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Research on the Development and Optimization of Pension Finance in China in the Context of Population Aging

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Abstract: Against rapid population aging and the expansion of the silver economy, pension finance has become an important mechanism for connecting retirement needs with financial resource allocation. This article examines China's pension finance from pension fund finance, elderly care service finance, and elderly care industry finance. It reviews the multi-pillar pension system, individual pensions, product diversification, and financial support for the silver economy. The analysis identifies uneven development among the three pillars, insufficient effective participation, weak links between financial products and long-term care, unequal access, and consumer-protection risks. It proposes stronger pillar coordination, lifecycle-oriented products, long-term asset allocation, integrated pension and care services, diversified industry financing, and improved digital governance.

Keywords: Pension finance; Population aging; Individual pension; Elderly care finance; Silver economy

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1. Introduction

From a broad perspective, pension finance refers to financial arrangements and services that support people in preparing for, managing, and consuming resources during old age [1]. Recent Chinese scholarship has emphasized that pension finance should not be reduced to pension insurance alone, but can be understood as an integrated arrangement covering pension fund finance, elderly care service finance, and elderly care industry finance. This broader perspective is useful because retirement security depends not only on the accumulation and distribution of pension assets, but also on access to healthcare, long-term care, housing, community services, and the financing capacity of elderly care providers.

The demographic foundation for this transformation is increasingly clear [2]. At the end of 2025, China had 323.38 million people aged 60 and above, accounting for 23.0% of the total population, while those aged 65 and above numbered 223.65 million, or 15.9% of the population. Population aging therefore changes both the quantity and the structure of financial demand. Households need longer retirement-income planning, greater

protection against longevity and health risks, and more flexible ways to convert accumulated financial assets into stable retirement consumption.

China has made substantial progress in extending the basic pension system and building supplementary pillars [3]. At the end of 2025, the number of participants in basic pension insurance reached 1.07599 billion. The second pillar, consisting of enterprise and occupational annuities, provides supplementary retirement income, but its participation remains much smaller than that of the basic pension system. Meanwhile, the individual pension system was implemented nationwide in December 2024, marking a further step toward a multi-pillar retirement-income system.

The policy environment has also moved toward a more comprehensive framework [4]. The State Council General Office identified pension finance as one of the five major financial fields and called for richer pension products and services, stronger support for the silver economy, and better protection of older consumers. In 2025, the National Financial Regulatory Administration issued an implementation plan covering pension funds, commercial pension finance, elderly care industry financing, services for older consumers, digital transformation, and financial supervision. The OECD describes China as having a multi-pillar pension architecture combining public, employment-related, and voluntary elements. Against this background, analyzing the structure and constraints of pension finance is necessary for improving its match with the needs of an aging society.

2. Conceptual framework and functional dimensions of pension finance

2.1. Pension fund finance

Pension fund finance concerns the accumulation, management, investment, and withdrawal of retirement assets. Its institutional foundation is the multi-pillar pension system, in which the basic pension system performs a core social protection function, enterprise and occupational annuities provide supplementary employment-related retirement income, and individual pensions encourage households to make additional long-term provisions. In financial terms, the central task is to transform contributions made during working life into a reliable income stream after retirement while managing investment, longevity, inflation, liquidity, and market risks.

The development of pension fund finance therefore requires not only larger pools of assets, but also more appropriate investment governance. Long-horizon pension liabilities are difficult to manage through short-term investment behavior. Pension institutions need asset allocation strategies that reflect age, retirement horizon, cash-flow requirements, and risk tolerance. At the same time, regulation must balance security and return, since excessively conservative investment may weaken the capacity of pension assets to preserve purchasing power over long retirement periods.

2.2. Elderly care service finance

Elderly care service finance links financial protection with the consumption of healthcare, nursing, home care, community care, and institutional care services. Typical instruments include long-term care insurance, health insurance, life insurance with care-related benefits, payment services, and financial products that help convert household wealth into retirement consumption. The importance of this dimension lies in the fact that retirement security is partly a cash-flow problem and partly a service-access problem.

Recent empirical evidence illustrates this linkage [5]. Studies using Chinese survey data have found that long-term care insurance can reduce health inequality associated with disability, can change the economic and

residential dimensions of elderly care patterns, and can affect family members' labor supply by reducing some of the informal care burden. These findings suggest that pension finance should be designed together with long-term care and health financing rather than treated as an isolated financial product category.

2.3. Elderly care industry finance

Elderly care industry finance focuses on financing the supply side of the silver economy. It includes bank credit, insurance protection, equity and debt financing, financial leasing, trust services, and investment in elderly care facilities, rehabilitation institutions, assistive devices, smart elderly care, and related businesses. Because many operators have long asset-recovery cycles and uneven cash flows, diversified financing channels are important for a resilient supply system.

