

Analysis of the Problems and Countermeasures in Chinese Pension Finance

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Abstract: In recent years, China has faced the great challenge of an aging population. According to the current situation of the first pillar of support for the elderly much bigger than the other two pillars, the insufficient basic pension provided by the Chinese government will bring great pressure to the government in the future. Also, the standard of living of the retired population is likely to decline to some extent in the future because of it. These are inconsistent with people's growing need for a better life, so China urgently needs to develop the third pillar of pension finance. Because of the problems faced by China's pension finance, this paper combined the current situation and needs of the Chinese population and proposed solutions from three perspectives: the practices of the Chinese government, the practices of financial institutions, and the improvement of pension financial products. This study is conducive to the further development of pension finance in China. While solving the pressure on government pension funds, it can also promote the development of China's financial industry and improve the living standards of the elderly population in the future.

Keywords: Pension finance, Aging of population, China.

1. Introduction

In a broad sense, pension finance refers to a series of financial financing activities to provide economic security for the life of the elderly, including pension savings, medical health, care services, and other aspects of financial support. In a narrow sense, pension finance mainly refers to the financial business for the elderly that various financial institutions participate in. These typically include investment, savings, wealth management, or financial services provided by financial institutions for old-age-related industries. Their purpose is to accumulate pension assets through institutional arrangements while maintaining or increasing the value of assets. The pension finance discussed in this paper is in the narrow sense of the pension finance range.

China is now implementing a "three-pillar" pension system. The first pillar is the basic old-age insurance, which is enforced by the government to guarantee the basic living standards of the people. It mainly includes basic old-age insurance for urban workers and basic old-age insurance for urban and rural residents. The second pillar is enterprise annuity, which is jointly funded by enterprises and individuals as a pay-as-you-go method. It mainly includes the occupational annuity of government agencies and public institutions and the enterprise annuity of urban enterprise employees. This part is an important supplement to the basic pension insurance. It helps to improve the living standards of employees after retirement. The third pillar is the bank pension savings products and insurance

products as the main body, by individuals voluntarily purchasing related pension products. It mainly includes personal savings endowment insurance and commercial endowment insurance. People can voluntarily choose to participate or not, according to their economic conditions and risk tolerance [1].

According to the Ministry of Civil Affairs of China the "2023 Civil Affairs Development Statistical Communique" was disclosed. By the end of 2023, the elderly population aged 60 or above in China is 296.97 million, accounting for 21.1% of the total population, an increase of 1.3% over 2022. Among them, 216.76 million people aged 65 and above, accounting for 15.4% of the total population [2]. Now, the proportion of elderly people in China continues to rise, and the aging population is accelerating. Looking ahead to the economic prospects of Chinese-style modernization, China is faced with the risk of weak innovation caused by the obstruction of economic globalization and the risk of a declining population growth rate which will lead people to get old before getting rich [3]. Faced with these risks, the social security funds of China's elderly population may face a downward trend in the future, which will lead to the deterioration of the quality of life of the elderly population and even the lack of basic life security. So to protect the elderly in the future, in addition to relying on the basic guarantee of the state, it is also inseparable from the development of the financial industry. In October 2023, the Central Financial Work Conference listed pension finance as one of the five major articles to be done in the financial industry. This shows the state attaches great importance to pension finance. Opinions on Developing the Silver Economy and Improving the Well-being of the Elderly proposed 26 initiatives from four aspects, a lot of the content is related to pension finance. For example, to enrich and develop financial products for the elderly, provide services such as financial planning and fund management for the elderly; Actively develop commercial medical insurance and commercial long-term care insurance; Strengthen the research and development of financial products for the elderly, and the connection between health and elderly care services [3].

