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I SUMMARY

Social Security

Eligibility	All gainfully employed persons who are permanent residents of China.
Retirement Age	60M - 55/50F (generally)
Contributions	Contributions are made both to an individual account for the employee (personal account) and to a central fund (social pool). Rates vary according to benefits insured.
Retirement Benefits	If less than 15 years of contributions, lump sum equalling accumulated funds. For 15 or more years of contributions, the benefit will consist of a social account pension and an individual account pension. The social account pension is a percentage of the mean of the previous year's average monthly salary for active employees and the personal index monthly salary. The percentage is 1% for each year's contribution. The individual account pension is the total of the personal account with interest, divided by the prospective months of payment, which depends on life expectancy, retirement age and interest.
Disability Benefits	Valid only for work-related disability. Including: lump sum disability benefit (varies between 6 and 24 monthly salaries), disability pension (60%-90% of monthly salary available for disability levels 1 to 6), lump sum medical benefit and reemployment benefit.
Death Benefits	Valid only for work-related death. Funeral subsidy: 6 times average monthly salary in the province. Dependant's pension: 40% of average salary in the province of residence for spouse, 30% for other dependants. Lump sum: 48 -60x monthly average salary in the province of residence.
Medical Benefits	Generally deductible, coinsurance - is decided locally in the city or province of residence.

Private Benefit Plans

Eligibility	Generally all full-time employees between age 18 and 60M/55F who are permanent residents.
Retirement Age	Generally 60M/55F
Contributions	Employee contributions differ from enterprise to enterprise. Most plans are non-contributory.
Retirement Benefits	Benefits above social security are offered at the company's discretion. Amount of old age pension is decided between employer and employee.
Death Benefits	Employer is encouraged by Labour Law to set up supplementary life and accidental death insurance plans for employees. No maximum and minimum amount is defined. Work compensation insurance is mandatory for certain occupations, such as builders.
Disability Benefits	Not customary.
Medical Benefits	Most multinational companies offer supplementary medical coverage with a maximum indemnity limit.
Vesting	Benefits depend on the number of years of service and the nature of employment contract termination.

Taxation

Contributions	All social insurance contributions are tax-deductible for both employer and employees. Private plans: Tax regulations regarding financing of supplementary benefits vary between provinces and municipalities.
Benefits	Benefits from Social Security are still tax-free. Tax on benefits from private plans varies between provinces and municipalities.

*Source: law from molss (ministry of labour and social security)

II INTRODUCTION

Country Statistics

Population/ growth rate	1.3 billion 0.51%
Age structure	
0 - 14 years	18.95%
15 - 64 years	72.80%
65 years and over	8.25%
GDP purchasing power parity/ Real growth rate	CNY 31.40 trillion 22.0%
Agriculture	10.7%
Industry	47.5%
Services	41.8%
Unemployment rate	4.2% (registered unemployment ratio in urban area)
Inflation rate	1.8% (CPI)
Average Wage of Staff and Workers by sector	in CNY
State-owned units	26,100
Urban collective-owned units	15,444
Units of other types of ownership	24,271
Exchange rate on February 28, 2010	1 CNY = 0.1465 USD
Currency: Chinese Yuan	1 CNY = 0.1079 EUR

Source: all figures except the exchange rates above are from China statistical yearbook 2008.

Note: The wage information is based on the statistic figures of 2007

Legislation and Insurance Market Update in Brief

Update on the Landscape of Enterprise Annuities

In 2005 and 2006 a new DC programme – designed to replace the older staff plans – was implemented. This Enterprise Annuity (EA) system requires all schemes to have their own independent trustee, who appoints an administrator, a custodian and an investment manager. Due to the nature of this setup, insurers (who set up separate pension service companies), banks and securities companies have entered the EA arena, applying for the different licenses granted by the Ministry of Human Resources and Social Security (MHRSS).

To date, the clear majority of companies setting up EA schemes are state-owned enterprises (SOE's). In order to further encourage taking up the new system and accelerating growth, the government has worked out further incentives and guidelines.

Additional steps such as strong tax incentives, liberalised investment rules (allowing investment overseas) and EA schemes offered by foreign companies are not likely to be introduced in the short term. Nevertheless, the total amount of EA funds is expected to reach CNY 1 trillion within the next years.

New Insurance Law

The insurance law of 2002 was amended with effect of October 1, 2009. The 'New Law' includes changes to and revisions of several key areas, with the main focus on improving the protection of the insured as well as on enhancing supervision.

