ASIAN DEVELOPMENT BANK TAR: THA 34246

TECHNICAL ASSISTANCE

TO THE

KINGDOM OF THAILAND

FOR

PENSION SYSTEM DESIGN

December 2002

CURRENCY EQUIVALENTS
(as of 5 December 2002)

Currency Unit	–	baht (B)
B1.00	=	$0.0230
$1.00	=	B43.42

ABBREVIATIONS

ADB	–	Asian Development Bank
FPO	–	Fiscal Policy Office
GPF	–	Government Provident Fund
MPF	–	Mandatory Provident Funds
OAP	–	old age pension
SEC	–	Securities and Exchange Commission
SOE	–	state-owned enterprise
SSO	–	Social Security Office
TA	–	technical assistance

NOTES

(i) The fiscal year (FY) of the Government ends on 30 September.
(ii) In this report, "$" refers to US dollars.

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I. INTRODUCTION

1. Thailand has a relatively well-developed system of social protection including a near-universal system of health insurance. With the expansion of the social protection system, concomitant efforts have been under way to introduce a complementary structure of social security institutions. Thus, the Social Security Act of 1990 reflects a long-standing vision for the phased introduction of a comprehensive system of social security in Thailand. The expansion of social security coverage that has taken place in the context of national economic and social development plans since 1992 has stressed the importance of (i) promoting equity through preventing widening of disparities in income distribution, and (ii) mobilizing the savings necessary for growth. In addition to formal schemes for insurance, the government strategy includes promotion of community-based and related insurance and health schemes. The ultimate objective is to achieve a balanced social security system that provides insurance against risks of sickness, disability, maternity, old age, and death while serving also to enhance flexibility of the labor market and help the country make the transition to a modern industrialized economy.

2. Accordingly, since 1990 a system of insurance has been introduced in Thailand in stages for risks from disability, maternity, and sickness. To this, recent years saw the introduction of a scheme for allowances for children and the first old age defined-benefit pension scheme in 1999. Complementing these developments, Thailand is making concerted efforts to promote savings as part of an integrated and sustainable social risk management strategy that provides a social safety net for the elderly poor while also stimulating financial and capital market development. The introduction of mandatory individual savings-annuity accounts for retirement is key to this strategy, as is development of decentralized administrative and fund management capabilities. In this connection, fact-finding for technical assistance (TA) for pension system design was carried out from 25 February to 7 March 2002, and an understanding was reached with the Government on the TA's objectives, scope, cost estimates, and implementation arrangements. These understandings were reconfirmed during a consultation mission on 24-25 October 2002.[1]

II. ISSUES

3. According to the Government's policy statement of October 2000, the primary objectives of Thailand's pension policy are (i) prevention of poverty among the elderly through provision of adequate wage replacement upon retirement, appropriately indexed to inflation; (ii) phased expansion of coverage to as many people as possible through a system that is financially sustainable; and (iii) reduction of labor market distortions and promotion of savings needed to develop financial markets and stimulate economic growth. The present system does not adequately meet these objectives for a variety of reasons, including incomplete or poor design, weak legal and regulatory framework, and a fragmented structure that distorts incentives and inhibits labor mobility. The need for an integrated and more efficient pension system is becoming acute. The demographic transition in Thailand means fewer children to look after older generations. Furthermore, with rapid urbanization, the multi-generation family and traditional or informal forms of social security are disappearing, and saving for the future through formal schemes is becoming increasingly important for each individual.

4. The pension system consists of a number of components. The Old Age Pension (OAP) is a defined benefit introduced in 1999 by the Social Security Office covering about 6 million private sector salaried workers and expected to be expanded to cover a further 3 million

[1] The TA first appeared in ADB Business Opportunities in May 30, 2002.

workers in 2002. Government employees are required to be members of the Government Pension Fund (GPF). The GPF, established in 1997 and covering about 1.3 million civil servants and military personnel, has a two-tier structure—a defined-benefit program paid out of general tax revenues and a funded defined-contribution program, which receives contributions from both employee and employer.

