmers on insuring and the conflicts between the supply of rural endowment insurance and the system construction are analyzed. The problems are inadequate input of funds, low level of social security; imperfect fund-collecting mechanism, serious vacancy; low level of fund management and operation, poor ability of inflation-proofing and appreciation; backward laws and regulations and instability of system. On the strength of the analysis above, the government should innovate and compound fund-collecting mechanism; establish "G-C-F" three-pillar model and set up "BSI" the third party custodian; accelerate the legislation of new rural pension system so as to push forward the optimization of new rural pension insurance system in Changsha, Zhuzhou and Xiangtan.

**Key words** New rural endowment insurance, "BSI" third-party custodian; "G-C-F" three-pillar model, China

On September 1st, 2009, the State Council issued the *Guidance on Launching Experimental Pilots of New Rural Endowment Insurance* ([2009] 32), which decided that in 2009, 10% of total counties (cities, districts and counties of Man nationality) of the country would be chosen to launch the experimental pilot of new type rural social endowment insurance. In the future, the experimental pilots will be expanded to other places gradually. Before the year of 2020, the rural endowment insurance should cover all the eligible rural residents<sup>[1]</sup>. Since the establishment of experimental pilots, the pilots have attracted attentions from various circles. Scholars have drawn conclusions for experiences by follow-up investigation. ZHANG Chao-hua<sup>[2-3]</sup> *et al.* investigated empirically the experimental counties in southwestern Guangdong Province; JIANG Zuo-pei<sup>[4]</sup> *et al.* studied empirically the Nantong City of Jiangsu Province; LUO Shi-ping *et al.*<sup>[5]</sup> explored the Changsha County of Hunan Province; SU Dong-hai<sup>[6]</sup> surveyed Pingluo County and Helan County of Ningxia. Facing the crucial problems of fund-collecting, fund management and operation of new type rural endowment insurance, the discusses are active in academic circle. XUE Hui-yuan *et al.*<sup>[7-8]</sup> discussed the rural endowment insurance based on the fund-collecting capability of farmers and the money subsidized by the governmental finance; LUO Qing-ju<sup>[9]</sup> expressed their worries about the payment capability of farmers, fiscal pressure of governments and inflation-proofing and appreciation of fund; YU Ju-yun<sup>[10]</sup> de-

signed the payment level of pension and the appreciation cases of security fund; LIANG Chun-xian<sup>[11]</sup> analyzed the necessity, feasibility and operation efficiency of new type rural endowment insurance; Through the comparative analysis on the changes of new and old rural endowment insurance system, TAO Ji-kun<sup>[12]</sup>, thought that the fund-collecting responsibility of local governments should be clarified and the fund should be managed at the provincial level.

In general, the study on the experimental pilots of new rural endowment insurance still lays at the primary stage and the empirical investigation of new rural endowment insurance still needs to resist. The problems of collecting funds have not been solved and the operation model of fund management still needs further exploration. On the basis of the investigation of the first batch of experimental pilots of new rural endowment insurance in Changshan County, Zhuzhou County and Xiangtan County and the second batch of experimental pilots in five district and one county of Changshan City, urban area of Zhuzhou City and Shaoshan City, we probe into the conflicts between the growing demand of farmers on attending rural endowment insurance and the backward system construction in the supply of new rural endowment insurance. The basic thought and developmental focus of optimizing the new rural endowment insurance system in Changsha, Zhuzhou and Xiangtan are put forward, so as to facilitate the popularization of experimental pilots of new type rural endowment insurance.

## 1 Farmers' demands on participating in new rural endowment insurance in experimental pilots

The paper analyzes the necessity of farmers' demands on new rural endowment insurance from participating awareness,

participating capability and participating environment.

### 1.1 Farmers' awareness on participating insurance increases gradually

In the investigation of experimental pilots of new rural endowment insurance, it is founded that farmers have basic understanding on new rural endowment insurance and their willingness on participating in insurance is increasing gradually. The reasons are as follows. For one thing, the functions of traditional family-support old age have weakened. With the development of social economy and the transition of farmers' idea, the traditional family-support old age faces great challenges. A large amount of middle-aged and young people flowed into cities and towns, young people were no longer relying on the production techniques and production means of their parents. The popularization of the "4-2-1" type of nuclear family weakens the functions of traditional family-support old age. In the on-the-spot investigation of Changsha, Zhuzhou and Xiangtan, we knew that farmers thought it is necessary to participate in new rural endowment insurance. It is reflected on the following aspects. Farmers think that the future old-age support model should adopt the compound endowment insurance, that is, on the basis of family-support old age, the self-support, community support and social support (new rural endowment insurance in particular) and some other compound endowment insurance should be established as well. For another thing, farmers' awareness on endowment insurance is intensified. After the vigorous propaganda and practice, farmers' ideas have changed substantially and their awareness on social endowment insurance has increased obviously. Comparing with commercial insurance, farmers have more rational choices. The premium of commercial insurance is higher relatively, but the credit degree and stability are low. Most farmers tend to participate in the rural social endowment insurance launched by government and with low premium. With the flow of rural labors and the development of urbanization, farmers have known more about the endowment insurance of urban employees, so as to increase farmers' understanding and demand on social insurance system. According to the questionnaire investigation of 189 farmers of Changsha, Zhuzhou and Xiangtan, most of them want to participate in endowment insurance to get insurance security. 83.5% of the farmers investigated relies on the endowment insurance.

