The Research on the Development Status and Key Issues of Personal Pensions in China

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Abstract. China's rapidly aging population presents profound long-term challenges to the sustainability, inclusiveness, and adequacy of its pension system. As the traditional public pension framework faces mounting fiscal pressure and coverage limitations, the development of a robust personal pension system has become increasingly urgent. This study comprehensively examines the current status, structural constraints, and future prospects of China's personal pension initiatives. By drawing on comparative insights from international models such as the U.S. 401(k), Germany's Riester Pension, and Japan's NISA system, and combining them with empirical domestic data, this research identifies several core obstacles—including limited public awareness, insufficient incentives, a narrow range of investment products, and fragmented regulatory oversight. Although recent policy reforms have laid foundational groundwork, participation rates remain low, and contributions often fall short of policy ceilings. The study proposes a multidimensional strategy to address these issues, including targeted financial education campaigns, product diversification (e.g., inclusion of ESG and green assets), the use of blockchain to enhance transparency and trust, and intergenerational transfer mechanisms to boost long-term participation. These reforms aim not only to improve retirement security but also to contribute to broader national goals such as common prosperity, financial resilience, and carbon neutrality.

Keywords: Personal pensions, aging population, pension reforms, retirement security, policy recommendations.

1. Introduction

1.1. Research Background

In recent years, personal pensions have become an increasingly important aspect of retirement planning in China.

With an aging population and the rapid urbanization of the workforce, China faces significant challenges in ensuring financial security for its elderly citizens. The government's current pension system, mainly relying on the public pension and social insurance, may not be sufficient to meet the future needs of retirees. As such, the development of personal pension schemes has become a key focus in Chinese social security policy. Understanding the current status, challenges, and potential improvements in this area is essential for future policymaking and financial planning.

1.2. Research Problems and Motivation

According to the report from the Department of Aging of the Ministry of Civil Affairs of the People's Republic of China "by the end of 2023, the elderly population aged 60 and above in China was 296.97 million, accounting for 21.1% of the total population; the elderly population aged 65 and above was 216.76 million, accounting for 15.4% of the total population. The dependency ratio for the elderly population aged 65 and above was 22.5%.in Chinese [1]. Due to the increasing aging population, how to make personal pensions more suitable to our society instead of being a burden to our government has become a very significant problem. However, as illustrated in Figures 1 and 2, the proportion of elderly population aged 60 and above, particularly those over 65 years old, within the national demographic composition has been demonstrating a persistent upward trajectory. This statistical pattern substantiates the progressive intensification of population aging over time.

