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Pension system in Asia and the Pacific ILO Perspectives

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Structure of the presentation

- 1. Social and economic context**
- 2. Rough classifications of social security systems in Asia and the Pacific**
- 3. Design of social security pensions**
- 4. Country examples**
- 5. Remarks**

1. Social and economic context

1. Diversity and rapid changes

rapid Different present level of social and economic and their changes, typically, for example,

- Industrial structure
- GDP per capita, productivity, wages, price level
- Employment structure

share in e.g. wage-earners / non-wage earners, employment different economic sectors

- Demographic structure
e.g. age structure, fertility, mortality
- Level of urbanization

=> All elements have substantial impacts on present / future of social security systems, including pensions as one of the major components, and pose challenges.

Coverage rate of social security pensions / saving

(in percentage)

	Percentage of non-agricultural workers in the total working population ⁽¹⁾	Percentage of wage earners in the total working population ⁽²⁾	Coverage rate ⁽³⁾		Percentage of urban population ⁽⁴⁾
			Percentage of population 15-64	Percentage of labour force	
Cambodia	29.6	12.9	-	-	20.0
China	53.1	-	17.2	20.5	40.0
India	33.2	-	5.7	9.1	29.0
Indonesia	56.0	32.8	11.1	15.5	48.0
Korea	91.9	66.4	-	-	81.0
Lao PDR	20.3	10.4	5.7	7.2	27.0
Malaysia	85.2	76.2	32.2	49.6	68.0
Mongolia	60.1	39.3	23.6	39.6	57.0
Nepal	32.7	-	2.5	-	16.0
Philippines	63.0	50.4	18.7	27.1	63.0
Singapore	99.6	86.0	45.2	76.2	100.0
Sri Lanka	59.6	58.2	22.2	35.6	15.0
Thailand	57.3	43.8	24.4	30.4	32.0
Viet Nam	42.1	25.6	12.9	16.2	26.0

Source:

Key Indicators of the Labour Market (KLIM), 5th edition, ILO (1) and (2)

Pension at a Glance, Asia / pacific edition, OECD and WB (3)

Urban population, Development and Environment, United Nations, 2007 (4)

Some of the figures, especially of the coverage are author's tentative estimates.

1. Social and economic context

Demography

	Dependency ratio (in %)					
	2007			2050		
	Total ⁽¹⁾	Youth ⁽²⁾	Old-age ⁽³⁾	Total	Youth ⁽¹⁾	Old-age ⁽²⁾
Cambodia	62.5	59.6	2.9	49.1	34.4	14.7
China	39.5	28.5	11.0	64.8	25.9	39.0
India	57.8	49.2	8.6	49.6	27.4	22.2
Indonesia	50.2	41.6	8.6	54.1	27.2	26.9
Korea	38.3	24.2	14.1	87.0	22.4	64.6
Lao PDR	77.6	71.2	6.4	45.4	32.8	12.6
Malaysia	56.6	49.1	7.5	52.3	27.7	24.6
Mongolia	49.3	43.6	5.7	51.3	26.3	25.0
Nepal	71.6	65.2	6.4	47.7	33.7	14.0
Philippines	61.6	55.0	6.6	49.7	28.4	21.3
Singapore	37.0	24.7	12.3	78.4	22.5	55.9
Sri Lanka	44.8	33.8	11.0	64.7	27.0	37.7
Thailand	44.1	33.4	10.7	61.7	27.1	34.6
Viet Nam	50.4	42.2	8.2	56.2	27.1	29.1

Source: World Population Ageing 2007, United Nations

(1) May not add total due to rounding.

(2) Population 0-14 / population 15-59

(3) Population 60 - / population 15-59

1. Social and economic context

Demography

(in percentage)

