



Regulatory Framework: China's Pension System

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By Yan Hu

E-mail: yanhucn@163bj.com

Tel: (86) 13801098619

Fax: (86 10) 8440 2791

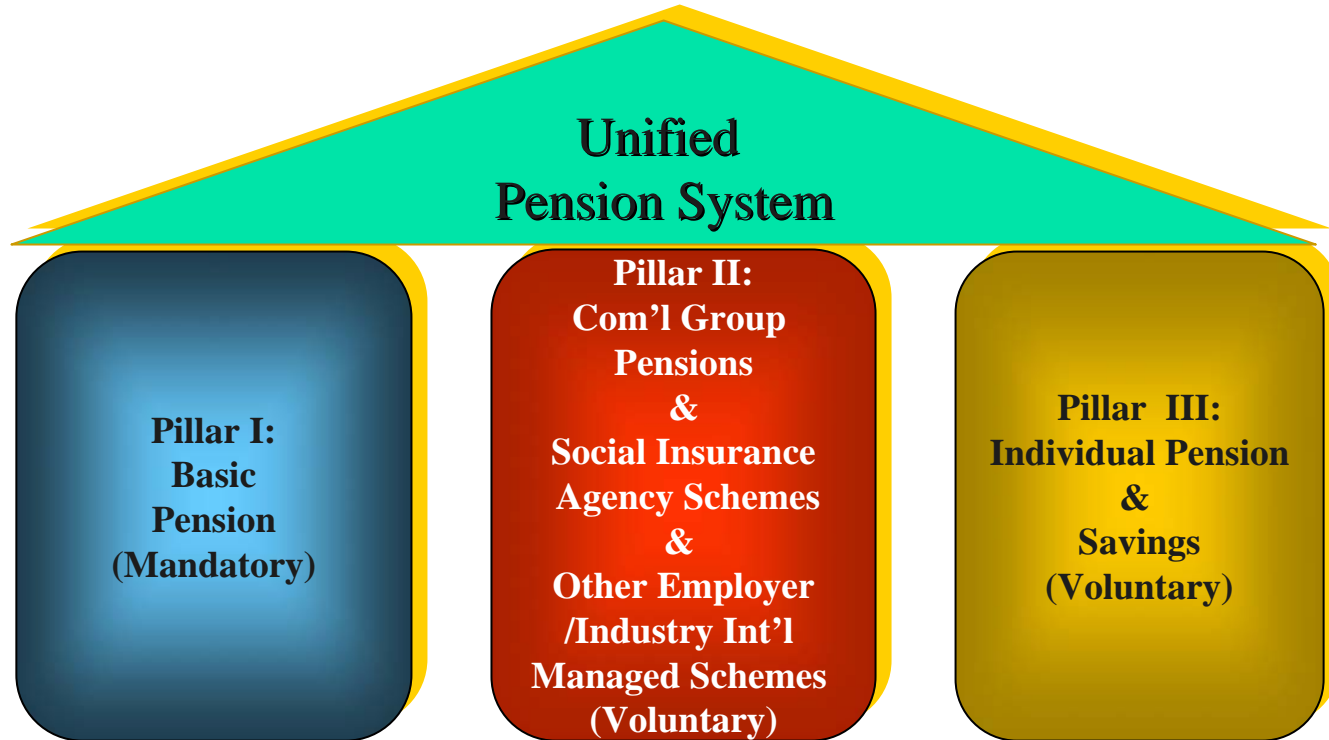


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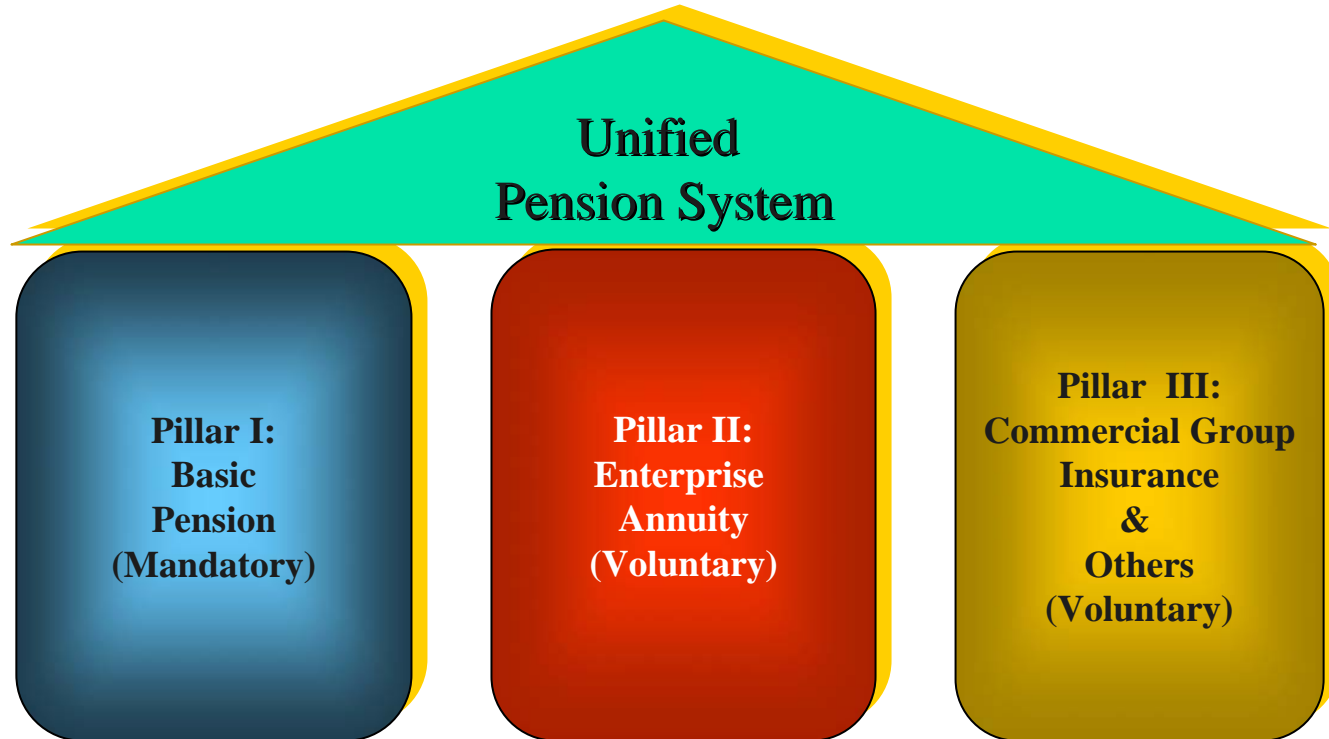
China's Three Pillar Pension System since 1997

- For Urban Workers Prior to EA Introduction



China's Three Pillar Pension System since 1997

- For Urban Workers after EA Introduction





Old Age Pension for Others

- Rural Sector:
 - 70% of China's 1.3 billion population
 - 75% of China's old-age population in rural areas
 - Voluntary social insurance scheme in individual account form
 - Low coverage: 50 million
 - Contributions: Individuals with supplement from village collectives
 - Benefits: granted for 10 years depend upon IA balance
 - Administered by local(county) social insurance agencies
 - Regulator: MOLSS and Ministry of Civil Affairs
 - Key regulation by MOC- Basic Models (Trial) of County Level Social Insurance (1992)
- Public and Civil Servants:
 - High replacement rate of 90% final earnings or more
 - Funded by government
 - Benefits linked to year of service only
 - To be reformed soon



Pillar I: Basic Pension

- Main Features:
 - Mandatory
 - Covers 122 million of 266 million urban workers in 2004
 - Two components: Social Pooled Fund(PAYG) + Individual Account(Funded)
 - Contribution:
 - ER: 20% (17% goes to SPF and 3% goes to IA)
 - EE: 8% (IA)
 - Benefits: Targeted replacement rate of 58.5% of declared City Average Salary, based on
 - Social Pooled Fund: 20%
 - Individual Account: IA balance/120
 - Key regulator: Ministry of Labor and Social Security(MOLSS)
 - Administrator and Investment Manager: County/City/Provincial Social Insurance Agency
 - Tax: fully pre-tax deductible
 - Retirement age:
 - Female: 50/55
 - Male: 60



Pillar I: Basic Pension (cont'd)

- Key Issues:

- Notional Individual Account
- Huge funding shortfall and future pension liabilities
- Low coverage: 45-50% (active worker/total urban workforce) in 2000-2004
- Highly decentralized administration
- Low investment return as results of limited investment options
- Liaoning/Helongjiang/Jilin Pilot: Notional Individual Account to be fully funded; more centralized administration; IA assets to be managed by professional investment managers allowing more investment options* ...
- National Social Security Fund: Fund of last resort



Pillar II: Enterprise Annuity(EA)

- Main Features:
 - Trust form
 - Individual account
 - Eligibility: all employees
 - Contribution:
 - EE match ER(various);
 - ER's contribution rate can vary depending upon different class of employees;
 - Max limit: 1 month previous year's payroll for ER and 2 month total for ER and EE;
 - Payment options: lump-sum or installment
 - Plan sponsor (ER) must comply with Pillar I contribution requirements
 - Main regulator: MOLSS



Pillar II: Enterprise Annuity(EA) (cont'd)

- Main Features:
 - Individual account is transferable if new employer offers EA plan; otherwise stays with previous providers
 - Tax policies:
 - ER contribution: up to local government, 4-5% of payroll as business expense
 - EE contribution: No
 - Benefits payment at retirement: various, some 100% exempt from income tax
 - Investment limit:
 - 20% in money market instruments (CD or treasury bills);
 - 50% in fixed income products and convertible bonds of which min 20% in government bonds
 - 30% in equities (stocks, mutual fund and investment linked insurance products)



Pillar II: Enterprise Annuity(EA) (cont'd)

- Main Features:

- Generally no member choice
- Providers (Trustee, Custodian, Investment Manager(s) and Administrator) must be qualified by MOLSS and their financial regulators (CSRC, CBRC and CIRC)
- EA plans must be filed with local social security agencies; (except 187+ SASAC supervised companies who need to file with MOLSS directly)
- Plan fees:
 - max of 1.4% asset based fees by trustee(0.2%), investment managers(1.2%) and custodian(0.2%)
 - plus max RMB 5/member/mo. for administration services paid by ER directly



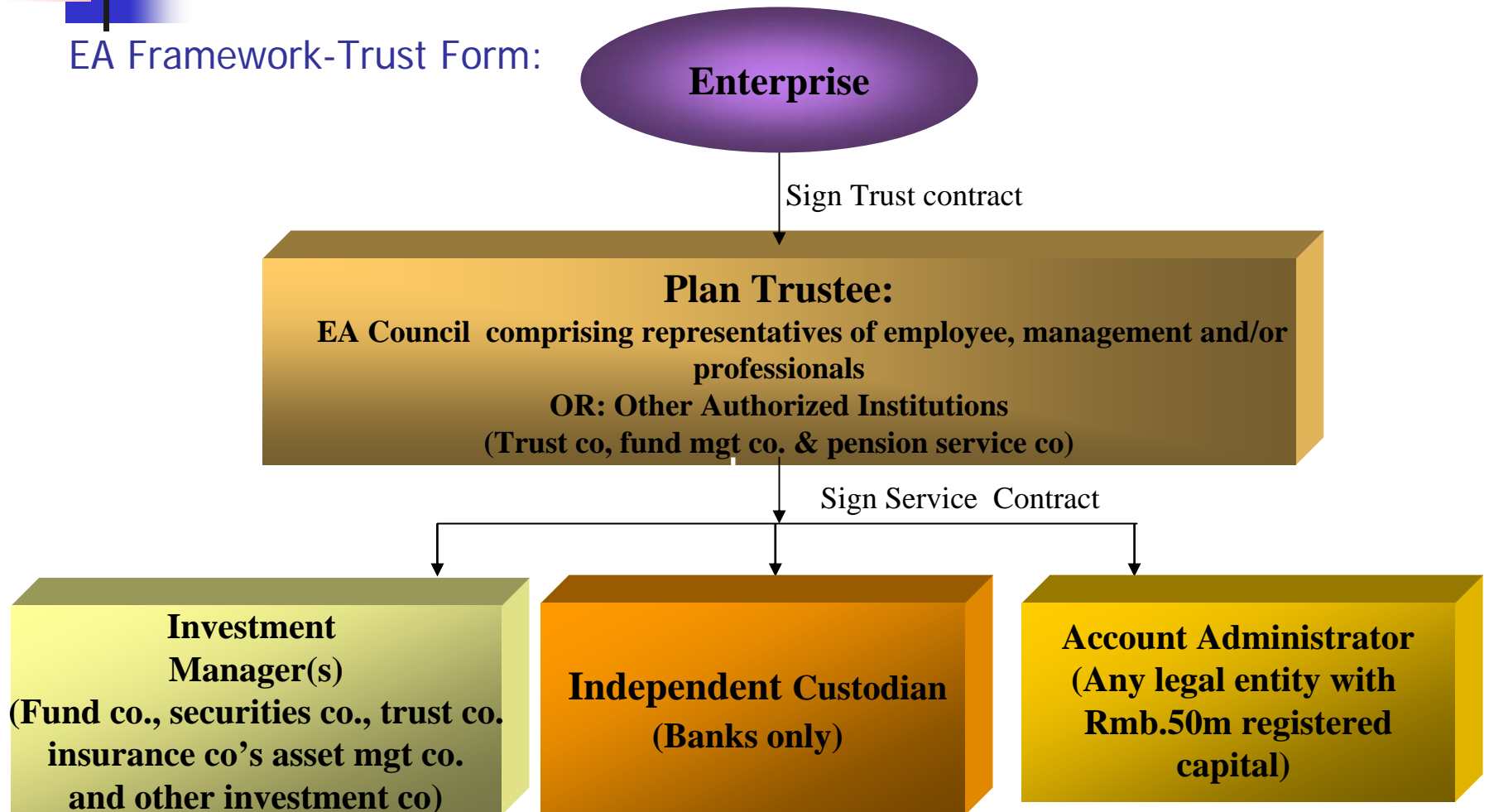
Pillar II: Enterprise Annuity(EA) (cont'd)

