

# A Research on the Contradiction between Private and Public Pension Industries in China

## —Take Chongqing as an Example

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### Abstract

China's aging problem is becoming more and more serious, and the healthy development of elderly care institutions has become a very critical issue. Since there are both public and private pension institutions in the Chinese market that serve the elderly at the same time, and public pension institutions enjoy government subsidies and a series of policy advantages, it is very difficult for private pension institutions to operate. Based on the further analysis of the performance of public pension institutions and private pension institutions' operating dilemmas, this paper analyzes the mechanism behind them, and finds that the cost of land, construction, medical equipment, operating costs, labor costs. There is serious inequality in tax subsidies, which has led to the contradiction between public and private pension institutions in the pension industry.

### Keywords

Contradiction, Private Pension, Public Pension

## 1. Introduction

In the past 20 years, China's aging problem has gradually intensified, showing the characteristics of early entry, large base, fast growth, more empty nest (Yan, Huang, & Zheng, 2021). Chongqing, as a typical industrial city, has a very serious aging problem. At the end of 2019, there were 720.6 registered elderly people aged 60 and above, accounting for 21.09% of the total population, and entered an aging society (Statistical Bulletin, [http://tjj.cq.gov.cn/zwgk\\_233/tjnj/wap.html](http://tjj.cq.gov.cn/zwgk_233/tjnj/wap.html)). It is believed that Chinese people's pension choices include home-based pension, community-based pension and institutional pension, and the traditional ratio is

90:7:3 (Wang, Zhao, & Bai, 2019). However, more and more Chinese elderly people are willing to stay in old-age care institutions. For example, Xiao Yun conducted a survey in nine districts of Chongqing's main city and found that 31.3% of the elderly are willing to stay in old-age care institutions (Xiao, Lv, & Qi, 2012). Therefore, the development and layout of old-age care institutions have become the concern of the whole society (Mu, 2012; Song, Zhao, & Wang, 2018; He & Li, 2020).

In recent years, in order to meet the problem of providing for the aged for the people all over the country, local governments are vigorously promoting the development of the aged care industry. By the end of 2018, there were 1407 old-age care institutions in Chongqing, including 470 private old-age care institutions (Blue Book of Chongqing Aged Care Service Development, [http://www.xinhuanet.com/2019-11/09/c\\_1125212270.htm](http://www.xinhuanet.com/2019-11/09/c_1125212270.htm)). Private pension institutions are an emerging force in China's pension industry, and their development momentum is rapid. However, there are also some specific phenomena that the supply of some pension institutions is in short supply and the beds of some pension institutions are idle (Yang, 2021). The socialized level of public pension institutions is low, the service guarantee system can't keep up, and the problem of poor management exists for a long time (Wang & Li, 2021). At present, although public pension institutions enjoy government subsidies for a long time, they are not self-sufficient due to their poor management ability, which disturbs the market of pension industry. According to the relevant investigation, for example, 10.5% of enterprises in Chongqing's public pension institutions still suffer losses, and only 2.9% of them make profits (Zhang, Wu, & Huang, 2019). It is precisely because the public pension institutions can still continue to operate in the case of losses, which seriously undermines the market economy competition mechanism, so it will further affect the orderly development of private pension institutions and the investment enthusiasm of private capital, and development of the whole pension industry. Therefore, this paper analyzes the current market competitive position and mechanism of public pension institutions and private pension institutions, and clarifies the development of pension industry.

## 2. Research Methodology

This research adopts questionnaire survey and in-depth interview. This survey was conducted between September 2019 and October 2019. This survey selected 28 pension institutions in Chongqing, including 3 public pension institutions and 25 private pension institutions, which accords with the basic proportion of public and private pension institutions in the current pension market. At the same time, private pension institutions investigated 2 high-end pension institutions, 8 low-end pension institutions and 15 middle-end pension institutions. The survey was conducted for the heads of pension institutions, including questionnaires and in-depth interviews. The questionnaires included investment

scale, area, facilities and equipment, occupancy rate, price, staffing, policy subsidies and other issues; Semi-structured in-depth interviews hope to know the satisfaction of the heads of pension institutions with the national pension industry policy. At the same time, the survey is also aimed at the elderly in old-age care institutions. Because most of the elderly in old-age care institutions are semi-self-care or unable to take care of themselves, the survey is difficult. In this survey, a total of 65 elderly people from these 28 institutions were investigated. On average, 5 elderly people were selected from each institution for investigation, but the elderly in 6 institutions could not answer. Therefore, 63 children who are taking care of the elderly were added for investigation to find out their satisfaction and dissatisfaction with the old-age care institutions.

