COSTS AND POTENTIAL FUNDING OF EXPANDED PUBLIC PENSION COVERAGE IN ASIA

Peter J. Morgan and Long Q. Trinh

No. 748
June 2017
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Suggested citation:


Please contact the authors for information about this paper.

Email: pmorgan@adbi.org, ltrinh@adbi.org

We thank participants in the ADBI-AGI conference on “Aging in Asia” in Kitakyushu, Japan, 15–16 November 2016, and the workshop on “Asian Economic Outlook and Long-Term Challenges” in Seoul, Korea on 9 December 2016, especially Kai Chen, Charles Horioka, Yoko Niimi, Ngee-Choon Chia, Jong-Wha Lee, and Warwick McKibbin, for their helpful suggestions. All errors are our own.

Peter J. Morgan is senior consulting economist and co-chair of research while Long Q. Trinh is project consultant, both at the ADBI Institute.

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Abstract

Public pension burdens in most emerging Asian economies are still relatively small. However, there are a number of reasons to believe that they will increase markedly in the coming years. First, many Asian economies will face rapidly aging populations, which will raise pension and other old-age-related spending dramatically. Second, as economies develop, political pressures to expand the coverage of public pensions and raise pension benefits will likely increase. The first objective of this paper is to identify the potential fiscal burden of public pensions in 23 emerging Asian economies, based on econometric models and forecasts of GDP and demographic trends. Using two different methodologies yields estimated increases in the average share of public pension expenditures in GDP of 1.0 percentage point and 3.6 percentage points by 2030 compared with current levels. We believe the latter estimate is more realistic. The second objective is to recommend policies to provide adequate funding for public pension needs, including enhancing the efficiency of social insurance programs, improving the balance of revenues and expenditures, implementing more explicit fiscal rules and frameworks, and establishing stronger fiscal surveillance at the national and regional levels.

Keywords: public pensions, Asian emerging economies, social protection, population aging

JEL Classification: H2, H51, H54, H55, H62, H63, J11
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1. BACKGROUND, OBJECTIVES, AND CONTRIBUTION OF THE STUDY

The fiscal burden of public pensions in most Asian emerging economies is relatively small, reflecting comparatively young populations and somewhat limited coverage of the retired-age population in public pension programs. Nonetheless, these conditions are likely to change dramatically in the coming decades. First, many Asian economies will face rapidly aging populations, which will raise pension and other old-age-related spending dramatically. Second, as economies develop, political pressures to expand the coverage of public pensions and raise pension benefits will likely increase.

Despite this daunting prospect, there have been relatively few studies of forecasts of public pension spending by emerging Asian economies. The Organisation for Economic Co-operation and Development (OECD) has published extensively on the prospects for member countries (e.g., OECD 2013), but, aside from Japan and the Republic of Korea, their study only covers the People’s Republic of China (hereafter PRC), India and Indonesia, i.e., the other Asian members of the G20. IMF (2011) only covers seven emerging Asian economies: the PRC, India, Indonesia, Malaysia, Pakistan, the Philippines, and Thailand.

The objectives of this paper are to: (i) identify the current status of public pension spending in Asia; (ii) develop models to explain public pension spending in Asia in terms of basic economic and demographic variables; (iii) use the models to forecast the likely developments of spending on public pensions in 23 emerging economies through 2030 as a result of demographic and income trends; and (iv) recommend policies to expand the financial capacity to cover such expenditure increases, including: enhancing the efficiency of social insurance programs; improving the balance of revenues and expenditures; implementing more explicit fiscal rules; and establishing stronger fiscal surveillance at the national and regional levels.

The main contribution of this paper is that it covers many more emerging Asian economies than previous studies—23 in all. In addition, it explicitly models changes in the pension coverage (eligibility) ratio and changes in average pension benefits. (In contrast, the forecasts in IMF (2011) assume a constant coverage ratio.) Also, our study utilizes the latest data from the ADB Social Protection Index database and World Bank Pension database.

Section 2 of this paper reviews the current situation regarding public pension schemes in Asia and the outlook for demographic change. Section 3 develops models of pension expenditures as a function of demographic, income, and other variables. Section 4 projects the expected path of public pension spending through 2030. Section 5 identifies possible funding options, while Section 6 presents conclusions and recommendations.

2. STATUS OF PUBLIC PENSIONS IN EMERGING ASIA

This section describes the current status of public pensions in Asia. Figure 1 shows the share of public pension spending in GDP for emerging Asian economies and Japan. There is a great amount of variation, ranging from less than 1% of GDP for a number of low-income countries to 11% of GDP for Japan. However, the gap between

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1 See the appendix for a description of Asian public pension fund systems.
Japan and the rest of the region is large, as Uzbekistan, the country with the second-highest expenditure share, spends only 8% of GDP, followed by the Kyrgyz Republic at 7% of GDP. Excluding former republics of the Soviet Union, the highest share is only 3.6% in Palau, and most economies have shares lower than 1%.

Figure 1: Public Pension Expenditures in Asia, 2013, % of GDP

Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.
Note: Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008.
Figure 2 shows the relationship between the percentage share of public pension spending in GDP and per capita GDP. Generally, the share rises in line with per capita GDP, although the average level in the former republics of the Soviet Union is much higher than those in other Asian economies, especially Uzbekistan and the Kyrgyz Republic at around 8%. Excluding the ex-USSR countries, the simple correlation of the share of pension spending in GDP with per capita GDP is relatively high at 0.61.

**Figure 2: Share of Public Pension Spending in GDP vs. Per Capita GDP, 2013**

![Graph showing the relationship between public pension expenditure and per capita GDP.]

Note: Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008. Ex-USSR countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.


These very low ratios reflect a number of factors at work. First, the populations of most Asian economies are still relatively young. Figure 3 shows the trend and projections of the old-age dependency ratio, i.e., the ratio of the aged population (age 65 and over) relative to the working-age population (age 15–64). Japan’s ratio already hit 35% in 2013, and that of the Republic of Korea hit 16%. In contrast, the ratios in most emerging Asian economies are still considerably lower, in the range of 4%–10%. However, old-age dependency ratios are expected to rise markedly to over 20% in a number of emerging Asian economies by 2030, including, in particular, Armenia (37%), Azerbaijan (26%), the PRC (48%), Georgia (35%), India (26%), Kazakhstan (22%), Malaysia (23%), Mongolia (22%), Nepal (22%), Thailand (40%), Uzbekistan (21%), and Viet Nam (31%).
Figure 3: Rapid Rise in the Old-Age Dependency Ratio (%), 2013–2030

Lao PDR = Lao People’s Democratic Republic.

Note: The ratio of the aged to the working-age population is defined as the ratio of the population aged 65 and over to the population aged 15–64.

Figure 4 shows that, excluding the ex-USSR economies, there is a very high correlation of 0.89 between the share of public pension spending in GDP and the old-age dependency ratio, although this is affected by the very high value for Japan.

**Figure 4: Share of Public Pension Spending in GDP vs. Old-Age Dependency Ratio, 2013**

Note: Old-age dependency ratio = ratio of the population aged over 65 to the population aged 15–64. Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008. Ex-USSR countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. Correlation coefficient excludes ex-USSR economies.


Second, the share of the old-age population receiving public pension benefits (the pension coverage ratio) is still low in many economies. In some cases, eligibility is restricted mainly to civil servants and the military, although implementation of social pensions to reduce old-age poverty is increasing. Figure 5 shows the share of the eligible old-age population receiving pension benefits. Generally, as per capita income rises, the pension beneficiary coverage ratio increases. The main exception is the former republics of the Soviet Union, which mostly have very high coverage ratios.  

Excluding the ex-USSR countries, there is a moderately high correlation of the coverage ratio with per capita GDP of 0.39.

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2 The age cutoff varies by country according to the retirement age.

