

## Shanghai Issues Implemental Rules for the New China Social Insurance Law That Becomes Effective July 1, 2011

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The *Social Insurance Law of the People's Republic of China* (Social Insurance Law), adopted by the Standing Committee of the National People's Congress of the People's Republic of China on Oct. 28, 2010, will come into effect on July 1, 2011. To implement the Social Insurance Law, the Shanghai municipal government has issued several notices at the end of June 2011 (Implementation Notices).

Employees in Shanghai are currently enrolled in three different social insurance systems:

1. Social insurances for local urban residents with Shanghai Hukou<sup>1</sup> (Urban Social Insurance);
2. Township social insurances for local rural residents with Shanghai Hukou (Township Social Insurance); and
3. Comprehensive insurances for non-local residents without Shanghai Hukou<sup>2</sup> (Comprehensive Insurance).

The rates of insurance premiums and insurance benefits under each social insurance system are different. However, the Implementation Notices require that, upon the effectiveness of the Social Insurance Law, employees enrolled in the Township Social Insurance system and Comprehensive Insurance system should be transferred to the Urban Social Insurance system.

### Insurance premiums before July 1, 2011

Among the above three social insurance systems, Urban Social Insurance system is the most favorable to employees, which provides five social insurances to employees. Comprehensive Insurance system is the least favorable, only requiring employers to pay one comprehensive insurance for employees. Before July 1, 2011, the rates of insurance premiums under the said social insurance systems can be illustrated as follows:

Type of Insurance	Calculation Basis <sup>3</sup>	Contribution Rates (paid by employers)	Contribution Rates (paid by employees)
Urban Social Insurance	The employee's monthly average salary in the preceding year.	Pension: 22% Medical: 12% Unemployment: 2% Work-related Injury: 0.5% Maternity: 0.5%	Pension: 8% Medical: 2% Unemployment: 1% Work-related Injury: 0% Maternity: 0%
Township Social Insurance	60%	Pension: 17% Medical: 5% Unemployment: 2% Work-related Injury: 0.5% Maternity: 0.5%	No need to pay
Comprehensive Insurance	60%	12.5% or 5.5%	No need to pay

### Insurance premiums starting from July 1, 2011

#### *Immediate Transfer*

The Implementation Notices provide that an employee currently enrolled in the Township Social Insurance system or

Comprehensive Insurance system should be immediately transferred to the Urban Social Insurance system starting July 1, 2011, if:

- i. The employee has reached an agreement with his/her employer about the immediate transfer; or
- ii. The employee enrolled in the Comprehensive Insurance system has an urban Hukou, regardless whether an agreement has been reached with his/her employer.

For easier understanding, this can be illustrated as follows:

Agreement	Township Social Insurance	Comprehensive Insurance	
		Urban Hukou	Rural Hukou
Agreement Reached	Immediate Transfer	Immediate Transfer	Immediate Transfer
No Agreement	Transition Period	Immediate Transfer	Transition Period

Under the immediate-transfer circumstances, the employee and his/her employer will be immediately subject to the Urban Social Insurance system starting from July 1, 2011.

#### *Transition Period*

Other than the immediate-transfer circumstances, the Implementation Notice also provides Transition Periods for non-immediate-transfer circumstances. There is a three-year Transition Period for the transfer from Township Social Insurance system and a five-year Transition Period for the transfer from Comprehensive Insurance system.

#### 1. Township Social Insurance

The insurance premiums under the Township Social Insurance system during the three-year Transition Period are as follows:

##### i. Pension Insurance

Term	Calculation Basis	Contribution Rates (paid by employers)	Contribution Rates (paid by employees)
7/2011–3/2012	60%	17%	5%
4/2012–3/2013	60%	19%	8%
4/2013–3/2014	60%	22%	8%

##### ii. Medical Insurance

Term	Calculation Basis	Contribution Rates (paid by employers)	Contribution Rates (paid by employees)
7/2011–3/2012	60%	7%	1%
4/2012–3/2013	60%	9%	2%
4/2013–3/2014	60%	12%	2%

### iii. Unemployment Insurance, Maternity Insurance, and Work-related Injury Insurance

Term	Calculation Basis	Contribution Rates (paid by employers)	Contribution Rates (paid by employees)
7/2011–3/2012	60%	Unemployment: 2% Maternity: 0.5% Work-related Injury: 0.5%	Unemployment: 1% Maternity: 0% Work-related Injury: 0%
4/2012–3/2013	60%	Unemployment: 2% Maternity: 0.5% Work-related Injury: 0.5%	Unemployment: 1% Maternity: 0% Work-related Injury: 0%
4/2013–3/2014	60%	Unemployment: 2% Maternity: 0.5% Work-related Injury: 0.5%	Unemployment: 1% Maternity: 0% Work-related Injury: 0%

### 2. Comprehensive Insurance

Since employees with Urban Hukou will be directly transferred to the Urban Social Insurance system starting from July 1, 2011, this five-year Transition Period is only applicable to employees with Rural Hukou. During the Transition Period, employers and employees only need to pay for the Pension Insurance, Medical Insurance and Work-related Injury Insurance. The rates of insurance premiums are as follows:

Term	Calculation Basis	Contribution Rates (paid by employers)	Contribution Rates (paid by employees)
7/2011–3/2012	40%	Pension: 22% Medical: 6% Work-related Injury: 0.5%	Pension: 8% Medical: 1% Work-related Injury: 0%
4/2012–3/2013	45%	Pension: 22% Medical: 6% Work-related Injury: 0.5%	Pension: 8% Medical: 1% Work-related Injury: 0%
4/2013–3/2014	50%	Pension: 22% Medical: 6% Work-related Injury: 0.5%	Pension: 8% Medical: 1% Work-related Injury: 0%
4/2014–3/2015	55%	Pension: 22% Medical: 6% Work-related Injury: 0.5%	Pension: 8% Medical: 1% Work-related Injury: 0%
4/2015–3/2016	The employee's monthly average salary in the preceding year.	Pension: 22% Medical: 6% Work-related Injury: 0.5%	Pension: 8% Medical: 1% Work-related Injury: 0%

Upon the expiration of the Transition Periods, the Urban Social Insurance system will apply to all the employees working in Shanghai.

#### FOOTNOTES

<sup>1</sup> "Hukou", which means residence registration, refers to a family register system to control the movement of people between urban and rural areas in China. People living in urban areas are usually registered with urban Hukou and people living in rural areas are usually registered with rural Hukou. A Shanghai Hukou usually is an urban Hukou.

<sup>2</sup> These employees are registered either with urban Hukou or with rural Hukou.

<sup>3</sup> Unless otherwise defined, “calculation basis” herein refers to a percentage of the average monthly salary of Shanghai in the preceding year.

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