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The Global Economic Crisis: An Opportunity for Strengthening Asia's Social Protection Systems?

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Abstract

The current global economic crisis has led to greater prominence for the issue of strengthening social protection systems in Asia. This paper analyzes the key factors determining and the possible avenues for strengthening social protection systems in Asia. The choice of an appropriate combination of avenues depends on the initial starting point, public policy objectives, institutional, fiscal, and other capabilities.

Following introductory remarks, Section 2 discusses demographic and labor market trends in Asia. It stresses that rapid ageing and large, informal labor markets pose challenges for Asian social protection systems, while making the role of the state even more essential. This is followed in Section 3 by an overview of social security systems in Asia. The key point is that while there are fairly elaborate social security programs in Asia, primarily for formal sector employees, this does not necessarily imply that the schemes are well designed, have wide coverage, or are financially sustainable. Section 4 discusses four general avenues to strengthening social protection systems. These emphasize greater professionalism, parametric and systemic reforms, social assistance, and social pensions, as well as others such as microfinance institution-initiated pensions.

The final section provides concluding observations. The global economic crisis provides a potential opportunity for strengthening social protection systems. However, the construction of multitiered social protection systems will require much greater professionalism, experimentation, political and organizational leadership, and vision.

JEL Classification: H55, H87, J11, J18, J21, J26

Contents

1. INTRODUCTION

The main objectives of any social security (or social protection) system[1] are consumption smoothening over a lifetime for individuals, insurance (particularly against longevity and inflation risks),[2] income redistribution for society as a whole, and poverty relief. However, these must be weighed against economic growth, labor market efficiency, and flexibility. As resources devoted to social protection have opportunity costs, the needs of groups other than the elderly in the society, (as well as for other needs such as health, education, and infrastructure) should be weighed against allocations for retirement. Individual, fiscal, and societal affordability should also be considered when constructing and reforming social security systems.

Such a complex objective function has three important policy implications (Barr and Diamond 2009). First, the analysis of effects of pension system on growth, labor markets, equity should consider pension system as a whole and not each component separately. Second, a “first-best”[3] approach is not appropriate in designing pension policies or pension reform. Third, pension reform design recommendations must take into account a country’s fiscal, institutional, and capital market capacities.

The need to strengthen social protection systems prevailing in Asia has been evident at least since the 1997–1998 financial crises. The initial efforts to strengthen social protection systems in its aftermath, however, were not sustained in many parts of Asia as economic recovery was swift and robust (Howell 2001).

The global financial and economic crisis that has occurred since 2008,[4] whose origins are from industrial rather than developing countries, has, however, once again underscored the urgency of strengthening Asian social protection systems.[5] This is due to the following three reasons:

First, the crisis is expected to reduce the medium-term growth rate of most Asian countries (Footnote 4). Since the single most important macroeconomic variable in potentially providing economic security for both the young and the old is the trend rate of economic growth, reduction of medium-term growth prospects will make the task of strengthening social security systems more difficult.

[1] The term ”social protection” denotes major branches of social security such as pensions, healthcare, work injury, and social assistance.

[2] Longevity risk concerns the probability that accumulated savings and retirement benefits may be inadequate to last until death. Inflation risk concerns the probability that value of retirement benefit may not be protected against inflation during the retirement period.

[3] The “first-best” approach assumes that there is efficient resource allocation arising from perfectly competitive markets. Much of conventional economic analysis is based on the first-best assumption. Once the economy is not assumed to be in a first-best situation, assessing the impact of policies and formulating appropriate reforms become less straightforward and more contextual.

[4] The 2008 global economic crisis is arguably the most severe in over 7 decades. The International Monetary Fund (IMF) estimated that the world output increased by 3.0% in 2008, but declined by 0.8% in 2009 (IMF 2010). Its projections for growth of world output for 2010 and 2011 are 3.9% and 4.3% respectively. IMF uses the country classification “Developing Asia” to denote all Asian countries except Japan, and “Newly Industrialized Asian Economies”. This classification thus includes the People’s Republic of China (PRC) and India, two of the rapidly growing Asian economies. The IMF has estimated that in 2008, the output in Developing Asia grew by 7.9%, but the growth rate was lower at 6.5% in 2009 (IMF 2010). It projects the growth rate of 8.4% for 2010 and for 2011. The International Labor Organization (2009) has indicated that as many as 50 million jobs may be lost globally if the crisis persists for a prolonged period. A general consensus among the analysts is that growth will remain subdued, unemployment will remain high, and the financial sector will undergo a major restructuring leading to its diminished role.

[5] The scope of this paper is limited to Eastern and Southern Asia, thus, excluding West Asia and Central Asia.

Second, lower medium-term growth could adversely impact the pace and quality of job creation in many Asian countries. This increases the need for social protection, but could reduce the capacity of society to meet this need.

Third, the global crisis has necessitated the use of aggressive fiscal stimulus packages in several Asian countries. These appear to be manageable if the crisis is not too prolonged. If it is, however, fiscal risks, and risks to balance of payments due to a combination of lower net exports, remittances, and investment flows, could rise. These, in turn, may lead to upward pressures on interest rates, raising the cost of managing public debt.[6] It may also reduce fiscal flexibility required to allocate greater resources for social protection.[7]

The global crisis has considerably enhanced the poverty relief objective of social security systems. As poverty levels, on the one hand, and gross domestic product (GDP) and employment growth on the other are inversely related, sustaining growth and enhancing employment elasticity with respect to GDP should be an integral part of Asian social protection strategies.

It is in the above context that this paper analyzes the implications of the global economic crisis, and demographic and labor market trends for social protection systems in Asia, with primary focus on pensions or retirement financing.

The rest of the paper is organized as follows: Section 2 briefly discusses Asia's demographic and labor market trends and their implications. Section 3 discusses the current social security systems in Asia with particular emphasis on the extent of coverage. The three dimensions to pension coverage are the proportion of potential beneficiaries covered by the pension system, the risk contingencies covered, and the level of benefits (van Ginneken 2008). Section 4 discusses possible opportunities for improving social protection systems in Asia as it addresses challenges from the global crisis and responds to demographic and labor market trends. The final section provides concluding observations.

2. DEMOGRAPHIC AND LABOR MARKET TRENDS

Demographic and labor market trends are the context within which the social protection responses of Asian countries to the global economic crisis will need to be structured. There are three demographic trends which are evident globally. First, fertility rates are dropping nearly everywhere. Second, life expectancy is rising in many, though not all, parts of the world. Third, developed countries are well advanced with respect to the above two trends as reflected in their declining share in world population. The combined impact of the above three trends has led to a rapid ageing of the world's population.

Non-developed countries are further behind in the demographic transition though variations among them are large. In some countries, such as Malaysia and Egypt, the fertility rate is at near or above replacement rates, but life expectancy is rising rapidly, contributing to the ageing of the population.

