

DECENT WORK

A better world starts here.



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Labour
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Pensions: Basic Concepts and international debate

Bogor, Indonesia
6 March 2017



Situation of the elderly



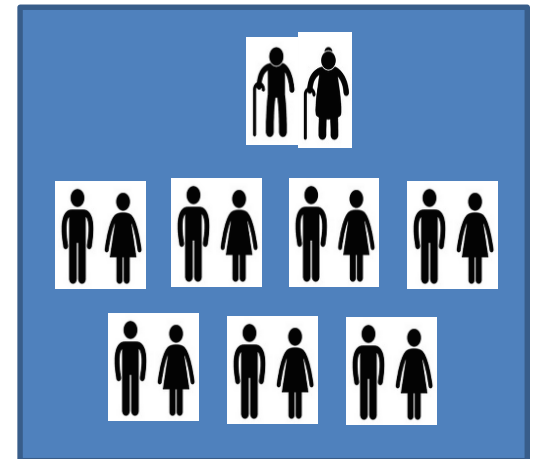
- Reduced capacity to work
- Low income or no income at all
- Deteriorating health conditions
- Suffering from partial or full disability

Income support historically guaranteed by families or communities



Voluntary saving
in kind (cattle,
crops, land,
house) and in
currencies

- Different demographic framework
- Different urban/rural distribution
- Solidarity related with proximity was a key element to cope with risks



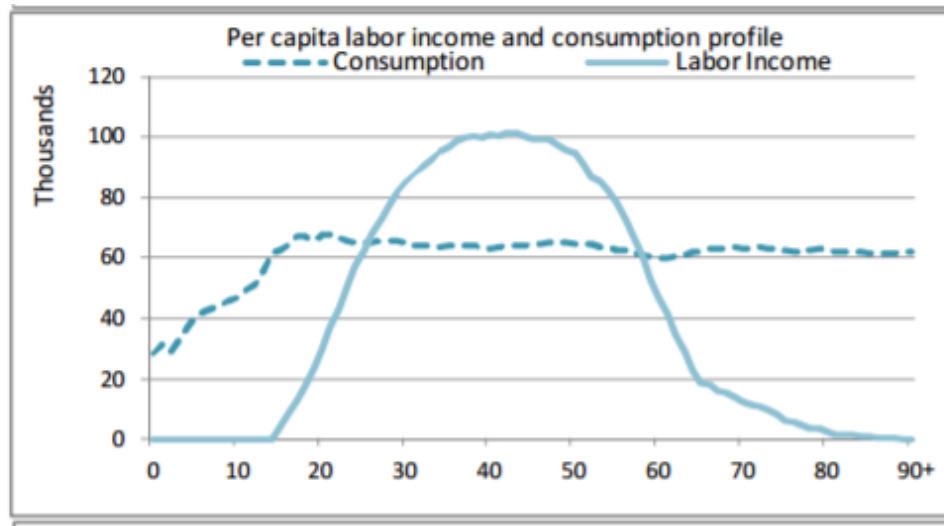
URBANIZATION AND DEMOGRAPHIC NEW SET OF CHALLENGES

- Next stage:
 - **Enterprises began providing pension insurance**
 - mainly to tie workers to the workplace
 - ensure companies could renovate their workforce
- Either they:
 - financed provisions, at and after the point of retirement
 - Paid contributions for their workers into individual accounts outside the enterprises' accounts

BIG CHALLENGE

- **Need of re-insurance in case of company's bankruptcy**
 - same applies for private financial institution
- **Pension is a long term financial commitment**
 - how many companies exist after 30 and 50 years?

NATIONAL TRANSFER ACCOUNTS



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

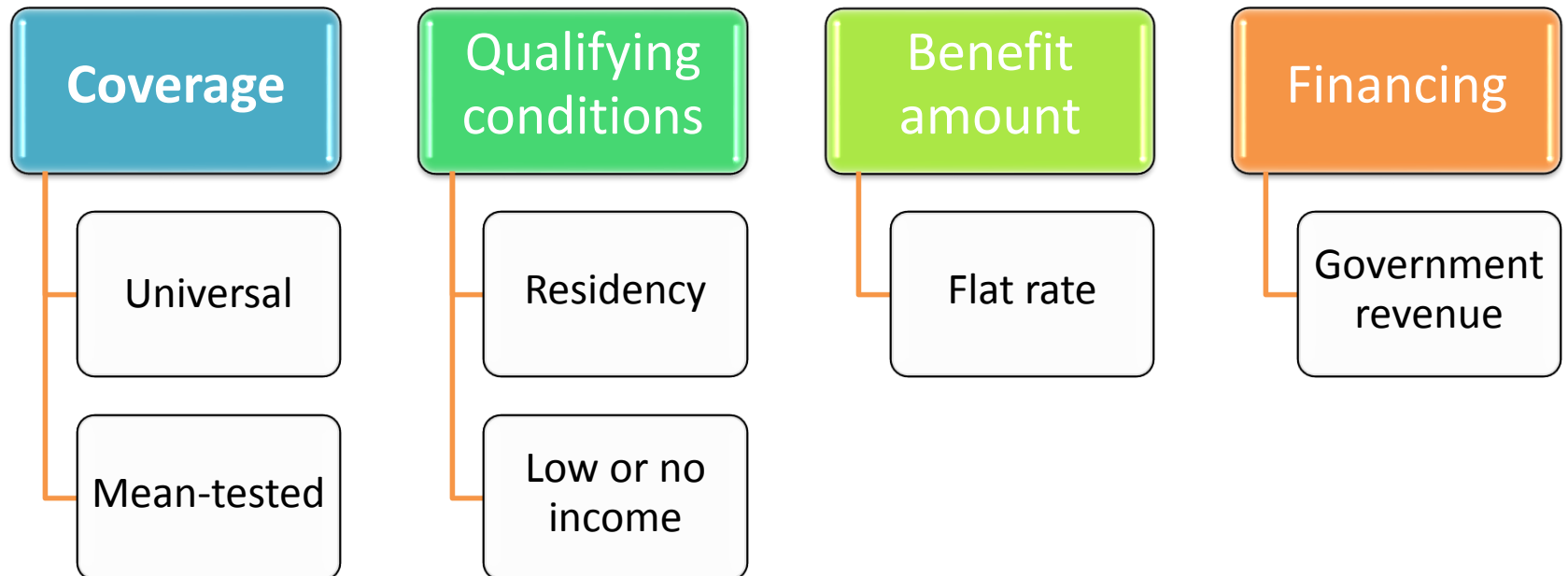
Pension systems



Pension Design:

Tax-based scheme

For those who reach or are already in retirement age but did not had the chance to contribute to their pension

