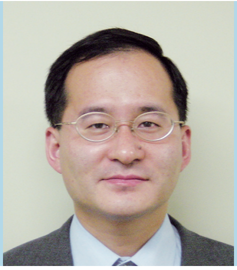

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# China's New Private Pension Scheme–Account-based Personal Pensions & Key Tax Incentives

## Introduction

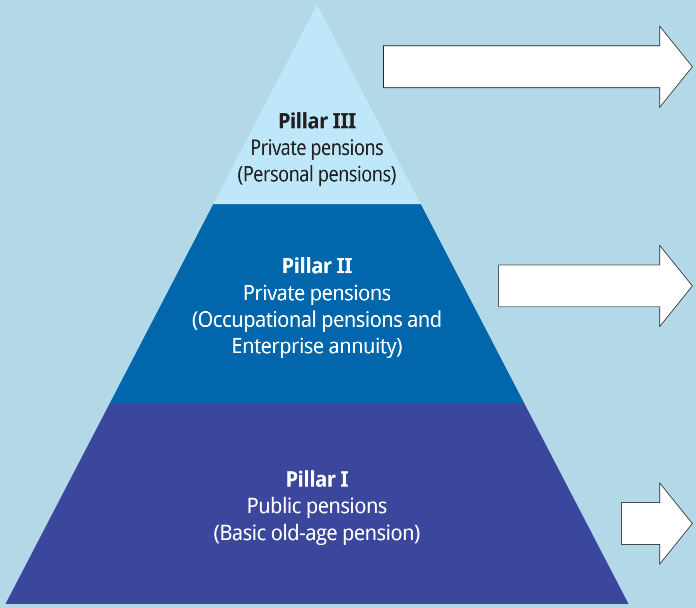
On April 21, 2022, the Chinese government (State Council) issued the *Opinions of the General Office of the State Council on Promoting the Development of Private Pensions* (*Opinions of the State Council*, hereinafter), announcing its decision to introduce a new private pension system that will enable individuals to contribute to and manage pension funds by opening a personal account.[1] This account-based personal pension scheme is the first personal defined-contribution pension plan introduced in China (equivalent to Japan's individual defined contribution pension plan, iDeCo). The scheme is attracting attention not only from pension professionals in China and abroad, but also from the asset management industry.

China has a three-pillar pension system. The first pillar includes China's basic public pension plans, the second pillar comprises private occupational pension plans, and the third pillar consists of private pension plans for individuals (Figure 1). The first pillar—China's state-sponsored basic public pension plans that combine individual accounts with a social pool—has the largest number of members. Although it is China's largest pension scheme, pension benefits are forecast to increase more than the pension premium income owing to China's declining birthrate and aging population. It therefore has been pointed out that the sustainable operation of the state public pension system may become difficult in the future. As for the second pillar, which consists of private enterprise and occupational pension plans (which will be described in more detail later) the growth rate for the number of enterprises introducing the system each year has declined in recent years, and growth in the participation rate among the working population has been sluggish. For this reason, the Chinese government and people have placed their hopes on private personal pensions, the third pillar of China's pension system, as a supplement to the first two pillars that will enable people to build retirement assets through their own investment efforts during their working years.

However, lacking any uniform standards, this third pillar of private personal pensions has to date been operated on a trial basis in certain regions with a focus on investment products developed specifically for these personal pension plans by various financial institutions under the management and supervision of various government financial authorities, including the People's Bank of China (PBOC), the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC).[2] It has been pointed out that, under this product-based personal pension scheme, the products developed and managed by different types of financial institutions lack uniformity from the perspective of investors. In addition, the procedure for investing in these pension-related financial products is difficult to understand. Moreover, tax incentives, the most important feature of any personal pension system, are being applied only to certain products, thereby creating the risk that this system will not deliver the long-term asset-building function that is crucial for a personal pension plan.