### 1.2 Farmers' capability on participating in insurance has increased

The insurance capability of farmers is closely related to their economic income. Since the construction of new village, the average income of farmers in Changshan, Zhuzhou and Xiangtan has realized the rapid growth, as well as rural economy. Taking the year of 2004 as a base year, the average net income of farmers in Changshan, Zhuzhou and Xiangtan in 2008 is twice more than that in 2004. It can be seen clearly from Table 1 the rapid growth of net income of rural residents in Changshan, Zhuzhou and Xiangtan. The economic income has increased the insurance capability of farmers in new rural endowment insurance.

### 1.3 Farmers' insurance environment is improving year by year

With the further launch of experimental pilots of new rural

endowment insurance, farmers' insurance environment is improving year by year. The government has greatly promoted the experimental pilots of new rural endowment insurance, and institutions at various levels have also tried to promote the improvement of endowment insurance. The promotion channels have been widened. The premium of rural endowment insurance can be cashed. The investigation found that a large majority of farmers in Changsha, Zhuzhou and Xiangtan have realized the positive change from knowing to understanding, from waiting and seeing to accepting and from refusing to participate in to accepting.

**Table 1 The per capita net income growth over the years of rural residents in Changsha - Zhuzhou - Xiangtan**

Year	Farmers' net income // yuan	Growth rate // %
2005	4 329.32	12.3
2006	4 852.75	11.4
2007	5 379.26	19.5
2008	6 867.95	8.7
2009	7 572.13	13.6

Note: Data source: *Hunan Statistical Yearbook*(2005-2009).

## 2 The system defects of government in the supply of new rural endowment insurance

New rural endowment insurance is the preferential policies led by the nation and promoted by government, it is of great significance in ensuring the basic life of rural residents; promoting the poverty-relief of rural areas and narrowing the poor-rich gap; and maintaining the social stability of rural area<sup>[1]</sup>. Under the background of rapid urbanization and modernization, the essential element to smooth the promotion and sustainable development of rural endowment is the government. As a single supply subject, the expenses input on new rural endowment insurance is insufficient and the security level is relatively low; the funding mechanism is imperfect and vacancy is serious; fund management and operation level are low and low capability of inflation-proofing and appreciation. After the backward of special legislation, the defects of system stability is prominent increasingly.

### 2.1 Inadequate input on expenses and low security level

The crucial problem of establishing the new rural endowment insurance system is the source of income. In the process of investigation, a large majority of farmers reflect that the "55 yuan premium + 5 yuan local subsidy" stipulated by new rural endowment insurance can not meet the basic demand of old age support. From the payment status of farmers, the situation is not so optimistic. Although in the *Instruction*, it stipulated: "the personal payment standard is 100, 200, 300, 400 and 500 yuan per year, and the local government should increase the payment level according to the actual situation."<sup>[1]</sup>. But most farmers choose the grade of 100 yuan per year. It means that according to the current policy, after 15 years' payment, the rural eligible people can only get the pension of 69 yuan. Considering the factors of interest rate level and inflation, the money received shrinks actually. Obviously, the insurance level can not take the social responsibility of rural basic pension.

### 2.2 Imperfect fund-collecting mechanism and serious vacancy

In the actual manipulation, the new rural endowment

insurance adopts the fund-collecting mechanism of individual payment, governmental subsidy and collective subsidy. As the main body, of "three-party fund-collecting", the political and economic responsibility of government is fully displayed. The collective subsidy mainly comes from collective economy, but in practice, it not only does not display its functions as main body, but also stays in the "no function" state. Collective subsidy is optional, so it has great elastic space. According to investigation, Changsha County's township enterprises develop well and have formed a certain scale. But without the forceful support from the government and the preferential policies, there are even no subsidies on township enterprises provided by the government. Therefore, collective subsidy is nearly a pipe dream. In the actual practice, the new rural endowment insurance fund is mainly undertaken by government and individual, among them the government takes the leading role. Actually, it is the government welfare-type social pension system, in which the government takes a large majority of responsibilities, and individual takes a small part of responsibility. It is incompatible with the economic developmental level, the actual situation of China and unhelpful to the further implementation of experimental pilots of new rural endowment insurance.

