Humanities and Social Science Research; Vol. 7, No. 3; 2024
ISSN 2576-3024 E-ISSN 2576-3032
https://doi.org/10.30560/hssr.v7n3p117

Research on the Multi-Level Social Security System

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Received: November 12, 2024; Accepted: December 25, 2024; Published: December 26, 2024

Abstract

This paper explores the historical development of China's social security system, focusing particularly on the second pillar of pensions. It highlights the persistent gaps in pension coverage for farmers and migrant workers, which continue to threaten their financial stability. The paper also discusses the significant impact of the pension system on labor relations. Despite improvements, China's pension system remains deeply divided between urban and rural areas, as well as between public and private sector workers. The existing dual structure exacerbates inequalities, particularly in terms of pension security. China's pension system still needs to be improved. China's pension system still needs perfecting,there obviously exists a dual structure between urban and rural areas, and also differences in the domestic civil servant system, which includes public institution staffs and urban workers. The first pillar has a substantial increase in coverage to 1.066 billion people, and more importantly needs to be supplemented with a huge gap in the empty accounts; the second pillar has developed more rapidly, but coverage is low and seriously unbalanced. The United States pension system is relatively sound, but too much reliance on the investment ability of employees, employees themselves bear all the investment risk, receive completely by the employee's own decision, a one-time receive face the problem of reasonable use. A sound and reasonable old-age security system is the cornerstone of social stability, which can increase the satisfaction and loyalty of workers and promote social equity and a virtuous cycle.

Keywords: pension security system, the aging of labor relations

1. Introduction

1.1 China's "Urban-Rural Dualistic, Collect-and-Spend" Distribution System, which does not yet Allow for an Old-Age Security System

China's pension system has long been shaped by its urban-rural divide, which remains a fundamental barrier to equal access to social security. The country's pension system reflects a dual structure, with urban workers—especially civil servants—receiving much more comprehensive coverage than rural populations. Prior to the 1980s, peasants had no access to pension schemes and were largely restricted to rural areas by the household registration system (hukou). Most enterprises were state-owned, and employees were considered part of the state apparatus, with little mobility or financial security outside of it. Peasants did not have foodstamps, i.e., they did not have the right to buy foods, and cannot go out to the cities.

The 1990s gradually formed the "migrant workers" who went to the city to work, and the Labor Law of the People's Republic of China came into effect on January 1, 1995, stipulating that enterprises should pay social security, and on January 22, 1999, the Provisional Regulations on the Collection and Payment of Social Insurance Premiums were officially issued and came into effect, and the state passed relevant laws, and from May 1, 2008 onwards, the employers were mandated to purchase social security. The State, through relevant laws, began to make it mandatory for employers to purchase social security.

1.2 Establishment of a Social Security System from Around 1995

It began with the creation of basic social security, an empty account, with new people contributing and previous people receiving. There is still a huge gap, with a stock of 8.6 trillion yuan. Later, learning from foreign countries, the establishment of the "second pillar" proposed by the World Bank, the gradual development of the present, in recent years, the growth rate is very fast, especially occupational pensions, a total stock of 3.3 trillion yuan. A few years ago, rural areas such as Shandong had a pilot program to establish pensions, but it failed to take hold and ended.

"Historically, farmers had no means to contribute to social security, and migrant workers were reluctant to do so because their contributions were not transferable across provinces. This, coupled with the temporary nature of their work and low income, made saving for retirement difficult. In 2008, China mandated that employers provide social security for their employees. However, this often shifts the financial burden onto the employer, reducing workers' net income while failing to address the underlying structural issues in the system.".When most migrant workers leave their working cities, this piece is retained locally and cannot be transferred across provinces with them. The state requires that social security contributions be accumulated for 15 years before they can be collected upon retirement, and as a product of a special period, migrant workers are rarely able to accumulate 15 years in order to contribute to social security. Therefore, the basic old-age pension insurance that is usually provided for has basically nothing to do with peasants or rural migrant workers, and is still in a state of dichotomy between urban and rural areas.

2. China's "Urban-Rural Dualistic, Collect-and-Spend" Distribution System, is not yet a Pension Security System

The clear division between urban and rural social security in China can be characterized as a "dual social security system", the core feature of which is the urban-rural dichotomy, which is severely segmented, with a huge "scissors gap" between urban and rural development. When the People's Republic of China was founded, the government introduced a social insurance system focused on urban workers, while rural populations were primarily supported by family and collective systems. In 1951, the government passed the 'Regulations on Labor Insurance,' which provided urban enterprise workers with benefits covering disability, sickness, maternity, old age, and death. These benefits were extended not only to workers but also to their immediate families, marking a significant step in the development of China’s social security system. With the exception of unemployment, China's social insurance covered all the other social insurance items that still existed in developed industrialized countries.

