

The Establishment of Old Age Pension in Thailand.

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Introduction

Based on Social Security Act of 1990, Thailand introduced a social insurance scheme mainly for private sector employees. Contingencies covered by this scheme, which is called Social Security¹⁾ after the name of the law, were intended to be comprehensive with the enforcement being in stages. At the beginning, Social Security covered sickness, maternity, invalidity and death, which are not related to work. For employment accident, another scheme, which is called Employment Compensation Fund, has been in operation since 1977.

As the second stage, old age pension and child allowance were added to contingencies covered by Social Security with the beginning of collecting contributions in December 1998. According to Social Security Act of 1990, ministerial regulations for enforcing old age pension and child allowance were scheduled to be issued by September 1996. Social Security Act of 1994, which amended some stipulations of the original act, has postponed the enforcement of these benefits until 1998, however. Meanwhile, Social Security Act of 1990 also has provisions regarding unemployment benefits to be enforced by a royal decree that shall be promulgated in the future. Although the details and schedule are not mentioned by Social Security Act of 1990, the enforcement of unemployment benefits is now under consideration.

The following is a review of the current movement of Thailand's Social Security focusing on the establishment of old age pension.

Social Context of Establishing Old Age Pension

As in many other countries in Asia, family ties have played a great role in the support of elderly people. An international survey on elderly people's lives and consciousness²⁾, for example, shows 41.9% of Thailand's elderly people think that living expenses in old age should be met by families. This figure is the highest among the countries surveyed. The others are 28.2% (Republic of Korea), 12.8% (Japan), 3.8% (Germany) and 0.8% (The United States), and Asian countries show higher rates than Western countries. In the case of Thailand, of course, lacking social security that covers the whole population must have a great effect on the figure but high dependency on family support is still the characteristic of this country. The same survey conducted ten years earlier, however, shows that the figure for Thailand was even much higher at 68.1% and, through the comparison of these figures, it is easily imagined that the consciousness of Thai people has been changing under the country's rapid economic and social changes such as industrialization, urbanization and population aging. On the other hand, it is pointed out that a widespread and functioning familial system of support and care has been maintained despite rapid social and demographic changes.³⁾ It cannot be denied, however, that such changes as longer life⁴⁾, decreasing number of children⁵⁾, and greater physical separation of family members caused by urbanization may lead to increased difficulty for the elderly.

Meanwhile, the Eighth National Economic and Social Development Plan, which was for the period from 1997 to 2001, focused on human development and better quality of life as well as natural resources and environmental management. These have not been so emphasized in the previous development plans and the Eighth Plan was acknowledged as the first step towards a new development paradigm aiming at the accomplishment of the long-term objective, i.e. becoming a full-fledged developed country. It should be noted that the Eighth plan devoted one whole chapter to social security. In that chapter, widening the scope of social insurance to cover the contingency of aging as well as child support was clearly mentioned.⁶⁾

Social Security under the Economic Crisis

Since the establishment, Social Security has been providing benefits for four areas of contingencies, which are sickness, maternity, invalidity and death. At present, companies with 10 or more employees are under compulsory membership. As of 1997, 6,084,822 employees in 90,656 establishments were insured and this number of insured persons was equivalent to 18-19% of total labour force.⁷⁾ The figures, however, declined until the end of 1998 because of the economic crisis. It was reported that around 667,000 people had withdrawn from Social Security during 1998, because they were unemployed and therefore unable to make any contributions. Since then, the number of the insured seems to have slightly recovered but it is still less than that before the economic crisis. According to Social Security Office, which administrates Social Security, the scheme covers around 5.8 million employees as of May 2001.

Contributions to Social Security are collected from employers, employees and central government, each parties paying 1.5% of employees' wages. In October 1997, however, the government approved a temporary reduction of the contribution rate from 1.5% to 1.0% in order to alleviate the financial burden of each contributing parties suffering from the economic crises. This reduction has been enforced since the beginning of 1998 and continued till the end of the year 2001. On the other hand, Social Security Office has increased the yearly capitation fee it pays hospitals from 800 baht to 1,000 baht per head since the beginning of 1998.⁸⁾ In addition, Social Security Office decided to enhance medical services so that unemployed members can get services without paying contribution for a year instead of 6 months as in the past. As a result of these adjustment under the economic crisis, it was estimated that the proportion of benefit claims to contributions would jump up from 55.74% (6.59 billion baht) in 1997 to 91.31% (9.7 billion baht) in 1998.