Considering the above issues, the reform of China's personal pension system moved into a new phase in 2021. The *14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives for 2035* (the 14th Five-Year Plan, hereafter), which was approved by the 13th National People's Congress on March 11, 2021, again emphasized that China's pension system is based on three pillars and adopted a policy of developing a well-regulated third pillar of private pension insurance.[3] Following up on this policy, China has decided to introduce the account-based personal pension scheme mentioned at the beginning of this article. In October 2022, China's Ministry of Human Resources and Social Security, Ministry of Finance, State Taxation Administration, the CBIRC, and the CSRC announced the *Measures for the Implementation of Personal Pensions*, and then in November each agency announced

**Figure 1: Structure of China's Pension System**




| Personal Pension (System under Development) |
|---|
| Eligible commercial old-age pensions, publicly offered funds, pension savings products, pension wealth management products, etc |

| Type | Occupational Pension (Mandatory) | Enterprise Annuity (Voluntary) |
|---|---|---|
| Members | 43 million (as of end-March 2022) | 28.75 million |
| Enterprises | — | 117,500 |
| Assets in trust | RMB1.79 trillion | RMB2.61 trillion |

| | Basic Old-age Pension for Urban Workers | Basic Old-age Pension for Urban & Rural Residents |
|---|---|---|
| Members | 480.74 million | 547.97 million |
| Funds | RMB5.26 trillion | RMB1.14 trillion |

Note: Data as of the end of 2021.
Source: Nomura Institute of Capital Markets Research, based on Ministry of Human Resources and Social Security of the People's Republic of China's data

detailed rules related to the account-based personal pension scheme. On November 25, the Ministry of Human Resources and Social Security announced this personal pension scheme would be launched in 36 pilot cities and regions.

This article presents an overview of the new account-based personal pension scheme, the role of financial institutions in establishing the scheme, and the scheme's complementary relationship with occupational pensions and enterprise annuities in the second pillar of China's pension system. The article will also discuss the importance of tax incentives, differences with Japan's iDeCo scheme, and other suggestions for China's pension system.

## Design of China's Account-based Personal Pension Scheme

### Account-based personal pension scheme outlined in the *Opinions of the State Council*

The previously mentioned *Opinions of the State Council* presents the design of the new account-based private personal pension scheme, including which citizens can participate in the scheme, the financial products in which they can invest, and the operating model.

This new pension scheme is based on defined contribution (DC) pension plans, with contributions fully made by the subscribing individual up to an annual limit of RMB12,000.[4] Eligible participants are workers 16 years of age or older who are already enrolled in one of China's basic public pension plans, the first pillar of the pension system.

The first key feature of the new personal pension scheme is the difference in tax treatment with the previous product-based scheme, under which the only tax incentive was the deferral of tax on personal income from commercial endowment insurance products. According to the *Opinions of the State Council*, the new scheme will provide tax incentives on a per-account basis for all regulation-compliant annuity-type financial products deposited in qualified personal pension accounts opened by subscribers to the new pension scheme. The opening of accounts and confirmation of the conditions for receiving benefits stipulated in the scheme's regulations will be carried out through the Personal Pension Information Management Service Platform (hereinafter, the "Information Platform"), which is described in more detail below.

The second key feature is that the financial products eligible for inclusion in the new personal pension accounts include wealth management products, savings products, commercial endowment insurance, and target-date retirement funds. The criteria for products eligible for inclusion in the new personal pension accounts are that they be stable, mature, and securely managed financial products that have clearly defined investment targets and meet the risk appetite of each investor with an emphasis on long-term value retention.[5]

The third key feature involves the receipt of pension benefits. Pension plan subscribers can choose to receive benefits in monthly installments or in a single lump sum payout, but the payment method cannot be changed once decided. The age for beginning to receive pension benefits is China's statutory retirement age, which in principle is 60 for men and 50–60 for women depending on their occupation.

The fourth key feature is the schedule for implementing the new account-based personal pension scheme. According to the *Opinions of the State Council*, the scheme will be rolled out in certain selected cities on a one-year pilot test basis, and then gradually expanded nationwide. As noted above, the scheme will be rolled out in 36 cities and regions selected by the Ministry of Human Resources and Social Security. The selected cities include the so-called first-tier cities[6] of Beijing, Shanghai, and Shenzhen, as well as representative regional cities in each province (Table 1).

**Account-based pension scheme management method**

According to the *Opinions of the State Council*, participants in the new personal pension scheme must open two separate accounts. The first is a personal pension account registered with the pension authority and the second is a personal pension fund account opened at a financial institution for the deposit of insurance premium contributions and fund management.

