

## Give Full Play To The Role Of Commercial Insurance In Endowment Problems And Countermeasures

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### Abstract

Since 1999, China has begun to enter the aging society. In the future, China will face the threat of the rising elderly population and increasing proportion, which poses a severe challenge to the full pension payment. In the face of the serious situation of population aging pressure pension, the practice of many countries abroad is the way to establish the multi-pillar old-age security system, and our government have long been aware that the importance of establishing multi-pillar old-age security system, and in the country is sent [1991] no. 33 of the state council decision on reform of the endowment insurance system for enterprise employees in the proposed to build a contains the basic endowment insurance, enterprise complement endowment insurance and individual deposit sex endowment insurance, the three pillars of the pension system, change myself completely by the state and enterprise pension. Now situation about system construction in our country is the first pillar of social pension coverage has become saturated, the second pillar enterprise annuity and occupational pension development steadily, but the third pillar personal pension plan development for many years but real progress is slow, we can see that although the second level and third level endowment insurance has made certain progress, but the three levels of endowment insurance development is very uneven. The first tier is "one-company only", but it faces huge pressure from sustainability and substitution rate. The coverage of old-age insurance at the second level is very limited. For example, after more than a decade of development, the coverage of enterprise annuity is only about 7%, which cannot effectively play the due role of supplementary insurance. The proportion of the third level endowment insurance is very small, many policies are still in the pilot stage, and are not familiar to everyone, whether it can achieve results needs further exploration. Therefore, this paper mainly discusses the necessity of commercial endowment in China and puts forward Suggestions and opinions on how commercial insurance plays a role in the endowment.

### Keywords

Commercial insurance; Pension; Problems and countermeasures.

## 1. The concept and necessity of commercial insurance

### 1.1 Concept definition

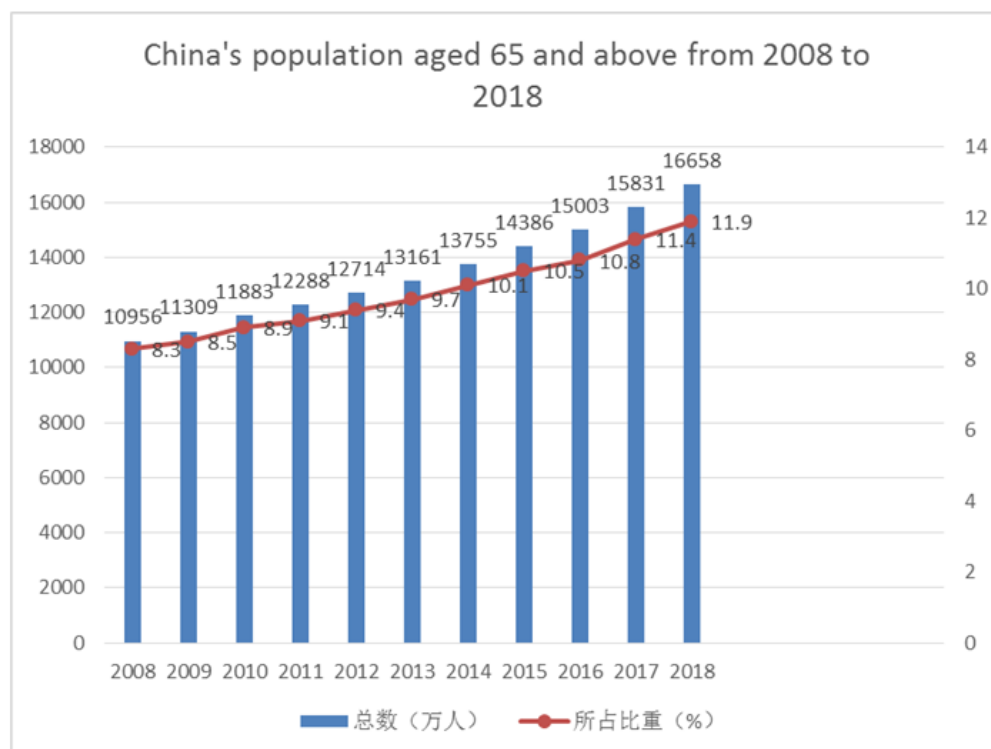
Want to study the effect that commercial insurance is in endowment, want to make clear above all the concept of commercial insurance, commercial insurance is to show party signs of one's own accord, by specific insurance company through signing insurance contract operation, insurance form is with gain for the purpose. Insurant pays insurance premium to insurance company according to the agreement, insurance company assumes the compensation liability that causes property loss because of the accident that may happen according to the agreement. Or when the insured dies, becomes disabled, falls ill or reaches the agreed age or time limit, he shall be liable for paying the insurance premium. It can be seen from his definition that commercial insurance is a contract voluntarily concluded by both the insurer and the insured, so how to make the parties voluntarily enter into endowment insurance with the insurance company will be the top priority in giving full play to the role of commercial insurance in the endowment insurance. Because compared with the first pillar and