Tables 1a 1b, and 1c provide demographic indicators for select Asian and African countries. On the basis of the data in these tables, the following observations may be made:

The rapid ageing of Asia is a result of reduction in fertility rates and increased life expectancy at birth and at age 60. As is well known, increased longevity raises pension costs disproportionately. Uncertainty about longevity trends (due to the impact of medical technology and other factors) is increasing the complexity of designing pension programs.

[6] For 2010, public debt as a percentage of gross domestic product is projected to be nearly 200% for Japan, over 60% for India and the Philippines, and over 50% for Malaysia and Thailand (Economist Intelligence Unit 2009). This would suggest both high costs of financing debt and constrained space for continued fiscal stimulation.

[7] A study by the European Commission (2009) finds that the combination of current global economic crisis and ageing populations will make fiscal sustainability an acute challenge for the European Union Members.

Even during the 2005–2010 period, only the Philippines and India are projected to exhibit fertility rates above the global average; in contrast, 6 of the 11 sample countries exhibit fertility rates significantly below the replacement rate.

The statutory pensionable age, however, remains relatively low, ranging from 55 to 65 years for men and 50 years to 65 years for women. Some of the high-income countries such as Japan, Republic of Korea (hereafter Korea), and Singapore are taking measures to increase the retirement age, or the age at which full pension rights accrue.

As women live longer, and on average have less exposure to the labor force, their lower retirement age gives them, on average, fewer resources to finance old-age needs, including health care. Addressing gender issues should therefore be an integral part of programs in all branches of social security.

The median age in the sample countries (with the exception of the Philippines) will be well above average for the world in 2050 (Table 1a). In Japan, Korea, and Singapore, the median age will be nearly 55 years. Similarly, only in the Philippines and India will the percentage of total population aged 60 and above be less than the global average (Table 1b).

Table 1a: Demographic Trends in Selected Asian Countries

Country	*Total Population (millions)*		*Average Annual Rate of Change in Population*		*Total Fertility Rate*		*Median Age*		*Life Expectancy at Birth*	
	2007	*2050*	*2005–10*	*2045–50*	*2005–10*	*2045–50*	*2005–10*	*2045–50*	*2005–10*	**2045-50**
World	6671.2	9191.3	1.17	0.36	2.6	2	28	38.1	67.2	75.4
Asia										
PRC	1328.6	1408.8	0.58	-0.32	1.7	1.8	32.5	45	73	79.3
India	1103.4	1592.7	1.55	0.3	3.0	1.8	24.3	38.7	63.1	75.9
Indonesia	231.6	296.9	1.16	0.1	2.2	1.8	26.5	41.1	70.7	78.6
Korea, Rep. of	48.2	42.3	0.33	-0.89	1.2	1.5	35	54.9	78.6	83.5
Malaysia	26.6	39.6	1.69	0.41	2.6	1.8	24.7	39.3	74.2	20.1
Philippines	87.9	140.5	1.9	0.5	3.2	1.8	21.8	36.3	71.7	78.7
Singapore	4.4	5	1.19	-0.38	1.2	1.6	37.5	53.7	80	84.6
Sri Lanka	19.7	18.7	0.47	-0.55	1.9	1.8	29.5	43.4	72.4	77.6
Thailand	63.9	67.4	0.66	-0.27	1.8	1.8	32.6	44.3	70.6	78.1
Viet Nam	87.4	120	1.32	0.21	2.1	1.8	24.9	41.6	74.2	80.3
Japan	127.9	102.5	-0.02	-0.78	1.3	1.6	42.9	54.9	82.6	87.1

PRC = People's Republic of China.

Source: United Nations (2009)

Table 1b: Demographic Trends in Selected Asian Countries

Country	Life Expectancy at Age 60, 2000–2005		Percentage of Total Population Aged 60 and Above		Population Aged 60 and Above (millions)	
	Male	Female	2005	2050	2005	2050
World	NA	NA	10.3	21.8	672.8	2005.7
PRC	18	21	11	31.1	144	437.9
India	17	19	8	21	89.9	329.6
Indonesia	17	19	8.3	24.8	18.9	73.6
Korea, Rep. of	19	24	13.7	42.2	6.6	17.8
Malaysia	18	20	6.7	22.2	1.7	8.8
Philippines	17	19	6	18.2	5.1	25.5
Singapore	17	21	12.3	39.8	0.5	2
Sri Lanka	17	19	9.7	29	1.9	5.4
Thailand	17	22	11.3	29.8	7.1	20.1
Viet Nam	19	21	7.6	26.1	6.5	31.3

PRC = People's Republic of China.
Source: United Nations (2009)

Many Asian countries will need to address challenges arising from sharply increasing median age, rising old-age dependency rations (Table 1c), and concomitant reduction in the share of working-age population.

Table 1c: Old-Age Dependency Ratios in Selected Asian Countries

Country	*Old-Age Dependency Ratio*	
	2005	*2050*
World	11	25
PRC	11	39
India	8	21
Indonesia	8	29
Korea, Rep. of	13	65
Malaysia	7	25
Philippines	6	19
Singapore	12	59
Sri Lanka	9	36
Thailand	11	38
Viet Nam	9	30
Japan	7	20

PRC = People's Republic of China.
Source: United Nations (2009)

Based on the above demographic trends suggesting varying level and pace of ageing among Asian countries, three major implications may be noted. First, rapid population ageing signified by rising old-age dependency ratios, and increasing life expectancy at age 60, suggests that greater resources will need to be devoted to the elderly. A substantial share of the increase in resources will be through the government budget. Finding more budgetary resources, particularly when the medium-term growth rates are likely to be moderate, will be a challenge as there will be other demands on the budget. Better management and governance by the social security organizations, and the need to undertake parametric reforms in the design of various provident and pension fund schemes to ensure their medium-term financial sustainability, have therefore become even more urgent in Asian countries.[8]

As discussed earlier, aggressive fiscal stimulus packages by Asian countries to sustain growth during the current global crisis may also constrain future fiscal flexibility as the resulting future budget deficits will need to be financed. Thus, in Australia, the IMF projects the budget deficit to be 2.3% of GDP in 2009 and 3.5% of GDP in 2010; this is in sharp contrast to an average annual surplus of 1.7% of GDP during the 2003–2008 period (IMF 2009). Similarly, the IMF projects that in 2009 and in 2010, Japan's budgetary deficit will be close to 10% of GDP, as compared to 5.2% of GDP during the 2003–2008 period. Even oil-rich Saudi Arabia's 2009 budget projects a deficit equivalent to 3.5% of GDP, the first deficit since 2004. If the slowdown in global economic growth continues, the fiscal situation in most Asian countries will become even more constrained. In some countries, such as the PRC's, there is however considerable fiscal capacity to expand government expenditure, including on social security and safety nets (The Economist 2009).

Second, the social security needs of foreign workers will need to be addressed by Asian countries. There are many countries in the region, such as Singapore, Malaysia, and Korea, which are large and persistent recipients of foreign labor, much of which is supplied from countries from within the region, such as Philippines, Thailand, Viet Nam, Bangladesh, Myanmar, Sri Lanka, and India.