Participants must first open a single dedicated personal pension account through the Information Platform managed by the Ministry of Human Resources and Social Security. This account will be the basis for enrolling in the personal scheme and enjoying tax incentives. Related account information will be shared with other authorities, such as the Ministry of Finance and the State Taxation Administration, which will then provide such services as account management, contribution management, information retrieval, and tax payment information to subscribers.

Next, participants will have to open a separate personal pension fund account for their insurance premium contributions. Participants will be limited to opening one such personal pension fund account under their name at a bank or other eligible financial institution or financial instrument sales institution of their choice.[7] Using this personal pension fund account, participants will be able to purchase various individual annuity products. In principle, personal pension fund accounts will be operated in a closed-end manner, restricting the withdrawal of funds until the account owner reaches the age when pension benefits commence.

The *Measures for Implementing Personal Pensions* announced by the Ministry of Human Resources and Social Security in October 2022, stipulate that pension contributions deposited in the personal pension fund account will then be transferred to personal pension investment accounts managed by various approved financial institutions. As such, the participant's pension fund and pension fund investment accounts used to invest in financial products approved for personal pensions are managed separately. The financial institutions issuing and selling financial products for personal pensions must provide convenient service that enables participants to purchase, sell, and switch products in their

**Table 1: Overview of Pilot Testing of the Product-based Personal Pension Scheme and the New Account-based Personal Pension Scheme**

| Pension Scheme | Test Products | Stage | Test Period | Test Region (First-tier Large Cities) | Test Region (Other Cities & Regions) |
|---|---|---|---|---|---|
| Product-based Personal Pension Scheme | Personal income tax deferred commercial endowment insurance | — | Apr-18 | Shanghai | Fujian Province (including Xiamen), Suzhou Industrial Park (Jiangsu Province) |
| | Dedicated commercial endowment insurance | Phase 1 | Jun-21 | None | Zhejiang Province (including Ningbo), Chongqing |
| | | Phase 2 | Mar-22 | — | Nationwide |
| | Specific retirement savings products | — | Nov-22 | — | Hefei, Guangzhou, Chengdu, Xi'an, Qingdao |
| | Pension wealth management products | Phase 1 | Sep-21 | Shenzhen | Wuhan, Chengdu, Qingdao |
| | | Phase 2 | Mar-22 | Beijing, Shanghai, Shenzhen | Shenyang, Changchun, Wuhan, Guangzhou, Chongqing, Chengdu, Qingdao |
| | Target-date retirement funds | — | Mar-18 | — | Nationwide |
| Account-based Personal Pension Scheme | All personal pension–targeted financial products | — | Beijing, Tianjin, Shijiazhuang (Hebei Province), Xiong'an New Area (Hebei Province), Jincheng (Shanxi Province), Hohhot (Inner Mongolia Autonomous Region), Shenyang (Liaoning Province), Dalian (Liaoning Province), Changchun (Jilin Province), Harbin (Heilongjiang Province), Shanghai , Suzhou (Jiangsu Province), Hangzhou (Zhejiang Province), Ningbo (Zhejiang Province), Hefei(Anhui Province), Fujian Province, Nanchang (Jiangxi Province), Qingdao(Shandong Province), Dongying (Shandong Province), Zhengzhou (Henan Province), Wuhan (Hubei Province), Changsha (Hunan Province), Guangzhou (Guangdong Province), Shenzhen (Guangdong Province), Nanning (Guangxi Zhuang Autonomous Region), Haikou (Hainan Province), Chongqing , Chengdu (Sichuan Province), Guiyang (Guizhou Province), Yuxi (Yunnan Province), Lhasa (Tibet Autonomous Region), Xi'an (Shaanxi Province), Qingyang (Gansu Province), Xining (Qinghai Province), Yinchuan (Ningxia Hui Autonomous Region), Urumqi (Xinjiang Autonomous Region) | | |

Source: Nomura Institute of Capital Markets Research, based on CBIRC and CSRC notices portfolios. The commercial banks that manage the pension fund accounts must treat uninvested funds as deposits (Figure 2).