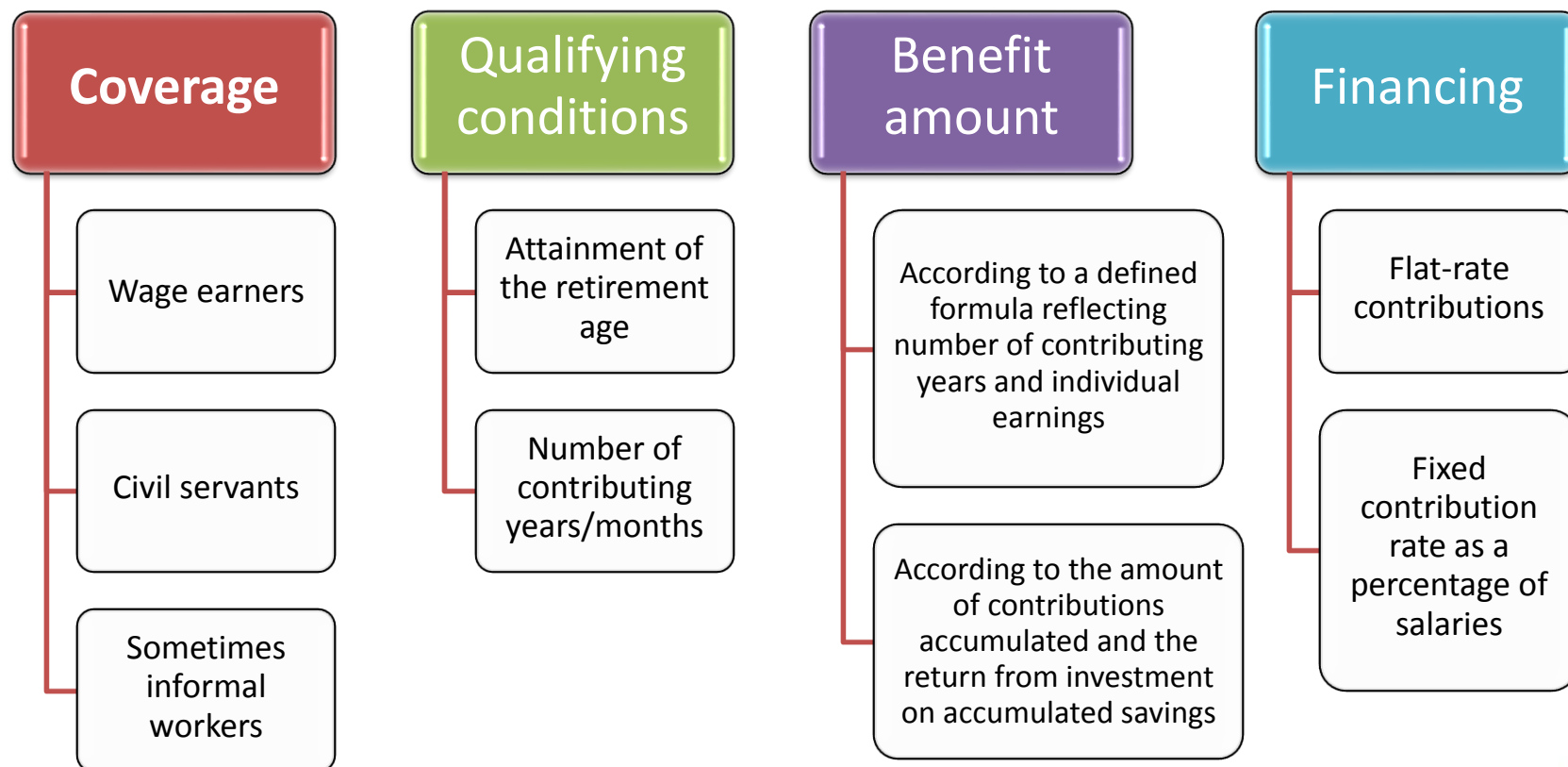




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Pension Design:

Contributory social insurance scheme



Relation between contribution and benefits

(i) Defined-Contribution (DC)

- Based on individual saving accounts
- Strong tie between contributions and benefits
- Contributions are accumulated in the account and credited with investment returns
- At the moment of retirement beneficiaries can receive a lump sum payment or can purchase annuities

Relation between contribution and benefits

Defined-Benefit (DB)

- Benefit calculation decided in laws/ regulations
- The level of benefits is determined by a **formula** that defines the relation between the **beneficiary wage history**,
- Contribution schedules planned based on future projections
- Assets are not in individual accounts but instead in a central pool

Funding Options

Fully funded

Pensions are paid out of a fund built over a period

- Pensions are based on savings:
 - contributions are invested in assets,
 - the return on which is credited to the system's fund
- DC are automatically fully funded

Funding Options

Pay-as-you-go (PAYG)

- Paid out of current contributions.
- Very low level of reserves
- Rely almost exclusively on the future contributions

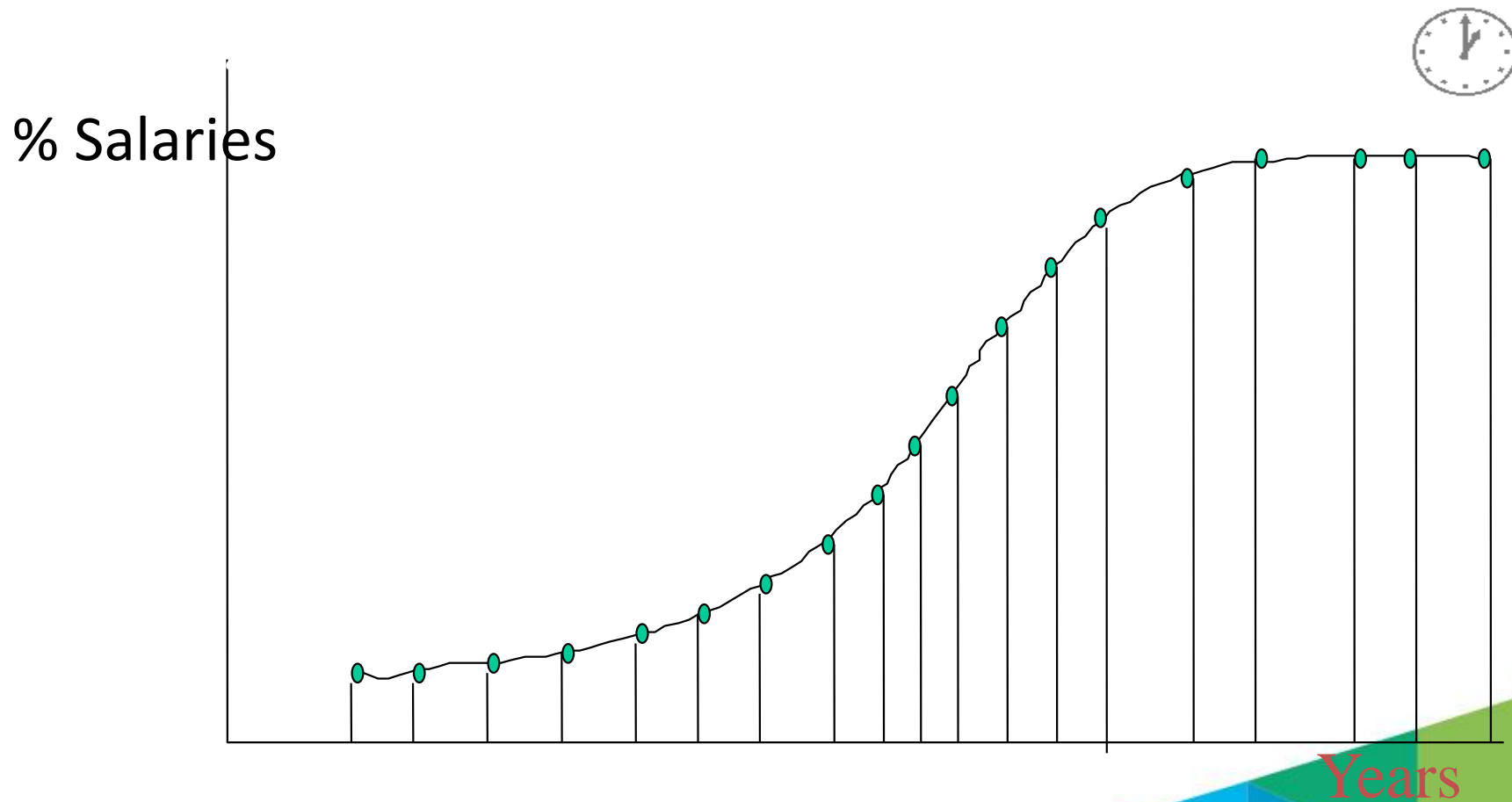
Funding Options

Partially funded

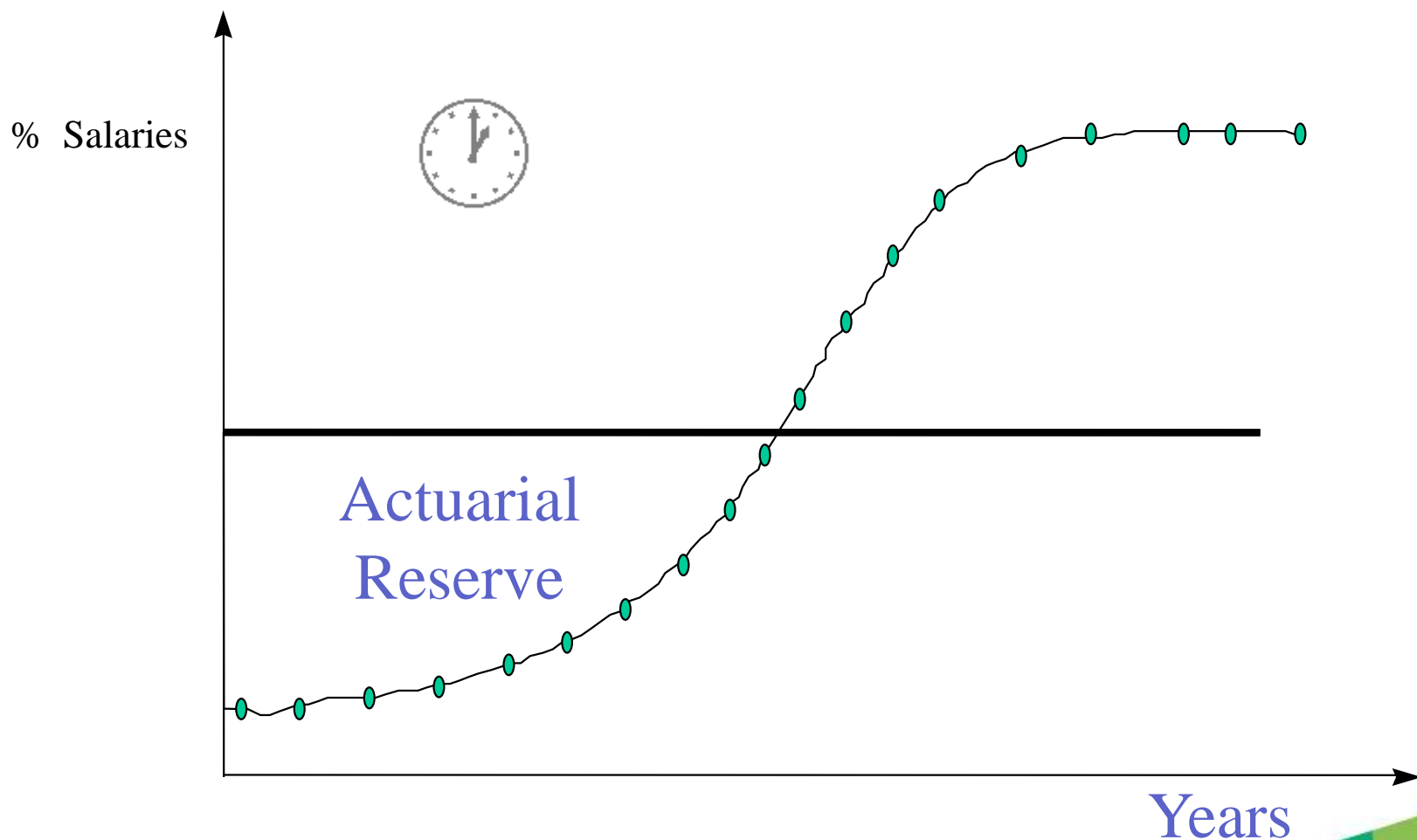
Payment of pensions are out of:

- a combination of **current contributions, returns on assets** and **sometimes their sale**
- Require a certain prescribed minimum level of reserves.
 - Less than the actuarial equivalent of all their future liabilities.
 - The reserve level can be defined by law.

In a pure PAYG model



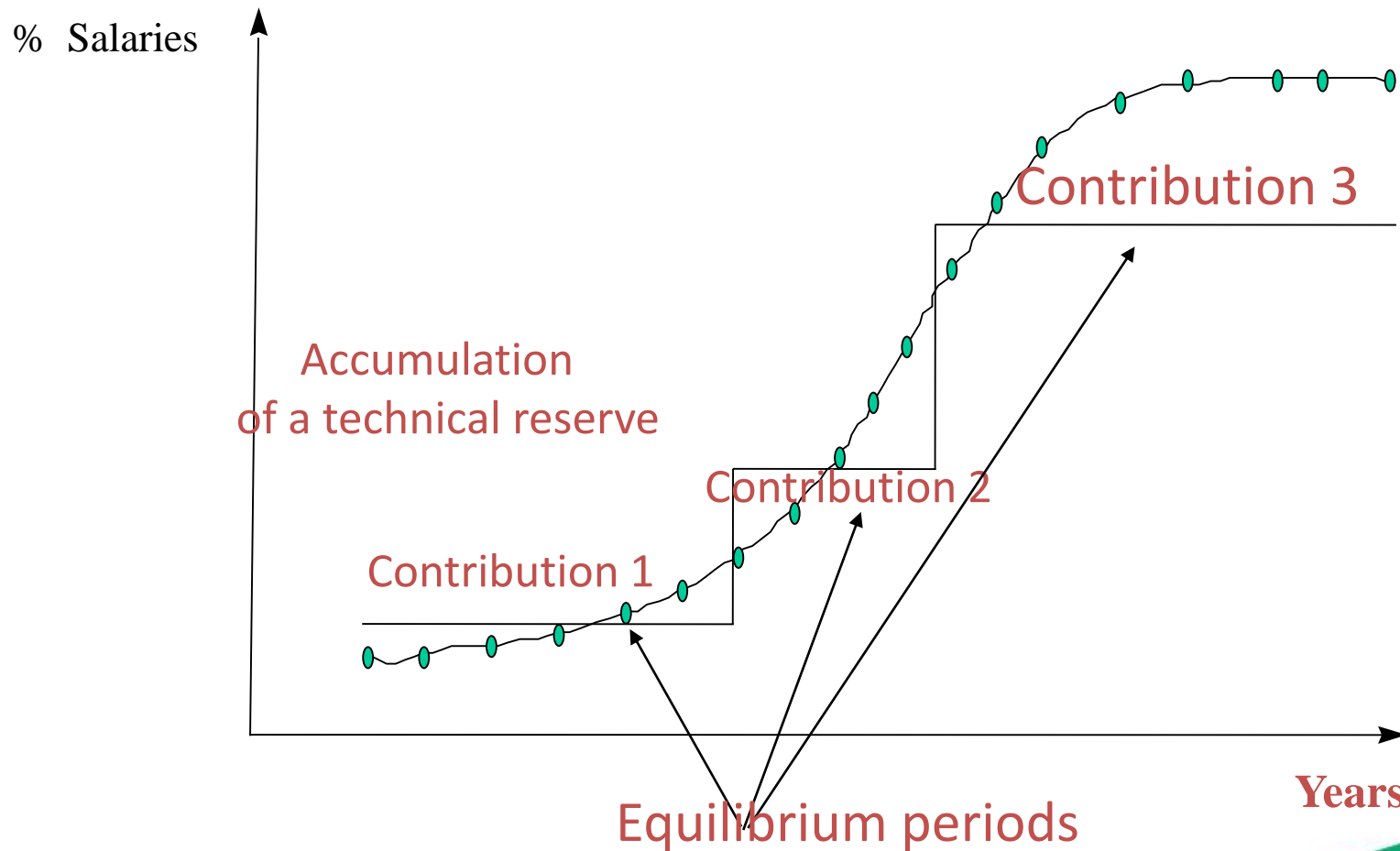
Partially funded (I) General Average Premium



Partially funded (II) – Scaled Premium System



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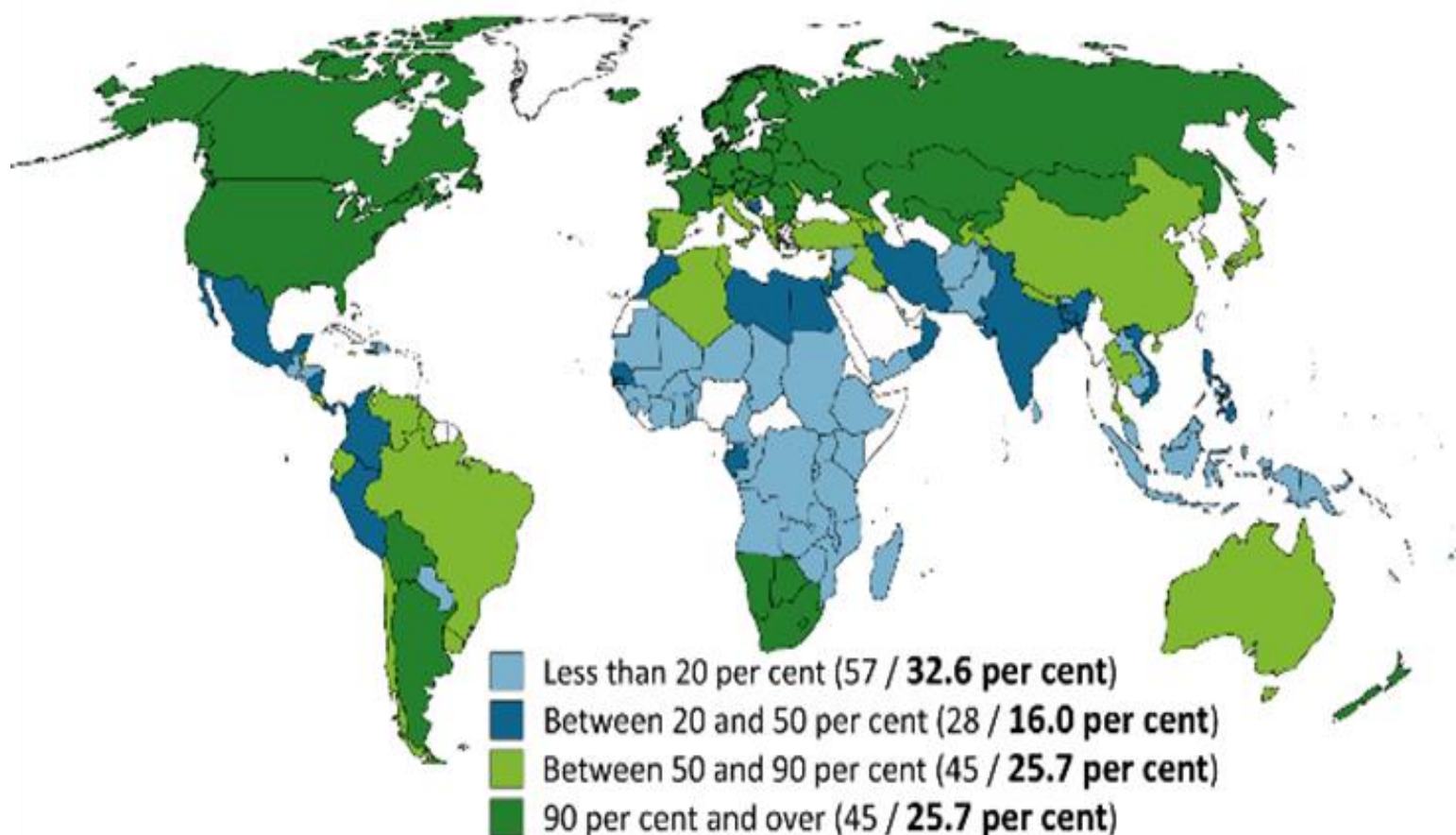