	Life expectancy						Total fertility rates	
	2005-2010			2045-2050			2005-2010	2045-2050
	Birth	Age 60	Age 65	Birth	Age 60	Age 65		
Cambodia	58.0	17.2	13.6	71.1	20.3	16.3	3.7	2.1
China	72.6	19.0	15.2	78.7	22.4	18.3	1.7	1.9
India	64.9	17.9	14.5	75.9	21.4	17.6	2.8	1.9
Indonesia	68.7	17.3	13.8	76.9	20.4	16.4	2.2	1.9
Korea	78.2	21.6	17.7	84.4	26.4	22.1	1.2	1.8
Lao PDR	56.5	16.4	13.1	72.2	19.6	15.7	4.3	1.9
Malaysia	74.1	18.7	15.0	79.9	22.5	18.5	2.6	1.9
Mongolia	65.9	17.1	13.8	75.9	20.8	17.0	2.2	1.9
Nepal	63.6	16.4	13.1	75.4	19.6	15.7	3.3	2.0
Philippines	71.6	18.0	14.4	78.5	21.6	17.6	2.8	1.9
Singapore	79.4	22.0	17.9	84.5	26.2	21.8	1.3	1.8
Sri Lanka	75.1	19.5	15.7	80.5	23.0	18.9	1.9	1.9
Thailand	71.7	19.0	15.2	79.1	22.5	18.4	1.9	1.9
Viet Nam	71.9	19.5	15.7	78.9	22.6	18.5	2.1	1.9

Source: World Population Ageing 2007, United Nations

2. Rough classification of social security systems in Asia and the Pacific

1. What has influenced the design of social security systems as a whole?

- Initially, designed not basing on 'logics' and reasoning on possible developed options, but rather influences of 'models' of other countries (e.g. under colonization).
- People have got used to the once-established mind-set in the course of history.
- Changing ideas (e.g. defined-benefit (DB) / defined-contribution (DC), social insurance / saving) are in general difficult, especially for old-age pensions.
- Countries are trying to reform the present system in accordance with changing environments (e.g. market economies, aging).

2. Rough classification of social security systems in Asia and the Pacific

2. Rough classification

(1) Anglo-Saxon group

- sons / daughters of 'Beveridge' idea (universal basic provisions), with 'self-help' top-up

e.g. Australia, New Zealand, Brunei

- Tax-financed basic pensions (in New Zealand, high replacement level of around 65 (single) - 72.5% (couple) of average wages)

- Second-tier saving (super-annuations)

- Tax-financed health care

- Work injury insurance, a component of non-fault accident compensations (except Brunei with private insurance)

- Tax-financed social assistance scheme for unemployed

persons

2. Rough classification of social security systems in Asia and the Pacific

(2) North East Asia 'Bismarck' group

- sons / daughters of 'Bismarck' idea (social insurance), based on solidarity

e.g. Korea, Japan, Taiwan

- 'Universal' pension insurance
- 'Universal' health insurance
- Work-injury insurance
 - Unemployment insurance
 - Maternity / sickness insurance
 - Social assistance as the last resort (with strict conditions)

2. Rough classification of social security systems in Asia and the Pacific

(3) 'Bismarck' group of middle-income countries

- sons / daughter of 'Bismarck' idea (social insurance) based on solidarity, with limited coverage, mainly due to employment structure, with extension initiatives

e.g. The Philippines, Thailand

- Pension insurance for the formal economy (somewhat extended to others, but limited)
- Health insurance for the formal economy plus α
- Tax-based universal health care (Thailand in 2002), as an exception
- Work-injury insurance
- Unemployment insurance (Thailand, 2004)
- Maternity / sickness insurance
- Social assistance limited

2. Rough classification of social security systems in Asia and the Pacific

(4) 'Bismarck' group of transitional economies

- sons / daughters of 'Bismarck' idea (social insurance)
based on solidarity with limited coverage mainly toward
public-sector employees, due to employment structure, with
extension initiatives

e.g. China, Mongolia, Viet Nam, Lao PDR

- Pension insurance for the formal economy with designs targeting at public-sector workers
- Health insurance for the formal economy / public-sector workers
- Work-injury insurance
- Unemployment insurance (Viet Nam in 2009)
- Maternity / sickness insurance
- Social assistance limited

2. Rough classification of social security systems in Asia and the Pacific

(5) Non-insurance, saving group

- sons / daughters of 'British colonies' idea, saving (mainly lump-sum payments), public health care and employers' direct compensations

e.g. India (somewhat mixture), Singapore (mixture on health care), Malaysia (mixture), Indonesia (mixture), Sri Lanka, Pacific Island

- Provident fund (saving) for the formal economy

- Tax-based health care for all (Singapore with more self-help plus insurance pooling), some countries with limited insurance coverage (e.g. India, Indonesia)

