

**MEMO# 34813**

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# Recent Development of China's Voluntary Private Pension Scheme

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TO: ICI Global Members  
Global Regulated Funds Committee  
Global Regulated Funds Committee - Asia SUBJECTS: International/Global Operations  
Pension RE: Recent Development of China's Voluntary Private Pension Scheme

China's State Council released a high-level policy directive on a voluntary private pension scheme in April 2022, which, for the first time, includes mutual funds as one of the qualified products. This "third pillar" voluntary private pension scheme is intended to complement the existing public and employer-based systems. Over the final quarter of 2022, the Chinese authorities published further implementation details for the private pension scheme, with the financial regulators setting out rules governing qualified products. Based on public statements, the Chinese authorities will continue to explore potential reforms to improve the employer-based pension system (i.e., enterprise annuity scheme) along with the voluntary private pension scheme.

This memorandum briefly summarizes the implementation details of the private pension scheme and the requirements for mutual funds qualified for the scheme.

## 1. Overview of the Voluntary Private Pension Scheme

The Chinese authorities released detailed implementation rules for the private pension scheme in October 2022, specifying the participation process, personal account management, the management of institutions and products, and other relevant information disclosures.[\[1\]](#)

Local workers covered by China's basic old age pension insurance are eligible to participate in the private pension scheme and could contribute up to RMB 12,000 (around USD 1,700) every year. Each participant should set up or designate one private pension fund account

for contributions and investment. Participants may then make voluntary contributions and invest in a number of qualified financial products, including saving deposits, wealth management products, commercial pension insurance, and mutual funds. When reaching retirement age, benefits may be withdrawn in monthly installments or in one lump sum.

**Tax Deferral Benefits.** The private pension scheme offers preferential tax treatment to participants, subject to an annual contribution limit, using an exempted-exempted-taxed (EET) model:

- Contributions to the private pension are exempt from individual income tax.
- Investment income or gains in the private pension account are exempt from individual income tax.
- Withdrawals from the private pension are subject to a flat 3% tax rate, and are not aggregated to the other taxable individual income.

Compared to the tax-deferred individual commercial pension insurance pilot program launched in 2018,[\[2\]](#) the private pension scheme offers more significant tax preferences by reducing the tax burden on pension withdrawals from 7.5% to 3%. The State Administration of Taxation (SAT) further stated that the withdrawal tax rate of the individual commercial pension insurance pilot program should be aligned to 3%, retroactive from January 1, 2022.

**Pilot Cities.** Consistent with the framework of the State Council's April 2022 policy directive, the private pension scheme will be piloted in selected cities for one year before a nationwide roll-out. In November 2022, the authorities announced a list of 36 pilot cities, including Beijing, Fujian, Guangzhou, Shanghai, Shenzhen, Suzhou, and Tianjin, among others.[\[3\]](#)

## 2. Mutual Funds Qualified for the Scheme

In November 2022, the CSRC set out the scope for mutual funds qualified for the private pension scheme, and the relevant requirements for distribution.[\[4\]](#) They are largely in line with the consultation draft issued by the CSRC in June 2022.[\[5\]](#)

In order to qualify for the private pension scheme during the one-year pilot period, a fund must be a "pension target fund" as defined by the CSRC,[\[6\]](#) with at least RMB 50 million (around USD 7 million) of assets over the recent four quarters and with at least RMB 200 million (around USD 29 million) of assets in the previous quarter. The CSRC indicated that other types of funds[\[7\]](#) that have "clear investment strategies and are suitable for long-term investment" will be gradually added to the product scope as the scheme expands.

**Separation of Share Classes.** The CSRC specified that qualifying mutual funds should have a separate share class which is specifically for investors under the private pension scheme, and no sales charges may be collected for such share class. Further, per the CSRC, fund managers may consider waiving subscription fees or offering discounts on management and custodian charges for this particular share class.

**List of Qualified Mutual Funds.** The CSRC maintains a list of qualified mutual funds for the private pension scheme and will update the list every quarter. A total of 129 pension target funds from 40 fund managers are on the first-batch list. Almost half of these qualified funds are managed by foreign-Sino fund management joint ventures.[\[8\]](#) No pension target funds managed by a wholly foreign-owned (WFOE) fund management company are included in

the first-batch list. Based on ICI Global's discussions with the CSRC and other analysts, we expect more products managed by foreign-Sino joint-venture and WFOE fund management companies will become qualified as the private pension scheme expands.