### 3. The Unfair Performance of Private Pension Institutions and Public Pension Institutions in Market Competition

#### 3.1. A Clear Gap between Private and Public Pension Institutions in Terms of Investment and Venue

Public pension institutions usually cover an area of more than 10,000 square meters, with an investment scale of 4 million - 40 million RMB and more than 40 - 100 beds; However, private pension institutions are often small companies or private investments, with a small scale, covering an area of about 150 - 500 square meters, and most of them have about 10 - 50 beds (**Table 1**). Public old-age care institutions are usually located in remote places with beautiful scenery, while private old-age care institutions are usually located in residential areas, which are reconstructed by renting houses in residential areas.

#### 3.2. An Obvious Gap between Private and Public Pension Institutions in Terms of Facilities and Equipment

Public pension institutions have better conditions and can usually provide chess,

**Table 1.** Area of some old-age care institutions.

institution name	amount of investment (RMB)	bed number	floor area (square meters)
Yanxing gerocomium	50,000	12	250
Fushouyuan geracomium	50,000	10	100
Ankang geracomium	200,000	35	400
Jintian gerocomium	200,000	50	450
Xinyi Care Center (public)	4 million	40	700
Huhan community gerocomium	Half a million	23	300
Autumn leaf red	150,000 to 160,000	30	400
Dadukou Home for the Aged (public)	40 million	100	33,000
Huilongyuan geracomium	200,000	60	600
Changzheng Hospital (Public)	not in details	30	8000

reading, fitness and other services. Their accommodation and living conditions are better than those of private pension institutions (such as Xinyi Care Center and Dadukou Nursing Home), which are equipped with chess and card rooms; However, private pension institutions have single facilities and simple functions, which can only provide the most basic living facilities for the elderly (such as television), especially lack of barrier-free facilities, and cannot effectively meet the needs of the elderly. For example, some elderly children report that there are barriers between houses in an old-age care institution, and some rooms have no handrails, which makes the elderly slip easily. Only 18% of private nursing homes are equipped with rehabilitation equipment, 46.5% of private nursing homes are equipped with first aid response facilities and oxygen inhalation facilities, most of private nursing homes (72.7%) are equipped with sphygmomanometers, and about 36.4% are equipped with wheelchairs, which cannot meet the basic needs of the elderly who cannot take care of themselves (Figure 1).

### 3.3. An Obvious Gap between Private and Public Pension Institutions in Terms of Occupancy Rate

Public pension institutions generally operate well, with a very high occupancy rate, which can basically reach 100%. In particular, many elderly people queue up in advance. For example, 40 beds in Xinyi care center have been fully occupied. However, the occupancy rate of private small-scale pension institutions in most communities is low, about 50%, and it often goes out of business (Table 2).

### 3.4. Public Pension Institutions do not Consider Profit, and Private Pension Institutions are Difficult to Operate

Due to the confusion of market operation, public and private pension institutions have been on different starting lines from the beginning, so it is very difficult for private pension institutions to operate. In our survey, we found that

