

Current Situation and Suggestion of Three Pillar System of Endowment Insurance in China

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Abstract: Since 1991, China implemented the reform of the old age insurance system for urban enterprise employees, the work of establishing a multi-level old-age insurance system has been carried on continuously, and the three-pillar old-age insurance system is developing vigorously. By introducing the development process of China's pension insurance, this paper analyzes the construction process of the three-pillar system, and combined with the current background of China's aging population, puts forward the problems existing in the system, and gives corresponding suggestions, so as to promote the improvement and development of the three-pillar system of pension insurance, and improve China's comprehensive pension capacity.

Keywords: The three-pillar old-age insurance system, China's aging population.

1. Introduction

The concept of three-pillar endowment insurance system was first put forward by the World Bank in 1994. Our three pillars of the system including the first pillar of basic endowment insurance, enterprise annuity and the second pillar of occupational pension and the third pillar of personal commercial endowment insurance, the first pillar fund shall be undertaken by the government, the second pillar funded by unit of choose and employ persons and individual to assume that the third pillar shall be borne by the individual, is used to improve the future pension treatment. After years of development, the construction of China's three-pillar system has achieved obvious results, and the follow-up development still needs to be further improved. 2. The establishment process of the three-pillar system of endowment insurance in China

1.1. The Establishment and Development of The First Pillar

The first pillar consists of basic endowment insurance, which China initially began to explore from the 1950s. At first, it focused on the retirement insurance of urban workers. After the reform and opening up, it gradually improved to the social endowment insurance of urban residents and rural residents. After 2000, the basic endowment insurance for enterprise employees has been greatly improved, mainly including expanding the coverage of insurance, strengthening personal accounts, solving the transfer of the endowment insurance relationship between inter-provincial migrants, and establishing a relatively complete basic endowment insurance for urban and rural residents. It is composed of social endowment insurance for urban residents (referred to as "urban housing insurance") and new rural social endowment insurance (referred to as "new rural insurance"), and the two systems of "new rural insurance" and "urban housing insurance" will be combined and implemented after 2014.

1.2. Establishment and Development of The Second Pillar

The second pillar is composed of enterprise annuity and occupational pension, is China's first pillar system to explore the compensatory endowment insurance system, as early as 1995, the State Council on deepening the reform of endowment insurance system for enterprise employees of circular (guo fa [1995] no. 6) is put forward, encourage the establishment of enterprise complement endowment insurance, further clarify the nature of compensatory endowment insurance, It was officially implemented in 2000, and the central government issued rules and regulations such as the operation and management mode, contribution ratio and source of enterprise annuity. In 2017, the Ministry of Human Resources and Social Security and the Ministry of Finance jointly issued the Measures for Enterprise Annuity, which greatly improved the management system of enterprise annuity. In 2008, China carried out the pilot of endowment insurance in public institutions for the first time in five provinces and cities, and gradually improved the problems in the pilot.

1.3. Development of the Third Pillar

The third pillar consists of personal commercial pension insurance, which is an important part of personal future pension. However, the development time of China's insurance industry is still short, so the establishment of the third pillar system is still in the exploration stage and has great potential. Because personal commercial endowment insurance has high requirements on personal income level, it is doomed that China, which is still in development, cannot fully implement it. On April 2, 2018, The Ministry of Finance, the State Administration of Taxation, the Ministry of Human Resources and Social Security, the China Banking and Insurance Regulatory Commission and the China Securities Regulatory Commission issued the Notice on Carrying out the Pilot Project of Individual Tax Deferred Commercial Endowment Insurance (Finance and Taxation [2018] No. 22), clearly implementing the pilot project of individual tax deferred commercial endowment insurance, marking the

official launch of the exploration of the third pillar in China.

2. The Development Status and Problems of The Three-pillar System in China

2.1. Current Situation

After years of exploration and development, the three-pillar system of endowment insurance in China has made great achievements.