3 In many cases, the coverage ratio is higher than 1 in the ex-Soviet economies, reflecting widespread early retirement as a result of economic restructuring in the transition to a market economy.
Figure 5: Pension Beneficiary Coverage Ratio vs. Per Capita GDP, %, 2013

Note: Beneficiary coverage ratio = ratio of the number of pension beneficiaries to the pension-age population. Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008. Ex-USSR countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.


The pension coverage ratio is also related to the old-age dependency ratio. Figure 6 shows the pension coverage ratio against the old-age dependency ratio. For the non-USSR countries, the correlation is relatively high at 0.53, although this partly reflects the high value for Japan, which is an outlier. This effect may result from greater awareness of the aging issue leading to greater political pressure for wider pension coverage.

Third, average public pension benefits per beneficiary tend to be low relative to per capita income in low-income countries, although there is considerable variation. Figure 7 shows the relationship between average public pension benefits and per capita GDP. Unlike the previous figures, there is no obvious difference between average benefit levels in non-ex-USSR and ex-USSR economies. The correlation with per capita GDP is high at 0.73.
Figure 6: Pension Beneficiary Coverage Ratio vs. Old-Age Dependency Ratio, %, 2013

Note: Beneficiary coverage ratio = ratio of the number of pension beneficiaries to the retirement-age population. Old-age dependency ratio = ratio of the retirement-age population to the working-age population. Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008. Ex-USSR countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

Figure 7: Average Pension Benefits and per Capita GDP, 2013

Note: Data for Bhutan, India, Indonesia, and the Rep. of Korea are for 2012; for Tonga, 2011; for Afghanistan, Malaysia, Nepal, Papua New Guinea, and the Philippines, 2010; and for Pakistan, 2008. Ex-USSR countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.
3. MODELING PUBLIC PENSION EXPENDITURES

This section describes the estimation of some simple models of public pension spending in Asian economies. These will be used in the next section to extrapolate public pension expenditures as a function of growth of per capita GDP, the aging of their populations, and the coverage ratio.

3.1 Data

We collected data on public pensions for 30 Asian economies, including Japan and the Republic of Korea. Our main sources were the Social Protection Index (SPI) database of the Asian Development Bank, the World Bank Pensions database and the United Nations Population Division’s World Population Prospects: The 2015 Revision. The sample included 24 economies with annual data ranging from 2003 to 2013, although the actual samples were smaller in some regressions due to data availability.

The SPI data are problematic because in some cases the data for a particular economy were collected from different sources in different years, using different bases and definitions, and hence are not always comparable. Our approach was to limit the sample to a single data source for each country. The selection of that source was based on the length of the series and the broadness of coverage. In some cases there were implausible data values, so those observations were dropped if they could not be corrected or explained.

The main variables used in the analysis are:

- \( pp пенекс \) = public pension expenditures (2010 US$)
- \( pp пенекс/гдп \) = share of public pension expenditures in GDP
- \( гдпп \) = GDP per capita (2010 US$)
- \( benиф \) = number of public pension beneficiaries
- \( pp пенекс/benиф \) = average benefits per beneficiary (2010 US$)
- \( pop \) = total population
- \( workage \) = working-age population (ages 15 to retirement age less 1)
- \( retpop \) = population of retirement age (normally 65 and over, but varies by country depending on retirement age)\(^4\)
- \( benиф/workage \) = ratio of pension beneficiaries to working-age population
- \( coverage \) = ratio of pension beneficiaries to retirement-age population = \( benиф/retpop \)
- \( ussr \) = dummy variable for former Soviet republics

\(^4\) If the retirement age is not a multiple of 5, e.g., 55, 60, or 65, we use the closest multiple of 5, i.e., if the retirement age is 62, we use 60. This is because population forecasts are only available in 5-year intervals. When there is no formal retirement age, we assume a retirement age of 60 for both men and women.
3.2 Modeling Approach

We took two main approaches to modeling pension expenditures. In the first approach, we directly estimated the share of public pension expenditures in GDP (\(\text{ppenex/gdp}\)) as a function of per capita GDP, the share of pension beneficiaries relative to the working-age population (\(\text{benif/workage}\)), and other control variables (referred to as Method 1). In the second approach (referred to as Method 2), we decomposed \(\text{ppenex/gdp}\) by the following identity:5

\[
\text{ppenex/gdp} = \text{ppenex/benif} \times \text{coverage} \times \frac{\text{retpop}}{\text{pop/gdppc}}
\]

(1)

We then estimated separate equations for \(\text{ppenex/gdp}\) and \(\text{coverage}\) as a function of per capita GDP and dummy variables. The objective of this approach is to identify separate factors affecting the growth of average pension benefits and the share of the retired population covered by public pensions over time.

The equation for Method 1 is:

\[
\text{ppenex/gdp}_{i,t} = \alpha + \beta \text{gdppc}_{i,t} + \gamma \text{benif}_{i,t}/\text{workage}_{i,t} + \eta_t + \varepsilon_{i,t}.
\]

(2)

where \(\eta_t\) is a vector of time dummies and \(\varepsilon_{i,t}\) are identically and independently distributed error terms. In particular, we include a dummy variable for former republics of the Soviet Union (USSR) in some regressions, based on the difference in behavior of these economies described in Section 2.

Similarly, the first equation in the Method 2 approach is:

\[
\text{ppenex/benif}_{i,t} = \alpha + \beta \text{gdppc}_{i,t} + \eta_t + \nu_i + \varepsilon_{i,t}.
\]

(3)

where \(\eta_t\) is a vector of time dummies, \(\nu_i\) a vector of country dummies, and \(\varepsilon_{i,t}\) are identically and independently distributed error terms.

The second equation in the Method 2 approach is:

\[
\text{coverage}_{i,t} = \alpha + \beta \text{gdppc}_{i,t} + \gamma \text{ussr}_i + \eta_t + \nu_i + \varepsilon_{i,t}.
\]

(4)

where \(\text{ussr}_i\) is the dummy variable for ex-USSR economies and \(\eta_t\) is a vector of time dummies, \(\nu_i\) a vector of country dummies, and \(\varepsilon_{i,t}\) are identically and independently distributed error terms.

3.3 Estimation Results

Table 1 shows the regression results for equation (2) for the share of public pension expenditures in GDP. We estimated them using ordinary least squares (OLS) clustered by country for the full sample, and separately for the ex-USSR and non-ex-USSR economies.6 The most significant variable was the ratio of pension beneficiaries to the working-age population, which was positive as expected. The coefficients were similar

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5 IMF (2011) adopts a more complex decomposition, including the share of labor in total income, the average wage level, and the replacement rate. However, there was not sufficient data for this level of analysis. Therefore, our approach is to compare the average pension benefit with per capita GDP directly.

6 Japan and the Republic of Korea were excluded from the sample due to being outliers. Also, our main focus is emerging economies.
in magnitude for all three samples. Surprisingly, GDP per capita was not significant in any of the regressions. This is probably because the population aging and income effects move in the same direction, but the former are much stronger. The results for all three equations were similar, although the goodness of fit in regression (3) was much poorer than that of the others, owing to the smaller sample and the high variance of values in the ex-USSR economies.7

Table 1: Estimation Results for Share of Public Pension Expenditures in GDP

<table>
<thead>
<tr>
<th>Regression Number</th>
<th>All Countries (1)</th>
<th>Non-ex-USSR Countries (2)</th>
<th>Ex-USSR Countries (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>–0.001 [0.004]</td>
<td>0.003 [0.002]</td>
<td>–0.013 [0.008]</td>
</tr>
<tr>
<td>No. of beneficiaries/total working-age population</td>
<td>0.189*** [0.038]</td>
<td>0.268*** [0.058]</td>
<td>0.301 [0.166]</td>
</tr>
<tr>
<td>Constant</td>
<td>0.009 [0.022]</td>
<td>–0.019 [0.017]</td>
<td>0.082 [0.053]</td>
</tr>
<tr>
<td>R2</td>
<td>0.492 [0.593]</td>
<td>0.593 [0.053]</td>
<td>0.210 [0.053]</td>
</tr>
<tr>
<td>F statistics</td>
<td>19.82</td>
<td>11.00</td>
<td>1.72</td>
</tr>
<tr>
<td>N</td>
<td>101</td>
<td>69</td>
<td>32</td>
</tr>
</tbody>
</table>

GDP = gross domestic product, USSR = Union of Soviet Socialist Republics.