With the advancement of economic reform, China's social insurance system has also undergone a series of reforms. 1986, the State Council issued the Interim Provisions on the Implementation of the Labor Contract System in State-Owned Enterprises, which began the implementation of the labor contract system in state-owned enterprises and was gradually expanded to other enterprises of all systems. 1991, the State Council issued the Decision on the Reform of the Pension Insurance System for Enterprise Employees, which began exploring the establishment of a pension insurance system that combines social coordination and individual accounts. The State Council issued the Decision on the Reform of the Pension Insurance System for Enterprise Employees in 1991, and began to explore the establishment of a pension insurance system combining social coordination and individual accounts.

However, the above systems are mainly for state-owned enterprises and urban workers, and the protection system for the rural population, including migrant workers, remains inadequate. Compared with employee pension insurance and medical insurance, the vast majority of flexibly employed people, rural populations and rural migrant workers opt for residents' insurance, which offers lower benefits, with the ratio of per capita pensions for urban workers to those for urban and rural residents' insurance at 19.7 times in 2015, expanding to 20.7 times by 2018. After that, with the establishment of the normal adjustment mechanism for urban and rural residents' insurance treatment determination and basic pension, the per capita pension of urban and rural residents' insurance increased faster, and the above ratio dropped to 19.3 times in 2020, but it is still at a high level. And the more underdeveloped the region, the higher the ratio of the two. More importantly, the absolute gap between the monthly per capita pensions of urban workers and those of urban and rural residents has also been widening year by year, and the greatest injustice of the "two-track system" is reflected in the post-retirement entitlements, with only the urban population, which accounts for 10-20 per cent of the country's total population, and especially civil servants within the system, receiving pensions.

The immediate cause of the formation and long-term maintenance of the dual social security system was a series of social policies that divided urban and rural areas, which were introduced at the beginning of the country's history to accommodate the industrialization route of the time. These social policies included the hukou policy (system), the labor and employment policy (system), and the people's commune system. With the division of the agricultural and non-agricultural populations in the first two, and the restrictions imposed by the labor and employment departments on the peasants' settlement and employment in the cities, it would be far from possible to achieve the purpose without the support of the relevant systems in the rural areas, and the birth of the rural people's commune system in 1958 precisely fulfilled this requirement. On the one hand, the establishment of the people's commune system facilitated the implementation of the policy of unified purchasing and marketing, which provided a steady stream of accumulation for industrialization; on the other hand, through the collective ownership of land, collective production and distribution, it realized centralized control and management of the peasants, thus preventing the creation of "displaced persons." The successive implementation of the major social policies (systems) mentioned above is the most direct source of the introduction and maintenance of the dual social security system. Before the reform and opening up, there were basically no independently owned enterprises, which belonged to various departments of the state and employed state workers; peasants had no pensions, and before the reform and opening up in the 1980s they could not work in the cities, and were fixed to the barren land by means of household registration, food stamp quotas, letters of introduction, and mobility controls; peasants did not have food stamps, i.e., they did not have the right to buy food, and could not go out to the cities. Unable to go out to the cities.

After 1978, China abandoned the traditional planned economy and the urban-based industrialization strategy, and established the overall reform objective of establishing a socialist market economy and a comprehensive industrialization strategy that combined urban and rural areas. The previous rigid urban-rural division was weakened and loosened, and in the 1990s, "migrant workers" were gradually formed, and the Labor Law of the People's Republic of China came into effect on January 1, 1995, stipulating that enterprises had to pay social security contributions, while the Interim Regulations on the Collection and Payment of Social Insurance Premiums were formally released and came into effect on January 22, 1999, and the State passed relevant laws to protect the workers from being forced to pay social security contributions. On January 22, 1999, the Provisional Regulations on the Collection and Payment of Social Insurance Premiums were formally issued and came into effect, and from May 1, 2008, the State began to make it mandatory for employers to purchase social security through the adoption of relevant laws. However, until now, under the "two-track system," the replacement rate for pension insurance for institutions was as high as 90 to 107 percent, while the replacement rate for the pensions of enterprise employees, who make up the majority of the population, was less than 40 percent.

The same is true of medical insurance: since 1958, China has had a cooperative medical system in place in most rural areas, but it is fundamentally different from the medical insurance for urban workers, in that farmers who fall ill, especially with major illnesses, receive little help from the cooperative medical system, and the costs continue to come mainly from their families. In addition, the problem of poor quality of participation is even more evident in the case of work-related injury insurance and unemployment insurance, with almost all rural migrant workers or flexibly employed persons, who are most at risk of occupational injuries, lacking work-related injury insurance or unemployment insurance.

