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Current China's DC Market

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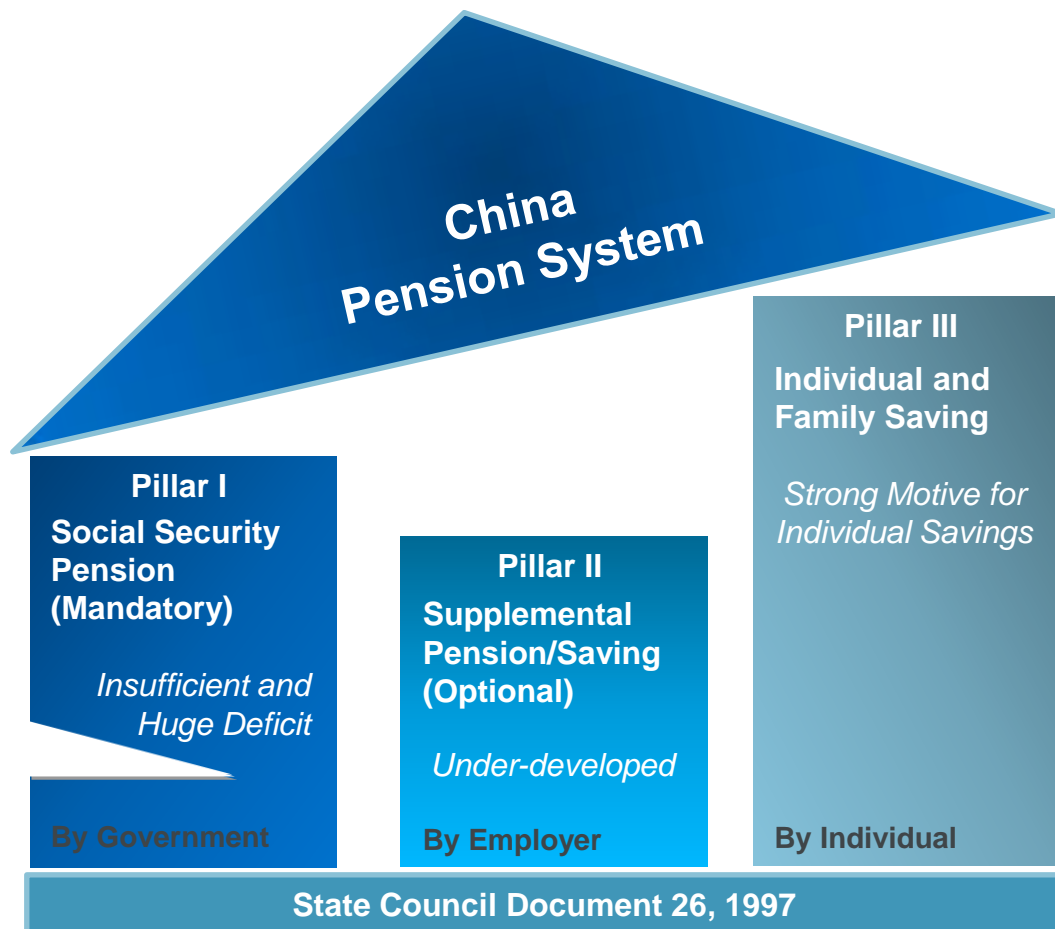


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The Current Pension Market in China

