Progress and key Challenges in Thailand pension system: what can be done to create sustainable and adequate pension provisions for all

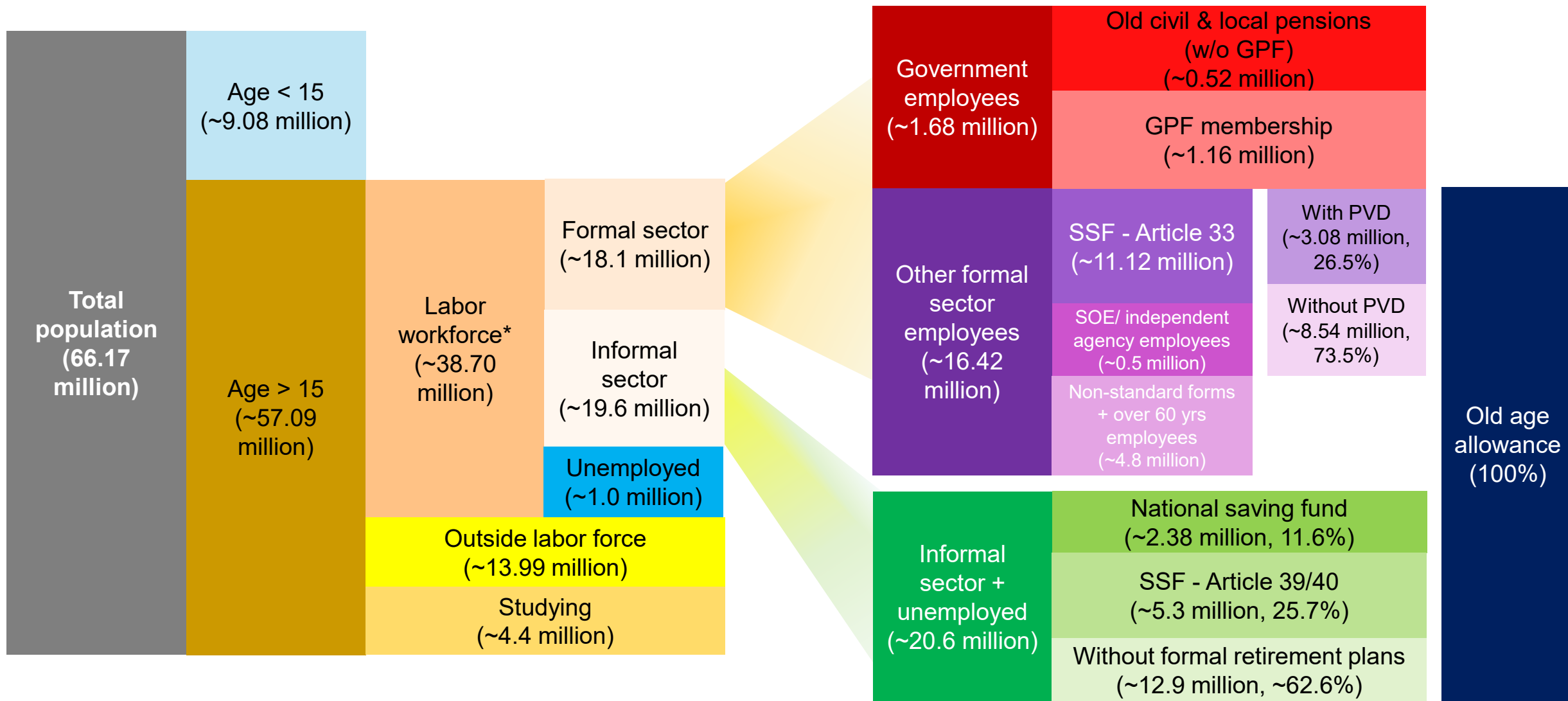Presented by Roongkiat Ratanabanchuen, Ph.D.

