



Proposals for a more inclusive, adequate and sustainable pension system in Thailand

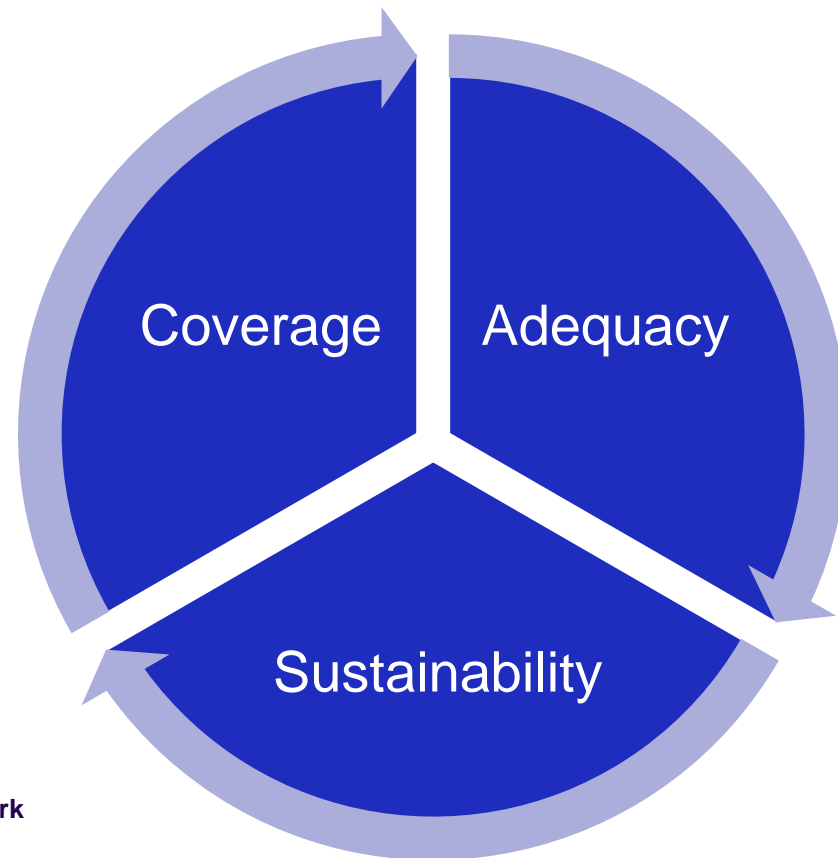
Nuno Cunha – Sr. Social Protection Specialist – ILO Bangkok

Bangkok – 10th March 2021

Pension Policy Forum – Bank of Thailand

Pension system in Thailand

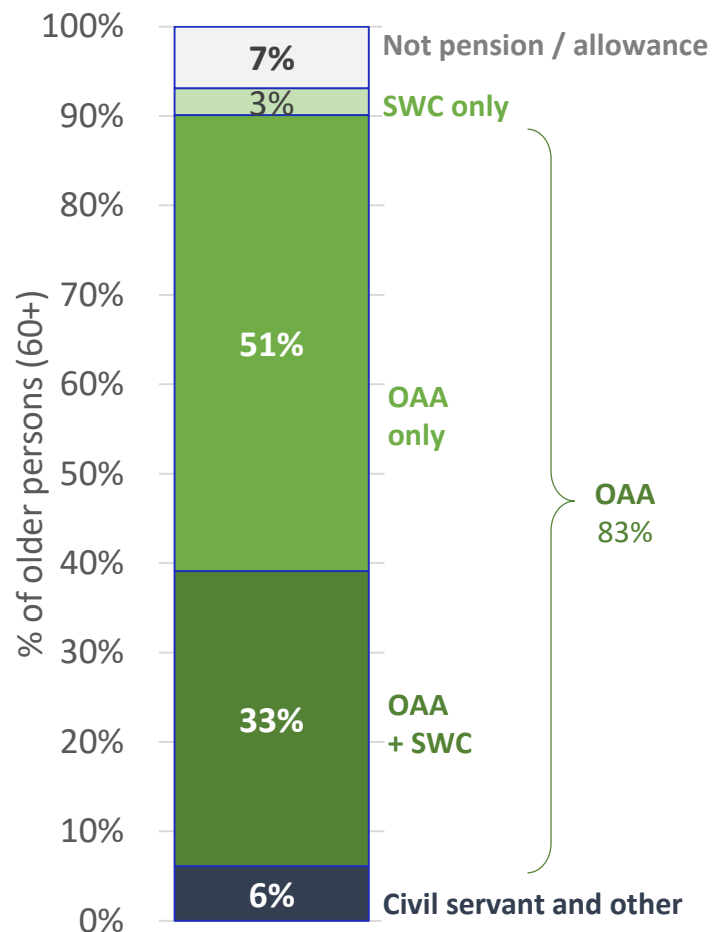
Glass Half Full or Half Empty?



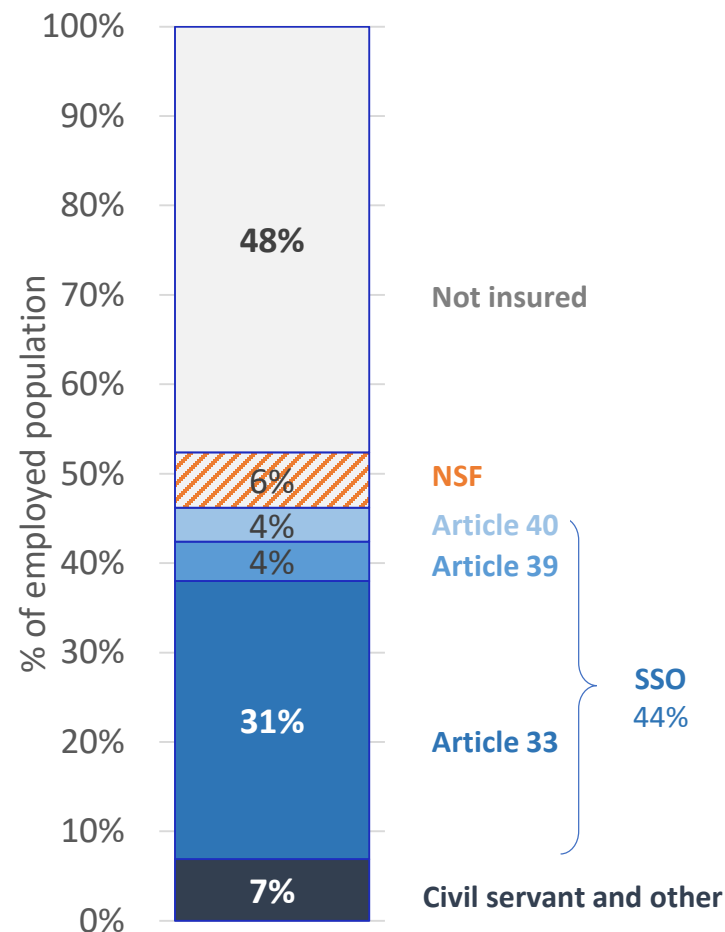
An overview of the system (2019)