5. There is a separate, voluntary Government Permanent Employees Provident Fund for permanent, non-officer government employees. However, temporary, non-officer government employees are covered by the OAP. Employees of state-owned enterprises (SOEs) are not covered by the OAP or the GPF. SOEs have been encouraged by the Government to set up provident funds for their employees; there are currently some 60 such funds covering about 200,000 workers. For the private sector, 700 private provident funds cover 4,300 employers and 1.2 million employees. Also, effective April 2001, retirement mutual funds were authorized. The objective of these funds is to provide a means of voluntary retirement savings for those employees who are not covered by provident funds and/or who wish to make additional contributions, supplemental to their contributions to voluntary provident funds.

6. The adequacy and viability of arrangements for retirement income have been profoundly affected by (i) the reduction in fertility levels from about 6 in 1975 to 1.78 in 1996, (ii) reduction in mortality rates, and (iii) increase in life expectancy for both males and females to 70 years and 75 years, respectively. These developments have sharply accelerated the aging of the population, with the proportion of those aged over 60 expected to rise from the present 9% to about 18% by 2020 and to continue growing at an accelerated pace after that.

7. For the OAP, the unfavorable demographic outlook, the low contribution rate (presently 4%, to be raised to 6% in 2003) and low retirement age of 55, the high accrual rate, and the benefit formula's reliance on the last 5 years' pay rather than on pay over the working lifetime are factors that make it financially unsustainable. At present, the system would need a contribution rate of 12% to achieve financial balance. If some combination of change in contribution and/or accrual rate, or change in retirement age is not introduced soon, the required equilibrium contribution rate is expected to rise to over 23% by 2040. The first deficit in the system is expected in 2031, by which time the Government's implicit pension debt will be 32% of GDP; by 2043 the reserves of the OAP will have been exhausted. [2]

8. Despite its looming costs, expected replacement rates for the OAP are insufficient for retirement and will need to be supplemented by additional sources of retirement income. [3] Moreover, the lack of direct linkage between the OAP's contributions and benefits is a significant distortion to labor markets. This is further complicated by the separate SOE and other government pension funds, which pose barriers to labor mobility. The scope, consistency, and uniformity of these systems is thus a matter of significant policy concern. These pension funds need to be examined for outsourcing of management, investment, and other services to reduce their resource burden on the public sector, and for their ultimate integration into a national, mandatory, defined–contribution system. For the private sector there is a need for a mandatory, defined–contribution system of savings that would contribute to additional sources of retirement income while promoting economic growth.

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[2] Detailed actuarial and financial forecasts were developed through an updated spread sheet based pension model provided by the World Bank (the PROST model).

[3] Based on household survey and other data, a combined replacement rate of 50-55% of income from all sources is estimated to be adequate for retirement purposes.

9. Thailand has given high priority to the development of a pension system that is institutionally sound, socially adequate, and financially sustainable over the long run. It is desired that the system be cost effective in the sense of providing maximum social protection at the least cost in terms of budgetary resources and allocative distortions. Besides ensuring social welfare and fairness for the present generation, the system is expected to provide fairness in the distribution of benefits and burdens between the present and future generations. In particular, it needs to be financially self-sustaining over long periods of time, and capable of withstanding considerable demographic and macroeconomic fluctuations.

10. The essential underpinning for the reformed pension system is a coherent statutory and regulatory framework that safeguards retirement funds and protects the rights of contributors and their families to receive retirement income benefits. Legislation should reflect best practice by vesting the authority to set fundamental parameters with the legislative body and not, as is sometimes the case at present, with officials of various ministries. A key requirement is a broadly representative and independent government agency to establish policy, adopt regulations, monitor compliance with legal requirements and standards, and take a proactive role in the protection of member rights. Finally, there is recognition of the need to better manage public sector resources as well as to limit the public sector's financial liabilities through promotion of a more decentralized system that places greater reliance on the private sector's administrative and fund management capabilities. The Government's strategy to address these issues is a reformed pension system based on a combination of

(i) a financially stable public solidarity system—the OAP, designed primarily to assist the low paid and prevent poverty among the elderly;
(ii) a publicly mandated, privately managed, savings-annuity system in which workers are required to set aside money and invest it in order to finance their own retirement; and
(iii) a voluntary savings system that will allow those who wish to save more money for their own retirement on a tax–favored basis.