Totalization agreements,[9] as well as agreements involving the working and living conditions of foreign workers will need to be encouraged in the Asian countries to which they apply. Recent agreements by Japan with the Philippines and with Indonesia for special temporary employment arrangements for workers from these two countries draws attention to the social security needs of foreign workers and is an example of taking advantage of demographic complementarities.[10]

Third, the global demographic trends suggest that more than three-fifths of the potential livelihood generation between 2005 and 2020 will be in the Asian region (Table 2). India alone would need to generate a quarter of the potential global livelihoods, while The PRC and Indonesia's share will be 8.5 and 3.8% respectively (Table 2). In sharp contrast,

[8] Giang and Pfau (2009) have undertaken a stochastic actuarial assessment of pension finances in Viet Nam and found that the demographic changes are likely to deplete the pension fund by about 2052 with a 90% confident interval range of 8 years.

[9] Totalization agreements are designed to ensure that individuals and employers do not end up paying social security taxes or contributions in more than one jurisdiction, or alternatively avoid paying them in either jurisdiction. They also assist in recognition of pension rights, and in cross-border social security administration. The Philippines has entered into about 10 such agreements, mainly with countries in Europe and with Canada. India has also entered into several such agreements, primarily with European countries.

[10] The main objective of leveraging demographic complementarities is to help expand economic space, and achieve greater economic integration among Asian countries. Rapidly ageing Asian countries such as Japan, Korea, and Singapore could make more extensive and innovative use of off-shoring activities, involving those countries such as Philippines, Bangladesh, Viet Nam, and India, which are currently in a demographically favorable phase (i.e., where the share of working-age population to total population is rising). They can also use technology to minimize use of labor in economic activities, including in elderly care. Some Asian countries, such as Malaysia, perceive hosting the affluent elderly as long-term residents from rapidly ageing Asian countries as a good business opportunity.

Europe's working-age population will exhibit a decline, while share of North America in potential livelihoods generation will be only 2.8%. Africa, with a share of 27.5% will also face significant challenges in livelihoods generation.

Table 2: Potential Livelihoods Generation by Region (2005–2020)

Region		No. (millions)	% of world total
World		846.6	100.0
Asia-Pacific		526.7	62.2
of which	India	211.7	25.0
	PRC	71.8	8.5
	Indonesia	32.0	3.8
Africa		232.6	27.5
Europe		(17.8)	(2.1)
Latin America and Caribbean		79.3	9.4
North America		23.6	2.8

PRC = People's Republic of China, ( ) = negative.

Note: Generation 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: 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, 7 July 2009.

The above analysis suggests that the Asian region, particularly its developing countries, will need to create a better balance between job creation and livelihoods on one hand, and preserving existing, but unsustainable jobs on the other.

The share of formal sector employment varies from 84.3% in the developed economies to only 20.8% in South Asia. While the corresponding share is higher in Southeast Asia and Pacific (38.8%) and in East Asia (42.6%), even these proportions are lower than the global average of 46.9%. There are also variations according to gender, with the share of women in formal employment being considerably lower than that of men, particularly in South Asia (Hagemejer 2009).

In the developed economies, the expansion of formal sector, with identifiable and relatively stable employer-employee relationships contributed to earnings-related, social insurance-based social security programs.

The prospects for increasing the share of formal sector employment are, however, not promising in many Asian countries. The current global economic crisis is expected to diminish the medium-term trend rate of economic growth, and hence the rate of increase in per capita income over the next several years. As there is a positive correlation between per capita and coverage, some Asian countries will find it challenging to increase coverage through formal sector employment growth.[11]

The above suggests that there is an urgent need for Asian economies to construct multitiered social security systems, involving a mix of risk-sharing arrangements among the stakeholders–beneficiaries, the employers, the state, the family and the community, and not-for-profit organizations (both domestic and foreign). There is therefore increasing recognition that retirement income (pensions) cannot solely be based on earnings or contributions. These would need to be supplemented by other types of retirement income transfers.

[11] There may be room for some expansion of coverage, both in terms of number of persons covered, and the benefit levels through application of greater professionalism, including more extensive use of technology, and through parametric reforms. This avenue should not be overlooked as extension of coverage of social security will require a combination of different avenues.

Retirement income transfers may be approached through ex-ante (during working life) and ex-post (after retirement) interventions. In the former, the main challenge is to design matching contributions by the state to ensure an adequate benefit, but without adversely impacting contribution density, retirement decisions, and incentives to participate in the formal systems, while ensuring fiscal sustainability. Ex-post interventions can be in the form of social pensions or minimum guarantees under the formal sector pension systems. The social pensions can be universal, i.e. provided to eligible individuals as a right, or resource-tested. In each case, there are considerable challenges with respect to design, implementation, and linkages with the rest of the pensions system.

Retirement income transfers should be distinguished from social assistance, whether universal or resource-tested. The latter is available to all who qualify regardless of their age. The retirement transfers, on the other hand, are targeted at the retirees. For general poverty mitigation through transfers, and when other-than-retirement objectives are also policy priority, social assistance programs are more effective than retirement income transfers. However, when correlation between old age and poverty is very high, and fiscal budgets are severely constrained, retirement income transfers may merit serious policy consideration.

In countries with prolonged low fertility, labor market practices that facilitate productive economic activity by older workers may also become essential. As an example, from July 2005, Australia has permitted its citizens that have reached the entitlement age to access superannuation benefits by drawing a portion of their benefits without having to retire permanently from the workforce. Indeed, a recent special report on ageing in The Economist (27 June–3 July 2009 issue) has suggested that in high income countries, there is a case for abolishing the retirement age, while simultaneously implementing labor market policies that make hiring of older workers more affordable and acceptable by the employers. The survey on ageing in The Economist favorably comments on the labor market practices in Japan, which encourage elderly to be in the labor force for a longer period. However, even in Japan, an increasing proportion of the work force is contractual, with constrained benefits for pensions and healthcare.

3. AN OVERVIEW OF SOCIAL SECURITY SYSTEMS IN ASIA

Many Asian countries offer a wide range of social security programs: old age, sickness and maternity, work injury, unemployment, and family allowances (Table 3). The broad range of programs offered in the Asian region suggest that there is a general acceptance of the role of social security in ensuring equitable growth and social stability. Because of space constraints, the discussion is therefore confined to the broad features and characteristics of social security systems.