Coverage and expenditure

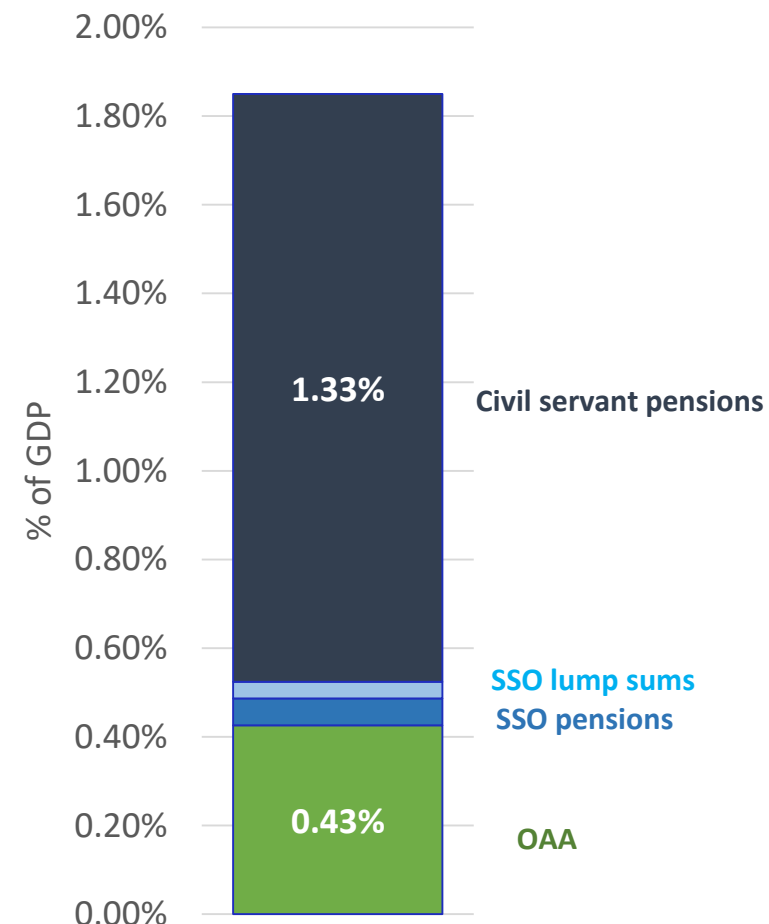
High coverage of older people by tax-financed schemes