## Role of financial institutions in the account-based pension scheme

### • Overview of financial institutions' roles

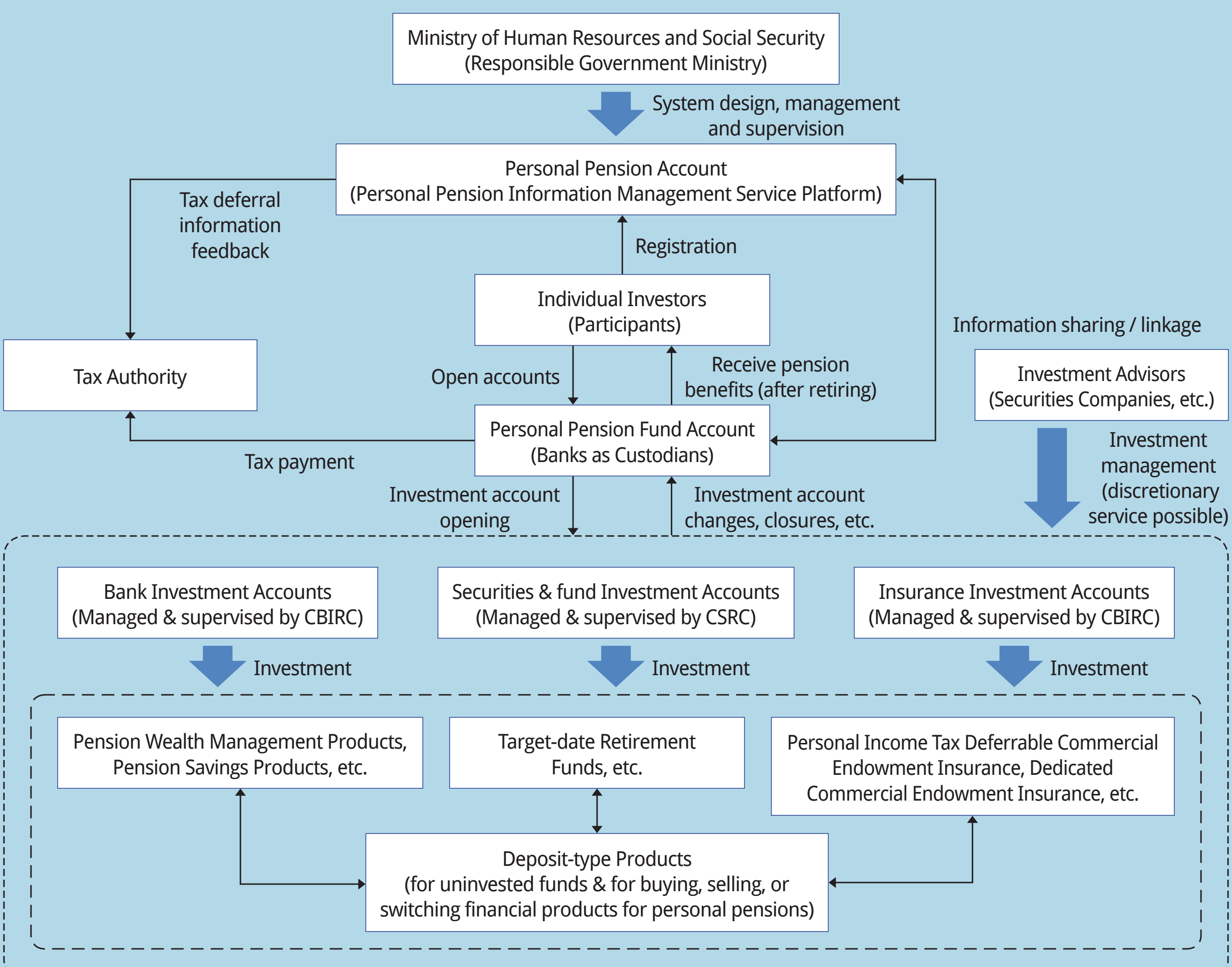
According to the *Opinions of the State Council* and the notices released by the CBIRC and the CSRC (explained below), financial institutions' main roles in the account-based personal pension scheme are (1) the management of personal pension fund accounts, (2) the creation of financial products for personal pensions, and (3) agency sales of financial products for personal pensions.

Regarding the first role, the authorities mentioned above have stipulated that opening and managing personal pension fund accounts will be limited to commercial banks (including wealth management subsidiaries) and insurance companies. The second role of creating financial products for personal pensions will be provided by various financial institutions: banks (or their wealth management subsidiaries) can provide pension-dedicated wealth management and savings products; insurance companies can provide dedicated commercial endowment insurance; and fund management companies will be able to offer target-date retirement funds. As for the third role mentioned above, while the *Opinions of the State Council* does not mention agency sales of financial products for personal pensions, the regulations related to personal pension business presented later in this article indicate that banks, securities companies, and fund sales companies will be allowed to play this role.

