



Private pensions in Asia

Challenges and opportunities in a post-crisis world

Designing Fiscally Sustainable and Equitable pension systems in Asia in the post crisis world

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Background

Issues across Asia

Demography

Rapidly ageing populations

Economic

Strong economic growth

Retirement age

Early retirement ages

Retirement savings

Low coverage of formal retirement savings

Other savings

Household savings rates typically high

Family support

Traditionally important, but possibly fading

What is the role for private pension saving?

Themes

Adequacy

- Are 'general' savings likely to be adequate to provide for retirement?

Efficiency

- How efficient are these savings?

What can be done to encourage retirement savings

- How can retirement savings be delivered?

Discuss these questions in context of three key Asian economies

- China
- India
- Korea

We examine

1. Attitudes to saving
2. Recent developments in private pension provision
3. Challenges for the future

Attitudes to saving

Towers Watson Savings Attitudes Survey

TW Savings Attitudes Survey (2011)

The survey

- Savings behaviour and retirement preferences of urban middle-class employees in China and India
 - Typical respondent male, young, urban middle-class working in formal sector, wealthier than average
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	China	India
Number of respondents	2261	2440
Average age	33.3	32.5
Average salary (\$USD)	\$15,208	\$18,119

Household savings

Is there an adequacy problem?

Savings

- High rates of saving in both China (avg. 27%) and India (22%)
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Assets

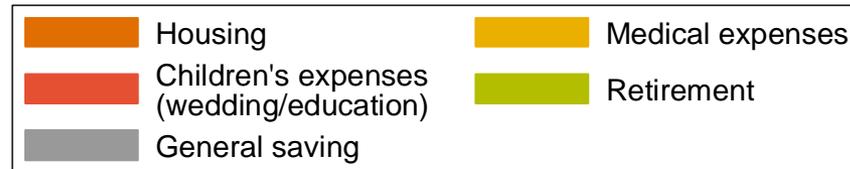
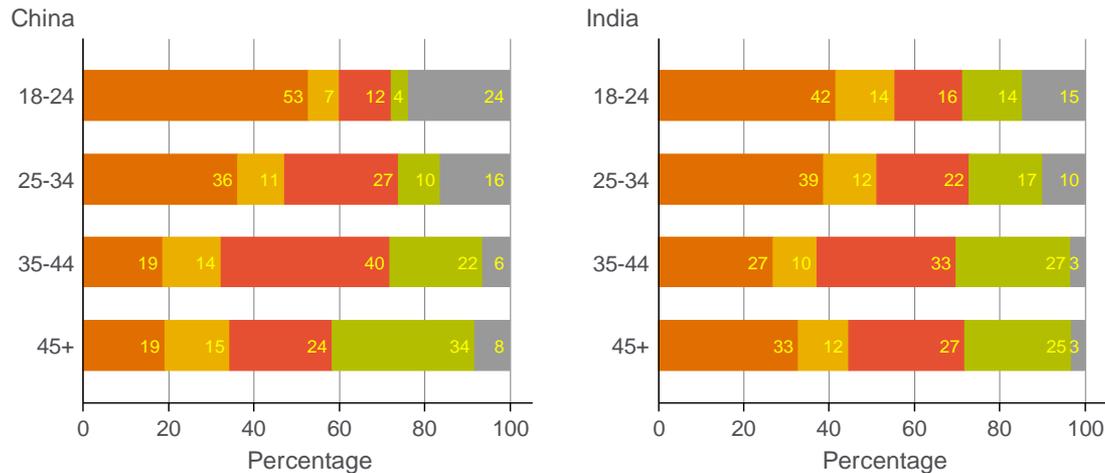
- Significant assets holdings – much of which is invested in housing
-

Age group	China		India	
	Average value assets (USD)	Average house value (USD)	Average value assets (USD)	Average house value (USD)
18-24	49,400	140,200	47,700	149,500
25-34	97,700	169,300	74,700	166,600
35-44	159,000	196,400	112,000	153,100
45+	176,700	220,200	88,600	143,100

