

# Challenges in Pension Administration In Low and Middle-Income Asian Countries

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# Organization

- Introduction
- The Asian Context: Implications for Pension Administration
- Concluding Remarks

# Introduction

- This presentation focuses on pension administration challenges in low and middle-income countries in Asia.
- Pension administration may be viewed from the perspective of individual pension (and provident fund) organizations; and from a systemic perspective.
- In each of these areas, there are major administrative challenges, which involve not only technical aspects (such as record keeping, collection of contributions, payment of benefits, etc.), but require major changes in governance structures, human resource policies, and legal, taxation, and regulatory regimes.

# Introduction

- There is considerable scope for internalizing the need for professionalism, transparency, and accountability in administering provident and pension fund organizations in many Asian countries; and improving pension economics literacy among all stakeholders.
- In some countries, eg. Indonesia, and Vietnam's ambitious social security legislation is yet to be implemented. In China, the current system of provincial pooling for urban sector working, and separate urban-rural pension systems may undergo a change. The transition from existing to the new system in these countries will represent major challenges.

# Introduction

- Unlike in high-income countries with long-experience in managing pension systems, the administrative challenges in low and middle-income Asian countries therefore cannot be viewed narrowly. More than incremental changes are needed.
- Three Asian countries: China, India and Indonesia, with large populations have particularly difficult challenges as coverage of social security expands in these countries. This will be evident in subsequent discussion.
- This presentation focuses on pension administration challenges arising from Asia's demographic and labor market trends and the extent of social security coverage.

# The Asian Context: Implications for Pension Administration

Table: 1A Demographic and Labor Market Trends in Select Asian 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

# The Asian Context: Implications for Pension Administration

Table: 1B Demographic and Labor Market Trends in Select Asian 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>	N.A.	N.A.	10.3	21.8	672.8	2005.7
<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

# The Asian Context: Implications for Pension Administration

Table: 1c Dependency Ratios in Select Asian 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



# The Asian Context: Implications for Pension Administration

## IMPLICATIONS

(1) Rapid population ageing signified by increasing old age dependency ratios and life expectancy at age 60 suggest a need to devote greater resources for the elderly.

# The Asian Context: Implications for Pension Administration

(2) The demographic trends suggest that little more than three-fifths of the new livelihoods to be created globally between 2005 and 2020 will be in Asia (Table 2).

The rapid rise in the absolute numbers of the aged would pose major administrative challenges. Thus, in China, the number of elderly is expected to rise from 144 million in 2005 to 438 million in 2050. Each elderly will live longer.

This suggests that the capacity to keep records of such large number of people over an increasingly longer period will be required. So far, there is no such experience of administering social security for such large numbers.

Table 2: Potential Livelihoods Generation by Region

<b>Potential Livelihoods Generation* by Region (2005-2020)</b>			
		No (Millions)	% of world total
World		846.6	100.0
Asia		524.9	62.0
of which	India	211.7	25.0
	China	71.8	8.5
	Indonesia	32.0	3.8
	Bangladesh	31.7	3.7
	Philippines	18.9	2.2
	Vietnam	14.6	1.7
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>, Tuesday, July 07, 2009; 10:07:58 PM.

# The Asian Context: Implications for Pension Administration

- This raises the issue whether they should be only one national system for countries such as China, India and Indonesia, as any major breakdown in administration would have serious consequences.

# The Asian Context: Implications for Pension Administration

(3) As the share of formal sector in total employment is relatively low in many Asian countries (Table 3), much of the anticipated livelihood generation will need to be in the informal sector which constitutes 40-80% of the total workforce.

As social protection systems traditionally been based on employer-employee relationships, extending the coverage to the informal sector requires innovative approaches. In the Asian context, administering schemes which reach informal workers should be considered as an integral part of pension administration challenges.

**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: Hagemeyer (2009), p.64

# The Asian Context: Implications for Pension Administration

- For informal sector workers, schemes which are customized to meet specific needs of the group would be required suggesting a decentralized approach with scope for flexibility and reversibility. Decentralized schemes may lack sufficient scale and scope to reduce administration costs. Reconciling decentralized approach with benefiting from scale and scope economies is a major administrative challenge for the policy makers and for the pension regulator (assuming it exists).

# The Asian Context: Implications for Pension Administration

(4) While not shown in the Tables, there is considerable flow of workers across borders within Asia. In general flows are from developing Asia (such as Philippines, Bangladesh, Myanmar) to developed Asia (such as Japan, Korea and Singapore).

China, Thailand, and India are major providers of foreign workers as well as absorbers.

