



# China, People's Republic of: Development of an Innovative Regulatory Approach for the Pillar III Pension System Amid Population Aging

Project Name	Development of an Innovative Regulatory Approach for the Pillar III Pension System Amid Population Aging	
Project Number	56077-001	
Country / Economy	China, People's Republic of	
Project Status	Approved	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 10024-PRC: Development of an Innovative Regulatory Approach for the Pillar III Pension System amid Population Aging	
	Technical Assistance Special Fund	US\$ 300,000.00
	Regional Cooperation and Integration Fund	US\$ 300,000.00
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Private sector development	
Sector / Subsector	Finance / Insurance and contractual savings	
Gender Equity and Mainstreaming	Some gender elements	
Description	<p>The knowledge and support technical assistance (TA) will provide the China Institute of Finance and Capital Markets (CIFCM), a policy research institute under the China Securities Regulatory Commission (CSRC), with technical support and institutional capacity development to formulate core recommendations for developing a capital markets and investment regulatory framework for a Pillar III pension scheme in the People's Republic of China (PRC). A pension system requires three pillars. Pillar I is a country's national pension scheme providing basic social protection to all citizens. Pillar II provides additional protection for the formally employed. Pillar III pension plans provide individual citizens further protection through more tailored, market-based options. Due to the rapid aging of its population, the PRC's Pillar I national pension, first formalized in 1991, will become unsustainable. Pillar II scheme, established in 2008, covers only about 5% of the population. The first two pillars leave a substantial coverage gap, but Pillar III individual pensions have not yet been established in the PRC. In this context, the proposed TA will support the preparation of a capital markets and investment regulatory framework that is central to the development of Pillar III.</p> <p>An improved pension system is aligned with the PRC country partnership strategy priority 3: "aging society and health security" through enabling broad based social protection coverage. The TA deliverables, by supporting advanced market-based individual pension system and capital market development, will also enhance regional cooperation and integration (RCI) through knowledge development, regional learning, and investment initiatives. Specifically, the TA's support for the development of market-based pension investment products and regulatory frameworks will be illuminating for other developing member countries (DMCs) of the Asian Development Bank (ADB). It will enrich opportunities for cross regional learning and knowledge sharing, including through platforms such as the Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS) programs. Related, the development of the individual based pension products will increase the depth and breadth of the capital market in the PRC, expanding opportunities for cross border financial flows between the PRC and regional DMCs.</p>	

**Project Rationale and Linkage to Country/Regional Strategy**

With more than 1.4 billion people, the PRC is the world's most populous country. A vast population dividend has contributed to the country's rapid ascent to its current position as the world's second largest economy. However, this population is also aging. The total fertility rate declined from about 6.0 children born per woman in the 1960s and 1970s to about 1.6 in 2022. The PRC formally became an aging society (as defined by the United Nations) in 2000, when the share in its overall population of people aged 65 and over exceeded 7%. The ratio grew to 14% (191 million elderly people) in 2020 and is expected to accelerate and peak at 33% (464 million) in 2058. This trend undermines the sustainability of the PRC pension system that is dominated by Pillar I national pension.

Pillar I is funded by government fiscal resources, including pension and tax contributions from the workforce. As the population ages, these contributions will dwindle as the current workforce contracts, and will eventually be insufficient to meet the growing pension withdrawals by the rising number of elderly people. If no changes are made, the PRC's pay-as-you-go system Pillar I national pension scheme would run out of funds by 2035. At the same time, PRC's Pillar II enterprise and occupational pension scheme provides only very limited coverage, primarily for civil servants and other public sector workers. About 75% of Pillar II pensioners are from state-owned enterprises. This is because private sector employers perceive the pension contribution as an extra financial burden and are not incentivized to contribute it. As a result, private business employees are often not covered by Pillar II. Self-employed and the workers in the informal and rural sectors are excluded. As of 2021, the PRC's Pillar II pension scheme had only about 70 million participants - about 5% of the country's overall population, and 6% of people 18 years of age or older.