- Direct employers' compensations and private insurance for work injury benefits (lump-sum) (Malaysia as an exception with social insurance)

- No unemployment insurance (severance payment)

- Social assistance limited

Social security in ASEAN countries

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam
Old age	P/U		P	S	P		S	P	S/A	S
Invalidity	P/U		P	S	S/P		S	P	S	s
Survivors	P		P	S	S/P		S	P	S	S
Medical care	U		S	S	U	S	S	P/S/A	U/S	S
Sickness	E	E	E	S	E		S	E	S	S
Maternity	E	E	E	S	E		S	E	S	S
Work injury	E	S	S	S	S/E	S	S	E	S	S

S	Social insurance
P	Provident fund
U	Universal
E	Employers' liability
A	Social assistance

3. Design of social security pensions

1. Roles of social security pensions

(1) Basic income security for all

Providing basic means of living to all residents

=> Way of poverty alleviation

assistance on a basket of food, clothing, amount, minimum wages, poverty line etc. based goods comprising of basic living needs such as housing, energy, water etc.

(2) Income replacement role for income earners

Smoothing the transition before / after retirement

Providing a partial replacement of income for the retirement lives of income earners and their families

=> Everyone admits (1) as the most basic role, but historically, (2) has developed, firstly, for civil servants as 'salary continuation' or 'rewards for their royalty', followed by insurance schemes for private-sector workers (History dynamics are contrary to the ideal).

3. Design of social security pensions

1. Roles of social security pensions (Contd.)

Countries with universal coverage

(1) Taxation group

elderly Australia (means-tested pensions, but around 67% of the receive means-tested pensions)

pensions) New Zealand and Brunei (non-conditional universal

(2) Insurance group

Republic of Korea, Japan, Taiwan

- Insurance schemes cannot be easily extended to self-employed and rural farmers etc., mainly due to low affordability of insurance contributions and administrative difficulties (e.g. insurance registration, income tests, contribution collections).

=> In Asia and the Pacific, many countries end up with 'single-tier' income-related schemes either by insurance (DB) or saving (DC) for wage earners.

=> **Recent interest in non-contributory pensions.**

The 4th PBSS Colloquium TOSHI CENTER Hotel, Tokyo, Japan – 4–6 October 2009

3. Design of social security pensions

Non-contributory pensions

Country	Pensionable age	Universal (U) or means-tested (M)	Monthly amount, equivalent in USD	% of population over 60+	% of beneficiaries over population 60+	Cost as % of GDP	Low (L) or middle (M) income countries
Argentina	70	M	88	14	6	0.23	M
Bangladesh	57	M	2	6	16 ⁽¹⁾	0.03	L
Bolivia ⁽²⁾	65	U	18	7	69	1.3	M
Botswana	65	U	27	5	85	0.4	M
Brazil Beneficio de Pr	67	M	140	9	5	0.2	M
Brazil Previdencia R	60 for men 55 for women				27 ⁽³⁾	0.7	
Chile	65	M	75	12	51	0.38	M
Costa Rica	65	M	26	8	20	0.18	M
India	65	M	4	8	13	0.01	L
Lesotho	70	U ⁽⁴⁾	21 ⁽⁴⁾	8	53	1.43	L

3. Design of social security pensions

Country	Pensionable age	Universal (U) or means-tested (M)	Monthly amount, equivalent in USD	% of population over 60+	% of beneficiaries over population 60+	Cost as % of GDP	Low (L) or middle (M) income countries
Mauritius	60	U	60	10	100	2	M
Moldova	62 for men 57 for women	M	5	14	12	0.08	L
Namibia	60	M	28	5	87	0.8	M
Nepal	75	U	2	6	12	N.A.	L
South Africa	65 for men	M	109	7	60	1.4	M
Tajikistan	63 for men 58 for women	M	4	5	N.A.	N.A.	L
Thailand	60	M	8	11	16	0.06	M
Uruguay	70	M	100	17	10	0.62	M
Viet Nam	60	M	6	7	2	0.02	L
	90	U			0.5	0	

Social pension cost estimate (Thailand)

Table 6.1: Cost estimations of universal pensions and their percentages to the total government expenditure and GDP, as of 2003