### 3. Distribution of Qualified Mutual Funds

In addition to the fund distributors, a fund manager with good internal control and corporate governance<sup>[9]</sup> could market and distribute its qualified mutual funds to participants under the private pension scheme. Based on the Interim Rules for Private Pension Mutual Funds, fund managers should distribute funds based on a participant's age, retirement date, income level, and risk preference to ensure the suitability of recommendations or solicitations made.<sup>[10]</sup> Further, fund managers are required to clearly disclose in the product key facts statement the allocation to high-risk assets (including, per the CSRC, equity investments) and the fees and charges of the mutual funds.

Investment advisory services are not allowed under the private pension scheme at the current stage. The CSRC has indicated it will set out the relevant rules and requirements for investment advisory services in the future.

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#### endnotes

<sup>[1]</sup> See Measures for the Implementation of Private Pensions, co-issued by the Ministry of Human Resources and Social Security (MOHRSS), the Ministry of Finance (MOF), the State Administration of Taxation (SAT), the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC), October 26, 2022, available (in Chinese only) at [http://www.gov.cn/zhengce/zhengceku/2022-11/05/content\\_5724783.htm](http://www.gov.cn/zhengce/zhengceku/2022-11/05/content_5724783.htm).

<sup>[2]</sup> In 2018, the Chinese government launched a pilot program for tax-deferred commercial pension insurance in Fujian, Shanghai, and Suzhou Industrial Park. Individuals in pilot areas who purchase qualified commercial pension insurance could enjoy tax deferral benefits.

<sup>[3]</sup> See Notice of Cities (Regions) under the Pilot Program of Private Pensions by the MOHRSS General Office, the MOF General Office, and the SAT General Office, dated November 17, 2022, available (in Chinese only) at [http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/shbx\\_4216/y/bx/202211/t20221125\\_490711](http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/shbx_4216/y/bx/202211/t20221125_490711).

[html](#).

[4] See Interim Provisions on the Administration of the Management of Publicly Offered Securities Investment Funds for Private Pensions ("Interim Rules for Private Pension Mutual Funds"), November 4, 2022, available (in Chinese only) at <http://www.csrc.gov.cn/csrc/c101954/c6289701/content.shtml>.

[5] See Interim Provisions on the Management of Publicly Offered Securities Investment Funds for Private Pension Investments (Draft for Comments), June 24, 2022, available (in Chinese only) at <http://www.csrc.gov.cn/csrc/c101981/c3876935/content.shtml>. Also See ICI Memorandum [34229], dated July 20, 2022, available at <https://www.ici.org/memo34229>.

[6] A pension target fund is structured as a fund-of-funds and adopts either a target-date or target-risk strategy, and must meet specified CSRC requirements on its asset allocation and underlying funds. See Guidelines for Pension Target Securities Investment Funds (for Trial Implementation), February 11, 2018, available (in Chinese only) at <http://www.csrc.gov.cn/csrc/c101877/c1029550/content.shtml>.

[7] These include equity funds, fixed income funds, mixed funds, and other funds of funds which are not pension target funds. See Interim Rules for Private Pension Mutual Funds, *supra* note 4, at Article 10(2).

[8] See List of Qualified Mutual Funds under Private Pensions (as of November 18, 2022), available (in Chinese only) at <http://www.csrc.gov.cn/csrc/c101900/c6551799/content.shtml>. Among the first-batch qualified pension target funds, collectively 62 of the pension target funds are from 22 foreign-Sino fund managers.

[9] To market and distribute its qualified mutual funds under the private pension scheme, a fund manager should show that (i) it has not been subject to any material criminal or administrative sanction in the recent three years nor any material regulatory sanctions in the recent year, and (ii) it is currently not under investigation for gross violations of law or regulation. See Interim Rules for Private Pension Mutual Funds, *supra* note 4, at Articles 16 and 17.

[10] This is consistent with the refined requirements on fund distribution activities, released by the CSRC in August 2020. See Measures for the Supervision and Administration of Sales Agencies for Publicly Offered Securities Investment Funds, August 28, 2020, available (in Chinese only) at [http://www.csrc.gov.cn/pub/zjhpublic/zjh/202008/t20200828\\_382328.htm](http://www.csrc.gov.cn/pub/zjhpublic/zjh/202008/t20200828_382328.htm). Also See ICI Memorandum [32746], dated September 8, 2020, available at <https://www.ici.org/memo32746>.