Table 3: Availability of Programs under Different Branches of Social Security in Selected Countries of the Asia-Pacific Region

Country	Old age, disability, and survivors	Sickness and maternity		Work injury	Unemployment	Family allowances
		Cash benefits for both	Cash benefits plus medical care [a]			
Australia	X	X	X	X	X	X
Bangladesh	c	X	X	X	b	b
Brunei Darussalam	X	b	d	X	b	b
PRC	X	X	X	X	X	X

Country	Old age, disability, and survivors	Sickness and maternity: Cash benefits for both	Sickness and maternity: Cash benefits plus medical care [a]	Work injury	Unemployment	Family allowances
Fiji	X	b	b	X	b	b
India	X	X	X	X	X	b
Indonesia	X	b	d	X	b	b
Japan	X	X	X	X	X	X
Kiribati	X	b	b	X	b	b
Marshall Islands	X	b	d	b	b	b
Micronesia	X	b	b	b	b	b
Myanmar	b	X	X	X	b	b
New Zealand	X	X	X	X	X	X
Pakistan	X	X	X	X	b	b
Palau	X	b	b	b	b	b
Papua New Guinea	X	b	d	X	b	b
Philippines	X	X	X	X	b	b
Korea	X	b	d	X	X	b
Singapore	X	X	X	X	b	b
Solomon Islands	X	b	b	X	f	b
Sri Lanka	X	b	d	X	f	X
Taipei,China	X	X	X	X	X	b
Thailand	X	X	X	X	X	X
Vanuatu	X	b	b	b	b	b
Viet Nam	X	X	X	X	X	b
Western Samoa	X	b	d	X	b	b

Notes:

a. Coverage is provided for medical care, hospitalization, or both.

b. Has no program or information is not available.

c. Old-age benefits only.

d. Medical benefits only.

e. Maternity benefits only.

f. Coverage is provided under other programs or through social assistance.

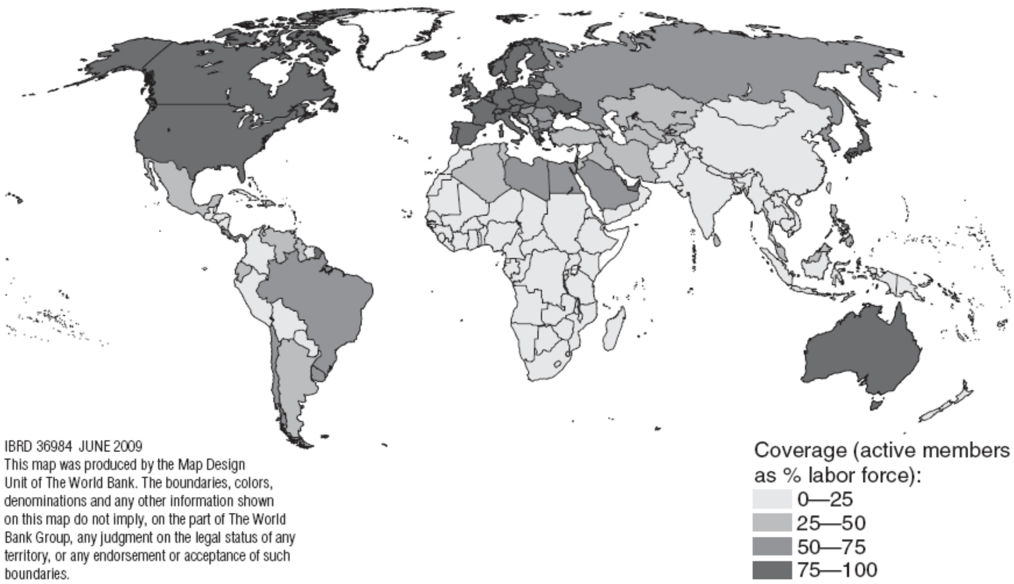
Source: Social Security Administration (2008)

Considerable heterogeneity in social security systems in Asia reflects a host of historical and other factors including the level of economic development and structure of the economy (Table 3). Some of these benefits, however, may be intermediated through social assistance or other public programs in some countries such as Sri Lanka and Indonesia. In Asia, publicly managed Defined Benefit (DB) and Defined Contribution (DC) schemes predominate. Only Hong Kong and Australia operate privately managed DC schemes (Organisation for Economic Cooperation and Development 2009.)

The availability of a social security program, however, does not necessarily imply that it is well designed, has wide coverage, or is financially sustainable. It also does not imply that the organization administering it is well governed; or that different components of the social security system complement each other to bring about systemic effectiveness and financial sustainability.

Figure 1 provides coverage of the labor force for the mandatory pension systems around the world. In most of the Asian low- and middle-income countries (LMICs) the coverage, only about a quarter of the labor force has been covered by the formal pension systems. This reflects relatively low formal sector employment in these countries (Table 3).

Figure 1: Coverage as Measured by Active Members of Mandatory Pension Systems as Share of Labor Force, Worldwide, Early 2000s



Source: Hinz, R. and M. Pallares-Miralles. Forthcoming. International patterns of pension provision II. Social Protection Discussion Paper, World Bank.

Asian countries have varied contribution rates to social security programs: old-age protection, employment, and healthcare (Table 4). Variations in the contribution rate are usually motivated by the larger macroeconomic and political economy changes in a country. For instance, Thailand's social security fund, in view of the current global economic crisis, has reduced contribution rates from 5% to 3.5% for all employers and employees. The government's contribution to plans was reduced from 2.75% to 2.25% in 2009. Estimates suggest that the reduction in contribution rates will collectively save B22.6 billion for employers and employees; and B3.8 billion for the government.[12]

Table 4: Contribution Rates of Social Security Programs in the Asia-Pacific Region, 2008

	Old age, disability, and survivors			All social security programs [a]		
Country	Insured person	Employer	Total	Insured person	Employer	Total
Australia [d]	0	9	9 [e]	0	9 [f]	9 [e]
Bangladesh	0	0	0 [e]	0	0 [t,g]	0 [e]
Brunei Darussalam	5	5	10 [h]	5	5 [f]	10
PRC [d]	8	20	28	11	29 [f]	40 [c]
Fiji[d]	8	8	16	8	8[1]	16

[12] B = Thai baht

Country	Old age, disability, and survivors			All social security programs [a]		
	Insured person	Employer	Total	Insured person	Employer	Total
India [d]	12	17.6	29.6	13.8	22.3	36.1
Indonesia	2	4	6	2	7 [f]	9
Japan [d]	7.7	7.7	15.4	12.4	13.1	25.5 [c]
Kiribati	7.5	7.5	15	7.5	7.5 [f]	15
Marshall Islands[d]	7	7	14	10.5	10.5	21
Micronesia[d]	6	6	12	6	6	12
Myanmar [d]	0	0	0	1.5	2.5	4
New Zealand	0	0	0[e]	0	0	0[e]
Pakistan [d]	1 [b]	5 [b]	6 [b]	1 [l]	11 [f]	12 [l]
Palau [d]	6	6	12	6	6	12
Papua New Guinea[l]	5	7	12	5	7[1]	12
Philippines [d]	3.33 [b]	7.07 [b]	10.4 [b]	4.58	8.32 [f]	12.9
Korea [d]	4.5	4.5	9	7.58	8.53	16.11
Singapore [d]	20 [b]	14.5 [b]	34.5 [b]	20	14.5 [f]	34.5
Solomon Islands	5	7.5	12.5	5	7.5[f]	12.5
Sri Lanka	8	12	20	8	12 [f]	20 [c]
Taipei,China [d]	1.3 [b]	4.55 [b]	5.85 [b]	2.865	8.485	11.35
Thailand [d]	3.44 [b]	3.44 [b]	6.88 [b]	5	5.2	10.2
Vanuatu	4	6	10	4	6	10
Viet Nam [d]	5	11	16	7	18	25
Western Samoa	6	5	11[m]	6	6	12[m]