Only 51% Older Persons Receive a Pension



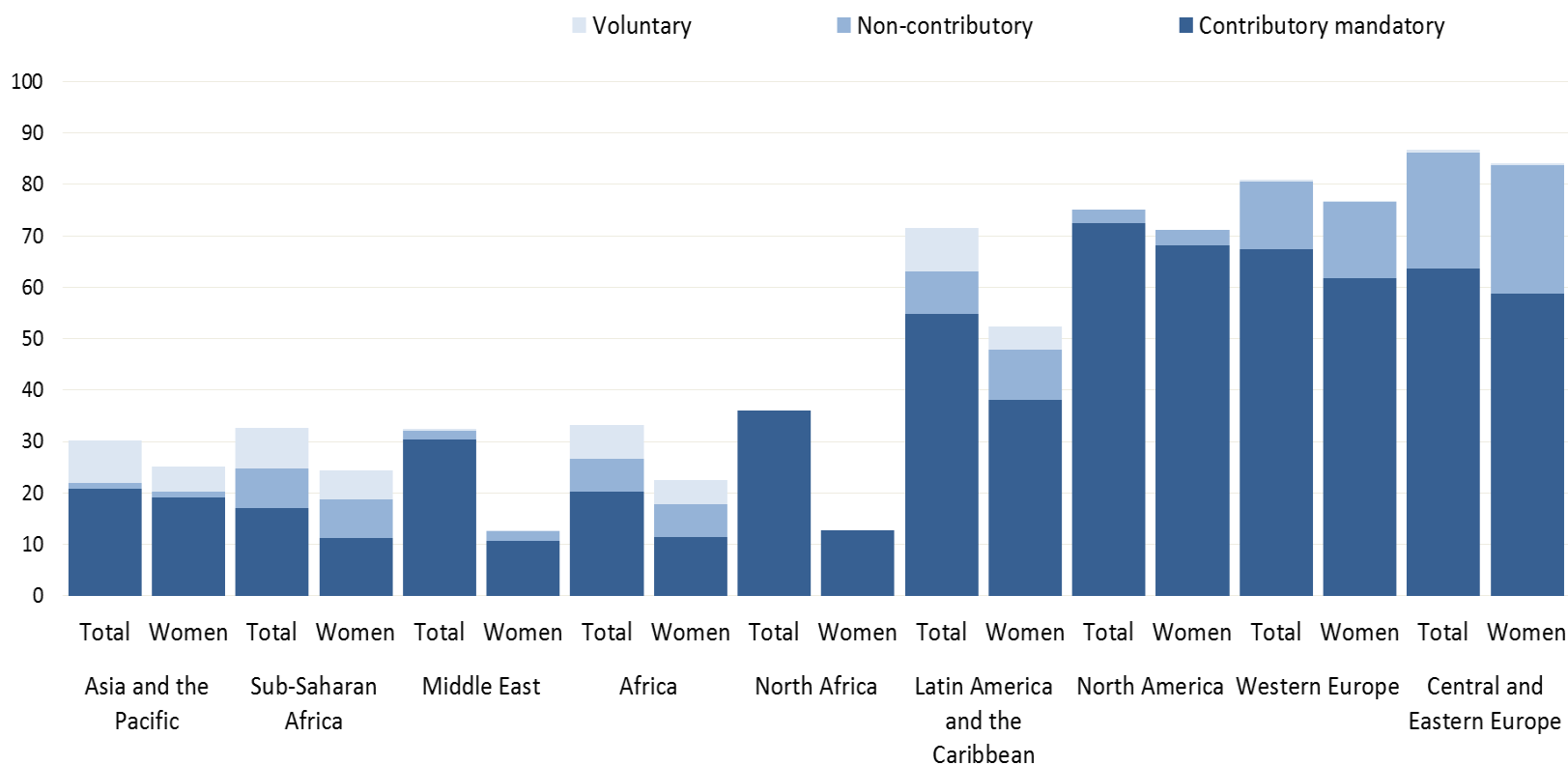
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Population above retirement age receiving an old age pension (%) | **2010-2012**



Old age pensions | Global regional estimates of legal coverage as a percentage of working age population aged 15-64 (weighted by total population)

Legal coverage as % of the working age population (15-64)





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- **Why is the coverage level so low?**



Example of the current situation in many countries– existing situation

Benefit Level (% of Average Wage)

High

Low

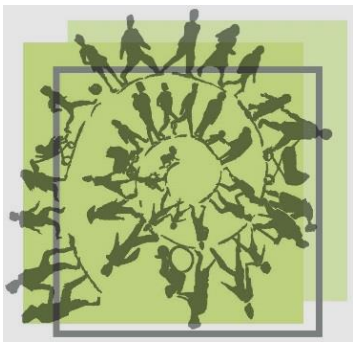
Defined benefit
Publicly managed
Mandatory
Contributory



Poorer
elderly

Individual Wage as a % of Average Wage Level

Richer
elderly



Example of the current situation in many countries – Existing situation

Benefit Level (% of Average Wage)

High

Low

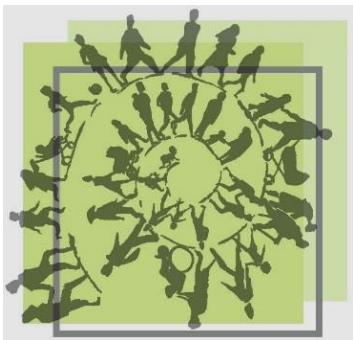
Defined contribution
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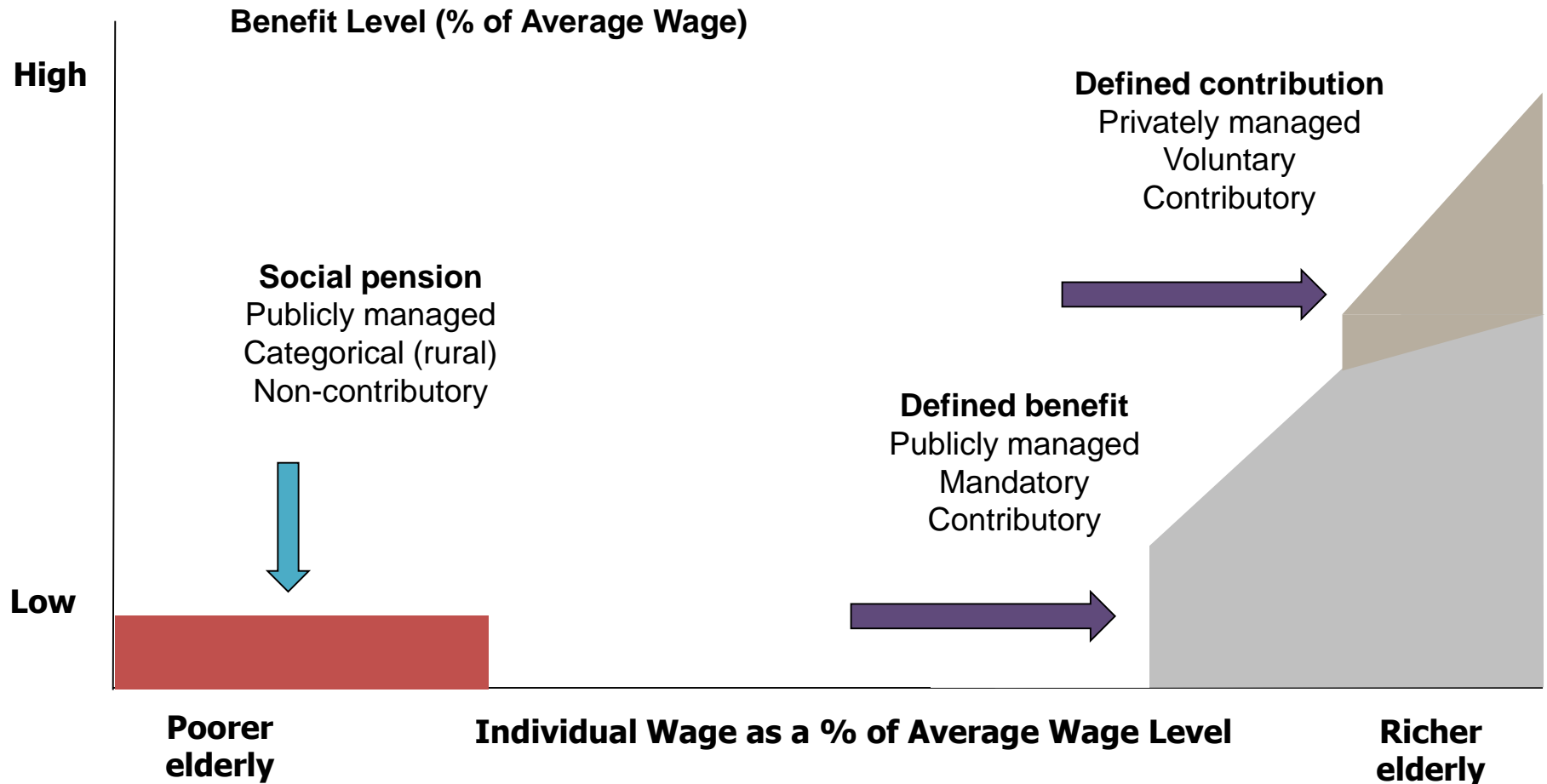
Poorer
elderly