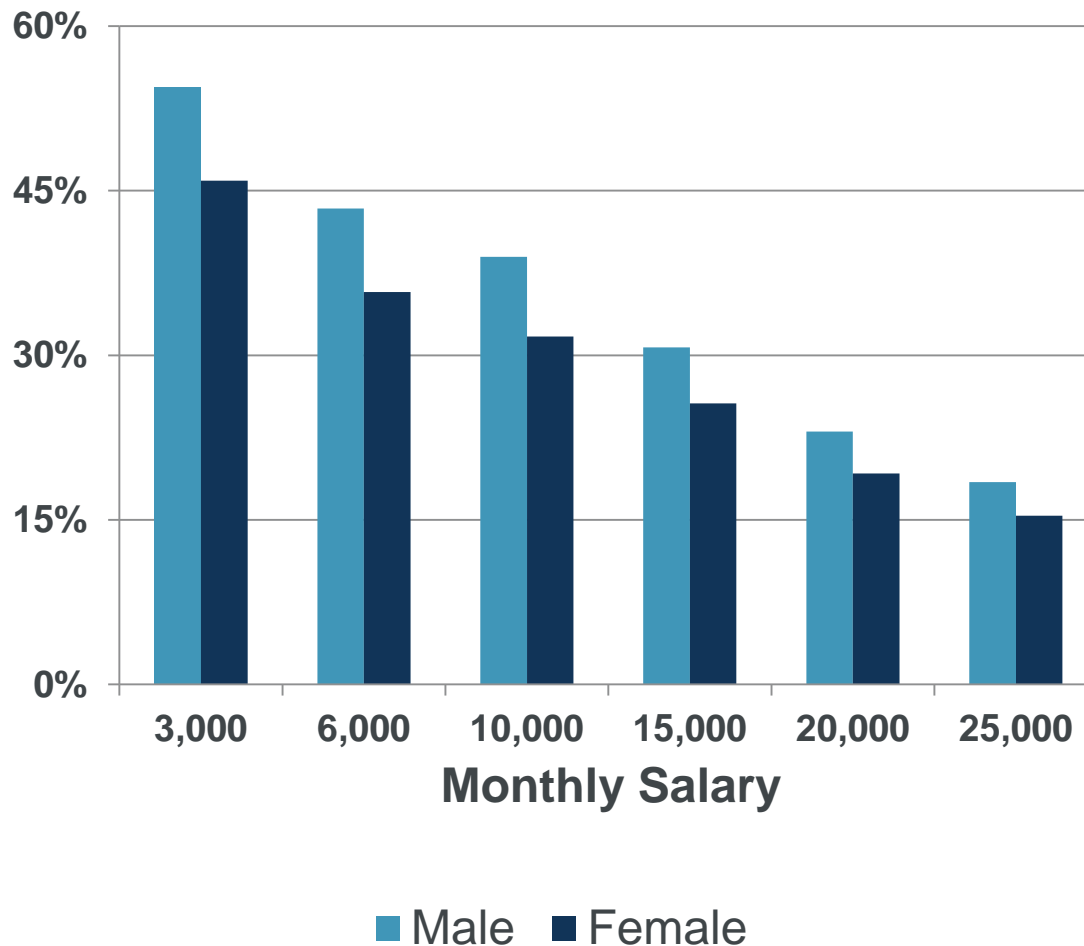
Current Status of China Pension Market



Challenges Under Social Security System:

- Poor Adequacy and Sustainability
- Lack of Detail Regulation for Expatriates
- Low Replacement Ratio for Management Level EEs
- High Growth in Pension Deficit
- Low Investment Return

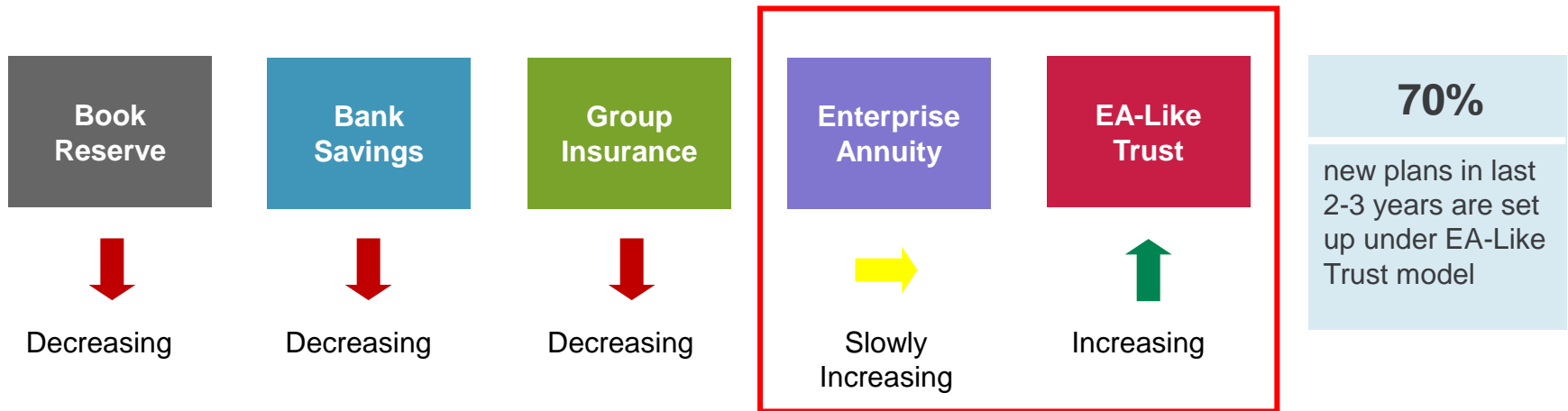
Current State Pension Replacement Ratio



Assumptions:

- Individual born in 1988
- Start working at age 25
- Salary inflation: 5% p.a.
- NRA: Male 65
Female 60
- CAS inflation: 4% p.a.
- Investment Return: 5% p.a.

