

The Outlook

Recommendations on the Labor-Choice Product Platform under the New Labor Pension Scheme

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The new Labor Pension Scheme should allow participants to choose their own investment targets

The new Labor Pension Scheme should be applauded for remedying many of the old system's drawbacks while providing Taiwan labor with an individual retirement account in the form of the defined contribution style. One of the main features of the new scheme is mobility, which reduces the risk of participants not receiving their benefits. However, in terms of the actual benefits, the new scheme, which guarantees a certain return, may prove to be insufficient for the participants. The investment returns may be adversely impacted in the era of low interest rates. Although the retirement account offers a minimum dividend matching the 2-year time deposit, the fund may not be able to provide sufficient income substitution without decent fund investment returns. The management and operation of the pension fund are the keys to success. The new scheme is a defined-contribution mechanism, meaning the balance of the worker's account is in fact the total amount of their retirement fund. This further highlights the importance of the fund's performance and risk management.

In the future, the Labor Pension Scheme may refer to the practices and experience of other countries in allowing workers to choose their own investment targets. In those major countries with a defined contribution scheme, the investment platform is primarily multi-manager funds while the government merely supervises the selection process. The key advantages of such a mechanism are as follows:

1. Workers can make investment choices appropriate to their age risk tolerance. They can further improve their returns through diversification.
2. The Labor Pension Fund Supervisory Committee may not have the capacity and resources to handle the multi-manager funds and account services currently. By allowing workers to make their own investment choices, financial institutions are better equipped to deal with the manpower and software infrastructure than the Labor Insurance Bureau. Doing so would allow for more efficient resource allocation.
3. Such a new mechanism would also lead to healthy competition among the private fund companies as well as better diversification for investors. Workers would also have access to a wider range of financial services, such as financial advisory that can assist them with appropriate asset allocation.



The New Labor Pension Scheme should therefore consider allowing strong financial institutions to participate at an appropriate time. Doing so would improve the fund's management and performance, provide better income substitution, and allow the workers more flexibility with regard to the state of their personal finances and risk tolerance. It is recommended that non-government retirement investment products (such as unit trusts or securities investment trusts or funds designated for pension fund) be implemented for this purpose.

Recommendations on the Labor-Choice Product Platform under the New Labor Pension Scheme

The Pension Fund Association has hosted several seminars and conferences discussing the labor-choice product platform under the new scheme, and the preliminary phase for the operation is as follows:

1. Recommendations for the labor-choice product platform

In the future, the new Labor Pension Scheme can consider a hybrid of public and private sector investment. Other than the guaranteed fund by the Pension Fund Supervisory Committee, mutual funds and investment products would be made available as additional investment vehicles. The worker can choose to stay with the fund that guarantees dividend matching a 2-year time deposit. With this mechanism the worker's benefits are fully protected while they enjoy a wider range of investment opportunities. The government would

first screen before making retirement investment products available. These products would be provided by a number of pre-selected financial institutions. These products would allow workers to allocate assets and choose investment targets based on their retirement needs. (See Graph). The target maturity funds would be the default fund provided the workers do not designate one with the new mechanism.

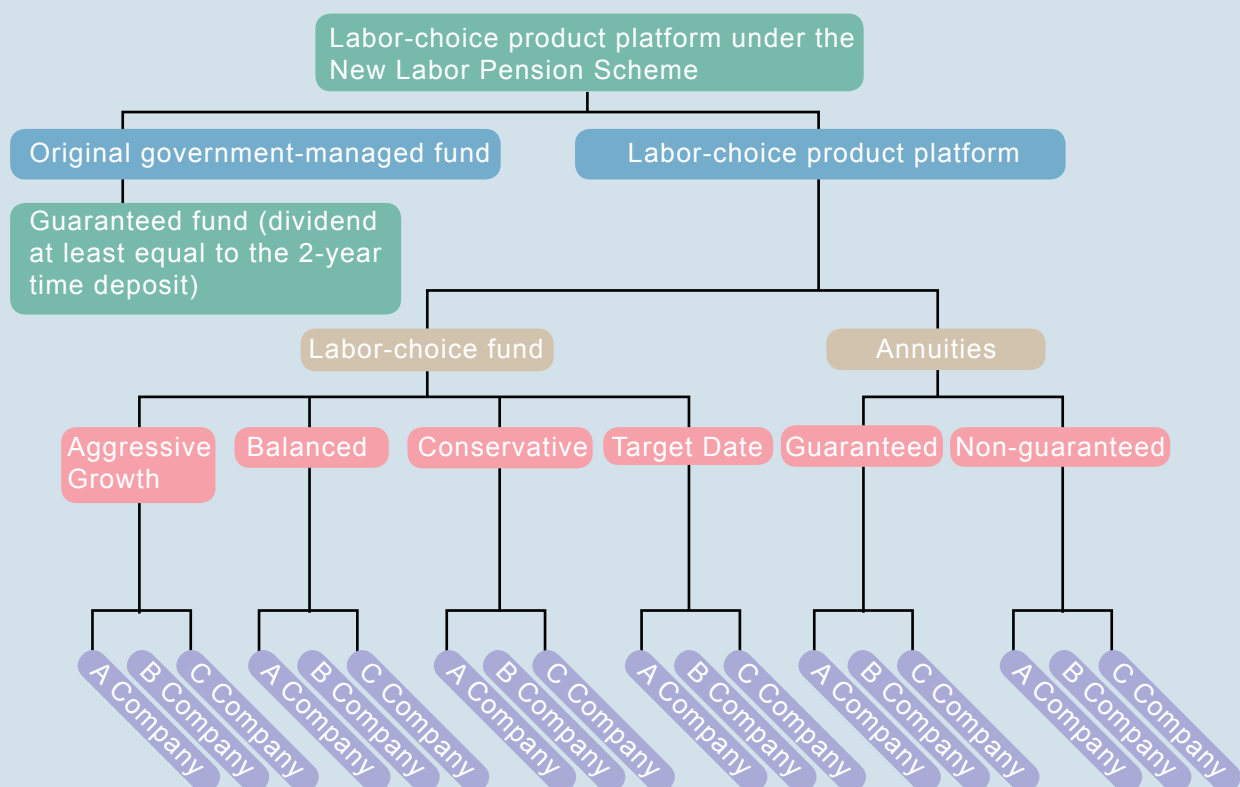
- (1) Government-managed funds: the fund would be unchanged with the current guaranteed dividend at least equal to the 2-year time deposit.
- (2) Labor-choice product platform: add at least 3 retirement investment products with different levels of risks for labor choices.

