

EU-China Social Protection Reform Project

Component 2 macro-activities

EU Short Term Experts

(Annual Work Plan 2017 – Macro-Activities 2.1 to 2.12)

Topic 2.3.1

Investment strategies of social funds and risk control methodologies

The pension funds system in Italy: market structure, regulation and supervision

TERMS OF REFERENCE (ToR)

1. Background

1.1 General

The purpose of the EU-China Social protection reform project (“the Project”) is to contribute to the improvement and inclusiveness of China’s social protection system through strengthening the institutional capability for developing policies, for implementing legal and regulatory frameworks and for supervising systems of social insurances, social assistance and financial management in the area of social security. In particular, the Project’s purpose will be pursued through the following three components in relation to which specific Chinese government entities playing the role of partner of the consortium have been identified:

- i. Component 1: Consolidation of institutional capacity for social protection policy development and reforms in collaboration with the National Development and Reform Commission (“NDRC”);
- ii. Component 2: Enhancing of institutional capacity for financial management and supervision concerning social security funds in collaboration with the Ministry of Finance (“MoF”); and
- iii. Component 3: Improving of legal framework and policy for social assistance in collaboration with the Ministry of Civil Affairs (“MoCA” and, together with NDRC and MoF, the “Chinese Ministries”),

These ToR fall under Component 2 of the project.

2. Description of the Assignment

2.1. Overall and Specific Objectives

The overall scope of the SPRP project is to further develop social equity and inclusiveness of economic development throughout Chinese society. For the Component 2, the main target is to enhance the institutional capacity for financial management and supervision concerning social security funds.

In 2017, the Component 2 will analyze the following three topics:

2.1.4 An integrated system for the coordinated management of the social assistance system

2.1.6 Development of Old-age Service Industry and Long Term Care System

2.3.1 Investment strategies of social funds and risk control methodologies

This ToR is for the topic 2.3.1

2.2. Specific Objectives

The 1997 pension reform established the passage from a state-or entity-secured, pay-as-you-go (PAYG) system to a new system that “combines social pooling and personal account”. In this system employers contribute 20% of the salary into a social pooling account and employees pay 8% into their personal accounts. The social pooling is similar to the US payroll tax, while the personal accounts need appropriate investment channels to preserve and possibly increase the values of the contributions.

As an emerging economy, China has not yet accumulated enough pension funds for the newly retired who worked during the planned economy period. Hence, local governments have to divert the funds of the employees’ personal accounts to pay the retirees’ pensions. As a consequence, the worker’s personal accounts are de facto partly empty (Faure and Xu 2014).

In a recent study on pension sustainability of 54 large economies, China ranked 53th (Allianz, 2016

Pension Sustainability Index), and there were clear indications that the Chinese pension system was, in the long run, one of the least sustainable.

Moreover, it has been computed that, from 1997 to 2010, the average rate of return of China's pension fund was less than 2%, a value lower than the average rate of increase of the CPI in the same period, causing a total loss of more than RMB 600 billion (\$95.4 billion).

A first effort to deal with these problems was the enactment in 2011 of the Social Insurance Law which established that, in order to preserve and possibly increase its value, the social insurance fund should make investments and operations, regulated by the State Council. The investments could include investments in the capital market.

In August 2015, China's State Council published investment guidelines allowing local pensions to be invested in a wider range of riskier assets, with the maximum stocks and equities ratio set at 30 percent of total net assets, equivalent to around 600 billion RMB.

Finally, the 13th Five Year Plan of the CPC, has stressed the necessity to appropriate a portion of state capital to replenish social security funds, and strengthen risk management in order to ensure increasing rates of returns on investments.

On this regard, the international (and more specifically the EU experiences) could provide a benchmark on the management strategies and practices that have been implemented by numerous countries to warranty the financial sustainability of their pension funds.

