
Public Pensions in Ageing Southeast Asia:
An Assessment & Directions for Reform

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Public Pensions in Ageing Southeast Asia: An Assessment & Directions for Reform

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Abstract

Current demographic trends suggest that most economies in Southeast Asia will age at relatively low incomes, and at a pace that will leave relatively short time period for adjustments in both the design of pension programs and for reforms in institutions and organizations that are responsible for public pension programs. This paper assesses public pension programs in select Southeast Asian economies (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam – henceforth referred to SEA6) and the key issues facing them. The criteria used in assessing pension systems are philosophy of pension design, the extent of coverage, investment policies and performance, and administrative and compliance costs. The paper argues that three broad reform directions to strengthen public pensions merit consideration. The nature, structure and the weight given to each direction will vary on the context and policy objectives of each country.

The first direction is to enhance professionalism of the existing provident and pension fund organizations, including their governance practices. Second, is to strengthen the role of non-contributory budget-financed pensions (e.g. social pensions). Third, is to adopt a systemic perspective to pension reform that includes reforms in complementary areas (labour markets, public financial management practices, civil service); developing a financing-mix of pensions; and lastly improving effective coverage by exploring complementarities between healthcare and pension programs.

Keywords: public pensions, pension reform, social protection, ageing in Southeast Asia.

Preliminary Draft for Discussion
1. Introduction

Current demographic trends suggest that most economies in Southeast Asia will age at relatively low incomes, and at a pace that will leave relatively short time period for adjustments in both the design of pension programs and for reforms in institutions that support existing social protection systems. Current pension arrangements will need to fund retirement expenditure for a rapidly ageing population by allocating higher proportion of society’s resources to the elderly. Additional funding will require changes in the financing-mix used to provide pensions in these countries.

While there is significant heterogeneity amongst pension systems in Southeast Asia in terms of their social protection philosophy, institutional features, their macroeconomic sustainability, coverage rates, a common theme across these economies is that the contribution of the public or government organized pension programs in ensuring old-age income security is relatively small. This stems from many reasons.

First, most of these economies have a significant share of the labour force that is employed in the informal sector and extending social security coverage and ensuring a high density of contributions is challenging. Second, there are many governance challenges that have weakened professionalism and organizational effectiveness of provident and pension fund organizations in developing economies. For example, while there are statutory provisions that provide social security coverage through a provident fund, the effectiveness of the provident fund in ensuring old-age income security may have been compromised due to high pre-retirement withdrawals or poor fund management, or inadequate understanding of the long term viability of

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1 It is useful for analytical purposes to differentiate between funding and financing in discussing the resource needs for the elderly. In the above context funding refers to allocating a proportion of the total economic resources available to meeting age-related spending. This will necessarily imply trade-offs with competing public and private expenditure priorities. Financing refers to the various instruments or mechanisms through which resources are accessed or allocated. These include for example social insurance contributions, mandatory and voluntary savings, general budgetary revenue, family and community support, and others.

2 The density of contributions is the number of contributions made by an individual to a retirement scheme divided by the time spent in employment. In economies where contributions to pension programs are organized on the basis of employment, maintaining high employment rates is important. Incentives for individuals to continue to contribute to voluntary programs will also be needed to ensure high density of contributions.
the funds and the tyranny of small numbers (e.g. even a relatively small unanticipated change in longevity or in the real interest rate may have a disproportionate impact on the financial viability of the scheme).

Third, social protection reflects in some measure a contract between the state and its people. The terms of reference that guide this contract vary across economies and stem from differing philosophies, ideological preferences and collective opinion on the role of the state in provision and financing of social policy. In some countries, such as Singapore, governments have been averse to developing robust social protection systems for philosophical reasons (Asher & Bali, 2014b).

Diminished global growth prospects in the aftermath of the global financial crisis have accentuated the emphasis on strengthening social safety nets and in particular on publicly-financed and organized programs. Many developing economies in Asia (including China, India, Indonesia, Thailand, and Vietnam) are at the precipice of implementing or have implemented wide-ranging social protection reforms that outline a greater role of the state in administering and financing social policy, particularly healthcare and pension programs.

One of the approaches to pension reform and the role of the state is anchored around the World Bank framework, which outlines the importance and function of various methods of financing which have different characteristics, such as for risk management to ensure old-age income security (Holzmann and Hinz, 2005). The

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3 In 2005, the World Bank published a multi-pillar or multi-tiered framework for pension systems and reform (Holzmann & Hinz, 2005). The objective of this framework was to provide a holistic approach to old-age income security. It essentially built on their three-pillar framework, which had largely ignored the needs of those employed in the informal sector and those with low lifetime earnings. The five pillars refer to the following: (i) ‘zero pillar’, a social pension financed from budgetary sources; (ii) ‘first pillar’, a mandatory earnings-related DB scheme, which defines benefits to be paid to members, but leaves contributions needed to pay the benefits from social partners undefined; (iii) ‘second pillar’, a mandatory DC plan with individual accounts, which defines contributions but leaves benefits to be obtained undefined; (iv) ‘third pillar’, a voluntary contribution plan; and (v) ‘fourth pillar’, comprising of informal support systems. The multi-pillar framework envisions a complementary role for each of the pillars in providing economic security for the elderly. A limitation of this framework is that even after adhering to it in designing a system, it does not say much about the efficacy or adequacy of these arrangements. Moreover, the framework does not consider other age-related expenditure such as healthcare, which can erode the real value of pension income and undermine old-age income security. This is particularly important in many developing countries where healthcare expenditure is financed, privately without risk pooling, largely through out of pocket spending. There is increasing recognition that the needs of the elderly do not just centre around money, but around a bundle of services they need.
importance and relative contribution of each of the pillars vary across levels of economic development. While public pension programs (contributory and non-contributory) have an important role in managing old-age income security (smoothening consumption, mitigating poverty, and insuring longevity, inflation, and survivors’ risks), they also have an important macroeconomic function in supporting economic growth and development (Barr & Diamond, 2008). Over the past decade, the importance of non-contributory retirement income transfers financed from the state has also been part of policy debate in social security reform.