Trend of Supplementary Pension Plan



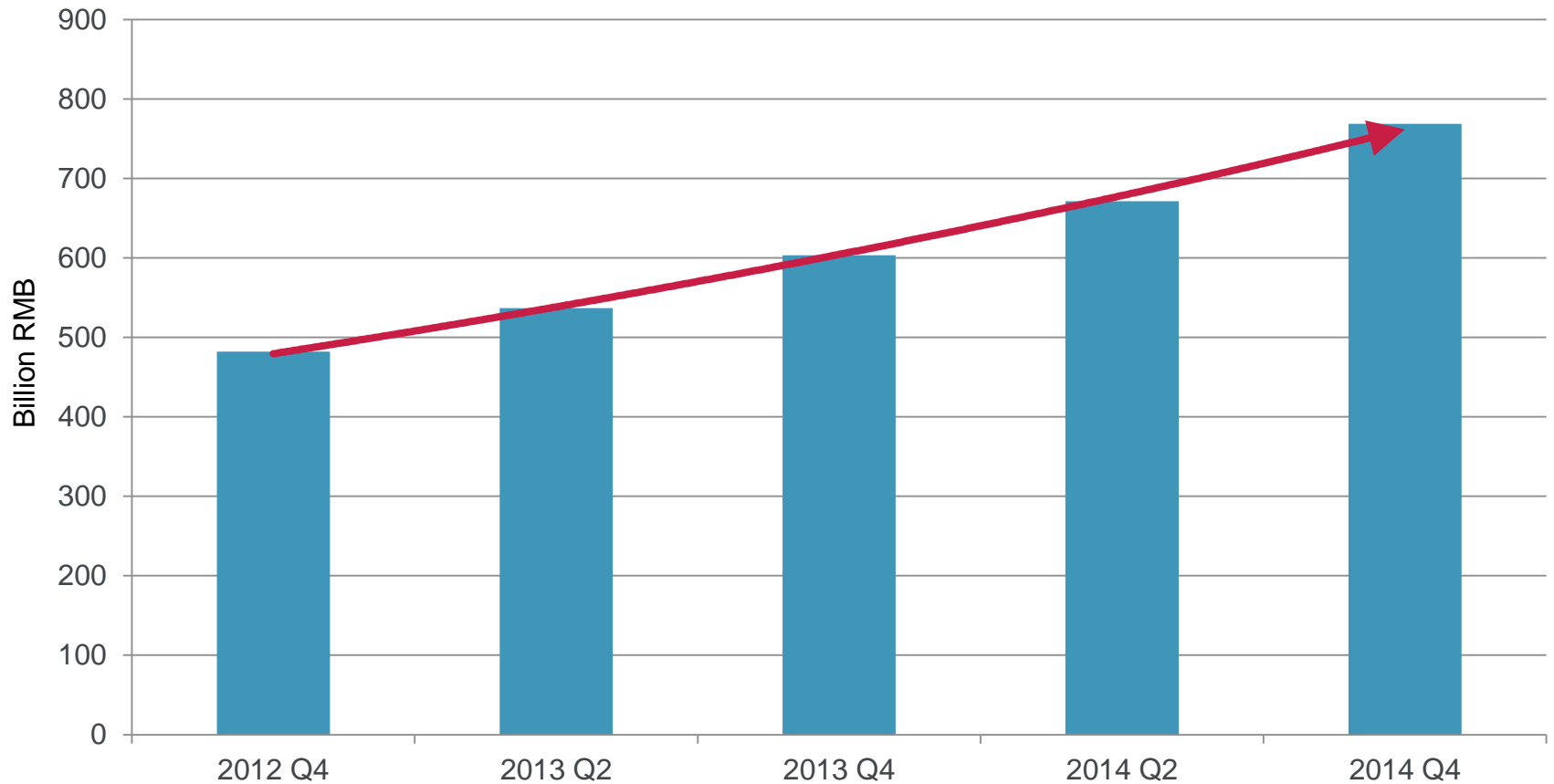
Enterprise Annuity (EA)

- Required model for state-owned enterprises (SOE)
- Corporate and individual tax incentives on contributions
- Plan design / investment restrictions
- Strict filing process
- Developed slower than expected

EA-Like Trust

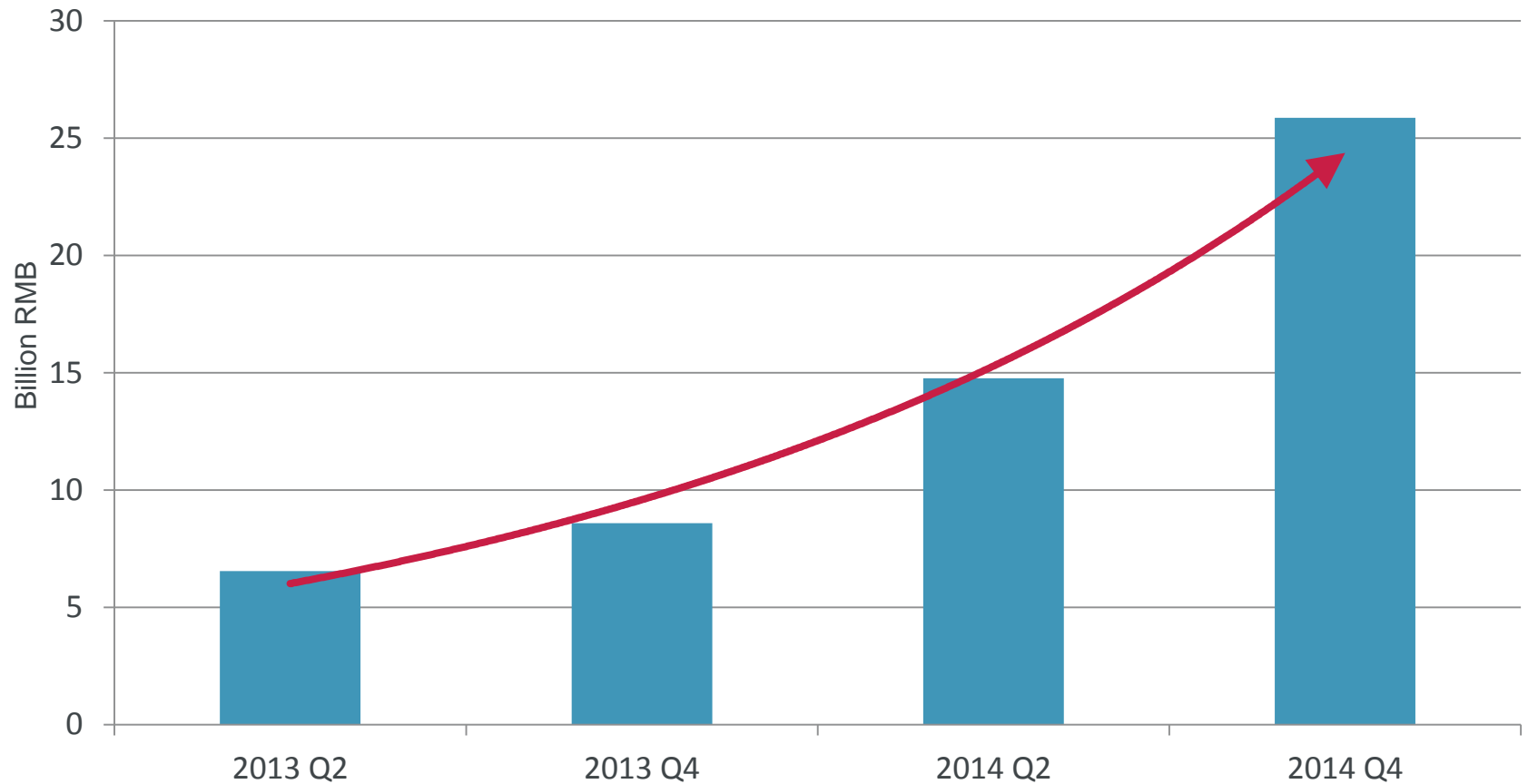
- Common adopted Wealth Accumulation vehicles globally
- Similar governance model to EA
- Flexibility in plan design and investment options
- Preference for this model in recent years

