Pension Finance: How to Meet Diverse Needs in the Silver Economy?[1]

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I. A Human-Centered Retirement Finance System

Liu Lina: Currently, China's pension security system is at a crossroads, facing both "immediate concerns" and "long-term worries." In the short term, much attention is on the gaps between contributions and expenditures. In the long term, the issue of intergenerational imbalance is also looming large. I hope this roundtable will facilitate an in-depth discussion on how China should respond to an aging society.

We'll start with a discussion on retirement finance policies. The first speaker is Zhang Xiaohui, who has long worked at the central bank and participated in the formulation of many important policies, including the top-level design of retirement finance.

The Central Financial Work Conference proposed "five major tasks," one of which is retirement finance. In recent years, China has introduced many major policies in the field of retirement finance, including developing the third pillar of private pensions, and strengthening support for the financial pension industry. Comparing China's retirement finance system with those in other countries and domestic pension needs, are there still gaps to be filled in China retirement finance system after all these years of efforts? Has a comprehensive retirement finance system been fully established?

Zhang Xiaohui: Pension finance is an issue that everyone pays attention to because young people have elderly family members, and older people nearing retirement are even more concerned about it. Currently, the Chinese society is steadily aging. By international standards, a society is considered to be moderately aging when the population aged 65 and above accounts for more than 14% of the total. According to data from the seventh national census by the National Bureau of Statistics, as of the end of 2023, the population aged 60 and above in China was 297 million, accounting for 21.1% of the total population, while the population aged 65 and above was 217 million, accounting for 15.4% of the total population. These figures indicate that China has indeed entered the stage of a moderately aging society. In this context, everyone is very concerned about their living conditions and financial services for the rest of their lives.

Last year, the Central Financial Work Conference proposed "five major tasks," one of which is retirement finance, which brought further attention to the issue. Over the past two years, China has introduced many policies regarding the top-level design of private pensions, and the private pension scheme has been piloted in 36 cities and regions. This marks the establishment of China's "third-pillar" pension system,

1 The transcript was edited CF40 Secretariat and reviewed by the speakers.

which has been continuously improved through trial-and-error.

Although everyone is concerned about retirement finance, their focus differs. For a long time, most people have paid more attention to where the "money" for pensions comes from, including how to build the "three pillars," raise the amount of capital in private pension accounts, and preserve and then increase the value of the pension savings through asset management. The focus has been on "money." Indeed, the huge pension gap we face today must be taken seriously and addressed. However, in my view, while "money" is certainly a very important aspect of retirement finance, money alone is far from enough. To do well in "retirement finance," in addition to pension finance and finance for the eldercare industry, we must also include retirement services finance. These three sectors are indispensable. Dr. Gao Shanwen mentioned that the ultimate goal of all economic activities is people, which also holds true for retirement finance. The essence of finance is service, and the ultimate target of this service is mainly people. People need financial services at every stage of their life cycle, and good financial services should be able to meet and cover the needs of different life stages.

As we gradually transition to a moderately aging society, we face a continuous stream of challenges. A moderately aging society has several notable characteristics. The first important characteristic is "longevity." Data recently released by Beijing show that the average life expectancy of Beijing residents has risen from 81.35 years in 2012 to 82.51 years in 2023, indicating considerable longevity. However, accompanying longevity is a decline in cognitive and mobility abilities. The second important characteristic is the "empty-nest" phenomenon. Children are not around, and there is no family to help manage finances and make financial decisions. The third important characteristic is a lack of financial literacy. Financial risks such as fraud and economic abuse targeting the elderly are increasing day by day.

The combination of such health and financial risks has led to new demands for financial services among the elderly. This means that in the post-retirement life cycle, they not only need help from a financial planning perspective to achieve a long-term and short-term mix of multi-asset allocation, but they also need someone to consider the effective management and orderly inheritance of their accounts and property in advance for the time when they may lose physical or cognitive abilities. All of this requires and compels financial institutions to adopt a "people-centered" approach, strengthen research and provision of pension finance based on the new needs of the elderly population, deepen supply-side reform of retirement financial services, and provide tailored "all-in-one" financial services for the elderly population. In summary, the focus of retirement finance should not only be on "money," but gradually shift back to "people."