- Framework Regulations issued in May 2004
 - Document 20: “Temporary Provision of EA” by MOLSS
 - Document 23: “Temporary Provision of EA Fund Management” by MOLSS, CBIC, CSRC and CIRC

- Implementation regulations issued in Feb. 2005
 - “Provisional Measures on certifying EA Fund Management Institution Qualifications”
 - “Guiding Standard of EA Administration Information System”
 - “Guiding Standard of EA Administration Information System”
 - “Rules used by reviewing Experts in certifying EA Fund Management Institution Qualifications”

Pillar II: Enterprise Annuity(EA) (cont'd)

EA Framework-Trust Form:





Pillar II: Enterprise Annuity(EA) (cont'd)

- Roles of Each Providers
 - Trustee
 - Investment Managers
 - Custodian
 - Administrator
 - Other intermediaries: Consultant, accountant & auditor, actuary and legal advisor...



Pillar II: Enterprise Annuity(EA) (cont'd)

■ Licensing

- Primary Licensing by respective financial service regulators:
 - Banks and trust companies: CBRC
 - Insurance companies: CIRC
 - Securities and fund management companies: CSRC
- Secondary qualification approval by MOLSS for four EA roles
- Timing of the license issuance:
 - Periodically decided by MOLSS
 - 1st group of applications is submitted on 16-27 May 2005 and expected to be issued within 1-2 months
- Capital requirements of four major providers(in RMB):
 - Trustee: 100m
 - Custodian: 5b
 - IM: 1b for securities co. & 100m for others
 - Administrator: 50m