It is in the above context this paper assesses public pension programs in select Southeast Asian economies (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam – henceforth SEA6) and the key issues facing them. The characteristics used in assessing pension systems are philosophy of pension design, the extent of coverage, investment policies and performance, and how these economies manage pension-related administrative and compliance costs.

The rest of the paper is organized as follows. The next section reviews demography and labour market trends in selected countries, which suggests an urgent need for pension reform. Section 3 provides a review of pension arrangements in the sample countries and provides a comparative assessment on the aforementioned criteria. The paper concludes with suggestions for broad directions of reforms for public pensions in Section 4.

### 2. Demographic and Labour Market Trends

Advances in longevity at all ages through the lifecycle in most economies around the world are unprecedented and has important implications for ensuring old-age income security. Assuming constant retirement age, higher longevity implies that increasing proportion of the average lifespan is spent in retirement. One of the main drivers of longevity is the compression of mortality at advanced ages, resulting in an increasing share of the old-old (people aged above 85) in the population (Eggleston &
Fuchs, 2012). Not only do healthcare and pension programs need to be financed for a longer period, but also for a growing number of individuals. While aggregate pension spending in real terms (adjusting for prices) is largely a function of time spent in retirement by a cohort of retirees, healthcare spending on the other hand increases disproportionately with age. Successive cohorts of retirees are therefore spending relatively more on healthcare in real terms as they live longer. This implies that greater share of society’s resources will have to be devoted to managing age-related expenditure: in other words greater funding will have to be made available to the elderly.

There is considerable variation in the global aggregate population projections when alternate fertility scenarios are used as illustrated in Figure 1. This increases uncertainty about planning for pension reforms globally as well as in individual SEA6 countries. Variances around the population averages (such as for life expectancy at age 60, and regional variations from the national average) also need to be taken into account into policy planning and projections.

*Figure 2.1: Population of the world, 1950-2100, according to different projections and variants*

Source: (UNDESA, 2012)
Before analysing the aggregate indicators, it is important to underscore that there may be significant variations within and across cohorts that may not be revealed by aggregation. For instance, there are variations in the life expectancy at birth of males and females with women living longer than men. Similar trend is evident across life expectancies in advanced ages (UNDESA, 2012). Bell & Miller (2005) report the relative life expectancies at birth and at age 65 for American men and women born in 1900 through 2000. Not only have life expectancies at birth increased, but the probabilities of surviving till advanced aged increased significantly. However the relative increases in life expectancies (both at birth and at age 65) and the relative probability of reaching age 65 have been greater for men than for women.

Studies of human ageing find that not only are individuals living longer as a result of delays in mortality, but are reaching old-age in better health, thereby delaying human senescence (Vaupel, 2010). This phenomenon could provide opportunities to societies to utilize time, and skills of the elderly, particularly the ‘young elderly’ (those below 75 years of age) to help provide social services to both the young and the old. Integrating the elderly into family and community activities could also generate positive externalities, especially in health status and in social cohesion. Research on the potential for indirect funding of bundle of services needed by the young and by the elderly through this method merits consideration.

Similar variations are also evident across income distributions. ILO (2010) analyses the mortality gradient (disparity in health outcomes across socio-income distributions) and highlights that those at the upper end of distribution have a longer time horizon to plan and save for retirement relative to what the aggregate measures of life expectancy may suggest. The corollary of this has policy implications in developing economies for the poor: they will have lower lifecycle supply of labour and smaller time horizon to plan for retirement. In pension programs that are largely organized on a defined contribution basis without risk-pooling and societal transfers the implications in this context will be more severe.

Another important impact of demographic change on social security and public pension programs relates to the financing-mix of pensions and how these vary across and within cohorts of retirees. The relative contributions of each of the five
tiers will not only vary across the sample countries, but even across and within cohorts in a given country. As each cohort of retirees is expected to live for a longer period of time, it is expected that there will be heterogeneity in the source of funds or the financing-mix used to support their retirement. This heterogeneity must be built into pension design.

The implications of this are not widely understood in the current policy debates. For instance, consider a hypothetical thought experiment. An individual turns $T$ next month and has reached the statutory pensionable age, $T$. She relies mostly on two sources to finance her retirement: a) a lump sum withdrawal from her mandatory DB scheme (pillar two) and; b) a life annuity from a mandatory provident fund scheme (pillar three). The retiree could have access to an income-tested social pension provided of $S$ dollars provided she does not receive more than $P$ dollars per month from all sources of income during retirement.

The savings in her provident fund which before the financial crisis could have purchased an annuity that provides $P$ dollars a month, now has been reduced significantly due to the financial crisis and can only purchase an annuity that pays $0.9P$ dollars per month; the lump sum withdrawal has been used to close the mortgage on her home. At age $T$, she faces a saturated labour market and is unable to pursue gainful employment. In this hypothetical scenario, ceteris paribus, the retiree will now rely partially on the social pension to meet the shortfall (i.e. social pension payment will cover some of the shortfall of $0.1P$) for her remaining time in retirement. Social pensions are thus one of the useful instruments to address longevity risk, especially for those whose participation in formal pension arrangements have been limited or absent. The challenge is to build institutional flexibility to develop a financing-mix that can vary within a group of retirees and across groups of retirees in an economy. The uncertainty and the liabilities associated with managing fiscal uncertainties also need to be accommodated in the design of public pensions.

Demographic and labour market trends for the SEA 6 are provided in Tables 2.1 and 2.2, on the basis of which the following observations may be made.