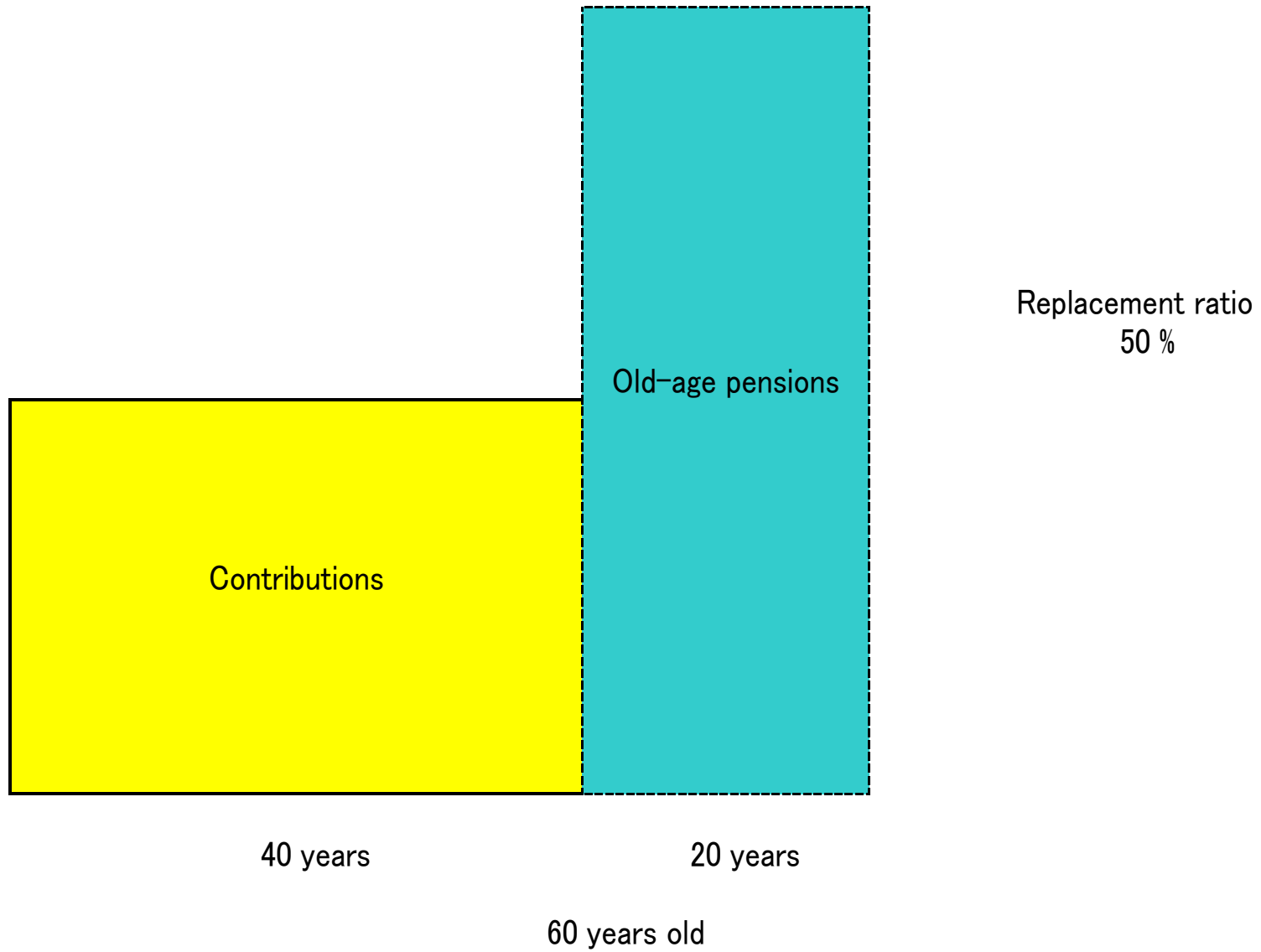
		60 years or more	65 years or more	70 years or more
	Number of people	6.3 million	4.3 million	2.7 million
Annual expenditure (billion Baht)	500 Baht/month	37.5	25.7	16.3
	1,000 Baht/month	75	51.5	32.6
	1,500 Baht/month	112.5	77.2	49.0
Annual expenditure to total government Expenditure ¹⁴	500 Baht/month	3.8%	2.6%	1.6%
	1,000 Baht/month	7.5%	5.1%	3.3%
	1,500 Baht/month	11.3%	7.7%	4.9%
Annual expenditure to GDP	500 Baht/month	0.7%	0.4%	0.3%
	1,000 Baht/month	1.3%	0.9%	0.6%
	1,500 Baht/month	2.0%	1.3%	0.9%