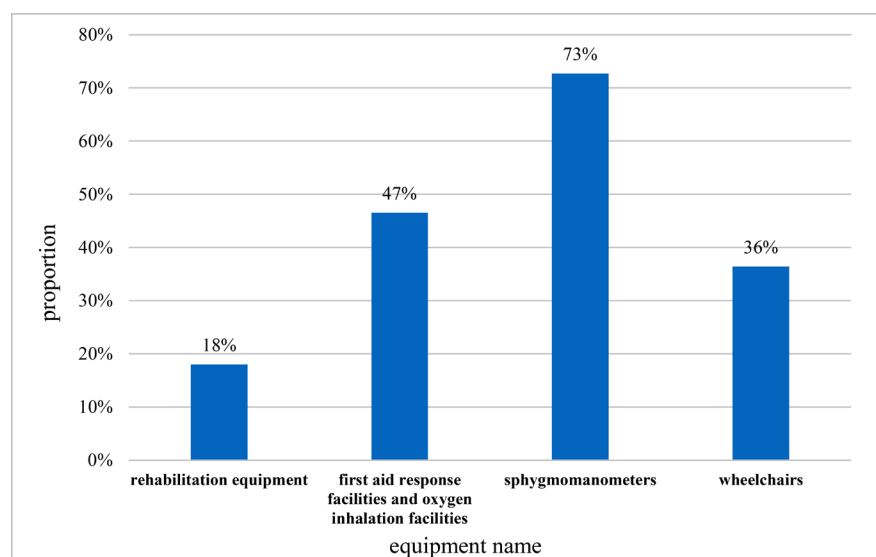


Figure 1. Facilities and equipments of private institutions.

from the perspective of profitability, public private pension institutions are generally satisfied with their own operation, while 95% of private pension institutions think that their operation is very difficult and can only operate at a low profit. If the occupancy rate is not high, it will almost be operating at a loss.

### 3.5. The Staff Allocation of Public Pension Institutions is Basically Reasonable, While That of Private Pension Institutions Is Less

From the perspective of staff and elderly allocation, the ratio of employees to the elderly in public pension institutions can reach 1:3.5, while that of private pension institutions is about 1:4 or 1:5. Public pension institutions usually have about 5% - 6% nurses, but private pension institutions basically have no nurses. It is a common phenomenon that the private pension institutions are short of manpower and care (Table 3).

### 3.6. Public Pension Institutions do not Charge or Charge Low Fees, and the Main Market Group of Private Pension Institutions is Low-Income Group

In addition to the elderly care homes specially designed to solve the widowed, and lonely elderly, the rest of the care center charges are relatively low; private

**Table 2.** Occupancy rate of some private institutions.

nature	institution name	bed number	elderly residents	occupancy rate
private	Fushouyuan geracomium	10	7	70%
private	Ankang geracomium	35	18	50%
private	Jintian gerocomium	50	43	90%
private	Autumn leaf red	30	10	30%
private	Huilongyuan geracomium	60	28	50%
public	Xinyi Care Center	40	40	100%

**Table 3.** Ratio of elderly to employees in some pension institutions.

institution name	elderly category	elderly residents	staff	ratio of elderly employees	nurse	nursing workers
Yanxing gerocomium	semi self-care	12	3	4	0	not in details
Fushouyuan geracomium	disability	7	4	1.8	0	0
Ankang geracomium	semi self-care	18	4	4.5	0	0
Jintian gerocomium	semi self-care	43	8	5.4	0	5
Xinyi elderly care center (public)	semi self-care	40	9	4.4	0	0
Autumn leaf red	disability	10	4	2.5	0	0
Dadukou nursing home (public)	self-care and semi self-care	70	20	3.5	4	9
Huilongyuan geracomium	semi self-care	28	5	5.6	0	4

**Table 4.** Charging standards of some pension institutions.

institution name	price (approximately)
Yanxing gerocomium	1200
Fushouyuan geracomium	1300
Ankang geracomium	1400
Jintian gerocomium	1800
Xinyi elderly care center(public)	1600
Huhan community gerocomium	1600
Autumn leaf red	1500
Dadukou nursing home(Public)	no charge
Huilongyuan geracomium	1200
Long March Hospital	1800
Caring nursing home	2000

pension institutions are currently divided into two types, one is high-end pension institutions, the number is very small, the vast majority of pension institutions belong to low-end elderly care institutions, and their target market is mainly low-income groups. The charge price of this type of pension institutions is about 1200 - 2000 yuan per month, especially the low-end one is about 1200 - 1400 yuan per month, and the one with better conditions is 1600 - 2000 yuan per month (Table 4). Generally, this price also includes nursing expenses. Therefore, it is an obvious phenomenon that the cost of pension institutions is high and the profit is low. The reason is that most of the elderly or their children have low ability to pay for the elderly, so they can't pay high pension expenses.

