Research on risk control of social endowment insurance fund operation in China

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Abstract: Social pension is an important and sensitive topic. The reason for this is that there is a huge gap in China's social endowment insurance. In recent years, the topic and discussion about the pension fund entering the market have never been interrupted. Therefore, it is of great significance to study the risk and risk control of social endowment insurance under such a background. Based on this research background, this paper introduces the current situation and existing problems of China's endowment insurance, and puts forward some risk control measures to solve these problems, hoping to play a role in relevant research and decision-making.

1. Current situation of social endowment insurance funds in China

Old-age pension originates from old-age insurance system, which is the most core component of social insurance. It is mainly used to guarantee the living needs of employees after retirement, and plays an important role in adjusting income gap and maintaining social order. As China's social development has taken on a new trend, the payment of basic pension funds has been hit by the double-sided pressure from slowing economic growth and aging population. Therefore, it is extremely urgent to establish the market-oriented investment mechanism of basic pension funds and the multi-head management and operation mechanism. On August 17, 2015, the state council promulgated the "measures on the investment management of basic old-age insurance funds", marking the formal establishment of an independent investment management system of basic old-age insurance funds in China.

At present, China has formed a multi-level old-age insurance system with basic old-age insurance as the main, enterprise supplementary old-age insurance and individual saving old-age insurance as the auxiliary. With the development of industrialization, the old-age insurance system has been gradually established and improved, which is characterized by emphasizing the responsibility of the state and the government in old-age care to achieve the fundamental goal of old-age care socialization. Since its establishment, it has played an important role in maintaining social stability and promoting social and economic development. It has become a "shock absorber" and a "safety valve" in the process of economic operation.

The investment direction of China's basic endowment insurance fund can be roughly divided into three stages. First, from 1997 to 2006, China's legal basic endowment insurance fund can only invest in national debt and bank deposits, in addition, all other types of investment are strictly prohibited. Second, from 2007 to 2010, the introduction of relevant policies allowed some provinces to entrust part of the central financial subsidies to individual accounts for investment management by local social security agencies to the national council of social security funds. Third, after 2010, laws and
regulations such as the report of the 18th national congress of the communist party of China and other important documents have vigorously advocated diversification of investment methods and channels of basic old-age insurance funds, and made efforts to strengthen the return on investment of funds on the basis of ensuring fund security.

At present, China's old-age insurance system includes three pillars: basic old-age insurance, enterprise supplementary old-age insurance and individual saving old-age insurance. Among them, basic endowment insurance is the most important level and the core component of the social insurance system. By the end of 2015, the accumulated balance of China's basic old-age insurance fund was close to 4 trillion yuan. By contrast, the supplementary old-age insurance for Chinese enterprises was relatively small, with enterprise annuity only reaching 768.9 billion yuan at the end of 2014. However, occupational annuity started late and is still in the process of financing. Individual deposit sex endowment insurance develops slower, still be in pilot level at present.

Since statistics began in 2000, the average annual return of the national basic endowment insurance fund was only 2.32% in 2014, which was not only lower than the one-year deposit interest rate, but also lower than the inflation level in the past 14 years. At present, the investment management of China's basic pension fund is facing not only the internal pressure from the system, but also serious external risks such as population aging and inflation. According to relevant calculations, basic pension insurance has depreciated by nearly 100 billion yuan in the past 20 years. Along with the accelerated aging process, system transition caused by recessive debt gradually become explicit, lead to individual account empty account operation, operation ways and conservative pension investment rate is low, the pension has actually been facing the plight of living beyond its means, through the pension market to realize the value of target is imminent.