### • Role of commercial banks (wealth management subsidiaries) and insurance companies

On November 17, 2022, the CBIRC announced its *Interim Rules on Personal Pension Business of Commercial Banks and Wealth Management Companies*. The interim rules state that personal pension business that can be operated by commercial banks includes (1) personal pension fund account management, (2) the creation of pension savings products,[8] (3) agency sales of financial products for personal pensions, (4) personal pension consulting business, and (5) other personal pension services ap-

**Figure 2: Account-based Personal Pension Scheme Management Schematic**




Source: Nomura Institute of Capital Markets Research, based on *Opinions of the State Council* and *Annual Report on the Development of China's Ageing Finance (2020)* proved by the CBIRC. The CBIRC notice also indicates that bank wealth management subsidiaries can create and sell wealth management products for personal pension fund accounts.[9] On the following day, November 18, 2022 the CBIRC published a list of banks and their wealth management subsidiaries permitted to engage in personal pension fund operations. The list included the big 6 state-owned banks, 12 joint-stock banks, 5 municipal banks, and 11 bank wealth management subsidiaries.

Then on November 21, 2022, the CBIRC released a *Notice on Matters Related to Personal Pension Business of Insurance Companies* that sets forth the role to be played by insurance companies. Specifically, the prescribed roles include (1) opening personal pension accounts for participants, (2) designating or changing personal pension accounts, and (3) providing personal pension insurance products (annuities, life insurance savings accounts, etc.). Among the approved products, personal-income tax-deferred commercial endowment insurance and dedicated commercial endowment insurance, which were approved for trial use when the previous product-based personal pension scheme was launched, may be transferred into accounts under the new account-based scheme.

- **Individual pension investment funds and the roles of fund management and sales companies**

On November 18, 2022, the CSRC released its interim rules for management of personal pension investment funds invested in publicly offered securities investment funds. The interim rules define personal pension investment funds as publicly offered funds that comply with the provisions allowing investors to invest in personal pension fund accounts that offer tax incentives. Regarding personal pension investment funds, the CSRC stipulated that it would authorize the establishment of a Personal Pension Investment Fund Business Platform centered in the China Securities Depository and Clearing Corporation. Commercial banks, fund management companies, and fund sales companies are expected operate under this platform (Figure 3).

Fund sales companies seeking to sell funds as individual pension investment funds must have recorded total sales of equity and balanced funds over the most recent four quarters of more than RMB20 billion, of which holdings by individual investors must total more than RMB5 billion. The interim rules also allow fund management companies and their sales subsidiaries to sell personal pension investment funds created by the fund management company. On November 18, 2022, the CSRC published its initial list of institutions qualified to act as sales agents for financial products targeted at owners of personal pension plans. The list of 37 companies includes 16 banks, 14 securities companies, and 7 independent fund sales companies.

- **Role of securities companies**

As mentioned above, securities companies also can serve as sales agents for individual pension investment funds. In addition, public fund investment advisory service (China's version of discretionary investment management service) might be provided to personal pension plan owners under the account-based personal pension scheme. This is giving rise to the view that securities companies and fund management companies with publicly offered fund investment advisory licenses might play many roles in the new personal pension scheme.

# China's Private Pension Scheme from a Tax System Perspective

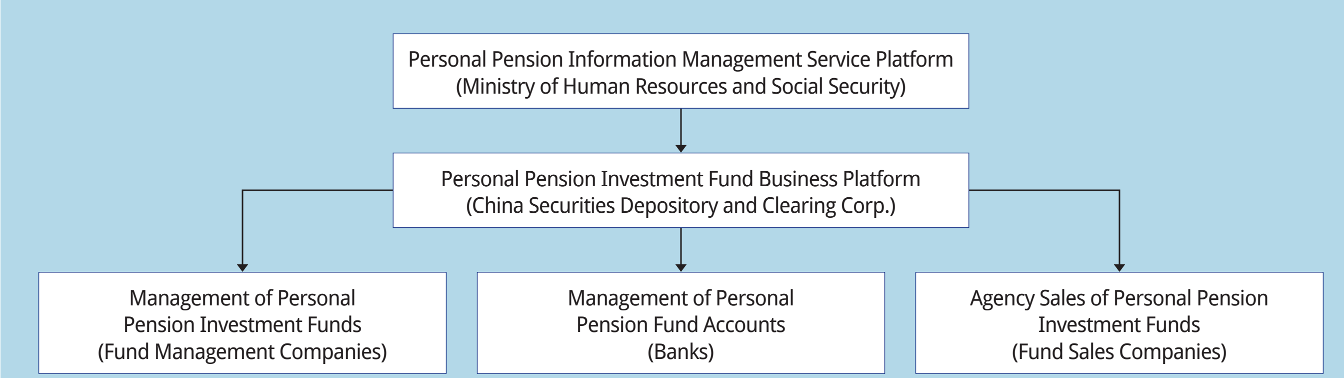
## Tax incentives in enterprise / occupational pension plans, the second pillar of China's pension system