EA Total Asset Under Management



Source: Aon China DC Database

EA-Like Trust Total Asset Under Management



Source: Aon China DC Database







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Recent Changes

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Enterprise Annuity Policy Changes

		New EA Policy	Old EA Policy	Non-EA Policy
	Employer Contribution	Tax Deferred <i>Within limits</i> Capped at up to 5% or 8.33% of last year total salary	Subject to IIT <i>Limited Relief</i>	Subject to IIT <i>Combined with Salary</i>
	Employee Contribution	Tax Deferred <i>Rate within 4% and base within 3*City Average Salary</i> Capped at up to 8.33% of last year total salary	After-tax Salary	After-tax Salary
	Investment Income	Tax Deferred <i>Taxable upon withdrawal</i>	Tax Exempt	Tax Exempt
	Benefits Withdrawal	Subject to IIT	Tax Exempt	Tax Exempt

*City average salary would be different from city to city, hence the employee contribution would be different from city to city for EA policies



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Most Popular Form of Supplemental
Pension Plan (DC)

A Typical Supplemental Pension Plan

	Supplemental Pension Plan
Membership Category	<ul style="list-style-type: none">• All employees
Eligibility	<ul style="list-style-type: none">• After probation
Employee Contribution	<ul style="list-style-type: none">• Fixed rate of pay: 4%
Employer Contribution	<ul style="list-style-type: none">• Fixed rate of pay: 5%
Vesting	<ul style="list-style-type: none">• Graded vesting of 8 years

Source: Aon China DC Database

Current Common Supplemental Pension Model

	Insured Model	EA-Like Trust	EA– China
Operation Model	▪ Insured pension	▪ Trust based plan	▪ Trust based plan
Filing Process	▪ No	▪ No	▪ Require approval from union and government bodies
Contribution	▪ Flexible	▪ Flexible	▪ ER: 5% of pay ▪ EE: 4% of pay (capped at 3CAS)
Individual Tax	▪ Paid at contribution	▪ Paid at contribution	▪ Deferred to withdrawal
Withdrawal	▪ Typically not allowed	▪ Flexible	▪ Not allowed
Investment Options	▪ Only under Unit-Link Insurance or Compo products	▪ Commingled funds available ▪ Wider asset allocation	▪ Commingled funds available ▪ Less than 30% of the assets is invested equity/stock
Investment Guarantee	▪ Participating Insurance and Universal Insurance: Yes	▪ no	▪ Generally no
How to Stop the Plan	▪ No filings needed ▪ Asset can be transferred immediately when the plan stops.	▪ No filings needed ▪ Asset can be transferred immediately when the plan stops.	▪ Work union endorsement and filing with local labor authorities; ▪ Asset cannot be transferred or withdrawn immediately



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Difference between China and UK/US

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ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Focus of the Employer

- China
 - Recruitment and Retention
 - Performance of the chosen Investment Manager
 - Participation rate/ Efficiency of the Plan
 - No losses occurred for the unvested portion of the asset
- UK/US
 - Recruitment and Retention
 - Employee's post retirement protection/ pension adequacy
 - Employees' Investment Choices
 - Support for Employees (guidance and advise)

Fund choices

- China
 - Limited Providers
 - Most provider have a hand full of fund choices
 - Similar asset allocation across the available products
- UK/US
 - Large Fund choices
 - Selection based on individuals' risk appetite
 - Lifestyle/ Target date Fund

Focus of Employee

- China
 - Investment performance
 - Vesting Schedule
 - Withdrawal options
- UK/US
 - Investment performance
 - Fund choices
 - Expected retirement income