Current structure of Thailand pension system

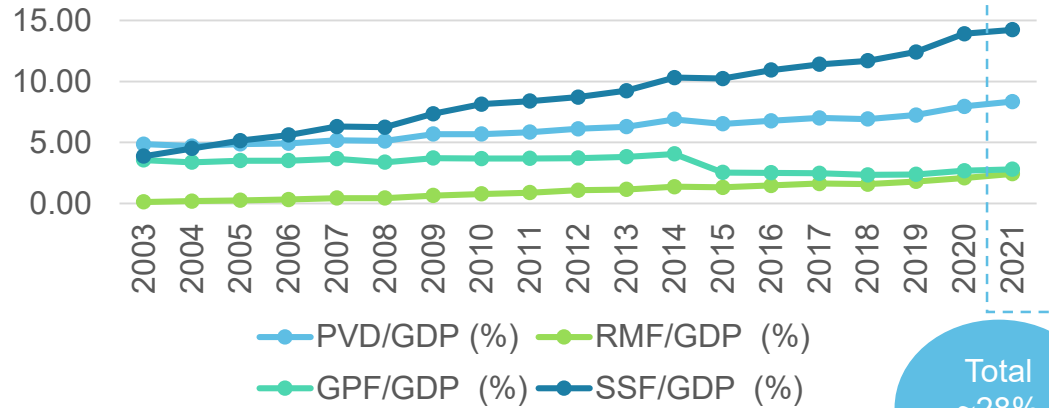|	Government employees	SOE + Independent agency employees	Private employees /Formal sector	Self-employed /Informal sector
Pillar 1 – Protecting against poverty lines	• Old civil service pensions • Pensions organized by local authorities	Pensions or lump sum organized by SOEs or independent agencies	Lump sum provided by employers under the Labour Protection Act	
	Old age allowance			
Pillar 2 – Mandatory occupational pension schemes	• Government Pension Fund (GPF)		Social Security Fund (Article 33)	
Pilar 3 – Voluntary occupational pension schemes		Voluntary Provident Fund (PVD)		• Social Security Fund (Article 39/40) • National Saving Fund (NSF)
Pillar 3 – Voluntary personal savings	Retirement Mutual Fund (RMF)/ Super Saving Fund (SSF)/ Insurance life annuity products			

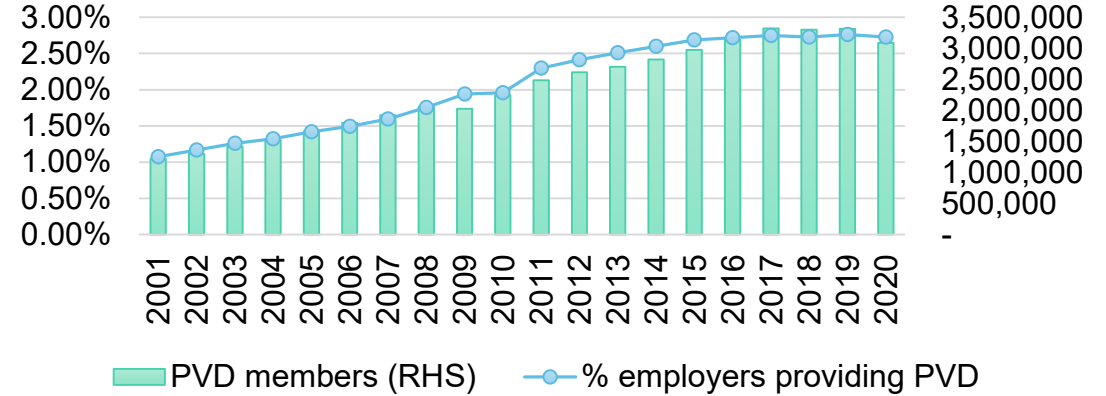■ Defined benefit structure

■ Defined contribution structure

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Low pension coverage rate

Total population (66.17 million)

Age < 15 (~9.08 million)

Age > 15 (~57.09 million)

Labor workforce* (~38.70 million)

Formal sector (~18.1 million)

Informal sector (~19.6 million)

Unemployed (~1.0 million)

Outside labor force (~13.99 million)

Studying (~4.4 million)

Government employees (~1.68 million)

Old civil & local pensions (w/o GPF) (~0.52 million)

GPF membership (~1.16 million)

Other formal sector employees (~16.42 million)

SSF - Article 33 (~11.12 million)

With PVD (~3.08 million, 26.5%)

Without PVD (~8.54 million, 73.5%)

SOE/ independent agency employees (~0.5 million)

Non-standard forms + over 60 yrs employees (~4.8 million)

Informal sector + unemployed (~20.6 million)

National saving fund (~2.38 million, 11.6%)

SSF - Article 39/40 (~5.3 million, 25.7%)

Without formal retirement plans (~12.9 million, ~62.6%)

Old age allowance (100%)

Statistics of key pension fund savings in Thailand

Retirement saving funds to GDP

- PVD/GDP (%)
- RMF/GDP (%)
- GPF/GDP (%)
- SSF/GDP (%)

Total ~28% of GDP

PVD coverage rate

- PVD members (RHS)
- % employers providing PVD

Average value per account (million THB)