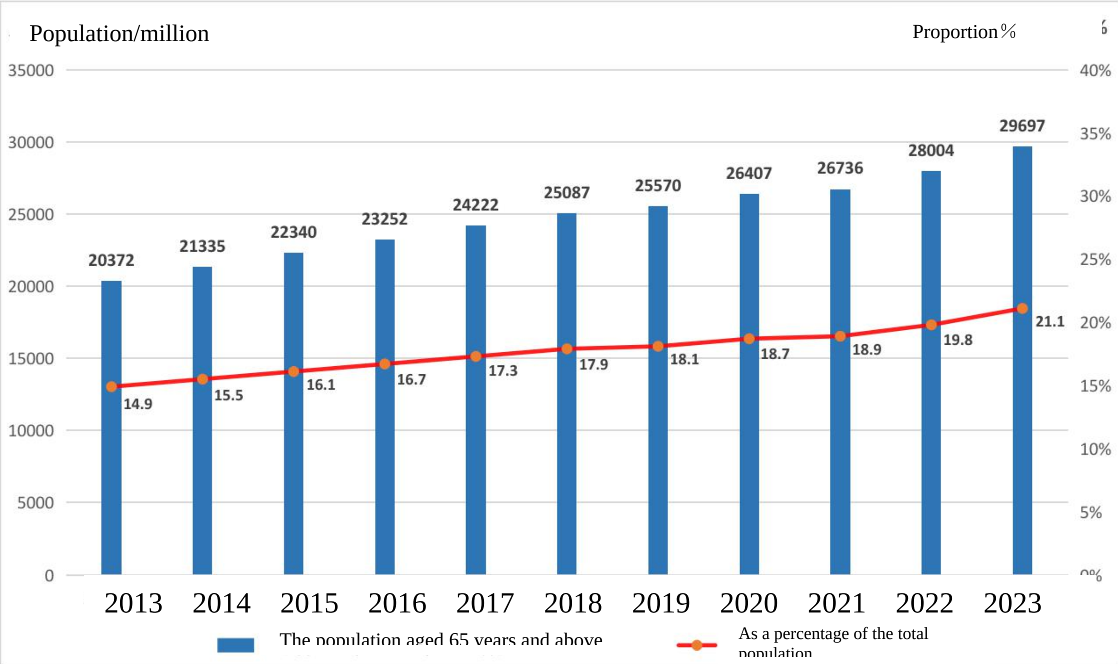

Fig. 1 Number of Elderly Population Aged 60 and Above and Their Proportion of the Total Population in China from 2013 to 2023

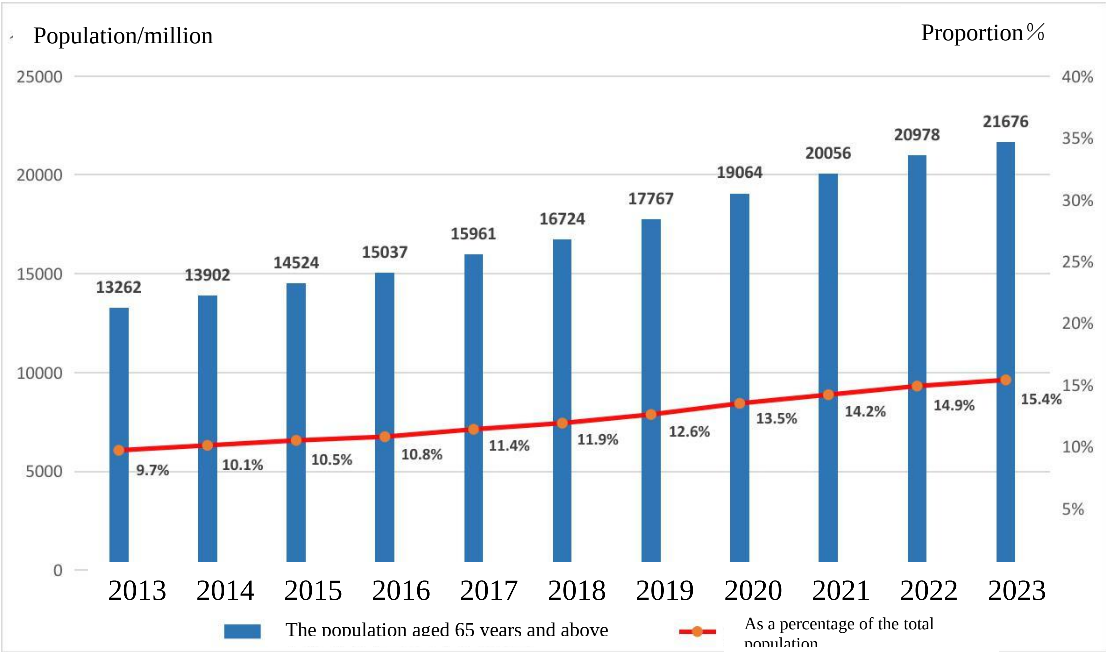

Fig. 2 Number of Elderly Population Aged 65 and Above and Their Proportion of the Total Population in China from 2013 to 2023

Furthermore, Figure 3 reveals a concomitant rise in the elderly dependency ratio (specifically for citizens above 65 years old), indicating an expanding population cohort receiving essential support and care during their advanced years. These interrelated demographic shifts collectively reflect two significant social developments: first, the enhanced fulfillment of fundamental welfare provisions for senior citizens, and second, the gradual elevation of social responsibility consciousness among younger generations as manifested through intergenerational support mechanisms.