the second pillar are somewhat mandatory, there is no guarantee without the market. When insurance "quasi" when old retire or when insurance time limit expires, insurance company pays annuities according to the contract. Commercial endowment insurance is the long-term person insurance that sets for obtaining annuities. This is a special form of annuity insurance, also known as endowment insurance, is the social endowment insurance supplement. After the insurant of commercial endowment insurance pays certain insurance premium, we can begin to get the endowment insurance gold of certain age. Therefore, although the income of the insured declines after retirement, he can maintain the living standard before retirement with the help of pension. It is divided into traditional endowment insurance, universal life insurance, investment linked insurance, dividend - sharing endowment insurance.

### 1.2 Necessity of giving full play to the role of commercial insurance in old-age care

Since China entered into the aging process in 2000, the elderly population in China has been growing rapidly. In 1982, the population over 65 years old only accounted for 4.9% of the total population, but it increased to 8.3% in 2008. After 65 years old, the elderly population nearly doubled, and even now the elderly population is still growing (as shown in the figure below).

According to the statistics, if this situation continues, the key indicators of population aging will rise rapidly in the coming decades. The proportion of people aged 65 and above will probably rise to 29.4% by the middle of the 21st century, compared with 10.5% in 2015. The median age will rise from 36.7 years in 2015 to 49.7 years in the middle of the 21st century, and the dependency ratio of the elderly will rise from 14.3 percent in 2015 to 51.2 percent in the middle of the 21st century, both of which remain high for a long time.



With the deepening of population aging, the basic old-age insurance for urban workers at the first level is faced with the serious problem of fund shortage and the decline of pension replacement rate. If we keep the current institutional framework unchanged, the ratio of the number of employees in the urban employees of the basic endowment insurance system to the number of retirees is about 3:1, and the ratio of the number of employees will continue to decline, while the proportion of the elderly will continue to rise. It could go down to 2:1 in the 2030s and 1:1 by the middle of the 21st century. This will put enormous pressure on the sustainability of primary pensions. Moreover, we calculated that if the fund sustainability problem could be solved, the pension replacement rate would still drop significantly at the first level, possibly from 40% now to about 25% in the second half of the 21st

century. Moreover, we find that if the fund sustainability problem can be solved, the pension replacement rate will still drop significantly at the first level, possibly from 40% now to about 25% in the second half of this century.

A pension replacement rate that meets the needs of the people should be at least 70%. If the pension replacement rate is only 25% in the second half of this century, then the remaining 45% replacement rate needs to be provided by level 2 and level 3 pensions. The second and third pillars are needed in such cases. Therefore, we need to improve the first level of endowment insurance at the same time, but also vigorously develop the second and third level of endowment insurance; China's pension security reform is the only way to develop a multi-level pension security system. In recent years, the first pillar of old-age insurance has become saturated; the second pillar of old-age insurance is also in continuous development, only the third pillar is still in exploration and pilot.

