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Ageing Society and Sustainability of Social Security System in ASEAN: ILO's Perspective

Nuno Meira Simoes da Cunha

Senior Social Protection Specialist

Decent Work Support Team for East and South-East Asia and Pacific

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Ageing in Asia

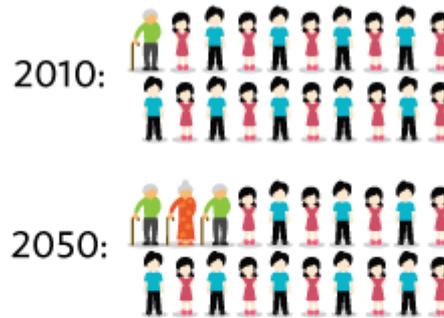
RAPID AGING



200 MILLION:

Number of senior citizens in the PRC by 2015

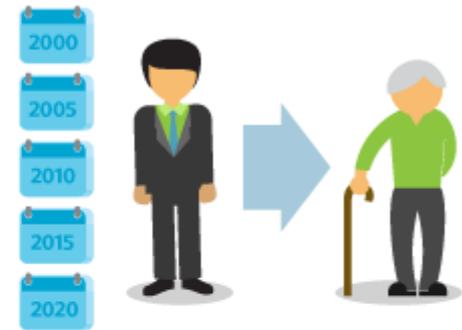
The country now has more senior citizens than all European Union countries combined.



15%:

Percentage of persons aged 65 and older in Malaysia by 2050

This is triple the 2010 percentage of 4.8%.



20 YEARS:

Time needed for Viet Nam to make the transition from aging to aged

Japan: **26 YEARS**
Thailand: **22 YEARS**

Ageing in Asia

- Asian countries are ageing at a historically unprecedented rate:
 - OECD countries took 50-100 years to go from young to old societies;
 - Asian countries are taking just 20-25 years
 - South Korea's elderly poverty rate is the highest among OECD countries
 - 25% of Japan's population is already elderly
 - Viet Nam will have 21 million pensionable age people by 2030
 - By 2100, Lao's old age dependency ratio will rise six fold

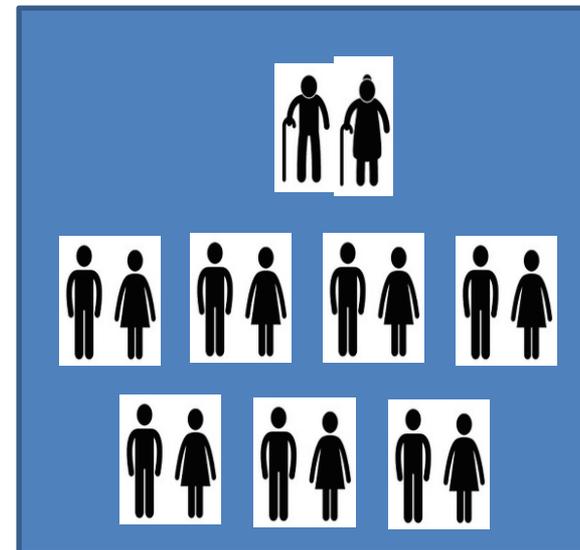
Urbanization – demographic changes – societal changes



Grab



Thai Style
Vector
EPS 10

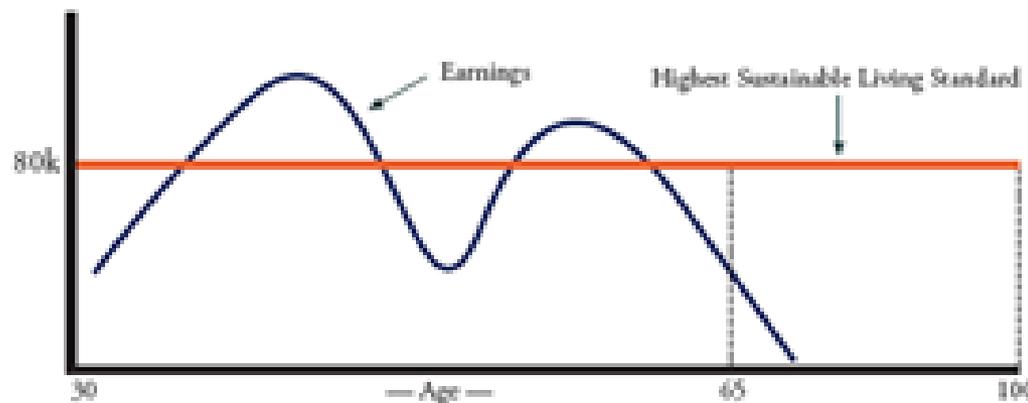


Objectives of pension systems

(i) Consumption Smoothing

Allow a person
to

- to transfer consumption from earning in middle years to his/her retired years
- choose a better time path of consumption over working and retired life



“Soft
Landing”

One important measure is the **replacement rate** – the percentage of the pension in relation to previous earning



Objectives of pension systems

(ii) Insurance

Support
individuals

- to live better in a world dominated by uncertainties



How long will I live after retirement?