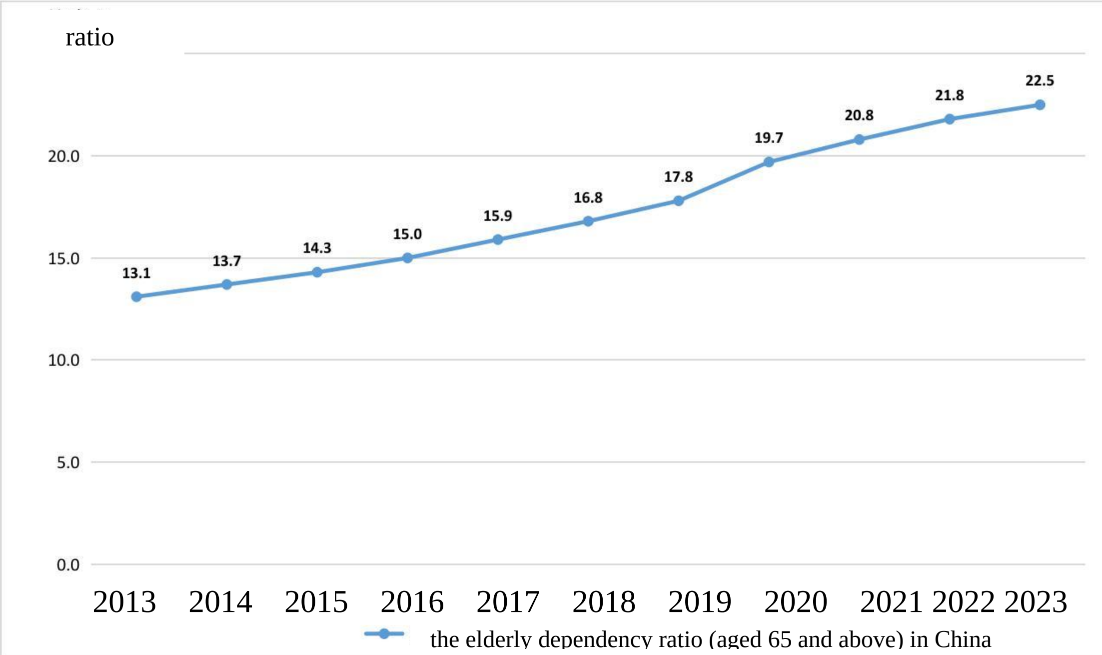

Fig. 3 Dependency Ratio of Elderly Population Aged 65 and Above in China from 2013 to 2023

According to the data of every province, as of 2023, 19 provinces (e.g., Liaoning, Shanghai, Chongqing) have entered "moderate" or "severe" aging, defined by ≥14% or ≥21% of the population aged 65+, respectively. Liaoning leads with 21.1% elderly residents, while Guangdong remains the youngest province due to migrant labor inflows (e.g., 16.1% elderly vs. national average of 21.1%). The analysis attributes variations to divergent birth rates (e.g., Tibet: 13.72‰ vs. Heilongjiang: 2.92‰) and migration patterns (e.g., Northeast China's population rebound vs. persistent outflows in "Shanhe Four Provinces" [2].

Another data indicates, presented at the Boao Forum, this analysis contrasts pension reforms across provinces: Shandong: Struggling with ¥42.8 billion pension deficits (2024) despite raising retirement ages. Zhejiang: Piloting hybrid tax incentives (EET/TEE) to boost third-pillar pension participation. The report calls for interprovincial solidarity funds to address imbalances, citing Liaoning’s 22.57% elderly dependency ratio (4.4 workers per retiree) [3]. They are all showing that the old in our country are still very much and increasing in a high speed.