Notes: Standard errors in brackets; * p < 0.1, ** p < 0.05, *** p < 0.01. All specifications are estimated using the OLS estimator, clustered by economy. GDP per capita is in natural logs. The Republic of Korea, Japan, and Malaysia were not included in the sample.

Source: Authors’ estimates.

Figure 8 shows the comparison of actual and fitted values for the ratio of public pension expenditures to GDP (equation 2) based on regression 1, using the combined sample. There is a considerable variation between them. Estimated values for Armenia, Azerbaijan, Georgia, Mongolia, and Viet Nam are relatively close to the actual figures, but estimates for the other economies exhibit wide variation. For example, in percentage terms, the predicted values for the Kyrgyz Republic and Uzbekistan are much lower than the actual values, reflecting very high pension coverage ratios in those economies. However, the fitted values for most other economies are much higher than the actual values. Certainly, in most cases, the actual figures are so small that it is easy for forecasts to be off significantly in percentage terms, even when the fitted values are still small, at generally less than 1% of GDP. The biggest deviations in percentage point terms are those for the PRC, the Kyrgyz Republic, Nepal, Tajikistan, Uzbekistan, and Viet Nam.

7 An alternative specification using the ratio of pension beneficiaries to the retirement-age population yielded very similar results. However, using this variable fails to capture the important effect of the rise of the retirement-age population relative to the working-age population.
Table 2 shows the regression results for equation (3) for average public pension expenditures per beneficiary. We estimated them using ordinary least squares (OLS) with fixed effects for the full sample, and separately for the ex-USSR and non-ex-USSR economies. The coefficient for GDP per capita in regression (4) was highly significant and positive as expected. Moreover, the coefficient was greater than one, which implies that average pension payments tend to grow faster than per capita GDP. When the ex-USSR economies were excluded, the coefficient was less than one and less significant. However, visual observation of the data did not suggest any significant differences in behavior between the two subsamples. Therefore, we are inclined to accept the results from the full sample that the elasticity of benefits with respect to per capita income is greater than one. That suggests that economic development per se will put upward pressure on the share of pension expenditures in GDP, in addition to any demographic aging effects.
Table 2: Estimation Results for Average Public Pension Expenditures per Beneficiary

<table>
<thead>
<tr>
<th>Regression No.</th>
<th>All Countries (4)</th>
<th>Non-ex-USSR Countries (5)</th>
<th>Ex-USSR Countries (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>1.397***</td>
<td>0.829*</td>
<td>2.974**</td>
</tr>
<tr>
<td></td>
<td>[0.495]</td>
<td>[0.445]</td>
<td>[1.334]</td>
</tr>
<tr>
<td>Constant</td>
<td>-4.012</td>
<td>0.507</td>
<td>-16.879</td>
</tr>
<tr>
<td></td>
<td>[3.745]</td>
<td>[3.340]</td>
<td>[10.343]</td>
</tr>
<tr>
<td>R2</td>
<td>0.419</td>
<td>0.503</td>
<td>0.431</td>
</tr>
<tr>
<td>F Statistics</td>
<td>7.96</td>
<td>3.47</td>
<td>4.97</td>
</tr>
<tr>
<td>N</td>
<td>113</td>
<td>81</td>
<td>32</td>
</tr>
</tbody>
</table>

GDP = gross domestic product, USSR = Union of Soviet Socialist Republics.

Notes: Standard errors in brackets; * p < 0.1, ** p < 0.05, *** p < 0.01. All specifications are estimated using the fixed-effects estimator. Both dependent variable and independent variable (GDP per capita) are in natural logs. Malaysia was not included in the sample, since it has a fully funded defined contribution plan. Source: Authors’ estimates.

Figure 9 shows the comparison of actual and fitted values for the level of average public pension expenditures per beneficiary (equation 3) based on regression 4. The goodness of fit is considerably better than for equation 2. Fitted values for India, Thailand, and Tonga were not estimated due to the poor quality of the data. Deviations from actual values were relatively large for Afghanistan, the PRC, and Papua New Guinea on the high side, and for Bangladesh and Vanuatu on the low side.

Table 3 shows the regression results for equation (4) for the ratio of pension beneficiaries to the total retirement-age population (pension coverage ratio). We estimated them using ordinary least squares (OLS) with random effects for the full sample, and separately for the ex-USSR and non-ex-USSR economies, as well as using random effects for the whole sample. None of the explanatory variables in regression 7 were significant. The coefficient of per capita GDP was positive and modestly significant for the full sample when dummy variables for the ex-USSR economies were included (regression 8), and also positive and modestly significant for the non-ex-USSR economies (regression 9). However, regression 9 has very low explanatory power. This supports our view that rising incomes are likely to lead to an increase in the coverage ratio, which will tend to raise the burden of public pension expenditures independently of the aging of the population. The coefficient of per capita GDP was negative for ex-USSR economies in regression 10, presumably reflecting legacy effects of early retirement along with restructuring during the transition from a socialist economy.

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8 We also estimated the equation using the FE estimator. However, Hausman tests indicate that RE estimators provide more efficient results than FE estimators.
Figure 9: Average Public Pension Expenditures per Beneficiary: Actual vs. Fitted Values, 2013

Lao PDR = Lao People’s Democratic Republic.
Source: ADB Social Protection Index database (https://spi.adb.org/spidmz/) (accessed 10 October 2016) and authors’ estimates.
Table 3: Estimation Results for Ratio of Public Pension Beneficiaries to Total Retirement-Age Population (Coverage Ratio)

<table>
<thead>
<tr>
<th>Regression No.</th>
<th>All Economies (7)</th>
<th>All Economies (8)$^*$</th>
<th>Non-ex-USSR Economies (9)</th>
<th>Ex-USSR Economies (10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>0.116</td>
<td>0.106**</td>
<td>0.149*</td>
<td>-0.150**</td>
</tr>
<tr>
<td></td>
<td>[0.072]</td>
<td>[0.054]</td>
<td>[0.063]</td>
<td>[0.070]</td>
</tr>
<tr>
<td>Ex-USSR</td>
<td></td>
<td></td>
<td>0.947***</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>[0.113]</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-0.411</td>
<td>-0.558</td>
<td>-0.883</td>
<td>2.366***</td>
</tr>
<tr>
<td></td>
<td>[0.5553]</td>
<td>[0.407]</td>
<td>[0.479]</td>
<td>[0.558]</td>
</tr>
<tr>
<td>R²</td>
<td>0.01</td>
<td>0.558</td>
<td>0.058</td>
<td>0.027</td>
</tr>
<tr>
<td>F statistics</td>
<td>2.56</td>
<td>75.88</td>
<td>5.55</td>
<td>4.56</td>
</tr>
<tr>
<td>N</td>
<td>196</td>
<td>196</td>
<td>157</td>
<td>49</td>
</tr>
</tbody>
</table>

GDP = gross domestic product, USSR = Union of Soviet Socialist Republics.
Notes: Standard errors in brackets; $^*$ $p < 0.1$, $^{**} p < 0.05$, $^{***} p < 0.01$. All specifications are estimated using the random-effects estimator (Hausman tests show that the RE estimator produces more efficient estimates than the FE estimator). The dependent variable is the share of pension beneficiaries to the total retired population (which is in turn calculated based upon the retirement age in each country). GDP per capita is in the natural log. Malaysia is not included in the sample.