What will be the inflation?

How will the economy perform

<https://pixabay.com/en/photos/question%20mark/>

Pension systems increases individual welfare by:
reducing the need for people to accumulate very large savings to avoid destitution should they live longer than their live expectancy

Objectives of pension systems

(iii) Poverty relief and redistribution

Poverty Relief

Transfers

- For those who did not had the capacity to save enough resources during their working age

Redistribution

Within the same generation

- Formulas can provide low earners with a higher percentage of their previous earning
- Subsidize the consumption from who is less well-off but not necessarily poor

Between generations

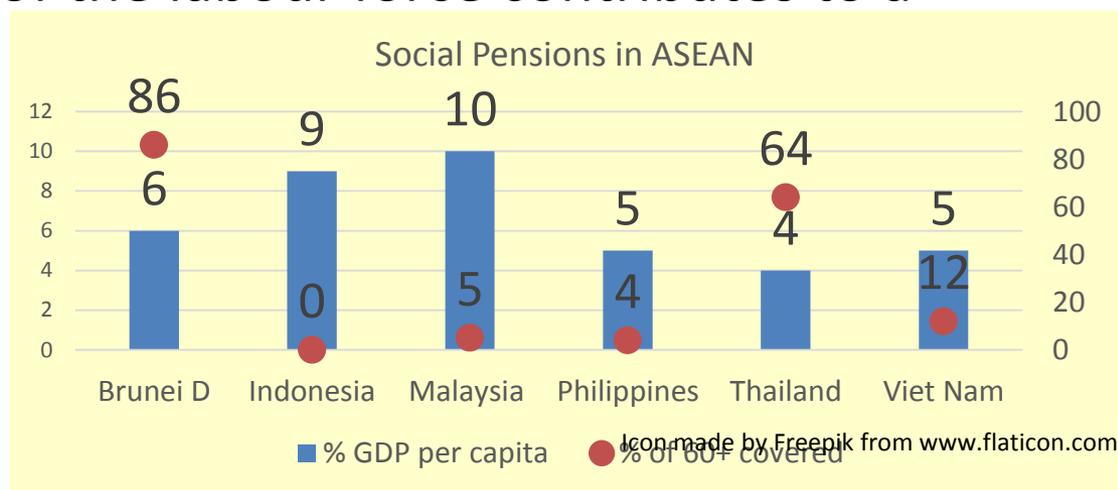
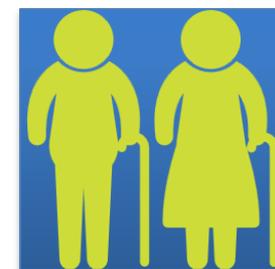
- Promoting a transfer from the future to the current generation
- By setting a lower contribution rate in the early stages
- Expecting that future generations will have higher wages due to economic growth and productivity increases

Old age pension coverage - ASEAN



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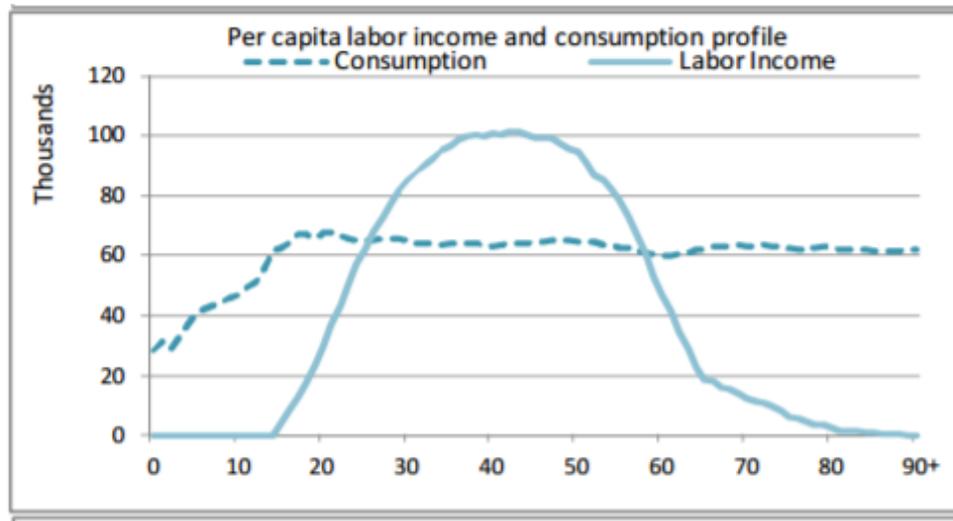
- Almost 70% of the elderly don't receive a pension
 - compared with 55.2 in A&P and 32% globally
- Reality that is heterogeneous
 - Around 80% of coverage - Brunei and Thailand
 - Between 30% and 40% - Viet Nam and Philippines
 - Very low coverage – Lao PDR; Cambodia; Myanmar
 - Malaysia and Singapore – Mainly Provident Fund
- Low level of benefits is also a reality
- Only slightly above 20% of the labour force contributes to a pension scheme