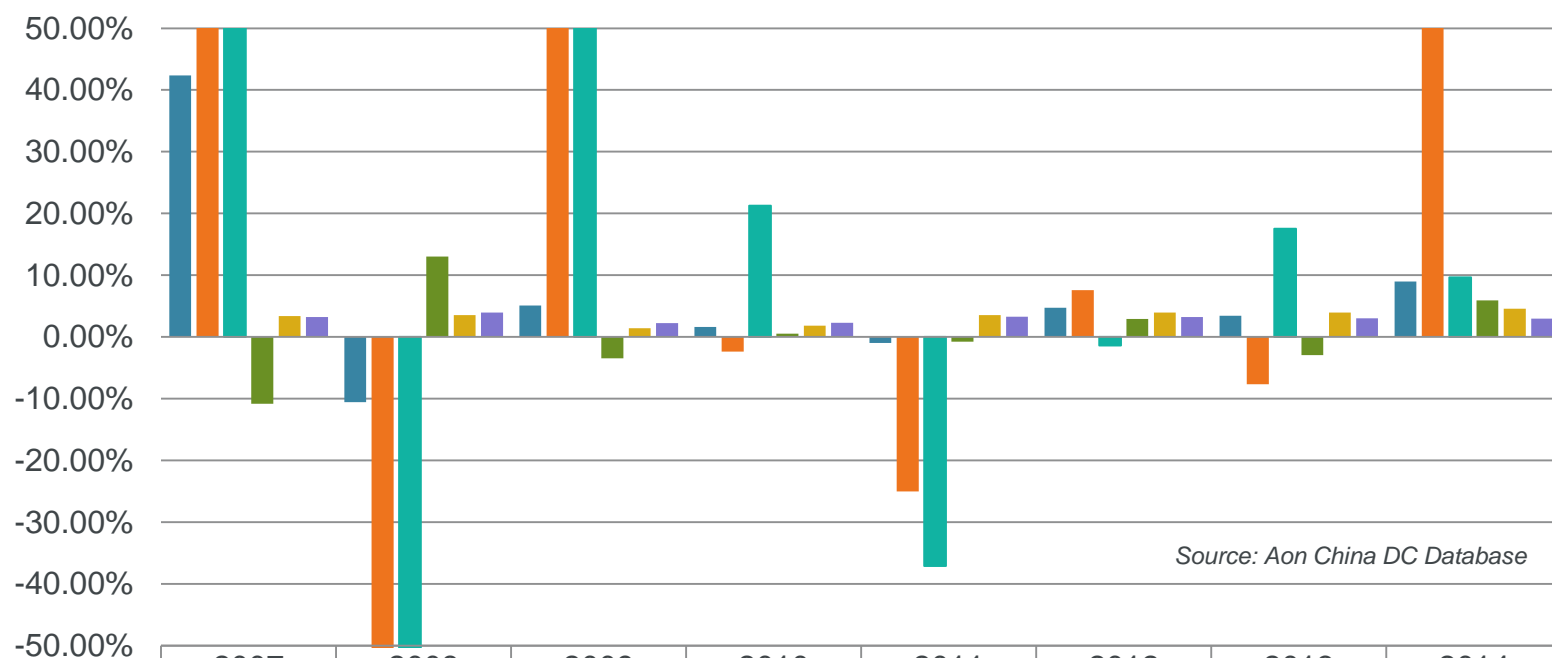
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DC Fund Performance and Asset Allocation

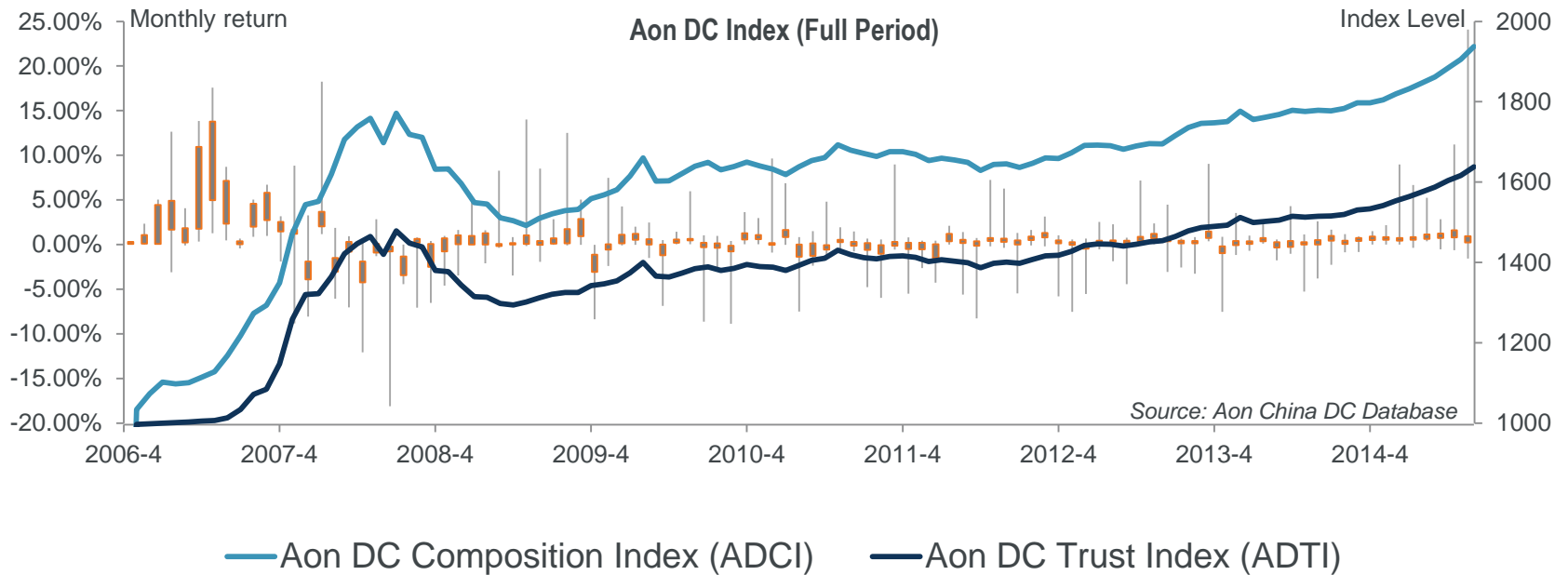
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Aon DC Index VS Market Performance