From the history of social security in industrialized countries, generally there is the birth of social insurance system for urban enterprises employing workers, and then after a longer period of time, when the social structure on the basis of industrialization and urbanization on the integration of urban and rural areas, urban industries have been able to feed back to the agriculture through their own accumulation to achieve the scale of agricultural operations and mechanization, there is the introduction of social insurance system for farmers and the integration of social security system between urban and rural areas. The social security system for farmers and the integration of urban and rural areas. In the case of the old-age insurance system, for example, the implementation of the old-age insurance system for urban and rural workers in the advanced industrialized countries took a long time: 68 years in West Germany, 86 years in Denmark, 55 years in the United States of America, 63 years in Canada, and 45 years in Japan, and so on and so forth.

Of course, as far as basic social insurance programs are concerned, the Soviet and Eastern European countries were generally designed from the very beginning of their statehood to provide universal coverage, including for peasants. This was mainly due to the fact that these countries already had a better foundation for industrialization, a higher level of economic development and a low share of the agricultural population. China's social policies differed from those of the Soviet Union and Eastern European countries because of the late start and low level of industrialization, the large size of the agricultural population, and the difficulty of the State's financial resources in providing agricultural labourers with social security treatment equal to that provided to urban industrial workers.

To address these disparities, it is essential to gradually integrate rural workers and farmers into the urban social security system. This will require targeted reforms that ensure portability of social security benefits, incentivize contributions from rural populations, and bridge the gap between urban and rural pension schemes.

3. Establishment of a Social Security System from Around 1995

The development process of China's pension system can be divided into four stages:

Phase I (1951-1984): China's pension system was first established in 1951, when China first began to set up a public pension system; on the premise of borrowing from the Soviet Union model, it adopted a defined benefit pay-as-you-go system, and set up a social security system on the basis of a "national turnkey" model. At this time, the pension system had a low coverage rate and was strongly planned.

(b) Phase II (1984-1995): During this period, when the country had not long been reformed and opened up and was gradually making the transition to a market economy, the urban workers' old-age pension insurance system established during this period was still primarily a national insurance system under a planned economy, but with corrections made to the shortcomings that existed during the first phase. Operationally, the central and provincial governments are responsible for formulating and revising the framework of the system, while county, regional or municipal governments are the main implementers of pension insurance. In terms of the model, it is still a defined benefit pay-as-you-go system, with employers and employees contributing at a certain rate, where the rate of employers' contribution rises from 3% to 15% of the total wage bill, while the rate of employees' contribution is 3% of the wage bill.

Phase III (1995-2021): The State Council promulgated the Circular on Deepening the Reform of the Pension Insurance System for Enterprise Employees in early 1995, formally launching the reform of the enterprise pension security system. The document summarized the pension reforms around the world, based on a new integration of the original workers' pension insurance system, and initially established a new multi-level enterprise pension insurance system combining social coordination and individual accounts (unification of accounts). The "first pillar" has the largest volume, as of the end of 2023, the number of people insured in the national basic pension, unemployment, and work-related injury insurance were 1.066 billion, 244 million, and 302 million, respectively, an increase of 13.36 million, 5.66 million, and 10.54 million people year-on-year, of which the number of people insured in the work-related injury insurance exceeded 300 million for the first time.

The basic pension insurance system combining unified accounts is a new type of basic pension insurance system pioneered by China in the world. Theoretically, it is a combination of a pay-as-you-go system and a full accumulation system, but in terms of actual operation, because the costs of the transition have not been properly handled, the fully accumulated individual accounts have been misappropriated to form an empty account, resulting in the fact that China's basic old-age pension insurance is still a purely pay-as-you-go system. The pay-as-you-go system is one in which people working in the same period contribute to the pension fund to support the current generation of retirees, while the full accumulation system is one in which individuals contribute to pension insurance during their working lives and accumulate through their individual accounts, and then receive the corresponding pension when they retire.

The operation of the pay-as-you-go system theoretically requires the fulfillment of the Allen condition that the sum of the population growth rate and the wage growth rate is greater than the real market interest rate in order for a payment crisis not to occur. However, judging from the trend of population aging and the direction of economic development in China, there is a huge challenge to satisfy the Allen condition, especially the long-term plateau of population aging and the slowing down of economic development, which will inevitably constrain the sole reliance on the pay-as-you-go system to satisfy the pension needs of the elderly. According to the China Pension Development Report 2023 published by the Chinese Academy of Social Sciences, the accumulated balance of China's basic pension fund for urban workers stood at 5.26 trillion yuan at the end of 2022, and is expected to be depleted by 2035.

