

# Extending Social Security Coverage in Asia-Pacific: Avenues and Challenges

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# Outline

- Introduction
- Demographic and Labor Market Trends
- Overview of Asian Social Security Systems
- Extending Coverage: Issues
- Extending Coverage: Avenues
- Extending Coverage: Challenges
- Concluding Remarks

# Introduction

- As Asian countries strive to sustain their international competitiveness and growth momentum in the aftermath of the 2008 global economic crisis, their task is complicated by the urgent need to reform their social security systems.
- There is broad consensus amongst academics, and policymakers that Asia is expected to age at relatively lower incomes than was the case with the current demographically-mature high-income countries, and will 'grow old before it becomes rich'.

# Introduction

- Asia is also becoming increasingly urbanized. In 2007, half of Asia's 4 billion population was classified as urban, and this share is expected to increase.
- In general, the need for formal social security systems increases with urbanization; and with internal migration from rural to urban areas.
- Asian countries which are over reliant on the external sector for trade, investment, and technology are also attempting to rebalance their economies to increase the relative importance of domestic demand as a response to the current global economic crisis.

# Introduction

- The main objectives of any social security system for both, individuals and government, are:
  - smoothing consumption over lifetime;
  - insurance (particularly against longevity and inflation risks);
    - Longevity risks concerns the probability that accumulated savings and retirement benefits may be inadequate to last until death. Inflation risk concerns the probability that value of retirement benefit may not be protected against inflation during the retirement period.
  - income redistribution;
  - and poverty relief.

# Introduction

- However, these have to be traded off against economic growth, labor market efficiency and flexibility, and against other needs like health, education, and infrastructure.
- Individual, fiscal, and societal affordability should be kept in mind in reforming social security system. This implies that benefits promised must evolve over time as affordability grows.

# Introduction

- Such a complex objective function has three important policy implications (Barr and Diamond, 2009).
- First, pension policies should try to optimize, not maximize or minimize across a range of objectives.
- Second, a “first-best” approach is not always appropriate in designing pension policies or pension reform.
- Third, pension reform design recommendations must take into account a country’s fiscal institutional and capital market capacities

# Demographic and Labor Market Trends

- Demographic profile, particularly in Asia suggests rapid individual and population ageing. Some countries such as China will become old before they become rich (Table 1A, 1B and 1C).
- Longer life expectancy has diametrically opposite impact on life insurance costs on the one hand (they decline), and on pension and healthcare costs on the other (they increase substantially). There is tyranny of small numbers in managing pension and healthcare policies.



# Demographic and Labor Market Trends

**Table 1A: Demographic Indicators in Selected Developing Countries**

Country	Total Population (millions)		Average annual rate of change of population		Total Fertility Rate (TFR)		Median Age		Life Expectancy at Birth <i>Medium Variant</i>	
	2007	2050	2005-2010	2045-2050	2005-2010	2045-2050	2005	2050	2005-2010	2045-2050
<b>World</b>	<b>6671.2</b>	<b>9191.3</b>	<b>1.17</b>	<b>0.36</b>	<b>2.6</b>	<b>2.0</b>	<b>28.0</b>	<b>38.1</b>	<b>67.2</b>	<b>75.4</b>
<b>ASIA</b>										
<b>China</b>	1328.6	1408.8	0.58	-0.32	1.7	1.8	32.5	45.0	73.0	79.3
<b>India</b>	1103.4	1592.7	1.55	0.30	3.0	1.8	24.3	38.7	63.1	75.9
<b>Indonesia</b>	231.6	296.9	1.16	0.10	2.2	1.8	26.5	41.1	70.7	78.6
<b>Korea</b>	48.2	42.3	0.33	-0.89	1.2	1.5	35.0	54.9	78.6	83.5
<b>Malaysia</b>	26.6	39.6	1.69	0.41	2.6	1.8	24.7	39.3	74.2	80.1
<b>Philippines</b>	87.9	140.5	1.90	0.50	3.2	1.8	21.8	36.3	71.7	78.7
<b>Singapore</b>	4.4	5.0	1.19	-0.38	1.2	1.6	37.5	53.7	80.0	84.6
<b>Sri Lanka</b>	19.7	18.7	0.47	-0.55	1.9	1.8	29.5	43.4	72.4	77.6
<b>Thailand</b>	63.9	67.4	0.66	-0.27	1.8	1.8	32.6	44.3	70.6	78.1
<b>Vietnam</b>	87.4	120.0	1.32	0.21	2.1	1.8	24.9	41.6	74.2	80.3
<b>Japan</b>	127.9	102.5	-0.02	-0.78	1.3	1.6	42.9	54.9	82.6	87.1

# Demographic and Labor Market Trends

**Table 1B: Demographic Indicators in Selected Developing Countries**

Country	Life Expectancy at age 60, 2000- 2005		Percentage of total population aged 60 and above <i>Medium Variant</i>		Population aged 60 and above (millions) <i>Medium Variant</i>	
	Men	Women	2005	2050	2005	2050
<b>World</b>	<b>N.A.</b>	<b>N.A.</b>	<b>10.3</b>	<b>21.8</b>	<b>672.8</b>	<b>2005.7</b>
<b>ASIA</b>						
<b>China</b>	18	21	11.0	31.1	144.0	437.9
<b>India</b>	17	19	8.0	21.0	89.9	329.6
<b>Indonesia</b>	17	19	8.3	24.8	18.9	73.6
<b>Korea</b>	19	24	13.7	42.2	6.6	17.8
<b>Malaysia</b>	18	20	6.7	22.2	1.7	8.8
<b>Philippines</b>	17	19	6.0	18.2	5.1	25.5
<b>Singapore</b>	17	21	12.3	39.8	0.5	2.0
<b>Sri Lanka</b>	17	19	9.7	29.0	1.9	5.4
<b>Thailand</b>	17	22	11.3	29.8	7.1	20.1
<b>Vietnam</b>	19	21	7.6	26.1	6.5	31.3

# Demographic and Labor Market Trends

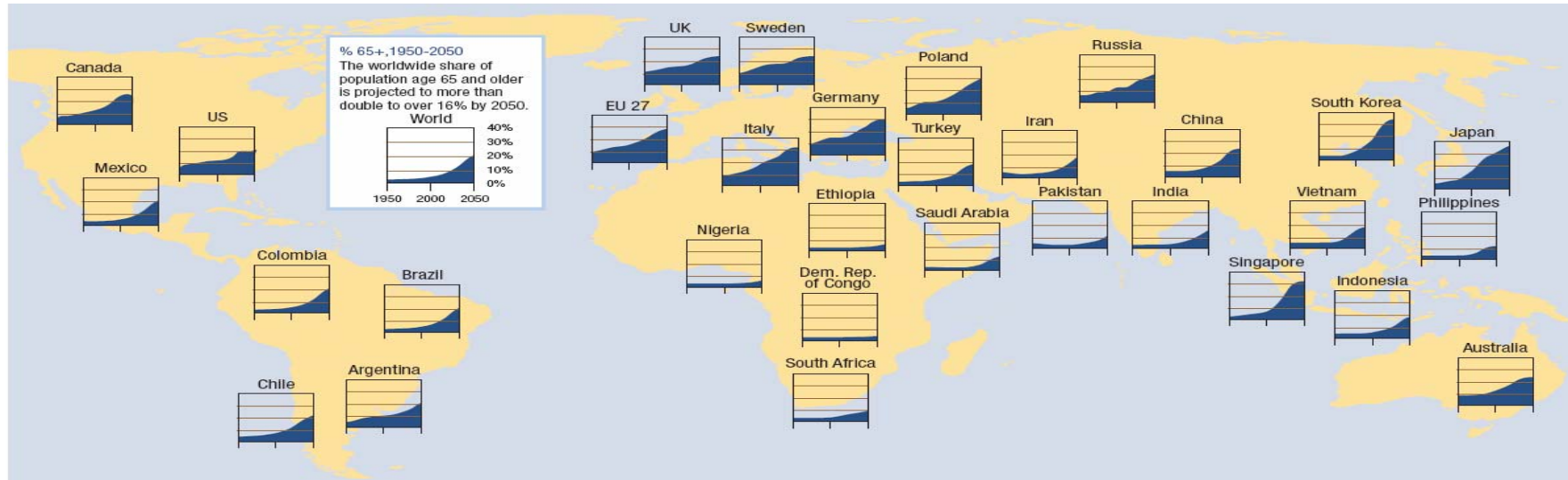
**Table 1C: Dependency Ratio in Selected Developing Countries**