First, the first pillar still occupies a dominant position, and the cumulative deposit and balance of pension insurance fund is increasing year by year, and the scale is expanding, as shown in Figure 1. The current basic endowment insurance system covers urban and rural residents, government organs, enterprises and public institutions, and individual workers. The basic endowment fee is paid jointly by employers and individuals, and the state gives preferential tax support. With the improvement of the system, more and more people have enjoyed the welfare, and the number of insured people has increased significantly, as shown in Figure 2.

Second, the second pillar of the complementary role more and more

prominent, eligible enterprises, all the authority of institutions and individuals in accordance with the proportion

of 4% and 8% of primary endowment insurance expends base pay, and implement account funded, by a professional investment management for insurance companies, until the end of 2020 there are 105000 enterprises build enterprise annuity, 27.18 million employees participated, and the enterprise annuity accumulation fund at the end of the year was 2.249.7 billion yuan, accounting for 38.73% of the cumulative balance of the total insurance fund that year.

Third, China's third pillar is still in its infancy and has great development potential. In May 2021, China Banking and Insurance Regulatory Commission (CBIRC) issued the Notice on Carrying out the Pilot Project of Exclusive Commercial endowment Insurance, making it clear that starting from June 1, 2021, Six life insurance companies, PICC Life Insurance, China Life Insurance, Taiping Life Insurance, Pacific Life Insurance, Taikang Life Insurance and New China Insurance, have carried out exclusive commercial endowment insurance trials in Zhejiang Province (including Ningbo City) and Chongqing city. Data disclosed by the China Banking and Insurance Regulatory Commission show that since the launch of the pilot exclusive commercial endowment insurance, the overall operation is stable and the social response is good. By the end of January 2022, the six pilot insurance companies had written nearly 50,000 policies with a cumulative premium of 400 million yuan, including nearly 10,000 employees in new industries and new forms of business.

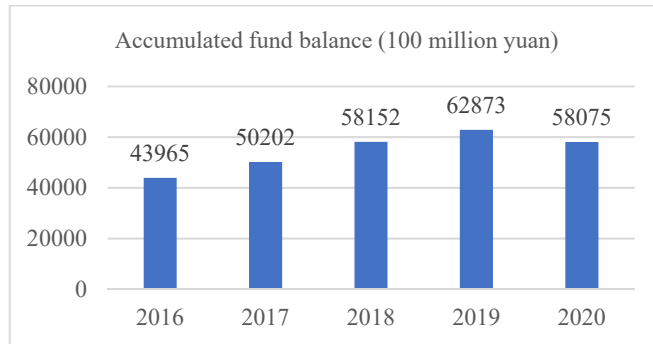


Figure 1. The scale of China's basic pension stock in the past five years

Data source: the official website of the Ministry of Human Resources and Social Security

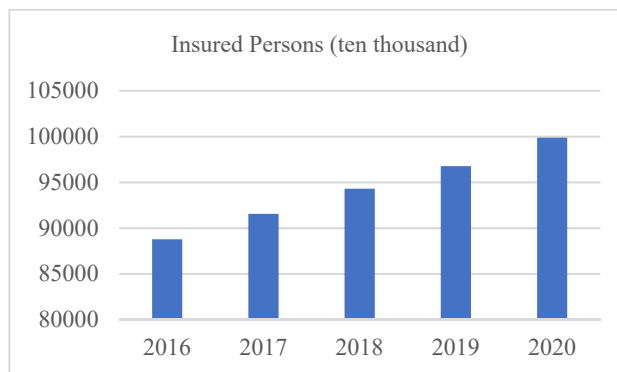


Figure 2. The number of participants in China's basic endowment insurance in the past five years.

Data source: the official website of the Ministry of Human Resources and Social Security

2.2. Problems

In 2021, China achieved its first centenary goal and completed the building of a moderately prosperous society in all respects, laying a solid economic foundation for providing

for the elderly. However, there are still problems that must be paid attention to in the field of endowment insurance.