II. Interpreting the Policy on Delayed Statutory Retirement Age

Liu Lina: Retirement finance should indeed be "people-centered," but in the narrow sense, retirement finance is more about "money." Currently, China's financial services for the pension industry have a number of shortcomings. On a more specific issue, the 20th Central Committee's Third Plenary Session proposed to "advance reform to gradually raise the statutory retirement age in a prudent and orderly manner in line with the principle of voluntary participation with appropriate flexibility." This issue has attracted significant attention. Professor Zheng, you've done extensive research on retirement finance, could you interpret the policy on delayed retirement for us?

Zheng Bingwen: First, China is rapidly aging, but the Chinese workers retire much earlier than those in developed countries. When the People's Republic of China was founded in 1949, the life expectancy for newborns in China was 35 years (44.6 years according to UN data). As of August 2024, the average life expectancy for newborns in China has increased to 78.6 years (according to statistics from the National Health Commission). It is expected that by 2035, the average

life expectancy for newborns in China will further increase to 82.8 years (according to UN data). In 1949, the average remaining life expectancy for people aged 60 in China was 11 years. By 2023, it had increased to 22 years, and by 2050, it is expected that the average remaining life expectancy for people aged 60 will be 25.8 years.

In developed countries, retirement typically occurs at 65 years of age, with some countries gradually moving towards 67. For example, the U.S. is implementing a gradual reform. This year, the retirement age is 66 years and 6 months, next year it will be 66 years and 8 months, the year after that, 66 years and 10 months, and by 2027 it will be 67 years. Japan and Germany are also transitioning from a retirement age of 65 to 67.

In contrast, the retirement age for male employees in China is 60, for female workers it is 50, and for female officials it is 55. Considering that the number of female officials is small, if we disregard this group, the average retirement age for men and women is around 55 years. This is at least 11 to 12 years earlier than the statutory retirement ages of 66 or 67 in the U.S. and Japan, a very large gap.

Second, let's interpret the "delayed statutory retirement age" policy. For more than a decade, central documents have briefly mentioned delaying retirement, but this year, the resolution adopted at the 20th Central Committee's Third Plenary Session proposed to "advance reform to gradually raise the statutory retirement age in a prudent and orderly manner in line with the principle of voluntary participation with appropriate flexibility," which carries significant implications.

The first point is that it is the first time the "the principle of voluntary participation with appropriate flexibility " has been mentioned. This phrase did not exist before and is newly added. What does it mean? My personal understanding is that many countries have already implemented flexible retirement systems. For example, the statutory retirement age in the U.S. used to be 65, but citizens have the right to retire two years earlier at the age of 63, a free choice supported by law. On the other hand, if a citizen chooses to retire at 63, the pension will also be slightly lower, which is the so-called "flexibility" principle. Since there is flexibility, it must be voluntary, giving participants the right to choose. Therefore, voluntariness and flexibility are closely linked.

The second point is the continued emphasis on the "gradual" principle. China proposed the gradual delay of the retirement age as early as seven or eight years ago, and this time the understanding of this concept is further deepened. Considering the current family burdens of childbirth, child-rearing, and eldercare, as well as household economic conditions, the gradual nature of this reform is likely to become more pronounced. This fully reflects that the central government took into account the actual needs and circumstances of the public when formulating this policy. "Gradual" means that every country's situation is different. Since the announcement has already been made at the 20th Central Committee's Third Plenary Session, a specific plan will likely be introduced soon (Editor's note: On September 13, Xinhua News Agency was authorized to release the "Decision of the Standing Committee of the National People's Congress on Implementing the Gradual Delay of the Statutory Retirement Age," which clarified that the reform would start on January 1, 2025[2]).

Third, whether delaying retirement will affect employment is a matter of great concern. My answer is that it will not have an impact, as demonstrated in the following ways.