Country	Old Age Dependency Ratio	
	2005	2050
<b>World</b>	11	25
	<b>ASIA</b>	
<b>China</b>	11	39
<b>India</b>	8	21
<b>Indonesia</b>	8	29
<b>Korea</b>	13	65
<b>Malaysia</b>	7	25
<b>Philippines</b>	6	19
<b>Singapore</b>	12	59
<b>Sri Lanka</b>	9	36
<b>Thailand</b>	11	38
<b>Vietnam</b>	9	30
<b>Japan</b>	30	74

Source for Table 1A-CUNDESA, 2009.

# Demographic and Labor Market Trends

**Figure1: The graying of the global population**



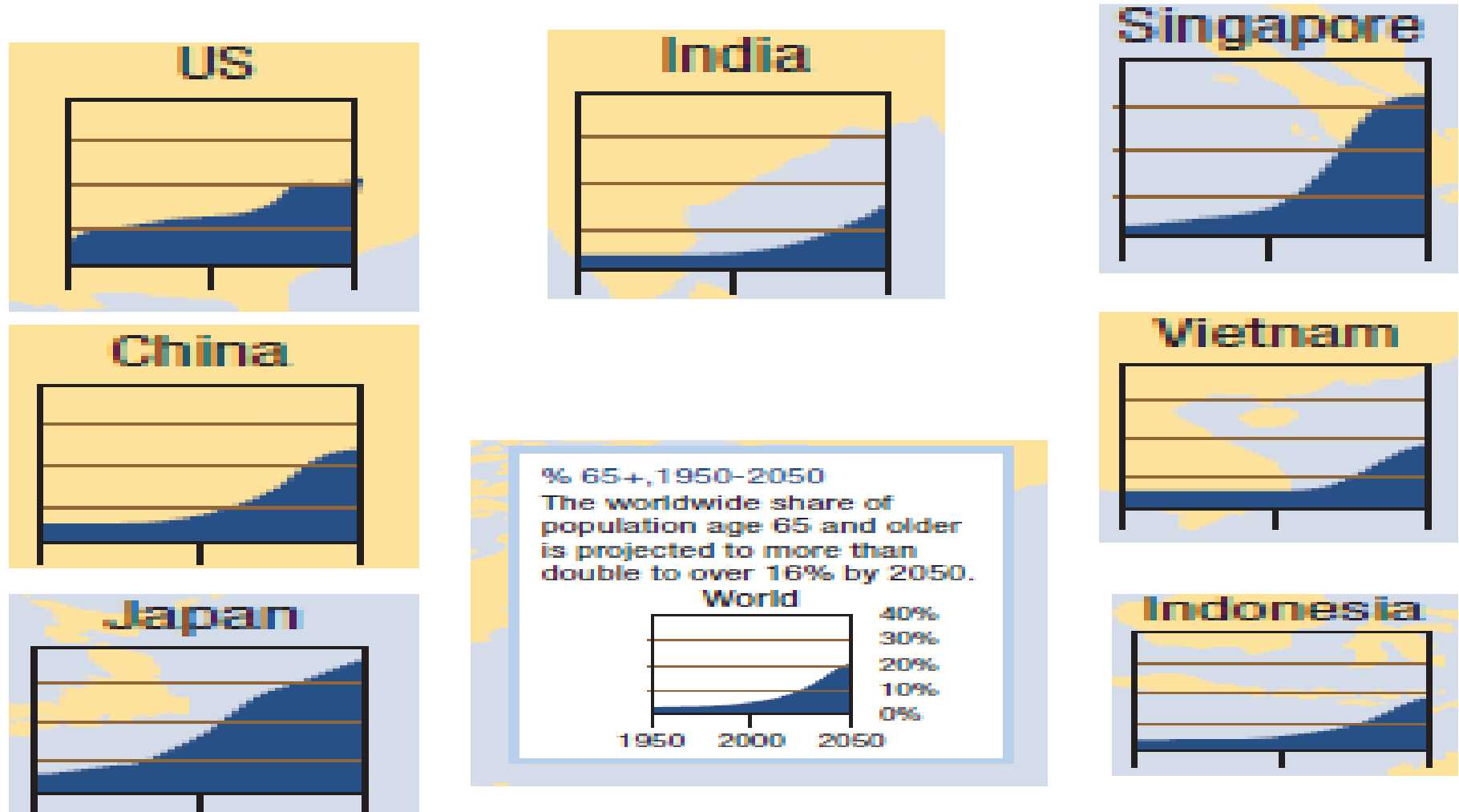
## 15 Biggest Gains in Older Population, 2005-30 Population in millions

By 2030, the population 65+ will double. More than a quarter of worldwide growth will occur in China.

Country	Total Population	Population 65+		Change in 65+
	2030	2005	2030	2005-30
1. China	1,458	100.5	238.4	138.0
2. India	1,508	58.5	133.1	78.8
3. US	368	38.8	71.1	34.3
4. Brazil	238	11.5	29.7	18.2
5. Indonesia	280	12.5	30.0	17.5
6. Japan	118	25.3	38.2	11.0
7. Mexico	128	6.1	15.8	9.7
8. Bangladesh	218	5.4	14.9	9.5
9. Pakistan	240	6.2	15.4	9.2
10. Vietnam	110	4.7	12.0	7.3
11. Thailand	69	4.9	12.1	7.2
12. South Korea	48	4.5	11.3	6.8
13. Germany	79	15.5	21.6	6.1
14. Philippines	122	3.2	9.2	5.9
15. Turkey	92	4.1	10.0	5.9
EU 27	498	81.8	118.7	38.8
World	8,318	477.4	978.9	499.6

# Demographic and Labor Market Trends

Figure1A: The graying of the global population



Source: [http://www3.weforum.org/docs/WEF\\_Scenario\\_TransformingHealthcare2030\\_Report\\_2009.pdf](http://www3.weforum.org/docs/WEF_Scenario_TransformingHealthcare2030_Report_2009.pdf)

# Demographic and Labor Market Trends

In 83 countries and territories around the world, according to the United Nations, women will not have enough daughters to replace themselves, unless fertility rates rise.

In Hong Kong, for example, a cohort of 1,000 women would be expected to give birth to just 547 daughters, at today's fertility rates. (That gives Hong Kong a “net reproduction rate” of just 0.547, in the language of demographers.) If nothing changed, those 547 daughters would be succeeded by just 299 daughters of their own, and so on.

At that rate, according to some back-of-the-envelope calculations by *The Economist*, it would take about 25 generations for Hong Kong's female population to shrink from 3.75m to just one.