Since then, China has studied abroad and established the "second pillar" proposed by the World Bank. In 1995, under the active guidance of the Ministry of Labor's policy, some enterprises established enterprise annuities, and the concept of "enterprise annuities" was firstly elaborated in the "Notice on the Issuance of the Pilot Program for the Improvement of the Social Security System of Cities and Towns" distributed by the State Council in 2000. In 2000, the State Council issued the Circular on the Pilot Program for Improving the Urban Social Security System, in which the concept of "enterprise annuity" was first elaborated, making it independent from the "supplement" and becoming a separate pillar. The second pillar has gradually developed to the present day, with a relatively rapid growth rate in recent years, and as of now the coverage is relatively small but the accumulated funds are still considerable; as of the end of the third quarter of 2023, the accumulated size of the national enterprise pension fund had reached 3.12 trillion yuan, with 138,700 participating enterprises and 31.03 million participating employees.

Phase 4 (2022-present): On April 21, 2022, the Opinions of the General Office of the State Council on Promoting the Development of Personal Pensions was officially released to the public. According to the Opinions, workers who participate in basic pension insurance for urban workers or basic pension insurance for urban and rural residents within China can participate in the individual pension system. Individual pensions are subject to a personal account system, with contributions borne entirely by the participants themselves, and a full accumulation system is in place. on November 25, 2022, the individual pension system was first implemented in 36 cities or regions, including Beijing, Shanghai, Guangzhou, Xi'an, and Chengdu, covering most of the country's provincial capitals and municipalities separately listed in the plan, and people who meet the eligibility criteria can voluntarily participate in the individual pension, with the maximum annual contribution amounting to 12,000 yuan, and can enjoy tax-deferred benefits. According to the data of the Ministry of Human Resources and Social Security, as of the end of 2022, the number of individual pension participants was 19.54 million, the number of contributors was

6.13 million, and the total amount of contributions was 14.2 billion yuan; as of the end of 2023, the number of people who opened individual pension accounts was more than 50 million, and there were more than 700 individual pension products.

Pension protection for farmers and migrant worker groups is still lacking. At present, farmers can obtain pension benefits by contributing to the basic pension insurance for urban and rural residents, and with the vigorous promotion of the pilot system relating to individual pensions, farmers can also save for a rainy day by contributing to individual pension insurance.

But before that, farmers have no channels and qualifications to pay social security, new rural social pension insurance only entered the pilot stage since 2009, the age of 16 years old (excluding school students), not participating in the basic pension insurance for urban workers of rural residents, can voluntarily enroll in the place of household registration, the new rural insurance fund consists of individual contributions, collective subsidies, government subsidies.2014 the state will be the new rural social pension insurance and social pension insurance for urban residents into basic pension insurance for urban and rural residents. However, due to restrictions on payment of fees and the number of years of payment, the incentive to enroll in the insurance program has not been high.

Rural migrant workers moving into cities are reluctant to pay social security because the contributions are not transferable across provinces, while the work is temporary and unstable, and the overall income is low, making it more necessary for current consumption. After enterprises were forced to pay social security in 2008, employers were required to pay for their employees, which was actually counted as a cost to the employer, or a piece of the worker's income. When most migrant workers leave the working city, this piece is retained locally and cannot be transferred across provinces on the go. The state requires that social security contributions must be accumulated for at least 10 years (previously 15 years) before they can be collected at retirement age, and migrant workers, as a product of a special period of time, are seldom able to accumulate 10 years of social security contributions. Therefore, the basic old-age pension insurance that is usually provided for has basically nothing to do with peasants or rural migrant workers, and remains in a state of dichotomy between urban and rural areas.

In 2019, Shandong and other places in the countryside had done a pilot to establish a pension, which meets the retirement age requirements of the elderly can receive a free pension, the pension is consistent with the state, but since then did not adhere to it, and it did not work.

4. Problems with China's Pension System

China's current basic pension insurance system has a number of endogenous problems, one of which centers on the obvious urban-rural dichotomy and the distinction between inside and outside the system between urban and rural areas, and between workers in institutions and urban workers; the other is the problem of the discontinuity of funds due to changes in the age structure of the population.

1. Within the basic pension insurance system, there is a lack of incentives to pay more and get more and pay more over time, the problem of running empty personal accounts has not been fundamentally resolved, and the direct link between the contributions of enterprises and individuals and their eventual beneficiaries is insufficient, resulting in a low willingness to contribute on the part of enterprises and individuals.

2, institutional barriers such as urban-rural, geographically divided household registration system, although the reform efforts are increasing, but to really cut down on the various social security benefits and related rights and interests attached to it is not easy, even if the migrant workers in the city have a stable job and residence can not get the same welfare rights and interests as local residents, that is to say, showing that the impact of the household registration system under the system of planning is deep-rooted, and hidden behind the fact that is the Behind the scenes is actually a struggle between the interests of the local population and the migrant population. China now has a floating population of 200-300 million, mainly composed of migrant workers, but also including the families of migrant workers in a state of mobility and migrant workers from other places who have urban household registration, and the social security of this group is still in need of urgent improvement.