To provide for a comprehensive pension coverage, the PRC government must establish a multilayered structure supported by the government, employers, and individuals. Currently, the PRC's lack of Pillar III individual pension scheme stands in stark contrast to international best practices, such as those adopted by the European Union, Japan, the United Kingdom, and the United States. In the United States, for example, pillar I national pension accounts for merely 7% of the total pension reserve. Pillars II and III, including the employer-sponsored 401(k) plan, account for 93% of total pension fund reserves, fully investable in the international and domestic capital markets. In the PRC, in contrast, Pillar I accounted for 69% of the total pension reserve. Pillar II accounted for 31% (footnote 3).

Under the current 14th Five-Year Plan (2021-2025), the PRC government has committed to developing a sustainable pension system based on the establishment of a Pillar III pension scheme and expansion of the financial markets. Pillar III complements the benefits and can make up for the coverage shortfalls of Pillars I and II. First, as a market-based instrument, Pillar III is sustainable. It shifts the financial risks from the government to individual pensioners and the capital markets. Second, Pillar III is more flexible than Pillars I and II. Participation in Pillar III pension is not restricted by such conditions as being formally employed or urban residency (Hukou) that has prevented some rural populations from accessing the enterprise and occupational pension. Third, Pillar III is flexible. Pensioners can suit their individual retirement needs by selecting from a range of available investment products. Finally, the flow of investments from Pillar III pension funds will help broaden and deepen the PRC's financial markets and contribute to the country's economic and social development.

To develop a functioning Pillar III pension scheme, the government needs to create and expand market opportunities for individuals to attract and convert their vast pool of savings into investments that will preserve created wealth and ensure long-term cash flows and benefits. However, the financial markets are complex, and investments carry risks. This requires a redesign of the existing policy and regulatory framework, particularly as it pertains to investments in pension portfolios covering equity and fixed income products (e.g., stocks, bonds, and mutual funds); insurance policies (e.g., life insurance and annuities); and bank savings (e.g., deposit). The objective will be to limit excessive risk and make pension investments suitable for long-term pension payouts. The policy and regulatory improvement should also include sufficient support to investment education that will help individual investors better understand the risks and returns, and such benefits as investment tax deferrals and deductions. Mutual cooperation and smooth communication among regulatory authorities could also be considered.

**Impact** A multi-pillared pension system established  
Social protection and elderly care system in the PRC improved

**Project Outcome**

**Description of Outcome** Regulatory framework for Pillar III pension scheme in the PRC developed

**Progress Toward Outcome**

**Implementation Progress**

**Description of Project Outputs** Capital markets and investment policy and regulatory framework for pillar III pension scheme prepared and submitted to CSRC for finalization  
Institutional capacity to develop a pillar III pension policy and regulatory framework enhanced  
Regional knowledge and exchange on policy and regulatory experiences in developing pillar III pension schemes improved

**Status of Implementation Progress (Outputs, Activities, and Issues)**

**Geographical Location** Nation-wide

**Summary of Environmental and Social Aspects**

**Environmental Aspects**

**Involuntary Resettlement**

**Indigenous Peoples**

**Stakeholder Communication, Participation, and Consultation**

**During Project Design**

**During Project Implementation**

**Responsible ADB Officer** Huang, Anqian

**Responsible ADB Department** East Asia Department

**Responsible ADB Division** Public Mgt, Financial Sector and Regional Coop Division, EARD

**Executing Agencies** China Institute of Finance and Capital Markets (CIFCM)  
China Securities Regulatory Commission

**Timetable**

**Concept Clearance** 27 Jun 2022

**Fact Finding** 01 Sep 2022 to 13 Sep 2022

**MRM** -

**Approval** 08 Dec 2022

**Last Review Mission** -

**Last PDS Update** 09 Dec 2022

## TA 10024-PRC

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
600,000.00	0.00	0.00	0.00	0.00	0.00	600,000.00	-	0.00

Project Page <https://www.adb.org/projects/56077-001/main>

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