Source: Authors’ estimates.

Figure 10 shows the comparison of actual and fitted values for the ratio of public pension beneficiaries to the total retirement-age population. Generally the fit is good, with the main outliers being Armenia on the high side and the PRC on the low side. Fitted values were not estimated for Samoa and Tonga due to data issues.

$^*$ For projection, we re-estimate this specification without two countries (Azerbaijan and the Kyrgyz Republic) due to being potential outliers. The final equation used for projection is the ratio of public pension beneficiaries to the total working population = 0.107*GDP per capita + 0.772*Ex-USSR -0.566.
Figure 10: Ratio of Public Pension Beneficiaries to Total Retirement-Age Population: Actual vs. Fitted Values, 2013

Lao PDR = Lao People’s Democratic Republic.

Source: ADB Social Protection Index database (https://spi.adb.org/spidmz/) (accessed 10 October 2016) and authors’ estimates.
4. AGING POPULATIONS IN ASIA AND PENSION EXPENDITURE PROJECTIONS

This section develops forecasts of public pension expenditures through the year 2030 using the models described in the previous section and forecasts of demographic trends and growth of per capita GDP. Takahata (2016) describes three approaches to forecasting pension expenditures: (i) arithmetical methods; (ii) microsimulation models, and (iii) dynamic general equilibrium models. Our approach falls into the first and simplest category. Given the large number of economies included in the study, we consider this to be the only feasible approach, especially in view of data limitations for this kind of sample.

There are surprisingly few studies of multi-country public pension expenditure projections in Asia. An early example was Standard and Poor's (2010), although it was heavily criticized in Asher and Vora (2016), for example. Perhaps the most comprehensive study is IMF (2011), which estimates that many emerging economies will face large increases in public spending on pensions and health-care services (an average increase of 7.0 percentage points of GDP between 2010 and 2050) due to aging populations. However, that study only included a few major emerging Asian economies—the PRC, India, Indonesia, Malaysia, Pakistan, the Philippines, and Thailand. The methodology was based on the arithmetical approach, including the following assumptions: (i) constant coverage ratio of pensioners to population aged above 65 years and constant replacement rate; and (ii) changes driven by the employment ratio and the old-age dependency ratio (IMF 2011, 40).

More detailed projections were made recently for the PRC, India, Indonesia, and Japan in various studies contained in Asher and Zen (2016). Table 4 compares the IMF and Asher and Zen’s projections. In general, the latter projections are higher. This partly reflects one of the key assumptions in the IMF study, namely a constant coverage ratio for pensioners above retirement age. In contrast, the studies in Asher and Zen (2016) explicitly consider the effects of increasing coverage ratios together with other reforms.

Table 4: Projections of Public Pension Expenditures, % of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2030</td>
</tr>
<tr>
<td>PRC</td>
<td>3.4</td>
<td>6.7</td>
</tr>
<tr>
<td>India</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Japan</td>
<td>10.0</td>
<td>9.8</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>1.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.0</td>
<td>1.7</td>
</tr>
</tbody>
</table>

IMF = International Monetary Fund, PRC = People’s Republic of China.

“—” indicates no estimates.

Using the regression equations reported in Section 3, we have estimated projected values for the level of average pension benefits and pension coverage ratio for retirement-age persons in 2030, and then used these estimates to project the share of public pension expenditures in GDP in 2030. Forecasts of per capita GDP are taken from unpublished ADB projections (Zhuang 2012), while forecasts for the old-age dependency ratio are taken from the UN projections shown in Figure 3.

**Figure 11: Average Public Pension Expenditures per Beneficiary: 2013 Actual and 2030 Projections**

Lao PDR = Lao People’s Democratic Republic.

Source: ADB Social Protection Index database (https://spi.adb.org/spidmz/) (accessed 10 October 2016) and authors’ estimates.
Figure 11 shows the actual values for 2013 and the forecast values for 2030 of the level of average pension benefits per beneficiary, using equation 3 (regression 4) and the exogenous forecasts of per capita GDP. On an unweighted average basis, pension benefits per beneficiary are estimated to grow 8.9% per year, vs. 6.0% per year for real per capita GDP. The biggest increases occur in those economies with the fastest projected growth rates, including Afghanistan, the PRC, Cambodia, the Kyrgyz Republic, Mongolia, Nepal, Tajikistan, and Uzbekistan.

Figure 12 shows the actual values of the public pension coverage ratio in 2013, together with the projected values for 2030, using equation (4) (regression 8) and the exogenous values for per capita GDP. The average increase is 6.9 percentage points over the period, but this includes some ex-USSR economies with projected drops. The biggest percentage point increases are seen in Afghanistan, India, Nepal, and Pakistan.

The actual share of public pension expenditures in GDP in 2013 and the projected shares based on Method 1 are plotted in Figure 13. The projections for 2030 are made using the coefficients from regression 1, the ratio of pension beneficiaries to the retirement-age population in 2030, and the exogenous projections of per capita GDP and age structure of the population in 2030. The average projected increase between 2013 and 2030 is only about 1.0 percentage point of GDP, although this still represents a 55% increase of the ratio on average. The biggest percentage point increases are seen in the PRC (3.9 pctg. pts.), Armenia (2.6 pctg. pts.), Azerbaijan (2.6 pctg. pts.), Georgia (2.2 pctg. pts.), and Mongolia (1.9 pctg. pts.). The share for the PRC is estimated to hit 6.1% of GDP, a bit lower than the IMF’s estimate (6.7%) and further below that of Asher and Zen (8%) in Table 4. The estimates for Indonesia, Pakistan, the Philippines, and Thailand are generally lower than those in Table 4 as well.

As described above, an alternative approach to projecting the share of public pension spending in GDP in 2030 (called Method 2) is to take the projections for average pension benefits and the coverage ratio developed above and use them, together with the exogenous values of the share of retirement-age persons in the total population and per capita GDP, to calculate the share in GDP from equation (1). Figure 14 and Table 5 compare the estimates from Method 2 with those of Method 1. (The number of economies estimated by Method 2 is somewhat smaller, due to data availability.) Using Method 2, the average projected increase in the pension expenditure share in 2030 is substantially larger at 3.6 percentage points, with especially large percentage point increases in Armenia (7.5 pctg. pts.), Azerbaijan (5.7 pctg. pts.), the Kyrgyz Republic (9.8 pctg. pts.), Mongolia (7.0 pctg. pts.), Uzbekistan (12.1 pctg. pts.), and Viet Nam (7.4 pctg. pts.). The two estimates for Afghanistan, Bhutan, Cambodia, the PRC, Fiji, Georgia, Indonesia, Nepal, Papua New Guinea, Tajikistan, and Vanuatu are relatively close. The estimates for the former USSR countries Armenia, Azerbaijan, the Kyrgyz Republic, and Uzbekistan, plus Mongolia, are much higher than for Method 1, while those for Bangladesh and Viet Nam are also significantly higher.

10 Projected values are estimated as the actual value for 2013 plus the difference between the projected value for 2030 less the fitted value for 2013 in order to minimize the forecast error arising from differences between the actual and fitted 2013 values. The same procedure is followed for other projections below.

11 The model is not used to forecast the coverage ratios in Azerbaijan, Georgia, the Kyrgyz Republic, Mongolia, and Uzbekistan, since those ratios are already over 100%. Instead, we assume that the ratios for Georgia, Mongolia, and Uzbekistan fall to 100%, while those for Azerbaijan and the Kyrgyz Republic, being significantly higher, fall to 125%.