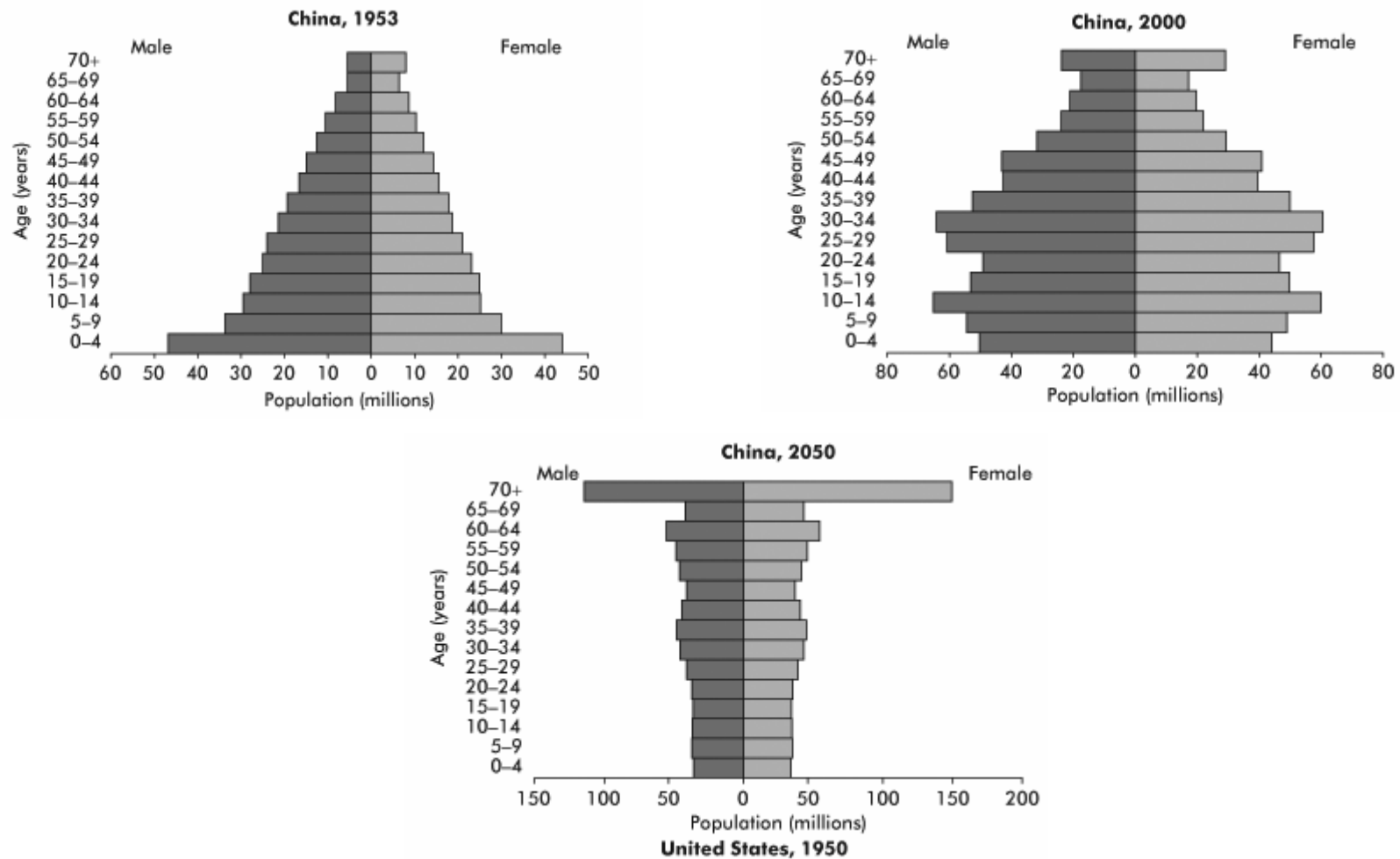
By the same unflinching logic, Japan, Germany, Russia, Italy and Spain will not see out the next millennium. Even China, which has a recorded history stretching back at least 3,700 years, has only about 1,500 years left—if present trends continued unbroken.

Figure 1B



# Demographic and Labor Market Trends

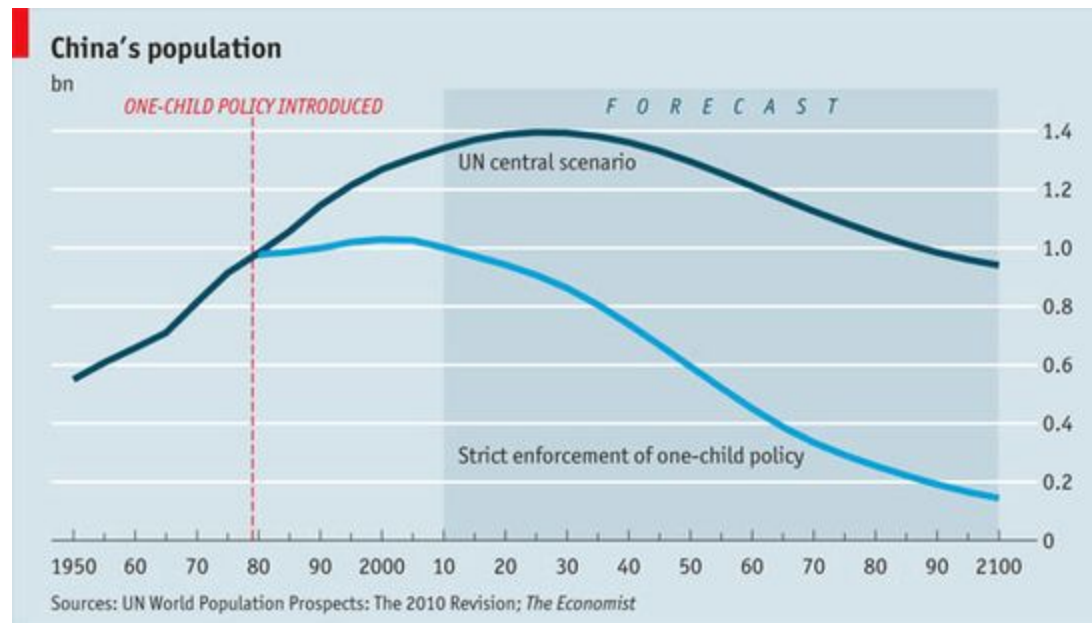
Figure: 3 Demographic Trends and Projections – China



Source: Barr and Diamond, 2008.