**2.3 Low level of fund management and operation and poor capability of inflation-proofing and appreciation** At present, the new rural social endowment insurance fund tried in Changsha, Zhuzhou and Xiangtan is managed and operated by labor and social security bureau entrusted by government at county level. That is to say, the fund is managed and operated by government. Although at the primary stage, it is convenient for the promotion and management of new rural endowment insurance, the level of county is too low, so the fund management by it is extremely limited and it is hard to realize the inflation-proofing and appreciation of fund. In fact, the management strength of the institutes is hard to realize the inflation-proofing and appreciation of the fund. Especially, under the stimulation of dearth of property, in the actual manipulation, farmers often buy the bond issued by the national finance or deposit the money to banks. Apparently, the inflation-proofing and appreciation space of new rural endowment insurance is limited.

**2.4 Backward special legislation and inadequate stability of system** In the implementation of new rural endowment insurance, it follows the regulations in *Directions*, until now, there are still no special laws for rural endowment insurance. As a result of the dearth of laws and regulations in the implementation of rural endowment insurance, the local governments do not treat it seriously, which increased the instability of rural endowment insurance and the trust degree of rural endowment insurance is affected. In Langli Town of Changsha County, 23.7% of farmers hold the wait-and-see attitude towards rural endowment insurance. Farmers think that the system may vary greatly, so they expect the government to accelerate the construction on system and promote the new rural endowment insurance into legalized track.

### 3 Further promoting the design on system concerning the further implementation of new rural endowment insurance

New rural endowment insurance, a major preferential poli-

cy for farmers led by the central government and implemented by local governments after the cancel of agricultural taxes and establishment of new rural cooperative medical system, is of great significance in ensuring the basic life of rural residents, promoting the rural poverty relief and narrowing the poor-rich gap and maintaining the stability of rural society. At present, the sectors of supply and demand of experimental pilots have separated from each other seriously in Changsha, Zhuzhou and Xiangtan and the development of each county and city varies hugely. Farmers' demand on participating in rural endowment insurance is increasing, but the supply role displayed by the government is backward. Therefore, it is imperative to accelerate the design of further developing new rural endowment insurance, as well as promote the balance of "supply" and "demand".

**3.1 Establishing the "G-C-F" three-pillar model and innovating compound fund-collecting mechanism** The new rural endowment insurance adopts the combination of individual payment, collective subsidy and government subsidy, and the combination of social planning and individual account. At present, most farmers are not so rich, so they tend to choose the low level insurance. The government provides overall subsidies for basic endowment insurance, but the collective subsidy is inadequate seriously. On the basis, we put forward the "G-C-F" three-pillar model to fully display the functions of collection to let it take certain responsibility, actively push forward the collective subsidy to realize of interest balance of government, collective and farmer, and gradually innovate the compound fund-collecting mechanism of new rural endowment insurance, so as to supply suggestions for the perfection of new rural endowment insurance.

"G-C-F" three-pillar model (Fig. 1) takes the government, collection and farmer as the main body. Its operation idea is as follows. The new rural endowment insurance fund adopts the diversified fund-collecting mechanism and farmers choose the payment grade according to their actual reality. The governmental subsidies include central financial subsidies and community financial subsidies. The government ensures the supply of premium through issuing state bond, welfare lotteries of rural social endowment insurance and levying social security taxes. The collection subsidies include basic subsidy and elastic subsidy. The collection subsidies should not only display the responsibility of the collection, but also realize elastic subsidy of richer village collection under the basic subsidy. The fund can be subsidized through the forms of social donation and enterprise sponsor. The collection fund, which has been approved by the government, is issued at the proportion of 8% of local fiscal income (8% of local fiscal income should smaller than the 55 yuan stipulated by the central government). At the same time, the government should provide security for the above mentioned fund-collecting ways and design the stimulation method to match with the ways above mentioned. For example, in view of the collection subsidy, the "more subsidy more exemption" mechanism can be adopted to reduce or cancel the taxes of the subsidies given by the collection; in collection with the grade of individual payment, the "more payment and more compensa-

tion " policy should be used and the variable subsidies in each area should be carried out. Currently, optimizing the grades of " 100, 200, 300, 400, 500, 800, (1 000) yuan" or the grades " 30, 35, 40, 45, 50, 50, (50)" to " 30, 40, 50, 55, 60, 60, (60)", " 30, 45, 50, 55, 60, 60, (60)" and "30 ,35, 50, 55, 60, 60(60)". In general, the stimulation mechanism should let the rural households, rural collection and local government to share the responsibility jointly to realize the combination of social planning and individual account and construct the rural old-age security system into a organic body to effectively improve rural social old-age security level.