Motivations for saving

Most important reasons for saving

What factors are most important in motivating you to save



Towers Watson Savings Attitude Survey, 2011

Without thinking much about retirement many have adequate savings

Saving for retirement

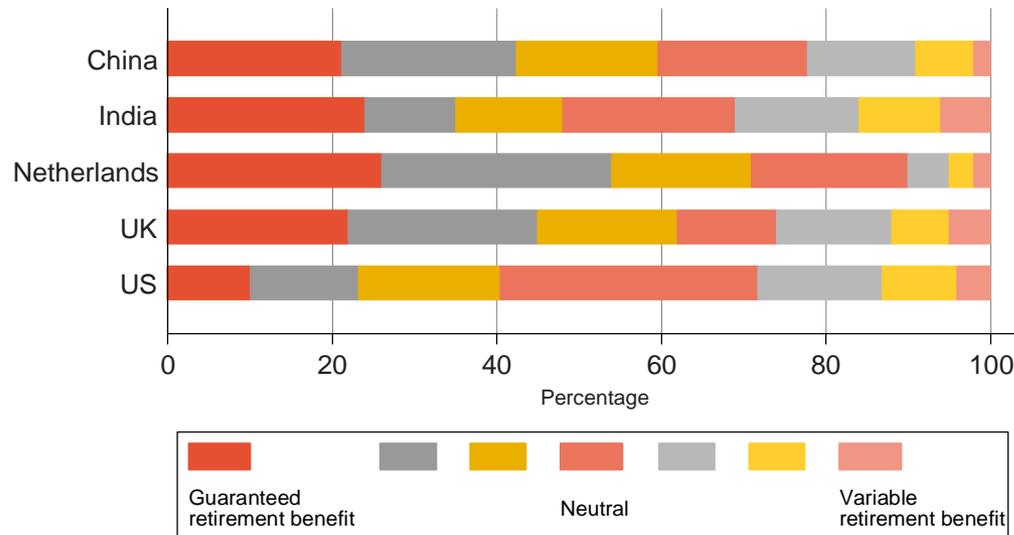
Employee preferences for retirement saving

Attitudes

- Employees do not exhibit a strong preference for forgoing pay for retirement provision
- But typical employee risk averse

Choice between ...

A guaranteed retirement benefit and a potentially greater retirement benefit, but which depends on investment returns



Towers Watson Retirement Attitudes Surveys 2011

Encouraging retirement savings

The challenges of complexity, choice and distribution

Complexity

What a Potential Saver in India sees....

