On the Exploration of the Necessity and Strategies for Developing Elderly Care Finance in the Context of Population Aging

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Abstract: To explore the necessity and strategies for developing elderly care finance in the context of population aging, this paper examines the current state of elderly care finance development in China and its challenges. The results indicate that there are issues such as structural imbalances, lack of financial innovation, insufficient product development, and lagging financial literacy in the development of elderly care finance in China. To address these challenges, it is necessary to promote the balanced development of the three pillars of elderly care finance, innovate financial models for elderly services, enrich the levels and diversity of elderly care financial products, and enhance the dissemination of financial education. Ultimately, the goal is to establish a stable and inclusive elderly care financial system to effectively address the multiple challenges posed by population aging.

Keywords: Population aging; Elderly care finance; Labor force

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1. Introduction

As China gradually enters an aging society, elderly care has increasingly become a core issue of concern for the public and policymakers. The healthy development of elderly care finance is crucial for ensuring the quality of life for the elderly, maintaining financial market stability, and promoting sustainable economic growth. Currently, the elderly care industry is at a critical development stage within the framework of the "14th Five-Year Plan." However, the sector lacks sufficient investment and financing support from financial institutions, particularly from commercial banks and other key entities. In the face of these challenges, joint efforts from the government, enterprises, and financial institutions are required to improve policy frameworks, refine industry standards, integrate resources, and promote technological innovation. Leveraging financial technology and diversified financial tools to enhance support for the elderly care service industry is essential. These measures aim to establish a more stable and inclusive elderly care financial system capable of effectively responding to the multiple challenges posed by population aging.

2. Background of Elderly Care Finance Development in China

(1) Increasing aging population with a Gap to international levels

With the rapid socio-economic development in China, the issue of population aging has become increasingly prominent. Data from 2022 indicates that China's population aged 60 and above has reached 280 million, with those aged 65 and above accounting for 19.8% of the total population, far exceeding the initial aging levels of many developed countries. The proportion has surged from 7% in 2000 to 19.8% in 2022,

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marking China's swift transition from an aging society to a deeply aging society within just 22 years. However, compared to countries with earlier aging stages and more mature social welfare systems, China's per capita GDP and elderly care finance system remain inadequate. This situation of "growing old before getting rich" poses severe economic and social challenges for the country. It is projected that by 2060, the proportion of the elderly population will exceed 30.5%, and the elderly dependency ratio will reach 54.8%, placing immense pressure on economic growth and the labor market. Currently, China's pension expenditure accounts for less than 10% of GDP, far below the international average, and the pension replacement rate is only 37.4%, significantly lower than the International Labour Organization's recommended minimum standard of 55%. Overall, while China's degree of aging is rare globally, there remains a significant gap compared to countries with earlier aging stages and more comprehensive social welfare systems. In response to the economic and social challenges brought by aging, China needs to make greater efforts in building its elderly care finance system.

(2) Intensive rollout of elderly care finance policies, unlocking policy benefits

Since the founding of the People's Republic of China, the country's elderly care finance policies have undergone extensive and profound reforms, ensuring comprehensive coverage for various occupational groups in urban and rural areas and significantly enhancing the security of elderly life for all citizens. Particularly from the late 1990s to the early 21st century, the government launched pilot projects for individual tax-deferred commercial pension insurance, using tax incentives to encourage the public to accumulate funds for retirement. In April 2018, five major state departments issued the "Notice on Launching Pilot Projects for Individual Tax-Deferred Commercial Pension Insurance," marking the establishment of the third pillar of the individual pension system. During the "14th Five-Year Plan" period, the formulation of elderly care finance policies has become more frequent and detailed. The "Opinions on Promoting the Development of Individual Pensions" aimed to align the individual pension system with international standards and expand it from pilot regions to the entire country. Additionally, documents such as the "Notice on Regulating and Promoting the Development of Commercial Elderly Care Finance Business" have established basic rules for elderly care finance business, promoting the diversification and specialization of elderly care financial services. These measures provide a solid policy foundation and practical direction for enhancing financial security for the elderly.

3. Issues in the Development of Elderly Care Finance in China Amid Population Aging

(1) Imbalanced development of elderly care finance

Currently, China's pension finance structure faces significant structural imbalances. The first pillar, the basic pension, accounts for 78.2% of the entire pension finance system, putting immense pressure on its payment capacity. Although the basic pension was adjusted in 2019 to raise the pension standards for retirees, the annual adjustment rate has decreased over the past four years, reflecting increasing constraints on pension growth.