From the current point of view, China has formed three-pillar pension systems combining basic pension insurance, enterprise annuity, and individual commercial pension insurance. The goal of full coverage and multiple levels has been initially achieved. Although pension finance has achieved certain developments in recent years, it still faces many problems. First of all, the development of these three pension pillars in China is not balanced, and China is still in a pension security system with the government's basic pension insurance as the main pillar. Also, there are still some problems in China's pension finance, such as insufficient awareness of individual investment, insufficient attractiveness of pension financial products, and insufficient participation of financial institutions in pension finance. This paper will explore and deeply analyze the above problems, and put forward suggestions and solutions for these problems.

2. Problems

2.1. Third Pillar of Elderly Care is Low

China implements a three-pillar pension structure, that is, each person's pension is composed of basic pension, enterprise contribution, and personal reserve three parts. However, the development of the three pillars of China's pension is not balanced, there are problems the first pillar is dominant, the second pillar is insufficient, and the third pillar is lagging behind [4].

By the end of 2021, the scale of the first pillar fund will reach 6.4 trillion yuan, covering 1.029 billion people, and the coverage of basic old-age insurance will be close to that of developed countries. The second pillar of funding will be 4.4 trillion yuan, covering 70 million people [5]. By the end of the third quarter of 2023, the cumulative premium scale of China's exclusive commercial pension insurance is only 8.16 billion yuan, and 637,000 cases have been insured. Compared with 68.9% for basic pension insurance and 23.7% for enterprise annuity, China's personal pension system accounts for only about 7.4%. Not nearly as large as the first two pillars of development [5]. Moreover, relying

only on the first and second pillar subsidies, some middle-income residents can only guarantee a basic life after retirement, and their quality of life will be greatly reduced. Therefore, the government needs to increase support for the development of the third pillar of China's elderly care.

The main reason for this phenomenon is that in China, the consciousness of investing personal funds for the elderly is less popular. According to the website of China's Ministry of Human Resources and Social Security, 2023 pension product statistics: There are a total of 649 personal pension products in China, of which 263 are fixed income products, 209 are equity asset products, and only 37 are liquid assets in personal pension [6]. This comparison shows that at present, residents' pensions are still biased toward deposits and real estate with lower returns, and their willingness to invest in pension financial products with higher liquidity is still low. In addition, under the personal pension system, participants can only choose a commercial bank and designate a fund account, and the account is unique. Due to the influence of traditional concepts, compared with insurance companies, more people will choose banks for pension financial investment. This is not conducive to the development of financial instruments such as commercial insurance and funds in pension finance.

2.2. Pension Financial Products are not Attractive

Pension financial products as a part of financial products, investors will pay attention to the investment income of the product in addition to the stability of the product when buying pension products. First of all, the yield of pension financial products is low. Compared with other financial products, the investment yield of pension financial products is not high, so it lacks absolute competitiveness. Many people may be more inclined to other investment products when they have spare funds in hand, rather than lower-yielding pension financial products. Secondly, the current design of pension annuity products is relatively simple. Although there are differences in payment methods and receiving conditions, the closing period of the products is longer than that of ordinary financial products, and the overall design of the products is similar. It cannot be adjusted according to the different financial consumption habits of different consumer groups. Then, take personal pensions as an example, personal pensions are still facing the problem of "three more and three less". It means the system covers more people, but fewer people enjoy preferential policies, the number of personal pension accounts is large, but the number of paid-in households is small, and the participants expect more tax advantages but pay less. This has forced financial institutions to compete for "pension investment, which is expensive", and the investment period set is biased toward the short-term to a certain extent [7].

More importantly, most elderly people are risk-averse and prefer to invest in conservative financial products. According to the survey, more than 60% of people said that they can bear the risk of periodic losses in pension investment, but the overwhelming majority of respondents can bear less than 10%. Also, 35% of people said they were not willing to suffer losses on their pension investments at any time [8]. And some high-yield products often indicate high risk, which does not match the risk appetite of older customers. All these phenomena make it difficult for the existing pension financial products of commercial banks to meet the needs of customers.

