

Social Insurance tax for foreigners - responding to the additional challenges of acquiring and retaining talent

While talent acquisition and retention is a tricky business for all HR professionals, China comes with its own set of challenges, reflected in the fact that the top concern for foreign companies operating in China is “**finding and retaining human resources**”¹. This appears as a paradox in the world’s most populous country. Yet, this is understandable when looking at the very small proportion of people receiving an education satisfactory to foreign companies’ needs and expectations. To compensate to some extent for this shortage of managerial and technical skills, these companies have resorted to hiring at reasonable costs young foreign professionals interested in work experience in China.

However, since October 15th 2011, **social insurance tax has been extended to include all foreign employees** working in China with a work permit – Hong Kong, Macau and Taiwan residents excluded. Though implementation measures and guidelines have yet to be set throughout the country, this will in most cases generate an additional cost of over RMB 5’300 per month per foreign employee². This will come in addition to the more than 10% increase in salaries expected for 2012³.

Both the employee and the employer will have to contribute to social insurance, up to 11% for the first and 37% for the latter, capped at the moment at 300% of the average monthly wages. However **Dalian has scrapped this cap on an experimental basis**, potentially leading the way for other cities to follow, and further raising the cost of talent.

Social welfare contributions go towards five funds: pension, medical, unemployment, work injury and maternity insurance. While the burden of this tax on employees is not substantial, especially since they are allowed to recover pension contributions when permanently leaving China, the companies’ extra cost is significant, unrecoverable and does not add to the employee’s benefits.

While foreign employees often offer a different set of skills, the increased costs for young foreign professionals may push employers to reconsider their hiring strategy and localize junior positions. In China’s persistently growing and competitive economy, offering a myriad of opportunities for job seekers, the additional cost of foreign employees may generate even tougher competition for good Chinese staff and higher voluntary turnover.⁵ As a result, strong retention strategies are becoming ever more crucial.

Understanding **why employees stay and why they leave** a job is key to successful China HR management and particularly to increase employee retention. According to available surveys⁶, “**personal development and training**” and “**good work relations**” are the most important factors for an employee to stay, way in front of the remuneration. On the other hand, top reasons for leaving a job are “**limited career perspectives**”, “**training not being according to needs**” and “**discontentment with a company’s management style**”. Keeping this in mind, an employee is

¹ See Figure 1. Data from CEIBS and Chambers Survey “Swiss and Foreign Company Expectations in 2011”.

² See Figure 2. KPMG, 18 October 2011.

³ Mercer, presentation to SwissCham Shanghai, 19 October 2011.

⁵ According to Mercer, the average employee turnover in foreign companies is expected to exceed 16% this year.

⁶ See Figure 3 and 4. Data from “Shortages in the Land of Billions – the China HR Paradox”.

most likely to join a company and stay if she or he sees opportunities to develop and move up the corporate ladder.

Considering the hours spent in the office and long commuting time, **a good working environment** is also of crucial importance for most employees. The many hours dedicated to their professional activity results in the “quality of life at work” becoming an important element of quality of life. This is particularly true for employees who favor a balanced life over fast career gains. A good “family-like” working atmosphere goes a long way to retain such employees.

Yet, **retaining starts at hiring**. Remembering that personal development is the key reason to stay for Chinese employees, criteria for hiring in China should be carefully considered to ensure a successful work performance and retention.

While traditionally in the West a candidate is selected in priority based on skills and competences, personality and ethics should take precedence in China, provided the candidates are fast learners. On one hand, skills can be taught while ethics and a matching personality cannot. On the other, employees’ interest in personal development ensures that they quickly learn some of the skills they may lack. And while they learn and develop they tend to stay with the job.

In conclusion, the old motto “**if you can't find them, make them**” is very pertinent in China, not only because skills are rare and personality more often an issue, but also because employees have such thirst for personal development. Accordingly, to be successful, organizations should naturally focus on training. At the same time they need to be able to provide employees with positions matching their growing abilities, as the best and most ambitious will want career perspectives or will move on. The ongoing international downturn and the memory of 2009 may however help to remind employees of the value of stability and, hopefully, provide a bit of respite to HR managers in 2012.

We hope that the above is of support to your operations. For more information about this topic or support in acquiring or retaining talent in China, do not hesitate to contact n.musy@ch-ina.com.