11. The establishment of a mandatory accumulation system will help address several urgent national needs. First, it will allow the Government to contain the size of the solidarity system, thereby reducing government liabilities and reducing the size of future payroll contribution increases. This will also contribute to maintain a healthy labor market. Second, it will allow workers to save money for their own retirement so that the burden on future workers will be less. The accumulation system will allow workers to choose among competing private provident funds in order to invest their savings, while investment decisions will be made by private asset managers, seeking to maximize returns to participants. This arrangement will help to provide the best possible investment returns and benefits for workers. Finally, the mandatory accumulation system will create a pool of institutional capital that can be invested in Thailand and help promote deeper capital markets with a wider range of financing instruments.

12. The Government began carrying out a systematic analysis of pension issues and options with the assistance of Asian Development Bank (ADB) TA provided in 1997 in the context of financial sector reforms in response to the economic crisis.[4] A cabinet committee for retirement and old age policy was established for this purpose, chaired by the minister of finance, with the minister of labor as deputy, and a subcommittee for drafting pension and provident fund reforms was formed headed by the director general of the Fiscal Policy Office (FPO). Preliminary proposals for a mandatory, privately provided system of pensions were made in early 2000.

[4] ADB. 1997. *Technical Assistance to the Kingdom of Thailand for Pension Provident Fund Reform*. Manila.

Based on these preparations, on 17 October 2000, the Government formally approved an action plan for the introduction of a mandatory accumulation system (or pillar 2) and authorized further work to determine its design and the time frame for its implementation. The subcommittee, consisting of representatives of stakeholders including labor, regulators, employers, Government, etc., has been supported by ADB through further actuarial and policy analysis provided in 2001 and 2002. This has resulted in proposals for an integrated pension system and a "blueprint" for the phased introduction of the legal, regulatory, and administrative reforms needed to implement the new system. During this time the Government has been carrying out public information campaigns to improve knowledge of retirement and savings issues; these campaigns are expected to be continued during the entire phase of implementation of reforms. In September 2002, the cabinet reiterated its support for pension reform through approval for its early implementation.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

13. The TA will assist the Government in reforming pension law and pension liability management during the first phase of the design and implementation of the reformed pension system in Thailand. The logical framework is provided in Appendix 1.

14. The outputs will include

(i) drafts of laws to establish the structure of the mandatory accumulation system, provide for its proper regulation, protect the interests and assets of program participants, provide for the transition from the current system to the new system, etc;
(ii) amendments to the civil code and other Thai laws that will be required as a result of the passage of pension reform legislation;
(iii) financial and actuarial modeling, analysis of insurance sector, and reports and recommendations based on this analysis;
(iv) models to project benefits payable from the system to different groups of workers;
(v) analysis and evaluation of the adequacy of administrative systems and procedures; and
(vi) training and public information campaigns.

B. Methodology and Key Activities

15. Three phases are expected in the reform blueprint, of which the first is the design phase in 2003, wherein the system features will be finalized by the cabinet committee, further actuarial analysis will be conducted, and the drafts of key laws will be prepared for submission to parliament. This phase will prepare the groundwork for (i) expansion or introduction of the pillar 2 mandatory provident fund system; (ii) creation of a new independent agency, the Pension and Provident Funds Authority, for the development and implementation of national policy on retirement benefits and the interpretation and enforcement of laws on such benefits; and (iii) review of the principal laws and regulations for pensions and provident funds, which constitute pillars 1 (solidarity pensions) and 3 (voluntary pensions) of the public and private pension and provident fund system of Thailand.

