

# New Pillars for Pension under the "Silver Wave": The Improvement Path of China's Personal Pension System

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## ABSTRACT

As China's population ages, the social security system faces immense pressure. Against this backdrop, the personal pension system has emerged as the third pillar of retirement security. This paper provides an in-depth analysis of China's personal pension system, detailing its developmental context and tracing its journey from initial exploration through pilot programs to nationwide implementation. Addressing current challenges such as limited account opening channels, insufficient policy publicity, narrow investment options with high yield volatility, and inadequate system flexibility, this paper proposes recommendations including expanding account opening channels, strengthening policy outreach, diversifying investment avenues while enhancing investor education, and improving system flexibility. These measures aim to advance the continuous refinement of China's individual pension system, providing robust support for addressing retirement challenges in an aging society.

## KEYWORDS

Individual pension system; Aging; Pension security system

## 1 Introduction

"Accelerating the development of a multi-tiered, multi-pillar pension insurance system, expanding the coverage of the annuity system, and implementing an individual pension system." Accelerating the development of the third-pillar pension insurance is a crucial measure to address China's accelerating population aging and changes in the labor market structure. It is also an inevitable requirement for achieving the sustainable development of pension insurance and meeting diverse retirement needs. As China's population continues to age, pension issues have increasingly become a focal point of social concern. Within the traditional pension security system, basic pension insurance serves as the first pillar, offering broad coverage but limited protection levels. Enterprise annuities and occupational annuities, as the second pillar, have developed relatively slowly with narrow coverage. Against this backdrop, individual pensions, as the third pillar, hold significant importance for improving China's multi-tiered, multi-pillar pension insurance system and enhancing residents' pension security levels.

## 2 Background of Personal Pension Development

China has entered an aging society, with the pace of aging accelerating. Research indicates that by 2024, the population aged 60 and above reached 310 million, accounting for 22.0% of the total population, while those aged 65 and above numbered 220 million, representing 15.6% of the total population. By 2050, China's population aged 65 and above is projected to exceed 30%. This trajectory mirrors Japan's aging process. Japan's experience with its "NISA" (Nippon Individual Savings Account) system, which encourages individuals to proactively save for retirement, demonstrates that establishing flexible personal pension systems early can effectively alleviate aging pressures. The intensifying aging trend has led to a continuous rise in the pension dependency ratio—the ratio of pension recipients to contributors—placing heavy payment pressures on the basic pension insurance fund. As the first pillar of China's pension security system, basic pension insurance bears the crucial responsibility of safeguarding retirees' basic livelihoods. However, against the backdrop of aging, basic pension insurance faces the risk of revenue-expenditure imbalance. On one hand, the growing elderly population drives up pension expenditures; on the other, the slowing growth of the working-age population reduces the number of contributors, leading to sluggish revenue growth for the pension fund. To maintain the sustainability of basic pension insurance, the government has had to fill the fund gap through fiscal subsidies and other means, placing significant pressure on public finances. To alleviate social security pressures and achieve sustainable pension security, developing the third pillar of personal pensions is imperative. The development of personal pensions can alleviate the burden on basic pension insurance. By enabling individuals to accumulate savings and make investments, it enhances the overall level of retirement security, forming a multi-tiered pension system that complements basic pension insurance and enterprise (occupational) annuities.

From an individual perspective, personal pensions effectively address numerous challenges in retirement planning. Rising living standards and medical advancements have extended life expectancy, resulting in longer post-retirement

periods. This necessitates accumulating sufficient wealth before retirement to sustain extended retirement needs. However, relying solely on the pension replacement rate from basic pension insurance often proves insufficient to maintain pre-retirement living standards. The fundamental objective of basic pension insurance is to safeguard retirees' basic living standards. Its replacement rate generally ranges between 40% and 60%. For individuals seeking a higher quality of life, this replacement rate is clearly insufficient. Personal pensions provide individuals with a means to independently accumulate retirement wealth. By participating in a personal pension plan, individuals can contribute a fixed amount regularly during their working years based on their financial situation and retirement planning, selecting suitable investment products to grow their savings. Upon retirement, they can withdraw the accumulated funds to supplement the basic pension, thereby enhancing their post-retirement quality of life. Additionally, personal pensions benefit from policy support such as tax incentives, which reduce retirement costs and increase individuals' willingness to participate in retirement savings.