3. The problem of fault lines created by high population fluctuations and ageing. Public expenditures for the elderly will grow dramatically, and the pressure on pension payments, health insurance fund expenditures, and the supply of old-age services will continue to climb. The problem will be exacerbated by the fact that China still lacks actuarial management and risk control mechanisms, and the contribution rate to China's individual pension accounts is calculated on the basis of the average life expectancy of the population. As society progresses, the actual average remaining life expectancy of the elderly population in the future will be higher than that calculated on the basis of the average life expectancy of the current population. When pensions are paid from the

accumulation of individual account pension funds, there is a risk that the actual life expectancy at the time of pension receipt will exceed the average life expectancy of the population, resulting in insufficient accumulation of individual account funds.

Supporting a pay-as-you-go old-age security system requires a relatively young demographic structure, which is gradually being lost as a result of shifts in the age structure of the population. Population aging has led to a rising old-age dependency ratio in China, with an increasing number of recipients and a decreasing number of contributors. As of 2023, China's elderly dependency ratio is 22.6%, combined with our model's prediction that it may break through 30% in 2031 and 40% in 2037, with every 100 working-age population needing to support 40 elderly people (the total population dependency ratio is 56%, with the age population also needing to support 16 children), and 50% and 60% in 2047 and 2055, respectively. The pressure to support the elderly is heating up sharply Figure 1.

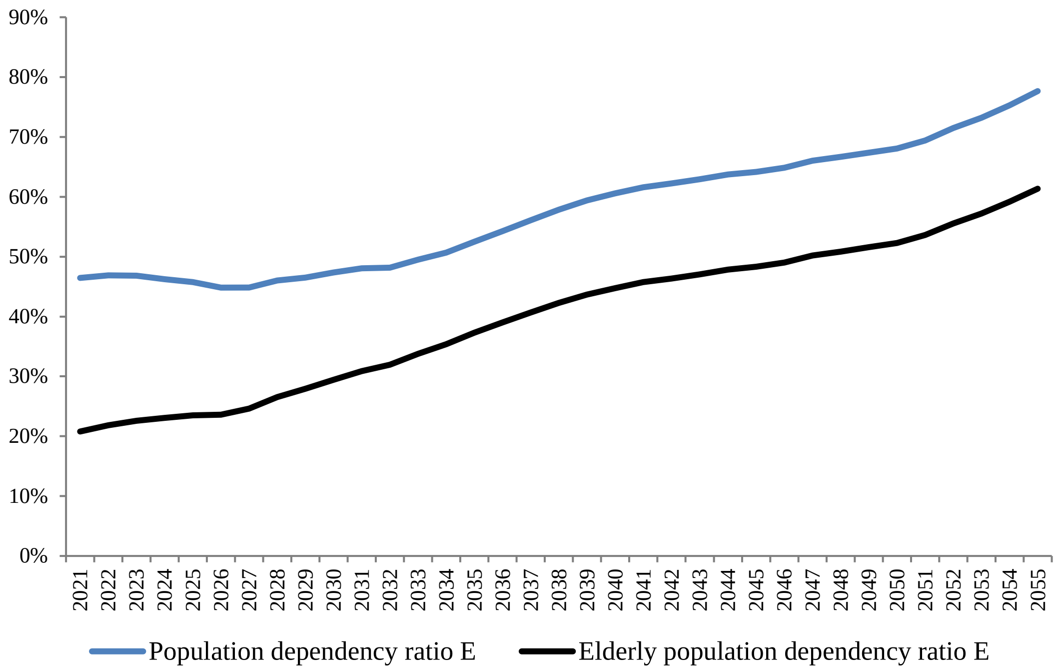


Figure 1. Projected Trends in Population Dependency Ratio, Elderly Dependency Ratio

Figure 2. China's basic pension expenditure as a share of GDP

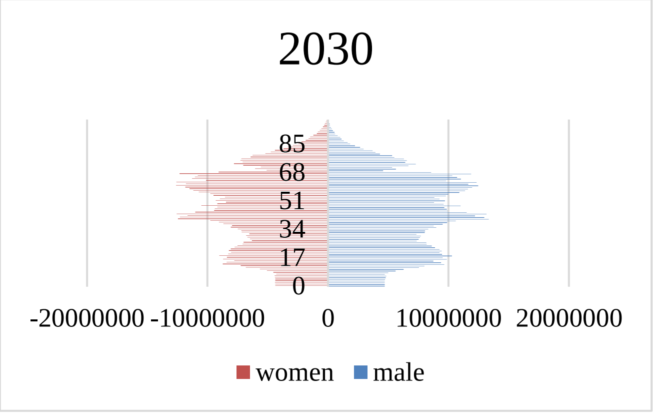
The increase in the old-age dependency ratio will lead to an increase in the system support ratio (the ratio of the number of pensioners in the system to the number of people paying pension contributions in the system) of the current pension system, with the same number of people of working age having to support a greater number of elderly people. While most developed countries usually modernize before the demand for older persons expands, our country is facing severe ageing before it has even modernized, i.e., the phenomenon of ageing before getting rich is more serious, which puts even more pressure on society for old-age pensions, and deepens the contradiction between demand and supply and the dilemma of old-age pensions.