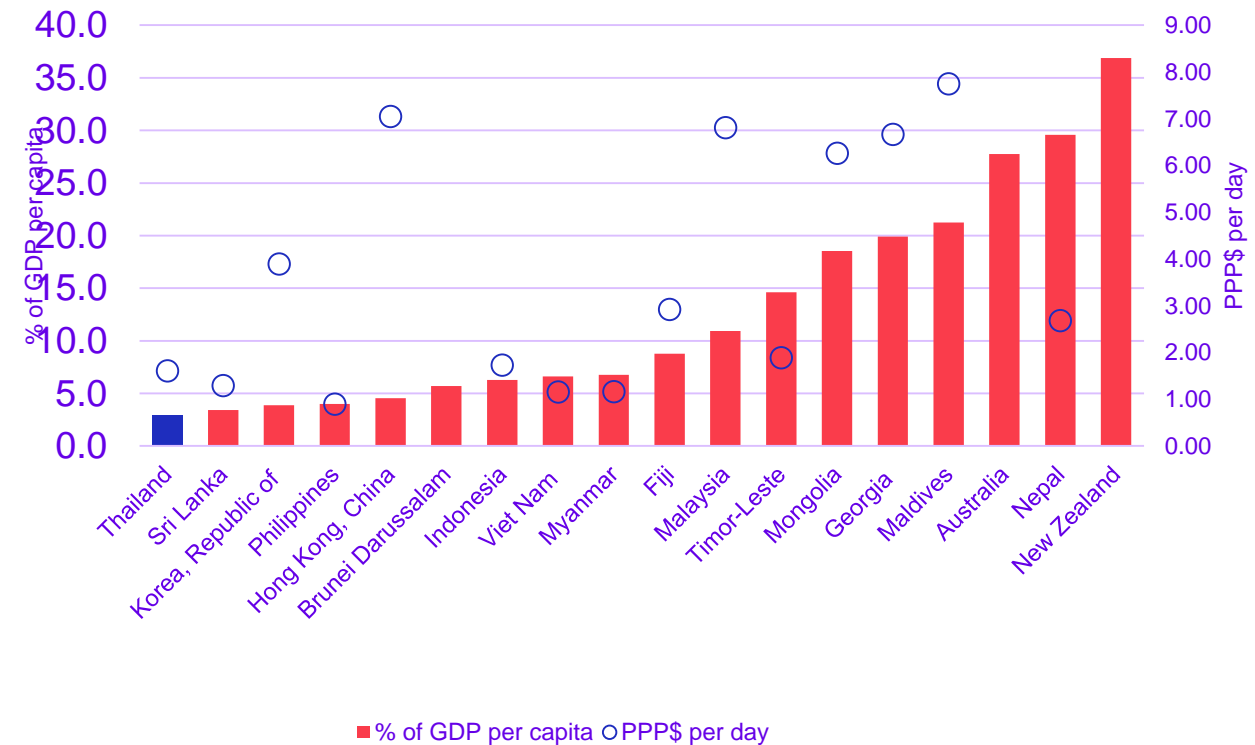
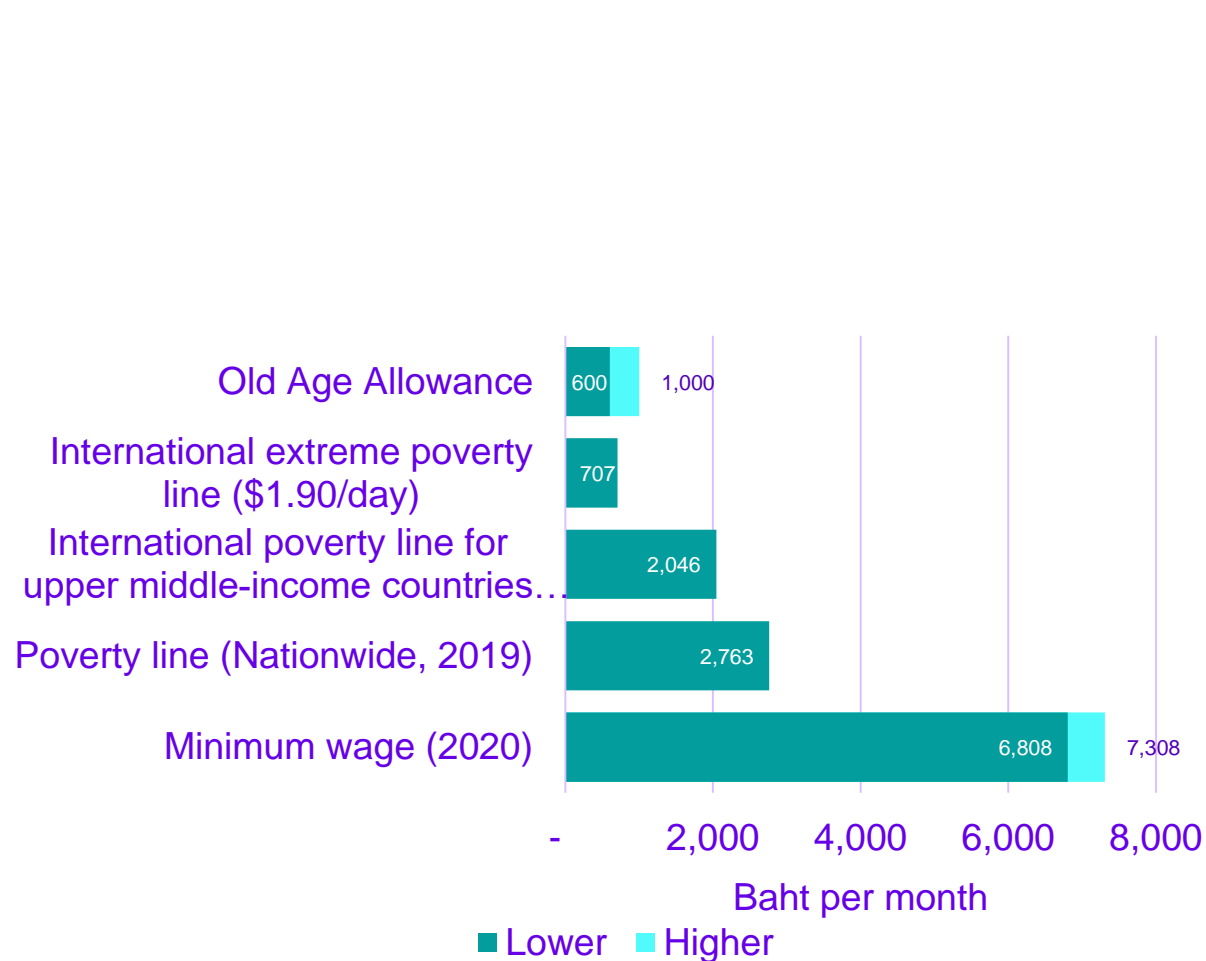
Modest (but growing) coverage of contributory schemes