## **2. The status quo and obstacles of the development of commercial pension**

### **2.1 Development status**

China's first commercial endowment policy was launched in 31 pilot cities in August 2015. So-called tax premium health insurance, is refers to the insurance company may enjoy the individual income tax reduction policy medical insurance. According to "individual tax privilege commercial health insurance is temporary measure", enterprise and public institution employee is planted through buying health danger, the charge that buys danger to plant is used as that month or in those days the reduction of specified number of employee individual income tax. But because the premiums are too small and the corresponding tax cuts are weak, tax premium health insurance is in an awkward position, and experts say good residents aren't buying it. According to data released in 2017, the excellent health insurance pilot tax paid just 126 million yuan in premiums over a year. And this is planted in the department of internal staff also didn't buy, according to the issued by the general office of the state council "about speed up the development of several opinions of the commercial endowment insurance requirements, the ministry of finance and the state administration of taxation, the ministry of human resources and social security departments jointly issued a circular, personal tax deferred model of commercial endowment insurance pilot decided in May 2018, Fujian (Xiamen) in Shanghai and Suzhou industrial park, the time limit for a year. According to relevant authoritative institutions' estimation, the asset scale of individual income tax deferred pension is expected to reach 3.2 trillion yuan in 2027. As long as tax deferred pension insurance is launched, it may have a good effect. At present, however, it is only a pilot phase with the aim of identifying problems and gaining experience for general dissemination. According to the population statistics bulletin of Sichuan province in 2018, the proportion of the population aged 65 and above in Sichuan province has reached 14.17 percent in 2018. As a result, the six provinces of Sichuan, chongqing, Jiangsu, Liaoning, Shanghai and Shandong have reached the depth of aging by 2018. Therefore, it is necessary to carry out the pilot of commercial endowment insurance in these deeply aging places or developed cities.

### **2.2 Tax incentives need to be cautious**

In order to develop the third pillar, China needs to give corresponding tax preference to commercial endowment insurance, that is, individual income tax deferral mentioned in several policy documents. At present, what China implements is to give certain individual income tax deferred tax preference to commercial endowment insurance. However, from the international perspective, some countries with more developed third pillar also adopt individual tax deferred tax preference or other kinds of tax preference under the individual pension account system. Third pillar: personal pension will involve tax payment in the three links of contribution, investment and payment. Among them, the link of contributions to the individual pension accounts pay fee is included in the taxable income, the investment should link investment income Tax, in the payment link to receive pension income whether to need to pay individual income Tax, involve the corresponding preferential Tax issues, the meaning of Tax is a Tax, so generally expressed in English letter "T", Exempt is the meaning of Tax exemption, can use the English letter "E", said there will be eight kinds of corresponding Tax types:

TET, ETE, ETT, TEE and TTE, EEE, TTT and ETT model. In the eight models, E is targeted at the participant, and tax incentives are provided to promote people's participation, so as to increase the overall accumulation of pension. T is to bring tax revenue to the government relative to the government, so as to increase fiscal funds. If the tax preference is too strong, it will cause financial pressure, and if the tax policy is too much, it will restrict the participation enthusiasm of the system, so the degree of the two needs to be coordinated. The total tax exemption of EEE mode and the investment-only tax mode of ETE will cause great financial losses. The full taxation model of TTT and the investment tax exemption model of TET both have heavy tax burden and few tax advantages. Therefore, these four models rarely exist in reality. Compared with ETT and TTE, ETT model reflects tax deferral and has certain advantages. However, the common disadvantage of these two modes is that tax collection in the investment link increases the difficulty of management and the cost of management. This kind of management difficulty is reflected in three aspects: (1) from the perspective of the availability of investment income information, pension investment income may come from a variety of portfolios, and the investment year is very long, so it needs to obtain a large number of information sources, which is easy to cause omission and error information, and increase the management cost. (2) from the perspective of investment returns, pension insurance investment can adopt different investment portfolios, which will gain investment returns in the long run, but may suffer investment losses in the short run. Therefore, the tax collection and management of investment link brings the tax deduction problem of investment loss. (3) in terms of investment selection, some forms of investment income are exempt from tax according to relevant laws and regulations. Therefore, these two modes of ETT and TTE are rarely used in practice. So there are two other patterns: EET and TEE. Tax payment is what needs to be done in the pension receiving stage. One of the tax exemptions for the enterprise annuity in the transaction purchase stage and the capital use stage is the EET model, which is favored by many countries due to its high efficiency. The regressive effect of the preferential tax system in our country will aggravate the unfair distribution of society. China is currently exploring the third pillar of the individual pension system in the development of tax incentives in the implementation of the individual deferred approach, but this approach in social equity has some problems. One of the basic requirements of social security is fairness. Under excess progressive tax system, adopt the way of tax deferred will produce regressive effect, the high income individual pension accounts pay cost more people will enjoy a lot of preferential tax, and the low income individual pension accounts pay cost less people would offer little, even there is no discount, and for low-income groups may now life is very general, not to mention old enough to think about how to life, so may not to buy low-income people, high income people will wait until the year part of pension more than low-income people and may be double pillar pension, low-income people and high income are the three pillars endowment, This will increase the inequality of income distribution. On the other hand, too much tax incentives will cause financial pressure, while less government funds will reduce fiscal expenditure on welfare, which will have a negative impact on low-income groups. Therefore, how to adopt tax incentives in the system design to encourage the people in need to join and at the same time to ensure the interests of low-income people, so as to control this kind of injustice in a reasonable range and not to have too big impact on the financial, which needs to be achieved through scientific actuarial and continuous practice.