One of the elements is the standardisation of claims procedures, i.e. the timeframes within which insurance companies have to settle claims are streamlined and defined.

Furthermore, the 'New Law' strengthens the supervision of the industry by the China Insurance Regulatory Commission (CIRC). The CIRC is now able to monitor the financial solidity of insurers more closely, and may impose sanctions to financially unstable companies (e.g. a company may be asked to increase the capital base, or may be placed under probation for a set period, or in the extreme case even be taken over by the CIRC).

Furthermore, the New Act liberalises reinsurance requirements; local insurers may now cede to reinsurers which are non-admitted.

III SOCIAL SECURITY

Background Information

The social security and benefit system throughout the country is under complete review with the goal of unifying the social security system. The new unified system will include old age pension as well as death, medical, unemployment, disability and maternity insurance. Old age pensions will be based on a three-pillar, two-account system. Pillar one, the “Social Account”, provides basic old age pension in a defined benefit system. Pillar two, the “Individual Account”, provides a variable benefit based on individual contributions. Pillar three is made up of voluntary contributions.

Local systems at provincial and municipal levels are to be integrated, and participation in the pension system is obligatory for both employers and employees.

Legislation on various issues dates back over 20 years. The harmonisation regulations, which aim to replace the old, generous pay-as-you-go system with a mixed system, were first published in 1997.

In 1998 a decision regarding basic medical insurance for a segment of civil servants was published. Regulations on unemployment were implemented one year later. Details on collection of social insurance contribution were also published. However, more time will be required for further regulatory unification.

The government is moving towards a multi-tier system consisting of:

- State mandatory basic social insurance
- Local supplementary social insurance
- Employer’s supplementary insurance
- Individual insurance

Eligibility

The pension system is compulsory for all gainfully employed permanent residents.

Contributions

Contributions are made both to an individual account for the employee (personal account) and to a central fund (social pool).

Contribution rates vary by province and municipality, however a maximum rate of 300% and a minimum rate of 60% of the average wage in the previous year, set a limit to the calculation basis and thus to the fees payable.

	Old Age Pension	Industrial Disability & Death	Unemployment	Medical
Employer	around 23% of salary to social pool	varies between industries, max is 1% of total salary	2% of total salary	on average 6% of salary
Employee	8% of salary to personal accounts	none	1% of personal salary	on average 2% of salary

When employees change their job they take the funds (incl. interest) of their individual account along.

Retirement Benefits

Retirement Age

Official retirement age: Generally 60M
Generally 55F (professionals), 50 (non-professional salaried)

Qualifying Conditions

Eligibility for pension is subject to 15 years of contribution, and to having reached retirement age.

Benefits

- A universal pension is offered to all retiring employees in China.
- If an employee has less than 15 years of contributions, the funds accumulated in the individual account will be paid as a lump sum instead of a pension.
- If an employee has more than 15 years of contributions, a monthly pension from both the personal account and the basic pension pool will be paid as follows:

Pillar I - Social Account Pension: percentage of the mean of the previous year's average monthly salary for active employees and the personal index monthly salary. The percentage is 1% for each year's contribution.

Pillar II - Individual Account Pension: total of the personal account with interest, divided by the prospective months of payment, which depends on life expectancy, retirement age and interest.

Disability Benefits

Qualifying Conditions

There are no qualifying conditions for disability benefits.

Benefits

There is no state plan for non-work-related disability. The following information only applies to disability resulting from work-related injury or disease, as stipulated in the Industrial Injury Insurance for Enterprise Employees. The benefits include:

- Disability Allowance: A lump sum is paid, which is based on 6 - 24 monthly salaries.
- Disability Pension: Permanent or partial disability pension is a fixed percentage of the salary (60% - 90%, depending on the degree of disability).
- When a totally disabled employee reaches retirement age, they can start to receive the social old age pension from the old age pension fund. If the old age pension is less than the work injury disability pension, the balance is made up by the work injury insurance fund.
- If the employee is partially disabled and incapable of doing the former job, the employer is responsible for arranging other suitable work for the employee. If the employer has difficulties arranging a job for that person, a monthly compensation equal to 60% - 70% of the salary will be paid, and if the disability pension is less than the local minimum salary, the employer must make up the difference.
- If the partially disabled employee is promoted, the disability pension remains the same.

Death Benefits

Qualifying Conditions

There are no qualifying conditions for disability benefits.