*Table 2.1 Demographic Characteristics of Select Southeast Asian Economies*
<table>
<thead>
<tr>
<th></th>
<th>Population (millions)</th>
<th>Share of Pop &gt;65 (share in total population)</th>
<th>Share of Pop &gt;80 (share in total population)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2035</td>
<td>2010</td>
</tr>
<tr>
<td>Indonesia</td>
<td>240.7</td>
<td>303.4</td>
<td>12.1 (5.0)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>28.3</td>
<td>38.5</td>
<td>1.4 (4.8)</td>
</tr>
<tr>
<td>Philippines</td>
<td>93.4</td>
<td>135.9</td>
<td>3.5 (3.7)</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.1</td>
<td>6.8</td>
<td>0.5 (9.0)</td>
</tr>
<tr>
<td>Thailand</td>
<td>66.4</td>
<td>66.8</td>
<td>5.9 (8.9)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>89</td>
<td>103.3</td>
<td>5.8 (6.5)</td>
</tr>
<tr>
<td>World</td>
<td>6916.2</td>
<td>8743.5</td>
<td>530.1 (7.7)</td>
</tr>
</tbody>
</table>

Source: Authors calculations based on data from UNDESA (2012)

Even in a relatively confined geographical area of Southeast Asia there is significant variation in total population and the level and pace of ageing. The total population in all economies except Thailand are projected to increase significantly over the next two decades. Data in Table 2.1 portend a very rapid pace of ageing. This share is projected to more than double in all economies (except Philippines) over the next two decades. This is a relatively short period of time to ensure adequately preparing for the ageing population. The data also suggests different scaling-up challenges across these economies. For instance, Singapore and Malaysia’s pension arrangements will have to cater for between 1 and 3 million additional individuals entering retirement; Philippines, Thailand, and Vietnam between 5 and 10 million; and Indonesia about 20 million. This suggests that there is relatively small window
for reform in not only pension design to adapt to rapid ageing, but also in supporting institutions such as labour markets and in public financial management practices. The last two columns depict the share of those aged about 80 in the population. These shares will also more than double in all economies, with the exception of Indonesia and Vietnam. The consumption patterns of those about age 80 can be expected to differ significantly from those at age 65. This suggests that adequate infrastructure to take care of the old-old (traditionally defined as those above age 80) such as health and palliative care will need to be developed rapidly\(^4\).

**Table 2.2 Employment and Labour Force Participation Rates in Select Southeast Asian Economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>LFPR (15-64) in 2010</th>
<th>LFPR (65+) in 2010</th>
<th>Change in LFPR (15-64) from 2010 - 2020</th>
<th>Change in LFPR (65+) from 2010-2020</th>
<th>% Change in the share Share of Economically Active in Population 2010-2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>70.4</td>
<td>52.7</td>
<td>0.3</td>
<td>1.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>64.7</td>
<td>23.8</td>
<td>-0.7</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>66.1</td>
<td>37.4</td>
<td>-0.2</td>
<td>-2.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>71.5</td>
<td>18</td>
<td>1.6</td>
<td>2.0</td>
<td>-10.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>77.8</td>
<td>30.6</td>
<td>0.1</td>
<td>1.0</td>
<td>-8.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>77.9</td>
<td>13</td>
<td>0.0</td>
<td>-1.3</td>
<td>-1.5</td>
</tr>
<tr>
<td>World</td>
<td>69.9</td>
<td>19.5</td>
<td>1.0</td>
<td>0.4</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

Note: All numbers are %; LFPR is Labour Force Participation Rate; Share of Economically active in population is between ages 15-64; data is adapted from (ILO, 2010) (Statistical Annex Part A); and UNDESA (2012).

\(^4\) It is useful to think about the etymological roots of demography. It has Greek roots – Demos (people) and Graphos (characteristics). Demography is concerned not only about how people age, but how this impacts other aspects of their lives – their consumption, savings, investment, lifestyle, urbanism preferences – which again has macroeconomic impacts for the population as a whole.
Table 2.2 presents labour market trends in SEA6. It is useful to preface the discussion of these trends in the context to the role of labour force participation and social security. Greater lifecycle labour supply will enable individuals to sustain (for given trade-off) higher annual consumption during retirement. Theories of economic growth and economic demography also assume a strong role of employment in driving increased savings and investment and contribute to the demographic dividend. While not illustrated in the table, in most economies LFPR for men is higher than for women. If pension programs are designed on principles of commercial insurance and not on social insurance or solidarity principles, such trends will give rise to lower replacement rates for women and inequity within the pension system. This is because women (as a group) have lower lifecycle labour supply and lower incomes and therefore lower resources, but (as a group) live longer than men and will have to finance retirement spending for a longer period. The LFPR numbers also mask trends between rural and urban areas. In developing economies of Indonesia, Philippines, Thailand and Vietnam it is a reasonable assumption to make that improved access to basic amenities such as water, electricity and sanitation will improve LFPR, in turn helping to plan for retirement savings.

In most of the economies in Table 2 the gains in LFPR both for age groups 15-64 and above 65 will be marginal over the next decade. Philippines and Vietnam are expected to experience a reduction in LFPR for those above age 65. The last column in Table 2 is particularly relevant for pension systems. The share of economically active (i.e. those between 15-64 years) is expected to decline for Singapore, Thailand and Vietnam, grow marginally for Indonesia and Malaysia and significantly for Philippines over the next decade. When this is viewed in the context of data presented in Table 1 it suggests that a smaller number of individuals can be part of the labour force and potentially employed to support the elderly population. While this share is a function of mortality and fertility rates and cannot be adjusted in the medium term, the policy goal is to improve generate sustainable livelihoods or gainful employment for the vast majority of those in the economically active age group so that the elderly population can be supported for a longer period of time.

The above demographic trends suggest that greater funding will have to be made available to meet old-age expenditure needs. With increasing longevity current
age-specific contributions by individuals and households to national savings, consumption, and investment may change. As individuals will have to sustain consumption for a longer period of time, without transfers, this will have to be balanced with participation in the labour market for a longer period of time or through higher savings or reduced levels of current consumption or a combination of the above (Poterba, 2014). The data presented in this section suggests that there will be marginal improvements over the next decade in labour force participation in both the economically active age groups and those above age 65. If these projections are accurate it suggests that greater funding through transfers, particularly from the state, will play an important role providing old-age income security. The challenges this presents are discussed in Section 4. The next section provides an assessment of current pension arrangements in the sample countries.