- Mutual funds
- PVD
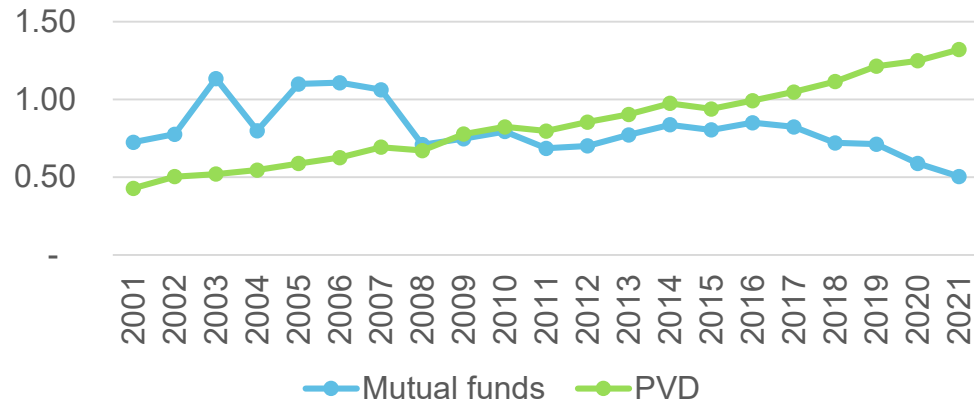
Proportions of household saving in different channels

- Mutual funds
- Private funds
- Households' savings in bank accounts
- Insurance products
- Retirement saving funds

SOURCE: AIMC

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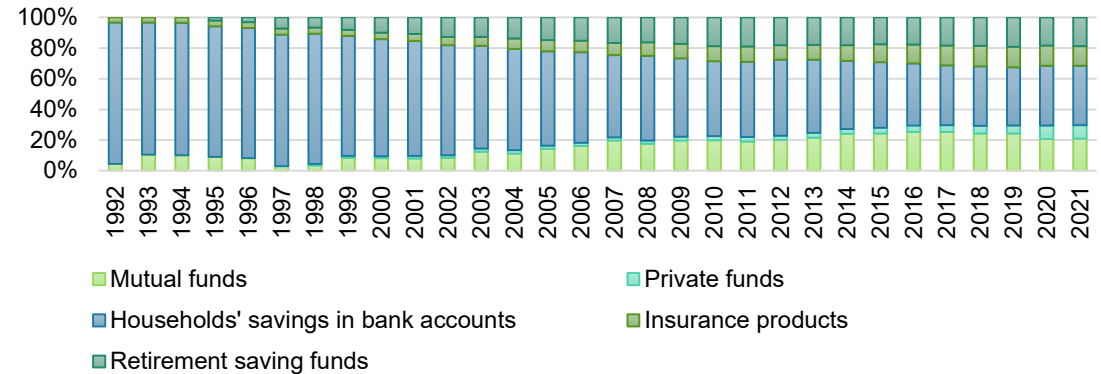
Low replacement rate

Government employees with GPF

- $Pensions = \dfrac{Average\ last\ 5year\ salary \times Tenure\ length}{50}$
- Conversion of GPF lump sum into annuity*

> Around 64% of final salary
> Around 15% of final salary

Private sector employees with PVD

- Conversion of PVD lump sum into annuity*
- Social security office (Article 30)**
- Conversion of lump sum from the employer into annuity

> Around 15% of final salary
> Around 4% of final salary
> Around 6% of final salary

Assumption:
- Current age = 25
- Current salary = $1,000
- Salary growth rate = 5%
- Member contribution = 3%
- Employer/government contribution = 5%
- Average investment returns = 4.5%
- Retirement age = 60
- Discount rate 2%, Inflation rate 1.5%
- Annuity factor = 18 from Thailand mortality table.

**Benefits from SSO (Article 30)

Tenure length	Pensions (USD per month)
15 years	20.0% x 484
16 years	21.5% x 484
17 years	23.0% x 484

35 years of work receive SSO pensions around USD 242.

SSO's retirement age is at 55.