16. The second phase in 2004 will involve regulatory system and information technology (IT) design and implementation, and development of the actuarial profession. This phase will include

enactment of the legal framework developed in phase 1 and establishment and operationalizing of the regulatory agency; drafting of all regulations; development of actuarial capacity within the Government and of the administrative and IT systems needed; as well as strengthening of the actuarial profession through creation of university programs in actuarial science and development of examination, certification, and licensing procedures. The latter will provide the basis for developing annuity, disability, and survivor (life) insurance products to support the private pension and the mandatory accumulation system.

17. The final phase will commence in 2005 with the implementation of the mandatory savings-annuity system. It is expected that ADB will provide assistance in coordinating external support for the subsequent phases of the implementation plan.

C. Cost and Financing

18. The TA is expected to cost $860,000 equivalent, of which $460,000 will be in foreign exchange and $400,000 equivalent will be in local currency. ADB will finance on a grant basis $600,000 equivalent, comprising the entire foreign exchange cost plus $140,000 equivalent of the local currency cost. The TA will be financed on a grant basis by ADB's TA Funding Program. The Government will finance the remaining local currency cost of $260,000 equivalent in kind by providing office accommodation, support facilities, communications, counterpart staff, and workshop support. A detailed cost estimate is provided in Appendix 2.

D. Implementation Arrangements

19. The Fiscal Policy Office of the Ministry of Finance will be the Executing Agency for the TA. The Executing Agency has agreed to assign a counterpart team to implement the TA and facilitate coordination with the subcommittee and other relevant agencies and stakeholders including, but not limited to the National Economic and Social Development Board, the Securities and Exchange Commission, the Social Security Office, the Ministry of Labor, representatives of employers' and employee groups, and labor unions.

20. The TA is expected to commence on 1 January 2003. It will be completed by 31 December 2003 and will require 12-person months of international and 22-person months of domestic consulting services. Two international consultants will be recruited: The team leader will be an actuary/pension policy expert and will be assisted by a legal expert. Three domestic legal experts and a domestic capital markets expert will be needed. The terms of reference and the outline of the expected final report are attached as Appendices 3 and 4, respectively. The contract is based on quality-cost-based selection process and the consultants will be recruited through a simplified technical proposal. All consultants will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB in selecting domestic consultants. Equipment procured under the TA will be in accordance with ADB's *Guidelines for Procurement*, or any other procurement method acceptable to ADB. The Government and ADB will jointly hold a series of workshops to disseminate the results and output of the TA to stakeholders on an ongoing basis.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of $600,000 on a grant basis to the Government of Thailand for Pension System Design, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goals 1. Promote old age security in a viable manner 2. Contribute to economic growth and efficient resource allocation	• Sound, secure, and sufficient prefunding of retirement income benefits (and associated survivor benefits) • Coordinated national pension policy and regulation • Equitable participation by workers and employers in secure funding scheme	Actuarial analysis by Government and Asian Development Bank (ADB) Review and analysis by Ministry of Finance, Securities and Exchange Commission, and to be established regulator	• Coordination in national policy through leadership by cabinet committee on old age policy and retirement • Contributions efficiently collected • Effective regulatory agency • System assets invested in well-diversified portfolio of safe and liquid investments • All information technology (IT) systems built and tested before the system begins • Old Age Pension (OAP) financially stabilized in a timely manner • Actuarial capacity developed • Effective insurance industry • Stakeholders adequately consulted
Objective To assist the Government in reforming pension law and pension liability management	• Expanded and coordinating coverage of existing laws • Design of mandatory defined–contribution system for private-sector employers • Design of new regulatory agency that is broad-based and independent • Institution of modern actuarial and accounting norms • Expanded legal protection for workers and their dependents	Technical assistance (TA) report and review missions	• Coordination in national policy through leadership by cabinet committee on old age policy and retirement • Effective supervision by subcommittee for drafting pension provident fund reforms
Outputs **A. Legal framework expanded**	• Draft legislation to establish mandatory provident funds (MPFs)	TA report, review missions, and regular meetings of subcommittee for drafting pension provident fund reforms	• Effective interagency coordination within Government

