

Analysis on the Development of Enterprise Annuity in China Based on SWOT Model

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Abstract: *At the beginning of the 21st century, the aging speed of China is accelerating. In the next 30 years, China will enter the "super aging" society. Therefore, the implementation of the pension system is becoming increasingly important. As the second pillar of the national basic endowment insurance, it is of great theoretical and practical significance to analyze the development, advantages and disadvantages of enterprise annuity and clarify the further policy inspiration. As for above problems, this paper adopts the SWOT model to analyze the strengths, weaknesses, opportunities and threats of the enterprise annuity system, and draws two main conclusions: one is that the enterprise annuity system conforms to the trend of population aging and the gap of basic pension fund expenditure, so it has good policy advantages and development opportunities; the other is the establishment of the enterprise annuity system is also a high tax burden, low coverage rate and disadvantages and difficulties. Finally, in view of the development dilemma of enterprise annuity, this paper puts forward four policy inspirations.*

Keywords: *Ageing, Enterprise Annuity, Endowment Insurance, SWOT Model*

1. Introduction

Aging has become a worldwide social problem. According to the UN released "the implementation of the sustainable development agenda and 2030 social content of sustainable development goals in the process of facing the challenge" report shows that an aging population has become one of the most prominent demographic trends in the asia-pacific region [1].

Since the beginning of the 21st century, the speed of aging in China has been accelerating. According to the United Nations forecast, within 30 years, China's 65-year-old population will account for about 30% of the total population from the current 12%, since then, China will enter the "super aging"¹ society. At the same time, there are 7 provinces in China's pension income is not enough to meet the expenditure phenomenon, such as Heilongjiang, Liaoning, Hebei, etc., based on the current situation of pension fund tension, the development of annuity insurance is increasingly important.

Enterprise annuity system is a supplement to the China's endowment insurance system, with the development of the socialist market economy in our country, the endowment insurance system gradually become an important system to guarantee the stable operation of market economy, and the aging trend of our country, make the basic endowment insurance and personal savings unbearable, enterprise annuity system needs to be the necessary supplement. This paper analyzes the positive and negative effects of the enterprise annuity system on China, in order to explore the total effect of the enterprise annuity system on China.

2. Review of Enterprise Annuity System

2.1 Supplement of Pension: Overview of Enterprise Annuity System

"Enterprise Annuity" is also called "Enterprise Pension" or "Employer Annuity". In addition to the public pension or national pension system enforced by the government, it is a supplementary pension system voluntarily established by enterprises under the guidance of national policies and according to their own economic strength and economic conditions to provide a certain degree of retirement income

¹ According to the United Nations classification, when the age of 60 and above accounted for 10% of the total population, 20%, 30%, 35% of the proportion, Its population is considered to be "aging", "aged", "seriously aging" and "super aging" respectively. Taking 65 years old as the boundary line, its population composition is respectively called "aging", "aged", "seriously aging" and "super aging" when it accounts for 7-9.9%, 10-19.9%, 20-29.9% and 30% of the population.

security for their employees.

2.2 From 1991 to 2021: Review of the Enterprise Annuity System

China's enterprise annuity system has been developing for nearly 30 years. The following is a review of the development process of China's enterprise annuity system. In 1991, the State Council issued the "Decision on the Reform of Enterprise Employee Endowment Insurance System", marking the establishment of China's enterprise annuity system. In 2000, the State Council issued the Notice on Printing and Distributing the Pilot Plan of Improving the Urban Social Security System, which marked the beginning of the pilot project of China's enterprise annuity system. In 2004, the Ministry of Labor and Social Security issued the "Enterprise Annuity Trial Measures", which marked the establishment of the enterprise annuity system in China. Since 2006, the Ministry of Labor and Social Security has issued the Notice on Further Strengthening the Supervision and Management of Social Insurance Funds. China's enterprise annuity system has been further standardized.

3. SWOT Analysis of Enterprise Annuity System

This part uses the SWOT Model to analyze the enterprise annuity system from four aspects.

3.1 Strengths of Enterprise Annuity System (S)

The establishment of the enterprise annuity system plays a positive role in the development of China's endowment insurance. The specific points are as follows: **Firstly**, from the national point of view, the establishment of enterprise annuity system is conducive to the improvement of China's endowment insurance system. The formation of a multi-pillar endowment insurance system can not only expand the coverage of endowment insurance but also improve the security level of endowment insurance, which has a positive significance for the improvement of China's endowment insurance system. **Secondly**, from the perspective of the enterprise, the establishment of the enterprise annuity system is conducive to the improvement of the efficiency of the enterprise. With the security of the enterprise annuity, employees will feel motivated to work harder. At the same time, employees with enterprise annuity will have a sense of belonging and a sense of security, so they will voluntarily stay in the enterprise and serve the enterprise, so that the enterprise can retain talents and improve its competitiveness. **Thirdly**, from a social perspective, the establishment and development of enterprise annuity enriches the endowment insurance system, helps to further stabilize the society, promote economic development, stabilize life, and achieve the harmonious development of the society. **Finally**, from the perspective of individuals, the establishment of the enterprise annuity system will improve the old-age security level of the insured group and play an important role in improving the quality of life of employees in their later years. Owners of enterprise annuities will improve their personal happiness index and realize the improvement of their personal welfare level.