Benefits from SSO (Article 39)

Tenure length	Pensions (USD per month)
15 years	20.0% x 155
16 years	21.5% x 155
17 years	23.0% x 155

Benefits from SSO (Article 40)

Pensions at USD19/month

Benefits from National Saving Fund

~USD 100 per month until 80

*Assumption: save $32 per month for 35 years and earn 2% investment returns

Benefits from Old age allowance

Age	USD per month
60 – 69	19
70 – 79	22
80 – 89	26
90 +	32

Quintile of income	Expense/Income ratio
1 (Poorest)	123%
2	90%
3	81%
4	74%
5 (Richest)	56%
Overall	70%

Average expense in Thailand = $240
Poverty line in Thailand = $87
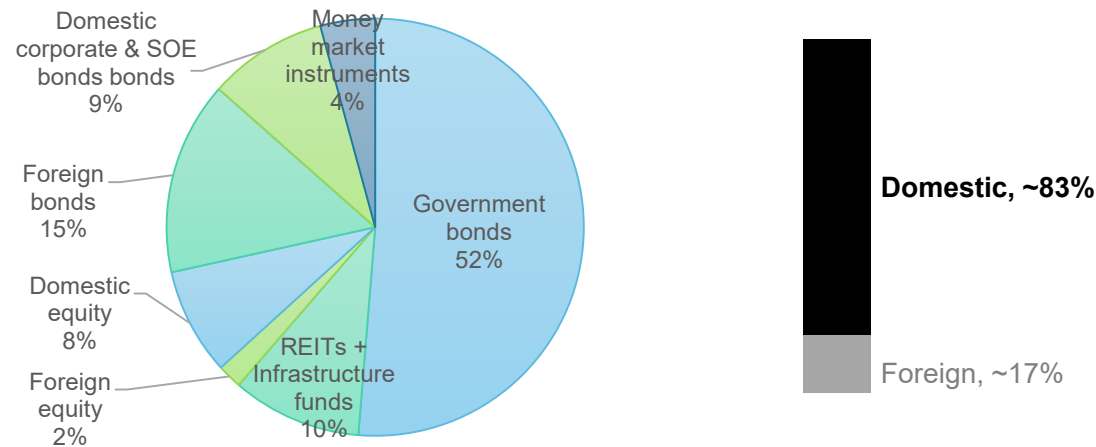
Source: National Statistics Office

Asset allocation of Thailand pension schemes is still largely concentrated in low-risk assets but with more foreign investments.
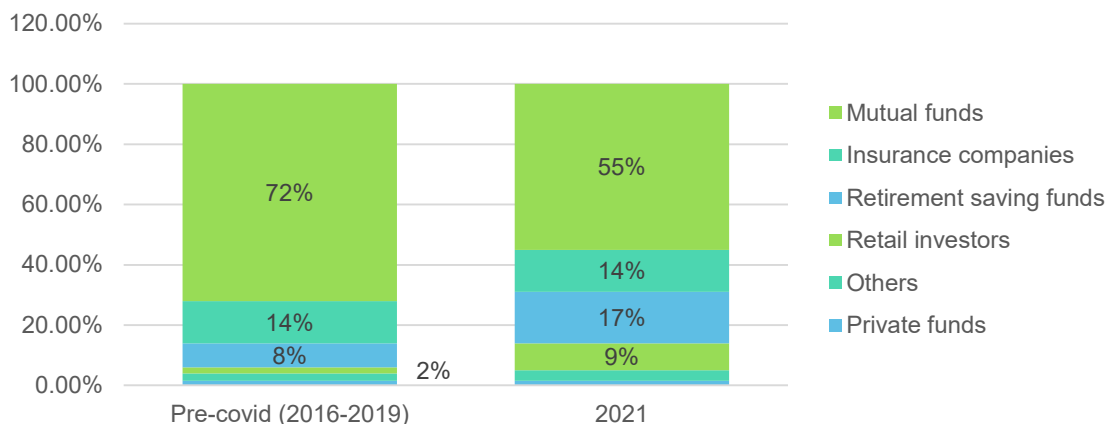
Provident Funds

Others 1%
Investment funds 16%
Equity 18%
Money market funds 10%
Corporate bonds 25%
Government bonds 30%