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	• Draft amendments to legislation to integrate other pillars and pension systems • Draft amendments to legislation in tax, survivor rights, spouse rights, worker protection and related areas	TA report, review missions, and regular meetings of subcommittee for drafting pension provident fund reforms	• Concordance is achieved between proposed legislative changes and underlying civil code • Budgetary resources provided for ongoing information campaign targeted at legislators and stakeholders
B. Regulatory framework expanded and coordinated	• Draft regulations to adapt Securities and Exchange Commission (SEC) regulatory structure to proposed expanded multipillar system • Draft regulations for implementation of proposed MPFs • Draft administrative forms and forms of agreement for consistent MPF implementation	TA report, review missions, and regular meetings of subcommittee for drafting pension provident fund reforms	Active participation of SEC, private assessed management companies, Social Security Office (SSO), in vetting proposals
C. Liabilities accurately assessed and funding requirements identified through: • Actuarial analysis of liabilities, cash flows, and reserves from combined pension pillars • Projections of replacement ratios provided by combined pension pillars	Actuarial report for current and proposed pension system completed	TA report, review missions, and regular meetings of subcommittee for drafting pension provident fund reform	• Timely provision of microeconomic, financial, demographic, labor market, and other data • License obtained for Government to use PROST Pension Model • Insurance market capabilities are adequate
D. Government and private sector actuarial capacity increased through: • Training programs in financial and actuarial mathematics	Report on development of annuity market completed • Training programs devised		

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
• Training in proper use of actuarial models • Establishment of government office of the actuary • Working with insurance companies to develop life annuities to convert accumulated account balances into lifetime income • Working with insurance companies to expand group and individual life insurance and disability products	• PROST training programs for 10 staff designed and completed • Strategy for development of office of the actuary completed • Annuity/insurance and other relevant products discussed with insurance companies • Workshops conducted		
E. Fiduciary best practices advanced under appropriate investment guidelines through: • Provisions of draft legislation and regulations • Terms of model forms and agreements	Draft laws and legal amendments completed	TA report, review missions, and regular meetings of subcommittee for drafting pension provident fund reforms	• Feasible trust or appropriate analogous concept is agreed upon. • SEC, private sector, and others able to reconcile differences in views, if any
F. Draft legislation establishing new independent agency (TPPFA) advances: • Oversight of pension fund administration and management • Employer compliance • Development of coherent national pension policy	Draft laws and legal amendments completed	TA report, review missions, and regular meetings of subcommittee for drafting pension provident reform	Interministerial coordination

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Inputs			
1. International actuary	• Update models • Revise financial and actuarial forecasts • Review of actuarial profession • Evaluate government actuarial capacity • Assessment of life insurance sector • Training in modeling • Workshops for life insurance industry • Report on annuity markets	• Updated model • Report on assumptions and model calibration • Report on annuity markets • Lists of training exercises conducted and participants • TA reports • ADB review missions	• Commitment of executing agency • Cooperation of concerned agencies
2. International legal expert	• Finalize drafts of amendments to Social Security, Provident Funds, and other laws. • Finalize drafts of law for independent regulatory agency. • Review of nonpension legislation to prevent poverty in many elderly, particularly those not participating in formal pension system • Recommendations to protect participant rights, rights of spouses, divorced spouses, and children • Report on investment regulations for pension funds.	• Copies of draft amendments and laws • TA report • ADB review missions	
3. Domestic actuary	• Update pension models. • Develop statistical database covering all aspects of social, financial, and macroeconomic data.	• Calibrated pension model • Operational database	• Commitment of executing agency • Cooperation of concerned agencies

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
4. Domestic Legal Specialists			
• Domestic legal counsel	• Review all relevant social security laws and other laws.		
• Domestic bankruptcy specialist	• Review and make recommendations on regulations and procedures regarding collection/ enforcement aspects of social security office.		
• Domestic constitutional law expert	• Review existing pension investment regulations.	• Drafts of amendments and law • TA report • ADB review missions	
• Domestic legal counsel on estate, tax, and family matters		• Report on operating procedures on exchange	
5. Domestic capital markets specialist	• Review capital market size, depth, and composition.	• Report on disclosure standards of the funds, standard forms of agreement, etc.	