2.3. Requested Services

The Expert will take all necessary action to provide a study to the satisfaction of the Project represented by the Component 2 coordinator (INPS) on the above-mentioned topic. The Expert will perform his assignment in close collaboration with the EU C2 Resident Expert. He will submit a mid term draft for comments and amendment suggestions by the project team. He will present the main results of the survey at the dedicated Panel Discussion to be organized in Beijing, in November 2017.

The report will cover the following concepts and aspects¹:

- Financial risk
- Portfolio
- Portfolio Management, asset allocation and risk allocation
- Portfolio management for pension funds
- Portfolio management: Governance

The report would provide MoF officials with a better understanding of the issues surrounding investment of pension assets and the accompanying fiduciary responsibility as well as the impact of these decisions on the stability of the plan's funded status and its actuarial calculations.

2.3. Outputs

- a report around 30 pages, in English
- a power point presentation in English (maximum 20 slides).

The expert will present the main contents of his work during the Panel Discussion to be organized in Beijing in November 2017.

¹ This is a draft list of contents that will be updated in cooperation with the selected experts.

3. Experts' Profile

Requirements for Experts	Requirement/Asset
Qualifications and skills	
University Degree within the relevant sectors of Demography, Social Protection, Law, Political Science, and Economics	R
Excellent organizational, communication, writing and interpersonal skills	R
Strong analytical and drafting skills	R
Previous experience in execution tasks in other international projects	A
Fluent in English both verbally and writing	A
Ability to develop and maintain good professional relations with stakeholders, particularly counterparts and staff members in an international setting	R
General professional experience	
At least 5 years of experience working in areas related to Social Protection and/or Employment policies	R
Public servant within one of the Applicant Entities of the Consortium or staff from public institutions cooperating with the Applicant Entities of the Consortium or researcher from the research institution outside Consortium. Public servants and staff from public institutions cooperating with the Applicant Entities who fulfill the requirements take precedence over candidates outside Consortium.	R
Previous working experience in international projects, preferably with EU funded projects	A
Previous working experience in China	A
Specific professional experience-related to action	
Possessing professional experience relevant to the ToR for his/her specific assignment	R
Previous experience in research or previous publications in the area of social sciences	A

3.1 Working Languages

The incumbent should be fluent in English both verbally and in writing.

4. Location & Duration

Location: Experts' countries and Beijing

Timing: November to December 2017. **First draft report by 15th November 2017, final document by 20th December 2017. Power point presentation by the Panel Discussion timing (November 2017).**

Working days: **Maximum 10 w/days for each expert**

The contract includes transportation to Beijing (Economy class return ticket) and up to 2 per diem for the nights spent in China.

5. How to apply:

Interested Expert(s) are requested to submit three documents:

1. Candidacy – Letter of intents
2. A CV in English (Europass format suggested), pdf format
3. A copy of her/his Identification Document

Applications are to be sent to C2 Resident Expert, Mr. Michele Bruni: Michele.bruni@eucsprp.org and the C2 Coordinator, Ms. Valeria Bonavolontà: valeria.bonavolonta@inps.it **by or before November 7, 2017.**

6. Personal data protection

INPS – Istituto Nazionale della Previdenza sociale, based in Rome (Italy), Via Ciro il Grande 21, is the Responsible of personal data processing, as EU-China SPR Project Leader and Component 2 Coordinator. INPS informs you that your personal data contained in the application for the present ToR will be processed by the Component 2 Resident Expert of the EU-China SPR Project, his assistant and INPS employees involved in the EU-China SPR Project – Component 2, in compliance with the Italian Legislative Decree no. 196 dated 30/06/2003 on personal data protection, in order to process your application to the selection. Your personal data will be processed also with electronical instruments. Your data will be communicated to other public or private Institutions only in cases provided by the Italian laws. INPS informs you that, in accordance to art. 7 of the above mentioned decree, you are entitled, in particular, to have access to your personal data, to request rectification, updating or deleting of information if data are incomplete or wrong. You should contact INPS at the e-mail address: Comp2.InpsProgettoCina@inps.it to exercise the rights provided in art. 7.