The economic crisis also influenced the establishment of old age pension and child allowance. It was difficult for the increase of financial burden to be accepted by each contributing parties. Because the establishment had been already postponed, however, it was a final measure to put it off again. As an alternative, Social Security Office suggested that Finance Ministry should adjust its regulation on provident fund contributions in order to accommodate pension contributions.⁹⁾ Finance Ministry's regulation stipulates that contribution rates to provident fund, which are imposed on employers and employees respectively, can range from 3 to 15% of wages with employers' rate being at least the same as employees' one.¹⁰⁾ Social Security Office suggested that if Finance Ministry could adjust its rules so that a certain part of provident fund contributions would go to Social Security, old age pension and child allowance could be established without additional financial burden for provident fund

members.¹¹⁾ This idea didn't realize, however, and after all, the government decided the contribution rate for old age pension and child allowance at 1 % of employees' wages for the moment. So the total contribution rate for all the contingencies covered by Social Security temporarily became 2 % and this means 0.5% increase comparing to the initial contribution rate of 1.5% for sickness, maternity, invalidity and death benefits.

Structure and Future Prospect of Newly Established Old Age Pension

Old age pension is payable if an insured person meets all of the following conditions.

- (a) Contribution paid for not less than 180 months whether the period is consecutive or not.
- (b) Attaining the age of 55.
- (c) Cessation of being insured.

If an insured person meets these conditions, monthly amount of pension is calculated by the following formula.

(average of monthly wage during the last 60 months) × (number of months during which contribution is paid) ÷ 1200

In case of an insured person who has paid contribution for less than 180 months, a lump sum benefit is payable provided that he/she meets both of the following conditions.

- (a) Attaining the age of 55 or, suffering from invalidity or death.
- (b) Cessation of being insured.

The amount of a lamp sum benefit is as follows.

- If an insured person has paid contribution for less than 12 months, the benefit amount is equal to the amount of contribution he/she has paid.
- If an insured person has paid contribution for more than 12 months, the benefit amount is equal to the amount of contribution he/she and his/her employer have paid plus interest at the rate set by Social Security Office.
- If a pensioner dies within 60 months since the date of entitlement to old age pension, his/her survivor shall receive a lamp sum benefit, which equals to 10 times of last month's pension.

Qualifying conditions and how to calculate the benefit amount have been described above. Although old age pension has adopted modified pay-as-you-go method, it shall face a financial difficulty sooner or later. In order to introduce this kind of system under the economic crisis, government agreed to collect only 1 % of employees' salaries from each contributing parties until 1999 and such a low rate even includes a contribution to child allowance.¹²⁾ The contribution rate was raised to 2 % in 2000 and will be 3 % in 2002. It is obvious, however, that even the contribution rate of 3 % is insufficient to maintain the balance of old age pension fund in the long run because population aging in Thailand is expected to be very rapid.¹³⁾

According to a study by World Bank, which had recommended Thai government to promote the existing provident fund instead of establishing old age pension¹⁴⁾, the pension fund will go into the red in 2025 and the contributions will cover only 35% of benefit expenditures by 2040. Based on the expected fund balance, Social Security Office itself admits that contribution rate has to be revised upward every five years.¹⁵⁾ Sooner or later, in addition, the qualifying age of 55 should be reconsidered in view of the longer life expectancy. According to a survey as of February 1997¹⁶⁾, labour participa-

tion rate of the people aged 55-59 was 74.4%, most of them working for 40 hours or more per a week. Although 54.3% of the labour force was in agriculture and private employees only accounted for 19.5% of the workers¹⁷⁾, high labour participation rate of this age group can be a favorable factor for the possible amendment of old age pension.¹⁸⁾

The base wage for calculating pension amount, which is the last five years' average monthly wage, may also be reconsidered. If wages are based on seniority to a large extent, pension amounts may become high level relative to the wages of younger generation. On the other hand, however, indexation has not been adopted to calculate pension amounts and such a measure to maintain real income should be introduced. It is also pointed out that Social Security provides insufficient protection for the bereaved. They can receive only a lump sum benefit, so the introduction of survivors' pension seems necessary under certain conditions.

Meanwhile, the government is considering the integration of Social Security Fund, government pension fund, and private provident funds into a unified system to be supervised by a new administrative body. It aims at maximizing savings mobilization, enhancing capital market development and meeting the country's long-term investment needs. At present, Social Security Fund (60 billion baht), government pension fund (80 billion baht) and private provident funds (120 billion baht) are administered respectively by Social Security Office of the Labour and Social Welfare Ministry, Comptroller General's Office of the Finance Ministry and Fiscal Policy Office of the Finance Ministry. The reform plan is linked to the US \$ 800 million Financial Markets Reform Programme Loan agreement that was signed by Asian Development Bank and the Finance Ministry.¹⁹⁾ It seems to be quite difficult, however, to integrate three different funds which adopt different financial methods and have different interests of each party concerned. Nevertheless, at least some coordination between the existing provident funds and old age pension may be enforced.