COST ESTIMATES AND FINANCING PLAN
($'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	340.0	0.0	340.0
ii. Domestic Consultants	0.0	88.0	88.0
b. International and Local Travel	30.0	5.0	15.0
c. Reports and Communications	0.0	5.0	5.0
2. Equipment[a]	10.0	0.0	10.0
3. Training, Seminars, and Conferences[b]	10.0	20.0	30.0
4. Transportation	0.0	1.0	1.0
5. Miscellaneous Administration and Support Costs	2.0	12.0	14.0
6. Representative for Contract Negotiations	5.0	0.0	5.0
7. Contingencies	63.0	9.0	92.0
Subtotal (A)	**460.0**	**140.0**	**600.0**
B. Government Financing			
1. Office Accommodation, Utilities, and Transport	0.0	35.0	35.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	45.0	45.0
3. Secretarial and Office Support	0.0	20.0	20.0
4. Workshops	0.0	100.0	100.0
5. Miscellaneous Administration		20.0	20.0
6. Contingencies		40.0	40.0
Subtotal (B)	**0.0**	**260.0**	**260.0**
Total	**460.0**	**400.0**	**860.0**

[a] Includes 4 computers and peripherals, fax machines, and a copier.
[b] Includes honoraria for resource persons, public information campaign.
Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. International Actuary and Team Leader

1. The expert's tasks will include but not be limited to the following key areas:

(i) Take overall responsibility for coordinating the work of international and domestic advisors. Prepare all required financial and project reports for ADB, assure completion of all deliverables.

(ii) Update all assumptions (macroeconomic, demographic, labor market, and OAP system specific) used in the PROST model by obtaining final data for 2001, and by meeting with key ministries and other organizations. Develop and update other actuarial models as necessary.

(iii) Prepare revised financial and actuarial forecasts for the current pension system and for all proposed pension system designs. Such forecasts shall also include an analysis of expected replacement ratios and OAP and accumulation system reserves.

(iv) Review financial and actuarial forecasts produced by Social Security Office (SSO) and, to the extent possible, agree with SSO on the use of consistent assumptions and methods.

(v) Ensure that contributions, benefit, collection and payment administration and related parameters being proposed for the pension system incorporate assumptions about existing, and planned expansions to health and other social insurance schemes as appropriate.

(vi) Analyze the current state of the actuarial profession in Thailand and prepare a report outlining a strategy for further development of the profession.

(vii) Analyze the government of Thailand's actuarial capacity, and make recommendations for further improving the government's ability to properly prepare long-term financial and actuarial projections for all its social insurance programs.

(viii) Review and assess the development of the life insurance industry in Thailand. Identify the government team for actuarial capacity building and design their training program.

(ix) Coordinate with Ministry of Labor and World Bank, International Labor Organization and other agencies in strengthening assessment of needs and vulnerabilities with a view to expanding coverage of poverty mitigation components of the social security framework.

2. International Legal Expert

2. Working in close cooperation with the Actuary/Pension Expert (Team Leader) the international legal expert will coordinate and supervise the work of the legal experts. The expert's substantive tasks will include, but not be limited to the following areas:

(i) Pillar 1: Social Security Old Age Pensions (OAP)

(a) Review Social Security Law and related laws, regulations and administrative procedures; recommend changes needed to conform to best practices in social security legislation and work with Social Security Office (SSO) and Labor Ministry to develop support for recommended changes.

(b) Review SSO regulations and procedures regarding collection of required contributions and other enforcement aspects and assess the effectiveness of those regulations and procedures; recommend changes to improve enforcement.

(c) Review laws and regulations relating to OAP benefits (spouse and survivor rights, death benefits, eligibility and coverage, benefit calculations, et al.) recommend changes needed to conform to best practices, and work with SSO and Labor Ministry to develop support for recommended changes.

(d) Draft amendments to laws and regulations to implement agreed changes.