3. **Assessment of Current Pension Arrangements**

3.1 **Pension Philosophy**

Key features of main social security programs in SEA 6 (Table 3.1) suggest that while many of the programs were started long time ago, with the exception of the Philippines, no one pension philosophy is currently applied to the population across sectors. In particular, differences in pension arrangements between private and public sector workers are noticeable. In the Philippines, social insurance, enabling pooling of retirement risks (mainly longevity and survivors risks, and to a limited extent inflation risk) has been incorporated in the programs for public sector and private sector workers. Even in the Philippines, the credibility and the generosity of pension promises for government workers is far greater than for the private sector workers. In countries such as Malaysia, and to a lesser extent in Singapore, disparities in the retirement risk mitigation and in level of retirement benefits between public sector and private sector workers are far greater. There is also significant disparity in pension arrangements between formal sector workers, with formal employer-employee relationship, and between informal sector workers.

The former British Colonies of Malaysia and Singapore rely on provident funds with limited risk-pooling to finance retirement expenditure. While Malaysia’s provident fund allows for lump sum withdrawals on reaching statutory retirement age,
Singapore mandates purchasing annuity whose premium is organized on the principles of commercial insurance and not social insurance.

There is however recognition in several SEA 6 countries, particularly Indonesia, Thailand, and Vietnam that a more unified pension philosophy is needed. The challenge is to create capabilities, economic, fiscal, regulatory, administrative, and governance related, which can enable its implementation with credibility.

**Table 3.1: Old-Age Pensions: Key Features of Main Social Security Programs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Type of Program</th>
<th>Statutory Pensionable Age</th>
<th>Total Contribution*</th>
<th>Estimate of Legal Coverage**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1977</td>
<td>Provident Fund (with social insurance component)</td>
<td>55</td>
<td>6.0</td>
<td>42.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1951</td>
<td>Social Insurance Provident Fund</td>
<td>55</td>
<td>0.1</td>
<td>24</td>
</tr>
<tr>
<td>Philippines</td>
<td>1954</td>
<td>Social Insurance Means-tested budget financed pensions</td>
<td>60</td>
<td>10.4</td>
<td>53.2</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td></td>
<td>77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>1953</td>
<td>Provident Fund</td>
<td>55</td>
<td>36</td>
<td>54.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>1990</td>
<td>Social Insurance Pension-tested non-contributory pension</td>
<td>55</td>
<td>6.0</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td></td>
<td>60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>1961</td>
<td>Social Insurance Means-tested budget financed pensions/pensions tested &gt;80</td>
<td>60 (55 for women)</td>
<td>21</td>
<td>65.6</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td></td>
<td>60</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: (*) The contributions are subject to wage ceilings; (**) for Old-age as a proportion of working age population
Source: ILO, (2014)

**3.2 Coverage**

There are three broad dimensions to coverage. The first refers to the number of people or retirees that are enrolled in a program that provides some form of insurance against various risks during old age. The second refers to the range of risks covered. In pensions these usually include longevity, survivors’, and disability risks. The third dimension of pension coverage refers to the adequacy of pension benefits in providing a replacement rate that not only covers inflation risks and mitigating old-age income poverty but also smoothens their consumption. This is illustrated in Figure 3.2. The figure illustrates that the same criteria are relevant for healthcare programs as well (i.e.
the number of people covered, the adequacy of benefits, and lastly the range of risks covered).

Figure 3.2: The Various Dimensions of Social Security Coverage

In SEA6 coverage is mostly focused on increasing the number of individuals that are ‘covered’ under a statutory program and the range of risks covered. This is commonly referred to as legal coverage. The data is Table 3.2 suggests that there is universal healthcare coverage in all economies except Indonesia and Vietnam. However, as we will find in the Section 4 these do not provide adequate benefit levels as most of healthcare spending is financed out of pocket (except in Thailand). For pension programs, Philippines, Singapore and Thailand have between half and three-fourths of the current working age population covered by social security laws, while the ratio is much smaller for Indonesia, Malaysia, and Vietnam. However, there is wide variation in the active contributors to the pension program. In most DC-type pension programs the density of contributions is important to ensure adequate replacement rates. The share of active contributors is much lower than those covered by the program. The last column in Table 3.2 is the share of elderly population that receives pensions, again demonstrates large variation. It is very high in Thailand, but less than 40 percent in other SEA6 economies. This suggests that there is considerable scope to improve effective coverage in SEA6. Given the low effective coverage, this
suggests that significant shares of retirement expenditure and healthcare expenditure will have to be financed from individual and household savings. Improvements in organizational effectiveness and coverage ratios of public pension schemes are an urgent imperative in economies such as Indonesia, Philippines and Vietnam.

Table 3.2: Legal and Effective Coverage of Pensions and Healthcare Branches of Social Security in Select Southeast Asian Economies (latest available year)

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimate of Health Coverage as a % of total population</th>
<th>Estimate of Legal Coverage for Old Age (% of working age population)</th>
<th>Active Contributors to a Pension Scheme (% of working age population)</th>
<th>Proportion of Elderly Population above statutory pensionable age that receive old-age pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>59.0</td>
<td>&lt;25</td>
<td>14.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>100.0</td>
<td></td>
<td>63.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>82.0</td>
<td>50-75</td>
<td>54.7</td>
<td>28.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>100.0</td>
<td></td>
<td>50-75</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>98.0</td>
<td>50-75</td>
<td>21.3</td>
<td>81.7&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Vietnam</td>
<td>42.0</td>
<td>&lt;25</td>
<td>12.4</td>
<td>34.5</td>
</tr>
</tbody>
</table>

<sup>a</sup> These proportions refer only to beneficiaries of the old-age or disability social pensions. Source: Adapted from (ILO, 2010, 2014) Column D

3.3 Administrative and Compliance Costs

This sub-section assesses administrative and compliance costs of pension plans in completing their core functions. The core functions of any pension or provident fund may be stated as reliable collection of contribution/taxes and other receipts; payment of benefits for each of the schemes in a correct way; efficient financial management and productive investment of provident and pension fund assets; maintenance of an effective communication network, including development of accurate data and
record-keeping mechanisms to support collection, payment and financial activities; and production of financial statements and reports which contribute to effective and reliable governance, fiduciary responsibility, transparency and accountability of old-age institutions (Ross, 2011).