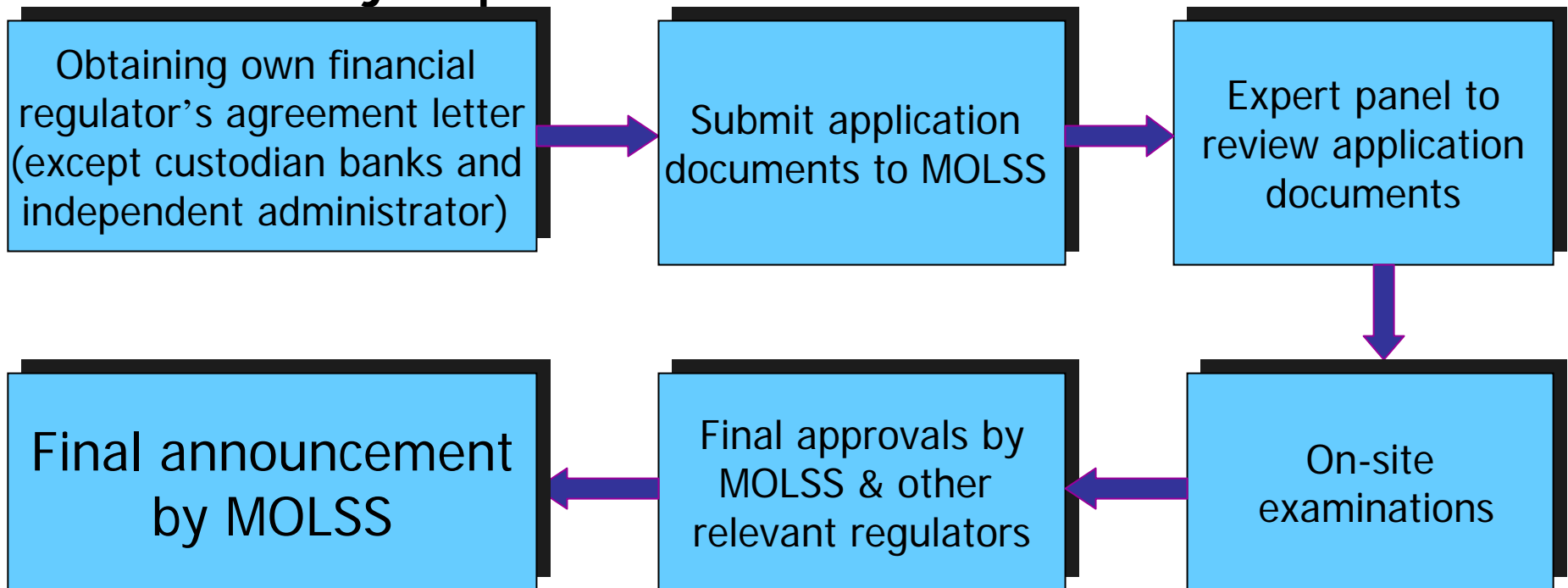
Pillar II: Enterprise Annuity(EA) (cont'd)

- Licensing(cont'd)
 - Intermediaries: No special licenses are required
 - Other special features:
 - Custodian banks: File with CBRC only prior to apply for EA custodian qualification with MOLSS
 - Administrators: No primary regulator, direct application to MOLSS
 - Pension service companies as trustee:
 - No clear definition
 - CIRC approved “pension insurance companies” to enable insurers are qualified to apply for EA Trustee
 - Can other financial services regulators approve pension service company?



Pillar II: Enterprise Annuity(EA) (cont'd)

- General License Procedures for four major providers:



Pillar II: Enterprise Annuity(EA) (cont'd)

Who can be what?

	T	C	IM	A
Trust Companies	✓		✓	✓
Fund Management Companies	✓		✓	✓
Pension Services Companies	✓		✓	✓
Commercial Banks		✓		✓
Securities Companies			✓	✓
Life Insurance Companies			I-L only	✓
Ins Co.'s Asset Management Co			✓	✓
Investment Companies			✓	✓
Non-financial Services Companies				✓
Others				✓



Pillar III: Commercial Group Pensions and Others

- Commercial group pension products offered by insurance companies and regulated by CIRC
- Other forms of individual savings



Pillar III: Commercial Group Pensions

- Main Features:
 - Offered by domestic life insurers through direct sales force, more foreign JV life companies are issued licenses since Dec. 2005 to do group business
 - Participating policies with 2-2.5% guaranteed return account for over 80% of all group policies sold in recent years
 - Investment linked policies are offered by few insurers
 - Tax treatment could be more attractive than EA
 - Contributions mainly made by ER in single pay, regular pay or flexible
 - With individual account
 - More restricted investment requirement: fixed income securities, bank deposits, mutual funds (less than 15%) and equities (less than 5%, not applicable to investment linked and universal policies)



Pillar III: Commercial Group Pensions (cont'd)

- Key Issues:
 - Become “unqualified” plans after the introduction of EA
 - Identical product features by all insurers
 - Sometimes used for income tax avoidance purpose



Questions & Discussion

Thank You