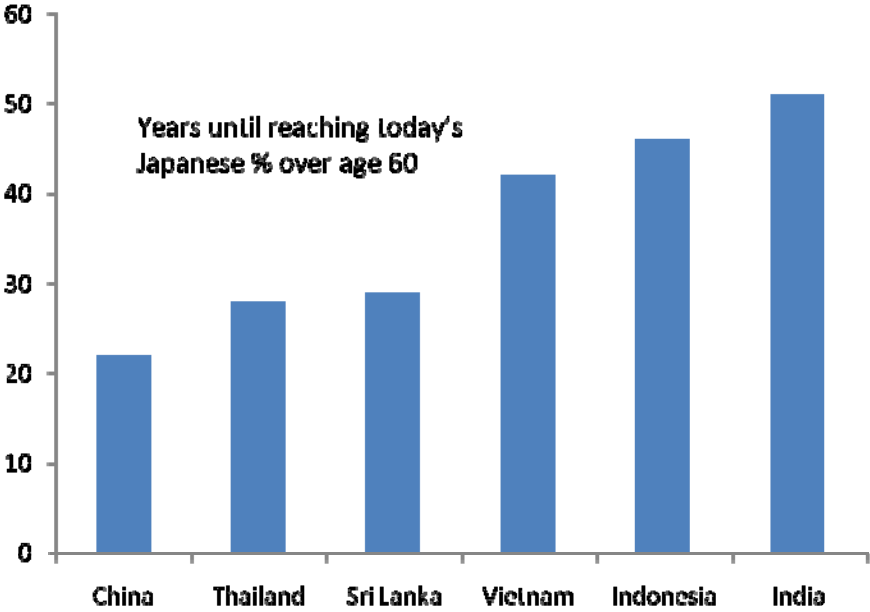
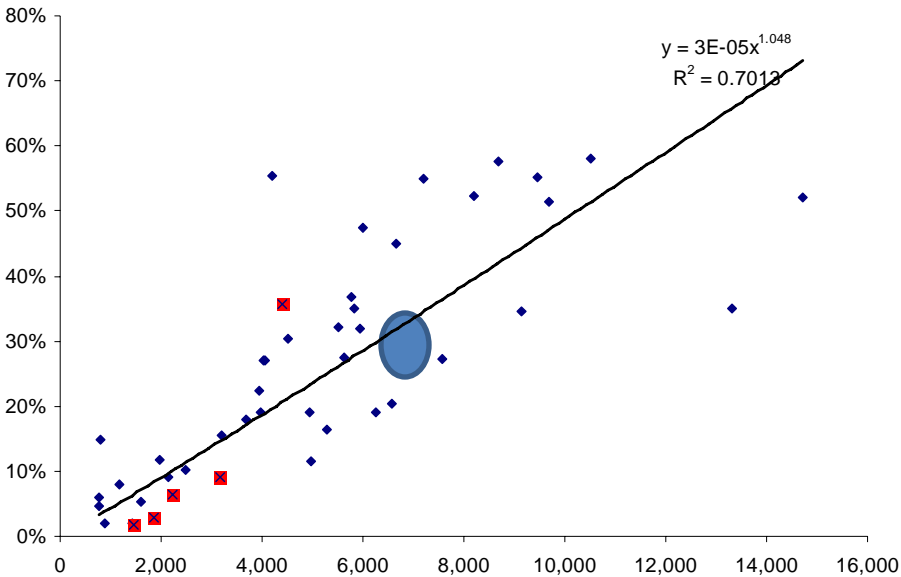
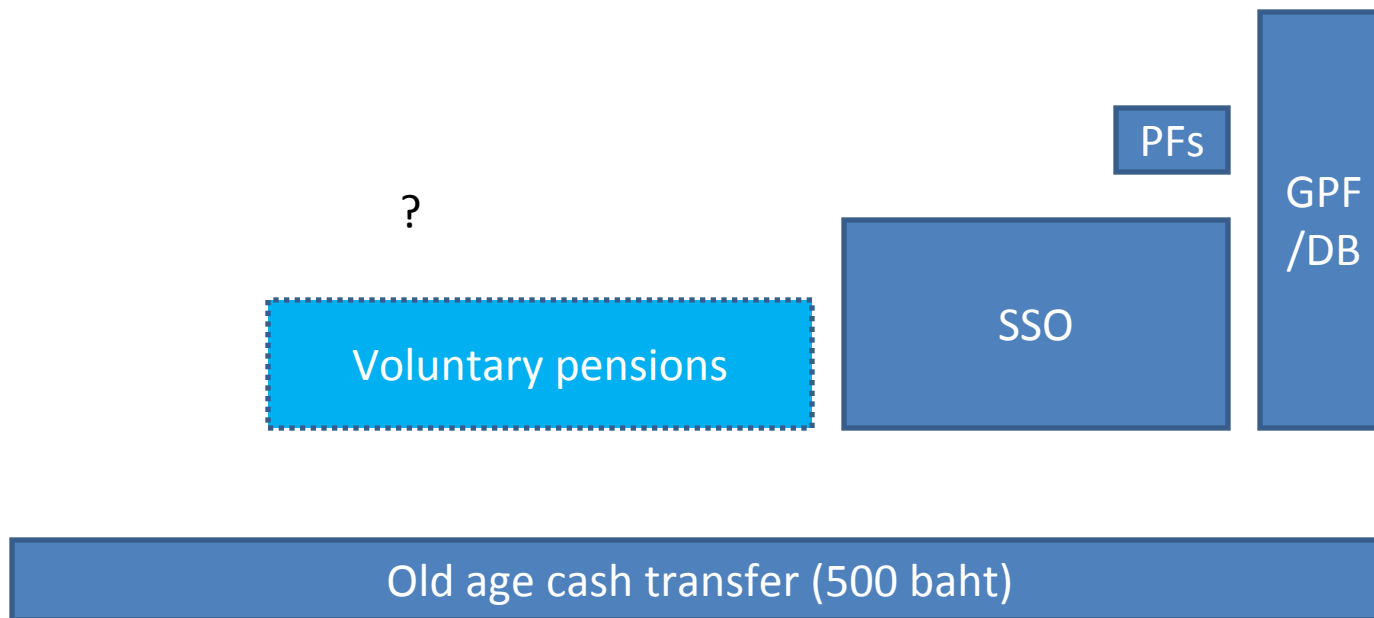