2.3. Financial Institutions Have Not Fully Participated

The supporting institutions of pension finance are mainly all kinds of financial institutions. Since the implementation of the personal pension system, the relevant departments have successively announced the list of the first five types of licensed financial institutions to participate in the third pillar pension insurance system. From the perspective of banking institutions, the list of personal pensions that can be opened in the country only includes 6 large banks, 12 joint-stock banks, 5 city commercial banks, and 11 wealth management companies. From the perspective of insurance

institutions, the list of personal pension insurance products that can be developed in the country only includes 44 pension insurance products from 20 companies. Among the insurance legal institutions, only Ping An Life Insurance Co. LTD and China Merchants Cigna Life Insurance Co. LTD can meet the conditions to carry out personal pension business, and only one legal institution of China Merchants Cigna Life Insurance Co. LTD has launched a personal pension insurance product [5]. According to China's Ministry of Human Resources and Social Security, China's personal pension only has 71 insurance products and 23 financial products, compared with the first and second pillars of the 586 pension products, there is a big difference in the quantity of products. The development of pension finance in the third pillar lags behind the development of the first and second pillars. To solve the current situation of personal pension, it needs more financial institutions to participate in and pay more attention to and vigorously develop personal pension finance.

3. Countermeasure

3.1. Strengthen Support for the Third Pillar

First of all, it is necessary to stimulate residents' investment drive of the third pillar. At present, China's first pillar is dominant. The big source of this problem is the excessively high payment rate of the first pillar. While the rescue role of the first pillar is indispensable in China's pension system, its boundaries also need to be clearly defined. In fact, the excessive payment rate has a very large crowding out effect on the second and third pillars. On the one hand, it has squeezed the ability of enterprises to participate in the payment of enterprise annuities and reduced their enthusiasm for payment; on the other hand, it has made residents more dependent on basic pension insurance and reduced their enthusiasm for personal pension. It is not conducive to the development of the second and third pillars. Therefore, the government should appropriately reduce the contribution rate of China's basic pension insurance, so that people can have more money to invest in corporate annuities and personal pensions.

Then, the government should strengthen the publicity of investment pensions. As for the general lack of private funds to invest in the elderly, the Chinese government should establish a long-term mechanism for promoting the elderly. The government can build a service display platform for China's pension finance products. Use financial technology, to make more people more quickly and conveniently understand China's various pension financial products. At the same time, it is also necessary to strengthen the propaganda of the third pillar pension insurance policy. Such as giving lectures to people, so that more people have an understanding of the national policies.

The most important thing is to strengthen the government's support for financial institutions and improve the professionalism of financial services for the elderly. Now, there are four kinds of policy-based financial institutions in China: economic development, agriculture, housing, and import and export. For Chinese pensions, China can also explore policy financial institutions that specialize in serving the old-age care industry and pension finance [9]. According to the survey, 68 % of people are more comfortable with financial plans designed specifically for retirement. 80% of them value investment management more and are more willing to pay for professional management [8]. Therefore, the establishment of such policy institutions can not only provide a rapid financing channel for the elderly care enterprises in need but also gain the trust of investors. To some extent, it can promote the development of the third pillar of personal pensions.

3.2. Enrich Financial Products

The first is the innovation and specialization of financial products. It is necessary to stratify the customer level first, and then subdivide the customer needs to develop more hierarchical and detailed pension financial products. For example, a variety of pension financial products have been innovated

and practiced internationally, such as reverse mortgages, life development funds, long-term care insurance and so on. These can be used as a reference for the future development direction of China's pension products [10]. China can adjust it to form new pension financial products according to China's national conditions and actual conditions. At the same time, professional investment advisers play an important role in investors' development of pension asset management strategies. China should fully apply cutting-edge technologies represented by artificial intelligence, big data and cloud computing to the investment portfolio of pension finance. For example, in the scenario of China's personal pension investment, financial institutions can use intelligent investment advisory services to calculate and analyze the risk preferences and pension needs of people in different family conditions, occupational backgrounds, and age groups through financial technology, and design the decline curve of risk assets, so that the proportion of various assets allocation is more suitable for the risk tolerance of different people [11].