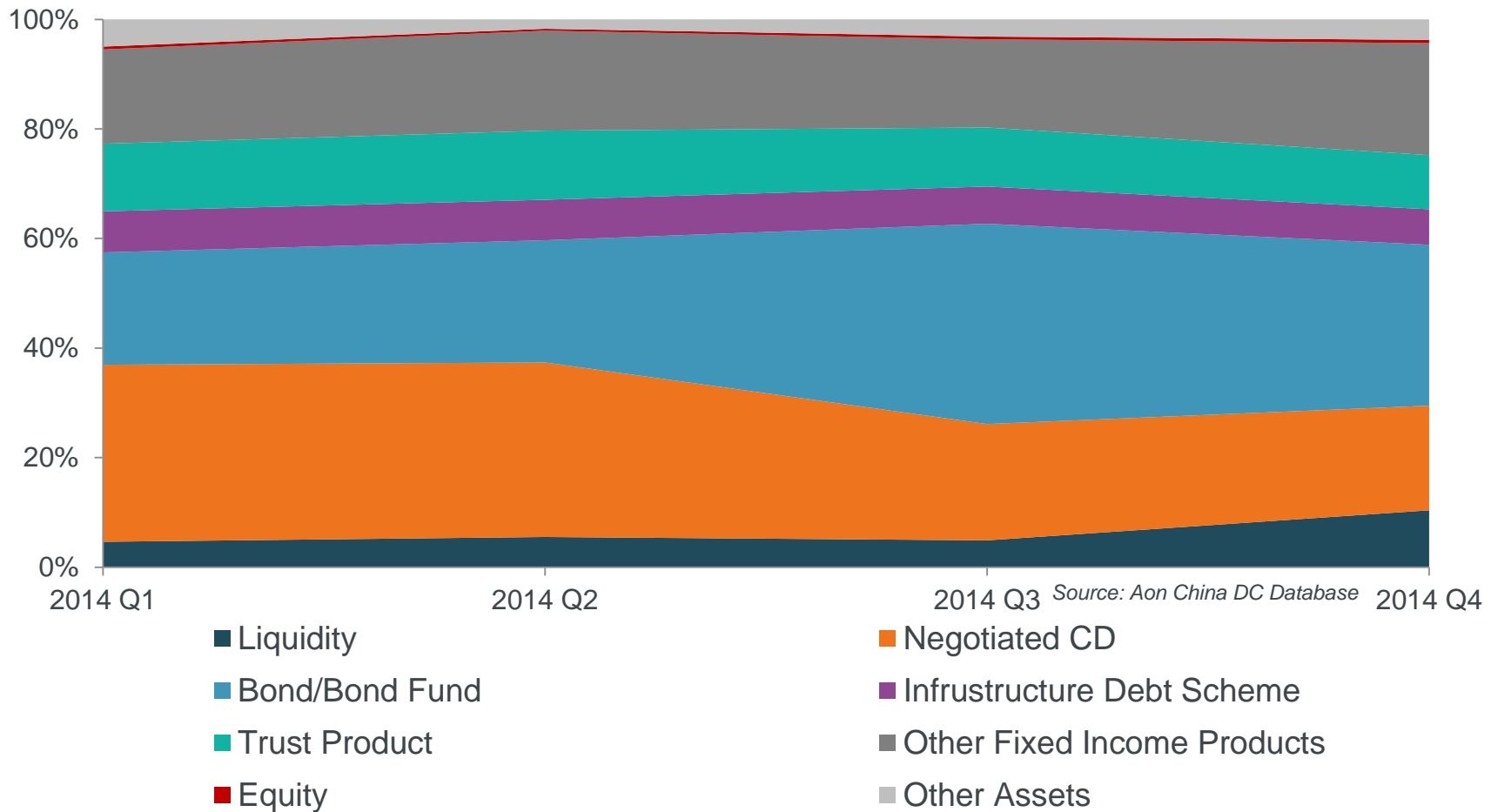


Source: Aon China DC Database

Aon DC Index Performance



Aon DC Asset Allocation



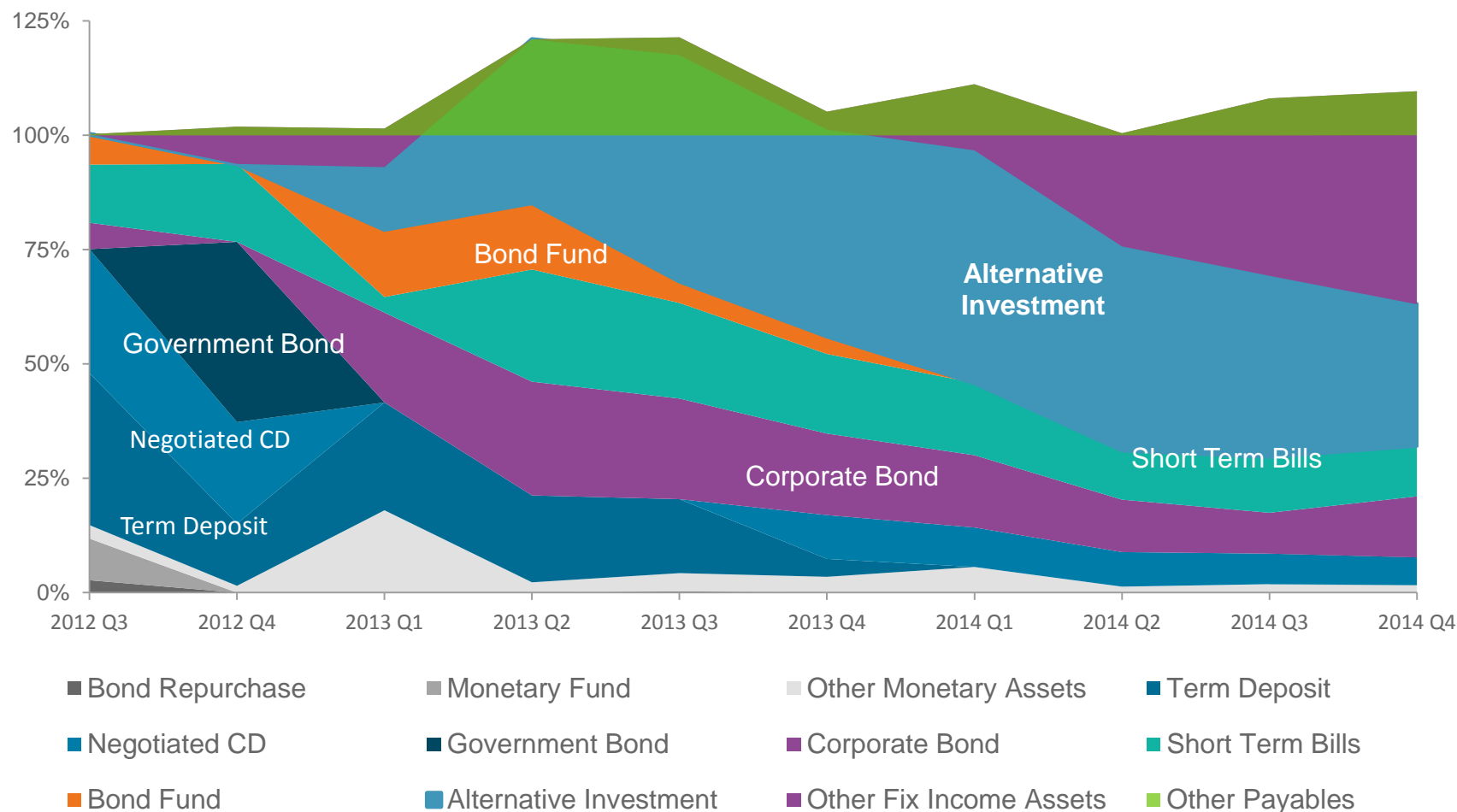