Figure 2 According to the Ministry of Finance data, in 2003, China's early aging, the basic pension expenditure of enterprise employees was 266 billion yuan, accounting for 1.94% of GDP, to 2023 the data has been upwardly mobile to 4.45 trillion and 3.53%, the basic pension expenditure of the proportion of GDP nearly doubled, and this is still in the development of China's aging population is relatively slow in the period of time.

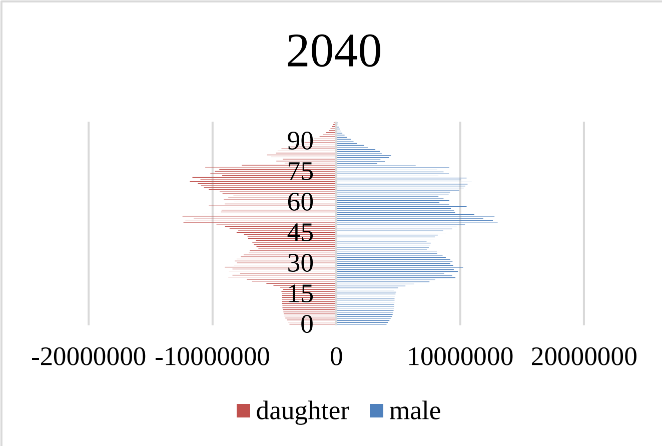
China is aging faster and has a larger population base. Japan entered mild, moderate and severe ageing in 1969, 1994 and 2006 respectively, and it took 25 and 12 years to enter moderate and severe ageing respectively. China has entered mild aging since 2000, and then the aging rate accelerated to reach moderate aging by 2021, a process that took only 21 years. As of 2023, China has a total population of 1.41 billion, and the proportion of people aged 65 and above has reached 15.4%, and according to the United Nations' World Population Prospects 2024, the size of China's 65-and-over population in 2034 will exceed 21% and enter into heavy aging, progressing at a further accelerated pace in only 11 years, while China's total population (in 2023) is 11.3 times that of Japan *Figure 3*.

In terms of pension income, according to the annual data of the National Bureau of Statistics, the absolute number of China's working-age population aged 15-64 years old has declined in 2014, which to a certain extent also foretells that the number of people contributing within the pension system will continue to decrease; at the same time, due to the fact that China's current pension system stipulates that the minimum number of years of contribution is 15 years (with the new regulation to be adjusted to 20 years in 2024), which causes Many people of working age will not continue to contribute after reaching the required contribution period, further reducing the number of contributors in the system and lowering pension income.

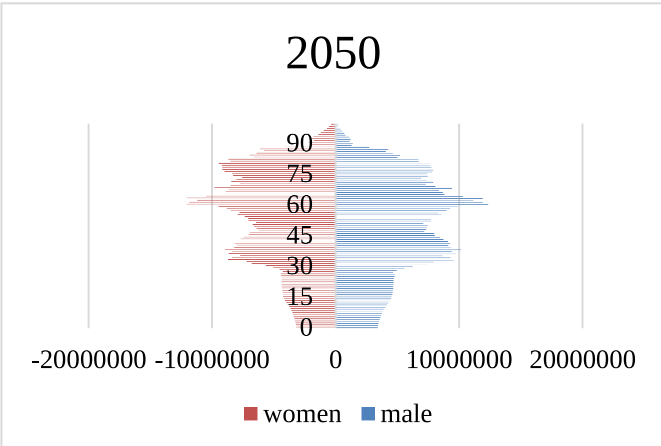
The decline in income from China's basic pension insurance system is a long-term trend and a long-term institutional arrangement. In order to cope with the downward pressure on the economy, protect employment and protect market players, five social insurance started to reduce the fee rate in phases in 2015, and the State Council issued the Comprehensive Program for Reducing Social Insurance Fee Rates in 2019, which reduced the pension insurance fee rate from 28% to 24% and used the average salary of the full-caliber employed personnel to approve the contribution base, so that the income from the pension insurance contributions was significantly reduced.The "double-drop" introduced in 2019 has again overlaid the "reduction, exemption and deferral" of the pension insurance fees in order to cope with the epidemic in 2020 and 2021. In 2020 and 2021, in response to the epidemic, the "reduction, exemption and deferral" of pension insurance premiums was again superimposed.The "double-drop" policy introduced in 2019 is a long-term institutional arrangement, and it is unlikely that the income level of the pension insurance system will return to the previous level, and in the long term, even if the parameters of the system support rate are lowered by raising the statutory retirement age in the future, the replacement rate will be lower than that in the past. In the long run, even if the parameters of the system's support rate are lowered by raising the statutory retirement age in the future, the gradual downward adjustment of the replacement rate will also be an irreversible trend.