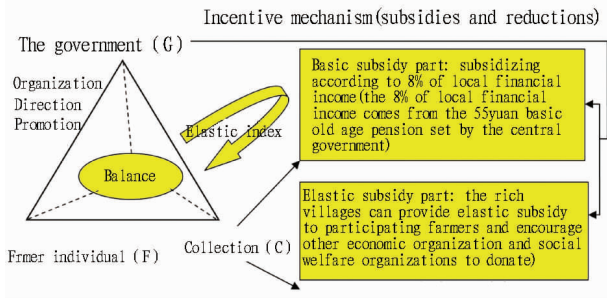


Fig. 1 "G-C-F" three pillar model

**3.2 Constructing the third-party custodian and improving the supervision capability of fund** On the basis of the increasing serious reality of rural old-age security, the traditional idea of "bringing up a son to secure one's old age" can not satisfy the demand of basic old-age security. In 2010, the nationwide experimental pilots of new rural security were carried out. It can be predicted that in the near future, the new rural endowment insurance will be launched nationwide. Correspondingly, the problems in the primary implementation will be further magnified. How to improve the enthusiasm of farmers' activity in participating rural insurance; ensure the inflation-proofing and appreciation of old age security fund are the essential problems that hamper the effective implementation of rural endowment insurance. In the investigation of experimental pilots of new rural endowment insurance in Changsha, Zhuzhou and Xiangtan, we think that it is necessary to construct a "BSI" (the Best of Social Insurance) to suit the status quo of rural endowment insurance. The operation thought is as follows. The operation of the institutions is composed by two processes of horizontal circulation and vertical circulation. "BSI" third-party custodian adheres to the aim of "from the people, for the people", and the specific operation of the "BSI" third-party custodian can be seen on Fig. 2.