12 As mentioned in footnote 10, in order to reduce forecast error, the 2030 projection is calculated as the actual value for 2013 plus the difference between the fitted values for 2030 and 2013.
Figure 12: Share of Public Pension Beneficiaries in Retirement-Age Population (%): 2013 Actual and 2030 Projections

Lao PDR = Lao People's Democratic Republic.
Source: ADB Social Protection Index database (https://spi.adb.org/spidmz/) (accessed 10 October 2016) and authors’ estimates.
Figure 13: Public Pension Spending as % of GDP:
2013 Actual and Fitted 2030 Projections (Method 1)

Lao PDR = Lao People's Democratic Republic.
Source: ADB Social Protection Index database (https://spi.adb.org/spidmz/) (accessed 10 October 2016) and authors’ estimates.
Figure 14: Public Pension Spending as % of GDP:
2030 Projections, Methods 1 and 2

Lao PDR = Lao People’s Democratic Republic.
Source: Authors’ estimates.
Table 5: Main Factors Determining Projected Public Pension Spending Increases

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
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<td>178.4</td>
<td>23.2</td>
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<td>0.0</td>
<td>0.2</td>
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<td>Armenia</td>
<td>17.2</td>
<td>468.3</td>
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<td>7.5</td>
<td></td>
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<tr>
<td>Azerbaijan</td>
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<td>97.6</td>
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<td>2.6</td>
<td>5.7</td>
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<td>Bangladesh</td>
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<td>0.5</td>
<td>0.3</td>
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<td>Bhutan</td>
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<td>0.1</td>
<td>0.3</td>
<td>0.5</td>
<td></td>
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<tr>
<td>Cambodia</td>
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<td>256.7</td>
<td>60.1</td>
<td>58.6</td>
<td>0.1</td>
<td>0.5</td>
<td>0.4</td>
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<tr>
<td>China, People’s Rep. of</td>
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<td>397.1</td>
<td>65.1</td>
<td>57.0</td>
<td>2.2</td>
<td>3.9</td>
<td>4.2</td>
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<td>14.1</td>
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<td>0.3</td>
<td>0.5</td>
<td></td>
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<tr>
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<td>3.7</td>
<td>2.2</td>
<td>3.9</td>
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<td>India</td>
<td>115.3</td>
<td>338.9</td>
<td>45.5</td>
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<td>0.0</td>
<td>0.8</td>
<td>N/A</td>
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</tr>
<tr>
<td>Indonesia</td>
<td>64.8</td>
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<td>68.9</td>
<td>39.8</td>
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<td>0.5</td>
<td>1.4</td>
<td></td>
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<tr>
<td>Kyrgyz Rep.</td>
<td>−15.6</td>
<td>267.8</td>
<td>65.8</td>
<td>62.9</td>
<td>7.6</td>
<td>1.1</td>
<td>9.8</td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>140.1</td>
<td>199.7</td>
<td>41.1</td>
<td>54.2</td>
<td>0.6</td>
<td>0.2</td>
<td>2.7</td>
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<td>Mongolia</td>
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<td>90.4</td>
<td>68.1</td>
<td>3.1</td>
<td>1.9</td>
<td>7.0</td>
<td></td>
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<tr>
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<td>44.3</td>
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<td>0.7</td>
<td>1.5</td>
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<td>177.3</td>
<td>31.1</td>
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<td>0.1</td>
<td>0.3</td>
<td>N/A</td>
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<tr>
<td>Papua New Guinea</td>
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<td>219.7</td>
<td>53.7</td>
<td>21.5</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>Philippines</td>
<td>74.5</td>
<td>236.5</td>
<td>63.1</td>
<td>28.6</td>
<td>0.4</td>
<td>0.4</td>
<td>1.1</td>
<td></td>
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<td>Tajikistan</td>
<td>15.0</td>
<td>273.6</td>
<td>80.6</td>
<td>60.2</td>
<td>0.3</td>
<td>1.2</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
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<td>298.7</td>
<td>82.8</td>
<td>N/A</td>
<td>0.4</td>
<td>0.6</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>−7.9</td>
<td>304.2</td>
<td>63.8</td>
<td>68.8</td>
<td>7.8</td>
<td>1.2</td>
<td>12.1</td>
<td></td>
</tr>
<tr>
<td>Vanuatu</td>
<td>80.4</td>
<td>211.9</td>
<td>46.4</td>
<td>16.8</td>
<td>0.6</td>
<td>0.1</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Viet Nam</td>
<td>47.7</td>
<td>326.9</td>
<td>67.8</td>
<td>53.5</td>
<td>2.5</td>
<td>1.2</td>
<td>7.4</td>
<td></td>
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<tr>
<td>Unweighted average</td>
<td>115.8</td>
<td>267.4</td>
<td>60.1</td>
<td>51.0</td>
<td>1.7</td>
<td>1.0</td>
<td>3.6</td>
<td></td>
</tr>
</tbody>
</table>

Note: NA = not available. Lao PDR = Lao People’s Democratic Republic. See Section 3.2 for a description of Method 1 and Method 2.

Table 5 also shows the projected percentage changes between 2013 and 2030 in the four main factors affecting the projections of the share of public pension spending in GDP—the ratio of beneficiaries to the retirement-age population (column 1), the old-age dependency ratio (column 2), the ratio of the retirement-age population to the total population (column 3), and the ratio of pension benefits per beneficiary to per capita GDP (column 4). As explained above, the projections under Method 1 are mainly a function of the combined effects of (1) and (2),13 while the projections using Method 2 are a function of the combined effects of (1), (3), and (4). For Method 1, the average increase in the old-age dependency ratio (2) is more than twice that of the ratio of beneficiaries to the retirement-age population (1), and so is the dominant factor for most countries. For Method 2, on average the ratio of beneficiaries to the retirement-age population (1) is the most important factor, but there is much variation by country.

13 The impact of the per capita GDP term is negligible.
The relatively large forecast increases for the ex-USSR countries, Mongolia, and Viet Nam mainly reflect the combined effects of rapidly aging populations with relatively high growth of per capita GDP. On the whole, we believe that the estimates using Method 2 are probably more accurate, because they incorporate all three sources of potential cost increases—coverage ratio, population aging, and economic growth.

These projected increases in public pension spending in many cases are substantial. This underlines the need for these economies to adopt clear strategies to raise revenues and control old-age-related expenditures. Key policy recommendations to address these fiscal pressures are given in Section 5 below.

5. POLICY OPTIONS AND RECOMMENDATIONS

As mentioned earlier, public pension expenditures tend to rise with a country’s income and average age. The inexorable movement toward more comprehensive—and more expensive—public pension programs has been reinforced by recent international declarations in support of expanded health and social protection coverage. In this context, emerging Asian economies will need to strengthen rule-enforced fiscal discipline to maintain fiscal sustainability. Yet it is important to note that richer countries have shown that greater social protection spending can be accommodated in the public budget if countries consider fiscal sustainability in shaping their social protection systems. This section describes policy recommendations that will help enable countries to expand social protection in a fiscally responsible way.

5.1 Affordability of Public Pensions

We believe that the cost of providing a basic level of social protection is feasible even for poor countries. Hagemejer and Behrendt (2009, 89) argue that a basic “social protection benefit package is within reach of even the poorest countries while making it affordable requires political will followed by rationalization of current spending programs, reallocations of domestic resources and donor aid, as well as policies and measures creating new fiscal space.”

Hagemejer and Behrendt (2009, 97) estimate that a basic old-age pension package that would meet the most basic needs of the population would have the following costs (as a percentage of GDP): Bangladesh (0.8%), India (0.6%), Nepal (1.3%), Pakistan (0.6%), and Viet Nam (0.8%). “Even if a basic public old-age pension package cannot be implemented at once, a sequential approach can generate immediate benefits in terms of poverty reduction, pro-poor growth and social development” (Hagemejer and Behrendt 2009, 102).