- **Enterprise annuities have employees of state-owned enterprises as their main members**

The second pillar of China's pension system includes DC-type enterprise annuities introduced in 2004 as a private pension scheme responding to China's declining birthrate and aging population. In enterprise annuity pension plans, the company and its employee members each contribute to individual accounts established for each member.[10] These accounts are managed collectively as an enterprise annuity fund, and funds are distributed to the individual member's account along with generated income when the member reaches retirement age. The outstanding balance invested in these enterprise annuities expanded from RMB91 billion at the end of 2006 to RMB2.61 trillion at the end of 2021. Membership also increased over the same period, from 9.64 million to 28.75 million members, but that number is still only 2.8% of membership in basic public pension plans, the first pillar in China's pension system.

The number of participating enterprises also increased, from 32,000 to

**Figure 3: Management of Personal Pension Investment Funds**




Source: Nomura Institute of Capital Markets Research, based on CSRC materials

118,000, the majority of which are state-owned enterprises in such industries as energy and finance. Many private companies in China and their employees already contribute a high level of 22% of total employee wages to the urban employees' basic pension plan.[11] The high cost of establishing and contributing to an independent enterprise pension reduces the incentive for doing so.

- **Occupational pensions are mandatory for civil servants**

The occupational pension plan in China is intended for civil servants and employees of government-affiliated state institutions. The occupational pension scheme was launched based on the *Interim Rules for the Management of Occupational Pension Funds*, announced in 2016 by the Ministry of Human Resources and Social Security and other government agencies.

In the occupational pension scheme, state institutions and business units contribute 8% of their total wages paid to defined-benefit (DB) plan. Employees contribute 4% of their wages into an individual account that applies the DC method. As participation in the occupational pension scheme is mandatory for employees of state institutions, the enrollment rate is high and expanding more quickly than for the enterprise annuities. As of the end of 2021, the occupational pension scheme had 43 million members and an outstanding asset balance of RMB1.79 trillion. However, further expansion will be difficult as membership is limited to civil servants and other state employees.

- **Occupational pensions offer limited tax incentives**

Tax incentives included in current occupational pension plans (enterprise annuities and occupational pensions), the second pillar of the pension system, were introduced in a *Notice on Issues Pertaining to the Collection and Administration of Individual Income Tax on Enterprise Annuities and Occupational Pensions* jointly released by the Ministry of Finance, Ministry of Human Resources and Social Security, and the State Taxation Administration on December 6, 2013, and implemented from January 1, 2014.

The specifics include tax-exempt contributions from employers when posted in an employee's personal account. Individuals are exempt from paying income tax on their contributions, with a cap of 4% of their wages. Investment income on assets in the pension fund also is exempt from taxation, but pension benefits are taxed at time of receipt, making tax treatment in the occupational pension scheme an EET (exempted, exempted, taxed) system. The maximum contribution from employers is 8% of their total wages paid, but 5% is recorded as an operating cost, thereby providing employers with preferential enterprise income tax treatment.

However, it has been pointed out that the effect of these tax incentives is rather limited. One reason for this criticism is that investment gains in China are exempt from taxation in the first place. Unless China adopts a system for collecting a capital gains tax on all investment products, the EET-type tax deferral received by members of occupational pension plans has little merit.