4. Country examples

	Qualifying conditions (years)			Pension formulae				
	Contributing years	Pensionable ages		Basic formulae	minimum pensions	Maximum pensions	Base salary (BS)	Indexation
		Males	Females					
Cambodia CS	20	55	55	$(60\%+2\%*(CY-20))*BS$	MS	80% * BS	Final monthly basic salary	CS wages
China ⁽¹⁾	15	60	55	$1\%*CY*BS$	-	-	Mean of city-wide average earnings and last year's individual salary	Mix of wages and prices (40-60%)
Korea (ultimate)	10	65	65		-	-	Mean of 3-year indexed national wages and indexed individual wage for whole working life	CPI
Lao PDR private	5	60	60	$1.5\%*CY*BS$	-	-	Whole life indexed average (pension-point system)	Average Contributory wages
Lao PDR CS (old)	25	60	55	$(75\%+1\%*(CY-25))*BS$	-	-	Last month basic salary	CS wages
Lao PDR CS (reform)	15	60	55	$2\%*CY*BS$	-	-	Last year salary including allowances	CS wages
Mongolia	20	60	55	$(45\%+1.5\%*(CY-20))*BS$	75% * MS for CY 20+ 50% * MS for CY 10-19	-	5-year non-indexed average individual salary	CS wages

4. Country examples

	Qualifying conditions (years)			Pension formulae				
	Contributing years	Pensionable ages		Basic formulae	minimum pensions	Maximum pensions	Base salary (BS)	Indexation
		Males	Females					
Philippines CS	15	60	60	$(37.5\% + 2.5\% * (CY - 15)) * BS$	2,400 pesos for 20+ CY 1,300 pesos for 20-years' CY	90% * BS	3-year non-indexed average individual salary	Not specified
Philippines PS	10	60	60	$(300 + (20\% * 2\% * (CY - 10))) * BS * 13/12$	40% * BS 2,400 pesos for 20+ CY 1,200 pesos for 20-CY	-	5-year non-indexed average individual salary	Not specified
Thailand CS ⁽²⁾	10	50	50	$2\% * CY * BS$	-	70% * BS	5-year non-indexed average individual salary	?
Thailand PS	15	55	55	$(20\% + 2\% * (CY - 15)) * BS$	-	-	5-year non-indexed average individual salary	Not specified
Viet Nam males	15	60	-	$(45\% + 2\% * (CY - 15)) * BS$	MW	75% * BS	5 years (to be increased to 10 years) indexed average individual salaries for civil servants working time average (CPI indexed) for private-sector workers	CPI / GDP, detailed to be set
Viet Nam females	15	-	55	$(45\% + 3\% * (CY - 15)) * BS$		75% * BS		



4. Country examples

	Years of contributions							
	5	10	15	20	25	30	35	40
Cambodia civil servants	0.0%	0.0%	0.0%	60.0%	70.0%	80.0%	80.0%	80.0%
China (without saving pillar)	0.0%	0.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%
Korea (ultimate)	0.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%
Lao PDR private	7.5%	15.0%	22.5%	30.0%	37.5%	45.0%	52.5%	60.0%
Lao PDR civil servants (previous)	0.0%	0.0%	0.0%	0.0%	75.0%	80.0%	85.0%	90.0%
Lao PDR civil servants (reform)	0.0%	0.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%
Mongolia	0.0%	0.0%	0.0%	45.0%	52.5%	60.0%	67.5%	75.0%
Philippines civil servants	0.0%	0.0%	37.5%	50.0%	62.5%	75.0%	87.5%	90.0%
Philippines private-sector workers	0.0%	43.3%	43.3%	46.4%	57.2%	68.1%	78.9%	89.7%
Thailand civil servants (without saving pillar)	0.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	70.0%
Thailand private-sector workers	0.0%	0.0%	20.0%	27.5%	35.0%	42.5%	50.0%	57.5%
Viet Nam males	0.0%	0.0%	45.0%	55.0%	65.0%	75.0%	75.0%	75.0%
Viet Nam females	0.0%	0.0%	45.0%	60.0%	75.0%	75.0%	75.0%	75.0%