(a) Distribution of China's population age structure in 2030 (projected values values)



(b) Distribution of China's population age structure in 2040 (projected values values)



(c) Distribution of China's population age structure in 2050 (projected values values)

Figure 3. Distribution of China's population age structure in 2030, 2040 and 2050 (projected values)

5. Lessons from the United States Pension System

5.1 The United States Pension Insurance System

The United States is one of the earliest countries in the world to implement a pension insurance system, and the development of its pension insurance system can be traced back to the enactment of the Social Security Act in 1935, and since then, through continuous innovation and improvement, it has gradually built up a "three-pillar" pension insurance system based on the U.S. Federal Social Security Fund, employer-initiated pension plans and personal savings pension plans. The "three-pillar" pension insurance system, which has become the most mainstream pension system in the world.

Soldiers' pension regulations implemented in 1862 were the origin of the U.S. pension security system, which for the first time stipulated that full pension support should be provided to soldiers who were incapacitated by war, and also counted the families of fallen soldiers among the people who were paid pensions.

The U.S. government passed the Social Security Act in 1935, which was the first national social security bill in U.S. history, and the first time the U.S. established a pay-as-you-go system of social security for the elderly. It marked the birth of OASDI, which is the first pillar of the current three-pillar pension insurance system in the United States. Its emergence is of great significance to the improvement and reform of the U.S. pension security system.

The United States Government passed ERISA, also known as the Employee Retirement Income Security Act (ERISA), in 1974 and established the national PBGC (Pension Benefit Guaranty Corporation). These measures have greatly contributed to the rapid progress of the occupational pension system. The second and third pillars of the three-pillar pension insurance system in the United States have also entered a relatively rapid stage of development as a result of the Act.

The U.S. occupational pension system consists of two major categories: defined benefit DB plans and defined contribution DC plans. Before the adoption of the 1974 ERISA Act, almost all enterprises only chose DB plans, but DC plans were gradually improved with the reforms at that time and rapidly grew by taking advantage of the preferential measures of ERISA. The famous 401k plan and 403b plan are the most successful of the DC plans. 401k plan refers to the provisions of Section 401k of the Internal Revenue Code of 1978 in the United States, and its predecessor is a pension plan jointly created by employers and employees, which adopts the operation mode of full accumulation, and it creates a situation in which the employer and the employee bear the responsibility of retirement together. Under the plan, the employee and the company each deposit a certain percentage of funds into this account, and the company offers the employee 3-4 portfolio investment plans that the employee can choose from according to his or her needs.

The third pillar is the individual pension plan, also known as Individual Retirement Account (IRA), which is the third pillar of the individual savings plan established in the United States in 1974 under the Employee Retirement Income Security Act, which enjoys the same tax-deferred benefits as the DC plan, and is aimed at encouraging individuals to reserve wealth for retirement in the form of voluntary savings, which is a supplementary pension plan. The IRA plan mainly consists of traditional IRAs, Roth IRAs and Employer Sponsored IRAs, of which the Employer Sponsored IRAs are further divided into SEP, SAR-SEP and Simple IRAs. The employer-sponsored type is further divided into three plan types: SEP, SAR-SEP, and simple. In terms of size, traditional IRAs account for the largest share.

Amounts stored in IRA accounts under a certain dollar limit each year are tax-deferred. In addition to tax-deferred benefits, the reason why the third pillar IRA account in the United States has grown is that it has an important reason that is often overlooked, that is, it has a flexible transfer function, the IRA system allows individuals to transfer the second pillar of the pension assets, such as 401(k), 403(b), 457(b) and other plans, under certain conditions, into the IRA account, and enjoy the tax relief policy.

5.2 401K Plan and its Inspiration for China

Prior to the 1970s, corporate pension plans basically adopted the Defined Benefit (DB) model, in which employers determined their pension standards and made pension payments according to a certain formula based on a number of indicators, such as an employee's years of service in the organization and pre-retirement salary. Since the late 1970s, especially in 1981, the U.S. federal tax law in the 401 (K), 403 (B) and 457 clearly stipulates that different types of employers, such as enterprises and non-profit organizations, for employees to establish an accumulation system of personal pension accounts can enjoy tax incentives, more and more employers began to take the employer's pension plan Defined Contribution (Defined Contribution), i.e., the employer's pension plan is based on the number of years of service and pre-retirement salary of the organization and a number of indicators. (DC), i.e., during the employee's employment period, the employer and the employee jointly contribute a certain percentage of the employee's salary to the employee's personal account, and upon the employee's retirement, the principal and investment income in the account will be used as the employee's retirement savings.