PRC = People's Republic of China

Notes:

a. Includes old age, disability, and survivors; sickness and maternity; work injury; unemployment; and family allowances. In some countries, the rate may not cover all of these programs. In some cases, only certain groups, such as wage earners, are represented. When the contribution rate varies, either the average or the lowest rate in the range is used.

b. Also includes the contribution rates for other programs.

c. Government pays the total or most of the cost of family allowances.

d. Contributions are submitted to a ceiling on some benefits.

e. Government pays the total cost of most programs from general revenues.

f. Employers pay the total or most of the cost of work injury benefits.

g. Employers pay the total cost of cash sickness and maternity benefits.

h. Government pays the total cost of the universal old-age and disability pensions.

i. Data are at least 2 years old.

j. Government pays the total cost of unemployment benefits.

k. Employers pay the total cost of family allowances.

l. Plus flat-rate contributions.

m. Government pays the total cost of the universal old-age pension.

n. Government pays the total cost of cash maternity benefits.

Source: Social Security Administration (2008)

Singapore's Central Provident Fund reduced the contribution rate for those aged 55 and above from 33% (employee: 20%, employer: 13%) in 2003 to 27% (employee: 18%, employer: 9%) in 2006. This was done to enhance wage competitiveness of older workers and to make them more employable.

In some Asian countries, the total contribution rates are quite high. Thus, the PRC's total contribution rate is 40%; India, 36.1%; Singapore, 34.5%; Japan, 25.5%; and Viet Nam 25%. The social security contributions are statutory levies and therefore impact on the cost of hiring workers. They also adversely affect the disposable income available to workers, leading to liquidity constraints. These countries have little room to raise contribution rates to improve retirement benefits.

At the other end, the contribution rates are quite low for some countries like Indonesia and Australia (9%), Brunei Darussalam (10%), and Myanmar (4%) (Table 4). These countries therefore have greater flexibility in improving retirement benefits through higher contributions.

There are several Asian countries such as Malaysia and Sri Lanka that do not require civil servants to contribute to their pensions and finance pension liabilities out of current revenue. In several countries such as Indonesia and Thailand, contributions from civil servants cover some proportion of the pension costs, with the remaining being financed out of pocket.

While there is evidence of parametric reform in civil service pension schemes, fundamental systemic reform have not been widespread (Asher 2000). In 2004, however, India's central government introduced a New Pension Scheme (NPS) which shifted pensions of newly recruited civil servants from a DB to a DC method (Asher 2008) (Box 1).

Box 1: India's New Pension Scheme

The Indian central government initiated a major reform in the pension arrangements for its employees in 2004. The New Pension Scheme (NPS) compulsorily enrolls all the central government employees (except armed forces) joining after 1 April 2004. The NPS is a defined contribution (DC) scheme under which the civil servant as an employee and the government as an employer each contribute 10% of the salary as contribution toward retirement. Thus, every month the government must deposit its share of the contribution to the account of the individual. The amounts are then invested, and no pre-retirement withdrawals are permitted.

The withdrawal age in NPS is 60 years. A member must mandatorily purchase an annuity from an approved provider for at least 40% of the accumulated retirement savings. The remaining 60% may be withdrawn as lump sum (sometimes erroneously called commutation) which may be used at the discretion of the individual.

The NPS architecture, consisting of the NPS Trust, Central Recordkeeping Agency (CRA), Pension Fund Managers, Trustee Bank, and Custodian, was made operational for central government employees from 1 April 2008. The NPS architecture has also been offered to the state governments to manage the accumulated pension funds of their employees.

The CRA will not only undertake the record-keeping functions, but also forward the amounts under each investment option to a limited number of asset management companies who have secured a mandate through competitive bidding. The investment management costs are 0.0084% of the assets under management for the NPS, as compared to the mutual fund costs, which in India average 2%, and unit-linked insurance policies, which cost 1.5%. The NPS thus is already quite competitive with other investment products, due to its incorporation of design features which have been found from international experiences to be desirable in minimizing overall transaction costs of the pension system.

As there are no pre-retirement withdrawals, the power of compound interest will be fully realized. The NPS architecture has been in operation for over a year now and the NPS corpus of central government employees amounting to over Rs21 billion (US$0.5 billion) stands invested in it. The interim Pension Fund Regulatory and Development Authority (PFRDA) reports that according to unaudited results, the three pension funds have generated returns varying from 12% to 16% on the NPS balances during the year 2008–2009, with weighted average return being over 14.5%.

Since the initiative taken by the central government, at least 22 out of 28 states have also adopted the NPS for their civil servants. As the pension balances of these states also begin to be invested, the level and sophistication of financial and capital markets will favorably impacted.

Voluntary NPS: In May 2009, voluntary NPS, with more flexible contribution rules, was introduced. Any Indian citizen between the ages of 18 and 55, in principle can be a member of the voluntary NPS. The PFRDA has appointed several financial institutions, called Points of Presence, as collection centers for the members. Given the magnitude of the challenges, making mandatory and voluntary NPS more attractive should be a high public priority. There are several measures to achieve this goal that merit serious consideration. These measures require that the PFRDA Bill be passed by the Parliament as expeditiously as possible. The government is also negotiating lower annual costs with the CRA; and providing better incentives to the Points of presence. The tax treatment of the NPS is also being rationalized to provide more even treatment with other retirement products and providers.

Pension Assets and Investments

For a variety of reasons, pension assets in Asia have been exhibiting rapid growth. The Asia-Pacific region’s pension assets increased from US$1.251 trillion in 2003 to US$2.951 trillion by 2008, surpassing Europe, but still behind assets in North America totaling US$4.686 trillion in 2008 (Watson Wyatt 2009). Many of the largest pension funds in Asia, such as those in Japan, Singapore, Korea, and PRC are Sovereign Wealth Funds (SWFs). The SWFs are an integral part of what has come to be known as a “shadow banking system”, with hedge funds and private equity funds comprising other components.

In many Asian LMICs, the limitations of domestic financial and capital markets, and lack of capacity or unwillingness to engage in international diversification of pension fund assets, has meant that the investment risks have been concentrated in terms of geography (domestic assets), and allocation of assets. In countries such as India and Sri Lanka, much of provident and pension fund investments are in government securities; while in countries such as Indonesia, domestic bank deposits account for major share investments. Nearly all of the assets of Malaysia’s Employees Provident Fund (EPF) are invested domestically. Some Asian economies notably Singapore; Korea; Japan; Thailand; Hong Kong, China; and PRC have, however, been engaging in international diversification of the pension assets to varying degrees.

As in other regions, the global economic crisis has added to the challenge of investing provident and pension fund assets of Asian countries in a manner which generate high rates of real return over a prolonged period (Watson Wyatt 2009).