### Importance of tax incentives in the account-based personal pension scheme

- **Tax incentives reference the personal income tax deferred commercial endowment insurance trial**

In November 2022, the Ministry of Finance and the State Taxation Administration issued a notice on income tax on personal pensions. The EET system applied to the second-pillar occupational pension scheme and the previously tested personal income tax deferred commercial endowment insurance will be applied to the new account-based personal pension scheme, retroactive to January 1, 2022. Pension contributions of up to RMB12,000 per year will be deducted from the employee's income or employer's income and not subject to personal income tax. In addition, personal income tax will not be collected on the individual's pension investment income. After the pension holder retires and begins receiving pension benefits, a 3% personal income tax will be levied on received benefits (Table 2).[12]

- **Personal income tax reforms could open up possibility of combining EET and TEE (taxed, exempted, exempted) taxation systems**

China's personal income tax reforms

**Table 2: Taxation on Third-pillar Private Pension Schemes (Comparison of New and Previous Schemes)**

| Item | | New Account-based Personal Pension | Product-based personal pension (previously launched) | | | | Corporate Pension (Reference) |
|---|---|---|---|---|---|---|---|
| | | | Target-date Retirement Fund | Dedicated Commercial Endowment Insurance | Pension Wealth Management Products | Personal Income Tax Deferred Commercial Endowment Insurance | |
| Time of Contribution | Employer Contribution | — | — | — | — | — | No tax on opening of employee accounts |
| | Member's Contribution | Tax exemption (up to RMB 12,000) | Taxed | Taxed | Taxed | Tax exemption (lower of 6% of annual wage income or RMB 12,000) | Tax deduction for up to 4% of wage income |
| Accumulation/Investment | | Not taxed | Not taxed | Not taxed | Not taxed | Not taxed | Not taxed |
| Receiving Benefits | | Taxed (at 3% rate) | Taxed | Taxed | Taxed | Taxed (10% rate on 75% of benefits received) | Taxed |

Source: Nomura Institute of Capital Markets Research, based on data from CSRC and other Chinese government agencies have already raised the minimum taxable income level to RMB5,000 per month, shrinking the number of Chinese paying personal income tax to 72 million. It has been announced that the increase in the minimum taxable income level exempted 115 million people from paying personal income tax as of the end of June 2019. For these already tax exempt individuals to fully benefit from tax incentives in the new personal pension scheme, some experts have suggested the adoption of a TEE system, in which contributions to the pension fund remain subject to income tax at time of contribution but pension fund generated income and benefits received after retirement are exempt from personal income tax.[13] If a TEE taxation system were adopted, low-income earners who already are exempt from tax on their income will have their personal pension exempt from taxation at all stages—contribution, investment, and receipt of benefits—greatly increasing the tax incentive for opening a new account-based personal pension.

## Account-based Personal Pension Scheme: Outlook and Pending Issues

### Japan's iDeCo initiative

Japan enacted its Defined Contribution Pension Act in 2001, introducing corporate DC pensions and individual DC (iDeCo) pensions. This section introduces recent iDeCo-related initiatives in Japan.

First, system revisions enacted since 2017 expanded eligibility for enrollment in iDeCo plans and increased the number of people in Japan with iDeCo pension plans. At the end of fiscal 2016, 451,436 people had opened iDeCo plans, the total outstanding balance of which was JPY1,381.4 billion, as of the end of March 2021, those numbers had risen to 1,945,637 and JPY 2,970.5 billion.[14]

Second, iDeCo Plus was launched in May 2018 for employees of small and midsize enterprises (SMEs), which often find it difficult to introduce corporate pension plans owing to their cost and the administrative burden on the company. The iDeCo Plus scheme enables SMEs to make voluntary contributions to their employees' personal iDeCo accounts.

Third, since its introduction, iDeCo has functioned as the receptacle for funds transferred from the personal corporate DC accounts of people who changed jobs or retired, and iDeCo's role is becoming more important as Japan's increasingly liquid labor market raises the importance of asset formation through DCs.

Fourth, while iDeCo accounts can be opened at securities companies as well as banks, there currently are various restrictions on the provision of highly individualized investment advice. As investment of iDeCo pension accounts funds are decided by the account holders themselves, the system needs to be revised so that financial institutions, such as securities companies, can bring their experience in providing investment advice for individuals to owners of iDeCo accounts.

In China, roll out of the new account-based personal pension scheme is expected to move into full throttle. In the early design stage of this rollout, it will be useful for Chinese authorities to study the system design and experience of private pension schemes in other countries, including Japan, that have earlier adopted private pension plans as the third pillar of their national pension systems.