Administering social security programs involving members working abroad is a challenge, requiring co-ordination between national provident or pension fund organization, and Ministry of Finance which usually conducts such negotiations.



# The Asian Context: Implications for Pension Administration

- Formal totalization agreements and bilateral agreements on work and living conditions of foreign workers between recipient and sending countries within Asia merit serious consideration (Asher and Nandy, 2008).
- In Asia, Philippines, and India represent examples which are actively pursuing totalization and labor condition agreements. Philippines has set up several overseas offices of its Social Security Organization (SSO) which covers private sector workers.
- Within Southeast Asia, ASEAN could consider such agreements on region-wide basis as part of their innovative measures to expand social protection.

# The Asian Context: Implications for Pension Administration

- Most Asian countries have a long tradition of providing benefits under different branches of social security which require competent pension administration (Table 4).
- Establishing a benefit under a social security branch however does not necessarily imply that
  - the coverage in terms of labor force and potential beneficiaries is adequate;
  - all contingencies or risks are covered;
  - the programs are managed with requisite professional competence;
  - benefits provided are sufficient and sustainable.

# Table 4: Social Security Programs in Selected Asian Countries

Country	Old age, disability and survivors	Sickness and maternity		Work injury	Unemployment	Family allowances
		Cash benefits for both	Cash benefits plus medical care <sup>a</sup>			
Australia	X	X	X	X	X	X
Bangladesh	c	X	X	X	b	b
China	X	X	X	X	X	X
Fiji	X	b	b	X	b	b
India	X	X	X	X	X	b
Indonesia	X	b	d	X	b	b
Palau	X	b	b	b	b	b
Philippines	X	X	X	X	b	b
Sri Lanka	X	b	d	X	e	X
Thailand	X	X	X	X	X	X
Vietnam	X	X	X	X	X	b

