15 May 2017

EU-China Social Protection Reform Project

Component 2 macro-activities

Up to 4 EU Short Term Experts
For Country Reports: United Kingdom, Switzerland, Netherlands, , and Italy

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

Topic 2.3.1
Investment strategies of social funds and risk control methodologies

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

2.1.1 Overall Project 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

2.1.2 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.

2.2. Requested Services

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 September 2017.

Each country study will cover the following aspects[1]:

- Background analysis on country national old-age pension funds
- Analysis of different investment management policies for pension plans
- Expected asset returns, appropriateness of these strategies for use with different types of plans effects on pension expense and plan's annual contribution requirement
- Risk management and monitoring strategies

The reports 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.

Countries to be covered are UK, Netherlands, Switzerland, and Italy.

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2.4. Outputs

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

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

The experts will also, if available, present the main contents of their work during the Panel Discussion to be organized in Beijing in September 2017.

3. Experts' Profile

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The Expert's required qualifications are:

Professional qualification:

Relevant University Degree within the relevant sectors of Demographic Analysis, Social Protection, Law, Political Science, and Economics Study;

Experience

- 10 years experience of working in areas related to Social Protection and/or Employment policies at the domestic and international levels - A proven record of accomplishment in preparing and implementing EU or other donor technical cooperation funded projects. - Excellent organizational, communication, writing and interpersonal skills

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: **1 June to 30th September 2017. First draft of country brief by 15th July, final document by 15th August 2017. Power point presentation by the Panel Discussion timing (September 2017).**

Working days: **Maximum 15 w/days for each expert**

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), possibly in word 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 with copy to Comp2.InpsProgettoCina@inps.it