Domestic, ~98.8%
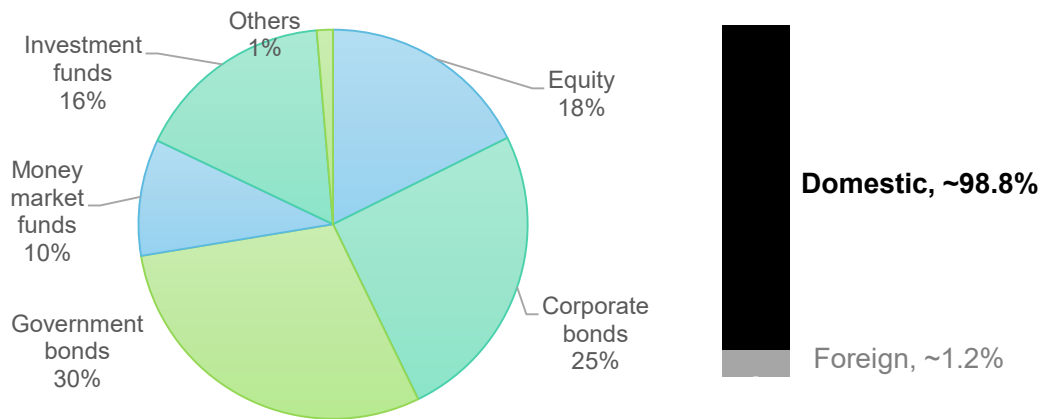
Foreign, ~1.2%

Source: SEC, Data as of 2021

Foreign asset holdings by investor types

- ■ Mutual funds
- ■ Insurance companies
- ■ Retirement saving funds
- ■ Retail investors
- ■ Others
- ■ Private funds

Pre-covid (2016-2019): 72%, 14%, 8%, 2%
2021: 55%, 14%, 17%, 9%

Source: BOT, Data as of 2021

Social Security Fund

Domestic corporate & SOE bonds bonds 9%
Money market instruments 4%
Foreign bonds 15%
Government bonds 52%
Domestic equity 8%
Foreign equity 2%
REITs + Infrastructure funds 10%

Domestic, ~83%

Foreign, ~17%

Source: SSO 2021 Annual report, Data as of 2021

Government Pension Fund

Domestic private equity 1%
Foreign private equity 3%
Others 4%
Domestic equity 4%
Foreign equity 12%
Commodity 1%
Government bond 23%
Infrastructure funds 4%
Foreign real estate 4%
Domestic real estate 4%
Money market instruments 4%
Foreign bonds 10%
Domestic corporate bonds 26%

Domestic, ~71.2%

Foreign, ~28.8%
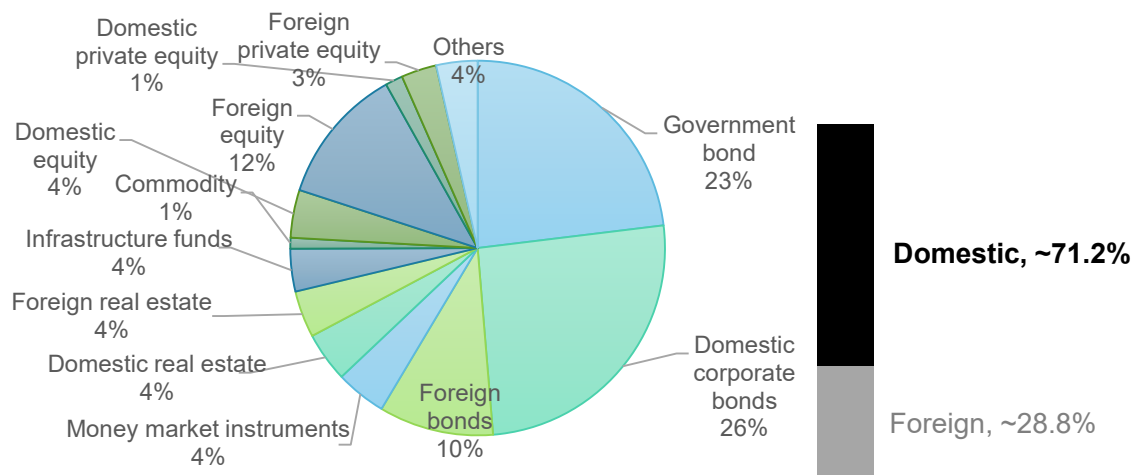
Source: GPF 2021 Annual report, Data as of 2021

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Increasing pension coverage

1. Mandatory occupational pension fund

- **The proposal of National Pension Fund**
  - ➢ Compulsory ramp up of contribution rate from 3% to 10% in 10 years --> but the contribution rate is calculated from the reference of THB60,000 per month ($2,000).
  - ➢ Phase-in period for small and micro enterprises within 5 years.
  - ➢ Centralization of fund management companies (not less than 3 companies receive the right to manage the fund).
  - ➢ Target-date fund is the default policy.
- **The proposal of Mandatory Provident Fund**
  - Amend the current 1987 PVD act.

2. Establishing the National Committee of Pension Systems

- Focusing on drafting a comprehensive pension policy.
- Creating the National Saving Bureau.

Note: Information in this page is derived from the initial stage of proposal which is subject to debates, public hearings and modifications.

Thank You

Presented by Roongkiat Ratanabanchuen, Ph.D.