(ii) Pillar 2: Mandatory Provident Funds (MPF) and Government Provident Fund (GPF)

(a) Review proposed MPF legislation, Government Pension Law and related statutes, regulations, administrative forms and agreements (Pillar 3 law, Securities and Exchange Act and regulations, Pillar 3 administrative forms, standard agreements among Investment Managers, Funds, Custodians, et al.) and work with domestic legal specialist(s) to identify further areas for review (including tax treatment of accumulations and benefits, spouse and survivor rights, inheritance laws, enforcement approaches in regard to contributions and benefits, et al.)

(b) Review proposed legislation implementing new independent regulatory agency (TPPFA) and work with domestic legal specialist(s) to develop approaches to governance, enforcement of worker rights, compliance auditing, and needed regulations and procedures.

(c) Working with domestic legal specialist(s), prepare pension reform legislative package including drafts of revised Pillar 2 law, TPPFA laws and amendments to Government Pension Law and other existing laws required to implement the new pension law, as well drafts of key regulations required to fully defined the operation and structure of the new law and work with Fiscal Policy Office (FPO), [GPF agency] and Finance Ministry to develop support for recommended changes.

(iii) Pillar 3: Employer Provident Funds (EPF) - Working with domestic legal specialist(s)

(a) Review Provident Fund Law and related laws, regulations and administrative procedures; recommend changes needed to conform to best practices and work with FPO and Finance Ministry to develop support for recommended changes.

(b) Review Securities and Exchange Commission (SEC) private investment regulations and existing procedures regarding licensing of fund managers, investment managers, custodians, fund governance as well as reporting requirements, accounting guidelines and general enforcement procedures and assess the effectiveness of those regulations and procedures; recommend changes to improve these aspects of Pillar 3.

(c) Review and assess prior recommendations for coordination of Pillars 2 and 3 with a view to efficient administration, enforcement, investment regulation, and encouragement for employers to continue existing Pillar 3 funds or establish new Pillar 3 funds.

(d) Review laws and regulations relating to Pillar 3 accumulations and benefits (spouse and survivor rights, death benefits, tax treatment, eligibility and coverage, benefit calculations, et al.) recommend changes needed to conform to best practices, and work with FPO and Finance Ministry to develop support for recommended changes.

(e) Draft amendments to Pillar 3 laws as well as regulations required for implementation of recommended changes.

(iv) Further tasks in regard to Pillars 1, 2 and 3 - Working with domestic legal specialist(s)

(a) Analyze changes needed to protect participant rights, protect the rights of spouses, divorced spouses, and children, protect privacy and confidentiality, and provide participants with remedies through the court system, arbitration or other mechanism; draft revisions to laws and regulations as required.

(b) Analyze changes needed to promote voluntary compliance through audits, reporting or other regulatory means and develop effective enforcement measures to deal with non-compliance; draft revisions to laws, regulations and administrative forms.

(c) Analyze methods of developing a comprehensive government policy for monitoring Thailand's overall retirement system, with a view to future adjustments in legislation or regulations, as needed, to improve the system over time.

B. Domestic Consultants

1. Domestic Actuary

3. The domestic actuary will have knowledge of the pension system in Thailand and will work with the international actuary to help him/her complete all required analysis and deliverables. The domestic actuary's tasks will include, but not be limited to the following:

(i) Gather and analyze necessary data and statistics from relevant government agencies, serve as liaison to SSO, and assist with analysis of life insurance industry and with current state of the actuarial profession.

(ii) Assist with design of training program for building actuarial capacity within government of Thailand.

(iii) Advise international actuary on financial and business practices in Thailand.

2. Domestic Legal Specialists

4. The domestic experts will be qualified attorneys, licensed to practice in Thailand and familiar with the legislative process, standards, and customs of private practice, civil and criminal code provisions pertinent to their areas of specialization. They will consist of (i) a full-time project counsel, (ii) a part-time counsel (bankruptcy and related fields), (iii) a part-time counsel (constitutional law and legislation), and (iv) a part-time counsel (estate, tax, and family matters). The tasks of the domestic legal specialists will include, but not be limited to the following areas:

(i) Pillar 1: Social Security Old Age Pensions (OAP)

Review and recommend changes to Social Security Law and related laws, regulations and administrative procedures to conform to international practice in terms of protecting participant rights, governance, administration, etc. Review and recommend changes to laws and regulations relating to OAP benefits (spouse and survivor rights, death benefits, eligibility and coverage, benefit calculations, *et al.*).