In China, the basic old-age insurance fund is the core of the basic old-age insurance system. Only reasonable and effective investment management of the old-age insurance fund can maintain and increase the value of the fund and ensure the realization of the goal of the basic old-age insurance system. Therefore, how to choose, establish and constantly improve the basic endowment insurance fund investment management system suitable for China's national conditions, and meet the sustainable payment of all participants' future old age life through the return of the security fund has become a major challenge to the investment management of China's basic endowment insurance fund.
2. Problems and risks in the investment management of China's basic endowment insurance fund

Fund of primary endowment insurance for enterprise employees, staff in government institutions and urban and rural residents endowment fund of three parts, its security retirement staff basic life and the realization of the intrinsic properties of social justice determines the basic old-age insurance fund investment management starting point and the foothold, namely on the basis of to ensure the safety of fund of primary endowment insurance fund value-added profit. The investment management system of the basic endowment insurance fund is a set of system about the entrusted management, account management, custody, investment operation and supervision management of the basic endowment insurance fund for the purpose of realizing its investment management.

2.1 Positive effects

Above all, endowment insurance fund has safeguard effect to retiree life. With the aging of the population and the general economic slowdown of all countries, the role of pension as a "safety net" for the elderly has been challenged. Only timely and appropriate investment management of endowment insurance funds and the realization of their value preservation and appreciation can alleviate the anxiety of the in-service generation of pension, mobilize the enthusiasm of workers, restrain the atrophy of total consumption, and create a healthy and harmonious social environment.

Secondly, the pension fund has a promoting effect on the capital market. The security property of pension fund seeking stability will not conflict with the high-risk capital market, and the combination of the two can produce a win-win effect. In addition, since pension funds emphasize both security and the fundamental attribute of return rate, they will invest in different financial portfolios in the market to diversify risks, and the corresponding requirements on high-risk financial investment instruments will be higher. This can not only promote the innovation and development of financial products, but also contribute to the improvement of risk management technology so as to increase the effectiveness of the capital market and achieve the modernization of the capital market.

At the same time, pension funds have a driving role in macroeconomic development. Pension funds can act as shock absorbers for a stable economy by taking adverse measures to reduce the fluctuation range of the economy.

2.2 problems and risks

At the present stage, there are many loopholes in the investment management of basic endowment insurance funds in China. In addition to the lack of forward-looking legal design for the endowment insurance system itself, the absence of specific and complete laws and regulations to directly guide the investment management of basic endowment insurance funds is also an important reason.

First of all, the basic pension fund investment management Settings are single and the operation efficiency is low. The lack of a specific hierarchical solution to the problem in the management approach would not achieve national equity. Still have, fund of primary endowment insurance is long manage, the system setting of long manage does not form mutual check and balance not only supervisory effect, cause the phenomenon that administrative organization function overlaps instead, person floats at the matter, mutual buck-passing and bickering.

Secondly, the supervision system of investment and operation of basic endowment insurance fund is not perfect. Our country is the administrative supervision as the core, financial supervision and social supervision as a complement to the trinity of the separate industry pension fund supervision system. In the current investment supervision system of basic endowment insurance fund in China, there is a lack of quantifiable indicators to test the investment and operation performance of the fund. At the same time, there is a lack of macro-management personnel and investment management personnel who can accurately predict the market changes, so the early-warning mechanism reflecting the risk of fund investment cannot be established. All these are not conducive to the formation of a systematic and effective regulatory mechanism to ensure the safety and sustainable development of the fund system.
Third, the risk of illegal use of funds is high. In the early years of the empty account operation also caused by the system of social security agencies misappropriated individual account funds to make up for the overall account. At present, many local financial departments and social security agencies have misappropriated funds to invest in real estate and buy stocks, and even committed serious violations of laws and regulations such as corruption. Secondly, individual account funds have narrow investment channels and low returns, making it difficult to effectively deal with inflation.