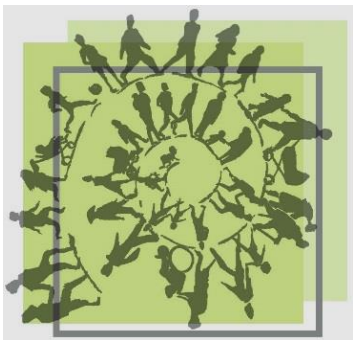
Individual Wage as a % of Average Wage Level

Richer
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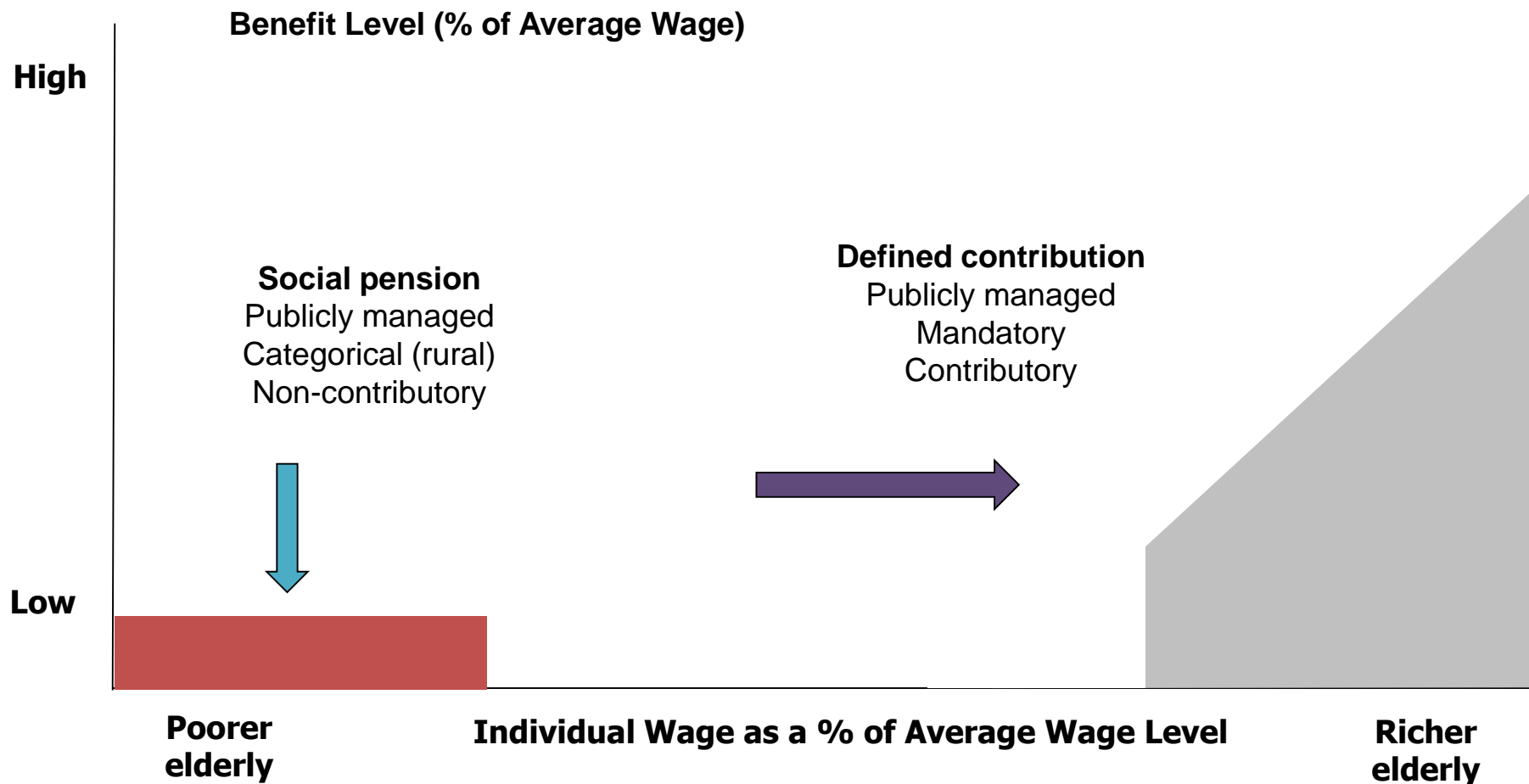


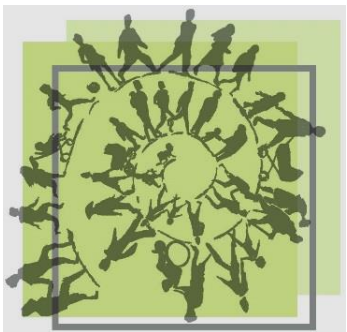
Example of the current situation in many countries– Option 1



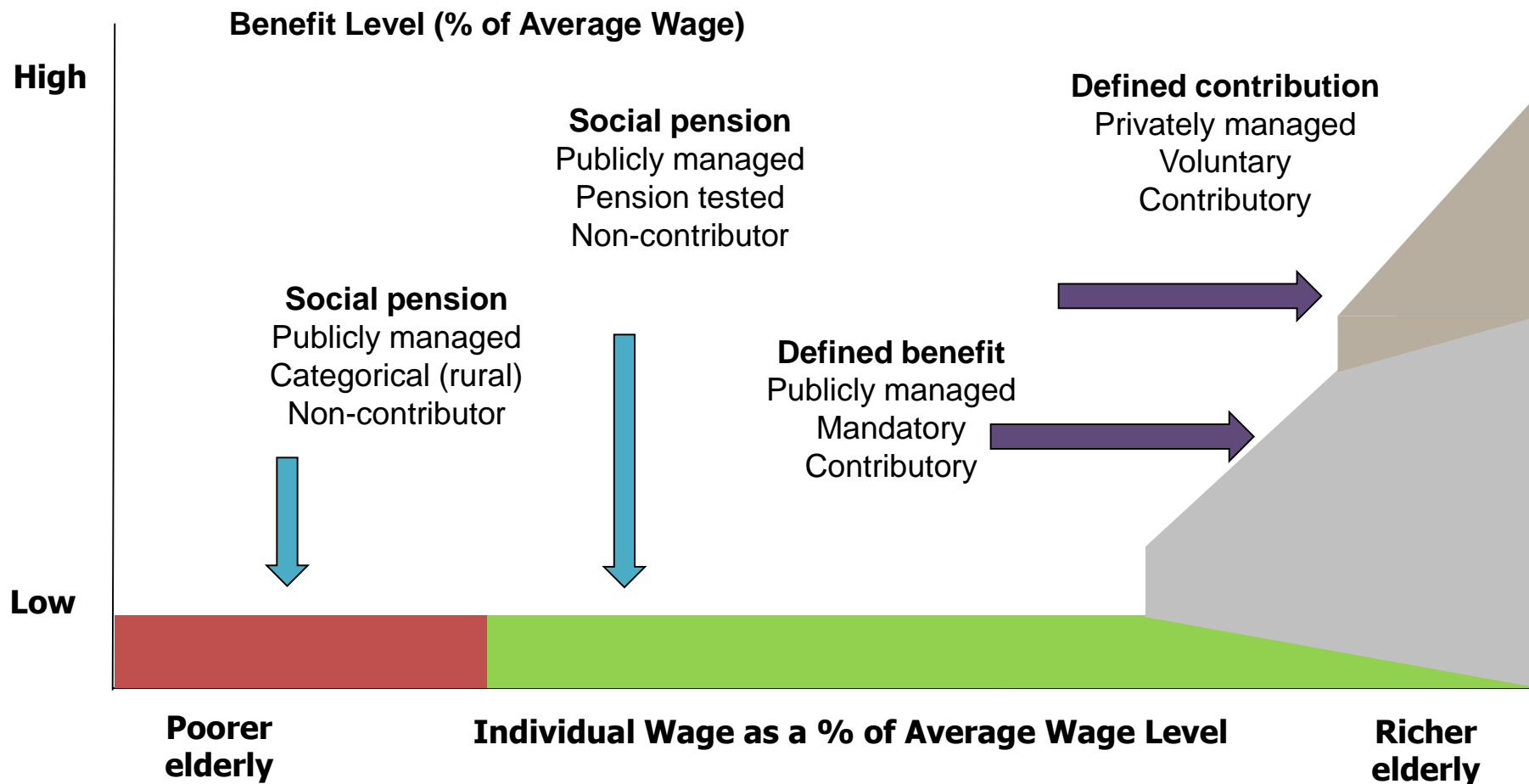


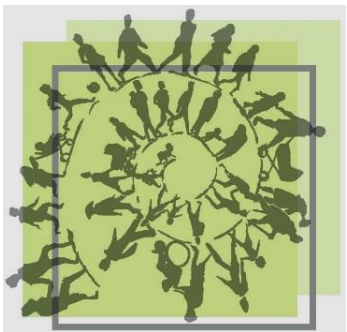
Example of the current situation in many countries – Existing situation