First, delayed retirement in the public sector is "lowly correlated" with overall employment. China has 40 million public sector positions. If everyone competed for public sector jobs, delaying retirement would

2 Starting from January 1, 2025, the statutory retirement age for male employees will be delayed by one month every four months, gradually extending to 63 years. For female employees whose original statutory retirement age was 55, the retirement age will be delayed by one month every four months, gradually extending to 58 years. For female employees whose original statutory retirement age was 50, the retirement age will be delayed by one month every two months, gradually extending to 55 years old.

indeed affect employment. But in reality, in 2024, only 39,600 people were hired in government agencies and public institutions, while the number of graduates reached 11.76 million. This means that out of 100 people, only 0.34 could obtain public sector jobs. In this situation, the pace of delayed retirement in the public sector is very slow, with only a few months added each year, and it takes several years to delay the retirement by one year. Furthermore, with the addition of the "voluntary and flexible" principles, the impact of delayed retirement on the proportion of graduates entering public sector jobs each year is very small, and its effect on overall employment is almost negligible. Even the minimal impact will be diluted over the gradual increase in the retirement age, especially in the first four years when there is almost no effect, and any impact will have very low correlation.

Second, delayed retirement in the private sector is "uncorrelated" with overall employment. In the 1990s and 2000s, Greece's retirement age was 60, but its unemployment rate ranged from 12% to 20%. Meanwhile, during the same period, the U.S. had a retirement age of 65, but its unemployment rate was only around 5%. This shows that there is no correlation between the retirement age and unemployment rate.

Twenty years ago, we could not predict the emergence of so many new industries, nor could we foresee that these new industries would provide employment for hundreds of millions of people. Therefore, delayed retirement in the private sector is unrelated to employment. The private sector absorbs the vast majority of graduates every year, serving as the primary employer for graduates, and the positions freed up in the public sector each year are negligible in comparison.

Moreover, the development of the private sector and its ability to absorb graduates primarily depends on economic growth. Therefore, the ultimate determinant of employment is economic development. If the economy does not grow, even lowering the retirement age will not prevent the rising of unemployment rate. This is the empirical analysis of the correlation between the statutory retirement age and unemployment rate, and past employment data support this conclusion, as neither China's nor the U.S.'s retirement age has changed significantly in the past.

III. International Experience in the Design of Pension Contribution Systems

Liu Lina: It is important to objectively consider major policies. The background of delaying retirement is the pension revenue and expenditure gap, which has also garnered significant attention. The National Council for Social Security Fund is the largest basic pension investment institution in China and has consistently demonstrated excellent performance in preserving and increasing value. Currently, gaps in China's first, second, and third pension pillars seem unavoidable. I would like to invite Ms. Jin Luo to discuss the international experience in the design of pension contribution system.

Jin Luo: Pension finance is an important part of retirement finance, primarily involving two aspects: the institutional arrangement for raising pension contributions and the asset management of pension funds. Today, I will mainly share international experiences in the design of pension contribution systems.

Population aging is a global issue, and the continuous deepening of aging combined with increased life expectancy has significantly raised pension expenditure in various countries. This necessitates continuous reform and improvement in pension system design. Overall, two clear trends have emerged:

The first trend is the shift from single-pillar to multi-pillar systems, particularly by increasing the share of the second and third pillars. In the early stages of pension system development, most countries relied primarily on the first pillar (state pension) to provide retirement security. However, under the pressure of ensuring the sustainability of pensions, many countries are now encouraging the development of occupational pensions (the second pillar) and private pension plans/

savings (the third pillar). The goal is to expand the proportion of the second and third pillars and build a multi-pillar pension system.

This multi-pillar model has become the general choice for most countries. Among the top seven pension countries (those with the largest pension assets globally), excluding Japan, the proportion of second and third pillars is quite high. For example, in the U.S., Canada, and the UK, the second and third pillars account for 92%, 87%, and 97% of total pension assets, respectively. In OECD countries, these two pillars account for an average of 89%. Currently, in China, the second and third pillars account for approximately 42% of total pension assets, suggesting significant room for growth.

