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UPDATE

October 9, 2026 05:17 PM GMT

China Healthcare | Asia Pacific

Ten Charts that Illustrate China's Social Security Reforms (Updated with NSSF's AUM and Return in 2025)

Besides integration of retail pharmacies with outpatient departments at public hospitals, a key pillar of these reforms is the shift in spending and decision-making from individual to communal accounts.

Expanding the communal pool at the expense of individual insurance accounts may lead to less discretionary spending at pharmacies. However, over time, the larger communal pool and linkage of outpatient departments at public hospitals with community pharmacies should lead to accelerated prescription outflow and higher volume of prescription drugs dispensed through the retail pharmacy channel. We see ten data sets as relevant (see last update in early 2025):

1. Aging population: China's elderly population (>=65 years) increased from 10.0% of the total in 2015 to 15.9% in 2025, straining the healthcare system.

2. Shrinking workforce: Over the same period, China's employed population shrank from 763.2mn to 725.0mn, meaning fewer contributors to employment-related insurance funds.

3. AUM under China's National Social Security Fund: AUM fluctuated during the pandemic, but steadily increased afterward to a new high of Rmb3,808bn as of end-2025 (+14.6% vs. 2024).

4. Investment returns of National Social Security Fund (NSSF): Returns have significantly improved in the years after the pandemic, reaching an investment gain of Rmb391bn in 2025 with a +13.2% annual rate of return.

5. Year-end balances of employment-related individual and communal insurance pools: Over 2018-2025, the individual pool expanded from Rmb728bn to Rmb1,508bn (CAGR of +11.0%), while the communal pool expanded from Rmb1,147bn to Rmb3,514bn (CAGR of +17.4%).

6, 7, 8. Surpluses of individual and communal pools (updated): Both ran surpluses in 2025, communal surplus expanded while individual surplus stagnated.

9. Individual account payouts at retail pharmacies – potentially under more state control: In 2025, absolute individual account payouts at pharmacies contracted.

10. Top pharmacy chains' revenue exposure to individual account payouts: Top pharmacy chains derived >30% of revenue from individual accounts.

MORGAN STANLEY ASIA (HK)

Laurence Tam

Marco Wong

CHINA HEALTHCARE

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Charts and Illustrations

China's aging population has long been a major driver of reimbursement controls and other initiatives to rein in and rationalize healthcare spending. The country's social security system comprises five types of insurance (pension, unemployment, medical, work-related injuries, maternity) and contribution to a mandatory housing fund. Since 2013, the overall fund has experienced a widening deficit. In 2025, the shortfall was Rmb2.0tn (revenue = Rmb9.1tn, expenditure = Rmb11.1tn), which was covered by state subsidies. According to the research institute under the China Chief Economist Forum, fewer newborns and more elderly people will continue to exacerbate this spending gap (reference). For healthcare in particular, this has meant higher spending but fewer contributors to the work-related insurance pools (see here for the previous edition of this report).

Exhibit 1: China's population and elderly percentage

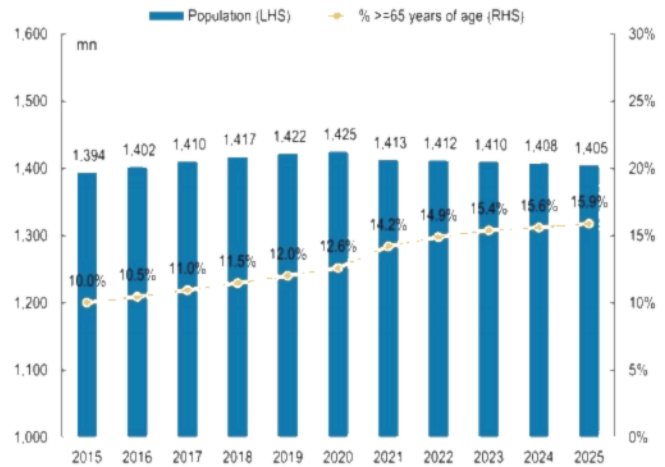
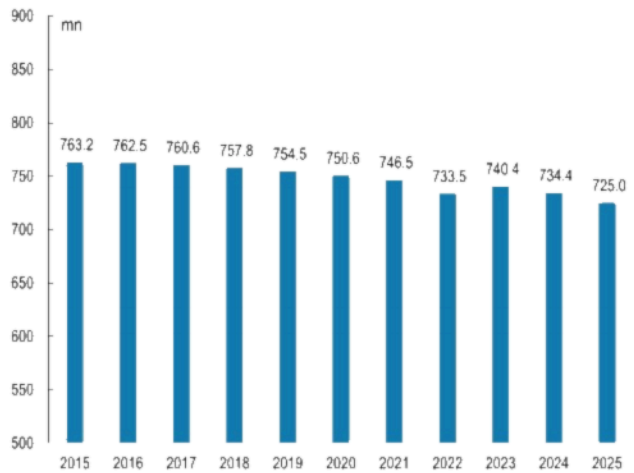