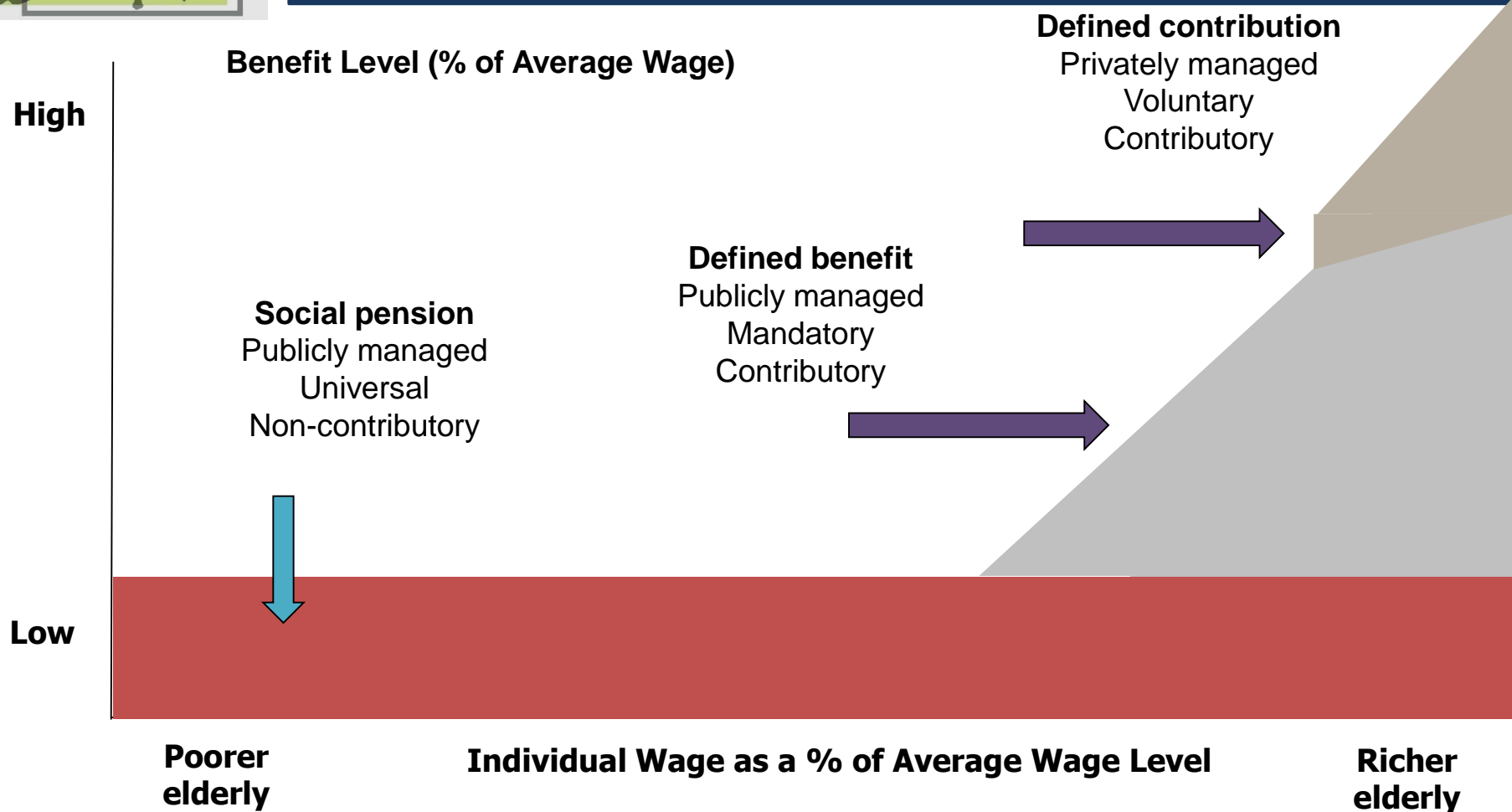


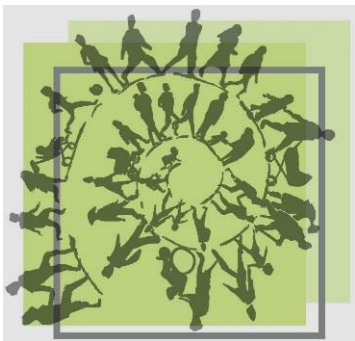
Example of the current situation in many countries– Option 2



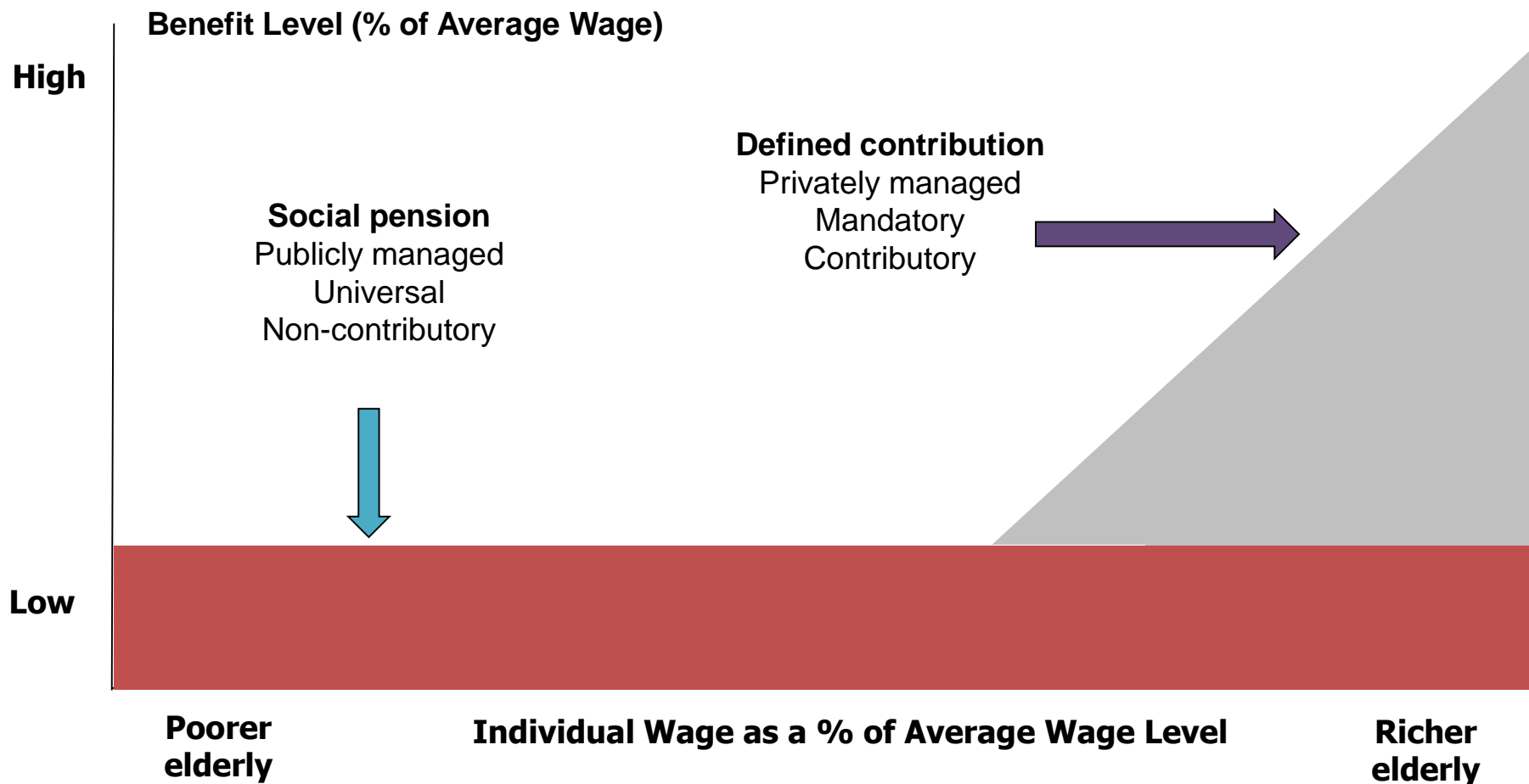


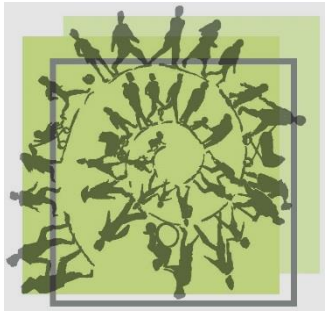
Example of the current situation in many countries– Option 3