The second trend is the shift from defined benefit (DB) to defined contribution (DC) plans. Based on how pension amounts are determined, pension schemes can be categorized into two types, DB and DC. Under a DB scheme, both the income and expenditure of pensions are managed in a "pooled account." The amount received by retirees is determined based on factors such as years of service and job position. Under a DC scheme, employees' contributions are deposited into individual accounts, and the assets in these accounts are invested in the market. The amount of pension received upon retirement is determined by the employee's contribution (more contributions lead to higher pensions) and the actual performance of the personal account investments.

Most countries initially adopted the DB model, which operates on a pay-as-you-go basis without seeking high fund accumulation. However, since the 1990s, an increasing number of countries have adopted the DC model. Over the past decade, the proportion of DC plans among the top seven pension countries has risen from 37% to 58%. Countries like Australia, the U.S., the UK, and Canada have all seen an upward trend in the share of DC plans. In particular, the U.S. and Australia have a high proportion of DC pensions, at 67% and 88%, respectively. Even countries like Japan and Canada, which have a tradition of DB pensions, are gradually transitioning towards DC plans.

Currently, China's pension system is still predominantly DB-based, with DC plans accounting for a very low proportion. It is important to note that the design of pension systems should consider multiple factors, such as coverage, gender equality, benefit adequacy, management efficiency and cost, financial sustainability, and actuarial balance. There is no one-size-fits-all model for pension systems, and each country should tailor its system based on its specific circumstances and dynamically adjust it to meet the increasingly severe challenges posed by an aging population.

In summary, China can learn from international experiences by gradually increasing the share of its second and third pillars and considering a shift towards a more DC-based pension system while addressing the unique challenges it faces in terms of demographics and economic structure.

IV. What Can Securities Companies Do to Better Provide Pension Financial Services in the Future?

Liu Lina: The multi-pillar development and more flexible, diversified payment methods are the new trends of the pension system in the future. These trends present many new challenges for institutions involved in retirement finance. Could you, Mr. Liu Zhihui, President of Industrial Securities, share how a securities company can contribute to pension financial services?

Liu Zhihui: Retirement finance is divided into two areas: pension asset management and the development of the eldercare industry. For micro-level business practitioners and people approaching retirement age, the key questions are: where will the money come from, and will there be enough?

In terms of pension asset management, first, let's look at the "three pillars" of China's institutional pension system. The first pillar has achieved near-universal coverage, but it also faces spending pressure. The second pillar has a penetration rate of only 6%, but it has taken initial shape. Since the third pillar was piloted

in 2022, it has been steadily expanding.

In addition to institutional pensions, there are numerous social pension funds in China that require wealth management. Securities companies can offer specialized services for managing these pension funds. First, securities companies have strong industry research capabilities and have established close relationships with social security funds and pension asset management companies. Second, fund companies have robust expertise in professional investment management, which can assist both institutional and non-institutional pension funds in preserving and growing assets through multi-layered capital markets. Third, as asset creators, securities companies can offer a wide range of investment options for pension funds, including securities, investment banking assets, and alternative assets. This highlights the role that securities companies can play in pension wealth management.

In terms of finance for the eldercare industry, the investment cycle for the eldercare industry is long, requires substantial capital, and carries high uncertainty in returns. Currently, the primary funding sources for China's eldercare industry come from government budgets and insurance funds. In this regard, securities companies can utilize innovative financing tools such as ABS (asset-backed securities), REITs (real estate investment trusts), and special bonds to further activate the asset-heavy eldercare industry.

Furthermore, smart eldercare companies, which focus on technological innovation, often operate under an asset-light model, requiring significant R&D investment and having long development cycles with high uncertainty. These companies urgently need support from capital markets. As important intermediaries for direct financing, securities companies can leverage their investment banking, investment, and research synergies, as well as their asset pricing experience, to create favorable conditions for these smart eldercare companies to raise capital and enter the capital market.

In terms of investor education and social responsibility, securities companies have an undeniable responsibility to make full use of their institutional networks and technology to vigorously promote investor education and pension financial advisory services. This will help raise public awareness, understanding, and participation in private pension plans and pension products.