The name of the product means essentially that it makes your life simpler

JEEVAN SARAL GOLDEN PEACOCK AWARD WINNER PLAN For Daughter's Marriage, Children's Higher Education, Happy Retirement & Any Emergency Requirement											
Year	255	510	766	1021	1531	2042	3063	4083	6125	8167	10208
1	0	0	0	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0	0	0
3	5122	10244	15366	20488	30732	40976	61464	81952	122928	163904	204880
4	8199	16398	24597	32796	49194	65592	98388	131184	196776	262368	327960
5	11815	23630	35445	47260	70890	94520	141780	189040	283560	378080	472600
6	14688	29376	44064	58752	88185	117580	176370	235160	352740	470320	587900
7	17703	35405	53108	70810	106215	141620	212430	283240	424860	566480	708100
8	20835	41670	62505	83340	125010	166680	250020	333360	500040	666720	833400
9	24118	48235	72353	96470	144705	192940	289410	385890	578820	771760	964700
10	53227	106452	159679	212904	319356	425908	638712	851616	1277424	1692993	2103740
11	62526	125052	187577	250101	375152	500203	750304	1000406	1500608	1950692	2446114
12	72883	145766	218649	290733	436099	581465	872196	1162930	1744395	2258181	2822726
13	84085	168170	252285	336340	504510	672680	1009019	1345359	2018039	2589959	3236999
14	96820	193640	290460	387280	580920	774560	1161839	1549119	2323679	2954159	3692899
15	111099	222198	333298	444397	666595	888794	1333180	1777587	2666381	3355175	4193969
16	128462	256924	375386	503866	755800	1007633	1510099	2013466	3020199	3786293	4745366
17	141986	283972	425958	567940	851910	1135880	1703820	2271760	3407640	4281523	5351903
18	159705	319410	479115	638819	958229	1277838	1916547	2555276	3832915	4815276	6019094
19	179095	358190	537285	716380	1074570	1432760	2149140	2865520	4308880	5492404	6753004
20	200370	400740	601110	801480	1202230	1602960	2404440	3205920	4808880	6048245	7560305
21	223646	447291	670938	894585	1341874	1789166	2683749	3578332	5367498	6758670	8448336
22	249179	498358	747537	996716	1495074	1993433	2990149	3986865	5980298	7540137	9425170
23	277110	554219	831329	1104838	1662657	2216876	3325314	4433732	6650628	8399752	10499888
24	307749	615497	923247	1230995	1846492	2461989	3692984	4923979	7385968	9345328	11681658
25	341275	682551	1023826	1365101	2047652	2730292	4095304	5460405	8190607	10385482	12981828
26	378058	756115	1134172	1512229	2268344	3024459	4536688	6048917	9073376	11529610	14412098
27	418315	836630	1254944	1672259	2508889	3346518	5019778	6693037	10039555	12788172	15985210
28	462488	924976	1387463	1849951	2774927	3699902	5548953	7399805	10999707	14172590	17715732
29	510947	1021894	1532841	2043788	3065682	4087577	6131365	8175153	12262730	15969450	19619306
30	564128	1128256	1692384	2266511	3384787	4513022	6789533	9028044	13539067	17370998	21713238
31	622281	1244562	1866843	2489123	3733685	4978246	7467370	9956493	14934739	19213256	24016582
32	686265	1372529	2058794	2745059	4117588	5490117	8235176	10980234	16470351	21240182	26550218
33	756293	1512585	2268870	3025176	4537756	6050341	9075511	12106682	18151022	23466900	29337240
34	833233	1666466	2499699	3329329	4999399	6665895	9998797	13331730	19997595	25922380	32402964
35	917778	1835551	2753326	3671102	5506652	7342203	11013305	14684407	22026610	28630218	35775286

* Basic Sum Assured (Including Double Accident Benefit) *End of Policy Year Calculation as per Scenario II of I.R.D.A.

BSA	62500	125000	187500	250000	375000	500000	750000	1000000	1500000	2000000	2500000
ECS	255	510	766	1021	1531	2042	3063	4083	6125	8167	10208
QLY	766	1531	2297	3062	4594	6125	9187	12250	18375	24501	30625
HLV	1516	3032	4549	6065	9097	12139	18195	24260	36390	48520	60650
YLV	3062	6065	9097	12010	18015	24020	36030	48040	72060	96080	120100

*Insurance is the subject matter of solicitation.

जीवन सरल

ATM

WINNER OF GOLDEN PEACOCK AWARD FOR THE MOST INNOVATIVE PRODUCT

LIC's Monthly Recurring Scheme

LIC's Schemes Always one Step Ahead

- Tax Free Maturity in LIC Schemes under section 10 (10D) of Income Tax Act.
- Partial or Full withdrawal allowed after 10 Yrs.
- One can deposit Yearly, Half Yearly, Quarterly or Monthly (ECS) in LIC Plans, like Post Office's R.D. Scheme.
- Premiums deposited are exempted under section 80C of Income Tax Act in LIC.
- LIC Schemes can be of 10 Yrs. or more but in Post Office Schemes, one can not continue after 10 Yrs.
- Under this plan, 250 times Monthly Premium + Total Premiums Paid (—) (1st year premium + Extra premiums paid) + L.A. (if any) is payable in case of death.
- Under LIC Schemes one gets returns beyond 10 years, if forgets to take the Maturity Payment at the end of 10 years. This feature is not available with Post Office Schemes.

