Corner Office Views

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Corner Office Views

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About the Author

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Della works as a senior analyst out of the Singapore office. She leads the Asian retirement research and contributes both quantitative and qualitative analysis to various Cerulli reports and Edge series. Della also specializes in building the retail and institutional analysis for the Taiwanese, Korean and Australasia markets.

Prior to joining Cerulli, she was a research analyst in a market intelligence firm with a focus on alternative assets and was primarily responsible for building the Australian market data.

Is There Opportunity in Asian Private Pensions?

China and Taiwan are lucrative retail retirement markets due to favorable regulation

Key Implications

- The push by policymakers to increase voluntary retirement savings in a bid to avert a pension crisis looks set to drive the uptake of personal retirement funds in major markets.
- Some of the most lucrative retail retirement markets in Asia include China and Taiwan, thanks to the introduction of favorable regulation, particularly those introducing target pension securities funds.

Retail retirement funds provide product diversity

Progress in Asia's private pension space has been generally slow. Of the region's major markets, only Japan has considerable personal pension coverage. However, further changes are likely as policymakers attempt to increase voluntary retirement savings to avert a possible pension crisis. These should help to drive the uptake of personal retirement funds in major markets

For managers, retail retirement funds can provide product diversity. With the market uncertainty caused by the coronavirus, having diverse funds can provide a buffer in times of high volatility—and retirement funds are a good option. Because these products encourage a long-term approach to investment, it is unlikely that investors would redeem them despite volatility.

Expanding product suites to include retirement funds is a good move, but mostly for fund houses with existing operations in markets where these products are allowed or have gained a foothold. For managers without a local presence, entering into product or strategic partnerships remains the safest bet.

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China: Pensions development a key part of financial reform

China has been pushing to develop its third pillar as part of its broader effort to avert a brewing pension crisis. Its third pillar had been lacking a top-level design for some time, until July 2017, when the State Council released guidelines to speed up the development of commercial pension insurance.

In May 2018, Shanghai, Fujian Province, and Suzhou Industrial Park began to pilot the tax-deferred commercial pension insurance scheme. Under the plan, individuals are allowed to defer tax on part of their income to buy private pension insurance until they retire.

In the same year, Chinese regulators launched pension securities funds or pension target funds, similar to target-date funds in the US and other Western markets, paving the way for fund managers' participation in the market. At least 14 domestic asset managers now offer pension securities funds using a fund-of-funds strategy. These products are either target date or target risk. As of the end of 2019, pension securities funds' assets under management reached RMB24.3 billion (US$3.5 billion), an increase of more than six times from the first year they became available.

China's third pillar could continue to develop in 2020, given regulators' plans to spur its growth. In fact, regulators have been actively seeking managers' feedback on scheme design and learning from other countries on how to encourage people to invest for retirement. According to the Ministry of Human Resources and Social Security, the authorities are working on an integrated design for third-pillar pensions. They are considering adopting an account system, establishing a unified information management service platform, and expanding the scheme scope to include banks' wealth management products and funds.

The authorities may need some time to decide on a country-wide scheme that can be implemented, but Cerulli believes that the tax benefit scheme piloted in 2018 will eventually be expanded. Managers should provide stable products, so that investors can see their assets accumulate in the next three to five years, and gradually build their awareness of investing in mutual funds for their retirement needs. Managers with patience and consistent performances should eventually be able to break into the huge market.

Types of Individual Tax-Deferred Commercial Pension Insurance Products in China

Sources: China Banking and Insurance Regulatory Commission, Cerulli Associates

Income-determined products

Products which provide a certain rate of return (annual compounding) during the accumulation period, and settle the proceeds once a month.

Income-guaranteed products

Products which provide a guaranteed bottom-line yield (annual compounding) during the accumulation period, and at the same time may provide additional revenue based on the investment status.

Floating-income products

Products which settle the proceeds at least once a week, according to the actual investment during the accumulation period.

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Taiwan: Warm reception to pilot scheme

Continuous reform of the pension system has made Taiwan an increasingly important retail retirement market. Although it has wide public and occupational pension coverage, Taiwan recognizes it needs to continue reforming its retirement system because of its fast-aging population and the fact that some of its pension schemes remain underfunded. This has helped stress the value of developing a third pension pillar, and among individuals, the necessity of having personal retirement savings.

In July 2019, the "Enjoy Your Retirement" pilot program was launched by online platform FundRich, which was appointed by the Financial Supervisory Commission (FSC) to execute it. The universal DC retirement scheme requires members to invest at least NT$3,000 (US$100) monthly in their accounts. Members can invest in their choice of fund—which can be a target-date or target-risk fund—depending on their risk tolerance.

The scheme shows a strong growth potential, based on the number of people who applied to become members. Originally, the trial was limited to just 10,000 members, but around 70,000 signed up before its launch. The number exceeded 110,000 in 2019. The scheme could give fund managers good direct access to personal pension money if it goes mainstream after the two-year trial.

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