V. How Can Insurance Companies Promote Personal Pension Accumulation?

Liu Lina: Recently, new retirement finance licenses have been issued in China, and there are nearly 10 specialized pension insurance companies that have rapidly developed in areas such as corporate annuities. I would like to invite Mr. Li Jing, Deputy General Manager of Changjiang Pension, to share insights from the perspective of insurance companies.

Li Jing: The concept of pension insurance companies is not entirely new. China's first batch of pension insurance companies were approved between 2004 and 2007. Over the past decade, most of these companies have focused on managing and operating the second pillar of pensions (corporate annuities).

Comparatively, China's multi-layered, multi-pillared pension system was established later than in many other countries. The coordinated management of the first pillar began in 1998, just under 30 years ago. The second pillar began operations in 2005 and has been developing for around 20 years, while the third pillar (private pensions) has only been in existence for two years. This indicates that institutional pension accumulation in China is relatively insufficient.

However, on the other hand, Chinese citizens have a strong tradition of saving for retirement. Cultural shifts have led to a transition from relying on "children for eldercare" to "saving for retirement." Recent data show that the third-pillar private pension pilot has accumulated around 60–70 billion RMB, and according to data released two years ago by the China Banking and Insurance Regulatory Commission, the insurance

industry's pension-related reserves amount to around 6 trillion RMB, both of which can be counted as pension reserves. In addition, the People's Bank of China has reported earlier this year that total household savings have reached nearly 150 trillion RMB, a substantial portion of which is likely reserved for retirement purposes. It is clear that, in addition to institutional arrangements, Chinese citizens are actually making personal preparations for retirement.

To further promote pension accumulation, we must address three key structural issues. The first is the structural issue across different income groups. Low- and middle-income groups often struggle to meet current consumption needs, resulting in insufficient pension accumulation. Many flexible workers lack the financial capacity to contribute to basic pension insurance. Policy guidance is essential here. We need to expand and solidify the coverage of basic pensions, and introduce new policies for emerging forms of employment. Europe's approach, such as Germany's Riester Pension Scheme, which uses small government subsidies to encourage private pension contributions, offers valuable lessons.

The second is the structural issue in personal asset allocation. Middle- and high-income groups often have some savings for retirement but may face issues related to how their assets are allocated. These issues may involve the duration, liquidity, and risk-return profiles of different asset classes. A large portion of personal assets is often tied up in savings. When the personal pension system was first introduced, the most popular products were savings accounts and mutual funds, with investors favoring either low-risk or high-return options. The government should introduce policies and schemes to guide individuals toward better asset allocation by expanding the coverage of the second pillar, promoting the third pillar, and offering diversified financial products tailored to different needs.

The third is the structural risk associated with large expenditures. Even if the elderly have sufficient wealth for daily living, they still face the risk of large expenses from major illnesses or disability-related long-term care costs. Insurance products can help mitigate these financial risks, offering protection against sharp increases in expenses resulting from health issues. The insurance market needs to pay more attention to these areas. Elderly medical insurance and long-term care insurance need to be accumulated over time and should be introduced early in life, rather than waiting until retirement. The Financial Regulatory Administration has already urged the insurance industry to think about how to connect life insurance products with long-term care services.

In summary, the key to promoting personal pension accumulation lies in addressing these structural issues through appropriate policies and tailored financial products. By doing so, we can guide individuals to better focus on their personal pension savings.

VI. Leveraging Banks' Strengths to Improve the Provision of Retirement Services Finance

Liu Lina: Ms. Zhang Xiaohui, you mentioned that the current supply of retirement finance is insufficient and lacks a "people-centered" spirit. Could you share your thoughts and suggestions for advancing financial supply-side reform, focusing on the needs of the elderly?

Zhang Xiaohui: Among the three major sectors of retirement finance, the biggest shortfall lies in retirement services finance, which needs significant improvement.