3.2 Weaknesses of Enterprise Annuity System (W)

As with other system, the establishment of the enterprise annuity system as a kind of system also exist some disadvantages, mainly manifested in the following: **firstly**, from the state, country to the establishment of the enterprise annuity system and operation for the macro guidance function, at the same time, to establish a set of laws and regulations, supervision system and preferential tax policies, this virtually increased administrative costs. If the system is not designed reasonably, it will increase the principal-agent risk of funds and have a negative impact on the national economy. **Secondly**, for enterprises, if the annual pension system is not appropriate, it will increase the cost of enterprises, which will not improve the operation efficiency of enterprises, but will affect the enthusiasm of employees, and ultimately weaken the competitiveness of enterprises in the market competition. **Thirdly**, for the individual, enterprise annuity system as a supplementary endowment insurance system can increase individual capture to expend project, as the employees as a result of the original project has a high contribution rate, increase the project adds to the burden of the individual, the corresponding added less personal disposable income, thereby reducing consumer demand, make the life quality decreased.

3.3 Opportunities of Enterprise Annuity System (O)

3.3.1 The New Economic and Social Environment Provides New Opportunities for Enterprise Annuity

The long-term stable operation of enterprises is the precondition for the stable development of enterprise annuity. By the end of 2018, China's GDP had reached 90 trillion yuan, the number of market players had exceeded 34 million enterprises, the urban employed population had exceeded 400 million, and the average annual salary of urban employees had exceeded 80,000 yuan². At present, all kinds of operating entities in China's market are facing unprecedented opportunities for development. At the same time, the dynamic market system and mechanism also provide a new era opportunity for the development of China's enterprise annuity market.

3.3.2 The New Situation of Basic Endowment Insurance Provides New Opportunities for Enterprise Annuity

From the point of view of Maslow's demand theory, individual demand always increases from low level to high level. This theory is also applicable to the old-age security mechanism, which is a progressive relationship. The depth and breadth of the development of the old-age security mechanism at the lower level will determine the development width of the old-age security mechanism at the upper level. By the end of 2018, the number of participants in China's basic endowment insurance had reached 943 million, among which 419 million had participated in the basic endowment insurance for urban workers. In addition, the reserve fund of the national social security fund has reached 2.24 trillion yuan, accounting for about 40% of the accumulated balance of basic old-age insurance³. This has laid an important institutional foundation for comprehensively enhancing the depth and breadth of the enterprise annuity market.

3.3.3 The New Height of Residents' Income Level Provides a New Opportunity for Enterprise Annuity

Stable income and certain balance of income and expenditure are the necessary conditions for workers to participate in the enterprise annuity plan. From the perspective of the intertemporal balance of income and expenditure, enterprise employees need to balance the income distribution between consumption and savings comprehensively, and balance the immediate utility and long-term security [2]. Since the reform and opening up, China's urban employees' wages have continued to rise, and the Engel's coefficient of urban households has dropped sharply. In 2018, the Engel's coefficient of urban households has dropped to 27.7%, down 28.2 percentage points compared with 1980⁴. On the whole, the continuous rising trend of the income level of domestic enterprises provides important material conditions for the development of the enterprise annuity market.

3.4 Threats of Enterprise Annuity System (T)

Overall, although the development of enterprise annuity market in China has made significant progress, in the face of the aging of the population, it faces many severe challenges [3].

The dilemma of enterprise annuity system mainly includes five aspects. **Firstly**, the coverage of enterprise annuity system is insufficient. The total number of enterprises in China has reached 34.742 million, but the proportion of enterprises that have set up enterprise annuity plan is only 0.25%, so the actual coverage of enterprise annuity system in China is relatively low [3]. **Secondly**, the enterprise annuity system does not match the new situation of social and economic development, and the enterprise annuity system built on the basis of the "tinkering" of various supporting systems is facing many severe challenges [4]. **Thirdly**, the enterprise annuity system and the old-age security system are lack of cohesion, and the various levels of the old-age security system are still obviously isolated. The various levels are simply superimposed together, and the organic joint mechanism of mutual support and promotion has not been formed. **Fourthly**, the investment and operation advantages of the enterprise annuity system have not been released and transmitted. According to the data of recent years, the overall earning capacity of the enterprise annuity plan has declined rather than increased. **Finally**, the incentive effect of tax deferral and other preferential policies has not been effectively played. There are problems in China's enterprise annuity plan tax preferential policies, such as low customer experience and high tax burden of basic endowment insurance, which affect the development of enterprise annuity.

² Data source: 2018 Human Resources and Social Security Development Statistical Bulletin.

³ Data source: statistics database of the National Bureau of Statistics.

⁴ Data source: 2018 National Enterprise Annuity Fund Data Service Abstract.

4. Conclusions and Policy Implications

In view of the development history of enterprise annuity in China, this paper uses SWOT model to analyze, and finds that the enterprise annuity system complies with the trend of population aging and the gap of basic pension fund expenditure, and there are good policy advantages and development opportunities. However, the establishment of enterprise annuity system also has the disadvantages of high tax burden, low coverage rate and predicament.

At this point, the rational design, appropriate is crucial to the enterprise annuity system, the following is the four policy implications: **firstly**, the system design should pay more attention to the systemic and integrity, break now "headache cure head, feet hurt the medical foot" passive situation, around the direction of the old-age security system reform, domestic active layout, reasonable layout. **Secondly**, the system promotion should strengthen the universality and cohesion of the enterprise annuity system, continuously promote the expansion of the scale of participation in the enterprise annuity market, and take the maximization of scale effect as the top priority of the development of the enterprise annuity system. **Thirdly**, the preferential tax policies should pay more attention to practicality and operability. According to the particularity of enterprise annuity plan products, the improvement and adjustment of the preferential tax policies should also focus on the principle of customer-centered. **Finally**, pay more attention to long-term and stable investment mechanism, the investment time limit, cost and cash flow, etc, do reasonable matching of the assets and liabilities, and according to the change and trend of financial market, dynamic, timely adjust portfolio investment strategy, effectively play to the enterprise annuity plan long period, large scale and stable source of advantage.

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