एल.आई.सी. योजनाएं ... हमेशा एक कदम आगे

LIC की योजनाओं में -

- परिपक्वता (Maturity) राशि आपके को धारा 10 (10D) के अनुसार आपके मुक्त।
- आंशिक एवं पूर्ण राशि निकालना संभव 10 वर्ष बाद (कभी भी)।
- पोस्ट ऑफिस को R.D. योजनाओं को तरह वार्षिक/अर्द्धवार्षिक/तिमाही/मासिक (thru ECS) भुगतान करने को सुविधा।
- न्यून प्रीमियमों को आपके को धारा 80C में छूट प्रदान है।
- 10 वर्ष या उससे अधिक समय तक निवेश कर सकते हैं। जबकि पोस्ट ऑफिस की योजनाओं में नहीं।
- बीमा सुरक्षा उपलब्ध है। मृत्यु की दशा में मासिक प्रीमियम का 250 गुना + कुल प्रदत्त प्रीमियम (—) (प्रथम वर्ष की प्रीमियम तथा अतिरिक्त प्रदत्त प्रीमियम) + सहपरिगत स्वध (चॉइस) देय होता है।
- अगर 10 वर्ष बाद पैस नहीं लिया तो भी अपने साल ब्याज (चोस) मिलेया जबकि पोस्ट ऑफिस में यह सुविधा उपलब्ध नहीं है।

LIC v/s Monthly Recurring Scheme
Maturity at the end of 10 years in Monthly Scheme

PREMIUM	LIC	POST OFFICE	LIC GAIN
510	1,06,452 + Free Insurance	89,228 - Income Tax	17,224
1021	2,12,904 + Free Insurance	1,78,546 - Income Tax	34,358
1531	3,19,356 + Free Insurance	2,67,819 - Income Tax	51,537
2042	4,25,808 + Free Insurance	3,57,152 - Income Tax	68,656
3063	6,38,712 + Free Insurance	5,35,726 - Income Tax	1,02,984
4083	8,51,616 + Free Insurance	7,14,304 - Income Tax	1,37,312
5104	10,64,520 + Free Insurance	8,92,880 - Income Tax	1,71,640
6125	12,77,424 + Free Insurance	10,71,426 - Income Tax	2,05,998
7146	14,72,617 + Free Insurance	12,50,032 - Income Tax	2,22,585
8167	16,62,993 + Free Insurance	14,28,608 - Income Tax	2,34,385
10208	21,03,740 + Free Insurance	17,85,760 - Income Tax	3,17,980

IS THERE ANY POSSIBILITY TO EARN 20.25% MORE BONUS
How it may be possible.....
Say LIC earns Rs. 6000 bonus per 100000 SA
LIC pays 12.5% as surplus tax on Rs. 60000 i.e. Rs. 7500 gone
So bonus left for payment account 52500.
LIC further pays 5% dividend tax to Govt. of India of 5250.
So another Rs. 26250 gone. Likely Bonus is left Rs.498750
SARAL is a way through which above two deduction can be avoided
Total amount can be passed to policy holders
IF BONUS IS 4987 FOR 1 LIC SO IN SARAL POLICY HOLDER WILL GET 6000.
Hai no Maje Ki Baat!!!!!!!!!!!!!!!!!!!!!!!!!!!!

*Insurance is the subject matter of solicitation.