First, China's population aging phenomenon is serious, the proportion of the elderly population is rising obviously, the

number of working population is declining, so that the government's financial subsidy burden on endowment insurance increases. On May 11, 2021, according to the seventh national population census released by the National Bureau of Statistics, the population aged 60 and above in China reached 264.02 million, accounting for 18.70% (the population aged 65 and above was 190.64 million, accounting for 13.50%). Compared with the data of the sixth national census in 2010, the proportion of people aged 60 and above increased by 5.44 percent. The development degree of population aging in China has far exceeded that of high-income countries, and the aging trend is expected to continue to expand, and the elderly population is predicted to peak in 2060 (Dong Keyong). This leads to the contradiction between the insufficient effective supply of pension and the strong actual demand, which will face a severe test in the future, and the gap of basic pension will continue to expand (Xu Yongxian). In addition, in the era of epidemic, China's overall economy is facing tests, and the pension system plays a more important role in social stability.

Second, the structural imbalance of China's three-pillar insurance system. The large volume of the first pillar leads to excessive financial pressure of the government, and the system of the first pillar is not perfect. The basic pension payment base is determined by the proportion of 60%-300% of the actual wage income of employees, and the implementation method is not unified in different regions, and the burden is different. In the complex economic situation, the enterprise (profession) of the annuity is difficult to secure stable growth, the second pillar of the complementary role has not yet reached expectations, compared to the first pillar, the coverage is not comprehensive, authority institution staff proportion is big, and have mandatory, and the present developing rapidly since the media, individual cannot join prescribed in the second pillar, contradiction between them.

Third, the slow development speed of the third pillar makes it difficult to play a decisive role in the allocation of pension resources. Since the pilot, in the market of commercial endowment of products high price, high threshold, innovation, customer experience has the many problems, such as the standard is not unified, and the products and services of complex process, sales and service does not reach the designated position, cause the pilot less attractive, insurance companies lack of commercial endowment insurance sales promotion, is not conducive to long-term development.

3. Advice

First, we should dialectically treat the aging problem and vigorously develop the pension industry when aging is inevitable in the short term. At present, the consumption demand and ability of the elderly population cannot be ignored. International experience can be learned, such as the community pension implemented in the UK. At the same time, diversified operation methods can be adopted to match the community, and finance and commercial insurance can be used to boost the pension industry, promote economic development, and effectively adjust the economic structure. At the same time, it can appropriately delay the age of receiving retirement pension, restrain early retirement, relieve the pressure of government finance, and effectively

deal with the consequences of population aging.

Second, we will improve the first pillar basic old-age insurance system. To accelerate the establishment of a unified social insurance public service platform, the government should enhance the overall planning ability of the implementation of the national basic pension, enhance the tax collection and management of the basic pension, clarify the national responsibility, separate the social planning from the individual account, and make the individual account universal among the three pillars; Optimize the second pillar enterprise (occupational) pension system, broaden the scope of occupational annuity, explore a new automatic joining mechanism, and increase the participation rate of small and medium-sized enterprises; And appropriately reduce the premium rate of the first pillar to develop the second pillar; Appropriately relaxing the investment restrictions of pension fund management institutions, the government can gradually introduce corresponding policies to promote institutions to invest in the current national hot industries, achieve a win-win situation, and strengthen the constraint of minimum investment returns, protect the interests of investors, which is also of great help to the development of the third pillar.

Third, we should attach importance to the development of the third pillar. First of all, to improve people's recognition of commercial endowment insurance, insurance companies should improve publicity efforts, so that more people understand the relevant insurance knowledge; Secondly, encourage multiple institutions to participate in the creation of the third pillar insurance products, relax the industry that can participate, consider the participation of banking, fund industry and other financial institutions, promote healthy competition, speed up the innovation and upgrading of products, and increase people's choices; A large part of the reason for the low participation rate of the third pillar lies in the high rate of commercial endowment insurance. Therefore, the government can implement reasonable fiscal and tax subsidies and preferential policies, which can not only encourage the product innovation of insurance companies, but also relax the lower limit of funds to allow more able people to participate in insurance.

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