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Engineering your Success

APPENDIX

Figure 1. Top concern for foreign companies operating in China

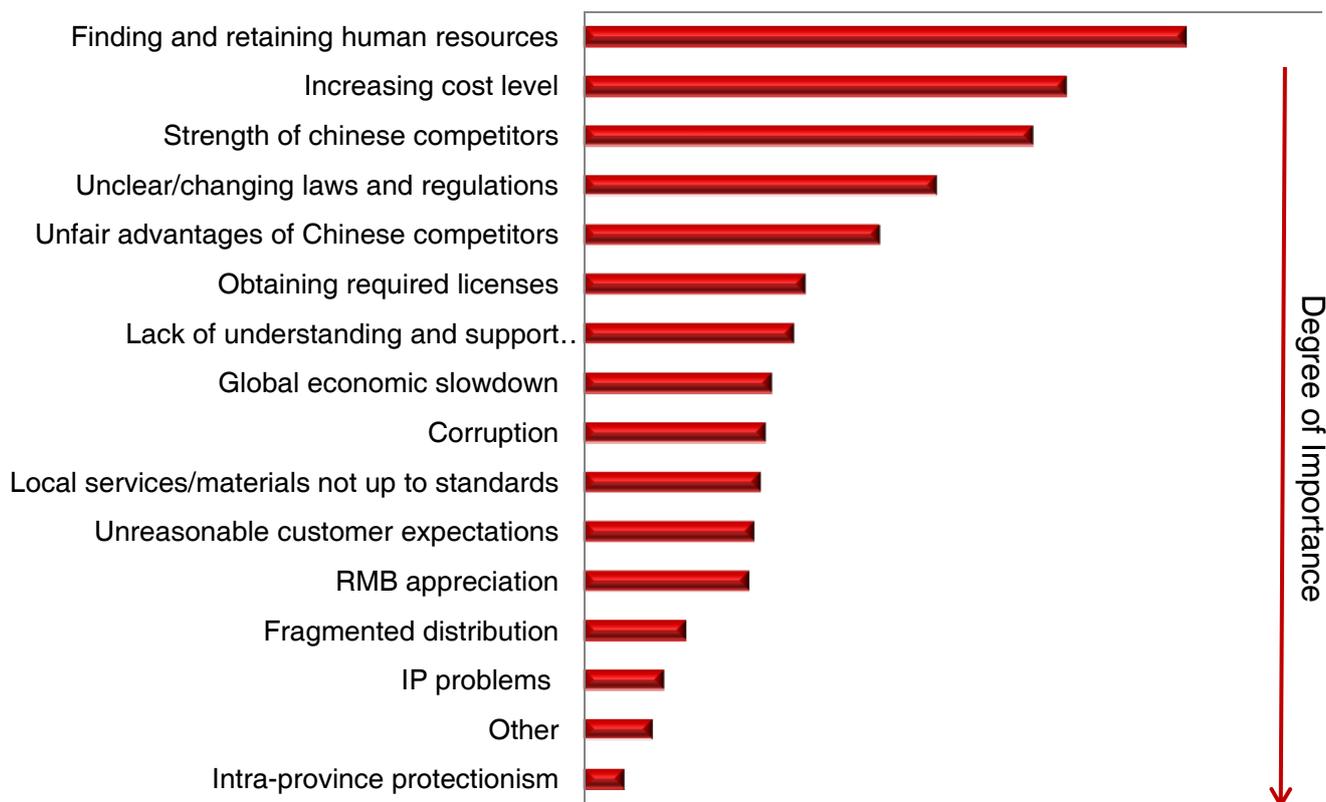
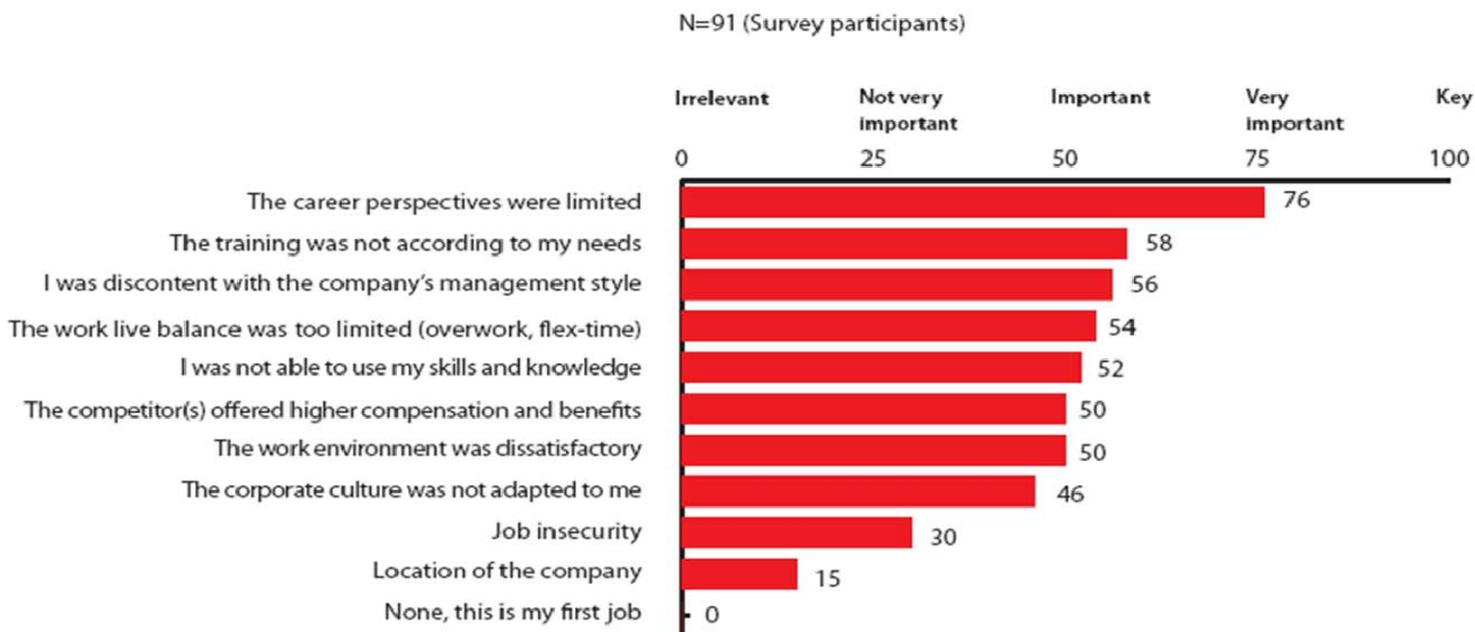