15 Adams, Ferrarini, and Park (2010) also argue that Asian economies should adopt strong fiscal policy frameworks, and resist, as far as possible, the temptation to shift toward a more activist philosophy for fiscal policy interventions than previously.
5.2 What Governments can do to Ensure Fiscal Sustainability of Public Pension Spending

There are many things that governments can do to promote inclusive growth (which is underpinned by social protection), while at the same time maintaining fiscal soundness. In particular, governments can increase spending in the social sectors and on social assistance, increase property taxes, and improve the collection of VAT and personal income tax (ADB 2014). For example, tax revenue in the PRC represents just 22% of GDP, compared to 34% in OECD member countries. The country could boost such revenue by broadening the tax base, introducing new fiscal measures, and improving tax compliance and enforcement (Nakao 2014).

Reduce Costs of Social Insurance Programs

Despite the general need to expand the scope of social protection coverage, benefits and premiums may need to be adjusted to maintain sustainability in the face of aging populations. Economies facing sharp increases in aging and social protection expenditures need to take a number of steps, including:

- Introducing obligatory premium payments on pension insurance and increasing premiums;
- Implementing means testing for pension benefits;
- Taxing benefits (if this is not done already);
- Shifting from defined benefit plans to defined contribution plans for pension systems;
- Adjusting the replacement ratio and raising the retirement age.

Improve Efficiency of Social Protection Administration and Expenditures

Every developing Asian country can carry out an audit of its social protection programs, which across the region tend to be highly fragmented (adding to inefficiencies and greater costs). For example, Alam (2013, 3) notes that "Bangladesh has about 95 social protection schemes, which are fragmented across various sectors, geographical areas and ministers, as well as having overlapping objectives and beneficiaries."

Use Technology to Improve Overall Efficiency of Social Insurance and General Tax Collection

Technology can also be leveraged to enhance the efficiency of social insurance administration and tax collection in Asia. "ICT improves every aspect of tax administration: taxpayer services, tax audit, tax collection, and other internal management processes. ICT benefits tax administration by improving the performance of tax administration bodies, reducing tax administration costs, reducing taxpayers' compliance costs, and enhancing interaction between taxpayers and tax administration bodies. These four benefits are interrelated. From the perspective of tax administration bodies, a well-established ICT system supported by good ICT-based media expedites the collection of information from taxpayers and other government institutions. Once within the tax administration body, the collected information can be used efficiently for the various tax administration functions such as taxpayer management, audit, and arrears collection. Electronic tax filing systems are the most visible of ICT-based taxpayer services" (ADB 2014, 82).
Establishment of Fiscal Rules

A number of Asian economies have established fiscal rules as a tool to maintain fiscal discipline. The nature of these rules is summarized in Table 6. It is not always easy for countries to follow their rules, however. Of the four countries in Table 6, only Hong Kong, China has generally been successful in keeping to the rules, reflecting its generally strong fiscal conditions and low levels of expenditures. An important aspect of fiscal management is the coordination of borrowing between national and subnational levels within an overall framework. This is particularly relevant for infrastructure projects, as is discussed in Liu and Pradelli (2012), for example.

Table 6: Elements of Fiscal Rules in Asia

<table>
<thead>
<tr>
<th>Economy</th>
<th>Expenditure Rule</th>
<th>Revenue Rule</th>
<th>Budget Balance Rule</th>
<th>Debt Rule</th>
<th>Key Elements of Fiscal Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong, China</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td>The budget should always display an operating surplus, i.e., excess recurrent revenue over recurrent expenditure.</td>
</tr>
<tr>
<td>India</td>
<td>Yes*</td>
<td></td>
<td></td>
<td></td>
<td>Originally the target was to reduce the fiscal deficit to 3% of GDP by 2008. The escape clause in the fiscal rule law (FRBMA) allows the government not to comply with the targets in exceptional circumstances “as the central government may specify.”</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td>DR (since 2004): Total central and local government debt should not exceed 60% of GDP. BBR: The consolidated national and local government budget deficit is limited to 3% of GDP in any given year.</td>
</tr>
<tr>
<td>Japan</td>
<td>Yes</td>
<td></td>
<td></td>
<td>Yes</td>
<td>ER: The Fiscal Management Strategy in effect since 22 June 2010 introduced a Medium-term Fiscal Framework, including an &quot;Overall Expenditure Limit&quot; (the amount of the General Account Expenditure, excluding debt repayment and interest payment, should not exceed that of the previous fiscal year). BBR: The Fiscal Management Strategy introduced in 2010 (with effect from 2011) a pay-as-you-go rule, which implies that any measure that involves increases in expenditure or decreases in revenue need to be compensated for by permanent reductions in expenditures or permanent revenue-raising measures.</td>
</tr>
</tbody>
</table>

BBR = Budget balance rule, DR = Debt rule, ER = Expenditure rule, GDP = gross domestic product.
Note: *Implemented by Indian Government until 2008.
Source: Budina et al. (2012).
Debt Management Office

Indonesia and Thailand have also established debt management offices to increase the efficiency of their fundraising activities. The objectives of these offices are summarized in Table 7, and can be seen primarily as ways to reduce the cost of government debt. However, they have only been established recently, and it is unclear to what extent they can actually contribute to lowering the amount of government debt.

Table 7: Role of Debt Management Offices in Emerging Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Objectives</th>
</tr>
</thead>
</table>
| Indonesia | 1. Manage government debt portfolio in an effective, transparent, and accountable manner  
2. Control debt issuance and procurement by maintaining a borrowing capacity that supports fiscal sustainability  
3. Establish development financing independence by prioritizing domestic financing sources and developing an efficient and stable domestic market  
4. Promote international cooperation in obtaining alternative financing sources as well as supporting regional financial market stability |
| Thailand | 1. Manage public debt to achieve low costs subject to acceptable risks  
2. Develop the domestic bond market to be one of the three main pillars of the financial market  
3. Evaluate and mobilize feasible funds to finance government’s infrastructure products  
4. Modernize technology to support PDMO’s operations |

PDMO = Public Debt Management Office.

Strengthening of fiscal surveillance can also contribute to fiscal sustainability. At the national level, this can be done by the finance ministry, central bank, and financial supervisors. At the regional level, the ASEAN+3 Macroeconomic Research Office (AMRO) can also play a role. Development of regional guidelines for sustainability conditions could contribute to increasing pressure on governments to maintain responsible fiscal policies.

5.3 Some Examples of Social Protection Reform and Expansion

In the mid-1990s, Kazakhstan reformed its pension system, jettisoning the USSR-era pay-as-you-go system of defined benefits, and adopting a fully funded, defined-contribution system. Beginning in January 2014, Kazakhstan began raising women’s retirement age from 58 to 63 over 10 years (the retirement age for men is currently higher). Beginning in 2012, Armenia also shifted to a fully funded pension system. It should be noted that the tension between the “sustainability” and “adequacy” of pensions that plays out in many countries is also doing so in former Soviet republics. As noted by Vlachantoni and Falkingham (2013), for individuals qualifying for a contributory pension in Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan, the average level of benefits is just above the subsistence minimum. For those on a social pension (i.e., a social assistance grant made to elderly persons), benefits are insufficient to lift them above the minimum.
Kim and Hendricks (ADB 2008, 1) note that “…As part of an effort to control escalating civil service pension costs, the Government of India closed its defined benefit scheme (DBS) for pensions to new entrants on 1 January 2014. Civil employees hired on that day or after were and will be employed in a defined contribution scheme, the New Pension Scheme (NPS). Under this new scheme, the government and the civil servant each contributes 10% of the employee’s basic pay to a retirement fund, which is invested. At retirement, the balance of the employee’s retirement account, consisting of 20% of wages and all interest that accrued during the employee’s civil service career, is available to support the employee. The Government has encouraged states to follow its lead by closing their traditional DBSs to new entrants and by adopting defined contribution schemes like the NPS.”