# Demographic and Labor Market Trends

## The graying of the global population



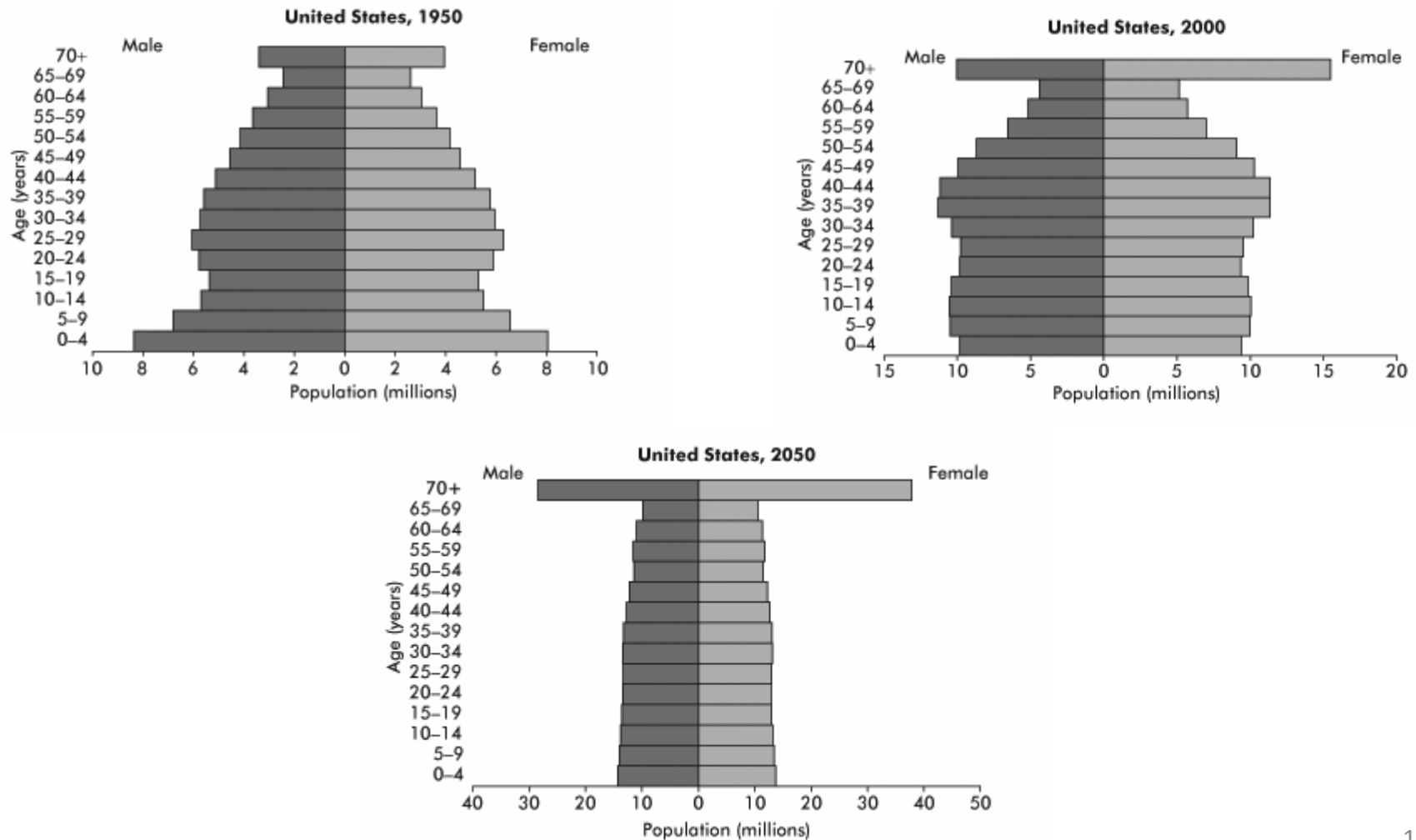
*The Economist* [explains](#) the discrepancy between China's population today with what it would be if the one-child policy had been strictly enforced:  
If each woman had been allowed only one child since 1980, China's population would have been 340m smaller than it was in 2010. If a strict one-child limit were in force for the rest of this century China's population would shrink to less than 145m by 2100, 800m fewer than the UN projects in its central scenario.

Source: The Economist, August ,2011. <http://andrewsullivan.thedailybeast.com/2011/08/chart-of-the-day-2.html>



# Demographic and Labor Market Trends

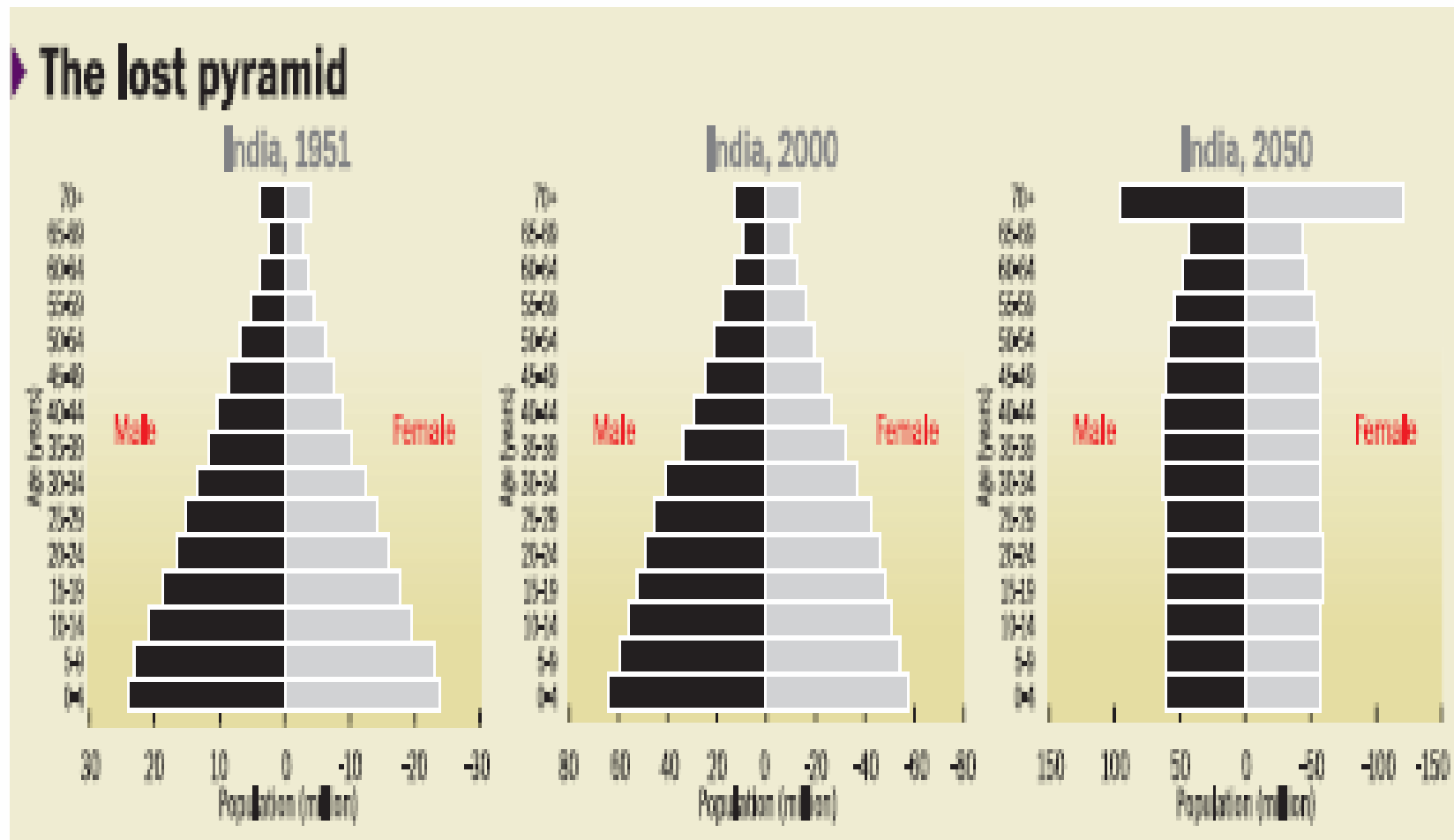
## Demographic Trends and Projections – U.S.



Source: Barr and Diamond, 2008.

# Demographic and Labor Market Trends

Figure 4: India's changing population age cohorts



# Demographic and Labor Market Trends

- Major Implications of Demographic Trends
  - Ease of reversibility of pension scheme should have greater weight.
  - Pension and healthcare expenditure should be considered together as it minimization of the combined expenditure that is relevant.
  - Age-related health expenditures will assume increasing significance with graying of the population as exemplified by the OECD experience which suggests that health expenditure for an individual above 65 is four times that of an individual aged 15-64; while it is 8 time higher for those above 75 years of age (OECD, 2006).

# Demographic and Labor Market Trends

Table 2: Potential\* Livelihood Generation: 2005-2020

		No. (millions) % of world total	
World		846.6	100.0
Asia-Pacific		526.7	62.2
of which	India	211.7	25.0
	China	71.8	8.5
	Indonesia	32.0	3.8
Africa		232.6	27.5
Europe		-17.8	-2.1
Latin America and Caribbean		79.3	9.4
North America		23.6	2.8

*Note:* \*This is defined as the number of economically active persons, defined as those between 15 and 64 years of age in a given region, for whom livelihoods will need to be generated in the formal or the informal sectors.