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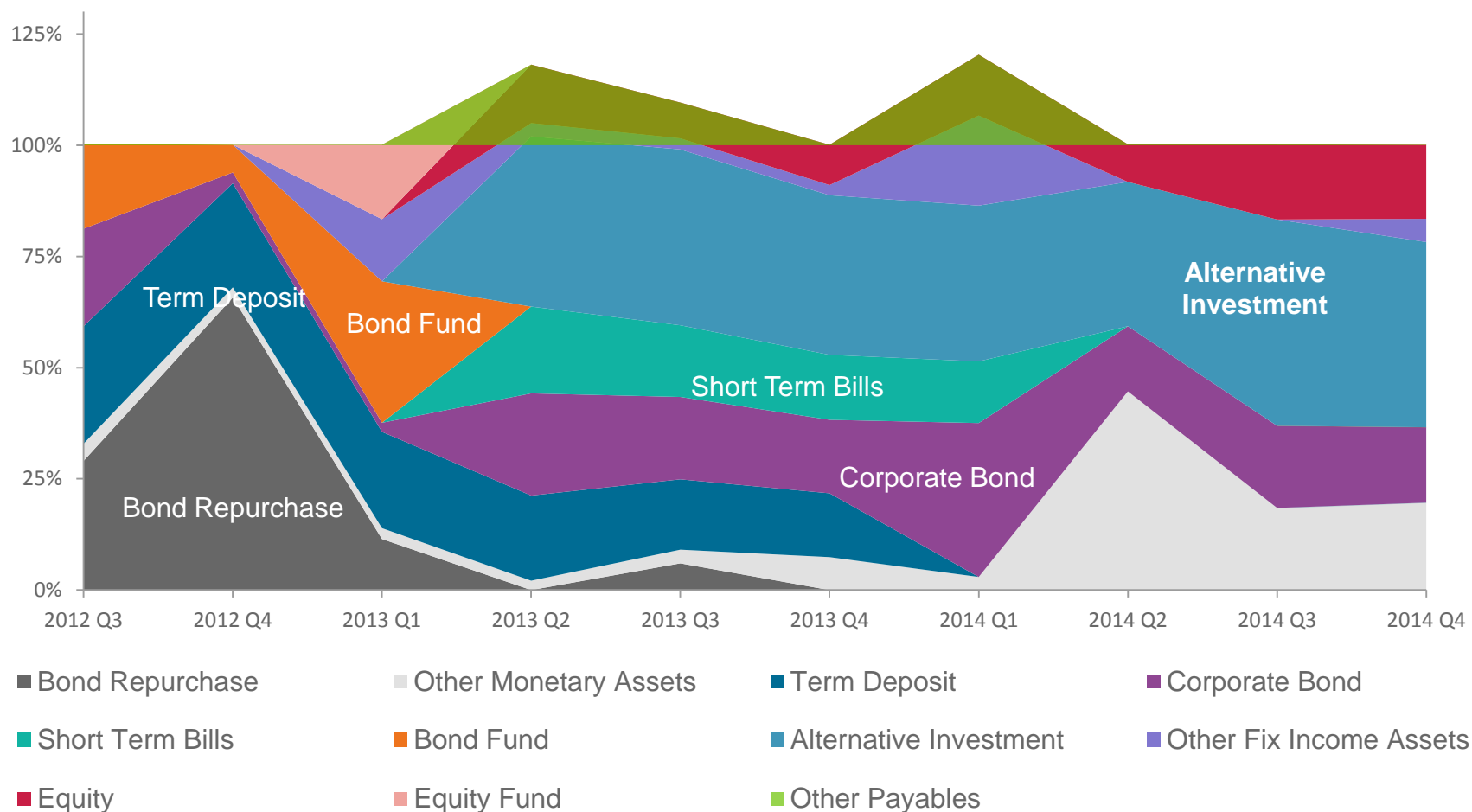
Alternative Investment Suggestions