### **3 The Development Journey of Personal Pensions**

The development of personal pensions in China has undergone a long period of exploration and practice, gradually progressing from conceptual proposal to institutional implementation. In the early 1990s, China began exploring the establishment of a multi-tiered pension insurance system. The 1991 State Council Decision on Reforming the Pension Insurance System for Enterprise Employees proposed establishing a system integrating basic pension insurance with supplementary enterprise pension insurance and individual savings-based pension insurance. This laid the foundation for the development of the personal pension system, signifying China's growing emphasis on the role of individuals in retirement security. It clarified the direction of shared responsibility among the state, enterprises, and individuals for pension provision, marking the beginning of China's exploration into personal pension systems.

Subsequently, China has continuously advanced reforms and pilot programs in the personal pension sector. In 2018, five ministries including the Ministry of Finance issued the "Notice on Launching Pilot Programs for Tax-Deferred Commercial Pension Insurance". Effective May 1 of that year, pilot programs for tax-deferred commercial pension insurance commenced in Shanghai, Fujian Province, and the Suzhou Industrial Park, with an initial one-year trial period. This marked a significant initiative in China's personal pension sector, using tax incentives to encourage individuals to purchase commercial pension insurance and laying the groundwork for the development of a personal pension system. The year 2022 marked a pivotal moment in the development of China's personal pension system. In April, the General Office of the State Council issued the "Opinions on Promoting the Development of Personal Pensions," formally launching the personal pension system. This document established core institutional frameworks, including a personal account system where contributions are borne solely by the participant, a fully funded accumulation model, and an annual contribution cap of 12,000 yuan per participant. This signaled the basic completion of the top-level design for China's personal pension system. In November, the personal pension scheme entered its pilot phase in 36 pilot cities (regions), including Beijing, Tianjin, Shanghai, and Chongqing. During this period, the number of personal pension account holders steadily increased, financial products became more diverse, and the system operated smoothly and orderly, accumulating valuable experience for nationwide implementation.

On December 12, 2024, the Ministry of Human Resources and Social Security and four other ministries jointly issued the "Notice on the Full Implementation of the Individual Pension System," confirming nationwide rollout effective December 15, 2024. The notice further refined the system by expanding financial product offerings and optimizing withdrawal conditions. This marked the transition of China's individual pension system from pilot implementation to nationwide rollout, ushering in a new phase of comprehensive development.

## **4 Major Issues in China's Individual Pension System**

### **4.1 Limited Account Opening Channels**

Personal pension accounts are unique, meaning participants can only open one such account at a single qualified commercial bank. While this regulation aids account management and oversight, it restricts user flexibility to some extent. In practice, banks vary in service quality, product offerings, and interest rates. Participants may find their initial bank choice unsuitable for their needs yet face difficulties switching, leading to significant limitations in accessing personal pension services. For instance, some banks may lack expertise in investment advisory services for personal pension products or offer limited product options, failing to meet participants' diverse investment needs. Constrained by the single account opening channel, participants find it difficult to switch to banks offering superior services.

## 4.2 Insufficient Policy Promotion

Despite the numerous advantages in the policy design of the personal pension system, current promotional efforts remain inadequate, resulting in low public awareness and participation rates. Many residents possess limited understanding of the concept, policy details, participation methods, and potential returns of personal pensions. On one hand, promotional channels remain insufficiently diversified, primarily relying on official websites and offline branches of government departments and financial institutions. There is a lack of widespread promotion through emerging channels like social media and short-video platforms, making it difficult to reach broader audiences. On the other hand, promotional content is overly technical and lacks accessible explanations, making it difficult for ordinary residents to grasp the policy's core points and its tangible benefits for themselves, thereby dampening participation enthusiasm.

## 4.3 Limited Investment Channels and Low Returns

Personal pension investment products are predominantly low-risk savings-oriented, with a low allocation to equity assets. In the current low-interest-rate environment, most individual pension products yielded less than 3% in 2022. Over the long term, such returns struggle to outpace inflation, failing to achieve effective appreciation of pension assets. Furthermore, insufficient investor education and conservative risk preferences among residents foster apprehension toward equity-based products, leading to excessive concentration of funds in low-yield savings options and inefficient capital utilization. Although diverse investment options exist for personal pensions, users' limited understanding of retirement investing and misconceptions about investment rules often leave them confused and uncertain when selecting products. They struggle to allocate assets appropriately based on their risk tolerance and retirement goals, which also dampens enthusiasm for personal pension investments.

