

The Performance Evaluation of China's Enterprise Annuity Investment Operations

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Abstract

China is the country to grow old before it gets rich, in order to cope with the impact of the wave of silver, corporate pension funds have to increase their value, that is, to get more funds surplus. Corporate pension fund surplus is the difference between investment operations brought some cash flow and debt to be paid by a certain cash flow. Building an effective performance evaluation system not only can protect the investment and operation of enterprise annuity but yields to provide a better life for the majority of businesses retired workers in their later years, which also has become an important issue and has practical significance.

Keywords: Annuity, Investment operations, Performance, Evaluation

I. Current Situation of China's Enterprise Annuity Investment Operational Performance

Investment channels unreasonable, poor benefits and exist risks. From the development point of view of enterprise annuity, because of various limitations, the pension investment management still has many problems and enterprise annuity is not very well developed. Currently, most major enterprise annuity is deposited in bank, to buy bonds, which has lower investment yields. Although individual local financial institutions to invest in securities commission, but overall investment channels are sluggish, fund operation lack of energy. In the end of 2001, corporate pension assets are more than 19.19 billion, and bank deposits accounted for 59.35 percent, government bonds accounted for 20.53 percent, the two together accounted for nearly 80% of the total size of assets, but investment income is only 5.35 billion, and investment income yield is 2.79%, while the industry was 3.2%, and local is lower, only 1.34%. This low investment yields situation, there are both objective environmental factors and subjective reasons.

China's enterprise annuity has unbalanced development among regions, for example enterprise annuity has a rapid development in the eastern coastal areas or in economically developed areas, but in western rural areas, it developments lag. As the following table:

Table 1: Regional Enterprise Annuity Table in 2012

No.	area	Number of enterprises	crew size	amount of funds (million)
1	Beijing	1,507	378,760	1,312,456.78
2	Tianjin	1,127	219,799	260,298.77
3	Hebei	445	358,661	430,692.47
4	Shanxi	476	490,498	1,183,582.36
5	The Inner Mongolia Autonomous Region	330	267,864	161,388.30
6	Liaoning	2,408	440,044	865,524.79
7	Jilin	316	116,724	221,664.68
8	Heilongjiang	534	182,464	279,298.89
9	Shanghai	7,769	1,062,937	3,465,425.30
10	Jiangsu	2,841	598,001	1,763,299.15
11	Zhejiang	2,113	340,344	1,221,791.88
12	Anhui	398	452,367	1,332,047.83
13	Fujian	13,051	482,465	946,172.27
14	Jiangxi	548	147,126	465,779.61
15	Shandong	3,305	518,280	1,121,063.90
16	Henan	1,783	534,867	641,426.99
17	Hubei	443	265,377	766,555.14
18	Hunan	207	183,324	551,999.48
19	Guangdong	5,586	1,107,241	2,136,798.20
20	The Guangxi Zhuang Autonomous Region	2,627	166,602	197,794.51
21	Hainan	136	26,636	39,276.40
22	Sichuan	624	292,431	655,012.37
23	Chongqing	242	65,007	206,283.62
24	Guizhou	254	133,209	311,145.47
25	Yunnan	552	263,606	724,533.30
26	The Tibet Autonomous Region	10	7,847	8,189.58
27	Shaanxi	391	327,865	564,334.02
28	Gansu	228	409,852	471,570.89
29	Qinghai	87	38,828	33,361.35
30	The Ningxia Hui Autonomous Region	108	31,836	108,763.72
31	The Xinjiang Uygur Autonomous Region	400	201,745	342,031.40
32	The Xinjiang production and Construction Corps	15	8,630	25,316.37
33	Ministry of human resources and social security	3,876	8,344,221	25,395,554.66
34	total	54,737	18,465,458	48,210,433.45

Slow development, small scale. From 1991 to 2000, 10 years of accumulated national supplementary pension insurance fund 19.19 billion Yuan, an average annual increase of 1.919 billion Yuan, only 116 thousand enterprises to establish an annuity. Until after 2004, "two measures" introduced, the pace of development of the annuity have accelerated the end of 2009 more than 2500 million, only the size of the industry is far from predictable 115000000000000. Participate in corporate pension plans more than 13 million workers, accounting for 6.5% participated in basic pension insurance number, accounting for 3.3 percent of nearly 400 million urban non-farm employment, accounting for 1.4% of the working population over 900 million, and the coverage is very low. Specific data in the below table:

Table 2: The Scale of Enterprise Annuity and Staff Number from 2000 to 2011

Years	2001	2002	2003	2004	2005	2006
Enterprise Annuity Fund (billion)	49	260	NA	NA	680	910
the number of employees(Million)					900	964
Years	2007	2008	2009	2010	2011	2012
Enterprise Annuity Fund (billion)	1519	1911	2533	2809	3570	4821.04
the number of employees(Million)	1000	1300	1179	1355	1577	1846.55

Source: "Labor and Social Security Development Statistics Bulletin"