Benefits

Like disability, death benefits are only for death caused by work-related injury or disease. The benefits include:

- Funeral subsidy: 6 times average monthly salary in the respective company.
- Dependants' pension: 40% average salary in the province of residence for spouses, 30% of average salary in the province of residence for other dependants plus an additional 10% for widowed elders or orphans.
- Lump sum compensation: 48 to 60 times average monthly salary in the province of residence.

Sickness Benefits

Qualifying Conditions

There are no qualifying conditions for sickness benefits. Sickness benefits are divided into two parts: period of medical treatment and reimbursement. There is no time limit on medical fund contributions.

Benefits

The employee can receive reimbursement of medical expenses until the termination of contract with the employer. If the employee falls ill when on duty, generally all expenses for medicine, hospitalisation, medical treatment and expenses are reimbursed at 100%.

An employee who is injured during work, or suffers from an occupational disease contracted at the work place, is entitled to work-related sickness benefits:

- Work Injury medical benefits: all medical expenses for work injury are reimbursed at 100%,
- Work Injury allowance: during the period of medical treatment, allowance is equal to the average of the last 12 months' salary.

Medical/Health Benefits

The medical insurance law, introduced in 1998, covers minor diseases of all urban employers and employees of companies, with no exception or waivers possible for high income staff and with no minimum qualifying period. All personal premiums (2% of wages, depending on the individual financial situation, but not on age, gender etc.) are credited to the personal accounts of employees, along with around 30% of the employer's premiums (6% of wages). The rest goes to the so-called mutual assistance programme, which covers hospitalisation, emergency fees and costs of serious diseases.

Medical benefits vary by province and by city, and are subject to local economic situations.

Work Injury Benefits

Worker's compensation insurance became effective on January 1, 2004. It covers all employees who experienced accidents while working or who suffer from occupational diseases. They are entitled to medical treatment and financial compensation (see Disability, Death and Sickness Benefits).

Unemployment Benefits

Qualifying Conditions

Employees who fulfill all of the following conditions are eligible to receive unemployment benefits:

- Contributions to unemployment insurance have been paid for at least one year.
- Unemployment is not voluntary.
- Unemployment has been registered and re-employment applications have been filled in.

Benefits

- The benefit should be less than LSSL (lowest social salary level, i.e. minimum wage) and higher than LLSL (lowest living security level for urban residents). Provincial governments stipulate the rate according to the economic situation (e.g. 80% of minimum wage). Thus the rate is not linked to the last salary of the individual.
- The period of benefit payment depends on the contribution period. For a contribution period below 5 years benefits are paid out for a maximum of 12 months (5 - 10 years: 18 months/above 10 years: 24 months).
- During unemployment, insured individuals are entitled to medical and funeral subsidies, surviving dependants' pension and job search and training services.

Other Benefits

Maternity Benefits

The fund "Childbirth Insurance for Enterprise Employees" will cover most of the employee's medical expenses and 100% of the wage for a maternity leave of a maximum of 90 days (42 days in case of abortion). The fund is fully financed by employers paying a fixed percentage (maximum 1%) of the total salary. Enterprises that chose not to join such a scheme are required to cover childbirth expenses themselves.

Housing Fund

Both employer and employee pay a percentage of the employee's salary into the employee's special account for a housing fund. The percentages vary according to province and municipality. However a minimum rate of 5% of the employee's salary is required. The account can only be used by the employee to buy, build or repair housing.

Taxation

Contributions

All social insurance contributions are tax-deductible for both employer and employees.

Benefits

Benefits are still tax-free.

Other Information

In case employees move (either between cities or provinces), all accumulated funds in the personal account will be transferred with the employee to the new city's social insurance bureau. The employee's benefits from social pool funds are not vested, but the employee will be covered by the new location's social insurance bureau, disregarding the differences in the coverage offered by the various cities or provinces.

IV PRIVATE BENEFIT PLANS

Background Information

There is very little pressure to implement private plans (although they are encouraged), due to the relatively high contributions to social security and a lack of incentives for private companies to invest in these plans. In some test cities, the municipal government has plans for employer's supplementary pensions, but they are not yet mandatory. There are no unified regulations on private benefit plans for foreign-funded companies in China.

Currently, the majority of private plans in China are savings plans managed by insurance companies or by employers. The benefits are usually paid as lump sum rather than monthly pension.

On January 6, 2004, the Ministry of Labour and Social Security issued preliminary legislation in relation to Enterprise Annuity (EA), a term referring to voluntary occupational retirement schemes. The legislation, which came into force on May 1, 2004, is a significant step forward in the government's efforts to promote a private pension market in China.

Eligibility

All full-time employees who are permanent residents of China, if not defined, otherwise by the employer. Age limits: generally 18 to 60M/55F. Part-time employees are not included.