4. Country examples

Contribution rates

	Total	Employers	Employees	Government	Note
Cambodia CS	0.0%			All the cost	
China ⁽¹⁾	20.0%	20.0%	0.0%		Maximum 20%
Korea (ultimate)	9.0%	4.5%	4.5%		
Lao PDR private	9.5%	5.0%	4.5%		For all benefits
Lao PDR CS (old)	6.0%			All debt	For all benefits
Lao PDR CS (reform)	16.5%	8.5%	8.0%		For all benefits
Mongolia	19.0%	13.5%	5.5%	All debt	
Philippines PS	10.40%	7.07%	3.33%		
Thailand CS ⁽²⁾	None			All the cost	
Thailand PS	6.0%	3.0%	3.0%		
Viet Nam	16.0%	11.0%	5.0%		Present
	22.0%	14.0%	8.0%		2014

4. Country examples

1. Korea, Japan

Challenges:

- (1) Problems of 'coverage gaps' in spite of theoretical 'universal' coverage
- (2) Future financial sustainability in the super-aging society, balancing the adequacy of pensions and the alleviation of financial burdens

Korea: Future reduction of replacement level to be accepted (40% ultimate)?

Future increase in the contribution rate and pensionable age?

Japan: Automatic reduction of the replacement level to be accepted in case the real replacement to be worse than estimated (50% as minimum)?

Future limit on contribution rate / further increase in pensionable ages to be debated again?

4. Country examples

2. Thailand, Philippines

Coverage

Still to be expanded

Thailand: Government initiative for universal pensions (500 Baht / month for 65+)

Civil servants' pensions

Replacement level too generous, pensionable ages too low.

Private-sector workers' pensions

Philippines: too generous.

Thailand: modest, but with low pensionable age.

Final 5-wage calculation to be reformed.

Contribution rate to be gradually increased in the future.

Normal pensionable age to be gradually increased in the future.

4. Country examples

3. Transition countries (Mongolia, Viet Nam, Lao PDR)

Coverage

Still to be expanded, especially stronger enforcements on registration and wages necessary for private-sector workers.

Geographic extension of coverage of private-sector scheme to all Lao PDR (implemented only in three Provinces at present).

Earnings-related pensions for both civil servants and private-sector workers

Pensionable ages to be increased and equalized between men and women.

Early retirement pensions to be gradually abolished and normal pensionable age to be increased..

Structurally high replacement level to be rationalized.

