



## GES NewsFlash

# People's Republic of China – Essential Change of Social Security Rules in Dalian

In this issue:

**Summary**

**Key implications**

**Deloitte's view**

**People to contact**

**Appendix A**

**October 27, 2011**

Although China has recently introduced a national level Social Security framework covering both PRC nationals and expatriates, unlike the U.S. and most European countries, social security in China, at implementation level, remains managed and administered at municipal level; as such there are regional implementation variations from city to city. Recently Dalian issued its implementation rules on social security, which are different from most other cities in China. We herewith summarize the main points of the Dalian rules for your attention.

### Summary

Prior to the issuance of the "Provisional Measures for Foreigners to Participate in the PRC Social Security System" ("Implementation Rule") by the Ministry of Human Resources and Social Security on September 8, 2011, the Social Security Management Centre (SSMC) of Dalian issued a notice on the rule change of employer's social security contribution base, which will be applied to both Chinese and foreign national employees in Dalian. The notice stipulates that effectively from September 1, 2011, the employer's portion will be calculated based on the last month's total salary (with no upper limit), while the employee's portion will still be calculated based on one's prior-year monthly average salary (the upper limit is three times last year's monthly average salary).

Also per this notice above, on September 6, 2011, the SSMC of Dalian Development Area (DDA) promulgated a further implementation rule for adjustment that applies to the five social security benefits: pension, medical, injury-on-job, unemployment, and maternity. This implementation rule applies to DDA only, which will take effect from October 1, 2011. Other local SSMC branches in Dalian do not have further implementation rules as of today.

### Key implications

In Dalian, effectively from September 1, 2011, the employer's contribution base of all the social security schemes shall be calculated based on the last month's total salary (previously it was calculated based on the employees' monthly average salary of last year, which was same as the employee's contribution). There is no longer an upper limit for the employer's contribution base, but the lower limit is still applicable (i.e., it shall be no less than 60% of the city's monthly average salary of last year (no less than the employee's contribution amount)).

The contribution base for employee remains unchanged, i.e. the employee's monthly average salary of last year and the upper and lower limits still apply.

**For companies of DDA, please note the main differences in implementation rules between DDA (district level) and Dalian (city level):**

- The change of employer's contribution scheme takes effect from October 1, 2011 (while the notice on city level indicates September 1, 2011).
- For foreign employees working in China, a company only needs to pay the employer's contribution to pension (i.e., the employer's contribution to medical, injury-on-job, unemployment, and maternity are currently being exempted). However, the employee's contributions (if any) to all the mandatory schemes are still applicable.

Please refer to **Appendix A** for an example on how a foreign national employee's social security liabilities will be calculated in Dalian under the new rules.

### **Deloitte's view**

The implications of the new rules in Dalian:

- With no upper limit to the employer's contribution, the company's expenses on social security contributions will be significantly higher, especially for companies with large numbers of foreign employees/assignees whose salaries are significantly higher than the local staff.
- Since some of the employees may not receive a fixed salary amount for every month, the "current-month salary" as the current-month calculation base may incur additional work for the company, such as monthly information collection, bookkeeping, data maintenance, etc., and therefore increase the company's administration costs.

Except DDA, there are no detailed implementation rules or clear guidance released by the government regarding how to settle the foreign employees/assignees' social security contributions (i.e., the employer's contribution is required on other social security schemes besides pension).

Up to now, a certain number of companies in Dalian are holding their process in launch. We would like to observe the implementation and enforcement status before taking any action. We will continue to monitor the complaints against this new scheme from organizations such as the social committees and the competent in-charge social security authorities. This being the case, we recommend that companies should continue to monitor the development closely.

**Back to top**

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## Back to top

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## Appendix A

Mr. A is a U.S. national working in Dalian. His net monthly salary is US\$20,000. He also receives a monthly cost of living allowance of US\$3,000. In September 2011 he receives a net annual bonus of US\$15,000 in addition to the regular compensation.

Scenario 1, Mr. A's social security liabilities for September 2011 (calculated on his August income)

Item	Rate and maximum contribution (in RMB)		
	Employee's contribution		Employer's contribution
	Percentage	Amount =percentage*contribution base	Percentage
<b>Contribution base</b>		11,154.00 (1)	242,332.50
Pension	8.00%	892.32	20.00%
Medical	2.00%	223.08	8.00%
Unemployment insurance	1.00%	111.54	2.00%
Work-related injury			0.70%
Maternity insurance			0.80%
<b>Subtotal</b>		<b>1,226.94</b>	
<b>Max Contribution Grand Total</b>		<b>77,561.68</b>	

Note:

(1) The upper limit for the employee portion's calculation base is RMB 11,154 from Jul 2011 to Jun 2012 in Dalian.

(2) The contribution base for employer should be the last month salary for each employee, i.e., total income in payables. Here "salary" refers to all the compensation income, including COLA. Below are the assumptions for employer's contribution base calculation.

Assumptions:

1 USD = 6.5 RMB

Net monthly salary = USD 20,000+USD 3,000 = USD 23,000 = RMB 149,500

Tax payable = RMB 92,832.50

Total income = net monthly salary + tax payable = RMB 242,332.50

According to the tax regulations in China, employee's contribution amount for the mandatory insurance could be tax exempted. Since there is no special regulation for expatriate employees, we have calculated employee's contribution amount for the total income calculation. However, we would recommend employers should closely monitor the development herein.

(3) In Dalian Development Area (DDA), employer only needs to pay the employer's contribution to pension. As such, the contribution amount for employer in DDA would be RMB **48,466.50**.

Scenario 2, Mr. A's social security liabilities for October 2011 (calculated on his September income)

Item	Rate and maximum contribution (in RMB)		
	Employee's contribution		Employer's contribution
	Percentage	Amount =percentage*contribution base	Percentage
<b>Contribution base</b>		<b>11,154.00</b>	
Pension	8.00%	892.32	20.00%
Medical	2.00%	223.08	8.00%
Unemployment insurance	1.00%	111.54	2.00%
Work-related injury			0.70%
Maternity insurance			0.80%
<b>Subtotal</b>		<b>1,226.94</b>	
<b>Max Contribution Grand Total</b>			<b>118,089.58</b>

Note:

(3) Below are the assumptions for the employer's contribution base calculation.

1 USD = 6.5 RMB

Net monthly salary = USD 20,000+USD 3,000 = USD 23,000 = RMB 149,500

Tax payable for monthly salary = RMB 92,832.50

*Total income for monthly salary = net monthly salary + its tax payable = RMB 242,332.50*

Annual bonus = USD 15,000 = RMB 97,500

Tax payable for annual bonus = RMB 31,160

*Total income for annual bonus = annual bonus + its tax payable = RMB 128,660*

*Grand total income = total income for monthly salary + total income for annual bonus = RMB 370,992.50*

(3) In Dalian Development Area (DDA), employer only needs to pay the employer's contribution amount for employer in DDA would be RMB **74,198.50**.