The sustainability of the first pillar relies heavily on continuous government subsidies, which in turn adds fiscal pressure. Meanwhile, the second pillar, occupational pensions, has developed slowly, with stark contrasts between less developed regions and cities like Beijing, Shanghai, and Nanjing. In terms of industry distribution, state-owned enterprises in sectors such as railways and petroleum have higher enterprise annuity coverage rates, while private enterprises show relatively low coverage. The third pillar, private pensions, has the slowest development, with the smallest coverage and funding scale among the three pillars.

To alleviate the pressure on the first pillar and balance the entire pension finance system, it is crucial to promote the development of the second and third pillars, achieving a diversified and sustainable pension system.

(2) Insufficient innovation in elderly care finance services**

Despite the increasing participation of commercial banks in the elderly care finance market in China, their product diversity and innovation remain insufficient. Compared to insurance companies, fund companies, and trust companies, commercial banks lag in developing specialized products for the elderly market, particularly in supporting wellness enterprises and retirement communities.

Furthermore, although the development of elderly care financial products has been rapid and the range of products continues to expand, there is severe product homogeneity, lacking specificity and innovation. Most existing elderly care financial products fail to fully meet the specific needs of the elderly, offering standardized services that do not align with their expectations for personalized and diversified services. Additionally, financial products tailored to the specific needs of the elderly are scarce, and their designs often fail to consider their lifestyle characteristics and needs, leading to underutilization of potential capital and resources. Most financial products on the market are aimed at younger consumers rather than the elderly, exacerbating the mismatch in elderly care financial services.

(3) Inadequate development of elderly care financial products

In China, current financial products on the market have not sufficiently adapted to the unique needs of the elderly. These products mostly remain within the realm of traditional finance, prioritizing financial institutions' profits over addressing the actual needs of the elderly or their long-term life planning. As a result, these products often fail to meet the expectations of the elderly for customized elderly care financial services, limiting the supply direction of the elderly care financial services market. Moreover, the development of elderly care financial services is still at a nascent stage and has yet to form a comprehensive service system covering elderly services, medical care, health, and retirement. Financial institutions show a noticeable lack of investment and innovation in designing exclusive services for the elderly population.

At the same time, the elderly face multiple limitations in their demand for elderly care financial products. Research indicates that China's retired residents primarily rely on bank deposit interest as their income source, with limited investment channels. Influenced by traditional conservative retirement concepts, the elderly exhibit low market acceptance of new value-added retirement products, further hindering the innovation and development of elderly care financial products.

(4) Lagging financial literacy in elderly care**

In China, the current state of elderly care finance faces two major challenges: firstly, the prevalent traditional retirement concepts hinder the development of modern elderly care finance. Most Chinese families still adhere to the notion of "raising children for old age," relying on their children for future retirement security. According to the "World Factbook Statistics" of 2022, although China's household savings rate ranks third globally, these savings are primarily allocated for children's education, property purchases, and medical expenses, with relatively little investment directly for retirement. This contrasts sharply with Western countries, where residents typically prefer independent retirement planning, with adult children living independently and parents focusing on their own retirement planning and savings. This cultural difference leads to insufficient motivation among Chinese residents for retirement savings.

Additionally, Chinese elderly people generally lack financial literacy related to elderly care. Many elderly residents are not well-versed in the financial market, relevant laws and regulations, or various financial products, resulting in information asymmetry that often makes them vulnerable to fraud when making financial decisions. Fraudsters often use complex financial terms like "private equity crowdfunding" and "angel investing" to mislead the elderly, trapping them in financial scams. Research shows that among all age groups, people aged 55 and above are the most susceptible to financial fraud, clearly indicating their weaker ability to recognize and prevent financial fraud.