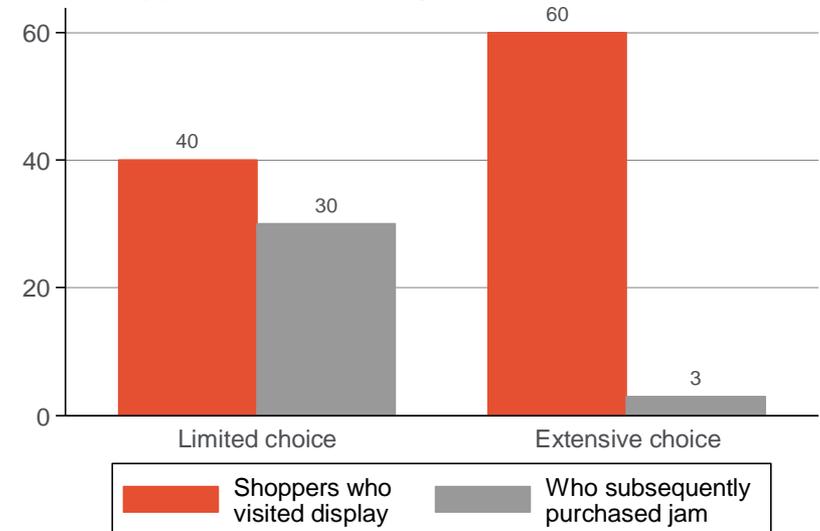
Choice

Excess choice can be demotivating

- The number and complexity of choice can be overwhelming for many
- Consumers are more likely to purchase items and be more satisfied with their choices when fewer options are available
- Although people enjoy the idea of having greater options, in reality they find the process of choosing more difficult

How choice can be demotivating

Decision to buy jam based on the degree of choice



Source: Lepper and Iyengar (2000)

Distribution

Distribution channels

Needs

- Many employees lack financial knowledge – need help to make financial decisions
- Products are complicated and technical

Advisory sector

- Independent advisers scarce in most developing markets
- Prevalence of agency and intermediary distribution channels across the region
- Incentives for advisers are often focused too heavily on maximizing assets (and hence fees) and not enough on suitable outcomes for individuals

Role for workplace pensions?

Recent developments

China, India and Korea

China

Current picture

Employer provision

Only about 30% of companies provide employer-sponsored retirement plans

Enterprise annuities (EA)

- At the end of year 2010, 13 million employees from 30,000 companies participated in EA plans.
 - Pickup in adoption of plans in 2011
 - Wave of SOEs setting up EA plans
 - But still small part of private sector urban workforce.
 - MNCs continued to prefer alternative arrangements due to lack of flexibility in design
-

Tax incentives

- Pilot program on tax-deferred individual pension insurance renewed attention
-

India

Growth of National Pension Scheme (NPS)

Key developments

- Reform initiated from mid 2000's – DC pension plan
 - NPS Corporate Model released January 2012 – positive interest from the corporate sector
-

Expect growth in the short-term

- Attractive to due to simplicity and its oversight by the government
 - Preferential tax treatment for NPS contributions and investment returns
-

Regulatory uncertainty

- The Pension Regulatory and Development Authority (PFRDA) Bill is still under discussion in Parliament 7 years after it was tabled
-

India

NPS Corporate Sector model

Design

Employees would have individual (portable) NPS accounts

Limited administration for employer

Investment choice

Default lifestyle fund with some limited investment choice across 3 types of funds

1. Government bonds
2. Corporate bonds / fixed income
3. Equity based (50% limit)

Charges

Low charges (ceiling of 0.25% AUM) after initial fees

Incentives to save

Some matching for those on lower income

Since April 2012, employer contributions tax deductible (up to 10% of salary), but proceeds taxable