6. CONCLUSIONS

With the exception of most former republics of the USSR, public pension costs in emerging Asian economies are generally low, at less than 2.5% of GDP, and, in many cases, less than 1% of GDP. This reflects a combination of low coverage ratios for pension eligibility and relatively young populations. However, this picture is likely to change for a number of reasons. Most importantly, some economies, notably the Asian NIEs and (somewhat later) the PRC and Thailand, have rapidly aging populations. Moreover, as incomes rise, pressures are likely to build to extend pension benefits to a broader segment of the retirement-age population. However, there are few estimates of the likely development of public pension spending in these economies.

In order to gauge the likely impacts of such shifts in income and demographics on public pension spending, we estimated models of: (i) the ratio of public pension expenditures to GDP; (ii) the level of average pension benefits per beneficiary; and (iii) the share of the retirement-age population eligible to receive pension benefits. The ratio of the number of pension beneficiaries to the working-age population was found to be a significant determinant of the share of public pension spending in GDP, while pension benefits per beneficiary were found to rise faster than per capita GDP, and the coverage ratio for pension eligibility tends to rise with income. These all point to upward pressure on pension spending as economies age and incomes rise.

We then used these models to project for 2030 the level of average pension benefits per beneficiary, the share of the retirement-age population eligible to receive pension benefits, and the share of public pension expenditures in GDP. For the latter, we used two different projection methodologies. Using Method 1 based on equation (2), the average projected increase in public pension spending between 2013 and 2030 for 23 economies is 1.0 percentage point of GDP. The biggest percentage point increases are seen in the PRC (3.9 pctg. pts.), Armenia (2.6 pctg. pts.), Azerbaijan (2.6 pctg. pts.), Georgia (2.2 pctg. pts.), and Mongolia (1.9 pctg. pts.). The share for the PRC is estimated to hit 6.1% of GDP, somewhat lower than earlier published estimates, but still almost three times the 2013 level.

Using Method 2 on 20 economies, the average projected increase in the pension expenditure share is significantly larger at 3.6 percentage points, with especially large percentage point increases in Armenia (7.5 pctg. pts.), Azerbaijan (5.7 pctg. pts.), the Kyrgyz Republic (9.8 pctg. pts.), Mongolia (7.0 pctg. pts.), Uzbekistan (12.1 pctg. pts.), and Viet Nam (7.4 pctg. pts.). On the whole, we believe that the estimates using Method 2 are probably more accurate, because they incorporate all three sources of potential cost increases—coverage ratio, population aging, and economic growth. These results imply that the economies facing population aging will have to make...
substantial efforts to secure greater fiscal resources and increase the efficiency of their programs to fund these increasing demands.

Certainly, these estimates are still very crude. They do not attempt to distinguish between different kinds of public pension programs—only overall average expenditures and coverage. The accuracy of regression estimates is limited due to the low number of observations. Greater availability of data would enable greater refinement of the analysis.

We believe that countries have the capacity to overcome these challenges and provide adequate public pension coverage for their populations. Risks to medium-term fiscal sustainability can be reduced by timely adoption of various measures, including those directed specifically at social insurance programs and those more generally aimed at improving fiscal management. However, it is important to start strengthening social protection systems early to prepare for the aging of populations in the region.
REFERENCES