## 4. Mechanism Analysis of Unfair Competition between Private Pension Institutions and Public Pension Institutions

### 4.1. Unfair Land Use Cost

As public pension institutions are welfare institutions run by the Ministry of civil affairs, they do not need to bear land investment costs. Large public pension institutions are usually allocated land by the state, rural public pension institutions use rural construction land, community public pension institutions occupy community housing, but these lands usually do not cost economic costs. However, private pension institutions need to seek land by themselves, pay high land cost or high house rent. Usually, the land use of small-scale private institutions is solved by renting residential buildings. According to the latest national regulations, private pension institutions can enjoy the treatment of land allocation, but in fact, this policy cannot be aimed at ordinary small private pension enterprises. Only when super large capital enters, can they be qualified to discuss land use cost with the government.

Therefore, public pension institutions have a large area, while private pension

institutions are limited in space. They either rent apartments on the ground floor of the community, or rent abandoned factory buildings or rural collective houses. Therefore, they cover a small area and generally have no leisure land.

#### 4.2 Unfair Construction Cost

The construction cost of public pension institutions shall be borne by civil affairs departments. Therefore, no matter in the overall construction quality, public service facilities, room area, facilities, water supply, gas supply and power supply, the pension institutions are obviously better than the ordinary private pension institutions.

However, the purchase of any facilities and equipment by private pension institutions is a big expenditure of their own investment. Not only can they not guarantee barrier free facilities, leisure facilities and medical auxiliary facilities, but also many pension institutions cannot guarantee the necessary fire-fighting facilities and living facilities. For example, the person in charge of Ankang nursing home mentioned that they wanted to install natural gas, but because of the installation cost of more than 40,000 yuan which they cannot burden.

#### 4.3. Unfair Medical Service Allocation

Public pension institutions often have supporting medical services, such as hospitals with agreements and medical staff such as nurses, while private pension institutions only have larger institutions to have relevant agreements with hospitals. At the same time, because private pension institutions want to maintain their own operation, it is difficult to bear the medical service personnel and other related costs.

#### 4.4. Unfair Operation Cost

The operating costs of pension institutions usually include labor costs, water and electricity costs, food expenses, insurance costs, training fees, etc. In the item of water and electricity fee, it has been a problem that pension institutions appeal to solve because it is classified as commercial electricity. At present, if it is a public pension institution, it has completely solved the problem of electricity consumption, realized the low cost of household electricity consumption, and did not implement step pricing. Then, due to the special nature of land use, such as leased factory land or idle commercial land, many private pension institutions still charge their electricity according to commercial or industrial electricity, resulting in actual unfairness.

#### 4.5. Unfair Allocation of Human Capital

Because the public pension institutions are under the jurisdiction of the Civil Affairs Department, and the staff belong to the public institutions with the national establishment, there are obvious differences in the difficulty of employment. Generally, they can only obtain talents through higher income when

competing with the units with establishment. However, the operation of private pension institutions is difficult and the profit is low. In addition, the pension industry is a labor-intensive industry. Therefore, private pension institutions have a very practical employment problem.

#### **4.6. Unfair Policy Subsidies**

In order to promote the development of old-age care industry, the state has a lot of tax and operating subsidies for old-age care institutions, but in the actual operation process, public old-age care institutions rely on government subsidies, so they can continue to operate in the market despite losses. However, private pension institutions are not only responsible for their own profits and losses, but even the subsidies and tax breaks promised by the state can hardly be obtained. For example, in our interviews, many heads of old-age care institutions mentioned that “I have never heard of any subsidy”, and private enterprises all think that the state subsidies are not in place, so everyone is worried about the development of their own enterprises. At the same time, some enterprises mentioned whether the state has subsidies, through which channels subsidies are distributed, what standards subsidies need to meet, and clear and transparent platforms and channels are needed.

### **5. Conclusion**

In today’s increasingly aging society, providing for the aged is a hot issue of social concern, and it is also an important problem that is difficult to solve. The development of the old-age care industry needs a lot of investment in capital, equipment and labor costs, and needs further policy guidance from the government. However, if the current public and private pension institutions operate in the society at the same time, and because of their unequal market position, the private pension institutions have obvious disadvantages in operation, and it is difficult to further attract private investment into the pension industry. Therefore, government subsidies sometimes turn into disasters.

### **6. Further Study**

Since the operating subsidies of pension institutions and government policies also involve the civil affairs department and other competent departments, the investigation of this research still has certain limitations. In the future, further research should be conducted on the competent government departments to understand the specific reasons why government subsidies and taxes cannot be implemented.

### **Conflicts of Interest**

The authors declare no conflicts of interest regarding the publication of this paper.



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