With advances in information technology, especially fintech, traditional banking has been severely impacted, and business opportunities are shrinking. However, this also provides the necessary conditions for developing retirement services finance. Data shows that in 2013, the average share of bank transactions completed off the counter was 63.23%. The number rose to 89.77% by 2019. This indicates that most banking operations can be handled through mobile phones or computers, without needing to visit a branch. Additionally, from

2017 to 2021, China's four largest state-owned banks (ICBC, ABC, CCB, and BOC) reduced their workforce by 50,000, though they still employ over 1.5 million people.

Against this backdrop, with increasing economic downward pressure and a decline in effective loan demand, the growth of traditional banking businesses such as loans, deposits and payments has slowed, and banks must find new avenues to make up for lost revenue. Meanwhile, there is a huge untapped opportunity in retirement services finance. The large workforce within banks can be redirected to improving the quality of life for elderly individuals, partly addressing the pension funding gap.

Since all major financial events are closely tied to bank accounts, commercial banks are in a prime position to fill the gap in retirement services finance. Banks can offer services such as account authorization, notarization, third-party arrangements, and account monitoring for elderly individuals with cognitive impairments. For those with disabilities, banks can provide digital accounts, account authorization, joint accounts, account monitoring and more. For deceased clients, banks can assist with inheritance and financial matters. However, at present, financial services for elderly individuals in China are not adequately tailored to timely and effectively meet customer needs, and there is still a significant mismatch between supply and demand. Moving forward, banks should use private pension accounts as a foundation, integrating banking, asset management, insurance, and non-financial services like health care, eldercare, and legal consulting. By pooling resources across the eldercare service industry, banks can create a comprehensive financial service system that covers various eldercare products and services horizontally, and life-cycle planning vertically. The focus should remain on improving the living standards of elderly customers by providing easy-to-understand, full-life-cycle financial planning, ensuring financial clarity on critical life events such as aging, illness, and death.

China has already entered a moderately aging society, and as we move into an era of increased longevity, health and eldercare will become major public concerns and significant economic drivers. Retirement finance, particularly retirement services finance, will undoubtedly play a vital role in the future.

VII. How to Cultivate Long-term Capital and Encourage Personal Pension Account Contributions

Liu Lina: There has been increasing calls for more pension funds, insurance funds, and other long-term and patient capital to provide stable investments in capital markets and technological innovation. However, in recent years, the role of such long-term funds hasn't been fully realized. What issues have prevented them from playing this role, and how can we tackle them?

Jin Luo: "Long-term capital" and "patient capital" have indeed become quite the buzzwords lately. Pensions and insurance funds are naturally suited to play this role, but several factors constrain their ability to invest for the long term. One of the key issues is performance assessment. Performance evaluations are like a "steering wheel," and without proper mechanisms, long-term and patient capital cannot fully play their part. There are two main problems with current performance assessment.

The first problem is the short-term focus. Pension funds are generally managed by market-selected managers, but their performance is often evaluated annually, sometimes even quarterly or monthly. This encourages short-term thinking. Moreover, instead of using rolling returns over three, five, or more years, performance is often based on annual profits or short-term gains.

The second problem is the lack of a sound mechanism to allow for due diligence exemption. Equities can provide good long-term returns, but it is hardly possible to guarantee positive returns for every single project, especially when investing in private equity or venture capital. In many cases, a portfolio's overall success relies on a few high-return investments.

However, external oversight often focuses on failed investments, raising questions about decision-making and sometimes assuming unethical behavior without considering market conditions. This lack of tolerance stifles long-term risk-taking.

These performance-related issues can cause investment institutions to succumb to short-term pressures, which amplifies risk in the capital market and prevents pension funds from capturing long-term returns. It also limits the allocation of pensions to equity investments, which, while volatile, are crucial for long-term growth. Without adjusting these mechanisms, pension managers may become overly risk-averse, lowering long-term returns.

That is why we advocate for a performance evaluation mechanism that aligns with the characteristics of long-term investments, so pensions can truly become long-term, patient capital. It's encouraging to see that steps are being taken in this direction. In 2021, China unveiled an action plan to guide the building of a high-standard market system, calling for increasing the equity investment ratio in pensions, insurance funds and other long-term capital, and implementing long-term performance evaluation. In November 2022, the China Securities Regulatory Commission issued the "Interim Provisions on the Administration of the Business of Private Pensions' Investing in Publicly Offered Securities Investment Funds", mandating a minimum five-year evaluation cycle for the performance of private pension investment funds and managers. I hope that similar long-term evaluation systems can be implemented effectively, so that pension funds, insurance funds, and other long-term capital can play their proper role in supporting the healthy development of the capital market and empowering technological innovation.

