

18th ASSA BOARD MEETING SEMINAR



Theme

Social Security Reforms

LESSONS FROM ASEAN COUNTRIES

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5 September 2006

*Grand Plaza ParkRoyal Penang
Malaysia*

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Lessons from ASEAN countries

5th September 2006

**Zainal Abidin Mohd Kassim, FIA
18th ASSA Board Meeting and Seminar 2006
Penang, Malaysia**



Section 1

General Observations





Structure of Social Security set up in the ASEAN Region



- Generally provision for old age retirement, death and disability in employment and health care financing not well integrated.
- Government sector Social Security needs are usually provided for separately from that of the private sector. Usual to have defined benefit pensions for the government sector and lump sum for others.
- The generally large informal sector (self employed) and unemployed (including housewives) are usually not included under the formal Social Security umbrella.
- Mixture of funding arrangements are evident, from funded through direct taxation, employees and employers contribution.

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Structure of Social Security set up in the ASEAN Region



- Defined Benefit arrangements are probably being mainly funded through a Pay as you go arrangements.
- Defined Contribution arrangements generally includes some form of members choice and prior retirement lifecycle withdrawals
- Approach to Social Security provision seem to have developed through reactions to needs as it arises, this has resulted in unintegrated/silo approaches to provision of old age, health care, invalidity and dependents benefit. This can result in overlaps or gaps in benefits and inefficient use of resources.
- Generally underdeveloped private sector third pillar in most countries.

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Is there a problem brewing...



- Current demographic and family structure in most ASEAN countries have shielded governments from having to deal with old age problems currently faced by more developed countries
- Defined Benefit schemes are basically funded on a pay as you go basis and again due to existing demographic structure, has yet to be tested.
- Current health provision structure in many ASEAN countries are geared towards curing/preventing infectious diseases. As changes in lifestyle which comes with modernisation advances, are we prepared to deal with degenerative diseases resulting in prolonged and serious illness?

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Section 2

Asean: A Special Region



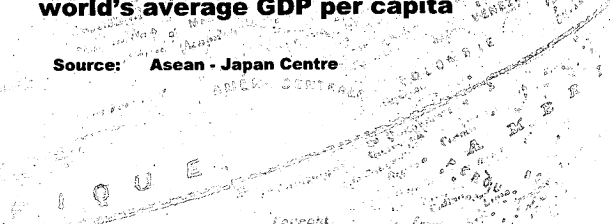


Overview

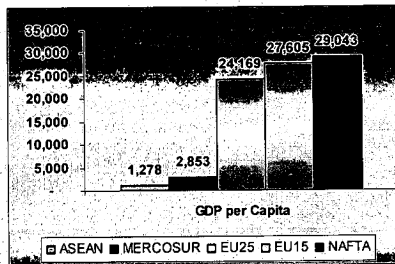
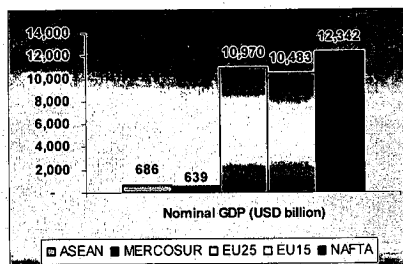


- Covers an areas of 4.48 million km², approximately 3.3% of the total size of the world
- Total population of 537.11 million (data of 2003), approximately 8.6% of the world population
- Nominal GDP of USD686.3 billion, approximately 1.9% of the world GDP
- GDP per capita of USD1,278, approximately 22% of the world's average GDP per capita

Source: Asean - Japan Centre



ASEAN: A comparison



ASEAN : 10 countries

EU15 : Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, U.K.

EU25 : the above EU15 and Cyprus, Czech, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak, Slovenia

MERCOSUR :Argentina, Brazil, Paraguay, Uruguay

Source: Asean - Japan Centre

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ASEAN: A diverse Group



	Population (million) 2003	Life Expectancy at Birth (years) 2003	GDP per capita PPP US\$	GDP per capita growth rate 1990-2003	Average annual change in CPI 1990-2003
Brunei	0.4	76.4	19,210	-	-
Cambodia	13.5	56.2	2,078	4.0	4.3
Indonesia	217.4	66.8	3,361	2.0	13.9
Lao PDR	5.7	54.7	1,759	3.7	29.7
Malaysia	24.4	73.2	9,512	3.4	3.1
Myanmar	49.5	60.2	-	5.7	25.9
Philippines	80.2	70.4	4,321	1.2	7.3
Singapore	4.2	78.7	24,481	3.5	1.3
Thailand	63.1	70.0	7,595	2.8	4.1
Viet Nam	82.0	70.5	2,490	5.9	2.8

Source: Human Development Report 2005, United Nations Development Programme

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ASEAN: A fast growing region



	Annual population growth rate (%)		Medium Age (source : CIA world Factbook)
	1975-2003	2003-15b	
Brunei	2.9	2.0	27.4
Cambodia	2.3	1.9	20.6
Indonesia	1.7	1.1	26.8
Lao, PDR	2.2	2.1	18.9
Malaysia	2.5	1.6	24.1
Myanmar	1.8	0.9	27.0
Philippines	2.3	1.6	22.5
Singapore	2.2	1.1	37.3
Thailand	1.5	0.7	31.9
Viet Nam	1.9	1.2	25.9
United States	1.0	0.9	36.5

Source: Human Development Report 2005, United Nations Development Programme

United Kingdom (% p.a. growth)	1985 - 1990	1990 - 1995	1995 - 2000
	0.3	0.5	0.4

Source: UNECE Statistical Division
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ASEAN: Still Growing