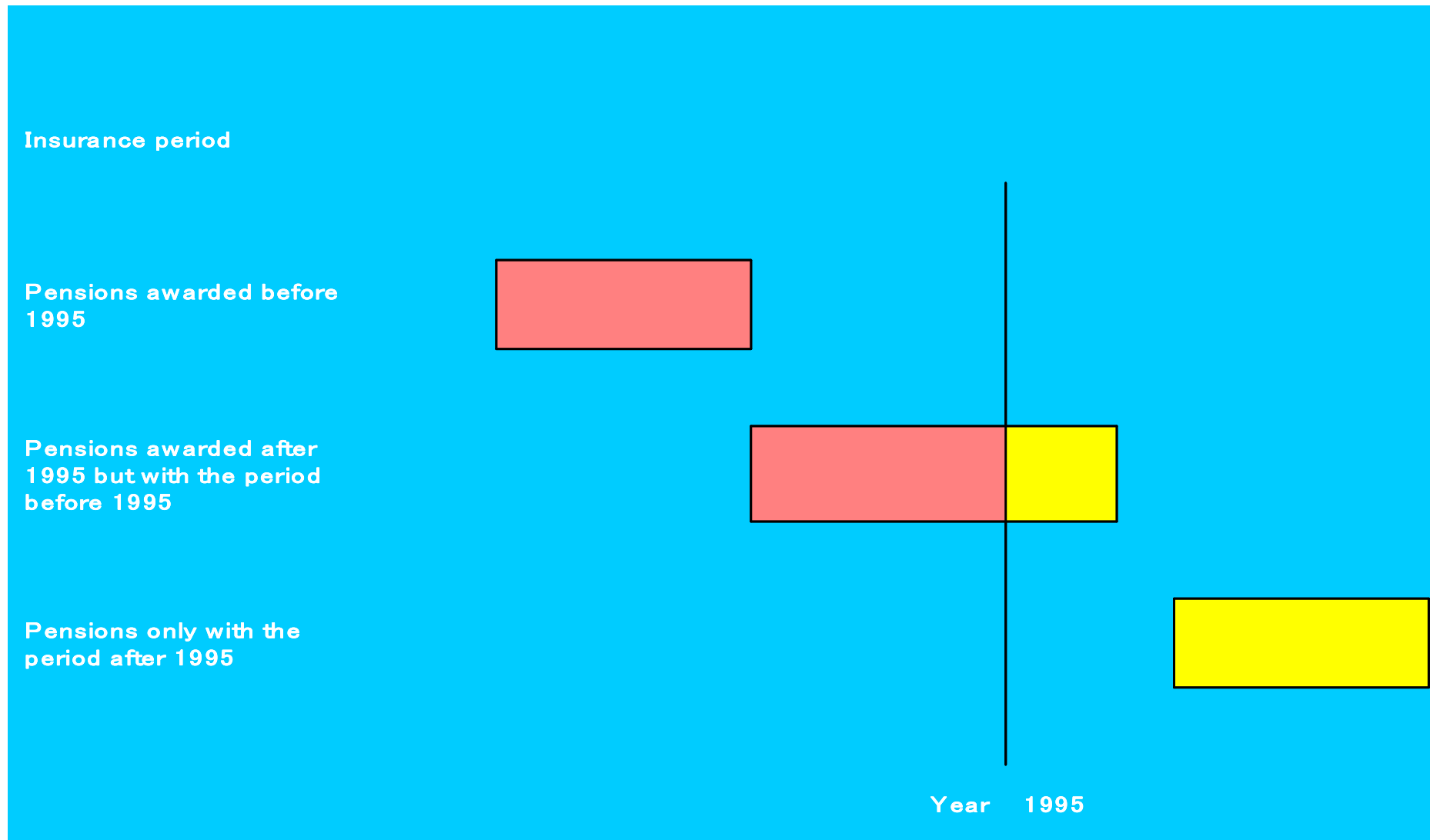
Past liabilities (before 1995) to be sorted out by utilizing taxation revenues.

Contribution rates to be rationalized with the reform of past liabilities.

The wage definitions for contribution to be wider with better compliance on wage catchments.

Realistic phasing-in of Notional Defined contribution (NDC) scheme in Mongolia (for those born after 1960) to be considered and established.²⁵

Past liabilities of non-contributory civil service pensions



4. Country examples

4. Countries with provident funds (Indonesia, Singapore, Malaysia)

Improvements of compliance, especially in Indonesia (only 47% of wage earners covered).

Fundamental problems of benefit adequacy (mainly lump-sum payments), especially without basic-tier pensions even for wage earners.

Premature withdrawals prevalent, e.g. for housing and education (some measures are being taken for preventing early withdrawals, e.g. Singapore / Malaysia).

5. Remarks

1. **Modest level basic-tier pensions is lacking** in middle-income / developing countries in Asia and this needs urgent attentions and remedies (non-contributory pensions?).
2. **Earnings-related pensions need future gradual reforms of key system parameters**, seen as in many developed countries, paying due attention to changing environments, e.g. more employment to be provided for the elderly and women.
3. **Governance issues** are also important, such as more strict compliance measures to be taken and the abolishment of early retirement provisions.
4. **Transition issues**, such as the past liabilities for civil servants, need special attentions of schemes of transitional countries (e.g. Mongolia, Viet Nam, Lao PDR).

5. Remarks

5. **Provident funds** need strengthened measures of **preventing early withdrawals** and of **facilitating annuitization** in case it is difficult to introduce DB pensions.
6. **Other social security provisions**, such as health care, invalidity and survivors' pensions (and elderly care finally), should be also taken into account from both angles of adequacies of benefits for the elderly including old-age pensions and the cost of the overall packages.
7. **Drastic changes may not seem to take place** on the fundamental structure of existing (earnings-related) schemes (e.g. DB / DC of earnings-related tier) as gradual reforms will be the demands of many developing countries.
8. Developed countries can contribute by sharing experiences and provide support / advice.