Liu Lina: Long-term incentives and patience are indeed crucial. Speaking of private pension accounts under the third pillar, there seems to be enthusiasm for opening accounts but less for making contributions. Although 60 million accounts have been opened, only 22% have deposits, with an average contribution of 2,000 yuan. What's your view on this issue?

Zheng Bingwen: First, we should recognize that the third pillar of China's pension system has only been in place for a little over a year, so it's still early days. Yet, with 60 million accounts opened, the participation rate among 16- to 64-year-olds in the 36 pilot cities is 22.6%, which exceeds the 20% seen in the U.S., where the third pillar has existed for 50 years. Globally, of countries that have established third-pillar pensions, the participation rate ranges from the low of 2% to the maximum of 100%. A high participation rate is a key success factor. In this regard, China's progress is already impressive.

However, there are many other severe issues. While 60 million accounts have been opened since China introduced private pension in November 2022, only 500 billion yuan has been contributed, far short of the expected 2 trillion yuan, or 12,000 yuan per year. The reasons for low contributions include economic downturns, income reductions, and consumption downgrades. But a major factor is the low returns on pension investments. Common sense dictates that people will invest in options that yield higher returns. Of the four products that could help save money for retirement—savings, bank wealth management, pensions and insurances, and public funds—many, excluding insurances and savings, have negative returns. People will continue to invest when they see positive returns. If not, they will instead place the funds into savings. Negative returns greatly affect people's willingness to contribute. If this continues, the third pillar will remain in name only.

To resolve these issues, reforms both within and outside the system are needed. Externally, capital markets must be strengthened. In a low-interest-rate environment, fixed-income savings and insurance products alone cannot provide attractive returns, and pension funds are locked in for decades, only accessible when a person reaches 60 years of age. Investors need confidence in the markets. Since last year, the central government has introduced many reforms to create a vibrant capital market and boost investor confidence, which is critical for building investor confidence in the third pillar.

Internally, the range of pension products needs to be expanded. Currently, there are only four types of products, leading to fierce competition, and we need more product innovation. Products with good returns, such as "Golden Sunset", China's largest and longest-standing collective annuity plan offered by Changjiang Pension Insurance, could be expanded to private pension accounts. I believe this is achievable at institutional reform level. Since historical returns of collective annuity plans over the past 20 years are highly attractive to investors, and it is also difficult to find investment products with higher returns on the market, with a small regulatory adjustment, we could allow more attractive products to be offered under the third pillar, boosting returns and encouraging contributions.

In addition, some traditional ideas need to be rethought. Before the new asset management regulations, bank wealth management products were short-term, averaging between 3 to 4 months, with guaranteed returns. Now, these products have been extended to one year and the returns are no longer guaranteed, which is a significant improvement. Before the new asset management regulations, bank wealth management products have fairly good yield rates. To help sustain the pension system, is it possible to allow for certain exemptions? President Bush created the National Commission to Strengthen Social Security in 2001 to help with the social security reform, and the UK introduced the Pension Protection Fund to protect people enrolled in DB pension schemes. It's clear that pension systems require protection and rescue when needed, and to do so, special measures are sometimes required. China has been preparing for the establishment of the "third pillar" since 2007, but did not began piloting the individual tax-deferred commercial pension insurance until 2018. However, as of last year, only 50,000 people participated. That's why the central government proposed the "regulated development of the third pillar", leading to the creation of the private pension system. The entire process was extremely difficult and has lasted for seventeen years. Currently, with the overall downturn in the capital market, we need some courage and dedication to make the right "breakthroughs" to save this system.

Furthermore, for certain large and medium-scale national projects, if the returns are good, could they also be offered as products for the third pillar? I believe they should be.