### Closing remarks

China's newly introduced account-based personal pension scheme has been launched in 2022 on the basis of the format announced in the *Opinions of the State Council* release earlier in the same year. The new scheme is intended to supplement the nation's basic old-age insurance, a public pension, and serve as a substitute for occupational pensions, which are private pensions. The following system design related issues bear close attention.

First, China's 14th Five-Year Plan mentions gradually increasing the statutory retirement age. Raising the statutory retirement age would likely result in the age at which people can start receiving the public basic old-age pension benefit also being raised[15]. If the eligible age for receiving benefits from the new account-based personal pension plans is raised together with the statutory retirement age, it will create issues about the period for investing in the pension plan and the timing for receiving preferential tax measures. These issues will need to be discussed together with any proposed change to the statutory retirement.

Second, in China, capital gains on investments in financial products are tax exempt, making tax exemption of pension-generated income under the EET taxation system irrelevant. Although a separate capital gains tax system could be established in the future, China's tax authorities need to consider how to increase the incentive for investors to open a new account-based personal pension plan in a tax environment that will be characterized by imbalanced treatment of current product-based pensions and the projected new account-based pensions. Lastly, there are many long-standing questions about the best methods for supporting investor asset accumulation in preparation for their retirement years that still need to be discussed. These include improving investor education, expanding access to investment advice by financial institutions, and opening investment channels that will promote more diversified investment in financial products available not only in China but also those available in international markets.

### Notes

1 State Council of the People's Republic of China, *Opinions of the General Office of the State Council on Promoting the Development of Private Pensions*, April 21, 2022. Link to Chinese release: 〈http://www.gov.cn/zhengce/content/2022-04/21/content_5686402.htm〉

2 Specifically, these products include personal income tax deferred commercial endowment insurance, bank wealth management funds, and dedicated commercial endowment insurance under CBIRC supervision, and target-date retirement funds under CSRC supervision.

3 Central People's Government of the People's Republic of China, *14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives for 2035*, March 13, 2021. Link to Chinese release: 〈http://www.fujian.gov.cn/english/news/202108/t20210809_5665713.htm#C49〉

4 Contribution limits may vary by region.

5 Emphasis evidently is being placed on low-to-medium risk investment products suitable for long-term investments.

6 "First-tier city" is an unofficial classification that refers to cities in China that have the highest concentration of resources, population, and international companies. In general, first-tier cities include the capital of Beijing, the international economic center Shanghai, and Shenzhen, which is considered to be a center of innovation.


7 The designated account may serve as a bridge account for an existing personal income tax deferred commercial endowment insurance policy.

8 Pension savings products include specific retirement savings products that will be able to sufficiently perform the function of a pension that meets needs during a long life after retirement. In July 2022, the PBOC and the CBIRC jointy issued the *Notice on Launching the Specific Retirement Savings Pilot Scheme* (operation officially started on November 20, 2022).

9 Personal pension wealth management products refer to long-term bank wealth management products that are clearly labeled as such and are intended to be invested by personal pension accounts to cover the investor's needs during a long life after retirement. Pilot operation of individual pension wealth management products has been underway in some Chinese cities since September 10, 2021.

10 Contributions will be no more than 8% of the enterprise's total wages paid to all employees and no more than 12% when combined with employee contributions. The specific ratio will be determined through consultations between the enterprise and employees participating in the pension plan.

11 China's basic pension plan is a combination of a defined benefit (DB) social pool for all members and the individual DC personal accounts of each member. The enterprise contributes 14% of all wages paid to the social pool, and members contribute 8% of their wages to their personal accounts.

12 Ministry of Finance, State Taxation Administration. *Notice on Personal Income Tax on Personal Pensions*, November 3, 2022.

13 Zheng Bing-wen, *Top-level Design of the Third Pillar "Individual Pension Account": The Leverage Role of Taxation and Its Far-reaching Effect*, Journal of Renmin University of China, 2016 Issue 1.

14 Liaison Council of Pension Management Organizations. Defined Contribution Pension Plan Statistical Data (end-March 2021)

15 In January 2022, Jiangsu and Shandong provinces launched pilot programs that allow company employees to defer retirement beyond the statutory retirement age. In principle, employees can defer their retirement for a period of 1-3 years.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