Secondly, the pension financial products should be suitable for aging. With the development of science and technology, most of banks will choose to introduce pension financial services to mobile banking in order to reduce labor costs. However, there are still many elderly people who give up pension financial services because of the low usage rate of mobile phones and unfamiliar online operations. Such a situation is obviously not suitable for the development of pension products. The following improvements can be made to this problem: First, improve service efficiency, streamline the business process and approval procedures of elderly care products, open green service channels and establish a rapid response mechanism. Second, establish a standardized service model for elderly customers, and provide customer groups with timely use guidance, mobile phone operation guidance and offline quality services. Third, optimize the elderly module of mobile banking, investigate and adopt the optimization suggestions of elderly customers in a timely manner, in addition to launching a humanized page that meets the reading needs of elderly customers, but also develop more upgrade functions, such as voice wizard, remote guidance, due to account prompt, social security card and pension inquiry [10].

Finally, in the elderly care product hardware facilities cooperation. Pension products should strengthen cooperation with nursing homes, hospitals, sojourning companies and other institutions. The combination of pension financial products with the business of such institutions is more able to attract people's investment in such products. For example, many old-age insurance products will add residence services, but because these products are still in their infancy, the experience feedback is not very good. The reason for this is that the insurance companies and these service providers are not close enough. Therefore, insurance and securities companies with these businesses need to strengthen cooperation with these pension product hardware providers, or they can build their internal service facilities.

3.3. Increase the Number of Financial Institutions

From the perspective of the types of companies that support pension financial products. Now, the recognition of China's pension financial products in commercial banks is higher than that of other financial companies. So commercial banks should make use of their platform advantages to strengthen win-win cooperation with other financial institutions such as insurance and fund companies. It is necessary to build a comprehensive pension financial service platform, innovate and introduce new businesses, and enrich the pension financial product system, if these companies want to strengthen cooperation with insurance companies, fund companies, securities companies, trust companies and pension institutions. This not only helps to improve the recognition of pension finance in financial institutions other than commercial banks but also enables commercial banks to realize resource complementarity.

For those financial institutions that have not yet developed a pension finance business. They can start with pension infrastructure and increase investment in this kind of infrastructure. This can provide long-term and stable financial support for the construction of elderly care infrastructure, provide financing convenience for elderly care enterprises, and provide some financial support for promoting the scale and standardization of the elderly care industry [12]. Some financial companies with strong funds can also consider establishing their own pension industry chain. For example, the high-quality comprehensive retirement community established by Taikang Insurance Group Co. LTD provides customers with professional butler, entertainment, health care, medical care and other one-stop services. This can not only attract the cooperation of some pension industries or institutions but also help institutions to develop pension financial business. It will naturally attract more people to pay attention to pension finance, and then increase investment in this area if the infrastructure construction and industrial services are good.

From the perspective of regional distribution of institutions supporting pension financial products. At present, China has only launched personal pension pilots in 36 cities across the country, and it has been nearly two years since the launch, and the pilot situation has gradually stabilized [7]. In response to the lack of participation of financial institutions in third-party pension finance, China should step into the next stage of pilot investment, and gradually expand the area of pilot investment in personal pension, letting more people realize the use of pension finance.

4. Conclusion

With the increasing aging of China's population, the development of pension finance has become an inevitable choice for us. The further development of pension finance can not only balance the three-pillar structure of China's pension, promote the supply-side structural reform of the financial industry, but also maintain the stable and sustainable development of the financial industry, meet the needs of investors for pension, and maintain the harmonious, stable and healthy development of society. Therefore, in the future, in view of the above problems in the development of pension finance, China should strengthen government guidance, take the needs of investors as the improvement direction, attract more people to recognize and invest in pension financial products, and gradually build a more professional multi-level pension structure.

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