Regarding the issues of patient capital and long-term capital, there are only three sources of long-term capital: pensions, insurance funds, and endowment funds. Mutual funds are merely investment tools for long-term capital, which include sources such as insurance funds, pensions, and others. Compared with developed countries such as the U.S., China has very little long-term capital and patient capital. However, without long-term capital and venture capital, there will be no technological innovation, and China will lose its foothold in the 21st century. Therefore, we must rely on government guidance funds and use public finances to leverage social capital. But the current problem is that, on one hand, fiscal revenue continues to dwindle, making public funding even more difficult. On the other hand, social capital is also becoming increasingly hard to leverage.

VIII. How to Improve the Competitiveness of Pension Products?

Liu Lina: Regarding the issue of pension product returns, can you respond from the perspective of public funds?

Liu Zhihui: At Industrial Securities, we attach great importance to the development of pension finance, seeing it as both a political and social responsibility. We've made substantial efforts in this regard and gained some first-mover advantages in the industry. Our subsidiary, AEGON Industrial Fund Management, currently leads the industry in pension fund scale, Y-share scale, and single fund Y-share scale. In addition to investment management, we also provide investors with professional support and diverse forms of investor education.

In practice, we have observed two major issues with pension asset management:

On the investment or investor end, there are "Three Lows and Three Nots." Three Lows: Low proportion of people making contributions (less than one-third), low average contribution amounts (less than 2,000 yuan), and low actual investment proportion (total investment is under 20 billion yuan, leading to a substantial funding gap). Three Nots: Not aware (many people are not aware of personal pension schemes), not informed (those who are aware often don't understand how to select suitable products or navigate the process), and not convenient (the purchase process is inefficient and inconvenient).

From the perspective of investment managers, the low enthusiasm for contributions is mainly due to poor returns. In recent years, with the capital markets in decline, pension fund returns are often lower than face value, making it difficult not only to expand but even to maintain or establish these funds.

To address these issues, I have a few suggestions:

First, the government should formalize the pilot program as soon as possible, increase tax incentives for personal pensions and broaden the beneficiary base to attract more participants. The number of personal income tax payers in China is around 65 million. I believe the government should further boost inclusiveness and expand the coverage of private pension accounts.

There are approximately 65 million individual income taxpayers in China, and we recommend further expanding the reach of private pension accounts to more people.

Second, establish a coordination mechanism between the three pillars of the pension system to facilitate smoother circulation.

Third, optimize products and promote global asset allocation. Drawing from the experiences of the U.S., Australia, and Canada, pension assets should be allocated globally to mitigate the risks of concentrating investments in a single region.

Forth, enhance the selection of social security fund managers nationwide. It's been over a decade since the selection system of social security fund managers has been updated. A more dynamic, market-oriented selection system should be established, along with a scientifically designed evaluation mechanism. This would allow fund managers with strong expertise and risk management capabilities to contribute more effectively to the preservation and growth of pension assets.

Li Jing: I'd like to add three points:

First, strengthen communication with clients. Our experience managing corporate annuities shows that clients have high expectations for performance benchmarks and rankings. To make pension products attractive, communication with clients is essential. Given pensions' unique characteristics, it is crucial to provide education and set reasonable expectations, especially for individual investors.

Second, pension products are essentially investment products, designed to help clients maximize returns that align with their risk tolerance, and should not be simply assessed based on whether the returns are good or bad. This requires all investment institutions to enhance their ability in scientific and prudent asset allocation. Since pensions are long-term funds, the key lies not in short-term market timing or stock selection but in long-term asset allocation, which is the path to achieving stable long-term returns. On the other hand, pensions have relatively lower risk tolerance and risk preference, making risk control capabilities crucial. Strong risk control abilities are also an important factor in enhancing the attractiveness of pension products.

Third, simplify product design. Pension products should be straightforward and easy to operate. Only then will more pension account holders be willing to understand these products and invest.

Liu Lina: While much has been done, there is still a long way to go in building a truly "people-centered" retirement finance system, and it will require the collective efforts of everyone involved.