Thailand Pension Reform: Q&A

By International Labour Organization (ILO)

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What challenges does Thailand's current pension system face?

In common with a number of retirement systems around the world, Thailand's social security system faces challenges from an ageing population, and to ensure that good benefits are paid and financed correctly. There is a need for reforms to strengthen the current system rather than measures that may ultimately weaken it or the introduction of new schemes. The ILO has recommended reform measures which will significantly increase the amount of benefits within the current system.

Should members be allowed to withdraw benefits in lump sum form?

Although it may seem an attractive option, experience from other countries shows that most people are unable to manage lump sums effectively. For example, in Malaysia, 95 per cent of Employees Provident Fund (EPF) members run out of money in the first five years after retirement.

Expenses in retirement - rent, food, energy, transportation etc. - are monthly commitments. That is why it is essential that social security systems pay a regular income to those in retirement. Not surprisingly, developed economies do not base their retirement systems on lump sums but on regular pension income. This global good practice comes from the recognition that pension benefits should be paid as a monthly income and not as one lump sum. ILO Conventions also state that retirement benefits should be paid in income form.

What is the situation in the region?

It is not only in Malaysia where we see the difficulties that occur when allowing lump sum withdrawals. Singapore used to allow members of the Central Provident Fund (CPF) to withdraw their funds, but some years ago passed a reform to change this. Now, members are obliged to transform the savings in their CPF account into regular payments. Viet Nam has for some years had an option for lump sum withdrawal but is trying to limit this possibility. In most other countries, such as South Korea, Japan, China, Philippines, there is no option to withdraw social insurance funds in the form of lump sums. Based on international good practice, ILO Conventions and regional experience (where countries that have lump sums are trying to reform the system towards regular payments) Thailand would be taking a step back in the development of their social security system by allowing SSO members to access lump sums.

What if the money is used to invest in a business after retirement?

Any business investment comes with risks and there is no way of guaranteeing that investing in a business will protect or generate income in old age. Considering the rate of survival of micro and small businesses, allowing someone to invest their retirement funds in a business means exchanging a regular safe monthly payment guaranteed until the end of a retiree's life, with a high-risk alternative that has no guarantee of success. It is highly likely that the large majority of those investing their funds will end up depending on their family for support or on social assistance provided by the state.

Should members be allowed to withdraw 30 per cent of their funds in emergency situations like the COVID-19 pandemic?

The ILO advises against allowing social security scheme members to directly or indirectly access funds that have been set aside for the payment of future pensions. Individuals are likely to prioritise the short term at the expense of the long term and if they withdraw funds there is a very real risk, they will face poverty in the future. In other countries, measures taken to support the population in response to the impact of COVID-19 or other shocks have not used retirement funds but found other solutions. Examples are highlighted in an ILO report summarising measures taken in response to Covid19.

What is the risk for the system of allowing members to withdraw 30 per cent of their funds?

SSO financing and investment is designed to pay regular pensions, not to pay 30 per cent of a member's accumulated contributions at short notice. If large numbers of members chose to withdraw funds in a short space of time (e.g., in the event of another crisis) financial liquidity issues could potentially arise. It would also lead to significant administrative and management strains on the SSO possibly requiring new staff and training. These issues need careful examination and consideration by the Government before any reform of the law or system takes place.

Will these risks only affect those who withdraw funds?

The risk is for the system as a whole. The SSO will require a more conservative investment strategy - to ensure money is available to pay these lump sum benefits - leading to lower rates of return on assets. In turn this means a higher contribution rate would be required to finance the same benefits. Members and employers would lose out.

Would changes to the system benefit those struggling financially?

Short-term relief will lead to long-term problems. Early withdrawal of funds will result in lower benefits being available later when they are needed. As members get older it will become harder to find other sources of income and the likelihood of poverty increases.

Would allowing SSO savings to be used as collateral for loans help those who may otherwise be forced to borrow money from loan sharks?

In many economies, those in financial difficulties find it difficult to access to loans or financial assistance from reputable sources. However, the best way to address this issue is through banking sector legislation and targeted support to those in need. By allowing members to use their SSO savings as collateral for loans, their retirement benefits will be at risk should they default on loan repayments. To our knowledge, there are no other countries where individuals' retirement benefits are used as collateral for loans due to the unacceptably high level of risk for a vulnerable group.

What is the solution to current challenges?

Experience shows that the best approach is to reform existing provision as part of an overall national pension strategy that considers benefits from different sources – not only the SSO but an enhanced Old Age Allowance and other benefit sources. The Report the UN is launching this week sets out a number of possible reform options.