The investment products available on the product platform would fall into two main categories: annuity insurance and mutual funds. These products would not offer guaranteed returns. Annuity insurance can further be differentiated by guaranteed and non-guaranteed types. Mutual funds would include securities investment trust, unit trust, and collective management account. Workers would be able to allocate asset based on the following four type of risks:

- (1) Aggressive growth: appropriate for aggressive investors with higher risk tolerances or those with longer time horizons.
- (2) Balanced fund: appropriate for middle-aged workers or investors with an average risk tolerance.

- (3) Conservative fund: appropriate for conservative investors with a lower risk tolerance or with a shorter time horizon.
- (4) Workers can select a target fund which takes care of the asset allocation and rebalancing based on a pre-determined target date. This type of fund would suit investors who lack the professional knowledge or the time to make investment decisions.

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*The labor-choice products shall include securities investment trust funds, collective trust funds, and collective management accounts.



2. Administration for the platform

Administration should be handled by the government, which can not only lower the costs, but also prevent confusion as the result of multiple accounts. Also, a special fund should be designed specifically for the New Labor Pension Scheme that is not available to the general public. Any investment products would first need to be approved by the The Labor Pension Fund Supervisory Committee and go through a screening process so that only the best products are made available. After which, the products' performance would be disclosed on a regular basis. The number of mutual funds and insurance products can be adjusted based on the number of workers participating in the scheme.

3. Worker's investment options

Workers would be available to invest in various investment products and change their asset allocation (with 10% as the standard unit). Workers would also be allowed to exchange their mutual funds twice a year. The workers can choose when to make the exchange. They can exchange other funds or return to the pension fund with the guaranteed dividend. The government would encourage employers or trade organizations to help educate workers on choosing the appropriate investments. Professional consultation would advise workers on screening the funds and make 3-5 recommendations for workers.

Conclusion

Under the defined contribution pension scheme, the labor-choice model is the trend for major developed countries. It is our hope to follow and adopt the said model. Taiwan's labor pension scheme may follow and adopt said model. Through rigorous screening, workers would be able to choose the best retirement investment products. This would also provide diversification and increase the scheme's investment returns. Further, workers by allowing professional institutions to provide retirement planning services, we can improve the level of investor education. Therefore, it is recommended that the "New Labor Pension Act" be amended immediately to pave the way for the implementation of the labor-choice product platform. Taking into consideration the amount of time required for investor education and coordination with the participating financial institutions, an amendment could be included that allows for a grace period between 1 to 2 years for the full implementation of the platform.

Taiwan as the Center for Asia-Pacific Asset Management - Opportunities and Challenges

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On August 14th, 2008, the Financial Supervisory Committee passed the “Asia-Pacific Financial Hub Development Plan” in an effort to transform Taiwan into a new center of financial services in the Asia-Pacific region. The plan calls for 3 distinct goals: “Asia-Pacific Asset Management Center”, “Asia-Pacific Financing Center”, and “Asia-Pacific Financial Services Center”.

The study shows that the regulatory environment is the single most important item, followed by a fair and just business environment, and then government attitudes and responses toward the financial industry. These three elements not only define the rules of the game for the industry, but also highlight the areas where substantial improvements are much desired from the business perspectives and other financial centers in the same Asia-Pacific region excel. Further, the study shows that the corporate tax issue ranks the fourth despite having been an important topic on the agenda of regional financial service centers, thereby showing that taxation is a crucial but not necessarily decisive issue. Comparatively, the much discussed personal tax issue ranks the ninth, but after a carefully designed survey and the cluster analysis of the surveyed candidates, we can see the gap between the reasonable expectation and the actual rankings. The same can be said about hardware infrastructure, which ranks fifth.

