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Focus on Funds: China's Retirement Savings Structure Poised for Change

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The need for pension reform is a key topic of debate in China. During the 2016 International Private Pension Systems Conference in Beijing, pension experts from around the world discussed their countries' experiences and the issues China needs to consider as it reviews its pension system. ICI Global Managing Director Dan Waters offers details in the September 9, 2016, edition of *Focus on Funds*.

Transcript

Stephanie Ortbals-Tibbs, Director, ICI Media Relations: Significant reform is on the way for China's retirement savings system. And that includes much wider use of private retirement savings plans and mutual funds. At the dialogue in Beijing, ICI Global played an important part. Here's a report from the conference.

Dan Waters, Managing Director, ICI Global: It was a fantastic day today, Stephanie—the kind of thing that ICI Global loves doing, which is bringing together knowledgeable people to talk about the role of funds in the future of pensions and long-term savings at the global level. We had the Canadian perspective, the UK perspective, the US perspective, and the German perspective. All of which were very different—and all reflecting on China, and the very interesting debate that's going on there right now about what's the future.

There is a very clear focus, though, on the so-called third pillar—that is, using mutual funds, engaging with the investing community—and that has amazing challenges around it. The tax situation in China is very complex and diversified. How does that work in terms of building incentives? Also, how do you engage with people who tend to think of savings as being connected to a bank, or a bank account, and not so much a savings account? What's the culture, what's the history there? Learning the little nudges, the changes in law, and the behavioural economics that feed that learning and that growth.

Ortbals-Tibbs: You know, Dan, what's interesting about today's discussion, too, is that the Chinese have very quickly grasped that if they do the pension reforms correctly, they will not only benefit the Chinese people, but they're also going to inject significant new capital into their markets and help their economy.

Waters: Indeed. And that’s again another thing that’s emerging more broadly. As you know, the Europeans are working right now on the Capital Markets Union initiative, and that’s very much about trying to broaden the basis of funding of the European economy. They have in the back of their minds, I think, the US model, which is much more diverse in terms of the funding of the economy.

I think that’s the secret: “sticky capital.” Look at what happened in the United States during the great financial crisis. That retirement savings money, which was heavily invested in the market, stayed invested in the market. And one of the reasons that the US economy was able to bounce back relatively quickly was that the capital was still there, still available, still invested. I think a lot of different jurisdictions around the world have their eye on that kind of prize.

Additional Resources

- Highlights from the 2016 International Private Pension Systems Conference: Law and Practice
- Insights from Previous ICI Global Retirement Savings Conferences