Exhibit 2: Number of employed workers in China

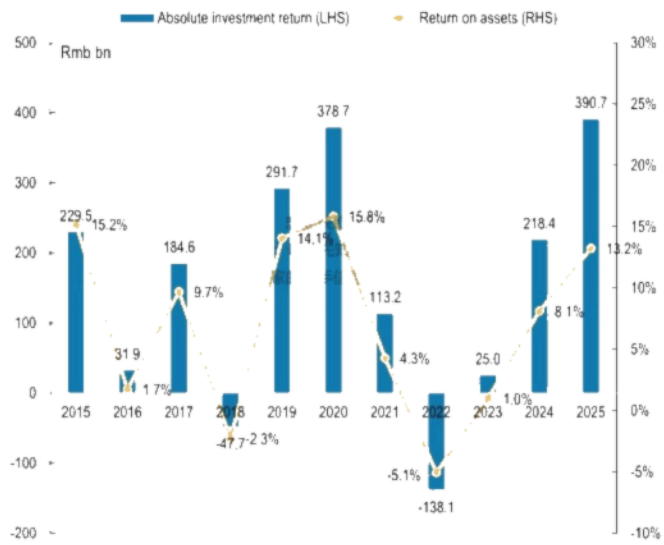


China's National Social Security Fund (NSSF) is the fourth-largest pension fund in Asia after Japan's, Korea's, and Singapore's, and the eighth-largest globally in 2025 (source). Its annual returns have averaged 7.6% since 2000, making it one of the top performers globally among the sovereign wealth funds. In 2025, returns increased to 13.2% from 8.1% in 2024.

Exhibit 3: Assets under management (AUM) by China's National Social Security Fund (NSSF)



Exhibit 4: Investment returns of NSSF's AUM



Employment-related insurance contributions or premiums are paid into two main accounts – individual and communal. The individual account, which is more discretionary in nature, can be spent on hospital outpatient services/prescription drugs and at retail pharmacies. The communal account, where reimbursements are more tightly scrutinized by the government, is spent mostly in hospitals (inpatient and outpatient services). In reality, individual accounts are spent mostly at pharmacies, and communal accounts are spent mostly in public hospitals. Recent reforms include cuts to individual accounts and expansion of the communal pool – a cause of considerable frustration and disagreement (reference). At the same time, subject to implementation by local government, retail pharmacies will be designated for integration with hospital outpatient clinics. In our view, this indicates: 1) more state control of prescription drug spending; and 2) more dispensing at retail pharmacies for chronic prescriptions (see note).

Exhibit 5: Year end balances of employment related individual and communal insurance pools

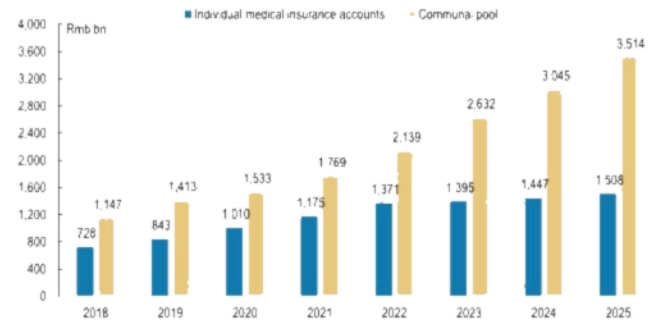
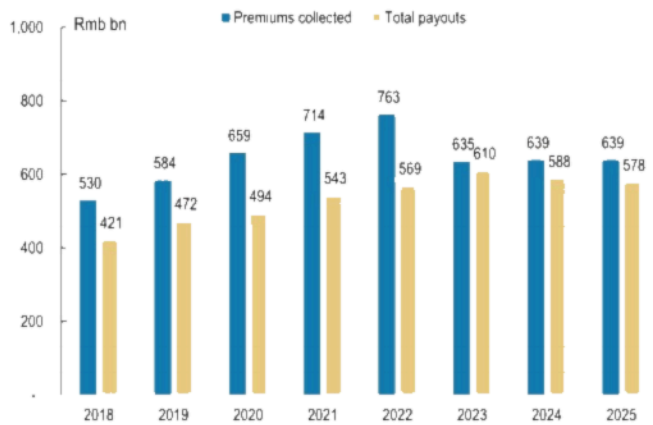