This paper seeks to address the current state of personal pensions in China, focusing on their development, the main challenges faced, and the necessary steps to improve the system. The motivation behind this research is to explore why personal pensions are vital for China’s aging population and how the current system can be enhanced to provide greater financial security. By analyzing both domestic and international experiences, this research aims to offer actionable insights for improving China’s pension policies. Previous studies suggest that while progress has been made, several critical issues persist, including insufficient public awareness, limited investment options, and a lack of comprehensive regulatory frameworks [4].

1.3. Market Environment of China's Personal Pension System

China's personal pension market has evolved rapidly in recent years, driven by demographic pressures and policy reforms, yet it remains constrained by structural challenges. Below is a synthesis of its current market dynamics, supported by academic and industry insights.

The market is dominated by banks, insurance companies, and fund management firms, which provide a range of products under the third-pillar personal pension system. These include tax-advantaged personal pension accounts, pension wealth management products, commercial pension insurance, and pension-targeted funds (e.g., pension FOFs). As of 2024, over 24 million personal pension accounts have been opened, with commercial banks leading in account services. However, product diversity remains superficial, with many offerings resembling conventional financial products (e.g., savings deposits, low-risk funds) rather than innovative, pension-specific solutions. For instance, pension FOFs, despite their higher equity allocations, have struggled with poor returns and net outflows due to market volatility.

Despite high account openings, effective participation is limited. By early 2024, only 8% of eligible individuals actively contributed to their accounts, with average annual deposits of approximately ¥2,000—far below the ¥12,000 cap. This "cold engagement" stems from weak tax incentives for middle- and low-income groups, complex enrollment processes, and a lack of investor education. McKinsey noted that tax benefits disproportionately favor high-income earners, exacerbating equity gaps.

Most products prioritize low-risk profiles, reflecting consumer distrust in volatile markets. Over 68% of participants favor savings and insurance products with stable yields (e.g., 2.1–4.25% annualized returns), while equity-linked options like pension FOFs face skepticism due to underperformance. For example, pension FOF assets contracted to ¥64.2 billion by Q3 2024, down 9% year-on-year, as investors shifted to safer alternatives like pension wealth management products (¥103.8 billion).

China's private pension reserves lag significantly behind global peers. As of 2023, private pension assets accounted for only 1.6% of GDP, compared to over 50% in OECD countries like the U.S. and Switzerland. This gap highlights systemic issues, including product homogeneity, insufficient long-term equity exposure, and a cultural preference for short-term liquidity over retirement planning.

1.4. Research Content Overview

This paper will first explore the development status of personal pensions in China, followed by a comparative analysis of pension systems in countries such as the United States, Germany, and Japan. Finally, it will identify the key problems in China's personal pension system and suggest policy recommendations. The structure of the paper is as follows: Section 2 examines the development of personal pensions in China; Section 3 presents international experiences; Section 4 identifies the main challenges and proposes policy recommendations; and Section 5 concludes with a summary and further suggestions.

2. Development Status of Personal Pensions in China

2.1. Overview of China's Pension System

China's pension system consists of three main components: the basic pension, enterprise annuities, and personal pensions. While the basic pension and enterprise annuities are more established, the personal pension system is still in its early stages. The government has introduced various reforms over the past decade, aiming to encourage individual savings for retirement through tax incentives, but the reach and effectiveness of these programs remain limited.