## 4.4 Insufficient System Flexibility

Personal pension accounts are subject to mandatory long-term lock-up periods, typically accessible only upon retirement, lacking exit mechanisms for urgent financial needs. In real life, participants may face emergencies such as critical illnesses or unemployment requiring immediate funds. However, the closed nature of these accounts prevents timely withdrawals, causing significant distress and diminishing willingness to participate in the system. The transfer and continuation mechanism for personal pensions is inadequate, creating difficulties in account connectivity when participants move across regions or change occupations. For instance, differences in personal pension policies and management approaches between regions may lead to issues such as information gaps and cumbersome procedures during transfers. This not only impacts participants' rights and interests but also creates additional barriers to the system's implementation.

# 5 Countermeasures and Recommendations

Refining the individual pension system is crucial for safeguarding residents' quality of life in their later years. To address current operational challenges, the following optimizations are proposed:

## 5.1 Expand Account Opening Channels to Enhance Convenience and Interoperability

Granting participants greater autonomy in opening personal pension fund accounts is highly significant. Allowing participants to change their account-holding bank under certain conditions, or adding new account opening channels, can break banks' lock-in effect on users and incentivize banks to improve service quality to retain customers. Furthermore, adding the option to open accounts through third-party platforms approved by financial regulators aligns with the digital era's development trends. These third-party platforms typically possess extensive user bases and mature online operational systems, offering participants more convenient and efficient account opening experiences. This encourages broader participation in the personal pension system. Simultaneously, establishing a unified personal pension account information management platform is crucial for efficient account administration. This platform breaks down information barriers between banks, enabling seamless interconnectivity of account data. Participants can easily access their account information across different banks through this platform, compare and select various personal pension products, significantly enhancing the convenience and efficiency of account management. This improves the user experience and strengthens participants' recognition of the personal pension system.

## 5.2 Strengthening Policy Promotion to Enhance Public Awareness and Trust

Effective policy promotion is essential for advancing the personal pension system. Utilizing multiple promotional channels comprehensively is crucial for ensuring broad coverage. Social media and short-video platforms, with their vast user bases, rapid dissemination, and diverse formats, are well-suited for broad policy outreach. Creating engaging short videos and illustrated content can help more people understand personal pension policies. Community outreach activities, meanwhile, can connect with residents' daily lives through on-site explanations and informational materials,

conveying policy advantages, participation processes, and investment returns in accessible terms. Simultaneously, tax incentives serve as a key tool for boosting participation rates. U.S. experience demonstrates that targeted tax deferral policies can increase individual pension participation by 15%-20%. China could draw inspiration from the U.S. approach of presenting "specific tax reduction amounts" in accessible terms during outreach. Additionally, organizing financial institution professionals to conduct lectures and training sessions within communities and enterprises enables face-to-face interactions with residents. This facilitates timely resolution of queries, alleviates concerns, enhances public awareness and trust in the personal pension system, and encourages broader participation.

### 5.3 Expand Product Offerings and Strengthen Investment Education to Meet Needs and Mitigate Risks

Encouraging financial institutions to develop more diverse personal pension investment products is crucial for meeting the varied needs of participants. Given differing risk tolerances and investment objectives among participants, increasing the allocation of equity assets and designing product portfolios with distinct risk-return profiles allows participants to select suitable products based on their circumstances, thereby enhancing the appeal of personal pensions. In the UK's personal pension market, equity products account for 40% of the portfolio. Products like target-date funds cater to diverse risk preferences, and their design logic holds valuable reference for China.

Strengthening investor education is equally indispensable. Conducting pension investment literacy courses and training through both online and offline channels can enhance residents' investment knowledge and risk awareness. This enables residents to understand the characteristics and risks of different investment products, learn to allocate assets reasonably based on their circumstances, and improve capital utilization efficiency. When selling personal pension products, financial institutions must strengthen information disclosure, fully reveal product risks, avoid misleading investors, effectively protect investors' legitimate rights and interests, and maintain the healthy development of the personal pension market.

### 5.4 Enhancing System Flexibility to Safeguard Participants' Rights

Establishing a partial early withdrawal mechanism for personal pension accounts demonstrates the system's humanistic care. Domestic research indicates that permitting early withdrawals for critical illness scenarios can increase participation willingness by 25%. Participants facing extraordinary circumstances such as critical illness or unemployment often encounter significant financial strain. Allowing them to withdraw a limited amount of personal pension funds early can help alleviate immediate financial pressures, resolve practical difficulties, and foster a sense of warmth toward the system, thereby strengthening their identification with it. Improving the transfer and continuation mechanism for personal pensions is crucial for safeguarding participants' rights.

## 6 Conclusion

China's personal pension system, key to addressing aging and boosting security, faces issues like limited access and inflexibility. These should ease with better policies and services. Sustained efforts in innovation will secure its healthy development, safeguarding residents' old age.

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