(ii) Pillar 2: Mandatory Provident Funds (MPF) and Government Provident Fund (GPF)

(a) Review proposed MPF legislation, Government Pension Law and related statutes, regulations, administrative forms and agreements.

(b) Review proposed legislation implementing new independent regulatory agency (TPPFA) and develop approaches to governance, enforcement of worker rights, compliance auditing, and needed regulations and procedures.

(c) Working with International Attorney, assist in preparation of pension reform legislative package including drafts of key regulations required to fully define the operation and structure of the new law.

(iii) Pillar 3: Employer Provident Funds (EPF)

(a) Review Provident Fund Law and related laws, regulations and administrative procedures; suggest changes needed to conform to best practices and work with the International Attorney to develop support for recommended changes by the FPO and Finance Ministry.

(b) Review SEC private investment regulations and existing procedures regarding licensing of fund managers, investment managers, custodians, fund governance as well as reporting requirements, accounting guidelines and general enforcement procedures and assess the effectiveness of those regulations and procedures; suggest changes to improve these aspects of Pillar 3. For GPF, review like aspects of regulatory structure and suggest changes for their improvement.

(c) Review laws and regulations relating to Pillar 3 accumulations and benefits (spouse and survivor rights, death benefits, tax treatment, eligibility and coverage, benefit calculations, et al.) suggest changes needed to conform to best practices, and work with the International Attorney to develop support for recommended changes by the FPO and Finance Ministry.

3. Domestic Capital Markets Specialist

5. The specialist will perform the following tasks:

(i) Assist attorney with understanding of operation of capital markets in Thailand – exchanges, clearing procedures, registrars, trade settlement practices, etc.

(ii) Provide advice, as needed, on standard forms of agreements among provident fund managers, custodians, record keepers, et al.

(iii) Provide advice regarding standard forms of agreements between participants and provident funds, including advice on participant methods of enforcing rights, including arbitration procedures.

(iv) Advise on disclosure standards for funds, description of fund's investment objectives, educational materials, etc.

(v) Advise on procedures used for making contributions, transferring among funds, changing investment options, telephone and Internet transfer.

(vi) Provide an overview of market, types of funds available, relationships with foreign mutual funds.

OUTLINE OF THE FINAL REPORT

1. The primary objective of the technical assistance (TA) is to assist the Government of Thailand with the reform of its pension system. If done properly, the pension system will

- (i) prevent poverty among the elderly;
- (ii) improve overall labor market mobility;
- (iii) establish a safe, efficient, equitable, and fiscally sustainable pension scheme;
- (iv) prefund a portion of pension liabilities to prevent population aging from creating a pension system crisis;
- (v) facilitate economic growth by using pension reserves to facilitate economic growth and capital market efficiency;
- (vi) create actuarial capacity within the government of Thailand so it can properly manage its pension system and other social insurance programs; and
- (vii) develop the actuarial profession in the private sector to facilitate the further development of insurance markets and pension programs.

2. The final report will show how project activities have contributed to these goals and objectives. An outline is shown below:

- I. Goals and Objectives of the Pension System
- II. The Current Pension System – design and problems.
- III. Proposed Design of the Reformed Pension System – how does it solve the problems with the current system?
- IV. Financial Analysis of the Proposed Pension Reform – is it fiscally sustainable? The role of the actuary.
- V. Protecting the Safety of the Pension System – role of the draft legislation, TPFA, Securities and Exchange Commission, other.
- VI. Benefit Payouts – the role of the insurance industry in converting accumulated account balances into pensions, the role of the actuary.
- VII. Appendices – Reports prepared as project deliverables on topics outlined above.