3. Analysis of the current situation of pension finance in China

3.1. Development of the multi-pillar pension financial system

China's pension finance has entered a stage characterized by greater institutional completeness. The first pillar has achieved very broad coverage. The number of basic pension insurance participants reached 1.07599 billion at the end of 2025. This provides the main floor of retirement income and remains the most important source of old-age protection for the majority of residents. The second pillar, consisting of enterprise annuities and occupational annuities, plays a supplementary role and creates a channel through which employers and employees can accumulate retirement assets. However, the scale of enterprise annuity participation remains much smaller than that of basic pension insurance.

The third pillar has experienced the most visible institutional change in recent years [6]. The individual pension system moved from pilot implementation to nationwide implementation in December 2024. The tax treatment provides a deduction for contributions within the annual RMB 12,000 limit, temporarily exempts investment returns, and applies a separate 3% tax rate at withdrawal under the nationwide policy framework. From a financial architecture perspective, the key development is that individuals have a legally recognized, tax-supported account dedicated to long-term retirement accumulation.

3.2. Diversification of pension financial products and services

The national implementation of individual pensions has been accompanied by a broader product menu, including bank savings, wealth management products, commercial pension insurance, public funds, government bonds, specific pension savings, and index funds. Electronic savings treasury bonds were also incorporated into the individual pension product framework in 2026. China is therefore moving toward a more diversified product shelf that can serve different risk tolerances and liquidity needs. However, product diversity does not automatically produce effective pension preparation. The challenge is increasingly to improve participation quality, asset allocation, transparency, and long-term holding behavior.

However, product diversity does not automatically produce effective pension preparation [7]. Research has shown that the demand for individual pensions can be constrained by households' liquidity needs. Other research has also pointed to limitations in the current tax-preference design and differences in who can actually benefit from the incentives. The policy challenge is therefore shifting from simply expanding the number of products to improving participation quality, asset allocation, transparency, and long-term holding behavior.

3.3. Financial support for the silver economy and elderly care industry

Pension finance is increasingly connected with the silver economy beyond household retirement savings. The 2025 regulatory implementation plan explicitly supports bank credit for elderly care-related businesses, financing for age-friendly renovation and smart elderly care equipment, investment by qualified insurance institutions in elderly care and medical institutions, financing leases for medical and care equipment, and insurance coverage for elderly care facilities and related activities. This policy framework broadens the scope of pension finance from "saving for retirement" to "financing retirement-related services and industries."

The direction is consistent with China's developing silver economy. Elderly care demand includes home and community services, rehabilitation, assistive technology, nutrition, transportation, health management, and digital services, in addition to institutional care. Financial institutions can therefore act as capital providers, risk carriers, asset managers, payment intermediaries, and service integrators, creating opportunities for banks, insurers, funds, trusts, and leasing companies. **Table 1** shows the key developments in China's pension finance.

Table 1. Key developments in China's pension finance

Year	Key development and financial significance
2022–2026	China moved from individual-pension pilots to nationwide implementation and then toward a broader pension-finance framework covering pension management, silver-economy financing, consumer protection, digital governance, and diversified long-term savings products.

4. Problems in the development of pension finance in China

4.1. Imbalance among the three pillars

The most visible structural issue is the different stages of development of the three pillars [8]. Basic pension insurance has achieved very broad coverage, while enterprise annuities and individual pensions are at a different stage of participation and asset accumulation. Research on enterprise annuities indicates that the burden of basic pension contributions can affect enterprises' incentives and financial capacity to establish annuity plans. This means that expanding the second pillar depends not only on pension policy, but also on enterprise costs, employment structure, and administrative simplicity.

4.2. The gap between individual pension accounts and effective long-term investment

The creation of an individual pension account does not guarantee stable annual contributions or product choices consistent with the retirement horizon [9]. One reason is the conflict between long-term retirement saving and short-term liquidity needs. Tax incentives also have different effects across income groups, meaning that households do not benefit equally from the same policy design. Consequently, the third pillar still faces the challenge of moving from account opening to sustained contributions, appropriate investment, and eventual retirement-income use.

4.3. Weak matching between financial products and long-term care needs

Traditional pension products generally focus on retirement income, while the largest financial risks faced by older people may increasingly involve health expenditure, disability, and long-term care [10]. Existing evidence on long-term care insurance indicates that its effects can extend beyond medical reimbursement to health inequality, family labor supply, and elderly care patterns. However, the financial system still lacks a mature and widely integrated mechanism that converts retirement assets, health insurance, long-term care protection, and

actual care services into a coherent lifecycle arrangement.

4.4. Regional, income, and institutional access differences

Access to pension finance is not uniform across regions and groups. Large banks and leading financial institutions can deploy technology, investment management, and specialized teams at scale, while smaller institutions and local elderly care providers may have more limited financing and risk-management capacity. On the household side, the usefulness of tax deductions and long-term investment products varies with income, employment status, and existing participation in employer-sponsored schemes. These differences can reduce the universality of market-based pension finance unless product design and service channels are intentionally adapted to a wider set of consumers.