Provident and Pension Fund Governance and Regulation

Governance and regulation of provident and pension funds involves managing principal-agent (or agency) relationships. These arise when principals (provident and pension fund beneficiaries, and tax payers when government funding is involved) need to rely on agents (provident and pension fund managers and trustees, government bureaucrats) to pursue interests of the principals. While there has been increasing recognition of the need for institutionalizing good governance practices involving clarity, accountability, transparency, and management of differing interests among stakeholders, the progress among the Asian countries has been relatively modest. The state domination of the provident and pension fund sponsorship and management in Asia has led to less receptivity to the role of an independent pension regulator who would enforce good governance practices.

There are, however, encouraging signs that governance and regulation issues are beginning to receive deserved attention of policy makers. It is in this context that establishment of India’s interim PFRDA may be regarded as an encouraging sign. International organizations such as the International Social Security Association (ISSA), and the Organization for

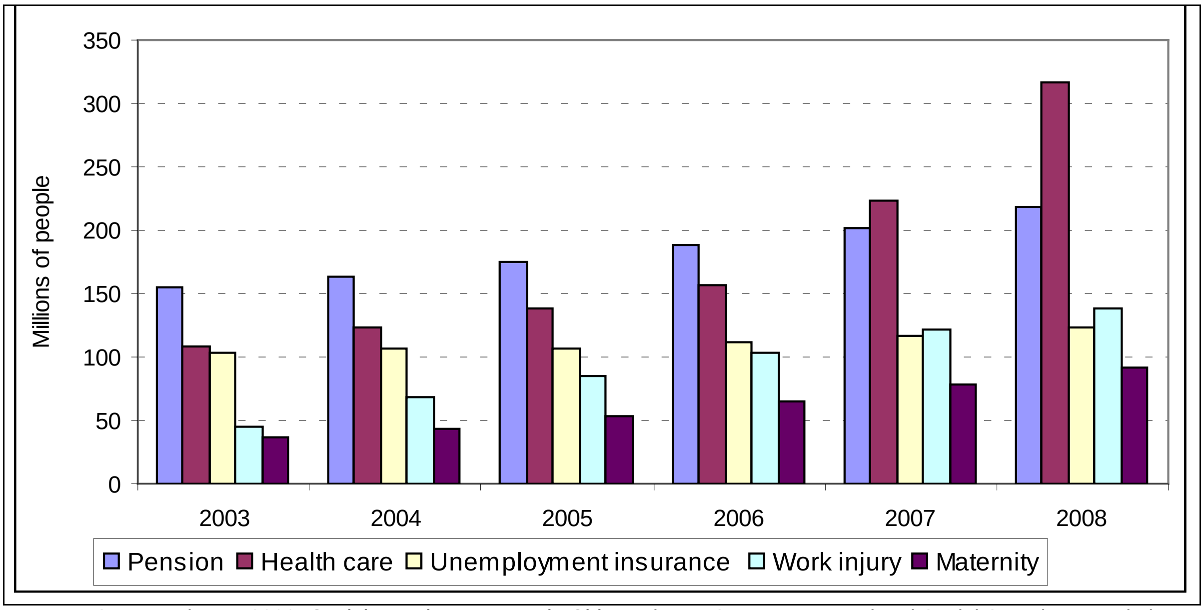
Economic Cooperation and Development (OECD) are also increasingly emphasizing good governance and regulatory practices by their members. Most Asian countries are members of at least one of these two organizations. The increasing role of private occupational pensions in Asian countries, and the pressures to generate better returns on pension assets are also likely to increase the importance of good governance and regulation.[13]

Pension Reform in the People's Republic of China

A case study of pension reform in the PRC illustrates many of the issues and challenges discussed in the previous sections.

The PRC has managed to establish a comprehensive system ranging from pensions, medical care, unemployment, employment injury and maternity. It appears that in recent years the PRC has expanded coverage of various branches of social protection in urban areas significantly (Figure 2).

Figure 2: Urban Social Insurance Coverage in the People's Republic of China, by branch, 2004–2008



Source: Zhu, Y. 2009. *Social security coverage in China.* Mimeo. Geneva: International Social Security Association.

The PRC established its social security system in 1951, and has since witnessed considerable evolution. The 1951 regulations on labor insurance provided comprehensive benefits to urban workers, an overwhelming proportion of whom were state workers. It was a pay-as-you-go system, and was funded by a 3% contribution of total payroll by firms.

The All China Federation of Trade Unions (ACFTU) set up in 1954 administered the system, pooling risks across diverse regions. The above system was abandoned when the Cultural Revolution began in 1966 and lasted for a decade. During this period, social security responsibility shifted from the ACFTU to individual enterprises. The resulting system was quite generous as benefits included pensions, healthcare, children's education, and housing, while no contribution from employees were required.

From 1960 to 1970, responsibility for providing social security shifted from the ACFTU to individual firms. In 1986, employees were required to contribute 3% of wages, while enterprises contributed 15% of their payroll. A new agency, the Social Insurance Agency

[13] Thus Japan's Government Pension Investment Fund with assets of US$1.2 trillion became an independent institution in April 2006. Earlier it was part of the Ministry of Health, Labor, and Welfare.

(SIA) was also set up to supervise pensions. The system was similar to a DB scheme run at an enterprise level. If the firm was unable to pay, the SIA covered the pension liability.

In 1991, Circular No. 33 State Council Resolution on Pension Reform for Enterprise Employees was promulgated. For the first time, the circular envisaged a three-tier system, with contributions from employer and employees (as Tier-2), and a savings account, with contributions from only employees (as Tier-3). However, only a negligible number of enterprises set up Tier-2 and Tier-3 in this period.

In 1995, Circular No. 6 State Council Resolution on Deepening Pension Reform for Enterprises made another attempt at setting up a multi-pillar pension system combining social risk pooling and individual retirement accounts. The implementation regularities led to the creation of many incompatible schemes across the PRC.

The PRC's modern milestone pension regulation was adopted in 1997. It is known as the State Council Development Circular No. 26 Establishment of a Unified Basic Pension System for Enterprise Employees.[14] It mandates three-tier systems for all employees working in cities and towns, whether in public or private sectors. The intention was to broaden the coverage beyond state agencies. The mandatory pillar had a combined contribution rate of 28%, and the potential replacement rate is 58%.

While the first pillar is mandatory, the other two are voluntary. For the mandatory pillar, there were 116.5 million urban participants in 2003, equivalent to about 40% of urban workers (Hu 2006, Table 9). As pensioners numbered 38.6 million, the dependency ratio was 33.

The voluntary pillars 2 and 3 have been receiving increased attention from the PRC's policy makers. In 2004, the Ministry of Labor and Social Security issued provisional regulations on occupational pensions. This was followed by another regulation focusing on pension fund management and regulation. The second pillar has individual accounts and must be fully funded. The scheme, however, can be DC or DB depending on the choice by employer.

Under the provisions, employers can receive tax deduction of up to 4% of their total wage bill for pillar 2, but employees' contributions are not tax advantaged. The investment regime specifies quantitative restrictions on the investments, with maximum investment in equities of 20% (Hu 2006, p.17).