Pension policy issues in Thailand:
Some brief observations

Coverage is low but ageing is rapid



Major elements of Thai pension system



Current situation

- Government spending for pensions is mostly for the top 30% of the population through:
 - Civil service pensions from the budget*
 - Tax expenditures for PF members
 - Contributions to SSO
- Only the recently expanded 500 baht program addresses the rest of the population, but very low
- **Government proposals to add co-contributions for a DC scheme targeted to the informal sector would help address this disparity and reduce coverage gap**

* Note that costs of health insurance scheme for civil servants also related to aging and growing

Observations on proposals

- Observation #1 The introduction of a matching defined contribution (MDC) scheme should be linked to the social pension (\$500 baht scheme)
- Three types of uncovered people
 - Already old
 - Too poor to contribute
 - Young enough and with enough income to contribute
- Only the social pension can address first two types of people; contributory scheme will only have an effect after several decades
- The financial burden of the social pension can be offset in the long run by the new contributory system

Observation on proposals

- Observation #2 Parameters of the DC scheme should be clarified and simulations produced in conjunction with assumed social pension
- The matching contribution amount based on current proposal will not be enough to reach a minimum level for older workers.
- Workers need to understand the likely implications of different contribution periods and returns
- Returns depend on the investment policy, choices
- The guaranteed return implies unfunded liabilities – same result can be achieved with conservative portfolio option
- Conversion of terminal account balances into annuities should be done through actuarial calculations

Observation on proposals

- Observation #3 Net returns depend on low costs and good investments
- The cost of collection of contributions from village savings funds can reduce costs
- Centralized, contracted out recordkeeping can reduce costs while maintaining quality
- Harmonization of databases for portability (unique SS ID numbers and defined processes for transfer)
- Different risk-return preferences can be offered through limited portfolio choice, age-based defaults
- International investments are needed given the size of other funds (GPF, SSO, PF) and limited domestic assets

Observation on proposals

- Observation #4 Portability across space and sectors is important
- Harmonization of databases for portability (unique SS ID numbers and defined processes for transfer)
- There may be synergies between identification and benefit delivery mechanisms across programs (e.g., health insurance, social pensions)

Summary

- Matching DC scheme is a good idea, but consider linking with social pension policy
- Consider setting parameters of MDC scheme on the basis of robust simulations
- Consider ways to achieve good net investment returns
- Consider ways to ensure portability of pension wealth