But initial evidence is that employee take-up is limited

Korea

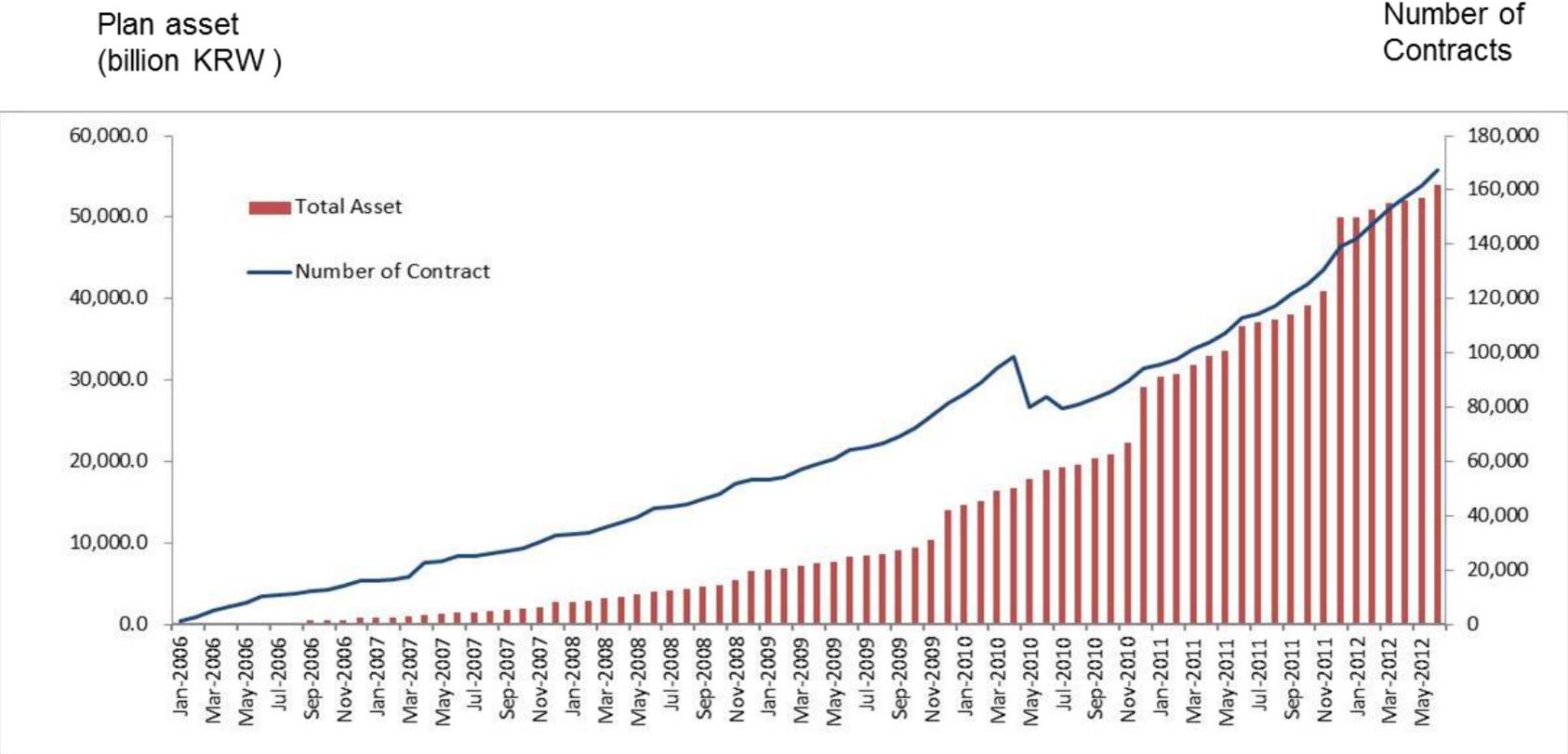
Employers can offer severance pay schemes or retirement plan (DB or DC)

