

The Impact of Improving the Pension Financial System on an Aging Society

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Abstract. China is rapidly entering a deeply aging society, with the proportion of the population aged 60 and above exceeding 18.7%. Currently, the existing pension financial system faces severe challenges such as an imbalance in the three-pillar structure and a continuous decline in the pension replacement rate. This study focuses on exploring the critical role of improving the pension financial system in alleviating the pressure of aging, systematically analyzing its economic and social benefits as well as the existing obstacles. By integrating policy documents, market data, and academic research findings, the study reveals that a multi-pillar pension system can significantly reduce fiscal burdens and provide a stable long-term cash flow. However, the current supply of pension financial products is heavily concentrated on savings-based products, with development gaps between eastern and western regions reaching up to five times, and insufficient risk management capabilities, all of which constrain the overall effectiveness of the pension financial system. Based on this, the study proposes specific pathways such as deepening composite product innovation (e.g., introducing pension insurance embedded with care services), building cross-departmental data platforms, and implementing regionally differentiated policies. These aim to construct a modernized pension financial safety net tailored to China's national conditions, providing a reference for relevant decision-making.

Keywords: Pension finance, aging, multi-pillar pension system, pension service finance.

1. Introduction

The profound changes in China's population structure are driving society toward a stage of deep aging. Data from the seventh national census shows that the population aged 60 and above accounts for 18.7% of the total population, with those aged 65 and above accounting for 13.5%. More seriously, the elderly population is continuing to grow at a rate of tens of millions per year, and it is estimated that by 2035, the elderly population will account for more than 30% of the total population. Against this backdrop, the dual pressures of “aging before affluence” and “aging before preparation” are becoming increasingly evident, making the traditional reliance on basic old-age insurance (the first pillar) unsustainable. This pillar has long dominated the system, with its replacement rate continuously declining, placing a heavy burden on national finances. Meanwhile, the development of the second pillar (enterprise pension/occupational pension) and the third pillar (individual pension and commercial pension finance) have lagged significantly behind, resulting in a

severe imbalance in the proportions of the three pillars. Surveys indicate that over half of consumers have not purchased any pension financial products, and nearly 80% of the population still rely on social security or retirement benefits as the primary source of future pension expenses, reflecting a significant gap between institutional safeguards and personal savings [1].

In the face of this systemic challenge, pension finance has become an important financial innovation measure to address aging. At the 2023 Central Financial Work Conference, “pension finance” was included in the national financial strategy for the first time, alongside science and technology finance, green finance, and other areas, forming the “five key areas,” highlighting its core position in the modernization of national governance.

A well-developed pension finance system has dual benefits. In terms of economic sustainability, strengthening the development of the second and third pillars can effectively alleviate fiscal burdens. Additionally, given the long-term and stable nature of pension funds, they can provide crucial long-term capital for capital markets, helping to optimize market structure and enhance stability; pension industry finance, through capital injection, can stimulate economic vitality across sectors such as healthcare, elderly care, rehabilitation, and nursing. In terms of social benefits, diversified commercial pension products (such as pension insurance and pension investment products) can effectively supplement basic pensions. Empirical research shows that these products significantly enhance the economic security of the elderly population and alleviate the anxiety of “having no one to rely on in old age”; the construction of a multi-pillar system helps to decentralize old-age responsibility, reduce the contribution pressure on younger generations, and promote intergenerational fairness; the development of pension service finance can also promote the integration of pension funds with community services and medical care resources, improving the overall efficiency of the pension service system.

However, the current pension financial system still faces significant structural contradictions. On the product supply side, homogenization is a prominent issue, with approximately 80% of commercial pension products focusing on savings functions, lacking composite designs that deeply integrate with core needs such as medical care and nursing. Insufficient inclusivity is a common phenomenon, with some products setting high minimum investment thresholds in the millions, excluding low- and middle-income groups. Research indicates that differences in financial literacy and product characteristics are key factors hindering this group from accessing suitable products. Regional and demographic imbalances are particularly pronounced: the scale of elderly financial services in eastern provinces is generally more than five times that of western provinces, and the account opening rate for individual pension accounts reaches 25% in Beijing and Shanghai, but remains below 5% in central and western provinces; Individuals aged 60 and above exhibit significantly lower trust in commercial pension products compared to younger groups, with risk-averse tendencies leading them to prefer bank savings, while younger individuals generally exhibit “short-sighted” behavior in pension planning.