Separately, the PRC has a voluntary rural pension scheme implemented since 1991. It is financed by voluntary contributions and a collective subsidy. The coverage rate has been increasing steadily from 8.3% in 2003. By the end of 2008, a total of 55.95 million rural Chinese were covered under the scheme. Benefits amounting to CNY5.8 billion were distributed to around 5 million pensioners in 2008. Accumulated contributions amounted to CNY50 billion over 3 years, approximately 11% of which was paid out to pensioners in 2008.

As the rural working population is much larger than the urban working population, the overall coverage rate for the PRC in 2003 was 20.7%.

The age for pension eligibility is relatively low in the PRC. The central government guidelines are age 60 (for men and professional women), age 55 (nonprofessional salaried women), or age 50 (women in all other occupations). Those employed in arduous or unhealthy work are eligible for pension benefits at 55 (for men) and 45 (for women) respectively. Each retiree in the PRC will thus be eligible to receive a pension for a fairly long period, particularly as longevity is expected to increase.

The PRC first piloted corporate annuities as a second pillar in its social security system in 1990, and implemented it in 2004. The corporate annuities scheme covers 10.38 million people, over 30,000 enterprises and accumulated contributions exceeding CNY190 billion as of the end of 2008. (Zhu 2009).

[14] The PRC does not yet have national security legislation. Provincial and city/county social insurance agencies and employers adapt central government guidelines to local conditions (Social Security Administration 2008).

Two broad themes emerge from the PRC's social security reform experiences. First, there has been rapid expansion in coverage of all five realms of social security protection (Table 3). This increase rests on unified planning for both rural and urban areas, and a committed effort to enhance social security protection and achieve universal coverage by 2020. Zhu (2009) mentions several special characteristics of the PRC's approach—the involvement of academics and social partners; piloting and gradual expansion; political will; inclusion of extension in national socioeconomic development plans; special campaigns for targeted groups; employment-promotion measures for less privileged groups; and several other proactive policies that merit attention and adaptation by other Asia-Pacific countries.

The second broad theme that emerges is the increasing role of the state in delivering social security protection in the PRC. Advances in health status indicators were achieved in the 3-decade period (1950–1980) where social security was largely a public provision. The PRC's social security system was substantially weakened by the economic reforms in the last few decades of the 20th century. Recent experiences with the PRC's social security reform have underscored the state's ability to provide social security protection to an increasing number of people.

However, there are key challenges and policy options that the Chinese social security system must contend with.

First, the pension system is urban and state-sector oriented. As a result, the majority of the population in rural areas, where only voluntary pension schemes are in operation, have very low coverage. In addition, urban-rural migration resulted in significant proportion of migrants losing part or all of their pension benefits.

Low fertility rates and rapid ageing will limit the extent to which traditional family (or community) support can be relied upon in financing old age in the PRC.[15]

Second, in urban areas, high contribution rates, unrealistically low retirement age, and continuation of rules favoring the state-sector are hampering increased coverage, and provision of adequate pensions.

The third challenge is to improve investment policies and the performance of urban, rural and the National Social Security Fund (NSSF) funds. A substantial proportion of the pension assets are in bank deposits and government bonds. Thus, in 2004, 82% of NSSF assets and 56% of rural pension fund assets in 2003 were in these two asset classes (Hu 2006, Tables 19 and 20). The average real return for the 1993–2004 period on deposits was -0.6% and on government bonds 1.0%, and on equities 4.5% (Hu 2006).

The above suggest that there is scope for improving investment policies and performance of pension assets in the PRC. Addressing this will require substantive capital and financial market reforms.

The PRC historically has adopted different social security systems for its rural and urban population. Recent rural-to-urban migration in the PRC has caused major social security compliance challenges. While the urban system has a mandatory component, the rural pension system is on a voluntary basis. The rural pension system is covered under the Provisional Rural Pension System regulations of 1992. The details such as contributions are left to local governments.

Finally, the PRC system exhibits considerable variation and fragmentation between regions, sectors, and classes of employees. Pensions for civil servants (administered by the Ministry of Personnel) are entirely funded from the budget. Some of the variation is due to differing demographic structures in various provinces. There is a need to consider passage of a national law on social security.

[15] Shanghai is reportedly considering relaxing its one-child policy. The positive impact on reducing the pace and level of ageing will, however, be gradual.

4. AVENUES FOR STRENGTHENING SOCIAL PROTECTION SYSTEMS

This section briefly enumerates various possible avenues for strengthening social protection systems, with examples from Asian countries. Depending on the context, objectives, financial, fiscal and institutional capacities each Asian country can combine these avenues to structure an appropriate strategy for strengthening its social protection system.

Avenue 1: Modernizing and professionalizing existing formal social security organizations in performing core functions.

Each provident and pension fund must perform five core functions with reasonable degree of competence and efficiency (Ross 2004). These are:

(i) reliable collection of contributions, taxes and other receipts (including any loan payments in the security systems);

(ii) payment of benefits for each of the schemes in a timely and correct way;

(iii) securing financial management and productive investment of provident and pension fund assets;

(iv) maintaining an effective communication network, including development of accurate data and record keeping mechanisms to support collection, payment and financial activities; and

(v) production of financial statements and reports that are tied to providing effective and reliable governance, fiduciary responsibility, transparency, and accountability.

There are several examples of the initiatives taken by various provident and pension funds in Asia designed to improve the performance with respect to one or more core functions. Countries such as Philippines, Singapore, and Malaysia have been making increasingly sophisticated use of information technology to improve administration and compliance efficiency, and to generate management information systems which are conducive to better decision making.

PRC, Thailand and Malaysia have become more aggressive and professional in investing social security funds. These initiatives could potentially lead to higher returns though the risks are also likely to be greater.[16]

Avenue 2: Parametric and/or systemic reforms of some components of existing systems.

Parametric reforms involve changing one or more parameter of the pension system, such as altering the pension benefit formula, increasing the retirement age, and changing pre-retirement withdrawal provisions. A systemic reform involves substantive changes in such areas of the pension system as basic philosophy (such as a shift from social risk pooling to individuals bearing pension risks), or pension methods (such as a shift from a DB to DC method of pensions).

The examples of parametric and or systemic pension reforms include the following:

- Singapore has introduced a deferred annuity scheme called CPF Life to help address longevity risk. CPF Life does not increase the resources available to an individual in retirement but changes the timing of withdrawals, and introduces a private risk-pooling insurance scheme financed by the members themselves.

[16] This is exemplified by the 57.3% share in Rashid Hussein Bank (RHB) Capital Bhd., a private sector financial conglomerate, controlled by Malaysia's Employee Provident Fund (EPF). Such unusual investment choice could generate higher returns, but also involves substantial risks. There is also a possibility that disproportionate energies of the top management of the EPF may be devoted to this investment.