## APPENDIX: PUBLIC PENSION SYSTEMS OF ASIAN ECONOMIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of Program</th>
<th>Pension Contribution</th>
<th>Pension Age</th>
<th>Coverage/Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Social insurance, mandatory individual account, and social assistance system; defined benefit.</td>
<td>Employed: 3% of net monthly earnings for social insurance; 5% of monthly earnings for mandatory individual account. For self-employed: 15% of annual income up to 1,200,000 drams and 5% of income greater than 1,200,000 drams for social income; 5% of monthly earnings for mandatory individual account.</td>
<td>Old-age pension: Aged 63 with at least 25 years of covered employment. Old-age benefit: 63 years old. Old-age social pension: 65 years old with less than five years of covered employment.</td>
<td>Employed and self-employed persons; social insurance, mandatory individual account (voluntary for those born before 1974), and social assistance system.</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Social insurance, and social assistance system: defined contribution (since 1 Jan 2006).</td>
<td>3% of gross earnings for employed; 20% of the national monthly minimum wage (but 50% if working in a trade or construction).</td>
<td>63 years old for men and 59.5 years old for women (rising to 60 by 2016) with 12 years of covered employment.</td>
<td>All workers residing in Azerbaijan, including self-employed persons, members of collective farms, landowners, and foreign citizens.</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Social assistance system: defined benefit.</td>
<td>None (it is a social assistance system).</td>
<td>Aged 65 (men) or 62 (women) with monthly income below 3,000 taka but only one member from each family can receive the pension.</td>
<td>Low-income citizens residing in Bangladesh.</td>
</tr>
<tr>
<td>China, People’s Republic of</td>
<td>Social insurance, mandatory individual account, and social assistance: defined contribution.</td>
<td>8% of wages.</td>
<td>60 years old for men and 55 years old for women.</td>
<td>Mostly urban workers; two-tier pension system: basic pension and a mandatory employee contribution.</td>
</tr>
<tr>
<td>Fiji</td>
<td>Provident fund and social assistance system: defined contribution.</td>
<td>Employed. 8% of total wages; for self-employed: an annual contribution of 30% of earnings.</td>
<td>55 years old (50 if unemployed for the last three years with an account balance of up to F$2,000); 70 years old and not receiving any other pension will receive old-age social pension.</td>
<td>Employed workers who reside in Fiji; voluntary for self-employed persons, household workers, students, some foreign workers employed in Fiji, and informal-sector workers.</td>
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<tbody>
<tr>
<td>Georgia</td>
<td>Social assistance system: defined benefit.</td>
<td>None (it is a social assistance system).</td>
<td>Aged 65 (men) or 60 (women).</td>
<td>Sources of fund: central government; local governments provide additional benefits.</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>Universal allowances, mandatory occupational benefit (privately run), and social assistance system: defined contribution.</td>
<td>At least 5% of monthly earnings (additional voluntary contribution is allowed); and monthly or yearly income (for self-employed).</td>
<td>Aged 60 if ceasing employment permanently.</td>
<td>Employees under contract for 60 days or more (except no limit in some industries); self-employed persons; not covered: self-employed hawkers; household workers; persons covered by statutory pension plans or provident funds and some other cases.</td>
</tr>
<tr>
<td>India</td>
<td>Provident fund, social insurance, employer liability, and social assistance system: both defined benefit and defined contribution.</td>
<td>10% of monthly salary for civil servants; 12% of monthly PF salary to Employees Provident Fund Scheme.</td>
<td>58 years old with minimum of 10 years of contribution; 60 years for civil servants and 62 years for government teachers.</td>
<td>Two systems: civil service-defined benefit pension schemes for civil servants; earnings-related employee pension scheme and defined contribution employee provident fund and other employer-managed funds (for other workers).</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Provident fund and social insurance system: defined contribution.</td>
<td>Employees contribute 2% of earnings and employers pay 3.7% of the payroll.</td>
<td>55 years old for both men and women.</td>
<td>Employees in private sectors are covered by defined contribution plan.</td>
</tr>
<tr>
<td>Japan</td>
<td>Social insurance system: defined benefit.</td>
<td>From 8.737% to 9.150% of monthly earnings; 15,250 yen a month (up to 16,900 yen a month from Sept 2017) for self-employed people.</td>
<td>National pension program: aged 65 with at least 25 years of contributions; employees' pension insurance: aged 60 (aged 65 by 2025 (men) and 2030 (women)) or aged 59 (seamen and miners) with at least 25 years of coverage.</td>
<td>For national pension program: residents aged 20 to 59; voluntary coverage for residents aged 60 to 64 and for Japanese citizens residing abroad (aged 20 to 64; to age 69 in special cases). Self-employed persons who run an unincorporated business with up to four workers. For employees' pension insurance: employees younger than 70 in covered firms in industry and commerce. Special system for civil servants.</td>
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<tr>
<td>Kazakhstan</td>
<td>Mandatory individual account, social insurance, and social assistance system: defined contribution.</td>
<td>10% of monthly earnings.</td>
<td>63 years old for men and 58 for women (rising to 63 by 2017); aged 55 (men and women) if the account balance is sufficient to finance a benefit at least equal to the minimum monthly pension.</td>
<td>Employed and self-employed residents of Kazakhstan.</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>Social insurance and social assistance system: defined benefit.</td>
<td>4.5% of gross monthly earnings; for voluntarily contributors: 9% of previous year median monthly income; for self-employed: 9% of gross monthly earnings.</td>
<td>Aged 61 (gradually rising to 65 by 2034) with 20 years of coverage.</td>
<td>Employed and self-employed persons (incl. farmers and fishermen). Voluntary coverage for employed and self-employed persons aged 60 to 64. Special systems for civil servants, and some types of workers; basic old-age pension for citizens and foreigners married to citizens.</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Social insurance, mandatory individual account, and social assistance system: defined contribution.</td>
<td>8% of earnings (social insurance and NDC) and 2% mandatory individual account. For self-employed: 9.25% of monthly average earnings.</td>
<td>63 years old with 25 years of contribution (for men) and 58 years old with 20 years of contributions (for women).</td>
<td>All employed persons and members of cooperatives and state and collective farms. Special system for military personnel.</td>
</tr>
<tr>
<td>Laos</td>
<td>Social insurance system: defined contribution.</td>
<td>2.5% of gross monthly insurable earnings (5% for self-employed workers).</td>
<td>60 years old for men and 55 years old for women with 15 years of contributions.</td>
<td>Civil servants, employees (including private firms) and police and military personnel; self-employed workers (voluntary).</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Provident fund, social insurance, and social assistance system: defined contribution.</td>
<td>Employee: 11% of monthly earnings; employees can make voluntary additional contributions.</td>
<td>55 years old for both men and women.</td>
<td>Private sector employees and nonpensionable public sector employees.</td>
</tr>
<tr>
<td>Micronesia</td>
<td>Social insurance system: defined benefit.</td>
<td>7.5% of earnings (by January 2013). For some types of self-employed: 5% of annual gross revenue in the previous year.</td>
<td>65 years (with at least one quarter of coverage for each year since age 21 up to age 60 and a total of at least 50 quarters of contributions and US$2,500 in contributions).</td>
<td>All employed persons, including certain self-employed persons (except those working less than one week/month, some types of self-employed persons, and family labor). Special systems for some types of civil servants.</td>
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<tbody>
<tr>
<td>Nepal</td>
<td>Provident fund and social assistance system: defined contribution.</td>
<td>10% of monthly earnings.</td>
<td>Aged 58 or upon termination of employment.</td>
<td>For provident fund: Government employees; voluntary coverage for employees in firms with 10 or more employees; not covered self-employed persons, temporary workers, part-time workers, and household workers.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Social insurance system: defined benefit.</td>
<td>5% of the minimum wage.</td>
<td>60 years old for both men and women.</td>
<td>Workers in firms with 5 or more employees required to be insured under employees’ old-age benefit scheme.</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Mandatory occupational retirement system: defined contribution.</td>
<td>6% of gross monthly earnings; at least 20 kina a month for self-employed (US$1.00 = 2.43 kina).</td>
<td>Aged 55 and retired from active employment; at any age if unemployed and not contributing for three months (partial withdrawal) or 12 months (full withdrawal).</td>
<td>Mandatory for employed persons in firms with 15 or more employees (except for temporary workers and household workers); voluntary coverage for noncitizens, self-employed persons, and employed persons in firms with fewer than 15 employees.</td>
</tr>
<tr>
<td>Philippines</td>
<td>Social insurance system: defined benefit.</td>
<td>3.33% of monthly gross insured earnings.</td>
<td>60 years old if having at least 120 months of contribution.</td>
<td>Employees up to age of 60 earning more than 1,000 pesos a month covered by the basic, earnings-related, and minimum pensions; special systems for government employees and military personnel.</td>
</tr>
<tr>
<td>Singapore</td>
<td>Provident fund system: defined contribution.</td>
<td>20% for workers aged up to 50; progressively reduced to 5% for workers aged more than 65.</td>
<td>55 years old for withdrawal in lump sum and 62 years old for phased withdrawal.</td>
<td>All workers including most civil servants.</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Provident fund system: defined contribution.</td>
<td>8% of wage.</td>
<td>55 years old for men or 50 years old for women; 60 years old for government officers.</td>
<td>Employees in the formal private sector; civil servants covered by contributory pension scheme.</td>
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<tbody>
<tr>
<td>Taipei, China</td>
<td>Social insurance, mandatory individual account, and social assistance system: defined benefit.</td>
<td>National pension program: 4.5% of the monthly insured amount. Labor insurance program: 1.7% of gross monthly earnings (gradually rising to 2.4% by 2027) for employed and 5.1% of gross monthly income (gradually rising to 7.2% by 2027) for self-employed. Labor pension fund: voluntary contribution of up to 6% of monthly earnings.</td>
<td>National pension program: 65 years old and registered in the program. Labor insurance program: 60 years old (and 65 years old by 2026) with at least 15 years of coverage. Labor pension fund: 60 years old with at least 15 years of contributions.</td>
<td>National pension program: citizens of Taipei, China aged 25 to 65 not covered by any other public pension system. Labor insurance program: mandatory for employees in firms with at least five employees (including some wage earners in public-utility firms), fishermen, and some types of self-employed persons. Special systems for civil servants, farmers, public sector employees, and private school employees. Labor pension fund: employed citizens of Taipei, China, and employed spouses under the Labor Standards Act.</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Social insurance, notional defined contribution, mandatory individual account, and social assistance system: defined benefit.</td>
<td>Employed do not have to pay social insurance while the self-employed pay 20% of declared income; for mandatory individual account: 1% of earnings.</td>
<td>For men: 63 years old with at least 25 years of covered employment; for women: 58 years old with at least 20 years of contribution.</td>
<td>For social insurance and defined contribution: all employed and self-employed persons. For mandatory individual account: all employed persons and not covered self-employed persons.</td>
</tr>
<tr>
<td>Thailand</td>
<td>Social insurance and social assistance system: defined benefit.</td>
<td>20% of earnings for the first 15 years and then 1.5% for every year thereafter.</td>
<td>55 years old.</td>
<td>Private sector employees in the formal sectors; monthly payment if contribution period is at least 15 years.</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Mandatory individual account, social insurance, and social assistance system: defined contribution.</td>
<td>Employed: 1% of earnings for mandatory individual account; 5.5% of wages for social insurance. Self-employed: 1% of declared earnings for mandatory individual account; a monthly contribution of at least the value of the monthly minimum wage.</td>
<td>60 years old for men and 55 years old for women.</td>
<td>Employed residents of Uzbekistan. Voluntary coverage for self-employed persons and certain other categories of workers.</td>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Vanuatu</td>
<td>Provident fund system: defined contribution.</td>
<td>At least 4% of monthly earnings (additional voluntary contributions are possible). Voluntarily insured persons and self-employed pay 1,000 vatu to 10,000 vatu a month (US$1.00 = 95.01 vatu).</td>
<td>55 years old for both men and women.</td>
<td>All employees in regular employment (including those working abroad for firms registered in Vanuatu).</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>Social insurance and social assistance system: defined benefit.</td>
<td>8% of monthly salary/wage.</td>
<td>Pension age is 60 for men and 55 for women.</td>
<td>Monthly payment for those with at least 20 years of contribution and lump sum payment for those with lower period of contribution.</td>
</tr>
</tbody>
</table>