This study aims to conduct an in-depth and systematic analysis of the intrinsic logical framework and practical obstacles encountered in the process of improving the pension financial system, exploring optimized development pathways suited to China's national conditions. The article begins by conducting a comprehensive analysis of the pension financial system based on a three-dimensional framework (covering pension finance, pension service finance, and pension industry finance). Subsequently, the research focuses on core contradictions such as product mismatch, regional development imbalances, and shortcomings in risk control. Finally, it proposes targeted differentiated policy combinations: at the product level, it emphasizes composite innovative measures (such as organically integrating mandatory pension insurance with care options) and

inclusive reform measures (such as lowering the investment threshold); at the institutional level, it actively advocates the construction of cross-departmental data sharing and interaction platforms; at the development level, it meticulously designs regional tax incentive policies and financial education programs spanning the entire life cycle. By promoting collaborative efforts and joint initiatives among the government, the market, and individuals, the aim is to establish a solid financial infrastructure foundation to effectively address the severe challenges posed by China's deepening aging population.

2. The positive impact of improving the pension financial system on an aging society

2.1. Enhancing economic sustainability

The sound development of the pension financial system significantly enhances the resilience of an economy in responding to the pressures of aging. In the field of pension finance, the construction of a multi-pillar pension model (where the government, employers, and individuals share responsibility) has become the mainstream trend in international development. The core principle of this model lies in leveraging institutional arrangements to accumulate pension assets and achieving the goal of preserving and increasing their value through market-based mechanisms. The pay-as-you-go basic pension insurance system has long relied on fiscal subsidies, while strengthening the development of the second pillar (enterprise/occupational pensions) and the third pillar (individual pensions) can effectively alleviate the fiscal burden of providing a safety net [2].

2.2. Promoting the development of capital markets

Pension funds have the distinctive characteristics of long-term stability, and their scaled accumulation provides stable long-term support for capital markets. The practical experience of developed countries shows that pension funds, as key institutional investors in stock and bond markets, can effectively optimize market structure and enhance market stability. Pension industry finance, through tools such as industrial investment funds, precisely targets the entire value chain covering the comprehensive needs of the elderly. This capital injection accelerates the development of pension services toward specialization and scale, fostering new economic growth points. According to relevant forecasts, the pension industry is expected to become an important driver of future economic development [3].

2.3. Strengthening social stability and fairness

The pension financial system enhances the economic security of the elderly population. Diversified commercial pension products, such as pension insurance, pension investment, and long-term savings, effectively supplement the basic pension. Empirical research shows that these products significantly increase the average monthly income of the elderly population, alleviate the widespread anxiety among the elderly about “having no one to rely on in old age,” and reduce various social risks caused by economic difficulties, such as the incidence of pension fraud cases [4].

This system promotes intergenerational fairness. The construction of a multi-pillar pension system reasonably distributes pension responsibilities, alleviating the contribution pressure on younger generations and avoiding social conflicts that may arise from intergenerational burden imbalances. At the same time, this system optimizes the efficiency of public service resource allocation. The development of pension service finance, especially financial service innovations

related to non-institutionalized pension wealth consumption, has promoted effective coordination between pension finance and public services such as community-based elderly care and medical care, such as the integration of long-term care insurance with care services, thereby enhancing the overall operational efficiency of the pension service system [4].

3. Challenges and constraints facing the improvement of the pension finance system

3.1. Structural mismatch between supply and demand for pension service financial products

Product homogenization is significant. Approximately 80% of commercial pension products focus on “savings-type” functions, lacking composite products that deeply integrate with core needs such as medical care, nursing, and health and wellness (e.g., pension insurance embedded with professional nursing services). This particularly fails to address the specific needs of elderly individuals with disabilities, partial disabilities, dementia, or those who have lost their only child.

Lack of inclusivity. Some products (such as elderly care trusts) set high minimum investment thresholds (e.g., 1 million yuan), excluding a large portion of the middle- and low-income population. Research indicates that differences in financial literacy and the specificity of products are key factors hindering middle- and low-income groups from accessing suitable elderly care financial products [5].

There are shortcomings in service integration and risk control. The integration between pension financial products and back-end medical and elderly care services is not smooth. Additionally, some institutions have made “guaranteed high returns,” and the risk control system urgently needs to be strengthened [6].

3.2. Imbalances in regional and group development

Regional development disparities are significant. The scale of pension finance in eastern provinces is generally more than five times that of western provinces. The account opening rate for individual pension accounts in developed cities such as Beijing and Shanghai can reach 25%, while in some central and western provinces it is less than 5%, posing a severe challenge to regional coordinated development [7].