Expenditure is dominated by civil service schemes

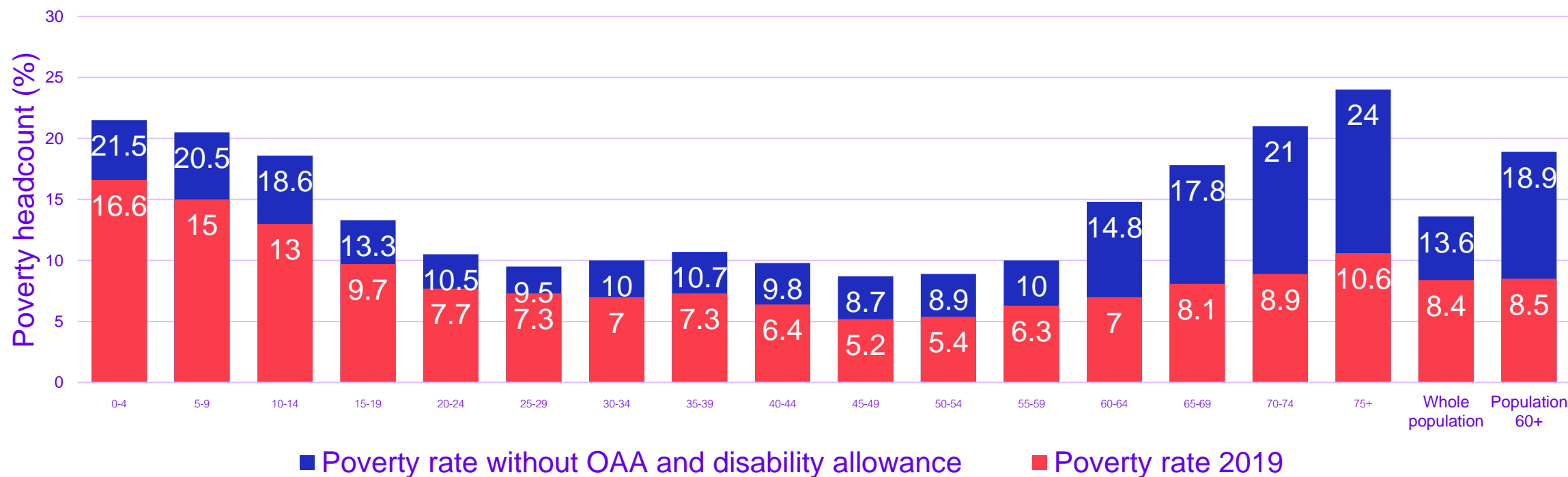


Benefit level of OOA is low both by both national and international standards

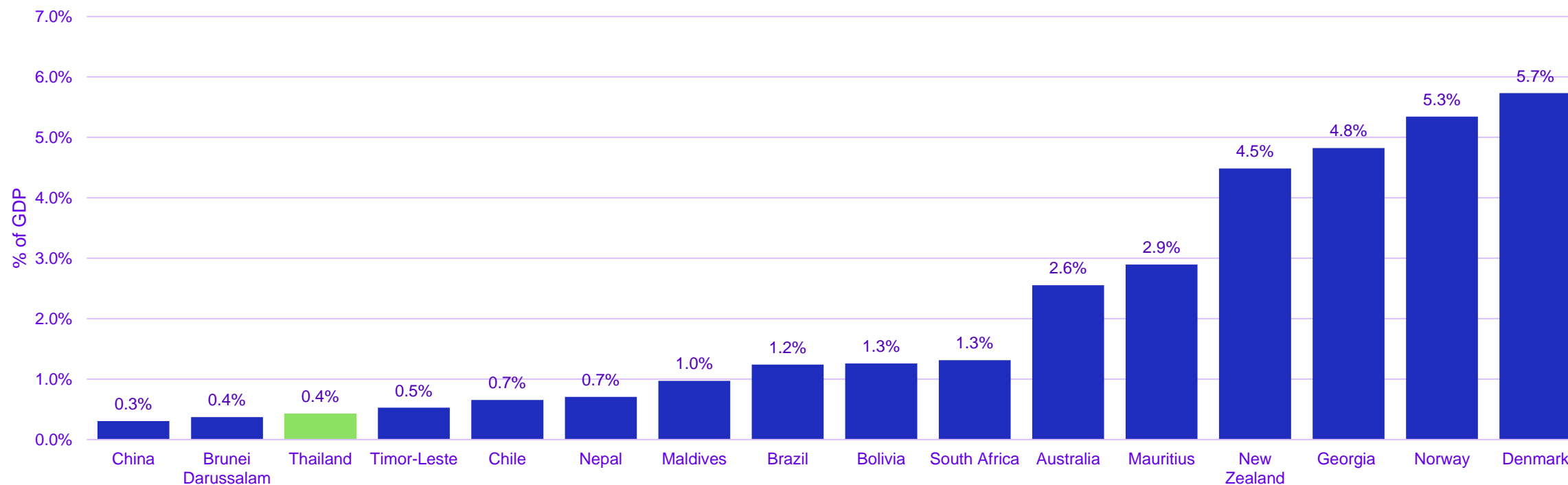


No indexation mechanisms

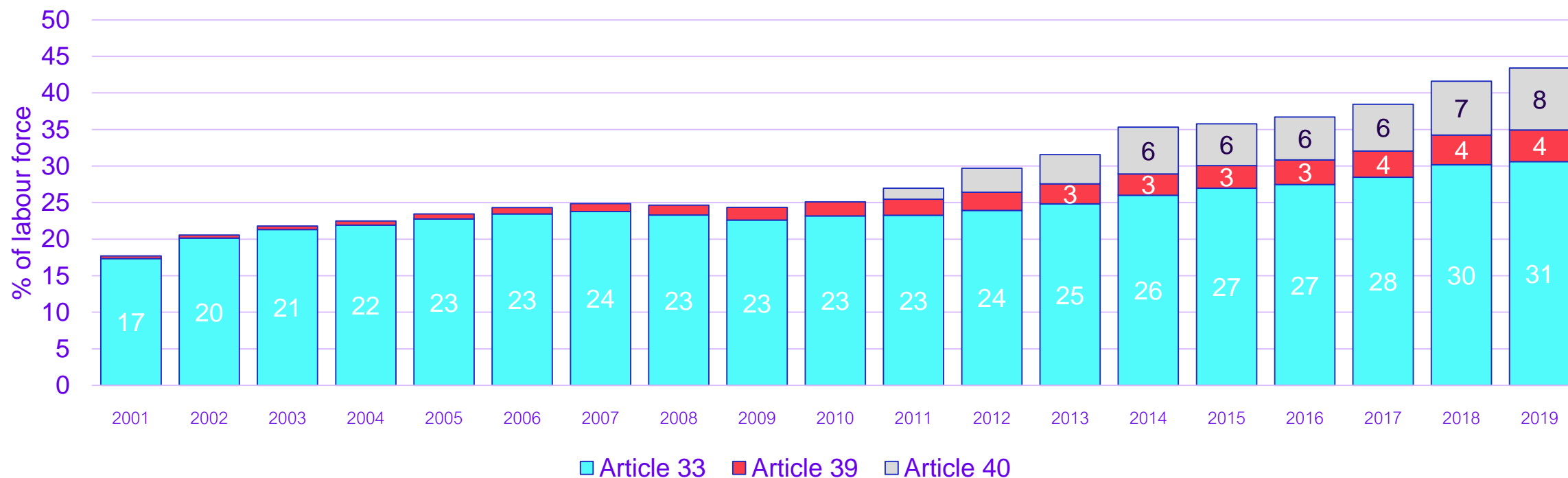
Poverty rate by age, with and without Old Age and Disability Allowance, 2019



Expenditure on high coverage social pension schemes, per cent of GDP, latest year



Percentage of labour force insured by SSO pension schemes, 2001-2019



ISSUES LIMITING THE ADEQUACY OF A33 PENSIONS:

Scheme relatively new (contribution histories of 15-20 years)

Relatively low retirement ages reduce the length of contributions

The nature of the Thai labour market

The salary cap (15'000 Baht)

by October 2020 36% of contributors had a salary above the ceiling

► ISSUES LIMITING THE ADEQUACY OF ARTICLE 33 PENSIONS:

The pension formula benefits those with longer careers (regressive element)