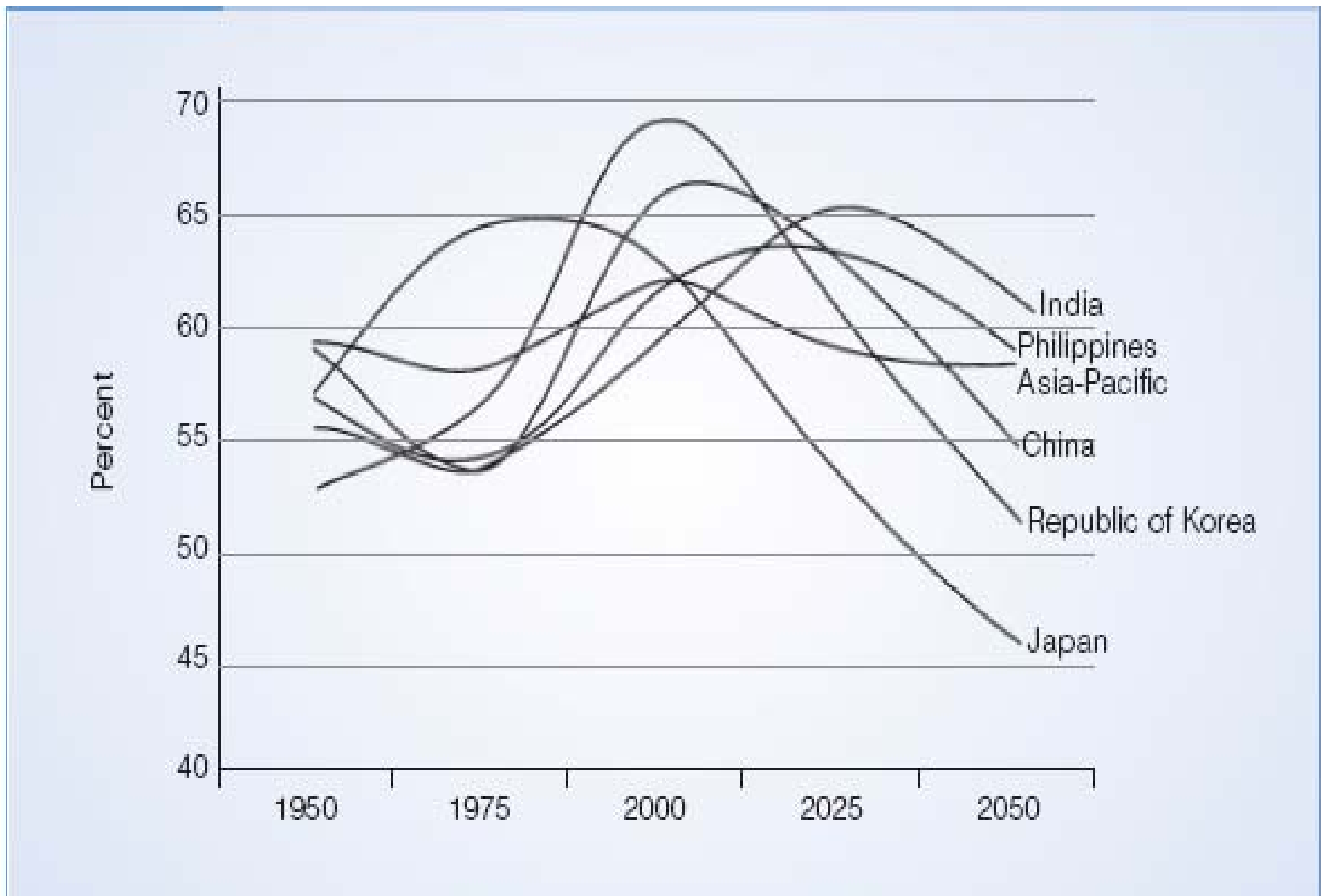
*Source:* Calculated from Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, <http://esa.un.org/unpp> [accessed July 2009].

**Table 3: Persons with wage or salary employment status on the labour market, circa 2008** *(percent)*

	Total		Men		Women	
	Share of employed	Share of working-age population	Share of employed	Share of working-age population	Share of employed	Share of working-age population
South Asia	20.8	9.7	23.4	15.6	14.6	3.5
Sub-Saharan Africa	22.9	13.8	29.2	20.5	14.4	7.4
Southeast Asia and Pacific	38.8	21.9	41.5	28.6	35.0	15.1
East Asia	42.6	23.3	46.0	28.9	38.3	17.6
North Africa	58.3	24.4	58.8	38.5	56.7	10.5
Middle East	61.5	29.0	64.4	41.6	53.5	15.0
Latin America and the Caribbean	62.7	38.6	60.6	46.1	65.8	31.8
Central and Southeastern Europe and CIS <sup>a</sup>	76.6	41.5	75.4	48.0	78.0	35.7
Developed economies	84.3	46.6	81.7	51.8	87.5	41.6
World	46.9	26.5	47.4	33.0	46.0	20.1

Source: Hagemejer (2009), p.64

**Figure 5: Population Aged 15-59 for Asia-Pacific Economies -1950-2050**



# Demographic and Labor Market Trends

Average real wages in Asia's formal economy (ie, excluding the activity that goes unrecorded) have risen continuously over the past ten years. Wage growth depends partly on labour productivity.

**In pension economics, if productivity persistently lags behind wages, this would impact on competitiveness and therefore growth, which the single most important macroeconomic variable for economic security.**

**If real return on pension assets lag behind the growth in real wages, and in GDP – this would tend to reduce the replacement rate and therefore adequacy of pensions.**

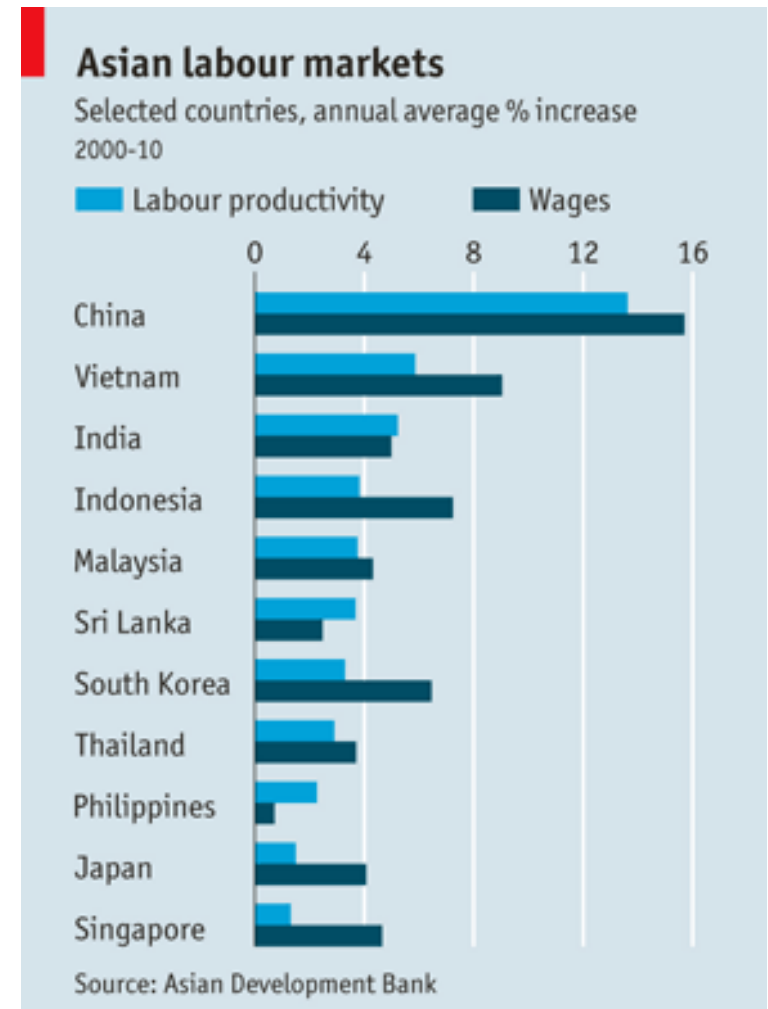
Most countries have been able to achieve annual labour-productivity growth of 2-4%. China's wages have risen quickly, and faster than its growth in productivity.