There are discrepancies in group cognition and behavior. Trust in commercial pension products among those aged 60 and above generally falls below 30%, as they tend to avoid risks and prefer bank savings. Meanwhile, younger groups exhibit significant “short-sighted” behavior, with insufficient emphasis on long-term pension reserves. Differences in digital financial literacy also profoundly impact the ability of elderly households to allocate pension financial assets [6].

4. Policy recommendations for improving the pension financial system

4.1. Promoting product innovation and service system optimizations

Develop composite products. Stipulate that commercial pension insurance should include a “long-term care services” option to effectively meet the actual needs of disabled elderly individuals; design “small-amount, flexible-payment” mutual pension insurance products tailored to the characteristics of rural and flexible employment groups [8]. Simultaneously, actively explore target-return pension plans that combine minimum income guarantees with longevity risk management functions.

Enhance inclusiveness and accessibility. Significantly lower the entry barriers for inclusive pension products (e.g., reduce the minimum investment amount for pension trusts to 100,000 yuan);

in economically underdeveloped regions such as rural areas, vigorously promote a simplified commercial pension insurance model combining “government subsidies + individual contributions” to expand the coverage of pension services [9].

4.2. Strengthening institutional guarantees and regulation

Establish a cross-departmental data platform. Break down data barriers between social security, medical insurance, and financial institutions to achieve precise profiling of the elderly population and accurately match their financial and service needs, thereby improving the efficiency of resource allocation [10].

Improve the risk control framework. Establish a “whitelist” system for pension financial products and strictly prohibit illegal promises of guaranteed returns; strictly enforce suitability management regulations for elderly investors (e.g., implement mandatory risk assessments for investors aged 65 and above); Strengthen disclosure requirements and improve investor protection mechanisms.

4.3. Promoting regional coordination and capacity building

Implement regional differentiated policies: Provide meaningful tax incentives (such as halving corporate income tax) for institutions conducting pension finance business in central and western regions and counties; encourage the establishment of “county-level pension finance service stations” to extend service networks to grassroots levels.

Strengthen investor education across the entire lifecycle. Target different age groups (e.g., reinforce education on compound interest and long-term planning for young people, and promote risk identification knowledge for the elderly) through diverse channels such as community lectures and short videos to widely disseminate pension finance knowledge and enhance the public's awareness of pension planning and financial literacy.

5. Conclusion

Improving the pension finance system is a core strategic measure to address China's increasingly severe population aging challenge. The field of pension finance is broad, encompassing the institutionalized accumulation and market-oriented operation of pension funds, the satisfaction of diverse needs through pension service finance, and the support of the entire industrial chain through pension industry finance. These three elements interact synergistically to form an organic whole. The improvement of the pension finance system plays an irreplaceable role in enhancing the sustainability of the economic system, manifesting in multiple aspects: At the macroeconomic level, it can alleviate fiscal pressure, promote the development of capital markets, activate the vitality of the silver economy, and enhance social resilience; At the social and livelihood level, it can enhance the economic security of the elderly, promote intergenerational fairness, and optimize the efficiency of elderly care services.

However, the current elderly care financial system faces numerous structural contradictions, such as mismatches between product supply and demand, imbalances in regional and group development, and shortcomings in risk management. These factors severely constrain the full realization of the system's potential. Drawing on international experience, such as the resource reallocation challenges highlighted by Japan's Shirakawa Masaaki, China must explore a development path tailored to its national conditions in building its elderly care financial system.

Specifically, the key points are as follows. First, on the product and service side, there should be a strong focus on developing composite products deeply integrated with medical care, while significantly lowering the barriers to inclusive finance. Taking elderly care trusts as an example, measures such as reforming the minimum investment threshold could be implemented. Second, on the institutional and regulatory side, a cross-departmental data platform should be established to enhance the efficiency of supply-demand matching. Additionally, a “whitelist” system and appropriate investor management mechanisms for the elderly should be established to effectively mitigate financial risks. Third, on the balanced development side, tax incentives can be utilized to guide resource flows toward counties in central and western regions. Through the implementation of differentiated investor education strategies, the financial literacy of the entire population can be comprehensively enhanced.

Facing the impending deep aging society (according to projections, by 2080, the global population aged 65 and above will exceed those under 18), improving the pension financial system with a forward-looking and systematic perspective is not only crucial for the well-being of hundreds of millions of elderly people but also a solid foundation for achieving long-term stable socio-economic development. Only through the collaborative efforts of the government, the market, and individuals can a Chinese-style modernized pension financial security network be established that covers all citizens, spans the entire life cycle, and effectively mitigates longevity risks.

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