Sample of a Conservative Fund Asset Allocation



Source: Aon China DC Database

Sample of a Mixed Fund Asset Allocation



Source: Aon China DC Database

Advantage and Disadvantage of Alternative Investment Assets

- Stability
- Diversification
- Risk management
- Downside Protection (Hedge Funds)
- Illiquidity
- Market Restrictions
- Communication/ Education
- Limited Financial Tools



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Post Retirement Treatment Currently
Available in China

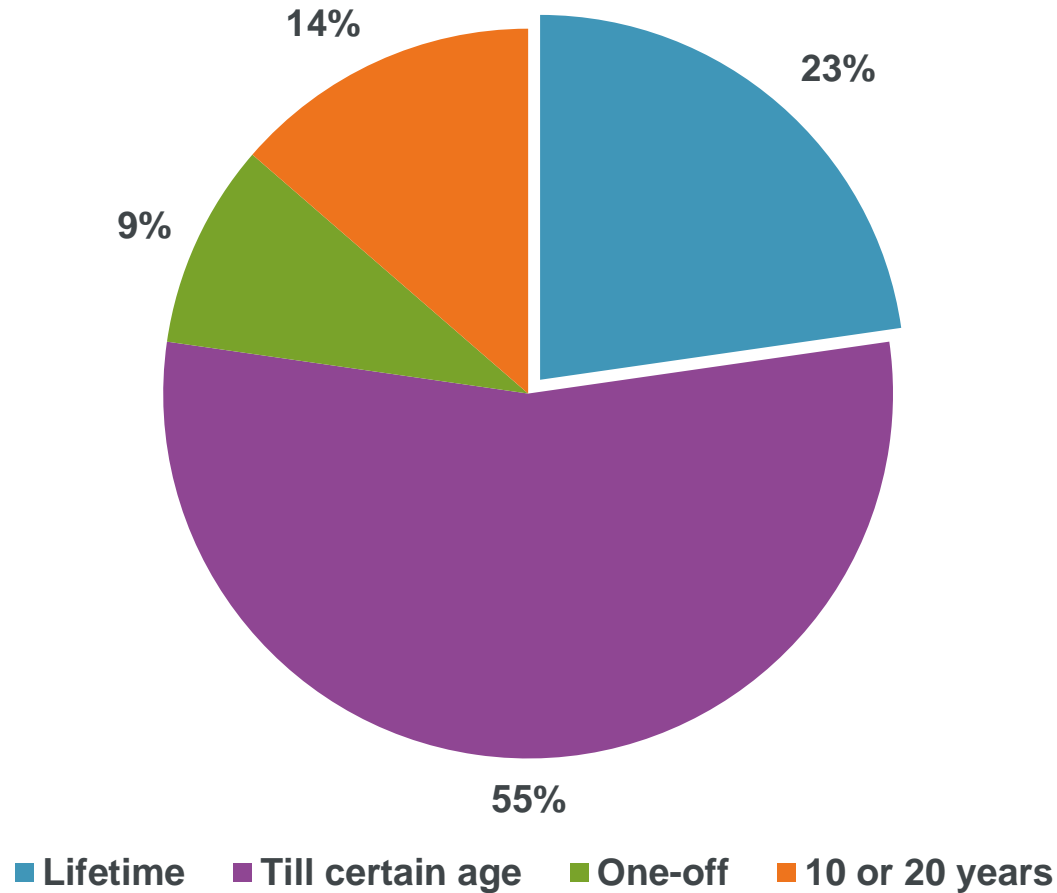
Common DC Practice

- Lump sum withdrawal
- Income Drawdown
- Annuitization

Annuity

- Provide retirement income protection
- Premium paid by individual
- At retirement age (pre-defined by the contract), a frequent payment will be paid by the insurance company
- This payment will be paid till the death of the policy holder or until a certain age.

China Annuity Product Features



China Annuity Product Features

- Limited providers
- Limited/No spouse benefit with complicated terms and conditions
- Unable to provide protection against Investment and Longevity risk
- Mostly in the form of Participation Insurance, lack of reasonable investment transparency
- Unable to fulfill the actual needs of retirement protection



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Proposed Ideal Post Retirement
Solutions

Personal Retirement Considerations

- Pre-Retirement:
(Investment)
 - Aim for asset accumulation
 - Individual risk appetite
 - Risk appetite often changes along with aging
 - Often able to take higher risk at a younger age
- At Retirement:
(Risk Protection)
 - How to distribute asset
 - What protection required:
 - Life-time payment
 - Inflation Protection
 - Spouse Benefit
 - Guaranteed Payment Period

Questions?

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