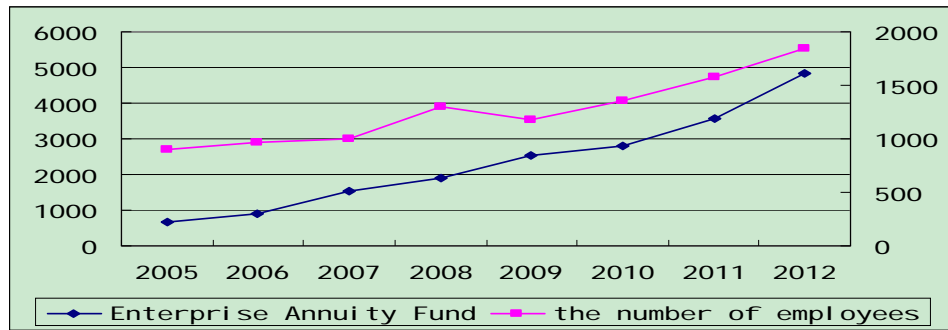


Figure 1: The Basic Situation of China's Enterprise Annuity over the Years

Income portfolio rate of enterprise annuity affect annuity rates. Pre-set interest rates too high, which make the corporate pension deficits increase, however, if scheduled interest rate is set too low, the staff will not get the protection they deserved. As the impact of systemic risk and non-systematic risk, China's enterprise annuity fund portfolio yield 'R' mainly between 4% and 6%. As the following table:

Table 3 2012 National Enterprise Annuity Fund Portfolio Yield Distribution

Portfolio returns (R)	The sample number of combinations	The sample amount of assets (billion)
$R \geq 8\%$	77	16.844
$8\% > R \geq 6\%$	484	144.199
$6\% > R \geq 4\%$	921	206.566
$4\% > R \geq 2\%$	251	31.133
$2\% > R \geq 0$	33	3.238
$R < 0$	—	—
total	1766	401.980

Note:

1. The sample is the portfolios which investment operations over the whole year.
2. Portfolio yield is calculated in units of net growth.

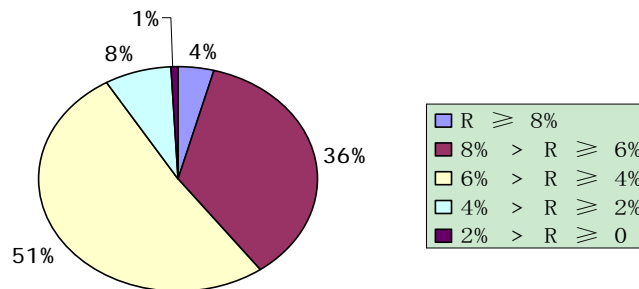


Figure 2: The Proportion of the Sample and the end of the Asset

II. Problems and reasons of China's Enterprise Annuity Investment operational performance

Laws and regulations related to the enterprise annuity investment in our country is not perfect, and supervision and management system is not sound. Currently related to the legislation of annuity, the state just developed a general policy framework, lacking of supporting policies and regulations. There is no specific operation and management system standards to regulate. Large companies mainly use the way of self-management, and they operate funds investment management in person. SMEs use insurance-type approach, they put the fund invested commercial insurance company who help they manage investment. Due to the lack of uniform guidelines and norms, fund investment management confusion, and investment efficiency is not high, leading to the lack of vitality of the further development.

The current development of China's enterprise annuity lack of a favorable external environment. China's capital market is still in its early stage of development, and the capital market is not perfect and mature, which limit enterprise annuity investment operations. The stock of China's capital market is far behind the world level, and the development of stock markets and bond markets are lagging behind, lacking of effective investment in the capital market hedging instruments, and financial regulation level is not high. Currently enterprise annuity in the investment process, lacking of the operation mechanism of mutual constraint, mutual checks and balances, lacking of investment professionals and investment experience, lacking of investment tools, is difficult to diversify investment risks.

The lack of high-quality professional bodies and professional regulators. At present, in China's market, most social insurance institutions act as the corporate pension agency, a single agency, lacking of competition. Lack of qualified managers in the relevant certification inspection, is bound to cause confusion of fund management, and even money was diverted, diversion and other issues.

Annuity as an important means of human resource management is not fully valued. Human resources management concepts is behind in many companies. These companies do not realize the role of enterprise annuity to retain talented employees, reduce staff turnover and improve the labor productivity. They still use the allowances and things, which is a traditional short-term incentive plan, ignoring the role of enterprise annuity, which limits the development of China's enterprise annuity largely.

III. Measures to Solve the Problem of China's Enterprise Annuity Investment Operating Performance

Improve relevant laws and regulations, giving annuity investment management a good institutional environment. Government, through the relevant laws and regulations, use the financial, taxation, auditing, regulatory means to control corporate pension, and with social regulation, industry regulation, judicial supervision, and supervision of public opinion together to create a favorable external environment for the development of enterprise annuity.

The enterprise annuity as a part of human resource management strategy. The account of enterprise annuity is based on labor productivity and the contribution of workers to decide. Generally, it use a personal account management, which is independent of the company's own funds and business operations, even if the company bankrupt employees can still receive annuity. Enterprise annuity is a long-term performance incentive plan, due to its deferred payment, and closely linked with the long-term operating performance of the organization, which promote employees, especially management consistent with enterprise's strategic goals, thereby motivate employees pay close attention to long-term development of enterprises, increasing productivity, promoting performance, reducing staff turnover, and protecting corporate human resources. Therefore, the enterprise annuity has a dual role of incentives and affordable, and enable enterprises to gain advantage in the fierce market competition.

Accelerate the construction of professional bodies, training talent team, because corporate pension annuity personnel management and operations require high-quality professional institutions and professionals. Thus, on the one hand to speed up the training of local personnel and professional institution-building, on the other hand accelerate the pace of opening the capital market and the insurance industry, to introduce foreign capital, talent and foreign institutional investors, which make corporate pension be geared to international standards of commercial insurance.

Gradual relaxation of restrictions on corporate pension investment vehicles. Increase the proportion of equity financial investment products, and improve the investment yield of corporate annuity. Comprehensive use of various investment vehicles, reducing the risk of corporate pension investment, according to portfolio theory, to carry out a variety of diversified investment.

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