NATIONAL TRANSFER ACCOUNTS



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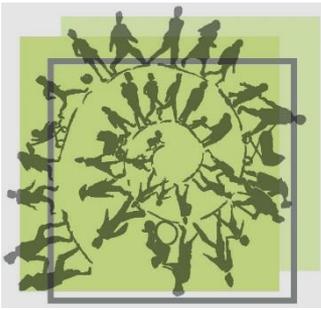
In the absence of an adequate pension system:

- Major impact in terms of households economic strategies
- Negative impact on children education
- Negative impact on the country future productivity

SITUATION IN ASEAN

IMPLICATIONS:

- Burden is still in the majority of the cases assumed by the families
- Income security might be at risk
 - particularly with changes in family structure
- Pressure towards individualization and marketization of risks
 - Systemic reform seen as a solution to deal with the system challenges
 - Reduce the financial risk for the state
 - Happened in other countries/regions



Ageing - various options to deal with it

➤ Increasing contribution rates

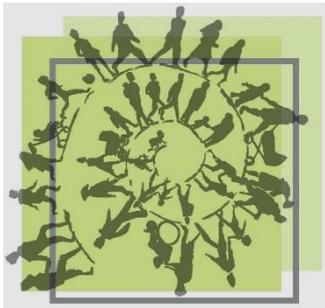
➤ Lowering monthly benefits

➤ Increasing retirement age

Parametric
Reforms

➤ Shift into individual saving accounts

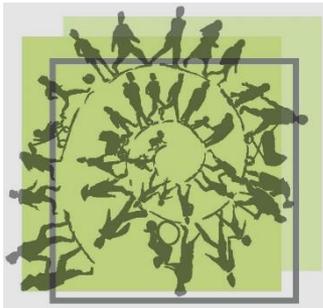
➤ A mix of solutions



Ageing – a global challenge

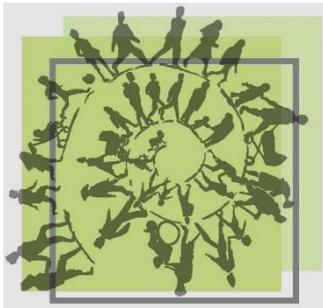


- 1990s and early 2000s - several transition and emerging countries, embarked on a transition from **public pay-as-you-go defined benefits pension systems** to a **partially or fully privatized, defined contribution, mechanism**



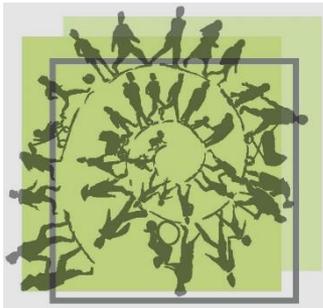
A Shift towards DC

- Justifications used:
 - Reduce costs for the state;
 - Higher level of returns (investment would produce higher level of returns than a DB Scheme);
 - Higher incentives for enrolment
 - Incentivize savings



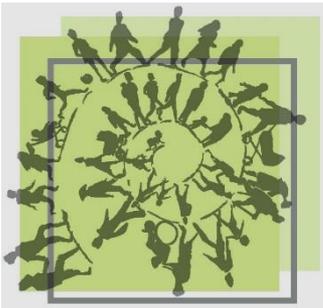
TRANSITION COSTS OFTEN FORGOT BUT VERY IMPORTANT

- In a transitions to a DC model, the contributions received cannot be used any more to pay existing liabilities.
- Meaning that pensions of current retirees or pensions of those who will have limited number of contribution years at the age of retirement will need to be funded from the state
- **Transition costs** created a financial burden, a funding-gap, which in the short and medium term has to be filled with additional financing through public finances (e.g.: increase in taxes, issuing Government bonds, etc.).