To conclude this paper, it is added that the government was considering suspension of contribution to Social Security Fund and there was strong opposition against this idea not only by labour and management, but also by journalism and scholars.²⁰⁾ It is true that government's contribution was necessary for the Fund's stability and the suspension was not justified if the government had only aimed at alleviating its financial burden. From the following viewpoint, however, it should be reconsidered whether government's contribution was right or not.

Social Security members account for only a part of labour force and they seem to belong to a relatively advantaged group considering that those who are not insured by Social Security are mostly in agriculture, informal sector or small sized companies. In addition, the present tax system depends too much on indirect taxes, among which VAT accounts for nearly 20% of the total tax revenue. Reformists pointed out that the difference between taxes paid by the rich and the poor was too narrow to reduce the income gap.²¹⁾ Under such circumstances, therefore, government's contribution to Social Security Fund was rather unfair unless tax reform was carried out on the one hand and considerable budget was allocated for the welfare of the disadvantaged groups on the other. Government's contribution is not only a matter of the Fund's stability and labour welfare, but also a matter of income redistribution among the whole population.

Notes

- ¹⁾ In this paper, "Social Security" means social insurance system based on Social Security Act of 1990, while "social security" is used conceptualistically.
- ²⁾ Management and Coordination Agency of Japan, *Lives and Consciousness of the Elderly, 4 th International Comparative Survey*, 1996. (In Japanese)
- ³⁾ Cf. John Knodel and Napaporn Chayovan, "Family Support and Living Arrangements of Thai Elderly." in: *Asia-Pacific Population Journal*, Vol. 12, No. 4 (December 1997), Economic and Social Commission for Asia and the Pacific.
- ⁴⁾ As of 1995-1996 period, life expectancy at the age of 55 was 23.87 for men and 27.61 for women. Those figures for 1985-1986 period were 19.09 and 22.12 respectively. Cf. National Statistical Office, Office of the Prime Minister, *Survey of Population Change*.
- ⁵⁾ According to the Office of the National Economic and Social Development Board (NESDB), total fertility rate would become less than 2.0 in 1998 and decrease to 1.76 in 2020. Cf. NESDB, *Population Projections for Thailand 1990-2020*, NESDB, 1995.
- ⁶⁾ Cf. Government of Thailand, *The Eighth National Economic and Social Development Plan (1997-2001)*, NESDB, Part III, Ch. 3. In this chapter, there is also the following description. "Promote the establishment of company savings cooperatives, provident funds and saving accumulative funds within private business and etc. as sources of welfare for workers both during their working life and on their retirement."
- ⁷⁾ Number of persons in labour force changes seasonally. As to the statistics in the text, see the following material. Social Security Office, Ministry of Labour and Social Welfare, *Social Security Statistics*. National Statistical Office, *Report of the Labour Force Survey*.
- ⁸⁾ It is set at 1,100 baht at the present.
- ⁹⁾ Cf. Bangkok Post, Sep. 21, 1998.
- ¹⁰⁾ The establishment of provident fund is voluntary for companies and the benefit is paid in a lump sum.
- ¹¹⁾ Allegedly, there were 1,043,000 people participating in provident funds as of 1997 although the number may have been skewed somewhat because government enterprises established provident funds in that year. Cf. The Nation, Nov. 3, 1997.
- ¹²⁾ Child allowance is payable for the first two children under 6 years old at the amount of 150 baht per month per child provided that the insured has paid contribution for not less than 12 months within 60 months before the month of entitlement. Adopted children are not eligible to this allowance. If both of parents are insured persons, allowance is paid for one of them only. When an insured person get divorced or separated, allowance is paid to one of the parents who raises the children.
- ¹³⁾ Cf. NESDB, *Population Projections for Thailand 1990-2020*.
- ¹⁴⁾ Thai government opposed the World Bank's recommendation and established old age pension. Cf. Bangkok Post, Mar. 8, 1999.
- ¹⁵⁾ Cf. Ibid.
- ¹⁶⁾ National Statistical Office, Office of the Prime Minister, *Report of the Labour Force Survey (Round 1) February 1997*. Based mainly on this survey, the following literature has been published. National Statistical Office, *The Status of Thai Elderly*, National Statistical Office, 1998.
- ¹⁷⁾ Own accountant workers and unpaid family workers accounted for 53.0% and 14.9% respectively. The other categories were employers (3.6%) and government employees (9.0%).
- ¹⁸⁾ It should be noted, however, that 4.9% of the total population of this age group were not in labour force

because they thought they were too old or incapable of work. For reference, such a rate for the age group of 60-64 stood at 28.1%, while the labour participation rate of this age group was 54.1%.

¹⁹⁾ Cf. The Nation, Dec. 28, 1998.

²⁰⁾ For example, see The Nation's editorial dated Jul. 14, 1998.

²¹⁾ Cf. The Nation, Jun. 8, 1998.