### **2.3 Insufficient cognition of commercial endowment**

Commercial endowment insurance for most people is a fresh thing, let a person suddenly accept is clearly impossible, but all the new things have a cognitive process, rather than business or sales people say a few words of commercial insurance people think it is good, to let people know about commercial endowment need to residents of commercial endowment have their own general objective knowledge, and commercial endowment insurance includes social security, insurance, tax and other aspects of knowledge content, if you want to let people understand the nature of it immediately takes a lot of education and publicity, and for new things a lot of people have not heard of, let alone to know, Because the government and enterprises of commercial endowment the propaganda is not enough, especially in the small city of relatively developed area is no cognition of commercial endowment,

developed area will be more easy to contact and accept new things, rarely see public propaganda and introduction of commercial endowment, and everywhere is on plastic, exams, advertising and entertainment news, in the United States for commercial endowment publicity like entertainment news in China can be seen everywhere, and have a special website for publicity.

#### **2.4 Bottlenecks of commercial pension services**

Purchase and service system also directly affects the effect of commercial pension. Compulsory purchase and the second pillar is unified by the government and the first pillar by enterprise and individual is collective pay cost, commercial endowment insurance does not take any mandatory units also have no obligation for individuals to buy, so whether to purchase the commercial endowment insurance completely by individual desire, so the insurance company is willing to provide conforms to the people of heart business services, will no doubt affect the personal willingness to buy commercial endowment insurance. Therefore, in order to prevent the re-emergence of the embarrassing situation that no one buys the tax optimal health insurance, we must increase publicity in order to give full play to the role of commercial insurance in the process of old-age care. In addition, we need to make clear provisions on the relevant service behaviors of the unit, constantly improve our service efficiency and simplify the service process.

#### **2.5 Bottlenecks in the supply of commercial pension products**

The degree of the rationalization structure and the richness of the products also have a profound impact on the people's willingness to buy commercial insurance. Now in our country have a traditional endowment insurance, share out bonus of endowment insurance, investment linked insurance, universal life insurance four kinds of commercial endowment insurance, and insurance of share out bonus and occupy the most universal risk, a real personality has something new is planted actually not much, so we need to give the insurance company on the policy more development space and freedom, so as to mobilize them against the person of different income level, age structure diversity in order to develop the innovative security business, but also to support people in the qualified insurance company to choose its own products.

### **3. The international experience**

In terms of the establishment of the endowment insurance system, the United States and China are similar to the three pillar system, and the United States time is relatively early, in the development history of so many years, American business pension for the different needs of people are considered, the system construction is relatively perfect, the system is relatively complete, operating experience more rich, more reference. Secondly, compared with the third pillar pension system established by other countries in the world, many European countries have achieved good results. However, due to the small size of the country, the limited institutional audience and the insignificant difference in the population, it is not significant for China, a country with a large population and huge population difference, to learn from. The United States is also a country with a large population, and the income difference of the population is obvious. The protection of the interests of different groups and the system design framework are of more reference significance for China, which is also a country with a large population and has obvious population difference.