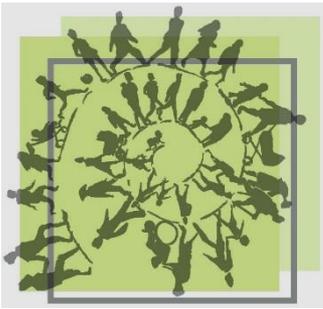
Transition costs

- **Transaction costs**, often much higher than projected, increased pressure on the financing of the pension.
 - In countries such as Poland, Hungary and Slovakia, privatization of social security pensions has been adding about 1.5 per cent of GDP every year to national deficits
- More than 30 years the effects are still felt



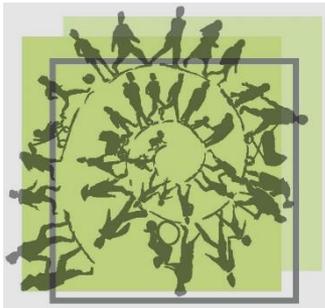
Recent trends

- **The late 2000s and early 2010s have seen a wave of reform reversals of the privatization efforts which took place 10 – 15 years earlier.**
- Pension systems reverted to their initial public defined benefit schemes fully or in some parts, (Ex. Poland, Hungary and Argentina)



Recent trends

- Other countries opted not to revert the system but had to **allocate public additional budget** to cover the low levels of coverage, particularly for women.
- Systems that undergone through parametric reforms had shown better capacity to adapt to an ageing society than those who did structural reforms



Some conclusions

No single and no best *easy* solutions

There is no way to deal with ageing societies without touching the system parameters (costs or adequacy)

Different design options lead to different outcomes

- The decisions are about **How to distribute the costs/risks of an ageing society?**

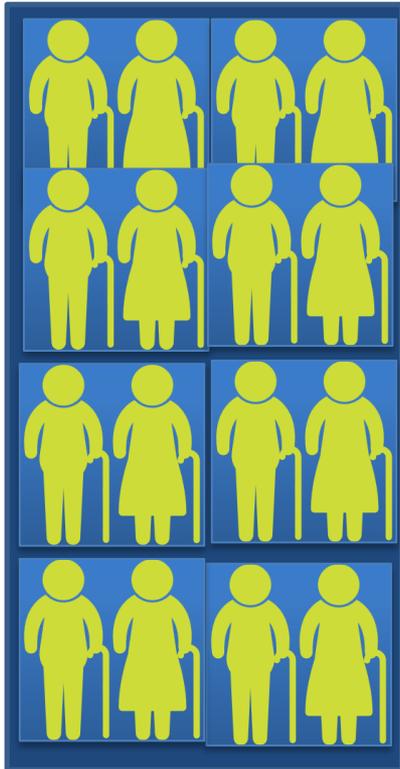
Options need to be assessed in detail and thoughtfully

- Impact of decisions today might be felt mainly in 20/30 years so pros and cons need to be properly assessed



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Recommendations



Focus on the development of comprehensive pension systems.

- extension of personal coverage,
- guarantee the adequacy of benefits
- Ensuring the financial sustainability of systems

Recommendations



The aggregate level of public expenditure in pension needs to be significantly increased,

- re-allocation of public expenditure
- increased revenues from improved tax income and/or from social insurance contributions.

Social and political choices and political will play a central role in these decisions

Recommendations

Contributory schemes need to be adapted to labour market characteristics. This adaptation calls for:

- innovative policies,
- efforts from social security administrations and labour inspectorates to find new solutions for law and compliance enforcement.
- synergies with other sectors (tax administrations; regulators)

Recommendations

- Reforms need to ensure a fair balance between sustainability and adequacy
- Reforms must be guided by sound quantitative evidence, informed by regular actuarial valuations.
- The design of pension systems needs to acknowledge the specific challenges faced by women in the labour market
- National legislations must ensure equal treatment of national and migrant workers
- Developments in national policies and legal frameworks should be complemented by improvements in the management and administration of schemes



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Thank you

NUNO MEIRA SIMOES DA CUNHA
cunhan@ilo.org

 www.ilo.org/asia

 bangkok@ilo.org

 ILO.ORG

 ILOTV

 iloasiapacific

 @ilo