4.5. Consumer protection, information, and cross-sector coordination

Pension financial decisions involve long time horizons and products that may be difficult for ordinary consumers to compare. Risks can arise when product information emphasizes short-term returns while underexplaining liquidity, fees, investment risk, or long-term suitability. The regulatory framework therefore places increasing emphasis on risk disclosure, suitability management, protection of older consumers, and prevention of illegal financial activities. At the same time, pension finance increasingly crosses the boundaries of banking, insurance, healthcare, elderly care, and digital platforms. Without clearer data standards, contract arrangements, and responsibility boundaries, integration may increase rather than reduce operational and consumer risks.

5. Optimization paths for the high-quality development of pension finance

5.1. Improving coordination among the three pillars

The first priority is to treat the three pillars as complementary rather than isolated systems. Basic pension insurance should continue to provide broad and stable protection, while enterprise and occupational annuities should be made easier for more employers and workers to access. Research suggests that reducing unnecessary cost pressure can help create room for enterprise annuity development. In practice, policymakers can continue simplifying establishment procedures, improve portability across employment transitions, and strengthen education for small and medium-sized enterprises. For individual pensions, the focus should shift toward stable annual contributions and long-term asset growth rather than merely increasing account-opening numbers.

5.2. Building lifecycle-oriented products and long-term allocation mechanisms

Individual pension products should be organized around lifecycle needs. Financial institutions can use age, retirement horizon, income stability, and risk tolerance to construct differentiated portfolios rather than presenting consumers with a simple product shelf. The 2025 regulatory plan already encourages diverse products with different forms, maturities, and risk characteristics and supports investment advisory services. Building on this direction, institutions can develop transparent default strategies, target-date solutions, low-cost diversified funds, long-duration insurance products, and staged withdrawal plans. The objective is to reduce decision-making friction while preserving consumer choice.

5.3. Improving the linkage among pensions, health, and long-term care

A mature pension finance system should prepare not only for retirement income but also for the possibility of disability and long-term care [11]. Commercial insurers can continue to explore products that connect pension annuities with health and care benefits, while long-term care insurance can serve as a bridge between financial protection and actual care services. Evidence from Chinese long-term care insurance pilots supports the view that such schemes can affect health, family labor supply, and elderly care arrangements. Future reform should therefore encourage standardized assessment of care needs, clearer service responsibilities, and interoperable payment mechanisms among insurance, hospitals, community care, and home care providers.

5.4. Diversifying financing channels for the elderly care industry

Financial institutions should move from isolated project financing toward diversified financing for elderly care businesses. Bank credit can address working-capital and renovation needs; insurance investment and long-term funds can support suitable long-duration assets; financial leasing can finance care equipment; and equity or debt capital can support technology-intensive businesses. Policy tools and risk-sharing mechanisms can also support projects with clear social value but weaker collateral [12].

5.5. Strengthening digital infrastructure and consumer protection

Digitalization should improve pension planning rather than simply increase product marketing. Financial institutions can use data and artificial intelligence for customer segmentation, retirement cash-flow simulation, risk monitoring, and service personalization, subject to privacy and data-security requirements. The regulatory framework also calls for stronger information protection, actuarial research, pension risk databases, and governed data sharing across health, medical, and elderly care fields. Consumer protection should emphasize plain-language disclosure, suitability assessment, fee transparency, anti-fraud measures, and understandable comparisons of expected retirement income.

5.6. Improving tax and incentive design through precision

The tax framework for individual pensions should be evaluated according to who benefits, how participation changes, and whether it encourages sustained saving. Research suggests that tax preferences vary across income groups and may not fully solve participation problems. A more precise framework could strengthen incentives for groups with limited employer-sponsored pension coverage, simplify contributions and transfers, and improve retirement-income projections. Any adjustment should preserve fiscal sustainability and maintain a clear relationship between tax support and long-term retirement objectives.

6. Conclusion

Pension finance in China is moving from a narrow concept centered on pension insurance toward a broader financial system that connects retirement savings, pension asset management, health and long-term care protection, and financing for the silver economy. The demographic context makes this transformation necessary, while recent policy developments have provided an increasingly complete institutional framework. The nationwide implementation of the individual pension system, the expansion of pension financial products, and the 2025 high-quality development framework for banking and insurance show that China's pension finance is entering a new stage.

Nevertheless, the key challenge is whether pension financial products can provide sufficient, sustainable, and appropriately matched protection across the lifecycle. Future development should focus on coordination among the three pillars, deeper participation in enterprise and individual pensions, lifecycle-oriented asset allocation, stronger links with health and long-term care, diversified financing for elderly care providers, and higher standards of digital governance and consumer protection. This can help convert financial supply into more effective retirement security and stronger support for China's aging society.

Disclosure statement

The author declares no conflict of interest.

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