Exhibit 6: Annual income statement of individual accounts



Although both individual and communal accounts have run surpluses in aggregate, the spending mix is shifting towards communal. In our view, the latest move will not only give the state more control over spending, but could also cut down on insurance fraud and rationalize spending. The first effect is related to a reported prevalence of fake transactions through individual accounts (reference), while the second refers to large sums of unspent balances in the accounts of the young and healthy demographic. A key dynamic to note in 2023 is that a significant amount of individual accounts money was transferred to communal accounts. In addition, outpatient treatment expenses became eligible for reimbursement under communal accounts, and there was also government oversight on insurance spending – for example, restricting what products can be purchased at community pharmacies with individual account balances. As a result, individual premiums declined and payouts stagnated since the reform. In contrast, both communal premiums and payouts have continued to trend upward.

Exhibit 7: Annual income statement of communal pool

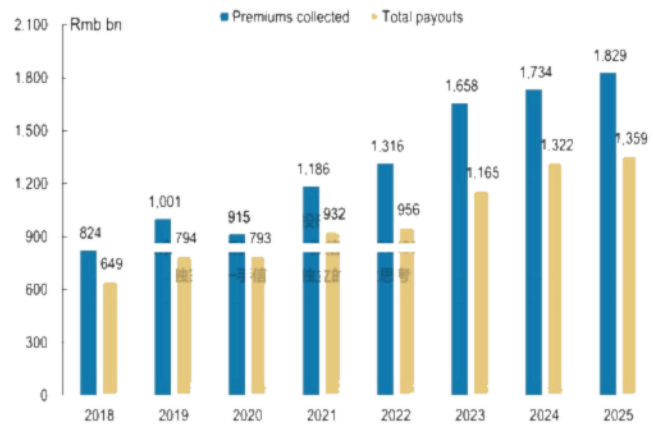
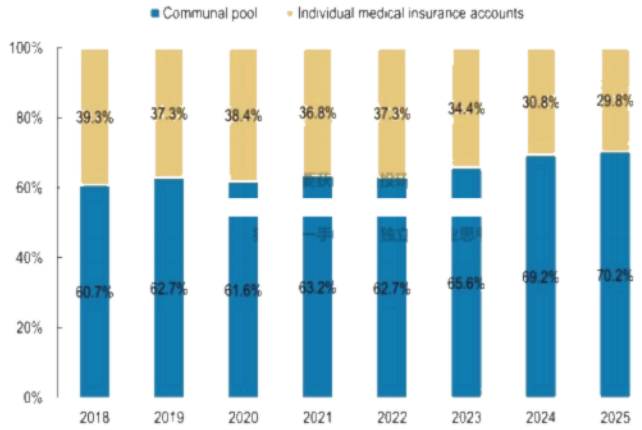


Exhibit 8: Annual payouts by the NSSF - breakdown of communal vs. individual accounts



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Retail pharmacy chains derive >30% of their revenue from disbursements coming out of individual accounts and a very small percentage from communal accounts. In 2025, Rmb216bn from individual accounts was spent at retail pharmacies, or 37% of total payouts from individual accounts (down from 38% in 2024). This "discretionary" portion may, subject to the pace of local implementation, be partially shifted to the communal pool, where the government has greater leeway. Through designated pharmacies linked to outpatient dispensaries, we think this funding will be gradually channeled towards retail pharmacy, especially for chronic disease prescriptions with ongoing prescription refills.

Exhibit 9: Payout of individual accounts at pharmacies

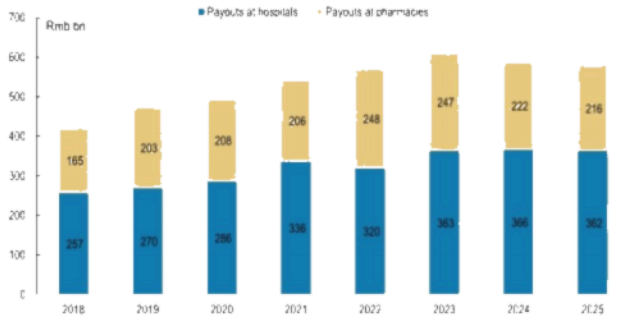


Exhibit 10: Revenue sources of top pharmacy chains (2025)