China has experienced a rapid increase in private-sector employment and urban migration.

In India, Sri Lanka and the Philippines wage growth has lagged behind productivity growth.

As people have moved from informal to formal employment, the pool of labour in the formal economy in the Philippines has increased, keeping wage growth low.

Figure 5A



*Asian Labour Markets, Economist, August 27, 2011*

# Demographic and Labor Market Trends

- Labor market trends suggest that there is considerable informalization of the labor force.
- Internal rural to urban migration, such as in China, and India, is also contributing to informalization.
- Globalization and other factors are also increasing the share of contract workers who are not eligible for pension healthcare and other benefits to the same degree as regular workers.
- The above combined with high unemployment rates (which may reduce the share of workers qualifying for full pension benefits) suggests that extending the coverage has become a priority for Asian countries.



# Overview of Social Security System in Asia

- There is considerable heterogeneity in pension systems in developing Asia, reflecting a host of historical and other factors including the level of economic development and structure of the economy.
- Availability however does not mean that there is access by majority of the population to the schemes, or that benefits are adequate and sustainable.

**Table 4: Availability of pension programmes in Selected Asian countries**

Country	Old Age, disability	Maternity – cash benefits	Maternity-cash Benefits + care	Work Injury	Unemployment	Family Allowances
Country	X	X	X	X	X	X
China	X	<i>a</i>	<i>b</i>	X	<i>a</i>	<i>a</i>
Indonesia	X	<i>a</i>	<i>b</i>	X	X	<i>a</i>
Korea	X	<i>a</i>	<i>b</i>	X	<i>a</i>	<i>a</i>
Malaysia	X	X	X	X	<i>a</i>	<i>a</i>
Philippines	X	X	X	X	<i>a</i>	<i>a</i>
Singapore	X	<i>a</i>	<i>b</i>	X	-	X
Sri Lanka	X	X	X	X	X	X
Thailand	X	X	X	X	<i>a</i>	<i>a</i>

*a- Information not available; b-medical benefits only; X- program available*

*Source: Based on US Social Security Administration, 2010.*

**Table 5: Contribution Rates for Social Security Programs in Selected Asian countries**

Country	Old-age, Disability, and Survivors'			All Social Security Programs		
	Insured Person	Employer	Total	Insured Person	Employer	Total
China	8.0	20.0	28.0	11.0	29.0	40.0
India	12	17.6	29.6	13.8	22.4	36.9
Indonesia	2.0	4.0	6.0	2.0	7.2	9.2
Japan	7.9	7.9	15.8	13.1	13.8	26.9
Malaysia	11.5	12.5	24	11.5	13.8	25.3
Philippines	3.3	7.1	10.4	4.6	8.3	12.9
Singapore	20.0	15.0	35.0	20.0	15.0	35.0
Sri Lanka	8.0	12.0	20.0	8.0	12.0	20.0
Thailand	3.4	3.4	6.8	5.0	5.2	10.2
Vietnam	6.0	12.0	187.0	8.5	20.0	28.5

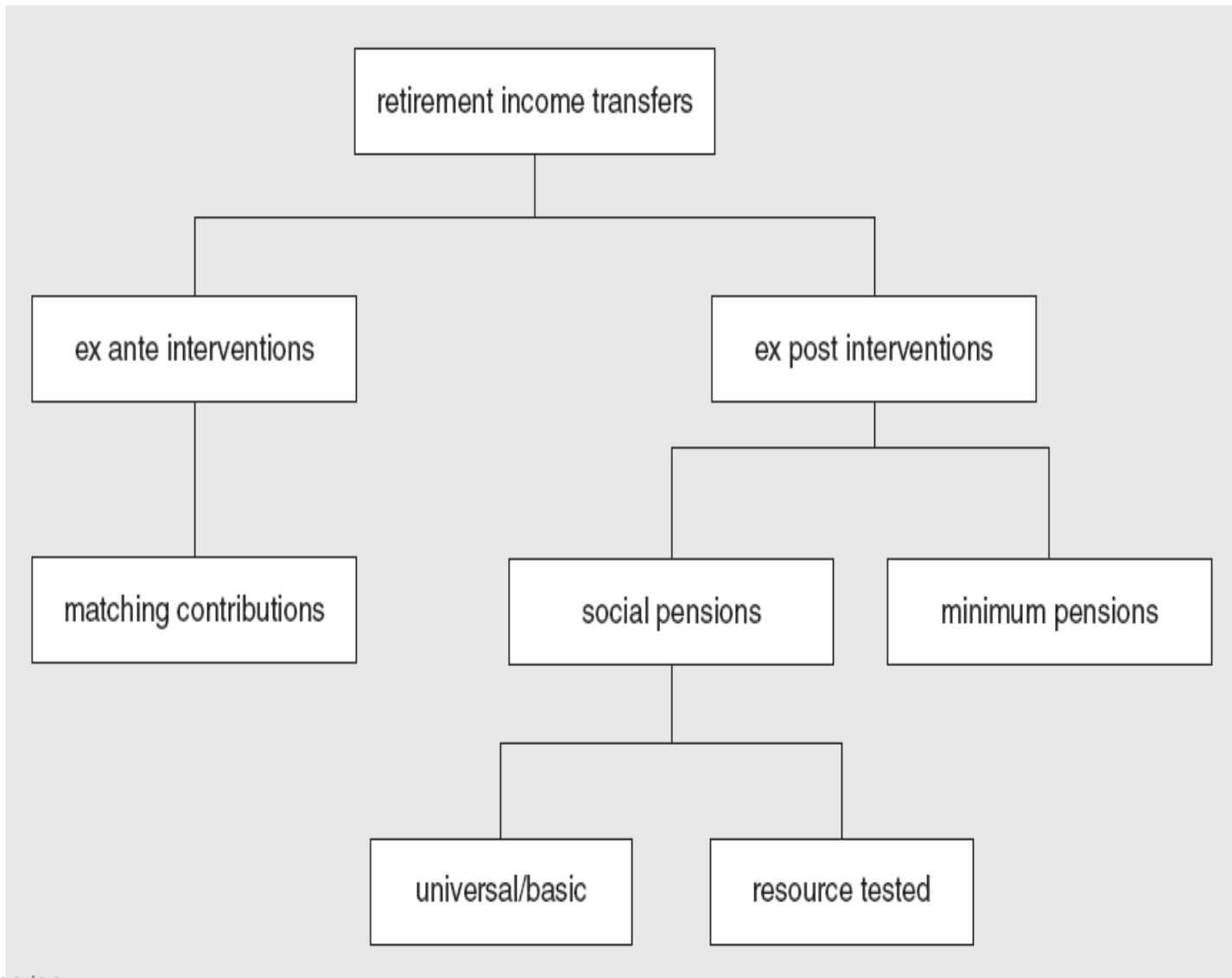
Source: Social Security Programs Through the World (2010)

# Extending Coverage: Issues

- The issue of closing the coverage gap in the LMICs has become a central concern among policy-makers and multi-lateral institutions. The heterogeneity of the LMICs makes it even more difficult to formulate a single system that would be appropriate for all the LMICs. There are also large intra-country variations in pension coverage in several LMICs such as China, India and South Africa.
- Three dimensions of coverage:
  - proportions of intended beneficiaries included;
  - number of risks covered;
  - level of benefits.
- Social Pensions versus Social Assistance (Holzmann et al, 2009)