According to the different adaptable groups and the differences in the specific operation methods, the U.S. DC-type employer pensions can be divided into different types of plans. There are more than ten types of DC-type employer pension plans that comply with federal tax regulations, including 401(k) plans, 403(b) plans, 457 plans, etc. Although all of these plans comply with the requirements of the U.S. federal tax regulations, they are applicable to different groups. Although all of these plans comply with the requirements of the U.S. federal tax regulations, they are applicable to different target groups: 401(k) plans are mainly applicable to employees of for-profit companies and employees of some non-profit organizations, 403(b) plans are mainly applicable to teachers, health care workers and employees of some non-profit organizations, and 457 plans are applicable only to employees of state and local governments and employees of other non-profit organizations.

The main advantage of a 401K plan is the tax incentives; not only do employer contributions receive a pre-tax deduction, but employee contributions are also deducted from individual income taxes, and employees only contribute taxes when the funds are withdrawn from the individual account or collected at retirement.

A 401(k) provides that a company establishes a special 401(k) personal account for its employees, into which employees contribute up to a certain limit from their paychecks each month. The business may contribute (or not), but generally speaking, most businesses will deposit a certain percentage of their paychecks into this account. Funds credited to an employee's IRA are generally not available to the employee until retirement and can be used for investment purposes. Enterprises provide employees with at least 3 different kinds of securities investment portfolio, employees can choose any one to invest, the investment income is fully attributable to the employee's 401 (K) account, the investment risk is also borne by the employees themselves. The amount of pension an employee can receive after retirement depends on both the level of contributions and the status of investment income. When an employee retires, the funds in his or her 401(k) account can be used in a lump sum, in installments, or as a deposit.

5.3 What the Development of 401K Plans in the United States has Taught us is this

1. Establish a market-oriented operation mode and a complete external supervision system. Full competition is the basic organizing principle of the investment management of the United States 401 (K) plan, and is also the basic means of ensuring investment efficiency and reducing risk. Competition forces each investment organization to improve investment quality, reduce costs and internal risks in various ways. At the same time, the U.S. regulators have established a complete set of external supervision system for the 401(k) plan from initiation, contribution, investment to the process of receiving, etc., which realizes the all-round guidance and supervision of the pension management work, which is very effective.

2. Professional division of labor is more detailed, the U.S. pension market, in addition to product providers, the various professional fields supporting a large number of service providers, such as the provision of plan investment consulting, plan administration and management, as well as auditing and other services, different institutions in their respective areas of specialization to reduce the cost of services, to establish their respective comparative advantages. The main service providers are custodians, administration and account managers, investment managers, third-party administrators, employee education, consulting firms, investment advisors, attorneys, accountants, and others.

3. The success of the U.S. 401(k) plan is supported by a mature capital market. The capital market provides a wealth of optional investment tools, while supporting the legal and regulatory system and regulatory system is very sound, as well as the United States developed trust culture, all for the long-term investment of pension funds to provide a suitable market environment. At the same time, the development of 401(k) plan means that there is a long-term value investment concept of pension funds continue to inject funds, but also contributed to the United States capital market continues to mature.

However, the 401K plan also has certain defects. For one thing, it relies too much on the employee's own investment ability, and the employee himself bears all the investment risk, and the failure of the investment will lead to the failure of the whole plan. Secondly, unlike the defined benefit (DB), the 401k plan's receipt is decided by the employee himself, and if he chooses to receive a lump sum, how to ensure that the pension is reasonably utilized is another problem.

6. Conclusion

Supplementary pensions are "golden handcuffs" that help to stabilize the relationship between employers and employees and have a positive effect on enterprise development. However, the coverage of the pension system, especially the second pillar, for migrant workers is relatively low, making it difficult to ensure the stability of labor relations among migrant workers. As an agricultural society with thousands of years of tradition, China pays more attention to stability under the concepts of "raising children for old age" and "a good death". In promoting the new type of urbanization and reforming the household registration system, it is necessary to truly eliminate the obstacles that affect the enjoyment of social security and basic public services by the floating population, especially migrant workers and their families, on an equal footing with local citizens. In promoting new urbanization and the reform of the household registration system, it is necessary to truly remove the policy obstacles that affect the enjoyment by the floating population, especially rural migrant workers and their families, of the same rights and interests in social security and basic public services as those of local citizens.

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