4. Strategies for Developing Elderly Care Finance in China Amid Population Aging

(1) Promoting balanced development of the three pillars of elderly care finance

To foster the balanced development of a multi-tiered elderly care security system in China, particularly addressing the imbalance of the third pillar, specific measures need to be implemented to advance the three pillars concurrently. First, it is recommended to introduce a personal pension account system, establishing exclusive pension accounts for individuals participating in the third pillar and providing tax incentives to encourage more individuals to participate and accumulate pension funds. Second, it is essential to respect investors' personal preferences and risk appetites by introducing diversified investment options, allowing them to choose suitable investment products based on their financial situation and risk tolerance. Finally, a unified and inclusive system framework should be established to ensure that all participants, regardless of occupation or region, can enjoy the same tax benefits and participation rights under a unified regulatory platform, ensuring the system's fairness and efficiency. These measures will aid the healthy development of the third pillar while promoting the stability and sustainability of the entire elderly care finance system.

(2) Innovation in elderly care finance models

To stimulate innovation in the elderly care finance sector, financial institutions should implement a series of new strategies, starting with creating credit projects specifically designed for the elderly care service industry, formulating dedicated credit policies and management frameworks. This includes developing financial and credit products tailored to elderly clients, which not only meet their unique needs but also offer high security and good returns. For instance, introducing elderly care trust schemes that integrate investment and protection functions, not only protecting and increasing pension funds but also providing diversified services such as asset management and estate planning. Financial institutions should also optimize the pre-loan review process, improve review speed, and implement credit preferential policies and reduce financing costs to make services more convenient and efficient. Additionally, enhancing cooperation with insurance companies, funds, and banks can enrich the variety and quality of trust products, attracting more elderly people to actively participate in elderly care financial services. Adopting these comprehensive strategies will help expand the coverage of the elderly care finance market, increase its market appeal, and promote the development of the entire elderly care industry, providing more comprehensive and professional financial services to middle-aged and elderly groups.

(3) Promoting multi-level and diversified development of elderly care financial products

To promote the richness and diversity of elderly care financial products in China, it is essential to learn from international advanced experiences while considering domestic specifics to develop financial service solutions suitable for the elderly. For example, we can reference Western countries' long-term care insurance, reverse mortgages, and lifecycle funds, adapting them to Chinese family concepts and social habits. Particularly with sensitive financial products involving property rights such as reverse mortgages, innovation and cultural adjustments are necessary to better fit the domestic environment. Additionally, financial services should be adapted for the elderly, such as training financial institution employees in elderly-friendly services and upgrading and improving online financial service platforms to better align with the usage habits and specific needs of the elderly. The development of elderly care finance not only enriches and improves the traditional elderly care security system but is also a key part of the financial industry's supply-side structural reform, playing a crucial role in promoting the overall progress of the financial industry and the growth of the real economy. Therefore, through policy guidance, financial support, and financial education, we should build a multi-level, fully functional elderly care service system, ensuring financial security, enjoyment, and reliability for the elderly, creating a broadly beneficial, comprehensively developed elderly care financial environment.

(4) Actively promoting elderly care financial education by all social sectors

In the process of promoting elderly care financial education, the following two core issues should be emphasized by all social sectors. First, raising public awareness of retirement planning is crucial. With the prevalence of only-child families in China, more people will face the situation of preparing for retirement on their own. Therefore, educating the public on the necessity of preparing for their own retirement, beyond it being an optional supplement, becomes particularly important. Second, society should strengthen public vigilance against elderly care financial fraud. Many elderly people, due to a lack of sufficient financial knowledge and risk awareness, easily fall victim to illegal fundraising, commercial fraud, and information scams. To effectively address this issue, financial institutions can implement several measures to better serve middle-aged and elderly customers. First, setting up dedicated priority service counters to provide customized services, including offering wheelchairs, first aid facilities, and reading glasses, to meet some special needs of the elderly. Additionally, to help the elderly better understand financial products and services, financial institutions should produce simple and easy-to-understand educational materials, focusing on spreading financial knowledge suitable for the elderly. Using short video platforms to publish educational content can visually convey important information about financial security, such as common insurance misconceptions and essential precautions, enhancing elderly consumers' ability to prevent financial fraud.

5. Conclusion

In conclusion, elderly care finance involves not only the effective management of pension funds but also providing professional financial support for the elderly care industry. Looking to the future, to fully develop China's elderly care finance system, it is necessary to innovate elderly care financial products, expand the scope of elderly care financial knowledge dissemination, strengthen financial regulation, deepen the integration of elderly care finance with the real economy, and promote mutual development of the economy and society. Ultimately, enhancing international cooperation and sharing experiences, introducing global best practices in elderly care finance, and improving the overall efficiency of China's elderly care financial services will better meet the financial needs of the elderly amid population aging.

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