Creating policy and regulatory environment under which provident and pension fund organizations can perform these functions is therefore an important avenue for provision of social protection benefits. Table 3.3 provides estimates of the performance of provident and pension fund organizations in select economies in DA. The first indicator *Operating Expenses as Share of Gross Income*, represents operating expenses as share of all revenue for the organization (including contributions, investment incomes, transfers, etc). The second indicator, *Operating Expenses as Share of Contributions* represents operating expenditure as share of total contributions paid by members in the particular year. The last indicator, *Operating Expenses as Share of Assets* represents operating expenditure as share of all assets owned by the provident or pension fund. Lowering administrative costs of provident and pension fund organizations implies a higher rate of return for members, and consequently higher replacement rates. Similarly, increasing the value of the denominator (namely, total income, contributions, and total assets) will also improve investment performance and replacement rates. This will however also require concomitant reforms to ensure that provident and pension funds accomplish their core functions (including investment and fund management) with professionalism.

As these estimates are based on data from annual reports of the respective organizations, and given the heterogeneity among the countries, the indicators may not be strictly comparable. Moreover, indicators are crude as they focus only on operating cost and not on manpower deployed to provide services. They, for example, do not take into account the scale of membership of these various schemes or the physical size of the economy. It should be noted some provident and pension funds include investment expenses as part of their operating expenditure (for example Malaysia). Keeping the above caveats in mind, the data in Table 3.3 suggest the following broad patterns.
The operating expenditure as share of assets is relatively high in Thailand and in the Philippines. This may reflect the extent to which the pension system design permits accumulation of member balances and the time since the scheme has been in operation. Thus, a possible reason for a higher ratio in the Philippines in the partial funding nature of its social security scheme which a defined benefit (DB) type. Under such schemes, benefits are defined but the contributions required to pay for them are not. Member contributions and investment income during the year are used to pay for the benefits of the current retirees. It is only the current demographic structure of the Philippines, resulting in smaller number of retirees in relation to contributing members, which has led to the accumulation of funds. Thus, as the population of Philippines ages and the proportion of retirees relative to working population increases, its total assets will decline or at least exhibit less rapid growth.

In contrast, the schemes of Malaysia and Singapore of a defined contribution (DC) nature, in which members are required to contribute in a defined manner, but benefits are left undefined. As a result, contributions of members plus investment returns less pre-retirement withdrawals accumulate with the provident fund organization, and are returned to members only at the time of retirement. Thus, funds under management can potentially be higher than under DB a scheme, which utilizes current contributions of workers plus investment incomes to pay for pensions.

The ratio of operating expenditure to total income is substantially higher in the Philippines (6.3 percent) than in in other countries. The ratio for Thailand (3.7 percent) is also relatively high when compared Malaysia and Singapore. This suggests that especially in these two countries reducing the operating costs while maintaining the quality of service delivery could result in higher benefits for members. Efforts to bring down the high ratio in the Philippines are currently underway, for example, through more extensive use of technology to improve coverage and reduce processing time. A case in point is SSSNet by the Social Security System (SSS), which provides an example of how IT systems can be used for better coverage of workers, including overseas workers. 800 Large employers with over 420,000 employees are registered with SSSNet. Payments remitted through SSSNet make up 11 percent of the SSS’s monthly bank collections. Prior to this, it would on average take between three and six months to post the monthly contributions to the individual accounts of members.
This process now takes less than three days. This, in turn, has resulted in shorter processing time for benefits and loan applications.

An explanation of the comparatively high operating costs to contributions ratio includes the following. First, there appears to be substantial scope for improving compliance. Low compliance levels are a main reason for low contribution levels. Second, the proportion of inactive or multiple account-holding members are high. It is estimated that only one-third of SSS (Philippines) members are active contributors, which raises administrative costs. Third, the contribution rate and the wage ceiling have been relatively stable while operating costs have risen over the years. The Philippines is not unique in these respects.

The above discussion suggests that reforms aimed to improve professionalism with which provident and pension funds accomplish their core functions will help reduce administrative costs, which improves fiscal condition of the fund, and can help achieve a higher replacement rate. This in turn increases the resources available to a pensioner.

Table 3.3: Administrative and Compliance Costs of Select Pension and Provident Fund Organizations in Southeast Asia.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Employees Provident Fund (Malaysia) 2012</th>
<th>Social Security System (Philippines) 2012</th>
<th>Central Provident Fund (Singapore) 2009</th>
<th>Social Security Organization (Thailand) 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses as share of Gross Income</td>
<td>1.77</td>
<td>6.03</td>
<td>2.48</td>
<td>3.65</td>
</tr>
<tr>
<td>Operating Expenses as Share of</td>
<td>2.92</td>
<td>8.20</td>
<td>0.77</td>
<td>4.77</td>
</tr>
</tbody>
</table>
Preliminary Conference Draft for Discussion October 10

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Operating Expenses as share of Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>2.13</td>
</tr>
<tr>
<td></td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>0.63</td>
</tr>
</tbody>
</table>

Source: Adapted from (Asher & Bali, 2014a). More recent data from Thailand are not available, but attempts are being made to obtain it. More recent Singapore data are available and this table will be revised.

3.4 Investment Policies and Performance (to be expanded with rate of return and other data from SEA 6.)

Pension contributions play a relatively smaller role than the duration for which they are invested, and the net real return (after fund management and other related costs) credited to the account of the members. Investment policies and performance of accumulated pension assets is a challenge globally, especially since low or negative real interest rates have been prevailing in many fixed income markets, and the prospects for reversal are limited.

In any accumulation fund, the relationship between Real GDP growth, real wage growth, and real rate of return credited to members is crucial in impacting on the replacement rate, i.e. the ratio of post-retirement income obtained in real terms throughout the retirement period (and not just at the time of retirement). Thus, the annual average relationship for Singapore for the 1987-2011 period, was as follows: Real GDP Growth, 7.9 percent; real wage growth, 5.0 percent; and real rate of return credited to Central Provident fund members, 1.42 percent (Asher and Bali, 2014a). For Malaysia, estimates suggest that annual real returns averaged 3.3 percent between 1961-2009; the real rate of return fluctuated between 2.6% from 1961-80; and 4.42% from 1980-96. For the most recent decade 1999-2009 the return was 2.8%, which was lower than the average return earned since 1961 (Asher and Bali, 2012, p59).