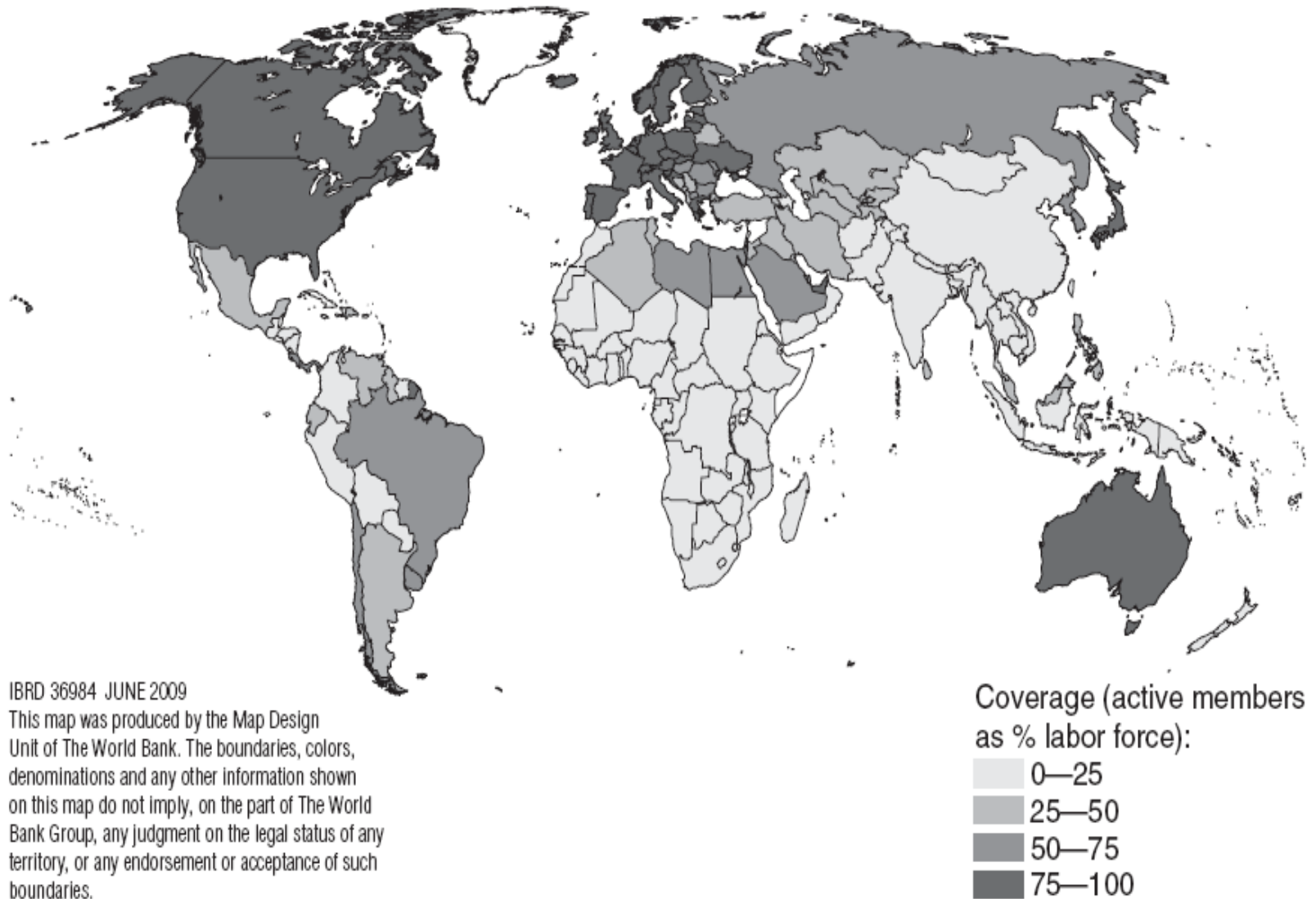
*Source: SSA and ISSA (2008).*

- a. Coverage is provided for medical care, hospitalization, or both.
- b. Has no programme or information is not available.
- c. Old-age benefits only.
- d. Medical benefits only.
- e. Coverage is provided under other programmes or through social assistance.

# The Asian Context: Implications for Pension Administration

- As shown in Figure 1, the coverage of the pension branch of social security is relatively low in Asia. This is consistent with the low share of formal sector employment in Asia, as the coverage is primarily confined to formal sector employees.
- In most low and middle-income Asian countries, the coverage of pension systems varies between 10 and 35 percent of labor force.

Figure 1 : Coverage (active members as percentage of labor force) of Social Security Around the World



Source: Forteza et al (2009). p29

# The Asian Context: Implications for Pension Administration

- Even with such low coverage, the performance of core functions by pension and provident fund organizations (Ross, 2004) is in far too many cases not commensurate with the costs imposed on the economy (Asher, 2009).
- Substantial increase in coverage will require qualitative improvement in organizational performance, and setting up of new administration and delivery systems (particularly for social pensions, which do not necessarily depend on formal sector employment and/or contributions to the pension fund).
- For social pensions, the key administrative challenge is the effective delivery of such pensions and to ensure that they reach only the intended beneficiaries (Forteza et al 2003).

# The Asian Context: Implications for Pension Administration

- A policy decision would need to be made about whether national social security organization should also be involved in delivering social pensions, or should their role be confined to administering mandatory contributory pensions.
- Delivery of social pensions through the normal fiscal channels could permit greater decentralization and experimentation. The decision however is likely to vary among the Asian countries.

# The Asian Context: Implications for Pension Administration

- The policy makers will also need to decide on whether to continue with dedicated social security organizations for both collections of contributions, and payment of benefits (as is the case in Asia currently); or to move to an US-type arrangement where income tax authorities collect the contributions and only the benefits are administered by the social security organization.
- The proportion of individuals liable to pay income tax in many low and middle-income Asian countries is relatively small. Accordingly, the income tax authorities do not have the expertise and the IT systems for covering much bigger share of population required for collecting social security contributions.



# The Asian Context: Implications for Pension Administration

- Even dedicated social security organizations have been slow to adjust to the changes in economic paradigms in many countries (India, Indonesia, Vietnam, and Sri Lanka); and their organizational structures and management and information systems have not undergone requisite modernization and upgradation (Asher, 2009).

# Concluding Remarks

- In low and middle income Asian countries, pension administration challenges go beyond just the incremental reform.
- While modernization of management information systems, and greater professionalism in performing core functions by the existing formal social security organizations is essential, there is also need to make substantive changes in social security laws, regulations, human resource practices, and tax and regulatory regimes.
- Substantial expansion of coverage will result in very large number of elderly whose pension schemes would need to be administered. This raises difficult trade-off of combining scale and scope economies with need for flexibility, innovations in delivery mechanisms, and reversibility.

# Concluding Remarks

- Capacities to harness evolving information and telecommunication technologies would be essential.
- A critical administrative issue in particularly the rapidly growing middle income countries such as China and Vietnam, would be whether the pension system should have separate agencies collecting contributions and paying benefits as in the US or should both these aspects be combined in a single national agency.
- For many low and middle income Asian countries, reaching out to their citizens working abroad, in providing pension coverage will be major challenge.

# Concluding Remarks

- Reforming pension administration should therefore be approached as a medium-term process and appropriate strategies would not only have to be conceptualized but implemented effectively.

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