

Workshop on Civil Service and Military Pension Arrangements in Selected Countries of the Asia-Pacific

A Draft Proposal by Mukul G. Asher and N. Takayama

There has been increasing anxiety among the policymakers, members of pension organizations, and other stakeholders about the credibility and sustainability of pension promises in many countries around the world at all income levels.

The increasing anxiety has been due to several reasons. First, rapid population ageing, resulting from persistently low and in many countries declining fertility rates, and increases in longevity, have resulted in relatively slower growth in contributions as compared to benefits promised. As rate of growth of benefits outpaces growth in contributions (and investment income), parametric and systemic pension reforms require greater urgency.

Second, technological and other factors contributing to globalization have strengthened tendencies towards informalization of labor force, lending to greater complexity in sustaining or progressing towards greater coverage of the pension system. Traditionally, it is the growing formal sector, which resulted in growing coverage of pension systems. The trend towards informalization suggests more innovative measures are needed to extend coverage.

Third, the 2008 global financial crisis has led to rethinking financial sector policies and regulation; and about ways to achieve fiscal consolidation and flexibility. The role of fiscal sustainability in pursuing macroeconomic and overall financial stability has become more important as sovereign debt crisis has become a distinct possibility.

This is indicated by the widening sovereign CDA spreads for many European Countries. Thus, between August 3 and August 12, 2010 the spread for Ireland rose by 41 percent to 282 basis points (The Financial Times, London, August 14-15, 2010, p-16). Another indication of the concern is that the US federal government issued debt in 2009, which was about equal to the debt issued in six preceding years; and in 2010, the 2009 debt issue level is expected to be exceeded (The Financial Times, London, August 14-15, 2010, p-15).

As Countries search for feasible reforms, which could contribute to sustainability and credibility of pension promise, traditionally relatively less intensively researched areas such as civil service and military pensions have also attracted attention.

For Asian Countries, the only comparative study of civil service pension arrangements is by Asher (2000). Globally, Palacio and Whitehouse (2006) undertook an overview of civil service pension arrangements. Both studies were by the World Bank and there has not been a follow up. It is in the above context that the workshop explores pension arrangements for civil service and for the military personnel in selected countries.

The workshop proposes to include the following Countries from Asia-Pacific: Japan, China, India, Republic of Korea, Australia and selected Southeast Asian countries (Indonesia, Malaysia, and Singapore). In addition a paper each on sub-national civil service Pension

Reform in the US and UK; and Civil Service Pension Reforms in OECD: Key Characteristics, Issues and Reforms will also be invited.

Each of the Asia-Pacific country papers will cover key design features of civil service and military pension schemes, parametric and/or systemic reforms undertaken or contemplated and their rationale; key issues, particularly fiscal expenditure on the civil service and military pension and their future growth; and implication for labor mobility between public and private sectors and future reform directions.

Each paper should provide a brief overview of coverage and adequacy of civil service and military pension with those for other sectors. The design features should include among other institutional arrangements, governance structures; main rules and parameters such as eligibility, contribution details; pension formula; pension payment method (including commutation provisions in countries such as India), investment policies and performance where relevant; indexation provision and survivors benefit rules. It would also be useful to provide data on public and private sector wage trends. Wherever possible, civil service and military pensions should be compared with private sector pensions at least in broad terms.

There are several characteristics of civil service and military pensions, which justify the focus.

First, in many countries around the globe, civil and military personnel have separate or parallel pension arrangements, which are not integrated with those of the rest of the population (Palacios and Whitehouse, 2006). In Asia, examples of such arrangements include China, Korea, India, Thailand, Philippines and Malaysia. Rationale for such separation needs to be re-examined in view of the increased anxiety about credibility and sustainability of pension promises.

Second, in many low and middle-income countries (e.g. India, Indonesia, Thailand, and the Philippines) civil servants and military personnel constitute significant proportion of the formal sector employment, and therefore pension coverage. Their share in total labor force, however, is relatively small, at between 3 and 6 percent.

It is therefore essential to examine the trends in pension expenditure for these groups, with a view to their impact on fiscal consolidation, and flexibility. If disproportionate share of current and future government revenue is appropriated for the pension promise to civil servants and military personnel, this will leave less available for meeting other needs such as education, health and infrastructure. The opportunity cost of civil service and military pensions and their claim on future fiscal resources deserve much greater recognition in pension policy than has been the case so far. The need for parametric and/ or systemic reforms therefore deserves to be examined. Potential savings in these costs could be used for other priorities, or in extending pension coverage.

Third, the issue of the transparency and accountability of civil service and military pension schemes have not received adequate attention. Traditionally, civil servants and political leadership have designed these schemes, implemented those initiated changes; and have ensured that these expenditures receive priority in government expenditure. The civil servants have also governed them without representation from other stakeholders, particularly the taxpayers. Actuarial studies of these schemes have also often not been made public or subjective to independent evaluation.

Fourth, the 2008 global crisis has made it even more difficult to generate high investment returns while keeping investment risks at an accepted level.

Tentative programs and researchers:

Paper 1 – Reforming Civil Service Pensions in the UK

Reporter: Ms Tamara Finkelstein, Head of the Secretariat of the Hutton Commission (TBC)

Paper 2 – Civil Service and Military Pensions: Global Trends and Main Issues

Researcher: Dr. Edward Whitehouse

Paper 3 – A Country Study of Japan

Researcher: Dr. Junichi Sakamoto

Paper 4 – A Country Study of Australia

Researcher: Professor John Piggott and Prof. Hazel Bateman

Paper 5 – A Country Study of Korea

Researcher: Dr. Hyung-Pyo Moon and Dr. Jae-Kyeong Kim

Paper 6 – A Country Study of China

Researcher: Mr. Stuart Leckie

Paper 7 – A Country Study of India

Researcher: Professor Ajay Shah and Renuka Sane of IGIDR

Paper 8 – Sub-national Civil Service Pensions in the United States

Researcher: Professor Robert Clark

Paper 9 – Civil Service Pension Reform in Indonesia, Malaysia, and Singapore

Researcher: Professor Mukul G. Asher

Output:

These papers will be presented at the workshop to be held in Tokyo, 20-21 January 2011, at Hitotsubashi Collaboration Center (HCC), Room 1004, Marunouchi Bld. and be compiled into the proceedings. They may then be revised as chapters for publication in an edited Book, if any publisher will agree with it.