Pension benefits are not indexed to inflation

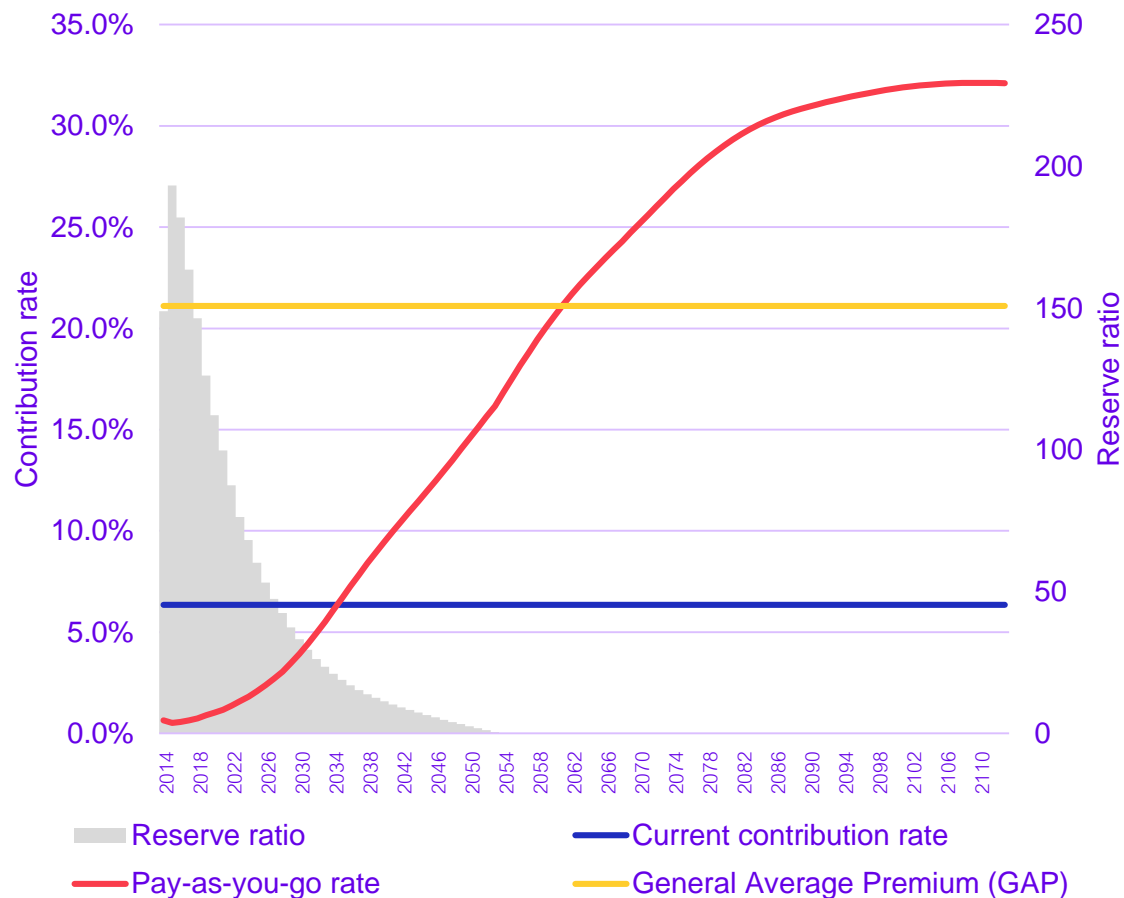
Lump sums limits adequacy and predictability and might create negative employment incentives

Specific issues for those under Article 39 (even lower ceiling)

Parametric reforms will have a significant impact on the financial sustainability of the SSO fund

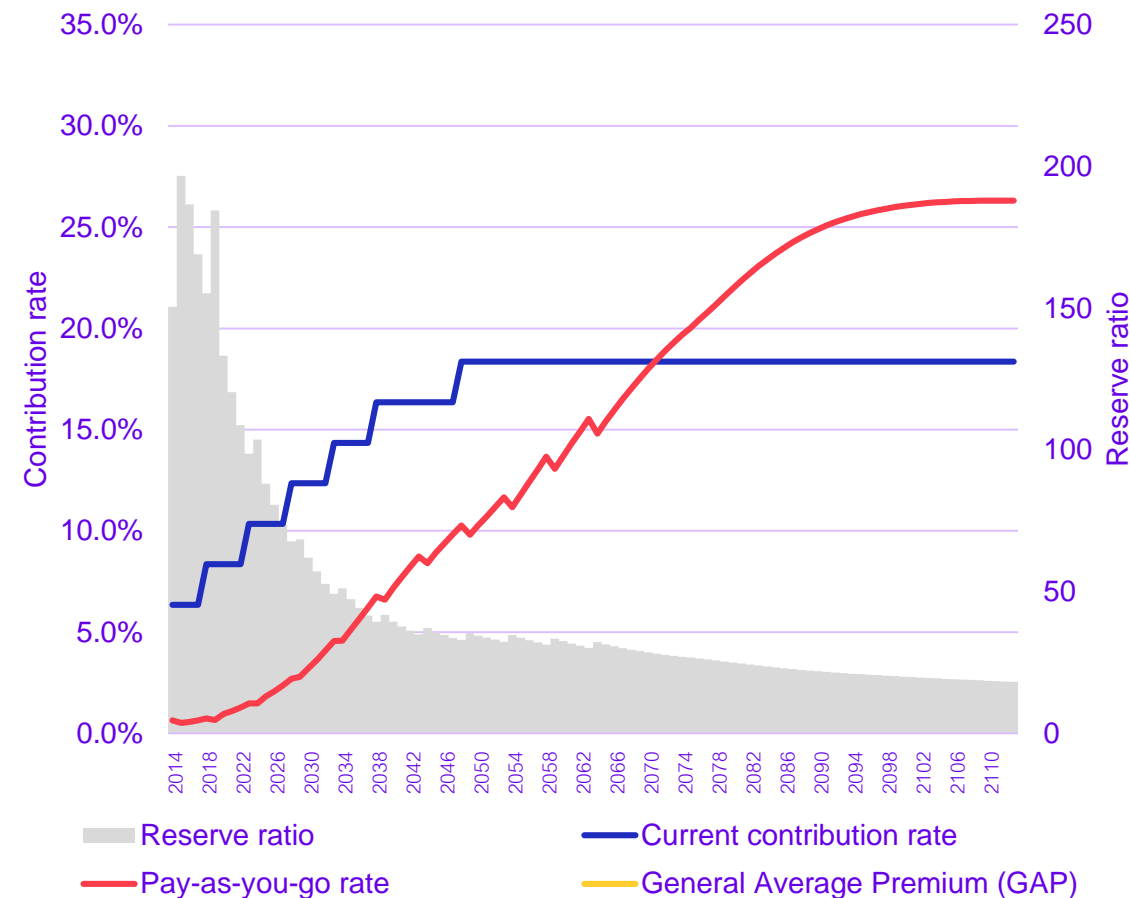
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Baseline projection



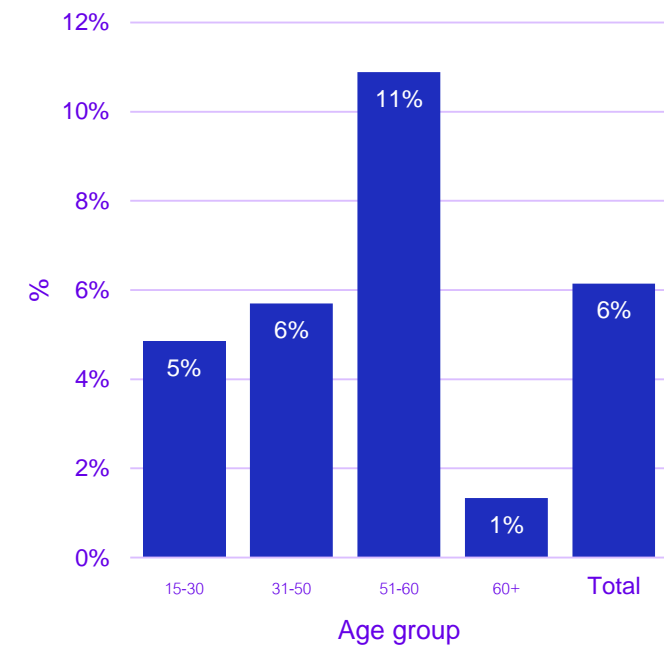
With reform

Increase contribution rate, retirement age and investment return



► National Savings Fund – aimed at workers excluded from other schemes (Article 40) retirement schemes