Example of the current situation in many countries– Option 3





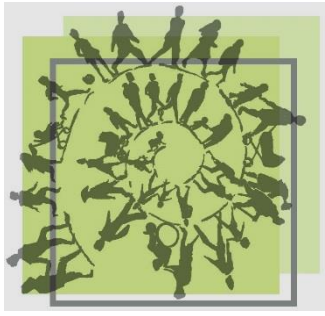
Adequacy & Sustainability

- Adequacy of retirement incomes is essentially a *microeconomic* concept:
 - operationalising it involves assessing individual pension entitlements against a benchmark.
- Sustainability is a *macroeconomic* concept:
 - it refers to the finances of the pension system as a whole



Defining Adequacy

- The adequacy of *levels of pension* is measured 'at the bottom' by its ability to prevent and mitigate poverty
- In 'the middle' adequacy is measured by its capacity to replace earned income in the last year before retirement



Adequacy & Sustainability

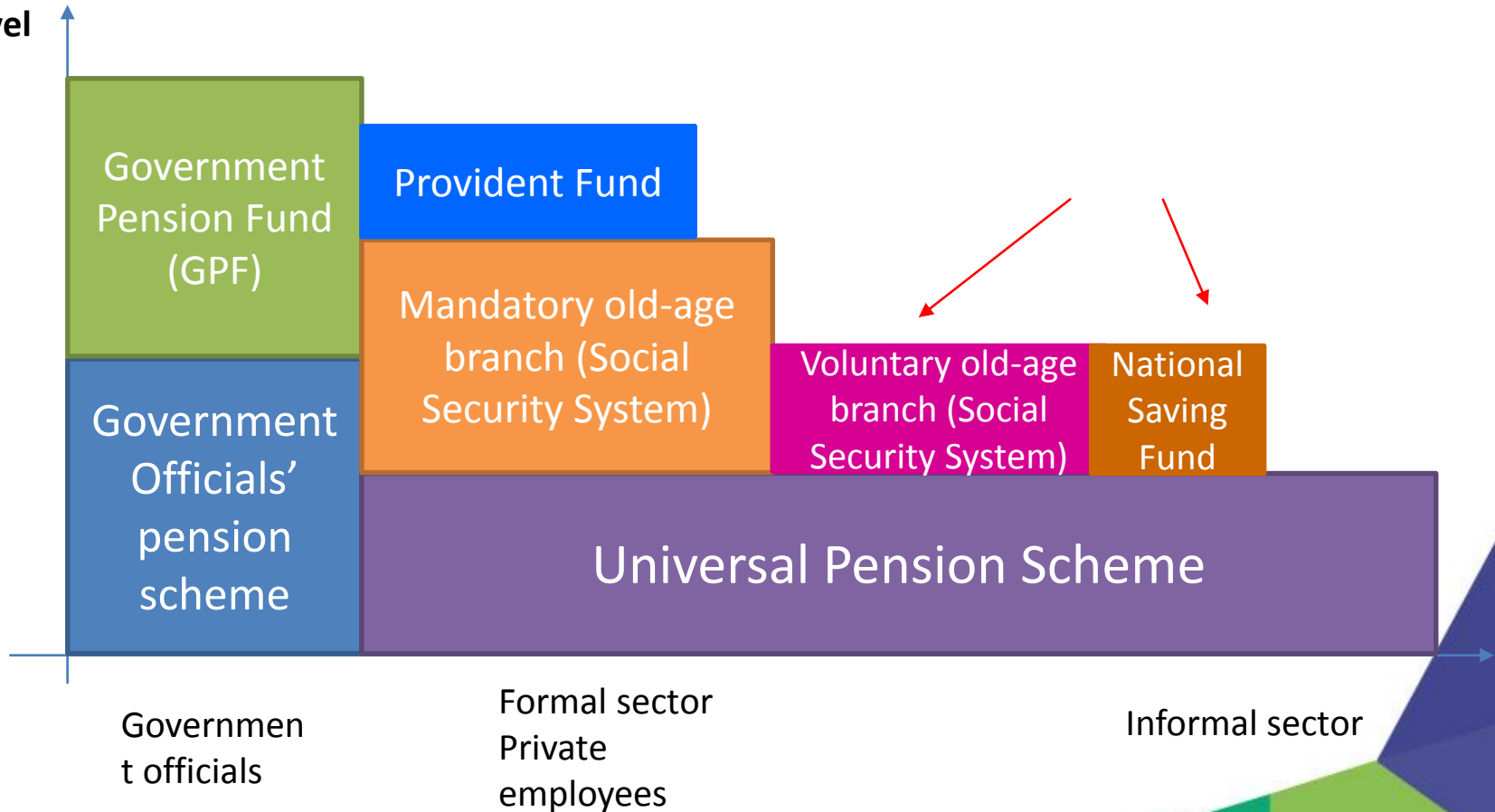
- Adequacy and sustainability are joint and interlinked objectives of social policy – two sides of the same coin;
- Adequacy/sustainability are always defined nationally as part of the broader implicit or explicit social contract
 - Adequate and sustainable is **what society agreed** as adequate and sustainable