#### **3.1 US tax incentives**

The construction of the third pillar adopted positive preferential tax system, tax declaration system in the United States is relatively perfect, personal tax breaks for personal pension plan participants can bring more welfare system, at the same time, in personal pension plan system, different types of plans have different tax incentives, considering the characteristic of different beneficiary groups at the same time, the IRAs have two plan, is a traditional IRA and Roth IRA respectively their way of tax incentives are different, the traditional IRA to EET mode, namely in the capture to expend a taxable items of deduction and investment stage, When the withdrawal from the account, you need to pay the taxes, the institutional arrangement for those in work income can also be a retirement income will drop a lot of people, because it is more economical for these people's preferential policy, while the

Roth IRA account is adopted is the TEE pattern, this pattern is in tax payment stage, investment and get the phase is not tax deduction, this kind of system arrangement will income and higher retirement income for those who work with attractive. In the construction of the third pillar of the United States, he has adopted different preferential policies for people with different incomes, and the participation of the employer in the retirement plan will also be affected. People who do not participate in the retirement plan will get more preferential allowances, and the tax benefits for those single widowed couples are different in joint tax declaration and individual tax declaration. So we can see that the third pillar of the United States is more flexible, that tax incentives can reach different groups of people without affecting social justice.

### **3.2 The US adopts the principle of "prudent person" for the investment management of pension assets**

The regulation of social security fund, employer pension plan, individual pension plan and annuity insurance in the United States mostly follows the principle of "prudent person", that is to say, the government of the United States does not set too much regulation requirements on the proportion of investment assets, giving insurance companies great autonomy and certain development space. The social security fund, which is mainly regulated by the department of labor's employee benefits protection bureau, has a low risk appetite and allows only U.S. Treasury bonds. For both employer and individual pension plans, there are no restrictions on most assets; The US government will conduct differentiated management on the assets invested by insurance companies, which are divided into ordinary accounts and annuities with separate accounts. The regulation of the solvency of ordinary accounts is paid more attention by the US government. The states and local governments conduct independent supervision and there is no mandatory requirement for the regulation of the proportion of large categories of assets. At the level of separate accounts, the risk of asset investment is not borne by the insurance company, and most variable annuity assets entrust the employer pension plan and individual pension plan of asset management, and the investment supervision rules are basically in line with the employer pension plan and individual pension plan. Therefore, we can see that the federal government of the United States does not limit it too much, but only controls it in the general direction, and does not allow it to cross the line and offside, so that it can develop and innovate freely according to its own needs.

### **3.3 Pension account design in the United States**

The account setting of IRAs in the United States is very humane. It takes into account that there may be a variety of special circumstances in people's life, which will make the fund account unable to be withdrawn normally in old age. Because the asset flow will be involved, many methods for transferring assets after the asset flow will be set up. For example, due to the various circumstances caused by accidental death or divorce, it can meet the transfer of assets of different groups of circumstances. These individual retirement plan assets transfer methods include pension plan assets trustee transfer to another agent, will be a retirement plan assets transfer to another retirement plan, due to the reason of divorce, due to the beneficiary account assets succession or the death of the legal heir and so on. Different transfer procedures apply to different asset transfers. Some transfers are exempt from tax, while others are subject to surtax. The individual pension account system in the United States contains different types of account systems. Individuals can choose different types of accounts based on different situations in their lives. In addition, different account systems allow money to be transferred, avoiding the multi-account management that occurs when people choose other accounts.

## **4. Suggestions for China's commercial endowment**

### **4.1 Tax incentives for business pension shall be reasonably set**

Preferential policies to consider the following two aspects: one is for the insurance company, and the other is for the insured. Government should give its certain tax benefits in terms of the insurance company, its business tax and income tax will be given some subsidy, and the investment channels

to give some help to them, to ensure that insurance company profits, so as to encourage commercial endowment insurance company actively response policy service, innovation incentive insurance company products. Diversified tax incentives should be adopted to meet the differentiated needs of different groups of people. Considering the characteristics of different types of income groups, we can work like the United States aimed at low income at retirement income can and income is good at work, and retirement of the treatment are different preferential tax policies, because the corresponding civil servants in our country some enterprises and institutions and the private sector personnel work and retirement treatment contrast, low retirement income is low for that kind of work income people can adopt fiscal subsidies in order to give the preferential policy of this kind of crowd, because there are a lot of people paid have not reached the tax threshold, so far from what tax incentives, Fiscal subsidies are more attractive to low-income groups. In the development stage of commercial endowment insurance, we should increase tax incentives and expand insurance coverage to stimulate more people to join the system of commercial endowment insurance. When the system is mature, tax incentives can be appropriately reduced to alleviate financial pressure and turn into market mechanism regulation.

