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Thailand social protection diagnostic review

Summary: Review of the pension system in Thailand

ILO Country Office for Thailand, Cambodia and Lao People's Democratic Republic

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A new report prepared by the ILO concludes that the Thai pension system requires a comprehensive reform to prepare for demographic, economic and societal changes over the coming decades. The report, which is a component of a broader Social Protection Diagnostic Review (SPDR) that the United Nations (UN) is jointly carrying out with the Government of Thailand, aims to provide analysis of the existing pension system and recommendations that can contribute to ongoing national policy discussion on pension policy.

An effective pension system will be key to adapt to an ageing population, and support recovery from the COVID-19 pandemic. As a result of rapid demographic ageing and other social transformations, future generations of older people will be less able to depend on their children for financial support than has been commonplace. The pension system is key to addressing to providing income security today and in the future, and will be essential to the development of a "silver economy". Pensions, as part of the wider social protection, will also be key to supporting households to recover from the economic shock of COVID-19.

The current pension system in Thailand has important strengths. The near-universal old-age allowance (OAA) ensures that the vast majority of older persons receive at least some income. The scheme has made an important contribution to reducing poverty for older persons and those they live with. Meanwhile, around 40 per cent of workers contribute to pension schemes under the Social Security Office (SSO), which provide a solid framework for adequate earnings-related benefits.

Nevertheless, the system also faces important challenges in relation to coverage, adequacy, financial sustainability and coherence.

- **Coverage:** While the OAA provides a universal guarantee in old age, the majority of workers in Thailand are not covered by a contributory pension scheme. This is strongly linked to the structure of the labour market, with high levels of self-employment, but also factors in the design and implementation of contributory pensions which leave an important share of employees uncovered. A further challenge is the fluid nature of the Thai labour market, with workers moving between formal and informal employment over time.
- **Adequacy:** Three key issues stand out:
    - **Despite its high coverage the benefit level of the OAA is low by both national and international standards.** The benefit (between 600 and 1,000 baht (B) per month depending on age) falls well below national and international poverty lines and is one of the lowest social pension benefits by international standards.
    - **Various factors limit the adequacy of Social Security Fund (SSF) benefits.** Particularly important is the salary cap on contributions which significantly limits benefit levels. Other issues adequacy include low retirement ages, the nature of the pension formula and the fact that pension benefits are not indexed to inflation or wages once a member retires.
    - **Savings schemes such as the National Savings Fund and article 40 of the SSF will provide low benefits in most cases.** Lump sum benefits also exist across the pension system, which provide a very limited level of income security.
- **Financial sustainability:** Pension spending is low in Thailand by international standards, but immediate action is required to ensure the system expenditure remains appropriate and equitable as the population ages. Two thirds of existing expenditure is allocated to civil servant pensions and vigilance is required to ensure this remains proportional to the strategic priorities of the national budget. With regards to the SSF, gradual adjustments to parameters including retirement age and contribution rates are required to ensure the scheme remains on a strong financial footing, but there is strong precedent for such changes in other countries in similar circumstances.
- **Policy consistency:** There is significant fragmentation of the pension system, with individual schemes targeting different categories of workers. This architecture does not reflect or accommodate the mobility and dynamism of the Thai labour market and the high levels of non-standard work and self-employment, yet it has a direct impact on the level of benefits individuals will receive at retirement.

The report proposes the development of a national strategy that sets out the vision for a multi-tier pension system. This should articulate the function, financing and interaction of pension schemes in Thailand and guide ongoing adjustments to the pension system in a way that ensures policy consistency. A multi-tier system should move away from fragmented arrangements to multi-layered schemes that can adapt to changing interactions with the labour market throughout workers' lives. The report sets out a broad shape of the main tiers that a system would comprise:

- **Tier 0: A minimum pension floor** provided by a strengthened OAA and complemented by the state welfare card (SWC) and other tax-financed benefits.
- **Tier 1: Guaranteed earnings-related benefits** via SSF pensions extended to a broader share of the labour force, and supported by ongoing adjustments to ensure adequacy and sustainability,
- **Tier 2:** Harmonized complementary savings, building on the National Savings Fund (NSF), Government Pension Fund (GPF), provident funds and the proposed National Pension Fund (NPF) to provide a clear, coherent and effective landscape for individuals' savings.

The report also proposes immediate reforms focused on boosting pension adequacy, building faith in the pension system and supporting households through the economic recovery from COVID-19. In particular:

- **Increase the value of the old-age allowance** (OAA) to provide a more meaningful pension guarantee and an economic stimulus to support households in recovering from the crisis.
- **Make parametric adjustments to SSF pensions** to increase pension adequacy and support the fund's sustainability, including by (a) increasing the wage ceiling of the scheme; (b) providing for periodic payments for workers with shorter contribution histories than the current 15-year requirement; and (c) initiating a process to gradually increase the retirement age.
- **Postpone the roll out of the proposed National Pension Fund** and locate its roll out as part of a more systematic pension reform. A major risk of the current proposal is that the relatively high contribution rate risks crowding out the necessary increase in contributions to put the SSF on a stable financial footing in the long term.

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