Contributions

Employee contributions differ from enterprise to enterprise. Most plans are non-contributory. Contributions from the employer are regarded as a benefit in kind.

Retirement Benefits

Retirement Age

Normal retirement: 60M/55F

Benefits

Besides the mandatory contributions to government social security funds (for Chinese employees), enterprises are free to set their own benefit standards and they usually buy annuities. The amount of pension after retirement is decided between employer and employee. Else, a lump sum termination benefit might be chosen. Several retirement ages can be selected under a provident fund.

Vesting

Benefits depend on the number of years of service and the nature of employment contract termination.

Disability Benefits

Generally a lump sum is paid to the person who took insurance cover for one of the 34 level of disability according to the regulations of CIRC (China Insurance Regulatory Commission).

Disability Income Benefits

Some employers offer limited term disability income benefits to top management for a duration of 5 years (or till retirement or death). The amounts depend on the insured's income and the employer's financial situation.

Death Benefits

Usually accidental death cover plus additional medical treatment insurance is offered. Benefits vary according to province and municipality.

Sickness Benefits

Not customary.

Medical/Health Benefits

Some companies have their own separate medical schemes. For example for normal medical expenses, employees are responsible for the first CNY 300. Employers are responsible for 80% - 90% of the medical expenses above the CNY 300 per annum. Employees pay 10% - 20% of the remainder.

Work Injury Benefits

Many employers offer supplementary benefits, generally in the form of a lump sum. The amounts depend on the employer's financial situation.

Other Benefits

Housing allowance and loans as well as transport allowance are also available in certain cases.

Taxation

Contributions

Tax regulations regarding supplementary benefits vary between provinces and municipalities.

Benefits

Taxation is based on the employee's total income.

Other Information*Annual Base Salary*

12 or 16 times monthly salary plus allowances and bonus.

Double Taxation Agreements

Albania, Algeria, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belgium, Brazil, Brunei, Bulgaria, Canada, Croatia, Cuba, Cyprus, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Korea, Kuwait, Kyrgyzstan, Laos, Latvia, Lithuania, Luxembourg, Macao, Macedonia, Malaysia, Malta, Mauritius, Mexico, Moldova, Mongolia, Morocco, Nepal, the Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Papua New Guinea, the Philippines, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia and Montenegro, Seychelles, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, United Arab Emirates, the United Kingdom, the United States of America, Uzbekistan, Venezuela, Vietnam.

V FUTURE OUTLOOK

Trends in the Insurance Industry

In 2008, the Chinese insurance market experienced a rapid and healthy development, driven by domestic demand and growth of the gross national production.

Insurance Industry – General Situation

Unit: CNY million

Year	Life premium income	Non-life premium income	Growth rate
2009 (end of November)	757,658	264,018	11.7%
2008	744,739	233,671	39.1%
2007	494,897	208,648	24.7%
2006	413,201	150,943	14.5%
2005	369,748	122,986	-

In the life sector the market share distribution of companies is as follows:

The largest life insurers	Market share in 2005	Market share in 2006	Market share in 2007	Market share in 2008	Market share in 2009 (end of November)
China Life	51.0%	45.3%	40.7%	40.3%	36.8%
Ping An Life	16.1%	17.0%	15.9%	13.8%	16.3%
Pacific Life	9.9%	9.3%	10.1%	9.0%	8.3%
Other national insurers	14.1%	22.5%	25.3%	32.0%	33.6%
Joint ventures	8.9%	5.9%	8.0%	4.9%	5.0%

Key Developments of the Chinese Insurance Industry during 2008/09

The following developments are expected to have a strong influence in the future:

1. Development of supervisory system

In 2009 CIRC (China Insurance Regulatory Committee) continued the task of promoting a modern supervisory system, focussing on the three areas: solvency, corporate governance and supervision of market conduct, especially avoiding the risk to the industry in a financial crisis, encouraging innovation at the same time.

2. Foreign insurers

The potential of the Chinese insurance market continues to attract foreign insurers. More companies have set up representative offices. By the end of November 2008, there were 24 foreign insurers doing business with a total premium income of over CNY 32.8 billion. Premium income from investment products decreased noticeably, the market share of foreign insurers dropped to 4.8%.

3. Pension and health

By the end of June 2009, the trust funds managed by the five pension companies had reached CNY 68.9 billion and the market share of Ping An Annuity insurance company was 32.2%. As for the health sector, there is no obvious progress, as the social medical insurance system is undergoing reform.