Figure 2. Contribution rates – Shanghai

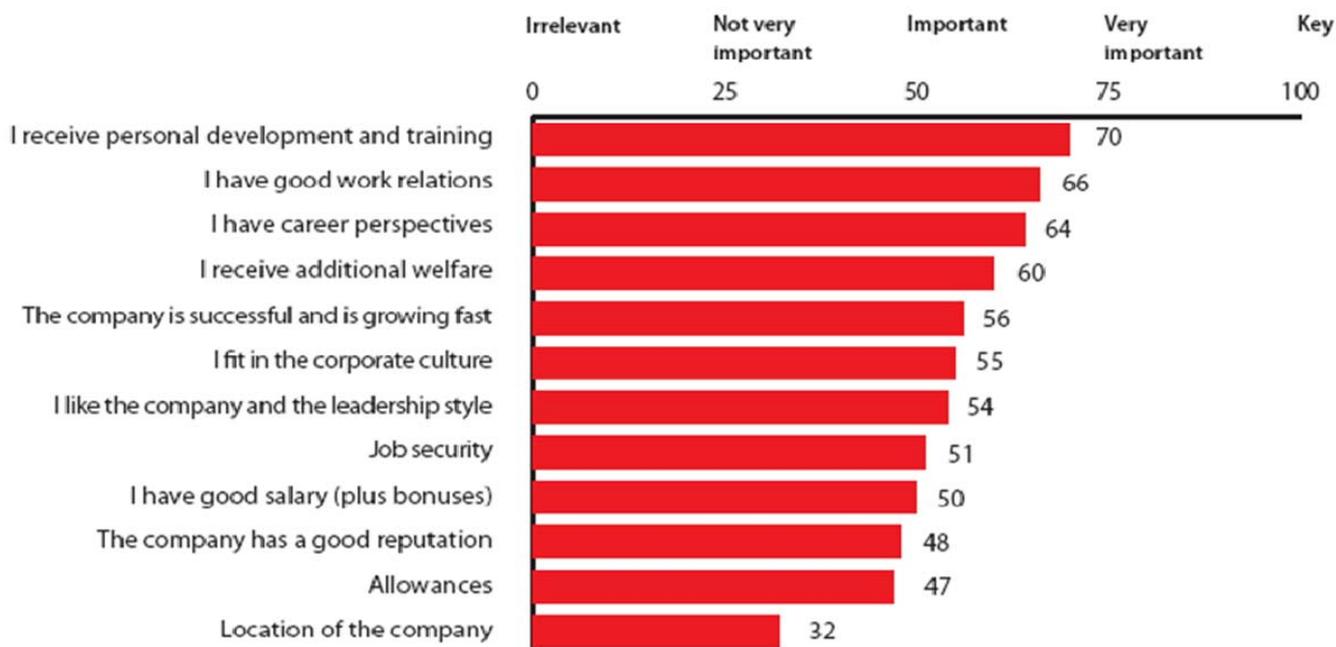
Social Fund	Employee Rates	Employee Contribution (RMB)	Employer Rates	Employer Contribution (RMB)
Pension	8%	935	22%	2'571
Medical	2%	234	12%	1'403
Unemployment	1%	117	1.7%	199
Maternity	-	-	0.8%	94
Work Injury	-	-	0.5%	58
Total	11%	1'286	37%	4'325

Contributions capped at 300% of the average monthly wages in Shanghai, which is RMB 11'688 currently (RMB 3'896 x 3)

Figure 3 & 4. Reasons why employees leave and stay at a company



Please rate the following statements according to their importance for leaving your previous job.



Please rate the following statements according to their importance for staying in this company.