Unit of measurement : number of children per women

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei	2.9	3	3	3	2.9	2.8	2.9	2.7	2.7	2.4	2.4	2.2
Cambodia				4.9			5.2		5.3		4	
Indonesia	3.3	3	2.9	2.9	2.8	2.8	2.7	2.6	2.6	2.6	2.5	2.5
Lao, PDR		3.4				5.6		4.9		4.8	4.9	
Malaysia	3.5	3.6	3.5	3.5	3.4	3.4	3.3	3.3	3.1	3.2	3.1	3.1
Myanmar	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.4	3.1	3	2.9
Philippines				4.1		3.8	3.7	3.6	3.5	3.5	3.4	3.3
Singapore	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.6	1.4
Thailand		2.2				2	2			2	1.9	1.8
Viet Nam				3.3	3.1		2.7			2.3	2.3	2.2

Source: <http://www.aseansec.org/ASEAN-In-Figure-2003/Chapter-1.pdf>

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Asean's Inc. Financial Indicators



Country	Inflation rate (year-on-year) (%)	Fiscal balance (% of GDP)	Gov Bond Yield ^{1/} (%)
Brunei Darussalam	1.1	14.6	3.5
Cambodia	Q2 2005	2004	4.68*
	Q3 2005	2004	11.7
Indonesia	8.4	-1.2	11.7
	Q3 2005	2004	11.7
Lao PDR	6.5	-2.7	7.75*
	Q3 2005	2004	Q1 2005
Malaysia	3.4	-4.3	4.4
	Q3 2005	2004	4.4
Myanmar	57.3	2004	9.5*
	Q4 2004	2004	Q2 2005
The Philippines	7.1	-3.9	9.2
	Q3 2005	2004	9.2
Singapore	0.5	-1.1	3.5
	Q3 2005	2004	3.5
Thailand	5.6	0.1	5.4
	Q3 2005	2004	5.4
Viet Nam	7.6	-2.0	9.0

Source: Asean Finance and Macroeconomic Surveillance Unit (FMSU) Database (compiled/computed from data submission and/or websites of Asean Member Countries' national statistical offices, central banks, and other relevant government agencies)

Notes:

1/asianbondsonline.adb.org

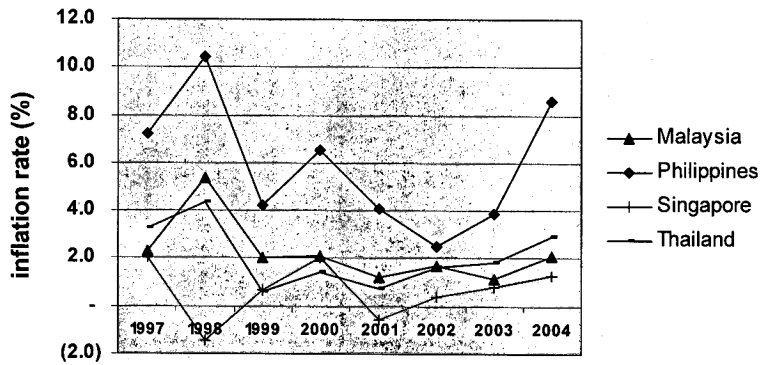
*Interest rate, 3-month time deposit

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Asean Inflation Rate



Source: Asean Finance and Macroeconomic Surveillance Unit (FMSU) Database (compiled/computed from data submission and/or websites of Asean Member Countries' national statistical offices, central banks, and other relevant government agencies)

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Section 3

Social Security: A preferred approach





International Best Practice



- The last 30 years have seen a trend away from state monopolistic provision of traditional pensions on a pay-as-you-go basis
- There is a growing recognition today of the importance of a multi pillared pension structure
- Where traditional pensions have been restructured, it is still common to mandate that the basic benefits be paid as an income benefit
- The issue is not only of providing appropriate benefits but the importance of sharing the risk when providing pension, disability income, and other social benefit systems. Such risks are shared between government and the economy, plan sponsor employers and individuals and families

"The Bank believes that the multi-pillar design is the best solution to pension reform, being much more flexible and better able to address the different risk that pension systems are designed to manage"

The World Bank Press Release on Pension Reform 2005



International Best Practice

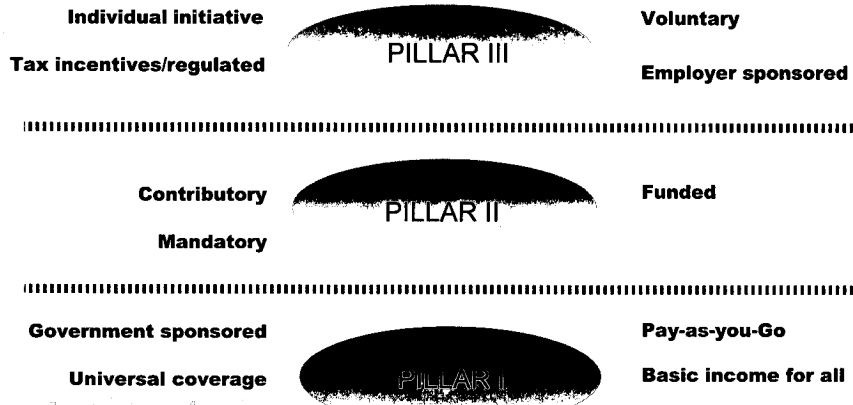


- **Pension and social security system roles in society**
 - protection of the population against poverty in old age
 - protection against financial devastation due to ill health and disability at all ages
 - encourage certain behaviours such as saving, employment mobility and taking individual responsibility
- **Each country places different weights on these factors**
 - The decision should always reflect local realities
 - Ultimately what is feasible depends on how developed and stable the economy is





The Three Pillars
Definition



Section 4

Retirement Age: When should we retire?