#### **4.2 Business pension should pay attention to the design of pension account**

As an important part of the three pillars of the pension system and future needs of exploration and development fields, in our career and income happens in your life to change, or other accident, personal pension account can flexibly cohesion, avoid payment for curing system design and to receive the barriers, because sometimes our enterprises when the job changes, five risks a gold capital there will be a big problem. Second, we need to pay attention to the cohesion between different institutions, and vigorously promote the development of institutions. The institutional design focuses on the free flow of account funds between the third pillar internal small system and other external systems. At present, China's pension system includes not only the first-level pension insurance based on social endowment, but also the second-level pension insurance based on employer contribution. However, there are still barriers between the systems. We can establish a unified pension account and set up sub-accounts for all kinds of pensions under the unified pension account. The payment, investment income and treatment payment of this kind of pension shall be recorded separately and put on record in the tax department, so as to be connected with the tax of social insurance premium and realize unified payment. The third pillar can also be integrated into the first pillar and the second pillar. Under certain conditions, the individual account funds in the first and second pillar can be transferred into the individual pension account in the third pillar. It is helpful for individuals to have their rights and interests protected flexibly and adequately in case of job changes or life accidents. It also avoids the problem that too many accounts of the same type for everyone aggravates the burden of the entire individual pension management investment market and reduces the management cost.

#### **4.3 Strengthen consumer education**

Commercial endowment insurance involves many aspects of knowledge, so to make residents need to strengthen education of residents to buy endowment insurance, want to let residents learn about the benefits of commercial endowment, to motivate them to actively purchase, and commercial endowment is mostly aimed at middle and high income groups, those low-income groups even maintain hard life now, don't talk about old age life after what to do, so in view of the high income people have a certain cultural foundation and the ability to accept new things, they have the ability to see a wider world, for it will be easier to accept new things, especially in the developed city. We can push more on the Internet about commercial endowment insurance, and in WeChat each big social networking platforms such as Weibo push these articles, make people more easy to see, maybe people just beginning to see the don't pay attention to it, but if he see more, and in different places has seen the content of commercial endowment gradually residents will be to understand what is the commercial endowment, and set up the website as soon as possible, let the more credibility, commercial endowment insurance when want to know can be more convenient to see and advice.

#### 4.4 Business endowment should break through the bottleneck of products and services

Now we need to clear is that although an ageing population is more serious in our country, but now our country family endowment can afford much of the responsibility, because now the aging of the population, most of them three or four children, as long as each child a little bit burden, coupled with the aging of the population pension, now of the ageing population compared with before retirement life won't have too big gap, really need to enhance is middle-aged workers' pension level, namely rates after parents, because of the one-child policy, this generation after into old age, children need not only need to burden the child's life, Guarantees the old man's life will be a lot of difficulties, is four old man and the two young people to afford one or two children's life, so the country needs to encourage insurance companies to develop commercial endowment business more, get more into the commercial endowment insurance company, it can form the competition situation, make the insurance company to develop new products, improve their services to attract more customers and people; Compared with insurance companies, they need to invest more in human resources and select various talents who are good at actuarial management, operation, service and marketing. In addition, the insurance company will accelerate the endowment insurance related software development industry, improve the commercial endowment insurance mode of management, improve the technology level and service level, increase the degree of commercial insurance products rich and reasonable structure, meet the demand of the diversified and multi-level national endowment, raise the market competitiveness of the insurance company. Insurance companies should establish the "customer-oriented" service concept, dedicated to customer service. Insurance publicity and consultation should be down-to-earth, and insurance companies should simplify compensation procedures to improve the efficiency of compensation work. Secondly, accurately grasp the needs of customers, innovative and diversified features of the service, establish a smooth and effective complaint channel, to provide customers with insurance complaints services.

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