# Extending Coverage: Issues

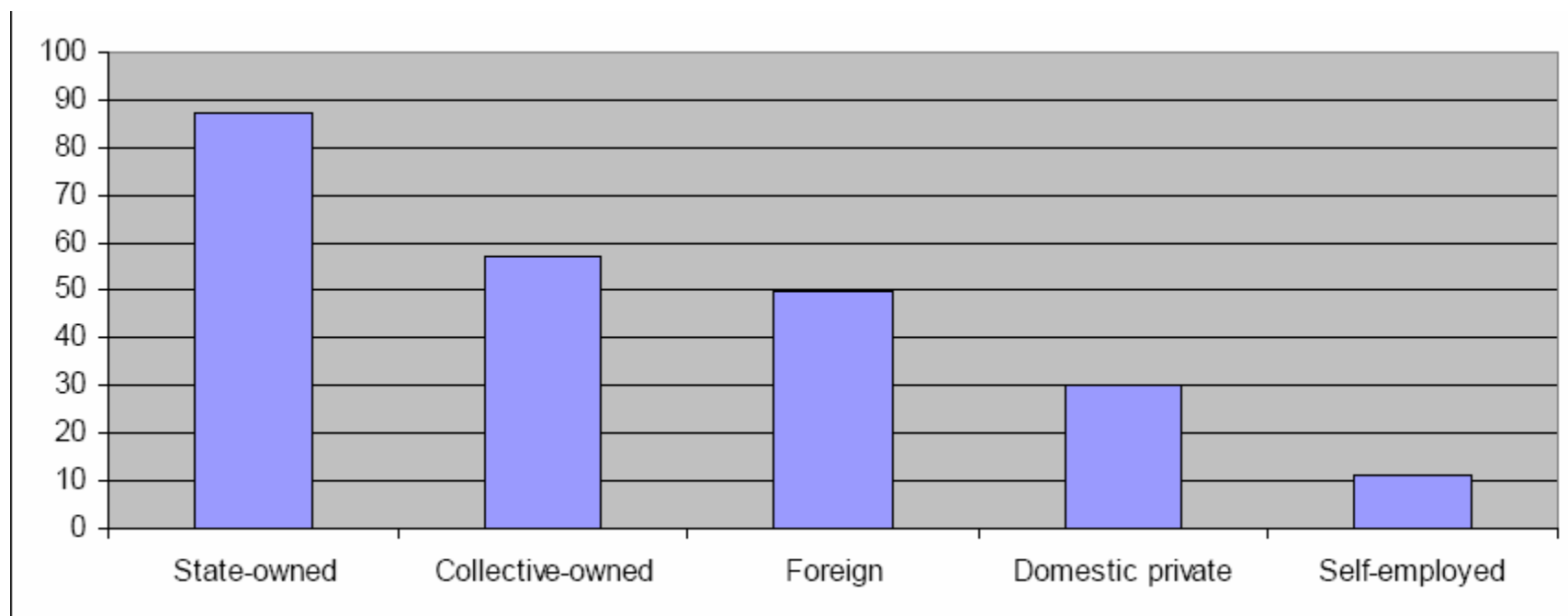
Figure 6: Taxonomy of Retirement Income Transfers



# Extending Coverage: Issues

- There is consensus that the reforms of the formal sector contributory systems are essential and are capable of improving sustainability and equity of the existing formal sector pension systems. However, such reforms are insufficient for progressing towards near-universal coverage of the pension systems.
- Contributory and non-contributory retirement income transfers will need to be interlinked for extending the coverage, while achieving high degree of effectiveness, and a balance between needs of the elderly and needs of the non- elderly.
- Uneven coverage of formal social security systems across different sectors also is an issue. This is the case, for example in China.

Figure: Pension coverage rate of urban enterprises in %



Source: Hu, Yuwei, 2011.

# Extending Coverage: Issues

- The large informal sectors in the LMICs, which are likely to persist, make it unlikely that OECD's experience of progressively larger formal sector leading to near-universal coverage can be repeated in the LMICs. Thus the coverage gap issue in the LMICs must be viewed from a larger developmental perspective, with greater focus on the objective of mitigating poverty in old age.
- There has been large internal as well as cross-border migration in Asia-Pacific. How to provide social security coverage, or at the minimum better working conditions for the foreign workers, has become an important aspect of extending coverage.



# Avenues for Extending Coverage

- Given the preceding analysis, Asian countries have following options to strengthen social protection systems. These will need to be multi-tiered, though the relative weight of each tier will depend on the specific context, capabilities, and objectives of the country.

# Avenues for Extending Coverage

- ***Avenue # 1: Modernizing and professionalizing existing formal social security organizations in performing core functions.***
- Each provident and pension fund must perform five core functions with reasonable degree of competence and efficiency (Ross, 2011).
  - reliable collection of contributions, taxes and other receipts (including any loan payments in the security systems);
  - payment of benefits for each of the schemes in a timely and correct way;
  - securing financial management and productive investment of provident and pension fund assets;
  - maintaining an effective communication network, including development of accurate data and record keeping mechanisms to support collection, payment and financial activities;
  - production of financial statements and reports that are tied to providing effective and reliable governance, fiduciary responsibility, transparency, and accountability.

# Avenues for Extending Coverage

- Select Examples:
  - Countries such as China, Thailand and Malaysia have become more aggressive and professional in investing social security funds. These initiatives could potentially lead to higher returns though the risks have also increased. How to productively invest pension fund assets will remain a major challenge.
  - Social security organizations of several Asian countries such as the Singapore, and Malaysia have been making increasingly sophisticated use of information technology to improve administration and compliance efficiency, and to generate management information systems which are conducive to better decision making.
  - Saving on administrative costs can improve coverage, and increase the financial and economic sustainability of the provident fund. This is suggested by the Philippines example, even though it has leveraged technology well (Table 6).

**Table 6: Indicators of Pension and Provident Fund Administration  
Performance in Selected Asian Countries**

Variable	Employees Provident Fund Organization (EPFO), Malaysia (2009)	Social Security System (SSS), Philippines (2008)	Central Provident Fund (CPF) Singapore (2009)	Employees Provident Fund Organization (EPFO), India (2009)	Social Security Organization (SSO), Thailand (2006)
Operating expenses as % of gross investment and other income	3.57	6.84	2.48	N.A.	N.A.
Operating cost as % of funds under management	0.21	2.87	0.09	0.31	0.77
Operating cost as % of gross contributions	2.30	9.72	0.77	2.0	3.61
Number of employers registered per social security organization employee	85.1	198.6	85.0	29.4	62.75
Number of members registered per social security organization employee	2316.6	6638.0	2436.2	2413.0	1479.90
Number of active contributors per social security organization employee	1086.5	N.A	1217.3	N.A.	N.A.

Source: Estimates by the author from the annual reports of the respective organizations.

# Avenues for Extending Coverage

- ***Avenue # 2: Parametric and/or systemic reforms of some components of existing systems (including civil service pensions)***
- Many provident and pension fund schemes were set up at the time when economic environment, growth strategy, demographic and labor market trends were different. For example rapid ageing due to higher life expectancy and lower fertility rates combined with increasing urbanization, are a relatively recent phenomenon.
- This however is not reflected in the parameters or the design of civil service pension scheme; and in national provident fund designs and implementation.
- Select Examples:
  - India has shifted from a Defined Benefit (DB) system of pensions to a Defined Contribution (DC) system for newly recruited civil servants. This is a major systemic change.
  - Singapore has introduced a deferred annuity scheme called CPF Life to help address the longevity risk.
  - New Zealand has introduced a portable, DC scheme called the 'Kiwi Saver Scheme', to help manage additional resources needed to address longevity risks.

# Avenues for Extending Coverage

- Several countries such as Japan, Singapore, Malaysia are encouraging retired individuals to be at least partly active in the labor market through a variety of measures.
- Many countries such as Fiji, Philippines, and India are tightening up on pre-retirement withdrawals from the provident and pension schemes. This will ensure that power of compound interest is harnessed for a longer period.
- South Korea and Singapore are experimenting with reverse mortgage schemes to use housing equity for financing retirement.