- Low level of contribution leading to low benefit levels
- The creation of a new scheme was not the solution for the problem of lack of pension protection for specific group of workers
- Challenge to totalize benefits with years of contribution to A33



TOWARDS A MORE EFFECTIVE AND HARMONIZED MULTI-TIER PENSION SYSTEM IN THAILAND

SOME IDEAS

Advancing social justice, promoting decent work



Photo by [michael schaffler](#) on [Unsplash](#)

Illustration of the current Thai pension system

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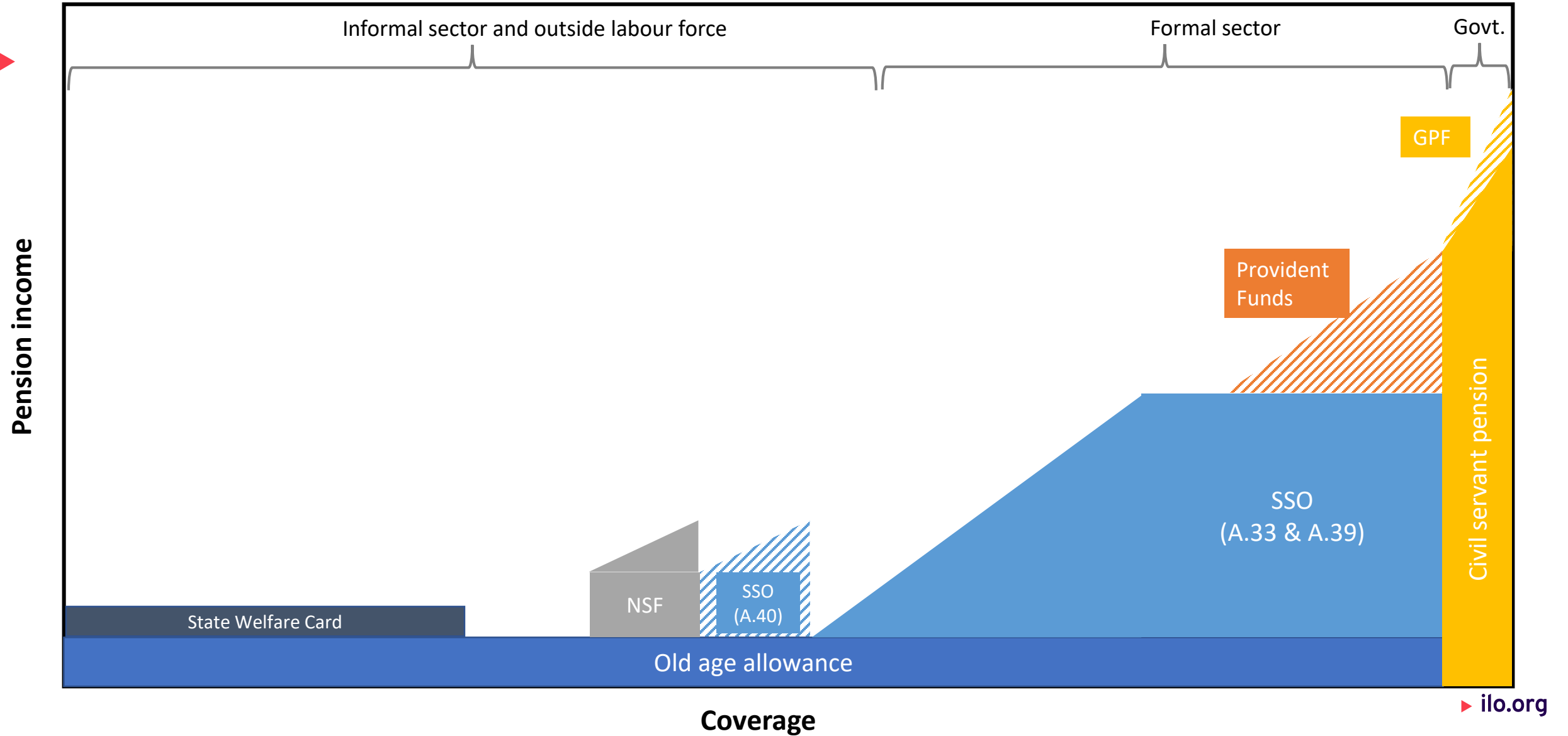
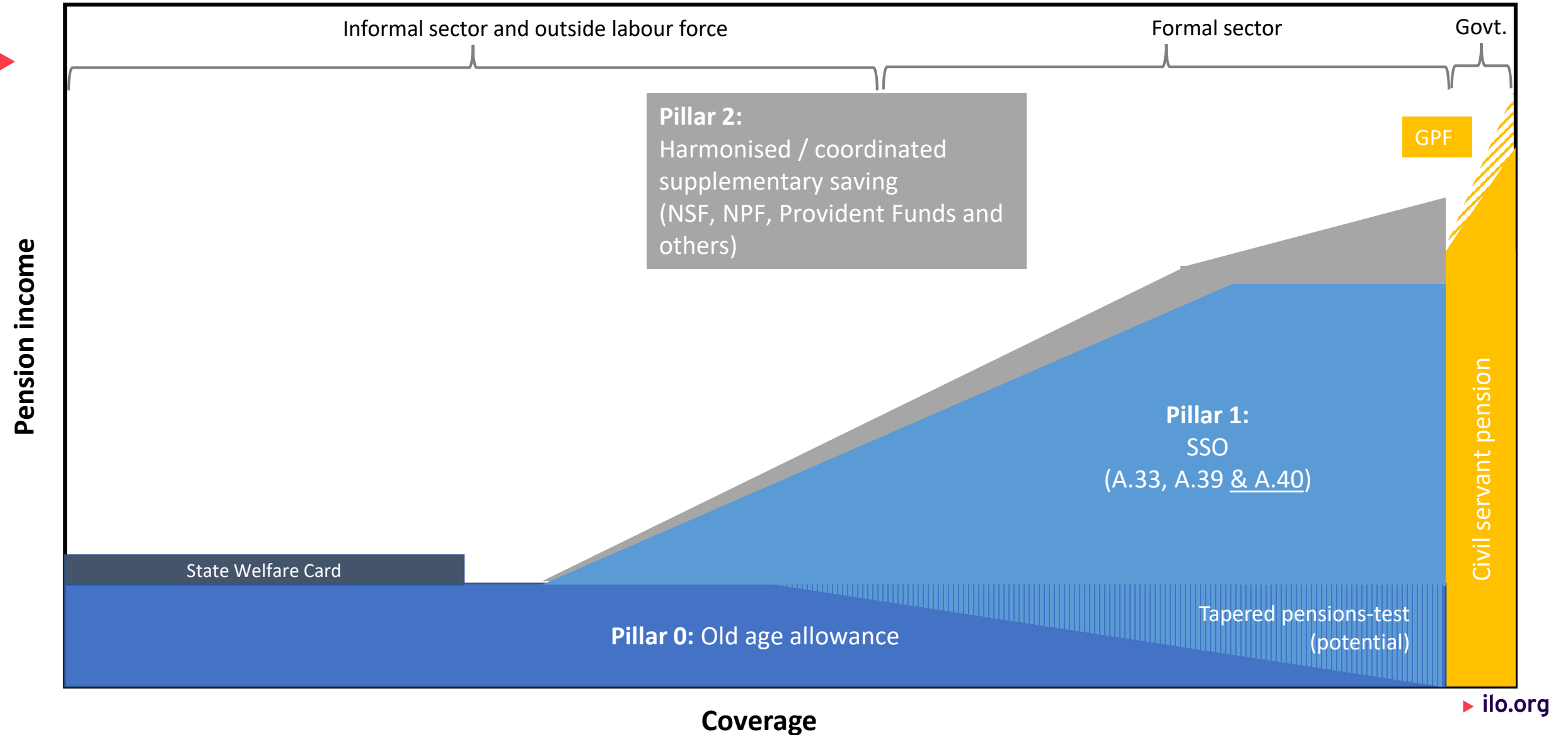


