

## Enlightenment from Chilean Model about Investment Operation of Personal Account Fund of China's Basic Old-age Insurance

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### Abstract

*With the establishment of personal accounts and the increase of pension funds accumulated, pensions need to get a higher return on investment under the premise of ensuring safety. Chilean investment business model gives us great insight, private investment is the trend of specialization. At present, Guangzhou pension funds have operators into the market, the effect of their operations to China Personal Account Fund Investment set the example. Combined of standard development of capital market in China and successful operation of the enterprise annuity and the NSSF to explore suitable for China's investment in basic pension insurance carriers individual account funds. Mainly carried out under the supervision of government funds into the market, optimize the allocation of assets, establish pension fund management companies and so on this will make pension insurance became a real sense..*

**Keywords:** pension insurance ; individual savings account ; asset allocation; Chilean model

Pension fund is a fund that everyone relates to the vital interests and a social problem that any one person can not avoid. Chile's experience shows that a pension fund has a long-term accumulation in nature, taking market investment fund is the general trend of personal investment accounts.<sup>[1]</sup> This paper describes the concept of China's pension fund personal accounts, investors, investment channels, asset allocation portfolio as well as its interaction with the capital market. Combining the Chilean model to explore effective methods currently China investment strategy operators of personal accounts and increasing the value of pension fund.

### 一、 Outline of the basic pension insurance fund personal accounts

#### (一) The concept of pension funds

Pension fund is legally established through a specific program by government. It consists of units or individuals to participate in the insurance premiums paid constituted. And it is a specialized reserve fund which can solve the basic living of workers in the labor meet the state's obligation to lift the age limit quit working after labor jobs. It mainly consists of three parts: the National Social Security Fund, supplementary pension insurance fund, the basic pension insurance fund

#### (二) The concept of individual account funds

Personal account refers to the social insurance agencies using identity card number to sign, it can establish only for recording personal pension premiums paid for each individual and enterprise participating in basic pension insurance. It also includes the amount of interest the two parts.<sup>[2]</sup>

#### (三) Five principles of personal accounts pension fund investments

Particularity of social endowment insurance fund personal accounts determines the investment fund must follow five principles, safety, profitability, long-term, diversified, and social benefits. Safety should be the primary basic principle, all other principles are subordinated to this principle.

### 二、 Enlightenment from Chilean Model about Investment Operation of Personal Account Fund of China

#### (一) Reform in Chile

In 1980, Chile reformed Fund, Mainly by turning the pay as you go pension system into a system of mandatory individual accounts established based fully funded system. Employees can entrust the accumulation fund of primary endowment insurance to the private pension management company investment, operation and management.

Investment and operation of the Chilean pension fund has made some achievements through 30 years of reform and development. Firstly, the number of participants significantly improved pension. Secondly, the proportion of the individual account funds accumulated gradually increase. Thirdly, the real rate of return of pension fund investment is relatively high. Fourthly, the pension management company is not only the largest institutional investors in Chile, can also be financing for large investment projects.

## (二) Feasibility Analysis about Chilean model measures operating in China

First, the long-term development of the Chinese securities investment market provides a stable and orderly market environment for pension funds into the capital market. Since 1993 "Provisional Regulations on Issuance and Trading" issued, China securities regulatory commission and the National People's Congress successively promulgated the "*public offering company information disclosure of the content and format guidelines*" and "*the company law*" to crack down on irregularities in the securities market, standardize the activities of listed companies. Meanwhile, the listed companies are also increasing. Second, after decades of development Chinese private enterprise has a certain accumulation of capital and a considerable investment experience, thus providing support for the market to run the privatization of pension funds. Third, the nature of individual accounts with accumulated funds which owned by individuals. Privatization operations can obtain higher profit, stimulate the enthusiasm of individuals involved.

## (三) Specific measures about investing operations China personal accounts pension fund

### 1. Personal account funds into the stock market

#### (1) Entering the stock market is the inevitable choice

Personal account funds market-oriented Operation is an inherent requirement of the accumulation system. Theoretically, the accumulation of funds necessary requirement for market-oriented system of working capital. Only when the Fund's investment income is higher than the inflation rate and the growth rate is higher than the average wage accumulation fund system is effective. The only means to improve the effectiveness of market-oriented fund system is operational funds. We chose the accumulation fund system also means that we must choose the fund management system market-oriented operations.<sup>[3]</sup>