This implies low replacement rate at retirement, and as inflation adjustment is absent, and longevity risk is covered in a limited way, and with the use of commercial insurance principles implying premiums for annuities varying by age and gender, the replacement ration will exhibit downward trend.
Similar estimates for other SEA6 countries are not available, there has however been measures taken by Malaysia and Thailand to take a more aggressive stance for the investment of pension assets, both in terms of diversification of assets to different risk categories, and geographically by mandating fund manager to invest abroad. Such diversification has enhanced the risk profile. As the fiscal risks and contingent liabilities are on the state, it is essential to estimate them, and incorporate them in public financial management.

Pension funds of the Philippines are also considering initiatives along similar lines, though because of the social insurance Principle employed, the accumulation of balances is relatively low. Singapore’s CPF organization has turned over the accumulated balances to Singapore’s sovereign wealth fund, GIC, which in turn invests globally.

Characteristics and limitations of financial and capital markets impact on the investment patterns and so does the political economy of the country as pensions assets are mainly in government organizations. Malaysia’s EPF is considered too large for the size of domestic capital markets (EPF balances have grown from 17.1% of GDP in 1980 to around more than 57% ($178 billion) in 2013), and its political economy encouraging the EPF to support government’s infrastructure initiatives (not always successfully), impacts on investment policies and performance. In Indonesia, pension funds, which are long term savings, are primarily invested in short term instruments such as bank deposits (figures to be inserted).

The pay-out of benefits phase poses important investment challenges. The commercial annuity markets have not sufficiently developed globally. Uncertainty about longevity trends poses additional risks for insurance companies providing annuities. While some innovations in annuity markets are being attempted (such as longevity bonds, and rolling annuities), they are not likely to be of much relevance to SEA 6 (Roy, 2014).

The above suggests that the likely annuity organizers (and bearer of at least some risk) would need to be government. Singapore’s annuity scheme (called CPF Life)
thus is organized and administered by the CPF, national provident fund, though its desire to have the members bear future longevity and inflation risks through lower pay-outs, adversely impacts on retirement adequacy. Investment policies and performance during the pay-out period will be of increasing relevance to other SEA 6, particularly Malaysia.

4. Reform Directions

4.1 Role of Social Pensions

There is increasing recognition of the role of social pensions or non-contributory retirement income transfers that are financed from budgetary sources in ensuring old-age income security. These pension schemes may be provided on a universal basis to all elderly, or be subject to means-testing (such as assets, income – at the individual or household level). The aim of social pension is to mitigate old-age income poverty particularly for the old-old. Since these transfers are financed from budgetary sources they allow for an element of risk-pooling in financing retirement support for the beneficiaries. However, with all expenditure programs the fiscal resources required and their equity effects must be integral to the analysis of social pensions\(^5\).

The fiscal costs or total outlays required to finance social pensions are a function of the benefit level, the number of beneficiaries and importantly the administrative costs of the program. The benefit level can be absolute or relative (i.e. indexed to per capita income or median wages). While universal schemes may have potentially lower administrative and compliance costs, the total fiscal cost of the scheme will be much higher. However, making the social pension taxable beyond a certain income threshold will reduce these total costs.

Table 4.1 provides an overview of the main features of social pension schemes in the selected countries of this study. All economies except Singapore have some element of social pensions in their financing-mix. However, there is large variation in the number of beneficiaries and the benefit level. While the benefit level (as share of

\(^5\) As those in the upper end of the income distribution, as a group, live longer than those in the lower end of the distribution, the net equity impacts of a universal social pension scheme may be regressive. This is however an empirical question that deserves greater scrutiny.
average wage) is relatively low in Thailand, all individuals above age 65 receive the social pension. Indonesia’s social pension is approximately a fourth of wages, but less than 0.1 percent of the population above age 65 receive it. Singapore as discussed in the earlier section on pension philosophy does not have a social pension scheme. The data suggests that there is room to develop social pensions as an integral component in the financing-mix to support retirement. Social pensions would provide an element of retirement security to those that have not been able to participate in formal contributions-based social security programs.

Table 4.1: Non-Contributory Pension Schemes: Main Features (latest available year)

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Means Test</th>
<th>Name of Program</th>
<th>Age</th>
<th>Monthly Benefit (as share of average wage)</th>
<th># of Recipients (as share of population above age 65)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2006</td>
<td>Asset, Income, Pensions</td>
<td>Elderly Social Security Program</td>
<td>60</td>
<td>32.0 (23.2)</td>
<td>13250 (0.1)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1982</td>
<td>Income, Pensions</td>
<td>Elderly Assistance Scheme</td>
<td>60</td>
<td>94.4 (12.7)</td>
<td>15252 (8.0)</td>
</tr>
<tr>
<td>Philippines</td>
<td>2011</td>
<td>Income, Pensions</td>
<td>Social Pensions Scheme</td>
<td>77</td>
<td>11.5 (6.0)</td>
<td>148768 (4.0)</td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
<td>Not Applicable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>1993</td>
<td>Income, Pensions</td>
<td>Old Age Allowance</td>
<td>60</td>
<td>20.0 (6.0)</td>
<td>612370 (100%)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2004</td>
<td>Income, Pensions</td>
<td>Social Assistance Benefit</td>
<td>60 - 79 80</td>
<td>6.3 (4.8) / 9.4 (7.1)</td>
<td>808773 (2.4) / 139338 (13.8)</td>
</tr>
</tbody>
</table>

Source: ILO (2014)

How much would social pension schemes cost? Estimates in a recent paper on financing social pensions in DA (which included all economies in SEA6 except Singapore) suggests that a universal social pension (covering everyone over age that is indexed to per capita income (i.e. benefit level is 15 percent of per capita income) would cost between 0.6% (Philippines) and 1.33% (Thailand) of GDP in 2010 and
rapidly growing to between 1.4% (Indonesia) and 2.9% (Thailand) by 2030\(^6\). In advanced economies such as New Zealand, fiscal costs in 2009–10 were 4.3 per cent of GDP and are expected to increase to 8 per cent of GDP by 2050; in Australia, the fiscal costs of means-tested pensions were 2.7 per cent of GDP in 2009, and are projected to be 3.9 per cent of GDP in 2050 (Bateman & Piggott, 2011)

4.2 Professionalism

It is imperative that the five core functions of provident and pension funds identified earlier must be done with greater professionalism than has been the case so far in many Asian countries. This, in conjunction with strong regulation, would enable the Asian countries to provide much higher levels of pension benefits from lower contribution rates than is the case now. The focus of these organizations should be on providing benefits to their members, which are commensurate with the contribution rates and the transactions costs of administration and compliance.