Illustration of an outline future scenario for the Thai pension system 14



► Increase adequacy of the Pension Floor, primarily via the OAA

- Essential for the current generation of older people
- A range of options for how the OAA could be adjusted to meet higher levels of adequacy:
 - Increasing the benefit to the poverty level
 - Increasing to the poverty level only for those of 65+
 - Smaller incremental increases in benefit levels higher for different higher age groups
- Very important to index benefits
- In the future could be balanced with a tapered pension test



► Reinforce SSO pensions as the core earnings-related scheme providing adequate earnings-related benefits in a financially sustainable fashion

- Adjustment of parameters to strengthen adequacy and sustainability:
 - Contribution rates
 - The wage ceiling (increase and index)
 - Benefit formula (progressively make it more redistributive and fait)
 - Gradually increase the retirement Age
- Looking forward to the next SSF actuarial valuation



► **Modify existing schemes within SSO to extend guaranteed earnings-related benefits to the non-waged workers.**

Provision of earnings-related benefits to workers including those in self-employment, non standards forms of work and possibly workers in Micro and Small Enterprises

Allow the portability between SSO “Articles”

Use of incentives for participation (subsidization)

Build a harmonized set of arrangements for complementary savings

Further Integration

Two benefits (SSO and OOA) as a single pension payment:

- Allows the introduction of a tapered pension tested mechanism
- Would avoid the need of lump sums for those with short contributory careers
- Could initially take place just for SSO members
- Facilitate increase coverage

Consider great integration of civil servant pension system



► Undertake immediate actions – what is ILO advice?

Increase the value of the OAA

Make parametric adjustments to SSO pensions to increase pension adequacy

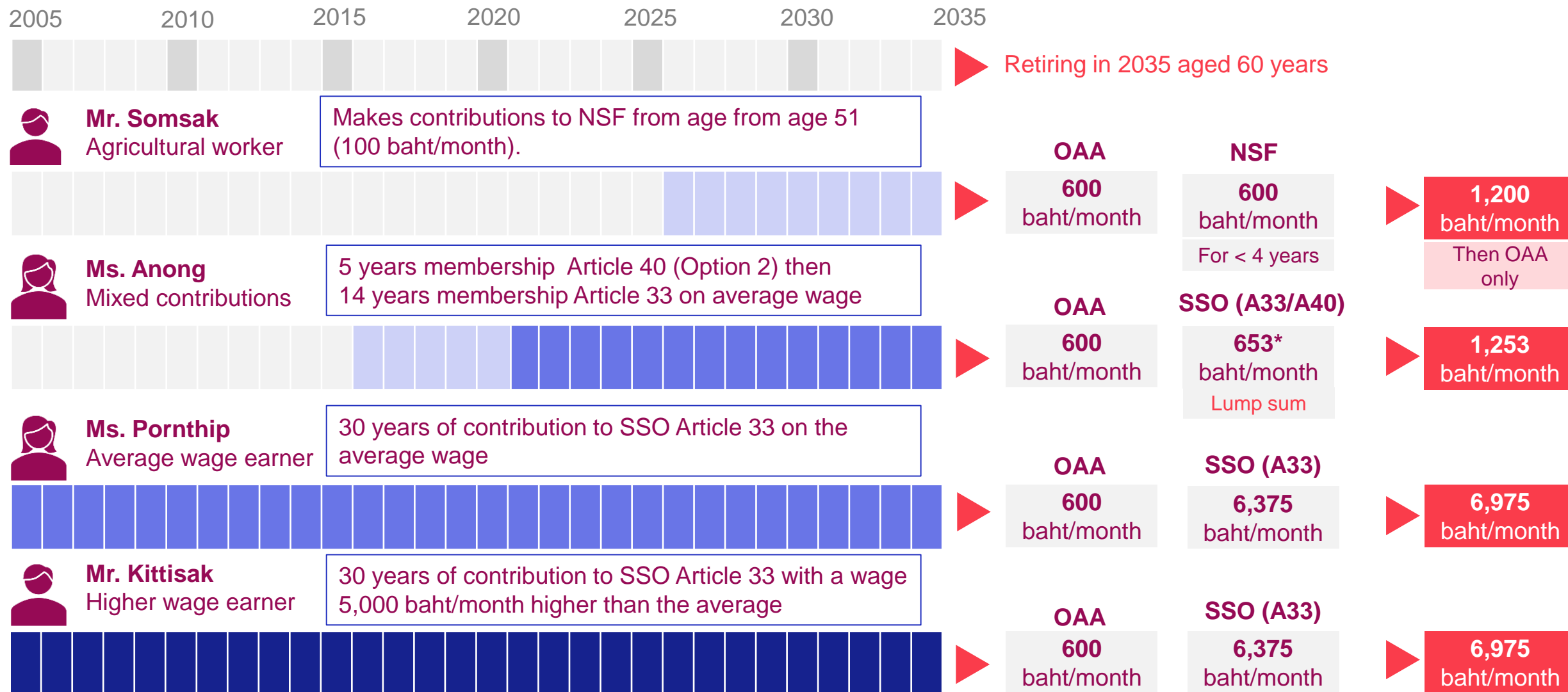
Temporary Postpone the roll out of the proposed National Pension Fund so that it forms part of a more systematic pension reform.