- **SOME CONCRETE COUNTRY EXAMPLES**

Pension System in Thailand

Protection level

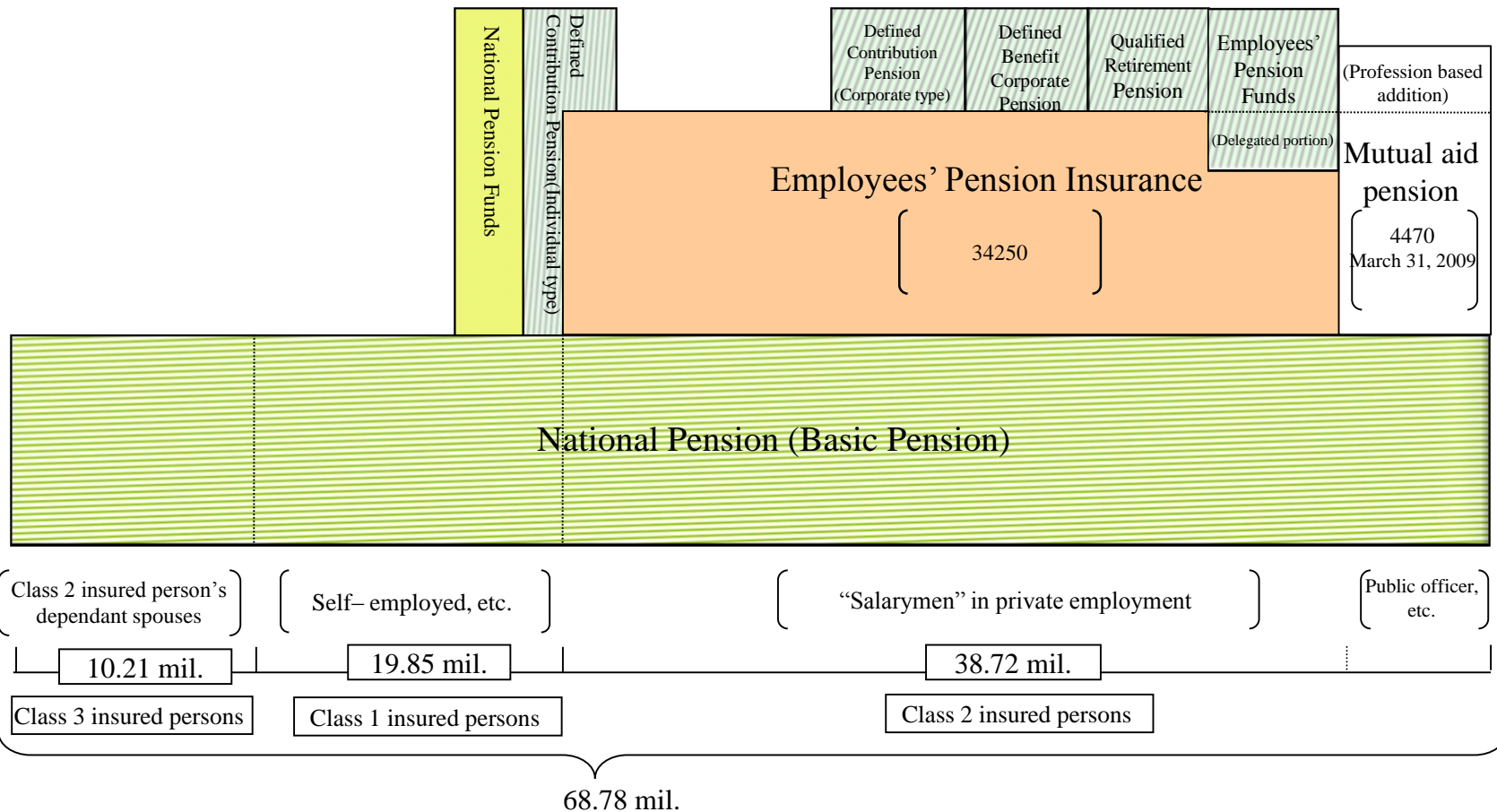


Pension System in Japan

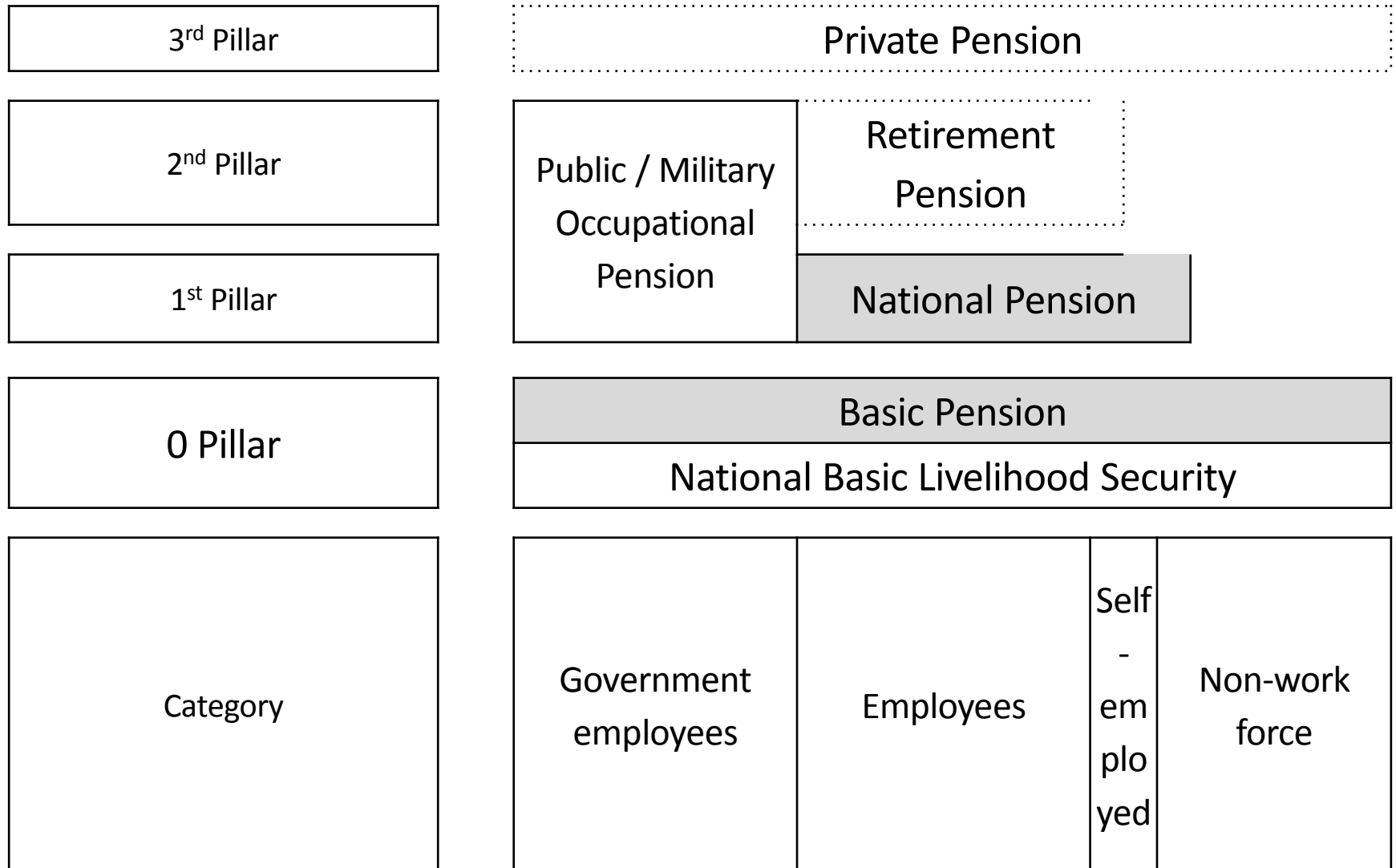
Number enrolled
Unit: thousand

(Unless otherwise noted, the figures are as of the end of March 2010)

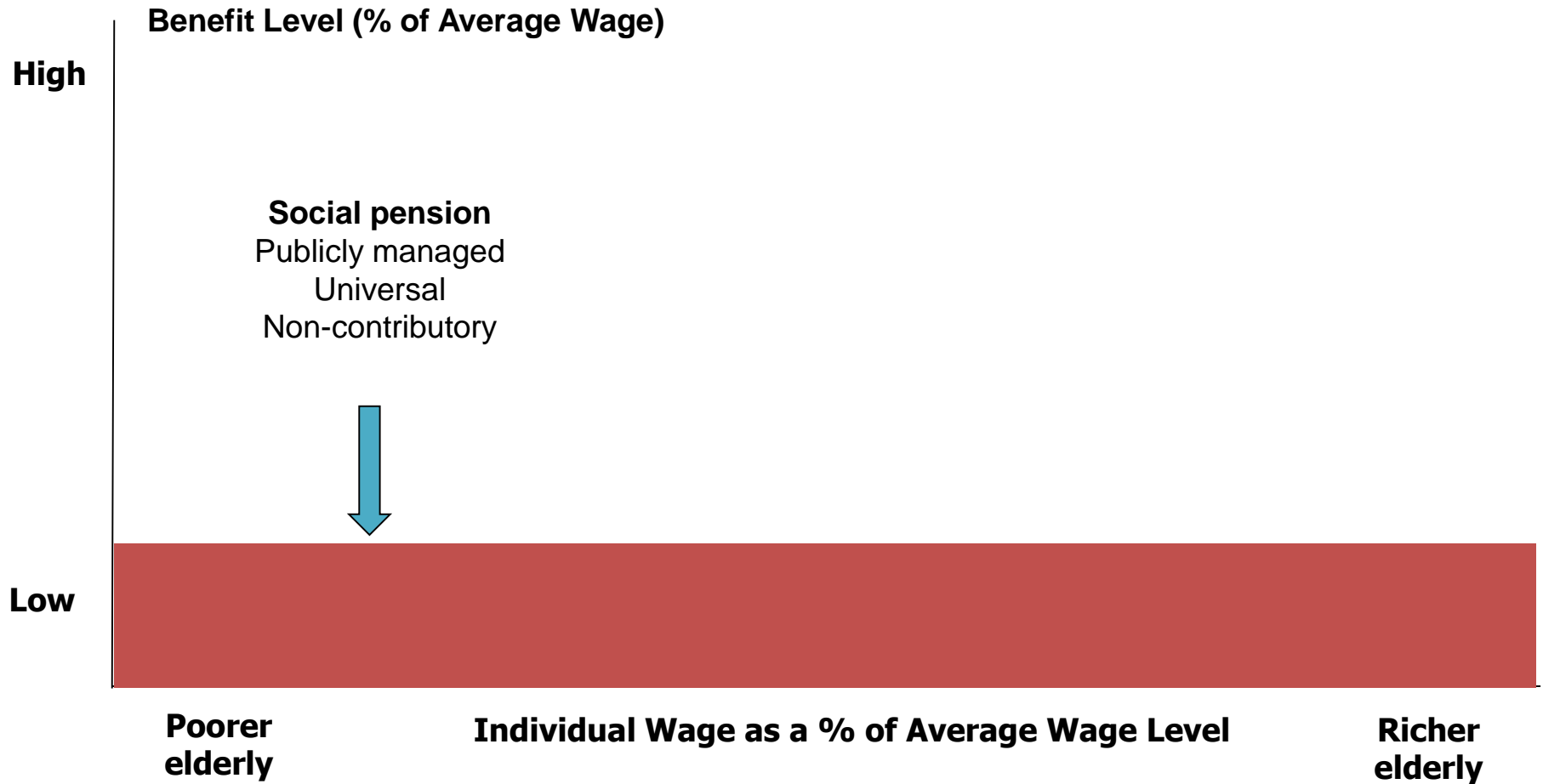
$\left[\begin{array}{c} 580 \\ 110 \end{array} \right] \left[\begin{array}{c} 3400 \\ 6470 \end{array} \right] \left[\begin{array}{c} 2500 \\ 4600 \end{array} \right]$



Pension System: Republic of Korea



Pension System: Timor-Leste





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Thank you

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