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THE PENSION SYSTEM OF CHINA: FEATURES AND PROSPECTS OF DEVELOPMENT

This text analyzes the current situation and characteristics of China's pension development through the three pillars commonly used in the world, and analyzes the future development direction through the development degree of the current three pillars.
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In order to cope with the aging population crisis, countries generally adopt the three-pillar pension model. In the context of the global aging trend, some countries are unable to sustain the pension system, the World Bank published in 1994, Preventing the Aging Crisis – Policies to Protect the Elderly and Promote growth, for the first time put forward the three pillars of retirement protection model:

1) The "first pillar" is the public pension plan, which is led and managed by the government and aims to build a mandatory pension system covering all people;

2) The "second pillar" is the occupational pension scheme, which is a fully accumulative scheme initiated by the employer and entrusted by the private sector;

3) The "third pillar" is the individual savings plan, which is saved or insured voluntarily by individuals and given certain tax incentives by the government [1].

The three-pillar system of pension in China has been basically established, but the development is uneven. At present, China has established a pension system composed of one pillar national social security fund enforced by the government, two pillar enterprise (occupational) annuity organized by enterprises and three pillar commercial pension arranged by individuals. By 2021, the scale of China's first, second and third pillars will be about 6.31 trillion yuan (58.75 %) and 4.43 trillion yuan respectively (41.25 %), 600 million yuan (0.01 %). The first pillar [2]. has reached the level of wide coverage, the second pillar has limited participants, and the third pillar is still in its infancy, with a very low scale and proportion.

First pillar: Wide coverage + rate reduction, limited room for growth. By March 2022, the number of people participating in China's basic pension insurance has reached 1.03 billion, and the annual revenue and expenditure of the basic pension insurance fund has reached 12.6 trillion yuan, with a cumulative balance of more than 6 trillion yuan. According to the results of the seventh national population census, as of November 1, 2020, the population of China's population over the age of 16 is 1.143 billion, and the basic pension insurance coverage rate of China is 90.1 % (excluding school students), which has reached the level of wide coverage. On April 1, 2019, The General Office of the State Council issued the Comprehensive Plan to reduce the Social Insurance Premium Rate, which significantly lowered the premium rate of the basic pension insurance for employees, reducing the proportion of unit contributions above 16 % to 16 %, resulting in a decrease in the future collection income of this part. At the same time, the cumulative balance of the basic pension insurance fund in 2020 declined by 7.63 % year-on-year, which was the first negative growth in recent years, mainly due to the decline in the cumulative balance of the basic pension insurance fund for urban workers, so the growth space of the first pillar of China's pension is limited, and the current burden is heavy [3].

Second pillar: Limited coverage. As of March 2022, the number of employees participating in enterprise and occupational annuity in China has reached 72 million, accumulating 4.5 trillion yuan in funds, and the role of supplementary pension is beginning to show, but the overall coverage is quite limited:1) The coverage rate of enterprise annuity is low and the scale growth is slowing down. As of 2021, China's enterprise annuity scale is 2.64 trillion yuan, accounting for 59.60 % of the total scale of the second pillar, but because small and medium-sized enterprises can not bear the cost burden brought by enterprise annuity, China's current enterprise annuity coverage rate is low. By 2021, a total of 117,500 enterprises have established enterprise annuity, involving 28.752,400 employees, which only accounts for the total employed population in urban areas 6.15 %. At the same time, after the growth rate of enterprise annuity accumulation fund rose to 35 % in 2012, it began to slow down year by year, and although it has picked up slightly since 2019, it is still lower than 2012.2) Occupational annuity has a compound growth rate of 54.01 % from 2018 to 2021, but its coverage group is limited. By 2021, the investment scale of occupational annuity in China is 1.79 trillion yuan, with a compound growth rate of 54.01 % from 2018 to 2021, accounting for 40.40 % of the total scale of the second pillar, but occupational annuity only covers employees of organs and institutions, and the coverage group is limited [2].

Third pillar: The scale is still small, but the future development space is broad. Since the individual tax deferred pension insurance pilot in 2018, the cumulative premium income as of October 2021 is only 600 million, accounting for a very small proportion in the three pillars; The number of insured people is more than 50,000, accounting for the proportion of urban employment in 2021 is almost zero [3]. However, based on the experience of the second pillar employees' willingness to participate, we believe that in the future, with the continuous improvement of policies, the continuous increase of tax advantages, the emergence of new products and the realization of mutual carry-over of the second and third pillars, its development space is broad.