	Severance	DB	DC
Benefit Level	Min of one-month average salary per year of service	Min of one-month average salary per year of service	Amount is unknown
Employer Contribution	Amount is unknown Pay benefits to terminating employees	Amount is unknown Meet funding requirement	Minimum of 1/12 (8.33%) of annual salary
Employee Contribution	Not allowed	Not allowed	Additionally at employee's discretion
Employer Tax Consequences	Tax deductibility is being deferred	Tax deductible	Tax deductible
	Possible	Not allowed / borrowing is possible	Allowed under certain conditions / borrowing is possible

Requires majority support of labour

Korea

Sustained growth in retirement provision

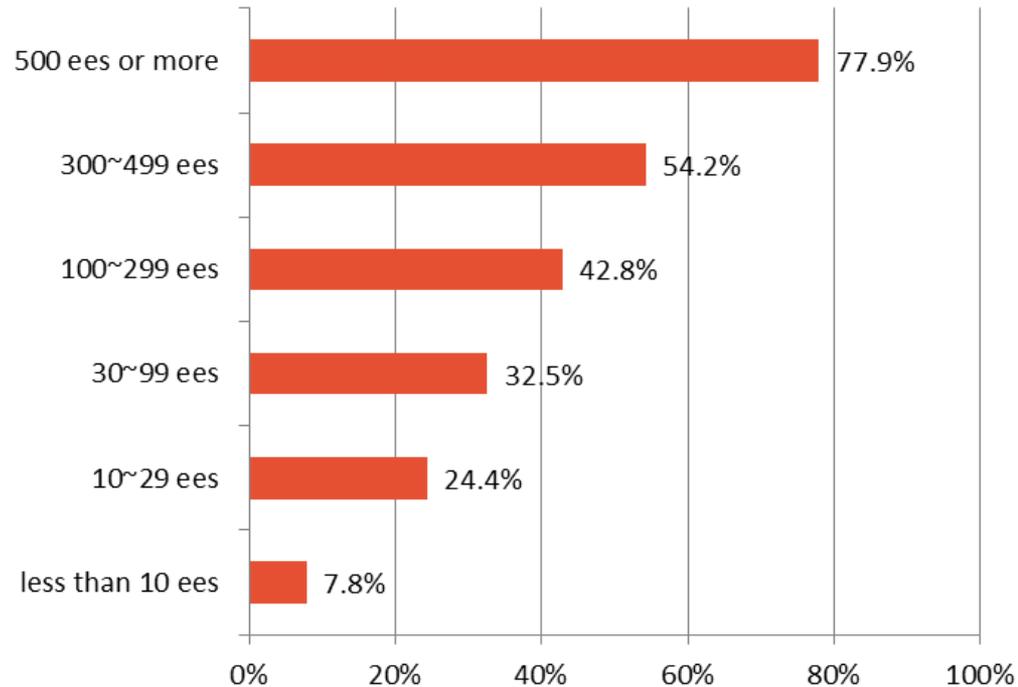


Source: Ministry of Employment and Labor (As of June 2012)

Korea

But coverage is variable

Employers offering retirement plans



- Large employers prefer DB, while medium and small size firms prefer DC.
- A number of employers have adopted DB and DC, to give employees flexibility toward the type of retirement plan.

Discussion

Conclusions

Retirement savings in Asia

Adequacy

- A retirement crisis in China and India seems unlikely – at least for the educated middle classes
-

Expectations

- But few employees have taken on board ramifications of the ageing population in terms of retirement ages or reduced state support
-

Public policy

- We observe some positive steps to attempt to facilitate private pensions savings, but in infancy
-

Key challenge

- Changing the culture of saving – to encourage long-term saving
-

How can we better design products to encourage retirement saving

Encouraging private retirement savings in Asia

Common approaches

- Portable benefits
- Tax incentives to save
- (limited) investment choice
- Gradual implementation

Challenges

- Changing the culture – to encourage long-term saving (rather than short-term compensation)
- Are the incentives to save sufficient to overcome the focus on short-term savings
- Lack of employee understanding of, or trust, in ‘new’ approaches (and who is supplying them)