- New Zealand has introduced a portable, DC scheme called the 'Kiwi Saver Scheme', to help manage additional resources needed to address longevity risks.
- Several countries such as Japan, Singapore, and Malaysia are encouraging retired individuals to be at least partly active in the labor market through a variety of measures.
- Many countries such as Fiji, Philippines, and India are tightening up on pre-retirement withdrawals from the provident and pension schemes. This will ensure that the power of compound interest is harnessed for a longer period.
- A shift by India's civil service pension scheme from DB to DC method is an example of a systemic reform.

Avenue 3: Introducing or Expanding retirement income transfers which do not entirely depend on formal labor market relationships or entirely on contributions by members.

There is wide variety of retirement income transfers. These include social pensions, and co-contributions by the state. As noted in Section 2, for poverty mitigation, social assistance programs targeted at the poor of all ages may be more appropriate. There are also conditional cash transfers,[17] which may be appropriate in some circumstances.

Examples from Asian countries include:

- Thailand's 30-Baht Scheme (also known as the Universal Coverage Healthcare Scheme), introduced in 2001, has not only been continued but expanded with greater state support, covering nearly 50 million Thai citizens. By 2006, per capita expenditure on this scheme was B1,659 per person, while corresponding expenditure was B1,738 for health benefits under the Social Security Office schemes, and B8,785 under the Civil Servants Medical Benefits Scheme (Iwana 2009).
- In stimulus packages of several countries, such as the PRC and India, there is a significant social assistance and retirement income transfer component.
- In 2007, the Beijing municipal government extended coverage of old-age benefits to all elderly citizens under its jurisdiction. This may be regarded an example of a social pension.
- Korea's 2007 initiative expects to cover 70% of all senior citizens through a basic old-age pension financed by the government.
- Indonesia has provided cash transfers to cushion the burden on low-income people from restructuring its fuel subsidy scheme.

Avenue 4: Other Initiatives

The examples of other initiatives which may contribute to strengthening of the social protection systems in Asia include the following:

- Countries such as PRC, India, Malaysia, Thailand, and Philippines are encouraging occupational private pension plans and/or individual retirement accounts to broaden the sources of retirement financing and risk sharing.
- Countries such as Bangladesh, India, and Indonesia are encouraging linking of pension with microfinance. Policy makers hope that this will also assist in enhancing financial inclusion and strengthen social cohesion.
- Korea and Singapore are experimenting with reverse mortgage schemes to use housing equity for financing retirement.

[17] These pay recipients in exchange for an action that brings private behavior closer to the social optimum (de Janvry and Sadoulet 2004). Therefore, they are best regarded as part of broader social safety nets.

5. CONCLUDING REMARKS

As a result of the rapid population ageing due to decline in fertility and increased longevity, Asian LMICs will have a much shorter period in which to construct social security systems that (i) provide adequate benefits to most of the eligible population; (ii) are sustainable financially and fiscally; (iii) are affordable by individuals, businesses, and the economy as a whole; and (iv) are robust in riding out macroeconomic cycles, such as the current global economic crisis. Moreover, even while exhibiting these characteristics, their social security systems will need to ensure that high trend rates of economic growth and incentives for labor-market participation are sustained.

While there is considerable heterogeneity among Asian countries with respect to population size, per capita income levels, and institutional, fiscal, technological, and managerial capabilities, the analysis in this paper suggests that some common areas for turning the global economic crisis into an opportunity to strengthen social protection systems may be identified.

First, social security systems are increasingly regarded as integral to overall economic, social, and political management of the country, rather than being isolated and of secondary concern. The current global economic crisis has reinforced and perhaps accelerated this trend. The role of the state in social security financing, management, and supervision is also expected to increase in Asia-Pacific countries.

PRC, India, Indonesia,[18] and Viet Nam[19] are examples of countries that have relatively recently begun the task of integrating social security reform initiatives that involve pensions, health care and social safety nets into their development strategies.

These initiatives are designed to rebalance the economies of these countries to make them less vulnerable to external shocks, and to achieve more inclusive and broader development. They do, however, recognize the importance of sustaining a high trend rate of economic growth, since, in the absence of larger national incomes, the task of managing competing objectives, and adequately providing for the young and the old, may become more difficult.

There are some Asian countries, such as Myanmar, Bangladesh, and Fiji, where there is scope for greater integration of social protection systems in their broader development strategies.

Second, following from the first, is the increasing recognition that an effective reform of social security systems requires complementary reforms in other areas. These include fiscal policies, labor markets, financial and capital markets, and provident and pension fund governance and regulation. Expansion of retirement income transfers, and social assistance, requires concomitant reforms in public service delivery systems. The importance of government competence in delivery of public services has increased considerably as Asian countries pursue aggressive fiscal stimulation packages.

Policies to promote retirement income from labor market participation even after formal retirement will be imperative as life expectancy (at birth and at 65) continues to rise in Asia-Pacific countries. This also implies that countries must be relatively flexible about the formal retirement age rules.

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[18] Indonesia has embarked the long term objective of achieving universal coverage for all branches of social security primarily through social insurance mechanism. It passed the Undang-undang Sistem Jaminan Sosial Nasiona Law No 40/2004, and Law No 11/2009 on social welfare to achieve this goal. The actual progress however has been relatively slow. A social security secretariat was set up in May 2009 but its budgetary allocations are not on a firm footing.

[19] Viet Nam also has the long term goal of universal coverage using social insurance methods, complemented by means-tested, social assistance and transfers. It passed a law on health insurance in November 2008 and a Decree 62/2009ND-CP on health insurance in August 2009. It has, however, postponed the implementation of unemployment insurance, but provided cash transfers to the poor to cope with the current global crisis.

Increasing use of pre-funding in pension financing, as in PRC, India, Philippines, Malaysia, and Thailand, requires concomitant reforms in financial and capital markets, greater investment management expertise among provident and pension fund organizations, and promotion of enhanced financial literacy and financial inclusion policies.

Third, the analysis in this paper underscores the urgent need for greater professionalism by provident and pension fund organizations in many Asian countries in performing the five core functions identified in Avenue 1 in Section IV. The mindset of the relevant government ministries and organizations must change from “providers of welfare services” to being professional service providers, with strong emphasis on economic efficiency and organizational effectiveness.

In conclusion, for Asian countries to strengthen social protection systems, considerable attention to professional level details, and openness to innovative experimentation will be needed. In addition, construction and maintenance of robust databases, strong analytical capabilities, appropriate organizational structures and mindsets, and understanding of the subtleties of pension economics (particularly sustainability over long time-horizon, tyranny of seemingly small numbers exerting powerful impact on pension scheme viability and true meaning of what is meant by funding pensions) will also be needed. It is vital that provident and pension fund organizations publicly communicate to the stakeholders stochastic actuarial assessments providing long term projections of the impact of changes in demographic, labor market and other variables on the sustainability of current pension arrangements.

The global economic crisis represents a potential opportunity to progress toward more extensive and robust social protection systems. As there is considerable heterogeneity among Asian countries with respect to the above constraints, the progress in taking advantage of the crisis to strengthen social protection is likely to be uneven, and perhaps less rapid and comprehensive than desired.

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