# Avenues for Extending Coverage

- ***Avenue #3: Introducing or Expanding retirement income transfers which do not entirely depend on formal labor market relationships or entirely on contributions by members.***

# Avenues for Extending Coverage

- Select Examples
  - Thailand's 30-Baht Scheme for healthcare (introduced in 2001) has not only been continued but expanded with greater state support.
  - In stimulus packages of several countries such as China and India, there is a significant social assistance and retirement income transfer component.
  - In 2007, Beijing Municipal Government extended coverage of old-age benefit to all elderly citizens under its jurisdiction. This is an example of social pension.
  - China is experimenting with giving migrant workers same rights to welfare services as residents in small to medium cities. Fiscal position of cities will be crucial in its success, unless the central government shares some of the costs.
  - South Korea 2007 initiative expects to cover 70 percent of all senior citizens through a basic old-age pension (OAP) financed by the government



# Avenues for Extending Coverage

- Some countries, such as India have introduced co-contributory schemes for informal sector workers to provide for some aspects of social protection during retirement. These are usually not mandatory.
- Indonesia's 2004 SJSN Law stipulates that the government will bear the social insurance premiums for low income individuals for retirement and healthcare. The financing however has not been specified. The Law has not been implemented as yet (August 2011).
- China has expanded rural pension scheme on a co-contributory basis, with plans to achieve full coverage by 2015. This is a voluntary scheme, and the response is still not clear.
- Several states in India have introduced co-contributory pension schemes. The National Pension scheme, mandatory for civil servants, have been extended to informal sector workers on a voluntary basis, with some co-contributions by the central government.

# Avenues for Extending Coverage

- ***Avenue #4: Others***
- Countries have been adopting wide variety of measures to expand coverage. They cover voluntary schemes, micro pensions, conversion of physical property into retirement income streams, and others.
- Select Examples
  - In some cases for instance in India, welfare funds are set up for specific occupation groups to provide retirement income and healthcare benefits.
  - Countries such as China, India, Malaysia, Thailand and the Philippines are encouraging occupational private pension plans and/or individual retirement accounts to broaden the sources of retirement financing and risk sharing.
  - Countries such as Bangladesh, India and Indonesia are encouraging linking of pension with microfinance. Policy makers hope that this will also assist in enhancing financial inclusion and strengthen social cohesion.

# Avenues for Extending Coverage

- Singapore has introduced lease-back of public housing organized by the government; as well as government-run annuity scheme to address longevity risk.
- Instead of mandating annuities which require insurance pooling , phased or programmed withdrawals have been experimented with, in some countries.
- In Korea a reverse mortgage scheme that enables conversion of housing assets into a retirement consumption stream, is being attempted and could be a possible instrument for some individuals. More traditionally, however, the expectation of inheritance of land and property by the children has functioned as an implicit family contract for supporting the elderly.
- Totalization agreements, and portability of provident and pension fund organizations is another avenue through which many Asian economies can extend coverage.

# Extending Coverage: Challenges

- **Professionalism:** It is imperative that the five core functions of provident and pension funds identified above must be undertaken with greater professionalism than has been the case so far in many Asian countries.
- 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.

# Extending Coverage: Challenges

- **Systemic Perspective:** There are three aspects
  - Complementary Reforms in other areas such as labor markets, fiscal policy and financial and capital markets.
  - Multi-tier framework (for eg. 5-tier framework of the World Bank) to provide social security. While such a framework may have theoretical limitations, it is essential for managing risks of financing old age in any realistic political economy setting, particularly in Asia. The relative weight of each tier however may vary from country to country.

# Extending Coverage: Challenges

- Need to consider Pension and Healthcare Financing arrangements in an integrated manner.
- **Transition Issues:** These involve not just technical aspects, such as treatment of accumulated pension rights, but also the issues concerning perceptions of fairness and legitimacy of pension reform.

# Extending Coverage: Challenges

- **Structuring the Pay-out Phase:** how to provide longevity and inflation risk mitigation risk throughout the retirement period remains a major challenge for Asian policy makers. More innovative approaches such as phased withdrawals, rolling annuities and perhaps Notional Defined Contribution method merit consideration.
- **Pension Regulator:** Regulation is a public good which the government has the responsibility to provide. Failure of regulation could lead to large contingent liabilities for the state. It may also contribute to systemic risk as the current global financial and economic crisis so vividly demonstrates.

# Extending Coverage: Challenges

- **Financial Education:** Asian countries need to make much more systematic efforts in promoting financial education. Such education is needed at all levels, general public, officials and trustees of provident and pension fund organizations, those involved in designing, marketing and advising of pension products, media and the policymakers.



# Extending Coverage: Challenges

- **Indigenous Research Capability:** The countries in Asia need to substantially enhance their capacity to undertake rigorous empirical evidence based policy-relevant research on pensions and healthcare issues.
- This will require considerable strengthening of the existing database on morbidity and mortality patterns; and behavior of individuals and firms concerning saving, and retirement.

# Extending Coverage: Challenges

- **Broadening the concept of social security:** The concept of social security will need to be broadened considerably to include social safety nets such as employment guarantee schemes, assistance for food by various stakeholders, etc. In some countries, such as India, employment guarantee schemes such as the National Rural Employment Guarantee Act (NREGA) have been expanded considerably.
- The primary emphasis for a significant proportion of the population will be on poverty mitigation and basic health-care provision. The importance of the state is evident in extending coverage through such schemes.

# Extending Coverage: Challenges

- **Better Budgetary Outcomes from Outlays:**
- More efficient delivery of basic public services, such as primary health care, public health and sanitation facilities, and in providing pensions; and minimizing leakages in benefits arising from excessive administrative costs, or benefits going to the wrong people, including the deceased, or benefits going to those who are not eligible, etc. will be important in many developing Asia-Pacific countries.
- The fiscal and governance reforms will therefore be indispensable elements of extending social security coverage.

# Concluding Remarks

- The extent to which Asia succeeds in addressing its social security challenges will have a profound impact not only in Asia, but globally.
- Asia will exhibit rapid ageing before most Asian countries, including India and China, become high-income economies.
- The current global economic crisis has increased the urgency of social security reforms, particularly extending the coverage as they have become imperative for social cohesion and political legitimacy.
- Large informal sector in many Asian countries especially complicates the task covering a substantial proportion of the population under social security programs. But there are ways to gradually extend coverage.
- The reversibility principle has become more important given the large numbers of elderly in many countries. This principle suggests that countries should not prematurely lock themselves into pension schemes from which any reversal would be costly. Civil service pensions in many countries provide a good example of the need for such caution.

# Concluding Remarks

- Economics of social security is subtle and therefore its analytical and conceptual foundations must be clearly understood (Barr and Diamond, 2008).
- Social security systems represent a complex logistical task, even more so for those Asian countries with large populations such as China, India and Indonesia.
- Provident and Pension funds must be sustainable and robust for over a long period of seven to eight decades.

# Concluding Remarks

- Social security programs exhibit tyranny of small numbers.
- As a result, even a small change in variables such as life expectancy, permitted age at which full pension can be withdrawn, real rate of return, administrative costs and other taxes in both the accumulation and payout phases, could have a disproportionate impact on the financial viability and on the extent to which objectives are realized.
- Social security reform also requires concomitant reforms in other areas such as labor markets, fiscal management, and capital and financial markets.

# Concluding Remarks

- Asian policy makers and stakeholders must accord much higher priority to social security reform.
- There is currently no developing Asian country where quality graduate level academic and professional programs on social security are given due importance.
- Asian countries also lack adequate indigenous research capabilities, robust data bases necessary for high quality research, and for price discovery of retirement products. These gaps also need to be urgently addressed.

# Concluding Remarks

- The challenges of ageing in Asia are too immense and complex to delay building such capacity, and not adopting a mind-set which translates research findings into timely policy measures.
- There is need to initiate high quality public debate on pension reform domestically and internationally.
- Asia should also consider setting up a social security forum to exchange experiences and strengthen technical capabilities.



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