



# Research on Policy Design of China's Personal Pension System

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**Abstract.** To address the accelerating population aging, the Chinese government launched the personal pension system on April 8, 2022. However, its performance over more than two years of implementation has yielded less-than-optimistic results. This paper examines cognitive deficiencies in the system's promotion based on an analysis of its implementation process and current status. Ultimately, it proposes a dual-track policy framework involving the establishment of a state-owned personal pension investment and management company alongside a commercial certification mechanism for pension investment institutions. These recommendations aim to advance the development of China's pension system with actionable institutional improvements.

**Keywords:** population aging, personal pension system, dual-track policy framework

## 1 Present Situation of China's Personal Pension System Implementation

### 1.1 Implementation Process of China's Personal Pension System

China's pension insurance system consists of three pillars. The first pillar is the basic pension insurance, which includes urban employee basic pension insurance and urban-rural resident basic pension insurance. The second pillar comprises enterprise annuities established by enterprises and their employees, as well as occupational annuities established by government agencies and public institutions and their employees. The third pillar is the personal pension system.

Personal pension refers to the retirement financial assets accumulated by individuals through investing a portion of their financial assets in suitable pension financial products based on their economic conditions and risk-return preferences. The government usually implements certain policies to encourage the accumulation of personal pensions. On April 8, 2022, the State Council issued the *Opinions on Promoting the Development of Personal Pensions*, marking the official launch of the construction of China's third-pillar pension system. In November 2022, the personal pension system was piloted in 36 cities (regions). On December 10, 2024, five departments including the Ministry of Human Resources and Social Security issued the *Notice on the Full*

*Implementation of the Personal Pension System*, deciding to expand the personal pension system from 36 pilot cities (regions) to nationwide starting from December 15, 2024.

## **1.2 Implementation Outcomes of China's Personal Pension System**

China's personal pension system has seen a steady increase in the number of personal pension accounts opened since its pilot launch over two years ago. According to the Ministry of Human Resources and Social Security, the number of personal pension accounts opened (referred to as "account openings") reached 19.54 million by the end of 2022, exceeded 52.8 million by the end of 2023, surpassed 60 million in June 2024, and broke through 70 million by the end of 2024. However, even with 70 million personal pension accounts opened by the end of 2024, the penetration rate stands at merely 6.67% when compared to the approximately 1.05 billion participants in China's basic pension insurance system - an alarmingly low adoption level.

Moreover, the personal pension accounts have witnessed phenomena like "enthusiastic account openings but lukewarm investments with low contribution willingness." By the end of 2023, the total contributions to personal pensions amounted to approximately 28 billion yuan, with an average contribution of about 2,410 yuan per account—far below the annual contribution limit of 12,000 yuan per personal pension account.

## **2 Cognitive Reasons for Sluggish Advancement of China's Personal Pension System**

China's personal pension scheme has delivered sub-optimal outcomes since its launch in 2022. A key contributing factor is the insufficient grasp of foundational principles in designing the system, resulting in structural shortcomings. These fundamental cognitive gaps primarily revolve around the following aspects:

### **2.1 Who Are the Target Beneficiaries of the Personal Pension System?**

According to the State Council's the *Opinions on Promoting the Development of Personal Pensions*, "workers in China who participate in either the urban employee basic pension insurance or the urban-rural resident basic pension insurance are eligible to enroll in the personal pension system." While this regulation broadly permits participation for both groups, it remains ambiguous about whether they should receive equal treatment or differentiated policies.

Given the substantial disparities between urban employees and rural-urban residents in terms of both accumulated pension fund balances and pension benefit levels, the system should prioritize covering participants in the urban-rural resident basic pension insurance program to address systemic inequities.

## 2.2 What Are the Target Funding Sources for Personal Pensions?

To establish a personal pension system, a critical question is clearly where the funds will come from. However, the State Council's the *Opinions on Promoting the Development of Personal Pensions* does not specify what funds residents will use to contribute to or accumulate personal pensions. There seems to be an implicit assumption that once the institutional framework is in place, residents will naturally have the means and willingness to participate in personal pension savings—as if the mere existence of the system would magically generate both the funds and the motivation to save.

In reality, funding for personal pensions can only originate from three sources: household savings deposits, rural residents' expenditures on housing construction and vehicle purchases, and funds saved by residents through reduced current consumption from their income. The critical question lies in how to guide the allocation of funds from these three sources into personal pensions and determine the optimal allocation ratios—a topic that warrants careful analysis.