Some of the SEA6 economies, such as Indonesia, have high administrative and compliance costs. They have not been able to undertake record keeping and management information system tasks adequately, even for a relatively small proportion of the labor force comprising formal sector workers. Their plans to sharply expand the coverage to include informal sector workers may therefore be severely undermined by their inadequate record-keeping capabilities.

Investment policies and performance also remains a challenge in SEA6. Limitations of domestic financial and capital markets, legal restrictions on international diversification (e.g. Malaysia, Indonesia), and relatively low importance given to fiduciary responsibilities (which require maximizing returns of provident and pension fund balances for the benefit of the members) have contributed to this outcome.

As pre-funding arrangements, through retirement savings or accumulation of reserves, become increasingly common (pension assets are expected to grow significantly in Asian countries), development of domestic financial and capital markets has become essential. Provident and pension funds will need to increasingly acquire competencies to deal with sophisticated investment strategies using diverse

\(^6\) See (Asher & Bali, 2014a, p. 77) .
asset classes (e.g. debt, equity, real estate and currencies) and diverse players (such as hedge funds, private equity investors and sovereign wealth funds).

Such sophisticated strategies however should not be attempted without adequate preparation; and without understanding downside risks. In many low and middle-income countries, it may be prudent to not fully attempt to obtain upside potential from investments or from financial innovations such as credit-default risks, in order to minimize downside risks.

It is also important to ensure that the investment strategies and policies adopted by pension organization recognize the institutional and operational context. For instance, the effectiveness of social insurance organized pension systems is reduced significantly in economies that have a high share of the population employed in the informal sector (where formal employer-employee relationships do not exist).

4.3 Systemic Perspective

There are three aspects of this perspective that needs to be addressed.

4.3.1 Complementary Reforms

The first aspect involves complimentary reforms in other areas such as labour markets, fiscal policy and financial and capital markets are essential for effective for social security reform.

Effective social security reform is greatly facilitated by sustainable macro-economic policies which lead to high and stable growth whose benefits are distributed widely. This is because the single most important variable for the economic security of both the young and the old is the long-term trend of economic growth. The labour market regulations and functioning must provide an appropriate balance between creating new jobs and preserving existing jobs. High employment is negatively correlated with poverty, and therefore creating economically viable and sustainable jobs is essential. Traditional institutional retirement between 58 and 60 years in most economies in SEA6 will need to be gradually extended as individuals will need to rely on greater lifetime labour supply to finance their retirement expenditure. This will have to be done in a calibrated manner, as it has wide-reaching economic implications let alone impacting age-specific employment rates.
Civil service pension reform should form a part of fiscal policy reforms. These should be based on the full cost (including unfunded liabilities) of pension (and health) benefits being provided to the civil servants; and to improve the delivery of government services (including social assistance or social pensions for the elderly). Without full and explicit costing of civil service benefits, it would be difficult to allocate society’s resources devoted to the elderly equitably, and efficiently. In many countries, without civil service pension (and healthcare) reforms too large a share of national income devoted to all elderly will accrue to civil servants. This creates intra-generational inequities, and may strain social cohesion.

Financial and capital market reform is essential as the demand for quality investments by provident and pension funds should be matched by the corresponding supply of financial assets, based on both debt and equity. Unlocking the value of state enterprises through partial or full divestments will be an important avenue in many Asian countries for increasing the supply of such assets.

### 4.3.2 Developing a Financing-mix to access Funding

The second aspect of the systemic perspective concerns the financing-mix of pensions discussed earlier in social security. One approach to thinking about the various sources of financing required is the World Bank multi-pillars approach. This approach discusses the roles of public and private sources of money and how they could be accessed during retirement. The different tiers aim to provide a balance between social risk pooling and individuals bearing investment, longevity and other risks; between contributory and non-contributory schemes; and flexibility in managing and accessing retirement contributions or savings. While there may be theoretical limitations to this approach, it is widely used to emphasize different organizational approaches that governments can employ in planning retirement systems.

In the final fiscal incidence, the public economics literature has widely recognized that any mandatory contribution to a social insurance or a savings program, even if it offers benefits linked to contributions made, is equivalent of a tax. What matters therefore from a fiscal imperative is not the relative shares of public or private monies or share of contributory and non-contributory sources, but the total resources devoted to managing age-related expenditure. If we accept this assumption, we have to differentiate between funding (i.e. the resources required) and financing (the
instruments used to access, allocate and distribute) in pension systems. The discussion in the preceding sections have argued that greater share of society’s resources will need to be devoted to managing retirement spending, i.e. funding has to increase. While this can be accomplished by making additional resources available, it will necessarily imply trade-offs in individual, household and national consumption patterns within and across generations. Funding can also be improved if savings in administrative and compliance costs are realized, or social insurance and provident funds are able to improve their investment performance, and ultimately if there are sustained increases in national income. This paper has argued that greater professionalism in the management of provident and pension funds may help to realize savings in administrative costs as well as improved investment performance.

Individuals commonly rely on multiple sources of financing or a financing-mix to meet their retirement expenditure needs. The relative weight of each instrument in a financing-mix varies from country to country. In SEA6 Philippines, Thailand and Vietnam have pension (and health) systems based on social insurance principles (though coverage of population in each country is far from being universal). However, it is important to note that while Vietnam’s financing-mix emphasizes the role of social insurance, due to weak agency functioning of the social insurance fund it has accrued deficits over the past few years that are covered by tax revenue. Malaysia has primarily relied on individual savings, which is also used for housing and healthcare. Different financing instruments have different organizational and institutional prerequisites, which must be taken into account when developing a financing-mix.