At present, the first pillar of China is under heavy pressure. From the existing problems, the prominent problem of basic pension is that the phenomenon of empty accounts in personal accounts under the combination of unified accounts is more serious. China's implementation of the pay-as-you-go system (social pooling) and fund accumulation system (personal account) of the unified account combination model. Under the system design, the enterprise contribution is paid uniformly to the retired generation, and the personal account contribution is still owned by the individual after retirement. However, in practice, personal accounts fail to achieve their due personal control and management power. Due to the reasons of system transformation, unclear power and responsibility, coupled with the prominent problem of intergenerational transfer of China's social pension system, personal accounts are misappropriated to make up for the conversion cost, and personal accounts are seriously empty. In addition, the overall scale of basic pension personal accounts is small after standardized operation. In 2007, the Ministry of Finance and the Ministry of Human Resources and Social Security issued the Interim Measures for the Management of Investment of Central Subsidized Funds for Enterprise Employees' Basic Pension Insurance Individual Accounts, regulating the investment and operation of central subsidized funds for basic pension insurance individual accounts and their investment income (i.e., individual account funds). Since then, the individual account fund has been integrated into the unified operation of the National Social Security Fund as the basis.

Gold equity accounting. In recent years, the growth rate of personal account funds has been low, and it has been lower than the growth rate of the national Social security Fund for a long time. By 2020, the ending balance of individual account funds will be 148.676 billion yuan, accounting for only 6.05 % of the ending balance of the national Social Security Fund [2]. The future of individual accounts, shorting them or separating them from basic pension plans, is a matter of debate. National pooling and urban-rural pooling may be conducive to the sustainable development of basic endowment insurance. The establishment of the central adjustment fund system in 2018 and the issuance of the Comprehensive Plan to Reduce Social Insurance Rates in 2019 are actually similar to the special financial transfer payment policy, which will use the basic pension fund balance concentrated in the eastern coastal provinces to make up the pension fund gap in Qinghai, Heilongjiang and other provinces, which is conducive to fair competition among provinces. Further, we will promote the realization of a national endowment insurance pooling system with unified national rates and fund revenue and expenditure management as the core, and rely on the national integration of information systems and operation and management services, and promote the fairer and more sustainable development oAt present, the development of the third pillar of our country is limited. The third pillar of personal pensions is insufficient and needs to be reformed to promote further development.

1) China's pension scale is still far from that of the United States. By the end of 2021, the total scale of China's pension will be 10.74 trillion yuan, accounting for 9.39 % of GDP, and the total scale of the third pillar is only about 600 million yuan, accounting for less than 0.1 % of pensions, and accounting for an even smaller proportion of GDP. In the same period, the pension fund of the United States was 37.46 trillion US dollars, accounting for 162.88 % of GDP, and the total scale of the third pillar was 11.80 trillion US dollars, accounting for 31.50 % of pensions and 51.30 % of GDP [2].

2) It is difficult to make up for the funding gap in fiscal pension expenditure. According to the Third Pillar of China's Pension Research Report, China will have a pension gap of 8-10 trillion yuan in the next 5-10 years, and the gap will further expand over time. In order to ensure the long-term payment of pensions, the focus of pension burden will gradually shift from the state to the individual, and the third pillar personal pension system needs to be further developed.

The significance of vigorously developing the third pillar of personal elderly care:

First, to alleviate the financial pressure on pension brought by the aging of population and perfect the construction of pension system, China's aging situation is severe, and the financial pension is overwhelmed. At present, China's aging speed is accelerating, and it is facing a situation of "old before rich". By the end of 2021, the population over 65 years old in China has reached 200 million, accounting for 14.20 %, an increase of 9.92 million compared with the same period last year.[7] According to the estimated data of the "China Pension Actuarial Report 2019–2050", the current balance of the basic pension insurance fund for urban enterprise employees in the country from 2019 to 2050 began to accelerate "diving" after barely maintaining a positive number for several years, and the scale of the deficit is getting larger and larger.

The pressure needs to be released through the third pillar section.

Second, optimize the capital market fund structure, and provide long-term stable funds for the development of the capital market

1) Improve the structure of household financial assets and promote the conversion of savings into investment. By the end of 2019, the total financial assets of China's residents reached 325 trillion yuan, of which bank deposits accounted for 112 trillion yuan, accounting for 34.48 %. During the same period, the proportion of resident deposits in the United States was only 11.78 %, and there is room for further improvement of China's resident savings rate [3].

2) Improve the financing structure of the capital market and increase the proportion of direct financing. As of September 2020, China's direct financing stock reached 79.8 trillion yuan, accounting for about 29 % of the stock of social financing, and there is still a big gap with developed countries [3]. The Fifth Plenary Session of the 19th Central Committee stressed that under the new development pattern, increasing the proportion of direct financing is an urgent requirement of the service innovation-driven development strategy. Developing the third pillar for pension will speed up the transformation of residents' savings into investment and provide more long-term funds to the capital market through various kinds of financial products and institutions, which will help promote the vigorous development of the capital market.

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