2.2. Current Challenges in Personal Pension Development

Despite efforts to promote personal pensions, there are several challenges. For example, according to research from CNKI, China's pension system remains overly reliant on the first pillar (government-managed social insurance), which accounts for approximately 70% of total pension assets, while the second (enterprise annuities) and third (individual pensions) pillars are underdeveloped. This imbalance concentrates financial risks and undermines long-term sustainability. For instance, the third pillar's penetration rate is low, with only 72 million accounts opened by late 2024 despite a potential eligible population of over 1 billion. Experts argue that the lack of synergy between pillars—such as limited tax incentives for cross-pillar contributions—further weakens systemic resilience [5]. What's more, although participation in personal pension accounts has grown steadily, actual contribution rates remain suboptimal. Average annual contributions per account (¥7,000–¥8,000) fall far below the ¥12,000 annual cap, reflecting weak public engagement. Contributory hesitancy stems from inadequate financial literacy, mistrust in financial products due to historical scandals, and limited tax incentives (e.g., low-income groups benefit minimally from tax-deferred schemes). Rural and low-income populations, who constitute 95% of the basic rural pension recipients (averaging ¥220/month), face acute affordability barriers [6]. These are just small part of all the questions, from my point of view, firstly, there is limited public awareness of personal pensions and their benefits. Many Chinese citizens still rely heavily on the public pension system and are not motivated to contribute to personal pensions. Secondly, the investment options available for personal pension plans are often constrained, limiting the growth potential of these funds. Finally, regulatory frameworks for personal pensions remain underdeveloped, leading to a lack of standardization and consumer protection in the sector.

2.3. Government Policies and Reform Efforts

In recent years, the Chinese government has taken several steps to improve the personal pension system. For example, China's pension system has undergone significant reforms since 2020, aiming to address demographic aging, coverage gaps, and inequities between public and private sectors. The government expanded the National Social Security Fund to stabilize financing, while piloting reforms in Shenzhen's Comprehensive Reform Zone (2020–2025) to test flexible retirement ages and digital currency (e-CNY) integration for pension distributions. In 2023, a unified "basic pension scheme" was rolled out nationwide, merging previously fragmented systems for civil servants, public institution employees, and urban private workers, reducing disparities (e.g., public sector pensions were capped at 60% of pre-retirement income, down from 90%). To mitigate funding shortfalls, contribution periods were extended from 15 to 20 years, and occupational annuities were introduced as supplementary savings for public employees. Meanwhile, digital governance measures, such as cross-provincial pension portability via national platforms, were implemented to enhance efficiency. Despite progress, challenges persist, including rural coverage gaps (only 30% of rural elderly receive pensions) and reliance on familial support [7]. Policies such as the introduction of tax-deferred pensions, the development of private pension funds, and increased incentives for employers to offer pension plans have been implemented. However, these efforts have yet to produce significant changes in public participation and system sustainability.

3. International Experiences and Comparisons

3.1. The United States: The 401(k) Plan

The United States has a well-developed system of personal pensions, particularly through employer-sponsored 401(k) plans. According to the introductions from article online, the 401(k) plan is a defined-contribution retirement savings scheme widely adopted in the United States, allowing employees to make tax-deferred contributions from their salaries, often with employer matching. Poterba et al. analyze its growth, highlighting how tax incentives and employer participation have shaped retirement planning. The study notes that while 401(k)s increase savings for higher-income earners, lower-wage workers often underutilize them due to liquidity constraints and lack of financial literacy. The authors suggest policy reforms, such as automatic enrollment and enhanced financial education, to improve participation equity [8]. These plans allow workers to contribute a portion of their salary to a retirement fund, with tax advantages. The U.S. system also offers a variety of investment options, providing individuals with greater control over their retirement savings.