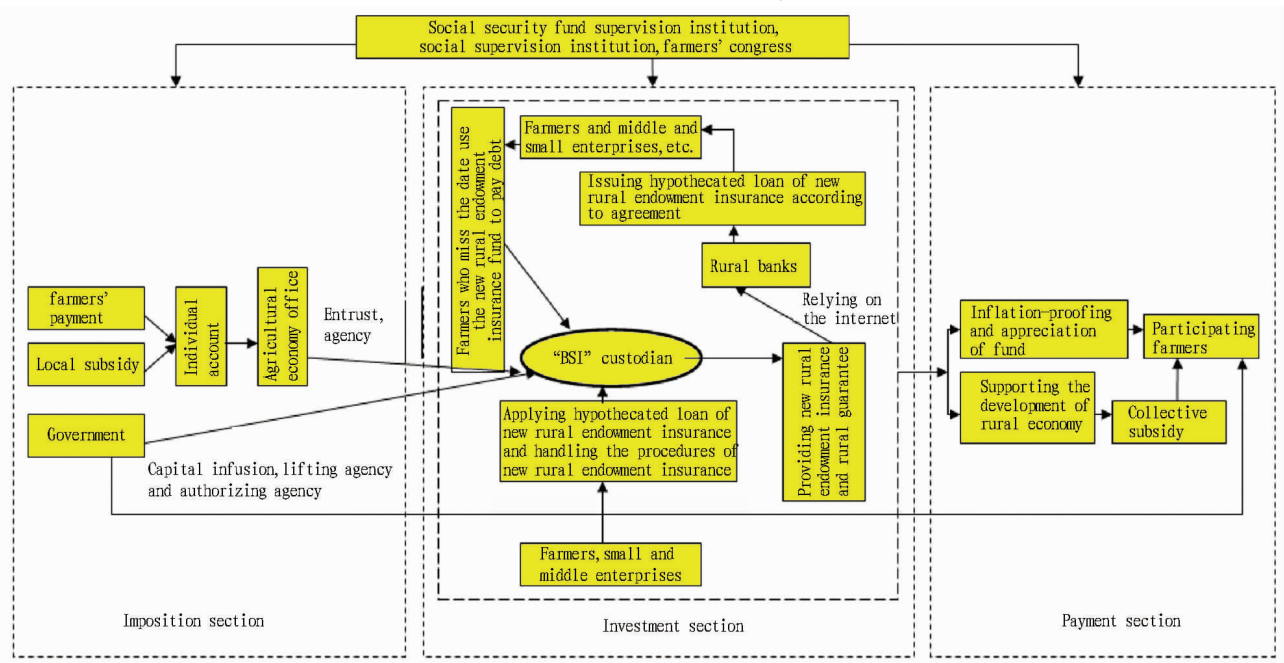


Fig. 2 The mind plan of the operation of "BSI" third-party custodian

**3.2.1 The process of the first horizontal circulation.** With the approach of "the wave of gray hair", the popularization of new rural endowment insurance in a larger scale has become extremely urgent. The "BSI" third-party custodian provides the effective optimized services of "imposition-investment-payment" to improve farmers' activity in participating in the insurance and continuously perfect the defect of new rural endowment insurance system.

**3.2.1.1** The first stage is the imposition section. In the section of imposing the premium of new rural endowment insur-

ance, the premium paid by farmers and the subsidies provided by the government will form a individual account fund and the fund will be imposed by the "BSI" third-party custodian through the entrust of agricultural economy office. At the same time, as a non-profitable institution, "BSI" the third-party custodian relies on the financial support from the government to input starting fund and carry out the third-party entrust authorized by the government.

**3.2.1.2** The second stage is the investment section. In the investment and operation sections of new rural endowment in-

insurance, the "BSI" third-party custodian implements the diversified investment according to the actual situation. Considering the dearth of rural financial supply, the "BSI" will issue the rural small credit to realize the aim of "from the people and for the people" of new rural endowment insurance. It innovates through the way of business innovation and guarantee; takes rural households and small and middle enterprises as the service subjects; provides hypothecated loan for new rural endowment insurance and solves farmers' difficulties in getting loan on the basis of guaranteeing the appreciation to show the economic interests and social interests of new rural endowment insurance fund.

**3.2.1.3** The second stage is the payment section. In the payment section of new rural endowment insurance, the basic old-age pension provided by the government monthly is given to "BSI" third-party custodian to keep, and the custodian pay for eligible people on time. Through issuing rural small loan of "BSI" third-party custodian by using the old age pension in the account of farmers who have participated in the insurance, the local circulation mechanism of rural surplus capital is formed. At the same time of realizing the inflation-proofing and appreciation of new rural endowment insurance fund, the outflow of rural surplus capital is avoided. So the third-party custodian plays an important role in promoting the development of social economy. Besides, it has promoted the development of rural economy to a great extent; improved the subsidy capability of rural collection and enhanced farmers' enthusiasm on participating in rural endowment insurance.

**3.2.2** The secondary partial vertical circulation is to aim to the investment section of new rural endowment insurance to specifically analyze the "BSI" third-party's system and way of managing rural small loan.

The rural households (rural households or middle and small enterprises), which apply for loan, should apply the hypothecated loan of new rural endowment insurance and handle the procedures of new rural endowment insurance; and then, at the same time of providing new endowment insurance capital at the appointed rural bank (Rural Cooperative Credit or China Postal Savings), the "BSI" third-party custodian handles the letter of undertaking to the appointed rural banks. After that, the rural banks can rely on the evidence of rural banks and the procedures, time period, money and interest rate in the agreement signed with the "BSI" third-party custodian to provide hypothecated loan for farmers. In the end, when the farmers are unable to pay the loan and interest, the "BSI" third-party custodian will pay for them by using the fund in their accounts of new rural endowment insurance and the relevant fund in their accounts will be deducted.

The effective operation of "BSI" third-party custodian must established on the fully understanding of the mutual interest and responsibilities of participating farmers, governments and institutions, the principal-agent theory and the theory of public goods. The "BSI" third-party custodian should ensure the safe operation of new rural endowment insurance through the supervision of the social security fund supervision institutions, social

administration institutions and farmers' congress.

### 3.3 Accelerating the legislative progression of new rural endowment insurance and intensifying legal protection

Currently, although the state and local governments have issued the notes on experimental pilots of new rural endowment insurance, but the contents are very general. In the actual practice, the notes are not so feasible and the relevant enforcement regulation and direction policies should be further perfected. The government should launch the independent insurance law that suits to new rural endowment insurance as soon as possible to provide legal support and guarantee for new rural endowment insurance and effectively maintain the basic legal rights of farmers. At the same time, the new rural endowment insurance should be included into China's legal system to make sure the legal position and legal effects of new rural endowment insurance to make sure various measures of new rural endowment insurance have laws to abide by. The government should protect the basic rights of farmers though the mandatory effect of laws. The legal supervision mechanism of new rural social endowment insurance should be perfected to ensure the healthy development of legal system of rural social endowment insurance.

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