For example individual retirement accounts have been relatively easy to develop in Singapore and Malaysia, but Thailand and Vietnam have found it difficult to incorporate both on a mandatory or voluntary basis as the labour market is more formalized in Singapore and Malaysia. Social insurance requires high density of contributions that are channelized into financial and capital markets through appropriate investment strategies and asset classes to enable the fund to be viable over the long-term. If contributions are entirely used to invest in government bonds or used on a pay as you go basis, it defeats the inherent advantages of social insurance over the tax system as an instrument of financing. The tax system can well be used to pool risks and cross-subsidize individuals.
Similarly, provident funds require robust annuity markets. Yet countries that rely on them have relatively less developed annuity markets such as Malaysia and Thailand. Singapore recently over the past decade has insisted on mandatory annuitization of balances on retirement.

Across most instruments in the financing-mix, one of the main constraints relate to limited investment options to manage longevity and inflation risks during the pay-out phase. Uncertainties about longevity trends are also a constraining factor, as these lead to conservative pricing of annuities, making them unattractive in comparison to other investments (and in some cases unaffordable, creating adverse selection problems). Therefore, greater attention will have to be given to the pay-out phase, including phased withdrawals, with some social risk pooling in the form of above-market interest rates, financed from the budget. Greater experimentation and research on group annuities phased withdrawal programs and other such instruments merits serious consideration as alternatives to individual purchase of annuities.

Lower fertility rates, urbanization, changing values and expectations of both the young and the old are significantly increasing the need for more formal pension systems in SEA6, consistent with the experiences of current industrialized countries who faced these trends earlier.

It is also essential to recognize the importance of personal savings, home ownership, investing in human capital, including for children, and opportunities for participating in livelihood activities in old age as integral elements of any pension system. If their importance is reflected in tax, regulatory and government expenditure allocation decisions, these can play a useful supplementary role in addressing pension challenges. In some countries with well-developed micro-finance institutions, micro-pensions could also play a useful role.

The weight of different instruments used in a financing-mix reflects to some extent differing historical legacies (provident funds were established in Malaysia and Singapore under the colonial rule) and differing political philosophies (Singapore’s aversion to societal risk pooling to finance retirement expenditure). There will also be variation in a financing-mix across cohorts of retirees and even within a cohort group. Poterba (2014) notes the large variation is the sources of income during retirement in current retirees in USA and how the variation has increased over the years. Policy goal should be to develop a particular financing-mix a priori but to be able rely on
different instruments based on an individuals finances and the how a country’s pension system is structured.

Governments will find it difficult to increase investment returns on provident and pension funds in the medium term. Therefore additional resources required to finance retirement expenditure, in the medium term, will have to come form individual and household savings, and from transfers from the government. Over the past decade there has been increasing recognition on the role of government-financed transfers to individuals during retirement that can be provided universally or targeted to individuals below certain income levels. These transfers can prevent individuals from falling into poverty during old-age, and are expected to play a greater role in the financing-mix. While governments with limited fiscal space may be sceptical of developing this instrument, effective targeting through household income testing as done in Australia or by asset and income means tests as done in Vietnam will reduce the total fiscal cost.

4.3.3 Effective Coverage

The third aspect of systemic perspective refers not only strengthening sources of retirement income and improving replacement rates for retirees, but ensuring that the real value of their pension income is not reduced by disproportionate consumption of any age-related consumption expenditure. This is true in most economies in SEA6 (except Thailand) where healthcare spending by retirees is largely financed out-of-pocket, effectively reducing the purchasing power of their pension to finance other needs. As noted earlier, healthcare expenditure increases disproportionately with age, with spending above age 65 being 4 times higher than below 65; and around 6 times higher above age 85 (Takayama, 2011).

Table 4.3.3.1 provides the share of healthcare expenditure that is not financed by out of pocket spending, and is lowest in Singapore (implying that 60 percent of healthcare spending is out of pocket), and highest in Thailand (implying that only 15 percent of healthcare spending is paid out of pocket. This is particularly striking given the severe consequences of lack of risk pooling to meet healthcare expenditure. The stochastic nature of the onset of healthcare shocks and the uncertainty associated with the cost of treatment leaves individuals ill prepared to finance them out of pocket, particularly in retirement. Therefore, healthcare risks are an important dimension of coverage and must be included in the range of risks covered during retirement in a pension system. This aspect of systemic perspective has not been given adequate
recognition. Despite achieving ‘universal coverage’, i.e. individuals are insured against healthcare shocks under a particular plan, out of pocket spending finances a third of spending in Malaysia and three-fifths in Singapore.

Table 4.3.3.1: Public Social Expenditure in Select Southeast Asian Economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Healthcare Spending not financed by OOP spending (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>50.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>64.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>44.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>39.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>86.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>43.9</td>
</tr>
</tbody>
</table>

Source: ILO (2014)

5. Concluding Remarks

This paper has argued a variety of domestic and global factors, including demographic and labour market trends, diminished growth prospects globally, and low interest rate environment due to unconventional monetary and fiscal policies adopted by countries with large weight in the global GDP, making pension promises more credible has emerged as a high priority public policy issue in SEA 6.

Any reform, whether in a tax system or a pension system, needs to improve trade-offs implicit in the existing arrangements. The key criteria used in the paper to assess the pension system are philosophy of pension provision, coverage, investment policies and performance, and administrative and compliance costs. As pension services are delivered by pension organizations, organizational focus in reform design and implementation is essential.

A major limitation faced by pension researchers in SEA 6 is the lack of reliable, timely, and disaggregated data on a consistent basis. Unless this gap is addressed, it would be difficult to engage in rigorous but nuanced empirical evidence based research. Regarding socio-economic data, including on pensions, as a public good to be shared, rather than as a strategic or a tactical instrument, would help in advancing pension research in SEA 6.
The paper suggests three main directions for pension reform in SEA 6. The first direction is to enhance professionalism of the existing provident and pension fund organizations, including their governance practices. Second, is to strengthen the role of non-contributory budget-financed pensions (e.g. social pensions). Third, is to adopt a systemic perspective to pension reform that includes reforms in complementary areas (labour markets, public financial management practices, civil service); developing a financing-mix of pensions; and lastly improving effective coverage by exploring complementarities between healthcare and pension programs.