3.2. Germany: The Riester Pension

Germany's Riester pension is a government-subsidized personal pension plan designed to supplement the public pension system. Here are the introductions, the study titled, Health and aging before and after retirement, investigates occupation-specific health trajectories and the impact of retirement on aging patterns in Germany and other European countries. Using data from the Survey of Health, Aging, and Retirement in Europe (SHARE), the authors construct a frailty index to measure biological aging and analyze how occupational burdens (e.g., physical or psychosocial job demands) influence health outcomes before and after retirement. The study employs statutory retirement ages as instrumental variables to address endogeneity, revealing that workers in low-status occupations (e.g., blue-collar jobs or roles with high physical strain) accumulate health deficits faster than high-status groups. Retirement significantly improves health outcomes for low-status workers, aligning with predictions of the health deficit model, whereas high-status groups show minimal changes. These findings highlight the role of occupational inequalities in shaping post-retirement health disparities and inform debates on equitable pension policies [9]. Different from America and China this system encourages individuals to save for retirement through government grants and tax benefits. However, its effectiveness has been debated, as participation rates are relatively low among certain demographic groups.

3.3. Japan: The NISA (Nippon Individual Savings Account)

Japan's NISA system offers tax-free investment options for individuals looking to save for retirement. According to the survey, the program allows tax-free capital gains and dividends for up to five years, with investments primarily allocated to trusts (63.5%) and stocks (33.2%). Reforms in 2024 expanded annual investment limits and extended tax-free periods to enhance retirement preparedness [10]. This system is designed to encourage long-term savings and investment in the stock market. While NISA has been somewhat successful, it faces challenges related to limited awareness and participation.

4. Key Issues and Policy Recommendations

4.1. Key Issues

Limited Public Awareness: A significant portion of the Chinese population lacks knowledge about personal pension schemes and their long-term benefits. This contributes to low participation rates in the personal pension system.

Restricted Investment Choices: The personal pension plans available in China often offer limited investment opportunities, which can hinder the growth potential of retirement savings.

Regulatory Gaps: The absence of a clear, standardized regulatory framework for personal pensions in China makes it difficult for individuals to trust and invest in these plans.

4.2. Policy Recommendations

Increase Public Education and Awareness: The government should launch comprehensive public awareness campaigns to educate citizens on the importance of personal pensions and the various available options.

Diversify Investment Options: The government should expand the range of investment products available within personal pension plans would allow individuals to tailor their portfolios to better suit their retirement needs.

Develop a Stronger Regulatory Framework: The government should stablish clear regulations and consumer protection laws would help build trust in the personal pension system and attract more participants.

5. Conclusion

This paper explored the development status of personal pensions in China, identifying key challenges and examining international experiences. The primary focus was on understanding why personal pensions are essential for China's aging population and how the current system could be improved.

The paper discussed China’s current pension system, the challenges faced in developing personal pensions, and compared these with the practices in the United States, Germany, and Japan. It highlighted issues such as limited public awareness, restricted investment options, and regulatory gaps.

The research concluded that while progress has been made, significant challenges remain in the personal pension system in China. To address these issues, the paper suggested increasing public education, expanding investment choices, and strengthening regulatory frameworks.

To enhance the personal pension system in China, it is necessary to come up with some new policies to improve the old system. From my perspective=, my suggestions are as follows

The government should develop pension products that prioritize investments in sustainable projects, such as renewable energy, green bonds, or ESG (Environmental, Social, and Governance)-aligned funds. This would align pension growth with national carbon neutrality goals while offering participants a sense of contributing to societal well-being. For instance, introducing a "Green Pension Portfolio" with tax incentives for investments in certified sustainability projects could attract environmentally conscious contributors.

The government should implement blockchain technology to enhance transparency and trust in personal pension accounts. A decentralized ledger could track contributions, investment returns, and withdrawals in real time, reducing administrative inefficiencies and fraud risks. This system could also facilitate cross-institutional data sharing (e.g., linking pension accounts with healthcare or insurance platforms) while ensuring user privacy.

The government should allow younger family members to contribute to their elders' pension accounts, with tax deductions or matching subsidies. For example, children could allocate a portion of their income to their parents' pension funds, incentivizing family-based retirement planning. This approach addresses China's aging population challenges while strengthening intergenerational financial solidarity.

These steps will help build a more robust and sustainable retirement savings system for China's future if these suggestions are used.

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