Reforming Asia’s Pension Systems

Overview of Asia’s Pension Systems
The aging issue will become a major challenge for Asia over the next few decades. By 2050, the People’s Republic of China (PRC) will have about 432 million, India with 330 million, and Indonesia with 67 million elderly people (i.e., persons above 60 years old). The share of the three Asian countries in the global elderly population will increase from 37% in 2006 to 42% in 2050. By 2050, Asia will account for about half of the global population above 60 years old. This rapid population aging suggests a need to allocate greater economic resources for the elderly. It must be noted that many elderly people in Asia do not have access to pensions and most rely on less dependable sources of income. Since most Asian countries do not yet have mature, well-functioning pension systems, the main component of retirement income among the elderly has been traditionally provided by their own children.

Asher (2010a) cited that in most developing Asian countries, the coverage of pension systems varies between 10% and 35% of the labor force. Accordingly, the higher-income Asian countries have, consistent with international evidence, higher coverage. Asher further noted that even in these countries, an increasing proportion of the workforce (about 25%) does not enjoy the kind of long-term employer–employee relationships that provide pension, health care, and other benefits.

Many Asian countries offer a wide range of social security programs: old age, sickness and maternity, work injury, unemployment, and family allowances. The main objectives of any pension system are to (i) smooth consumption over lifetime; (ii) provide insurance against longevity, inflation, and other risks; (iii) redistribute income; and (iv) alleviate poverty. Park (2010) pointed out, however, that Asian pension systems suffer from failures in (i) performing the five core functions of pension systems, and (ii) fulfilling the ideal properties of pension systems, such as adequate coverage.

The Need for Pension Reform in Asia
The establishment of formal pension systems has become a key economic goal. Asian countries are facing two major challenges: establishing and institutionalizing pension systems, and preparing for the coming demographic challenges. Also, the weakening of informal family-based, old-age support mechanisms among Asian societies suggests a greater role for formal pension systems throughout the region. Furthermore, Asia’s growing labor mobility and huge informal employment call for the improvement of pension management and wider coverage.

Pension reform is challenging because it involves long-term planning by governments faced with numerous short-term pressures. Asia’s pension systems need urgent reform to ensure that they are financially sustainable and provide adequate retirement incomes. The Organisation for Economic Co-operation and Development cited the reasons why current Asian and Pacific pension systems need reforms. These include (i) the relatively low coverage for formal pension system, (ii) the common practice of withdrawal of pension savings

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before retirement, (iii) pension savings are often taken as lump sums and often do not provide people with adequate income over their lifetime, and (iv) pension payments are not automatically adjusted to reflect changes in the cost of living. At another level, Asian pension is failing because, to varying degrees, the pension systems are not well designed to be adequate, affordable, robust, sustainable, and equitable.

Among the important areas of pension reform in Asia include (i) institutional and administrative capacity to perform the core functions of a pension system, (ii) improving governance and regulation for efficiency and transparency of its operations, (iii) expanding its coverage to provide pension benefits to the less fortunate individuals, (iv) enhancing its financial sustainability especially for countries with defined benefits pension systems, (v) improving the returns from the assets it manages, and (vi) providing protection for the elderly poor.

**ADB's Support to Pension Reform**

The Asian Development Bank (ADB) has been supporting several initiatives in past years to help strengthen pension systems in many developing member countries, including the PRC, India, Indonesia, Thailand, and Viet Nam. ADB supported the implementation of new pension schemes with broader coverage and more efficient and sustainable operations. For instance, in 2004, ADB provided technical assistance (TA) to Viet Nam to develop the country’s social security system. In 2003 and 2007, ADB provided TA to India for pension reforms for the organized sector. In some cases, ADB’s support to pension reforms has been explicitly tied to strengthening financial markets, as pension funds can be important sources of long-term financing.

In 2009, ADB provided a regional technical assistance for Developing Asia's Pension Systems: Overview and Reform Directions to build upon the experience in pension systems and reforms of various Asian economies. The TA project will promote improved understanding of the pension systems of East and Southeast Asian countries—the PRC, Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—and their main structural features, main weaknesses, and strategic directions for reform. In addition, the TA project will perform an advocacy role of making policy makers and the public more aware of the urgency of pension reform.

The TA project will produce an organized body of knowledge that will provide information to policy makers and the public on (i) where East and Southeast Asian pension systems are today, (ii) where they need to go, and (iii) what they need to do to get there. The TA project will focus on East and Southeast Asia since population aging is relatively more advanced in this subregions. The TA project is expected to publish a comprehensive, in-depth, policy-relevant, and high-quality book about Asian pension systems and pension reform. The book will cover (i) an overview of pension systems of East and Southeast Asian countries, (ii) country studies of national pension systems, (iii) pension modeling study, and (iv) central messages and reform directions for the region.

Through the TA project, Asian policy makers and the general public are expected to have a better understanding of the current state of their national pension systems, improve and strengthen their pension systems, and contribute to accelerated social inclusion and economic development. The project will also contribute to knowledge sharing among regional pension authorities.
Endnotes


5 Endnote 3.


7 Endnote 4.


10 Endnote 4.


12 Endnote 4.

13 Endnote 4.


16 Endnote 11.

17 Endnote 11.

18 Endnote 11.


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ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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