#### (2) The analysis of the capital market environment

Fund investment and investment environment is a dialectical relationship. Chile's capital market is not perfect when pension funds enter the stock market. Chile's pension funds and Chilean stock market is almost the same time to grow up, but in market - oriented operation it has achieved good results. Healthy and orderly development of capital markets in Chile contributed to the success of personal accounts of investment funds. Many people believe that China's investment environment is not good, so we should not put the basic pension insurance fund for multiple investors into the market.<sup>[4]</sup> Should we do nothing wait for investment environment improvement? Or through diversified investment in social insurance fund to contribute to improve the investment environment? Combined with the experience of foreign and domestic situation, I think the answer is the latter. Healthy and orderly development of the capital market will directly determine the quality and efficiency of the social security fund asset investment. The nature of Social Security Fund is security and stability, which will promote the further improvement and development of the capital market. Both promote a mutually beneficial relationship.

### 2. Asset Allocation of Personal Account Fund

Experience of Chilean model and features of fully funded Fund tells us that various assets such as stocks and bonds should be included in asset allocation of Chinese basic pension insurance fund personal accounts, and we should optimize the allocation of pension assets under the circumstances.

#### (1) Adhere to long-term investment stock assets

Historical data of Chile show that stock's investment income is the main source of investment income about pension accounts. Target can effectively increase the value through investments of stock. Countries to invest in domestic stocks and international Stock have gained a higher real rate of return.

Most people think that many causes led pension funds are not suitable for entering the stock market, such as immature market, Low regulatory capacity of government and so on.<sup>[5]</sup> On the surface, this view also has some truth, but it is not comprehensive enough.

With the gradual extension of the investment period, the volatility of investment yield decreased significantly. Investment yield of Long-term Stock is higher than investment yield of bonds. Based on the above viewpoint, I think China's basic old-age insurance fund personal accounts can enter the market, adhere to long-term investment is the inevitable choice of China basic pension insurance funds into the market for personal accounts.<sup>[6]</sup>

(2) Optimize the allocation of various bonds

Because pension funds have a "life money" feature, the bonds become the optimal choice of pension fund investments in all types of bonds.<sup>[7]</sup> But we should also optimize the allocation of bonds and other bonds and also need to innovate new varieties of bonds.

(3) Gradual involvement of other asset classes

China's basic old-age insurance personal accounts can intervene physical assets, such as infrastructure investment, real estate investment, and so on.

First, real estate investment is a kind of investment, long-term investment, income is relatively stable, it can offset the adverse impact of inflation brings. Real estate's prices increase with the proportion of the inflation rate. Therefore, most countries in the world invest part of the pension fund into real estate and other real estate, in order to increase their value.<sup>[8]</sup> Currently, China is in faster economic growth and relatively stable golden age, personal account funds may choose to invest in real estate, but should pay attention to risk, and the proportion of investment in real estate should not be too high. Real estate investment is a very strong field of specialization, which need specialized organizational systems and staffing to do professional guidance.

Second, invest in national infrastructure projects. In recent years, investment in infrastructure has become a hot topic in the pension industry. Although China has invested in the infrastructure a lot of money, but because of limited strength, has been unable to alleviate the barriers restricting economic development. From an international perspective, electricity, transportation and other infrastructure projects have less risk and stable future income cash flow. On the other hand, the project runs for a long time, the rate of return is higher under normal circumstances and have greater growth potential. If the pension fund invested in infrastructure projects, is to require China's economic development, but also to achieve their needs of preservation and appreciation.

### **3. Establishment of pension fund management companies**

In Chile, personal accounts pension funds are private investment management model. It's advantage is having realized the functions of fund management company. To attract customers, each AFP efforts to improve operational efficiency, service levels and the ROI. Learn from successful practices in Chile, China should set up independent companies to invest pension fund. Investment of Chinese personal accounts pension funds should be moderate scattered on the basis of centralized government. I think China should set up a number of home (of course, not too much) pension fund companies in the country, owners of personal accounts independently choose pension fund management companies to manage and invest pension funds. At the same time, we also should strengthen the professional construction and improve the quality of service.

I suggest China should apply for a pension insurance IC card for each insured persons. So that each fund owners can ask for the amount of funds and investment income in the account, while the phenomenon about misappropriation of funds and illegal operations will be curbed well. However, China's capital market is underdeveloped, and people's pension awareness, sense of investment is still weak, so the government must be guided.

Personal accounts pension fund to implement market-oriented diversified investments, is the general direction of the world chosen. Chile opened a precedent, but China's implementation of Invest strategies can not copy the practices in Chile. Chile's experience is worth to continue to study and learn. Establish an effective way to add value and regulatory models, will be a long-term exploration and practice.

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