## 2.3 What operational model does the personal pension system adopt?

Regarding the investment methods for the personal pension fund accounts, the State Council's the *Opinions on Promoting the Development of Individual Pensions* stipulates, "Funds in individual pension accounts shall be used to purchase qualified financial products that are operationally safe, mature and stable, standardized in underlying assets, and focused on long-term value preservation, including bank wealth management products, savings deposits, commercial endowment insurance, publicly offered funds, and other products catering to diverse investor preferences". As for the operational mechanisms and administrative frameworks for personal pensions at the national policy level, the document does not address this aspect.

When exploring operational models for the personal pension system, the critical question lies in whether to design standardized portfolio options for participants to select based on their preferences, or to develop customized models directly tailored to the specific needs of distinct target demographics. It is highly probable that directly tailoring models to cater to the preferences of distinct demographic groups yields more effective outcomes.

## 2.4 What measures can take to attract Beneficiaries to enroll in the system?

To encourage target beneficiaries to participate in the personal pension system, efforts should focus on two key aspects: implementing fiscal subsidies and tax incentives, and enhancing public awareness campaigns. Regarding fiscal subsidies and tax incentives, differentiated measures should be tailored to specific cohorts: subsidy-sensitive groups should receive direct financial support, while tax-sensitive groups should be offered preferential tax policies.

### **3 The Dual-track Policy Design of China's Personal Pension System**

The implementation of China's personal pension system has fallen short of expectations over the past two years since its launch, primarily due to inadequate public understanding of the four issues discussed above. Building on the author's comprehension of these four key challenges, this paper proposes a dual-track model that designs differentiated operational approaches for different demographic groups within the personal pension framework.

#### **3.1 A state-owned personal pension fund investment company shall be established to serve participants enrolled in urban-rural resident basic pension insurance.**

The individuals under the urban-rural resident basic pension insurance are those who are neither staff members of state organs nor public institutions, primarily consisting of urban residents without stable employment and rural inhabitants. This group features low-income levels and limited capacity for self-supported retirement. While participating in the first pillar (the basic urban-rural residents' pension insurance), they remain excluded from the second pillar coverage (enterprise annuities and occupational pensions), thereby forming a critical protection gap in China's multi-pillar pension system. Moreover, these insured individuals generally demonstrate lower educational attainment and lack essential knowledge regarding retirement investment planning.

In light of the aforementioned characteristics, when establishing the personal pension system, China should set up specialized state-owned personal pension fund investment companies to manage the investment operations of personal pension funds of individuals enrolled in urban-rural resident basic pension insurance. The funding sources could consist of three components: a portion from their savings deposits, a portion from funds originally earmarked for housing construction or vehicle purchases that have been redirected, and another portion from savings accumulated through reduced current consumption.

After pooling these funds, state-owned personal pension fund investment companies could allocate them to national key projects to obtain long-term stable returns. These state-owned companies should commit to providing participants with a minimum fixed investment return rate that exceeds the concurrent bank deposit interest rates. Simultaneously, regarding policy incentives, in addition to offering tax benefits on investment returns for participants, proportional fiscal subsidies should be provided based on their contribution amounts. This dual approach ensures participants can "gain benefits from the state" through their enrollment, thereby enhancing the motivation of individuals under the urban-rural resident basic pension insurance to participate in personal pension investments.

### **3.2 A certification system for commercially-operated personal pension fund investment institutions shall be implemented to serve participants enrolled in urban employee basic pension insurance**

The individuals under the urban employee basic pension insurance are those employed by urban government agencies, enterprises, and public institutions. During their working years, they earn relatively stable incomes and accumulate a certain level of wealth. After retirement, they receive a steady pension, ensuring their basic living needs are generally met. Additionally, these individuals typically have higher education levels, and many possess experience in pension investments, enabling them to independently make informed choices regarding personal pension savings insurance and commercial endowment insurance plans.

In light of the aforementioned characteristics, a commercialized operational model through personal pension fund investment companies could be adopted for individuals under the urban employee basic pension insurance. However, to facilitate informed choices and safeguard their investment rights and interests, it is essential to implement both a rigorous certification system and periodic evaluation mechanisms for qualified personal pension fund investment institutions, given that pension investments typically span multiple decades. Concurrently, professional skill development and occupational ethics education should be mandated for practitioners in commercial personal pension fund investment companies.

The individuals under the urban employee basic pension insurance may allocate their savings deposits and deferred consumption expenditures to certified commercial pension fund institutions for market-oriented investment operations. These institutions may aggregate capital through specialized instruments such as dedicated pension savings accounts, exclusive pension insurance products, targeted pension bonds, and customized pension funds. Participants retain autonomy in selecting investment institutions and products according to their risk-return preferences. Regarding policy incentives, a tax incentive framework should primarily focus on investment returns, applying differentiated tax treatments based on varying returns. This system must ensure tangible benefits for participants through concrete tax advantages, thereby enhancing their motivation to participate in personal pension investment programs.

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