► **Defining a roadmap to a more adequate and financially sustainable scheme requires the development long-term reform plan, as well as specific funding and investment policies**

A financing policy would formalise the long-term funding objectives of the scheme (including targets for an appropriate level of reserve over the long term) and outline elements such as timings/triggers for changes to contribution rates and pensionable ages.

An investment policy should be outlined specifically for the pension branch of the SSO and articulate an approach to investment that reflects the long-term nature of the branch.

Scenarios: Pre-reform

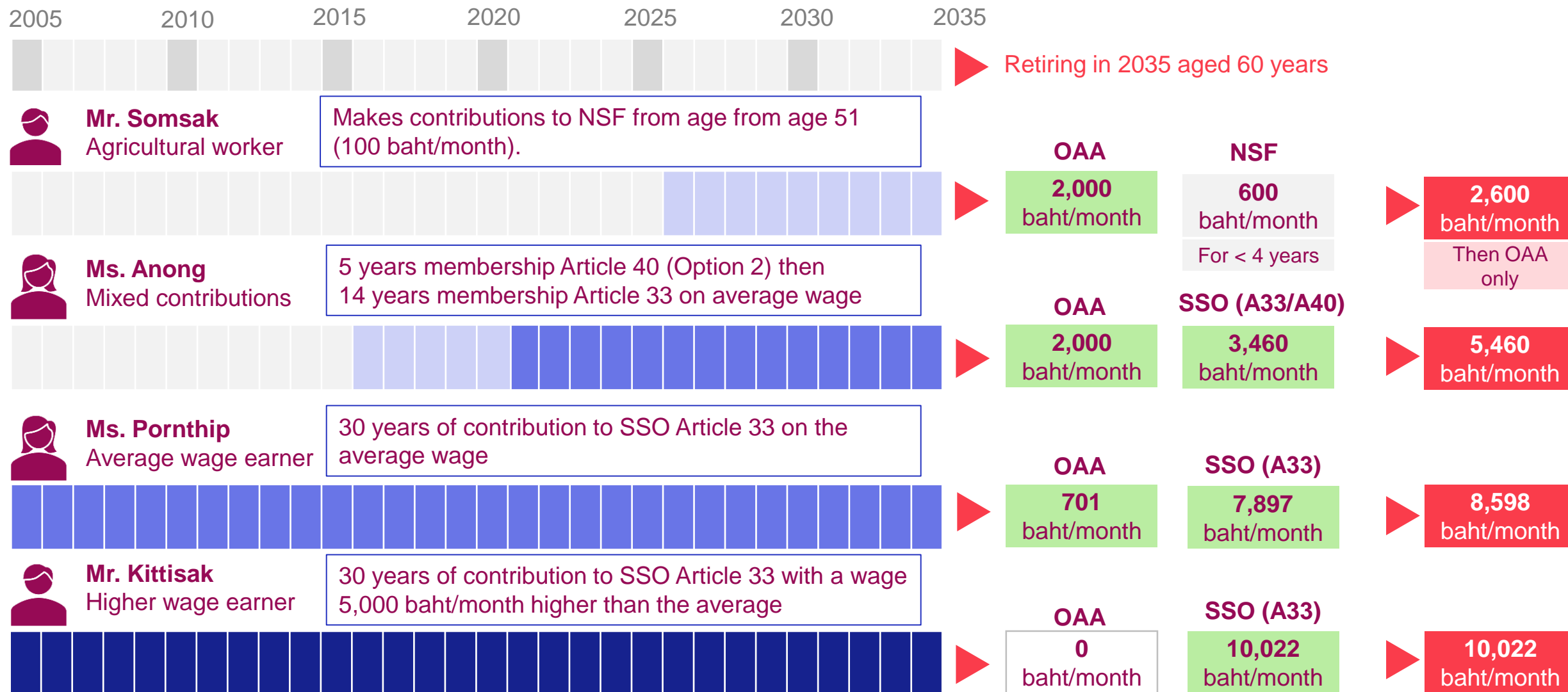


Advancing social justice, promoting decent work

▶ ilo.org

* Value is total value of lump sum benefits (206,000 baht) divided by female life expectancy for 2035-40 (26.2 years)

Scenarios: Post-reform



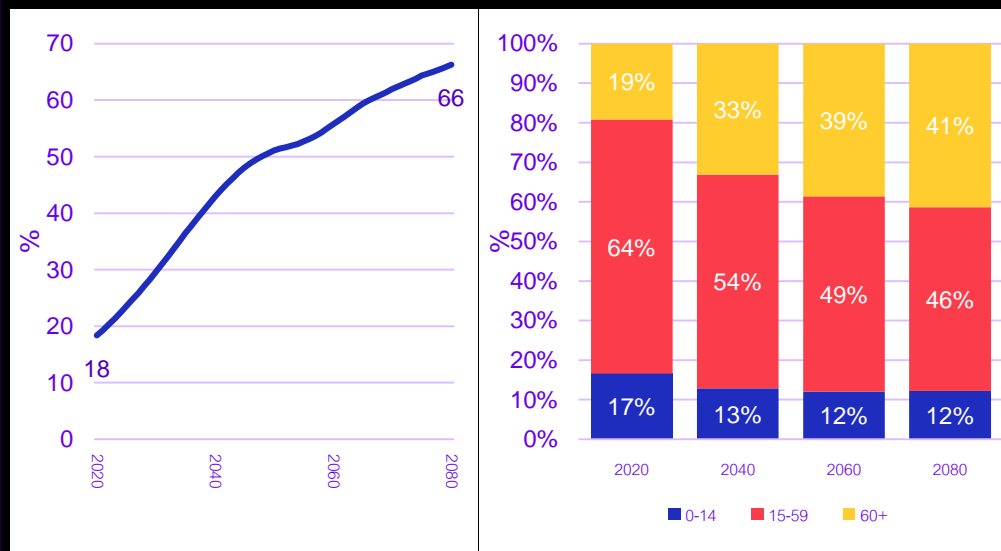


The clock is ticking

CONSIDER THAT THE DISCUSSIONS NEED TO GO BEYOND A SCHEME-LEVEL

AND NEED TO ASSESS THE SHAPE OF THE PENSION SYSTEM AS A WHOLE

SHOULD THAILAND DEVELOP A NATIONAL STRATEGY ON PENSION REFORM?



Thank you