The sixth and seventh items were “Entering Other Asia Market” and “Interacting with Other Asian Clients”. Further analysis of the background of the surveyed candidates reveals that for large and foreign institutions, the above two factors have become even more important when the “other Asian markets and clients” are to be defined as Mainland China and Mainlanders. Also, the pension fund market is also considered a major selling point for international fund companies. The remaining items, though not deemed especially relevant by the surveyed candidates, such as interactions with other asset managers and professional services, cultural and language differences, cost, and quality of commercial real estate, are indeed the crucial elements of success. They represent the quality of the overall business environment and resources. As previously mentioned, these elements play an important part of the cluster effect and should not overlooked.

The fact of the matter is that Taiwan can still leverage its competitive advantages in the process of becoming the Asia-Pacific Asset Management Center, e.g. economies of scale, low costs, ample human resources. However, the asset management industry tends to operate with a cluster effect, which means that the competitive advantages are interrelated. For example, a strong work force is crucial to a financial center and a



rock-solid financial center attracts top talents, which results in a virtuous cycle. As a result, the administration must have the determination to solve our current problems for the virtuous cycle to take place.

This study makes the following recommendations on the issue of Taiwan's development as the Asia-Pacific asset management center:

Relaxation of financial regulations

1. Amend mutual fund regulations, streamline the mutual fund registration and offering process

One of the most crucial elements to a mature financial market is the diversification of financial products. Such diversification requires effective and consistent approval process for new products as well as a high level of regulatory transparency from the regulators' side.

2. Amend the foreign exchange policy

The currency hedging for the overseas funds issued by domestic SITEs shall be conducted with professionalism. The fund companies should be able to decide the most suitable hedging approach and percentage after taking into considerations of the funds features and future trends for the currencies. Also, once these foreign funds obtain approval from the regulator, the SITEs should be able to operate independently of the supervision of the Central Bank so that uncertainty of regulatory policies can be reduced to the minimum.

3. Repeal the limits on Mainland Chinese equities

Both the investment limit on Mainland Chinese equities and the pre-approval requirement for Taiwanese companies entering Mainland China should be repealed. Doing so would greatly expand the asset management business and increase Taiwan's appeal as a asset management center to foreign asset management companies.

Amend supervisory policies

1. Refer to the function level integration of regulation by UK, Japan, and Korea

The concept of horizontal integration, which served as the basis for Japan's 2007 "Financial Instruments and Exchange Law" and Korea's 2007 "Financial Services and Market Act", can be taken into consideration for future policy-making. These countries implemented horizontally integrated financial supervision based on functions and the negative-list approach to regulate financial products.

2. More efficient asset management company supervision

Greater flexibility should be given to domestic funds, e.g. the funds would be able to modify its investment targets, investment universe, strategies, mergers, or liquidation once it has given beneficiaries sufficient notice and obtained an approval from an authority-in-charge, rather than holding a beneficiary's meeting. Such a change would allow fund companies to be more responsive to market changes. In addition, the 4 current reporting re-

quirements: fund investment analysis, strategy, execution, and review could be repealed. The reporting requirement for investment analysis does not seem to be consistent with international practice. Current regulations should be amended to reflect international practices so that more resources can be devoted to fundamental analysis rather than meeting superficial requirements. These changes would also help attract foreign capital in terms of both trading and fund management.

Implement a competitive tax system

1. Personal income tax

Personal income tax in Taiwan should be lowered to provide further incentives to foreign knowledge workers. The Alternative Minimum Tax should also be amended to exclude incomes resulting from registered overseas funds that are offered and distributed domestically.

2. Corporate income tax

Current Taiwan corporate tax is higher than that of Hong Kong, Singapore, and other countries. The possibility of a tax reduction should be explored. If the feasibility of a tax reduction is in question, tax breaks and incentives need to be considered in its place.

Align the domestic market with international standards

Aggressively seek signing tax treaties and explore the feasibility of offering domestic financial products overseas, e.g. offering Taiwan domestic funds overseas. Doing so would increase the

industry scale and raise international exposures. Establish a fund passport among major financial markets in Asia, which allows Taiwan domestic funds to be offered, consulted, or distributed in other countries. At the same time, the approval process for offshore securities consulting should be streamlined or even repealed. These measures would move Taiwan toward becoming the Asia-Pacific asset management center. More importantly, an MOU with Mainland China on the issue of cross-strait investments, mutual exchanges, products, asset management companies, and a supervisory framework shall be the main focus for internationalization of Taiwan's market.

Implement a labor-choice platform under the New Labor Pension Scheme

Implementation of a labor-choice platform under the pension scheme is an international trend, which also plays a crucial role in the country's asset management industry. It is recommended that the New Labor Pension Act be amended to include a labor-choice platform and a hybrid of private and government management. This means that besides the pension fund with guaranteed dividends of at least a 2-year time deposit, workers with a willingness or need would have the option of choosing other investment products. Mutual fund products would be available as part of the selection. Such a mechanism would give workers greater flexibility and pave the way for Taiwan asset management industry's future development.