Finally, individual empty account runs. At present, China's pension system adopts the management mode of combining unified accounts. Due to historical reasons, the hidden debts of "old people" and "human beings" are gradually prominent in the aging background, and the policy system is not perfect, resulting in unclear boundaries between the overall planning account and individual account. The "mixed account" management and operation lead to the misappropriation of individual account funds to the pooling account for the current pension payment between generations, and the actual operation of the overhead account of the individual account. As of 2011, China's local social endowment insurance fund has accumulated a scale of 1.9 trillion yuan. However, due to the limited investment methods of bank deposits and national debt, the annual return is less than 2,070 yuan, resulting in the empty account of individual accounts.

| Year   | 2008 | 2010 | 2012 | 2014 | 2016 | 2017 |
|--------|------|------|------|------|------|------|
| Empty account | 13478 | 23467 | 29806 | 30987 | 35689 | 40931 |

Chart.3 China's personal account empty account amount

In 2015, China's basic old-age insurance fund received 2.94 trillion yuan in revenue and 593.7 billion yuan in fiscal subsidies, of which 2.18 trillion yuan was received in old-age insurance premiums and 2.52 trillion yuan was spent. In addition to fiscal subsidies, the actual gap was 340 billion yuan. By the end of 2015, China's accumulated pension balance was close to 4 trillion yuan. Although the fund scale was huge, its ability to maintain and increase value was insufficient. Annuities regard common people after retiring as "keep one's life money", early configuration is higher at safe margin bank deposit and national debt. According to statistics, from 2000 to 2014, the annual investment rate of pension in China was less than 2.4%, far lower than the CPI compound growth rate.
of 4.8%. At the same time, under the new normal economic environment, China has repeatedly cut interest rates and deleveraged. The market has entered the era of low interest rates, deposit interest rates and Treasury bond yields have been falling, and the conservative pension investment strategy is facing the dilemma of shrinking and losses under the pressure of aging, which is far from meeting the needs of expenditure.

3. Control strategy

3.1 establish a strict information disclosure mechanism. Regulators should review the authenticity, accuracy and completeness of information disclosed by insurance fund investment institutions, and play a supervisory role in the investment and operation of pension funds from the perspective of information disclosure. The concrete measures are as follows: first, establish a comprehensive information disclosure channel among the fund investment management subjects to improve the transparency of information. Second, promote the information construction of pension fund information disclosure and improve the convenience of information transmission.

3.2 establish "a leading regulatory model with the government as the main regulatory agency". In other words, on the basis of the existing financial sector supervision model, the standing committee of the National People's Congress established the "social insurance fund supervision and management committee" as the main regulatory body responsible for coordinating the supervision of pension fund investment.

3.3 strengthen internal risk control of fund investment management institutions. The supervision powers and responsibilities of the ministry of human resources and social security and the ministry of finance should be clearly stipulated to avoid overlapping and vacuum of supervision. At the same time, the government should entrust professional investment management institutions to operate the pension fund and divide the over-centralized operation management and supervision functions of the ministry of human resources and social security into different groups. Secondly, the awareness of risk prevention should be strengthened, risk warning, risk assessment, risk identification, risk reporting and other risk prevention measures should be established to prevent and control the risks in fund investment and operation, and the significance of the principal-agent agreement should be clear, so as to achieve the whole process and all-round control.

3.4 improve the legal system of personal account investment management. It is necessary to formulate and promulgate laws and regulations as soon as possible, stipulate open and transparent information disclosure mechanism, make the investment management and supervision and control of individual account funds have laws to follow, regulate the investment management, supervision and control of individual accounts and other behaviors, and further clarify legal responsibilities. In addition, a strict supervision system should be established. Financial departments and auditing institutions should, in accordance with their respective responsibilities, supervise the investment management of individual account funds.

3.5 establish pension investment style system. Second, economic incentives should be given to underdeveloped areas to reduce the cost of government pooling, so as to gradually move from county-level pooling to city-level pooling and improve the effect of policy implementation. We will
strengthen the construction of China's capital market, create a favorable market environment for the entry of pension funds into the market, increase investable instruments, improve the monotonous investment structure of China's capital market, and achieve the goal of diversified investment of pension funds, so as to fully disperse non-systematic risks.

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